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INVESTORS

INVESTMENT FOCUS



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YOUR BRIGHT FUTURE

&

OUR INVESTMENT EXPERTISE

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WHAT'S INSIDE:

+ **Market resilience in a shifting world**
+ **The evolution of cybersecurity**

WELCOME



Sam Mettrick
Head of UK Intermediary

The first half of 2026 witnessed a shift in market expectations and a renewed focus on investment fundamentals. While recent years have been characterised by abundant liquidity, strong momentum-driven returns and growing enthusiasm for speculative assets, investors now face an environment where economic resilience and higher-for-longer interest rates are reshaping the investment landscape.

At the start of the year, markets anticipated a series of interest rate cuts from the US Federal Reserve. However, resilient economic growth and persistent inflationary pressures have prompted a significant reassessment of those expectations. With nominal growth remaining robust and liquidity conditions becoming less supportive, investors are increasingly focusing on valuation, quality and income rather than simply chasing market momentum.

Staying focused on fundamentals

In this edition, we hear from Richard Bernstein on page 4-5 about why staying focused on fundamentals and quality assets may prove rewarding, particularly if speculation fades from markets. On page 6, Robert Schramm-Fuchs explores the structural forces supporting European equities despite a more uncertain economic backdrop, while on page 7 Laura Foll explains why UK equities could offer a compelling combination of income and growth potential. We delve into your views on geopolitical risk and government spending in our "What do your peers think?" feature on pages 8-9. We then examine how artificial intelligence is reshaping the cybersecurity landscape on pages 10-11, before Hamish Chamberlayne explores the AI infrastructure supercycle and its implications for sustainable investing on pages 12-13. Finally, on page 14 Nicholas Ware looks at the behaviour of bonds in different environments and their potential role in a diversified portfolio, while on page 15 Luke Newman considers how flexible long/short strategies may help investors navigate an increasingly uncertain world.

As always, our aim is to provide timely insights that help you navigate evolving markets with confidence. We hope you enjoy this latest edition of Investment Focus and find it both informative and thought-provoking. It is always a privilege to support your investment journey, and we thank you for your continued trust in us.



Sam Mettrick
Head of UK Intermediary
Janus Henderson Investors

Past performance does not predict future returns. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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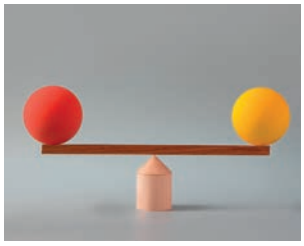
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BORING REMAINS BEAUTIFUL

Global Head of Macro and Customised Investing Richard Bernstein explains why tighter liquidity and a renewed focus on fundamentals are creating opportunities in dividend-paying equities, non-US stocks and higher-quality fixed income.



Richard Bernstein
Global Head of Macro and Customised Investing



Financial markets and betting markets serve very different purposes, yet in 2026 investors increasingly appear to be treating them as one and the same. Financial markets support capital formation by helping companies raise capital, invest and create jobs. Betting markets, by contrast, simply allow participants to wager on outcomes. In our view, investors would be better served focusing on fundamentals than speculation.

This speculative environment is evident in options trading. The leverage embedded within options offers the potential for higher returns but comes with significantly greater risk. Despite this, total options trading volume has more than tripled over the past five years, highlighting the increasingly speculative nature of markets (Exhibit 1).

Investors are reassessing the Fed

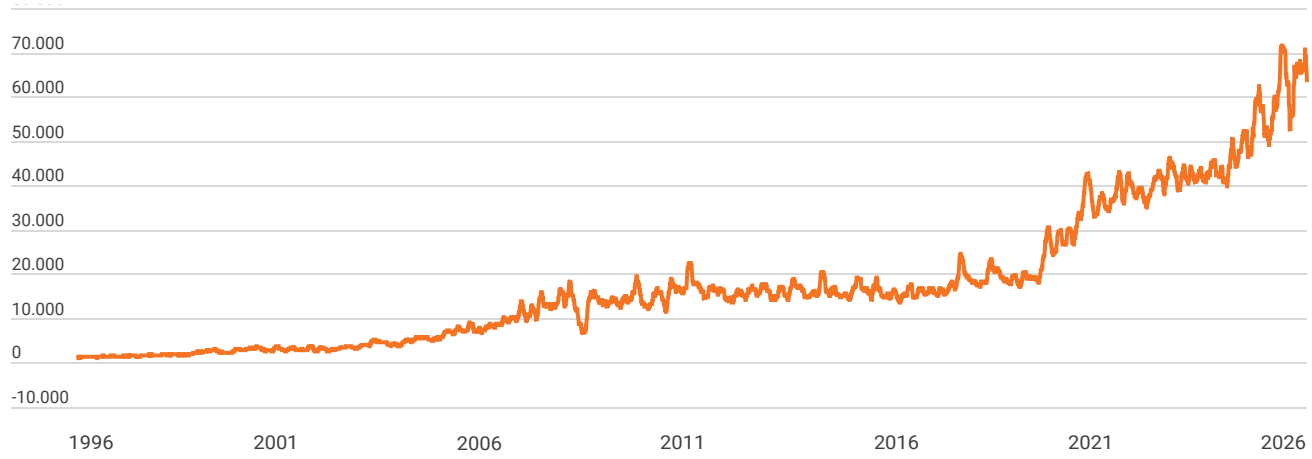
At the start of 2026, one of our key assumptions was that the US Federal Reserve (Fed) would be unable to cut interest rates as aggressively as markets expected. We even viewed additional rate hikes as a possibility.

That once-contrarian view is becoming more widely accepted. Futures markets have dramatically revised their expectations. At the end of 2025, markets anticipated a series of rate cuts throughout 2026, with interest rates remaining below current levels until 2030. Today, expectations are for rates to trend upward over the next several years.

Even that near-term optimism may prove excessive. Our real-time measure of nominal (inflation-unadjusted) GDP growth – combining the Atlanta Fed's GDPNow estimate with one-year inflation breakevens – suggests the US economy remains exceptionally strong. Nominal GDP growth exceeded 8% in the third quarter of 2025, marking the first such reading in roughly two decades outside the pandemic period. After a temporary slowdown in the fourth quarter caused by the government shutdown, nominal growth rebounded to more than 5.5% in the first quarter of 2026 and is currently tracking above 5% in the second quarter.

Such robust nominal growth is likely to constrain the Fed's flexibility. We continue to believe policymakers will gradually adopt a tightening bias and may ultimately need to raise, rather than lower, interest rates.

Exhibit 1: Rocketing options volumes illustrate the increasingly speculative nature of markets



Bloomberg, US total equity and index call (buy) and put (sell) options traded on all Options Price Reporting Authority-participating US exchanges, 30-day moving average daily volume (000s), 1996 to 2026.

Fundamentals matter when liquidity fades

Periods of speculation are often fuelled by abundant liquidity, and history shows that speculative excesses tend to unwind when the Fed tightens policy. As liquidity becomes scarcer, investors typically place greater emphasis on fundamentals rather than momentum and recent performance.

Lower valuations, combined with stronger return expectations, indicate more attractive opportunities. By this measure, dividend-oriented and non-US equities appear considerably more appealing than current market favourites, including the Magnificent 7 stocks and the broader technology sector.

Not a time for credit risk

While higher-risk assets have historically generated stronger long-term returns, valuation and entry point matter. When equity valuations are elevated or credit spreads are exceptionally tight, investors are often receiving inadequate compensation for the risks they assume.

High-yield corporate bond spreads provide a clear example. Spreads have been narrower than current levels only twice in the past 30 years, and both instances were followed by significant credit market disruptions. Given this backdrop, we continue to favour shorter-duration, higher-quality fixed income sectors such as Treasuries and mortgage-backed securities.

If nominal economic growth remains stronger than consensus expectations and the Fed cannot ease policy as aggressively as markets anticipate, maintaining shorter duration exposures may also prove advantageous relative to benchmark allocations.

Staying disciplined

Investor sentiment often swings between extreme caution and excessive risk-taking. Early in the current bull market, investors favoured quality dividend stocks and Treasuries. Today, distinctions between investing and speculation appear increasingly blurred, with many investors seeking ever-higher levels of risk.

Rather than following the crowd, we remain focused on fundamentals. Current valuations and economic conditions continue to support a preference for dividend-paying equities, non-US stocks and shorter-term, higher-quality fixed income. In our view, these "boring" investments remain among the most attractive opportunities for the second half of 2026.

Definitions

Credit spread: The difference in yield between a corporate bond and a comparable government bond, reflecting the additional risk investors take when lending to a lower-credit-quality borrower.

Dividend: A portion of a company's earnings paid to shareholders, typically in cash, as a return on their investment.

Duration: A measure of a bond's sensitivity to changes in interest rates, indicating how much its price is likely to rise or fall when rates change.

Equities: Shares of ownership in a company, commonly known as stocks, which may provide returns through capital appreciation and dividends.

Fixed income: An asset class consisting of investments that pay regular income, such as bonds, where investors lend money to an issuer in exchange for interest payments and return of principal.

High-yield bonds: Bonds issued by companies with lower credit ratings that offer higher interest rates to compensate investors for greater risk of default (the risk of not being repaid).

Inflation: The rate at which the general price level of goods and services rises over time, reducing purchasing power.

Interest rates: The cost of borrowing money or the return earned on savings or fixed income investments, typically expressed as a percentage.

Leverage: The use of borrowed funds or financial instruments (such as derivatives) to increase the potential return of an investment, which also increases potential risk.

Mortgage-backed securities (MBS): Fixed income securities backed by a pool of mortgage loans, where investors receive payments derived from the underlying homeowners' mortgage payments.

Nominal GDP: The total value of all goods and services produced in an economy, measured using current prices without adjusting for inflation.

Options: Financial derivatives that give the holder the right, but not the obligation, to buy or sell an asset at a predetermined price within a specified time period.

Treasuries: Debt securities issued by the US government, considered low-risk, used to finance government spending.

EUROPEAN MARKET RESILIENCE IN A SHIFTING WORLD

European markets face growing uncertainty, but powerful structural trends continue to create opportunities for investors willing to look beyond the headlines, says Robert Schramm-Fuchs.



Robert Schramm-Fuchs
Portfolio Manager, European Equities



Recent economic data has softened, while geopolitics has added another layer of uncertainty. Growth has stagnated in the eurozone (just 0.1% in the first quarter of 2026), while inflationary pressures have re-emerged, driven largely by higher energy costs related to the conflict in the Middle East. Business activity surveys also point to cooling momentum. Meanwhile, central banks remain cautious across the bloc. The European Central Bank raised interest rates in June and left open the option of further tightening.

While the near-term macro picture may appear challenging, we believe it obscures a more constructive story for European equities. Markets are already looking through cyclical softness (a temporary economic slowdown aligning with economic or seasonal cycles), focusing instead on a set of powerful structural drivers that are reshaping the opportunity set:

1. **Competition for critical resources.** From rare earths to energy, global supply is tight after years of underinvestment, an imbalance that won't fix quickly. Companies linked to commodities, and the equipment needed to extract or process them, are entering what could be a long upswing.
2. **Rising policy support.** Renewables are a clear priority as the region seeks to reduce reliance on imported fossil fuels. At the same time, sectors like steel and chemicals are gaining backing after years of decline. Progress is uneven, but the direction of travel is clear.
3. **A push for innovation.** Europe has lagged in cutting-edge innovation, but pockets of strength are emerging. Areas such as semiconductors, electrification and advanced industrial technology offer faster growth potential than traditional 'mid-tech' industries.

Together, these forces suggest that the European market is not only resilient to current headwinds, but is positioned to benefit from longer-term shifts in how economies produce, consume and invest.

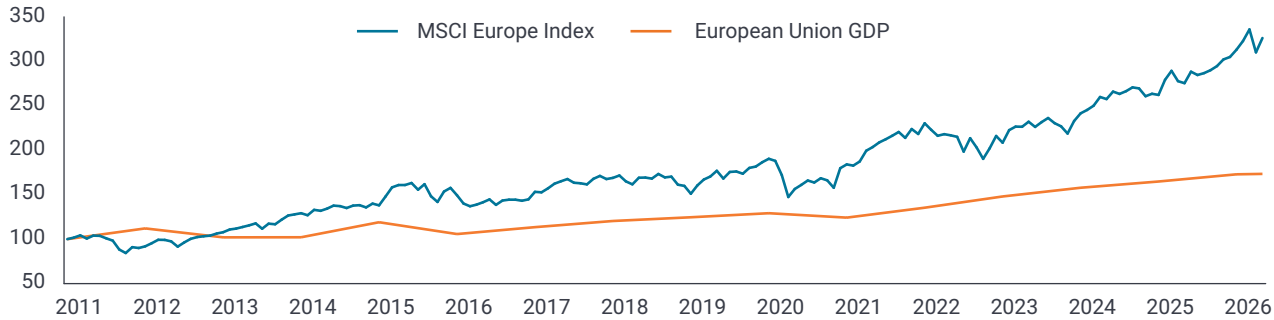
Crucially, Europe's stock market is not the same as its economy. Large publicly-listed companies in Europe are generally global businesses, and their fortunes have significantly outpaced domestic GDP growth over the past decade (see chart). That disconnect looks set to continue.

For investors, this means European equities still offer a compelling mix: exposure to global structural growth trends, alongside potential upside if domestic reforms and investment begin to gain traction.

In a world of shifting regimes, selectivity matters more than ever, but the opportunity set remains alive and well in Europe.

European equity returns outstrip economic growth

European equities ≠ European GDP



Source: Bloomberg, Janus Henderson Investors Analysis, as at 31 March 2026.

Note: MSCI Europe EUR Net Total Return Index and European Union Gross Domestic Product (GDP) rebased to 100 on 01 January 2010. From 2026, European Union GDP is an estimate using ECB projections.

UK EQUITIES:
INCOME TODAY, GROWTH TOMORROW?

Low valuations, global exposure and stock-specific opportunities make UK equities an overlooked source of income and growth, argues Laura Foll.



Laura Foll
Portfolio Manager, UK Equity



The UK equity market has spent much of the past decade out of favour, with weak sentiment and subdued domestic growth weighing on investor appetite. Yet this overlooks a key point: the UK economy and stock market are not the same.

Many UK-listed companies generate a significant share of revenues overseas, meaning investors can access global businesses at discounted valuations. For patient investors, this creates an opportunity to capture both income and capital growth where expectations remain low.

Out of favour creates opportunity

UK equities continue to be seen as a contrarian allocation, allowing valuation gaps to persist even as fundamentals improve. Over time, however, earnings and valuations tend to reconnect.

Identifying companies where sentiment is anchored to the past while operational performance strengthens is key to unlocking returns.

Valuation and income: a powerful combination

The UK market trades at a significant discount to global peers (see chart), particularly the US. While valuation alone is not a catalyst, it becomes compelling when paired with improving fundamentals.

This also supports dividend income. Higher yields allow investors to be paid while waiting for sentiment to recover. Ongoing takeover activity further suggests strategic buyers recognise value that public markets may still overlook.

Global exposure at UK prices

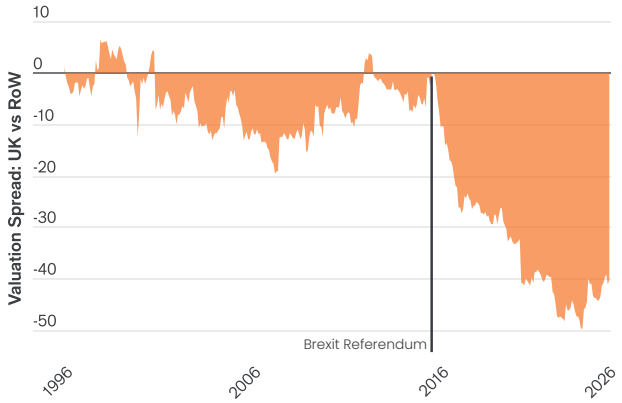
A common misconception is that UK equities reflect purely domestic growth. In reality, many companies have substantial international exposure.

Zigup, a commercial vehicle rental provider, illustrates this. Often viewed through a UK lens, its Spanish operations are driving stronger growth and profitability, highlighting how valuations can underestimate earnings potential.

Income as 'patient capital'

Dividend income remains a defining feature of UK equities. Beyond providing returns, it enables investors to hold positions through uncertainty. Turnarounds and cyclical recoveries

Valuation spread: UK vs Rest of the World equities



Source: Panmure Liberum. The valuation spread represents the percentage discount between the UK and RoW in terms of a blended average of valuation metrics such as price/earnings (p/e) and price/book (p/b). P/e is calculated by dividing the current share price by earnings per share. P/b by dividing the current share price by a company's book value (the value of a business according to its balance sheet). 1996 to 2026.

rarely unfold quickly. Companies that are refocusing on core strengths often face mixed conditions. Attractive dividend yields make these opportunities easier to hold while waiting for improvements.

Turning points and structural growth

New management and strategic change can unlock value, as seen in companies like Marks & Spencer and Babcock, the defence engineering group. These turning points are often underappreciated early on.

At the same time, capital growth does not require strong UK economic growth. Structural drivers such as infrastructure investment and defence spending are supporting companies within the construction and defence industries.

Conclusion: Paid to wait for potential

UK equities remain overlooked, but that is where opportunity lies. Low valuations, strong income and underappreciated growth drivers create a compelling combination. For investors, the appeal is balance: income provides stability and patience, while improving fundamentals offer capital growth potential. In many cases, investors are being paid to wait for that growth to emerge.

Definitions

Dividend: A payment made by a company to its shareholders.

Equities: Shares representing ownership in a company.

Index: A statistical measure representing the performance of a group of assets, often used as a benchmark for investment performance.

Valuation: An assessment of the worth of an asset or company, often based on metrics such as earnings, cash flow, or book value.

References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable.

WHAT DO YOUR PEERS THINK?

In our latest Customer Panel Survey in June 2026, we asked for your views on geopolitical risks and government spending. We aggregated the responses so you can see what your peers are thinking.

GEOPOLITICS AND PUBLIC SPENDING

1. **How would you describe your current level of concern about geopolitical risks affecting markets and investments?** (Select one)

Concern is widespread, but mostly moderate rather than extreme, with 75% of respondents either moderately or slightly concerned about geopolitical risks affecting markets and investments.



Not concerned	2%
Slightly concerned	27%
Moderately concerned	48%
Very concerned	23%

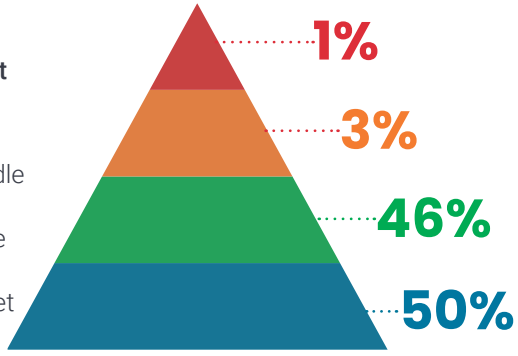
2. **Which geopolitical issue do you believe poses the greatest threat to global markets today?** (Select one)

Middle East conflict was the standout geopolitical concern, cited by **58%** of respondents as the greatest threat to global markets. Global trade fragmentation followed at **26%**, while US-China relations and the Russia-Ukraine war each received **8%**.



3. **If conflict in the Middle East were to escalate further (for example, a widening confrontation involving Iran), what impact do you anticipate it would have on global financial markets?** (Select one)

Respondents also expected any escalation in Middle East tensions to affect markets. Half anticipated a significant impact, while 46% expected a moderate but contained effect. Only 3% foresaw a limited impact and just 1% expected no meaningful market consequences.



No real impact
It would barely affect global financial markets.

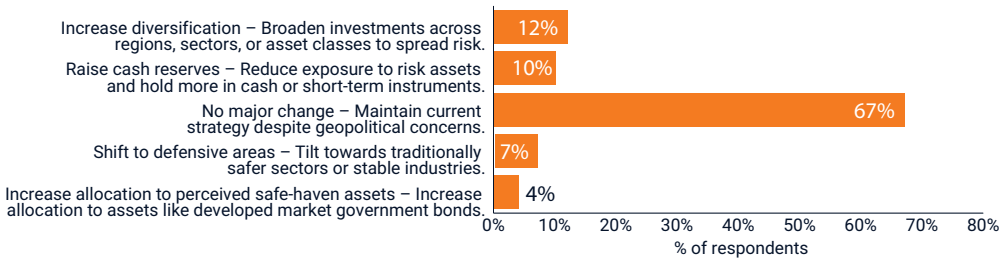
Limited impact
It would cause only minor, short-term market effects.

Moderate impact
It would have a noticeable but contained effect on global markets.

Significant impact
It would have a major, wide-ranging effect on global markets (e.g. causing high volatility or economic disruption)

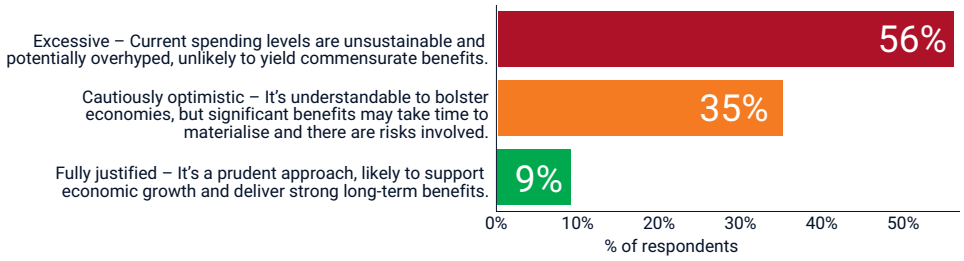
4. **How do you typically adjust your investment portfolio in response to rising geopolitical uncertainty?** (Select one)

Despite geopolitical concerns, most investors are not changing course. More than two-thirds of respondents (67%) said they would make no major adjustments to their portfolios, choosing instead to maintain their current strategy.



5. Leading economies have significantly increased public spending, often funded by substantial borrowing. What is your view of this elevated level of government expenditure? (Select one)

More than half of respondents (56%) said government spending is too high and potentially unsustainable, while only 9% felt heavy borrowing was justified to support growth.



6. In your view, which type of public spending is most critical for long-term economic health and growth? (Select one)

Education and skills training was the top spending priority (37%), followed by fiscal restraint and debt reduction (32%). Infrastructure and climate projects (18%) and healthcare and social welfare (13%) ranked lower



37%

Education & skills training

Investing in education, research, and workforce development for future competitiveness.

32%

Fiscal restraint & debt reduction

Prioritising deficit control to maintain financial stability and avoid excessive debt burdens.

18%

Infrastructure & climate projects

Upgrading infrastructure and funding climate initiatives to boost productivity and resilience.

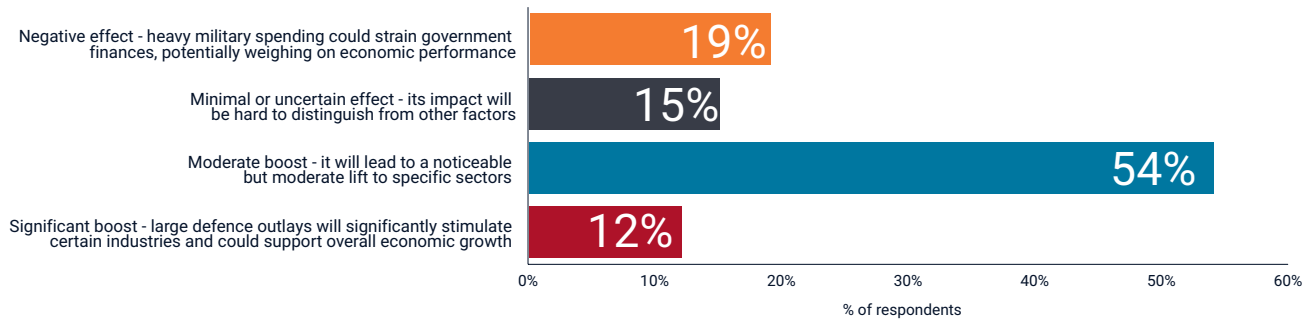
13%

Healthcare & social welfare

Strengthening healthcare systems and social safety nets to support human capital and stability.

7. Over the next five years, how do you expect rising global defence expenditures will affect economic growth and financial markets? (Select one)

Despite concerns about borrowing, respondents were relatively positive on defence spending. Most expected higher defence budgets to deliver a moderate economic benefit and 12% expected a significant boost. However, 19% believed increased military spending could have a negative impact.



Please see the back page for details about the survey and how you can join the Customer Panel.

PROJECT GLASSWING: ADVANCING THE EVOLUTION OF CYBERSECURITY



Richard Clode
Portfolio Manager
Technology Equities

The launch of Anthropic's Project Glasswing underscores AI's growing cybersecurity role, with Mythos Preview helping identify vulnerabilities across operating systems and web browsers.

This development highlights the increasing importance of the cybersecurity ecosystem. As AI models become more capable at coding and automation, they are lowering the barriers for both defenders and cyber attackers to discover and exploit software vulnerabilities.

Five key implications for cybersecurity:

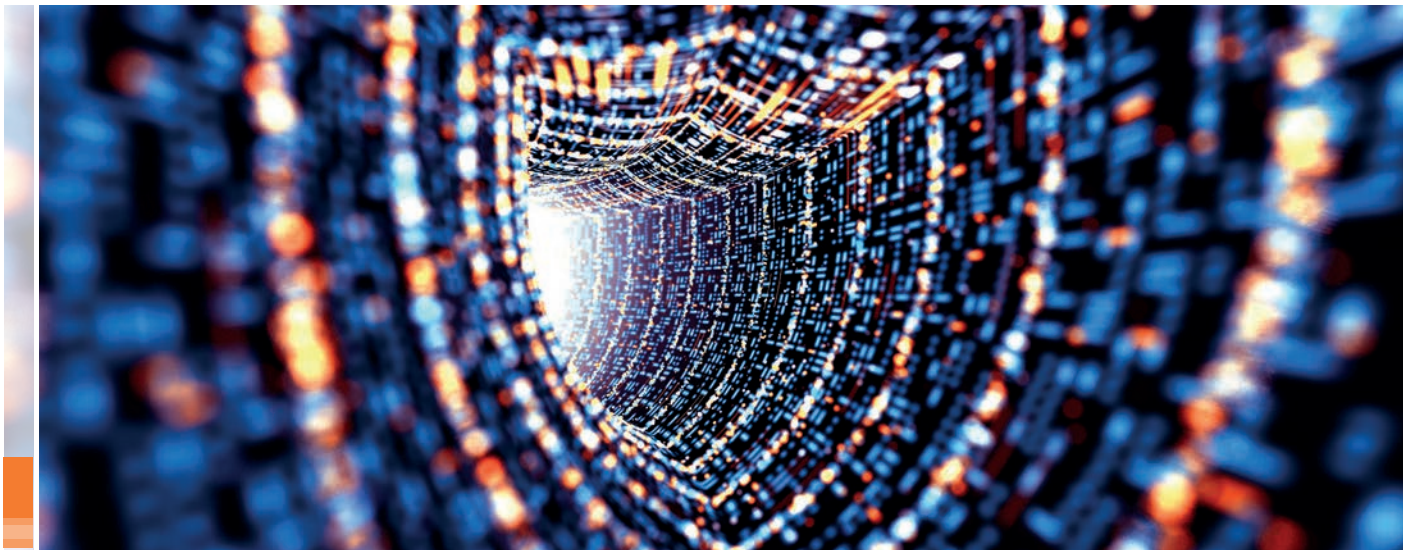
1. Accelerating vulnerability exploitation

AI is materially reducing the time required to identify and exploit software vulnerabilities. This compression of attack timelines raises the stakes for organisations, which must respond faster and with greater precision. As a result, cybersecurity is likely to become a larger and more urgent component of IT budgets, with increased emphasis on automated threat detection and rapid remediation.

2. Rising demand for multi-LLM protection

Enterprises are increasingly deploying multiple large language models (LLMs), combining proprietary systems with external Application Programming Interfaces (APIs) that route queries to the most suitable model. While this architecture improves efficiency, it also introduces new risks: expanded attack surfaces, greater data exposure, and increased complexity in monitoring.





This shift has several implications:

- **Network security**: Cisco estimates enterprise network traffic with agentic AI adoption could rise closer to 9x. The surge in machine-generated traffic reinforces the need for scalable, AI-aware network security as a foundational layer.
- **Zero Trust and endpoint security:** Zero Trust Architectures based on continuous verification of users, devices, and access are increasingly important in mitigating AI-enabled threats. Endpoint security also plays a critical role in controlling "shadow AI" (unauthorised generative AI usage) and preventing data leakage.
- **Identity security:** As AI agents increasingly operate alongside humans, robust identity governance, privileged access controls and multi-factor authentication are essential to limit system access and reduce the potential impact of credential theft or breaches.

3. Convergence of security and observability

Historically, observability (monitoring and diagnosing) focused on system performance, and security solutions focused on threat detection and prevention. Adoption of AI results in the creation of a shared data layer where threat detection is increasingly dependent on the telemetry streams (records of a security event) that were the core focus for observability, resulting in changing competitive dynamics between players in each sector.

4. Greater emphasis on application security

Mythos enables faster and more efficient detection of software bugs, increasing the importance of identifying and resolving vulnerabilities earlier in the development lifecycle. This approach enhances overall software resilience and reduces downstream risk once applications are deployed. Improved efficiency in vulnerability discovery could alter competitive dynamics, potentially favouring vendors that can integrate AI deeply into development workflows.

5. Regulation reinforcing cybersecurity priorities

The US Securities and Exchange Commission (SEC) has introduced enhanced disclosure requirements for public companies, mandating reporting of material cyber incidents and broader risk management practices. As the threat landscape evolves with AI, it potentially redefines what constitutes "material risk" and "reasonable care", which could further drive cybersecurity investment and governance standards.

Investing in cybersecurity through an active lens

Project Glasswing also highlights the emerging role of AI companies such as Anthropic as strategic partners within the cybersecurity ecosystem. While their advanced capabilities present opportunities, they also reinforce the need for secure and responsible deployment of AI technologies.

We are closely monitoring both the evolution of these models and the competitive responses from other AI developers. At the same time, we are assessing how cybersecurity vendors are embedding AI into their platforms to enhance protection, automation, and threat intelligence.

Industry commentary supports the view that AI represents a structural growth driver. Research from McKinsey & Co. suggests strong expectations for sustained AI integration across security solutions, pointing to a multi-year growth runway.

While there is ongoing debate about the potential for AI model providers to disrupt traditional software businesses, we believe Mythos may shift the narrative for cybersecurity towards partnership rather than displacement. As organisations adopt agentic AI at scale, demand for protection, governance, and risk management should increase in tandem. Given the pace of technological change and evolving competitive dynamics, we expect cybersecurity to remain a fertile area for active stock selection.

Definitions

Agentic AI: An AI system that uses sophisticated reasoning and iterative planning to autonomously solve complex, multi-step problems. Vast amounts of data from multiple data sources and third-party applications are used to independently analyse challenges, develop strategies and execute tasks.

Generative AI: Refers to deep-learning models that train on large volumes of raw data to generate 'new content' including text, images, audio and video.

Large Language Model (LLM): A specialised type of artificial intelligence that has been trained on vast amounts of text to understand existing content and generate original content.

Zero Trust Architecture: A cybersecurity framework built on the principle of "never trust, always verify".

SUSTAINABLE INVESTING: POWER, COMPUTE AND CAPITAL – INSIDE THE AI INFRASTRUCTURE SUPERCYCLE

Hamish Chamberlayne explores why artificial intelligence is both a disruptive force in portfolio construction and a compelling structural investment opportunity.



Hamish Chamberlayne
Head of Global Sustainable Equities



The rise of artificial intelligence (AI) is proving to be both the most disruptive force investors have faced and one of the most compelling structural opportunities. AI is not just changing individual business models; it is reshaping the economy itself and, in turn, the very framework through which we evaluate what constitutes a sustainable, durable business.

AI is unfolding as a multi-year, capital-intensive infrastructure build-out constrained by physical bottlenecks: land, grid connections, electricity, chips, cooling and capital. For sustainable investors, that shifts the debate from 'software adoption' to 'industrial expansion' – and it demands a more realistic view of near-term carbon trade-offs.

Tokens: The output of "intelligence factories"

Nvidia's CEO Jensen Huang argues we should stop thinking about AI data centres as cost centres that store files and start thinking of them as "intelligence factories". Their output is tokens: the units of input and output AI models process to generate useful work. In that framing, the AI economy's key throughput metric is token consumption – how much intelligence the system is being asked to produce.

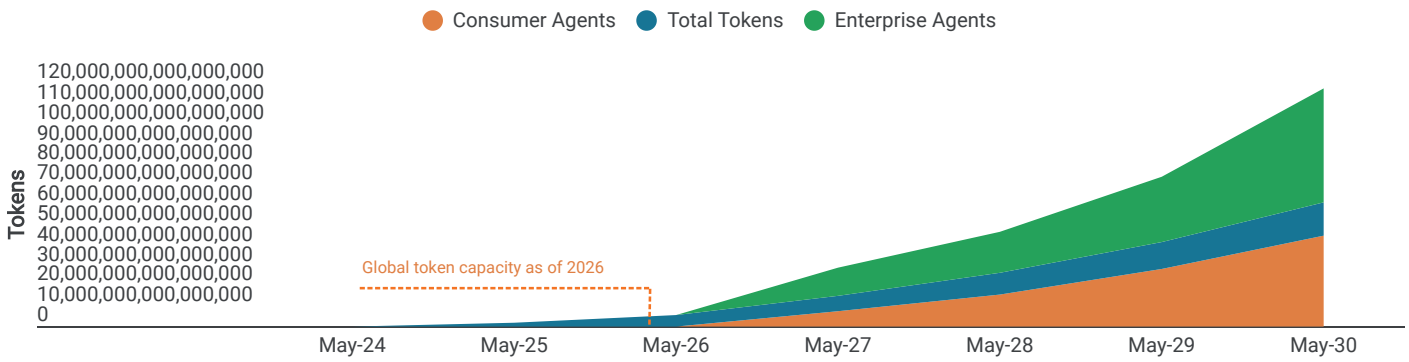
The demand signal is already extreme. Weekly token consumption across the AI ecosystem has risen more than 3,800% over the past year.[1] Looking ahead, forecasts suggest agentic AI (systems that execute multi-step tasks on a user's behalf) could push token consumption 24x to around 120 quadrillion tokens per month by 2030[2], with enterprise agents a major multiplier (Figure 1).

Power is the binding constraint – efficiency is the moat

Token growth runs into a hard ceiling: power. Operators can build "land, power and shell", but once facilities exist, many are power limited. The implication is stark. In a world where every data centre operator is power-constrained, the operator who can generate 50x more tokens from the same power envelope generates 50x more revenue. Within a fixed electricity envelope, competitive advantage is determined by how many tokens can be produced per unit of energy.

This is why the arms race is shifting from "how much compute" to "how much compute per watt" and, increasingly, "tokens per watt". Hardware, memory, networking and cooling are now evaluated as one production line converting electricity into tokens. Small gains in efficiency can translate into outsized gains in throughput (and economics) when power is scarce.

Figure 1: Estimated token usage per month could be 24x today's global capacity by 2030



Source: Strategas, as at 25 November 2025. There is no guarantee that past trends will continue or forecasts will be realised.

The scale of the build-out reflects both demand and constraint. Some estimates imply AI computing capacity is doubling roughly every seven months this decade, while broader industry analysis suggests global data centre spending could reach US$7 trillion by 2030.[3] Physical constraints – grid capacity, manufacturing lead times and supply chain bottlenecks – are not dampening demand; they may extend the cycle.

The sustainability paradox: Higher near-term intensity, potential long-term benefit

Here is the uncomfortable reality: the AI build-out is carbon intensive. Semiconductor fabrication, heavy electrical equipment, grid reinforcement and cooling are energy hungry, asset heavy activities. Then, once data centres are built, they require continuous electricity, often from grids that still rely materially on fossil fuels.

Yet AI also has the potential to be a powerful productivity and efficiency multiplier for the broader economy: accelerating materials science for clean energy, optimising grid operations and industrial processes, and reducing the resource intensity of activities from drug discovery to infrastructure design. The sustainability question is not whether AI has a footprint – it does – but whether system-wide efficiency gains can outweigh transition costs over time.

What it means for sustainable investing: A systems-level lens

This is why we frame our approach as systems-level sustainability. Instead of judging companies solely on their standalone operational emissions, we assess whether they enable a more efficient, resilient and ultimately lower carbon economic system, including by improving the efficiency and carbon intensity of AI itself.

Practically, that points investors toward the bottlenecks where incremental efficiency gains can unlock disproportionate value: power and electrical infrastructure; thermal management and cooling; core computing and advanced manufacturing; memory/bandwidth and storage; and energy storage and power management.

Stewardship matters. Engagement on credible transition plans, capital allocation discipline and transparent reporting becomes central, including acknowledging that portfolio carbon intensity may rise at times as exposure shifts towards the physical backbone of the AI economy.

Conclusion: Sustainability was always physical

For years, sustainability narratives often sat comfortably alongside capital light digital models. AI is a reminder that the modern economy runs on physical inputs: energy, metals, grids, factories and infrastructure. As token consumption surges, the scarcity value of power and efficiency rises with it.

For sustainable investors, the task is to invest in the AI infrastructure supercycle without ignoring its near-term costs – focusing on the technologies and assets that raise tokens per watt, reduce carbon intensity over time, and enable a more productive, resilient economy.

Footnotes and definitions:

[1] Source: Open Router

[2] Source: Goldman Sachs Research, 'Decoding the Agentic Economy: The coming Inflection in AI Usage and Margins', 5 May 2026.

[3] Source: McKinsey, 'The $7 trillion data center build-out: How industrials can capture their share', 27 March 2026.

Artificial Intelligence (AI): A broad category of technologies that enable machines and software to perform tasks that typically require human intelligence, such as learning, reasoning, pattern recognition and decision making.

Capital expenditure: Money invested to acquire or upgrade fixed assets such as buildings, machinery, equipment, or vehicles in order to maintain or improve operations and foster future growth.

Environmental, Social, and Governance (ESG) factors relate to the quality and functioning of the natural environment, the rights, well-being and interests of people and communities, and the governance of companies & their stakeholders.

"Land, power and shell" refers to the core components of modern, hyperscale data centre development, particularly for AI infrastructure. It is a formula where developers secure land with guaranteed power access, constructing a "shell" building that is ready for a client to install their own IT equipment.

Moat (economic moat): A company's sustainable competitive advantage that protects its long-term profitability from competitors, such as network effects, scale, intellectual property or regulatory barriers.

A **supercycle** is an extended period – often 10 to 25 years – of abnormally strong demand and sustained price increases for commodities or economic sectors, where demand consistently outpaces supply.

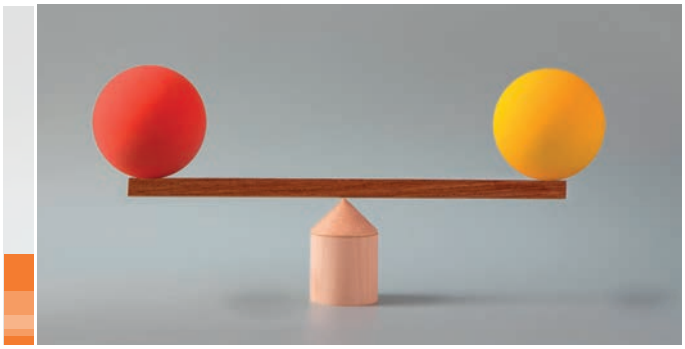
Volatility: The rate and extent at which the price of a portfolio, security, or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. The higher the volatility, the higher the risk of the investment.

WHY BONDS LOVE GROWTH SCARES BUT DISLIKE INFLATION SCARES



Nicholas Ware
Portfolio Manager, Fixed Income

Portfolio Manager Nicholas Ware looks at the behaviour of bonds in different environments and their potential role in a diversified portfolio.



One of the most important relationships in investing is the interaction between shares (equities) and government bonds. Investors often assume that bonds will always provide diversification when equity markets struggle, but history suggests the reality is more nuanced. The chart shows that the correlation between the S&P 500 (equity index of the 500 biggest listed companies in the US) and 10-year US government bond yields has changed significantly over time, reflecting shifts in the economic backdrop.

When investors worry about economic growth, bonds tend to perform well. Slowing activity, rising unemployment or recession fears generally encourage central banks to cut interest rates or keep policy loose. Falling interest rates push bond yields lower and bond prices higher, helping offset losses elsewhere in a portfolio. In these environments, bonds act as a valuable shock absorber. This was a common feature of markets from the late 1990s through to 2021, when low and stable inflation allowed investors to focus largely on the outlook for growth.

Inflation scares create a different outcome. When inflation becomes the dominant concern, rising government bond yields are no longer viewed as a sign of stronger economic activity. Instead, they reflect expectations of tighter monetary policy and higher borrowing costs. This can pressure both bond prices and equity valuations at the same time. Periods such as the 1970s and, more recently, the 2022-23 environment demonstrate how inflation concerns can weaken the traditional diversification benefits of bonds. Since 2024, the environment has become more mixed.

In simple terms, bonds generally like growth scares but dislike inflation scares. Weak growth typically supports lower yields and higher bond prices, while persistent inflation tends to push yields higher and bond prices lower.

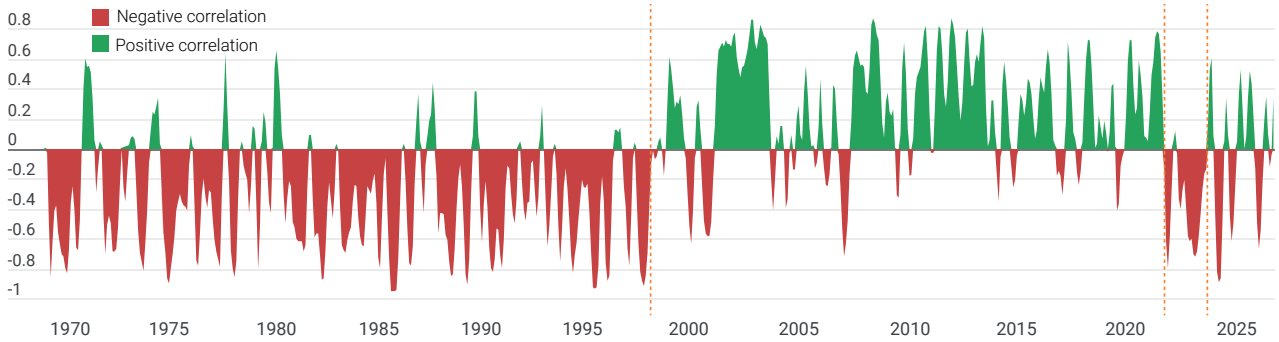
For investors, this distinction matters. The role of bonds within a portfolio depends not only on their yield, but also on the economic regime. If inflation continues to moderate, bonds may once again provide valuable diversification against growth risks. However, if inflation remains volatile, investors should expect bond markets to remain sensitive to developments such as tariffs, government spending and labour markets.

Understanding whether markets are reacting to growth concerns or inflation concerns is therefore crucial when deciding how much interest rate sensitivity and government bond exposure to hold in a diversified portfolio.

Definitions

Monetary policy: The policies of a central bank aimed at influencing the level of inflation and growth in an economy. Policy tools include setting interest rates and controlling the supply of money.

S&P 500 vs US 10-year government bond yield (90-day rolling correlation)



Source: Bloomberg, S&P 500 Index (US equity) and US 10-year government bond yield, January 1970 to May 2026, 90-day rolling correlation (smoothed). Correlation measures the relationship between two variables. A negative correlation means that when the equity market falls, bond yields rise, a positive correlation means that when the equity market falls, bond yields fall, and vice versa. A correlation of 1 means both variables move strongly in the same direction, -1 means they move in opposite directions and zero suggests a weak or non-existent relationship. **Past performance does not predict future returns.**

IN A LESS FORGIVING WORLD, WHERE DO RETURNS COME FROM?

Portfolio Manager Luke Newman considers if relentless geopolitical uncertainty has forced investors to rethink resilience, flexibility and the role of long/short strategies in portfolios.



Luke Newman
Portfolio Manager, Absolute Return



Over the past year, the news cycle has become more relevant to investors' portfolios, as fast-changing politics and policy increasingly feed through to company earnings, valuations, and returns.

The world feels less predictable

A big shift has been the move away from 'just in time' globalisation. Terms like industrial repatriation, onshoring and nearshoring have moved from jargon to practical decisions in response to tariffs and supply chain risks. This is leading to higher capital spending, more complex logistics, and tougher trade-offs between resilience and efficiency.

Alongside this, there has been a structural shift in markets. The cheap borrowing that inflated valuations and reduced pressure on companies to deliver efficient growth is now gone. Companies now face greater pressure to demonstrate real earnings and cash flow, creating a disciplined backdrop where company-specific factors are once again shaping outcomes.

A consistent way of investing through the noise

While the world has changed, a few factors have stayed consistent for absolute return investors using a long/short approach: focus on companies, stay flexible, and avoid being forced into a single market outcome. Rather than relying on markets going up, the objective is to build a portfolio that can find opportunities on both the long and short sides. That typically involves two complementary mindsets working together:

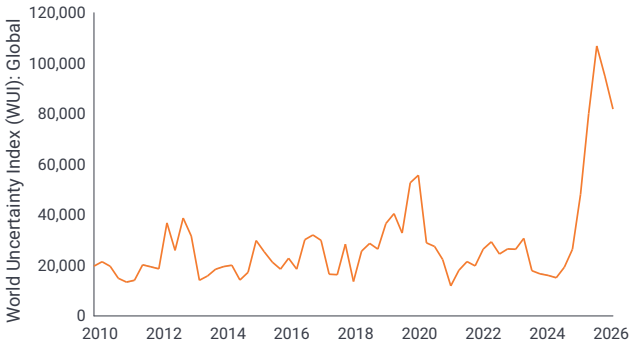
- **A fundamental core book**: On the long side looking for businesses characterised by resilient models, sensible balance sheets, and dependable revenues. Similarly, on the short side, firms where the outlook is already priced in, displaying structural weaknesses or poor management.
- **A tactical overlay**: Designed to respond to a changing environment, adopting a trading-oriented mindset to deal with volatility (the ups and downs of the market) and market anomalies, allocating to both long and short positions as suitable.

This flexibility extends with strategies able to adjust net and gross exposure, increasing sensitivity when visibility improves and reducing it when uncertainty rises, helping investors stay engaged without making all-or-nothing decisions.

An all-weather approach to investing

No approach can eliminate uncertainty. But a flexible, fundamentals-led, long/short approach can potentially make the path more manageable. The world has changed quickly. The discipline required to navigate it is, if anything, more timeless.

Today's uncertainty seems broader and more persistent than before



Source: World Uncertainty Index, GDP-weighted average, 1 January 2010 to 31 March 2026. Note: The WUI is computed by counting the percent of word "uncertain" (or its variants) in the Economist Intelligence Unit country reports, spanning 143 countries, before multiplying by 1,000,000. A higher number indicates higher uncertainty and vice versa. For example, an index of 200 corresponds to the word uncertainty accounting for 0.02 percent of all words.

Definitions

Absolute return: A type of investment strategy that seeks to generate a positive return over time, regardless of market conditions or the direction of financial markets, typically with a low level of volatility.

Balance sheet: A financial statement that summarises a company's assets, liabilities and shareholders' equity at a particular point in time. Each segment gives investors an idea as to what the company owns and owes, as well as the amount invested by shareholders.

Long position: A security that is bought with the intention of holding over a long period in the expectation that it will rise in value.

Long/short: A portfolio that can invest in both long and short positions. The intention is to profit from combining long positions in assets in the expectation that they will rise in value, with short positions in assets expected to fall in value. This type of investment strategy has the potential to generate returns regardless of moves in the wider market, although returns are not guaranteed.

Net/gross exposure: The amount of a portfolio's exposure to the market. Net exposure is calculated by subtracting the amount of short exposure as a percentage of a portfolio from the amount of long exposure. For example, if a portfolio is 100% long and 20% short, net exposure is 80%. Gross exposure is calculated by combining the total value of both long and short positions as a percentage of a portfolio. For example, if a portfolio is 100% long and 20% short, gross exposure is 120%.

Short position (shorting): Fund managers use this technique to borrow then sell what they believe are overvalued assets, with the intention of buying them back for less when the price falls. The position profits if the security falls in value.

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If you are interested in participating in the Customer Panel Surveys, please email **customer.panel@janushenderson.com** with your name and email address and we will get in touch with you. Existing members will continue to be included and do not need to reapply. To join the Panel you must be 18 years of age or over and hold an investment directly with Janus Henderson Investors. The survey is conducted a few times each year; participation is voluntary. Please note that your individual responses are confidential and remain anonymous but we may publish the aggregate results from time to time.

The Customer Panel Survey was conducted between 12 June and 26 June 2026. 332 respondents took part.

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