JULY 2026

INVESTMENT MARKET OVERVIEW

Share markets thrive despite the challenges

Share markets around the world have generally delivered attractive returns over the last few years and this trend seems to be continuing in 2026. For example, the U.S. S&P 500 delivered strong gains in the first six months of the year through June, while market indices across Japan, Singapore, Canada and parts of Europe performed even more strongly. While this sustained growth has been rewarding for investors, it is important to recognise that these gains have occurred against a backdrop of significant global challenges.

Share markets will always carry inherent risks, and we should remain mindful of these when considering future returns. To that end, it is worth taking a deeper look at some of the dynamics that may affect share markets.

Assessing the fundamentals

A good place to start understanding what drives or restrains share markets is to look at the fundamentals of the businesses that make up those markets. If the share price of a business is increasing, it is useful to know whether this growth is based on tangible evidence that the business is performing well, or whether it is being driven primarily by broader investor sentiment. Measures such as corporate earnings growth, revenue growth, profit margins and business investment can all provide insight into the underlying strength of companies and the broader economy. For example, if we look at the corporate earnings across S&P 500 companies during 2026, they grew by well over 20% for the first quarter and a similar result is expected for the second quarter. While there is no guarantee that growth in corporate earnings will directly lead to an increase in share prices, strong earnings can provide an important foundation for sustained market performance.

The impact of geopolitical issues

While metrics such as corporate earnings growth are of value, there are many external, (and less measurable), factors that may also be impacting share prices.

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Geopolitics, for example, has been particularly pronounced in recent years with the COVID-19 pandemic, the Ukraine and middle east conflicts, tariff upheaval and trade wars. This year has been no exception, with the Iran / US conflict and the flow-on effects to oil supply dominating the headlines. While such issues may sound like they would undermine confidence and put downward pressure on share markets, recent experience proves markets can often remain buoyant in spite of such circumstances.

This year has been a prime example of how markets can react to geopolitical uncertainty. While share markets took an initial tumble in March when the Iran / US conflict began, this was swiftly followed by a significant rebound despite widespread concerns about the potential economic fallout. The reasons for this resilience can be complex. Markets may be taking comfort in factors such as the availability of domestic energy reserves, which can provide some short-term insulation from external shocks, as well as the capacity of countries to secure and develop alternative supply sources. In addition, political messaging may also be playing a role, as markets factor in the ability of the Trump administration to reduce the likelihood of a prolonged conflict.

Economic climate and news flow

The economic climate can also play an important role in influencing markets, but again it can be tricky to predict how markets will react. The news cycle tends to highlight negative issues such as the cost of living crisis, shaky consumer confidence, inflation being stubbornly persistent and central banks keeping interest rates restrictive. The casual observer might expect that these issues would put a drag on share markets, but there may also be less newsworthy factors that are working to support share price growth. For instance, global GDP is tracking reasonably well toward this year's IMF forecast of 3.1%, unemployment rates are reasonable and business investment levels are quite healthy – particularly in the technology sector where the AI revolution is attracting a lot of capital investment. The growth triggered by AI will also flow through to other sectors such as building and construction and energy.

It is worth noting that factors driving share performance can sometimes flip to having negative influence relatively quickly. The enthusiasm surrounding the AI boom, for example, may prompt some observers to question whether it will turn out to be an unsustainable 'bubble' rather than a boom.

So, what lessons we can take from all of this?

Share markets have historically delivered growth over the long term, however the wide range of economic, political and market factors discussed above means that periods of short-term volatility are always possible. Relying on share investments for a short-term gain can be fraught. For this reason, investment decisions should remain focused on individual circumstances, long-term objectives and time horizons, rather than short-term market movements. Maintaining a diversified and well-considered investment approach remains one of the most effective ways to navigate changing market conditions over time. Generally, portfolios that are diversified across different asset classes and investments tend to be better positioned to withstand periods of market dislocation.