BEA MPF e - Newsletter

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Message from the Investment Manager

Global Markets diverge as AI momentum persists amid macro uncertainty

U.S. equities underwent a modest pullback and consolidation in June, driven by profit-taking and valuation pressures in mega-cap technology stocks and high-beta AI-related semiconductor names. Market rotation toward defensive, value-oriented sectors and small-cap stocks was evident. Headline Consumer Price Index rose 3.5% year-on-year in Jun. The Federal Reserve kept its policy rate unchanged at 3.50%-3.75% in June and removed forward guidance. Markets generally expect one additional rate hike within this year in response to persistently elevated inflation.

Following the signing of the "Islamabad Memorandum of Understanding" between the U.S. and Iran, concerns over energy prices and inflation eased, supporting a rotation into economically sensitive cyclical and value sectors. Europe's macroeconomic outlook was revised, with the European Central Bank ("ECB") raising its 2026 inflation forecast to 3% while lowering GDP growth projection to 0.8%. To address inflationary pressures, the ECB increased its policy rate to 2.25% in June, marking its first rate hike since 2023 and underscoring inflation as its primary policy concern.

Japanese equities reached new record highs, supported by strong performance in AI and semiconductor-related sectors amid robust global supply chain demand. Ongoing corporate governance reforms, improving corporate earnings and a weaker yen also contributed to market strength. Japan's producer price index rose 6.3% year-on-year in May, the fastest pace in three years, while headline CPI increased 1.5% year-on-year, indicating persistent price pressures. The Bank of Japan raised its policy rate to 1% in June, reinforcing expectations for further monetary policy normalization while signaling close monitoring of inflation risks.

China real GDP growth decelerated to 4.3% year-on-year ("YoY") in the second quarter of 2026. Industrial production rose 5.3% YoY in June, underpinned by robust growth in high-tech manufacturing. Meanwhile, exports surged 27% YoY in June, driven by strong global demand for artificial intelligence infrastructure and renewable energy-related products. On the other hands, domestic consumer and investment activity remains severely depressed. Year-to-date retail sales of consumer goods grew by a tepid 1.3% YoY, while fixed-asset investment contracted by 5.7% YoY, weighed down by the prolonged residential property slump.

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