Week in review and ahead (vol.28-26)

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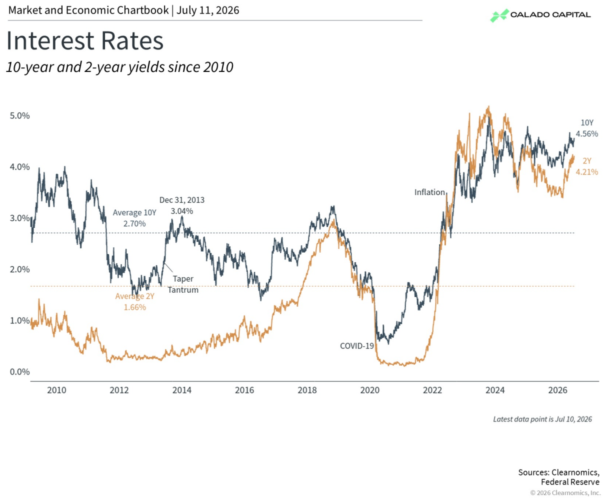
Week in review

Markets delivered a mixed performance over the week as geopolitical tensions in the Middle East resurfaced following the collapse of the recently established ceasefire. Hostilities intensified after Iran’s Islamic Revolutionary Guard Corps (IRGC) attacked two commercial tankers transiting the Strait of Hormuz, prompting a renewed round of U.S. military strikes. Despite the escalation, ongoing diplomatic and technical discussions have provided some optimism that the latest confrontation may prove short-lived. Energy markets responded predictably, with both WTI and Brent crude prices moving higher, although prices remained well below the peak levels reached when the conflict initially erupted.

Concerns surrounding market liquidity also eased during the week. Investors had been wary that a wave of US treasury and corporate issuance, combined with the potential U.S. listing of South Korean semiconductor manufacturer SK Hynix, could absorb significant market liquidity. Those fears have yet to materialize. Meanwhile, the U.S. Treasury’s auctions of 3-, 10-, and 30-year securities were met with solid demand, though investors required higher yields to absorb the supply. Notably, the 30-year Treasury yield settled at 5.058%, its highest auction yield since August 2007 and ended the week near that level after beginning the period below 5%.



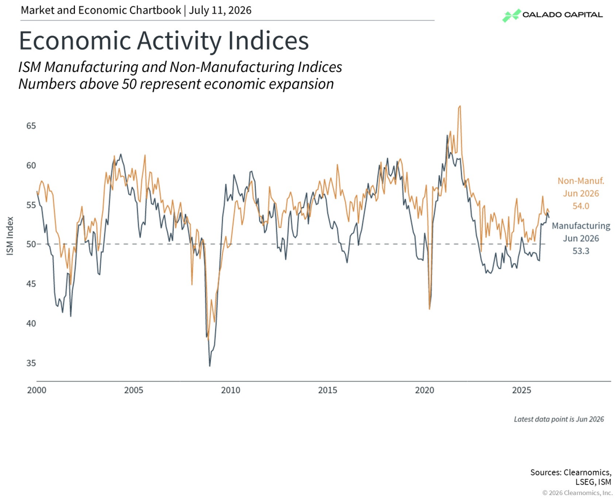
U.S. equity markets finished the week mixed. The Nasdaq Composite and S&P 500 advanced 1.7% and 1.2%, respectively, while the Dow Jones Industrial Average and Russell 2000 posted modest declines of 0.5% and 0.6%. The recent rotation away from technology and artificial AI-related equities appeared to reverse, with the S&P 500 Information Technology sector leading all sectors with a gain of 3.4%. The Energy sector also performed strongly, advancing 3.2% amid renewed concerns over global oil supply disruptions.

International markets mostly declined as investors reassessed geopolitical risks following the resumption of Middle East hostilities. Hong Kong was a notable exception, with a strong rally in Chinese technology stocks propelling the Hang Seng Index 3.5% higher for the week. In contrast, mainland Chinese equities declined, with the CSI 300 falling 1.8%. Volatility remained elevated in South Korea, where the Kospi Index fell nearly 9%, marking the steepest decline among major Asian markets, while Japan's Nikkei 225 shed 1.7%. European equities also moved lower, led by Germany's DAX, which declined almost 3%. Meanwhile, the FTSE 100 in the United Kingdom and France's CAC 40 each registered losses of approximately 2% for the week.

Week in review – US macroeconomics

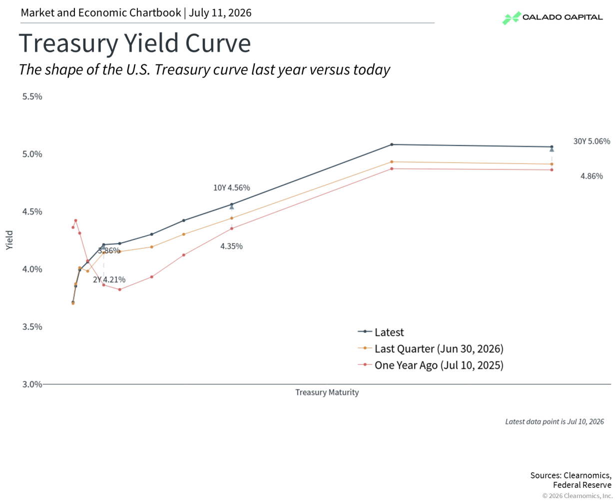
This past week's US macroeconomic calendar was somewhat light but pivotal for the rates outlook, headlined by the ISM Services survey for June, Wednesday's release of the minutes from the Fed's June FOMC meeting, and a heavy slate of Treasury supply, with 3-, 10-, and 30-year auctions testing investor appetite in a week that also absorbed a $25 billion corporate bond offering from Amazon. June existing home sales and weekly jobless claims rounded out the week.

The ISM Services PMI for June registered 54.0, in line with the 54 expected though down sequentially from May's 54.5, but still solidly in expansionary territory. Among the sub-indices, business activity eased to 55.4% (-2.3pts) and new orders to 55.1% (-2.2pts), while supplier deliveries slipped to 54.4% (-0.8pts). The clear positive was employment, which rose 3.3 points to 51.2%, crossing into expansionary territory after contracting previously, an encouraging signal for hiring in services given the recent softness in payrolls. Prices paid decelerated by 3.6 points from the prior period, a welcome moderation in pace, though the index remains elevated and service inflation should continue to be problematic for the Fed.



Wednesday's minutes from the June 16-17 FOMC meeting, the first chaired by Chair Warsh, showed an unanimous decision to hold the federal funds rate at 3.50%–3.75%, where it has stood all year, but revealed that some FOMC members saw a case for a hike, with the Committee's concern over inflation growing even as concerns about the labor-market moderated. True to Chair Warsh's stated intent to communicate less about the Fed's future intentions, the minutes were notably shorter than the customary summary, leaving markets with limited additional guidance ahead of the July 30th meeting.

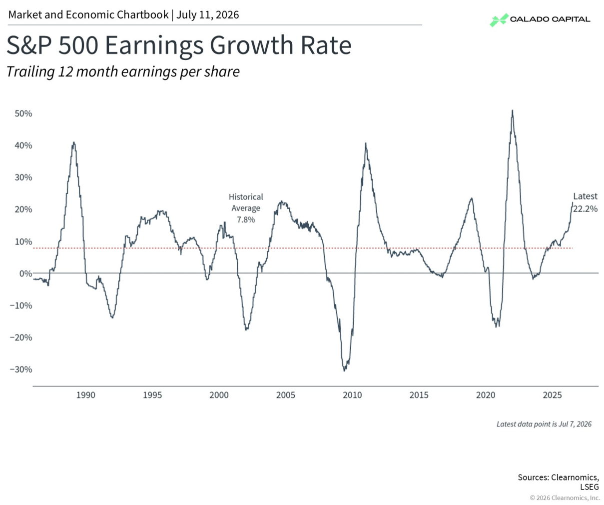
The other focal point was US Treasury supply, and the placement and auctions remained well supported. The 3-, 10-, and 30-year auctions all saw strong demand. The 10-year sale went off without issue despite competing for buyers with Amazon's $25 billion bond offering earlier in the week (see Number of the week below), and the 30-year auction was likewise well received, albeit at a yield of 5.058%, the highest since August'2007. While demand for Treasuries continues robust, it appears that investors require higher yields to absorb the supply, which for now contains concerns about the market's capacity to absorb significant issuance.



The balance of the week's data was mixed. Initial jobless claims of 215K came in just below the 217K expected and about unchanged from the prior week, remaining below the 218K four-week average and at historic lows, while continuing claims were in line with expectations at 1.81 million. The data on housing, however, continues to disappoint. June's existing home sales fell -2.4% month-over-month ("MoM") against expectations of a +0.7% gain, as inventory declined as well, to about 4.6 months of supply versus the roughly 6 months considered balanced. The tighter supply is likely to add to pricing pressure, with the median home price rising about 1.8% to $441K, the highest on record. The combination of firm prices and elevated mortgage rates is likely to continue to weigh on affordability and transaction volumes.

Corporate earnings

The corporate earnings season is set to begin in earnest next week, with several major US banks reporting results and unofficially kicking off the reporting season. Per FactSet, the S&P 500's estimated Q2'26 earnings growth rate stands at 23.6%, but based on historical patterns of positive earnings surprises, actual growth may likely finish above 29%, which would be the index's highest year-over-year earnings growth since Q4'21 (32.0%) and its second straight quarter above 20%.



Week ahead

The week ahead will center on renewed hostilities in the Middle East, particularly following Iran's refusal to engage in talks with the United States absent a ceasefire and mutually agreed-upon "understandings." At the time of its signing, the Memorandum of Understanding ("MOU") was widely regarded as ambiguous and open to divergent interpretations.

Beyond these resurgent geopolitical risks, market attention will turn to inflation, with the June CPI and PPI reports due for release as Fed Chair Warsh is scheduled to testify before Congress. Investors will also assess the health of the consumer, as June retail sales and the preliminary University of Michigan consumer sentiment reading for July are set to be published. Finally, markets will receive further insight into the housing sector, where activity has remained subdued, with June building permits and housing starts projected to improve sequentially.

Number of the week: $25 billion

The size of Amazon’s “surprise” bond offering launched Tuesday, senior unsecured notes sold in eight tranches with maturities ranging from three to 40 years, to fund the buildout of AI and data center capacity at Amazon Web Services (“AWS”). The deal brings Amazon’s 2026 debt issuance to $92 billion, more than Alphabet, Meta, or Oracle have each raised this year, against capital expenditures projected to reach $200 billion in 2026, up from $131 billion in 2025. The spending is straining even Amazon’s formidable cash generation, as trailing twelve-month free cash flow has fallen to $1.2 billion from $25.9 billion a year ago, even as operating cash flow rose 30% to $148.5 billion. The company indicated it does not intend to issue additional debt this year.

The reception was interesting. Order books peaked at $62 billion, about 2.5x the deal size but down from the 3.2x coverage of Amazon’s March offering, and were pared to roughly $41 billion (1.6x) once underwriters trimmed spreads, with Amazon still paying 18-21 basis points (“bps”) of extra yield on its longest tranches. Bank of America called it the weakest hyperscaler new-issue performance since Meta’s $30 billion sale in October 2025, noting that “investors are pushing back.” The hyperscaler spreads widened 6-15bps on the day, and the deal even helped lift the 10-year Treasury yield by roughly 8bps into that day’s auction. With AI-related bond issuance at $270 billion year-to-date, roughly $194 billion of it from hyperscalers and already nearly double 2025’s full-year total of $136 billion, the corporate market is delivering the same message as this week’s Treasury auctions. Namely, the demand for the debt is there, but it comes increasingly at a price. Whether that reflects genuine investor pushback or merely the digestion of unprecedented supply bears watching as the AI buildout’s financing needs continue to compound.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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