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WEALTH MANAGEMENT

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Market Matters Q2 2026

A straightforward review of the main events affecting investment markets during the second quarter of 2026, and what they may mean for investors.

Market Overview

Global shares rose strongly during the quarter, despite periods of uncertainty caused by the conflict involving Iran, changing oil prices and concern about inflation. US technology companies continued to lead, while European and Asian markets also performed well.[1]

Artificial intelligence remained one of the most important investment themes. Demand for semiconductors, data centres and the electricity infrastructure needed to power them supported many technology and industrial companies.[2]

The strength of markets was encouraging, but returns were still concentrated in certain companies and sectors. This means diversification remained important, even during a generally positive quarter.

Oil prices moved sharply as investors assessed the risk of disruption to supplies through the Strait of Hormuz. Prices later fell back as tensions eased, helping to reduce some of the immediate concern about inflation.[3]

Central banks remained cautious. The Bank of England and US Federal Reserve kept interest rates unchanged, while the European Central Bank raised rates slightly in response to inflation risks.[4]

Gold had a difficult quarter, falling by around 14%. A stronger US dollar and expectations that US interest rates could remain higher made gold less attractive to some investors.[5]

Overall, markets ended the quarter in a stronger position, but geopolitical events, inflation and the high expectations placed on AI-related companies remain key risks.

Equities

Global equity markets produced strong returns during Q2. The S&P 500 rose by approximately 14% and the Nasdaq by 21.6%, their best quarter since 2020. Healthy company profits and enthusiasm for artificial intelligence provided much of the support.[1]

European shares also performed well. The STOXX 600 rose by around 10%, helped by improving earnings expectations and the fall in oil prices towards the end of the quarter.[6]

UK shares benefited from their exposure to global markets, although businesses focused on the UK economy continued to face pressure from borrowing costs and cautious consumers.

For investors, the main point is that markets can rise even when the news appears uncertain. However, strong recent performance should not be assumed to continue at the same pace.

Artificial Intelligence

AI continued to influence markets well beyond the largest technology companies. Building data centres requires advanced chips, power generation, electrical equipment, cooling systems and improved electricity grids.

This creates opportunities across several industries, but it also brings risk. Companies are spending very large amounts, and investors will increasingly want evidence that this investment can produce sustainable profits.

The AI theme therefore remains important, although future returns may vary more widely between genuine long-term beneficiaries and companies supported mainly by short-term enthusiasm.

Gold

Gold ended the quarter near $4,022 per ounce after falling by approximately 14%, its weakest quarterly performance since 2013.[5] The fall was influenced by the stronger US dollar and expectations that US interest rates might remain higher.

Gold can sometimes provide diversification during uncertain periods, but it does not always rise when geopolitical risks increase. Its price can also be affected by currencies, interest rates and changes in investor sentiment.

Bonds & Interest Rates

Bond markets were volatile as investors repeatedly changed their expectations for inflation and interest rates. When inflation concerns increased, bond yields generally rose and prices fell. Some of this movement reversed as oil prices eased.

The Bank of England kept Bank Rate at 3.75%, while the Federal Reserve maintained its target range of 3.50%-3.75%. The European Central Bank raised its deposit rate to 2.25%.[4]

Higher yields mean bonds can now provide more income than they did for much of the previous decade. However, bond prices may still move when inflation or interest-rate expectations change.

For many diversified investors, bonds continue to play an important role by providing income and helping to balance some of the risks associated with shares.

Iran, Oil & Inflation

The conflict involving Iran was one of the quarter's most significant events. Concern about shipping through the Strait of Hormuz caused oil and transport costs to rise sharply.

Higher energy prices can affect markets in several ways. They increase costs for households and businesses, may push inflation higher and can encourage central banks to keep interest rates elevated.

Oil later moved back towards its pre-war level as the immediate risk of a prolonged supply disruption reduced. Brent crude ended the quarter near $72.49 per barrel.[3] This helped markets recover, although the episode demonstrated how quickly geopolitical events can alter the economic outlook.

Inflation has fallen from its earlier peaks, but it remains sensitive to energy prices, wages and supply-chain disruption. Central banks are therefore likely to remain cautious.

Politics & Policy

Kevin Warsh became Chair of the US Federal Reserve in May, succeeding Jerome Powell. The change attracted attention because the Fed's decisions influence US interest rates, the dollar and global bond markets. At his first meeting as Chair, rates were left unchanged.[8]

President Trump's foreign policy was also an immediate market influence. A preliminary US-Iran agreement in June aimed to extend the ceasefire and reopen the Strait of Hormuz, contributing to the sharp fall in oil prices. Investors remained alert to whether the agreement would hold.[9]

In the UK, investors continued to assess the Labour government's approach to taxation, public spending and borrowing. These choices can influence economic growth, government-bond yields and the performance of companies focused on the UK economy.[10]

Asia

Asian markets delivered some of the quarter's strongest returns. Taiwan was a particular beneficiary of global demand for advanced semiconductors and AI infrastructure, with its market rising by more than 40%.[7]

Japan remained supported by improving company profits and continued corporate reform. However, the yen fell towards 162 to the US dollar, its weakest level in around forty years. This increased the cost of imports and raised the possibility of further intervention by Japanese policymakers.[11]

China's recovery remained uneven. Investment in technology and manufacturing provided support, but weaker consumer confidence and continuing property-market pressures limited the wider recovery.

Asia remains central to the global supply of semiconductors and electronic components. This creates attractive long-term opportunities, but markets can also be affected by currency movements, trade restrictions and tensions between China and the United States.

Outlook

Markets demonstrated considerable resilience during Q2. Strong company profits, enthusiasm for AI and the easing of oil prices helped investors look beyond geopolitical uncertainty.

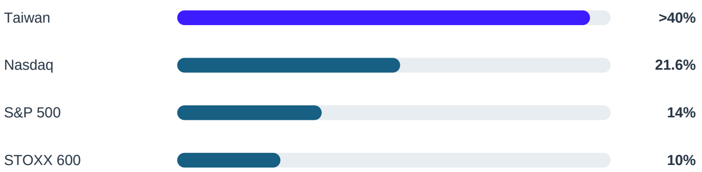
The outlook remains mixed rather than clearly positive or negative. Economic growth is slowing but remains positive, while inflation is lower than its earlier peaks but still vulnerable to energy prices and other unexpected events.

The strongest recent returns have come from areas carrying high expectations. Maintaining a diversified portfolio can help reduce reliance on any one company, sector or region. A disciplined long-term approach remains particularly important when markets are moving quickly.

1. Reuters, Global market quarterly review, 30 June 2026.
2. Janus Henderson, Market themes: June 2026.
3. Reuters, Brent oil and Iran developments, 30 June 2026.
4. Federal Reserve, Bank of England and ECB, June 2026 decisions.
5. Reuters, Gold quarterly performance, 30 June 2026.
6. Reuters, European market quarterly review, 30 June 2026.
7. Reuters, Asian market quarterly review, 30 June 2026.
8. Federal Reserve, Kevin Warsh takes office and June FOMC decision, 2026.
9. Reuters, US-Iran preliminary agreement and Strait of Hormuz, 15 June 2026.
10. OBR and ONS, UK public finances and fiscal outlook, June 2026.
11. Reuters, Yen reaches forty-year low, 30 June 2026.

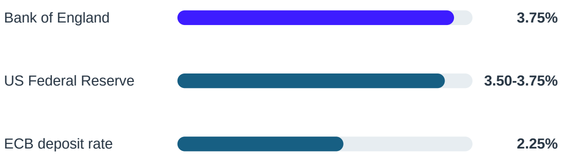
Selected equity-market returns in Q2

Approximate change; a longer bar means a stronger rise.



Major central-bank rates at quarter-end

These rates influence borrowing, savings and bond yields.



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