



Update for clients of Rathbones Financial Planning

Q2 2026 Report



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Quarterly investment update

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

As 2026 began, an event such as the US-Israeli attack on Iran wasn't given a high probability. The ensuing closure of the critical Strait of Hormuz was equally unanticipated. Investors were a bit more prepared for the political demise of British Prime Minister Keir Starmer, but his departure occurred with almost indecent haste.

And yet through all of this, equity markets have prospered and bond markets have been reasonably resilient. There's been one source of enduring strength. While analysts were correct to forecast continued growth in capital expenditure on AI data centres, the amount of growth has far surpassed expectations. That has made the second-quarter corporate earnings season one of the strongest in living memory.

When markets have intermittent wobbles, it's always important to re-examine the fundamentals and judge whether anything has materially changed.

Conflict in the Middle East

Although recent days have seen strikes by both sides of the Iran War, renewed escalation of hostilities isn't priced into financial markets. Fluctuating energy prices and trade policy uncertainty periodically unsettled investors, but corporate earnings remained broadly supportive and economic activity proved more resilient than many had anticipated. Throughout the quarter, markets increasingly balanced short-term geopolitical risks against the continued strength of company fundamentals and long-term investment opportunities.

AI's Spending Surge

The AI-related capital expenditure boom is one of the most powerful in history. If spending is measured as a multiple of the previous cycle's trough, the Bank for International Settlements, known as the 'central bankers' central bank', thinks this boom has surpassed the buildout of US railroads and canals, the Roaring Twenties before the Wall Street Crash, and even the dotcom boom. So far, the bulk of spending has been financed by the operating cash flow of the 'hyperscalers'. These

are the technology behemoths building the data centres that provide the computing power for the frontier large language models – the AI systems that understand and generate human language. Demand for computing power has risen exponentially as users begin to deploy AI agents, tools that can run themselves and undertake complex tasks.

This means the hyperscalers increasingly need to issue bonds and equity to fund their spending, heightening the risks for investors. Past booms have tended to falter when the returns are insufficient to cover the interest payments on debt. We're nowhere near that stage, but some sort of Rubicon has been crossed, with this new issuance.

It's still too early to declare with any certainty whether the returns will be sufficient. Much will depend on the productivity gains captured by companies using AI models. We think we're still in the infancy of this technological advance, when companies are grappling with how best to engage with it.

The latest bout of uncertainty is around what users are willing to pay for access to frontier models. There are reports of companies burning through their annual AI token budget in the first few months of the year as model providers shifted from the 'all you can eat' pricing model to one based on token consumption. Revenue growth may slow as users reassess their budgets or shift to free open-source models, created by communities and companies to execute certain tasks. But for now, at least, there's absolutely no sign of a reduction in capital spending plans by the hyperscalers and the underlying demand growth trend is strong.

Interest Rates

Investors are pricing in at least a quarter-point increase from the US, UK, and eurozone central banks. This is largely in response to the lingering higher costs for energy, and its derivatives, such as fertiliser, resulting from the Strait's closure. The AI spending boom is also contributing – noting Apple's big price increases for computers, for example. Further hawkishness emanated from the newly appointed chair of the US Federal Reserve, Kevin



Warsh. In our opinion, he said what he felt he had to say to calm the market's nerves about his particular version of the Fed being too fast and loose with inflation. This was a concern born of the fact that he was appointed by US President Donald Trump, who only ever thinks interest rates should be lower. Even so, we don't think rates need to rise as long as the oil price remains lower and the effect of tariff increases stays out of the annual inflation data. Tariffs boosted inflation for a while, particularly after last year's 'liberation day', but the effect will fade again as the year progresses.

Earnings Growth

Year-on-year growth in earnings per share for the US S&P 500 was 17% in Q1, excluding some one-time benefits. This exceeded analyst estimates by 5 percentage points. The consensus forecast for Q2 is 22%. In Europe, earnings are expected to grow 18% in Calendar Year 2026.

It's rare to experience a major market setback when earnings are rising this strongly. The usual catalyst for an earnings reversal is a recession. More often than not, this comes from tightening monetary policy.

Finally, UK politics. Prospective Prime Minister Andy Burnham has used a speech to set out an agenda that includes "sound public finances" and commitment to the current fiscal rules. This was welcomed by government bond investors, worried that he'd loosen fiscal policy too aggressively and without reference to productive growth.

Ultimately, raising the UK's economic growth rate is the best way to improve the UK's fiscal position. Devolving some decision-making to cities and regions could be one step in the right direction. A Burnham government would need to go much further to encourage private investment, thereby improving the UK's growth prospects. That includes reforming parts of the tax system.

Outlook

From a sustainability perspective, several structural themes continued to gather momentum so far through 2026. Energy security concerns reinforced the importance of renewable energy, electricity networks, energy storage and resource efficiency. At the same time, the rapid expansion of AI and digital infrastructure highlighted growing demand for power generation, grid investment and critical materials needed to support electrification

and technological development. Which could have wider repercussions. Research by the International Data Center Authority (IDCA) indicated that growing power usage and demand for grid connectivity across AI datacentres in major economies could trigger "significant community and political backlash". Global annual AI infrastructure investments are approaching \$1 trillion and the energy used to power facilities had increased by 15% in just two years. The IDCA warned that societal pushbacks were likely to occur in countries where datacentres consumed more than 5% of domestic grid capacity. The UK and US both recorded consumption rates of 6%, while Singapore's datacentre network consumes nearly a fifth of the country's grid capacity. These trends increasingly align economic resilience, national competitiveness and climate objectives, creating opportunities for companies providing solutions across clean energy, infrastructure, automation and efficiency.

At the same time, human rights are increasingly in focus under the growing "shadow of autocracy". In its annual Freedom in the World report, Freedom House rated people's access to political rights and civil liberties in 208 countries and territories, factoring in a range of individual freedoms from voting rights to freedom of expression and equality before the law. Using these criteria to rate countries, "free", "partly free" or "not free", their 2026 report concluded that global freedoms had declined for the 20th consecutive year, driven largely by the increased prevalence of autocratic regimes. It further asserted that the withdrawal of the US from international organisations and foreign aid commitments had emboldened autocracies to become more repressive internally and more aggressive abroad – the UK's decision to reduce spending on international aid to its lowest level in 25 years was also noted.

The report identified three principal trends characterising 20 years of declining global freedoms: the number of countries falling back from a "partly free" to a "not free" rating; conflicts, coups and the erosion of democratic institutions by authoritarian leaders; and increased political interference in independent media outputs and domestic free speech. Despite the ongoing challenges to global freedoms, the report highlighted the durability and resilience of democracies as well as their adaptability and unique capacity for self-correction. Democratic systems consistently perform better economically



than their authoritarian counterparts and are better able to accommodate societal differences and policy disagreements because they safeguard individual rights and enable the peaceful transfer of administrative power. Since the first Freedom in the World report was published in 1973, the number of countries rated “free” has more than doubled.

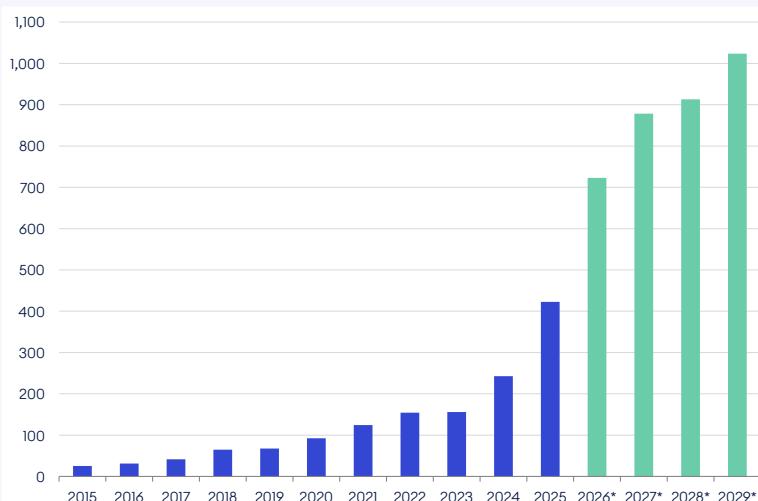
While geopolitical developments and policy uncertainty are likely to remain sources of volatility, the second quarter of 2026 demonstrated that markets continue to be driven by innovation, earnings growth and investment in long-term structural trends.

Asset allocation

Equities

Expectations for AI-related capex by big tech firms keep rising, with spending set to reach unprecedented levels. This investment is already driving very strong revenue and earnings growth across the AI and data-centre supply chain, supported by strong balance sheets.

Capital Expenditure by five US big tech firms** (\$bn)



Source: LSEG, Rathbones; as at 8 June 2026; * consensus estimates; ** Alphabet, Amazon, Meta, Microsoft, Oracle.

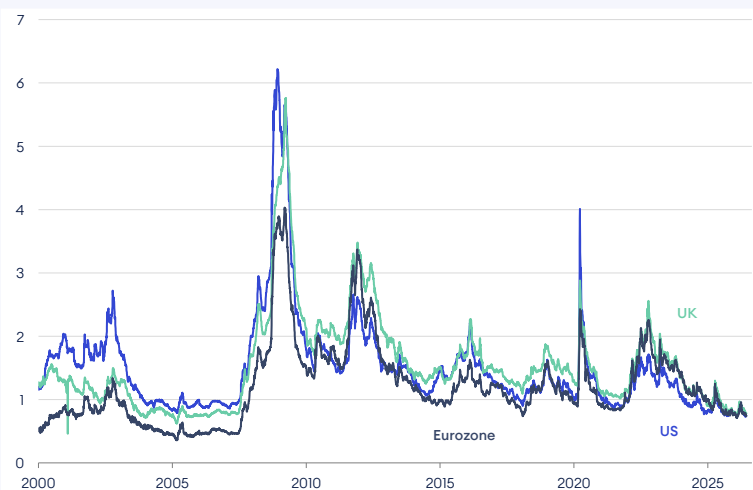
Fixed Income

Investment-grade credit spreads are extremely tight, offering very limited reward for taking corporate credit risk.

Heavy AI-related issuance is adding to supply, and we don't expect that pressure to ease.

Corporate bonds look less attractive in this environment, so we're reducing exposure and focusing on higher-quality issuers.

Spreads of investment grade corporate credit over government bonds* (pp)



Source: LSEG, Rathbones; as at 8 June 2026; *option-adjusted spreads of ICE BofA indices.

Past performance is not a reliable indicator of future performance. The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

Holdings in focus

Palo Alto

Palo Alto Networks is a leading US cybersecurity company, providing a broad suite of software and services designed to protect corporate networks, cloud environments, security operations and, increasingly, AI-enabled systems. The company has established itself as one of the industry's leading vendors through its integrated platform approach, helping organisations consolidate multiple cybersecurity tools into a single security architecture. Its offerings span network security, cloud security, threat intelligence, security operations automation and emerging solutions focused on securing AI applications and infrastructure.

The shares have performed strongly year to date, supported by a series of results that exceeded market expectations and demonstrated continued momentum across the business. Revenue growth remained robust, while profitability improved as management benefited from greater scale and increasing adoption of higher-margin software and subscription-based products. Demand for the company's next-generation security solutions has been particularly strong, reflecting heightened concerns among businesses about the growing cyber risks associated with cloud computing, digital transformation and the rapid adoption of artificial intelligence technologies.

Palo Alto continues to gain market share in key growth areas such as cloud security, security operations automation and AI system protection, where customers are increasingly prioritising spending to address evolving threats. The company also benefits from high levels of recurring revenue and long-term customer relationships, providing resilience and visibility over future earnings.

With cyberattacks becoming more sophisticated and regulatory requirements around data security continuing to increase, we believe Palo Alto Networks remains well positioned to benefit from the structural growth in cybersecurity spending, making it an attractive long-term investment opportunity.

Lam Research

Lam Research is a leading US semiconductor equipment company specialising in etch and deposition tools, which are critical stages in the manufacture of advanced logic and memory chips. The company plays an important role in enabling the production of increasingly sophisticated semiconductors and holds strong positions in memory, advanced packaging and other highly technical areas of chip fabrication.

The shares performed strongly during the second quarter, supported by better-than-expected results and positive commentary on the outlook for semiconductor capital expenditure. Demand continues to be driven by significant investment in AI infrastructure, which is increasing requirements for advanced memory chips, high-performance processors and more complex manufacturing processes. As semiconductor designs become more sophisticated, the number of production steps required also rises, supporting demand for Lam's specialised equipment.

While the semiconductor equipment industry remains cyclical, Lam is well positioned within the more technically complex parts of chip manufacturing, where process intensity is increasing and barriers to entry remain high. Combined with its technology leadership and long-standing relationships with major semiconductor manufacturers, the company is well placed to benefit from both the current AI-driven investment cycle and the long-term growth in semiconductor demand.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

Holdings in focus

NextPower

NextPower is a US-based company operating in the renewable energy sector, with a particular focus on supporting the growth of utility-scale solar infrastructure. This investment aligns closely with our long-term belief that companies facilitating the transition to a lower-carbon economy are well placed to deliver sustainable growth over time.

At its core, NextPower develops advanced solar tracking systems, which allow solar panels to follow the movement of the sun throughout the day. This can increase energy generation by c.20–35% compared to traditional fixed installations, improving both efficiency and the overall economics of renewable energy projects.

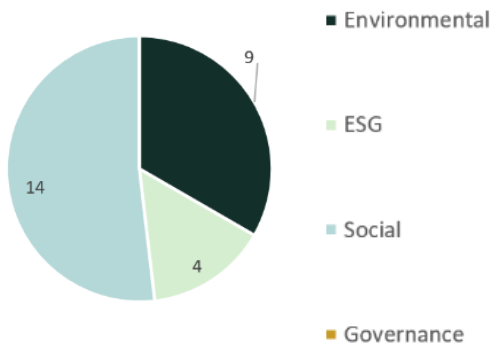
Demand for clean energy continues to increase globally as economies electrify and governments pursue decarbonisation targets. NextPower therefore offers exposure to one of the most compelling long-term growth themes within the energy transition. With a strong order backlog, a robust balance sheet, and expansion into new areas capturing a greater share of solar project spend, we believe the company is well positioned to deliver attractive earnings growth over time.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

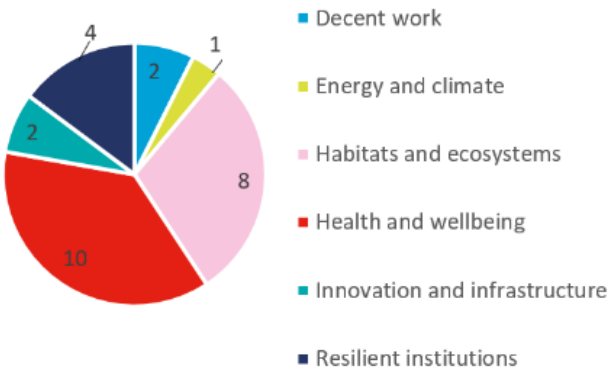
Engagement – Q2 2026

Overall, Greenbank conducted 27 engagements with companies, funds, and policymakers in the period 31st March to the 30th June 2026. A summary of some of the engagement activities undertaken during this period are outlined below.

Q2 2026 Engagement activity



Q2 2026 Engagement activity by SD theme



Alignment to Greenbank’s sustainable development themes*

Engagement activity — issues

Health and wellbeing



Nutrition

Greenbank remains actively involved in the Investor Coalition on Food Policy, a collaborative investor initiative focused on nutrition, food policy and healthier food systems. Through the Investor Coalition on Food Policy, Greenbank contributed to discussions on policy engagement opportunities, including advocacy for the proposed Healthy Food Standard and preparations for upcoming UK Government consultations. Investors emphasised the financial significance of diet-related health risks and called for stronger regulation, mandatory and comparable reporting standards, and improved corporate disclosures to support healthier and more resilient food systems. Our discussions with the coalition also explored broader themes, including food system resilience, national food policy, mandatory reporting requirements, and the implications of nutrition-related risks for investment decision-making. The coalition identified opportunities for engagement with policymakers and regulators, including DEFRA and the FCA, while drawing on external and investor expertise.

Through the Access to Nutrition Initiative (ATNI), Greenbank participated in reviews of engagement progress with food companies on nutrition and health-related issues. While investors regarded the initiative’s engagement approach as broadly effective, we noted challenges including declining responsiveness from companies, political sensitivities surrounding nutrition topics, and complexities arising from corporate restructuring. These barriers were seen as potential obstacles to maintaining momentum and achieving long-term objectives. As a result, investors agreed a series of

follow-up actions aimed at strengthening participation, addressing engagement challenges and ensuring continued progress in encouraging companies to improve nutrition-related strategies, disclosures and performance.

- Over the next quarter, Greenbank will continue our nutrition-related engagement through the Access to Nutrition initiative (ATNi), ShareAction's Long-term Investors in People's Health (LIPH) programme, and the Investor Coalition on Food Policy. For ATNi, Greenbank will contribute to the development of ATNi's Global Index 2027 methodology. Through LIPH, the team will participate in signatory engagement meetings and consultations to help shape future programme priorities on nutrition and health. In parallel, Greenbank will continue supporting policy initiatives aimed at creating a healthier and more sustainable UK food system, including engagement on mandatory health reporting, the Healthy Food Standard, and the Good Food Bill through consultations, advisory group participation, and policymaker engagement.

Habitats and ecosystems **Nature**



In June, Greenbank continued contributing to investor-led initiatives focused on biodiversity and nature-related risks. Through the IIGCC, the firm supported a formal investor response to proposed amendments to the EU Deforestation Regulation, advocating for a robust product scope and highlighting the financial materiality of deforestation-related supply chain risks. Greenbank's response focused on strengthening the regulation's relevance to investors and challenging proposed exclusions that could weaken its effectiveness.

Greenbank also joined the Finance for Biodiversity Nature Transition Framework working group, helping to develop a practical framework that will assist financial institutions in identifying and prioritising companies progressing towards nature-positive outcomes. Discussions focused on improving consistency, comparability and accountability in nature-related decision-making while encouraging meaningful corporate action. In addition, Greenbank contributed to a Finance for Biodiversity Foundation consultation response on the TNFD nature questionnaire for asset managers. The feedback welcomed the framework overall while recommending clearer guidance on application across asset classes and the inclusion of more practical examples to improve usability for investment teams and committees.

- During the next quarter, work will focus on collecting and consolidating key nature-related KPIs across ten pharmaceutical companies, supported by an AI-enabled tool designed to streamline the process. The KPI framework has been informed by sector research and emerging guidance, including TNFD and WBCSD recommendations, and focuses on the most material nature-related

impacts and dependencies for the pharmaceutical sector. At the same time, the engagement strategy is being refined to reflect the differing levels of maturity among companies in assessing and managing nature-related risks. The KPI data will help inform tailored engagement discussions, taking into account each company's business model, product profile, and stage of nature-related risk assessment, with the aim of building a clearer understanding of how the sector is identifying, prioritising, and responding to nature-related challenges and opportunities.

Decent work



Decent Work

Greenbank and other investors continued advocacy on diversity, equality and inclusion issues by calling on the UK Government to introduce mandatory ethnicity and disability pay gap reporting through the proposed Equality Bill. Investors expressed concern that the absence of a clear legislative timetable could result in delays or reprioritisation of the policy, particularly given ongoing political changes. ShareAction and participating investors intend to monitor developments and maintain pressure for greater workforce transparency and accountability on pay equity issues.

On employment practices, Greenbank supported an Investor Statement in Support of a Binding Convention on Decent Work in the Platform Economy, coordinated by the Interfaith Centre on Corporate Responsibility (ICCR) and submitted to the International Labour Organisation (ILO). The statement, backed by over 200 investors representing more than \$2.3 trillion in assets under management and advice, calls for stronger protections for workers in the gig economy. By endorsing the initiative, Greenbank joined a broader investor effort to encourage the development of robust labour standards and employer responsibilities aimed at safeguarding workers' rights within platform-based business models.

- Greenbank will be working with Share Action's Good Work Coalition to ensure a change in UK Prime Minister does not impact the commitments made in the Equality Bill.

Alignment to Greenbank's sustainable development themes*

Health and wellbeing



Engagement activity — Unilever

Our engagement with Unilever on nutrition during Q2 focused on governance, accountability, transparency and long-term strategy. At the company's AGM in May, Greenbank questioned how the proposed sale of Unilever's food business to McCormick might affect nutrition commitments, particularly as the transaction would transfer a significant proportion of Home and Personal Care employees and board representation into the combined entity. While Unilever stated that nutrition and sustainability standards would continue to be upheld, investors noted that final decision-making would lie with the new organisation, creating uncertainty around future accountability and ambition. Earlier in March, Greenbank and other

investors met with Unilever through the Access to Nutrition Initiative (ATNI) to discuss progress against nutrition targets and Science-Based Nutrition Criteria, portfolio development, and long-term priorities. Investors encouraged stronger disclosure on issues including affordability, healthy food access, responsible marketing, product reformulation and alignment with recognised nutrition frameworks, while Unilever reaffirmed that nutrition remains a core component of its wider business strategy. Preparatory discussions were also held among investor participants to align priorities ahead of the engagement.

Habitats and ecosystems



Alongside nutrition-focused engagement, investors continued discussions with Unilever through the Nature Action 100 initiative regarding the environmental implications of the proposed Food business merger with McCormick. Investors sought greater clarity on how the transaction could affect risk management, governance and environmental due diligence, but Unilever indicated that, given the early stage of the deal and the expected timeline for completion, further disclosure was not yet available. To maintain constructive engagement, investors agreed to concentrate on Unilever's 2025 annual disclosures and confirmed key long-term nature-related priorities, including water use, plastic pollution and exposure to palm oil sourcing. In April, Greenbank also convened meetings with other investor members of the Nature Action 100 engagement group to review Unilever's latest annual report and strategic developments, coordinate engagement objectives and prepare for future discussions with the company on its environmental performance and business strategy.

- As co-lead investor on the Unilever engagement under ATNI's Investors in Nutrition and Health programme, Greenbank will continue to advocate for improved nutrient-related disclosure, transparency, and reporting, while monitoring developments following the conclusion of the current engagement cycle and the proposed combination of Unilever's Foods business with McCormick.

Tesco

Health and wellbeing



Tesco engaged with investors through an investor coalition on food policy to discuss the company's approach to governance, supply chain management and sustainable agriculture. The company stated that it has established formal governance processes for key business risks, supported by board-level oversight and increasing integration of climate, nature and sourcing considerations into decision-making. Tesco highlighted its use of AI and commodity-led risk assessment tools to identify and manage emerging supply chain risks, alongside supplier engagement programmes. The company also emphasised its efforts to support sustainable agriculture through initiatives that aim to improve environmental outcomes while maintaining productive farming systems. While investors viewed Tesco's governance framework and strategic direction positively, they noted that

Decent work



further engagement would be needed to assess implementation, measurable outcomes, the use of primary data and progress against environmental commitments.

Separately, the Living Wage Coalition continued engagement with Tesco regarding pay practices and accreditation with the Real Living Wage. Tesco confirmed that it is not currently seeking Living Wage Employer accreditation and does not plan to increase pay rates solely to meet the Living Wage level, citing factors such as collective bargaining arrangements and changing legislation affecting pay and food inflation. The company also declined to commit to extending Living Wage requirements to third-party contractors working on Tesco sites. Investors challenged Tesco on its interpretation of Living Wage standards, particularly regarding staff employed through agencies and contractors, and reiterated the expectation that Living Wage principles should apply across the workforce. The coalition intends to maintain pressure on these issues and has established a more regular dialogue with the company to encourage further progress.

*Greenbank's sustainable development themes



Habitats and ecosystems

Preserve and enhance natural systems by encouraging companies to have a net positive impact on biodiversity.



Resource efficiency

Promote a circular economy that supports sustainable levels of consumption.



Decent work

Ensure proper emphasis on the quality of jobs being created and maintained alongside their quantity.



Inclusive economies

Promote an equitable economy in which there is expanded opportunity for shared prosperity.



Energy and climate

Support decarbonisation aligned to the goals of the Paris Agreement on climate change.



Health and wellbeing

Ensure companies do not undermine the health of their beneficiaries and encourage improved health outcomes.



Innovation and infrastructure

Support infrastructure that is fit to achieve broader planetary and societal goals.



Resilient institutions

Strengthen well-functioning institutions that protect the rule of law and fundamental rights.

Keeping you updated

Sustainability Update June 2026

Exploring the intersection of sustainable finance, climate action, technology governance and environmental protection, recent developments in corporate disclosure, net zero transition planning, AI regulation and deforestation highlight the evolving challenges and opportunities shaping long-term sustainability outcomes: [Sustainability update June 2026 | Greenbank](#)

Investment Insights Webinar – Q2 2026

Join experts from across Rathbones, live from the London Stock Exchange studio, as they explore the key themes shaping the investment landscape in 2026, including the AI boom and what it means for oil. You can watch the recorded webinar [Investment Insights Webinar - Q2 2026](#)

Greenbank win at Citywealth Magic Circle Awards 2026

Congratulations to Greenbank on its success at the 2026 Citywealth Magic Circle Awards, where it was named Impact/Sustainability Investment Management Company of the Year, with Jonny Moon also awarded a Future Icon Award: [Citywealth Magic Circle Awards 2026](#)

Greenbank visit to The Grange Wind Farm

Greenbank recently organised a visit to the Grange wind farm in the Fens of East Anglia, investment analyst Will Findlay-Wilson reflects on observations from the site and sets out some of the key considerations in onshore wind generation. The full article can be found on our insights page: [Greenbank visit to The Grange Wind Farm | Greenbank](#)

Financial awareness courses

Understanding investments can be like learning a different language. At Rathbones, we believe in education to enhance your understanding of the wealth management environment.

We have a range of courses including general financial awareness, young adult and female orientated courses.

[Register here](#)

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