

## TRANSCRIPT: EPISODE 400

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### [INTRODUCTION]

**Staci West (SW):** Welcome back to the Investing on the go podcast. I'm Staci West, and today I'm joined with Darius McDermott and Juliet Schooling Ladder for our quarterly market update. Thank you both for joining me.

**Darius McDermott (DM):** Afternoon, Staci. It's our pleasure, as always, to be here.

### [INTERVIEW]

**SW:** Before we get into our usual quarterly episode. We have a bit of a special milestone to mark because today is our 400th episode and I do want to go on record that I've not manipulated it in any way (only slightly) to both host this episode, but also have it released on my birthday.

**DM:** Is that because it means you won't be here to take calls if people don't like it.

**SW:** Exactly. Conveniently my out of office will be on. But joking aside, we started this podcast back in May 2019. So quite a lot has happened since that very first episode. Before we get into our normal views, I want to ask you both what your favourite part of the journey has been and Darius, I'm gonna start with you because when I was looking back, you have now hosted 57 of these episodes.

**DM:** It feels like a little more, but if you tell me it's 57, I'm not gonna argue with you. I mean, I think the basic things, it's a privilege and a pleasure to have access to all these great fund managers to try and quiz them to try and make it interesting and topical of interests, whether it be in the bond market, the equity market or alternatives as and when we speak to these wonderful Elite Rated managers and also thankful to them because they're also very giving of their time and to the partnership that they have with FundCalibre. As I say, hopefully we've been able to bring you a few helpful insights and tips over the years to help you on your long-term savings journey.

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**SW:** And Jules, this is your 22nd quarterly podcast. We started these in 2021 because a lot was happening and so we thought we would give updates and views and it is fair to say a lot has happened since we started doing these. What stands out for you in doing these quarterly updates?

**Juliet Schooling Latter (JSL):** Is it only 22? Yeah, a lot has happened in that time. As Darius says, there was COVID and, you know, 2021 that sort of marked the end of the COVID lockdowns, which I was very grateful for. Such a strange time. And you know, we've been digging with the fallout really ever since because the following year we had inflation supply chain issues, rapid interest rate hikes and a stock market decline. And then of course we had the Ukraine War, an oil price shock an AI fuel stock market boom and then a second oil price shock with the Iran war. And during that time, of course the UK's had four prime ministers and

**DM:** Only

**JSL** And we're about to have five. So yes it is certainly not been dull.

**SW:** So 400 episodes done and here is to 400 more if I can convince you both to stick around that long. So let's turn back to our normal days events, which is what's been happening in markets over the past quarter and we are gonna wrap up the first half of this year.

And last time we recorded it was during a lot of volatility in markets because of the Iran conflict. We actually did something we've never done before, which was we recorded and published on the same day because things were moving so quickly and it was so volatile. So now we fast forward, we looks like we have a ceasefire, we have some type of, let's potentially say end in sight. What do you actually think about how this is going to continue to impact markets?

**JSL:** As you say there's been a lot going on since we last spoke about this. And yes, as we stand today, there is this ceasefire in place that's been going on for about two weeks and has seen the straighter for news sort of reopen to, to some extent, you know, in the oil crisis is almost back to pre-war levels at about \$73 a barrel. And that's the key thing really here I think is the question is will a ceasefire hold? And how quickly can oil reserves be built back up and consequently inflation reigned in. So I think we're all sort of collectively holding our breath and then and hoping that this ceasefire holds, really.

**SW:** Hoping that we're not talking about it in another three months time and it's resolved itself.

**DM:** Yeah, and I think the oil price is a key thing and it's been the most volatile asset. President Trump tweeted one way and then the other and the oil price followed it. Juliet sort of wrapped it up. But there are different types of inflation. You can get inflation when you have a booming economy. Everybody's working, everybody's spending and then you really, you know, central banks tend to raise interest rates to sort of calm the animal spirits to make the cost of homes more expensive. And that's sort of used then to try and sort of subdue the economy.

Speaking as we do here in London. I think there's limited scope for the UK, for the Bank of England, to raise interest rates, at least not more than months because we do not have a booming economy. We have a depressed economy, we have a number of young people can't get work. I've had more emails for people looking for potential internships in the last week than probably the previous five years. So we don't have a booming economy yet. We still may have this inflationary lag from the oil price. So it's a key metric to look

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at today is the odd price. But with respect to the conflict in the Middle East, I mean it never ends. It stops, it slows, it quietens but it doesn't end.

**SW:** Well we've seen kind of this broadening of returns in markets with year to date performance. We've had Asia ex Japan up around 30%, global emerging markets about 28%, both comfortably ahead of global technology, which is about 27%. Japan was also very strong at 20% and global and US is much more muted around kind of 9-10%. So what is driving this broadening of returns away from what we have seen as the usual US leadership?

**DM:** Yeah, and you mentioned the key word and it's technology and the AI trade. The first and still continuing wave of the AI trade is in the US stock market. There's no doubt about it, but we talked about Asia and then emerging markets where there is huge overlap. The obviously the Asian part of emerging markets, China, Taiwan, Korea, and things like the Korean stock market that I haven't checked for the last couple of weeks, but it was up a 100% this year and probably several hundred percent last year based on a handful of stocks which supply the memory to the AI trade in in America. So that appears to be the dominating feature given how strong Asia and emerging markets have been in the last, not just this year but also last. There is definitely a convergence of that sort of AI trade which investors need to just be aware of that they've got exposure probably via their Asian funds. You think technology, you think AI, you naturally think the States. That's not what's been driving Asia. Asia's been driven by the technology in a slightly different part of the chain technology nonetheless.

**JSL:** Also I think emerging markets have benefited from stronger commodity prices. And you mentioned Japan, which whilst that's also benefited from the tech boom, you know, there they continue to undergo a sort of major corporate overhaul with companies becoming more shareholder friendly. And they've got some greater political stability there with the government sort of pro-growth policies there. So I think that's helped on the Japan front.

**SW:** Well let's stick with AI then for just a second because it does dominate so many headlines and it's a kind of a natural place to gravitate to. But apart from just kind of software and some of the maybe more discussed names, there's more conversation about the infrastructure now behind it. So the hardware, the power demand, the data centres that you need to build and this kind of broader supply chain to which you kind of referenced Darius in Asia, is this still the same AI trade that we've just been talking about over and over? Or are we entering kind of a new era of AI, something that's more capital intensive and we're going to continue to see this broadening out?

**JSL:** Yes, I think, I think it is, it is going to continue broadening out. You know, the, the AI story has, as Darius said, sort of shifted a bit towards Asia. And I think it's not just that I think, you know, in Asia there's a growing middle class and Asia's GDP growth, you know, far outpaces the UK with emerging Asia is projected to grow at 4.9%. Versus in the UK you know, we're only at projected to grow 1% this year. And you know, the Asian governments are largely less indebted post COVID than we are with a sort of average debt to GDP of about 60 to 75% versus you know, over a hundred, 125% for developed economies. So I think these factors also.

**DM:** Yeah, I think all the sectors that you've referred to there, Staci, they're sort of derivatives of AI power generation, the infrastructure behind that, you know, they would not be the need for quite as many data centres if there wasn't this massive AI compute. So they're secondary relatives and I think if we go back to our previous question about the correlation and the concentration of some of these themes, it's probably 50% of all world submarket is in this high growth AI tech theme.

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Our other colleague is super enthusiastic about AI and the changes it's going to bring to all of our lives. What I think, you know, we can already probably in our own jobs say we can be a bit more productive, but is it going to change the world and what happens if AI starts to take people's jobs and robotics, all these sorts of things. So for me it's not just a straight line, but I think the interesting thing is that concentration really in one thing now having spread to Asia and it was literally, it was the US hyperscalers Nvidia, bang bang a hundred percent every year, whatever. And then last year it really did feed into to Asia and those strong both year to date and 2025 returns are the same thing. It's just Korea, TSMC and a few Chinese tech names.

So I just think investors need to be aware of that. It's fine. I'm not saying it's a bad thing, I'm saying it's a good thing. It's just a thing that people ought to be aware of is the concentration, not just now in the market globally.

**JSL:** The amount of debt that's now having to be raised you know, is quite eye you know, for this amount of CapEx that's required. You know, I think we are likely to see some more less in tech along way.

**SW:** Coming back to kind of the best and worst performers. We segued into AI bit, but coming back to the, some of the worst performers, India has been a clear laggard this year. It is down about 7% year to date alongside healthcare, which was down about 2%. But apart from those most equity markets and sectors are in positive territory. So Jules, you are our India fan. What's been going on?

**JSL:** Yeah, believe me, I'm well aware of India's performance. I've been quite a lot, invested quite a lot there myself. So there's a few factors at play there. The fundamental problem is that foreign investors have been pulling out of India, which started last year with high valuations there basically and more tempting AI investment opportunities elsewhere. And then this year you've had the Iran war and India is a large in import of oil. And the higher cost of oil obviously impacts corporate profitability there. So I think if we see a definite end to the Iran war, then India's economic growth and corporate earnings are likely to sort of bounce back to their longer term trend. And foreign investors are likely to return and you know, crisis like this have often turned out to be good points of entry and actually Indian has been one of the top forming sectors over the past month - almost 6%

**DM:** Well I'll do you one better with your short termism numbers because healthcare was one of the best sectors last week. So it was definitely a bit of a rotation from tech, but the simple answer why India hasn't done so well is it doesn't have an AI industry. It doesn't have any of the bits that fit into the food chain so that it said a major stock market's down 7% over a year. You probably wouldn't be that upset. But then everything else is up 25%, 20%. It all then gets relatively that gap gets bigger. And everything that Jules said about starting valuations a couple of years ago, gold price absolutely true, but it just doesn't have an AI industry that's been the main story in town.

**SW:** So if you're trying to diversify away from concentration in both US and AI, India might be a good entry point.

**JSL:** Indeed, yes.

**DM:** Yeah, I mean I think that's absolutely, absolutely fair. Yeah.

**SW:** Okay, so let's switch to Europe and UK because UK M&A has been a little bit of a bright spot with public equities increasingly acting as kind of buyers of smaller listed companies. So do you see this wave of

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kind of recent deal activity that we've seen as a sign of renewed confidence in UK or is it just purely a valuation story and it's very much still an underloved market, it's just a good opportunity?

**DM:** Yeah, so the UK is actually in the past two or three years done a bit better without the AI trade and there have been other forces at play. UK stock market is full of oil companies and mining companies as we know, mining are particularly precious metals were very, very strong in 2025 and 2024. And I think more money did flow back into the UK last year, but primarily into the larger companies and aggressively people tended to be buying more passive. I saw a chart only last week that actually says the UK large cap is now not super cheap, like around 4% to its intrinsic value on a method which is used by Holt, which is a valuation method used by a number of fund managers, but actually the UK smaller companies that we mentioned yet again are now 50% cheap versus their intrinsic value. So the UK has been okay without the AI trade, but you know, higher interest rates have been fabulous for the UK banking system.

We do have listed on our stock market or the miners which have been winners, we have some defence companies which have been winners and we have world companies and AstraZeneca and Rolls Royce. You know, some of these stocks have done extremely, extremely well, particularly Rolls Royce. So, so you can still have a moving stock market or a good strong stock market without AI, but UK's probably would've been the sort of standout differentiator from that theme.

**JSL:** Yeah, I mean, you know, M&A obviously has been helping, but you know, we've heard from some managers that even though companies are being purchased at a premium to their current valuation, they still think that they're being sold for sort of far below their true value, which is frustrating and unfortunately you know, I don't think that the government provides that sort of environment to attract investors back to the UK. And I'm not entirely sure that the imminent change of prime minister's gonna help.

**DM:** This UK and Europe because that was, I think your question doesn't have much AI exposure. ASML is definitely a tech company and an AI winner and one of, if not the biggest companies in Europe, but the second biggest company in Europe is Novo Nordisk, which has been a producer of these weight loss drugs or the adult diabetes drugs. And that's sort of still from its peak just under a 1,000 euros now 300 euros. The second is still the second biggest company in Europe that tells you, you know, where very big company has been dragging European index down. So outside of the UK it really is still an AI theme, but European financials have done pretty well. The healthcare sector hasn't, but nothing like trying to buy something that's cheap. Things have underperformed. You know, you can't just have all of your portfolio in last year's winners or this year's winners. It is great if you can pick the right sector all of the time, then you will obviously do extremely well. And I think if you said to me today on a 12 month year, I'd buy healthcare over tech all day long.

**SW:** You heard it here first. With the M&A activity though. Is there an element of risk of this continued prolonged activity that we're seeing, especially in the UK, is just shrinking the opportunities for those UK smaller company funds that we love to talk about? Or is it going to benefit them with a rerating in equities across the board?

**DM:** It's been quite a lot of activity it looks like it's been in some of the mid-size companies. There's a big bid lastly by American Industrial Partners to try and buy Serco, which the largest UK REIT. You're absolutely right. If we have a shrinking stock market that gives us less or gives the fund managers less to pick from. And again, our colleague James was talking about a number of the really, really large companies pretend to be looking to delist in London and go to the go to the States, which would be hugely damaging because we have had outside of that AI sector, you know, we've got quite a broad stock market but financials

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but mining, healthcare and domestic economy. So yeah it is a certainly worrying trend at the moment and not sure how we get out that moment.

**SW:** Your crystal balls not working

**DM:** Bit fluffy on that one.

**JSL:** Yeah, I know, I mean it's like some managers I that we speak to are concerned about this shrinking set and these are worry. I think that, you know, again, we just do need it perhaps a more business friendly government and then, you know, hopefully UK will come to perform and UK smaller companies will flourish again.

**SW:** Oh, that'll be the day. Right. So I wanna finish with central banks because last time the, we had a real sense of no one knows what's happening next, so just doing nothing is sensible option and we kind of just left it there and we have seen the Bank of England hold rights for the fourth consecutive time again effectively signalling this wait and see stance. But now that it has has been ongoing, this wait and see how do investors interpret that? How long are we waiting for?

**DM:** I mean the inflationary pressure or the inflation numbers in different regions controls the local central bank's interest rate policy response since we last spoke. European Central Bank has raised rates once and UK has declined too. And the US has declined too. The US has got a different growth, not just the AI trade, but it's got its own energy supply, hence it's less affected by spikes in energy prices. There is inflation in the US but there is a certain Mr. D Trump definitely does not want rates to go up in America. They got a new central governor Mr. Walsh and you know, whether they're gonna want to go against the pretty transparent view of the president of not wanting rates. I know they're supposed to be independent, but let's just see. But if inflation is high and consistently higher in any region almost for whatever the reason, then you would expect rates to go up. But in the UK I'd be surprised if we might get one rate rise this year. But I don't think the economy's strong enough and I think hence rates will stay at the current level for the rest of the year in the UK.

**JSL:** Well I hate to agree with my colleague. [**SW:** As we know] I mean actually I think markets are pricing in one rate rise. But I feel like it's unlikely here because inflation here is being caused by a supply side shock rather than increase consumer demand. So, you know, often you raise interest rates so that you can sort of reign in an overheating economy, but that isn't the case here. You know, we've got consumer demand is declining. You know, we've got very sort of wary consumer here. [**DM:** Weak employment.]

Yeah, weak employment, we've got we inflation course, I mean it's not just the oil price shock, but increase labor costs. Partly for, because we've got fewer workers post Brexit also we've had the increased minimum wage and [**DM:** More taxes and insurance] So we've got sort of slower growth and you know, higher taxes are impacting both sort of consumer demand and also preventing business investment. So I think it's quite a difficult environment for the banking to raise rates at money.

**SW:** Well, on that ever cheerful note, what a way to end our 400th episode. Thank you both for joining me and until next time.