The Tatton Weekly

Geopolitics refuses to leave the stage

10 July 2026

This week's topics:

Markets keep calm and carry on with business

UK 1840s Railway Mania: teachable takeaways for today's AI boom

European banks – what European banks?

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Complex geopolitical dynamics, KAL, 10 July 2026

Markets keep calm and carry on with business

Just as markets had downgraded the risks emanating from the Middle East, they flared up again. Yet again, however, it is telling how measured the market's reaction has been to ships being set ablaze in the Strait and the consequent military responses.

Spot oil prices spiked up 12% after Iran's targeting of ships and President Trump's very marked expressions at the Ankara NATO summit. Having said the deal was over, US forces hit Iranian targets over two days. Iran responded, targeting both US bases and Gulf country targets with up to 15 missiles and dozens of drones which reportedly were all intercepted before impact. Iran may have talked up the level of response – claiming to have destroyed 85 US military installations – for its domestic audience. This stands against the backdrop of technical discussions between the two sides continuing. As a consequence, oil has settled back down, falling 5% from the $80.50 Brent crude oil peak on Tuesday morning.

These moves have been mirrored in other assets. Globally, 10-year bond yields rose, with both real yields and inflation expectations up. Of course, both have fallen back a bit after oil's slight retreat. So too, equities fell only to regain.

And, as we saw in the earlier stages of the conflict, the negative impacts on cyclicals can make the less affected sectors more attractive. The chip sell-off that started last week seemed to have run its near-term course before the news, a stabilisation that helped tech to outperform. South Korea's SK Hynix share sale (via American Depositary Receipts or ADR, which made it the third largest listing in global history) went well, despite shares not being offered at a discount compared to the domestic share price. Perhaps that's why its now-diluted Korean share base fell by another 10% this week. The large weighting it gained in the emerging market indices may mean that EM index performance this week is not very representative of the wider universe of emerging market stocks.

Indeed, the markets are becoming more focussed on company stories rather than global geopolitical risk. Initially, this has been around the tech IPO stories such as SpaceX and the share add-ons for Alphabet and now SK Hynix as well as the continued debt issuance to fund the AI buildout. However, merger and acquisition activity is coming up on the rails to challenge for investor focus.

The battle to take easyJet private, with bids from Castlegate and Apollo, is gathering attention from global investors. AI capability-infrastructure and pharmaceutical patent-driven bids dominate the M&A scene; foreign bids for discounted UK companies are a distinct theme. Property company Segro, airline easyJet, financial house Schroders, and utility UK Power Networks have all been picked up, mostly by private equity groups in some form.

Private equity and private credit groups, in terms of their listed equity performance, have had a poor time during 2025 and then again in the first half of 2026. For this year, the story has been one of over-exposure to companies vulnerable to being displaced by AI competition ("SAASpocalypse" as it has been known). While they have been working hard to become beneficiaries rather than victims of AI, the other area of focus seems to be "value" and some UK companies appear to be particularly attractive.

The step-up in M&A may also be signalling an improvement in global private equity access to funds – in other words, liquidity. That would be welcome for investors generally, and would be associated with stable-to-rising valuations amid a broadening of performance across the wider equity market.

However, there was another piece of news involving UK companies and private equity which was interesting if not exactly good news. Hovis had been owned by private equity company Endless LLP and had become loss making again after a turnaround had improved things up until 2023. While a slide in demand for packaged bread and a rise in operating inputs (such as the cost of wheat) have hurt, a major problem has been high interest costs; the weight of debt is too much.

The Competition and Markets Authority approved the merger after realising that Associated British Foods' Allied Bakeries was also significantly loss making and would have been shut if the merger had not happened. The businesses will be merged and costs will be cut, as scale benefits are being put to use. Hovis has a very good distribution operation, while the combined business dominates the low-cost supermarket own-brand bread supply. To us this reads that cheap bread is likely to be less cheap in the near future.

While inflation won't be helped by this, the other read-through is that interest costs remain high for consumer-facing businesses. Those costs are driven not just by the interest rate but by the amount of debt. Ultimately, debt holders in these areas may find they have to write down some of their assets.

Meanwhile, this week, a finance minister announced that there would be a new multi-year budgeting framework which would be used to fund measures including investments in economic security, crisis preparedness and other strategic growth areas. At the same time pension funds, including the Government Pension Investment Fund, would be "encouraged" to increase investment in domestic financial assets. Government bond traders assumed that this meant more buying of government bonds so bond prices rose and, consequently, yield fell.

This was Satsuki Katayama, Japan's Finance Minister. At the end of June, Japanese yields rose after the announcement of a supplementary budget which raised fiscal expenditure. Obviously, the situation is potentially instructive for an incoming Chancellor of the Exchequer here in the UK.

The Secretary of State for Business and Trade Peter Kyle told the Guardian that he was "fed up" with UK investment managers having tweaks to regulation to incentivise buying UK assets, only for nothing to happen.

"*I don't think mandation* [forcing funds to invest] *is ideal in any circumstances. But I'll use it if I have to, because I'm in a rush,*" he said.

The truth is that it would be incredibly difficult to force UK investment directly. However, it is worth noting that some UK assets are cheap according to (global) private equity investors and that incentives are likely to be put in place.

Next week, the US second quarter earnings season kicks off with the major banks giving us a steer on the current state of the US economy. Thus, the focus will continue to shift to corporate news and away from geopolitics. Things may feel more normal, at least for a while.

UK 1840s Railway Mania: teachable takeaways for today's AI boom

When investment commentators talk of an "AI bubble", it is incumbent beholden upon us to find past episodes to compare it with. History does not always repeat but it should always inform. Commentators regularly compare the current AI buildout to the dotcom bubble in the 1990s and early 2000s, but we look further back for insight: the 1840s Railway Mania.

Britons wanted to get on that train

In 1840s Britain, excitement about the new railway network was rife. The railways were expected to not only carry the nation's burgeoning industrial revolution, but also transform everyday life – and as we know, they very much did. The first northern railway lines (Liverpool & Manchester Railway) were highly profitable, and industrial expansion required ever more demand for rail transport capacity. Greater investment was required to build the lines, and railway companies successfully marketed themselves to savers by promising grand profits.

In the early phase, they delivered those profits. In part, that was because the expansion of technology was self-sustaining: building railways required materials, mining and manufacturing – and all of those components needed rail transportation. Infrastructure building begot further infrastructure building.

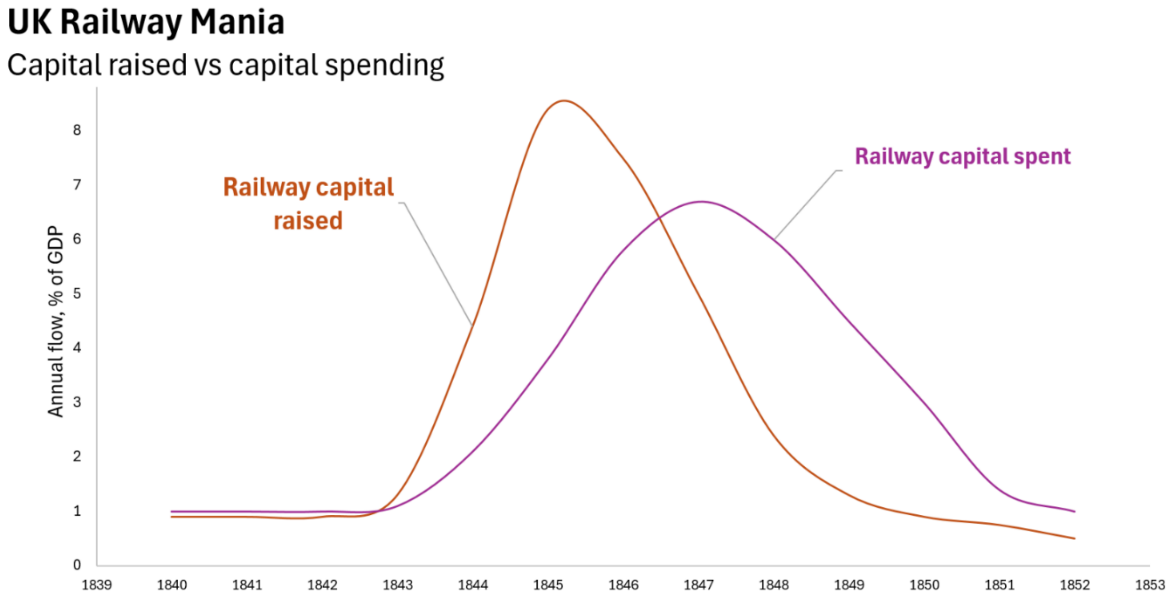
Price increases attracted further investment – including from the likes of Charles Darwin and John Stuart Mill. As usually happens in an investment boom, there was eventually more capital going into building than the industrial base could keep up with. Such overinvestment has two major economic effects.

First, real economic growth increases, because there is more demand than supply. Second, the financial system is boosted by the money multiplier effect: companies, unable to spend all their capital at once, keep it in bank deposits, which then allow banks greater ability to lend.

Strong growth and loose financial conditions necessitate higher interest rates. Sure enough, in late 1845, the Bank of England raised rates.

Tighter liquidity stops Railway Mania in its tracks

Bubbles are almost always burst by rate hikes – and so it proved. Higher risk-free returns lure savers away from speculative investments and money in the system dries up. As ever, the charlatans are exposed first, spreading panic among investors. Mania-era lines never lived up to the impressive payouts of the early lines and by 1847, the most popular shares had fallen around 80% from the 1845 peak. In the words of Warren Buffett, "You don't find out who's been swimming naked until the tide goes out". Interest rates are not the whole story, though. Capital investment also stimulates production, and eventually the industrial base starts to rapidly expand – thereby demanding more money. Growth in the real economy drags money out of the financial system, at exactly the same time as higher interest rates sap liquidity.



Source: Tatton IM estimates, Bank of England, Gareth Campbell, Andrew Odlyzko, ONS, Factset, JP Morgan Research, MorganStanley Research, Goldman Sachs Research

We saw exactly this in the mid-1840s. At the point when growth was at its strongest, liquidity tightened and stock valuations fell sharply. Suddenly, there was not enough money to build all the projects already approved. Parliament approved around 9,500 miles of proposed railway lines in 1846, with an estimated 8-12% of the year's GDP invested in building. About a third of those lines were never built.

Bubbles can transform the world

The bubble's burst is not the end of the story. Economic growth remained strong, in part thanks to the new railway lines. Utilisation of railways accelerated post-1850 as operational efficiencies improved and demand for transport surged again. Lines kept being built without an investment frenzy and even proved profitable enough to generate a second railway boom in the 1860s. Lines built during and between those boom periods cut costs for industrial production, laying the literal groundwork for a century of Britain's industrial strength. More importantly, the railways created a new way of living.

You can tell similar stories about the development of canals, telegraph, electricity, radio and, of course, the internet. All were genuinely transformative technologies that still generated investment booms and busts. One of the reasons this happens is because new transformative technologies typically generate more demand than can be met with the existing productive base. Far from being a sign of investor stupidity, many bubbles are often a sign that there is something really valuable going on – we just do not know how to utilise it yet and quite how much of it we need.

The point of this history is not to say that AI will follow the same pattern (not all new technologies boom and bust; for example, coal mining, steam power, chemicals, telephone, electricity (broadly), to name just a few) but to help us know what signs to look for. One of the key criteria for a mania ending in a bust is where vast amounts of capital are required before meaningful profits are generated, for which both the Railway Mania and indeed the TMT internet bubble of the 2000s are great examples. Under the current buildout, the capital investment into IT computing capacity may be vast, but thus far has been mostly paid for by recycling profits from what is already an incredibly profitable business activity.

This is not to say that the AI investment boom isn't at an interesting juncture right now, with big tech valuations falling despite continually strong profit growth. Stock prices are not falling, but profits are well outpacing them. You could argue that some of that is down to the real economy demanding the capital stored up in their equity valuations for more capital investment further downstream, e.g. the semiconductors (chips) that have been the new drivers of the tech sector performance this year.

As long as AI-driven economic activity expansion keeps profits strong – and monetary policy does not tighten liquidity too much – it is hard to see share prices substantially falling in the near future. But neither should we think that the (growth) party can go on forever.

The key takeaway, though, is that even a burst bubble would not mean a stop to AI being an economically and socially transformative force over the long term.

European banks – what European banks?

Italy's UniCredit is on the cusp of controlling Germany's Commerzbank. The Italian bank announced on Wednesday that it had acquired 47.6% of its German counterpart's shares, after a surprisingly large take-up of its €44bn bid launched in March. Political obstacles remain, but we expect that UniCredit CEO Andrea Orcel will eventually get his prize.

The difficulties in doing so – and making it a commercial success – are symptomatic of Europe's fractured banking system, however. The lack of a true banking union, more than the fate of UniCredit or Commerzbank, holds Europe's economy back.

Political forces can slow but not stop the takeover

Commerzbank is the most important German bank for its domestic companies and households. It has always had a vast small- and mid-sized company lending base (as its name suggests). In 2009, at the worst possible moment, it was more or less forced by the government to take over ailing Dresdner Bank which doubled the personal deposit base to become the premier personal bank. Because of that takeover, it had to be rescued later by the German state buying a 25% stake.

For UniCredit, the corporate business is potentially especially valuable, and it has been gradually building its stake in Commerzbank since 2024.

It was already the German bank's largest shareholder, with a 30% holding, when renowned boss Orcel put in an all-share offer that was just 4% above market price. That was widely interpreted as a low-ball offer intended to get around German legal technicalities, rather than a genuine attempt to control Commerzbank. However, the surprisingly large take-up from shareholders has left UniCredit virtually in control of Commerzbank, as about 1-2% of shareholders cannot or will not vote over company matters.

Commerzbank has even suggested that the "unusual tender behaviour" of shareholders accepting the offer is a sign that something fishy is going on. The German government – Commerzbank's next largest shareholder, ever since the post-2008 bailout – has strongly pushed back on the deal too. The idea that a mainstay of Germany's banking system could be swallowed up by an Italian rival is regarded as something of an embarrassment in Europe's largest economy.

Ultimately, however, the political blowback is unlikely to stop UniCredit's takeover. German financial watchdog BaFin is investigating the acquisition (following a criminal complaint from Commerzbank's workers' council) but few expect that to come to anything. For all that German Chancellor Merz might complain, there is not much he can do. It will then be up to the ECB to approve the deal. That process will inevitably take a while, but is unlikely to throw up any major challenges.

The European Banking Union remains just an idea for individuals

The arguments against UniCredit's takeover (ones beyond simple national pride) are about the lack of synergies to be gained by a joint UniCredit-Commerzbank enterprise. Global banking capital regulation (formulated under the post-GFC Basel III capital framework) effectively prohibits using assets raised in one country to fund loans in another, which significantly limits the benefits of scale that you might expect for a multinational bank.

However, the European Union does allow Italian assets to back German loans as long as this is done via branches rather than subsidiaries. Nordea successfully operates their commercial banking on this branch model. The elephant in the room here is that Europe's national banking regulation is inefficient for individuals. The EU's banking union has made progress on two of its 'pillars' in the last few decades – a single framework for supervision and a single resolution system – but its third pillar is still missing: the proposed European deposit insurance scheme, which applies to consumers.

Without a single deposit system, national regulators (and national politicians and savers/voters) fear that a super-national bank may misuse their deposits to make risky loans elsewhere for which they and the nation will have to suffer the economic consequences or pay for a bailout if they go bad. With heavy-handed regional oversight, a pan-European corporate structure may be more of a burden to national banking operations than a benefit.

That is one of the reasons why Europe has never had many successful cross-border commercial banks – with the notable exceptions of Santander and Nordea. Cross-border European banks tend to either be corporate or investment focussed, where regulations and capital requirements are uniform. Or, they have to be newer digital upstarts – like Revolut and N26 – which avoid bank branches or mortgage books.

Political division remains the key barrier

The lack of a true banking union is a symptom of Europe's political structure. That structure discourages pan-European corporations because governments will always favour national champions. Cross-border mergers always face political backlash regardless of the sector.

There is usually very little political will to overcome these differences. For voters, the potential drawbacks to cross-border mergers are very salient – someone else buying up *our* companies – but the benefits are intangible. There has been very little progress on the Savings and Investment Union (SIU – the rebranded Capital Markets Union), for example. That is despite politicians recognising that Europe needs to put its abundant savings to work not just for the sake of its economy, but to fund its defence infrastructure too.

If the aim of SIU is to integrate Europe's capital markets and put European savings to work, a consistent approach would suggest that you need a better banking union too. So, you might expect any eventual progress on the SIU to trickle down into the banking union. But politics rarely work that way. More likely is that politicians would see themselves as having only so much political capital to spend – either on the SIU or the banking union.

What does this all mean for UniCredit itself? If and when a true European banking union comes, the Italian giant will be in a strong position to benefit. But in our opinion we cannot and we should not interpret a UniCredit-Commerzbank deal as a sign that the banking union is any closer.

Tatton Investment Management

10 July 2026

Global Equity Markets	10-Jul			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10484	-1.6	-1.6	→ →	3.2	14.5	12.7	12.7
UK FTSE 250	23277	-1.0	-1.0	→ →	3.3	8.2	12.3	13.2
UK FTSE All-Share	5636	-1.5	-1.5	→ →	3.2	13.7	12.6	12.6
FTSE Small x Inv_Tsts	6434	-1.2	-1.2	→ →	4.0	17.6	9.9	9.9
EU STOXX ex UK	821	-1.7	-2.2	⇗ →	2.9	18.1	15.9	15.1
France CAC 40	8334	-2.0	-2.5	→ →	3.1	17.1	14.5	14.1
Germany DAX 40	25082	-2.6	-3.1	⇗ →	2.6	17.8	15.1	13.4
US S&P 500	7544	+0.8	+0.3	↗ ⇗	1.1	25.6	20.3	19.1
US NASDAQ comp	26207	+1.4	+1.0	↗ ⇗	0.5	35.0	25.0	26.2
Japan Nikkei 225	68558	-1.7	-2.5	↗ ↗	1.3	24.9	22.9	18.7
World Bloomberg	2605	+0.1	-0.4	⇗ ⇗	1.5	22.5	17.5	16.7
China Bloomberg	1284	+1.3	+0.9	↘ ⇘	2.3	15.1	11.9	12.5
Emerging Bloomberg	1807	-1.6	-2.1	⇗ ↗	2.1	17.9	11.2	12.5

FTSE100 Top 6

Company	%
Vodafone	+12.3
Shell	+5.2
RELX	+4.0
Pearson	+4.0
Entain	+3.9
DCC	+3.4

S&P Global Top 6 (GBP terms)

Company	%
Hewlett Packard Enterprise	+20.5
Alibaba Holding	+16.6
Arista Networks	+14.8
Meta Platforms	+13.7
Dell Technologies	+13.5
Akamai Technologies	+13.4

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	+0.7	Staples	-2.2
Financials	-0.2	Energy	+2.2
Health	-1.8	Materials	-3.7
Discretionary	-0.0	Utilities	-2.0
Industrials	-2.8	Real_Estate	-1.2
Communicatic	+0.9		

FTSE 100 Bottom 6

Company	%
AstraZeneca	-10.9
St James's Place	-10.3
Fresnillo	-9.5
Endeavour Mining	-9.5
Halma	-9.4
BAE Systems	-6.7

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Hanwha Aerospace	-16.6
Ibiden	-13.7
Moderna	-12.6
PLS	-11.7
Murata Manufacturing	-11.6
AstraZeneca	-10.9

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.41	+0.11
UK 10yr Gilt	4.88	+0.10
UK 15yr Gilt	5.29	+0.10
US 10yr Treasury	4.55	+0.06
France 10yr OAT	3.84	+0.11
Germany 10yr Bund	3.07	+0.13
Japan 10yr JGB	2.73	-0.04

Currencies

Pair	last	%1W
USD per GBP	1.341	+0.4
GBP per EUR	0.852	-0.6
USD per EUR	1.143	-0.1
JPY per USD	161.79	+0.4
CNY per USD	6.779	-0.1
USD per Bitcoin	64,260	+3.6

Commodities

Cmdty	last	%1W
Oil Brent $:bl	76.13	+5.8
Gold $:oz	4107	-1.6
Silver $:oz	59.56	-4.3
Copper $:lb	626.3	+0.7
Alumnm $:mt	3208	+4.1
Agriculture BBG	57.47	+3.7

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	10-Jul	10-Jun
UK BoE base rate	3.75	3.75
2yr fixed	4.54	4.92
3yr fixed	4.68	4.88
5yr fixed	4.50	4.80
10yr fixed	5.10	5.24
Standard variable	6.60	6.60

Where possible, prices taken levels at 10 July 3:00 PM (today) and 03 July 2:15 PM. Mortgage estimates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

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