Wealth
Management US

Quarterly report

Q2 2026 market review

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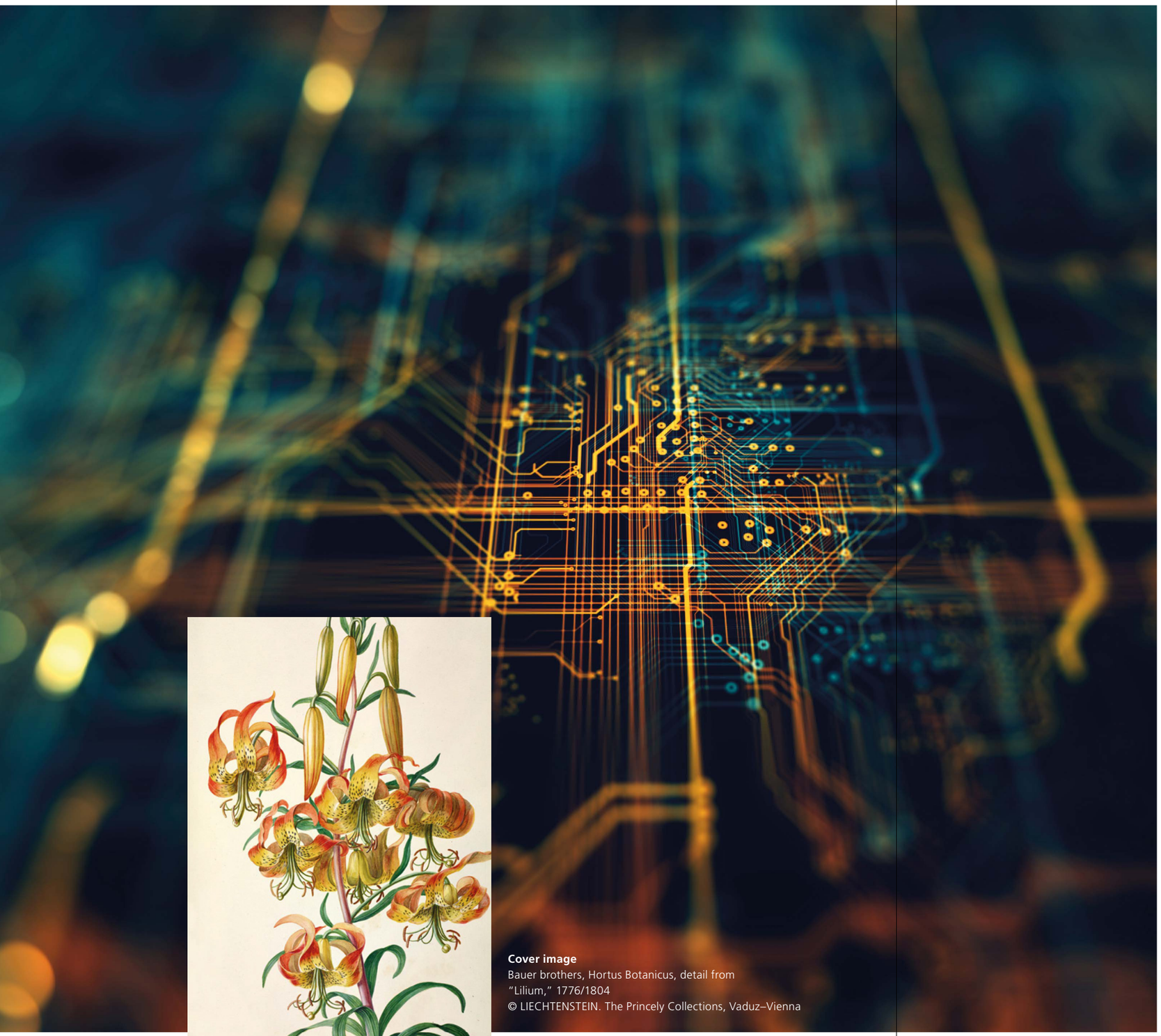

Cover image
Bauer brothers, Hortus Botanicus, detail from
“Lilium,” 1776/1804
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The tentative reopening of the Strait, a global supply chain chokepoint, drove energy prices lower.

Sanjay Rijhsinghani, Chief Investment Officer

Summary: Q2 2026

The war in Iran transitioned to an uneasy ceasefire over the second quarter, culminating in a peace deal. Equity markets largely looked beyond the conflict as the de-escalation was anticipated. After falling to a 2026 low at the end of March, US equities staged a sharp rebound, with strong earnings and AI investment continuing to lift technology stocks and propel the Nasdaq to gains of 21.6% in Q2. Of all the sectors, technology companies had the strongest earnings growth, rising by 55% compared with the same quarter last year. This drove analysts to move future earnings forecasts higher. Oil prices fell by 38.4% to finish the quarter at USD 72.92 a barrel.

UK local elections in May put Prime Minister Sir Keir Starmer’s position in question. By mid-June, he stepped down as leader of the Labour Party, paving the way for a new leader as early as mid-summer, the UK’s seventh prime minister in 10 years. This instability has weighed on UK government debt, keeping borrowing costs higher.

At a glance

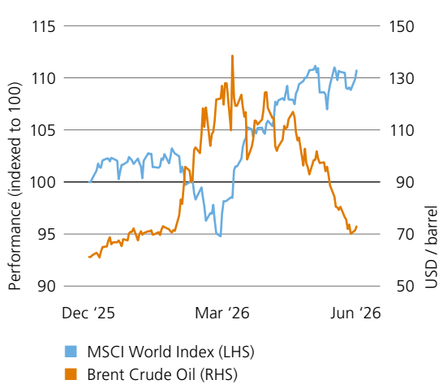
- Iran ceasefire propels markets
- AI investment fuels tech rally
- Oil prices tumble, calming inflation fears
- UK leadership challenge unsettles gilts
- New Fed chair reshapes central bank communication

Macro summary

Iran ceasefire reshapes energy markets

What was supposed to be a short conflict in Iran passed the 100-day mark on 7 June. However, in mid-June, the US and Iran announced the framework of a deal that included an immediate and permanent cessation of hostilities, the reopening of the Strait of Hormuz within 30 days, and a 60-day negotiation period during which both sides sought to resolve outstanding issues surrounding Iran's nuclear programme and sanctions relief. The tentative reopening of the Strait, a global supply chain chokepoint, drove energy prices lower, as increased shipping capacity diminished the risk of supply disruptions.

Oil prices vs MSCI World YTD

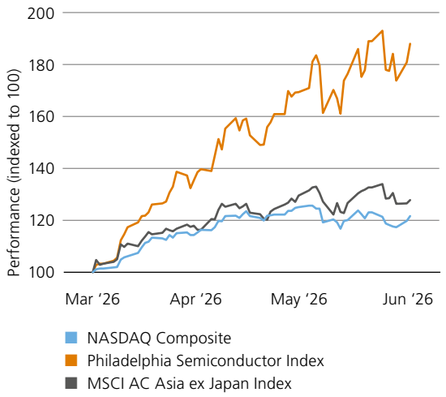


Source: Bloomberg

AI-led rally broadens across sectors

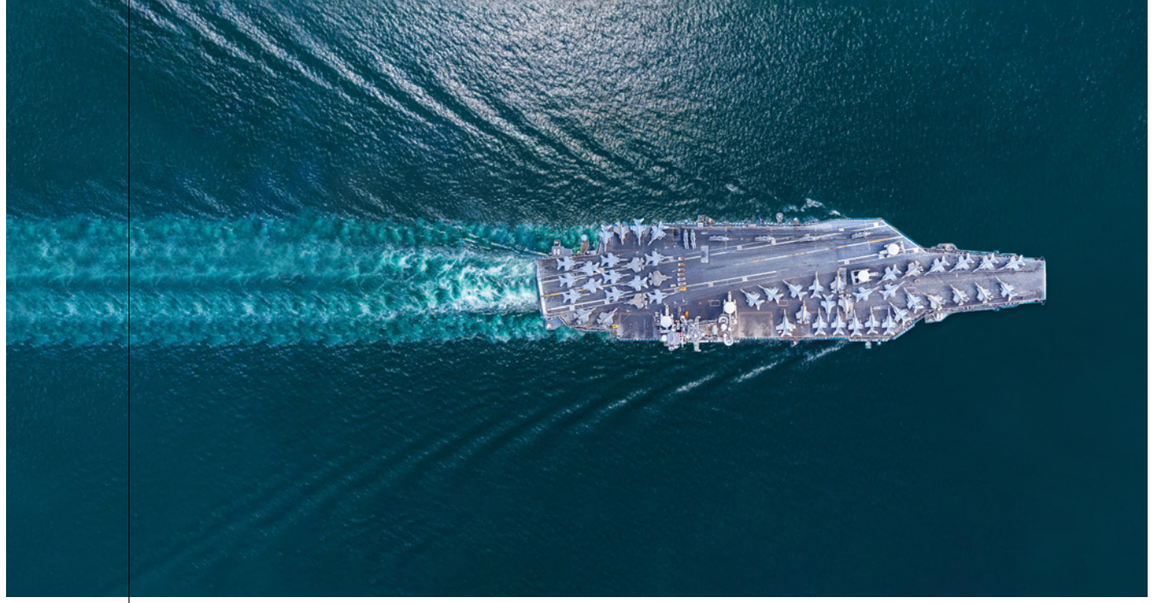
Equities marched higher throughout the quarter as strong earnings accelerated sales growth, particularly for technology-led companies. Demand for chips drove the Philadelphia Semiconductor Index up 88%, its best quarter since the index began in the early 1990s, taking its year-to-date gains to over 100%.[1] The S&P 500 rose 15.2%, its best quarter since the second quarter of 2020.[2] Gains broadened beyond technology companies, with the S&P 500 Equal Weight Index returning 11.4%. European equities also posted solid gains, with the STOXX 600 Index rising 11.9%, but returns were more muted in the UK, with the MSCI UK Index rising only 3.4% as the sharp decline in oil prices weighed on oil majors. Outside the US, Asia shone, with the Topix gaining 14.3% and Korea's Kospi rising 68% in Q2, as the country's technology bellwethers Samsung, LG Electronics and SK Hynix benefited from the ongoing AI boom. It was a more mixed picture for Chinese equities. Hong Kong's Hang Seng fell 6.4% while the Shanghai Composite rose 6% in Q2.

Nasdaq vs Philadelphia Semiconductor Index vs MSCI Asia ex Japan



Source: Bloomberg

[1] Deutsche Bank
[2] Bloomberg, Deutsche Bank



The resurrection of the IPO market

The pipeline of mega-IPOs is shaping up to be one of the defining features of the current equity market cycle. After years of remaining private while raising unprecedented amounts of capital, a handful of AI and space technology companies have reached a scale that rivals many of the world's largest listed businesses.

SpaceX, Claude's creator Anthropic and ChatGPT founder OpenAI have raised over USD 330 billion in private funding and are now turning to the public equity and bond markets. SpaceX raised approximately USD 75 billion from its offering. SpaceX shares closed the end of June around 25% higher than their flotation price, representing a market capitalisation over USD 2 trillion.

Meanwhile, Anthropic[3] and OpenAI[4] have each filed with the Securities and Exchange Commission[5] to take their companies public in the future.[6] In addition to closely monitoring these companies' IPOs, investors will keenly watch their debt financing – SpaceX raised USD 25 billion in bonds after its IPO.[7]

Central banks diverge amid inflation risks

At the Federal Reserve's (Fed) June meeting – Kevin Warsh's first as chairman – the central bank opted to leave interest rates unchanged but adopted a more hawkish tone than expected. Policymakers indicated they had growing concerns that inflationary pressures could re-emerge, driven by the underlying strength of the US economy rather than by external shocks in the Middle East. A stabilising labour market, resilient consumer spending, fiscal support and strong AI-related investment have lifted domestic demand, prompting the Fed to be more cautious about easing policy. Reflecting this shift, the latest dot plot – which shows where individual Fed policymakers expect interest rates to be in coming years – showed that roughly half of policymakers expect at least one further rate increase before year-end.

Meanwhile, in a widely anticipated move, the European Central Bank (ECB) increased interest rates at its June meeting to 2.25% from 2%, signalling that bringing inflation back to its target remains a priority. The peace deal was signed after this meeting,

[3] Anthropic raises $65B in Series H funding at $965B post-money valuation \ Anthropic
[4] Racing to a Trillion: OpenAI and Anthropic's Funding History
[5] Confidential submission of draft S-1 to the SEC | OpenAI
[6] OpenAI plans stock market debut, setting up new race with Anthropic - BBC News
[7] SpaceX - SpaceX Announces Pricing of $25 Billion Inaugural Bond Issuance

which will reduce the need for immediate rate hikes, leading to lower expectations for further policy tightening. The Bank of England (BoE) kept rates steady in June in a 7-2 split, helped by softer-than-expected inflation data and lower energy prices. Inflation came in at 2.8%, while core inflation – which excludes energy and food – was 2.6%, both below expectations.[8] This suggests that the need for tightening has diminished, allowing the BoE time to keep policy on hold while assessing the economy further.

The Bank of Japan (BoJ) raised rates by 0.25% as expected, given that inflation remained sticky. While policymakers signalled further hikes ahead, the pace remains slow, prompting further weakening of the yen.

Leadership change and fiscal implications in the UK

Sir Keir Starmer resigned as leader of the governing party on 22 June, with most expecting former Manchester Mayor Andy Burnham to become the UK's next prime minister as he is currently uncontested in the leadership election. Questions remain on his potential policies, although gilt markets were supported after Burnham committed to maintaining Rachel Reeves's fiscal rules in a speech on 30 June.[9]

Earnings strength outweighs geopolitical risk

Overall, the second quarter reinforced the dominant themes that have shaped markets in recent years, as investors moved past the Middle East conflict. Strong corporate earnings and accelerating AI-related investment are supporting solid economic growth. This has led the Fed to become more cautious as inflation risks shift from external shocks to domestic demand.

Markets have so far taken confidence from strong company fundamentals and broadening profit growth across sectors. As we enter the second half of the year, the key question for investors is whether earnings and productivity gains can continue at the current pace without prompting intervention from central banks.

[8] Office for National Statistics
[9] Burnham to give mayors more power in 10-year plan to transform economy - BBC News

Fixed income

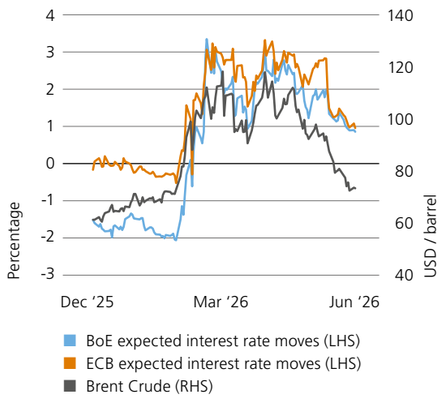
Having spent the first quarter rapidly moving to price in rate hikes, bond markets spent much of the second quarter unwinding these expectations. As the intensity of the Iran war shifted, markets increasingly expected a deal was coming, which it eventually did in late June. Energy prices retraced sharply as a result, easing the inflationary pressures that had dominated the outlook since February.

Oil unwinds as the deal lands

Brent crude entered the quarter at USD 118 per barrel, its highest level this year, before drifting lower on mounting speculation of an agreement, even as further strikes were exchanged. When Washington and Tehran announced a memorandum of understanding in late June – reopening the Strait of Hormuz in exchange for the lifting of the blockade on Iranian ports – Brent fell around USD 17 per barrel in four sessions before ending the quarter below pre-war levels, posting its biggest monthly decline since 2020.

This matters because energy prices, and the other commodities disrupted by the closure of the Strait, were the key source of inflation pressure and had increased the risk of stagflation, when inflation remains high even as economic growth slows. US headline inflation reached 4.2% in May, driven largely by energy. The deal has significantly diminished the risk of another energy-driven inflation spike, reducing the need for central banks to keep raising interest rates. As such, expectations for further rate hikes declined over the closing weeks of the quarter, and 10-year Treasury yields fell back below 4.5% as oil returned to around USD 72 per barrel. Although shipping can now resume, it will take months to clear mines and move the queue of delayed vessels through the Strait, meaning energy prices could experience further volatility.

BoE and ECB expected interest rate moves by end of 2026 vs Brent Crude



Source: Bloomberg

A new era begins at the Fed

Kevin Warsh was sworn in as the Fed chairman on 22 May, succeeding Jerome Powell. At his first meeting in June, the Federal Open Market Committee (FOMC) unanimously held rates but the changes surrounding the decision mattered more than the decision itself. Warsh announced five task forces to review how the Fed operates, covering its communications, balance sheet policy, data sources, productivity, jobs, and the inflation framework. The policy statement was cut to roughly a third of its usual length and dropped forward guidance altogether, while Warsh declined to submit his own rate projection.

With nine of the 18 committee members nevertheless pencilling in at least one hike this year, markets read the shorter communication as a hawkish signal. Speculation of rate increases rose, and two-year Treasury yields jumped 0.16% to 4.21% on the day. With the Fed saying less, investors must infer more. We therefore expect bouts of rate volatility until the central bank's new reaction function becomes better understood.

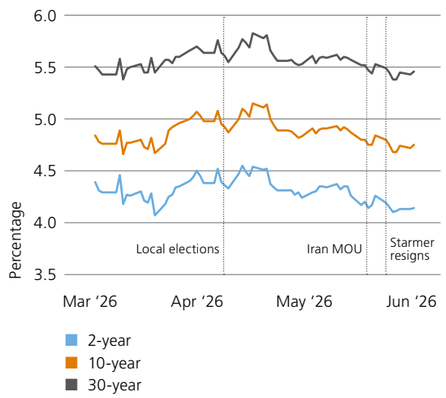
ECB hikes ahead of the deal

The ECB raised rates by 0.25% on 11 June, its first hike in nearly three years, taking the deposit rate to 2.25% in a unanimous decision. Updated staff projections showed inflation averaging 3% this year against growth of just 0.8%, capturing the stagflationary nature of the shock. Notably, the decision came days before the deal was announced. Markets had priced in further increases this autumn, but with the energy shock now unwinding, those hikes are firmly under question.

A difficult balance for the BoE

The BoE held rates at 3.75% throughout the quarter, although the June vote narrowed to 7–2, with two members preferring an immediate move to 4%. Inflation fell to 2.8% in May but is expected to rise back above 3% later this year as energy costs pass through, while the labour market cools and growth remains subdued. This difficult balance between growth and inflation means the BoE will likely hold rates steady until clear trends emerge.

UK gilt yields



Source: Bloomberg

Gilts also had domestic politics to contend with. Ten-year bond yields touched their highest levels since 2008 in mid-May, and 30-year bond yields reached their highest since 1998, as pressure on Starmer mounted following heavy local election losses. His resignation on 22 June drew a muted reaction, having been largely priced in over several months. Burnham remains uncontested is and expected to take office in mid-July. However, he has yet to appoint a chancellor, and with gilt issuance elevated and with Burnham's preference to nationalise utilities, the market reaction will ultimately depend on the incoming government's commitment to the fiscal rules.

SpaceX headlines a busy credit market

Corporate bond markets remained well supported, with investors continuing to buy new bonds despite a surge in borrowing to fund AI expenditure. The most notable debut came from SpaceX, which raised USD 25 billion in bonds barely two weeks after its record listing, attracting nearly USD 90 billion in orders, although investors demanded a wider spread – the extra return over government bonds – than similarly rated issuers, reflecting a degree of caution. This closed off a quarter marked by strong but discerning demand. Corporate bond issuance is expected to remain elevated. Consequently, credit selection remains paramount heading into the second half.

> "With gilt issuance elevated, and a potential nationalisation of utilities, the bond market reaction will ultimately depend on the incoming government's commitment to fiscal rules.

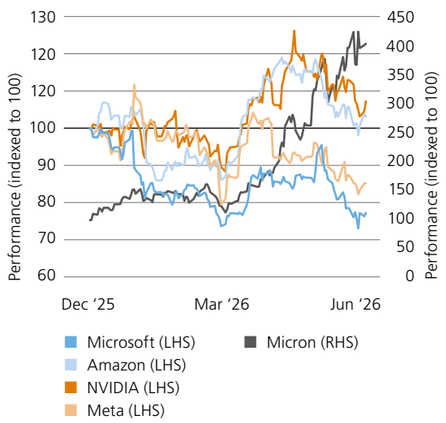
Jeremy Sterngold, Deputy Chief Investment Officer

Equities

As the second quarter saw the Iran ceasefire just about hold and fears of a broader conflict subside, equity markets staged a powerful rebound. The MSCI World Index delivered a very strong 14% total return in the quarter, while the S&P 500 gained 15% and the equal-weighted version – where all underlying companies have the same weight – rose 11%. Although performance improved across sectors, the largest US stocks continued to do much of the heavy lifting.

Once again, technology set the pace. The Nasdaq rose 22% for the best quarterly performance in over 20 years, excluding the post-pandemic rebound. The AI theme was utterly dominant during the quarter but performance among the massive AI spenders was mixed. Amazon rose 14% and Alphabet 24%, while Microsoft and Meta (Facebook) rose and fell 1% respectively, as markets worried about AI's competitive impact on Microsoft's software suite, and Meta's heavy spending without its own, comparable revenue-generating cloud business.

Microsoft vs Amazon vs Nvidia vs Meta vs Micron YTD



Source: Bloomberg

AI spending creates new winners

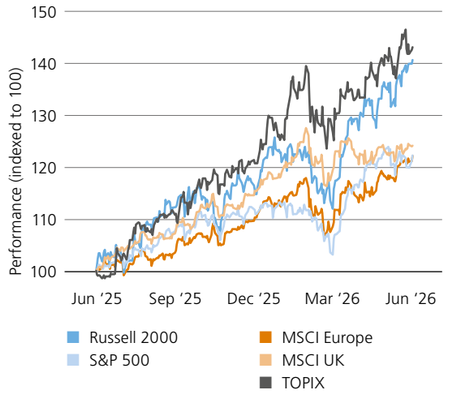
The real AI winners were the beneficiaries of this wave of spending. Nvidia, the near monopoly supplier of the key processing chips for AI, rose 14%, but it was the suppliers of memory chips, also vital alongside Nvidia's chips, that soared. When an oligopoly[10] of just three companies meets unprecedented demand, those companies can name the price for the memory chips they sell. Micron Technology, the US memory chip company, rose 240% and added roughly USD 900 billion to its market cap in a single quarter. These astonishing quarterly earnings implied that it had doubled its prices in a year. Larger competitors, Korea's SK Hynix and Samsung Electronics, rose 220% and 96% in the quarter, adding roughly USD 800 billion and USD 600 billion respectively to their market caps, contributing nearly 80% of the 68% return of the flagship Kospi index.

In any other quarter, the performance of the S&P industrials (15%), consumer discretionary (9%), financials (9%), real estate (9%), healthcare (9%) and communication services (8%) sectors would be excellent, but when the S&P IT sector rises over 30%, they are merely a footnote. With Iran risk fading and oil prices falling back sharply, the energy sector went from a 37% positive return in Q1 to a 14% decline in Q2. Similar declines were seen across the UK and European energy sectors.

Beyond the mega-caps

Smaller US companies also participated meaningfully, with the Russell 3000 up 15%, suggesting that investors were willing to look beyond the mega-caps now that the immediate geopolitical tail risk had diminished. Given that the S&P 500's Q1 2026 11% sales and 28% EPS growth YoY were broadly spread across all sectors, this suggests that economic spoils are being spread more widely.

Russell 2000 vs S&P 500 vs MSCI Europe vs MSCI UK vs Topix over 1 year



Source: Bloomberg

Regional markets diverge

Regionally, the rebound was broad but uneven. The MSCI Europe returned 12%, broadly in line with global equities, with Germany and France both posting 10% returns. Japan's Topix index continued its strong run with a 14% return, helped by ongoing enthusiasm for both semiconductor equipment makers and the trading houses that benefit from higher commodity prices.

Asia ex-Japan was more mixed. The two key Chinese benchmarks again diverged: the tech-heavy Shenzhen market rose a robust 13%, while the more 'old-economy' Shanghai Composite gained a more modest 6%. Hong Kong lagged badly, falling 6%, with few AI capex beneficiaries and rising concerns over property prices and bad debts.

The UK's missing tech champion

UK equities once again posted respectable but modest numbers with the MSCI UK gaining over 3%. However, unlike US equities, sector performance was not broad and was also mixed, with only the consumer discretionary and financials sectors rising more than 10%.

Returns of 23%, 30%, and 21% for Lloyds, Barclays, and NatWest were particularly noteworthy. In contrast, four core sectors, namely energy, healthcare, telecoms, and utilities posted negative returns. The absence of a domestic tech sector showed, as the once UK-listed and Cambridge-based ARM Holdings rose 130% and added USD 200 billion to its market cap. ARM shares now trade on the Nasdaq, so this enormous growth no longer benefits UK indices.

The MSCI Europe financials sector rose 18%, marking the latest leg in a multi-quarter re-rating as cost discipline and benign credit trends continue to support both earnings and capital returns. Industrials (14%) and consumer discretionary (10%) rose as concerns that high oil prices would drag economies down gradually faded with the puncturing of high oil prices.

Can the AI rally continue?

For now, Q2 2026 goes down as a quarter in which global equities decisively looked past the shocks of early 2026 and re-embraced risk. Whether this continues depends on fading geopolitical risks and if tech companies see revenue and profits to justify the level of AI investment.

[10] An oligopoly is a market structure where a small number of large firms dominate an industry and collectively account for most of its sales and pricing power.

Key market data

Key market data (as at 30 June 2026)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
MSCI United Kingdom (GBP)	2991	0.74	3.44	7.63	24.22	55.57	83.73	7.63
S&P 500 (USD)	7499	-0.95	15.20	10.21	22.33	75.47	87.57	10.21
Euro Stoxx 50 (EUR)	6328	4.69	15.72	11.69	22.80	57.70	82.34	11.69
Nikkei 225 (JPY)	70062	5.63	37.21	39.18	73.05	111.10	143.34	39.18
MSCI World (USD)	3763	-0.04	14.11	10.62	23.13	71.43	81.95	10.62
MSCI AC Asia Pacific ex Japan (USD)	1092	0.17	24.99	26.72	47.70	94.67	63.96	26.72
MSCI Emerging Markets (USD)	109634	-0.03	24.22	26.93	50.90	98.75	65.21	26.93
10 year bond yields **								
UK	4.75	-0.08	-0.10	0.27	0.26	0.34	4.03	0.27
US	4.44	0.00	0.12	0.27	0.21	0.63	2.99	0.27
Germany	2.86	-0.11	-0.17	0.00	0.26	0.45	3.06	0.00
Japan	2.67	0.02	0.34	0.61	1.23	2.28	2.61	0.61
Commodities (USD)								
Gold	4022.90	-11.79	-13.44	-7.00	22.11	109.41	127.18	-7.00
Oil	72.92	-20.78	-38.39	19.84	7.85	-2.64	-2.94	19.84
Currency								
GBP-USD	1.33	-1.54	0.65	-1.32	-3.15	4.40	-3.92	-1.32
GBP-EUR	1.16	0.50	1.43	1.37	-0.56	-0.38	-0.34	1.37
EUR-USD	1.14	-2.03	-0.77	-2.65	-2.60	4.79	-3.59	-2.65
USD-JPY	162.52	2.09	2.16	3.69	12.52	12.45	46.43	3.69

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

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Equities decisively looked past the shocks of early 2026 and re-embraced risk. Whether this continues depends on fading geopolitical risks and AI investments delivering adequate returns.

Russell Harrop, Head of Equities

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Quarterly report contributors

Sanjay Rijhsinghani, Chief Investment Officer
Jeremy Sterngold, Deputy Chief Investment Officer
Russell Harrop, Head of Equities

Media relations

Chloe Poole
Phone +44 (0)203 207 8466, chloe.poole@lgt.com

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LGT Wealth Management US Limited
14 Cornhill, London EC3V 3NR
Phone +44(0)20 3207 8000, info-us@lgt.com

www.lgtwm-us.com

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