GLOBAL BEST IDEAS
EQUITY FUND
Quality. Growth.

GLOBAL EQUITY PERSPECTIVES

27 JULY 2026

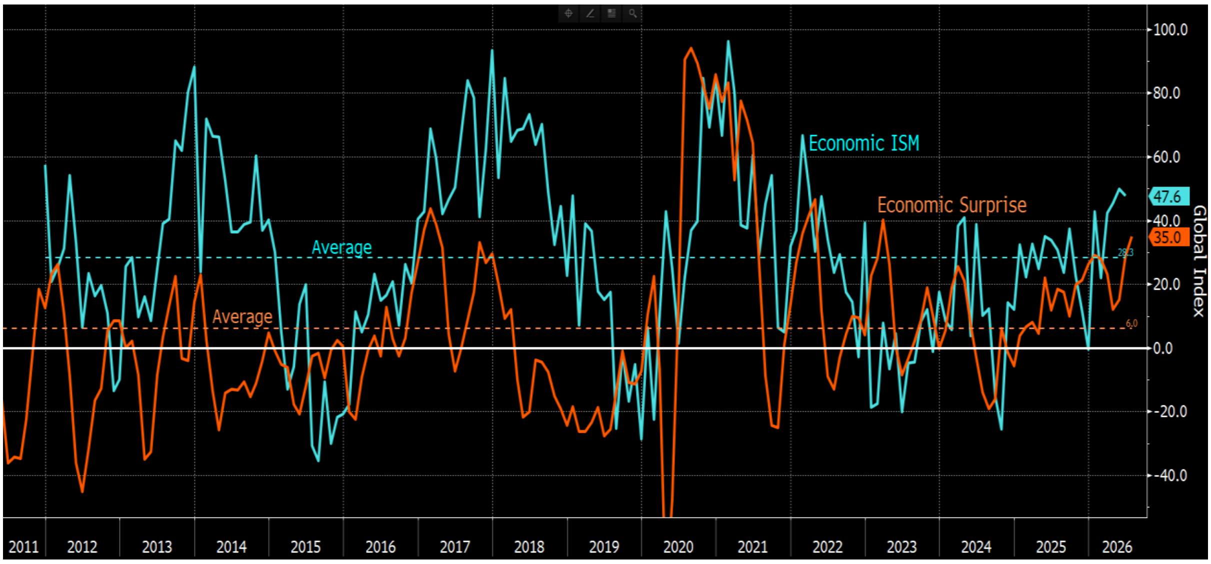
"Consumption is the sole and end purpose of production."

Adam Smith

1. GLOBAL ECONOMIC OUTLOOK

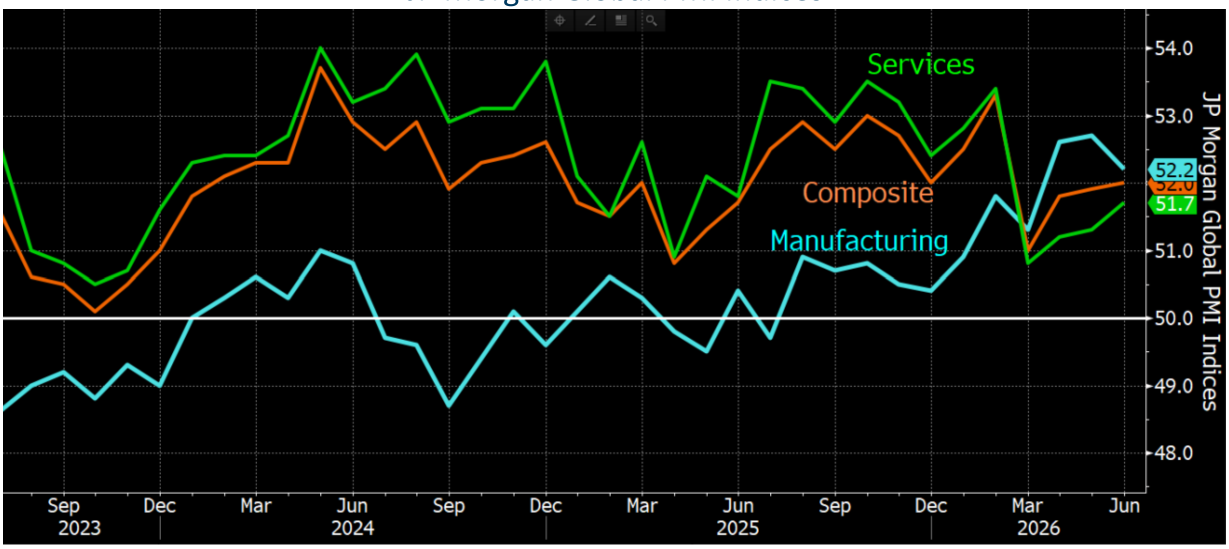
The following chart provides an indication of the global economic picture:

Citi Global Economic Surprise Index vs Bloomberg US Economic ISM Index



In terms of investor perceptions of the global economic backdrop, the above Economic Surprise Index (the orange line) remains in a positive trend and is well above its long-term average. For the world's largest economy, the US Economic ISM Index (measuring economic activity) is also in a rising trend, and it too is above its average.

JP Morgan Global PMI Indices

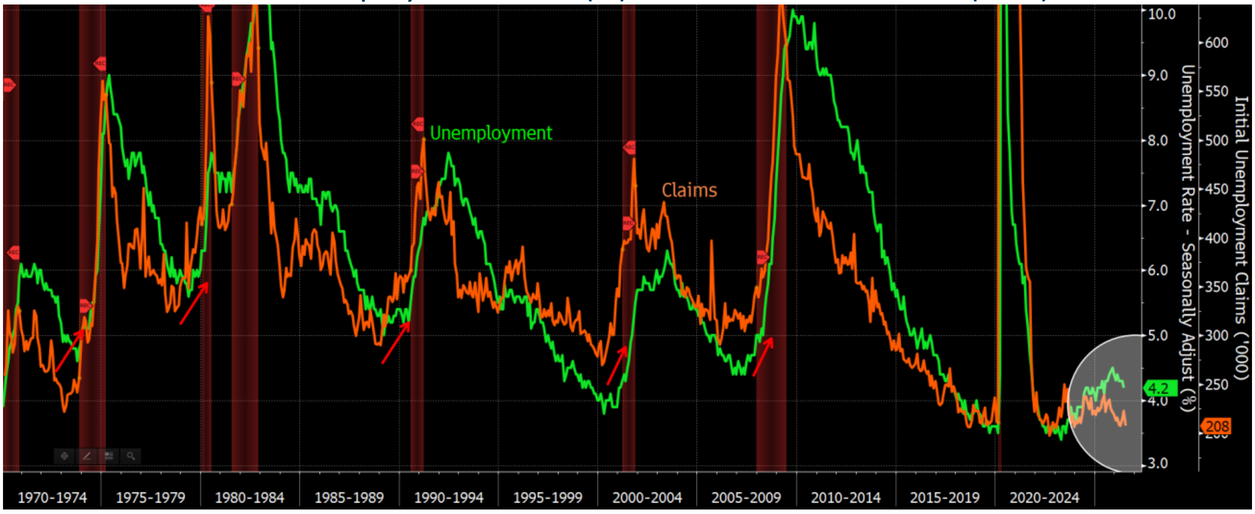


Since the second half of last year, the above Global PMI constituent indices have all moved into constructive territory (above 50 levels). It is striking that Manufacturing specifically is in a rising trend despite the US tariffs. All said, it seems the global economic outlook is on a healthy footing.

2. US EMPLOYMENT

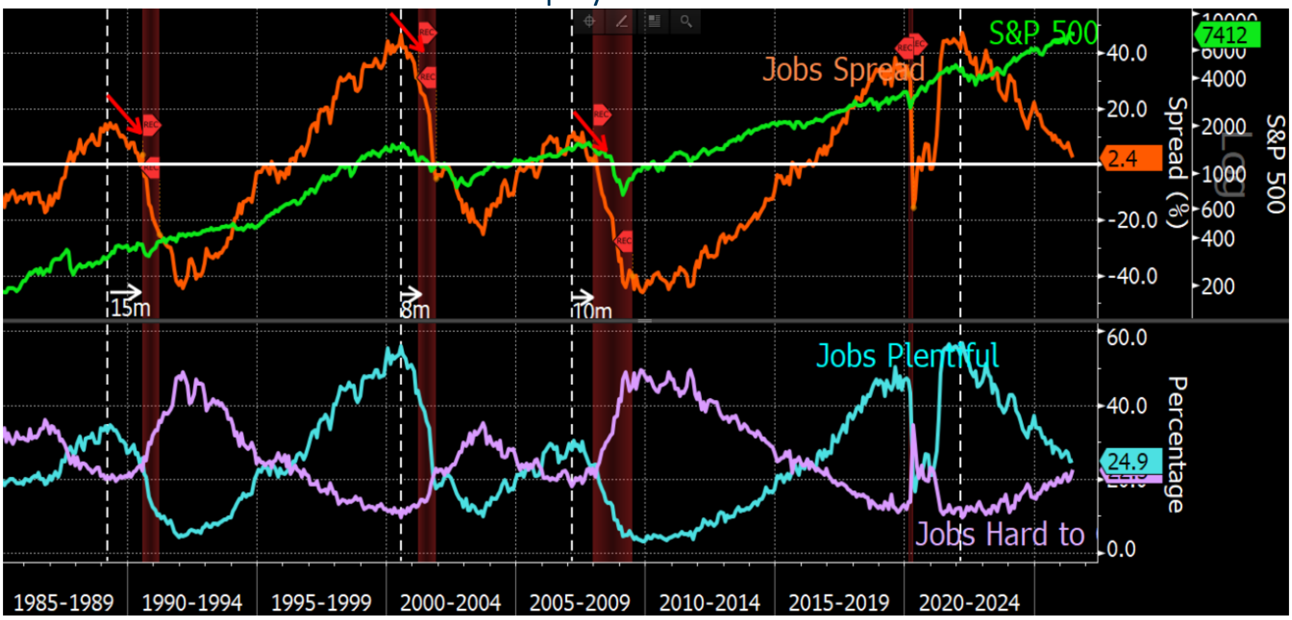
We believe US Consumption, which makes up more than 69% of the US GDP, is effectively the world's largest driver of capital markets. Therefore, investors focus intensely on issues pertaining to US employment.

US – Unemployment Ratio (%) vs Initial Jobless Claims ('000)



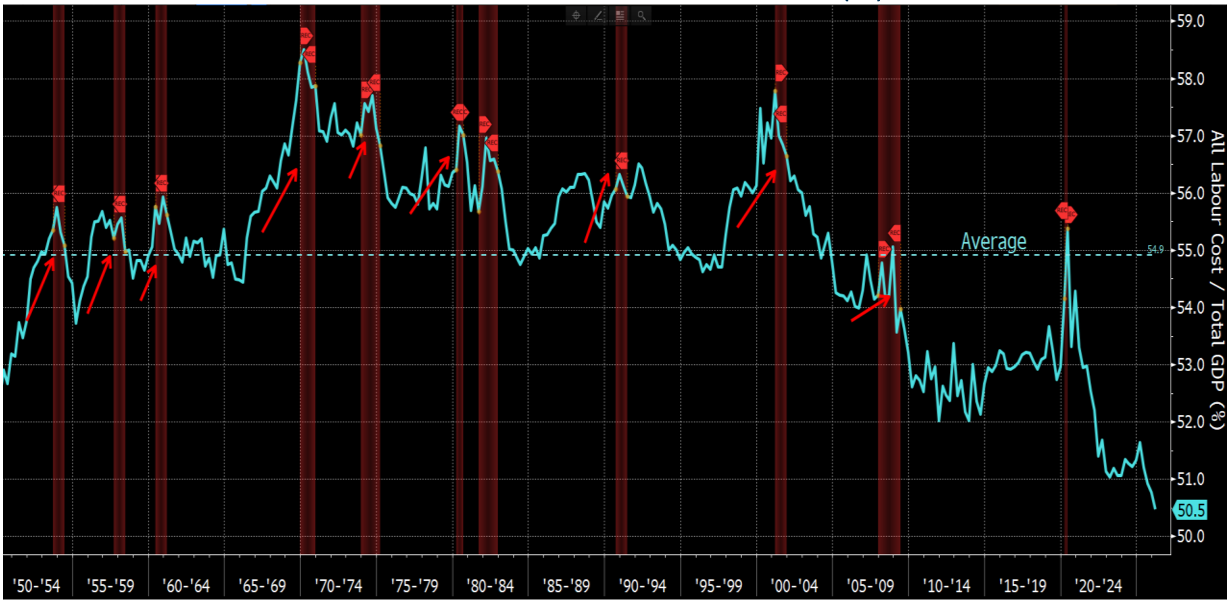
When they started rising off cycle low levels (see the red arrows), the unemployment level (the green line) and the unemployment claims (the orange line) have provided strong early warnings of an upcoming recession. The brief Pandemic-induced recession disturbed the figures in this context, but the current unemployment level is still on a relatively low level of 4.2%. Against this, unemployment claims are currently on record low absolute levels. This is a positive indicator, especially seeing the growing overall employment numbers over the long term. The perceived negative effects of AI on employment do not yet reflect in these figures.

US – Employee Job Confidence



The charts in the bottom section of the above chart reflect the percentage of employees who consider the job market as easy (the blue line) against the ones perceiving it as difficult (the purple line). The orange line in the top section of the chart reflects the spread between these groupings. This spread serves as a good economic indicator. Its respective peaks have previously provided indications of stock market tops (see the vertical white broken lines) and warnings of upcoming recessions. It historically crossed its zero levels in the midst of the respective recessions. This tool worked only for a short period following its call early in 2023. Despite the spread continuing to drop since then (and currently having a recession reading) the stock market and the economy continue to deliver. This may indicate that employment considerations have changed in the context of economic and capital market considerations. Technology and AI may be playing a role is this development. Labour's cost effect on the economy reflects well in the following chart:

US – Labour Cost as a Ratio of GDP (%)



The cost of all labour (as a ratio of overall GDP levels) has been steadily dropping since the seventies and is currently at a record low of 50.5%. Since the Pandemic, this ratio has dropped particularly steeply. With company profitability more recently also increasing sharply, we believe Technology has played a material role in this change.

Along with the smaller relative impact of Labour, its productivity (as measured by the Labour Output per Hour Index, not shown) is in a rising trend, and is currently growing above average at +2.8%. Labour is delivering more to the economy despite its lower cost. With wages below that of output growth, labour is therefore also more profitable for business.

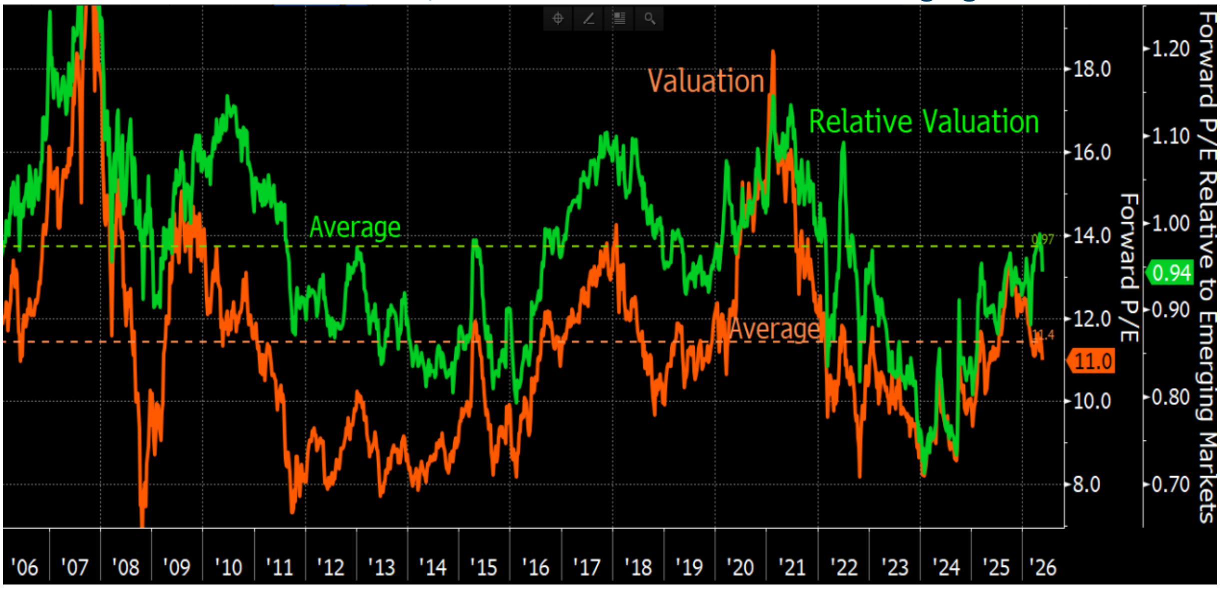
US – Households' Net Worth ($trn)

As an important consideration, following its Financial Crisis disruptions, US Household Net Worth is healthy. It is currently at a record level (the green line) and is growing at almost +8% (the green bars). Also, it keeps outgrowing the economy (as a ratio of GDP, the orange line). This wealth clearly strongly underpins the US economy, benefitting from the strong capital markets. Investors also must focus on these wealth effects apart from the changing labour issues.

3. VALUE IN CHINA

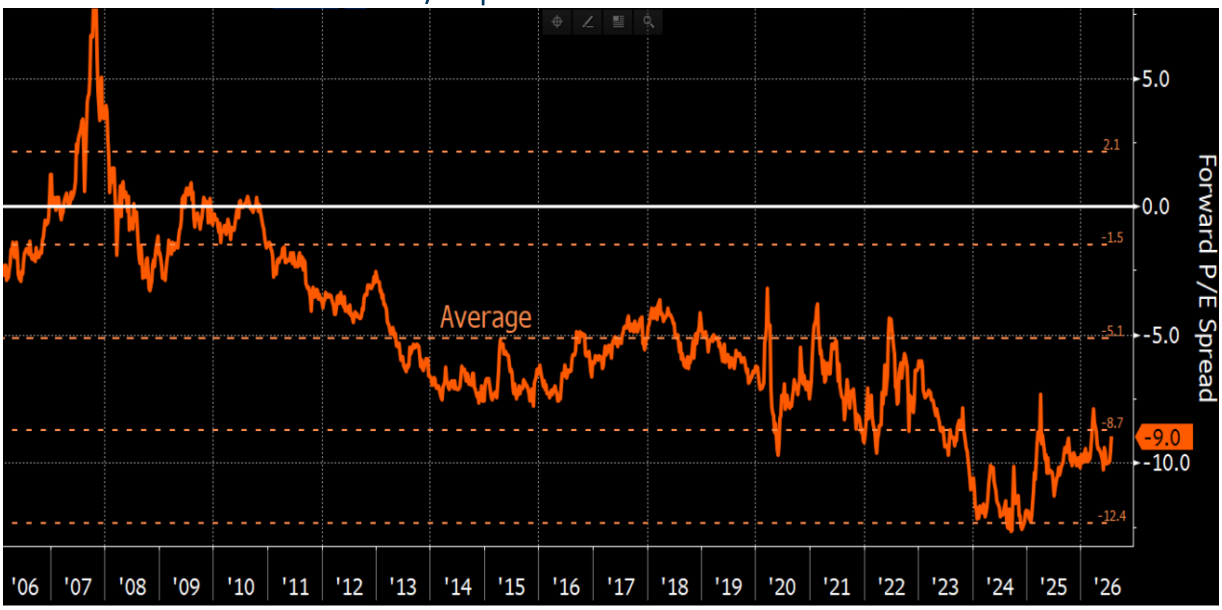
Western investors have seemingly largely withdrawn from the Chinese market – most probably to rather invest in the enormous potential of the AI-related businesses in the US. Whilst the latter has run some of its course, the question is whether the world's second largest economy may offer some competitive opportunities.

MSCI China Forward P/E – Absolute and Relative to Emerging Markets



On an absolute earnings basis, China is currently trading at 11 times, which is close to its average Forward P/E level (the orange line). Relative to Emerging Markets, it is also trading close to average (the green line). The latter is currently hugely positively affected by the large Taiwan and South Korea semiconductor manufacturers, implying that China, on this basis, is effectively cheaper than it seems.

Forward P/E Spread – MSCI China less S&P 500



Apart from the Financial Crisis era, China has predominantly traded at a large earnings multiple discount to the US (at a -5.1 multiple discount on average). The start of the US AI era caused the discount to further increase to -2 standard deviation levels. This has more recently narrowed to a -9.0 multiple discount, which is just over a -1 standard deviation level.

Some of the high-quality Chinese technology businesses are trading at -2 standard deviation forward multiple levels and +2 standard deviation consensus valuation upside levels. It seems China is currently offering attractive alternative opportunities.

4. JAPAN STOCK MARKET

Japanese companies have traditionally been characterised by an inward-looking corporate culture, extensive cross-shareholding structures, and a relatively limited focus on shareholder interests. This, logically, has led to slow capital allocation, excessively strong balance sheets, low returns on capital and little returns to shareholders, with low stock valuations. We have previously written about the sweeping Tokyo Stock Exchange (TSE) corporate governance reform programme. As a reminder, amongst other things, they have done, the following:

- In 2014/2015 provided Stewardship and Corporate Governance codes.
- In 2018 and 2021 further revised the Codes with emphasis on board independence and diversity, risk oversight, and reduction of cross-equity ownership.
- In 2022 a market restructuring with stricter listing criteria and limiting index membership for higher quality constituents.
- In 2023 an active capital efficiency drive with focus on balance sheet optimisation through addressing Cost of Capital and Stock Price, Price-to-Book, ROIC and ROE issues, with mandatory English disclosures. The TSE have focused on companies trading below their Book Value and requested them to publicly disclose their awareness of the cost of capital, their specific business plans and targets to improve capital efficiency and their valuations, and explain their shareholder return measures. In January 2024, it went as far as publishing a list of companies that complied or those that did not with their requests in this context (a 'Name and Shame' list).
- In 2026 revised the Corporate Governance Code to deepen investor dialogue and strengthen board effectiveness for more efficient resource allocation for sustainability and strategic growth.

As would be expected, it takes time to change business cultures. Using the example of one of the most widely held Japanese companies internationally, Keyence (which is also in our portfolios), has slowly increased its dividend from 2022 off an extremely low base, and in April 2026 announced amendments to its articles of incorporation to mor easily buy back shares, improved its shareholder communications and established a Nomination and Remuneration Committee with a majority of independent directors. The share price immediately reacted to the announcements.

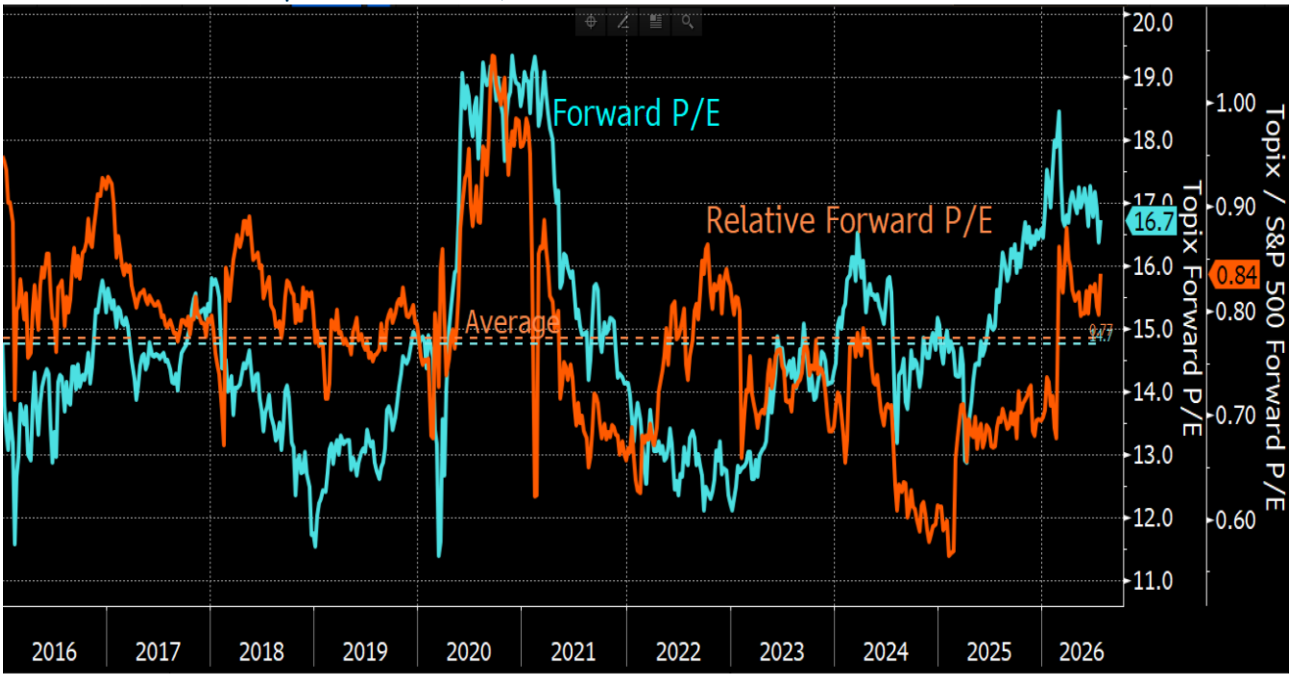
Japan – Yen Currency vs Topix Relative Performance in Dollar

Despite the Bank of Japan raising rates actively, the Yen has been depreciating for over five years– they still lag with negative yield spreads with the US, fiscal credibility concerns and structural trade deficits. Despite this weak currency, their stock market has been outperforming the S&P 500 since the beginning of 2025 – in Dollar terms. To us, it seems some of the TSE measures are supporting reratings in some Japanese stocks.

Topix – Price / Book (P/B) Ratio and Relative to Dow Industrials

At low single digit levels, the Topix P/B ratio (the orange line) has been flat and below average for the best part of fifteen years. It has more recently started to break out upwards, although it is still at quite low levels. The green line depicts the ratio relative to Dow Industrials – purposely not to disadvantage it with the large US Technology stocks in the S&P 500 Index. On this basis, at less than a third of the Dow's ratio, it is still very low.

Topix – Forward P/E Ratio and Relative to S&P 500 Index



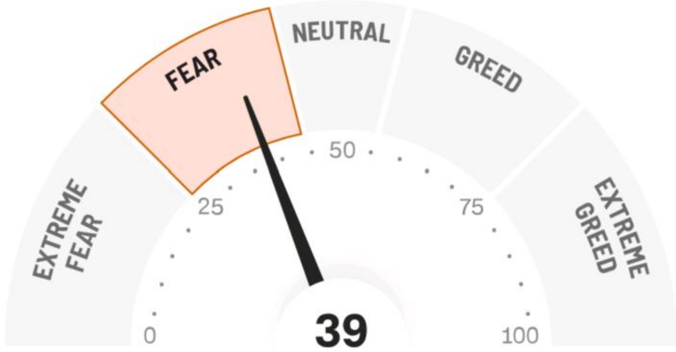
On a forward Earnings basis, the TOPIX has been rerating for a year and is currently valued at a 16.9 multiple. This is marginally above its average. Whilst again above average, on a relative basis, it is at a 16% discount to the S&P 500 Index on this basis.

All in, there may well be further good rerating opportunities in Japan to follow from their Corporate Governance drive. It is a huge cultural issue, but good research should be able to identify opportunities. The stabilisation of the Yen may be a further supporting factor at some stage.

5. TECHNICAL PICTURE

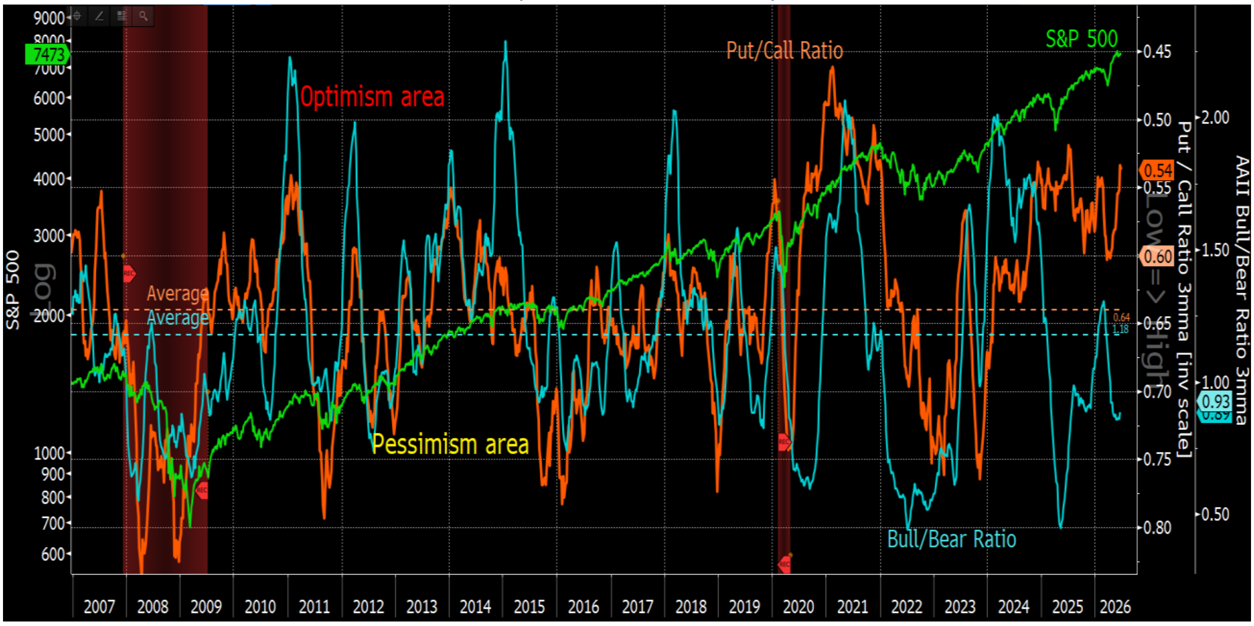
The Fear & Greed Index (a compilation of seven different equally weighted technical indicators that each measure specific aspects of stock market behaviour) has, since June, moved only two points (from 37 to 39). This continues to reflect caution, with little exuberance.

CNN Fear & Greed Index



Only 1% of the number of S&P stocks are below their respective 30 RSI readings, or their respective 52-week lows, which is well below average levels. This does not yet reflect oversold situations. Similarly, only 4% are above their respective 70-RSI or 3% above their 52-week highs and does not reflect overbought situations either. The market is in a wait-and-see mode – most probably awaiting the second quarter results season.

S&P 500 vs Put/Call and AAII Bull/Bear Ratios



The Put/Call ratio (the orange line) is at elevated levels, reflecting strong institutional optimism. Against this, the Bull/Bear Ratio (the blue line) is currently in pessimism territory, indicating the retail market being quite absent. The latter is taken as a more positive stock market indicator.

In summary, the stock market seems in a relatively healthy technical position.

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