The Tatton Weekly

Markets firm but fair

19 June 2026

This week's topics:

From Wars to Warsh

Shakeout for oil traders

Big Debt for Big Tech

This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing

Andy Burnham and the others, Matt, 18 June 2026

From Wars to Warsh

The deal between US and Iran, which extends the ceasefire and opens the Strait of Hormuz, is unequivocally good news for markets. Oil prices are sharply down, global stocks are up and long-term bond yields have calmed.

We can be sceptical about what constitutes peace or when it will really begin. The supposed signing in Switzerland was delayed after Israeli bombing in Lebanon but, as we write, Israel and Hezbollah say they have agreed a ceasefire. The situation appears fragile. However, for markets, the fact is that there has been a lessening of risks, particularly the most economically damaging risks.

Washington's dealmaking drove down inflation expectations, helping longer-term bonds. But, US stocks were only marginally up through the week – lagging behind Europe and Japan. With Iran (apparently) in the rearview mirror, global investors turned their attention to Kevin Warsh's debut meeting as Federal Reserve Chair.

Hard money Warsh means a harder dollar

Chairman Warsh has a clear agenda – but maybe not the agenda of the man who picked him. Donald Trump nominated Warsh because of his perceived desire for lower interest rates, and everyone wondered how that would gel with the new Fed chair's desire to tighten central bank liquidity. It is now clear that the latter will take priority.

What we also saw in Warsh's first meeting was a plan for reforming the way the Fed researches and communicates its policies – notably, by reducing the central bank's forward guidance. Reforming the Fed's research and communication will allow Warsh to control the narrative and overcome institutional blocks on his plan to reduce the Fed's balance sheet.

We think the eventual aim is to shift the burden of money creation onto private banks, as we had before the 2008 global financial crisis and the ensuing era of Quantitative Easing. Many are sympathetic to the idea that markets should be weaned off the central bank printing press. But it would put risks back into the financial system (the ones removed by post-GFC banking reform). This is already weighing on prices of riskier assets.

The other surprising part of the meeting was the Fed's signal that rates could go up this year. That hawkishness did not come from Warsh; the chair declined to submit a dot for the 'dot plot' of committee members' rate predictions. Even with falling oil prices, policymakers are concerned about US inflation – which sent short-term bond yields higher. That is not good news for mid and small cap stocks, which rely more on bank loans.

US inflation expectations fell, long-term real (inflation-adjusted) bond yields were stable, and the dollar gained against most global currencies. All of that tells us that markets think Warsh's 'hard money' approach to liquidity is off to a good start. If that is right, the dollar could be on a firmer footing than it has been for a while. That is important for investors: a weaker dollar over the last 18 months has significantly detracted from otherwise strong US equity returns.

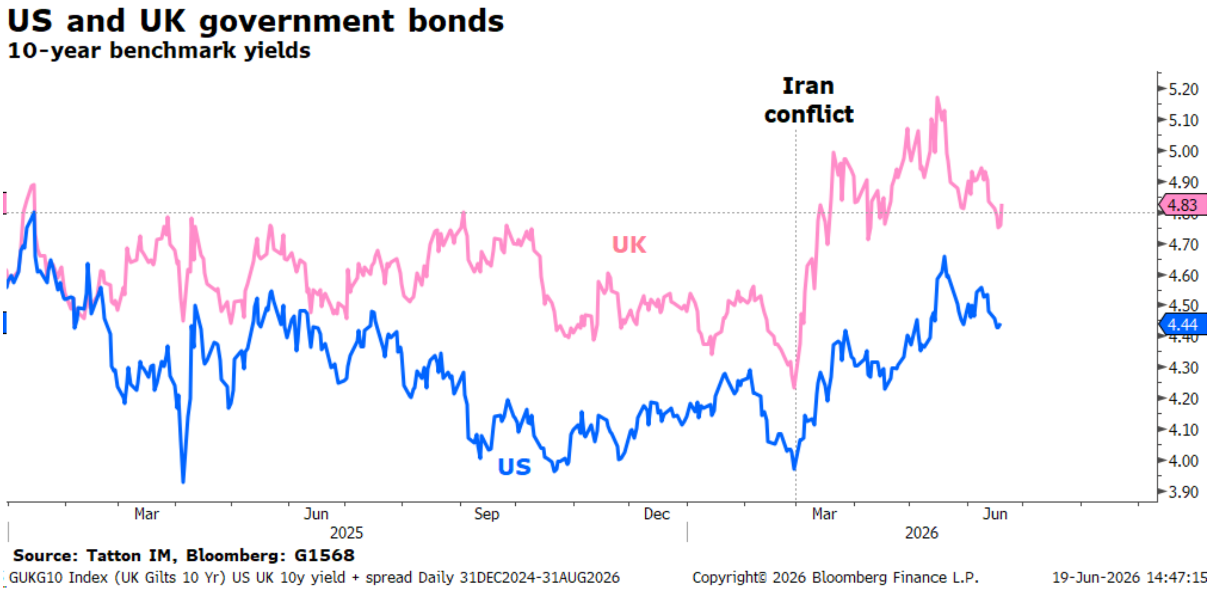
Deal eases the BoE's concerns

The Bank of England held rates steady in its meeting this week. Monetary Policy Committee (MPC) members are grateful for the US-Iran deal, lowering energy inflation and removing the need to hike. The UK's employment report was not quite as weak as expected, but private sector wage gains were fairly dreary. May's inflation figures (+2.8% year-on-year, versus +3% expected) vindicate the MPC's feeling that underlying inflation pressures are not so bad.

UK government bonds (gilts) were one of the best performing bond markets this week, with the gap between UK and US yields shrinking substantially. As we have written before, structural imbalances in the outstanding stock of supply make gilts highly reactive – in both directions. Lower global energy prices therefore have a bigger impact on gilts than others.

We said last week that gilt traders would be watching the Makerfield by-election. Andy Burnham's win caused a small rise in yields. But, by the time it happened, external pressures on gilts had eased up enough to make the fates of Starmer and Burnham seem relatively unimportant.

Burnham has said that he will not alter Labour's fiscal rules if he becomes Prime Minister. Unless that drastically changes, we expect international factors will keep being more important for gilt yields than domestic politics. If oil and gas prices ease further, there is even the possibility that Burnham could enter Downing Street with greater fiscal headroom than the government has enjoyed for a while – thanks to falling yields and stable tax revenues.



Can Beijing reverse China's weakness?

For much of this week, the only major currency stronger than the dollar was China's renminbi, though it reversed slightly on Friday. Despite currency strength, Chinese stocks were once again among the week's worst performers. We recently noted a pickup in Chinese economic growth – but the latest activity data suggest the opposite.

We think that is a liquidity problem. For a long time, the authorities have been actively supporting the renminbi's value, not as an economic tool but as a symbol of international stability. The plan has (arguably) worked but it has also effectively meant less capital in the financial system (buying up renminbi to support its value removes the amount of renminbi around). That exacerbated the damage that higher oil prices did to Chinese growth.

Beijing's recent communications suggest they might loosen liquidity conditions slightly. If so, we suspect the renminbi may soften – particularly against the dollar, thanks to the Fed's liquidity tightening. You could argue that China has come through the Middle East crisis politically stronger.

As such, Beijing might feel it can afford to let the currency slide. That would reverse one of the key long-term trends in markets – but it would likely benefit Chinese stocks.

Next week is the end of a quarter, which usually means fund managers rebalance their investments back to their target asset allocations. That means selling the assets that have done well. Equities beat bonds again this quarter, so many expect markets to take a breather into the second half of the year.

Enjoy the good weather.

Shakeout for oil traders

The US and Iran's deal to end the war and reopen the Strait of Hormuz has sent oil and gas prices tumbling. Brent crude ends the week below $80 per barrel, down from nearly $100pb a couple of weeks ago. Futures contracts for the commodities show traders are optimistic about global energy markets getting back on track soon. How justified is that optimism?

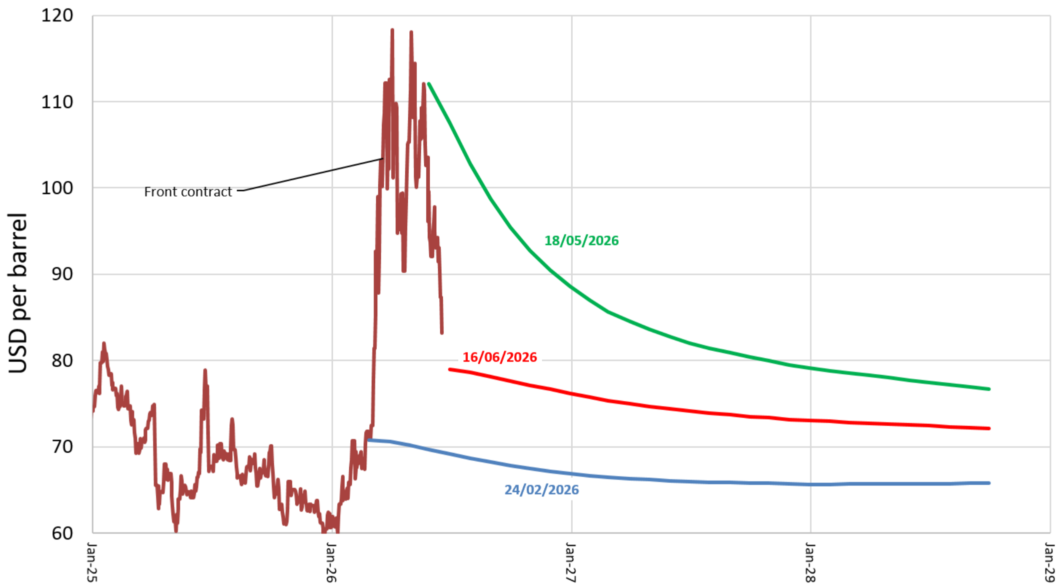
A measured fall?

Not for the first time, markets have effectively declared the US and Israel's war on Iran over. Israel and Hezbollah's exchange of fire and the subsequent cancellation of the US-Iran signing ceremony were reminders not to get ahead of ourselves. There are political forces opposed to the deal on all sides, so we cannot rule out another twist in the tale. But undoubtedly, the prospect of an open Strait of Hormuz looks more likely than at any point since the war began in late February. Assuming the deal is implemented, trade data firm Kpler expects shipping traffic through the waterway to reach 50% of its level from before the war within a month.

Futures pricing shows oil markets improving fairly quickly – but with some lingering supply problems. Brent crude is still some way above its $60pb from the start of 2026 (when Middle East tensions started building).

Before the war, the chatter in energy markets was about a long-term global oversupply in oil and gas. It does not look like that long-term oversupply has materially changed, and it may even increase, following Qatar's exit from OPEC. That being said, it may be a while before we know the full extent of the damage to energy infrastructure. Markets are currently pricing in some medium-term dislocation, but not a massive amount.

Brent Crude Oil: Futures from the past



Source: Tatton IM, Bloomberg, ICE Endex Dutch TTF Natural Gas Futures

That measured reaction is actually consistent with how energy markets have fared throughout the war. Many expected oil prices to reach $150pb or higher once Iran shut the Strait (through which 20% of the world's oil used to flow) but global energy markets were surprisingly resilient.

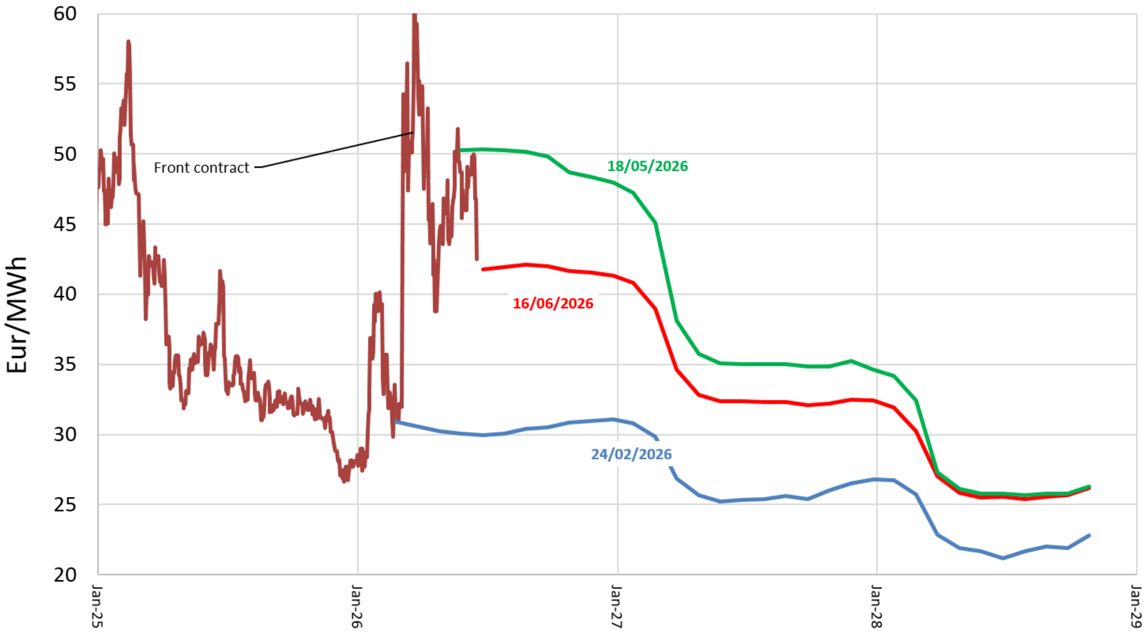
That resilience was partly down to a nosedive in Chinese oil imports. One would assume that those imports will rebound once oil shipping returns – either to rebuild Chinese oil reserves or through encouraging greater domestic demand. If so, rising Chinese demand will offset some of the normalisation in global supply, in exactly the same way that falling Chinese demand offset the previous disruption.

Good timing for Europe's natural gas

European natural gas prices fell sharply too – though again, not to pre-war levels. For context, European gas prices did not reach anywhere near the post-Ukraine war peak in the last few months. US natural gas prices, meanwhile, are virtually unchanged from the start of the Iran war. There have been signs of stress, however. We noted last week that Europe's natural gas storage was at the low end of its seasonal range. That is not a problem right now, but if that pattern had continued into the winter, the UK and Europe could have been in trouble. In other words, the deal could not have come at a better time.

On the eve of the Iran war, we wrote that Europe's long-term energy supplies looked stable, helped by a global oversupply. The timing of that prediction was, shall we say, unfortunate – but it was a fair reflection of the long-term balance of supply and demand. That balance has not materially changed during the war. If the US-Iran truce holds, it will be a strong positive for the European economy.

Europe Natural Gas: Futures from the past



Source: Tatton IM, Bloomberg, ICE Endex Dutch TTF Natural Gas Futures

It is also great news for emerging markets (EMs), where high energy prices can be a significant barrier to growth. Unsurprisingly, EM assets and currencies fared much better this week.

Speculators had a good time – not a long time

One of the reasons energy prices have been so volatile during the Iran war (aside from the obvious) is because of the increase in speculative trading. A few weeks ago, Intercontinental Exchange (ICE) reported a record amount of "open interest" in its gas and energy trading. Open interest refers to the number of open contracts in the market, reflecting traders' interest in buying or selling energy commodities. ICE's numbers back up the feeling that many investors have felt in recent months: everyone is an energy trader now.

Even before the war, there was a significant amount of speculative investment in energy commodities. At the start of 2026, many felt that there was a disconnect between energy prices and other commodities. Copper and lithium have been rallying all year, thanks to the expected buildout of AI datacentres – but the price of energy needed to build and run those datacentres did not rise in tandem. Some leveraged institutional investors (hedge funds) took out positions expecting energy to come more in line with other commodities.

The Iran war was the perfect catalyst for that realignment, and those speculative investors have been handsomely rewarded. They are now closing out those positions, so we see open interest declining across energy markets. That effectively means fewer speculative traders which, for oil and gas, usually means falling prices.

Even if it does not mean falling prices, it should at least mean less volatility. The shakeout of speculative investors should mean a return to normal in energy markets.

Big Debt for Big Tech

Big tech's appetite for capital keeps growing. JPMorgan reported this week that debt issuance related to the global AI buildout has surpassed $300 billion in 2026 already. JPM's analysts expect that figure to reach $4.1tn by 2030. We have worried before about how capital markets will cope with the increased demand for capital but, right now, they seem to be coping well. That could change as we go through the next phase of AI spending, however.

Debt issuance is money creation

In the wake of SpaceX's historic IPO, the big tech commentary has mostly been about the record amount of fresh US equity issuance this year. But the vast majority of AI spending is still funded through borrowing, rather than new shares. This week, JPM researchers raised their projections for total AI and datacentre-related capital expenditure by 2030 to $5.5tn, $4.1tn of which they expect to come from debt.

The reason that so-called 'hyperscalers' (big tech firms with large cloud computing provision) fund their spending through debt is because that is often the cheapest way to do it. Years of strong cashflows – typically used for price-boosting share buybacks – have left the likes of Nvidia with extremely high credit ratings. Even after issuing a new $25bn bond this week, Nvidia has a very healthy balance sheet. According to a Pimco report last month, US hyperscalers with an 'A' credit rating or higher have the lowest leverage ratio of any sector in the US corporate bond market.

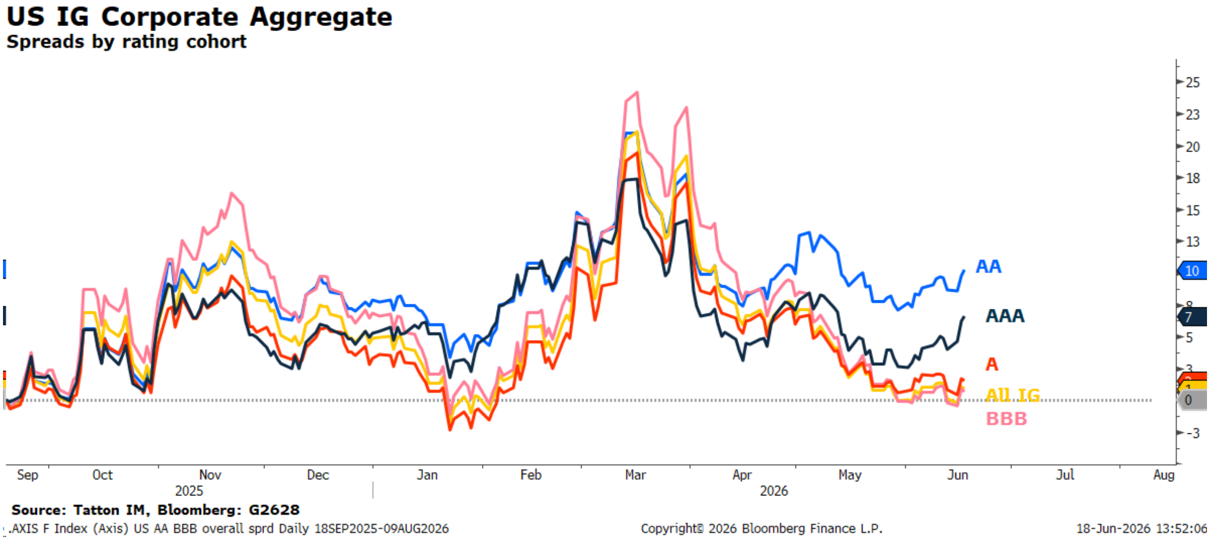
The mix of debt and equity issuance is important for thinking about how the AI capex spree will affect markets. Fresh equity is usually funded out of long-term savings, so buying SpaceX stock can often mean selling other assets. Debt issuance is different. Bank loans are funded by private money creation – and even corporate bonds are usually funded by that money creation process somewhere down the line. The fact new money is created means that overall market liquidity should still be well supported.

Big spenders keep credit spreads low

The liquidity factor means that record amounts of debt issuance from big tech firms are not an immediate problem for markets. But on the other hand, the fact that new money is being created to fund all the debt means that the overall leverage in the financial system goes up – increasing systemic risk.

However, the leverage risk is not showing up in the traditional metric for corporate credit risk: corporate credit spreads (the difference between government and corporate bond yields). In fact, aggregate US credit spreads have come down quite sharply in the last three months.

There is a big caveat to that fall, however. Part of the reason *aggregate* spreads are falling is that the biggest companies with the highest credit ratings – and therefore the lowest repayment rates – are issuing so much. High-rated debt takes up a bigger proportion of the aggregate corporate bond index, skewing yields lower, even though rates by all subgroups have increased. The strange result is that the more debt the hyperscalers issue, the healthier aggregate credit spreads look.



It is not just technical effects making the system look healthier. The hyperscalers will not spend all their borrowed billions at once, but rather use them to build over many months, even years. In the meantime, the money stays in the financial system as longer-term deposits – amplifying banks' ability to create credit (the "money-multiplier" effect which nowadays works via banks' improved liquidity coverage ratios and net-stable funding ratios). Money supply is therefore well-supported, helping markets, even though there is so much demand for it. The money multiplier can often happen in capex booms, as we saw during the 2000s dotcom bubble.

But tightening comes next

We have observed in past weeks that the prices of metals such as copper and lithium are strongly up while iron prices have traded sideways. We think that suggests hyperscalers are stockpiling crucial tech inputs (copper and lithium) but not actually building yet. That will change and, when it does, we expect that liquidity will tighten. The real economy needs money to build things. In those phases, the pace at which money flows back into savings (which support stock markets in particular) slows. If you think there is a bubble in AI, that tightening is when you might really start to worry.

To be clear, we are not saying that all this AI spending means we are in a bubble – or at least not one that will suddenly pop. Money being spent in the real economy might not flow into savings, but the flipside of that is that it goes to consumer incomes and even more spending. That is the growth multiplier markets were excited about at the start of 2026. The growth impact might be enough to offset tighter market liquidity, supporting profits and asset prices.

But that also depends on central bank policy – particularly the Federal Reserve. New Fed chair Kevin Warsh wants to wean markets off central bank money, reducing liquidity at (potentially) the exact time when AI capex starts draining it too. Big tech's borrowing spree has not upset markets yet, but we are approaching the inflection point.

Tatton
Investment Management

19 June 2026

Global Equity Markets

Market (19-Jun)	Level	% 1 Week	% 1 Week (GBP)	Technical Short	Technical Medium	Valuations Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10369	-0.7	-0.7	⬀	→	3.2	15.0	12.6	12.7
UK FTSE 250	23151	-0.5	-0.5	↗	→	3.5	12.2	12.1	13.2
UK FTSE All-Share	5578	-0.7	-0.7	⬀	→	3.2	14.8	12.6	12.7
FTSE Small x Inv_Tsts	6391	-1.4	-1.4	↗	→	4.2	21.1	9.5	9.9
EU STOXX ex UK	819	+1.5	+2.0	↗	⬀	2.9	18.1	16.0	15.1
France CAC 40	8445	+1.5	+2.0	↗	→	3.0	17.7	14.8	14.1
Germany DAX 40	25039	+2.1	+2.6	↗	→	2.6	17.8	15.2	13.4
US S&P 500	7501	+1.3	+2.7	↗	⬀	1.1	25.5	20.5	19.0
US NASDAQ comp	26518	+2.8	+4.2	↗	⬀	0.5	35.7	25.8	26.2
Japan Nikkei 225	71250	+7.9	+8.8	↗	↗	1.2	26.5	24.6	18.7
World Bloomberg	2609	+1.5	+3.0	↗	⬀	1.5	22.5	17.8	16.7
China Bloomberg	1301	-0.4	+1.0	→	→	2.1	15.2	12.0	12.5
Emerging Bloomberg	1900	+3.8	+5.3	↗	↗	1.9	18.8	12.2	12.5

FTSE100 Top 6

Company	%
Rolls-Royce	+7.8
Informa	+7.5
IMI	+6.5
Standard Chartered	+6.3
Barratt Redrow	+5.9
Weir	+5.2

S&P Global Top 6 (GBP terms)

Company	%
Murata Manufacturing	+38.4
Western Digital	+34.4
SK Square	+31.7
Moderna	+30.0
Ibiden	+29.5
SK hynix	+29.2

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	+5.9	Staples	-1.4
Financials	+2.6	Energy	-4.7
Health	-1.3	Materials	+0.6
Discretionary	+1.4	Utilities	+1.0
Industrials	+4.3	Real_Estate	-1.7
Communicatic	+2.0		

FTSE 100 Bottom 6

Company	%
Entain	-7.8
London Stock Exchange	-7.5
Vodafone	-7.4
BT	-7.3
Shell	-6.7
Centrica	-6.6

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Accenture	-23.8
Fox	-19.6
Cognizant Technology Solutions	-15.0
CBOE Global Markets	-14.3
SLB	-13.2
Gartner	-12.7

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.39	+0.02
UK 10yr Gilt	4.84	+0.00
UK 15yr Gilt	5.24	+0.00
US 10yr Treasury	4.45	-0.03
France 10yr OAT	3.74	-0.01
Germany 10yr Bund	2.98	-0.01
Japan 10yr JGB	2.65	+0.03

Currencies

Pair	last	%1W
USD per GBP	1.322	-1.4
GBP per EUR	0.867	+0.4
USD per EUR	1.146	-1.0
JPY per USD	161.29	+0.7
CNY per USD	6.788	+0.4
USD per Bitcoin	63,040	-0.5

Commodities

Cmdty	last	%1W
Oil Brent $:bl	79.89	-10.5
Gold $:oz	4149	-1.0
Silver $:oz	64.54	-3.0
Copper $:lb	640.3	-1.3
Alumnm $:mt	3390	-4.1
Agriculture BBG	54.62	+0.3

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	19-Jun	20-May
UK BoE base rate	3.75	3.75
2yr fixed	4.70	5.14
3yr fixed	4.81	4.97
5yr fixed	4.61	5.00
10yr fixed	5.14	5.28
Standard variable	6.60	6.60

Where possible, prices taken levels at 19 June 3:00 PM (today) and 12 June 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