Market Flash: The spring is coiled

24 July 2026

- **Tensions between the United States and Iran, as well as attacks in the Red Sea, are reigniting fears over energy supplies, pushing the price of a barrel of oil towards $100.**
- **The US is calling for an additional $87 billion in military spending, whilst Donald Trump has announced further tariff increases.**
- **In the eurozone, the slowdown in inflation allowed the ECB to keep interest rates unchanged at its July meeting.**

The US continued to pound Iran's military and maritime sites while Iran tried to extend the conflict by attacking military facilities in neighbouring countries. Houthi rebels threatened to strike Saudi tankers in the Red Sea, the alternative route to the Strait of Hormuz, and then followed through. The resulting fears over energy routes then sent oil prices even closer to $100.

Israel, however, is not part of these renewed hostilities and there are signs that talks might continue. Iran's interior minister could travel to Pakistan with a possible 10-day ceasefire being mentioned.

In the US, Secretary of War Pete Hegseth asked for an extra $87bn to fund the war. So far, the war has cost $37.5bn. This means it is now crucial for Washington to renew tariffs as those under Section 122 of the Trade Act will shortly expire. Donald Trump announced 50% replacement tariffs for Canada under section 338 for $20bn in imports (total imports amounted to $382bn in 2025). He also imposed 10-12.5% in tariffs on 60 countries, including the EU and China, citing insufficient action in the fight against forced labour (section 301).

In the eurozone, overall inflation slowed from 3.2% in May to 2.8% in June and from 2.6% to 2.4% for underlying inflation. The data allowed the ECB to leave rates unchanged at this month's monetary policy meeting. What happens next is unclear. A possible hike was discussed and Middle East developments will be a key deciding factor in future meetings.

In the UK, the fact that the new PM Andy Burnham wants to use any available flexibility weighed on interest rates even if the appointment of the former defence minister John Healey as Chancellor of the Exchequer reassured investors to some extent. Inflation slowed from 2.8% in May to 2.6% in June amid challenging growth and employment prospects, so the Bank of England might not have to raise rates.

In Japan, yen weakness was driven by investor worries that rising energy prices might be bad news for the government deficit due to the government freeze on petrol station prices.

We believe that the recent geopolitical escalation might in fact be the prelude to a new agreement on the Strait of Hormuz so we are maintaining our overweight positions on risk assets like equities and high yield credit as well as on government bonds and real interest rates. We have rebalanced weightings towards European and Japanese equities to seize the opportunity offered by this correction to raise our exposure to the economic cycle and exports in both zones. We are still dollar-hedged ahead of a possible further move lower.

European equities

European markets struggled with a difficult macroeconomic environment as Middle East tensions escalated once again and Brent crude moved back above $100. The oil price surge rekindled fears of a new energy shock that might fan the flames of inflation. It also reinforced the likelihood of the ECB raising rates again in September even if the bank made no change this week.

The earnings season is now in full swing and the geopolitical environment continued to weigh on some companies. **Ryanair**'s quarterly profit fell due to higher fuel prices and a drop in fares over a year. **SSAB**'s figures missed expectations due to higher logistical and energy costs. Banks offered a more mixed picture. **Santander** reaffirmed its objectives after record first-half results, helped, admittedly, by a divestment. **BNP Paribas** had a robust quarter but the bank's decision to increase provisioning raised some questions. In contrast, defence stocks like **Thales**, **Exail** and **Dassault Aviation** all reported excellent figures. Dassault Aviation even surprised investors by generating €1.2bn in cash in the first half. Autos had a more troubled first half. **Renault**'s sales were flat due to increased competition, notably from Chinese manufacturers. **Interparfums** contributed to the fall in the consumer discretionary segment. Its results were a token of consumers taking a wait-and-see attitude, particularly in Europe, as purchasing power remained under pressure and household confidence wilted. Worries over tech companies continued after results from **STMicroelectronics**.

US equities

Wall Street lost ground in a week of marked sector disparity and surging oil prices as the US-Iran conflict escalated. The S&P 500 fell 0.66 %, the Nasdaq 100 0.48% and the Russell 2000 0.74%. Overall index falls were limited but there were significant sector shifts.

Tech gained 1.31% thanks to semiconductors with the SOX jumping 5.74%. But figures from tech majors had mixed fortunes. Despite solid figures, **Texas Instruments** declined. The stock has made big gains since the beginning of the year and investors now think its valuation is demanding. **Alphabet**'s strong results were overshadowed by its move to revise capex for 2026 upwards to $195-205bn. This helped push Free Cash Flow into negative territory and triggered worries over how these investments would be funded. **IBM**'s post-results comments highlighted the persistent pressure on its historic business. The group revised its annual growth forecasts lower, citing a trend for clients to switch some spending towards AI infrastructure. **Tesla** tumbled 14.5% after missing earnings expectations. After Thursday's close, **Intel** reported better-than-expected results and raised 2026 capex to more than $20bn on sustained AI demand.

Industrials (+1.40%) outperformed the S&P 500 despite strong stock disparities. **3M** jumped 6.1% after the company beat expectations and raised its annual targets. But **GE Vernova** plunged 8.7% on July 22 after EBITDA came in slightly below expectations and in spite of solid revenues and new orders plus an upward revision in the group's annual forecasts. The stock rebounded 4.7% the day after, limiting its weekly drop to 2.5%.

Healthcare edged 0.19% higher thanks to life sciences. **Thermo Fisher** gained 8.7% on its upbeat results and raised its annual outlook. The group fuelled hopes for a recovery in demand for lab instruments from its pharma and biotech customers.

Energy (+3.49%) also outperformed the S&P 500 as oil prices soared. Oil majors benefited from a geopolitical risk premium while oil services companies had more mixed fortunes.

Communication services slumped 6.54% mainly due to **T-Mobile**'s 10.7% plunge after disappointing results. **AT&T**, in sharp contrast, gained 5.3% after adding more net postpaid phone subscribers than analysts were expecting.

Emerging markets

The MSCI EM was up 3.18% in USD as of Thursday. Taiwan, Korea, Brazil and China gained 5.97%, 5.83%, 3.11% and 2.53%. India and Mexico were down by 1.85% and 0.07%. Trump's new 10-12.5% forced-labour tariff on trading partners overshadowed all regions on Friday.

In **China**, June data showed broad government expenditure tumbling 11.9% YoY even as broad revenue rose 1.8%. In the first half, general public revenue jumped 4.7% YOY while spending rose just 1.5%, with land-sales income collapsing 31.5% YoY. Regulators rolled out stabilisation measures: China Reform Holdings tapped over RMB 50bn via the PBOC swap facility to support equities via index-linked ETF purchases. First half FDI fell 5.0% YOY (a softer decline than the 8.6% drop up to May). Washington announced a fresh 12.5% forced-labor tariff on China, with the two sides also reportedly set to hold high-stake AI talks in September during Xi's visit to the US. **Alibaba** released its Qwen3.8 Max preview and billed it as second only to Anthropic's Fable. **Moutai** raised prices for a second time this year. AI-model startup **Moonshot.AI** is in talks on pre-IPO funds at a ~$50bn valuation. **Xiaomi** supply-chain report lifted its 2026 smartphone target ~16% (to 110m units).

In **South Korea**, Q2 GDP beat by rising 0.6% QoQ vs est. +0.4%, led by manufacturing (+6.5% YOY) with real gross domestic income up 15.6% YoY — the fastest since the first quarter of 1988. Exports for the first 20 days of July jumped 52.3% YoY. Regulators formally suspended new single-stock leveraged ETF listings tied to **Samsung** and **SK Hynix** and tripled minimum deposits to KRW 30m from 10m. SK Hynix capped the conversion of Seoul shares into its US ADRs at 2.5% of outstanding shares— a limit already exhausted by the $26.5bn July listing.

In **Taiwan**, June industrial production surged 22.95% YoY, or better than the 17.50% expected with manufacturing up 24.34%. June export orders hit an all-time record of $95.3bn, up 59.4% YOY vs 47.3% estimated— US orders rose by a record 83.6%. **TSMC** reportedly told clients it would raise chipmaking prices by as much as 10% in 2027 — across both advanced and mature nodes — to cover rising materials, equipment and overseas-fab costs.

In **India**, June core-industries output rose 5.0% YOY. **Reliance** Q1 FY27 net income beat estimates on energy/refining strength even as retail continued to overhang. **Infosys** reported a slight miss and trimmed the top of its FY27 revenue guidance to +1.5–3.0%, putting AI at 8.2% of revenue and announcing a new CEO

In **Mexico**, first-half-July bi-weekly CPI rose 0.07% (in line) with annual inflation easing to 3.1% YoY, while core inflation ran a touch firmer at +0.16% bi-weekly. May retail sales rose 1.6% YoY or less than the 3,1% advance expected.

In **Brazil**, the government announced a ~$3.7bn credit-relief package for affected exporters after new US tariffs, formally rejecting a further 12.5% forced-labor levy. The macro backdrop stayed supportive of easing, May IBC-Br activity beat at +0.07% MoM vs est. -0.1%, June IPCA's undershoot is keeping a fourth straight cut in play.

Corporate debt

Risk appetite tumbled this week due to:

1) an escalation in the US-Iran conflict,

2) fresh worries over AI investments and

3) mixed earnings releases towards the end of the period.

Defence and bank stocks reported upbeat figures but food, auto and semiconductor plays disappointed investors. Amid inflation fears, government bond yields pushed higher to new peaks. The yield on 10-year US Treasuries climbed 14.4bp to 4.70% and the equivalent German Bund rose to 3.20% (+8bp).

CDS indices reflected worsening market sentiment at the end of the week. The Xover widened by 10.6bp to 267bp and the Main IG EUR by 2.1bp to 55.5bp. In a down week for credit indices, High Yield EUR shed 0.2.%, Corporate hybrid EUR 0.27%, Investment Grade EUR 0.40% and AT1 EUR 0.56%.

New issuance remained muted due to the summer lull but more so because of increased volatility. But in the high yield space, **Nomad Foods** (B1/BB-) raised €800m at 5.25% due 2033, and Swiss telecoms operator **Sunrise** (Ba3), €500m at 5% due 2033.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or “Cocos”. Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

• RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.

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