Weekly Macro and Markets View

27 July 2026

Highlights and View

Andy Burnham becomes the new UK PM, appointing John Healey as his Chancellor

Healey's appointment came as a surprise and is a likely signal of higher defence spending in the future.

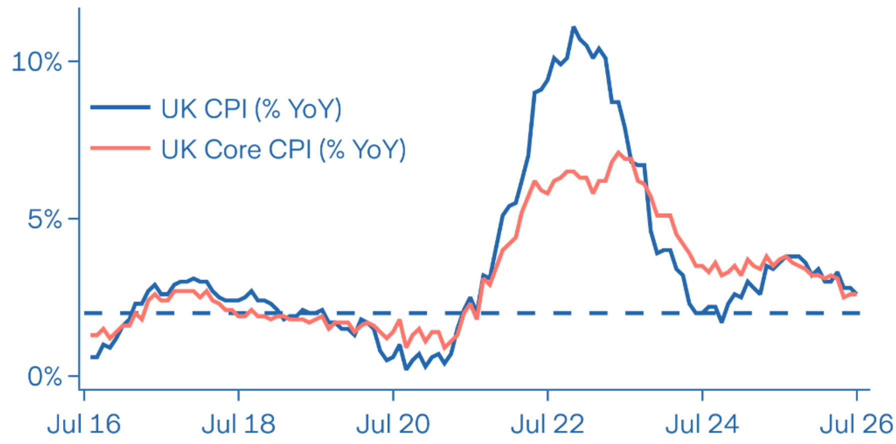
Equity markets are dragged down by higher energy prices and rising yields

Bond yields have once again reached a level where they are putting pressure on equities.

The ECB keeps policy rates unchanged at 2.25%, highlighting high uncertainty around the inflationary outlook

If energy prices remain near current levels, it is highly likely that the ECB will hike rates in September.

UK headline inflation falls



Source: Bloomberg

The new UK Prime Minister, Andy Burnham, has appointed former Secretary of Defence John Healey as his Chancellor of the Exchequer. Markets welcomed the decision, with gilts marginally outperforming Treasuries in a turbulent week for global government bonds. Headline inflation slowed to 0.1% MoM in June, driven by the drop in energy prices. This pushed the annual rate down to 2.6%, slightly below consensus expectations. Similarly, producer prices also reflected weaker price pressure, though the rebound in the oil price is likely to feed through in coming weeks. Meanwhile, the economy is holding up, with the Composite PMI picking up from 49.3 to 52.1, driven both by stronger manufacturing and services activity. Consumers are also in a better shape, with consumer sentiment improving to the highest level since January. Retail sales showed robust growth in June, even if fuel sales are excluded, picking up by 1.1% MoM, following 1.2% MoM in May. This lifted the annual rate to 5.4%, the second highest in more than four years. Finally, the unemployment rate remained at 4.9% in May, with wage growth sticking at 3.4% YoY. The FTSE 100 benefitted from a decent economic environment and a rotation away from technology stocks, outperforming most of its US and European peers.

US

Business activity picks up in July

Business activity growth accelerated to an eight-month high in July. The improvement was driven by services, while manufacturing growth slowed. Some of this improvement may prove short-lived, however, as July saw hospitality spending boosted by the FIFA World Cup and USA 250 anniversary activities. At the same time, price pressures intensified, with input cost inflation reaching a 14-month high and selling price inflation close to a four-year peak. Meanwhile, initial jobless claims fell to the lowest since 1969 last week, emphasising the ongoing low-fire-low-hire environment. 10yr Treasury yields rose to the highest in 18 months as the increasing tension in the Middle East pushed up oil prices, though the situation calmed down somewhat over the weekend. Stock markets lost ground for the second week in a row, once again dragged down by technology stocks despite Alphabet delivering solid earnings and a revenue beat. The earnings season is now gathering steam, with a number of major tech companies reporting this week.

Eurozone

Wake me up when September begins

The ECB kept its deposit rate at 2.25% in July, having increased it by 0.25% in June. This hold was expected by the markets. Between meetings, energy prices collapsed and surged again. Current levels are now close to the bank's initial June assumptions. Another rate hike is likely in September, with a significant fall in energy prices likely required to derail this. We remain of the view that any hiking cycle will be shallow, with risks skewed towards cuts in 2027. Underlying inflationary pressure is muted, and as of yet, there is no evidence of second-round impacts outside of energy pushing inflation up. While these could still arrive, it bodes well so far. Wage pressures continue to abate. Labour bargaining power is weak, driven by concerns around job losses and underwhelming Eurozone economic activity. Consumer confidence remains notably weak. Fixed investment is helping drive activity, but is historically sensitive to rate levels, which are moving in the wrong direction.

Asia

Tech is carrying the baton

In Asia, exports remain the region's key growth engine. Taiwan's June export orders surged 59.4% YoY to a record high, signalling no slowdown in the AI-fuelled tech cycle. Korea's momentum held firm, with 20-day export data tracking close to June's record pace, supported by strong shipments to China and the US, the two leading sources of global AI demand, as well as to Vietnam, whose expanding supply chain role is anchored by Samsung's manufacturing footprint. Malaysia's June exports likewise jumped 45.4% YoY on semiconductors and energy. Notably, recent data point to broader participation from Asia ex-Taiwan and Korea in the tech supply chain, with ASEAN emerging as a critical node. Meanwhile, Asian equities have been volatile, with still-elevated leveraged ETF positioning in tech-heavy markets, and Korea in particular, triggering sharp swings in stock performance. However, with export data continuing to signal exceptional strength, we view the shake-out as a healthy reset, setting the stage for semiconductors to resume their outperformance.

LatAm

Soft activity and uneven disinflation support a Banxico hold

Mexico's economic activity lost momentum in May after April's strong rebound, with the monthly GDP proxy contracting 0.3% MoM, broadly in line with expectations, after having expanded 1.4% in April. Activity grew 1.1% YoY, with services remaining the main source of resilience as industrial output moved back into contraction, confirming that the recovery remains narrow. Headline CPI rose just 0.07% in H1 July, bringing annual inflation down to 3.10% YoY, its lowest level since 2020. However, disinflation remains heavily reliant on subdued non-core prices (0.2% YoY), which are expected to reverse in H2, while core inflation remains close to the 4% upper tolerance bound. This mix of soft activity and fragile disinflation supports our expectation that Banxico will keep its policy rate unchanged at its next meeting. The latest bilateral US-Mexico talks, part of the current renegotiation of the USMCA, ended without any concrete agreements. The US has indicated that it hopes to reach interim arrangements by year-end but expects that more contentious issues could require negotiations into 2027.

Credit

Heavy supply meets a choosier bid

Corporate credit markets were relatively calm last week despite the continued conflict in the Middle East, with US High Yield (HY) spreads widening 12bps and Investment Grade (IG) 2bps, both underperforming European peers, where HY widened 5bps and IG was unchanged. One notable shift was in IG fund flows, which recorded the first outflow in three months at USD 7bn, according to LSEG Lipper. Supply came to a near halt in the second half of the week as we entered the summer lull. Even so, US IG July issuance is on pace for a record month, challenging 2017. Appetite for AI-related paper is thinning, with several data centre bond sales shelved recently for lack of demand, pushing issuers towards bank and loan financing instead. How much more supply will be placed on the market depends largely on the capex plans reported alongside the major hyperscaler earnings this week. We believe upside surprises to capex can pressure hyperscaler spreads further, which already trade wider than the index in both US and European IG, a segment that accounts for a growing share of the market.

What to Watch

- In the US, the corporate earnings season is picking up steam while the Fed is expected to keep rates on hold this week.s
- Eurozone Q2 GDP data is due, and the economy is expected to have grown modestly. July inflation data will be released on Friday and is expected to print just below 3% YoY.
- In Asia, the Bank of Japan is expected to keep rate unchanged at 1%. Key to watch are Japan's Tokyo CPIs, industrial production and retail sales; Australia's CPI; and India's industrial production.
- In LatAm, Chile's central bank is expected to keep its policy rate unchanged this week.

Disclaimer and cautionary statement

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