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Multi-Asset

Liontrust MPS Dynamic Passive 2

Q3 2026

Market review

Solid global equity returns despite sharply rising government bond yields were a defining feature of the third quarter. Resilient economic growth, higher energy prices and concerns over government borrowing prompted investors to reassess the outlook for inflation and interest rates, pushing bond yields higher. Against this challenging fixed income backdrop, global equities held up well, with the MSCI All Country World Index returning 1.5% in sterling terms, although performance varied considerably across regions and market capitalisations.

Equities, particularly in the US, continued to be supported by strong corporate earnings and sustained investment in AI. However, market leadership remained concentrated among a relatively small number of large technology companies. Japan was the strongest region, while European, Asian and emerging market equities faced headwinds from higher energy prices, geopolitical uncertainty and rising bond yields.

Ten-year US Treasury yields reached their highest level since the Global Financial Crisis, Japanese government borrowing costs climbed to a 30-year high, yields rose across Europe and the UK 30-year gilt yields approached 6%.

These moves have raised concerns that government borrowing costs are becoming uncomfortable. Higher yields undoubtedly increase the cost of servicing substantial debt burdens, making debt-to-GDP ratios and fiscal discipline increasingly important. However, the rise in yields has generally been gradual rather than disorderly, while major governments have so far retained the confidence of bond markets.

For investors, higher yields also have a positive side: they mean more income and potentially stronger long-term returns. Credit markets followed government bonds lower, although healthy corporate balance sheets and contained default expectations offered some support. While rising yields have produced near-term capital losses, they have also materially improved the prospective return profile of fixed income.

Performance review

All the Liontrust MPS Dynamic Passive portfolios delivered positive returns over the 12 months to the end of September 2026. Returns ranged from 6.4% in MPS Dynamic Passive 1 to 21.1% in MPS Dynamic Passive 8. Over the third quarter, portfolios 7 and 8 delivered positive returns, with MPS Dynamic Passive 8 recording the strongest gain at 0.2%.

The quarter was marked by heightened Middle East tensions, rising energy prices and renewed inflationary pressures. Global equities made modest gains, led by Japan, supported by corporate governance reforms and improving shareholder returns, and the UK, which benefited from its exposure to energy, financials and value stocks. US equities were held back by higher bond yields, while European, Asian and emerging market equities declined.

Fixed income weakened over the quarter and 12 months as shifting interest-rate expectations, government borrowing and fiscal uncertainty pushed yields higher. Investment-grade corporate bonds declined, while high-yield and shorter-duration bonds proved more resilient, benefiting from higher income and lower interest-rate sensitivity.

At the asset class level, equities were the main driver of returns over both the quarter and 12-month periods. Over the quarter, Japan and the UK led in all the ranges. Over 12 months, all regions delivered positive contributions, led by emerging markets. Fixed income detracted over the quarter, mainly due to interest rate rises' impact on global government and global corporate bonds and UK gilts. Over 12 months, fixed income contributions were mixed, with global government bonds detracting and global high yield a notable positive contributor to overall returns.

The contribution from our Tactical Asset Allocation (TAA) has added significant value over the past 12 months in all ranges but it was flat over the quarter. Positive tactical contributors over the quarter included positions in UK and Japan equities, global corporate bonds, medium gilts and alternatives. Positions in Asia ex-Japan and US equities detracted most. Over 12 months, positions in alternatives, global high yield and US equities detracted, but these were outweighed by positive contributions from emerging market, Asia ex-Japan and Japan equities, global government bonds, and medium gilts.

European equity selection added an average of 10 basis points to performance over the quarter. Barings Europe Select returned 0.7%, outperforming its benchmark, the MSCI Europe ex UK Small Cap Index, by 3.5%. Fidelity Index US gained 2.9%, exceeding its S&P 500 Index benchmark by 80 basis points. Other leading performers during the quarter included Fidelity Index Japan, Fidelity Index US, Gresham House UK Multi-Cap Income and Fidelity Index UK.

In fixed income, our high-yield manager selection provided the strongest contribution over the quarter. Liontrust GF High Yield Bond outperformed its benchmark, the ICE BofA Global high Yield Hedge GBP, by 0.5% over the quarter. Over 12 months it returned 2.8% versus 1.8% by its benchmark.

Strategic Asset Allocation

There were no changes to the Strategic Asset Allocation over the quarter.

Tactical Asset Allocation

In our third quarter Tactical Asset Allocation (TAA) review, we kept our positive four out of five overall outlook for markets. This reflects our view that investors should remain constructive but remain mindful of the possibility of a more challenging market environment.

This quarter we upgraded our rating for UK gilts from a neutral three to a positive four out of five. Concerns over inflation, government borrowing levels and fiscal uncertainty, as well as a base rate above the pre-pandemic levels have pushed yields up to around their highest levels for more than two decades. We believe this offers an attractive opportunity, particularly as gilts can help protect portfolios when stock markets are under pressure.

We see a constructive environment for equities overall and maintain a positive rating of four out five, with the same rating for UK, Japanese and emerging market equities.

We believe fixed income provides valuable diversification and income opportunities, and we give positive ratings of four out of five to UK gilts and global government bonds, global short-dated corporate bonds, and high yield bonds.

We are positive on alternatives such as property and commodities and negative on cash.

The Multi-Asset team's 12- to 18-month outlook forms the TAA. Our tactical views have a perspective of 12-18 months. This process is designed to be both patient and disciplined, and we are unwilling to over-trade.

Market outlook

Our outlook for global financial markets remains broadly constructive, but the balance of opportunities is shifting. Economic growth remains resilient, labour markets are healthy and investment in AI, infrastructure and defence continues to support activity. However, elevated equity valuations in some regions, geopolitical uncertainty and persistent inflation risks argue for a more selective approach to risk.

We therefore remain cautiously positive while gradually reducing overall risk exposure, taking some profits from equities and increasing allocations to diversified fixed income. Investors are placing greater emphasis on equity valuations and fundamentals as market leadership broadens beyond the narrow group of US technology companies that has dominated returns. We favour emerging markets, Japan and the UK, where valuations and prospective returns appear more attractive, while remaining underweight the US, where expectations embedded in valuations are demanding.

The utility of fixed income investments for Multi-Asset portfolios continues to improve. Higher government bond yields have increased the income available across the asset class – many global government bonds offer an attractive real yield today and improved prospective portfolio construction benefits as higher yields offer a better prospect of capital appreciation should investors move from equity markets in search of safe havens, thus pulling yields down.

Our positioning continues to reflect three principles: diversification, as market leadership broadens; differentiation, with fundamentals and valuations increasingly important in determining returns; and discipline, maintaining a consistent investment process rather than reacting to short-term market narratives. Together, these support a balanced approach that seeks to capture opportunities while managing risk as the investment environment evolves.

Discrete years' performance (%) to previous quarter-end:

	Sept-26	Sept-25	Sept-24	Sept-23	Sept-22
MPS Dynamic Passive 1	6.4	6.5	9.8	2.6	-6.4
MPS Dynamic Passive 2	8.3	7.9	11.1	3.9	-9.5
MPS Dynamic Passive 3	10.4	9.2	12.6	5.6	-12.5
MPS Dynamic Passive 4	12.8	10.1	13.7	5.9	-12.0
MPS Dynamic Passive 5	15.2	11.3	14.5	6.1	-11.6
MPS Dynamic Passive 6	17.9	12.6	16.1	6.6	-11.3
MPS Dynamic Passive 7	19.9	13.5	16.6	5.3	-10.8
MPS Dynamic Passive 8	21.1	14.1	16.7	3.9	-10.3

Source: Liontrust, as at 30.09.26.

For a comprehensive list of common financial words and terms, see our glossary at:
www.liontrust.com/benefits-of-investing/guide-financial-words-terms

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Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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