Market Review

Quarterly Report

Q2 2026

Table of Contents

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Executive Summary

- **LPPI Transition and Reporting Overview**
  - Q2 marks the first quarter under our new pooling arrangements with LPPI. The Committee will recall that our main priority for the transition from Brunel to LPPI was ensuring the safe and smooth transfer of assets from one regime to the next.
  - For the time being, quarterly reporting by LPPI continues in the old "Brunel" format until a new reporting system can be implemented. There were some performance reporting issues during the transition at the beginning of April which we should ask LPPI to explain. The portfolio pages of the quarterly report note that there are performance reporting gaps spanning a few days. While it is difficult to determine how material this is, we should ask LPPI for formal reassurances.
  - My independent view of the reporting is that although certain details are unsatisfactory and made comparisons difficult, the overall fund performance figures are consistent with State Street's reporting and are therefore likely correct. Performance reporting should stabilize over time as LPPI gains more quarterly experience and introduces its own reporting system, rather than continuing to rely on the legacy Brunel framework.
- **Key Insights from the LPPI Performance Report**

  Strong Absolute Returns: Total fund returns across **all periods are 9% or higher**. This represents a highly satisfactory absolute return that significantly exceeds our discount rate.

  Benchmark Lag: The total fund is **lagging the benchmark across all periods**, crucially including the recent past.

  - **Interpreting the Performance Lag**
  - What does this lagging performance mean, and should we be dissatisfied? I believe not. It is vital that the Committee accepts this as a satisfactory outcome and refrains from applying undue pressure on the new Pool to chase benchmark performance.
  - Understanding why this is happening requires looking at the underlying market drivers. Committee members will recall that I have been increasingly concerned about a developing bubble within US markets. As a bubble evolves, its leadership and narrative shift, but the systemic risk remains high. While it may persist a while longer—and timing is notoriously difficult to

predict—Dorset does not wish to be exposed to major market downside. Minor corrections are acceptable.

- Consequently, a satisfactory outcome for Dorset, and indeed the vast majority of mature Defined Benefit (DB) pension plans, involves accepting the sacrifice of some non-essential "excess" upside in exchange for essential, robust downside protection. The Committee has attended several training sessions on the core objectives of the Dorset Fund, so I trust this strategic trade-off is well understood.

- **Economic and Market Commentary**
  - Turning to global economic and market activity:
  - **US Macro Environment:** The US economy continues to avoid a slowdown, and stock markets have shown resilience moving into Q3. However, structural pressures are building. US government debt has expanded significantly this century, and the cost of servicing this debt remains high. Concurrently, US consumers are facing 6.7% mortgage rates and $5 diesel.
  - **Credit Risks:** We have not experienced a true credit cycle downturn since the 2008–2010 period, and anxieties within the private credit industry are mounting. As a result, the risk of a market downturn emerging in the next few years remains elevated.
  - **Equities & Technology:** In equity markets, the recent semiconductor bubble—fueled by heavy AI infrastructure investment—initially boosted Emerging Markets like South Korea and Taiwan. That bubble has now deflated.
  - **Monetary Policy & Geopolitics:** Both the Federal Reserve and the Bank of England continue to hold interest rates steady. However, inflation is not yet completely subdued, and the Straits of Hormuz remain a critical geopolitical flashpoint as we approach the colder seasons. On a positive note, bond yields are edging steadily higher, which is improving their underlying value.
  - **UK Outlook:** Since the end of Q2, the UK has seen a change in government leadership. Markets are currently tightly focused on the upcoming Autumn Budget in November. As is widely recognized, the Government faces exceptionally difficult fiscal choices.

Steve Tyson

25th August 2026

- **Further Market Commentary**

- Global markets staged a strong recovery in Q2 2026 as geopolitical and energy-security concerns eased and investor attention shifted towards resilient corporate earnings and the accelerating artificial-intelligence investment cycle. Brent crude retreated sharply as tensions between the US and Iran moderated and concerns over prolonged supply disruption through the Strait of Hormuz diminished.
- Global equities responded strongly to improving risk sentiment. The MSCI World gained +13.8%, while the S&P 500 returned +15.2%, reversing their Q1 declines. Performance was led by technology, semiconductors and companies exposed to AI infrastructure and data-centre investment, supported by continued capital-expenditure commitments from major technology companies.
- Market leadership remained concentrated, with growth stocks materially outperforming value. Emerging-market equities gained +24.1%, driven predominantly by South Korea and Taiwan, where semiconductor and memory-chip companies benefited from sustained AI demand. Japanese equities also performed strongly, while China and several commodity-producing markets lagged.
- Sector dispersion was pronounced and represented a reversal of the Q1 pattern. The NASDAQ-100 Technology sector gained +55.1%, while industrials rose +14.5% and consumer discretionary returned +9.1%. In contrast, energy declined -14.0% as oil prices fell, while consumer staples and utilities were broadly flat to slightly negative.
- Commodities reversed much of their Q1 strength as the geopolitical risk premium unwound. Brent crude declined -38.4%, while the S&P GSCI fell -16.9%. Gold also weakened, although copper gained +10.3%, supported by continued investment in AI infrastructure, data centres and electricity networks.
- Fixed-income markets delivered modestly positive but uneven returns. Broad all-maturity UK gilts gained +2.0%, broad euro government bonds +1.9%, and broad US Treasuries +0.3%. Credit generally outperformed as spreads tightened and corporate fundamentals remained resilient, with emerging-market debt returning approximately +4.2% to +4.6%. Japan had the worst performing major bond market year-to-date, as yields rose from abnormally low levels and took account of the prime minister's ambitious spending plans. Emerging market debt was the best performing fixed income asset in Q2 at +4.0%.
- Real assets benefited from the broader improvement in sentiment, with global listed real estate returning +7.8% and infrastructure gaining +1.6%. The VIX declined -34.9% during the quarter, although it remained +10.0% higher year to date, indicating that the Q1 volatility shock had not been fully reversed.
- Economic conditions remained resilient but increasingly divergent. Business activity strengthened in the US and Japan, while momentum softened in the UK and

eurozone. Inflation remained above central-bank targets following the earlier energy shock, resulting in continued caution and greater policy divergence between the major central banks.

- Currency movements were moderate relative to other asset classes. The Dollar Index rose +1.2%, while the yen weakened 2.4% against the US dollar. Sterling gained 1.4% against the euro and 0.3% against the dollar, reflecting differing expectations for economic growth and monetary policy. Overall, Q2 represented a sharp reversal from the inflation-driven risk-off environment experienced in Q1. Falling oil prices, resilient earnings and renewed confidence in AI-related investment supported equities and credit. However, performance remained concentrated around technology and semiconductor beneficiaries, leaving markets vulnerable to changes in earnings expectations, geopolitical developments and monetary policy.

Key Indicators at a Glance

Index (Local Currency)		Q2	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	4.0%	7.6%
UK All-Cap Equities	FTSE All-Share	4.7%	7.2%
US Equities	S&P 500	15.2%	10.2%
European Equities	EURO STOXX 50 Price EUR	15.2%	11.1%
Japanese Equities	Nikkei 225	37.4%	40.3%
EM Equities	MSCI Emerging Markets	24.1%	23.8%
Global Equities	MSCI World	13.8%	9.7%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	2.0%	0.1%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	2.3%	-1.9%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	-1.1%	0.2%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-2.1%	-2.4%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	1.9%	1.2%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.3%	0.3%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	4.2%	1.8%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	4.6%	3.3%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	2.9%	1.0%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	2.6%	1.4%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	3.4%	1.9%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	1.4%	0.9%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2.5%	2.0%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	1.4%	1.2%
GBP/USD	GBPUSD Exchange Rate	0.3%	-1.6%
EUR/USD	EURUSD Exchange Rate	-1.1%	-2.8%
USD/JPY	USDJPY Exchange Rate	2.4%	3.7%
Dollar Index	Dollar Index Spot	1.2%	2.9%
USD/CNY	USDCNY Exchange Rate	-1.6%	-2.9%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	1.6%	10.0%
Private Equity	S&P Listed Private Equity Index	2.3%	-14.7%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	7.8%	10.8%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-34.9%	10.0%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-38.4%	19.8%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	13.6%	-11.2%
Gold	Generic 1st Gold, USD/toz	-13.1%	-7.0%
Copper	Generic 1st Copper, USD/lb	10.3%	9.0%
Gold	Spot gold price quoted in USD per troy ounce	-14.1%	-7.2%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	-16.9%	12.9%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	-7.6%	-4.5%
Arabica Coffee	Front-month ICE Coffee “C” Arabica futures contract	4.3%	-10.8%
Sector Indices			
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	9.1%	-1.1%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	-0.3%	6.7%
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	55.1%	45.6%
S&P 500 Health Care	S&P 500 Health Care sector	8.3%	2.6%
S&P 500 Financials	S&P 500 Financials sector	8.6%	-2.1%
S&P 500 Energy	S&P 500 Energy sector	-14.0%	18.0%
S&P 500 Industrials	S&P 500 Industrials sector	14.5%	19.5%
S&P 500 Utilities	S&P 500 Utilities sector	-1.2%	6.2%
S&P 500 Communication Services	S&P 500 Communication Services sector	8.1%	0.4%
S&P 500 Real Estate	S&P 500 Real Estate sector	7.6%	9.7%

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

Data Charts

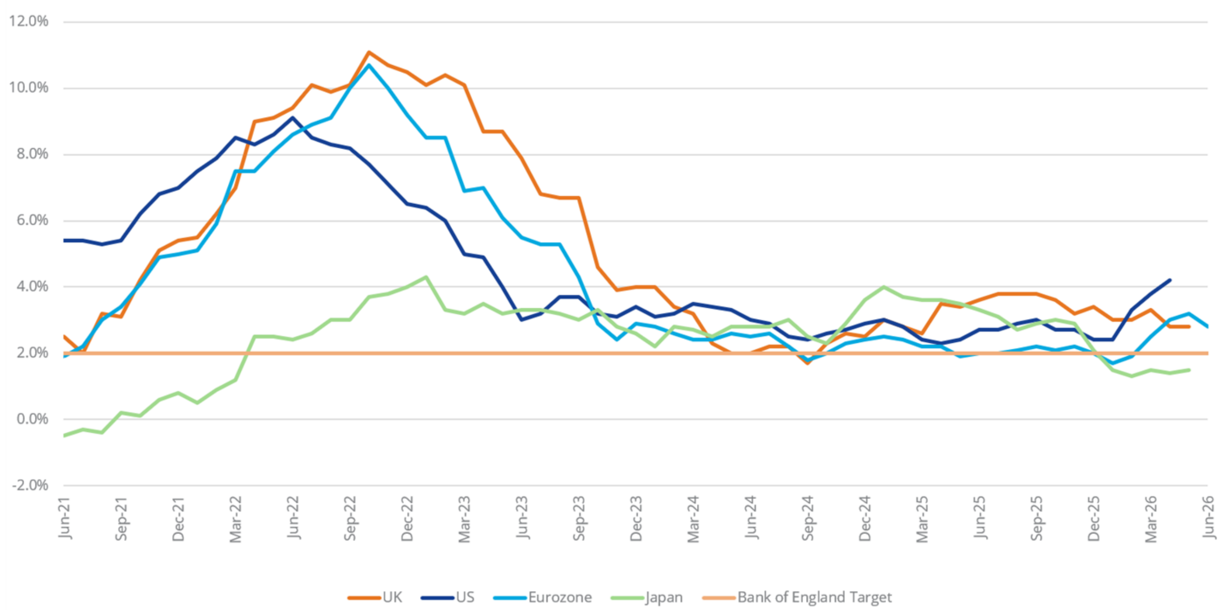
Economic Indicators

Table 1: Quarterly Real GDP Growth and Monthly CPI

%	GDP		CPI		
	Q1 2026	Q2 2026	Apr	May	Jun
UK	0.6	-	2.8	2.8	-
US	0.5	-	4.2	0	-
Eurozone	-0.2	-	3.0	3.2	2.8
Japan	0.	-	1.4	1.5	-

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)

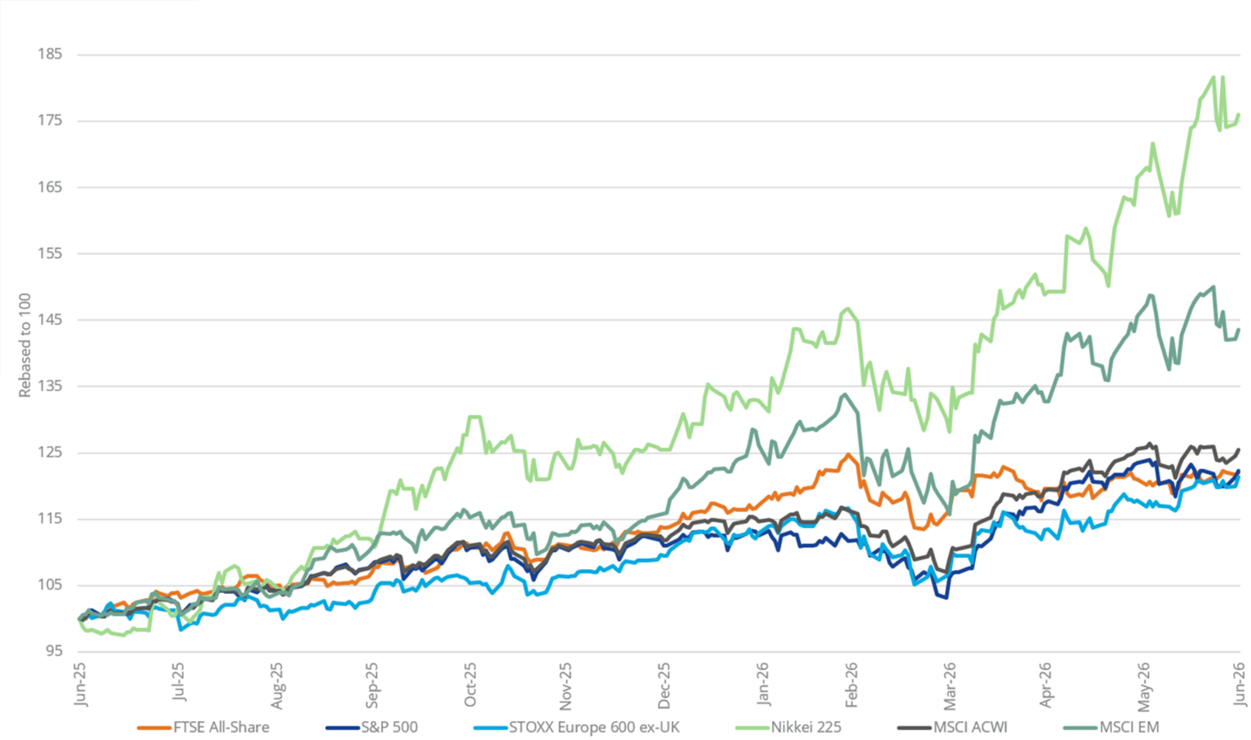
Chart 1: CPI – Annual rate of Inflation - Five Years to Jun 2026



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	Q1 2026(%)	Q2 2026 (%)
US	62.3	63.7
UK	3.5	3.6
Europe (ex-UK)	11.4	12.1
Japan	5.2	5.1
Developed Asia-Pacific	2.4	2.5
Emerging Markets	11.8	10.1
Other	3.4	3.0

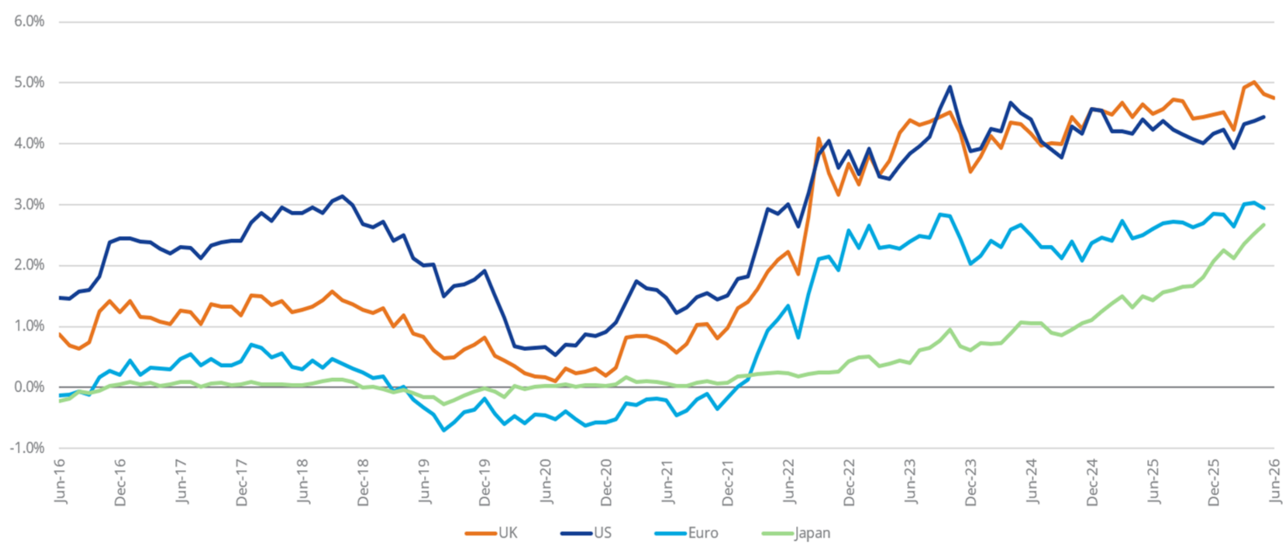
Source: iShares MSCI ACWI ETF

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

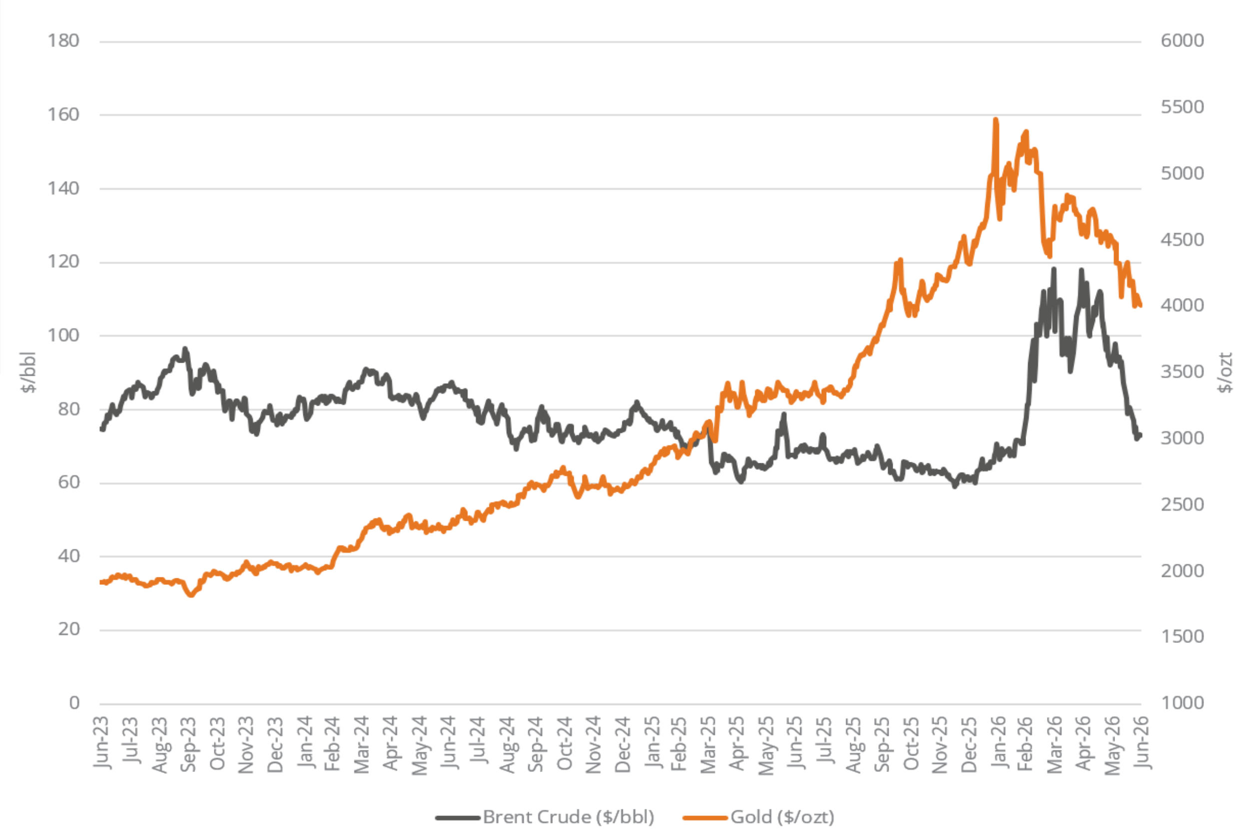
Chart 5: Government Bond Yields



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

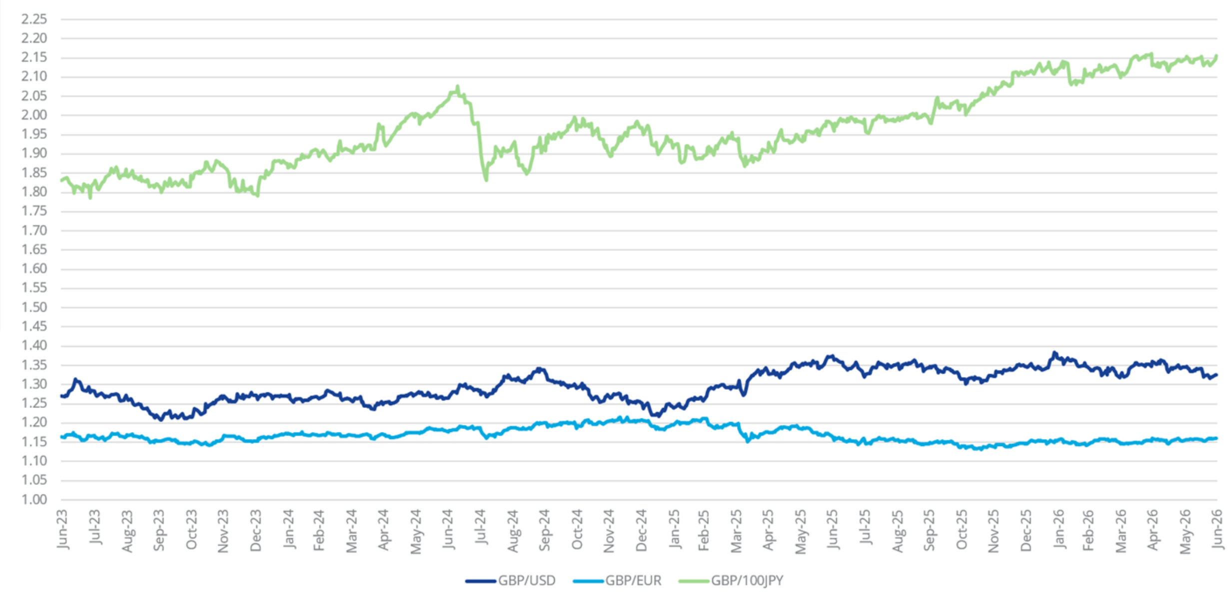


Source: Bloomberg

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 30 June 2026

Pair	Q1 Value	% Change Over Quarter
GBP/EUR	1.16	1.41%
GBP/USD	1.33	0.26%
EUR/USD	1.14	-1.13%
USD/JPY	162.55	2.41%

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)