June Market Review

The first half of 2026 once again demonstrated the remarkable resilience of global markets. Despite heightened geopolitical tensions in the Middle East, renewed inflation concerns and ongoing uncertainty around interest rates, global equities continued to climb to fresh highs. Investors consistently looked beyond short-term headlines, focusing instead on strong corporate earnings and the long-term opportunities presented by Artificial Intelligence. Importantly, this year's rally has been driven more by improving company profits than by expanding valuations, providing a healthier foundation for equity markets than many previous advances.

Beneath the surface, however, markets became increasingly selective. Leadership shifted away from the familiar technology giants towards companies supplying the infrastructure underpinning AI, while bond markets endured a much more challenging period as investors demanded higher yields in response to inflation and rising government borrowing. These sharp rotations between sectors and asset classes reinforced the value of active management, with diversification proving increasingly important in navigating a more fragmented investment landscape.

Portfolio Positioning & Outlook

Performance across the Sustainable range in June was driven by strong returns from emerging markets, US impact equities, and sustainable investment strategies, all of which delivered positive contributions. Sustainable and impact bond allocations also performed well, providing meaningful support across the model range.

Overall, June was characterised by broad-based positive performance, with the majority of underlying holdings contributing positively. The main detractors were commodities and precious metals. Energy transition-related commodity investments lagged as oil prices retreated towards $70 per barrel. Meanwhile, sustainably sourced gold and silver weakened amid growing expectations of higher interest rates following a more hawkish Federal Reserve, alongside a strengthening US dollar, both of which weighed on precious metals over the month.

Looking ahead, we remain constructive on the outlook for markets, although we expect the journey to become more volatile as markets become increasingly expensive. Corporate earnings remain supportive; inflation appears to be gradually moderating and investor sentiment continues to favour equities. However, geopolitical tensions, energy prices and the outlook for interest rates are likely to create periods of uncertainty, particularly as markets have already priced in a great deal of optimism. We therefore expect opportunities to emerge alongside bouts of volatility rather than a smooth path higher.

For client portfolios, our focus remains on maintaining broad diversification whilst actively identifying the next areas of long-term opportunity. Artificial Intelligence continues to represent a transformational investment theme, but we are also finding attractive value across healthcare, industrials, infrastructure, real assets and selected fixed income markets. In an environment where market leadership is becoming increasingly fragmented, we believe disciplined active management, combined with a diversified investment approach, remains the most effective way to help clients achieve their long-term financial goals.

Avoiding Harm

When assessing harm avoidance, we first examine the screening thresholds a fund manager applies. But secondly and most crucially is understanding the principles of the firm, to build trust in how they have determined these revenues thresholds. This negates worries about the fund attempting to shift the screens in pursuit of financial returns or even breach them. When researching the Edentree European Equity fund for our Sustainable portfolios, we were reassured by not only the depth of commitment to sustainability but the recent announcement that every fund the firm manages received a regulatory stamp of approval in the form of an SDR label. This shows us that they are fully committed to sustainability with ethical values embedded deeply into the firm’s foundations. These are the fund managers that we are looking to partner with in our portfolios.

Doing Good

The recent strength in Emerging Markets has brought investor attention to the space, reminding us of the impact that can be achieved by investing in developing regions. The UN’s Sustainable Development Goals were built as a framework for developing nations after all. The fund’s approach which targets high quality companies that have at least 50% of their revenue aligned to the UN’s 17 SDGs, has returned in both performance and positive environmental and social outcomes in the last 12 months. The goals that the fund most aligns with are SDG 9 – Industry, innovation and infrastructure, SDG 1 – No poverty and SDG 8 – Decent Work and Economic Growth. These three goals are particularly impactful in developing communities and reiterate our conviction in the benefits of investing through this strategy.

Driving Change

We also reviewed the engagement frameworks in some of our funds with T. Rowe Price (who manage our US Impact Equity fund) standing out as delivering consistent, positive improvements in their holdings. T. Rowe Price's engagement framework is rooted in active ownership, using ongoing company dialogue, stewardship and proxy voting to strengthen positive impact and address material environmental, social and governance risks. Engagement is closely tied to its investment process, with clear objectives set at the company level and progress monitored over time.

In 2024, this included engagement with Deere on improving disclosure around the environmental benefits of its precision agriculture tools, including emissions and fertiliser savings. It also engaged with Payoneer on clearer impact reporting for underserved customers, alongside governance issues such as board structure and disclosure. These engagements are critical for better reporting and therefore participation in sustainability focused investing.

Delivering Financial Returns

The Regnan Sustainable Water & Waste Fund was a strong contributor to performance this month. The strategy invests in essential water and waste businesses, combining a clear environmental objective with a disciplined, bottom-up investment process focused on resilient earnings, strong cash generation and attractive valuations. Its emphasis on downside protection and capital preservation also provides valuable diversification, particularly during periods of broader market weakness. This is exactly what we seek from the fourth pillar of our process: investments must not only avoid harm, do good and drive change, but also have a credible ability to deliver competitive, risk-adjusted financial returns. Regnan's recent performance demonstrates how exposure to long-term sustainability themes can contribute positively to portfolio returns without compromising the financial discipline at the heart of the Sustainable World portfolios.

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