



# Market Flash: A pivotal moment

5 June 2026

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- **In the eurozone, inflation rose to 3.2% in May (up from 3.0% in April) and producer prices rebounded to 4.9%, reinforcing expectations that the ECB will raise interest rates on 11 June.**

Last week's hopes that a ceasefire would soon be signed were dashed by developments. Washington's demand that Iran commit seriously to give up on its nuclear weapon ambitions, along with an escalation in the Lebanese conflict, led to fresh tensions and Iranian strikes. Lebanon and Israel reached a ceasefire agreement, but Hezbollah rejected the deal. Despite the uncertainty, the market is convinced that discussions will be successful, a situation reflected in Donald Trump's statement that we are in "the middle of final negotiations" to end the Iran war. The US president suffered domestic pressure after a (non-binding) vote in the House of Representatives to curb his financial and diplomatic leeway and end the conflict. The vote went through thanks to the support of a few Republicans.

The prices index in the manufacturing and non-manufacturing ISM stayed high at 82.1 and 71.3 in April. And the Trump administration's plans for new tariffs ranging between 10-12.5% on 60 countries for failing to fight against forced labour are unlikely to reduce this inflationary pressure. The new tariffs are set to take effect at the end of July when the current tariffs end. Elsewhere, activity improved. Manufacturing ISM rose to 54 in May from 52.7 and non-manufacturing came in at 54.5 vs. 53.6. These figures were due in part to stockpiling amid political uncertainty. Labour market data was also better than expected. JOLTS job openings jumped to 7.618 million in April, up from 6.887 million in March while ADP said job creations were 122,000 in May vs. 109,000 in April. All this reinforces the probability of the Fed raising rates before the end of the year.

In the eurozone, inflation rose, as expected, to an annualised 3.2% in May, up from 3% in April. But Germany's inflation fell from 2.9% to 2.6% thanks to government measures. Producer prices rebounded sharply from 2% in April to 4.9% in May. Composite PMI came in at 48.5, or better than the 47.5 expected. However, retail sales fell 0.4% in April. So, expectations for a June rate hike by the ECB have been reinforced.

In Japan, central bank governor Kazuo Ueda opened the door to a rate rise in June to counter inflation.

Pending an agreement to reopen the Strait of Hormuz, we still like equities for the medium term but remain hedged in case talks fail. We continue to be upbeat government bonds and corporate debt but we are keeping a close eye on short term inflation risks.



## European equities

Trading was dominated by Europe's technology sector with news on reinforcing digital sovereignty, developing AI infrastructure and adjustments to equity indices.

The European Union unveiled its Chips Act 2.0 which seeks to reduce technological dependence on other countries. The plan aims to boost supply through building new production capacity and industrialising strategic technologies. It also wants to drive demand with government procurement, AI infrastructure and data centres. The shift was mirrored in adjustments to the STOXX Europe 600 index. Companies like **Soitec**, **AT&S**, **Comet** and **Inficon** which have high exposure to technology and chips were added. The only significant economic news this week was unemployment in the eurozone which came in at 6.3%.

And there were only a few quarterly earnings reports. In consumption, **Inditex** had a good quarter with sales and margin growth both beating expectations. The second quarter has got off to a particularly good start with an 11.5% jump in sales. **Rémy Cointreau** halved its dividend but guidance suggested growth would return in 2027 even if the environment is still tricky for cognac. In digital advisory and services, **Wavestone's** upbeat figures were driven by AI, a theme which now accounts for 17% of group sales, or more than double the level of sales a year ago. Management did, however, point out that AI could gradually replace close to 15% of its activities.

In strategic news, defence group **Rheinmetall** won a €5.7bn contract from Romania for armoured cars, air defence systems and munitions. **CSG's** CEO openly discussed being interested in taking a stake in **KNDS**. In business software, **Wolters Kluwer** announced a partnership with OpenAI to combine proprietary databases with LLM.

The data centre and electrification themes stayed centre stage. **STMicroelectronics** ramped up the outlook for its data centres this year and next. At the Choose France summit, **SoftBank Group** said it was looking at investing €87.5bn in AI infrastructure in France. **Siemens Energy** unveiled a €1bn share buyback programme and French quantum start-up **Quobly** raised €115m from a number of industrial investors including STMicroelectronics and **Air Liquide**.

## US equities

In a market still in thrall to AI and Middle East developments, Wall Street took a breather after several up weeks. The **S&P 500** was practically flat (+0.06%) and the **Nasdaq Composite** slipped 0.53% but the **Russell 2000** gained 0.55% as cyclicals swung back into favour. Investors had to juggle with the continuing AI rally, rising Treasury yields at the beginning of the week and a constant flow of equity issuance (fund raisings, IPOs and M&A).

Tech remained in focus but with increasing selectivity. **Nvidia** gained more ground on news on its RTX Spark chip for PCs which was presented as a new stage in bringing AI agents to the general public. The stock was also lifted by a reinforced partnership with **Microsoft** to market a complete AI solution combining Nvidia's chips with the Azure cloud. The group also approved **Micron**, and several Asian producers, as suppliers of HBM4 memory chips for its future accelerators, providing confirmation of the sheer scale of the data centre investment cycle. Elsewhere, **Marvell Technology** jumped after Nvidia's CEO said it might be the next trillion dollar company. Results at **Hewlett Packard Enterprise** surprised on the upside and guidance was boosted by demand for AI servers and progress in attaining its financial targets. In sharp contrast, **Broadcom** and several cybersecurity and software play like **CrowdStrike**, **Palo Alto Networks** and **GitLab** showed that investors were becoming more and more demanding. Despite robust figures and raised guidance, the bar set by the recent rally is deemed too high and the stocks were hit by profit taking. Meanwhile, the AI ecosystem continued to take shape



with companies like **Anthropic** and **AlphaSense** getting ready to list, a development which is fuelling the idea of more and more growth stock supply.

Energy was one of the best performing sectors even if oil prices retreated at the end of the period. The previous WTI rebound due to persistent Middle East tensions underpinned major oil and oil services stocks. And the fall back in oil prices at the end of the week helped energy-sensitive stocks like **Norwegian Cruise Line**.

Industrials and financials also gained ground. In financials, despite the group limiting redemptions in some of its private credit funds, **Blackstone** gained on strong inflows, especially in Asia. Major banks and insurance companies are benefiting from a persistently favourable macro environment while listed property and materials are being lifted by some relative easing in long bond yields.

Healthcare was underpinned by reassuring results and broker upgrades. **Medtronic's** results beat expectations and management sounded more confident on like-for-like growth. As a result, several brokers issued upgrades. **UnitedHealth** gained due to fewer claims and improved visibility on future results. **Oscar Health** soared after positive comments on the quality of its members.

Consumer discretionary and communications services were the worst performing sectors. Consumer discretionary was hit by cautious consumer pointers. **Victoria's Secret** jumped after sweeping past expectations and raising guidance but **Shake Shack, PVH, Five Below** and **Lululemon** sold off after cutting targets and sounding a more cautious note on demand. This suggests a K-shape divide in consumer spending and greater sensitivity to the macro environment.

In communication services, **Meta Platforms** held up thanks to the launch of its new AI agent on WhatsApp and positive comments on how it is making its AI offers pay. **Alphabet** fell on expectations its fundraising will dilute earnings and questions over its investment efforts. Telecoms like **Verizon** remained under pressure. **SpaceX's** future IPO and **Starlink's** development have rekindled questions over connectivity competition. AI is the market's main driver but there is increasing selectivity and more episodes of sector rotation.

## Emerging markets

The MSCI EM was up 0.44% in USD as of Thursday's close. Taiwan, China, and Korea gained 1.38%, 1.37% and 1.24%. Brazil, India and Mexico were down 2.7%, 1.72% and 1.45%, respectively.

In **China**, official manufacturing PMI slipped to 50.0 (from 50.3) while non-manufacturing recovered to 50.1, signalling uneven demand. April industrial profits surged +24.7% YY — the fastest since November 2023 — but the K-shape widened: electronics earnings more than doubled (+107.7% YTD) and non-ferrous metals +117.8%, while auto profits fell 16.8% YTD amid "involution" pricing wars. The PBoC let the 1-year MLF rate fall to a record-low of 1.45%. Xi Jinping will visit Pyongyang June 8-9, his first trip since 2019. **Tencent** reported it is testing a WeChat AI agent with a compliance filing as early as June. **Meituan** beat consensus with food delivery turning profitable in March and second-quarter breakeven guidance.

In **South Korea**, Exports grew 53.2% YoY in May, or ahead of expectations of 49.3%. Imports grew 20.8% YoY, or below expectations of 21.5%. At COMPUTEX, **SK Hynix** Chairman Chey announced a plan to double wafer capacity over five years. **Nvidia** CEO confirmed that Samsung, **SK Hynix** and **Micron** were all qualified to supply HBM4 for the Vera Rubin platform. **LG Electronics** will reportedly buy 10,000 Nvidia Blackwell GPUs to accelerate its AI push.

In **Taiwan**, Foxconn announced a partnership with **Intel** on AI infrastructure and custom chips. The US lifted Section 232 duties on derivative aluminium, steel and aircraft components from Taiwan as part of the \$250bn partnership. The government pledged NT\$20B for a domestic robotics supply chain.



In **India**, the RBI held the repo rate at 5.25% unanimously with a "neutral" stance (in line with consensus). In a coordinated move, the government cut FII bond capital-gains taxes and the RBI unveiled concessional FX swap facilities and expanded the pool of foreign-eligible bonds. The RBI separately transferred a record ₹2.87 trillion surplus to the government for FY26 (+7% YoY), providing a fiscal cushion as growth risks mount.

In **Mexico**, the government launched USMCA renegotiation with the US and Canada ahead of the July 1 review, confirming that USMCA-compliant goods (~85% of US exports) would be exempt from Trump's proposed 10%+ tariffs, with cars, steel and aluminium unaffected.

In **Brazil**, the US trade representative proposed 25% tariffs on a broad range of Brazilian imports. **Petrobras** announced an investment of ~\$12bn in the Sergipe deepwater project, joining the government's diesel subsidy and a 14.2% June aviation-fuel-price cut

## Corporate debt

Markets had a modest risk-off week as the conflict between Iran and the US edged up a notch. On June 1st, Iran suspended peace talks after Israel bombed Lebanon. Oil prices jumped by more than 7% and bond yields rose marginally. Sentiment stabilised in part mid-week even if there was no real detente.

Yields on 10-year US treasuries rose 3bp to 4.48%. The equivalent German Bund yield gained 6bp to 3.02% due to the added pressure of the ECB almost certainly raising rates by 25bp on June 11 after flash inflation for May in the eurozone rose to an annualised 3.2%. The Xover widened by 0.6bp to 285.7, a reflection of caution but no major stress. Cash bonds stayed resilient with EUR HY tightening by 20bp and EUR IG by 2bp.

New issuance was modest with **IQVIA** raising €950m at 4.625% due 2033. In hybrid debt, **SSE** raised €650m in two tranches. The longer tranche was 8 times oversubscribed. **Marex** sold a perpetual bond at 7.7%. In banks, **KBC** raised €500m with a T2 issue at 4.36% due 2036. **UBS** sold an AT1 in USD for the first time since Switzerland announced it was marking a pause in adjusting AT1 regulation. The bank raised \$1.5bn at 6.875% with an end 2032 call attached.



## **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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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré 75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros

AMF Registration number GP 04000015

332.652.536 R.C.S. Paris