ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

July 2026

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/07/2026	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	226.57	-0.1%	+0.7%	+6.0%	+17.5%	+11.2%
ARC Balanced	Medium Risk	298.87	+0.0%	+2.4%	+9.7%	+25.8%	+19.7%
ARC Steady Growth	Medium High Risk	371.06	+0.2%	+3.7%	+11.6%	+30.0%	+25.0%
ARC Equity Risk	High Risk	446.81	+0.4%	+4.9%	+12.8%	+33.3%	+28.4%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/07/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	10868.05	3.5%	4.7%	19.0%	41.2%	54.5%
UK All Share	UK	5836.47	3.6%	4.9%	17.7%	39.0%	44.8%
Dow Jones Ind Avg	US	52485.03	0.3%	5.7%	18.9%	47.6%	50.2%
S&P 500 Index	US	7489.72	-0.1%	3.9%	18.1%	63.2%	70.4%
Nikkei 225	Japan	64362.02	-8.1%	8.6%	56.7%	94.0%	135.9%
MSCI Europe Ex UK	Europe	255.39	-0.1%	6.8%	18.7%	35.9%	38.0%
MSCI Asia Ex Japan	Asia	1103.67	-3.5%	5.5%	35.5%	65.6%	34.5%
MSCI Emg Mkts (£)	Emg Mkts	1021.35	-4.4%	5.8%	34.2%	62.4%	52.0%
MSCI World Index (£)	Global	4847.88	0.5%	4.0%	18.9%	58.2%	57.9%
UK Conventional	Gilts	3131.70	-1.5%	0.9%	1.3%	6.7%	-22.7%
UK Index-linked	Gilts	3688.03	-1.9%	-1.4%	0.6%	-4.9%	-38.2%
UK Real Estate Investment Trusts	Property	2123.17	5.6%	15.2%	12.9%	8.5%	-26.3%
WTI Crude ($/Barrel)	Oil	84.67	21.8%	-19.4%	22.2%	3.5%	14.5%
Gold Spot $/Oz	Commodities	4046.15	1.0%	-12.4%	23.0%	105.9%	123.0%
£1 = US$	Currencies	1.3483	1.7%	-0.9%	2.1%	5.0%	-3.0%
£1 = €	Currencies	1.1696	0.7%	0.9%	1.1%	0.2%	-0.2%
£1 = Yen	Currencies	212.19	-1.6%	-0.4%	6.6%	16.2%	39.1%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/07/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	15,096.85	-1.5%	3.4%	12.9%	31.9%	10.4%
Latest Weighted Average Discount	-11.3%						
12 Month Weighted Average Discount	-12.5%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

The AI trade cooled over the month, weighing on US and Asian equities as investors reassessed valuations and the pace of capital expenditure. Concerns were compounded by a rapidly shifting geopolitical landscape and uncertainty over central bank policy paths. By contrast, the UK (which is widely viewed as an “anti-AI” market with minimal direct exposure) outperformed, with British stocks rallying and sterling gaining against major peers including the US dollar and the euro.

Caution also extended to government bonds across many regions, as interest rate expectations rose following central bank communications and renewed debate over the sustainability of public spending.

Meanwhile, listed real estate continued its recovery and commodity prices firmed as oil surged on a re-escalation of Middle East conflicts. Brent crude briefly topped $100 per barrel during the month before retreating sharply on news of another potential ceasefire.

UK Commentary

The UK market emerged as a surprising sanctuary this month, with the FTSE 100 climbing to an all-time high just shy of 11,000 points. Whilst global markets were buffeted by a technology sell-off, the UK's lack of exposure to volatile chipmakers proved to be a distinct advantage. Investors effectively treated the London market as an "anti-tech" index, seeking shelter in the dependable financials and energy sectors that have traditionally defined our domestic exchange.

Political change also took centre stage as Andy Burnham entered Downing Street as the new Prime Minister. His arrival brought immediate cabinet reshuffles and a pledge to act as a "circuit-breaker" for the nation's economy, focusing on devolving power and addressing the cost of living. On the economic front, inflation provided a welcome surprise by falling to a 15-month low of 2.6% in June, although the Bank of England opted to keep interest rates steady at 3.75% due to bubbling tensions in the Middle East.

Corporate Britain was also a hive of activity. A flurry of "takeover fever" saw American firms circling local favourites, with significant deals proposed for the property group Segro and the airline easyJet. Meanwhile, our engineering sector saw Swiss giant ABB move to acquire Rotork in a multi-billion-pound deal. This surge in mergers suggests that, despite global jitters, British businesses remain highly attractive to international buyers looking for value.

North America Commentary

The American market story was defined by a shift from geopolitical anxiety to a more discerning look at the technology boom. Early in the month, the escalating conflict with Iran sent Brent crude prices soaring above $100 a barrel, sparking fears of a renewed inflationary shock. Consequently, the Federal Reserve opted to maintain interest rates at 3.5–3.75% for the fifth consecutive meeting. While June's inflation figures offered a "benign" surprise by falling to 3.5%, the central bank remains cautious, especially as 30-year Treasury yields climbed to 5.23%, their highest level since 2007.

The real drama, however, unfolded in Silicon Valley. Investors have moved from blind enthusiasm for artificial intelligence to a more selective approach. Microsoft emerged as a clear winner, recording a historic $450bn one–day valuation jump after revealing that its gargantuan data centre investments are already driving significant revenue growth. Amazon similarly impressed with its cloud division's performance, even as it hiked planned spending to $220bn. In contrast, Meta and Google saw their shares stumble as investors fretted over ballooning expenses and shrinking free cash flow. Apple briefly reclaimed its crown as the world's most valuable firm at a $5tn valuation, yet it warned of supply chain strains that could dampen future margins.

Economic data painted a complex picture once again as GDP growth slowed to an annualised 1.5% in the second quarter, while the labour market added a modest 57,000 jobs in June, and initial jobless claims fell to levels not seen since the 1960s. It seems that AI spending is supporting both growth and jobs, which was perhaps not what was expected by initial commentators.

At time of writing, 320 S&P 500 companies have now reported, and aggregate profits are up 58.3% year over year. This is a truly outstanding result.

Europe Commentary

European markets remained largely flat this month, caught between the tailwinds of a resilient economy and the headwinds of rising energy costs. Eurozone inflation crept up to 2.9% in July, driven by the same Middle Eastern tensions that affected the UK and US. This has left the European Central Bank in a delicate position; while they held interest rates at 2.25%, there is growing chatter amongst policymakers about a potential hike in September to keep a lid on prices. Despite these tensions, the broader European economy showed some grit, with GDP growth of 0.4% in the second quarter beating many analysts' expectations.

In the corporate world, the Dutch chip-equipment maker ASML stood out by raising its sales forecast, riding the wave of demand for the machinery that builds AI components. However, the luxury sector, which is a key component of the European market, is facing a major shake-up. New EU rules now ban fashion giants like LVMH and Chanel from destroying unsold stock, a move that will force these brands to rethink their production and inventory strategies.

The continent also grappled with significant social and political challenges. Spain was stunned by an unprecedented influx of unauthorised migrants in Ceuta, leading to the deployment of the army and sharp criticism from across the political spectrum.

Asia Pacific Commentary

Asia experienced a month of dramatic swings, particularly in the technology and currency markets. In Japan, the authorities made history with a massive, coordinated intervention alongside the US to prop up the struggling yen. This followed a period where the currency had hit its weakest level since 1986. The Bank of Japan kept rates at 1.0%, but the Finance Minister's plea for domestic pension funds to invest more at home sent a strong signal that the era of a weak yen may be facing its stiffest challenge yet.

The semiconductor sector, a cornerstone of Asian markets, took a bruising. South Korean giant SK Hynix saw its shares plunge after quarterly earnings missed the mark, despite a sixfold increase in profit (a sign of just how high expectations now are). This sparked a wider sell-off across the region as investors worried that the AI-led hardware boom might be losing steam. TSMC in Taiwan also continued to report stellar figures, with net income jumping over 77% compared to last year.

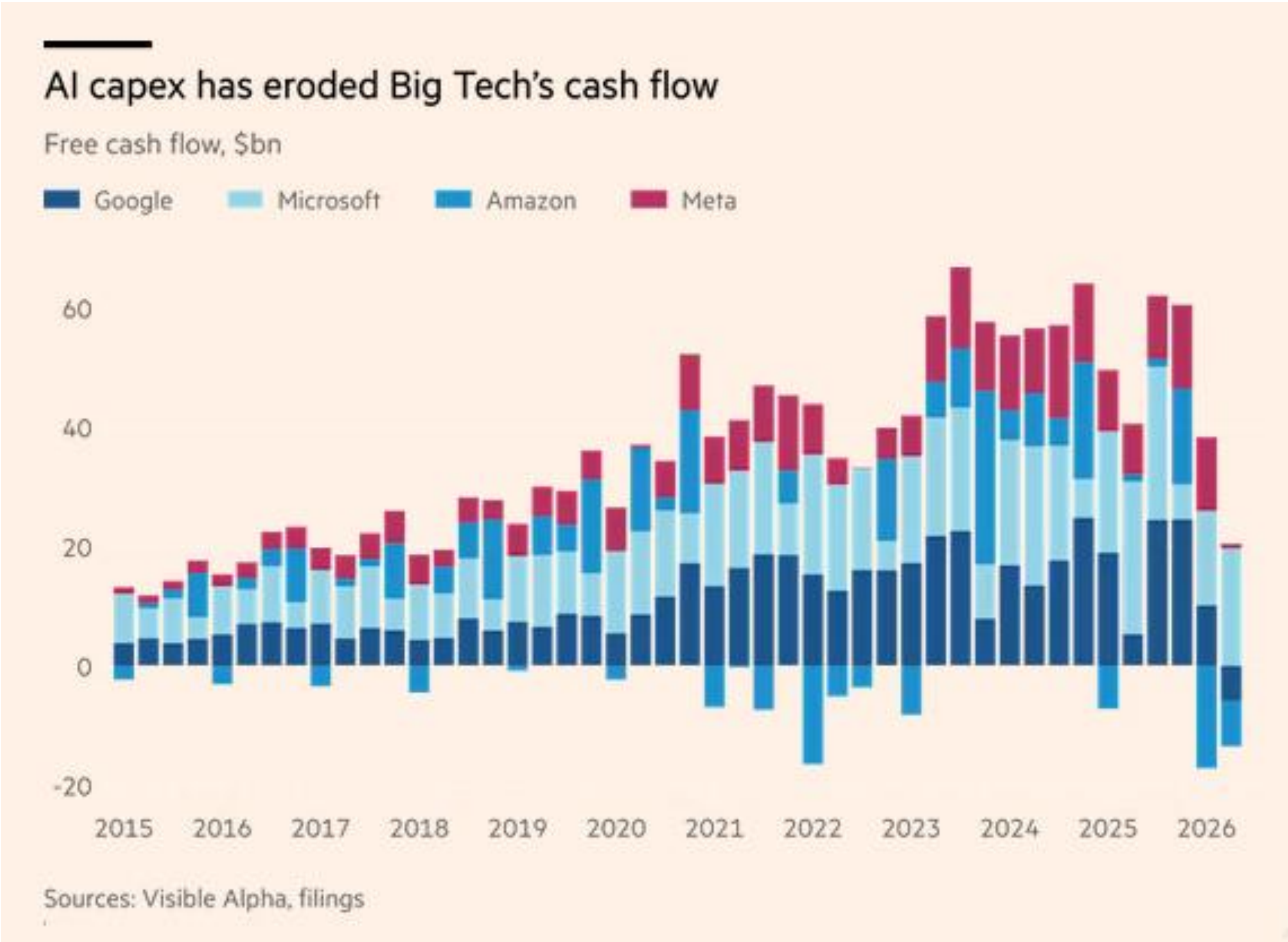
China's markets were equally eventful. While the debut of chipmaker CXMT saw its shares surge by an incredible 466% to make it one of China's largest companies, the broader economic picture remained muted. GDP growth of 4.3% fell short of Beijing's targets, reflecting a continued slowdown in the property market and weak consumer demand. Despite this, the Chinese market rose 9% in local currency terms.

Emerging Market Commentary

Brazil found itself in the crosshairs of US trade policy, as the Trump administration slapped 25% tariffs on Brazilian imports, alleging unfair trade practices in ethanol and electronic payments.

Meanwhile, the global appetite for gold, often a staple for emerging market central banks, appeared to be cooling significantly. Revised data showed that central bank purchases fell to their lowest first-quarter level in fifteen years, suggesting that one of the main pillars supporting high bullion prices may be weakening.

Chart of the month – Big Tech Cash Flow



As this chart from the FT underscores, the AI race has triggered a profound structural shift in the business models of four technology giants (Amazon, Alphabet, Microsoft, and Meta). Since 2023, these "hyperscalers" (so-called as they are the world's largest providers of cloud and data infrastructure) have collectively invested over $1 trillion in AI infrastructure, including data centres, chips, and power systems, with an additional $750 billion+ expected in 2026 alone.

This unprecedented capital deployment has come at a cost. Free cash flow across the group has fallen to its lowest level in a decade, despite revenues growing roughly sevenfold over the same period. For the first time, these companies are burning more cash than they generate, forcing them to turn to equity and debt markets to fund their AI ambitions.

Strikingly, Alphabet reported its first-ever quarter of negative free cash flow since going public in 2004. In Q2 2026, the company generated $39.1 billion in operating cash flow but spent $44.9 billion on capital expenditure (roughly $490 million per day) leaving it $5.9 billion in the red. This marks the end of a 22-year streak of positive quarterly free cash flow, an extraordinary milestone for one of the most cash-generative companies in corporate history.

While the short-term cash flow hit is clear, the long-term rationale rests on the belief that today's infrastructure spending will unlock future revenue streams from cloud computing, AI-as-a-service, and enhanced advertising targeting.

The recent second quarter results from these businesses pointed to why they are spending so much. For example, Amazon's AWS reaccelerated to 37% year-over-year growth (its fastest pace in 18 quarters), Google Cloud grew 82% with record operating margins, and Microsoft reported a 110% increase in their cloud backlog.

This is not speculative capital expenditure detached from fundamentals, as robust revenue growth and expanding cloud margins validate the underlying economics, but the sheer magnitude of the shift is remarkable. The hyperscalers are transitioning from asset-light, cash-generative software businesses into capital-intensive infrastructure operators, a structural transformation that will reshape market dynamics, competitive moats, and investor expectations for years to come.

Investment Team's thoughts

Growth and value stocks diverged sharply this month, and the UK market's heavy tilt toward value proved a clear tailwind. While AI-driven earnings continue to dominate the US (amplified by the sheer scale of the hyperscalers) this quarter's profit surge has been notably broad-based, with cyclical and defensive sectors alike posting strong results. There are early signs of market participation broadening, even as the AI narrative retains its gravitational pull on sentiment, valuations, and capital allocation.

We also remain attentive to macroeconomic factors that could shape the next leg of the cycle; central bank policy trajectories, foreign exchange volatility, and commodity price swings all delivered material moves this month and warrant close monitoring.