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Last week

The global equity market rally is expected to broaden as a US-Iran deal reopens the Hormuz strait. Overweight view on Asia ex-Japan and semiconductor equities and upgraded Euro area equities to a core holding.
Overweight global equities, given solid earnings outlook and a likely US-Iran deal to restart shipping through the Hormuz strait. However, taking profit in key outperformers like Asia ex-Japan and rotating into underperforming regions like Europe ex-UK can capture a broadening out of the equity rally.

An agreement between the US and Iran looks increasingly imminent amid growing economic pressure on all parties. A surge in US gasoline prices above USD 4.5 per gallon and President Trump's falling approval rating is putting pressure on the US administration. Meanwhile, the Hormuz strait blockade is pushing Iran's oil industry closer to breaking point. China's latest intervention, urging Iran to reopen the Hormuz strait, could be the final straw that breaks the impasse, leading to a deal.

A restart of Middle East energy flows should lower near-term inflation expectations, bond yields and the USD. While major central banks are likely to hold rates in the near-term, expect the Fed to cut later this year as the latest oil shock hurts growth with a few quarters' lag. Meanwhile, even though the ECB last week set the stage for a June rate hike amid soaring near-term inflation, markets are likely underestimating the medium growth impact from the oil shock. June ECB rate hike and done, against market odds of 2-3 hikes this year. Fed and ECB policy outlook implies bonds in the 5-7-year maturity bucket offer attractive risk-reward for investors seeking to lock in yields.

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