



Macro and Market Overview

21st October 2026

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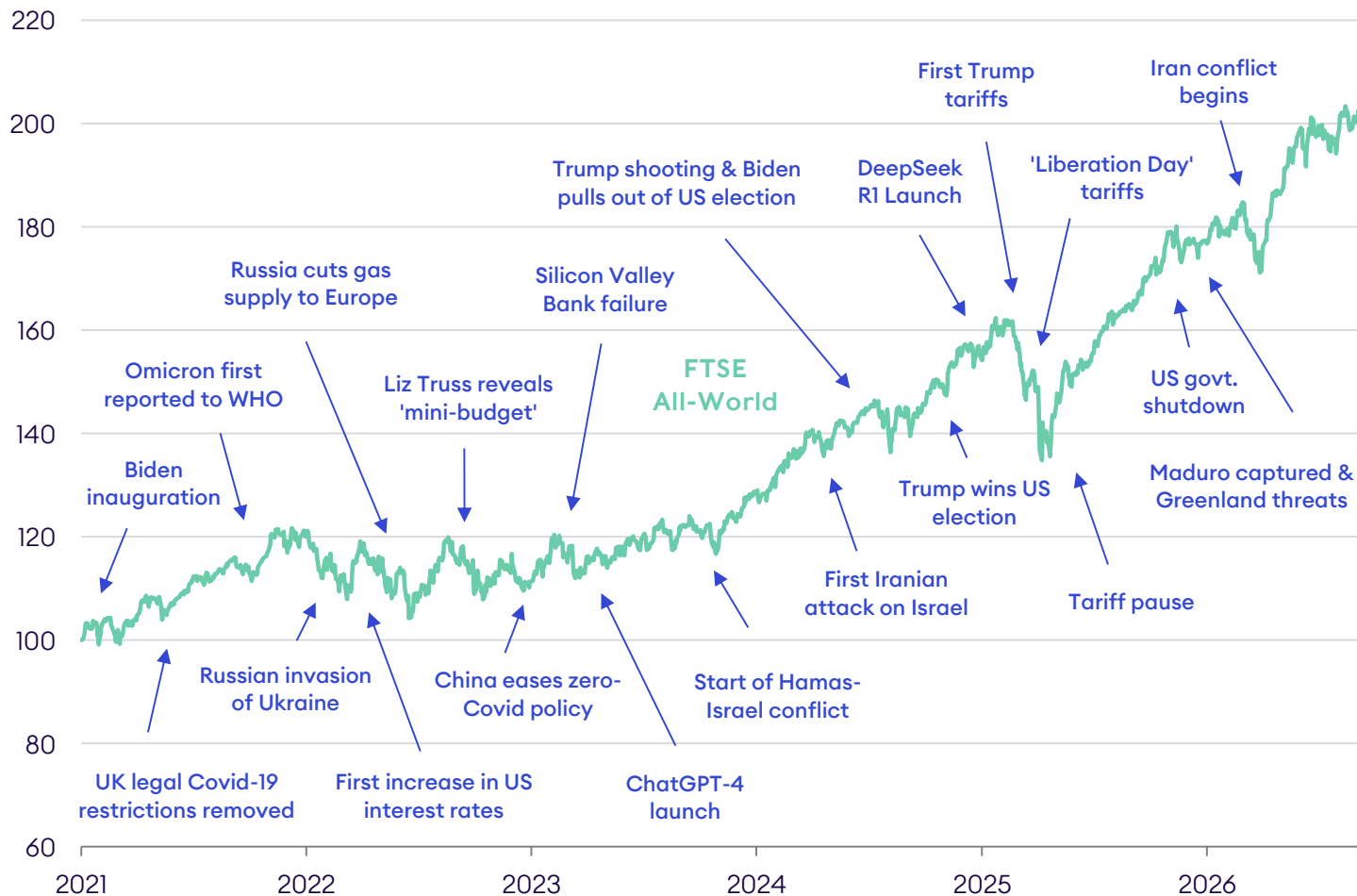
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Macro and Market Overview

What has happened over recent years?

FTSE All-World total return index (Jan. 2021 = 100, GBP)



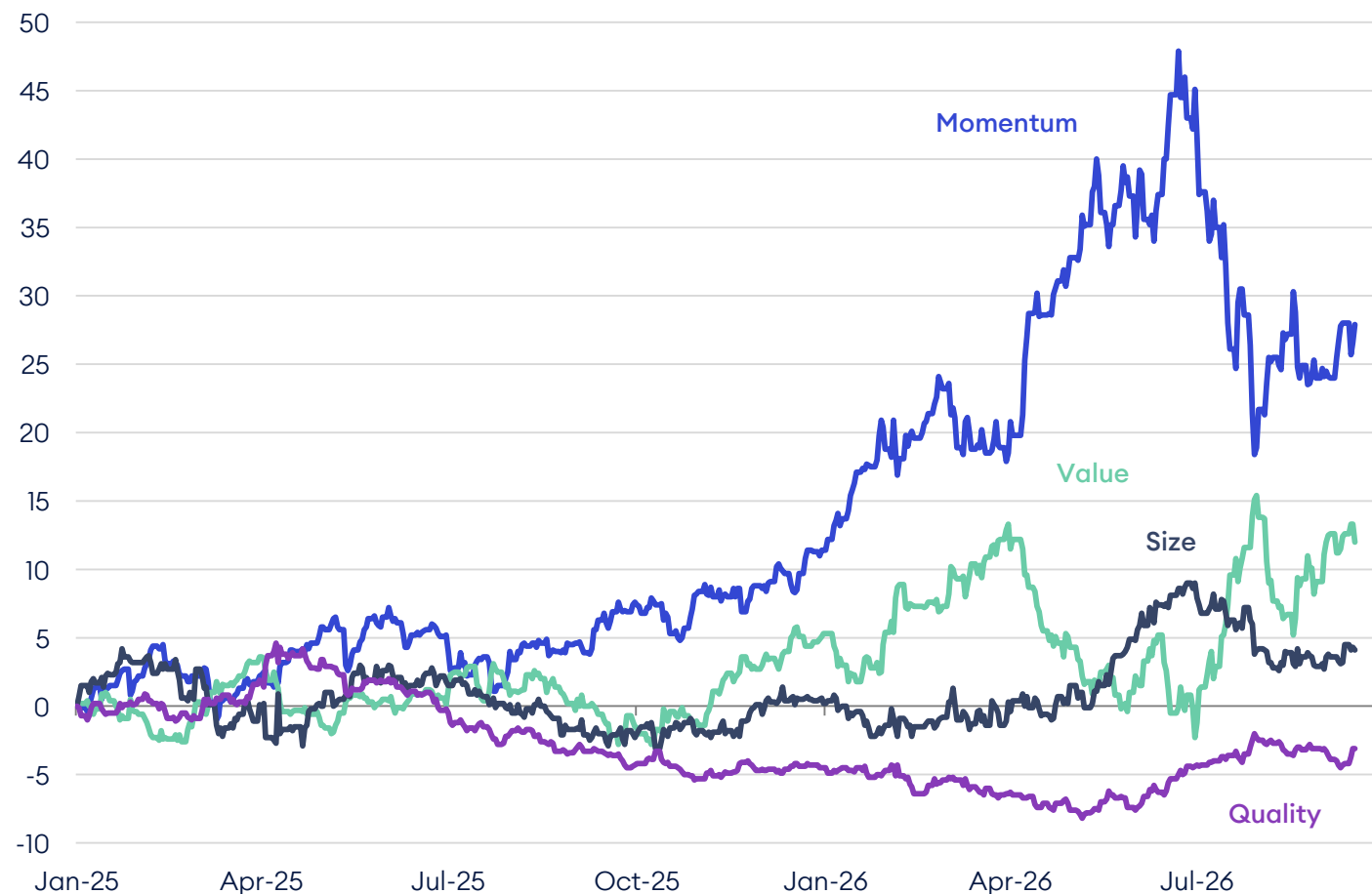
- Record market highs are normal and are not, on their own, a reason to avoid equities.
- Firms have adapted well to changes in global trade, while supportive policies have helped earnings growth.
- Current market highs have fundamental support; deteriorating earnings or economic prospects would warrant greater caution.

Source: LSEG, Rathbones; as at 15 September 2026.

Investments can go down as well as up and you could get back less than you invested.
Past performance is not a reliable indicator of future results.

Momentum had been the dominant factor for the first half of 2026, but this has reversed since

Global factor returns (USD, %)



These factor returns show the returns from going long the top 20% and short the bottom 20% of stocks, when ranked by the respective factor, using MSCI All Country World Index.

Factor definitions:

Momentum: Best performing vs worst performing, ranked by prior 12 months returns.

Value: Cheapest vs most expensive, using a range of valuation metrics.

Size: Large vs small, using market capitalisation.

Quality: High quality vs low quality, based on a combined measure of profitability (higher better), leverage (lower better), and variability of sales, earnings, and cash flows (lower better).

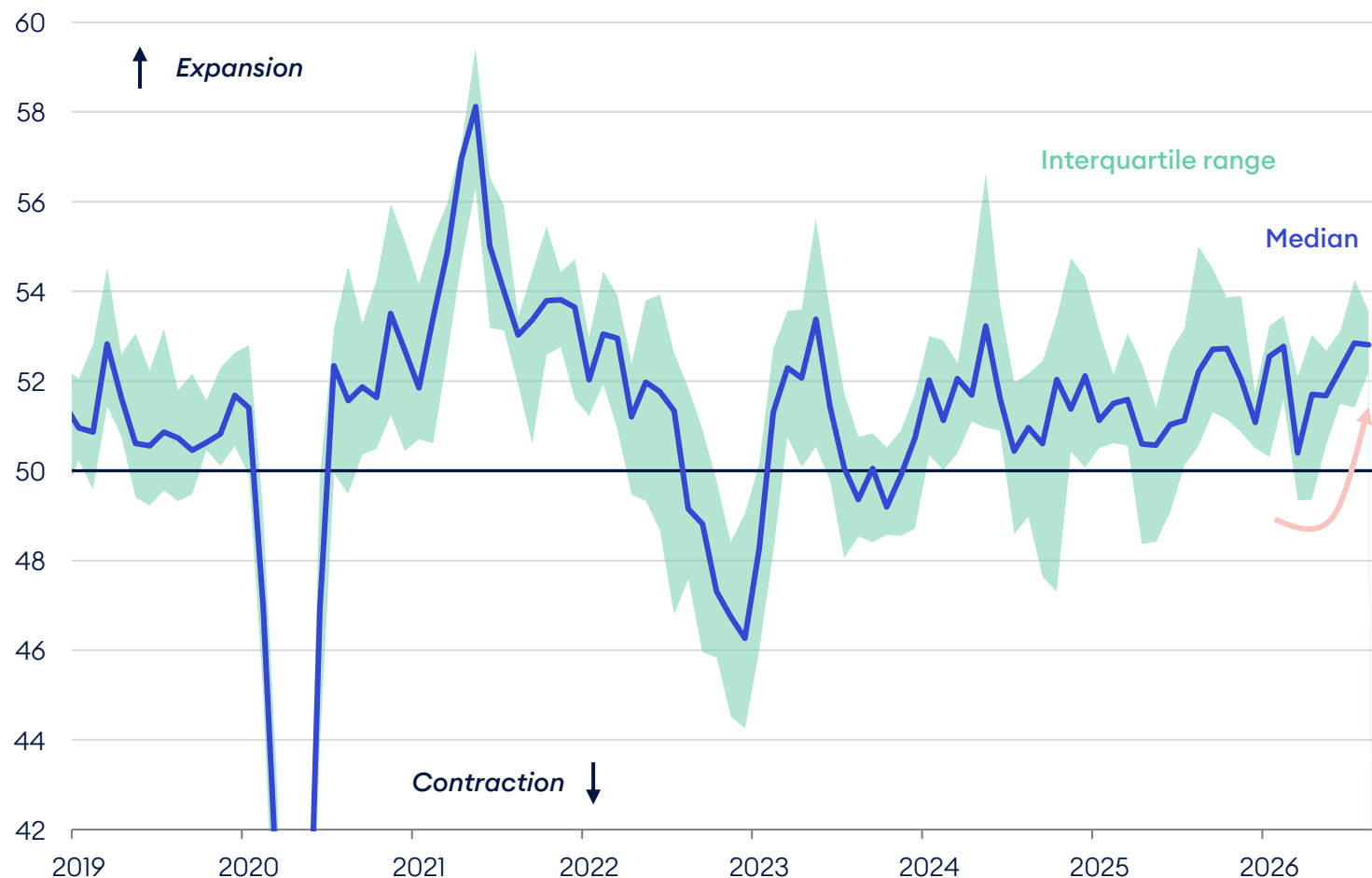
Source: Bloomberg, Rathbones, as at 16 September 2026.

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Many leading indicators of global economic growth have been improving lately

S&P Global sector PMI* new orders indices



- Global growth remains resilient despite higher energy prices linked to the Middle East conflict, with activity healthy by recent standards.
- PMI new orders have recovered across sectors, approaching early-2026 levels, with other indicators showing similar improvement.
- AI-related capital expenditure is a key driver of growth, particularly in the US, supporting an encouraging outlook for global activity.

* PMIs are surveys of purchasing managers, with >50 indicating more respondents reporting orders increasing than decreasing.
Source: LSEG, Rathbones; as at 16 September 2026.

Natural gas prices in Europe have risen while the US has been insulated; stocks are low for the time of year

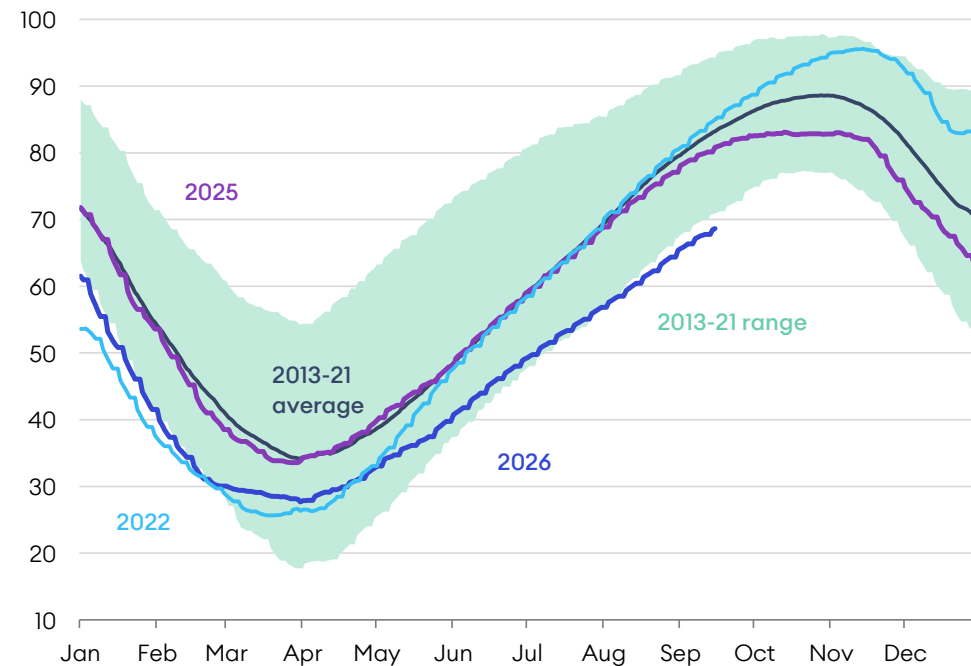
Natural gas prices (EUR per MWh)



Source: LSEG, Rathbones; as at 15 September 2026.

Note: Europe price is TTF, US in Henry Hub, converted into common currency & units.

EU Natural Gas Storage (% full)



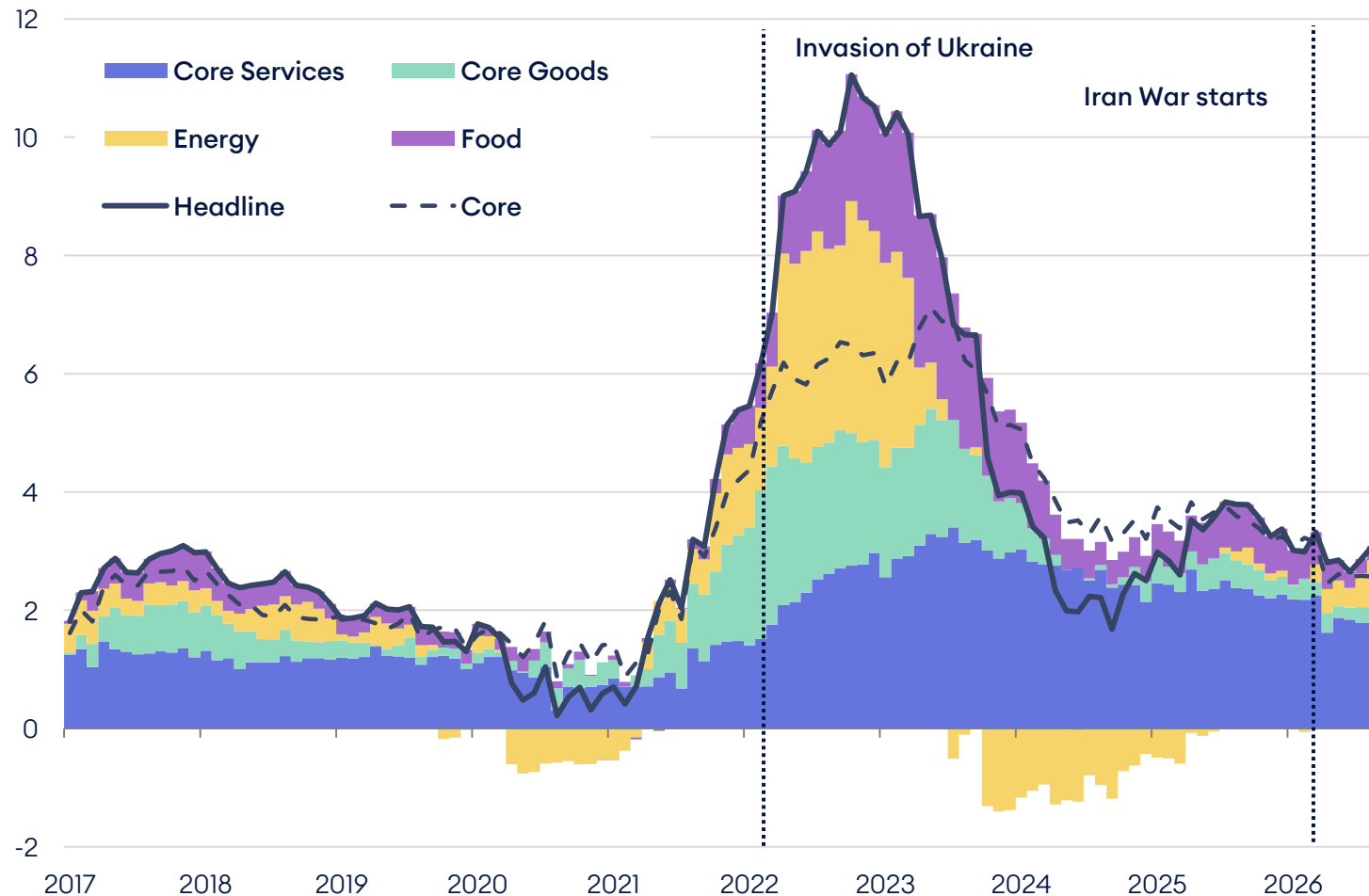
Source: LSEG, Rathbones; as at 15 September 2026.

- European gas prices have more than doubled, outpacing oil.
- Low storage and LNG disruption risk further gas price rises.
- US domestic gas supply and export limits cushion inflation pressures.

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So far, energy inflation has been offset by disinflation elsewhere in the UK

UK CPI inflation breakdown (pp / %)



- Higher gas prices are lifting UK inflation through household energy bills, with further pressure expected if energy prices stay elevated.
- A repeat of 2022 looks unlikely: inflation started much lower, while falling services inflation has offset rising energy costs so far.
- A looser labour market, slower wage growth and tighter monetary and fiscal policy reduce the risk of a sustained wage-price spiral.

The AI buildout is beginning to impact inflation, as higher component costs are passed on to consumers

Several firms have hiked prices for popular consumer electrical goods, at least partly because AI-related demand has pushed up component costs. In the US, we've seen the prices of the following products raised over the past year or so:

iPhone 17 (256GB): **+13%**

PlayStation 5 (1TB): **+18%**

iPad (128GB): **+28%**

Xbox Series S (512GB): **+25%**

MacBook Pro M5 (14"): **+18%**

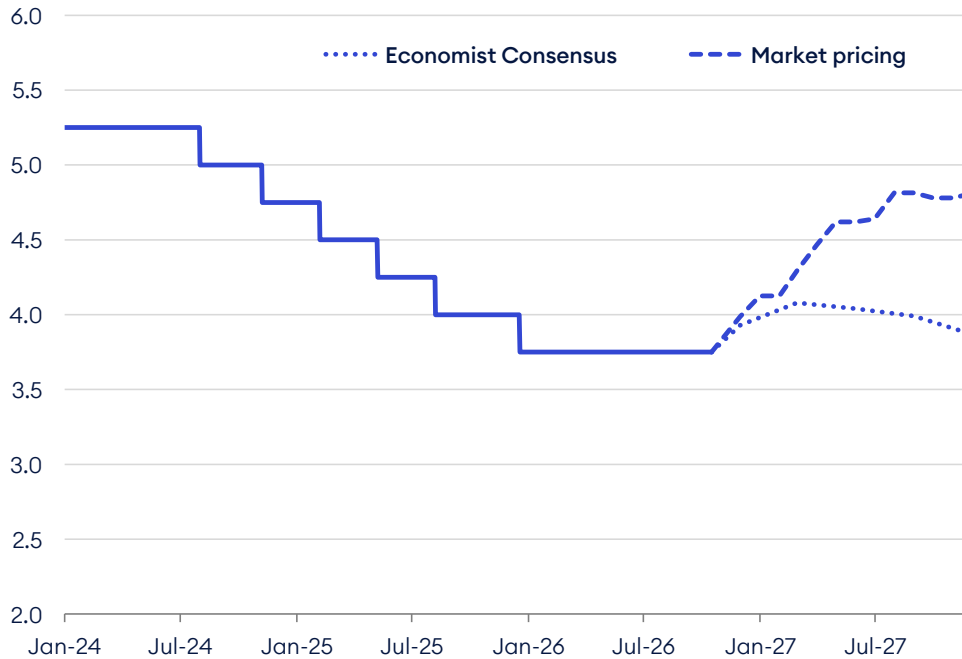
Amazon Echo Dot: **+60%**

Microsoft Surface Pro (13"): **+25%**

Amazon Kindle (16GB): **+36%**

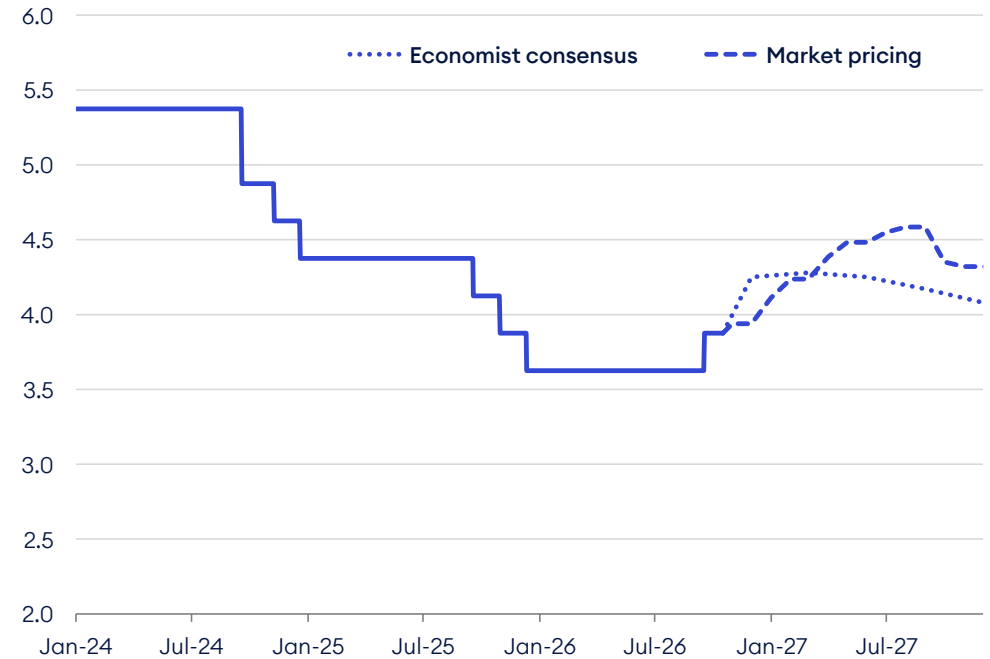
Market expectations for UK interest rates are much higher than the economist consensus

UK Bank Rate & market pricing (%)



Source: LSEG, Rathbones; as at 19 October 2026.

US Fed Funds target rate & market pricing (%)



Source: LSEG, Rathbones; as at 19 October 2026.

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Government bond yields have risen from historic lows; though are still well below 20th century highs

10-year government bond yields (%)



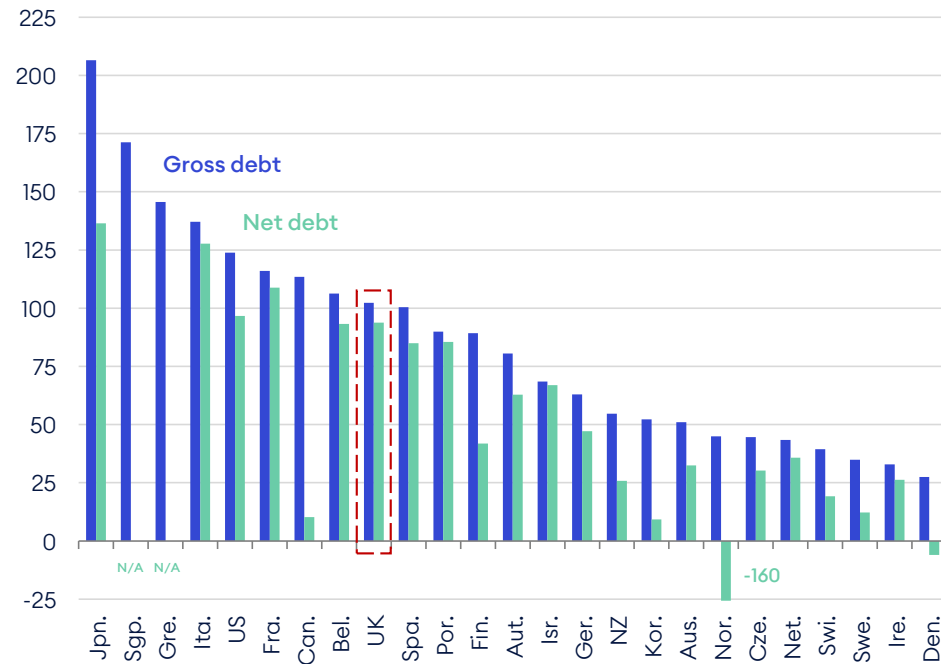
- Government bond yields are near decade-plus highs, driven by rising rate expectations, large fiscal deficits and geopolitical risks.
- The ultra-low-yield era is over, but yields remain below historical extremes and are not expected to rise indefinitely.
- We are adding modest duration while avoiding very long-dated bonds, seeking protection if the equity rally falters for reasons other than an energy shock.

Source: LSEG, Rathbones; as at 15 September 2026.

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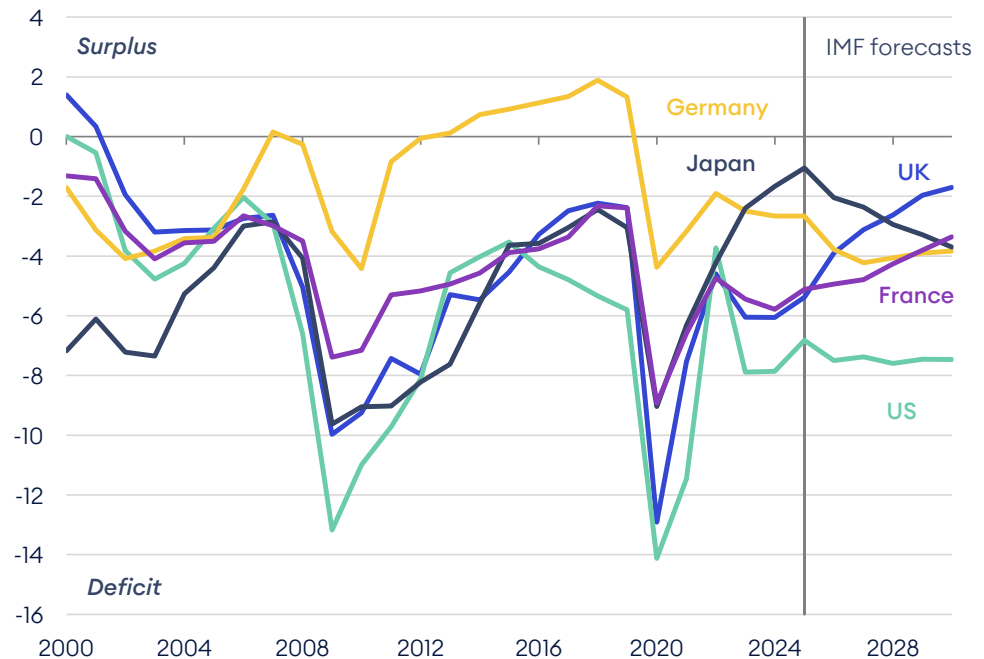
The UK isn't an outlier on public debt, and unlike many peers, at least has plans to reduce its deficit

General government debt (% of GDP, 2025)



Source: LSEG, Rathbones; as at 15 September 2026.

General government budget balances (% of GDP)



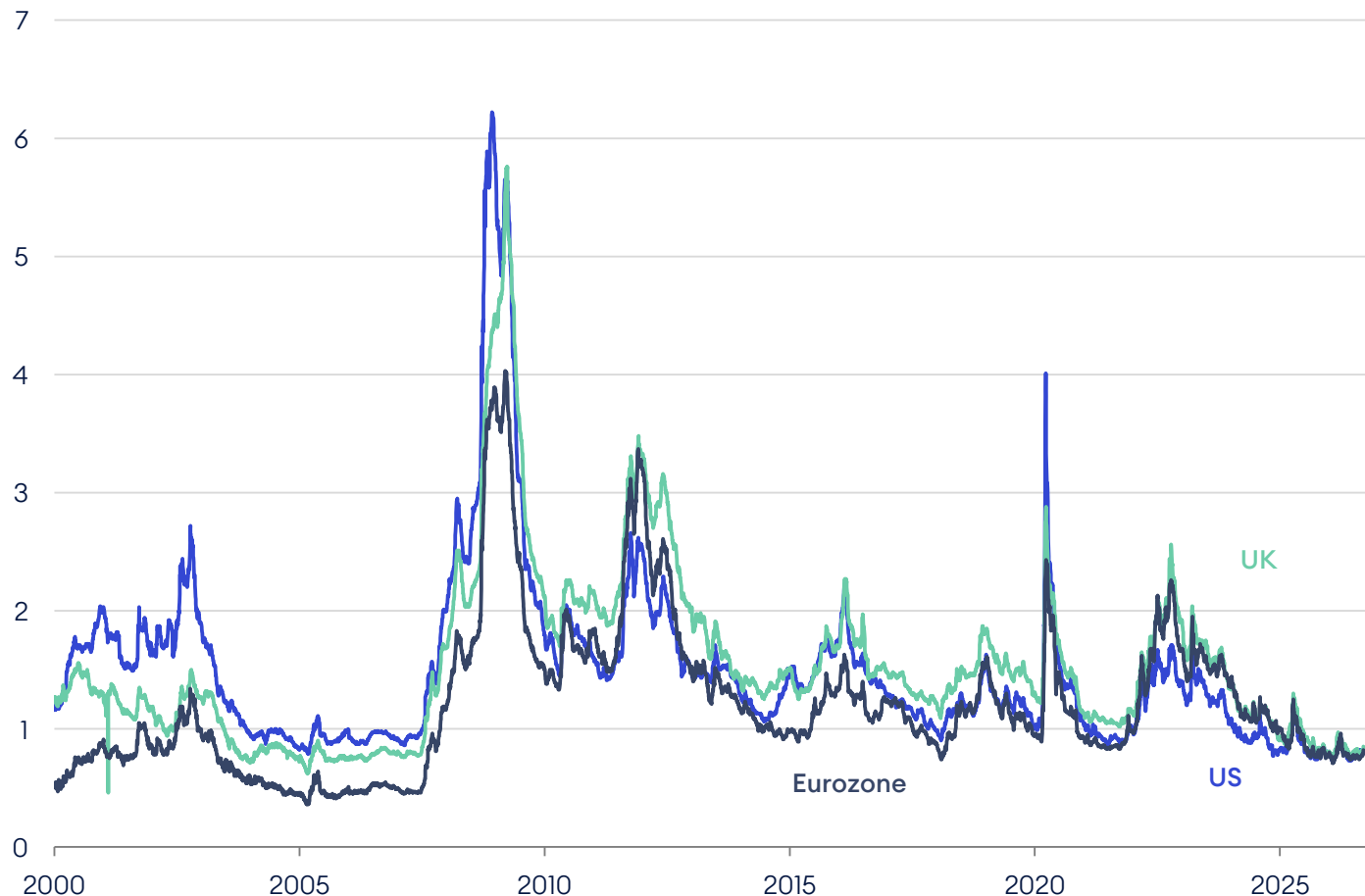
Source: LSEG, Rathbones; as at 15 September 2026.

- UK debt is high but comparable to peers, while rising yields increase borrowing costs.
- Unlike many peers, the UK plans to narrow its deficit, despite political uncertainty.
- Global fiscal pressures raise financial repression risks, potentially fuelling longer-term inflation.

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The additional yield on offer from corporate bonds over government bonds is low by historical standards

Spreads of investment grade corporate credit over government bonds* (pp)



- Investment-grade credit spreads are extremely tight, offering very limited reward for taking corporate credit risk.
- AI-related debt issuance has risen significantly and is expected to remain elevated.
- Corporate bonds look less attractive in this environment, so we're reducing exposure and focusing on higher-quality issuers.

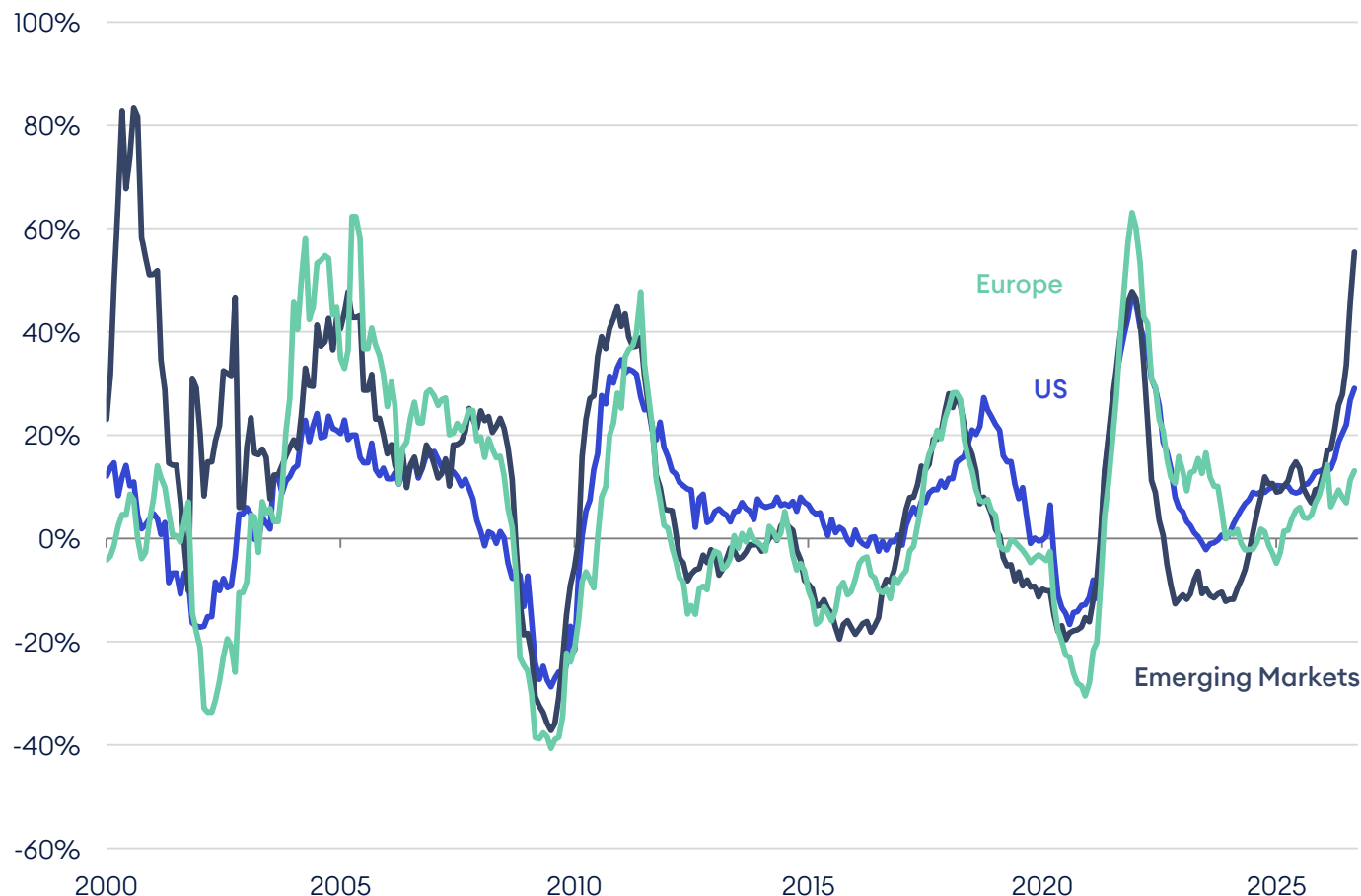
Source: LSEG, Rathbones; as at 15 September 2026; *option-adjusted spreads of ICE BofA indices.

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Earnings growth is accelerating, particularly in the US and emerging markets

Earnings growth by region (year-on-year % change)



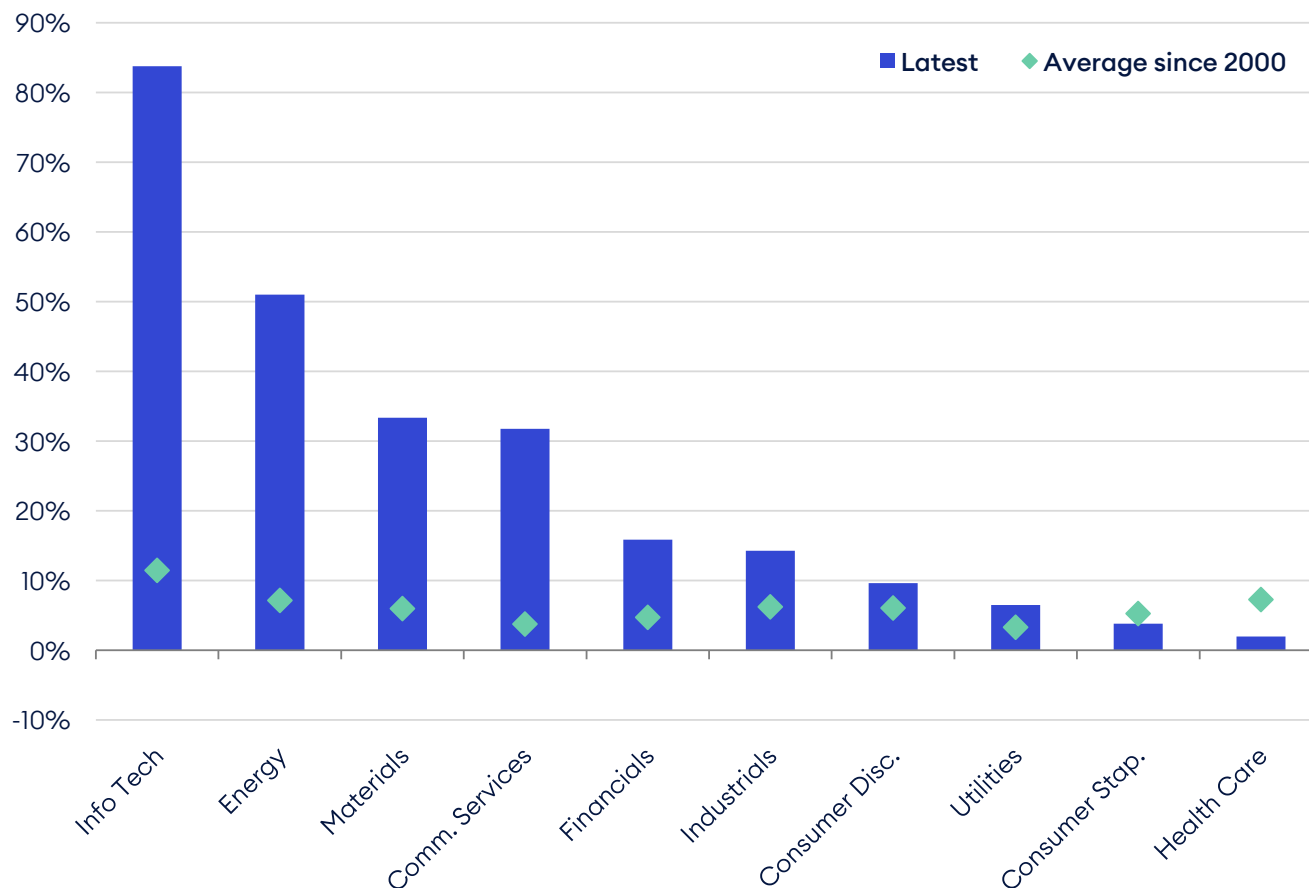
- Earnings growth is accelerating, particularly in the US and emerging markets where AI beneficiaries are concentrated, supporting equity gains despite lower valuations.

Source: LSEG, Rathbones; as at 15 September 2026.

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Earnings growth has also been broad by sector

Global earnings growth by sector (year-on-year % change)



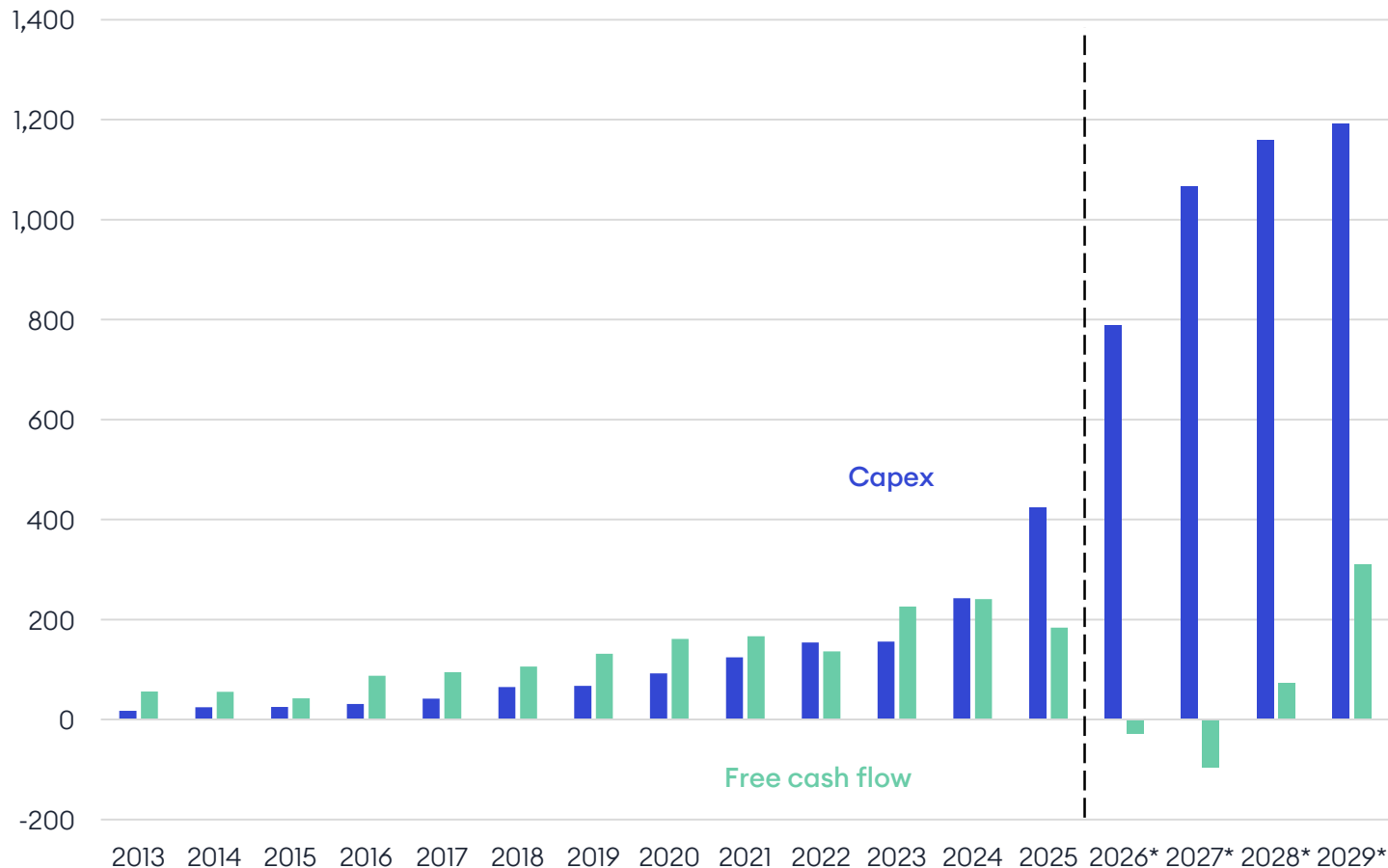
- Earnings growth extends beyond AI and tech, exceeding long-term norms in eight of ten sectors with sufficient history.

Source: LSEG, Rathbones; as at 15 September 2026.

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Annual AI-related capex is expected to top \$1tn soon, which will turn free cash flow negative

Capital expenditure and free cash flow for five US big tech firms** (\$bn)



- Big tech's annual capex is expected to exceed \$1tn in 2027, supporting strong growth across the AI supply chain.
- Spending is outpacing cash generation, with aggregate free cash flow forecast to turn negative in 2026 and 2027.
- Strong balance sheets and growing AI adoption support investment, but whether monetisation delivers sufficient returns remains key.

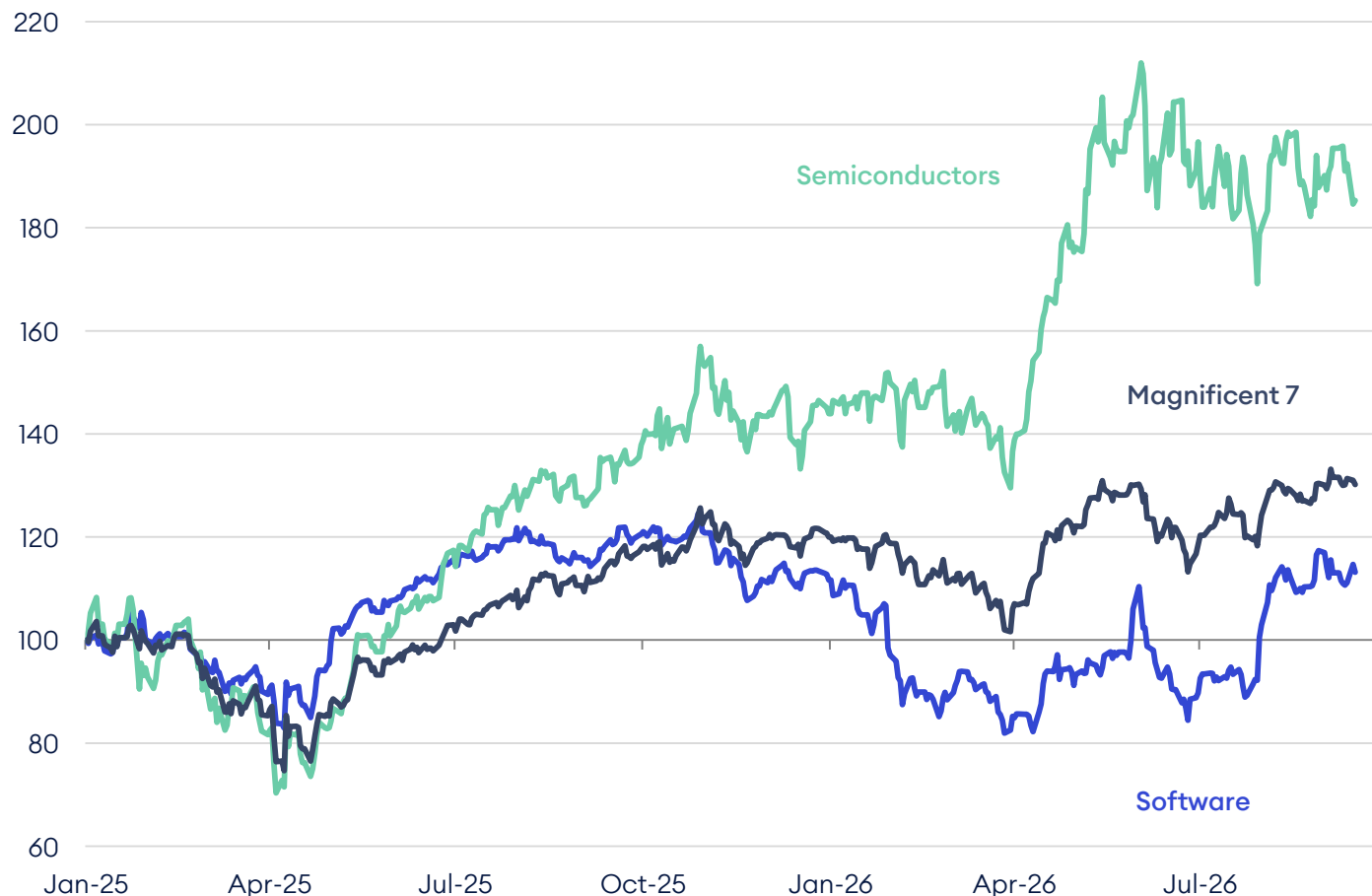
Source: LSEG, Rathbones; as at 15 September 2026; * consensus forecasts; ** Alphabet, Amazon, Meta, Microsoft, Oracle.

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Attempts by investors to distinguish AI winners from losers have driven a notable divergence in performance

S&P 500 sector and 'Magnificent 7' performance (total returns, 1 Jan. 2025 = 100)

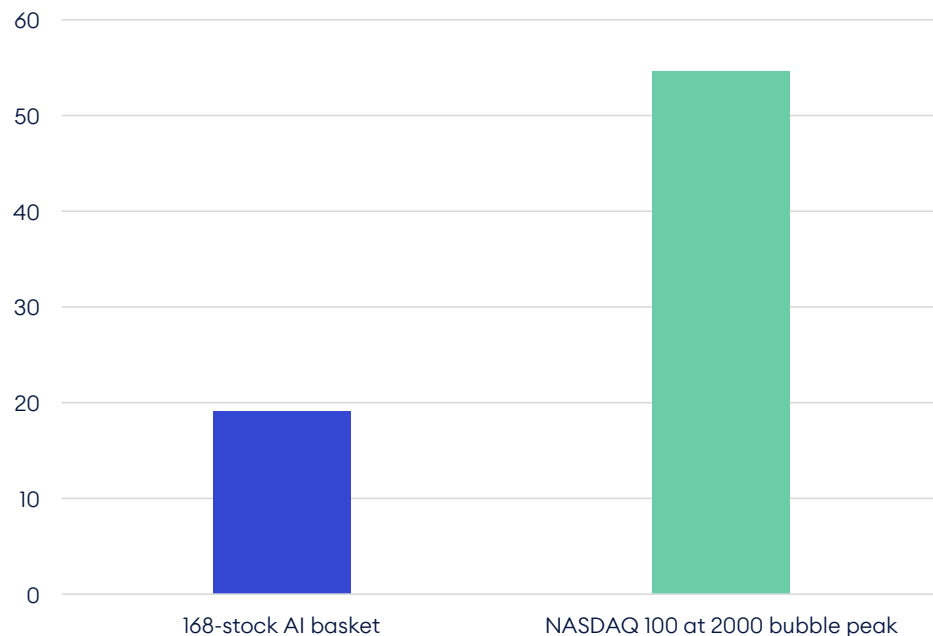


- Software's earlier sell-off may have created long-term opportunities, with the sector outperforming semiconductors over the past two months.
- Semiconductors previously outpaced the 'Magnificent 7' as investors favoured AI-spending beneficiaries; subsequent shifts highlight the value of diversified technology exposure.

Source: LSEG, Rathbones; as at 15 September 2026; 'Magnificent 7' includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla.
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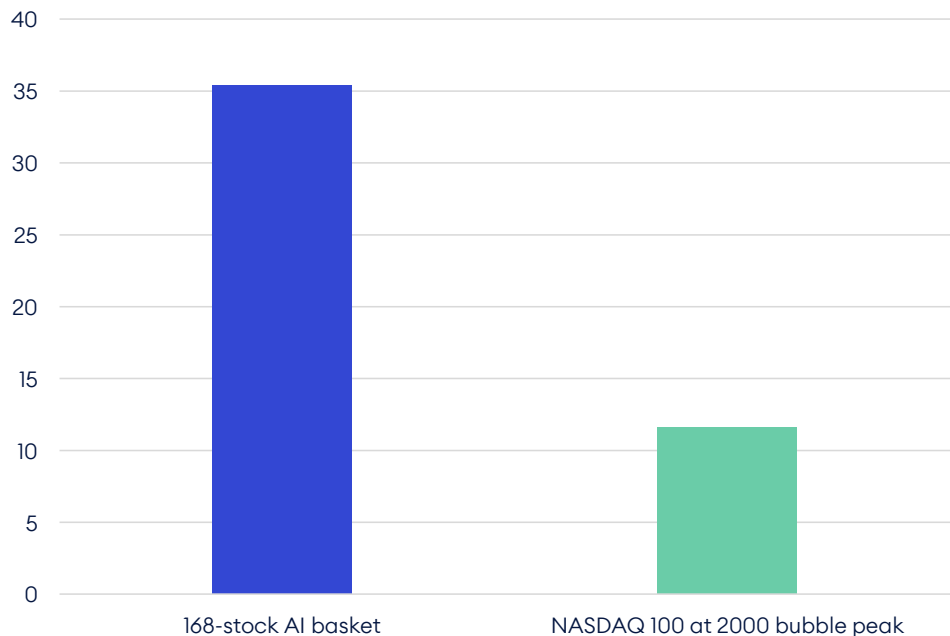
Valuations in our AI basket are lower than at the peak of the dotcom bubble; profitability is much higher

Price/forward earnings of global AI-stocks compared to Nasdaq 100 at 2000 bubble peak



Source: LSEG, Rathbones; as at 15 September 2026.

Net margin of global AI-stocks compared to Nasdaq 100 at 2000 bubble peak



Source: LSEG, Rathbones; as at 15 September 2026.

- AI-stock valuations are elevated but remain well below dotcom-era peaks.
- Our AI basket has stronger profitability, cash generation and balance sheets than tech firms in 2000, despite falling hyperscaler free cash flow.

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Equity valuations outside the US are more moderate, unlike in the dotcom period

Equity market 12-month forward price/earnings ratios by region



- US equity valuations remain well above their long-term averages.
- Japan, UK and emerging-market valuations are below their averages since 1990, while Europe is close to its average.
- Less stretched valuations outside the US reinforce the case for regional diversification.

Source: LSEG, Rathbones; as at 15 September 2026.

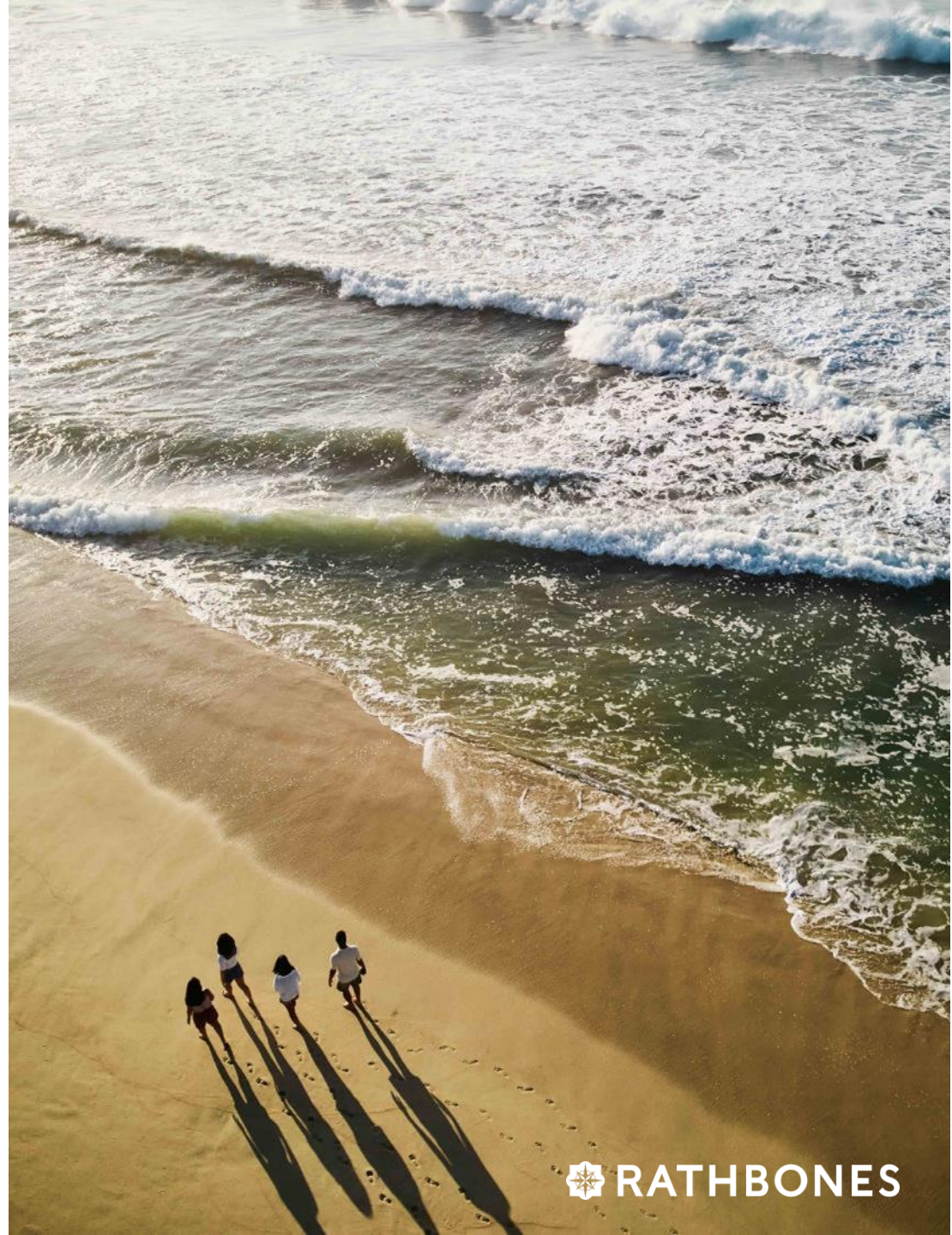
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Key Takeaways

- The global economy has faced a succession of shocks, including the pandemic, the war in Ukraine, and ever-changing US trade policy. Global equities have still provided solid returns overall.
- If anything, the 2010s were an anomalous period of stability. The 2020s are proving to be more like the 'old normal' of the half-century before that. But equities still generated positive returns over that period, too.
- So far, the economic activity appears to be proving resilient to the disruption caused by the Iran War. Several leading indicators are improving.
- Inflation is rising due to energy prices (and in some cases, AI), but the backdrop is very different to 2022. Inflation is unlikely to increase anywhere near as far as it did then and won't require the same policy response.
- Earnings growth is very strong, both across regions and sectors, buoyed by growing expectations for AI-related investment spending by big tech firms.
- Increasing debt issuance to fund AI investment and little additional yield are reasons why we are reducing corporate bond holdings in favour of equities.
- US equity valuations are high, but profitability is much better than in the late 1990s. Valuations are also lower elsewhere in the world, and broader conditions differ from those seen during major bubbles in the past. We remain alert to changes in these conditions.

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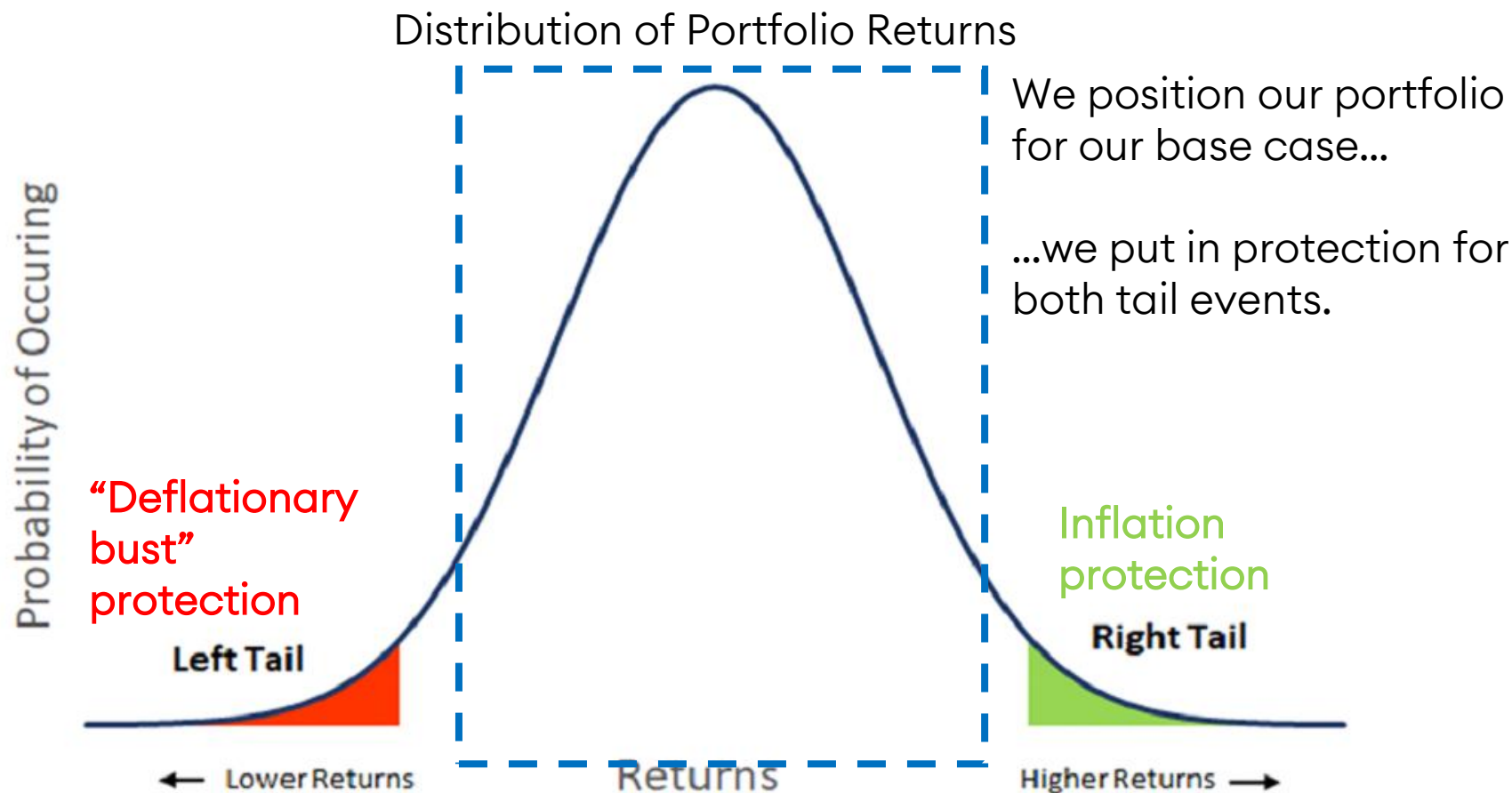




Tail Risks

Tail Risks

Positioning for tail risks





Decumulation

In decumulation, clients require cash withdrawals while the portfolio is exposed to market, inflation and longevity risk.

The Five Core Risks in Retirement

Retirement investors face five interrelated risks during decumulation

1. **Shortfall Risk** - the risk of not meeting the required income, or of the portfolio being depleted before the end of the plan.
2. **Longevity Risk** - the risk of outliving one's savings due to increasing life expectancy.
3. **Sequencing Risk** - the risk that the order of returns, especially poor returns early in retirement, damages sustainability.
4. **Inflation Risk** - the erosion of purchasing power over time.
5. **Investment Risk** - the uncertainty in returns, especially from higher-volatility growth assets.

These risks are not independent. Inflation feeds into shortfall risk; sequencing risk amplifies investment risk; and longevity risk multiplies the impact of all the others by extending the period over which they can bite. A robust decumulation solution must manage them as a system, not in isolation. Any retirement-income solution must balance the competing risks of sequencing, inflation, longevity, behavioural response and governance.

Our solution

Pot	Role	Instrument	Horizon
Pot 1	Immediate liquidity	Cash / money market	Year 1
Pot 2	Medium-term income	UK inflation-linked gilts	Years 2-5
Pot 3	Long-term growth	Diversified growth portfolio	Years 6+

Sequencing Risk

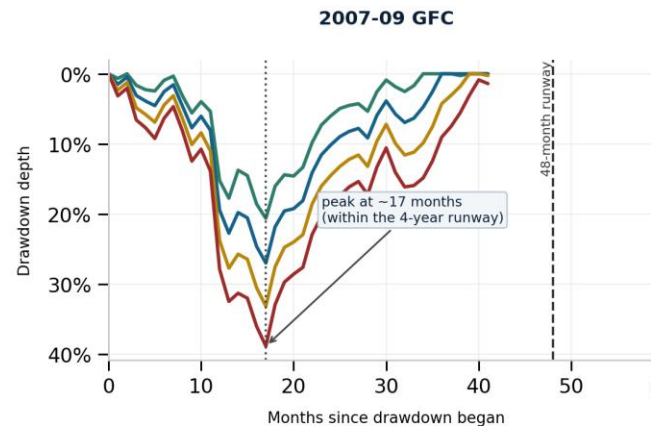
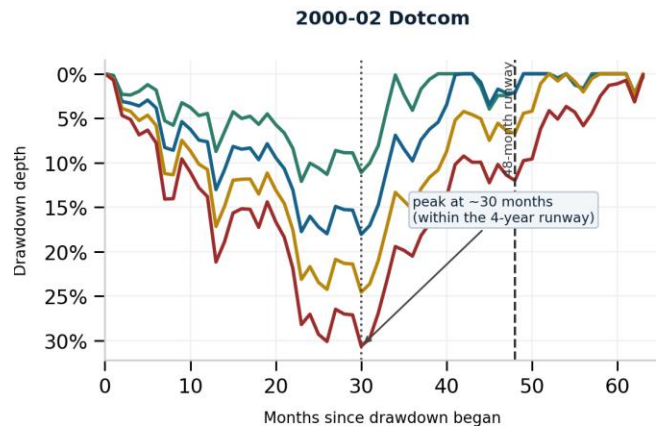
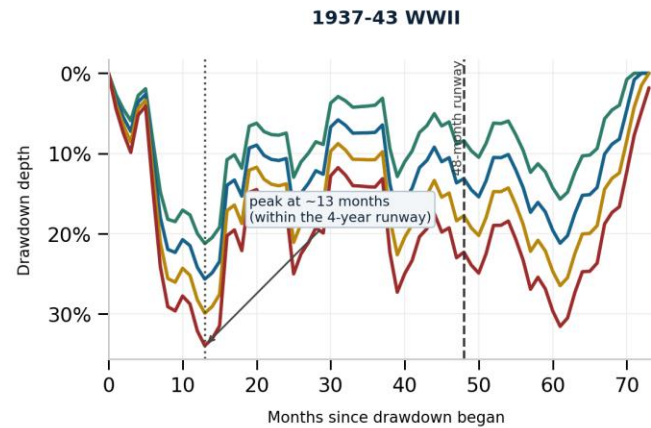
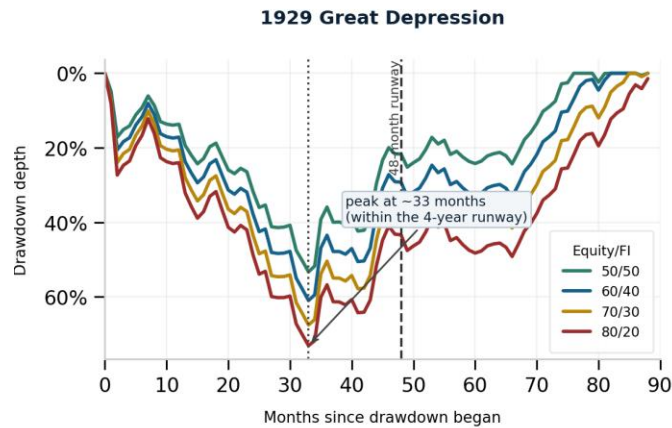
Sequence-of-returns risk: identical average return, different order



Sequence-of-returns risk. Both portfolios share the same returns and withdrawals; the one experiencing early losses depletes faster and never recovers the gap. (Illustrative example.)

The Four-Year Runway

The four largest US drawdowns: depth over time, and when the deepest point occurred



The four largest US drawdowns - depth over time and when the deepest point occurred, by allocation. In every case the peak (deepest) drawdown occurred within the 48-month runway (about 33 months in 1929, 13 in WWII, 30 in the Dotcom crash and 17 in the GFC), so the framework would have provided time for reassessment before any forced replenishment from Pot 3.

Additional information

Information valid at date of presentation.

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