



**meridian**  
ASSET MANAGEMENT (C.I.) LIMITED

## INVESTMENT MEMORANDUM

The quarter ended just as the Iranian situation developed so there is no reflection of markets' post month end movements in these figures. It is too early to know how this development will end but it is not our policy to take sudden knee jerk measures in response to unexpected developments. The quarter as a whole was good for equity investors as hopes of interest rate cuts helped to spur market rises. In view of subsequent developments, that may turn out to be an optimistic assessment.

The tables below detail relevant movements in markets :

### International Equities 28.11.25 - 27.02.26

<b>Total Return Performances ( % )</b>				
<b>Country</b>	<b>Local Currency</b>	<b>£</b>	<b>US\$</b>	<b>€</b>
Australia	+8.2	+15.8	+17.5	+15.5
Finland	+12.5	+12.8	+14.4	+12.5
France	+6.0	+6.3	+7.8	+6.0
Germany	+7.3	+7.6	+9.1	+7.3
Hong Kong	+13.3	+11.1	+12.8	+10.8
Italy	+8.5	+8.8	+10.4	+8.5
Japan	+16.8	+15.0	+16.7	+14.7
Netherlands	+18.0	+18.3	+20.0	+18.0
Spain	+11.9	+12.2	+13.9	+11.9
Switzerland	+9.0	+12.2	+13.8	+11.9
UK	+12.8	+12.8	+14.4	+12.5
USA	+0.3	-1.2	+0.3	-1.5
All World Europe ex UK	+9.2	+10.2	+11.8	+9.9
All World Asia Pacific ex Japan	+15.8	+15.7	+17.4	+15.4
All World Asia Pacific	+16.1	+15.5	+17.2	+15.2
All World Latin America	+16.1	+20.2	+21.9	+19.9
All World Emerging Markets	+9.5	+8.5	+10.1	+8.2
All World	+5.0	+4.1	+5.7	+3.9

Source : FTSE All World Indices

FTSE Actuaries UK Conventional Gilts All Stocks Index (total return) : +2.5%

## International Bonds - Benchmark Ten Year Government Bond Yields (%)

	28.11.25	27.02.26
Sterling	4.44	4.23
US Dollar	4.01	3.94
Yen	1.80	2.10
Germany (Euro)	2.69	2.64

## Sterling's performance during the quarter ending 27.02.26 (%)

	Quarter Ending 27.02.26
US Dollar	+1.9
Canadian Dollar	-0.6
Yen	+1.8
Euro	N/C
Swiss Franc	-2.5
Australian Dollar	-6.3

## Other currency movements during the quarter ending 27.02.26 (%)

	Quarter Ending 27.02.26
US Dollar / Canadian Dollar	-2.4
US Dollar / Yen	-0.1
US Dollar / Euro	-1.8
Swiss Franc / Euro	+2.6
Euro / Yen	+1.8

## Significant Commodities (US dollar terms) 28.11.25 - 27.02.26 (%)

	Quarter Ending 27.02.26
Oil	+14.2
Gold	+26.3

## MARKETS

- A strong performance from international equities.
- Notable performances in local currency terms from Latin America, Asia Pacific, the UK, Europe ex UK and Australia. The USA, on the other hand, underperformed.
- International bond markets were mixed with downward trends in 10 year government bond yields in the UK, USA and Germany but a significant upward movement in the Japanese Government Bond following the Japanese General Election.
- The feature of the foreign exchange market was the sharp recovery in the Australian dollar. The Swiss franc was also strong but there was weakness in the US dollar and Yen.
- Oil and gold both strengthened significantly.

## ECONOMICS

It's right to worry and worry we do and congratulations to those who worry the right amount. It appears, however, that being able to worry the right amount is about the person and not the worries themselves and if you can manage this most human of emotions then your route through life is blessed, though, a life that is long and healthy will not come without a certain ability to worry. Mark Twain is a reliable source of quotes and he dismisses worry as "paying a debt you don't owe" which would seem to advocate a healthy debt free life though that's not necessarily financial advice.

If there is a category of people that need to be comfortable with their worry threshold, it is the investor, particularly at this time. For the first time ever, we can access news of all of the events of the world within seconds and for the first time we are realising that having near limitless information at our disposal doesn't seem to be the luxury hoped for. Perhaps more Pandora's Box than Proteus. As a consequence of our seeming fascination with the negative and the need to shift copy, browsing the news pages of one's favourite media source can be a test for even those with the strongest constitution and the paradox is that as more is learnt about the complexities and fault lines of the world, it can lead to more questions than answers. Information does not always beget understanding and this is a worry. Perhaps this is a job for AI...

The end of the year and the start of the next are inevitably a time to look backward and forward and the December and January memoranda have done that. In this month's edition of the memorandum there in another layer of hindsight considered which is what were the things that worried markets most over the last five years and how are those concerns perceived now. Leading on for that it's worth considering what today's worries are and where they might take us.

COVID was a discrete event and its consequences are considered through the following themes but the starting point here is Russia's invasion of Ukraine. On 24<sup>th</sup> February we ticked past the fourth anniversary of the war and it has been the largest and deadliest war in Europe since World War II.

The deaths should be everyone's biggest concern, its contribution to the new world order is much discussed and the 6 million people who have fled Ukraine as refugees are barely commented upon. The risk of an expansion of the theatre of war, however, now looks to be limited. Russia's zero-compromise approach to negotiations means it is likely to grind on for some time and any resolution is likely to be met positively by markets. In itself, the war is far less concerning than it was four years ago but its contribution to the development of an anti-Western or non-Western alliance, depending on your view, is clear.

The two events mentioned in the last paragraph, Ukraine and COVID, or more accurately, the disruption caused by COVID to supply chains and the post-COVID recovery in demand, conspired in 2022 to create a surge in inflation which was met by rapid rises in interest rates, as shown in the table below.

## 10-Year Comparison Summary

Region 	2016 Rate	2020 Pandemic Low	2023-24 Peak	Current (Feb 2026)
<b>USD</b>	0.50%	0.00% – 0.25%	5.25% – 5.50%	<b>3.50% – 3.75%</b>
<b>GBP</b>	0.25%	0.10%	5.25%	<b>3.75%</b>
<b>EUR</b>	0.00%	0.00%	4.50%	<b>2.15%</b>

The pressure on debt affordability caused a mini-banking crisis in US that risked escalating and caused a number of emerging markets countries, whose position was already difficult with the collapse in international tourism, to default on their debt. Sri Lanka is an example. This was a serious concern to bond markets and markets more generally but with rates now generally falling, the moment has passed. Banks are better capitalised now than they ever have been and how they can deploy their capital is far more tightly regulated. The rapid rise in dollar interest rates through 2022 in response to inflation peaking at 9.2% led to the New York Federal Reserve's own model to estimate a 70% chance of a recession, which was the highest reading since 1982. As a concern, bond market risks exist now in a way they haven't in the past but the explosive risk of a credit crisis is a far smaller worry than it was three years ago. We will return to bond market risk later.

The bombing of Iran, which started on 28<sup>th</sup> February, has necessitated a significant re-write of this memorandum but it's worth considering how the level of concern around the United States as an ally and trading partner has changed over the past two years. The threat posed by U.S. policy has risen and receded over this more recent and shorter timescale but this sentence needs some qualifying, given President Trump's particular style of engagement with friend or foe. Looking beyond the man, markets in 2026 appear to be more comfortable with policymaking now than they were on 2<sup>nd</sup> April 2025, 'Liberation Day'. US economic growth – so far – has been less affected by tariffs than imagined at that time and there have been a couple of notable occasions when Trump has rowed back from his shock tactic politics in response to market reactions. Climbing bond yields as tariffs were introduced led to a 90 day pause in their introduction and, in November, the deferral of tariffs on China for one year de-escalated a trade war with that country. The Shock and Awe phase of 'universal' tariffs has now moved to a 'bilateral framework' with country by country negotiations. Trump continues to measure his foreign policy successes in terms of tariff levels with an example being, in February, the effective tariff rate on India's exports to the US dropping to 18% from a peak of 50%, ostensibly as a response to Prime Minister Modi's sharply reduced appetite for Russian oil. Trump also still likes

to advertise his ambition by, for example, parading North America on a chart with the US flag overlaid over Canada but it just doesn't seem as concerning as it first was.

Mid-month we had the long-awaited decision from the Supreme Court on the legality of this wave of 'emergency' tariffs and as they are a central pillar of President Trump's policies, the decision was a setback for him. The Executive is exploring the statute books and remains confident of finding the appropriate levers to pull in order to fulfil his aims. At least the Court's decision reassures those who have questioned the absence of checks and balances within the US apparatus of government.

Outwardly it would not seem to be the case but Trump is, of course, constrained in what he can do by at least two factors that he cannot ignore. As previously mentioned, the bond markets judge and are not swayed by personality politics and then there are the mid-term Congressional elections in November. February's YouGov poll shows 37% of Americans strongly or somewhat strongly approve of Trump's job performance and 56% disapprove strongly or somewhat strongly, giving a net job approval score of -19. That is amongst the lowest scores across both of his terms as President. Within that score he gets -23 for handling of the economy and -28 for inflation. The inflation score is his worst and the read across is that tariffs cause inflation. The Democrats are starting to see some success at the polls with a new Democrat Mayor of Miami, the first for 30 years, being elected in December and also in the past three months the Republican Governor of Virginia was ousted in a landslide and there was a 14.4% margin victory for the new Democrat Governor of New Jersey. Most eye-catchingly, in a Senate District vote in Texas on 31<sup>st</sup> January, there was a massive 31 percentage point swing from Republican to Democrat, a seat held by the Republicans for the past 30 years. It can be dangerous to extrapolate but politicians in Congress are loyal, fickle and all worry about their jobs and 470 of the 535 politicians across both Houses face re-election in nine months' time. The purpose of including these details is not to imply any political opinion but to support our view that the United States is not on an inevitable descent into chaos. The fabric of democracy and the scrutiny of international financial markets also continue to provide checks and balances. Presumably the popularity of his actions in the Middle East will be judged as well in November.

This piece often looks to the IMF World Economic Outlook, which is updated every six months and the IMF as well placed as any other body to digest global volumes of economic data. Their January 2026 edition now positions global growth at 3.3% in 2025, 3.3% in 2026 and 3.2% in 2027. These are not bad figures and the 2026 and 2027 forecasts are revised up slightly from October. In April last year their projections were for 2.8% GDP growth in 2025 and 3.0% in 2026. These percentage adjustments are small numbers but very significant and can allow an element of optimism. Referring back to the previous paragraph, the United States has driven the increase in this forecasting with the IMF now estimating US growth in 2026 at 2.4% and 2.0%, carried upwards by AI-related technology spending and accommodative, but expensive, tax policy. In our minds this provides some justification for having a relatively high proportion of client portfolios invested across the Atlantic. To our minds the longer term dynamics of the US economy are more conducive to economic (and business) growth than Europe, including the United Kingdom, with its more entrepreneurial spirit, the ease of doing business and a government that sponsors the ethos of the free market. In its World Economic Outlook, the IMF describes the Euro Area's comparative position, with 2026 growth forecast at 1.3%, as having 'unresolved structural headwinds'. It's rare for so much to be crammed into just three words. It's also worth stressing that any country's poor economic performance does not necessarily translate into its stock exchange performing poorly. Good and improving companies can be found anywhere in the world.

If it is correct to conclude that we are less worried by Ukraine, President Trump's non-conventional tactics and that the financial double act of inflation and interest rates are in a better place than what have we become more concerned about than we were?

Earlier, the risks around Russian aggression were touched upon. Russia is a nuclear power and political direction is controlled with little reference to democratic processes and it remains an aggressor but its military might has been shown to be fallible over the past four years. It's worth reminding ourselves that Russia's economy is smaller than Italy's which makes it a tenth of the size of the rest of Europe's but all of Europe has chosen to forego defence spending for a great number of years and lived in the belief that doing business with Russia would be sufficient to keep its ambition in check. Russia and China now live in a marriage of convenience with China as the dominant force by quite some distance and they and others continue to explore ways to distance themselves from Western systems and infrastructure. The area of concern here is cyber-crime, other subversive behaviour and China's foreign policy. In the last century China had little ambition beyond its borders but friction between China and its neighbours is increasing. Taiwan remains by far the hottest spot but China would claim this is not a Ukraine-style land grab but, rather, unification with old territory.

In relation to financial assets, AI is a growing concern and levels of government debt continue to rise, with the cost of funding the debt rising more quickly and these two demand further comment.

AI is not a passing fad and its reach and contribution to the improvement in living standards and economic growth are likely to shape the next decade but, right now, it is at an embryonic stage and risks are high given the amounts now being spent (and borrowed). There is an uncertain timeline to the point where significant income is generated from it. The dominant names in the field are either building unassailable leads in this new field or optimistically building a wonderful product that nobody will pay enough for.

We now have a new line of worry, partly a development of an existing one but a development all the same. It's clear that the methodology around Trump's foreign policy is quite unpredictable. He has threatened to invade the territory of a fellow NATO country, threatened to annex a neighbour, extradited by force the President of a foreign country into US custody and, now, the increased involvement in the Middle East. As a contest and in terms of day 1 goals, the attack on Iran seems well calculated. A swathe of Iran's leaders have been killed, the Iranian navy has been decimated and the damage suffered to United States military bases and to Israel's territory has been very limited. What change this will bring in the region and beyond in a month, year or five years is impossible to foresee at present but within the scope of this memorandum our focus is on the economic effects.

This is being written just three days into this new wave of hostilities and market reaction is changing, but not in an unpredictable way. Higher oil and natural gas prices feed directly into inflation and in many leading countries inflation levels are at or above target but were tracking down. This has changed, meaning the policy response is likely to be interest rate rises. This is unhelpful to bonds as their fixed coupons become less attractive leading to falls in prices and, generally, bad for equity markets as almost all companies have debt to fund. Currencies are more complicated but it would be reasonable to expect support for leading currencies whose interest rates rise the most.

Given the risks in the Middle East, would it be appropriate to sell out now and buy back in as soon as the picture improves? What does an improving picture look like? How much does the picture need to improve in order to buy back in? What if one or more unexpected positive twists in the saga lift the market and there is no time to buy in before? As, most recently, COVID and 2025 tariffs showed us, there is considerable merit in remaining invested through such events even though it is uncomfortable seeing falls in portfolio values in the short term. The most obvious scenario where this would not be the case is where the Iran situation escalates to World War III proportions but we have to work on the basis that we are not permanently 6 months away from that point. The absence of risk is not a prerequisite of investing.

This month's memorandum started with a quote from Mark Twain and there doesn't seem any harm in ending with another. It is written slightly tongue in cheek for fear that Meridian is seen to be blasé about the risks in 2026. Meridian is not and the style of equity investing followed shows a reluctance to have large exposure to AI and a determination not to chase fashionable or niche investment ideas. Meridian's intention is for clients to remain largely fully invested, receive some dividend income in the meantime before a recovery of any paper losses in the medium term. This is not an unreasonable supposition. He observed "I am an old man and have known a great many troubles, but most of them have never happened". Many a true word is spoken in jest.

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