What to watch in the week ahead

Weekly Global

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- Concerns over the potential for Federal Reserve tightening and worries over AI valuations contributed to an equity market sell-off late last week, halting a nine-week winning streak for the S&P 500. With tech leading the decline, can confidence in AI and the sector revive this week?
- The European Central Bank is expected to raise rates this week. But will its meeting mark the start of a more sustained series of rate hikes by top central banks as policymakers respond to elevated energy prices.
- The two-month ceasefire between the US and Iran is coming under increasing strain amid an exchange of attacks. Can negotiations get back on track? Investors are hoping for a deal that will ensure a resumption of shipping through the Strait of Hormuz.

Will markets recover after Friday's tech-led sell-off?
A confluence of factors contributed to a sharp decline in stocks on Friday, ending a nine-week winning streak for the S&P 500 that had taken the index to fresh record highs. Renewed fears of Federal Reserve tightening—stoked by data showing that the US economy created twice the number of jobs expected for May—provided a major headwind. But it was tech stocks that bore the brunt of the selling, after an accumulation of news from the sector rekindled worries over AI valuations. The FT reported that Meta is considering raising tens of billions of dollars to support the company's AI ambitions, following a record USD 85bn share deal last week. Meanwhile, Broadcom's shares came under pressure on Thursday after the chipmaker's guidance for AI revenue growth disappointed investors. So, while the S&P 500 fell 2.6% last week, the tech-heavy Nasdaq Composite slumped 4.7%. On Friday alone, the Philadelphia semiconductor index, a benchmark for the US industry, dropped 10.3%, its worst session since March 2020.

This week, investors will be looking for signs that sentiment can pick up in AI and tech more broadly. Will the sharp sell-off draw in buyers, or could the mood sour further? Will further news from the sector help reassure the market about the growth potential of AI?

Our view is that confidence in the outlook for AI will return. Business fundamentals remain strong. The demand for AI tokens, the basic unit of AI output, has continued to exceed supply even after recent years of heavy investment. And Alphabet's recent equity raise signals that AI capital spending overall is likely to remain high for some time. Our view is that continued AI adoption, alongside a healthy US consumer, should drive 20% earnings per share growth for the S&P 500 this year, supporting additional market gains over the medium term. That said, we have been advising investors to use the recent period of market strength to rebalance

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portfolios, reducing the concentration risk arising from the surge in top US tech companies.

Will the ECB kick off a broader round of energy price inspired rate hikes?

The threat of a Fed rate hike was a key concern for investors on Friday. At 172,000, net job creation for May was close to double the consensus forecast and the moving average for the past six months. Unemployment, a key focus for the Fed, showed no signs of deterioration, holding steady at 4.3%. That followed data earlier in the week showing job openings at a two-year-high. All this caused investors to increase their expectations for tightening, with the market now fully pricing a 25-basis-point rate hike by the Fed.

Attention this week will shift to the European Central Bank, which holds its policy meeting on Thursday. Hawkish rhetoric from top ECB officials has left investors with little doubt that the ECB is poised to raise rates at its meeting this week. This was reinforced by inflation data, which showed the region's inflation rising above 3% for the first time since 2023, with headline, core, and services inflation all accelerating. So, markets will be parsing the tone of the meeting for guidance about whether and how soon further tightening might occur. The broader question for markets is whether the ECB's response to higher energy prices will be emulated by other leading central banks. Worries over Fed tightening could intensify following the release of the US consumer price index for May, which looks set to show prices rising by more than 4%. Underlying inflation, which excludes volatile food and energy prices, will be a key focus.

Our view is that while risks of tighter monetary policy have increased, markets have gone too far in pricing for rate hikes. Despite the strong pace of jobs growth, the Fed is likely to be reassured by the slowing of wage growth to 3.4% on the year, according to Friday's data. That does not suggest that workers are able to negotiate faster pay increases to compensate for higher prices—soothing any fears of an inflationary wage-price spiral. In the Eurozone, we expect only one further rate hike in 2026 after the June meeting, with policymakers being restrained by the drag to growth from higher prices. Against this backdrop, we favor medium- to short-duration quality bonds, which should gain ground if worries over tightening recede.

Can a US-Iran deal allay worries over dwindling oil inventories?

The conflict in the Middle East was pushed aside as the central market preoccupation last week. But the apparent lack of progress remained a background source of anxiety. There were further signs that the continued disruption of shipping through the Strait of Hormuz is depleting global oil stores, with the International Energy Agency warning inventories could fall to critical levels before the period of peak demand in the summer.

Markets have been repeatedly disappointed in recent weeks, with reports of an imminent deal failing to materialize. This week, investors will be hoping first for a sign that the ceasefire is on a firmer footing, after a renewed burst of attacks between the US and Iran and the firing of missiles at Bahrain and Kuwait. In addition, markets will be on the alert for indications of progress in negotiations between the US and Iran for a framework deal to reopen the Strait.

We believe the US-Iran conflict will continue to contribute to volatility. That underlines the appeal of an active commodities strategy as a hedge against

geopolitical uncertainty and inflation risks. We have also been advising investors to consider adding hedges to manage portfolio risks. That said, both sides have a powerful incentive to reach a compromise, with Iran eager to rebuild and growing pressure from the US Congress to end the war. The recent focus on a more limited framework to reopen the Strait, leaving the issue of Iran's nuclear program for more detailed talks, could increase the chances of a breakthrough. Eventually we expect a diplomatic solution to allow investors to focus more fully on robust earnings growth.

Chart of the week

After reaching new all-time highs, the S&P 500 saw a sharp pullback as stronger-than-expected US jobs data reignited concerns about potential Fed rate hikes. Technology stocks led the decline, with renewed doubts about AI valuations following news that Meta may seek significant new funding for its AI initiatives and disappointing AI revenue guidance from Broadcom. As a result, the S&P 500 dropped 2.6% last week, the Nasdaq fell 4.7%, and the Philadelphia Semiconductor Index suffered its steepest one-day loss since March 2020.

Short-term yields signal market jitters

US Treasury securities at 2-year constant maturity and CIO forecast

Board of Governors of the Federal Reserve System (US), UBS as of 8 June 2026

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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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