



Keep calm and carry on

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Sarah Breedon is worried! The Deputy Governor of the Bank of England used an interview with the BBC to say that “There’s a lot of risk out there and yet asset prices (stock markets) are at all-time highs”. Speaking for her rate-setting colleagues on the Bank’s Monetary Policy Committee Ms Breedon continued, “We expect there will be an adjustment at some point”. She has a point. How can it be that financial markets, typically forward-looking indicators, can appear so insouciant when confronted by what might turn into the biggest energy shock of all time?

The US stock market hit a new all-time high this month and it’s not alone. Japanese, Korean and Taiwanese indices have all made gains into previously uncharted territory and while the UK’s index of leading one hundred companies is not back to the highs recorded shortly before the onset of the conflict in the Persian Gulf on 28 February, it and European counterpart benchmarks stand not too far off it.

In addition to the stalemate into which the Middle East crisis has fallen, the Bank warned in late March that it was watching developments in the US private credit market (one in which potentially risky loans are funded using investors’ money) as well as developments in the US technology sector where, driven by unrelenting enthusiasm for artificial intelligence, semiconductor stocks have surged higher galvanizing benchmark

“In the end the truth will out.”

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indices even as breadth remains limited, a clear vulnerability were sentiment to shift. Ms Breedon's observations have heaped further discomfort on the Labour administration as it simultaneously unveiled an initiative to encourage UK savers to invest in the financial markets.

Whilst it's hard to take issue with the Deputy Governor's comments, investors have long since learned to take the rough with the smooth and accept that over the short-term an investment in the financial markets is seldom a one-way bet. As the ancients knew only too well, periods of feast (and returns from both the UK and global stock markets have been terrific for several years) are regularly punctuated by episodes of famine. Yet there are grounds for guarded optimism. The UK stock markets continue to provide breadth of opportunity from so-called "HALO" sectors (yet another acronym, standing for Heavy Assets, Low Obsolescence) such as energy, mining, utility companies and industrials deemed less vulnerable to the energy price surge and ensuing disruption, to asset-light software and data-driven businesses.

"Yet there are grounds for guarded optimism."

Furthermore, the UK stock market offers attractions for both domestic and international investors when the going gets tough, factors which often counted against it during times of plenty. Around one-fifth of the broader All Share Index by weighting (and by both earnings and dividends) is comprised from the oil and mining sectors and a further fifth by typically defensive healthcare and consumer staples companies. In times during which geopolitical risks dominate sentiment and uncertainties over supply chains and raw material availability are elevated as the oil price and that for related by-products surge, the UK provides a handy hedge.

And that's not all. The UK stock market is widely appreciated for its combination of dividend payments, share buybacks (which help boost a company's stock

market earnings per share issued and by extension its stock market valuation) as well as the proceeds from periodic takeover activity. Data released covering 2025 confirm that the total cash returned to shareholders last year amounted to £180bn. If analysts' forecasts hold true, a further £130bn distribution (4.6% of the value of the total UK equity market) is on the cards for 2026. As a cash yield that beats the Bank of England's base rate very comfortably.

None of which is to say that the UK stock market is immune to the high and rising pressures on the domestic and global economy. Households and consumer-facing sectors are under rising pressure from high energy costs and elevated mortgage rates, the former's impact increasingly confirmed as contemporary economic data rolls out. The Bank of England, in keeping with its leading global counterpart central banks, is treading cautiously, profoundly aware of rising price pressures and their lagged, but growing, impact both on economic activity, hard to shift inflation expectations and potentially wages in due course. Talking tough may be one way of signalling that senior officials are on top of the crisis for now but were diplomatic negotiations between the US and Iran to fail and the all-important Strait of Hormuz chokepoint remain closed, in time a policy response would be almost unavoidable.

"The Bank of England, in keeping with its leading global counterpart central banks, is treading cautiously..."

The concluding years of the first quarter of the twenty-first century have been defined by rolling crisis. Gone are the days of abundance, of easy money and even easier investing conditions. European Central Bank President Mme Christine Lagarde summed it up well. In a widely publicised speech to an audience of German bankers in Berlin, she itemised Europe's travails; everything from a worldwide pandemic,

a war on its Eastern frontier, trade and tariff policy upheaval and now a global energy shock. Yet periods of financial market turbulence have come and gone, markets seemingly learning to compartmentalise, discount and work through numerous risks. If financial asset performance over the now two-month long Middle East crisis tells us anything it is that it is seldom right to throw the baby out with

the bathwater. Risk has numerous definitions but at root, and in the context of the financial markets it refers to the threat of permanent capital impairment. Severe as the growing shock might be this is not that. Borrowing a line from Francis Ford Coppola's *Apocalypse Now*, it may take time but "Someday this war's gonna end...!"

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