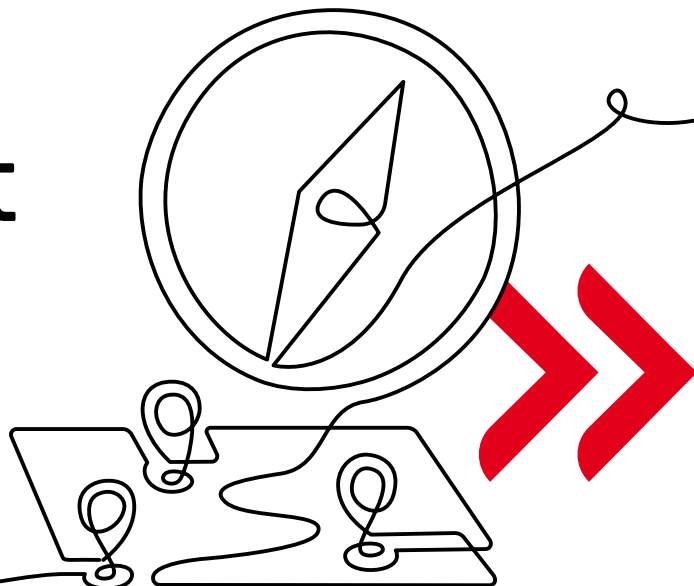


# The Checkpoint

3 June 2026



## The Warsh Fed

A new era begins at the Fed in a very unusual political environment. Kevin Warsh is the new chair of the Federal Reserve. His confirmation was the most divisive in the history of the central bank, passing the Senate on an almost purely party-line vote with 54-45. By comparison, Jerome Powell was confirmed 84-13, Janet Yellen 56-26, and even Ben Bernanke's crisis-era reappointment cleared the Senate 70-30. During the swearing-in ceremony, President Donald Trump subtly called for a loose monetary policy: "Kevin understands that when the economy is booming, it is – uh, that's a good thing."

To be sure, Warsh is a competent central banker. However, sustained political pressure from Trump – especially if it remains as explicit as in recent months – risks creating the perception that his economic arguments for monetary easing may, in fact, be masking political considerations.

Take the AI boom. In the run-up to his nomination, Warsh called for pre-emptive rate cuts, arguing that an AI-driven productivity boom would justify a more-accommodative stance. On closer inspection, however, this rationale appears far from robust.

While it is reasonable to expect that AI, over time, will boost productivity, expand the economy's supply frontier and exert disinflationary pressure, the short-term dynamics appear quite different. For now, AI looks more like a positive demand shock than a positive supply shock. AI-related firms are investing heavily – on the order of trillions of US dollars – to build the necessary infrastructure, a process that is inherently inflationary (requiring construction workers, raw materials, energy and so on). At the same time, firms adopting AI often duplicate costs as they preserve old processes and work on integrating new technologies, but are still far from realizing meaningful efficiency gains.

Moreover, Warsh's dismissal of traditional macroeconomic models in favour of judgments and forward-looking economic analysis (such as the future impact of technological change) threatens to deprive markets of a coherent framework for interpreting Fed actions, introducing too much discretionality. In this context, if interest rates were to move at all, the argument could more plausibly be for higher – not lower – rates.

For markets, the risk is more volatility. Not only will the central bank be less committal and predictable, but the decision-making process will also be less transparent, less anchored in established analytical frameworks and more prone to formal dissent.

**Manuela D'Onofrio**  
Chair of  
The Investment Institute

**Fabio Petti**  
Co-Chair of  
The Investment Institute

**Edoardo Campanella**  
Director and Chief Editor of  
The Investment Institute

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# View from the CIOs

Alessandro Caviglia (Italy), Erik Haubold (Germany), Martin Mayer (Austria)

Despite the uncertainty surrounding the end of conflict in the Persian Gulf, stock markets continue to demonstrate extreme confidence in its temporary nature. Ultimately, President Donald Trump is aware that this issue is not popular with his electoral base, and it will increasingly weigh as we approach the midterm elections in November. However, there are more technical, less geopolitical factors that justify a positive attitude on the part of investors. First, technology and financials are the sectors currently weighing most heavily on global stock markets. These two sectors are probably furthest from the epicentre of the energy crisis and are better able to withstand shocks of this nature, especially if it proves short-lived. Furthermore, the main stock indices exhibit a historically high level of concentration in just a few stocks. This could be interpreted as a potential sign of weakness. Moreover, the earnings results of these few companies could impact the entire index and thus overall market sentiment.

During the latest earnings season, company results generally came in positive or above expectations. In addition, the largest-cap companies are global in nature. For example, many European companies listed in Paris, Frankfurt and Milan generate a large portion of their revenue outside Europe and would be less affected by a potential slowdown in the domestic economy. The combination of these technical factors makes equity markets much more resistant to macro factors on the one hand, and extremely dependent on micro factors and therefore on specific company results on the other hand. Overall, we maintain a constructive outlook for equities, with a more-positive tone for emerging markets.

Conversely, the bond market cannot escape the macro factors growth and inflation, as they guide central banks' monetary-policy decisions. We therefore maintain a cautious stance on government bonds from developed countries, especially when considering that we are in a historic phase of synchronous fiscal expansion in the western world. Thus, any concerns regarding debt sustainability could impact the level of yields at the long end of the curve.

## ASSET ALLOCATION

OUR INVESTMENT VIEW ON ASSET CLASSES

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>Global equities</b>		●	
US equities		●	
European equities		●	
Pacific equities (developed markets <sup>1</sup> )		●	
Emerging-market equities			●
<b>Global bonds</b>		●	
Government bonds (EMU)	●		
Government bonds (N-EMU)	●		
Corporate bonds (EUR-denominated investment-grade)		●	
Corporate bonds (high-yield)	●		
Emerging-market bonds (hard currency)			●
Emerging-market bonds (local currency)			●
<b>Money markets</b>		●	
<b>Alternatives</b>		●	
Bitcoin		●	
<b>Commodities</b>		●	
Oil		●	
Gold		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore





# Geopolitical Update

Author: **Edoardo Campanella**

Director and Chief Editor of The Investment Institute



## A chat with... Carl Bildt

Former Prime Minister of Sweden



Interviewed on 27 May as part of our webinar series “40 minutes with ...”. Below is an edited excerpt of the script. You can find the recording [here](#).

**Edoardo Campanella:** Are we entering a G-zero world where nobody is in charge, or a G2 world where the US and China coordinate to rule the international system?

**Carl Bildt:** I think we are in neither. I don't think we are in a G2 world. The Americans and the Chinese are busy sorting out their own bilateral relationship. But as you saw from the recent meeting in Beijing, their ambitions and their ability to influence wider global development seem fairly limited. That also has to do with the limited power of the United States, which is very much exposed in the Middle East today. Are we in a G-zero world? That would mean no one is in charge of anything. Not quite. We still have elements of multilateralism that are working. The European Union is quite successful at the moment in conducting trade negotiations around the world and building networks of trusted partnerships in global trade. So, it is a very confusing picture. We have clearly left one global order, but we have not entered a new one. We are in a period of turmoil and uncertainty, which I fear is going to be with us for quite some time.

**Edoardo Campanella:** Since January, the Trump administration has been active across different and distant regions – Venezuela, Greenland and Iran. Do you see any geostrategic coherence?

**Carl Bildt:** There are elements of coherence, but also elements of pure chaos. If you look at the 2025 National Security Strategy, the first priority was the Western Hemisphere – a kind of updated Monroe Doctrine. That explains Venezuela. Greenland, however, was more of a personal idea by Trump. The US has long had strategic interests there, but the idea of taking it over – even by force – was highly unusual. The strategy's second priority was China, then Europe, then the Middle East. Yet despite stating a desire to reduce involvement in the Middle East, Trump entered new conflicts there. That contradicts long-term US strategy. So I don't see a clear unifying logic.

**Edoardo Campanella:** Let's look at Iran. Are we going to get a deal soon?

**Carl Bildt:** I think we will get some sort of deal, but not a comprehensive one. The conflict will persist in various forms. Trump expected a quick victory, as Putin did in Ukraine. But none of the objectives have been fulfilled. The regime remains, the nuclear issue is unresolved and a new problem has emerged in the Strait of Hormuz. There may be an arrangement to stabilize shipping, but broader issues will remain unresolved for some time.

**Edoardo Campanella:** Looking ahead five years, what will the Middle East look like?

**Carl Bildt:** It won't be stable, but hopefully not full chaos either. There will be elements of both. Israel will play a major role, having adopted a more-aggressive posture. Iran will still be present. Syria will remain contested, Yemen complicated, and regional rivalries – such as between Abu Dhabi and Riyadh – will continue to shape conflicts. So: no stability, no complete chaos, but no peace.



# What will a Warsh Fed look like?

Authors: Daniel Vernazza, Luca Cazzulani, Roberto Mialich

Kevin Warsh has just become chair of the Fed, replacing Jerome Powell. But what will Warsh do? Uncertainty is high regarding what he really thinks and what changes at the Fed he could bring in. The former inflation hawk, when he was a Fed governor from 2006-11, has over the past year argued that an AI productivity boom would be disinflationary and could facilitate lower interest rates, which likely played a big role in him being nominated for Fed chair by President Donald Trump. In what follows, we discuss our expectations for the Warsh-led Fed.

## 1. Defending independence and consensus-driven policy

We expect Warsh to defend the independence of the Fed and maintain the consensus-driven nature of policy decisions. This will be challenging, to say the least, as Trump has repeatedly demanded interest-rate cuts. But Warsh will not be bound by what he did or did not say to Trump during interviews for Fed chair. Above all, he will not want to go down in history as the next Arthur Burns, who led the Fed between 1970 and 1978 and is widely recognized as bowing to political pressure to lower interest rates (and inflation surged).

Even if Warsh gave in to Trump's demands (unlikely), it is not in his gift to decide monetary policy, which instead is set by the 12 voting members of the Federal Open Market Committee (FOMC). Currently, the FOMC is divided, but no one is calling for rate cuts. Fed Governor Christopher Waller, who was previously dovish and one of the final four candidates Trump considered for Fed chair, has now turned hawkish, saying, "I can no longer rule out rate hikes further down the road if inflation does not abate soon".

## 2. Interest-rate cuts on the back burner

Warsh has argued for a shift towards more forward-looking thinking, rather than backward-looking data dependence, in deciding interest rates. But it is going to be very difficult to convince the current FOMC to support a change in interest rates based on a whim. They will be looking at incoming data to see whether it supports a particular narrative.

The economic backdrop does not favour rate cuts in the near term. Supply shocks from tariffs and, more recently, the Iran war have pushed up headline inflation well above the 2% target and close to 4%. At his Senate confirmation hearing in April, Warsh argued that the Fed should pay more attention to "trimmed averages" of inflation (which remove extreme price movements), rather than core inflation (which removes volatile food and energy prices). Trimmed mean measures of inflation tend to run a little below core inflation, which could provide a basis for the central bank to "look through" one-off price movements, including from tariffs that impact core goods prices. But inflation expectations, including market-based ones, have moved up too. And the labour market has shown signs of stabilising, after softening in 2Q25 and 3Q25.

Warsh has previously argued that an AI productivity boom would be disinflationary, which if true could facilitate lower interest rates. But this is unlikely to be the case in the near future, as strong AI investment (in order to take advantage of the new technology and as higher anticipated productivity growth increases the return from investment) will add to aggregate demand and increase the prices of AI-related inputs, such as data processing equipment and software.

In the longer run, inflation is not driven by real variables such as productivity, it is driven by monetary policy (as Friedman famously said, inflation is always and everywhere a monetary phenomenon). It is theoretically ambiguous as to what impact an AI-driven productivity boom will have on the real neutral rate of interest. An upward effect could come from higher productivity – in workhorse economic models of economic growth, such as the Ramsay and Solow models, the rate of interest is equal to the (productivity) growth rate of the economy. But there are conceivable, offsetting, downward effects on the natural rate of interest. AI is likely to raise the capital share of income (as the gains from AI will be reaped by capital owners, not labour), and capital owners have a lower marginal propensity to consume, which would push down on aggregate demand and



the real natural rate of interest. Households worried about job security could also increase their precautionary savings, pushing the neutral rate of interest down.

In our base case, the Fed cuts just once in December this year and then stays on hold through 2027. That said, the economy doesn't really need rate cuts and the risks are skewed towards the Fed keeping rates steady.

### 3. Less guided communication

In his Senate confirmation hearing, Warsh spoke critically of Fed communications and will likely make changes. He is not a fan of the "dot plot", arguing that it can have the effect of tying rate setters' hands. He also thinks Fed officials talk too much, providing too much guidance, and he seemed open to cutting back post-FOMC press conferences.

Warsh will very likely make changes to Fed communications, as the FOMC is likely to be open to changes driven by the new chair, but these changes are likely to be limited and we doubt that Warsh will cut the number of press conferences given the well-documented benefits of transparency and explaining the Fed's reaction function to markets. Also, the chair will have little influence on the quantity of speeches and remarks by other FOMC members.

### 4. A smaller balance sheet

Warsh has made no secret of his desire to reduce the size of the Fed's balance sheet and shift its composition towards shorter-term assets. He noted that balance sheet policies tend to benefit disproportionately the wealthiest segment of the population, whereas interest rate policy affects a broader share of households. Balance sheet reduction should proceed gradually and be coordinated with the Treasury. This aligns with our view, as shrinking the balance sheet during a period of substantial government borrowing could put undue pressure on financial markets. Any decision to reduce the balance sheet would have to be supported by a majority on the FOMC and is likely to be implemented gradually, particularly as it could put upward pressure on US treasury yields.

### Market impact

Market expectations for Fed policy have been volatile since the start of the war, shifting from anticipated rate cuts to roughly 25bp of tightening currently priced in. In the near term, expectations are likely to remain data-dependent. As long as inflation stays elevated, energy prices remain under pressure and economic data are resilient, it is unlikely that the new chair will advocate rate cuts. In recent weeks, several board members have signalled discomfort with an easing bias, reinforcing the view that the current environment is not conducive to discussing policy loosening. Additionally, Warsh has emphasized his independence from the president; any early push for lower rates would risk undermining his credibility.

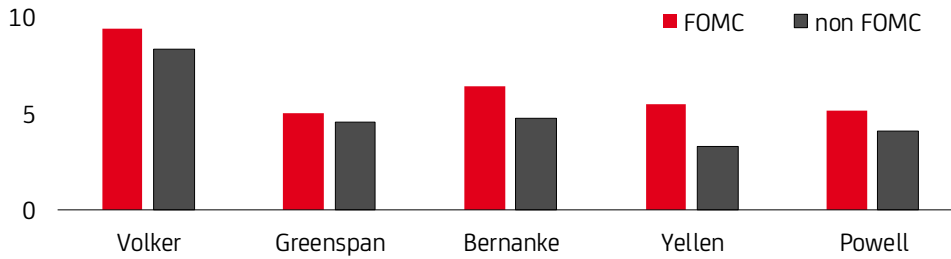
Warsh has also indicated a desire to overhaul Fed communication. He has argued that officials speak too frequently – particularly through detailed forward guidance – which can create implicit precommitments and constrain policy flexibility. Less-frequent communication between meetings and reduced expectation management could increase yield volatility around FOMC announcements. Conversely, cutting back on post-FOMC press conferences may dampen market reactions by providing a more concise information set.

Historically, yield volatility is higher on FOMC days than on non-FOMC days, reflecting the release of new information. However, volatility during Powell's tenure has been lower than under Yellen and Bernanke, suggesting that regular post-meeting communication helps moderate market reactions.



### CHART 1.1: HOW DO UST YIELDS REACT TO THE FED?

AVERAGE CHANGE OF 10Y UST YIELD ON FOMC AND NON-FOMC DAYS (ABSOLUTE VALUE, BP)



Source: Bloomberg, The Investment Institute by UniCredit

Note: The chart shows the average absolute change in 10Y UST yields on FOMC and non-FOMC days. Extraordinary meetings are excluded from the sample.

Balance-sheet reduction is likely to proceed gradually and affect the yield curve primarily through the term premium over the medium term. Two points are key.

First, any adjustment will be designed to minimize market volatility. While Warsh may aim to reduce the upward pressure on financial asset prices stemming from a large balance sheet, the Fed remains mindful of financial stability and will seek to balance these objectives.

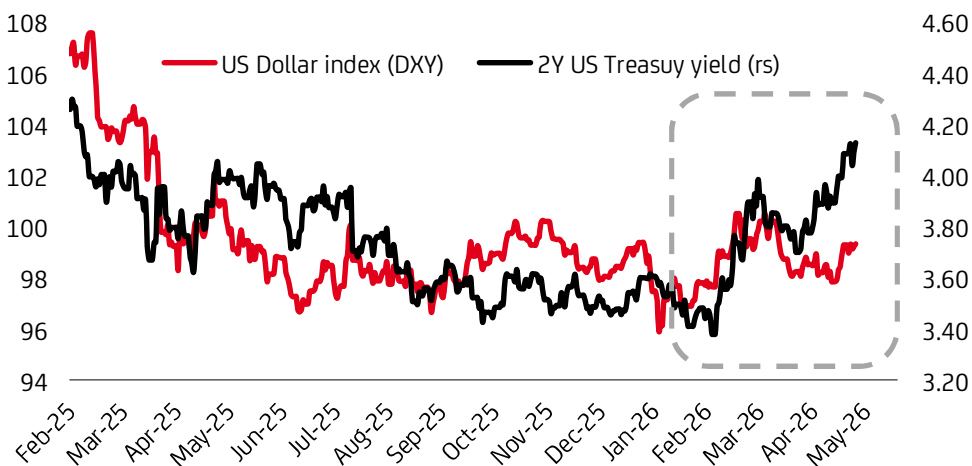
Second, before initiating balance-sheet reduction, the Fed must ensure that banks' demand for reserves is adequately met. Otherwise, a contraction could put unintended upward pressure on money market rates and weaken the transmission of monetary policy.

On the FX side, we do not expect the change in Fed chairmanship to have an immediate and substantial impact on the greenback. The USD outlook will likely depend on developments in the Middle East, and the greenback may lose its grip again when the war-driven risk premium vanishes. However, higher long-term yields along the curve might slow the potential retreat of the USD given the increased correlation between the two variables, as shown in the chart 1.2 below, where the US dollar index (DXY) is plotted against the 2Y UST yield.

Looking ahead, the effective independence of the Fed appears the most critical factor impacting the greenback. Fed Chair Kevin Warsh was considered a hawk during his tenure as a Fed governor. Hence, if he keeps this stance within the FOMC, the USD is unlikely to suffer. In contrast, the greenback may weaken if a central-bank credibility premium arises. On the policy front, US forward rates point to modest Fed tightening ahead, while we still expect a rate cut in December – a scenario that might catch investors on the wrong foot and act as a drag on the USD.

### CHART 1.2: USD SENSITIVITY TO UST YIELDS HAS RETURNED

THE USD DOLLAR INDEX (DXY) AND THE 2Y US TREASURY YIELD



Source: Bloomberg, The Investment Institute by UniCredit





# Macro Stories

Authors: Tobias Keller, Marco Valli, Daniel Richard Vernazza

## 1 Oil: severe disruption, fragile rebalancing

Three months into the Middle East conflict, supply disruptions linked to constrained flows through the Strait of Hormuz continue to drive pronounced volatility in crude markets. Benchmark prices have swung sharply in response to shifting signals around a potential US-Iran accord. While the cumulative loss of Gulf supply is unprecedented in scale, the effective supply-demand imbalance has been partially mitigated by demand destruction, coordinated stock releases and a reconfiguration of trade flows, with Atlantic Basin exports rising markedly to supply East-of-Suez markets. The market is set to remain in deficit through much of 2026, with a gradual rebalancing towards year-end. Crucially, the scale of cumulative inventory depletion points to a prolonged period of tightness even once supply normalises. Our central case assumes at least a partial restoration of flows, enabling prices to gradually soften towards roughly USD 90/bbl by year-end.

## 2 ECB: June hike is a done deal

Rate hikes are drawing closer in the eurozone. Given our expectation that inflation will average around 3.5% in 2H26, the economy will skirt recession and the labour market will avoid a downturn, it is very likely that the ECB will start tightening monetary policy at its next meeting on 11 June. Several influential members of the Governing Council have already signalled that a rate increase is in the pipeline. The key question is what happens to interest rates beyond June. The answer mainly depends on the developments regarding the war and energy prices. If our assumption that energy prices will start easing by the summer proves correct, the ECB will probably tighten only moderately, for three reasons. First, inflation expectations remain well-anchored. Second, financial conditions have already tightened due to higher long-term yields, reducing pressure on the ECB to act aggressively. Third, there is limited evidence of second-round effects in wages, which reduces the risk of broader spillover from higher energy prices to non-energy goods and services. Therefore, we see a final rate increase in September, bringing the deposit rate to 2.50%, the upper end of a plausible neutral range.

## 3 Fed: removing the easing bias

The Fed meeting on 16-17 June will be the first with Kevin Warsh as chair. The rate setting committee (FOMC) will almost certainly keep interest rates steady, leaving the target range for the federal funds rate at 3.50-3.75%. Inflation has moved materially higher, with headline PCE inflation at 3.8% in April, and core inflation at 3.3%. The big question at this Fed meeting is whether the FOMC will drop its implicit easing bias from the post-meeting statement. Back in April the committee kept this easing bias, but three voting members (Beth Hammack, Neel Kashkari, and Lorie Logan) dissented in favour of a neutral stance. We think the easing bias will go at next week's meeting, which should help Mr. Warsh's inflation-fighting credibility. We still expect the Fed to cut rates in December, assuming oil prices start to gradually reduce from the summer, but the risks are skewed towards Fed inaction.



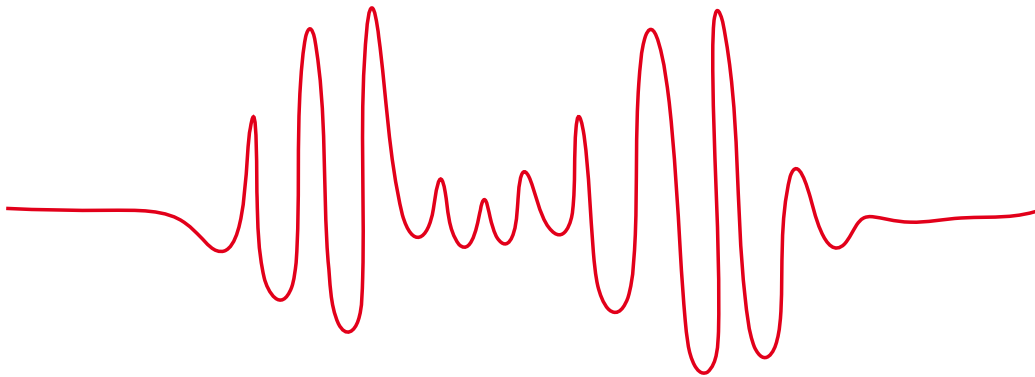


# Market Stories

Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

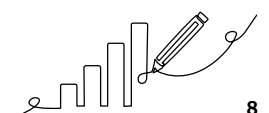
## The noise ...

Resilient market performance has led to an eight-week winning streak for the S&P 500 index, which reached a new all-time high, supported by a strong rally of semiconductor stocks. Sentiment regarding a resolution of the US-Iran conflict has improved following constructive news about progress in the negotiations. Energy prices and government bond yields have reacted sharply – to escalation fears earlier and then to hopes of an agreement. Political rhetoric, particularly from Washington, alongside uncertainty regarding central-bank responses to war-related, energy-driven price pressures, have added to the complexity of the situation, which will likely remain headline-driven.



## ... and the signal

Beneath the volatility, markets remain grounded in fundamentals. The repricing associated with recent geopolitical events has been concentrated in risk premiums rather than a revision of forward growth or earnings expectations, with no evidence of a meaningful shift towards recessionary pricing. In fixed income, higher yields reflect renewed inflation concerns linked to the energy-price shock and associated term-premium dynamics, rather than fears of a prolonged conflict, while in credit, there has been no spread widening, reflecting the medium-term constructive view of investors. Equities have demonstrated notable resilience, with drawdowns remaining contained, followed by a strong recovery of the S&P 500, which is up 17% from its lows at the end of March. Equities have been supported by strong earnings-growth momentum, in particular at those US companies that are benefitting from the AI-boom. Overall, geopolitics has amplified short-term volatility but has not displaced the main drivers for markets: earnings resilience, inflation dynamics and limited scope for rapid central bank policy easing. As markets are pricing in an imminent agreement between the US and Iran, any major setback involving renewed military escalation might catch investors on the wrong foot and lead to risk-off trades.



# Equities

## Micro strength anchors markets amid macro noise

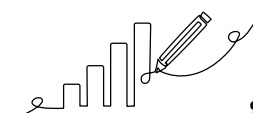
We maintain our constructive equity-market outlook, albeit with an increased focus on emerging markets and US equities. Europe is most affected by geopolitical disruptions due to its sector composition. Overall, however, the key point remains that **continued earnings growth should drive continued equity-market upside**.

**US equities** have led the global performance since the escalation of tensions in the Middle East, continuing to demonstrate notable resilience despite ongoing geopolitical uncertainty – even as disruptions in the Strait of Hormuz feed through global supply chains. The market's ability to absorb these shocks without a material deterioration in sentiment reflects the continued dominance of the earnings cycle over macro noise: the drag from higher energy costs is offset by the unbroken – and in part further accelerating – strength of the AI-driven investment cycle. Profit growth remains robust, underpinned by positive operating leverage, sustained pricing power and the ongoing diffusion of AI-related capital expenditure across sectors. Earnings revisions have turned increasingly supportive, and realised outcomes continue to exceed expectations, reinforcing confidence in the durability of the expansion. Large-cap technology remains central to the structural growth narrative, but incremental performance is increasingly delivered by more-cyclically-exposed segments. As a result, the market's trajectory is becoming less reliant on multiples expansion and is more firmly anchored in earnings progression. The key risks stem from a potential adverse macro-spillover scenario: sustained inflationary pressure and higher capital-market yields.

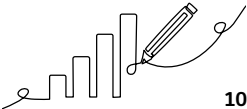
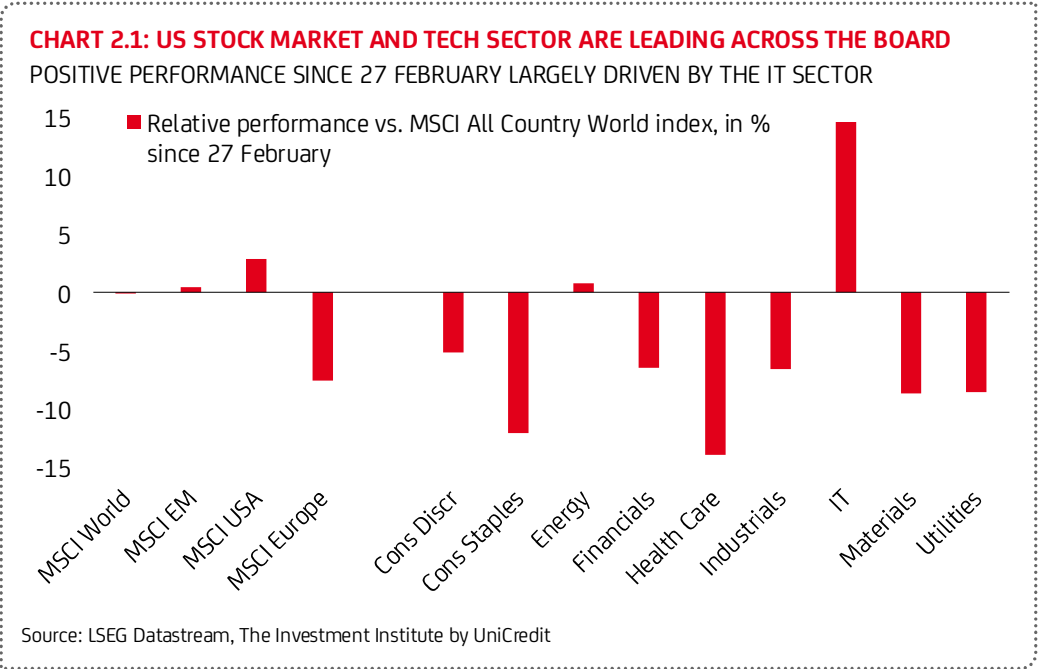
**European equities** remain more-directly exposed to the transmission of geopolitical risk, largely via significantly increased energy costs, and have lagged behind their global peers since the escalation of tensions in the Middle East. The disruptions around the Strait of Hormuz are feeding into the earnings outlook via higher energy costs and rising demand uncertainty. As was the case during previous energy shocks, the adjustment is sequential: corporates initially absorb or pass on higher input costs, but the longer prices remain elevated, the greater the risk that demand weakens and earnings revisions extend to the downside. At the index level, this creates an offsetting dynamic. Energy-related earnings provide partial support, while more-cyclical and domestically exposed sectors face pressure due to deteriorating demand conditions. At the same time, Europe's limited exposure to structural growth drivers, most notably AI, constrains its ability to offset these headwinds at the aggregate level. Moreover, persistently high energy prices risk prolonging inflation pressures, raising prospects of tighter monetary conditions and adding to the drag on valuations. This is increasingly reflected in flows and relative performance. Investors' earlier diversification into European equities has stalled, with capital rotating back towards markets offering stronger earnings visibility and structural growth exposure. This is reflected in the YTD performance of European equities coming in below other regions such as emerging markets and the US.

Alongside US equities, **emerging markets** have outperformed since late February, albeit with greater dispersion. Gains have been led by economies embedded in the AI supply chain, notably South Korea and Taiwan, while markets more exposed to geopolitical disruption have lagged behind. More broadly, emerging markets are increasingly shaped by their dual exposure to AI and commodities: Asian markets benefit from semiconductor and hardware linkages, while others retain strong leverage to real assets. This combination reinforces the role of emerging markets as a diversified source of global returns, although they remain sensitive to tighter global liquidity conditions stemming from potentially higher US yields and a stronger USD.

In **Asia Pacific, Japan** assumes a structurally improving, yet externally sensitive position. Japanese equities have held up relatively well since the outbreak of war in Iran, supported by their leverage to global capex cycles. This relative resilience is reinforced by the strengthening domestic backdrop:



rising inflation expectations (after a long period of deflation, also known as the “lost decades”), ongoing corporate governance reforms and a sustained focus on capital efficiency are underpinning a gradual re-rating of the market, even though the economy remains exposed to renewed energy-price volatility and a potential softening in global demand.



# Fixed Income

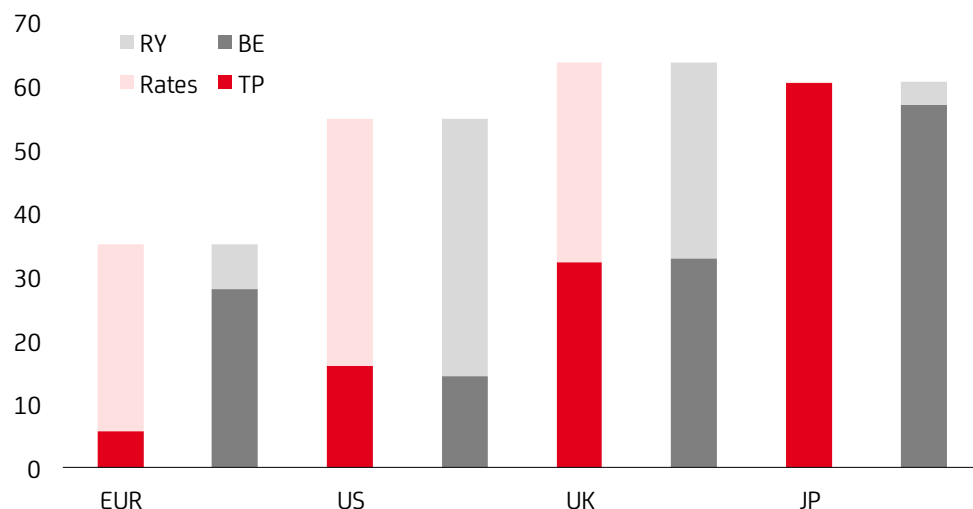
## Rise in bond yields primarily driven by central-bank expectations

Government bond yields have risen since the outbreak of war in Iran, accelerating in recent weeks, with 10Y yields reaching multi-decade highs in the US, the UK and Japan. Most of the upward pressure has been driven by expectations of further rate hikes by major central banks. This dynamic has been particularly evident in the US and the UK, while Japan stands out, with expectations regarding the Bank of Japan tightening remaining relatively stable.

Markets are correctly linking higher energy prices to central-bank reactions, in line with recent central-bank communication. Given that this represents a second inflation shock in just a few years, policymakers are focused on anchoring expectations before second-round effects emerge. The sharp repricing in policy-rate expectations also suggests that the adjustment in term premiums has been relatively limited, with Japan a partial exception.

**CHART 2.2: GOVERNMENT BOND YIELDS HAVE RISEN MAINLY DUE TO CENTRAL-BANK REPRICING**

CHANGE IN 10Y BREAKEVEN, REAL YIELDS, TERM PREMIUM AND EXPECTED POLICY RATE (%)

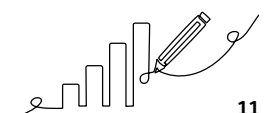


Source: Bloomberg, The Investment Institute by UniCredit

Note: The chart shows changes in 10Y breakeven (BE), 10Y real yields (RY) and the expected policy rate over a 12-month horizon.

For bond investors, this environment creates two main challenges. First, bond performance is increasingly tied to monetary-policy expectations, which themselves are highly sensitive to energy prices and geopolitical developments in the Middle East. While there are signs of potential progress toward a resolution of the conflict, uncertainty remains elevated, making bond positioning particularly difficult.

Second, with yields primarily driven by policy expectations, bonds could benefit from a growth slowdown but remain vulnerable to a further rise in term premiums. This risk is especially relevant in the US and the UK, given persistently high fiscal deficits, weakening fiscal dynamics and a fragile political backdrop. However, it is also a consideration for euro-area government bonds.

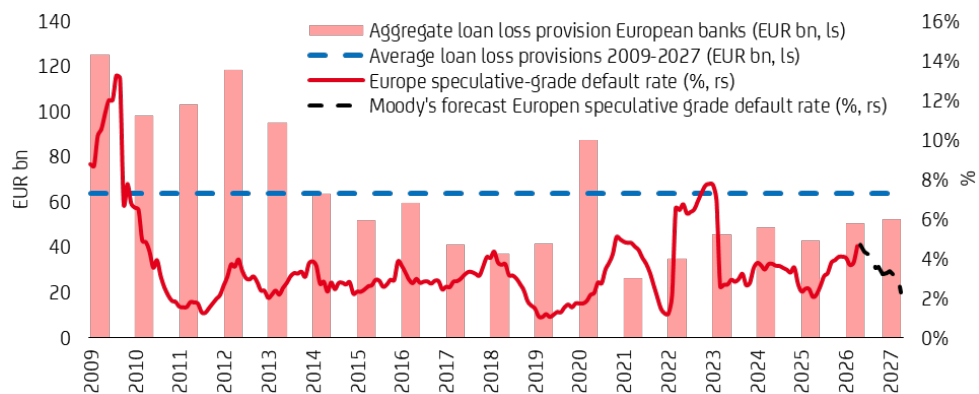


## Corporate credit: spreads remain resilient for now

European credit risk premiums have normalized over the past few weeks and have returned to levels prior to the US-Iran conflict in most market segments. On a total-return basis, all credit-market segments have generated moderately positive total returns YTD. On a sector level, automobiles & parts, oil & gas and basic resources have outperformed, while technology and travel & leisure have underperformed. The credit market has been supported by high carry, still-solid credit fundamentals, which were confirmed during the current earnings season, as well as expectations that tensions in the Strait of Hormuz remain contained and that it is reopened soon. An additional supportive factor are the overall high cash reserves of European issuers, which should prevent an increase in default rates going forward. However, although the current earnings season was positive overall, confirming solid credit metrics (as recent developments in energy and other input prices still need to feed through to corporate credit metrics), we stick to our spread-widening expectation until year-end. In terms of sectors, we keep our overweight recommendation on basic resources, oil & gas and telecoms, and our underweight recommendation on automobiles & parts, chemicals, technology and travel & leisure, as they are exposed either to discretionary spending or high energy costs.

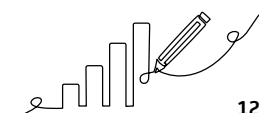
Financials credit spreads have also remained resilient. Sentiment was supported by the strong 1Q26 results of European banks. In particular, the net-interest-income outlook benefitted from higher yield levels and asset-quality indicators are still showing a resilient picture. Investor appetite for primary-market deals has also been very strong, despite higher geopolitical risks, and order books have remained very strong for new bank-bond offerings. Successful capital-market funding of private credit operators has reduced concerns regarding the liquidity risk of the private-credit asset class, which has also supported sentiment towards bank credit.

**CHART 2.3: LOAN-LOSS PROVISIONS OF BANKS TO REMAIN RESILIENT**  
2026 AND 2027 CONSENSUS ESTIMATES FOR BANKS LLPS REMAIN FLAT



Note: The chart shows the aggregated loan-loss provisions (actual and consensus estimates) of listed banks included in the STOXX 600 Banks index.

Source: Moody's, Bloomberg, The Investment Institute by UniCredit



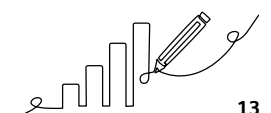
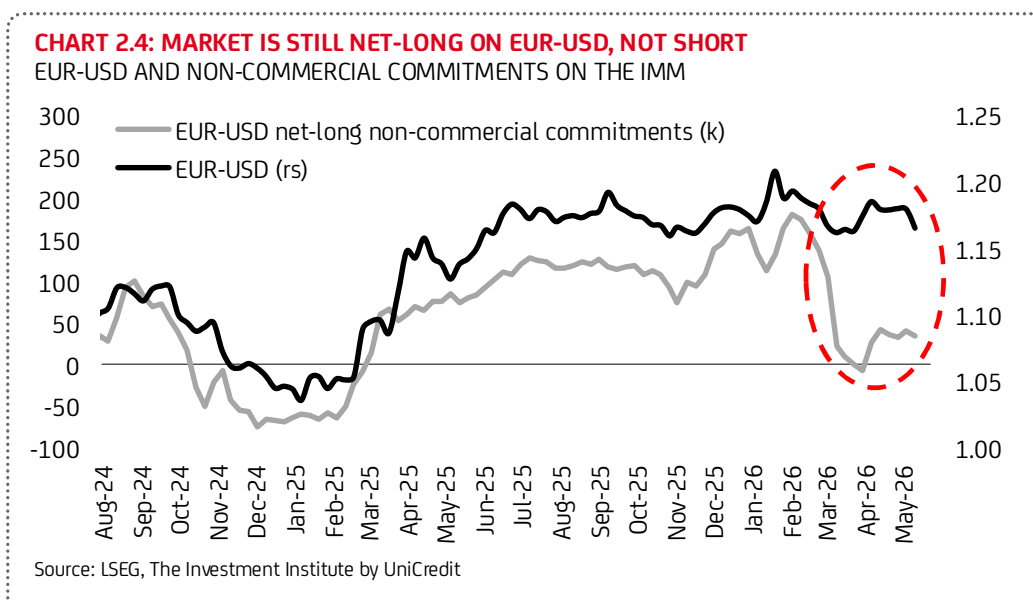
# FX

## EUR-USD: Middle East crisis and inflation worries still the themes

The outlook for EUR-USD has not changed significantly: the Middle East crisis remains the main driver, and investors are unlikely to break the current deadlock given the lack of significant progress in this respect. Even a simple letter of intent between the US and Iran, which would pave the way for a possible restart of formal negotiations in early June for another 30-60 days, seems incredibly difficult. The impasse may thus last longer than markets anticipated. Also, fears that the Strait of Hormuz may not be re-opened soon are not supporting FX market sentiment either. Risks of a higher inflation risk premium on US Treasuries may help the USD keep its grip against the other FX majors.

However, in the past few weeks, investors have only reduced their net-long exposure on EUR-USD rather than returning net-short. In the chart below, the pair is plotted against the non-commercial commitments of traders reported by the Commodity Futures Trading Commission (CFTC) on the International Money Market (IMM), a good proxy of prevailing market sentiment. In the week ending on 22 May, investors cut their net-long EUR-USD exposure to 33.5k contracts from 40.2k contracts in early May, which is not too strong when considering that EUR-USD fell from around 1.1790 to 1.1590 during the same time. EUR-USD is still trading above 1.16 after a rally above 1.18 failed. This confirms that breaking the YTD trading range between the high of 1.2078 (reached in January) and the low of 1.1412 (touched in mid-April) will probably be difficult in either direction.

We maintain a moderately positive view on EUR-USD and expect Middle East tensions to ease, depriving the greenback of its status as the world's safe-haven currency it has enjoyed during these three months of conflict. Once the war-driven risk premium vanishes, markets will likely focus back on uncertainty stemming from President Donald Trump's economic policies. Rate expectations may become more critical, with forwards now implying roughly two rate hikes by the ECB, as in our baseline scenario, versus one by the Fed by December. On the other hand, we still expect a rate cut in the US by December, a scenario that may still play in the euro's favour. Lastly, Trump may also try to talk down the USD ahead of mid-term elections in early November to improve the US trade gap by favouring exports now that tariffs on imports have been mostly frozen. In our view, any EUR-USD rebound would leave the pair close to the upper end of the 1.15-1.20 reference band.



# Commodities

## Crude oil

Nearly 80 countries have reportedly introduced measures to cushion their economies as the Iran conflict continues to strain global energy markets, with particular focus on the Strait of Hormuz. Oil demand is currently outpacing supply, leading to a steady drawdown in inventories. Strategic reserves have helped smooth the adjustment so far, but underlying market conditions remain tight, especially in refined products.

Further price volatility appears likely in the near term, even as tentative progress in ceasefire negotiations and prospects of a reopening of the strait have begun to ease immediate upside risks, while oil markets are expected to remain tight during the remainder of this year. Our baseline scenario still assumes at least a partial resumption of flows, allowing prices to ease towards around USD 90/bbl by year-end – an outlook partially priced in as expectations of a ceasefire extension and a reopening of the strait form part of prevailing market assumptions. In a more-adverse scenario, prolonged Gulf export disruptions could still push oil prices materially higher.

## Natural gas

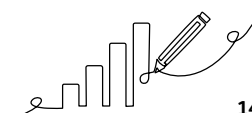
The benchmark European natural gas price (TTF) remains highly volatile and should stay elevated even if traffic resumes through the Strait of Hormuz due to the damage done to gas infrastructure during the Iran war. TTF has traded at around EUR 50/MWh recently but has been underpriced relative to Brent, mainly due to a sharp decline in Asian LNG imports since the start of the war in Iran. The current gas-price situation appears too benign, as the European restocking season has started slowly. EU gas storage stood at about 40% at end May 2026, remaining well below seasonal norms.

In addition, a hot summer in Asia would draw new competition for spot LNG due to rising demand for air conditioning. Upside pressures on TTF are building as gas exports from Qatar and the UAE remain trapped, accounting for around 20% of global LNG supply. This is steadily reducing the supply surplus expected at the beginning of the year and should put increasing upside pressure on prices until there is a resolution to the conflict.

## Gold

Gold has recently traded in the USD 4,400-4,700/oz range, consolidating below prior highs as inflation concerns linked to Middle East tensions and a firmer US rate outlook have underpinned real yields and the USD, tempering the precious metal's near-term momentum. At the same time, downside has remained limited, and gold continues to trade well above the levels seen at the start of the year, pointing to resilient underlying demand.

Looking ahead, near-term direction is likely to remain driven by interest-rate expectations and currency dynamics. Over the medium to longer term, however, the broader investment case remains constructive: geopolitical fragmentation, elevated global debt and sustained central-bank demand for reserve diversification provide a firm structural underpinning. As such, while volatility is likely to persist in the short run, the medium- to long-term outlook for gold remains positive.



## UniCredit Forecasts

### GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
<b>Global</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>	-	-	-	-	-	-
<b>US</b>	<b>2.1</b>	<b>2.3</b>	<b>2.0</b>	<b>2.7</b>	<b>3.5</b>	<b>2.6</b>	<b>-7.4</b>	<b>-7.9</b>	<b>-8.0</b>
<b>Eurozone</b>	<b>1.5</b>	<b>0.8</b>	<b>1.1</b>	<b>2.1</b>	<b>3.1</b>	<b>2.3</b>	<b>-2.9</b>	<b>-3.7</b>	<b>-3.6</b>
Germany	0.2*	0.9*	1.6*	2.2	2.7	2.3	-2.7	-4.3	-4.3
France	0.9	0.7	1.0	0.9	2.0	1.6	-5.1	-5.0	-4.6
Italy	0.7	0.5	0.6	1.5	3.1	2.1	-3.1	-2.9	-2.8
Spain	2.8	2.3	1.6	2.7	3.3	2.6	-2.4	-2.1	-2.2
<b>UK</b>	<b>1.3</b>	<b>0.6</b>	<b>1.0</b>	<b>3.4</b>	<b>3.3</b>	<b>2.2</b>	<b>-4.5</b>	<b>-3.8</b>	<b>-3.5</b>
<b>China</b>	<b>5.0</b>	<b>4.6</b>	<b>4.2</b>	<b>-0.2</b>	<b>1.2</b>	<b>1.1</b>	<b>-7.9</b>	<b>-8.2</b>	<b>-8.4</b>
<b>Japan</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>3.0</b>	<b>2.1</b>	<b>2.0</b>	<b>-3.1</b>	<b>-4.0</b>	<b>-3.8</b>
<b>India</b>	<b>7.6</b>	<b>6.5</b>	<b>6.5</b>	<b>2.1</b>	<b>4.7</b>	<b>4.0</b>	<b>-7.4</b>	<b>-7.4</b>	<b>-7.3</b>

Source: The Investment Institute by UniCredit

\*Non-WDA figures. Adjusted for working days: 0.3% (2025), 0.6% (2026) and 1.5% (2027)

### CENTRAL BANKS WATCH

	Current	3Q26	4Q26	1Q27	2Q27	3Q27
<b>Fed</b>	3.75	3.75	3.75	3.50	3.50	3.50
<b>ECB</b>	2.00	2.50	2.50	2.50	2.50	2.25
BOE	3.75	3.75	3.50	3.25	3.00	2.75
BoJ	0.75	1.00	1.25	1.25	1.25	1.50
Riksbank	1.75	2.25	2.25	2.25	2.25	2.00
Norges Bank	4.25	4.50	4.50	4.50	4.50	4.50

Source: The Investment Institute by UniCredit

Note: Figures are end-of-period



## INTEREST RATE AND YIELD FORECASTS

	01.06.26	3Q26	4Q26	1Q27
<b>Eurozone</b>				
Depo rate	2.00	2.50	2.50	2.50
3M Euribor	2.28	2.52	2.55	2.55
2Y Schatz	2.63	2.65	2.60	2.50
10Y Bund	3.00	3.10	3.00	3.00
2Y EUR swap	2.82	2.85	2.75	2.65
10Y EUR swap	3.04	3.15	3.05	3.05
10Y swap-Bund spread	4	5	5	5
2Y BTP	2.79	2.85	2.80	2.70
10Y BTP	3.74	3.90	3.80	3.80
10Y BTP-Bund spread	74	80	80	80
<b>US</b>				
Fed fund rate	3.75	3.75	3.50	3.50
3M OIS SOFR	3.65	3.60	3.42	3.42
2Y UST	4.03	3.75	3.65	3.65
10Y UST	4.45	4.40	4.40	4.50
10Y UST-Bund spread	145	130	140	150

## FX FORECASTS

	01.06.26	3Q26	4Q26	1Q27
EUR-USD	1.16	1.18	1.19	1.20
USD-JPY	159	154	152	150
EUR-JPY	185	182	181	180
GBP-USD	1.34	1.33	1.32	1.32
EUR-GBP	0.87	0.89	0.90	0.91
USD-CNY	6.77	6.85	6.80	6.78
EUR-CNY	7.87	8.08	8.09	8.14

Source: Bloomberg, The Investment Institute by UniCredit

## RISKY ASSETS FORECASTS

	01.06.26	Mid-2026	End-2026
<b>Oil</b>			
Brent USD/bbl.	95	100	90
<b>Equities</b>			
Euro STOXX 50	6,035	6,100	6,400
STOXX Europe 600	621	630	660
DAX	25,003	25,500	26,500
MSCI Italy	126	128	135
S&P 500	7,600	7,500	7,800
Nasdaq 100	30,514	30,000	32,000
<b>Credit</b>			
iBoxx Non-Financials Senior	72	90	95
iBoxx Banks Senior	68	85	90
iBoxx High Yield NFI	265	325	350

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:

[Economics >](#) | [FI >](#) | [FX >](#) | [Risky Assets >](#)



# Development of selected financial market indices

From	01.06.21	01.06.22	01.06.23	01.06.24	01.06.25	01.06.21	01.01.26
To	01.06.22	01.06.23	01.06.24	01.06.25	01.06.26	01.06.26	01.06.26

## STOCK MARKET INDICES (TOTAL RETURN, IN %)

MSCI World (in USD)	-5.3	4.5	24.1	15.1	28.0	80.0	10.7
MSCI Emerging Markets (in USD)	-21.1	-6.9	12.5	12.7	55.1	47.1	25.7
MSCI US (in USD)	-2.9	4.6	27.1	14.9	29.3	90.2	11.1
MSCI Europe (in EUR)	2.0	7.7	17.4	9.5	17.4	66.3	8.0
MSCI AC Asia Pacific (in USD)	-17.6	-2.8	13.9	13.5	45.5	51.5	23.0
STOXX Europe 600 (in EUR)	0.6	7.2	17.6	9.8	17.6	64.5	8.0
DAX 40 (Germany, in EUR)	-7.9	10.6	16.7	29.7	4.6	62.8	2.5
MSCI Italy (in EUR)	-0.5	15.8	38.2	23.4	26.8	150.5	10.8
ATX (Austria, in EUR)	-0.6	-3.5	27.3	26.9	43.4	124.0	17.7
SMI (Switzerland, in CHF)	3.4	1.4	9.7	6.2	14.2	38.9	5.1
S&P 500 (US, in USD)	-1.0	4.7	26.9	14.4	29.8	93.8	11.3
Nikkei (Japan, in JPY)	-2.9	16.1	25.9	1.7	77.8	153.4	32.7
CSI 300 (China, in Yuan)	-22.1	-4.6	-3.6	10.4	30.9	4.1	6.2

## BOND MARKET INDICES (TOTAL RETURN, IN %)

US government bonds 10Y (in USD)	-9.8	-2.2	-3.3	5.7	4.3	-6.6	-0.6
German Bunds 10Y (in EUR)	-11.4	-6.7	-0.5	3.8	-0.2	-14.9	0.8
EUR government bonds 1Y-10Y (iBOXX, in EUR)	-10.9	-5.8	1.8	5.1	0.6	-9.8	0.8
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	-9.5	-2.8	5.1	6.5	2.3	0.7	0.8

## BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)

US government bonds 10Y (in USD)	132	67	89	-17	5	284	29
German Bunds 10Y (in EUR)	136	108	37	-13	39	309	8
EUR government bonds 1Y-10Y (iBOXX, in EUR)	148	117	20	-26	38	299	10
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	213	141	-23	-61	36	307	18

## EURO EXCHANGE RATES (CHANGE, IN %)

US dollar (EUR-USD)	-12.4	-0.1	1.4	4.8	2.7	-4.6	-0.9
British pound (EUR-GBP)	-1.3	0.8	-0.5	-1.2	3.1	0.8	-0.6
Swiss franc (EUR-SFR)	-6.2	-5.6	0.9	-4.8	-2.5	-17.0	-2.2
Japanese yen (EUR-JPY)	3.5	7.6	14.3	-3.9	13.8	38.6	0.7

## COMMODITIES (CHANGE, IN %)

Commodity Index (GSCI, in USD)	-3.7	7.1	16.9	38.6	37.4	131.5	5.0
Industrial metals (GSCI, in USD)	6.0	-17.8	16.6	-9.3	42.3	32.8	14.6
Gold (in USD per fine ounce)	-2.9	7.3	17.8	40.1	39.8	140.9	6.2
Crude oil (Brent, in USD per barrel)	65.5	-36.2	10.1	-22.7	44.0	32.0	51.2

**Source:** Refinitiv Datastream, The Investment Institute by UniCredit (as of 1 June 2026)

**Note:** Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.



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