

Temple Bar Investment Trust

Quarterly Commentary – Q2 2026

Market Commentary

The second quarter of 2026 was dominated by the evolving US–Iran conflict and the dramatic swings in energy prices it produced. Brent crude fell by almost 40% over the quarter to close at just over \$70 per barrel (its steepest quarterly decline since the onset of the pandemic in the first quarter of 2020) after President Trump announced on 14 June that a deal with Iran was "now complete," lifting the US naval blockade and reopening the Strait of Hormuz. The sharp retreat in oil prices caused stagflation fears to recede, supporting both sovereign bonds and equities across the globe. In the UK, the FTSE 100 ended the quarter in positive territory, extending its strong run from 2025, while the broader FTSE All-Share returned +4.7% as economically sensitive sectors outperformed more defensive sectors and energy stocks lagged sharply on the oil price reversal. Domestically, the macroeconomic backdrop was relatively resilient: UK GDP unexpectedly grew 0.6% in the first quarter, and CPI inflation eased to 2.8% in both April and May. This was below the Bank of England's near-term expectations, although the Monetary Policy Committee held base rates at 3.75% at its June meeting, citing uncertainty around the energy price path and the potential for inflation to re-accelerate later in the year. In a notable political development, Prime Minister Keir Starmer announced his resignation on 22 June after losing the confidence of a significant portion of his parliamentary party. Andy Burnham is expected to become Prime Minister in his place sometime in July. Within the UK equity market, the cessation of hostilities in the Middle East drove a rotation as Financials and Consumer Discretionary stocks led the market higher, buoyed by strong bank earnings and the fading of energy-driven cost pressures, while Energy stocks were the notable laggards as BP and Shell retreated sharply alongside the oil price. UK companies continued to attract significant overseas interest, with US private equity firm Castlelake making multiple bids for easyJet and the US asset manager, Nuveen, bidding for Schroders. Testing company Intertek, insurer Beazley and food ingredient manufacturer Tate & Lyle were also the subject of bids from overseas purchasers. These bids underscore the persistent valuation discount of UK equities relative to global peers and, in our view, bode well for the potential investment returns that are available in the UK market.

Attribution Commentary

The Trust delivered a total return of 4.5% in the 3 months, underperforming the FTSE All-Share Index.

Top Five Single-Stock Contributors

Standard Chartered was the largest contributor to performance, returning over 30% in the three months and again adding a 0.8% to the Trust's absolute return. Meanwhile the Trust's holdings in Barclays and NatWest Group added 0.7% and 0.5% respectively. All three banks continue to report strong income growth, muted cost growth and low levels of loan losses and all three now trade on valuations of around 10x our view of cycle average earnings and at a premium to book value. These three stocks have performed exceptionally well for the Trust and, although not expensive, are not as attractively priced as they were three years ago.

Aberdeen Group rose by 25% in the quarter, adding 0.7% to return on the back of continuing strong flows onto its market leading retail platform, Interactive Investor.

International Consolidated Airlines Group (IAG) was also a positive contributor as its share price surged on a powerful combination of strong first quarter results which showed profit growing substantially year-on-year on the back of continued strong demand on North and South Atlantic routes and falling oil prices because of the Iran deal. At over 20% of revenue, jet fuel is an airline's largest cost, and fuel prices are therefore a key determinant of airline profitability.

Bottom Five Single-Stock Contributors

The Trust's energy holdings were the primary detractors from return. BP was the single largest detractor, falling by over 20% and deducting 1.1% from absolute return as the oil price collapse directly eroded the earnings outlook for the oil major. BP had entered the quarter up around 25% year-to-date, and the Iran deal triggered an abrupt reversal of that gain. Likewise, Shell fell significantly on lower oil prices, thereby detracting 0.9% from the Trust's return. In an uncertain oil price environment, we value both companies assuming \$70 oil, which is the level that they themselves assume when evaluating new projects and coincidentally is roughly the oil price today. Both companies are valued at around 9x earnings at \$70 oil and accordingly are attractively valued, in our view.

Centrica fell by almost 20% in the period, also detracting -0.5% from the Trust's return. The British Gas parent had already signalled in February that its energy trading unit's profits would fall materially short of prior guidance, and the second quarter oil price decline compounded concerns about the earnings trajectory of its energy supply business.

Stock Additions

Two new positions were initiated during the quarter. JM Smucker is a leading US consumer foods company owning brands including Folgers, Jif and Smucker's, and was purchased at a price-to-earnings multiple of approximately 10 times and a dividend yield of approximately 4%. The company has leading brands in coffee, spreads and pet foods and has seen its share price fall by around one third in the last three or so years on the back of sluggish operating performance and the overpriced acquisition of the Hostess brand in 2023. We believe that operational improvements currently underway and some re-rating of the shares can result in attractive investment returns from today's level.

Sanofi, the French multinational pharmaceutical group with leading positions in vaccines, rare diseases and immunology, was added at a price-to-earnings multiple of approximately 8x and a dividend yield of over 5%. The company faces a significant challenge from the expiry of patents on its most successful drug, Dupixent in 2031, but the valuation is such that the stock market is pricing in only a small probability that the company will be able to replace at least a portion of the lost sales over the next few years.

These purchases were funded from the sale of shares in Anglo American and Molson Coors. In the case of Anglo American, the company's share price had performed exceptionally strongly, roughly doubling in the last twelve months, and the valuation no longer offered the margin of safety that it once did. Molson Coors was sold at a loss as we have become concerned that beer volumes are in secular decline in the US and the large producers are under additional pressure as consumers switch to smaller (craft) brands. The company is currently seeing mid-single digit annual volume declines, which if sustained would likely see the company's earnings potential reduce over time.

Outlook

Although the war in the Middle East has ended (at least temporarily) and energy prices have reverted to more normal levels, as ever, uncertainty remains. So far in 2026, stock markets have been buoyed by strong levels of corporate profits growth which has been driven at least in part by large government deficits and massive investment in AI by the large technology companies. The risk is that these government deficits are

unsustainably large and that the AI investment does not yield the hoped for returns and the level of investment therefore reduces over time. As always, these risks cannot be quantified.

As we are fond of saying, in an uncertain world, where it is all but impossible to predict short term movements in share prices, our approach is and has always been to think long term and invest in what we believe to be fundamentally sound businesses at a significant discount to their true economic worth, on the basis that eventually that economic worth will be reflected in a higher share price. This approach attempts to take advantage of the short termism and behavioural inconsistencies of other investors and has successfully resulted in significant excess returns for our clients over the last 25 or so years. Whilst there is no investment approach that will outperform the stock market in each and every year, we feel confident that through the disciplined application of a well-diversified value investing strategy, we can continue to deliver these excess investment returns into the future.

In this regard, the Trust continues to be invested in what we believe to be fundamentally sound businesses that should be capable, by virtue of their market positions and the industries in which they operate, of growing their profits over time, but which continue to be modestly valued in the stock market. Stock market history has shown that ultimately, starting valuation is the best determinant of long-term investment returns such that when valuations rise, the stock market is pricing in a greater portion of the company's future profit growth and investors should therefore expect to receive a lower return.

In aggregate, the Trust's portfolio continues to be valued at around eleven times earnings, a meaningful discount to the wider UK market, and around half the valuation accorded to the wider global equity indices. Accordingly, the Trust's holdings are priced to deliver excess returns over time, in our view, and we believe shareholders can look forward to the future with some optimism.

CONTACT US

Please contact us if you have any questions or would like to discuss any of our strategies.

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