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MARKET OVERVIEW JUNE 2026

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"BLACK SWAN? DID YOU SAY BLACK SWAN?"

Stock markets hit new records, driven by artificial intelligence (AI) and hopes for de-escalation in the Middle East. Despite the joint blockade of the Strait of Hormuz by Iran and the United States, investors are betting on a lasting agreement between the warring parties and a limited impact of the conflict on the global economy. Oil prices and interest rates have eased.

LESSONS TO BE LEARNED FROM THE STOCK MARKET EUPHORIA

Against all odds, the world's major stock market indices are up more than 10% since the beginning of the year. Since their low point in March, reached a few weeks after the start of hostilities (February 28), the rebound has already exceeded 15%! We are experiencing one of the most uncertain and stressful geopolitical episodes in recent history. This conflict, through its direct and indirect implications, affects the entire planet. More than a billion barrels of export oil have already been lost since the start of the conflict; several million barrels are missing from the global market every day, and strategic reserves are dwindling rapidly. The prices of many petroleum-derived inputs, such as fertilizers, have skyrocketed. **We could rightly describe this episode as a "revolution. » which is not yet over, the "black swan" phenomenon**, a concept described by essayist Nassim Nicholas Taleb nearly twenty years ago. A black swan refers to a highly improbable event whose consequences are of almost biblical proportions. The 2008 *subprime mortgage crisis* was a black swan, as was the 2020 pandemic. Several exceptional events have fueled market volatility in recent years; each time, the markets eventually recovered their losses and reached new all-time highs. Examples include the start of the war in Ukraine (February 2022), the price shock (Liberation Day, April 2, 2025), the collapse of regional US banks in 2023, and, currently, the blockade of the Strait of Hormuz, which still paralyzes 6 to 8% of the world's oil supply and a significant portion of LNG trade.

Despite the very real impact on inflation and global economic growth, and therefore on companies' profit prospects, investors are adopting a decidedly optimistic view. The consensus is that this episode will only have temporary and very limited consequences. Investors are behaving according to the well-known acronym "FOMO" (fear of missing out), as if the main danger were missing the recovery. Furthermore, the consensus largely bets on Washington's inability to prolong this war indefinitely, a war that is seriously weakening Donald Trump and the Republicans in the polls, just months before the midterm elections. This is the famous acronym "TACO" (Trump *always chickens out*), which means that Donald Trump's pragmatism will ultimately prevail. The latest reports of a possible minimal agreement with the Iranians, which would postpone resolving the military nuclear issue and

raise questions about the usefulness of this war, are likely to reinforce this consensus.

Certainly, the indices are not solely supported by hopes for peace. The momentum of listed companies' earnings was most impressive for the first quarter, and not just in the technology sector. This earnings season lends considerable credibility to Wall Street's earnings growth forecast of 24% by 2026 – the March consensus was for 17% –, including a 45% increase for technology stocks alone. **New York is largely driven by corporate investment (up 10.4% in the first quarter), particularly in AI (data centers)**. We note that the ever-increasing weighting of technology in the indices, especially semiconductors, is also supporting the performance of emerging market indices and the Tokyo Stock Exchange. The long-standing themes of AI, the electrification of the economy, and sovereignty (military spending, raw materials, energy, etc.) are also less vulnerable to temporary upheavals. However, stocks are currently highly valued, as the US Federal Reserve (Fed) reiterates in its latest Financial Stability Report from May: Wall Street's risk premium is near its lowest point in the last twenty years. Other valuation methods reach similar conclusions. The hundreds of billions of dollars invested in AI are compressing free cash flow returns to levels not seen since 2008.

However, even without mentioning the ever-present possibility of a black swan event, which is –by nature entirely unpredictable and therefore unknown before it occurs –, the risks are very real, widely discussed, and would perfectly justify higher risk premiums in financial markets: the increasing turmoil of international relations in a politically fragmented world, climate challenges, rising interest rates—a consequence of volatile inflation and public deficits—, technological obsolescence and physical constraints in the investment cycle driven by AI—the subject least understood by investors—, and demographics, to name only the most pressing dangers. Despite the high level of uncertainty, the probability of a recession, in the short and medium term, as reflected in credit markets and stock market indices, is virtually nil. Are investors complacent? Undoubtedly, but complacency is by no means a sign of a market reversal. The frenzy

surrounding the upcoming IPOs of SpaceX, Anthropic, and OpenAI is, however, just one warning sign among many. The physical constraints

associated with large-scale AI deployment (particularly access to the electrical grid and water for cooling) could serve as a wake-up call.

WHAT CAN WE EXPECT IN THE BASIC SCENARIO?

While negotiations are struggling to produce a solid and lasting agreement between the belligerents, what can we expect in the coming months? The basic and consensual scenario, which is that of a gradual de-escalation in the Middle East and a return to freedom of navigation in the Strait of Hormuz, opens the way to a broadening of the bull market to sectors that have suffered from the conflict, and which have underperformed since February 28 or in the rebound phase : interest rate sensitive segments, sectors exposed to the economic cycle, smaller stocks, but also segments driven by long-term secular themes (raw materials, defense, energy). The very high concentration of indices in technology, and in particular in semiconductors (between 10 and 20% of indices, excluding Europe), undoubtedly suggests profit-taking after a fabulous stock market run that reflects the strength of the investment cycle in AI infrastructure, a cycle that is far from over, and the lack of production capacity for components essential to data centers, while spending by *hyperscalers* (cloud leaders) and AI players is expected to exceed one trillion dollars in 2027. The outperformance of the semiconductor sector has also been accompanied by continued poor performance in the software (SaaS) and IT services segment, apart from a few exceptions that reassured investors when they published their latest quarterly results. This situation reflects investor concerns

about the heightened competition faced by software publishers from new AI players, who are challenging traditional billing models and driving down coding costs significantly in a sector known for its high margins and free cash flow generation. **However, we note that these deflationary pressures are accelerating the adoption of AI, particularly agentic AI, throughout the rest of the economy,** even though many questions remain about the true cost of this technological revolution (the cost of the *token*). Information released during the IPOs of Anthropic and OpenAI will shed more light on this fundamental issue.

The more pessimistic scenario of a protracted conflict and a continued blockade of maritime traffic in the Strait of Hormuz would undermine market optimism. According to officials at the International Energy Agency (IEA), the risk of oil shortages in July or August is likely if the crisis is not resolved in the coming weeks. Even if the strait were to reopen quickly, price declines would be hampered by the need to replenish strategic reserves and resolve numerous logistical issues. Persistent inflationary pressures would likely not go unaddressed by central bankers, and interest rates could quickly begin to rise again. **This less likely scenario would inevitably be accompanied by a replenishment of risk premiums.**

CONCLUSION

Investors' appetite for risk has rebounded strongly since March, despite the high level of uncertainty. Fueled by AI and hopes for a resolution to the conflict in the Middle East, markets are not pricing in any serious risk of recession and are already looking well beyond short-term geopolitical turmoil. **While the spread of AI is happening faster than expected,** no one can seriously deny that this revolution holds tremendous promise for productivity gains and increased potential growth, and therefore, higher corporate profits. However, high valuation levels and the overconcentration of indices argue for more active portfolio management and greater diversification, favoring market segments that offer a better risk-return profile.

The dangers haven't disappeared; interest rate markets already exhibit the highest volatility of any price index; and global challenges are numerous, including climate, geopolitical, and demographic issues. While we expressed optimism regarding equities for the year ahead at the beginning of the year, a more cautious approach would now be perfectly justified, given their performance of around 10% since January 1st. Adopting a more diversified asset allocation than the major, highly concentrated indices seem a sensible choice. An old stock market adage advises buying when the market is booming—at the height of crises, when prices are low—and selling when it's booming—taking profits after the rebound. Investors might want to remember this wisdom during the summer months.

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