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Eye on earnings as Iran tensions return

Another quarter of strong US earnings is likely to offset renewed Middle East uncertainty.

Summary

The upcoming US Q2 earnings season is likely to confirm a broadening of growth beyond the tech sector. While Middle East tensions remain an overhang, broadening of earnings are likely to drive equity market rotation across sectors and regions.

Controlled escalation in the Middle East

The latest flare-up in the Middle East as a controlled escalation aimed at domestic audiences. While Iran seeks to control the Hormuz strait and keep oil prices elevated to maintain political pressure on the US, President Trump is likely to be constrained by the need to keep oil prices subdued ahead of November's mid-term elections. Thus, US oil prices can be seen trading in the USD 70–90/bbl range in the near term. The main risk is a re-escalation after the mid-term elections, however the likelihood of a divided Congress after the elections (with Democrats controlling the House) is likely to restrain foreign military actions.

Divided Fed confirms rates on hold

Minutes from the Fed's June meeting, the first under Chair Warsh, showed members remained split on the rates path. While hawkish members focussed on elevated and sticky inflation, the sharp drop in oil prices since April's peak should help US inflation gradually ease towards the Fed's 2% target over the coming quarters. Next week's US inflation report for June should show inflation peaked in Q2. This should enable Warsh to convince fellow policymakers to hold rates for the rest of the year.

Eye on earnings

Although geopolitical risks warrant monitoring, the upcoming earnings season is likely to be the key market driver in the next few weeks. Sentiment should recover as US corporate earnings remain strong, with S&P 500 profits estimated to have risen around 24% in Q2 and is expected to rise more than 20% y/y through the rest of 2026 before easing to a healthy mid-teens pace in 2027. The tech sector remains the main growth engine, but earnings resilience is broadening excluding technology, S&P 500 earnings are still expected to grow in double digits

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