FE Investments
WEEKLY MARKET COMMENTARY BY ROB GLEESON
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WAR IN THE PERSIAN GULF SPILLS OVER TO THE RED SEA SENDING OIL HIGHER

This week markets have reflected the two forces that have driven performance in 2026. A sharp escalation of fighting in the Middle East pushed the oil price above $100 for the first time in two months, leaving investors once again trying to work out what Donald Trump wants from the war. With US petrol prices back above $4 a gallon, the strength of US voters' opposition to the conflict also matters for judging what comes next. Oil remains well below its recent peak, despite refined products pushing to new highs, and markets appear willing to overlook low strategic oil and gas reserves, for now. But concerns about a prolonged conflict, and higher inflation, have pushed government bonds down and yields higher.

The other force is the strength of the AI-driven equity rally. As has been apparent this year, the US tech giants that were the original winners in the AI trade (Microsoft, Meta, Alphabet, Amazon etc.) have lagged the broad market and massively underperformed tech hardware companies as investors are wary of the huge sums of money being spent in the race for AI market share.

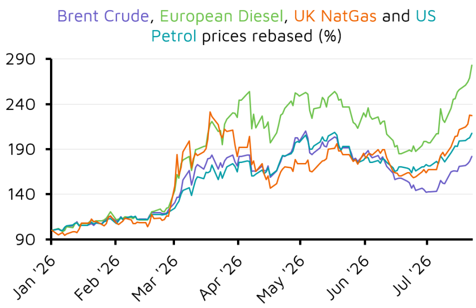
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.81%	-0.49%	+1.81%	+0.38%	+2.05%	+0.16%	+0.12%	+15.24%	+2.54%	+2.21%	-0.93%

GLOBAL: OIL SOARS AS WAR ESCALATES AND SPREADS TO THE RED SEA

Oil has done nothing this month but climb. The renewed war between the US and Iran, and this week a Houthi blockade of Saudi Arabia, have choked the two sea routes that carry much of the world's crude. Brent has jumped more than 30% since early July, touching almost $102 a barrel on Thursday, a seven-week high. With traders no longer expecting the Strait of Hormuz to reopen soon, Goldman Sachs warns that prices could reach $120. The shock has spread to bonds. Fearing lasting inflation, investors sold government debt, driving the 10-year gilt yield to 5.08%. Rate cuts, once expected, now look like rises, though this is an inflation problem that higher rates cannot easily fix.

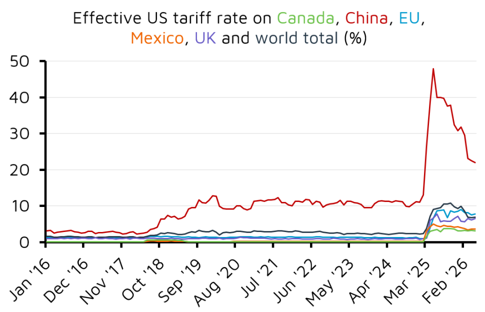
The pain is uneven. Refiners are thriving. US plants run at 96% of capacity, margins have hit records, and shares in Valero and Marathon Petroleum have nearly doubled this year. Spain's Repsol more than tripled its quarterly profit. Airlines fared worse. Ryanair's profit fell 34% to €538m, below forecasts, as fuel costs climbed and wary travellers kept fares low.



US: TRUMP ADMINISTRATION REBOOTS TARIFF REGIME

The US imposed new tariffs on Brazil and Canada in the first wave of a new tariff programme. A new 50% tariff will apply from next month. It will cover goods currently exempt under the US-Mexico-Canada Agreement, but will exclude energy, potash and critical minerals. The US claims the tariff answers unfair treatment of its exports to Canada. Many Brazilian exports to the US will face a separate 25% tariff, which the US attributes to unfair trading practices by Brazilian companies.

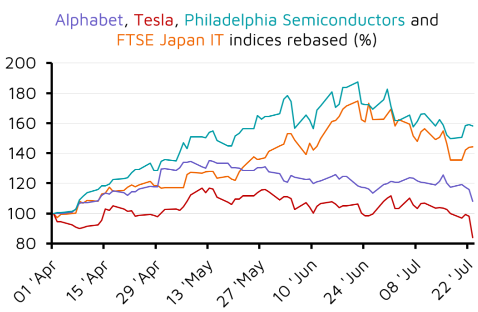
The US Supreme Court struck down most of Donald Trump's "Liberation Day" tariffs in late 2025, ruling that the president's blanket national emergency claim for them was illegal. The White House is now using other laws to replace last year's tariffs. The new levies on Brazil are Section 301 tariffs, which are imposed where foreign industries use unfair trading practices. These tariffs form the basis of a wider programme, with a new 10-12.5% levy imposed on 60 countries, including the EU, Japan and the UK.



TECH: AI SPENDING IS ACCELERATING AND INVESTORS AREN'T CHUFFED

Two of the Magnificent Seven reported this week. Both are spending heavily on AI, but only one has the sales to justify it. Alphabet's revenue rose to $120bn, beating forecasts as its cloud arm grew 82%, and net income quadrupled. It burned cash for the first time since floating two decades ago and raised its 2026 building budget to $205bn, yet the spending is following demand. The shares fell 7.1%. Tesla fared worse. It sold record car volumes only by discounting, so profit slid 17%, well below forecasts, while its money goes on robots and robotaxis that earn little as yet. Its shares dropped 14.6%.

This follows a jittery month in which a chip sell-off briefly tipped Japan's market into a correction before rebounding. In China the same AI hunger is reviving dealmaking. Memory-chip maker CXMT is seeking almost $10bn, the biggest mainland listing since 2010. It earned a record profit last quarter, though it would list at a steep 300 times earnings. Tech hardware maker Zhongji Innolight is aiming for about $8bn in Hong Kong.



Data sourced from FE Analytics, US Census Bureau