INVESTMENT UPDATE

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ROCKHOLD ASSET MANAGEMENT

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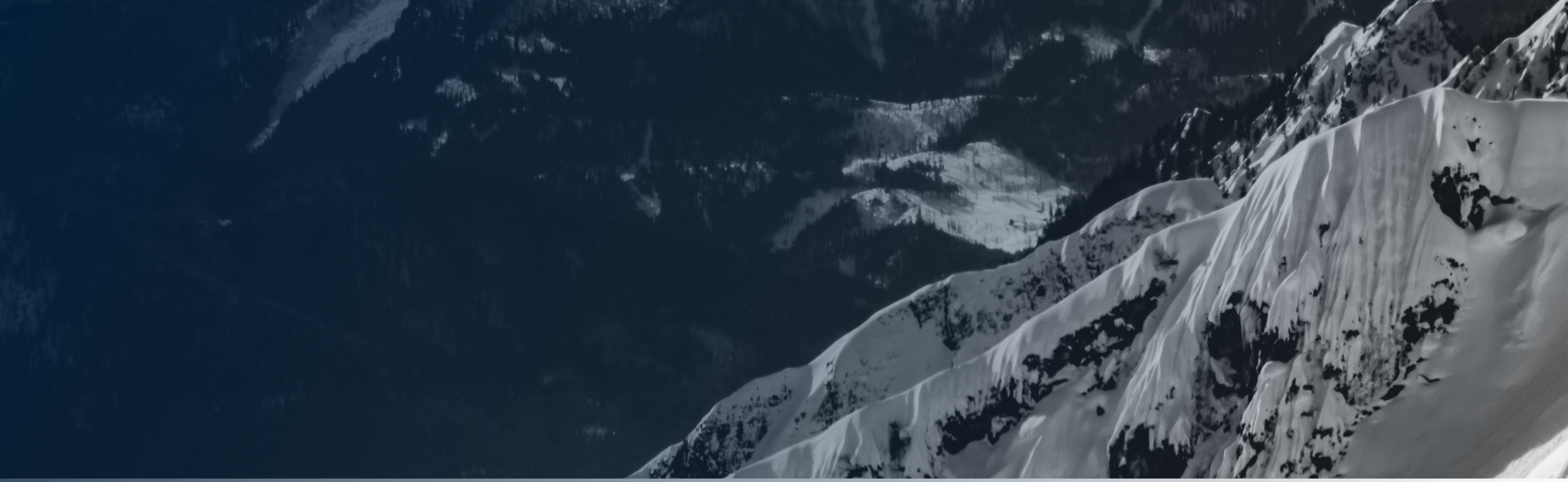

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Index	Level 30 June	Level 31 July	Change*
S&P 500	7499	7489	-0.1%
FTSE 100	10497	10868	+3.5%
Euro Stoxx 600	642	649	+1.1%
Nikkei 225	70062	64361	-8.1%
Shanghai	4094	3831	-6.4%
US 10 Yr Treasury Yield	4.48%	4.69%	+0.21
UK 10 Yr Gilt Yield	4.76%	4.98%	+0.22
Bund 10 Yr	2.91%	3.11%	+0.20

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

Overview

July was a turbulent month as hostilities between the US and Iran resumed, causing a sharp rise in the oil price, which in the case of Brent Crude, briefly hit the $100 a barrel level, representing around a 40% rise from June’s lows. However, unlike in March, broad indices took this increase in their stride, with many only marginally down over the month and some, as was the case for the oil stock-rich FTSE 100, rose. This was presumably because the market believes the disruption of oil supplies will be short-lived. It was interesting to note that the Chair of BP announced job cuts, citing market indications of future oversupply in both oil and gas.

So, as has been the case for much of the year, much of the volatility was seen at the sector level. This was especially evident in the semiconductor sector, which had previously generated large gains year to date, saw sharp falls, as investors became concerned about the sustainability of the exceptional profits that are being driven almost entirely by AI-related spending. This manifested itself particularly in Asia, which has significant exposure to the sector, and we saw the Korean market dip nearly 30% before recovering significantly on the last trading day. The Nikkei also fell 8%, but this was mainly due to its index construction giving it larger exposure than other broader measures.

One evident impact of the oil price increase was renewed concerns about the effect of higher oil prices on inflation, with the market increasingly becoming convinced that central banks will be forced to raise interest rates in the near future. Despite this, rates were held in the US, UK and Europe, as they adopted a wait-and-see approach given the lack of visibility as to the longevity of the renewed conflict in the Middle East. Consequently, the financial sector performed well, as banks benefit from higher rates, which alongside the higher oil price, helped to drive the UK main market to new highs. The obvious negative impact of higher rate expectations was on the bond markets, as we saw government bond yields rise and prices fall. Corporate bonds were less affected by these increases as they tend to be less sensitive to rate rises.

The net effect of weaker equity and bond markets, coupled with a stronger sterling, meant most portfolios were down to varying degrees over the month.

US

As mentioned previously, differences in performance across sectors helped to dampen the selloff in the S&P Technology sector, which was down 8%. However, a perhaps unsurprisingly strong performance from the Energy sector, up 12%, plus financial stocks, helped to leave the wider market flat overall. Although the Magnificent 7 stocks as a group were down, there were mixed performances within this. Microsoft reported strong earnings from its Azure cloud computing division, and its stock was up over 20% in July. This contrasted with Meta, which reported weaker-than-expected earnings, but it was the company's future high AI-related spending plans guidance that seemed to rattle investors, as the stock fell 18% from its July high.

President Trump announced new blanket tariffs across 60 nations, as he attempted to circumvent the judicial ruling that found his Liberation Day tariffs mostly illegal. He used a piece of legislation that claimed these nations were using forced labour to justify his moves, which was highly disputed by many of the recipients, and he is expected to use other legislation to justify further specific increases. These were immediately challenged in the courts, so whether these remain effective for the president remains to be seen.

On the economy front, attention was clearly focussed on the Federal Reserve's meeting at the end of the month. The central bank kept rates on hold, despite persistently high core inflation and fears over the potentially inflationary impact of new tariffs, although three officials did vote for an increase. Kein Warsh's new policy of giving little away in terms of forward guidance, coupled with the hold decision, led to a sell-off in the broad market and a pickup in the US 30-year borrowing rate to an over 20-year high.

UK

The UK stock market benefitted from being the only major market without any significant technology exposure, as investors rotated away from high valuation AI spending-related stocks. Aside from the perception of it being a value play, the FTSE100 also benefitted from its high exposure to energy and financial stocks, the former benefitting from higher oil prices and the latter from high relative interest rates. We also saw decent earnings reports from the likes of Rolls-Royce, Barclays and Unilever. The UK market is also experiencing a high level of merger and acquisition activity, predominantly coming from overseas. While this may be negative for the stock market's attraction for companies looking to list here, it does provide a boost to short-term sentiment and the share prices of target firms. Consequently, the UK market was one of the best performing in July.

The Bank of England kept interest rates on hold, as it looks for some kind of visibility on inflation, given the swings in energy prices. Whilst gilt yield rose to around the 5% level, this is in keeping with other bond markets around the world following the oil price spike, rather than being attributable to the new Burnham-led government.

Europe

European markets followed the pattern seen elsewhere, with technology stocks down and energy and financial stocks up. Perhaps highlighting this, semiconductor manufacturing equipment maker, ASML, was down 18%, despite increasing its forward guidance on earnings. However, its stock remains up over 40% year to date. Another theme that continues to do well on the continent is defence spending, and this was reflected in weapons systems manufacturer Saab's improved earnings.

On the economic front, the ECB kept interest rates on hold, despite inflation increasing to 2.9%. However, they have indicated that a rate rise in September is not out of the question should the inflation rate continue to persist above their target level of 2%. Meanwhile, the economy surprised on the upside in the second quarter, growing 0.4%. However, there is still a dichotomy between growth in different countries on the continent, with Spain growing at 0.7% versus 0.2% for countries such as Germany and France.

Japan

Japanese stocks also followed a similar pattern as elsewhere, as the Nikkei fell on Tech stock sales, although the broader Topix was left unchanged over the month. Semiconductor firm Kioxia's meteoric rise to become the largest company by market capitalisation was short-lived, as the stock fell over 60% - highlighting the perils of attempting to chase individual stock trends. Exporters were not helped by the sudden yen intervention in the foreign exchange markets. The coordinated action by both Japan's finance ministry and the US Treasury led to a 4% rise in the value of the yen against the dollar, which reduces the competitiveness of Japanese exporters. The intervention was triggered by the yen hitting a 40-year low against the dollar as investors became increasingly concerned about Japan's fiscal position, a fear perhaps exacerbated following Prime Minister Takaichi's announcement of her intention to cut sales taxes on food and drink next year.

Asia and Emerging Markets

With Samsung and SG Hynix dominating the Korean market through their combined size, it is of little surprise that the most extreme levels of volatility were seen in the Kospi. However, the subsequent rally in these stocks at the end of the month suggests, at this stage at least, that the initial pullback was a correction from an overbought market. The pattern, but to a lesser extent, was repeated in Taiwan and China. However, the Indonesian market experienced a double-digit return after months of declines following MSCI and S&P's threat to remove the country from their emerging markets index over shareholder transparency issues. Meanwhile, Thailand is quietly turning out to be one of the region's better-performing markets this year, third only to AI spending-driven Korea and Taiwan. The country appears to be benefiting from a reallocation to the region by foreign investors, supported by increases in tourism spilling over to improved company earnings. Latin American markets also had a positive month on the back of higher commodity prices and financial stocks.

Summary & Outlook

The importance of prudent portfolio diversification is becoming increasingly evident in 2026. Whilst the US stock market hosts some of the best companies in the world, its recent reliance on a small number of stocks (the Magnificent 7) to generate returns means that the market is vulnerable to shifts in momentum for these companies, and it is currently one of the poorer performing markets over 12 months. Employing an asset allocation that places less emphasis on a market's size and reduces the dominance of a small number of sectors has been beneficial, as we see investors seek to reduce their exposure to individual themes and what they perceive as high valuations. We do have exposure to themes such as AI spending, but it is limited by taking a more global approach to asset allocation and thus sector exposure. If the recent pull back in these types of stocks is short-lived, we will benefit from any recovery. Likewise, we will not be reliant solely on this theme.

Naturally, we need to be aware that the conflict in the Middle East is still fluid in its nature, with markets seemingly sanguine about the ongoing disruption to energy and other commodity supplies. However, the conflict is drawing down national strategic reserves, and with high fuel prices likely to dominate the US mid-term elections, which are only three months away, President Trump may be forced into making a decision about the US's future involvement. Increasingly, it looks like Iran has the upper hand in this regard, and it might be that future supplies are subject to their oversight, but that might be the price of normalising the Strait of Hormuz, even if it appears to be a worse situation than existed before the conflict began.

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

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