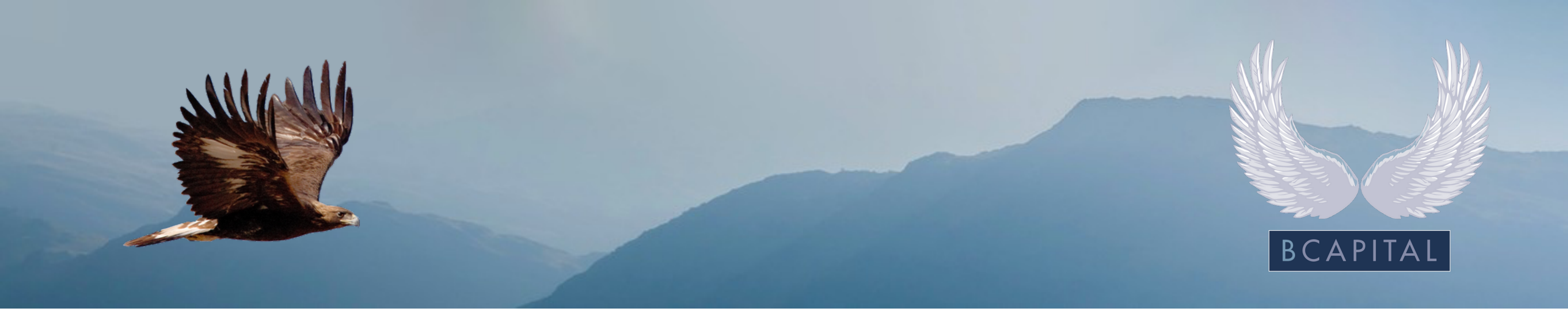

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B Capital Commentary and Outlook Update 3Q2026

Executive Summary

The first six months of 2026 were generous to those who owned one small corner of the market and merely civil to everybody else. American technology and the semiconductor complex of Asia carried off the honours, while the broader holdings which served these portfolios so well through 2024 and 2025 advanced at a more measured pace. Only precious metals moved against us, and for a reason which has rather more to do with the expected path of interest rates than with any weakening in the case for owning them.

We set out below what took place and, more to the purpose, why it has not moved us. It is in the nature of a portfolio built upon convictions that it will spend periods out of step with the market against which it is measured. The discipline lies in telling apart the moments when the world has changed from the moments when it has been slow to agree. We believe this to be the latter. The letter takes the form of the questions our clients have been putting to us, answered in the order they tend to arrive.

What sort of half year has it been?

Handsome in the aggregate and narrow in its composition. The S&P 500 rose 9.6%, the Nasdaq 100 rose 20% and the FTSE Emerging index, which is the measure we follow, rose some 12%. There is little to complain of in that.

Three of our positions kept us from the front of the field, and each was chosen with open eyes. We rolled the Nasdaq holding into the S&P 500 in order to place collars around it, which reduced our weight in the very part of the market which went on to lead. Our Chinese holdings have yet to join the wider emerging market advance. And precious metals, the engine of the previous two years, surrendered part of an exceptional run. We take them in turn, and we take them in full, since a letter which rehearsed only the decisions that worked would scarcely be worth the postage.

Precious metals were the one area to fall. What happened there?

Gold reached $5,589 the ounce on 28 January and silver $121.62, both records, and both arriving on the heels of a year in which gold rose more than 60%. Gold now trades near $4,100 and silver near $59. Measured from the levels at which these holdings were assembled they remain a long way ahead. Measured from January they have handed back a good deal, and there is no dressing that up.

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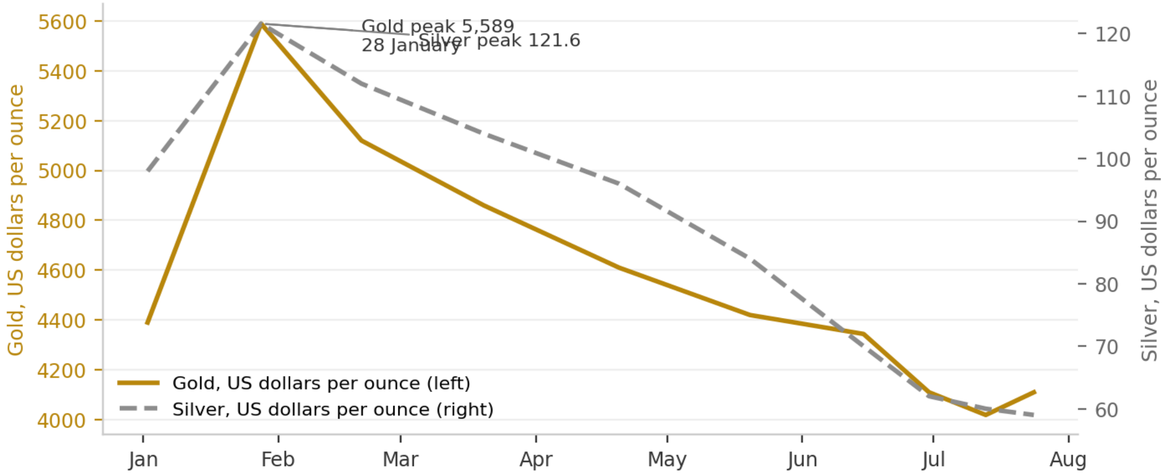
Figure 2 A pause after an exceptional two years



Source: LBMA, Bloomberg. Indicative path from published spot levels. Gold peaked at 5,589 on 28 January and silver at 121.62 in January.

The explanation is a single one, and it concerns the price of money rather than the merits of the metal. As the war has dragged on, the market has settled upon the view that rates will remain higher for longer. Oil above $90 keeps headline inflation aloft; inflation of that kind keeps the Federal Reserve at restrictive settings under a chairman who has shown little appetite for easing; and a rising path for real yields is the one climate in which gold struggles to breathe. Nothing has been repriced except the expectation of rates.

We regard that as an argument for patience rather than for surrender. It has been observed by others that gold requires the war to end rather than to widen, which is a neat way of noticing that our holding and the geopolitics await the same event. When the expectation of rates turns, and it will turn upon the oil price, this is the corner of the portfolio which feels it first and feels it most.

The mining shares, carrying as they do the operating leverage of the metal, have travelled further in both directions. The wider metals and mining holdings have kept their footing rather better, resting as they do upon industrial demand rather than upon the level of real yields.

You gave up the Nasdaq holding for a collared S&P 500 and technology has led. What did that cost?

A portion of the upside, and it is right to put a figure upon it. The Nasdaq 100 rose 20% over the half against 9.6% for the S&P 500. The holding made money. It made less money than it would have made had we left it undisturbed.

What we purchased in exchange was protection, and protection has the awkward habit of being invisible on every day but the one it is needed. The S&P 500 fell some 9% at one point in the first half and the structure earned its keep then. The decision was taken in the closing weeks of 2025, when the index stood near 24 times forward earnings and the risk which occupied us was a stumble among the largest technology names. That risk did arrive, though it arrived within the index rather than to the index. The giants lagged, the equal weighted version outpaced the capitalisation weighted version, and value and the smaller companies recovered their voice. The diagnosis was sound. The prescription was blunter than we should have wished.

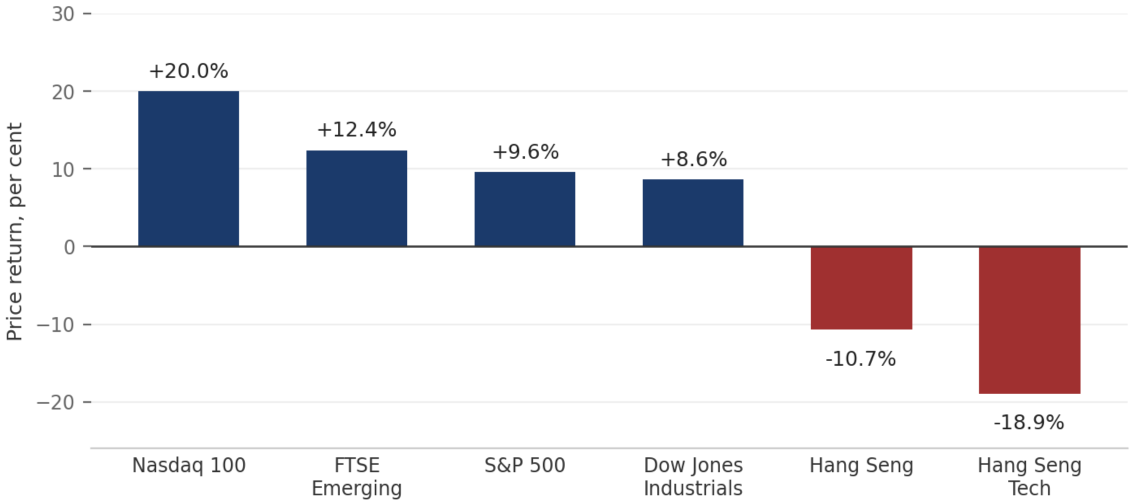
Presented with the same information we would prescribe the same again. Insurance bought in fair weather looks dear in a year without a storm. The structures run to January 2027 and we shall consider then whether to renew them, at what strike and over what proportion of the holding. In the Global Tech Leaders portfolios the sixteen positions are held direct and the collars sit at the level of the individual names, so the semiconductor and hardware companies which led the half were owned throughout.

continued

Emerging markets and China were meant to lead. Did they?

Emerging markets did, although our own measure of them tells a quieter tale than the headlines. The FTSE Emerging index, which places South Korea among the developed markets and so excludes it, rose some 12% over the half. The MSCI equivalent, which counts Korea a member, rose 24%. The difference is in large part Korea itself, a market which came close to doubling upon the memory cycle. Within our index the work was done by Taiwan and the semiconductor complex, and it was China which held the number down.

Figure 1 A half of narrow leadership



Source: FTSE Russell, Nasdaq, S&P Dow Jones Indices, HSI. Returns, 31 December 2025 to 30 June 2026. FTSE Emerging excludes South Korea.

China, then, has yet to join. The platform companies which led the advance of 2025 have stood aside while capital migrated towards the hardware end of the artificial intelligence chain, and there is a fear abroad that agent based software will hollow out the value of established platforms. The same fear has been at work in America, where several large software names fell in a rising market.

We own Alibaba, Tencent and Xiaomi within the Global Tech Leaders strategy at multiples which ask very little of the future, and we have neither added nor sold. Our view of the Chinese economy is unchanged. The authorities possess the fiscal and monetary room to reach 5% growth this year and have shown every willingness to use it as exports have come under pressure. A market on these valuations, with that growth behind it, requires no more than a modest change of heart to move. Being early is indistinguishable from being wrong until the moment it ceases to be either.

The Iran conflict has not passed. Where does that leave oil and inflation?

Our view has been that the conflict passes, that oil settles near $75 and that a fall in headline inflation follows in the fourth quarter and lends its support to growth. The view has been early. The memorandum of understanding of 18 June had every appearance of the resolution, tanker traffic resumed and Brent fell below $70 on 1 July. On 14 July the United States reimposed its blockade and levied a charge upon cargo passing through the strait; strikes resumed on both sides; the Houthis carried their attacks into the Red Sea; and on 22 July Brent settled above $100 for the first time since May.

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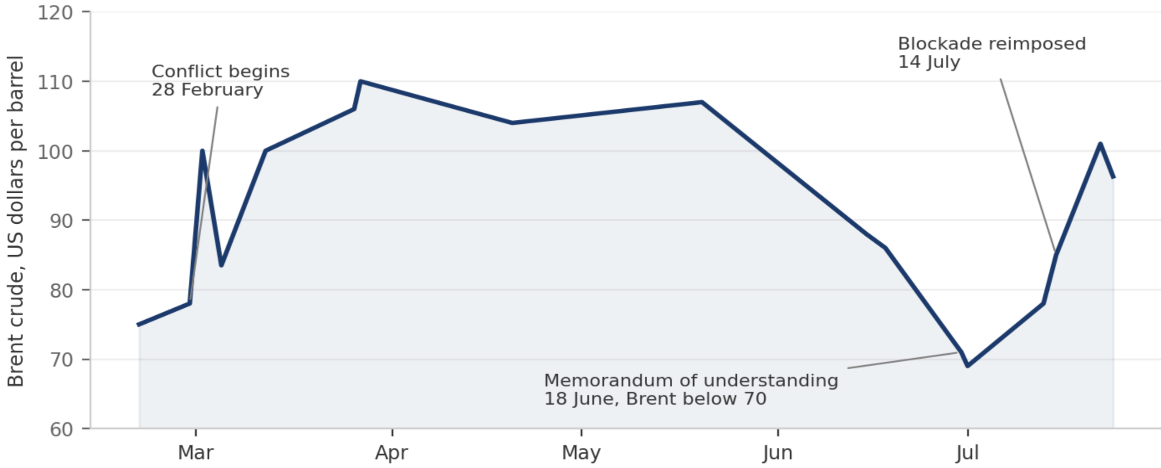
Figure 3 Brent has tracked the diplomacy



Source: ICE, US Energy Information Administration, Reuters. Indicative path from published settlement levels.

We hold to the view, and we hold to it with more conviction than in the spring, for reasons which owe little to diplomacy.

Congress is elected in November. The President's approval rating sits in the middle thirties, near the lowest of his career; approval of his handling of the cost of living stands close to a quarter; petrol has passed $4 the gallon; and registered voters now favour the opposition on the generic ballot and, for the first time since 2010, trust it above the governing party on the economy. Senior Republicans have begun to say in public what they had been saying in private, the Senate majority leader among them, who describes the reopening of the strait as the consideration which matters above all others. Beijing, whose refiners are among the most inconvenienced, has begun to press for talks to resume.

An administration in that position has every reason to convert an unpopular and expensive foreign entanglement into a settlement it may present as a victory, and to do so with time enough for the price at the pump to fall before voters reach the ballot. It would not be unreasonable to suggest that the resolution which failed in June has grown more probable as the autumn approaches, not because the diplomacy has improved but because the cost of its absence has risen. A president in want of a popular result has a habit of finding one, and the popular result within this one's reach is the ending of a war his own voters never sought.

Should it arrive, the sequence which follows is close to mechanical. Oil settles back towards $75. Headline inflation falls with it, and falls at speed, since the energy contribution drops out of the annual comparison. The Federal Reserve recovers the room to cut. The dollar softens. Global growth, which has taken a knock rather than a wound, resumes into 2027 and carries commodity demand along with it. And the assets which have waited longest this year are the very assets built for that sequence: gold, silver, the miners, the industrial metals and, at a remove, China.

One caveat upon timing is owed. A settlement struck in September leaves a full quarter for the energy contribution to work its way out of the annual comparison, which is sufficient for the fourth quarter relief described above. Should it slip beyond October the arithmetic is unaltered but the benefit arrives in 2027 rather than in the closing months of this year. That would postpone the sequence. It would not undo it.

There, in a paragraph, is the whole of our positioning, and there is the reason we have not moved.

continued

Is the American economy still sound, and are shares too dear?

Sounder than the political weather would suggest, and the evidence lies in company earnings rather than in sentiment. Second quarter earnings for the S&P 500 have grown at better than 20%; consensus looks for some 24% across this year and a further 17% next; and margins have widened across most sectors in spite of the cost of energy. The index stands near 20 times forward earnings against a ten year average of 19 times. Set beside that rate of growth in earnings it is not a demanding multiple, and it is a good deal less demanding than the 24 times at which the index stood when the collars were put in place. The risk in American equities is not the price of the market but the concentration within it, and the first half made our argument for us, since the giants lagged while the average company fared better. We have met that concentration with the collars and with the equal weighting of the Global Tech Leaders strategy. We remain constructive upon American shares, and we expect the fourth quarter, with a lower oil price feeding through to inflation and to rates, to prove the better half of the two.

Does the argument on artificial intelligence still hold?

It does, and the first half has strengthened rather than shaken it. Artificial intelligence will not bear the comparisons so often made with the railways, the canals or the internet mania of the late 1990s. Those episodes laid down capacity in a single industry and waited for the demand to appear. This one is altering the cost base of every industry at once, and the spending behind it is drawn from the cash flow of profitable companies rather than from debt raised against a prospectus.
The proof of the half was its breadth. The best performing sector index in the world was emerging market technology, ahead by more than 90%, driven by the semiconductor and memory cycle rather than by the American platforms. The Korean and Japanese markets rose upon the same tide. Capital has moved from the software layer towards the hardware layer, which is a rotation within the theme and not a judgement against it. The Global Tech Leaders strategy owns both ends of that chain by design, which is why it is constructed as sixteen equal positions rather than as a wager upon the largest five.

The honest risk is that the capital expenditure of the largest companies outruns the revenue it is meant to produce, and that the market loses patience before the returns arrive. We should treat that as an interruption rather than as the close of the argument.

And if the timing runs against you?

The conflict may outlast the vote. In that event the fourth quarter relief becomes a 2027 affair and the metals wait longer for their moment, since it is the path of real yields which detains them and that path turns upon the oil price rather than upon the fighting.

The settlement may come and the Federal Reserve may hold its line for reasons of its own. The chairman's record suggests a man who would rather be late to cut than early.

China may remain out of fashion for another year. Cheap assets can stay cheap for a good while, and no rule obliges a discount to close upon a timetable which suits us.

Set against these, the American equity exposure is collared into January, the fixed income allocation carries a yield which did not exist three years ago, the emerging market holdings have been earning their place, and the portfolios hold cash. What we shall not do is sell the laggards at the bottom of their range in order to buy what has already run. Parting with patience at the wrong moment is the error from which portfolios take longest to recover, and it is the one error we are determined to avoid.

A word on what we expect from here

The half year asked for patience rather than for action, which is seldom the more comfortable of the two. These portfolios are arranged for falling real rates, a softer dollar, a broadening of returns beyond a narrow band of American technology, and a recovery in those assets which a settlement in the Gulf would release. The broadening has begun and the emerging market holdings have already earned their keep. What remains waits upon a single event, and that event now has a date beside it.

The reasoning is unchanged and so is the architecture beneath it: deficits which are not being addressed, central banks which will ease at the first permission they are granted, a mining industry which has underinvested for a decade, commodity demand which recovers as growth recovers, and Asian technology franchises priced at a fraction of their Western counterparts. What altered this year was the order of events rather than the destination.

One should consider that the passages which matter most in an investment career are seldom the comfortable ones, and that the discipline being asked of us now is the discipline which was rewarded before. We expect the months to the year end, and the year which follows, to suit these portfolios a great deal better than the six months behind us, and we look forward to writing to you then in happier circumstances.

I remain available for conversations around any part of the strategic asset allocation plan, as ever.

Yours sincerely,

Lorne Baring
Managing Director