

CIO OFFICE DAILY OUTLOOK

4 June 2026

Markets shifted focus from the AI trade to the growing risks of a supply shock with the Strait of Hormuz still closed at day 96 of the crisis in the Middle East. Also, renewed flareups heightened concerns about the tentative truce. Crude inventories are being drawn fast and the hard timeline when oil storage tankers reach critical levels is approaching. Crude oil rallied, yields picked up, the dollar climbed, gold fell, stocks fell, and the technology and discretionary sectors underperformed. The tightening of financial conditions from higher crude prices is the common thread across this return pattern. The S&P 500 (-0.7%) snapped a nine-day winning run, while the Nasdaq 100 (-0.3%) was marginally lower. Semiconductor stocks (+1.4%) managed to eke out a gain, though software (-3.9%) retreated sharply, and the Magnificent 7 (-1.3%) continued to underperform. Broadcom (-6% in after hours) forecast AI-fuelled sales growth for the current quarter that fell short of expectations. SpaceX is planning an IPO at \$135 per share targeting a valuation of \$1.8tn expected to price as early as June 11. The MSCI World lost 0.7% retreating from all-time highs. Higher Brent crude prices (+1.8%) sent the 10-year Treasury yield 5bps higher to 4.49%. Bets the next Fed move would be a hike as early as next March were reinforced. Dallas Fed President Logan said a hike may be needed later this year to bring inflation to target, while New York Fed Williams favoured being on hold. The US dollar rose 0.3% amidst flight to quality while gold (-1.1%) ended up lower to \$4,440/oz. Bitcoin (-3.3%) continued to fall to trade below \$65,300.

The US jobs market remained strong in May, as shown by payrolls-processing company ADP. Its private payrolls number was estimated to have increased by 122,000. This precedes the government jobs report expected to release private payrolls for May at 86,000, as compared to an equilibrium figure, so-called breakeven, of about 50,000. The ISM report on the services sector pointed to strength as well, though hinting to some softening in the details. Beyond new orders, that surged, demand softened in May, while prices accelerated. The picture was different in the euro area and the UK, where services were in contraction for the month, as already projected for Europe, though unexpected for the UK. Elsewhere, the OECD, the economic organisation of the developed countries, lowered its global growth projection for 2026 to 2.8%, a sharp slowdown from last year's 3.4%. It cautioned that even after the conflict in the Middle East ends its impact would be felt for some time. Should it persist, AI investments could be derailed, and growth would get close to 2% with marked recession risks.

Markets this morning

In the Asian session stocks pulled back from record levels after a weak forecast from Broadcom Inc. dented momentum in the AI trade that has driven markets higher this year. The MSCI index for Asian shares fell 1.5%, snapping a four-day rally that had pushed it to an all-time high. South Korea's Kospi, a bellwether for AI investments and the world's best-performing gauge this year, dropped 1%. Nasdaq 100 futures retreated 0.5%. As sentiment weakened, Bitcoin slid to trade around \$64,000, the lowest since February. Brent crude halted a three-day rally and fell 1% to about \$97 a barrel. The US dollar also edged lower, while gold rose 0.6% to about \$4,460 an ounce as dip buyers emerged. Treasuries gave up some of the previous session's losses with the Treasury 10-year yield falling two basis points to 4.48%. In Asia, the yen hovered near the 160-per-dollar level after comments from Bank of Japan Governor Ueda that made an interest rate hike this month sound likely though not certain.

Upcoming key events/data

The data dossier features no tier 1 releases in the US for today. In the United States: weekly jobless claims, non-farm productivity, and unit labor costs. In Europe: retail sales. BOE Governor Bailey and ECB President Lagarde are holding talks today.

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