STENHAM ASSET MANAGEMENT

Q2 2026 Investment Letter

with Kevin Arenson, Akshay Krishnan & Tim Beck

Markets Overview[1]

Equities	Q2	YTD
Global Equities	12.6%	9.1%
EM Equities	20.5%	25.0%
US Equities	14.9%	9.6%
European Equities	8.8%	5.4%

Fixed Income	Q2	YTD
Global Gov't Bonds	0.7%	-0.4%
Investment Grade	1.4%	0.8%
High Yield	2.3%	1.8%
Global Agg Bonds	0.9%	-0.2%

Currencies	Q2	YTD
USD (DXY)	1.2%	2.9%
EUR (vs USD)	-1.1%	-2.7%
JPY (vs USD)	-2.3%	-3.6%
GBP (vs USD)	0.3%	-1.5%

Commodities	Q2	YTD
Gold	-13.2%	-6.8%
Oil (WTI)	-30.4%	22.9%
Natural Gas	11.2%	-13.0%
Commodities	-8.9%	12.3%

Economic Performance

The second quarter saw a marked recovery and strong performance in risk assets. While Q1 experienced an equity market sell-off amid AI-driven disruption and the escalating conflict in the Middle East, markets in Q2 reached new highs, driven by limited further escalation in the Middle East and renewed AI enthusiasm. This was supported by strong corporate earnings, and markets largely looked past renewed concerns over the persistence of inflation and a higher-for-longer interest rate path.

Equity markets performed well. The S&P 500 returned 14.9% (its best quarterly result since the Covid rebound in 2020) and the Nasdaq was up 21.4%, driving YTD gains of 9.6% and 12.8% respectively. Asian markets performed more strongly than the US with the MSCI Asia up 21.0% for Q2 and 20.3% YTD. SpaceX completed the largest ever IPO, raising $75bn. Credit followed the same theme but to a different magnitude; high yield corporate bonds posted a 2.3% gain and US leveraged loans returned 1.9% for Q2. Elsewhere, commodities proved volatile, with oil reacting to news flow out of the Middle East, though with the highs seen so far not matching the worst-case fears as China, in particular, managed to substitute its import of oil and use strategic reserves. Gold fell significantly, potentially as a result of the path of interest rates.

Given the level of geopolitical uncertainty, inflation remaining persistently high and interest rates higher than anticipated, the economy would be expected to be weaker than it is. There are arguably three main drivers to this resilience; industrial renaissance, tax cuts and stimulus (at least in the US, other countries are more constrained) and AI spending. To our minds, the most important of these is the buildout and expectation of

[1] *Source: Bloomberg as of 30 Jun 2026.*

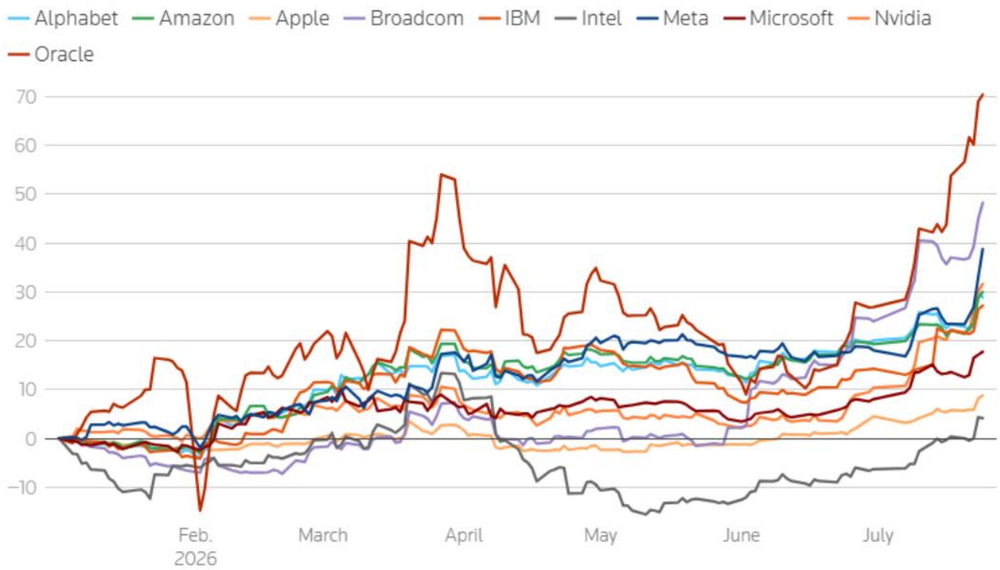
profitable gains from AI. While this has initially been focused on equity markets, the level of debt issuance by the hyperscalers is massive and investment in AI infrastructure has catalysed the largest private-sector infrastructure buildout since the early 20th century, which is set to continue.

Headline indices have remained relatively benign over recent years, despite the challenges encountered - Liberation Day, conflict in the Middle East and the continuing war in Europe. However, underlying this, there has been significant volatility. The key theme in Q2 and in the weeks since, is AI as the driver for both equity and credit markets. We are used to referring to the Magnificent Seven as the drivers of markets when actually this group gained just 1.7%. Leadership rotated from the mega-cap "deployers" of AI (Apple, Microsoft, Meta, Amazon) toward the "pick-and-shovel" AI infrastructure trade; semiconductors surged with the PHLX Semiconductor (SOX) up 88% in Q2 and over 100% for the year. The S&P 500 Excluding AI Enablers (SPXXAI) lagged broader markets and is up 5.2% YTD. Equally in credit, there is large dispersion. The numbers depend upon the reference index, but BoA research showed 'BB' rated debt (the highest quality of high yield) was in the 1st percentile of historic spreads, 'B' in the 9th percentile and 'CCC' (the lowest rated) in the 57th percentile. In leveraged loans, the dispersion is starker with 'CCC' leveraged loans in the 98th percentile. Headline indices have performed well because of the changes in the drivers of performance rather than any in-built resilience of existing structures.

In July as of writing, there is a sharp sell-off in AI-related names, with the SOX -24%, perhaps driven by some technicals (such as levered buyers of names in Korea being margin called) and also the question of the monetisation of AI along with fundamental questions on the viability of open source versus closed source models. Long-term demand remains difficult to forecast and depends on a variety of hard-to-predict factors, including model innovation, enterprise adoption, and industry economics.

Credit spreads for AI names are also wider. This is more contained for the large-cap issuers and the impact on other more levered, smaller names (such as CoreWeave) is more impactful.

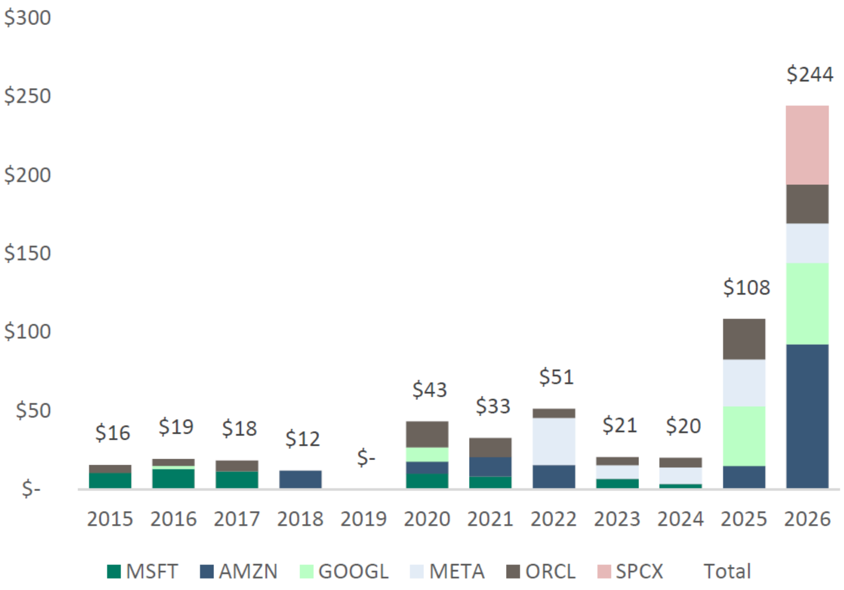
Credit worries seep into AI stocks[1]
YTD performance for 5-yr credit default swaps (bps)



[1] *Source: S&P Global Markets/LSEG Reuters (Amanda Cooper, 28 Jul 2026)*

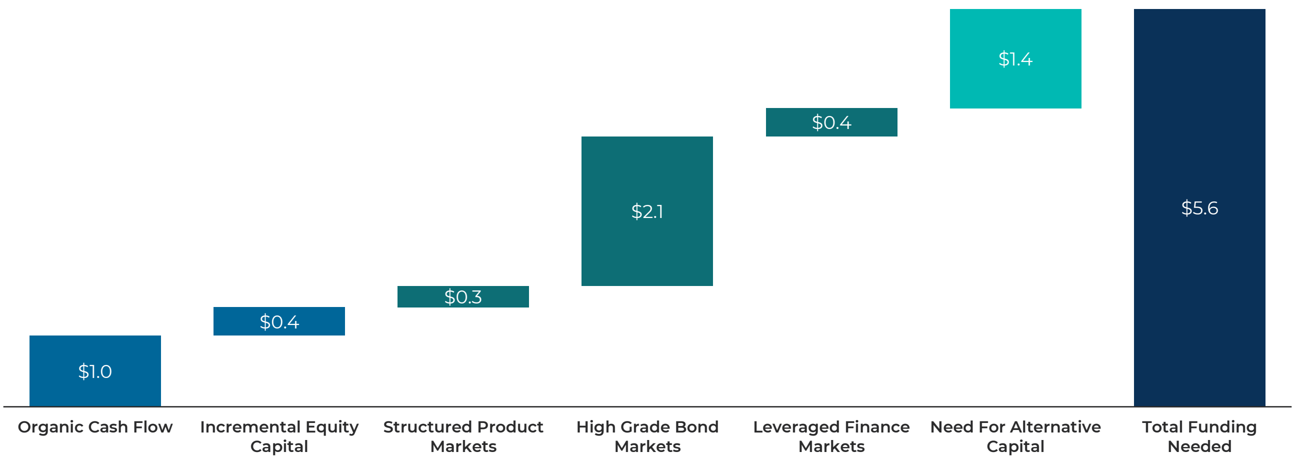
The amount of issuance from hyperscalers is vast.

Hyperscaler debt issuance[1]



It is also not clear how easy the continued financing will be. JP Morgan puts anticipated AI capex at $5.5tn. For this, the investment grade market will represent $2tn. The current size of the US IG market is $9.2tn, of which financials are one third. AI will need to represent a massive proportion of the remaining market, which may or may not happen but is unlikely to happen without some crowding out of other opportunities. That also leaves $2.5tn financed through other markets, assuming $1tn is financed through cash flow generation.

Anticipated AI capex funding sources[2]



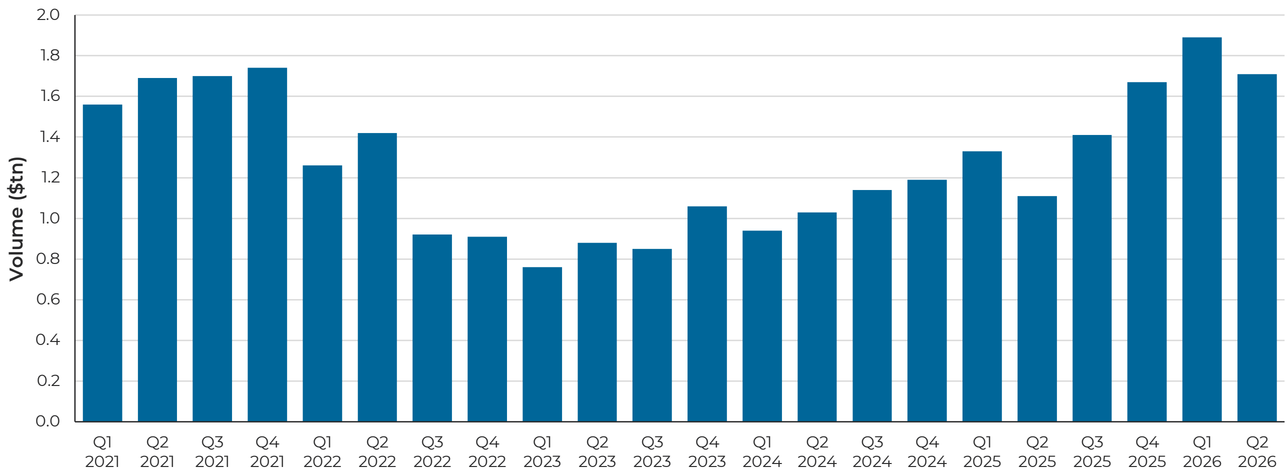
We are in no doubt of the transformative impact of AI, but many such technologies have seen over-levered companies default. The most obvious analogue is the technology boom of the late 1990s and early 2000s, which saw 75% of issuers default. More recently, energy saw double-digit default rates twice despite the hugely transformative impact of shale production. In both instances, the proportion of the market

[1] *Source: Apollo Asset Management, Bloomberg as of 7 Jul 2026.*
[2] *Source: JP Morgan as of 6 Jul 2026.*

represented by the industries rose meaningfully. We do not envisage the large investment grade hyperscalers defaulting, but are very open to some issues within smaller, more levered companies within the ecosystem experiencing trouble.

While AI is the clear overall market narrative across both equity and credit markets, as well as driving economic growth, other areas remain fruitful, M&A activity has remained robust.

Global announced deal volume[1]



The focus of markets is clearly on the AI story given its impact on both equity and debt markets, not to mention the overall economy. The scale of AI's ambition is matched only by the magnitude of capital required to build the technology's underlying infrastructure. While the buildout is creating compelling deployment opportunities, it is also testing the depth of the capital markets. As hyperscaler and AI investment accelerates, record issuance is beginning to pressure highly rated credit, disruption risk is spreading across a wider range of industries, and exposure to the AI theme is concentrating across credit and equity indexes. Furthermore, a market that has consistently rewarded optimism also carries a rising risk of complacency, anchored to the growing belief that no shock can durably disrupt the market's upward trend.

The performance of headline indices masks a lot of rotation and change in drivers beneath them and may also mask a lot of risk.

Strategy Allocations

Stenham portfolios performed well during Q2, with all strategies positive. We maintain our overall strategy allocations within portfolios. We are mindful in managing our overall factor risk exposure across portfolios.

Discretionary and Systematic Global Macro

Global Macro

Global macro strategies delivered strong performance over the second quarter, recovering from a difficult March in which discretionary managers were caught wrong-footed by events in the Middle East. Gains were

[1] *Source: Bloomberg as of 30 Jun 2026.*

led by equity and interest rate trading. The strongest returns came from discretionary managers with equity exposure, who benefited from AI-related themes across semiconductor memory, power grid infrastructure, and commodities. Managers with emerging market exposure also performed well, as sovereign credit and currencies rallied following the March drawdown. Interest rate trading was profitable overall, though UK and European front-end rates lagged in April and took longer to recoup March losses. May was a particularly strong month for rates, driven by the front-end fixed income rally and curve-steepening trades.

Quantitative Strategies

Quantitative market neutral strategies were a standout, posting gains in every month of the quarter - on the back of positive returns in March during the equity sell-off, underscoring their low correlation to equity markets. Gains were led by statistical arbitrage, with outperformance from managers holding more exposure outside the US. The current environment (reasonable equity market volatility, high stock and sector dispersion, and active market participation) remains conducive to these strategies.

Relative Value

Relative value strategies were modestly positive for the period, driven mainly by fixed income trading. The opportunity set for core bond-basis strategies remains muted; managers point to US financial sector deregulation, which has increased repo financing availability and kept spreads compressed. Better opportunities were observed in Japanese fixed income.

Long Volatility

Long volatility managers, having performed well in March, detracted over the quarter as market volatility compressed significantly; currency volatility in particular is approaching multi-decade lows. The allocation continues to be viewed as a valuable and increasingly asymmetric hedge, and while the sell-off in volatility during the quarter was painful for macro and long volatility managers, the compression creates a meaningful opportunity going forward, with scope to add exposure should volatility fall further.

Looking ahead, macro and quantitative managers remain optimistic on the opportunity set, while relative value fixed income managers are more cautious. Crosscurrents between geopolitics, AI infrastructure buildout, and inflation could drive greater macroeconomic policy uncertainty, and with it, more opportunity.

Equity Long/Short

Equity long/short contributed positively to performance over the quarter. Several of our Asia-focused managers delivered outsized returns, capturing significant AI-related market moves, notably across Korea and Taiwan. The largest equity long/short allocations tend to be more hedged in nature and, while positive, did not capture the full extent of the market's upside. These included core allocations to two multi-manager platform strategies, both of which delivered solid returns despite being market-neutral and highly diversified.

Our managers generally hold a positive view of the opportunity set for equity markets. AI unsurprisingly remains a key talking point across funds, and while managers remain fundamentally positive, some have pared back exposure given elevated volatility.

Event Driven

Event driven had a very strong quarter. Gains were led by one manager holding a position that benefited from a short squeeze in the stock, generating outsized returns. Outside of this attribution, returns were still strong, with levels of investment high, given the level of deal activity. We remain optimistic on the outlook for activity given the favourable anti-trust environment under the Trump administration. Notably, a number of the deals announced have been with larger companies, often with more complex, larger capital structures which can allow more dynamic positioning.

Credit

Our credit allocation also had a good quarter, in aggregate positive in every month. A convertible bond manager was among our largest contributors, with a high level of issuance allowing strong capital markets trading. Additionally, the volatility of stocks, particularly in technology, enabled strong gamma trading. These bonds are now trading with a higher equity delta - our manager is typically fully hedged at the single-stock level, which means that these are increasingly "synthetic put" trades and long volatility against high-multiple equities.

Other credit managers also performed well. Longs have generally outperformed broader markets and proven resilient. These managers have been running relatively low net exposures, with shorts protecting well. The high dispersion in the spreads of differently rated credit, along with the upcoming maturity requirements, creates a strong volume of opportunities but are not without risk.

Summary

Our Funds have performed well in Q2. Net performance over a number of years has now been in the high single digits with minimal beta to broader markets. We are encouraged by this, and the outlook remains strong across all strategies. We continue to see an increase in institutional client interest in hedge funds and our AuM has grown by 25% in the last 12 months as of 30 June 2026. We have been focused on securing capacity with the highest-quality hedge funds and are very excited by our research pipeline in the coming months.

Thank you for your ongoing confidence. Please get in touch if you would like to hear more about our strategies or funds. Further information can also be found on our website.

The Executive Advisory Committee

Kevin Arenson

Akshay Krishnan

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