

CIO OFFICE DAILY OUTLOOK

18 May 2026

Geopolitical developments dominated market sentiment last week. President Trump's official visit to China, featuring two days of discussions with President Xi, was a focal point. According to the White House, China has committed to purchasing a minimum of \$17 billion in US agricultural products annually through 2028 along with 200 planes from Boeing. Additionally, both the US and China have agreed to implement reciprocal tariff reductions on selected goods. While these measures suggest an environment of stabilisation rather than significant progress, Taiwan emerged as the primary risk factor in US-China relations. Both parties also expressed a mutual desire to see the reopening of the Strait of Hormuz.

The global bond market sell-off intensified, largely driven by elevated oil prices and a lack of progress in negotiations between the United States and Iran. UK Gilts experienced pronounced selling pressure, reflecting underlying political instability and concerns over the potential emergence of a more populist government. Yields on 10-year UK Gilts soared to 5.17%. Meanwhile, the 30-year US Treasury auction attracted subdued interest, despite offering a 5% coupon. Inflation indicators surpassed expectations, with Core CPI registering 2.8%, signalling that rising energy costs are impacting broader price categories. Retail sales remained robust, while weekly jobless claims saw a modest increase.

The 10-year US Treasury yield breached the 4.5% threshold. OIS swaps shifted towards a more hawkish stance, now pricing in a full 25 basis point rate hike by the March policy meeting. We maintain that resolving the ongoing Middle East conflict will be a critical determinant for bond yields in the short term.

Equities declined, with the S&P 500 and Nasdaq falling by 1.2% and 1.5% respectively on Friday. Emerging market stocks dropped 3.3%, and developed market equities slipped 0.5% over the week. Energy stocks stood out as the sole positive sector on Friday. Looking ahead, Nvidia is scheduled to release its Q1 earnings on Wednesday amid this uncertain environment, while Walmart will report its results on Thursday.

Markets this morning

Asian equities extended the global downturn observed last Friday, with Hong Kong and Chinese indices declining by 1.6% and 0.6% respectively. Economic data from China disappointed, as industrial production rose by just 4.1% and retail sales edged up 0.2% year-on-year in April, both falling short of expectations, while investment resumed its downward trend—highlighting a broad-based slowdown across the economy. The Nikkei also retreated, posting a 1% drop. In fixed income, Japanese 10-year government bond yields reached their highest levels since 1996, reflecting heightened inflation concerns driven by rising oil prices. Precious metals lost ground, with gold and silver prices falling to \$4,536 and \$75, respectively. Sentiment was further pressured by Brent crude, which advanced approximately 2% to surpass \$111 per barrel, building on an 8% surge the previous week. US 10-year Treasury yields rose to 4.62%.

Upcoming key events/data

Apart from key earning releases by Nvidia and Walmart, this week has a heavy data dossier. Eurozone CPI, UK CPI, and US FOMC minutes releases are scheduled, alongside MBA mortgage applications on Wednesday. Egypt will announce its rate decision, while Eurozone S&P Global manufacturing PMI and consumer confidence data will be released on Thursday. India HSBC manufacturing PMI and UK S&P Global manufacturing PMI are also expected, with US housing starts, initial jobless claims, S&P Global manufacturing PMI, and Philadelphia Fed business outlook rounding out the reports on Thursday as well.

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