FlyingColours Investment

Portfolio & Market Update

Quarter 3, 2026

Quick overview

- Rising inflation and strong global economy dictated market moves.
- Market leadership continued to broaden beyond AI.
- Share markets coped well, responding to healthy economic activity.

Introduction

In the third quarter of 2026, a strong economy met the return of rising prices. Higher energy costs and uncertainty in the Middle East raised expectations for inflation. This pushed up bond yields and led central banks to keep interest rates high.

Despite this, the global economy held up better than expected. Company earnings were strong, and shares in developed markets kept moving higher.

Market gains also came from more places. AI remained a key source of returns, but shares in energy and financial companies, commodities (raw materials such as oil, gas and metals) and value stocks (shares priced cheaply compared with company profits) all played a larger role. This meant gains were spread across more parts of global markets.

From chips to commodities: market leadership broadens

In recent years, AI has been the main story in markets. Semiconductor companies, which make the chips that power AI, have been among the biggest winners. In this quarter, that started to change. AI continued to drive investment and company earnings, but rising energy and commodity prices drew investors' attention to other parts of the market.

The renewed conflict in the Middle East was a major trigger. It disrupted energy supplies and pushed oil and gas prices sharply higher. This boosted shares in energy companies and led to strong returns from commodities. Industrial metals and farm products also rose in price on weather and supply worries.

Both of our funds felt the effect of this shift.

In ProsperityShield, holdings in commodities made a strong contribution to performance. This highlights the value of real assets, physical things such as energy and metals, which can help protect a portfolio when inflation picks up.

In ProsperityBuild, investments in energy company shares also added strongly to returns. These companies benefited from higher oil prices, along with strong profits and share prices that looked good value. Investments in semiconductor companies, however, held back performance.

The main cause was a sharp sell-off in South Korea. Shares in Korean chipmakers delivered exceptional returns in the first half of the year. In the third quarter they fell, which appeared to reflect investor questions about whether AI-related spending can be sustained and renewed fears about growing Chinese competition.

The lesson is not that the AI theme has run its course. Instead, the quarter showed how quickly the market's leaders can change. Holding a broad spread of industries and investment themes means a portfolio can benefit when opportunities widen beyond recent winners.

Resilient growth defies the return of inflation

The third quarter gave investors an unusual mix. Inflation pressures came back and

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interest rates rose, yet the economy and company profits stayed remarkably strong. Higher energy prices fuelled concerns about inflation. Central banks responded by keeping interest rates high, and government bond yields climbed.

Share markets coped better than many might have expected. Investors did not focus only on higher interest rates. They also responded to healthy economic activity and strong company earnings.

In ProsperityBuild, our investments in bank shares did particularly well. Higher bond yields and interest rates can increase how much banks earn. At the same time, a steady economy eased worries that higher borrowing costs would hurt businesses and consumers.

In ProsperityShield, higher rates had a very different effect. High-quality government bonds lost value as yields rose, which led to negative returns from this part of the fund. This is an important point about bonds. Even the highest-quality government bonds can fall in value when interest rates and yields go up.

Corporate bonds (loans to companies), also known as credit, told a more positive story. The credit funds held within ProsperityShield performed better, supported by the ongoing strength of companies and the higher income these bonds now offer. Borrowing costs for companies have risen, but their finances generally remain sound. That extra income gave the fund a useful cushion against losses on government bonds.

The quarter showed both sides of higher interest rates. They made life harder for government bonds, while a resilient economy supported share prices, bank shares and corporate bonds. For diversified portfolios, knowing which investments are holding up is just as important as knowing which way interest rates are heading.

Outlook

We remain cautious about some investments linked to the rapid growth of AI. Expectations are high and spending continues at a heavy pace, which leaves parts of the market exposed if results disappoint.

We also believe the risks in bond markets may be underestimated. Stubborn inflation, high levels of government borrowing and more competition for investors' money could keep yields higher than many expect.

With this in mind, we continue to favour diversification. We also aim to avoid investing too heavily in areas where prices leave little room for disappointment.

Glossary

ProsperityBuild: A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

ProsperityShield: A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.

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