



The Tatton Weekly

Waning momentum – growing unease

5 June 2026

This week's topics:

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May asset returns review

Affordability weighs on house prices

This week's writers:

Lothar Mentel

Chief Investment Officer

Jim Kean

Chief Economist

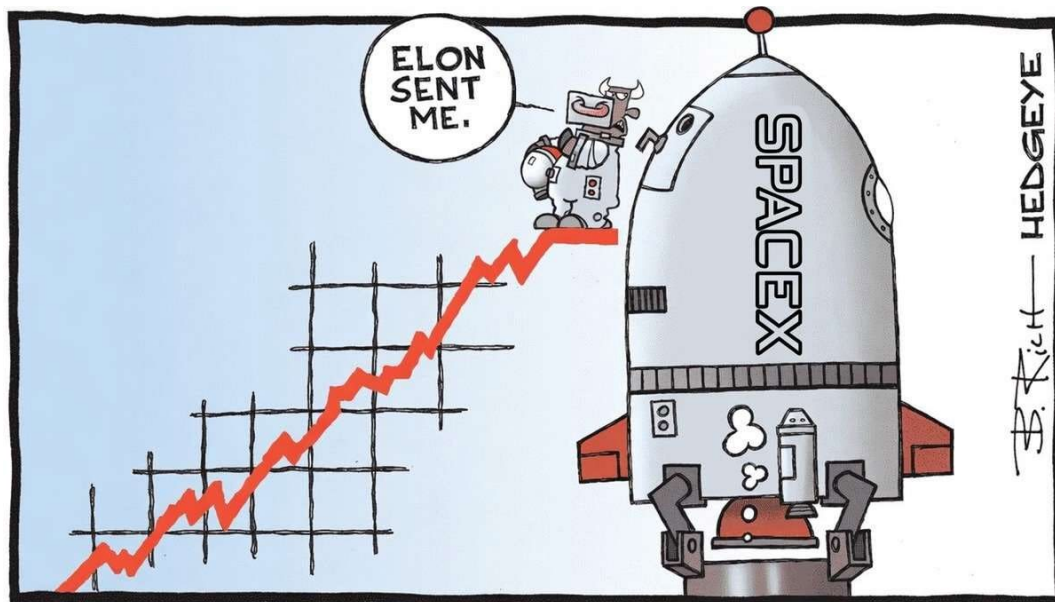
Dr. Isaac Kean

Head of investment writing

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Market bulls banking on an Elon Musk boost, Bob Rich, 3 June 2026

Markets decelerate

Until Friday lunch time, it was a fairly dull week for markets. News of an Israel-Hezbollah ceasefire eased concerns but did not materially change the Middle East stalemate. As we write, though, traders are digesting a stronger than expected US employment report. May's surprising bounce in job creation suggests a stronger US economy than might have been expected, given higher fuel prices.

Bond yields bumped higher after the US data. Investors had been rotating away from the tech darlings towards more 'ordinary' stocks, but they now appear more focussed on potential interest rate rises than economic growth. The US IT-led rally from the start of April is waning, and markets are down about 1.5% as we write, although a stronger US dollar is offsetting some of that weakness in sterling terms.

Past peak hype?

Shares in semiconductor manufacturer Micron dropped 7% on Thursday, after disappointing sales projections from competitor Broadcom. That is partly profit-taking, after a phenomenal few weeks for AI chipmakers. But it is also a realisation that manufacturing microchips is a cyclical business after all – AI boom or not. Micron's sell-off came just days after it announced a massive increase in production. Make hay while the sun shines, at least.

This particular chapter of the AI investment story might be ending. Google owner Alphabet's plan to raise \$80bn in fresh equity issuance triggered a fall in the broader 'Magnificent Seven' US tech stocks. With trillion-dollar IPOs looming from SpaceX, OpenAI and Anthropic, investors worry that there might be too many new shares for the market to swallow.

Investors did not mind big tech firms borrowing billions to develop AI last year, as long as debt issuance did not disturb their incredible earnings-per-share growth. Equity issuance is different. That requires extra money coming into the market – just to keep share prices level. That extra capital will have to come from somewhere, most likely sales of other assets. That might also explain this week's market rotation.

Trade and capital barriers re-emerge

The US is pursuing protectionism again – this time by imposing 10-12.5% tariffs on trading partners that (Washington claims) are not enforcing laws against forced labour. It is a thinly veiled attempt by the Trump administration to claw back the tariff revenues that it will soon lose out on, once the 10% universal tariff expires next month, following a US trade court ruling.

The "Section 301" tariffs will replace the expiring "Section 122" and create another set of regulations, but they will not change end prices. Effective tariff rates will rise from 10.2% to 10.7%, according to Bloomberg Economics, well below the original IEEPA tariffs. Further US tariffs are likely, but we doubt there will be reciprocal tariffs from trading partners.

There will be other protectionist measures, however. US companies' increasing need for capital is unlikely to be sated by China, after Beijing announced tighter restrictions on Chinese tech investment going overseas. The regulations have been in the pipeline for a while and will come into effect next month, rather conspicuously preventing many Chinese investors from buying into the slew of US tech IPOs. The 'overseas' designation includes Hong Kong, Macau and Taiwan, which hurt HSBC and AIA shares.

The "protective and defensive" measures are designed to stop foreign entities contravening national interests. Beijing is no stranger to capital controls, but it is still significant to see them used explicitly as a weapon in the US-China tech race. We suspect the government has another reason to keep Chinese money at home too – to direct China's massive savings pile into the domestic market.

Just as markets were feeling better about the Middle East's impact on global trade, fresh hurdles arise.

Show me the money supply

Retail investors are not as happy as they were a few weeks ago, particularly in the cryptocurrency market. We see this in Bitcoin's 20% monthly fall in dollar terms. Meanwhile, cryptocurrency exchange volumes have been consistently falling in 2026.

Under new Federal Reserve Chair Kevin Warsh, Bitcoin's prospects are unlikely to change. Warsh plans to change (reduce) the way the central bank provides liquidity to the financial system, weaning markets off the Fed's bond buying support that has sustained them for nearly two decades. That is a respectable aim, but one that will inevitably weigh on asset price valuations – particularly speculative assets like crypto.

Since the global financial crisis [GFC] of 2008, we have seen a dramatic rise in M1, the narrow measure of central bank-generated money, i.e. cash. However, M4, the broadest measure that includes bank deposits and certain financial instruments, has remained fairly static. Warsh's argument is that, by reducing reliance on M1, banks will be forced to create money through lending, boosting M4 and driving economic growth. That could well be positive for the economy, but tighter general liquidity is not good news for equity price-to-earnings valuations. Hopefully, valuation pressure would be offset by higher profit growth, but it is a worry for stocks nonetheless.

We do not expect Warsh to unveil this plan at his first Fed meeting as Chair later this month. The Fed will almost certainly leave interest rates and balance sheet operations unchanged – though May's strong employment data increases the chances of a hawkish signal. Before that, the ECB will meet and is all but certain to raise rates from 2.15% to 2.4%.

The Bank of Japan is likely to raise too, while the Bank of England will probably keep rates steady but signal a hike ahead. Although energy prices are pushing up headline inflation, central bankers are helped by some fairly weak core inflation (excluding volatile food and energy).

Warsh's balance sheet reduction plan is likely to come up at the Jackson Hole conference for central bankers in August. Markets have mostly convinced themselves that Warsh does not have enough power or support at the Fed to implement his grand plan by himself. That may be true, but his recent appointment of two seemingly ideological advisers (one of whom contributed to infamous MAGA initiative "Project 2025") gives the impression of a Fed chair preparing to fight. Markets will watch that conference even more closely than usual.

May asset returns review

Asset Class	Index	May	YTD	12 months	2025	3-yr	5-yr	10-yr
						rolling annualised	rolling annualised	rolling annualised
Equities	UK Large Cap	0.7	6.6	22.5	25.8	15.9	12.2	9.3
	UK Ethical Large Cap	-0.4	2.6	15.0	18.8	10.2	7.6	5.3
	Europe ex-UK	4.3	6.5	19.1	26.2	13.9	9.4	10.5
	US Large Cap	6.1	11.0	29.8	9.8	20.2	15.4	16.5
	US Technology Large Cap	9.3	16.1	42.0	12.8	25.1	16.5	20.4
	Japan	5.8	15.9	31.8	16.0	16.9	10.7	10.4
	Global Stocks	6.0	11.9	30.3	13.9	18.9	12.6	13.7
	Emerging Markets	10.6	25.3	54.4	24.4	21.7	8.7	11.5
	China	-2.1	-6.6	9.2	22.6	9.1	-3.5	6.6
Bonds	UK Gilts All Stocks	1.8	-0.5	3.4	5.0	2.6	-4.2	-0.7
	£-Sterling Corporate Bond Index	1.9	0.3	5.8	7.3	6.4	-0.3	2.3
	Global Aggregate Bond Index	0.6	0.8	3.6	4.8	4.1	0.4	1.3
Commodities	Commodity Index	-6.9	37.4	51.2	-0.3	17.0	17.9	9.3
	Brent Crude Oil Price	-16.8	49.4	45.2	-24.1	4.9	6.9	7.0
	Spot Gold Price	-1.4	4.8	37.5	53.6	28.5	20.3	15.0
	Spot Silver Price	3.9	5.0	129.2	131.9	44.2	23.7	17.7
Inflation	UK Consumer Prices (% Chg for period)*	0.7	1.4	2.6	3.4	2.9	5.2	3.6
Cash rates	Time deposit return (SONIA 3-Month rate)	0.3	1.5	4.1	4.5	4.8	3.4	1.9
Property	Global REITs	0.7	9.3	13.6	0.3	7.4	4.0	4.9
Alternatives	Multi-Strategy Liquid Alternatives	1.8	5.2	12.8	0.3	5.1	4.6	4.2
	Bitcoin	-3.2	-16.2	-30.1	-13.5	39.7	14.6	65.7

Source: Morningstar Direct as at 31/05/26. * to end of previous month (30/04/26). All returns in GBP.

May delivered another strong month for global stocks, finishing 6% higher in sterling terms. Markets were remarkably resilient, given the looming threat of oil price escalation from the Strait of Hormuz closure. Perhaps even more surprising was the 0.6% gain in bonds. Bond yields rose rapidly in the first few weeks of May, meaning prices – their inverse – fell. But the mood calmed substantially into the end of the month, leaving investors with strong returns all round. With the exception of China, every major regional stock market gained in sterling terms.

Presidents Trump and Xi's mid-May summit was billed as the main geopolitical event. Many expected it would result in a deal between the US and Iran – China's ally and one of its main oil providers. In the end, there was very little of substance. The détente did at least dispel any lingering notion that the US is waging its Iran war as a proxy against China, which helped calm markets somewhat.

Geopolitical risks dissipated even further in the last week of May, following reports of a 60-day extension to the ceasefire between Washington and Tehran, and planned negotiations on Iran's nuclear programme. Brent Crude oil prices finished the month just over \$90 per barrel, resulting in a 16.8% monthly drop in sterling terms. That is despite the fact that, once again, there was little concrete progress towards ending the energy crisis. We suspect that oil's drop was at least partly caused by a sense that global energy markets are making do with limited supply, even with the Strait of Hormuz closed.

Last month's inflation fears were not all about oil. We saw a big swing up in prices of certain industrial metals – particularly copper and lithium – related to the AI infrastructure spending spree. This was matched by sharply higher computer chip prices. Interestingly, however, iron prices were flat through May. This suggests that companies are stockpiling key materials for datacentre building, but are not actually building yet.

The chip buying frenzy powered share prices for semiconductor manufacturers. This is one of the reasons that US tech stocks (+9.3%) and emerging markets (+10.6%) were the month's best performers in sterling terms – the latter being dominated by three major chipmakers, Taiwan's TSMC, and South Korea's Samsung and SK Hynix. On the flipside, regions without a big tech presence underperformed: Europe rose 4.3%, while the UK gained just 0.7%.

Interestingly, the AI investment theme became increasingly selective in May, with even previous superstar Nvidia lagging into the month end. With so much uncertainty around how AI will be integrated into the economy, investors are piling into the most obvious winners: the chip manufacturers.

Despite inflation concerns about energy and materials, core inflation (stripping out volatile elements) came in relatively weak across developed markets towards the end of the month. That helped stabilise market-derived inflation expectations, adding to the overall sense of calm. Aside from lower oil prices, the inflation ease was also caused by slightly weaker economic growth projections than had been expected at the start of May. A month ago, it looked like consumption would stay strong, particularly in the US, keeping inflation pressures high. More recently, consumption has looked a little weaker.

The inflation whiplash was felt in bond markets. Bond prices gained 0.6% through the month, meaning yields fell, but that aggregate figure hides significant volatility. Yields spiked in mid-May, particularly for long-term government bonds. Interestingly, the driving force was long-term real (inflation-adjusted) yields, which does not make much sense if the problem is short-term inflation. We suspect this was because bond investors grew fearful about unsustainable public borrowing, as governments spend to support their citizens and debt spirals.

The UK was at the centre of bond anxieties. The yield on 10-year UK government bonds (gilts) reached nearly 5.2% a few weeks ago, coinciding with Labour leadership drama and deep

uncertainty about the future of Britain's fiscal policy. Gilt discussion usually gets political, but we have argued for a long time that the UK gilts investment universe is structurally imbalanced, making gilts more sensitive to inflation fears and rising term premia (the extra amount demanded for lending over the long-term) than other bond markets.

That sensitivity is also why, in the end, gilts were some of the best performing government bonds last month, with prices up 1.8%. We fare worst when bond investors panic, and fare best when they calm down. The fact gilt yields came back down so sharply can make it look like the fiscal fears have gone away, but they are just as present as they ever were.

We should not think that fiscal risk has gone just because bond prices ended May in the black, and that goes for all government bonds, not just gilts. The bond vigilantes fired a warning shot last month, a signal that there is only so much capital available for governments.

Overall market capital is likely to be extra tight in the coming months, given the slew of big US tech companies planning to IPO. AI-related borrowing has been sapping market capital for a while but, following the news of SpaceX's upcoming IPO, investors started pondering what the estimated \$210bn in fresh equity issuance this year could mean for the rest of the US stock market. None of those IPOs have happened yet, but fund managers have already started putting capital aside to buy the new shares. That could have interesting effects going forward.

Affordability weighs down house prices

House prices in Canada have been under immense pressure. Figures from the Canadian Real Estate Association showed yet another monthly drop after several years of decline. Since a post-pandemic high in early 2022, prices have dropped around 20%.

Canada's housing market is not the only one struggling. Prices have been stagnant or falling across most developed countries ever since interest rates started to rise from their all-time lows in the post-pandemic period. Despite that stagnation, homes are still unaffordable for so many people, hampering demand. Prices fluctuate with the interest rate cycle, but it is hard to see how they can go any higher while affordability remains stretched.

Canada shows the limits of affordability

While house prices have stalled everywhere, Canada is a particularly stark case. Bloomberg reported this week that some of Canada's biggest cities have seen average price drops of more than 30% from the 2022 peak. Unsurprisingly, those are the ones with the highest prices heading into that 2022 peak – most notably Toronto and Vancouver. According to Royal Bank of Canada's Robert Hague, the depth of the falls right now reflects the excessive heights reached before.

Canada is a case in point for stretched affordability. Even after several years of falling prices, price-to-income ratios are still extremely high (ownership costs are 88.4% of household income,

according to RBC). Bloomberg’s report notes that most Canadians – and even a majority of homeowners – want prices to fall further.

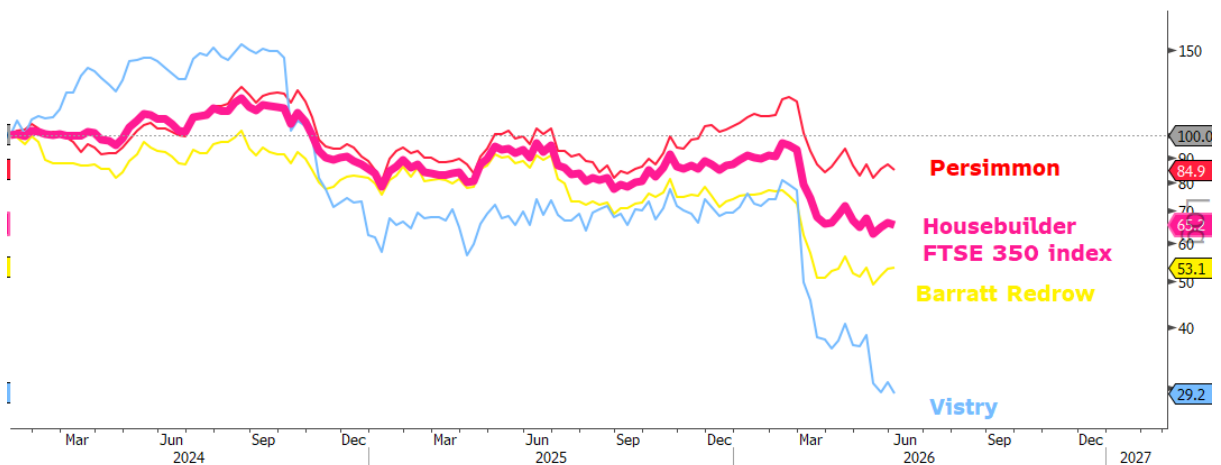
The drop in prices is interesting, given that Canada’s interest rate has fallen much faster than other regions in the last two years, settling at the relatively low 2.25% (compared to 3.75% in the US). You would expect cheaper mortgages to push up housing demand, but affordability is too big a barrier. House prices have become unaffordable in part due to supply problems, not just in terms of total housing stock, but also house quality. The government has now cut sales taxes and development costs to encourage more building.

Housebuilders struggle to expand supply

Lighter regulation helps housebuilders, but the deeper problem is the fear they will not be able to make a profit. This is very apparent in the UK. Despite an increase in housing supply last year, dealmaking dropped – as many simply could not afford to buy the newly available stock. The nosediving share price of Vistry, one of Britain’s biggest builders, shows the pain this has caused the sector.

UK housebuilders

FTSE 350 housebuilders : GBP total return



Source: Tatton IM, Bloomberg, LSEG: G1641

BDEV LN Equity (Barratt Redrow PLC) UK housebuilders Weekly 31DEC2023-31JAN2027

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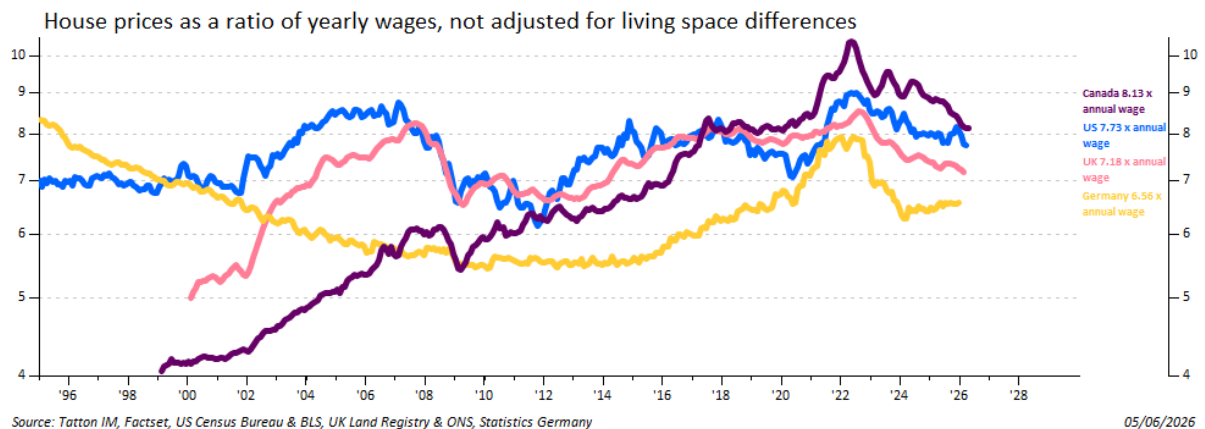
Last month, Vistry blamed the US-Iran war for its significantly lower profits, pushing up materials costs while also weighing on demand. Mortgage rates have climbed higher since the war broke out, a knock-on effect of higher inflation expectations and the sharp rise in UK government bond yields. That resulted in lower house prices from May. Savills estate agents now expect a 2% fall in average UK prices this year, having predicted a 2% gain before the war.

At the end of last year, many expected a recovery in house prices, boosted by lower interest rates and rebounding economic growth. It has not worked out that way – not even in the resilient US economy. The US house price index did rise 1.7% between the first quarter of 2025 and the same period this year, but this is well below background inflation.

Unaffordable means overvalued

Clearly, the global energy crisis is a major reason that the cyclical rebound has not panned out. But longer-term trends show this is definitely not just a cyclical story. Across the developed world, we reached a peak in (un)affordability after the pandemic. As the chart below shows, house price-to-wage ratios have been gradually coming down since then. But while affordability is improving, it is still a structural barrier to house prices increasing. The post-2008 era of low interest rates fuelled a long expansion in house prices, which have been slowly correcting since rates returned to the historic norm.

House prices and wages



The correction has been slow (with the exception of Canada) because house prices cannot really fall without forced buyers – and you only get lots of forced buyers in a recession. Barring the pandemic blip, the developed world has not had a real recession in nearly two decades. Without it, we have to wait for wages to gradually catch up with house prices.

A correction does not feel good for anyone involved: sellers feel they are losing out, but buyers see only an incremental increase in their purchasing power. In investment terms, house price valuations are being gradually re-rated down.

We wrote at the start of the year that the outlook for global property this year was dull – and it is certainly looking that way. As an investment, property valuations are stretched and, unlike in previous decades, they offer nothing like the returns to justify that valuation. With higher returns available elsewhere, you cannot keep stretching valuations forever.

Global Equity Markets		05-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	10399	-0.2	-0.2	→	↗	3.2	15.0	12.7	12.7
UK FTSE 250	23239	-0.9	-0.9	↗	→	3.5	10.3	12.2	13.2
UK FTSE All-Share	5594	-0.3	-0.3	→	↗	3.2	14.5	12.7	12.7
FTSE Small x Inv_Tsts	6406	-0.7	-0.7	→	→	4.2	21.5	9.7	10.0
EU STOXX ex UK	798	-0.4	-0.8	↗	↗	3.0	17.7	15.6	15.1
France CAC 40	8248	+0.5	+0.2	→	→	3.1	17.2	14.6	14.1
Germany DAX 40	24839	-0.9	-1.3	↗	→	2.6	17.8	15.1	13.4
US S&P 500	7506	-1.1	-0.6	↗	↗	1.1	25.8	21.0	19.0
US NASDAQ comp	26386	-2.3	-1.8	↗	↗	0.5	36.1	25.9	26.2
Japan Nikkei 225	66588	+0.4	+0.3	↗	↗	1.3	24.8	23.5	18.7
World Bloomberg	2592	-1.0	-0.5	↗	↗	1.5	22.6	18.0	16.7
China Bloomberg	1319	-0.6	-0.0	→	→	2.2	15.4	12.2	12.5
Emerging Bloomberg	1832	-1.9	-1.4	↗	↗	2.0	18.2	12.0	12.5

FTSE100 Top 6		S&P Global Top 6		(GBP terms)		Global Sectors		(GBP terms)	
Company	%	Company	%	Sector	%	Sector	%		
RELX	+7.3	Pro Medicus	+23.9	Tech	-0.9	Staples	-0.1		
Autotrader	+7.1	Hewlett Packard Enterprise	+17.8	Financials	+0.6	Energy	+2.8		
Rightmove	+6.7	Cathay Financial Holding	+16.2	Health	+1.7	Materials	-2.2		
Tesco	+6.2	Quanta Computer	+14.7	Discretionary	-3.1	Utilities	-0.1		
InterContinental Hotels	+6.0	Humana	+13.8	Industrials	+0.2	Real_Estate	+0.5		
Entain	+5.5	SCREEN	+13.5	Communications	-1.5				

FTSE 100 Bottom 6		S&P Global Bottom 6		(GBP terms)		Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg		
Endeavour Mining	-11.7	Ibiden	-18.5	UK 5yr Gilt	4.46	+0.11		
Prudential	-9.5	Coinbase Global	-18.4	UK 10yr Gilt	4.91	+0.10		
Fresnillo	-7.9	Partners Holding	-14.2	UK 15yr Gilt	5.31	+0.09		
Burberry	-5.4	SK hynix	-13.8	US 10yr Treasury	4.54	+0.10		
Babcock Int'l	-5.2	CBOE Global Markets	-13.6	France 10yr OAT	3.69	+0.14		
Rolls-Royce	-5.2	Ciena	-13.5	Germany 10yr Bund	3.04	+0.10		
				Japan 10yr JGB	2.66	+0.00		

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	05-Jun	06-May
USD per GBP	1.339	-0.4	Oil Brent \$:bl	93.90	+2.0	UK BoE base rate	3.75	3.75
GBP per EUR	0.864	-0.3	Gold \$:oz	4366	-3.9	2yr fixed	4.75	5.14
USD per EUR	1.156	-0.7	Silver \$:oz	69.33	-8.0	3yr fixed	4.86	4.97
JPY per USD	160.16	+0.5	Copper \$:lb	633.6	-0.9	5yr fixed	4.67	5.00
CNY per USD	6.784	+0.3	Alumnm \$:mt	3738	-0.8	10yr fixed	5.21	5.28
USD per Bitcoin	60,818	-16.6	Agriculture BBG	54.79	-4.9	Standard variable	6.60	6.60

Where possible, prices taken levels at 05 June 3:00 PM (today) and 29 May 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

