US inflation eases

Key takeaways

US shares dragged global stock markets lower as the AI trade cooled and increasingly heavy exchanges between the US and Iran set oil prices racing again.

Softer US inflation eases rate expectations

Two inflation surprises helped US bond markets to rally last week. Tuesday's Consumer Price Index (CPI) annual reading for June came in at 3.5%, sharply down from May's 4.2%, and well below the 3.9% forecast. Monthly CPI enjoyed its biggest decline since 2020, thanks to an almost 10% drop in gas prices at the pumps. Wednesday's Producer Price Inflation (PPI) number, known as 'factory gate inflation', also saw its biggest monthly drop in over a year.

Kevin Warsh, Chairman of the Federal Reserve (Fed), appeared before Congress twice last week and further established his 'hawkish' credentials (meaning he favours fighting inflation with higher interest rates). He told Congress that "inflation is a choice" and that it was not yet "mission accomplished". With US inflation easing, markets now expect the Fed to keep rates on hold at its 29 July meeting.

Philly SOX Index moves into 'bear territory'

Chip-making stocks continued to slide last week. The Philadelphia Semiconductor (or SOX) Index, which tracks the 30 largest US chipmakers, fell almost 10%. This took the index into 'bear market' territory, having retreated over 20% from its June peak.

A confluence of factors are at work. Concerns over the sustainability of AI capex are never far away, as are worries over potential 'earnings bubbles'. Last week also saw the arrival of a new Chinese AI competitor to US leaders alongside broader worries over open-source competition, and mounting fears of overcapacity in 'compute' amid a wider backlash against data centres. With little change in the fundamentals, this appears to be a sensible unwind in the momentum of numerous stocks in this sector, which was needed after this year's parabolic gains.

Oil prices remain contained

The resumption of hostilities in the Iran war, with increasing exchanges between both sides, saw the price of Brent crude oil jump 13% last week. On the way, it passed $85 a barrel for the first time since the, now defunct, ceasefire agreement.

Despite the effective closure of the Strait of Hormuz, the 'Iran war 2.0' has so far seen moves in the oil price remaining relatively contained. Oil remains far from its April peak of close to $140 a barrel.

This suggests markets are increasingly drawing a line under the conflict while partially adapting to a world of more costly oil. While the oil price will remain volatile until a new ceasefire emerges, it's unlikely to significantly impact bond and stock markets so long as it remains below the triple-digit mark.

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

Market moves

Global stock markets retreated last week as the AI investment narrative unwound, and oil prices spiralled.

The UK stock market was the top performer thanks to its defensive characteristics and high weighting to oil and gas stocks.

UK government bonds declined again while US government bonds were just in positive territory. Gold lost another 2.8% to be 8.5% down in 2026.

What to look out for this week

This week sees incoming UK Prime Minister, Andy Burnham, announcing his new chancellor and cabinet.

Tuesday brings UK labour market data with UK inflation numbers due on Wednesday.

Thursday promises the latest interest-rate decision from the European Central Bank. The week closes with another round of global purchasing managers' index (PMI) data on Friday.

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

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