



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 31 May	Level 30 June	Change*
S&P 500	7580	7499	-1.0%
FTSE 100	10409	10497	+0.9%
Euro Stoxx 600	626	642	+2.5%
Nikkei 225	66329	70062	+5.6%
Shanghai	4068	4094	+0.6%
US 10 Yr Treasury Yield	4.45%	4.48%	-0.03
UK 10 Yr Gilt Yield	4.80%	4.76%	-0.04
Bund 10 Yr	2.93 %	2.91%	-0.02

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

Following the AI spending-led frenzy that drove returns during April and May, markets were more subdued in June. Sentiment was clearly buoyed by a resolution, in the form of a ceasefire (albeit fragile) to the war in the Middle East, the resumption of commodity supplies through the Strait of Hormuz and the resulting fall in oil prices. However, much of this had previously been discounted following the initial ceasefire, so the impact was less than might have been expected. Consequently, individual country returns were driven by sector rotation or local factors. Globally, and somewhat unsurprisingly, energy and materials stocks declined, whilst in Europe and Japan, the IT sector continued to dominate, as these markets contain stocks that benefit from the downstream effects of AI spending. Japan was among the better-performing markets, partly due to the AI effect, but also due to the continued weakening of the yen, despite the Bank

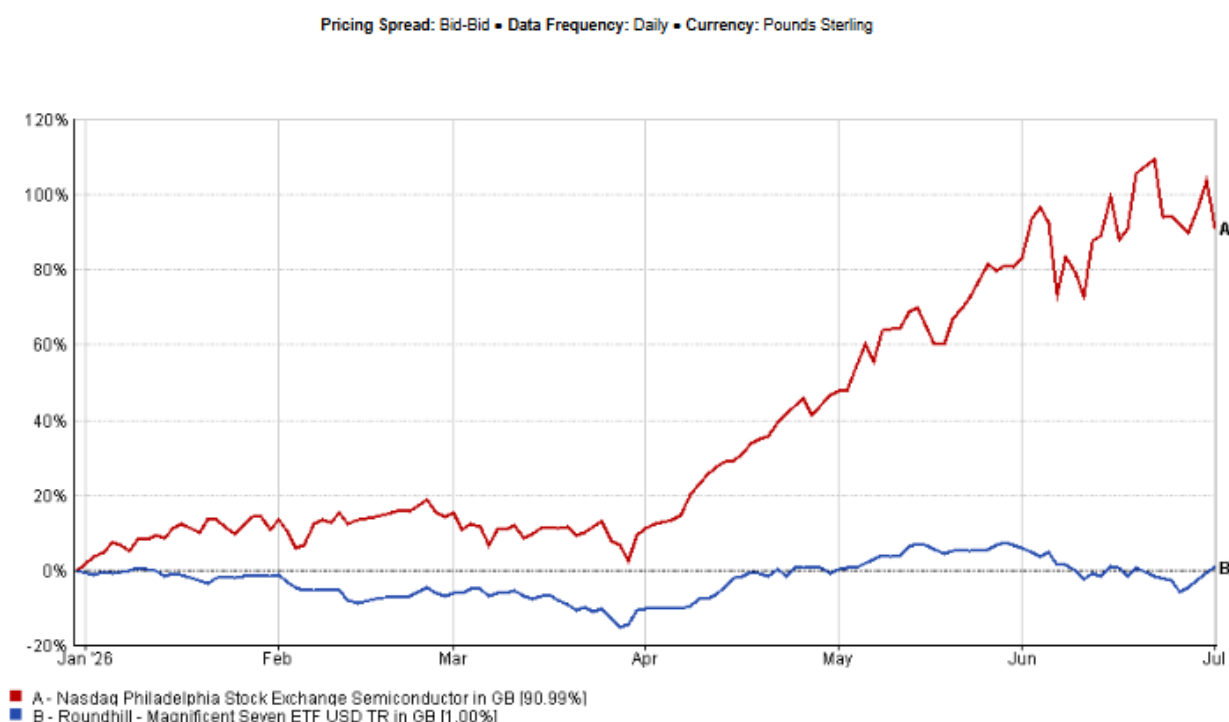
of Japan raising interest rates to the highest level since 1995. Efforts to strengthen the yen were short lived, with the dollar strengthening as traders speculated on US rates remaining at current or higher levels. This was despite the appointment of Kevin Warsh as Federal Reserve Chair, who people previously believed was likely to be influenced by President Trump, who has demanded lower rates. However, since his appointment, he has vowed to rein in inflation.

Given the uncertainty over the medium-term impact of the US/Iran war on inflationary pressures, regardless of the ceasefire deal, bond markets were relatively quiet, with government bond yields barely moving. This was the case even in the UK, despite the political uncertainty that remains following the resignation of Keir Starmer. However, all bond market yields have fallen from their May highs but remain elevated from pre-war levels.

Consequently, as a result of the quieter month, all portfolios were only marginally positive but remain firmly so year to date.

US

Away from the investor speculation over the listing of Space X, we saw quite a dichotomy in performance within the US market in June. Whilst the appetite for AI spending-related stocks has not diminished, there are clear signs that the market is now differentiating between the so called 'Hyperscalers' (Meta, Amazon, Microsoft and Alphabet), which are the companies driving the spending on AI infrastructure, and those companies that are recipients of that spending. The Magnificent 7 as a group, which contains the Hyperscalers, having formerly led the market, are now having a drag on performance, as investors worry about the likely return on these companies' huge investment, whereas semiconductor-related companies, which provide part of the infrastructure for AI, have been powering ahead.



31/12/2025 - 01/07/2026 Data from FE fundinfo 2026

Such is the high weighting (over 30%) of the Magnificent 7 stocks in the S&P 500, their near 10% decline in June neutered some better performance from the wider market. The evenly weighted version of the S&P 500 (where the Magnificent 7 represent around only 1.4% of the index) was up 2.4%, in contrast to the 1%

negative return from the normal, market cap weighted, version. Small and mid-cap indices had an even better month, perhaps reflecting optimism about the resolution of the US/Iran war.

On the political front and as mentioned previously, Kevin Warsh, in his first press conference, set out to dispel fears that he is a puppet of the president and sought to reassure financial markets about the Federal Reserve's credibility, as he talked tough on combatting inflation. The timing of this was important, as May's inflation reading came in at 4.1% and markets seemed reassured by his rhetoric.

UK

Headlines in the UK were dominated by Andy Burnham's likely appointment as Prime Minister and the impact of his economic policy, particularly in relation to government borrowing rates and the gilt market. He was fortuitous in this respect, as falling oil prices dampened inflation expectations, leading to a positive move in bond markets globally. Inflation itself came in at a surprisingly low 2.8%, and this, coupled with a five-year low in private sector wage growth, helped to support the Bank of England's decision to leave interest rates on hold. Whilst financials performed well, falling oil prices helped to peg back the FTSE 100. However, the more domestically focussed FTSE 250 fell into negative territory and is perhaps more indicative of investors views on the UK economy than the more internationally focussed FTSE 100 index.

Europe

Europe had a good month, led primarily by the Information Technology sector, which contains AI infrastructure companies such as ASML, as well as semiconductor manufacturers, all beneficiaries of Hyperscaler spending. However, positive returns were seen in other sectors such as consumer staples, as the wider economy is expected to benefit from any resolution of the conflict in the Middle East. Inflationary pressures abated somewhat, falling below 3% and easing pressure on the ECB to raise rates further. Economic growth remains tepid, with the ECB's economic growth forecast reducing to 0.8%. Business activity remains muted, as Purchasing Managers Index (PMI) numbers remained sub-50 (indicating contraction), although events in the Middle East may help to improve this moving forward.

In Germany, we saw VW announce up to 100,000 job losses, as the car manufacturer struggles to compete with Chinese manufacturers of EVs. In positive news, however, Chancellor Merz managed to get his fractious coalition to agree to a major pension reform, potentially easing pressure on the public purse as fewer workers are entering employment than those going into retirement. On the wider EU front, we saw the trade agreement with the US passed by the European Parliament, reducing the threat of further tariffs.

Japan

Once again, the Nikkei's performance in June painted a rosier picture than the more diverse Topix index, which returned under 1%. However, within this, we saw the information technology sector up 14%, as the AI infrastructure spending boom continued to spill over into the facilitators. One only needs to look at the share price of Kioxia, which produces memory chips, to understand the scale of the impact. This company only entered the Nikkei three months ago but is already Japan's largest listed company, having risen over 46x from its value a year ago, surpassing even Toyota. Notwithstanding this, we did see improvement in other sectors following the fall in oil prices and financial stocks performed well after the Bank of Japan raised interest rates to 1% - a 30-year high. Bond yields also reflected this and raise the question at what point will Japanese investors consider repatriating assets to take advantage of these higher yields? At present, the higher yields on offer, the liquidity and a weakening yen have all led to a slight increase in holdings of US bonds. Meanwhile, the weakening currency is still boosting Japanese competitiveness, lending fuel to the wider rally.

Asia and Emerging Markets

After the dramatic recent performance of markets such as Korea and Taiwan, chipmaker stocks paused for breath, and returns from the region were somewhat muted in comparison to April/May. As such, returns were less concentrated in these markets than recently, with the wider region benefitting from the fall in oil prices and pick up in supplies. China saw declining retail sales for the first time in four years, perhaps underlining the weakness of the domestic economy. On the flipside, the country still remains an exporting powerhouse, leading to criticism by Western governments at the World Economic Forum over its competitiveness being powered by government subsidies. This was countered by China's premier Li Qiang, who maintained that it was purely down to technological advancements. The truth is somewhere in between and will be a focus in the upcoming trade talks with the EU, given China's growing manufacturing capability poses an existential threat to many industrial sectors of the region, as evidenced by VW's actions.

Summary & Outlook

Whilst some of the extraordinary returns from certain markets and sectors may seem unsettling to some, it should be reassuring to see that the US market can now absorb a significant correction in over a third of its constituents by market weight without noticeable effect on the index. Whilst we have seen a corresponding expansion in valuations in some areas due to AI spending, this is not universal. So, as we are constantly reminding investors, diversification is key to avoiding concentration in any potentially overbought areas. It should also be observed that analysts forecast earnings growth in the US could be up to 15% over the coming year, which is exceptional and highly supportive. Certainly, a proportion of this growth can be attributed to AI infrastructure spending, which may slow down, but it is also supported by a lower taxation regime in the US, which is more of a potential issue for government debt levels and thus the bond markets. On this front, a policy of diversification across different bond markets is considered equally as prudent.

Rockhold Asset Management, with contributions from 7IM, July 2026



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