



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 30 April	Level 31 May	Change*
S&P 500	7209	7580	+5.2%
FTSE 100	10363	10409	+0.44%
Euro Stoxx 600	611	626	+2.5%
Nikkei 225	59513	66329	+11.5%
Shanghai	4112	4068	-1.2%
US 10 Yr Treasury Yield	4.39%	4.45%	+0.06
UK 10 Yr Gilt Yield	5.03%	4.80%	-0.23
Bund 10 Yr	3.02 %	2.93 %	-0.09

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

Overview

Equity markets continued their upward trajectory through May. Whilst the gains were assisted by ongoing negotiations between the US and Iran to end the war, it was the AI theme that drove the majority of returns globally. In the US, the technology sector was up over 15%, whilst the vast majority of other sectors registered declines of varying degrees. However, it was in Asia where AI optimism gains were greatest, as we saw the Korean stock market rise over 30% during the month. Samsung and SK Hynix, both major plays on the theme, dominate the country's index, and these stocks alone rose 44% and 80% respectively, thus contributing significantly to the value of the index, which has now doubled since the start of the year.

The dominance of the technology theme was amply illustrated by returns from those markets with low exposure to the technology sector, such as the UK and Europe, which generated more subdued returns. On the economic front, we saw oil prices continue to fall from their April highs, with Brent crude finishing the month at around the \$90 mark. Whilst we have seen frequent skirmishes break out between the US and Iran, both sides maintain that peace talks are still underway and the ceasefire still holds. Any settlement is by no means guaranteed, but it is likely to depend on the Strait of Hormuz being reopened and an agreement on future nuclear weapons development by Iran in return for sanctions relief. Whilst we see regular swings in the oil price, markets seem less sensitive to these movements, perhaps in the belief that a resolution will be agreed. Meanwhile, the impact of higher energy prices has started to feed through into higher global inflation numbers. Although energy price management has helped reduce this, particularly in the UK, globally inflation is now higher than it was at the start of the year. Central bankers continue to adopt a wait-and-see approach to inflation, careful not to raise interest rates in order to counter what might only be a short-term phenomenon.

Consequently, government bond yields stabilised, and we saw the interest rate premium for corporate borrowers decline, suggesting an easing of recessionary concerns. This environment was positive for bond funds of all descriptions and, coupled with global equity market performance, led to all portfolios generating positive returns.

US

As mentioned earlier in this update, there was a repeat of the AI/tech theme, leading most of the returns from the broader market index, as it did in April. Economic news tended to take a back seat, and even a jump in the CPI to 3.8% only briefly dampened the enthusiasm for the sector. The PPI (Producer Price Index) also leapt to 9.8%, underpinning the inflationary pressures facing producers. However, given the market backdrop, it was probably the revised GDP number of 1.6% that participants paid attention to, as 0.9% of that was attributed to AI spending. It does, however, highlight the weakness of the wider economy, further increasing the dilemma facing the Federal Reserve in how it addresses the risk of sustained inflation.

UK

The UK's chronic lack of exposure to technology stocks meant that the UK market was subdued compared to elsewhere. However, a UK AI play has emerged, as it was announced that Computacenter, a provider of IT infrastructure necessary for data centres, would shortly be entering the FTSE100 index. By contrast, UK debt markets were in a rollercoaster. Gilts nosedived after the May local elections, as it looked like the Labour Party might replace Keir Starmer with a less market-friendly leader. The bond market tantrum sent long-term borrowing costs to their highest since 1998. The odds-on leadership contender Andy Burnham later backtracked on his more anti-bond market comments, allowing gilts to recover.

Europe

Unlike the US, Europe's positive returns stretched beyond the technology theme, reflecting easing tensions in the Middle East, although at 14%, the sector delivered twice the returns of the sector nearest to it (Consumer Discretionary). Within the Eurozone, the Netherlands generated the highest returns, mainly due to the continued positive influence of chip-making equipment manufacturer ASML, whose shares rose 13%.

On the economic front, EU inflation continued to climb above 3% due to rising energy prices, which investors clearly feel is now likely to force the ECB's hand on raising interest rates, as the market is pricing in two quarter-point rises. Such action is unlikely to help stimulate economic growth, which came in at a paltry 0.2% (GDP) for the quarter and stagflation (higher inflation and low growth) is an ever-increasing likelihood.

Japan

Japan has two main market barometers, i.e. indices, in the form of the Nikkei 225 and the Topix. The key difference is that the Topix is broader in its coverage, and we often see a divergence between the two. May gave us another extreme example of this with the Nikkei up over 11% and the Topix up just over 6%. As elsewhere, stocks relating to the AI spending theme had the strongest returns as the country's exporters are involved in the AI buildout. However, given the Japanese reliance on Middle East-sourced energy products, the prospect of a resolution there also led to broader positive market sector returns. The market also benefitted from a weaker Yen. On the economy front, inflation remains relatively subdued at 1.4%, as the country has measures in place to protect consumers and industry from higher energy prices.

Asia and Emerging Markets

It was in Southeast Asia that the most spectacular returns were seen, as Korea and Taiwan continued their dramatic AI-fuelled rallies, with the latter market, albeit lagging Korea, up around 60% since the start of the year. Whilst there appears to be an element of speculation involved, the companies driving this rally are experiencing significant earnings growth as a result of AI spending, lending support to their share price; SK Hynix's earnings growth is nearly 400%. Although China doesn't benefit as much from the AI theme, the economy continues to benefit from strong manufacturing-led exports and GDP growth was recorded at 5%. However, domestic demand continues to remain weak as the collapse in the property market still looms over the economy. Elsewhere in the region, markets such as India, Indonesia, the Philippines and Malaysia struggled, as their economies felt the impact of energy supply shortages, higher inflation and, in some cases, higher interest rates to combat this.

Summary & Outlook

Whilst it can be tempting to look at some of the extraordinary returns in the technology sector of late with envy, we need to be mindful that these are one-dimensional and reliant on a single theme. As such, the risk associated with the trade can be higher. By maintaining a diversified approach to portfolio construction, we are able to gain exposure to the theme without being reliant on it or exposing ourselves to the full force of these risks. The market also needs to absorb three enormous IPOs in the form of SpaceX, Anthropic and OpenAI. Looking further afield from this trade, we are encouraged to see some desire, particularly from the US side, to draw a line under the war with Iran, but are mindful that this is unlikely to be a smooth process. Higher energy prices are clearly having an impact on the real economy in diverse ways, which does add some impetus to find a resolution, particularly with the US mid-term elections looming.

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



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