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NERVOUSNESS GIVES WAY TO HOPE

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More than 100 days after the start of the conflict in the Middle East, conditions in the financial markets have heightened investor anxiety. At the center of all concerns is the issue of inflation and its impact on monetary policy and global growth, as geopolitical tensions between the United States and Iran have escalated prior to the announcement of an agreement to be signed on June 19 in Switzerland. Furthermore, the artificial intelligence (AI) sector—which had driven U.S. indices to new highs in late May—has faced some turbulence, driven by the end of the era of monetary easing, growing doubts about AI's profitability (difficulties in monetizing its services at this stage), the increased reliance on debt and share issuances, and high valuations for certain players in the sector.

Equity performance over the past two months has been very strong

The very strong earnings season, particularly for certain tech stocks whose earnings growth doubled (Micron, Dell, Nvidia), and hopes for a peace agreement helped support equity markets in May. The U.S. S&P 500 index thus hit 11 new highs over the month and 25 since the start of the year, underscoring just how strong the uptrend is. As a result, the cumulative two-month return of 16% (April and May 2026) is the third highest since 1990, following the rallies in March–April 2009 (19%) and April–May 2020 (18%). However, only 20% of companies outperformed the index, and only 60% of stocks closed the month in positive territory. The Technology sector, which currently accounts for nearly 40% of the U.S. index, contributed 82% of the index's performance over the period, with an absolute return of 34% in April and May.

The MSCI Emerging Markets Index, meanwhile, outperformed with a 9.5% gain. Here too, it was not the traditional drivers of emerging markets—such as a weak dollar, rate cuts, or the strength of the global economy—that drove this performance, but rather technology stocks, with just three of them (TSMC, Samsung, and SK Hynix) accounting for nearly 80% of the 2026 performance. This sector now accounts for 49% of the Emerging Markets Index, and three countries (China, South Korea, and Taiwan) alone make up 70% of the index.

In Europe, the Euro Stoxx 50 index slightly underperformed due to lower exposure to technology and the impact of rising energy prices from the Gulf on the production costs of European companies, which source more from this region than their U.S. counterparts.

Inflation at the center of investors' concerns

However, since early June—and despite nearly forty announcements by Donald Trump regarding an imminent peace agreement—it is clear that this "armed ceasefire," which allowed the markets to rise in April and May, has not yet led to a genuine peace agreement. Hopes are therefore running high following this umpteenth announcement of an agreement, with the long-awaited reopening of the Strait of Hormuz potentially taking shape this weekend.

Indeed, although the massive use of strategic oil and gas reserves worldwide, along with a larger-than-expected shift in supply routes, has allowed energy prices to stabilize, inflation figures remain high, and fears of a shift in monetary policy are materializing. Rising energy prices are indeed beginning to feed into core inflation, as evidenced by May's consumer and producer price figures, which reached 4.2% and 6.5% year-over-year in the United States, respectively—the highest levels in three years. We are seeing the same trend in Europe, where inflation above 3% led the ECB to raise rates in June for the first time since 2023.

As a result, the risk of monetary policy missteps is significant, especially for Europe which is lacking growth. Rate hikes intended to combat inflation may have little impact this time around. On the one hand, oil inflation cannot be fought with interest rates but mainly with the resumption of traffic through the Strait of Hormuz. On the other hand, the current phase of massive investment is inflationary in nature, at least in the short term, as prices for semiconductors and AI equipment continue to rise due to persistent shortages.

At this point, expectations for rate hikes have eased slightly from their late April peak, although two more hikes are still expected in Europe. On the other hand, across the Atlantic, Kevin Warsh is expected to successfully pressure other Fed members not to raise rates, at least until the midterm elections, despite inflation figures and the strength of the labor market. The 172,000 jobs created in the United States (compared to the expected 88,000), including nearly 70,000 in the travel and leisure sector, demonstrate the strength of household consumption, although the seasonal effect of the World Cup is almost certainly at play in these figures. If a peace agreement is indeed signed this week, we can expect continued easing of expectations for rate hikes.

Doubts are emerging once again in the technology sector

In the equity markets, although the technology sector has remained the main driver of capital inflows in recent months, the profile of the "Magnificent Seven" has changed dramatically over the years. Just a few years ago, investors were dealing with companies that enjoyed a virtual monopoly in their core businesses, generating massive cash flows and offering investors a high degree of predictability regarding their future earnings. Currently, those same companies are spending the majority of their cash flow on investments to build data centers with more uncertain revenues, and have significantly reduced share buybacks, which had previously helped support their share prices. They have also launched major debt issuance programs and are capitalizing on the excitement surrounding the IPOs of SpaceX, Anthropic, and OpenAI to announce new share issuances that could be dilutive for their shareholders.

These factors, combined with rising long-term rates that weighed on valuations after a two-month rally in tech stocks, have driven up volatility in the U.S. market, with the VIX index above 20—a level not seen since mid-April.

Talk of a new tech bubble has also gained momentum, with many figures in the financial world predicting its imminent burst. Admittedly, the valuations of IPOs in the sector—led by SpaceX's at nearly 100 times revenue—do signal some exuberance. However, apart from a few specific cases, valuations across the tech sector, as a whole, are not extreme at this stage. Furthermore, the conditions that typically accompany the bursting of most previous speculative bubbles have not yet materialized. Indeed, we are not yet in a cycle of significant monetary tightening, and companies continue to report encouraging outlooks. Last but not least, the largest stocks in the S&P 500 have seen their price-to-earnings ratios fall by more than 20% over the period, dampening the sense of exuberance.

For the technology sector, the question has shifted from valuation multiples to the sustainability of future earnings growth. Indeed, a large portion of current profits stems directly from the massive investment cycle in AI-related infrastructure (data centers) rather than from the monetization of AI models currently on the market.

Ultimately, this technological revolution will inevitably lead to one of two scenarios observed when a new innovation cycle matures: we will either see the emergence of a few dominant players capturing the majority of the sector's revenue, or the onset of fierce competition over margins among a multitude of players offering similar products.

With rising volatility, safe-haven assets are likely to attract renewed interest

In these periods of high market volatility, holding safe-haven or low-correlated assets is essential. Foremost among these is the dollar, which—despite concerns about the sustainability of U.S. debt or the independence of the Federal Reserve—continues to strengthen during periods of crisis, as seen during the peak of the U.S.-Iran conflict and during the recent turbulence in the technology sector. The shift in the Fed's monetary policy expectations between January 2026 (two anticipated rate cuts) and June (one expected rate hike) has also supported the greenback's strength since March.

As for gold, although it has lost nearly 25% since its January 2026 high to approach $4,000 an ounce, it remains an attractive asset. Indeed, either tensions will ease rapidly thanks to the peace agreement announced for June 19 and the reopening of the Strait, leading to a gradual decline in inflation and thus interest rates, or the conflict will drag on, turning transitory inflation into long-term inflation that will undoubtedly trigger a slowdown in global growth. In any case, both scenarios should prove positive for gold.

The coming weeks will be decisive for the economy's trajectory

While we have never been closer to signing a peace agreement, developments in the coming weeks will be crucial for the global economy and financial markets. Economic activity, consumption, employment, and even core inflation have so far been relatively spared thanks to the heavy reliance on strategic energy reserves, the drawdown of corporate inventories, substantial investments in AI, the mobilization of savings, and above all the influx of *retail* investors who continue to buy stock markets in large numbers, particularly during downturns. The coming weeks will determine the direction of financial markets, with either a decline in inflation, sustained growth, and a return to accommodative monetary policy prospects, or, conversely, a deeper and longer-lasting transmission of inflation across all sectors of the economy, inevitably triggering a new cycle of monetary tightening and a significant slowdown in global economic activity. We remain optimistic, however, and believe the conflict will be resolved, if only because of Donald Trump's desire to restore Americans' purchasing power and retain a Senate majority in the upcoming midterm elections.