BROOKS MACDONALD

The *Monthly Edit*

July 2026

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.

Market headlines

Oil volatility returns to markets

Oil prices spiked amid escalating Middle East tensions before falling back as supply disruptions remained contained. The move demonstrated how quickly geopolitical developments can influence market expectations.

Central banks still cautious on inflation

The Federal Reserve left rates unchanged but signalled it was prepared to tighten further if needed, prompting markets to reassess the pace of future rate cuts. The Bank of England struck a similarly cautious tone.

AI faces its first real test

Second-quarter earnings shifted attention from AI enthusiasm to AI monetisation. Strong results from some technology leaders supported the theme, but sharp share price reactions showed investors are increasingly demanding evidence of economic returns.

UK assets remain resilient amid political change

Political developments attracted significant attention, but market reaction was relatively muted. Sterling and gilt markets remained broadly stable as investors focused more on economic and fiscal fundamentals.

The big topics

Geopolitics reignite inflation fears

Geopolitical tensions returned to the forefront of investor attention, as the conflict between the US and Iran intensified once again.

Concerns over disruptions to key shipping routes pushed oil prices sharply higher, with Brent crude briefly exceeding $100 per barrel. The move revived fears that the recent progress on inflation could be undermined by higher energy costs. While periods of calmer rhetoric and hopes for renewed negotiations helped oil prices retreat from their peaks, markets remained highly sensitive to developments in the Middle East.

Higher bond yields challenge rate cut expectations

The rise in energy prices had important consequences for interest rate expectations.

Investors increasingly questioned whether central banks would be able to continue easing policy if inflationary pressures re-emerge. Government bond yields climbed across major markets, reaching some of their highest levels in years. At the same time, economic data presented a mixed picture. Labour market indicators pointed to moderating growth, while inflation readings remained broadly encouraging outside of energy-related pressures. This left investors balancing signs of a gradual economic slowdown against the risk that higher commodity prices could delay further monetary easing. The result was increased volatility across both bond and equity markets.

The AI investment boom faces greater scrutiny

Artificial intelligence remained one of the market's dominant investment themes, but the narrative became more nuanced as the month progressed.

While demand for AI infrastructure continued to appear robust, investors grew increasingly cautious about the scale of spending required to support future growth. Semiconductor stocks came under pressure, with some of the sector's previous leaders experiencing sharp declines despite generally supportive industry fundamentals. Competition from lower-cost Chinese AI models and growing questions around future profitability also contributed to a more selective market environment. Rather than signalling the end of the AI story, the month's developments suggested a shift from enthusiasm alone towards a greater focus on execution and the eventual returns generated from sizeable investments.

Economic fundamentals remain resilient despite market anxiety

Despite heightened concerns around geopolitics, inflation and interest rates, the underlying economic backdrop remained relatively supportive.

Economic data pointed to a gradual moderation in growth rather than a significant slowdown. US labour market indicators softened, manufacturing activity remained mixed, and inflation data broadly surprised on the downside, providing reassurance that underlying price pressures continue to ease. Elsewhere, inflation readings in Europe also remained favourable, supporting hopes that recent progress on disinflation remains intact. While markets were frequently unsettled by external developments, the overall picture was one of an economy that continues to grow, albeit at a more measured pace, rather than one slipping towards contraction.

Important information

More information about the Brooks Macdonald Group can be found at brooksmacdonald.com

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