LIONTRUST
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SPRING 2026

LIONTRUST views

NAVIGATING MARKETS WITH A 3D VISION

How to manage portfolios through the current volatility

CONTENTS

WELCOME

JOHN HUSSELBEE
HEAD OF LIONTRUST MULTI-ASSET

The conflict in the Middle East that started in late February further ratcheted up both geopolitical tension and market uncertainty during March. It is worth placing these events in a broader context, however.

The longer-term trend is towards a colder, more fragmented global environment. The world is becoming less synchronised, with old political alliances under strain or negotiation, and domestic politics have become polarised. This does not mean constant crises but it does mean markets are likely to remain more volatile than in the decade following the Global Financial Crisis (GFC).

Our message remains consistent. First, diversification matters. Multi-asset funds and portfolios are designed for volatile periods. Genuine diversification across asset classes, sectors, regions and investment styles helps absorb shocks that originate outside the economic cycle, including geopolitical events and commodity price swings.

Second, discipline matters. Geopolitical events are emotionally powerful but they rarely change long-term return paths unless they lead to sustained changes in inflation, earnings or growth. Reacting to headlines by making portfolio changes typically locks in losses rather than protects capital. As has often been said, "volatility is the price investors pay for long-term returns".

Third, differentiation matters. In a more fragmented world, outcomes are increasingly uneven across regions, sectors and asset classes. Active asset allocation, valuation awareness and flexibility across equities, fixed income and alternatives are essential in navigating this environment.

The events so far in 2026 are also a reminder of the power of compounding. Long-term wealth creation is driven not by avoiding every short-term drawdown, but by staying invested through periods of uncertainty. Missing just a handful of strong recovery days can have a disproportionate impact on long-term returns.

We set out in this issue the key drivers of investment markets in the first few months of 2026, our current views on different asset classes, why we are less positive about the US stockmarket in aggregate, and how to navigate market volatility.

Our aim is for *Liontrust Views* to provide articles that are easy to read, explain what market developments mean for investors and ideas for managing investment portfolios.

We welcome your feedback and hearing what you would like to read in future issues. ■

AN AGE OF TRANSFOR

MATIONS?

Investors were confronted by two major potential transformations in the first three months of 2026. Over the first two months of the year, investors were downgrading the share prices of those companies they believed were going to be losers from AI. Then, from the start of March, stock markets experienced significant volatility as investors tried to work out the possible length, escalation and impact of the conflict in the Middle East.

Key questions during March were: are we heading for an oil price of $200 a barrel, a recession, stagflation or anywhere in between?

While the ceasefire between the US and Iran was in place at the time of going to press, what was clear is that the developments in the Middle East were likely to be transformative, particularly in terms of the politics of the region and the future of supply chains.

The economic and investment concerns about the impact of the conflict initially focused on rising inflation from an oil price that had been see-sawing around and above the $100 level. This has led to the possibility of UK interest rates being raised during 2026 rather than be cut further as had been previously forecast. Concerns then spread to the conflict causing economic growth to slow or even lead to a recession. Stagflation – a combination of high inflation and low growth – is the most pessimistic scenario being discussed.

The US' attack on Iran was the main driver of markets over March. Markets sold off early in March before stabilising somewhat towards the end of the month. Investors remain highly sensitive to news flow, with the "information" that drives markets one day often being effectively contradicted the next.

The benefits of diversification have been demonstrated by differences in performance between stock markets in reaction to the two transformative events so far this year.

Stock markets sold off during March, especially those regions dependent on energy imports. In sterling terms, Asia ex-Japan and emerging markets led the declines, falling -11.6% and -11.4% respectively, while Japan fell -10.7% and Europe ex-UK declined -8.7%. In sterling terms, the US fell less at -3.2% and UK equities were down -5.9%.

From the start of 2026 to the end of March, however, Japan, emerging markets and Asia ex-Japan remained positive, returning 3.4%, 1.7% and 1.2% in sterling terms respectively. The UK proved to be resilient over the first quarter with a return of 4.1%, reflecting its strong start to January and February as well as a heavier weighting towards energy and commodity linked sectors, which fared relatively well in March. By contrast, the US and Europe ex-UK were negative over the quarter, returning -2.5% and -2.1% in sterling terms respectively. ■

THE OUTLOOK FOR ASSET CLASSES

When the Liontrust Multi-Asset team is positive about an asset class, the team categorises it as 'overweight' and may look to increase their target allocation to it. Conversely, when the team is negative about an asset class, the team classifies it as 'underweight' and may reduce the target allocation. Finally, 'neutral' means that the team is neither positive nor negative.

UNITED STATES

STOCKS* ▼ | BONDS ▬

High valuations and significant concentration in mega-cap technology stocks – which underperformed on a relative basis in the first quarter – have led the team to downgrade US equities from neutral to underweight, although they remain neutral on small caps.

Concerns that higher oil prices linked to the Iran crisis could elevate inflation weakened the outlook for bonds globally, including US Treasuries and corporates. The high level of US government debt also weighs on perceptions of fiscal stability over the longer term.

*Small caps neutral

EMERGING MARKETS

STOCKS ▲ | BONDS ▬

Emerging market equities delivered positive returns in sterling terms over the first quarter, despite many countries being oil importers and therefore among those regions most adversely affected by the Iran crisis. Bond prices fell as higher oil prices fuelled inflation concerns.

While risk-off sentiment and fears of weaker global growth have weighed on emerging markets, the team believes their longer-term economic and demographic fundamentals remain intact.

UNITED KINGDOM

STOCKS ▲ | BONDS ▬

The UK was the best-performing equity region over the first quarter, reflecting its strong start to the year and its overweight exposure to energy and commodity-linked sectors. Equity market momentum over the past year has remained firm despite weak economic news, while falling but still sticky inflation offered some support. However, this backdrop could be challenged by higher oil prices linked to the Iran conflict.

Gilts fell over the quarter and were particularly hard hit in March as inflation concerns resurfaced in response to the conflict.

KEY ▲ Overweight ▼ Underweight ▬ Neutral

EUROPE

STOCKS* ▬ | BONDS ▬

European equities (ex-UK) were positive over the quarter until concerns over the region's reliance on energy imports triggered a sell-off following the Iran crisis. After a strong 2025, driven largely by Germany's plans to boost growth through increased defence and infrastructure spending, European equities now appear fairly valued. However, the economic benefits of this spending have yet to materialise meaningfully, and earnings visibility remains mixed.

European bonds fell alongside other global fixed income markets.

*Small caps neutral

ASIA PACIFIC

STOCKS ▲

Like emerging markets, Asia Pacific ex-Japan equities generated positive returns in sterling terms over the first quarter despite being an oil-importing region that has been significantly impacted by the Iran crisis.

Asia Pacific ex-Japan, which offers attractive valuations, stands to benefit from accommodative government policies, favourable demographics and a strong technology sector. These positives are balanced by geopolitical risks, including US-China tensions over trade and Taiwan, as well as China's ongoing structural challenges, particularly in the property sector.

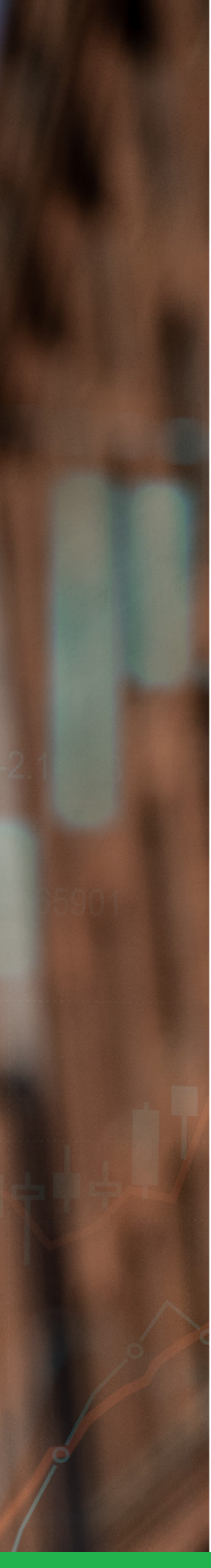
JAPAN

STOCKS ▲

Despite the country's reliance on imported oil leaving Japanese equities exposed to the Iran conflict, the market still delivered positive returns over the first quarter. Investor confidence was supported by the pro-growth agenda of Prime Minister Sanae Takaichi.

While valuations appear stretched, Japanese equities remain attractive on a price-to-book basis. Continued improvements in corporate governance and capital discipline, following years of underperformance, give support to a positive outlook. ■

CHANGING VIEW OF THE US STOCK MARKET



In the first quarter of the year, before the outbreak of the conflict in the Middle East, the Liontrust Multi-Asset team downgraded its Tactical Asset Allocation (TAA) outlook for US equities from neutral to a negative two out of five.

The US remains home to many highly innovative and profitable companies, and earnings across the market are broadly robust. However, much of the optimism surrounding US equities continues to be driven by AI. While AI has the potential to transform productivity and business models over the long term – and its ultimate economic impact may still be underestimated – optimism about the technology does not automatically translate into confidence about current valuations.

A small group of mega cap technology stocks dominates US equity indices and is priced on optimistic assumptions alongside historically high profitability. From a long-term perspective, this combination increases vulnerability to shifts in sentiment or earnings expectations.

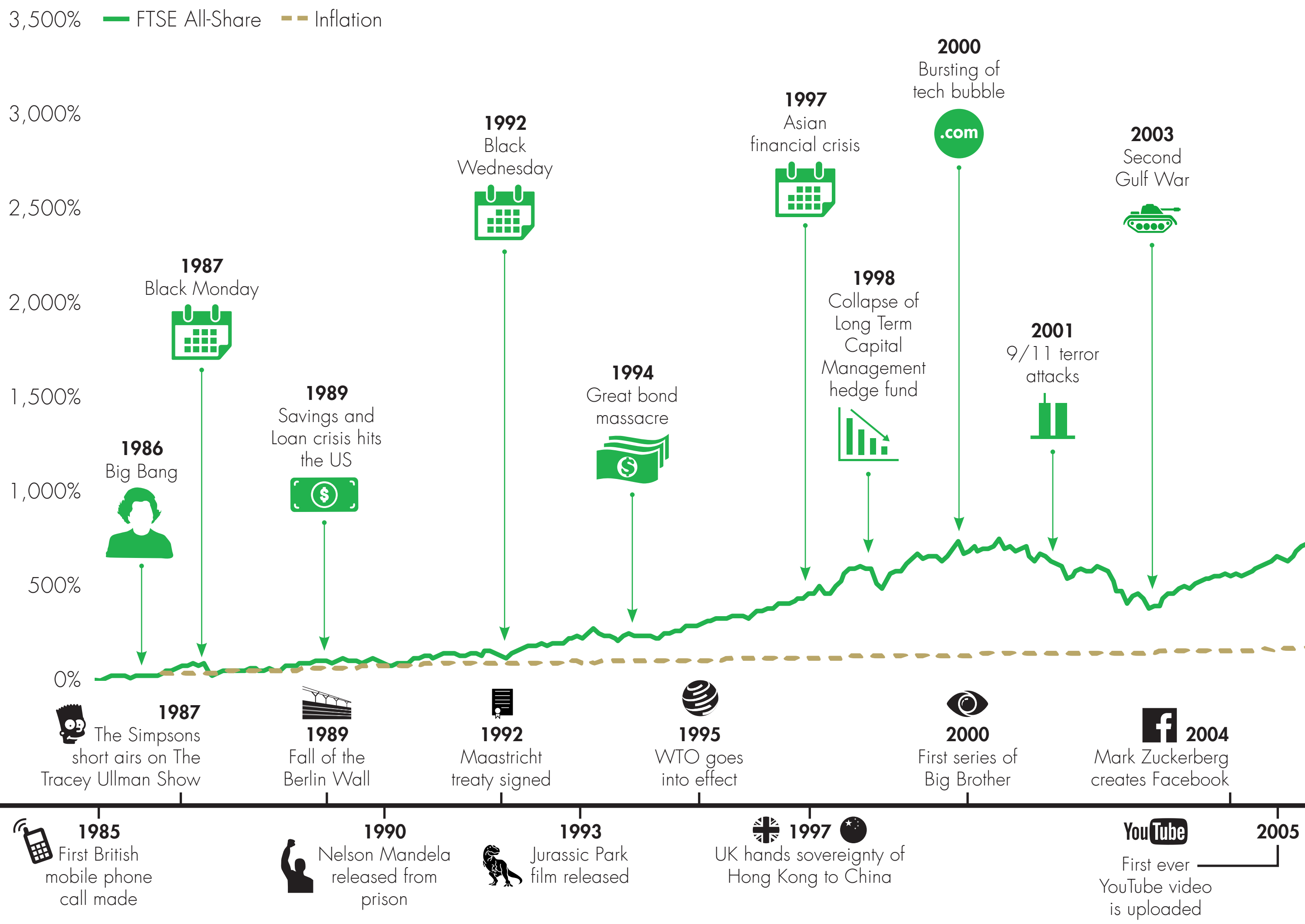
These dynamics have been reinforced by strong flows into passive strategies. While passive investing has clear benefits, it is inherently price indifferent, allocating more capital to larger companies. This can reinforce momentum and amplify valuation distortions. Concerns around US government debt and political uncertainty add further complexity to the outlook.

We believe diversification within US equities is essential given these concentration risks. True diversification within an equity region comes from differentiation: blending different investment styles, return drivers, market caps and industrial sectors so that portfolios are positioned to deliver their expected outcomes over the longer term.

By contrast, our outlook remains positive for US smaller companies, for which the Multi-Asset team retained a three rating out of five. This is because valuations are more attractive and smaller firms are more domestically focused, offering a better balance of risk and opportunity.

The Multi-Asset team has maintained its positive four out of five rating for both investment markets and global equities overall. The team's outlook for fixed income remains broadly neutral. The asset class continues to provide meaningful diversification, with a positive stance on global government bonds, global short-dated corporate bonds and global high yield.

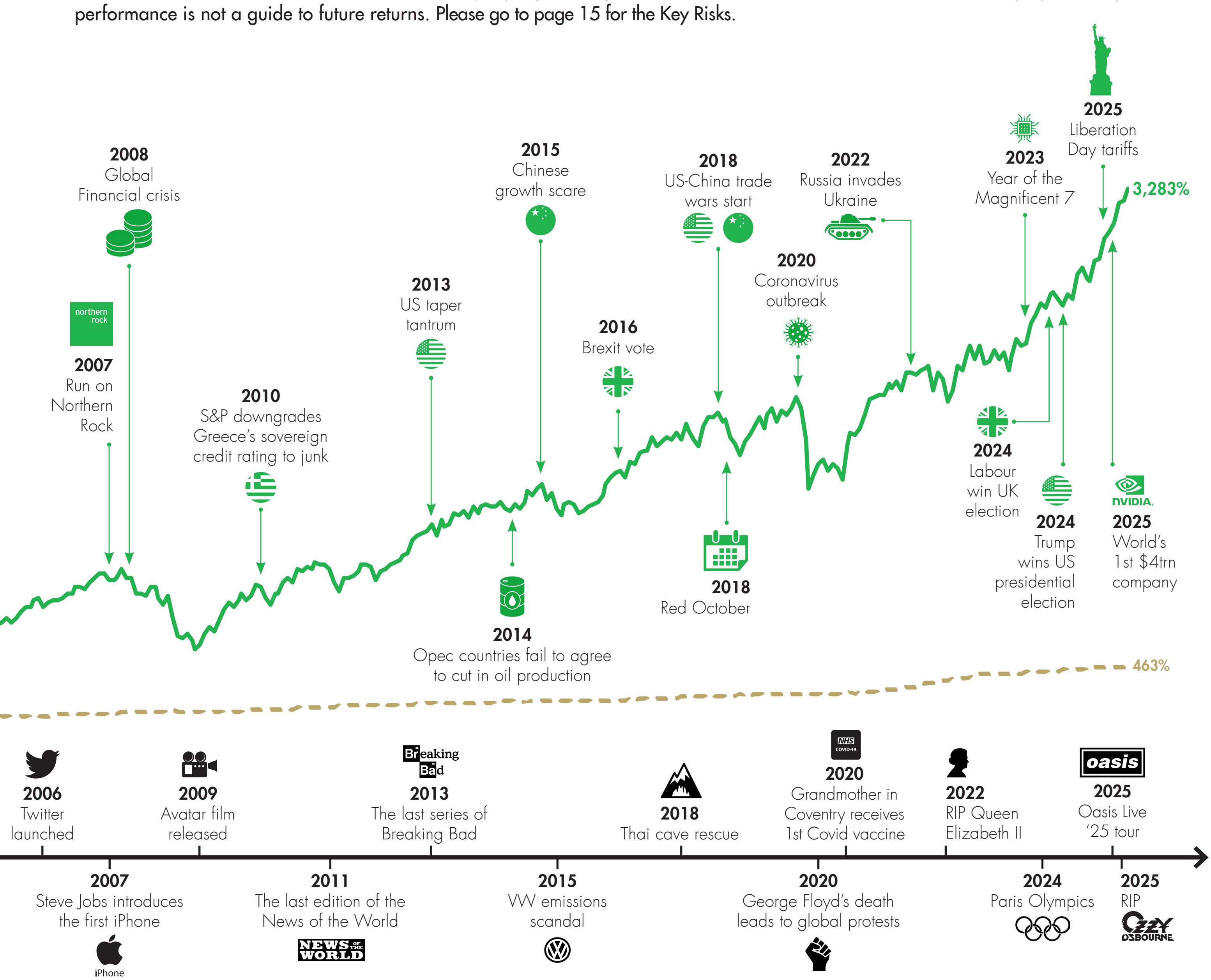
TIME IN THE MARKET



Over the years, there have been many events that have had large impacts on financial markets, including the financial crisis in 2008 and the Covid crash in 2020.

However, as can be seen from the chart below, the long-term trend for market performance has continued to remain positive. While you will experience market dips and volatility from time to time, history has shown us that these events won't stop the long-term positive performance of markets. It is important to remember there are no guarantees, however, and past performance is not a reliable guide to future performance.

Source: Liontrust, as at 31.12.25. FTSE All-Share, 31.12.85 to 31.12.25. Inflation = UK Retail Price Index, 31.01.87 to 31.12.25 (FTSE All-Share, 31.12.85 to 31.01.87). All use of company logos, images or trademarks in this document are for reference purposes only. **Past performance is not a guide to future returns. Please go to page 15 for the Key Risks.**



NAVIGATING MARKETS WITH A

3D VISION

"History doesn't repeat itself, but it often rhymes"

This quote, which is often attributed to Mark Twain, feels especially apposite at the moment. The media, both traditional and social, are full of attempts to compare the current conflict in the Middle East with previous wars and energy shocks.

Even before the conflict in the Middle East started at the end of February, the world had been experiencing what we are calling a longer-term 3D challenge: Disruption, Dislocation and Decoupling. This includes the fragmentation of globalisation and the rise of tariffs as countries are becoming more insular. This is bringing new challenges at a time of an already changing economic landscape: inflation has 'normalised' at higher levels than for the past 10 to 15 years and interest rates have followed suit, while global growth remains under pressure.

It is hard to argue that AI will not be transformational for so many parts of our lives. This brings amazing possibilities but also great uncertainty. AI could dramatically change the employment, business and social environment in the years to come and is already being attributed to partly causing the rise in youth unemployment.

Socially, the developed world is grappling with ageing populations and falling fertility rates, which is shifting population pyramids towards obelisks.

And stock markets are contending with the end of US exceptionalism, market concentration, high valuations in some areas and rapid shifts caused by the relentless news cycle and huge flows from investors into passive vehicles. These are all helping to drive momentum and volatility in stock markets with passives becoming the marginal buyer.

How do investors navigate their portfolios through these challenges? In our view, it requires a 3D solution by being Diversified, Disciplined and Differentiated.

First, we believe diversification has come back into its own. The outperformance of US equities in the decade up to 2025 obscured the benefits of diversification. But with the end of US exceptionalism and a less correlated world, diversification across asset classes, geographical regions, sectors and investment styles will become ever more important going forward.

Second, investing in active managers will potentially enable portfolios to take advantage of the differential in returns in the future and the flexibility needed as the global investment environment evolves.

Finally, investors should be disciplined in remaining invested during periods of market volatility. You will only crystallize your 'paper' losses if you sell them and should recognise that markets can bounce back quickly; historically, they have often recovered within 12 months of significant corrections.

In addition, missing just a few key days by trying to time when to buy and sell the market can have a significant impact on your returns. This is because we are generally poor predictors, especially when emotions are involved to cloud the decision. If you had invested £10,000 in the FTSE All-Share index in 1985, for example, the compound return would have given you £374,665 in December 2025. If you had missed just the 10 best days of returns over those 39 years, however, your money would have been reduced by £183,365 (Source: Liontrust and Morningstar, 30 April 1985 to 31 December 2025).

Whether this time is different and whether or not we will see the rhyme of history in today's events is yet to be determined. By remaining Diversified, Differentiated and Disciplined, we believe the challenges of today and tomorrow will be navigable. ■

FACTS & FIGURES

QUARTERLY DATA

Asian (but not Japanese) stocks
5.04%
MSCI Pacific ex-Japan Index

Japanese stocks
3.11%
TOPIX Index

UK stocks
2.41%
FTSE All-Share Index

Emerging market stocks
1.89%
MSCI Emerging Market Index

US corporate bonds
1.45%
Bloomberg Barclays US Corporate Bond Index

Global government bonds
0.59%
FTSE G7 Index

Emerging market bonds
0.36%
Bloomberg Emerging Markets Hard Currency Aggregate Index

Global high yield bonds
-0.61%
ICE Bank of America ML Global High Yield Bond Hedged Index

European corporate bonds
-0.92%
Bloomberg Barclays European Corporate Bond Index

UK corporate bonds
-1.95%
Bloomberg Barclays Sterling Aggregate Bond Index

European (but not UK) stocks
-2.09%
FTSE All World Developed Europe excluding UK Index

US stocks
-2.42%
S&P 500 Composite Index

Past performance does not predict future returns. Cumulative returns, rebased in sterling where appropriate, i.e. all index returns are recalculated based on exchange rates to give returns for a sterling investor. Source: Morningstar Direct, 1 January 2026 to 31 March 2026.

To highlight the unpredictability of markets, the table below details the performance of global equity and fixed income indices over the past five years (in sterling terms). This table demonstrates how volatile markets can be, and shows the benefits of diversifying your investment, or in other words, not putting all your eggs in one basket.

Index percentage growth (%)	1 Apr 2025 to 31 Mar 2026	1 Apr 2024 to 31 Mar 2025	1 Apr 2023 to 31 Mar 2024	1 Apr 2022 to 31 Mar 2023	1 Apr 2021 to 31 Mar 2022
US stocks	15.31	5.94	27.13	-1.74	21.18
European (but not UK) stocks	16.26	3.71	13.67	8.48	6.46
UK stocks	21.54	10.46	8.43	2.92	13.03
Japanese stocks	21.04	-4.88	18.94	-0.04	-4.97
Asian (but not Japanese) stocks	21.24	4.61	0.31	-1.31	8.91
Emerging market stocks	27.54	6.33	6.29	-4.48	-6.82
Global government bonds	0.05	-0.18	-3.73	-3.35	-2.90
Global high yield bonds	6.36	8.19	10.86	-4.72	-3.53
US corporate bonds	2.56	2.66	2.21	0.58	0.39
European corporate bonds	6.51	2.04	3.93	-3.87	-5.99
Emerging market bonds	5.33	4.81	6.31	0.73	-4.44
UK corporate bonds	2.94	-0.70	1.35	-15.34	-5.36

Past performance does not predict future returns. Cumulative returns, rebased in sterling where appropriate, i.e. all index returns are recalculated based on exchange rates to give returns for a sterling investor. Source: Morningstar Direct, 31 March 2026.

IMPORTANT INFORMATION

KEY RISKS

Past performance does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected.

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result.

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time.

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies.

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

ESG Risk: there may be limitations to the availability, completeness or accuracy of ESG information from third-party providers, or inconsistencies in the consideration of ESG factors across different third party data providers, given the evolving nature of ESG.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID. Any performance shown represents model portfolios which are periodically restructured and/or rebalanced. Actual returns may vary from the model returns. There is no certainty the investment objectives of the portfolio will actually be achieved and no warranty or representation is given to this effect, whether express or implied. The portfolios therefore should be considered as long-term investments.

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