Market Review

Quarterly Report

Q1 2026

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Contacts

Steve Tyson

Senior Adviser
steve.tyson@apexgroup.com

Executive Summary

- Dorset returned +0.5% versus the benchmark return of +1.2% during the first quarter, in what proved to be a highly volatile period marked by shifts in market regime driven by the Iran conflict and disruption to global energy supplies. Over one year, Dorset returned +12.0% compared with +15.0% for the benchmark. Nevertheless, an absolute return of 12% during the first fiscal year of the triennial valuation period remains a strong outcome and should not be assumed to continue at the same pace. I remain cautious regarding future market returns and the potential for a broader market correction, although there has been little evidence of this materialising in the second quarter to date.

- Although Dorset underperformed its benchmark in Q1, early indications from PIRC, which measures performance across the LGPS industry, suggest that Dorset performed better than the average LGPS fund. Within the portfolio there were notable contrasts in performance. For example, Global High Alpha and Global Sustainable returned -5.0% and -2.8% respectively, while Low Volatility and Smart Beta delivered +2.6% and +4.3%. As all of these mandates are benchmarked against global equity indices, this represents a wide dispersion of outcomes within a single quarter. Importantly, Dorset maintains meaningful allocations to Low Volatility and Smart Beta strategies, unlike many peers, and this supported overall relative performance.

- Leadership within global equity markets continues to shift rapidly. Dorset benefited in Q1 from a temporary moderation in the AI-driven market rally; however, those stocks have rebounded strongly and reached new highs during Q2. There is increasing debate as to whether elements of the market are exhibiting bubble-like characteristics. That said, many AI-related companies continue to deliver exceptionally strong earnings and underlying fundamentals. Nonetheless, I believe there are significant risks ahead for certain market participants.

- The conflict involving Iran has disrupted traffic through the Strait of Hormuz, a critical artery for global energy supplies. This is likely to feed through into higher global inflation, although the duration and magnitude of the impact remain uncertain and will depend largely on the length and severity of the conflict. The consequences are also being felt in monetary policy expectations. Central banks had previously been expected to continue reducing interest rates; however, policy easing is now likely to remain on hold until inflationary pressures become clearer.

- The first quarter also marks the conclusion of Dorset's pooling arrangements with Brunel Pension Partnership, as Dorset has now entered into a new and important relationship with LPPI. A number of the underlying Brunel portfolios experienced performance challenges over recent years. In my view, Brunel placed too great an emphasis on Responsible Investing considerations at the expense of maximising investment returns and reducing contribution pressures for Dorset employers. That said, it is important to acknowledge the exceptionally difficult market backdrop in which Brunel operated, encompassing the Covid period, the Ukraine conflict, the Iran conflict, and the rapid emergence of the AI-led market cycle.

- The future relationship with LPPI is an exciting development. LPPI has a strong long-term track record and an experienced investment team with significant continuity. However, LPPI will face many of the same challenges encountered by Brunel, particularly given the difficult market environment and the increasing complexity of managing relationships across an expanded shareholder and client base, which has grown from three to nine participating funds. The substantive investment work now begins.

- There are several important milestones over the next year, including mapping Dorset's asset allocation to the Fit for the Future (FftF) asset classes, agreeing investment objectives, priorities, and preferences within the LPPI framework, and participating in the development of LPPI's future product range. Some of these decisions are likely to influence investment outcomes for many years. I hope LPPI will demonstrate strong investment leadership throughout this process.

- In terms of asset allocation strategy, the Committee agreed during the previous quarter to reduce equity exposure and increase allocations to UK gilts. These changes were implemented in April. The gilt market is currently under pressure due to ongoing uncertainty surrounding UK political leadership and fiscal direction. Gilt yields are now materially higher and represent significantly better value than has been available for several years. However, the UK continues to face substantial economic challenges, and both the political outlook and the resolution of current energy supply constraints will determine whether yields are approaching their peak.

Steve Tyson

General Market Commentary on Q4

- Global markets experienced a decisive shift in regime at the start of 2026, driven by the escalation of geopolitical tensions between the US (under President Donald Trump) and Iran, and the resulting disruption to energy flows through the Strait of Hormuz. As a key artery for global energy supply, the shock triggered a rapid and broad-based repricing across inflation expectations, monetary policy expectations, and global risk premia. Equity, fixed income and credit markets all softened during the quarter, as, markets rapidly reassessed the outlook for monetary policy, shifting away from expectations of near-term rate cuts toward a more prolonged "higher-for-longer" interest rate environment. Central banks responded by maintaining policy rates and emphasising data dependence, reflecting increased uncertainty around second-round inflation effects and the balance between inflation and growth risks.
- Energy markets were at the centre of this adjustment, with Brent crude rising approximately +94.9% over the quarter, from $61/bbl to $118/bbl. This move represented not only a supply shock but also the reintroduction of a meaningful geopolitical risk premium into commodity markets. The magnitude and speed of the increase materially altered inflation expectations, reversing the prevailing narrative of steady disinflation and reintroducing upside risks to headline inflation across major economies.
- The US remained at the centre of market volatility and repricing. Equity markets declined, with the S&P 500 falling by -4.3%, as higher energy costs, rising bond yields, and increased macro uncertainty

weighed on valuations. Importantly, the quarter exposed the sensitivity of US equities—particularly growth and technology sectors to changes in discount rates and inflation expectations. This resulted in a pronounced rotation away from long-duration growth assets toward value-oriented and cash-generative sectors. Energy equities were the standout performers, with the S&P 500 Energy sector rising over +37%, benefiting directly from higher oil prices and improved earnings expectations. In contrast, rate-sensitive sectors such as technology underperformed, with the NASDAQ-100 Technology declining -6.1%, highlighting the divergence in performance driven by macro conditions rather than broad-based earnings deterioration. Tariffs also hit the headlines again as the US Supreme Court struck down the US administration's use of emergency powers to impose tariffs.

- Across asset classes, performance was highly divergent and underscored the changing nature of diversification in an inflation-driven environment. Commodities (+35.9%) were the dominant outperformer, reflecting both direct exposure to the supply shock and their role as an effective hedge against rising inflation expectations. Real assets more broadly also performed well, with listed infrastructure (+7.6%) delivering positive returns supported by inflation-linked cash flows. In contrast, global equities declined, with the MSCI World Index down -3.6%, while fixed income markets also came under pressure as sovereign yields rose across major regions. This challenged the traditional diversification benefits of duration, as correlations between equities and bonds became less favourable during the quarter. Credit markets were more resilient but still reflected a repricing of macro risk rather than a deterioration in underlying fundamentals.
- Business sentiment softened but remained marginally expansionary, with PMIs across major economies hovering around the 50 level. While this indicates slowing momentum, it suggests the transmission of the energy shock into real economic activity remains in its early stages. Labour markets also remained relatively resilient, supporting near-term growth despite rising uncertainty.
- Overall, Q1 2026 marked a transition to a more complex and inflation-sensitive macro regime, characterised by heightened geopolitical risk, supply-side shocks, and increased dispersion across asset classes. In this environment, performance was increasingly driven by inflation sensitivity, sector positioning, and exposure to real assets, rather than broad market beta and correlations between equities and bonds turned less favourable, reducing the effectiveness of traditional diversification.

Key Indicators at a Glance

Index (Local Currency)		Q1	2026
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	3.42%	3.42%
UK All-Cap Equities	FTSE All-Share	2.41%	2.41%
US Equities	S&P 500	-4.33%	-4.33%
European Equities	EURO STOXX 50 Price EUR	-3.58%	-3.58%
Japanese Equities	Nikkei 225	2.18%	2.18%
EM Equities	MSCI Emerging Markets	-0.17%	-0.17%
Global Equities	MSCI World	-3.57%	-3.57%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-1.85%	-1.85%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	-4.07%	-4.07%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	1.26%	1.26%
UK Index-Linked Gilts Over 15 Y	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-0.32%	-0.32%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-0.64%	-0.64%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	-0.04%	-0.04%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	-2.27%	-2.27%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	-1.26%	-1.26%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	-1.89%	-1.89%
European Corporate Investmen	Bloomberg Pan-European Aggregate Corporate TR Unhedged	-1.10%	-1.10%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	-1.50%	-1.50%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	-0.54%	-0.54%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	-0.50%	-0.50%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-0.20%	-0.20%
GBP/USD	GBPUSD Exchange Rate	-1.84%	-1.84%
EUR/USD	EURUSD Exchange Rate	-1.64%	-1.64%
USD/JPY	USDJPY Exchange Rate	1.28%	1.28%
Dollar Index	Dollar Index Spot	1.67%	1.67%
USD/CNY	USDCNY Exchange Rate	-1.35%	-1.35%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	7.61%	7.61%
Private Equity	S&P Listed Private Equity Index	-17.48%	-17.48%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	0.94%	0.94%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	2.87%	2.87%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	68.90%	68.90%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	94.49%	94.49%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-21.76%	-21.76%
Gold	Generic 1st Gold, USD/toz	7.06%	7.06%
Copper	Generic 1st Copper, USD/lb	-1.20%	-1.20%
Gold	Spot gold price quoted in USD per troy ounce	8.07%	8.07%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	35.85%	35.85%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	3.40%	3.40%
Arabica Coffee	Front-month ICE Coffee “C” Arabica futures contract	-14.45%	-14.45%
Sector Indices			
S&P500 Consumer Discretionar	S&P 500 Consumer Discretionary sector	-9.34%	-9.34%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	7.01%	7.01%
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	-6.12%	-6.12%
S&P 500 Health Care	S&P 500 Health Care sector	-5.29%	-5.29%
S&P 500 Financials	S&P 500 Financials sector	-9.80%	-9.80%
S&P 500 Energy	S&P 500 Energy sector	37.24%	37.24%
S&P 500 Industrials	S&P 500 Industrials sector	4.30%	4.30%
S&P 500 Utilities	S&P 500 Utilities sector	7.52%	7.52%
S&P 500 Communication Servic	S&P 500 Communication Services sector	-7.10%	-7.10%
S&P 500 Real Estate	S&P 500 Real Estate sector	1.94%	1.94%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested

Charts and Data

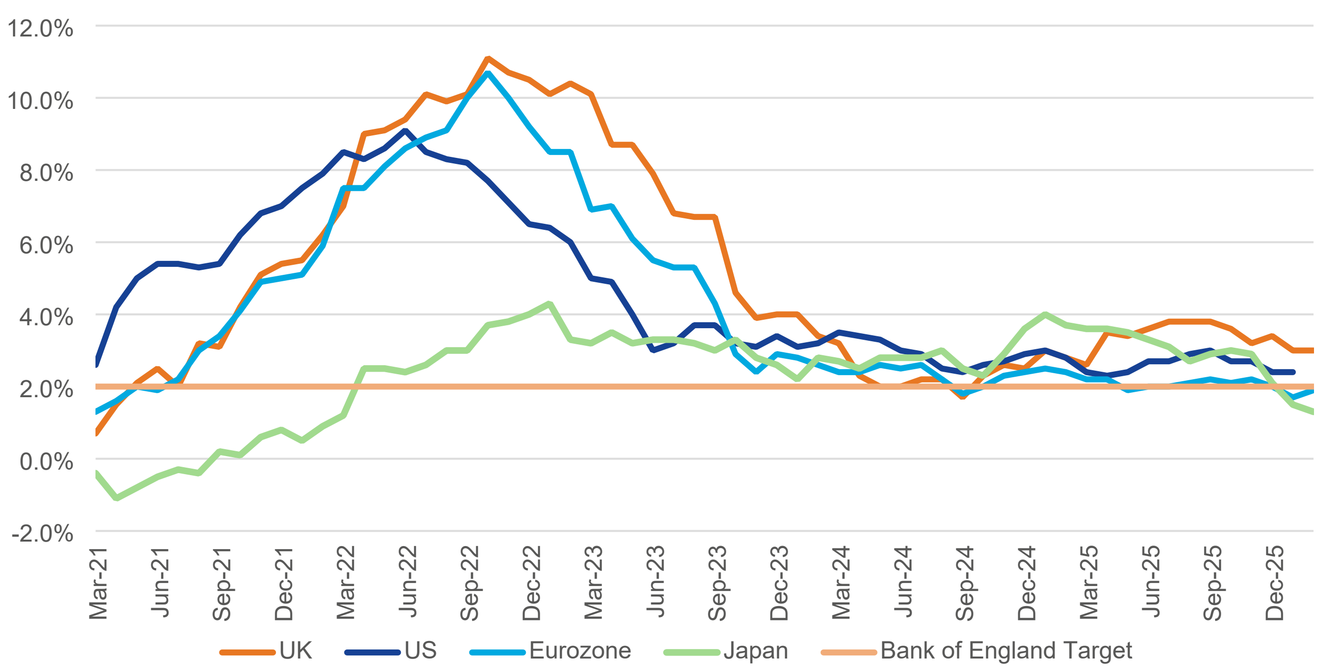
Economic Indicators

Table 1: Quarterly Real GDP Growth and Monthly CPI

%	GDP		CPI		
	Q4 2025	Q1 2026	Jan	Feb	Mar
UK	0.1	-	3.0	3.0	-
US	0.2	-	2.4	0	-
Eurozone	0.2	-	1.7	1.9	-
Japan	0.3	-	1.5	1.3	-

Source: Bloomberg; Trading Economics.
CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)
GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

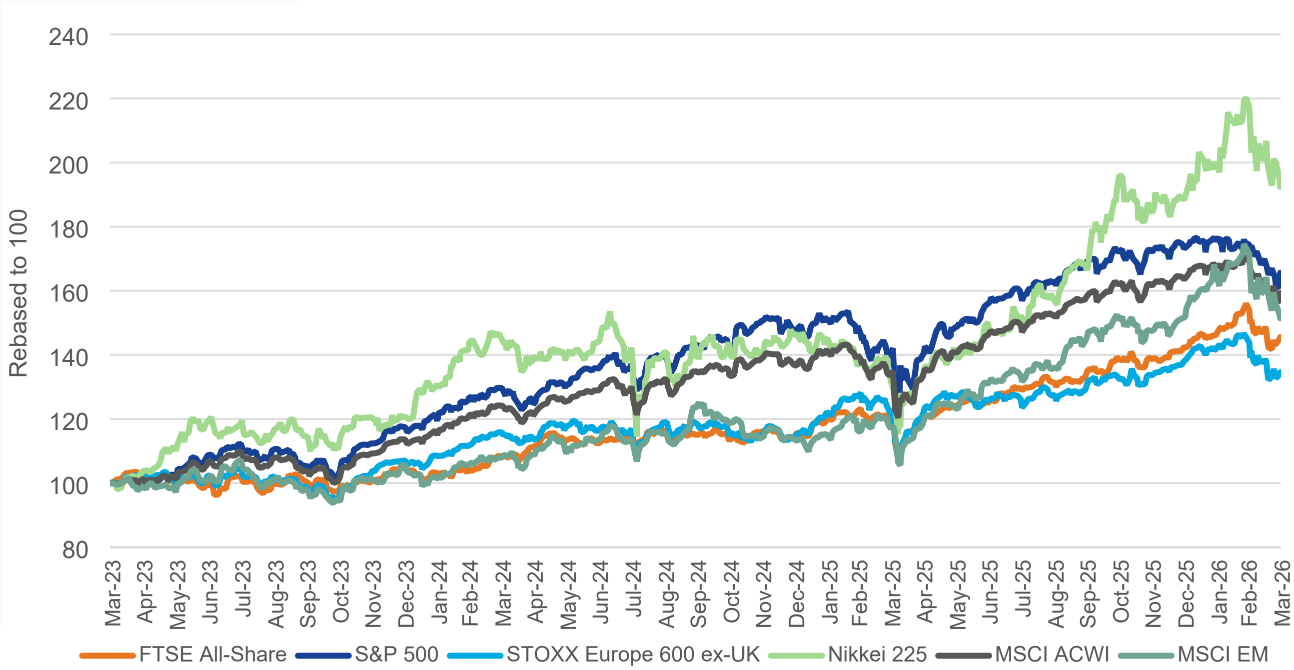
Chart 1: CPI – Annual rate of Inflation - Five Years to Dec 2025



Source: Bloomberg
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Equities

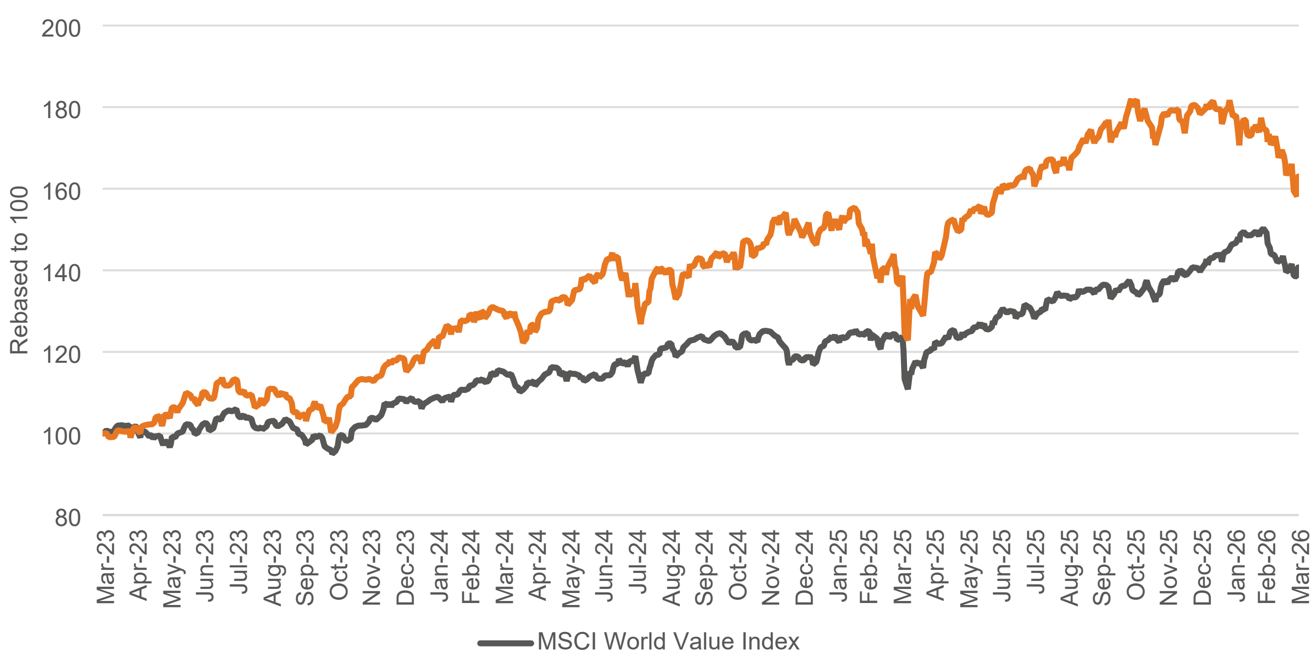
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

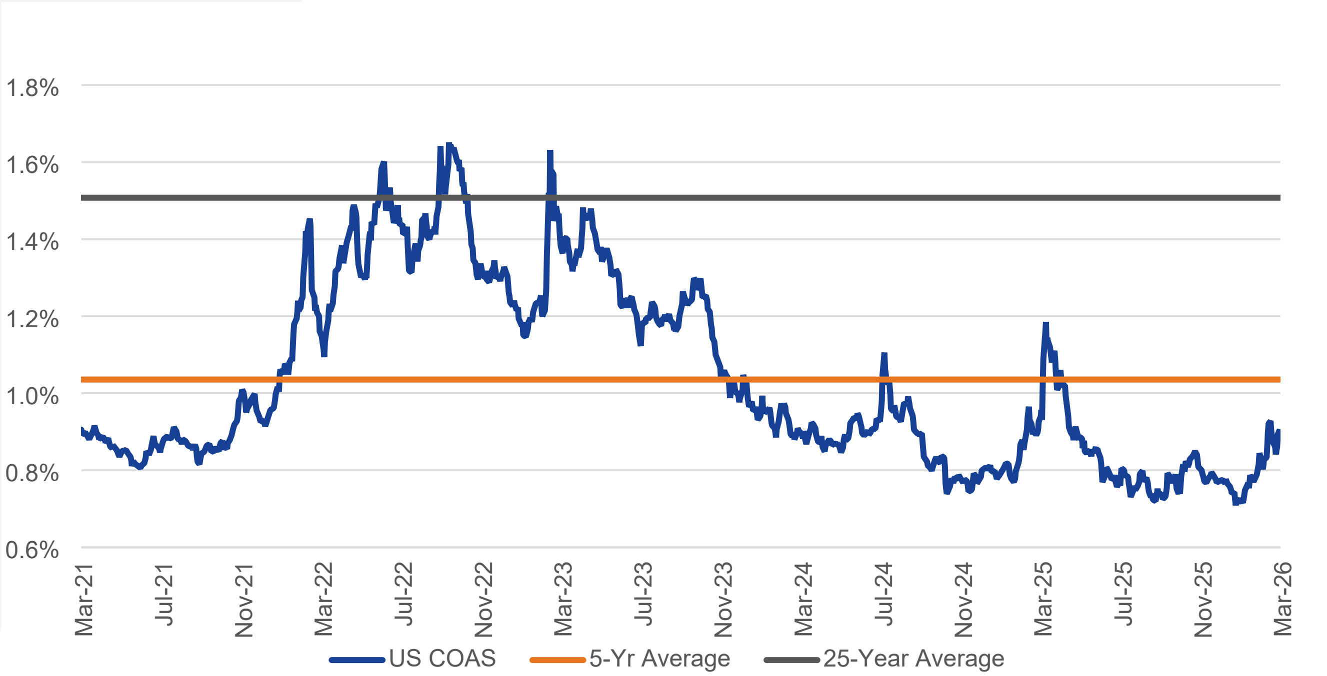
Table 2: MSCI ACWI Composition

Region	Q4 2025 (%)	Q1 2026(%)
US	64.4	62.3
UK	3.3	3.5
Europe (ex-UK)	11.5	11.4
Japan	5.0	5.2
Developed Asia-Pacific	2.3	2.4
Emerging Markets	10.1	11.8
Other	3.3	3.4

Source: iShares MSCI ACWI ETF

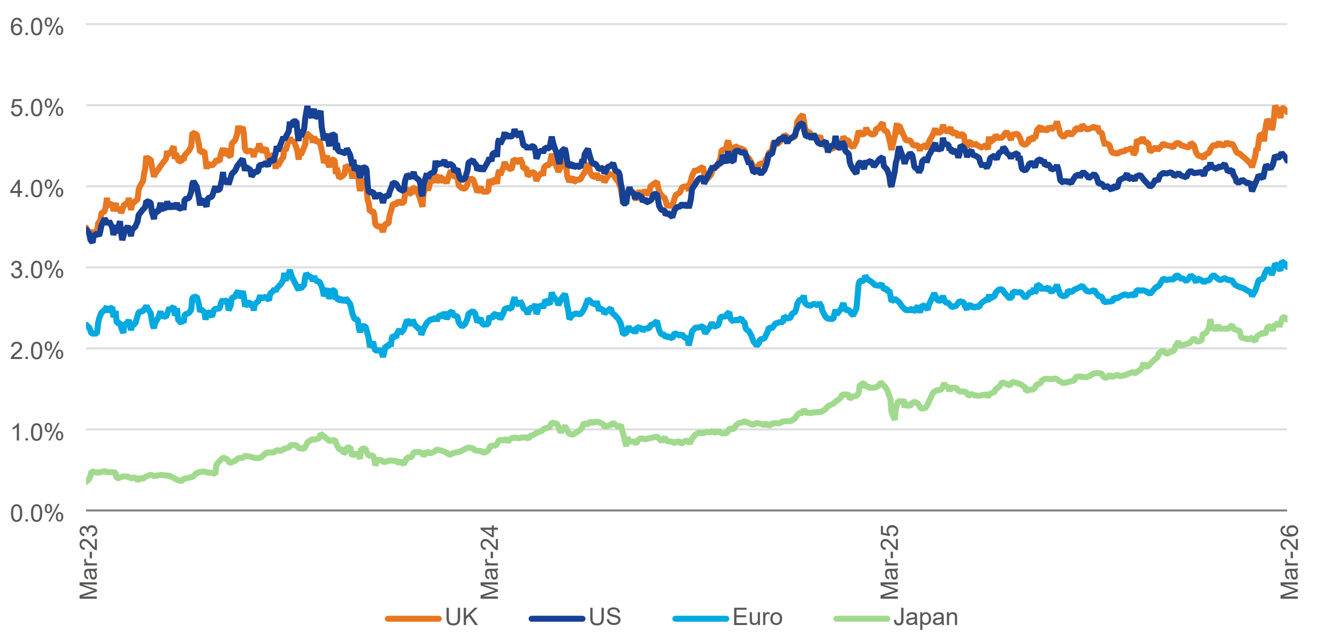
Fixed Income

Chart 4: US Corporate Bond Spreads



Source: Bloomberg
Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

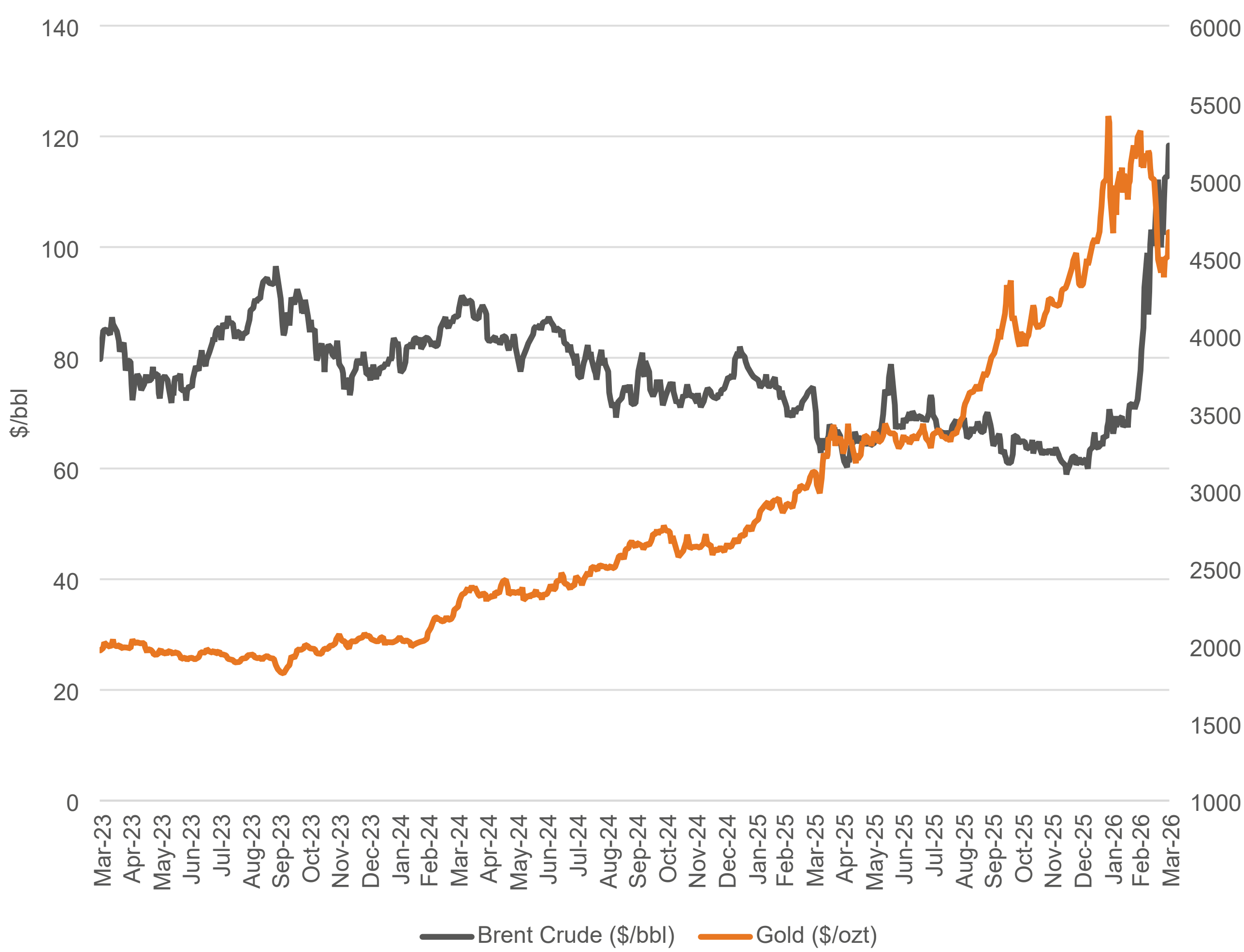
Chart 5: Government Bond Yields



Source: Bloomberg
Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

Commodities

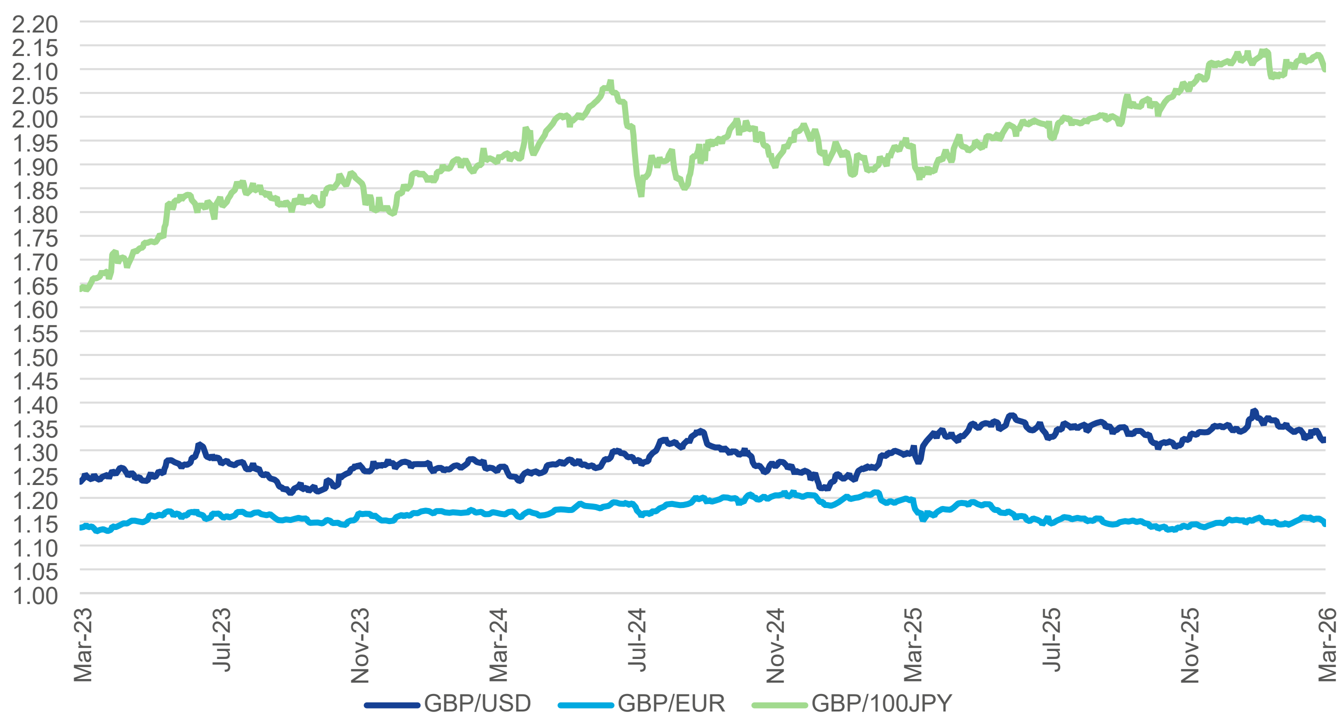
Chart 6: Gold and Brent Crude Oil Prices



Source: Bloomberg
Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg
Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 31 March 2025

Pair	Q1 Value	% Change Over Quarter
GBP/EUR	1.14	-0.20%
GBP/USD	1.32	-1.84%
EUR/USD	1.16	-1.64%
USD/JPY	158.72	1.28%

Source: Bloomberg
Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)