



Phoenix Gaia Portfolios

Q2 2026 Market commentary

Economic & market overview



The second quarter of 2026 was characterised by a combination of geopolitical uncertainty and renewed optimism around artificial intelligence (AI). Early in the quarter, heightened tensions in the Middle East drove sharp swings in energy prices and reignited concerns that higher inflation could delay further interest rate cuts. However, the announcement of a ceasefire framework and subsequent Memorandum of Understanding between the US and Iran eased fears of a broader regional conflict. Oil prices retreated, and investor attention quickly returned to company earnings and the long-term growth outlook. Global equity markets responded positively, with the MSCI World Index delivering a strong gain of 13.8% over the quarter.

Beneath the headlines, the fundamental backdrop for markets remained supportive, as corporate earnings generally proved resilient. The defining theme of the quarter remained AI, but investor focus shifted from future expectations towards tangible financial results. Large technology companies continued to invest heavily in AI infrastructure, while semiconductor manufacturers and related businesses, such as memory makers, delivered earnings that demonstrated the strength of the ongoing AI investment cycle. The strong earnings growth seen in the recipients of the capex spend helped reinforce confidence in long-term growth prospects and supported broader investor risk appetite.

US equities delivered another strong quarter. Whilst technology companies continued to lead, by the end of the quarter market gains had broadened into more cyclical sectors, reflecting increasing confidence in the wider economy. European markets generated strong returns as improving corporate earnings offset concerns around higher energy prices. However, the UK lagged other developed markets due to its greater weighting towards more defensive sectors, including energy, financials, and consumer staples, rather than the higher-growth technology companies that continued to lead global markets, and because the rally in energy stocks seen after the attack on Iran petered out.

Asia and Emerging Markets were the strongest performing regions during Q2, benefiting from their central role in global AI and semiconductor supply chains. Technology-focused economies, particularly Taiwan and South Korea, delivered exceptional returns as demand for advanced chips and memory continued to accelerate. The broadening of market leadership beyond the US was an encouraging development and reinforced the benefits of maintaining a globally diversified portfolio. While geopolitical events continue to create periods of market volatility, the quarter once again demonstrated that investors who remain focused on long-term fundamentals, rather than reacting to short-term headlines, have generally been rewarded over time.

Global bond markets were mixed during the second quarter of 2026, with government bond yields driven largely by changing energy prices and inflation expectations. Early concerns over disruption to global energy supplies pushed yields higher as investors reduced expectations for interest rate cuts. As tensions in the Middle East eased, and oil prices retreated following the announcement of a US-Iran ceasefire framework, bond markets stabilised. The Federal Reserve and Bank of England kept interest rates unchanged, although the European Central Bank raised rates in response to renewed inflationary pressures. Investment grade corporate bonds delivered positive returns overall and outperformed government bonds, supported by resilient company fundamentals and continued investor demand.

Performance

Top performers

Robeco Smart Materials was our top performer, returning 36.9% over Q2. The strategy benefited from strong performance across companies exposed to the AI infrastructure build-out, particularly its largest holding, Samsung Electro-Mechanics Co. Ltd., which gained almost 180% during the period. This showcased the benefits of investing in advanced materials and smart manufacturing that enhance resource efficiency through scalable, cleaner, and more energy-efficient technologies.

Polar Capital Emerging Market Stars was the second best performer, delivering 24.8% over the quarter. The fund benefited from its holdings in Samsung Electronics and SK Hynix alongside other semiconductor holdings that have had an exceptionally strong quarter.

Bottom performers

Having risen by over 1% in Q1, Amundi Volatility World fell 4.2% over the quarter. While markets experienced several bouts of heightened uncertainty over the quarter, each episode proved relatively short-lived, as geopolitical tensions eased and investor confidence quickly returned. Furthermore, they were less extreme than in the immediate aftermath of the attack on Iran. As a result, the fund gave back some of its Q1 gains, as would be expected in such a scenario.

Amundi Smart Overnight Return was our second worst performer, delivering a positive return of around 1% over the quarter. Whilst a 'cash equivalent' fund like this will naturally lag strongly rising equity markets, it remains an important source of stability within the portfolios, especially as part of the Absolute Return allocation.

Portfolio performance as at 30 June 2026

Portfolio	3 months	6 months	1 year	3 year	5 year	Since inception
Phoenix Gaia Adagio*	4.6%	3.4%	7.4%	20.4%	-	20.5%
Phoenix Gaia Andante	6.6%	5.6%	10.6%	24.3%	19.2%	33.3%
Phoenix Gaia Moderato	8.1%	7.5%	13.3%	27.3%	22.7%	45.3%
Phoenix Gaia Vivace	10.3%	9.9%	16.1%	29.8%	24.1%	54.4%
Phoenix Gaia Presto	13.5%	12.6%	20.5%	33.6%	27.3%	61.9%

*portfolio inception date 31.03.2023

Portfolio changes & Sustainable highlights

Portfolio changes and rationale

The second quarter of 2026 saw markets remain resilient despite ongoing geopolitical uncertainty and continued questions around the outlook for inflation and interest rates. Against this backdrop, we made a number of changes designed to improve portfolio resilience and enhance long-term return potential.

The largest change was a redesign of our Absolute Return allocation. We brought together a range of complementary strategies into a single, more diversified allocation, comprising Amundi Volatility World, Amundi Smart Overnight Return, Atlantic House Defined Returns, and Trojan Ethical. Together, these funds create a broader range of return drivers that are less dependent on the direction of equity and bond markets. Equally importantly, they do so at a meaningfully lower cost, which was an important driver of the research that led to the change. We believe this provides a more balanced and resilient source of returns across different market environments.

Within global equities, we replaced Morgan Stanley Global Quality Select with HC Resolution Global Equity. Whilst we continue to favour high-quality businesses, we believe HC Resolution's investment approach offers attractive long-term return potential and provides complementary exposure within our global equity allocation.

Further into the quarter, within Fixed Income, we replaced our UK Gilts holding with Amundi Prime Global Government Bond ETF. This fund provides diversified exposure across US, Japanese, and European sovereigns, and would be expected to provide defensive characteristics during periods of market stress. By investing in the unhedged share class, we believe a smaller allocation can provide similar downside protection, as currencies like the US dollar and the yen tend to rally strongly during such periods. This change allowed additional capital to be deployed into more attractive areas, along with the capital raised by a reduction in our exposure to inflation-linked bonds, where improving inflation dynamics had made the risk-reward trade-off less compelling. The proceeds of the change were added to our existing short-dated investment grade bond holdings, EdenTree Sustainable Short Dated Bond and Vontobel TwentyFour Sustainable Short Term Bond, where we believe the balance between risk and return is more attractive currently.

Sustainability highlights

- For the first time on record, wind and solar generated more electricity than gas worldwide over a full month. According to energy think tank Ember, the two sources produced a record 531 TWh in April 2026 which is 22% of global supply, versus 477 TWh, or 20%, from gas.
- A severe late June heat dome pushed temperatures above 40°C across France, Spain, Italy and the UK. A World Weather Attribution study found the event would have been "virtually impossible" for this time of year in the climate of 1976, and around 200 times more likely today than it would have been 20 years ago.
- In a win for conservation, up to 100 eastern barred bandicoots were released onto Phillip Island, Victoria in April 2026, the largest ever wild reintroduction of a species declared extinct on mainland Australia in 1991. A world first genetic rescue programme, crossbreeding mainland and Tasmanian populations isolated for more than 10,000 years has rebuilt the population to over 2,000 individuals since breeding began in 2004.

Important Information

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The source of data is Morningstar Direct, calculated on a total monthly return's basis for a sterling investor. This update is for existing Phoenix Gaia investors/their advisers and does not constitute personal advice. Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate, and you may not receive back the amount you invested originally. Sustainable highlights contained in this update are for context only, and not a guarantee of investment outcomes.