

Market Digest

Q2 2026

This commentary provides a review of global markets in Q2 2026, takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 30 June 2026

> Q2 2026 highlights


Global equities rallied strongly in Q2 as energy prices fell and corporate earnings continued to strengthen

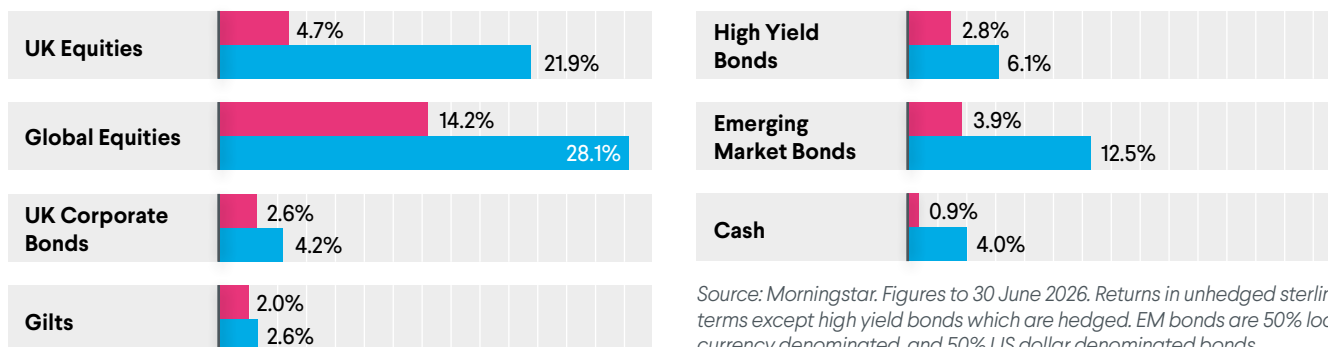
Bonds delivered positive returns as inflation concerns eased, although equities outperformed and higher-risk portfolios led performance

UK political uncertainty remains a key watchpoint, particularly for gilt markets and borrowing expectations

- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- Equity markets rebounded strongly from the Iran War-driven lows in March. As energy prices retreated from their recent peaks, investors shifted their focus to accelerating corporate earnings growth, particularly in technology stocks.
- Globally, equities gained more than 14% over the quarter. All regions delivered positive performance, with technology-heavy markets such as the US and Asia Pacific outperforming. The UK lagged other regions, reflecting its limited exposure to technology and greater weighting towards the energy sector.
- Bond markets also delivered a positive quarter, although returns were more modest than equities. Bond yields fell as inflationary concerns from high energy prices subsided (bond prices rise as yields fall).
- Gilt markets took Keir Starmer's resignation largely in their stride. However, expectations of higher government borrowing under a Burnham premiership may unsettle the market.
- With equities outperforming bonds and cash over the quarter, higher-risk portfolios generally delivered stronger returns than their lower-risk counterparts.

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

This chart shows percentage asset class returns for Q2 2026  Q2 2026  12 months



Outlook and topical market themes



Falling energy prices and easing inflation concerns have improved the near-term market outlook

Strong corporate earnings continue to support equity markets, but returns are becoming concentrated in a handful of technology companies

AI investment continues to drive growth, making diversification increasingly important as market leadership narrows

Oil price drop eases inflation pressures

With oil prices falling sharply from their highs and the Strait of Hormuz now partially reopened, investors have largely moved on from concerns about a prolonged energy shock. As a result, the inflationary impact that markets had feared now looks more modest than many expected just a few months ago. Of course, a breakdown in negotiations could change things very quickly here.

The outlook for interest rates is less clear. While inflation expectations have eased, the Federal Reserve must balance this against resilient economic growth and a strengthening labour market. In the UK, a strong start to the year appears to be losing momentum, while a softer labour market makes a repeat of the persistent inflation seen in 2022 less likely. Together, these factors reduce the need for further Bank of England rate rises.

Earnings continue to support markets

Corporate earnings continue to provide an important foundation for equity markets. Ongoing investment in AI infrastructure has driven strong demand for semiconductors, data centres and related technologies, supporting earnings growth, particularly in the US.

While some parts of the market appear increasingly driven by investor optimism, broad market valuations do not appear excessively stretched relative to current earnings expectations. Much of this year's strong market performance has been supported by genuine earnings growth rather than higher valuations.

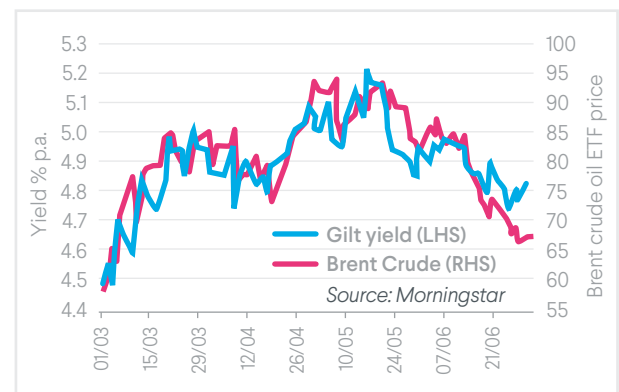
That said, returns have become increasingly concentrated in a small number of large technology companies. Investors should remain mindful of the growing influence these companies have on overall market returns. As part of our recent strategic review, we increased our multi-factor equity allocation to further diversify the stock exposure within our portfolios.

Politics and AI remain key watchpoints

Looking ahead, UK political developments will remain in

Chart of the month

Gilt yields have tracked the oil price closely since the start of the Iran war



Key takeaways

The chart compares the 10-year gilt yield with the Brent crude oil price

- Despite recent political developments in the UK, movements in gilt yields have largely reflected changes in global inflation expectations
- As oil prices have retreated from their conflict-driven highs, fears of a prolonged energy shock have eased and gilt yields have fallen (gilt prices rise as yields fall).

focus. While gilt markets have so far taken the prospect of an Andy Burnham premiership in their stride, concerns over higher government borrowing could lead to periods of volatility if fiscal policy becomes less disciplined (see our [latest client note](#) for more detail).

Beyond politics, a key question for markets is whether today's high levels of AI-related investment ultimately generate the returns investors expect. Any disappointment could increase volatility, particularly in those areas that have benefitted most from the theme.

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

12m > 30 Jun

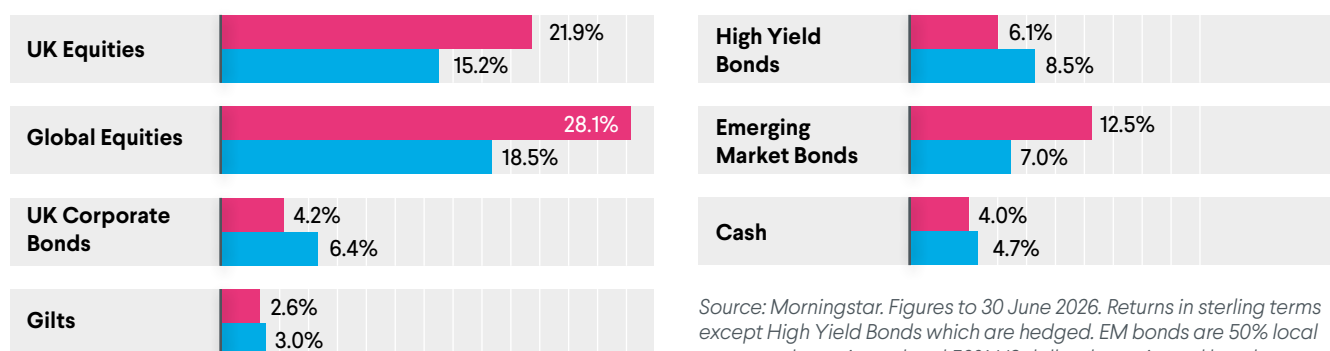
Global equity markets recovered strongly from geopolitical uncertainty to deliver positive 12-month returns

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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