QUARTERLY REPORT | **JULY 2026**

Global Wealth Research

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Global
Investment
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Market Maps

Selective opportunities within AI theme and EM. Long-term positives for green transition and attractively valued sovereigns. Possible higher volatility from Fed changes and benign market outlook on Middle East outcome.

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Top investment themes

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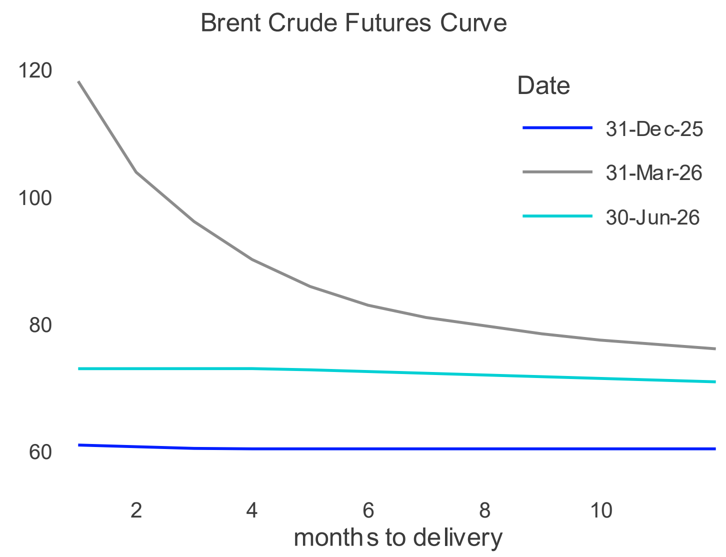
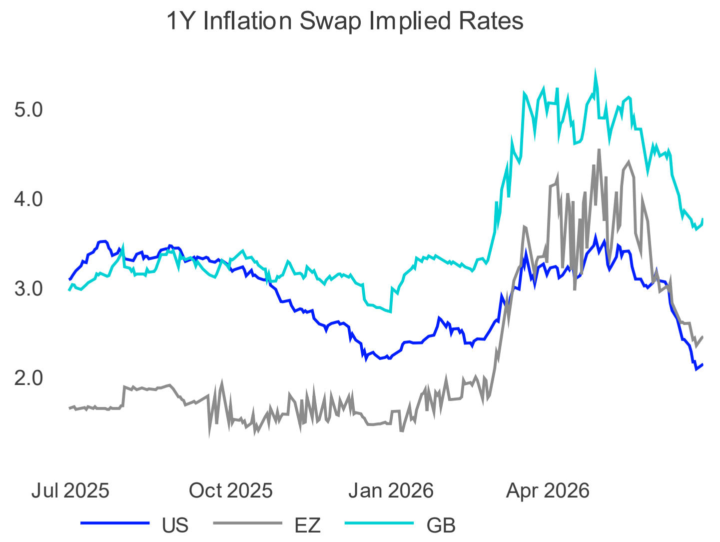
a. The risk is inflation expectations have fallen too far, too fast

- A memorandum of understanding (MoU) was signed between the US and Iran, which has led to the "reopening" of the Strait of Hormuz. The Brent Crude futures curve flattened and is trading at c. $70 barrel across all tenors; the MoU has normalised supply in the front of the curve and lowered the risk premium. However, the Brent curve is trading at a c. $10 premium to Dec '25 levels.
- Real GDP forecasts have declined since the start of the conflict. The Reuters Poll for YE 2026 has shifted by -0.4ppts in the US, -0.5ppts in Europe and -0.2ppts in Japan. In absolute terms, the US has fared best amongst major developed markets and is forecast to grow at 2.1% in 2026 despite the growth hit; European forecast growth is only 0.7% and Japanese growth is at 0.6%.
- Near-term implied inflation expectations have declined materially. The 1Y inflation swap for the US has fallen ~1.5ppt from the May peak to 2.1%, effectively in line with the Fed target; the equivalent European swap has fallen ~2ppts to 2.4%.
- There is a risk inflation expectations have fallen too far. In the US, the May Atlanta Fed Sticky CPI print was 3.1% . Sticky inflation makes up c. 70% of the inflation basket and contains the least volatile sub-components, including shelter (3.5%). The result is that flexible inflation components, primarily goods, would need to fall very rapidly for implied inflation expectations to be realised.

Since the MoU Brent futures have flattened to around $70 per barrel across all tenors, which is around $10 per barrel richer than pricing from Dec 2025.



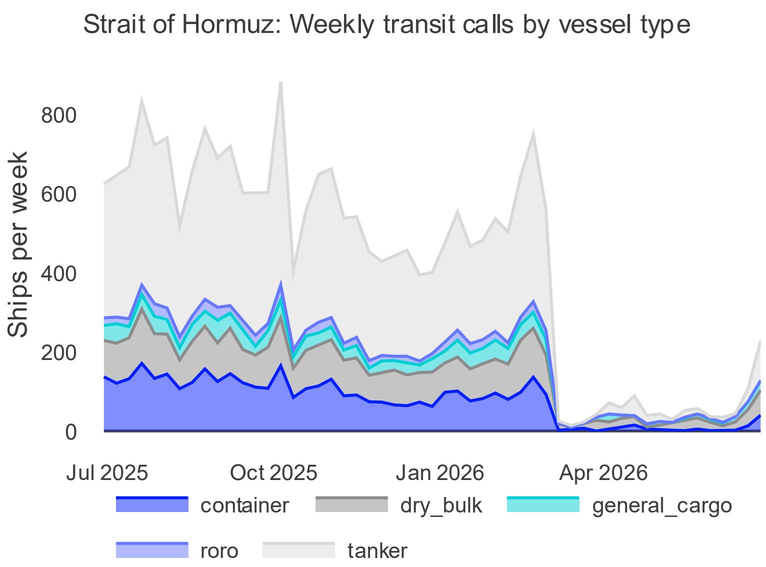
Short-term implied inflation, measured by 1Y inflation swaps, have declined materially. US & Euro inflation expectations are 2.1% & 2.4%, respectively.



b. Are vessels transiting the Strait of Hormuz?

- Ships are transiting the strait, but only about 1/3rd of the pre-conflict averages based on IMF PortWatch data.
- World Trade Organisation (WTO) Data Lab analysis (June 29) is more bearish, noting "crude oil flows have been limited to a few isolated shipments. The 7-day moving average remains close to zero" and "LNG shipments have shown no meaningful progress since the MoU".
- Normalisation will take time, if it ever fully recovers. In part this reflects that mine clearance will take time, but also a lower risk appetite, with attacks on vessels despite the MoU.
- Substitution effects may also reduce overall use of the strait.

Ships are transiting the Strait of Hormuz, but calls numbers are around 1/3rd of the weekly average from Feb. Source: IMF PortWatch, June 28, 2026



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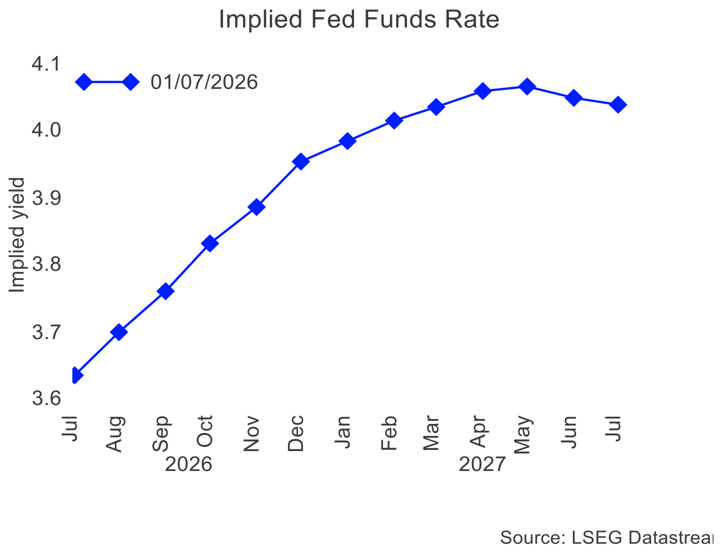
a. New Chair, old policies: an end to forward guidance potentially raises rates volatility

- At the June FOMC meeting the Fed removed the easing bias from their policy statement and the updated dot-plot indicated a clear hiking bias; the median expectation of the Fed Funds Rate shifted from 3.25-3.50% in March to 3.75% by year-end. The market had already been anticipating a hike with the Fed funds futures pricing 3.96% for the December meeting.
- Noticeably absent were projections from the new Chairman, with Chair Warsh stating they are not helpful to “current policy conjecture”. This marks a shift in Fed policy communication. Warsh made clear there would be less forward guidance, which will likely lead to greater volatility in short rates, but give the Fed more room to move quickly and be less beholden to the market.
- Whilst the Fed maintains its dual mandate of price stability and full employment, comments from Warsh appear biased towards tackling inflation: “*Persistently high prices are a burden for the American people… This committee will deliver price stability*”.
- Expectations of higher rates will tend to increase volatility in growth stocks, which tend to be more interest rate sensitive. We saw an example of this effect in June when the US non-farm payrolls added 172k jobs during May, and the Tech industry sold off; the strong jobs report reduced the impulse for stimulative monetary policy, leading to higher yields in the short end of the US curve.

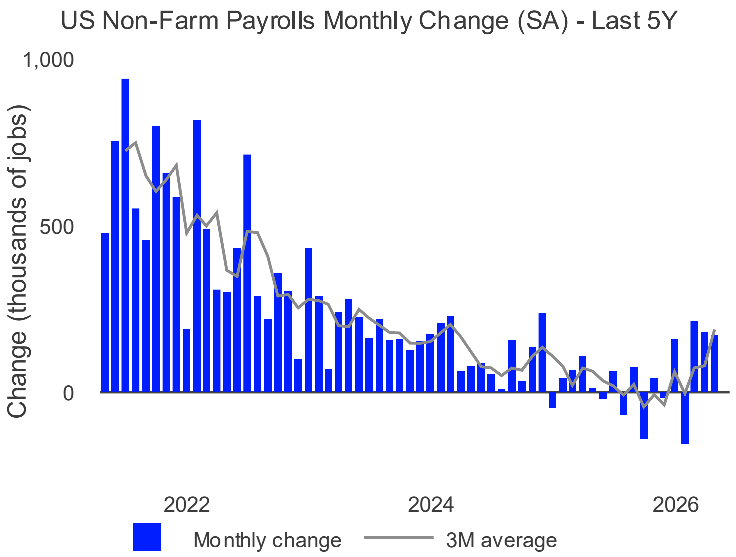
b. Global curve split: is duration still rewarded?

- German 20s/2s curve flattened by 45 bps YTD, as the ECB’s 25 bp rate hike in June kept 1-3yr Bund yield anchored ~2.5%, while longer-dated yields eased modestly in June.
- US 20s/2s curve *bear-flattened* by 54 bps in H1, the largest flattening among major G7. Regardless of the pace of actual policy tightening, the market has priced a higher-for-longer policy stance, reflecting the Fed’s emphasis on tackling inflation under the new Chair.
- In contrast, JGB 20s/2s curve continued to *bear-steepen* in H1, driven by faster increase in longer yields. Concerns over fiscal expansion intensified following the PM’s spending plan announced in June, given a debt-to-GDP ratio of 200%+.

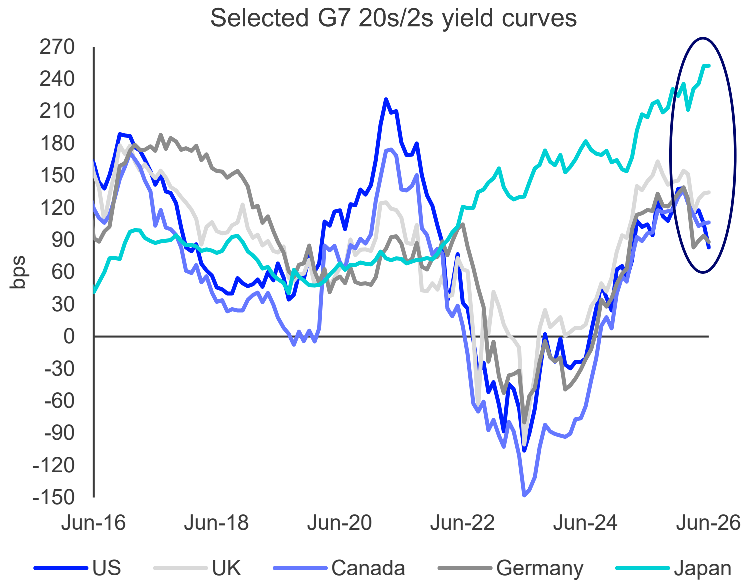
Fed funds futures are pricing 1-2x hikes by the December FOMC meeting, and currently pricing a peak in the Fed Funds Rate at 4.1% in May 2027.



Non-farm payrolls saw 172k jobs added in May, and an average of 188k over 3M indicating a tightening of the labour market at the margin.



US and German curves flattened to 10-year means, while Canadian and UK curves remain steeper than average. JGB curve shifted to the steepest level.



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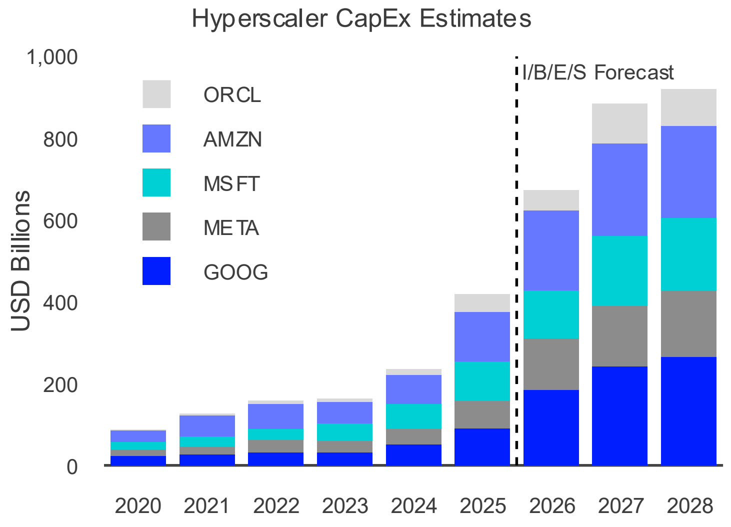
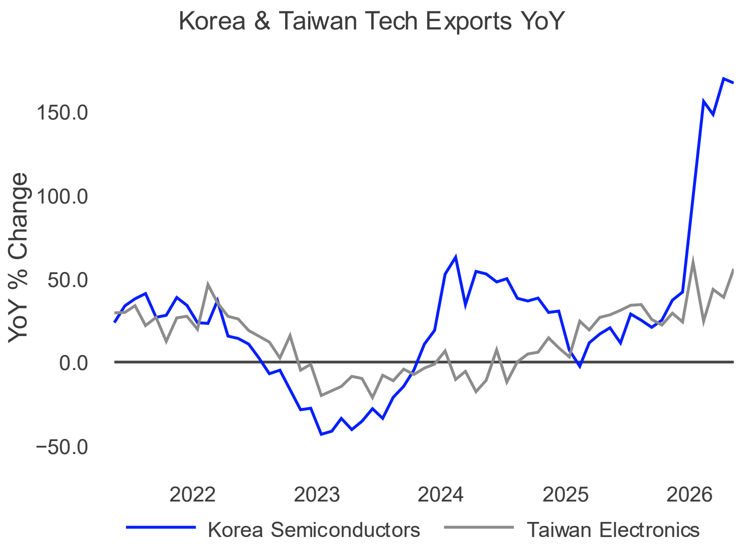
AI hyperscalers hyper spending plans: tailwinds are supportive, but the bar is high

- Technology is not a homogenous industry, as highlighted by jaws between hardware (51.2%) and software (-10.2%) YTD. Behind the "*SaaSpocalyse*" is the potential for AI to disintermediate traditional software companies, with firms using AI to bring solutions in-house. The rhetoric may be overstated, because it doesn't account for intangible benefits of software services, like data quality and redundancy; that said software is likely to experience margin compression from both customers demanding lower prices and the costs of incorporating AI into product.
- Based on IBES estimates, the 5 largest hyperscalers in the US are forecast to spend >$600 billion on [primarily] AI capex in 2026, a ~50% increase vs. 2025; analysts expect this spend to grow to >$920 billion by 2028. If correct, this augurs well for continued leadership by the AI "picks and shovels" companies who supply the components required for datacentres.
- South Korea and Taiwan play critical roles in the AI infrastructure buildout, which has led to incredible export growth in both countries and YTD equity returns of circa. 113% and 60%, respectively. High Bandwidth Memory (HBM) is a key bottleneck in AI pipelines and Korea has an 80% share of the HBM market. To increase production Samsung, SK Hynix & South Korea are investing c. $600bn to develop two new chip fabrication sites in South Korea. Despite Korea and Taiwan having strong performances, relatively stronger upgrades of earnings in Korea mean the FTSE Korea index is trading at 8.3x forward earnings (16th percentile over 10Y), whereas FTSE Taiwan is trading richer at 21.8x (and is in the 100th percentile).
- It's important to note that markets have become more discerning around AI capex spending. As an example, Meta shares fell c. 10% after their Q1 earnings call, despite earnings beating estimates, as investors questioned the ability of more capex to boost earnings. Then on June 1 the stock rallied 8% after reporting that Meta is planning to build a cloud business to sell excess AI capacity. The takeaway is that markets are asking "*why?*" a firm is doing capex and not just "*how much?*" which may lead to sensitivity to analyst forecasts and increased volatility around the AI theme.

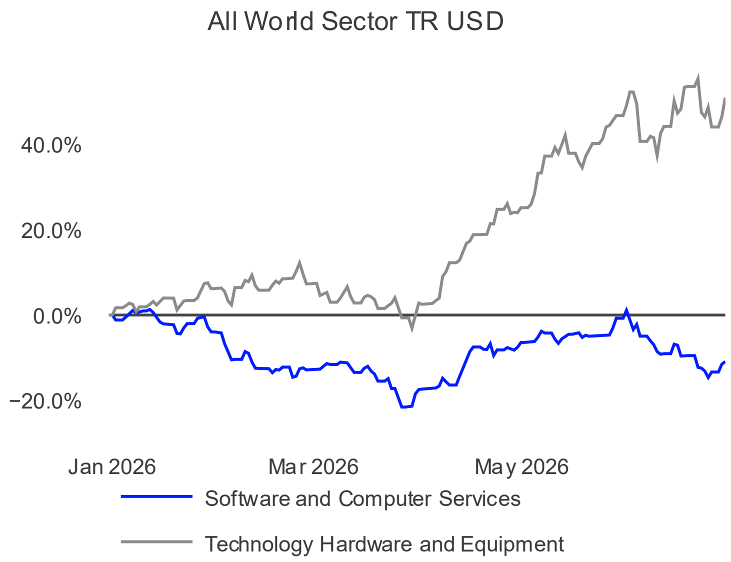
Five US hyperscalers are expected to spend >$600 billion on AI infrastructure in 2026, with the figure growing to >$900 billion in 2028.



Korean semiconductor & Taiwanese electronic exports have grown by 167% and 56% YoY respectively driven by data centre demand.



YTD the gap between FTSE All-World Hardware and Software indices is >60ppts highlighting differentiation within the Tech industry.



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a. Valuation Matters: cheap sovereigns vs rich credit

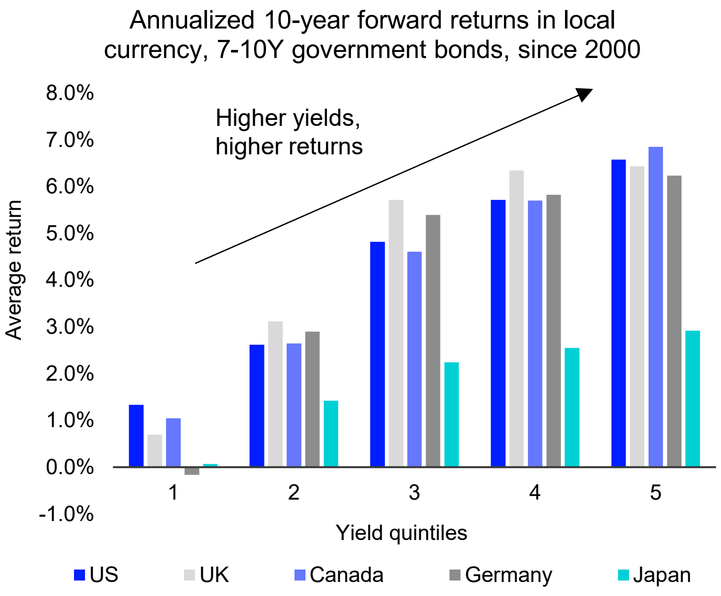
– Higher starting yields and wider spreads have historically been reliable predictors of stronger forward returns across US government and corporate bond markets*. Higher starting yields of government bonds are associated with stronger forward returns; tight US HY credit spreads (spreads have an inverse relationship to bond prices) are strongly associated with lower future bond returns. Today, Treasury yields remain elevated (95th percentile), while IG and HY credit spreads are near their 10-year lows (0-3rd percentile), suggesting government bonds are relatively cheap while corporate bonds are rich relative to their 10Y history.

– The correlation between higher starting yields and stronger forward returns is observed across major G7 sovereign bond markets, since 2000, including the lowest yielding JGBs.

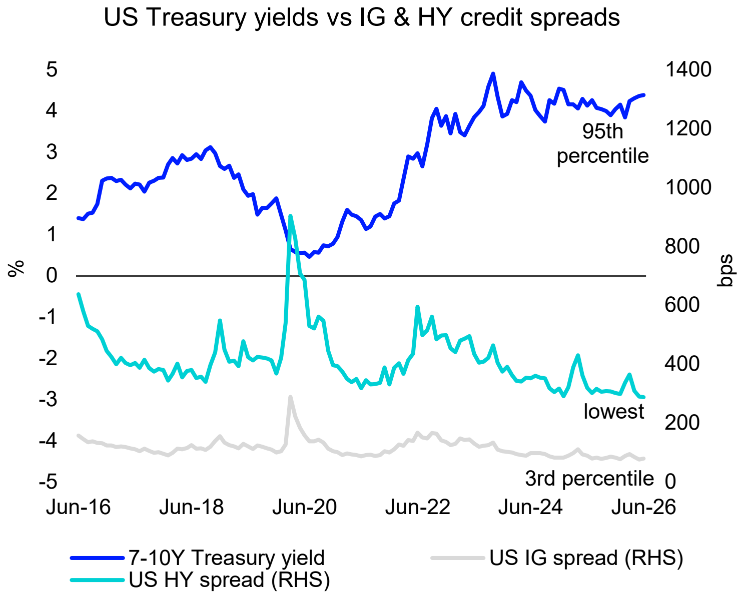
– Empirical results, based on data from FTSE Russell indices, show peak correlation of future returns with initial valuations occurs where time to maturity is closest to the investment horizon, for both US Treasuries and US high yield credit.

– For longer-duration Treasuries such as 7-10Y and 20Y+, mean reversion in yields causes the duration effect to average out over time, leaving starting yields, carry and roll-down as dominant drivers of returns, with generally positive yield curves.

As confirmed by major G7 govt bond markets, periods with higher starting yields (Quintile 5) are associated with the highest average forward returns.



10-year historical valuations suggest US government bonds now appear relatively cheap, while IG and HY corporate bonds are expensive.



b. Equity valuations: rich but not expensive

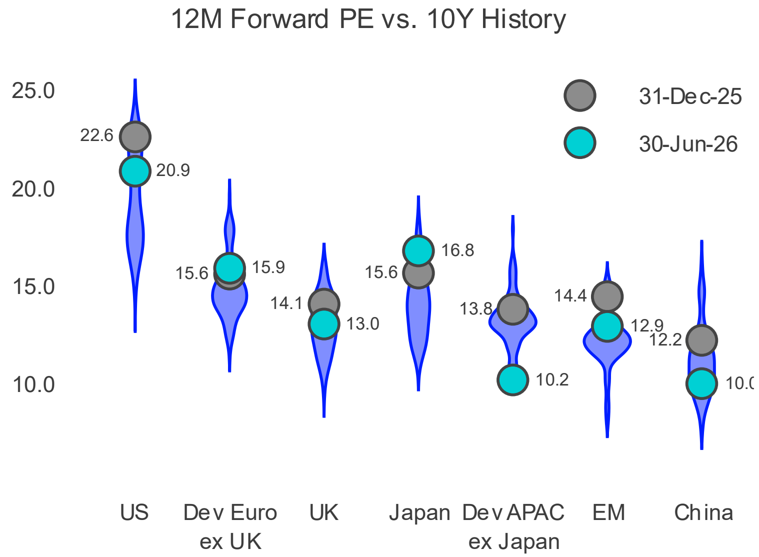
– Equity valuations have broadly cheapened YTD and are rich but not expensive; the Forward P/E on the FTSE All-World is 17.5x, which is in the 63rd percentile of its 10Y range.

– In the US, the Forward P/E is 20.9x (62nd percentile) which remains high in absolute terms but is a sharp reduction from extreme (100th percentile) valuation levels from Q4 2025.

– Japan bucked the broader trend & is more expensive YTD on expectations of further fiscal support from the Takaichi government, as well as corporate governance reforms.

– Korea has seen huge upgrades to forward earnings estimates and, as a result, is extremely cheap at 7.8x and in only the 5th percentile over 10Y history.

Emerging valuations have derated to 12.9x. They are balancing derating in China and India with Taiwan having become much more expensive.



Source: FTSE Russell/LSEG. All data as of June 30, 2026 unless otherwise stated. *See What a carry-on: starting yields as a valuation tool for sovereign bonds | LSEG and Valuation matters: US high yield and US equities | LSEG. Past performance is no guarantee of future results. All returns are in USD unless noted otherwise. This report should not be considered "research" for the purposes of MIFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.

Energy security = economic security: tailwinds for FTSE Environmental Opportunities

This page leans heavily on our paper "After the energy shock" by Indrani De, Lee Clements and David McNay

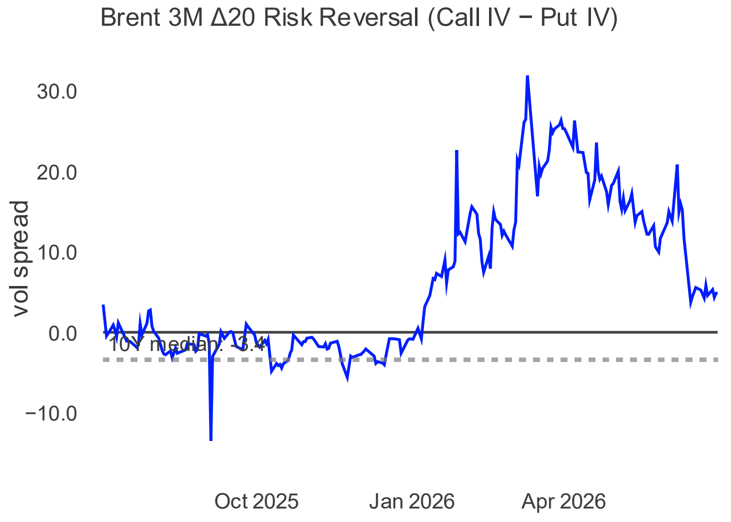
– Brent crude spot has fallen from a peak of >$118 per barrel in April, to ~$70 barrel since the signing of the MoU and looking at oil derivatives shows energy markets are implying relatively high confidence the ceasefire will hold and there will be normalisation of supply-demand dynamics. However, the lasting impact may be the lesson that energy security is a requirement for economic security. Closure of the Strait of Hormuz surfaced concerns not 'just' about the price of energy, but of energy security. This may catalyse the green energy transition.

– We look at South Africa as a modern case study, where successive failures at Eskom, the state utility provider, led to rolling blackouts from 2018 onward, which peaked at >300 days of outages in 2023. Faced with a lack of energy security the private sector invested heavily, primarily in solar, with 20GW of new capacity registered at the end of 2025. Importantly, despite the so-called load-shedding ending in 2024, solar registrations accelerated in 2025 attributable to momentum and the declining cost of solar.

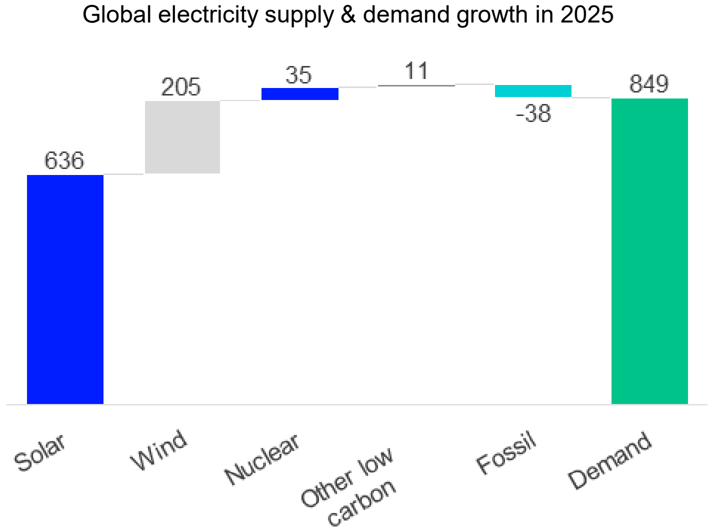
– Evidence shows the transition is happening elsewhere: Octopus Energy in the UK have seen a 50% spike in solar installations & 30% increase in heat pumps; E-Mobility data shows a 50% increase in registrations of electric vehicles (EV) in Europe (YoY March 2026); in India there has also been a 49% increase in EV registrations YoY (FT)

– China dominates clean energy manufacturing with a c. 70-80% market share across solar, wind and battery technologies (IEA, 2026); other beneficiaries may include miners and refiners of energy transition commodities. The FTSE Environmental Opportunities Index, or companies producing green economy products and services, has outperformed the FTSE All-World by 8.5 ppts YTD.

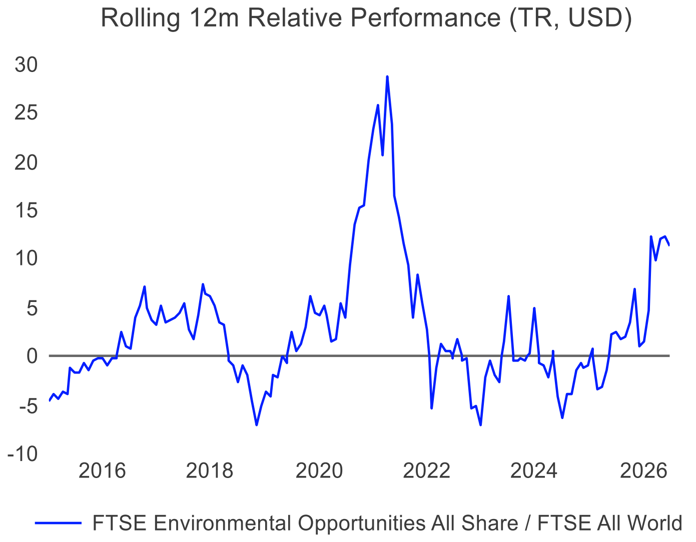
Brent skew remains to the call-side meaning it costs more to hedge against higher oil prices, but the skew is the closest it has been to neutral since Jan.



All electrical demand growth in 2025 was supplied by alternative energy. This was predominantly solar & wind; fossil fuels fell. Source: Ember, 2026.



The FTSE Environmental Opportunities Index has experienced the largest period of rolling 12M outperformance since 2021.



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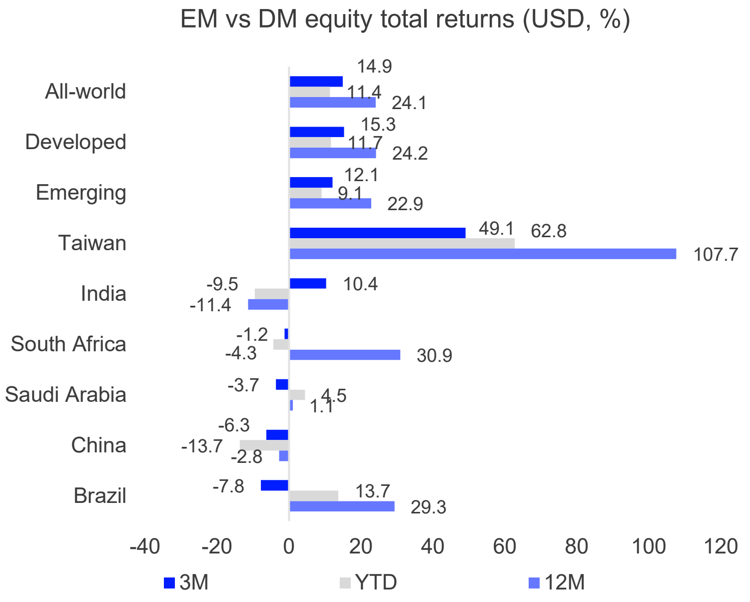
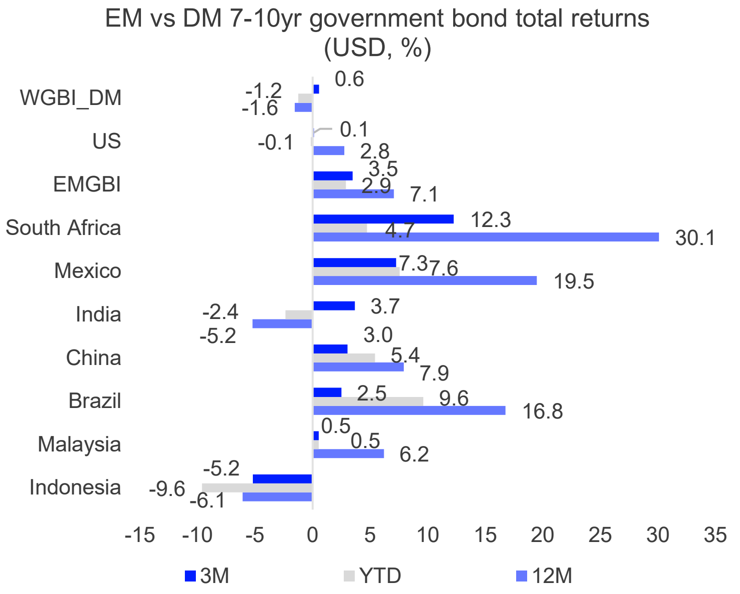
Emerging markets – divergence creates opportunity

- EM equities modestly underperformed their DM counterparts in Q2, returning 12.1% compared with 15.3% for DMs. However, headline performance masked substantial regional divergence, with Taiwan posting a remarkable 49% gain while most other EMs suffered losses. The divergence in performance largely reflected differences in sector composition, with Taiwan benefiting from its heavy exposure to AI hardware and semiconductor manufacturers, while India and China had relatively lower participation in the AI hardware rally.
- Taiwan's key role in the AI supply chain helped boost the real economy (Q1's GDP growth of 13.7% YoY), as well as its equity market. Following strong rallies over 12M (107.7% in USD terms), Taiwan has become the largest market within the FTSE Emerging Index, with a weight of 33.8%, overtaking China (26.2%). India's index weight declined to 15.9% from 21.7% a year ago.
- EM sovereign bonds experienced a stronger rebound than DM peers in Q2, gaining 3.5% vs 0.6% for DM bonds, driven largely by the April relief rally. EM* capital flow data showed renewed investor demand for higher-yielding EM sovereign debt, particularly in South Africa, pointing to improving confidence in EM macroeconomic and sovereign credit fundamentals.
- EM currencies showed strong resilience in Q2, cementing EM asset returns for dollar investors, led by South African rand (4.4%), Mexican peso (3.2%), Chinese yuan (1.8%), and Brazilian real (0.9%). DM currencies broadly fell against the dollar in Q2, including Japanese yen (-2.1%), Canadian dollar (-1.6%), and Euro (-0.8%), while only Pound sterling (0.6%) avoided a depreciation vs USD.

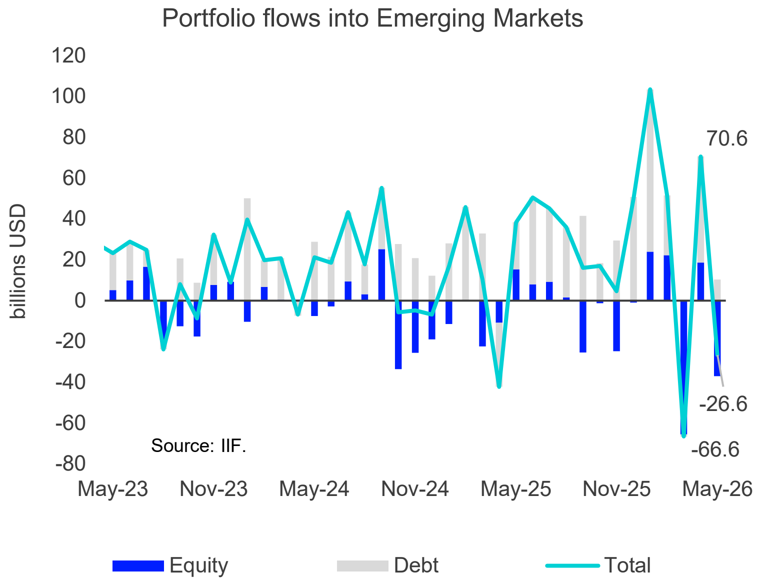
EM equities diverged notably: Taiwan equities further advanced this year, far outpacing global peers, riding AI tailwinds; China and India lagged YTD.



EM sovereign bond markets experienced a stronger relief rally than DMs in Q2, led by South Africa and Mexico, after sharp sell-offs in March.



Capital flows into EM debt were more resilient than to equities, both prior to and after the March energy shock. Debt inflows were mostly positive in 12M.



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Appendix: List of indices used in report

Name	Mnemonic/Code	Name	Mnemonic/Code
WGBI Developed Markets 7-10yr	WGBI_DM_7-10	FTSE All-World Index	AWORLDS
US Treasury 1-3yr	US_TSY1-3	FTSE All-World Growth Index	AWORLDSG
US Treasury 7-10yr	US_TSY7-10	FTSE All-World Value Index	AWORLDSV
US Treasury 20yr+	US_TSY20+	FTSE USA Index	WIUSA
EMGBI 7-10yr	EMGBI_7-10	Russell 1000 Index	R1000
UK government 1-3yr	GB_TSY1-3	FTSE All-World ex US Index	AWXUSAS
UK government 7-10yr	GB_TSY7-10	FTSE UK Index	WIGBR
UK government 20yr+	GB_TSY20+	FTSE 100	UKX
Canada government 1-3yr	CA_TSY1-3	FTSE Developed Europe ex UK Index	AWDEXUKS
Canada government 7-10yr	CA_TSY_7-10	FTSE Emerging Index	AWALLE
Canada government 20yr+	CA_TSY20+	FTSE Developed Asia Pacific ex Japan Index	AWDPACXJ
Germany government 1-3yr	DE_TSY1-3	FTSE Developed ex US Index	AWDXUS
Germany government 7-10yr	DE_TSY7-10	FTSE Japan	WIJPN
Germany government 20yr+	DE_TSY20+	FTSE China	WICHN
Japan government 1-3yr	JP_TSY1-3	FTSE Global Core Infrastructure Index	FGCII
Japan government 7-10yr	JP_TSY7-10	FTSE EPRA Nareit Global	ENHG
Japan government 20yr+	JP_TSY20+	FTSE/CoreCommodity CRB® Index	RJEFCRT
South African GBI 7-10yr	ZA_TSY_7-10	FTSE Korea	WIKOR
Brazilian GBI 7-10yr	BR_TSY_7-10	FTSE India Index	WIIND
Mexican GBI 7-10yr	MX_TSY_7-10	FTSE Brazil Index	WIBRA
Indian GBI 7-10yr	IN_TSY_7-10	FTSE Taiwan Index	WITWN
Indonesian GBI 7-10yr	ID_TSY_7-10	FTSE Saudi Arabia Index	WISAU
China government 7-10yr	CN_TSY_7-10	FTSE South Africa Index	WIZAF
Malaysian GBI 7-10yr	MY_TSY_7-10	FTSE Developed Index	AWD
US Broad Investment-Grade Bond Index Corporate	BIG_CORP		
US High-Yield Market Index	HY_MKT_US		

For more details regarding Index Construction for these and related FTSE Russell indices, and for ETFs and Mutual Funds linked to these FTSE Russell Indices, please reach out to your FTSE Russell Sales contact.

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately $20 trillion is benchmarked to FTSE Russell indexes. Leading asset owners, asset managers, ETF providers and investment banks choose FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on applying the highest industry standards in index design and governance and embraces the IOSCO Principles. FTSE Russell is also focused on index innovation and customer partnerships as it seeks to enhance the breadth, depth and reach of its offering.

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