The Tatton Weekly

Markets heading for holidays

26 June 2026

This week's topics:

Mind the money flow at quarter end

Andy's Economics

Greenspan-ism lives on

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Mind the money flow at quarter end

Stock markets, predictably, wobbled this week. Investors have seen great returns this quarter despite intense global risks, so now many institutional investment managers must rebalance their asset weightings back to target – by selling the assets that have done well. Rebalancing selling pressures are temporary, but the extent of this sell-off suggests that markets might be less fun in the second half of the year. Drier liquidity conditions and market jitters could mean stable but slightly less spectacular returns ahead.

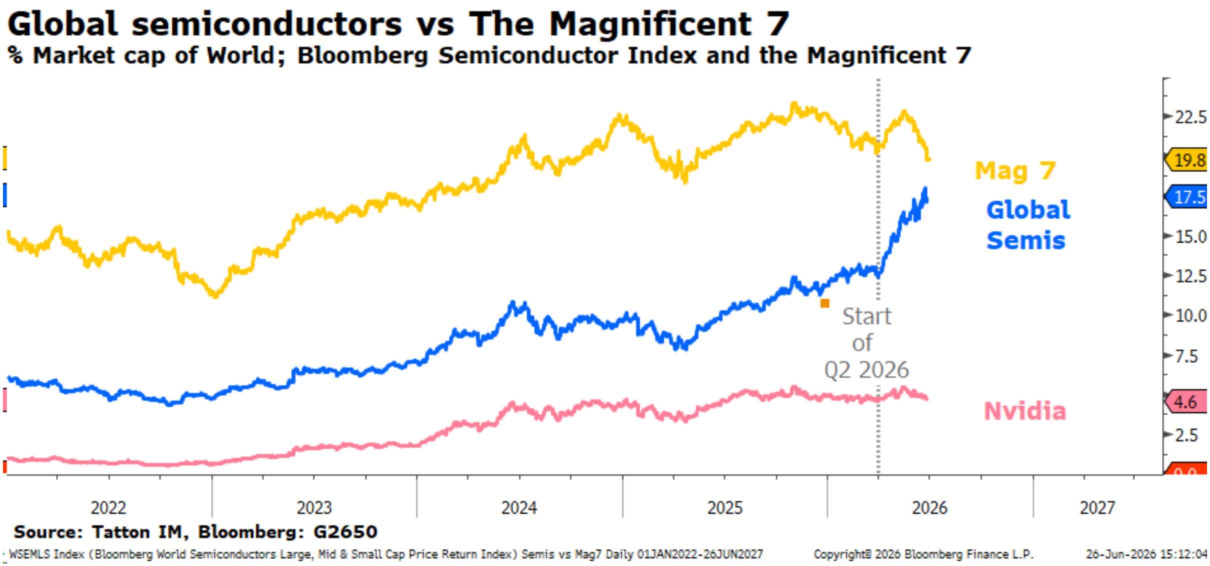
UK markets look serene about Andy Burnham's expected entry to Downing Street. While most regional stock indices fell this week, UK equities rose and government bond ("Gilt") yields have declined more than others. We cover Burnham's potential economic policies in a separate article, but the short version is that they are unlikely to affect globally diversified investment portfolios particularly much.

Currently, lower oil means lower liquidity

Despite pessimistic news coverage, ships are traversing the Strait of Hormuz, and oil prices are back to where they were before the war began in late February. Government bond yields have risen in the last few months on heightened energy inflation expectations, but they meaningfully dropped too this week. You would think the good news would push equities up further. That does not appear to be the case.

Not even US memory chip manufacturer Micron's incredible earnings results were enough to spur a broader rally. The chipmaker's quarterly profits were 15 times higher (!) than the same period last year. That briefly buoyed AI stocks, but the US tech-heavy Nasdaq index still ends the week lower. Investors look wary after so many months of gains.

The chart below shows the remarkable rise in global semiconductor stocks through this second quarter. The 'Magnificent Seven' initially kept pace (other than Nvidia) but have now handed over the torch to chip manufacturers. Given this phenomenal performance, it is no surprise that quarter-end rebalancing chipped away at their share prices.



Counterintuitively, falling oil prices could themselves be depressing market sentiment slightly. After the surge of speculation in energy supply contracts over the last few months, oil futures are now among the most traded financial instruments in the world, in value terms. Falling oil prices therefore mean financial losses for speculators. Holders of energy contracts have to sell other assets to cover their positions, which could be tightening overall market liquidity over and above the aforementioned quarter-end rebalancing.

Liquidity conditions are seemingly dominating short-term market moves even more than economic factors right now. That does not tell you much about the long or even medium-term, though. Long-term asset prices are driven by economic fundamentals. For those, cheaper oil is definitely a good thing.

Dollar rises at renminbi's expense

The dollar's recent strength could be another problem for global liquidity (it tightens financing conditions for non-US companies). The world reserve currency is now breaking out of the weak range it has been in for 18 months.

The dollar even gained on China's renminbi – having consistently slid against the renminbi in those 18 months. China's woes continue; last week that hurt its stock market and this week it hurt the currency.

We have argued before that a strong renminbi is a policy choice – putting international reputation above competitive exports. Contrary to that view, Absolute Strategy Research (ASR) suggested this week that renminbi strength might be a knock-on effect of Beijing's move to settle international commodity payments in its own currency. As Chinese importers no longer need dollars to buy commodities, Chinese commercial banks have a surplus (from finished goods being sold for dollars), pushing down the dollar relative to renminbi. ASR suggest Beijing might reverse the dollar surplus, weakening the renminbi.

We suspect that might indeed happen even if the strong currency was deliberate. Regardless of how the renminbi strengthened, its strength has clearly hampered Chinese financial conditions. Beijing has achieved what it wanted from a strong renminbi (contracts are settled in renminbi *because* it is strong), so it now has an incentive to weaken it.

Back to bubble talk

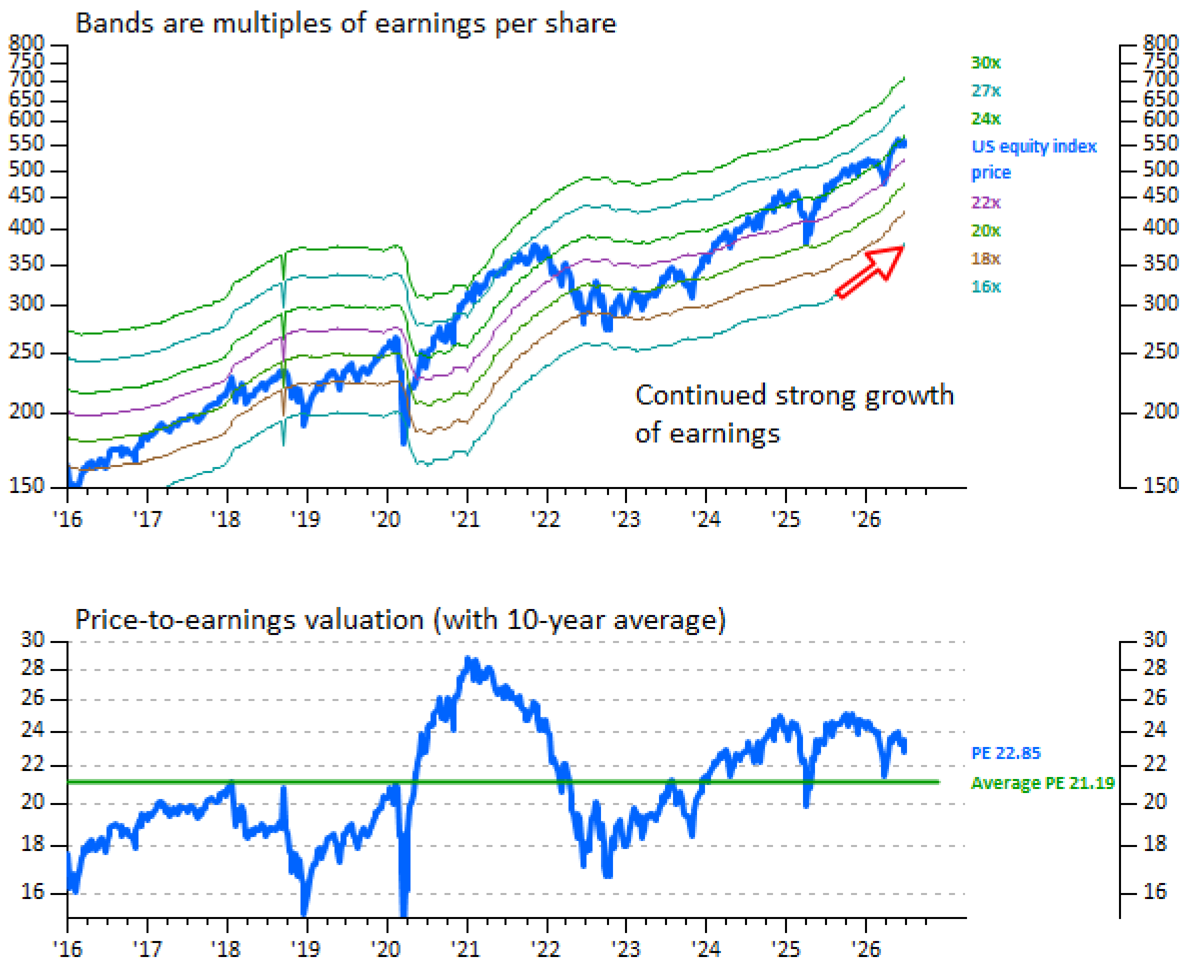
Big tech (Mag7) underperformance has resurfaced the AI "bubble-burst" talk. Allianz's CEO called SpaceX's huge bond sale a bubble sign, and Micron boasted about escaping its historic classification as a cyclical stock, thanks to billions in long-term contracts. The more people tell you it will go up forever, the more you wonder if we are at the peak.

AI stocks – and global stocks generally – have been rallying since late 2022, so nerves are understandable. Historically, such runs usually led to overextended equity valuations.

However, in the classic price-to-earnings valuation sense, big tech is probably not a bubble. In fact, equity valuations have *fallen* in 2026, because tech profits have been growing even faster than share prices (see next page's chart).

You could, of course, argue that the earnings themselves look like a bubble. One might look at the falling prices of AI compute (possibly due to the proliferation of cheap Chinese AI models) and say that the good times cannot last for the likes of Micron.

US equity index price vs. earnings multiples



Source: Tatton IM, Factset: EPS is average of last and estimated next 12 months, with an optimism-bias adjustment *26/06/2026*

Unhelpfully, Apple and Microsoft announced this week that higher chip prices will be passed on to consumers. This is to shore up deteriorating margins, but it risks hurting demand. Meanwhile, the US administration is interfering again in the release of frontier AI models. Reportedly, OpenAI has been asked to slow new releases just as it tries to compete more aggressively with Anthropic.

However, AI demand is clearly growing rapidly too. Chipmakers will obviously not grow like this forever. But business confidence numbers – particularly in manufacturing – suggest they can keep growing a while longer.

It is no surprise that the party is still going, given the vast sums raised to build datacentres. As argued before, relative commodity pricing (rallying copper, stagnating iron) suggests companies are stockpiling essential materials but not actually building yet. The implication is that there is even more economic growth to come.

After periods of strong stock market growth, it is natural to be sceptical of further gains. What we do in such periods is to look at the economic data and assess whether the underlying fundamentals justify or contradict the market moves. Judging by those, you would not want to get off this bus for a while yet.

Andy's Economics

The runway is clear for Andy Burnham. Some of the presumptive Prime Minister's comments have, in the past, riled UK investors – particularly the complaint about government deference to bond markets. And yet, UK government bond (gilt) yields fell sharply this week. The current market view is that Burnham, like Starmer, will have learned not to upset Britain's fragile fiscal balance from Liz Truss' September 2022 'Mini' Budget. We should expect tweaks, rather than an overhaul of economic policy. Those tweaks could still be impactful, though.

Burnham gets heavyweight advice

Markets' serene response to Burnham's rise is partly about who is advising him. The leader-in-waiting is reportedly taking policy advice from three high-profile and fairly mainstream economists: Richard Hughes, former head of the Office for Budget Responsibility (OBR); Jim O'Neill, former Goldman Sachs chief and Conservative peer who coined the term "BRICs"; and Andy Haldane, the former Bank of England (BoE) chief economist.

Hughes feels like the most orthodox of the bunch. In recent weeks, Burnham has played down his past assertion that Britain is "in hock" to bond markets and said he does not plan on changing Labour's "non-negotiable" fiscal rules. Getting an OBR head on side feels like another step towards smoothing things over with gilt markets. For context, the current fiscal rules say that the budget should be balanced and net financial debt-to-GDP should be falling by 2029/2030, while certain types of welfare spending should remain below a specified cap.

The other advisers are more interesting. O'Neill has "tried to encourage the government to be bolder" in borrowing to invest, and Haldane recently published a Financial Times piece on the possibility of a UK "War Bond" that is exempt from the typical balance sheet metrics. The idea has been floated as a way to fund the UK Defence Investment Plan (DIP) – whose repeated delays led to the resignation of Defence Secretary John Healey a few weeks ago.

Haldane has since gone further, calling for sweeping tax reform to boost economic dynamism: a land value tax, an overhaul of "outdated" levies like stamp duty and council tax, and devolution of power. Haldane argues much of this could be done at virtually no fiscal cost, by ironing out inconsistencies in how businesses, individuals and housing are taxed.

The new chancellor charts a new path

Advisers can help but can also be ignored. The Chancellor of the Exchequer cannot – so the more important appointment for gilt markets is who gets control of the treasury. Current Chancellor

Rachel Reeves will almost certainly lose her role and, at this point, it looks unlikely that Energy Secretary Ed Miliband (who holds a master's in economics from the LSE) will replace her. The current frontrunner for 11 Downing Street is Burnham's once-rival Wes Streeting. Streeting is no economist, but his fiscal conservatism will calm any remaining nerves for gilt investors.

That is not to say spending policies will stay the same. UK fiscal rules have always been subject to tweaks and changes. Relaxing borrowing rules does not need to be a major concern for gilts either. If changes are properly formulated and communicated, markets can often stomach them. That is exactly the point Jim O'Neill keeps making.

In a similar vein, Haldane has suggested the OBR add longer-term assessments of policy effects – spanning at least ten years – alongside its existing three-year forecasts, with cost-benefit analysis of individual investments potentially creating room to borrow more to invest. And indeed, the whole fiscal framework has room for improvement – as recently argued in a report by the Institute for Fiscal Studies.

Part of Haldane's argument for a War Bond is that defence spending could also boost employment and infrastructure, benefitting growth. Last year, international investors got excited about Germany's historic defence and infrastructure spending package – and there is scope for a similar boost in the UK. Depending on Burnham's other policies, a growth boost from defence could even offset any gilt market consternation.

From his comments so far, it seems that Burnham will not be beholden to Labour's previous policies – perhaps even last year's national insurance hike. We expect him to stick to the spirit of the fiscal rules, but not the letter of them.

Gilt markets take it in their stride

We have repeatedly argued that international factors are more important for gilts than domestic politics. Structural imbalances in the supply of gilts (issuance is weighted to the long-term and much of it is inflation-linked) make the UK a highly reactive bond market. When global bond yields rise, gilt yields rise quicker – but they fall quicker too. Gilt imbalances were exposed by pension fund problems during the Truss episode in 2022. Since then, gilt yields have been consistently higher than US treasury bonds.

The interesting observation this week, however, is that the UK-US yield spread fell. It helped that bond yields everywhere fell in the last few days but, in the early part of this week, we actually saw US yields *rise* while gilt yields fell. That suggests bond traders are happy about Burnham's ascension, not just indifferent.

Part of that might be that the three advisers are all, to some extent, fairly fiscally conservative. O'Neill and Haldane have encouraged more borrowing and spending, but all of them have argued this should be offset by spending cuts in other areas. Haldane has called the pension triple lock unsustainable – and we suspect this is a change that will be signalled before the next election (even if it does not happen before then, because of manifesto commitments).

It is still true that external factors matter the most for gilts, so we would advise not overanalysing the Burnham-gilt connection. But the relatively stable outlook is helping yields. If the incoming Prime Minister pushes forward on more investment, it could help other UK assets too.

Greenspan-ism lives on

The Fed Chair is dead; long live the Fed Chair. Alan Greenspan, the legendary central banker who led the US Federal Reserve [Fed] for nearly two decades, has passed away at the age of 100. He leaves behind a complicated legacy: one of the greatest productivity booms in US history, one of the worst financial crashes in global history, and one current Fed chair carrying his torch.

From boom…

From his appointment as Fed chair in 1987, until his retirement in 2006, Greenspan was undoubtedly the world's most powerful central banker. In an opinionated obituary, former US Labor Secretary Robert Reich claims that Greenspan effectively "fired" President George HW Bush by raising interest rates in the late 1980s, and then convinced Bill Clinton to reduce the government deficit – reversing some of the agenda Clinton was elected on.

The highlight of Greenspan's tenure was the 1990s economic boom, powered by surging productivity growth. How much of that was down to the Fed is still debated. Rapid technological development led to rising labour productivity, which Greenspan noticed earlier than most and argued would keep US inflation low without central bank intervention. The conventional story is that Greenspan's insistence on keeping rates low – against the wishes of his colleagues – allowed the economy to flourish.

The story is disputed. It is worth noting that US inflation did rise fairly substantially from 1999 to the 2001 recession – at exactly the time Greenspan was arguing it would not. What is indisputable is that Greenspan wanted to let the economy run on its own. He was a committed free-market ideologue and friend of Ayn Rand, who strongly favoured financial deregulation. His view of the relationship between central bankers and prosperity was like Carlo Ancelotti's view of football managers: they either do nothing or they do damage.

His style and ideas are particularly influential on new Fed chair Kevin Warsh. As we have written before, Warsh wants to reduce the Fed's liquidity provision and let private banks bear the burden of money creation – as they did before the 2008 global financial crisis (GFC) and ensuing era of Quantitative Easing (QE). Warsh wants deregulation to achieve that. Fittingly, Warsh has his own tech revolution that he thinks will create a productivity boom and keep inflation low: AI.

To bust

Greenspan's great contradiction was that his 'light touch' was selective. He was anti-intervention in the good times, but quick to hand out central bank support in bad times. In various financial crises, Greenspan's Fed extended repurchase agreements to support banks. The idea that the Fed would bail markets out came to be known as the 'Greenspan put' ('Put' being a financial option with which investors can purchase certain downside protection on securities). After Greenspan's time, this template morphed into QE – the same QE that Greenspan's intellectual heir Warsh wants to remove.

The 'Greenspan put' helped inflate the dotcom bubble in the late 1990s, as the Fed chair himself recognised. When the bubble burst in 2001, Greenspan shifted to buying mortgage-backed securities to directly stimulate house prices. That dramatic expansion of debt, along with years of banking deregulation, inflated systemic risks and – eventually – crashed the system.

That is why so many held Greenspan personally responsible for the GFC. He could not hide behind shared responsibility either; Greenspan had near-total control of Fed policy, in a way few Fed chairs have. We suspect that Warsh is aiming for a similar level of control, given his plans to reform the Fed's research and communication functions. He too wants to use this to deregulate.

The communication comparison is particularly interesting. Modern central bankers usually try to telegraph their monetary policy changes far in advance, to avoid any policy shocks. Greenspan had the opposite view: he wanted to keep markets in the dark, so that investors could not front-run the Fed's decisions. Warsh's desire to remove the Fed's "forward guidance" is right up that street.

And back again

The current Fed chair has recently backed away from his AI productivity idea, choosing instead to prioritise balance sheet reform. But we expect the productivity and disinflation debate to resurface within the next year. So, is 1990s Greenspan a template for 2020s Warsh?

Warsh's previous claim that rates are too high (which he has downplayed since becoming Chair) is often presented as a 90s throwback, but it is worth remembering that, back then, the Fed did, in fact, hike rates several times. That is because higher growth potential raised the so-called 'neutral' interest rate, so nominal rates had to rise too. The wave of investment in internet and telecoms companies also increased inflation – exactly as we are seeing now. Warsh might be right that AI will eventually hold back costs, but right now it is pushing them up.

Most expect the cost-saving productivity growth to follow (that is the whole reason for all the current investment) but there is a crucial ingredient missing from the 90s cocktail. In the dotcom era, there was intense competition between internet companies, meaning costs for consumers and businesses were extremely low. Not only that, the internet itself was free. That is certainly not the case now: there are just a handful of AI providers at each stage of the supply chain, and there are no free lunches to be found.

This distinction is actually the best argument against the notion that AI stocks are a bubble. Hypercompetitive dotcom companies could not make any money, so their stock valuations were based on nothing. AI companies are already making billions. Of course, that profit comes at a cost, which can be a barrier for consumers and businesses. They will adopt it only slowly if it costs too much – and that hinders productivity growth.

Warsh has clearly learnt much from Greenspan, but learning does not mean repeating.

Tatton Investment Management

26 June 2026

Global Equity Markets	26-Jun			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10483	+1.1	+1.1	→ ⇗	3.2	15.1	12.6	12.7
UK FTSE 250	23037	-0.5	-0.5	⇗ →	3.4	12.1	12.2	13.2
UK FTSE All-Share	5629	+0.9	+0.9	→ →	3.2	14.8	12.5	12.7
FTSE Small x Inv_Tsts	6389	-0.0	-0.0	⇗ →	4.2	21.1	9.8	9.9
EU STOXX ex UK	814	-0.7	-1.1	↗ ⇗	2.9	17.9	15.8	15.1
France CAC 40	8374	-0.9	-1.2	⇗ →	3.0	17.4	14.6	14.1
Germany DAX 40	24687	-1.5	-1.9	↗ →	2.6	17.5	15.1	13.4
US S&P 500	7356	-1.9	-1.9	↗ ⇗	1.1	25.0	20.0	19.1
US NASDAQ comp	25320	-4.5	-4.5	↗ ⇗	0.6	34.1	24.6	26.2
Japan Nikkei 225	69361	-2.7	-2.8	↗ ↗	1.2	25.8	23.7	18.7
World Bloomberg	2556	-2.0	-2.0	↗ ⇗	1.6	22.0	17.3	16.7
China Bloomberg	1246	-4.2	-4.2	→ →	2.2	14.5	11.5	12.5
Emerging Bloomberg	1820	-4.2	-4.2	↗ ↗	2.0	18.0	11.6	12.5

FTSE100 Top 6

Company	%
Segro	+18.9
3i	+15.0
Barratt Redrow	+11.8
British American Tobacco	+9.3
Marks & Spencer	+8.1
Games Workshop	+7.9

S&P Global Top 6 (GBP terms)

Company	%
Bio-Techne	+22.7
Bayer	+21.8
Segro	+18.9
Fujikura	+18.6
United Airlines	+16.0
Incyte	+15.7

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-4.8	Staples	+2.1
Financials	-0.5	Energy	-0.7
Health	+6.5	Materials	-2.5
Discretionary	-3.6	Utilities	+2.3
Industrials	-1.2	Real_Estate	+2.2
Communicatic	-5.2		

FTSE 100 Bottom 6

Company	%
Glencore	-8.4
Babcock Int'l	-6.8
London Stock Exchange	-6.4
BP	-6.2
Lion Finance	-5.8
Endeavour Mining	-5.5

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Rheinmetall	-22.2
ON Semiconductor	-21.9
Oracle	-18.5
Doosan Enerbility	-17.2
Western Digital	-16.7
Delta Electronics	-16.6

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.28	-0.12
UK 10yr Gilt	4.74	-0.10
UK 15yr Gilt	5.14	-0.10
US 10yr Treasury	4.38	-0.08
France 10yr OAT	3.63	-0.11
Germany 10yr Bund	2.85	-0.14
Japan 10yr JGB	2.61	-0.04

Currencies

Pair	last	%1W
USD per GBP	1.323	+0.1
GBP per EUR	0.864	-0.4
USD per EUR	1.142	-0.3
JPY per USD	161.63	+0.2
CNY per USD	6.804	+0.2
USD per Bitcoin	59,899	-5.0

Commodities

Cmdty	last	%1W
Oil Brent $:bl	72.23	-9.6
Gold $:oz	4083	-1.6
Silver $:oz	59.24	-8.2
Copper $:lb	620.2	-3.1
Alumnm $:mt	3153	-7.2
Agriculture BBG	54.96	+0.6

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	26-Jun	27-May
UK BoE base rate	3.75	3.75
2yr fixed	4.59	5.14
3yr fixed	4.72	4.97
5yr fixed	4.54	5.00
10yr fixed	5.12	5.28
Standard variable	6.60	6.60

Where possible, prices taken levels at 26 June 3:00 PM (today) and 19 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