THE TREASURY HUB
Markets Bulletin
Q2 2026 Review

1. Executive Summary

1.1 Introduction

Welcome to the second TREASURY HUB Markets Bulletin of 2026. Geopolitics had settled down a little over the past few weeks but the Iranian situation looks like it could "kick off" again based on latest comments by President Trump. And with some material market movements in the past few days, the prices herein are as at July 7th.

Table 1 across sets out the 2026 movement in a number of key metrics. There is a lot of green on the table implying that stock markets, interest rates and oil have all gone up over the course of the year to date. Both USD and GBP have strengthened against EUR over the recent past giving some relief to exporters. But with the Strait of Hormuz continuing to be impacted, it will be the main if not dominant variable for some time yet.

WE LOOK AT PUBLIC FINANCES IN SECTION 4 AS WE HAVE DONE FOR THE PAST 2 YEARS+ GIVEN THAT THE IRISH GOVERNMENT WILL BE FRAMING ITS 2027 BUDGET OVER THE COMING WEEKS.

- 3-month Euribor rose in line with expectations of ECB Base Rate increases over the course of Q2 as inflation fears resurface due primarily to the oil price spike but it had eased back recently as hopes of an agreement persisted. This hope is being tested again.

1.2 Markets in a Table: what's up and what's down?

Table 1. Key Metric Movements: 2026

Category	Metric	YTD move	From	To
Interest Rates	3-m euribor	0.28%	2.03%	2.31%
	EUR 3-year	0.48%	2.36%	2.84%
	GBP 3-year	0.61%	3.77%	4.38%
	USD 3-year	0.49%	3.79%	4.28%
Foreign Exchange	EUR/GBP	-2.00%	0.8713	0.8539
	EUR/USD	-2.80%	1.1740	1.1411
Equities	ISEQ	6.57%	13099	13960
	FTSE 100	7.18%	9951	10665
	Nasdaq	15.74%	25206	29173
Commodities	Brent Crude	22.07%	60.75	74.16
	Gold	-5.80%	4329	4078
Inflation	EU Core	0.10%	2.30%	2.40%
Gilts	IE 10-yr	0.11%	3.07%	3.18%
	GB 10-yr	0.31%	4.54%	4.85%
	US 10-yr	0.34%	4.19%	4.53%

Please note that the % moves are in green if the metric has moved upwards and in red if it has moved downwards. It is NOT a statement as to whether this is a positive or negative move as one could be a borrower or depositor, a seller or buyer of currency, etc. Also, the % move for interest rates is in absolute terms while for currency and equities it is expressed in relative terms. **PLEASE NOTE THAT INTEREST RATE TRENDS ARE FROM A DEPOSITOR PERSPECTIVE.**

- The shape of yield curves continues to be normal i.e. upward sloped from 1 year in most major currencies which is a change since the start of the year when the UK and US were expected to cut their base rates in 2026.
- Oil prices eased considerably over the course of Q2 from a high of almost USD120 per barrel as a result of the bombing of Iran. As previously noted, some types of fuel are more impacted than others from the supply side.
- Stock markets dropped when the trouble started in Iran but there has been a strong bounce since, especially in the Nasdaq which is up 27% since the start of April.

1.2 Forward-looking Indices

Forward-looking indictors known as Purchasing Manager Indices or PMIs are useful to monitor the economic outlook for Ireland and the UK. Readings above 50 indicate expansion while below 50 denote contraction.

- In ROI, Services PMI is now above 50 having fallen every month from November to April. Manufacturing PMI is holding steady in expansion territory.
- In the UK, Construction PMI remains very low and employment in the sector fell for the 18th consecutive month. The Services reading is the lowest since January 2023.

Table 2. Irish and UK PMI readings

	Ireland	UK
Manufacturing PMI	**54.9**	**52.5**
Services PMI	**54.2**	**48.8**
Construction PMI	**50.2**	**38.4**

1.3 Inflation

Table 3. Selected Inflation Rates

	CPI/Core Inflation
ROI	**2.90%**
EUROZONE	**2.40%**
UK	**2.60%**
US	**2.90%**

Note: Core figures exclude energy, mortgages and food.

The Irish core rate continues to hover in or around 2.70% since September 2025 but the actual inflation rate has risen from 2.70% in February to 3.6%/3.7% for the past 3 months. Certain components are high (clothing +7.4%, Utilities +7.1%, education +8.9%).

UK core inflation data has dropped by 0.5% over the past few months with upward pressure on services but downward pressure on the price of goods. The overall inflation rate has been under 3% (at 2.8%) for the past two months.

Finally, US is heading the other way with core inflation up from 2.5% in February to 2.9% in May. Overall inflation is even worse, jumping from 2.4% in February to 4.2% in May driven by energy and gasoline prices.

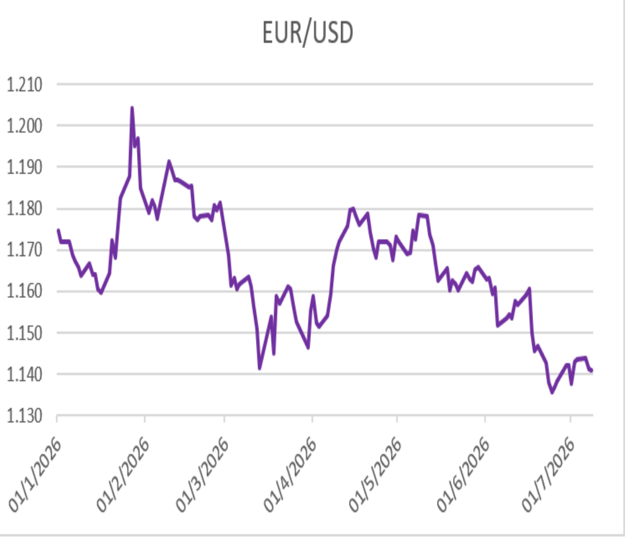
As we shall see in Section 3, short-term interest rate trends continue to be heavily influenced by inflation rates.

2. Foreign Exchange and Oil

2.1 EUR/USD

- Graph 1 looks at the EUR/USD rate trend for 2026 to date.
- While the trend remains a little more volatile than EUR/GBP, the range from EUR/USD1.1324 to EUR/USD1.2078 (or 6.66%) is still narrow by historic standards, despite the continuing geopolitical turmoil. The average rate for the year to date at EUR/USD1.1654 is the weakest it has been since 2021 (based on full year figures for 2021-25) which is not good news for exporters to the US from Ireland. Some are questioning the status of the dollar as the world's reserve currency but for now that role remains intact!

Graph 1. EUR/USD: 2026 trend

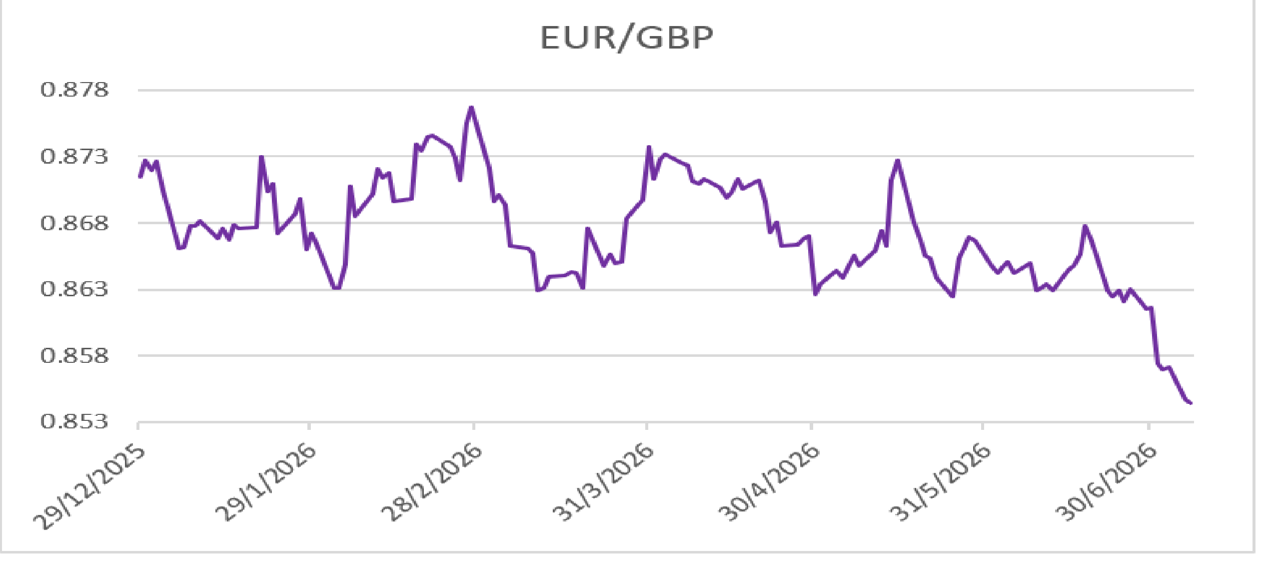


2.2 EUR/GBP

- EUR/GBP has operated in a very narrow range of 3% since the start of the year, between EUR/GBP0.8531 and EUR/GBP0.8789.
- The year-to-date average rate is EUR/GBP0.8673.
- The recent strengthening of GBP resulted from the financial markets taking a more bullish view on the likely direction of UK interest rates.
- The main political development over the quarter was the resignation of Keir Starmer leading to the likely coronation of Andy Burnham as Prime Minister before the Autumn.
- The resolution of the fate of Starmer has also supported GBP in the short term after some disastrous local elections results for Labour.
- But the state of government finances will hamper major initiatives of any new cabinet.

- And as it is 10 years since Brexit, we thought it worthwhile to look at the performance of EUR/GBP over the period. 2016 saw the rate drop as low as EUR/GBP0.7308 before weakening all the way to EUR/GBP0.9650 – a 28% decline.
- However, following that decline which led to a full year average rate of EUR/GBP0.8765 in 2017, the annual range stabilized in the EUR/GBP0.8600 to EURGBP0.8850 range.
- In fact, the average rate since Brexit (July 2016) is EUR/GBP0.8672.
- From a hedging perspective, it may be worthwhile keeping this in mind. Current rates are almost 1.5p below that although the interest rate differential means that forward points equate to 0.0122 for a 12-month forward (implying a 12-month forward rate of EUR/GBP0.8652 off a spot rate of EUR/GBP0.8530).
- Current spot rate is strongest that GBP has been in 12 months. Exporters may want to take some advantage of the move.

Graph 2. EUR/GBP: 2026 trend

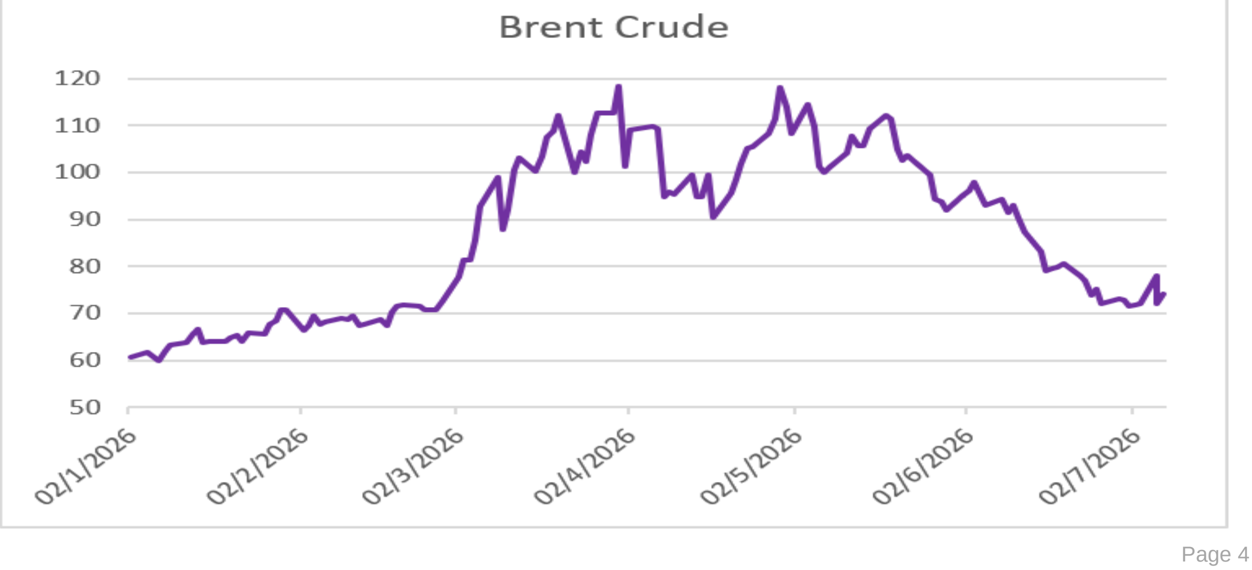


2.3 OIL

Oil continues to be the story of 2026 so far. The high/low range in Brent Crude has been over $66 per barrel – more than 100%.The decline that accompanied formal discussions between the US and Iran led to a material easing in oil prices but this has reversed at the start of week 2 in July as the US attacked Iranian targets again as a result of ships being targeted in the Strait of Hormuz by Iran.

With Europe going through a heatwave, there is little focus on heating and electricity prices in the Winter for now but this too shall pass. But container rates from the Gulf are also sharply up and with companies paying them, there can only be a pass through of them to consumers. This, in turn, doesn’t augur well for inflation if demand holds up. A lot more to play out in this space.

Graph 3. Oil: 2026 trend



3. Interest and Wealth Management

3.1 EUR Short-term Rates

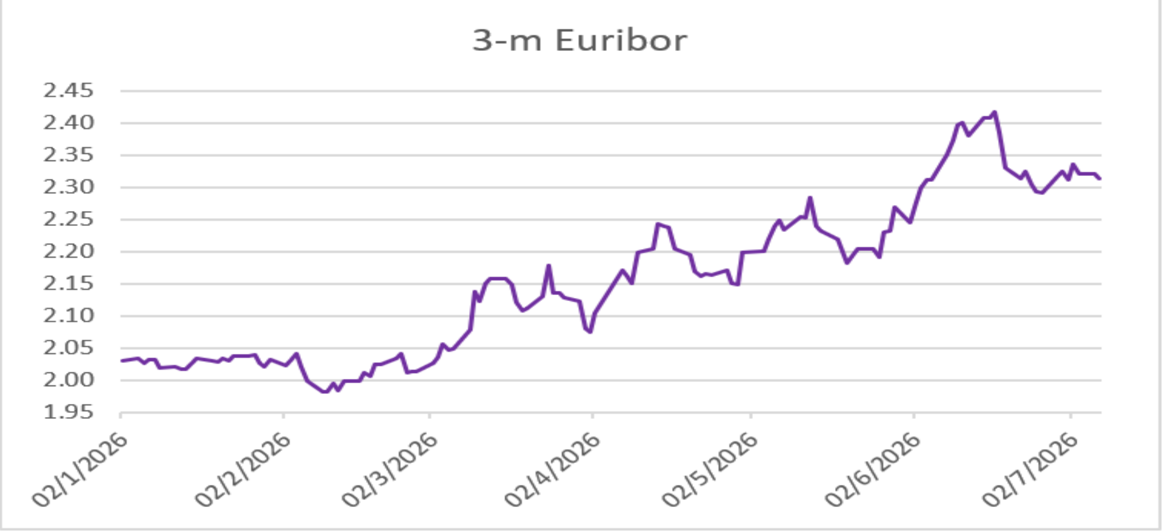
We started the year with interest rates at the bottom of the curve for this current interest rate cycle within the Eurozone while there was still further to go in both the UK and the US cycles. The rise in inflation rates (mainly due to the price of oil/fuel) that we have noted in the previous sections has changed that outlook for the latter two economies.

We continue to monitor the 3-month Euribor rate for the purposes of this bulletin (as it is the most relevant one for variable rate debt).

Key Observations

- The graph below shows 3-month Euribor over 2026 to date. The rate behaved as expected for most of Q1 but developments in the Strait of Hormuz since then have had a materially negative impact on oil prices and inflation…which has altered the interest rate outlook.
- The ECB responded to these developments with a 0.25% hike in the Base Rate in June. The market was split between 1 and 2 further rate hikes this year but with the 1-year forward rate at 2.90%, it looks more like a call between 2 and 3 further hikes.
- 3-m Euribor has eased somewhat in the past week, but we see risk on the upside with potential for “higher for longer” inflation. **Accordingly, we see 2 further hikes this year as highly probable.**

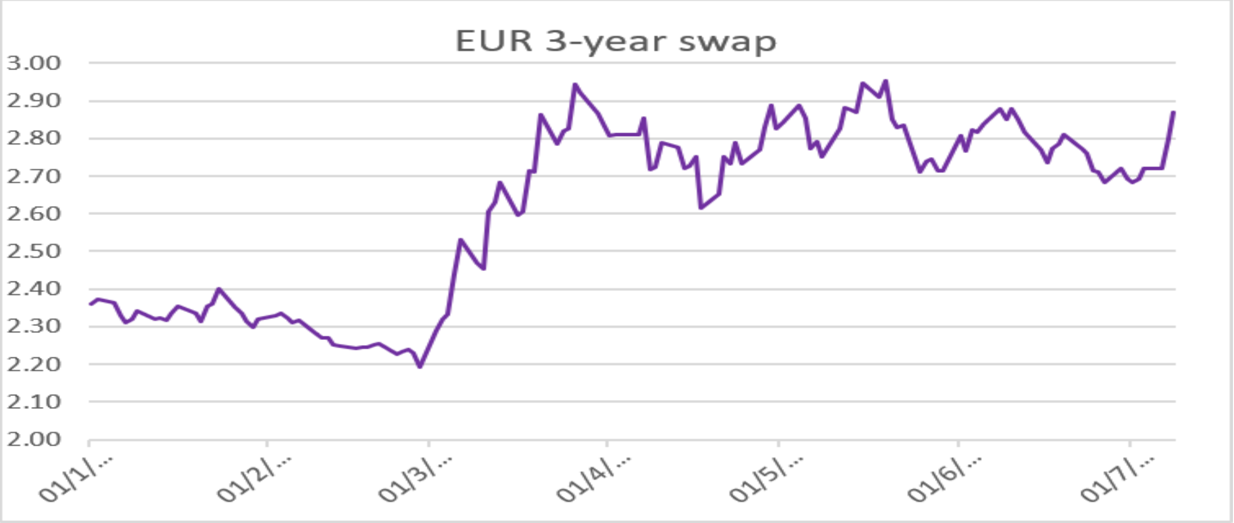
Graph 4. 3-month Euribor: 2026 trend



3.2 EUR Medium-term Rates

- Following on from the above, we look at 3-year swap rates to understand current forecast direction of future interest rates.
- Events in Iran driving oil prices and inflation expectations up inevitably led to a quick uptick in March in longer terms rates as the markets priced in more rate hikes.
- The rate increased from 2.20% at the end of February to 2.95% four weeks later. And while it settled into a range between 2.90% and 2.70% for most of the period since, the prospect of the talks collapsing has driven it back up in the past week, due to renewed inflationary fears.
- The yield curve peaks at 20 year swaps (3.30%) **which gives us some comfort that this new interest rate cycle will not peak anywhere near 4% like the previous one did.**
- But a lot depends on how long oil prices stay high.

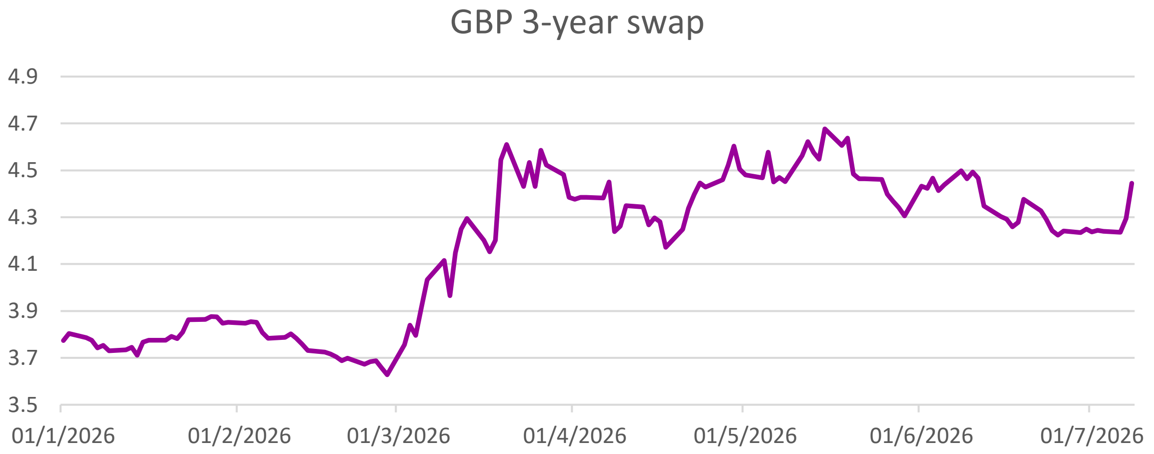
Graph 5. EUR 3-year swap: 2026 trend



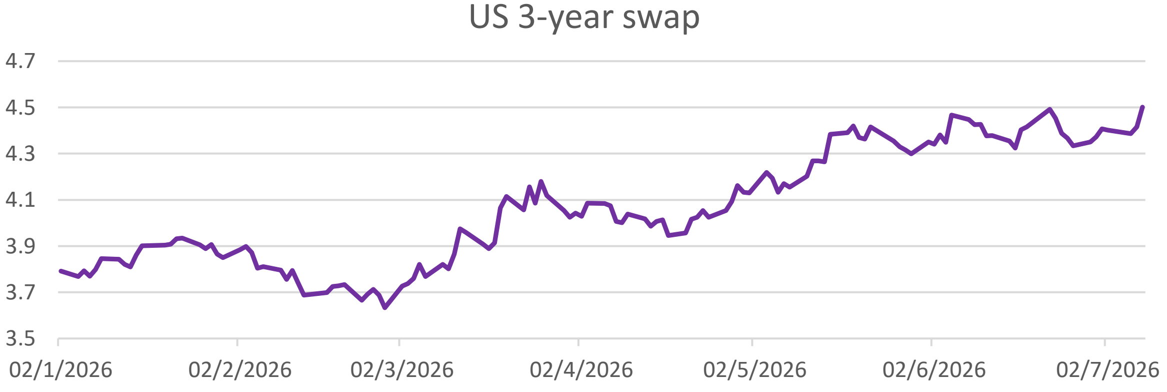
3.3 UK and US Interest Rates

Trends in UK and US interest rates are similar in that both started the year looking at the prospect of lower short-term rates but rate hikes look inevitable in 2026.

Graph 6. UK 3-year swap: 2026 trend



Graph 7. US 3-year swap: 2026 trend



3.4 Gold

Gold was one of the best performing asset classes in 2024 and 2025 starting each respective year at USD2,058 and USD2,639 with a huge move in 2025 ending the year just over USD4,300. Having had a very strong start to January this year, touching USD5,400, it fell back quickly in March by USD1,000/oz and has since fallen further again to a current level around USD4,050. This makes it one of the worst performing asset classes in 2026 to date, down by almost 6%.

3.5 Equity Markets

Equity markets had a mixed start to 2026 although all the major indices are now in positive territory.

The ISEQ was down 9% at one point in March in line with negative economic sentiment as a result of the Iranian situation but it has since recovered and is now up 6%. The banks continue to perform steadily with AIB up by over 10%. Market PE is sat at 15.1.

In the UK, the FTSE has had a similar ride – down by March but up by end June. The current PE of 18.2 is lower than the 10-year average but higher than the 5-year average.

Finally, the US sees the S&P 500 at close to all time high with PE in the mid 20s while the Nasdaq recovered from some June weakness and also sits not far off the all-time high with a PE ratio of circa 31.2.

The IPO by Space X was initially greeted with enthusiasm and the IPO price of $135 was surpassed with a first trade price of $150 but it currently just sits below that at $149. It has had a few bullish calls on the outlook by the large Wall Street banks (Goldman Sachs $205, JP Morgan $225 and Morgan Stanley $300). Hard to see the value based on fundamentals but the hype is enormous.

4. Irish banks and Budget 2027 Outlook

We normally look at the results of the Irish banks in the Q1 review but the macroeconomic outlook required attention. We cover it off now along with some thoughts on the 2027 Budget outlook.

4.1 Irish Banks Review

The 2025 results of the three main banks showed continuing profitability albeit with reduced after-tax profits due to a falling interest rate environment. The key operating metric for the bank is **Net Interest Margin ("NIM")** as this is the difference, in broad terms, between the interest they charge on loans and the interest they pay on deposits (as they take in deposits to make loans). NIM fell in 2025 but with ECB rates on the rise again, one would expect this to move up again in 2026.

On the Balance Sheet, their deposits materially exceed their loans. This is important from a number of perspectives:

1. It is the opposite of where they were in 2008 leading to their liquidity squeeze then. It gives them plenty of surplus liquidity as a result.
2. Where they have an excess of deposits, they can place the excess on deposit with ECB earning 2.25% currently. As long as they pay less for the deposits from customers, they make a margin on this which is zero risk (ECB is AAA rated) and it ties up no capital
3. To put figures on it, AIB had €117.2billion in deposits and €72.3billion in loans at the end of 2025 giving them a loan:deposit ratio of 64%. The comparable % for BOI and PTSB were 77% and 87% respectively, still very healthy.

The other area to look at is their cost:income ratio as the lower this is, the more money they make. There is a drive to get this down further across the banks. This figure is also falling for all three. AIB ratio has fallen from 64% to 44% since 2021. This will continue to fall as the banks seek redundancies and employ AI more.

All of the above leads to surplus capital being generated and, in the case of both AIB and BOI, return of capital to shareholders via both dividends and share buybacks.

From a customer perspective the risks are :

1. Service levels are adversely impacted as AI replaces human interaction but is less effective.
2. More lending decisions are AI/systems influenced. BOI have started using a "systems" first approach to business loan applications up to €125,000 but this will increase to loans up to €1 million by the end of the year. Our understanding is that data will be uploaded by a borrower looking for a loan and the system will generate an initial YES/NO response. If it is a NO, then it gets referred to a "human" if you pardon the phrase!
3. As demand for loans is below the availability of deposits, there is no competitive reason, for now, to pay up on deposits – the income made on the excess deposits is zero risk and relatively easy profits to make for them. This may start to change as new entrants come into the market but unless and until there is an EU wide capital markets, it is likely to remain a lucrative business stream for them. So, depositors will have to look elsewhere for better returns….and this can lead to the taking of unnecessary risks.
4. No competition leads to lower innovation which is never good for the consumer.
5. Their product ranges are narrowing. By way of example, they no longer provide cash pooling solutions except to their largest customers. But they were providing them 30 years ago in general!

So, at one level, they appear to be very solid financially and their share prices are reflecting this. But at a macro level for the business community as a whole, the sector is heading towards not fit for purpose as we move into an era where innovation needs to be improved, investment levels probably need to rise and business models (including but not exclusive to banking) increasingly push more of the effort onto the customer through digitalization. Banking is a service industry and the continuing reduction in their headcount means that service will be increasingly dependent on good systems….and it is generally accepted that their systems are behind a lot of their peers internationally reflecting in part the underinvestment that arose after the financial crisis.

In summary, the outlook is positive if you are a shareholder for now. And they are in good health which would be important if there was an economic slowdown (which it quite possible given current talk of an AI bubble) but service levels could be better, there is no pressure to innovate at pace and the increasing move to lending decisions by "computers" brings its own challenges….and a need for us as advisors to change our approach accordingly.

4. Irish banks and Budget 2027 Outlook

4.2 Budget 2027 Outlook

We just want to have a quick look at this as by the time the next quarterly bulletin is produced, the Budget will be upon us.

We reiterate here that the headline surplus versus underlying deficit argument that we have been highlighting for two years in these bulletins has gained a lot of traction in recent months. To be fair both the Department of Finance and the Irish Fiscal Advisory Council ("IFAC") are the source of most of our information and have been to the forefront on this topic yet it appears to have been ignored for the most part up to now.

Taking data, including from the above sources, the headline actual/projected surplus (where tax take exceeds government expenditure) and the underlying deficit (if we remove the extraordinary taxes from a handful of multinationals) are as follows:

	Headline Surplus	Underlying deficit
2024	€23bn	-€5bn
2025	€10bn	-€7bn
2026	€5bn	-€14bn

The 2024 headline figure was boosted by the one-off Apple judgment.

The trends are obvious: the surplus, notwithstanding the extraordinary receipts, is falling and the underlying deficit is rising. The echoes with the noughties are obvious: dependance on non-recurring revenues (then tax on extraordinary house construction, now extraordinary corporation tax receipts) to pay recurring expenditure (as full-time government employees are a potential 40-year commitment) creates a potentially material long-term funding mismatch.

To put it in perspective, a deficit of €14bn is equivalent to the entire Education budget for 2026. To balance a budget that is currently €14bn in deficit is an enormous undertaking. Bear in mind also that there was no move in personal tax bands last year which will have to be addressed this year. The Department of Finance has a website www.oireachtasconnect/spending-tracker that tracks the expenditure. One of the graphs highlights that expenditure has grown by 9.1% per annum COMPOUND over the last decade.

And all of that is before some other very material issues:
1. We will not meet legally binding EU greenhouse emission targets by 2030. The fine is put anywhere between €3bn and €28bn. Will they start to put money aside for this or wait until 2030?
2. Pensions. Public sector pensions are paid out of current expenditure. And while contributions are made by public servants and the model has been changed from final salary for new public servants, it is still a material and growing bill. The actuarial value of it was put at €176bn in 2024.So this line of expenditure will increase by virtue of demographics alone over the next decade.
3. **Anecdotally some in the pharma sector believe that we have 3 more years of the extraordinary corporation tax take**. It "normalizes" after that. What if that happens in that timeframe?
4. Debt servicing costs. NTMA did a very good job in raising long-term debt at low interest rates and spreading the maturity of said debt out the curve. But a quick look at the maturity profile of our debt per Refinitiv shows €37bn maturing between 2027 and 2030. It is extremely likely that it will have to be refinanced at higher rates as the maturing debt must be a product of the low-interest rate environment that prevailed for so long.
5. We have underinvested (and need to catch up) on housing, infrastructure, defence, etc.
6. The population is ageing/birth rate is falling adversely impacting taxes, social welfare and healthcare.
7. And this all presupposes that the general economic outlook remains positive.

The potential for a perfect storm is real – increased spending pressures coincide with a material decrease in tax revenues and there is an economic slowdown (think AI bubble bursts).

It would appear that the government could have as little as 3 years in which to fundamentally reform public spending. The need for more efficiency in the public sector is real. Looks like a bubbling fiscal crisis. Next election cannot be later than January 2030…hard to see difficult decisions being taken over the next 3 years when the end of it is the lead into the election.