

2026 MID-YEAR REVIEW:

9 July 2026

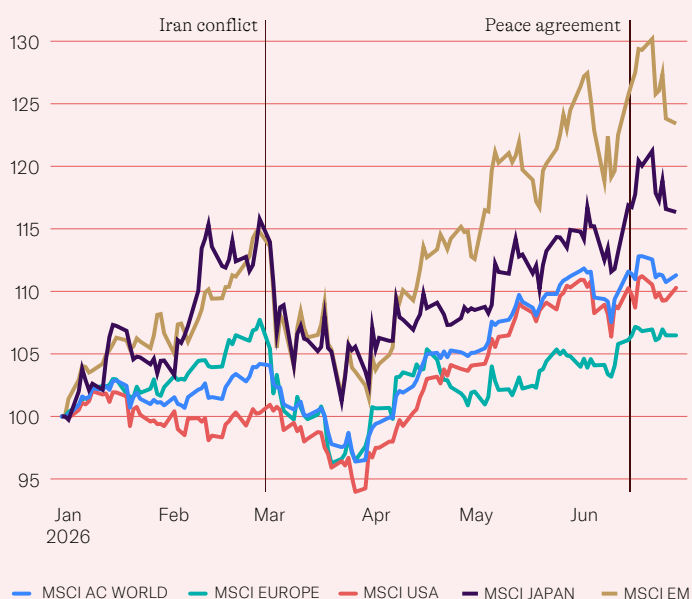
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MARKETS *look*
BEYOND *the*
HEADLINES

2026 MID-YEAR REVIEW: MARKETS *look* BEYOND *the* HEADLINES

Conflict in the Middle East drove market volatility, yet markets were higher over the first six months of the year.

Year to date: regional equity performance (in GBP)



Source: Evelyn Partners/LSEG. Data YTD as at 30 June 2026

Past performance is not a guide to future performance. The value of an investment, and the income from it, may go down as well as up and you may get back less than you originally invested.

Overview

Geopolitical developments dominated the first half of 2026, driving sharp swings in market sentiment. Yet despite the uncertainty, financial markets ultimately proved remarkably resilient, rewarding investors who remained focused on the long term.

Markets entered the year on a strong footing, supported by resilient economic data, moderating inflation pressures and signs that equity market leadership was broadening beyond the large US technology hyperscalers that had driven the artificial intelligence (AI) rally in recent years. That optimism was challenged at the end of February as conflict erupted in the Middle East, sending Brent crude oil above \$110 a barrel and reigniting concerns over inflation, economic growth and the outlook for monetary policy.

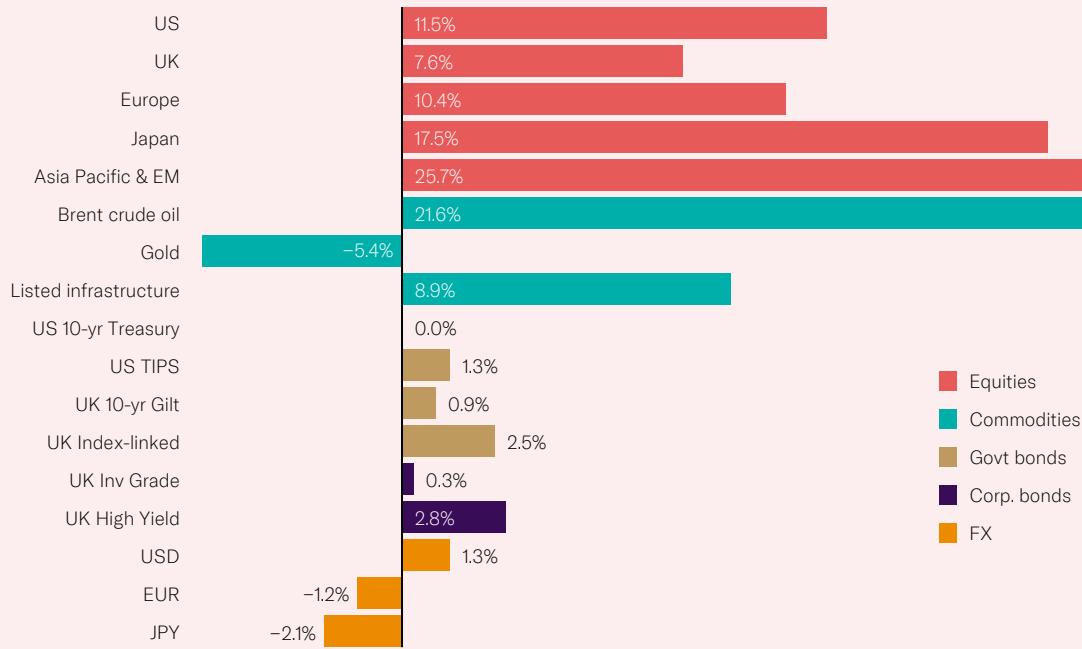
As the conflict intensified through the second quarter, repeated attempts to secure a ceasefire failed to provide a lasting resolution, while disruption around the Strait of Hormuz kept concerns over global energy supplies elevated. Despite this backdrop, markets increasingly looked through the geopolitical uncertainty. Corporate earnings remained robust, economic activity continued to surprise on the upside and fears of a sustained energy shock gradually faded. Although a formal ceasefire was not reached until mid-June, equity markets had already begun to recover well before then, demonstrating investors' willingness to focus on underlying fundamentals rather than geopolitical headlines.

By the end of June, attention had shifted away from the conflict and back towards inflation and monetary policy, with stronger economic data leading investors to conclude that interest rates may remain higher for longer. The resulting rise in bond yields created headwinds for both bonds and gold, while resilient corporate earnings and continued enthusiasm surrounding AI helped global equities finish the first half on a much stronger footing than many had anticipated during the height of the conflict.



An overview by market sector

Asset class returns (in GBP)



Source: LSEG Datastream/Evelyn Partners. Performance is in GBP. Data YTD as at 30 June 2026

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United States

US equities weathered a volatile first half to deliver strong returns. While geopolitical tensions periodically unsettled markets, the US economy continued to demonstrate remarkable resilience. Consumer spending remained robust, the labour market stayed healthy and corporate earnings broadly exceeded expectations, helping investors look through short-term uncertainty.

Enthusiasm surrounding AI remained a powerful driver of returns, with semiconductor companies and technology infrastructure providers continuing to benefit from strong investment demand. However, resilient economic growth and persistent inflation prompted investors to reassess the outlook for monetary policy. The appointment of Federal Reserve Chair Kevin Warsh, whose early communications struck a more hawkish tone, reinforced expectations that interest rates could remain higher for longer, with markets even beginning to price the possibility of further tightening. Despite this, resilient fundamentals and continued earnings growth helped US equities finish the first half on a strong footing.

United Kingdom

UK equities generated positive returns over the first half but lagged many global markets. The market's exposure to energy companies provided support as oil prices rose, although higher government bond yields and expectations that interest rates would remain elevated weighed on more domestically focused and interest rate-sensitive sectors. Political uncertainty also remained a feature of the UK investment landscape as investors assessed the government's fiscal position and the outlook for growth. Despite these headwinds, resilient corporate earnings and attractive valuations continued to support the longer-term investment case for UK equities.

Europe

European equities also generated positive returns despite facing a challenging backdrop. Although the region remained particularly sensitive to higher energy prices, investor sentiment improved as fears of prolonged supply disruption eased and economic activity proved more resilient than expected. Continued fiscal support, increased defence spending and healthy corporate earnings helped underpin returns, while comparatively attractive valuations continued to support demand. The European Central Bank's decision to tighten monetary policy with a 0.25% rate hike in June further reinforced expectations that interest rates may stay higher for longer but did little to derail the broader recovery.

Japan

Japanese equities delivered strong returns over the first half, outperforming other major developed markets. The rally was supported by improving corporate profitability, ongoing shareholder-friendly reforms and strength across semiconductor and automation companies, helping the market reach record highs in early June. Real wage growth also supported sentiment by improving the outlook for domestic demand.

Emerging Markets and Asia

Emerging markets were among the strongest-performing regions during the first half, led by continued strength across Asian technology markets. Robust demand for AI infrastructure supported exceptional performance among semiconductor manufacturers, particularly in South Korea and Taiwan. Improving confidence in China's economic outlook also helped sentiment recover, while resilient global growth offset the impact of tighter financial conditions created by higher US bond yields and a firmer dollar. Overall, the region continued to benefit from strong structural growth drivers despite a more challenging global backdrop.

Gold

Gold was one of the weaker-performing asset classes over the first half, confounding expectations that heightened geopolitical tensions would drive a sustained safe-haven rally. Instead, prices came under pressure as investors sold gold to raise liquidity following its exceptional gains in recent years, while higher real bond yields and a stronger US dollar weighed on sentiment as markets priced a more hawkish path for interest rates. Despite the short-term weakness, structural demand and gold's role as a portfolio diversifier continue to support the longer-term investment case.

Bonds

Bond markets experienced a mixed first half as investors reassessed the outlook for inflation and monetary policy. Moderating inflation initially supported expectations for interest rate cuts, but the outbreak of conflict in the Middle East pushed energy prices higher and reignited inflation concerns. Combined with resilient economic growth, this led markets to price a more prolonged period of restrictive monetary policy, driving government bond yields higher across most developed markets, although yields moderated towards the end of June. Credit markets remained comparatively resilient, supported by healthy corporate balance sheets, solid economic growth and attractive income levels. Attractive starting yields helped offset price weakness, resulting in modestly positive returns overall.

Conclusion

The first half of 2026 reinforced the value of remaining invested through periods of uncertainty. While geopolitical developments dominated headlines and tested investor confidence, strong fundamentals ultimately prevailed, with markets recovering well before uncertainty had fully subsided. Investors with diversified multi-asset portfolios were also rewarded, as most major asset classes delivered positive returns over the period.

Looking ahead, geopolitical risks and uncertainty around inflation and monetary policy are likely to persist. Rather than attempting to anticipate every twist and turn in markets, maintaining a diversified portfolio and a long-term perspective remains the most effective way to navigate an uncertain investment environment.

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