Summer 2026

INVESTOR INSIGHT

A look at the markets by RSMR

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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

Markets continue to move higher despite global uncertainty.

The second quarter of 2026 was another reminder that markets can perform well even when the headlines appear challenging. Concerns about the conflict in the Middle East, inflation, and the rapid growth of artificial intelligence (AI) all created uncertainty for investors. Despite this, global stock markets generally moved higher, and most major regions delivered positive returns.

One of the biggest influences on markets during the quarter was the situation in the Middle East. Earlier fears that the conflict could significantly disrupt global energy supplies pushed oil prices higher and increased concerns about inflation. However, as hopes grew that tensions between the US and Iran could ease, oil prices fell back, helping to improve investor confidence and reduce concerns about the impact on economic growth.

The global economy continued to show mixed but generally encouraging signs. The United States remained the strongest major developed economy, supported by healthy consumer spending, low unemployment and strong corporate earnings. Europe continued to recover slowly, while emerging markets and parts of Asia benefited from growing demand for technology, semiconductors and AI-related products.

Inflation remained a key focus for investors and central banks. Price pressures are still higher than policymakers would ideally like, but inflation has generally continued to move lower. In the UK, inflation was 2.8% in May and the Bank of England kept interest rates unchanged at 3.75%. Many investors hope that lower inflation will eventually allow central banks to reduce interest rates, although policymakers remain cautious.

Artificial intelligence continued to be a major investment theme. Companies involved in AI development, semiconductor manufacturing and digital infrastructure drove a significant proportion of market gains. While some investors have questioned whether valuations are becoming stretched, company earnings have generally remained strong enough to support market optimism.

Overall, political and economic uncertainties remain, but the global economy continues to expand and corporate profitability is healthy. This has helped support markets despite periods of volatility and uncertainty.

> "The global economy continued to show mixed but generally encouraging signs."

The asset classes – a quick round-up

EQUITY MARKETS

The UK economy is in a relatively stable position. Economic growth remains modest but falling inflation and expectations of lower interest rates in the future have helped improve confidence. Politically the position is more fragile with a new Prime Minister about to begin their tenure creating more uncertainty. The UK stock market performed reasonably well in absolute terms during the quarter, supported by strong earnings from large multinational companies and valuations that remain attractive, but it fared less well than other global markets.

The US remains the world's leading economy and continued to produce impressive corporate results. Strong employment, healthy consumer spending and continued investment in technology helped support market performance. Although investors remain focused on AI-related companies, strong earnings growth was evident across a wider range of sectors including healthcare, financial services and energy. The US market experienced periods of volatility, but confidence remains strong overall.

European markets delivered a positive quarter despite a challenging economic backdrop. Falling oil prices helped ease inflation concerns and improve investor sentiment. Growth remained relatively slow compared with the US, but lower energy costs and increased government spending supported financial markets. European shares continued to trade at lower valuations than their US counterparts, making the region attractive to some investors.

In Asia, Japan was one of the standout performers. Corporate reforms, improving profitability and stronger shareholder returns continued to attract investors and many Japanese companies exceeded earnings expectations, helping drive strong market returns.

Emerging markets also performed well. Technology and semiconductor companies were key drivers of returns, particularly in countries linked to global AI supply chains. However, investors should remember that some emerging markets have become increasingly concentrated in a small number of technology businesses, which can increase risk if sentiment towards the sector changes.

FIXED INTEREST

Bond markets experienced a more challenging period than equity markets. Inflation concerns and changing expectations around future interest rate decisions continued to influence bond prices. Investors who entered the year expecting interest rate cuts have had to adjust expectations as central banks remain cautious about declaring victory over inflation. While this has created some short-term volatility, higher yields mean that bonds now offer more attractive income opportunities than they have for many years. For long-term investors, this creates a more favourable environment than was available during the very low interest rate period that followed the global financial crisis.

Corporate bonds remained relatively resilient, supported by strong company profits and healthy balance sheets. High yield bonds also performed reasonably well, benefiting from low default rates and stable economic growth. Although risks remain, the outlook for many areas of the bond market has improved compared with recent years.

ALTERNATIVE INVESTMENTS

Alternative investments continued to play an important role in diversified portfolios. Infrastructure was among the strongest performing areas, benefiting from stable income streams and long-term investment trends such as renewable energy, electricity networks, battery storage and data centres. These assets continue to benefit from growing demand linked to electrification and AI development.

Commercial property delivered modest positive returns as rental income remained stable and property values showed signs of improvement. Retail and office sectors performed better than many investors expected, and industrial and logistics assets continued to benefit from structural demand.

Commodity markets were more volatile. Oil prices rose sharply during periods of heightened geopolitical tensions before falling back as concerns eased. Industrial metals continued to be supported by infrastructure investment and technological development, and gold remained attractive to investors seeking diversification during uncertain times.

RSMR Global round-up

- Global stock markets delivered positive returns despite ongoing geopolitical uncertainty.
- The US was the strongest major developed economy, supported by healthy employment and consumer spending.
- UK inflation fell to 2.8%, improving confidence among consumers and businesses.
- Japan was one of the strongest-performing developed markets during the quarter.
- Emerging markets benefited from technology and AI-related growth opportunities.
- Bond markets remained volatile as investors reassessed the outlook for inflation and interest rates.
- Infrastructure and commercial property continued to provide diversification benefits.
- Artificial intelligence was a major driver of market performance and investor sentiment.

“Emerging markets benefited from technology and AI-related growth opportunities.”

“The overall backdrop for investors is more encouraging than many expected at the beginning of the year.”

SO, WHAT’S NEXT?

The outlook for the remainder of 2026 is broadly positive, although investors should expect periods of market volatility. Inflation, interest rates and corporate earnings will remain the most important factors influencing markets over the coming months.

The good news is that many of the economic outcomes investors feared earlier in the year have not materialised. Economic growth remains positive, unemployment levels are generally low, and company profits continue to support market valuations. Lower oil prices and easing inflation have also helped improve the outlook.

There are still risks to monitor. Geopolitical tensions have not disappeared, and investors will continue to watch developments in the Middle East closely. There are also ongoing questions about how sustainable current AI-driven investment levels are and whether future earnings can continue to justify high valuations in some areas of the market.

History shows us that investing successfully is rarely about predicting short-term market movements. Instead, maintaining a well-diversified portfolio, focussing on long-term objectives, and avoiding emotional reactions to headlines has often produced better outcomes for investors.

While challenges undoubtedly remain, the overall backdrop for investors is more encouraging than many expected at the beginning of the year. Markets appear well supported by economic growth, resilient corporate earnings, and improving inflation trends as we move into the second half of 2026.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our ‘R’ fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don’t limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a ‘snapshot’ of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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