From Goldilocks to Higher-for-Longer

Markets:

We entered the year expecting a low-flying Goldilocks environment, with favorable conditions for a more reflationary backdrop to emerge. This view was supported by continued improvement in the U.S. labor market, sustained momentum in the manufacturing sector, the gradual fading of negative tariff effects, and the increasing impact of fiscal support measures. However, the prolonged conflict in Iran has altered the outlook. The persistence of geopolitical uncertainty has reinforced the current higher-for-longer environment, tempering the constructive expectations that characterized the start of the year.

The situation in the Middle East has also left a clear mark on fixed income markets. In March, sovereign bond yields rose sharply in response to a significant increase in energy prices, prompting markets to shift expectations for major central banks from policy rate cuts in 2026 towards potential rate hikes. While equity markets have largely moved beyond the conflict in Iran, the picture is notably different in bond markets. Expectations for future policy rates have increased materially relative to the levels seen at the beginning of the year. This reflects concerns that central banks may be forced to maintain a restrictive monetary policy stance for longer due to heightened inflation uncertainty, particularly the risk of second-round effects from higher energy prices.
At present, the likelihood of such second-round effects appears relatively limited. Nevertheless, the same factors suggest that meaningful monetary easing remains some distance away. As a result, the prevailing macroeconomic environment continues to be characterized by a higher-for-longer interest-rate regime.

The Portfolio:

The strategy delivered a strong second quarter, finishing the period with a return comfortably ahead of its benchmark. After costs, the portfolio returned 5.9%, compared with 5.0% for the benchmark.

The equity allocation was a driver of the outperformance. The equity portfolio generated a return of 16.8%, exceeding its benchmark by approximately 1 percentage point. Active returns were largely driven by the Global Equity Growth Pool and the Emerging Markets Value Pool, which returned 27.0% and 23.8%, respectively. In contrast, the Danish Equity Pool underperformed the strategy equity benchmark and detracted from relative performance.

The two Tactical Allocation Pools also contributed positively to active returns, supported by a modest overweight position in equities during the quarter.

Within fixed income, all asset classes contributed positively to relative performance. Convertible bonds were the strongest performer, delivering a return of 13.4%, followed by emerging market bonds with a return of 4.6%. The European Short and Long Bond Pool returned 2.0%, outperforming the overall fixed-income allocation, which generated a return of 1.3%.

Alternative investments made a mixed contribution. Infrastructure returned -0.3%, while private equity delivered a return of 2.5%. As a result, these allocations had a modest negative impact on relative performance during the quarter.

Strategy

Securus is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.

Equity 25%	Fixed Income 75%