Markets Review - to end July 2026

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	3.6%	4.9%	5.9%	17.7%
Global Equities	-1.8%	5.3%	10.5%	20.1%
UK Gilts	-1.6%	-1.5%	-3.6%	-3.2%
UK Property	0.7%	1.5%	2.4%	5.1%
Gold	-1.1%	-11.5%	-18.0%	20.7%
Commodities	7.8%	-0.7%	25.0%	31.2%
Sterling	0.6%	0.0%	-0.1%	1.1%

Returns to 31st July 2026. Source: Refinitiv

Market Overview

July saw market optimism wane, as the ceasefire between Iran and the US looked increasingly broken and negotiation talks stalled. The price of oil shot back up to $100 a barrel at one stage, with the Strait of Hormuz effectively back to being closed. With concern that inflation would start to rise again, forcing central banks into raising interest rates, bonds sold off, with the 10-year gilt yield back up to 5% again.

Stock markets, however, are increasingly being driven by investment in, and sentiment around, AI. The relative calm at the stock market index level, does not reflect the extreme volatility at individual stock or sector level. Memory chip stocks have seen profits soar as data-centre demand outstrips supply. The Korean stock market (most exposed to memory stocks) fell 40% from its June peak but is still up more than 50% from the start of the year. Chip prices have added to the cost of AI infrastructure build and whilst reported profits growth is strong, hyperscalers have turned from cash generative to cash consumptive.

With limited tech exposure the UK stock market has felt more relaxed and benefitted over the month from the heavy weighting in oil stocks and miners. The relatively smooth anointment of Andy Burnham as new Prime Minister, and appointment of John Healey as Chancellor, have also calmed nerves, although they face the same problems as Starmer and Reeves. Meanwhile, a flurry of overseas bids for UK companies shows that the UK market still looks attractive.

The scale of investment in AI and planned investment is powerful enough to be a driver of economic growth as well as financial markets. It speaks to the potential of AI to transform business, but as yet there is not much to gauge what the investment return on all this spend will be. There has been plenty of talk of a bubble and official concern expressed on destabilising consequences. For now, earnings growth is strong enough to carry those concerns, but we are watching carefully.

On again, off again talks between Iran and the US, as well as tit-for-tat air strikes, left the oil price notably higher over July. It is impossible to know how, or when, resolution will be reached, but markets still have faith that necessity will encourage some agreement. In the meantime, the supply squeeze and re-directed flows have boosted refining margins, keeping a flame under the inflation pot. With drone attacks venturing further afield, there is the risk of other countries being drawn in to the conflict; swift resolution would be helpful. Metal prices have also been firm, as demand from infrastructure build out keeps markets tight.

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 an environment of supply disruption and resource nationalism.

A global interest rate cutting cycle has been put on pause, with inflation having risen, especially in the US. Futures markets are now expecting some interest rate increases this year. Bond yield curves have risen notably this year, with longer dated bonds also sensitive to large deficits and 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 budget deficits, testing bond markets' willingness to provide finance. In addition, there is also growing use of debt finance to fund the build of AI infrastructure. The quality of private credit lending is also being watched closely. Although nominally outside the banking system, it 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, accept 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.

Second quarter company results in 2026 are in the process of being published and have been very strong. 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, with little sign of resolution. 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	UK equity performed well in July, with the stock market notching a new high, helped by strong exposure to oil and metals, and some settlement in UK politics. International stock markets tended to drift off a touch, pressured by rising bond yields and a sell-off in AI related companies, particularly memory. Company results, for the first half of the year, are generally reporting strong growth in earnings, justifying market positivity so far this year. However, the sheer scale of investment in AI is causing some companies to issue debt to fund the build out, whilst returns are still uncertain.
Fixed Interest	With most central banks holding station on interest rates in July, bond markets seem to be taking their lead from the oil price. Bond yields rose through July, following the oil price rise as hostility and uncertainty continue to swirl around the conflict in the Gulf region. Second order inflation following on from the increased cost of energy, has yet to establish itself, but central banks stand ready to raise interest rates if inflation show signs of spreading.
Commercial Property	The rise in the cost of debt has checked 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 the recent American offer for one of the largest UK property companies, Segro.
Alternative Assets	Despite the uncertainty created by volatility in the cost of debt, to be applied to investments, and changing legislation around allowable rates of return and pricing controls, UK Infrastructure investment funds and private equity funds have attracted interest and corporate activity due to significant discounts to asset value. This is likely to continue, with the appeal of longer duration assets, and commodities benefitting from infrastructure investment demand.
Cash	The investment return on cash and cash like instruments is 'safe' and provides ballast to portfolios in current markets.

Drumnor Investments

4th August 2026