BROOKS MACDONALD

The *Monthly Edit*

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We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.



Market headlines

Stocks climb the wall of worry as AI optimism outweighs macro headwinds

Equities pushed higher despite elevated bond yields and geopolitical tensions, with technology stocks once again leading the charge.

Bond yields test cycle highs

Global long-dated government bond yields rose to levels not seen for many years as investors questioned whether inflation and government borrowing would keep rates elevated.

Higher oil prices lead to higher uncertainty

A surge in energy prices clouded the inflation outlook and complicated the interest-rate debate, keeping markets guessing about the timing and direction of future central bank moves.

Economic resilience offsets signs of labour market cooling

Growth and consumer spending remained broadly supportive of risk assets, even as hiring momentum softened and recession fears lingered.





The big topics

Geopolitical tensions drive volatility in energy markets

Geopolitical developments remained an important influence on markets.

Early hopes of progress in negotiations involving Iran and Oman initially lowered oil prices and supported investor sentiment. However, renewed tensions surrounding the Strait of Hormuz later pushed Brent crude sharply higher, while European natural gas prices also rose. Subsequent reports of a possible US-Iran ceasefire helped reverse some of these moves. These rapid shifts highlighted the sensitivity of inflation expectations and financial markets to different supply dynamics. Lower energy prices briefly supported equities and bonds, while renewed increases pressured interest-rate-sensitive assets and revived concerns about persistent inflation.

Inflation eases, but energy prices complicate the outlook

US inflation data provided some reassurance, with consumer and producer price pressures generally coming in line with or below expectations.

This reduced the perceived likelihood of another near-term Federal Reserve rate increase. However, rising oil, natural gas and agricultural prices showed that the inflation outlook remains vulnerable to geopolitical developments. Tariffs and supply-chain disruption also continued to place upward pressure on business costs. As a result, markets remained divided over the path of monetary policy, with investors closely monitoring incoming inflation and labour market data for evidence that price pressures are easing more sustainably.

Resilient growth meets higher long-term borrowing costs

Economic activity remained surprisingly resilient despite geopolitical uncertainty and tighter financial conditions.

US manufacturing strengthened, corporate investment stayed healthy and business surveys indicated that activity was expanding at its fastest pace in several years. The labour market showed clearer signs of cooling, although steady unemployment rate and continued hiring in some sectors suggested a gradual slowdown rather than a sharp deterioration. Stronger growth was not always welcomed by markets, however, as it reinforced expectations that interest rates may remain elevated. Long-term government bond yields rose amid stronger data, increasing borrowing costs and placing greater pressure on tightly-valued assets.

Strong earnings reignite enthusiasm for artificial intelligence

The AI theme remained a major source of support for equity markets.

Strong results and upbeat guidance from Nvidia helped reassure investors that demand for AI-related computing capability and infrastructure remains robust. Positive updates from other technology companies reinforced this optimism and helped offset concerns about inflation, geopolitics and higher bond yields. However, market gains remained concentrated. At the same time, substantial investment in data centres, energy infrastructure and computing capacity is increasing demand for capital. AI therefore remains an important long-term growth opportunity, but elevated valuations and higher financing costs raise the hurdle for future outperformance.



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