Robert E. Sykes, CFA – Transcript June 30, 2026

Hi there, and welcome back to our quarterly asset allocation view series. And reflecting on capital markets as we just wrapped up the 2nd quarter, we've observed a great deal of performance strength coming from risk assets. Particularly equities, which were generally up double digits across the globe.

Now on the other side of the capital structure, bonds delivered more muted returns, and we also, as we saw the yield curve bear flatten over the quarter. Fixed income markets continue to contend with heightened volatility, and that's largely in part because we saw a more hawkish undertone from many major central banks as inflation risks remain front and center.

In the U.S. specifically, the U.S. Federal Reserve (the Fed) also began operating under a new leadership regime just this past June, with the Fed Chair Warsh stepping into the role and looking to quickly make changes to the style of the Fed communication, which would include shorter messaging and the potential removal of forward guidance. Finally, geopolitics also played a major role in the 2nd quarter. The Middle East conflict that surprised us earlier in the year in the 1st quarter, largely saw those tensions ease and come off in the 2nd quarter, and that ultimately helped, uh, improve sentiment.

Now, as we think about the outlook and we look forward, our view is that the backdrop remains pretty constructive, despite markets, many markets having already priced in or discounted a fair amount of good news. From a macro perspective, well, some of the indicators we track have, in fact, moderated in terms of their activity levels. The key supports to this economy, the labor market, consumer spending, and business investment, all remain solid. And while inflation, as I mentioned, remains a key risk, there have been signs more recently of some gradual easing. So that helps reinforce the view that policy rates may in fact be near or at their peak across much of the developed world.

When we think about our investment process, fundamentally, corporate results remain an important pillar and help drive our outlook. And when we look at earnings growth expectations for this year, for 2026, they remain very strong, but probably more notably, they continue to be revised higher and remain really strong for 2027.

And as these forecasts are elevated and ratcheted higher, it's reassuring to us that analysts are expecting growth to be contributed from a variety of sectors. Now, when thinking about the forward outlook, we also think it's key to remind folks of some of the few major forces that we believe are behind markets. So first off, we have ongoing macro uncertainty, particularly around inflation and monetary policy, touched upon that.

Secondly, would be the idea that we'll continue to see persistent geopolitical fragmentation. This is something that we've been now contending with for a number of years, and we think flare-ups will be something we'll continue to see as we look forward. Thirdly, a key topic is the continued buildout around AI and the adoption of AI technology across the corporate landscape. And then lastly, kind of tying many of these forces together is the broadening out of market leadership.

Now, as we retain a positive view towards equity and risk assets, we are also looking selectively for areas of opportunity. And more recently, some of the areas that come to the top of mind are in the U.S. mid- and small-cap stocks, which we know trade relatively cheaply to large cap and have for some time. But more importantly, they've recently shown signs of technical and earnings momentum, which we've taken note of. Secondly, outside of the U.S., stocks across Japan and much of the Asia Pacific region also look attractive, and much of that is due to their tie-in to the AI supply chain demand story.

And then lastly, we continue to like commodities. We've touched upon commodities in the past, and they have been a bit more volatile as of late. But we really like them, in particular for the diversification properties, as well as their ability to mitigate risk. So, as we conclude this quarter's comments, we want to remind folks that some of the keys to success on the investment side are sticking with your investment process, not overreacting to short-term headlines, and maintaining a well-diversified portfolio.