

Market commentary July 2026



Global stock markets rose once more in June, leaving the MSCI All Country World Index with a substantial 14.8% quarterly return (returns total and in sterling, unless otherwise stated). Growing hopes that the energy shock from the Middle East conflict has passed, rising corporate earnings and highflying chip stocks all drove the move higher. Bonds were also positive contributors, with gilts rising 0.6% in June and 2.1% in Q2, as decreasing inflationary fears seemingly outweighed further UK political uncertainty.

Oil returns to pre-conflict levels

The oil price — closely followed by market participants as an indicator of Middle East conflict disruption — fell 18% in June to the low US\$70s per barrel range. Although traffic in the Strait of Hormuz, where 20% of the world's oil and gas previously flowed, is yet to return to pre-conflict levels, the oil price declines imply a confidence that this will happen in short order, and the worst of the disruption is over.

Maturing AI trade

US stocks outperformed, posting their best quarterly gain in six years (MSCI North America 14.5%), while tech benchmarks did even better, up 21%. A renewed enthusiasm for the Artificial Intelligence (AI) trade was apparent, with chip stocks seeing sizeable gains (semiconductor index up 88%). Initially there were concerns the AI trade was founded on hype and euphoria, but it has now matured somewhat, driven by surging revenue growth, rapidly increasing usage and a switch in market leadership. Huge amounts are being spent on data centre capacity and reports of soaring AI workplace usage only adds to the demand which still seems to exceed supply. For now, it appears that markets are still somewhat unsure who the ultimate winners and losers from AI will be. Therefore, rather than rewarding those with largescale investment plans aimed at boosting productivity, the best performing stocks have been those that benefit directly from the surge in demand for AI usage — semiconductor equipment manufacturers, memory chip producers and power chip companies for example.

New Fed chair but rate cuts off the table

Kevin Warsh, Trump's pick, was widely expected to pursue lower interest rates once he became Federal Reserve chair, but rising inflation and a surprisingly resilient economy mean that rate hikes are now seen as more likely. President Trump's regular attacks on Warsh's predecessor to lower rates led many to believe that his replacement may be more



Past performance is no guarantee of future returns.

susceptible to political pressure. US economic data in the quarter was encouraging given the geopolitical concerns, with employment figures impressive (although the latest jobs report casts some doubt on this), industry surveys and retail sales showing signs of improvement, and AI investment boosting GDP growth. Taken with a 4.2% Y/Y reading in the latest US consumer price index (CPI) the case for rate cuts is increasingly hard to make. Warsh didn't even attempt to talk up the prospects of cuts in his first press conference, leading markets to price in an increase in the Fed Funds rate later this year.

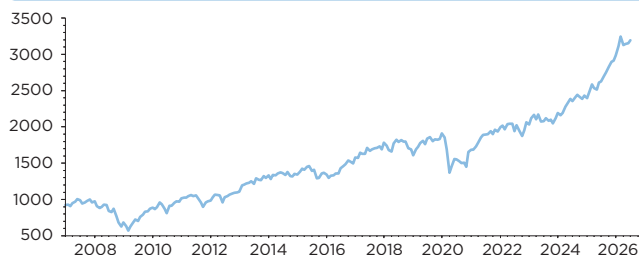
BoE expected to hike, eyes on new PM

The Bank of England is also expected to raise rates once this year, taking the base rate to 4.0%. Inflation data have shown an increase, but CPI held steady at 2.8% Y/Y in May, and price pressures remain far more subdued than in 2022. A 0.6% expansion in Q1 GDP indicates a good start to the year but there are already signs that momentum could be fading with a 0.1% fall in April. Andy Burnham appears set to become the next UK prime minister — the 7th in 10 years — and the prospect of fiscal policy changes and more government borrowing has already drawn some market scrutiny. Having said that, lately the absence of runaway inflation and optimism around a lasting Middle East peace deal has outweighed this uncertainty, leading to gains for UK government bonds (gilts). For the second quarter gilts returned 2.1%, bringing them back to flat for 2026.

Conclusion

The first half of the year has demonstrated the value in holding a diversified portfolio and maintaining a long-term view. Despite heightened volatility, equities have delivered sizeable returns and, broadly speaking, our outlook for positive economic growth with modest, but above target, inflation provides a supportive backdrop for risk assets. Earnings growth, particularly in tech stocks, has been impressive and we expect this to continue going forward, driven by a groundswell of demand for AI services. We are not taking this for granted however and will continue to monitor the situation closely. Risks from a flare up in the Middle East remain and with a new UK PM and Fed chair there is heightened uncertainty around possible policy changes.

MSCI UK IMI



iBOXX Sterling Gilts



MSCI All World £ - TOT Return



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Source: LSEG Datastream 03/07/2026



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