

Playing to the market conditions

17 June 2026

The backdrop remains unsettled, from Middle East tensions to changing rate expectations. We still see reasons to stay constructive; investors are rarely rewarded for waiting on perfect conditions.

I've just returned from my annual golf trip to Spain. Sometimes you find the ball in a difficult or awkward position. But the game has a simple rule: you play as the ball lies. It's useful because you assess every shot on its merits and then get on with it.

There's a lot to be said for taking the same approach to investing. It's rare for a golf ball to be sitting neatly, with a clear view free of obstacles, and a gentle breeze behind you.

Likewise, the stars rarely align to present investors with a stress-free opportunity to make attractive returns. But history shows that if you wait for perfect conditions, you'll miss out on many of the best opportunities to grow wealth. That has certainly been the case this year.

Quick take:

- Markets have been shaped by conflict in the Middle East, but easing oil prices have reduced some of the immediate pressures.
- Waiting for perfect investment conditions rarely pays; periods of uncertainty can create opportunities to grow wealth.
- Lower oil prices have helped reverse part of the sharp rise in UK-rate expectations, with markets now pricing in a 4% bank rate by December rather than 4.6% in mid-March.

Ripples from the Middle East

The biggest source of uncertainty today remains the impact of events in the Middle East. Although the consequences of a restricted supply of commodities from the Gulf haven't been as severe as feared, it's widely recognised that the longer the Strait of Hormuz remains closed, the more the effects will be felt through raw material shortages, production disruptions and higher prices. That would affect

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inflation, economic activity, and monetary policy.

Unsurprisingly, markets have reacted positively to the latest news of an impending agreement between the US and Iran to extend the ceasefire. We've been consistent in our opinion that this was the most probable outcome.

However, the risk of escalation has also restrained us from being more optimistic.

Even so, it still feels premature to declare the 'all clear'. One of our external geopolitical advisers has long argued that President Trump would reach a settlement within a few months, then return to 'unfinished business' after the mid-term Congressional elections in November. He could either gain a renewed mandate to put further pressure on Iran, or more probably, given opinion polls, lose control of Congress and act with no fear of consequences as a 'lame duck' President.

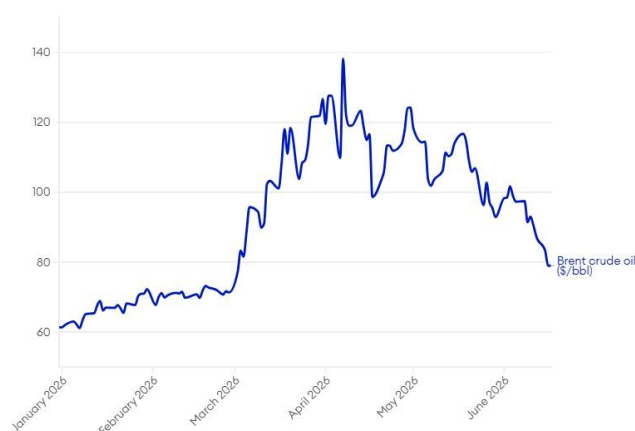
While geopolitical analysts tend to emphasise negative outcomes, this isn't a risk that we should dismiss. For now, the planned agreement removes an immediate obstacle. A deal is expected to lead to a re-opening of the Strait of Hormuz, and that has been reflected in lower oil prices. Brent crude is back below \$80, having recently been as high as \$120 a barrel.

By a quirk of timing, it's where it was a year ago following a spike when Israel

launched independent missile and air strikes on Iran. It hasn't, however, returned to the \$60-70 range seen before the current war. But it is now below the \$82 average for the last five years. This period takes in the even higher prices reached following Russia's invasion of Ukraine, but the global economy has managed to stay afloat. Some of the resilience was achieved through state-funded energy subsidies, and the bill for those is still being paid through higher interest rates on bigger fiscal deficits.

But we aren't unduly concerned by oil prices remaining higher than before, at least for a while, as strategic reserves and commercial inventories are rebuilt. Such supply-driven shocks tend to stimulate positive long-term responses and both households and businesses find ways to reduce overall energy consumption and

Crude cools as Hormuz tensions soften



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switch to other sources, with renewables being a clear winner.

Prices and rates

One area where the consequences will be quickly reflected is in interest-rate expectations. On the eve of the war, expectations were for the Bank of England base rate to be 3.25% by year-end, implying two quarter-point cuts. By mid-March that had jumped to 4.6%, implying three increases and perhaps a fourth. The Bank of England published analysis showing that the worst-case outcome, with the oil price spiking towards \$200 per barrel, would require them to raise the base rate to 5.25% to head off 'second-round' inflationary pressure. This is where higher prices today drive higher expectations of future inflation and increased wage demands to compensate.

With the oil price retreating, inflation expectations are falling too, as are future interest rate levels. We are now back to 4% being priced in for December. Although that's still higher than in February, markets tend to respond more to the direction than the level of rates, so this shift lower is encouraging.

In the United States, its relative insulation from the effects of higher global energy prices meant that the expectation of higher rates was never as extreme as in the UK. Even so, the three expected

quarter-point cuts in the Fed Funds rate for this year have gone.

Intrigue is added to the US monetary policy plot by the arrival of a new Federal Reserve chair, Kevin Warsh. His previous tenure as a Fed governor during the global financial crisis revealed him to be 'hawkish' (favouring higher interest rates to keep inflation in check). This time, he comes in with a more 'dovish' stance (more open to keeping rates lower) and emphasises the productivity benefits that may flow from the adoption of AI. But he also thinks that the Fed's balance sheet is too big, and any efforts to shrink that will require a careful balancing act to maintain market liquidity. We're withholding judgement until he makes his first official statement as chair.

All in all, though, we're reasonably confident that the possibility of lower interest rates slightly outweighs the threat of higher rates currently, and this is a positive factor.

Filtering out the noise

My roommate on the golf trip was an old friend from university. His default option on reaching the room was to turn the TV to the BBC 24 Hour News channel. As long-time readers know, I find 24-hour rolling news a form of torture where every minute is treated as a make-or-break moment. And while there is undoubtedly some

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valuable content, it's overwhelmed by the endless dissection of relatively unimportant events. Luckily, we didn't need to spend much time in the room together (and I did request silence a few times). But it was a helpful reminder of the constant need to apply filters to the noise that so often assails us.

Regional highlights

UK. Inflation in May, as measured by the Consumer Price Index, came in below expectations. It stayed at 2.8% versus a consensus forecast of 3%. The downside surprise was a result of lower food and goods prices than expected, perhaps suggesting that firms lack the pricing power necessary to pass on higher costs. Services price growth rose as expected, from 3.2% to 3.7%, but this didn't reflect a pick-up in underlying price pressures. The increase was attributed to a rebound in airfares and an upward base effect from vehicle taxation. We've made much of the differences between now and 2022, when inflation last spiked following Russia's invasion of Ukraine. An example can be seen in the fact that core output producer price inflation (which leads core goods prices) eased from 2.6% in April to 2.3% in May. Three months into the 2022 energy price shock, it was running at 13.3%. This data should be enough to allay any immediate fears of a Bank of England

base rate increase, although the narrative will undoubtedly remain cautious.

US. The headline Consumer Price Index rose 0.5% month-on-month in May, in line with expectations. On an annual basis, the Consumer Price Index was up 4.2%. That could mark the peak, even though it might take time for the positive effects of the proposed re-opening of the Strait of Hormuz to filter through. Food prices, which rose only modestly in May, may yet see further increases as higher fertilizer and transportation costs bite. And there's also a severe drought in much of the US today. Prices for computers and other IT consumer goods fell, which was welcome. The Artificial Intelligence infrastructure boom has led to a memory chip shortage, which in turn has been driving up the Consumer Price Index for computers and other chip-related products.

Europe. The European Central Bank raised its deposit rate by 0.25% to 2.25%, the first increase since September 2023. The decision was unanimous amongst members and widely expected by markets. No discussions were held over an alternative policy proposal. The decision was driven by the risks to the European Central Bank's price stability goal from the conflict in the Middle East, notably with respect to energy-related prices. The

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latest inflation figures had already provided evidence of inflation diverging from the 2% target with headline Harmonised Index of Consumer Prices hitting its highest level since September 2023 at 3.2%. President Lagarde defended the move as a ‘good’ policy decision and rejected the idea that this was an ‘insurance’ hike, making the point that such an adjustment was necessary given the current elevated level of inflation and above-target outlook.

Reading between the lines, there appeared to be a little more nervousness on the Governing Council over inflation than at the previous meeting given several references to evidence of indirect and underlying inflation rising and broadening. The market is currently pricing in another quarter-point increase in October.

China. The latest economic data reinforced the divergence between resilient external demand and weakening domestic activity, with strong exports increasingly at odds with weak inflation and softer activity indicators. Retail Sales were 0.6% lower than in May 2025 with fixed asset investment falling by 4.1%. This was offset by an increase of 4.5% in industrial production, which continues to

offer China economic salvation. But it also increases global tension. China’s domestic overinvestment, often subsidised by the government, has created overcapacity in many industries and created a perceived unfair advantage against global competitors. Hence the increased threat of, for example, tariffs. Moves to buoy domestic demand would be welcomed but the government remains slow to act on this front.

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