The Tatton Weekly

Markets going in circles

17 July 2026

This week's topics:

AI froth coming off

Markets' guardrails for Burnham

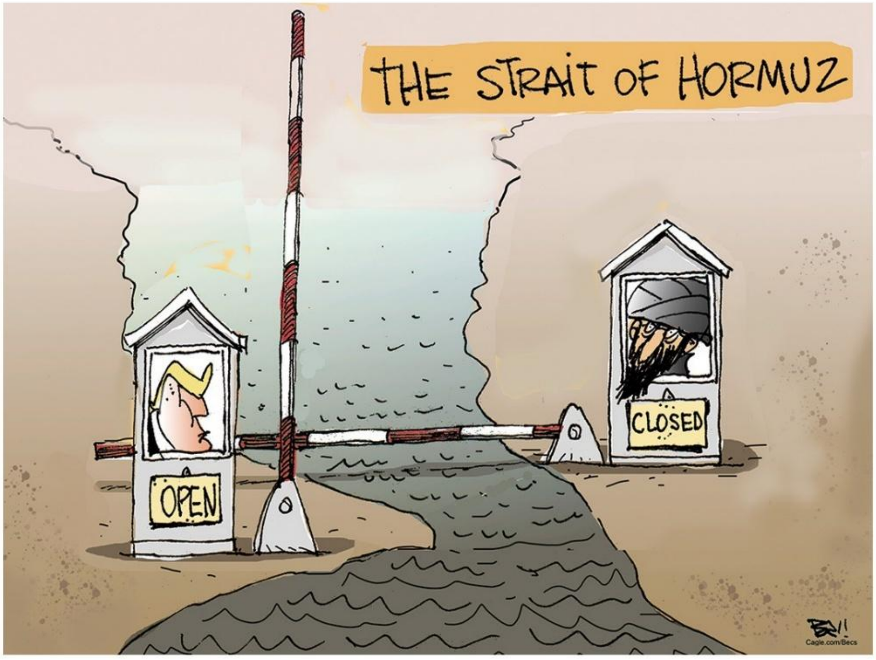
National Artificial Intelligence

This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing



Strait of Hormuz negotiations, cagle.com, 14 July 2026

AI froth coming off

The summer lull has arrived early. Broad stock indices, bonds and even oil prices have bounced up and down over the last two weeks without any clear direction. The previous AI winners, particularly semiconductors (chips), are the exception: they have swung from strongly positive to strongly negative, despite there being no one specific negative catalyst for this sentiment shift. The themes are still as they have been for months: the war in Iran, US interest rates and AI growth potentially running out of steam. Investors still do not know what to make of them all. But pausing for breath is not a bad thing, at least.

Markets waiting on either of two TACOs

The US and Iran are exchanging missile strikes and the Strait of Hormuz is closed once again. Renewed conflict bumped up oil prices last week, but Brent crude rose only slightly this week, to a little over $86 per barrel at the time of writing. Compared to the steep fall after the ceasefire was announced, this latest rise looks little more than a blip.

Given the warnings about dwindling global oil reserves, oil traders' nonchalance may appear reckless. Clearly, markets are not taking the latest flare-up as a serious threat to medium-term global fossil fuel supply. Both sides have significant incentives to reopen the oil floodgates and have already struck a deal once, so perhaps investors expect one or both sides to TACO (Trump *or* Tehran Always Chickens Out) imminently.

Thinking purely about those incentives, this makes sense. Higher fuel prices are incredibly unpopular heading into the US midterm elections, and the Iranian regime desperately needs the oil funds. Indeed, Tehran's money troubles are a large part of why it insists on its Hormuz toll collection – the issue which sparked this latest escalation.

However, the war so far has more often resembled a 'game of chicken' than one of rational self-interest. Things could well turn out worse than markets are expecting, both in terms of how long the war lasts and – if it lasts into the winter – its effect on global inflation. The one comfort, at least, is that games of chicken tend not to last long.

Soft inflation helps, but for how long?

One of the reasons markets are relatively sanguine about the Middle East is that US inflation looks surprisingly tame. June's timely report, released on Tuesday, showed year-on-year inflation at 3.5%, down from 4.2% previously and below the 3.8% consensus forecast. June's oil price reprieve helped, but the more encouraging part was that core inflation, excluding volatile elements like energy, fell too. The inflation pullback was confirmed on Wednesday by news of a 0.3% drop in producer prices.

Softer inflation reports quashed any remaining chance that the Federal Reserve might raise interest rates later this month. That is despite Fed chair Kevin Warsh telling Congress this week that he has "no tolerance" for inflation.

That pushed US bond yields down sharply – with knock-on effects on global and particularly UK bonds, as we discuss in a separate article. Lower yields make stocks more attractive by comparison, so bond moves pushed up equities too. Positivity in both stocks and bonds was short-lived, however, and prices (the inverse of yields) tailed off into the end of the week.

Perhaps investors realised they were being presumptuous. The inflation figures were from before the Iran war reignited and oil prices bumped higher. Markets clearly do not think the Strait of Hormuz will stay closed but, if it does, oil prices are still a substantial inflation risk. That is because the US economy remains strong, regardless of what the inflation numbers say. The Fed's own "Beige Book" report on the US economy confirmed as much this week.

Market churn is AI generated

The back and forth on bonds is representative of markets more broadly. There are plenty of stories to push investors one way or the other for a while, but very little conviction. Dutch semiconductor supplier ASML saw a slight bump after its impressive earnings report, for example, but was eventually bogged down by the travails of the broader chip manufacturing industry.

In fairness, chip stocks have been one of the clearer directional trends in recent weeks – and that direction is down. That bled into sharp losses for Asian chipmakers on Thursday, including an 11.5% daily loss for one of the year's best performers, SK Hynix. Taiwan's AI chip giant TSMC suffered a similarly adverse reaction to its earnings results, which beat already lofty growth expectations by some margin.

It is hard to work out exactly what is hurting chipmakers so much. There were suggestions that TSMC's impressive earnings were simply not impressive enough, with signs of higher capital spending and a slight revenue miss hidden under the headline number. There are also worries that New York State's recent one-year ban on new datacentre building could be a worrying sign for the AI infrastructure push. We discuss the regulatory impacts on AI in a separate article.

Overall, doubts about the sustainability of AI earnings growth are creeping back in. Investors displayed the same doubts last autumn, and it led to a healthy pause in the AI stock market trade. The more this happens, the less AI looks like a bubble. Bubbles come from investor exuberance, which is hard to argue when stock valuations are falling, rather than rising.

On the flipside, US banks are one of the few clear positives. Most of the big names reported very strong second quarter profits. The results themselves did not move their shares too much, but bank stocks have rallied from May in anticipation of strong earnings. These were not particularly surprising, given how busy last quarter was for both market trading (particularly energy futures) and large corporate deals. Rob Armstrong of the Financial Times also ties banks' performance to AI-driven market movements, declaring that "Wall Street Banks are AI stocks now".

If that is true, banks will not remain the darlings forever. The AI investment theme keeps broadening out and benefitting new sectors but, as chipmakers are finding out, its light can quickly pass. In the meantime, investors keep mulling the same old themes and working out what new can be done with them.

Markets' guardrails for Burnham

Reports on Wednesday suggest that Shabana Mahmood is likely to become Chancellor of the Exchequer in Andy Burnham's upcoming Labour cabinet. Yields on UK government bonds (gilts) fell straight after the news. As usual with gilt moves, however, we would caution against grand political interpretations. What they did show, at least, was that market movements will tightly constrain the next government – just as they have previous ones.

It's about global yields, again

At the time of writing, Mahmood's chancellorship is not yet official. The Financial Times first broke the news that the current Home Secretary would take the second biggest job in Britain, but spokespeople for premier-in-waiting Burnham refused to comment. If it does come true, some investors will see it as a relief. Energy Secretary Ed Miliband – previously the odds-on favourite for the Treasury – was largely seen as gilt markets' last pick, due to expectations that his Treasury would borrow substantially more.

At first glance, gilt movements since seem to back up the Miliband relief narrative. 10-year yields fell sharply on Wednesday, to below 5% at the time of writing.

That is not the whole story, though. The fall in gilt yields had more to do with a corresponding drop in US treasury yields, following a succession of softer-than-expected US inflation reports. US consumer inflation fell to a lower-than-expected annual rate of 3.5% in June, scuppering any chances of a July interest rate hike from the Federal Reserve. That news came on Tuesday, and was reinforced by a 0.3% month-on-month *fall* in producer prices on Wednesday.

Where US bonds go, global bonds usually follow. This is particularly true for the UK, due to structural imbalances in the outstanding stock of gilts (weighted more heavily towards long-term issuance, and with more inflation-linked bonds). Those imbalances make gilt yields more reactive to global inflation than other markets.

The UK has a gilt-y conscience

If gilt yields were mainly driven by US inflation, that means the reaction to Mahmood's appointment was muted. But if markets were worried about a Miliband treasury, why did they not react more favourably to his snubbing?

We suspect the answer is that gilt traders were not as worried about internal Labour politics as the media often suggests. That is because Burnham's Labour government – like all recent UK governments – has very limited scope to change fiscal policy particularly much.

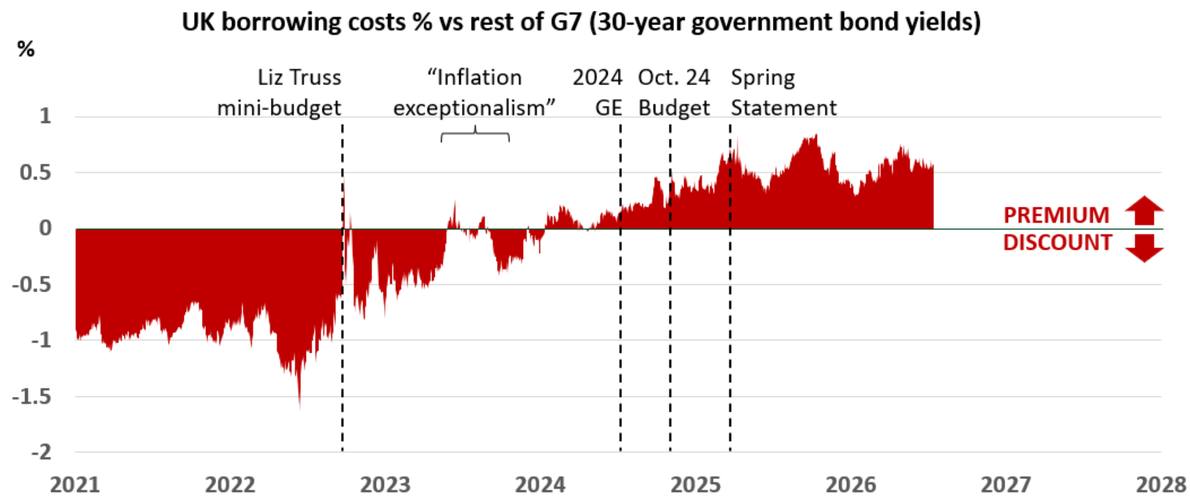
The Liz Truss 'mini budget' crisis in 2022 was a turning point that exposed the structural gilt market imbalance, after which gilts became much more dependent on foreign investors. Since then, every government has been beholden to the bond vigilantes. Everyone knows that gilt traders will tantrum if they smell fiscal risk, and that itself means investors rarely expect significant changes to borrowing.

This is not so much a question of political priorities as budgeting realities, made abundantly clear by the 2022 crisis and gilt movements since. If Miliband had become Chancellor and announced significant new gilt issuance, a sharp increase in yields would likely eat up most of the money he would hope to raise in the first place. There is therefore little point in fiscal expansion.

The OECD effectively said as much in its survey of the UK economy, released this week. That is why current Chancellor Rachel Reeves has been focussed on getting interest rate costs down as the most realistic way to aid UK growth. In her Mansion House speech on Tuesday, the departing Reeves delivered this reminder to her successor: “Radical change is only possible if it comes with credibility.”

Is it really a “moron premium”?

Gilt yields have been consistently higher than other markets for several years, and some commentators do indeed put this down to a combination of persistent inflation and government mismanagement. TS Lombard’s Dario Perkins coined the term “moron premium” in the aftermath of the Truss episode, and many use the term to describe not just one government but a kind of economic fatalism that surrounds every British government.



Source: Simon French – Panmure Liberum / Bloomberg as at 14th July 2026

Calling it a “moron premium” is obviously politically loaded. Regular readers will know we prefer to think of gilt problems in structural terms – not to deny mismanagement but because we think structural imbalances explain more over the long term. The large proportion of inflation-linked gilts (and the way the inflation component is calculated on the Treasury’s balance sheet) means that higher global inflation expectations are amplified, for example. So, not only do gilt yields rise when others do, but they rise more quickly – what bond traders call a “high beta”.

Given that, the renewal of tensions in the Strait of Hormuz came at a terrible time for the soon-to-be Burnham government (though the US inflation report came at a great time too, of course).

For gilt investors worried about fiscal recklessness, however, it was arguably good timing. It allowed bond vigilantes to deliver another warning shot to the man who would be Prime Minister, just as he was picking his Chancellor. This is yet another reason why we do not expect the next government to change the balance of UK borrowing meaningfully.

National Artificial Intelligence

How much control should governments have over AI? AI insiders themselves regularly sound alarm bells about the need to slow this rapidly growing technology, fearing its societal, political or economic impacts. Governments have been slow and sometimes clunky in doing so, but we should expect regulation and intervention in AI development to become more common in the coming years.

Markets do not see that as an immediate headwind for AI-related companies. They might be right about that in the short-term share price movements, but it is nonetheless crucial for the AI investment theme in the long term.

Washington cracking down on AI security

Last month, the Trump administration banned Claude producer Anthropic from allowing any non-US citizens access to its freshly released Fable 5 AI model, citing national security concerns. Anthropic was given virtually no time to comply with the order so, knowing that reliably discerning users’ nationality was practically impossible, it pulled back its most powerful model just days after release. The US government eventually greenlit Fable’s release at the end of June, saying it was now comfortable with the steps Anthropic had taken.

The White House also told Anthropic’s rival OpenAI to stagger the release of its latest ChatGPT 5.6 model, allowing early access only to a government-approved list, before giving the wider public eventual access last week.

There are suggestions that the sudden intervention on Anthropic was partly about the company’s insufficient fealty to Trump. Anthropic was deemed a supply-chain risk by the US Department of War earlier this year after it refused to allow Claude’s use in autonomous weapons and surveillance. OpenAI boss Sam Altman, by contrast, recently offered the White House a 5% stake in his company once it undergoes its IPO later this year. Many interpreted that as a thinly veiled attempt to get favourable treatment from the Trump administration.

More broadly, Washington is reportedly accelerating plans for a new set of voluntary standards for so-called frontier AI models.

It's about ownership too

On the security question, both policymakers and companies themselves recognise the need for tighter and more consistent regulation. This week, Google DeepMind's chief called for exactly the kind of US-led standards body that the White House is reportedly developing, demanding "urgent action" to address risks from frontier AI.

Likewise, regulators are looking to make non-AI companies more resistant to the threats posed by frontier models. Earlier this month, the ECB sent a letter to significant European institutions demanding comprehensive proactive plans for dealing with AI security risks.

The question of ownership, raised (perhaps spuriously) by OpenAI's 5% offer to Washington, is a little more contentious. Many think that an AI equivalent of the industrial revolution will fundamentally change the global economy and potentially displace millions of workers – while delivering incredible profits for shareholders of AI companies. If that is right, the public have a reasonable claim to recoup some of the profits from their own displacement. In the US, politicians across the ideological spectrum have made this argument.

The national security and public ownership (or public benefit, at least) questions are not fully independent, however. Perhaps no one should complain about profits generated in the US, at the expense of American jobs, being returned to Americans. But what about profits from Europe or South America? European politicians will not be too pleased about a (partly) state-owned US company displacing European jobs and giving the money back to US citizens.

If the public ownership of AI companies develops further (OpenAI negotiations are reportedly ongoing), that could lead to more international restrictions on AI usage.

It's a long-term issue for AI companies

AI stocks have been fairly unfazed by government interventions in AI. That is partly because the main targets of these interventions – OpenAI and Anthropic – are not yet publicly traded companies. But you might have expected some selling pressures on broader AI-related stocks, which have not been felt.

That does not mean there is nothing to worry about. The high valuations for AI-related companies are based on their impressive profits and potential to rapidly develop towards ever more growth. Government interventions challenge both the profits and the technological growth.

Calls to slow frontier models are a direct challenge to the 'move fast and break things' model of tech development. However, the slow stress-testing mode of development is widely seen as vital, including by AI leaders themselves, so markets are unlikely to see this kind of regulation as a major threat to AI companies even in the long term (it might come to be seen just like crash testing cars, for example).

The bigger threat is a chaotic government approach where certain companies' models are permitted or blocked seemingly on a whim – exactly as we have seen from the Trump administration. That uncertainty prevents forward planning and ultimately stifles investment.

Likewise, the key problem with public ownership is not the government taking a share of the AI profits. They will do that one way or another – if not through ownership then through tax. The bigger problem is companies vying for preferential treatment by giving the government a kickback. We are not saying that is what OpenAI are doing, but it is easy to see a slippery slope into cronyism. Cronyism is not good for the economy – and certainly not for society – in the long term.

AI providers like Google owner Alphabet have seen their share prices stall in recent months, after a great run in the spring. The pressure has been even greater on the AI inputs, like the semiconductor manufacturers, who had taken over market leadership from the former earlier this year. There are many reasons for this slowdown, and we suspect the spectre of government intervention may be one. But even if they are not the main drivers of share prices in the short term, governments' relationships with AI providers could dictate the future of AI investment.

17 July 2026

Global Equity Markets

Market (17-Jul)	Level	% 1 Week	% 1 Week (GBP)	Technical Short Medium	Valuations Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10574	+0.7	+0.7	→ →	3.1	14.6	12.8	12.7
UK FTSE 250	23624	+1.2	+1.2	→ →	3.3	8.3	12.6	13.2
UK FTSE All-Share	5688	+0.7	+0.7	→ →	3.2	13.9	12.8	12.6
FTSE Small x Inv_Tsts	6581	+1.9	+1.9	⬀ →	3.9	18.9	10.1	9.9
EU STOXX ex UK	816	-0.6	-0.7	⬀ ⬀	2.9	17.9	15.7	15.1
France CAC 40	8327	-0.0	-0.2	→ →	3.1	17.0	14.4	14.1
Germany DAX 40	24783	-1.3	-1.5	⬀ →	2.6	17.5	14.8	13.4
US S&P 500	7491	-0.8	-1.2	➚ ⬀	1.1	25.5	20.1	19.1
US NASDAQ comp	25545	-2.5	-2.9	➚ ⬀	0.5	34.5	24.7	26.2
Japan Nikkei 225	64141	-6.4	-7.2	➚ ➚	1.3	23.5	21.6	18.7
World Bloomberg	2572	-1.3	-1.7	⬀ ⬀	1.6	22.3	17.2	16.7
China Bloomberg	1249	-2.8	-3.1	⬂ ⬂	2.4	14.7	11.4	12.5
Emerging Bloomberg	1735	-4.1	-4.4	⬀ ➚	2.1	17.3	10.6	12.5

FTSE100 Top 6

Company	%
Kingfisher	+8.9
Metlen Energy & Metals	+8.4
Vodafone	+7.9
BP	+7.4
ICG	+6.6
Shell	+6.6

S&P Global Top 6 (GBP terms)

Company	%
PayPal	+20.5
Adecco	+16.8
Randstad	+14.8
Cintas	+14.1
Getinge	+12.0
Edenred	+11.4

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-5.2	Staples	+1.8
Financials	+0.5	Energy	+3.9
Health	+0.1	Materials	-1.6
Discretionary	-0.6	Utilities	+0.5
Industrials	-1.7	Real_Estate	+1.9
Communicati	-3.0		

FTSE 100 Bottom 6

Company	%
Antofagasta	-9.1
Scottish Mortgage IT	-7.9
Polar Capital Technology IT	-7.5
Fresnillo	-7.1
Endeavour Mining	-6.6
Anglo American	-6.2

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Yaskawa Electric	-27.2
International Business Machines	-25.7
Sandisk	-25.4
Ibiden	-23.4
Murata Manufacturing	-23.2
Western Digital	-21.7

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.50	+0.09
UK 10yr Gilt	4.94	+0.07
UK 15yr Gilt	5.35	+0.06
US 10yr Treasury	4.52	-0.04
France 10yr OAT	3.92	+0.09
Germany 10yr Bund	3.12	+0.05
Japan 10yr JGB	2.69	-0.04

Currencies

Pair	last	%1W
USD per GBP	1.345	+0.3
GBP per EUR	0.851	-0.2
USD per EUR	1.144	+0.1
JPY per USD	162.36	+0.4
CNY per USD	6.779	-0.0
USD per Bitcoin	63,336	-1.3

Commodities

Cmdty	last	%1W
Oil Brent $:bl	87.00	+14.1
Gold $:oz	3995	-2.6
Silver $:oz	55.69	-6.7
Copper $:lb	623.9	-0.7
Alumnm $:mt	3194	+1.2
Agriculture BBG	58.96	+1.5

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	17-Jul	17-Jun
UK BoE base rate	3.75	3.75
2yr fixed	4.55	4.92
3yr fixed	4.75	4.88
5yr fixed	4.53	4.80
10yr fixed	5.17	5.24
Standard variable	6.60	6.60

Where possible, prices taken levels at 17 July 3:00 PM (today) and 10 July 3:00 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.

Lothar Mentel