



Market Flash: Peace piece: Is the Middle East heading toward a lull?

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- **In the US, new Fed chairman Kevin Warsh left rates unchanged but had to withdraw mention of a “dovish bias” in the communique and China’s economy is split between upbeat exports and a soft domestic picture.**
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Energy prices fell and markets rose after the US and Iran signed a memorandum of understanding which extended the ceasefire by 60 days and moved towards reopening the Strait of Hormuz. But numerous questions remain: on the effective end of military operations, for example, especially in southern Lebanon as Israel is proving much more intransigent than its American ally, and on Congressional support in the US where some Republicans view the agreement as a capitulation. Iran benefits from a number of advantages like the end of sanctions, the return of frozen assets and a \$300bn investment programme. We also need confirmation that both sides will respect commitments and that talks on the nuclear issue will be successful.

Iran’s advantages underline Donald Trump’s wish to tackle the midterm elections with a solution to the conflict under his belt. However, the immediate future looks chaotic as Israel has continued to attack southern Lebanon and the meeting at the end of this week with vice-president JD Vance to continue talks has been cancelled.

The reopening of the Strait of Hormuz should mean a return to pre-conflict traffic within the next month. But the gas market is more problematic: Qatar says that 20% of its production, or 4% of LNG output, could be unavailable for years given the scale of repairs needed.

In the US, new Fed chairman Kevin Warsh left rates unchanged but had to withdraw mention of a “dovish bias” in the communique after half of the rate-setting committee, not including the chairman, voted in favour of a rate hike. Overall and underlying inflation are running at 3.6% and 3.3%, or well above target and up from 2.7% in March for both readings. Growth, meanwhile, stayed resilient at 2.2% vs. 2.3% in March. Kevin Warsh made his mark by not indicating his preferred policy path and by setting up work groups to review monetary policy strategy. Elsewhere, the Michigan index came in at a resilient 48.9, up from 44.8 in May. But industrial production rose by a sluggish 0.1% in May vs. +0.9 in April and the NAHB property index fell. The New York Fed’s manufacturing index also worsened because of supply delays.

China’s economy is split between upbeat exports and a soft domestic picture. Industrial production rose 4.56% in May, up from 4.1% in April but retail sales slipped 0.6% (after a 0.2% decline in April) and



residential investment plunged 16.2% over the first five months of this year compared to last year. The eurozone's industrial sector slowed to +0.1% in May vs. +0.4% in April.

The Bank of England left rates unchanged as inflation held steady and the labour market remained difficult. Switzerland's central bank also opted for the status quo thanks to the strong Swiss franc limiting inflation. But the Bank of Japan raised rates by 25bp due to solid growth and strong wage inflation. The bank will probably intervene to support the yen as fiscal policy is raising concerns.

We remain cautious on the new Fed committee's ability to react to events despite its stress on price stability. As the Fed seems both more likely to raise rates and yet risks being accused of allowing inflation to spiral out of control if it decides against a hike, we have gone back to neutral on US Treasuries and European government debt after this rate-easing movement (with long rates under vigilance). The movement was good for risk assets so we have taken profits on EM debt and gone back to neutral. Both the dollar and rate volatility could rise. We are still keen on equities, a position we adopted after the sell-off at the beginning of the month.

European equities

European equity markets trended higher overall, encouraged by a gradual easing in Middle East tensions but constrained by more restrictive monetary conditions. The investment mood remained cautious. The agreement between Washington and Tehran was officially signed and energy prices fell sharply. With oil prices now trending back to normal conditions, the geopolitical risk premium has fallen and disinflation expectations have risen. Even so, uncertainty lingers over the precise clauses in the final agreement, in particular the issue of Iran's nuclear programme and regional stability.

Against this backdrop, Switzerland's National Bank left rates unchanged. As did the Bank of England after reassuring inflation data showed the situation was still under control. May's inflation reading held steady at +2.8%.

In company news, the AI theme remained centre stage. The multi-year partnership between **HSBC** and **Google** showcased the arrival of practical AI solutions in banking, notably in wealth management and the fight against financial fraud. **BESI** is also benefiting from the same momentum: strong demand for data centres and semiconductors led the group to boost guidance on revenues and operating margins. **Legrand** reassured investors on the length of the data centre cycle by indicating that growth should remain strong beyond 2026. On the other hand, **Capgemini** followed **Accenture** lower after warning that sales would fall in the coming months, a consequence of AI disruption fears in consulting. Defence also kept its growth theme status. **Renault** unveiled a partnership with **Thales** to design a military vehicle, **Safran** and **Theon** formed a joint venture in drone optronics, **Eutelsat** won a big contract from the French government's defence procurement and technology agency, and **Leonardo** received a new order from **Avincis** for helicopters. In contrast, the autos sector remained under pressure. **BMW** revised its 2026 margin target lower, citing structural challenges still facing parts of the industry, notably in China, and persistent cost disruption from Middle East tensions

US equities

Wall Street ended the period higher but it was a choppy ride. The S&P 500 gained 0.93%, the Nasdaq Composite 2.43 % and the Russell 2000 1.22% to hit new highs as interest in domestic and cyclical stocks revived.

IT led gains, up **3.06%** thanks to semiconductors (**+7.3%**) and memory plays (**+18%**). **Intel** rose with the launch of its 18A P process node, while **Qualcomm** was lifted by talks to acquire **Tenstorrent** to reinforce its AI capacities. **Micron** gained on expectations the group would report excellent figures. Software company **Datadog** was higher after a broker upgrade based on AI demand. But **Microsoft shed** 2.9% on fears over competing models gaining ground. The AI ecosystem remained very busy. **Apple**, **Intel** and **Amazon** boosted investments in chips and data centres while **Anthropic** was at the heart of debates over US regulations.



Industry advanced 2.4%, driven by equipment, infrastructure and energy. **GE Vernova** gained after positive comments on its key role in electrification. And companies providing data centre and network solutions rose due to the AI investment wave.

Materials edged 0.40% lower but the sector saw M&A deals, notably the **Olin-Huntsman** merger which led to volatile trading in both shares.

Consumer discretionary gained 0.80%. **Take Two** gained on the buzz around GTA 6. **TripAdvisor** rose after selling **TheFork** to **American Express**.

Communication services rose 1.08%. **Roku** was up after being sold to **Fox** but the control premium took Fox lower. After a speculative surge, **Netflix** lost ground after denying it was interested in acquiring **Lionsgate Studios**.

Consumer staples lost 2.86% as investors switched to tech and cyclicals. **Yum! Brands** gained after selling **Pizza Hut** for \$2.7bn and announcing a new \$4bn share buyback programme.

Healthcare ended the period 2.95% lower. **UniQure** jumped after filing a BLA (*Biologics License Application*) for its AMT 130 treatment of Huntington's disease. **IQVIA** and **Leidos (LDOS)** both fell on broker downgrades.

Financials gained 0.39%. Investment banks were boosted by **SpaceX's** mega IPO and the **FOX- ROKU** deal. **Fiserv** bounced on executive share purchases. **ME Group** fell on news its CEO had left and **Robinhood**, despite record trading volumes, was lower after announcing redundancies.

Emerging markets

The MSCI EM was up 4.36% in USD as of Thursday. Korea, Taiwan and India gained 11.95%, 5.21% and 3.49% while China, Brazil and Mexico were down by 2.76%, 2.48% and 0.53%, respectively.

In China, May activity data was split with retail sales falling 0.6% YoY - the first contraction since the 2022 reopening - and Jan-May fixed-asset investment shrank a deeper-than-expected 4.1%, even as industrial output held at +4.5% on the export and tech boom. **Xiaohongshu**, seen as China's Instagram, is said to be preparing a confidential Hong Kong IPO filing by end-June at a sought-after valuation above \$70bn, and **DeepSeek** secured \$7.4bn at a \$50bn+ valuation. **ANT GROUP** is testing an AI agent upgrade for Alipay.

In **South Korea**, June 1-10 exports surged 85.9% YoY. The Korea-US Strategic Investment Corporation was launched to implement Seoul's US investment pledge, with the US Senate also backing submarine-manufacturing cooperation. **Hyundai Motor Group** will reportedly buy **SoftBank's** remaining 9.65% of **Boston Dynamics** for \$325m. and **SK Hynix** shipped HBM4E samples to major customers.

In **Taiwan**, the CBC sees 2026 exports growing 20.05% with momentum into the second half. **TSMC** and **Amkor** signed a 10-year deal to build an advanced packaging plant in Arizona.

In **India**, May CPI surprised on the low end at 3.93% (est. 4.02%) but WPI jumped to 9.68% from 8.30% on Iran-war energy costs and a widening retail-vs.-factory gap. The RBI removed interest rate ceilings on 3-5 years foreign currency deposits by non-residents. **Reliance Industries'** digital unit **Jio Platforms** and the National stock exchange filed its draft red herring prospectus with SEBI.

In **Mexico**, May CPI fell 0.21% MoM to bring the annual rate to 3.94%. Gross fixed investment extended one of its longest slumps in decades, down 3.1% YoY in March.

In **Brazil**, the central bank cut the Selic rate by 25bp to 14.25%, or in line with expectations, simultaneously raising its 2026 inflation projection sharply to 5.2%. April retail sales missed at -1.5% MoM (vs. -0.6% est). The finance minister flagged concerns over a central bank financial-autonomy bill, as Lula's pre-election stimulus drive collides with the BCB's inflation mandate ahead of October.

In **Colombia**, all eyes are on this weekend's presidential election. Activity remained resilient. In Argentina, we are looking at the MSCI 2026 market accessibility review to come up next week (June 23).



Driven by agricultural products and energy, **Argentina** recorded a \$3.5bn trade surplus in May, a sharp improvement from \$0.6bn a year earlier and well above expectations.

Corporate debt

A choppy week of trading was marked by the provisional agreement between the US and Iran and a promise to open the Strait of Hormuz for at least 60 days. Kevin Warsh's first statement as the new Fed chair adopted a hawkish tone. The result was a flattening of the yield curve in the US and Europe and a drop in WTI to below \$80. The S&P 500 quite logically fluctuated between the good news on oil prices and the Fed's concern over inflationary pressures. The Xover continued to recover and narrowed by around 15bp over the week. On the back of long bond rates, investment grade returned 0.31% over the period, high yield 0.2% and Euro CoCos 0.3%. Favourable market conditions encouraged new issues. There were new deals from **TAP Air Portugal** and **Profine** in high yield, **Orange** in corporate hybrids and in subordinated financial debt, Poland's **PKO** bank sold a Tier 2 bond in EUR.



GLOSSARY

- Investment Grade: bonds rated as high quality by rating agencies.
- High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.
- Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.
- Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.
- Tier 2 / Tier 3: subordinated debt segment.
- Duration: the average life of a bond discounted for all interest and capital flows.
- The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.
- The so-called "Value" stocks are considered to be undervalued.
- EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.
- CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.
- The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.
- AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.
- RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.



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