New Capital
Global High Yield Bond Fund

Quarterly Commentary | As of 30 June 2026

Market overview

Global markets delivered strong gains during the quarter, supported by easing geopolitical tensions, resilient corporate earnings, and continued enthusiasm for artificial intelligence (AI)-related investments. Equity markets rebounded sharply in April and extended their gains in May as indirect dialogue between the US and Iran reduced concerns over the economic impact of the Persian Gulf conflict.

Investor sentiment was further supported by strong first-quarter earnings results and upward revisions to 2026 and 2027 profit forecasts, particularly within the technology sector. The MSCI All Country World Index rose strongly over April and May, led by the US and emerging Asian markets, before giving back some gains in June as investors took profits in technology stocks following an extended rally.

Monetary policy remained a key market driver. The appointment of Kevin Warsh as Chairman of the Federal Reserve initially boosted market confidence, although his first policy meeting in June was viewed as more hawkish than expected. This contributed to higher US rate expectations and supported the US dollar. In Europe, economic weakness and differing inflation dynamics led to a more mixed bond market environment, with European yields generally lower earlier in the quarter before the European Central Bank raised interest rates in June.

Commodity markets reflected the changing geopolitical backdrop. Oil and industrial metals rose in April due to disruption risks surrounding the Strait of Hormuz but later retreated as tensions eased and negotiations between the US and Iran progressed. By quarter-end, energy prices had largely returned to pre-conflict levels, helping to moderate inflation expectations. Despite some consolidation in June and growing scrutiny of elevated technology valuations following the successful SpaceX IPO, the combination of strong earnings growth, improving geopolitical conditions and confidence in AI-driven productivity gains continued to support a constructive outlook for risk assets.

Fund performance and positioning

The fund outperformed its benchmark, the ICE Global High Yield USD hedged Index, by +0.36% on a gross basis during the second quarter of 2026. This outperformance was primarily driven by security selection and yield curve positioning, while ratings bucket allocation and sector allocation modestly detracted.

Ratings bucket allocation detracted from performance by 16 basis points (bps). The portfolio continues to maintain a defensive, higher-quality stance, with an overweight to BB-rated bonds and an underweight to lower-rated single-B and CCC categories. In the second quarter, this positioning acted as a headwind, as lower-rated bonds outperformed higher-quality issues: BB-rated bonds delivered an excess return of 2.23%, compared with 2.83% for single-B and 4.11% for CCC-rated bonds. Our ongoing cash holding of around 5%, which we regard as prudent given that spreads remain tight versus historical norms, also caused a modest drag in the context of the market's positive performance.

Sector allocation detracted by 6bps, primarily due to the portfolio's underweight in energy. Although oil prices declined over the quarter, with Brent falling from around $120 per barrel at the end of Q1 2026 to just above $70 per barrel by the end of Q2 2026, BB-rated energy names still outperformed as the market continued to take a favourable view of the sector in light of the prospect of strong Q2 2026 profits. The outperformance of BB energy names in Q2 2026 had an impact of around -5bps. However, this was much less pronounced than in Q1 2026, and importantly the strength in the sector did not extend to lower-quality energy issuers (single-B and below), which helped to limit the overall sector impact.

Security selection contributed positively, adding 28bps to relative performance in Q2 2026. This was driven by our selection of credits within the BB and above rating buckets. Notable strong performers included the Warner Bros 2042s (with the company in the process of being acquired by Paramount), the B&M 2031s, the GoEasy 2031s and the Huntsman 2034s. These positions illustrate our continued focus on identifying credits with solid fundamentals that offer medium to long-term value.

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Yield curve positioning was a significant tailwind, contributing 30bps in the quarter. The portfolio is positioned with an overweight to duration of around half a year versus the index, expressed through a modest long exposure to the UK Gilt and German Bund curves. During the period, rates moved lower in the UK and Europe as the Iran conflict de-escalated and oil prices declined. The German 10-year yield fell by around 15bps to 2.86%, while the UK 10-year yield declined by a similar amount, ending the quarter at 4.76%.

Security selection contributed positively, adding 28bps to relative performance in Q2 2026.

	New Capital Global High Yield Bond Fund	BofA Merrill Lynch Global High Yield Constrained index	Difference
1 Month	+0.61%	+0.44%	+0.17%
3 Months	+3.23%	+3.07%	+0.16%
6 Months	+1.92%	+2.48%	-0.56%
YTD	+1.92%	+2.48%	-0.56%
1 Year	+5.70%	+6.49%	-0.79%
3 Years	+28.60%	+30.70%	-2.10%
Since Inception Annualised	+2.84%	+4.32%	-1.48%
Since Inception (27/10/2021)	+14.00%	+21.88%	-7.88%

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Outlook

Spreads moved tighter by around 60bps over the period, largely driven by the de-escalation of the Iran conflict and the steep decline in oil prices. Having moved off the wides seen earlier in the year, the ICE Global High Yield Index ended the second quarter of 2026 with spreads at 298bps. Current spread levels sit toward the lower end of the market's typical historical range, indicating that the market is pricing in a more benign environment with reduced geopolitical risk and limited defaults. Unlike spreads, all-in yields continue to offer a fairly attractive income profile. The yield-to-worst on the ICE Global High Yield Index as of the end of June 2026 is approximately 6.9% unhedged and around 7.2% when hedged back to USD. Given that income is the primary driver of returns in high yield, these starting yields suggest that the asset class should deliver attractive medium to longer-term returns through carry.

Focusing on the fundamental backdrop, the near-term risk from elevated oil prices and declining oil inventories appears to have subsided, as reflected in Brent crude trading just above $70/bbl at the end of Q2 2026. However, we still see meaningful risks associated with the K-shaped nature of the economy and ongoing stress in private credit markets. We also note that a growing segment of the high yield market is made up of data centres and "neo-cloud" businesses, which we view as a potential future source of risk for the market given their uncertain business models, project-level construction risk, exposure to the AI bubble and circular financing, and unique capital structures. This segment is now around 2-3% of the global high yield index. With this in mind, for the time being, we are deliberately avoiding this segment of the market, preferring instead to allocate capital to issuers where we have greater conviction in the durability of cash flows and balance-sheet strength.

While all-in yields remain attractive, with credit spreads now close to the tight end of their historical range and risks around the K-shaped economy and private credit, we continue to believe that this is not the time to "reach for yield" and take unnecessary risk. The Fund therefore maintains a conservative positioning, favouring higher-quality credits, specifically bonds rated BB and above. As of the end of June 2026, approximately 80% of the portfolio is invested in BB or better-rated bonds, with a cash position in the 4–5% area. We are running this cash position for the time being as the cost of being defensive is minimal, as we are only giving up the spread, while it provides us with a great deal of flexibility to add risk at a more opportune time. Within the single-B rating category, the Fund remains focused on companies with robust fundamentals and resilient balance sheets capable of withstanding an economic downturn. The portfolio has minimal exposure to the high risk CCC-rated bonds, holding less than 1% compared to approximately 8% for the index. This disciplined approach aims to enhance the Fund's resilience in the event of material credit spread widening, while still providing attractive returns by capturing the headline yield and carry.

Spreads moved tighter by around 60bps over the period, largely driven by the de-escalation of the Iran conflict and the steep decline in oil prices.

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MARKETING COMMUNICATION

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agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;
and agree to notify us in writing within 5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.

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