US shares lead the charge

Key takeaways

Both stock and bond markets rallied thanks to hopes of a truce in the Middle East, and a record US earnings season with technology stocks and chipmakers leading the pack.

Markets respond to 'peace premium' despite military exchanges

With the US restraining from further escalation amid Omani-led talks with Iran to re-open the Straits of Hormuz, oil prices relented. The price of Brent crude briefly dropped below $80 a barrel on Tuesday, thanks to US Treasury secretary Scott Bessent's promise that a deal was near, but flared again on Friday amid regional attacks from Iranian-backed proxies. Even so, Brent crude eased 7.4% last week.

This, and bumper earnings news, helped the S&P 500 Index of US companies to pass a series of new record highs. US and UK government bonds also rallied as investors dialled back fears of an energy-driven surge in inflation.

A surprise chill: US labour market unexpectedly cools

Last week's weaker than expected US jobs report also prompted investors to scale back expectations of an interest-rate hike at next month's Federal Reserve meeting. This helped bond yields to fall (meaning their price rose) and the dollar to decline.

The US shed 23,000 jobs in July, while the Bureau of Labor Statistics also revised down May and June's job gains by a combined 103,000. A separate report from ADP, the payroll provider, showed US private-sector hiring also deteriorated in July, with job growth halving. Even so, US unemployment fell to 4.1% in June, its lowest for over a year, reflecting a maturing workforce with US labour force participation now at a five-year low.

The US economy, meanwhile, shows few signs of faltering. Last week's purchasing managers (PMI) data showed US manufacturing was at a four-year high and strongly in expansion mode, while US services PMI – in common with Europe and the UK – is also trending strongly up. This week's US inflation numbers will be closely watched with the core CPI measure, which excludes volatile food and energy costs, expected to cool. A lower reading is likely to reinforce expectations of lower interest rates.

Boom in US earnings and AI appetite powers market to new highs

The exceptional US earnings season continues with the S&P 500 Index of US companies now on course for 50% annual earnings growth according to the latest FactSet estimates.

Last week saw the US oil majors reporting record numbers. Net income at ExxonMobil doubled on last year, while Chevron reported a fivefold increase. Elsewhere, index heavyweight Eli Lilly reported a near 50% jump on second quarter revenues. At the same time, investors returned to the AI narrative powering the likes of Amazon and Palantir strongly ahead with the Philadelphia Semiconductor (SOX) Index of the biggest US chipmakers gaining 9.2%.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

US shares were the top performers thanks to a record earnings season and a revival of the AI investment narrative.

Shares in Europe and Japan outperformed those in the UK while emerging markets retreated slightly.

Both UK and US government bonds gained on hopes of progress on Iran and a decline in oil prices, while gold rallied 7.4%.

What to look out for this week

Tuesday brings US business optimism numbers followed by core and CPI inflation numbers on Wednesday. The same day sees the latest inflation readings from Germany, Italy and India.

UK GDP estimates, industrial, manufacturing, construction and trade balance data are due Thursday.

Thursday also promises US jobless claims and PPI (or factory gate) inflation numbers.

Europe publishes balance of trade, employment and GDP growth numbers on Friday.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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