

RATHBONES

Investment Insights

Our monthly look at what's driving global markets

Disbelief
We caution against too much caution

Beds, sheds, trips, and treats
How ageing populations are creating new winners and losers

Troubled waters?
The investment case for stopping the AI cloud from draining the river

Issue 55 | June 2026

Quick take
In this month's issue

Disbelief
We caution against too much caution

Despite war in the Middle East and geopolitical uncertainty, global equity markets have continued to reach new highs, surprising many investors.

Markets appear to be pricing in eventual de-escalation of the Iran conflict, despite continued disruption to energy supplies and shipping routes.

Strong corporate earnings, particularly in the US, have provided a powerful tailwind, helping companies grow into elevated valuations.

AI-related investment is driving growth, supporting profits across technology and other sectors.

While the opportunity remains compelling, diversification is still essential as more of the market becomes exposed to the AI theme.

Read the full story on page 3.

Beds, sheds, trips, and treats
How ageing populations are creating new winners and losers across property and consumer markets

From healthcare facilities and warehouses to holidays and luxury experiences, ageing populations are reshaping where people live, how they spend, and what businesses stand to benefit.

In property markets, growing demand for healthcare infrastructure, care homes, and logistics facilities contrasts with challenges for lower-quality office space.

Consumer spending is also shifting, with older households directing more towards travel, less flashy premium goods, wellness and home improvements.

These trends highlight how ageing populations are creating opportunities for investors able to identify the sectors and companies best positioned for change.

Read the full story on pages 5 and 6.

These pieces form part of our wider exploration of ageing populations following articles in the March and May editions of *Investment Insights*. To find out more, visit www.rathbones.com/knowledge-and-insight



Troubled waters?
The investment case for stopping the AI cloud from draining the river

This month's cover image shows Oak Creek flowing through West Fork Trail Canyon in Sedona, Arizona – a reminder of the freshwater resources that are becoming increasingly important as the AI boom accelerates.

Data centres require vast amounts of water for cooling and electricity generation, with demand expected to rise sharply as AI adoption expands.

This growing need is colliding with increasing pressure on global freshwater supplies, creating potential risks for communities, businesses, and economic growth.

Technology companies are responding with innovations such as liquid cooling systems, recycled water, and renewable energy, but implementation remains uneven.

As AI drives further investment in digital infrastructure, water availability is emerging as a financial and operational risk that investors and companies can no longer afford to ignore.

Read the full story on page 7.

Snapshot
The global economy and markets

Key facts and figures from around the world, including falling approval ratings for political leaders, a strong rebound in US equities, weaker UK business investment, and currency pressures in India. Also features longer-term trends across global equities, bonds, sterling, and gold.

Find out more on page 9.

This publication shares general information and insight about markets. It should not be taken as financial advice or a recommendation. The value of investments can go down as well as up and you could get back less than you invested.

Disbelief
We caution against too much caution



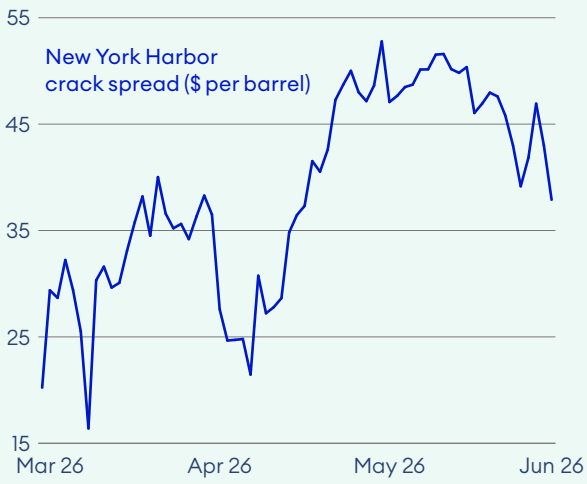
John Wyn-Evans, Head of Market Analysis

Investment managers tell me many clients are currently somewhat bemused by the continued rise in the value of balanced portfolios.

Such is the nature of financial markets – often confounding expectations and dancing to a different tune to the one playing in media headlines. Admittedly, this sort of disconnect tends to happen at a turning point at the bottom of an economic cycle, as investors anticipate better times ahead. What makes this period different is that May saw global equity indices ascend to new all-time highs.

The sustainability and extension of such gains will depend on various factors. One is the outcome of the Iran war. Another is the sheer strength of corporate earnings growth, especially in the US and emerging markets. Much of this momentum is driven by the incredible growth of capital expenditure (capex) related to AI. Domestic politics, in both the UK and the US, also look set to play a role.

Figure 1.1: Crack up
Profit margins have risen for refiners since the start of the Iran war.



The crack spread is the difference between the price of crude oil and of a range of products refined from crude.
Source: LSEG, Rathbones

Iran: discounting de-escalation

After the first strikes on Iran of this war at the end of February, few, if any, pundits envisaged markets at their current levels by now. The US's S&P 500 stock index has reached fresh records. That's especially the case as the Strait of Hormuz – critical to the global economy – remains closed to traffic. But the impact has so far been limited. Why?

Alternative pipeline access to Gulf crude oil has been a key element in maintaining some of the flows, while flexibility has emerged elsewhere in the supply chain. For example, some sanctioned Russian oil has been allowed to return to the market. Refiners in Europe have increased jet fuel production to take advantage of a wider spread between the cost of crude oil and the selling price of the jet fuel refined from it. And jet fuel might now be more expensive, but at least it's still available. There's also evidence of lower overall demand for crude as consumers switch to alternatives.

It now seems, too, there was far more inventory immediately available than first thought, either in national governments' strategic reserves or stored in tankers at sea. This might well be why the US administration has been willing to string out the negotiating process for so long. Even so, this cushion is unlikely to last forever and some sort of peace plan needs agreement soon. On Polymarket (a website where people trade on the likelihood of future events), the probability for Strait traffic to return to normal by the end of June is just 20%, compared with 50% at the beginning of May. It's 40% for the end of July.

“Alternative pipeline access to Gulf crude oil has been a key element in maintaining some of the flows, while flexibility has emerged elsewhere in the supply chain.”

Since the early days of the conflict, we've maintained that it would suit neither Iran nor the US to conduct a prolonged campaign. Iran has limited economic resources and a longer war would risk a collapse of the regime and society more widely. In the US, the mid-term elections loom ever larger and the American electorate has limited appetite for such overseas interventions, especially if they increase domestic fuel costs. This playbook has dissuaded us from taking a more defensive investment stance, even in the face of apocalyptic headlines and warnings of the beginning of World War Three.

US stocks: growing into the valuation

One concern about US equities is that they look expensive. However, this long-standing worry hasn't hindered their progress. We've long believed that a simple price/earnings ratio (PE) valuation – a measure comparing a company's share price with its earnings – doesn't fully capture the profitability of the leading companies. Their ability to earn returns well above their cost of capital and reinvest those profits into new, equally profitable growth opportunities is far more important.

This thesis was tested recently when the share prices of many software companies fell sharply due to the threat of disruption from AI-based competition. Some have since recovered – notably those involved in cybersecurity, many of which have reached new all-time highs. Remarkably, even though the S&P 500 has risen 11% so far this year, the 12-month forward PE ratio has fallen slightly, to around 22, thanks to a steady

Figure 1.2: March upward
Since the end of March, semiconductor industry stocks have been on a tear.



Source: LSEG, Rathbones

"One concern about US equities is that they look expensive. However, this long-standing worry hasn't hindered their progress."

upgrading of earnings forecasts. First-quarter earnings growth of 26% over the previous year came in well ahead of expectations. As long as earnings continue to improve, it's hard to see equities coming under sustained pressure. US earnings growth is forecast at 24% for calendar year 2026, followed by 13% in 2027. Even so, we don't want to get carried away.

There's also the fact that the spending on data centres by the hyperscalers is being capitalised on their balance sheets, rather than expensed through the profit and loss account (P&L). That means this expense is recorded as an asset. This is perfectly reasonable and will, in future, be recognised through depreciation charges in the P&L: the gradual writedown in the value of assets. However, that spending is being recognised as instant profit by its recipients.

Some of these, such as semiconductor manufacturers, have even higher operating margins than the hyperscalers, so overall margins are rising too. We should emphasise that there's nothing untoward in this. But the sheer amount of capex, running close to $800bn in 2026, is on a scale never before experienced, especially in such a narrow field, and is strongly boosting reported profits in the short term (figure 1.2).

More AI

Our longstanding attitude towards AI has been not to bet against it. There have been numerous scares in the past couple of years. These range from concerns about prospective returns on capital to slow adoption and the risk of competition to the US industry leaders from China. But we've maintained, and even added to, investment exposure to AI throughout.

We think the world remains early in the adoption cycle for AI-based tools, making this an investment opportunity not to be missed. But, if one includes the downstream beneficiaries of all this capex (construction, power, raw materials, and so on), more than 40% of the global equity market could be exposed to this one theme. It's important not to allow portfolios to become too concentrated, just in case something goes wrong. That basic precept is, to borrow a term regularly used in the American tech world, Investing 101.

Beds, sheds, and meds
How ageing populations are reshaping property markets



Fred Heaton, Research Analyst

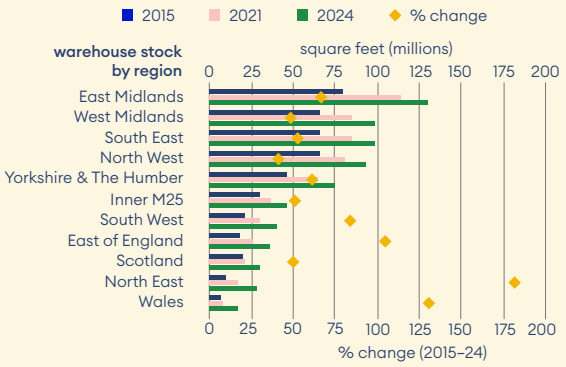
Simple rhymes can be surprisingly useful. 'The cat sat on the mat' helps early learners grasp letters and grammar. Professional services firms are always acutely aware of the need to maintain the right balance of 'finders, minders, and grinders' among their partners to keep the business successful.

Likewise, the investment opportunities presented by ageing populations can be summed up as 'beds, sheds' – both real estate opportunities – and meds'. Among this trio, 'meds' looks set for the strongest growth.

Taking the UK as an example, Lord Darzi's 2024 report on the NHS found that access to healthcare is under severe pressure because of a rising population, significant underfunding, and ineffective allocation of resources: too much money flowing to some parts of the NHS and not enough to others.

The UK's ageing population will add heavily to this burden. Almost 80% of people who have reached their 75th birthday have at least five long-term health conditions. We believe reform should concentrate on technology investment and preventative healthcare through GP surgeries and other primary care centres. This is better than relying excessively on a reactive system based on hospitals.

Figure 2.1: Gold in the golden triangle
The growth of warehouse space in the UK, particularly inside the 'golden logistics triangle' based around Birmingham, Leicester, and Northampton, presents investment opportunities.



Source: Savills Research, Rathbones

This shift is likely to take time, although there were already signs of movement in this direction under former Health Secretary Wes Streeting. As UK governments are pushed towards this approach by necessity, likely beneficiaries include private hospital owners such as LondonMetric, the FTSE 100 property company that leases assets to healthcare provider Ramsay. Primary care centre owners may also benefit, including the real estate investment trust Primary Health Properties, which has more than three-quarters of its rental income backed by the government.

'Sheds' is shorthand for warehouses, which benefit from the continued growth of e-commerce (figure 2.1). As older people become less mobile, online shopping becomes increasingly valuable, allowing goods to be delivered directly to their doors.

Sun, sea, and assisted living

'Beds' refers to homes. We expect newly retired people to move to places offering the lifestyle they want – typically where there's sun, sea, and other pleasures nearby. The listed market offers relatively few direct opportunities linked to this trend.

As people age further, many may favour urban living while remaining in their own homes. Later still, assisted living and care homes may become more appropriate. Assisted living is more established in the US but is becoming increasingly common in the UK through businesses such as the privately owned Audley Group.

Among listed companies, firms such as Welltower in the US and Target Healthcare in the UK provide premium private care homes, run by separate landlords.

Offices, by contrast, are likely to remain under pressure. The reason is not primarily because populations are ageing, but because of workforce turnover as older workers retire and younger people fail to replace them in sufficient numbers. Companies may increasingly substitute AI for some retiring workers rather than hiring replacements.

High-quality, environmentally sustainable office space should fare better. But the valuation gap between these buildings and lower-quality offices – already widening in the era of working from home – is likely to widen further.

Trips, treats, and tools
How ageing is changing spending on life's nice-to-haves



Fred Heaton, Research Analyst

On retirement, the dreaded alarm to begin the working day rings no more. In its place lies free time. What will people newly liberated from wage slavery do with it?

Investors in 'consumer discretionary' businesses, which sell products and experiences that are 'nice-to-haves' rather than essentials, are asking the same question. We can group the winners into three spending categories: 'trips', 'treats', and 'tools'.

Travel businesses should benefit from the extra time freed up for trips. These include hotel chains that offer an enjoyable rather than merely functional experience, such as InterContinental Hotels Group, Marriott, and Hyatt. Online travel agencies such as Booking Holdings also stand to gain. Cruise operators including Carnival, and package holiday companies such as Jet2, can tap into the same trend.

'Treats' covers physical goods and experiences. Within the catch-all term of 'luxury goods', wealthy older consumers are likely to prize genuine luxury. That means favouring class and elegance – in other words, quality – over quantity. Think companies with quieter luxury appeal, supported by long-established heritage brands. Examples include French luxury goods maker Hermès, which avoids large, flashy logos, and some brands within the sprawling luxury group LVMH.

The wearable, usable, and available

Alongside the wearable are the usable, as newly available retirees seek new adventures. LVMH owns high-end yacht maker Royal Van Lent, for instance. Among listed companies, another option is Ferrari. Younger people drive, of course, and wealthy younger people can buy sports cars, but older people often have more time to enjoy them.

'Tools' are less glamorous, but they can help to make life that bit better. This includes home improvement retailers such as the US's Home Depot and the UK's Kingfisher, owner of B&Q. High home-equity balances – the value of homes after subtracting mortgages, which may well have been repaid by this stage – provide the financial means. Retirement also creates the time to undertake home renovations.

Cosmetics, toiletries, and beauty firms such as France's L'Oréal are set to benefit from increased spending on skincare and wellness. We explored this theme in our May issue, which is available on our website.

Despite these opportunities, we should acknowledge that an ageing population is, overall, bad news for the consumer discretionary sector. Retired people tend to spend less money in general.

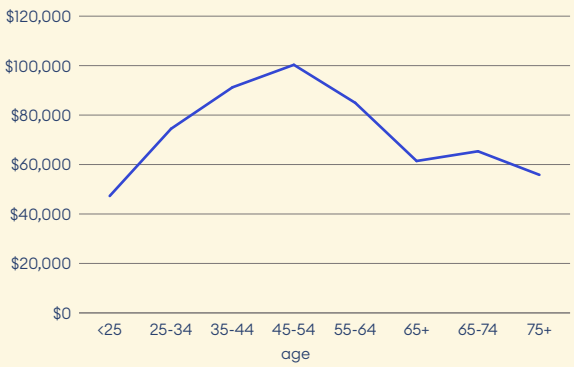
Losers from an ageing world

The categories at greatest risk are those most heavily geared towards younger consumers. Fast-fashion retailers such as the UK's ASOS may struggle, as older consumers tend to favour clothes that last longer and are less driven by changing trends.

Lower household formation – people starting families and furnishing new homes – could also come under pressure. This affects companies such as the US's Wayfair and the UK's Dunelm. Falling birth rates are also likely to weigh on toy manufacturers such as Mattel and Hasbro.

In other words, an ageing world means fewer people shepherding grumpy children around furniture stores and more enjoying peaceful Caribbean cruises – a shift that investors would do well to consider.

Figure 3.1: The eight spending ages of man – and woman
Average annual US household spending rises throughout early adulthood and middle age to peak in the late 40s and early 50s, before falling in later life.



Source: Consumer Expenditure Surveys, US Bureau of Labor Statistics, Rathbones

Troubled waters?
The investment case for stopping the AI cloud from draining the river



Philippa Bliss, Stewardship Lead

As Britons sweltered over their PCs during the summer drought of 2025, they received surprising advice from the UK government. People were encouraged to play their part in conserving water by deleting old emails and photos. The message explained that the data centres powering cloud storage require vast amounts of water for cooling.

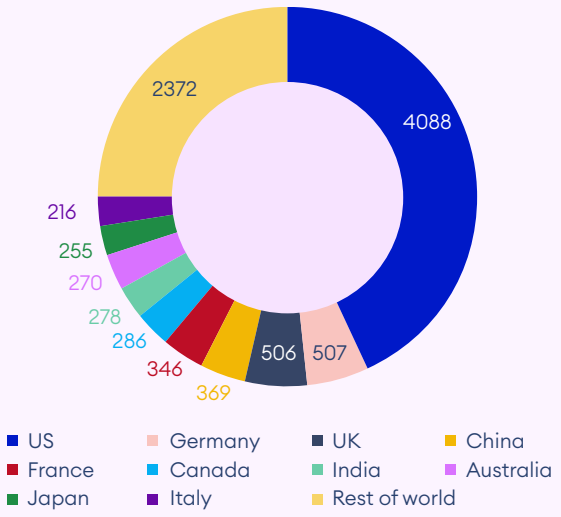
Estimates vary, but a medium-sized centre can use up to 110m litres of water a year for cooling alone – roughly the annual consumption of 1,000 households. The UK already has more than 500 data centres – and there are likely to be many more in the future.

It's getting hot in here

Without cooling, data centres can rapidly reach temperatures above 40°C. This can shut down servers and trigger system failures. In 2025, a cooling-system failure in the American Midwest caused an 11-hour outage for CME Group, the world's largest derivatives exchange. That disrupted trading in equities, bonds, currencies, and commodities.

Figure 4.1: United States of data

The US has almost half the world's data centres, but Germany and the UK already have more than 500 too.



Source: Data Center Map, Visual Capitalist, Rathbones

Data centres don't just need cooling. They also need huge amounts of electricity. Generating that requires water as well. Water is also used heavily in manufacturing the semiconductors and other components that centres rely on.

The International Energy Agency estimates that globally, data centres already consume more than 560bn litres of water annually for cooling and electricity generation. This figure will grow even higher as computer power expands and the onward march of AI continues. Some analysts predict annual data-centre water use could reach 1.2tn litres by 2030. That matches the amount used by about 24m Britons.

Such an amount might seem manageable, but this rising demand for water is set to collide with a squeeze on supply as freshwater resources come under increasing strain in a world with more volatile weather patterns. The World Resources Institute, an environmental think-tank, predicts global freshwater demand will exceed supply by 40% by the end of this decade. Closing this gap could require damaging solutions, such as extracting environmentally unsustainable amounts of water.

Financial and economic risks

The World Economic Forum, a think-tank, warns that AI's water needs could threaten water security – the ability of countries to meet demand without harming biodiversity. The risk is particularly acute in areas already facing water stress. If water shortages begin to constrain industrial activity, the effects could hit economies and company profits.

The impact is especially visible in regions with a high concentration of data centres. Ceres, a sustainability-focused non-profit organisation, has analysed the likely water needs of planned developments in the Phoenix area. It predicts indirect water use linked to data centres around Arizona's capital could rise by 400% – even though the region already faces significant water stress.

Blocked revenue streams

Water risk has financial implications for companies as well as communities. In 2024, Google halted plans for a data centre in Chile because of local concerns

about pressure on water supplies. The company later redesigned the project and restarted the permit process, increasing costs and delaying potential revenue generation. In 2025, Amazon abandoned plans for a data centre in Tucson, Arizona, largely for the same reason.

Traditional alternatives to water can be costly. Amazon noted that relying solely on air conditioning is less efficient, raises operating costs, and adds further strain to the energy grid. Combining air conditioning with water cooling can reduce a data centre's energy use by 25–35% during peak summer periods, making water availability increasingly important.

Tech to the rescue

Unfortunately, traditional cooling systems often make recycling water difficult. But companies are working fast to improve efficiency and develop alternatives.

One option is direct-to-chip liquid cooling, which removes heat directly from high-power components using liquid coolant. Microsoft research suggests this technology could reduce water consumption across a data centre's lifespan by 30–50%. This includes the water used in both the power generation and the component manufacturing.

Another approach is liquid immersion cooling, where entire servers are submerged in a specialised liquid that absorbs heat. Alongside reducing water consumption, this can remove the need for energy-intensive air conditioning and make waste heat easier to reuse. This technology is becoming increasingly necessary for systems using the latest semiconductor chips, such as Nvidia's Blackwell, which traditional cooling systems struggle to support.

These approaches are highly efficient, but expensive. That calls for multiple solutions. Amazon is partnering with local authorities to use recycled water and already employs it at 24 data centres, with plans to expand this to 120 by 2030.

Switching to renewable energy can also help, as solar and wind generation require little or no water.

You can't manage what you can't measure

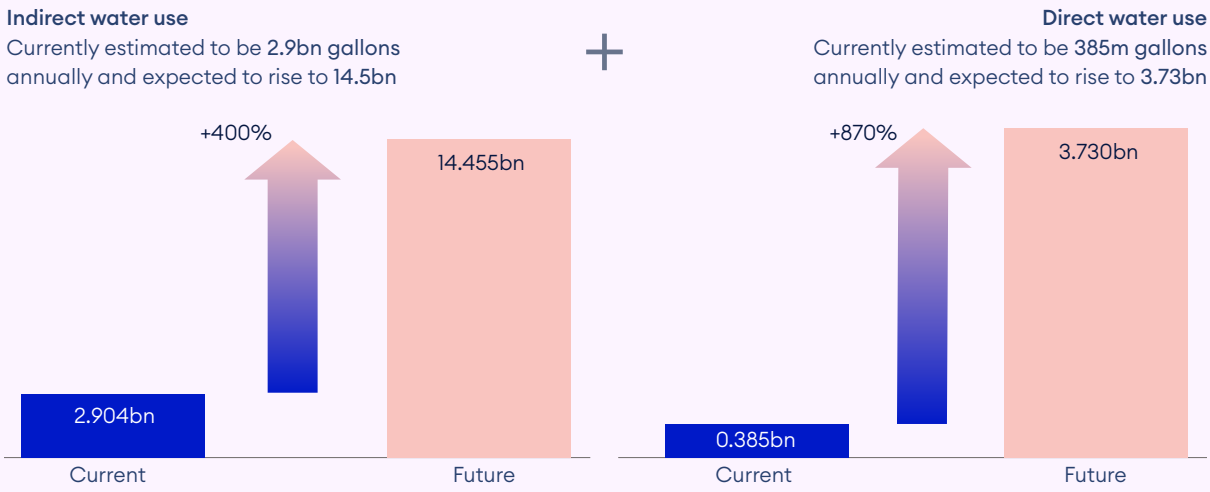
There are signs these developments are helping, but building an accurate picture of progress remains difficult. One study found that fewer than one-third of data-centre operators track water consumption. Microsoft and Meta lead the way in reporting water use, but many others lag behind. Policymakers are trying to improve transparency, though reporting remains voluntary and inconsistent.

This is one reason why Rathbones continues to engage with technology companies on water consumption, particularly those exposed to data centres and semiconductor manufacturing. We encourage firms to measure and disclose their water use and to take steps to ensure adequate future supply.

Excitement over AI has reached fever pitch. That's helping to power economic growth, particularly in the US, and data centres are central to this expansion. Amid this fever, we believe cool heads are needed. Companies must treat water availability not as an afterthought, but as a financial risk that warrants serious investment and oversight.

Figure 4.2: Taking flight

The case of Phoenix, Arizona shows how data centres could trigger sharp increases in local water demand.



Direct water use is water consumed on-site. Indirect use covers water consumed within the data centre value chain, including electricity generation and component manufacturing. Source: Ceres, Rathbones

Snapshot
The global economy and markets

Figure of the month

19 out of 24

Leaders with negative net approval ratings (more disapproving than approving) across a selection of democracies. Although Keir Starmer ranked third from bottom, at -38%, the broadly negative figures reflect the pressures of leading countries where economic growth has often disappointed. This dissatisfaction can itself disrupt economies by reducing political stability.

At a glance

9.3%
Rise in S&P 500 Index since end of Feb

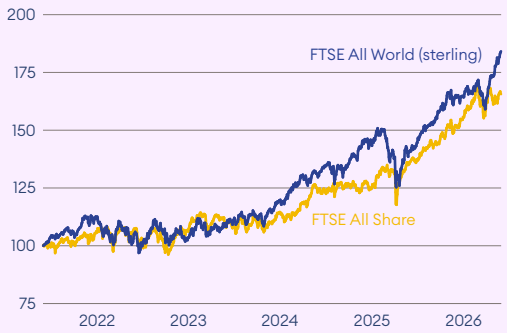
3.7%
Fall in Indian rupee vs dollar since end of Feb

1.8%
Year-on-year fall in UK business investment in Q1 2026

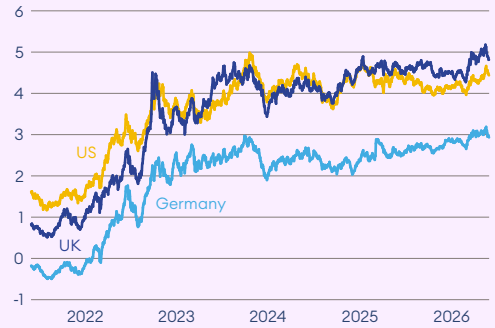
3.2%
Eurozone inflation rate in May

Key market indicators

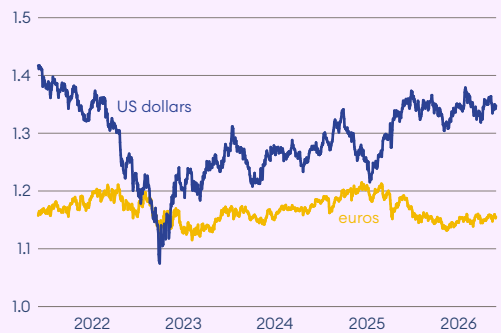
Equities
Total return (1 June 2021 = 100)



Government bonds
10-year yields (%)



Sterling
Value of £1 in dollars and euros



Gold
US dollars per troy ounce



Sources: FactSet, LSEG, Rathbones. Past performance is not a reliable indicator of future performance.

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Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets, and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight

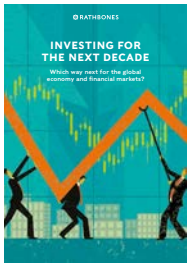
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Video updates
Stay informed with regular update videos from our investment experts that explain how geopolitical tensions, market movements, and global economic trends could affect your portfolio.



Weekly and monthly digest
Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports
In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks, and opportunities could affect investors over the long term.



The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities, and why we believe the extraordinary outperformance of the US could end.



Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

Experience and expertise
Rathbones has a large and experienced in-house research team covering global equities, fixed income, multi-asset strategies, and responsible investing. With specialists dedicated to analysing market trends, sectors, and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively, and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies, and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us



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