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Investment Update Q2 2026

The second quarter was a strong period for global investors, despite a backdrop that remained unusually changeable. Markets had to absorb the continuing effects of the Middle East conflict, shifting expectations for inflation and interest rates, and another powerful advance in technology shares.

Oil prices and inflation

At the start of the quarter, energy prices were the main concern. Disruption around the Strait of Hormuz had pushed oil sharply higher, raising fears that inflation could prove more persistent. By June, however, oil had fallen back towards pre-conflict levels as hopes grew that the worst of the supply shock had passed. This easing helped confidence, although the episode was a reminder that prior higher energy costs can still feed into household bills, transport and company margins.

Interest rates

Inflation remains lower than the peaks seen in 2022, but it has not come back to the 2% target. Central banks therefore have less room to cut interest rates than many investors expected at the start of the year. In the UK and the US, resilient economic data and firmer price pressures have led markets to consider the possibility of rates staying higher, or rising modestly, before any more meaningful easing cycle can begin.

Equity markets

Equity markets delivered strong gains over the quarter. The US led the way, helped by renewed enthusiasm for artificial intelligence and impressive earnings from companies benefiting from demand for chips, data centres and related infrastructure. Many companies reported better-than-expected revenues and profits, suggesting that market gains have been supported by cash flow and earnings delivery rather than sentiment alone. This can sometime get lost in financial headlines that seem to focus more on threats than opportunities, but it is an important and solid support for current valuations.

Bonds and diversification

Government bonds also contributed positively over the quarter as investors became more comfortable that the oil shock could be contained. UK gilts recovered ground, helped by less severe inflation expectations and the attraction of yields higher than investors have been used to for much of the past decade. Political uncertainty added volatility, but bonds continued to play a useful diversifying role alongside equities.

Outlook

Looking ahead, the balance between growth, inflation and interest rates is likely to remain the key influence on markets. The economic backdrop is still broadly supportive, with growth positive, though not especially strong, and corporate earnings generally holding up well. That said, investors are likely to be more selective from here. After strong gains in parts of the market, companies will need to demonstrate that profit growth can continue to justify their valuations.

Artificial intelligence should remain an important long-term theme, but the strongest share price moves have already raised expectations. The opportunity is significant, yet not every company linked to the theme will translate investment spending into durable returns. A disciplined approach to valuation, earnings quality and balance-sheet strength is therefore likely to be just as important as identifying areas of structural growth.

What this means for investors
Short-term setbacks are always possible, particularly if energy prices rise again, inflation proves sticky or political developments unsettle bond markets. Even so, the broader message from the quarter is constructive. A spread of investments across regions, sectors and asset classes remains a sensible way to participate in growth while reducing reliance on any single market or theme.

What have we been doing?
If you would like a more detailed analysis of trades that we have made in your personal portfolio please do get in touch and we will be delighted to talk you through our activities.

One example of this during the quarter was our decision to consolidate Japanese equity exposure into the M&G Japan fund. Overall, portfolios have been well positioned, so we have not felt the need to respond sharply to short-term market movements. Instead, the change reflects our ongoing focus on improving the quality and consistency of client portfolios where we see a better opportunity to add value. We believe the M&G approach offers an attractive way to access Japanese companies, with the potential to support returns from the region over time.