CIO OFFICE DAILY OUTLOOK

2 July 2026

Markets did try to grind higher to fail against the backdrop of a strong macroeconomic picture and thinner participation in the rally. Both the S&P 500 equal-weighted (+0.2%) and the smaller companies (-.4%) recorded new all-time highs to then retrace their gains. The manufacturing sector displayed one more show of force, and, yes, thanks to heavy investments in the AI sector. Maybe investors have heard that story now way too often and technology stocks (-1.8%) retreated, while the most loved darlings in IT, semiconductors (-6.3%), tumbled. And Fed's chair Warsh speaking at the ECB forum in Sintra did not affect markets a single bit. Being he too cryptic and careful not to give away any hints of forward guidance, there was not enough in his messages to cling to. The S&P 500 (-0.2%) closed lower and the Nasdaq 100 (-1.5%) underperformed. Sectors were mixed with financials (+2.1%) shining and the Magnificent 7 (+2.3%) holding up telecommunication services (+2.6%). Meta Platforms (+8.8%) surged on plans to develop a cloud infrastructure business that will sell access to AI computing power and models. Yields were little changed, reflecting indecision about what to make of the Fed's chair message. Indeed, he said he is not going to offer "forward guidance" on interest rate policy. But gold investors were more opinionated and the yellow metal (+0.6%) extended a rebound after Warsh said "inflation risks have come down". His updated views on inflation expectations - they are falling - and his belief that AI will boost productivity were a bit less hawkish than his tone at the June 16-17 FOMC meeting. Brent crude (-1.8%) fell as Trump said talks in Qatar "are going well". The US dollar +0.2%) advanced.

The release of the ISM Manufacturing Index was not a market mover either. On the margin it would support some adjustment lower in front-end yield. Bothe the headline index (53.3 vs 53.9 expected) and prices paid (73 vs 77.5 forecast) underwhelmed projections. The employment subindex posted its highest reading in 18 months. Anyway, nobody is thinking the Fed would be hiking because of this, despite Warsh's reiterated determination to fight inflation at the ECB Banking Forum. In Europe, inflation surprised to the downside, decelerating to 2.8% over a year ago in June, below consensus and lower than the previous month. Core fell to end up below consensus as well. All the evidence of the euro area stagnation's notwithstanding, President Lagarde's tone in recent declarations still seems to support one more hike in September.

Markets this morning

Wall Street's sell-off in semiconductor stocks spread to South Korea (-7% at some point), reviving concerns that the rally in artificial intelligence shares may have gone too far. Samsung Electronics and SK Hynix both dropped more than 6%. Meta Platforms' plans to build a cloud infrastructure business could fuel concerns about excessive capacity, with negative implications for manufacturers in Korea and Japan. Brent (-1.3%) fell to the lowest since before the start of the Middle East war. Gold (+0.8%) rose for a second day to trade above $4,060 an ounce. The main takeaway from Fed Chairman Kevin Warsh's message at the ECB Banking Forum is that inflation expectations moderated, reinforcing market views policymakers are in no rush to raise interest rates. Attention now shifts to today's US jobs report.

Upcoming key events/data

Today's highlight is the US jobs report, to be released one day in advance in this holiday-shortened week. Payrolls for the month of June are seen to have increased by over 110,000.

Have a great day.

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