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With Profits Growth Fund

Q2 2026 Review

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Market Review and Outlook

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Markets look beyond the headlines

Global markets proved resilient in the second quarter, shaking off volatility from the Iran conflict to reach new highs. Renewed AI optimism, strong corporate earnings and hopes for peace outweighed soaring energy prices and rising inflation. A breakthrough US-Iran agreement in June gave markets a further boost, even as central banks remained cautious about cutting interest rates and signs of strain began to emerge in consumer confidence and labour markets.

In this update, we reflect on the key developments of the quarter and share our latest views from the Investments team.

Global market overview

Stock markets shook off volatility caused by the Iran war to reach new highs, driven by renewed AI optimism, strong corporate earnings and hopes for a peace deal. Markets rallied throughout the quarter despite soaring petrol prices, falling consumer confidence and rising inflation. They were given a further lift in June when a breakthrough agreement raised hopes for an end to the conflict.

Global markets recovered in April, with stocks rebounding sharply from their March losses, buoyed by strong corporate earnings and AI-driven growth. Oil prices remained volatile as disruption in the Strait of Hormuz constrained shipping through the Gulf. At one point, global oil prices rose above $126 a barrel, their highest level since 2022, after President Donald Trump warned the US blockade of Iranian ports could last for months.

The FTSE 100 recovered some ground in April after March's sharp sell-off, delivering solid gains despite volatility linked to Middle East tensions and shifting interest rate expectations. After crossing the historic 10,000 mark for the first time in January, the index has largely remained above that level. UK equities were largely unfazed by Sir Keir Starmer's resignation as Prime Minister, paving the way for Andy Burnham to take over at No. 10.

US stocks climbed to record highs in May despite ongoing uncertainty caused by the conflict and elevated oil prices. Optimism surrounding a potential peace deal with Iran and growing confidence that AI spending will continue to support corporate earnings helped drive gains, with US companies delivering a strong first quarter that broadly beat expectations.

European stocks surged to new highs during the quarter after recovering losses suffered at the start of the conflict. It was also a strong quarter for Asian markets, with Japanese and Korean stocks reaching record highs, supported by hopes for peace in the Middle East and continued AI optimism. Despite turbulence in early June, markets recovered as easing tensions and a rebound following the AI-related sell-off boosted sentiment.

Global stocks surged and oil prices fell in mid-June after an agreement between Iran and the US to reopen the Strait of Hormuz raised hopes for an end to the energy crisis. Government bonds also rallied as investors reduced expectations for further interest rate rises, signalling growing confidence that a prolonged period of higher inflation could be avoided.

Interest rates and inflation

The conflict in Iran has driven up energy prices, fuelling global inflation and putting central banks under pressure to raise interest rates. Even so, policymakers remain cautious that overly aggressive monetary tightening could further weigh on economic growth.

The US Federal Reserve maintained its benchmark interest rate at 3.50% to 3.75% for a fourth consecutive meeting in June, while signalling the possibility of a rate hike before the end of the year. US inflation reached a three-year high of 4.2% in May, up from 3.8% in April and marking the third consecutive increase since the start of the Iran war.

Despite inflation remaining above target, the Bank of England held interest rates at 3.75% for a fourth consecutive meeting in June. UK inflation fell by more than expected in April to 2.8%, helped by a reduction in the household energy bill cap, before remaining unchanged in May. The Bank also lowered its inflation forecast, predicting it would rise to just over 3.25% later in the year.

The European Central Bank (ECB) raised interest rates for the first time since 2023, increasing its main deposit rate from 2% to 2.25%. Markets anticipate two additional hikes before next spring. Eurozone inflation accelerated to 3.2% in May, up from 3% a month earlier and its highest level in three years.

US economy remains resilient

Inflation fears have pushed US consumer sentiment close to an all-time low, with cost-of-living pressures and fuel prices weighing heavily on households. Petrol prices briefly fell below $4 following Trump’s Iran deal, although they remained around a dollar per gallon higher than before the war.

Despite facing the same global shocks, the US economy continues to outperform many of its peers, with growth remaining steady. The labour market has also proved resilient. Employers added 115,000 jobs in April, with unemployment holding at 4.3%. In May, payrolls increased by a further 172,000 while unemployment remained unchanged.

The economic impact of the Iran conflict on the UK has proved more muted than initially feared, with key economic readings coming in ahead of forecasts. However, as a net energy importer, the UK remains vulnerable to higher prices, with increased wholesale costs still expected to feed through to household bills.

Britain's economy contracted by 0.1% in April, its first monthly decline in eight months, although consumer spending rebounded in May and confidence showed signs of stabilising. The labour market also remained broadly stable, with unemployment edging down to 4.9% in the three months to April. However, job vacancies fell to 707,000, their lowest level in five years.

Eurozone growth slowed to near zero in the first quarter as surging energy costs, triggered by the Iran conflict, pushed inflation higher. The deteriorating outlook has stoked fears of stagflation, with low growth, rising prices and higher unemployment threatening to weigh on business investment and consumer confidence.

Economic activity contracted at its sharpest pace in two-and-a-half years in May, with output, new orders, employment and confidence all falling across both services and manufacturing. The eurozone's reliance on fossil fuel imports leaves it particularly exposed to global supply shocks, adding further inflationary pressures.

China's economy is showing signs of losing momentum after a strong start to the year. Consumer spending fell in May for the first time in three years, with retail sales down 0.6%, while fixed asset investment dropped 4.1% in the first five months. Growth has been largely export-driven, leaving domestic demand weak and the property market a persistent drag.

Wholesale prices rose at nearly their fastest pace in four years, climbing 3.9% in May, pushed up by raw material costs linked to the Iran conflict and rising AI demand. Industrial output also cooled, although China remains on track to meet its official growth target of 4.5% to 5% for the year.

Spotlight on...
Inside our property portfolio | Wesleyan

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Head of property at Wesleyan Assurance Society, Joe Curlett shares more on our diversified approach to investing in property.

https://www.wesleyan.co.uk/intermediaries/blog/detail/q2-review-spotlight

Inside our property portfolio: Performance, purpose and longterm thinking.

Head of property at Wesleyan Assurance Society, Joe Curlett shares more on our diversified approach to investing in property.

At Wesleyan, our investments in property assets are guided by a belief in 'valuation-based long-term investing.' That means we focus on finding mispriced opportunities within the property space to weather variable conditions and support in delivering solid returns for us. Our commercial property portfolio makes up to 10% of Wesleyan's With Profits Growth Fund.

A diversified approach to resilience

Diversification remains central to our philosophy. By investing in assets across various different sectors, including retail, office, industrial and leisure, we ensure that when one area faces headwinds, another can help to steady the ship. This balance allows our portfolio of assets to weather economic cycles and potentially protect long-term customer returns.

Our properties include NHS buildings, Waitrose supermarkets, The Ivy in Cheltenham and Lloyd's Bank in Cambridge, amongst others. Each asset is selected for its quality, tenant strength, and long-term potential. These investments are intended not just to deliver good financial returns, but to give back to the communities where our customers live and work.

Making the most of a quiet market

Commercial property transactions are currently below average, reflecting a cautious market. Rather than seeing this as a challenge, we've used it as an opportunity to add some quality purchases to our portfolio while we have less competition from other buyers.

Property prices haven't really grown this year, but the rental and leasing market is slowly getting stronger. While demand for tenant space varies by sector, industrial demand has been the most resilient. An interesting observation is how pockets of the office market have very strong demand from tenants, where best in class buildings are available to rent.

We're particularly keen on the retail warehouse market at present, where national vacancy rates are at near all-time low levels.

Portfolio performance and activity

Despite a quieter market, our property team has been active and strategic.

In 2025:

- We completed a record number of leasehold transactions, totalling nearly £7 million, improving both income duration and portfolio value through lease renewals, rent increases and letting vacant space
- We also disposed of nine properties which no longer fit our long-term vision for the portfolio. To date we have sold assets valued at £22m for £27m
- We were pleased to have acquired two high quality assets for £13m – a David Lloyd Gym in Lichfield and an Aldi Supermarket in Gloucester – which should prove to be both long and secure income providers

This activity demonstrates our ability to adapt, optimise returns and position the portfolio for continued success.

Sustainability and ESG progress

Sustainability is integral to our investment philosophy. We're pleased to report that in 2025, 73.9% of the property portfolio (excluding exempt assets) has an Energy Performance Rating (EPC) rating of A or B.

Our focus on energy efficiency, EV charging infrastructure, and responsible asset management ensures that our properties contribute positively to both environmental outcomes and customer value.

How Wesleyan invests

The fund management process is overarched by a belief that active investing at attractive valuations, can help to deliver competitive long-term returns for our customers. The property team embrace this belief by following the process outlined below when looking for new acquisitions.

Stage	Focus	Objective
Screening and monitoring	Macroeconomic and thematic factors, ESG integration, liquidity and risk review	Identify prospective opportunities and monitor existing assets against market dynamics
Detailed analysis and bidding	Independent research, valuation exercises, income analysis	Build a comprehensive picture of each asset's value and potential
Due diligence – under offer	Legal, environmental and structural assessments	Ensure suitability and long-term viability of the asset
Acquisition and asset management	Integration, lease compliance, valuation modelling	Preserve and enhance value through active management

This process ensures that every opportunity we identify is rigorously assessed, responsibly managed and aligned with our long-term goals.

The power of compounding and long-term thinking

When it comes to property portfolio returns, we don't mind whether this comes from income or growth. The real magic happens when steady property investments held within the portfolio, combined with a little patience, sees returns build on each other, year after year.

Our risk framework

Our fund management process is underpinned by a comprehensive risk framework, and therefore ensures every property asset purchased operates within defined parameters. Diversification, quality and sustainability are not just guiding principles, they're active tools for managing uncertainty and protecting investor value.

Explore our property portfolio

Discover our property holdings across the UK. From landmark city centre offices to community focused retail spaces, you can explore our full portfolio via the interactive map.

Bear in mind that the value of investments can go down as well as up and you may get back less than you invest.

Please note that past performance is not a reliable guide to future performance and the value of your investment, and any income can go down as well as up, so you could get back less than you invested.

If you have any queries or would like more detail about Wesleyan's With Profits Growth Fund please speak to your adviser.

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