



Investment Insights

Our monthly look at what's driving global markets

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Quick take

In this month's issue

Half-time report

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Despite geopolitical shocks and persistent inflation, global equity and bond markets have delivered resilient returns during the first half of the year.

The outlook remains shaped by four key factors: AI-driven capital spending, the strength of corporate earnings, the Iran conflict and the path of interest rates.

AI investment continues to provide a powerful tailwind for markets, although the growing need for technology companies to raise capital warrants close monitoring.

While markets expect further interest rate rises, strong earnings growth suggests the conditions for a sustained market downturn are not yet in place.

Rather than reacting to headlines, we encourage investors to stay focused on long-term fundamentals and maintain a disciplined, diversified approach.

Read the full story on page 3.

The property rethink

Why the UK's housing boom has lost momentum

UK house prices continued to lag inflation in 2025, reinforcing the case for diversified financial assets over residential property.

Compared with a simple global equity portfolio, property has delivered significantly weaker real returns over the past decade.

The powerful forces that once fuelled the housing boom – rising real wages, falling interest rates, and supportive policy – are unlikely to return.

Higher borrowing costs, a tougher tax and regulatory environment, and modest wage growth continue to weigh on the outlook for house prices.

While property remains an important asset for many households, the long-term investment case for UK housing appears much less compelling.

Read the full story on page 5.

Artificial artistry

GenAI is reshaping media and testing copyright

Generative AI is transforming the media and entertainment industry, creating new opportunities to produce, personalise, and make money from content.

Companies with valuable intellectual property and extensive content libraries could benefit from new licensing models and deeper audience engagement.

At the same time, AI raises difficult questions over copyright, as models are trained on existing creative works that may have been used without permission.

Greater legal clarity will be crucial in determining whether AI strengthens or undermines the long-term value of media companies' intellectual property.

For investors, the opportunity lies in identifying businesses that can harness AI's potential while protecting the value of the content that sets them apart.

Read the full story on page 7.



Snapshot

The global economy and markets

Key facts and figures from around the world, including record-low US consumer sentiment, signs of a cooling UK labour market, and the sharp fall in oil and fuel prices following their spring peaks. Also features longer-term trends across global equities, bonds, and currencies.

Find out more on page 9.

This publication shares general information and insight about markets. It should not be taken as financial advice or a recommendation. The value of investments can go down as well as up and you could get back less than you invested.

Half-time report

Investors should focus on AI, earnings, Iran, and interest rates



John Wyn-Evans, Head of Market Analysis

Football supporters can currently choose from an extended daily menu of knockout games as the World Cup moves into the business end of the tournament. The half-time break (and this time round, the quarterly hydration breaks) offers coaches an opportunity to assess what they've seen so far and adjust tactics. As the first half of the year ends, what's our assessment? Should investors, like fretful football managers, adjust their approach and asset allocation?

If we had laid out this year's events and then asked investors to forecast returns after six months, most wouldn't have been optimistic in their forecasts. Investment strategists were looking for further gains in 2026. But those predictions were based on falling inflation and interest rates, which have since remained elevated, and futures markets are pricing in increases in interest rates.

As 2026 began, events such as a US-Israeli attack on Iran and the subsequent closure of the Strait of Hormuz weren't expected. Investors were a bit more prepared for the political demise of British Prime Minister Keir Starmer, but his departure happened with unexpected speed.

Yet, through these challenges, equity markets have prospered, and bond markets have shown resilience. This is largely due to the significant growth in capital expenditure on AI data centres, making the second-quarter corporate earnings season one of the strongest in living memory.

Rather than reacting to the headlines, we think investors should focus on four key factors that are likely to shape markets over the coming months.

First factor: AI's spending surge

The AI-related capital expenditure boom is one of the most powerful in history. According to the Bank for International Settlements, known as the 'central bankers' central bank', this boom has surpassed the buildout of US railroads and canals, the Roaring Twenties before the Wall Street Crash, and even the dotcom boom.

Much of the spending has been financed by the cash flow of the 'hyperscalers' – the technology behemoths building the data centres for AI systems that understand and generate human language. However, this means they increasingly need to issue bonds and equity to fund their spending and sustain their growth, heightening the risks for investors. Historically, booms falter when the returns are insufficient to cover the interest payments on debt. We're nowhere near that stage, but some sort of Rubicon has been crossed with this new issuance.

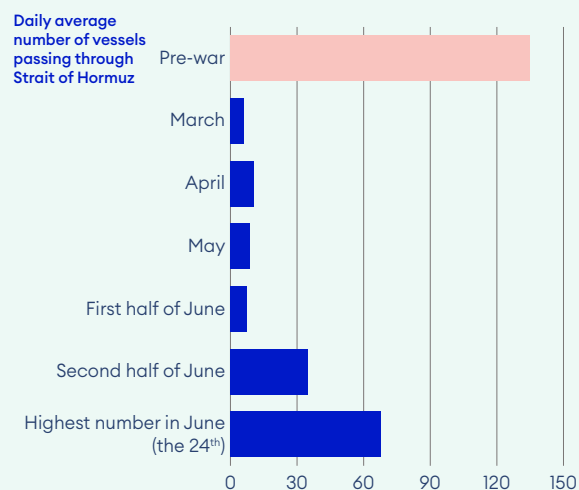
It's still too early to declare with any certainty whether the returns will be sufficient. Much will depend on the productivity gains captured by companies using AI models. We think we're still in the infancy of this technological advance, when companies are grappling with how best to engage with it.

The latest bout of uncertainty is around what users are willing to pay for access to frontier models. There are reports of companies burning through their annual AI token budget in the first few months of the year as model providers shifted from the 'all you can eat' pricing model to one based on token consumption.

Revenue growth may slow as users reassess their budgets or shift to free open-source models, created by communities and companies to execute certain tasks. But for now, at least, there's absolutely no

Figure 1.1: Wait and sea

Traffic through the Strait of Hormuz picked up in the second half of June, but was still well below pre-war levels.



Source: Chatham House, International Maritime Organisation, Rathbones

sign of a reduction in capital spending plans by the hyperscalers, and the underlying demand growth trend is strong.

Reflecting this risk, a UBS basket of hyperscalers has produced no return over the past year. The returns have flowed instead to the recipients of the capex: the ‘picks and shovels’ providers. The Philadelphia Semiconductor Index, home to memory chip makers, has gained 140% over the same period. We’ve focused on capturing the benefits of investing in the recipients of the capex.

Second watchpoint: earnings growth

Year-on-year growth in earnings per share for the US S&P 500 was 17% in Q1, excluding some one-time benefits. This exceeded analyst estimates by 5 percentage points. The consensus forecast for Q2 is 22%. In Europe, earnings are expected to grow 18% in calendar year 2026.

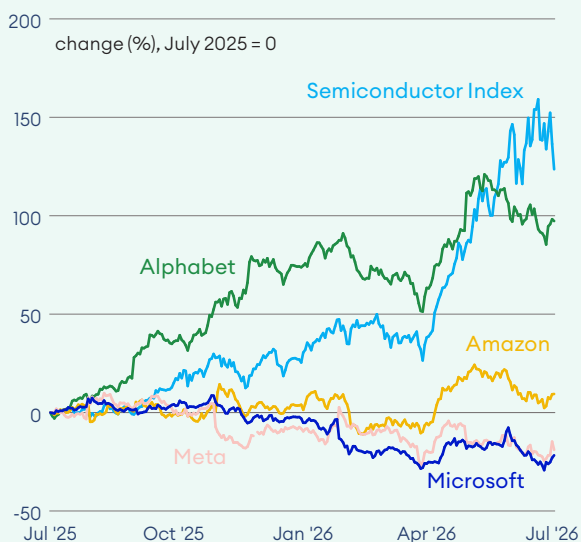
It’s rare to experience a major market setback when earnings are rising strongly. The usual catalyst for an earnings reversal is a recession, often stemming from monetary policy tightening, which we currently see no need for.

The third factor: the Strait test

Despite recent strikes by both sides of the Iran War, renewed hostilities aren’t fully priced into financial markets. The oil price, hovering just over \$70 per barrel, is a key indicator. While that’s still \$10 higher since the conflict began, a premium was expected for the strategic reserves that need replacing.

Figure 1.2: Chips with everything

Semiconductor shares have outpaced big tech as AI investment has broadened across the supply chain.



Source: Factset, Rathbones

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We feel that a tighter UK monetary policy is unwarranted, given weak economic performance, including negligible employment growth

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We remain cautious but believe neither side will benefit from prolonging the conflict, and therefore continue to maintain full exposure to risk assets.

The fourth support: interest rates

Traders are pricing in at least a quarter-point increase from the US, UK, and eurozone central banks, largely in response to the lingering higher costs for energy and its derivatives, such as fertiliser, resulting from the Strait’s closure. The AI spending boom is also contributing, exemplified by Apple’s price increases for computers.

Hawkishness emanated from the US Federal Reserve Chair, Kevin Warsh. In our opinion, he said what he felt he had to say to calm the market’s nerves under his leadership. This concern stemmed from his appointment by US President Donald Trump, who prefers lower interest rates. Even so, we don’t think rates need to rise as long as oil prices remain low and the effect of tariff increases stays out of the annual inflation data. Tariffs boosted inflation for a while, particularly after last year’s ‘liberation day’, but the effect will fade again as the year progresses.

We also feel that a tighter UK monetary policy is unwarranted, given weak economic performance, including negligible employment growth.

Burnham: building prosperity?

Prospective Prime Minister Andy Burnham has used a speech to set out an agenda that includes “sound public finances” and a commitment to the current fiscal rules. Government bond investors welcomed this, worried that he’d loosen fiscal policy too aggressively, and without reference to productive growth.

Ultimately, raising the UK’s economic growth rate is key to improving its fiscal position. As detailed in our *Building prosperity* report, devolving some decision-making to cities and regions could help. However, a Burnham government would need to go further to encourage private investment and reform parts of the tax system.

I’ve written more [here](#) about what a Burnham victory might mean for investors. We’ve also explored the potential implications for your wealth and financial planning in this [article](#).

The property rethink

Why the UK's housing boom has lost momentum



Adam Hoyes, Senior Asset Allocation Analyst

We wrote last year that the golden age of UK property was over, in a special report. Writing this year, we can see the gold leaf peeling off even further.

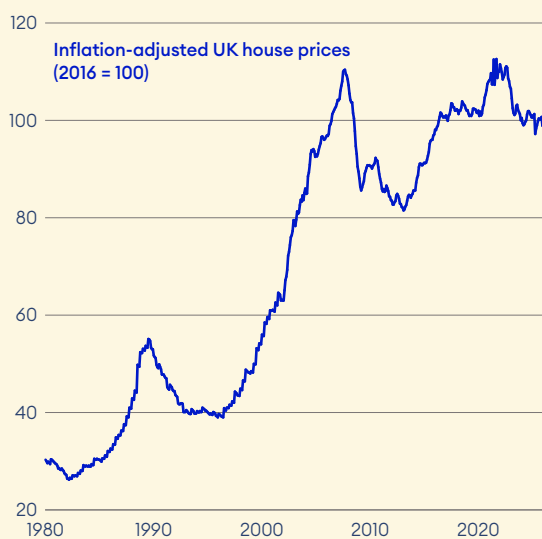
Official data for 2025 show the average UK house price rising by just 1.7%, well below headline inflation. This reinforced our belief that a well-diversified portfolio of financial assets remains a much more compelling choice for the years ahead.

Against stocks, house price growth looks especially sluggish. A simple 25% UK and 75% international equity mix rose 11.8%, excluding dividends. Meanwhile, the average UK home was worth less in 2025 than back in 2016, after accounting for inflation (figure 2.1). By contrast, the equity portfolio delivered a real-terms capital gain of 39% over the same period.

Are there opportunities to buy the dip? In short, we don't think so. The stars that once aligned for UK property between the 1980s and 2000s are unlikely to do so again. The past year has only strengthened that view. Four forces are doing the damage:

Figure 2.1: House prices lose ground

After inflation, the average UK home is now worth less than it was in 2016.



Source: LSEG, ONS, Land Registry, Rathbones

1. Weak wages are keeping a lid on prices

A sustained reacceleration in UK real wage growth seems hard to see. Real pay only regained its 2007 average in 2021. By 2025, it was just 2.4% higher than 18 years before.

We see little reason to expect significant near-term improvement in productivity growth (the increase in how much output each worker can produce over time), a driver of real incomes. This largely reflects the UK's long-running failure to deliver structural reform.

2. Higher interest rates are set to stay

Mortgage rates fell from above 15% in 1990 to around 6% to 7% at the turn of the millennium, then to roughly 2% between the late 2010s and early 2022. That gave buyers more bidding power, without increasing monthly repayments.

With average fixed-rate mortgages hovering above 4% in the first quarter of 2026, there's mathematically no scope for another spectacular double-digit rate drop. In any case, the economic backdrop doesn't support a return to ultra-low rates.

Factors such as more frequent geopolitical shocks and political pressure to borrow more point towards higher and more volatile periods of inflation and interest rates. Mortgage rates of around 4% to 5% are likely to be the new normal.

3. Tax and regulation are increasingly hostile

The policy backdrop has become steadily more unfavourable for property investors, with a series of tax and regulatory changes – and even more so in the past few years. For example:

- A stamp duty surcharge on additional homes was introduced in 2016, and hiked again in 2024.
- The High Value Council Tax Surcharge – a new charge on owners of residential property in England worth £2m or more in 2026 – is due to apply from April 2028.
- The Renters' Rights Bill started coming into force from May 2026, shifting the balance further towards tenants by ending 'no-fault' evictions, banning fixed-term tenancies, tightening rent increase rules, and restricting advance payments.

4. Scarcity is no silver bullet

The role of housing supply and demographics in driving house prices is sometimes over-egged. Current dynamics point away from a repeat of the rapid price growth seen in previous decades. Supply remains constrained relative to both past levels and government housebuilding targets, but growth has generally been stronger than during much of the last housing boom.

Second-home ‘not-spots’

In England, local authorities gained the power to charge a double rate of council tax on second homes in April 2025. Similar powers have existed in Wales since 2017 and in Scotland since 2024.

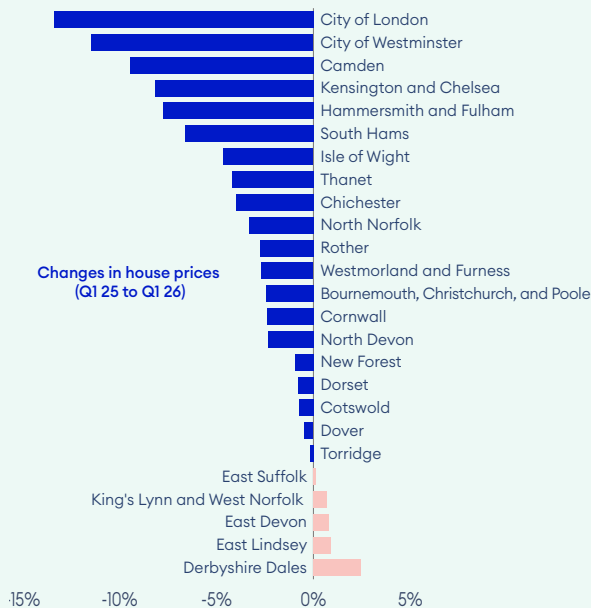
Early signs suggest this has added to the headwind of higher stamp duty. During 2025, house prices fell in 19 of the 25 local authorities with the highest density of second homes. By the first quarter of 2026, that number reached 20 of the 25 hotspots.

A cottage by the coast has often promised both lifestyle and lucre: cream teas today, capital gains tomorrow. That bargain now looks shakier.

The more painful lesson is that “second-home hotspot” does not just mean sea views and cream teas: expensive parts of London with high second-home ownership have been among the weakest performers of all.

Figure 2.2: The shine fades

Many of the UK’s most popular second-home locations have seen house prices fall.



Source: ONS, Land Registry, Rathbones

Although the government has persistently missed its housebuilding targets, the number of net additional homes in England has still climbed well over the lows of the 1990s.

No longer safe as houses

Nationally weak price growth, sharp falls in London, and growing pressure in second-home hotspots suggest the market is still adjusting to a new environment. It’s unlikely the current pressures will ease in a way that restores the conditions behind the long property boom. Generals are often accused of fighting the last war, not the current one – and investors should beware of trying to invest in the last boom.

You can read the full report on which this article is based by entering your details on this [webpage](#).

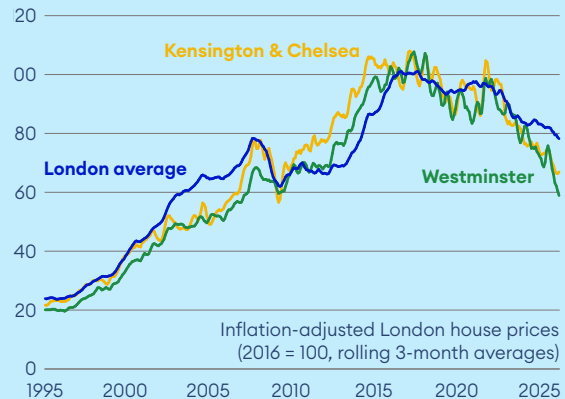
Prime London under pressure

In 2025, the average house price across the capital fell by 1.7%, with declines in 17 of the 32 boroughs. The sharpest falls were in some of the wealthiest boroughs: almost 14% in Westminster, and around 7% in Kensington and Chelsea. Seven boroughs saw declines of more than 5%. 2026 continues the trend, with London house prices falling a further 0.6% on average in the first three months.

Higher interest rates are a headwind for London, but they’re not the only drag. The capital has plenty of expensive flats – the property type most exposed to weak demand – and hybrid working has dulled the old premium attached to a short commute. Add weaker foreign demand, tax changes and sanctions into the mix, and the gloss has come off parts of prime London. The pied-à-terre no longer looks quite so bulletproof.

Figure 2.3: London loses momentum

After inflation, house prices in the capital remain below their 2016 level.



Sources: LSEG, ONS, Land Registry, Rathbones

Artificial artistry GenAI is reshaping media and testing copyright



Simon Lapthorne, Senior Research Analyst

Many people still find great charm in US animator Ub Iwerks's drawings for the 1928 black-and-white Disney film *Steamboat Willie*, which introduced Mickey Mouse to a world that has remained grateful in the century since. But the film is, in terms of sophistication, worlds apart from even the earliest Pixar feature-film efforts such as *Toy Story* (1995).

The development of animation is just one example of the constant state of flux, driven by technology, across the media and entertainment industries. In other words, while the actual technology is always new, the fact of technological change is extremely old. And many of the advancements we have seen are generally accepted as hugely beneficial.

The most important tech impact at the moment, in media and entertainment, is exerted by generative artificial intelligence (GenAI). What effect will it have?

The mouse meets machine learning

The scale of what can be achieved, together with the speed and cost efficiencies it offers, amounts to an unparalleled step change. Its potential isn't confined to elements of production such as special effects. It can also be applied to the process of coming up with ideas, by testing multiple scenarios quickly and cheaply and combining content from different sources. Think Mickey Mouse meets Remy, the genius rodent from *Ratatouille*, for example.

In 2025, The Walt Disney Company announced that it had licensed certain content to OpenAI to enable the creation of new short fan-inspired video content using OpenAI's Sora video-creation engine. That agreement has since been discontinued following OpenAI's decision to shift its focus away from Sora. But the principle is now established, and we'd expect Disney to pursue alternative licensing deals of a similar nature.

From an investment perspective, this may favour companies with valuable intellectual property and extensive content libraries, particularly where management can use AI to open up new licensing and revenue opportunities.

Back catalogues go bespoke

This idea of mashing up content may resonate even more strongly with music, not only when driven by rights holders but also when it is placed in the hands of consumers. Imagine being able to create multiple versions of the same song in different languages or genres, or to combine artists in unexpected ways. Say, a Spanish-language rap version of the Queen classic *Bohemian Rhapsody* sung by the velvet-voiced Johnny Cash and disco legend Donna Summer.

This functionality reflects the music industry's efforts to better monetise fandom through premium subscription offerings, in contrast to the historical one-size-fits-all model. At its recent investor day, Sweden's Spotify, the market-leading music streaming service, announced a licensing agreement with Universal Music, the largest music rights holder, to offer precisely this type of feature.

The radical reimagining of content, personalisation, and localisation offer powerful possibilities. Of these, personalisation is particularly useful in advertising, by making it more effective on more people. The old advertising problem – "half of the money I spend on advertising is wasted, and the trouble is I don't know which half" – has become less severe in the digital age and could be diminished further still.

This could create opportunities for businesses able to deepen user engagement and charge premium prices, especially where personalisation helps turn passive audiences into higher-value subscribers.

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The Dumbo-sized elephant in the copyright room

We see ample opportunity for media companies to exploit GenAI to their advantage. Yet investor sentiment is currently more negative than this might suggest. Why? The reason is – to evoke one of Mickey’s Disney stablemates – the great, Dumbo-sized elephant in the room: the worry that the value of their intellectual property will be diluted, and with it their earning power.

This is where the investment case becomes more complicated, because the same technology that can create efficiencies may also undermine the economic value of the assets that media companies rely on.

In the world of GenAI, anybody can “create” content – images, videos, music and more – with a few clicks of a mouse and at little cost. The difficulty is that content is produced using GenAI models that have been trained on vast quantities of *existing* materials, much of it expensive to create, subject to copyright and used without licence – that is, without permission or the payment of any royalty.

Flooding the media ecosystem with such content tilts the playing field against the owners of the original content and competes with it for consumer attention and, ultimately, revenue. On the face of it, that may seem plainly wrong. But whether one can legally do this, without licence, is still a grey area.

Old tunes, new tricks

Music has always borrowed from what came before. Sometimes the influences are overt, sometimes subtler. Judging whether something is original is highly subjective – leading to numerous legal disputes over alleged plagiarism.

The media and entertainment industries are currently in the throes of a great deal of speculation over the impact of GenAI on them. Particularly surrounding

copyright, where the legal position was already murky in the pre-GenAI era, and is now even more treacherous.

Famously, a court ruled that ex-Beatles George Harrison’s *My Sweet Lord* was melodically almost identical to American girl groups The Chiffons’ *He’s So Fine*, and that Harrison had copied it, albeit subconsciously. By contrast, defendants from Led Zeppelin to Katy Perry have won where courts judged the similarities insufficient.

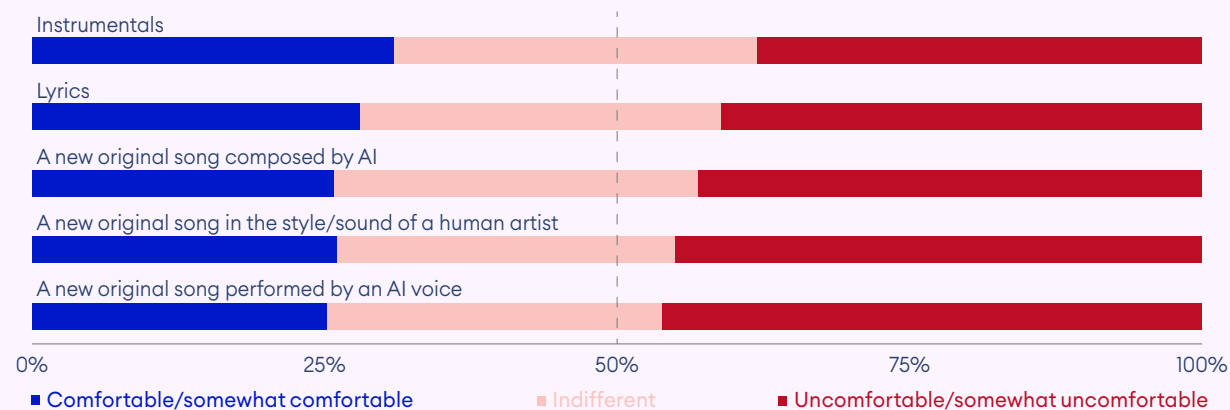
US copyright law contains a ‘fair use’ provision. In some circumstances, this allows copyrighted material to be used without permission if the new work is deemed ‘transformative’. In other words, the artist has been inspired by one piece of work and used it to create something very different. This defence can be hard to apply, partly because the test is so subjective, and also because courts look at a ‘market impact’ test – whether the new use could reduce demand for, or the licensing value of, the original work or harm competition.

There have already been a number of disagreements between major record labels and AI companies over the use of their copyrighted material to train models and create ‘new’ content. Some of these have been resolved out of court with licensing agreements; others rumble on. Universal Music estimates that AI-generated music accounts for less than 1% of listening on streaming services, and its contracts increasingly exclude unlicensed AI music from the pool of streaming royalties paid to rights holders.

Nevertheless, investors would welcome greater legal clarity: GenAI could create new licensing, personalisation and efficiency opportunities, but also erode the scarcity, pricing power and intellectual-property protections on which much of the media and entertainment companies’ value still rests.

Figure 3.2: When the bot drops the beat

Views of US music listeners towards various AI elements in song (%)



Source: Luminate ‘Year-End Music Report 2025’, Financial Times, Rathbones

Snapshot

The global economy and markets

Figure of the month

74 years



Having weathered recessions, previous oil crises and the Global Financial Crisis, Americans are now at their gloomiest since the University of Michigan began its consumer sentiment survey in 1952. The Iran War has intensified cost-of-living concerns, while US DIY retailer Home Depot says sales of pricier products such as flooring have weakened.

At a glance

6.3%

Eurozone unemployment (April)

42%

Fall in Brent crude oil (April peak to 1 July)

45%

Fall in UK job vacancies (2022 peak to May 2026)

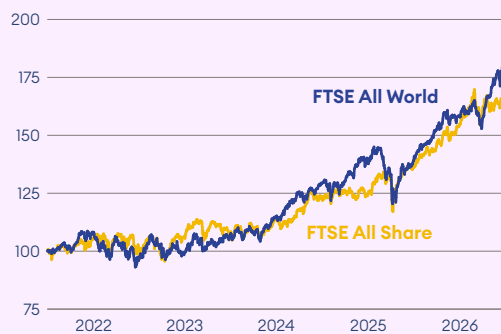
15%

Fall in US gasoline prices (May peak to 29 June)

Key market indicators

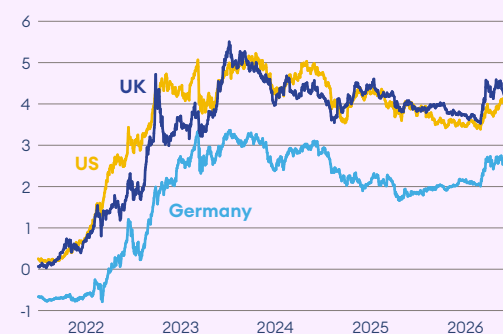
Equities

Total return in sterling (1 July 2021 = 100)



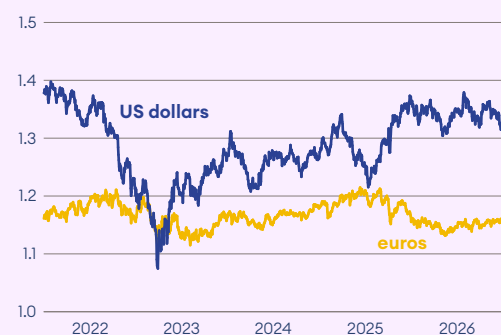
Government bonds

2-year yields (%)



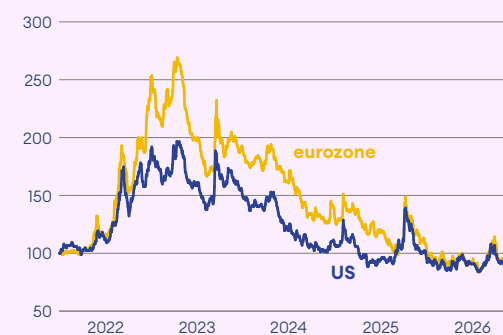
Sterling

Value of £1 in US dollars and euros



Corporate bonds

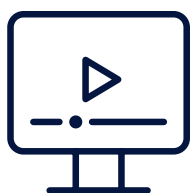
Option-adjusted spread over government bonds (bp)



Sources: FactSet, LSEG, Rathbones. Past performance is not a reliable indicator of future performance.

Find out more Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets, and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight



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Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports and special updates

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What would a Burnham premiership mean for investors? We explore the potential implications for markets, the economy and tax policy. We also examine the records, public comments, and likely priorities of the five leading contenders to become Chancellor.





The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities, and why we believe the extraordinary outperformance of the US could end.

Experience and expertise

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You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies, and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us



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