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AIP

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The drop in oil prices should allow central banks to turn less hawkish.

US and European medium-term bond yields have pulled back significantly over the past six weeks as the drop in oil prices eases inflation expectations. This should cap the USD and ease a key headwind facing equities.

At an ECB Forum, Fed Chair Warsh highlighted the recent drop in medium-term bond yields and fall in bond market volatility as a signal that markets are pricing in lower inflation expectations as oil prices drop. Speaking at the same panel, ECB President Lagarde said inflation and growth risks were more balanced since the central bank's rate hike last month. The comments suggest the sharp drop in oil prices is already feeding into the policy outlook. Further easing of shipping through the Hormuz strait should set the stage for a more benign inflationary backdrop. Expect the Fed and the ECB to both hold rates for the rest of the year. This should help cap the USD and support equities.

Diversified across tech, constructive on memory chips sector

Recent concerns about the tech sector leaders are overdone. Set against expectations of double-digit earnings growth and meaningful monetisation upside, the backdrop remains constructive. Valuations have grown more compelling, which offers an appealing entry point into the highest-quality growth segment of the tech sector.

Higher bar for JPY intervention

The USD/JPY pair crossed above the previous psychological level of 160 to its highest in almost four decades. Thin trading volumes during the US holiday on Friday could provide a more effective window for the BoJ to intervene to support the yen. Intervention risks could rise if the pair approaches 164-165.

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