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Resilient fundamentals vs. investor froth

US tariff threats added to Mideast tensions, clouding near-term outlook. Reasons to stay diversified amid stretched investor positioning in equities. The ECB is likely to deliver 25bps hike next week, then pause. US payrolls and inflation data are next catalysts.

Avoiding concentration risks in equities and tech.

Global equity markets scaled back from record highs due to renewed Middle East tensions and US proposal to impose 10-12.5% tariffs against dozens of trade partners. Despite rising consensus upgrades to AI capex assumptions and AI-related price targets, April 2026 upgrade on AI capex was a measured 5-10ppts. Key concerns include funding constraints – as seen from the latest surge in debt issuance and IPOs - and execution bottlenecks around power and infrastructure. Long-term bullish on the AI super cycle but short-term cautious, given pockets of investor exuberance and extremely stretched investor positioning. Equal-weighted global equity index in the near-term and diversification in the tech sector across semiconductors, hardware, internet, and software is preferred.

The ECB expected to deliver a 25bps “insurance” hike next week

This is likely to be followed by a pause to reassess the impact of the Middle East conflict on growth and inflation. Euro area headline inflation rose 3.2% in May, strengthening the case for a hike in June, but core inflation was relatively subdued at 2.5%. Weaker growth — reflected in negative economic surprises readings, contracting PMIs and declining industrial production since the Middle East conflict started — argues against rapid follow-up rate hikes. A prolonged Strait of Hormuz closure could force further action though. Against this backdrop, EUR/USD is likely to trade within the 1.14-1.18 range, with volatility at its lowest since 2020.

US payrolls, inflation data are next macro catalysts

Latest US activity data and subdued jobless claims suggest US private payrolls for May are likely to post another month of solid gains, potentially pushing the unemployment rate down. However, beneath the labour market's resilience, real disposable incomes are falling and the savings rate has dropped below 3%, close to the lowest in recorded history, signalling growing stress among households amid rising energy costs. Given these conflicting pressures, expect the Fed to stay on hold for now.

A solid payrolls data, followed by any further acceleration in inflation (May data due next week) would strengthen the hawks in the Fed policymaking committee. US government yields face tension between firm economic data and inflation and fiscal policy risks and crowded short positioning. 5-7-year maturities in bond allocations, while hedging inflation risks with inflation-protected bonds is preferred.

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