CIO Office

Global Markets Weekly Kickstart

# Halftime Review: The AI Story

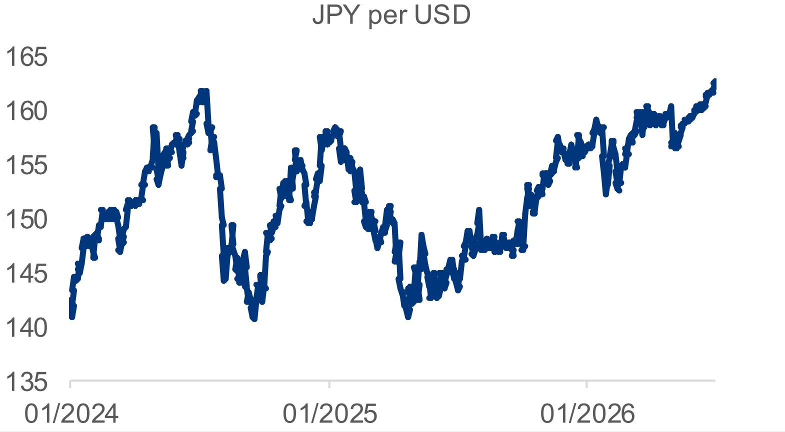
6 July 2026

**Chart of the Week**

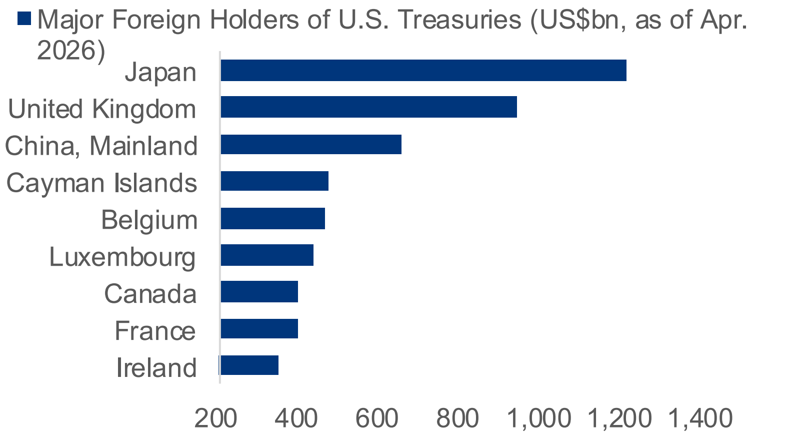
# Yen Hits 40-Year Low; Policy Normalization Needed, but Aggressive Rate Hikes Unlikely

- USD/JPY briefly reached 162 last week, the yen's weakest level since 1986. Japanese officials reiterated they would intervene in the FX market if necessary, but the lack of immediate action suggests no imminent intervention. The yen weakened further amid reports that government policy guidance could limit the BOJ's ability to raise rates aggressively.
- Japan exited negative interest rates in March 2024, marking the start of its tightening cycle. In July, the BOJ raised its policy rate from 0.1% to 0.25%, triggering expectations of a more hawkish path. The move sparked a sharp unwind of global yen carry trades as investors repaid low-cost yen funding, sending the Nikkei down more than 12% in a single day and dragging global equities lower. In response to the market turmoil, the BOJ's Deputy Governor pledged on Aug. 7 not to raise rates while markets remain unstable.
- While policy normalization remains necessary, an overly hawkish stance could undermine financial market stability, highlighting the BOJ's key policy dilemma. Japan is also the largest foreign holder of U.S. Treasuries, and a narrower U.S.-Japan yield gap could reduce demand for Treasuries. The U.S. therefore has an incentive to see Japanese rates remain relatively low, while a weaker yen also supports U.S. imports of Japanese goods. With tensions between the U.S. and Iran easing, the urgency for yen appreciation has diminished somewhat.

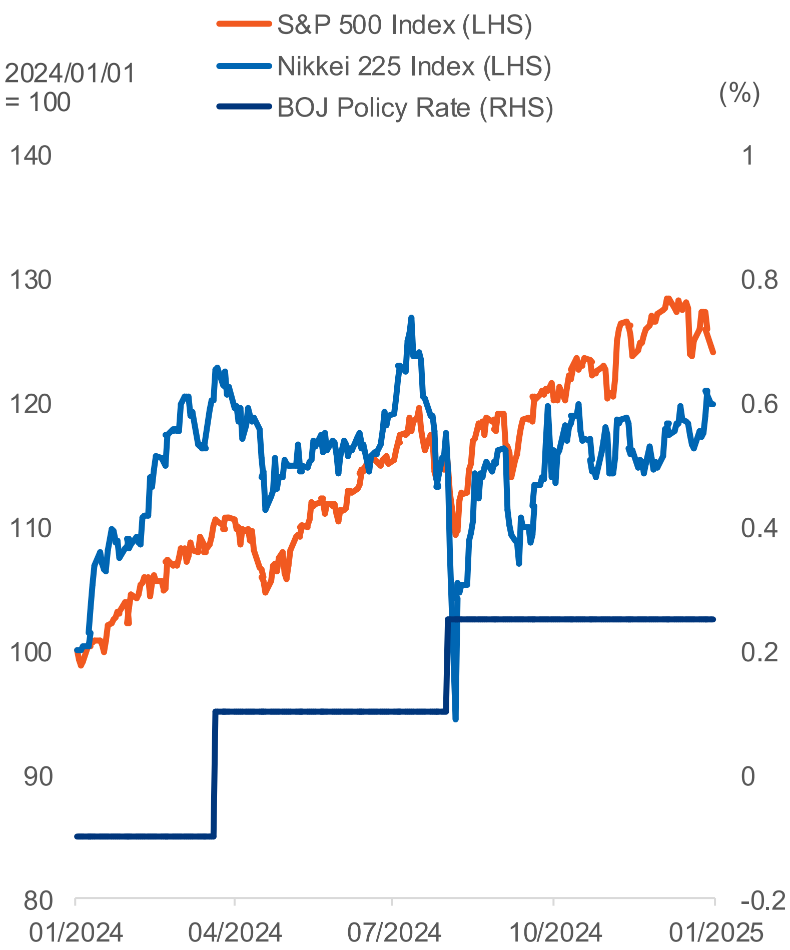
**Yen Falls to a 40-Year Low**




**Narrowing U.S.-Japan Yield Gap Could Weigh on U.S. Treasury Demand**




**Expectations for Aggressive BOJ Tightening Triggered Market Turmoil**



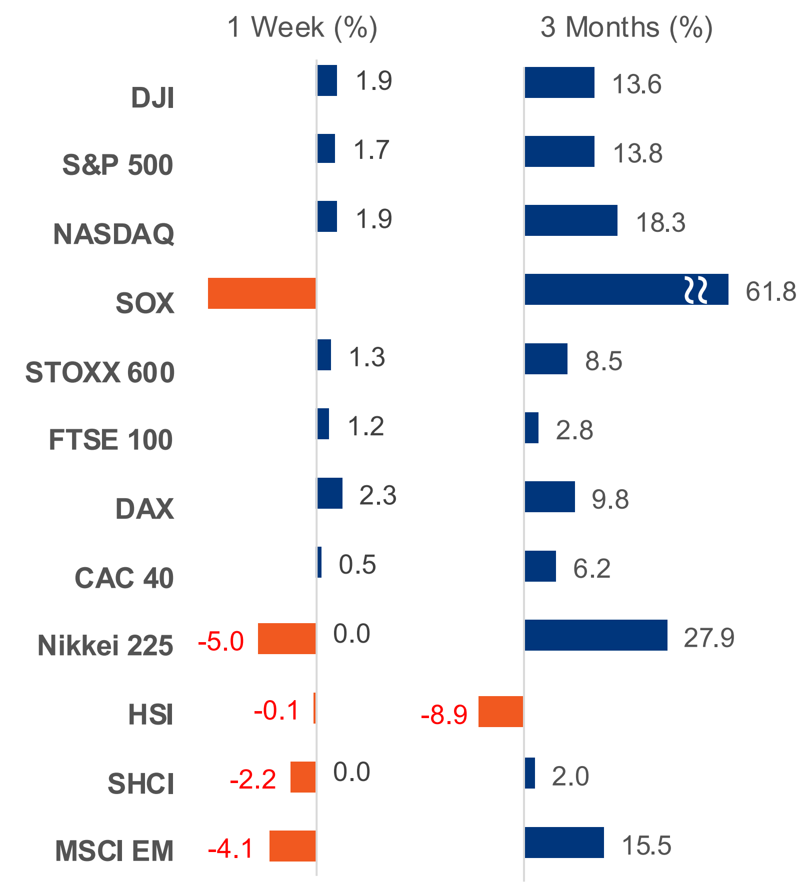

Source: Bloomberg, Treasury International Capital System

## Market Recap

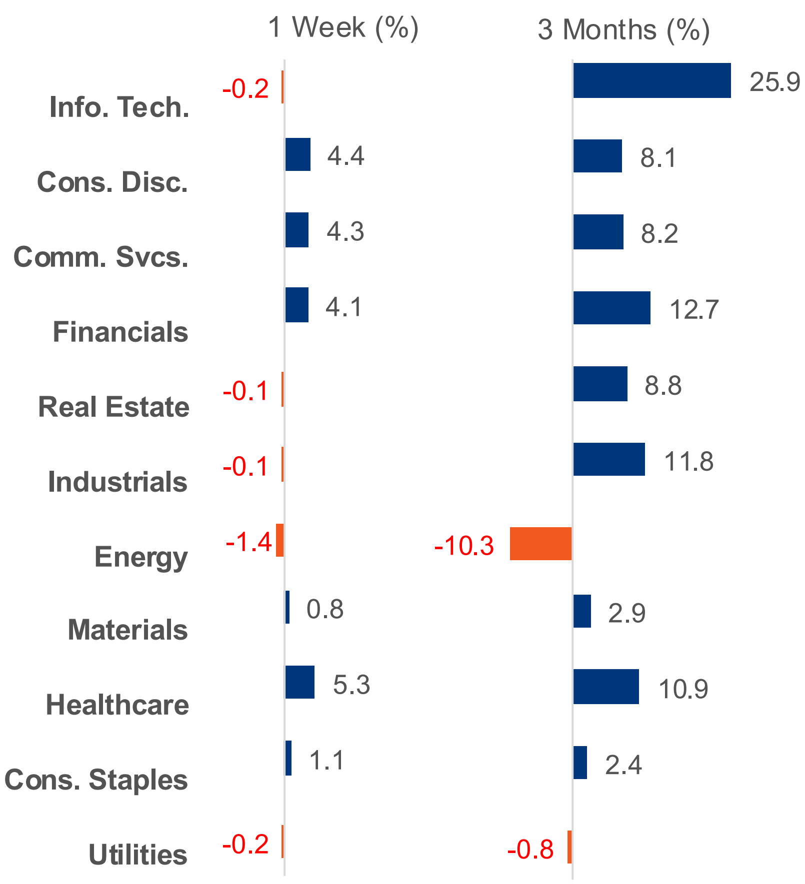
# U.S.-Iran Ceasefire Eases Rate-Hike Concerns; Market Sentiment Improves

- The U.S.-Iran ceasefire agreement eased concerns over further rate hikes, lifting overall market sentiment and supporting equities, although the Philadelphia Semiconductor Index saw heavier profit-taking.
- Meta (META) plans to begin selling AI computing capacity, similar to Amazon's (AMZN) AWS and Microsoft's (MSFT) Azure, as it seeks to monetize its heavy AI investment. The company may host AI models in its data centers and charge developers for access, creating a new revenue stream. However, the move also raised concerns about a potential oversupply of AI computing capacity, weighing on broader technology stocks.
- Media reports also indicate Apple is in talks with Chinese memory chipmakers CXMT and YMTC to potentially add them to its supply chain. The move aims to lower costs and diversify sourcing but could pose a direct challenge to South Korean memory suppliers that have long dominated Apple's supply chain, pressuring incumbent suppliers.

### Regional Index Performance (%)




### U.S. Sector Index Performance (%)

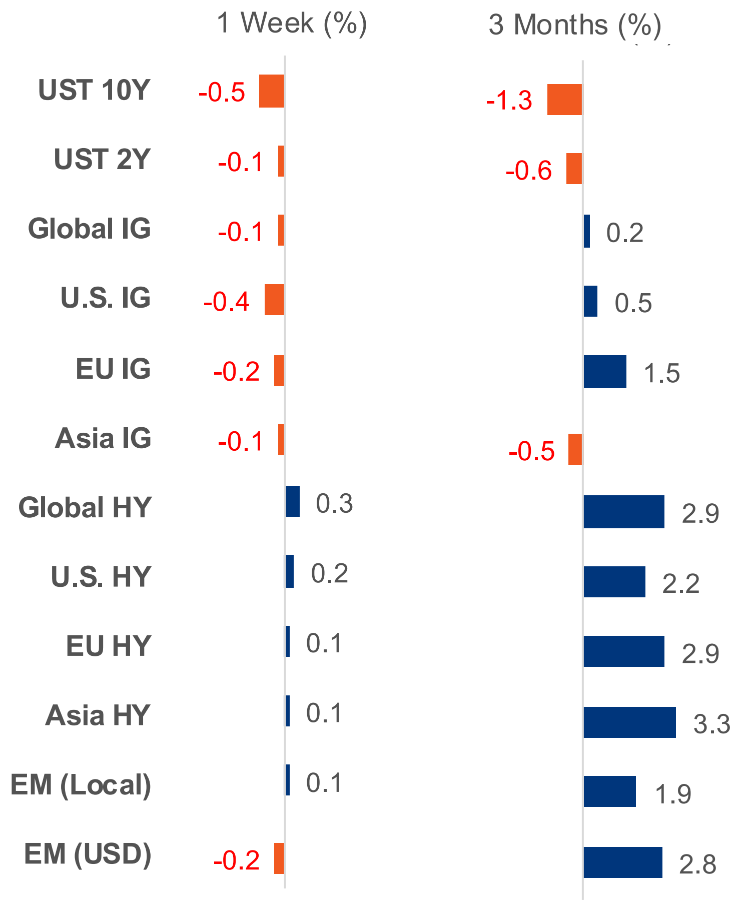



Source: Bloomberg

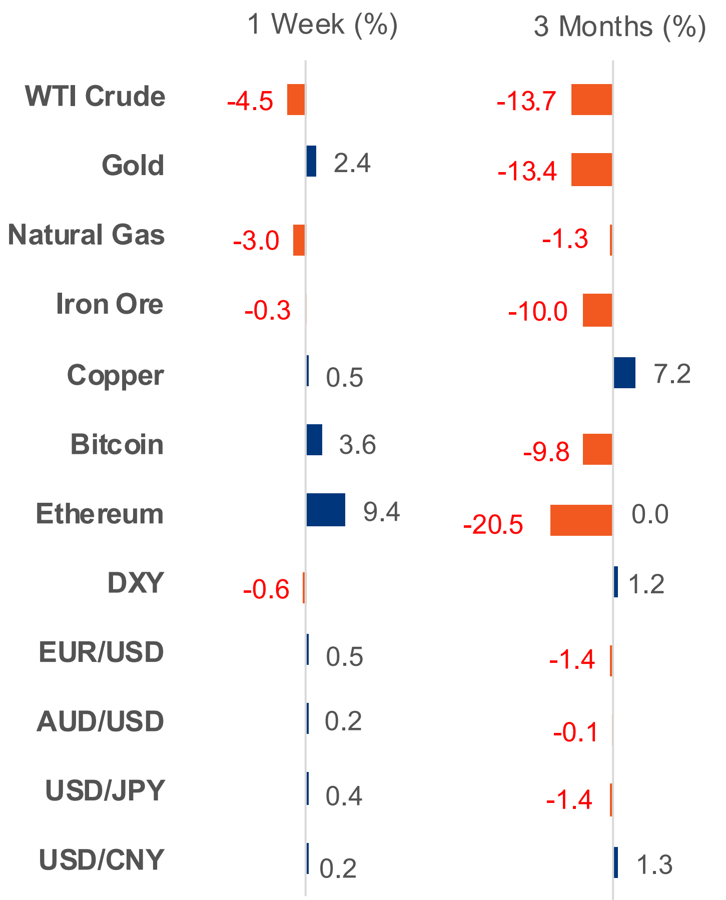
# U.S.-Iran Ceasefire Eases Concerns Over Oil Supply Disruptions

- U.S. nonfarm payrolls increased by 57,000 in June, below market expectations of 113,000 but still above the 12-month average. The labor market showed no meaningful deterioration and remained broadly stable. The softer-than-expected employment data modestly eased concerns that the Fed could begin raising rates earlier than expected. Interest rate futures now point to October, rather than September, as the likely timing for the first rate hike. On a weekly basis, bond prices were relatively weak.
- Following the U.S.-Iran ceasefire agreement and the reopening of the Strait of Hormuz, concerns over disruptions to global oil supplies eased significantly. Oil prices fell about 4.5% during the week and have declined markedly over the past three months. As Middle East oil shipments normalize, market attention is expected to shift back to global macro demand and OPEC+ production policy.
- Gold prices rebounded during the week, but recent weakness reflects a relatively hawkish macro policy backdrop. A stronger U.S. dollar and higher interest rates continue to limit gold's upside momentum.

**Performance of Bonds (%)**




**Performance of Commodities and Currencies (%)**



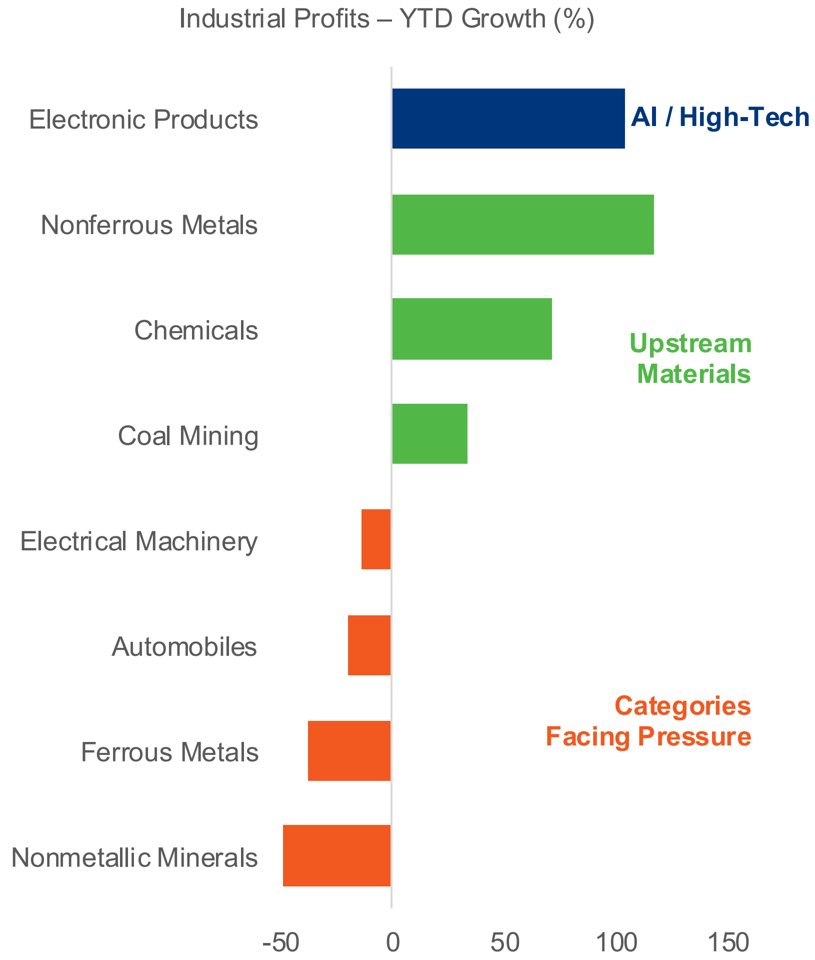

Source: Bloomberg

What's Trending

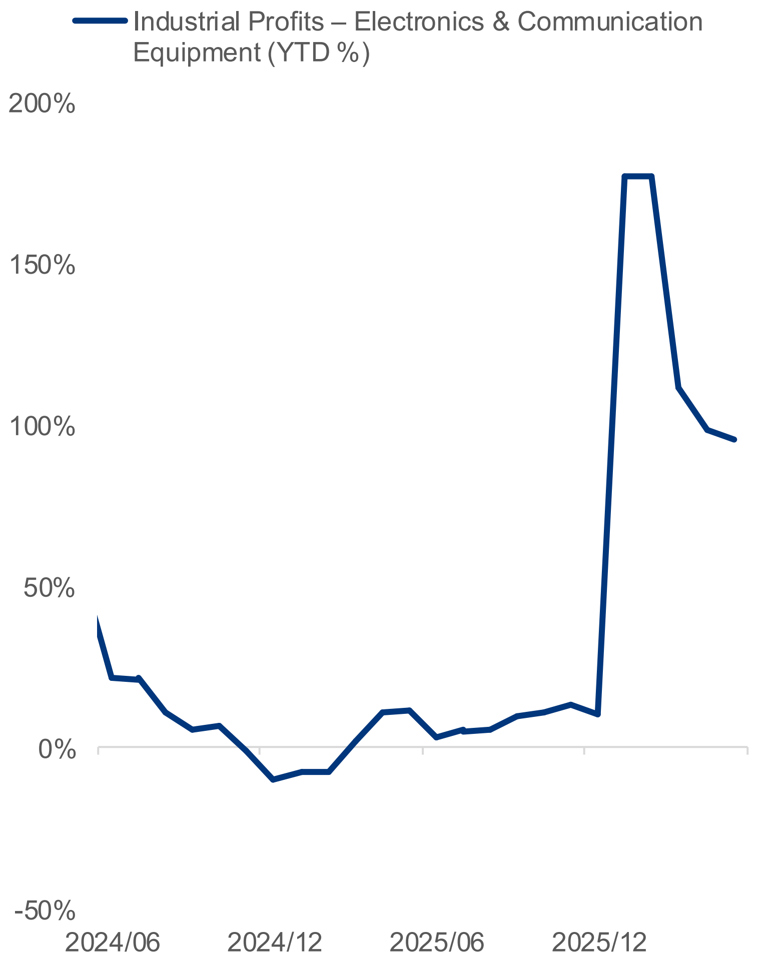
# China Industrial Profits Improve as AI Demand and Geopolitics Drive Sector Divergence

- Industrial profits at China's major enterprises rose 18.8% YoY in the first five months of 2026, while May growth slowed to 21.1% from 24.7% in April. Upstream sectors continued to outperform, with mining profits up 33.5%, led by coal, oil & gas, and non-ferrous metals.
- Manufacturing profits rose 20% YoY but remained uneven. AI-driven demand lifted electronic equipment manufacturing 103.9% YoY, the strongest among manufacturing sectors, though growth has moderated for three straight months.
- The data suggest industrial profit growth remains concentrated in upstream industries, supported by high commodity prices rather than broad-based demand, while downstream manufacturers and consumer sectors remain under pressure. Looking ahead, easing U.S.-Iran tensions could reduce raw material supply risks, while faster investment in China's "Six Networks" initiative after this month's Politburo meeting should support downstream demand and capacity utilization.

**Profit Recovery in China's Industries Not Broad-Based**




**Electronic Equipment Profits at Multi-Year Highs**



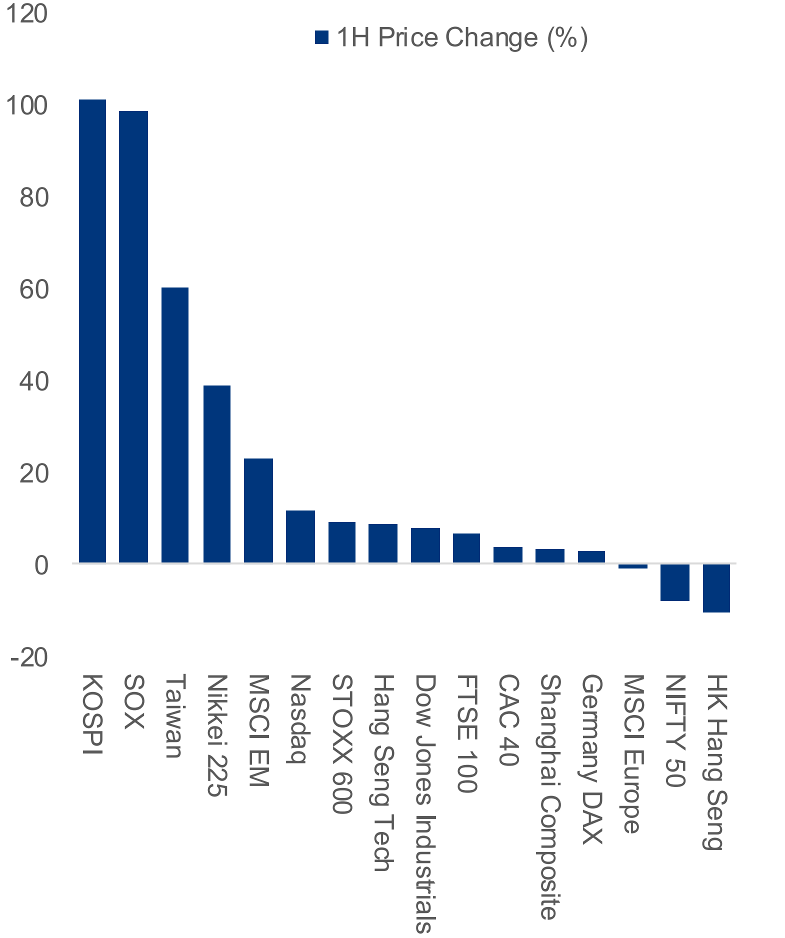

Source: CEIC, Bloomberg

In Focus

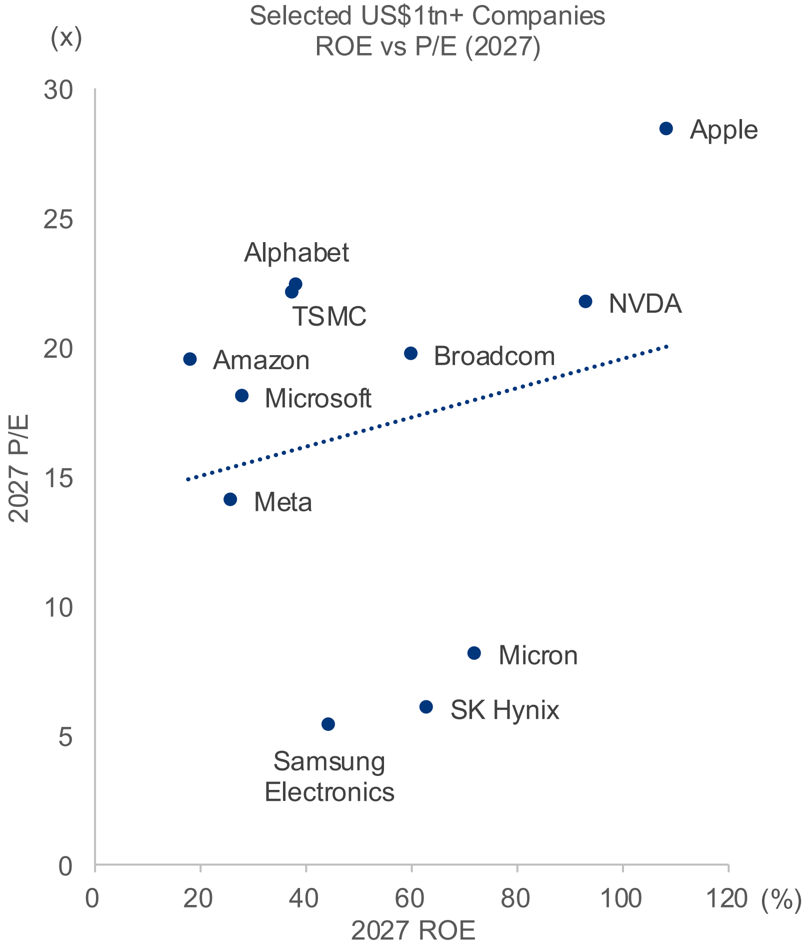
# AI Exposure Drove Global Equity Performance in 1H26

- Global equities rallied in 1H26, but performance diverged sharply based on AI exposure. Markets with greater AI participation—including the U.S., Taiwan, South Korea, and Japan—outperformed, while markets with limited AI exposure lagged.
- Unlike the dot-com bubble, this AI rally has been supported by fundamentals. Technology stocks have risen alongside forward earnings since the AI boom began in 2023, with both up roughly 2.5–3.0x. During the dot-com era, however, share prices surged sixfold while earnings only doubled.
- The key theme in 1H26 was the broadening of AI demand—from hyperscalers to enterprises, sovereign AI projects, and the broader physical economy. This marks AI's transition from a technology growth theme to infrastructure-like capital spending, extending the industry's growth cycle.

## AI Exposure Has Been the Key Driver of Equity Market Performance This Year




## Companies with Stronger Profitability Command Higher Valuations




Source: Bloomberg



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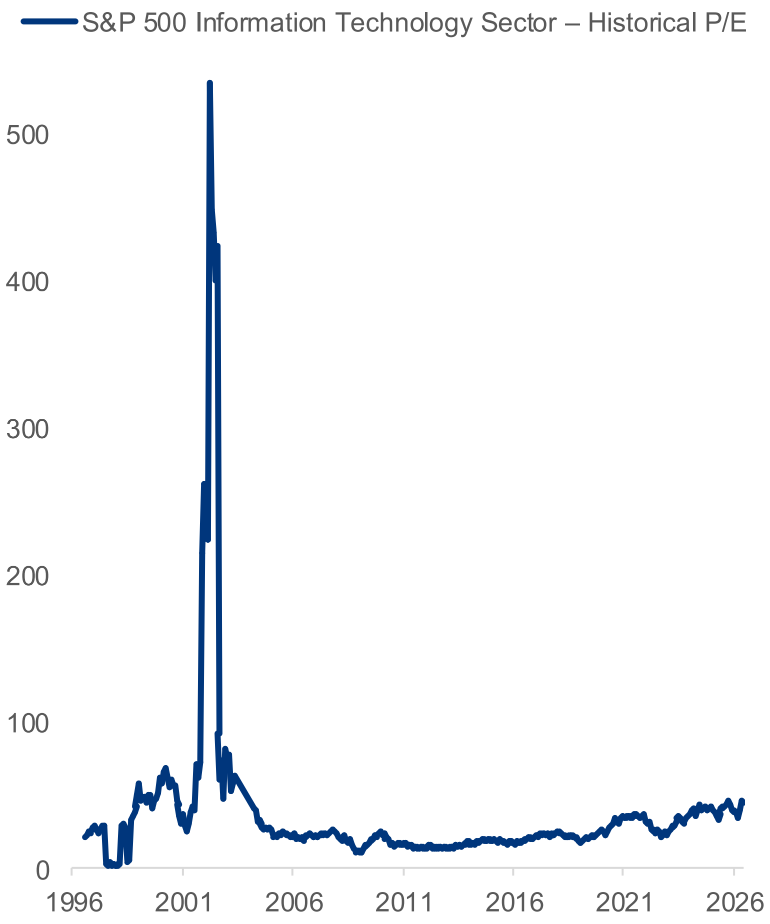
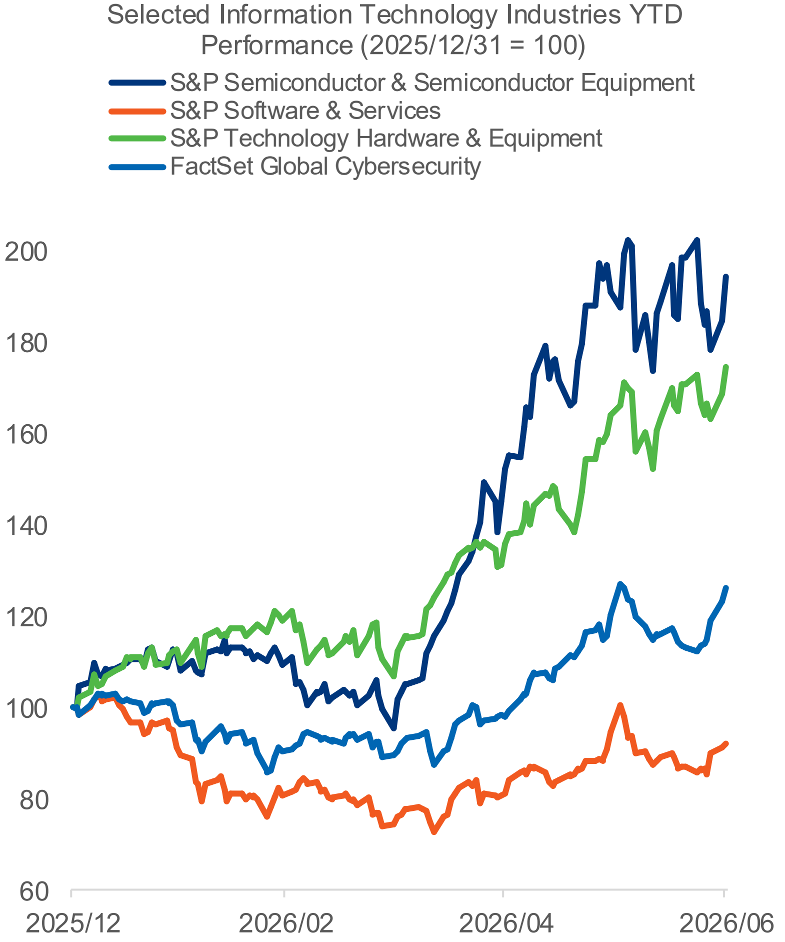
# AI Expansion Faces Structural Bottlenecks

- AI industry trends remain bifurcated, with semiconductors and hardware continuing to lead. Nvidia maintains its dominance in AI training, while major hyperscalers are rapidly increasing shipments of in-house AI chips.
- Software fundamentals are also being reshaped as IT budgets shift toward AI-first architectures. Companies successfully integrating AI, such as cybersecurity leader CrowdStrike and hyperscalers like Google, are commanding valuation premiums, while traditional SaaS vendors lacking AI capabilities face slower growth.
- AI expansion is increasingly constrained by structural bottlenecks. In power infrastructure, shortages of electrical equipment are limiting data center deployment, prompting hyperscalers to build dedicated power capacity. In semiconductors, CoWoS packaging yields and HBM supply remain the key production constraints, while memory suppliers are securing long-term contracts to stabilize future shipments. On the software side, fragmented enterprise data and depleted high-quality training data remain key challenges, making synthetic data a critical next step for improving AI models.
- For 2H26, AI investment opportunities remain centered on hyperscalers, hardware leaders, and the broader AI hardware supply chain.

## Today's Technology Sector Is Backed by Earnings




## Industries Successfully Integrating AI Have Outperformed




Source: Bloomberg

# Asset Strategy

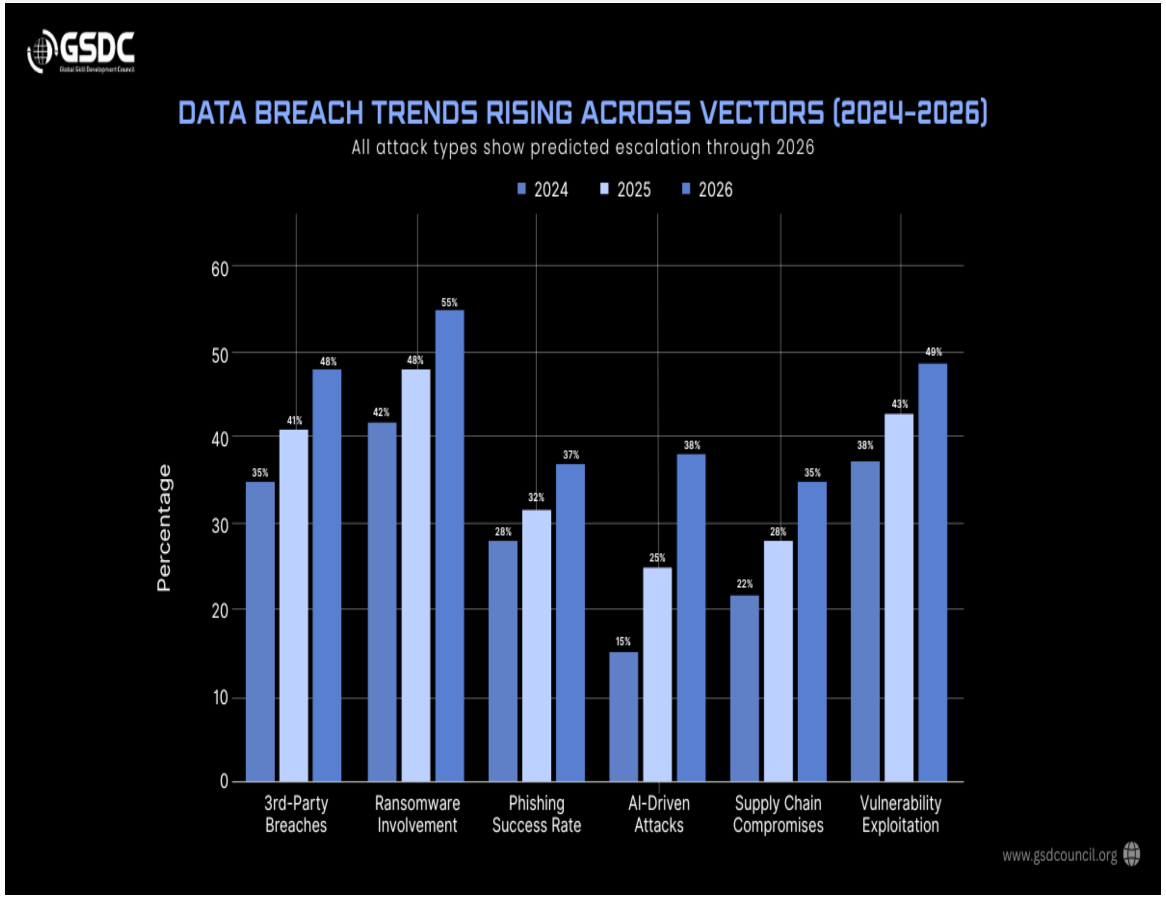
| Asset Type | Market View | Preferred Assets |
|---|---|---|
| **Equities** | ◆ The U.S.-Iran ceasefire memorandum, easing oil prices, and solid U.S. corporate earnings provide fundamental support for equities. Major indexes still have upside, but narrow market breadth and elevated valuations call for caution. In the near term, investors can reduce risk by favoring defensive sectors such as healthcare and utilities. Longer term, remain constructive on technology and AI-related semiconductor themes. Investors may also buy on pullbacks and diversify across regions and sectors.<br>◆ Japan and Europe remain attractive diversification markets. Japanese equities offer stronger technology exposure, with the semiconductor sector continuing to perform well. Rising JGB yields should also support Japanese banks. Europe is led by defense, while U.K. equities are favored for their defensive characteristics. | **Strategy:** Short term: defensive sectors. Medium to long term: AI infrastructure, physical AI, AI software, semiconductors; AI software also favors large-cap and defensive names.<br>**Regions**: Japanese banks, Japanese semiconductor stocks, UK equities, European defense |
| **Bonds** | ◆ Although oil prices have declined, the U.S. 30-year Treasury yield remains relatively high. Avoid excessive duration risk and focus on short- to intermediate-duration bonds. High-quality corporate bonds offer attractive yields after recent adjustments, particularly in financials, technology, communications, and utilities.<br>◆ A stronger U.S. dollar supports diversification into non-USD investment-grade bonds, such as EUR- or AUD-denominated issues. | **Types:** Short- to intermediate-duration IG bonds, with a preference for financials, technology, telecoms, and utilities.<br>**Satellite :** Non-USD IG bonds for diversification. |
| **Forex** | ◆ The Fed's new Vice Chair is expected to make his FOMC debut in June. A more dovish policy stance could steepen the yield curve, while the U.S. dollar should remain supported in the near term.Lower oil prices may further ease inflation expectations.<br>◆ The USD remains firm as markets continue to monitor Fed policy. The JPY is likely to appreciate gradually on BOJ rate hikes and intervention, while the RMB is expected to strengthen modestly under policy support. | **USD:** Near-term strength remains supported.<br><br>Gradual JPY appreciation; modest RMB appreciation. |
| **Commodity** | ◆ Oil prices may remain volatile following the U.S.-Iran ceasefire memorandum and easing geopolitical risks around the Strait of Hormuz.<br>◆ Higher U.S. yields and a stronger dollar have pressured gold in the short term. However, geopolitical tensions, continued central bank purchases, and portfolio diversification demand should support gold over the medium to long term. | **Gold:** remains supported over the medium to long term. |

**US Equities**

# U.S. Market Correction, Sector Rotation: Favoring Software over Hardware

- At the Sintra central bank forum in Portugal, Fed Governor Waller noted that U.S. inflation expectations and risks have recently declined, but emphasized the Fed's firm commitment to the 2% inflation target, with no tolerance for levels above 2%. He also stressed the Fed's independence and clarified that no forward guidance will be provided; rate decisions will be made within FOMC discussions, meaning markets should not expect early signals of hikes or cuts.
- U.S. June nonfarm payrolls added 57,000 jobs, below consensus of 113,000 and the revised prior 129,000. The unemployment rate stood at 4.2%, slightly better than expectations and the previous 4.3%.
- June ADP employment rose 98,000, also missing forecasts of 120,000 and down from 122,000 prior.
- June ISM Manufacturing PMI printed 53.3, below consensus (53.9) and the prior 54.0.
- Equity flows show rotation from overheated semiconductors and AI hardware into software. Investors are seeking beneficiaries beyond AI infrastructure. While software stocks have lagged chips year-to-date, recent rebounds reflect renewed confidence in enterprise AI adoption, cloud automation, and cybersecurity spending. The cybersecurity sub-sector stands out, as AI proliferation amplifies risks in data leakage, identity authentication, endpoint protection, and cloud security. Firms like CrowdStrike, Palo Alto Networks, and Zscaler continue to show resilient ARR, RPO, and free cash flow. However, with inflation and rate expectations still elevated, markets demand more from high-valuation software names. Future performance will hinge on visible operating leverage, cash flow improvement, and commercialization of AI-driven security products. Overall, cybersecurity is poised to be the preferred allocation within software, combining defensiveness with growth potential.

**Data Breach Trends Rising Across Vectors**




Source: Bloomberg, GSDCouncil (GSDC)



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# CrowdStrike (CRWD US)

| Closing Price | US $193.98 | Target Price | US $230 |
|---|---|---|---|

CrowdStrike delivers cybersecurity products and services designed to prevent breaches. The company provides cloud-delivered protection across endpoints, cloud workloads, identity, and data. Its offerings include leading threat intelligence, managed security, IT operations management, threat hunting, zero-trust identity protection, and log management. CrowdStrike serves a global customer base, positioning itself as a comprehensive platform for modern enterprise security.

### Falcon Expanding into AI Security Control Plane

CrowdStrike continues to broaden its unified Falcon platform from endpoint protection into cloud, identity, SIEM, browser, and AI security. In FY2027 Q1, ARR grew 24% to $5.51B, with record free cash flow of $468M, prompting management to raise full-year net new ARR guidance. Partnerships with OpenAI, Anthropic, AWS, NVIDIA, and major AI gateways further reinforce Falcon's role as the enterprise AI security control plane.

### Software Rotation & AI-Driven Cyber Risk Support Valuation Re-rating

After broad sector sell-offs on AI disruption fears, investors are refocusing on beaten-down software stocks with durable recurring revenue and clear AI monetization paths. Cybersecurity stands out, as AI infrastructure investment expands workloads, agents, identities, and data flows requiring protection. This underpins resilient security budgets and supports potential valuation recovery for CrowdStrike.

### FY2027 Q1 Net New ARR Record, Guidance Raised

Revenue reached $1.39B, up 26.4% y/y, beating consensus by $30M. Non-GAAP EPS was $1.10, ahead of expectations by $0.03. For Q2, ARR is guided to $5.792B–$5.794B, revenue $1.436B–$1.442B, and EPS $1.16–$1.17. For FY2027, ARR is expected at $6.532B–$6.556B, revenue $5.915B–$5.959B, and EPS $4.88–$4.96.

### Valuation Consensus

Bloomberg 12-month average target price: US$179.63; high: US$212.5; low: US$48.7.

## 1-Year Price


## Financials

| | 2024 | 2025 | 2026 | 2027F | 2028F |
|---|---|---|---|---|---|
| Revenue Growth(%) | 36.3 | 29.4 | 21.7 | 23.5 | 21.9 |
| EBITDA (%) | 5.5 | 4.4 | 3.8 | 29.4 | 30.8 |
| EPS(USD) | 0.10 | -0.01 | -0.02 | 1.23 | 1.51 |
| Net Profit Margin(%) | 3.2 | -0.4 | -0.4 | 21.5 | 22.7 |

Source: Bloomberg; 2026/27F are market estimates

## FY2027 Guidance

| | 2Q FY2027 | Full Year FY2027 |
|---|---|---|
| Annual recurring revenue | $5,792.6 - $5,794.6M | $6,531.7 - $6,555.5M |
| Total revenue | $1,436.0 - $1,442.0M | $5,914.7 - $5,958.7M |
| Non-GAAP income from operations | $345.6 - $349.1M | $1,452.3 - $1,480.3M |
| Non-GAAP net income attributable to CrowdStrike | $300.7 - $303.4M | $1,263.1 - $1,285.2M |
| Non-GAAP net income per share attributable to CrowdStrike common stockholders, diluted | $1.16 - $1.17 | $4.88 - $4.96 |
| Weighted average shares used in computing non-GAAP net income per share attributable to common stockholders, diluted | 258M | 259M |
| Non-GAAP tax rate | 21.0% | 21.0% |

## P/E & P/B


Source: Bloomberg, Company

# Palo Alto Networks (PANW US)

| **Closing Price** | US $348.06 | **Target Price** | US $400 |
|---|---|---|---|

Palo Alto Networks provides network security solutions. The company offers firewalls that can identify and control applications, scan content to block threats, prevent data leakage, and deliver integrated visibility across applications, users, and content. Palo Alto Networks serves customers worldwide, positioning itself as a leader in cybersecurity infrastructure.

### Platform Expansion & Acquisitions Driving Recurring Security Revenue

Palo Alto Networks offers one of the industry's broadest platforms, spanning network, cloud, security operations, identity, and AI security. In FY26 Q3, revenue grew 31% YoY to USD 3.0B. Next-gen security ARR surged 60% to USD 8.1B, boosted by CyberArk and Chronosphere contributions.

### AI & Quantum Threats Intensify Mission-Critical Security Spend

AI accelerates vulnerability discovery, while enterprises face complex risks in cloud, identity, and supply chains. The U.S. government's push toward post-quantum cryptography highlights urgency in upgrading systems, supporting demand for integrated providers like Palo Alto Networks.

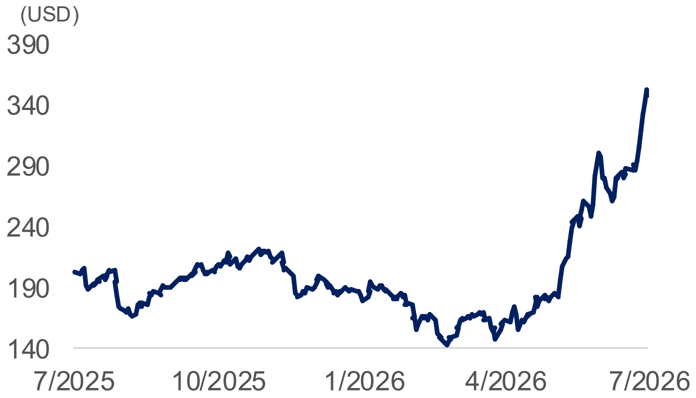
### FY26 Q3 Organic Growth Momentum

Palo Alto Networks reported FY26 Q3 revenue of USD 3.0B, representing 31.0% year-on-year growth and beating market expectations by USD 60M. Non-GAAP EPS came in at USD 0.85, exceeding consensus by USD 0.05. For the full fiscal year, the company projects next-generation network security ARR between USD 8.90B and USD 8.95B, remaining performance obligations between USD 20.9B and USD 21.0B, total revenue between USD 11.415B and USD 11.425B, a non-GAAP operating margin of 28.9% to 29.2%, and diluted non-GAAP EPS of USD 3.77 to USD 3.79.

### Valuation Consensus

Bloomberg 12-month average target price: USD 328.63 (high: USD 433, low: USD 200).

## 1-Year Price




## Financials

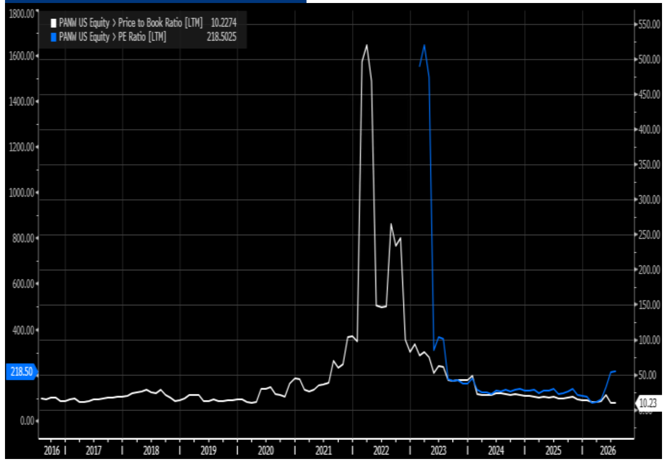
| | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|
| Revenue Growth(%) | 25.3 | 16.5 | 14.9 | 23.9 | 21.0 |
| EBITDA (%) | 10.1 | 15.8 | 16.6 | 34.3 | 34.9 |
| EPS(USD) | 0.68 | 1.32 | 1.58 | 3.78 | 4.12 |
| Net Profit Margin(%) | 6.7 | 11.7 | 12.1 | 25.3 | 24.8 |

Source: Bloomberg; 2027/28F are market estimates

## FY2026 Guidance

| | Q4'26 Guidance (as of 6/2/26) | FY'26 Guidance (as of 6/2/26) |
|---|---|---|
| Next-Gen Security ARR | \$8.90B - \$8.95B 59% - 60% y/y | \$8.90B - \$8.95B 59% - 60% y/y ↑ |
| Remaining Performance Obligation | \$20.9B - \$21.0B 32% - 33% y/y | \$20.9B - \$21.0B 32% - 33% y/y ↑ |
| Total Revenue | \$3.345B - \$3.355B 32% y/y | \$11.415B - \$11.425B 24% y/y ↑ |
| Operating Margin (Non-GAAP) | | 28.9% - 29.2% +10 bps - +40 bps y/y ↑ |
| Diluted EPS (Non-GAAP) | \$0.96 - \$0.98 | \$3.77 - \$3.79 ↑ |
| Adj. Free Cash Flow Margin (Non-GAAP) | | 37.5% ↑ |

## P/E & P/B




Source: Bloomberg, Company

# Appendix Key Economic Data / Events

## ► JUNE 2026 ► JULY 2026

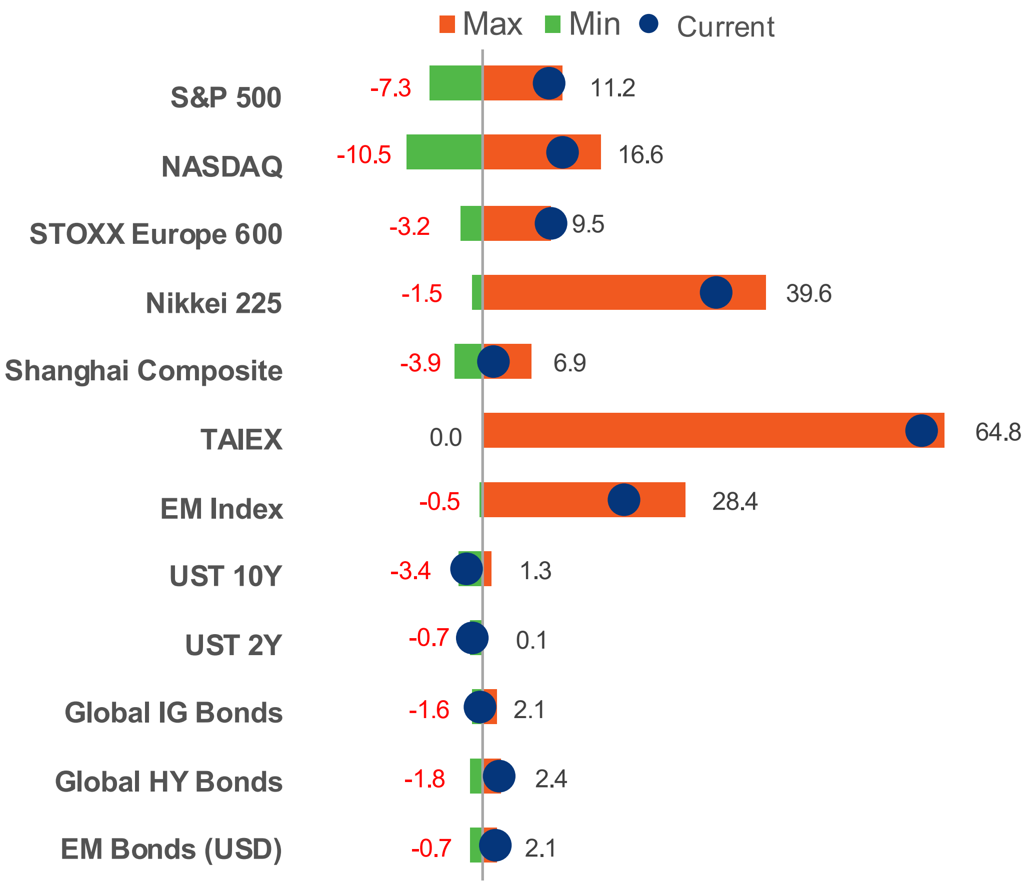
| 29 Monday | 30 Tuesday | 1 Wednesday | 2 Thursday | 3 Friday |
|---|---|---|---|---|
| • Japan May retail sales MoM (Act:1.9% Est:-0.5% Prev:2.8%) | • U.S. Jun Conference Board Consumer Confidence (Act:91.2 Est:94.4 Prev:90.6)<br>• U.S. May JOLTS Job Openings (Act:7,594k Est:7,296k Prev:7,585k)<br>• Japan May Unemployment Rate (Act:2.5% Est:2.5% Prev:2.5%)<br>• China Jun Manufacturing PMI (Act:50.3 Est:50.1 Prev:50.0)<br>• China June Non-Manufacturing PMI (Act:50.2 Est:49.9 Prev:50.1) | • U.S. Jun ADP Employment Change (Act:98k Est:120k Prev:122k)<br>• U.S. Jun S&P Global Manufacturing PMI Final (Act:53.9 Est:55.7 Prev:55.1)<br>• U.S. Jun ISM Manufacturing Index (Act:53.3 Est:53.9 Prev:54.0)<br>• Japan Jun S&P Global Manufacturing PMI Final (Act:54.8 Prev:54.5)<br>• Eurozone Jun S&P Global Manufacturing PMI Final (Act:51.4 Est:51.3 Prev:51.6) | • U.S. Weekly Initial Jobless Claims (Act:215k Est:218k Prev:216k)<br>• U.S. Jun Nonfarm Payrolls Change (Act:57k Est:113k Prev:129k)<br>• U.S. Jun Unemployment Rate (Act:4.2% Est:4.3% Prev:4.3%)<br>• Eurozone May Unemployment Rate (Act:6.2% Est:6.3% Prev:6.2%) | • Japan June S&P Global Services PMI Final (Act:52.2 Prev:50.0) |

| 6 Monday | 7 Tuesday | 8 Wednesday | 9 Thursday | 10 Friday |
|---|---|---|---|---|
| • U.S. Jun S&P Global Services PMI Final (Est51.3 Prev:50.7)<br>• U.S. Jun ISM Services Index (Est54.1 Prev:54.5)<br>• Eurozone May PPI YoY (Est:5.7% Prev:4.9%) | | | • U.S. Weekly Initial Jobless Claims (Prev:215k)<br>• U.S. Jun FOMC Minutes<br>• U.S. Jun Existing Home Sales (Est:4.20m Prev:4.17m)<br>• China Jun CPI YoY (Est:1.1% Prev:1.2%)<br>• China Jun PPI YoY (Est:4.1% Prev:3.9%) | • Japan June PPI YoY (Est:6.8% Prev:6.3%) |

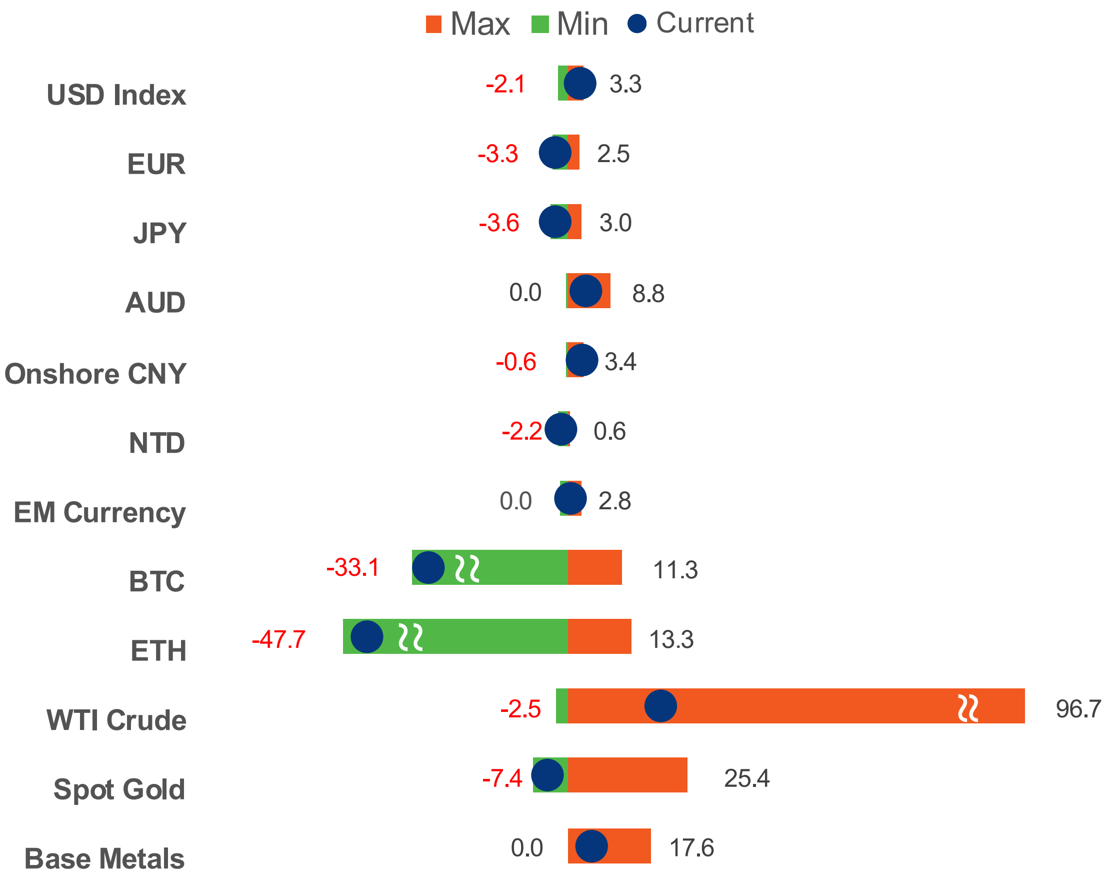
Source: Bloomberg

# Major Market / Asset YTD Performance

## Equities & Bond Markets YTD Performance (%)




## Currencies and Commodities Market YTD Performance (%)




Source: Bloomberg

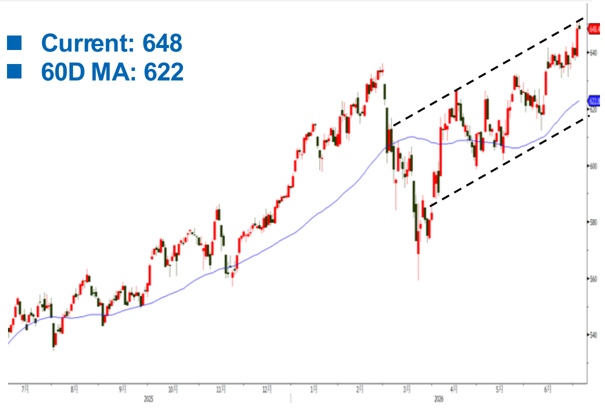
# Technical Analysis

60D MA

## S&P 500 Index


## NASDAQ Index


## STOXX Europe 600 Index




## Nikkei 225 Index


## Shanghai Composite Index


## MSCI Emerging Markets Index


## Gold

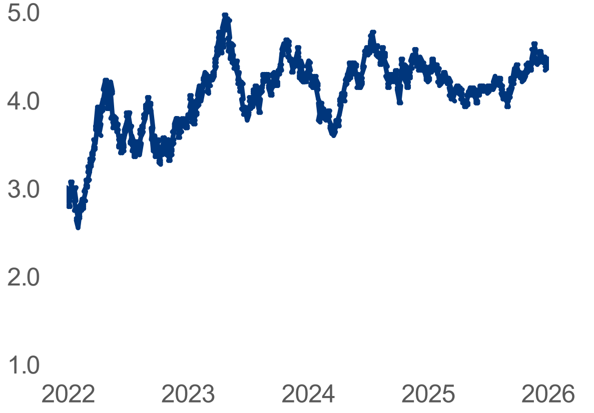

## WTI Crude


Source: Bloomberg

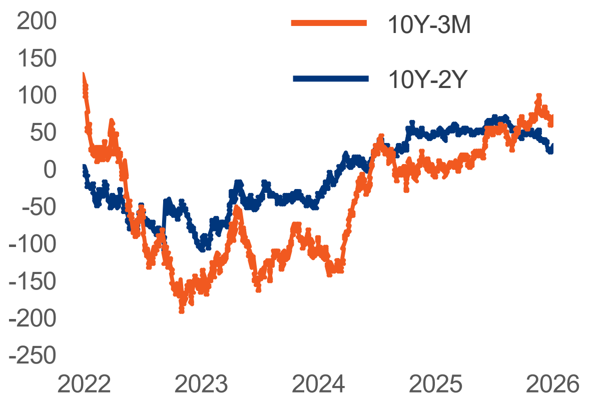
# Market Monitor

### U.S. CPI YoY (%)

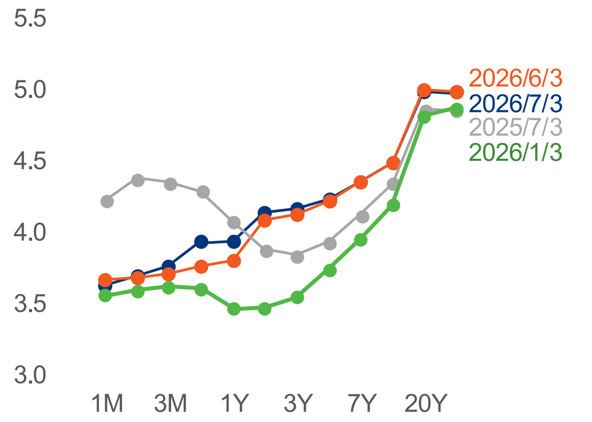

### U.S. 10-Year Treasury Yield (%)



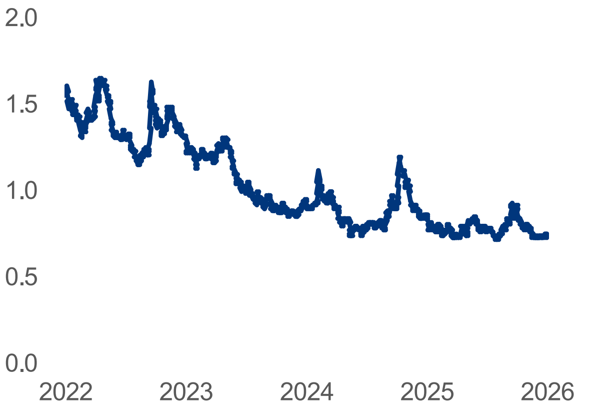

### U.S. Treasury Yield Spread (bps)



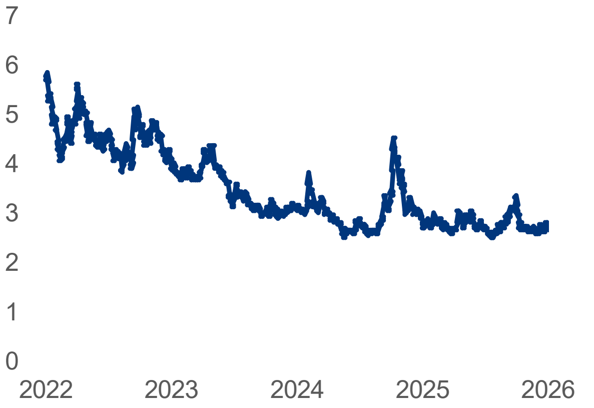

### U.S. Treasury Yield Curve (%)



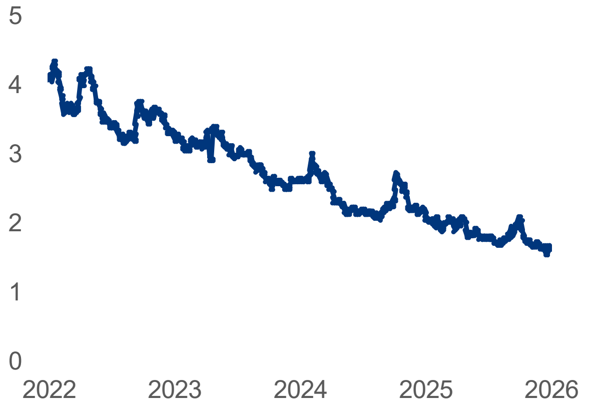

### USD IG Credit Spread (%)



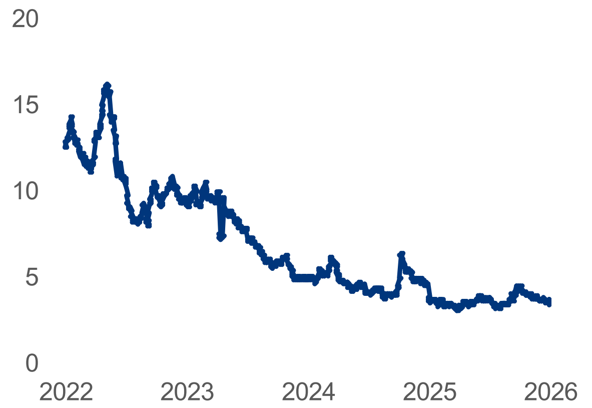

### USD HY Credit Spread (%)




### USD EM Credit Spread (%)



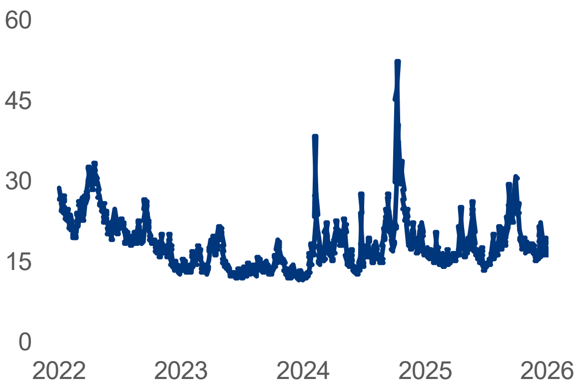

### USD Asia Credit Spread (%)



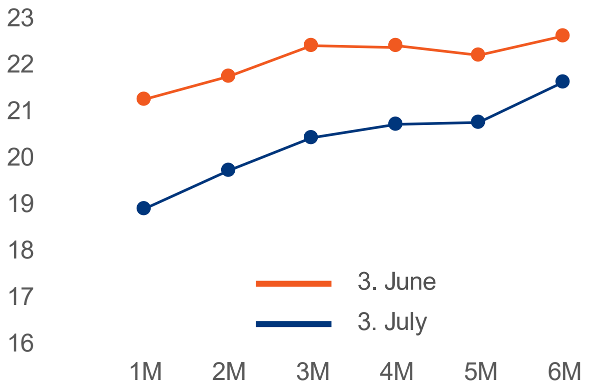

Source: Bloomberg

# Market Monitor

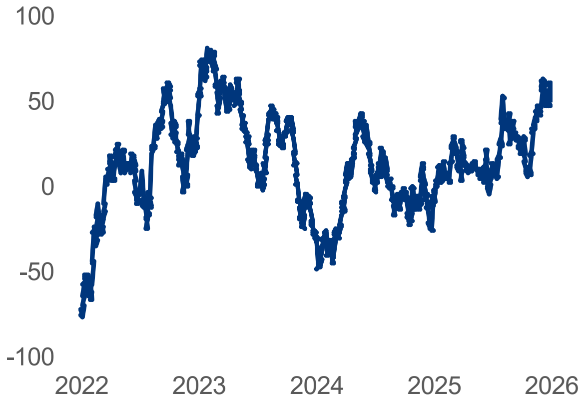
## VIX Index



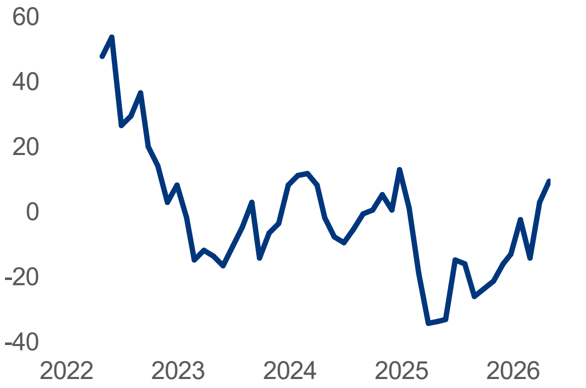

## VIX Term Structure



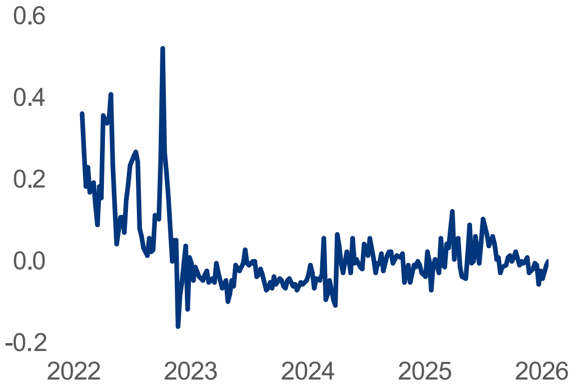

## U.S. Citi Economic Surprise Index*



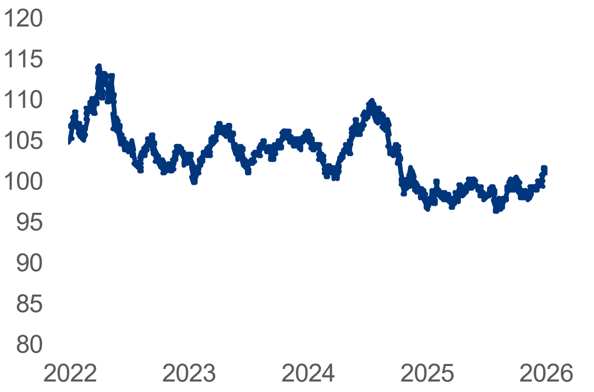

## U.S. Citi Inflation Surprise Index*



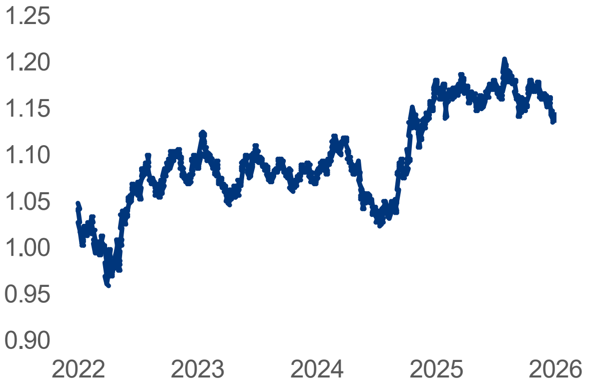

## TED Spread (bps)



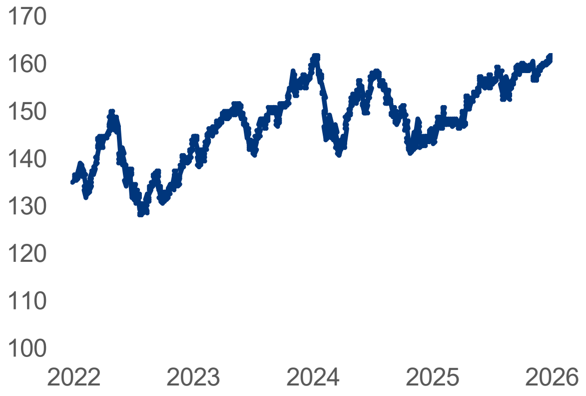

## U.S. Dollar Index




## EUR to USD




## USD to JPY




Source: Bloomberg

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