LEATON WEALTH

MARKET COMMENTARY

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GLOBAL MARKETS NAVIGATE ENERGY PRICE RISKS AND AI OPTIMISM

THE ECB HAS HELD RATES STEADY BUT WARNED THAT MARKETS MAY BE UNDERESTIMATING FISCAL AND GEOPOLITICAL RISKS

Financial markets through May remained shaped by Middle East-driven energy inflation, the evolving interest rate outlook, and an AI-led equity rally that continues to defy broader geopolitical uncertainty.

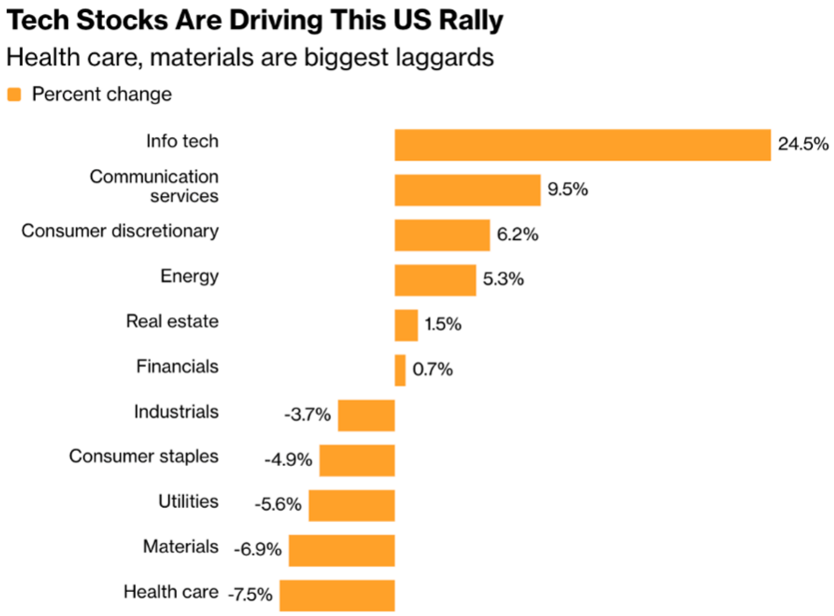
Global equities delivered positive returns, led by Japan and the US. The Nikkei 225 rose around 6% and the S&P 500 more than 5%, supported by technology strength and sustained AI optimism. European markets posted more modest gains of roughly 2%, while China's CSI 300 edged up about 1% amid ongoing concerns over the pace of economic recovery.

The Iran conflict, now in its third month, has pushed Brent crude to around US$95 per barrel, having reached up close to 50% since late February. Inflation data is beginning to reflect the impact. In the US, the Federal Reserve's preferred PCE measure is tracking toward roughly 3.8% year-on-year in April, nearly two percentage points above target and marking the sharpest two-month acceleration since 2021. Having previously outlined a path to lower rates, new Fed Chair Kevin Warsh now faces the challenge of managing expectations that may shift toward tightening.

This debate is global. Markets are increasingly pricing in the risk of further rate rises from the Bank of England, although MPC member Alan Taylor has struck a more measured tone, suggesting that holding rates at 3.75% for an extended period could contain second-round effects, assuming the Strait of Hormuz disruption does not persist. The ECB has held rates steady but warned that markets may be underestimating fiscal and geopolitical risks, leaving asset prices vulnerable to repricing.

Against this backdrop, US equity resilience has been striking but narrowly concentrated in AI-linked names. The S&P 500 has risen more than 8% since the conflict began, while the equal-weighted index is broadly flat. A small group of large technology companies accounts for most of the gains, led by Nvidia, Amazon, Apple, Alphabet and Broadcom. Nvidia has delivered record results, while Intel has rallied sharply and Micron has reached a trillion-dollar valuation.

US EQUITY RESILIENCE HAS BEEN STRIKING BUT NARROWLY CONCENTRATED IN AI-LINKED NAMES



Note: Performance of 11 sectors in S&P 500 since the close on Feb. 27
Source: Bloomberg

Some argue the rally reflects earnings momentum rather than excess, with forward price-to-earnings multiples of around 21 times seen as reasonable in a no-recession scenario. The underlying driver remains the AI capital expenditure cycle, with private-market AI infrastructure investment reaching roughly US$80 billion in the final quarter of 2025.

Others are less sanguine. The ECB's latest financial stability review highlights a structural shift in bond markets, away from long-term holders such as pension funds toward more price-sensitive investors, increasing volatility. Rising US fiscal deficits, potential repatriation of Japanese capital, and reduced recycling of Middle Eastern oil revenues into Western assets all present longer-term headwinds for global bond markets.

SPACEX IPO TESTS THE LIMITS OF VALUATION

AT US$2 TRILLION, SPACEX WOULD TRADE AT ROUGHLY 104 TIMES TRAILING SALES, FAR ABOVE THE S&P 500 AVERAGE OF 4.7 TIMES

SpaceX's planned Nasdaq listing this summer is shaping up to be a generational market event. The rocket, satellite and AI company has filed for what could become the largest IPO in history, targeting a valuation above US$2 trillion and aiming to raise around US$75 billion.

The investment case has clear strengths. Starlink has evolved into a recurring-revenue satellite broadband network with the characteristics of a global telecom utility. SpaceX's reusable launch technology has delivered a near-monopoly in commercial launch and low Earth orbit deployment. Add defence and government contracts, an emerging AI infrastructure business, and optionality in direct-to-device communications and orbital computing, and the strategic positioning is compelling. Some analysts argue the company could justify multi-trillion-dollar valuations if Starship (SpaceX's launch vehicle) materially lowers launch costs and unlocks new markets.

There are, however, reasons for caution. Valuation is the most immediate concern. At US$2 trillion, SpaceX would trade at roughly 104 times trailing sales, far above the S&P 500 average of 4.7 times and higher than most mega-cap technology companies at comparable stages. Investors are being asked to price in a future that remains largely unproven.

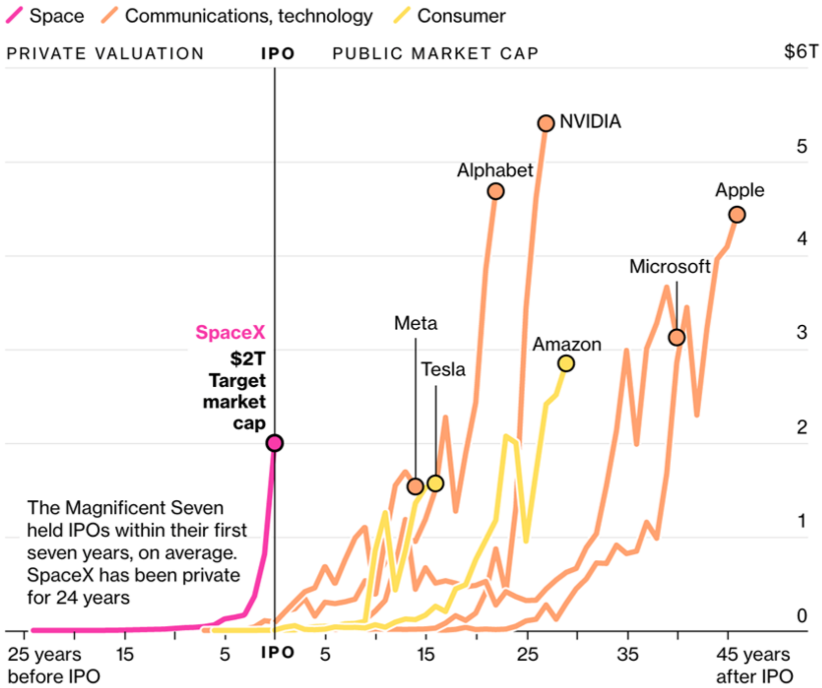
Financial disclosures reinforce that caution. The AI unit burned through US$7.72 billion of capital in the first quarter of 2026, while SpaceX reported a US$2.47 billion operating loss. Capital demands remain structurally high, with Starship development and orbital data ambitions requiring sustained investment. This has been manageable in private markets, but public investors may prove less patient.

Governance adds another layer of complexity. Elon Musk is expected to retain overwhelming voting control, while related-party transactions across SpaceX, xAI, Tesla and Starlink have already drawn scrutiny. The proposed US$1.25 billion monthly computing deal with Anthropic highlights both ambition and the growing interdependence of Musk's businesses, making it harder to isolate SpaceX's standalone economics.

GOVERNMENTS ARE BECOMING INCREASINGLY UNEASY ABOUT CRITICAL COMMUNICATIONS INFRASTRUCTURE REMAINING IN PRIVATE HANDS

SpaceX's Long Run as a Private Firm Gives IPO a Boost

Pre- and post-IPO value for SpaceX and the Magnificent Seven



Sources: PitchBook, Bloomberg

Note: Public market capitalizations are the values at year-end. Data for 2026 are values as of May 20. Figures account for inflation using the seasonally adjusted urban consumer price index for April 2026 from the Bureau of Labor Statistics. Valuation figures include estimates.

Competitive and regulatory pressures are also building. Amazon's Project Kuiper is emerging as a credible rival, while governments are becoming increasingly uneasy about critical communications infrastructure remaining in private hands.

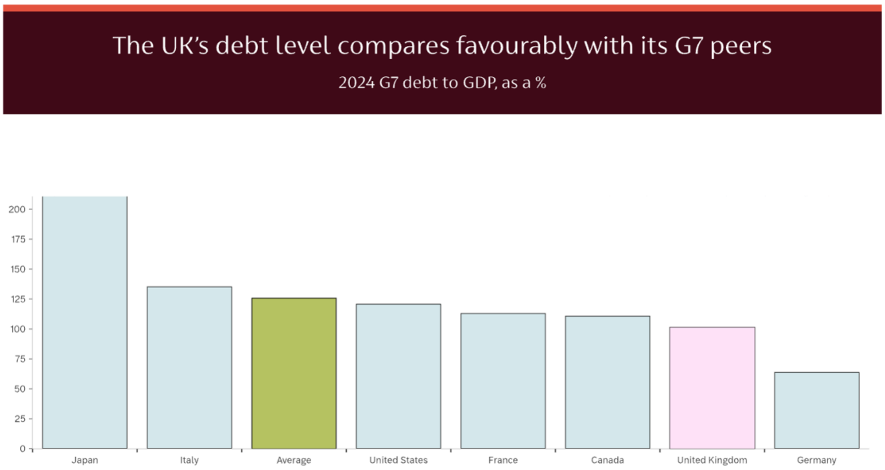
History suggests many high-profile IPOs struggle to outperform after listing. SpaceX may prove the exception, but the balance of evidence warrants caution.

UK GILT MARKETS RENEW FOCUS ON POLITICAL RISK

The spectre of Liz Truss has returned to haunt British markets, not through a repeat of the 2022 mini-budget but through heightened sensitivity to any perceived loosening of fiscal discipline.

Speculation over Keir Starmer's leadership, with Andy Burnham emerging as a potential successor, has unsettled gilt markets and revived memories of the Truss-era turmoil. Ten-year yields climbed above 5%, the highest since 2008, while 30-year yields briefly reached levels last seen in 1998. Sterling also weakened. Markets have reacted to concerns that a more left-leaning leadership could bring higher borrowing, looser fiscal rules and greater state intervention.

GILTS NOW CARRY A POLITICAL RISK PREMIUM



Source: IMF, Macrobond, Coutts. Data accurate as at 17/09/2025.

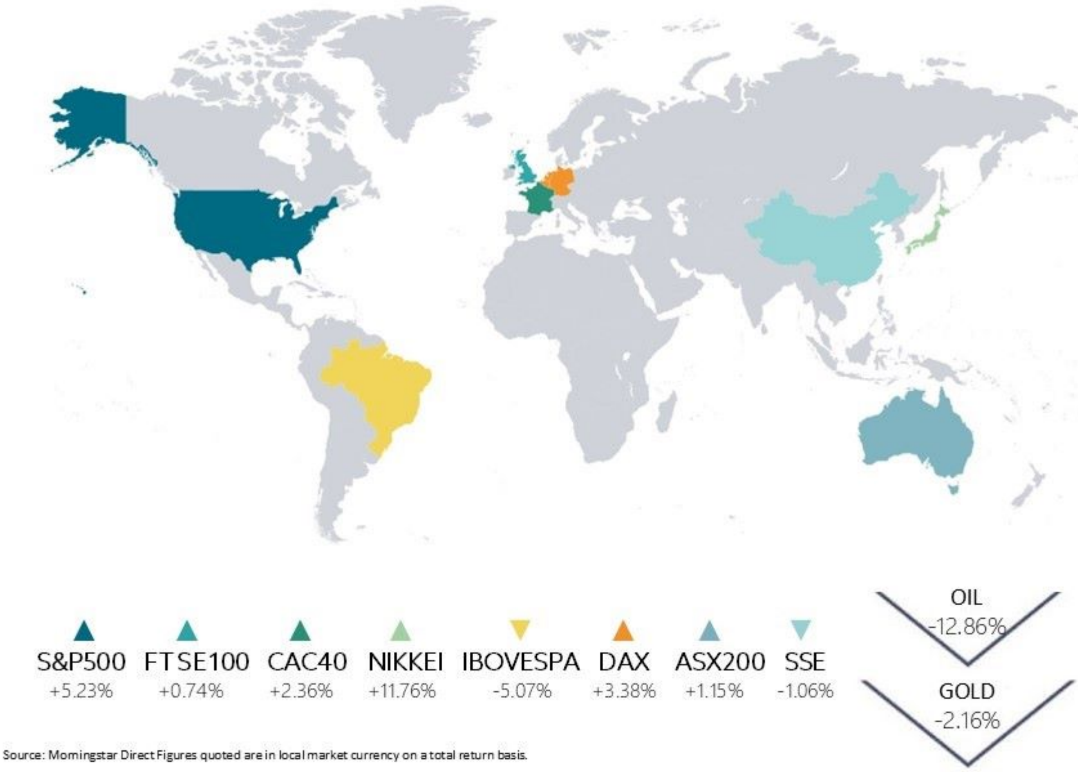
Burnham's appeal rests on addressing regional inequality, but investors remain focused on the numbers. Estimates suggest a Burnham-led government could add up to £50 billion to borrowing over five years, particularly if defence spending is excluded from fiscal constraints. With debt nearing 100% of GDP, annual interest costs around £100 billion and inflation risks resurfacing amid the Iran conflict, concerns have intensified.

The Truss episode reshaped the risk profile of UK sovereign debt and reinforced how quickly markets can punish fiscal missteps. Gilts now carry a political risk premium and trade with greater volatility than US Treasuries or German Bunds would suggest on fundamentals alone.

A more measured view is that Labour's senior leadership is acutely aware of these constraints. Louise Haigh, a prominent figure within the party's leadership group, has signalled that any changes to fiscal rules would come only after Rachel Reeves has met her target of balancing day-to-day spending with tax revenues. Retaining Reeves as chancellor would itself act as a clear signal of fiscal continuity to markets.

Ultimately, UK asset returns are driven more by global factors than domestic politics. The internationally oriented FTSE 100 remains relatively insulated, but the gilt market does not.

GLOBAL MARKET RETURNS - MAY 2026



Source: Morningstar Direct Figures quoted are in local market currency on a total return basis.

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