



meridian
ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

Over the last quarter, equities moved one way whilst bonds moved the other way, perhaps a surprise given the negative economic consequences of the Iranian war with its implications for interest rates, inflation and economic growth. It was no surprise that bonds performed poorly but many will have been perplexed by equities' performance. Much of the latter can be explained by the excitement over AI which sent the share prices of many US and Far Eastern companies sharply higher.

The tables below detail relevant movements in markets :

International Equities 27.02.26 - 29.05.26

Total Return Performances (%)				
Country	Local Currency	£	US\$	€
Australia	-3.4	-2.8	-2.5	-1.4
Finland	+14.8	+13.2	+13.5	+14.8
France	-3.9	-5.3	-5.1	-3.9
Germany	-0.5	-2.0	-1.7	-0.5
Hong Kong	-1.9	-2.3	-2.0	-0.9
Italy	+8.2	+6.7	+7.0	+8.2
Japan	+2.4	+0.2	+0.5	+2.4
Netherlands	+7.9	+6.4	+6.7	+7.9
Spain	+1.5	N/C	+0.3	+1.5
Switzerland	-0.6	-2.4	-2.2	-1.0
UK	-3.5	-3.5	-3.3	-2.1
USA	+10.7	+10.4	+10.7	+12.0
All World Europe ex UK	+1.4	-0.1	+0.2	+1.3
All World Asia Pacific ex Japan	+10.5	+8.6	+8.9	+10.1
All World Asia Pacific	+7.9	+5.9	+6.2	+7.4
All World Latin America	-5.0	-4.8	-4.5	-3.4
All World Emerging Markets	+3.6	+2.2	+2.5	+3.7
All World	+8.0	+7.2	+7.5	+8.8

Source : FTSE All World Indices

FTSE Actuaries UK Conventional Gilts All Stocks Index (total return) : -2.7%

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

	27.02.25	29.05.26
Sterling	4.23	4.44
US Dollar	3.94	4.81
Yen	2.10	2.65
Germany (Euro)	2.64	2.94

Sterling's performance during the quarter ending 29.05.26 (%)

	Quarter Ending 29.05.26
US Dollar	-0.2
Canadian Dollar	+0.9
Yen	+1.9
Euro	+1.1
Swiss Franc	+1.3
Australian Dollar	-1.1

Other currency movements during the quarter ending 29.05.26 (%)

	Quarter Ending 29.05.26
US Dollar / Canadian Dollar	+1.1
US Dollar / Yen	+2.1
US Dollar / Euro	+1.3
Swiss Franc / Euro	-0.2
Euro / Yen	+0.7

Significant Commodities (US dollar terms) 27.02.26 - 29.05.26 (%)

	Quarter Ending 29.05.26
Oil	+27.1
Gold	-12.6

MARKETS

- A very strong performance from international equities led by the USA and Asia Pacific ex Japan. However, the leadership was concentrated amongst a narrow group of very large AI related companies. The UK, Australia and Europe ex UK were underperformers.
- Foreign exchange movements were relatively minor. The Australian dollar and US dollar were the strongest performers on our list whilst the Yen was the weakest.
- It was not a good quarter for fixed interest securities because of changed perceptions on inflation and the next central bank interest moves.
- Whilst off its peak levels at the end of May, the oil price increased sharply as a result of the Middle Eastern situation.

ECONOMICS

A curious thing tends to happen at Meridian, perhaps less curious because it probably happens at others in our industry. We diligently send out a quarterly reporting pack to every client and are pleased to receive feedback. The most logical reaction would be a positive one when returns are most positive and most negative when valuations fall with markets. As clients are invested internationally and, in almost all cases under our current policy unless mandated otherwise, wholly in equities, there is a correlation between average portfolio performance and the direction of the markets over any period and then there is the correlation with the news and this is where it gets more interesting. The circumstances in which we receive the most surprising amount of positive feedback is when the view to the outside world is at its most grim and, in spite of this, markets have shown a great deal of resilience yet might be down in actual terms. It's probably worth looking at a real example here and, topically, we have the first quarter of 2026 where the total return on the FTSE All-World Index, in sterling terms was -1.2% and a new war broke out. These first three months developed as follows:

January 2026 :	+1.0%
February 2026 :	+3.5%
March 2026 :	-5.5%
First quarter 2026 :	-1.2%

Hostilities in the Middle East started at the end of February and by the end of March the picture was starting to look as if both sides (three sides?) had had enough and were looking for a dignified exit; we still await that dignified exit. The highest point in the index in this three month period was on 27th February and the lowest point was on 27th March and showed a fall between those dates of 7.4%. In the last two trading days of March, the market rose 2.1%.

Drawing together what has been said so far:

- I. In the first two months, and in the absence of bad news, markets rose strongly. Gains of +4.5% over two consecutive months are infrequent.
- II. Despite a very serious geopolitical event which at the time looked as if it had the potential to drag on and introduce many negative economic consequences, markets were relatively sanguine.
- III. The markets' appetite to recover remained strong and they responded positively to any suggestion of a reduction in conflict and its implications. By the 16th April the index had reached a new all time high, surpassing the previous high of 27th February.

Conclusion: the drivers behind point III would not appear to be dissimilar to point I but clients are right to be pleasantly surprised why there has been so little impact on markets given burgeoning threats to the world order. This is worth exploring and we offer five potential contributors to the general behaviour of equity markets in times of stress.

1. Does the recurrence of crises strengthen or weaken the resolve of investors? This would seem to put holders of stocks and shares in either the 'once bitten, twice shy' camp or they may feel 'what doesn't kill you makes you stronger'. It's likely that the answer to this question hinges on the experience of the investor in terms of previous outcomes. Received wisdom dictates that the long term benefit of equity investing is predicated on remaining invested at all times. Provided the companies do not face an existential threat during the crisis then it is likely they will regain their poise over time and share prices will gradually recover any losses. Experienced investors are likely to find it easier to shrug off any adverse market reaction to any such situation and have confidence in those companies to re-build their revenue lines and for market sentiment to recover. As a matter of record, the FTSE All-World total return index (in sterling) reached a COVID low on 16th March 2020 and recovered to a pre-COVID high again on 2nd September, just six months later. The fall, which took the market down to its 16th March level, was an eye-watering 25.3%. With Trump's Liberation Day tariffs, the same measures were 2nd April 2025 to 12th May 2025 with a peak fall of 9.5%. It is painful to see those losses, even when unrealised, but the recovery times have been surprisingly short in these three examples though it is normal for an investor to be more sensitive to losses than to gains.

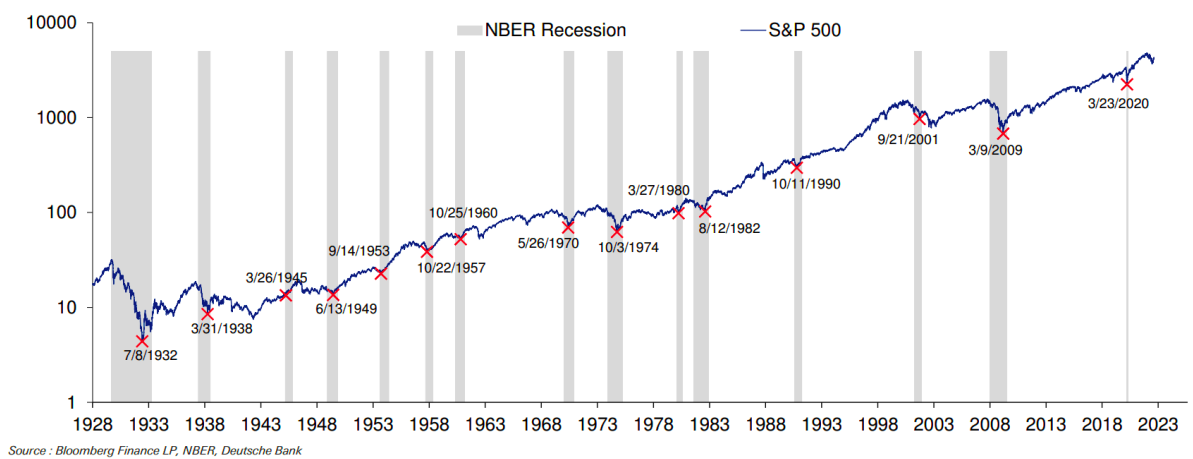
The experience is self-reinforcing and the resolve to remain in equities is predicated on taking a long term view and the longer the period that is inspected the better the picture. In almost all cases, buying a share with the full intention of selling it later that day at a profit is not considered sensible investing. At the other extreme, planning to buy shares in a company to fit your 100 year investment horizon does not work for a number of obvious reasons. Conveniently and statistically, history shows a well balanced portfolio of blue chip shares, if held for a minimum period of five years, has delivered positive returns over any almost any chosen date range.

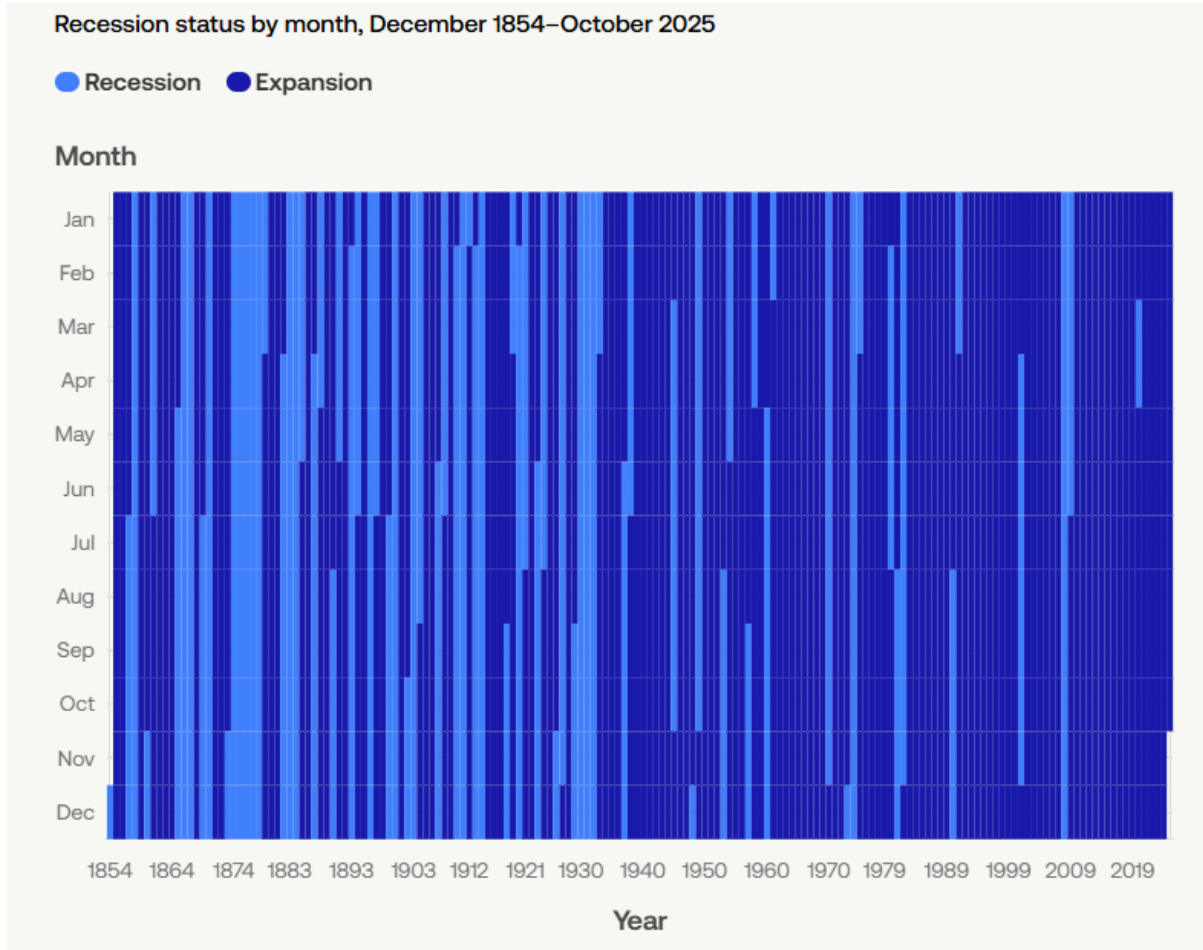
2. There is a paucity of alternatives. Regular readers of this piece will note the consistency with which we raise concerns around the bond markets and the current period gives two scenarios where bond yields have risen as the price of those bonds fell. The war in Iran and neighbouring countries is causing

immense hardship for the people of those countries and it remains to be seen how successfully the goals of the attacks will be met. Markets, as we now know, devote almost the entirety of their interest to the effect on prices of the commodities regularly shipped through the Strait of Hormuz. The focus is on extent, magnitude, timing and duration and then thinking moves to what the Federal Reserve calls “second round inflation effects” an example of which would be limited transit of fertilisers leading to lower crop yields in the future which would lead to higher food prices down the line. We have seen, in May, rising yields on bonds as inflation expectations have risen and whilst the simple interpretation of higher yields may sound attractive, the opposite is nearly always true as capital values fall to accommodate those higher yields. On top of this, and closer to home, yields on UK Gilts have risen on additional concerns around government spending, with 10 year debt touching a 5.17% yield on 15th May, though some expression of commitment to financial discipline from those in government and connected parties, as well as a fall in oil prices shaped by a more optimistic view about the impasse in the Gulf, has helped bond prices recover since. The 10 year benchmark Gilt was trading at £96.87 mid-month before climbing to £99.49 by the month end. At the end of February it was £103.51. These are pretty large movements if Gilts are considered, as they should be, risk-free assets and these movements inform prices of weaker credits down the scale and highlight some of the pressures bonds are under. The tailwind of cumulative interest rate cuts that lasted 40 years has ended and there are significant supply side issues given the levels of government indebtedness. Given the level of public outstanding debt and budget deficits in a great number of ‘wealthy’ countries, national debt and the cost of funding it has become a matter of daily political discussion. This will not go away and may worsen. A separate point when considering alternatives to shares is the arrival of assets such as bitcoin and other synthetic investments which may reinforce the credibility of serious equity investing.

3. Government and central bank support in times of difficulty is effective and better communicated. This was best shown in the Global Financial Crisis when heaven and earth was moved to avoid a complete collapse of the banking system and to steer the global economy into calmer waters. In the early days of the crisis there was much talk about intervention risking the elimination of moral hazard. This now seems like old thinking and avoiding recessions is better coordinated and managed. Since the start of the 1980s, inflation targeting has been a key economic goal as inflation can be the destroyer of capital value.

Figure 1: Daily S&P 500 Index since 1928 (in log scale), alongside recessions and bottoms (red crosses)





There have been 34 recessions in the United States since 1855. 13 of them have been since World War II. Light colour denotes a month of recession and darker colour denotes expansion. Data runs from December 1854 to October 2025. Source: Federal Reserve Bank of St Louis

It is clear from these two graphics above that robust economic management means that recession has, statistically, become, far less frequent. Recessions *have* become less frequent but acute economic shocks haven't. As mentioned elsewhere, in the past six years the world and its economy have been rocked by a global pandemic, a Russian invasion of a neighbour, a sudden escalation of global tariffs and, now, the war in Iran and the Middle East. Coldly and impassively, markets have assessed these events in terms of changes to corporate earnings expectations and have adjusted and rebounded once the initial danger has been quantified. We should not be surprised by this as it is exactly how equities should behave. The one real fear is enduring recession where consumer confidence ebbs away, spending falls, unemployment increases and the ability to generate profit is curtailed. Ergo, these acute economic shocks are measured in terms of the likelihood of causing recession. Markets are more wary of uncertainty than they are of bad news though the two can go hand in hand, initially at least.

The most common measure of volatility in equity markets is the VIX Index. This tracks changes in the price of derivatives associated with the US stock market; there is an equivalent measure for the 50 largest European companies called VSTOXX Index. On inspection there is no conclusive evidence that price volatility has decreased over the decades yet it feels as if time to recovery has. Perhaps this does support that view that markets remain sensitive to acute economic shocks but once it appears there is no associated structural shock, then buyers of shares return. To an extent, investors may feel underwritten knowing that there is now a strong inclination of central banks and governments to provide the downside insurance the market likes to see when the going gets tough with fiscal stimulus and interest rate cuts being the most obvious examples.

4. Market information is better and there are more participants in the market with better knowledge of how shares perform

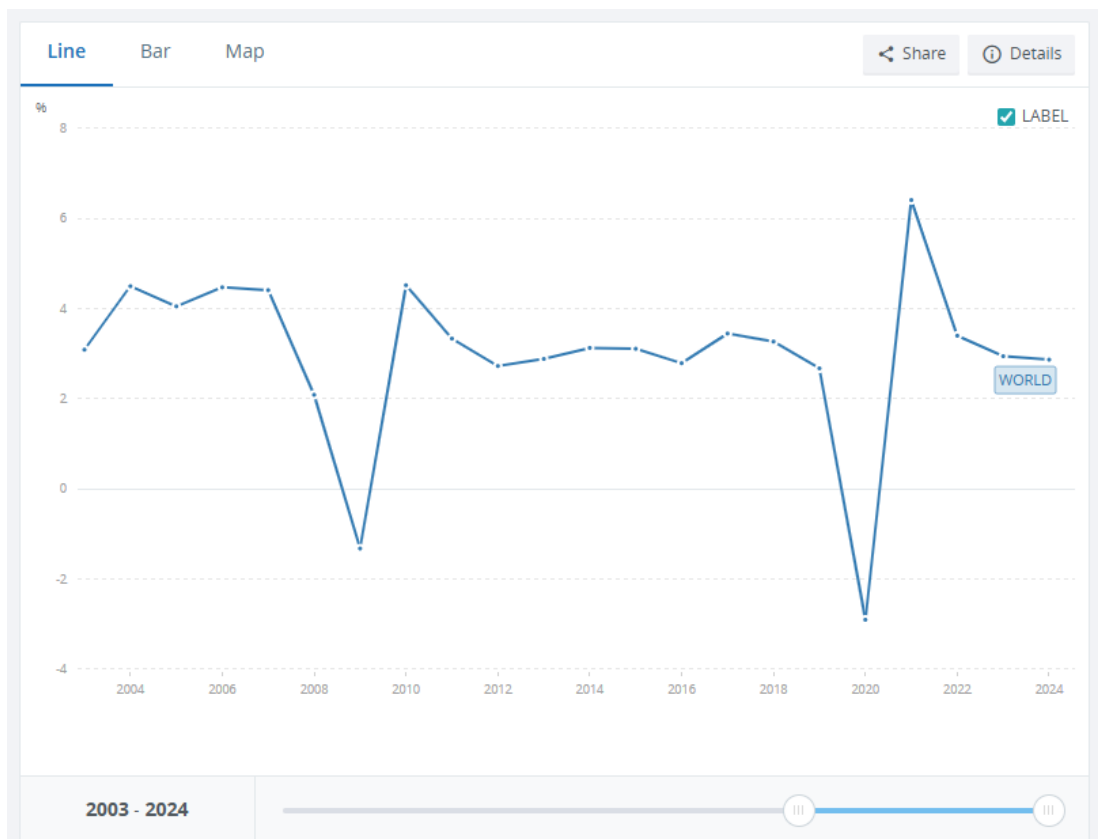
Economic commentary, whether the written word or television experts, can sometimes, with some justification, be criticised as being wise after the event. Before investing in equities an assessment of suitability is necessary and that may be self-appraisal or by an appropriately qualified adviser. Three factors immediately spring to mind. Firstly, is that this money should remain in the market for a minimum of five years. Linked to that, the money invested should not represent such a proportion of overall wealth that a significant fall in its value would be problematic and, in addition to those two, can the investor sleep at night during turbulent times that, inevitably, will include falls in value? The passing of these three basic tests should lay the foundation for being wise before the event. It's just possible that the market is now replete with investors who have seen it all before or are primed to see past it when it comes.

It may well be the case - if only supported by the unscientific analysis of Meridian's clients - that investors have a great deal of measure and are more sanguine about the risks and are onside with the need to consider long term returns. Battle-hardened investors look beyond wars and conflict and focus on the determinants of real share value.

As if to emphasise that very point, and against the backdrop of the risk of a very serious conflagration in the Middle East, it's worth looking at first quarter reporting in the American market and, here, figures from FactSet are used. At the time of writing 94% of S&P500 companies had reported their results and 84% of those reported a positive earnings surprise and 81% reported a positive revenue surprise. For these companies, the blended year on year earnings growth rate was 28.4%. If that proves to hold, once the last 6% of companies have reported, it will be the best figure since the fourth quarter of 2021 and that was a quarter that was flattered by previous poor COVID-affected quarters.

5. How bad is the news?

A commonly used expression in this memorandum, and elsewhere, is that investment cannot only take place in the absence of risk. In previous months we have looked how macroeconomic challenges come and go and pointed out that, inevitably, the feared worst possible outcome has not materialised. Going further, and measured in terms of impact on world economic growth, often outcomes are affected only to a surprisingly small extent. Looking at world growth over the past 20 years in the graph below, there have only been two events that have had a true hit on growth as shown below. The Global Financial Crisis of 2008 and COVID in 2020. Both caused the world economy to shrink, each for just one year, before a reversion to growth of around 3% per annum.



Source: World Bank Group

At or near the top of the current list of worries is the possibility of an international debt crisis with attendant risks to other markets, China, depending on your stance, invading or reclaiming Taiwan and, of course, a deterioration in the politics of the Middle East. With world equity markets at or near all time highs at the time of writing, the suggestion from investors is that either some or all of these won't happen, or, that their potential to derail the world economy will, ultimately be curtailed through stewardship of the economy and pragmatism around trade and international relations. This does not seem an unreasonable premise but it may seem more unreasonable after watching a Newsnight feature on them or spending an hour on the internet searching for these stories. Journalists of old lament the decline in quality of the media that is consumed and good quality, accurate reporting exists, of course, but tends to be crowded out by free, ad-sponsored, hold-the-reader's-attention-at-all-costs reporting; AI will make this style of news reporting even more addictive. The positive in this is that after a large dose of bad news, a patch of slightly negative portfolio performance can look heart warmingly good.

None of what has been argued here comprehensively explains why equity markets appear more resilient than they have in the past. Circumstantial evidence abounds but direct evidence is hard to find and the future is an unknown place. Equity investing continues to demand a level of forbearance and the returns which have historically been associated with equities are the reward for their qualities but also their vicissitudes. The consequence of the ongoing resilience of equities is that the ratings of stocks are high. In short, shares are more expensive than they have been and when company results disappoint, falls can be abrupt.

This is either all just talking our own book or rationalising the choices of an unconstrained investor. The risks to equity markets are consistent but perhaps not consistent in the way the reader may believe. The principal risk is predicated on the future profitability of the company and so it should be. The shareholder is an owner of the business and, ultimately the stock price is a discounted cash flow of future profits. Meridian tends to invest in companies that are well placed to work around the roadblocks that appear in their way. These are companies with large balance sheets, deep pockets, dominant positions in their industries and resilient income lines by virtue of the businesses they have built and the choices at their disposal. Provided they are given the oxygen of economic growth then they have a credible chance of remaining successful. Perhaps it is simply the case that barring one in a hundred year crises, and we have had two of those in the past twenty years, there are grounds to believe that the corporate world will continue to advance, with periodic geopolitical shocks reversing progress for a short time.

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