Novum Partners: Biweekly Market Update

The Strait Reopens, the Fed Speaks: Two Weeks That Reshaped the Outlook

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Last 2 weeks performance

World Equity Indices

	% TR USD	% TR Local
MSCI World	1.7%	1.7%
S&P 500	1.6%	1.6%
S&P 500 Equal Weighted	1.1%	1.1%
Mag 7 Index	-1.5%	-1.5%
Russell 2000	5.2%	5.2%
Euro Stoxx 50	3.6%	4.2%
CSI 300 Index	3.1%	2.8%
Hang Seng Index	-3.9%	-3.8%
Nikkei 225	6.4%	7.0%
MSCI Asia	3.9%	3.9%
MSCI Latam	2.7%	2.7%
MSCI EM	4.4%	4.4%

S&P 500 Sectors

	% TR USD
S&P 500 Info Tech	3.6%
S&P 500 Comm. Serv	-0.8%
S&P 500 Health Care	-2.3%
S&P 500 Financials	2.5%
S&P 500 Cons Discr.	1.6%
S&P 500 Energy	-6.9%
S&P 500 Real Estate	-1.8%
S&P 500 Materials	2.6%
S&P 500 Industrials	3.8%
S&P 500 Cons Staples	-0.2%
S&P 500 Utilities	0.9%

Key Thematic Indices

	% TR USD	% TR Local
ARK Innovation ETF	7.7%	7.7%
Software ETF	-7.0%	-7.0%
GS Uranium	6.7%	6.7%
GS Cyclicals	3.6%	3.6%
BBG Defensive Sectors	-0.44%	-0.44%

Fixed Income

	% TR or bps
LQD (High Grade)	0.8%
HYG (High Yield)	0.7%
US Treasuries Index	0.6%
TSY 2 year (bps)	3
TSY 10 year (bps)	-8
Bund 10 year (bps)	-6
SOFR March 27 rate (bps)	8

FX & Commodities

	% TR USD
US Dollar Index	0.7%
Bitcoin	1.3%
BBG Precious Metals	-3.0%
BBG Energy	-12.4%

Data as of 19 June

Executive Summary

- No major economic data releases shaped the fortnight — instead, geopolitics and central banks, above all the Fed, took centre stage, with the US-Iran deal and Warsh's inaugural FOMC meeting driving virtually all of the significant market moves across asset classes.
- The dominant narrative of the fortnight was the US-Iran conflict and its resolution: Brent crude surged above $97/bbl on June 5 before collapsing to $78/bbl by June 19 (-12.4% for BBG Energy over the period), as a US-Iran MoU was signed on June 18, reopening the Strait of Hormuz.
- Fed: The FOMC's first meeting under Chair Kevin Warsh on June 18 delivered a hawkish shock: the dot plot showed nine members pencilling in at least one hike, front-end yields surged, and Warsh explicitly committed to 2% inflation, scrapping forward guidance.
- Despite intra-period turbulence, equities ended the two weeks solidly higher: S&P 500 +1.6%, Russell 2000 +5.2%, Euro Stoxx 50 +3.6%, Nikkei +6.4%. The Mag 7 (-1.5%) underperformed as the rotation narrative gained traction and AI-related uncertainty weighed on mega-caps.

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- Sector rotation was a defining theme: Cyclicals (+3.6%), Financials (+2.5%), Industrials (+3.8%) and Info Tech (+3.6%) outperformed, while Energy (-6.9%), Health Care (-2.3%) and Real Estate (-1.8%) lagged. ARK Innovation +7.7%, Software ETF -7.0%.
- Fixed Income: Rates ended the period with a flattening bias: the 10yr UST fell -8bps as the peace deal eased stagflation fears, while the 2yr remained elevated on Fed hawkishness. Bund 10yr fell -6bps. SOFR March 2027 rose +8bps, reflecting residual hike pricing.

Economy & Monetary Policy: A New Chapter for Monetary Credibility for the Fed

Warsh is no dove. At least, that is not the impression left by his first appearance as Fed Chair. His performance signalled that under his leadership, the Federal Reserve intends to be:

- More dynamic and reactive in pursuing its mandates - willing to act without telegraphing its moves in advance
- Less communicative, deliberately more opaque, and comfortable leaving markets in the dark about its next steps
- Unambiguously focused, for now, on returning inflation to target - with price stability elevated above all other considerations

Starting from the beginning: the FOMC statement was stripped to the bone. The length of the text fell by 60%, to just 130 words. The economic and inflation assessment was condensed into two sentences:

"Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little. Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy."

And then, almost as a warning, the statement closed with a single line: *"The Committee will deliver price stability."*

The Summary of Economic Projections told an equally clear story. Growth expectations for the current year were trimmed, but the more striking change was on inflation - marked up significantly for 2026, more modestly for 2027. The unemployment forecast was nudged slightly lower, acknowledging the improvement in the labour market.

The dot plot itself was spectacular in its directional shift. **The median Fed Funds target for end-2026 rose by 40bps, and for 2027 by 50bps.** Nine of eighteen members pencilled in at least one hike before year-end, and six of those indicated two. Warsh himself declined to submit a dot, consistent with his long-held scepticism toward forward guidance as a policy tool; when asked what he thought of the projections his colleagues had produced, he effectively signalled that the dot plot itself would eventually be discontinued. He confirmed that press conferences would be held less frequently, reserved for meetings where there is something meaningful to communicate. He also announced five working groups tasked with restructuring the Fed's internal processes across communications, the balance sheet, data reliance, productivity and the inflation framework.

Warsh acknowledged that inflation has missed the 2% target for five consecutive years, and stated plainly that this era is now closed. The most consequential message of the press conference was on credibility: an explicit, unanimous and unconditional commitment to returning inflation to target. This is not aggressive posturing — it is a structural repositioning of the institution.

It is worth noting that all the communication tools the Fed has relied upon - forward guidance, the dot plot, explicit bias signalling - were born in the era of zero interest rates and quantitative easing. Central banks, unable to cut further, resorted to signalling how long rates would remain floored. A return to a less predictable, more discretionary Fed makes sense now that era has been consigned to history, at least for the moment.

One element that caught more than a few observers off guard was the White House's reaction. **Speaking on the sidelines of the G7 in France, President Trump responded with unusual restraint when asked about the prospect of a rate hike: *"It could happen. But we have a very good guy over there right now, so I'm guided by what he wants."*** A striking departure from a president who spent months publicly lambasting his predecessor Powell. Warsh and Bessent appear to have convinced the administration that a Fed credible on inflation is, over the longer run, aligned with the government's own economic objectives.

Markets had expected Warsh to begin with a more dovish posture. After all, he was appointed by Trump. They did not expect a dot plot revised so aggressively to the upside, nor did they anticipate a Fed that had so decisively turned the page. And they are now coming to terms with a central bank that will no longer tell them in advance where it is headed.

The Fed's impact on purely macro variables - those that fall directly within the central bank's sphere of influence and feed through indirectly to both equity markets and the broader economy - has been clear, and consistent with a trend already in motion since the start of the year. The numbers in the table tell the story: the 2yr Treasury

yield is up 70bps year-to-date and rose a further 13bps in the immediate aftermath of the Fed meeting, while the 10yr added 29bps YTD with only 1bp of that attributable to the Fed itself, a sign that the long end had already done much of its work.
SOFR March 2027 is up 105bps YTD and 23bps since the meeting, cementing the market's repricing of the rate path.

	YTD	Since FOMC
TSY 2 year (bps)	70	13
TSY 10 year (bps)	29	1
SOFR March 27 rate (bps)	105	23

	YTD	Since FOMC
BBG Precious Metals	-3.5%	-3.0%
Bitcoin	-28.4%	-4.7%
US Dollar Index	2.5%	1.3%

What the Fed meeting continued, rather than initiated, was the dismantling of what had become known as the debasement trade. This was a coherent macro positioning that had built up over months (and in some respects years) characterised by a structurally weak dollar, a steepening Treasury curve driven by concerns over irresponsible reflationary fiscal policy, and precious metals (and to a degree Bitcoin) serving as stores of value and inflation hedges. The YTD figures confirm how entrenched the reversal has become: the US Dollar Index is up 2.5% YTD and gained a further 1.3% since the Fed; precious metals are down -3.5% YTD and -3.0% since the meeting; Bitcoin has fallen -28.4% YTD and -4.7% since the FOMC.

How far this unwinding can run is genuinely difficult to assess. The trade had become deeply embedded in market positioning precisely because it was not purely speculative - it was, at least in part, a rational response to the geopolitical and fiscal choices of the Trump administration, which had lent structural credibility to the thesis of dollar debasement. A Fed that credibly reasserts its inflation mandate removes one of the central pillars of that trade. But the underlying fiscal dynamics, and the geopolitical uncertainties that fed the original positioning, have not disappeared. The unwind may have further to go, but it will not be linear.

We acknowledge the hawkish shift. We do not, however, share a bearish reading of the broader market implications. A Federal Reserve that reclaims credibility on inflation is, over the medium term, a stabilising force for the entire system.

On the dollar, any residual doubt about the structural soundness of the currency should progressively dissipate. On equities, the most likely scenario is not a market in freefall, but a consolidation phase as investors absorb the shift in regime. On rates, markets are currently pricing nearly two hikes through H1 2027, a level we consider more than proportionate relative to the macro backdrop. Our base case remains one or two targeted adjustments to the Fed Funds rate, sufficient to consolidate the disinflationary trend and re-anchor expectations around 2%, without requiring a prolonged restrictive path.

Finally, last week, the ECB raised its deposit rate by 25bps to 2.25%, a move that passed largely without market reaction given it had been fully priced in well in advance. Looking ahead, the bar for further tightening remains high: at most one additional quarter-point move before year-end appears on the table, which would bring the ECB's deposit rate to 2.50% — a level that would likely mark the ceiling of the current cycle.

Geopolitics

The ceasefire agreement between the United States and Iran effectively marks the end of the recent conflict and, perhaps surprisingly, leaves Tehran in a stronger position than many observers would have expected. Given that the US and Israel had openly discussed weakening the regime and even entertained hopes of regime change, the mere survival of the Islamic Republic can be interpreted as a strategic victory for Iran.
Looking at the details of the agreement, it seems that Washington made significant concessions while obtaining relatively little in return. In essence, the agreement restores conditions that existed before the outbreak of hostilities, while providing Iran with important economic and diplomatic benefits.

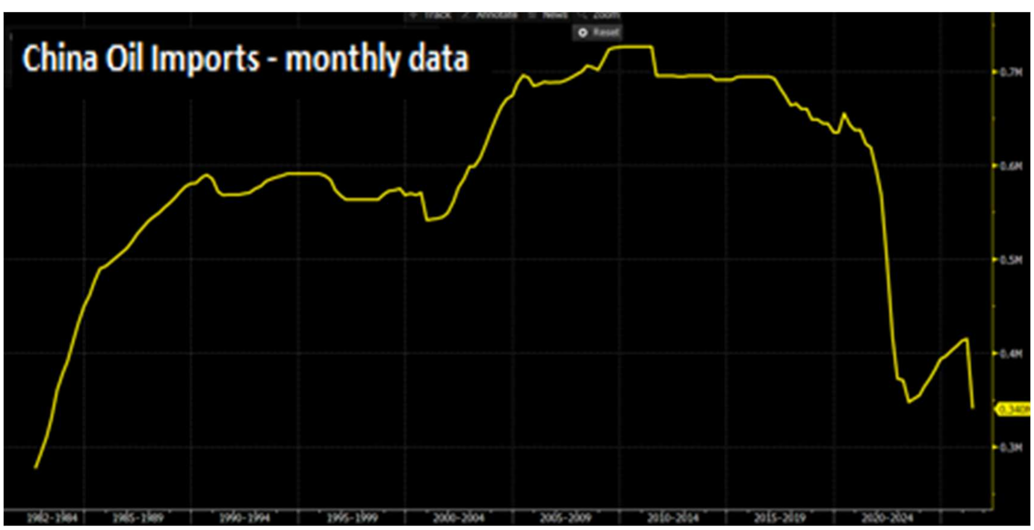
The main pillars of the agreement are:

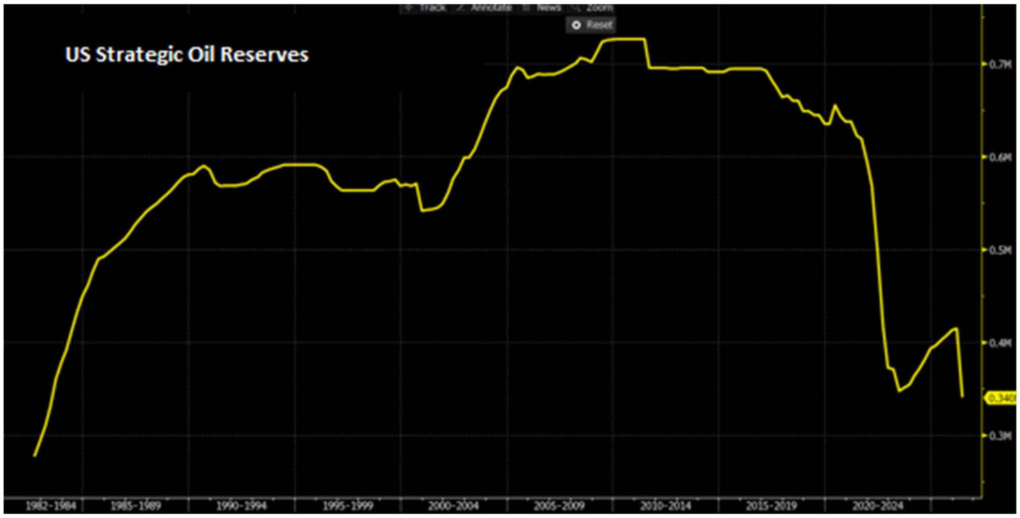
- Reopening of the Strait of Hormuz, restoring the normal flow of global energy supplies and international trade.
- Iran's renewed commitment not to pursue nuclear weapons.
- Release of approximately $24 billion of frozen Iranian assets, alongside the prospect of broader sanctions relief.
- De-escalation of the conflict and the abandonment of regime change ambitions, which allows Tehran to emerge politically intact.

Despite the rather severe assessment of US geopolitical influence, we do not see the implications for financial markets as negative, quite the opposite.
From a macro perspective, the key variable remains energy prices. Unless oil prices move sustainably back above the $90-100 range, including on longer-dated forward contracts extending into late 2026 and beyond, we do not see major threats to the US or the global economy.
Recent months have demonstrated the remarkable resilience of US growth. Supported by the ongoing AI capex boom, economic activity has remained strong and has even accelerated (US GDP growth was 2% YoY in Q1, while it is accelerating towards 3% in Q2), in sharp contrast to Europe, where growth continues to disappoint.

From a geopolitical standpoint, losing influence or failing to achieve all military objectives may appear dramatic, but history shows that this is far from unprecedented. The United States has previously engaged in conflicts that produced less-than-desired outcomes without fundamentally undermining its economic leadership or the long-term performance of its capital markets.
What matters most at this stage is that the Strait of Hormuz has reopened and that international trade flows are normalizing. This objective appears to have been achieved. Admittedly, the conflict is likely to leave behind greater uncertainty in the region rather than less. However, markets are generally capable of living with such uncertainty.

Periodic spikes in volatility are possible, much as we witnessed during the war in Ukraine. But long-term market trends are ultimately driven by other factors - above all, real and nominal economic growth. On that front, the outlook remains constructive, particularly for the United States.
Another important reason why markets weathered the conflict so well is that both OECD countries and China relied heavily on strategic oil inventories. The US and other major economies released reserves, while China sharply reduced imports and drew on its own ample stockpiles. This has two important implications. First, oil prices are unlikely to collapse despite the reopening of the Strait of Hormuz, as countries will need to rebuild inventories in the coming months. Second, with US stockpiles depleted and the newly agreed 60-day truce expiring close to the midterm elections, it is difficult to envision Washington having much appetite for a renewed military escalation.





Markets

Looking through the intra-period turbulence, the two-week performance tableau tells a story of resilience and rotation. The S&P 500 ended the period +1.6%, but this modest headline figure masks a sharp divergence in the underlying composition. The equal-weighted S&P 500 (+1.1%) barely lagged, confirming that gains were broadly distributed across the market; a contrast to the mega-cap-driven rallies of recent years.

The Mag 7 Index, by contrast, fell -1.5%, reflecting a combination of AI uncertainty, export control concerns, and the rotation out of growth into cyclicality.

The standout performer was the Russell 2000 (+5.2%), which benefited from both the de-escalation of the Middle East conflict and the improving domestic activity data. Small caps are more sensitive to domestic economic conditions and less exposed to international supply chain disruptions, making them a natural beneficiary of an environment where stagflation fears ease without a material deterioration in growth.

The Nikkei 225 (+6.4% in USD, +7.0% in local terms) was another notable performer, driven by the recovery in semiconductor stocks following the initial shock of June 5 and supported by the Bank of Japan rate hike; paradoxically welcomed by equity markets as confirmation of Japan's reflationary momentum.

In Europe, the Euro Stoxx 50 gained +3.6% in USD terms (+4.2% in local currency), with European indices benefiting disproportionately from the oil price decline given their greater exposure to the energy shock. Italy's FTSE MIB and Germany's DAX both hit record highs during the period. The STOXX 600 posted its first record close since the Iran conflict began on June 16.