



- **S&P 500 underperforms other US indexes over 12 month horizon ([link](#))**
- **Investor survey flags AI bubble as biggest market risk ([link](#))**
- **Higher all-in yields keep demand for EM sovereign debt strong ([link](#))**
- **Fiscal worries drive longer maturity JGB yields higher ([link](#))**
- **China tightens scrutiny on local government offshore bond issuance ([link](#))**
- **Markets react as euro area inflation prints come in below expectations ([link](#))**

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## Stocks Trade Near All-Time Highs as Market Sentiment Turns Positive

Stocks in Europe posted solid gains as the Euro Stoxx 600 index traded at an all-time high, while AI-focused bourses in Asia such as the Nikkei and the KOSPI were also up overnight. US equity index futures pointed to a positive open for the US session a day after the Dow Jones Index also marked a new all-time high. Oil prices dipped ahead of peace talks in Doha between the US and Iran. Government bond yields in the US and the euro area were slightly lower but longer dated JGB yields were elevated on lingering fiscal worries. The Yen pushed above 162 to reach its weakest level since 1986. Official warnings about potential intervention have not had much impact in recent days. In other news, higher all-in yields have kept demand for emerging market sovereign debt strong, while in China the authorities are increasing scrutiny of offshore debt issuance by local governments.

Key Global Financial Indicators

Last updated: 6/30/26 7:55 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>							
		7440	1.2	0	-2	20	9
		6313	1.3	1	4	19	9
		70062	0.9	0	5	75	39
		67	0.4	-5	-2	40	23
<b>Yields and Spreads</b>							
		4.38	1.0	-11	-5	16	22
		2.85	-0.5	-7	-9	25	0
		240	-1	12	3	-80	-13
<b>FX / Commodities / Volatility</b>							
		46.7	0.0	0	-2	1	0
		101.4	0.3	0	2	5	3
		73.1	-0.1	-5	-21	8	20
		17.5	-0.2	-2	2	1	3

Colors denote **tightening/easing** financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Key Global Inflation and Energy Indicators

Last updated: 6/30/26 7:57 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Oil and Gas</b>			%				%
Brent Crude Oil (\$/barrel)		73	-0.1	-5	-21	8	20
WTI Crude Oil (\$/barrel)		71	0.2	-3	-19	9	23
Natural Gas (Netherlands TTF)		43	3	8	-4	35	63
<b>Breakeven Inflation</b>		%	bps				
USD: 2Y		2.3	-0.5	-5	-54	-42	3
USD: 5Y		2.4	1.6	1	-25	-10	5
USD: 5Y5Y		2.3	1	0	-7	-13	-10
EUR: 2Y		2.2	-1.8	-8	-39	44	50
EUR: 5Y		2.0	0	-2	-21	20	27
EUR: 5Y5Y		2.1	-1	-1	-5	-6	2

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

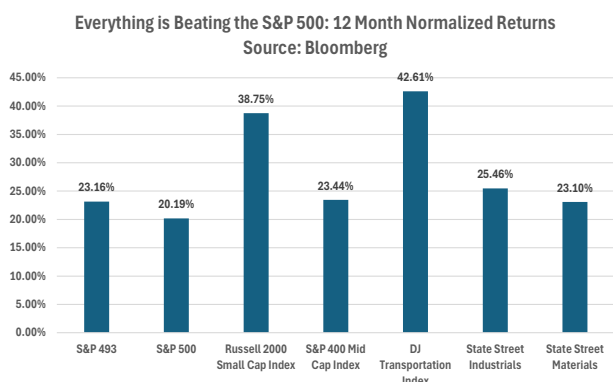
Mature Markets

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United States

The S&P 500 is underperforming many other key US equity indexes over a 12 month period.

The small cap and mid cap indexes are ahead of the S&P 500 over the past year, as are the “old economy” sectors such as transportation, industrials, and materials. The index is also being beaten by the S&P 493, the overall index minus the Magnificent Seven stocks. This is a very positive sign for markets because it shows that the equity rally has broadened to multiple sectors, alleviating the worries of those who had grown worried that the gains were overly concentrated in just a few stocks. The fear was that a sudden selloff in those few stocks would cause a larger market crisis. The outperformance of the S&P 493 indicates that the market is quite capable of rallying even when there are large drawdowns in the prices of the Magnificent Seven stocks. Microsoft is in a bear market over the past 12 months, down over 25%, and Meta is down almost as much.



The latest fund manager survey from Bank of America has flagged a potential AI bubble as the biggest potential risk for markets.

The surge in semiconductor stocks is viewed by many as unsustainable, while the sharp increase in the volatility of the Nasdaq 100 (VXN) relative to the VIX is also drawing scrutiny. These trends are not confined to the US, as the average daily move in the tech-heavy Korean KOSPI index was as high as 4% in June, where markets saw an 8.3% one day decline and an 8.2% one day rally on the very next day. An associated risk identified in the survey is the possibility of a broader market selloff. On a more positive note, investors are much more optimistic about the health of the global economy, with 47% predicting “no landing,” meaning a continued strong expansion. Worries about high oil prices and problems with the private credit market have abated. Bank of America analysts take the view that these findings point to cyclical stocks outperforming defensive names and high yield bonds doing better than investment grade bonds.

Chart 2: ‘AI Bubble’ back as investors’ top concern (I)  
Semiconductor stocks on a tear: semiconductor vs software equities

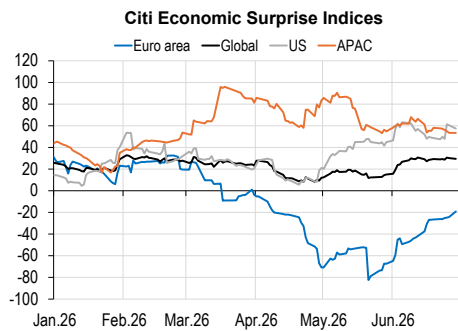


Chart 3: ‘AI Bubble’ back as investors’ top concern (II)  
Ratio of implied equity market volatilities: Nasdaq vs S&P

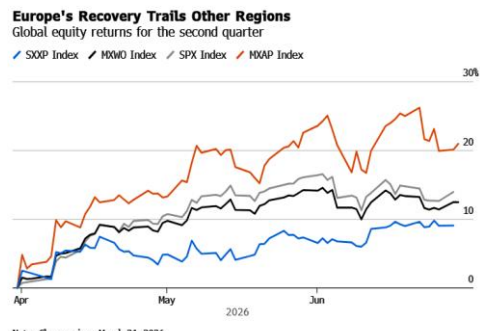


**Euro area**

**Euro area sovereign yields edged lower after French flash inflation for June came in below expectations.** Harmonized inflation came in at 2.0% y/y (vs. 2.3% expected, down from 2.8% in May). Italy's flash harmonized inflation also came in slightly below expectations at 3.1% y/y versus 3.2% expected. German inflation data are due later today, followed by the euro area flash inflation print tomorrow. Risk sentiment improved, with the STOXX Europe 600 rising 0.6%, although Bloomberg noted that European equities continue to lag US stocks. The euro weakened 0.2% against the dollar to around 1.14. Meanwhile, the ECB Forum on Central Banking began yesterday in Sintra, Portugal. Widely regarded as Europe's equivalent of Jackson Hole, the conference brings together central bankers, academics, and market participants to discuss monetary policy and financial stability. ECB President Lagarde said the ECB's latest rate hike was justified under all scenarios considered, rejecting the characterization of the move as an "insurance hike," and argued that the euro area has become more resilient to external shocks. Today's sessions focus on AI and its implications for financial stability.



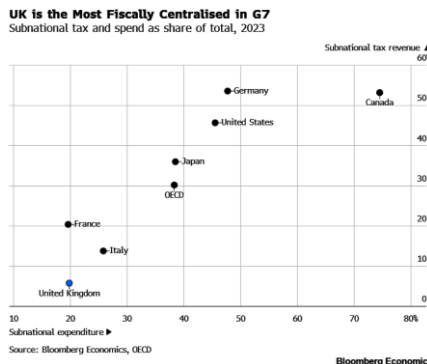
Source: Bloomberg. Note: negative values reflect worse than expected economic data outturns.



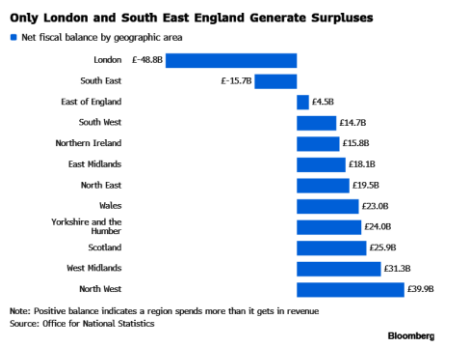
Note: Change since March 31, 2026. Source: Bloomberg

**United Kingdom**

**UK markets focused on Labor leadership candidate Andy Burnham after he outlined his economic vision and reaffirmed his commitment to the existing fiscal rules,** easing concerns about higher borrowing. Burnham proposed a long-term growth strategy centered on greater devolution—transferring more funding and decision-making powers to regional and local authorities—alongside reindustrialization and infrastructure investment. However, analysts noted that the plans remain light on financial detail. Bloomberg writes that greater devolution could boost productivity by improving local decision-making, with Greater Manchester often cited as a successful example. However, the UK is one of the most fiscally centralized economies in the G7, and analysts caution that implementation will take years. Yesterday, sterling rose 0.4% against the US dollar, with some market participants attributing the move to Burnham's reaffirmation of the fiscal rules. Rabobank notes that while gilt spreads have narrowed as UK inflation concerns have eased, recent foreign selling of gilts and a build-up in speculative short sterling positions point to lingering political caution.



Source: Bloomberg Economics, OECD



Note: Positive balance indicates a region spends more than it gets in revenue. Source: Office for National Statistics

**Japan**

**Super long JGB yields rose on fiscal sustainability worries.** Long-dated JGB yields resumed their increases amid fresh concerns for Japan’s rising debt load. Earlier in the week, PM Takaichi’s administration unveiled a public-private partnership investment plan totaling more than ¥370 tn (US\$2.3 tn) through fiscal 2040, focusing on strategic sectors such as AI and semiconductors. The yield on the 30-year bond rose 11 bps to 3.94% and the 20-year note rose 9 bps to 3.64%. Meanwhile, following a well-received 2-year note auction, the 2-year yield fell 4 bps. The bid-to-cover ratio at the auction was 4.82x, compared to the 12-month average of 3.74x. BNP Paribas Asset Management noted that strong demand for the short note suggests limited expectations for BOJ rate hikes and underscores lackluster outlook for long bonds given expectations for long-dated yields to rise further amid greater fiscal spending.

**Japan's Bond Yields Hover Near Multi-Year Highs**



Meanwhile, **the yen fell to its weakest against the dollar in four decades** as investors bet on further yen depreciation. Speculative positioning has remained heavily skewed against the yen. According to data from CFTC, leveraged funds increased bearish yen positions to 115,033 contracts in the week ended June 23<sup>rd</sup>, near the highest level since November 2017. Moreover, the upcoming US payrolls data on Thursday could weigh on the yen if the dollar gains from a strong report. Accordingly, traders have revised their target for MOF intervention to ¥163–165/\$ range. The yen ended on the day at ¥162.3/\$ (-0.2%).

**Intervention Battleground**



**Emerging Markets**

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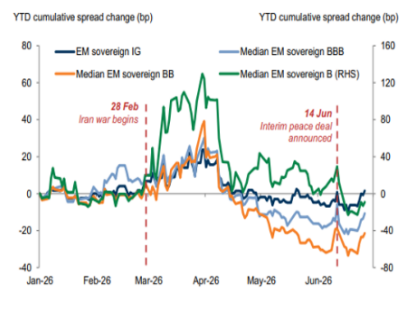
**EMEA risk assets underperformed this morning, particularly in the Gulf region, lagging advanced economy equity markets.** Egypt’s equity market outperformed (+1.7%) on news that a staff level agreement had been reached with the IMF that could free up future funding. **Asian markets were mixed but AI-focused bourses like the KOSPI and the Nikkei made gains.** The won depreciated to its weakest level in three weeks as foreigners sold local assets. **LATAM assets mostly traded higher, with**

**currencies appreciating marginally amid broader US dollar weakness, while most equity markets rose.** In Peru, Keiko Fujimori won the presidential race with a narrow margin. Mexico is to introduce a bond purchase program to support local markets.

### Emerging Market Yields

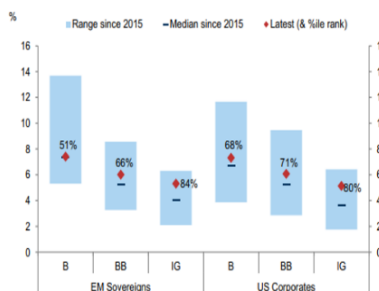
**Higher all-in yields are keeping demand for EM debt strong despite historically tight spreads,** according to Goldman Sachs. EM sovereign spreads over US treasuries have tightened considerably since the Middle East conflict began in late February (Figure 1). However, all-in yield levels remain attractive, particularly for investment grade and BB-rated debt, as they remain well above their historical medians (Figure 2). Notably, the spread tightening following the April ceasefire announcement has offset the impact from higher US yields, keeping the total returns on EM sovereign debt around 2.5% YTD (Figure 3). This reflects the offsetting relationship between EM spreads and US yields observed in the current cycle. Going forward, as US yields are likely to remain elevated, robust carry is likely to be the driver of future EM sovereign returns.

**Figure 1. Across rating buckets, EM sovereign credit spreads have quickly retraced their war-related March weakness and have been trending tighter since**

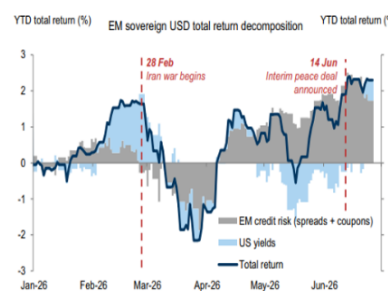


Source: Bloomberg, Goldman Sachs Global Investment Research

**Figure 2. While spreads are at historical tights, EM yields remain compelling versus history, again like their US counterparts Yield to worst**



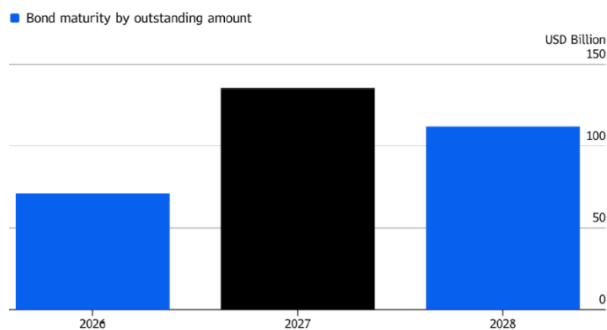
**Figure 3. Tighter spreads since the April ceasefire announcement have largely contributed to year-to-date highs in total returns, largely offsetting the impact of higher yields recently**



### China

**Chinese authorities are tightening regulatory scrutiny of offshore bond issuance to limit the local government debt.** According to Bloomberg, the National Development and Reform Commission (NDRC) has asked banks in recent weeks to avoid underwriting any offshore RMB notes yielding more than 4% and any dollar securities yielding more than 5% to limit local government debt financing. Already, local news reports have noted that some local financing units have seen their offshore bond issuance quotas reduced by 10 to 20%. Meanwhile, about \$71 bn of offshore bonds will mature over the remainder of this year, based on data from Bloomberg. Refinancing pressures will increase next year, with more than \$130 bn coming due.

#### China Offshore Bond Maturities to Peak Next Year



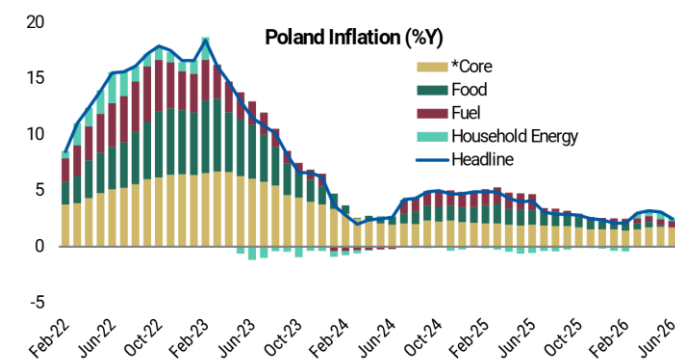
Note: The 2026 data covers the period from June 29 through year-end.  
Source: Bloomberg

Bloomberg

## Poland

**Inflation slowed by more than expected in June, strengthening the case for the National Bank of Poland (NBP) to remain on hold for the rest of the year**, Morgan Stanley (MS) writes. Headline CPI fell to 2.5% y/y, lower than the 2.7% expected, and down from 3.1% in May. This was driven by weaker food, fuel, and household energy prices, while core inflation eased only modestly to an estimated 3.0% y/y. MS notes that the softer inflation print increases the likelihood that the NBP will leave rates unchanged through year-end, rather than deliver the 25 bp September rate hike it had previously expected.

Exhibit 1: Poland Inflation and Components Contribution (pp)

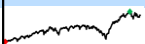







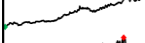












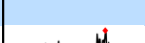

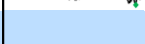





Source: Central Statistics Office, NBP, Haver, Morgan Stanley Research forecasts; \*Current data represents Morgan Stanley estimate

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## Global Financial Indicators

Last updated: 6/30/26 7:57 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		7,440	1.2	-0.4	-1.8	19.9	9
Europe		6,313	1.3	1.3	4.3	19.0	9
Japan		70,062	0.9	0.4	4.7	75.2	39
China		4,979	1.1	1.2	2.8	26.3	8
Asia Ex Japan		117	0.5	-5.4	-1.3	42.2	26
Emerging Markets		67	0.4	-5.3	-1.7	39.8	23
<b>Interest Rates</b>			basis points				
US 10y Yield		4.4	1	-11	-5	16	22
Germany 10y Yield		2.9	-1	-7	-9	25	0
Japan 10y Yield		2.7	4	0	2	125	62
UK 10y Yield		4.7	1	-2	-8	24	25
<b>Credit Spreads</b>			basis points				
US Investment Grade		115	0	8	9	-17	7
US High Yield		321	-6	16	6	-29	-15
<b>Exchange Rates</b>			%				
USD/Majors		101.4	0.3	0.0	2.4	4.6	3
EUR/USD		1.14	-0.2	0.1	-2.0	-3.3	-3
USD/JPY		162.4	0.3	0.5	1.7	12.8	4
EM/USD		46.7	0.0	-0.2	-2.2	0.7	0
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		73.1	-0.1	-5.2	-19.8	12.9	21
Industrials Metals (index)		172.1	1.5	-0.9	-7.3	15.9	5
Agriculture (index)		54.6	0.3	0.3	-4.7	-0.2	2
Gold (\$/ounce)		4031.9	0.4	-2.1	-10.1	22.1	-7
Bitcoin (\$/coin)		59111.2	-1.8	-0.4	-19.7	-45.1	-33
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		17.5	-0.2	-2.0	2.2	0.8	2.5
Global FX Volatility		6.6	0.0	-0.3	0.3	-1.9	-0.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		68	0	-1	1	-1	9
Italy		77	4	4	5	-10	7
France		78	0	2	17	11	7
Spain		48	0	1	7	-15	5

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

### Emerging Market Financial Indicators

6/30/2026 8:00 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.79	0.1	0.1	-0.3	5.6	3.0		1.8	-1	-2	-1	8	-15
Korea*		1551	-0.6	-1.1	-2.4	-12.7	-6.9		4.3	3	3	25	155	97
Indonesia		17907	-0.3	-0.3	-0.6	-9.3	-6.9		7.2	-2	1	36	53	113
India		95	-0.1	0.1	0.3	-9.4	-5.1		7.7	-1	-10	-15	93	58
Philippines		61	-0.3	0.0	0.6	-8.2	-3.9		5.9	-5	-8	-20	105	122
Thailand		33	0.2	0.1	-1.8	-2.3	-5.2		2.2	1	-5	-18	46	42
Malaysia		4.08	-0.3	1.4	-2.9	3.1	-0.6		3.6	1	0	5	10	10
Argentina		1481	-0.3	-1.3	-4.8	-18.7	-2.0		0.0	0	0	0	-3201	-3237
Brazil		5.17	0.0	-0.6	-2.7	5.0	6.2		14.3	-4	-42	29	39	74
Chile		922	0.2	-1.7	-3.4	1.0	-2.3		5.4	0	-3	-7	-11	7
Colombia		3453	0.0	-0.6	6.9	18.4	9.3		12.1	0	-4	-161	-2	-81
Mexico		17.47	0.0	0.5	-0.6	7.3	3.1		8.9	5	1	-17	-38	-8
Peru		3.4	0.1	-0.7	0.1	3.8	-1.4		6.1	-1	-2	-56	-31	32
Uruguay		40	-0.1	-0.6	0.0	-0.6	-2.6		7.4	-3	0	-8	-147	-11
Hungary		313	-0.8	0.0	-2.2	8.4	4.7		5.0	-1	-18	-30	-165	-151
Poland		3.77	-0.4	-0.2	-3.4	-4.5	-4.8		4.7	1	-14	-35	-29	18
Romania		4.6	-0.3	0.2	-2.0	-6.4	-5.8		6.6	3	-10	-12	-76	-9
Russia		78.1	-1.1	-4.3	-7.7	0.3	0.9							
South Africa		16.4	0.3	1.1	-0.3	8.2	1.2		8.5	3	-8	-19	-173	-5
Türkiye		46.66	0.0	-0.4	-1.6	-14.7	-7.9		33.6	-9	-49	-217	113	401
US (DXY; 5y UST)		101	0.3	0.0	2.5	4.6	3.1		4.16	2	-11	2	36	43

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
			basis points											
China		4,979	1.1	1.2	2.8	26.3	7.5		88	6	2	-24	13	
Korea*		8,476	1.0	3.3	-3.5	174.4	101.1		22	0	0	-4	0	
Indonesia		5,643	-3.1	-7.5	-7.9	-18.4	-34.7		111	8	13	11	25	
India		76,479	-3.1	-0.8	3.0	-8.6	-10.3		95	4	15	-11	5	
Philippines		6,037	-1.6	-1.5	4.1	-6.0	-0.3		92	8	3	6	17	
Thailand		1,591	0.9	3.3	1.5	43.4	26.3							
Malaysia		1,664	-0.1	-0.9	-1.1	7.9	-1.0		55	5	10	-22	-4	
Argentina		3,176,751	1.7	-3.1	0.3	59.2	4.1		440	13	-62	-247	-129	
Brazil		173,205	-0.1	1.7	-0.3	24.7	7.5		193	9	10	-30	-10	
Chile		10,763	0.5	-1.3	-0.2	30.5	2.7		96	10	6	-20	5	
Colombia		2,286	1.1	-4.5	5.0	37.0	10.6		207	15	-42	-140	-70	
Mexico		67,641	0.6	0.8	-1.4	17.7	5.2		208	7	4	-70	-9	
Peru		3,233	-1.3	-4.7	-3.7	66.5	25.1		98	9	7	-31	-11	
Hungary		140,112	0.7	0.6	4.1	43.5	26.2		110	8	-3	-54	-29	
Poland		135,928	0.9	-1.1	-0.8	29.8	15.9		91	5	-3	-17	0	
Romania		32,453	1.5	4.6	8.6	73.2	32.8		181	10	1	-58	5	
South Africa		110,358	0.1	-1.1	-3.7	14.4	-4.7		211	9	4	-92	-7	
Türkiye		14,171	-0.1	-2.5	3.7	42.4	25.8		258	12	-7	-62	24	
EM total		67	1.5	-5.3	-1.7	39.8	23.2		267	13	7	-104	-4	

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

\*Not an EM Under IMF Classification.

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