



COST OF WAR IN THE MIDDLE EAST IS RISING AS CHINESE ECONOMIC GROWTH STUTTERS

This week the rationale for the US resuming hostilities in the Middle East remained elusive. Did strong growth and cooler inflation at home give Donald Trump room to be more aggressive towards Iran? Or were the bombing raids a negotiating tactic, meant to force concessions from the Iranian government? Oil prices have risen again, though far less steeply than after war broke out in late February. Bond yields have also moved less dramatically than in March, but they remain well above pre-war levels. Petrol and diesel receive less attention than crude oil, yet their prices have risen sharply, lending weight to industry warnings about shortages of refined products.

Volatility in global tech stocks has continued as tolerance for very high valuations wears thin, yet demand has not disappeared and the pipeline of AI-linked listings keeps filling. Quieter, but as significant, is China's slowdown. Setting aside the Covid years, growth of 4.3% in the second quarter is the lowest in decades and below target, as expensive oil, weak consumer confidence and the property hangover weigh.

THE MARKETS THIS WEEK

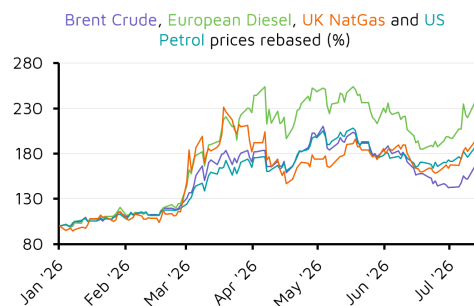
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.16%	-0.96%	-7.02%	-0.13%	+1.19%	0.00%	+0.05%	+10.98%	-2.92%	-0.68%	+0.25%



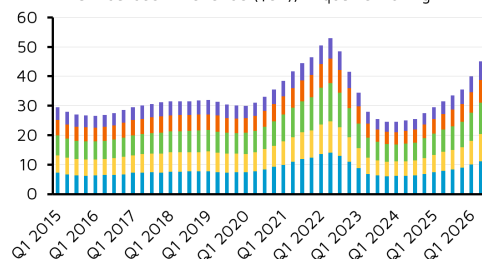
GLOBAL: OIL AND GAS PRICES RISE AS WAR RETURNS TO MIDDLE EAST

The escalation of fighting between the US and Iran caused oil prices to spike as Iranian and US-allied shipping came under attack and the Strait of Hormuz was effectively closed. The US reimposed its blockade of Iranian ports and struck an Iranian oil tanker near the export terminal on Kharg Island in response to Iranian strikes on several tankers transiting the Strait earlier this week.

Brent crude hit \$87 a barrel before settling back to around \$85. This is up around 11% from \$76 a week ago. Oil traders are repeating warnings of shortages if Hormuz remains closed as most of the world's oil stockpiles have already been depleted. The International Energy Agency said diesel and petrol supplies are particularly vulnerable to extended disruption as Ukraine's attacks on Russian energy installations have reduced its exports. UK and European natural gas prices have jumped higher and Bank of England governor Andrew Bailey said fighting in the region has complicated the short-term outlook for interest rates.



BofA, Citi, JPM, GS and Morgan Stanley combined annualised IB revenue (\$bn), 4-quarter rolling



BANKS: EVERYBODY ON THE STREET IS HIGH ON THE SAME SUPPLY

America's largest banks have posted record second-quarter profits, and artificial intelligence is largely why. Volatility in AI-linked shares gave trading desks a standout quarter, and combined equities revenue at the four biggest firms rose 72% on the year to \$19.3bn. JPMorgan earned a record \$21.2bn, while Goldman Sachs' profit leapt 80% to \$6.6bn, its best in five years. The gains reached beyond trading. SpaceX's flotation alone produced \$500m in fees across Wall Street, and newly wealthy IPO investors funnelled \$148bn of fresh money into Morgan Stanley's wealth arm.

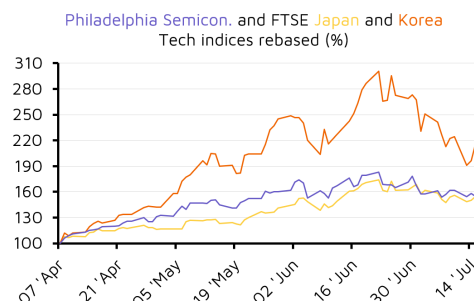
The strength is real but concentrated. Trading, dealmaking, lending and wealth management all now lean on the AI build-out, which leaves the banks tied to a single story. Citi's shares slipped on cost worries, and analysts warn that any reversal in AI enthusiasm could hit trading, fees and loan quality at once. JPMorgan's Jamie Dimon summed up the mood, calling conditions close to their peak while admitting nobody knows how long they will last.



TECH: SHARES FALL BUT DEMAND AND REVENUES POUR IN

Technology set the tone for a poor week in markets. Chip shares fell on Monday in New York and Asia amid Iran tensions and profit-taking, then again on Thursday, when Tokyo's Nikkei lost 2.8%. The hardest fall came in Seoul, where SK Hynix, days after a record \$26.5bn New York listing, sank 15.4% and pulled the KOSPI down 9%. IBM dropped 25%, its worst day in over fifty years, after clients diverted budgets to AI servers and storage. SpaceX slipped below its \$135 float price, about \$1tn under June's peak, with insiders free to sell from August.

The worry is about prices, not demand. TSMC's quarterly profit jumped 77% to around \$22bn and it pledged another \$100bn for American plants, while ASML raised its full-year forecast a second time on orders stretching years ahead. Cooler American inflation lifted bonds and hopes of rate cuts. The boom is real, but at these valuations shares get no forgiveness for bad news.



Data sourced from FE Analytics, Visible Alpha

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