The Tatton Weekly

The world gets riskier

24 July 2026

This week's topics:

Hiatus in optimism

Oil rises but who wants it?

When momentum runs out

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24 July 2026

King appoints another PM, Patrick Blower, 21 July 2026

Hiatus in optimism

Equity and bond markets came under pressure this week, as oil prices rose above $100 per barrel again. The downside was clearest in bond markets, with long-term government yields moving up sharply. Stocks held up a little better in aggregate in the early part of the week, but all the risks around make them look increasingly fragile.

Rocky start for Burnham as global yields soar

We will call it an interesting first week in Number 10 for Andy Burnham. We usually try not to read too much politics into UK government bond (gilt) moves, but clearly his comments about using "any flexibility" in Labour's fiscal rules were a factor in gilt yields rising faster than other bond markets at the start of the week.

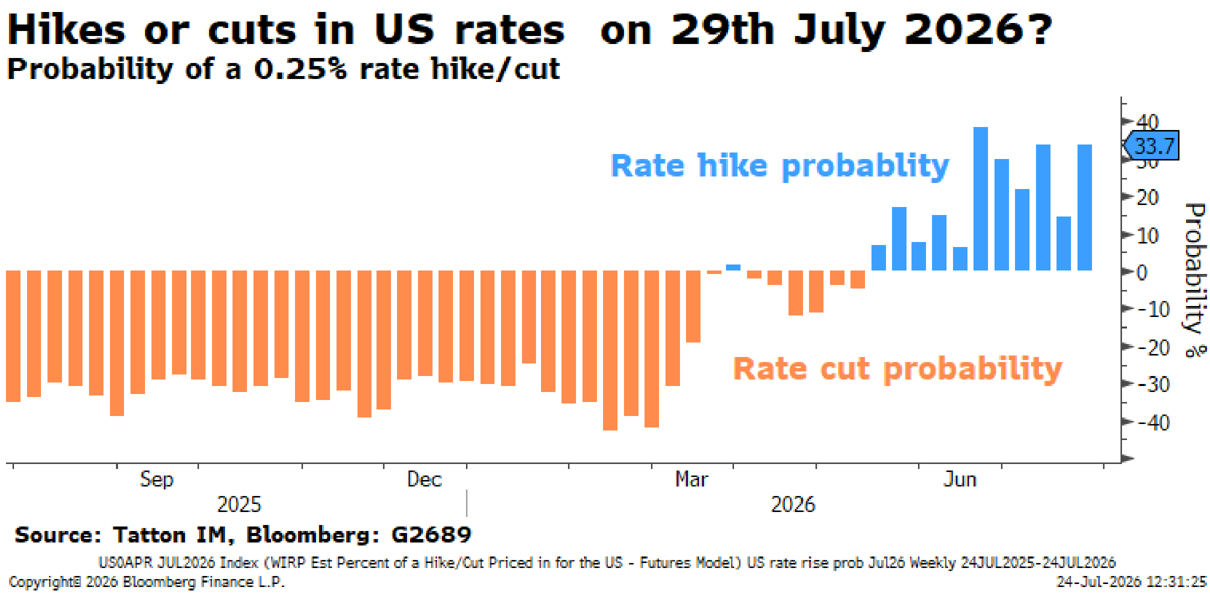
It was interpreted as a signal of more borrowing, putting the Prime Minister on a bad early footing with gilt investors. Subsequently, there was lots of messaging about "fiscal discipline". The appointment of John Healey, former Treasury Secretary under Gordon Brown, was seen as an implicit signal of spending control. The UK's lower than expected 2.6% inflation figure for June also helped.

Still, bond yields are not falling, and the oil and gas spike means we cannot take much from backwards-looking economic data. Whatever Burnham and Healey do, the more important thing for gilts will be what happens in global bond markets.

Gilts were therefore not helped by sharp rises in US and Japanese bond yields. US yields rose because of higher oil and the continued resilience of US growth, with employment rebounding after a late spring soft patch.

AI infrastructure investment keeps driving that growth. Google owner Alphabet announced this week that its free cashflow was -$5.9bn in the second quarter, thanks to its exorbitant AI spending. With US tech giants borrowing and spending so much, broad US money supply is rising sharply, and now outpacing nominal GDP. Greater money supply combined with higher energy prices is a problem for the Federal Reserve, whose interest rate setters have made surprisingly hawkish comments (preferring higher rates) recently.

A rate *cut* seemed more likely than a hike as recently as April – when oil prices were even higher. Now, investors are nervous that the Fed could raise rates at its meeting next week. According to Bloomberg, markets' implied hike probability has risen to 34%, from last week's 10%.



That still means a Fed hike is unlikely but, if it were to happen, it would be a serious challenge for markets. Equity investors have kept their calm amid recent turmoil, helped by easing liquidity conditions. A surprise rate hike could undo that.

Red Sea risks are badly timed

The prospect of energy price inflation is bad news for bonds. Soaring natural gas prices are even more important than oil, particularly in Europe. European natural gas prices have climbed over 50% since late June. At the same time, Europe's gas storage is running at the lowest end of its seasonal range. That does not bode well heading into the winter.

The attacks that pushed oil over $100 per barrel were not in the Strait of Hormuz, but in the Red Sea. Saudi Arabia has rerouted much of its oil exports through the passage over the last few months, but two of its tankers were struck by Yemen's Houthi militants on Thursday. In a separate article, we discuss how sluggish global oil demand had been holding back oil prices through the Iran war – but that balance can only hold if oil can flow through the Red Sea instead. If this area becomes another warzone, it could be a serious threat to the world economy.

However, that clear and present danger makes it more likely that Houthi attacks on oil tankers will be diminished as quickly as possible. The Yemeni group does not have the same attack capabilities as Iran; indeed, there has been only one day of attacks by the Houthis and they may be unable to mount any serious challenge to shipping. Nevertheless, it is being taken seriously. The US now has previously reluctant allies who agree that the attacks may need a response. The UK has joined US and Saudi operations against the Houthis in the past, and could be motivated to do so again. We do not know how successful such operations might be, but the Red Sea is not another Hormuz, at least.

The flare-up comes at the worst time for markets, though, just as the Fed turns more hawkish.

Tech anxiety isn't all about oil

Aggregate stock prices were not hit as badly as you might expect by oil prices, but big tech stocks had a bad week. Shares in Tesla and Google owner Alphabet ended the week sharply down. In Alphabet's case, that is despite smashing its earnings projections for last quarter. Earnings growth fuelled equity returns earlier this year, so Alphabet's sell-off is a little strange. Could it just be referred pain from oil prices?

We think there is more to it. Investors are clearly nervous about the huge sums Silicon Valley is spending on AI. Even though Alphabet's reported spend was not much higher than expected, its AI spending spree has transformed the company from a quality cash-rich stock to one that now burns through all its revenue and then some.

It is not purely about the amount of AI spending. Investors have come to accept that big US tech firms have to invest billions to keep up in the AI race. But they want to see proof that those billions are being invested in the best way to generate future returns. Doubts about monetising AI were heightened last week when Chinese firm Moonshot released another frontier AI model made for a fraction of what US firms spend.

Markets seem to be growing anxious about how the new AI tools might be used to generate hard profits – not just for tech companies but for the businesses they service. Where will the productivity benefits actually accrue, and how significant will they be in the end? From chip stocks to the so-called 'hyperscalers', investors are increasingly asking those questions. With so many risks around right now, those questions are harder to answer.

24 July 2026

Oil rises but who wants it?

Oil prices have spiked again, rising above $100 per barrel on Thursday after a series of escalations in the Middle East. Higher oil was initially about the US and Iran exchanging strikes, but the situation ratcheted up further after Yemen's Houthi rebels attacked Saudi oil tankers in the Red Sea – the passage through which many Middle Eastern tankers have rerouted in the last few months.

Last week, we wrote that oil traders had hardly reacted to the Strait of Hormuz closing yet again. That nonchalance did not last but, for now, the spike is more to do with increased speculation in energy markets than oil supply itself. Whether oil supplies can hold is another matter, however.

Dwindling demand dampens oil prices

The curious thing about Brent, the international oil benchmark, is not that it rallied this week – but rather that it stayed relatively low in previous weeks. Brent rose to around $85 per barrel when the US-Iran ceasefire fell apart earlier this month, but that was well below the $110 per barrel level we saw at the height of the conflict. Oil traders' relaxed attitude seemed to be about expecting one or both sides to quickly back down.

Some commentators suggested another reason for markets' underreaction: perhaps a closed Strait of Hormuz is not as bad for the world economy as feared. 20% of the world's oil transited the Strait before the war, but it has been effectively closed for five months, and the doomsday predictions have yet to come true. There have been devastating fuel and fertiliser shortages in much of the global south, but western developed economies have coped surprisingly well.

That resilience has been partly about the release of strategic oil supplies or new sources (including sanctions relief on Russia). A substantial fall in global oil demand has helped too. According to CNN, when last month's ceasefire came and Middle Eastern producers could finally ship their oil tankers, buyers were hard to find. Many producers had to apply hefty discounts to shift supply.

Even when oil rose above $100 per barrel in March and May, it was less about physical oil shortages than a substantial increase in speculative trading in oil futures contracts. Those speculative positions were closed after last month's ceasefire announcement, leading to oil's sharp fall.

China's demand is the key

Demand destruction was crucial in keeping energy markets stable, and most of that demand destruction happened in China. According to Signal Ocean Research, China imported over 12 million barrels of crude a day before the war. That number has since fallen below 8 million. The world's second largest economy is utilising its extensive oil stockpiles, and actively cutting fossil fuel demand in certain areas.

Iran was allowed to sell crude to its biggest customer China after Washington and Tehran's memorandum of understanding. We assumed that China would buy heavily to rebuild its inventories, but China's oil imports from Iran have instead fallen in the last month, according to CNN.

China's lack of appetite is strange. The domestic economy has been weak for a long time, and Beijing has struggled to properly stimulate domestic demand. But it has never struggled to stimulate industrial production – which is the most energy-intensive component of the Chinese economy.

Perhaps falling oil demand is about China's transition to renewable energy. Even before the US-Iran war began, commodity analysts were predicting that Chinese oil demand growth would drop to multi-year lows in 2026 – largely thanks to cheap electric vehicles reducing petrol and diesel needs. That trend has been accelerated by the rise in oil prices: sales of electric cars and solar panels have boomed in the last few months.

An uncertain outlook

Globally, the supply-demand balance in oil is hard to predict. The International Energy Agency has warned that the world could quickly run out of oil if the war continues, but also that oil could return to oversupply if a ceasefire holds. The outlook largely depends on China. Beijing could boost demand either directly by rebuilding its previous reserves (which it has committed to) or indirectly by stimulating growth. But it is hard to say how likely either of those are.

In any case, we can say that the current rally in oil prices is not about any current, actual undersupply. Rather, Brent shot up this week for the same reason it did months ago: speculative traders are buying in. According to JP Morgan, open interest in energy markets rose for the third consecutive week. Conflict and uncertainty have returned to the Middle East, and speculators have returned to energy markets – betting on a near-term undersupply.

It is a risky bet. China's future demand is highly uncertain, Washington and Tehran are engaged in a game of chicken, and no one is quite sure how long the Houthis will be able to block the Red Sea. It is true that dwindling oil reserves – in the west, at least – leave little room for error. But for speculative oil traders, that little room makes all the difference.

In any case, the conflict is clearly itself destroying oil demand. Volatile and uncertain oil prices force people to look for alternatives, whether that is alternative energy sources or plain energy rationing. As CNN notes in its analysis, different research groups have markedly different forecasts for global oil demand in 2026. It is not just supplies that are uncertain.

When momentum runs out

What a ride for chipmakers. Stocks in semiconductor manufacturers soared in the first half of 2026, but have dropped back substantially in the last few weeks. The Philadelphia Semiconductor index (SOX) actually bounced a little this week, but that only underlines how wildly chip stocks have swung.

Most commentary focusses on the effects of the AI investment boom on what has always been a highly cyclical industry. But, there is an underappreciated thread within the chip stock narrative: what it says about the dynamics of momentum investing itself.

Chips are a momentum trade

Momentum is one of the so-called 'factors' of investing. Factors are essentially just measurable asset characteristics, and factor investing is just buying assets with those characteristics (and maybe selling those without) because you expect them to outperform. The typical factors are things like growth, value, size, quality, volatility and momentum.

Momentum is one of the simplest factors: invest in stocks that are performing the best; momentum investors bet that the winners will keep winning. This simple concept somewhat goes against the old 'buy low, sell high' investment adage. But according to Richard Driehaus, whose research inspired much of the modern momentum strategy, "far more money is made buying high and selling at even higher prices."

The initial methodology (1993, Jegadeesh & Titman) used a 12-month rolling basis to measure performance, while ignoring the most recent month's performance. That remains the most typical expression of the momentum strategy.

Momentum investors have done very well in recent years. According to Bloomberg, momentum has outperformed all other factors over the last ten years. In 2026, momentum funds have piled into chip stocks, amplifying their AI-fuelled expansion.

But as chip stocks have lost ground in recent weeks, so has the momentum factor. Higher volatility has seen investors trim their holdings and pull back from momentum investing.

Momentum funds have a blind spot

It is not entirely clear why chip stocks have sold off so heavily. There are murmurs that phenomenal earnings reports from the likes of TSMC and SK Hynix look a little less stable under the hood. Chipmakers' peak also occurred right at the end of the second quarter of 2026, just at the point when institutional investors rebalanced their portfolios. That meant selling the previous winners after a very strong run. Those seasonal pressures are usually short-term, but for chip stocks they seem to have snowballed into something more.

The chip sell-off will not force momentum funds to sell chip stocks right away. The basic momentum strategy takes 12-month performance but ignores the most recent month's performance, to avoid short-term reversals overpowering the longer-term trend. Real momentum funds will have more nuanced ways of implementing this, but the basic principle remains. That means that momentum investors can often miss out on acute changes in market direction, not reacting until too late. These are rare in normal times, but often occur after boom or bust periods. When markets recover after heavy losses, like in 2009 and 2020, momentum investors typically fall behind.

For the same reason, momentum investors have something of a blind spot when it comes to short-term volatility. And according to the Financial Times, the SOX is currently five times as volatile as the broader US stock market.

More importantly, other investors can exploit that blind spot. If you see that markets have changed direction, you know that momentum funds will need to buy or sell in a month. You can therefore pre-empt those changes by, for example, buying up the new best performers and selling them to momentum funds a month later.

Momentum is too predictable

Pre-emption is one of the reasons that actual momentum funds do not follow the basic ‘12-1’ measure of performance. Many go for more nuanced or blended performance measures, or they allow for emergency changes to fund holdings when markets shift acutely.

Even so, the deeper problem with many momentum strategies is that they are entirely predictable, and hence can still be front run. This is not unique to momentum funds (we wrote recently about passive funds’ forced buying of SpaceX stock, for example) and is less of a problem in stable market conditions, but it leaves momentum funds vulnerable in highly volatile market periods.

Momentum traders also typically crowd together. They are all looking at the same data and often rebalancing at the same times so, when markets turn sharply, the shifts are amplified. Again, discerning investors can exploit the knowledge that there are crowded trades coming up.

Of course, that only works if there are investors that can front run momentum funds’ decisions, and that requires *knowing* that markets have definitively changed direction. Perhaps the chip sell-off over the last month is just a blip, and they will resume their upward trend for the rest of the year. Those that bet against momentum funds are making a gamble – and that gamble has rarely paid out in the last decade.

Momentum has lost out over the last month, as have chip stocks, but whether they will keep doing so means identifying whether the AI theme itself is changing. That is yet to be determined.

Tatton Investment Management

24 July 2026

Global Equity Markets	24-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	10711	+1.3	+1.3	→ →	3.1	14.8	12.9	12.7
UK FTSE 250	23738	+0.5	+0.5	⬀ →	3.3	8.3	12.7	13.2
UK FTSE All-Share	5756	+1.2	+1.2	→ →	3.1	14.0	12.9	12.6
FTSE Small x Inv_Tsts	6589	+0.1	+0.1	⬀ →	4.0	19.0	10.1	9.9
EU STOXX ex UK	818	+0.2	+0.6	⬀ →	2.9	18.0	15.7	15.1
France CAC 40	8338	+0.1	+0.5	⬀ →	3.0	17.1	14.5	14.1
Germany DAX 40	24985	+0.8	+1.2	→ →	2.6	17.8	15.0	13.4
US S&P 500	7404	-1.1	-0.2	⬀ ⬀	1.1	25.2	19.7	19.1
US NASDAQ comp	25043	-2.0	-1.0	⬀ ⬀	0.6	33.8	23.8	26.2
Japan Nikkei 225	64611	+0.7	+0.8	⬈ ⬈	1.3	23.7	21.7	18.7
World Bloomberg	2559	-0.5	+0.4	⬀ ⬀	1.6	22.1	16.9	16.7
China Bloomberg	1267	+1.5	+2.4	⬂ ⬂	2.3	14.9	11.5	12.5
Emerging Bloomberg	1746	+0.6	+1.6	→ ⬀	2.1	17.4	10.6	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
Anglo American	+9.1	Super Micro Computer	+26.0	Tech	+1.3	Staples	-0.7
Babcock Int'l	+8.9	Digital Realty IT	+18.1	Financials	+0.9	Energy	+5.3
Segro	+8.3	South32	+16.2	Health	+1.9	Materials	+2.2
BP	+6.4	Lockheed Martin	+15.5	Discretionary	-4.3	Utilities	+2.6
3i	+5.7	Westinghouse Air Brake Technolc	+15.4	Industrials	+2.5	Real_Estate	+1.8
Computacenter	+5.6	Allegion	+14.4	Communicatic	-4.3		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Centrica	-6.8	Swatch	-17.3	UK 5yr Gilt	4.61	+0.10
Rentokil Initial	-5.0	Tesla	-16.3	UK 10yr Gilt	5.05	+0.10
Howden Joinery	-4.4	DSV	-14.3	UK 15yr Gilt	5.44	+0.09
Airtel Africa	-3.9	Rollins	-13.8	US 10yr Treasury	4.66	+0.12
Hiscox	-3.5	WiseTech Global	-13.3	France 10yr OAT	3.98	+0.05
J Sainsbury	-3.4	STMicroelectronics	-12.7	Germany 10yr Bund	3.18	+0.05
				Japan 10yr JGB	2.80	+0.11

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	24-Jul	24-Jun
USD per GBP	1.333	-0.9	Oil Brent $:bl	97.34	+11.9	UK BoE base rate	3.75	3.75
GBP per EUR	0.853	+0.3	Gold $:oz	4059	+1.6	2yr fixed	4.55	4.92
USD per EUR	1.137	-0.6	Silver $:oz	58.34	+4.8	3yr fixed	4.75	4.88
JPY per USD	163.83	+0.9	Copper $:lb	633.9	+1.6	5yr fixed	4.53	4.80
CNY per USD	6.773	-0.1	Alumnm $:mt	3206	+1.6	10yr fixed	5.29	5.24
USD per Bitcoin	63,918	+0.9	Agriculture BBG	59.66	+1.2	Standard variable	6.60	6.60

Where possible, prices taken levels at 24 July 3:00 PM (today) and 17 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.

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