The Tatton Weekly

Bonds feeling better

22 May 2026

This week's topics:

Assuming growth will win

Long maturity bonds suffer from fiscal risk

China stalls again

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AI as growth catalyst, Horsey, 15 May 2026

Assuming growth will win

Global stocks and global bonds are ending the week positively, with the gains coming mostly in non-US markets. This is the first week since the end of March that big US tech stocks have underperformed. That underperformance comes despite continued strong results from the likes of Nvidia. Meanwhile, European government bonds did well; prices rose (and so yields fell), especially in the UK. That is not enough to counteract the sharp yield rise over the last two months, so the sense of market fragility remains. Still, this week has been a very welcome respite.

Tech companies are demanding more and more capital, firstly to cover the ever-growing spend on AI and secondly to blast us into space. That current spend should lead to future profits, but belief and optimism will have to be maintained if markets are to make progress right now.

Investors unfazed by Nvidia's profits

Not all tech stocks struggled this week: Korea's KOSPI index gained over 8% on Thursday, following a midweek tumble, thanks to star chipmakers Samsung and SK Hynix. But the big US names came under pressure, exemplified by Nvidia. The world's most valuable company is down over 3.8% through the week, at the time of writing.

It may seem incredible that Nvidia's share price dip came after it announced an 85% jump in revenue for the three months to April, beating already massive expectations. The chipmaker also announced $80bn in share buybacks and bumped up its quarterly dividend – resulting in one of the highest corporate payouts ever. Nvidia has eye-watering profit growth and is giving that money back to shareholders. And yet, investors are less interested than a week ago. How can that be?

One explanation might be that stellar profit growth is already 'priced in' for the tech giant. Over the last two years, Nvidia's share price performance has consistently been soft in the weeks following earnings announcements. Optimism and interest start to build again with about eight weeks before the next earnings announcement – a case of 'buy the rumour, sell the fact'.

For the broader set of tech companies, there is another factor at play. The wave of AI investment keeps growing, and while this may not (yet) apply to Nvidia, it is now clearly eating into the money once used for share buybacks. The money to build datacentres has to come from somewhere. A few months ago, we saw massive corporate bond issuance. Now, big tech is increasingly funding their spend through equity issuance.

Musk's rocket to the moon demands capital

The best example of this is the upcoming IPO of Elon Musk's SpaceX. SpaceX wants to raise around $75bn at a staggering valuation of up to $1.75tn – despite currently making just $19bn in revenue a year, with pedestrian growth. The company covers satellites (Starlink – the profitable global internet via satellite consumer proposition), rocket launches, social media (X – formerly Twitter) and AI – but CEO Musk promises it will eventually build a million-strong colony on Mars. With a suggested IPO date of the 4th of July, Musk certainly knows how to sell US retail investors 'a rocket ship to the moon'.

SpaceX is just the first of several trillion-dollar company IPOs planned for this year, with OpenAI and Anthropic also expected to list in the coming months. Absolute Strategy Research estimate that these offerings will add around $210bn worth of fresh equity onto the US stock market. That alone would be the largest amount of new equity ever raised. It would probably be added to as employees release some of their holdings – as often happens in the months after IPOs.

We have not seen such intense demand for equity capital, relative to the size of the overall stock market, since the dotcom bubble in the late 1990s and early 2000s. And unlike debt issuance, which can ultimately be fuelled by banks creating credit, this equity issuance will have to be absorbed by new money coming to the stock markets, i.e. funded out of savings.

Even if you believe in these companies' ability to make profits (which looks risky, in the case of SpaceX), we are heading into a market with less capital, relative to stocks on offer. That might become a challenge for equities.

Inflation pushes up yields, but they are attractive

The other aspect of the big AI spend is that it is undeniably adding to inflation. Techno-optimists can promise all the cost-saving future productivity gains they like but, right now, the demand for materials is compounding the global energy price spike. New Federal Reserve chair Kevin Warsh is one of those AI productivity optimists. But over the coming months he will have a hard time convincing himself, let alone his colleagues, that interest rates should fall. Indeed, betting market odds suggest that a rate rise in the US is now likely before the end of the year.

The AI investment spree is sustaining growth – and not just US growth – even if consumers might not feel that way. We see this particularly in the UK, where manufacturers are surprisingly upbeat (with strong quarterly outlook statements), but consumers and therefore many service companies are struggling.

The recent inflation uptick has been one of the drivers behind the other big destabilising force for markets: higher bond yields, which, in turn, are making equity price-to-earnings valuations less attractive. In a separate article, we argue that the inflation impact on bonds is more about what it means for government borrowing, rather than inflation itself.

Bond investors have been bruised in recent weeks. But as we keep saying, for long-term investors who want a secure return, high bond yields look attractive. Demand is solid in primary bond auctions, particularly in the UK. The Debt Management Office reopened the current 10-year gilt issue with £4bn of new bonds, which went well this week. It was helped by the main prime-ministerial candidates bowing to the fiscal rule totem, as well as soft economic data. It may take a while for calm to filter through to secondary bond markets. And, as this week has shown, calmer UK bond markets tend to support UK equities.

Long maturity bonds suffer from fiscal risk

Bond investors have had a tough few months. The oil shock has pushed up inflation and interest rate expectations, causing a sell-off in government bonds. Interestingly, long-term bond yields (the inverse of prices) have been hit hardest, despite the fact higher energy prices are not expected to be an issue over the longer term.

This dynamic has been most pronounced in the UK, but we can see it across all major bond markets. The standard view is to blame higher yields on higher inflation, but we suspect it is a little more complicated. One aspect is that big companies are borrowing heavily to fund the AI buildout. Another factor is that the Iran war is a risk for government finances – by forcing governments to spend more. Higher yields could be a reaction to that added risk.

Term premia rise might be about fiscal policy

The sharp rise in long-term bonds reflects a rising 'term premium' – the extra amount investors demand for lending over the long term rather than short term (Economists refer to this as an increasing "time preference"). The clearest way to show this is the growing gap between two-year real (inflation-adjusted) yields and real yields for 20-year UK and US bonds.

It is unusual for the real yield curve (the difference between long and short-term yields) to be this steep when interest rates are already high. Long-term real yields should, in theory, mostly reflect an economy's potential growth. Real yield curves steepened during covid, but that was because the economy was clearly going to improve once lockdowns ended. Current growth is already strong, particularly in the US. That is reflected in positive two-year real yields, and yet longer-term real yields are much higher.

If you looked at real yields and nothing else, you might think bond investors had become very bullish about long-term growth. However, an oil price spike (especially one which raised longer-term futures prices, like this one) would tend to detract from growth expectations, so the growth

explanation does not really work. Higher inflation does not make much sense as an explanation either, since this is a rise in *real* yields over the long-term. Prices in other markets – stocks and commodities – suggest that the Iran war will increase inflation over the next 18 months or so, but certainly not 20 years down the road.

In our top article, we describe how the AI buildout is increasing the demand for capital, resulting in less plentiful capital to further push up asset prices. That saps government bond demand too. However, we think there could be another factor at play: bond investors could be pricing in a worsening of fiscal policies around the developed world. Higher oil prices will force governments to spend and support their hard-hit citizens. That raises debt – at a time when debt and deficits are already high everywhere. Worse, the added spending is unlikely to boost growth and future tax receipts, since it is short-term support rather than long-term public investment.

Gilts are attractive – but not for the faint of heart

UK bonds (or gilts) have fared the worst. Commentators are quick to blame Westminster drama, but the deeper problem is that the gilt market already had structurally weak demand, even before the latest competition for capital from the AI buildout. The UK has a higher proportion of inflation-linked bonds than elsewhere, and outstanding issuance is skewed toward the long-term. So, if bond traders worry about inflation and duration, gilts will always be more vulnerable. These problems are compounded by the Bank of England selling bonds to reduce its balance sheet built up during quantitative easing (QE). By comparison, other central banks have mostly finished their sales.

That is not to say politics are irrelevant. Potential Labour leader Andy Burnham's past comments about ignoring bond markets have clearly rattled gilt investors, fearing the exact scenario we describe above. Burnham has softened that stance recently and gilt traders are left to speculate what Labour's actual tax and spend policies might be. What we can say is that this leadership uncertainty has come at a bad time for the gilt market.

Unless you think the UK government will effectively default at some point in the next 30 years (which would really be a loss of control on inflation such as happened in Turkiye), long-term real gilt yields look attractive. Despite endless negative commentary, UK growth is holding up 'okay' and inflation undershot expectations in April (2.8% versus 3% forecast). Recent gilt auctions have gone smoothly, proving that bond managers do see value in the UK.

The problem is that most bond investors expect more volatility in the coming months. Even those that think gilts are good value might want to wait for them to become even cheaper. With the BoE set to stop their net bond sales later this year, that turning point could come soon.

It'll take more to tempt equity investors

It is not just gilt yields that look attractive. Long-term real yields have risen sharply across the developed world – even in Japan, which had notoriously low bond returns for decades. Buying and

holding those bonds until maturity will lock in a high 'risk-free' return for decades. The problem is that bond prices have been volatile, and could well stay volatile, if markets are right about fiscal risks. Gilts are particularly sensitive to these dynamics but, as we said already, we see them everywhere.

One might expect higher risk-free yields to tempt equity investors out of risk assets. However, we increasingly get the sense that equity investors have become entrenched in the asset class. The divide is clearest in the US, where retail investors keep buying into the stock market, buoyed by ever-growing tech profits and seemingly unstoppable price momentum. If you are confident that corporate earnings will keep growing strong, volatile bond prices will not seem worth the switch.

We suspect a shift back into bonds from equities will be sparked if corporate earnings growth looks under threat. That may be happening in Europe, but US companies have shrugged off all kinds of worries in the last 18 months, from tariffs and AI to the Iran war. Bond yields will stay high as long as equity investors are not tempted over, but even if they do, bond investors can still lock in strong risk-free returns.

China stalls again

Last week, things were looking pretty good for China. The Trump-Xi summit in Beijing concluded with a sense of normalisation between the world's two largest economies – albeit without much tangible policy progress. More importantly, there were signs that the government's attempts to stir the economy from its slumber might be paying off.

Data released this week shows that assessment was a little hasty. Chinese output and retail sales growth slowed last month, while investment contracted. China's path out of economic stagnation is looking longer than expected. Still, we think that the latest disappointment will be a temporary setback.

Policymakers must act on weak data

Chinese economic data from April were disappointing across the board. Retail sales have barely expanded in the last year – just 0.2% higher, vastly undershooting expectations of 2% growth. It is the weakest retail sales growth since 2022, and it comes after Beijing reportedly lowered support through the consumer goods trade-in program.

Industrial production showed growth at least, up 4.1% year-on-year. But even that usual strong point was well below the forecast 6% and marked a slowdown from March's 5.7%. Chinese exports have been resilient through their period of slower growth (China's trade surplus reached a record $1.19tn in 2025) but recent industrial production does not match up with that strength.

Higher oil prices, following the US and Israel's war on Iran, are clearly having an impact. Until now, China had looked remarkably resilient; oil reserves and bans on exporting fuel seemed to

counteract the country's reliance on crude imports. April's disappointing data showed that China is indeed vulnerable. National Bureau of Statistics spokesperson Fu Linghui blamed "complex and severe" international factors for the weakness.

Most disappointing of all was the drop off in fixed asset investment. It fell 1.6% from the start of 2026 to April, versus expectations of 1.7% growth. Negative investment figures are not just about Iran. Analysts point to clear fragility in business and consumer sentiment. Beijing has been spending to support its economy for over 18 months, but it looks like more needs to be done. Without extra support, China will struggle to achieve its 2026 growth targets.

Beijing unwilling or unable to support demand

The data should concern Chinese policymakers, but investors should not overreact. Chinese growth figures are highly seasonal: the authorities start the year with a strong stimulus push, then tend to step off the gas in quarters two and three. That is usually followed by renewed economic support into the end of the year, to make sure local officials hit their targets.

China's economic planners certainly have not been showing much sign of urgency recently. The consumer goods trade-in subsidy program has lost momentum after having its budget slashed this year. Those subsidies were some of the last remaining consumer-focussed policies, after the expiry of Beijing's electric car incentives. We also note the People's Bank of China has been reducing its liquidity provision – which might be contributing to the sluggish performance of Chinese assets.

Since the property market unravelled in 2021, the Communist Party has struggled to support consumer demand. You might put that down to the ideological leanings of Xi Jinping, or down to the structure of economic planning in China (the go-to option is increasing production, which only worsens deflation). There have been signs over the last year that policymakers recognised this. Beijing announced its "anti-involution" drive in July 2025, aiming to curb price wars and excessive competition, thereby supporting profits. Ideally, healthy profits will eventually feed through into higher wages but, right now, the move to end price wars could well be discouraging consumption further. The oil shock is an unhelpful addition to the mix.

Pro-tech and pro-consumption is a win-win

Continued reliance on production and exports is a problem. Exports continue to be key to GDP growth despite a record trade surplus last year (although the $1.19tn trade surplus for 2025 was mostly a result of dollar weakness, and looked less imposing in renminbi terms). Still, China's persistent trade surpluses are a big point of contention in US-China relations, and are now provoking the ire of other trading partners too. EU lawmakers are increasingly looking for ways to stop Europeans buying from China. Even other ASEAN nations are worried about their industries being trampled by China's gargantuan exports.

China’s overproduction is not helping its relations or its own domestic economy. The one bright spark is tech, thanks in large part to Beijing’s investment in rapidly developing semiconductor design and manufacturing on the mainland. Stocks in Chinese chipmakers surged again this week, despite a challenging backdrop for the rest of the market. Putting more into these areas – as well as supporting consumption – will not only help achieve high-tech self-sufficiency. It could help Beijing’s diplomacy too.

Tatton
Investment Management

22 May 2026

Global Equity Markets	22-May			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10470	+2.8	+2.8	↘ ↗	3.1	15.2	12.9	12.7
UK FTSE 250	23135	+3.2	+3.2	↘ ↗	3.6	11.1	12.1	13.3
UK FTSE All-Share	5625	+2.8	+2.8	↘ ↗	3.2	14.8	12.8	12.7
FTSE Small x Inv_Tsts	6387	+2.0	+2.0	↘ ↗	4.2	21.2	9.7	10.0
EU STOXX ex UK	797	+2.8	+1.8	↘ ↗	2.9	17.6	15.5	15.1
France CAC 40	8128	+2.1	+1.1	↘ →	3.1	16.9	14.4	14.1
Germany DAX 40	24863	+3.7	+2.7	↘ →	2.6	17.6	15.1	13.3
US S&P 500	7486	+0.7	+0.0	↗ ↗	1.1	25.4	20.9	19.0
US NASDAQ comp	26368	+0.2	-0.5	↗ ↗	0.5	38.9	25.1	26.1
Japan Nikkei 225	63339	+3.1	+2.1	↗ ↗	1.3	23.6	22.3	18.6
World Bloomberg	2575	+1.0	+0.3	↗ ↗	1.6	22.2	17.8	16.6
China Bloomberg	1333	-1.3	-2.1	→ →	2.2	15.5	12.5	12.5
Emerging Bloomberg	1803	+0.7	-0.0	→ ↗	2.1	17.9	12.0	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
IG	+20.8	Recruit	+23.7	Tech	+1.3	Staples	-1.6
Babcock Int'l	+12.4	Terumo	+23.2	Financials	+1.0	Energy	-0.7
Marks & Spencer	+12.4	Ibiden	+21.6	Health	+2.1	Materials	-1.8
Rolls-Royce	+8.9	MediaTek	+17.3	Discretionary	+0.5	Utilities	+1.6
Severn Trent	+8.8	SoftBank	+16.3	Industrials	+0.1	Real_Estate	+0.8
National Grid	+8.8	Dexcom	+15.6	Communicati	-1.7		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Autotrader	-8.8	Brambles	-23.5	UK 5yr Gilt	4.46	-0.24
Convatec	-4.8	Intuit	-22.6	UK 10yr Gilt	4.90	-0.27
Endeavour Mining	-4.7	Fujikura	-17.6	UK 15yr Gilt	5.30	-0.29
Lion Finance	-2.4	Vertiv	-13.6	US 10yr Treasury	4.53	-0.05
Mondi	-2.1	Eisai	-12.9	France 10yr OAT	3.65	-0.17
Intertek	-1.9	Sumitomo Realty Development	-12.6	Germany 10yr Bund	3.03	-0.14
				Japan 10yr JGB	2.75	+0.04

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	22-May	22-Apr
USD per GBP	1.342	+0.5	Oil Brent $:bl	104.51	-3.5	UK BoE base rate	3.75	3.75
GBP per EUR	0.864	-0.9	Gold $:oz	4497	-1.0	2yr fixed	4.75	4.45
USD per EUR	1.159	-0.3	Silver $:oz	75.34	-1.8	3yr fixed	4.86	4.37
JPY per USD	159.17	+0.3	Copper $:lb	634.3	+0.6	5yr fixed	4.67	4.43
CNY per USD	6.798	-0.2	Alumnm $:mt	3707	+2.0	10yr fixed	5.21	4.82
USD per Bitcoin	76,979	-2.8	Agriculture BBG	58.36	+0.5	Standard variable	6.60	6.60

Where possible, prices taken levels at 22 May 3:00 PM (today) and 15 May 3:00 PM. Mortgage estimates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

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