UK MPS investment update

July 2026 (written 6 July 2026)

Portfolio asset allocation

	Risk profile 3	Risk profile 4	Risk profile 5	Risk profile 6	Risk profile 7
Debt and Fixed Interest	59.2	46.6	31.6	16.9	0.0
International	18.6	18.1	13.0	8.9	0.0
Government	23.5	14.7	9.4	4.0	0.0
Corporate	17.2	13.8	9.2	4.0	0.0
Equities	20.8	41.1	61.2	80.7	97.6
Emerging Market	1.3	5.0	7.8	10.2	11.5
Europe	0.5	1.1	1.3	1.6	2.5
Japan	1.1	1.2	2.1	2.6	3.3
North America	4.5	9.1	16.6	23.1	27.6
Thematic	1.1	3.5	6.1	7.8	9.7
United Kingdom	5.0	8.5	10.1	14.4	17.4
International	7.3	12.9	17.2	21.0	25.6
Alternative Investments	14.7	9.6	4.6	0.0	0.0
UCITS Funds	12.8	7.7	2.7	0.0	0.0
Commodities	2.0	1.9	1.9	0.0	0.0
Cash	5.3	2.7	2.6	2.4	2.4

Data as at 30 June 2026

Core inputs to our asset allocation framework

The economy

The global economy continues to move forward. There are no signs of an imminent downturn, although risks remain.

As the US celebrates its 250th birthday its economy remains the ‘envy of the world’, fuelled by Artificial Intelligence (AI) -driven capital expenditure, strong consumer consumption, loose fiscal policy and signs of a recovery in manufacturing.

Asia’s growth path remains bumpy, helped by some of the same technology themes as the US, but hindered by elevated energy volatility. While the economies of Europe and the UK remain uninspiring, but not disastrous.

Inflation

The immediate inflation outlook remains mixed. There are obvious pressures emanating from the Iran war, not least fluctuations in global energy prices. However, the recent cooling in oil prices is keeping inflation expectations in check. At the same time, second-round’ impacts on vital products like fertilisers, combined with higher transport costs, remain a cause for concern.

There are offsetting factors, such as moderating shelter costs, so inflation uncertainty is very much still the order of the day.

Interest rates

The extraordinary volatility in interest rate expectations this year has kept us all entertained. At the start of the year, it was widely expected that rates would be cut in the UK and the US.

With the onset of the Iran war and its rippling effect across global commodity markets, forecasts and market pricing of interest rates rose aggressively, indicating that rates on both sides of the Atlantic would have to be raised.

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Now markets are back to the view that there will be broadly no movement in rates until next year and there is the possibility of an 'insurance hike' (a precautionary hike against inflation risks becoming more persistent). This now seems a sensible projection to us.

Corporate earnings

Corporate earnings are once again an important focus. With another outstanding quarter in the books, companies are about to outline their second quarter performance. Much is expected in both the last three months' revelations and the coming quarters.

Obviously, such lofty expectations can bring the risk that there is disappointment, but this has not been the case over the last few years, with companies repeatedly continuing to deliver strong results. Hopefully the same will happen again.

Valuation and positioning

There are signs of complacency that we must monitor. Some equity investments linked to areas of technology have performed incredibly well and enthusiasm is overly exuberant. But we believe these areas (while improving for sentiment) are specific rather than a systemic risk for markets.

Both bond and equity pricing still strikes us as broadly 'full but fair'. It is hard to argue markets are cheap, but there are reasons to justify their decent performance this year, as we will go on to discuss.

Key subject of the month: Half time scores

Given the World Cup continues, we will keep up with the football themes.

We would describe the first half of 2026 as a fast and furious match, but one that ended in a deserved victory for investors. Nerve-wracking at times, certainly, but ultimately satisfying for all.

There were similar traits to last year's match, with volatility in the first quarter, a significant drawdown for equity markets, led by the technology sector, before that same sector fuelled rampant gains across global markets in one of the most stunning recoveries in history.

The two questions we are receiving most from clients are: 'why is there a disconnect between the negative geopolitical news I am reading and positive market performance?' and 'after four years of strong gains for equities should I be de-risking?'.

Answering the first is easier. The fantastic delivery of stunning earnings from global companies has encouraged equity gains in recent months, with more expected in the next couple of quarters.

The US S&P 500 companies are expected to deliver annual earnings growth of 25% in 2026, with global companies forecast at 22% year-on-year. It is hard to combine falling markets with such strong growth in earnings, despite ongoing political uncertainty globally.

Given that the news flow from the Middle East has, on balance, improved and global commodity markets have calmed, investors have become even more optimistic. The belief that interest rates will no longer need to be raised to tame inflation has been a mighty tonic to investors.

Now, of course, 'things' can change quickly, which leads to our attempt to answer the second question. Returns for investors over the last four years have been very strong, but justifiable from the low valuation starting point in the second half of 2022, combined with healthy earnings growth, low corporate default rates, positive economic momentum and the normalisation we have seen in inflation rates.

There is an understandable temptation for investors to question whether we have had 'too much of a good thing' but our base case projects a period of solid but unspectacular economic growth, moderating inflation into 2027, interest rate cuts next year, further corporate earnings success and manageable yields on global corporate debt.

Assuming we don't see a major change to our central forecasts, we should expect positive returns from both bonds and equities. That is not to say the second half of 2026 won't be as fraught as the first at times, but we think that investors will continue to be rewarded.

Key asset allocation positioning

- We remain neutral in our asset allocations, with equities, fixed interest, alternatives and cash all in line with strategic asset allocations
- We believe that both bond and equity markets are not overly expensive, even if they are not cheap, and therefore a neutral stance is appropriate - 'full but fair' remains an apt description of overall market pricing
- We also like the fact that the traditional offsetting characteristics of each asset class have reasserted themselves; if equities suffer in a growth shock, we expect government bonds to perform well
- Within equities, we are close to neutral across the US, Europe and the UK and have tactically leaned out of short-term winners and into short-term losers during the year to date
- This was again a feature of our most recent rebalancing exercise in April, an approach which has helped over the last few years and one we expect to continue in the months ahead
- Among sectors, we are overweight dependable, defensive areas such as utilities, healthcare and consumer staples, which have lagged in recent years but could perform well if markets become more volatile
- We are now in line with the technology sector, having increased our allocations at various points in the last few years, and currently have around 85% weight to the dominant 'magnificent seven' companies
- In fixed interest allocations we have increased our exposure to government bonds and our sensitivity to interest rate duration by increasing gilt allocations in the last few years
- We have also increased our credit quality across portfolios in the last year, reflecting the risks that the global economy faces – this is also a reflection of relative value opportunities in fixed interest markets
- Overall, we remain true to our mantra of being balanced, diversified and open-minded – these are necessary stances in an increasingly uncertain world.

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