Monthly markets review

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A review of markets in July when commodities gained amid higher oil prices and value stocks performed well.

The month in summary:

Global equities, as measured by the MSCI World index, edged marginally higher in July. The month was marked by a rotation away from some high growth parts of the market that have previously performed well, and towards some lower valued sectors. Global bond markets were largely driven by expectations for higher inflation. Commodities gained amid higher oil prices as the Iran conflict escalated.

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Global equities

Global equities, as measured by the MSCI World Index, returned 0.5% in US dollar terms in July. In a higher interest-rate environment, better-than-expected second-quarter earnings results reassured investors that corporate profitability remained resilient. Results were particularly encouraging in sectors such as financials and parts of the consumer-focused market. That helped ease concerns that slower growth could lead to broader earnings weakness.

Shifting expectations about the likely direction of interest rates, together with a reassessment of some of the market's strongest-performing growth areas, contributed to the muted returns for the month. In particular, investors became more selective with AI-related stocks as elevated valuations came under closer scrutiny.

US equities were broadly flat in July, with the S&P 500 returning -0.1%. The modest decline masked considerable variation beneath the surface, as investors shifted away from some of the market's strongest-performing growth stocks and towards sectors such as energy and financials, where valuations appeared more reasonable and earnings were generally solid.

Overall, second-quarter earnings results were better than expected, which helped support sentiment. Still, investors became increasingly focused on whether future profits could justify the strong share price gains seen earlier in the year.

Energy was the strongest-performing sector. It benefited from higher oil prices as a re-escalation of the conflict involving Iran raised concerns about potential further disruptions to global energy supplies. Financials also performed strongly, supported by resilient economic conditions and generally favourable earnings results.

By contrast, information technology was significantly down for the month, while industrials also lagged the broader market. Technology shares came under pressure as investors re-evaluated some of the market's highest-valued companies and became more selective about AI-related opportunities. Importantly, this change in sentiment appeared to reflect concerns that expectations had become too optimistic after a prolonged rally. It did not appear to stem from a loss of confidence in the long-term potential of AI. Uncertainty about the path of Federal Reserve policy, particularly in light of persistently elevated inflation, also weighed on parts of the market.

Eurozone equities, as measured by the MSCI EMU index, were slightly weaker in July. The information technology sector fell sharply, in part due to concerns over competitive threats from Chinese companies to some of Europe's leading manufacturers of chip making equipment. Utilities and health care also posted negative returns. Energy was the top gainer while the heavyweight financials sector also outperformed following some well-received quarterly results from certain banks.

Data from Eurostat showed that eurozone GDP expanded by 0.4% quarter-on-quarter in Q2, accelerating after flat growth in Q1. The flash estimate of eurozone inflation (measured by the harmonised index of consumer prices) showed it remined above the European Central Bank's (ECB) target, reaching 2.9% in July after 2.8% in June.

The resilient growth data and above-target inflation may put pressure on the ECB to raise interest rates at its September meeting. The central bank's governing council kept rates on hold at 2.25% at the July meeting but discussed raising borrowing rates due to the renewed rise in oil prices.

UK stocks, as measured by the FTSE All-Share index, gained in July and outperformed other regions. The UK index benefited from its relatively lower weighting to the AI theme, with global technology stocks largely underperforming during the month due to worries above spending on AI and competitive threats from China.

Meanwhile, the UK's higher weighting to the outperforming energy sector was in its favour amid another rise in oil prices. The financials sector also performed well. The mid cap FTSE 250 index outperformed the large cap FTSE 100.

The Bank of England kept interest rates steady at 3.75% in July, saying that there was so far minimal evidence of higher energy prices causing broader inflationary pressure. Annual UK inflation (as measured by the harmonised index of consumer prices) was 2.8% in June. That was still above the Bank of England's target but represented a fall from May's 3.0% level.

As expected, Andy Burnham replaced Sir Keir Starmer as Labour Party leader and prime minister. Equity markets showed little reaction to the political changes.

Japanese equities had another highly volatile month, with the TOPIX Total Return index up 0.2%, while the technology-heavy Nikkei 225 fell 8.1%. Market leadership shifted away from AI- and semiconductor-related stocks toward value and cyclical sectors. Middle East tensions continued to affect sentiment, but the main driver was a global correction in AI-related shares, triggered by valuation concerns and doubts over the likely returns on large AI data-centre investments.

In contrast, financials benefited from rising interest rates, while resource-related names, trading houses, and undervalued automotive stocks rebounded. This rotation helped cushion the broader market despite sharp declines in AI-related leaders. Overall, the month highlighted both valuation sensitivity and improving demand for lagging value sectors.

Emerging market (EM) equities posted negative returns in July, underperforming the MSCI World Index which was marginally positive (in USD). The AI-led rally that has driven EM performance throughout much of 2026 showed further signs of fatigue as Korea and Taiwan led EM lower. Growing concerns over the sustainability of hyperscaler capital expenditure (capex), rising competition from China and elevated Korean market leverage fuelled heightened volatility in July. This came against the backdrop of a weaker US dollar, firmer commodity prices and renewed conflict in the Middle East, which pushed energy prices higher.

Following the Korean market's surge in performance throughout most of 2026, July was characterised by significant volatility, ending the month as the worst performing EM market. Memory makers led the decline, as worries over US hyperscaler capex were compounded by increasing competition from China and the unwinding of leveraged AI-related positions. Investor sentiment was further weakened by the re-escalation of the Middle East conflict, which pushed Brent crude oil above USD100/bbl.

Similar factors weighed on Taiwan, which also underperformed broader EM. Korea and Taiwan were the only two markets to underperform the index over the month, underlining why developments in these two markets continue to dominate EM investor attention given they now represent almost 50% of the benchmark and are increasingly dictating the direction of overall EM performance.

The markets of Qatar, Saudi Arabia, South Africa and Chile outperformed the EM index in July, despite posting negative absolute returns in dollar terms. India modestly outperformed, as the market benefited from the rotation out of AI-related names, although this was somewhat counterbalanced by concerns over sustained elevated oil prices and a weak currency. Brazil also outperformed, advancing as a consequence of the rotation out of AI-linked names, firmer commodity prices and a positive downside surprise on inflation.

China was the strongest performing major EM, benefiting from the shift in investor positioning out of Korea and Taiwan, with banks and internet names among the primary beneficiaries. Economic activity remains weak, however. The best performing markets over the month were Poland, Indonesia and Colombia, all posting double-digit returns in US dollar terms, with oil exporter Colombia benefitting from significant earnings upgrades and continued positive news flow following the victory of right-wing candidate Abelardo de la Espriella in the presidential election.

In July, the MSCI AC Asia ex Japan Index declined by 3.2% in US dollar terms. While several markets experienced strong gains, these were more than offset by weakness in North Asia's technology-heavy markets. The Korean equity market saw a sharp decline, and the Taiwanese stock market also fell. Both were weighed down by their significant exposure to semiconductor and technology companies.

The equity markets in Indonesia, Hong Kong and Singapore registered the strongest performance during the month, while China also posted solid gains. China and Hong Kong were supported by expectations for further policy support and improving confidence in selected areas of their economies. Indonesia benefited from improving domestic conditions and renewed investor interest in cyclical sectors, while Singapore drew support from strength in Financials, industrial businesses and other parts of its market that tend to benefit when economic activity remains resilient.

Global bonds

Global bond markets faced several challenges in July. Bond yields rose (moving inversely to prices) as they continued to track energy prices closely. Renewed US-Iran tensions drove oil prices higher, with Brent crude briefly touching just over $100 a barrel, as investors priced in fresh risks of disruption in the Strait of Hormuz and the wider region. At the same time, investors questioned whether AI-related capital expenditure and valuations had moved too far, creating divergence within credit issuers.

As expected, the US Federal Open Market Committee left interest rates unchanged at 3.50%–3.75% with three voting members dissenting in favour of a 25 basis point (bp) hike. The curve steepened sharply (marking an underperformance of long-end bonds) and the 30-year yield reaching its highest level since 2007, as the market questioned Chair Warsh's firmness in responding to above-target inflation.

In Europe, softer inflation data at the start of the month initially encouraged markets to take out some of the rate hikes priced in, with headline and core CPI inflation data both surprising on the downside. Yet the subsequent surge in oil and European natural gas prices reversed that narrative. Meanwhile, the European Central Bank kept its deposit rate at 2.25%, in line with expectations, but did little to push back against market pricing for further rate rises given resilient growth. Against this backdrop, sovereign yields climbed to multi-year highs.

UK markets faced a distinct political overlay alongside the global inflation backdrop, as investors grappled with domestic fiscal credibility concerns and the broader rise in global real yields. Gilts underperformed initially, before stabilising as sentiment improved following John Healey's appointment as Chancellor and renewed commitments to fiscal discipline. Meanwhile, the Bank of England kept rates unchanged at 3.75%, although three Monetary Policy Committee members favoured a 25bp increase to 4.00%.

In Japan, investors focused on the inflation and interest rate implications of a very weak yen, prompting repeated official warnings that bold action could be taken if needed. Indeed, on the penultimate day of the month we saw intervention from the authorities to strengthen the yen. Meanwhile, the Bank of Japan kept rates unchanged at 1% as expected.

Credit markets initially held up well, supported by solid growth data and generally constructive earnings. However, renewed geopolitical escalation and the subsequent jump in oil prices tested that resilience as the month progressed.

US investment grade (IG) credit ended the month with slightly wider spreads, underperforming Treasuries of comparable maturity. Performance diverged notably by sector, with financials outperforming, while technology came under pressure from AI-related concerns, which contributed to wider spreads and weaker relative returns. European credit also registered negative total returns, although outperformed the US. Here IG spreads ended the month marginally tighter, outperforming government bonds.

Commodities

Commodities notched up a strong gain in July with the S&P GSCI index returning 12.6% (source: FactSet, US dollars). The energy component led the advance as a renewed escalation of the conflict in the Middle East saw oil prices rise sharply once more. Oil then fell back towards the end of the month as the US and Iran paused air strikes.

Elsewhere, the agriculture component also performed strongly in July and industrial metals also saw gains. Precious metals were largely flat while livestock fell.

Digital assets

July was the first month since Bitcoin's October 2025 peak in which digital assets meaningfully outperformed broader risk assets. Bitcoin returned 7.3% and Ethereum 18.9% even as a sharp de-rating ran through technology equities.

Regulatory progress continued albeit rather slowly. In the US, Senate Republicans released updated CLARITY Act text on 22 July. While the bill has cleared the House and the Senate Banking Committee (15-9 in May), it has no floor vote scheduled.

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