Setanta EAFE Equity Strategy

Q2 2026 Commentary

According to Strategies Research, the S&P500, a good barometer for global markets, return of 15%[1] (USD) in Q2 is the best return in Q2 of a midterm election year on record for the last 80 years. But so much depends on the starting point. The final month of Q1 marked the low point in equity markets and risk appetite, the primary preoccupation of was the War in Iran, the potential impact rapidly rising oil prices would have on global economies and the potential for central banks being forced into rate hikes to stave off higher inflation brought about by higher oil prices.

As we sit at the beginning of Q3 reflecting on Q2, it would appear that the War in Iran is in the rear-view mirror, but we still need to be wary of an uncertain ceasefire and supply chain constraints. The impact of the War has the potential to linger on for quite some time, primarily via supply chain disruption and interest rates, with the latter being a primary concern of global central bankers who have been burned by the post pandemic inflation experience. Even though oil prices have receded, inflation expectations are still elevated and this in turn is leading to more hawkish tones from central bankers. Pre War, Bloomberg Economics expected the Fed to cut rates by 1% point in 2026 compared to a 0.25% cut presently envisaged while the European Central Bank is expected to hike rates during the year, leaving European rates 0.5% higher than before the war started.

The return of risk appetite in Q2 was most evident in the Technology sector and specifically semiconductor and semiconductor equipment companies. We estimate 8 companies in our benchmark with exposure to the semiconductor value chain more than doubled in Q2. It can almost be regarded as a perfect storm, sentiment troughing at the end of the previous quarter and extremely positive earnings revisions for semiconductor companies like Micron during the quarter set the tone for extraordinary share price returns. Samsung Electronics is the largest holding in the strategy and was the leading contributor to returns during the quarter.

Demand for memory chips appears to be insatiable at the present time. AI may well represent a paradigm shift in computing and as large hyperscalers like Microsoft, Alphabet and Amazon all look to position themselves for the future they are investing billions of dollars to build out AI architecture. Memory plays a key role in this architecture with demand far outpacing supply and memory prices rising as a result. Memory is a cyclical market, cycles end for one of two reasons, either demand subsides or excess supply comes onstream resulting in a glut of product which negatively impacts pricing and margins. On the supply side, the memory market is highly concentrated with 3 players - Samsung, SK Hynix and Micron controlling 90% of the market. Supply takes 3-5 years to come onstream at a cost of $15-20bn so investment decisions by the 3 suppliers are not made on a whim, they are made based on long term strategic planning and in conjunction with the long term needs of their clients. Samsung and Hynix have both recently committed to long term capacity expansion plans and all 3 players have been signing long term agreements (LTA's) with key customers, an unprecedented move by the industry with customers happy to secure product over a multi-year time period within defined pricing parameters. The willingness of customers to lock in supply is indicative of the long-term demand environment and suppliers are using this to base their capacity expansion plans. This, we believe, indicates that the supply side is not going to be the catalyst for the ending of the memory cycle. On the demand side, it goes without saying that paradigm shifts result in periods of heightened uncertainty and we continue to carefully monitor and evaluate how AI is taking a foothold across many industries.

Another leading contributor to returns in Q2 was DCC. DCC has been held by the strategy for more than 2 decades and exemplifies our long-term approach to investing. From 2006 to 2016 DCC as a business and as a stock behaved as we expected. Management deployed capital very astutely, executed strategy superbly well and grew the business handsomely. The fruits of which accrued to the strategy with a share price CAGR of 20% pa from June 2006 - 2016 which reflected the strong growth in the business, both organically and inorganically, as well as a valuation re-rating on the premise that future business performance would replicate past performance.

However, growth slowed down and coupled with poor strategic execution resulted in 5 years of, still positive share price performance, but poor relative performance. We have clearly articulated both to the company and in our written public reports how our frustration levels grew but our patience was rewarded in Q2 2025 as private equity firms KKR & Energy Partners came knocking on the door. The first bid of £58[2] (GBP) was rebuffed by the Board while a subsequent bid of £66.72 [2] (GBP) per share (including dividends), while currently not yet final, is closer to the value the Board put on the company. If DCC is taken private, we estimate that over the 20 year period from June 2006 – June 2026, it will have outperformed the MSCI EAFE benchmark by 3.5%[1] pa (USD Gross of fees), while the recent past has been less than perfect it still represents a decent outcome for the strategy and evidence that investing in quality companies for the long term works.

Contributors & Detractors

As mentioned earlier, AI related companies were the driving force behind positive absolute and relative strategy performance in Q2. Samsung Electronics, TSM and Nabtesco were the 3 strongest contributors to performance in the quarter with all 3 being picks and shovels beneficiaries of AI. In addition to our AI plays and DCC, rounding out the top 5 contributors was Icon.

As we've previously written about, Icon was a major beneficiary of Covid as demand for clinical trials experienced rapid growth. The post Covid hangover presented us with an opportunity to invest in a high-quality compounder at reasonable valuation levels. However, a small accounting irregularity issue caused further share price underperformance. Once the magnitude of the issue became apparent, we further increased our weight to reflect the lower risk of it being a material issue and benefitted from the rebound in the share price during Q2.

As we ended the quarter and talks of a ceasefire in the Iran War became evident the subsequent fall in oil prices impacted all energy companies resulting in ENI being the largest detractor to performance in Q2. With risk appetite rising staples and defensive sectors like Healthcare underperformed with Coloplast and Sanofi both being large detractors to strategy performance. Nonetheless, we continue to believe the investment thesis for both remains intact.

Transactions during the period

The strategy didn't make any new investments nor dispose of any holdings during Q2. Upon the first offer of £58[2] (GBP) for DCC we added to our position on the premise that despite it undervaluing the company it served as a catalyst to bring DCC into play with a high probability of further higher offers either from KKR & Energy Partners or from other third parties who may be interested in acquiring DCC. The strategy cannot hold any more than 10% in any one company, with the rapid share price appreciation of Samsung Electronics, it butted up against this limit and we reduced our position, redeploying the proceeds across other strategy holdings. Samsung Electronics still remains the largest position in the strategy.

Fergal Sarsfield,
Co-Lead EAFE Equity Strategy

[1] *All references to strategy performance are gross of fees and all figures are in Euro terms (unless otherwise stated) as at 30th June 2026. Source: Bloomberg*
[2] *Source: https://www.dcc.ie/site-services/possible-offer. Date: 10 June 2026 & 16 July 2026*

Important Information

*Source: Stock price and index returns are from Bloomberg.
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