The Tatton Weekly

S

New month, new dynamics

7 August 2026

This week's topics:

Regaining confidence after July's drought

July asset returns review

US earnings flatter to deceive

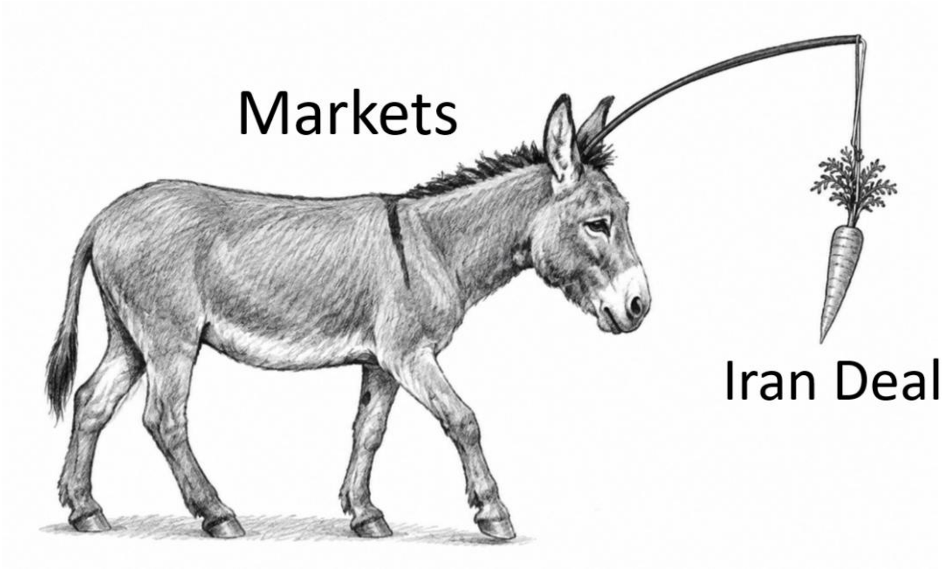
This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing

7 August 2026



New month, same geopolitical vibe, Michael Brown, 3 August 2026

Regaining confidence after July's drought

The announcement of yet another Iran deal buoyed stock markets this week. Iran and Oman reportedly agreed a new shipping route through the Strait of Hormuz, which would temporarily solve the issue that collapsed the US-Iran ceasefire last month. The normalisation of global energy supplies still depends on negotiations between Washington and Tehran, but markets reacted with their now typical optimism: oil prices fell to $80 per barrel, and US stocks broke new all-time highs. It all reversed somewhat late on Thursday after details of the deal unveiled features that would make it unacceptable to the US, given their provocative nature. Nevertheless, according to the US president on Friday morning, the Strait of Hormuz is 'sort of open'.

The global energy outlook is essentially the same as it was in mid-June, with basically the equivalent risks. But, with each new back and forth in the Strait of Hormuz, the impact on markets dampens.

Yen-tervention a prelude to currency volatility?

The other big news story this week was the US central bank - the Federal Reserve (Fed), on behalf of the Treasury, teaming up with Japan's finance ministry last Friday to support the value of the yen. If the Iran news was more of the same, the yen intervention was a new dawn. It was the first joint currency intervention between American and Japanese authorities in nearly 30 years, but it felt even more historic: not since the build-up to the 1985 Plaza Accord have Washington and Tokyo so explicitly coordinated to address perceived currency imbalance.

For Japan, it means that interest rates will probably go up. The Bank of Japan (BoJ) has been reluctant to do so despite inflation pressures taking hold. However, it is unlikely that the US

Treasury would agree to such an intervention without at least an implicit agreement to address the underlying trade imbalance. There is good reason for that: after nearly 30 years, Japan's era of disinflation is finally over, its domestic growth is strong and its current account surplus (Japan exports more than it imports) is so high that it needs to be addressed.

Japanese investors do not own enough of their own assets, with Japanese capital often flowing into other markets. Indeed, that other imbalance on the capital flow side is one of the reasons for the yen's persistent weakness. If the intervention encourages Japanese citizens to buy more of their own assets – particularly Japanese bonds, at some of the most attractive real yields in decades – then the currency could make a turn for good.

For the world, the yen-tervention represents a decent chunk of liquidity injected into global markets. The Fed and the BoJ put billions of dollars and euros into the financial system, which has boosted market liquidity and raised investors' spirits. The only downside is if the yen's sharp rise leads to more volatility in global currency markets. That would make any volatility in global stock prices feel much worse for investors.

Higher yields mean stocks aren't cheap

As well as better liquidity, there are fundamental reasons for investors to get excited. Corporate earnings growth is strong around the world – even if US earnings are not quite as strong as advertised – as we cover in a separate article. There are also signs that the AI infrastructure splurge is boosting the more traditional sectors of the economy like construction. Broad improvement in earnings means that stocks' price-to-earnings valuations have fallen, even with this week's jump up in share prices.

That makes stocks look good value. The only problem is restrictively high government bond yields: nominal yields fell this week, in line with lower oil prices, but real (inflation-adjusted) yields are still at their highest level since the start of the century. Higher real yields make stocks less attractive by comparison. If you adjust equity valuations for real yields, in fact, stocks do not look quite as cheap.

Theoretically, higher real yields should mean that bond markets expect stronger economic growth, but we doubt that is why yields have risen. The explanation could just be that there is intense demand for borrowing – from both governments and AI companies – leading to more bond supply than demand. In any case, historically high yields are still not attracting enough bond buyers and are certainly not high enough to pull investors out of equities.

Fragile but optimistic

That does not mean equity investors could not eventually be tempted. If real yields rose even further from here – and last month's bout of share price volatility resumes – stocks could sell off sharply to fund bond purchases. That would be especially true if currencies became volatile too. This process could result in another painful episode for investors.

That hypothetical scenario is a risk, but not the base case. More likely is that this week's good mood continues, for the rest of the summer at least. July's flushing out of highly geared tech speculators will perhaps prove to have been a beneficial cathartic moment, as this week's market trading data suggests that investors are rebuilding their 'long' equity positions, meaning they are positioning for a longer rally. Volatility is falling and liquidity is improving, as shown by the rise in gold and Bitcoin prices.

Markets feel fragile because of the various unresolved issues around, and the experience of what has come before during outsized infrastructure buildout periods. But the economic fundamentals are strong, and market dynamics are supportive right now. Hopefully, it will be a long summer.

7 August 2026

July asset returns review

July was a difficult month for global investors, as stocks and bonds sold off in tandem. Global equities lost 1.3% in sterling terms as positive momentum in the AI trade finally reversed, while bond prices dropped 1%, because yields rose. Renewed tensions in the Middle East pushed oil prices higher, and inflation expectations with them. Investors seemed to doubt the sustainability of AI-related earnings growth rates – despite those earnings having been very strong over the most recent reporting period. The result was a sharp increase in volatility, as the table of sterling-based returns below shows.

Asset Class	Index	July	YTD	3-yr rolling annualised	5-yr rolling annualised	10-yr rolling annualised
Equities	UK Large Cap	3.6	11.5	16.3	13.2	9.0
	UK Ethical Large Cap	3.3	7.6	11.1	8.7	5.1
	Europe ex-UK	-0.8	8.8	13.2	9.1	9.7
	US Large Cap	-1.4	10.1	17.5	13.6	14.9
	US Technology Large Cap	-4.5	9.5	20.0	13.1	18.1
	Japan	-0.4	16.9	16.0	10.7	9.1
	Global Stocks	-1.3	11.3	16.5	11.6	12.2
	Emerging Markets	-4.4	20.0	17.5	8.7	9.0
	China	5.5	-6.2	5.7	-0.9	5.0
Bonds	UK Gilts All Stocks	-1.5	-1.4	2.2	-5.0	-1.5
	£-Sterling Corporate Bond Index	-1.2	-0.3	5.8	-0.8	1.5
	Global Aggregate Bond Index	-1.0	0.1	3.9	-0.1	1.0
Commodities	Commodity Index	11.0	39.6	13.5	16.5	9.6
	Brent Crude Oil Price	18.9	44.4	-0.5	3.8	7.1
	Spot Gold Price	-0.5	-6.0	25.6	18.0	11.6
	Spot Silver Price	-3.2	-19.9	31.3	18.5	11.0
Inflation	UK Consumer Price Index (% Chg for period)*	0.1	1.7	-	-	-
Cash rates	SONIA 3-Month	0.3	2.2	4.8	3.5	2.0
Property	Global REITs	1.2	14.4	8.2	3.3	3.4
Alternatives	Multi-Strategy Liquid Alternatives	-1.5	5.4	5.3	4.2	3.1
	Bitcoin	5.9	-25.8	-	-	-

Source: Morningstar Direct as at 31/07/26. * to end of previous month (30/06/26). All returns in GBP.

The disintegration of the US-Iran ceasefire was the major concern for markets in the first few weeks of July. Markets seemed to declare the war over as a major investment theme in June, but renewed attacks in the Middle East – particularly between the Houthis and Saudi Arabia in the Red

Sea – proved that optimism too hasty. Brent crude, the international oil benchmark, peaked above $100 per barrel in the middle of the month, but fell just as sharply as markets seemed to once again price in de-escalation. Still, Brent finished the month 18.9% up in sterling terms, with broader commodities up 11%.

Middle East tensions contributed to the stock market sell-off, but equities had other problems too. Investors grew increasingly anxious about AI stocks – particularly the chip manufacturers that soared upwards in the first half of 2026. Despite quarterly earnings reports showing strong profit growth among chipmakers and the 'Magnificent Seven' tech firms, markets are uncomfortable with the vast sums being spent building AI infrastructure and whether sustainably high returns on these investments will materialise in years to come.

Share price volatility rose sharply, culminating in a 4.5% drop in sterling terms for large US tech stocks, and a 1.4% fall for the broader S&P 500.

AI anxiety also caused the 4.4% fall in emerging market (EM) equities – thanks to the dominance of chipmakers TSMC, Samsung and SK Hynix within the EM index. EM weakness came despite China, the largest regional component, outperforming all other major equity markets, with a 5.5% monthly gain. This is a reversal from the first half of 2026, when China languished but broader EMs powered ahead. The world's second-largest economy continues to be disconnected from global markets.

A fall in equities, particularly long-term growth stocks, is supposed to be good news for bondholders. That is because 'risk-free' government bond yields should theoretically reflect the long-term rate of economic growth, together with inflation. Bond prices (moving inverse to yields) should theoretically rise when growth wanes, making bonds a shock absorber for investment portfolios. This relationship did not hold last month, however: bonds sold off, particularly at long-term maturities.

Early in July, that was partly about energy prices. The bond sell-off then became a crescendo at the end of the month, following a poorly received press conference from US central bank Chair Kevin Warsh. The really remarkable market action, though, is that long-term real (inflation-adjusted) yields rose to around 3.5%. That is the highest level in over 20 years and implies – contrary to stock markets – strong long-term growth expectations.

We suspect that the bond-equity disconnect comes from the fact that buyers in each asset class have become entrenched, with relatively little movement between them. The common theme in both asset classes is that risk premia – the return investors demand for taking on a given level of risk – have risen. Both bond and equity investors are worried about heightened volatility. This hurts long-term bonds as well as so-called growth stocks, exactly as we saw in July.

As usual, UK bonds (gilts) were more sensitive to rising inflation and risk premia than other markets. Jitters about Andy Burnham's expected spending policies may have played a role in the gilt sell-off but, as we have repeatedly argued, gilts' sensitivity has more to do with structural features of the gilt market than domestic politics.

Despite gilts' underperformance, the FTSE 100 was one of the best-performing stock markets last month, gaining 3.6%. That was thanks to the UK's minimal tech presence and the prominence of energy companies in the index. The higher oil prices that hurt gilts helped Britain's multinational energy firms. European stocks slid 0.8% in sterling terms by comparison, and are the second-worst performer (ahead of China) year-to-date, up 8.8%.

Japanese stocks fell just 0.4% in sterling terms, but prices were volatile through July. Much changed on the last day of the month, when the Bank of Japan teamed up with the Fed and the US Treasury to support the yen – whose value had been consistently falling for over a year.

The yen intervention had an interesting knock-on effect for markets. US and Japanese authorities sold dollars and euros to prop up the yen, meaning a large injection of dollar and euro liquidity. A large liquidity injection is a potent remedy for the volatility and rising risk premia we saw in July. And, sure enough, markets have looked much more positive in the first few days of August.

US earnings flatter to deceive

US company earnings look nothing short of phenomenal. The bulk of S&P 500 firms have now reported their earnings from the second quarter of 2026, and the results show 45% growth from the previous year. That is comfortably the strongest earnings growth since 2021, when economies rebounded from the exceptional lows caused by the Covid lockdowns. By contrast, last quarter was marred by high oil prices and higher bond yields.

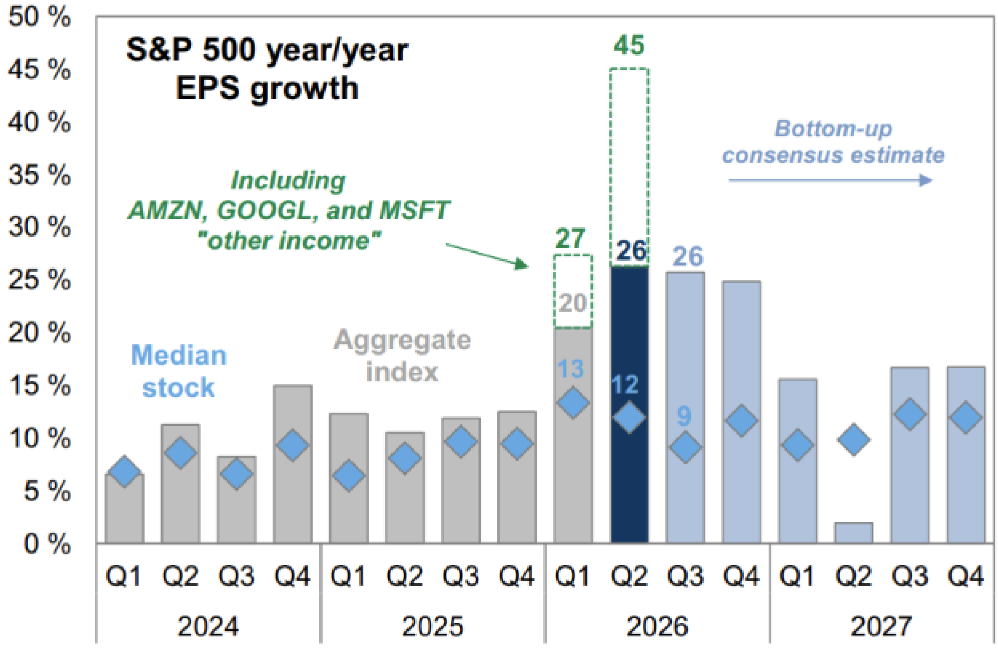
There are no prizes for guessing which companies drove that growth: big tech firms heavily involved in AI. Looking deeper into the numbers, however, we see these profits are a little artificial. US earnings are indeed strong, but not as strong as the headline numbers suggest.

Mag7 earnings are about their investments

Silicon Valley's profits are incredible – in the literal sense of being so strong as to not seem credible. Google owner Alphabet nearly tripled its bottom line year-on-year, for example, but not thanks to its revenue or margin growth.

Earnings statements also include any investment gains as 'other income'. Under US corporate disclosure rules, a firm's shareholdings in other companies must be recorded on the balance sheet at fair value and updated when there are material changes to the value of those holdings. If those shares go up in value, they push up the owner's earnings (profits), regardless of whether anything has been crystallised in cash terms.

That was the story of the second quarter of the year: the 'Magnificent Seven' US tech companies (Mag7 – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) got a major boost from their investments in AI model providers. Amazon, Alphabet and Microsoft are all major private shareholders in Anthropic and OpenAI, the two highly valued AI providers waiting to IPO later this year. Amazon reported a $53.4bn pre-tax gain, mainly from its Anthropic shares, while Alphabet reported similar gains and Microsoft some more modest ones.



Source: FactSet, Goldman Sachs Global Investment Research

For Alphabet, its other major earnings driver was the now-public SpaceX. The tech giant revealed last month that it owns $94.1bn in SpaceX shares, following the latter's record-breaking IPO in June. The important context for Alphabet's earnings is that its SpaceX gains cover the three-month period to the end of June – but SpaceX shares have fallen sharply since then.

Big tech's investment gains feed the 'circular financing' anxieties that investors displayed earlier this year. AI earnings are going up – because AI shares are going up. This is succour for those who warn about a bubble in AI-related earnings.

Adjusted earnings are still very good

The AI doomsayers should not get too carried away, however. While it is true that shares in AI modellers helped inflate Mag7 earnings, it is also true that underlying earnings were strong in their own right. Taking away the enormous investment gains for Alphabet and Amazon, earnings for S&P 500 companies still grew 26% last quarter from the year before. That is well below the 45% headline figure, but it is still comfortably above analysts' previous expectations of 24% and would still represent the best quarter since 2021.

Big tech earnings stand out, even if you ignore AI investments. But more importantly, last quarter showed a healthier distribution of earnings growth among US companies – with other sectors clearly benefitting from the AI infrastructure push.

Of course, taking out Amazon and Alphabet's shareholdings does not completely remove all of the distortions. But equally, not all share price distortions skew to the upside. For example, chipmaker Intel is part-owned by the US government, but the government's share is held on Intel's balance sheet as a liability. That puts Intel in a strange position where rises in its own share price increase its liabilities – and therefore *weaken* its earnings (!).

Markets are reacting normally

The message from US earnings reports is somewhat open to interpretation. The 'AI bubble' crowd will say that reflexivity in earnings – profits going up because share prices go up – is a bad thing regardless of the numbers, and they would be right. Optimists will say that the fundamental earnings numbers still look good, and they would be right too. Two things can be true at once.

We should also bear in mind that AI-related stocks have not had a great time recently. Mag7 shares are still lower than they were in May, and previously buoyant chipmakers sold off sharply last month. With earnings still powering ahead – even disregarding AI investment gains – that means price-to-earnings valuations have become significantly cheaper. That too speaks against the bubble narrative.

Now, US tech stocks did rally quite strongly this week, but not because investors got too excited about false earnings reports. Rather, share prices reacted to thoroughly decent earnings *plus* sharply lower oil prices and a welcome injection of market liquidity – thanks to the US and Japan's intervention supporting the value of the yen.

In other words, markets are largely reacting to earnings reports as they should. Investors have a healthy dose of scepticism about years of gains in AI-related stocks, and they are not swayed by earnings that look too good to be true. But they cannot ignore the fact that the true earnings are still strong.

7 August 2026

Global Equity Markets	07-Aug			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10920	+0.8	+0.8	↗ →	3.0	14.2	13.1	12.7
UK FTSE 250	24829	+3.6	+3.6	↗ →	3.1	9.3	13.3	13.1
UK FTSE All-Share	5885	+1.1	+1.1	↗ →	3.1	14.5	13.1	12.6
FTSE Small x Inv_Tsts	6791	+2.1	+2.1	↗ →	3.9	19.0	10.0	9.9
EU STOXX ex UK	845	+2.6	+2.8	↗ →	2.8	17.8	16.0	15.1
France CAC 40	8729	+2.6	+2.8	↗ →	2.9	17.4	15.0	14.1
Germany DAX 40	26350	+3.0	+3.2	↗ →	2.4	18.2	15.7	13.4
US S&P 500	7739	+4.5	+4.4	↗ ↗	1.1	26.2	20.0	19.1
US NASDAQ comp	26488	+5.8	+5.7	→ ↗	0.5	35.4	24.5	26.2
Japan Nikkei 225	65607	+1.9	+1.6	→ ↗	1.3	22.0	21.3	18.8
World Bloomberg	2661	+3.5	+3.4	→ ↗	1.5	22.9	17.1	16.7
China Bloomberg	1321	+1.9	+1.7	↘ ↘	2.3	15.4	11.9	12.5
Emerging Bloomberg	1784	+0.4	+0.3	↘ ↗	2.1	17.7	10.4	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
Fresnillo	+16.6	Coherent	+42.1	Tech	+4.9	Staples	+0.2
Endeavour Mining	+14.9	Palantir Technologies	+37.0	Financials	+1.1	Energy	-3.0
Barratt Redrow	+10.5	Yamaha Motor	+37.0	Health	+1.9	Materials	+6.6
Diageo	+9.4	WPP	+31.1	Discretionary	+2.0	Utilities	-1.3
St James's Place	+9.3	Zebra Technologies	+28.1	Industrials	+2.7	Real_Estate	+0.1
Antofagasta	+8.8	Shopify	+27.6	Communicati	+2.1		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
IG	-9.0	DaVita	-26.2	UK 5yr Gilt	4.46	-0.14
BP	-6.8	Honeywell Aerospace	-23.6	UK 10yr Gilt	4.92	-0.13
Prudential	-5.7	Trade Desk	-23.1	UK 15yr Gilt	5.33	-0.12
AstraZeneca	-5.0	Western Digital	-21.6	US 10yr Treasury	4.64	-0.10
Smith & Nephew	-3.8	Insulet	-16.1	France 10yr OAT	3.91	-0.08
Shell	-3.1	SK hynix	-15.5	Germany 10yr Bund	3.13	-0.08
				Japan 10yr JGB	2.79	+0.00

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	07-Aug	08-Jul
USD per GBP	1.349	+0.6	Oil Brent $:bl	82.69	-8.1	UK BoE base rate	3.75	3.75
GBP per EUR	0.857	+0.2	Gold $:oz	4334	+7.5	2yr fixed	4.86	4.81
USD per EUR	1.156	+0.7	Silver $:oz	63.52	+11.0	3yr fixed	4.80	4.76
JPY per USD	157.73	-1.0	Copper $:lb	660.8	+2.6	5yr fixed	4.81	4.65
CNY per USD	6.744	-0.1	Alumnm $:mt	3264	+1.8	10yr fixed	5.20	5.18
USD per Bitcoin	64,778	+3.4	Agriculture BBG	58.87	+1.2	Standard variable	6.60	6.60

Where possible, prices taken levels at 07 August 3:00 PM (today) and 31 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