

What to watch in the week ahead

Weekly Global

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- Mounting optimism over a US-Iran deal helped US and global equities reach a record high last week, though an agreement has yet to be finalized. This week, investors will be hoping that negotiations will lead to a reopening of the Strait of Hormuz.
- Last week's US inflation data provided some reassurance that higher energy prices are not yet leading to a renewed acceleration in underlying price pressures. This week's US jobs data and business activity surveys will be examined by investors for signs that the jobs market remains in balance, meaning resilient enough to support consumer demand while not so strong as to lead to a wage-price spiral.
- The war in Iran has been adding to concerns over rising government debt burdens, presenting a drag to growth and pressuring governments to cushion consumers and businesses from higher energy prices. Our view is that such worries will contribute to broader fiscal worries, and will remain a headwind for long-duration bonds. But fiscal concerns increase the appeal of gold, which we expect to reach fresh record highs later this year.

Will talks between the US and Iran lead to a reopening of the Strait of Hormuz?

A deal to end the conflict between the US and Iran remains elusive, despite repeated indications over recent weeks that an agreement is in sight. Positive signals from President Trump and Secretary of State Marco Rubio late last week contributed to a swift decline in oil prices, with Brent crude falling to USD 92 a barrel, more than 25% below an intraday peak in late April. An easing of worries over energy prices also calmed anxieties over inflation, pushing down government bond yields and helping global stocks to a record high. The MSCI All Country World ended the week up 11.5% year to date.

However, as in prior weeks, hopes of an imminent breakthrough proved short-lived. Over the weekend, the US Defense Secretary said President Trump was "patient" in terms of making a deal with Iran and threatened to resume military operations if Iran does not make sufficient concessions. This week, investors will be looking for signs that negotiations can secure a reopening of the Strait of Hormuz, through which about a fifth of the world's oil flowed prior to the start of the conflict. Recent media reports suggest the US and Iran are aiming for a more limited framework to restore shipping, extending the ceasefire by 60 days to allow for talks over Iran's nuclear program.

Iran latest developments and geopolitics

- Listen to [Jumpstart](#) to know more about updates on the US-Iran conflict, yields, and AI momentum.
- Listen to our [Chief Economist Paul Donovan](#) discussing market dynamics in relation to a possible US-Iran ceasefire extension.
- [Read our "What does the Iran conflict mean for markets?"](#) Briefcase for the latest views from our Head of Investment Risk Dirk Effenberger and our commodity Strategist Giovanni Staunovo.

Fixed income and upcoming central bank commentary

- Learn about the importance of [June central bank meetings](#).
- Read about our view on [high yield](#) in research by our Strategists Frederick Mellors and Carolina Corvalan.

Government debt and gold

- Listen to our [Investors Club talk](#) on the CIO updated gold target, equities, and rates.
- Read about our [new outlook on gold in our research](#) by Strategists Dominic Schnider and Giovanni Staunovo.

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Recent developments have underlined our view that the road to a lasting solution will be bumpy. With equities at record highs, we see this is a good time for investors to rebalance portfolios from a position of strength, mitigating concentration risks arising from the outsized gains of top US tech firms. We favor diversification across the AI value chain, as well as across regions and investment themes, such as *Longevity* and *Power and resources*. However, our base case remains that an eventual US-Iran deal will allow markets to focus fully on a resilient economic backdrop and strong earnings growth.

Will central bankers and economic data dampen rate-hike fears?

The risk of a renewed burst of inflation has been a key concern since the start of the US-Iran conflict. So, there was a degree of relief last week when the April personal consumption expenditure index, the Federal Reserve's favorite measure of prices, rose by less than expected. The core measure, which excludes volatile food and energy, increased by 0.2% on the month, less than the 0.3% consensus forecast. The inflation reading, along with hopes of an end to the US-Iran conflict, helped bring down government bond yields from multi-year highs.

This week, investors will be hoping for further reassurance that inflation can be contained. A key focus will be US jobs data for May. A moderate reading for job creation and unemployment could ease anxiety over second-round inflationary effects from higher energy prices, notably that workers will be able to demand higher wages. Further guidance on the economic impact of the war will come from the US ISM survey readings of US business activity, with investors on the alert for signs of supply bottlenecks, price pressures, and hiring plans. Meanwhile, a range of top policymakers, including from the Fed and ECB, are scheduled to speak and investors will be looking for fresh guidance on how central banks are viewing the ongoing uncertainty in the Middle East.

Our view is that while higher energy prices will impact central bank policy, delaying rate cuts from the Fed and pushing the ECB to hike by 50 basis points in our base case, markets continue to price an overly hawkish path for monetary policy. The resulting rise in yields has created an opportunity for investors in short- to medium-duration government bonds, which are less exposed to fiscal concerns at the long end of the curve.

Will worries over rising government debt burdens remain contained?

The Iran war has strained government finances around the world, contributing to a rise in longer-duration government bond yields to multi-year highs in recent weeks. This risk was underlined last week by the European Central Bank in its Financial Stability Report, which warned that the conflict would weaken growth and boost spending as governments seek to cushion consumers and businesses from the impact of higher energy prices. The ECB noted that public finances were already being tested across the region by higher defense spending and investments in the transition to green energy.

A key question for investors this week and beyond will be whether such concerns linger among investors. There is also a risk of a self-reinforcing dynamic in which higher debt costs increase issuance needs, pushing yields higher and further raising borrowing costs. We see the greatest fiscal headwinds at present in the US and Japan.

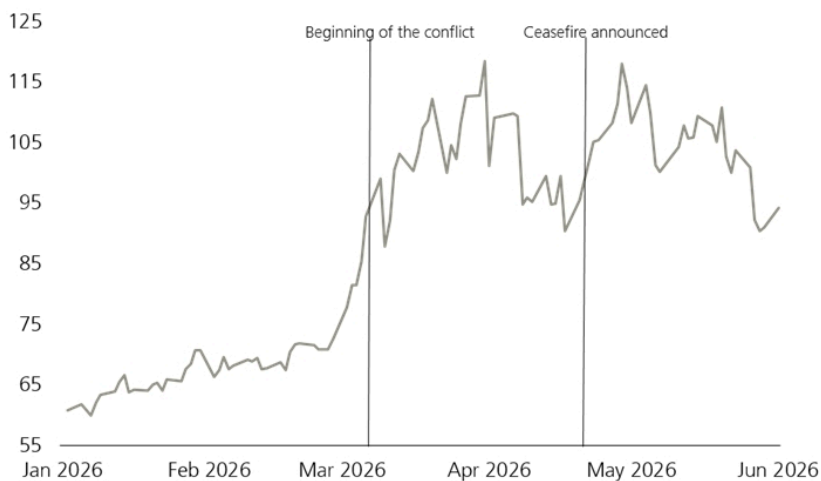
Our view is that worries over government debt will remain manageable, without leading to this self-reinforcing pattern. However, such concerns will continue to add to risks for longer-duration bonds, hence our preference for short- and medium-duration maturities. We also believe fiscal anxieties will add to the potential upside for gold, which tends to benefit from investor anxiety over inflation and elevated government debt burdens. We also expect gold to resume its upward momentum in the event that a deal in the Middle East eases worries over tighter central bank policies, which is our base case. Meanwhile, we continue to expect elevated gold purchases from central banks in much of the world as they seek to diversify their reserves.

Chart of the week

Mounting optimism over a potential US-Iran agreement has driven Brent crude to a one-month low, easing energy price concerns and helping global equities reach new highs. However, with a lasting deal to reopen the Strait of Hormuz still elusive, markets remain sensitive to shifting headlines and the risk of renewed volatility. Recent inflation data have reassured investors that higher energy prices are not yet fueling a new wave of underlying price pressures, but attention now turns to US jobs data and central bank commentary for further signals on the policy outlook. At the same time, worries over rising government debt burdens, exacerbated by the ongoing conflict and increased fiscal spending, have added to volatility in fixed income markets, particularly at the long end of the curve. While we expect these concerns to remain manageable, they reinforce the case for selectivity in bond portfolios and support the appeal of gold as a hedge against fiscal risk.

Oil prices moderate on hopes of US-Iran deal

Brent crude oil USD/bbl



Bloomberg as of 1 June

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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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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

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