Asset Class Facts & Figures

Second Quarter 2026

Contents

Facts and Figures

Equities

Global Equities

Facts & Figures Second Quarter 2026

Global equities returned 14.9% in 2Q and 23.7% for the trailing one year in USD terms. The quarter's gains were driven by strong 1Q earnings results, which led to upgrades to future earnings forecasts. Markets also increasingly looked past the Iran War, with declining oil prices among the factors helping to lift risk appetite. Expectations of robust demand for computing capacity saw semiconductor stocks lead the market higher.

— Global equities trade at 19.9x cyclically adjusted cash earnings, reaching a fresh all-time high on this valuation metric during the quarter based on data dating back to 1979. The high valuation level masks dispersion across major blocs, with the US trading at levels higher than others.

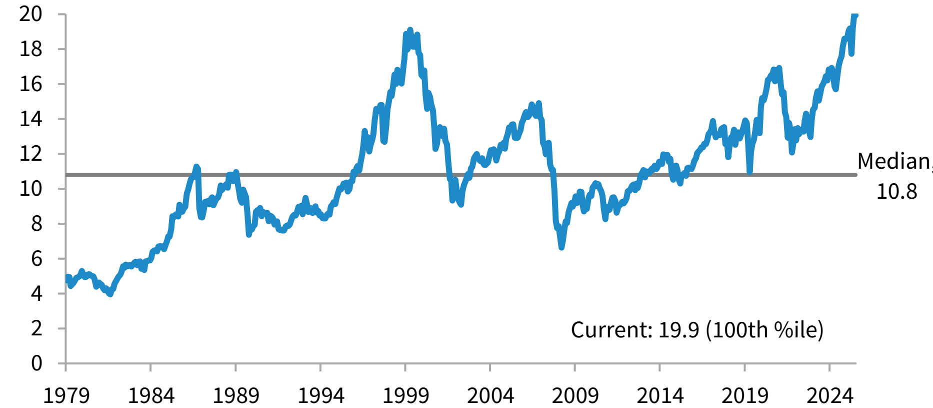
— The global economy is expected to grow by 2.9% in 2026, according to the median analyst estimate as surveyed by Bloomberg in June. Developed economies are expected to grow by 1.6% and EM by 4.1%. These figures represent downgrades of two- and three-tenths, respectively, over the last quarter, as the impact of the war on growth expectations is felt. Markets nonetheless began to look through these impacts as the quarter progressed, with the brent oil price declining from $118/barrel at the end of 1Q to $73 by the end of 2Q.

— Global corporate earnings are expected to grow by an extremely robust 27.6% in 2026, outpacing 2025's 10.3% growth. The stronger outlook is driven by higher expected earnings growth in all major regions, though the consensus expectation of 60.8% growth in EM stands out, driven by semiconductors, and up from an expectations of 37.1% at the end of 1Q. The US is also expected to generate strong earnings growth, with consensus currently standing at 24.4%.

— Expectations for policy interest rates are a key risk for equities. Major DM central banks had been expected to keep policy rates stable or ease them modestly. The Iran War has raised the possibility of higher inflation, leading market participants to believe that central banks may be reluctant to ease and could even need to raise rates modestly.

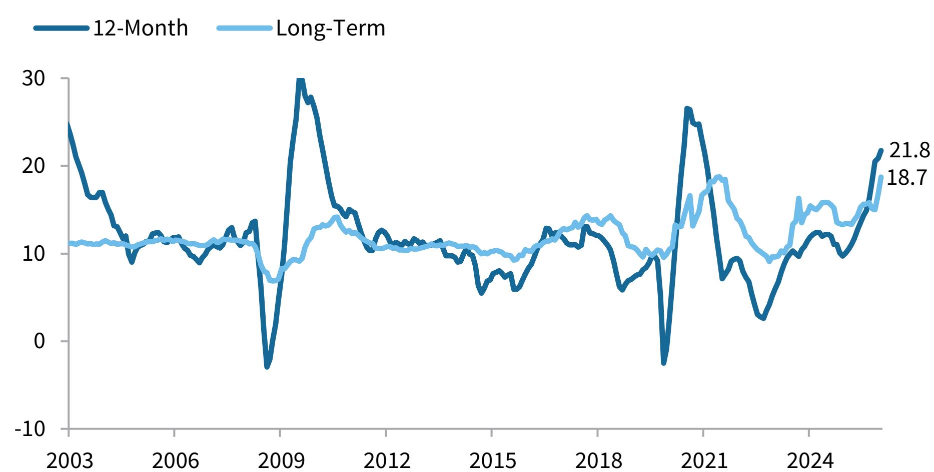
Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE data is based on the MSCI World Index from Dec 31, 1979 - July 31, 2005 and on MSCI All Country World Index thereafter.

US Equities
Facts & Figures Second Quarter 2026

US equities gained 15.2% in 2Q 2026, the best quarter in more than six years, and topped DM ex US equities by 5 ppts. Resilient corporate earnings and the reassertion of AI-related leadership drove the rally, as did temporary de-escalation in the Iran War. On a TTM basis, US equities returned 21.5%, topping DM ex US equities, which returned 21.0%.

— US equities' cyclically adjusted price-to–cash earnings (CAPCE) multiple jumped in 2Q to 26.4x, a record high based on historical data from 1979. The relative valuation gap with DM ex US equities, which trade at 12.9x, is also near historic extremes, and this disparity remains pronounced even after adjusting for sector composition differences.

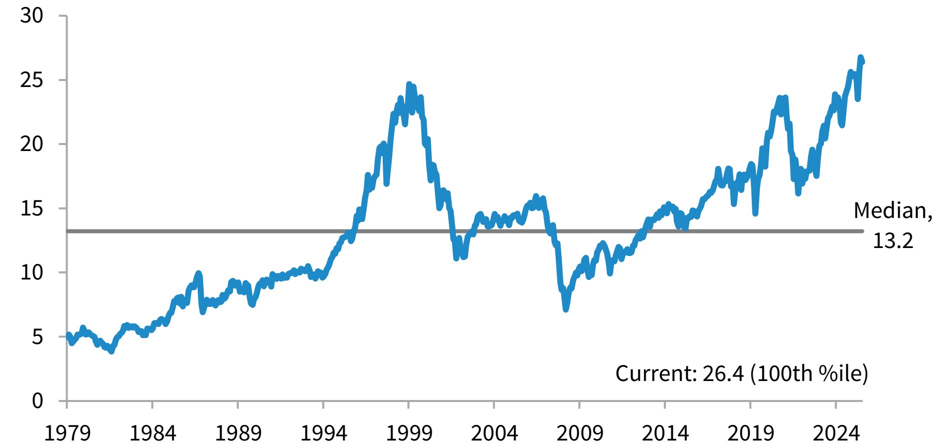
— Markets recovered swiftly from the March drawdown linked to the Iran War, as April's ceasefire and June's framework agreement both eased tensions. Still, a durable end to the conflict has not been established, and it continues to complicate the economic outlook. US real GDP growth for 2026 has been downgraded to 2.1%, while inflation expectations have climbed to 3.4%.

— S&P 500 earnings growth was exceptional in 1Q, rising an estimated 28.6%—the strongest quarter since 2021. About 85% of companies beat estimates, with growth concentrated in mega-cap technology. Analysts also raised estimates through the quarter, breaking from the usual pattern of downward revisions. With expectations now materially higher and valuations above historical averages, there is less cushion if results disappoint.

— AI-linked equities dominated sector performance in 2Q, with the IT sector alone accounting for 69% of the index gains, despite only being composed of one-third of the index market capitalization. Within IT, the semiconductor industry surged 48%. The energy sector—which jumped substantially in 1Q due to oil supply disruption from the Iran War—declined 14% as tensions cooled and shipping through the Strait of Hormuz began to improve.

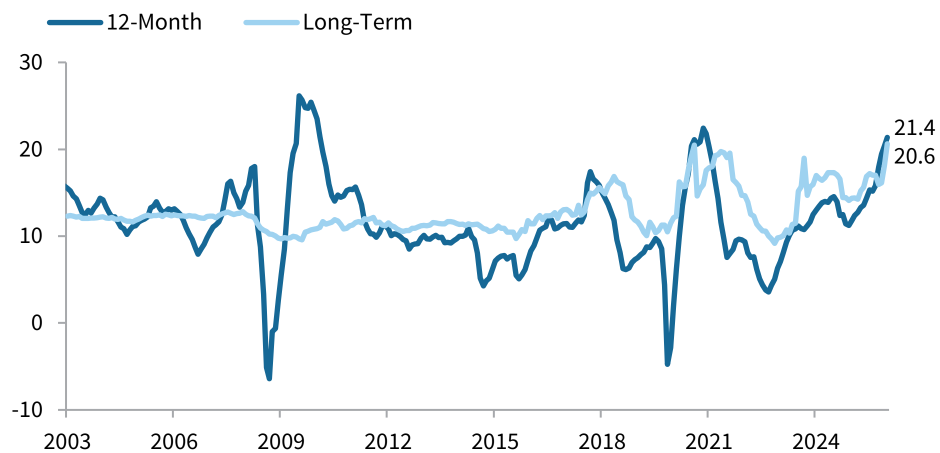
Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI US Index.

Developed Markets ex US Equities

Facts & Figures Second Quarter 2026

DM ex US equities returned 10.2% in USD terms in 2Q 2026, lagging the 13.8% return of broader DM. Over the trailing one year, the bloc has returned 21.0%, comparable to broader DM's return of 21.3%. One notable contributor to the lag in recent performance is the lower exposure this index has to the AI winners, particularly semiconductors, compared to the US and EM. While EPS growth is forecast to lag broader DM, a large valuation discount persists.

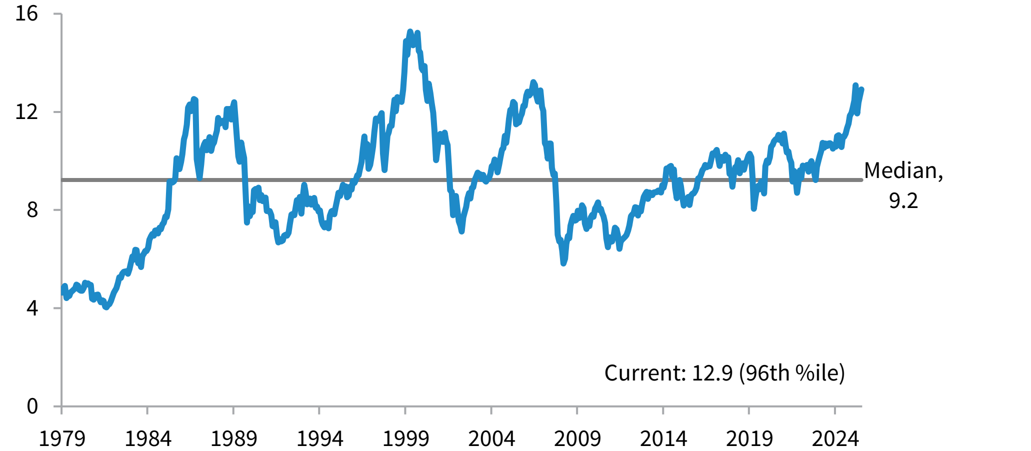
— Valuations for DM ex US equities increased last quarter, with the bloc now trading at 12.9x cyclically adjusted cash earnings (96th percentile since 1979), 40% above the long-term median of 9.2x. Still, relative valuations remain attractive given that broader DM trades at a 21.9x CAPCE (due to a CAPCE of 26.4x for US equities). This relative valuation is in the 1st percentile of the historic data and represents a discount of nearly 30% to the median relative valuation of 0.84.

— The DM economy is forecast to grow by 1.6% in 2026, representing a downward revision of 0.2 ppts over the past quarter, as the effects of the Iran War have weighed on growth expectations, primarily via higher energy prices. Notable also is the fact that these downgrades have occurred across the board, in all major regions. Nonetheless, the energy impact is greatest on net importers such as the UK, euro area, and Japan.

— Earnings growth has been weaker in DM ex US, with trailing 12-M EPS growing by 6.8% over that period compared to 15.4% for broad DM. Lower weights in the IT and comms sectors, particularly in the semiconductor industry more recently, in addition to lower profitability within those sectors in the region, accounts for much of this lag. Analyst consensus forecasts expect earnings to grow by 13.5% in the coming 12 months, compared to expected growth of 18.6% in broad DM. Growth is expected to be driven more by profit margin expansion (from 10.9% to 11.8%) than by sales growth (4.7%).

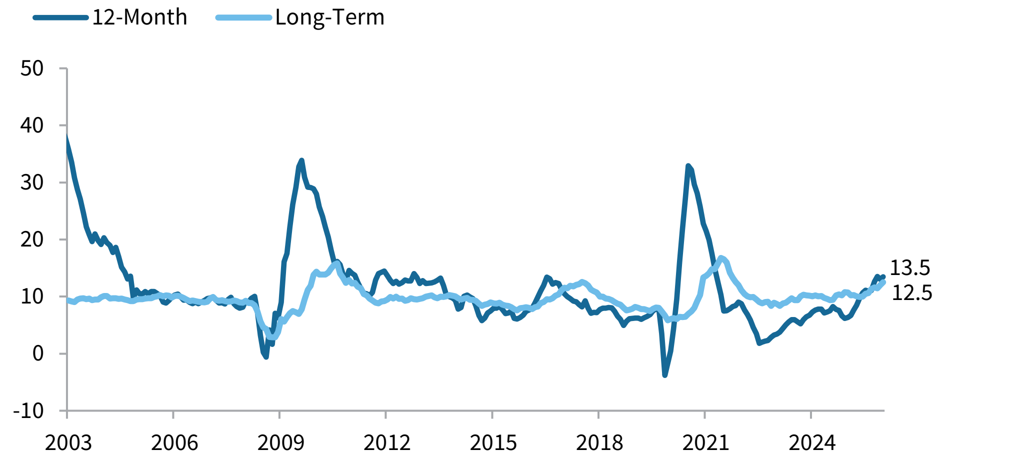
Cyclically adjusted price-to–cash earnings: MSCI World ex US

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World ex US Index.

UK Equities

Facts & Figures Second Quarter 2026

UK equities returned 4.1% in USD terms in 2Q 2026, significantly underperforming the 13.8% return of broader DM. Over the trailing one-year, performance is much more comparable, with the UK returning 20.3% versus DM's 21.3%. Underperformance in 2Q was primarily due to the UK's de-minimis exposure to IT, the sector which contributed most of the DM's return.

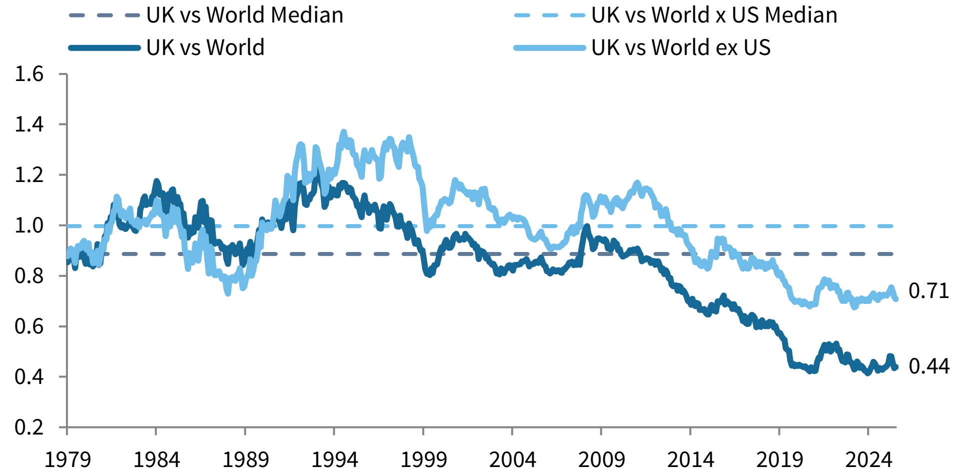
— UK valuations remain deeply discounted versus peers. The UK's CAPCE ratio stands at 9.1, placing it in the 64th percentile of historical observations. However, the ratio of the UK's CAPCE to broad DM is just 0.44 (4th percentile). Adjusting for substantial sectoral differences between the indexes, the relative CAPCE rises to 0.59. However, when weaker earnings growth is also considered—by looking at forward P/Es—the ratio of sector-neutral forward P/Es is 0.78. These figures collectively underscore the persistent valuation gap between UK equities and broader DM.

— The UK's consensus GDP growth forecast has held up for 2026 (at 1.0%) despite the rise in energy prices, due to an unexpectedly strong 1Q, though it remains below broader DM expectations of 1.6%. The composite PMI has also dipped modestly into contractionary territory. The BOE is reluctant to hike rates in response to the recent rise in energy prices and weaker economic activity should, in time, allow them to cut rates further.

— Corporate fundamentals in the UK lag their peers. Trailing 12-month EPS contracted by 3.3% over the past 12 months compared to growth of 13.4% for broad DM. While due largely to the UK's sectoral tilts, all sectors saw EPS growth lower than their DM equivalents. UK EPS growth is forecast to underperform DM by 6 ppts over the next 12 months (12.6% vs 18.6%), with growth primarily driven by margin expansion (11.7% to 12.6%) and a more modest contribution from sales growth (4.5%). If fundamentals improved, depressed sentiment could prove supportive for UK risk assets.

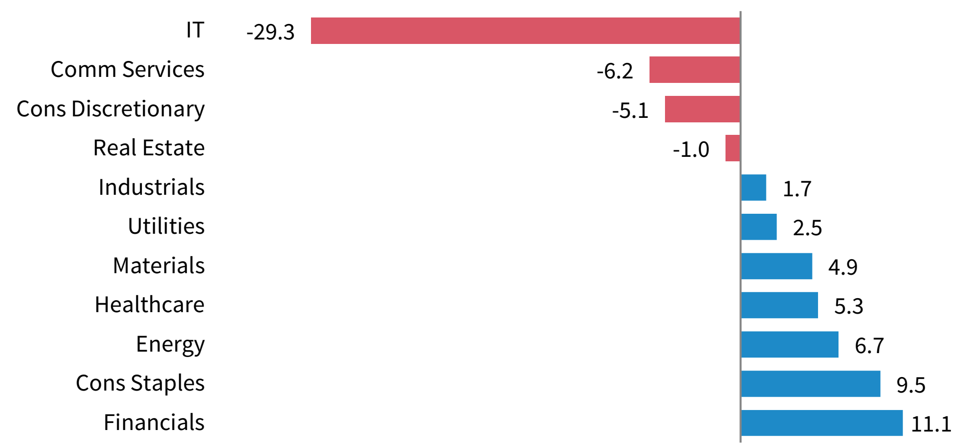
Relative CAPCE: MSCI UK vs World

Dec 31, 1979 – Jun 30, 2026



Relative sector weights: UK minus World

As of Jun 30, 2026 • Percentage Points



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Europe ex UK Equities

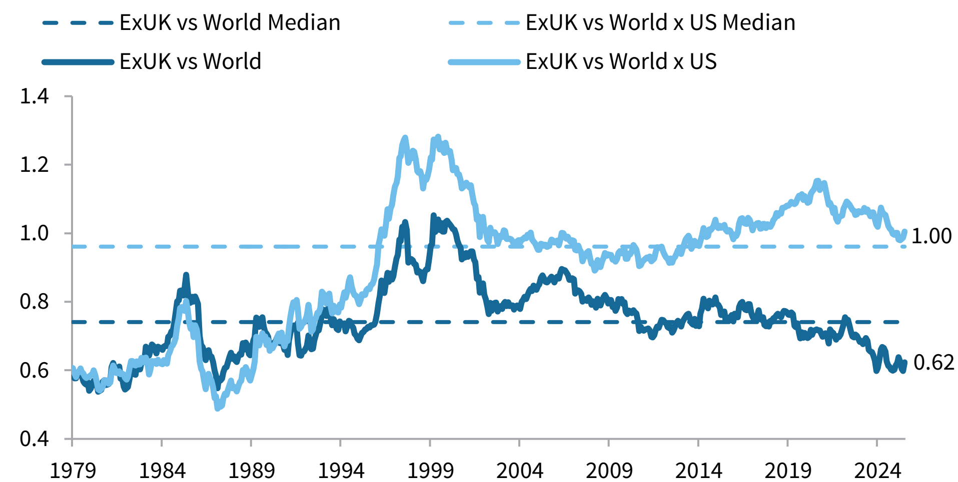
Facts & Figures Second Quarter 2026

Europe ex UK equities returned 13.0% in USD terms in 2Q 2026, modestly underperforming broader DM which returned 13.8%. Over the trailing one-year, the bloc has returned 18.1% versus DM's return of 21.3%. While a lower exposure to semiconductors and AI more broadly has been a headwind, strong relative performance across most sectors has helped the region to broadly keep pace more recently.

- In absolute terms, index valuation increased last quarter, with the CAPCE rising from 11.7 at end of 1Q to 13.0 at the end of 2Q, which represents the 92nd percentile of data going back to 1979. Relative valuation remained little changed, with the CAPCE of the region relative to broad DM staying at 0.62, still well below the long-term median of 0.74, with much of this apparent cheapness due to the comparative richness of the US market. CAPCE relative to DM ex US rose to parity (i.e., 1.00), now at the 66th percentile of historical observations and close to 5 ppts above its long-term median of 0.96.
- Economic uncertainty has increased with the onset of attacks on Iran. This has contributed to a five-tenth decline in the consensus Eurozone GDP growth forecast for 2026 to 0.6%, via higher energy prices. This lags the 1.6% growth expected in DM more broadly. German growth weakness remains a regional headwind, albeit has been partially offset by stronger peripheral performance recently. Still, a significant fiscal easing will be forthcoming in Germany in the coming quarters. Despite the recent ECB hike, lower interest rates than in recent years should also help support growth in Europe in the coming quarters.
- Longer-term underperformance versus DM is driven by lower underlying profitability, with the relative ROE at 0.81x, reflecting both lower tech exposure and sectoral ROEs that lag in eight of 11 GICS sectors. Still, ROE exceeds that of DM ex US. Earnings growth is expected to be 14.0% over the next 12 months, behind DM's 18.6%. Sales growth is forecast at 5.0%, with margins rising 88 bps to 11.1%.

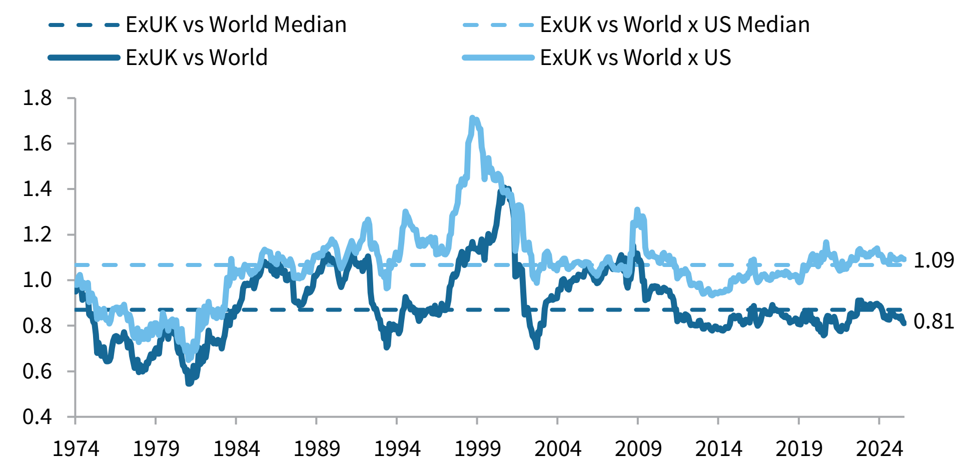
Relative CAPCE: MSCI Europe ex UK vs World and World ex US

Dec 31, 1979 – Jun 30, 2026



ROE: MSCI Europe ex UK vs World and World ex US

Dec 31, 1974 – Jun 30, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

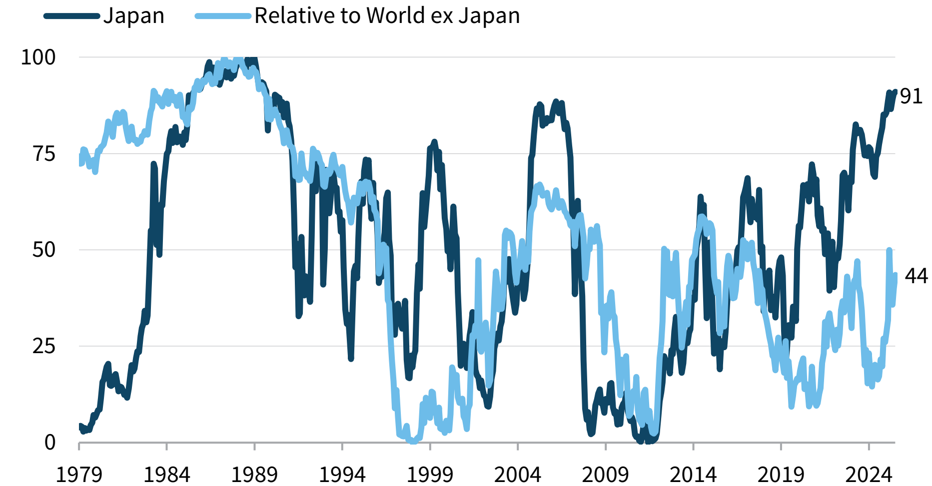
Japanese Equities
Facts & Figures Second Quarter 2026

Japanese equities returned 14.2% in 2Q 2026 in USD terms, slightly above the 13.8% return for DM equities. Yen-based investors, insulated from currency depreciation, earned even higher returns. Over the last 12 months, Japanese equities delivered a 29.1% return in USD, surpassing developed peers.

- Strong returns have led Japanese equity valuations to steadily rise over the past 12 months. At the end of 2Q, the cyclically adjusted cash earnings ratio stood at 16.0x, ranking in the 91st percentile of historical observations. Relative to other developed markets, Japanese equities trade at a lower valuation, in the 44th percentile historically.
- The macro backdrop is supportive. Real GDP growth has been modest, but deflation is firmly in the rearview mirror, and CPI is expected to average around 2% in 2026. Inflationary pressures have been welcomed by companies seeking to raise prices and earnings.
- The Bank of Japan hiked rates by another 25 bps in June, yet the low absolute level of rates raises few concerns around corporate debt affordability.
- Earnings estimates have risen sharply in recent months and now stand at 15% for 2026. Uncertainty around the impact of US tariffs has faded and a drop in energy prices as the Iran War de-escalates is a tailwind.
- Significant yen depreciation has served to boost the value of overseas earnings for Japanese companies but is a two-edged sword for offshore investors. Five-year returns in USD for Japanese stocks have been roughly half the level as in yen.
- The ROE on Japanese equities currently stands at 9.6%, above the historical median. Japan's ROE has been improving relative to its own history amid an increased focus on corporate governance and shareholder returns, though it remains below that of DM peers.
- Rising exposure to IT stocks—whose index weight has doubled over the last decade—has supported performance but also increases Japanese markets to a reversal in sentiment around AI investment.

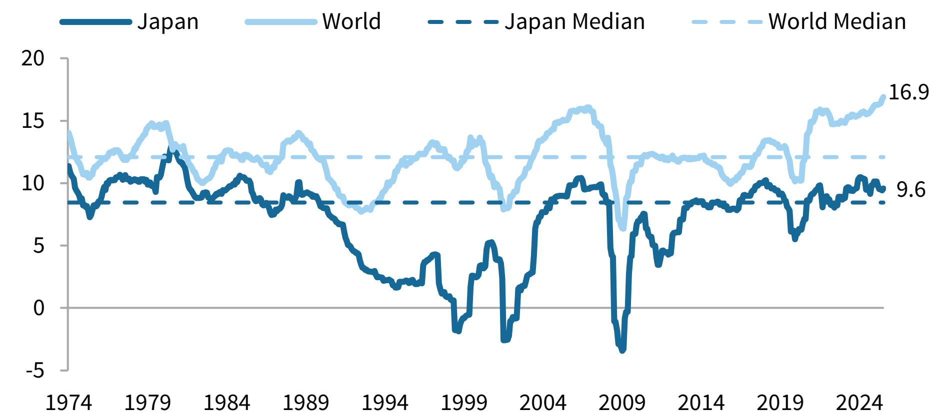
Cyclically adjusted price-to-cash earnings

Dec 31, 1979 – Jun 30, 2026 • Percentile (%)



ROE: MSCI Japan vs World

Dec 31, 1974 – Jun 30, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Emerging Markets Equities

Facts & Figures Second Quarter 2026

EM equities returned 24.1% in USD terms in 2Q, rebounding after negative returns in 1Q. Returns over the past TTM remain strong at 43.5%, with EM outperforming DM equities by 22 ppts.

— EM valuations have run up sharply over the past year, driven by strong performance by all regions, but most notably by the AI-related markets of Taiwan and Korea in particular. Absolute valuations have reached the 99th percentile, nearing the 2007 peak. Nevertheless, EM trades at a 20% discount to DM equities, which is only slightly less than normal.

— There remains regional and country level valuation dispersion. Valuations are elevated in Asia, driven by countries such as Taiwan and Korea. Valuations for Latin America appear relatively cheap, particularly Brazil and Mexico.

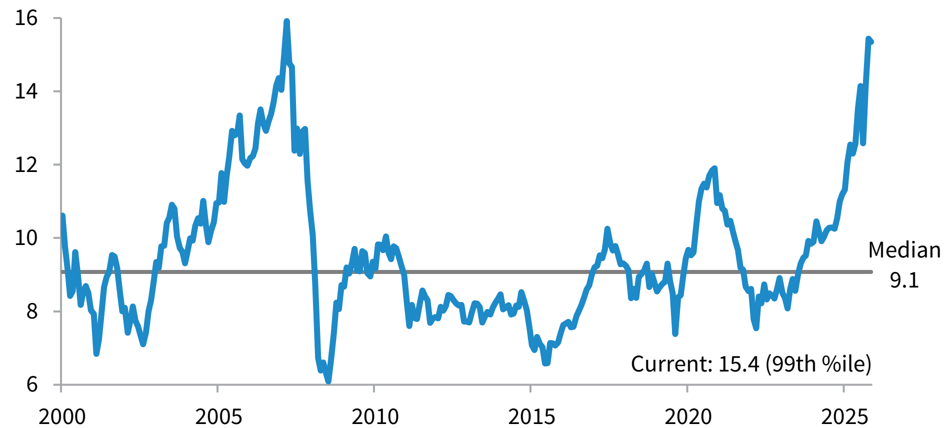
— Consensus expectations call for stable EM GDP growth of 4.1% in 2026. Yet, the impact of higher energy prices may disproportionately fall on emerging markets economies, increasing the risk of growth disappointment.

— Indeed, analysts expect outsized EPS growth of 61% in 2026 driven by the IT sector on the back of global AI-buildout demand. Yet, such numbers are vulnerable to disappointment, especially if energy prices soar again due to renewed conflict in the Strait of Hormuz.

— Despite recent outperformance, EM still lags DM over the decade. Longer-term underperformance since 2010 was driven by USD appreciation, subpar earnings growth, and a narrowing economic growth differential. Several of these factors have shifted in favor of EM in 2025 and 2026, namely a sharp weakening of the US dollar and mounting headwinds to DM growth.

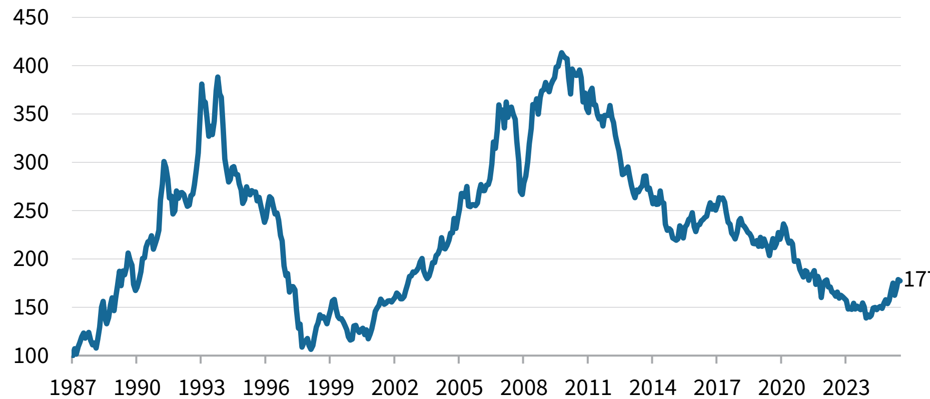
Cyclically adjusted price-to–cash earnings: MSCI EM

Aug 31, 2000 – Jun 30, 2026



EM/DM equity relative cumulative wealth

Dec 31, 1987 – Jun 30, 2026 • US Dollars



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: EM CAPCE based on five-year average real cash earnings. Total returns are gross of dividend taxes prior to January 2001 and net thereafter. EM and DM equities based on the MSCI Emerging Markets Index and MSCI World Index, respectively.

Asia ex Japan Equities

Facts & Figures Second Quarter 2026

Asia ex Japan equities returned 27.8% in 2Q 2026 in USD terms, outperforming global equities by 12 ppts, driven by surging demand for semiconductor stocks. On a TTM basis, Asia ex Japan equities have returned a stunning 46.4%, outperforming global equities, which returned 24.2%.

— Given the strong rally over the past year, Asia ex Japan valuations have become extreme relative to history. Both the index's P/B ratio and cyclically adjusted price-to–cash earnings (CAPCE) ratio, which excludes banks and insurance companies, are at the 99th percentile. Relative to DM equities, however, the MSCI AC Asia ex Japan Index trades at a 12% discount and a more reasonable 61st percentile of historical observations.

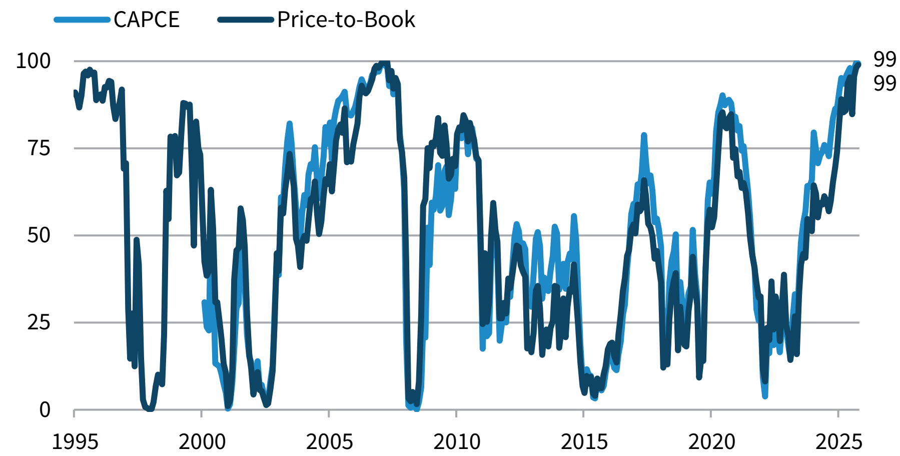
— Absolute valuations are mixed across countries and are elevated in Taiwan, Korea, and Singapore but low to fairly valued elsewhere. Semiconductor and AI-related stocks in Taiwan and Korea are having a large impact on valuations at the overall index level.

— Real GDP growth in Asia ex Japan is forecast at 5.0% in 2026, but the outlook is subject to downside risks from higher energy prices resulting from the Iran war, given the region's reliance on oil and gas imports from the Gulf.

— Analysts' expectations of forward 12-month EPS growth for Asia ex Japan were revised higher to an eye-popping 41% as of June 30, compared to estimates for global peers at 22% driven by increases in Taiwan and Korea on the back of continued demand for AI-related hardware. However, given the export-oriented and cyclically sensitive nature of most Asia ex Japan markets, a key risk is slowing global growth and demand for AI hardware.

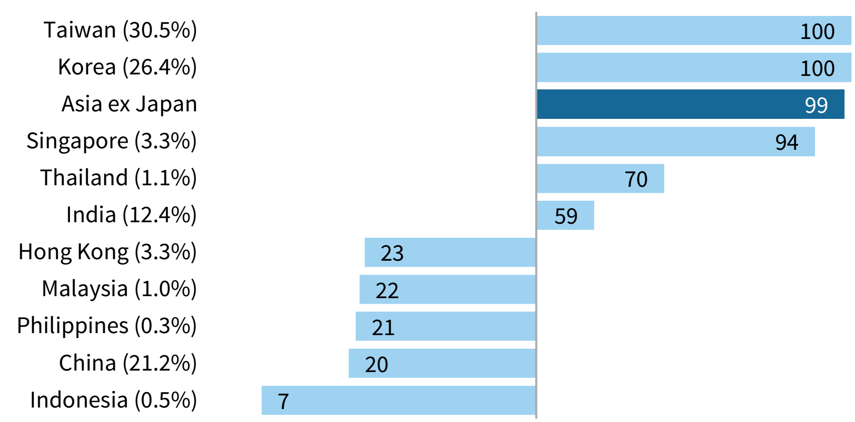
MSCI All Country Asia ex Japan Valuations

Sep 30, 1995 – Jun 30, 2026 • Percentile (%)



Country P/B Percentile: MSCI AC Asia ex Japan

As of Jun 30, 2026 • Index Weight in Parentheses



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: CAPCE based on five-year average real cash earnings. Totals may not sum to 100% due to rounding.

Chinese Equities

Facts & Figures Second Quarter 2026

Chinese equities returned 1.6% in 2Q as weakness in offshore listed equities (-6.6%) offset strong returns for onshore A-shares (18.0%). Over the past 12 months, A-shares have returned 45.5% vs -4.8% for the offshore MSCI China Index, which has lagged both EM and Global equities.

— Chinese equities consist of mainland China-listed A-shares, Hong Kong-listed Chinese companies, and US-listed Chinese companies. The MSCI China All Shares Index combines both onshore and offshore markets and is composed of 43% Hong Kong-listed equities, 2% US-listed equities, and 55% A-Shares.

— Historically, the offshore market was home to China's tech giants, while the A-share market was overweight legacy "old economy" stocks. However, this has rapidly shifted, with the A-share market now home to China's leading "hard tech" and AI companies, including semiconductors. As a result, IT now makes up 38% of the A-share index.

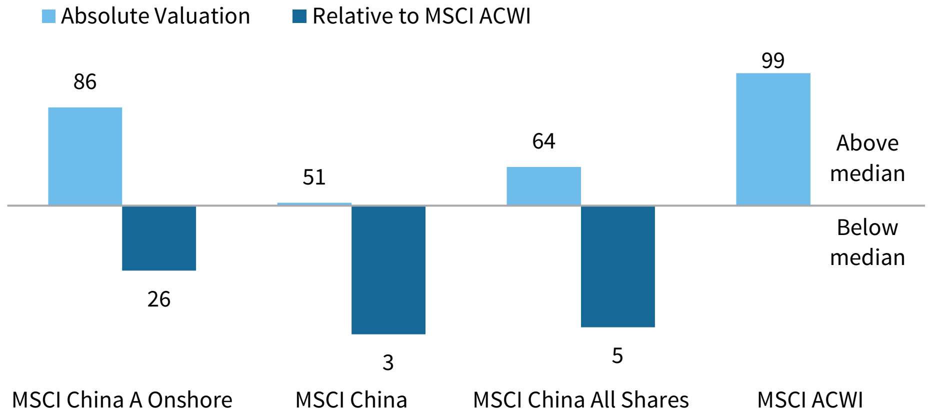
— As of June 30, the composite P/E ratio for the MSCI China All Shares Index was at the 64th percentile, up from the 12th percentile in August 2024. Yet, this masks the divergence between offshore equities (MSCI China) which are fairly valued given poor performance, while A-share valuations have climbed to the 86th percentile. However, valuations for both segments remain low relative to global equities.

— Consensus forecasts expect China real GDP growth of 4.6% in 2026, which is at the lower end of the government's official target of 4.5%–5.0%. So far policymakers have refrained from additional stimulus, highlighting that officials are comfortable with the current state of the economy, even in the face of higher energy costs due to the Iran War, given China's build out of renewable energy sources.

— Active China-dedicated managers have historically demonstrated an ability to add value over the A-share index, given the retail-driven nature of that market. Meanwhile, managers with flexible "All China" mandates can offer exposure across the China equity universe.

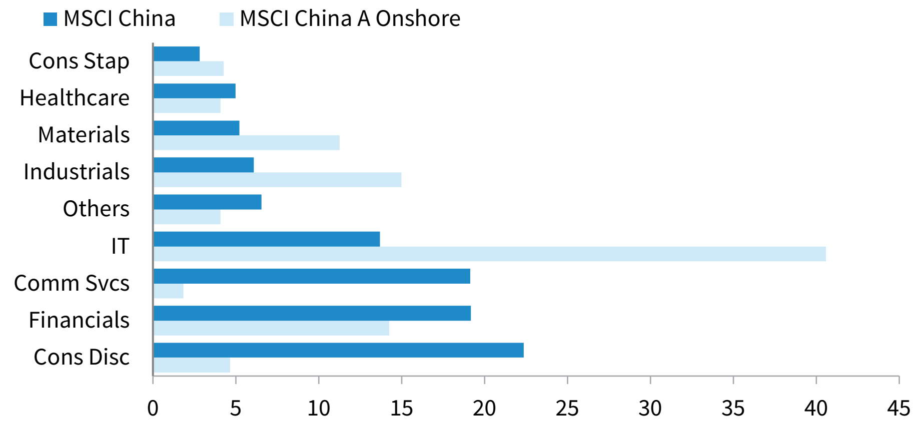
Composite P/E: Percentile

Feb 28, 2010 – Jun 30, 2026



Sector weights

As of Jun 30, 2026 • Percent (%)



Sources: FactSet Research Systems, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Composite P/E reflects the harmonic average of the 5-year cyclically adjusted P/CE, forward P/E, and ROE-adjusted P/E ratios. Sector weight for "Others" consists of Real Estate, Utilities, and Energy. Totals may not sum to 100% due to rounding.

Global Small-Cap Equities

Facts & Figures Second Quarter 2026

Global small-cap equities returned 14.9% in 2Q, matching their mid- to large-cap peers, but have outperformed by 5.1 ppts over the past 12 months. In recent quarters, regional divergences have emerged, with US small caps enjoying strong performance relative to their larger counterparts, while non-US small caps have lagged.

— US small caps gained 19.5%, besting their larger counterparts by 4.3 ppts in 2Q. For the first half of 2026, US small caps have returned 22.6%, the strongest 1H performance since 1991, and outperformed larger companies by 12.7 ppts. The 2Q gains were driven by resilient investor sentiment as US-Iran tensions cooled and corporate fundamentals continued to improve.

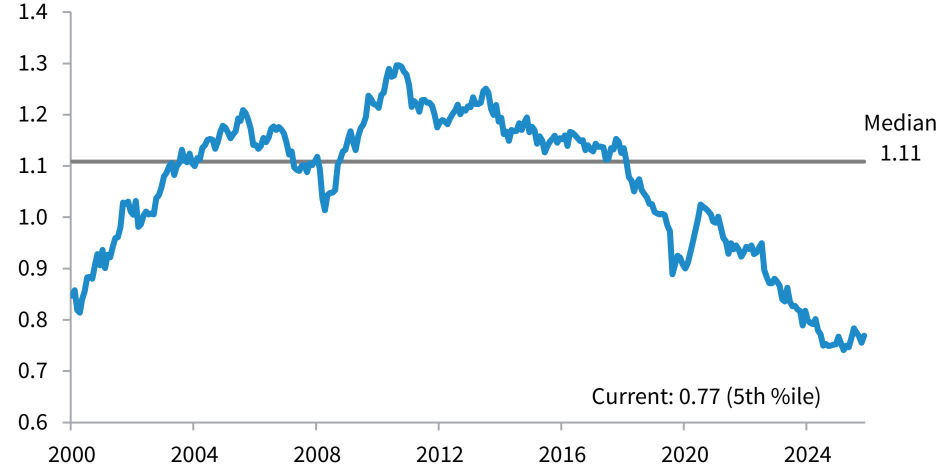
— Developed ex US small-cap equities rose 7.9% in 2Q and lagged mid/large caps by 2.3 ppts. They have also underperformed on a TTM basis, by 1.6 ppts. The stronger performance of the IT and the financials sectors in the larger cap index drove this differential.

— Emerging markets small caps gained 13.7% in 2Q, lagging larger caps by 10.3 ppts and extending their relative underperformance for the TTM period to 22.6 ppts. This gap was driven largely by the remarkable run in South Korean and Taiwanese mid- to large-cap stocks, which rose 214% and 105%, respectively, over the period, led by semiconductor names such as TSMC, Samsung, and SK Hynix—key suppliers of advanced chips and memory for the AI buildout.

— Small-caps are regarded as less efficient than the larger-cap space due to lower analyst coverage, limited institutional ownership, and greater return dispersion, particularly outside the US. These inefficiencies create opportunities for skilled active managers to generate alpha, but success requires expertise to navigate higher volatility, liquidity constraints, and elevated transaction costs.

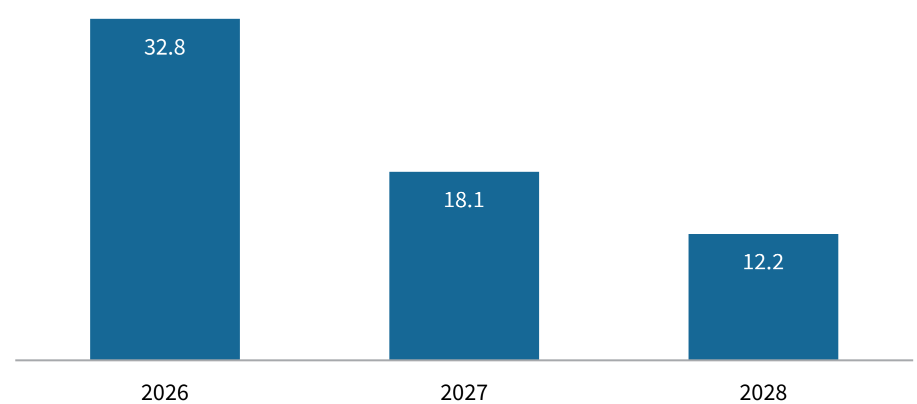
5-yr CAPCE: MSCI ACWI SC vs MSCI ACWI LC/MC

Aug 31, 2000 – Jun 30, 2026



Consensus earnings growth estimates

As of Jun 30, 2026 • Percentage points



Sources: MSCI Inc., Bloomberg L.P., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios based on five-year average inflation-adjusted earnings. Consensus earnings growth estimates are based on the MSCI ACWI Small Cap Index.

Global Growth and Value Equities

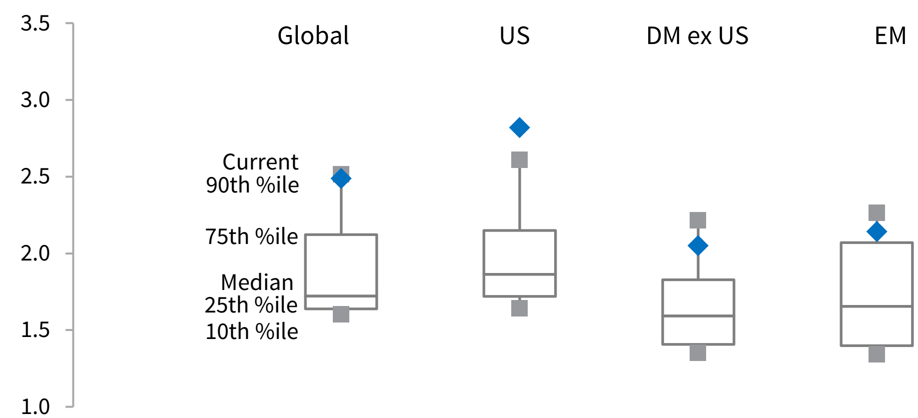
Facts & Figures Second Quarter 2026

Global growth stocks gained 19.8% in 2Q (USD terms), outpacing value stocks' 10.6% return. Despite this strong quarterly rebound, growth continued to trail value YTD, returning 10.6% versus 11.9%. In 2Q, easing geopolitical tensions and a strong earnings season—particularly in IT—renewed investor interest in AI-related stocks and fueled growth's outperformance. YTD, however, value remained ahead as enthusiasm for growth stocks cooled after strong prior gains, while higher rate expectations and firmer commodity prices continued to support value-oriented sectors.

- Since the COVID-19 pandemic, growth equities have traded at a wider valuation gap than value equities. Currently, global growth equities command a 2.5x premium to value, a level that exceeds 87% of historical observations. This elevated valuation gap is primarily concentrated in the US, while relative valuations outside the US appear less pronounced.
- Global growth outperformed value in 2Q as a very strong earnings season for IT companies reignited investor appetite for AI-related stocks. Easing geopolitical tensions and falling oil prices further supported growth's relative outperformance.
- Corporate fundamentals remain strong for growth, which has traditionally generated higher ROE than value. The current wide ROE difference is driven by sector exposures, especially tech and financials, and helps explain the valuation gap between growth and value indexes.
- Global growth equities exhibit greater sector concentration than value equities, with roughly two-thirds of the growth index allocated to tech (IT and communication services) and consumer discretionary. In contrast, the value index is more evenly distributed. This concentration has benefited growth equities in recent years, as large-cap tech stocks have driven equity markets higher. However, such concentration could become a headwind if momentum in the tech sector wanes.

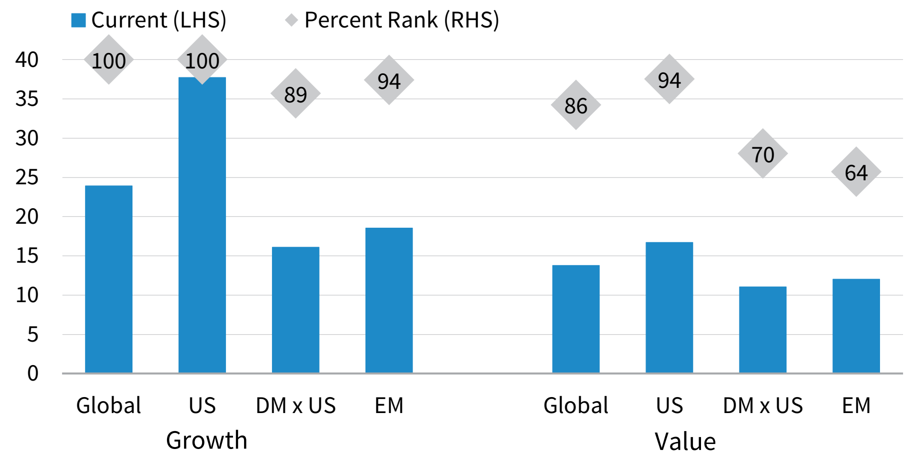
Relative CAPCE for select regions: Growth vs Value

As of Jun 30, 2026



ROE and percentiles for select regions: Growth & Value

As of Jun 30, 2026



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios are based on five-year average inflation-adjusted earnings; growth and value are represented by the MSCI ACWI Growth and MSCI ACWI Value indexes, respectively.

Hedge funds posted strong performance in 2Q, with the HFRI Fund of Funds Composite Index returning 7.6%, its best quarter in nearly six years. Many managers benefited as volatility surrounding the Iran War and continued leadership from AI-related stocks drove greater dispersion across equity markets.

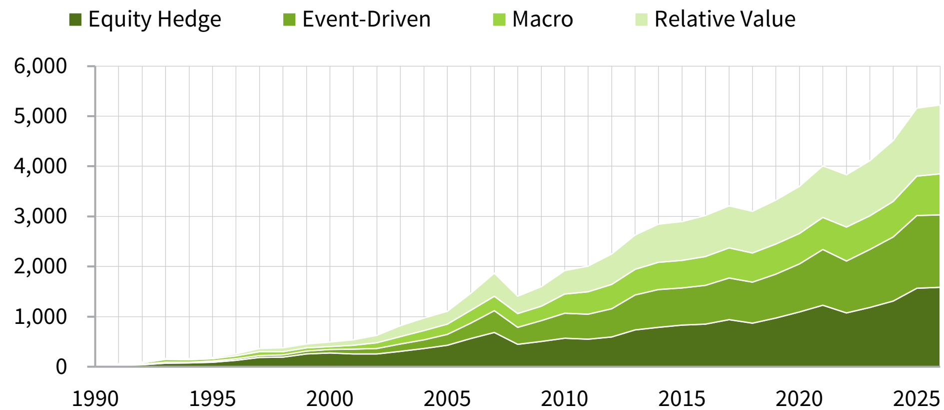
— Relative value hedge funds, as measured by the HFRI Relative Value (Total) Index, gained 2.0% in 2Q. Global macro funds saw more muted returns in the quarter, with the HFRI Macro (Total) rising just 1.3%, as the June oil price unwind reversed established energy trends, driving losses in commodity and systematic trend-following sub-strategies that offset gains earlier in the quarter. Fixed income-sensitive relative value strategies benefited from rate repositioning following the June FOMC meeting, where the removal of easing guidance and an upward shift in the dot plot were read as hawkish.

— Long/short equity strategies gained 10.2% in 2Q, based on the HFRI Equity Hedge (Total) Index, benefiting from an unusually strong alpha environment and from positioning tilted toward AI-linked technology names, where popular longs meaningfully outperformed shorts. Gains came against a backdrop of elevated geopolitical volatility, with the mid-June US-Iran de-escalation supporting risk assets into quarter end. The HFRI Equity Market Neutral Index, as expected given the market dynamics, posted a more muted 2.4% gain.

— The HFRI Event-Driven (Total) Index rose 7.8% in 2Q. Managers remained constructive as recovering M&A activity, especially in larger and more complex deals, improved the opportunity set for merger arbitrage and related strategies. While overall activity remains below longer-term norms, mega-deals account for a larger share of volume, and regulatory complexity is driving wider spreads and greater dispersion. This has created a better backdrop for differentiated, idiosyncratic returns, though elevated equity valuations and tight credit spreads still limit the broader opportunity set.

HFRI historical asset growth breakout

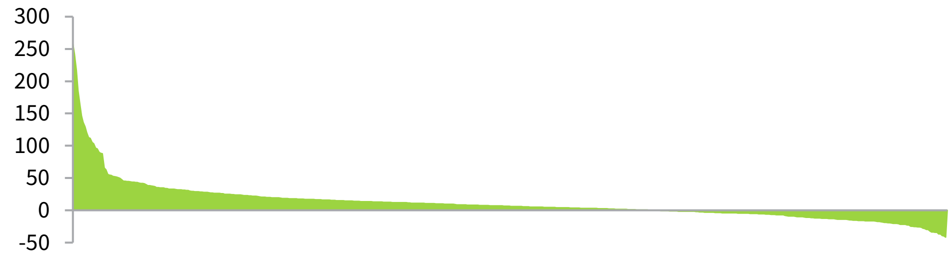
1990–2026 (Mar) • US$B



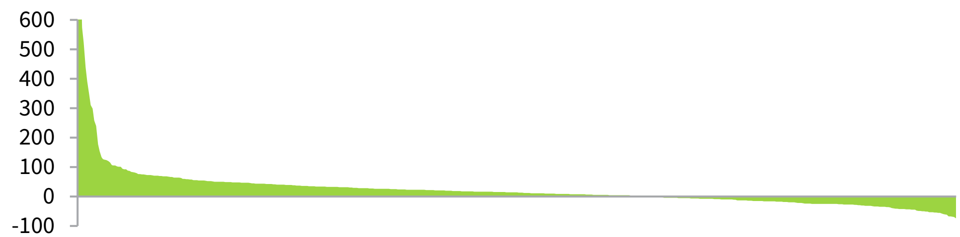
Equity dispersion: Total returns for the S&P 500 constituents

As of June 30, 2026

Trailing 3-Month Returns (%)



Trailing 12-Month Returns (%)



Sources: Hedge Fund Research, Inc., FactSet Research Systems, and Standard & Poor's.

Fixed Income

US Bonds

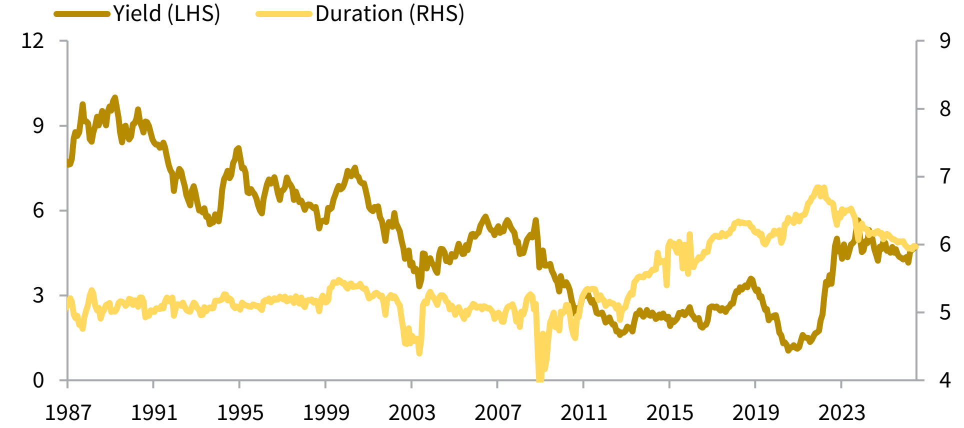
Facts & Figures Second Quarter 2026

Core US bonds returned 0.7% in 2Q and 3.8% over the trailing 12 months. Elevated Treasury yields remained a headwind in 2Q, though tighter credit spreads and carry supported returns despite continued macro and policy uncertainty.

- The yield for the Bloomberg US Aggregate Index stands at 4.7%—still high versus the prior cycle, but down about 100 bps from its recent peak and well below its post-1989 median.
- Valuations remain stretched, as spreads have compressed sharply in recent years. The index OAS is just 26 bps, slightly above its lowest level since the late 1990s. Spreads are tight across major sectors: both corporate credit and agency MBS—each comprising roughly 25% of the index—are in their bottom quintile.
- Tight spreads have been supported by easier monetary policy and a resilient macro backdrop, both of which have been challenged by the Iran War. Consensus forecasts for 2026 US real GDP growth have fallen 0.2 ppts to 2.1%, while headline CPI projections have risen 0.4 ppts to 3.4%.
- This environment has kept policy expectations firm, and the market now expects the Fed to hike rates twice, raising the median rate from 3.625 to 4.125%, by early next year.
- Credit fundamentals remain strong. US IG corporates continue to show healthy balance sheets and low leverage, and over 70% of the Agg index is rated AA or higher—much of it direct or indirect US government obligations—offering downside protection if growth slows. However, credit spreads for riskier segments like IG corporates offer little cushion if volatility rises.
- The six-year duration of the Bloomberg US Aggregate Index has come down but remains elevated, which leaves it vulnerable if inflation concerns or persistently large deficits push long-term yields higher.

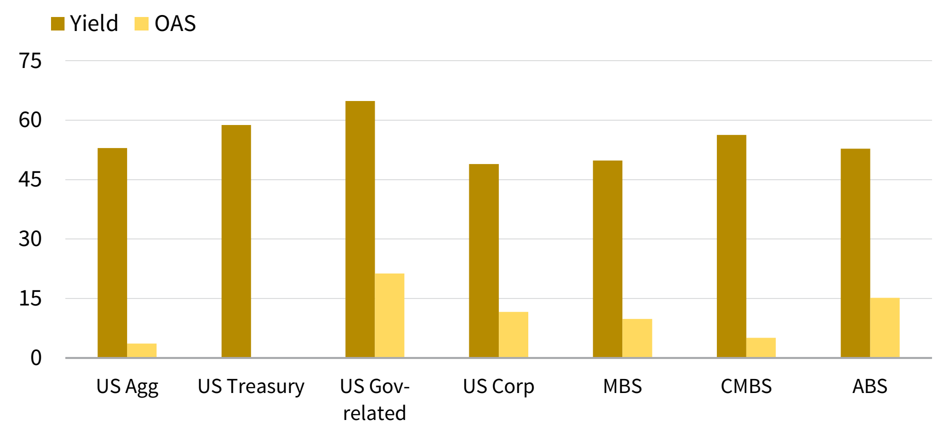
Yield vs duration: BBG US aggregate bond index

Jan 31, 1987 – Jun 30, 2026



Current Percentile: Yield and OAS for selcted US bond indexes

Jan 31, 1990 – Jun 30, 2026



Notes: Data are monthly. Asset class values represented by the Bloomberg US Aggregate Index (US Agg), Bloomberg US Treasury Index (US Treasury), Bloomberg U.S. Aggregate: Government-Related Index (US Gov-related), Bloomberg US Corporate Investment Grade Index (US Corp), Bloomberg US MBS Index (MBS), Bloomberg CMBS Investmen Grade (CMBS), and Bloomberg US Asset-Backed Securities Index (ABS).

US Treasuries

Facts & Figures Second Quarter 2026

US Treasuries returned 0.3% in 2Q and 2.7% over the trailing 12-months. Yields remained elevated in 2Q as uncertainty around conflict in the Middle East and stronger domestic growth kept both inflation and policy expectations elevated.

— US Treasury valuations aren't overly compelling, with ten-year yields at 4.44% as of June 30. While they remain well above the 20-year median (2.7%), they are still modestly below their implied fair value of 4.7%, which has been steadily rising given stronger US nominal GDP growth.

— The Iran War has complicated the macro and policy outlook. Since the start of the year, consensus forecasters have raised 2026 US real GDP growth projections by 0.1 ppts to 2.1% and raised 2026 headline CPI projections by 0.6 ppts to 3.4%.

— This environment has kept policy expectations firm, and the market now expects the Fed to hike rates twice, raising the median rate from 3.625 to 4.125%, by early next year.

— Kevin Warsh's first Fed meeting as chair reinforced that hawkish outlook. By pairing the leadership transition with a clear signal of continued inflation vigilance, the meeting helped alleviate some concerns about Fed independence and may also have contributed to some moderation in the term premium.

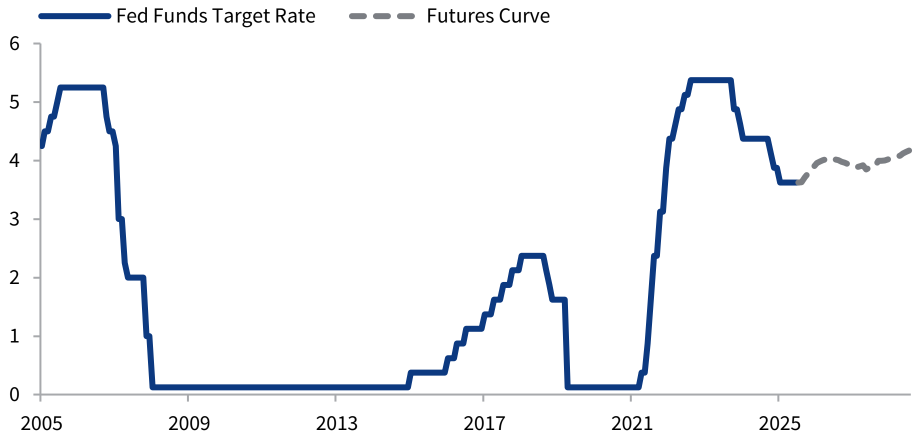
— These dynamics have also contributed to a flatter yield curve. The ten-year/two-year spread narrowed from 71 bps to 30 bps so far this year—lowering the opportunity cost of reducing duration risk.

— Fiscal dynamics have also likely kept yields elevated. The US deficit is projected to remain around 6%–7% of GDP—well above the historical average of 4%. The Iran War could further expand fiscal spending, adding to supply/demand challenges as more Treasury issuance must be absorbed by more price-sensitive buyers.

— Reflecting these challenges, the estimated term premium for holding bonds over cash is 0.6%, which is elevated compared to recent years.

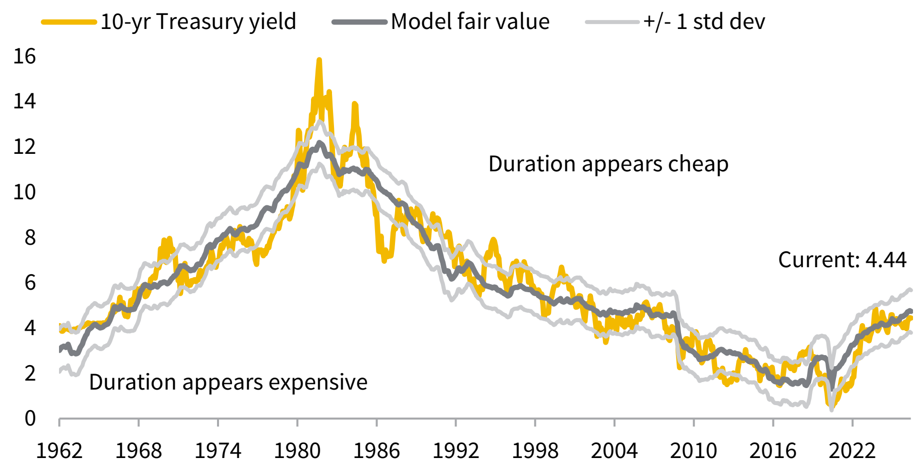
Fed funds target rate and future curve

Dec 31, 2005 – Jun 30, 2029 • Percent (%)



Valuations: 10-yr Treasury

Jan 31, 1962 – Jun 30, 2026 • Percent (%)



Sources: Chicago Board of Trade, Federal Reserve, and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of May 31, 2026.

US Corporate Bonds

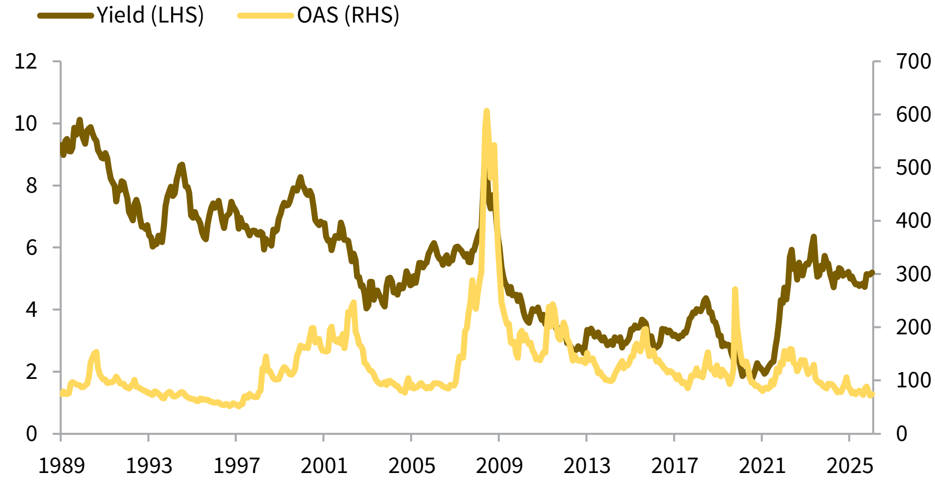
Facts & Figures Second Quarter 2026

US investment-grade (IG) corporate bonds returned 1.4% in 2Q and 4.3% over the trailing 12 months. Elevated Treasury yields remained a headwind in 2Q, though tighter credit spreads and carry supported returns despite continued macro and policy uncertainty.

- IG corporate bond yields ended 2Q at 5.2%, up slightly from March 31, as spreads tightened 15 bps to 74 bps.
- While all-in yields remain elevated compared to recent years, which might continue to attract some investors, valuations remain expensive. The OAS is in the 12th percentile, and the index yield is in the 34th percentile of historical observations.
- Economic conditions were generally supportive in 2Q, as domestic growth remained resilient even as inflation and policy uncertainty kept rates elevated.
- However, the outlook remains mixed. Since the start of the year, consensus forecasters have raised 2026 US real GDP growth projections by 0.1 ppts to 2.1% and raised 2026 headline CPI projections by 0.6 ppts to 3.4%. This environment has kept policy expectations firm and may limit scope for lower base rates.
- IG corporate fundamentals are solid, offering a potential buffer for tight spreads. Gross leverage has remained around 2.0x–2.5x EBITDA, net leverage has been stable around 1.8%, and median interest coverage has improved to around 10.4x.
- Issuance is a potential headwind. The credit cycle is accelerating, with an expected surge in high-quality supply driven by tech/AI capex. According to Morgan Stanley, YTD issuance currently stands at $1,300B, up 28% year-over-year.
- Overall, this points to a slightly less supportive environment for credit spreads than in the previous two years, especially with valuations remaining close to multi-year lows.

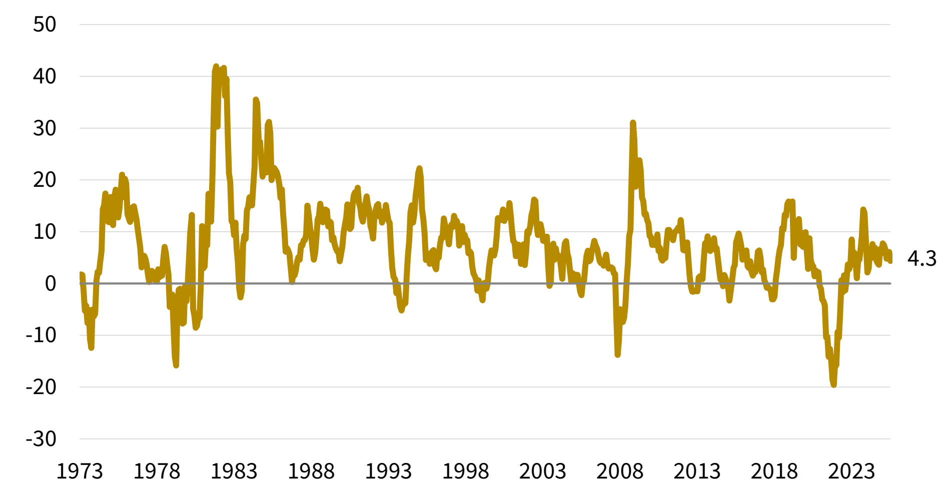
Yield and option-adjusted spread: US investment-grade corporates

Jun 30, 1989 – Jun 30, 2026 • Percent (%)



Trailing 12-month return: US investment-grade corporates

Dec 31, 1973 – Jun 30, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

US Tax-Exempt Bonds

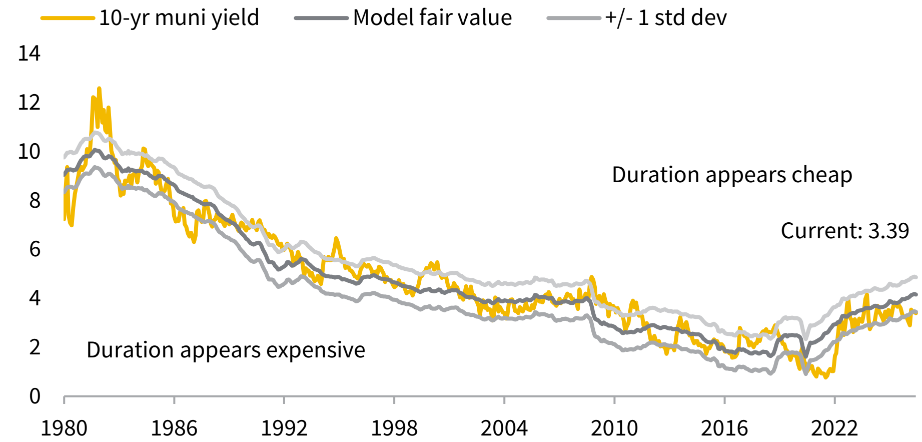
Facts & Figures Second Quarter 2026

US tax-exempt municipal bonds (munis) returned 2.5% in 2Q before taxes and 7.0% over the trailing 12 months. Munis performed well in 2Q despite elevated rates volatility, supported by strong demand and attractive after-tax yields.

- Ten-year munis finished 2Q with yields at 3.39%, while ten-year Treasury yields were 4.44%. While yields remain above the 20-year median of 2.8%, muni valuations are not overly compelling before taking taxes into account.
- Muni yields are well below their absolute implied fair value of 4.2%, and the muni/Tsy yield ratio is currently 0.76 (9th percentile) .
- However, neither of these metrics take munis tax advantage into account. For high tax bracket individuals, ten-year munis still offer a significant yield advantage over taxable-equivalents after taxes (131 bps vs Treasuries and 48 bps vs corporates), and that advantage remains a key support for demand.
- Retail demand has remained especially strong, with municipal fund inflows exceeding $45B in 1H 2026, putting the year on track for roughly $80B to $100B of net inflows, according to Barclays.
- Recent fiscal policy changes have created some uncertainty, but municipal credit fundamentals remain sound overall. While the peak in credit quality is likely behind us, upgrades still outpace downgrades, defaults remain low, and state rainy-day reserves remain elevated.
- The pullback in federal funds is, however, putting upward pressure on issuance, and supply is likely to remain elevated as municipalities seek to fund growing capital needs. Barclays expects 2026 issuance to reach roughly $585B to $600B, which would mark a record year.
- Despite these challenges, attractive after-tax yields, sound fundamentals, a healthy macro backdrop should continue to support demand.

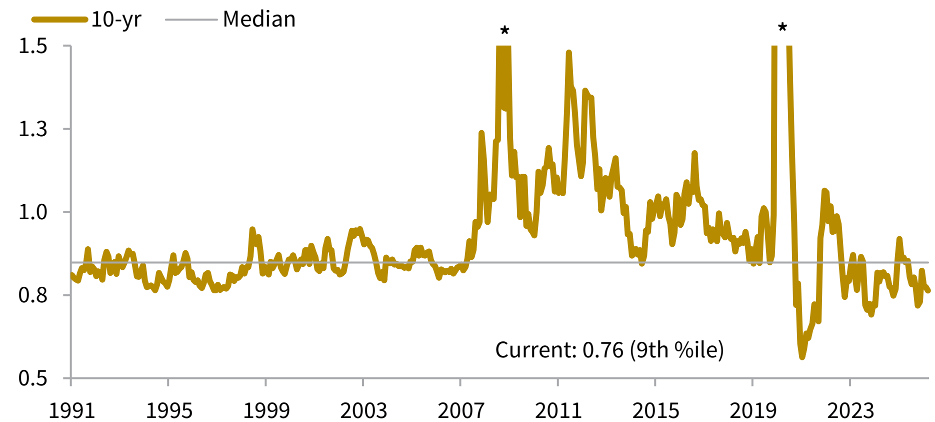
Valuations: 10-yr muni

Jan 31, 1980 – Jun 30, 2026 • Percent (%)



Ratio of 10-yr muni yields to Treasury yields

Apr 30, 1991 – Jun 30, 2026



* Axis is capped for scaling purposes. Ratio hit a high of 3.16 on 4/30/2020.

Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of May 31, 2026.

Global Inflation-Linked Bonds

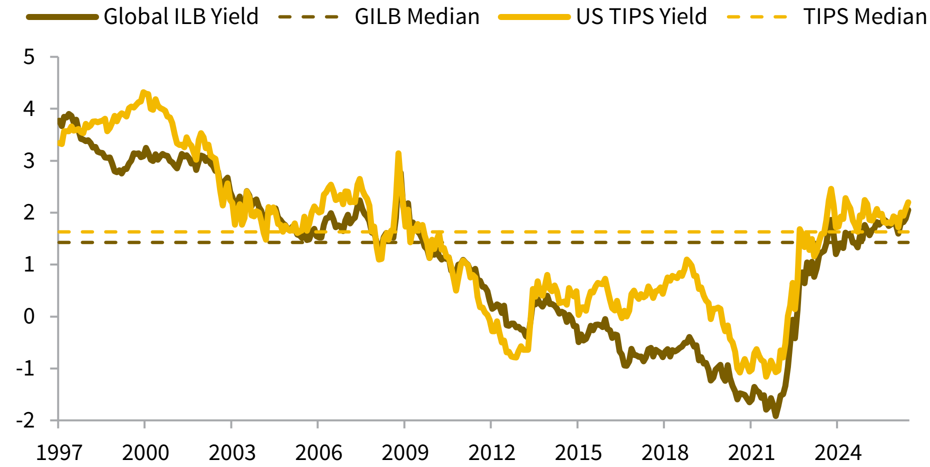
Facts & Figures Second Quarter 2026

Global linkers returned 0.6% in 2Q and 1.3% over the trailing 12 months, while US TIPS returned 0.9% and 3.4%, respectively. Inflation expectations were volatile in 2Q but fell from their highs alongside oil prices, while higher real yields remained a headwind.

- Real yields for both the global and US index remained elevated in 2Q at roughly 2.1% for global linkers and 2.2% for US TIPS. Both are well above their respective long-term medians of 1.4% and 1.6% and implied fair value of 0.7% and 1.0% based on the trend in real GDP growth.
- Breakeven inflation expectations were volatile across major regions in 2Q but ended the quarter below their highs, though breakeven inflation rates remain above central bank targets in most regions.
- These moves were driven largely by conflict in the Middle East, which pushed oil prices and inflation expectations higher before those pressures eased later in the quarter.
- These dynamics have been more acute for net energy importers in Europe and Asia, while net commodity exporters, such as the US and Australia, have experienced more limited effects.
- This is also reflected in consensus economic forecasts, which are projecting headline CPI to rise back above 3% for both the US and across DMs broadly, while real GDP growth projections have softened modestly.
- Additionally, most major central banks are expected to maintain a more restrictive policy stance for the remainder of the year, with most central bankers expected to hike rates modestly over this period.
- Linkers, which are inflation-linked and less liquid than nominals, tend to underperform when inflation falls or during market stress. However, they offer protection against unexpectedly high inflation and may continue to provide complimentary diversification benefits to nominal bonds if inflation remains elevated, given attractive real yields.

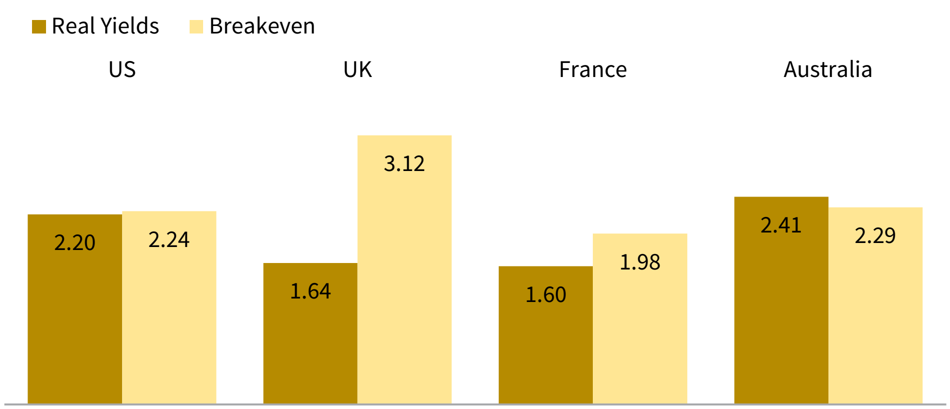
Historical index yield: BBG global linkers

Jan 31, 1997 – Jun 30, 2026 • Percent (%)



10-yr real yields and breakeven inflation

As of Jun 30, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.
Notes: France data are based on the underlying securities within the Bloomberg Global Agg Treasuries and Bloomberg World Govt Inflation-Linked indexes. All other data are based on the Bloomberg real yield and breakeven series.

UK Gilts

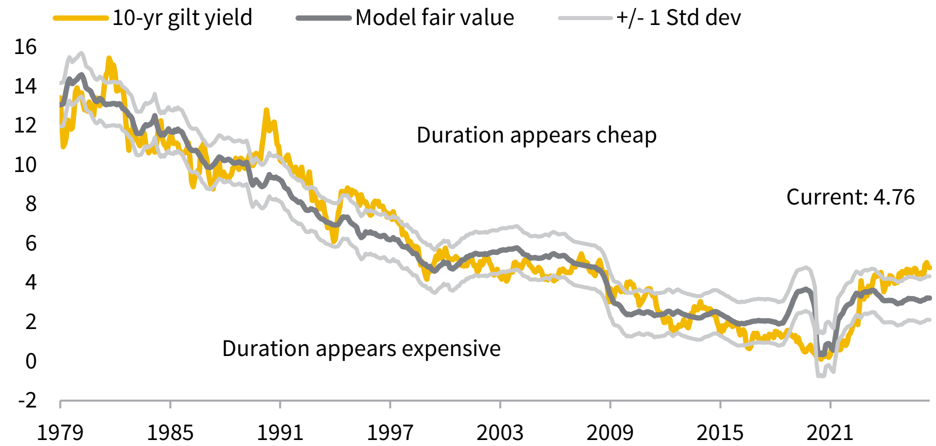
Facts & Figures Second Quarter 2026

UK gilts returned 2.1% in local currency terms, as de-escalation in the Middle East helped alleviate concerns around the most material inflationary scenarios of the war. The trailing 12-month return was -0.7% in USD terms and 2.5% in GBP terms.

- UK gilt valuations remain cheap among major markets, with ten-year yields at 4.76% as of June 30 (moving 16 bps lower on the quarter). The ten-year yield hit its highest level since 2007 in 2Q—well above the 20-year median of 2.6% and more than 1 standard deviation above the implied fair value of 3.2%, based on nominal GDP growth.
- The Iran War has increased inflation expectations for the UK given its status as a net energy importer, with consensus forecasts projecting 2026 inflation at 3.2%. Despite that, expectations for hikes by the Bank of England in 2026 have cooled from two 25-bp hikes expected at the end of 1Q to 80% probability of one hike at the end of 2Q. The Memorandum of Understanding being signed to end fighting in the Middle East reduced the likelihood of second round inflationary effects from higher commodity prices through the wider economy.
- Domestically, the UK economy showcased further signs of weak demand in 2Q. There have been continued signs of economic slack, with below expectation prints in PMI activity data. Consensus forecasts project UK real GDP growth at 1.0% 2026.
- The yield curve shape was little changed on the quarter, as changing expectations of BOE rate hikes in response to the Iran War was the main driver of yields across the curve—the ten-year/two-year gilt spread steepened just 5 bps from 54 bps to 59 bps over 2Q.
- Fiscal dynamics remain a theme in the market, with news that PM Starmer will step down. The likely incomer, Andrew Burnham, has calmed market fears somewhat by stating that he would stick to the government's self-imposed deficit rules. Nevertheless, gilt issuance will stay elevated due to large public debt and interest expense.

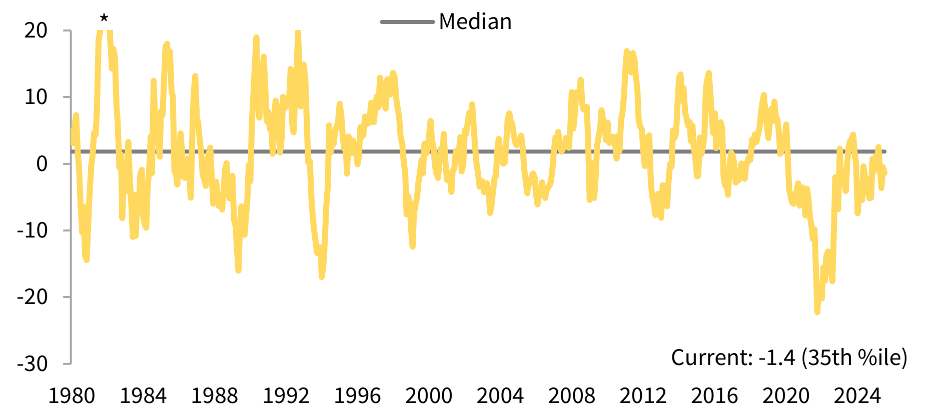
Valuations: 10-yr gilts

Jan 31, 1979 – Jun 30, 2026 • Percent (%)



12-month price momentum: 10-yr gilts

Dec 31, 1980 – Jun 30, 2026 • Percent (%)



* Capped for scale purposes. The rolling 12-M Momentum was 44.5% in October 1982.

Source: Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and RPI/CPI change. CPI data are as of May 31, 2026.

Euro Area Sovereign Bonds

Facts & Figures Second Quarter 2026

Euro area sovereign bonds (German Bunds) returned 1.4% in 2Q in local currency terms. A weaker euro dampened performance in USD terms (-2.3% over 12 months versus 2.8% for US Treasuries). The Iran War ceasefire boosted performance somewhat as commodity prices fell, although a hike from the ECB acted as a headwind.

— Valuations appear fair, with ten-year bunds yielding 2.9% as of June 30 (down slightly from 3.0% at the end of 1Q). Yields are above the 20-year median of 1.7%, but slightly below the implied fair value of 3.2% based on nominal GDP growth.

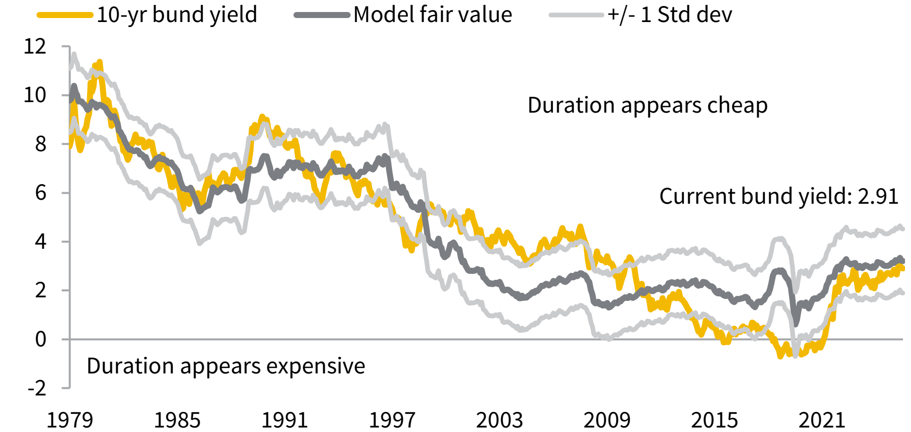
— The ECB increased its target policy rate in the quarter (Deposit Facility Rate rose to 2.25%), largely seen as an insurance hike against the inflationary impacts of the Iran War. Despite commodity prices returning toward pre-war levels after the signing of the Memorandum of Understanding, consensus inflation expectations for the euro area rose on the quarter to 2.9% for 2026, slightly above the ECB's target. Overall, markets now expect fewer policy hikes from the ECB this year, with markets pricing just one further hike (vs three total as of March 31).

— Negative sentiment and rising inflation expectations because of the Iran War have also impacted growth forecasts. Consensus from forecasts suggests euro area 2026 growth is now expected at 0.6%, compared to 1.1% at the end of 1Q. GDP and PMI data showed that activity in the block remains subdued.

— Together, those factors have seen the bund curve shape largely unchanged on the quarter (2-year/10-year 1 bp steeper). Outside of Germany, yield spreads to bunds were little changed as bund's status as a relative safe-haven asset saw swings in spreads amid the ongoing geopolitical uncertainty. The French OAT-bund yield spread did, though, move higher (to 75 bps from 72 bps) as political instability and impasse in France remains a concern for markets.

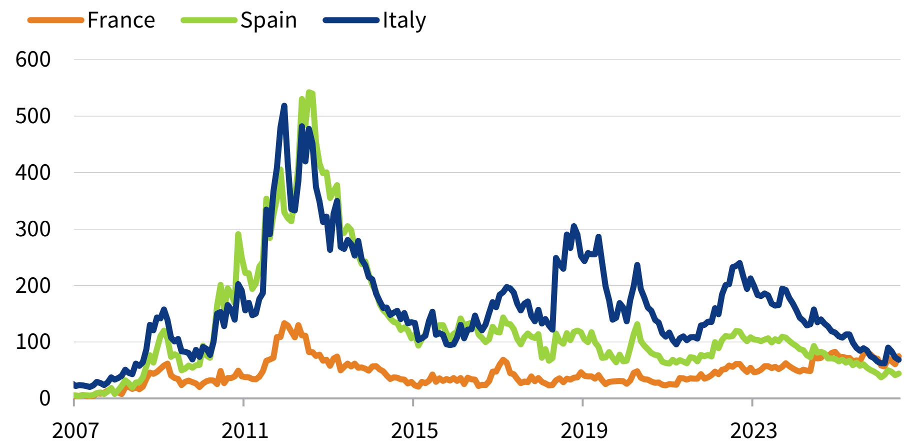
Valuations: 10-yr bunds

Dec 31, 1979 – Jun 30, 2026 • Percent (%)



Historical 10-yr spreads over bund yields

Jan 31, 2007 – Jun 30, 2026 • Basis points (bps)



Source: Thomson Reuters Datastream.

Note: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change.

European Corporate Bonds

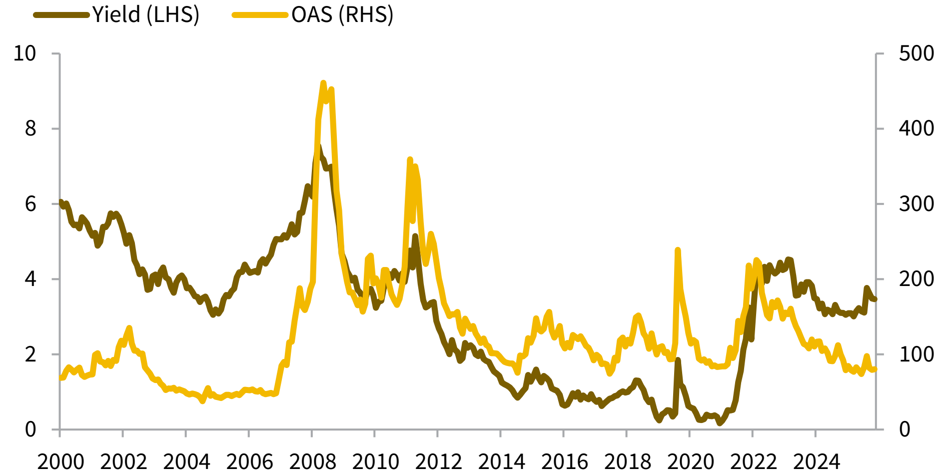
Facts & Figures Second Quarter 2026

The Bloomberg Euro-Aggregate Corporate Index returned 2.3% in 2Q, as the ceasefire in the Middle East saw bund yields and spreads move lower. The index returned 2.6% over a trailing 12-month period and -0.1% in USD terms. Valuations have recovered from the immediate reaction to the Iran War onset as concerns over the most material potential economic consequences of the war dissipate.

- The Bloomberg Euro-Aggregate Corporate Index OAS tightened 18 bps to 80 bps—recovering the widening seen in the immediate reaction to the Iran War. The yield fell 30 bps to 3.46%, although benchmark government bond yields remained above pre-war levels.
- The ceasefire in the Middle East, and the subsequent fall in Brent oil prices to pre-war levels, have aided recovery in credit spreads. Nevertheless, European inflation is expected to be elevated and growth subdued in 2026 compared to pre-war expectations (2.9% and 0.6%, respectively) as supply chain frictions remain.
- Sterling IG valuations have also recovered much of their 1Q pullback, albeit the index yield remains 37 bps higher YTD, primarily due to higher gilt yields. Economic growth data continued to show signs of economic slack, with below expectation activity data.
- Technicals remained mixed in 2Q. While gross euro IG issuance volumes was the second highest on record, much of this was refinancing activity with net issuance of €61B around average. The TMT sector has seen a 70% increase in issuance over the last year. Fund flows have been soft, with retail funds exhibiting their weakest demand growth since 2Q 2023.
- Fundamentals are stable, with net leverage for euro IG issuers at 2.94x at the end of 1Q (toward the middle of the recent range). Earnings saw their largest YOY expansion since 4Q 2022, growing 6.0%, while EBITDA margins expanded to a new record 21.1%, driven in a large part by the energy sector. The euro HY default rate fell to 1.4% in 1H down from 2.2% in 2H 2025.

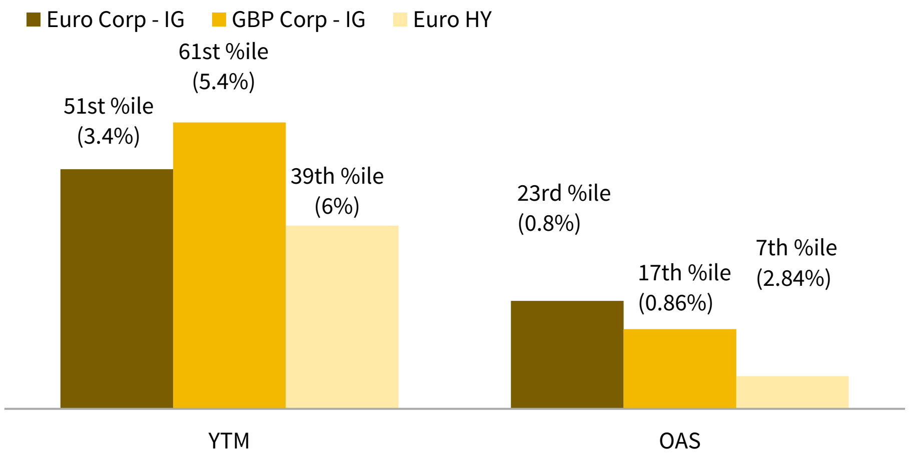
Yield and option-adjusted spread: European corporates

Aug 31, 2000 – Jun 30, 2026 • Percent (%)



Percentile Rank: European Corporates

Aug 31, 2000 – Jun 30, 2026



Source: Bloomberg Index Services Limited.

Structured Finance
Facts & Figures Second Quarter 2026

Structured credit markets posted solid returns in 2Q as Iran War tensions eased and macro data held steady. Lower-rated CLO indexes rebounded as concerns receded over both software exposure and the war's expected impact on growth and inflation. US real estate-backed debt, driven more by domestic growth, continued to post steady returns.

— CLO indexes bounced back in 2Q. BB-rated CLO debt returned 5.1%, bouncing back from a tough 1Q, while BBBs returned 2.9%. Over the past 12 months, most CLO debt indexes have returned 5%–7%. US CMBS BBB-rated bonds returned 1.2% for the quarter, lifting their trailing four-quarter return to 5.3%.

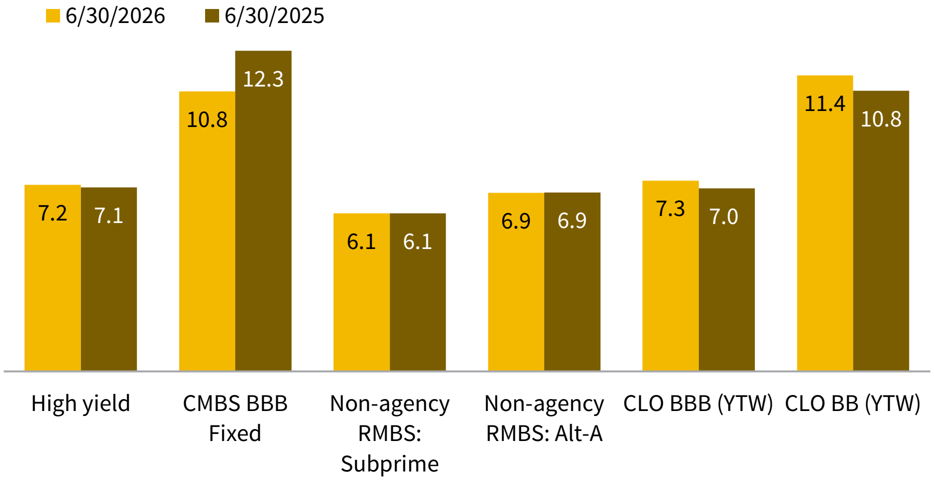
— Valuations remain reasonable, especially when looked at from the perspective of yields. For example, near 7% yields on Alt-A non-agency US RMBS are around 62nd percentile. BB-rated CLO yields, at 11.4%, look even more attractive at 76th percentile and have risen since the start of 2025 despite Fed rate cuts.

— The economic backdrop has been supportive, with recent GDP growth beating expectations and tariff-related uncertainty fading. The Iran War creates near-term headwinds but its lasting impact on inflation and growth is uncertain.

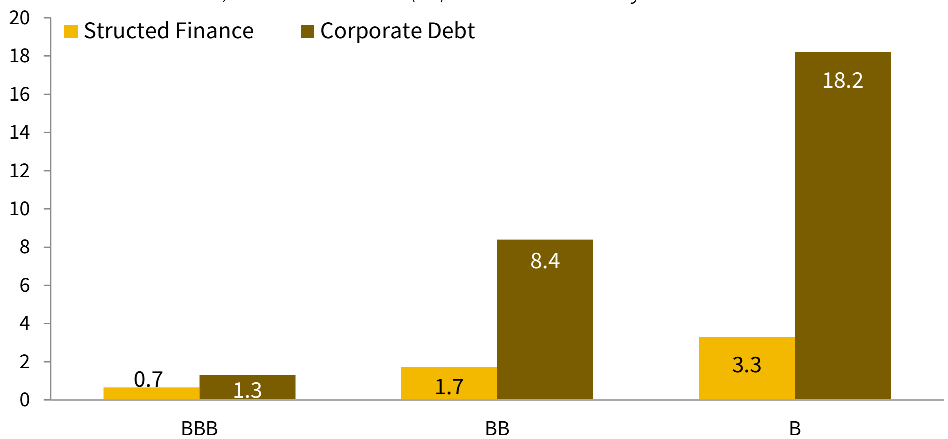
— Corporate fundamentals have been improving, though there are questions about the impact of AI on sectors like software, to which CLOs have significant exposure. Elevated software exposure means that more than 10% of US CLOs are failing MVOC (collateralization) tests, causing cash flows for some tranches to be diverted.

— Defaults on structured credit assets remain low, both in absolute terms and relative to similarly rated corporate credit. However, many have indefinite maturities given amortizing loan pools, which limits the investor base and causes them to trade at wider spreads despite these stronger fundamentals.

Yield: Select structured credits
Percent (%)



US Structured Finance: Default rate
As of December 31, 2025 • Percent (%) • Cumulative 5 year



Sources: Bloomberg Index Services Limited, ICE BofA Merrill Lynch, J.P. Morgan Securities, Inc., Guggenheim Investment, Morningstar DBRS and Thomson Reuters Datastream.
Note: Default rates represent five-year cumulative average aggregate rates, categorized by credit rating.

US High-Yield Bonds and Leveraged Loans

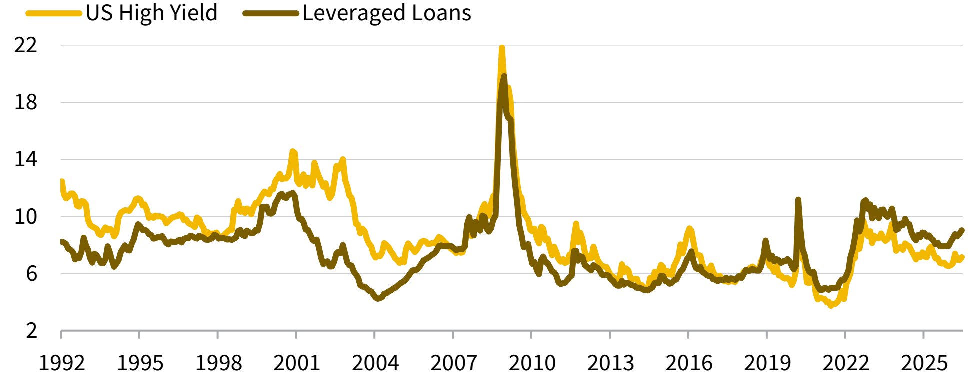
Facts & Figures Second Quarter 2026

US high-yield (HY) bonds and leveraged loans posted positive returns in 2Q, as easing geopolitical tensions meant yields and spreads fell. Fundamentals remain healthy, though the impact of AI on software loans remains an open question.

- The Bloomberg High-Yield Index and UBS Leveraged Loan Index returned 2.5% and 1.8%, respectively in 2Q. Over the trailing 12 months, HY bonds have returned 5.9%, outperforming loans (4.3%), which have been impacted by a higher allocation to the software sector.
- HY and loan spreads fell during the quarter. The HY index OAS of 270 bps is now in the lowest 5% of observed values. Meanwhile, the loan index discount margin is 500 bps, around 40 bps above its historical median.
- The economic backdrop for higher yielding credit had been improving as inflation eases and tariff uncertainty fades, but the Iran War presents challenges. The conflict may continue to flare-up and create inflationary pressures, forcing the Fed to push out previously expected rate cuts.
- Corporate fundamentals are mostly solid. HY borrowers have seen their median interest coverage ratio grow steadily in recent quarters to 4.7x EBITDA and are expected to grow cash flow by mid-teens over the next 12 months. Loan borrowers have seen coverage ratios boosted by rate cuts and their median coverage ratio stands at 4.0x, according to Morgan Stanley.
- One open question for loan investors is the threat of AI to software loans. The sector has sold off sharply, with the average software loan trading around 85 cents to the dollar.
- Default rates for both assets are well below historical averages. However, this masks the impact of liability management exercises, which, while preventing defaults, can reduce economics for investors.

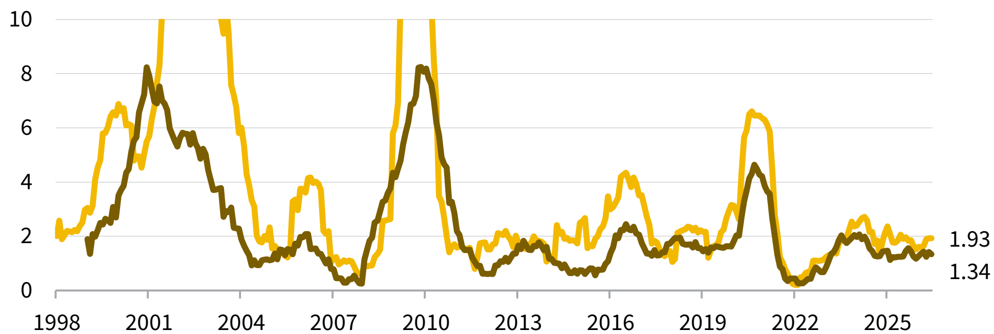
US high-yield and leveraged loan indexes: Yields

Jan 31, 1992 – Jun 30, 2026 • Percent (%)



US high-yield and leveraged loan indexes: Default rates

Jan 31, 1998 – Jun 30, 2026 • Percent (%) • TTM



Sources: Bloomberg Index Services Limited, Moody's Investors Service, PitchBook | LCD, Standard & Poor's and Thomson Reuters Datastream. Third-party data provided "as-is" without any express or implied warranties.

Notes: Data are monthly. High-yield data are represented by the yield-to-worst for the Bloomberg US Corporate High Yield Index. Leveraged loans are represented by the S&P UBS Leveraged Loan Index. Yields for leveraged loans are represented by 3-month Libor plus the 3-yr discount margin. The 3-yr discount margin combines the loans' yield with the price appreciation that would occur if the loans prepay at par in three years. Moody's default rates have been sourced directly and indirectly. US High Yield Default Rate is as May 31, 2026.

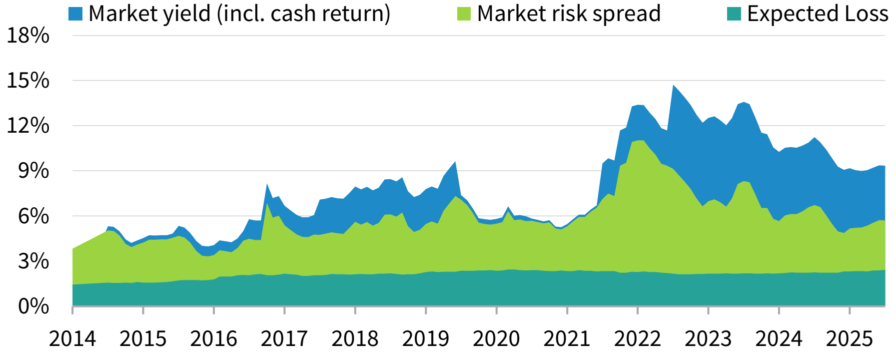
Insurance-Linked Securities
Facts & Figures Second Quarter 2026

ILS portfolios continued to generate positive returns in 2Q 2026, supported by contained insured losses and still-attractive premium levels across both liquid cat bonds and non-tradable private ILS transactions.

- Average cat bond risk premiums stood at approximately 600 bps above money market at the end of June 2026, remaining attractive by historical standards even as market conditions continued to normalize from the strong environment seen in prior years.
- The primary cat bond market saw significant activity during 2Q 2026, with roughly $18B of issuance and continued growth in overall market size. New issue pricing generally came at or slightly below initial guidance. Secondary market pricing for wind-exposed cat bonds softened modestly as the US hurricane season approached, although price levels remained stable overall.
- In the private ILS market, risk premiums saw a reduction in line with market expectations for the mid-year US renewals of approximately 15% YOY, while contract terms remained largely stable. On a risk-adjusted basis, private ILS portfolios continue to offer slightly more attractive expected returns than cat bond-only portfolios, particularly for the June-to-October peak risk period, where the bulk of premium accrual for private ILS deals takes place.
- Overall, return expectations for both cat bonds and private ILS transactions remain attractive in 2026, although manager selectivity and disciplined portfolio construction are becoming increasingly important as spreads and premiums move closer to long-term average levels.

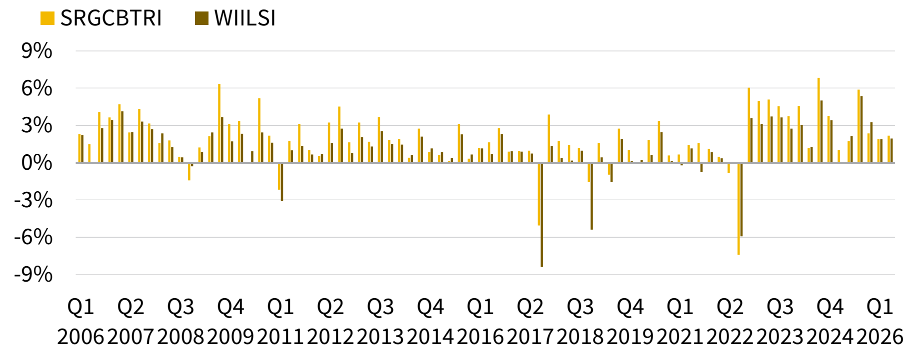
Development of the risk premium and expected loss from Cat bonds

December 31, 2014 – June 30, 2026



Swiss Re Global Cat Bond Total Return Index (SRGCBTRI) & With Intelligence ILS Index (WIILSI) realized returns

First quarter 2016 – Second quarter 2026 • US dollars



Sources: Artemis, Bloomberg L.P., and With Intelligence.

Notes: The SRGCBTRI is a synthetic benchmark designed to represent the performance of the outstanding catastrophe bond market. Its values do not incorporate bid-ask spreads, trading costs, management fees, or the cash drag typically present in actual funds. Additionally, the index assumes optimal allocation to new issuances, which is not achievable in practice due to the realities of book-building and subscription processes. The WIILSI is an equally weighted performance index designed to provide a broad measure of the performance of underlying funds who explicitly allocate to ILS and have at least 70% of their portfolio invested in natural catastrophe risks.

Emerging Markets Debt

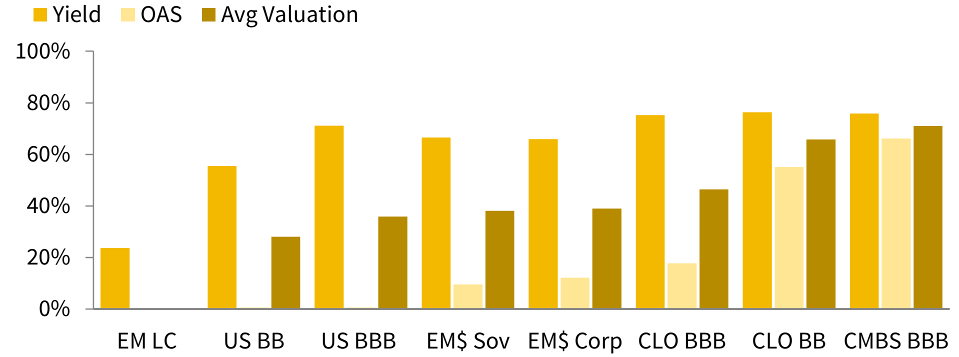
Facts & Figures Second Quarter 2026

EM debt markets rebounded in 2Q following a weak 1Q, with the JPM EM-GBI Global Diversified (LC sovereign), JPM EMBI Global Diversified (USD sovereign), and CEMBI Broad Diversified (USD corporate) indexes returning 3.9%, 4.6%, and roughly 2.4%, respectively, in 2Q.

- Strong performance in 2025 was supported by a decline in both yields and spreads—owing to cooling inflation, central bank rate cuts, and capital inflows—as well as the appreciation of EM currencies versus the US dollar, which support LC sovereign performance in dollar terms.
- This carried over into early 2026 but was interrupted by the Iran War in 1Q, which lifted both yields and spreads. This has reversed as risk sentiment improved, with yields ending 2Q at 6.1% for LC sovereign debt, 6.9% for USD sovereign debt, and 6.5% for USD corporate debt, and spreads between 200 bps to 250 bps for USD-denominated debt.
- EM debt valuations are mixed. EM USD debt yields are slightly elevated versus history, but spreads remain tight, mirroring trends across broader credit markets. Despite the recent rise in EM LC debt yield, yields remain well below their long-term median, and the spread to global sovereigns is at an all-time low of 255 bps.
- The economic backdrop has favored EM over the past year, but the outlook remains mixed, with higher inflation and policy uncertainty potentially limiting how much some central banks can lower rates. Still, EM FX valuations remain cheap versus the USD and have room to rise further if the USD weakens and global sentiment improves amid lower energy prices.
- Although most issuers in EM debt indexes are investment grade, the asset class carries unique risks, and index-level statistics can mask significant differences in fiscal health among borrowers. Given the wide dispersion in fundamentals and political outcomes, active management may be better positioned to capture opportunities and manage risks.

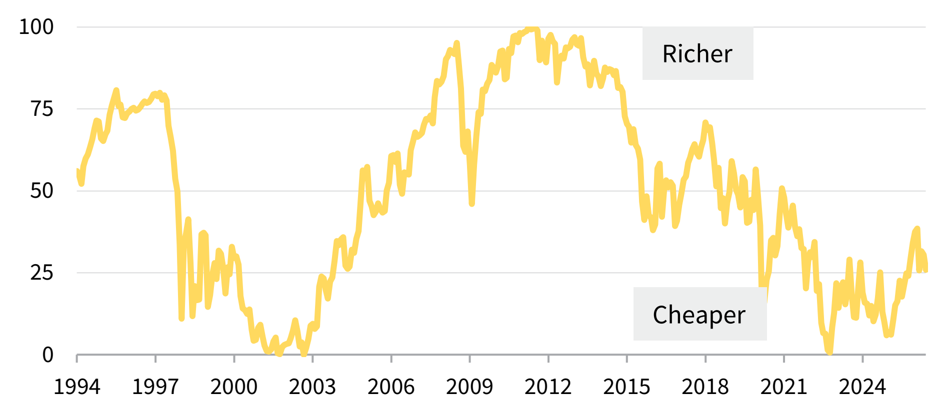
Percentile rank of various debt indexes

Dec 31, 2003 – Jun 30, 2026



FI-weighted EM real exchange rate vs US: Percentile

Jan 31, 1994 – Jun 30, 2026



Sources: Bloomberg Index Services Limited, International Monetary Fund, J.P. Morgan Securities, Inc., MSCI Inc., national sources, and Thomson Reuters Datastream. Third-party data are provided "as is," without any express or implied warranties.

Notes: Composite Valuation Indicator is the average of YTM percentile and spread percentile. Asset classes are represented by J.P. Morgan Emerging Market Global Diversified Government Bond Index (EM LC), J.P. Morgan Emerging Market Bond Index (EM$ Sov), J.P. Morgan Corporate Emerging Markets Bond Index (EM$ Corp), Bloomberg US Corporate Investment Grade BBB Index (US BBB), Bloomberg US High Yield BB Index (US BB), J.P. Morgan CLOIE BBB Index (CLO BBB), J.P. Morgan CLOIE BB Index (CLO BB), and Bloomberg US CMBS Baa Index (CMBS BBB).

Private Equity/Venture Capital

US Private Equity

Facts & Figures Second Quarter 2026

US PE funds have returned 8.7% and 11.7% over the past three- and five-year periods, respectively, trailing public equity market returns. Over long time periods, the US PE index has outperformed. Distributions have recovered slowly but are still below long-term averages, which in turn has weighed on fundraising. Meanwhile, after picking up last year, exit activity cooled in 1Q but continued to be driven by a small number of large transactions.

— Fundraising activity has slowed dramatically for US PE funds in recent years as investors waiting for greater distributions slowed commitments. LPs allocated $336B to new funds in 2025, well off the pace seen between 2019–24. Fundraising last year was highly concentrated, though funds of $5B or more have accounted for a smaller share of 2026's volume.

— Deal activity slowed in 1Q as geopolitics, inflationary concerns, and AI uncertainty weighed on sentiment. After $1.1T of US buyout and growth equity deals in 2025, activity slowed almost 20% QOQ in 1Q. Activity, like fundraising was concentrated, with deals greater than $1B representing nearly 50% of the total.

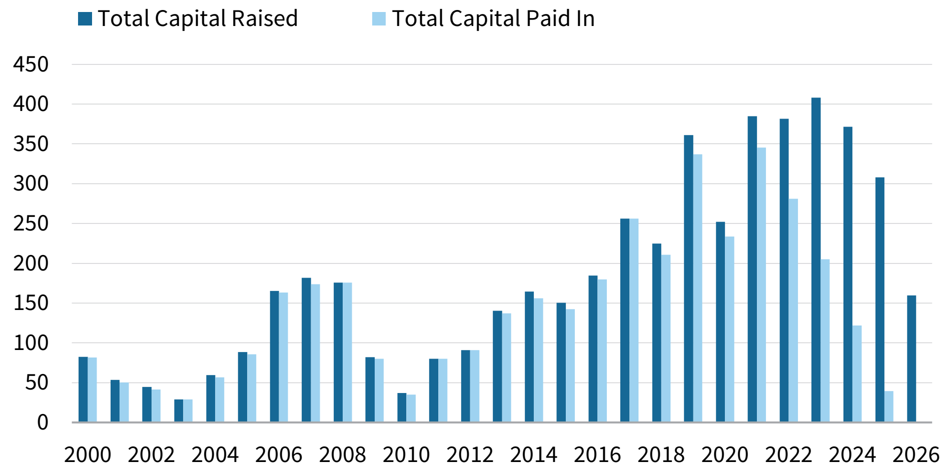
— According to PitchBook LCD data, EBITDA purchase price multiples for large US buyout transactions decreased again in 2Q to 9.6x, below the five-year average of 10.9x. This reflects a significant decline in IT sector deals, which fell 60% QOQ in 1Q.

— Weaker exit activity reflects similar dynamics. Exits by US PE firms totaled around $144B in 1Q, down 35% YOY. Activity continues to be driven by a handful of large transactions, with around 75% of 1Q activity accounted for by $1B+ deals.

— Reduced activity means PE inventories remain bloated. As of 1Q 2026, PitchBook reports PE firms are sitting on a record 13,300 unsold companies.

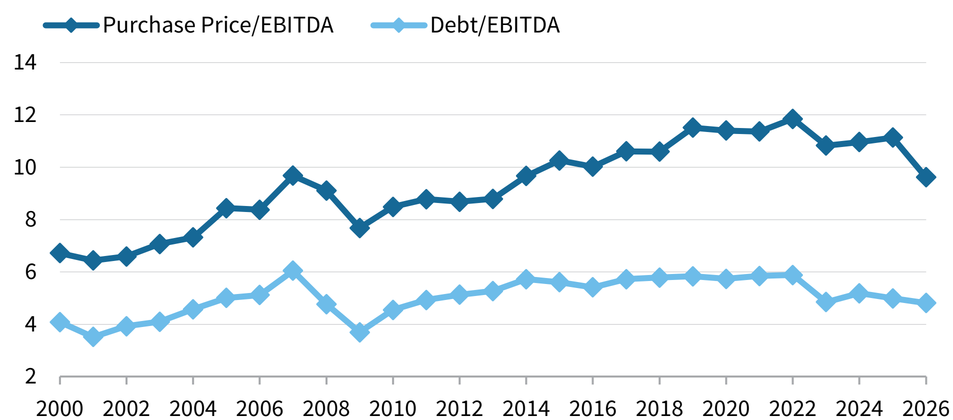
Fundraising and paid-in capital: US PE

Vintage Years 2000–26 (Jun 30) • US$B



Average purchase price and debt multiples: US PE

2000–26 (Jun 30)



Sources: Cambridge Associates LLC and PitchBook Data Inc.

Note: Historical fundraising and paid-in capital data revise. 2025 Paid-in capital data are through December 31.

US Venture Capital

Facts & Figures Second Quarter 2026

US venture capital (VC) generated a pooled net internal rate of return of 21.1% in 2025 and 14.9% over the prior ten-year period, according to our index as of 4Q. Strong recent performance follows a period when a significant spike in fundraising and valuations weighed on returns. The recent gains reflect the prominence of AI, which has accounted for a large portion of incremental exposures.

— Fundraising activity has picked up after slowing in 2025 despite reduced capital distributions from existing commitments. US VC funds have raised $72B YTD, almost matching the full-year 2025 figure but below the pace set during the peak years of 2021 and 2022. The difficult fundraising environment has disproportionately benefited established managers rather than new managers.

— Deal activity is picking up. North American volumes hit $269B in 1Q, well above the pace set in 2025, which itself was the highest annual total since 2021. AI and machine learning dominate the landscape, accounting for almost 90% of all deal value. Nearly 70% of total deal value came from corporate VC firms, representing their highest share in a decade, and much of this was allocated to later-stage AI companies.

— Median pre-money valuations are rising across all stages, but the increases have been most pronounced for late-stage deals. The median pre-money valuation for series D+ deals reached $1.9B in 1H 2026, roughly 2x the level seen in 2025. Valuations for AI-related deals have generally exceeded those of non-AI deals.

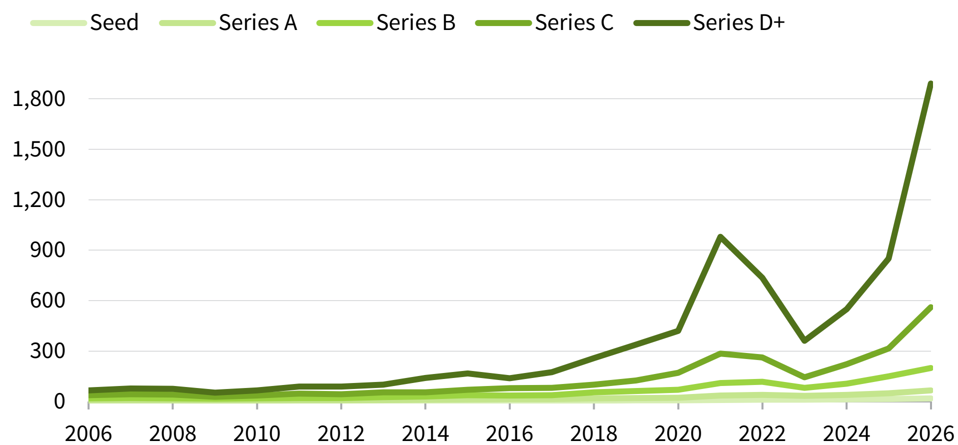
— Exit activity is improving across all regions, bolstered by better IPO activity. In total, North American VC-backed exit value reached $351B in 1Q, surpassing the full-year 2025. The 2026 total will soar further when 2Q figures are included given the record-breaking SpaceX IPO. The flipside is that IPO exits have been concentrated, with average IPO exit value increasing to one of the highest levels in the past decade.

Fundraising and paid-in capital: US VC

Vintage Years 2000–26 (Jun 30) • US$B

Median pre-money valuations by series: US VC

2006–26 (Jun 30) • US$M



Sources: Cambridge Associates LLC and PitchBook Data Inc.

Note: Historical data revise. Paid-in capital data are through December 31, 2025.

European Private Equity and Venture Capital

Facts & Figures Second Quarter 2026

European PE and VC returned 10.7% and 17.2%, respectively, in USD terms over the trailing four quarters. However, the dollar was a major driver of this performance, with much more meager returns in euros (3.6% and 9.7%). Performance of both asset classes have trailed public markets in recent years; however, private investments have outperformed over longer horizons. While fundraising has slowed, deal activity and exits have increased, with purchase multiples ticking higher.

— Fundraising activity has slowed, due in part to muted LP distributions from existing commitments. In 2026 so far, Europe-based PE funds have raised €39B, on track to be similarly weak to 2025, itself one of the weakest years in the last decade. VC fundraising has been slightly firmer, raising €8.2B in 1H 2026, on course for some acceleration from 2025's weak outturn. Europe-based fundraising accounted for 17.4% and 9.7% of global PE and VC fundraising, respectively, in 1H 2026.

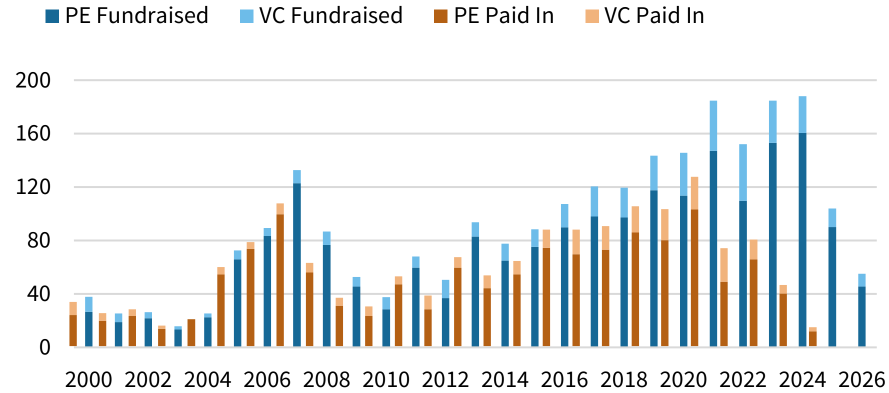
— After bottoming in 2023, PE deal activity trended up during 2024 and 2025, aided by lower rates and reduced policy uncertainty. A record high number of deals occurred in 2025, while deal value was just shy of 2022's record of €654B. First half 2026 has seen this trend continue. VC deal value is also showing a higher run-rate so far this year.

— According to PitchBook LCD stats, purchase price multiples for transactions larger than €500M increased marginally to 10.1x EBITDA early in 2026, after 2025 saw the first increase since 2020. Leverage multiples held steady at 5.2x. VC valuations have also risen, particularly within later-stage.

— Exit activity slowed in terms of the number of exits in 1H 2026 from its 2H 2025 high, though total exit value in both periods was very similar, indicating activity has been concentrated amongst large caps. Exits of greater than €2.5B size grew to account for more than half total exit value in 1H 2026. Second quarter saw a reversal of the trend of secondary buyouts dominating exits, as corporate acquisitions predominated.

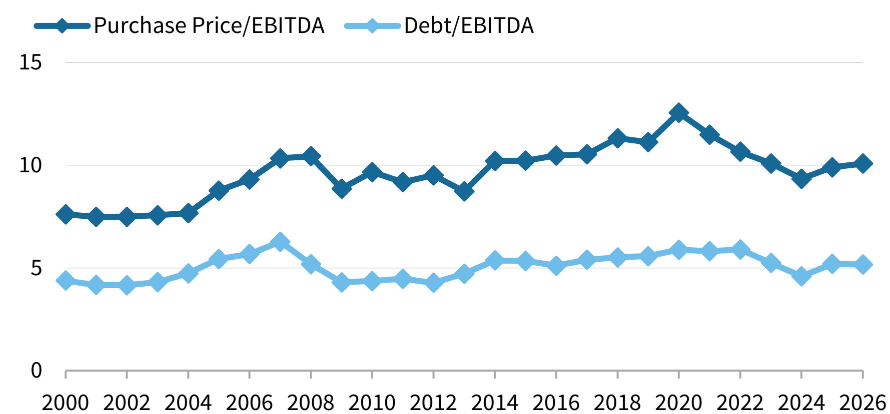
Fundraising and paid-in capital: European PE and VC

Vintage Years 2000–26 (Jun 30) • US$ (Billions)



Average purchase price and debt multiples: European PE

2000–26 (Jun 30)



Sources: Cambridge Associates LLC and PitchBook Data Inc.

Note: Historical fundraising and paid-in capital data revise. Paid-in capital data for 2025 are through December 31.

Asia Private Equity and Venture Capital

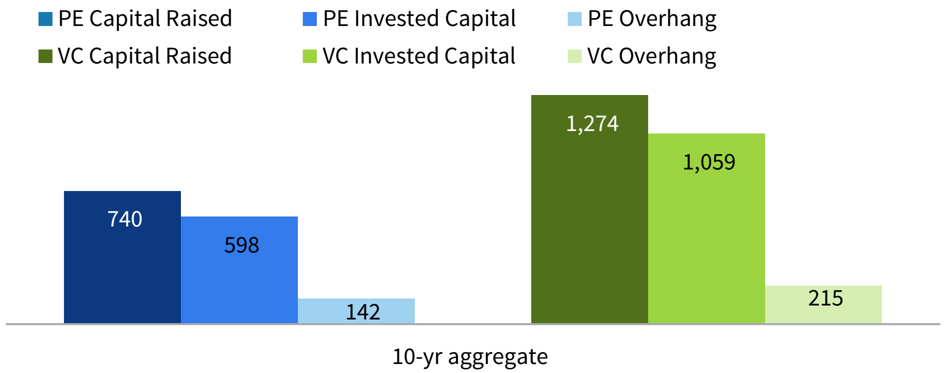
Facts & Figures Second Quarter 2026

Asian PE/VC returns have improved but continue to trail public markets. Exits picked up in 2025 and remain robust in 2026, which should help returns and distributions. Fundraising remains depressed relative to the past. Managers see increased opportunity in Japan and India, while appetite for investments in China and Southeast Asia remain tepid.

- Returns have begun to recover in Asia, albeit ten-year IRRs ending in 4Q 2025 remain lower than the preceding ten years (2005–15). This is particularly the case for China PE and VC, which have faced headwinds from a slowing economy and geopolitical tensions. In contrast, Japan PE has fared better over the past decade, aided by the corporate governance theme and increased M&A, while India PE has also performed better of late.
- Within PE, buyout strategies have historically been more prevalent in Australia, Korea, and Japan, while growth equity has been dominant in China, India, and Southeast Asia. Japan and India have gained in terms of share of overall investment over the past five years.
- Asia PE deal activity slowed in 2Q amid uncertainty due to the Iran War, but trailing four-quarter deal activity is a robust $196B, up slightly from the same time last year. Similarly, fundraising has jumped in 2026, reaching $47B as of 2Q, exceeding the $35B raised in 2025.
- Asia VC deal activity has also picked up, reaching $50B in 2Q, and $132B over the past four quarters, the highest level since 2023. However, fundraising remains muted at only $15B so far in 2026, compared to $50B for 2025, which itself was the lowest level in the past ten years, given the geopolitical headwinds facing investing in China.
- Exit activity continues to improve. While exits have slowed a bit so far in 2026, trailing four-quarter exits for both PE ($213B) and VC ($227B) continue to rise and are at levels not seen since 2022, but still below 2021 peak levels. With that said, robust IPO activity in Hong Kong and India should support exits and hopefully distributions for Asia PE/VC funds.

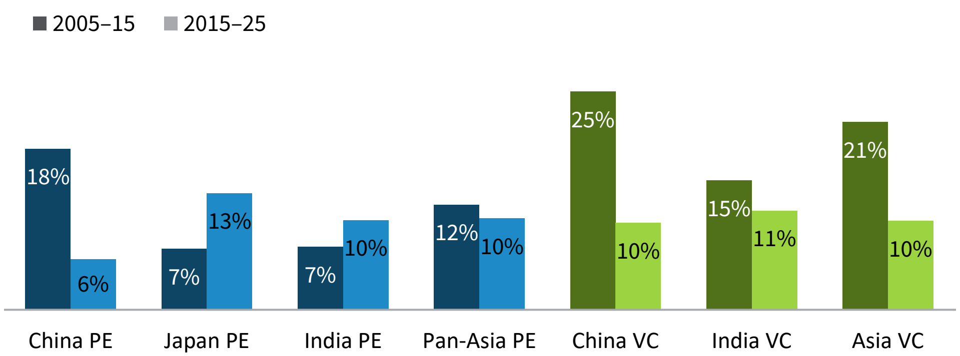
Fundraising, invested capital, and overhang: Asia-Pacific PE and VC

2016–25 (Dec 31) • US$B



Asia PE & VC performance by region

1Q06–4Q15 & 1Q16–4Q25 • Trailing 10-yr net pooled IRR to LP (%) • US$



Sources: PitchBook Data Inc. and Cambridge Associates LLC.

Notes: Data reflect cumulative overhang. PE includes buyout and growth equity funds. Estimate based on the percent paid into funds tracked by Cambridge Associates LLC by vintage year. Vintage year is defined based on first cash flow, rather than legal inception date. Cumulative overhang value includes the past six vintages. Assumes a 10-yr life span with a 1.5% fee decreasing linearly over the life of a fund, and no re-investment of capital. Vintage year 2025 paid-in capital is a trailing 5-yr average of the most recent vintage's paid-in capital. Capital raised does not include Softbank Vision funds. Invested capital includes deals where the investor is an Asia-based PE fund. "Asia VC" includes China, India, Southeast Asia, and Pan-Asia funds.

Private credit strategies have generated a healthy premium over public market equivalents in recent years, a trend we expect to continue. However, certain categories have attracted significant capital inflows, which may compress excess returns, dilute investor protections, and increase downside risk.

— Private credit strategies have outperformed public market equivalents over most timeframes. Through the end of 1Q 2026, the Cambridge Associates Private Credit Index had generated an 8.8% annualized IRR over the past five years, roughly 400 bps above the mPME.

— There is considerable dispersion across manager returns in private credit, making careful manager selection essential. The top quartile of managers in the Cambridge Associates Credit Opportunities Index posted a 15.0% pooled five-year return, roughly 600 bps above the overall pooled return.

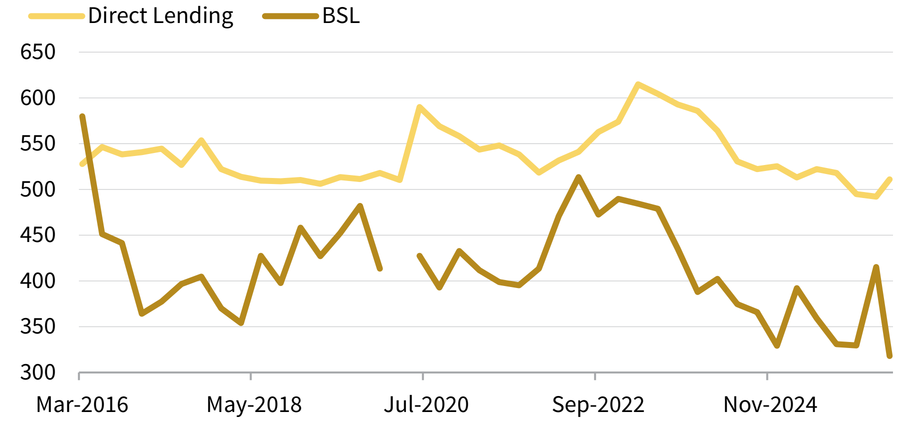
— Private credit investors can increase their odds of success by allocating to strategies where less capital has been raised, documentation and terms remain attractive, and there are higher barriers to entry. Selecting managers with both skilled underwriting teams but also strong origination capabilities is important. Recent deal flow in direct lending has declined significantly (e.g., -40% in 1Q 2026 QOQ) as questions persist around how AI will impact software companies.

— Most companies show healthy operating fundamentals and defaults have been limited. This said, higher expected default rates for private loans in 2026 (KBRA expects 2.5%) underscore the importance of choosing both skilled managers and those with resources to handle troubled loans.

— The current fundraising environment and uncertain macro backdrop suggests strategies like asset-based lending, insurance-linked securities, and royalties may generate attractive returns while insulating investors against some of the weakening protections in other categories.

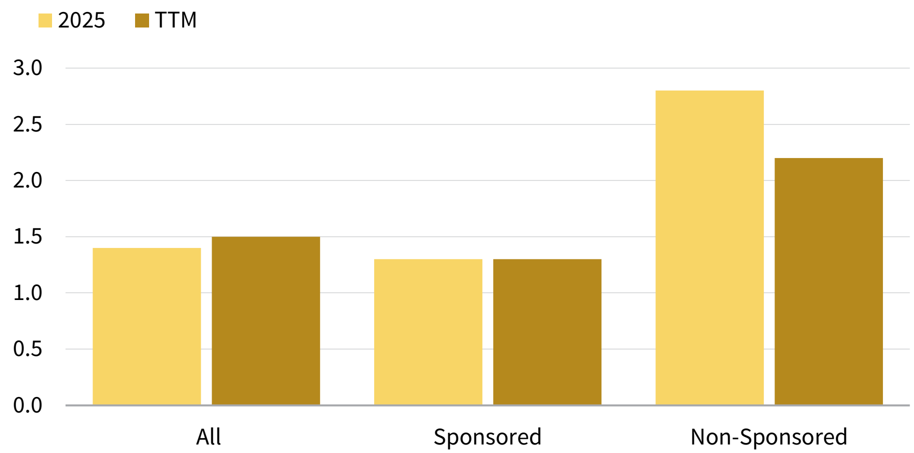
US direct lending and leveraged loan spreads

March 31, 2016 – May 31, 2026 • Basis points



Private credit default rates

As of May 31, 2026 • Percent (%)



Sources: ICE BofA Merill Lynch and KBRA Analytics.

Notes: Leveraged Loan (BSL) and DL spreads are discount margins. March 2020 data are not available for BSL spreads. Direct lending and BSL spreads data come from ICE BofA prior to March 31, 2025, afterwards, data is sourced from KBRA.

Real Assets

Global Property Securities

Facts & Figures Second Quarter 2026

DM property securities returned 8.8% in USD in 2Q, lifting their TTM return to 14.4%. Performance has lagged that of other real assets, such as energy equities, which have benefited from the Iran war, as well as broader DM equities. US REITs have significantly outperformed global peers over the past 12 months, given less exposure to office and higher weightings to perceived AI beneficiaries like data centers.

— Valuations range from slightly to very overvalued, subject to the metric used. DM property securities trade at 15.3x normalized funds from operations, above its historical median. Property security yields are currently 30 bps less than those on government bonds, close to a historical low and well below the long-term median of 1.6%. Inflationary concerns and rate hikes in some countries have pushed sovereign yields higher and put pressure on this differential.

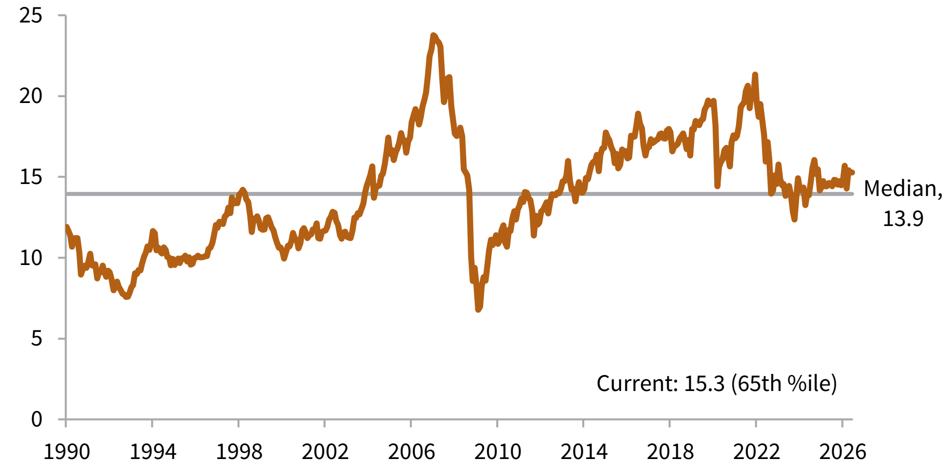
— Income growth for property securities has been weak over the past couple years, dampened by rising debt costs and increased supply in certain categories like apartments, which put downward pressure on rents.

— Global economic growth in 2026 is expected to slightly decelerate from 2025, but elevated inflationary pressures are forcing central banks to become more hawkish and delaying expected cuts in some countries. This in turn could reduce the attractiveness of property dividends, but some investors may be hoping they provide inflation protection.

— Despite real estate's capital-intensive nature and reliance on debt, developed market property securities have demonstrated greater financial discipline since the GFC, with leverage declining to 40% of total assets as of 4Q 2025, below both the 2009 level and the two-decade average.

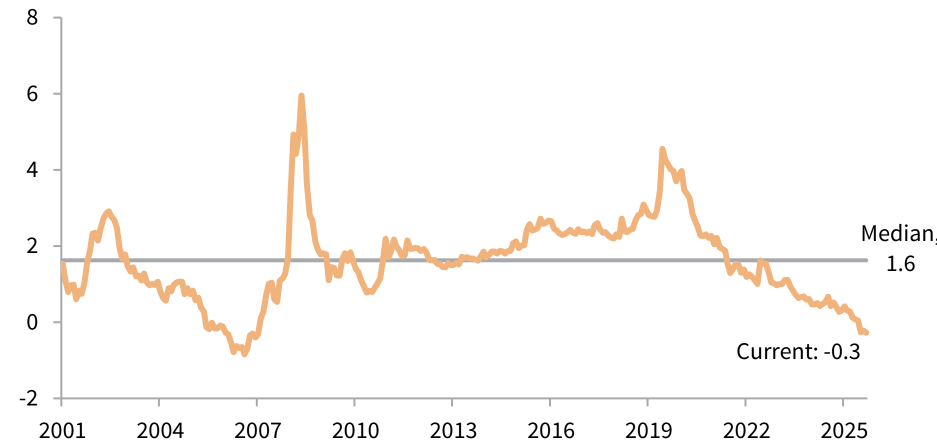
Normalized price-to-funds from operations multiple

Jan 31, 1990 – Jun 30, 2026



Spread between DY and global govt bonds

Oct 31, 2001 – Jun 30, 2026



Sources: EPRA, FTSE International Limited, J.P. Morgan Securities, Inc., National Association of Real Estate Investment Trusts, and Thomson Reuters Datastream.

US Private Property

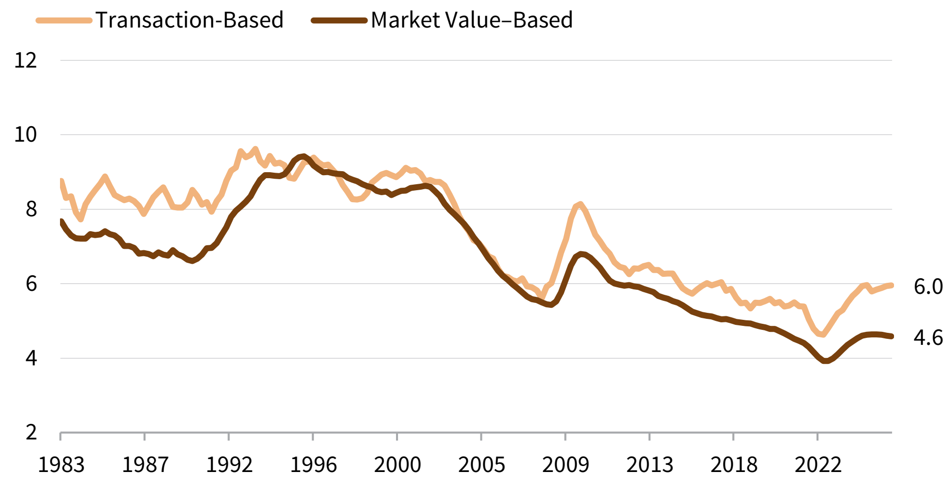
Facts & Figures Second Quarter 2026

US property returned 1.2% in 1Q and 4.9% over the last 12 months, according to NCREIF Property Index data. Returns have been weighed down by tighter financial conditions and supply/demand dynamics across asset types; the index is basically flat over the trailing three-year period. Reflecting underlying income growth, return dispersion across sectors is significant. Over the past three years, hotels have returned 5.6% annualized, while office returned -5.9%.

- Private property cap rates have been stable in recent years. Although still relatively low relative to benchmarks like the ten-year US Treasury yield, the current market value-based 4.6% cap rate is identical to where it was at the end of 2020. Cap rates have fluctuated across sectors and dispersion has risen, with a large current gap between the lowest (industrial at 4.2%) and highest (office at 5.8%).
- Commercial real estate transaction volumes have recovered since the Fed began easing in 2025 and economic activity picked up. In 1Q, US volumes rose 25% YOY, led by a massive 61% increase in office deals as new supply remains limited.
- NOI growth has decelerated in recent years amid weak underlying fundamentals. Four-quarter rolling NOI grew just 0.5% through the end of 1Q, well below the ten-year median of 3.9%. Sector dispersion is notable, with industrials posting reasonable growth (2.6%) but office continuing to lag (-4.9%).
- New commercial real estate construction has declined in recent years, which should serve to help rebalance supply and demand, supporting prices. For example, US office development is at an all-time low, with completions expected to drop 75% in 2026, according to JLL.

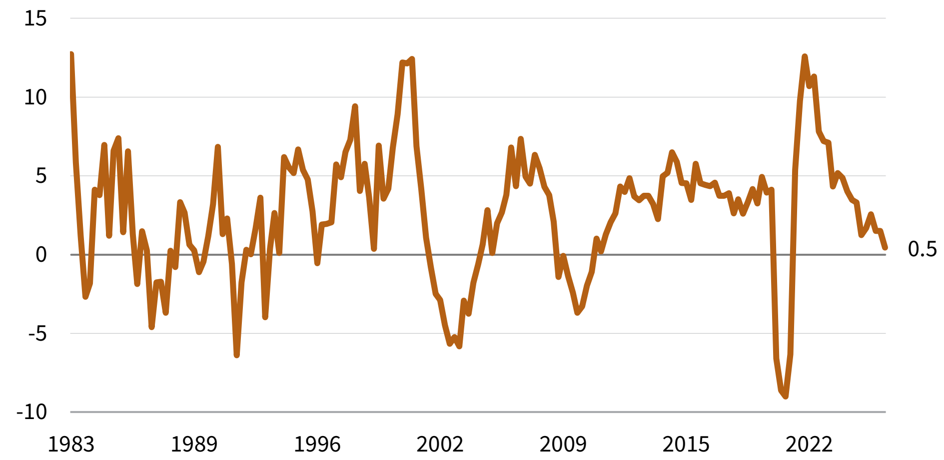
All property cap rates

Second quarter 1983 – First quarter 2026 • Percent (%)



Four-quarter rolling NOI growth

First quarter 1983 – First quarter 2026 • Percent (%)



Source: National Council of Real Estate Investment Fiduciaries.

European Private Property

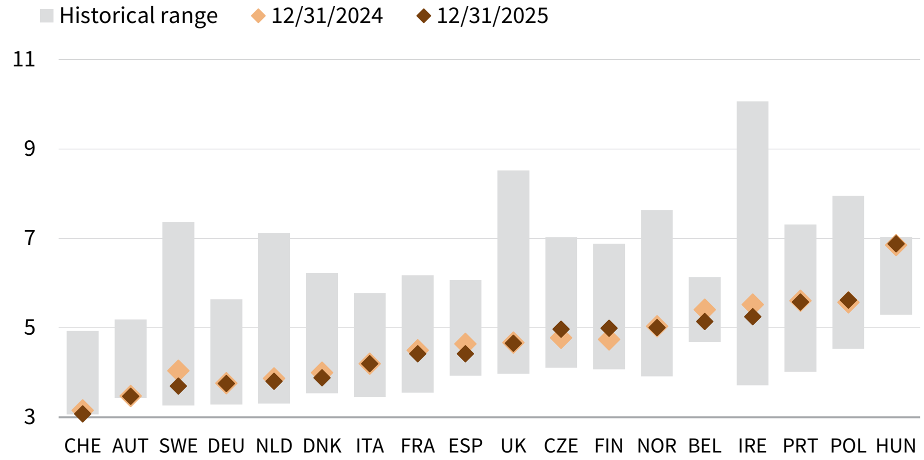
Facts & Figures Second Quarter 2026

UK private property returned 0.9% in 1Q and 4.8% over the trailing four quarters ending March 2026, according to the unlevered MSCI UK Quarterly Property Index. Longer period returns continue to reflect the impact from tight monetary policy and changes in working patterns, with the index returning 3.5% annualized on a trailing three-year basis. Europe ex UK follows a similar trend, with office continuing to lag considerably while retail outperformed (2.2% and 7.1%, respectively, over the trailing four quarters as of 1Q).

- Property yields across most of Europe have steadily decreased over the last decade, although remained broadly stable over 2025 despite monetary policy rate cuts by central banks. Yields in the UK and Germany remain low relative to history, while those in France trade closer to average.
- Spreads are set to narrow with government bond yields remaining higher than their pre-Iran War levels, reflecting near-term inflationary pressures. Reduced consumer real incomes will hit sectors such as retail hardest, although expectations of higher rates will likely slow the new investment pipeline and thus reduce supply. Property can be a good inflation hedge if rental growth can adjust accordingly.
- Economic growth forecasts remain subdued in the UK and eurozone compared to pre-war levels, with consensus forecasts for 2026 at 1.0% and 0.6%, respectively, below the DM average. The BOE and ECB are both expected to vote for one 25-bp interest rates hike through the remainder of 2026 in response to rising inflation expectations.
- In the UK—the largest commercial real estate market in Europe—1Q investment was €11.7B, a 12% YOY decline. European commercial real estate in total saw 13% investment growth, marking the strongest first quarter since 2022. Spain and Netherlands led the growth momentum, as well as the healthcare sector.

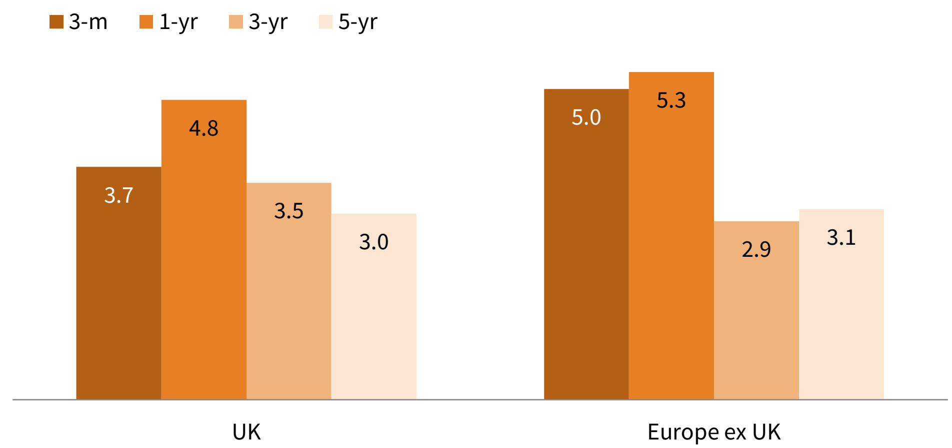
European property net operating income yields

As of Dec 31, 2025 • Percent (%)



Annualized index performance

As of Mar 31, 2026 • Percent (%)



Source: MSCI Real Estate. MSCI data provided "as is" without any express or implied warranties.

Note: Income yield figures are presented in local currency.

Asian private property returned 1.7% for 1Q and 6.9% on a trailing four-quarter basis in USD terms, according to MSCI Global Property Fund Index data. However, longer period returns remain under pressure given the impact of monetary policy tightening over 2022–23. On a trailing three-year basis, Asian property delivered modest gains of 1.4% annualized. Sector performance over this period was mixed: office returned -1.6%, while retail and industrials returned 4.1% and 4.0% annualized, respectively.

— Property yields in many markets have decreased since the GFC and remain low relative to history. While yields rose over 2022–23, they are starting to stabilize as most Asian central banks began monetary easing in response to moderating inflation. Within two top markets, yields in Australia have risen to 5.1%, while property yields in Japan have ticked down to near record lows of 3.8%, given a slower pace of policy normalization by the BOJ.

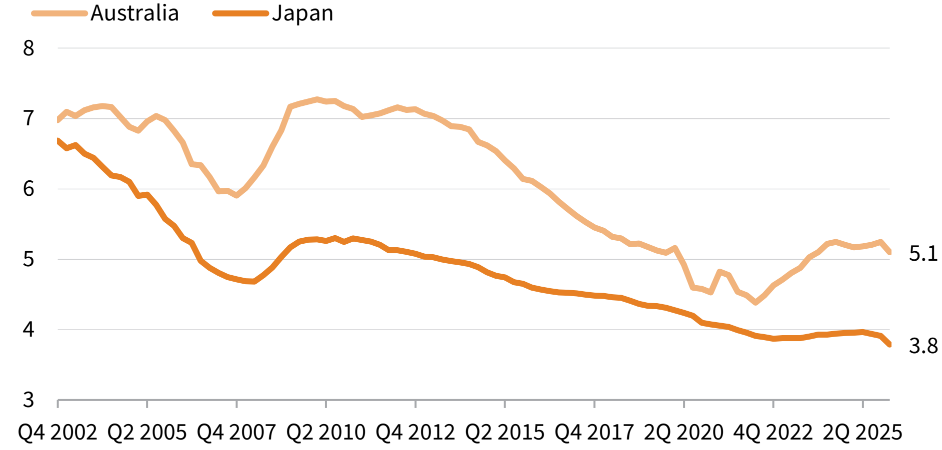
— Growth expectations for Asia-Pacific economies have firmed up following an easing of US tariff uncertainty, with consensus forecasts expecting the region's real GDP to grow by 4.0% in 2026 and 3.6% in 2027. However, these forecasts are subject to change given the rise in energy prices following the onset of the Iran War in March.

— Vacancy rates in Asia differ across countries and sectors but mostly held steady through the pandemic given the multi-year nature of many property leases. In some geographies with higher frequency data, higher office and retail vacancy rates have been observed, in part given substantial new supply.

— Asia-Pacific real estate investment volume fell in 1Q by 9% but remains up 18% over the past four quarters after being largely flat over most of 2022–24, aided by stable-to-falling interest rates in most markets. Japan, Singapore, and India remain robust markets, while Australia and China have cooled.

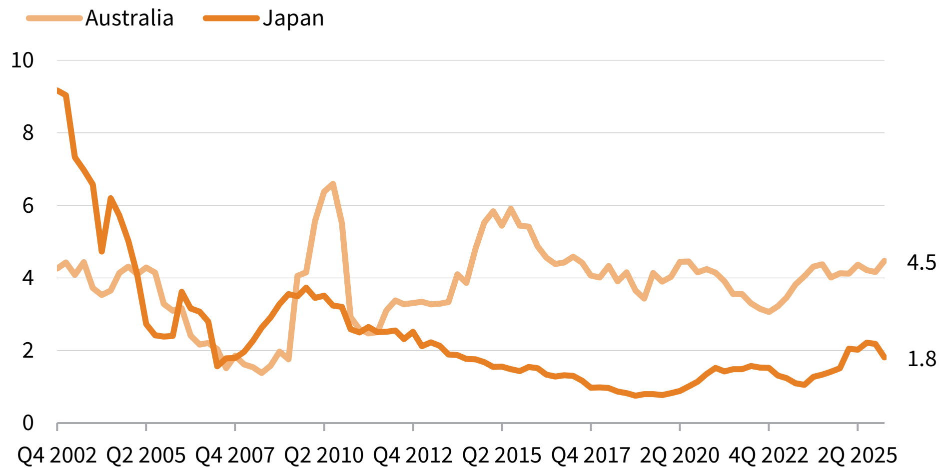
Property yields

Fourth quarter 2002 – First quarter 2026 • Percent (%)



Vacancy rates

Fourth quarter 2002 – First quarter 2026 • Percent (%)



Source: MSCI Real Estate. MSCI data provided "as is" without any express or implied warranties.
Note: Japan first quarter 2026 data are as of February 2026.

Private Infrastructure

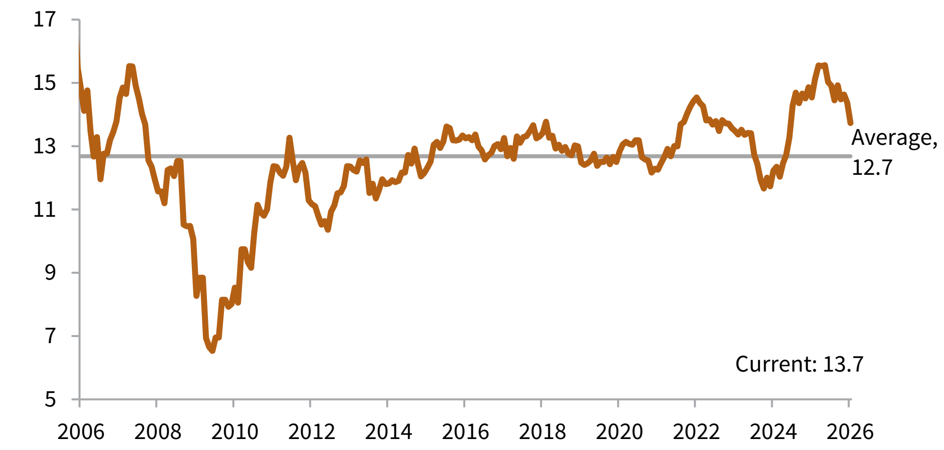
Facts & Figures Second Quarter 2026

Private infrastructure returned 1.4% over 4Q and 10.9% over the trailing four quarters ended December 2025, according to the Cambridge Associates Infrastructure Index. On a trailing three-year basis, the index returned 8.8% annualized. The industry has benefited from increased energy and data center demand due to AI advancements, policy support, and increased interest among institutional investors.

- Infrastructure companies transacted at 13.7 times EBITDA over the prior 12-month period, a figure that has fallen from recent highs in 2025 although still above the industry's long-term average.
- Private markets have underperformed public markets in recent years, including in infrastructure; over the trailing three years, the Cambridge Associates Infrastructure Index generated -6.2% of value add versus a model public markets equivalent.
- Broadly speaking, data center proliferation and the related secular growth in energy demand are the biggest trends in the market over the last 12 months, driving strong capital commitments. The renewable energy transition continues to be a structural theme which should be durable to any short-term policy shifts given their lower cost advantage.
- Global infrastructure transaction values grew by more than 36% over the last four quarters. Data shows that digital infrastructure and power & transmission were the most active sectors by far on a dollar valuation basis, followed by renewable.
- Private infrastructure investments are touted as providing cyclical diversification benefits, inflation protection, and an alternative AI-related exposure compared to stretched public market valuation.
- Direct investments by pension funds and sovereign wealth funds in infrastructure assets have increased notably in recent years. Direct investments can offer attractive return potential, given fees are generally lower, and they allow investors to build custom exposures.

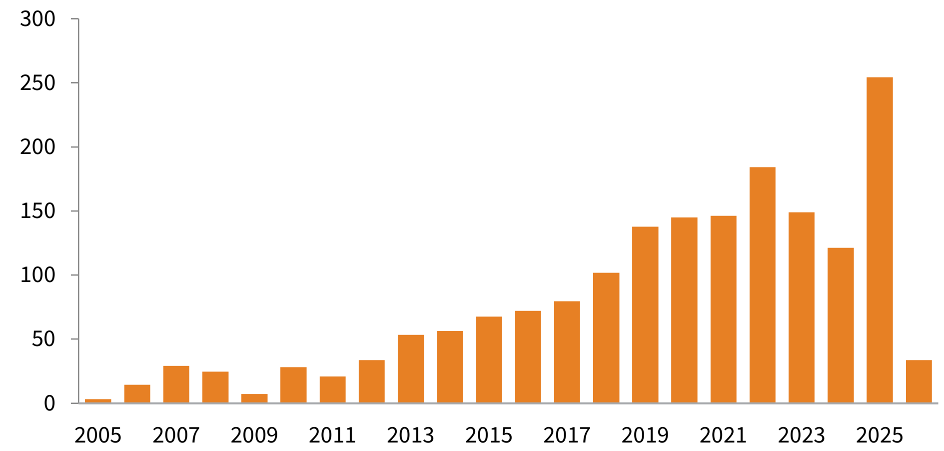
Prices of transactions (EV/EBITDA)

Jun 30, 2006 – Jun 30, 2026 • Rolling 12M average



Global capital commitments to infrastructure PE funds

2005–26 • US$B



Sources: Dealogic and InfraDeals.

Notes: Data are monthly and represent the trailing 12-month average EV/EBITDA for all infrastructure transactions. Historical data revise. 2026 data for global capital commitments to infrastructure PE fund are as of July 9, 2026.

Natural Resources Equities

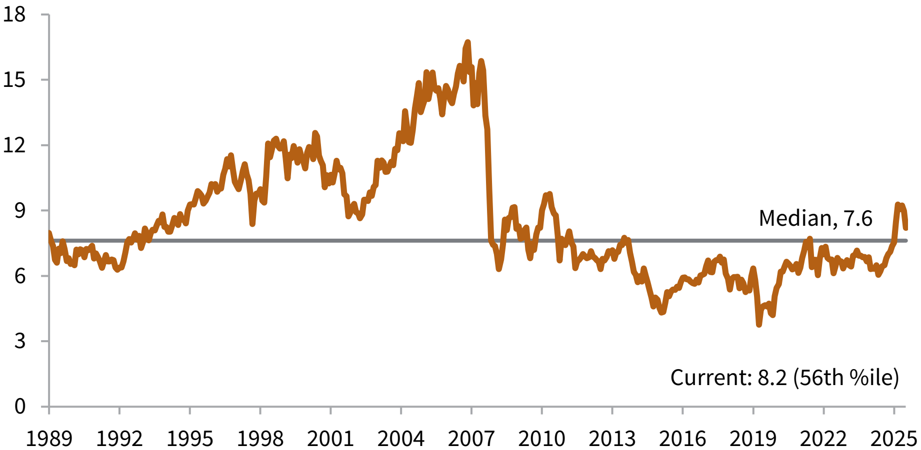
Facts & Figures Second Quarter 2026

Natural resources equities fell 10.1% in 2Q (USD terms), according to the MSCI World Natural Resources Index, bringing YTD performance to 15.5%. Quarterly performance was driven by a sell-off in energy equities as oil prices fell amid a de-escalation in US-Iran tensions and increased traffic through the Strait of Hormuz. Despite the quarterly decline, natural resources equities have delivered strong YTD gains, supported by elevated commodity prices driven by heightened geopolitical tensions and demand stemming from the AI buildout.

- Natural resources firms trade at 8.2 times cyclically adjusted price-to–cash earnings, which ranks in the 56th percentile of month-end observations dating back to 1990. Valuations decreased during the quarter and remain just above the historic median.
- Global real GDP growth expectations for 2026 have remained broadly unchanged at 2.9% since the start of the year. At the same time, reduced traffic through the Strait of Hormuz and rising demand tied to the AI buildout have supported commodity prices, benefiting natural resources equities.
- Investment levels bottomed following COVID, with capital expenditures reaching a trough of 4.5% of total assets in 2021. While investment has since recovered, capital expenditures remain below levels observed prior to the shale bust of 2016.
- A key consideration for investors is the extent that renewable energy could undercut future hydrocarbon demand. While some long-term energy analyses highlight that oil and natural gas may continue to be an important energy source for decades, these forecasts tend to have wide confidence intervals, and investors would be wise to carefully consider how different future energy scenarios may impact their portfolios. At the same time, some segments of natural resources equities may attract more investor interest given the demand for the certain metals to facilitate the transition to net zero.

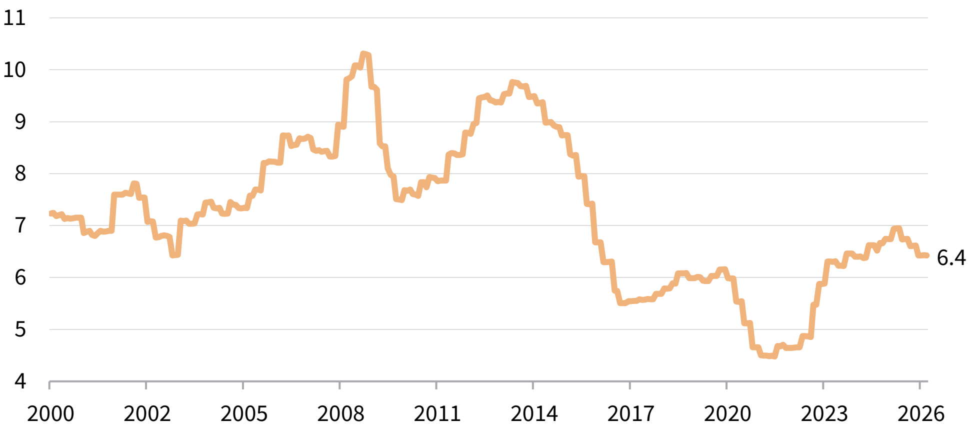
Cyclically adjusted price-to–cash earnings

Dec 31, 1989 – Jun 30, 2026



Capital expenditures

Jan 31, 2000 – Jun 30, 2026 • Percent (%) of total assets



Source: Thomson Reuters Datastream.

Notes: Natural resources equities are made up of constituents in the Datastream World Energy Index and the Datastream World Basic Resources Index, weighted on a market-capitalization basis. Historical data revise.

The Bloomberg Commodity Index declined 8.1% on a total return basis in 2Q, as temporary easing of US-Iran tensions pushed energy prices lower. Still, on a TTM basis, the index is up 25.5%. During that time, precious metals (34.2%), energy (25.7%), industrial metals (19.7%), and livestock (11.0%) posted double-digit returns, while softs (3.2%) and grains (0.9%) lagged.

— In 2Q, the decline in commodity prices brought spot prices back to 0.4 standard deviations above their ten-year inflation-adjusted mean, based on the index's constituents and weights. Across commodity groups, real prices were mixed relative to history: precious metals remained notably elevated, energy was slightly above its median, and grains were the only subgroup below its median.

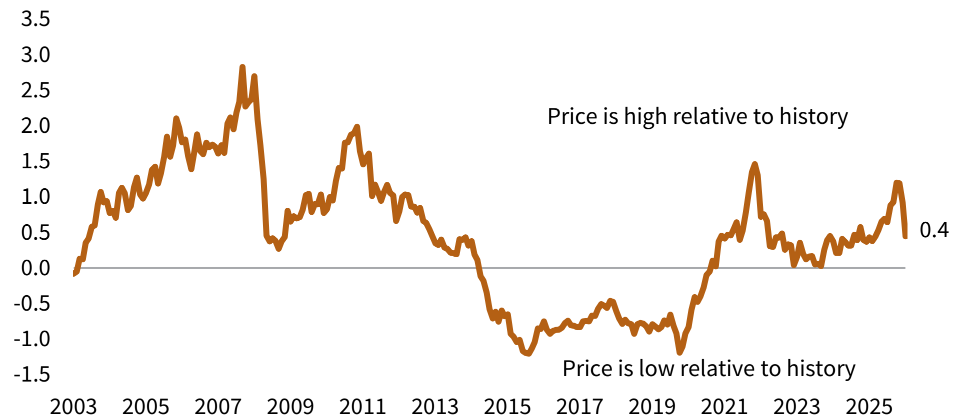
— Price action was again heavily influenced by developments involving Iran, primarily through their effect on energy markets. The 1Q closure of the Strait of Hormuz—the world's most vital energy chokepoint—sent oil & gas prices soaring. Oil prices retreated sharply from their April highs as US-Iran tensions eased late in the quarter. A June memorandum of understanding reopened the Strait, although the détente remained fragile at quarter-end.

— Commodity futures returns reflect three components: changes in spot prices, roll yield as expiring contracts are replaced, and interest earned on cash collateral. Commodity markets in aggregate are now in backwardation—especially oil, where the curve is steeply inverted—suggesting that roll yield may provide support for returns.

— Two widely used commodity benchmarks are the Bloomberg Commodity Index and the S&P GSCI™. The Bloomberg index is weighted by world production and liquidity, with caps on commodities and subsectors to promote diversification. The S&P GSCI™ is weighted by world production and has greater energy exposure. Both indexes hold only near-month futures, while many active managers can invest across the full futures curve.

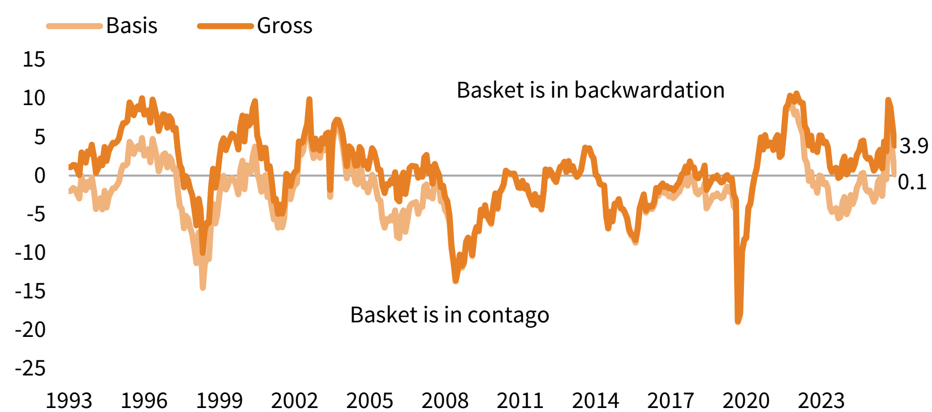
Commodity futures basket price deviation

Jun 30, 2003 – Jun 30, 2026 • Z-score



Commodity futures basket indicative roll yield

Jul 31, 1993 – Jun 30, 2026 • Percent (%)



Sources: Bloomberg L.P. and Thomson Reuters Datastream.
Notes: Exhibits are based on the current futures and weights of the Bloomberg Commodity Index. Price deviation is the weighted z-score of commodity futures using ten years of trailing data. Basis is the roll yield's weighted percentage difference of front month contract relative to contracts one year later. Gross is the roll yield plus cash yield.

Gold

Facts & Figures Second Quarter 2026

Gold declined 12.7% in 2Q 2026, its worst quarterly decline in nearly a decade, as investors took profits following a multi-year rally and repositioned around the prospect of higher interest rates, which raise the opportunity cost of holding non-yielding assets. Still, over the trailing 12 months, gold increased 22.9%.

— The pullback more than erased 1Q gains, with gold ending the quarter at around $4,000 per troy ounce—still almost double its price two years prior. Even after the pullback, gold's inflation-adjusted price stood roughly 280% higher than its long-term median.

— ETF investment, which had been a key source of incremental demand during gold's rally, reversed in 2Q. Global gold ETFs swung from $6.6B of inflows in April to $8.9B of outflows in June, led by North American selling. The withdrawal of that marginal bid amplified the decline, though Asian funds notably recorded their strongest first half inflows on record.

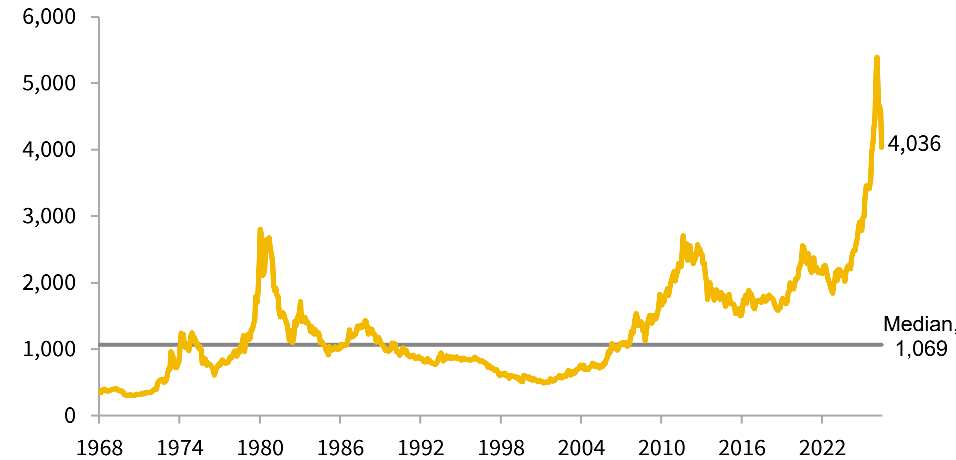
— Notably, geopolitical escalation worked against gold rather than for it. The Iran War has lifted inflation expectations, driving a repricing from anticipated Fed rate cuts toward a meaningful probability of a year-end hike. The resulting rise in expected real rates and a firmer US dollar added negative pressure to gold.

— Gold presents key risks for long-term investors. Its expected real return over the long term is low, making it a problematic asset for institutions with real spending objectives, even though it can provide a hedge against adverse capital markets conditions.

— From an implementation perspective, investors can access gold through low-cost, physically backed ETFs, which offer liquidity and track the price of gold without requiring physical storage, though they do carry counterparty risk. Physical gold provides a tangible asset but comes with purchase premiums and storage fees, typically in the low single-digit basis point range.

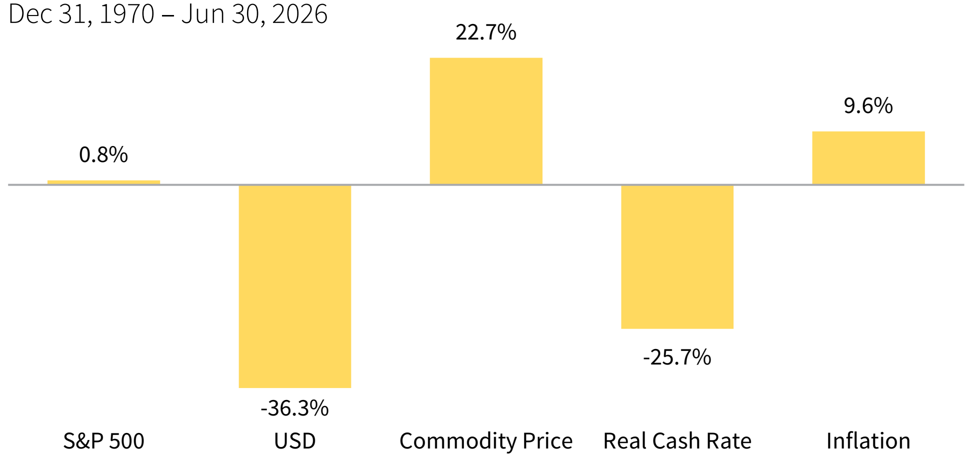
Gold bullion real price

Jan 31, 1968 – Jun 30, 2026 • US Dollars per Troy Oz



Long-term correlation vs gold prices

Dec 31, 1970 – Jun 30, 2026



Sources: Intercontinental Exchange, Inc., Standard & Poor's, and Thomson Reuters Datastream. Third-party data are provided "as is" without any express or implied warranties.

Notes: Real prices are inflation adjusted to today's dollar. Data for CPI-U are through May 31, 2026.

Currencies

USD vs Developed Markets Currencies

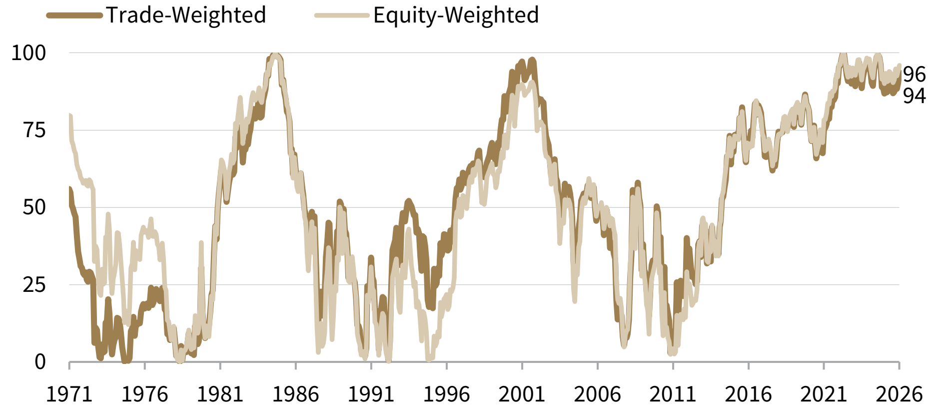
Facts & Figures Second Quarter 2026

The US dollar rose 0.9% in 2Q 2026 bringing its trailing one-year performance to 3.7%. Israeli-US attacks on Iran delivered some support for the dollar earlier this year. More recently, widening interest rate differentials have helped lift the dollar above its prior range. Bigger picture the dollar's still-elevated valuation points to a weaker currency over time, aided by subsiding support from growth differentials and capital flows.

- The US dollar remains richly valued, with its real effective exchange rate at the 96th and 94th percentiles for the equity- and trade-weighted series, respectively. This elevated valuation suggests scope for further depreciation over a multi-year horizon as several cyclical and secular trends reverse.
- The dollar peaked for this cycle in late 2022 and reapproached those levels in early 2025 as markets expected proposed US tariff, tax, and immigration policies to support US growth and inflation. Subsequently, however, the dollar began a decline as policy uncertainty and tariffs weighed on the US outlook, seeing non-US investors increasing their dollar hedges. More recently, the uncertainty engendered by war, uneven impact of higher energy prices, and widening interest rate differentials have given the dollar some support.
- With two hikes priced in by early next year, the support from interest rate differentials now looks mature. Support derived from the uncertainty and energy impact of recent conflicts should also subside in time. Risks from concentration, valuation and geopolitics should also mean that persistent support from capital inflows is unlikely to endure. The global policy backdrop should also be a headwind, including continued BOJ hiking and increased fiscal spending in Germany.
- Key risks to this view include a reacceleration of the US economy whether due to stimulus or AI investment as examples, a continuation of the conflict in Iran impacting peers to a greater extent than the United States, or a persistence in the theme of tech/AI outperformance attracting foreign inflows despite elevated valuations.

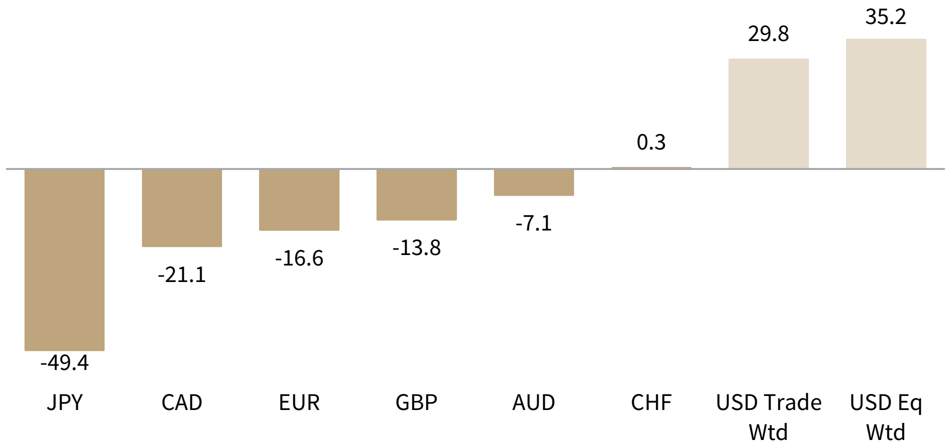
USD basket real exchange rate percentile

Jun 30, 1971 – Jun 30, 2026



Real exchange rate vs the USD: % from median

As of Jun 30, 2026



Sources: MSCI Inc., National Sources, OECD, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of March 31, 2026. All other inflation data are as of May 31, 2026.

GBP vs Developed Markets Currencies

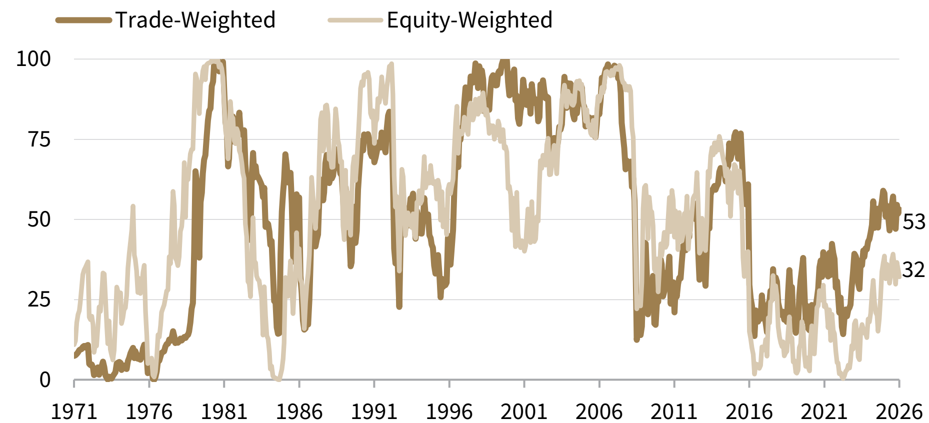
Facts & Figures Second Quarter 2026

Sterling was up by 1.2% in trade-weighted terms in 2Q 2026 bringing its trailing one-year performance to -1.2%. The trailing one-year performance is primarily a function of a dollar that has risen relative to peers. Sterling's strength over the last quarter was relatively broad-based but with euro softness the main driver. Domestically, there had been signs of a firming in activity, however the impact of the Iran War represent a headwind.

- Sterling remains near fair value in trade-weighted terms but is still cheap relative to the dollar. The USD dominates the equity-weighted index with a weight of 77%, while the euro has a weight of 55% in the trade-weighted index. An expectation of further weakness in the dollar should support sterling going forward, particularly on an equity-weighted basis
- The UK's consensus GDP growth forecast has held up for 2026 (at 1.0%) despite the rise in energy prices, due to an unexpectedly strong 1Q, though it remains below broader DM expectations of 1.6%. Still, the decline in the composite PMI from a trend level of close to 53 pre-conflict, to modestly contractionary currently, is indicative of a weaker environment on a forward-looking basis.
- The BOE kept rates at 3.75% during the quarter. Despite the increase in energy prices, core inflation continued to moderate during the quarter as a result of softer domestic conditions. When the volatility of the Iran War has eventually passed, conditions should allow the BOE to deliver additional rate cuts, especially if activity remains weak. This should bring down currently high levels of household saving, helping to spur some revival in domestic conditions.
- The UK's structural current account deficit and the prevalence of cyclical sectors in its asset markets give sterling a risk-on/risk-off profile. Sentiment toward UK risk assets remains depressed, which could prove supportive if fundamentals improve. Recent fiscal concerns, while likely over-amplified, do maintain some potential to disrupt markets in light of global debt-load concerns and volatile energy prices.

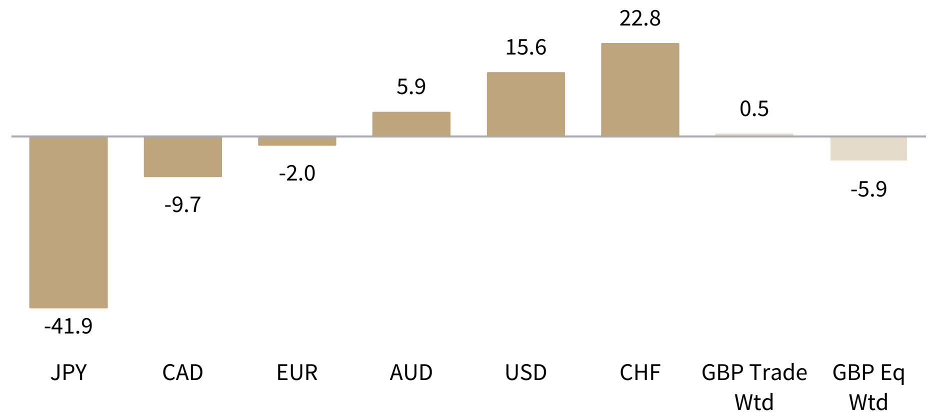
GBP basket real exchange rate percentile

Jun 30, 1971 – Jun 30, 2026



Real exchange rate vs the GBP: % from median

As of Jun 30, 2026



Sources: MSCI Inc., National Sources, OECD, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of March 31, 2026. US, Swiss, and Eurozone inflation as of June 2026. All other inflation data are as of May 31, 2026.

EUR vs Developed Markets Currencies

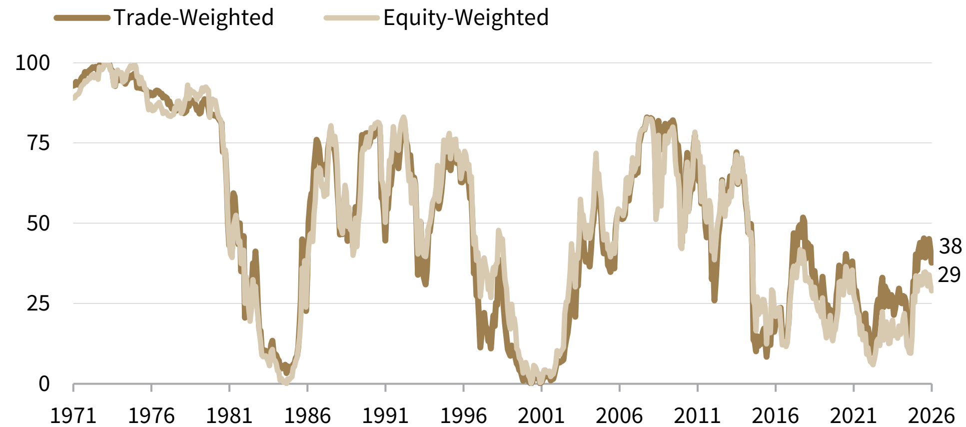
Facts & Figures Second Quarter 2026

The euro fell 0.6% in trade-weighted terms in 2Q 2026 bringing its trailing one-year performance to -0.7%. The euro's softness this year has been driven by a relatively greater exposure to increased energy prices and a widening interest rate differential versus the US. On a longer horizon, the euro should be supported by German stimulus, stronger peripheral growth, and a US dollar that should decline from an elevated valuation.

- On a valuation basis, the euro's REER stands at the 29th percentile on an equity-weighted basis and the 38th percentile on a trade-weighted basis, 9.6% and 2.3% below median, respectively. While the rise of the trade-weighted index to near its median reflects improved expectations of domestic circumstances, the direction of the dollar remains a key driver for the equity-weighted index (81%) and explains the additional undervaluation on that measure.
- The economic backdrop is mixed in the Eurozone. GDP growth forecasts have been revised down since the outbreak of the Iran War, due to the region's greater reliance on energy imports in the face of higher energy prices. Once the conflict ultimately de-escalates, the cumulative impact of prior rate cuts delivered by the ECB (notwithstanding the recent hike) and planned German fiscal stimulus should both be supportive of future growth. Nonetheless, there are only tentative signs that Germany's growth impulse has bottomed as it battles competitiveness issues, while France faces political gridlock.
- To further materially drive domestically generated euro appreciation, greater fiscal and regulatory convergence between the periphery and the core is likely needed, to boost potential growth. Completing the capital markets union and expanding jointly issued bonds would also contribute to the financial resilience of the region. While expecting further appreciation against the dollar, risks include growth acceleration in the US, a moribund German economy, an escalation of French political instability, and an extended war in Iran.

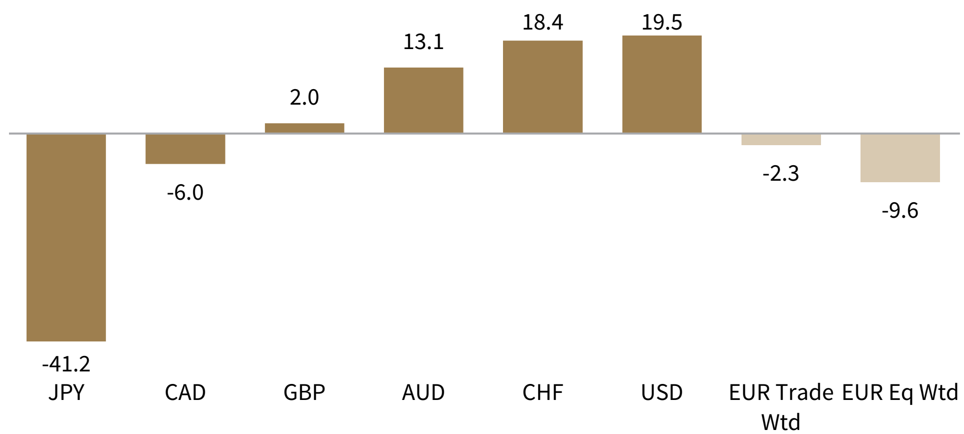
EUR basket real exchange rate percentile

Jun 30, 1971 – Jun 30, 2026



Real exchange rate vs the EUR: % from median

As of Jun 30, 2026



Sources: MSCI Inc., National Sources, OECD, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of March 31, 2026. US, Swiss, and Eurozone inflation as of June 2026. All other inflation data are as of May 31, 2026.

Bitcoin fell 14.2% in 2Q as sentiment toward digital assets remained negative. For the trailing TTM period, bitcoin dropped 45.4%. More broadly, the S&P Cryptocurrency Broad Digital Asset ex Bitcoin Index also stumbled, declining 16.6% in 2Q and 41.7% for the year.

— In 2Q, bitcoin notably decoupled from the broader risk rally. Speculative capital appeared to gravitate toward AI-linked equities, where strong earnings helped sustain momentum. Spot bitcoin ETFs saw roughly $4.7B of net outflows in 2Q, the largest since the launch of these products in early 2024. Expectations for tighter monetary policy and a stronger dollar added further pressure. At quarter-end, bitcoin remained 53% below its October 2025 all-time high of $126,000.

— Measures of crypto market sentiment, such as the CMC Fear and Greed Index, again reached extreme fear territory in 2Q as bitcoin prices tested new cyclical lows. Such measures could be used as contrarian indicators, given the large sentiment-driven aspects of crypto assets generally.

— Given bitcoin's unique characteristics and limited history, there are few reliable valuation metrics. One metric is price-to-transactions per coin (P/TC), which can capture bitcoin's utility as a medium of exchange. Bitcoin's current P/TC ratio is highly elevated relative to history, which signals speculative pricing compared to transaction volume.

— Digital assets remain far more volatile than stocks. Over the past three years, bitcoin's price swings were nearly 5x larger than those of equities, and smaller cryptoassets are likely even more volatile. While volatility has eased somewhat as acceptance and liquidity have grown, it is still a key feature of the asset class.

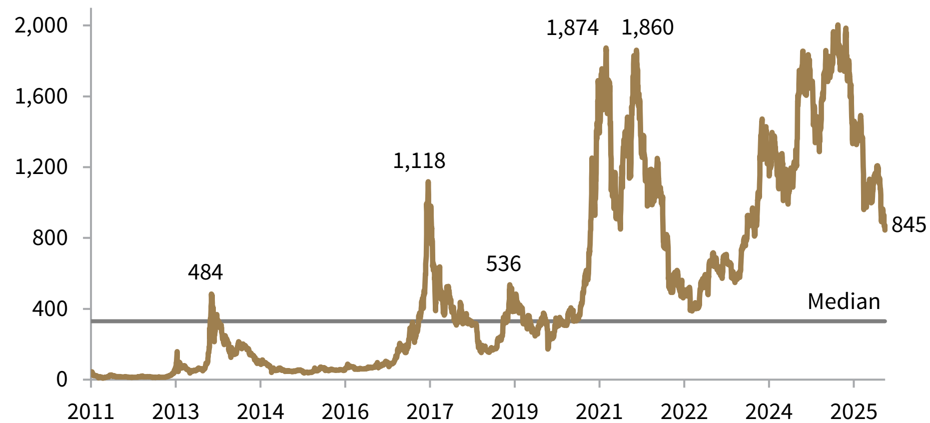
— Implementation options have expanded, with both passive and active vehicles now available, including custodians, cryptoasset trusts, and VC and hedge funds, providing a range of access points to the broader universe.

Bitcoin price

Dec 31, 2015 – Jun 30, 2026 • US Dollars

Ratio of bitcoin price to transactions per coin

Aug 31, 2011 – Jun 30, 2026



Sources: Blockchair.com and Thomson Reuters Datastream.

Notes: Bottom chart represents the USD price of bitcoin divided by the number of transactions per coin outstanding. All data are daily.

Notes on Data
Second Quarter 2026

Note on CA House Views

- All performance data is quoted in US dollars unless otherwise noted.

Notes on Our Cyclically Adjusted Price-to–Cash Earnings Calculations

- For most equity markets, we construct a cyclically adjusted price-to-cash earnings (CAPCE) ratio. The cyclically adjusted price-to–cash earnings (CAPCE) ratio is calculated by dividing the inflation-adjusted index price by trailing ten-year average inflation-adjusted cash earnings. Cash earnings are defined as net income from continuing operations plus depreciation and amortization expense. MSCI does not publish cash earnings for banks and insurance companies and therefore excludes these two industry groups from index-level cash earnings.
- EM is cyclically adjusted by trailing five-year data.
- On our equity valuation charts, we use a consistent approach to our median and percentile calculations for valuation ratios across all regions. All charts are labeled to indicate the current valuation's percentile versus the historical median. We typically consider the range from the 25th to the 75th percentile as fairly valued. Valuations in the 75th to 90th percentile are typically overvalued relative to history, and in the 10th to 25th percentile, undervalued. The top 10th and bottom 10th percentiles generally represent very overvalued and very undervalued relative to history, respectively. An asset class's valuation call takes into account valuations, fundamentals, momentum, sentiment, and other factors, and calls do not mechanistically change with percentiles; rather these ranges are used as guides for our valuation calls.

Notes on the 12-Month Absolute and Relative Price Momentum

- The 12-month absolute momentum is the trailing 12-month index price return in local currency terms.
- The 12-month relative momentum is calculated as the geometric difference between each market's trailing 12-month price return in local currency terms.

Notes on Specific Data Providers

- Dealogic updates its database on a regular basis; therefore, historical data may change.
- Hedge Fund Research data are preliminary for the preceding five months.
- Total return data for all MSCI indexes are net of dividend taxes.
- US CPI data lag by one month.