Lloyds Wealth Portfolio Update

Cautious Profile

Quarter 3, 2026

LLOYDS
WEALTH

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1. Welcome to your quarterly update

Welcome to our third quarter investment update of 2026. As always, this report is designed to provide a clear and balanced perspective on market developments, how your portfolio has responded to the changing environment, and how we are thinking about the opportunities and risks that lie ahead. The third quarter saw global equity markets make further progress, despite renewed geopolitical tensions, rising energy prices and growing concerns about inflation and interest rates.

The quarter was shaped in part by renewed conflict in the Middle East, which pushed oil prices higher and added to existing inflationary pressures. Against this backdrop, commodities performed strongly, particularly energy, while developed market equities generally made gains. The US remained an important contributor to global equity returns, supported by resilient economic data, healthy corporate earnings and continued enthusiasm for artificial intelligence and the infrastructure supporting it. UK and Japanese equities also advanced, although performance varied across regions, with eurozone and emerging market equities facing a more difficult quarter.

The picture was more challenging for bond markets. Higher energy prices and persistent inflation led investors to reassess the outlook for interest rates, while resilient economic activity gave some central banks greater scope to tighten monetary policy. Government bond yields rose as a result, putting pressure on bond prices. Within portfolios, we continued to favour equities, while making adjustments as market conditions evolved. This included broadening equity exposure beyond the areas that had performed particularly strongly and maintaining a selective approach to fixed income. We also continued to see an important role for commodities, including gold, in helping to diversify portfolios.

As we look ahead, our outlook remains constructive, although we recognise that conditions are becoming more demanding. Global economic growth has proved more resilient than expected and corporate earnings continue to provide support for equities. At the same time, persistent inflation, higher bond yields and geopolitical uncertainty create risks that need to be carefully managed. Rather than relying too heavily on any one market or investment theme, our focus remains on finding opportunities across different regions, sectors and asset classes. We believe this combination of diversification, active management and careful attention to valuations will be increasingly important as markets move into the next phase of the cycle.

Thank you for continuing to place your trust in us. If you would like to discuss any aspect of this update or your portfolio in more detail, please do get in touch. We are always happy to help.





Alan Goodman
Chief Investment Officer
Lloyds Wealth

2. Q3 2026 at a glance

A snapshot of market trends, portfolio performance, and what lies ahead

Market highlights

- Global equities gained overall during the quarter, despite geopolitical tensions, higher energy prices and concerns about inflation and interest rates.
- Commodities were the strongest-performing asset class, helped by rising energy prices, while emerging market equities declined overall.
- Bond markets had a challenging quarter as inflation concerns and further interest rate rises pushed government bond yields higher and prices lower.

Your portfolio

- The Cautious portfolio **delivered a return of -0.6%** (gross of fees) over the quarter, underperforming its benchmark.
- Equities contributed positively to performance, supported by resilient economic growth and strong company earnings.
- However, this was not enough to offset losses from fixed income, particularly government bonds, while alternative investments were broadly flat.
- During the quarter, we maintained our preference for equities while remaining cautious on areas of fixed income. We also re-established an allocation to gold, reflecting its potential to provide diversification during periods of geopolitical and economic uncertainty.

Looking ahead

- We remain positive on equities, supported by resilient economic growth, positive company earnings and continued investment in areas such as artificial intelligence and infrastructure.
- However, persistent inflation, higher bond yields and geopolitical tensions could lead to periods of market volatility, reinforcing the importance of diversification across regions, sectors and asset classes.
- We continue to take a long-term approach, making selective portfolio adjustments as market conditions evolve and opportunities emerge.

3. Performance of asset classes and geographies

Market backdrop

The third quarter of 2026 was characterised by rising inflationary pressures, as conflict in the Middle East once again pushed energy prices higher.

Against this backdrop, commodities performed well, with developed market equities also gaining whilst emerging market equities edged lower.

Global bond markets faced a challenging environment driven largely by inflation concerns, driving a decline in bond prices and rising yields.

Equities

Global equities gained overall during the third quarter of 2026, despite a challenging backdrop marked by geopolitical tensions, higher energy prices and the potential for rising interest rates.

While US equities continued to contribute significantly to global returns given the market's weight in the index, the gain was broadly supported by companies that demonstrated an ability to increase earnings while economic data also generally remained resilient.

Investors' continued enthusiasm for artificial intelligence, digital infrastructure and other productivity-enhancing technologies also helped support equity valuations across a range of markets and sectors.

Eurozone stocks declined. The energy sector was the standout positive performer, but most other sectors fell. UK equities advanced in Q3, supported by robust gains for the energy sector. There was limited market reaction to Andy Burnham succeeding Sir Keir Starmer as prime minister. Japanese shares gained over the quarter with a weaker yen providing support for exporters.

Emerging Market (EM) equities delivered a negative return in Q3 2026 (in US dollar terms), underperforming the MSCI World, which posted gains. The AI-led rally that drove EM returns in the first half faded in July, with Korea and Taiwan leading EM lower, before recovering from August. Renewed escalation in the Middle Eastern conflict also weighed on sentiment, as the US and Iran resumed military strikes, while the Houthis declared a blockade on Saudi shipping in the Red Sea pushing oil (brent crude) back above US$100/bbl. Consequently, higher inflation expectations fed through to the global economy.

Bonds

Global bond markets faced a challenging third quarter as the ongoing US–Iran conflict pushed energy prices sharply higher. While hopes of diplomacy and improved supply routes occasionally eased pressure, markets increasingly anticipated persistently high energy costs, intensifying inflation concerns and prompting a more hawkish response from major central banks.

Central banks shifted towards tighter monetary policy as resilient economic activity gave policymakers scope to act. September's flash composite PMIs reached a five-year high in the US and a three-year high in the eurozone, reinforcing expectations of further rate rises and potentially higher-for-longer borrowing costs.

The US Federal Reserve raised the Federal Funds target range by 25 basis points to 3.75%-4.00% in September, its first increase since 2023. Elsewhere, the European Central Bank delivered a further rate hike in September, raising its deposit rate by 25 basis points to 2.50%, warning inflation was likely to remain above target for an extended period. The Bank of Japan also tightened policy, lifting its rate to 1.25%. However, the Bank of England took a more cautious approach, holding at 3.75%, although three members voted for an increase in September.

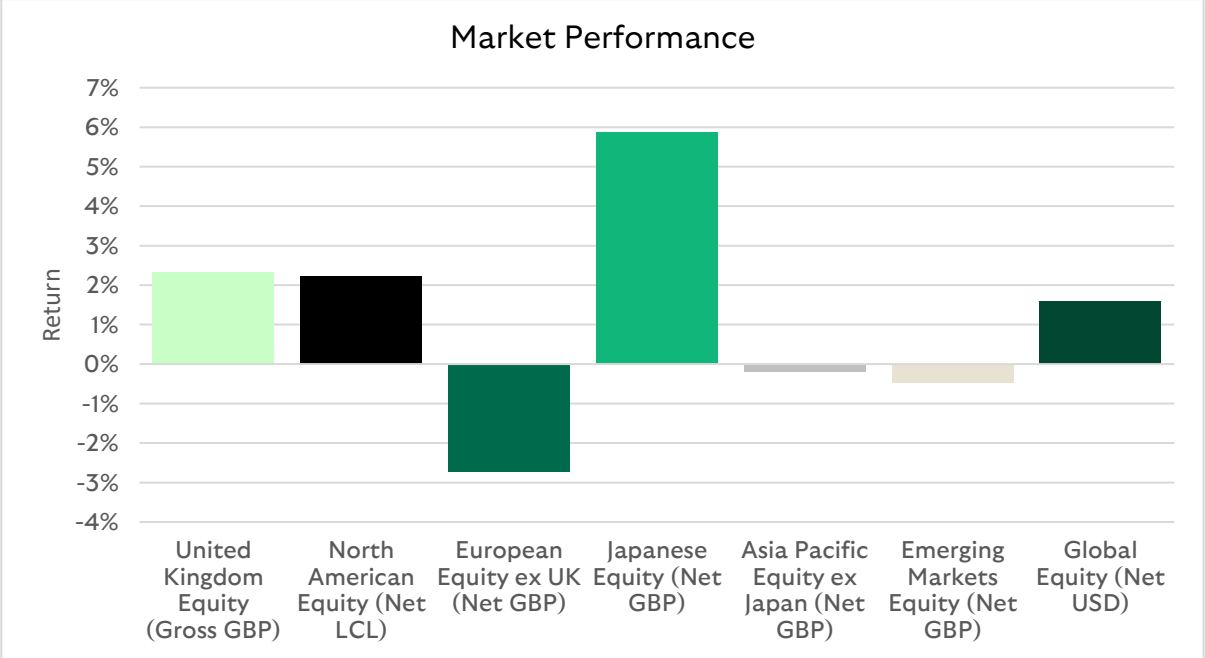
Although government bonds weakened across markets, driving yields to multi-year highs, corporate bonds remained relatively resilient for much of the quarter, supported by solid fundamentals and attractive all-in yields.

Commodities

Commodities registered strong gains in Q3 amid renewed strength in the energy sector. The agriculture component also registered gains amid worries over the potential impact of the El Niño weather pattern.

Equity market returns

3 months to end of September 2026

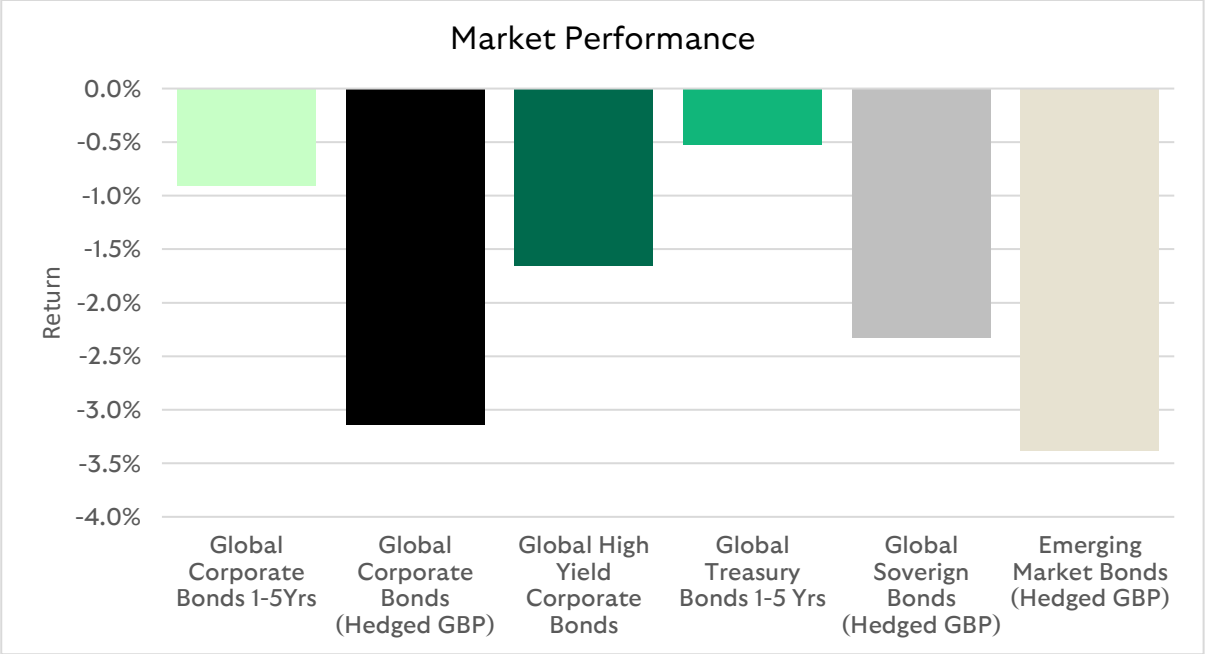


Market Index Total Returns in GBP Terms

Source: Morningstar

Fixed income market returns

3 months to end of September 2026



Market Index Total Returns in GBP Hedged Terms

Source: Morningstar

4. Key events

The third quarter of 2026 presented a more mixed backdrop for investors. Global equities gained overall, supported by resilient economic growth, positive company earnings and continued investment in artificial intelligence and digital infrastructure. However, geopolitical tensions in the Middle East pushed energy prices higher, adding to inflationary pressures and creating a more challenging environment for markets.

Performance varied considerably across equity markets. US, UK and Japanese equities advanced over the quarter, while emerging market equities declined overall. Commodities were one of the strongest-performing areas, benefiting from renewed strength in energy prices, with agriculture also gaining during the period.

Bond markets faced a more difficult quarter. Higher energy prices added to concerns that inflation could remain elevated for longer, while several major central banks raised interest rates. Government bond yields rose as a result, putting pressure on bond prices. Corporate bonds proved relatively resilient for much of the quarter, although fixed income returns were negative overall.

Against this backdrop, the quarter once again demonstrated why different investments can play different roles within a portfolio. Equities continued to benefit from resilient growth and company earnings, while commodities offered some protection against higher energy prices and inflationary pressures. Gold also remained an important source of diversification amid geopolitical and economic uncertainty.

Joseph Allen, Senior Investment Specialist at Lloyds Wealth, said:

"The third quarter was a reminder that markets don't always move in the same direction. Equities continued to make progress despite a more challenging backdrop, while higher energy prices and persistent inflation put pressure on bond markets. Commodities, meanwhile, performed strongly.

Periods like this demonstrate why diversification remains so important. It isn't simply about holding a range of investments. It's about bringing together assets that can respond differently as economic and market conditions change. That can help reduce reliance on any one area to drive returns.

There are still reasons to be positive. Economic growth has remained resilient and company earnings continue to provide support for equities. But inflation, interest rates and geopolitical tensions remain important risks. Rather than trying to predict every short-term move in markets, we believe investors are better served by staying diversified and focused on their long-term objectives."



Joseph Allen
Senior Investment Specialist
Lloyds Wealth

5. How have we managed your portfolio during the period?

The quarter began against a backdrop of resilient economic growth and company earnings, but with inflationary pressures increasing as higher energy prices added to uncertainty around interest rates. With the risk of a US recession remaining low and labour market data continuing to support the economic outlook, we maintained our overweight position in equities. This was initially expressed through allocations to US technology and US large-cap companies, where we continued to see attractive opportunities.

As the quarter progressed, resilient global growth and robust company earnings continued to support our positive view on equities. We added an overweight position in US financial companies, reflecting our view that a supportive earnings environment could benefit more economically sensitive areas of the market.

Following the strong market rally in the second half of July, we took profits from our US financial and US large-cap positions as valuations became less compelling. However, with no meaningful deterioration in the economic growth outlook, we continued to favour equities overall. We added exposure to German equities, providing greater diversification and access to areas such as industrials and defence, while also seeking to benefit from signs of improving momentum in German manufacturing.

Within fixed income, we maintained underweight positions in US investment-grade corporate bonds and shorter-dated US government bonds throughout the quarter. These positions helped to fund our overweight allocation to equities and reflected our view that the potential returns available from these areas were not sufficiently attractive relative to cash and the risks posed by persistent inflation. Towards the end of the quarter, we also introduced a position favouring Italian over French 10-year government bonds, reflecting our more positive view of Italy's fiscal position relative to growing fiscal and political uncertainty in France.

Within alternatives, we re-established an overweight position in gold in August and increased it further in September. We continued to see gold as a useful portfolio diversifier, supported by central-bank buying, renewed demand from China and concerns around government debt, currencies and geopolitical uncertainty. We also added an overweight position in global mining companies during September.

Within currency markets, we introduced a position favouring the US dollar over the Japanese yen in August. This reflected our expectation that US interest rates could remain higher for longer, supporting the dollar relative to the yen. While further interest rate rises in Japan represented a potential risk to this position, we believed the gradual pace of policy change from the Bank of Japan continued to support the investment case.

6. Portfolio performance summary

The portfolio posted a **negative return of -0.6%** in the third quarter of 2026 (in GBP), underperforming its benchmark.

Market conditions remained supportive for risk assets despite heightened geopolitical tensions, rising energy prices and continued uncertainty around inflation and interest rates. The portfolio's equity exposure contributed positively to performance, supported by resilient economic growth and strong company earnings. However, this was not enough to offset losses from fixed income.

Fixed income detracted from performance, particularly the government bond allocation. Bond yields rose across major markets as higher energy prices added to inflationary pressures and several central banks tightened monetary policy. We remained cautious on US investment-grade corporate bonds and shorter-dated US government bonds, where we continued to believe the potential returns were not sufficiently attractive relative to the risks.

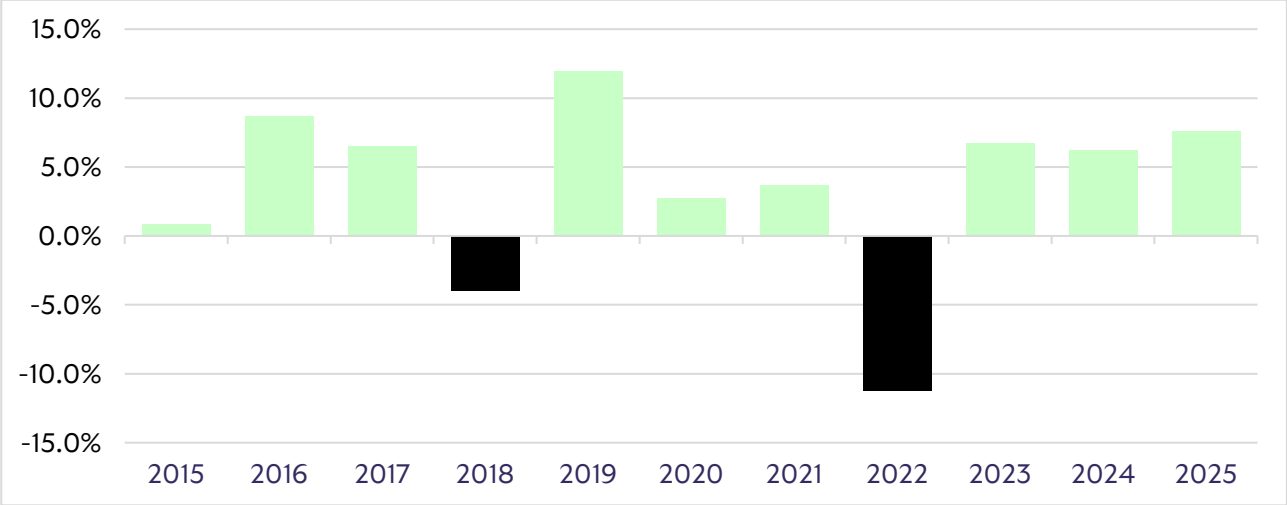
Within alternative investments, returns were broadly flat overall. During the quarter, we re-established an overweight position in gold and increased it further in September, reflecting its potential to provide diversification during periods of geopolitical and economic uncertainty. We also added an overweight position in global mining companies.

2 – Low risk	3 – Medium risk		4 – Medium to High risk	5 – High risk
Cautious	Discovery	Balanced	Progressive	Adventurous

These figures refer to the past and past performance is not a reliable indicator of future results. The value of investments and the income from them can fall as well as rise and are not guaranteed. You might not get back your initial investment.

The inception date of the profile is October 2004.

Calendar year returns



12-month returns

	From:	30/09/2021	30/09/2022	30/09/2023	30/09/2024	30/09/2025
	To:	30/09/2022	30/09/2023	30/09/2024	30/09/2025	30/09/2026
Portfolio		-12.50%	2.94%	11.12%	6.62%	5.64%
Benchmark		-11.41%	4.34%	12.39%	7.81%	5.72%

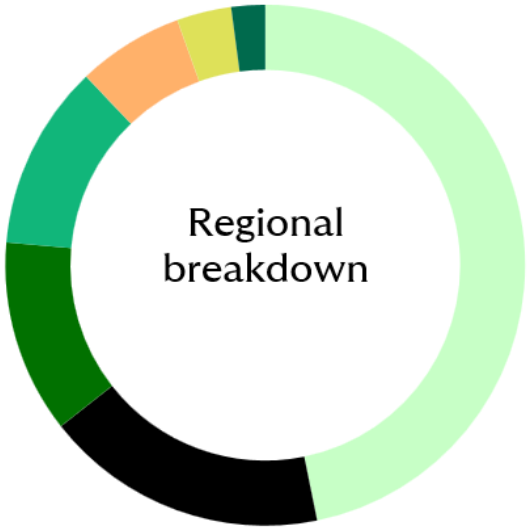
Cumulative periods to 30/09/2026

	3 months	YTD	1 year	3 years	5 years	10 years	Since inception
Portfolio	-0.61%	3.46%	5.64%	25.16%	12.73%	36.86%	148.14%
Benchmark	-0.52%	3.87%	5.72%	28.09%	18.38%	48.08%	153.88%

Asset allocation



Equity	30.9%
Fixed Income	65.6%
Alternative Investments	1.5%
Other	2.0%



North America	46.8%
Europe (ex-UK)	17.6%
Emerging Markets	12.0%
United Kingdom	11.5%
Japan	6.6%
Other	3.4%
Pacific (ex-Japan)	2.1%

The weightings shown here are correct at the date below but the exact mix of assets you hold at any one time can vary according to the performance of the individual funds held. We might also re-balance your portfolio from time to time to bring it back in line with the model, to protect the portfolio from potential risks, or to take advantage of potential short-term opportunities.

Source: Lloyds Wealth as of 30 September 2026.

Indicative yield 2.86% Ongoing charge 0.55%	
Fixed income	57.50%
Lloyds Wealth Global Sovereign Bond Fund	6.50%
Lloyds Wealth Global Government Low Duration Bond Fund	26.50%
Lloyds Wealth Global Corporate Low Duration Bond Fund	12.50%
Lloyds Wealth Global Investment Grade Bond Fund	8.00%
Lloyds Wealth Global High Yield Bond Fund	4.00%
UK equities	4.50%
Lloyds Wealth UK Equity Fund	4.50%
Global equities	16.00%
Lloyds Wealth Global (ex UK) Equity Fund	16.00%
Mixed asset funds	20.00%
Lloyds Wealth Tactical Fund 1	0.00%
Lloyds Wealth Tactical Fund 2	20.00%
Cash	2.00%

The weightings shown here are correct at the date below but the exact mix of assets you hold at any one time can vary according to the performance of the individual funds held. We might also re-balance your portfolio from time to time to ensure it remains in line with the long-term objectives of the profile. The yield shown is indicative gross annual yields at the above date. This will also vary with market movements and as the assets held within each fund are managed.

Source: Lloyds Wealth as of 30 September 2026

7. Outlook and beyond

The global investment environment remains supportive of risk assets, but conditions are becoming less forgiving. Growth remains resilient, company earnings momentum is positive, and the probability of a US recession is still low. Looser fiscal policy, higher defence spending, supply-chain investment and the AI boom are supporting stronger growth, which continues to favour equities. However, prolonged geopolitical tensions, persistent inflation and rising bond yields are creating a more challenging backdrop. We remain constructive, although the case for further equity gains is becoming more demanding.

The macroeconomic backdrop remains favourable overall. Growth is expected to stay solid, with the US, eurozone, UK and Japan proving more resilient than anticipated earlier in the year. Inflation is proving more persistent than expected in the US, eurozone and Japan, while the UK appears less exposed to second-round effects due to greater labour-market slack. This is contributing to a more hawkish outlook for interest rates in several economies. The Federal Reserve is expected to raise rates over the coming year, while the Bank of Japan is likely to continue normalising policy. The Bank of England is expected to hold rates for now, although a more expansionary fiscal stance could require tighter policy later.

Equities remain our preferred asset class, supported by resilient growth, positive earnings momentum and continued investment. Rather than reducing equity exposure significantly, we are broadening the sources of potential returns. Alongside the US, we favour Europe ex UK, including selected industrial and defence-related exposure, while maintaining exposure to natural resources and being selective within emerging markets. This reduces reliance on the continued strength of AI-related investments alone.

Within fixed income, we remain tactically positive on selected government bonds, particularly US Treasuries, where higher real yields have improved valuations and could provide diversification if growth weakens. However, persistent inflation, high fiscal deficits and heavy investment demand mean longer-term yields are likely to remain volatile. We remain cautious on credit, particularly US investment-grade and high-yield bonds, where we believe current valuations offer limited compensation for the risks. Emerging-market local-currency debt appears more attractive, supported by improving fundamentals and potential income.

We retain a positive view on commodities. Energy and industrial metals can provide some protection against geopolitical and inflationary pressures, while longer-term demand is being supported by electrification, grid investment and AI infrastructure. Gold also remains an important diversifier amid geopolitical uncertainty and concerns around government debt and central-bank credibility. In currencies, we have reduced our conviction in the US dollar following its recent strength and remain selective across other major currencies.

The main risks to our outlook include persistent inflation and higher bond yields, renewed escalation in the Middle East pushing energy prices higher, and a sharper reversal in the AI investment cycle. While these are not our central expectations, they reinforce the importance of diversification and careful investment selection.

Overall, the global economic cycle remains intact and equities continue to offer attractive return potential. We therefore remain constructive, but with a greater focus on the quality and breadth of returns. With inflation, higher bond yields and geopolitical risks still present, diversification across regions, sectors and asset classes remains central to how we approach the next phase of the market cycle.

8. What risks could I be exposed to?

Risk type	Definition
Diversification risk	Diversification aims to reduce the total risks across all your portfolio. However, if one investment performs well its influence on portfolio returns could be diluted by poor performance in other investments.
Market risk	Sometimes a single event can cause the values of all investments in a particular asset class (such as property or shares) or a country (like the UK or the USA) to fall suddenly and/or significantly.
Inflation risk	The risk that the value of your investments does not keep pace with increases in the value of the things you buy and enjoy.
Liquidity risk	The risk of not being able to sell your investments as quickly as you would like or at a price you had expected.
Interest rate risk	The risk your savings or investments lose money because interest rates have moved up or down. For example, your cash deposits are in a fixed account for five years earning 1% interest, but over time interest rates in general have risen to 2.5%. On the other hand, if you don't fix the rate, you receive and interest rates fall, you have also taken a risk.
Currency risk	If you invest in foreign assets, their value can be affected by changes in exchange rates. If the investment does well and increases in value in its local currency, it could still become a loss when changed back to sterling.
Emerging markets risk	Emerging markets' supervisory standards may not be comparable with those in developed markets and their stock markets might be less well organised and less well regulated.
Stock-specific risk	These are the risks associated with an individual investment. Diversification aims to minimise this type of risk by spreading your money across a number of investments.
Default risk	Generally associated with bonds, this is when an issuer fails to keep up with interest payments or fails to repay the amount borrowed at the end of the bond's life.
Credit risk	This is the fall in value of a bond on speculation the issuer could default on its obligations (see above).
Institutional risk	This is the risk the bank or building society holding your money fails.
Counterparty risk	The risk that the other party in a contract defaults. For example, the provider of an investment product.

Other risks include political and social unrest; limited liquidity and exchange controls; currency instability; limitations on repatriation of capital; high transaction and other investment costs; differences in accounting, auditing and financial reporting standards and potential difficulties in obtaining information about issuers and markets; and governmental intervention in the private sector, including the rights of foreign ownership.

9. Glossary

Term	Definition
Asset Allocation	The process of dividing investments among different asset categories, such as equities, bonds, and cash, to balance risk and reward.
Benchmark	A standard or index against which the performance of a portfolio is measured.
Bond yield	The income return on a bond, usually expressed as an annual percentage.
Corporate Bonds	Bonds issued by companies to raise capital, typically offering higher yields than government bonds but with more risk.
Diversification	A risk management strategy that mixes a wide variety of investments within a portfolio to reduce exposure to any single asset or risk.
Equities	Shares of ownership in a company, also known as stocks.
Fiscal policy	Government decisions on taxation and spending to influence the economy.
Fixed Income	Investments that provide regular income payments, such as bonds.
GDP (Gross Domestic Product)	A measure of the total economic output of a country.
High Yield Bonds	Bonds that offer higher returns due to a higher risk of default, often referred to as “junk bonds.”
Inflation	The rate at which the general level of prices for goods and services rises, eroding purchasing power.
Monetary policy	Central bank actions, such as changing interest rates, to control money supply and inflation.
Portfolio	A collection of financial investments like stocks, bonds, and cash equivalents.
Recession	A period of temporary economic decline, typically defined as two consecutive quarters of negative GDP growth.
Sovereign Bonds	Bonds issued by a national government.
Tactical Asset Allocation	A short-term investment strategy that adjusts the asset mix to take advantage of market opportunities.
Volatility	A measure of how much the price of an asset fluctuates over time.
Yield curve	A graph showing the relationship between bond yields and their maturities. A steepening curve often signals expectations of higher future interest rates.



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