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MARKET UPDATE

IN UNDER 5 MINUTES

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TOPIC OF THE MONTH

Geopolitical Uncertainty: How Conflicts and Trade Wars Shape Markets Ahead

Geopolitical tensions have taken center stage in June 2025, with the Israel-Iran-US conflict and ongoing trade wars shaping market dynamics. The surprise Israeli strikes on Iran's nuclear facilities and the subsequent U.S. involvement led to a brief but intense period of volatility, sending oil prices to six-month highs. While a fragile ceasefire has been established, the situation remains precarious. Additionally, the looming end of the U.S. tariff pause has reignited trade war fears, impacting global supply chains and economic growth prospects. These uncertainties have driven a flight to safety, with U.S. Treasury yields declining. This plunge in yields reflects classic risk-off behavior: when conflicts heat up, markets seek shelter in assets like Treasuries and Gold. Stock indices, in turn, saw increased volatility – selling off on bad news, then rebounding on hopes of de-escalation. The interplay between geopolitical risks and market reactions underscores the need for cautious investment strategies in the months ahead.

IN SHORT - MARKET TWEETS

Bonds

Treasury yields decline as uncertainties rise

- U.S. Treasury Yields
  - 2Y: 3.74% (MoM -4.1%)
  - 10Y: 4.27% (MoM -2.95%)
  - 30Y: 4.83% (MoM -1.83%)
- Bloomberg Global Aggregate Bond Index
  - 495.84 (MoM +1.63% / YTD +6.99%)

Equities

Global equities gained, driven by easing tensions

- Major Indices
  - S&P 500: 6’173 (MoM +4.41% / YTD +5.19%)
  - Nasdaq100: 22’534 (MoM +5.48% / YTD +7.43%)
  - FTSE: 8’798 (MoM +0.95% / YTD +6.52%)
  - EuroStoxx50: 5’325 (MoM -0.85% / YTD +8.29%)
  - HangSeng: 24’284 (MoM +3.02% / YTD +23.75%)
- Top 3 Sectors YTD:
  - Communication Services (+11.15%), Materials (+10.41%), Industrials (+9.93%)
- Bottom 3 Sectors YTD:
  - HealthCare (-2.55%), Consumer Discret. (-1.48%), Real Estate (+0.31%)

Commodities

Gold drops below 50-Day Moving Average

- Gold: 3,274 (MoM -0.46% / YTD +24.76%)
- Copper: 5.12 (MoM +9.44% / YTD +27.10%)
- Brent: 66.39 (MoM +6.91% / YTD -12.56%)

FX & Digital Assets

USD weakens further, BTC steady

- DXY: 97.40 (MoM -1.92% / YTD -10.22%)
  - EURUSD 1.17 (MoM +3.54%)
  - GBPUSD 1.37 (MoM +2.24%)
  - USDCHF 0.80 (MoM -2.44%)
  - USDJPY 144.88 (MoM +0.61%)
- BTC: 108k (MoM +1.92% / YTD +15.61%)

Global Macro / Geopolitics

Geopolitical tensions flare as Israel and Iran clash, U.S.-China trade talks stall, and the Fed hints at rate cuts amid cooling growth

- US Inflation: 2.4%, CPI +0.1% (MoM)
- FED Fund Rate: 4.25-4.5% (-)
- Unemployment Rate: 4.2% (-)
- Non-farm payroll: 139k (MoM -21.47%)

Middle East in Focus

- Iran has repeatedly threatened to close the key Strait of Hormuz . Closure of the Strait, would have a major impact on global oil and gas markets. Its the exit route from the Gulf – incl. from KSA, the UAE, Kuwait, Qatar, Iraq and Iran.
- Gulf shares up as Israel-Iran ceasefire holds, Dubai stock market hits 17-year high.
- Oman will implement a 5% personal income tax on high earners starting in 2028, making it the first GCC nation to do so, affecting about 1% of its population.

WHAT'S COMING NEXT?

July 2025 promises to be a critical month for global markets. Investors will closely monitor the U.S. non-farm payrolls on July 3 for insights into labor market strength, followed by the June CPI report around mid-month, which will influence inflation expectations. The FOMC meeting on July 29-30 will be pivotal, as the Federal Reserve assesses the impact of recent geopolitical events and trade dynamics on monetary policy. In Europe, the ECB's monetary policy meeting on July 23-24 will provide guidance on interest rates amid ongoing economic challenges. Additionally, the BRICS+ Summit on July 6-7 could shape emerging market dynamics. Mid-July Q2 earnings season is kicking off, starting with major U.S. Banks. Earnings reports will reveal how businesses are navigating the current geopolitical landscape. Bank results will be a barometer for consumer health and credit conditions, while tech and industrial earnings will shed light on trade-war impacts. Furthermore, ongoing developments in U.S.-China trade relations and the stability of the Middle East ceasefire will continue to be crucial market drivers.

INVESTMENTS IN FOCUS

How do we position portfolios after a tumultuous June? With Treasury yields dipping on safe-haven flows, high-quality bonds have become attractive again. We favor maintaining an overweight in investment-grade bonds and Treasuries. Falling yields mean prices are up – a welcome boost for bondholders. Furthermore, the Fed's proposed changes to banks' capital requirements should also support liquidity in the Treasury market. We suggest using this window to lock in longer durations selectively, as the Fed's potential pivot to rate cuts by year-end could lift bond prices further. Equities have shown surprising resilience through the geopolitical noise. In fact, the S&P 500 index just closed at record highs. However, given lofty valuations after recent rallies, we emphasize selective buying – favoring equity investments that pay out coupons (such as structured products) with very low barriers, instead of long-only positions. Sectors that are resilient to geopolitical risks, such as defense, energy, and utilities, may offer relative stability. The defense sector could benefit from increased military spending.

DON'T LEAVE BEFORE YOU READ THIS!

Did you know?

The Strait of Hormuz is only 21 miles wide, but it might be the most important waterway on Earth—about 20 million barrels of oil (roughly a quarter of global oil shipments) flow through it each day. Any disruption could jolt global energy markets and spike fuel prices overnight. Saudi Arabia and the UAE have built pipelines to bypass Hormuz, but those carry only ~2.6 million barrels per day—a drop in the bucket compared to Hormuz's 20 million. Until bigger alternatives arrive, this narrow strait remains the oil world's lifeline—and its Achilles' heel.