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Market Commentary

The global equity market rose modestly in the month of June, when there was a degree of volatility notably in the technology sector on concerns over the substantial level of spending at a time when interest rates are more likely to rise given the persistently high rate of inflation, even as the oil price softened in the period. Bond markets were mostly resilient while the news on the global economy was mixed and the changeable political landscape evolved further.

There was some progress towards peace in the Middle East with the outline of a plan to end the war in Iran although attacks continued as did the debate over a number of sticking points, particularly in Lebanon. Restrictions remained in place in the Strait of Hormuz yet hopes for a resolution contributed to a further fall in the price of Brent crude futures, the global benchmark, to $74 per barrel, well down on the peak of $125 per barrel in 2026 and around the level before the conflict. There remain concerns over a continued impact as it will take considerable time for supplies of oil and liquid natural gas (LNG) to return to prior levels. Food production is still likely to see an impact from another El Niño event and higher fertiliser prices which deterred farmers from planting. Another heatwave in Europe saw the highest ever temperature recorded in Germany and the hottest in the UK for June.

Global economic growth has been supported by the US, where the labour market has appeared robust: there were a reported 132,000 new jobs created in May, up on the number in April, and the unemployment rate was unchanged at 4.3%. There have been signs of strain and the May flash figures for the purchasing managers' index showed the eurozone economy weakening at the fastest rate since late 2023, with the UK also showing a contraction. In Japan the prime minister Sanae Takaichi set out plans to invest ¥370trn (£1.7trn) up to 2040 across seventeen strategic sectors; government finances have been helped by an improvement in the economy and in tax receipts, although there was little detail on the exact funding. Retail sales in China declined in the month of May, the first such fall since 2022; property prices remained weak while investment activity also appeared soft. Chinese exports rose in May by 19.4% on the prior year, driven by data processing equipment and cars, emphasising the variations in the economy. Trade tensions persisted as President Trump's administration said that it would impose new tariffs in the range of 10% to 12.5% on sixty countries, including Canada, China, the European Union and the UK.

In the US the consumer price index (CPI) for May rose to 4.2% from 3.8% in April, the highest level in three years, with higher energy prices accounting for much of the rise; the core rate was 2.9%. In the UK the CPI reading for May was the same as in April at 2.8%, which was below expectations if still above target; wage growth in the private sector slowed to its lowest level in over five years, at 2.9% in the three months to April. In the eurozone inflation increased to 3.2% in May from 3% in April. In Japan the core CPI increased from 1.4% to 1.5% year-on-year in May while price pressures remained, with wholesale prices up by 6.3% in the month.

The European Central Bank raised its deposit rate from 2% to 2.25% as expected, the first increase since September 2023. The Bank of Japan opted to raise its rate from 0.75% to 1% - it had last been at that level in 1995. The US Federal Reserve stuck with the current level of 3.5-3.75% although the first meeting with Kevin Warsh in the chair ended the bias towards easing rates, with markets pricing in a rise by October. No-one on the US Fed's rate-setting committee voted for a cut whereas two out of nine did in the latest decision by the Bank of England to hold its rate at 3.75% for now.

There was considerable volatility in the technology sector which dominates markets in the US, South Korea and Taiwan. This reflected the excitement over the potential impact of Artificial Intelligence as well as concerns over the substantial investment from the major players and the impact of potentially higher interest rates. A circuit-breaker stopped trading on the Korean market for the fourth time in 2026 – it had not operated in 2025 - after it fell by 10% in a day. The share price of SpaceX, which incorporates xAI, followed a trajectory akin to one of its rockets, rising above the listing price of $135 to over $200 before falling back to $153 then rallying at the month-end. The company also sought to raise $25bn on the bond market on top of the $86bn it had issued in shares and offered $60bn to buy Cursor, a computer coding business. The demand for chips has been considerable, reflected in striking quarterly results from Micron which saw its revenues rise by 345% and its profits by 1400% on the prior year. The higher cost of chips prompted Apple to raise prices on some products by about a fifth while the strength of demand has also prompted increased production in what has been a supremely cyclical industry, if one benefitting from a secular shift.

Sir Keir Starmer resigned as prime minister to make way for Andy Burnham, who won strongly in the Makerfield by-election against Reform UK and who set out a similar policy basis to Starmer. The government finally announced the details of the defence investment plan, squeezing out some additional funding in a revised strategy ahead of the NATO summit in July; the European Union postponed a summit with the UK that was intended to reset relations. The tilt to right-wing governments in Latin America continued with Abelardo de la Espriella narrowly winning the presidential election in Colombia and with Keiko Fujimori doing the same in Peru. Several Democratic Socialists won in primaries ahead of the November mid-term elections in the US, where the Republicans have also backed a more radical approach.

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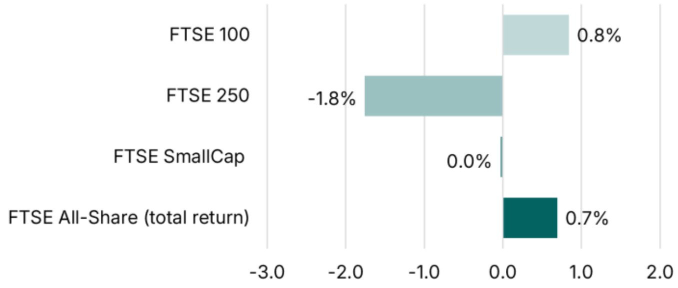
United Kingdom

The FTSE 100 index was up by 0.8% over the month to 10,497 while the FTSE 250 index of mid-sized companies fell by 1.8% and the FTSE SmallCap index was marginally lower by 0.03%

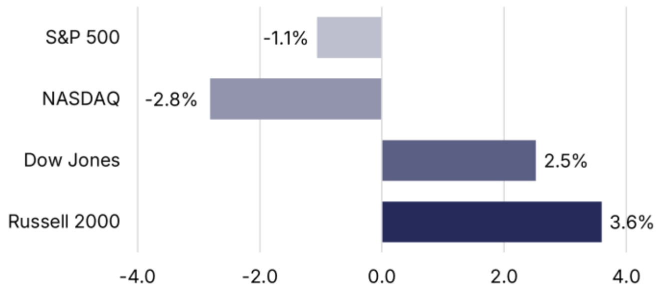
The total return for the FTSE All-Share index, including income, was 0.7% in the period.



United States

In the US the S&P 500 index was down by 1.1% in the month, while the equal-weighted version rose 2.2%; the technology-oriented NASDAQ index fell by 2.8% and the Dow Jones Industrials index returned 2.5%.

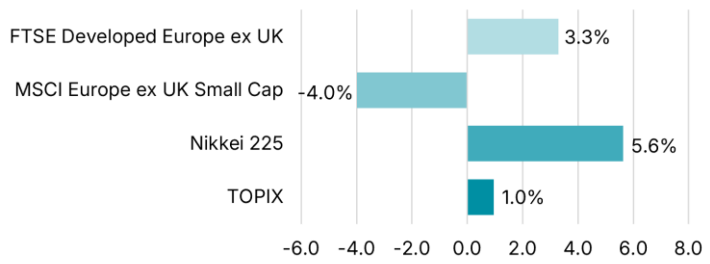
The Russell 2000 index of smaller companies was up by 3.6%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 3.3% over the month, with most major markets making gains: Spain had the highest return at 6% while Germany declined by 0.4%. The MSCI Europe ex UK Small Cap Index including income fell by 4.0%.

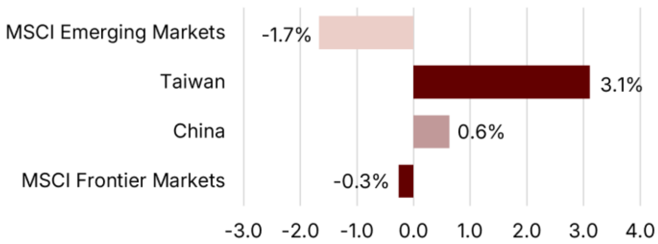
In Japan the Nikkei 225 index was up by 5.6% and the more representative TOPIX index rose by 1.0% in the period.



Emerging Markets

The MSCI Emerging Markets index in US$ was down by 1.7% in the month; there were gains of 3.1% in Taiwan and 2.3% in India, while the Brazilian market fell by 1.0% and the Korean market was flat. The Shanghai index was up by 0.6% and the Hang Seng index in Hong Kong fell by 9.1%.

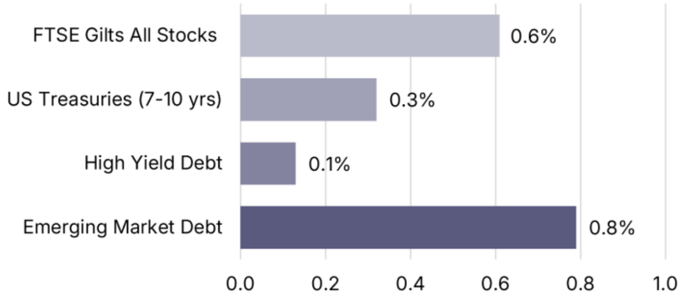
The MSCI Frontier Markets index was 0.3% lower and the Vietnamese market fell by 0.2%.



Bond Markets

In bond markets the UK 10-year gilt yield decreased from 4.81% to 4.76% and the total return for the FTSE Gilts All Stocks index in the month was 0.6%. In Germany the 10-year bund yield moved from 2.94% to 2.86% and in the US the 10-year yield was higher at 4.47% from 4.44%.

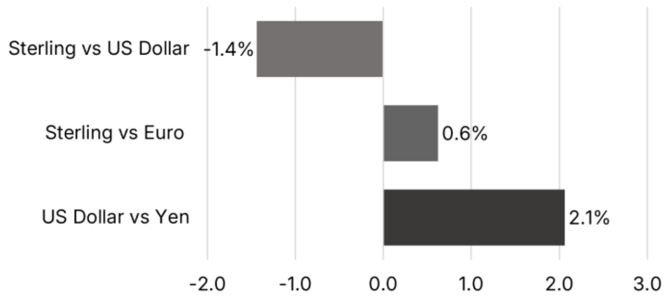
There were positive returns in most major bond markets, with UK index-linked gilts down and Emerging Market local debt doing the best.



Currencies

Sterling was down by 1.4% against the US$ in the month, ending at a rate of $1.33:£, while against the euro Sterling was 0.6% higher to end at a rate of €1.16:£.

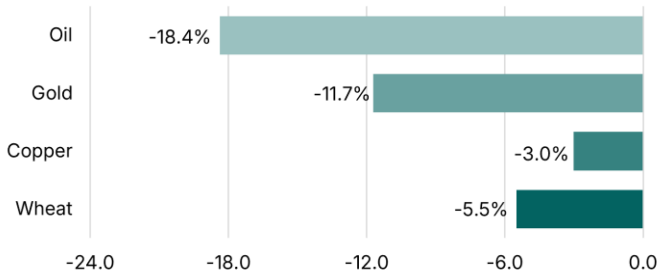
The US$ was up by 2.1% at ¥163:$ against the Japanese yen, the highest level in forty years.



Commodities

The price of Brent crude oil ended the month down by 18.4% at a level of $74 per barrel. Gold fell over the month by 11.7% to close at $4008 per troy ounce.

The main metals had negative returns in the month, with copper down by 3.0%, and the main agricultural commodities were mostly lower, with wheat down 5.5%.



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