Quarterly Review of Financial Markets and Outlook

2026/Q2

Renalco

Contents

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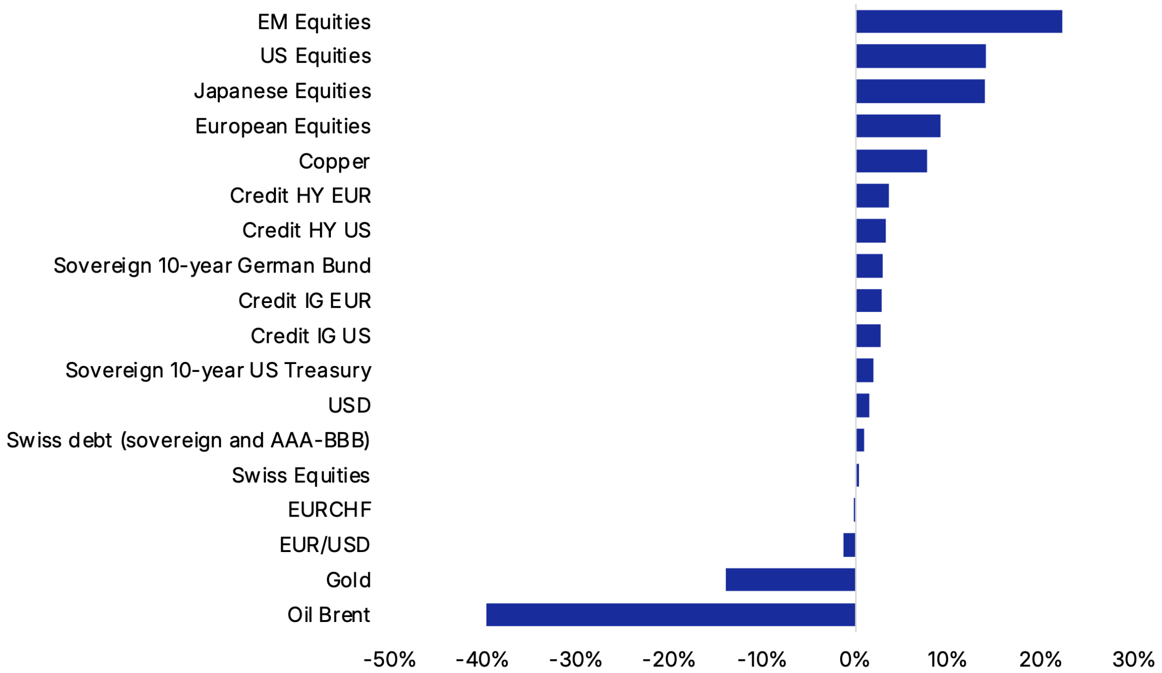
Document completed on **July 1st, 2026**.

Overview

MAIN ASSET CLASSES

3-MONTHS PERFORMANCE



Source: Silex / Factset, 30/06/2026.
Past performance is not a guarantee of future performance.

FEAR & GREED INDEX

WHAT EMOTION IS DRIVING THE MARKET NOW?

Source: CNN Business, 02/04/2026.
Past performance is not a guarantee of future performance.

Macroeconomics

United States: “The economy absorbs the energy shock without buckling”

The second quarter provided proof that the world’s largest economy can absorb a major energy shock without giving up its growth. The engine never seized up: driven by the arms race in artificial intelligence, productive investment established itself as the main provider of growth over the half-year.

The upward revision to Q1 growth (from +1.6% to +2.1% q/q annualized), of which 1.4 points came from non-residential fixed investment alone (information-processing equipment: +39.9% q/q annualized; software: +23.3%), speaks volumes about the phenomenon.

The manufacturing ISM confirmed it month after month, reaching 54 in May, its best level in four years. Above all, the labour market stopped worrying and began to reassure with more than 500,000 jobs created since January (versus barely more than 100,000 for all of 2025) and unemployment pinned at 4.3%, U.S. employment supported consumption that might otherwise have faltered under the pressure of non-discretionary spending.

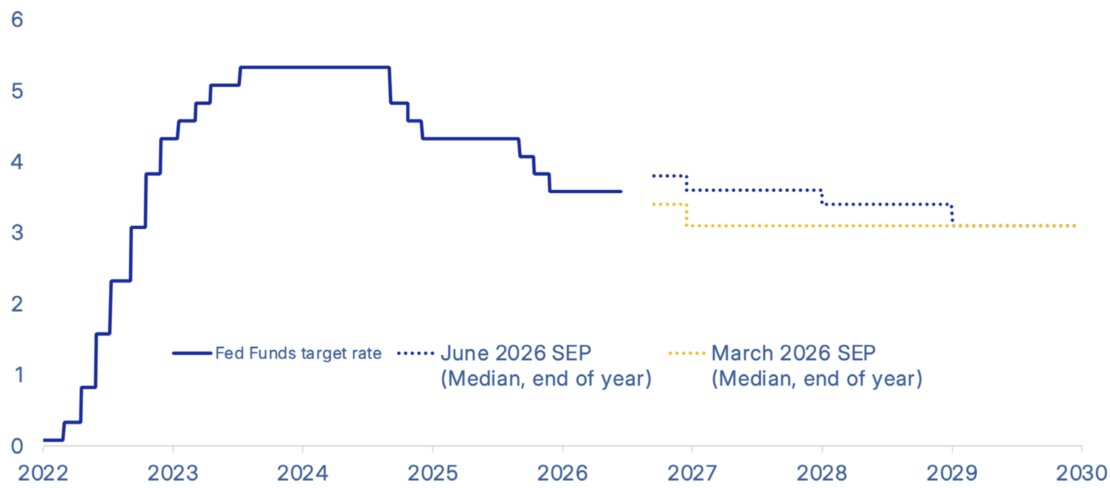
The flip side is inflation. The oil shock spread throughout the system, lifting the PCE to +4.1% y/y and its core index to +3.4% in May, its highest since 2023. Between fuel, the residual tariff effect in durable goods and ex-housing services inflation that refuses to give way (+3.9% y/y), the bill proved steep.

It was in this context that **Kevin Warsh, installed in May as Jerome Powell’s successor, held his first meeting and made restoring price stability his absolute priority**. The dovish bias is now forgotten, the core inflation forecast raised to +3.3% for 2026, and the median of the “dot plots” no longer points to a cut but to a rate hike by year-end.

The policy rate stayed within the 3.50%-3.75% range, but the flattening of the curve and the firming of the dollar signalled that the market was granting real credibility to the newcomer.

Macroeconomics

Fed funds target rate and dot plots (%)



Source: Silex / Factset, 30/06/2026.
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The good news came at the very end of the quarter: the plunge in crude in June points to a mechanical easing of inflation readings this summer. The whole question now is how quickly core inflation will agree to recede, a process that will remain hostage to wage restraint, for now slowing (Average Hourly Earnings: +3.4% y/y in May).

Euro area: “The energy Achilles’ heel laid bare”

The euro area lived through the quarter it had feared. Its growth was known to be vulnerable to rising energy prices; the Iranian shock delivered the most brutal demonstration of this. The composite PMI tipped into contraction as early as April and sank further in May (48.5), dragged down by services in freefall.

The French case struck observers: the collapse in activity pushed the composite PMI below 45 in May, levels reminiscent of the pandemic. Consumer confidence never regained any colour, and even the German stimulus plan could not halt the slide.

The rebound in the composite PMI in June (49.5), enabled by the easing in Iran and the fall in crude, was not enough to bring the index back into expansion territory. At this pace, the +0.8% growth target set by the ECB for 2026 looks out of reach, especially after a first quarter ultimately revised to -0.2% q/q.

Macroeconomics

Faced with inflation lifted to +3.2% y/y in May and a core component that accelerated markedly (from +2.2% to +2.6%), **the ECB finally acted, raising its deposit rate by 25 bps in June — its first hike since the start of the cutting cycle**.

It dressed up its decision with a deliberately firm message: Christine Lagarde stressed the unanimity of the vote and rejected the label of an "insurance" hike, while Philip Lane warned of the risk of inflation persistence.

But the hawkish display should not mislead. Weak demand mechanically limits the risk of homegrown inflation: the surge in services inflation in May owed more to a base effect in airfares than to a generalised drift, and as early as June the charged-prices inflation in the PMI surveys had returned to its pre-shock pace.

In these conditions, it is hard to imagine the central bank continuing its tightening: it should sit out July and wait until September to see more clearly.

United Kingdom: "The best resistance to inflation among advanced economies"

Here is a scenario that was anything but obvious when the conflict broke out: the United Kingdom proved to be one of the advanced economies most resistant to energy inflation.

Inflation remained contained at +2.8% y/y, its core component at +2.6%, and wage growth slowed to +3.4% y/y, its slowest pace since 2020. The contrast with the fears of spring — when the 10-year Gilt had topped 5.0% and the market was pricing two to three rate hikes — is striking.

This change of scenario allowed the Bank of England to hold its policy rate at 3.75% at the end of the quarter (7-2 vote) and to lower its forecast for the inflation peak, from 3.6% to 3.3%.

This unhoped-for disinflation comes at a price, however: a marked slowdown in activity. The composite PMI dropped back below 50 (49.4 in June), its lowest since April 2025, and the labour market remains fragile despite a stabilisation of unemployment around 5%.

Macroeconomics

As is often the case across the Channel, the fiscal question came back to haunt the debate: May's public borrowing delivered a nasty surprise (£23.3 billion), inflated by the interest charge on inflation-linked Gilts.

All this against a backdrop of political reshuffling, with **Andy Burnham positioning himself to succeed Keir Starmer** — the seventh tenant of 10 Downing Street since Brexit. His reassuring statements on the fiscal framework inherited from Labour have, for now, kept the bond vigilantes at bay.

China: "Foreign trade saves the day, the consumer still disappoints"

The Chinese economy showed several faces over the quarter, but the common thread did not change: **it is foreign trade that holds up the edifice**. Exports soared (+19.4% y/y in May), bringing the trade surplus to $330 billion since the start of the year, despite a surge in imports driven by the higher cost of technology components.

As with the trade war — which saw a form of détente after the Trump administration's visit to Beijing without the rare-earths issue finding a resolution — China is playing for time, waiting to gauge the extent of the damage the Middle East shock will inflict on global trade.

On the domestic front, the picture remains unbalanced. Industry is holding up, carried by a few centres of excellence (high technology: +15.1% y/y, industrial robots: +27.9%, lithium-ion batteries: +40.0% in May) and PMIs in fine shape (composite at 54.1 in June, the strongest expansion since February).

But consumption remains the Achilles' heel: retail sales slipped into the red (-0.6% y/y in May), weighed down by the collapse in autos and by a negative wealth effect fuelled by the continued correction in property prices (-3.5% y/y).

The return of inflation (PPI: +3.9% y/y) should not be misleading: it is above all the product of higher energy costs, and consumer prices are struggling to stabilise (+1.2% y/y). As confirmed in March with the abandonment of the single 5% target in favour of a 4.5%-5% range, Beijing has given up on the ambition of a rapid rebalancing toward domestic demand.

Macroeconomics

India: “The energy shock cracks a still-robust growth story”

A must in the broad emerging universe, India entered the quarter with its familiar strengths — growth among the highest in the world, solidly oriented PMIs — but **it saw the energy shock erode its foundations**.

New Delhi indeed combines vulnerabilities in the face of newly expensive oil: a massive net importer of hydrocarbons, the country sees its bill swell, its inflation tighten and its currency suffer. The rupee has depreciated by more than 6% against the dollar since the start of the calendar year, down to 95.8, weighed down by nearly $14 billion of capital outflows from the equity segment alone.

Meeting in early June, **the Reserve Bank of India held its repo rate at 5.25% unanimously, maintaining a neutral bias**. Governor Sanjay Malhotra above all hardened his diagnosis: the inflation forecast was raised to +5.1% (from +4.6%), citing the Middle East conflict, the energy surge and uncertainties over the monsoon and El Niño, while the growth forecast for fiscal year 2026-27 was lowered from +6.9% to +6.6%.

To this already delicate equation is added the trade dispute with Washington: the 50% tariffs imposed by Trump, in retaliation for purchases of Russian oil, continue to weigh, even if their direct impact on exports is still estimated at 0.3-0.4 points of GDP. India remains a growth story, but one whose visibility has clearly deteriorated.

Japan: “The BoJ raises rates and intends to continue”

Japan confirmed its singular place in the global cycle. Private-sector growth remained solid, anchored by the archipelago’s central role in technology value chains (manufacturing PMI at 54.9 in June), and Q1 GDP accelerated to +0.5% q/q, supported by resilient consumption and very robust foreign trade.

Above all, nominal wages rose +3.5% y/y, **above inflation for the fourth consecutive month in May** — the long-awaited condition for a virtuous circle between prices and incomes.

Macroeconomics

It was in this context, and with 10-year market inflation expectations re-established above 2%, that **the BoJ took the plunge, raising its policy rate from 0.75% to 1.0% (7-1) while suggesting it intended to continue**.

The question is at what pace: while the consensus assumes the one-hike-per-half-year cadence in place since 2024, some hawks such as Tamura argue for moving faster. The pressure comes above all from the bond market, under permanent strain: the announcement of an ambitious investment plan by the Takaichi government ($2.3 trillion over fourteen years) revives concerns about the deficit.

The crux of the problem remains the yen, having fallen beyond 162 against the dollar, a forty-year low. Raising rates may well be the only way to give it lasting strength.

Switzerland: “The franc, still the real issue”

In Switzerland, attention focused on the SNB’s quarterly meeting, and the message did not change one iota: **policy rate held at 0% and a reaffirmed determination to combat any excessive appreciation of the franc**. The Confederation enjoys a luxury few share in this period: perfectly serene inflation forecasts, with the SNB projecting +0.6% for the year.

This singularity leaves it free to support its exporters by acting on the exchange rate rather than on rates. The market got the message loud and clear: the franc depreciated in June, not only against the dollar but also against the euro.

Companies, for their part, display insolent good health given the European malaise: the manufacturing PMI (57.3) climbed back to its highest since July 2022 and the KOF (101.2) moved closer to its early-year highs. Not everything is rosy, however.

Consumer confidence is recovering only timidly (-38) and unemployment edged up a notch to 3.1%, its highest since 2021. Swiss resilience therefore remains very real, but it increasingly relies on the exchange-rate weapon.

Bond Markets

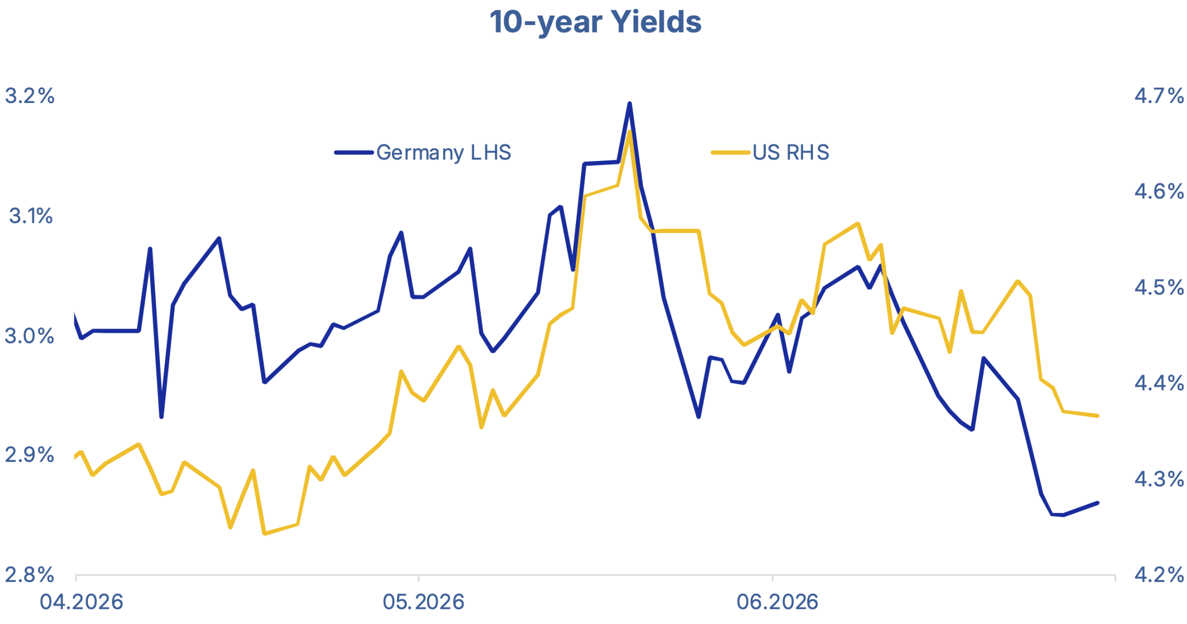
Rates: "The May peak fades: government bonds end the quarter in the green"

The quarter in bonds revolved around a single theme: **the abrupt reintegration of an inflation premium into yield curves, before the start of a calming as crude receded**. In the United States, the hawkish shift of the Warsh Fed (an end to hopes of cuts, the median of the dot plots now pointing to a hike) propelled the U.S. 10-year to its highest in a year in May, around 4.4%, while flattening the curve. Inflation — PCE at +4.1% and CPI at +4.2% in May (a high since 2023) — left little other choice.

In Europe and Japan, the strain was even more spectacular at the long end. **The 10-year Bund reached its highest since 2011, the Gilt since 2008 and the JGB since 1997**, the latter undermined by fiscal fears surrounding the Takaichi government's spending plans. In the euro area, tensions on public debt remained palpable: the OAT-Bund spread held around 70 bps amid French political uncertainty.

The end of the quarter nonetheless brought relief: **with the de-escalation in Iran and the fall in crude prices, the curves calmed**, with the market beginning to factor in that a prolonged energy shock would eventually weigh on growth — and therefore cap long-term rates.

On net, this end-of-quarter retreat outweighed the May peak: U.S. 10-year sovereign debt delivered a positive total return over the quarter (+1.9%), as did the Bund (+2.9%).



Source: Silex / Factset, 30/06/2026.
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Bond Markets

Credit: “Carry weathers the storm”

The credit market got through the quarter without a major accident, which is in itself an achievement given the environment. The Iranian shock had caused, at the turn of spring, a widening of spreads — on the order of 50 bps on U.S. high yield and up to 80 bps on its European equivalent, with investment grade proving far more resilient (15 to 25 bps).

But as the conflict defused and risk appetite returned, the indices erased a large part of this widening, mirroring an equity market reaching for new highs. As a result, every credit class ends the quarter in the green, with high yield logically outpacing investment grade.

The real issue was never an immediate rise in defaults, which nothing suggests, but rather sharply reduced visibility on financing costs and nominal growth.

In this context, the message became more classic: **carry remains a valuable ally, but selectivity has regained ground in the hierarchy of priorities**, particularly in the segments most exposed to energy and to the refinancing wall. The primary market, for its part, remained remarkably open, with end demand absorbing abundant supply without difficulty.

Equity Markets

Equities: “The relief rebound turns into a surge, thanks to AI”

Equity markets posted a spectacular quarter, against the fears born of the energy shock. Once the worst had been avoided in the Iranian theatre, the rebound turned into a genuine relief rally. Over the quarter as a whole, U.S. equities jumped +14.0%, neck and neck with Japan (+13.8%), while Europe advanced more cautiously (+9.1%).

But the real fireworks came from emerging markets (+22.2%), major beneficiaries of the dollar’s early-quarter retreat and of their own homegrown tech champions. The move had begun as early as April — with the Nasdaq 100 posting its best monthly performance in more than twenty-three years — to culminate in fresh records at the end of May.

Two engines worked in concert: the intact effervescence around artificial intelligence and, to a lesser extent, the energy sector, the big winner of the conflict, whose profits surged (net margin expected at 13.4% in Q2 versus 7.7% a year earlier).

The fundamental backdrop remained supportive, with S&P 500 earnings growth expected above 23% for the quarter and a resilient U.S. economy. But this flattering picture should not mask **increased dispersion**: reading the macroeconomic regime remained difficult, between the robustness of activity, the rise in yields and geopolitical uncertainty.

June, marked by the Fed’s hardening and elevated rates, brought back a measure of caution after the spring euphoria. **The quarter was therefore less one of a homogeneous macro conviction than of a tactical market, in which sector rotations — energy and technology to the fore — mattered more than the overall direction of the indices.**

Currencies

Currencies: “The dollar regains the upper hand”

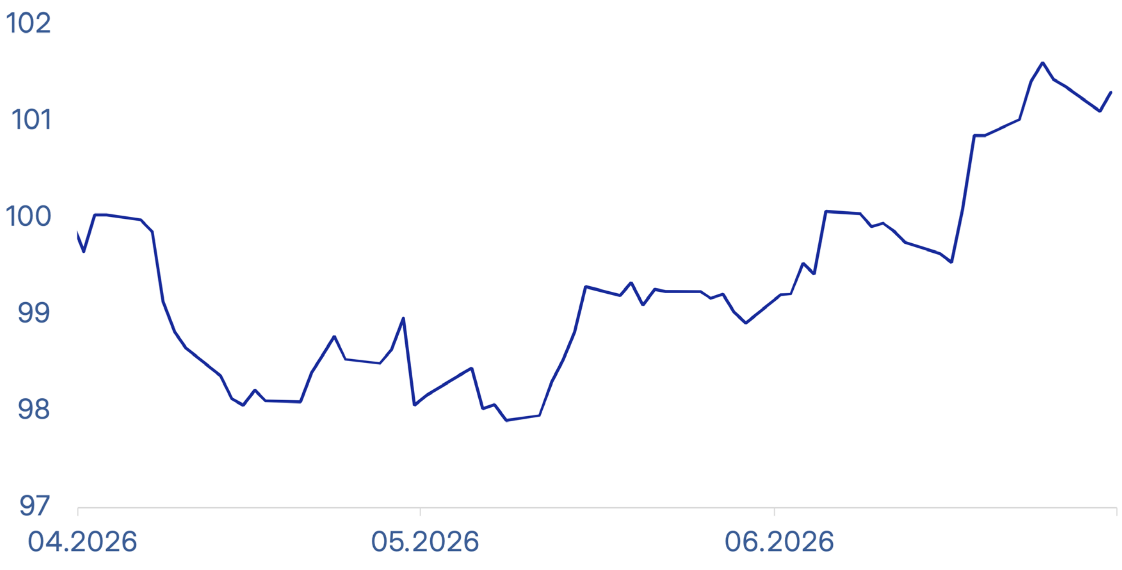
The quarter in FX tracked the trajectory of oil and the Fed’s hardening. After an April pullback, penalised by recurring questions about the Trump administration and its relationship with the rest of the world, **the greenback recovered to end the quarter higher (DXY: +1.4%)**.

The prospect of a durably restrictive Fed, combined with a growth and rate differential once again favourable to Uncle Sam, did the rest — the only limit to its rise being the “Trump discount” that acted as a glass ceiling.

The other currencies followed in scattered order. The euro lost ground against the dollar (-1.3% over the quarter), breaking at the end of the period the one-year support around 1.14: the ECB’s hike was not enough in the face of a growth slump that calls for no further firmness. Sterling held up honourably (around 1.32), supported by the reassuring tone of the likely future Prime Minister Andy Burnham.

The Swiss franc, for its part, remained nearly stable against the euro (EUR/CHF: -0.2%), with the SNB having clearly signalled its refusal to let it appreciate further. As for the yen, it entered terra incognita: beyond 162 against the dollar, at a forty-year low, it is approaching dangerously the intervention zone, and only the continuation of the BoJ’s tightening seems capable of stabilising it, if it lasts long enough.

Indice du Dollar (DXY)



Source: Silex / Factset, 30/06/2026.
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Commodities

Oil: "From geopolitical scarcity to the return of surplus"

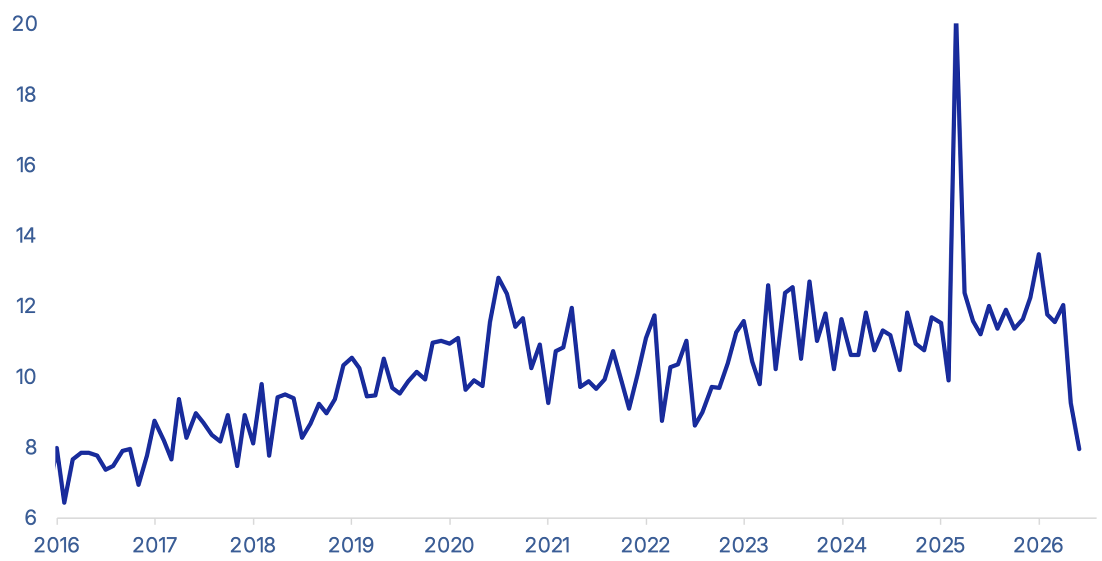
Oil was the asset of the quarter — but in both directions. King of the spring as long as the Strait of Hormuz remained under strain, Brent peaked above $115 a barrel in April, supported by the blockade of Iran and the disappearance of several million barrels a day. Then the regime changed completely.

As the de-escalation took shape (truce, talks, the signing of a framework agreement paving the way to the normalisation of traffic in the Gulf), the market very quickly reintegrated the blocked barrels, and Brent plunged to $73 by the end of the period, posting a drop of nearly 40% over the quarter (-39.8%), its worst quarterly performance since 2020.

Several factors had already helped rebalance the market even before the return of peace: the massive drawdown of strategic reserves, the surge in U.S. exports (more than 9 mb/d) and the disappearance of a large part of Chinese imports.

In its monthly report, **the IEA returned to its central scenario from the start of the year, that of an oil surplus in 2026-2027**, all the more so as demand remains soft (China reportedly imported only 6.8 mb/d in June, according to Kpler). Prices should nonetheless remain volatile as long as the negotiations on the Iranian nuclear programme have not concluded: at the end of June, fresh clashes were a reminder that the balance remains precarious.

China Oil Imports (million barrels/day)



Source: Silex / NBS, May 2026.
Past performance is not a guarantee of future performance.

Commodities

Precious metals: “Gold pays the bill for real yields”

Precious metals had a quarter of sharp correction, victims of a macroeconomic environment that turned distinctly hostile. The rise in real yields and the firming of the dollar, in the wake of a resolutely hawkish Fed, wreaked havoc: gold gave up -14.0% over the quarter, slipping below $4,000 an ounce, more than 25% below its January all-time high.

The mechanism is clear: high inflation that keeps the Fed restrictive raises the cost of holding an asset that yields nothing. The contrast with industrial metals is striking: carried by the return of risk appetite, copper gained +7.6% over the same period.

That said, the medium-term thesis remains very much alive in the background. **Central banks remained net buyers throughout the correction**, at a pace above their five-year average: the PBoC — whose gold imports soared to 163 tonnes in May — may have, once again, bought a market dip.

This is the whole paradox of the quarter: behind the punishment inflicted by real yields, the structural demand of the major reserve managers has not weakened. Over the long term, we continue to favour gold, for which central-bank appetite remains the most pronounced.

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