

What to watch in the week ahead

Weekly Global

Mark Haefele, Global Wealth Management Chief Investment Officer, UBS Switzerland AG

- Renewed US strikes on Iran and retaliatory attacks across the region lifted oil prices and raised concerns that progress on inflation could stall. This week, investors will assess whether tensions around the Strait of Hormuz begin to ease. Our base case remains a bumpy resolution, and we believe investors should broaden commodity exposure.
- Global equities remain near record highs, but regional performance diverged sharply last week. The start of the US earnings season, alongside key semiconductor results, will test whether profit growth can support a broader rally. We remain constructive on equities and recommend diversified exposure across regions and sectors.
- Government bond yields moved higher last week as rising oil prices increased the risk that inflation remains above central bank targets for longer. This week's US inflation data and Fed communication will help determine whether that move has further to run. We expect yields to fall over time and recommend locking in attractive yields in quality bonds.

Will the US and Iran talks get back on track?

Renewed US-Iran hostilities raised concerns about energy supplies and shipping through the Strait of Hormuz last week. The US conducted strikes targeting Iranian military and surveillance infrastructure, while Iran responded with attacks across the region and against shipping. The latest escalation centered on the Strait of Hormuz, with Iran claiming the waterway was effectively closed while US officials maintained that commercial traffic remained open under military protection. Reports of attacks on shipping and energy-linked infrastructure reinforced fears of disruption to global energy supplies. Brent crude rose more than 5% over the week, and climbed further on Monday toward USD 80 a barrel, as concerns grew that restrictions on shipping through the Strait could keep energy prices elevated and slow progress on inflation.

This week, attention will focus on whether both sides signal a path back toward negotiations and whether shipping activity through the Strait begins to stabilize. The markets will be hoping for reassurance that the conflict does not develop into a sustained supply shock. The key issue is whether elevated energy prices persist long enough to increase pressure on inflation and keep central banks cautious about easing policy.

Our base case remains a bumpy resolution, with traffic through the Strait gradually normalizing during the second half of the year. We believe both sides retain incentives to avoid a return to all-out war, given the economic costs of prolonged disruption and the political sensitivity of higher fuel prices. For investors, renewed geopolitical stress reinforces the

The Middle East conflict

- Discover what the latest resurgence of US-Iran hostilities means for markets in this [UBS House View Briefcase](#).
- Listen to GWM Chief Economist Paul Donovan discuss the geopolitical situation in his [daily audio](#).
- Read how [US-Iran tensions reinforce the case for portfolio resilience](#) in this House View Daily by CIO Americas Ulrike Hoffmann-Burchardi.

Earnings and equities

- Watch CIO Head of Equities David Lefkowitz speak about [equity strategy amid strong earnings and record highs](#).
- Watch our Investors Club podcast on the AI memory supercycle with CIO Co-Head of Global Asset Allocation Adrian Zuercher and Cross-Asset Strategist Jon Gordon [here](#).
- Watch CIO's James Cheo talk about the positive signs of a bull market in our [Market Playbook](#).

Central banks and bonds

- Read more on [what the Warsh era means for Fed policy](#) in our Briefcase.
- Learn more about why bond yields could fall despite near-term volatility in our House View Daily [here](#).
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case for broader commodity exposure. Energy can help buffer portfolios against supply disruptions, El Niño-related risks may support agricultural commodities, while the AI boom and electrification remain structural positives for industrial metals.

Will the start of the US earnings season support a broadening equity rally?

Global equities have delivered strong gains year to date, with the MSCI All Country World up 11% so far. But last week highlighted a growing divergence between regions. The S&P 500 rose 1.2%, supported by resilience in technology shares and a recovery in semiconductor stocks. By contrast, the Stoxx Europe 600 fell 1.8%, its largest weekly decline since April, as European markets proved more sensitive to higher energy prices and geopolitical risks. Market leadership has also continued to broaden beyond a narrow group of megacap technology companies, with sectors including health care and financials performing well over the past month.

This week, the second-quarter earnings season begins. Investors will be looking for signs that earnings growth remains healthy across a broader range of sectors, rather than relying on a handful of technology companies. Results from five large American financial services firms should provide insight into capital markets activity, lending conditions, credit quality, and consumer resilience. Results from key semiconductor companies, including equipment maker ASML and the world's largest foundry TSMC, will also offer an early test of whether AI-related investment spending remains strong throughout the technology supply chain.

We believe earnings growth can continue to support equity markets, but the next phase of gains is likely to involve a broader set of sectors and regions. Investors should diversify across sectors and regions to capture a wider opportunity set and reduce concentration risk stemming from the rapid rise in a handful of large-cap US tech stocks. In the US, we continue to see opportunities in consumer discretionary, financials, health care, industrials, and utilities.

Will the recent rise in yields start to reverse?

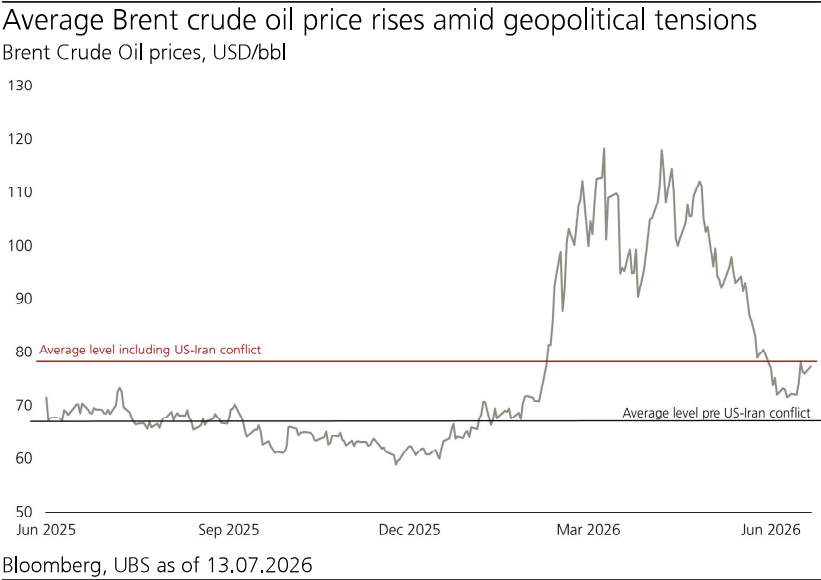
Government bond yields moved higher last week as rising oil prices increased the risk that inflation remains above central bank targets for longer. The move was more pronounced in Europe, where economies remain more exposed to higher energy costs and inflation expectations are more sensitive to oil prices. German 10-year Bund yields rose around 13 basis points over the week to 3.06%, while the US 10-year Treasury yield rose around 8 basis points to 4.56%. Markets also increased pricing for further European Central Bank tightening.

This week's inflation data will test whether the recent rise in yields is justified. The June US consumer price index will be the most important release, while retail sales, the University of Michigan consumer sentiment survey, Fed speakers, and the Beige Book will provide additional insight into inflation expectations and growth trends. A range of Fed officials have the potential to shed light on the outlook for policy this week—their last opportunity to express views ahead of their blackout period in the run-up to the policy meeting later this month. Most focus will be on Kevin Warsh's first congressional testimony as Fed chair. A range of other leading Fed policymakers will also be speaking. Markets will also be assessing whether central banks continue to view higher energy prices as a temporary shock or a reason for greater policy caution.

An intensification of the conflict in the Middle East has put government bonds under renewed pressure. That said, our view is that events in the region can stabilize again. Our base case remains that yields should move lower as inflation pressures moderate and market pricing adjusts. While policymakers are likely to maintain relatively hawkish language in the near term, we expect rhetoric to soften once confidence grows that higher energy prices are not feeding into broader inflation pressures. We believe markets continue to overestimate the extent of additional tightening from most major central banks, and that the bar for a Fed hike remains high. The recent sell-off in bond markets has therefore created an opportunity for investors to lock in attractive yields by adding to quality bonds, particularly in the short- and medium-maturity segments.

Chart of the week

Renewed US-Iran hostilities have pushed oil prices higher and raised concerns about energy supply disruptions through the Strait of Hormuz, fueling inflation worries and keeping central banks cautious. While both sides have incentives to avoid further escalation, markets are watching for signs of renewed negotiations and stabilization.



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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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