



Market Flash: Hormuz calms down and AI runs riot

29 May 2026

- **Diplomatic progress between the US and Iran has eased geopolitical concerns, pushing oil prices back below \$100 a barrel and propelling the S&P 500 to a record high.**
- **US GDP figures for the first quarter of 2026 have been revised downwards to +1.6% on an annualised basis (compared with +2% in the initial estimate).**
- **US investment-grade bond issuance is expected to reach \$2.5 trillion in 2026, with a significant portion coming from hyperscalers.**

The US made targeted strikes on Iran's military sites near to the Strait of Hormuz, rekindling worries energy infrastructure might be destroyed. But significant diplomatic progress then took charge of the narrative. The US and Iran agreed in principle to extend the ceasefire by 60 days with a gradual reopening of the Strait of Hormuz with no tolls. Markets heaved a big sigh of relief and oil fell below \$100 after peaking above \$110. The news offered a welcome relief to inflation expectations and the S&P 500 hit another all-time high.

Elsewhere, first-quarter GDP growth in the US was revised down from 2% to an annualised 1.6%, a clear indication of how the economy has changed since Donald Trump returned to the White House. Household consumption slowed to +1.4%, with goods at an anaemic +0.4% as a result of customs tariffs. The trade balance improved, particularly for goods but this would appear to stem more from strong oil and gas exports than from the White House's tariff policy. The main growth driver is now gross private investment, up by annualised 7%, largely due to AI spending. Residential investment, in contrast, plunged by 6%. Following the previous quarter's shutdown, government spending rebounded by 4.4%. PCE inflation was 3.8% over a year, due to energy prices, while underlying inflation remained around 3.3%. This is a big contrast with eurozone inflation which stayed astonishingly mild in April.

Three major bottlenecks continue to weigh on global inflationary dynamics.

- First, the Iranian conflict has put pressure on commodities. The Strait of Hormuz closure has triggered the biggest oil disruption ever recorded by the IEA: more than a billion barrels have so far been lost. Fertilisers (urea up 26% to 47%) and LNG have suffered significant shortages. Food prices were already under pressure because of the El Niño impact on the climate.
- Second, electronic components are under severe pressure because of the AI capex boom with production capacity being massively transferred to high-performance memory chips.
- Third, demand for funding is accelerating due to companies investing in AI infrastructure and governments seeking to mitigate the consequences of the US-Iran conflict. New IG issuance is expected to jump 11.8% to \$2.5 trillion this year with hyperscalers like Amazon, Microsoft, Google, Meta and Oracle taking up a significant portion. They have already raised more than \$110bn so far this year to fund data centres.

We remain upbeat on equities over the medium term due to resilient tech earnings and the outlook for geopolitical de-escalation. Over the short term, we have maintained hedging to offset any breakdown



in talks. We are still positive on bonds; yields are attractive and the segment has upside should the US-Iran conflict come to an end.

European equities

The consequences from the Middle East conflict dragging on continued to show up in indicators. In France, household confidence once again worsened and the drop was bigger than expected. High energy prices are eating into purchasing power, hitting confidence and spending. As a result, the outlook for France's GDP growth this year looks limited.

In company news, **Soitec**'s results came in as expected. The stock has rocketed since the beginning of this year but management sounded a cautious note on prospects even if the photonics business has continued to accelerate. **Derichebourg** reported robust figures driven by recycling volumes, higher non-ferrous metal prices and improving margins. The autos sector had a bad week, especially after **Ferrari** unveiled its first 100% electric model, rekindling investor caution over high-end EVs. In software, **Capgemini** is looking to bolster its ranking in the AI value chain but has not totally eased disruption fears. **Dassault Systèmes** fell on concerns over its solutions after **Mistral** announced new industrial partnerships. The week also saw several strategic developments. **Saint-Gobain** sold its tile distribution businesses in Scandinavia, **Sopra Steria** is in talks to acquire **Daher Industrial Services**' Manufacturing Engineering business and **Worldline** sold its activities in New Zealand.

US equities

Wall Street rose for the sixth week in a row. The S&P 500 gained 1.21%, the Nasdaq Composite 2,2.18% and the Russell 2000 2.35%, with growth stocks and AI plays driving the trend.

AI remained centre stage. In the tech segment, **Micron (+26%)** moved above the \$1 trillion mark in market cap on strong demand for AI chips and following an aggressive rise in its target price from UBS. **Microsoft** rose on expectations of new AI developments at its Build conference. **Dell** was up on news of a \$9.7bn contract with the Pentagon, reinforcing its position as an IT supplier for major organisations. **Snowflake** rose on a results beat and a strong focus on its AI offers. But **Zscaler**, despite an upbeat quarter, fell on guidance that was deemed too cautious.

Consumer discretionary had a good week. **Best Buy** beat expectations with improved margins. The figures reassured investors on demand for consumer electronics. **Tesla** gained ground after a rebound in new car registrations in Europe fuelled hopes that the EV cycle was recovering after a poor start to the year.

Healthcare (+0.6%) contributed to the market's gains thanks to life sciences and even if its gains were more modest than tech or consumption. Results at **Agilent** swept past expectations with strong revenue growth and better margins. Improved guidance for 2026 was based on the instrument replacement cycle and momentum in cancer diagnostics. **Boston Scientific** saw profit taking after management was more cautious on some product lines. Overall, however, investors still appreciate major pharmaceutical and medical device companies. They are viewed as quality stocks for diversified portfolios in today's more uncertain economic environment.

In contrast, energy underperformed sharply this week, falling around 4.4%. The oil price drop weighed on oil majors. **BP** was the worst hit after its CEO was sacked for alleged governance failures. Groups like **Exxon Mobil** saw profit taking after strong gains in previous weeks. Financials also lost ground. Banks like **JP Morgan** were hit by cautious comments on cost trends and future profitability as lower long-term bond yields reduce net interest margins.



Communication services edged higher, led by **Meta Platforms**. The group is continuing to monetise its platforms thanks to new subscriber offers and increased use of generative AI. But other big names like **Alphabet** were more mixed as investors kept a close eye on the advertising cycle.

Emerging markets

The MSCI EM was up 2.33% in USD as of Thursday. Korea, Taiwan, Mexico and India gained 7.37%, 4.03%, 1.34% and 1.06%. China and Brazil were down 2.04% and 0.84%, respectively.

In **China**, April industrial profits surged 24.7% YoY — the fastest pace in over two years — driven by the AI boom and higher commodity prices. The PBoC let the 1-year MLF rate fall to a record-low of 1.45%, signaling that Beijing is stepping up support after weak April activity. The EU said it would broaden import quotas and tariffs on Chinese steel, chemicals and clean tech. **Huawei** unveiled its “Tau Scaling Law” — a time-based alternative to geometric transistor scaling, targeting 1.4nm-equivalent chips by 2031 with SMIC. **ByteDance** is weighing 2026 capex of up to \$70bn on AI infrastructure and tapped **Qualcomm** for custom AI data-centre chips. **CXMT**, China’s largest memory player, won approval for the largest mainland IPO since 2022, and expects to raise at least \$4.3bn. **Xiaomi**’s profit fell on memory-chip costs and the group announced a HK\$20bn buyback. **PDD** missed on profits as fierce competition and “deep transformations” hit margins.

In **South Korea**, **Samsung**’s union approved a wage deal, averting the 18-day strike threat, with chip staff set to receive average bonuses of ~\$340,000 under a 10-year profit-share scheme tied to semis profitability. **LG Energy Solution** signed a \$1.6bn energy-storage deal with **DTE Energy** in Michigan, capitalising on the US data-centre boom. The National Pension Service raised its domestic equity target to 20.8% from 14.9%, a structural positive for KOSPI flows.

Taiwan achieved 14.55% YoY GDP growth in the first quarter and revised up its 2026 GDP growth forecast to 9.64% from 7.71% thanks to the AI semi buildout. The US formalised a \$250Bbn strategic economic partnership. **Nvidia** CEO Jensen Huang pledged to lift annual spending with Taiwanese suppliers to \$150bn (from ~\$100bn). **TSMC**’s CEO pledged a 30%+ bump in employee profit-sharing as AI profits surge.

In **India**, the RBI’s \$5bn USD/INR buy-sell swap was subscribed nearly 2x, signalling strong demand for dollar liquidity. India and China held border cooperation talks — a further sign of the diplomatic thaw. A high-level US trade delegation is scheduled to visit New Delhi for the next round of Bilateral Trade Agreement (BTA) talks.

In **Mexico**, April’s unemployment rate was 2.46%, or below the 2.69% expected. The central bank cut its estimate for 2026 growth to 1.1% from 1.6% as investment disappointed on trade uncertainty and supply chain disruption. The US and Mexico launched the first formal bilateral negotiating round of the USMCA.

In Brazil, annual inflation accelerated to 4.64% in early May and inflation expectations for 2028 have continued to deteriorate, according to the central bank monetary policy director. The federal government and the Federal District (Brasília) reached a deal to recapitalise **Banco de Brasília** (BRB). The Lower House approved a constitutional amendment ending the “6x1” six-day work week.

Corporate debt

In another week dominated by the US-Iran conflict, volatility remained high. At the beginning of the week, bond yields retreated on apparent disinflation. But fresh US strikes on Iran on Wednesday and Thursday rekindled tension, sending equity markets lower and Brent crude higher for a day. Risk appetite returned on Friday morning when a provisional ceasefire extension was announced.



10-year US Treasuries traded around 4.48% mid-week while the 10-2 -year yield curve steepened by 49bp. Yields on Germany's 10-year Bund were at 3.03% on Friday May 22, fell to 2.98% the following Wednesday and moved back up to 3.00% on the following day. At the same time, the Bund/US spread narrowed to a 9-month low of around -151bp.

Euro HY spreads tightened by 2bp to 284bp on Wednesday with a yield of 6.20%. In a holiday-shortened week, the new issues market saw more than €50bn in deals to hit a new record for May.

In Euro corporate HY, the Bloomberg Pan-European High Yield (ex-Financials) index was at 416.17 as of Wednesday (+0.09%), taking monthly returns to 0.71%. Among headline new deals was **PolarDC** which raised €800m at around 8.2% (E+600bp) due June 2030, a record for the Nordic HY segment. **Co-Operative Group**, (BB-) raised £350m at 8.25% due December 2031.

Euro IG returned 0.36% over the week.

The corporate hybrid market saw sustained demand amid tight spreads. Property company hybrid debt rebounded. Subordinated financial debt remained active with major names taking advantage of a window of opportunity before the month end. **AXA** raised €750m with a Tier 2 bond due 2056. The coupon will be fixed at 4.375% up to May 2036 and then will be set at 3-month Euribor +240bp. **SCOR SE** raised €500m at 4.510% with a Tier 2 bond due June 2036 and the deal was accompanied by a €750m tender for the 2047/48 subordinated bonds. **Generali** raised €750M with a Solvency II Tier 2 bond. **Santander** sold a perpetual AT1 bond at 7.25% with a 10-year call.

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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