Market Digest

JULY 2026

This commentary provides a review of global markets in July 2026, takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 30 June 2026.

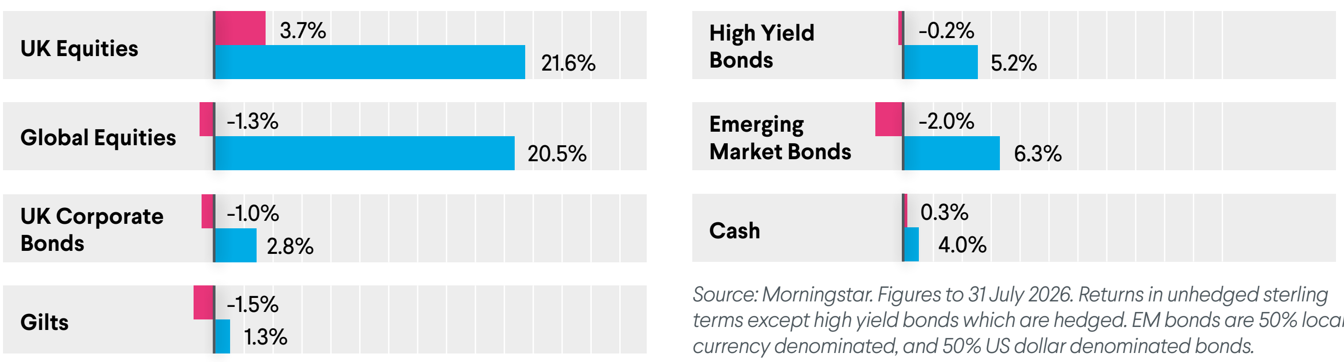
> July 2026 highlights

- **Equity markets paused after a rally as higher oil prices and semiconductor weakness weighed on sentiment**
- **Rising bond yields meant less rate-sensitive sectors, such as High Yield, were favoured**
- **UK equities were among the strongest performers while Asia-Pacific markets lagged because of greater semiconductor exposure**

- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- Equity markets paused after the sharp rally seen in Q2. The US-Iran ceasefire failed to hold, pushing oil prices higher again. Chipmakers, which had performed strongly over Q2, fell as investors questioned whether the rally had gone too far. Nevertheless, corporate earnings impressed across certain sectors including financials.
- The UK equity market emerged as an outperformer, helped by its higher exposure to Energy and lower exposure to Technology. Asia-Pacific markets underperformed due to large exposure to chipmakers.
- As oil prices rose, bond yields increased (bond prices fall as yields rise) as investors raised their expectations for inflation and interest rates.
- Because High Yield Bonds have lower interest rate sensitivity, or duration, they outperformed other bond sectors.
- With equities performing similarly to bonds and cash, higher-risk portfolios performed broadly in line with lower-risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for July 2026 ■ *July 2026* ■ *12 months*



Source: Morningstar. Figures to 31 July 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Outlook and topical market themes

July's semiconductor sell-off showed that strong investment themes can suffer setbacks when expectations become stretched

Rising energy prices increased inflation concerns, keeping pressure on central banks to maintain higher interest rates for longer

Diversified exposure across sectors and asset classes can help reduce volatility during periods of heightened market uncertainty

Catching breath after a remarkable run

Semiconductor companies were among the key drivers of the equity rally over Q2. However, they have also been among some of the weakest performers in July. Korean companies have been at the centre of this. SK Hynix and Samsung, both market leaders in memory chips, rose sharply over Q2 before giving back much of those gains in July. Going into earnings season, expectations were exceptionally high. Even a 557% increase in operating profit for SK Hynix was not enough to meet investors' lofty expectations. Authorities have said the volatility has been exacerbated by growing use of single-stock leveraged ETFs, frequently used by retail traders.

Following a period of robust returns, it is perfectly normal for a period of consolidation, especially when enthusiasm begins to turn speculative. The past month serves as a reminder that even strong investment themes, such as AI, can experience periods of sharp volatility. Rather than trying to identify a single winner, investors should gain diversified exposure to long-term themes, for example through multi-factor equities or infrastructure, reducing reliance on any one part of the market.

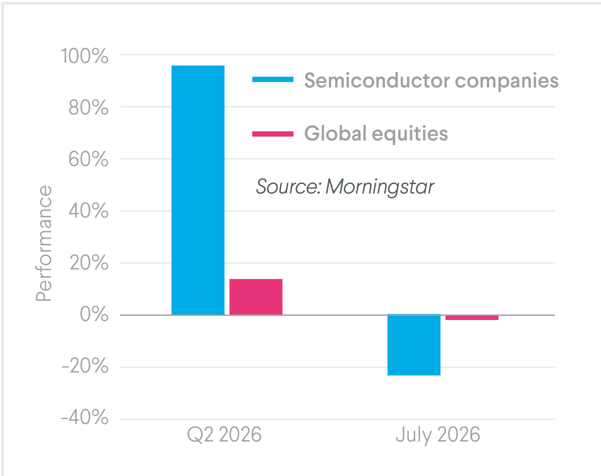
Middle East tensions keep inflation risks alive

Following the announcement of a US-Iran ceasefire we saw a few months of easing pressure on oil and gas prices. However, July saw energy prices rise again, increasing the risk that inflation remains above central bankers' inflation targets for longer. As a result, central banks moved closer to raising interest rates. At July's Bank of England (BoE) meeting, three out of nine voted for a hike (up from two at the previous meeting), while three out of twelve voted to hike at the Federal Reserve (up from zero). Even though the vote split may suggest the BoE is closer to hiking, we believe the underlying inflationary pressures, even before the energy prices shock, remain stronger in the US than the UK.

While further UK rate hikes are not our base case, uncertainty remains elevated because of continued energy price volatility. Bond yields remain high by recent historical standards and should continue to provide attractive income opportunities as volatility begins to ease.

Chart of the month

Semiconductor stocks pause after leading the AI rally in Q2



Key takeaways

This chart shows the performance of semiconductor companies and global equities over Q2 and July.

- Semiconductor stocks strongly outperformed global equities during Q2
- The sector experienced a sharp pullback in July
- AI remains a powerful long-term investment theme despite recent volatility
- Concentrating on one sector can increase portfolio risk after strong market gains
- Diversified exposure can help investors participate in long-term growth while reducing reliance on any one area.

Annual market summary: covering the 12 months to 30 June 2026

12m > 30 Jun

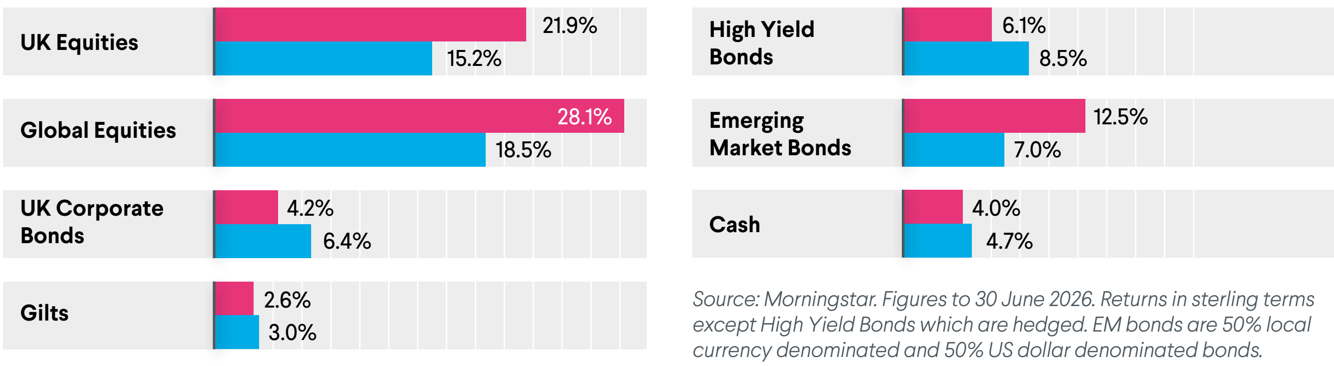
Global equity markets recovered strongly from geopolitical uncertainty to deliver positive 12-month returns

Corporate earnings and continued AI investment remained the key drivers of market performance

Bond markets delivered positive returns, although equities outperformed over the period

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 30 June 2026 versus the three years ending 30 June 2026. *1 year* *3 years (p.a.)*



Source: Morningstar. Figures to 30 June 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Markets remain resilient

The period began with strong equity returns as better-than-expected corporate earnings, continued strength in the technology sector and the Federal Reserve's return to interest rate cuts, boosted investor confidence. In the final quarter of 2025, concerns around high technology sector valuations and the level of AI spending emerged, but equity performance remained strong.

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February triggered a sharp fall in global equities, ending the first quarter of 2026 in negative territory. Global equities rebounded over the second quarter as investors refocused on resilient corporate earnings and renewed optimism around AI. Progress towards a peace framework and the reopening of the Strait of Hormuz helped push energy prices lower, providing further support for global equity markets.

Central bank policy developments

During the second half of 2025, the Bank of England reduced interest rates by 0.5% to 3.75%, while the Federal Reserve resumed its rate cutting cycle in late 2025, lowering rates by 0.75% to 3.75%. Both central banks paused further cuts in 2026, particularly following the escalation of conflict in the Middle East and the potential inflationary pressures this created.

Equity market performance

Despite periods of volatility driven by geopolitical events, global equity market performance was positive over the 12 months to 30 June 2026. Asia Pacific ex Japan and Japan were the strongest-performing regions, supported by their significant exposure to the technology sector, particularly chipmakers.

Annual market summary continued

Fixed income and credit markets

Bond markets also delivered positive returns. Gilt returns were positive despite yields rising over the period (bond prices fall as yields rise). Political uncertainty in the UK and conflict in the Middle East pushed yields higher during April and May 2026, but the income on bonds offset the price drop, resulting in a modest positive performance.

Corporate bonds outperformed government bonds, supported by strong earnings growth. High-yield bonds delivered robust 12 month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall). Emerging market bonds delivered strong 12-month returns, benefitting from a stronger US dollar.

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