

Window on the World

JUNE 2026

Investors have had no shortage of reasons to be cautious in 2026. A conflict in the Middle East has disrupted energy supplies, inflation concerns have re-emerged, bond yields have moved higher, and equity markets have already delivered exceptional returns over the past three years.

Yet despite these headwinds, markets have continued to advance. The reason is surprisingly simple: corporate earnings remain exceptionally strong. As valuations come under increasing scrutiny and investors question how much further markets can run, the real story remains the strength of underlying fundamentals. This month, I look at why earnings have become the dominant driver of returns, whether concerns around valuations are justified, and the key risks and opportunities we are watching from here.



Capital Market Returns in May 2026

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	0.7	-3.3	22.5	6.6
US Equities	5.3	10.5	29.7	11.2
European Equities	3.9	0.4	16.0	6.7
Japanese Equities	6.2	1.5	44.6	17.4
Emerging Market Equities	9.7	9.5	55.1	25.7
UK Gilts	2.0	-2.9	3.4	-0.6
UK Corporate Bonds	2.0	-1.3	5.6	0.2
UK High Yield Bonds	0.7	0.0	7.1	1.9
US Corporate Bonds	0.6	-0.8	6.1	0.8
US High Yield Bonds	0.5	1.0	7.4	1.6

Source: Bloomberg, Verso Investment Management, as of end May 2026. Returns in local currency



May was a positive month for investors as confidence continued to build that a credible peace agreement between the U.S. and Iran is within reach. While negotiations remain ongoing, markets have increasingly coalesced around the prospect of a deal and the eventual reopening of the Strait of Hormuz. In turn, oil prices have continued to retreat from their highs, with the one-month forward price of Brent crude ending May at \$92 per barrel, down almost 20% over the month.

Within fixed income markets, bond yields declined as optimism over a potential settlement offset inflation data which confirmed that higher energy prices were feeding through into core inflation across both Europe and the U.S. In the U.K., gilt markets experienced a period of volatility following the local elections, as speculation grew around a potential change in Prime Minister and what this could mean for fiscal policy. Ultimately, yields moved lower over the

month, supporting positive returns from U.K. Government bonds. Attention is now turning towards the Makerfield by-election in mid-June, where Andy Burnham is widely expected to return to Parliament and potentially mount a leadership challenge to Keir Starmer.

Equity markets also moved higher in May, led by the U.S. and emerging markets. In both regions, returns were concentrated within the technology sector, particularly among semiconductor manufacturers benefiting from continued strong demand as hyperscale technology companies increase investment in AI infrastructure. Positive economic data also helped Japanese equities reach fresh all-time highs. Gains in the U.K. and Europe were more modest, reflecting their limited exposure to the technology sector that continues to drive a significant share of global earnings growth.

Reflecting on Equity Market Returns

Beyond the events of May, it has been a remarkable period for investors. U.S. equities have more than doubled since their lows in October 2022. Japanese and emerging market equities have delivered similar returns, while U.K. and European markets, despite lagging, have still generated annual returns comfortably above their long-term averages.

Following such a strong run, it is natural to question how sustainable it is. Concerns around valuations, investor enthusiasm, and, more recently, the impact of higher energy prices have all fuelled debate about whether this bull market is becoming stretched. Scepticism is understandable. Strong market returns are often associated with expanding valuations, excessive optimism, and speculative behaviour. Yet a closer look at the underlying fundamentals tells a rather different story.

Earnings have been the story

The latest earnings season has once again demonstrated the strength of the corporate backdrop. In the first quarter of 2026, U.S. companies are on track to deliver aggregate earnings growth of 18% year-on-year. While a small number of large technology companies have contributed meaningfully to this growth, the story extends well beyond the headline names.

The median company within the U.S. market is growing earnings at around 14% year-on-year – one of the strongest quarterly readings seen in over a decade. Globally, earnings have exceeded analyst expectations by approximately 10%. These are not isolated beats concentrated in a handful of companies; they represent broad-based outperformance across sectors and regions. Perhaps more importantly, there remain few signs that the earnings cycle is approaching exhaustion.

The dominant driver of returns over the past three years has not just been valuation expansion – it has also been earnings growth. The U.S. market provides perhaps the clearest example. Equity returns over the past two years have broadly matched the growth in corporate earnings, leaving valuations little changed from where they stood two years ago. In other words, the market has not become materially more expensive – companies have simply become more profitable. Return on equity, one of the clearest measures of corporate profitability, has risen to its highest level in four years and is expected to move higher still during 2026.

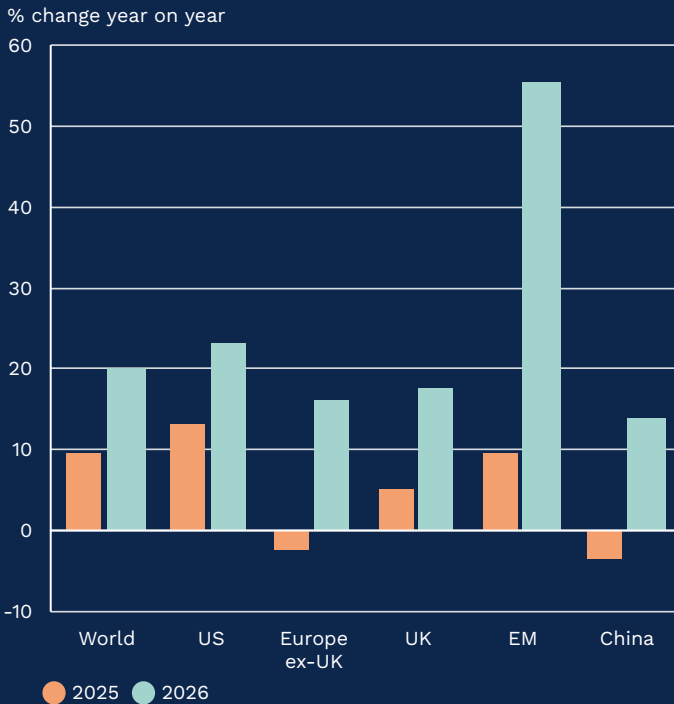


A significant driver of this growth remains the structural investment cycle linked to artificial intelligence. Analysts estimate that around half of expected earnings growth in U.S. large-cap equities will come from businesses directly exposed to the AI infrastructure buildout — including semiconductor manufacturers, data centre operators, power infrastructure providers, hardware companies, and the hyperscale technology firms whose capital expenditure plans continue to expand at an extraordinary pace.

The scale of investment remains striking. The five largest technology spenders — Amazon, Alphabet, Meta, Microsoft, and Oracle — are forecast to invest a combined \$753 billion during 2026, an increase of more than 80% on the previous year. This investment is reshaping the earnings landscape globally and is also providing a significant tailwind for many emerging market economies.

THE FORWARD PICTURE IS EQUALLY ENCOURAGING. EARNINGS GROWTH IN THE U.S. IS FORECAST TO EXCEED 20% DURING 2026, WITH STRONG GROWTH ALSO EXPECTED ACROSS EUROPE, THE U.K., AND EMERGING MARKETS.

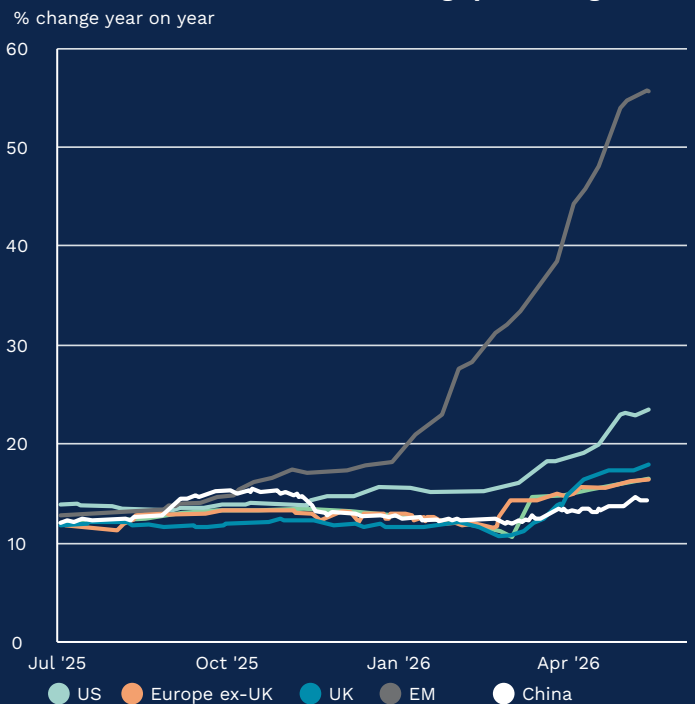
Consensus estimates for earnings per share growth



Source: JP Morgan

Importantly, however, this is not solely a technology story. Earnings growth remains healthy across a broad range of sectors and regions. Japanese companies continue to enjoy widespread earnings upgrades, while corporate profitability across Europe and the U.K. remains supportive. Although the earnings backdrop in these regions may not be as compelling as in parts of the U.S. technology sector, the picture remains one of solid growth rather than deterioration.

Consensus estimates for 2026 earnings per share growth



While leadership within this bull market has undoubtedly been concentrated, the earnings expansion underpinning it is much broader in nature and increasingly global in reach.

But what about valuations?

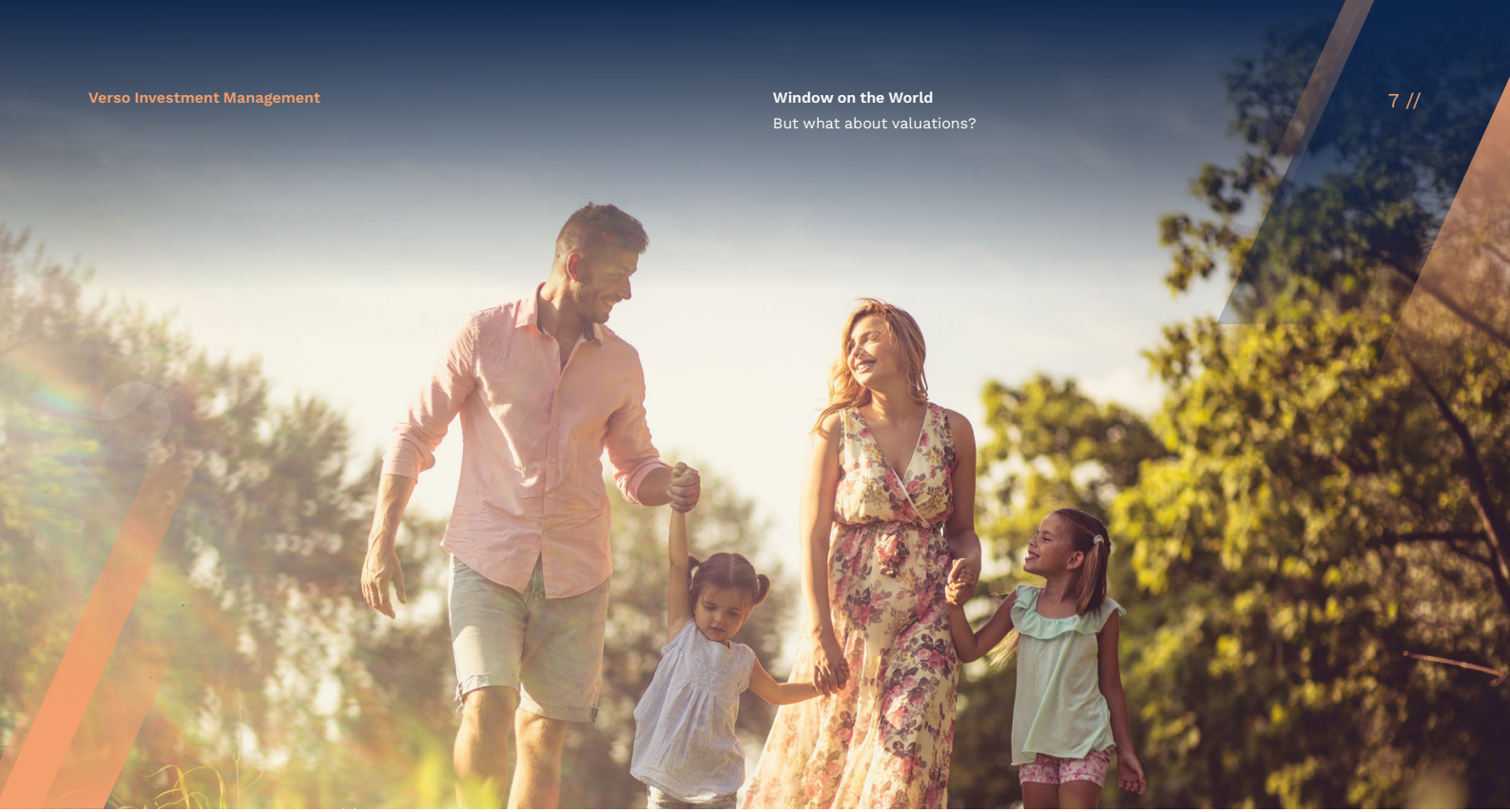
If earnings have been driving returns, the obvious question is whether valuations are becoming stretched. This is perhaps the most debated topic in markets today, particularly when it comes to U.S. equities. On the surface, the concern appears justified. The Shiller cyclically adjusted price-to-earnings ratio (CAPE) for the U.S. market sits above 35 times earnings, close to levels previously seen during the technology bubble at the turn of the century.

That statistic understandably grabs attention. Markets trading on elevated valuations have less room for disappointment, and periods of uncertainty can often lead to sharper corrections when expectations are high. However, headline valuation measures only tell part of the story.

The U.S. market today is increasingly dominated by a small number of exceptionally large and exceptionally profitable technology companies. Their size and profitability have a significant influence on index-level valuations and can distort the broader picture.

Looking beneath the surface, valuations appear less extreme. On an equal-weighted basis, where each company is treated equally rather than by market capitalisation, the median U.S. stock sits around the 76th percentile of its historical valuation range. Elevated, certainly, but not excessively so. More than half of the largest 500 companies in the U.S. trade on less than 20 times forward earnings. In other words, the U.S. market is not uniformly expensive. There remain pockets of genuine value alongside areas where valuations are demanding.



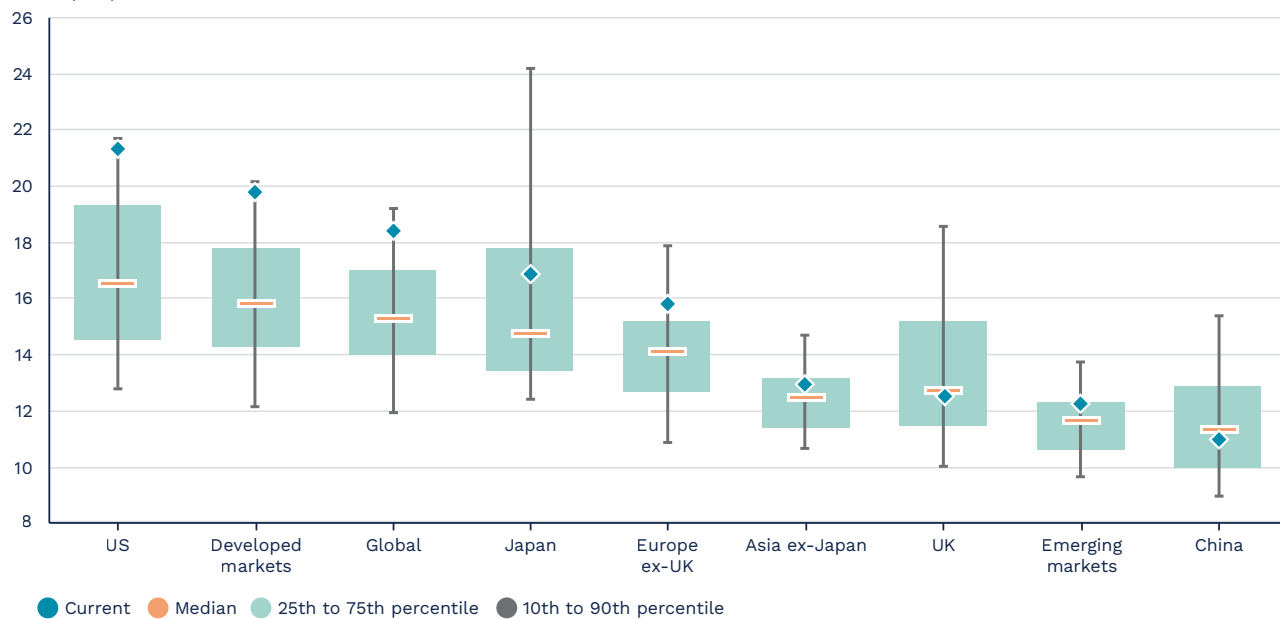


It is also important to consider what investors are receiving in return for paying higher multiples. Corporate profitability remains exceptionally strong. Return on equity across large U.S. companies is close to record levels and significantly above long-term averages. Businesses that consistently generate superior returns on capital should command higher valuations than average businesses. When current profitability levels are incorporated into valuation models, the picture becomes more balanced. The U.S. market's forward price-to-earnings ratio of around 21 times earnings appears much closer to fair value than headline measures alone would suggest.

GLOBAL MARKET VALUATIONS

12-month forward P/E ratios

x, multiple, percentiles and median since 2000



Source: JP Morgan

That does not mean valuation risks should be ignored. Higher valuations inevitably reduce the margin for error and increase sensitivity to economic shocks. However, the narrative that the entire market has become detached from fundamentals is difficult to reconcile with the strength of earnings and profitability being delivered by companies today. The regional picture also provides important context. Much of the valuation debate centres on the U.S., yet investors rarely own only U.S. equities.

European equities continue to trade close to their long-term average valuations. U.K. equities remain meaningfully cheaper than both the U.S. and Europe across a range of measures, including price-to-book ratios, earnings multiples, and dividend yields. Japanese equities have re-rated in recent years as corporate governance and profitability have improved but still trade well below U.S. valuations. Across emerging markets, particularly in Asia, valuations remain attractive relative to expected growth.

For globally diversified investors, the valuation challenge within parts of the U.S. market is diluted by the opportunities available elsewhere. That is one of the reasons we continue to favour a globally diversified approach. In the current environment, diversification is not simply a risk-management tool. It is increasingly becoming a source of return in its own right.

Areas we are watching

While there are encouraging signs that a lasting agreement between the U.S. and Iran may be within reach, the reality is that energy prices have remained elevated for more than three months and disruption to shipping through the Strait of Hormuz continues. Unsurprisingly, this has pushed inflation expectations higher and led economists to trim growth forecasts for 2026.

Importantly, however, forecasts still point to positive economic growth rather than contraction. The outlook for 2027 also remains broadly constructive. As has been the case since the conflict began, the key variable remains the duration of the energy shock. At current oil prices, we are not yet at levels that would typically push the global economy towards a stagflation outcome.



Bond markets are another area we continue to monitor closely. Yields have moved higher in recent months as inflation concerns have re-emerged, and at certain levels the relationship between bonds and equities can change. Investors saw this clearly in 2022, when both asset classes struggled at the same time.



Finally, the strength of the recent earnings season has raised expectations for the remainder of the year. Coming into 2026, we felt earnings delivery would become increasingly important as the global interest rate cutting cycle drew to a close. That view has broadly played out.

The challenge now is that the bar has been set higher. Markets will expect companies to continue delivering strong results. Any disappointment, whether from a slowdown in AI-related investment, weaker economic activity, or a deterioration in the situation in the Middle East, could create periods of volatility. For now, however, the evidence continues to point towards a corporate sector that remains resilient and profitable.

WHILST GROWTH FORECASTS HAVE BEEN TRIMMED FOR CERTAIN COUNTRIES IN 2026, GROWTH IS STILL EXPECTED TO BE RESILIENT THROUGH 2026 AND 2027.

Economy	Start of year		Current Consensus		Revision	
	2026	2027	2026	2027	2026	2027
Bloomberg consensus % real GDP						
United States	2.0%	2.0%	2.1%	2.0%	+0.1	-
Europe	1.4%	1.6%	0.8%	1.3%	-0.6	-0.3
United Kingdom	1.1%	1.4%	0.8%	1.1%	-0.3	-0.3
Japan	0.7%	0.8%	0.7%	0.8%	-	-
China	4.5%	4.2%	4.6%	4.4%	+0.1	+0.2
Global	2.9%	3.0%	2.9%	3.1%	-	+0.1

Sources: Bloomberg consensus (start of year baseline); Bloomberg consensus (June 2026) Revision = current consensus minus start-of-year forecast, percentage points. Positive revision shown in green, negative in red.

How we are positioned

Our portfolios remain positioned to participate in an earnings-driven market while remaining resilient to the key risks we have identified.

Within equities, we maintain broad diversification across regions, sectors, and investment styles. Our exposure to the U.S. is balanced by an overweight allocation to emerging markets, where valuations remain attractive and the earnings outlook continues to improve. We also retain meaningful allocations to the U.K. and Europe, where valuations remain more reasonable, corporate fundamentals continue to strengthen in many areas, and dividend yields provide an additional source of return.

Within fixed income, our focus remains on high-quality, short-duration Government and corporate bonds. These continue to offer attractive levels of income while reducing sensitivity to further moves in bond yields. Alongside this, we retain selective allocations to alternative investments where we believe the risk and return characteristics are attractive.

More broadly, our overall allocation to equities remains neutral. This reflects both the constructive backdrop for earnings and the reality that markets have delivered above-average returns over the past three and a half years. While we remain optimistic about the medium-term outlook, we are also mindful that periods of strong performance can be followed by bouts of volatility.

As always, we believe the best approach is to remain diversified, patient, and focused on long-term outcomes. Markets will inevitably experience periods of uncertainty, but history has consistently shown that disciplined investors who remain engaged are best placed to benefit from the opportunities that emerge over time.



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