INVESTMENT OUTLOOK
June 2026

At a Glance

- **Base case:** Markets remain resilient in a reflationary environment of robust growth and sticky inflation, but the regime is increasingly constrained by higher-for-longer rates and geopolitical uncertainty, and stays in flux pending an Iran resolution.
- **Why:** Strong US data has shifted the narrative toward reflation, repricing the Fed from cuts toward a 2026 hike and lifting yields across the curve.
- **Key risk:** A prolonged Iran conflict reopens the oil/inflation channel, keeping core inflation near ~3%, while a 10-year above 4.5% pressures equity multiples even as earnings hold.

Key Themes

1 Reflation has replaced stagflation fears, but with tighter constraints

- Strong US data — May payrolls +172k (vs. 88k consensus), ISM Manufacturing at 54 and cycle-high earnings-revision breadth — is shifting the narrative toward reflation with sticky inflation, supporting earnings but not valuations.
- Higher-for-longer rates and yields approaching critical thresholds (~4.5%) are becoming the binding constraint on further market upside.

2 Iran remains the key macro regime-defining variable

- The outcome is binary: de-escalation restores disinflation and rate relief, while escalation—the ceasefire now fracturing— risks a renewed inflation impulse through energy and supply chains.
- Inflation persistence depends on conflict duration—prolonged disruption keeps core inflation closer to ~3%, reinforcing a higher-for-longer policy path.

3 Central banks are shifting back toward tightening bias

- Stronger growth and inflation risks have repriced policy toward hikes — the Fed from cuts toward a 2026 hike, with markets pricing close to three ECB hikes — as global central banks turn more hawkish.
- As a result, financial conditions are tightening via higher yields and delayed easing, increasing cross-asset volatility.

Key Signposts

- **Oil shock duration:** whether Brent (~$99) settles lower or re-rates toward $110–115 as physical disruption persists with Hormuz throttled.
- **Inflation spillover:** whether energy shocks stay contained or broaden into core inflation (~3%) via the supply chain.
- **Policy path:** whether the Fed's shift toward a 2026 hike and higher-for-longer pricing holds, or a conflict resolution reopens an easing bias.
- **Equity resilience:** whether earnings keep supporting markets, or higher yields (10y >4.5%) and mega-IPO liquidity absorption (SpaceX, Anthropic, OpenAI) drive a setback.

INVESTMENT STRATEGY JUNE 2026

At a Glance

- **Most likely outcome:** Markets are increasingly conditioned by rates, geopolitics and liquidity: equities advance on earnings rather than multiple expansion, with resilience intact but upside capped and pullbacks from Iran, yields and mega-IPO supply likely shallow given anchored valuations.
- **Implementation bias:** Position for a more volatile, flow-driven regime: stay neutral and add on weakness, favouring quality earnings and AI-infrastructure, OW EM/Asia vs US, carry over duration, and accumulate gold.

Key Themes

4 Equity resilience facing emerging headwinds

- Equities remain supported by earnings strength and reasonable valuations, but the prior decoupling from rising yields is starting to reverse.
- Rising yields, and geopolitical risks are likely to drive near-term volatility rather than a bear market.

5 Liquidity and positioning from mega IPOs

- SpaceX, Anthropic and OpenAI target ~$200bn of proceeds — over 2.5x the entire 2025 US IPO market — and fast-tracked index entry can force passive selling concentrated in top mega-caps.

6 Crowded AI/tech positioning raises unwinding risks

- Prime-broker data show large-cap tech positioning at the high end as market breadth hits record lows, reflecting strong conviction in the theme.
- While fundamentals remain supportive, crowding increases the risk of sharper, flow-driven pullbacks if positioning unwinds or expectations disappoint.

7 It is not yet time to de-risk in AI/tech

- The current tech cycle remains fundamentally driven by earnings and cashflow strength, rather than purely valuation expansion.
- Sustained AI demand and tight supply in critical infrastructure support earnings, so stay invested in the owners of the physical bottlenecks.

INVESTMENT STRATEGY JUNE 2026

Global Tactical Asset Allocation

Sub-Asset Classes	UW	N	OW	Comments
Equities				
US/Canada	■			• Earnings resilience and broadening breadth support equities, but rising yields (~4.5%), Iran risk and mega-IPO supply are emerging as binding constraints on multiple expansion. • Stay neutral with a bias to add on sharp weakness; favour quality earnings and AI-infrastructure bottlenecks. • Maintain US underweight and EM/Asia overweight, where valuations offer a greater margin of safety.
Europe		■		
Japan		■		
Asia & EM			■	
Global Thematic Equities		■		
Fixed Income				
Developed Sovereign	■			• Strong growth and higher-for-longer rates (one 2026 hike now priced) make duration an unreliable hedge. • Carry remains the primary return driver — prioritise IG for quality, with selective HY and EM debt. • Duration is a tactical, Iran resolution-contingent opportunity, not a structural allocation.
Developed Corp IG			■	
Developed Corp High Yield		■		
Emerging Markets Bonds		■		
Alternatives				
Precious Metals		■		• Oil is settling at higher levels but not normalizing — Hormuz stays effectively closed and energy remains the key inflation channel. • Gold trades inversely to real yields but retains structural value as a regime hedge. • Accumulate gold on weakness against longer-term inflation, deglobalization and de-dollarisation risks.
Hedge / Alternative Funds	■			