

# Weekly Market View

## Peak hawkishness?

→ The reopening of the Strait of Hormuz could mark a turning point for the global monetary cycle. With US crude oil back below USD 70/bbl, the energy-inflation threat has likely faded, allowing central banks to stay patient.

→ Lower oil prices have dragged inflation expectations and long-term bond yields lower in the US and Europe since their peak in May, unwinding much of the recent hawkish repricing. Softer US payrolls data for June has pushed back expectations of Fed rate hikes.

→ This backdrop should lead to a consolidation in the USD and support global equities, particularly the rate-sensitive tech sector, and gold.

→ Equities in Asia ex-Japan, especially oil importers such as China and India, should benefit from the pullback in oil prices. Meanwhile, as global reflation broadens, volatile currencies such as AUD should benefit.



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Tactically bullish on US tech:  
Attractive valuation after H1  
underperformance

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Bullish AUD: Moderating USD,  
strong Australian domestic  
fundamentals

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USD/JPY downside: Bank of  
Japan intervention risk

## Charts of the week: Tightening financial conditions

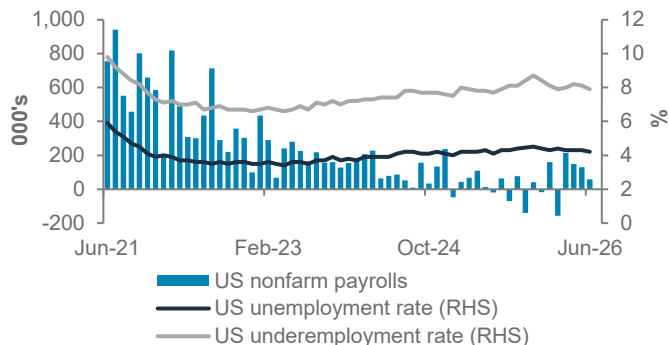
### Flattening of the US bond yield curve suggests the recent spike in short-term rates hurt long-term growth expectations

US 10 year vs. 2-year government bond yield spread



Source: Bloomberg, FactSet, Standard Chartered

US non-farm payrolls; unemployment & underemployment rates



## Editorial

### Peak hawkishness?

**Strategy summary:** The Strait of Hormuz reopening could mark a turning point for the global monetary cycle. With US crude oil back below USD 70/bbl, the energy-inflation threat has likely faded, allowing central banks to stay patient. Lower oil prices have dragged inflation expectations and long-term bond yields lower in the US and Europe since their peak in May, unwinding much of the hawkish repricing. Softer US payrolls data for June has pushed back expectations of Fed rate hikes.

This backdrop should lead to a consolidation in the USD and support global equities, particularly rate-sensitive tech sector. Equities in Asia ex-Japan, especially oil importers such as China and India, should benefit from the pullback in oil prices.

**A turn in the global cycle?** At this week's ECB Forum, Fed Chair Warsh pointed to lower bond yields as evidence that markets are pricing lower inflation as oil falls. ECB President Lagarde also said inflation and growth risks were more balanced after last month's hike. The message is clear: lower oil is already changing the policy outlook. With Hormuz shipping traffic only a quarter of pre-conflict levels, further normalisation should reinforce a more benign inflation backdrop.

**Soft US jobs report eases pressure on the Fed to hike.** June US non-farm payrolls missed consensus by half. Most of the job gains were concentrated in education and health services, reversing a broadening trend in prior months. Wage growth held steady at 0.3% m/m (3.5% y/y), keeping inflation pressures contained. The report challenges the market's narrative of an imminent Fed rate hike, pushing market expectations of a hike to December. We remain sceptical the Fed hikes at all this year as inflation pressures ease with the recent drop in oil prices. We also expect the ECB to hold rates through year-end.

**Central bank outlook shifting.** The relief is visible across other major central banks, except Japan. Most are now set to stay on hold, creating a lower rate-volatility environment. The RBA has turned neutral after three hikes this year, while weak Swiss growth and subdued inflation argue against further tightening. Even BoE Governor Bailey, while not ruling out a

hike against energy price risks, left open a return to easing. The BoJ, driven by wage growth, remains the clear hawkish outlier.

**Did Warsh's debut signal peak hawkishness?** In the US, peak Fed hawkishness may already have passed. The roughly +90bps repricing since the Iran War reflected higher neutral-rate expectations and fears of a hawkish Warsh-led Fed. Yet, after a hawkish debut two weeks ago, Warsh this week cited lower inflation expectations as a reason long-term yields had fallen. If inflation keeps easing, as we expect, he is likely to persuade his fellow policymakers to hold rates through year-end. A coming methodology change by the Bureau of Economic Analysis to software prices and portfolio-services costs could also cut core PCE inflation, the Fed's preferred gauge, by Q4.

**Peak bond yields and USD?** If central bank hawkishness has peaked, bond yields should further ease. We see value in 3-5-year US bond yields in a stable Fed-rate world, while stretched short investor positioning in 10-year bonds points to easing back into the 4.25-4.5% yield corridor. Peak Fed hawkishness also implies USD consolidation, especially with investor positioning stretched, and support gold. As global deflation broadens, volatile currencies such as AUD should benefit.

**This backdrop supports global equities.** Lower oil prices return purchasing power to consumers and supports the AI-driven wealth effect. This favours Asia ex-Japan equities, helped by expected double-digit earnings growth, and the rate-sensitive technology sector in the US and Asia ex-Japan.

**Risks:** The above views depend on oil staying low and inflation cooling. If US inflation remains elevated on a stronger labour market, the Fed would be forced to tighten. AI could also prove inflationary rather than deflationary, at least in the near term, justifying higher rates. A hawkish Warsh U-turn, echoing former Fed Chair Alan Greenspan in 2000, could challenge the AI-led equity bull market. Finally, the fragile US-Iran ceasefire could collapse after the US mid-term elections in November, lifting oil prices sharply. We therefore stay diversified and hedge geopolitical risk through gold and alternatives.

— Rajat Bhattacharya

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets in the near-term

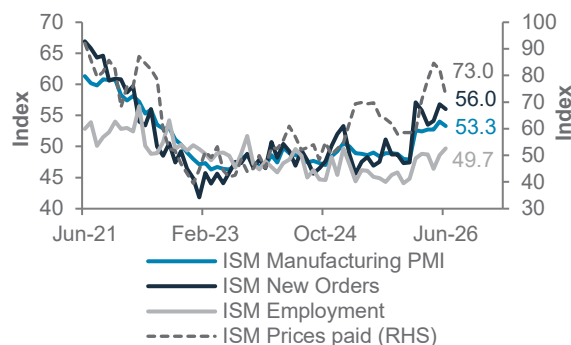
**(+) factors:** Easing Euro area inflation, robust China activity

**(-) factors:** Softening US payrolls, manufacturing data; escalating country-specific trade tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US job openings were resilient at 7.6mn in May, beating expectations</li> <li>Euro area headline and core inflation in June missed expectations</li> <li>Euro economic confidence came in above estimates</li> <li>China mfg. and non-mfg. PMI beat estimates in June</li> <li>China industrial profits rose 21.1% y/y in May</li> </ul>	<ul style="list-style-type: none"> <li>US added 57,000 non-farm payrolls in June, missing estimates by half; May's payrolls were revised lower</li> <li>US private payrolls rose less than expected by 98,000 in June</li> <li>US ISM manufacturing and new orders PMIs fell more than expected in June, while prices paid dropped</li> <li>US Conference Board consumer confidence index missed in June</li> </ul>
	<b>Our assessment: Neutral</b> – Easing Euro area inflation vs. slower US jobs creation	
Policy developments	<ul style="list-style-type: none"> <li>Fed Chair Warsh declined to commit to a rate hike</li> <li>ECB's Kazaks and Demarco said central bank should avoid rushing into further interest rate hikes</li> <li>BoE Governor Bailey said no rush to hike rates</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Kashkari has shifted his year-end rate call from one cut to one hike, citing the inflation spike</li> </ul>
	<b>Our assessment: Positive</b> – Potential central banks pause	
Other developments	<ul style="list-style-type: none"> <li>Korea announced plans for three mega projects to develop new chip production hubs, data centres and robotics technology</li> </ul>	<ul style="list-style-type: none"> <li>President Trump warned of 100% tariff on any country that levies a digital services tax on US firms</li> <li>The US decided against renewing its trade deal with Canada and Mexico</li> <li>China added 20 more Japanese firms to its export control blacklist</li> </ul>
	<b>Our assessment: Negative</b> – Escalating country-specific trade tensions	

### US ISM manufacturing PMI eased in June, while the prices paid component dropped sharply, indicating lower cost pressures

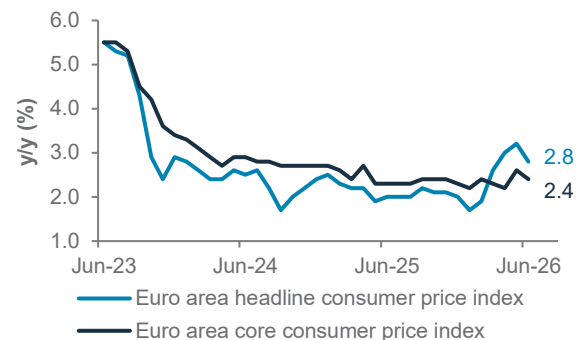
US ISM manufacturing PMI and its key sub-indices



Source: Bloomberg, Standard Chartered

### Euro area inflation missed estimates in June, easing ECB rate hike expectations

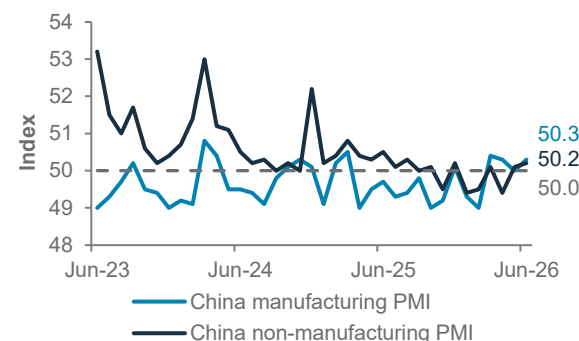
Euro area headline and core consumer price index



Source: Bloomberg, Standard Chartered

### China's June PMIs beat market expectations, driven by high-tech and AI-related export demand. Both remained in expansionary territory

China manufacturing and non-manufacturing PMI



Source: Bloomberg, Standard Chartered

## Top client questions

**Q** What is behind the Magnificent Seven's ('Mag 7') recent underperformance? Is it a good time to add exposure?

*Our view: We see the underperformance as an opportunity to add exposure, with a preference for diversified exposure across semiconductors, internet, hardware and software.*

**Rationale:** The Mag 7 (seven mega-cap US stocks) have posted their **first negative H1 performance** since the AI boom began in November 2022. The group returned -1.7% over the period, lagging the S&P500 at +10.2% and the Nasdaq-100 at +20.3%.

The market is now scrutinising the relationship between investment and profitability far more closely. Guidance from the cohort's members to spend hundreds of billions on **AI development** has fuelled **capex fatigue**, while equity offerings to fund the AI buildout have added further pressure on individual names. Internal dispersion has also widened materially, as investors increasingly differentiate between perceived AI-monetisation leaders. Notably, leadership in H1 2026 rotated towards **memory-related names**, where tightening supply and AI-driven demand supported stronger pricing power.

That said, we believe **recent concerns 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 some of the market's highest-quality growth names.

— **Jason Wong**, Senior Equity Analyst

**Q** Should we add exposure to memory chip equities?

*Our view: We remain constructive on memory chip equities and prefer to maintain a core allocation of around 3-4% of our global equities portfolio to the industry.*

**Rationale:** Memory chip equities have performed phenomenally well year to date. Growing AI adoption, supply tightness in high-bandwidth memory (HBM) chips and longer-term customer commitments still support the cycle. We expect memory prices to eventually see a **soft landing** rather than a hard landing. Announced **capacity additions**, including those from South Korean chipmakers, are likely to be phased in gradually, with meaningful new supply not expected to arrive until 2027-28. At the same time, **the mix is shifting** from commodity DRAM/NAND chips towards AI-focused HBM, where pricing is often backed by long-term agreements.

However, **volatility** in memory chip equities can be extreme, with crowded positioning that can swing suddenly. An **antitrust lawsuit** has also emerged against major memory chipmakers, which could affect risk sentiment. Persistent concerns about **excess capacity** also contribute to the volatility. Tech hardware companies may try to diversify their supply chains away towards smaller suppliers. Hence, we prefer to maintain a **core exposure** to the industry.

— **Fook Hien Yap**, Senior Investment Strategist

**Valuations have become increasingly attractive, with the Magnificent Seven's valuation premium to the S&P500 falling to its lowest level since the AI boom began in November 2022**

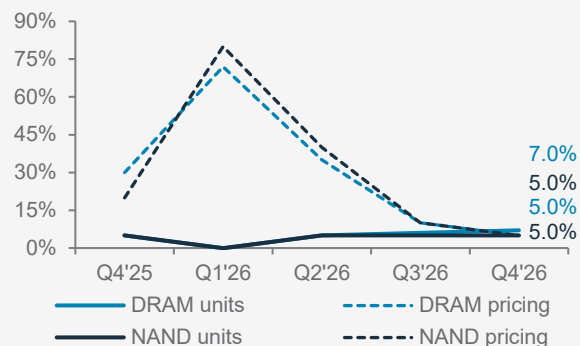
Relative 12-month forward P/E valuation premium of the Magnificent Seven and the S&P500



Source: Bloomberg, Standard Chartered

**Profits in the memory chip industry have been driven by significant pricing surges, although we expect an eventual soft landing in memory prices**

DRAM and NAND chip unit and pricing growth estimates, quarter-on-quarter (q/q)



Source: Company reports, Standard Chartered

## Top client questions (cont'd)

**Q** After the ECB's June 'insurance hike', are you maintaining your view that the ECB will remain on hold for the rest of 2026?

**Our view:** We maintain our view that the ECB will keep policy rates unchanged for the rest of 2026, despite its recent hawkish rhetoric and an upward revision to its inflation projections.

**Rationale:** We view the ECB's 25bps rate increase on 11 June – which brought the deposit rate to 2.25% – as a **recalibration**, or an 'insurance hike', aimed at anchoring inflation expectations rather than marking the beginning of a prolonged tightening cycle.

Crucially, the Euro area's June inflation print surprised to the downside at 2.8% y/y, falling well below both the 3% y/y market estimate and May's 3.2% y/y. This faster-than-expected moderation reinforces our view that the recent energy-driven spike was temporary and suggests that market fears over a sustained inflation resurgence were overstated. With headline inflation now back below the 3% threshold, **pressure on the ECB Governing Council to deliver a follow-up hike in September** has reduced significantly.

Simultaneously, the Euro-area economy continues to face **meaningful growth headwinds**, with Q1 GDP contracting by 0.2% q/q. Against this backdrop, additional rate hikes would increase the risk of a policy mistake similar to those in 2008 and 2011, when the ECB tightened into a weakening economy. We therefore expect the ECB to adopt a **data-dependent 'wait-and-see' approach**, allowing policymakers to assess whether temporary energy-driven inflation gives rise to more persistent second-round effects before considering any further policy tightening.

— Anthony Naab, CFA, Investment Strategist

**Q** Do you expect both the Australian dollar (AUD) and the CNH (Offshore Chinese yuan) to sustain their uptrend against the US dollar (USD) in H2 2026?

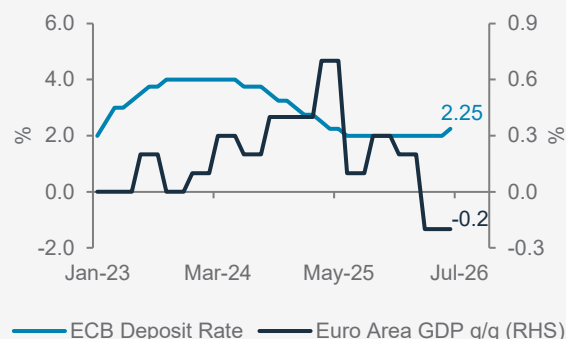
**Our view:** We expect both the AUD and the CNH to appreciate against the USD in H2 2026, although the pace is likely to be gradual and subject to near-term volatility.

**Rationale:** Our constructive view on the AUD and the CNH is driven by our expectation that **USD strength will gradually moderate** over the medium term. The sharp decline in oil prices is expected to help ease US inflation over time, thereby reducing expectations for further Fed tightening and providing a more **supportive backdrop for both the AUD and the CNH**.

We expect the AUD to benefit from **Australia's resilient economic fundamentals**. The country's labour market has remained solid, with employment rising by 40,300 in May, while the Manufacturing Purchasing Managers' Index (PMI) improved to 51.5 in June, signalling expanding activity. **Sticky inflation** should keep the RBA

### The fundamental justification for further ECB tightening has weakened, with inflation cooling and GDP contracting

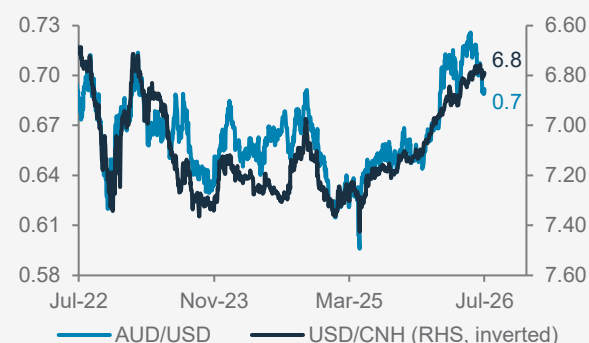
ECB deposit rate vs. Euro area GDP (q/q)



Source: Bloomberg, Standard Chartered

### AUD and CNH are likely to sustain their uptrend vs. USD

AUD/USD and USD/CNH



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

relatively cautious on policy easing. In addition, a **recovery in Chinese demand for key Australian exports**, including iron ore and copper, should provide further support for the AUD.

We remain constructive on the CNH as recent China data points to **modest economic stabilisation**. The official Manufacturing PMI returned to expansionary territory at 50.3 in June, while the non-manufacturing PMI improved to 50.2 and the composite PMI rose to 50.6. Private manufacturing data also remained resilient, with the June PMI at 51.7 and Q2 2026 marking the strongest quarterly performance since late 2020. Together, these developments, along with **continued policy support**, should help underpin the CNH over the medium term.

However, while we are constructive on both currencies, we expect the **AUD to appreciate more quickly than the CNH**, as the latter continues to face headwinds from trade tensions and uncertainty over capital flows.

— Iris Yuen, Investment Strategist

### The Japanese yen (JPY) is at a four-decade low against the USD, despite rate hikes from the BoJ. Should we anticipate FX intervention soon?

*Our view: We believe there is a higher bar for FX intervention now that USD/JPY has broken past the previous key psychological level of 160. Thin trading volumes today due to the US Independence Day holiday could present a more effective opportunity for Japan's Ministry of Finance (MoF), with intervention likely around 164-165.*

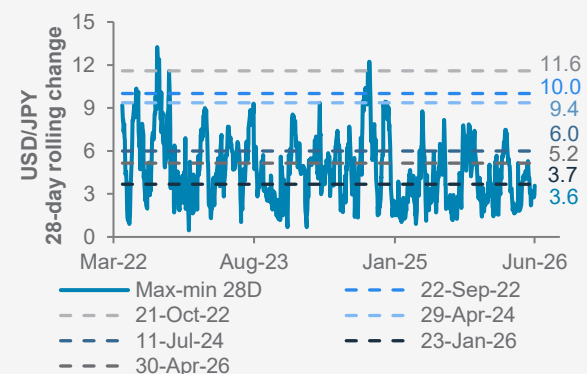
**Rationale:** The market is fully pricing in one Fed hike by year-end 2026 and another hike in H1 2027. While these expectations are still growing alongside resilient US inflation data, the ongoing repricing has supported **higher US government bond yields** and **wider US-Japan rate differentials**, overwhelming the impact of MoF's intervention in late April. That intervention had briefly pushed USD/JPY from around 160 to 156 before the pair resumed its climb to fresh highs above 162.

In our view, **Japanese policymakers are likely to wait for softer US inflation or labour market data** that reduces Fed hike expectations before intervening again, as such a backdrop would increase the probability of a more durable intervention effect. Looking back at previous confirmed intervention periods, the **risk of intervention is increasing**. The USD/JPY 28-day rolling change is now at +3.6, with previous intervention thresholds around 5. With spot close to 162, the **MoF may wait until the 164-165 range** before intervening.

— Iris Yuen, Investment Strategist

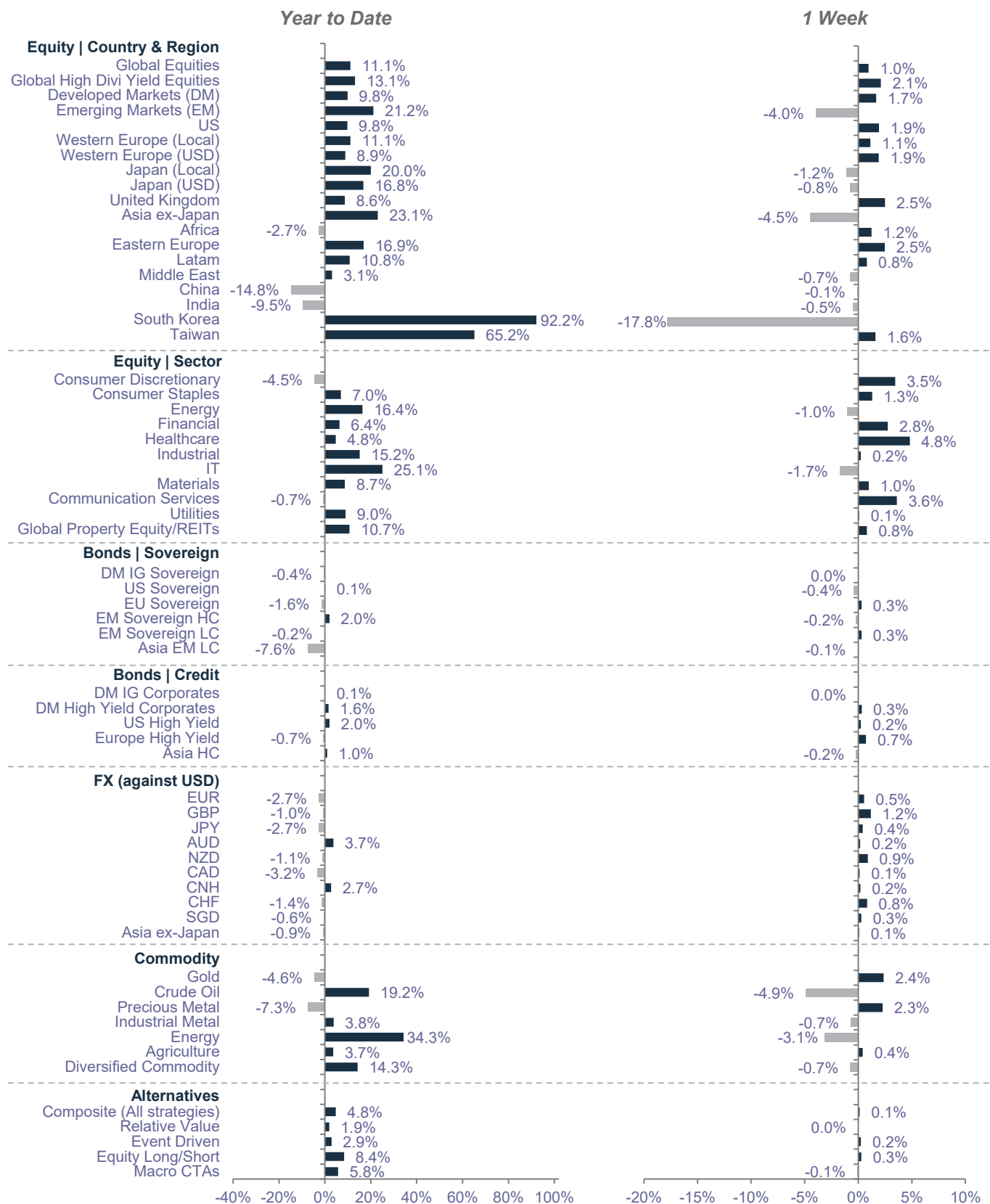
### USD/JPY intervention threshold is rising modestly

USD/JPY 28-day rolling change and previous intervention dates



Source: Bloomberg, Standard Chartered

## Market performance summary\*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

\*Performance in USD terms unless otherwise stated, 2026 YTD performance from 31 December 2025 to 2 July 2026; 1-week period: 25 June 2026 to 2 July 2026

### Our 12-month asset class views at a glance

Asset class	
<b>Equities</b> ▲	<b>Preferred Sectors</b>
US ▲	US Technology ▲
Europe ex-UK ◆	US Communication ▲
UK ▼	US Healthcare ▲
Asia ex-Japan ▲	Europe ex-UK Financials ▲
Japan ◆	Europe ex-UK Industrials ▲
Other EM ◆	Japan Financials ▲
	China Communication ▲
<b>Bonds</b> ▼	China Technology ▲
<b>Credit</b>	<b>Govt</b>
Asia USD ◆	Govt EM Local ◆
Corp DM HY ◆	Govt DM IG ▼
Govt EM USD ▲	
Corp DM IG ◆	<b>Alternatives</b> ◆
	<b>Gold</b> ▲

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

### The S&P500 has next interim resistance at 7,657

Technical indicators for key markets as of 2 Jul close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	7,483	7,274	7,657	20.2	1.2
STOXX 50	6,360	6,090	6,512	15.5	3.1
FTSE 100	10,653	10,289	10,856	12.9	3.5
TOPIX	4,015	3,819	4,157	17.0	2.3
Shanghai Comp	4,029	3,913	4,160	13.5	3.0
Hang Seng	23,055	21,700	25,227	9.8	3.7
Nifty 50	24,176	23,410	24,601	18.5	1.8
MSCI Asia ex-Japan	1,114	1,064	1,184	11.8	2.1
MSCI EM	1,684	1,613	1,782	11.3	2.5
Crude oil (WTI)	68.7	58.2	88.1	na	na
Gold	4,122	3,863	4,462	na	na
UST 10Y Yield	4.48	4.37	4.59	na	na

Source: Bloomberg, Standard Chartered

Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

### Economic and market calendar

	Market	Event	Period	Expected	Prior
MON	EUR	Sentix Investor Confidence	Jul	-	-13.4
	EUR	PPI y/y	May	-	4.9%
	EUR	Retail Sales y/y	May	1.6%	1.0%
	USD	ISM Services Index	Jun	54.2	54.5
TUE	USD	Trade Balance	May	-\$78.8b	-\$55.9b
WED	NZD	RBNZ Official Cash Rate	8-Jul	2.5%	2.3%
THU	USD	FOMC Meeting Minutes	17-Jun	-	-
	CNH	PPI y/y	Jun	-	3.9%
	CNH	CPI y/y	Jun	-	1.2%
	USD	Initial Jobless Claims	4-Jul	-	-
	USD	Continuing Claims	27-Jun	-	-
	USD	Existing Home Sales	Jun	4.24m	4.17m
FRI/SAT					

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated  
 P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

### Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 2 Jul close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.62
Global Equities	○	↓	1.30
Gold	○	→	1.42
<b>Equity</b>			
MSCI US	○	↓	1.29
MSCI Europe	○	↓	1.42
MSCI AC AXJ	○	↓	1.37
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.60
DM High Yield	○	↓	1.36
EM USD	○	↓	1.45
EM Local	●	→	1.63
Asia USD	●	→	1.63
<b>Currencies</b>			
EUR/USD	●	→	1.62

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

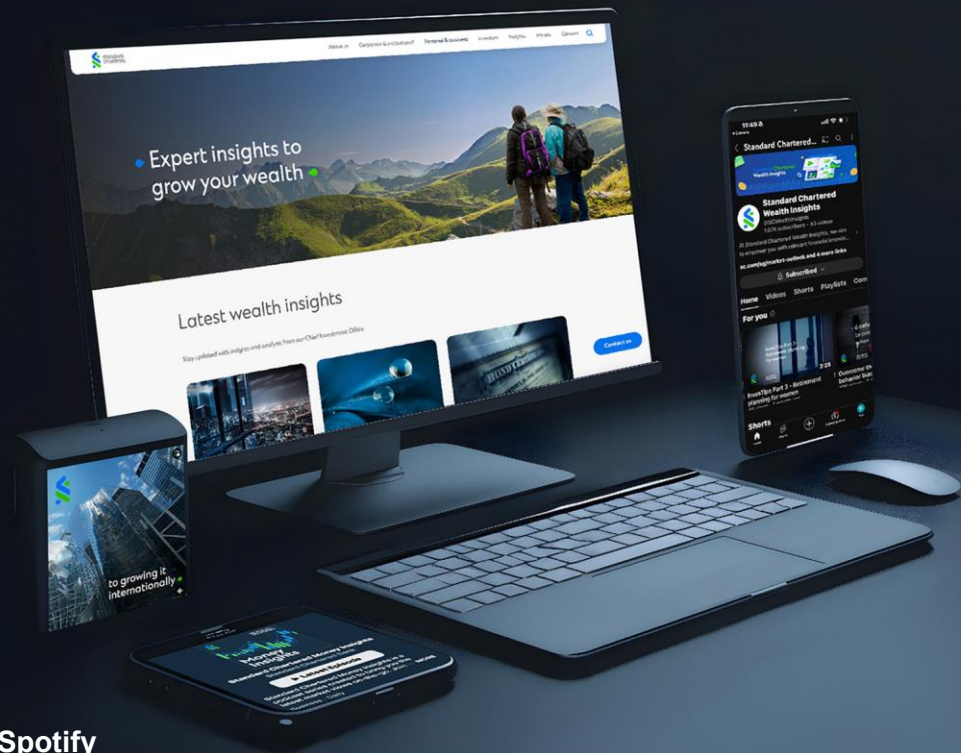
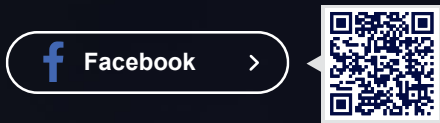
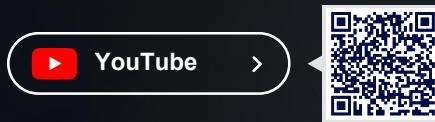
Legend: ● High | ○ Low to mid | ○ Critically low

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## Market views on-the-go



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