



EQUITY MARKETS WELCOME US ATTEMPTS TO DRAW A LINE UNDER MIDDLE EAST MISADVENTURE

This week Donald Trump finished his Iranian Taco. The US president clearly bit off more than he could chew and Trump has been looking for a way out since it became apparent that the only other real option was significant escalation. As seems typical for the Trump White House, the deal signed this week is an indication of direction of travel, with considerable extra work needed to put details in place. But any agreement between Iran and the US is to be welcomed, particularly if it includes the reopening of the Strait of Hormuz, and equity markets reacted positively.

Meanwhile, Kevin Warsh, the new boss of the US Federal Reserve, has been keen to make his mark. The US and UK central banks both left interest rates unchanged, as expected, but Warsh has signalled that he wants the Fed to say as little as possible about where rates are heading. What little he did say suggested he sees inflation as too high, and, with the US economy growing strongly, bond markets now expect rate hikes. Markets had expected Andy Burnham's election win. The late-week fall in UK gilts owes more to war in Lebanon and the test it poses to the US-Iran ceasefire.

THE MARKETS THIS WEEK

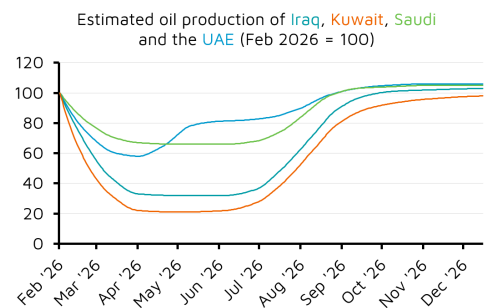
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-0.67%	+0.95%	+7.67%	+0.69%	-3.28%	+0.02%	+0.02%	-8.61%	+0.43%	-0.52%	-1.33%



ENERGY: TANKERS CAUTIOUSLY SAIL AGAIN AS HORMUZ REOPENS

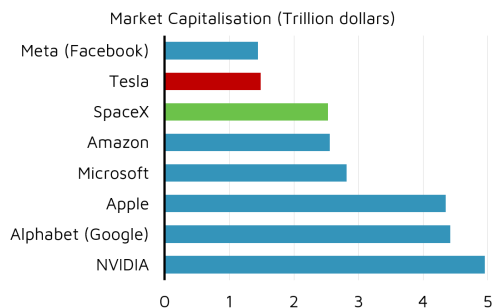
Iran and the United States have signed a 60-day ceasefire. The Strait of Hormuz reopens, and Iran can sell oil again. The first tankers are already moving, some leaving the Gulf laden and others heading in empty. Brent crude has slipped below \$80 a barrel, a three-month low and well down from May's \$107 average. Caution lingers, though. War-risk premiums sit near 7.5% of a ship's value, and the slow return of traffic to the Red Sea, a year after it was closed by Houthi rebels, shows how slowly confidence returns. Morgan Stanley expects only 80% of Gulf output by December.

Recovery in refining is more problematic. Asian plants short of crude running at 50 to 70% of capacity, against 82 to 84% before the war, and thin margins are forcing the cuts. The deepest cuts, in Japan and South Korea, are speeding industry consolidation. The wider picture is brighter, though. Cheaper energy is easing inflation worries, and analysts broadly see Brent settling around \$80 as Gulf barrels return to the energy market.



TECH: THE MAGNIFICENT SEVEN MORPH INTO THE GREAT EIGHT

The SpaceX IPO continues to break records as strong investor demand caused shares to surge since they began trading late last week, and the company was able to sell a second tranche of shares to take its total fund raising to \$86bn. Shares have gained almost 50%, giving SpaceX a larger valuation than Amazon, even after a slight pull back mid-week. The company has wasted no time in its search for AI-driven growth as it announced the \$60bn acquisition of AI-coding firm Cursor.



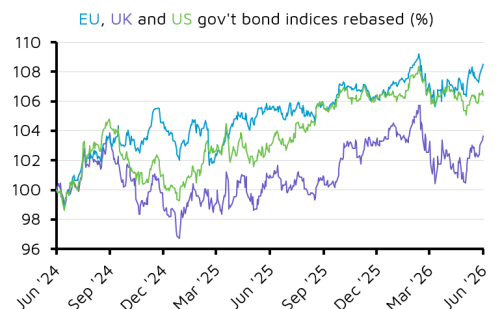
SpaceX's rise came amid a broad tech rally as the Nasdaq climbed as the US war with Iran moved closer to an end. A more hawkish Federal Reserve, now apparently open to rate hikes this year, took some of the shine off those gains. Lower oil prices from the US-Iran deal lifted shares more widely, with emerging markets and Japan leading the way. European and UK stocks rose more modestly, held back by persistent inflation and weaker growth.



GLOBAL: US AND UK RATES LEFT UNCHANGED BUT OUTLOOKS DIVERGE

The Federal Reserve left interest rates unchanged but the bank appeared more open to interest rate hikes than expected under the leadership of new chair Kevin Warsh. Before his nomination, Warsh had indicated he was open to pre-emptive rate cuts due to the deflationary effects of AI, however, steady economic growth and persistently high inflation meant the Fed's voting members were unanimous in their decision to leave rates alone. US treasury bonds fell, pushing up yields, as markets digested the potential for rate hikes, and the dollar gained.

The Bank of England also left interest rates on hold, but it is seen as moving in the other direction as weaker wage inflation and cooling consumer demand, combined with the recent drop in oil and gas prices, have made it less likely to hike rates. UK government bonds gained after the bank's decision as investors see fewer rate hikes this year than they did only a few weeks ago. The Bank of Japan increased interest rates by 0.25% to 1%.



Data sourced from FE Analytics, Kpler, companiesmarketcap.com.

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