

MARKET VIEWS

Market & Strategy Update

Q3 2026

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Executive summary



Economy

The progressive normalization of energy flows have dramatically reduced the risks to growth and inflation for the global economy. The most affected countries are therefore expected to join the US in seeing improving growth in the coming months, albeit at a slower pace. The US economy remains on the strongest footing, but the foundation of its growth has become increasingly reliant on the continuation of the AI boom. The sharp rise in inflation forced a repricing of interest rate expectations, with certain central banks hiking rates. Now that the energy-driven inflationary impulse is likely to fade, central banks will be able to adopt a more dovish stance, while governments continue running elevated fiscal deficits.



Currencies

Relative US economic strength and rate differentials are likely to keep supporting the USD in the short-term, but we expect this strength to fade later in Q3.



Equities

The environment of improving growth and a fading inflationary impulse remains favorable to corporate profits and equities. This is of course reflected in valuations, particularly in the US, where expectations are reaching historic extremes. While the initial phase of the rebound was largely tech-driven, confirmation of economic resilience has started to broaden market participation. The final speculative phase of the AI thematic could extend in the short-term, but signs of exuberance and heavy equity issuance raise the prospect of sharp corrections. Investors should be looking to increase exposure to cyclical sectors and international equities, where more reasonable valuations and improving growth prospects should lead to outperformance.



Commodities

Energy prices have retraced their Q2 rally and are again looking attractive given the underlying growth dynamics, depleted inventories and rising incentives to hold strategic reserves. Other specific commodities may also offer compelling opportunities given AI-related demand drivers.



Bonds

The acceleration in inflation has led to a significant repricing of interest rates in Q2. With the inflationary impulse expected to fade following the correction in energy prices, further tightening has become unlikely, which should exert downward pressure on yields. US yields could remain sticky for longer given uncertainty around the new Fed Chair and stronger economic growth, but lower short-term yields will eventually materialize in Q3. Investors can therefore extend duration further toward 4 years. The risk reward for longer-term duration remains unappealing given a structurally high inflation environment and elevated deficits which have made bonds lose their diversification benefits in traditional portfolios. Emerging market debt in local currency remains attractive.



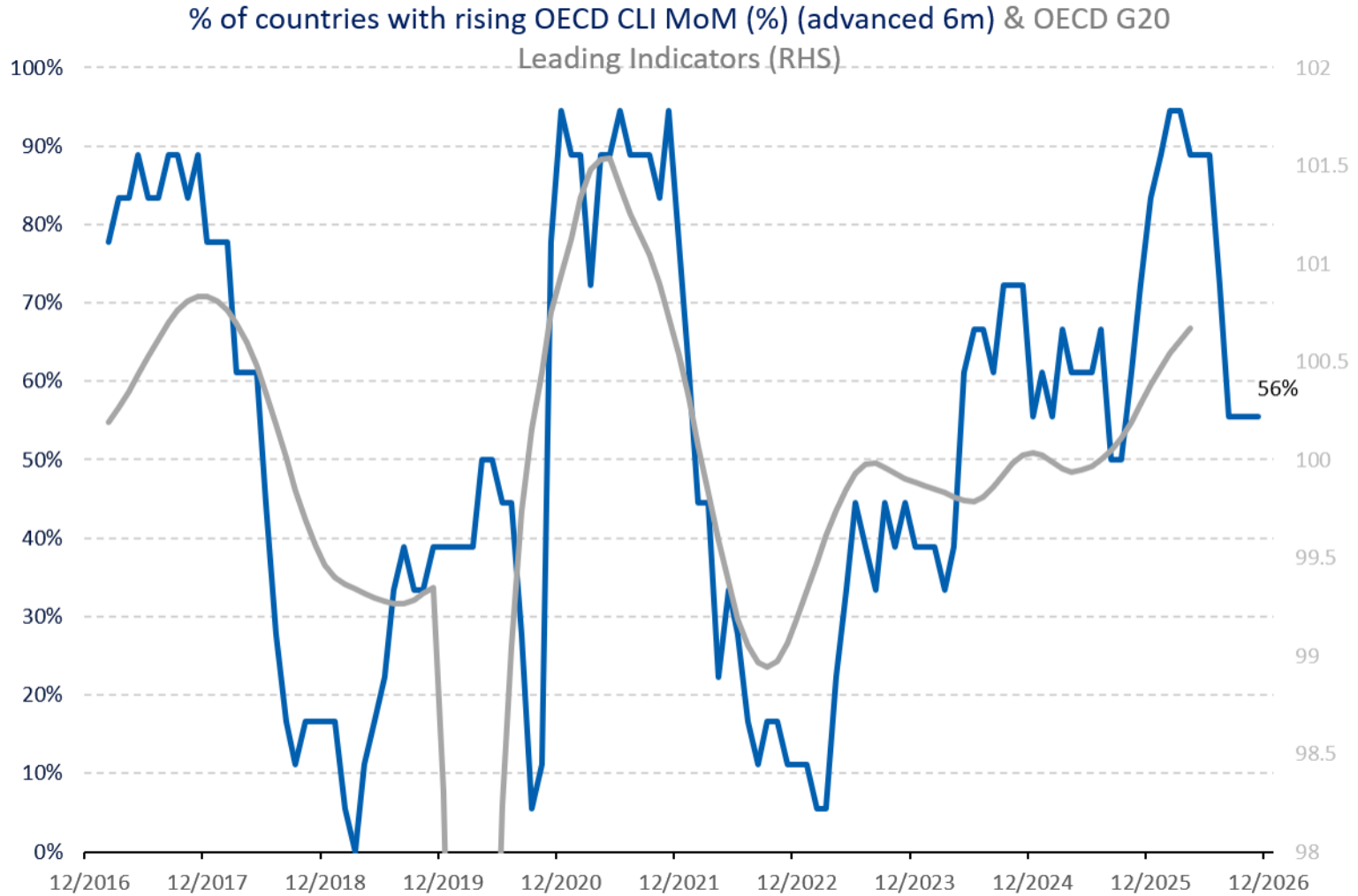
Precious metals

Gold remains in a multi-month consolidation, weighed down by the challenge to the debasement thematic and repricing of interest rate expectations. We are likely close to the end of this correction; investors should patiently wait for signs of capitulation.

Market & strategy update

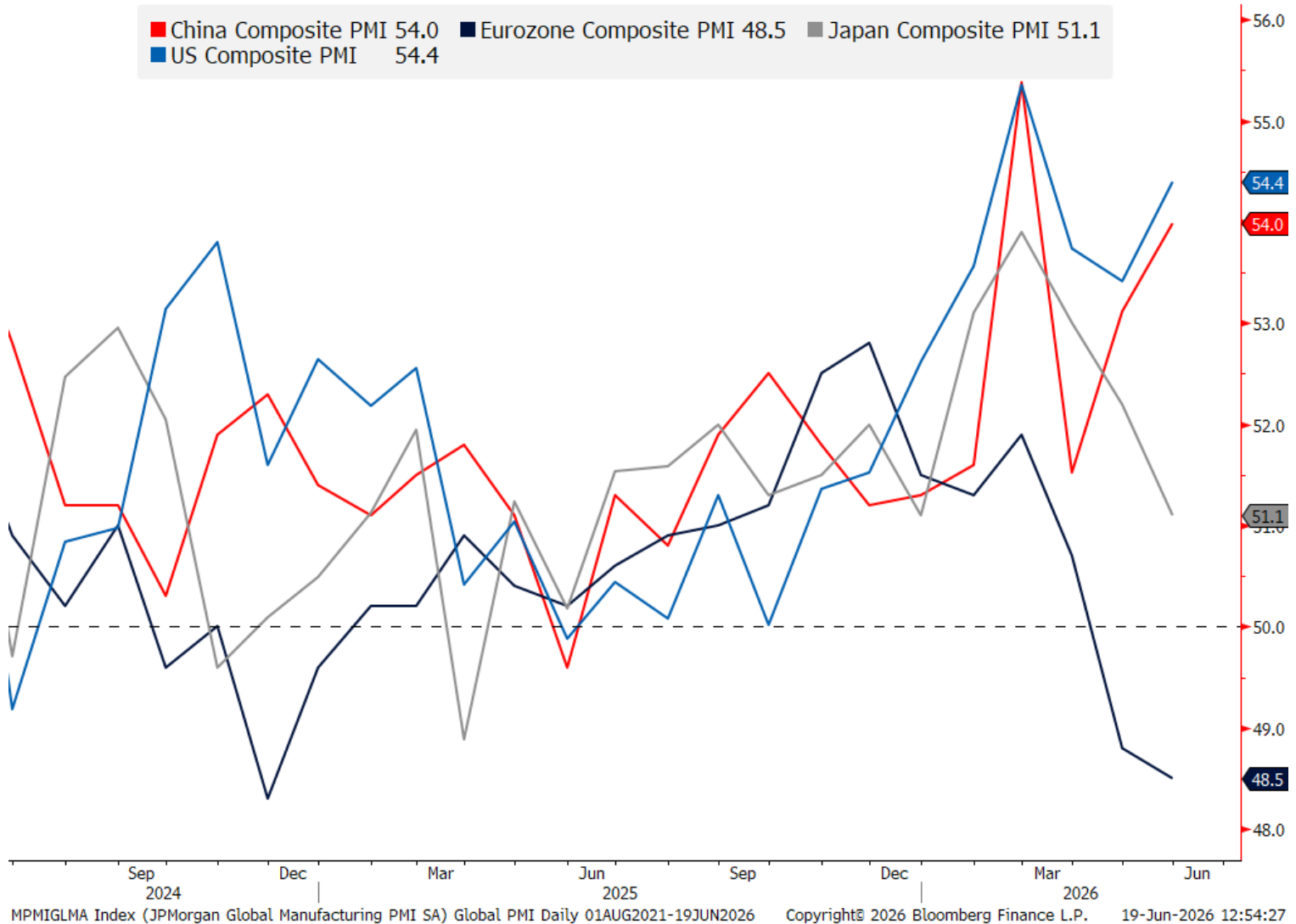


The last few months have seen a deterioration of the coordinated growth cycle



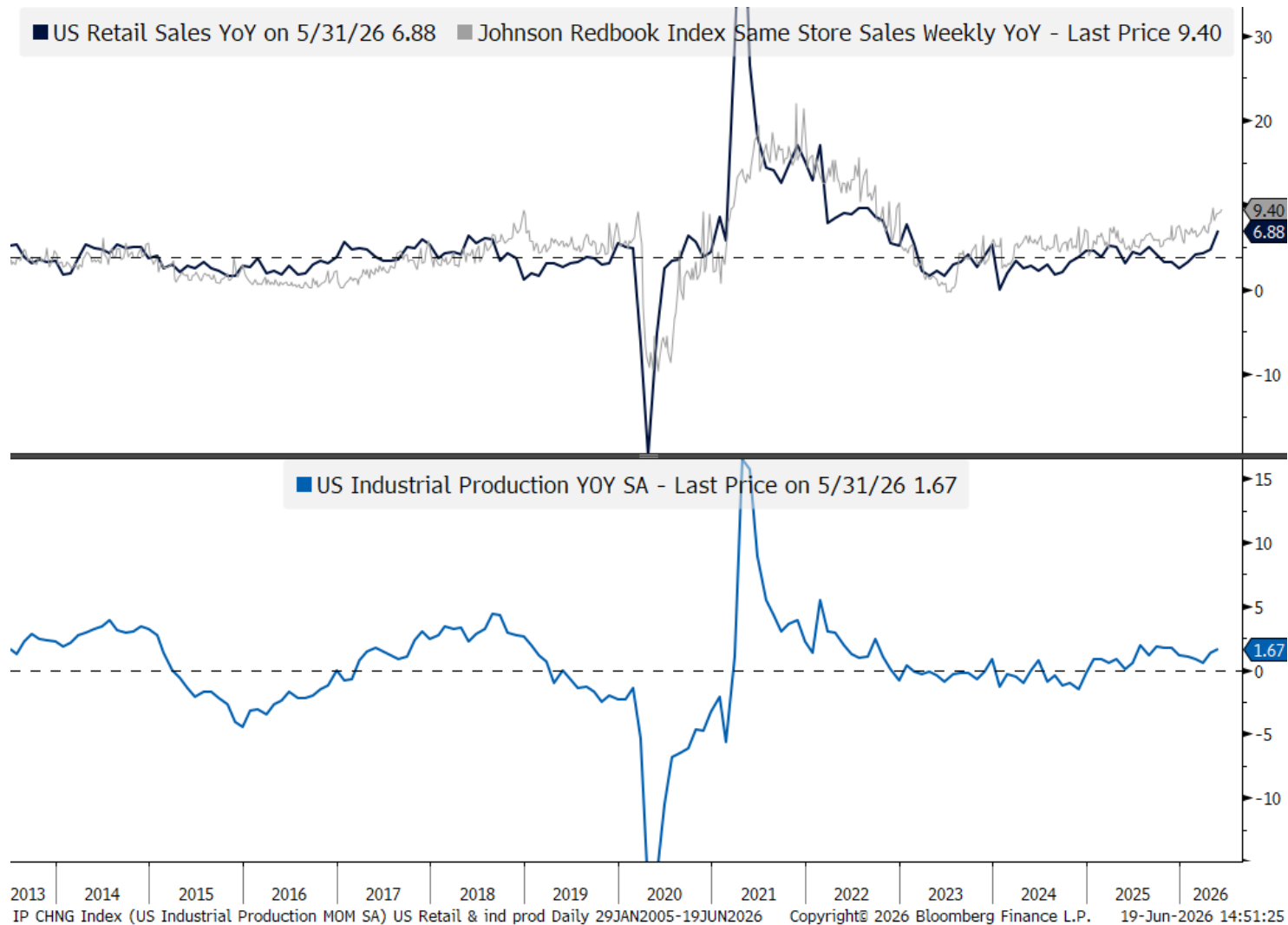


The divergences between major economies have widened, with the EU standing out as the most impacted by the energy shock.



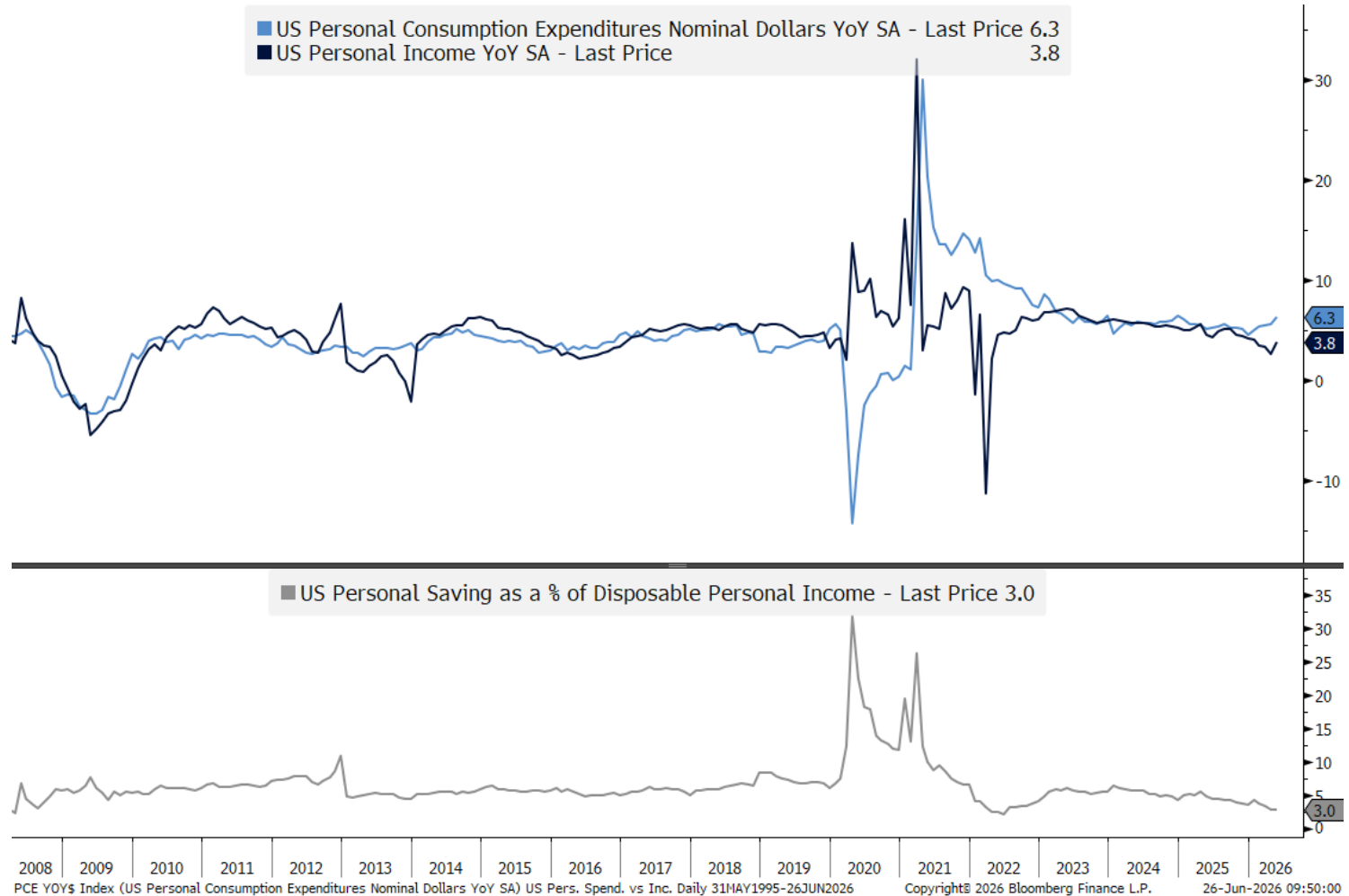


In the US, both consumption and industrial production have stayed resilient and point to further strength.



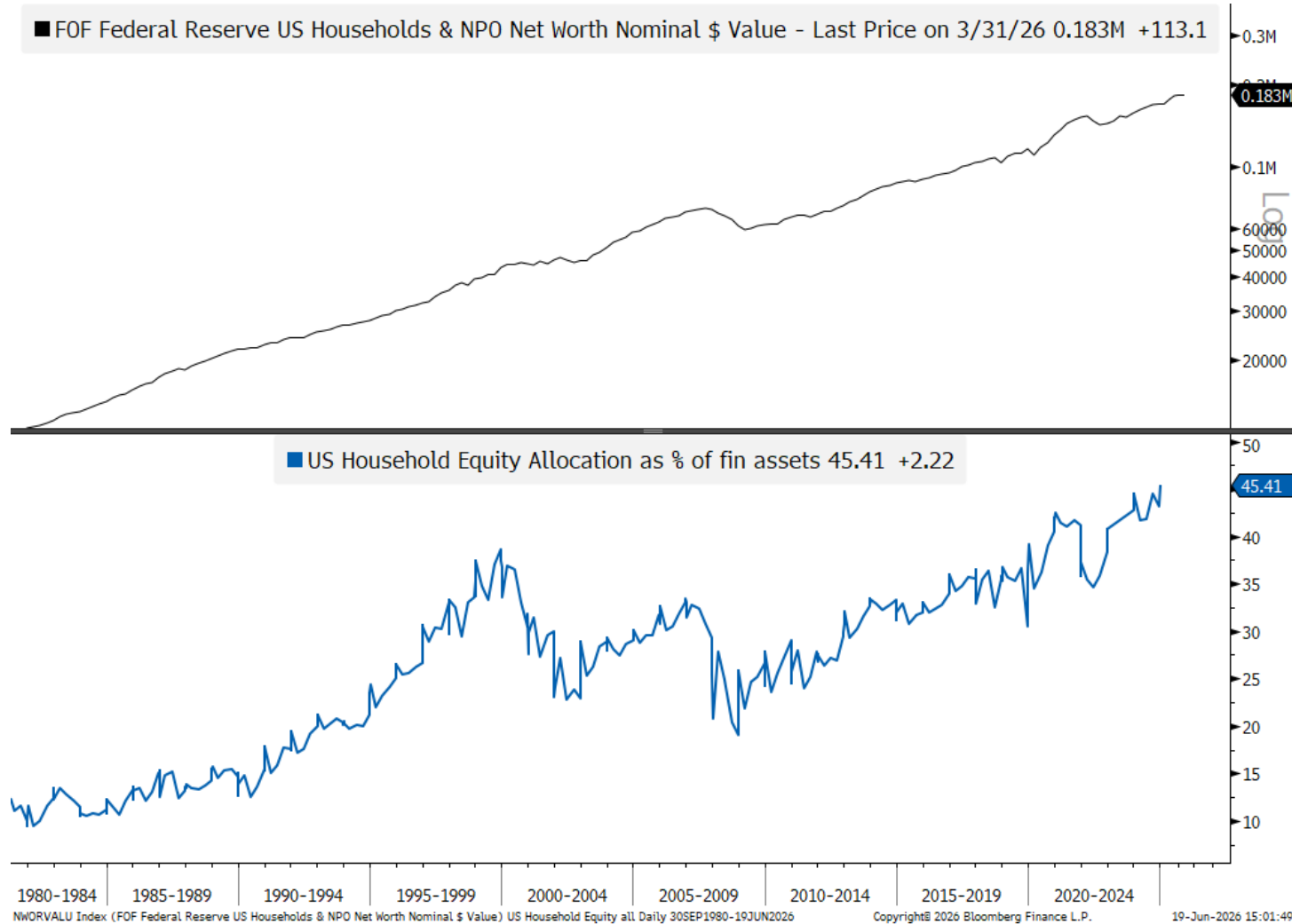


The gap between income and spending, resting on savings depletion, is noteworthy, as it illustrates consumption's reliance on the continued equity market boom and its associated wealth effects.



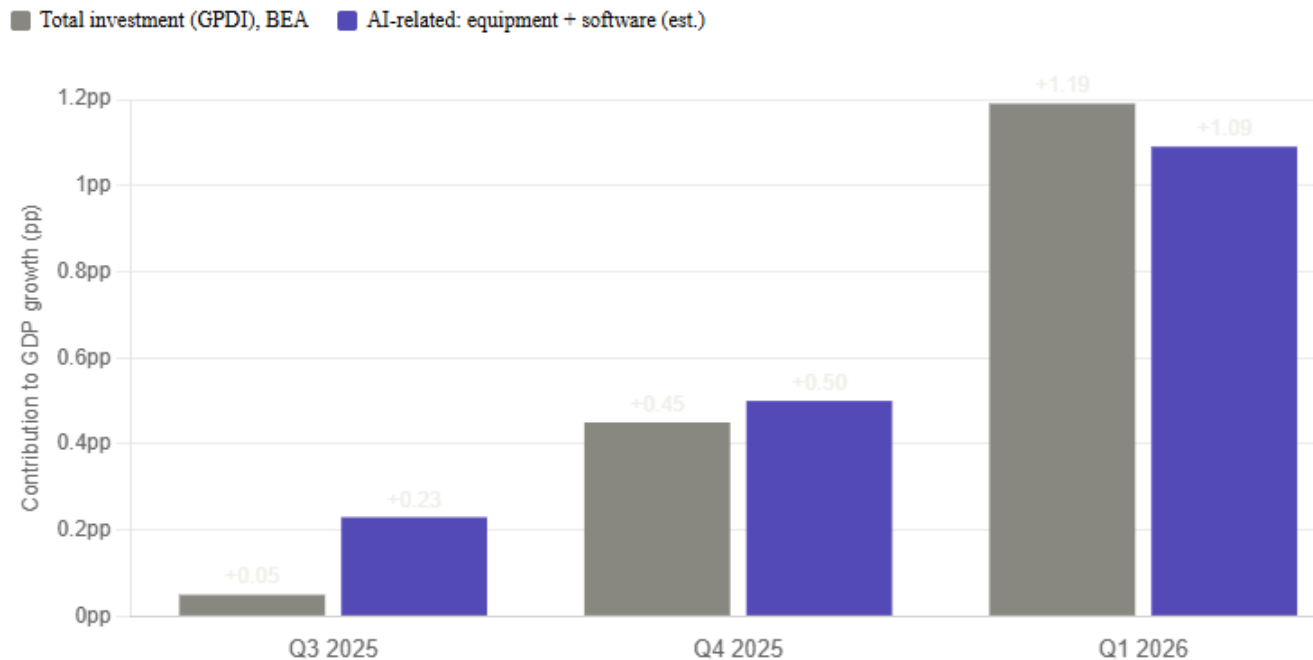


Household equity allocations are at record highs, which has accentuated the wealth effect and its impact on consumption; the top 10% of households contribute around 50% of consumption.



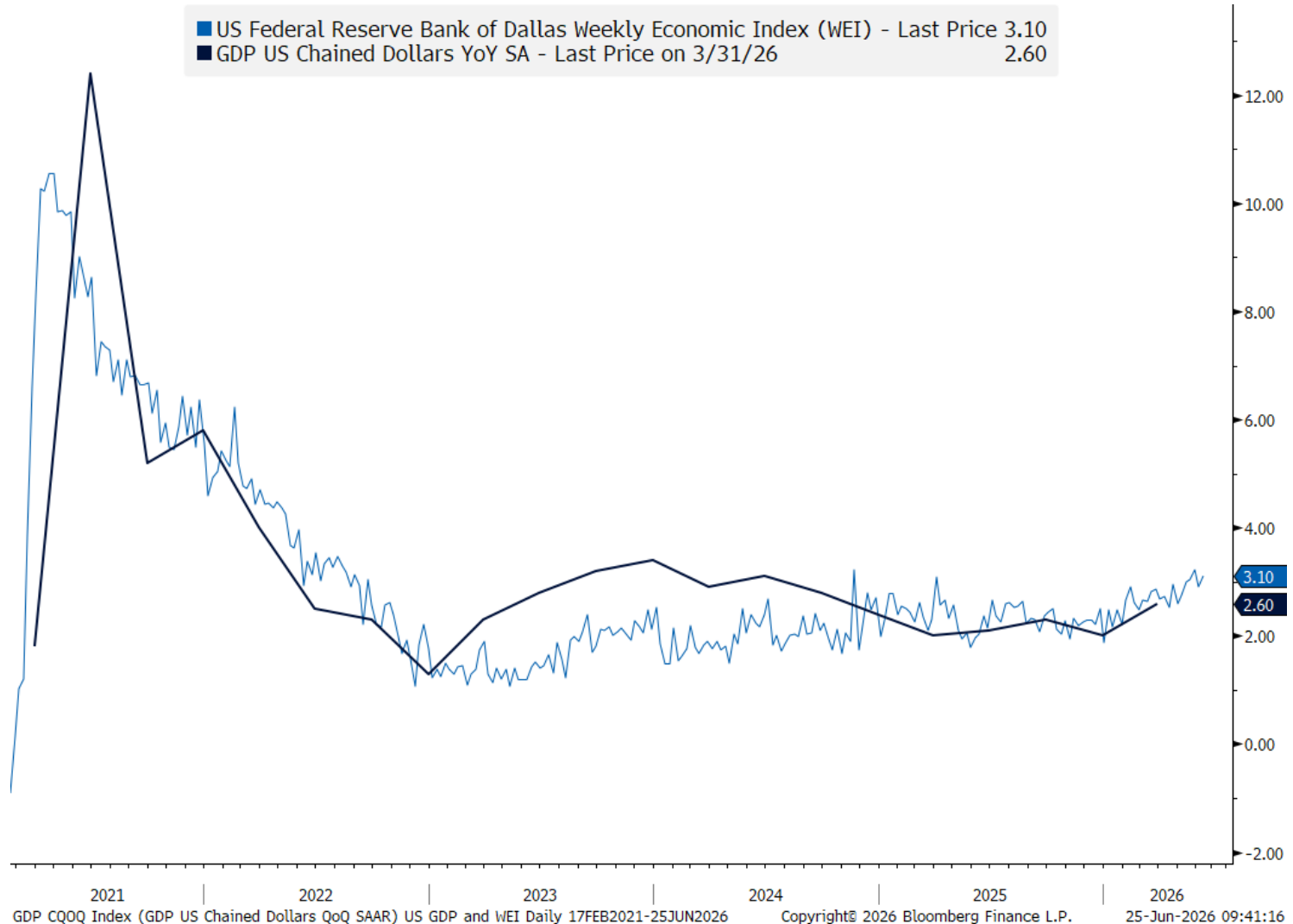


The economy has been supported by a rebound in fixed investment, which is almost entirely linked to AI, increasing the economy dependence on tech capex.



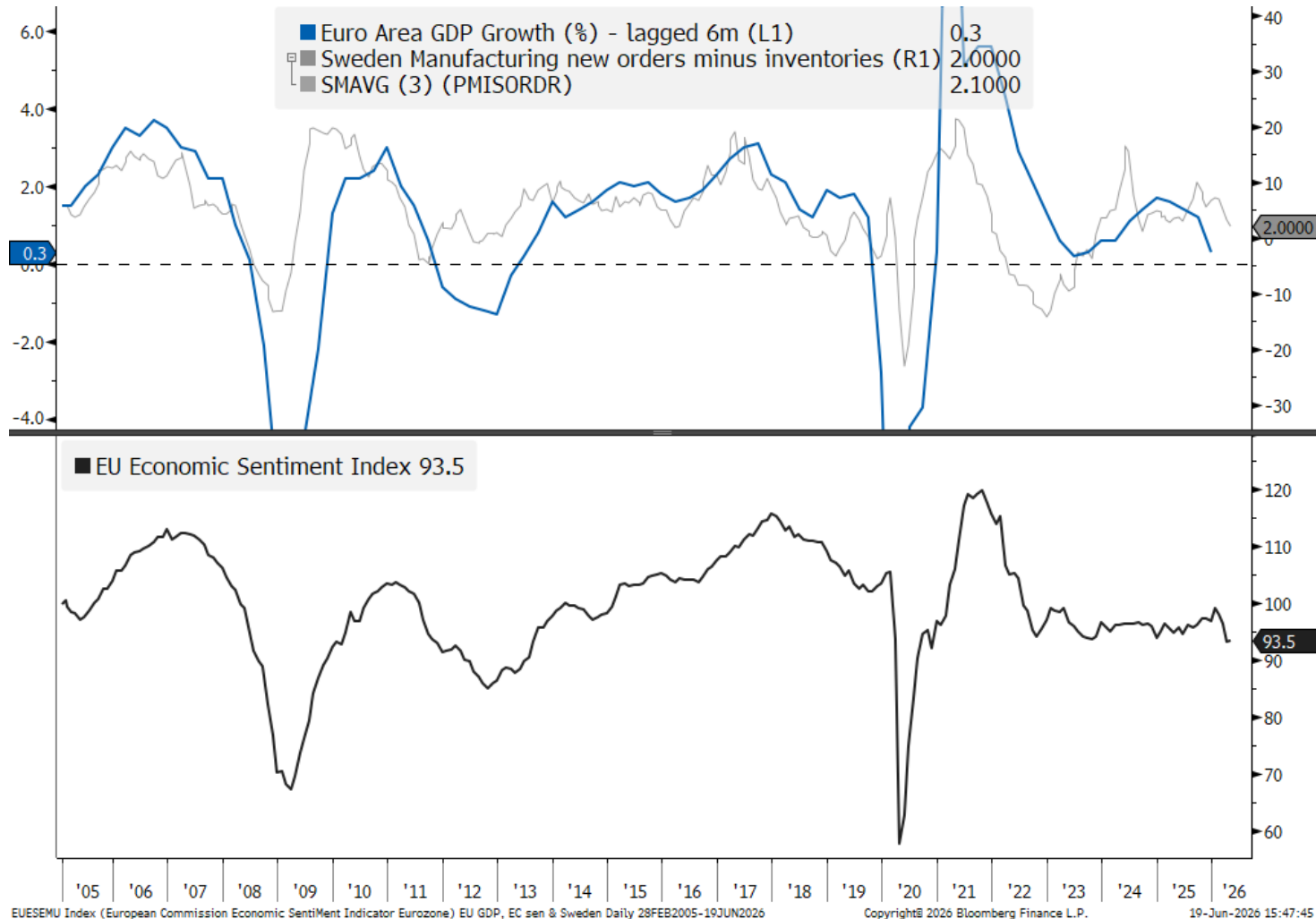


The US economy is likely to keep accelerating, but its foundation is increasingly fragile as overly dependent on the continuation of the AI boom.



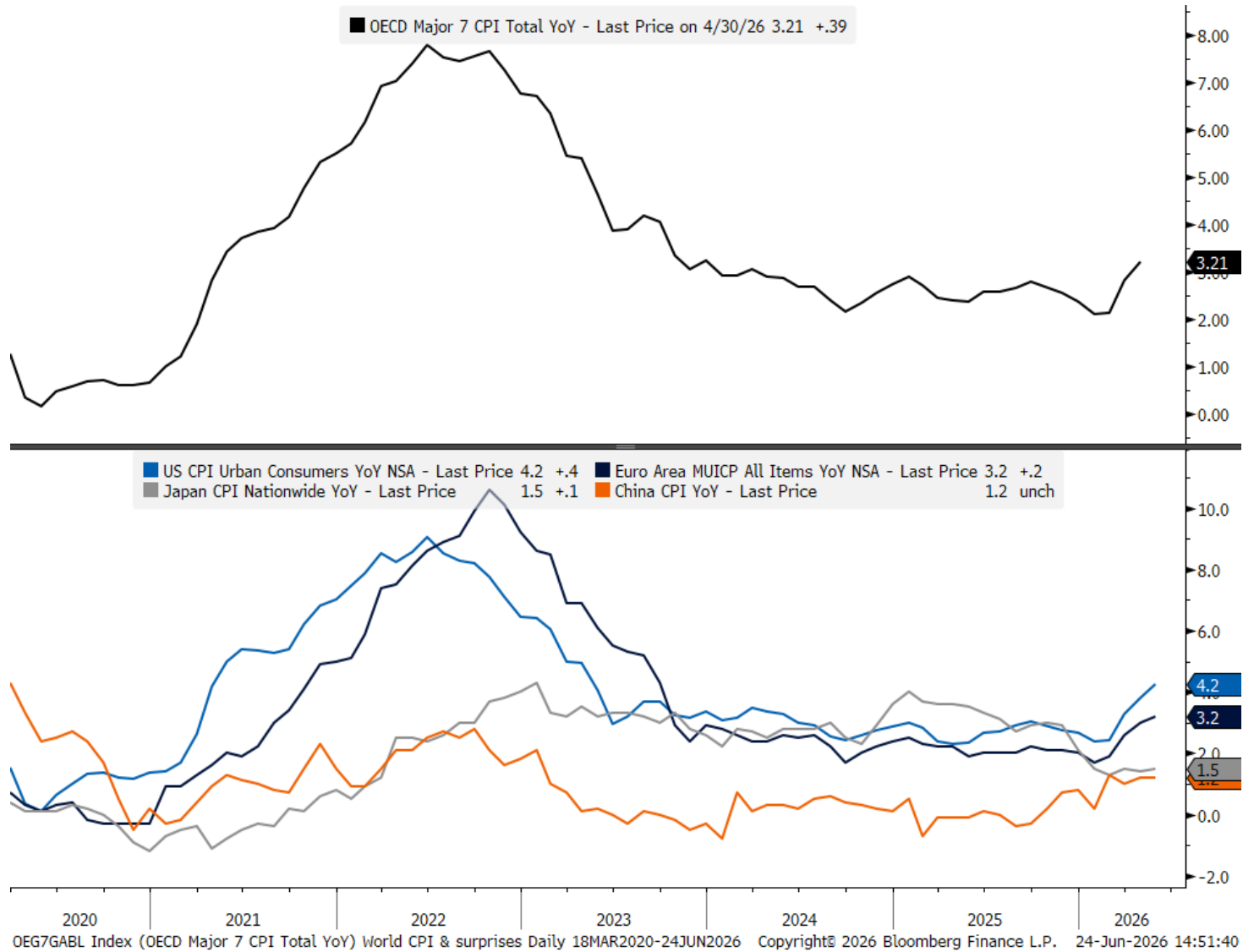


EU leading indicators have been pointing lower in recent months but the decline in energy prices should lead to a moderate pick up. In other words, the rate of change of growth will improve going forward.



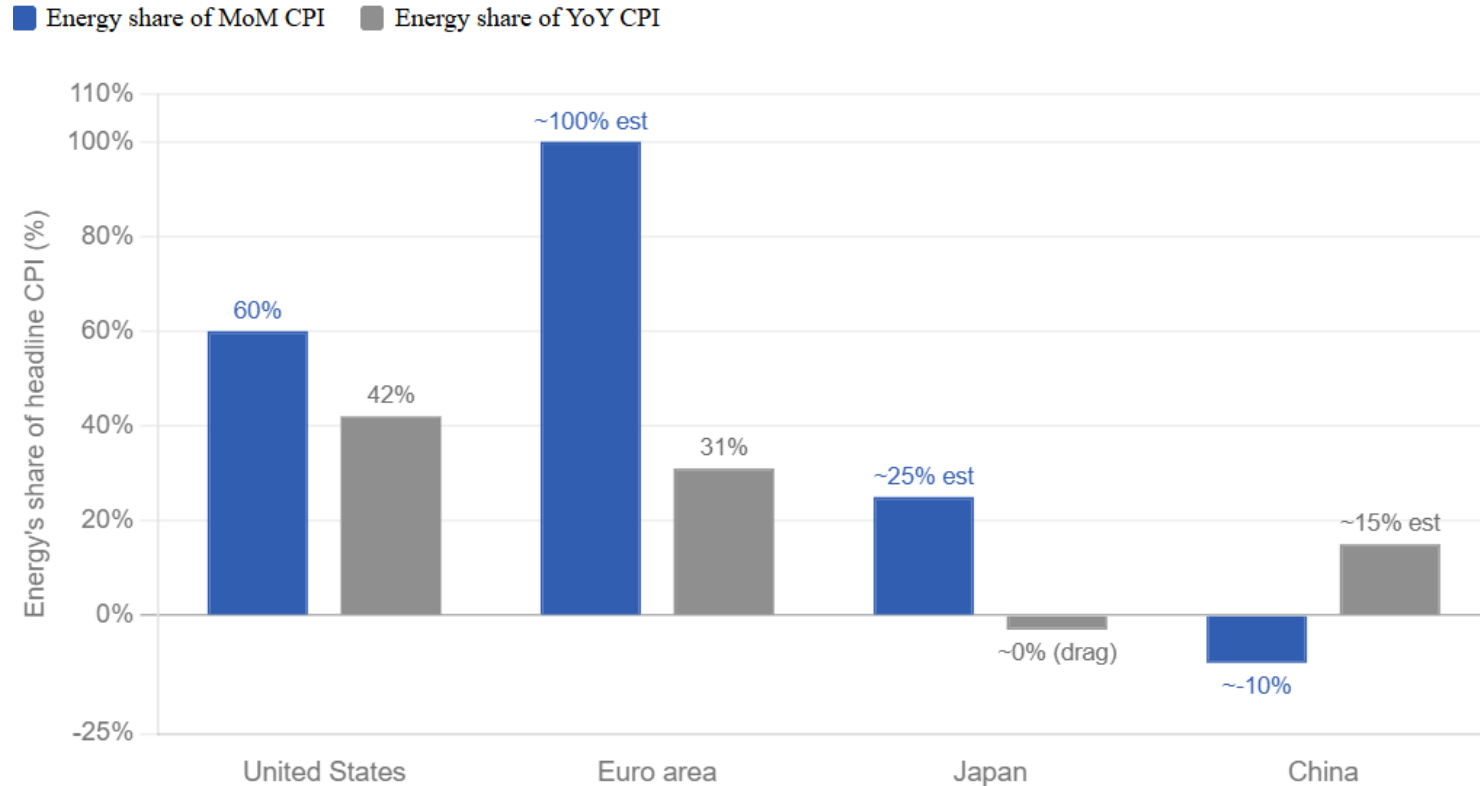


Global inflation has picked up in Q2 following the energy price shock





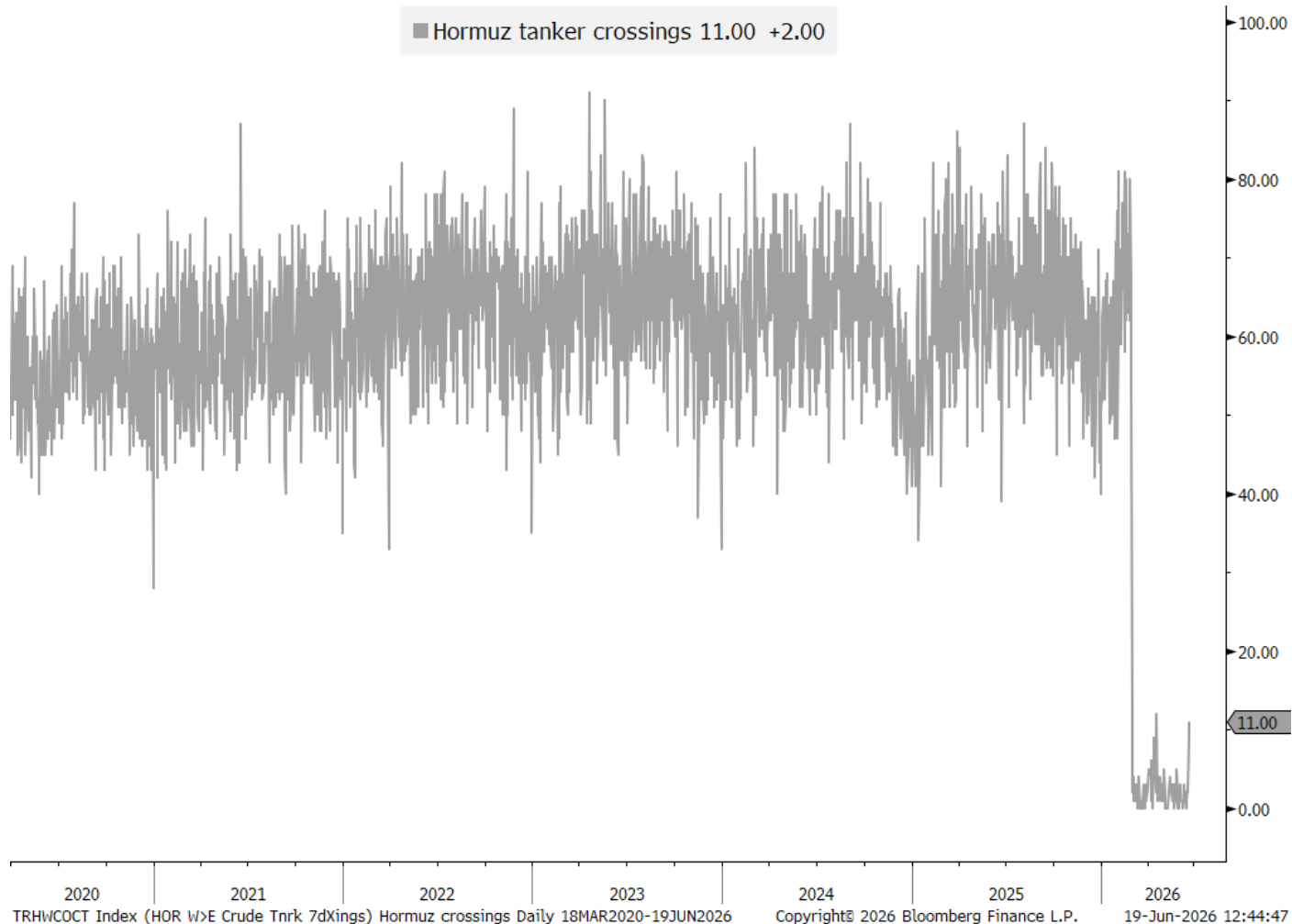
Energy has been a major contributor to the acceleration in inflation for the EU and US.



Bars = energy's contribution as a share of the headline CPI change. Solid: official decomposition (US BLS; euro area Eurostat). "est." = indicative only — Japan/China publish no clean energy line, and May monthly headlines were near zero or negative, making MoM shares unstable.

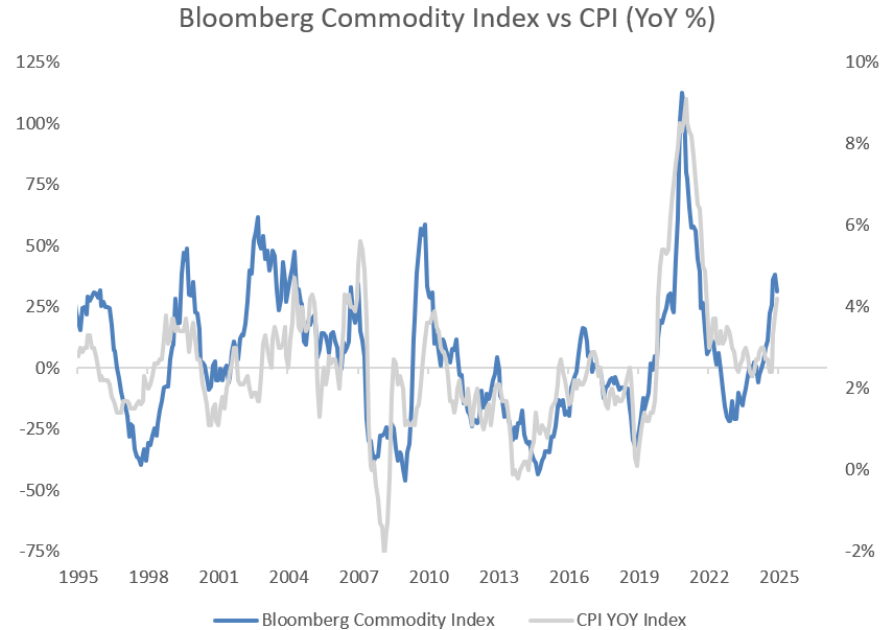


The signing of the US-Iran MoU and reopening of the Hormuz Strait compresses the left tail of the economic risks, as energy flows normalize.





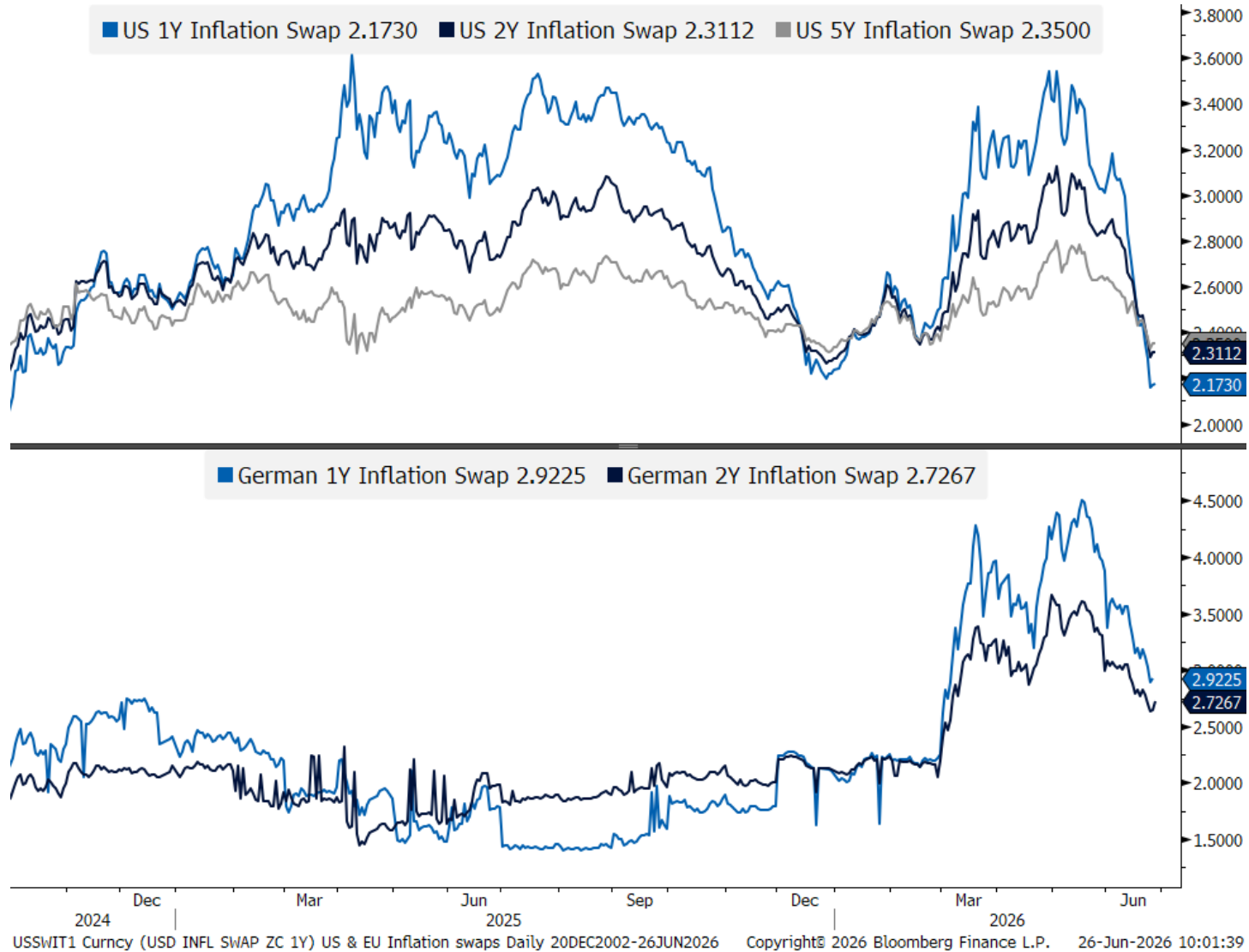
Energy and broader commodities have corrected in the past months, pointing to a fading inflationary impulse going forward.



Commodity	Last	1w Return (%)	1m Change (%)	3m Change (%)
Copper	599.3	-6.1	-5.8	10.0
Industrial Metals	169.6	-6.1	-8.6	3.4
Natural Gas	3.4	4.4	12.1	1.6
Agriculture	55.0	0.7	-5.1	-4.2
Commodity Index	123.4	-2.8	-9.9	-6.5
Gold	4010.5	-3.5	-11.0	-8.4
WTI	70.8	-7.6	-24.6	-25.1
EU Natural Gas	40.6	-3.5	-14.7	-26.9

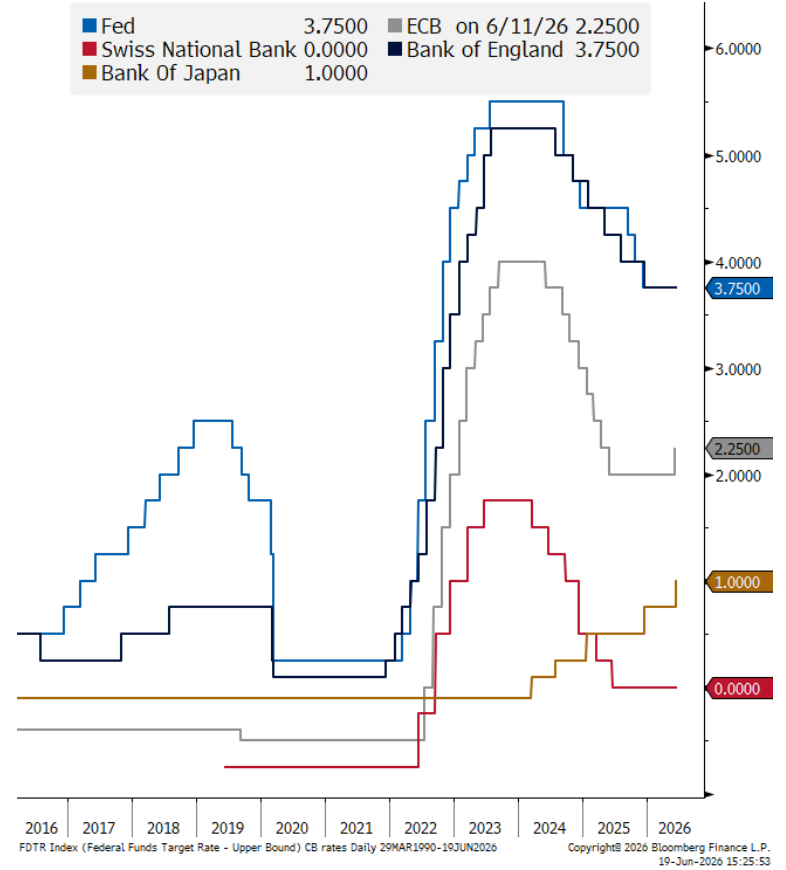
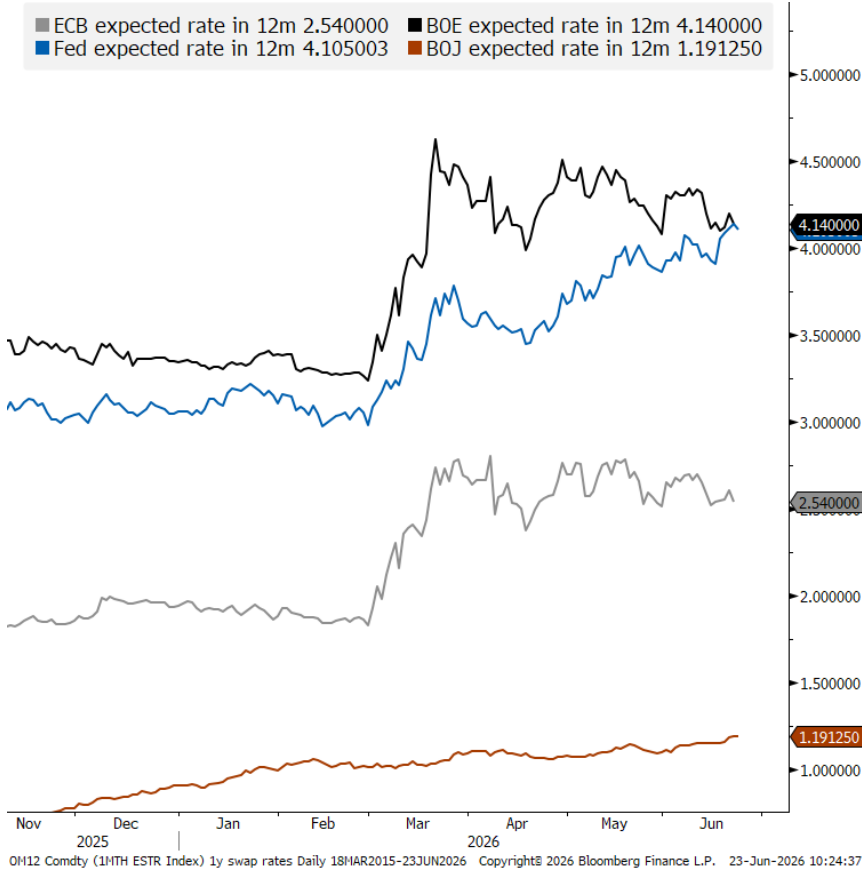


Inflation expectations have fallen sharply and reinforce the case for decelerating inflation.



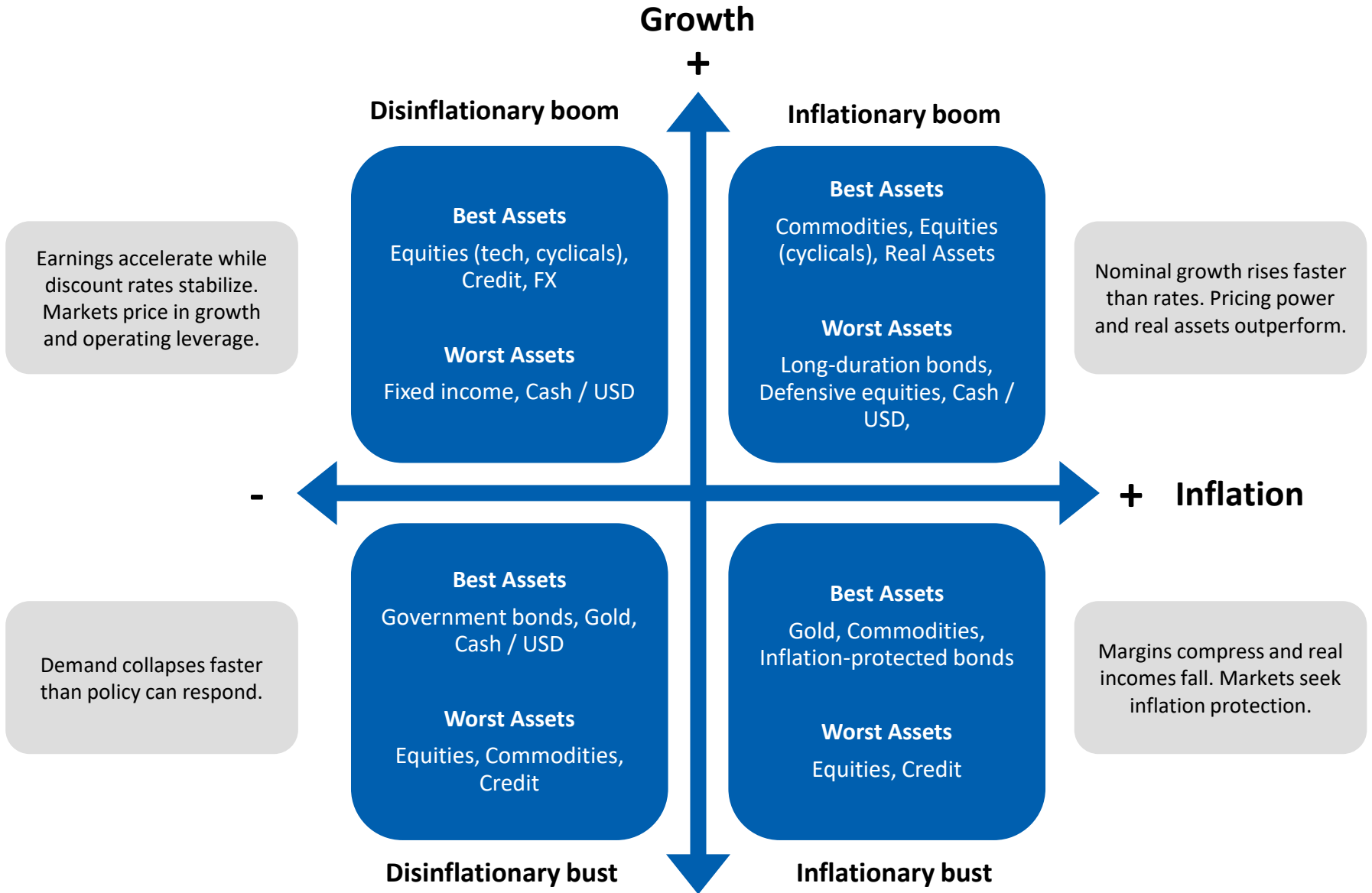


The inflation shock forced a repricing of the interest curve towards less cuts or more hikes. The ECB and BOJ have already delivered a first hike and the Fed is expected to follow. With the inflationary impulse slowing, we are likely close to peak hawkish pricing.



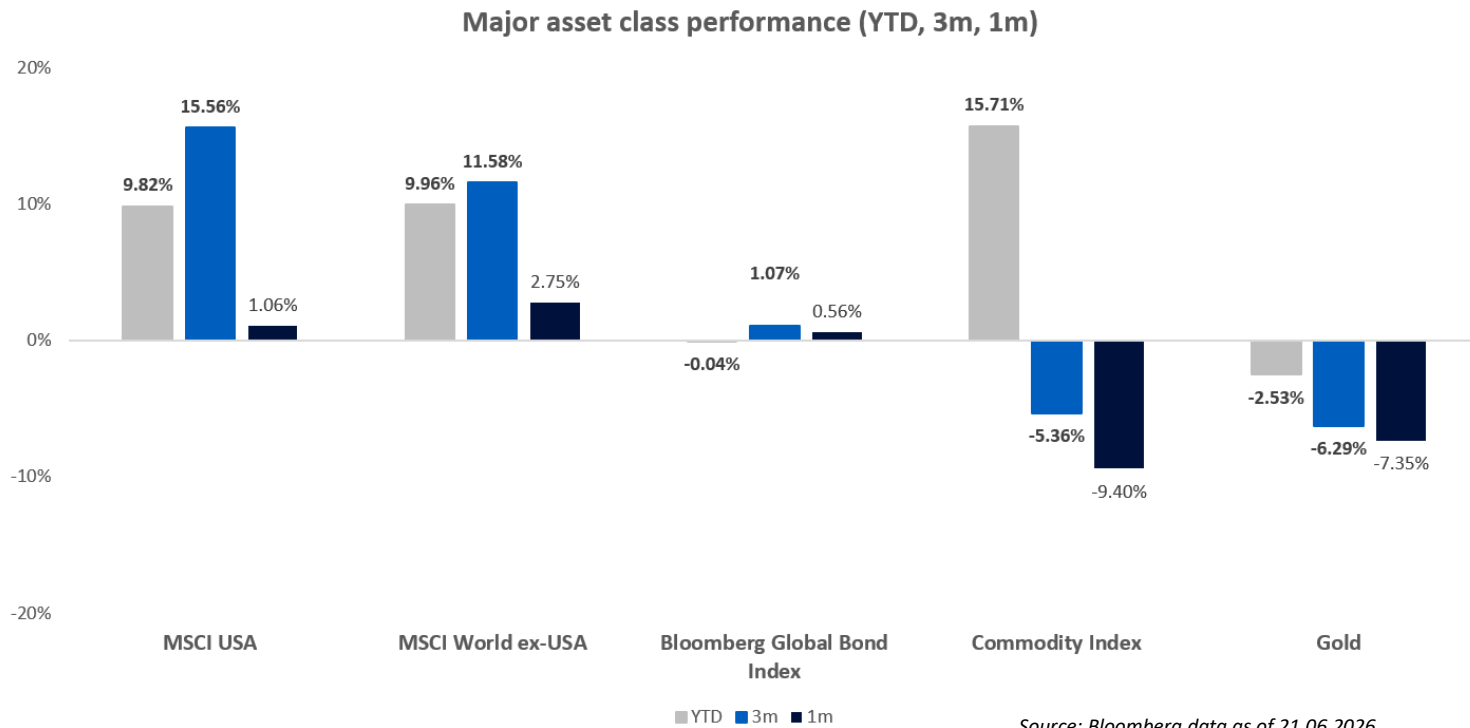


Which regime is market action consistent with?



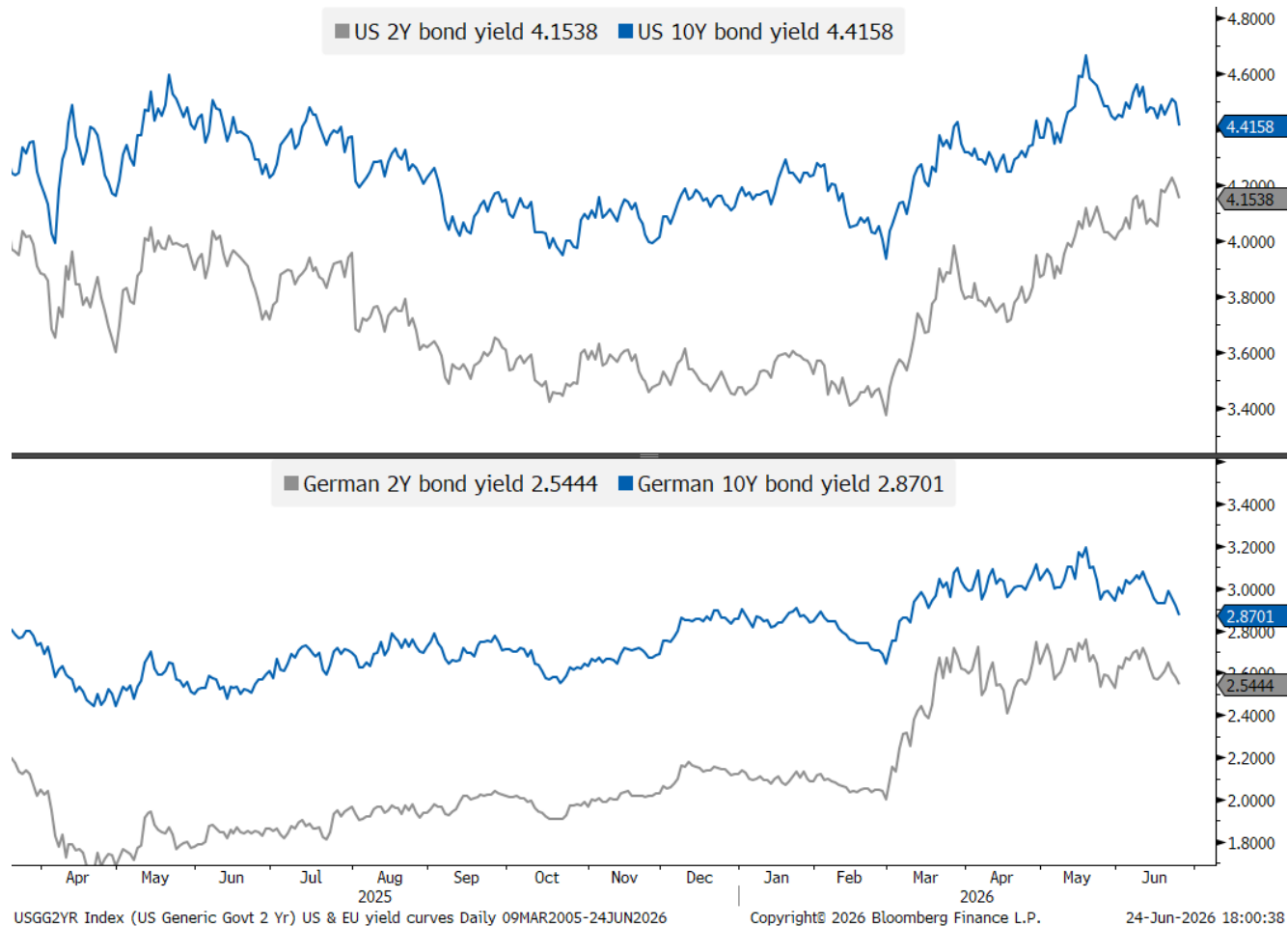


US equities outperformance in the past 3 months is consistent with diverging regimes, just as international equities pick up in the past month is with declining risks of an inflationary bust in non-US economies. The decline in commodities in the past 3 months points to a peak in inflationary pressures, which seems echoed by bonds.



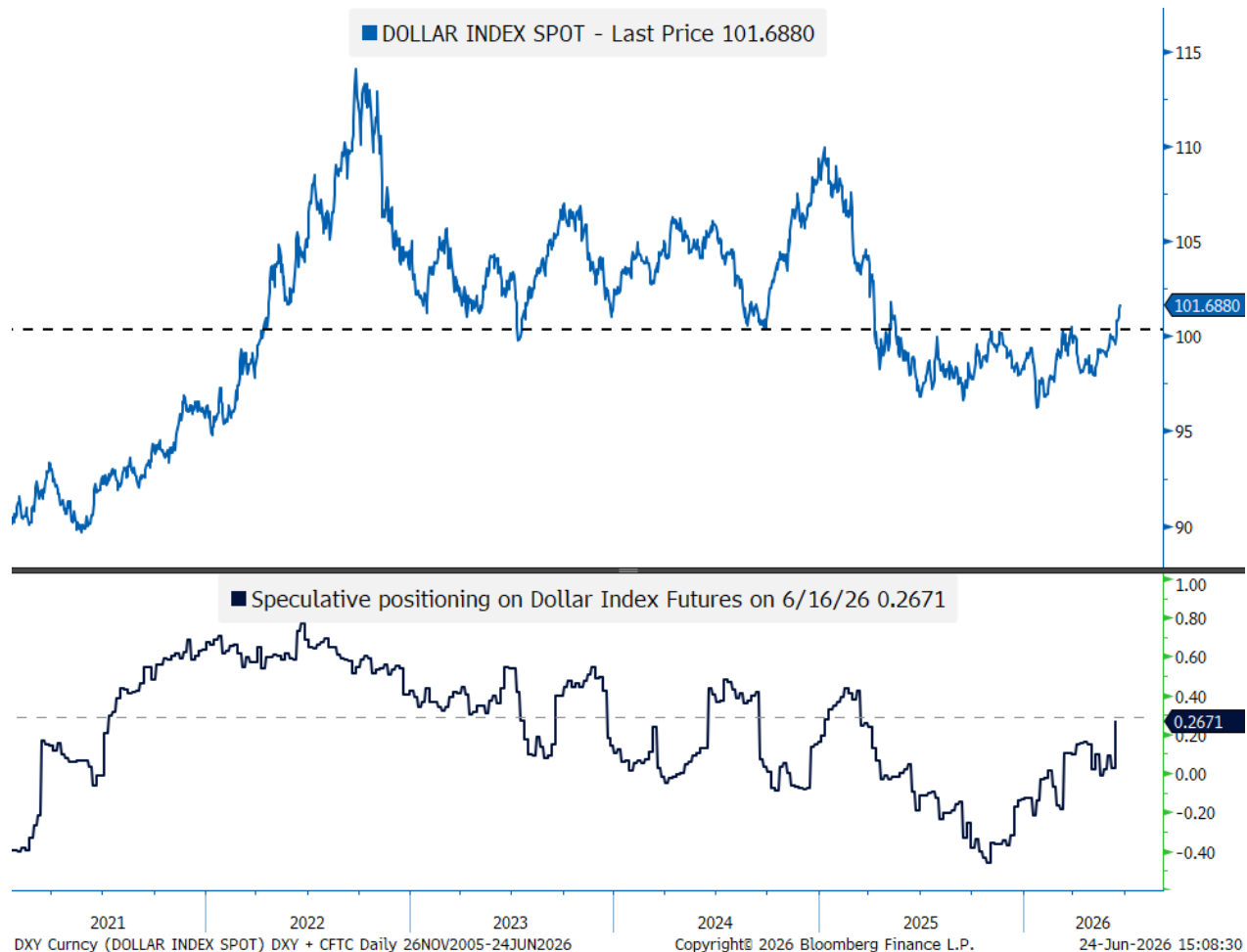


The slowing inflationary impulse and repricing of central banks rate path should keep downward pressure on EU yields. In the US, strong growth and Warsh's stance could keep short-term rates sticky longer, but we see downward pressure eventually materializing in Q3.





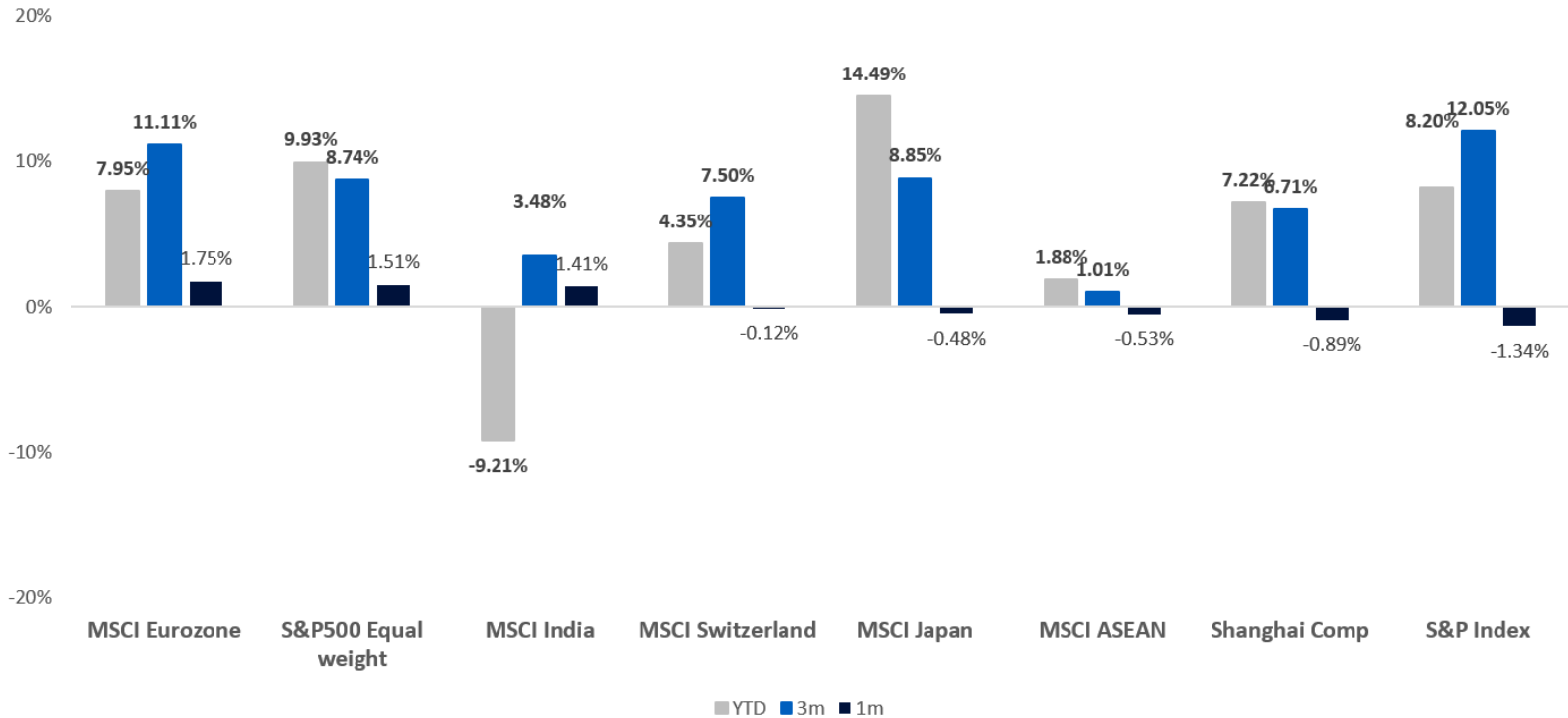
Despite the end of the US-Iran conflict, the USD has broken out on the back of relative economic strength and rate differentials. We expect this strength to fade later in Q3 as the Fed end up being less aggressive than priced in, but the short-term path is higher.





As growth risks are receding, capital will again diversify from the recent relative safety of tech into international equities and more cyclical sectors in the US.

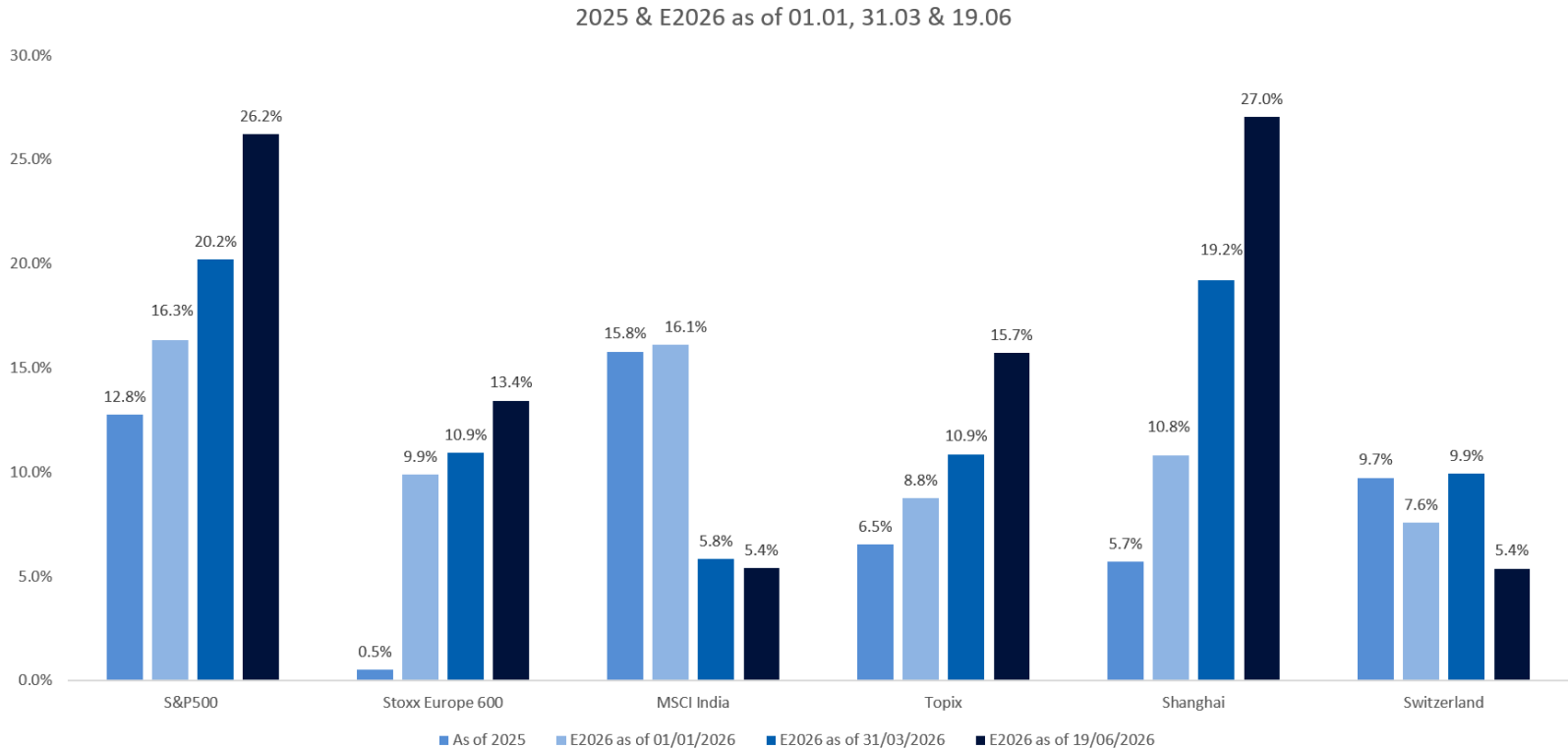
Major Indices performance



Source: Bloomberg data as of 23.06.2026



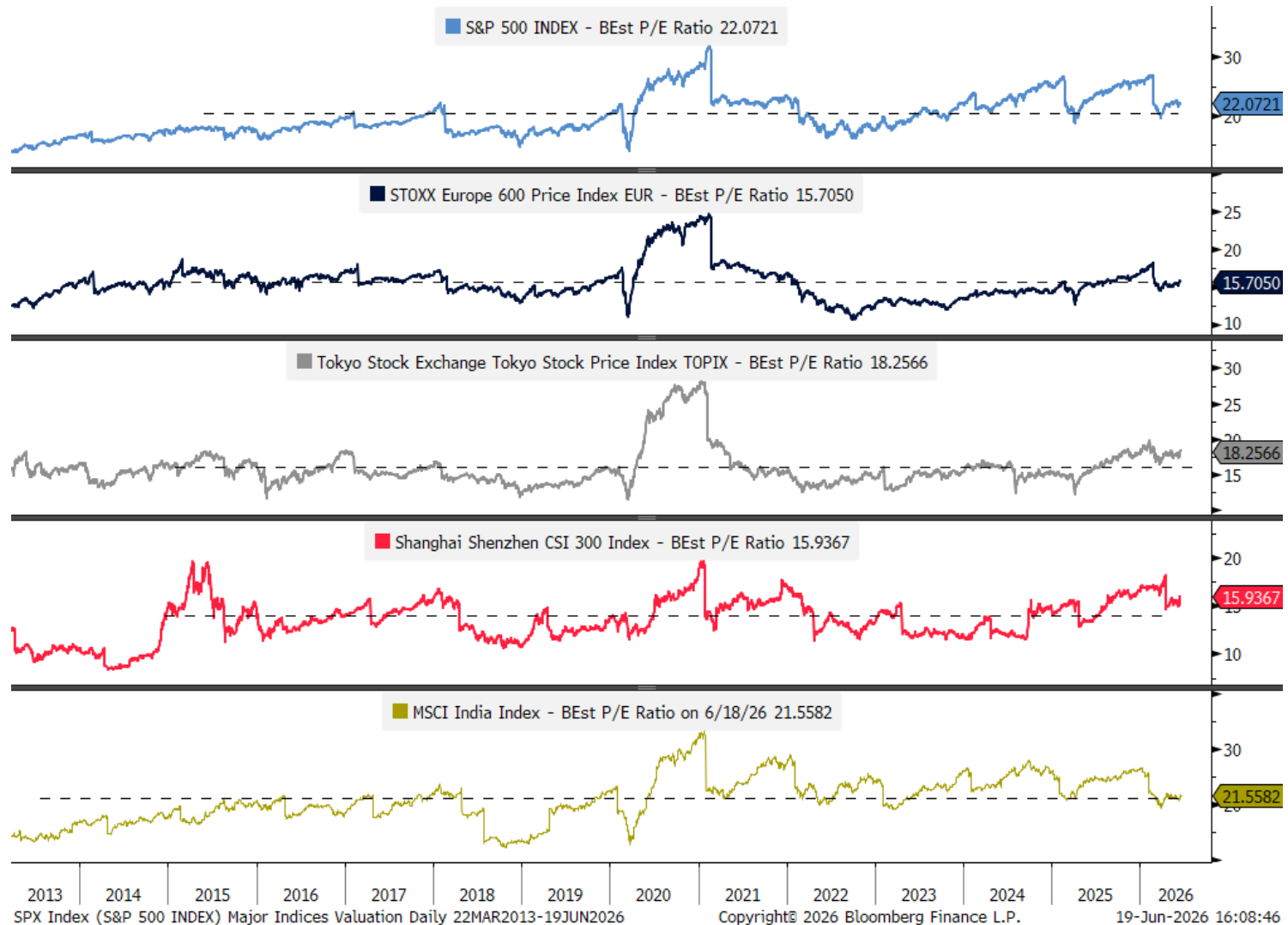
The solid nominal growth environment will keep supporting earnings, but expectations will be hard to beat...



Source: Bloomberg data as of 23.06.2026



Valuations are high across the board, particularly when considering the embedded EPS growth expectations.





The acceleration in US earnings estimates is extreme...historically, earnings estimates have always been revised lower. This time is unlikely to be different.





Waiting for earnings estimates to move lower to adopt a more caution stance has not worked in the past and will likely not work this time either, as price tends to peak in anticipation.

TABLE 1

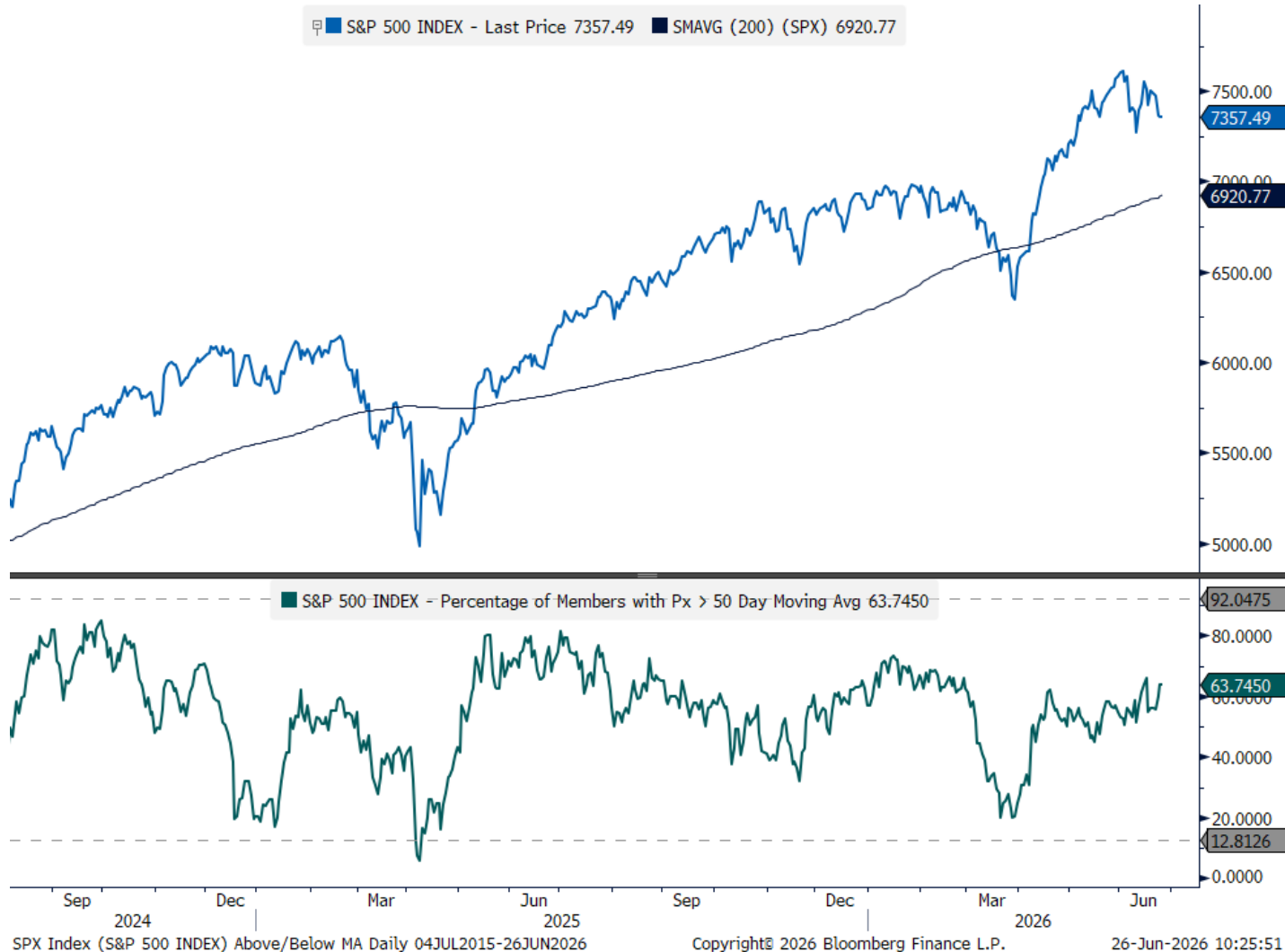
Share Prices Tend To Peak Before Forward Earnings

STOCK/INDEX	PEAK PRICE	START OF 12-MONTH FORWARD EPS DECLINE*	TOTAL RETURN FROM PRICE PEAK TO START OF FORWARD EPS DECLINE* (%)
MICRON	Jun 2000	Jan 2001	-48.0
MICRON	Sep 2006	Dec 2006	-19.8
MICRON	Nov 2014	Mar 2015	-24.5
MICRON	May 2018	Oct 2018	-34.5
MICRON	Dec 2021	Jul 2022	-33.4
INTEL	Aug 2000	Jan 2001	-50.6
INTEL	Mar 2021	Feb 2022	-23.4
NVIDIA	Dec 2001	Jul 2002	-83.4
NVIDIA	Sep 2007	Feb 2008	-41.0
NVIDIA	Sep 2018	Jan 2019	-48.8
NVIDIA	Nov 2021	Aug 2022	-53.8
S&P 500 IT	Mar 2000	Nov 2000	-41.6
S&P 500 IT	Oct 2007	Sep 2008	-28.5
S&P 500 IT	Dec 2021	Jul 2022	-17.0

* DEFINED AS THE MONTH FOLLOWING PEAK 12-MONTH FORWARD EPS FOR EACH EPISODE.
SOURCE: FACTSET.

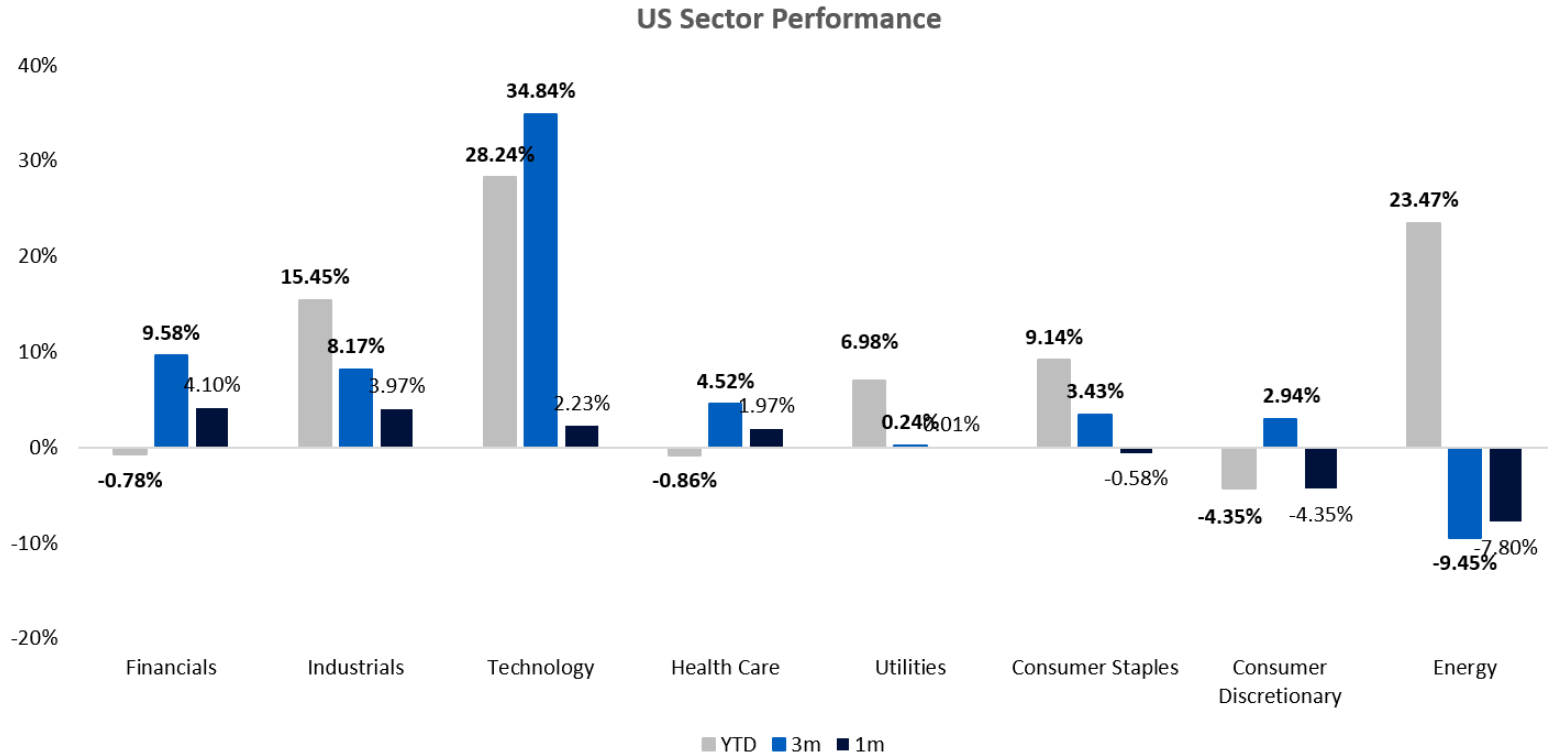


The S&P 500 has seen broadening breadth in the past month, which is consistent with the economic resilience and diversification out of tech.





Tech continues to perform but other sectors are catching up. Further strength in tech should be used to take profit and reallocate to more cyclical sectors such as financials and industrials.

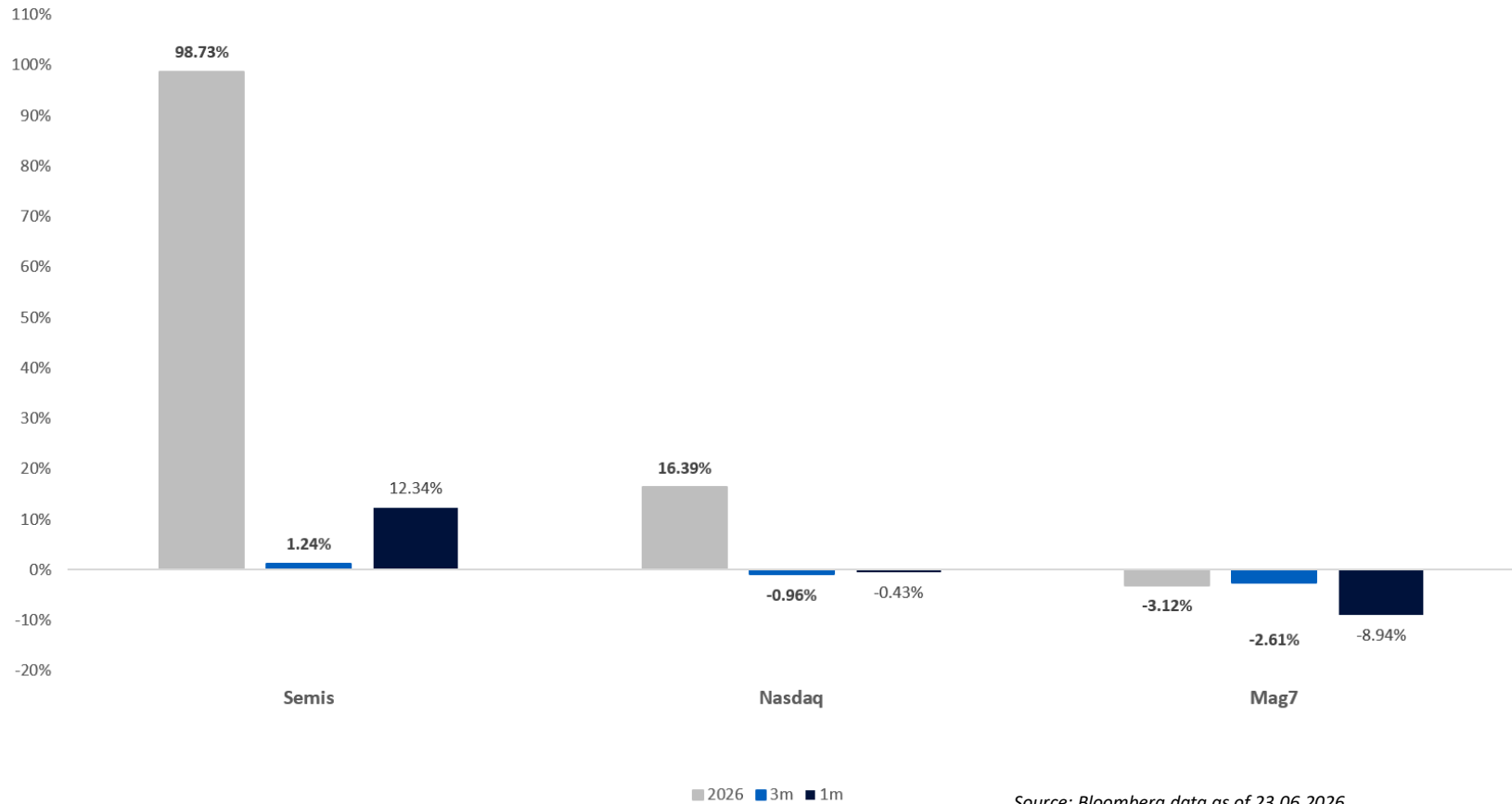


Source: Bloomberg data as of 23.06.2026



Not all US tech is equal...the capex spenders are underperforming significantly, raising the key question of when will they reduce their capex to alleviate pressure on their share price...

US technology

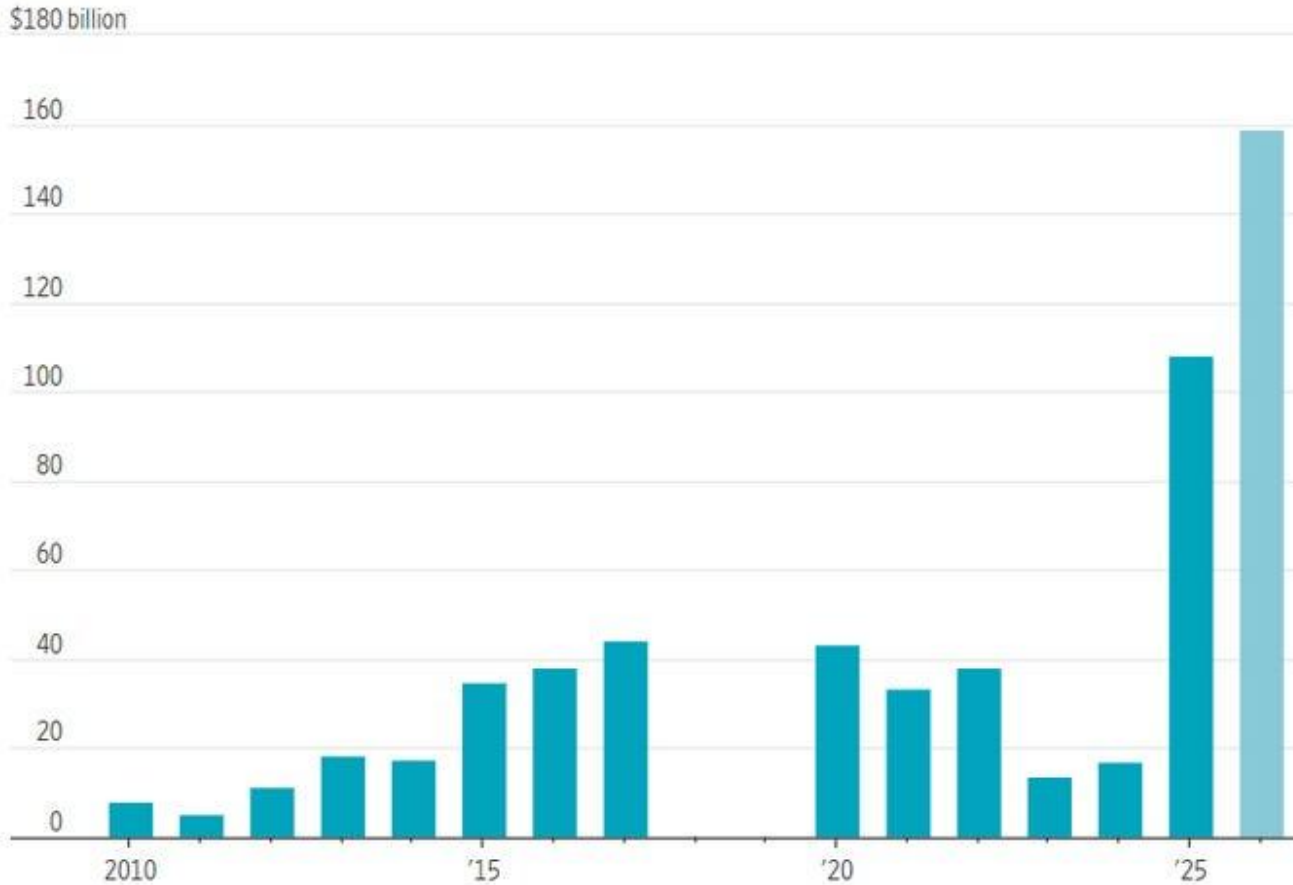


Source: Bloomberg data as of 23.06.2026



Tech companies have been ramping up debt issuance to finance the excessively large AI capex

Global bond issuance by big AI tech companies

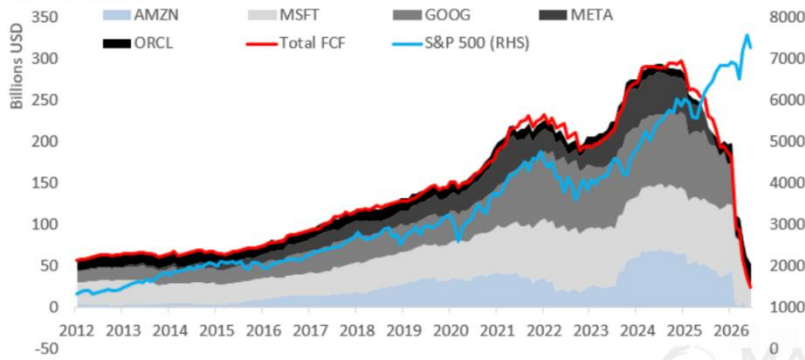


Note: Comprises bonds issued by Alphabet, Amazon, Meta, Microsoft and Oracle. 2026 data is through June 5.
Source: Dealogic



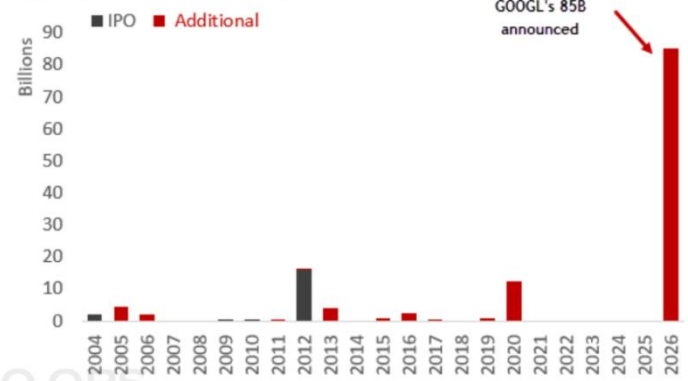
And they are now raising capital at the fastest pace in years...

Hyperscaler Free Cash Flow Projection Next 12 Month

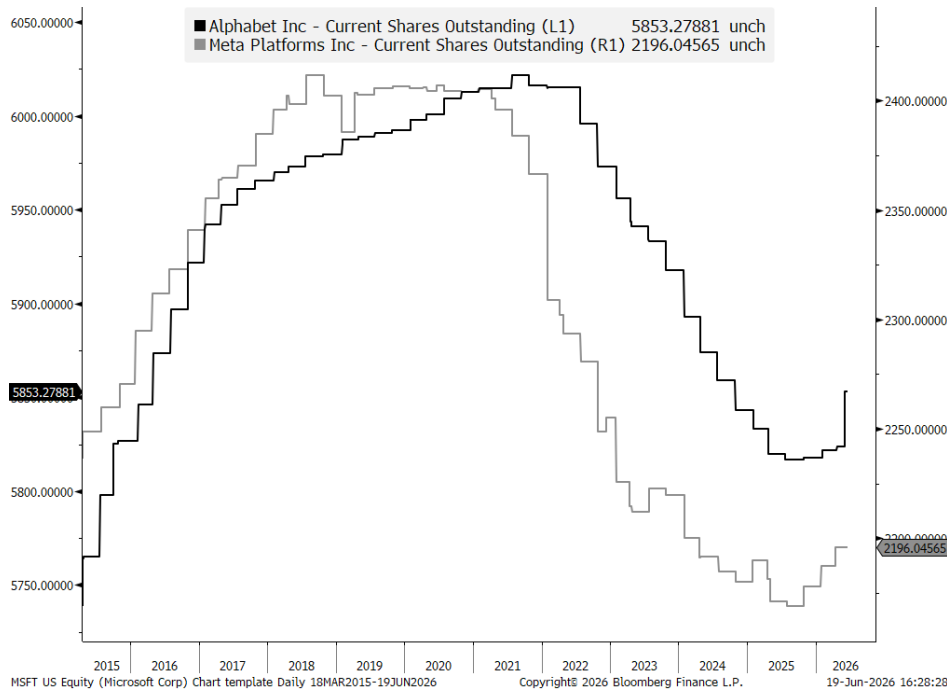


Source: Nomura Vol

Mag8 Equity Issuance History



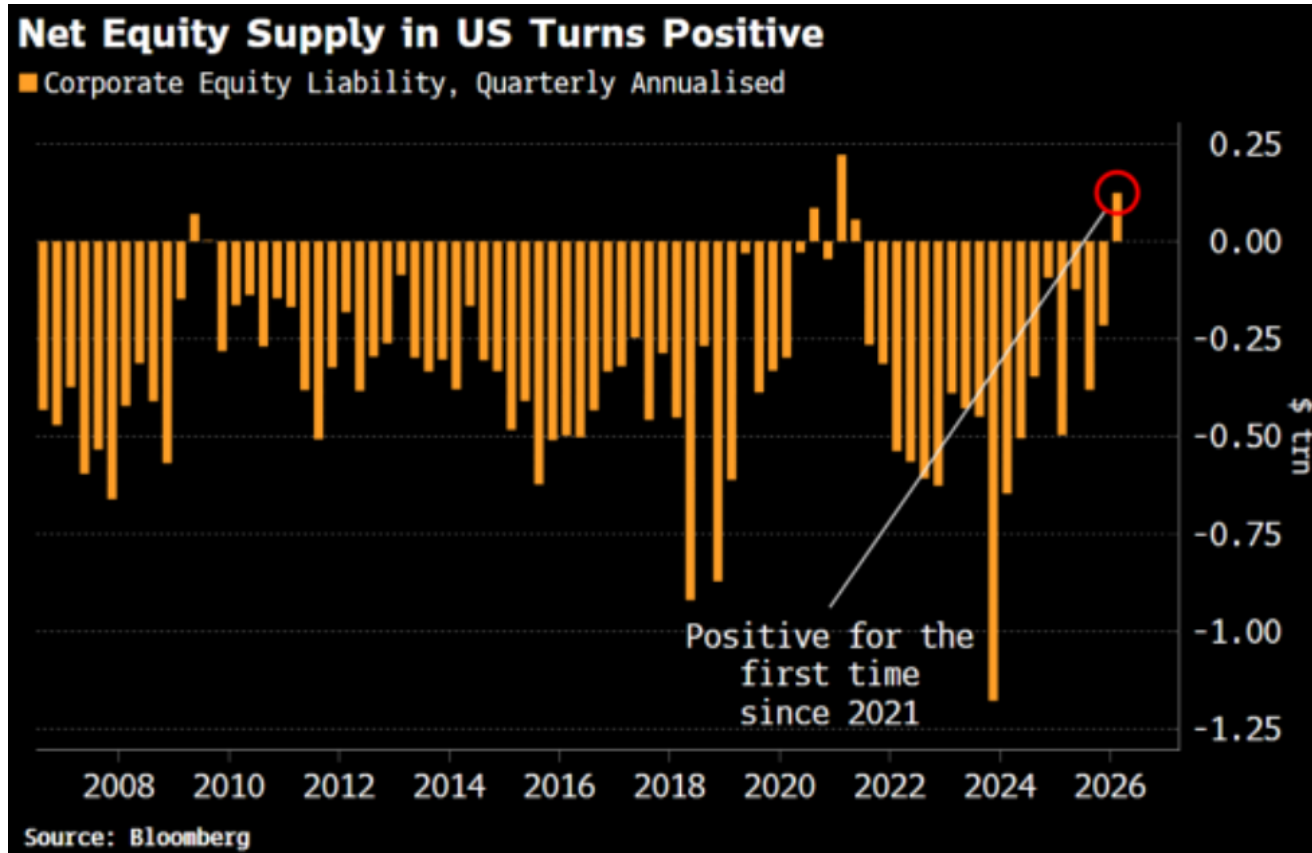
Source: Nomura Vol



MSFT US Equity (Microsoft Corp) Chart template Daily 18MAR2015-19JUN2026 Copyright© 2026 Bloomberg Finance L.P. 19-Jun-2026 16:28:28



Large equity issuance by hyperscalers and record IPOs are pushing net equity supply in positive territory...





Several sentiment and positioning readings point to excessive speculation and stretched positioning, particularly in semis. While we expect resilient markets given the underlying macro picture, higher volatility and sharp pullbacks are to be expected.

BofA Bull & Bear Indicator (B&B)

Our BofA Bull & Bear Indicator is at 8.7... signal is Sell.

Chart 19: BofA Bull & Bear at 8.7
Up to 8.7 from 8.5

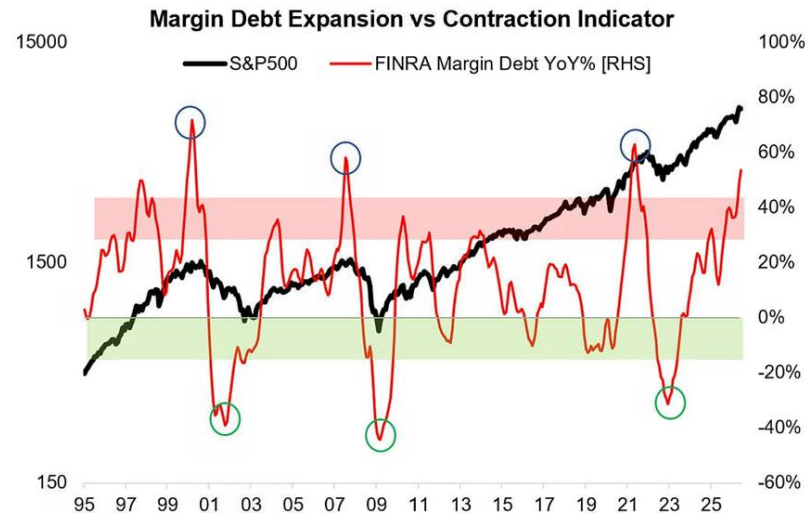


Source: BofA Global Investment Strategy
BofA GLOBAL RESEARCH

Table 7: BofA B&B Indicator
BofA Bull & Bear current component readings

Components	Percentile	Sentiment
Hedge Fund Positioning	67%	Neutral
Equity Flow	48%	Neutral
Bond Flow	89%	V Bullish
Credit Market Technicals	76%	Bullish
Global Stock Index Breadth	73%	Bullish
FMS Positioning	99%	V Bullish

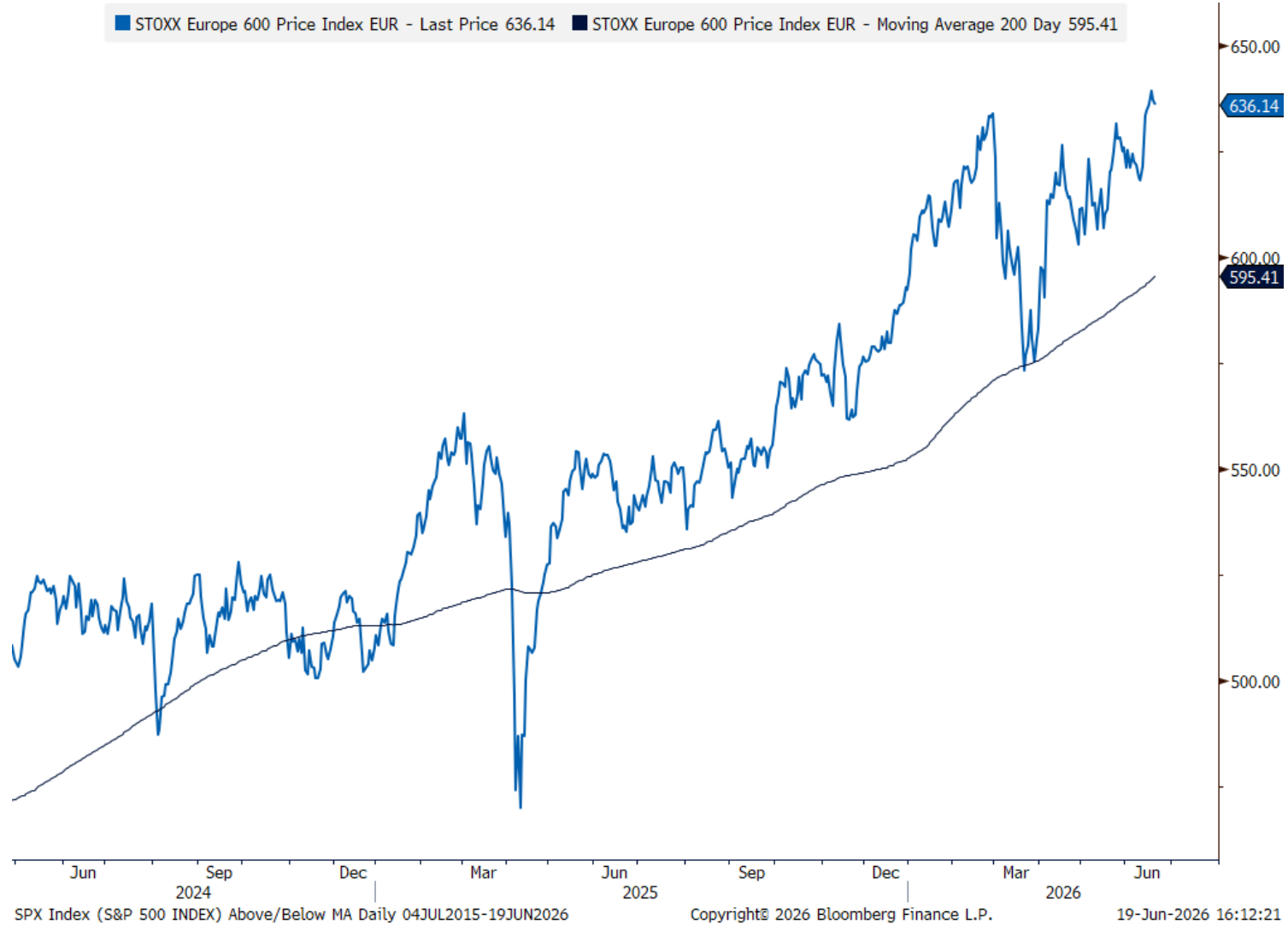
Source: BofA Global Investment Strategy, Bloomberg, EPFR Global, Lipper FMI, Global FMS, CFTC, MSCI
BofA GLOBAL RESEARCH



Source: Topdown Charts, LSEG, FINRA
topdowncharts.com

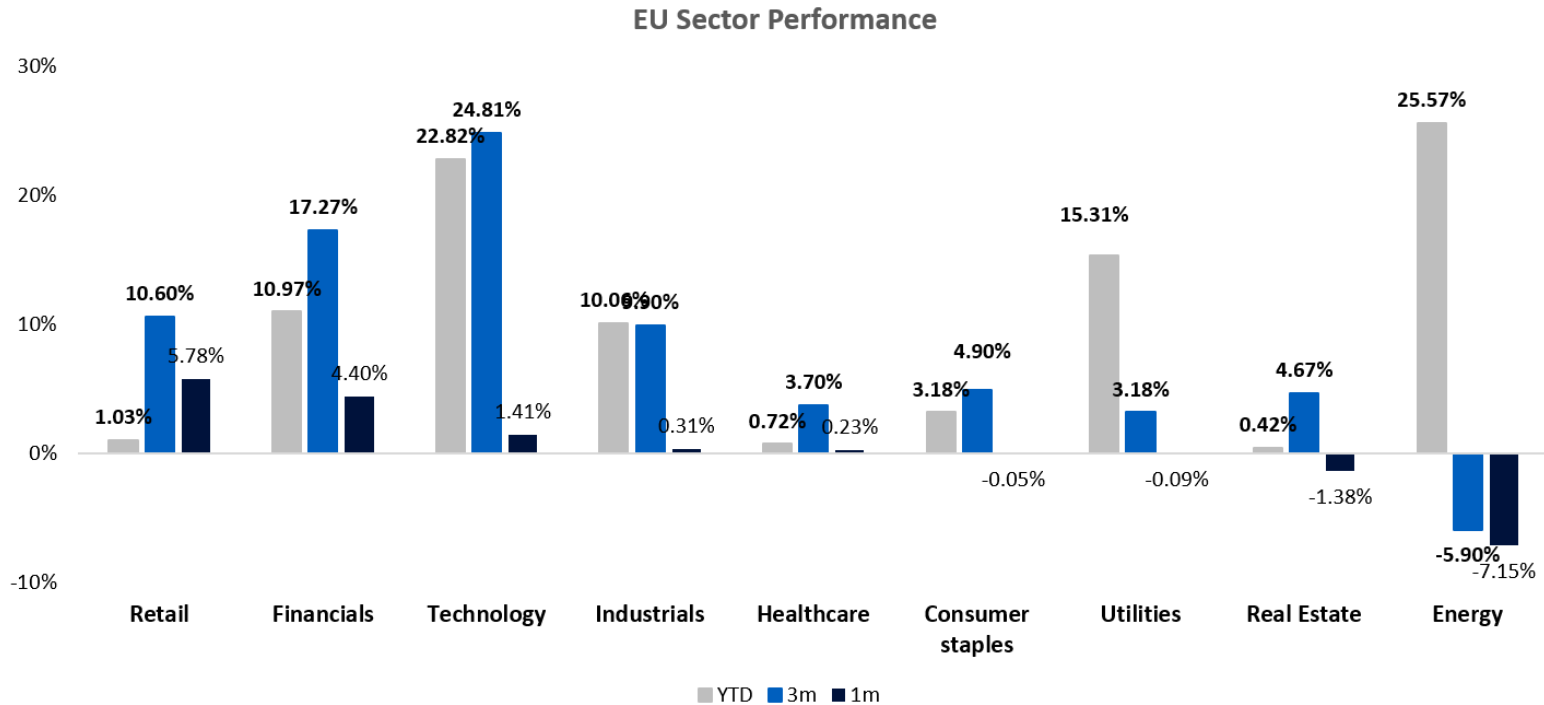


EU equities reach new highs as the risk of an inflationary bust recedes





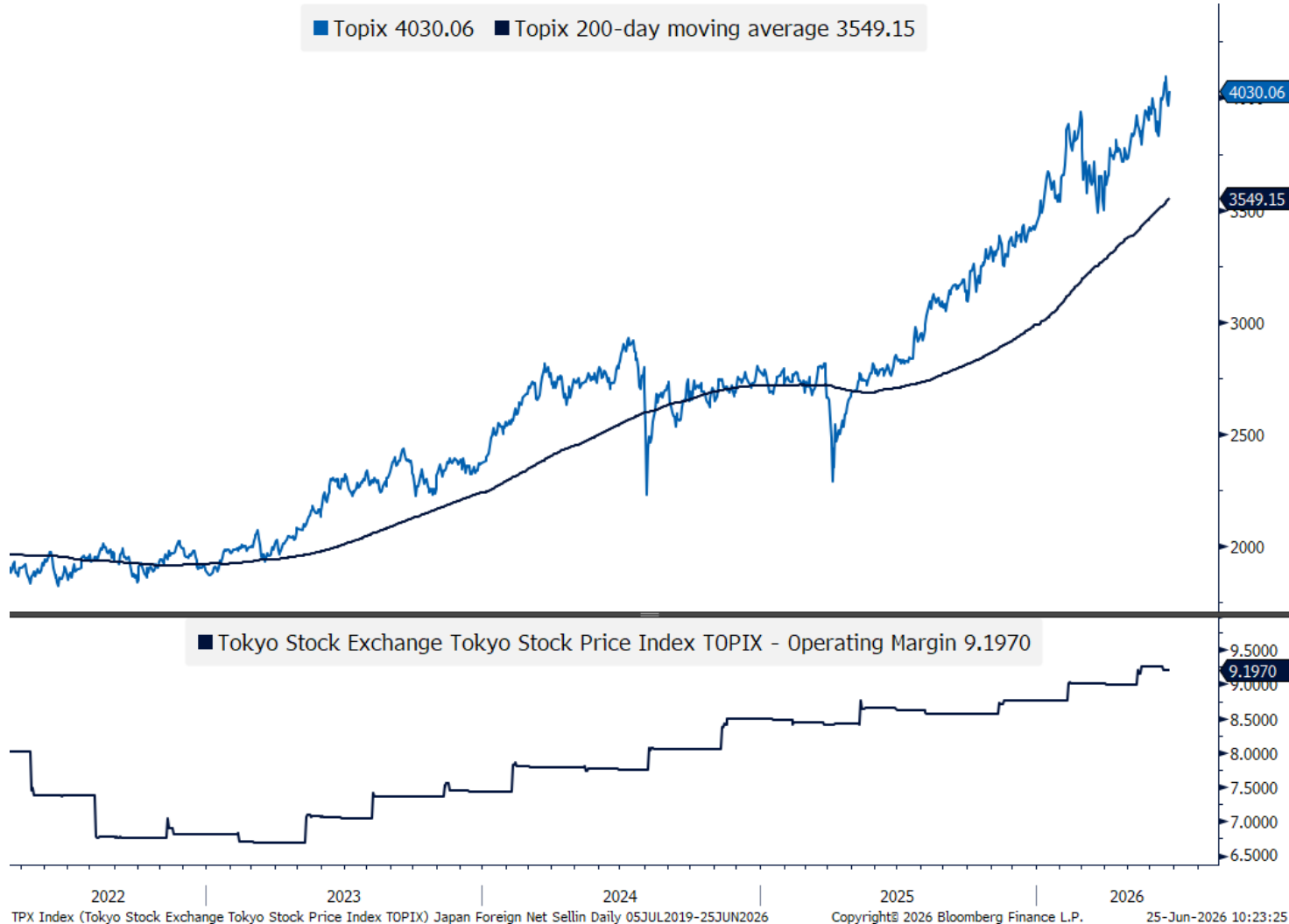
Cyclical sectors such as industrials and banks should be favored, while retail could see continued strength too.



Source: Bloomberg data as of 23.06.2026

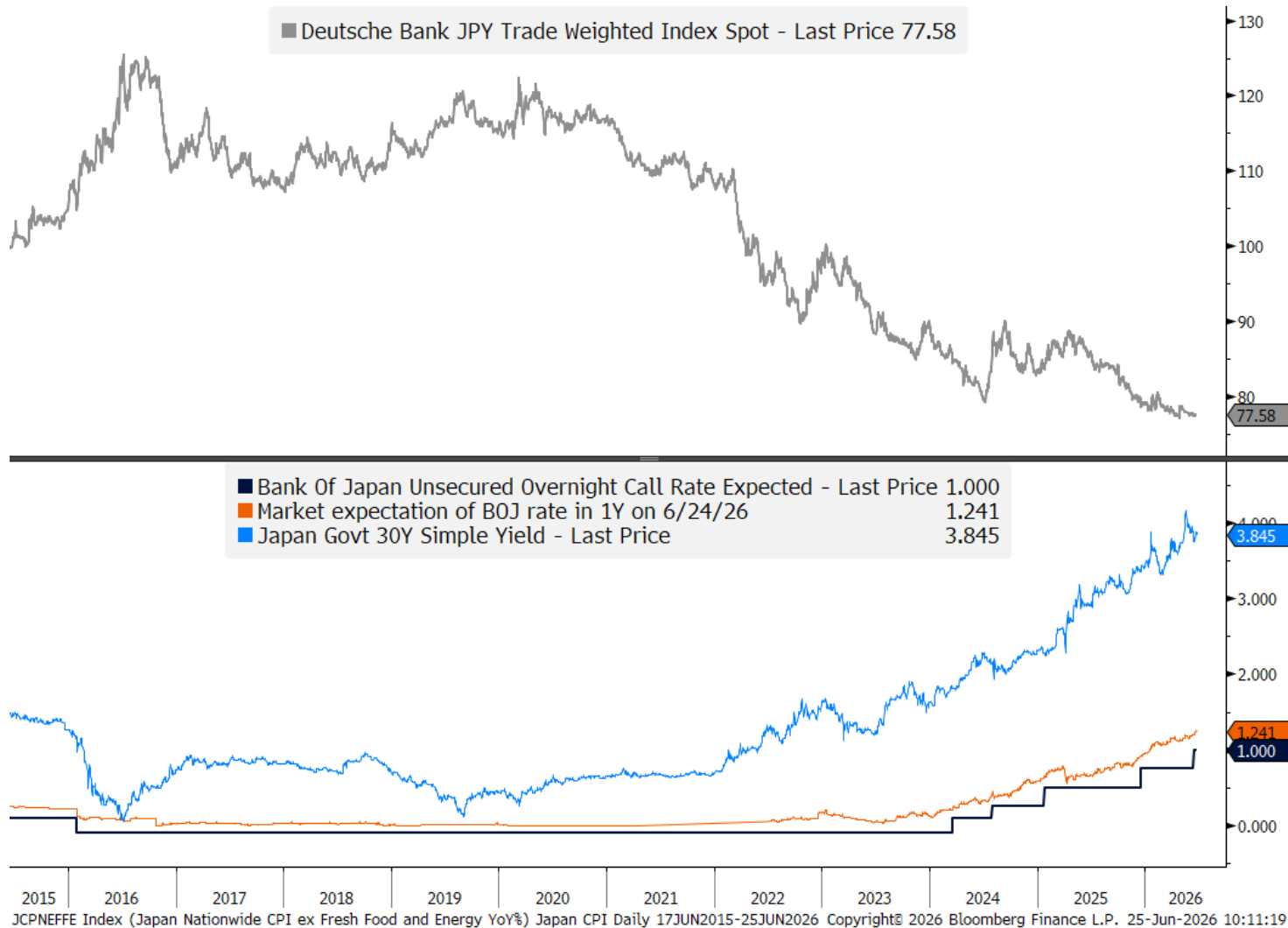


Japanese equities continue to look attractive on the back of a solid economy, supported by loose monetary and fiscal policies, and the continued improvement in shareholder payouts (buybacks, dividends).





A key concern in Japan is the fact that the JPY keeps weakening despite the rise in yields. We expect increasing measures by the BOJ and government to stabilize the currency and long-term yields.





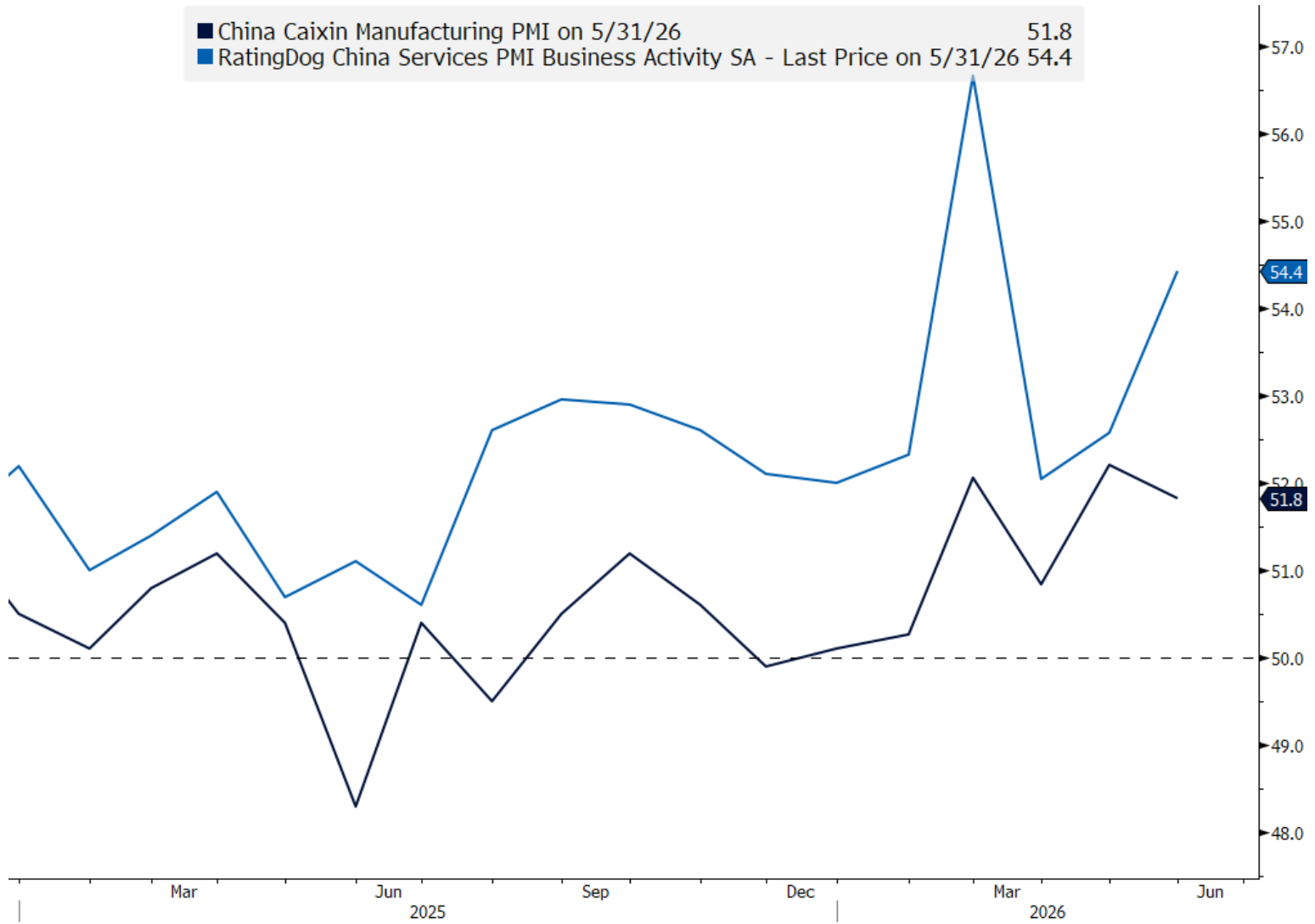
Chinese hard data has been underwhelming...



CHVAIOY Index (China Value Added of Industry YoY) China retail & industry Daily 21JAN2021-22JUN2026 Copyright© 2026 Bloomberg Finance L.P. 22-Jun-2026 15:21:03



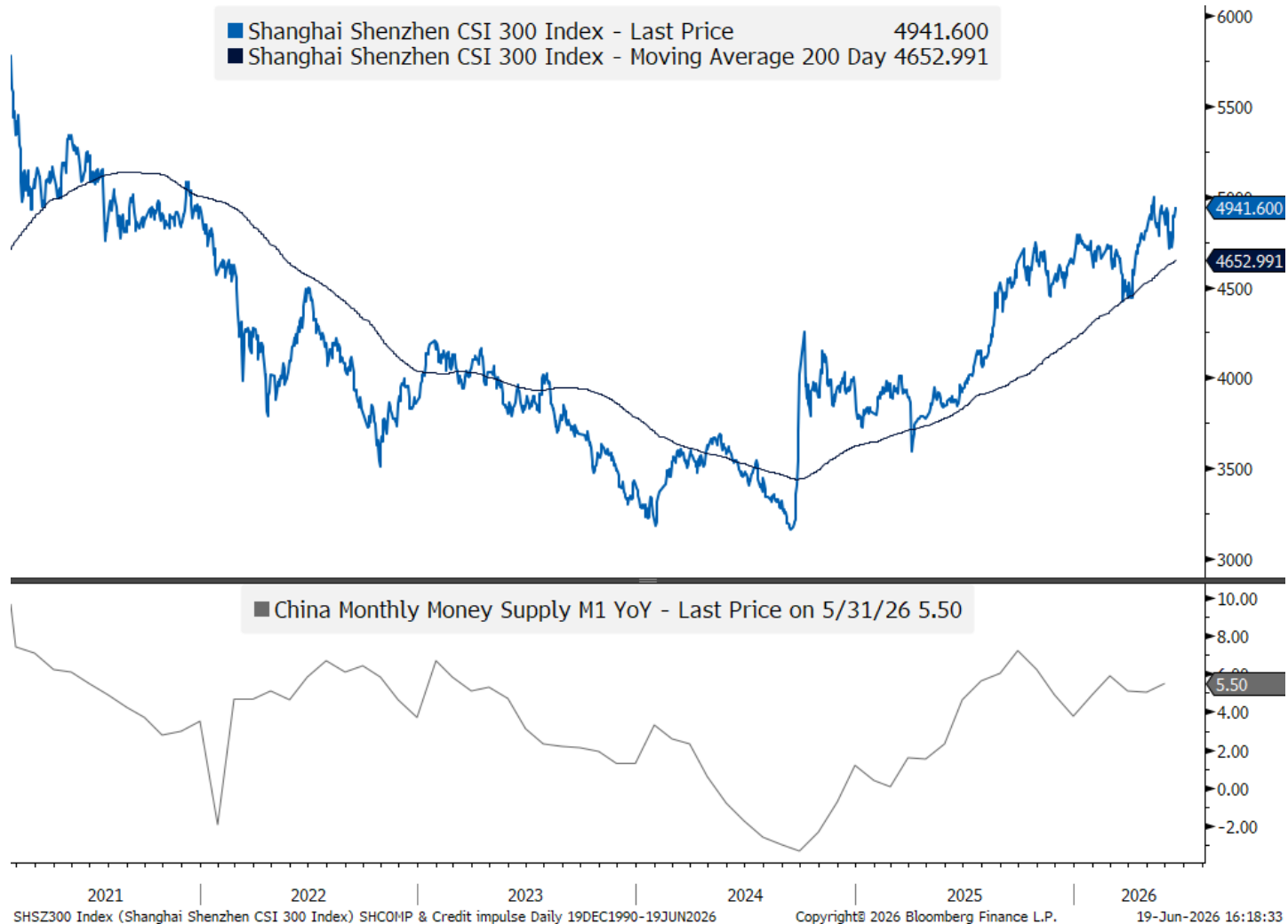
PMIs are providing a more encouraging picture



MPMICNMA Index (RatingDog China Manufacturing PMI SA) China PMIs Daily 10JUN2021-22JUN2026 Copyright© 2026 Bloomberg Finance L.P. 22-Jun-2026 15:24:22

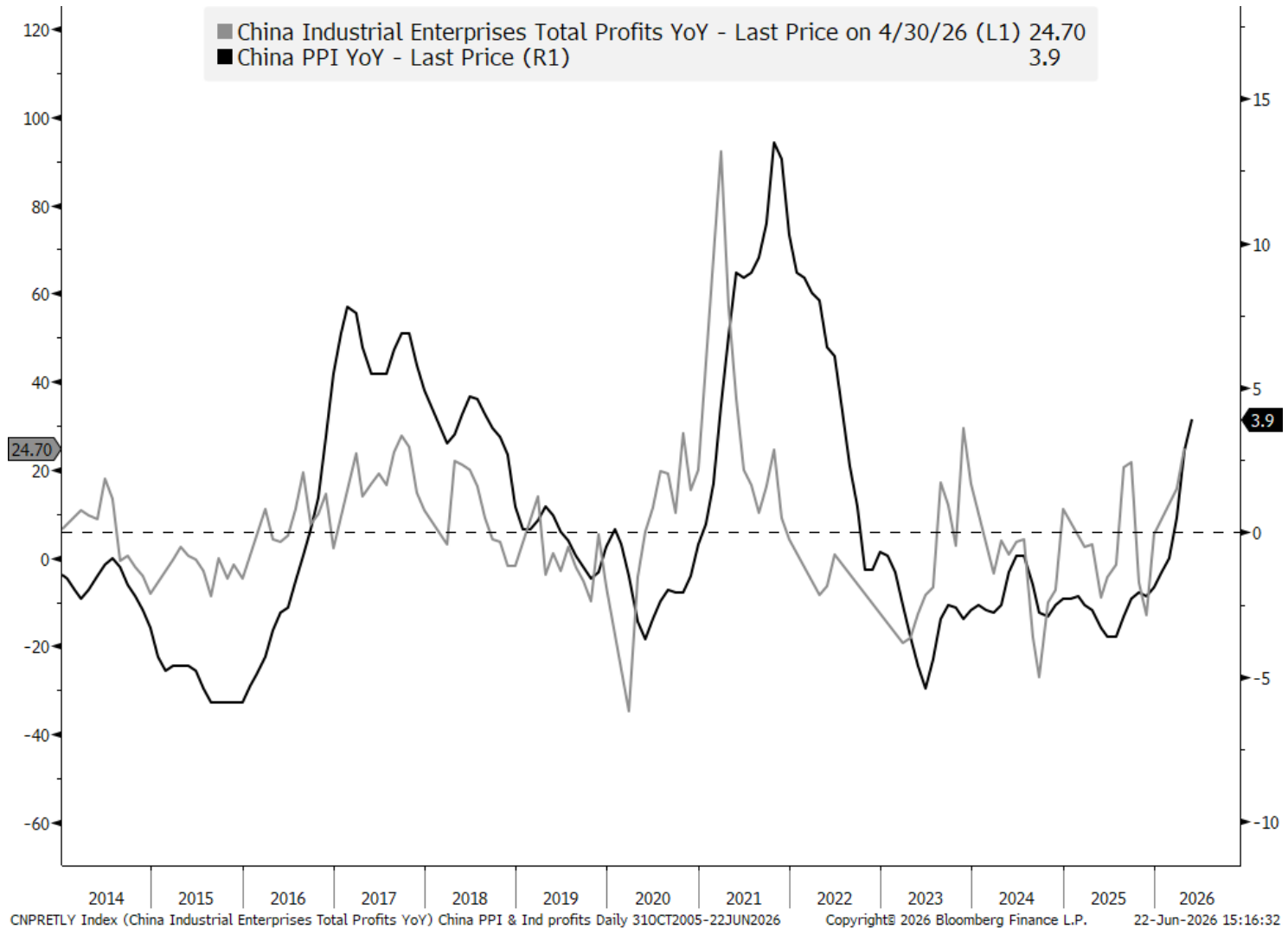


Despite mixed economic data, Chinese mainland equities continue to grind higher. The government will keep supporting the market with additional measures if necessary, relying on its positive wealth effect.



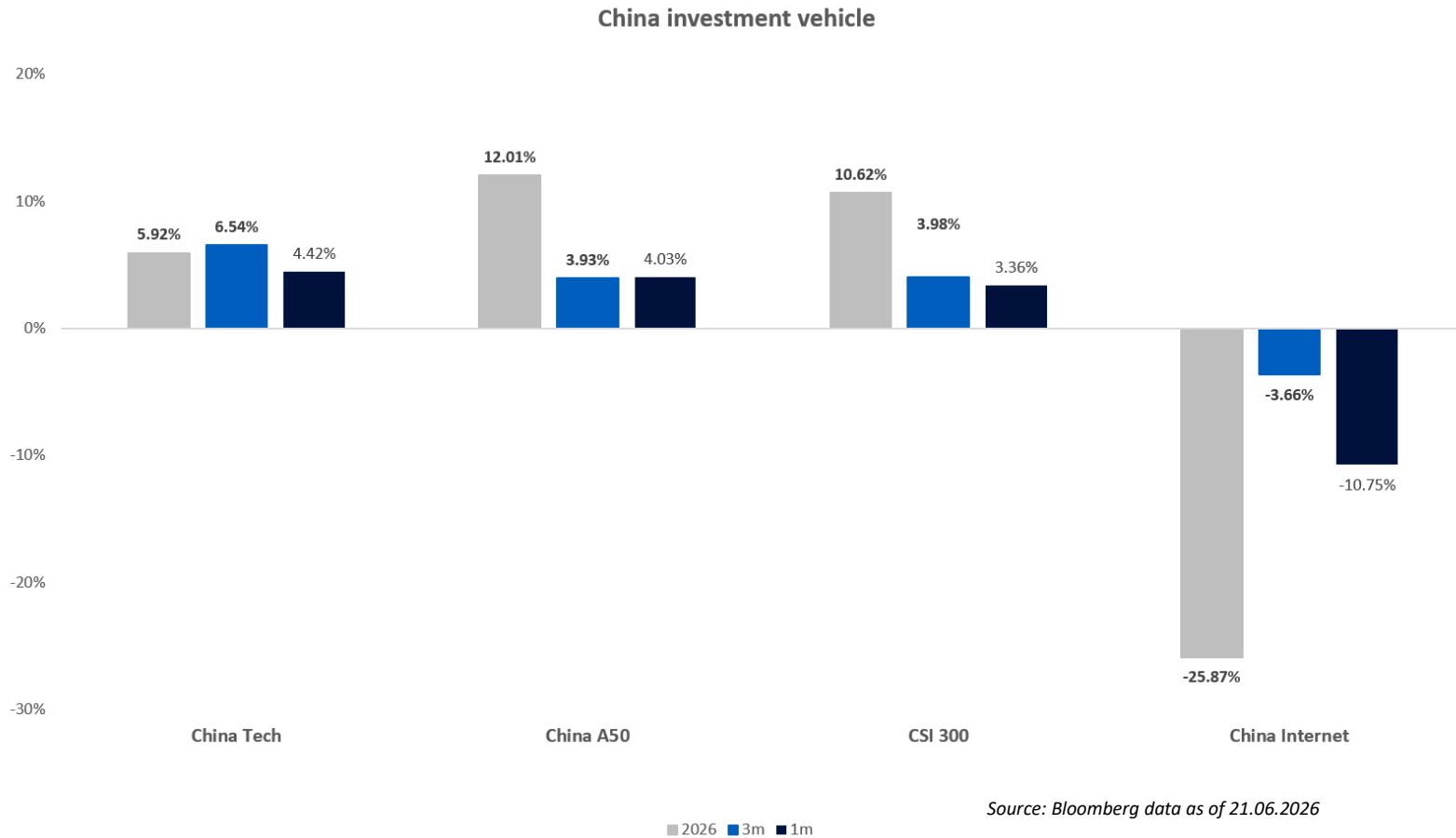


Rising producer prices remain supportive of Chinese industrial profits



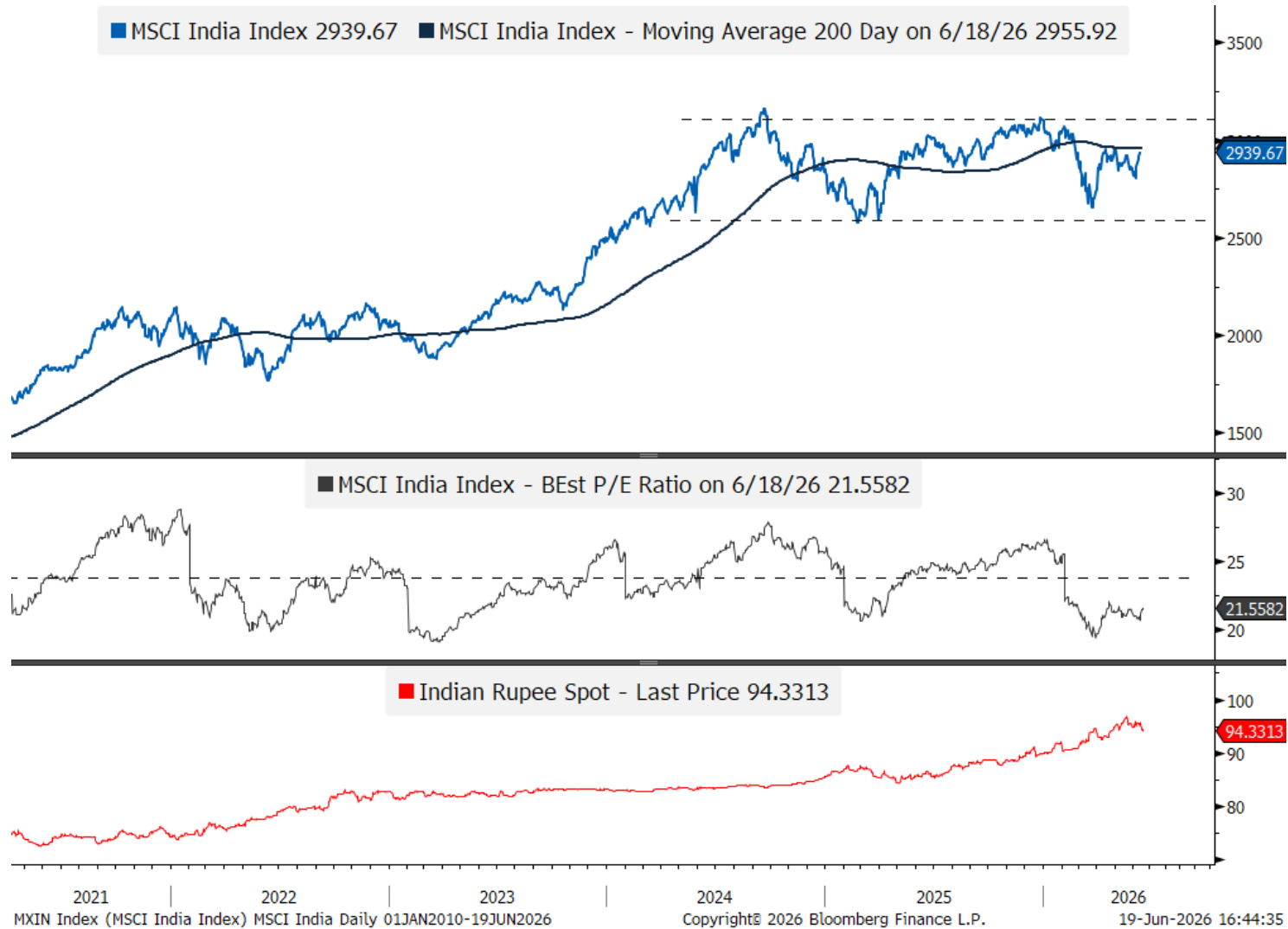


But certain segments of the Chinese markets have been extremely disappointing. A broad exposure to Chinese tech however remains appropriate given their solid positioning in the AI race.



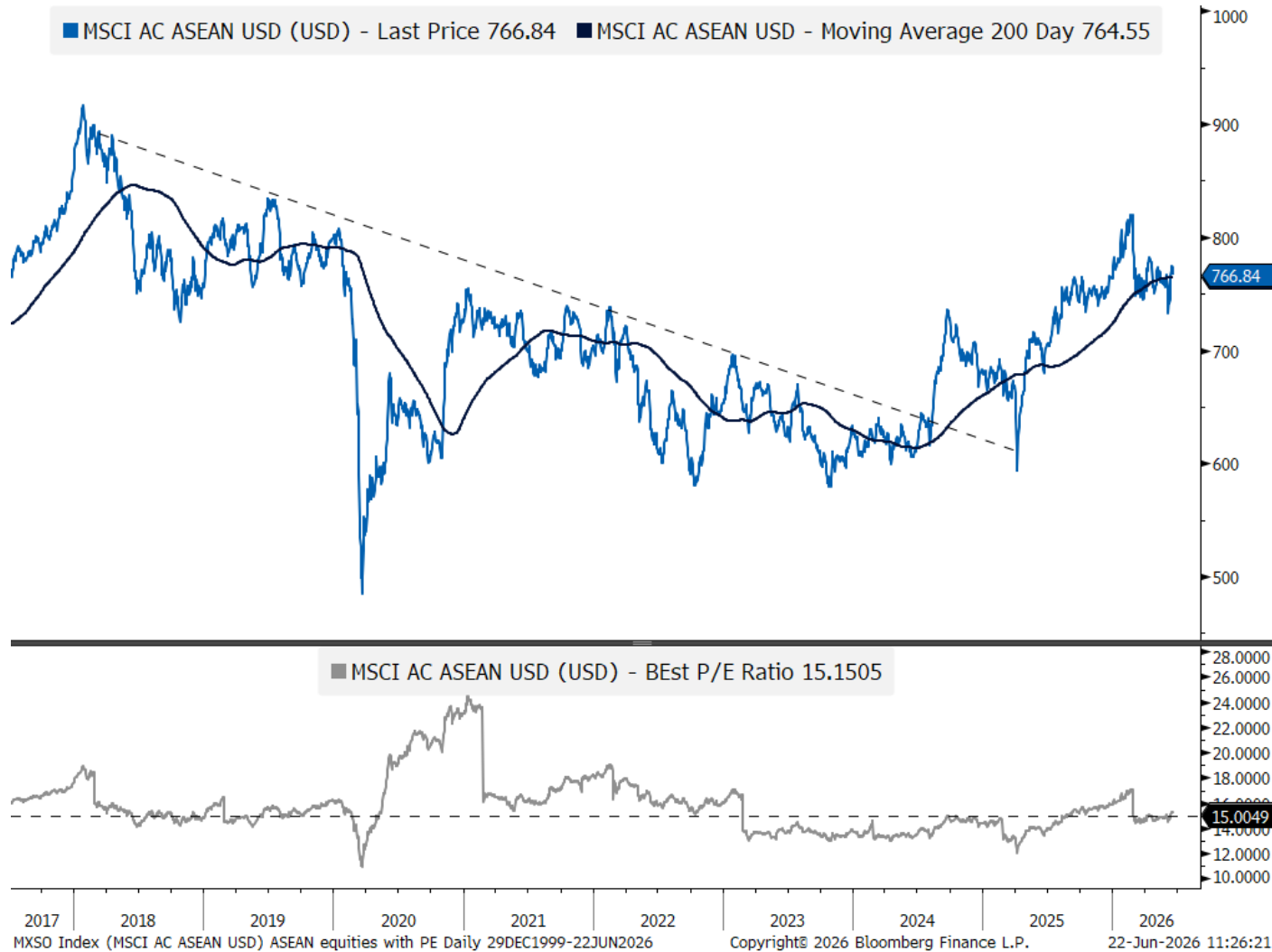


Indian equities have bottomed and are likely to resume their uptrend in the coming weeks, as the currency stabilizes.



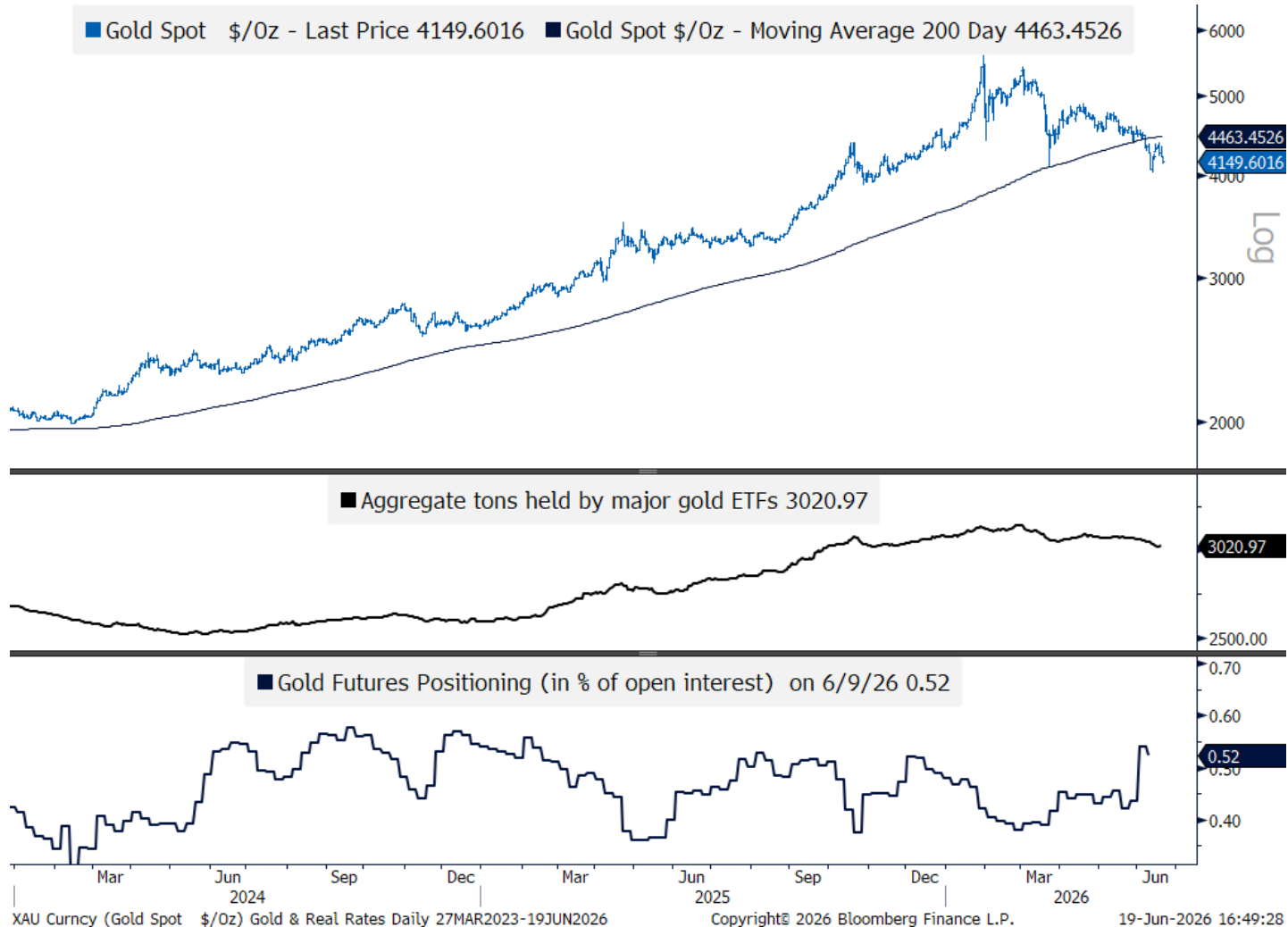


ASEAN markets have shown remarkable resilience despite the challenging growth environment of the past few months. The bull market remains in play.



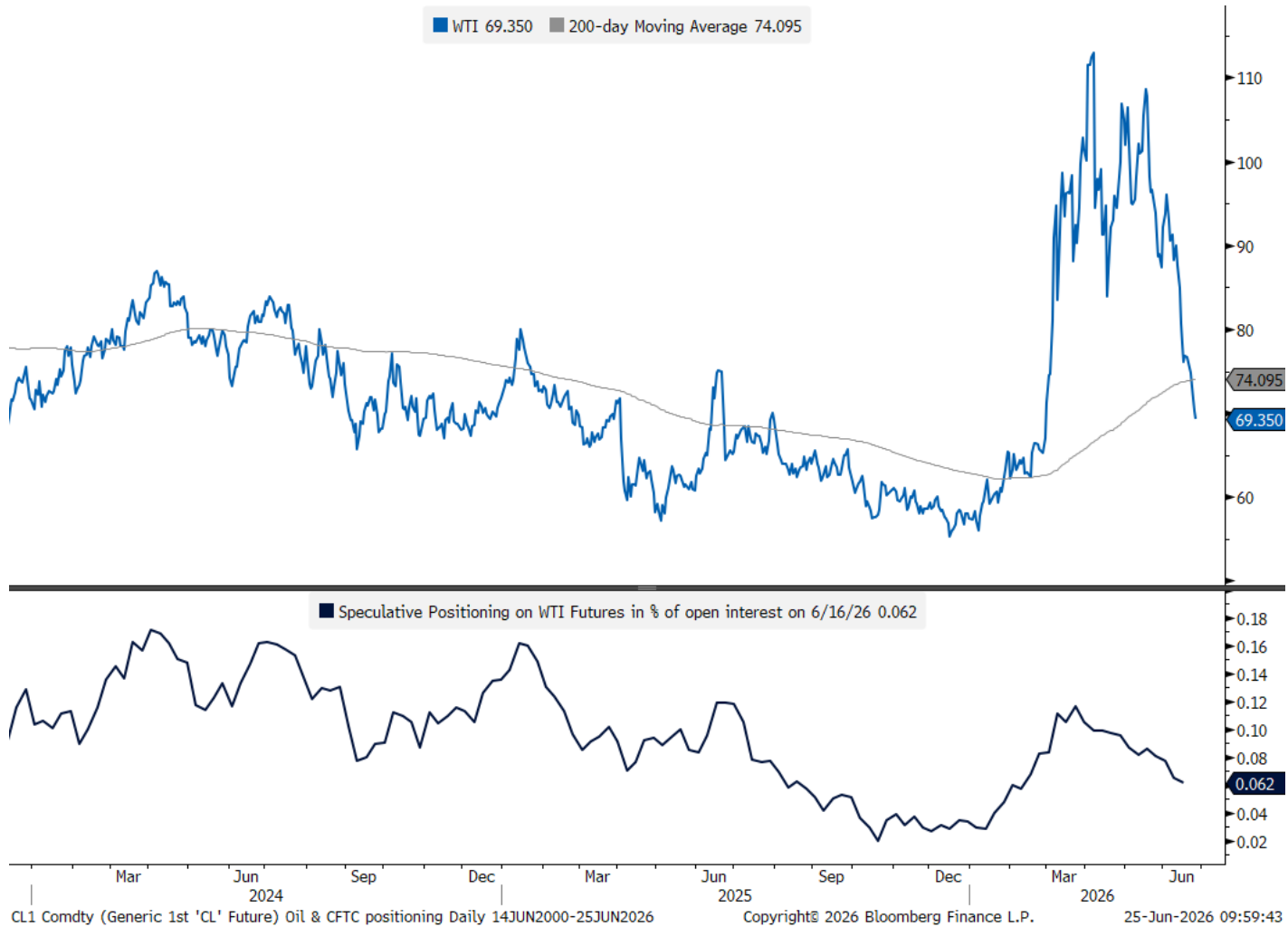


Gold continues to trade poorly and there is still no sign of a bottom, although the USD 4'000 level will be key to monitor. Gold should find its footing once Fed hawkishness begins to be challenged.





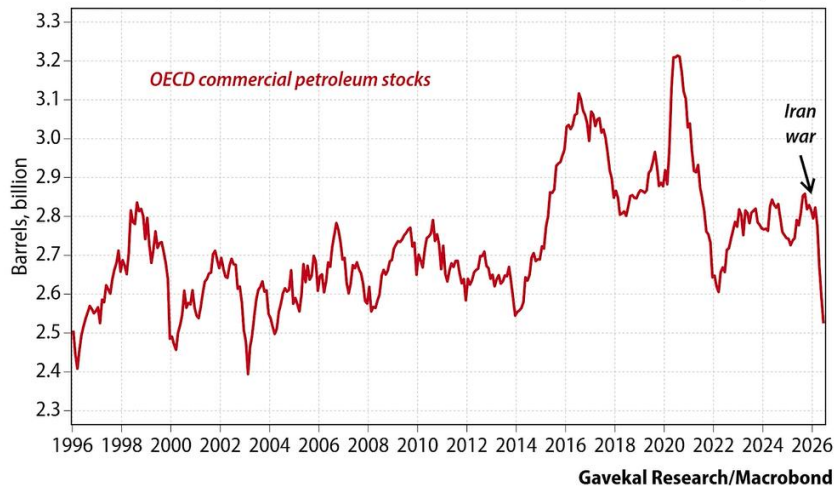
Oil has retraced sharply on the back of the US-Iran MoU





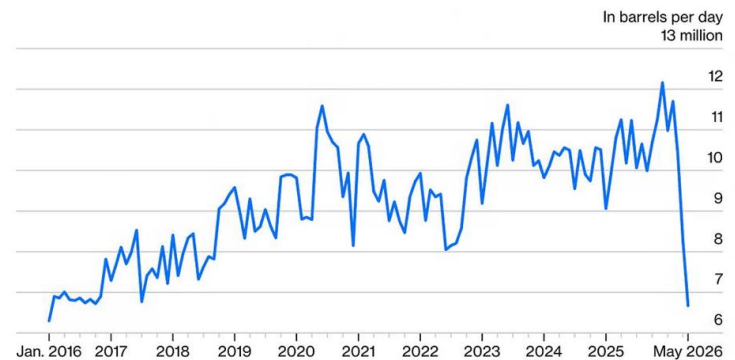
Inventories have been depleted and will have to be rebuilt in the coming months. A key lesson from the Iran war was the importance of energy reserves. Adding resilient growth and damaged infrastructure in the Middle East, and a rebound in Chinese imports, oil prices should stabilize around current levels.

Commercial petroleum stocks have been drawn down steeply



Chinese Oil Imports Plunge to 10-Year Low

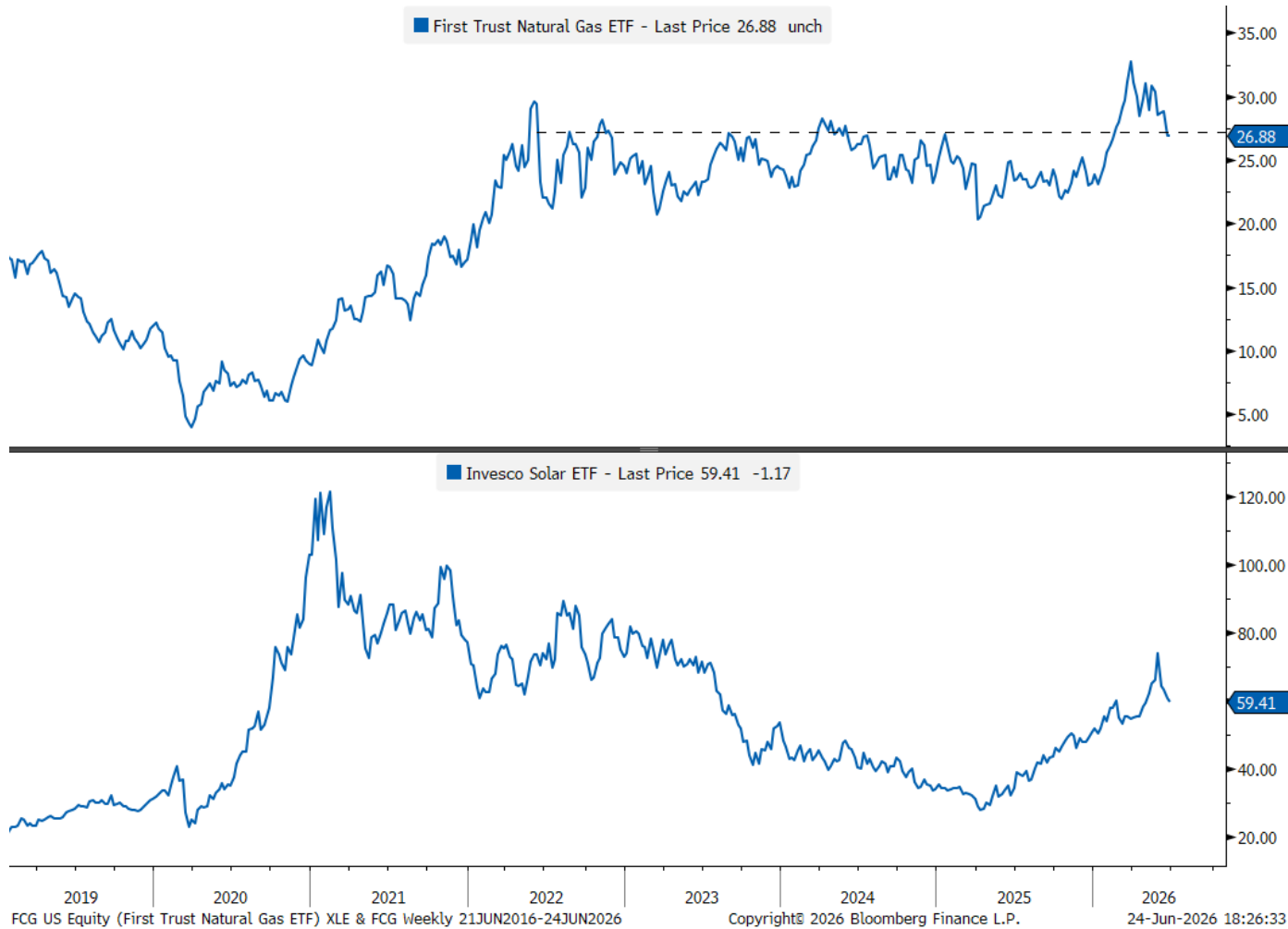
Beijing bought in May nearly 40% less crude by tanker than it did on average in 2026, although the mechanics behind the cut aren't well understood



Source: Vortexa



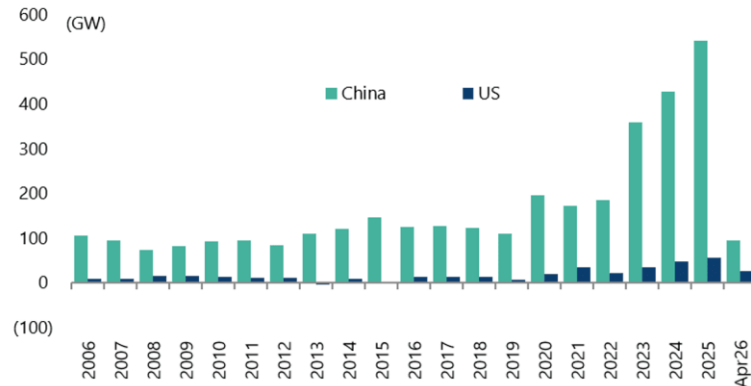
The need to secure energy supplies and continued increase in AI-related demand will keep energy investments at the forefront. Natural gas, solar and uranium remain key sources that deserve attention.





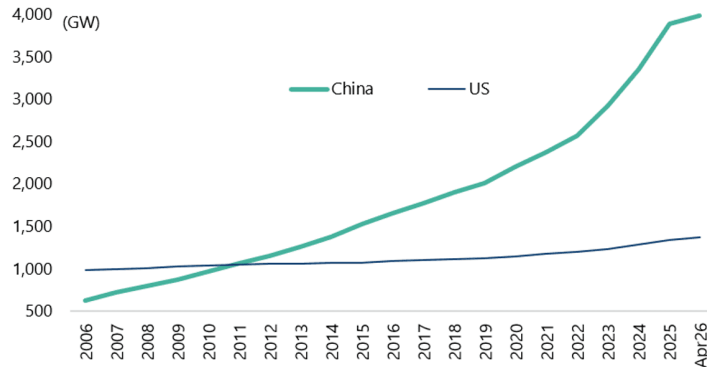
On the power generation front, particularly given the expected surge due to AI demand, the US is heavily trailing China. This points to a Chinese advantage, but also to continued major investments in the US.

China vs US power generation capacity annual net addition



Note: US data includes utility-scale capacity for facilities with at least 1MW of capacity and estimated small-scale solar capacity. Source: China Electricity Council, Energy Information Administration (EIA)

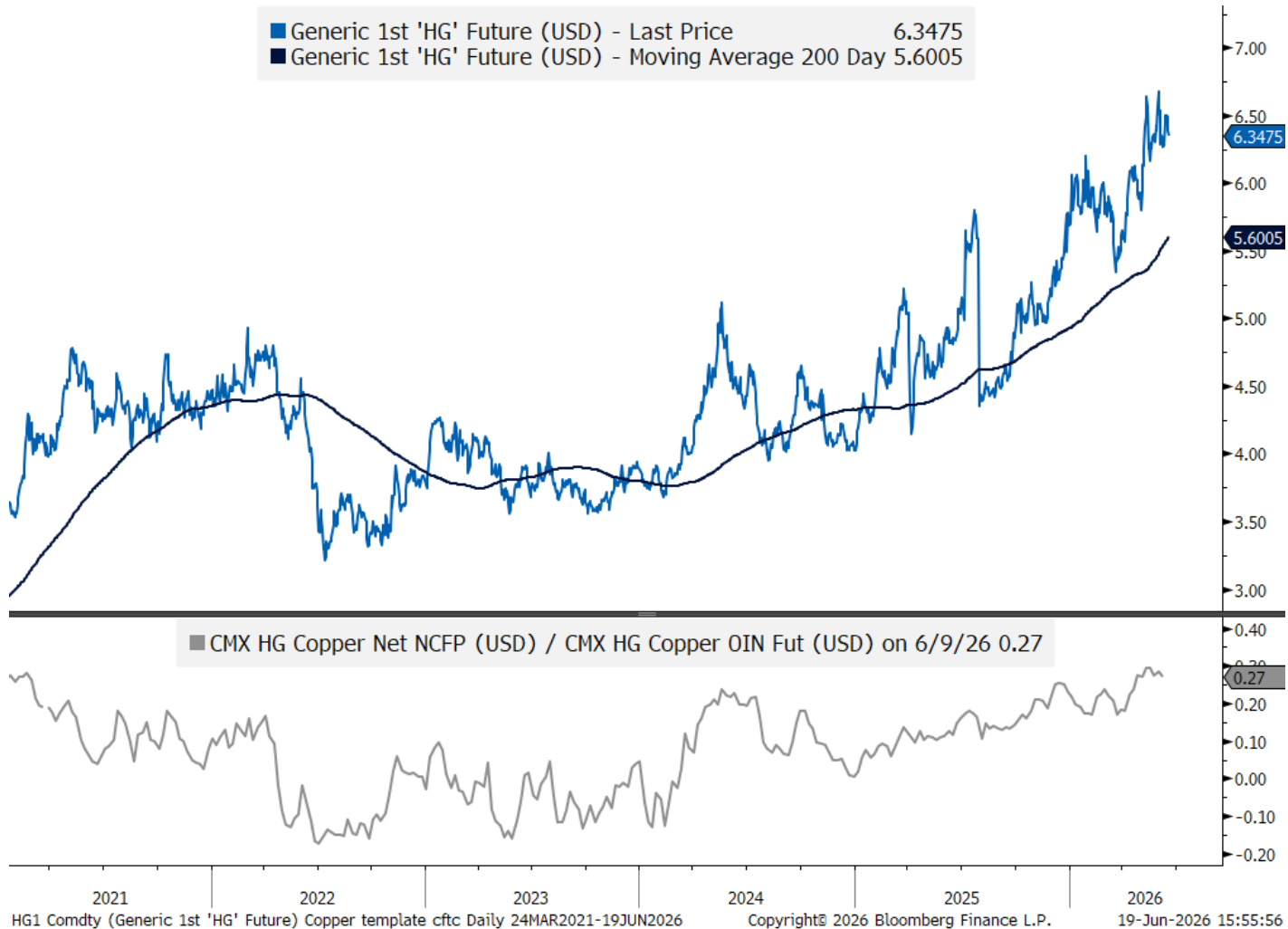
China vs US total electricity generation capacity (stock)



Note: US data includes utility-scale capacity for facilities with at least 1MW of capacity and estimated small-scale solar capacity. Source: China Electricity Council, Energy Information Administration (EIA)



Copper has defied the weakness in the commodity space due to AI-related demand. Positioning is however very extended and short-term potential is unattractive.



Summary table of our views



Q3 2026 convictions table

		Underweight	Neutral	Overweight	Comments	
Equity	US Equity			●	Diversify away from tech	
	EU Equity	○		●		
	Swiss Equity		○	●		
	Japanese Equity		○	●	Stay long JPY	
	Chinese Equity		○	●		
	Asian EM	○	●			
Fixed Income	Cash & Short term debt			●	duration up to 5Y and TIPS	
	US Long term debt	○	●			
	EU long term debt	○	●			
	DM High Yield	●				
	EM Debt (Local)			●		
	EM Debt (Hard)		●			
Alternatives	Precious Metals & Miners			●	○	ongoing consolidation
	Commodities			●	○	
	REITs (EU + CH)	●				
	Hedge Funds		●			Favor Long-short
	Private Markets		●			

Current View
 Previous View

Forex					
EURUSD	EURCHF	EURGBP	USDCHF	USDJPY	GBPUSD
➔	➔	➔	➔	⬇	➔



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