The Tatton Weekly

Deliberately unhelpful

31 July 2026

This week's topics:

Learn to make your mind up

Growing pains in corporate credit

Who's afraid of consumer confidence?

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A solution to prison overcrowding, Matt, 25 July 2026

Learn to make your mind up

This week has seen marked volatility in bonds and a number of major high-profile stocks. Some of it has been a little concerning and yet, most portfolios will probably show a reasonably positive outcome. That's what diversification is all about.

The major global themes continue to be AI, the Middle East conflict and now, after a period in the background, interest rates and yields.

In the UK, the rolling policy pronouncements received a mixed reception among financial commentators. However, both the FTSE 100 and smaller-cap 250 equity indices remain in a strong uptrend. They made new all-time highs while UK government bond (Gilt) yields will end this week a little lower. Burnham seems to have regained fiscal credibility although Capital Economics reckons that balancing the spending promises will precipitate another £65bn tax rise – equivalent to Reeves' first budget move.

The US is about a month into the quarterly earnings season. On July 1st, the index's earnings per share (EPS) was expected to rise 22.3% (versus Q2 2025). A month in, the index's Q2 2026 EPS is now expected to record a 27% gain.

Six of the Magnificent Seven have reported, four this week after two last week. Nvidia comes in the last weeks of the season. Aside from Tesla, these companies form the core of the hyperscaler AI theme, as a main driver of investment in the technology. The AI model producers and chip makers are the biggest beneficiaries but depend on the strength of the hyperscaler investment.

Signals have been mixed on how the investments are performing, how much more investment is to come, who will have the cheapest funding, and therefore, who might come out on top. Which is why we're seeing significant dispersion in share price performance for what was previously deemed to be quite a homogenous group.

However, as Bloomberg Intelligence points out, the recent underperformers, such as Meta, still have vast resources of profit in the underlying businesses. This keeps their credit ratings so much better than the vast majority of other companies which have an average rating of BBB, just above the investment grade threshold.

Here are their current long-term ratings from Moody's and Standard & Poor's:

Magnificent Seven Long-term Credit Ratings

	Moody's	Outlook	S&P	Outlook
Alphabet Inc	AA+	Stable	Aa2	Stable
Amazon.com Inc	AA	Stable	A1	Stable
Apple Inc	AA+	Stable	Aaa	Stable
Meta Platforms Inc	AA-	Stable	Aa3	Stable
Microsoft Corp	AAA	Stable	Aaa	Stable
NVIDIA Corp	AA	Pos	Aa1	Stable
Tesla Inc	*BBB*	*Stable*	*Baa3*	*Stable*
Oracle Corp	*BBB-*	*Neg*	*Baa2*	*Stable*

As of 30th July 2026

The main six companies have a vast amount of capacity to sweat their credit availability and leverage up before they get close to being downgraded. Perhaps, the question was always why they did not pay even more money back to shareholders. The advent of Artificial Intelligence has given them the opportunity, which makes investment and leverage worthwhile.

Thus, recent worries about the likely pace and ultimate size of hyperscaler investment were always likely to be short-term, even if the likes of Oracle are being shut out of the game. Chip stocks, the main investment beneficiaries, had a wild ride this week. South Korea's SK Hynix was down on Wednesday from last week's close by over 25%. It's now up over 35% from Wednesday's low (meaning the share price is unchanged mathematically!).

The list of countries now involved in the Middle-Eastern conflict is lengthening. Houthi attacks were always likely to involve Saudi Arabia, but now US missiles have hit Iraqi territory and Ukraine has begun to hit Iran's ships in the Caspian Sea. This suggests a widening of scope and capacity which has the potential to continue a conflict rather than resolve it in the short-term.

The growing power of the anti-Iran allies also raises the probability of a better outcome for them. However, oil and energy prices still remain high and unlikely to fall any time soon. Meanwhile, diesel reserves are getting very tight and prices are back at the highs seen in March. Markets have become even less sensitive to the news flow so maybe we shouldn't worry.

The July round of global monetary policy meetings concluded today with no change in rates among the major central banks. The Bank of England kept rates unchanged, and Andrew Bailey maintained a dovish tone in the press conference, despite three votes out of the nine seeking a rise.

The biggest market impact came after Wednesday's Federal Open Market Committee meeting in the US. Although there was no change, three voters sought a hike, and they made no reference to changing inflation conditions such as energy prices.

Warsh, in his second press conference outing, was less helpful than in his first. Well-mannered and unflustered, he declined to shed light on the decision-making process. Rather, he told us that we should make up our own minds where we think rates and other policy dynamics will go, and not pressure the FOMC members to commit to any possible course of action before they meet.

Longer bond yields went up sharply while the US dollar weakened during the press conference, which many thought showed investors were deciding that rates are likely to go up. A better explanation of the yield rise would be that Warsh's dislike of giving guidance or explaining his thoughts raises the risks (especially for foreign investors) of holding longer-dated, more price-volatile bonds.

From our perspective, Warsh could be a little more helpful in explaining why it's a good idea to be unhelpful. Generally, the evidence available to the members of the FOMC is no better than is available to professional investors, who also have excellent analysts. Despite this informational equality, the financial media spends much time and effort on gauging the "views" of the FOMC members and essentially requiring them to decide before the decision. We don't know if this will cause inflexibility, but there is a risk it might happen, and potentially at the points when most flexibility is needed (such as during the pandemic-led inflation surge).

The Jackson Hole meeting on 27-29th August will be an opportunity for him to set out why we shouldn't be so upset about a little less jawboning. In the meantime, investors and financial commentators will get used to the new normal quite quickly, while realising that what matters is our general belief that the Fed is committed to the 2% inflation target rather than any particular policy move.

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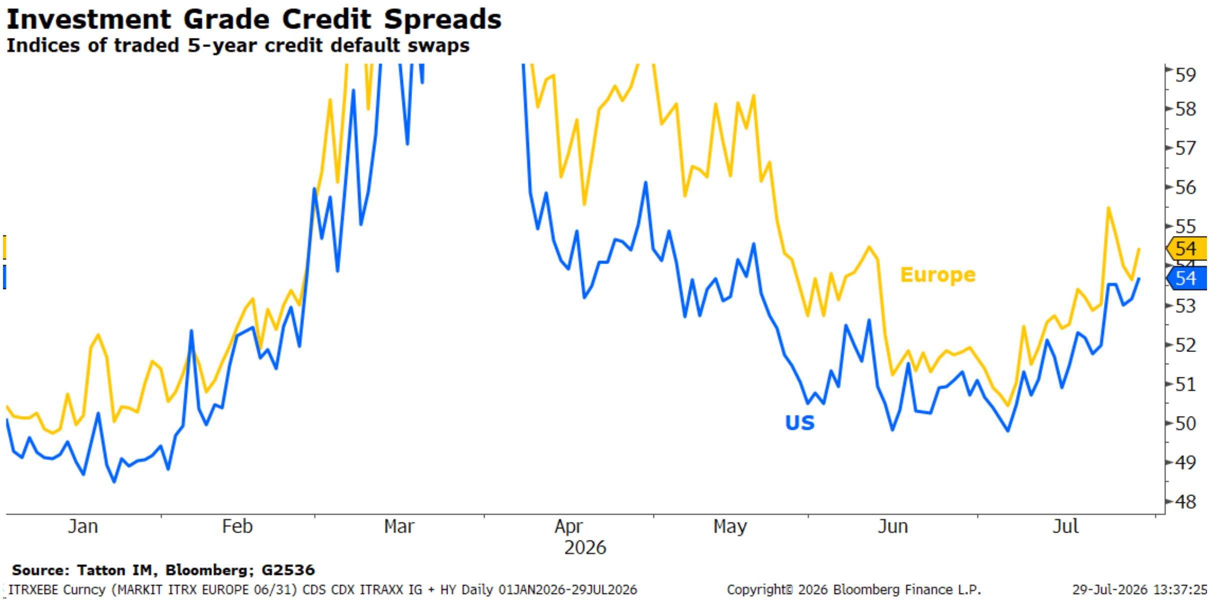
Growing pains in corporate credit

Corporate credit spreads – the difference between corporate and government bond yields – have increased in the last few weeks. It is not a big move, but it is just about noticeable enough to make some investors nervous. Rising credit spreads are usually associated with weaker growth and, in the extreme, recession, but we think the latest move is saying something different. Rather than stalling growth, credit moves are caused by rapid technological and economic changes. Those changes are associated with stronger growth, not weaker.

Credit spreads edge up

We do not want to overstate the move up in credit spreads. The increase is small, both in the US and Europe, and it comes after a long decrease which has taken corporate bond yields to historic lows, relative to government bonds. Indeed, with so much debt-fuelled spending on AI infrastructure from the so-called hyperscaler tech companies, you could argue that credit spreads are too tight – reflecting investor optimism about corporate debt.



There are a couple of reasons not to be so sanguine about this, though. First, the recent rise in government bond yields means that the total debt costs for companies have risen faster than spreads themselves. And second, the admittedly slight pickup in *aggregate* credit spreads is skewed by the makeup of corporate lending. The biggest companies with the best credit ratings are the ones borrowing billions to invest in AI – so their favourable rates make up proportionally more of the corporate bond pile. That can hold down aggregate yields even if companies themselves are paying more than they used to.

Judging by other signals, investors certainly look worried about AI-related debt. Credit default swaps – the cost of insuring bonds against default – for hyperscaler bonds have risen sharply over the last month. Datacentre firm Oracle has been the hardest hit, after S&P Global downgraded its credit rating to just about 'junk' status.

US tech companies are not the only ones with debt troubles. Ratings agency Fitch recently upped its forecast for European loan defaults in 2026, citing "idiosyncratic pressures". These are bank loans rather than corporate bonds, but they feed the same investors' anxieties.

It's creative destruction

Usually, concerns about debt and default are really about the economy. Banks and bondholders fear that growth will not be strong enough for companies to be able to repay their debts, so lending conditions tighten. But the strange thing about these latest credit moves is that global growth has looked strong. Despite oil price fears, employment metrics are resilient and corporate earnings growth has been strong. Those point to strong global growth.

Clearly, AI investment has been the driving force behind this growth and will continue to be as companies spend billions to get ahead in the AI race. We can also see that rapid AI development and adoption is changing the world economy. Technological change means there will be some winners and some losers – which means some companies are more likely to default, even if overall growth is strong. In fact, Fitch made precisely this point about its higher forecast for European defaults: the higher default rate is more about greater differentiation among companies, rather than a broad deterioration.

The 'winners and losers' narrative does not explain the hyperscaler struggles, however. Companies like Oracle are supposed to be the big winners from AI, so why are their credit default swaps spiking? We suspect that there are really two credit stories going on at the same time: companies coming under pressure from AI displacement (like software firms earlier this year) and confidence in AI companies themselves waning.

The former is a classic case of creative destruction and, as long as defaults do not become systemic, should ultimately benefit long-term growth. The latter is more about uncertainty around which companies will end up the big winners from AI – similar to the recent sell-off in semiconductor stocks. But just like creative destruction, competitive uncertainty is unlikely to become a systemic debt problem.

A Fed hike would be badly timed

There is an important caveat here. Neither source of credit anxiety looks like a systemic problem right now, but either could snowball into something worse. This typically happens when individual credit problems lead to an overall tightening of financial conditions, thereby draining market liquidity and making life difficult for companies overall. That is not happening at the moment, and indeed, government bond yields have eased back down slightly in the last few days.

The problem would be if credit spreads keep rising *and* central banks tighten monetary policy. The Federal Reserve met this week and did not raise rates, with Kevin Warsh suggesting that naturally tighter financial conditions (driven by rising market bond yields) may reduce the need for central bank rate hikes.

Fed officials have sounded more hawkish in recent communications. That hawkishness has come because US growth is strong. However, a rate hike at the same time as credit spreads widen for other reasons could easily lead to a much broader problem for the economy.

For now, the wider credit spreads do not look like the start of a credit crunch. Rather, they look like growing pains from AI development. As long as conditions stay supportive enough, those growing pains should ultimately lead to a stronger economy.

Who's afraid of consumer confidence?

US consumers are feeling less confident, according to much-watched survey data from the Conference Board. That continues a long downward trend in consumer sentiment – despite growth numbers still coming through strong. US growth keeps running smoothly, but survey respondents often feel like they are in the depths of recession.

The gap between hard economic data and soft sentiment indicators has grown so wide that many now question whether consumer confidence figures tell you anything at all about the economy. We think this is an overreaction. Consumer confidence might not tell you what it used to, but it still tells you something.

Vibecession or bad surveys?
Investor and author Ruchir Sharma wrote in the Financial Times this week about the declining relevance of consumer confidence numbers. He points to declining response rates, political polarisation and even social media as reasons that survey respondents think the economy is much worse than it actually is. The commentator Kyla Scanlon coined the term "vibecession" for this economy-sentiment gap.

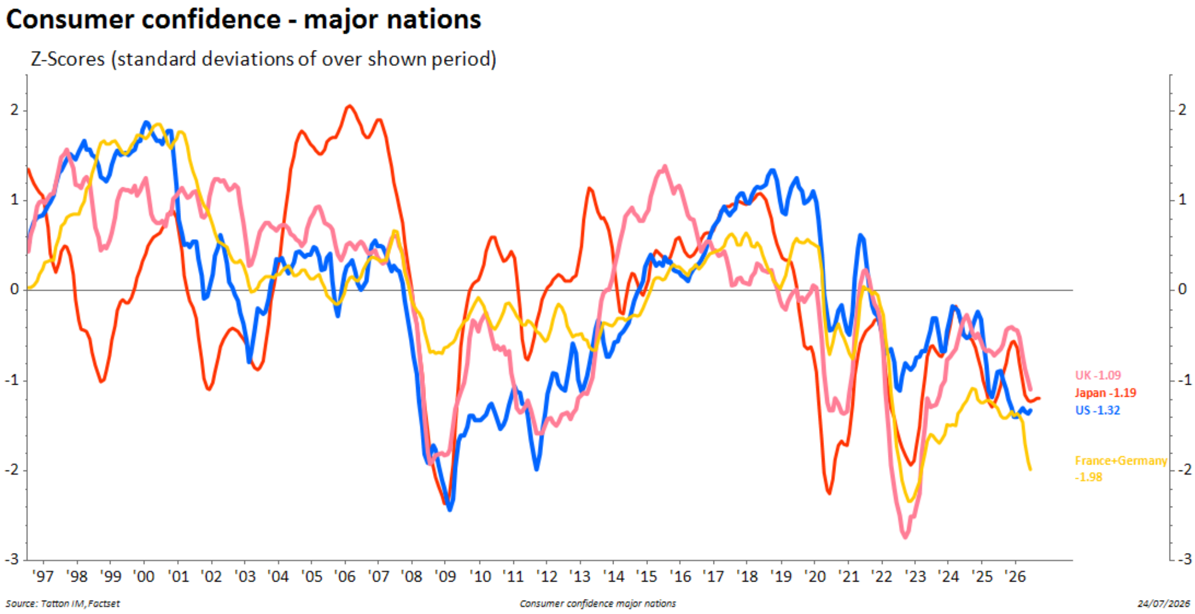
To be more precise, there are two issues here: whether the US consumer surveys are accurate, and whether US consumers really are more pessimistic than they used to be. For example, the other major US consumer sentiment report, the University of Michigan survey, has faced criticism over its switch to purely online surveys in 2024.

Some argue that this switch increased respondents' negative bias and led to an oversampling of Democrat voters – who typically rate the economy worse under a Republican president (as Republicans do under Democrat presidents). The Michigan numbers declined significantly after that point, more so than the Conference Board survey.

Defenders of the Michigan survey say that online responses correlate strongly with the previous phone responses – and still correlate with other economic indicators. That is true. But, as economists Ryan Cummings and Ernie Tedeschi pointed out in 2024, a correlation just means the two datapoints move together; it still allows that one is significantly more skewed than the other.

Consumer pessimism is K-shaped evidence

The discussion about data reliability and the "vibecession" focusses mostly on the US. It is worth noting, though, that we see a similar trend across most major economies, particularly after the pandemic. As our chart below shows, French and German consumers have been hit even harder than Americans.



Perhaps surveys in the UK, Europe and Japan have the same problems, or perhaps modern life makes consumers everywhere just as pessimistic as each other. Moreover, the economies of Europe and Japan have been more stagnant than the US in recent years, so you might have expected US consumers to feel better than their global peers.

As Sharma argues, one of the reasons for the economy-sentiment disconnect (aside from methodology) is rising inequality. More precisely, it is that growth in profits and living standards has been highly concentrated in the biggest companies and the richest citizens. This is the 'K-shaped economy' we heard so much about last year. And while the K-shape is most visible in the US, we can see it everywhere.

However, that interpretation does not mean that consumer confidence surveys tell us nothing about the economy. Far from it, they are more evidence for the K-shaped economy. At the start of 2026, markets were excited about a rotation of growth and profits away from big tech and the owners of

AI towards more traditional sectors – from the haves to the have-nots. But the continued weakness in consumer confidence tells us that growth is still concentrated at the top.

Surveys bend, they don't break

The broader point here is that we should not look at a correlation breakdown, like the old one between consumer confidence and growth, and say that one of the indicators is "broken". Rather, we just need to be more careful about what the data is actually telling us.

For example, in the US, the Conference Board survey is typically more sensitive to job availability and security, while the Michigan survey tends to be more sensitive to the cost of living. That is another reason why, in the post-pandemic period of high inflation but relatively stable employment, the Michigan numbers deteriorated much faster than the Conference Board figures.

Interestingly, the Michigan figures have picked up slightly in the last few months (from historically low levels) while the Conference Board numbers keep falling. That is despite US inflation remaining high and unemployment dropping slightly this year. It is far too early to tell if these are real trends or just quirks – but they hint at what to look out for. Perhaps consumers are feeling fragile, but inflation pressures are less of a concern than they might seem. If so, then a potential interest rate rise from the Federal Reserve might break that fragile confidence.

Consumer confidence numbers might not be what they used to be, and they certainly should be taken with a pinch of salt, but investors are always looking for signs that the wind is changing. Even flawed surveys can help with that.

Tatton
Investment Management

31 July 2026

Global Equity Markets	31-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	10838	+1.1	+1.1	⬀ →	3.0	15.2	13.2	12.7
UK FTSE 250	23973	+1.0	+1.0	⬀ →	3.2	9.3	13.0	13.1
UK FTSE All-Share	5822	+1.1	+1.1	⬀ →	3.1	14.5	13.2	12.6
FTSE Small x Inv_Tsts	6651	+1.0	+1.0	⬀ →	3.9	19.5	10.1	9.9
EU STOXX ex UK	823	+0.6	+0.7	⬀ →	2.8	18.3	15.8	15.1
France CAC 40	8505	+2.0	+2.1	⬀ →	3.0	17.0	14.8	14.1
Germany DAX 40	25570	+2.3	+2.5	⬀ →	2.5	18.3	15.4	13.4
US S&P 500	7408	-0.2	-1.1	→ ⬀	1.1	25.3	19.5	19.1
US NASDAQ comp	25036	-0.0	-1.0	⬂ ⬀	0.6	33.7	23.4	26.2
Japan Nikkei 225	64362	-0.4	+1.5	→ ➚	1.3	23.6	21.1	18.7
World Bloomberg	2571	+0.5	-0.5	→ →	1.6	22.3	16.9	16.7
China Bloomberg	1296	+2.3	+1.3	➘ ➘	2.3	15.2	11.7	12.5
Emerging Bloomberg	1776	+1.7	+0.8	➘ →	2.1	17.7	10.6	12.5

FTSE100 Top 6

Company	%
Sage	+13.6
Burberry	+13.1
Croda Int'l	+11.1
Marks & Spencer	+7.2
Autotrader	+6.8
3i	+6.1

S&P Global Top 6 (GBP terms)

Company	%
Mondi	+22.2
Garmin	+20.5
WiseTech Global	+20.4
Oriental Land Japan	+20.3
Kering	+18.3
Microsoft	+18.2

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-1.5	Staples	+0.9
Financials	+0.6	Energy	-1.5
Health	-1.4	Materials	-0.3
Discretionary	+5.4	Utilities	-3.6
Industrials	-0.7	Real_Estate	-2.1
Communicatio	+3.3		

FTSE 100 Bottom 6

Company	%
Rentokil Initial	-18.3
IG	-13.0
Melrose Industries	-5.0
Centrica	-4.9
National Grid	-4.0
Computacenter	-3.7

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Lennox International	-23.6
CH Robinson Worldwide	-21.4
Universal Music	-20.0
SCREEN	-19.0
Rentokil Initial	-18.3
Vertiv	-18.1

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.58	-0.01
UK 10yr Gilt	5.04	+0.00
UK 15yr Gilt	5.44	+0.02
US 10yr Treasury	4.73	+0.07
France 10yr OAT	3.99	+0.02
Germany 10yr Bund	3.19	+0.02
Japan 10yr JGB	2.79	-0.01

Currencies

Pair	last	%1W
USD per GBP	1.342	+0.7
GBP per EUR	0.855	+0.2
USD per EUR	1.147	+0.9
JPY per USD	159.36	-2.7
CNY per USD	6.754	-0.3
USD per Bitcoin	62,622	-2.0

Commodities

Cmdty	last	%1W
Oil Brent $:bl	89.95	-7.6
Gold $:oz	4032	-0.7
Silver $:oz	57.22	-1.9
Copper $:lb	643.8	+1.4
Alumnm $:mt	3229	+1.7
Agriculture BBG	58.17	-2.5

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	31-Jul	01-Jul
UK BoE base rate	3.75	3.75
2yr fixed	4.66	4.81
3yr fixed	4.80	4.76
5yr fixed	4.60	4.65
10yr fixed	5.31	5.18
Standard variable	6.60	6.60

Where possible, prices taken levels at 31 July 3:00 PM (today) and 24 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