

Capital Markets Monthly **FIXED INCOME**

July 2026

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A consolidation phase for global fixed income

US Treasury markets had a mixed month, with the main move concentrated at the front end of the curve. Two-year Treasury yields rose following stronger-than-expected economic data and a more hawkish Federal Reserve, while 30-year yields were little changed, resulting in a flatter yield curve. The key event was the first FOMC meeting chaired by Kevin Warsh. While policy was left unchanged, the meeting marked the beginning of what is likely to be a significant change in the way the Federal Reserve operates. Warsh announced a broad review of the Fed's communications, balance sheet policy, data, productivity and employment measures, and inflation framework (while retaining the 2% inflation target), with recommendations expected before the end of the year. He also made it clear that he intends to end the Fed's practice of formal forward guidance, although the Summary of Economic Projections and its 'dot plot' remain in place for now. Economic data generally surprised on the upside. Non-farm payrolls were significantly stronger than expected, while CPI inflation accelerated from 3.8% to 4.2%. Reflecting the more resilient economy and firmer inflation backdrop, the Fed revised its inflation forecasts higher in its latest Summary of Economic Projections, reinforcing the market's view that interest rates are likely to remain higher for longer.

UK gilt yields declined by around 5bp across the curve during June, generating positive returns across the market. The ICE BofA UK Gilts All Stocks Index (GALO) returned 0.62% over the month, following a strong 1.85% gain in May, leaving total returns for the year slightly positive. The political backdrop became more uncertain following Sir Keir Starmer's resignation, with Andy Burnham expected to become the next Prime Minister. Burnham is widely expected to appoint Ed Miliband as Chancellor, raising the possibility of a more expansionary fiscal stance and increased gilt issuance over time. While this could become a headwind for the gilt market, investors have so far reacted calmly, with political developments having only a limited impact on yields. As expected, the Bank of England left Bank Rate unchanged at its June meeting. The Monetary Policy Committee voted 7-2 in favour of keeping rates on hold, with two members continuing to favour an immediate hike.

While the Committee acknowledged continued progress on inflation, it maintained a cautious tone, citing persistent domestic price pressures and a resilient labour market. Markets continue to expect gradual policy easing over the medium term, with little prospect of a rate hike over the coming months.

European government bond markets were relatively subdued in June, with German Bund yields little changed over the month despite the European Central Bank raising its deposit rate by a widely anticipated 25bp to 2.25% at its 11 June meeting. Peripheral markets were broadly resilient, although French government bonds underperformed modestly, resulting in a widening of spreads versus Germany as investors continued to demand a slightly higher risk premium amid ongoing political uncertainty. Overall, the limited reaction to the ECB decision suggested that markets remain comfortable with the current policy path and continue to expect the tightening cycle to be approaching its conclusion.

JGB yields were broadly unchanged in June, despite the Bank of Japan raising rates by 25bp at its 16 June meeting. The muted reaction in bond markets suggested that the move was largely priced in, although further weakness in the yen kept pressure on the BoJ to continue the normalisation process. Markets now appear likely to price a further 25bp hike by year-end, particularly if currency weakness persists and imported inflation remains a concern.

Chinese government bond yields were broadly unchanged over June as markets balanced weaker inflation against a still-anaemic economic backdrop. CPI slowed to 1.2%, reinforcing evidence of subdued domestic demand, while broader economic growth continued to disappoint. The combination of soft inflation and lacklustre activity supported expectations of further policy easing, helping to keep government bond yields anchored over the month.

Emerging market debt delivered another positive month in June, supported by resilient global risk sentiment, a relatively stable US Treasury market and continued investor demand for higher-yielding assets.

However, valuations remain increasingly stretched, with the JPMorgan EMBI Global spread tightening to around 220bp, leaving limited scope for further spread compression and making returns more dependent on underlying carry than capital appreciation.

The following chart shows the yield spread between 10-year German and 10-year French government bonds.

Yield Difference 10-Year France versus 10-Year Germany



Source: Bloomberg Finance L.P., 1 July 2026.

Capital Markets Monthly FOREIGN EXCHANGE

July 2026

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The US Dollar Bears Surrender as the Fed Strikes a Hawkish Tone

June turned out to be one of the strongest months for the US Dollar, with Fed Chair Warsh's hawkish debut widely viewed as a pivotal development for the greenback's outlook. After establishing a base above its 50-day moving average in the final days of May, the US Dollar Index (DXY) gathered momentum and broke above the key psychological resistance level at 100.00. This breakout fuelled further gains, pushing the DXY towards 102.00 and to a fresh yearly high of 101.85. However, after gaining over 4% since the May's low the move lost its momentum and profit taking let it close the month just above the 101.00 mark.

The Dollar's Index two largest components, the EUR and the Japanese yen, both depreciated by around 2%. Despite these losses, they remained status of better-performing G10 currencies (see the table for detailed G10 performance). While the magnitude of their declines was relatively modest, it is fair to say that from the technical perspective several important levels were breached. In case of the EUR, a long-term support located at the 1.1500 - 1.1520 area was broken while the USDJPY took out 160.00 a psychological level and with the absence of bank of Japan moved higher towards 162.00! A level last seen 4 decades ago.

The Norwegian krone (NOK), one of star performing currencies earlier this year suffered disproportionately. The NOK was weakest performer in the G10, falling almost 7% against the US Dollar. As a high-beta currency, the NOK came under significant pressure from geopolitical developments, particularly as energy prices retreated to pre-war levels. Signs of a fragile truce in the Middle East also spilled over into broader commodity markets, with precious metals coming under particularly heavy selling pressure. After breaking below its key trend line, defined by the 200-day moving average, in early June, gold extended its decline to around \$4000 per ounce troy, a level last seen in November 2025. Gold lost 11% during the month, while silver plunged 21%, marking one of its weakest monthly performances in decades.

Overall, June's price action did not fit the broader narrative of global diversification away from the US Dollar. The Fed's hawkish shift appears to have been the proverbial final straw, prompting many investment houses to reconsider their bearish US Dollar outlook.

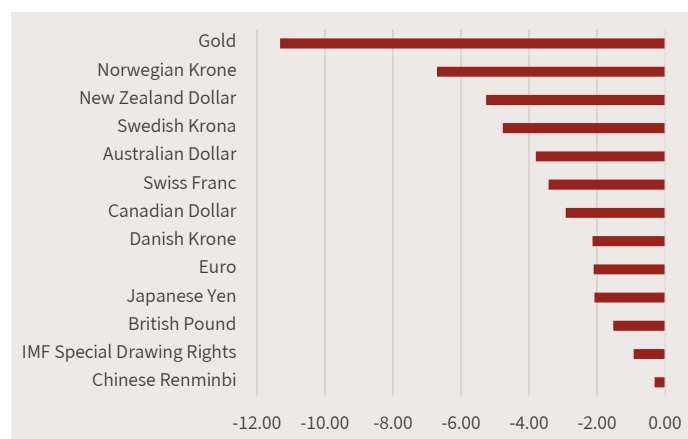
In our view, however, the bar for the Fed to deliver rate hikes remains uncomfortably high. Consequently, we believe it would not take much for exchange rates to return to their previous trading ranges. For EUR/USD, we view 1.1520 as the key resistance level; a sustained break above it should pave the way for further gains.

GBP/USD has proven more resilient than we expected, especially given the UK's fragile political backdrop. Meanwhile, the Japanese yen has remained under persistent pressure despite direct FX intervention and the Bank of Japan's 25-basis-point rate hike. In our opinion, the risk of a reversal has increased significantly, making continued bets on yen weakness increasingly unattractive from a risk-reward perspective.

The Chinese renminbi once again benefited from sustained capital inflows, making it one of the best-performing major currencies. It depreciated by only 0.3% against the US Dollar during the month.

Looking ahead, the summer holiday season typically brings thinner market liquidity, which often results in higher volatility. At the same time, upcoming central bank meetings could deliver dovish surprises, while investor risk appetite may be challenged by emerging headwinds surrounding AI-related assets and investment strategies. Taken together, these factors could mark a turning point for the US Dollar, leading to a reversal of its recent strength.

June performance vs. USD (%)



Source: CAIM, 30 June 2026.

Capital Markets Monthly EQUITIES

July 2026



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United States

US - Short-term consolidation with leadership gradually broadening.

US equities pulled back modestly for the month after reaching record levels earlier in the quarter. Early period losses due to rising bond yields and the repricing of Fed rate expectations and profit taking in mega cap tech following an extended AI rally outweighed the gains following the US and Iran deal to end the war and open the Strait of Hormuz. Sentiment improved following the May core CPI which was softer than expected, together with lower oil prices helping to dial back some of the speculation about a Fed rate hike this year. However, Kevin Warsh's first appearance as Fed Chair proved to be a momentous one, with a hawkish dot plot and Warsh's inflation-fighting rhetoric leaving a sense that rate hikes are firmly under consideration. The Office of the US Trade Representative proposed new tariffs of 10%-12.5% on imports from major trading partners, potentially further tightening financial conditions and weighing somewhat on risk appetite.

The Fed held rates steady for a fourth consecutive meeting, but the dot plot turned more hawkish, with a majority signalling at least one hike this year. The Fed dropped its prior dovish tone and reaffirmed a clear commitment to price stability. Chair Warsh emphasised inflation credibility, acknowledging past overshoots and avoiding any pushback against the hawkish outlook, reinforcing a more clearly tightening bias. Separately, Warsh announced the establishment of task forces in five areas, including communications and the Fed balance sheet. All in all, the meeting left an undeniably more hawkish Fed tone.

Turning to macro data, Headline CPI for May met expectations, while core CPI was softer at +0.2% (2.9% YoY) supporting moderation in interest rate expectations. PPI came in stronger, though partly offset by a downward revision to April, with core PPI modest at +0.4%. Employment data surprised to the upside, with private payrolls exceeding forecasts and positive revisions to prior months reinforcing underlying momentum.

While gains were led by leisure and hospitality and a sharp rise in local government hiring, job growth remained relatively broad-based.

Equities were impacted by concerns over AI growth rates and funding strategies. Oracle delivered strong top line results, but concerns remain around execution and its growth funding strategy, as the company also announced plans to raise another \$40bn in equity and debt, including a previously disclosed plan to issue \$20bn in shares.

US broad equity indices were down marginally in June, driven by a mega-cap led unwind in technology and growth, on signs of exhaustion and unmet investor expectations, while defensives and equal-weight indices outperformed on a relative basis. At the sector level industrials, healthcare and financials outperformed, while communication services, energy and consumer discretionary were laggards. After much hype, SpaceX went public this month. The IPO kicked off on June 12, with an instant surge, however after strong gains it finished the month with a 27% gain.



Europe

An interim peace deal lifts sentiment

European equities advanced despite the ECB's rate hike, supported by improved sentiment following the US–Iran agreement to reopen the Strait of Hormuz and easing stagflation concerns.

Euro Area inflation remained elevated, with May CPI at 3.2%, prompting a 25bp ECB hike to 2.25%. Policymakers highlighted ongoing inflation pressures from geopolitical tensions and now expect inflation to remain above target at around 3% this year.

The US–Iran agreement and reopening of the Strait of Hormuz have supported the potential rotation back into Europe, reversing some of the earlier conflict-driven divergence. Cyclical sectors such as travel & leisure, retail and manufacturing outperformed, recovering prior losses. Financials also benefited from the improving macro backdrop, higher rates and continued earnings strength across European banks. In contrast, Consumer Discretionary lagged, weighed down by German autos, with BMW and Mercedes-Benz facing ongoing structural pressures from EV competition and weak Chinese demand.



Developed Asia

Japanese equities ride the AI wave

Developed Asian markets delivered mixed performance, with Hong Kong underperforming as investors rotated into AI-exposed markets such as Japan, Korea and Taiwan. This reflects a clear preference for areas with stronger alignment to the global AI theme.

Sentiment towards Hong Kong was further undermined by proposed regulatory tightening, with Chinese authorities cracking down on offshore investment channels, including restrictions on new account openings at key brokers, potentially limiting capital flows into the market.

Japanese equities continued to perform strongly, led by AI and semiconductor names. The market has been supported by sustained foreign inflows, with investors rotating intra-month from Korea and Taiwan into Japan. The widely expected Bank of Japan rate hike of 25bp, taking policy rates to 1%, the highest since 1995 was well absorbed and did not act as a drag on equity performance.



Emerging Markets

Emerging markets consolidated after strong YTD gains, with Tech-heavy EM markets such as Taiwan continuing to benefit from the AI cycle.

Regionally, EM Asia continues to outperform while EM Latam was a laggard due to falling commodity prices.

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