



Market Flash: Avoiding a monetary policy mistake is still possible

3 July 2026

- **The US-Iran agreement has unblocked oil traffic through the Strait of Hormuz, causing Brent crude to fall to around \$70 per barrel and fuelling the view that the energy crisis is now on the wane.**
- **In the eurozone, prices rose 2.8% over a year, down from 3.2% and less than the 3% expected, whilst in the US, labour market momentum is slowing, with job creation falling short of expectations.**
- **China's PMIs delivered a more reassuring message with strong industrial activity underpinned by foreign demand.**

Following the US-Iran agreement, oil tankers began to move again in the Strait of Hormuz and oil prices fell sharply. Brent crude flirted with \$70, its lowest level since the conflict began, and hopes rose that the energy shock was nearing an end. The oil price drop helped inflation expectations fall and investors started to push geopolitical risk into the background.

Attention then turned to the ECB's annual forum in Sintra. The new Fed chair said inflation expectations had moderated but he insisted the bank was determined to get inflation down to 2%. ECB chair Christine Lagarde said the balance between growth and inflation risk had improved but she reminded the forum that price stability was a priority.

June's inflation data for the eurozone backed up her comments. Prices rose 2.8% over a year, down from 3.2% and less than the 3% expected. This moderate increase was largely due to energy prices retreating. They rose 8.7% over a year, down from 10.8% in May. Underlying inflation, ex energy and food, also fell from 2.6% in May to 2.4% when analysts were expecting 2.5%. The drop was driven by services only rising 3.2% after +3.5% previously.

In the US, the labour market remained robust but momentum started to slow. JOLTS data said new job openings were stable in May, unemployment fell from 4.3% to 4.2% and wages rebounded. However, non-farm job creations were below expectations (57,000 vs. 115,000 expected and 129,000 in May) with a downward revision to 74,000 for the last two months.

Elsewhere, Donald Trump rekindled trade tensions by threatening to impose tariffs of up to 100% on any country introducing taxes on digital services. At the same time, the Supreme Court reaffirmed the Fed's independent status by declaring that the president could not sack Lisa Cook. The decision reassured markets on monetary policy continuity.

In the UK, future PM Andy Burnham said he wanted to avoid worsening government finances even while making huge efforts to re-industrialise the country and reinforce public services. However, the Bank of



England will have to deal with a less favourable situation than in Europe: slowing activity, rising unemployment and soft hiring.

China's PMIs delivered a more reassuring message with strong industrial activity underpinned by foreign demand. Domestic demand, however, is still fragile and it seems Beijing thinks fresh stimulus is not required despite the global energy shock.

We continue to favour equities, especially US and emerging country markets as they boast solid economic fundamentals and positive earnings prospects. We have also upped our exposure to gold stocks as investors are now less worried about an imminent Fed hike. In fixed income, we prefer credit to duration and we are negative on the dollar following the June rebound.

European equities

European markets had another up week with performance drivers gradually moving beyond the artificial intelligence theme into other areas.

Sectors like defence, financials, industrials and healthcare performed well thanks to more favourable economic prospects and improving investor sentiment. Providing confirmation that the labour market was resilient, unemployment in the eurozone came in at 6.2%, or slightly lower than expected.

But the big news this week came from Germany where the government reached a vast reform agreement designed to restore the country's competitive edge. The plan is viewed as the most ambitious programme since the Hartz reforms in the early 2000s. It combines tax cuts, administrative simplification, labour market reform and targeted support for industrial investment. The various measures still have to be approved by parliament but the agreement by the coalition government significantly reduces political risk and could help Germany's growth move back above 1% from 2027.

In company news, M&A developments again stole the limelight. **Schneider Electric** boosted its positioning in industrial AI by buying Norway's **Cognite** for \$3.1bn. The acquisition will allow the French group to integrate software to leverage industrial data in agentic AI applications. **Basic-Fit** continued to expand in Germany by acquiring **WellYou**, reinforcing its network by close to 50 % in a market which is seen as one of the group's main growth drivers. **Bureau Veritas** continued to prune its portfolio by selling its oil, petrochemicals and coal activities. **CMA CGM** could be interested in buying M6 from 2028.

In defence, **Saab** announced a contract for 16 Gripen E combat jets for Ukraine. But snags for European cooperation resurfaced with a new disagreement over the Eurodrone programme, only a few weeks after tensions over the FCAS project.

In the luxury sector, **Kering** sounded a cautious note in a pre-close call. Management said the leather goods recovery was turning out to be slower than thought. In contrast, **Maersk** boosted its EBITDA targets by 50% thanks to continued strength in shipping, particularly in Asia. **SAP** said it wanted to reduce hiring and business travel to accelerate AI investment. **JCDecaux** renewed its contract with Heathrow for another 8 years, a token of its strong premium assets.



US equities

US equities had a mixed week: the S&P 500 rose by 0.58%, the Nasdaq Composite by 0.04%, whilst the Russell 2000 fell by 0.47%. This divergence reflects a market rotation against a backdrop of profit-taking in the semiconductor sector (-7.91%) following an exceptional quarter (+98%).

Against this backdrop, the *momentum* factor, largely driven by semiconductors, has shifted towards the healthcare and industrial sectors. **Meta** announced the launch of a *cloud computing* business aimed at selling surplus capacity from its data centres, whilst **Apple** is in talks with the US government regarding the purchase of Chinese memory chips, illustrating the group's difficulty in absorbing rising component costs, particularly for memory. These developments raise questions about the tech giants' AI capital expenditure levels.

US telecoms operators, including **AT&T**, **Verizon** and **T-Mobile**, came under pressure following rumours of a partnership between **SpaceX** and **Charter Communications**, according to which Charter would route some of Starlink's telephone traffic via its terrestrial infrastructure.

The healthcare sector stood out with a 1.79% rise, driven by sector rotation and robust M&A activity. **Vertex Pharmaceuticals** benefited from FDA approval for the expanded indication of its CASGEVY solution in the treatment of sickle cell disease. The French biotech firm **Abivax** carried out a \$920 million capital raise in the United States, exceeding the \$600 million initially envisaged.

Financial services rose significantly (+3.46%). The sector is benefiting from the easing of macroeconomic stress tests, the prospect of a less restrictive Fed and a renewed appetite for risky assets.

Private credit remains under scrutiny against a backdrop of liquidity concerns and limited redemption mechanisms in certain vehicles. Two *private credit* funds managed by **Blue Owl** came under pressure from redemption requests totalling 19% and 38%, forcing the company to cap redemptions at 5%.

Emerging markets

MSCI EM was down by 1.17% as of Thursday in USD. Taiwan and China were up by 5.58% and 2.27%. Korea, Mexico, India, and Brazil were down by 11.88%, 0.33%, 0.28% and 0.27%.

In **China**, June official PMI gauge rose to 50.3 and non-manufacturing PMI climbed to 50.2, exports continue to offset weak domestic demand. Regulator approves **Unitree Robotics'** IPO plan. On the biotech side, over 500 drugs passed initial review for 2026 national insurance coverage. China and EU agree to establish a joint monitoring mechanism to maintain the stability of global supply chains. **Xiaomi**, **OPPO** and **Vivo** reportedly cut smartphone shipment targets by up to 30% on high memory price impact. **CATL's** lithium mine obtained its safety production license to restarting output, and meanwhile its **Ford**-partnered US plant also began production. **Baidu's** chip unit **Kunlunxin** is planning a **HK** IPO at a \$50bn target valuation.

In **South Korea**, June exports surged +70.9% Y/Y (est. +60.9%) – the strongest growth in nearly 50 years – on a +200% increase from semiconductor. President Lee formally launched the "Three Mega Projects": **Samsung** and **SK** will each build two fabs in southwest Korea for a combined \$518bn, within a \$880bn programme spanning chips, AI data centers and physical AI, targeting a doubling of DRAM capacity within five years, in line with previous memory makers guidance.



In **Taiwan**, the Cabinet approved a 4% public-sector pay raise for 2027 (entry-level up to 9.98%), citing strong growth, rising inflation and higher private wages.

In **India**, Government is allowing four Chinese power-equipment makers with local factories (**TBEA**, **Nanjing Electric**, **New Northeast Electric** and **Taikai**) into government tenders for critical power projects. Japanese PM Takaichi signed energy-security, AI and critical-minerals pacts with Modi in New Delhi, explicitly framed around reducing dependence on China. **DMart** missed Q1 FY27 revenue, +15.1% Y/Y vs. estimates of 19%.

In **Mexico**, US formally opted against a 16-year renewal of USMCA, shifting to annual reviews. The agreement stays in force through 2036 absent an exit.

Brazil begins rolling back fuel subsidies as oil prices fall. **Boliden** confirmed talks to acquire **Votorantim's** 64.7% stake in Nexa.

In **Argentina**, **Globant** announced an alliance with **Anthropic**.

In **Peru**, Keiko Fujimori won Peru's election. June inflation above expectation at 4.5%yoy. Peruvian banks reported stronger credit growth at 7.6% in April driven by consumer and commercial lending.

Corporate debt

Trading remained calm on credit markets despite sector rotation on equity markets. EUR IG and HY returns were generally flat over the period.

Following June's weaker-than-expected jobs data, 10-year US Treasury yields rose from 4.45% at the beginning of the week to 4.48% on July 3. Yields on the equivalent German Bund rose from 2.85% to 2.91% as the yield curve steepened. Eurozone inflation for June came in below expectations, reducing expectations for an ECB hike. Swaps are now only pricing in a 13bp rise by September, down from 15-18bp at the beginning of this week.

The EUR IG index was practically flat with an OAS spread at 80bp and 3.5% in yield. The EUR HY ex financials index was little changed with a 3bp rise in the OAS spread to 291bp and 6.20% in yield. European credit largely resisted tech stock weakness.

The previous week ending June 26 had seen record issuance for the month with **Constantia Flexibles'** €500m bond and **Vodafone** Spain's €1.1bn issue among the headline deals. The new issues market was much calmer this week, the slowest week since mid-June. Deals included **doValue SpA** (BB/BB) with a €60m private placement of a senior secured bond at 5.375% due 2031 and **Heathrow Finance PLC** (B1/BB+) which raised £350m with a senior secured bond at 6.5% due 2030.

In financials, **Société Générale** raised €2bn with a senior preferred bond in two tranches.



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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