

## CIO OFFICE DAILY OUTLOOK

01 June 2026

Markets have been driven by AI enthusiasm and geopolitical developments for a while with the previous holiday-shortened week being no exception to this narrative. Renewed hopes for a peace agreement in the Middle East and ongoing momentum in AI-related stocks were in the foreground. Strong underlying fundamentals alongside falling crude prices helped stocks record fresh highs and bonds rebound. Investors focused on relative progress in negotiations, rather than on the conflicting messages from the Washington administration. A tentative deal was reached to extend a ceasefire by 60 days and launch further talks on uranium enrichment. “Unrestricted” transit through the Strait of Hormuz would be ensured while President Trump’s “red lines” would remain necessary for any deal. Despite Trump’s readiness to a “final determination” on the preliminary agreement, a two-hour meeting in the Situation Room on Friday concluded with no announcement. Pressure to end the conflict from American polls showing growing disapproval, as well as from rising gasoline prices, should in the end prevail. The S&P 500 (+1.4%) advanced each session in the five days through Friday with nine consecutive weekly gains, that only happened four times since 1985. The Nasdaq 100 (+2.9%) outperformed, led higher by information technology (+4.6%) and consumer discretionary stocks (+1.5%). Dell (+42.6%) delivered an exceptionally bullish report capitalising on the massive hardware spend required to power generative AI, while Marvell Technology (+4.4%) reinforced its position as a major rival to Broadcom in the AI chip space, reporting record revenue. Micron (+29.3%) was the latest stock to breach \$1tn market cap level following a latest upgrade. AI-leading company Anthropic raised \$65bn in a funding round that saw it valued at \$965bn, eclipsing rival OpenAI’s value. Progress on the Iran conflict front saw the energy sector (-5.4%) lag and EM stocks (+3.9%) outperform. Brent crude (-11.1%) fell to end up at \$92/bbl, that in turn helped shift the Treasury yield curve lower. Both the yield on the 2-year and the 10-year note fell by 12 bps, that settled at 4.00% and 4.44% respectively. There was no lack of real-money demand for US Treasuries, as coupon supply in 2, 5, and 7-year auctions was well received. The US dollar (-0.3%) slipped for the week following news of the signing of the Memorandum of Understanding on Thursday, showing market readiness to unwind dollar bullish positioning. Gold (+0.7%) recorded modest gains more than offsetting earlier losses after the rally in Treasuries.

Investors took not-so-good inflation news in their stride. The Fed’s preferred measure of price pressures, PCE inflation, jumped to 3.8% YoY in April, up from 3.5% in Q1 as a whole. Although this is in part an oil story that translated into high gasoline prices, core inflation did run at 3.3% over a year ago, well above the 2% Fed’s target. Elevated inflation impacted real spending, that in April edged up just 0.1% despite flat growth in nominal personal income. This was only made possible by the tapping of savings, and indeed the savings rate sank to the historically low level of 2.6%. Overall, the US consumer is starting to be affected by the affordability crisis as confirmed by consumer sentiment that remained stuck at close to record-low levels according to the latest report. This data puts the Fed in a tight spot, with markets now pricing a full hike by March next year. The bar for raising rates remains high, though new Fed chair Warsh’s challenge will be to contain his colleagues’ hawkish stance. GDP growth for Q1 was revised lower to 1.6% from the previous reading of 2% on some more volatile components. What counts is that final sales to private domestic purchasers, a gauge of domestic demand, was basically unchanged, still pointing to robust activity in Q1.

The ECB minutes of the April meeting showed not only that a hike for June is cemented, but also that more should be in store. At the very least, some policymakers wanted to emphasise the need for two hikes, despite the economy already displaying signs of weakness from the energy shock. It didn’t help a single bit that national inflation data suggested overall inflation would rise in May to 3.1% from 3% in April. In China, industrial profit growth accelerated, though recovery remains uneven. Factory activity slowed in May as disruptions from a five-day break added to rising input costs from the Middle East conflict.

### Markets this morning

In the Asian session stocks rose to a record, with the MSCI All Country World Index advancing 0.2%, and Asian shares climbing 1.1% to an all-time high. South Korea and Taiwan – bellwethers for AI investments – and the Nikkei in Japan hit records. SoftBank Group, whose investments include chip designer Arm Holdings and ChatGPT maker OpenAI, surged as much as 10%, on track to become Japan’s most valuable company. Sentiment was further buoyed by a 0.5% gain in Nasdaq 100 Index futures after Wall Street benchmarks closed at records on Friday. Weighing on the mood was a rally in oil prices. Brent climbed over \$93 a barrel as efforts to reopen the Strait of Hormuz showed little progress. That sent Treasuries lower across the curve. The dollar, the haven of choice since geopolitical tensions started, strengthened for the first time in three sessions. Gold was little changed to hold above \$4,500/oz.

### **Upcoming key events/data**

Important economic data in the United States for the week ahead include the May jobs report on Friday, ISM manufacturing and services on Monday and Wednesday respectively. Broadcom will be reporting on Wednesday in extended hours. In Europe, the April CPI is published Tuesday, the PPI Wednesday. The OECD will be releasing its Economic Outlook.

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