13th August 2026

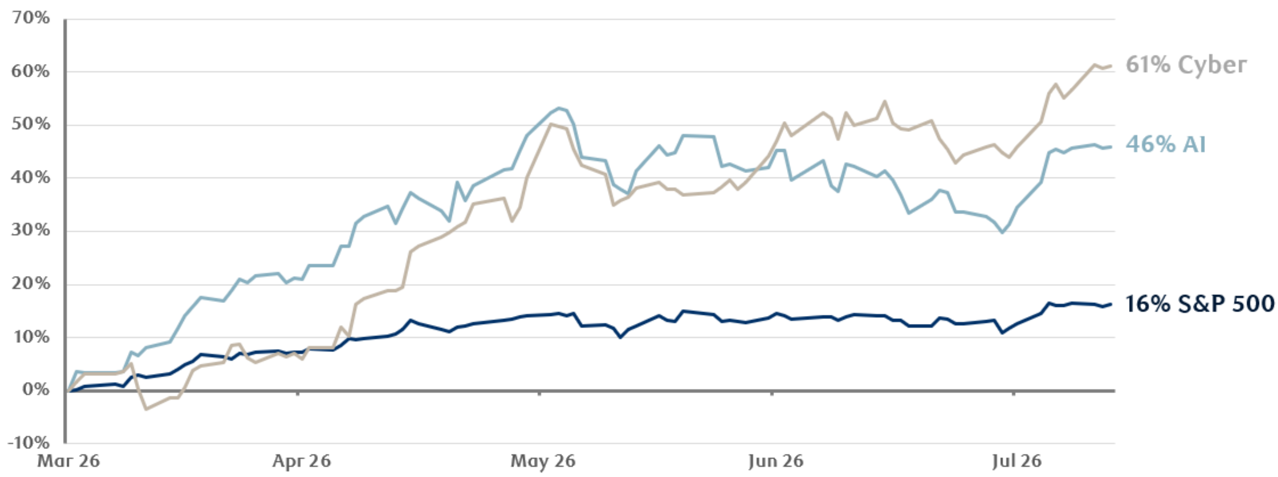
Market & Portfolio Update

Performance Summary

Markets experienced a strong recovery from the end of March, following a month of escalating tensions and conflict across the Middle East. One of the main catalysts for the strong stock market performance despite the elevated risk to the global economy, was exceptionally strong financial results from several of the world's largest technology companies.

This put artificial intelligence firmly back in focus, with those companies whose have profited in this area substantially outperforming. The below chart highlights this, with AI related companies rising over 45% since the end of March, whilst the broader US market has gained 16%. Drilling further down into AI beneficiaries, it has been pleasing to see the Cyber Security sector rising 61%, an area we have specific exposure to in client portfolios. We continue to be positive in this area, with the demand for cyber security only likely to increase from here.

Performance of S&P 500, AI Basket & Cyber Basket 31st March 2026 to 13th August 2026 in £



Away from AI, President Trump appeared to broker a peace deal with the Iranians however this has now been fully rescinded, with a firm deal still outstanding. With tensions easing it did allow the rest of the global stock market constituents (outside technology) to stage their own recovery with the chances of a severe economic shock diminishing. President Trump also reignited his tariff war, imposing 50% tariffs on Canadian whisky and placing restrictions on international access to various US artificial intelligence models citing national security concerns.

In the UK, Keir Starmer resigned as prime minister, Nigel Farage called a bi-election within his constituency due to a potential scandal surrounding a £5m "gift" from a party donor, and Andy Burnham won his Makerfield bi-election paving the way for him to challenge the UK Prime Minister. Whilst Burnham's government has only recently been formed, there remains a lack of detail surrounding his policies and how he will achieve them. Financial markets will however only care about one thing, and that is whether he remains committed to Rachel Reeves' fiscal rules.

In general however, stock markets have focussed almost exclusively since April on the continuation of Artificial Intelligence spending and its beneficiaries, disregarding all other news flow and events as the size and pace of this spending has kept the global economy on a positive growth trend. As a result, stock market returns are once again becoming highly concentrated, albeit not exclusively to US equities as it has done in previous years. Since the beginning of the year just ten (mega-cap) technology companies have accounted for nearly 50% off all global stock market returns. We have been fortunate enough to own two of these companies directly, with a number of our collective investments holding positions in some others.

What happens from here?

It is safe to say that the next few years' portfolio performance will largely be dictated by the outcome of the immense amount of capital investment being made in artificial intelligence infrastructure, and how we allocate portfolios throughout.

We remain of the view that capital cycles are just that, cyclical, and we must continue to prepare for a run-off in AI investment over the next few years. The current AI investment cycle is, by some margin, the largest in history, and the risk of a disorderly exit grows. Just 5 US companies are currently committed to investing $1trn in 2027 in AI infrastructure, which equates to a little over 2% of global GDP. For context, the infrastructure spending prior to the dot com bubble in 2000 was under 0.5% of global GDP. The knock-on effect of this vast spending commitment is the additional leverage and borrowing undertaken by companies to build out their own capacity (factories, labour, machinery etc) to cope with the anticipated demand. Should something like the 2000 outcome occur, whereby these spending commitments get cancelled due to a substantial overestimation of short-term internet traffic, there can be a significant amount of outstanding debt and follow-on investments that go bad.

Our time this year has been spent reviewing and testing correlations within our portfolios, ensuring we are resilient to any future shock and positioned for as many different outcomes in stock market leadership as possible. We continue to trim our positions in equity and bond holdings that are highly correlated to this technology cycle, to ensure we don't passively over-allocate to this theme. Over the past 6 months it has been important to balance our allocation between continued participation in the AI investment cycle whilst maintaining sufficient diversifying investments to protect the portfolio and prepare for a change in market leadership.

All change in July

While it is difficult to see in the earlier chart given a rebound in August, technology companies and particularly semiconductor stocks experienced a significant sell-off in July, with the tech heavy Nasdaq falling 8% and over $1 trillion in market value being erased in a matter of days. Whilst there was not a specific catalyst, Meta (Facebook) announcing that they are setting up a new unit (named Meta Compute) signalled that even those companies heavily investing in AI chips had excess capacity. When this was combined with ongoing concerns about capital expenditure, higher valuations in the sector, disappointing earnings major players like Tesla and) it was not surprising to see profits being taken after such a strong run.

With this in mind, it was reassuring to see that our portfolios were in strong positive territory in July, in contrast to many peers and broader market indices. This was undoubtedly aided by profits we had already taken in the technology sector, the diversified exposure we have in portfolios that does not simply mirror global indices and the real focus we have on quality and the valuations of the companies we own. Stock picking also played an important part, with the likes of Intercontinental Exchange, Shell, Thermo Fisher Scientific and Relx all posting returns of over 10%.

The importance of diversification

Going forward we believe there will be much higher correlation between stocks and corporate bonds, as the bond market's allocation to the AI capital cycle increases with every new bond placing by companies such as Google, Meta (Facebook) and SpaceX. To protect the portfolio against this, we prefer to own government bonds where we believe there is still a much lower correlation and would also act as a more safe haven asset in the event of a market shock. We also maintain our gold exposure for this reason. As mentioned above, our equity exposure remains highly diversified compared to the general indices, which have become significantly weighted in a handful of technology stocks. Income stocks, and what are now underrepresented sectors such as healthcare, financials and consumer staples are held to reduce correlation to technology and corresponding sectors. We also continue to allocate to certain areas of software where we believe the market has overestimated the long-term AI disruption and should therefore be negatively correlated to the AI theme going forward, with Microsoft being a key example.

Conversely, if there is significantly longer to run in this investment cycle (supporting a continued rise in global stock markets), we believe regional stock market returns will broaden including outperformance of medium and smaller companies. This occurs because the AI spending filters through the immediate technology beneficiaries and into the wider economy. Portfolios are well positioned for this dynamic, with a bias towards medium sized companies where we see both protection from a global stock market decline (where the largest companies have the highest allocation) and sizeable upside should equity market returns broaden (similar to what led to our outperformance in 2025).

Recent activity

As mentioned above, we took profits from our holdings of Alphabet (Google) and Amazon. These two companies remain amongst the biggest and most profitable companies in the world and have, and continue to be, fantastic investments for our clients. However, share price valuations are elevated and continue to price in perfection in terms of future growth. This tied in with the fact these companies are making huge capital expenditure commitments to keep pace with the fast-moving world of AI development and adoption, we felt it prudent to take some handsome profits and further diversify away from the 'AI trade' whilst maintaining material 'skin in the game'.

We also switched our holding of Premier Miton UK Multi Cap Income Fund into the Mercantile Investment Trust. Whilst we were happy long-term holders of the Premier Miton Fund, given recent government changes we wanted to reduce our exposure to the smallest UK companies and have a greater exposure to medium sized UK companies which are trading at historically cheap levels.

Finally, in June we took the opportunity to trim our positions in the M&G Japan Fund, locking in year-to-date profits of over 20%.. Japanese markets have enjoyed a very strong 2026 as the economy moved out of an extended deflationary cycle and strong demand from the global AI boom benefitted its tech heavy export sector, as well as prime minister Sanae Takaichi's policies being well received by markets.

Summary

To conclude, we remain committed to actively managing portfolios and believe we are moving into a period where continuous risk assessments and differentiated equity strategies will reward investors with excess returns and considerably better drawdown protection. We hope that this update provides reassurance that your investment is in capable hands, and if you have any queries or would like to discuss our views on the stock market further, please do not hesitate to contact us.

The Winchester Investment Team