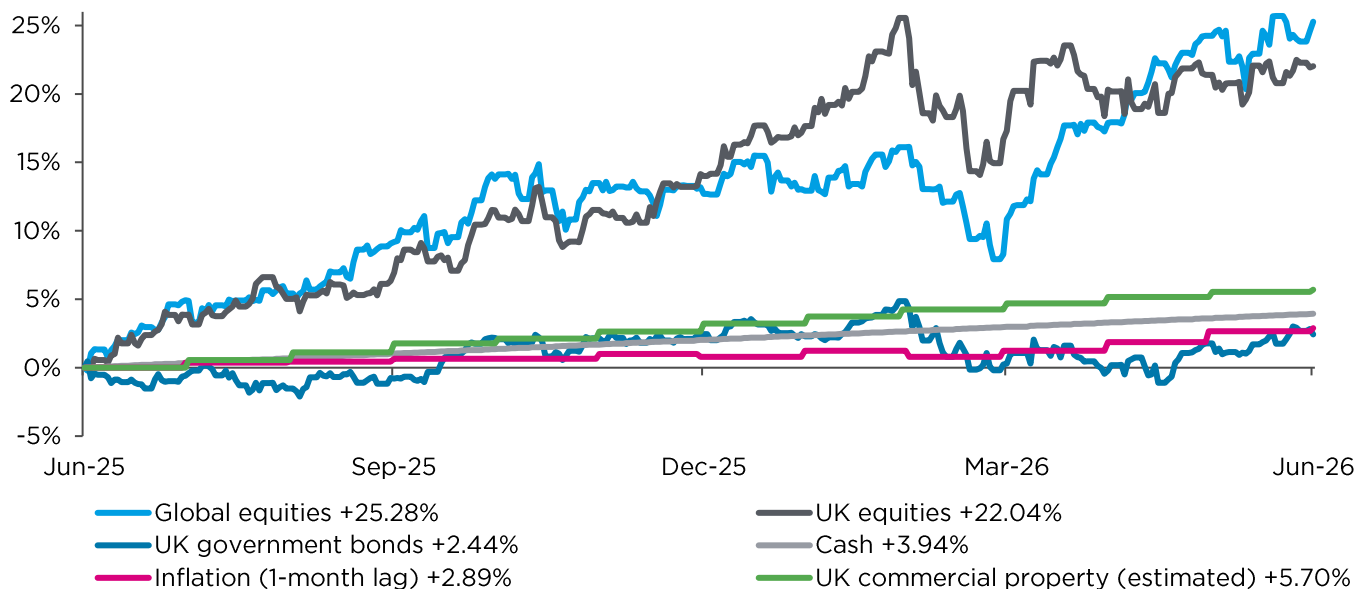


Market review

The headlines

- ▶ **Share prices worldwide were slightly weaker over the month of June, and investors rotated from software shares into more defensive technology hardware shares.**
- ▶ **The US and Iran agreed to cease hostilities, which lowered oil prices. However, inflation may continue to rise for some time, and central banks stand ready to raise interest rates.**

Market returns: Share prices weakened marginally in June, but stock market fundamentals remained intact.



Sources: Bloomberg, returns in pound sterling as of 30 June 2026 (30 June 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

The US and Iran signed a memorandum to halt hostilities in mid-June, and Elon Musk's SpaceX successfully completed the largest-ever initial public offering (IPO) of shares.

But the share prices of many other large technology firms weakened, leading world share prices to fall 0.7% during June, in local currency.⁽¹⁾ US share prices fell 0.9%, UK-listed shares advanced 0.5%, and share prices in the eurozone rose 4.2%.

The Federal Reserve (Fed) and the Bank of England (BoE) kept interest rates on hold during June, but the European Central Bank (ECB) raised rates by 0.25%.

Inflation continued to rise in most countries. Short-dated interest rates rose somewhat in the US, but longer-dated interest rates and those in other developed countries mostly fell.

The price of Brent Crude oil continued to fall, from \$91 per barrel at the end of May to \$73 at the end of June.

The pound sterling weakened somewhat versus the US dollar, which boosted the returns from US dollar-denominated assets in pounds.

United States

US share prices fell 0.7% during June, mainly because the share prices of large communications and software firms such as Oracle, Cognizant, Microsoft and Palantir fell steeply. By contrast, prices rose for the shares of hardware firms involved with semiconductors, led by Applied Materials, KLA and Corning.

Many investors 'rotated' their holdings during June, away from communications and software firms, into technology hardware firms. That's because software giants like Microsoft have yet to demonstrate that their huge investments in artificial intelligence (AI) infrastructure will boost their cash flows as much as they have forecast.

By contrast, demand for technology hardware is with us today, and it is increasingly a bottleneck that gives firms such as Applied Materials, Micron or Corning significant pricing power.

Elon Musk's spaceflight-to-AI conglomerate SpaceX successfully completed its \$75 billion IPO during June, the largest ever such transaction of its kind. By the end of June, most investors in the IPO had already sold out of their share allocations, but SpaceX's shares continued to trade at a healthy 26% premium over their \$135 per share issue price.

Other sectors that benefited from investors' move to more defensive positions included health care and financial firms. The share price of biotech firm Moderna, for example, rose significantly as the company demonstrated that it was successfully diversifying beyond Covid medications into cancer, autoimmune and flu treatments.

Multinational bank JPMorgan's share price rose to an all-time high in June, after the firm scored well on the Fed's 2026 stress test, an annual exercise by America's central bank to ensure that banks have sufficient capital in case of an economic downturn. After that positive score, JPMorgan authorised a \$50 billion share repurchase programme.

In the broader US economy, core personal consumption expenditure (PCE) inflation rose from 3.3% in April, year on year (yoy), to 3.4% in May. Core PCE inflation is the Fed's preferred inflation gauge.

As a result, the Fed kept interest rates on hold when it met in June. This was the Fed's first meeting under its new chair Kevin Warsh, followed by a much shortened policy statement and no more language indicating near-term interest rate cuts.

Warsh also removed his own forecast of the future policy rate from the chart that members of the Fed's rate-setting committee traditionally issue after their meetings. And he surprised investors by explicitly emphasising a return to the Fed's 2% inflation goal.

The more hawkish Fed outlook made for higher short-term interest rates. The yield on two-year US Treasury bills (US government bonds) rose from 3.98% to 4.10%

during June.⁽²⁾ (Bond yields fall as bond prices rise, and vice versa.)

But longer-dated, e.g. 10-year, Treasury yields fell from 4.45% to 4.38% over the month. That's because the Fed's more hawkish stance raised concerns about future growth, and this led to a flight to safety into long-term bonds.

United Kingdom

UK share prices rose 0.5% in June, boosted mainly by takeover bids for airline easyJet and warehouse and data centre developer SEGRO. In addition, activist investment firm Elliott notified the marketplace that it had acquired a 5% stake in workplace supplies distributor Bunzl. Elliott wants Bunzl to buy back some of its shares and possibly sell its North American division.

The share prices of banking groups Barclays, NatWest and Lloyds also advanced substantially during the month. Consumer price (CPI) inflation remained at 2.8%, yoy, and the BoE's monetary policy committee kept interest rates on hold when it met in June. However, two of the BoE's seven policymakers voted to raise interest rates, which is now probably the BoE's next move, possibly as early as September. Higher interest rates are good for commercial banks' profit margins.

In addition, financial markets reacted positively to Manchester mayor Andy Burnham's election to Parliament. Mr Burnham is likely to replace Prime Minister Keir Starmer, possibly as early as July. In the run-up to his election, Burnham quieted some concerns by confirming that he will respect the current government's budget rules.

Calmer domestic politics, after May's local elections, and reduced fighting in the Middle East lowered UK bond yields during the month. Yields on two-year gilts (UK government bonds) fell from 4.21% at the end of May to 4.12% at the end of June, and 10-year yields from 4.81% to 4.71%.⁽²⁾

Other markets

In the **eurozone**, share prices rose 4.2% in June, led by chemicals concern Bayer, micro-chip equipment manufacturer ASML and food group Danone. European banks' share prices also benefited from higher expected interest rates, led by Banco Santander, BNP Paribas and Banco Bilbao Vizcaya Argentaria.

The ECB raised its main policy interest rates by 0.25% in June. But the ECB's president, Christine Lagarde, pointed out that the ECB 'no longer needs to act with the same force as in 2022-23'. i.e. there will be no repeat of the steep hiking cycle in those years.

Japanese share prices rose 1.8% during June, boosted by the country's micro-chip and AI firms, and by easing tensions in the Middle East that lowered energy prices.

The Bank of Japan raised its main policy rate during June, from 0.75% to 1.00%, because it feared that

inflation might exceed its 2% target. Despite this rate hike, the Japanese yen weakened during the month, which boosted exports.

Chinese share prices fell 7.9% during June. China's domestic consumption continues to suffer from the slump in property prices. The country's stock market includes few technology hardware firms. And the US Department of Defense added some major Chinese companies, like Alibaba, to its list of companies that support the Chinese military. China's government itself continued to crack down on capital flight and cross-border capital flows during the month.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Fed, Bank of England, European Central Bank

Looking ahead

Share prices fell moderately in June but, in our analysis, the fundamental forces underlying the long-term stock market rally remain intact. We remain cautious, however, because some trends may be nearing their turning points and, in places, valuations are high.

- For starters, economic growth remains robust. Globally, both manufacturing and non-manufacturing sectors are expanding. Tariffs and the Middle East conflict have raised inflation and reduced real disposable incomes, but that effect is now at its peak and likely to abate from here.
- Secondly, the growth rates of companies' profits is robust, at c.15% globally. It is this historically high growth rate in companies' profits that sustains rising share prices, at share price-to-earnings (P/E) multiples that have been stable to falling this year.
- Thirdly, bond yields. These matter because investors use them to discount companies' profit forecasts to distil what should be the present value of their shares. Lower bond yields mean higher share prices, and vice versa. Bond yields in developed markets peaked in mid-May, but they have fallen since. This has supported share prices as well.

Our outlook for share prices is positive, but with several points of caution:

- Pockets of overvaluation exist, particularly in the US and in AI. And non-US stock markets have returned to their long-term averages in 2026, rather than remaining outright cheap.
- Some drivers of earnings growth may be coming to an end. Labour costs as a percentage of revenue have stopped falling. The downward trend in bond yields from 1980 to 2022 appears to have ended, making company financing more expensive. Corporation tax is no longer going down. And capital expenditure, which had been reducing as companies went for 'capital-light' business models, is now going up again.

Given our positive but cautious outlook, with some sectors and regions outperforming others, we continue to be selective buyers of shares.

Point in case: we did not participate in the June offering of SpaceX shares, which went public at c. 95 times its 2025 revenues. Elon Musk's company may well go on to do great things for humanity, but IPOs generally underperform the broader market. And, in the case of SpaceX, the risks associated with the company are significantly higher than those we feel comfortable exposing our clients to.

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