CIO OFFICE DAILY OUTLOOK

18 June 2026

President Trump signed an interim MoU with Iran at the Palace of Versailles on Wednesday, two days before the Friday deadline, to end the conflict and reopen the Strait of Hormuz. The agreement lets Iran resume oil sales immediately, with sanctions waivers effective upon signing, improving sentiments.

Kevin Warsh's first FOMC meeting as chair was more hawkish than markets expected. The committee unanimously held rates steady, while Warsh pledged to restore price stability, gave no rate-path guidance, declined to submit a forecast, and launched task forces on the Fed's $6.7 trillion balance sheet, communications, inflation framework, and data sources. The shorter policy statement offered no forward guidance, and the FOMC allowed T-bill purchases "when appropriate." We believe lack of forward guidance would potentially increase US Treasury volatility. In the Dot Plot, nine participants expect hikes this year: three see one hike, five see two, and one sees three, while only one member still expects a cut.

The Treasury curve twisted flatter, with 20- and 30-year yields down 2–3 bps while front-end yields rose 4–13 bps. OIS forwards now price a rate hike by October 2026. US equities reversed gains to close sharply lower after the Fed's hawkish tone, with the S&P 500 down 1.2%, Nasdaq down 1.3%, and VIX up 2.03 points to 18.44. The Magnificent Seven weakened into the close, while Apple plans to raise device prices to offset higher memory and storage costs.

US data released Wednesday beat expectations, with May retail sales up 0.9% m/m versus 0.6% consensus, helped by a 3.4% jump in gas station receipts amid higher pump prices linked to the Iran war. Ex-gas and autos, sales rose 0.5%. In the UK, headline CPI held at 2.8% y/y in May, below the 3.0% consensus.

Markets this morning

Risk sentiment improved overnight as the US-Iran peace deal outweighed Wednesday's hawkish Fed overhang. S&P 500 futures are up 0.8% and Nasdaq 100 futures nearly 1.3%. Asian markets are mixed: the Nikkei rose 1.6%, while the Hang Seng fell 2% on Fed-related property weakness and a tech regulatory hit. Alibaba's Hong Kong shares fell as much as 3.7% after China proposed rules to curb food-delivery subsidies. NSE filed draft documents for what could be one of India's largest IPOs. The US Treasury curve is partly reversing, with 5- to 30-year yields down 3 bps and the 10-year at 4.45%. Gold trades at $4,316 and Brent at $78.3.

Upcoming key events/data

Today's key releases and decisions include UK April Unemployment Rate and Weekly Earnings, Switzerland Rate Decision, BOE Rate Decision, and US Weekly Initial Jobless Claims. Bank of England is widely expected to hold rates steady as inflation concerns have retreated.

Have a great day.

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