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CIO OFFICE DAILY OUTLOOK

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Markets got an AI wake-up call to start the week's back half, with a bruising selloff in technology and chip names turning into a genuine global risk-off day. Fears that the AI rally had run too far, ignited by an extraordinary plunge in Korea, swept across every major region and left almost nothing standing. Global equities fell across the board, with MSCI ACWI down 1.7%, but the damage was deeply uneven: emerging markets slumped 3.8% against developed markets' 1.4%, as the selloff hit hardest in the very Asian chip markets that had led all year, with Korea down 10% at the extreme while the S&P 500 fell 1.4% and Europe held up better at down 0.7%. The risk-off mood ran through commodities and currencies too, with Brent off 1.1% to $76.2 as Iranian barrels kept returning, gold down 1.2% to $4,067 and silver sharply lower as a stronger dollar and the equity scramble for liquidity weighed, the greenback up 0.4% to a 52-week high on Fed hike bets, while Treasuries caught a haven bid and the 10-year slipped a basis point to 4.50% and Bitcoin lost 3%.

In the US, the selloff was a tech and chip story above all. The S&P 500 fell 1.4% and the Nasdaq 100 off 3.3%, while the Dow held roughly flat as money rotated into this year's laggards. The epicentre was semiconductors, with the Philadelphia Semiconductor Index down about 8% in one of its most volatile months since the pandemic, Micron sliding 13% ahead of its earnings and Sandisk and Arm among names off at least 10%, as Goldman strategists warned that plausible AI-related market gains now comfortably exceed baseline estimates of the value AI will actually add. SpaceX was a rare steadier spot, eking out a 1% gain to $156.11 to snap a three-day rout that had erased more than $600bn, though its debut $25bn bond sale met a notably cooler reception, with the order book below this year's average and the debt pricing at a premium to similarly rated peers on cash-flow concerns. Elsewhere, Oracle fell 5.7% after disclosing 21,000 job cuts, Carnival dropped 4.9% on war-related booking and fuel hits, and FedEx beat but slipped late, while the rotation lifted banks and software, JPMorgan up 0.8%.

Elsewhere, Europe took a milder hit, the MSCI Europe down 0.7% after falling as much as 1.3%, as the chip rout dragged ASML down 5.2% and STMicro 7.5% while defensives in health care and food held up, and the euro fell to its weakest in a year on soft PMIs and Lagarde's dovish lean, even as euro-zone composite activity proved resilient at 49.5 and the UK printed a 14-month low of 49.4 in a second straight month of contraction. China was a clear weak spot beyond the tech move, MSCI China down 2.6% and set to close in a bear market while the Hang Seng China Enterprises gauge formally entered one, down 20% from its October peak, dragged by Tencent and Alibaba and the first year-on-year drop in retail sales since the pandemic, with the index's thin weighting of AI hardware leaving it on the wrong side of the year's dominant trade. Japan's TOPIX fell 2.5%, with the yen still near 161.6 and its weakest since 1986 even as a BOJ summary affirmed the case for further hikes and roughly 90% of economists see another move by December. Korea was the day's epicentre, the Kospi plunging 10% from a record and triggering a circuit breaker as foreign investors dumped more than $2.5bn of shares, with leveraged ETFs amplifying the move and a report that SK Hynix is shifting toward cheaper commodity DRAM stoking fears the memory trade had overheated. EM's 3.8% drop was largely that Korea-and-chips story, and Dubai fell 1.3% alongside the global pullback.

Markets this morning

Today morning, Asia's attempt to steady after Tuesday's rout has faltered, a tentative bounce fading as the tech selling resumed. MSCI's Asia Pacific gauge was down 0.7% after rising almost 1% earlier, with Taiwan Semiconductor sliding more than 3% having dodged the prior session. Korea was steadier after its 10% collapse, the Kospi paring gains but holding as Samsung found support from a possible buyback, with the leveraged-ETF unwind that drove the move looking largely exhausted. Japan's TOPIX fell another 0.7%, Hong Kong and Shanghai were little changed, and US futures edged up 0.1%, though the chip read stayed soft with Cerebras down about 11% late on weak guidance, keeping all eyes on Micron after the close. Brent slipped toward $76, the dollar firmed for a third day, and gold fell again to around $4,064.

Upcoming key events/data

Looking ahead, the immediate test is Micron's results after Wednesday's US close, now the clearest read on whether AI demand can still justify the spending after a brutal session for the chip complex. The bigger macro event is Thursday's US May PCE, the Fed's preferred inflation gauge, which is expected to harden the hike case alongside personal income, GDP and durable goods. Germany's IFO and the Fed's bank stress tests land midweek, while global flash PMIs, MSCI's classification review watched for South Korea's developed-market case, and Tokyo CPI on Friday round out the week.

Have a great day.

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