

Iran faces Trump's fury

Key takeaways

European and Asian stock markets ignored the mounting Middle East tensions to deliver robust returns. Then, on Saturday, the US and Israel went to war with Iran.

US and Israel launch missiles on Iran

Following joint US and Israeli missile strikes on Iran on Saturday, by Sunday, the press were reporting the assassination of the 86 year-old Ayatollah Ali Khamenei, Iran's supreme leader along with numerous family members. Simultaneously, almost 50 of Iran's senior leadership also died as a result of a series of co-ordinated attacks. Iran immediately began retaliatory strikes within the region.

Oil prices initially spiked 13% on Monday morning before easing. Meanwhile, UK and European stock markets opened lower, while safe-haven assets like government bonds and gold were rising. Although it's impossible to predict geopolitics, the impact of such events on financial markets tends to be short lived. The market reaction, so far, has been an orderly one and, if history is any guide, will likely result in a strengthening US dollar, a rising gold price and gains for government bonds.

Will AI 'eat software's lunch'?

AI worries continue to plague US technology stocks. Share prices in the US software sector are some 30% down from their peak late last year. This was accelerated by the recent rash of AI disruption with new accounting, insurance, legal and logistics chatbots sparking fears for any business-to-business service model. The P/E (price to earnings) ratio for the US technology sector is now in line with that of the consumer staples sector (the most defensive sector).

Last week's blockbuster results from the chip giant Nvidia failed to improve the mood, and its shares declined. Even so, US companies outside of the technology complex have been making sufficient progress to lift the broader S&P Index as investors rotate away from the technology giants and into more cyclical businesses, namely those that benefit from the strong US economy.

Rosy outlook for global earnings growth

In a change to recent years, earnings per share (EPS) growth is now expected to be strongly positive in all geographic markets for 2026. Last year, the FTSE 100 Index of UK companies delivered less than 1% EPS growth. This year, it's forecast to deliver around 11% thanks to the ongoing demand for mining companies, energy, and defence stocks.

After delivering around 13% EPS growth in 2025, the S&P 500 index of US companies is forecast to do slightly better in 2026. Meanwhile, thanks to recent revisions, emerging markets are forecast to see 31% earnings growth in 2026. This partly reflects the critical role that chipmaking giants such as Taiwan's TSMC, and memory chip producers such as South Korea's Samsung Electronics and SK Hynix, play in the global AI supply chain.



Market moves

Emerging markets were the top performers with the MSCI Emerging Markets Index gaining 3.3%. Japanese stocks, meanwhile, returned 3% last week.

Despite volatility caused by new trade tariffs and AI disruption, US stock markets were broadly flat.

UK government bonds (gilts) and US government bonds (Treasuries) both delivered gains as geopolitical tensions in the Middle East rose.

What to look out for this week

In the UK, the week is bookended by house price data on Monday and Friday, with European GDP numbers due on Thursday.

European inflation data is out on Tuesday, but Rachel Reeves' Spring Statement is likely to be the highlight of the day.

The US opens with manufacturing and employment numbers on Monday, followed by jobless and payroll data on Thursday and Friday.



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