TEETHING TROUBLES FOR FED'S NEW COMMUNICATION STYLE FUELS BOND VOLATILITY

This week US government bonds swung unexpectedly after the Federal Reserve left interest rates unchanged. The decision was widely expected and the Fed remains in line with the ECB and Bank of England. Yet a sell-off in Treasuries pushed yields to their highest levels in almost two decades. Fed chair Kevin Warsh's communication style is a significant contributor. Warsh has made it clear that he thinks the Fed should not give a running commentary on its views. But this means investors will fill in the blanks. Where some see an unexpected dovish shift from the central bank, others fear a lack of action will allow inflation to run out of control. Warsh's silence will face further tests before the year is out.

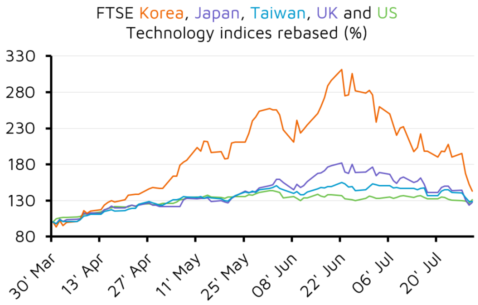
Meanwhile, the roller coaster of emerging market AI-stocks continued this week. Korea's Kospi index tumbled before recovering most of its losses. Sentiment there turns fast, and heavy retail use of leveraged products magnifies every turn. Little wonder that some investors seeking a calmer ride are looking to the UK market, where cutting-edge technology companies are thin on the ground.

THE MARKETS THIS WEEK

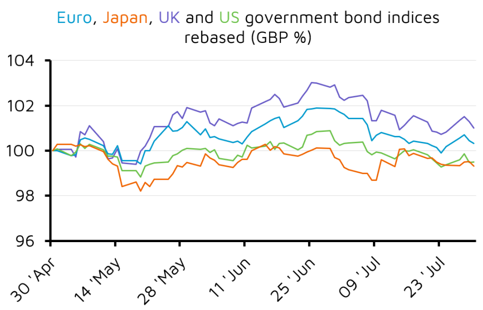
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+2.77%	+0.83%	-1.56%	+2.02%	+3.69%	-0.05%	-0.09%	-11.95%	-0.81%	+2.87%	+0.94%

GLOBAL: TECH SHARES FALL AND RETAIL INVESTORS AMPLIFY MOVES

Global technology stocks tumbled as investors balked at high valuations. Asian markets fell furthest, giving back some of the AI-driven gains made earlier this year. Korea's Kospi index dropped 15% after chip maker SK Hynix narrowly missed ambitious sales growth forecasts. The Kospi has been especially volatile because many Korean retail investors use leveraged products, and the index is now down more than 37% from its peak. Shares in Taiwan and Japan fell too, as did the US Nasdaq index.



Meta narrowed its profit forecast slightly and stuck with its vast capital spending plans, and its shares slid. Shares in chip designer Arm Holdings fell despite strong revenue growth, and Qualcomm dropped as slowing smartphone sales cut demand for its chips. Not all the news was bad. Microsoft rose after revenue from cloud services, including AI, beat expectations. Samsung recovered part of its recent decline due to record revenue growth. It forecast semiconductor shortages, which support prices, until late 2027.



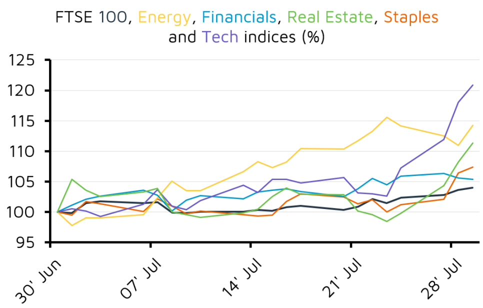
US: BOND MARKETS UNSETTLED BY LACK OF FED MESSAGING

The Federal Reserve held interest rates, as expected, but US government bonds sold off because investors did not like what they heard. Three members of its board voted to raise rates while comments from chair Kevin Warsh unsettled the market enough to push US treasury yields to their highest levels since 2007. Warsh refused to be drawn on the Fed's appetite for rate hikes, but said the recent rise in yields had already done some of the Fed's work by making borrowing more expensive. Investors read that as an sign of a more hands-off central bank. Fear of inflation then drove prices down on both short- and long-dated bonds.

In the UK, the Bank of England also held interest rates. The bank expects inflation to rise later this year and warned it could accelerate further if the war in the Middle East drags on. However, markets see less chance of a rate hike at the next meeting in September, and Gilts rallied, pushing UK yields down.

UK: THE UNFASHIONABLE FTSE INDEX HAS A GOOD MONTH

The FTSE 100 hit a record 10,951 on Wednesday, beating its February peak. It is up 4% this month, the S&P 500 down 2%. London has a small tech sector, so when chip shares tumbled its banks and energy majors drew money in. Energy rose 14%, property 11%, financials 5%, and as value companies outperformed. Technology led with 21%. London's tech is software, not silicon. It was mauled in February on fears AI would eat business software. Those fears fade as the chip trade unwinds.



Earnings added to sentiment. Shell's quarterly profit reached $9.8bn, more than double last year's, on trading gains from wild energy prices. Barclays lifted profits 31% to £3.3bn, though its shares fell for missing Wall Street's pace, while Lloyds beat forecasts with £2.3bn and Standard Chartered's wealth income rose 43%, both adding buybacks. Unilever's volumes grew fastest since 2010. Rolls-Royce and BAE raised guidance, the former after first-half profits jumped 46%, the latter on an £84bn order book. Much of it leans on dear oil.

Data sourced from FE Analytics