The Tatton Weekly

The persuasiveness of hard profit

8 May 2026

This week's topics:

Reasons to believe

April asset returns review

How open is too open for AI?

This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing

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Who decides on passage through the Straits of Hormuz, Joe Heller, May 2026

Reasons to believe

Markets are feeling hopeful. Iran is still mulling over Donald Trump's proposal to end the war and reopen the Strait of Hormuz, but investors are betting on a done deal. Oil prices dropped from around $115 per barrel [pb] on Monday to below $100pb at the time of writing. Stock prices took another leg up – helped by strong corporate earnings and some decent economic data. In local currency terms, US equities continue to outperform, but a weaker dollar makes their weekly performance look much more in line with other markets.

Is it really over?

Operation Epic Fury is over, according to US Secretary of State Marco Rubio, apparently having achieved all of its objectives. Given that "Project Freedom" (in which the US Navy would escort ships through the Strait of Hormuz) lasted one day, we are left to guess what the goals were.

However, it is probable that peace talks will have been successfully concluded in time for President Trump's visit to China late next week. China seems to be pushing its Iranian ally to accept a deal that will resume oil and gas shipments through the Persian Gulf, in exchange for US sanctions relief. Tellingly, Iran's foreign minister was in Beijing this week to talk about "regional and international developments".

By now, we should know better than to declare the Middle East crisis over, but what we can say is that the risks look less risky than a week ago. The world will need to rebuild its depleted fuel reserves, so oil prices are unlikely to fall rapidly, regardless of what happens in the next couple of weeks. But the medium-to-long-term outlook for global energy markets has tipped back towards

oversupply. The UAE's exit from OPEC – and likely increase in oil production – backs that up. So does the sharp fall in Shell's share price this week, in spite of stellar profits.

If the Iran saga really is ending, what next for the Trump show? The president's apparent détente with China could presage another episode of tariff aggression towards Europe. The EU signed a trade deal with the US last year, but Brussels has pursued a policy of "strategic under-implementation" since, according to trade expert Sam Lowe. European policymakers have not yet removed the tariffs they promised – though neither has the US, they might argue. Trump, visibly affronted by Europe's refusal to join his war, will be looking for a reason to hit back at Brussels.

Nevertheless, tariffs are not an easy win for Trump. US consumer inflation expectations may not have shifted much higher in the past six weeks, but his policies have done nothing to lower general prices. So, there is reason to believe that a warming of relations with Xi could mean lower tariffs with China at the same time as Trump hits Europe.

Resilient US economy isn't helping the dollar

Throughout the Iran war, global growth has been much more resilient than expected. The purchasing managers' indices (PMIs – measuring business confidence) were revised upwards for April, from already strong levels. It is not only the US looking bright (UK PMIs were also surprisingly strong) but it is especially the US. American consumers are buoyant.

Today's US employment data indicates that, for most people, there is no reason to be fearful about redundancies. The jobs market added 115,000 in April and is growing again after a winter hiatus, while there is little sign of significant AI-related impacts. Hourly wages are showing less strength, growing only slowly at +3.6% year-on-year, which is only just above inflation; that allowed bond yields to remain stable rather than rise, a good combination for the equity markets.

This is feeding through into a phenomenal increase in corporate earnings. There has been much discussion about market concentration – with big tech leaving other companies in the dust. That is true for the S&P 500, but small and mid-cap indices are actually showing strong earnings growth too.

With lower risks and continued US equity outperformance, it is a little surprising that the dollar has resumed its decline. We have written before about how the fragmentation of global trade means more investment required outside of the US – dragging the dollar down. The global reserve currency's soft patch this week could be a sign that dollar decline is now the default trend.

Incoming new Fed chair Warsh is a peculiar species of dove

Equity price-to-earnings valuations have cheapened since the start of 2026, and global growth has become stronger. If you did not know there was a war going on, you would think that is a pretty strong environment for stock markets. It helps that government bond yields fell back from their highs this week too (improving stocks' relative attractiveness by comparison).

The yield fall was particularly strong in the UK, but we would avoid any political explanations. When UK bond (gilt) yields rose last week, we said it was more about the gilt market's structural imbalance than political drama. The same goes for this week: inflation expectations fell, so highly inflation-sensitive gilts fell too.

Signals of tightening monetary policy detract slightly from the global equity outlook. But, if the Middle East crisis does indeed calm, we might expect central banks to loosen once more. The Federal Reserve already looks set to cut interest rates under new chair Kevin Warsh, even though the US economy does not need much help.

With strong US growth, the only way for Warsh to square the circle on rate cuts is to reduce the Fed's balance sheet of government bonds. He has argued exactly that for years – that the Fed should wean capital markets off central bank bond purchases. Many are sympathetic to Warsh's view, but it will mean a reduction in the liquidity that has buoyed markets for nearly two decades.

The Fed is not a dictatorship (to Trump's chagrin), so Warsh will have to convince his committee colleagues – including outgoing chair Powell – of his low-rates, lighter-balance-sheet plan. Liquidity reduction will therefore be slow, if it happens at all. That is good news for markets; too fast, too soon could be painful. The Fed's brave new world is tomorrow's problem. Today, markets have found reasons to believe in the reasons to believe.

Tatton Investment Management

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April asset returns review

Global stocks performed well in April, gaining 6.9% in sterling terms. That was largely a recovery from the March sell-off, but that itself is impressive, given the continued fallout from the US and Israel's war on Iran. Higher oil and gas prices are a clear threat to global growth, but equity markets bet on a fairly quick resolution and minimal long-term damage to the world economy. Bond markets, however, remained under pressure with significant volatility along the way: UK government bond (gilt) prices fell again, -0.5%. Global bonds fared better, returning +0.3% in April. The table below shows last month's returns in full.

Asset Class	Index	April	YTD	12 months	2025	3-yr rolling annualised	5-yr rolling annualised	10-yr rolling annualised
Equities	UK Large Cap	2.3	5.8	26.3	25.8	13.7	12.3	9.3
	UK Ethical Large Cap	2.5	3.0	17.8	18.8	8.7	7.8	5.4
	Europe ex-UK	4.5	2.1	18.3	26.2	10.7	8.8	10.0
	US Large Cap	7.2	4.6	28.8	9.8	18.6	13.6	16.1
	US Technology Large Cap	11.9	6.2	41.1	12.8	24.4	13.5	19.9
	Japan	5.9	9.5	28.3	16.0	16.0	9.2	9.8
	Global Stocks	6.9	5.6	28.8	13.9	16.8	11.1	13.1
	Emerging Markets	11.3	13.4	44.2	24.4	17.6	6.5	10.1
	China	1.1	-4.5	13.8	22.6	7.3	-3.4	6.8
Bonds	UK Gilts All Stocks	-0.5	-2.3	0.3	5.0	0.8	-4.4	-0.7
	£-Sterling Corporate Bond Index	0.3	-1.6	3.7	7.3	4.9	-0.6	2.3
	Global Aggregate Bond Index	0.3	0.1	2.6	4.8	3.7	0.3	1.3
Commodities	Commodity Index	3.3	47.5	63.4	-0.3	17.8	19.6	10.4
	Brent Crude Oil Price	3.0	79.6	77.7	-24.1	8.3	11.0	9.7
	Spot Gold Price	-1.4	6.3	38.4	53.6	29.2	21.7	14.6
	Spot Silver Price	-1.8	1.1	124.4	131.9	40.0	23.7	16.1
Inflation	UK Consumer Price Index (% Chg for period)*	0.7	0.6	2.0	3.4	-	-	-
Cash rates	SONIA 3-Month	0.3	1.2	4.1	4.5	4.8	3.3	1.9
Property	Global REITs	5.6	8.5	14.7	0.3	6.3	3.6	4.9
Alternatives	Multi-Strategy Liquid Alternatives	-0.8	3.3	10.7	0.3	4.6	3.9	4.1
	Bitcoin	9.3	-14.0	-20.3	-13.5	-	-	-

Source: Morningstar Direct as at 30/04/26. * to end of previous month (31/03/26). All returns in GBP.

The equity market recovery was particularly strong in the US. US stocks gained 7.2%, climbing above where they were before the Iran war broke out. This was helped by repeated suggestions

from the US and Iran that the Strait of Hormuz will reopen – though the oil tanker chokepoint remained closed by the end of April. The other big help was the continued resilience of the US economy. Data collected after the war began showed strong employment and consumption, and quarterly earnings reports showed continued growth.

As usual, the strongest profit growth came from the mega-cap tech firms. That propelled the tech-heavy Nasdaq index up 11.9% through the month in sterling terms. The AI investment spree keeps feeding through into tech profits – even if investors are wary of how much companies are spending (exemplified by Meta's sharp share price drop last week). The start of 2026 saw a capital rotation into smaller-cap stocks but, for now at least, the large-cap AI theme is dominating again.

UK and European stocks did not climb back to their pre-Iran war levels, and both markets stalled into the end of the month – though they posted 2.3% and 4.5% April returns, respectively, in sterling terms. Investors see growth here and (especially) on the continent as more vulnerable to the sharp rise in energy prices.

Global aggregate bond prices finished slightly up in sterling terms, meaning yields (their inverse) fell. But the aggregate figure hides substantial volatility and regional variation, in reaction to higher inflation and interest rate expectations. Interestingly, bond investors shifted demand from long to short-term bonds – despite short-term inflation causing the concern. Bond investors grew more uncertain about the long-term balance of growth and inflation, leading to a stronger preference for near-term cash.

That dynamic played out worse in the UK than anywhere else, with gilt prices dropping 0.5% through the month. Commentators are often quick to find political explanations when gilts struggle, but the deeper issue is the term imbalance of outstanding gilts: the UK has a higher proportion of long-term debt, as well as inflation-linked bonds.

All the major central banks held interest rates steady in their April meetings, but the Bank of England (BoE) and the ECB signalled more hawkish stances (preferring higher rates). That will not help economies wracked with higher energy prices – particularly in Europe – but the central banks are desperate not to let this supply shock turn into a price spiral. Both the BoE and ECB alluded to rate hikes in June, depending on what happens to energy prices.

The Bank of Japan (BoJ) also held rates steady, but three of its committee members voted for a hike, suggesting that the BoJ will also raise rates in June. Fortunately, neither the BoJ's hawkishness nor the oil shock disrupted Japanese stocks – despite Japan's reliance on energy imports. Japan gained 5.9% in April and is the best-performing major developed market year-to-date.

The US Federal Reserve paused its rate cuts yet again but maintained its dovish bias (preferring lower rates). Incoming Fed chair Warsh is expected to be more dovish than his predecessor Powell, but Powell has vowed to stay on as a voting member, and it was interesting to see some

members object to the Fed's dovish language. Given the resilience of the US economy, you could argue that the US needs a rate cut much less than the other major economies do.

Emerging Market (EM) stocks gained an impressive 11.3% in April. That is made more impressive by the relative underperformance of China – which accounts for around 25% of the EM index. China was the weakest major market last month, up 1.1% in sterling terms, and is 7.4% down over the last three months. EM outperformance in recent months is almost entirely down to just three stocks: Taiwan's TSMC, and South Korea's Samsung and SK Hynix.

Those three companies are heavily involved in semiconductor manufacturing, showing the dominance of the AI theme yet again. But the fact these companies are blowing other EM stocks out of the water does not mean that other EM stocks are bad. Far from it, we have actually seen a broad outperformance of EM earnings.

Unsurprisingly, commodity prices jumped around in reaction to the Iran news. It is somewhat surprising that Brent Crude finished just 3% up in April, given that the Strait of Hormuz remains closed. Futures pricing of oil points to expectations of a fairly swift end to the conflict and the resumption of a global oversupply in oil markets. With the UAE leaving OPEC last month, that long-term oversupply looks like a decent bet.

However, as we have said since the start of the war, time is not on our side. Risks grew through April, but investors kept climbing the wall of worry.

How open is too open for AI?

In early 2025, Chinese start-up DeepSeek released an AI model that promised to compete with leading models from big US tech firms at (supposedly) a fraction of the cost. Looking at market prices alone, you would assume that the promise has gone unfulfilled. DeepSeek is currently raising Chinese state investment at a valuation of about $45 billion. Meanwhile, the likes of Google, Meta and OpenAI – fresh from another strong quarterly earnings season – are valued in the trillions.

Valuations do not tell the whole story. DeepSeek has just released its latest V4 model, which it says runs on Huawei chips, rather than Nvidia. China's open-source route to AI development is putting it on a different course to the US.

US market concentration is back on the menu

At the turn of the year, the big story in equities was a rotation away from big US tech towards other regions and smaller US companies. Ironically, the driving force of this rotation – in the US itself, at least – was a wave of spending on AI infrastructure from big tech firms themselves. The previous AI winners were pumping their saved-up cash (and plenty of extra borrowing) into the 'real' economy.

That trend has reversed in recent weeks. The tech-heavy Nasdaq index has massively outperformed small and mid-cap US stocks over the last month. Goldman Sachs' measure of market breadth for the S&P 500 narrowed to a historic low last week – meaning returns are highly concentrated in a few big winners. Those winners are invariably companies involved in the AI infrastructure splurge.

Despite the resurgence of the AI theme, investors have lost interest in big tech's seemingly endless AI spend. That was exemplified by Meta's share price fall last week, thanks to higher reported spending plans and despite continued strong profit growth. Rather, the AI focus is about who is making the most money right now or in the near future. That is usually the so-called AI "hyperscalers" with large moats around their models and business. Perhaps, with so much uncertainty around, investors are just flocking back to what they know best: hard profits.

How open is open-source?

The standout winner right now is Google owner Alphabet. It has all the data and some proprietary cutting-edge AI models, so that should hardly be a surprise. Because of what Alphabet already owns, it is extremely well placed to make ever-higher profits from AI development. This tells us much about the structure of the AI race in the US, where being the first to make and own a model is what matters. The race for the holy grail of artificial general intelligence, in particular, exemplifies the winner-takes-all style of American techno-capitalism.

That has led to US companies becoming increasingly closed off, preferring to keep their tech proprietary – in contrast to the "open-source" spirit that they all waxed lyrical about a few years ago. China, however, is maintaining the open-source approach. DeepSeek's previous open-source model has encouraged other Chinese start-ups, and DeepSeek says it plans to make its latest V4 model open-source too. We should point out that open-versus-closed is not really the binary choice it is sometimes presented as; "open-source" is a matter of degree for AI models, datasets and companies. But even so, China's approach is clearly more open.

The proliferation of open-source Chinese AI models, after the release of DeepSeek's last year, has meant that Chinese models now account for a significant share of global AI usage. Chinese policymakers argue that openness is one of the reasons China has been able to keep pace with US development at a fraction of the cost. Unsurprisingly, American businesses and politicians characterise it as piggybacking on, or stealing from, US development.

The fact China's AI models are open-source means intense competition between the models – and hence lower long-term profit potential for tech start-ups. If models and data cannot be proprietary, the companies making them have little hope of making money from their research and development. That discourages private investment in that development. That is why China's approach to AI requires significant government investment, and why China's biggest state-backed semiconductor investment vehicle is in talks to finance DeepSeek.

AI is a geopolitical – and maybe ideological – dividing line

Closer to home, it has not escaped policymakers' notice that Europe is practically absent from the AI race. European firms neither have the ability to establish large moats nor the public investment to open-source. A big part of that is down to European data protections, which mean AI models do not have access to the same training data.

Of course, there are plenty of legal, political and security reasons not to allow AI unfettered data access. At a recent AI summit in India, Prime Minister Modi spoke about the need for India to have sovereignty over its own data – and not let US or other companies have free access to data about Indians that they will then use to make more money from Indians. Countries may be justified in asserting data sovereignty, but it hinders AI development all the same.

Ever more effective AI hackers could also rob states of that choice. Anthropic's Claude Mythos model is supposedly so good at identifying cybersecurity weaknesses that Anthropic refuses to release it. But the company is currently investigating a reported unauthorised access to Mythos from state actors (potentially including China) for use in cyber warfare.

The UK government has said Mythos could be a "net positive" for security, but it brings home the geopolitical consequences of the AI race. We tend to think about grand geopolitical rivalries – like the US and China – in ideological or structural terms. In the 21st century, open versus closed AI could well be that dividing line.

Tatton Investment Management

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Global Equity Markets	08-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	10260	-1.0	-1.0	→ ↗	3.2	14.8	12.7	12.8
UK FTSE 250	22887	+1.6	+1.6	↘ →	3.6	12.0	12.1	13.3
UK FTSE All-Share	5518	-0.7	-0.7	→ ↗	3.2	14.6	12.6	12.7
FTSE Small x Inv_Tsts	6342	+0.8	+0.8	↘ →	4.4	21.1	9.7	10.0
EU STOXX ex UK	783	+0.9	+1.0	→ ↗	3.0	17.7	15.4	15.1
France CAC 40	8137	+0.3	+0.4	↘ →	3.2	17.0	14.5	14.1
Germany DAX 40	24444	+0.6	+0.8	→ →	2.6	17.9	15.0	13.3
US S&P 500	7389	+1.7	+1.4	↗ ↗	1.1	26.5	20.9	19.0
US NASDAQ comp	26119	+3.7	+3.4	↗ ↗	0.5	38.1	28.4	26.2
Japan Nikkei 225	62714	+5.4	+5.4	↗ ↗	1.3	25.7	23.8	18.6
World Bloomberg	2560	+2.0	+1.7	↗ ↗	1.6	23.0	17.9	16.6
China Bloomberg	1379	+2.8	+2.5	↘ →	2.1	15.7	12.9	12.5
Emerging Bloomberg	1833	+6.2	+5.9	↗ ↗	2.0	19.2	12.3	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
Endeavour Mining	+13.1	MediaTek	+40.2	Tech	+6.9	Staples	-0.6
Fresnillo	+12.4	Datadog	+32.4	Financials	-0.4	Energy	-4.6
JD Sports Fashion	+11.3	SK hynix	+31.3	Health	-1.3	Materials	+2.1
Antofagasta	+10.7	SK Square	+30.8	Discretionary	+1.9	Utilities	-2.7
Anglo American	+8.0	Micron Technology	+30.3	Industrials	+1.0	Real_Estate	+0.9
Polar Capital Technology IT	+7.8	Akamai Technologies	+28.5	Communicatic	+1.5		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
RELX	-9.0	Zoetis	-26.4	UK 5yr Gilt	4.43	-0.05
Admiral	-7.2	CDW DE	-21.2	UK 10yr Gilt	4.88	-0.08
London Stock Exchange	-6.4	Arista Networks	-18.0	UK 15yr Gilt	5.28	-0.09
BP	-6.3	Shopify	-15.1	US 10yr Treasury	4.35	-0.02
Shell	-5.8	Alcon	-14.4	France 10yr OAT	3.61	-0.08
Centrica	-5.8	Cencora	-13.8	Germany 10yr Bund	2.99	-0.04
				Japan 10yr JGB	2.47	-0.03

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	08-May	08-Apr
USD per GBP	1.362	-0.2	Oil Brent $:bl	100.91	-5.5	UK BoE base rate	3.75	3.75
GBP per EUR	0.865	+0.2	Gold $:oz	4731	+1.6	2yr fixed	4.81	4.45
USD per EUR	1.177	-0.0	Silver $:oz	80.94	+5.4	3yr fixed	4.92	4.37
JPY per USD	156.62	+0.1	Copper $:lb	626.3	+4.3	5yr fixed	4.80	4.43
CNY per USD	6.797	-0.4	Alumnm $:mt	3542	-1.2	10yr fixed	5.24	4.82
USD per Bitcoin	79,912	+1.6	Agriculture BBG	58.15	-0.9	Standard variable	6.60	6.60

Where possible, prices taken levels at 08 May 3:00 PM (today) and 01 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.

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Lothar Mentel