July 2026 portfolio update

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India White-Spunner, Director–UK Institutional

Good afternoon and a very warm welcome to Ruffer's Q2 webinar. My name is India White-Spunner. I'm a Director on our institutional team and I'm delighted to be joined today by Fund Managers Alexander Johnstone and Ian Rees.

While markets remained focused on AI-led growth opportunities in the second quarter, they also had to contend with a persistently uncertain geopolitical backdrop. For the Ruffer portfolio, the quarter proved challenging, reversing the positive start to the year and leaving the strategy slightly negative year to date.

We'll spend the next 40 minutes or so looking at how we perceive the current market set-up, Ruffer's performance, activity in the portfolio over the quarter and our current positioning. I'll begin by asking Alexander and Ian some questions before we open up to audience Q&A.

Thank you to those who have submitted questions in advance. If you haven't and would like to do so, please feel free to submit them as we go along. As usual, you'll receive both a recording of the webinar and a copy of the slides afterwards.

To make sense of the quarter, I think it helps to zoom out. The market has clearly been caught between two opposing forces: geopolitics pulling in one direction and AI pulling in the other. Alexander, if we begin with geopolitics, perhaps you could talk about developments in Iran and how markets have digested them.

Alexander Johnstone, Assistant Fund Manager

Thank you, India. I think we can all agree it has been an extraordinary few months. We've seen the largest oil supply shock in history, and yet markets have been remarkably resilient.

We saw the ceasefire announced in March, which allowed equity markets to rally and go on to reach new highs globally. But it wasn't until the memorandum of understanding was signed in June that we saw oil prices fall.

Clearly, in the last week or so, we've seen some level of escalation. That reminds us that the situation is ongoing. But we did see Brent crude oil prices, having spiked to nearly $120, fall back to around $70 – the level at which they were before the start of the war.

The important thing from a Ruffer perspective is that we're clearly far from a full resolution. If you look at crossings through the Strait of Hormuz, even before this recent escalation, they had only recovered to nearly 25% of their pre-war levels.

While Brent crude prices have fallen, the prices of refined oil products – such as diesel and aviation fuel, the things consumers and corporates are actually buying – have remained elevated. What that means to us is that the first- and second-order effects of this crisis are yet to be felt by the global economy. So there does remain a significant risk of higher inflation in the near term.

From a Ruffer portfolio perspective, we took some profits in our oil exposure through the spring and rotated these into agricultural commodities. When we look at the equity part of the portfolio, which makes up about one-third of the portfolio, 10% of that exposure is in the energy sector, compared with just 4% of the global index.

India

We've therefore had a market that has absorbed the largest oil disruption in history, as you've said, Alexander, with remarkable composure – in no small part because it has been focused elsewhere.

Ian, that brings us to the second force. How would you characterise the impact that AI has had on markets?

Ian Rees, Fund Manager

Thank you, India. It's clear that the AI theme has been a key driver of financial markets in recent months and even years. When I say the AI theme, what I'm really talking about are the investments being made to develop AI further.

That investment is driving demand and bottlenecks in certain parts of the economy, to the benefit of particular sectors and stocks. We can say that semiconductors are the picks and shovels of today's gold rush.

I saw a statistic recently which said that, if you looked at the S&P 500 Index, you could attribute about 40% of the index to the AI theme in its various shapes and sizes. That 40% of the index has driven 80% of the year-to-date return. You can see its outsized impact.

If we cast our minds back to the onset, or early stages, of the Iran conflict, it was a time of considerable stress and uncertainty for the global economy. But it was also a period in which many companies within the AI theme were seeing their earnings estimates increase. From the market's perspective, you therefore had fundamental improvements across quite a large part of the market.

We spend a lot of time thinking about – and are regularly asked – whether this is a valuation bubble. Is this like the dot-com mania at the end of 1999 and in 2000? I don't think you can say that today, certainly not on valuation.

Where I think the risk lies today is in the durability of expected earnings growth. A lot of investment is being committed. Thus far, companies have been able to clear the high expectations set by the market. But how long can that earnings growth continue to exceed the market's expectations?

One change – or perhaps evolution is the right word – that we've observed in recent months is how this investment is being funded. In the earliest stages, to simplify it somewhat, corporates were using cash on their balance sheets and the cash they could generate each year from the assets already in their businesses.

More recently, we've seen companies needing to tap both the bond market and the equity market for the capital they require. This illustrates the sheer scale of the investment being committed, but that capital isn't coming without strings attached. The market will increasingly demand future returns in exchange for the greater amount of capital it is providing.

India

Two powerful forces, then, and neither is going anywhere in the short term, at least. Alexander, perhaps you could tell us how the portfolio is positioned to express our views on how things may play out from here.

Alexander

Yes, of course. I think it's helpful to consider the different paths we could take from here and how the portfolio is positioned for them.

Hopefully, you can now see on the screen that we're highlighting three different paths. For the central path – one of benign growth – we have more than a third of the portfolio invested in equities, alongside commodity exposure. These should drive positive returns in a benign environment characterised by positive economic growth and, importantly, contained inflation.

Within our equity exposure, we're focused on companies that are less crowded and less highly valued than some other parts of the market. We think that should give us a greater margin of safety.

But, as Ian and I have highlighted, there are significant risks relating both to the energy complex and to AI. We therefore think it is important to maintain potent protections within the portfolio. At Ruffer, we're always looking for protections that will be both effective and attractively valued when considering the balance of the portfolio.

These can be conventional protections in the form of bonds or currencies, but also unconventional protections in the form of derivatives.

When we consider potential tail risks away from that benign scenario, the first is a growth risk. There is a world in which markets start to lose confidence in the returns that will be generated by the vast amount of capital expenditure going into AI companies.

That would likely evolve into a growth shock, in which we might expect central banks to cut rates. We therefore think we can have more confidence in conventional protections, such as bonds and the yen, to provide that portfolio protection.

On the other hand, the other scenario is clearly an inflationary one. That could be driven by a supply shock – perhaps an oil supply shock or a further deterioration in the Middle East – or by an overheating economy resulting from the demand generated by AI spending.

In this world, we would expect bonds to hurt rather than help investors. This is where we think having unconventional derivative protections in the portfolio will be vital.

Markets have quite a narrow focus at the moment. From our perspective, we're looking for opportunities outside the spotlight. We think the portfolio is full of those opportunities, both among its growth and protective investments.

India

Great. That sets the scene. Ian, let's get into the detail of activity in the portfolio. What were the most significant changes during the quarter and what prompted them?

Ian

We've been active across the whole portfolio. Before I go into the detail on equities, I think it's worth taking a step back and considering what we were facing.

This was a world in which 20% of the global oil supply had essentially been lost overnight, with uncertainty about the downstream impact on the global economy. Yet global equities had fallen by less than 8% from peak to trough.

This wasn't a capitulation by investors or a valuation reset. If you were looking to add to equities, we thought you had to be quite selective about how you did so.

We targeted our increases in North America – particularly the United States. There was a high degree of uncertainty for everyone, but we could take comfort from our view that the US economy and market were better insulated than other parts of the world.

When we added equity exposure, therefore, we focused on the US. One way we did this was through the addition of a call option on the S&P 500 index, which essentially gave us rental exposure to the market. If markets were to rise, as they did in early April, the position would benefit. The benefit of using an option was that it limited our downside to the initial investment, reflecting the high level of uncertainty in which we were operating in early April.

Elsewhere in the United States, we added to large technology companies such as Microsoft and Amazon.

Within currencies, we've been very active in managing our foreign currency exposures. We reduced the Yen and increased our US dollar exposure, which represents more than 10% of the portfolio today, while leaving sterling largely unchanged.

That is a deliberate tilt towards the US and an acknowledgement of the relative robustness of the US economy compared with other nations and economies.

Finally, in fixed income, we made a modest, tactical increase to government bonds, in acknowledgment of the higher yields available. Regular listeners will be aware of our structural concerns about adding too many bonds alongside equities in the portfolio because, as we've seen this year and since 2022, they have tended to move together.

This was an opportunistic addition that we don't think has unduly increased the risk in the portfolio.

One subtle point I want to make is that we continued to reduce some of our long-dated UK government bonds. This reflects our consideration of how best to protect and manage the portfolio during a continued period of political uncertainty in the UK. We moved that interest-rate exposure into the government bonds of other nations.

India

Alexander, turning to performance, could you walk us through what drove returns over the period and what held them back?

Alexander

As you mentioned at the beginning, it was a challenging quarter for the strategy. Hopefully, you can now see on screen the contributors and detractors during the second quarter.

The equities in the portfolio generated positive returns, but these were not sufficient to offset the cost of the portfolio's protective assets.

When we think back to March, at the end of the first quarter, that proved to be the point of peak market uncertainty concerning the Iran conflict. From April onwards, as markets rallied, market volatility collapsed. As a result, the protective positions that had contributed positively to returns in the first quarter fell back in value.

As Ian mentioned, equity returns have been driven by the AI theme over the past three months. The portfolio's US and Japanese equities – those closest to the market's current enthusiasm for AI – provided the strongest positive returns. Other parts of the equity portfolio, in which we maintain strong conviction, struggled in that environment. A good example would be the Chinese technology companies we own.

The yen also lost some value in the portfolio. We continue to see the yen as a key protection, but as US interest-rate expectations have risen, the currency has faced downward pressure.

Finally, gold and precious metals were also detractors over the quarter. The portfolio's precious-metals exposure has been a key positive contributor to returns over the past 12 months. We had continued to take profits in that position since the spring of last year, reducing it progressively over time.

Nonetheless, the gold price peaked in February. Since then, the gold miners held in the portfolio have been hit as the bullion price has fallen back.

India

Looking ahead, equity-market leadership is fairly narrow at the moment. The key question, therefore, is whether we think equity markets can broaden out.

Could you talk about how we're thinking about the ways in which that could play out and whether there are any opportunities?

Ian

It's one of the most important questions investors have to consider when constructing portfolios today. You can't simply say, "I'm going to ignore AI because it's difficult or I don't know which way it is going, and focus elsewhere."

We're looking for opportunities if investment and spending on AI-related activities continue. Our focus, however, is on where we can find the best value – or what we would call the best risk-reward – considering the risk we're taking and the price we're paying.

We've already mentioned large US technology companies such as Amazon and Microsoft, formerly among the market darlings referred to as the Magnificent Seven. We've also mentioned the Chinese technology giants, including Alibaba.

These are companies in which we can see significant optionality and future growth initiatives. At the moment, however, the market's focus within AI is concentrated on quite a narrow segment.

We also think opportunities will emerge as the market begins to appreciate that certain businesses and business models are more durable than it currently assumes. Many software companies experienced a difficult opening six months of the year, but we've been able to find what we think are very good businesses with defensible moats and durable business models, available at more compelling valuations.

If AI remains the only game in town, we think there are still opportunities to participate. But where we're finding more interesting opportunities is in the possibility of the market broadening out.

The growth generated by the AI theme could start spreading into other parts of the economy, resulting in greater spending across the broader economy by corporates and, ultimately, consumers.

One area I'd highlight is US companies that generate high amounts of free cash flow. Over time, these companies have typically outperformed the broader market, which is probably not surprising. Today, however, you can buy these sorts of companies at quite an attractive price relative to the market. I'm excited about how that could play out, and they have also been performing well in recent months.

Another market we favour at the moment is Japan. If the market broadens and the global economy is in good shape, that tends to be positive for Japanese equities. There is also the added kicker of policymakers' continued focus on improving corporate governance in Japan.

One final point, if we're thinking about AI and broadening, is that we should see a significant wealth effect. A lot of wealth is being created, as we've seen from stories surrounding the SpaceX IPO, for example.

What if that feeds through into consumer spending? We think it's likely to first appear among the higher-income households. We've added a position in the French luxury-goods giant LVMH as a potential beneficiary of some of those gains spreading across the economy.

India

We've had an unusual market that has been uncomfortable for the Ruffer portfolio. But we've been active and we have conviction in how the portfolio is positioned to navigate the rest of the year.

We'll move on to audience Q&A now. Alexander, with everything going on in Westminster, how are you thinking about UK political risk, and has it changed how you think about UK assets?

Alexander

Thank you. It has clearly been a return to the political instability that has now become the norm in the UK.

If Andy Burnham takes on the role, potentially by the end of this month, he'll be the seventh Prime Minister in just a decade. This is clearly a story that we've become very used to.

But although we may have a change of leader, the key issues remain. These include increased fiscal pressure and growing political polarisation, which are going to be very hard for the market to move away from.

Although it's very hard to see exactly what Burnham's government will look like, either in terms of personnel or policy, there is a risk that he pursues more radical or extreme policies than the market expects. In that environment, it's quite possible that we could see the bond market vote with its feet again.

It may be reminiscent of what we saw with the Truss budget in 2022, when there was a dramatic sell-off in the UK gilt market.

That goes back to Ian's earlier point. Over the past few months, we've been reducing some of that exposure, particularly to long-dated UK government bonds that would be more susceptible to the kind of sell-off you might expect in such an environment.

We have therefore reduced our UK gilt exposure somewhat. However, we still retain a significant proportion of our equities in the UK. Ultimately, this is where our fundamental stock analysts see compelling valuation opportunities.

We're reducing some of our fixed-income exposure while maintaining our UK equity exposure because we continue to have confidence in it.

India

We have a few questions about the yen, so I'll summarise them. Ruffer has held the yen for some time, but, as you mentioned earlier, we reduced the position this quarter. What has changed?

Ian

With the yen, we have to acknowledge that its performance has been much worse than we expected over the holding period.

What hasn't worked as we expected? We anticipated a path of monetary-policy normalisation in Japan, with a healthier domestic economy allowing the Bank of Japan to raise interest rates and close the gap between interest rates in Japan and those in other developed markets – the interest-rate differential to which we often refer.

What has frustrated us, and what we misread, is the speed at which the Bank of Japan would make that shift. It has acknowledged the need for it, but the pace has felt glacial.

In a market context, investors have set expectations for where they think the Bank of Japan should get to, and the Bank has fallen behind those expectations. That has been putting negative pressure on the currency.

That is us holding up our hands and saying we misread the situation. But it's also important to remember that this isn't the sole reason for the yen position. We view the yen as a key part of the portfolio's protective armoury, which should provide protection during a period of significant or serious market distress.

It's fair to say that, in recent years, we haven't had a prolonged period of pain in which that role could be tested. Our conviction that the yen can play that role remains, but when considering the position's size relative to other assets in the portfolio, we have reduced it in recent months.

India

Another popular question concerns gold, which has fallen sharply this quarter. Alexander, you've just written a Green Line on this, so I'm going to direct this one to you.

Despite a backdrop of geopolitical uncertainty, what has happened, and has your view on precious metals changed?

Alexander

It has been a roller-coaster period for gold markets. Gold has now fallen 25% from its peak earlier in the year. But even at around $4,000 an ounce, it's still up 70% over the past two years.

Putting that into a broader time perspective, it has generated significant returns for the Ruffer portfolio and for investors more broadly.

The concern investors have now is that it hasn't worked as a geopolitical hedge, which is one of the primary reasons investors have usually held gold. They believe it should work in that kind of environment. In fact, it has hurt investors since the outbreak of the conflict in Iran.

That is because gold has become reconnected with interest rates and real yields – so inflation-adjusted yields – particularly in the US, and we have seen those rise. As a result, gold prices have started to fall.

The primary issue from our perspective is that gold hasn't been working as a diversifying asset; it has been behaving as a risk asset. Rather than fulfilling its intended portfolio role, it has been compounding risk in portfolios.

We have been reducing the position for some time because we became more concerned about gold's behaviour as an asset and about the positioning of investors globally. We saw gold become increasingly popular. We saw more derivative exposure. The gold market became a less comfortable place in which to invest.

That doesn't take away from the fact that, over a much longer time horizon, gold has a structural and important role in portfolios. That is particularly true when we consider the risk of central banks allowing inflation to run higher than interest rates over time. In a world in which gold isn't linked to fiat currencies, it should benefit both as a commodity and as a portfolio asset.

So we've reduced the position significantly and aren't currently looking to increase it. Over the long term, however, we think it will continue to have an important role in portfolios.

India

Ian, a few people have remarked that the cost of the portfolio's protection has increased in recent years. Perhaps you could shed some light on how we think about the cost of protection in the portfolio.

Ian

In recent years, the cost of protection has been elevated compared with previous years. But that spending on protection needs to be seen in the context of the portfolio's overall balance: growth assets on one side and protection on the other.

It's important to remember why we use derivatives as protection in the portfolio. In previous years, or previous eras for Ruffer, you could rely on bonds and equities having a negative correlation. Equities would ordinarily provide the portfolio's risk, while bonds would protect it during periods of stress.

As we've repeated a few times, we no longer trust bonds always to work in that way. That has left a void in the portfolio for protection, and derivatives have played a key role, such as in 2022 and around Liberation Day last year, when bonds and equities sold off together and derivatives provided the key anchor support for the portfolio.

I expect us to spend in the region of 3% to 4% on protection this year, likely across corporate bond, equity and foreign-exchange markets.

The central message, and where our conviction lies, is that if you want a truly all-weather portfolio in today's landscape, you need to look for genuine and reliable offsets, and we think derivatives are the best source of those.

India

Ian, sticking with you because I know this is a specialist subject for you, we've already spoken about adding to Chinese technology companies. What gives you the confidence to invest somewhere that many investors are reluctant to?

Ian

I don't want to sound flippant and say, just go where others don't want to or can't go. But it does make us ask whether there is an inefficiency in the market that we can exploit.

If we look at China, and Chinese technology companies in particular, it has become apparent that they are the only global competitors to the US operating at scale.

Even in AI, they might not match the US pound for pound across the universe. But if we think of the likes of ChatGPT, Claude and Gemini, the Chinese equivalents are quite good. The feedback there is good, yet people aren't looking at them. The offerings and the underlying businesses are good.

With China, you always have to contend with political uncertainty. It is a different system. But China has been very clear at the highest level that it wants technological independence from the US. Investing in domestic technological development is therefore a key aim.

Where we may differ from others who are unwilling to invest in Chinese equities or technology companies is that we think the authorities have learnt lessons from 2021 and 2022, when they clamped down heavily on the private sector.

That isn't to say China is going to turn into Silicon Valley. But we don't think those private companies will be punished in quite the same way as they were in the past.

You shouldn't compare their valuations directly with those of US companies, but they look relatively attractive on price. When you consider the potential earnings growth that could follow, we think these companies represent a very attractive part of the market in which to gain exposure.

India

The quarter also saw Kevin Warsh begin to lead the Federal Reserve. Alexander, perhaps you can take this one. What does this mean for markets?

Alexander

The first thing to say is that it's very early, so we don't yet know the answer for sure. Kevin Warsh has had only one Federal Open Market Committee rate-setting meeting since he took over.

Everyone is trying to interpret a lot from not a vast amount of data, so we need to be careful about how much we read into developments at this stage.

At the same time, if we zoom out a little, 2025 was clearly a year in which the market became more concerned about the credibility of the Federal Reserve itself.

We can remember several occasions, particularly in April, when it looked quite possible that Trump was going to try to force the Federal Reserve to cut interest rates through a range of different methods.

Now the new Federal Reserve chair has been selected and Kevin Warsh is a well-known, orthodox figure in the finance and central banking world. He isn't a maverick who has been brought in. He is very well known and has worked in the industry for a long time.

His appointment has therefore restored some credibility to the market's expectations of the Federal Reserve. That was also clear from his first meeting. He emphasised that the Fed was concerned about price stability and has made several references to its intention to bring inflation back down to 2% as its core focus.

We have to remember that inflation hasn't been at 2% in the US for more than five years. That is clearly a big ask, particularly in a world in which we're seeing greater supply disruption elsewhere that could itself prove inflationary.

What does that mean for markets and portfolios? If we take Kevin Warsh at his word – that he is focused primarily on bringing down inflation and is less concerned about markets and market stability – then ultimately the market can't necessarily expect the Federal Reserve to come to its rescue during the most difficult periods.

The Federal Reserve may not step in as quickly to stimulate markets as it has in the past. From a portfolio perspective, that goes back to Ian's point about equities and bonds.

If the Federal Reserve doesn't intervene to protect investors, bonds may not be as protective. In fact, they may do quite the opposite.

We're still left with the question of whether we can take the Chair at his word at this point. We haven't reached a final conclusion. But we would question whether, if the S&P 500 fell by 20%, the Fed would hold off and do nothing about interest rates simply because inflation was running at 3% rather than 2%.

I'm not sure I've given you a particularly assertive answer, but we're following it closely and watching developments. There has been an important change, as some credibility has returned. That reinforces why we remain a little conservative in our assessment of how bonds can work in the portfolio.

India

We're coming to the end of our time together, but I have one final question. Ian, perhaps you can take this one. What is the key message you'd like our audience to take away from today?

Ian

It's a period of great uncertainty, but also great change. Uncertainty doesn't have to be a bad thing. We're seeing changes in the relationships between asset classes, technological development and geopolitical tensions. These can create both positive and negative opportunities.

That is where I think the Ruffer portfolio often comes into its element: taking advantage of opportunities that can be brief and fleeting, while never losing sight of what could go wrong.

There are periods in the current market when people may be getting a little over their skis. We're finding protective assets that we think will prove to be very valuable.

I'm excited about the portfolio as a whole, as well as the individual pockets within it. There are some great areas for the future.

India

Thank you, Alexander and Ian, for your insight today, and thank you all very much for your time. I hope you found the discussion useful. If you asked a question that we weren't able to cover, please get in touch with your usual Ruffer contact, who will be very happy to help. That's all from us. Enjoy the rest of your day. Thank you.
