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IN BRIEF

- June saw the major central banks around the world meet and share their thoughts on policy.
- UK politics is not going to take a back seat.
- There has been a change in what is driving the US equity market, for now, anyway.

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Central banks are ready to act, but some are in no rush.

The central banks of the US, UK, EU, Japan and Canada all held interest rate policy meetings in June and all provided similar concerns over their country's economic outlook. Although their likely policy moves and actions did differ.

The consistent factor was their fears over ongoing inflationary pressures, whether there is a deal or no deal between the protagonists in the war in the Middle East. Clearly, any sort of arrangement that improves the supply of oil and gas around the world is good news and we did see the oil price fall, which dampens inflationary pressures. But, as each of the central banks pointed out, to one degree or another, they are concerned that what has happened already will have lasting effects and there is no quick fix.

There were also associated concerns expressed about the fragility of economic growth, but, as has been the case since the recovery from Covid, central banks are more worried about the damage inflation can do in the medium to long term, than short term weaker growth.

The US Federal Reserve left interest rates unchanged, but raised their forward looking expectations and noted inflation risks, whilst commenting that the economy was in good shape. The Bank of England also did not change the rate and is adopting a wait and see approach, as did Canada. The European Central Bank, however, felt the need to raise interest rates, with more likely to follow this year and Japan took a similar path.

There is nothing particularly concerning in any of this, but the length of time inflation and interest rates stay elevated can be as much of an issue as the absolute level they get to and there is no sign of either easing at present.

The political backdrop in the UK continues to provide uncertainty for investors.

David Cameron ended his time as Prime Minister in July 2016. It is very likely that Andy Burham will take over as Prime Minister in July 2026, making him the 7th person holding the office in 10 years. That's the sort of turnover in leadership that has been associated with less developed countries or others such as Italy which have much more fragmented political systems.

Such a high level of change is unhelpful as each Prime Minister will have different ideas and different senior cabinet ministers. Constant policy change does not help businesses plan for the future and is likely to put off domestic and international entities investing in the UK. As I write this, it is very unclear what a Burnham administration will bring. There are headlines and leaked stories, and we have heard his speech on 29 June which made headlines but provided little detail on policy implementation and it's hard to see how the economy benefits from the plans.

It is likely that policy will take a move further left in the political spectrum, which is typically less business friendly. It is also likely that government spending will increase, which has to be funded by borrowing or taxation. You will have read about the fears being expressed about the bond markets, where the government borrows money, and comparisons with the disastrous Liz Truss period are being made. That was driven by somewhat different reasons and the current situation has been well flagged, but the concern is real. You will also have seen the reports of tax on individual's wealth being targeted as a way of raising money, this could allow the current fiscal rules to stay in force and manifesto pledges not to be broken, potentially.

These policies are unlikely to be greeted well by many, particularly investors, however, we have had time to get used to them and they may be already reflected in UK financial markets in the short term. The medium and long term outcomes are more important and they remain uncertain.

Has the Mag 7 become the Lag 7?

Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta and Tesla became known as the Magnificent 7 as their rapidly rising share prices drove the US equity market higher and they grew bigger and bigger. Slowly, their individual stars have shone less bright, some more than others. But recently we have seen the group's share prices be collectively weak, whilst the broader US equity market has remained relatively flat. This can be seen in the chart below, where the broader market is represented by the Bloomberg 500 Index.

Bloomberg Magnificent 7 Index vs. Bloomberg 500 Index over 5 years to 29/06/2026



Source: Bloomberg 30.06.2021 to 29.06.2026. Bloomberg Finance L.P.
Past performance is not a reliable indicator of future returns.

Given the influence of the Mag 7 on the market overall, due to their size, it shows other areas are driving markets of late. The healthcare, financials, utilities and industrials sectors were all strong in June, whilst the technology and communications sectors, where the Mag 7 companies mostly reside, were weak.

As you can see, over 5 years the Mag7 have done very well. However, companies that are seen as beneficiaries of the explosion in AI have led the way, but there is overlap between those and the Mag7.

The key question is whether the short term change in market leadership will be just that, short term, or if it will revert back to what it has been. The jury is out, but the outcome will be vital for investors' future returns. These

giant US companies that have led the way are big components of US and global market indices, which are where investors have been increasingly focusing through passive investing, an approach which seeks to replicate an index of investments such as for the US equity market. These have become very popular with individual investors and institutional investors, such as pension funds, alike.

Share prices can move quickly and substantially, up and down. The big change we have seen can accelerate or reverse in a short space of time which should be high on all investors' agendas.

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Glossary

Equities

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

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.

Risks

Forecasts are not reliable indicators of future returns.

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