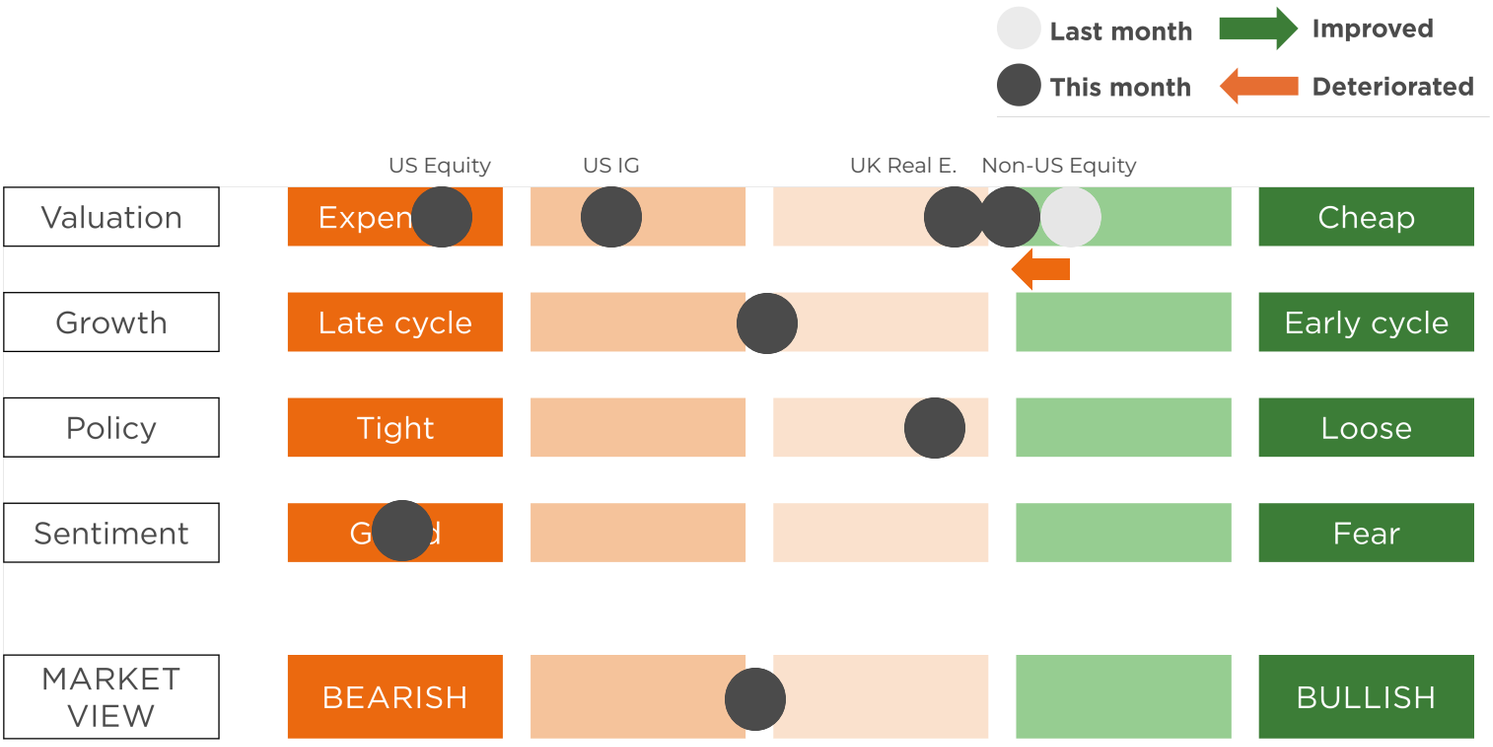
CCLA
GOOD INVESTMENT

Market Barometer

July 2026



Fundamentals still fine - AI trades reaching fever pitch

Growth remains robust across all fronts. The manufacturing recovery is becoming entrenched with global PMI manufacturing now stronger than global PMI services, but both well above the 50 expansion level. Real US disposable income growth is slowing as wage growth slows in the face of a short-term spike in inflation to 4%. But consumers have responded by cutting their saving rate, implicitly viewing the inflation shock as transitory. This time we agree with the transitory assessment - the oil shock looks to be behind us now with oil prices having round-tripped back to their pre-Iran conflict level. Tariffs have boosted US CPI by nearly a full percentage point, but we are now at peak impact and the tariff shock on CPI should also wane from here.

Earnings growth is stable at a high level with the forward 12 months rate around 15% globally, with EM at 35%, the US at 15% and Europe 7-10%.

The discount rate also remains firmly under control with US treasury yields range-bound and credit spreads also staying tight.

There are pockets of overvaluation - on our calculations 28% of the US stock market trades at a price/sales ratio above 10! And valuations of non-US equity markets on Shiller PE have also moved back to longer-term averages rather than still being outright cheap, in our view. But valuation is generally not egregious while as we have said fundamentals remain very robust.

Thematically, the AI trade is reaching fever pitch with SpaceX's IPO and others soon to follow. Software capex remains resilient yet this is overlooked in the stock market, we feel. We expect AI capex to reach peak growth rate in Q4 of this year. We also continue to expect capex to broaden out beyond AI into areas such as grid transmission, transport infrastructure, mining capex and defence, but this is not yet at all visible in the data. If and when it does become evident it will increase market scrutiny of FCF sustainability.

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CCLA

Market monitor

as at 30 June 2026

Category	1W	MTD	3M	YTD	2025
KEY BENCHMARKS (TR £)					
CPI+4%		0.3%	2.0%	3.6%	7.3%
iBoxx Gilts	0.3%	1.7%	1.8%	0.4%	5.0%
MSCI World	0.5%	0.0%	12.0%	10.6%	12.8%
SONIA	0.1%	0.3%	0.9%	1.9%	4.3%
EQUITY MARKETS (NDTR $)					
MSCI Asia ex Japan	-1.5%	-3.9%	20.8%	24.9%	32.3%
MSCI Emerging Markets	-1.5%	-3.5%	17.8%	22.7%	33.6%
MSCI Europe ex UK	0.7%	1.4%	7.9%	7.0%	35.5%
MSCI Japan	-0.9%	-0.0%	8.1%	15.6%	24.6%
MSCI UK	0.8%	-0.1%	0.9%	5.9%	35.1%
MSCI US	1.1%	-1.9%	13.5%	9.0%	17.3%
MSCI World	0.8%	-1.4%	11.3%	8.9%	21.1%
EQUITY MARKETS (LC)					
MSCI China	-1.4%	-7.9%	-8.7%	-14.4%	31.7%
MSCI Europe ex UK	0.3%	3.1%	10.3%	10.7%	20.5%
MSCI Japan	-0.6%	1.4%	10.4%	19.7%	24.7%
MSCI Korea	2.4%	-2.9%	70.5%	131.9%	96.6%
MSCI Taiwan	-2.6%	1.9%	41.4%	64.8%	34.0%
MSCI UK	0.5%	1.4%	1.5%	7.5%	25.8%
LS EQUITY FACTORS					
MS US Beta	0.5%	-2.8%	37.9%	28.0%	26.9%
MS US Price Momentum	-2.8%	6.5%	18.7%	36.6%	1.6%
MS US Quality	-0.6%	0.1%	-13.9%	-27.1%	-25.3%
MS US Size (SPX/RTY)	-0.2%	-5.7%	-6.0%	-11.3%	3.2%
MS US Value	-2.0%	1.9%	-18.9%	-7.1%	-17.2%
MS US Vol	0.7%	-11.1%	25.2%	19.0%	41.9%

Category	1W	MTD	3M	YTD	2025
EQUITY THEMES					
AI Disrupted	1.5%	-12.6%	-0.4%	-24.8%	-15.5%
AI Enablers	1.4%	2.3%	44.9%	62.4%	39.9%
Magnificent 7	-0.6%	-10.2%	9.8%	-1.3%	23.0%
BONDS					
AT1 $TR	0.0%	0.7%	2.6%	1.9%	11.1%
Global Agg Credit $TR	0.6%	0.1%	1.1%	0.3%	10.5%
Global Agg Treasuries $TR	0.5%	-0.2%	0.0%	-0.7%	6.8%
iBoxx £ InfL Linked 5-10	0.1%	-0.2%	0.0%	2.7%	2.5%
iBoxx Gilts	0.3%	1.7%	1.8%	0.4%	5.0%
iBoxx HY $TR	0.2%	0.3%	1.9%	1.8%	8.8%
iBoxx Non Gilts	0.2%	1.2%	2.1%	1.1%	6.9%
COMMODITIES					
BBG Commod ex Ag/Lvstk Cap	-1.6%	-11.6%	-9.9%	13.3%	18.8%
Brent futures	-5.2%	-23.1%	-27.8%	20.0%	-18.5%
Copper	0.2%	-5.7%	9.1%	7.7%	36.4%
Gold	-3.2%	-8.9%	-15.5%	-5.3%	53.7%
Nat Gas futures	2.0%	1.0%	13.9%	-12.9%	1.5%
Silver	-6.0%	-20.8%	-22.1%	-16.9%	130.3%
FX					
GBPEUR (up=£ strong)	0.1%	0.4%	1.2%	1.3%	-5.1%
GBPUSD (up=£ strong)	0.2%	-1.6%	-0.5%	-1.8%	7.7%
XBTUSD (up=BTC strong)	-5.0%	-16.9%	-13.0%	-32.4%	-6.5%

Sources | CCLA, Bloomberg, MSCI, Morgan Stanley, Soc. Gen.. Data as at June 2026. Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money.

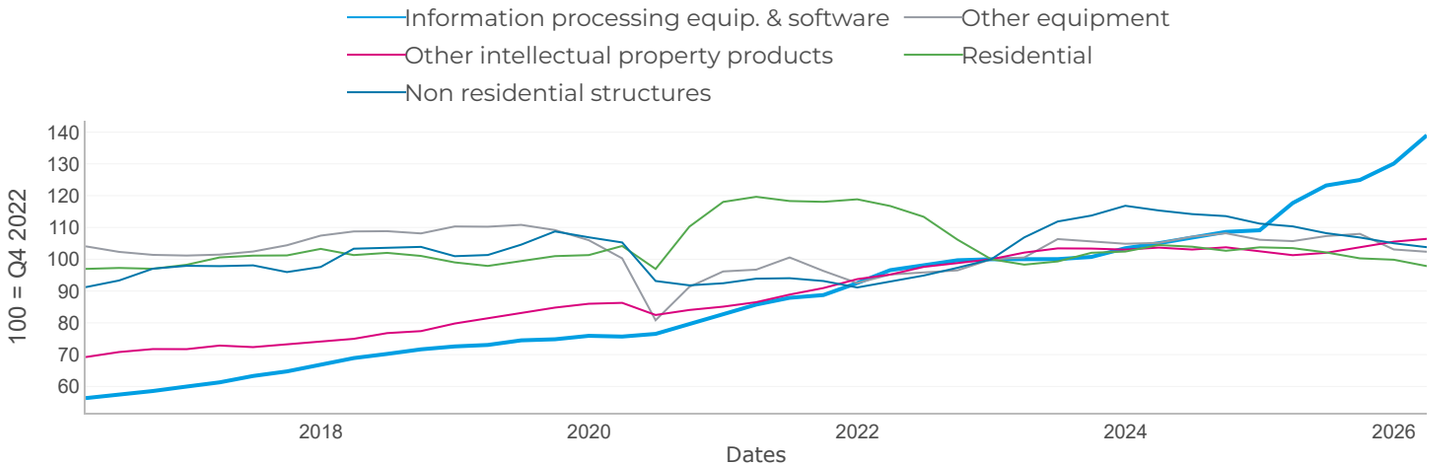
Charts of the month

Capital expenditure is concentrated in tech equipment and software (the latter is ignored)

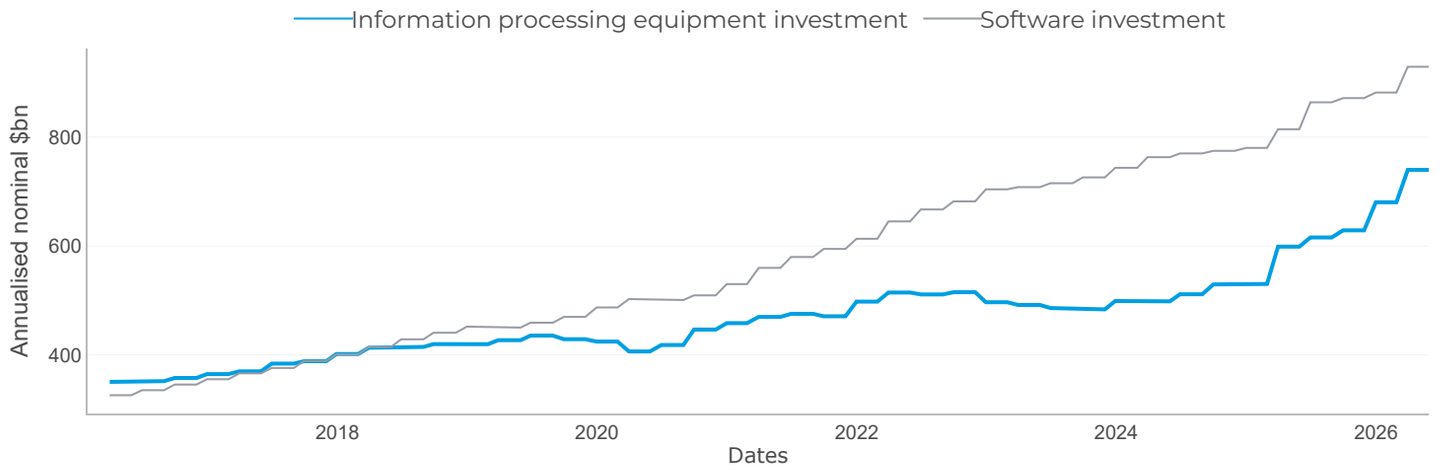
The upper chart shows the various categories of capital expenditure in the US and all are indexed to 100 in Q4 2022, when Chat GPT was launched. What stands out is that the only category that has shown meaningful growth since then has been technology investment ("Information processing equipment and software").

The lower chart splits that out into equipment and software. What is notable to us is that despite the huge recent growth in equipment (for which, read: data centres), **investment in software continues its long-term relentless growth**. **This is an outcome that is very much at odds with stock market price action, with the US software sector having de-rated its PE ratio from a recent peak of 34x (in Dec 2024 and July 2025) to just 20x today.**

AI accounts for all the growth in US investment



Investments in tech $bn



Sources | CCLA, Bloomberg. Data as at June 2026. Inspired in part by Andrew Wishart - Berenberg.

Charts of the month

AI reaching fever pitch (1/2)

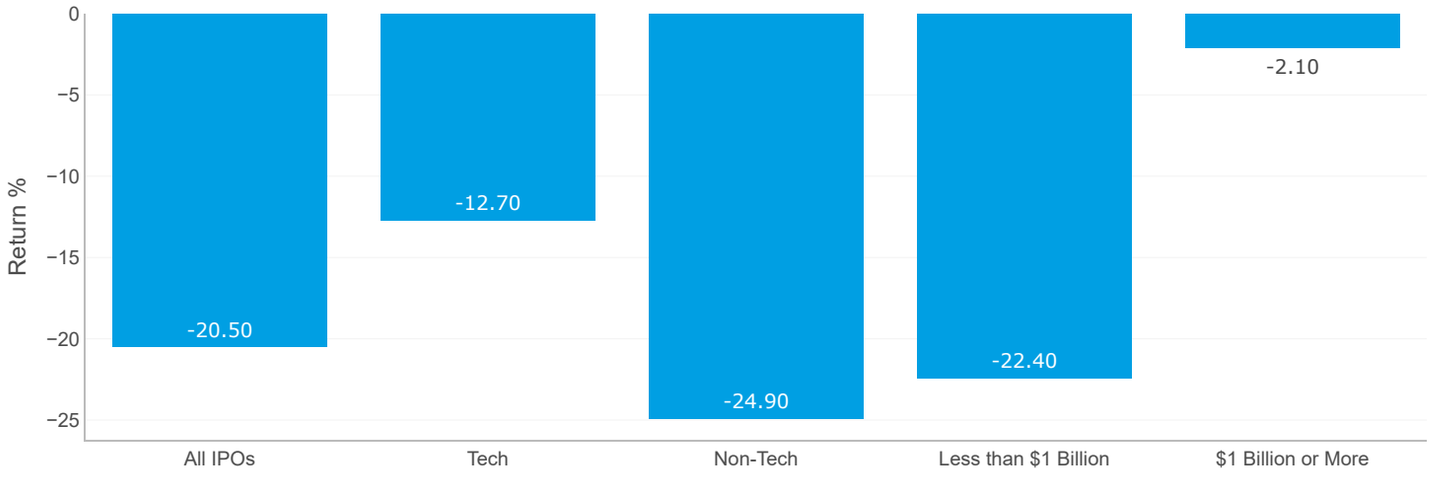
In the ten trading days of SpaceX's life as a public company the stock has "travelled" 100% -- rising 66% in the first three days and falling 33% in the subsequent seven days (upper chart). The free float (i.e. the publicly tradable market capitalisation) has turned itself over 1.4x in the first 10 days, indicating that **the vast majority of institutions allocated shares in the initial public offering (IPO) have already sold them!**

The lower chart, from Empirical Research, shows why this might be. **The average IPO since 1980 has ended up underperforming** the S&P500 by >20%. The figures for larger IPOs are not as bad, as the chart shows, and tech sector IPOs do better than non-tech, on average, but still, all these categories on average underperform the market.

SpaceX Share Price Since IPO (at $135)



US IPOs Subsequent Three-Year Relative Returns 1980-2025



Sources | CCLA, Bloomberg, Empirical Research Partners. Data as at June 2026.

Charts of the month

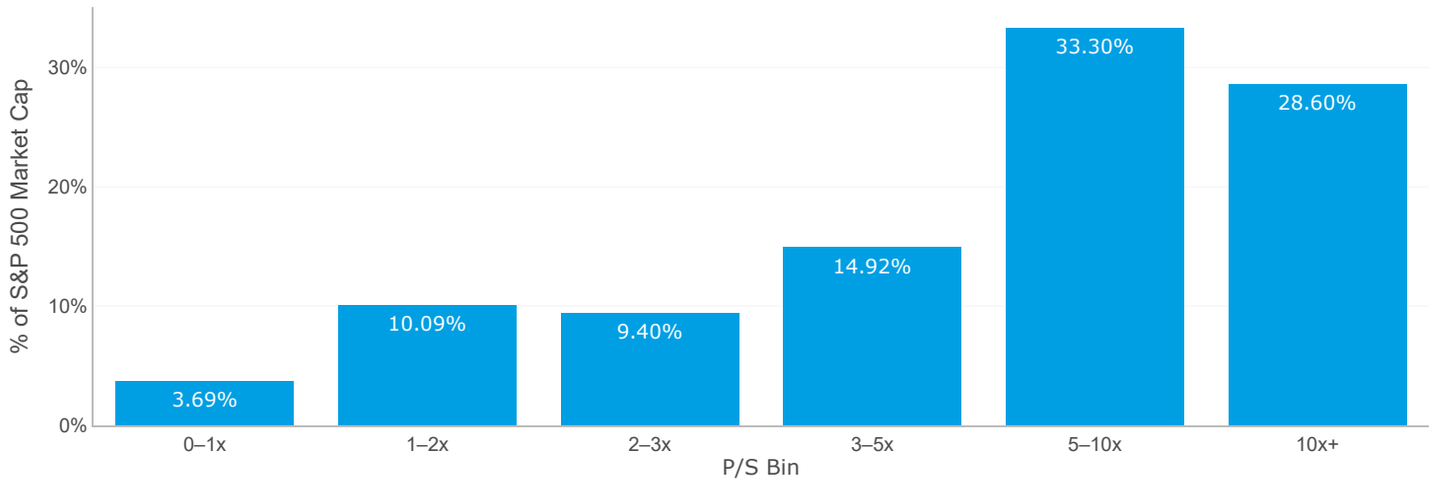
AI reaching fever pitch (2/2)

There is a famous quotation from Scott McNeely when he was CEO of Sun Microsystems in 2002, when his stock was trading at 10x sales:

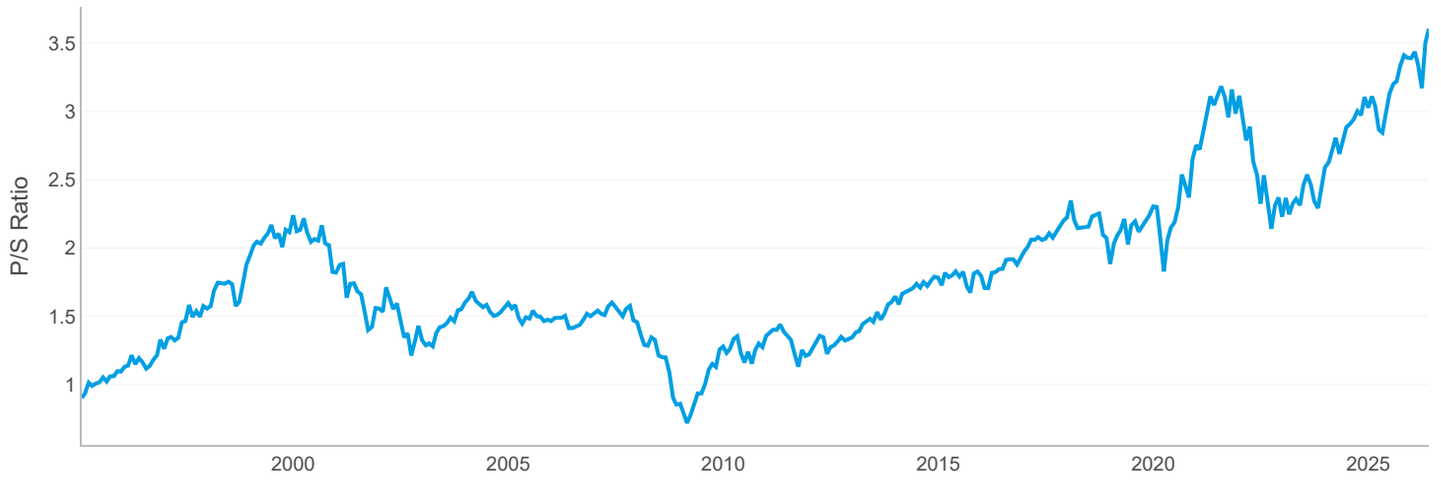
"*At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?*"

As the bar chart histogram shows, currently 29% of the S&P500 (by market cap) trades at >10x sales. A lot of growth is priced in.

S&P 500 Market Cap split by Price-to-Sales



S&P 500 Price-to-Sales Ratio



Sources | CCLA, Bloomberg. Data as at June 2026.

Charts of the month

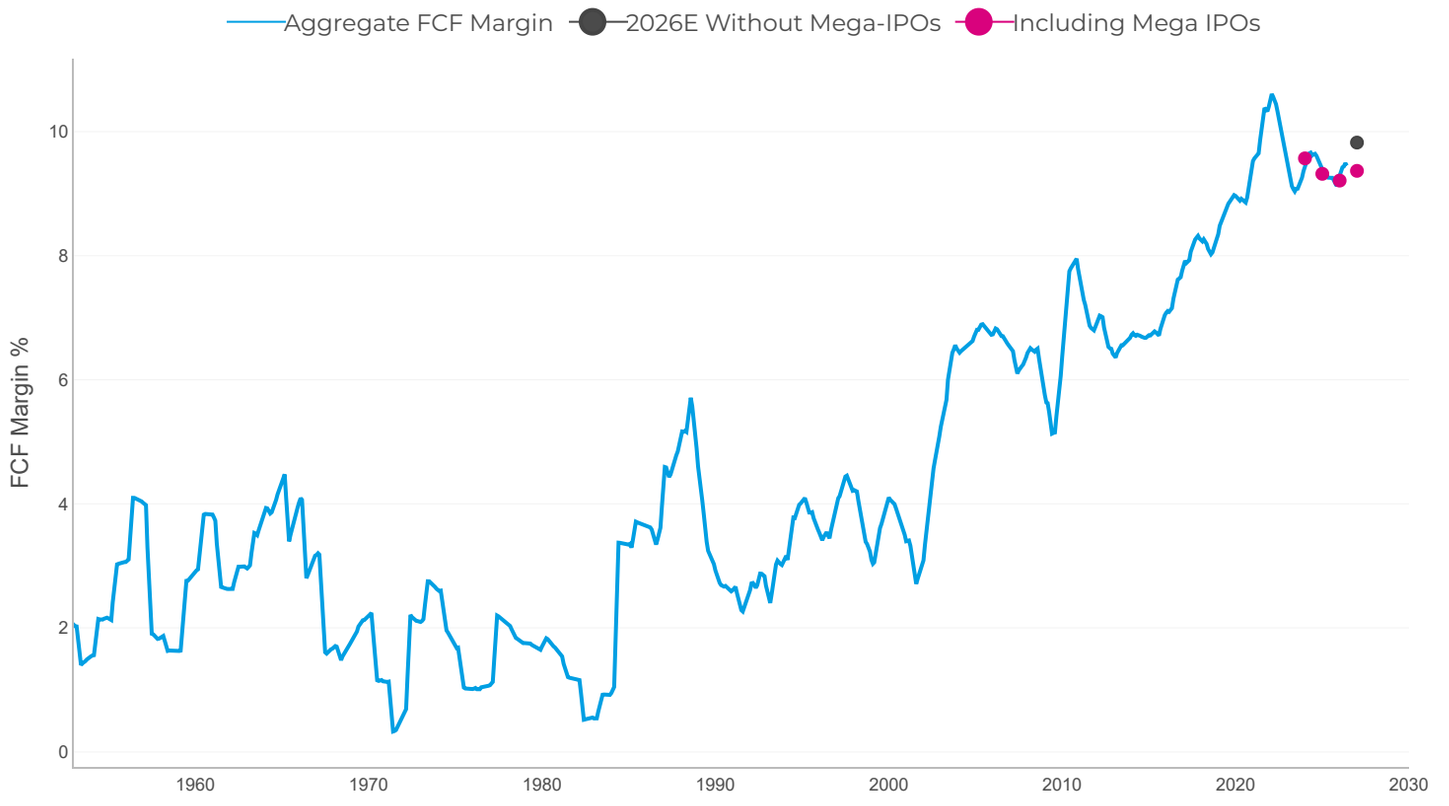
The long bull market has been driven by rising FCF / sales

There is a very solid reason why valuations have risen in the long bull market since 2003. Listed companies have generated ever higher free cash flow (FCF) as a share of revenues. There have been multiple drivers of this: unit labour costs have been squeezed as operating surplus has accrued to capital rather than to labour because developed market labour forces lost competitive advantage to new entrants into the global labour market in China and the rest of Asia; interest rates fell relentlessly from 1980 to 2022; corporation tax also fell consistently; and business models became ever more capital light, meaning that capital expenditure growth lagged profit growth.

Quite possibly all of these drivers are ending. Labour costs are no longer falling relative to revenue. Interest rates are going to be structurally higher than they have been. Even corporation tax may no longer be the tailwind it has been. But most significantly we expect the AI capex boom to broaden out into the rest of the real economy, driven by re-onshoring and supply chain duplication, a boom in mining and oil and gas capex, a boom in infrastructure investment notably in grid transmission but including rail and port infrastructure and a boom in defence investment.

This should mean increased scrutiny of corporate capital allocation, particularly in those companies where capex has grown the most and FCF therefore come under most pressure.

Large-Cap Stocks (ex-Financials and Real Estate) Aggregate Free Cash Flow Margin



Sources | CCLA, Empirical Research Partners. Data as at June 2026.

Cross asset commentary

Macro backdrop

Growth: May's backward-looking Q1 US GDP consumption was revised down to 0.5%. However, May's PCE Consumption did better than expected, working out to an annualised run-rate of ~1.7% for the upcoming Q2 GDP, despite subdued consumer confidence. Other forward indicators (pp. 16–17) point to resilient, albeit slower, business activity than at the year's start - US Composite PMIs are now 52.2 vs. 53.0 in January.

Inflation: Headline US CPI hit a 12-month high at 4.25%, driven by Energy and the lingering effect of tariffs. But with wages decelerating nicely, the oil shock now behind us (most likely) with oil having round-tripped back to its pre-Iran levels and the current quarter marking peak tariff impact, we would expect that CPI will decelerate back towards but probably not all the way to the 2% PCE target.

Policy: We expect less forward guidance under Kevin Warsh - his first-meeting comments and absence from the dot plots confirm it. The real Fed Funds Rate sits positive near 1% (p. 21) and may hold there until the Fed is clear on inflation's route, or the labour market significantly weakens. However, reading Warsh as more hawkish than expected, the market has now priced a 2026 hike.

Barometer cross-asset callouts

A dollar bid on rate differentials: A perceived hawkish FOMC raised rate expectations and repriced the short end, widening SOFR and 2Y differentials against major currencies and bidding the dollar up 2%. That explains part of the drag in MSCI EM, though the largest single contributor was China, down ~8%, with Korea adding to it at −3% (p. 3).

Commodities softened: Slower PMIs (pp. 16-17), tighter policy expectations and a softer China left the complex with a softer growth story. Consequently energy, industrial and precious metals, and agriculture to fall together (p. 3). Oil had its own catalyst: the US–Iran MoU kept the Strait open, sending Brent crude back to ~$70, a drop shy of 25%. That pulled 10Y break-evens down 20bps, but a rise in real rates offset most of it, leaving the 10Y 8bps lower at 4.38% (p. 11). Gold fell more than 10% likely on reduced geopolitical risk and higher real yields.

A narrower sell off than appears: The tech sell off during the fourth-week, amplified by Korean leveraged ETFs, set the defensive tilt: World MSCI and US MSCI Defensives beat Cyclicals, Value beat Growth, and US IG beat HY. But this was narrower than a broad risk-off. The weakness concentrated in the Mag 7, the Hyperscalers and in global software; S&P 500 ex-Mag 7 and equal-weight both rose over 1%, while UK, EU and Japan large-caps (local) gained 1.5–3% (p. 3). DM earnings growth remains strong (p. 19) with favourable revisions (p. 20).

Risks we monitor: US 2s10s spread (p. 21) has halved from its 2026 peak of 50bps, toward the lower quartile of its 20-year range, and the Hartnett Bull-Bear indicator (p. 22) has held extreme-bullish for two straight months. While the former is not a warning yet, it is one to watch closely. Conversely, the latter suggests a market correction is a growing risk, but we also note that as long as earnings remain solid any correction should be short-lived.

Valuation

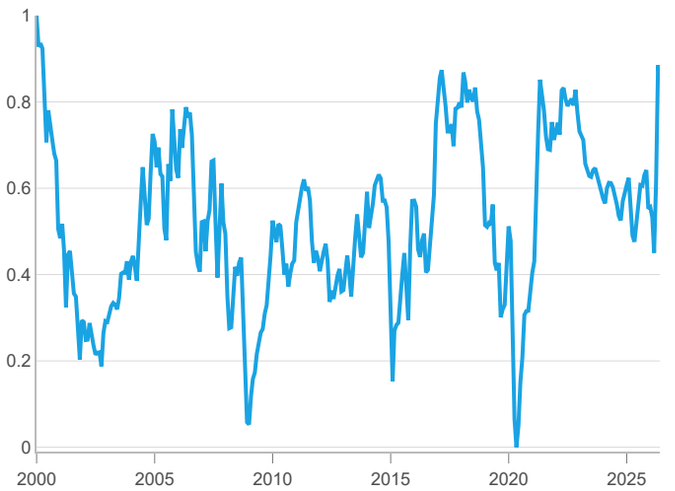
Equity | USA

S&P 500 valuations

S&P 500 Forward PE



Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

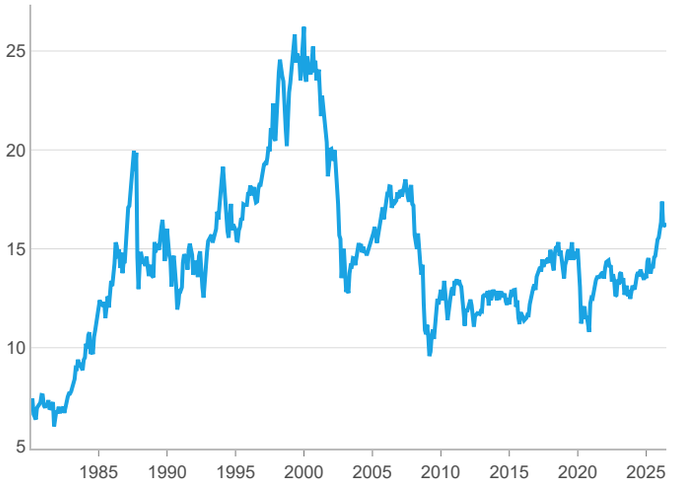
Sources | S&P 500 PE: Bloomberg as at June 2026. Shiller PE/CAPE: Morgan Stanley as at June 2026, CVI Model: CCLA as of May 2026, Equity Risk Premium: CCLA as of June 2026.

Valuation

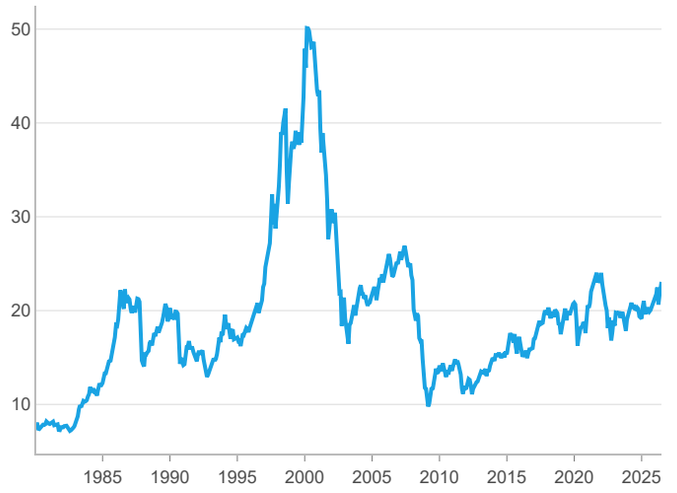
Equity | regional

Europe

UK | Shiller P/E

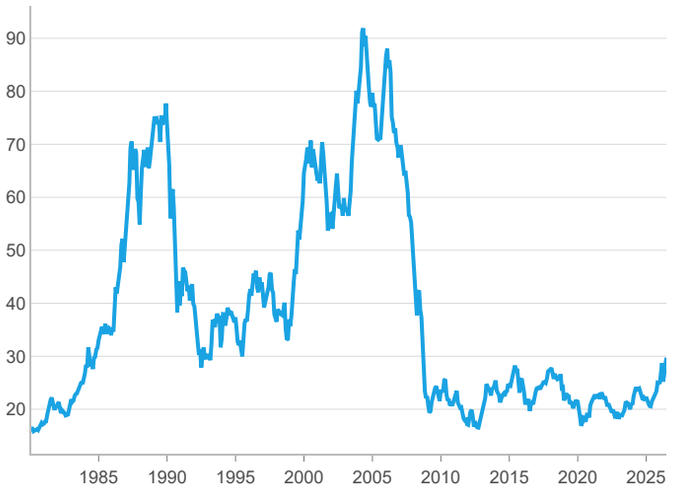


Europe (Ex-UK) | Shiller P/E

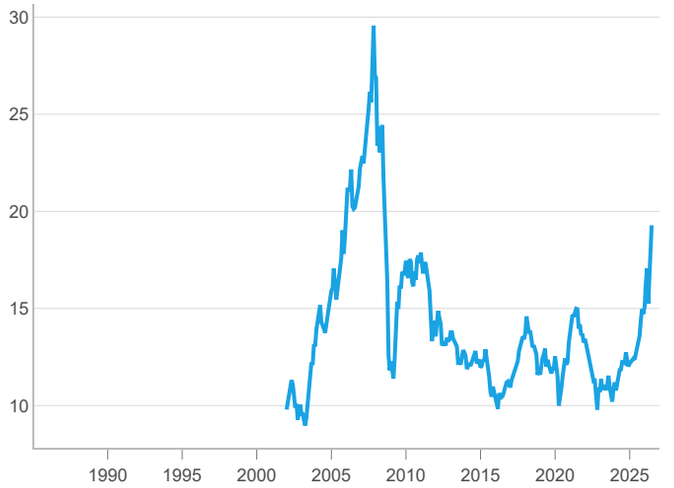


Asia & emerging markets

Japan | Shiller P/E



EM | Shiller P/E



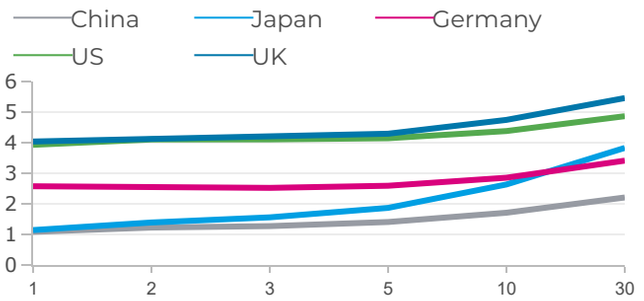
Sources | Shiller P/Es: Morgan Stanley as of June 2026. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. Performance figures are rounded.

Valuation

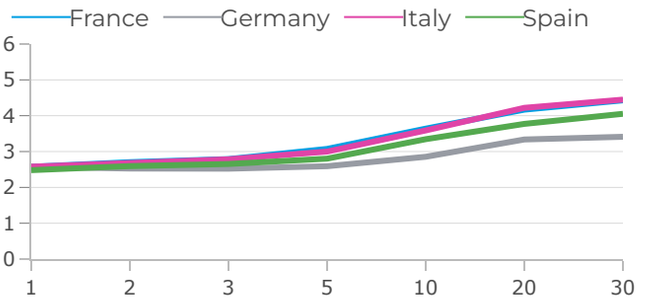
Bonds | sovereigns

Global government yields

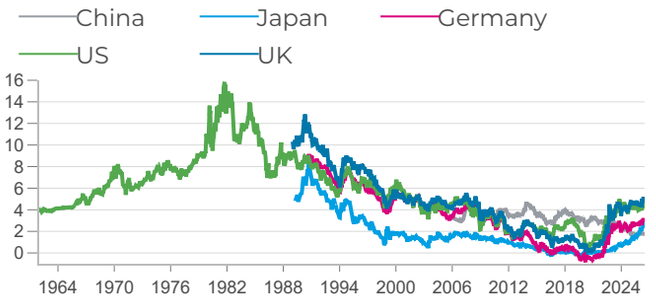
Global Treasury Yield Curves (Term vs %)



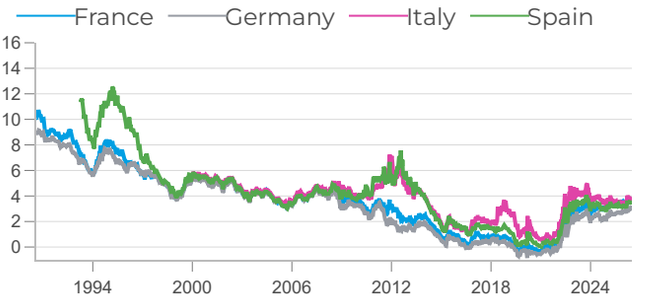
European Treasury Yield Curves (Term vs %)



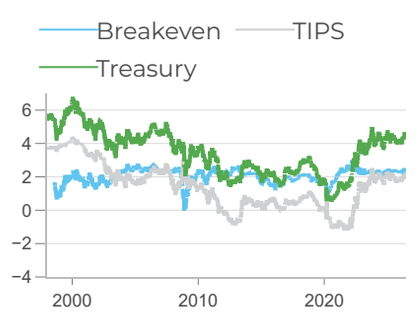
Global 10Y Yields %



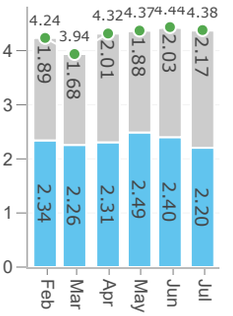
European 10Y Yields %



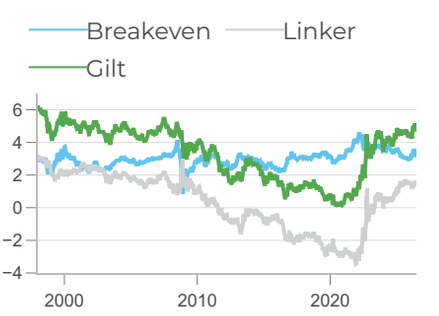
US 10Y Yields Breakdown %



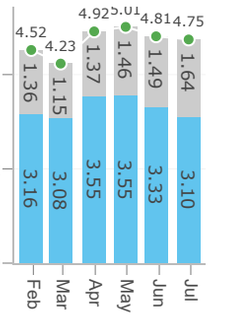
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



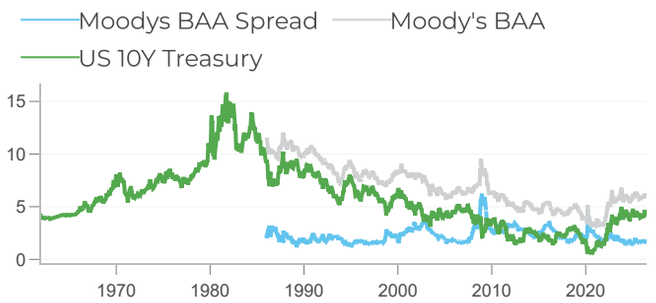
Sources | CCLA, Bloomberg as at June 2026.

Valuation

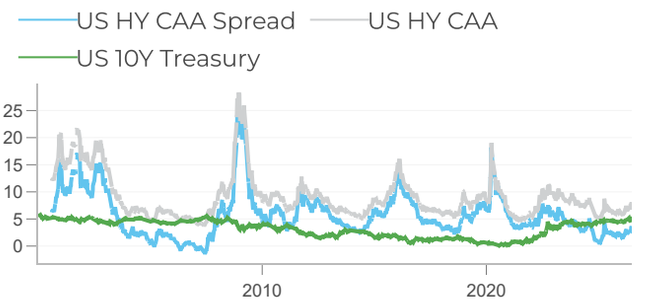
Bonds | credit

Global credit yields

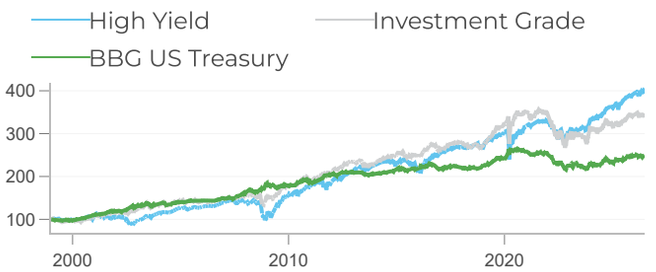
US Corporate Investment Grade Yield %



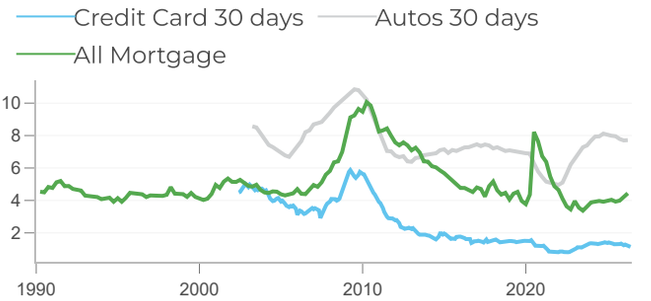
US Corporate Sub-Investment Grade Yield %



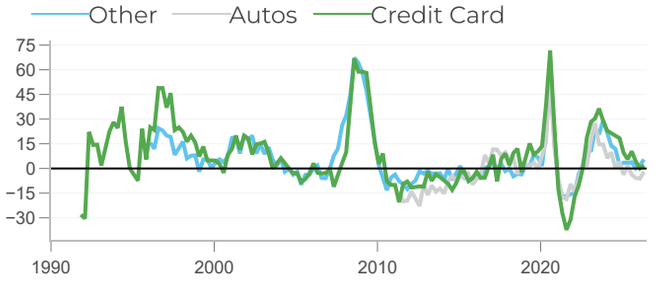
US Tr. vs IBoxx IG and HY Total Return $ (100= 31 Dec '98)



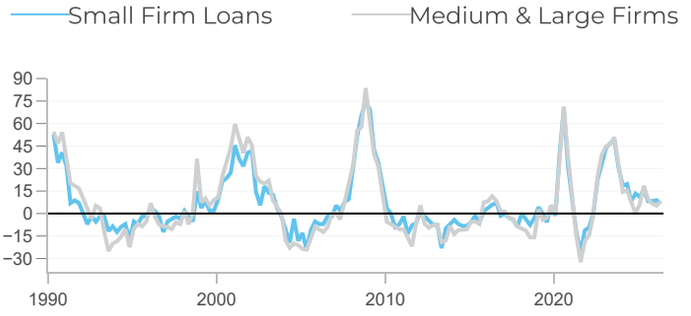
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loan Officers Survey, CCLA, Bloomberg as at June 2026.

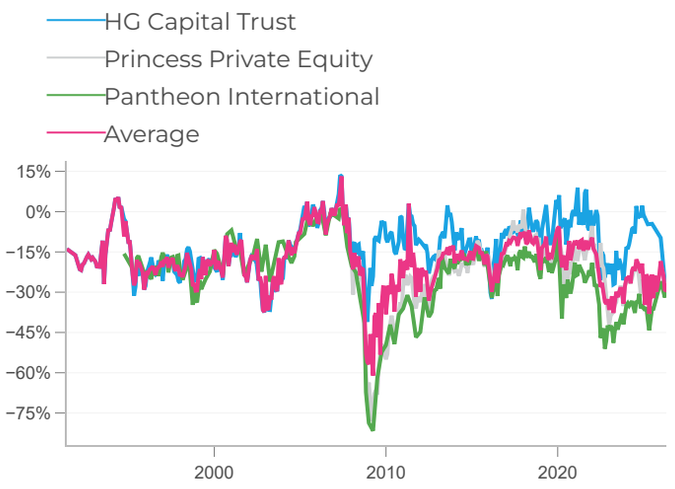
Valuation

Alternatives

Global valuations

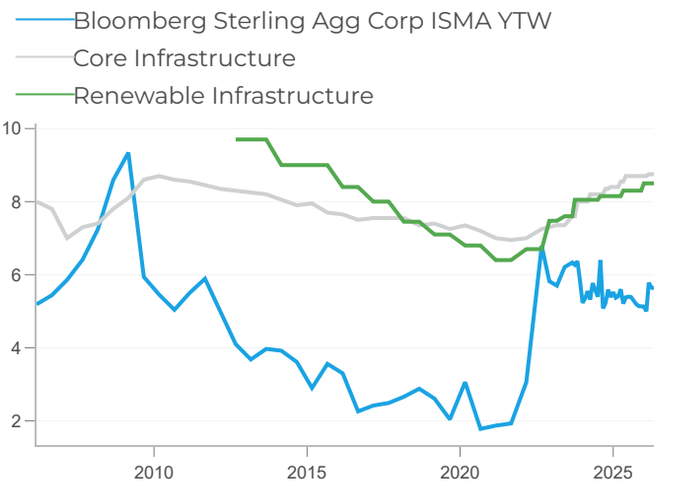
Listed Private Equity

Discount To NAVs



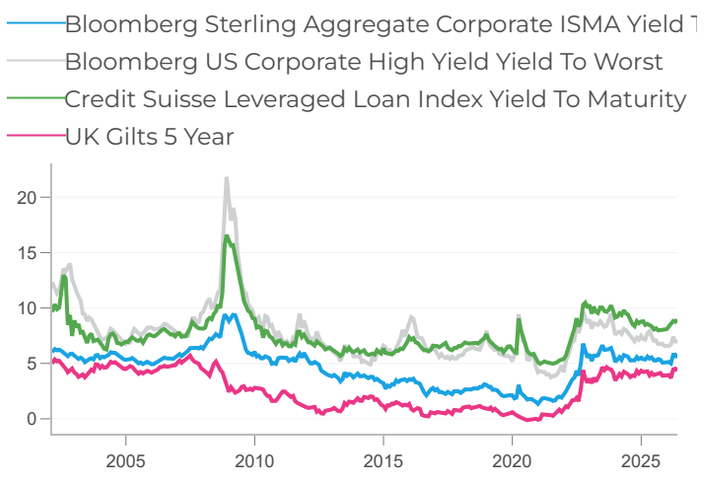
Infrastructure

Infra. Discount Rates vs Bond Yields



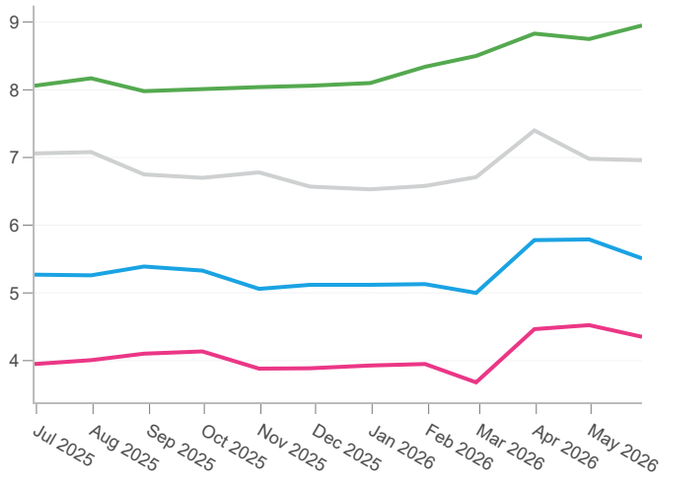
Contractual Income

Income Yields



Last 12 Months

Income Yields



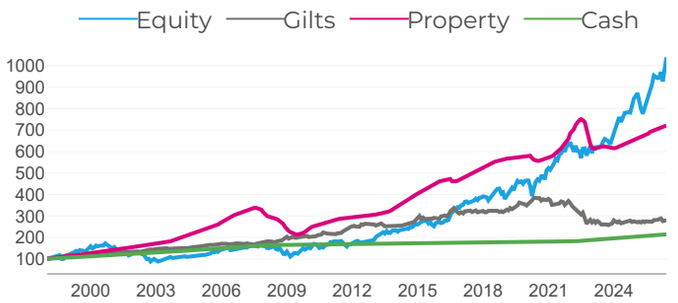
Sources | Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook as at May 2026 (latest data available); Infrastructure: CCLA, Bloomberg; Contractual Income: Bloomberg, Pitchbook. Data as of May 2026. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of May 2026 (latest data).

Valuation

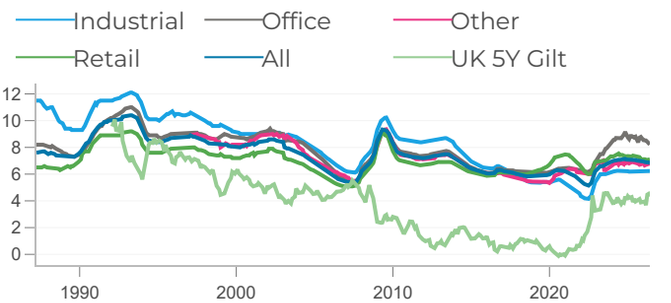
Property

UK commercial property market

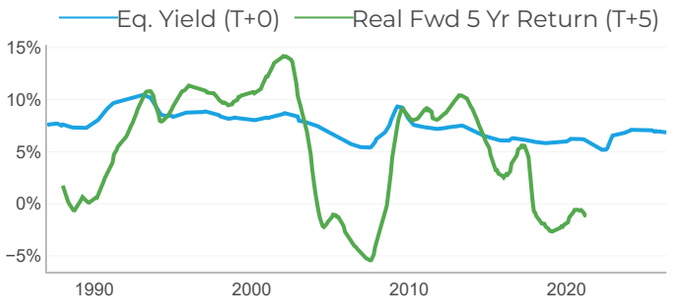
25 Years Of Return 1998=100



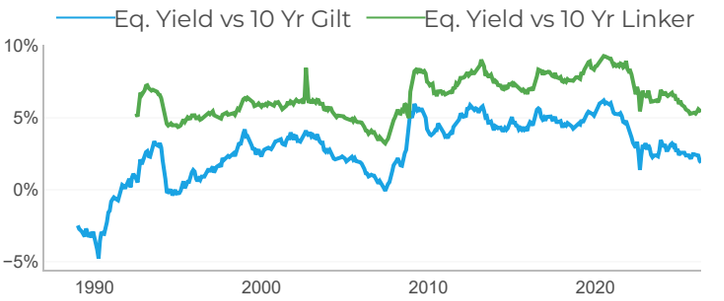
Equivalent Yields vs Gilt Yields %



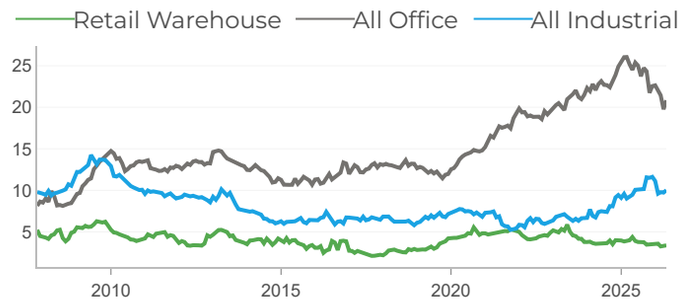
MSCI UK All Property Monthly TR Index %



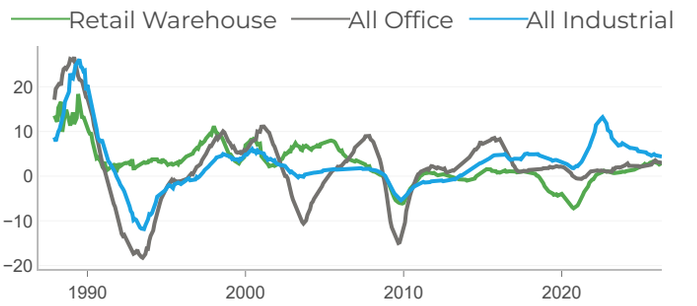
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



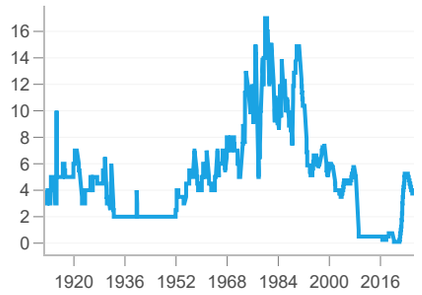
Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at May 2026. 25 Years of Return, All Property Monthly TR Index as at May 2026.

Valuation

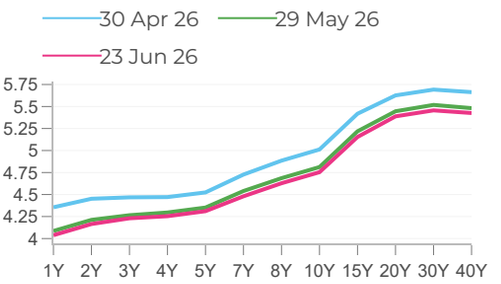
Cash

UK sterling market

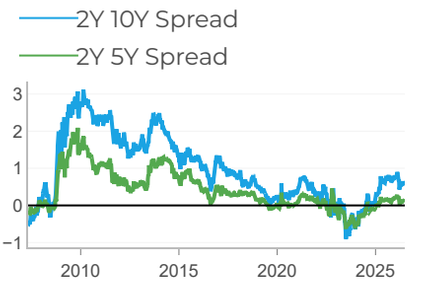
Official Bank Rate



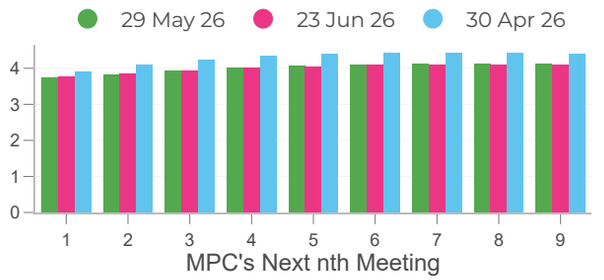
UK Gilt Curve



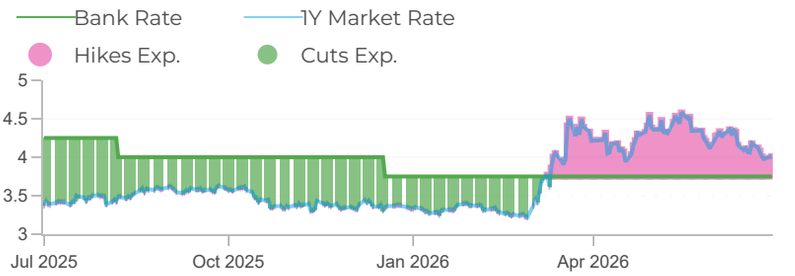
Gilt Spreads



Rate Expectations For Future MPC Meetings



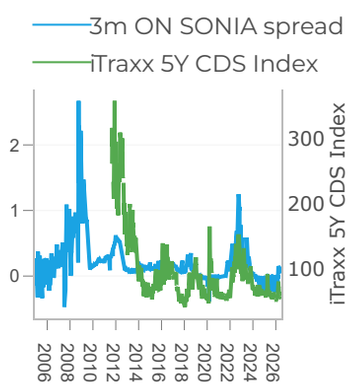
1Y Forward Market Rate Expectations



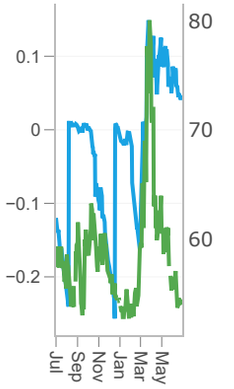
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2026				
	January	February	March	April	May
RPI	3.80	3.60	4.10	3.00	3.10
CPI	3.00	3.00	3.30	2.80	2.80
CPI Core	3.10	3.20	3.10	2.50	2.60
CPI Services	4.40	4.30	4.50	3.20	3.70
CPI Goods	1.60	1.60	2.10	2.40	2.00
Priv. Wages	3.30	2.90	3.10	2.90	

Market Stress



Last 12 Months

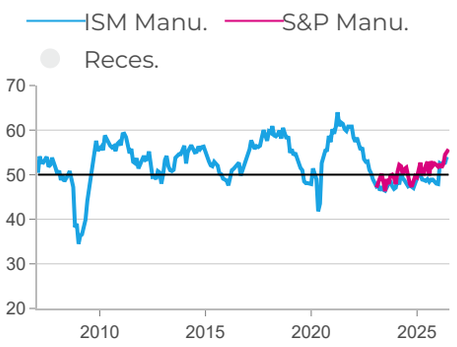


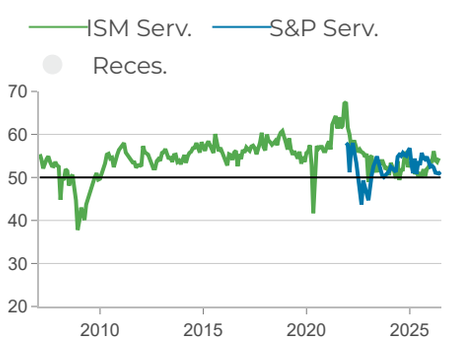
Sources | ITraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of June 2026.

Growth

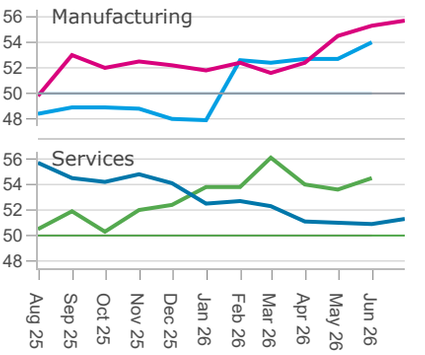
PMIs

United States

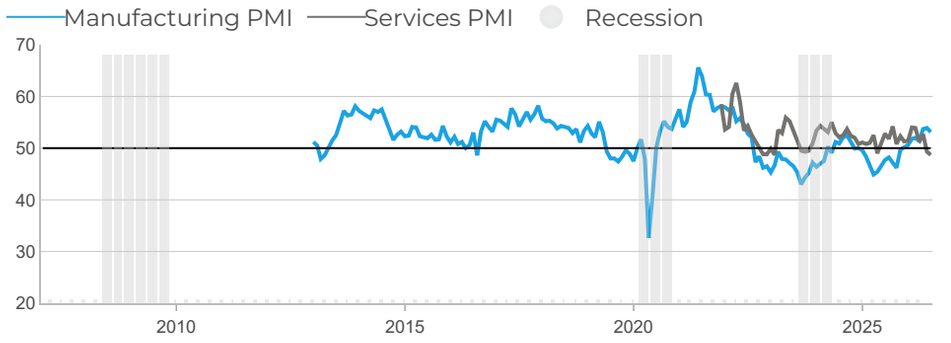




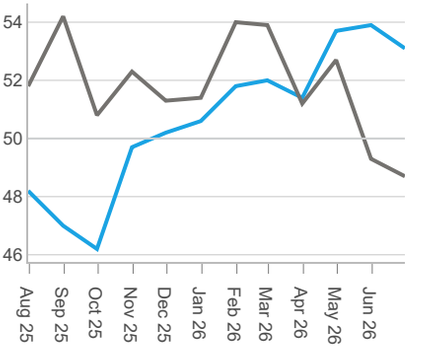
Last 12 Months



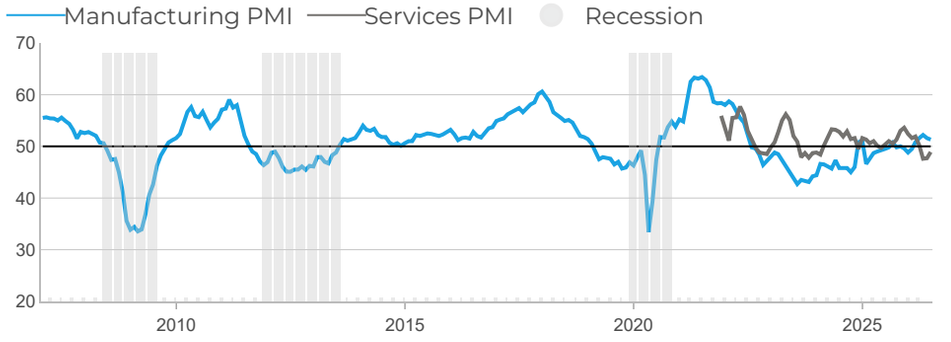
United Kingdom



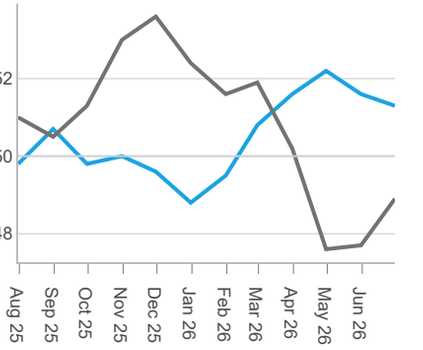
Last 12 Months



Eurozone



Last 12 Months

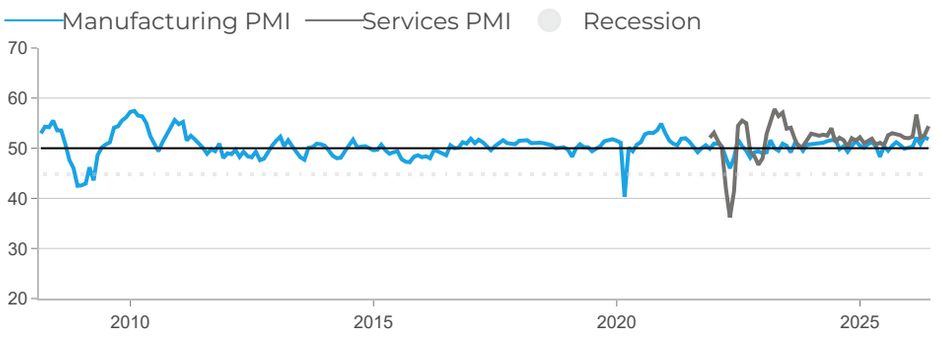


Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of May 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP. [1] Purchasing Managers' Index (PMI).

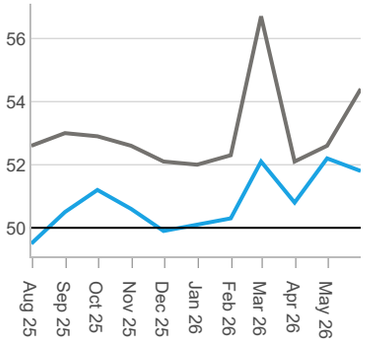
Growth

PMIs

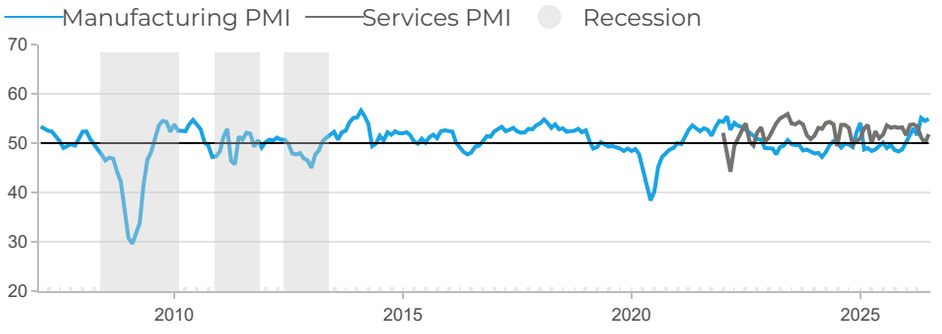
China



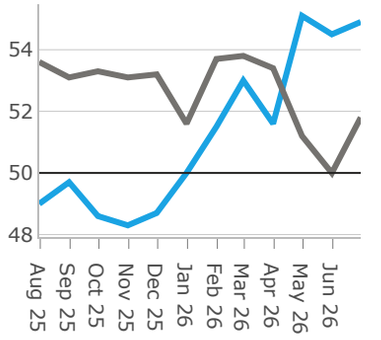
Last 12 Months



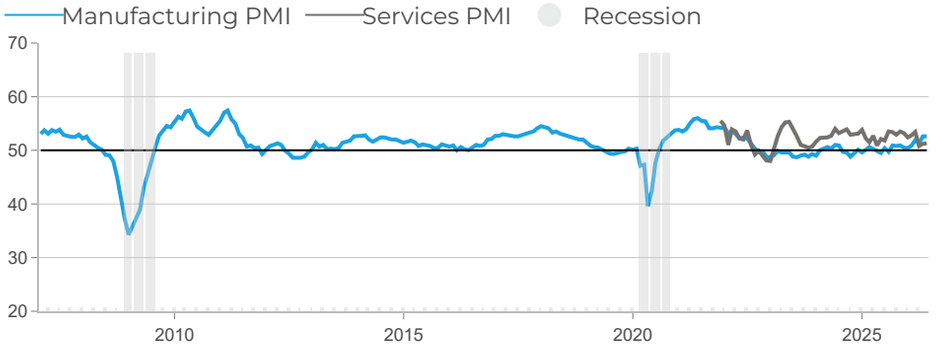
Japan



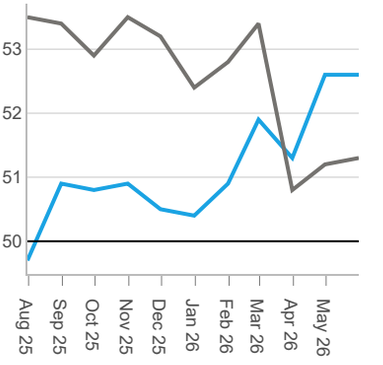
Last 12 Months



Global



Last 12 Months



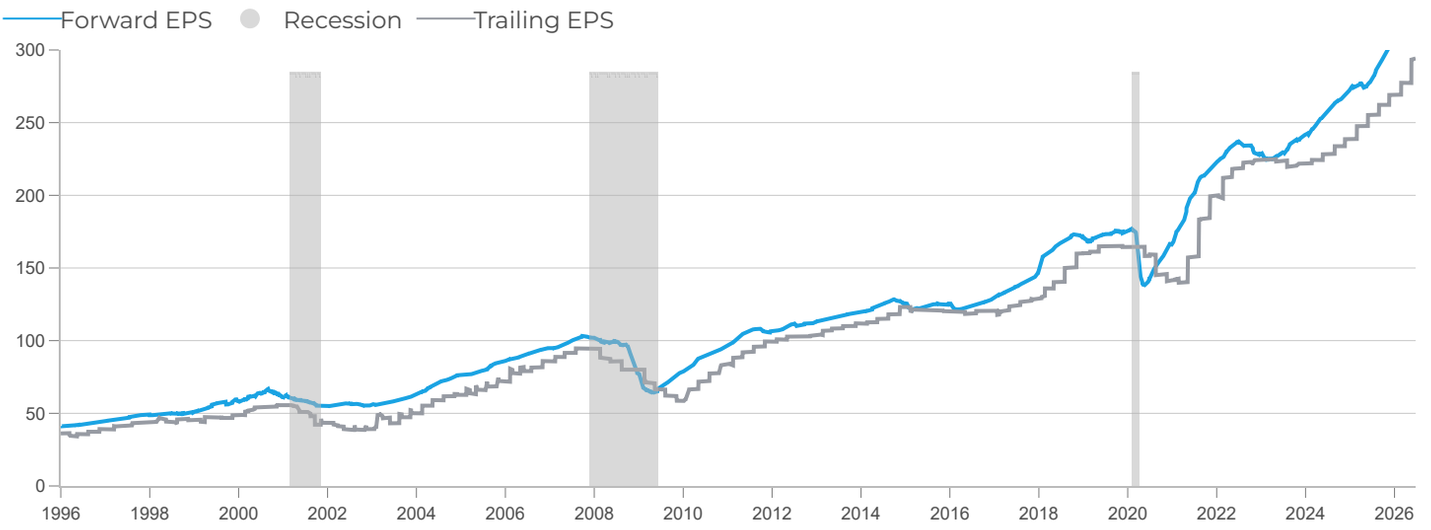
Sources | All countries including global: S&P Global as of May 2026. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP.

Growth

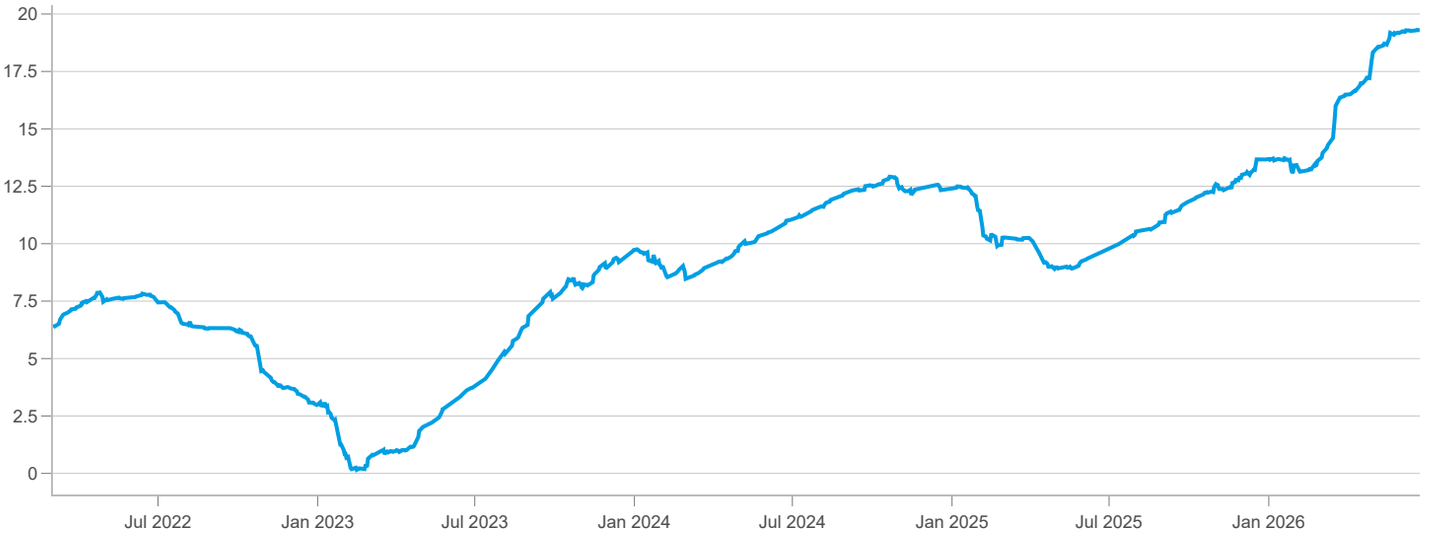
Earnings | USA

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



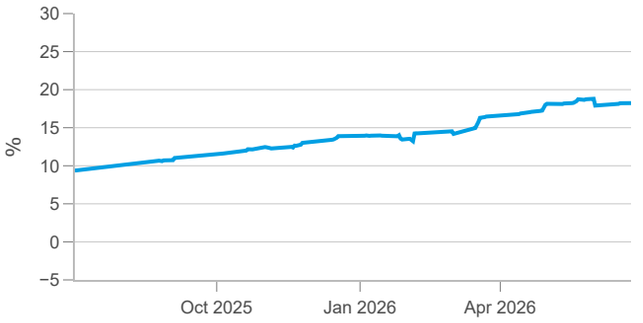
Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at June 2026.

Growth

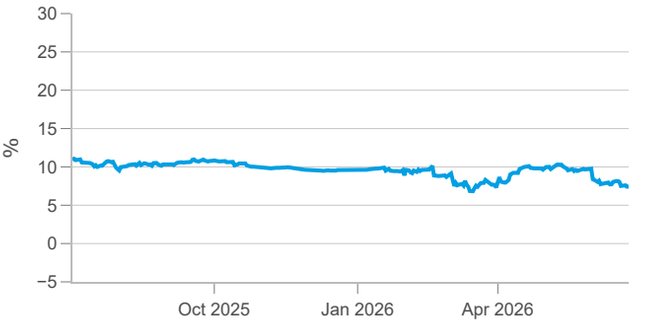
Earnings | regional

Regional rolling 12m blended forward earnings growth

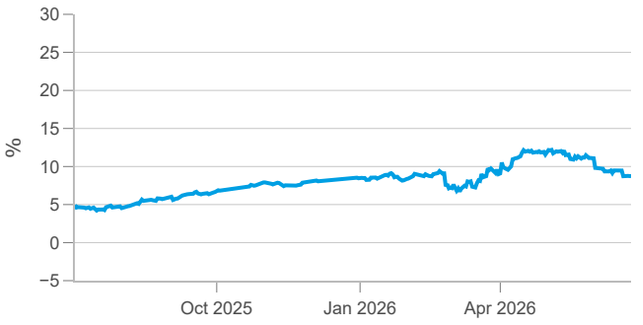
MSCI USA



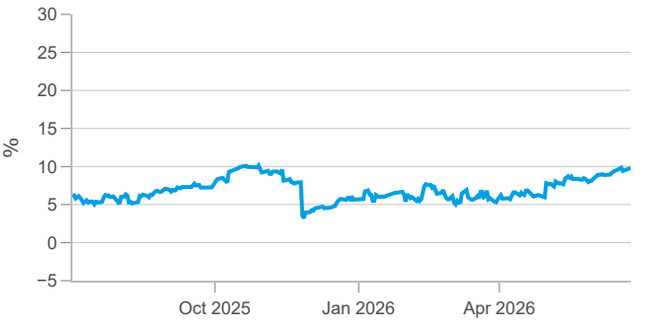
MSCI EU ex UK



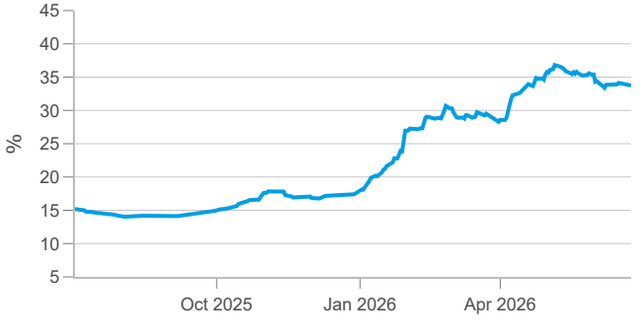
MSCI United Kingdom



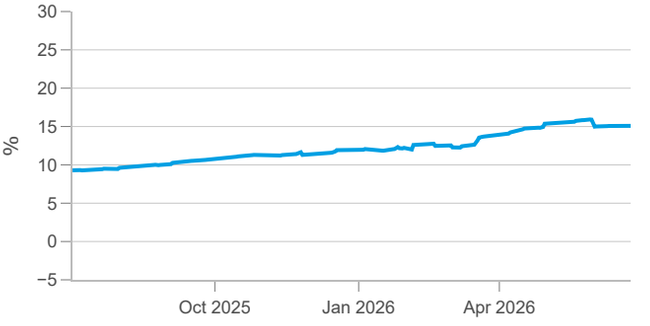
MSCI Japan



MSCI Emerging Markets



MSCI World



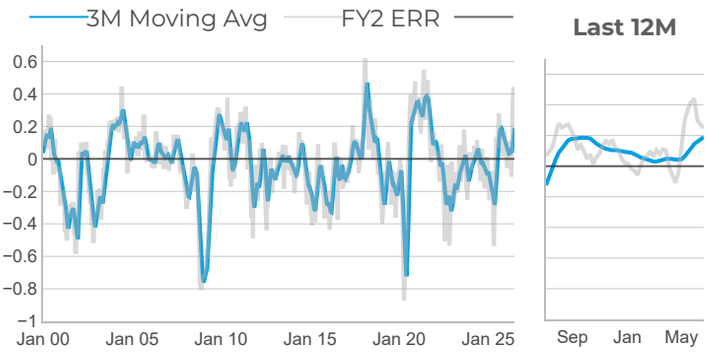
Sources | MSCI regional index 12M Forward EPS using Bloomberg BF transformation with YoY growth as at June 2026.

Growth

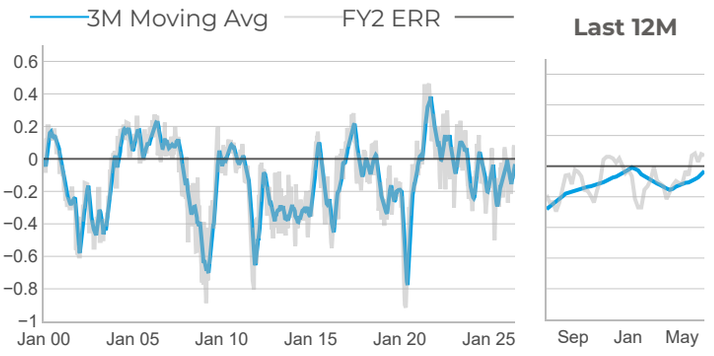
Earnings | revisions

Global earnings revisions ratios

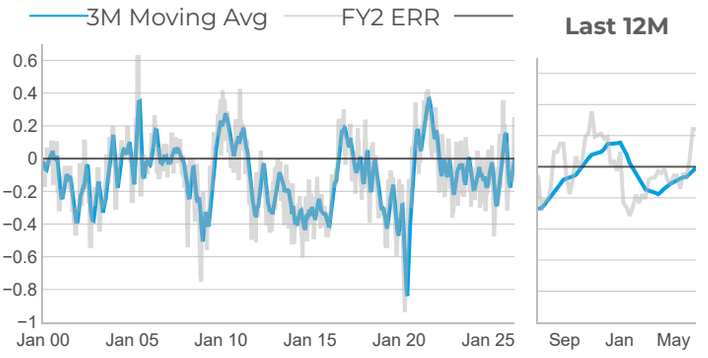
USA



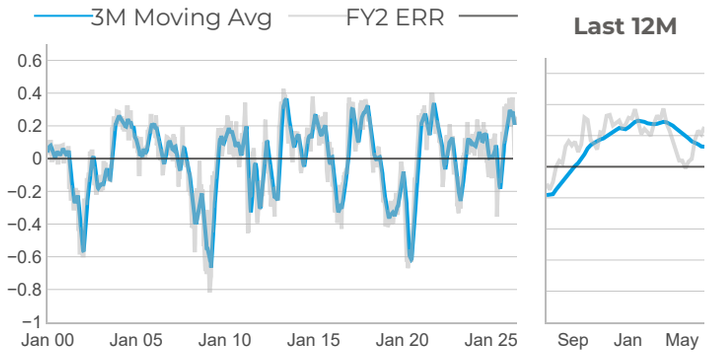
Eurozone



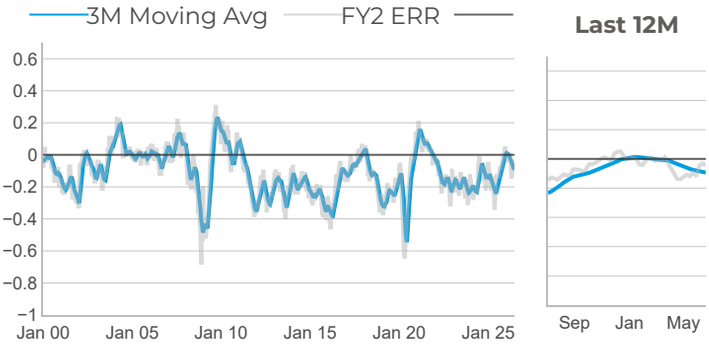
UK



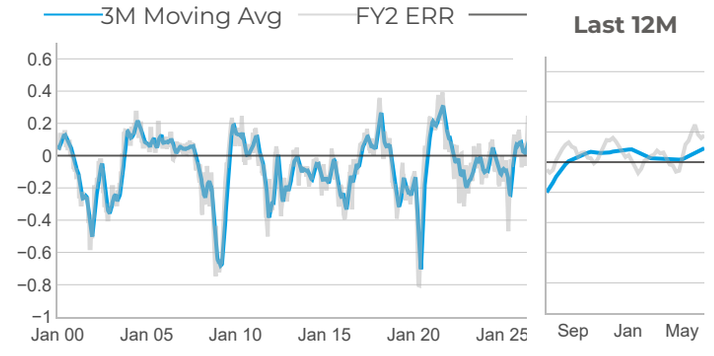
Japan



Emerging Markets



World

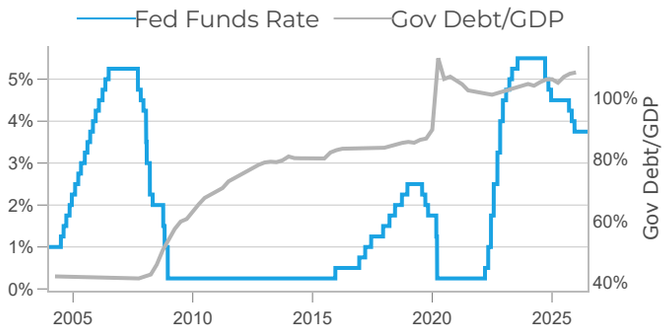


Sources | Eikon, the MSCI index has been used for each respective region, as at June 2026.

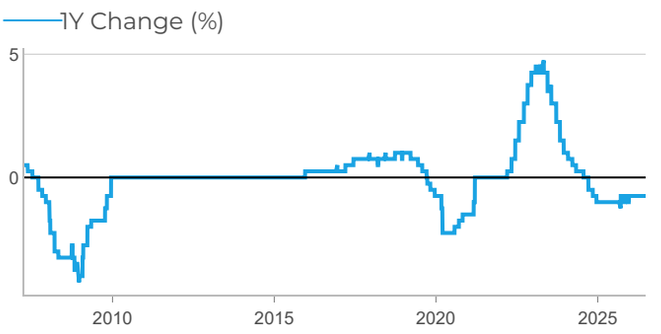
Policy

USA

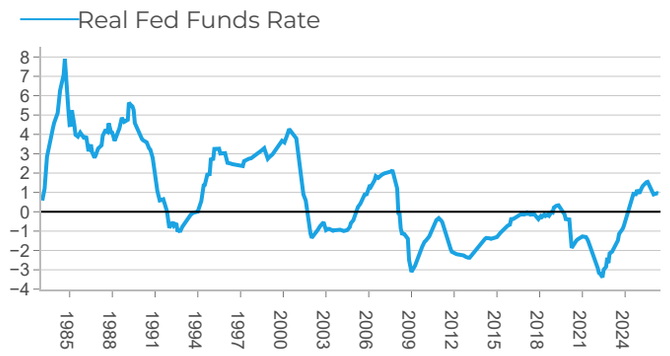
Fed Funds Rate



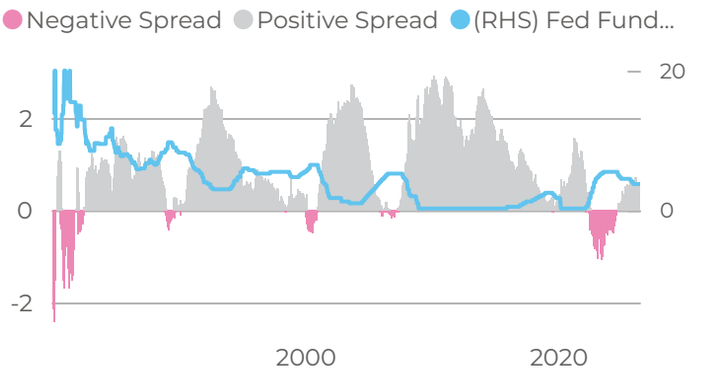
Change in Fed Funds Rate



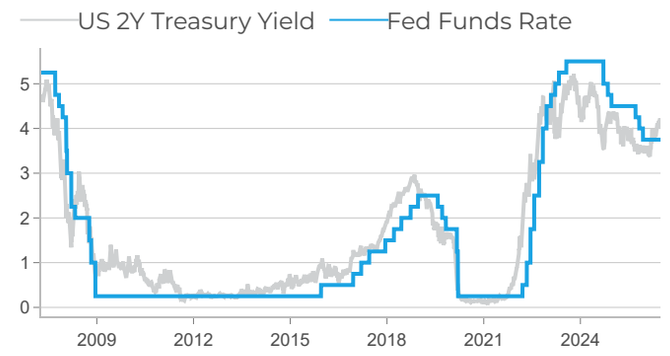
Real Fed Funds Rate (Using 2Y MA CPI)



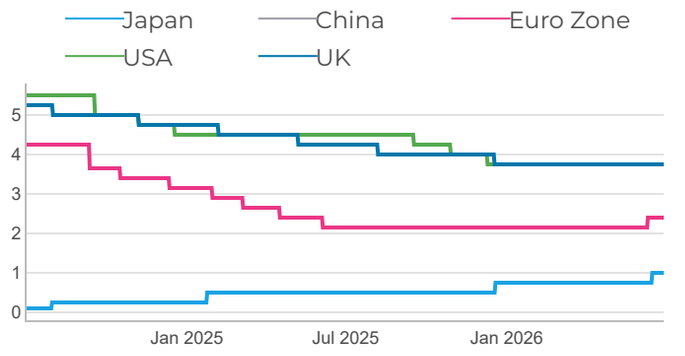
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



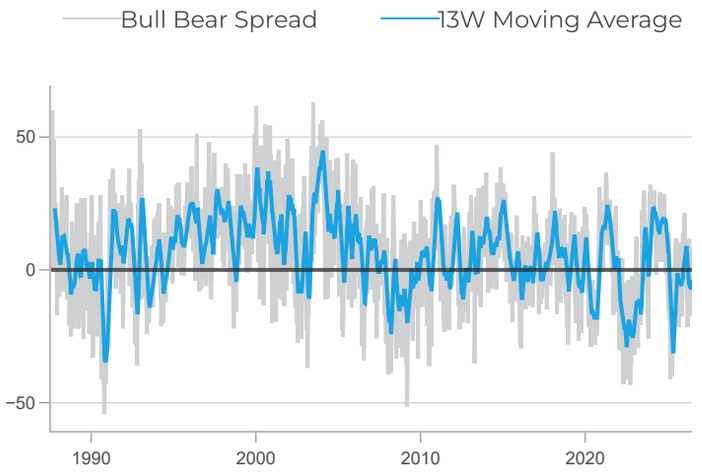
Sources | Bloomberg for all charts, as of June 2026.

Sentiment

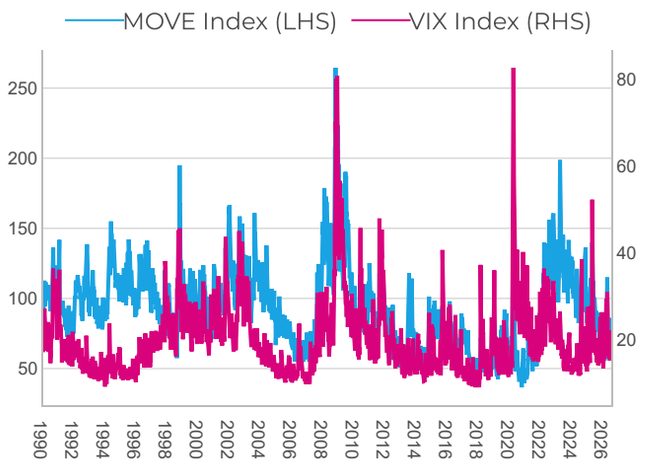
Equity

US equity indicators

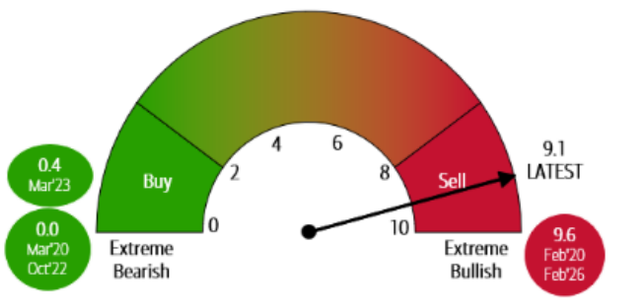
AAII Bull Bear Spread



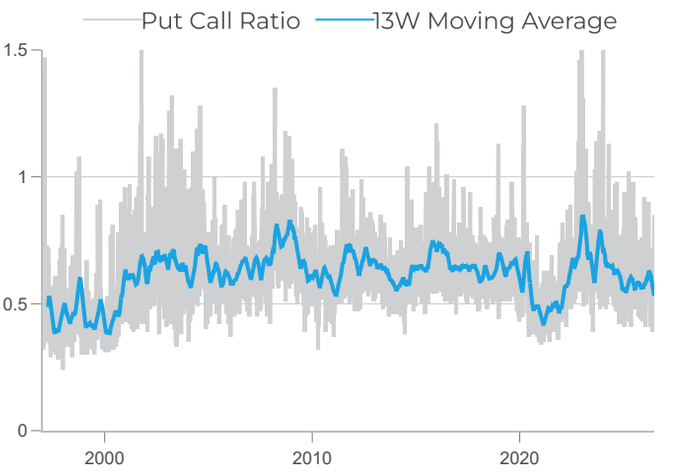
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of June 2026.

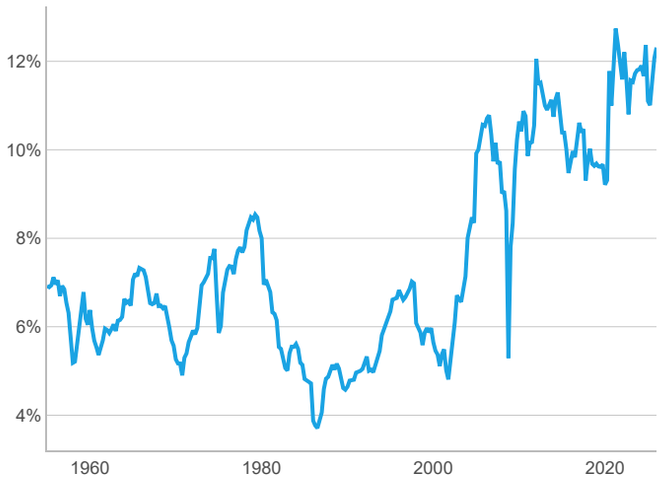
Other observations

The big picture

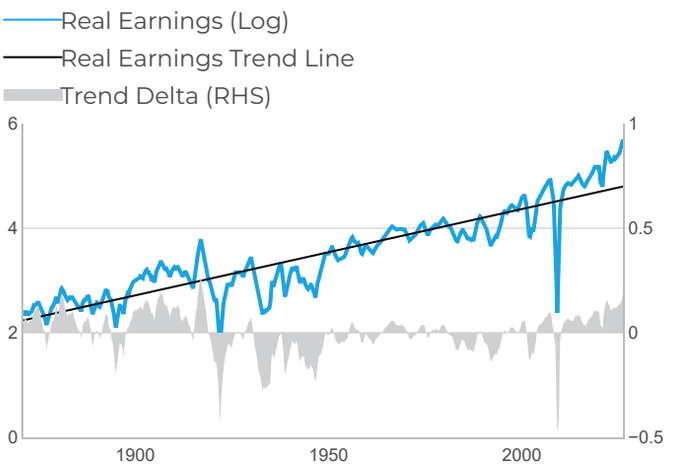
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, US forward 10-year returns could be much lower than suggested by the ERPs.

Long-term imbalances

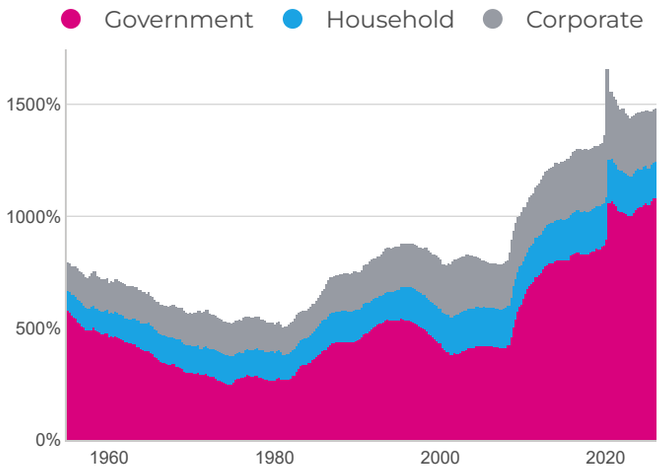
Profit Share of GDP



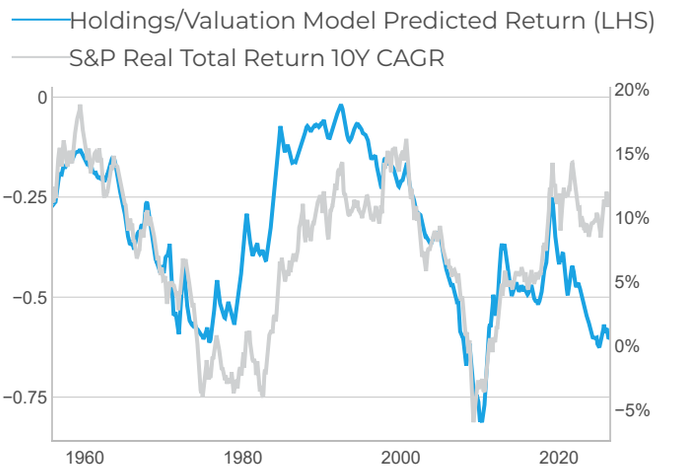
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED) as at Sep 2025 (latest available); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at June 2026.

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