The Tatton Weekly

Second half starts with wary market mood

3 July 2026

This week's topics:

Much appreciated slowing down

June Asset Returns Review

European cars still stalling

This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing

Tatton Investment Management

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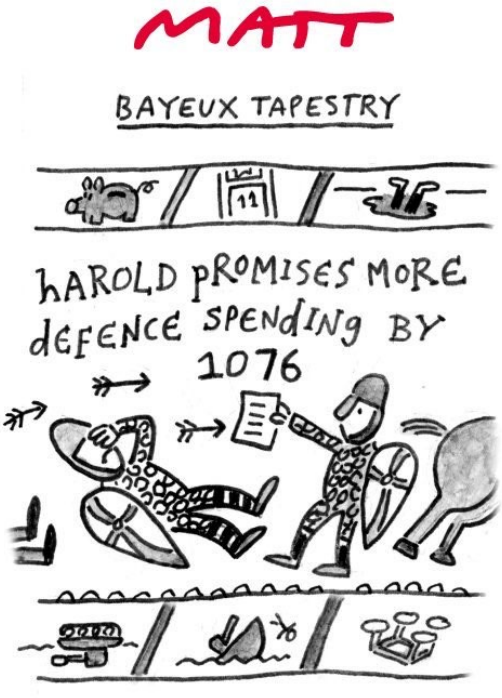

Age-old predicaments, Matt, 1 July 2026

Much appreciated slowing down

Global stocks recovered from last week's sell-off, but are still only roughly flat from a month ago. Once again, the previous big winners – like US tech – are the most under pressure. Last week, we put these moves down to institutional investors rebalancing their assets at the end of a strong quarter. Further pressures this week suggest something else might be going on.

There are a few explanations one could latch onto: possible cracks in the AI spending spree, and a potentially more hawkish Federal Reserve. We should not read too much into these tea leaves, however. The simpler explanation is that investors are cashing in for the summer break after a great market run.

Valuations fall because earnings gain

The stocks stalling right now are the most highly valued, in price-to-earnings terms. Falling valuations are often associated with falls in share prices, but that is not what is happening now. Instead, broad AI shares are trading sideways while AI-related earnings growth powers ahead – particularly for microchip manufacturers. Earnings growing faster than share prices brings valuations down as well, but perhaps a little more constructively for investors than through price falls. As we wrote last week, falling valuations contradict the AI bubble narrative, at least in the classic sense.

Recently, we have seen a drop-off in the momentum factor – the extent to which the previous best-performing stocks keep outperforming. Momentum has been one of the most powerful drivers of equity returns in the last two years (and especially this year), but the factor has considerably tailed off in the last week. In the US, there has been an investor rush to become more diversified, away from big tech stocks into the "lesser" large, mid and small cap companies. Notably, however, we do not see this rotation in Europe.

There is a good chance that these trends are predominantly seasonal. Market trading typically thins out in the summer months – meaning tighter effective liquidity. And the trend for the season can be set by the rebalancing at the half-year point. As we noted last week, there have been an awful lot of investment gains to crystallise in the last six months, so the current flatlining of market price action makes sense.

Nevertheless, some commentators talk of a market peak, pointing to supposed early warning signs: economic growth looks weaker than a month ago – exemplified by yesterday's disappointing US jobs number – and investors are somewhat sceptical about the durability of AI earnings growth.

Meta has compute to spare

The key question for earnings is whether companies can keep up their AI-related capital expenditures (capex). Notably, Meta announced this week that it will sell its spare cloud computing capacity. Excess computing power is succour for the AI doomsayers; it challenges the idea that there is endless demand for compute.

We should point out that Meta's share price jumped 9% after the announcement. For the company itself, investors took it as a decent sign that the Facebook owner will make some money out of all the billions it has spent on AI and cloud infrastructure. This continues the recent theme of markets rewarding big tech for smart, disciplined capex.

It is unclear what Meta's news means for AI capex overall. Coming at the same time as a drop-off in tech stock momentum, it looks like a sign that AI-related earnings growth might be peaking. But we have seen false peaks before – only for tech companies to roar ahead. Computing demand is certainly one to watch, but not one to worry about yet.

The other interesting AI news this week was OpenAI's reported offer to give the US government a 5% stake in the company, potentially garnering favour with the White House just as OpenAI's competitors face political and regulatory headwinds. The government-big tech overlap is a fascinating story with potentially significant long-term impacts, but it is unlikely to affect markets in the short term. For now, investors are still laser-focussed on earnings.

If it walks like a hawk and talks like a hawk…

The other key aspect of the earnings-valuation debate is interest rates – with rate hikes being the stereotypical bubble burster. With falling oil prices, low core inflation and weak demand in Europe, the ECB no longer looks like it will raise rates. The Federal Reserve, by contrast, is looking increasingly hawkish (preferring higher rates). Recently appointed Fed chair Kevin Warsh spoke this week at an ECB conference in Sintra, Portugal. It was not what he said there that piqued markets' interest, but more how he said it.

Warsh insisted on the Fed's political independence and emphasised that anyone expecting leeway on the central bank's 2% inflation target would be "disappointed". If the Fed chair was picked by Donald Trump to cut rates, the statement might signal conflict ahead. At the least, Warsh appears to be looking for a fight with someone. He is reportedly tapping up former Bank of England governor Mervyn King for his new Communications Task Force. Given King's reputation, we should interpret this as Warsh pushing ahead with his plans for a more assertive (non-)communication style at the Fed. For central banks, assertive typically means hawkish.

The hawkish tone, combined with sharply lower oil prices and (to a lesser extent) the weaker-than-expected US jobs report, has led to a fall in US inflation expectations. That has not dented growth expectations too much though, as shown in the performance of small cap stocks, but it has kept longer-dated US government bond yields below 4.5%.

Lastly, a quick word on UK government bonds (gilts). Gilt yields stayed contained this week despite Ed Miliband becoming betting markets' clear favourite to be the next Chancellor. Miliband is, we are led to believe, gilt investors' *least* favourite for the job. The fact gilts have behaved tells us that markets see the UK government as constrained more by yields themselves than politics – regardless of who is at 11 Downing Street.

From momentum and Meta to Warsh, none of this week's stories really feel big enough to move the market needle. But in the light summer months, small stories can sometimes feel much bigger.

Tatton
Investment Management

3 July 2026

June Asset Returns Review

June was a mild end to a strong quarter for global investors. Stocks edged up 0.7% in sterling terms while bonds added 0.4%. For a month that saw the US and Iran agree a deal to reopen the Strait of Hormuz, you might have expected a stronger reaction from markets. Markets' muted response was down to the fact that they had been expecting the war to end anyway and have now (rightly or wrongly) put the whole thing behind them. The table below shows returns for the major indices in sterling terms.

Asset Class	Index	June	YTD	12 months	2025	3-yr rolling annualised	5-yr rolling annualised	10-yr rolling annualised
Equities	UK Large Cap	1	7.6	23.6	25.8	15.8	12.4	8.9
	UK Ethical Large Cap	1.5	4.2	18.5	18.8	10.4	8.0	5.1
	Europe ex-UK	3.0	9.7	22.0	26.2	14.1	9.6	10.4
	US Large Cap	0.6	11.7	26.3	9.8	18.9	14.3	15.6
	US Technology Large Cap	-1.2	14.7	33.7	12.8	23.0	14.3	19.5
	Japan	1.2	17.3	33.3	16.0	16.8	10.4	9.9
	Global Stocks	0.7	12.7	27.7	13.9	18.0	11.9	12.9
	Emerging Markets	0.1	25.5	48.2	24.4	21.3	8.1	10.2
	China	-4.8	-11.1	1.4	22.6	6.8	-4.9	4.9
Bonds	UK Gilts All Stocks	0.6	0.1	2.6	5.0	3.0	-4.2	-1.1
	£-Sterling Corporate Bond Index	0.7	1.0	4.6	7.3	7.1	-0.3	2.1
	Global Aggregate Bond Index	0.4	1.1	3.1	4.8	4.2	0.4	1.1
Commodities	Commodity Index	-8.5	25.8	34.6	-0.3	12.9	14.3	7.5
	Brent Crude Oil Price	-18.7	21.5	12.9	-24.1	-2.5	0.3	4.0
	Spot Gold Price	-9.9	-5.5	26.5	53.6	26.4	18.9	11.9
	Spot Silver Price	-21.2	-17.2	68.7	131.9	35.8	18.9	12.4
Inflation	UK Consumer Price Index (% Chg for period)*	0.2	1.6	2.5	3.4	-	-	-
Cash rates	SONIA 3-Month	0.3	1.9	4.0	4.5	4.8	3.4	2.0
Property	Global REITs	3.5	13.1	19.1	0.3	8.5	3.8	3.9
Alternatives	Multi-Strategy Liquid Alternatives	1.6	6.9	14.7	0.3	5.9	4.4	3.5
	Bitcoin	-18.9	-30.0	-43.9	-13.5	-	-	-

Source: Morningstar Direct to end of previous month (30/06/25). All returns in GBP.

Since the US and Israel launched their war on Iran, markets have been optimistic about the global energy crisis resolving sooner rather than later. The US-Iran memorandum of understanding still sent oil prices tumbling, however, with Brent Crude dropping below where it was on the eve of the war. Brent ended June 18.7% down in sterling terms.

With tankers now transiting the Strait of Hormuz, markets have effectively declared the war over – and not for the first time. With resistance to the deal on all sides, scepticism about the extent and duration of the ceasefire is understandable. The risk of conflict flaring up again and bumping up energy prices remains. However, the extreme risks for the world economy – indefinite closure of the Strait or escalation involving China – undoubtedly receded last month.

Another notable effect of falling oil prices is that current prices are now lower than futures pricing (known as “contango”) for the first time since the war began. The sharp fall in current prices is partly down to the growth of speculative trading in energy contracts over the last few months. Many investors had taken ‘long’ positions in oil (expecting prices to go up) which they swiftly closed after the ceasefire was announced. We wrote a few weeks ago that the cash requirement for the unwind of this speculative action had knock-on effects for other assets like gold and cryptocurrencies – both of which fell sharply in June.

The shakeout of energy speculators had a strange effect on broader markets. You would expect lower energy prices to be a boon for stocks, but in the event, sharply lower oil coincided with a sell-off in equities. We surmise that this was partly about the number of cross-positions linked to energy contracts, resulting in investors selling other assets to cover their oil losses.

Speculative trading certainly characterises much of the action around June’s other headline story: SpaceX’s IPO. In advance of the largest IPO in history, we pointed out that many index-tracking funds linked to the Nasdaq 100 would be forced to buy SpaceX shares in larger quantities than may be available. After going public, the Elon Musk-owned conglomerate rocketed up – only to sink back down once lock-up expiries of some shares held by management allowed more SpaceX supply onto the market.

The month-end downdraft also coincided with large institutional investors rebalancing asset weightings into the end of the second quarter. This usually means selling the best performers – which can cause a slight pullback. We saw this in US tech stocks, which lost 1.2% in sterling terms last month despite an impressive 20.8% quarterly gain.

June also saw Kevin Warsh’s first meeting as Federal Reserve chair. It became clear that the new Fed boss will prioritise reducing the Fed’s balance sheet over cutting interest rates (indeed, he may raise them). That added to some of the liquidity pressures in markets but, interestingly, also benefitted US small cap stocks.

Speaking of selling the winners – there were no bigger winners last quarter than global microchip (semiconductor) manufacturers. The AI theme has been fuelling markets for years, but in the last few months the baton has passed to chipmakers, from the traditional ‘Magnificent Seven’. Unsurprisingly, chip stocks sold off slightly into the end of June, as investors crystallised profits after an incredible run.

Throughout Q2, the chip frenzy buoyed emerging market (EM) stocks, largely because EM market capitalisation is so heavily weighted towards just three stocks: TSMC, Samsung and SK Hynix. These tailed off in June, just like all the other chipmakers. EM equities ended June virtually level, gaining 0.1% in sterling terms.

We had big political news in the UK last month – Keir Starmer’s resignation and (almost certainly) Andy Burnham’s ascension. Markets were remarkably calm about it all, with UK stocks performing well even as others fell, though ending just 1% up through the month.

The bigger reaction came in bonds, where UK government (gilt) yields fell more sharply than others. Much of that is down to the US-Iran ceasefire (gilts are highly reactive to global factors) but there was a brief period, following Starmer’s resignation, where gilt yields fell despite *rising* yields elsewhere. That suggests markets are relatively positive on Burnham, not just indifferent, which is somewhat hard to reconcile against his previous dismissive bond market comments.

Markets have had yet another impressive run in the first half of 2026. Equities continue to power ahead, driven by AI and despite geopolitical risks. Rebalancing flows naturally took some of that shine off last month but, in the last few days of June, we already saw investors repositioning for further gains. The second half of the year might not be as spectacular as the first. But all the economic indicators suggest more growth ahead.

European cars still stalling

European carmakers continue to struggle. BMW just issued its third profit warning in as many years and Volkswagen is reportedly planning to axe 100,000 jobs. Automotive manufacturers across the continent are enacting massive cost-cutting programs as they struggle to keep up with competition from China. The overcapacity in autos is nothing new; European manufacturers have been under its yoke for years. But it increasingly looks like Europe’s carmakers have fallen behind global peers in design and innovation too. The latest restructuring wave could force a reset for the industry.

Carmakers struggle despite manufacturing rebound

The travails of European carmakers stem from two key factors: energy and China. The spike in European energy prices after the Ukraine war hurt manufacturers’ production costs at the same time that Chinese competition hit their revenues. The Iran war was another unwelcome energy shock – just as European natural gas prices had been stabilising. The US-Iran resolution has therefore been a positive, but not enough to turn around sentiment in the autos sector.

The China problem is actually two separate problems. The first is that Chinese carmakers are gaining global market share, and often sell at a hefty discount, due to Chinese overproduction. The second is that Chinese demand for cars is weak, due to prolonged stagnation in the world's second-largest economy. A Bloomberg Intelligence report estimates that Chinese sales of European cars will make up just 8% of the combined profits of BMW, Mercedes and Volkswagen in 2026-27, down from a third historically.

European demand is not helping much either: European new car sales remain 12% below the peak in 2019, despite decent enough growth over the last few years.

Struggles in the autos sector are all the more noticeable given the recent strength of other global manufacturers. Carmakers used to be the beating heart of global manufacturing, but now the AI infrastructure build-out has taken its place. This is yet another sign that consumer-focussed sectors are struggling, even as business-to-business revenues improve.

Policies aren't helping enough

To counteract cheaper Chinese competition, the EU enacted variable tariffs on Chinese electric vehicles (EVs) in late 2024, on top of the existing 10% levy. The idea is that this should counteract 'undercutting' of European producers, which many frame as a deliberate policy from Beijing to gain market share. The accusation that the Communist Party has been trying to squeeze out Europeans is false; rather, cheap Chinese EVs are a knock-on effect of China's production-led economic model, which leads to overproduction. But regardless of how it came about, European lawmakers understandably want to protect their politically sensitive car companies.

The EV tariffs have not helped much in that regard. The company-specific levies apply only to battery-only EVs, with plug-in hybrid EVs (PHEVs) from China facing only the 10% base tariff. Most of the growth in European car demand, however, has been in PHEVs, and Chinese producers are doing well to meet that demand. The European Commission is reportedly planning to impose further tariffs on Chinese PHEVs to address this.

Arguably, the more helpful policies for European carmakers would be to improve EV infrastructure. The rollout of pure EVs in Europe has been much slower than carmakers planned for. The cost of European-manufactured EVs remains a barrier (amplified by the existing China tariffs, as Chinese EVs are often cheaper than combustion counterparts), but the main concern reported by consumers is still a lack of readily available charging points.

Dynamism and restructuring

Share prices for European automakers have suffered in recent years and price-to-earnings valuations trade at a discount to the broader market. But Bloomberg analysts still think these valuations are optimistic, given that Chinese producers are increasingly eating up shares of a stagnant Chinese domestic market.

One of the key problems is that the technology gap between European and Chinese cars has all but evaporated, making price the key differentiator. That gap has narrowed because European manufacturers have fallen behind in terms of innovation (not just compared to Chinese companies, but to new entrants like Tesla too). Chinese brands are now leading in vehicle software and product development timelines.

There are two main reasons for this: European R&D engineers typically focus on mechanical engineering rather than digitalisation, and European carmakers prioritise quality and durability over speed of production. Carmakers' woes highlight the digitalisation problem just as much as Europe's relative lack of semiconductor companies. Meanwhile, Chinese carmakers innovate and develop faster because of far less long-term testing. That may yet prove a challenge for Chinese brands in Europe, with potentially more discerning customers, compared to China.

If auto manufacturers want out of their rut, significant restructuring and technology re-orientation are needed. This applies to the legacy carmakers all around the world, not just in Europe. Even before new EV competitors came in, the global autos sector had excess capacity in old ICE (internal combustion engine) vehicles – with consolidation necessary. That consolidation is unlikely to happen at the sectoral level (Germany will not want to see its star brands swallowed up, for example) but there will certainly be a reset after the latest wave of cost-cutting. If that puts more emphasis on innovation, perhaps Europe's carmakers will find a way out.

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Global Equity Markets — 03-Jul — Technical — Valuations

Market	Level	% 1 Week	% 1 Week (GBP)	Technical Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10643	+1.6	+1.6	→ →	3.1	14.7	12.8	12.7
UK FTSE 250	23515	+2.1	+2.1	⬀ →	3.3	8.3	12.5	13.2
UK FTSE All-Share	5718	+1.6	+1.6	→ →	3.1	13.9	12.8	12.6
FTSE Small x Inv_Tsts	6520	+2.0	+2.0	⬀ →	3.9	17.9	10.1	9.9
EU STOXX ex UK	835	+2.6	+1.9	⬈ ⬀	2.8	18.4	16.1	15.1
France CAC 40	8504	+1.6	+0.9	→ →	3.0	17.4	14.7	14.1
Germany DAX 40	25760	+4.4	+3.7	⬀ →	2.5	18.2	15.5	13.4
US S&P 500	7483	+1.7	+0.5	⬈ ⬀	1.1	25.4	20.2	19.1
US NASDAQ comp	25833	+2.0	+0.9	⬈ ⬈	0.5	34.6	24.8	26.2
Japan Nikkei 225	69744	+0.6	-0.3	⬈ ⬈	1.2	25.6	23.8	18.7
World Bloomberg	2603	+1.8	+0.6	⬈ ⬀	1.5	22.5	17.5	16.7
China Bloomberg	1267	+1.7	+0.5	⬂ →	2.3	14.9	11.7	12.5
Emerging Bloomberg	1837	+0.9	-0.3	⬈ ⬈	2.0	18.3	11.6	12.5

FTSE100 Top 6

Company	%
St James's Place	+9.5
BAE Systems	+9.3
Aberdeen	+8.6
Melrose Industries	+7.7
Babcock Int'l	+7.7
Lion Finance	+7.3

S&P Global Top 6 (GBP terms)

Company	%
Axon Enterprise	+27.0
Kongsberg Gruppen	+17.6
Moderna	+17.2
Shinhan Financial	+16.0
Hanwha Aerospace	+15.1
Saab	+14.9

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	-0.6	Staples	-0.7
Financials	+1.7	Energy	-1.7
Health	+1.4	Materials	+0.7
Discretionary	+1.5	Utilities	-1.0
Industrials	+1.5	Real_Estate	-1.8
Communicatio	+3.2		

FTSE 100 Bottom 6

Company	%
Entain	-8.2
Vodafone	-6.1
Persimmon	-4.2
Diageo	-4.1
InterContinental Hotels	-3.9
Barratt Redrow	-3.5

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Sandisk	-17.5
Teradyne	-16.5
Micron Technology	-14.8
Coherent	-13.4
Fujikura	-13.4
Ciena	-12.9

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.32	+0.04
UK 10yr Gilt	4.79	+0.06
UK 15yr Gilt	5.21	+0.07
US 10yr Treasury	4.48	+0.11
France 10yr OAT	3.73	+0.10
Germany 10yr Bund	2.93	+0.08
Japan 10yr JGB	2.78	+0.17

Currencies

Pair	last	%1W
USD per GBP	1.335	+0.9
GBP per EUR	0.857	-0.8
USD per EUR	1.144	+0.2
JPY per USD	161.25	-0.2
CNY per USD	6.785	-0.3
USD per Bitcoin	62,020	+3.5

Commodities

Cmdty	last	%1W
Oil Brent $:bl	71.93	-0.4
Gold $:oz	4172	+2.2
Silver $:oz	62.25	+5.1
Copper $:lb	622.1	+0.3
Alumnm $:mt	3082	-2.6
Agriculture BBG	55.39	+0.8

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	03-Jul	03-Jun
UK BoE base rate	3.75	3.75
2yr fixed	4.59	4.92
3yr fixed	4.72	4.88
5yr fixed	4.54	4.80
10yr fixed	5.10	5.24
Standard variable	6.60	6.60

Where possible, prices taken levels at 03 July 2:15 PM (today) and 26 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

LMentel