UBS

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Chief Investment Office GWM
Investment Research

# What to watch in the week ahead

## Weekly Global

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- Fears that the Iran conflict could last longer than markets had hoped resurfaced on Friday, lifting the price of oil, boosting yields, and dragging equities lower. This week, investors will look for evidence that diplomacy can get back on track.
- Stronger US inflation data and higher oil prices pushed investors to reassess the rate outlook, with markets pricing a nearly 39% probability of a Fed hike this year as of Friday, up from less than 14% a week earlier. Fed speakers, meeting minutes, business surveys, and consumer sentiment data will guide the market debate on whether central banks look through oil-driven inflation or adopt a more hawkish stance.
- Supportive corporate results and AI optimism helped equities reach record highs earlier in the week, while developments in agentic AI pointed to a broadening opportunity beyond chips and data centers. NVIDIA's results this week will be watched as a test of demand, pricing power, and monetization across the broader AI cycle.

**What comes next for the Middle East conflict?**
Fears that the Iran conflict could be more prolonged than markets had hoped resurfaced last week, after the Trump-Xi summit produced no clear route to reopening the Strait of Hormuz. Brent crude rose more than 3% to USD 109 a barrel, as investors reassessed the risk that energy prices remain elevated for longer. The renewed inflation concern pushed government bond yields higher on Friday, with the 10-year US Treasury yield rising 14 basis points to 4.6%. This weighed on equities, pulling the S&P 500 down from a record high. While the index managed a seventh straight weekly advance, its longest rising streak since late 2023, a 1.2% fall on Friday cut this gain to just 0.1%.

This week, investors will look for evidence of renewed diplomatic progress after several weeks of stalemate. The Chinese foreign ministry said shipping routes should be reopened "as soon as possible," and that it wanted a diplomatic solution for Iran. Trump said the US wants "the straits open," while also saying he was considering whether to lift US sanctions on Chinese oil companies buying Iranian crude. Iran has proposed a mechanism to manage traffic through the Strait along a designated route. The key question is whether these diplomatic signals can translate into a more durable normalization of shipping routes.

Until there is clearer progress toward reopening the Strait of Hormuz, energy prices are likely to remain a source of inflation concern, and our end-June Brent forecast remains USD 100/bbl, with risks skewed to higher prices if disruptions persist. However, our base case remains that diplomacy

**Iran latest developments and geopolitics**
- To know more on economic resilience amid geopolitical tensions, listen to our Chief Economist Paul Donovan here.
- Read more on what an Iran resolution would mean for markets.
- On other geopolitical issues, listen to our Investors Club podcast on what the Trump-Xi meeting means for markets.

**The outlook for yields**
- For our views on fixed income markets and their impact on stocks, read our latest House View Daily.
- See our Briefcase on what comes next for Fed policy and what it means for investors.

**The tech sector and earnings**
- For more on the outlook for equities, listen to Ulrike Hoffmann-Burchardi's Signal over Noise recording on Apple and Spotify.
- Listen to our weekly Jumpstart on the finale of the earnings season and the impact of yields on the equity market.

will eventually allow markets to focus back on fundamentals. We view global equities as Attractive and recommend investors stay invested, while using the recent rally to rebalance concentrated positions—especially in the Magnificent 7—from a position of strength. A well-diversified portfolio remains the most effective way to manage near-term uncertainty while capturing long-term gains, our view.

**Will the renewed rise in yields derail stocks?**
The concern over a longer Iran conflict has moved from oil markets into government bonds, adding to pressure from stronger US inflation data earlier in the week. The US April consumer price index (CPI) rose 3.8% from a year ago, the highest since May 2023, while core inflation topped expectations at 0.4% month over month. Producer prices pointed to more pressure in the pipeline, rising 1.4% month over month, which was nearly triple expectations and the fastest monthly increase in more than four years. Against that backdrop, the 10-year US Treasury yield rose 14 basis points on Friday to 4.60%, and markets lifted the implied probability of a 25-basis-point Federal Reserve hike by year-end to 38.8%, from less than 14% a week earlier, according to CME Group's FedWatch tool. On Monday, yields around the world continued to push higher. Japan's 30-year yield hit a record high near 4.2% on Monday, after the 30-year Treasury yield on Friday settled at the highest level since 2007, near 5.13%. The 30-year Bund yield is at its highest in 15 years, while the 30-year gilt yield has risen to its highest level in 28 years.

This week, investors will look for signs of whether central bankers treat the latest rise in oil prices as a one-off supply-driven influence on inflation, or as a reason to maintain a more hawkish policy stance. Markets will be carefully parsing comments from leading central banks, including from the Fed. The minutes of the US central bank's April policy meeting will also be released and investors will be on the alert for any guidance from Kevin Warsh in his first full week as Fed chair. The global debate on rates will also be shaped by speakers from the European Central Bank and the Riksbank, along with the release of business survey readings for the Eurozone and US.

Our view remains that the bar for a Fed rate hike is high, particularly as Kevin Warsh along with other policymakers appear inclined to look through one-off supply-driven inflation such as tariffs or oil. Wage dynamics do not point to a renewed labor-cost-driven inflation problem, and the Fed's preferred inflation expectations measures remain well anchored despite recent supply pressures. We still expect the Fed's next move to be a cut, now in December, followed by another cut in March 2027. We think markets are currently overpricing the risk that central banks will hike interest rates, creating an opportunity to add exposure to quality short- and medium-duration bonds for durable income.

**Can AI earnings keep equities focused on fundamentals?**
The tension between higher yields and supportive corporate results is likely to frame the end of the earnings season. Strong profits and continued AI optimism helped equities reach record highs earlier in the week, before Friday's renewed concern over a prolonged Iran conflict pushed oil prices and yields higher. The AI narrative also continued to broaden beyond chips and data centers. Without taking a view on single stocks, investors responded positively to Google's announcement of upcoming Android features designed to act as an AI agent, anticipating needs and executing multi-step tasks such as booking rides. The move points to growing momentum in consumer agentic AI, following Chinese internet platforms'

integration of OpenClaw into their services, and sits alongside robust enterprise demand.

This week, attention turns to NVIDIA's results near the end of the first-quarter earnings season. The results from America's largest company will shed light on the broader AI investment cycle. Investors will look for evidence that demand across the supply chain remains strong, pricing power is holding, and monetization is keeping pace with spending. Growth across the four major cloud providers accelerated to an estimated 40% year over year in the first quarter, up from 34% in the fourth quarter of 2025. Aggregate order backlogs of around USD 2tr point to continued demand for AI infrastructure.

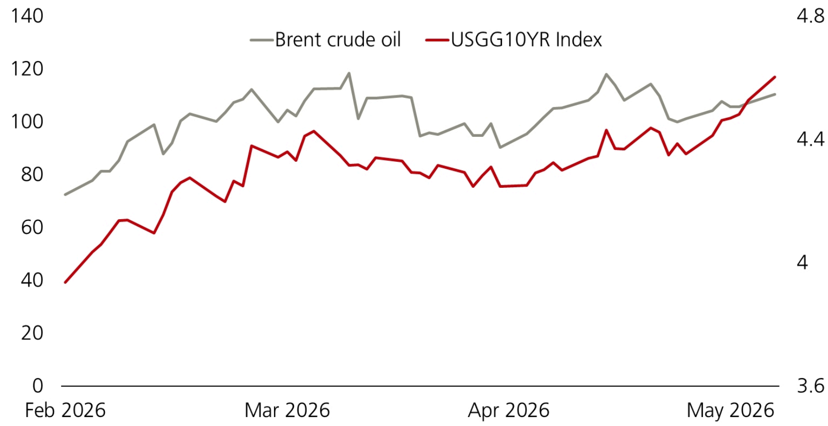
Our view is that AI remains a key long-term opportunity. We recommend a diversified and active approach to AI exposure across the value chain and geographies, favoring platform and application beneficiaries as well as infrastructure names with strong pricing power and competitive positioning. We view global equities as Attractive, while avoiding excessive reliance on a narrow group of megacap technology stocks. For AI exposure, we prefer our *AI* TRIO, while complementing technology exposure with other secular themes such as *Power and resources* and *Longevity*. This approach helps investors stay exposed to innovation while reducing reliance on a narrow group of megacap stocks.

## Chart of the week

Concerns about a prolonged Iran conflict re-emerged after the Trump-Xi summit ended without progress on reopening the Strait of Hormuz. Brent crude climbed more than 3% to USD 109 per barrel, while the 10-year US Treasury yield jumped 14 basis points to 4.6%, its biggest daily increase in months. Heightened inflation worries weighed on equities, with the S&P 500 pulling back from record highs despite securing a seventh consecutive weekly gain. Investors are now focused on potential diplomatic developments and central bank reactions to ongoing energy-driven inflation pressures. In the absence of a breakthrough on the Strait, energy prices and yields are expected to remain major sources of market volatility.

Oil and yield remain elevated, posing a risk to growth

Brent crude oil, USD/bbl, US Generic Govt 10YR Index, since 27 Feb 2026




Bloomberg, UBS, as of 18 May 2026

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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**Attractive:** We consider this asset class to be attractive. Consider opportunities in this asset class.
**Neutral:** We do not expect outsized returns or losses. Hold longer-term exposure.
**Unattractive:** We consider this asset class to be unattractive. Consider alternative opportunities
**Note: For equities, we have a five-tier rating system with two additional preferences**
**Most Attractive:** We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
**Least Attractive:** We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

## Appendix

**Risk information**
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