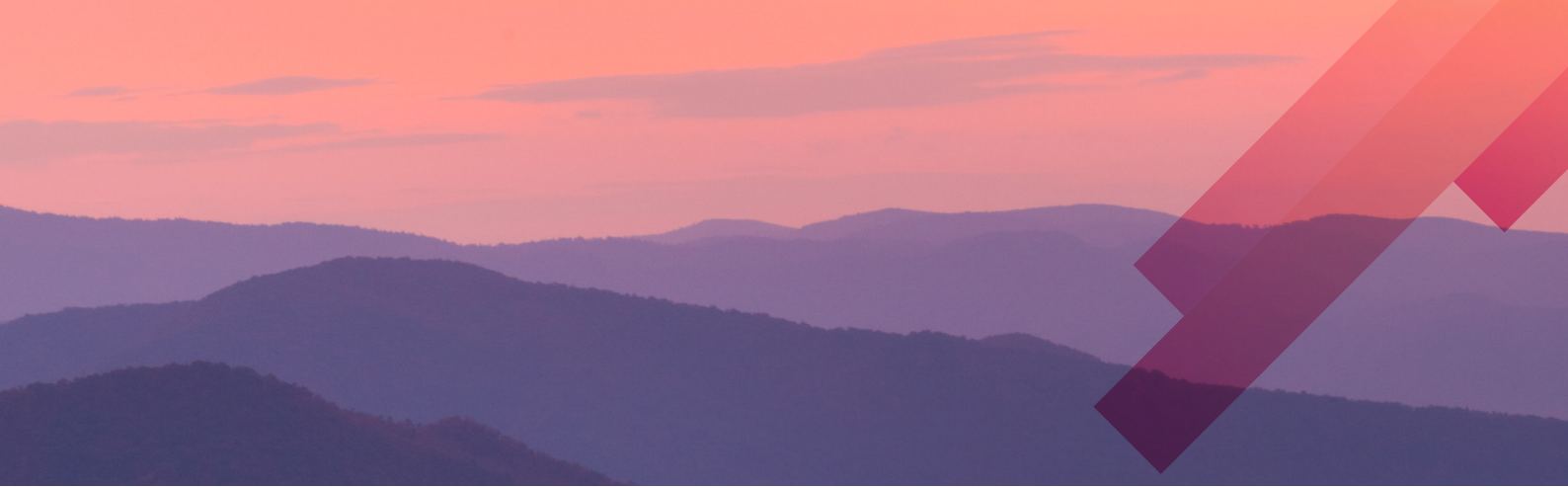


Investment Perspectives

May 2026





Welcome to our spring edition of Investment Perspectives. The first quarter of 2026 was an eventful one, as the Middle East conflict dominated headlines and markets. With the Strait of Hormuz effectively closed, energy prices climbed at the prospect of a supply shock, bringing disquiet that higher inflation would soon follow.

If the conflict ends quickly, the outlook could improve. But for now, the picture is one of weaker growth, higher inflation and tighter monetary policy. You'll find a full analysis of Q1 market performance, plus our forward-looking views, in our capital markets update on [page 15](#).

Alongside our market views, we're sharing some of our latest investment ideas and thinking, to help you build resilient, diversified portfolios for the long term.

Here's what's in store:

Under the spotlight: global equity market valuations – Matt Firth discusses barriers to entry, earnings growth trends, and what they mean for fair value. Could valuations deflate in a benign way if earnings growth is strong?

Using evergreen structures to continue private debt investment – Penny Cochrane and Ben Fox outline the different structures becoming available for UK investors, focusing on evergreen solutions.

The outlook for infrastructure – Asad Rashid gives a forward-looking perspective on infrastructure and explores why it's a compelling asset class for long-term investors.

Stewardship stories: engagement in action – Sanjay Joshi and Andrew McCollum share two case studies that show why asset owners shouldn't give up on stewardship amid a broader ESG pushback.

Capital markets update – our capital markets team examine the key market drivers in Q1 and offer their medium-term asset-class outlooks.

Contacting us

We're always keen to hear how we can help you achieve the best investment outcomes for your pension scheme members. Please get in touch for a one-to-one conversation on any of the topics covered in our articles.



David Walker
Chief Investment Officer

0141 566 7733
david.walker@hymans.co.uk

Under the spotlight: global equity market valuations

Equity market valuations are high relative to history. But is implied earnings growth realistic, given the context of modest global economic growth and high corporate margins? Currently, the constructive case for the global market is concentrated in the technology sector. These companies are expected to deliver outsized growth driven by their scalability, competitive positions and the artificial intelligence (AI) theme. This article explores the associated risks.

Market outlook and fair value

In 2026, global equity markets are characterised by elevated relative valuations, strong earnings momentum and a growing reliance on sustained future growth to justify current prices. A simple way to view the tension between valuation and growth is by using the Gordon Growth Model. Assuming current prices are at fair value, it can be reduced to find the growth rates that markets are implicitly assuming:

$$\text{Implied earnings growth} = \text{risk-free rate} + \text{equity risk premium} - \text{dividend yield}$$

Using a risk-free rate of 2% (in line with long-term real growth forecasts), an equity risk premium of 3.5% and the current dividend yield of 1.7% (31 March), the global market's implied perpetual real earnings growth is approximately 3.8%.

At first glance, markets' implied growth may not appear overly ambitious. Over the past decade, this level has already been achieved, supporting equities' strong performance. But while valuations are high compared to history, the earnings underpinning markets have kept valuation multiples from the lofty heights of the dotcom era.

However, this strong period of earnings expansion is exceptional; to suppose a long-term continuation at (or near to) such a level would be to consider that global companies will enter a new paradigm. It's worth noting that step changes in earnings trajectories have occurred in the past. In the post-war period until the mid-1980s, margins were lower, and stable, while earnings growth was modest – even against a backdrop of anomalously high global GDP growth. Beginning in the late-1980s, as China and Eastern Europe entered global trade, globalisation provided access to cheaper labour and inputs; technology platforms emerged with high fixed (but low marginal) costs; and borrowing rates declined from the previous decade's highs, boosting capital availability. This aided margin expansion and allowed for a new era of earnings growth.

For many, the current debate around equity valuations hinges on whether we've reached another inflection point, as AI-driven productivity gains, scalability of digital platforms and greater pricing power of winner-takes-all industries may catalyse a new era of earnings growth that accelerates long-term trends. Conversely, for others, the real risk may not be that earnings growth collapses, but that it reverts to a closer relationship with GDP, which would imply lower earnings growth than today's equity prices appear to assume. This is particularly important, given that gains from globalisation and a low-rate environment (which have supported earnings for the past few decades) may be plateauing – or even reversing.

The technology sector

Much of the currently positive market sentiment focuses on the tech sector, as it's been the primary driver of earnings growth in recent years. But a key consideration in whether the implied growth priced into markets will materialise is the sector's capacity to keep delivering. Key factors are the barriers to entry and the extent to which these compete against competitive pressures that would otherwise erode profitability. But there are points that support this case in the near term – the sector has comparatively strong competitive advantages, due to network effects, incumbency advantages, switching costs and intangible value. Many of these strengths are demonstrated by the AI buildout.

The unprecedented levels of capital expenditure on chips, data centres, storage, energy and cooling technology may lead to lasting competitive advantages and pricing power. There are also network effects: AI systems improve with more data, and companies with vast datasets (from search engines, social media platforms or business software) benefit further from this. If the systems provided by these companies demonstrate superiority, they're likely to attract more users, leading to a market where value accrues disproportionately to a few leaders. Part of the constructive case for the sector (and global equities) is that if there's an efficiency revolution underpinned by widespread adoption, tech revenues might be considered 'sticky' infrastructure (akin to an essential utility). The companies most likely to benefit are already known.

What about the risks?

However, there are risks to these advantages. Vast spending might be a barrier to entry in the near term, but without a proven return on investment to date, the capital expenditure arms race involves risks of overinvestment and obsolescence. These could materialise in several ways. As hardware improves, the previous tech generation's availability increases. Competitors – smaller companies, open-source models and collaborative research approaches – may not be able to compete in terms of the scale of investment or data availability. But as materials become less cost prohibitive, they can be used for offerings with various commercial purposes. One risk to the tech sector is that, because of these alternative developers, AI becomes commoditised. Far from becoming a new utility with sustained pricing power, AI could devolve into a market of limited distinction between providers, forcing competition based on price rather than quality, as different products become largely interchangeable. The resulting weaker profitability would greatly inhibit the return on investment from the leading players' capital expenditure.

The potential for AI to become a strategic asset has also drawn nation states into the race, with competing investments, restrictions on access to data and hardware, and limitations on cross-border collaborations likely to emerge as counterforces.

Regulatory risk is another factor. Even before the AI era, antitrust concerns about the largest tech names were growing. With the added national security and societal impact dimensions of AI, companies may find themselves under greater scrutiny – policymakers are likely to focus on data privacy, intellectual property, security and algorithmic bias. But the effect may be double edged, as regulation could make it harder for new entrants, benefiting existing players by raising barriers to entry. This is particularly true if compliance costs are high; policymakers may face strong incentives to avoid stifling innovation, given AI's potential role in productivity and national competitiveness.

The impact on the labour market is likely to be a key focus, given the risk that rapid adoption leads to labour displacement outpacing job creation, weakening consumption and increasing fiscal burdens. Governments facing rising unemployment may impose restrictions on AI deployment, mandate human oversight or introduce punitive taxation on automation. Recent policy discussions reflect these concerns, with proposals for taxing automated labour or redistributing gains through public funds – all of which could affect margins.

Finally, the physical buildout required to support AI is a constraint. AI is fundamentally energy-intensive, with large-scale data centres requiring vast electricity, cooling and physical infrastructure. Data-centre electricity consumption is expected to rise sharply this decade, potentially reaching several percent of global electricity demand by 2030. This adds an additional regulatory concern, as AI systems are associated with rising carbon emissions, water usage and local environmental stress.

More than a passing trend

The current dominance of the tech champions reflects some undeniable strengths, but investors must draw a line between fundamental performance and potential return. AI is likely to be more than a passing trend; it's a potentially transformative force that will influence the global economy. But history shows that, even with the most revolutionary tech, not all associated investments will be fruitful – especially when entry investment is expensive. While the long-term impact may be positive, the path can be volatile, with periods of overinvestment and correction.

Global equity markets' current valuations imply a period of earnings expansion that accelerates the trend of the last three decades. However, we retain the view that valuations are a useful predictor of future returns. Tilting away from the sectors or regions where growth appears unsustainable can limit investor exposure to later mean reversion, with a result of participation in the upside of AI without overpaying for the privilege. We believe a balanced approach that prioritises reasonable valuations remains the most effective strategy in a top-heavy global market.

If you'd like to discuss the themes in this article, please reach out to the author or your usual Hymans Robertson consultant.



Matt Firth

**Investment Research
Associate Consultant**

020 7082 6108

matt.firth@hymans.co.uk

Using evergreen structures to continue private debt investment

Pension schemes have been investing in private debt for some time now. Most investments have been in closed-ended funds: capital is called down as investments are sourced, before it's repaid years later as the underlying assets repay in their turn. Cash is typically locked up for 7–10 years. And for schemes to maintain exposure through time, commitments must be made to new vintages to ensure capital coming back is reinvested into a new fund.

The way investors can access private debt is now broadening beyond closed-ended funds. Private debt managers are expanding their offerings, with evergreen fund structures becoming more readily available for UK investors. In this article, we outline the different structures available.

Evergreen funds

Evergreen funds are open-ended private market vehicles. They have no fixed termination date and allow for ongoing subscriptions and redemptions (usually with notice periods and sometimes with potential liquidity gates). While open-ended funds have historically been available to investors in other private market asset classes (such as property and infrastructure), evergreen funds are quickly gaining traction as a private debt solution in Europe. This fund type is already established in the US, where it's been more heavily marketed to both institutional and retail investors.

In recent months, some open-ended private debt funds in the US have come under redemption pressure, forcing the funds to 'gate' to halt investor redemptions. This is a result of broad nervousness over the future impact of AI on certain sectors, such as software. The funds that have gated have a high proportion of retail investors, and in a normal market environment, money would flow in and out of these funds more frequently than funds targeting institutional investment. This highlights the importance of understanding both the structure of an evergreen fund and its investor base.

Evergreen funds vs closed-ended funds

Here are some of the key characteristics of evergreen funds relative to investing via a closed-ended fund.

	Evergreen	Closed-ended
Governance	Ability to maintain more consistent exposure to private debt through one initial investment decision.	Exposure fluctuates depending on stage of fund life. Investors must re-commit to funds to maintain exposure and need to appoint a manager and fund each time.
Subscriptions	Investors typically subscribe at net asset value (NAV) of the fund, so they must be comfortable with the fair value assessment and valuation policies of the manager.	Investors come into the fund at cost via capital calls.
Visibility on investments	Investors have visibility of the existing portfolio when they commit.	There is no visibility on the portfolio at the time of commitment, so investors have what is called 'blind pool risk'.
Fees	Performance fees can be more complex to calculate in an evergreen fund. Fee calculations may rely on valuations of unrealised assets, so investors must be comfortable with the fair value assessment and valuation policies of the manager.	Performance fees are simpler and are charged once the fund performance reaches a predefined hurdle rate. Private debt performance fees are typically calculated on the whole fund's performance over the fund life.

	Evergreen	Closed-ended
Volatility	Volatility may be higher in evergreen funds that allocate to publicly listed securities ('semi-liquid' strategies). This liquidity sleeve allocation may detract from or contribute to overall performance.	Volatility expected to be low given the fund is purely invested in private debt, which exhibits low volatility – partly due to the less frequent valuations than public markets.
Under-performing assets	Investors will likely gain exposure to legacy assets already present in the fund. Investors will have exposure to ongoing deployment during the time they hold the fund. Underperforming assets, including those that have been restructured, could form part of the legacy assets or newer investments.	Investors won't have exposure to any legacy assets of the manager or strategy and will only have exposure to ongoing deployment during the time of the fund. This may include underperforming assets and those that have been restructured.

Types of evergreen funds

The definition of evergreen varies; the main differences are how liquidity is offered and how redemptions are managed. We split evergreen funds into two broad categories – 'run-off' and 'semi-liquid' – noting many nuances between the two types across managers. In Europe, many private debt managers are now raising a type of evergreen fund alongside the traditional closed-ended funds.

Run-off

The 'run-off' evergreen fund is a self-liquidating share class (sometimes referred to as 'slow-pay'). This type of fund replicates a closed-end structure: investor commitments are typically drawn down over time and then, as loans repay, principal is reinvested. Investors choose when to redeem, at which point their proportion of the fund is placed into a ringfenced account (sometimes referred to as an 'off-ramp', 'vertical slice' or 'harvest share class') and the investor is repaid as and when the remaining loans repay – just like a closed-ended fund. Because of this, investors must be aware that choosing to go into a run-off strategy means a full redemption of capital can take several years. In direct lending, for example, this is likely to be 3–5 years.

Semi-liquid

A semi-liquid evergreen fund provides some form of liquidity to investors through an allocation to more liquid investments (typically broadly syndicated loans and cash), which function as a buffer to meet any investor redemption requests. This type of fund is sometimes referred to as 'fast-pay', but this may be a misnomer in times of market stress.

Redemptions in this fund are typically received as cash, but the funds will have redemption limits and may employ gates to temporarily halt or restrict redemptions during market stresses or high redemption volumes. Investors will typically contribute their entire investment at the time of subscription, with the capital being deployed into new loans for the benefit of all fund investors; subscriptions are made at NAV.

Key considerations for investors

We see evergreen solutions as a significant development in private debt – they're gaining market share across investor types. Offering a consistent NAV exposure as capital remains deployed, they allow diversification across time periods without needing to be regularly recommitting to new funds.

Run-off structures offer pure private debt exposure. These are appropriate for schemes looking to maintain a long-term exposure, and that don't require cash back at short notice.

Semi-liquid structures have a liquid allocation, diluting pure private debt exposure, but they offer a means to redeeming cash faster. The potential impact on both returns and volatility could therefore be acceptable for investors looking for more certainty over exit. Importantly, investors won't be able to get their money back if many investors want their cash out at the same time. The investment manager will have the ability to gate the fund during these periods, as was recently the case with certain US evergreen private debt funds recently.

The investor base is also a key consideration. Retail investors tend to be more susceptible to changing their investments based on market news, particularly negative events and market stresses. Evergreen funds with a high retail investor base may therefore be more exposed to selling pressure and gating when market sentiment drops. This can have knock on implications for forced sales of underlying assets as redemptions are met in an orderly fashion.

Overall, while there are benefits to investing via an evergreen fund, there are many considerations to understand before committing capital. These can be manager and/or fund specific, as there's a high level of variation of characteristics and definitions across all funds broadly labelled 'evergreen'. Investors shouldn't view evergreen solutions as offering the same degree of liquidity as listed asset classes. But they can offer more flexibility than closed-ended approaches and may be attractive for many schemes.

If you'd like to discuss the themes in this article, please reach out to the authors or your usual Hymans Robertson consultant.

Penny Cochrane

Senior Investment Research Consultant

020 7082 6381

penny.cochrane@hymans.co.uk

Ben Fox

Senior Investment Consultant

0131 656 2799

ben.fox@hymans.co.uk



The outlook for infrastructure

Infrastructure rarely makes headlines, which is exactly what makes it a compelling asset class for long-term investors. Private infrastructure returns have been mostly stable since 2015, with an odd year or two (eg 2020, due to Covid-19) disrupting the pattern.

In an environment where the outlook for many asset classes is uncertain (due to geopolitical tensions, changing regulations, volatile inflation and interest rates, and technological change), infrastructure assets provide resilience and stable returns. And most have a strong 'moat': infrastructure provides essential services, assets are long dated, there's a high barrier to entry of physical assets and contractual revenue streams are often inflation linked. The asset class isn't immune to volatility, but its unstable returns over 2025 and early 2026 can be viewed as a temporary disruption. We're positive on the long-term outlook for infrastructure investment.

Why geography and sector allocations are important

Looking forward, we expect geography and sector allocations to play a key role when investing in the asset class. The current policy environment in Europe and the UK is broadly supportive of long-term infrastructure investment. The US policy stance is less favourable, which means more capital is likely to be deployed in Europe and the UK over the short to medium term. Sectors that align with the four long-term global themes of decarbonisation, digitalisation, deglobalisation and demographics are also likely to see continued capital investment, with a focus on the development of new assets. We're cautiously positive on new developments in these themes; there usually comes a tendency to speculate or overcommit during the positive phase of long-term growth trends. In an environment like this, we prefer managers who make fewer but higher-quality investments focusing on growth potential and resilience in downside scenarios.

Beyond direct infrastructure investments, there are opportunities in the infrastructure funds secondary market. The units available for sale exceed the capital available for investment, allowing buyers to be selective and negotiate favourable pricing. Combined with greater visibility into existing assets and their risk-return profiles, we believe the secondary market and secondaries funds are attractive ways to gain infrastructure exposure.

What about the fundamentals?

We don't see any change in the fundamentals of infrastructure assets. Returns from core infrastructure (operational assets that societies require to function well) have been relatively resilient due to the essential nature of their services. And many infrastructure businesses benefit from pricing power and the ability to pass through inflation, long-term contracts and high barriers to entry.

Over the longer term, we think four market themes (mentioned above) will drive continued capital investment in infrastructure.

1. **Decarbonisation:** With decarbonisation and energy security becoming increasingly important, we expect a focus on building more renewable-energy assets, investment in low-emissions fuels, electrification in transport and industrials, battery storage and upgrading the electricity grid. We've already seen this in energy-transition funds – some funds focus on building assets (capital growth), while others operate them (income-driven returns).
2. **Digitalisation:** The interest in digital infrastructure is growing, accelerated by the emergence of generative AI and the global increase in data consumption. Although 'data centre' is an umbrella term, there are two projects in this sector. The first is large, remote data centres mostly used to train large language models (AI). The second is smaller, latency-sensitive data centres near populated cities, which support increased data consumption on devices such as mobiles, tablets and TVs.

3. **Deglobalisation:** While deglobalisation may not be a directly investable theme, growing focus on local investments will increase the attractiveness of certain infrastructure subsectors. Recent US tariffs and legislation are supportive of local manufacturing and semiconductor plants, while European regulations have had a similar effect on investments in the electric vehicles, batteries and semiconductor supply chains. Interestingly, the UK has set up GB Energy, which will focus on investing in local infrastructure supply chains and supporting emerging technologies.
4. **Demographics:** With ageing populations in many developed economies, healthcare services and facilities are needed to support this growing demographic. Revenues from social and healthcare infrastructure facilities tend to be availability based (dependent solely on the facilities being maintained and available for use). Therefore, they have a lower correlation with the wider economic environment, adding stability to infrastructure portfolio returns.

Economic cycle and public policy

Previous conversations have involved replacing old infrastructure, but the current economic cycle necessitates countries building new infrastructure (data centres and energy grid upgrades) to compete with other economies and to support growth and new ideas.

Public policy strongly favours the aforementioned themes – and governmental fiscal intervention is becoming more likely. The shifting political environment and election cycles may change the focus of these themes or make investment in some geographies less attractive, but the long-term prospects for the themes remain strong.

Valuations

In recent years, private infrastructure valuations have moderately declined. Our own market observations suggest that median valuation multiples for private infrastructure have trended downwards over 2024/25 due to caution about the investment outlook. However, assets with higher barriers to entry, pricing power, realistic growth plans, sensible capital structures and strong asset-management teams have defied this trend. Equally, we've noticed some stretched valuations in sectors like digital infrastructure, where hype around AI and data consumption has led to unrealistically high earnings growth assumptions being used for valuations.

We favour investment managers who are disciplined on pricing and target existing (or new) assets that offer a reasonable amount of growth, effective management of costs and long-term contracts with high-quality counterparties to justify their valuations.

Technical factors

With governments facing tight budget constraints, ageing infrastructure, and investment needed to grow the economy, it's likely that the funding gap will persist. Given the limited supply of assets and a long lead time for permitting/building assets, the current gap should provide support for valuations.

Nonetheless, fundraising over 2025/26 is taking longer than usual as investors wait for distributions (which have slowed due to the market environment). Mega funds (over \$5bn) still attract capital as investors stick to brand names; however, we've seen more interest in mid-market infrastructure, which we believe offers a broader opportunity set and more strategies for creating value.

Opportunities in the current phase of the cycle

In the secondary market for infrastructure funds, demand for capital currently exceeds supply. Investors can be selective and negotiate pricing, with discounts to net asset value typically ranging from 5–15% on funds in the secondary market. Combined with greater visibility into existing assets and their risk-return profiles, these attributes lead us to view secondary funds as an attractive way to gain infrastructure exposure.

Local investment funds are also popular as the deglobalisation theme plays out. In the UK, policies such as LGPS pooling and the Mansion House compact are supporting local investment. While there are several UK-focused (or UK-heavy) funds, there are fewer UK-regions-focused funds in the market. It's challenging to direct investment to a certain region of the UK except through a separately managed account or a co-investment sleeve of a UK-focused fund. This is because large-scale infrastructure tends to be in regions with the strongest economic case rather than spread out evenly. Smaller projects – eg solar installations, fibre broadband and energy-efficient building upgrades – are more likely to be found in the UK. Such projects offer opportunities for local impact but are difficult to scale or combine into a single fund.

Summing up

We continue to support maintaining portfolio allocations to infrastructure in the current market environment. Given its resilience, long-term return potential and alignment with key global themes, infrastructure remains a compelling asset class.

If you'd like to discuss the themes in this article, please reach out to the authors or your usual Hymans Robertson consultant.

Asad Rashid

Senior Investment Research Consultant

020 7082 6030

asad.rashid@hymans.co.uk

Matthew Doria

Investment Research Analyst

020 7082 6222

matthew.doria@hymans.co.uk



Stewardship stories: engagement in action

Why engagement still matters

Stewardship is more than just a line item in a policy document: it's a fundamental pillar of fiduciary duty. For pension scheme trustees, overseeing the voting and engagement activities delegated to investment managers is a core governance function and a clear regulatory expectation. By fostering accountability for company management, stewardship acts as a bridge to sustainable, long-term value creation that's aligned with investor objectives.

But some investors seek to go further, acting as more proactive stewards of capital. The depth of these efforts ultimately depends on how investors define stewardship relative to their investment objectives. For many, addressing systemic risks and driving real-world outcomes is consistent with their investment objectives and their duty to beneficiaries.

Our recent survey indicates the vast majority (87%) of asset owners believe stewardship is effective in driving change within investee companies. However, nearly all respondents (90%) note that ESG considerations are becoming more complex, and most (59%) believe the recent ESG backlash has made effective stewardship more difficult for asset managers.

Against this backdrop, we asked a selection of asset managers to share examples of stewardship that delivered tangible outcomes, which we explore below.

Inspirational stewardship examples

Escalating to unlock progress at Nvidia

In 2025, an asset manager successfully prompted Nvidia to address material human rights risks within its value chain. The changes made should improve operational resilience (as ethical supply chains are likely to be more stable) and mitigate risk; the company should be insulated against the erosion of shareholder value, which is often triggered by reputational crises or ethical oversights.

Early engagement attempts made little headway, as discussions were limited to tightly controlled group calls. To break the deadlock, the asset manager partnered with Boston Common Asset Management to co-file a shareholder resolution for Nvidia's 2025 AGM.

This escalation proved effective. Nvidia agreed to new commitments in exchange for withdrawal of the resolution, including:

- ▶ Conducting a human rights impact assessment of its supply chain
- ▶ Raising expectations of suppliers as part of its responsible minerals policy
- ▶ Increasingly sourcing from audited and sustainable mines

The asset manager will now hold annual one-to-one meetings with the company to monitor progress on these commitments. Nvidia also initiated its first human rights impact assessment, which confirmed that responsible minerals sourcing and working conditions are key risks. The asset manager connected Nvidia's procurement team with external experts to support best practice, and Nvidia has since released updated human rights and responsible minerals policies.

This is one of the more impressive examples, since Nvidia (or any company with a very strong share price/financial performance) is notoriously difficult to influence.

While the shift from limited dialogue to structured commitments represents significant progress, there will need to be clear evidence of lasting changes to Nvidia's human rights practices before firm conclusions can be drawn about the effectiveness of the engagement.

Research-driven engagement in the apparel sector

In 2024, another asset manager engaged with apparel companies to (a) capture climate-related human rights risks and (b) effect change in a company. This serves to protect investor capital by bolstering supply-chain durability and reducing the likelihood of earnings shocks caused by disruptions. While climate-related physical risks are increasingly on the radar, mapping how these risks ripple through supply chains remains a significant blind spot. And although this case study is limited to one sector, it demonstrates how an asset manager can illuminate – and begin to price – these vulnerabilities.

The asset manager identified a blind spot in supply-chain risk management: the impact of extreme heat and flooding on workers in global apparel supply chains. Research carried out with Cornell University's School of Industrial and Labor Relations showed that **5% or more of an apparel brand's net operating profit** could be at risk due to climate-related productivity losses in high-risk regions.

Using these insights, the manager began a focused engagement programme with eight apparel companies in 2024. Its asks were clear:

- ▶ identify and disclose climate risks across supply chains
- ▶ assess the financial implications of adaptation
- ▶ apply international human rights due-diligence frameworks to climate resilience

The asset manager encouraged companies to strengthen supplier codes of conduct, invest in workplace protections and develop safety nets such as paid leave. It also provided input into reporting frameworks, including TCFD disclosures, to ensure climate-related human rights risks were captured.

One major outcome was a company's commitment to expand climate adaptation measures to address heat stress across its manufacturing regions. The company plans to future proof factories and workers against climate disruptions, focusing on co-creating practical tools and guidance on climate adaptation and heat stress management, together with factory managers and workers. This includes awareness training, risk assessments, and workplace measures such as hydration support and emergency response. By making process improvements like these, companies can ensure operational continuity and margin stability; this ultimately protects investors from volatile earnings shocks and asset impairments. Other companies in the engagement programme have also started adopting [Just Resilience](#) principles in their disclosures and supplier standards.

This illustrates how active oversight can reinforce long-term asset value. Investors who recognise stewardship as a vital driver of value should proactively verify that their asset managers' engagement strategies are ambitious and aligned with the investor's long-term investment objectives.

Positive outcomes from strong stewardship

Across very different contexts, these case studies highlight what focused and sustained stewardship can achieve:

- ▶ **Escalation** can break through inertia and secure meaningful commitments.
- ▶ **Research driven** engagement can help companies address emerging and material risks that may otherwise be overlooked.

There's also the issue of additionality (the extent to which an investment action changes real-world outcomes compared with what would have happened anyway in the absence of that action).

Assessing additionality is inherently difficult, as the direct link between investor pressure and corporate change is hard to isolate. However, these examples show that effective and efficient engagement can strengthen long-term value and support better outcomes for workers, communities and markets.

We also saw some strong examples of policy advocacy from asset managers, an area increasingly recognised as a primary lever for driving market-wide transformation at scale. Since systemic risks can't be diversified away, investors should ensure their asset managers are proactively engaging with policymakers to help shape more resilient and sustainable regulatory and policy frameworks.

Summing up

These examples demonstrate that stewardship can meaningfully move the dial – at least some of the time. But this isn't guaranteed and isn't a given. If you, as an asset owner, want to ensure that your portfolio benefits from improvements like these, we suggest following these steps:

1. **Be aware of the RI ratings of the managers you work with** – these ratings track the characteristics of managers that make them more likely to conduct strong stewardship. Ask your Hymans consultant about the RI ratings dashboard.
2. **Stay abreast of what's happening across the world of stewardship.** Reach out to your Hymans consultant about our stewardship decks.
3. **Engage with managers yourselves.** We at Hymans already engage with managers on behalf of our clients, via our Hymans Engage programme. However, it's powerful when asset owners conduct their own engagement as well. Get in touch if you'd like support to engage with your asset managers.

If you'd like to discuss the themes in this article, please reach out to the authors or your usual Hymans Robertson consultant.

Sanjay Joshi

Responsible Investment Consultant

020 7082 6337

sanjay.joshi@hymans.co.uk



Andrew McCollum

Investment Research Analyst

0141 566 7776

andrew.mccollum@hymans.co.uk



Capital Markets Update

The outlook deteriorated in Q1. Escalating conflict in the Middle East and disrupted energy supplies raised the risk of higher inflation and weaker growth.

Global equities fell 2.4% over the quarter, while credit spreads widened. Sovereign bonds failed to diversify portfolios; yields rose sharply, particularly at the front end, as markets moved to price in a series of interest-rate rises.

Global themes

Conflict in the Middle East and higher energy prices have added uncertainty and downside risk to what had been a solid, if unspectacular, growth outlook supported by AI investment, fiscal support and prior monetary easing. While geopolitical shocks often fade, major energy-supply disruptions (such as in the mid-1970s or 2022) have tended to leave more lasting macroeconomic and market scars.

Sharp rises in oil, gas and fertiliser prices are likely to prompt downward revisions to growth forecasts, particularly for energy-importing economies, and could derail the nascent recovery in global manufacturing. The scale of any stagflationary shock will depend on the duration and severity of supply disruptions: the longer they persist, the greater the drag on growth and the upward pressure on inflation.

Even if tensions ease, rising energy prices are likely to push headline CPI inflation close to 4% year on year in many advanced economies in the second half of 2026. While the US is still likely to experience a sharp rise in fuel prices (given the closer relationship between US fuel and oil prices), the persistence of energy-driven inflation is likely to be lower, given the US is a net exporter of oil & gas. However, the UK, eurozone, Japan and many other East Asian economies are more exposed, particularly to gas prices, which have risen dramatically.

Monetary policy has limited the scope to offset supply-side shocks, while higher energy prices will also weigh on growth through demand destruction. At the same time, the risks of second-round effects and unanchored inflation expectations are likely to keep central banks cautious in the near term, particularly given the experience in 2022.

That said, key differences suggest the inflationary impact should be more muted this time. In 2022, growth and inflation were stronger (Charts 1 and 2), post-pandemic demand collided with acute supply constraints, and labour markets were exceptionally tight. Today, conditions are looser: UK unemployment is at a four-year high (5.2%), wage growth is easing, inflation was trending lower and interest rates are starting from much higher levels.



Chris Arcari

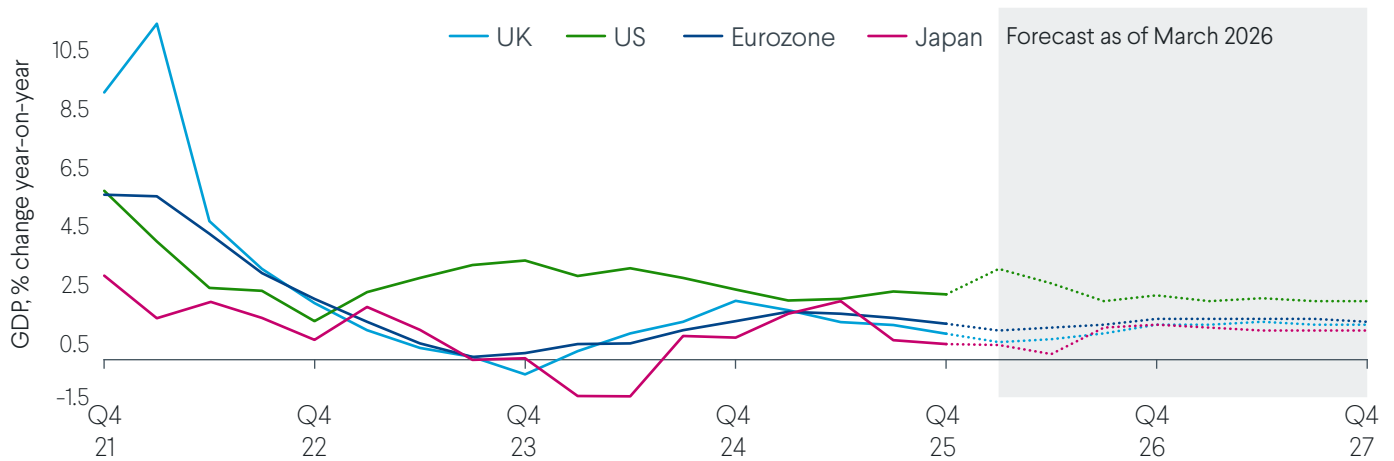
Partner and
Head of Capital Markets

chris.arcari@hymans.co.uk
0141 566 7986

Contact us

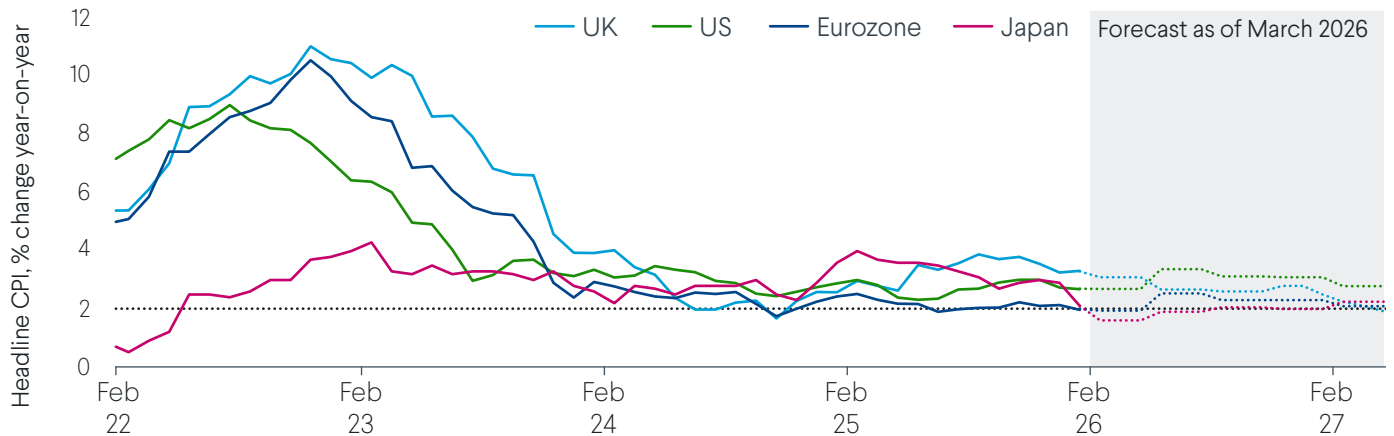
If you'd like to discuss what these market themes mean for your portfolio, please contact your usual Hymans Robertson consultant or any member of our capital markets team.

Chart 1: Growth had been forecast to expand at a decent, but unremarkable, pace prior to the recent shock



Source: Bloomberg

Chart 2: Inflation was trending lower before the start of conflict in the Middle East



Source: Bloomberg

Looking ahead

While a swift resolution could materially improve the outlook, the balance of risks has shifted towards weaker growth, higher inflation and less accommodative monetary policy.

In the UK, the inflation shock is more likely to keep the Bank of England (BoE) on hold than to force cuts. However, market pricing of aggressive rate hikes appears to place too much weight on near-term inflation pressures and too little on weak real growth and unemployment – now at a post-pandemic high of 5.2%.

The sharp repricing in front-end bond yields has already embedded a reasonable inflation risk premium, improving their attractiveness – particularly if growth slows and inflation ultimately moderates. Nonetheless, with elevated inflation and fiscal risks and downward-sloping long dated forward curves, maintaining exposure to short- to medium-dated sovereign bonds remains sensible, given their lower duration risk and sensitivity to further upside inflation risks.

Credit spreads have started to widen, particularly in speculative-grade markets. Although yields are becoming more appealing, spreads remain tight and volatility is likely to stay elevated, suggesting better entry points may emerge.

Equity valuations have eased somewhat, but higher yields, rising costs and weaker demand continue to pose risks to valuations and earnings, respectively.

Against this backdrop, leaning into attractive front-end yields while maintaining caution on equities and speculative-grade credit appears prudent, given still-elevated equity valuations and relatively thin credit-risk premia.

Market pricing of aggressive rate hikes appears to place too much weight on near-term inflation pressures and too little on weak real growth and unemployment – now at a post-pandemic high of 5.2%.

Government bonds

Q4 data confirmed tepid UK growth in 2025 of 1.3% year on year, while forecasts for 2026 and 2027 have edged lower to 0.9% and 1.3%, respectively. Inflation had been easing, but recent energy-price rises are likely to push headline CPI higher again. Forecasts suggest UK headline CPI will average above target over the next two years.

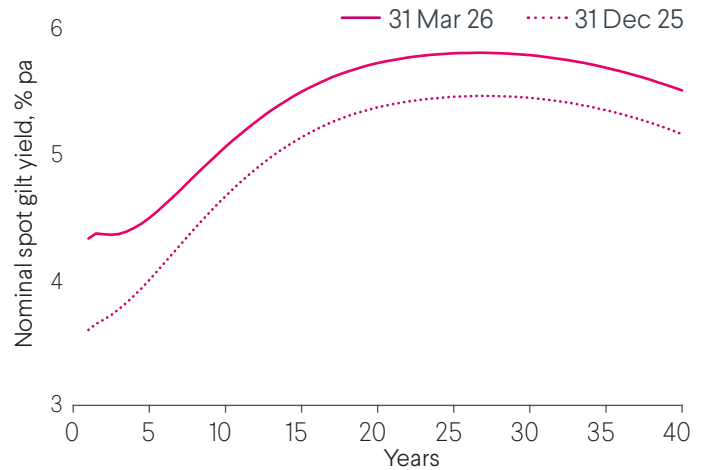
Gilt yields have risen across maturities as markets price in an energy-driven shock following disruptions in the Middle East (Chart 3). Yields on short-dated bonds (which are sensitive to monetary policy) have increased more sharply on fears that higher inflation would prevent the BoE from cutting rates; investors now expect several rate hikes. Although higher inflation will mean a more cautious BoE, aggressive rate hikes are unlikely amid weak real growth and unemployment at post-pandemic highs.

Index-linked gilts outperformed their nominal counterparts. As a result, implied inflation has risen sharply, which may prompt some investors to rebalance between real and nominal bonds to capture some of this relative outperformance.

Nominal yields already embed a reasonable inflation risk premium. This strengthens our valuation case for nominal over index-linked gilts, particularly if growth slows and inflation ultimately moderates. However, with inflation risks high and forward yields declining beyond 15 years, we see the greatest value in the short- to medium-term part of the curve. We're more cautious on very long-dated bonds. This approach allows investors to obtain attractive income while managing their portfolio's interest-rate sensitivity.

Overall, we continue to see gilts as attractive and maintain a balanced view between nominal and index-linked bonds. While valuations now firmly favour nominal over real yields, the fundamental backdrop of subdued growth and above-target inflation arguably favours index-linked gilts.

Chart 3: Gilt yields have risen as markets price in an energy-driven inflation shock



Source: Bank of England

Higher short-dated bond yields suggest that inflation risk is largely priced in.



Robert Kotlar

**Senior Investment
Research Analyst**

0141 566 7793

robert.kotlar@hymans.co.uk

Credit

Fundamentals are softening as higher interest costs and leverage weigh on companies' ability to pay interest on outstanding debt. Geopolitical events pose additional risks to revenues, costs and earnings, which have been healthy until now. Hyperscalers have issued (and are expected to continue to issue) more debt to fund AI-related expenditure, but these corporates show solid starting fundamentals supplemented by sizeable cash balances. Q1 forecasts before the start of conflict in the Middle East suggested that defaults would fall across both the bond and loan market over 2026.

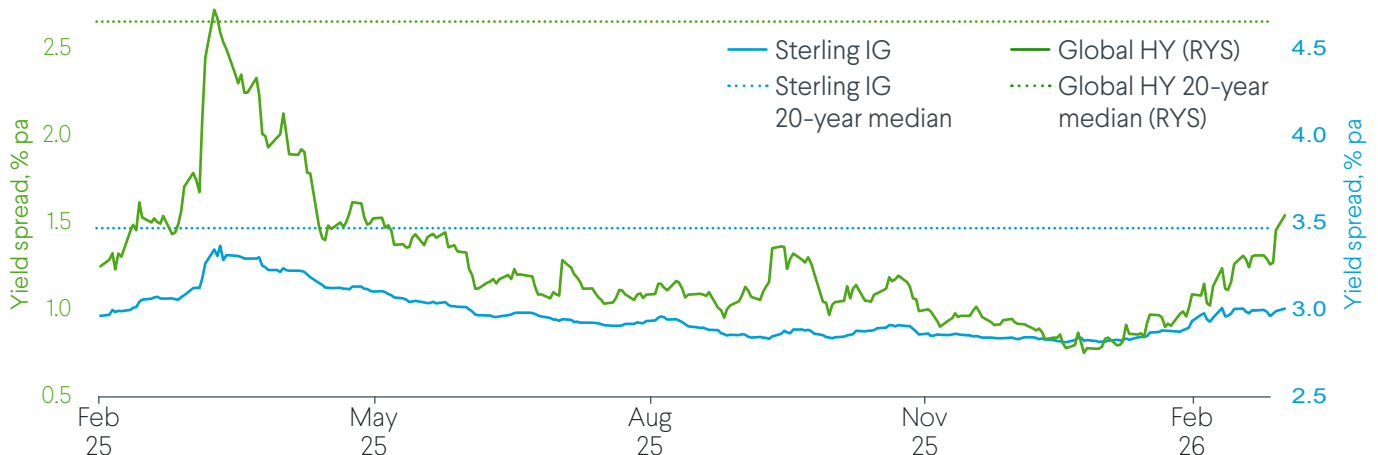
Bond issuance accelerated in January, with US and European investment-grade supply exceeding both January 2025 levels and the 2014–24 average. Expectations of further hyperscaler issuance may continue to put upward pressure on spreads over the year. Demand remains supported by high all-in yields.

Spreads have widened but are still tight compared to long-term history in both investment- and speculative-grade bond markets. The spread levels provide a cushion to long-term expected losses, albeit a small one by historical standards. Leveraged loan spreads have widened to a greater extent and sit above long-term medians. The loan market has been subject to fundamental weakness and shifts in sentiment surrounding private credit defaults and the market's higher exposure to the software sector.

Within investment-grade credit, small spread moves could lead to underperformance relative to gilts of a similar duration for short-term investors. However, medium-term investors can still access reasonable all-in yields and risk-adjusted returns.

Attractive sovereign yields and modestly wider spreads mean speculative-grade bond yields are trending closer to, but still slightly below, neutral expectations. Nevertheless, we remain cautious on speculative-grade markets: spreads are still well below long-term averages and volatility is elevated, suggesting better entry points may yet emerge.

Chart 4: Investment- and speculative-grade credit spreads have risen but remain below long-term averages



Source: Bloomberg

Chiara Beaton

Senior Investment
Research Analyst

0141 227 9892

chiara.beaton@hymans.co.uk

Software sentiment, geopolitical events and hyperscaler issuance have put pressure on spreads in recent months. However, demand is strong. Medium-term investors can still earn reasonable all-in yields within credit markets.

Equities

Global equities fell by 2.4% in Q1 as escalating conflict in the Middle East disrupted energy supplies, increasing the risk of higher inflation and weaker growth. The US underperformed as an initial rotation out of expensive US tech stocks outweighed later support from the region's relative energy independence. Growth stocks also significantly underperformed over the quarter. Despite its vulnerability to rising energy costs, Asia Pacific ex Japan led global markets in Q1. Gains were propelled by substantial AI capital expenditure and a strategic rotation by investors seeking value in the tech sector beyond expensive US stocks.

Despite the global energy-supply disruption, earnings forecasts for this year and next have continued to rise. This points to a relatively supportive near-term fundamental backdrop for equity markets. Indeed, the ongoing surge in AI investment, fiscal support in the US and China, and defence spending in Europe lend support to these forecasts. However, the risks around this outlook have arguably increased. Higher energy and input costs (including financing costs) and demand destruction (owing to lower real incomes) have perhaps increased downside risks to earnings growth.

The March sell-off, alongside robust earnings growth, has reduced multiples based on recent earnings closer to longer-term averages (Chart 5). However, these trailing price-to-earnings ratios reflect earnings boosted by a period of strong growth. Cyclically adjusted price-to-earnings measures, which account for potential earnings reversion, remain elevated. While high valuations are a poor predictor of short-term equity returns, they continue to indicate a relatively subdued medium-term outlook for equity markets.

Chart 5: Price declines, alongside strong earnings growth, have reduced trailing price-to-earnings ratios



Source: Bloomberg/Hymans Robertson



Andrew McCollum
Investment Research Analyst

0141 566 7776
andrew.mccollum@hymans.co.uk

The fundamental outlook remains strong, but downside risks have increased and valuations are still elevated.

Property

UK property returned 6.9% (total return) over the 12 months to end-February, comprising modest capital appreciation and a 5.7% return from income. Real rents are increasing across the retail, office and industrial sectors, but the pace of rental growth slowed over the quarter. Industry surveys also indicate weakening occupational demand and softening rental expectations; in the industrial sector, data suggests the weakest tenant demand since 2012 (excluding one pandemic quarter). Vacancy rates across sectors are elevated relative to historic averages, particularly in offices – rates are close to double their long-term average, at 22%. However, retail sector vacancies have been falling and are now back to pre-pandemic levels.

The gross reversionary yield remained at 7.1% pa over the quarter, while the net initial yield expanded slightly to 5.3% pa, driven by office and industrial yields modestly edging out. The gap between the two indicates the potential for further rental growth. High-quality prime assets remain in demand. New energy-efficient offices are commanding the highest rents, attracting both investors and tenants.

There was a surge in investment volumes in Q4 2025, exceeding five- and 10-year averages, and the first three quarters of last year. The technical landscape remains challenging, with redemption pressures persisting across several core property funds, causing some to suspend or defer payout of redemptions. Amid ongoing selling pressure, value-add investors are seeking to capitalise on market weakness.

Vacancies in the retail sector have been falling and are now back to pre-pandemic levels.



Viran Patel

**Investment Research
Associate Consultant**

020 7082 6364

viran.patel@hymans.co.uk



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