

MARKETS UNWRAPPED

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Market review: Q2 and the outlook ahead

The second quarter saw a notable improvement in market sentiment following a volatile start to the year. While the first quarter was dominated by geopolitical tensions and uncertainty, Q2 brought a return of optimism as investors focused on improving conditions, resilient company earnings and continued enthusiasm surrounding artificial intelligence (AI).

Although risks remain, markets have demonstrated resilience and a willingness to look beyond short-term challenges. As we move into the second half of the year, attention remains focused on inflation, interest rates, corporate earnings and the ongoing development of AI.

A more positive market environment

The start of the year was heavily influenced by conflict in the Middle East, which raised concerns about global energy supplies and the potential impact on inflation. These fears contributed to market volatility and pushed oil prices higher.

During the second quarter, however, tensions began to ease. Progress towards de-escalation and improving diplomatic relations helped reassure investors and reduced concerns around major supply disruptions. As a result, market confidence improved and attention shifted back towards economic fundamentals.

While geopolitical risks have not disappeared entirely, the reduction in uncertainty provided a more supportive backdrop for both investors and businesses.

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Commodity prices fall back

Precious metals and several other commodities declined by around 10%, while oil prices fell sharply from previous highs. Having reached approximately \$120 per barrel at the height of geopolitical concerns, oil prices fell back towards the \$70 level as fears of significant disruption eased.

This decline was welcomed by markets as lower energy costs help relieve pressure on businesses and consumers. Falling oil prices also have important implications for inflation, although changes in energy costs often take time to filter through the wider economy. As a result, inflation remains a key area of focus despite the improvement in commodity markets.

AI continues to lead equity markets

The dominant investment theme throughout the quarter remained artificial intelligence. While much of the initial market excitement centred on large technology companies, investors have increasingly recognised the wider range of businesses benefiting from AI adoption. Demand for memory, storage, semiconductors and data centre infrastructure continues to grow as companies invest heavily in AI capabilities.

Some of the strongest market returns came from regions closely connected to this supply chain. South Korea and Taiwan were among the standout performers during the quarter, supported by growing demand for components that are essential to AI development. The theme has extended well beyond individual companies and now influences a broad range of sectors.

Continued investment from major technology firms suggests that demand for AI infrastructure is likely to remain an important market driver for the foreseeable future. The AI story is no longer limited to a handful of technology giants. Investment is spreading across the wider ecosystem that supports the technology.

A different experience for the UK

Unlike the United States and parts of Asia, the UK has relatively limited exposure to major technology companies and AI-focused businesses. Instead, the market remains dominated by sectors such as financials, energy and mining. This meant the UK did not benefit from the AI-driven rally to the same extent as some international markets. However, these sectors performed relatively well when commodity prices were elevated earlier in the year, helping to support returns.

Importantly, UK businesses are increasingly adopting AI within their own operations. Many companies are using the technology to improve efficiency, reduce costs and streamline processes, allowing them to benefit from AI even if they are not directly involved in its development.

Inflation and bond markets remain important

Although lower oil prices have helped ease some concerns, inflation could prove more persistent than expected. The impact of previous increases in energy prices can take time to work through supply chains and consumer prices.

Bond markets have largely adopted a wait-and-see approach, balancing improving inflation trends against the possibility of future economic pressures. Political developments in the UK and changes in monetary policy expectations have also remained important considerations for investors. Corporate earnings guidance will be closely monitored in the coming months, particularly for any signs that inflation, higher costs or geopolitical events are beginning to affect business performance.

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Looking ahead

Several themes are likely to dominate markets during the remainder of the year:

- ◆ Inflation and interest rate expectations.
- ◆ Corporate earnings and company outlooks.
- ◆ Continued AI investment and adoption.
- ◆ Geopolitical developments.
- ◆ Investor confidence in equity and IPO markets.

Recent IPO activity has been viewed as a positive signal for market confidence, suggesting companies remain willing to seek public investment and investors continue to support growth opportunities.

In summary

The second quarter marked a clear improvement in sentiment compared with the uncertainty seen earlier in the year. Easing geopolitical tensions, lower commodity prices and ongoing enthusiasm for AI helped support markets and restore confidence.

While uncertainties remain, particularly around inflation and global events, the overall environment has become more constructive. For investors, maintaining a diversified portfolio and focusing on long-term opportunities remains the most effective way to navigate an evolving market landscape.

[Watch the full video here](#)

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