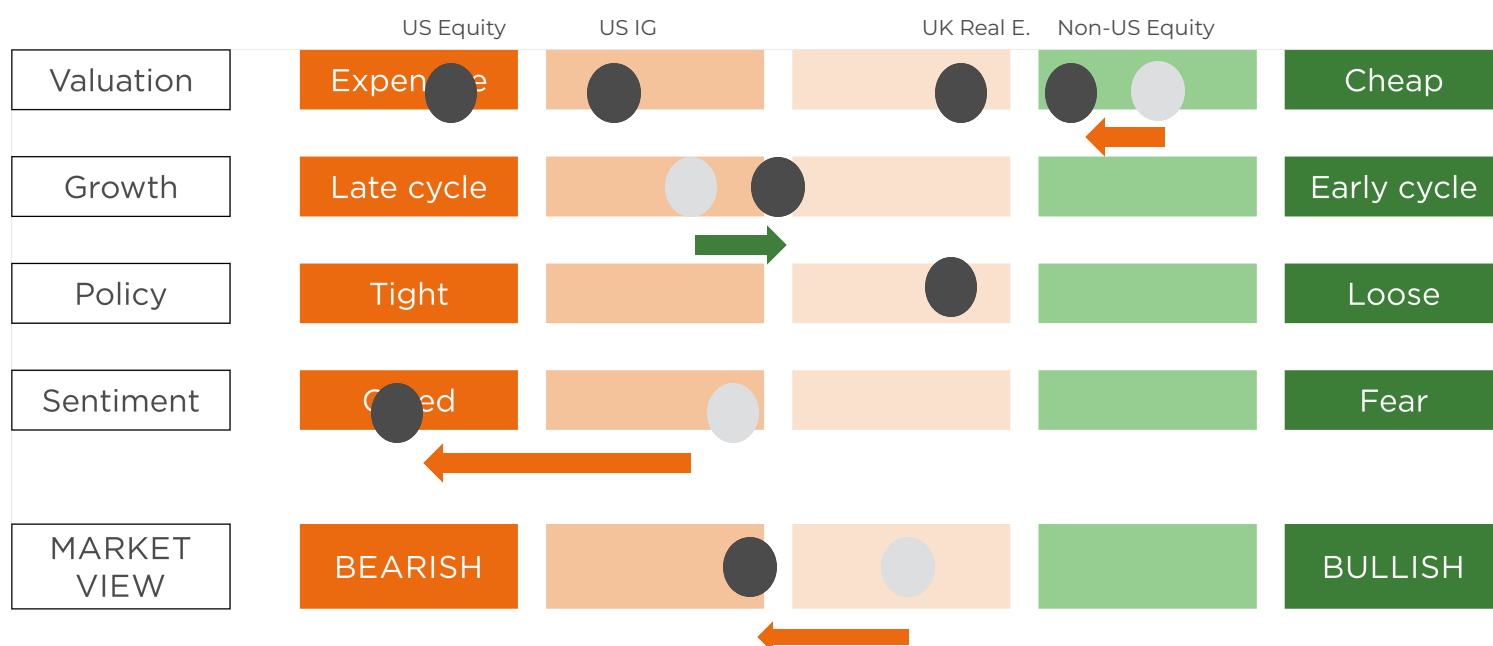


Market Barometer

June 2026

● Last month → Improved
● This month ← Deteriorated



It's (still) all about AI

The intense focus of the stock market remains squarely on the AI stocks. As we show (p4) the AI Winners have more than doubled over the last year, while those thought to be imperilled by AI have fallen by a third. Meanwhile there is a large cohort in the middle where earnings are compounding nicely but whose PE multiple has fallen to ten year lows (p5), many of which are first rate quality stocks (in our view) -- think Microsoft, VISA, AJ Gallagher and RELX. We view this cohort as providing solid forward returns.

Furthermore, **this intense focus on AI is only likely to increase** amid the fanfare surrounding four mega IPOs in the next few months. Starting with SpaceX as soon as this month, which could raise \$50-100bn in cash proceeds and establish a market cap of \$1.75 trillion, something near \$3.5 trillion of new market cap is on the way. **Only time will tell if this turns out to be the apotheosis of the AI trade, or whether it's just the start.**

Elsewhere, we were in Japan last week visiting analysts, companies and policymakers, and came back convinced that **the 18 month bull market in Japanese equity has further to run.** Japanese corporate governance is finally starting to move towards international norms despite management resistance -- we call it "Bowing to the Inevitable". 40% of TOPIX 500 stocks have net cash. A quarter have more than 25% of their market cap in net cash! But a buyback wave has started, along with an M&A wave. Perhaps most critically, inflation expectations of both corporates and consumers are now above 2%, a radical change to the entrenched deflationary mindset that has existed since the mid-1990s.

The Barometer remains supportive of risk assets, although sentiment as viewed by the BAML Bull Bear Indicator (p21) is becoming rather stretched.

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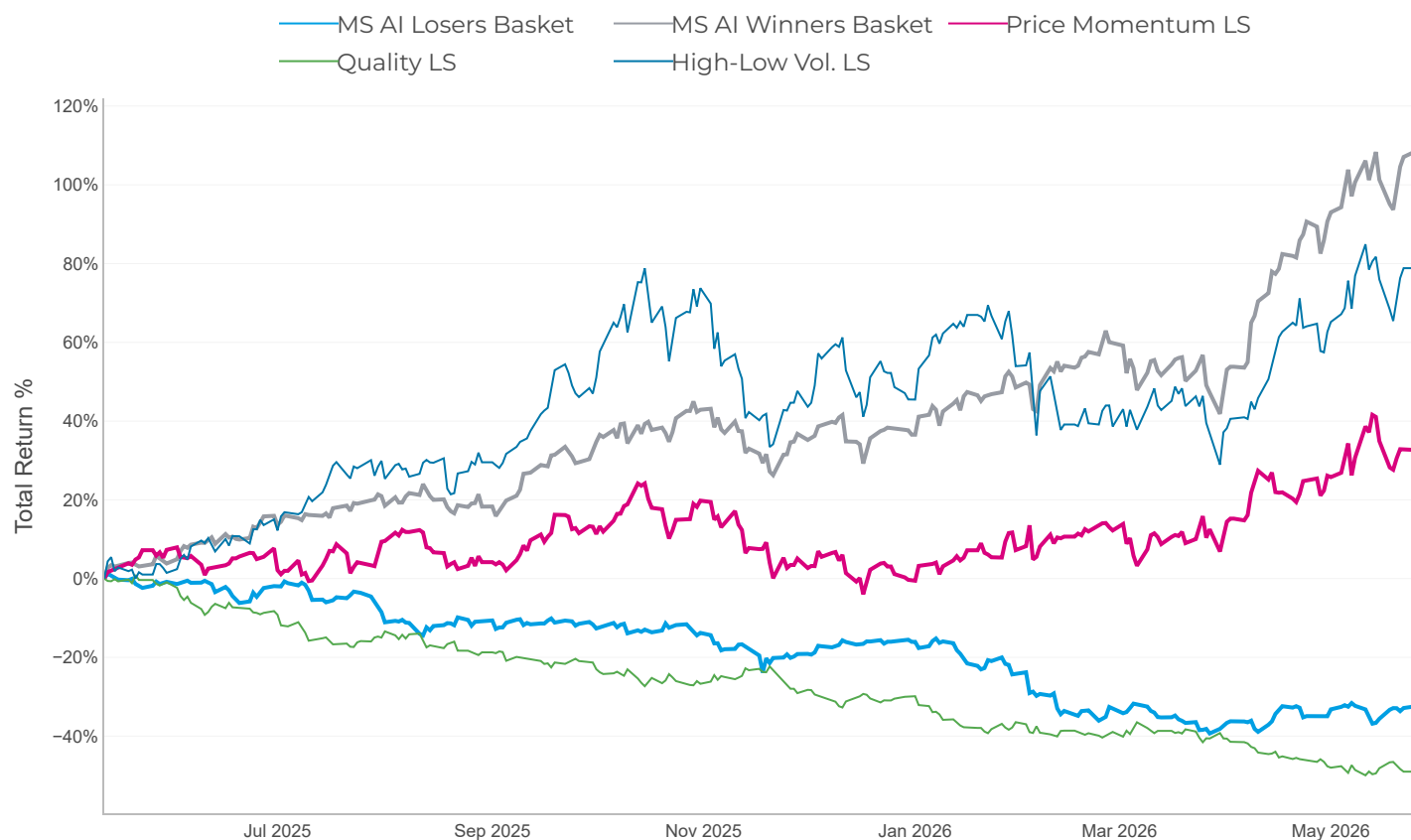
Charts of the month

It's (still) all about AI

For now, it's all about AI and very little else. Morgan Stanley's AI winners basket (grey line below) is made up of 69 stocks of which two thirds are in the US, and sector-wise a half in Semiconductors and Technology Hardware, a third Capital Goods, and the balance in Utilities and the Magnificent 7. Over the last year the basket has more than doubled in value. By contrast their "AI Disruption Risk" (aka AI Losers) basket is down by a third. Until and unless there is a rollover in capital spending on AI - of which there is no sign yet, indeed the boom is if anything accelerating - this seems to be the way the market wants to go.

The by-product is that there is very good value building (or already built) in overlooked stocks whose fundamentals seem to us to be extremely robust (see next page for details). At a macro level this is visible in the very unusual divergence between the High Volatility (read, Risk) long short basket (thin blue line below), up 90%, versus the monotonic fall in High vs Low Quality long short (green line below), down 50%.

Morgan Stanley Equity Strategies



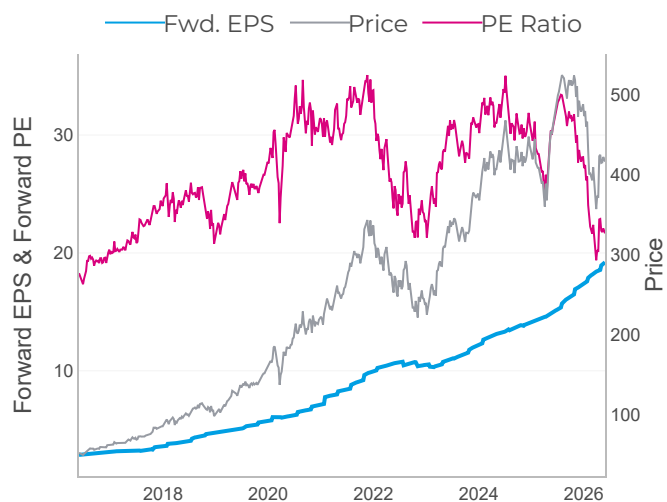
Charts of the month

Quality compounders are being left behind

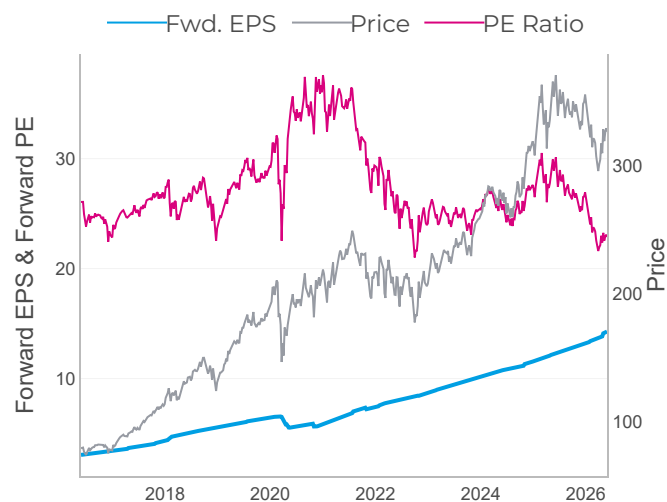
Many first rate stocks are de-rating (PE ratio is falling) despite solid fundamentals. Below are four such stocks where the market is taking a very different view as to the long term sustainability of CFROI than we are. There are many more we could have pointed to. This is a diverse group across Software, Payments, Insurance brokerage and curated data.

To explain, each chart shows that while consensus earnings per share (blue line) is compounding "bottom left top right", the PE multiple the market is willing to pay (pink line) is falling. Not only this, but **the PE ratios for these first line stocks have in all cases fallen to 10 year lows at the same time as the PE ratio for MSCI US (see p8) is close to 10 year highs.**

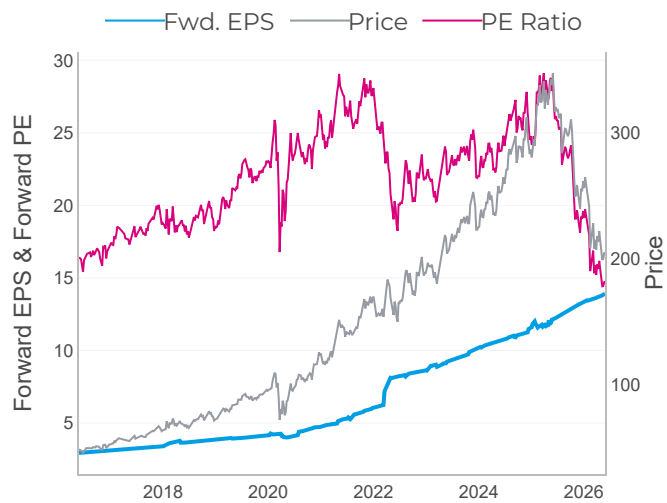
Microsoft



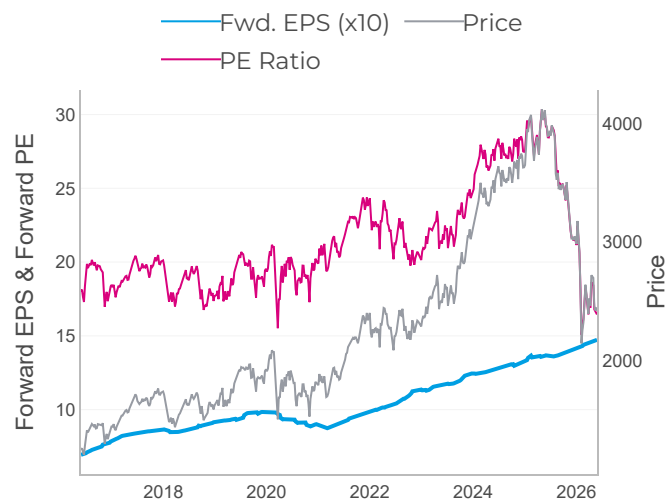
Visa



AJ Gallagher



RELX



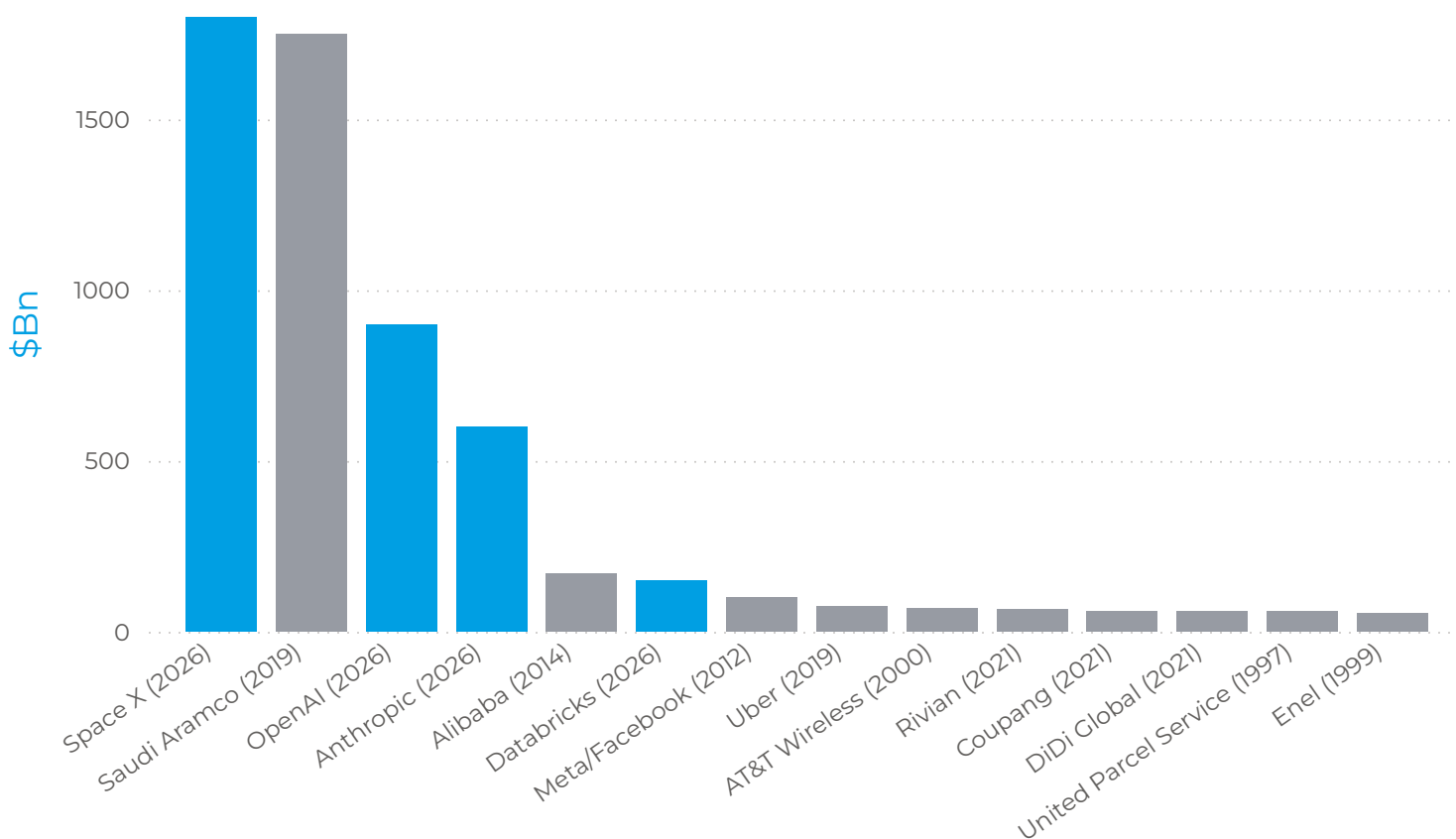
Charts of the month

"Après moi, le déluge". Mega IPOs coming soon

The AI stocks are queuing up to go public, with potentially \$3.5 trillion of new market cap being created. We show below the ten largest deals historically, led by Saudi Aramco's \$1.75 trillion valuation at IPO, along with the four AI IPOs expected during 2026. And while \$3.5 trillion a huge amount, equivalent to the value of the entire UK market, very little is likely to be free float, perhaps as little as 5-10%, according to TD Securities. Even so, that means targeted proceeds could be in the \$150-350 billion range.

Can the market absorb this supply? The short answer is most likely YES. Global IPO proceeds during the recovery of 2021-2 were regularly \$150bn per quarter as cash was put to work. We don't have the same money printing as we had then, but still, the enthusiasm for all things AI makes it highly likely the IPOs will initially be enthusiastically received.

Top Global IPO's by Valuation



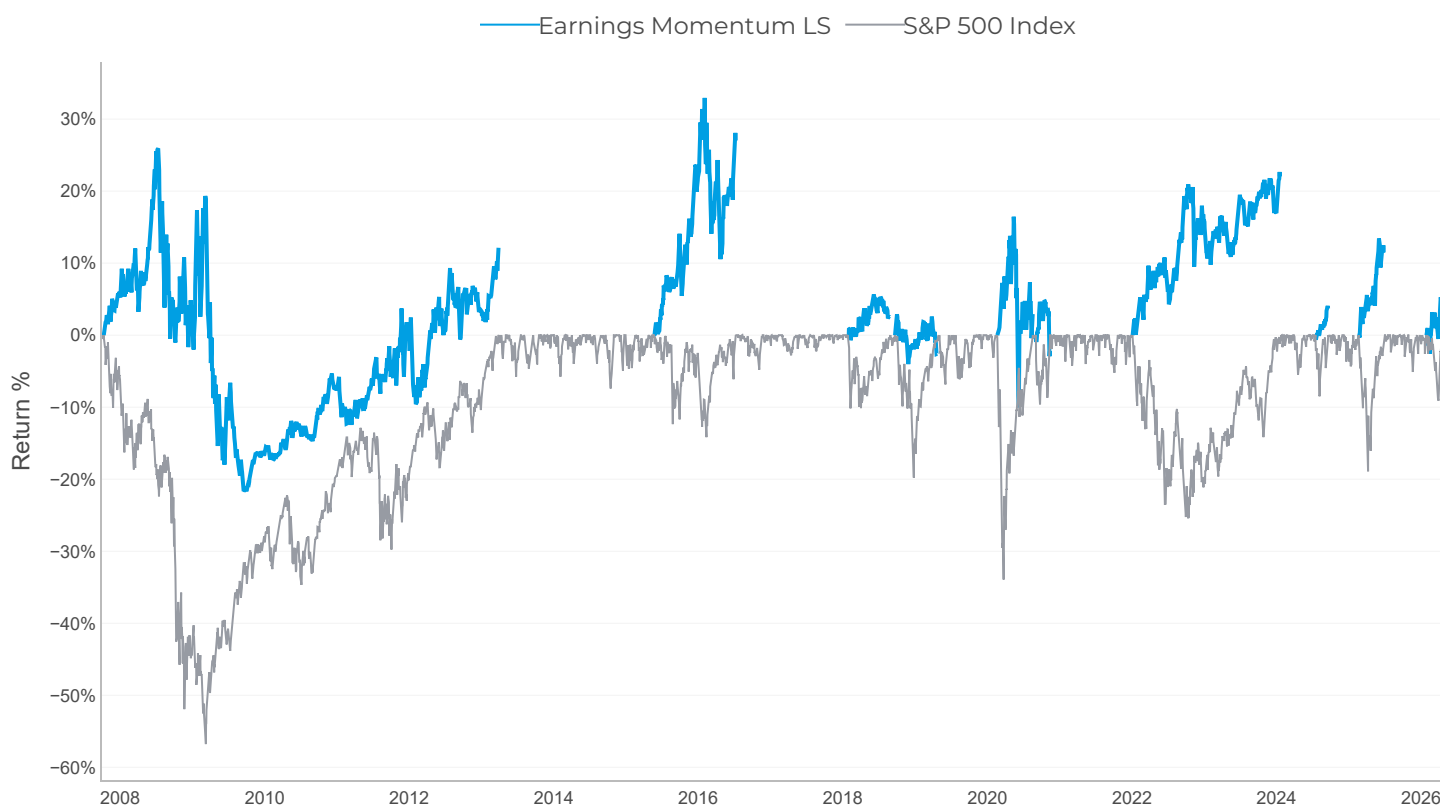
Charts of the month

Equity diversifiers

We continue to seek alternatives to bonds in our quest to diversify equity risk in multi asset funds. This chart shows the track record of a long short Earnings Momentum strategy (in blue) during the peak-trough-back to peak moves in the S&P500.

Earnings revisions are a very effective way to hedge equity risk, while also having a positive expected return over time, in our view.

Earnings Momentum LS during Corrections in the S&P 500



Valuation

Equity | USA

The AI theme remains a clear tailwind, but the re-pricing of the risk-free rate is becoming a headwind elsewhere. Over the last three months¹, 10Y Treasury yields have risen almost 50bps, with TIPS contributing c.35bps and breakevens the balance. Higher real yields and nominals typically weigh on US growth and bond-like assets respectively. Think: gold, tech, biotech, healthcare, utilities, staples, REITs and infrastructure.

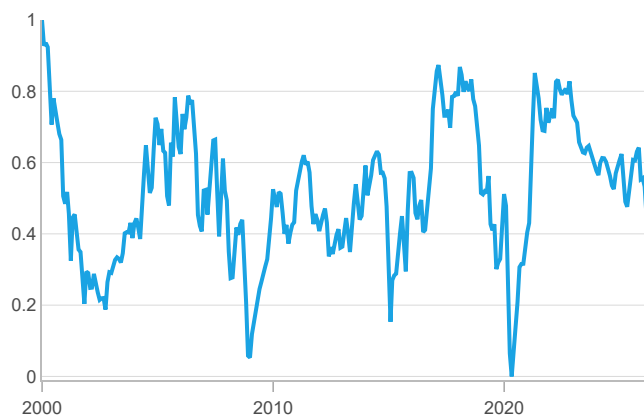
Tech has been the exception - helped by the physical AI theme - semis up c.30%, while other rate-sensitive areas have weakened. Gold -14%, healthcare -5%, utilities -3%, staples -4% and infrastructure -3%². REITs are up 2%, but this is concentrated in data centres +14% and single-family homes +15%, linking back to the same stories: AI demand and higher rates (tailwind for renting). An Iran deal may offer some respite to bond proxies, but a higher Fed neutral rate is likely to maintain real yields and their impact.

S&P 500 valuations

S&P 500 Forward PE



Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at May 2026. Shiller PE/CAPE: Morgan Stanley as at Feb 2026, CVI Model: CCLA as of May 2026, Equity Risk Premium: CCLA as of May 2026.

1: Performance figures rounded, 22 Feb - 22 May. 2: MSCI US Infrastructure

Valuation

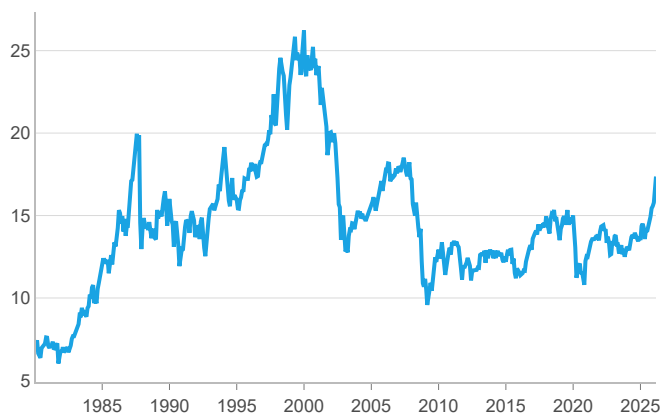
Equity | regional

EM equities look strong on the surface, up 21% YTD¹ and 4.5% since the war², despite higher US real yields pushing the trade-weighted dollar up 0.8% and 1.5% respectively. The detail is less broad-based. Since the war, almost all the upside has come from Taiwan and South Korea, up 20% and 32%, which now make up almost half the index. Narrowing further, TSMC, Samsung and SK Hynix account for over a quarter of EM.

By contrast, since the war, the next five largest markets — China, India, Brazil, Hong Kong and South Africa — are all negative, with EM ex-Taiwan and South Korea down c.15%³. Taiwan and South Korea alone contribute 29% of the region’s 32% earnings growth, suggesting EM is less a typical broad dollar story and more a concentrated physical AI story.

Europe

UK | Shiller P/E

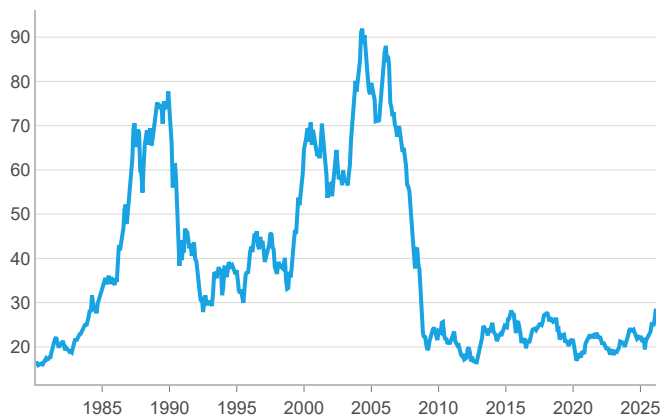


Europe (Ex-UK) | Shiller P/E



Asia & emerging markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of Feb 2026. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. Performance figures are rounded. 1: Year to 22 May. 2: 27 Feb – 22 May. 3: Calculation available upon request

Valuation

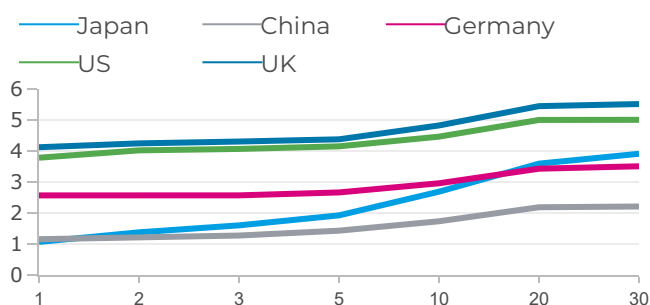
Bonds | sovereigns

The rise in developed market yields began before the Iran conflict, but the war has added momentum to the move. In the US, 10-year real yields have risen by 38bps and breakevens by 15bps; in the UK, the equivalent moves are 23bps and 31bps respectively. **An Iran deal could provide some relief to inflation-risk pricing, but markets are also reassessing more structural pressures:** wider fiscal deficits, stronger commodity demand and ageing population gradually drawing down savings, all of which increase the return required to attract new capital. This is already visible in the sharp rise across term premium models and real rates.

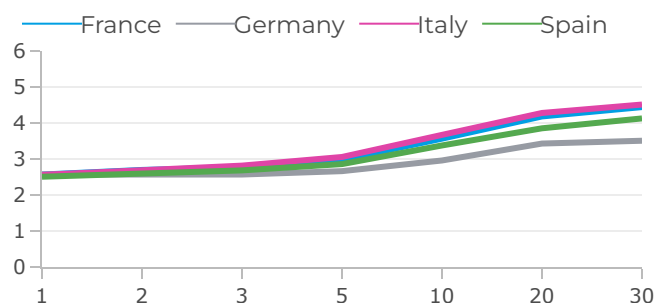
AI could help dampen inflation, as previous technological advances have done, but it may also lift trend growth and therefore real rates. Taken together, these forces suggest developed market yields are likely to remain higher over the coming years.

Global government yields

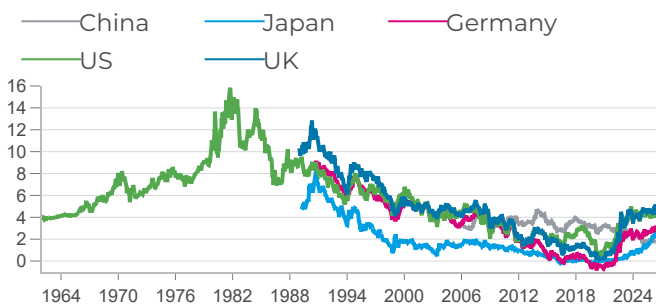
Global Treasury Yield Curves (Term vs %)



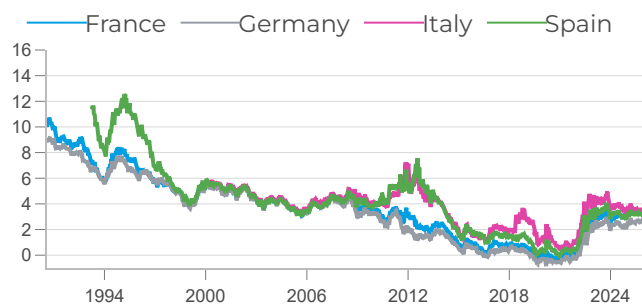
European Treasury Yield Curves (Term vs %)



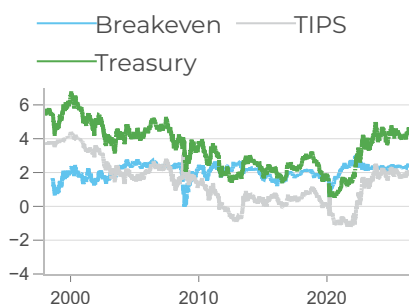
Global 10Y Yields %



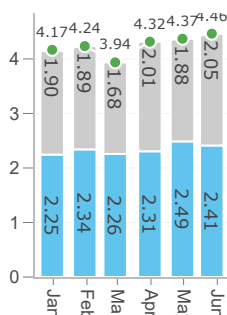
European 10Y Yields %



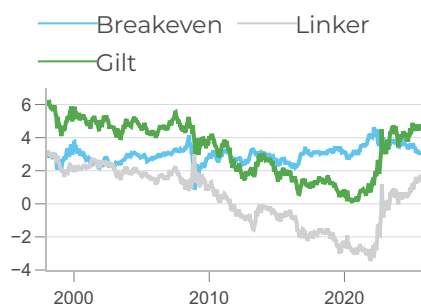
US 10Y Yields Breakdown %



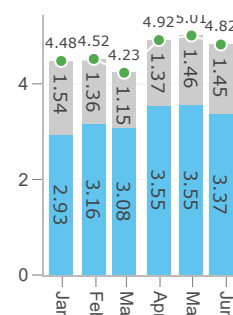
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



Valuation

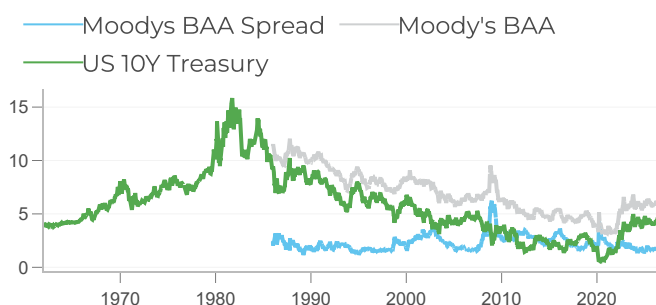
Bonds | credit

US consumption is still running hot (real PCE ~4% vs ~3% 12 month avg). But it doesn't feel like a boom: confidence is depressed (49.8, ~2σ below trend) and the saving rate is scraping lows (3.6%, ~6th percentile). Wages are still doing the heavy lifting, but this is not a healthy, self-sustaining upswing.

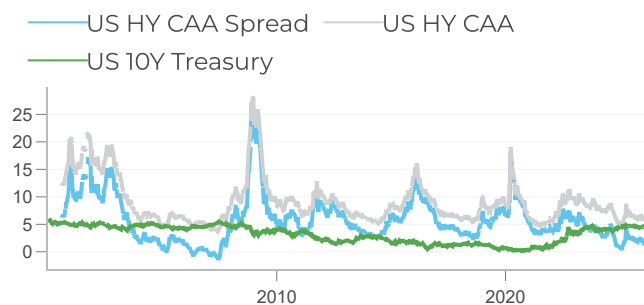
The support is mechanical: Consumption = Income – Savings + Net Borrowing + Net Taxes. Income growth is still ~3.9% - enough for now - but it's rolling over. Savings can't fall much further, so it will eventually become a constraint. Tax refunds are a near-term one-off tailwind, but should fade into year-end (~\$40–45bn refunded so far vs ~\$90bn potential total). Borrowing has re-accelerated (+3.5% in March) but so have mortgage delinquencies. **Bottom line: spending can keep going near term, but the risk is these engines lose steam and consumption slows next year.**

Global credit yields

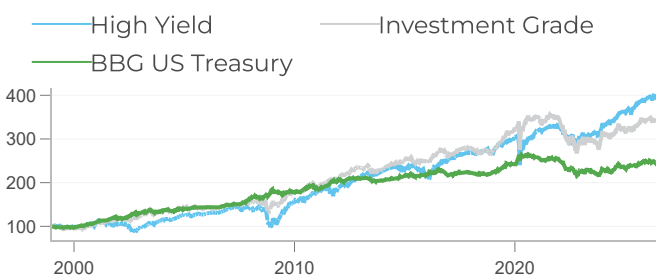
US Corporate Investment Grade Yield %



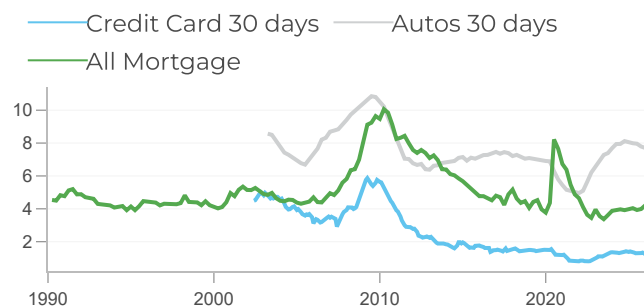
US Corporate Sub-Investment Grade Yield %



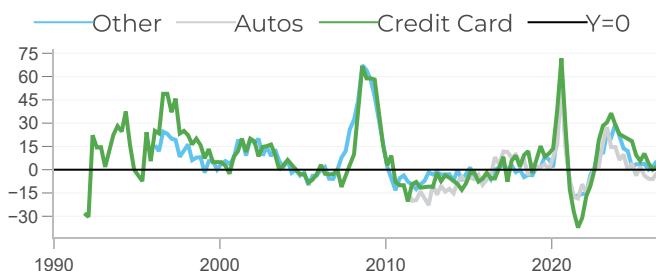
US Tr. vs IBoxx IG and HY Total Return \$ (100= 31 Dec '98)



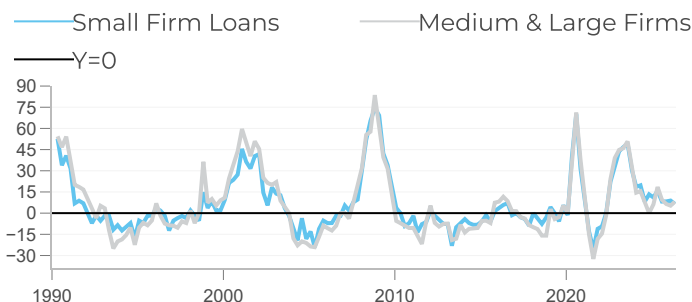
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loan Officers Survey, CCLA, Bloomberg as at May 2026.

Valuation

Alternatives

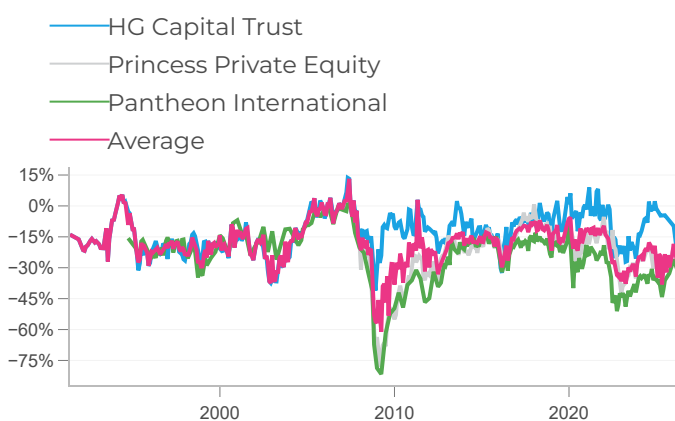
The oil market looks superficially stable, with Brent and WTI around \$100 suggesting the system is not yet breaking down. But that stability is being held together by inventory buffers. The Strait remains under pressure: logistical workarounds, such as ship-to-ship transfers and cross-land pipes, are allowing some flows, estimated at c.1mb/d, or only c.5% of normal, but with further cost friction.

The key issue is that headline inventories overstate usable supply. Of c.7.6bn barrels of global stocks, only c.400m barrels may be drawable without operational stress, as inventories are needed to keep refineries and physical systems running. **The current deficit has been curbed to c.5.4mb/d, but rises over time, with analysts expecting drawable stocks to be depleted by mid-to-late July.**¹

Global valuations

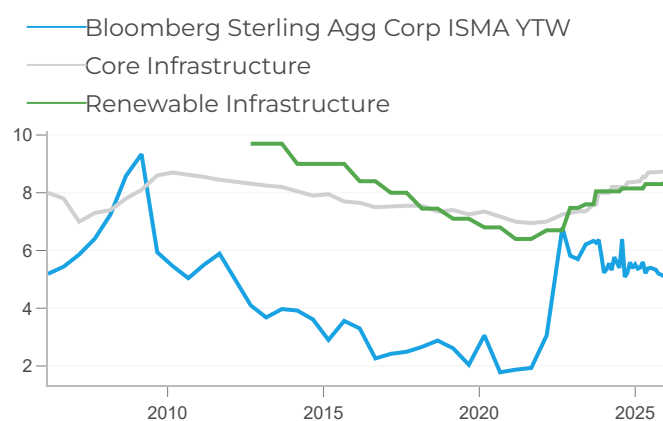
Listed Private Equity

Discount To NAVs



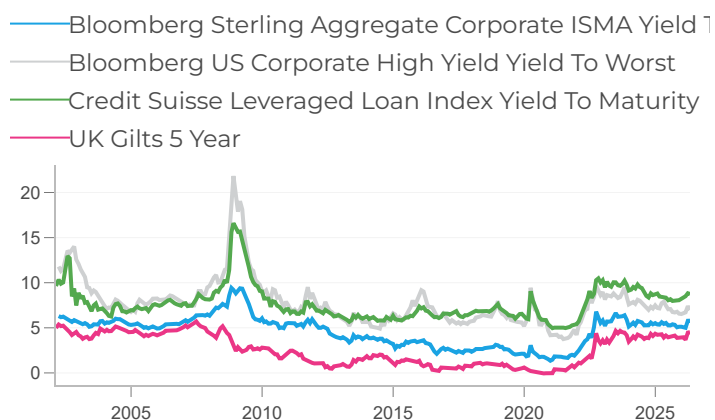
Infrastructure

Infra. Discount Rates vs Bond Yields



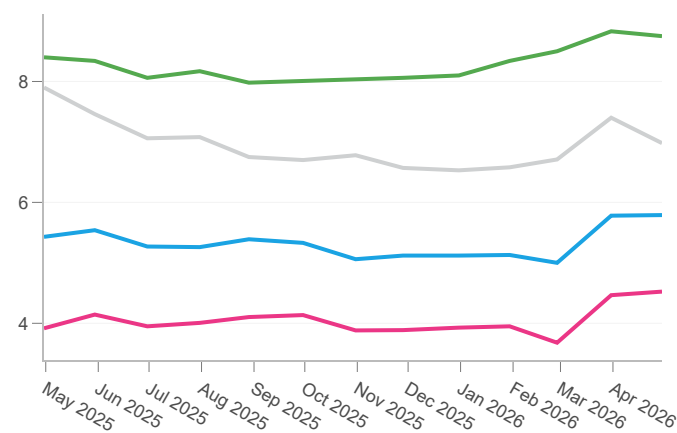
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook as at May 2026 (latest data available); Infrastructure: CCLA, Bloomberg; Contractual Income: Bloomberg, Pitchbook. Data as of May 2026. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of May 2026 (latest data). 1: Information for this commentary has come from Societe Generale: 'Commodities Compass 18 May 2026'

Valuation

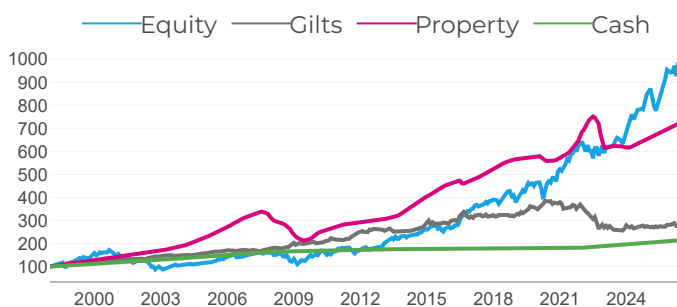
Property

The Iran conflict has triggered a construction supply-chain price shock, with higher energy, raw material and input costs raising the cost of new development. This is discouraging developers from bringing forward projects, which is negative for near-term activity but reinforces the wider shortage of new, high-quality commercial space. In turn, limited new supply should keep tenants in existing buildings for longer and leave them with weaker bargaining power on rents.

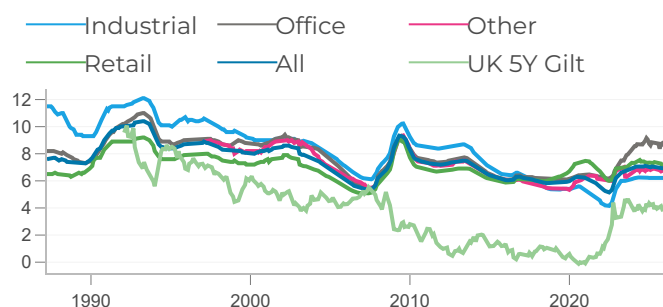
Against this backdrop, equivalent yields remain healthy at 6.8%, broadly stable over the last two years.

UK commercial property market

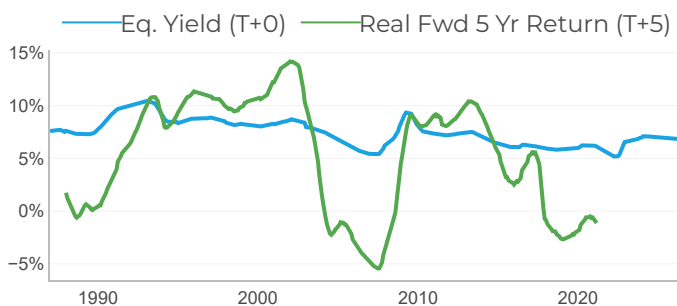
25 Years Of Return 1998=100



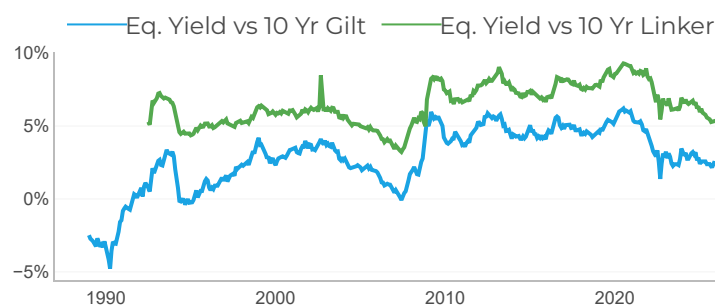
Equivalent Yields vs Gilt Yields %



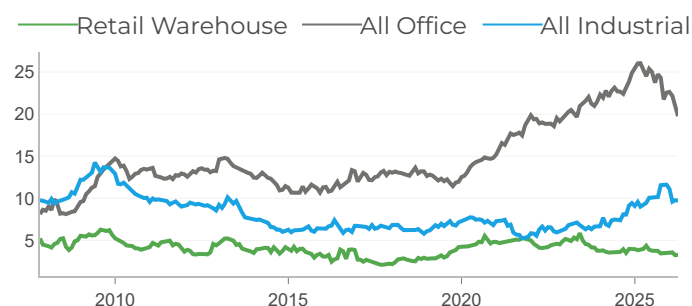
MSCI UK All Property Monthly TR Index %



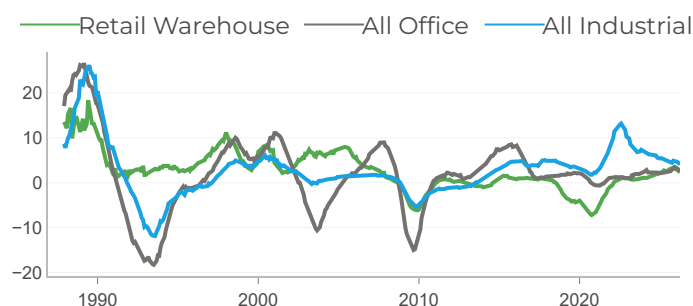
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at April 2026. 25 Years of Return, All Property Monthly TR Index as at April 2026.

Valuation

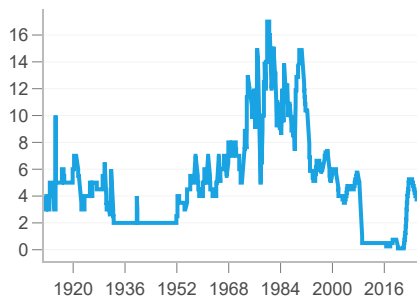
Cash

The UK picture looks stronger in the rearview mirror, but softer at the margin. Q1 GDP beat expectations, rising 0.6% q/q, or c.2.5% annualised, although residual seasonality may be flattering the headline. Under the surface, the labour market is cooling: payrolls fell by c.100k m/m, vacancies are rolling over, unemployment edged up from 4.9% to 5.0%, and private regular pay growth eased from 3.2% to 3.0%, pointing to weaker domestic pricing power.

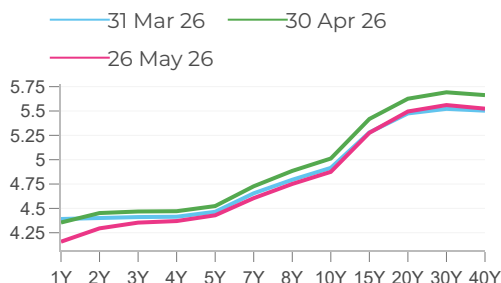
April CPI also cooled quickly, with headline inflation falling from 3.3% to 2.8%, core from 3.1% to 2.5%, and services from 4.5% to 3.2%, helped by rail fare freezes, energy subsidies and post-Easter airfares. The latest May flash composite PMI also points to contraction. **Overall the UK risks moving from a positive growth-surprise story to a negative stagflationary story.**

UK sterling market

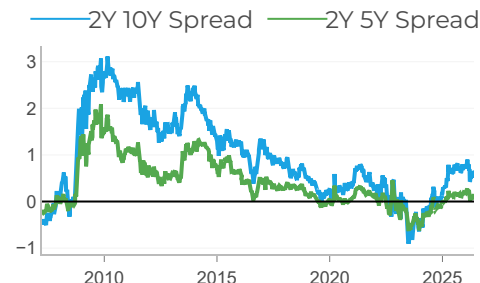
Official Bank Rate



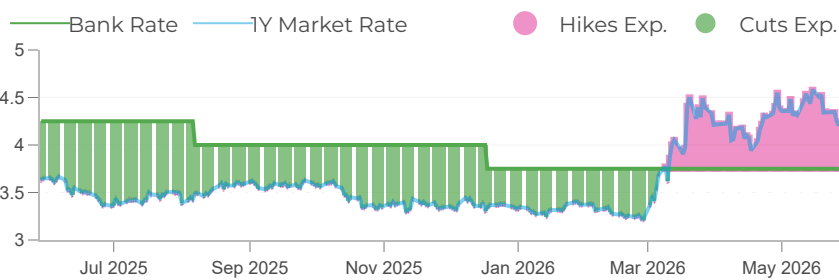
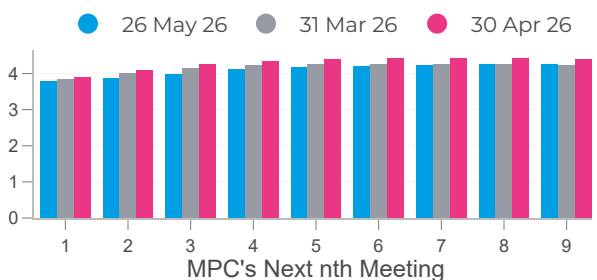
UK Gilt Curve



Gilt Spreads



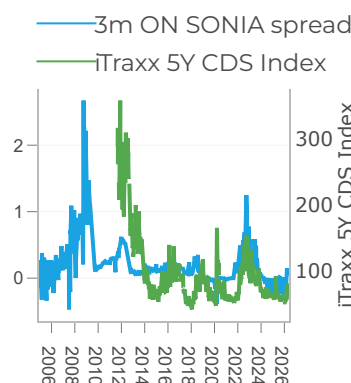
Rate Expectations For Future MPC Meetings 1Y Forward Market Rate Expectations



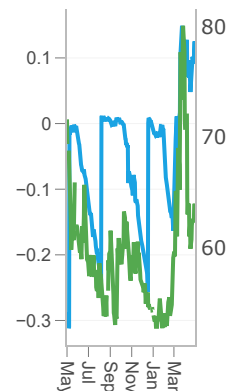
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025		2026			
	Nov...	Dece...	January	February	March	April
RPI	3.80	4.20	3.80	3.60	4.10	3.00
CPI	3.20	3.40	3.00	3.00	3.30	2.80
CPI Core	3.20	3.20	3.10	3.20	3.10	2.50
CPI Services	4.40	4.50	4.40	4.30	4.50	3.20
CPI Goods	2.10	2.20	1.60	1.60	2.10	2.40
Priv. Wages	3.30	3.40	3.30	2.90	3.00	

Market Stress



Last 12 Months



Sources | iTraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of May 2026.

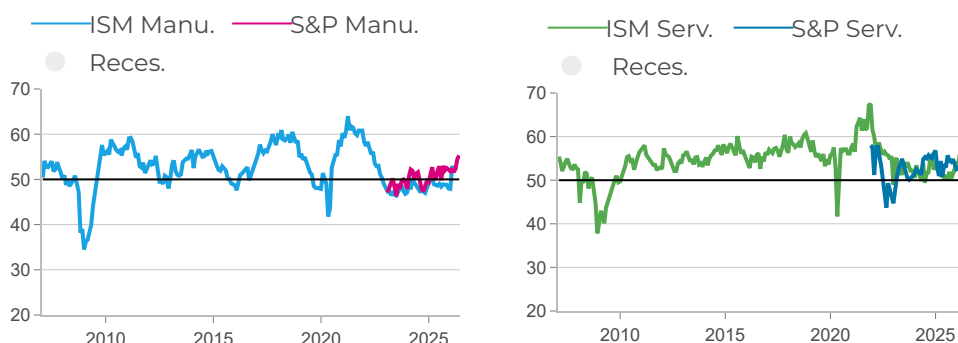
Growth

PMIs

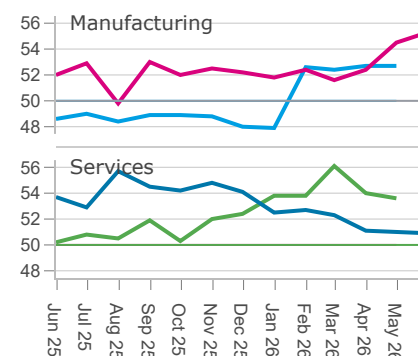
US activity remains marginally expansionary (Flash Composite PMI: 51.7), but services are close to stagnation at 50.9, while manufacturing rose to 55.3 on domestic stock-building. Inflation is the main concern, with manufacturing prices seeing their sharpest rise since June 2022. **For the Fed, stable headline growth and labour data mean inflation remains the main concern.**

UK activity has weakened (Flash Composite PMI: 48.5), led by services falling to a 64-month low of 47.9. Manufacturing improved to 52.4, but largely due to stockpiling ahead of price rises. Orderbooks softened, payrolls declined, and input costs stayed elevated. **The mix looks stagflationary, but weak growth builds a case over inflation concerns for policy.**

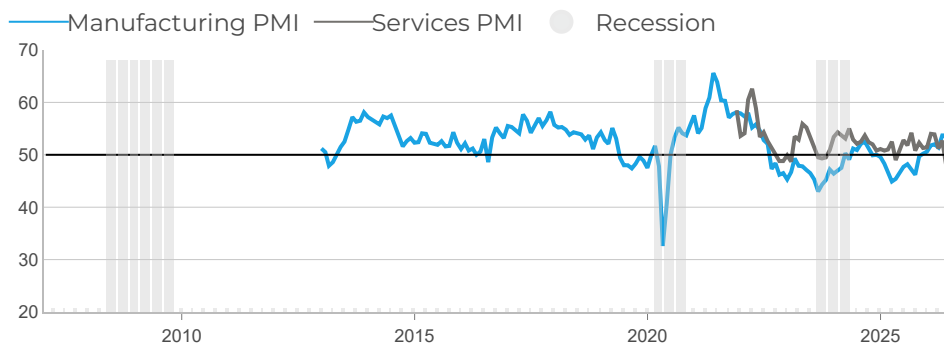
United States



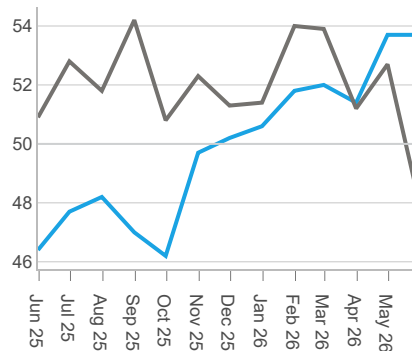
Last 12 Months



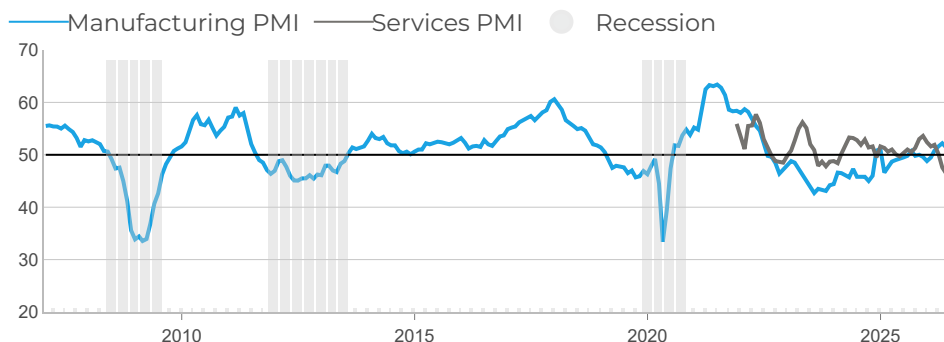
United Kingdom



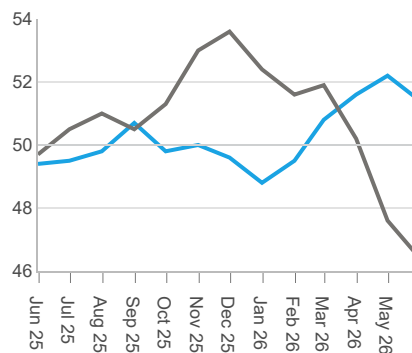
Last 12 Months



Eurozone



Last 12 Months



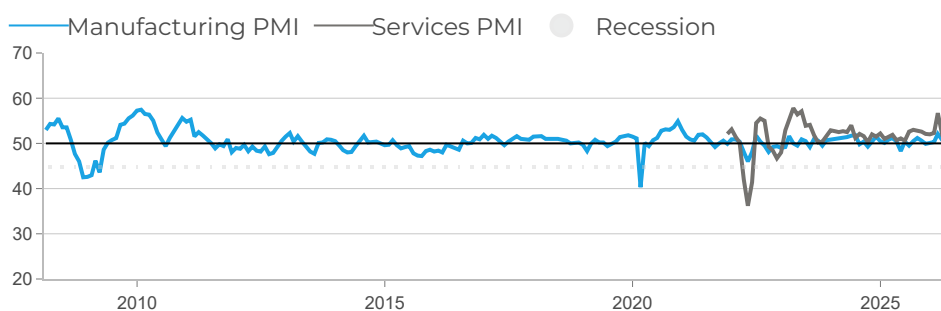
Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of May 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP. ¹ Purchasing Managers' Index (PMI).

Growth

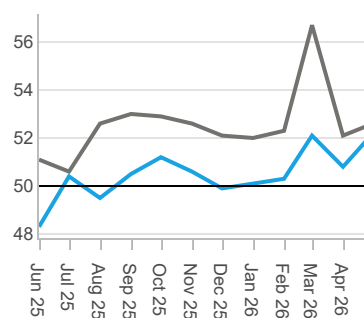
PMIs

Eurozone activity weakened further in May (Flash Composite PMI: 47.5), with the downturn led by services at a 63-month low, while manufacturing stayed only marginally expansionary. Demand softened across new orders, exports and backlogs. Inflation pressure re-accelerated, with input costs at a 3.5-year high. Employment fell again, reinforcing a stagflationary mix of weaker activity and renewed price pressure. **Despite the mix, commentary from the ECB looks poised to hike later this year.**

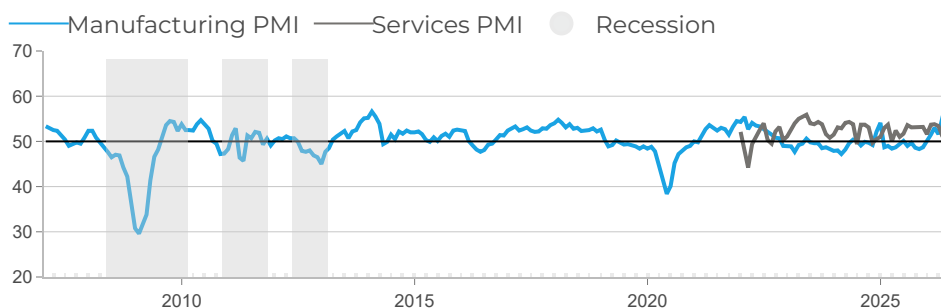
China



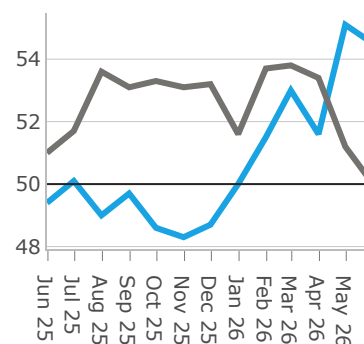
Last 12 Months



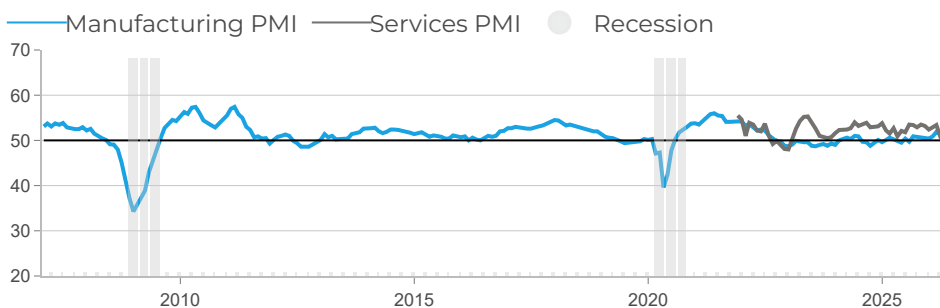
Japan



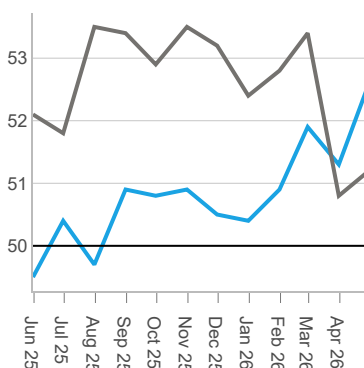
Last 12 Months



Global



Last 12 Months



Sources | All countries including global: S&P Global as of May 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP.

Growth

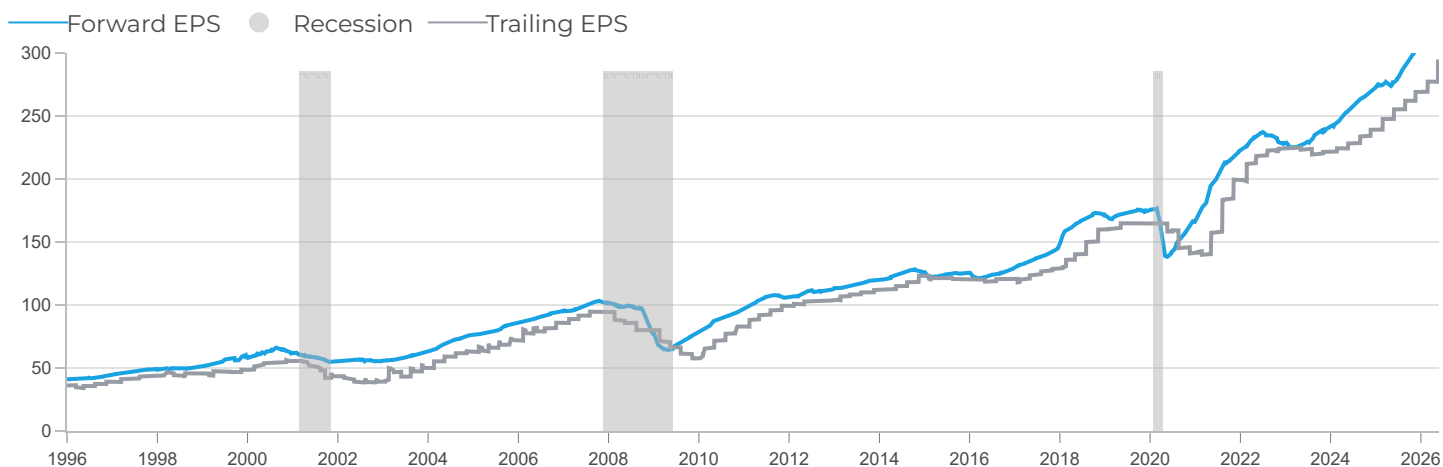
Earnings | USA

US Q1 earnings season is nearly complete, with 473 companies reported. **Results have surprised positively across all sectors, with index-level EPS beats averaging over 16% and sales beats near 2%. This lifted Q1 sales and earnings growth to c.11% and c.27%**, among the strongest since 2021. Mag 7 EPS growth remains exceptional at 63%, but the remaining 493 still grew a strong 17%.

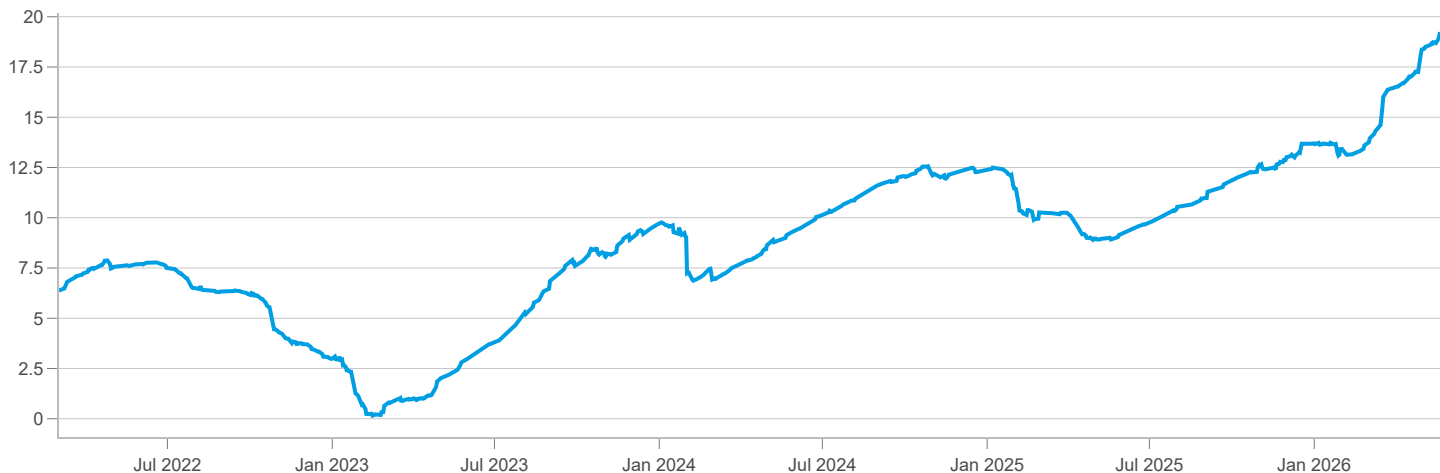
Europe on the other hand is more nuanced. EPS growth reported at 7.5% - fastest growth since Q1 2023 - and well ahead of 2.5% consensus, but ~45% of companies saw downgrades to their 2026 EPS forecasts. In fact, excluding the Energy sector, the index is broadly flat.

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at May 2026. 1: Data for commentary taken from Factset 'Mag 7 and Other 493...' 21 May 2026.

Growth

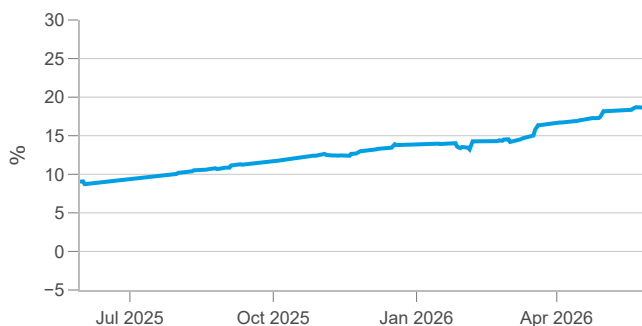
Earnings | regional

Developed markets have picked up their blended forecasted 12M forward Earning Per Share (EPS) growth rates. USA is now ~20%, above last January's peak. Europe (ex UK) and UK are following a similar pattern around ~10% respectively.

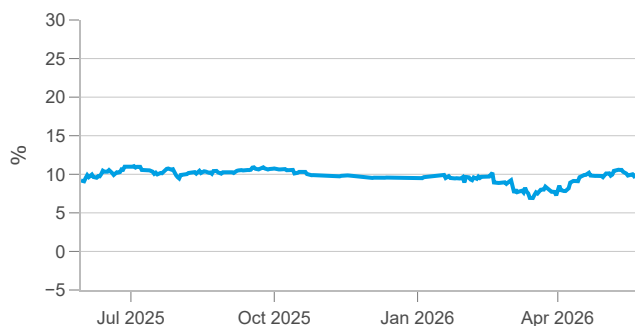
Emerging Markets continue to outpace other regions with an EPS growth rate above 35% - largely driven by Taiwan and South Korea.

Regional rolling 12m blended forward earnings growth

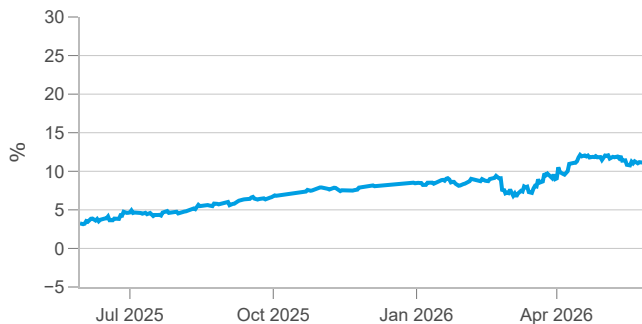
MSCI USA



MSCI EU ex UK



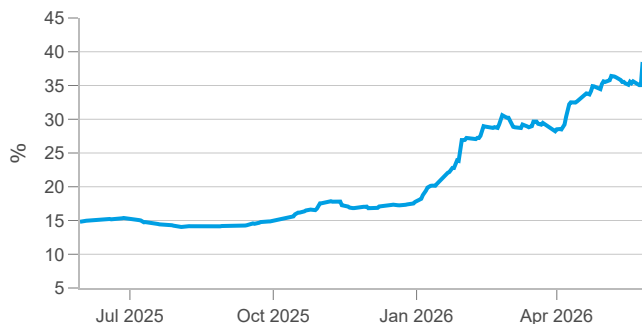
MSCI United Kingdom



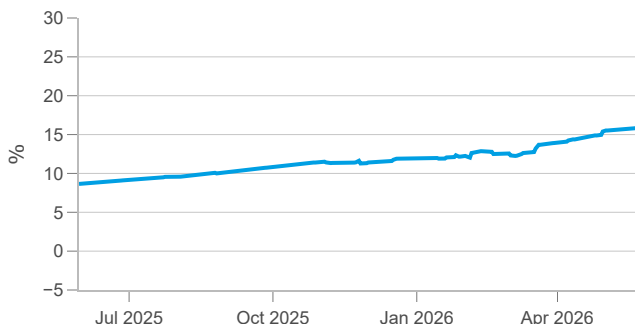
MSCI Japan



MSCI Emerging Markets



MSCI World



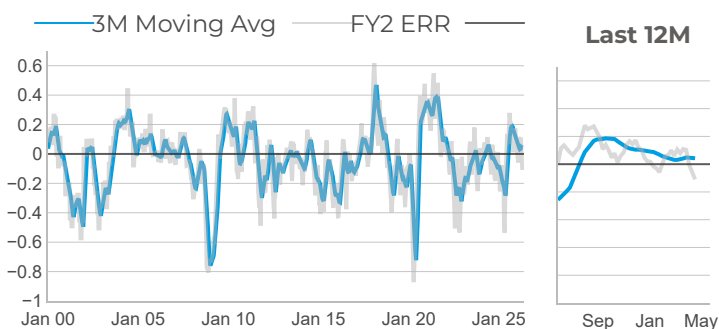
Growth

Earnings | revisions

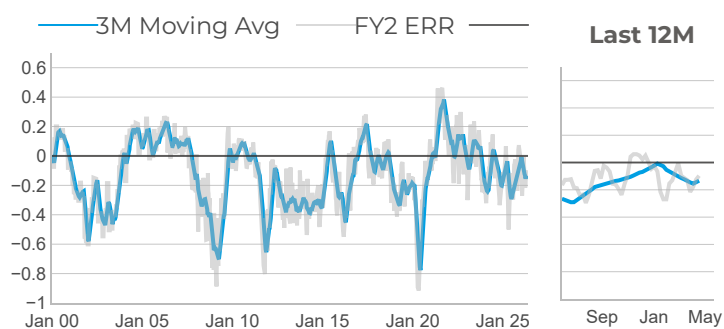
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global earnings revisions ratios

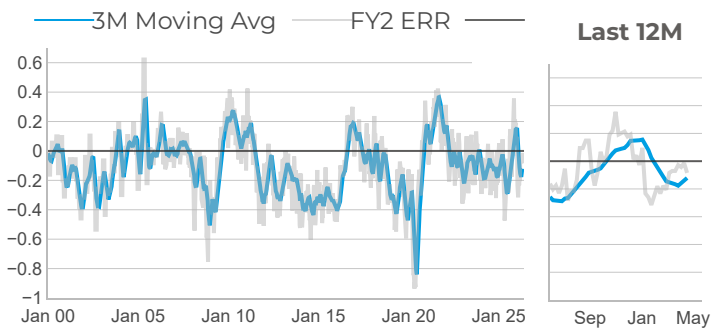
USA



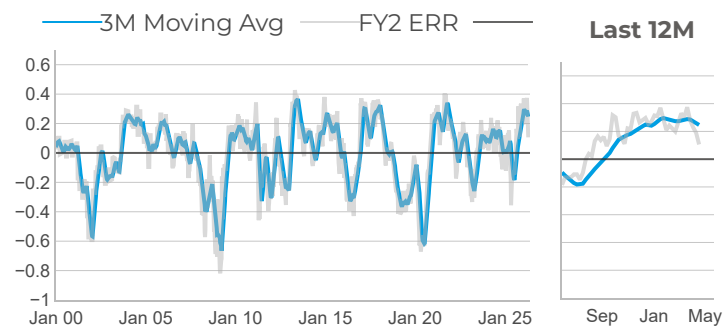
Eurozone



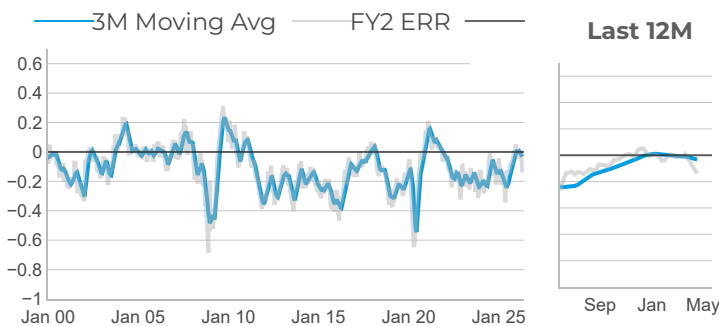
UK



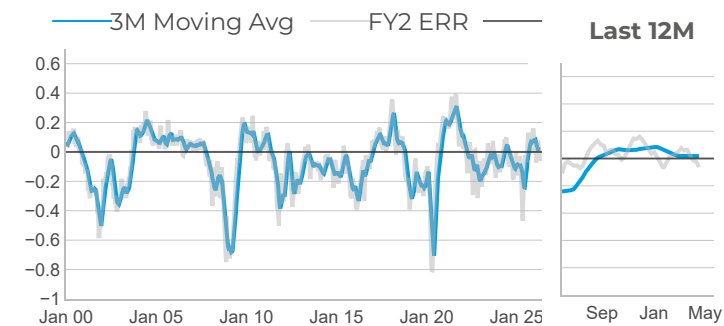
Japan



Emerging Markets



World



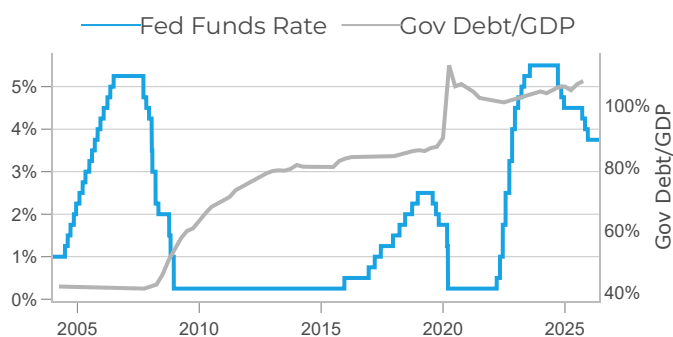
Policy

The Fed's April minutes suggest policymakers were more hawkish than the initial statement implied.

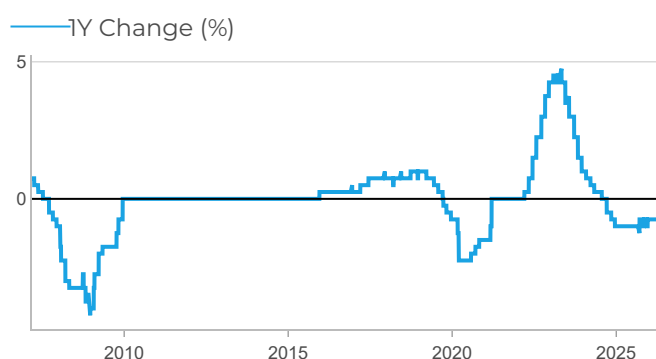
While only three members publicly challenged the continued use of language pointing to an “easing bias”, the minutes showed that “many participants” favoured removing it altogether. We may see this sentiment continue into June pushing Kevin Warsh’s first meeting into a hawkish tone.

With the energy price shock proving more persistent, inflation pressures rising and labour market data still resilient, further rate cuts this year look increasingly hard to justify. Markets now assign a meaningful probability to one Fed hike this year.

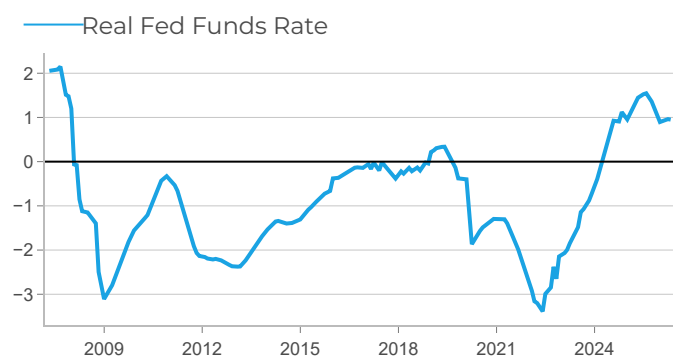
Fed Funds Rate



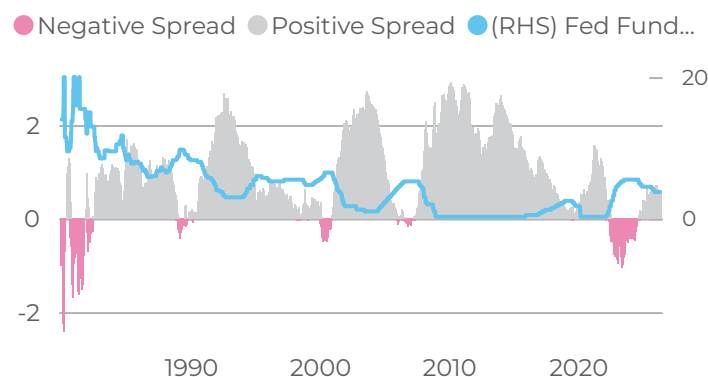
Change in Fed Funds Rate



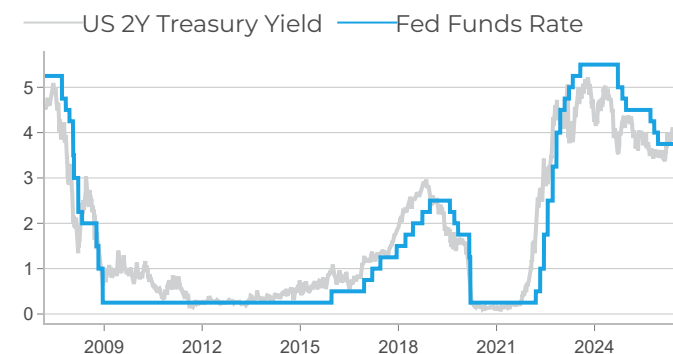
Real Fed Funds Rate (Using 2Y MA CPI)



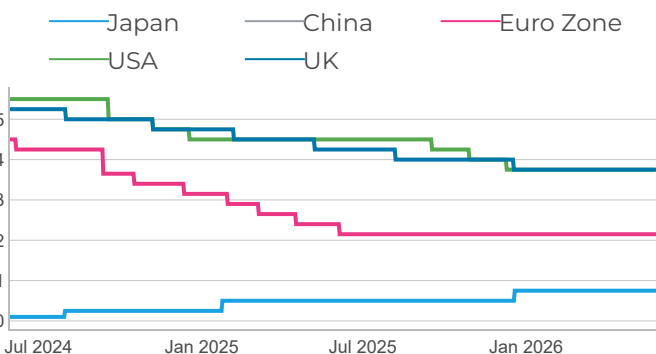
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



Sources | Bloomberg for all charts, as of May 2026. 1: Greenland-Iceland-UK Gap: a geographical chokehold separating the Atlantic from Europe.

Sentiment

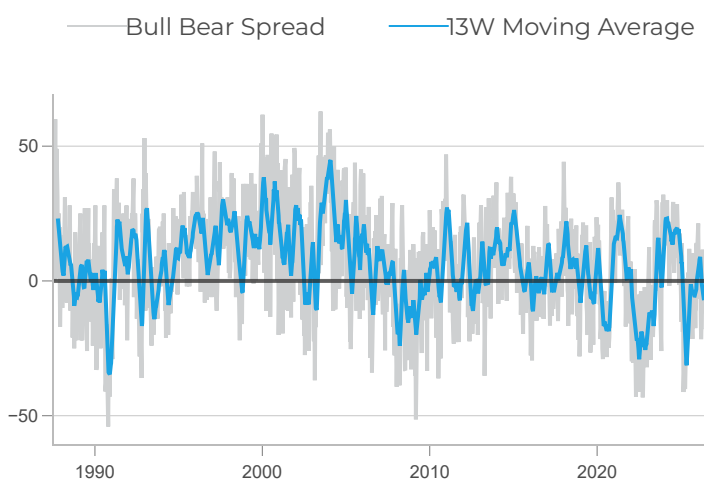
Equity

The BAML Hartnett Bull & Bear Indicator has stretched to 8.5. This is once again closing in towards peak bullishness and has historically been a signal to sell.

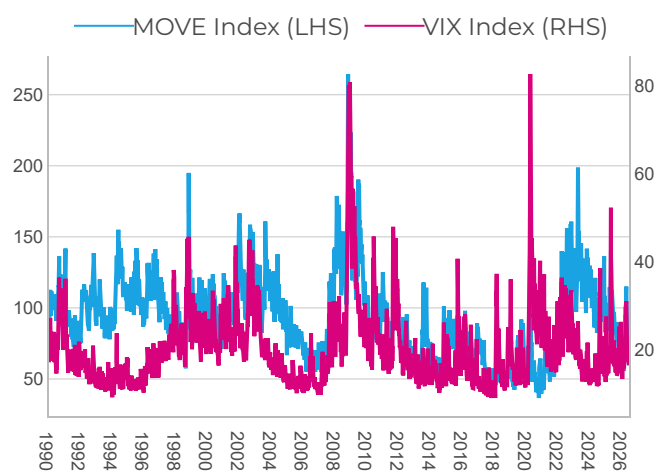
The value can be attributed to bullish sentiment across almost all metrics - HY and EM debt, hedge fund positioning, equity and bond flows, credit technicals - just to name a few.

US equity indicators

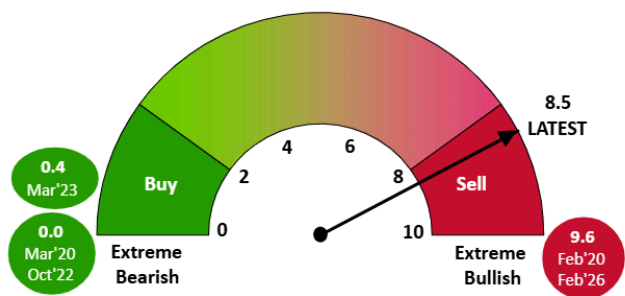
AAII Bull Bear Spread



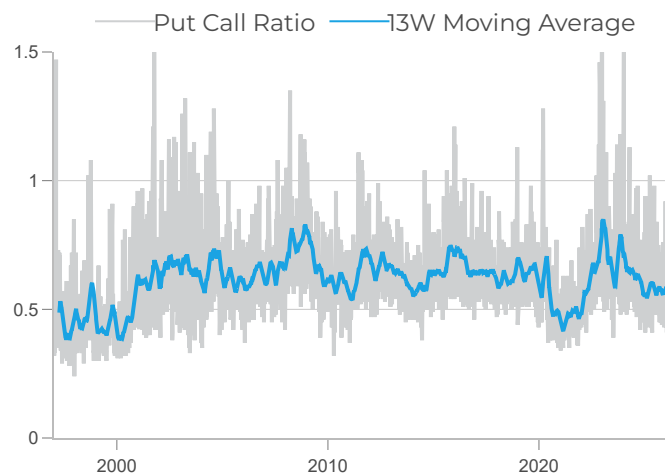
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of May 2026.

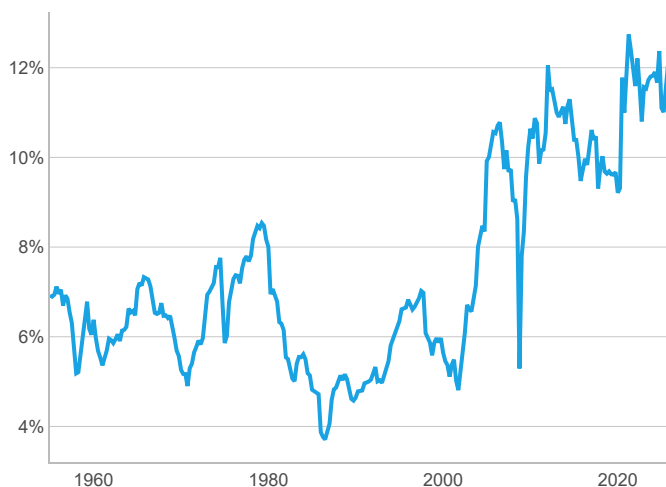
Other observations

The big picture

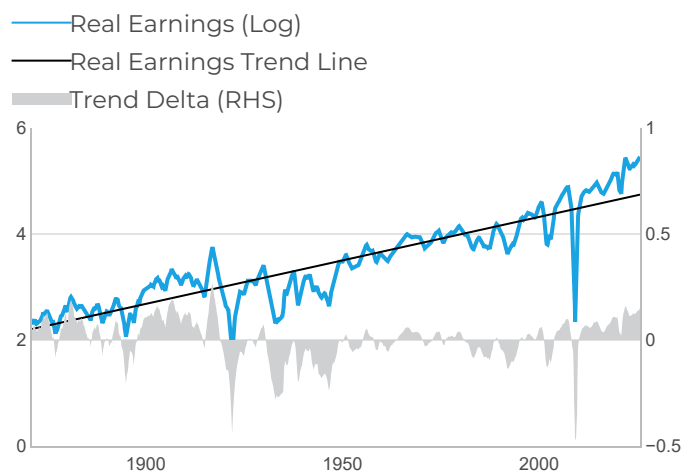
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, US forward 10 year returns could be much lower than suggested by the ERPs.

Long-term imbalances

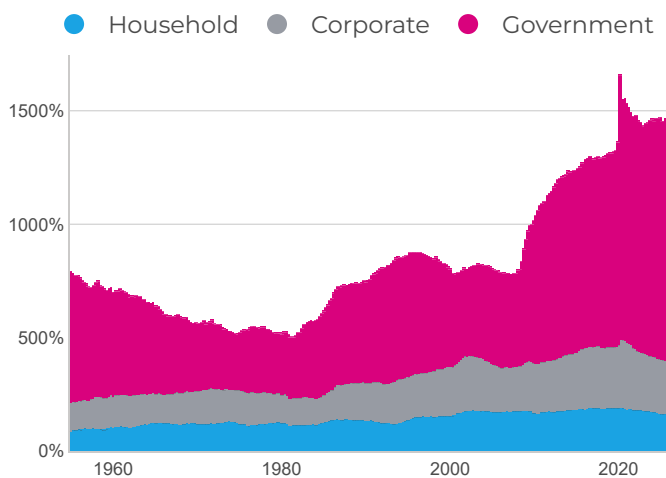
Profit Share of GDP



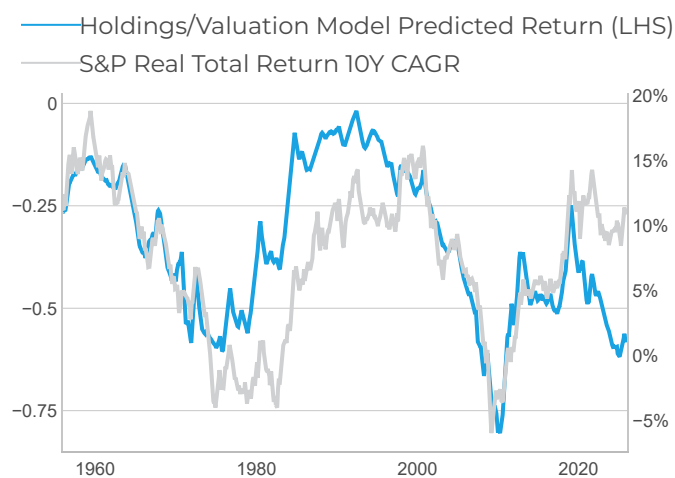
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED) as at Sep 2025 (latest available); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at May 2026.

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