DRUMNOR INVESTMENTS

Markets Review - to end June 2026

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	0.6%	3.8%	5.3%	18.1%
Global Equities	0.7%	15.0%	13.6%	28.3%
UK Gilts	0.7%	-0.3%	-1.8%	-1.8%
UK Property	0.5%	1.3%	2.5%	4.8%
Gold	-10.7%	-13.3%	-5.4%	26.9%
Commodities	-5.3%	-4.8%	22.1%	27.6%
Sterling	-0.2%	0.9%	0.2%	-1.5%

Returns to 30th June 2026. Source: Refinitiv

Market Overview

Had anyone gone into a deep sleep at the start of the year, and recently awoken, it would be impossible to tell what had happened by looking at financial markets! Despite the conflict between Iran, the US and Israel, and the huge energy supply shock with the closure of the Strait of Hormuz, many stock markets are at all-time highs. Oil prices are back where they were before the Gulf conflict, inflation worries have eased and growth and employment remain unscathed, if not exciting.

The putative ceasefire and resolution discussions between Iran and the US, along with the resumption of shipping, have done much to calm nerves. However, the surge of interest and investment in AI has been the rocket fuel for markets (as well as the dominant driver of economic growth). This is reflected in second quarter performance, where the UK stock market, with limited tech exposure, has underperformed global markets. The US and Asian stock markets benefitted from a surge in the share prices of companies supplying the massive investment in AI infrastructure.

The UK also had to contend with political uncertainty, and this weighed on gilts and UK bond markets, although bond markets elsewhere also struggled with inflation concerns triggered by surging energy costs and similar intractable fiscal deficits. Additionally, Kevin Warsh, the new chairman of the US Federal Reserve Bank committed to tackling inflation, raising the prospects of increasing US interest rates.

America is celebrating 250 years of independence; from the British! The US Constitution, instituted checks and balance, with clear separation of the executive, legislative and judicial. That structural strength led to the US becoming the one global superpower after WW2 and ‘Pax Americana’. That status quo is being challenged externally and internally. So, whilst we are encouraged by a better economic outlook going into Q3 we are mindful a new global order may come with costs.

Energy prices have settled back to pre-conflict levels, as a loose ceasefire operates between the US and Iran whilst talks on resolution take place. Other commodity prices have risen from pre-conflict levels due to supply shortages created by the blockage of the Strait of Hormuz. Even with 'free passage' re-established, we are looking at relief rather than resolution. Significant damage has been inflicted on broad Gulf infrastructure and will take time to repair. Furthermore, Iran will want to retain control over the Strait of Hormuz as its key negotiating card. This will leave other Gulf states nervous and seeking to establish alternative supply routes; at a cost.

Asia, followed by Europe have proven to be most exposed to the supply disruption, with some Asian countries having to ration fuel. China with its rapid transition to renewables looks well-placed to keep competitive advantage in a range of manufacturing areas. Globalisation and free flowing supply, look to be in the past, replaced by supply disruption and resource nationalism.

A global interest rate cutting cycle was put on pause, but unless inflation takes hold, the prospect of some cuts, possibly this year, could return. Bond yield curves having risen substantially, as inflation picked up with fuel costs, have eased with the drop in oil prices. Longer dated bonds, however, remain sensitive to ever larger deficits over increased government spending commitments.

Politicians are having to tread a careful line on fiscal policy, with a range of spending commitment increases and limited economic growth adding to substantial budget deficits, testing bond markets' willingness to provide finance. In addition, there is unease about the quality of private credit lending which, although nominally outside the banking system, is often highly geared and has increasingly been invested in by pension funds and insurance companies.

We have just seen one of the largest UK property REITs, Segro, receive a takeover offer, reflecting the attractiveness of underlying asset value in REITs generally. Listed infrastructure trusts have also traded on wide discounts and are also being challenged to narrow their discounts.

In the UK and Europe economic activity and confidence remain fragile, but data has yet to report any significant downturn from the Middle East situation. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. Although there is some softness beginning to emerge in the employment market, with particular concern about the availability of entry-level jobs, saving levels are high. In aggregate, both household and business balance sheets are generally quite healthy. A return of confidence if inflation and interest rates ease, could see discretionary spending increase.

First quarter company results in 2026 generally beat expectations and the second quarter should be equally positive. However, it is increasingly dependent on the red-hot investment binge in AI. Any hint that this could be curbed might unsettle valuations. Meanwhile some consumers though have been showing greater price sensitivity, in what has been called a 'K' shaped economy, where those without investment savings, continue to struggle.

Obviously, the conflict with Iran dominates everything and it is perhaps sobering to reflect that the conflict between Russia and Ukraine, is in its fifth year. Wars are easier to start than finish. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance.

Clearly peaceful settlement with Iran would be in everyone's interest, but that still feels a way off. Financial markets are likely to be volatile as they scrabble around for certainty. Trying to stay calm in this atmosphere is a challenge but is likely to provide a better outcome than rash decisions on emotional judgement.

Market Outlook

Equities	A tentative ceasefire and some shipping movement through the Strait of Hormuz, has offered some economic relief and encouraged further advances in stock markets. AI, however, continues to capture much of the excitement in markets most notably in the US and Asia. Supply shortages, especially in memory, are creating bottlenecks and price squeezes, with some warning that a bubble is being inflated. The real test may come with the listing of some of the largest AI companies, and the lapsing of restrictions on insider share sales later this year.
Fixed Interest	Bond markets breathed a sigh of relief with the price of oil dropping back to levels prior to the start of US/Israel/Iran conflict. This has relieved inflation expectations and with it, hopefully, pressure on central banks to raise interest rates. However, the new chair of the US Federal Reserve Bank made a hawkish debut, raising the prospect of a rate rise there. Meanwhile, government deficits continue to pile up, curbing the attraction of longer dated bonds.
Commercial Property	The rise in the cost of debt put a cap on the gentle recovery that has been taking place in property. Discounts on listed property, however, are still significant, and with higher build costs and higher energy standards required, it is still cheaper to buy, than to build new. This was reflected in a recent American offer for one of the largest UK property companies, Segro.
Alternative Assets	UK Infrastructure investment funds have had a tricky period, with uncertainty over assumptions on the cost of debt, government reimbursement rates and reliability of private equity valuations. However, both insulation from AI disruption and the rise in energy costs, helping renewables, are attractions. Commodities rose notably because of Gulf supply constraints but will also benefit from the resource requirements of AI and renewables' investment.
Cash	The investment return on cash and cash like instruments is 'safe' and provides ballast to portfolios in current markets.

Drumnor Investments 2nd July 2026