



# Market Flash: Are we heading towards a surprise Iran v US semifinal?

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- **The latest economic data and comments from some Fed governors mean we still cannot rule out a rate hike at the end of July so real interest rates have moved towards new highs.**
- **We have turned positive on government bonds as Central bank risk is now largely discounted.**

The Middle East conflict had gradually been receding into the background but the resumption of hostilities between Washington and Tehran caught investors off guard and rekindled fears that the Strait of Hormuz would once again be blocked. These fresh tensions stem from the Iranian regime's determination to take control of shipping through Hormuz, attacking ships which do not respect its conditions. Since the ceasefire, sporadic skirmishes between both sides had largely been underplayed but this time oil prices surged to close to \$80 and gas flirted with €50/MWh, albeit partly due to reduced supplies because of Asian competition and disruptions to Norway's production.

European equities had outperformed since the middle of May but no longer: investors have once again turned to the US. And yet Wall Street is still struggling with tech sector difficulties even if they are due more to investor positioning than to fundamentals: this week's earnings, for example, came in sharply better than expected but the sector still saw profit taking. The rest of the US board continued to find favour with investors amid sector rotation and persistently upbeat economic momentum. So much so that even rising bond yields had no impact. The latest economic data and comments from some Fed governors mean we still cannot rule out a rate hike at the end of July so real interest rates have moved towards new highs. Nevertheless, we reckon that the Fed's dovish voting members are still in the majority so the bank should leave rates unchanged, pending any knock-on inflation from the energy shock that would require it to tighten. The Fed will also continue to keep an eye on inflation pressure from AI investments and the impact of surging chip prices on consumer goods. China's price index showcased the problem this week. Prices in tech-related items rose significantly but prices dependent on domestic demand continued to fall back. In Japan, where inflationary pressure is essentially due to the weak Yen, the finance minister said he wanted to encourage Japanese pension funds to invest more in domestic assets. If they do, the Yen could rise.

The risk of the Bank of Japan intervening to support the yen means we are staying neutral on Japanese equities. Instead, we prefer US and emerging country equities. We have also turned positive on government bonds. Central bank risk is now largely discounted and the potential for easing is considerable if caution ends up winning. We are also upbeat on investment grade and high yield bonds. We remain underweight on the dollar.



## European equities

Trading on Europe's equity markets was mixed with sentiment hit by fresh Middle East tension and, despite some reassuring indications at the end of the week, worries over AI momentum. Investors also had to contend with the ECB's cautious tone. The bank is more focused on knock-on inflation from wages than on risks to growth. In France, the court ruling on Marine Le Pen failed to stop her decision to stand for the 2027 presidential election even if she has to wear an electronic tag. The news has so far had no impact on the French market but political risk will need to be monitored as we approach the election period.

In company news, the autos sector remained under pressure. First-half sales at **Porsche** tumbled 16%. The group was hit by its decision to stop making certain iconic internal combustion models, by reduced US government aid for EV purchases and by a 32% plunge in its sales in China. In the bank sector, private credit remained under watch. **HSBC** wants to tighten up lending to the riskiest segments. **UniCredit** moved a step further in its move on Germany's **Commerzbank** and now holds 47.59%. **Airbus** confirmed strong operating momentum with a 40% increase in deliveries in June. The group has now delivered 351 planes so far this year. In line with its decarbonisation strategy, it also announced a joint venture with **MTU Aero Engines** to build and market an electric engine. Elsewhere, **Accor** strengthened its presence in China and now expects to almost double its network with plans to run 1,600 hotels in the next 5 to 6 years. The group is clearly confident in the future of tourism in the country. In defence, **Thales** revised up its outlook for its order book this year thanks to strong growth. The group also bought the Gorgé family's stake in maritime drone specialist **Exail**. **Renk** acquired **David Brown Defence** to consolidate its naval activities.

## US equities

Wall Street continued to be driven by the AI theme but the week also saw US-Iran tensions escalate and signs that the Fed was divided on policy. Returns were mixed. The S&P 500 and Nasdaq 100 edged 0.1% higher, the Russell 2000 slipped 0.6% and the Dow ended 1.1% lower. Trading in semiconductor stocks was volatile, defensives proved resilient and small caps came under pressure due to persistently high interest rates. The end of the US-Iran ceasefire on July 8 seriously disrupted shipping in the Strait of Hormuz and Brent crude surged briefly to \$78-80, rekindling inflation worries. Elsewhere, the FOMC minutes and the NY Fed Survey confirmed that the Fed was more divided as rising inflation expectations weigh on interest-rate sensitive sectors and energy prices.

Semiconductors were volatile but still outperformed after overcapacity risk fell on news of an \$30bn+ **Apple-Broadcom** multiyear agreement to make chips in the US. **Meta** launched Muse Image and announced Muse Video, a new suite of content generation models within Meta AI. The group also said it wanted to double its compute capacity. **SK Hynix's** ADR listing in the US was oversubscribed 7 times, a token of investor appetite for AI memory infrastructure.

## Emerging markets

The MSCI EM was down 2.61% in USD as of Thursday. China and Brazil were up 3.22% and 0.28%. Korea, Taiwan, Mexico and India were down by 8.92%, 3.52%, 1.56% and 1.17% respectively.

In **China**, June CPI came in weaker than expected — both headline and core slowed more than forecast to 1% YoY, while PPI was 4.1% YoY. RatingDog services PMI reading was 54.1, ahead of the estimates of 53. The authority updated its national essential medicine list for the first time in 8 years, significantly



expanding its scope. CXMT, China's largest memory player, is set to launch a \$4.3bn IPO next week. China reportedly plans to allow top AI companies to buy limited quantities of Nvidia H200s, while DeepSeek is reportedly developing its own inference chips to cut dependence on foreign hardware. Alibaba's quarterly preview came in ahead of market expectations, boosting sector sentiment. Two AI model companies, Minimax and Zhipu, launched multibillion dollar deals right after lock-ups expired.

In **South Korea**, Samsung Electronics' preliminary Q2 operating income came to ~\$58bn, surging 19-fold YoY and beating the consensus. SK Hynix raised \$26.5bn in its Nasdaq ADR IPO, the largest-ever US first-time share sale by a foreign company. Hyundai Motor unions plan a partial strike July 13-15. They are demanding 30% of net profit as a bonus.

In **Taiwan**, June exports rose ~40% YoY — decelerating from May's 51.7% and below the ~50% consensus.

In **India**, Services PMI was 57.4 vs. a previous reading of 57.3. Modi's Australia visit clinched the deal for Australia to sell uranium to India for civilian nuclear power after more than 10 years of negotiations, alongside defence and energy agreements. ONGC approved a 1.75mn-ton expansion of strategic crude reserves in Mangalore, reflecting post-Iran-war energy-security priorities. TCS Q1 FY27 net profit was broadly in line and revenues were slightly ahead of expectations; management guided for AI to contribute ~20% of sales within 4-6 quarters.

In **Mexico**, the June CPI print was 3.37% YoY, the lowest since 2020 and well below the 3.50% consensus. Semptra Infrastructure's Energia Costa plant exported its first LNG shipment— a milestone for Mexico's LNG export ambitions and a relief for global markets grappling with Iran-war supply disruption.

In **Brazil**, the finance minister flagged the removal of gasoline subsidies — partial or full — as the next fiscal step, with timing hinging on the oil-price outlook amid Middle East uncertainty. The government extended the 12% oil export tax for another 60 days to protect domestic refining conditions. The Mercosur-Singapore FTA ratification (zero tariffs on 100% of Brazilian exports to Singapore) takes effect August 1.

## Corporate debt

The week began on a constructive note, with European equities reaching all-time highs. However, sentiment proved fragile as the days progressed. The situation deteriorated mid-week after President Trump declared the Iran ceasefire "over" on July 8 following fresh US airstrikes. The market reaction was immediate, sending the iTraxx Europe IG index up 1.25bp to 52.3bp in a single session. The Crossover index widened by 6.7bp to 248.3bp. Nevertheless, markets partially recovered on Thursday as oil prices retreated. Encouragingly, chipmakers rebounded, while talks between Washington and Tehran were reportedly still ongoing. Rates were highly volatile driven by geopolitical inflation fears, ECB repricing and worries about European government spending. Despite those moves, cash credit proved remarkably resilient with all indices posting positive excess returns.

Primary markets were active. **Amazon** issued nearly \$30bn in senior bonds. In HY, familiar names like **Loxam**, **Picard**, **Cirsa** sold bonds. In hybrids, **Energy transfer** issued a dual tranche. In line with a recent trend, more gulf banks issued AT1 debt. In High Yield, the **Cerved/ION Platform** complex started to recover, supported by good results from ION. In Emerging Market corporates, Colombian names like **Promigas** and **Banca Davivienda** were among the top performers.



## **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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