


Q1 2026

40TH
ANNIVERSARY

Managed Portfolios Quarterly Investment Commentary

Blended range

 Marlborough

A blue square with rounded corners and a white triangle at the bottom right. Inside the square, the text "Q1" is written in a large, bold, white font, and "2026" is written in a smaller, white font to its right.

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Capital at risk.

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

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For full important information and key risks, please refer to the end of this document.

Q1 2026

Introduction

Disruption, rotation and the signals that matter

“Uncertainty is actually the friend of the long-term investor.”

Warren Buffett, veteran US investor

During the first quarter ('Q1') of the year markets had to price disruption in real time.

At face value, the story was simple: geopolitical tensions escalated, oil prices surged and bond* yields** moved higher as inflation concerns resurfaced. But beneath the surface, markets were doing something more nuanced. They weren't panicking – they were calculating.

This distinction explains why the sell-off in equities (company shares) and bonds felt orderly, not chaotic.

Investors were weighing not just the scale of the shock, but its likely duration. At the same time, a rotation was already underway in equity markets, as investors began to reassess the winners and losers from technological disruption.

In short, Q1 wasn't just about oil. It was about disruption – and how markets chose to price it.

**Bonds are interest-paying financial products issued by governments, companies and other institutions when they want to borrow money from investors.*

***Yield is the income paid by bonds or other investments. It is usually stated as a percentage of the value of the investment.*

Investment themes

01. A sustained oil shock – or limited disruption?

Energy dominated markets in Q1. The escalation in the Middle East conflict and disruption of shipping through the Strait of Hormuz brought oil supply sharply into focus. With around **20% of global oil flows passing through the strait**, its effective closure to most shipping forced investors to rapidly reprice their inflation and economic growth expectations.

However, investors responded with precision rather than panic.

Oil prices moved higher, bond yields followed* as inflation expectations rose, and central banks were forced into a more cautious stance on potential interest rate cuts. But crucially, the reaction was measured. Investors quickly began to assess how much of the lost supply could be offset through alternative routes and the partial release of countries' strategic reserves.

The key question became one of duration, not just disruption.

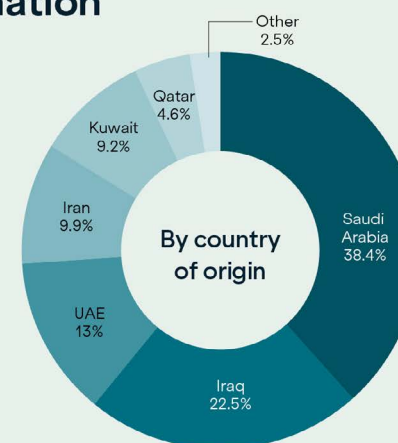
History tells us that sustained oil shocks can trigger recessions. But a shorter, contained disruption tends to create volatility, rather than lasting economic damage. Markets, for now, appear to be leaning towards a limited period of disruption as being the most likely outcome.

It is also interesting to note that, as our chart shows, although around 20% of the world's oil supply normally passes through the strait, over 80% of this is bound for countries in Asia, with almost a third of it going to China.

*Bond yields and bond prices move in opposite directions. As yields rise, prices fall.

Most oil passing through the Strait of Hormuz goes to Asia

Crude oil volumes* passing through the Strait of Hormuz – by countries of origin and destination



Source: US Energy Information Administration, analysis by Apollo Global Management. Figures are for 2024. *Figures for volumes by country of origin also include other petroleum products

Investment themes (continued)

02. Recession or rotation?

What we have seen in markets was not a classic risk-off environment, where investors reduce exposure to what are perceived as riskier assets, such as equities. It was a rotation.

Understandably, recession concerns have increased because of the conflict in the Middle East. However, in our view, the more important development was what was happening beneath the surface in equity markets.

A shift away from the narrow leadership of the US technology giants, which previously dominated stock market performance, has begun to emerge.

Concerns around the disruption artificial intelligence (AI) is likely to cause for established businesses – particularly following the release of new AI models – triggered sell-offs in parts of the technology ecosystem, including software and data providers. Investors began to question not whether AI is important, but which companies are likely to benefit and which are at risk.

At the same time, investors rotated into ‘heavy asset, low obsolescence’ or ‘HALO’ businesses.

These are companies seen as less exposed to rapid technological disruption. For example, industrial companies, energy businesses and more traditional parts of the market, such as supermarkets, which have considerable physical infrastructure. In an environment of uncertainty, investors are willing to pay for the perceived resilience and predictability these companies offer.

This has created a growing valuation gap.

On one side we have innovation-led businesses facing near-term disruption concerns because of AI. On the other side, we have more traditional

Investors began to question not whether AI is important, but which companies are likely to benefit and which are at risk

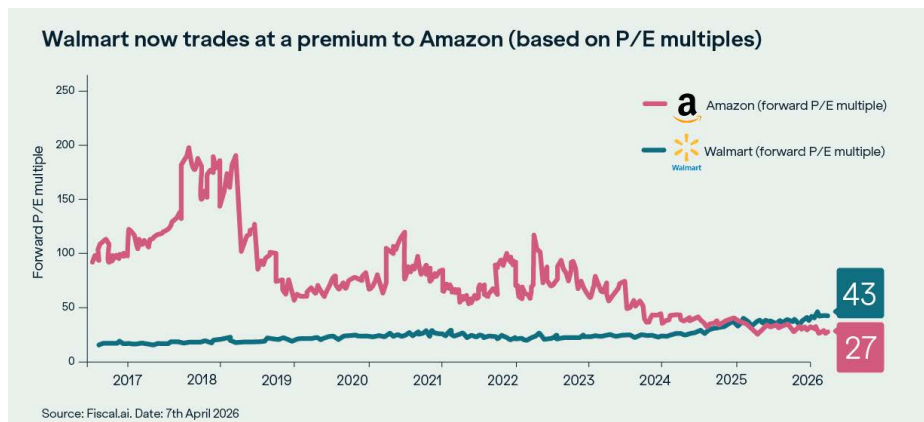
Investment themes (continued)

sectors, which are benefiting from 'a flight to certainty' by investors. This divergence is now setting up a more interesting range of opportunities for the quarters ahead.

As our chart shows, supermarket giant Walmart is now trading at a premium to technology juggernaut Amazon. This is based on a comparison of the price-to-earnings multiple or P/E. The 'P' is the share price, and the 'E' is the company's earnings (profits) – in this case using earnings estimates for the next 12 months. Divide one by the other and you get the P/E multiple (in this case the 'forward P/E'). A lower P/E means you're paying less for those expected profits (cheaper) and a higher P/E means you're paying more (expensive).

Between 2016 and 2026, Amazon's forward P/E multiple has fallen significantly. It was nudging 200x in 2017-2018, when investors were willing to pay a very high multiple of the share price to reap the benefits of future profits. As the business has developed into a more mature cashflow-generating model, the P/E multiple has fallen to in the region of 30x.

By contrast, the P/E multiple of Walmart – a classic 'HALO' company – has been creeping up. Investors are placing an increasing value on its lower exposure to AI disruption, and its stable earnings and resilience in more challenging economic conditions.



Investors are placing an increasing value on Walmart's lower exposure to AI disruption, and its stable earnings

Investment themes (continued)

03. What markets may have missed

The market focus has been on risk. We believe the opportunity lies in **divergence between winners and losers.**

The combination of an oil shock and AI-driven uncertainty has created sharp stock market moves in different business sectors. Rather than a broad-based sell-off, we are seeing **increasing differentiation** between winners and losers.

AI is both disruptive and revenue-generating.

While some sectors are under pressure, the leading AI model providers continue to see **explosive growth in adoption and revenues.** This reinforces the idea that we are not in a simple ‘bubble vs bust’ dynamic. Instead, our view is that we are moving into a phase where outcomes will become more selective – with some companies succeeding while others struggle.

This is where opportunities emerge.

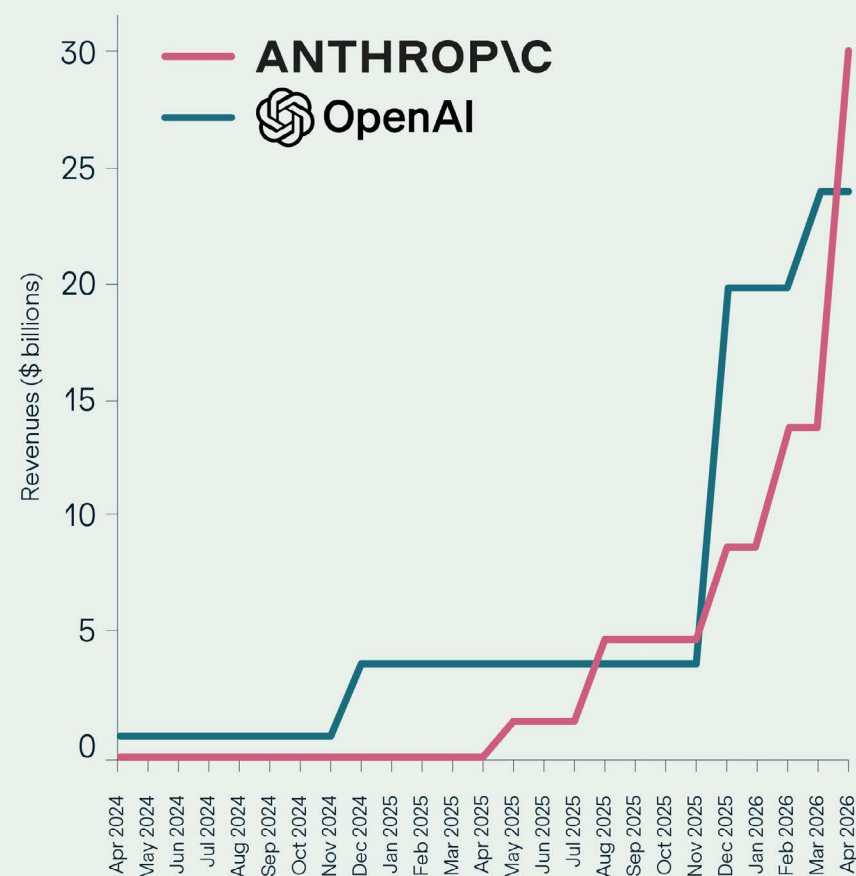
Markets can overreact in periods like this – with the sell-off in some areas going too far, while investors overpay for perceived safety in others. As that gap widens, it creates opportunities for disciplined, diversified investors.

Some investors have been growing increasingly sceptical about whether tech companies can justify the huge amounts being invested in AI. However, our chart shows how two leading AI companies – Anthropic and OpenAI (both currently privately owned) – have been growing their revenues at an eye-watering pace.

In our view, this demonstrates how, in an area like technology, winners and losers are likely to emerge. Companies whose business models are threatened by AI – for example, software providers – are suffering. Meanwhile, other companies are seeing their revenues rocket.

Earnings of leading AI companies are powering ahead

Reported annual revenue run rate (\$ billions)



Sources: How They Make Money, APP Economy Insights. Based on official company disclosures and media reports.

Portfolio construction

Blended Key buys and sells during quarter 1

Europe

Overall, we have reduced our European equity exposure this quarter and used the proceeds to increase our positions in more attractive areas. However, we have introduced JPM Europe Dynamic, which is a high-conviction 'best ideas' fund with an unconstrained approach. To accommodate this new position, we reduced existing European holdings.

BUY

JPM EUROPE DYNAMIC EX-UK

Japan

We have increased our exposure to Japanese equities, which are benefiting from improving company earnings, corporate governance reforms and the government's pro-growth policies. We added Fidelity Index Japan, providing low-cost access to the broader market and complementing our existing active exposure.

BUY

FIDELITY INDEX JAPAN

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Asia-Pacific (ex-Japan)

We have increased our exposure to Asia Pacific equities, adding to our holding in JPM Asia Pacific Equity following continued strong performance and rising conviction in the strategy. The region's macroeconomic backdrop remains supportive, with solid earnings expectations and improving long-term growth dynamics. We have reduced exposure to M&G Asian, using the proceeds to add to our higher-conviction holding.

INCREASED

JPM ASIA PACIFIC EQUITY

REDUCED

M&G ASIAN

Emerging markets

We have increased emerging markets equity exposure to reflect a higher strategic allocation and more attractive regional prospects. We added to Baillie Gifford Emerging Markets Leading Companies, which provides high-conviction exposure to long-term structural growth themes. We also increased our holding in abrdn Emerging Markets Equity, which offers diversified exposure across emerging markets.

INCREASED

BAILLIE GIFFORD EMERGING MARKETS LEADING COMPANIES

INCREASED

ABRDN EMERGING MARKETS EQUITY

Portfolio construction (continued)

Government bonds

We have increased exposure to government bonds, which continue to offer an attractive balance of risk and return. We achieved this by adding to funds including L&G All Stocks Gilt Index, Royal London International Government Bond and Fidelity Index Global Government Bond. These adjustments enhance the defensive characteristics of the portfolios and position them to benefit from a declining yield environment.

INCREASED

L&G ALL STOCKS GILT INDEX

INCREASED

ROYAL LONDON INTERNATIONAL GOVERNMENT BOND

INCREASED

FIDELITY INDEX GLOBAL GOVERNMENT BOND

Money market

We have added Royal London Short Term Money Market to a number of our portfolios. Money market funds invest in short-term debt investments issued by governments and companies.

BUY

ROYAL LONDON SHORT TERM MONEY MARKET

IN DEPTH

Equities

Equity markets pulled back during the quarter in response to the escalating Middle East crisis. In this uncertain environment, we have taken a measured approach to positioning. We continue to favour a blend of quality growth* and value** characteristics, and our exposure is balanced through global diversification rather than us making concentrated regional or sector bets.

In the US, valuations remain elevated relative to other markets and we have modestly reduced exposure here in favour of regions offering more attractive entry points. Our view on Europe is more cautious. Companies' earnings revisions have been weak and the region has seen only limited participation in the AI capital expenditure cycle that continues to drive upgrades elsewhere.

Japanese equities remain a conviction position for us. The new government's pro-growth policy agenda, continued corporate governance reforms and positive earnings dynamics are all positives and we have increased our allocation accordingly.

We have also increased our allocation to emerging market equities, where the investment case has strengthened meaningfully. Tariff risks that weighed on sentiment have receded and earnings and economic growth across the region are now tracking favourably relative to developed markets. Valuations remain attractive and currency dynamics are supportive, making this one of the more compelling opportunities in equities.

**Quality growth investors focus on companies that combine financial strength with what they believe to be high and consistent growth potential.*

***Value investors seek to identify companies where they believe the share price does not reflect the true value of the business.*

Infrastructure

We continue to see a compelling opportunity in infrastructure and have maintained our allocation to this asset class. Infrastructure projects – such as airports, toll roads and pipelines – are long-term in nature. Companies investing in them are expected to benefit as interest rates continue to fall, because this will reduce their financing costs. We believe the defensive characteristics of the asset class are particularly valuable in the current uncertain environment. They should provide resilience to help reduce the impact of market volatility. At the same time, companies investing in infrastructure provide exposure to structural growth themes, such as the clean energy transition.

Bonds

We continue to favour higher-quality government bonds, which we believe offer an attractive risk/reward balance. Yields remain appealing and a more uncertain economic outlook reinforces the defensive appeal of government bonds.

In corporate (company) bonds, the extra yield available above that paid by government bonds remains low by historic standards. We remain cautious, with a preference for higher-quality corporate bonds, where we see the risk/return trade-off as more favourable.

In high yield bonds, we do not believe the extra yield currently available is adequate to compensate for the increased risk. Should recession concerns intensify – a plausible scenario given current geopolitical pressures – yields are likely to rise, which will mean the price of these bonds fall. We have not added to high yield and continue to exercise caution in this area.

In emerging market bonds, we have maintained and selectively added to our exposure. The economic backdrop in key emerging market nations remains broadly stable, local currencies appear undervalued and real yields* are attractive relative to developed market equivalents. A weakening US dollar should provide further support for emerging market bonds.

*Real yields are yields after inflation has been taken into account.

Cash and cash equivalents

We have modestly increased cash and cash-equivalent holdings (such as money market funds) this quarter, after positive equity market returns last year. With equity and bond markets more volatile, a slightly higher cash buffer provides the flexibility to act as opportunities emerge. As the interest rate-cutting cycle progresses and opportunities increase among government bonds and equities, we would expect to redeploy cash into higher-returning asset classes over time.

Summary

Against a backdrop of geopolitical uncertainty and volatile markets, we have maintained a disciplined and adaptable approach to portfolio positioning. We continue to favour high-quality government bonds, which should offer an attractive risk-reward balance if, as we expect, rate cuts continue. In equities, our exposure remains diversified, balancing quality growth and value strategies across regions. We have particular conviction about the potential for Japanese and emerging market equities. Infrastructure provides further diversification and defensive characteristics in an uncertain environment.

Featured fund

Here we take a look at one of the funds we expect to help drive the performance of our portfolios.

FEATURED FUND

M&G Emerging Markets Bond Fund

01. Experience and depth of resource

Fund managers Charles de Quinsonas, Nick Smallwood and Carlos Carranza have 55 years' combined experience, and they can draw on the expertise of one of the largest bond research teams in Europe, with more than 50 analysts.

02. Unconstrained approach

An unconstrained approach provides the team with the flexibility to invest across the full spectrum of emerging market bonds, with the freedom to select those denominated in local currencies or 'hard' currencies such as the US dollar.

The team blend 'top-down' macroeconomic insights with 'bottom-up' analysis of individual bond issuers and we believe the way they engage directly with company management teams gives them an edge. They hold a diversified portfolio (currently more than 200 bonds) rather than making concentrated bets.

03. Performance

The managers have delivered what we consider to be a strong performance track record relative to their peers over the past three years. We switched into the fund's hedged* sterling share class last year and this has had an additional positive impact on returns.

**Hedging the portfolio back to sterling means the managers use financial tools designed to cancel out the effects of currency fluctuations.*

04. Why now?

We have seen a transformation in the way investors view emerging market bonds. The tax and spending discipline of governments in these developing nations has improved, the credibility of their central banks has increased and the number of buyers and sellers for these bonds has grown significantly. As a result, this is now a more stable asset class, with volatility comparable to developed market bonds.

Market outlook: Deciphering the signal from the noise

As we look ahead into the second quarter and beyond, the focus shifts from reacting to events to deciphering signals.

We believe key indicators to watch in the months ahead will include tanker traffic in the Middle East, the success of AI stock market flotations and how reality stacks up against rhetoric in US politics.

1. Strait of Hormuz: watch the shipping flows, not the headlines

The single most important indicator of the longer-term economic impact of the Middle East conflict is simple: shipping volumes.

While headlines will continue to drive sentiment, markets will ultimately focus on how quickly oil and gas flows return to normal levels. Even with de-escalation, this process is likely to take time, as trust and logistics recover.

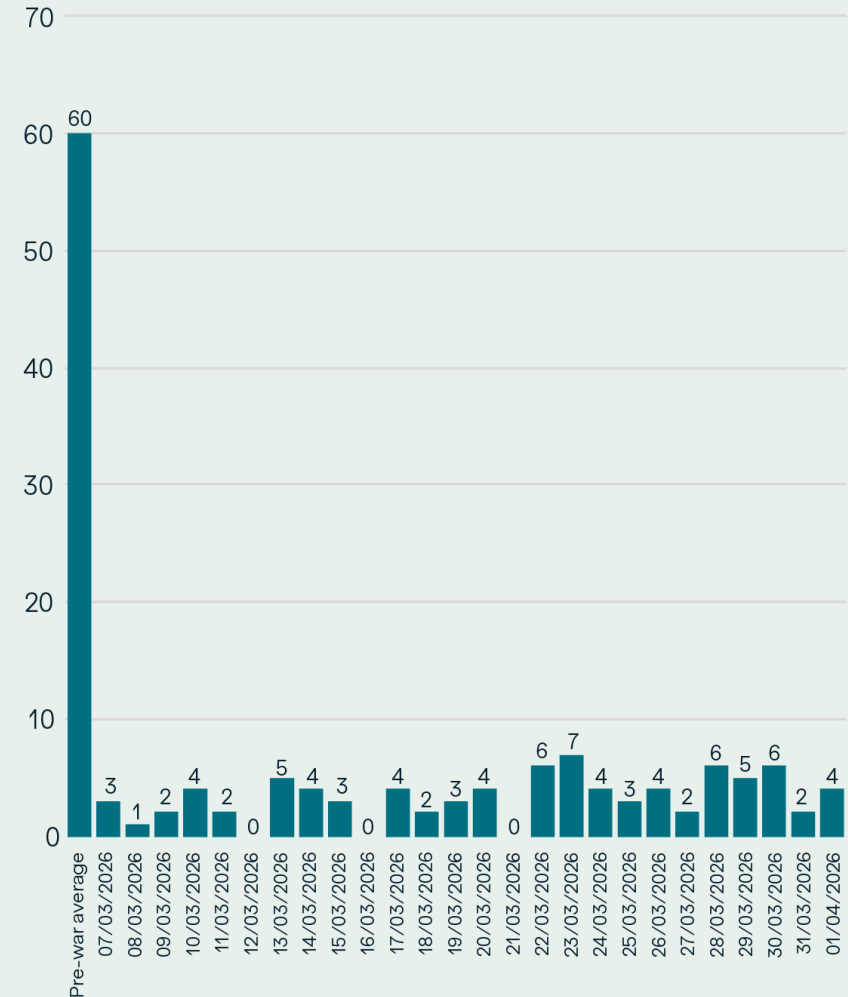
Our chart shows how the Iran war has (at the time of writing) all but halted the flow of tankers carrying crude oil, fuel products and liquefied natural gas (LNG) through the strait.

The key question now is how long this disruption will last. If the process of returning tanker traffic to normal levels is a slow one – or if the conflict escalates again – this will mean upward pressure on inflation.

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Shipping shutdown

Number of tankers travelling through the Strait of Hormuz each day



Source: SG Cross Asset Research, S&P Global. Please note that satellite data for the passage are being affected by disruptions in AIS systems so these values are the lower bound

Market outlook (continued)

2. Blockbuster AI stock market flotations: testing the appetite for disruption

The next phase of the AI story will be tested on stock markets.

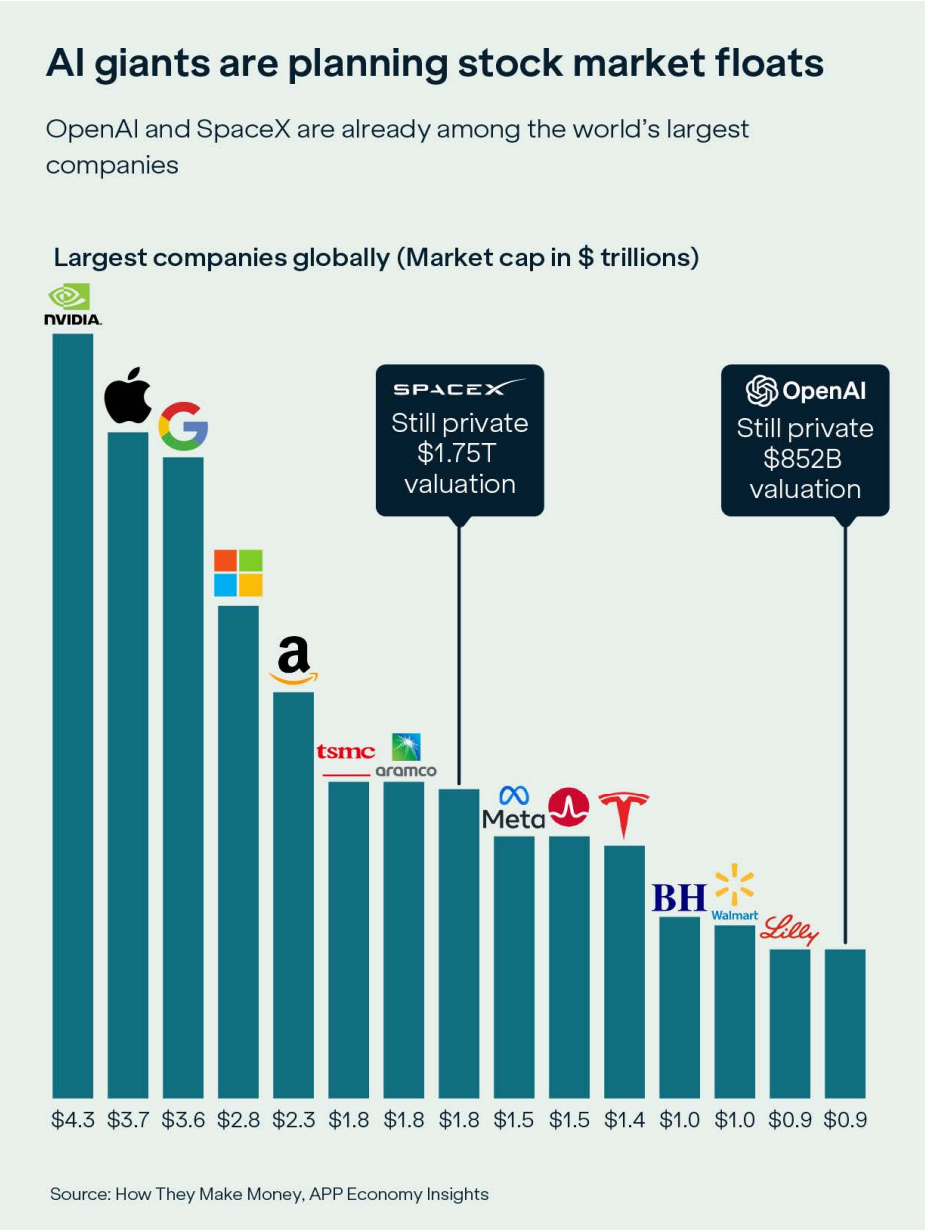
Potential listings from major players such as OpenAI, SpaceX and others will provide a real-time gauge of investors' conviction in AI's potential to deliver long-term growth and innovation.

Strong demand will reinforce the structural AI theme for investors. However, weak demand could signal a shift in how markets value future growth.

Our chart shows how the estimated valuations of OpenAI and SpaceX rank them among the world's largest companies. Both are still private companies but reported to be preparing to float on the stock market (in what is often termed an initial public offering or IPO).

OpenAI has 900m weekly users, 50m paying subscribers and earns around \$2bn a month in revenues. The company recently raised \$122bn from investors, which puts it on a valuation of \$852bn, which places it 15th in the league table – neck and neck with US pharmaceuticals giant Eli Lilly.

SpaceX is Elon Musk's 'innovation engine' encompassing AI, rockets, space-based internet and media. With an estimated valuation of around \$1.8 trillion it is wedged between two global juggernauts, Meta and state-run oil giant Saudi Aramco, in the rankings.



Market outlook (continued)

3. Midterm elections: noise vs signal

We believe politics will increasingly dominate the narrative for investors in the months ahead.

The US midterm elections will be held in November. All 435 seats in the House of Representatives and a third of the seats in the Senate will be up for grabs.

Inevitably, headlines will intensify as the elections approach. Polls and prediction markets will provide constant updates, but history suggests these signals can be unreliable.

Markets will need to separate rhetoric from reality.

The key will be whether political developments lead to meaningful changes in policy expectations, rather than short-term sentiment swings. This will represent the signal within the noise.

Using figures from Polymarket*, our graphic shows that the prediction market company's customers are expecting a major swing to the Democrats. They believe the likelihood is that President Donald Trump's Republicans will lose control of both the Senate and the House of Representatives.

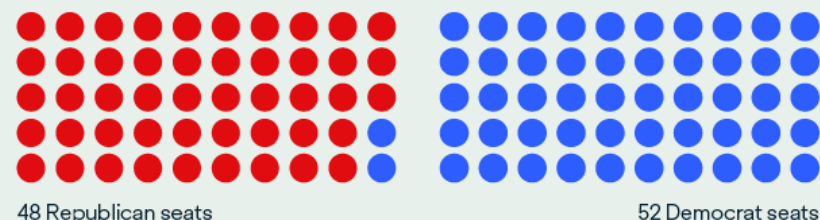
Trump will be well aware of the challenge facing his Republican party and how he responds to this is likely to be a key theme for investors in the months ahead.

*Polymarket is an online prediction market platform that allows users to bet on the outcome of real-world events in areas including economics and politics.

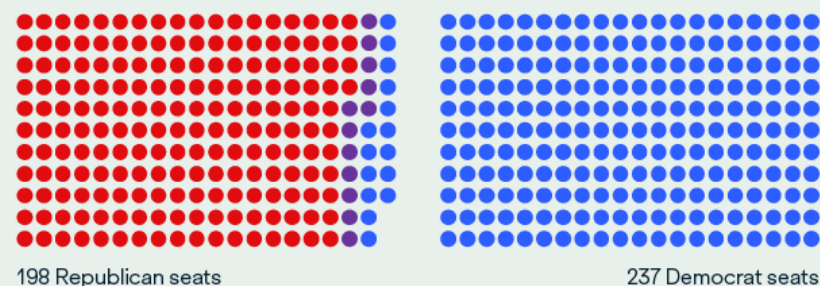
Republican reverse?

Prediction market punters expect Democrats to take control of Congress in the midterms

53% chance Democrats take the Senate



88% chance Democrats take the House



Key
Likely Democrat seat ●
Likely Republican seat ●
Swing ●

Source: Polymarket.

Market outlook (continued)

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Market scenario probability and asset class assessment

Expected Outcome (9-12 months)	Likelihood	Economic growth (GDP)	Inflation	Interest rates	Equity	Bonds	Cash
Central case	60%	Remains steady	Falls to target	Gradual reduction	++	++	+
Economy better	15%	Accelerates	Remains above target	Higher for longer	+	+	++
Economy worse	25%	Material slowdown	Turns negative	Swifter reduction	-	+	-

Key

++ Positive

+ Mildly positive

- Neutral

-- Negative

Marlborough multi-asset team's assessment of potential market environments and the likely impact on asset classes. Data as at: 31/03/26

Market outlook (continued)

Conclusion

Despite the volatility, what we saw in the first quarter was not a disorderly market. It was a disciplined repricing of risk assets like equities.

The oil shock brought genuine concerns around inflation and economic growth, but markets responded with a level of precision that suggests investors are focusing on probabilities, not just headlines.

At the same time, a stock market rotation is underway.

There is a broadening out of the companies driving stock market performance, so this is no longer confined to a narrow group of technology giants. In addition, valuations among individual companies are diverging and investors are becoming more selective in how they price the risk companies face from disruption. On the flipside, they are also becoming more selective about the companies they favour because of their resilience. This is why we are seeing some software companies punished, because of the threat to their business models from AI. And why we are seeing a supermarket retailer like Walmart rewarded for its lower exposure to AI disruption and its stable earnings and defensive qualities in challenging economic conditions.

This market backdrop will create both risks and opportunities.

There will undoubtedly be volatility ahead – driven by geopolitics, technological disruption to business models and political manoeuvrings. In an environment like this, diversification remains key.

A well-constructed multi-asset portfolio is designed to help investors successfully navigate the shifting market conditions that inevitably lie ahead. It is an approach that provides the flexibility to manage risks and seize on opportunities in an ever-evolving investment landscape.

There will undoubtedly
be volatility ahead. In
an environment like
this, diversification
remains key.

Multi-Asset Solutions Investment Team

SENIOR TEAM

Nathan Sweeney
CIO Multi-Asset
Experience
26yrs

Raj Manon
Head of Investments
Multi-Asset
Experience
23yrs

Edward Kennedy
Head of Personal
Portfolio
Experience
26yrs



INVESTMENT ANALYSTS

Andrew Shaw
Investment
Analyst
Experience
17yrs

Nick Warmisham
Investment
Analyst
Experience
3yrs

James Milward
Assistant Investment
Analyst
Experience
4yrs



The whole team are members of CISI




PORTFOLIO MANAGERS

Nick Peters
Portfolio Manager
Experience
31yrs

Rory Dowie
Portfolio Manager
Experience
11yrs

Sarah Todino
Assistant Portfolio
Manager
Experience
19yrs

Alex King
Assistant Portfolio
Manager
Experience
11yrs



DEALING & DATA SUPPORT

Alan Jones
Head of Dealing
& Data Analysis
Experience
31yrs

Georgina Hooper-Keeley
Dealing &
Data Analyst
Experience
4yrs

Allison Gill
Dealing &
Data Analyst
Experience
23yrs

Jenny Wheeler
Dealing &
Data Analyst
Experience
16yrs



Experience Marlborough

Risk warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting portfolios. Investments may include emerging market, smaller company and commodity funds which may be higher risk than other asset classes. Investments in fixed interest funds are subject to market and credit risk and will be impacted by changes in interest rates. Changes in exchange rates may affect the value of the underlying investments. Investments in Property funds carry specific risks relating to liquidity. Property funds can go through periods, known as 'gating', when it may not be possible to trade in or out of the funds and to access your money during such periods. The portfolios may invest a large part of their assets in funds for which investment decisions are made independently of the portfolios. If these investment managers perform poorly, the value of the portfolios is likely to be adversely affected. Investment in funds may also lead to additional fees arising from holding these funds.

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- ▶ Audio transcribed communications
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