

Global growth hindered by geopolitical and trade uncertainties; inflationary pressures linger as central banks try to scale back rate cut expectations this year.

Economic Update

Economy: US business conditions show unexpected strength; EZ private sector activity growth rises.

US: In May, the S&P Global Composite PMI surged to 54.4 (c: 51.1; p: 51.3).

The service sector drove the upturn with a PMI of 54.8 (p: 51.3), showcasing the biggest output growth in a year, while manufacturing also saw strong growth with a PMI of 50.9 (p: 50.0).

In April, new orders for manufactured **durable goods** rose by 0.7% m-o-m (c: -0.8%; p: 0.8%), marking the third consecutive monthly advance in durable goods orders – primarily propelled by an unexpected jump in aircraft orders.

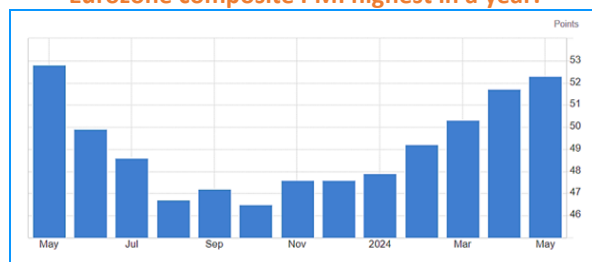
Meanwhile, orders for **non-defense capital goods excluding aircraft** – a proxy for business spending plans – rose by 0.3% in April, recovering from -0.1% fall, and beating expectations of a 0.1% increase.

Eurozone: In May, the HCOB Composite PMI rose to 52.3 (c: 52.0; p: 51.7), marking the highest reading in a year – showing that the economic recovery gained momentum, while business confidence hit a 27-month high.

US composite PMI highest since April 2022.



Eurozone composite PMI highest in a year.



Market Update

Equities: Global stocks end lower as central banks scale back rate cut hopes.

US: The S&P 500 was flat (0.0% w-o-w to 5,305), as investors assessed hawkish signals from the FOMC minutes, as well as fresh data showing new orders for key US-manufactured capital goods rebounded more than expected in April.

Eurozone: Equity markets fell (Eurostoxx 50, -0.6% w-o-w, to 5,035), amid sustained pressure from concerns that major central banks will defer the extent of rate cuts that were previously expected.

EMs: Equities pulled back (MSCI EMs, -1.5% w-o-w, to 1,083), as Chinese stocks declined (Shanghai Comp., -2.1% w-o-w, to 3,089), after geopolitical tensions hurt market sentiment as China's military carried out a second day of war games held in five areas around Taiwan, launched to punish Taiwanese President Lai Ching-te.

Fixed Income: US 10-year yield rises; German bund yield rebounds.

Global fixed incomes were lower (BAML Global, -1.5% to 264.3), and the 10-year **UST yield** rose (+5bps, to 4.47%), extending its rebound from the one-month low, as fresh economic data pointed to a backdrop that favors restrictive monetary policy by the Fed.

In the EZ, the yield on the **German 10-year Bund** advanced (+7bps to 2.58%), as investors analyzed the latest economic data and its impact on monetary policy.

FX: DXY gains on hawkish Fed comments; Euro falls ahead of ECB easing.

The **DXY index** strengthened (+0.3%, to 104.724), as PMIs showed strong business activity and rising price pressures in May, which coupled with a hawkish stance from the FOMC prompted investors to push back the rate cut expectations.

The **EUR/USD** weakened (-0.2%, to 1.085), after ECB President Lagarde said that there was a "strong likelihood" that the ECB would reduce interest rates in June.

Commodities: Gold falls amid retreating FOMC rate cut speculations.

Gold prices pulled back (-2.1% w-o-w, to 2,334 USD/Oz) after the Fed's May meeting minutes revealed ongoing concerns about sticky inflation.

S&P 500 finishes the week flat.



DXY strengthened mainly against the EUR.



Gold settles at two-week lows.



Week Ahead

In the US, investors will be closely monitoring PCE Price Index, personal income and spending, and speeches by several Fed officials. Also, the focus will be on the second estimate of Q1 GDP growth, corporate profits, the CB consumer confidence, housing data. Globally, attention will be on inflation rates for the Eurozone. Finally, in Japan, the focus will be on Governor Ueda's opening remarks at a conference hosted by the Bank of Japan, alongside data for consumer confidence, Tokyo CPI, retail sales, unemployment rate, and industrial production.