

By John Wyn-Evans
Head of Market Analysis

We have lift-off!

23 June 2026

Markets stayed steady despite heavy political and policy news, with investors weighing UK upheaval, a historic US IPO and a firmer Fed tone.

As usual, there are plenty of headline-grabbing news items, although markets remain relatively calm – at least when looking at indices rather than individual stocks.

For what seems the umpteenth time, investors have been celebrating the announcement of an extended ceasefire between the US and Iran. There must be a limit to how many times that card can be played.

Meanwhile, the restless UK electorate can look forward to the seventh Prime Minister in ten years. It's hard to say how much of that is the legacy of the Brexit referendum, but the last decade has seen metaphorical revolving doors installed at the entrances of 10 and 11 Downing Street. However, in the US, at least, animal spirits – that collective sense of optimism or pessimism among an economy's consumers, businesses, and investors – are

Quick take:

- UK leadership changes were largely priced in and gilt yields stayed contained.
- Warsh's arrival added policy uncertainty and pushed rate expectations higher.
- The AI-related investment narrative is still strong, and SpaceX's IPO was initially well-received. However, in the long-term, profitability will be the key.

far from doused. Reflecting this, the largest stock offering in history has just taken place: Elon Musk's SpaceX, in the US. A new Chair at the country's central bank adds to the intrigue.

Arrivederci, Keir!

Italy used to be mocked for the high turnover of its prime ministers. But current incumbent Georgia Meloni has been in place for almost four years, making hers the second-longest government in the history of the Italian Republic.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

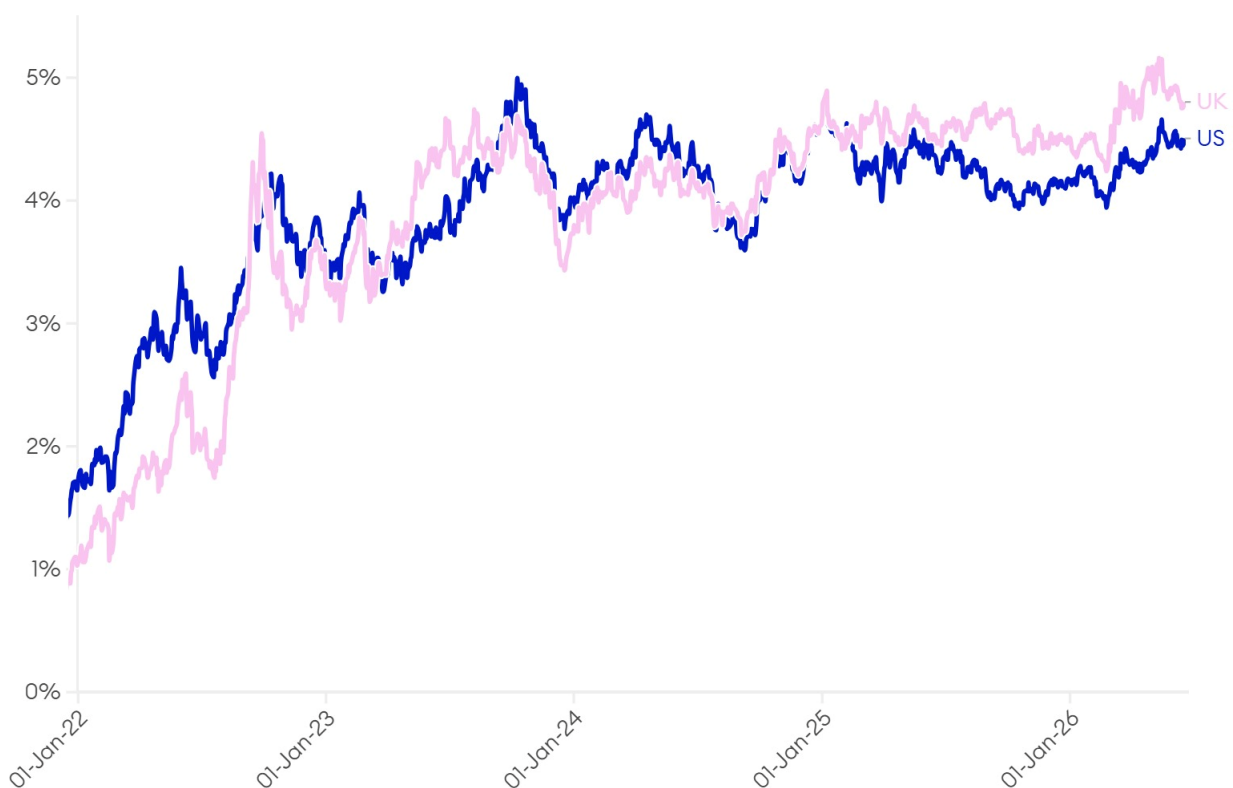
Weekly Digest

She overlapped Liz Truss by just four days and has since seen off Rishi Sunak and now Keir Starmer. The next cab off the rank will almost inevitably be Andy Burnham.

UK market reaction has been relatively muted, as events were well-telegraphed. There might be a small risk premium built into government bond yields since investors began to sense that Starmer was likely to fall, and to be replaced with

someone to the left of him (Burnham). But there are none of the signs of alarm associated with more left-wing potential leaders in the past. Investors are taking the view that whoever ends up leading the party will be reined in by the power of the bond markets, as they ponder the memory of Liz Truss and Kwasi Kwarteng's political demise. But the 'bond vigilantes' – the name given to bond investors, in their capacity to enforce fiscal discipline – could still have their bluff called first,

10-year bond yields



Source: Factset, Rathbones

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Weekly Digest

before they ultimately win out. This is one reason why we remain cautious about extending the duration of our holdings. Longer-dated issues are more volatile than shorter-dated ones. That means they expose clients to a higher risk of capital loss in what is supposed to be the safe part of a balanced portfolio.

We think there are bound to be some changes to personal taxation. We advise against premature (and potentially needless and possibly costly) action while we await details. Our financial planning team will provide advice once the threats (and, less probably, opportunities) become clearer.

Kevin goes to Warshington

A new era dawns at the Federal Reserve Bank of the United States (Fed). Why is this so important to us? It's widely recognised that, to use a well-worn phrase, "bull markets don't die of old age, they're murdered by the Fed". If the Fed is going to take the proverbial punch bowl away while the party is in full swing (to paraphrase former Chairman William McChesney Martin), that has potentially negative implications for everything from economic and corporate earnings growth to companies' cost of capital. Perhaps especially so since mega-cap tech companies would no longer benefit from higher interest rates on their now

dwindling cash balances, heavily depleted since rates were raised in 2022.

Warsh arrives at a critical juncture. Inflation refuses to return to the official 2% target. The upward pressure on inflation from energy prices might be transitory, if the Iran crisis eases. But burgeoning AI-related capital spending looks much more durable. It's forcing some prices up, notably for computer chips. The Fed needs to be alert to the risk that expectations of higher inflation become entrenched.

Warsh didn't vote at last week's meeting of the rate-setting Federal Open Market Committee (FOMC). But he did nothing to dispel the hawkish tone of the members who did vote. This was surprising for two reasons. He was hand-picked by US President Donald Trump, who constantly demands lower interest rates. And Warsh's recent comments had suggested he'd lean towards dovishness, citing factors such as the productivity enhancements flowing from AI and more benign inflation numbers.

This triggered a shift in interest rate expectations, although not a violent one. The futures market is now pricing in a quarter-point rate increase in September (93% probability). And the market is fully pricing in a second by March 2027. Some people even think the FOMC will fully reverse its three most recent cuts.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Weekly Digest

Further regime change is also on the cards. Warsh announced the establishment of task forces in five areas:

- 1) The Fed's communications
- 2) Its balance sheet
- 3) Its use of data sources, including how much weight it gives to particular sources
- 4) Productivity and jobs in the age of AI
- 5) The Fed's inflation frameworks

Most of the task forces' work is expected to conclude by year-end.

This makes monetary policy more uncertain. Even so, we don't see enough evidence to suggest the need for a big monetary squeeze as we saw in 2022. We continue to emphasise the positive differences between now and then, in underlying inflationary pressures. Indeed, we might even fall into the camp that a modicum of uncertainty could stop this cycle from overextending and leading to a worse downturn when it eventually ends.

To the infinite addressable market and beyond

A stock market saying, attributed to the famous American short-seller Jim Chanos, captures the pendulum-like nature of sentiment: "In bull markets, people put a premium on promises, and in bear markets, they put a discount on reality."

Is there a big premium on promises today? Yes and no! Many companies trade on

fanciful valuations, with minimal revenue and no profits. But the market leaders' underlying operating businesses are generating oodles of cash. The latest stock market darlings, memory chip manufacturers, have order books full for the next couple of years and incremental profit margins as high as 80% (that's 80 cents of profit for every dollar of new revenue). It feels like a time to be selective in choosing companies to invest in, rather than making a blanket call that we are at the market peak, as some commentators are doing.

The latest eye-catching initial public offering (IPO) is Elon Musk's SpaceX. IPOs often come with reference to a "total addressable market" and there's no bigger one than space. SpaceX offers the opportunity to invest in orbital data centres, asteroid mining, and return trips to the moon and Mars! Those with long memories will recall such hype around companies promising riches to investors based on the adoption of the internet in the late 1990s, before the 2000 tech bust. There was a big premium put on promises at that time.

There are plenty of similarities between now and then. But there are a lot of differences too. The level of speculation is certainly less extreme, particularly on this side of the Atlantic. Our key message for now: we still don't see the time as ripe for a major, sustained equity market sell-off.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Weekly Digest

Regional highlights

UK. As expected, the Bank of England's Monetary Policy Committee held its base rate at 3.75%. Seven Committee members voted for no change, but two hawks called for an increase as an insurance policy against higher inflation. With the ceasefire extension between the US and Iran holding, at the time of writing, and the oil price back below \$80 a barrel, there might be less risk of another rise now. However, futures traders are still pricing in one quarter-point increase before the end of the year.

The difficult task facing Burnham was highlighted by two sets of data. Payroll employment has been in decline since Chancellor Rachel Reeves's first Budget and unemployment is at 4.9%, a little above when Labour came to power. Meanwhile, the government continues to spend much more than it takes in. May public debt figures showed a larger-than-projected deficit. The monthly borrowing total of £23.3bn was above the OBR's forecast of £17.7bn and £5.4bn higher than in May 2025. This weak performance was mainly due to the rise in inflation as measured by the Retail Price Index, to which UK inflation-linked bonds are tied. That made debt interest payments £4.1bn higher than in May 2025.

US. Retail sales grew 0.7% month-on-month in May, above the expected +0.4%. The consumer remains resilient, although this buoyant consumption is skewed towards better-off households. With overall wages now growing more slowly than headline inflation and the savings rate falling for this reason, consumption remains more dependent than usual on the wealth effect – the impact of rising asset values on spending.

Europe. The eurozone's consumer confidence index rose slightly from -18 to -17.7. This series has famously never been in positive territory since it began in 1989, so a minus number doesn't always mean sour sentiment. That said, the current number is lower than the average reading of -9.5. If energy prices continue to subside, as they should if the US-Iran ceasefire holds, sentiment should improve. Futures traders expect the European Central Bank to increase its benchmark deposit rate once more to 2.5% in the autumn. Recent comments from its President, Christine Lagarde, are in line with that expectation. Her comments also suggest this should be enough to head off lagging inflationary pressures. Core eurozone consumer price inflation in May was 2.6%.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Additional information

If you no longer wish to receive this publication, please call 020 7399 0000 or speak to your regular Rathbones contact.

Rathbones, Greenbank and Rathbones Financial Planning are a trading names of Rathbones Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919.

Rathbones Investment Management International Limited is the registered business name of Rathbones Investment Management International which is regulated by the Jersey Financial Services Commission and is licensed by the Guernsey Financial Services Commission. Registered office: 25/26 Esplanade, St. Helier, Jersey, JE1 2RB. Company Registration No. 50503. Branch: Level 4, Mill Court, La Charroterie, St Peter Port, GY1 1EJ, Guernsey. License No. 3058882. Rathbones Investment Management International Limited is not authorised or regulated by Financial Conduct Authority or Prudential Regulation Authority in the UK and its services are not covered by UK regulatory protections.

Copyright ©2026 Rathbones Group Plc. All rights reserved. No part of this document may be reproduced in whole or in part without express prior permission.

Call:

For contact details of your nearest office please visit
www.rathbones.com/about-us/our-offices

Visit:

rathbones.com

Email:

enquiries@rathbones.com

For specialist ethical, sustainable and impact investment services:

Greenbank
0117 930 3000
enquiries@greenbankinvestments.com
greenbankinvestments.com

For offshore investment management services:

Rathbones Investment Management International
01534 740 500
rathboneimi.com

 @rathbonesgroup

 Rathbones Group Plc

 @RathbonesPlc