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IN BRIEF

- We came into 2026 with a positive outlook for the world economy, but it deteriorated as the months have passed.
- Equity markets seem to be carrying on regardless.

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After a bright start, it's all just got a bit worse.

At the start of the year we were looking forward to reasonably robust economic growth globally, not a boom, but at a rate that would be favourable for the jobs market and provide confidence for businesses and consumers alike. Inflation was on a downward path and seemingly under control.

This was a backdrop that would allow central banks to cut interest rates. In fact, at the very end of last year, two or three 0.25% cuts were expected in the US through the course of 2026, whilst one or two were expected in the UK. At the end of May this year, that had reversed. In the US, possibly one interest rate increase was anticipated and in the UK one or possibly two increases.

That is quite a change in a short space of time and has been driven higher by expectations for inflation rising and resulting in lower expectations for economic growth. In fact, global inflation could well rise to around 3.5% this year, some 1% above where it was a few months ago.

The reason for all this is clear; the war in the Middle East. With no lasting resolution in sight, weaker economic conditions should be expected to prevail. I have been surprised by how resilient the global economy has been in the face of the introduction of much higher US trade tariffs last year and the oil price shock and disruption caused by the war this year. But that resilience could be sorely tested in the coming months. This could not just be a result of higher oil prices, but also by actual shortages of oil as inventories fall. This could be repeated across a wide range of oil related products such as fertilisers as well.

Inflation is forecast to retreat to between 2.5% and 3.0% through next year, but that is in the expectation the conflict will ease. Central banks will see inflation as public enemy No.1, as they did in the post Covid spike, meaning interest rates stay elevated, probably at the cost of economic growth and possibly the labour markets, although they will keep a close eye on all factors. But, in summary, central banks have very little room for manoeuvre.

Could El Niño make it worse again?

If you are not aware of it, you are likely to be reading about it in coming months. El Niño is a weather pattern that comes round every few years, leading to warming Pacific Ocean temperatures, that can lead to droughts in some regions and flooding in others. El Niño varies in its severity and therefore the impact each time is hard to predict. Inevitably, though, the consequences are not good, as agriculture can be negatively impacted leading to food shortages and more upward pressure on inflation.

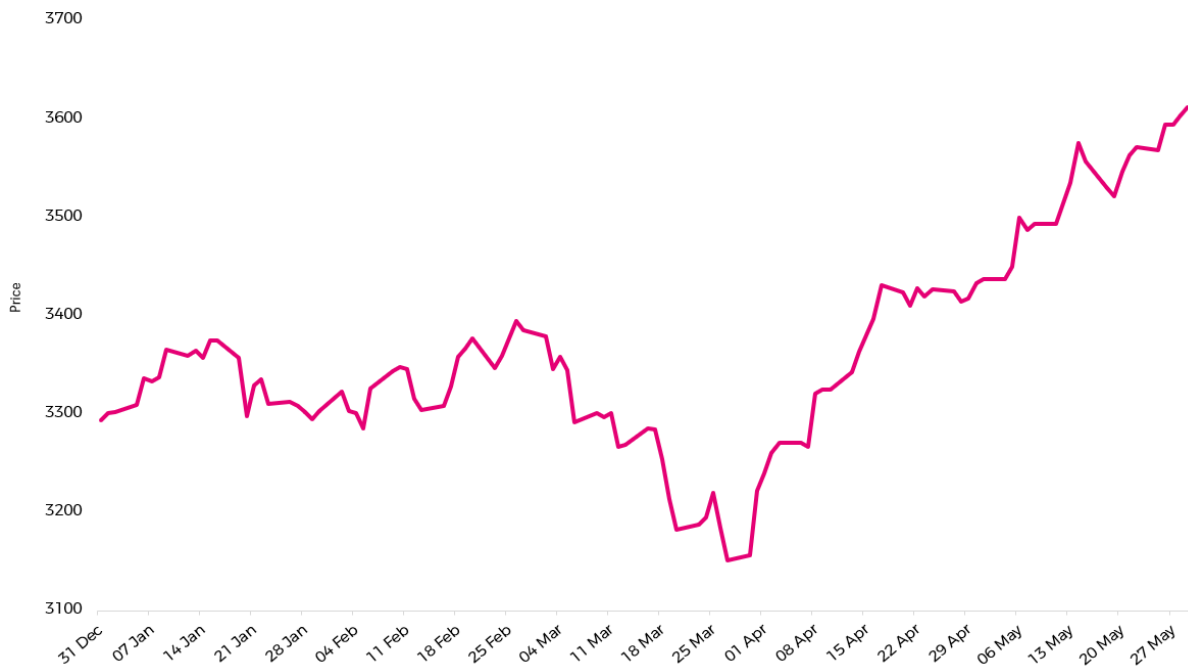
At a time when economies are already contending with geopolitical uncertainty and elevated energy costs, El Niño has the potential to act as another cause of inflation and supply chain disruption.

El Niño is not here yet, but there is a high expectation it's on the way.

Equity markets continued to rise.

Equity markets fell on the outbreak of the conflict in the Middle East, before, it seems, deciding that it wasn't too much of a problem after all and resumed their upward path, which continued in May.

MSCI World Index (GBP) 31.12.2025 – 31.05.2026



Source: MSCI World Index, Bloomberg Finance L.P. from 31.12.2025 to 29.05.2026
Past performance is not a reliable indicator of future returns.

This can be misleading, however, as the global equity market index is made up of a wide range of regions, industries, sectors and companies. These will perform differently at different times.

For some time the giant US technology companies such as Apple, Alphabet (Google), Meta, Amazon, Tesla, Microsoft and Nvidia, which became known as the Magnificent 7, dominated the US and global markets, making up a significant percentage of the total. As their share prices rose, so did their impact on market indices. This group has developed into a wider, more general AI related group of companies around the world that were seen as big beneficiaries of the AI revolution. The likes of Apple and Tesla were replaced by many others. These companies, for the most part, continue to drive market levels.

However, as the backdrop changes, so do the drivers of markets. Unsurprisingly companies in the energy and defence sectors have seen strong share prices as well.

Nonetheless, when looking at the equity market overall, it does feel that it has carried on being very strong in the face of rising risks and an increasingly uncertain outlook. Meanwhile, bond markets have reacted to reality, falling as inflation and interest rate expectations have risen. Bond markets have reacted quite rationally, when there has been better news on a possible resolution to the war they have risen and vice versa. Equity markets, in my view anyway, are being less rational overall, although, as I noted they are not homogenous and have many different drivers.

Notwithstanding that, economic growth and strong profits growth have provided support, but from here, I think that must remain the case in the face of the prevailing risks, which is not a given, and central banks are not in a position to come to the rescue of markets as they have done in the past.

Tell Sid

Tell Sid was the advertising campaign for the sale of shares in British Gas to the public. In the 1980s and 1990s there was a massive programme of privatisation of UK state owned companies, such as BT, BA, the water and electricity companies and British Gas. In total, selling a large part of UK state owned companies raised approximately £200 billion - in today's money terms, in US Dollars, that is \$270 billion.

The reason for the history lesson is to put some context to the scale of the proposed upcoming Initial Public Offerings (IPO) or share sales in SpaceX, OpenAI (the ChatGPT company) and Anthropic (creator of AI tool, Claude).

None of these numbers are confirmed, but they give a feel for the scale. SpaceX is reported to be targeting to raise \$75 billion, which would value it a total of \$1.8 trillion, putting it in the world's largest 10 companies. Earlier this year OpenAI and Anthropic raised money which valued them at \$852 billion and \$965 billion respectively.

What does this tell us about their valuation compared, to, say the UK privatisations? Well, that is a complex and multi fold question that would take more content than this note is designed for to answer. The one thing it does bring to mind for me though, is the DotCom boom and bust around 25 years ago. Over the past two or three years as the large technology companies have been to the fore and AI has become real, many commentators have noted the strong similarities between then and now. Personally, I see as many differences as similarities, but the scale and likely pricing of the IPOs we are about to get does resonate.

These companies are nothing like AskJeeves or Pets.Com, two bad IPOs in the DotCom days, but their IPOs could be the signal that we are nearing the end of the upward path for technology company share prices. However, in the short term they are likely to go well; they will be hotly sought after by investors and just about every large investment bank you can think of are advisers to the companies, so they have a vested interest in pushing the IPOs to go well.

As ever, time will tell Sid.

Neil Birrell
Chief Investment Officer

Glossary

Bonds (or fixed income)

Types of investments that allow investors to loan money to governments and companies, usually in return for a regular fixed level of interest until the bond's maturity date, plus the return of the original value of the bond at the maturity date. The price of bonds will vary, and the investment terms of bonds will also vary.

Equities

Another name for shares (or stock) in a company.

Initial Public Offering (IPO)

An initial public offering (IPO) refers to the process of offering shares of a private company to the public in a new stock issuance for the first time. An IPO allows a company to raise money from institutional and individual investors.

Risks

Forecasts are not reliable indicators of future returns.

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