



Market 2 Market

A forward view of the global economy
and financial markets

June 2026

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Contents

	Page
Comment: All Change	2
Asset Allocation	3
Markets at a Glance	4

All Change

“Change is inevitable, and the disruption it causes often brings both inconvenience and opportunity”.
Warren Bennis – American scholar



Source: Wikipedia

The United Kingdom has had six Prime Ministers since 2016, and it looks as though we might have a seventh before the year is out. Andy Burnham’s victory in the Makerfield by-election pretty well guarantees that there will be a challenge to Kier Starmer’s leadership of the Labour Party which, if successful, will mean a new Prime Minister.

Politicians all say that they will change the way the country is governed, which will be better than what has gone before. Theresa May ran her campaign on her promise to bring strong and stable government. I am afraid that she was unable to provide either strong, or stable government, as she wrestled with Brexit and a deeply divided Conservative Party. Her successor, Boris Johnson, did little better as he tried to cope with the COVID pandemic, and then the war in the Ukraine, while dealing with scandal after scandal. Liz Truss went for a radical change in taxation and government borrowing with a mini budget that proposed £45 billion of unfunded tax cuts. She lasted just 49 days.

Rishi Sunak became the Prime Minister in 2022 and tried to bring stability and common sense back to government, but he had to go to the polls in 2024 and the British public voted for a change of political party. One of Kier Starmer’s main campaign pledges was that he was going to bring stability and clear direction to the country. Umpteen U-turns and a failure to control his backbenchers, while inflation and unemployment have been rising, has resulted in a powerless Prime Minister who can’t even manage to produce a defence spending plan.

A new Prime Minister will ensure that we have yet more change in the governance of the country, but will this result in peoples lives improving or helping businesses grow? The proof of the pudding will be in the eating. Will we have a new Prime Minister whose priority is simply good government that provides an environment for individuals and businesses to thrive, or will it be yet another government determined to pursue a political agenda at any cost?

On a positive note, we can derive some comfort in the UK from the fact that we live in a democracy which allows us to change our political leadership. There are many people in the world who cannot change their political leaders, and who would happily accept frequent changes of government. Whatever happens in the coming months, everyday life will carry on. Individuals and businesses will have to adapt to the new order until the next general election, which must be held no later than 15th August 2029.

Richard Harper

Senior Investment Manager

GHC Capital Markets Limited

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

The deal dividend

At the time of writing, our assumption is that a US-Iran peace deal will hold. A reaction to the development may be a reversal of the crisis trade: some profit-taking in energy, materials, and technology, accompanied by renewed interest in consumer discretionary, real estate and Europe. The second phase of the rally will be less straightforward, because the inflationary consequences of the disruption caused by the war will fade only gradually.

If sanctions on Iranian oil are eased, and the Strait of Hormuz reopens, an instinctive financial markets response to the agreement is likely to be buy what has fallen and sell some of what has gone up. The performance data already tells a striking story. Year to date, global energy equities have surged approximately 27%, information technology 19%, and materials nearly 13%. By contrast, global consumer discretionary is down almost 4%.

Energy and materials have benefited directly from scarcity, supply disruptions and a higher geopolitical risk premium. Technology has not been a trade in the same sense. Its dynamic overlaps with, but is not entirely explained by, the ongoing AI investment cycle. Thus, a diplomatic settlement could lead to profit-taking in technology even if the sector's long-term fundamentals remain intact.

The natural destination for some of that capital is the old economy: consumer discretionary, travel, selected industrials, and real estate. Large consumer names should benefit from improved confidence and the prospect of lower energy and distribution costs. The important point is not simply that the market rises, but that leadership broadens.

Europe: relief without absolution

Europe would be among the clearest beneficiaries. For some time, the region has been exposed to imported energy prices and the consequences of disrupted trade. A reduction in the oil and gas risk premium would improve the growth outlook and reduce the immediate pressure on the European Central Bank to deliver another rate increase. The ECB would not be able to declare victory, however. The delayed ripple effects of inflation already generated by higher energy, freight, and supply-chain costs will continue to pass through the economy. Nevertheless, the worst-case scenario would likely be behind us, creating room for a rebound in European equities, particularly consumer, real estate, and domestically sensitive companies.

Bonds and central banks: relief now, headaches later

Government bond yields should initially decline as the risk of a prolonged energy shock recedes. A fall of perhaps 10-15 basis points in the US ten-year Treasury yield would be a reasonable first response. We would be cautious about extrapolating that move. The inflationary pulse already created by energy, freight, and supply-chain disruption will not disappear simply because an agreement is signed. Businesses reduce prices more slowly than they raise them, while depleted inventories and disrupted logistics take time to rebuild.

There is also a counterintuitive risk. Resolution of the crisis could release pent-up household and corporate spending. Consumers may respond as they did after the pandemic: relieved that the danger has passed, they travel and spend. That burst of activity could improve growth while prolonging inflation.

What to own after the relief rally

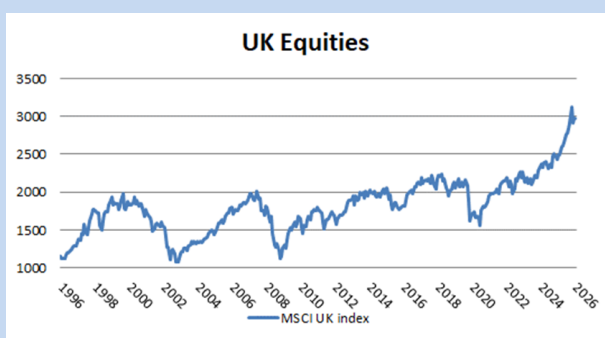
Broader market leadership means the first beneficiaries should include consumer discretionary, travel-related companies, real estate, selected European domestic sectors, Indian and Gulf companies still priced for prolonged disruption. Energy and materials may surrender some of their geopolitical premium. Technology may experience profit-taking, as investors recycle gains into cheaper cyclical assets. None of that weakens the structural technology story; it simply recognises that even excellent companies can become over-owned when investors have few alternatives.

As for gold, the instinctive reaction may be that a peace agreement removes the case for holding it. However, central banks have been accumulating gold not primarily as a crisis hedge but as a structural response to dollar dependency and the demonstrated willingness of Washington to weaponise financial sanctions. A single agreement, however significant, does not undermine that motivation.

There is also a wider policy uncertainty that gold reflects and that a Gulf deal does not resolve. The same administration that deployed economic coercion in the Middle East remains in office, with an appetite for using tariffs, sanctions, and financial pressure as instruments of bargain. Markets may celebrate the immediate resolution while quietly acknowledging that the next confrontation is never far away. Gold is the asset that prices that question. If anything, the lesson of the past year accelerates the case for diversification away from dollar-denominated reserves.

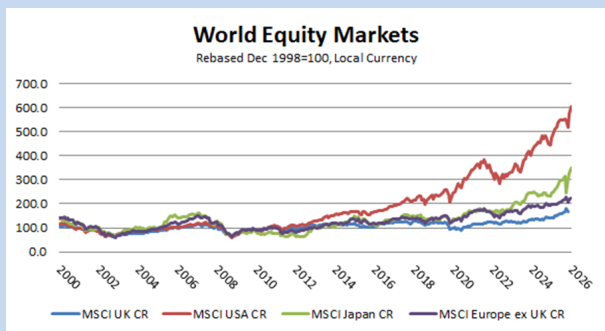
Investors should not confuse the removal of what could have been a significant disaster with the arrival of a perfect economic environment. Lower oil prices would be disinflationary, while renewed spending and stronger growth would be inflationary. The first trade is comparatively obvious. The more important question is what happens after the relief party.

Markets at a Glance



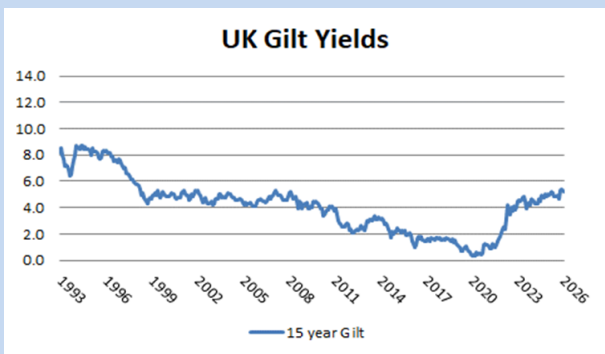
Source: Lipper for Investment Management

The FTSE 100 has performed well against US and European peers since 2025, despite worsening domestic inflation and growth impacts from global war. The main buyers of UK stocks in recent times are international investors, while corporates (via buybacks) represent the largest source of domestic demand amidst limited retail investor activity. There is evidence of a tentative pick-up in UK domestic investor buying, but as in the rest of Europe we need to see strong economic growth and confidence for this to persist as well as tax-incentives to encourage domestic allocation. Growth of shares buybacks helps push up Return on Equity, which is a positive. UK companies are cash-generative and high returns to shareholders via dividends and buybacks remains one of the UK's attractions.



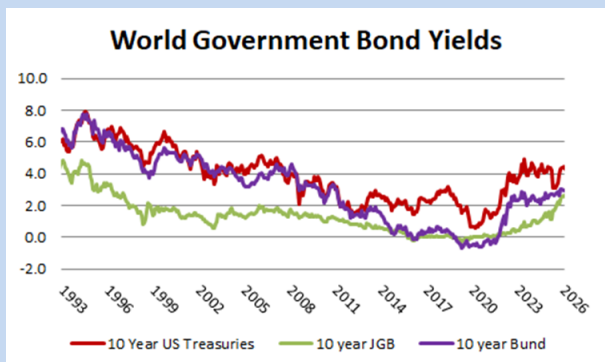
Source: Lipper for Investment Management

Hopes of a Middle East de-escalation follow the US and Iran confirming an interim deal to reopen the Strait of Hormuz and begin 60 days of talks. This reduces the equity risk premium – a good thing for global markets. Within Technology, consensus estimates AI capex at \$920bn in 2027, while we believe this could rise to \$1.4tn driven by strong demand, rising token consumption, and backlog growth at AWS and Google. Strong capex supports near term earnings upside for AI infrastructure, but valuations are elevated and positioning is crowded, increasing volatility risk. Investor focus is shifting to sustainability of earnings and capex as hyperscalers appear better anchored than semis, though equity issuance highlights the need for visible returns and revenue upgrades. Enterprise AI adoption remains early, with around 54% of firms discussing AI but only 11% quantifying use cases and 2% earnings impact.



Source: Lipper for Investment Management

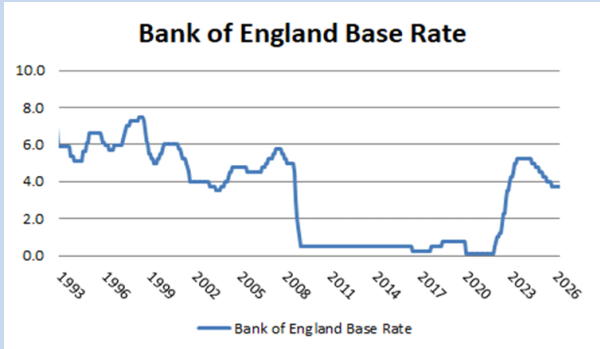
In a world of higher inflation expectations, the repricing of Gilt yields — and their underperformance versus other major bond markets — is being driven by rate expectations, with the rise in Gilt term premium relatively contained. In contrast to recent episodes of UK rate underperformance, Sterling has performed well compared with other G10 currencies. This indicates a relatively limited pick-up in UK-specific fiscal or country risk, which has historically been a source of vulnerability for Gilts. Thus, if macro and inflation conditions improve, Gilts should have the most to gain. Relief in UK rates would be led by the front-end of the yield curve.



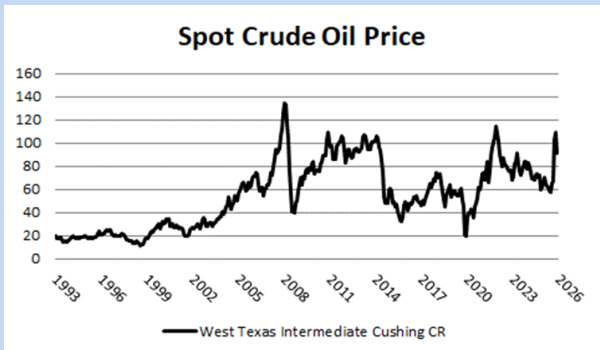
Source: Infront

The Middle East conflict has pushed global interest rates higher. If we are turning a corner there, then Government bond yields might initially decline, as the risk of a prolonged energy shock recedes. A fall of perhaps 10-15 basis points in the US ten-year Treasury yield would be a reasonable first response. The path forward remains uncertain, but the potential for a negotiated conclusion to the conflict in Iran would justify lower bond volatility and a rebuild of conviction towards US rate cuts rather than hikes. In Europe, we think bond volatility will fall, as global outcomes narrow, even after the recent rise in ECB rates. For now, major global repo rates seem to be on hold.

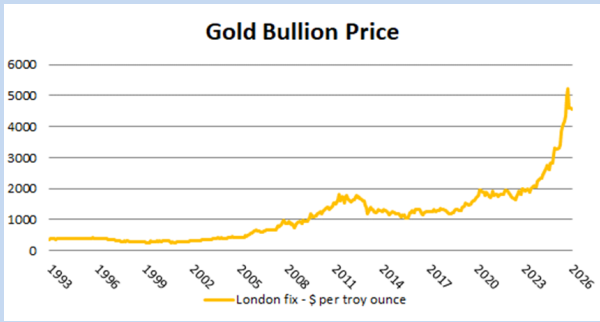




Source: Lipper for Investment Management



Source: Lipper for Investment Management



Source: Lipper for Investment Management

Expectations for interest rates increases have eased following a dip in inflation, but markets still expect two quarter-point rate rises over the next 12 months. Expectations for interest rates have been buffeted by developments in the Middle East conflict, which has threatened to spike energy costs and send inflation and rates higher. A quarter point rise is possible in July or September, according to bond prices. A further rise is being priced in for early in 2027. It is not certain, however, that we will see those rises. The Bank of England will be reluctant to raise rates in the face of already slowing growth and knows that higher energy prices have a deflationary effect on the economy without the need for rate rises on top.



Spot Brent futures prices have slipped below \$80/barrel, as the US and Iran reached an interim deal that would lift the US blockade and reopen the Strait of Hormuz. The deal potentially unlocks over 50mb of Iranian oil on the water overhang for immediate delivery. We now assume that Persian Gulf exports normalize to pre-war levels by the end of July and Persian Gulf crude production recovers by October. We estimate that this normalization in Gulf exports to pre-war levels might be achieved with a 13mb/day increase in Hormuz flows from current levels to around 70% of pre-war levels. We do not see ship availability as a binding constraint on the recovery of flows as there is 860mb of empty tanker capacity within the Strait or within five days of navigation. However, many ship-owners remain cautious about clear guidelines for transit, and we see shippers' risk aversion as a potential constraint on the flows, along with Iran's geopolitical goals over the upcoming 60-day nuclear deal negotiations.



Gold has declined by 20% to \$4,300 per ounce since the onset of the Middle East conflict. However, the structural outlook for gold prices is ahead of current levels, with a possibility that previous highs can be revisited over the next 12 months. Future demand and price stability depend on the resolution of ongoing geopolitical conflicts and on Fed policy, at least in part. Yet central banks have been accumulating gold not primarily as a crisis hedge but as a structural response to dollar dependency and the demonstrated willingness of Washington to weaponise financial sanctions. A single agreement, however significant, does not undermine that motivation and we believe global central banks will remain important buyers of the precious metal.



Note that where an MSCI Index has been used for illustration. This has been sourced with permission from MSCI Inc.

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