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Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – Tech wobble drags shares lower despite falling oil price

Global stock markets retreated last week, pulled down by a **sharp sell-off in technology and artificial intelligence (AI) shares**, even as **falling oil prices** offered some support elsewhere. In the US, the tech-heavy **Nasdaq 100 fell 4.0**% over the week (all returns quoted are in sterling terms) and the **S&P 500 slipped 1.7%**. Meanwhile, the **Dow Jones edged up 0.8%** and smaller US companies, as measured by the **Russell 2000 index, gained 1.3%. Japan fell** as its big chip and AI names were sold heavily, with the **Nikkei 225 falling 2.7%** and the **TOPIX down 2.1%**. The **UK stood out as a winner**, with the **FTSE 100 up 1.4%**, supported by oil businesses, banks and 'defensive' companies. The **Investment Association (IA) Europe (excluding the UK) sector* fell 1.2%.** Meanwhile, **Asia and emerging markets were hit hardest** by the technology sell-off, with the **IA Asia Pacific ex-Japan sector down 3.7%** and the **IA Global Emerging Markets sector falling 3.1%**, dragged lower by China, with the **MSCI China index dropping 5.8%.**

**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 – Middle East truce looks shaky as strikes resume

The fragile **US-Iran deal to reopen the Strait of Hormuz**, the key shipping route for much of the world's oil, came under renewed strain. The **two countries accused each other of breaking the agreement and exchanged military strikes over the weekend**. Despite this, oil shipments continued to recover towards **three-quarters of pre-conflict levels**, with Saudi Arabia and other Gulf producers ramping up supply. Separately, the US helped broker a **framework deal between Israel and Lebanon** aimed at ending the conflict there. Markets largely looked through the renewed tensions, focusing instead on the steady rebound in oil flows.

Central banks – Inflation worries keep policymakers cautious

Attention centred on **stubborn US inflation**. The US Federal Reserve's preferred inflation measure, core personal consumptions expenditure (PCE), **remained at 3.4%** in the year to May, well above its **2% target**. Meanwhile, the **headline PCE inflation rate (which includes more volatile food and energy costs) rose to 4.1%.** This maintains pressure on the Fed to **lean towards raising rather than cutting interest rates**, and markets are now pricing in **around three US rate rises this year**. New **Fed Chair Kevin Warsh** reaffirmed the central bank's focus on bringing inflation down. The recent sharp falls in oil prices should ease some of this pressure over the summer by lowering energy costs, but underlying inflation remains uncomfortably high.

News – AI jitters rattle markets and Starmer steps down

Nerves about **how much companies are spending on building AI infrastructure**, and whether the returns will justify it, dominated last week. A sharp drop in **semiconductor shares** spread worldwide. So far in June, the largest seven US technology companies have **fallen around 13%** while the other 493 stocks in the S&P 500 are slightly higher, a sign that **market leadership is broadening beyond Big Tech**. **Apple and Microsoft fell** on product price rises, **SoftBank tumbled nearly 13%** on reports OpenAI may delay its listing. **South Korea was the worst hit market globally, down around 7%**. Closer to home, **Sir Keir**

Starmer resigned as UK Prime Minister, with **Andy Burnham the front-runner** to replace him. Nonetheless, UK stock markets stayed calm and the **pound held steady**.

Economic data – US economy holds firm

US data remained reassuring, despite stock market turbulence. **Business activity** (as measured by the closely watched Purchasing Managers' Index or PMI, a monthly survey of companies) **rose for a third straight month to a five-month high**, and **first-quarter economic growth was revised up to an annualised 2.1%** from **1.6%.** Consumers kept spending, with both **incomes and spending up 0.7%** in May. The picture in Europe was more mixed. **Eurozone business activity improved to a three-month high, but Germany weakened for a third month running**. In the UK, **retail sales fell sharply** and **factory order books were at their weakest since 2020**, pointing to reduced domestic demand.

Commodities

The Brent Crude oil price tumbled again as shipments through the Strait of Hormuz recovered. The **S&P GSCI Brent Crude index was down 8.4%** over the week (in sterling terms) as the price per barrel fell to around **$72**, its lowest since late February, though still higher than before the conflict began. **Gold fell 3.2%**, its **fourth weekly decline in a row**.

Week ahead – What to watch

US: Job Openings and Labor Turnover Survey (JOLTS) (Tue); manufacturing PMI and a speech by Fed Chair Kevin Warsh (Wed); non-farm payrolls and unemployment rate for June (Thu).

China: National Bureau of Statistics manufacturing PMI for June (Tue); Caixin manufacturing PMI for June (Wed).

Eurozone: Provisional inflation estimate for June, plus national inflation figures for France, Germany and Italy (Tue/Wed).

Japan: Tankan large manufacturers survey and consumer confidence (Wed).

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

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