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Weekly Market Review

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Market recap – Relief rally as US-Iran deal signed

Global stock markets rallied last week as the US and Iran signed a memorandum of understanding clearing the path to reopen the Strait of Hormuz, which sent the oil price sharply lower. US markets advanced, with the **Nasdaq 100 climbing 4.0%** (all returns in sterling terms) and the **S&P 500 up 2.4%.** However, gains were capped after signals from the US Federal Reserve (the Fed), under new Chair Kevin Warsh, about the potential for an interest rate increase later this year. Japan was the standout performer, with the **Nikkei 225 soaring 8.8%** and the **TOPIX up 5.0%**, with artificial intelligence (AI) related stocks leading the way. In the UK, the **FTSE 100 slipped 1.0%**, dragged down by mining companies, while the **Investment Association (IA) Europe excluding UK sector* gained 1.8%.**The **IA Asia Pacific excluding Japan sector rose 5.0%** and the **IA Global Emerging Markets sector was up 4.8%**, supported by the lower oil price and an increased risk appetite among investors.

**The Investment Association, which is the trade body for UK investment managers, groups similar funds together into 'sectors' to enable investors to make straightforward like-for-like comparisons.*

Geopolitics – Hormuz reopens as fragile deal takes effect

Middle East diplomacy drove sentiment last week after a **60-day ceasefire extension** and conditional reopening of the Strait of Hormuz were announced, with the US lifting its naval blockade of Iranian ports. The **memorandum of understanding was electronically signed on Wednesday**, committing the parties to a toll-free transit window while leaving the questions of Iran's nuclear programme, frozen assets and sanctions for further talks. Markets cheered the de-escalation but doubts quickly surfaced. Detail was thin, both sides claimed victory and a fresh Israeli-Hezbollah flare-up in Lebanon threatened the truce. By the weekend the US and Iran had begun **high-stakes talks in Switzerland**, led by JD Vance and focused initially on Lebanon.

Central banks – US rate rise may be looking more likely

The Fed **held rates at 3.50% to 3.75%** but nine of 18 officials are now pencilling in at least one hike this year and only one a cut. Inflation forecasts were lifted, with the **headline Personal Consumption Expenditures (PCE) rate now expected to be 3.6% for 2026**. The Fed's statement was sharply shortened and forward guidance dropped, triggering a sell-off in stocks. Investors are now pricing in around a 50% chance of a September interest rate hike. The **Bank of Japan raised its rate by 0.25% to 1.0%**, the highest level since 1995, and signalled further increases are likely.

News – Intel surges on US chip pledge

Company news centred on AI stocks last week. **Intel surged 10.6%** after President Donald Trump announced the chipmaker would produce chips for Apple in the US. The news also lifted the wider semiconductor sector, with **Micron up 8.5%** and **Nvidia up 2.8%.** The other side of the AI trade was less kind. Consultancy **Accenture sold off on weak guidance** and is now down more than 30% since the start of June, as investors focus on how AI will disrupt its business model. In the UK, **Andy Burnham won the Makerfield by-election** with 54.8% of the vote, bringing him a significant step closer to replacing Keir Starmer as Prime Minister and adding a layer of uncertainty about the government's likely tax and spending policies.

Economic data – US consumers resilient, but mixed picture in housing sector

US **retail sales rose 0.9% in May**, ahead of the 0.6% expected and up from April's 0.4% gain, indicating consumer resilience. However, **Housing starts fell 15.4%**, well below forecasts, although pending home sales rose 4.8% year on year. In the UK, **inflation held at 2.8% in May**, while **retail sales rebounded 1.2%** but public borrowing came in above expectations at £23.3 billion. In China, **exports jumped 17.0% year on year**, but retail sales fell 0.6% and property investment dropped 16.2%.

Commodities

The oil price tumbled as the US-Iran deal eased supply fears, leaving the **S&P GSCI Brent Crude index down 6.3%** over the week. At around $80 a barrel, the oil price is at its lowest level since early March, though still sharply higher than before the conflict. **Gold eked out a 1.6% rise for the week** to reach around $4,150 an ounce but is down 1.1% year to date. The price has slipped because of a stronger dollar and increasing expectations of an interest rate rise. Goldman Sachs has cut its year-end forecast to $4,900. **The broad commodities index fell 0.5%** while **industrial metals rose +0.4%.**

Week ahead – What to watch

US: Core PCE inflation (month on month), durable goods orders, final economic growth data for first quarter, personal income and personal spending figures (Thu).

UK: Preliminary S&P Global manufacturing and services purchasing managers' index (PMI) figures (a key measure of economic activity) (Tue).

Germany: Preliminary S&P Global manufacturing PMI data (Tue); Ifo Business Climate Survey (Wed); GfK Consumer Confidence Index for July (Thu).

Source: Marlborough Multi-Asset, Morningstar, Financial Times, PIMCO, T. Rowe Price, Anglia Advisors, Trading Economics

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