

MARKET SNAPSHOT – JUNE 2026

Economic pressures mount as Iran conflict drags on

Higher energy prices are fuelling inflation concerns, weighing on growth and creating fresh challenges for policymakers across the world's major economies.

How is Trump doing on the economy?

The US mid-term elections in November are drawing closer and the success of President Trump's Republican Party will largely depend on how well the economy is doing. The big problem for Trump remains inflation, which hit 4.2% in May, well above comfort levels.

The war in Iran and the subsequent closing of the Strait of Hormuz has sent the price of a barrel of Brent crude oil soaring. This has led to Americans paying over \$4 for a gallon of gasoline, while the average cost of diesel continues to edge towards \$6 per gallon.

Long-term government bond yields have also reached their highest levels since 2007 due to inflation fears caused by the Iran war, threatening to raise borrowing costs across the US economy. Investors have sold off Treasury bonds amid fears over unsustainable government finances and rising interest rates. Bond yields rise when prices fall.

Trump's tariffs, the cornerstone of his economic agenda, have not had the dramatic impact on the economy many feared they would. First introduced in April 2025, when he imposed a 10% blanket levy on most imports, the tariffs have generated over \$200 billion in revenue. However, a February report from the Tax Foundation found that the tariffs could cost the average household \$1,300 more this year.

After a year of weak growth, the US labour market appears to be stabilising. Unemployment remains steady, while employment gains have averaged 188,000 jobs per month over the past three months. Nevertheless, Americans are growing more pessimistic about the

Figure 1: Labour market resilience

The US labour market remains resilient despite higher oil prices and ongoing inflation concerns. The US economy posted a third straight month of gains in May, while unemployment held at 4.3%.



Source: US Bureau of Labour Statistics, Wesleyan.

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economy. Consumer confidence has fallen to a record low, with households increasingly worried about the prospect of rising costs.

Growth is also falling, with GDP expanding at an annualised rate of 1.6% in the first quarter, revised down from an initial estimate of 2%. The picture makes things more difficult for the US Federal Reserve (Fed), which must weigh the risk of inflation against a weakening jobs market. If it raises interest rates to curb inflation, it risks pushing unemployment higher. If it holds or cuts, inflation could rise further.

Why have UK government bond yields been rising?

The UK government bond market has experienced extensive volatility in recent weeks, with 30-year long-term government bond yields, known as gilts, rising to their highest in nearly 30 years. The yields on 30-year bonds hit 5.8% in mid-May, the highest level for long-term bonds since the first quarter of 1998. Shorter-term bond yields also rose, with 10-year gilts climbing to an 18-year high of 5.2%.

Bond prices and yields have an inverse relationship. When bond prices fall, yields rise. The sharp rise in gilt yields reflects growing investor concern over the relative risk of UK sovereign debt, with markets pricing in a higher premium to justify capital commitment over the long term.

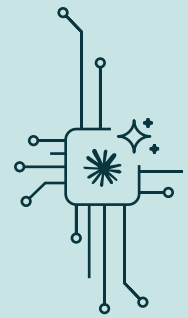
The sell-off has been driven by domestic policy worries and rising global inflation caused by the war in Iran. Markets are worried that the Bank of England may have to keep rates higher for longer if inflation remains sticky and above its 2% target.

This has been fuelled by surging energy prices due to disruption caused by the conflict in the Middle East. The UK is expected to be one of the countries hit hardest by the energy shock due to its reliance on energy imports.

The rise in bond yields also reflects growing concerns about fiscal sustainability amid the leadership crisis engulfing the Labour Party. Prime Minister Keir Starmer has come under increasing pressure to resign after the Labour Party suffered big losses in May's local elections.

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A recent funding round valued Anthropic, the company that's behind the Claude chatbot, at \$965 billion, overtaking OpenAI as the world's most valuable AI startup. Anthropic projects breaking even by 2028, two years ahead of OpenAI, making it an attractive prospect for public market investors.



With a leadership challenge now on the cards and a possible lurch to the left, markets have been rattled by the prospect of Starmer's successor increasing borrowing and spending, which could push gilt yields even higher.

How is the Iran war affecting China's economy?

China's economy grew faster than expected in the first three months of the year despite the Iran war, but the cracks are now beginning to show. Rising oil and gas prices are beginning to weigh on the economy, slowing consumer spending and hurting exports.

For much of the year, China has managed to weather the global energy crisis owing to its aggressive stockpiling of oil and natural gas. It has been estimated that China has built up reserves of around 900 billion barrels of oil, which is enough to last for three months. While this massive stockpile initially insulated the country from the impact of the Strait of Hormuz blockade, the prolonged conflict and rising energy prices are beginning to weigh on the economy.

The world's second-largest economy lost significant momentum in April, with factory output and retail sales both missing forecasts. China's industrial output fell from 5.7% in March to 4.1% in April, the slowest pace of growth since July 2023.

Retail sales grew just 0.2% in April, cooling sharply from 1.7% the previous month and the weakest since 2022. While government subsidies helped boost purchases of goods last year, the programme has been scaled back.

The declining real estate sector also continues to drag on consumer and business sentiment. Property investment fell 13.7% in the first four months compared to a year ago, while home sales by value slid 15% over the same period.

China's factory-gate inflation rose to a 45-month high in April, while consumer inflation also accelerated, fuelling fears that higher commodity prices caused by the war could erode manufacturers' profit margins and further cloud the economic outlook.

China has been locked in a deflationary spiral in recent years. However, analysts have warned that inflation driven by a supply shock rather than strengthening demand could intensify strains on households and businesses, as higher energy and commodity costs squeeze spending and profits without improving underlying economic growth.

Looking ahead

Global markets have continued to rise despite conflict in the Middle East, supported by renewed optimism around AI and broader hopes for a peace deal. US equities are trading at record highs, with companies delivering their strongest earnings season since 2021, driven by robust demand for AI infrastructure. The gains have come despite soaring petrol prices, weakening consumer confidence and rising inflationary pressures.

Global oil inventories are running low as efforts to re-open tanker traffic through the Strait of Hormuz remain unresolved, raising concerns of another oil price shock in the coming weeks. Some analysts and industry executives warn that a further rise in oil prices could weigh on economic growth, push up bond yields and unsettle equity markets.

The American labour market continues to show surprising strength in the face of uncertainty and high energy prices. Employers added 172,000 jobs in May, while the unemployment rate held steady at 4.3%.

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