

### Pop or pause in stock markets?

9 June 2026

*Markets turned unsettled after a red-hot run, sparking talk of a top. We still see no case to cut equities, periods like this can bring new opportunities.*

Britons are used to sharp swings in the weather. Although it seems like ages ago, it's only a couple of weeks since we were sweltering in record May temperatures. Now, jumpers and jackets are being pulled back out of summer storage. The weather is changing in financial markets too, moving from red hot to distinctly unsettled in just a few days. Once again, commentators are looking to make their mark by calling the top for this cycle – or even a fully-fledged crash. We still don't see this as a moment to reduce overall exposure to equities. In fact, periods like this can offer new opportunities.

#### Maintaining a balance in markets

These commentaries aim to strike a balance between the positives and negatives. When markets are on a tear, we try to restrain readers from exposing themselves to excessive risk. Equally, when things are looking bleaker, it's often a good idea to recognise the opportunities

#### Quick take:

- Market sentiment cooled quickly as several negative catalysts hit at once.
- Speculative behaviour in AI-exposed markets reinforces the need for balance.
- In last week's US equity correction, healthcare held up notably better than technology, outperforming by more than 10%.

and dissuade clients from becoming too cautious in their asset allocation.

Maintaining exposure to equities and other risk assets over the long term remains important to meet investment goals. We know, too, how hard it is, even for the most skilled investors, to time markets successfully – and that's before we even consider how tough that can be psychologically.

There have been signs of speculative behaviour in recent weeks. This has been concentrated mainly in markets more exposed to the AI capex trade - the surge in capital spending on chips, data centres

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and infrastructure needed to power AI. Those markets include the US, Japan, South Korea, and Taiwan. This behaviour has been evident in the high trading volumes in call options (a low-cost way for investors to bet on rising share prices) and the unprecedented growth of leveraged Exchange Traded Funds to invest in either indices or single stocks. Investment vehicles such as these borrow two or three times the money that you put into the fund. The use of leverage amplifies not only the gains, but also the losses when the underlying investment starts to fall.

The main risk in attempting to time an exit from an investment experiencing a near-vertical price rise is the tendency to sell far too early. Sometimes, to maximise gains, it pays to stay on for the ride and then sell once the news turns negative.

### **Dry tinder meets match**

First, we need to look at why the mood changed. In most circumstances it takes more than just the pull of gravity to bring financial assets back to earth. And, much like London buses (which, I might add, are much better regulated in terms of their flow!), several arrived together last week.

We can start with chip manufacturer Broadcom's underwhelming first quarter earnings report and guidance. When shares have performed as well as theirs, even a small disappointment relative to expectations can turn the tide. Then we

had the confirmation and pricing of SpaceX's (space technology company best known for reusable rockets and satellite launches) initial public offering (scheduled for 12 June) and the potential need for funds to be raised to pay for it. SpaceX's total cash demand is around \$86bn, the largest in history by some margin.

That was followed by Anthropic – the developer behind the Claude AI assistant – filing its intent to IPO (as yet unquantified, but likely to be in a similar ballpark as SpaceX). Alphabet (parent of Google) chose the same moment to announce its intention to raise \$85bn via new equity issuance. And that was followed up by an unconfirmed Financial Times report, suggesting that Meta (parent of Facebook and Instagram) might consider a similar move.

Away from these factors, the lack of resolution in the Middle Eastern conflict is weighing more heavily as oil-related inventories dwindle. And the icing on the cake, as it were, came in the form of hot US employment data on Friday, raising the probability of tighter monetary policy. Collectively, quite a powerful cocktail.

### **Where next? A faster horse?**

There are a few key factors to monitor. Possibly the most difficult is the progression of the war in Iran. The latest exchange of missiles between Iran and

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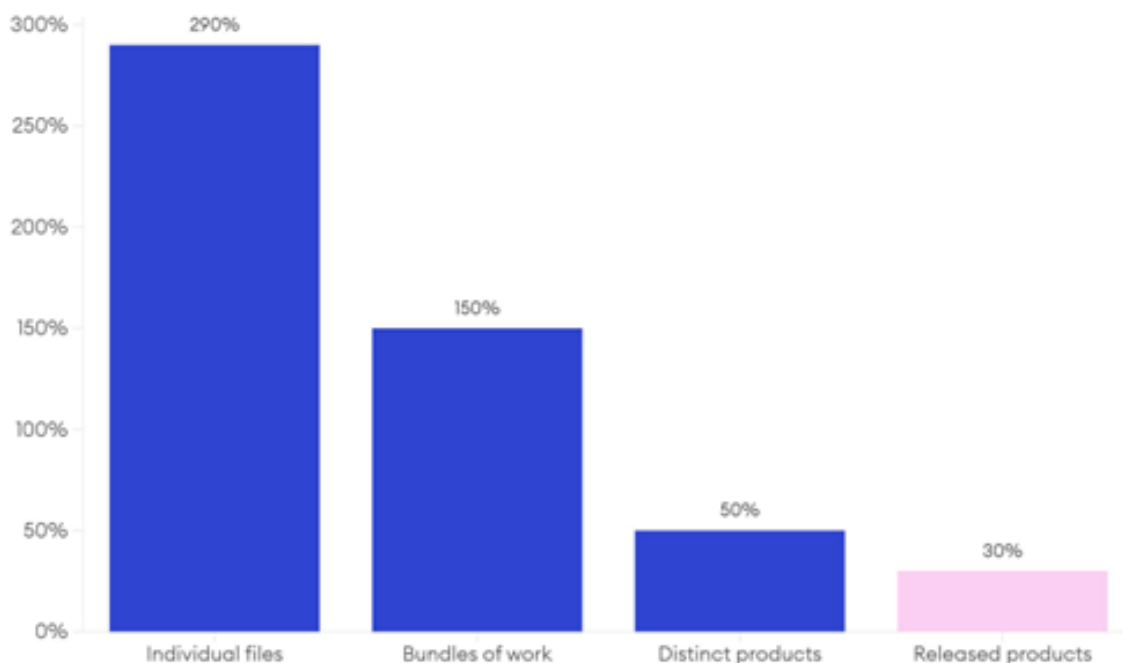
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Israel reminds us that the situation remains volatile. Even so, we are sticking to the playbook that delivers a resolution in the end. We note the various red lines in the negotiations: the US not wanting to concede tolls for passage through the Strait of Hormuz and Iran unwilling to give up its nuclear capabilities. It also remains in neither side's interest to extend the war

indefinitely. Still, while these pressures are already visible in parts, such as Asia, the longer it goes on, the greater the risk that fuel and product shortages weigh on growth.

### Fast starts and slower finishes

Impact of adopting AI tools on productivity at different stages of the software development pipeline



Source: Writing Code vs. Shipping Code: Productivity Effects Across Generations of AI Coding Tools (Demirer et al, 2026) FT graphic: John Burn-Murdoch / @jburnmurdoch ©FT

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Overall global growth seemed remarkably resilient. Fortuitously, there appears to have been more reserves of oil in the system than previously thought, as well as greater adaptability in terms of oil supplies. Moreover, the numbers for economic growth may have been boosted by consumers stocking up on whatever supplies of affected commodities they could get their hands on. Countries, too, are addressing critical supply chain risks. But the fastest growth remains concentrated in areas benefiting from AI-related capex. We do not see an imminent slowdown in this area, given the prospective support from forthcoming equity issuance as well as more debt, which will fund this capex.

Questions will inevitably arise regarding the benefits of all this spending and of the returns that will accrue from it. Another Financial Times article from the weekend referred to a Massachusetts Institute of Technology study of the productivity gains experienced from the adoption of AI tools. It concluded that while there are a lot of gains at the front end of the pipeline (such as in the coding of individual files), they tend not to be maintained through to the final product, with human bottlenecks reducing the impact. The writer's conclusion is that "the real jumps in productivity [will come] from new companies and processes rather than

incumbents grafting new technology onto existing workflows."

That makes a lot of sense. Patience will be a virtue. It's always hard to envisage how new technologies will permeate our lives. As carmaker Henry Ford commented: "If I'd asked the people what they wanted, they'd have said 'a faster horse.'"

In the meantime, diversified portfolios are better placed to be resilient. In the US equity market correction on Thursday and Friday last week, the healthcare sector, which we think has many attractive attributes, outperformed the technology sector by more than 10%. And financials were in demand too, suggesting, once again, that talk of financial crises is off the mark.

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### Regional highlights

**UK.** British Retail Consortium data showed that like-for-like retail sales rose by 3.4% year-over-year in May, up from a 3.4% fall in March, and above the consensus of +0.8%. The heatwave in May boosted activity, with the average UK temperature being 1.6 degrees above normal. But given that this was almost the same as in April and March, the strong performance might not just be weather-related. Consumer spending growth seems to have genuinely steadied from a very weak April, with both non-food and food sales growth recovering. Even so, spending has slowed since the Iran War started, but by less than one might have expected. This resilience might encourage the Bank of England to be more aggressive in tightening policy to offset inflation concerns. Futures markets are currently pricing in the first quarter-point increase in September, with another one to follow in March 2027, which would take the base rate to 4.25%.

**US.** Non-farm payrolls rose 172k in May, well above expectations of 88k. The prior two months were revised sharply higher by 93k. The unemployment rate stayed at 4.3%. Payrolls continue to track above the latest estimates of the employment breakeven rate, suggesting a firm labour market. Leisure and hospitality led the gains, adding 70k jobs, which could point

to a temporary boost from the upcoming World Cup. Cyclical employment is also starting to recover after a prolonged period of weakness, with construction and manufacturing adding 17k and 7k jobs respectively, while manufacturing overtime rose to its highest level since early 2023. This might reflect the AI-related capex boom. Overall, employment excluding healthcare and social assistance has now risen for three consecutive months, pointing to an upswing in more economically sensitive sectors. Futures markets have swung to pricing in that the next move from the Federal Open Market Committee will be a rate increase, with the first one expected in December.

**Europe.** Despite a small upward revision to +48.5, the Eurozone composite PMI remained in contraction territory in May. The modest fall relative to April was driven by industry, whereas activity in services stabilised. The Sentix sentiment survey for June showed a second consecutive increase, but the rebound from -16.4 to -13.4 is unimpressive given the low starting point. The forward-looking expectations component continues to lead the way, while the rise in current economic conditions was once again small. The European Central Bank is expected to raise its deposit rate as early as this week,

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with a total of three quarter-point increases priced in by April 2027, which would take the rate to 2.75%.

**China.** China's export volumes were relatively stable in May, while a fall in prices lifted imports. Exports remain China's primary growth engine in 2026, anchored by continued strength in high-tech and clean-tech products despite war-related headwinds to global demand. The monthly trade surplus of \$105bn continues to suggest that the yuan is undervalued.

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