Fiske

Investment Commentary

Overview

At the end of February, when the US and Israel attacked Iran, Donald Trump claimed the war would last four or five weeks. Today, after more than four months interspersed with negotiations, ceasefires and a memorandum of understanding, there is little evidence of a complete cessation of hostilities. At best, an uneasy truce exists. One of the main issues, the blockading of the Strait of Hormuz, has eased somewhat, but traffic is nowhere near back to pre-conflict levels. Despite this, the gold price has eased back by 12% over the quarter, while the oil price has retreated 30%, returning close to pre-war levels.

The economic response to the world's geopolitical problems has been mixed. First-quarter GDP numbers came too soon after the start of the conflict for there to have been much influence. The US economy grew an impressive 2.1%, while China (+1.3%) reflected a still-constrained expansion. UK growth of 0.6% surprised on the upside, as it has done in the first quarter for each of the past few years. Japan's economy grew by 0.5%. The laggard was the eurozone, which contracted by 0.2%.

At the beginning of the year, expectations for inflation and interest rates were for reductions. These swiftly changed as the oil price rose. Although the conflict has continued for longer than expected, the price has not got out of control. Reports suggest that part of the reason is that China has significantly reduced its demand for oil – perhaps by using strategic reserves and its alternative sources to fill the gap.

Additionally, the United Arab Emirates has declared it will leave OPEC, enabling it to pump more oil into the market in future. Inflation has risen and continues to be above central bank targets of around 2%, with levels reaching 4.2% in the US, 2.8% in the UK and 3.2% in the eurozone. The arrival of Kevin Warsh as the new Chairman of the Federal Reserve Bank was expected to lead to interest rate cuts to keep President Trump happy. As it turns out – and perhaps due to a stronger level of employment – his first meeting saw no change. The Bank of England also held rates, while the European Central Bank increased them by 0.25%.

On the domestic front, much of the news has revolved around politics and the eventual resignation of Sir Keir Starmer as Prime Minister. Only two years ago his party won a General Election with a 174-seat majority. Having campaigned on a promise of growth, Labour has woefully failed to deliver and has produced two unhelpful Budgets. The former Mayor of Greater Manchester, Andy Burnham, now MP for Makerfield, seems the only contender to take over as those who forced Starmer out melt away. With little leadership experience and no real indication on policy or where he wants to take the country, a further period of uncertainty is the most likely future state. This will not be helpful for the UK market.

The following table sets out the market movements for the three months to 30th June 2026.

Index	31/03/2026	30/06/2026	Change
CBOE UK 100	1,015	1,042	2.7%
CBOE UK All Companies	17,474	18,020	3.1%
CBOE UK 250	18,376	19,787	7.7%
ARC PCI – Steady Growth*	344	370	7.6%
ARC PCI – Equity Risk*	406	445	9.6%

Markets

The technology sector, poorly represented in the UK, has again dominated the headlines over the quarter. Recovery after the first quarter saw the NASDAQ index up 21%, with most of the “Magnificent Seven” making gains – led by Alphabet (+29%). Greater dispersion of performance between perceived winners and losers from AI has injected more volatility into the sector. The outstanding event of the period was the initial public offering (IPO) of Elon Musk’s SpaceX. Raising $86bn in the largest-ever equity offering, the shares initially shot up from $135 to over $200 before settling back to the $160 level. The company then raised an additional $25bn in the bond markets.

The UK equity market produced another solid if unexciting performance, with the leading indices held back by weakness from oil majors Shell (-18%) and BP (-23%). In addition, the largest constituent, AstraZeneca (-4%), was a drag. HSBC (+17%) led a strong banking sector (+21%), while Rolls-Royce (+28%) continued a three-year recovery. It is pleasing to report that gains in the market have broadened out, with the mid-cap (+8%) and smaller companies (+10%) indices sharply outperforming.

We have often said that the UK market is cheap relative to overseas competitors, and this continues to be reflected in the amount of takeover activity. No fewer than five constituents of the main UK share index are currently subject to bids, and 29 bids – worth a total of £61bn (source: Peel Hunt) – are in play or have been concluded so far this year.

Elsewhere, Japan (+37%) continues its very strong run – although the yen is still weakening, despite the central bank pushing interest rates higher by another 0.25%. Some of the Far Eastern markets have emulated Japan, especially where technology stocks are major constituents of indices. South Korea’s KOSPI index (+68%), with Samsung Electronics and SK Hynix, and Taiwan’s TAIEX (+48%), with Taiwan Semiconductor Manufacturing Company, are good examples.

Outlook

Last time we advocated sticking with good-quality investments despite many events causing considerable uncertainty. This time we have seen a further surge in the technology sector, raising questions around the sustainability of valuations and the possible returns from AI investment. In addition, forecasts for earnings growth in the US have shot up from mid-single-figure percentages at the beginning of the year to over 25% now. Any disappointment against these targets, as we move into the second-quarter reporting period, is likely to be treated harshly. Moreover, high levels of IPO and takeover activity have in the past often signalled a top for markets. We have political uncertainty domestically, while further afield the conflicts in Ukraine (ongoing) and Iran (just below the surface) continue to provide opportunities for destabilising news flow.

While we continue to believe that long-term investment delivers the best long-term returns, we are acutely aware of the issues mentioned above and will make tactical adjustments to portfolios as needed as the third quarter unfolds.

July 2026

Notes
** ARC Private Client Indices (PCI) are benchmarks designed to assess the performance of discretionary private client portfolios across multiple asset classes, reflecting actual investor outcomes rather than model portfolios. The numbers are estimated for an initial period of three months whilst the data is received and processed.*

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