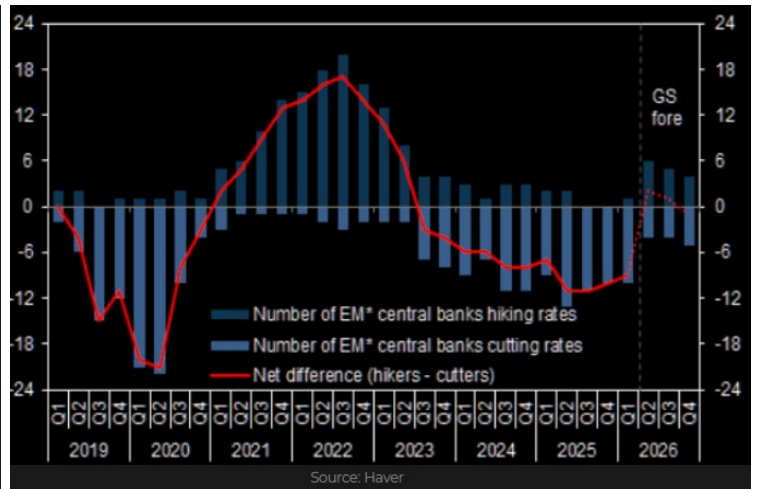
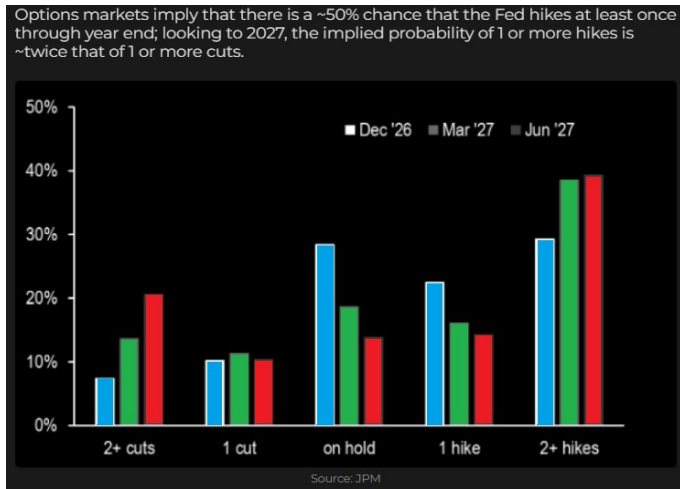


The Straits of Hormuz remains closed, and the longer the closure continues, the greater the risk of a global recession. Although energy and fuel prices have risen, supply still appears adequate for now, however, global oil inventories are being depleted at a record rate. Since the conflict began, most pessimistic forecasts have proved inaccurate, with only limited impact so far on global inflation and industrial output. Even so, some analysts suggest supply pressures could reach a critical point by the end of June, just as summer demand increases. Markets appear relatively complacent, assuming President Trump, who clearly needs a deal, will secure one. Iran, however, shows little urgency and may be waiting until pressure on the US reaches its peak. For now, equity markets are focusing instead on AI, where positive momentum continues to build. Semiconductor sales are far exceeding even the most optimistic expectations and share prices are climbing rapidly. Global investment in data centres also shows no sign of slowing, with Google, Amazon, and Microsoft in an intense race to expand capacity. At the same time, corporate sellers are beginning to take advantage of elevated valuations. Alphabet has announced an \$80 billion share issue, larger than BP's entire market capitalisation, which is notable given that big tech companies have historically bought back, rather than issued, shares. Private equity investors are also seeking to realise gains as SpaceX, OpenAI, and Anthropic are expected to launch record-breaking IPOs this year. Large share issues of this kind are often linked with market peaks, although the ultimate size of the AI opportunity remains uncertain. Anthropic, for example, is now expected to generate \$47 billion in revenue in 2026, with sales still accelerating despite having virtually no revenue two years ago. The question is how large these companies could ultimately become?

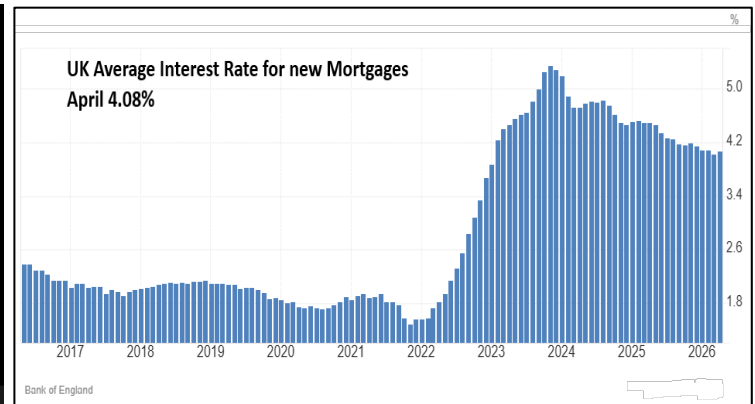
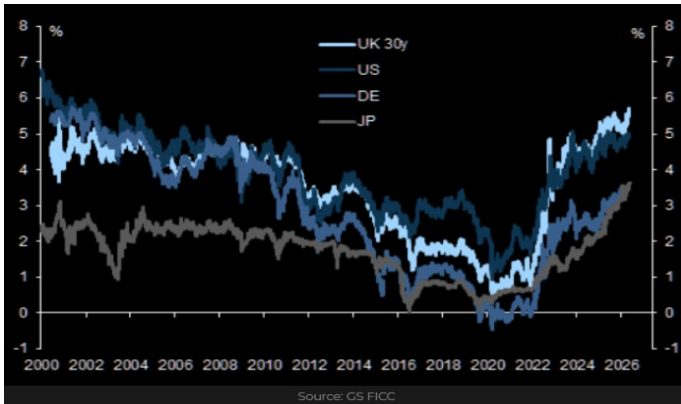
Key Market Driver Interest Rates



Interest rates are one of the three main market drivers. When rates are falling, both bond and equity markets typically rise, regardless of other factors, when that trend reverses, market risk increases. At the start of 2026, markets expected around two further rate cuts in both the US and UK, but those expectations disappeared as soon as the Straits closed. Even if Trump secures a deal and shipping resumes, a return to rate cuts now looks unlikely. Once inflation starts rising, central banks tend to become far more cautious about easing policy. The trend has already shifted. As the first chart shows, options markets are now pricing in a 30% chance that the Fed stays on hold, but a 50% chance of one or more rate hikes by the end of 2026. The second chart shows the more volatile emerging-market central banks, where the rate cycle is already turning higher and Goldman Sachs expects hikes to accelerate soon. The conflict with Iran is inflationary, and its effects are starting to show in the economic data. Without a full Straits reopening in the near term, developed market central banks may have little choice but to respond. Bond markets have already reflected this, with yields rising despite the cushioning effect of AI enthusiasm. The outlook is not yet clear-cut, if a deal is reached, there could be a wave of cheap oil and gas looking for buyers. For now, however, rate cuts are effectively off the table, and the trend has shifted from positive to neutral. The next few weeks will determine whether it turns negative.

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Mortgage Rates



The first chart shows yields on 30-year government bonds. The trend has clearly shifted, with yields rising sharply in the UK, US, Germany, and Japan, which means bond prices have fallen. As usual, the UK has the highest yield and has suffered the largest capital losses. The price of money is determined by inflation and by how much debt governments need to finance. If a treasury needs more cash, it must borrow from the market. When borrowing becomes excessive or inflation rises, bond investors demand higher returns. The UK, US, and Japan already carry heavy debt burdens and continue to spend more, while Germany, despite lower debt, is also increasing spending quickly. The inflationary impact of the Straits closure has therefore come at exactly the wrong time for bonds, which helps explain the move. Why does this matter because government borrowing costs directly affect mortgage rates, a link that many politicians, particularly in the UK, seem to overlook. The second chart from the Bank of England shows the average rate on new mortgages. May's data is still to come, but mortgage rates are starting to rise, with some two-year fixed deals approaching 5%. Combined with inflation and higher energy costs, a further increase in mortgage rates could easily tip the UK back into recession.

SpaceX

Elon Musk's SpaceX is expected to make the largest stock market debut in history when it goes public later this month. The company is targeting a \$75 billion raise, making this IPO a major market event. Musk's latest ambition is to build a combined space and AI powerhouse. His expansion plans, including data centres in space and even missions to Mars, are highly ambitious and require substantial investment. Although SpaceX generates significant cash flow, largely through its Starlink satellite internet business, it has said that IPO proceeds will help fund more AI computing capacity, strengthen its space infrastructure, and expand its satellite network. Alongside its rocket launches and Starlink business, SpaceX now owns xAI, the developer of Grok, as well as X, formerly Twitter, it also has a contract to provide AI data infrastructure to Anthropic. Musk does tend to attract strong market support as he has a proven track record of technical achievement and commercial success across PayPal, Tesla, SpaceX, and Starlink.

Markets

The Straits of Hormuz remains closed (as this is written) and market direction, particularly for interest rates and bonds, depends heavily on developments around the blockade. Equity markets appear to believe the disruption will be temporary and that a deal will be reached soon. Bond markets are less convinced. In the meantime, surging demand for AI and the infrastructure that supports it continues to push up the share prices of the main suppliers, many of which carry heavy index weightings. That price strength is attracting forced buying from index funds, giving the market a bubble-like feel. Even so, valuations do not yet look excessive, provided growth continues to outperform expectations. Markets will soon be tested by the SpaceX IPO, Alphabet's share issue which is likely to be followed by other Magnificent 7 companies and the expected IPOs of OpenAI and Anthropic. With market interest rates rising, equity issuance increasing and still no US deal with Iran, the risks to the bull market are clearly building. Trump still urgently needs a deal with Iran, but whether he can secure one remains the key question.

June 2026

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Market View