DRUMNOR INVESTMENTS

Markets Review - to end August 2026

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	0.1%	4.3%	-0.2%	17.5%
Global Equities	2.1%	1.0%	9.0%	22.3%
UK Gilts	0.2%	-0.7%	-5.5%	-1.9%
UK Property	0.0%	1.1%	1.8%	4.8%
Gold	8.8%	-3.9%	-16.3%	28.5%
Commodities	6.2%	8.3%	32.7%	40.5%
Sterling	0.3%	1.1%	2.2%	0.9%

Returns to 31st August 2026. Source: Refinitiv

Market Overview

Six months on from the initial attacks by Israel and the US on Iran and with ten weeks to go to the US mid-term elections, the geopolitical environment can only be described as messy. The swapping of rhetoric and occasional live fire has kept the oil price volatile and elevated, as talks continue in the background. With some workarounds being found to get oil out of the Gulf, refining capacity has become the new bottleneck. Successful strikes by Ukraine on Russian refineries and the continued lock-in of Gulf refineries has caused refining margins to surge.

Despite this, economies have shown remarkable resilience, in absorbing various supply shocks. The recent company results season reported surging profits growth, with a spectacular 50% growth in Q2 earnings in the US, as AI investment continues at a breathtaking pace. There are some legitimate concerns about the circularity of AI earnings, but for now it is feeding a lot of mouths.

Where some financial stress is showing, is in bonds, with yields on a variety of sovereign debt reaching multi-decade highs. This even caused the US Treasury to say it would intervene to try and stop US long bond yields rising too rapidly, as US national debt hit $40tr. This, however, doesn’t fix the underlying problem of government debt issuance to fund spending at the same time as AI companies are issuing debt to pay for investment. With inflation now expected to rise due to energy costs and rising food prices several international interest rate rises are expected in September, although the Bank of England might be able to refrain for a little longer.

If bond yields continue to rise, they will put pressure on investment plans and on valuations of other financial assets; this would be the deficit chickens coming home to roost! The UK is less exposed than most, but we are watching carefully.

The Mexican standoff between Iran and the US, as well as tit-for-tat air strikes, has left the oil price elevated over the summer. 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 most notable supply squeeze is in refining capacity keeping fuel prices high. Grain prices have also risen sharply, due to low harvest yields in drought conditions, which are also impacting river and canal shipments. Metal prices continue to be 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 substantial strategic reserves and 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.

Bond yields are signalling concern. With no sign of government fiscal discipline, heavy debt issuance and inflation remaining stubbornly above target levels, the willingness of buyers is being tested. The expectation of a global cycle of interest rate cuts at the start of the year has been put into reverse. Only peaceful agreement on the Strait of Hormuz is likely to give immediate relief to bond markets.

Politicians need to tread a careful line on fiscal policy, as they test the patience of bond markets. Despite the stimulus of AI investment, growth (particularly across Europe) is not sufficient to eat into government deficits. 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.

With the agreed takeover offer for Segro, one of the largest UK property REITs, reflecting the attractiveness of underlying asset value in REITs generally, listed infrastructure trusts 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 for 2026 have reported very strong growth, with future growth expectations remaining firm. 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 well into 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.

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Market Outlook

Equities	Stock markets generally continued to hold up well in August, with a number notching new highs. Exceptionally strong company results were the main driver of performance, offsetting supply disruption, inflation concerns and weak bond markets. Investment in AI is the dominant agent of economic growth and results show this continues unabated, despite worries that a bubble is forming. Should any cracks show in the pace of investment, or return on investment assumptions, stock markets, particularly the US and some Asian markets, would be vulnerable to a correction.
Fixed Interest	With most central banks holding interest rates through the summer, bond markets are anticipating some increases in September. Bond yields have continued to rise, particularly longer duration bonds, as debt funded government spending and AI investment challenges demand. The inflation picture remains mixed, with rising energy prices set to raise headline rates, but limited evidence of it impacting second order inflation for the moment.
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 is reflected in the recent acceptance of an 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 **2nd September 2026**