

# Markets are banking on a — de-escalation in the Middle East

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Financial markets ended May on a positive note, buoyed by continued enthusiasm for artificial intelligence and growing hopes of a de-escalation in the Middle East.

## Towards an extension of the ceasefire?

The main factor providing support remained the anticipation of an agreement between Washington and Tehran. Although the negotiations were punctuated by contradictory statements and military incidents, the markets focused on the signs of openness. Talks between the two countries are said to have progressed towards a protocol providing for a 60-day extension of the ceasefire and a resumption of negotiations on Iran's nuclear programme. Investors have gradually priced in the prospect of a return to normal traffic in the Strait of Hormuz. This prospect contributed to a further easing of oil prices, with Brent falling by around 9% over the week. Despite this correction, prices remain well above their levels at the start of the year (+49%), a reminder that the risk of inflation has not disappeared. This easing in the oil market has led to a slight decline in bond yields. The yield on the 10-year US Treasury note has thus returned to around 4.46%, following the tensions observed in recent weeks. Investors remain concerned about the US economy's ability to absorb inflation that is sustainably above the Fed's target, and the likelihood of a rate hike by the end of the year is increasing.

## A concentration of risk in the technology sector

Economic data released last week confirms this scenario of economic resilience accompanied by persistent inflationary pressures. The PCE index, the main inflation indicator tracked by the Federal Reserve, rose by 3.8% year-on-year in April, compared with 3.5% the previous month. This acceleration is mainly due to the rise in energy prices observed during the spring. At the same time, US consumer confidence came in slightly above expectations, confirming the resilience of domestic demand. Against this backdrop, US equity

markets continued their upward trend. The S&P 500 and the Nasdaq 100 hit new record highs, driven almost exclusively by artificial intelligence-related stocks. As a result, the markets appear increasingly focused on a small number of technology stocks, which makes them more sensitive to any disappointment in this sector.

In Europe, markets also rose, but more moderately. Investors remain faced with weaker economic growth and a less favourable monetary outlook. The ECB remains concerned about inflationary risks and further monetary tightening cannot be ruled out. This caution has limited the upside potential for European equities despite the improvement in the energy outlook.

Over the week, the S&P 500 rose by 1.44% and the Nasdaq by 2.39%. In Europe, the Euro Stoxx 50 fell by 1.33%, whilst the SMI remained virtually unchanged at 0.29%. Investors' attention this week will focus mainly on diplomatic developments between the US and Iran, as well as on upcoming US macroeconomic data releases.

Any confirmation of a gradual reopening of the Strait of Hormuz could prolong the easing of oil market tensions and support risk assets. Conversely, a resumption of hostilities would immediately reignite inflation fears and weigh on bond markets.

## Swiss Market Index (SMI)

The SMI touched 13,700 points during the week and is now entering a period of slight consolidation that could see it fall back to 13,300 points.



## Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.78	0.91	13'542.66	6'050.54	25'104.70	8'183.34	10'409.28	7'580.06	26'972.62	66'329.50	1'752.15
Trend	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
YTD	-1.46%	-2.18%	5.07%	6.69%	2.51%	2.66%	6.55%	11.25%	16.34%	32.79%	25.73%

(values from the Friday preceding publication)

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