Setanta Dividend Fund Q3 2026 Commentary

Market Background

At this time last year, we wrote that expectations for the large scale Artificial Intelligence (AI) infrastructure build-out were beginning to take shape. Early forecasts pointed to multi-trillion dollar investments in Information Technology (IT) equipment, including semiconductor chips, such as graphic processing units (GPUs) and DRAM (memory) chips as well as power generation and related infrastructure. One year on, spending appears to be exceeding those initial expectations. Leading hyperscalers, those companies that are taking the lead in building the data centres that are the backbone of AI-related processing computation, have reported substantial year-on-year increases in capital expenditure, whilst semiconductor and hardware suppliers are reporting staggering levels of revenue growth, and full order books. Samsung Electronics, a Fund holding and a leading semiconductor manufacturer, stated that it expected third-quarter 2026 revenue to more than double year on year, with its operating margin rising to an unprecedented level for the industry. Data centre capacity is also being added at remarkable speed, as indicated through real estate sources[1] . In several markets, new projects represent multiples of existing installed capacity and are being delivered in record time.

Against this backdrop, the US economy continues to show very strong momentum. The latest quarterly Gross Domestic Product (GDP) estimate indicated annualised growth of more than 2% in real terms[2], whilst industrial activity indicators, including Purchasing Manager Indices, point to healthy expansion. Supported by this investment cycle, corporate earnings are expected to grow strongly in the years ahead, providing an important underpinning for equity markets. However, the broader economic, and geopolitical, environment remains challenging. The prolonged closure of the Strait of Hormuz, alongside the continuing Russia-Ukraine conflict, has left crude oil and refined-product inventories at low levels as the Northern Hemisphere approaches winter. Higher energy prices have pushed headline inflation to uncomfortable levels, adding to pressure from elevated housing, and healthcare, costs. On some measures, the US personal savings rate has fallen to multi-year lows, as households face increasing affordability pressures[3]. Consumer confidence, as measured by the US Conference Board, is at its lowest point since 2014. Recognising the inflationary pressure, the Federal Reserve raised interest rates by 0.25% at its September meeting, bringing an end to an easing cycle that had been under way for two years.

Strong investment-led growth in debt issuance and persistent inflation expectations have also driven bond yields higher. The US 10-year Treasury yield rose rapidly to 5.3% at the end of the quarter, while long-term bond yields reached period highs in other major economies. These higher yields have raised concerns among borrowers. These include the US Treasury itself, which announced interventions in longer-dated US government debt, as well as the Japanese Yen. Market participants interpreted both measures as attempts to contain the rise in market interest rates. Credit spreads, which had remained subdued for much of the year, widened sharply in the final days of the quarter[4].

Key Factors in Fund Performance

In this mixed environment, global equity markets edged higher. Energy was the strongest-performing sector, supported by a stronger outlook for fossil fuel prices amid geopolitical uncertainty. Information Technology also performed well, recovering losses from the previous quarter as investors reassessed the potential disruption that AI may present to software and IT-services businesses. By contrast, traditionally, interest-rate-sensitive sectors, including Utilities and Consumer Staples, underperformed. The Fund's return over this period was -1.6%.

Sonova, a leading hearing aid company, was among the strongest positive contributors to Fund performance. Although the sector's long-term outlook remains attractive, a cyclical slowdown in recent quarters had prompted investors to question the durability of its growth rate. More recent developments have been encouraging: several peers have reported robust trading conditions, whilst industry consolidation could help support a healthier backdrop for growth in the years ahead. **Chicago Mercantile Exchange** also performed strongly. CME is one of the largest financial market operators in the United States, with a portfolio of important financial exchanges and associated margin, clearing and settlement infrastructure. CME's share price had declined earlier in the year following regulatory approval of alternative derivatives products, including perpetual futures, which raised concerns about the company's future growth. During the quarter, however, CME's exchanges public periodic filings have reported strong trading volumes, helping to alleviate some of these concerns.

Home Depot, a home improvement retailer, was among the largest detractors to Fund performance. The company continues to operate in difficult trading conditions, with management referring to "frozen housing conditions" and customers facing pressure from high energy prices and interest rates. Existing home sales, a widely used indicator of activity in the home-improvement market, have been depressed and are running at around 80% of their 10-year average[5]. Earlier expectations of easier monetary conditions have receded, following the Federal Reserve's recent interest rate increase. Despite this challenging backdrop, Home Depot has delivered resilient results, with broadly stable revenue and earnings, whilst continuing to invest in the business. **CRH**'s shares also detracted from performance. The company reported solid second-quarter results, with progress in backlog, revenue and profitability. CRH also announced the acquisition of peer Arcosa for $8.5 billion, adding attractive US assets and increasing its aggregates capacity there. Despite this positive strategic and operational progress, the share price declined during the quarter as investors incorporated expectations of higher energy prices and interest rates.

Conclusion

We believe the Fund remains conservatively positioned across a selection of high-quality, growing and conservatively financed businesses. Holdings are selected according to stringent valuation and quality criteria. We expect the Fund to continue to offer a defensive growth profile across a broad range of future market environments.

**All figures are in euro unless stated; performance figures are gross of fees.*

Notes:

1. *https://www.cbre.com/insights/reports/global-data-center-trends-2025*
2. https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-2nd
3. https://fred.stlouisfed.org/series/PSAVERT
4. https://fred.stlouisfed.org/series/BAMLH0A0HYM2
5. https://fred.stlouisfed.org/series/exhoslusm495s

Important Information

The Dividend Equity Fund is managed by Setanta Asset Management and is a representative account of the Dividend Equity strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Dividend Equity Fund [IEC7601]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. See 'WARNING' and IMPORTANT INFORMATION' below.

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