First to Market

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STRAIT TALK ON HIKES

Kent Fung

VICE PRESIDENT, MARKET INTELLIGENCE

"I am an old man and have known a great many troubles, but most of them never happened." — Mark Twain

Chart of the Day

Good morning!

By now, just about anyone who follows markets is aware of the hawkish shift by the Federal Open Market Committee, as shown by the removal of easing language in the official statement after the most recent meeting, as well as in the dot plot. Fed funds futures trading implies a hawkish shift as well, with 88% anticipating at least one hike by the end of 2026, and 60% anticipating more than one. Both those numbers are up from where they were earlier in the year.

On Monday, Bank of America's economists shifted their outlook sharply, now anticipating three hikes by the end of the year – a pivot from their previous expectation that the Fed would keep rates paused.

While I'm not suggesting that the Fed is likely to cut rates instead, I think it's worth considering whether this rather sharp swerve to the hawkish side leaves the market open to a dovish surprise, even if it doesn't involve an actual cut. Plenty has been written about the impact that the Strait of Hormuz closure has had on crude and energy prices.

Yet it isn't just crude oil supplies that have been throttled. The *Financial Times* reminded us yesterday that "almost 1,200 cargo ships with $125 billion worth of goods" remain stuck due to the continued closure, and that includes cargo ships loaded up with aluminum, fertilizer, cement, plastic feedstock chemicals, and steel bound for the U.S. That's impacted wholesale inflation numbers. This is important because it was arguably the significantly hotter May PPI print that helped drive the market's escalation in expectations for rate hikes.

We don't have any particular insight as to when the Strait will actually be re-opened. President Trump continues to make optimistic claims about progress on negotiations, while comments from the Iranian side continue to leave one skeptical about whether those claims are true. That said, it's worth noting that Kalshi prediction market participants currently see a 68% probability that traffic through the Strait will be back to normal by Oct. 1 – 59% for Sept. 1.

If that's what happens, those backlogged shipments will ease supply constraints – and in fact we might even see a slight, gradual oversupply that depresses the prices of intermediate goods. (I say gradual because it will still take time for U.S. ports to offload those late-arriving ships.)

Will that convince those FOMC members who have shifted hawkishly to calm down and at least take a wait and see attitude? I don't know, but I'm willing to bet that Fed Chair Kevin Warsh will do his best to help them see it that way. And that arguably would mean potential upside for stocks.

Economic Data Report: New Home Sales — measured by the number of newly built houses sold within a given period (usually monthly) — reported a seasonally adjusted annual rate of 580,000 in May 2026. This is 7.3% below the 626,000 recorded in April 2026 and way short of the forecasted 632,000. The average sales price of new houses sold increased from $501,400 in April to $540,600 in May, as institutional investors continue to express strong interest in real estate, hiking up the prices. However, this month's seasonally adjusted estimate of new houses for sale at the end of the month increased to 496,000 from 485,000 in April, easing some of the pressure from the recent U.S. housing supply shortage. On June 23, the U.S. House and Senate overwhelmingly passed the affordable housing bill, aimed at reducing regulations for builders and capping the number of single-family homes institutional investors can purchase at 350,000. However, President Trump stated that he would not act on the legislation until Congress also approves the Save America Act, a proposed voter ID law. Consequently, many prospective homeowners could face additional delays before they see any relief. — Mason Yuh

Share your thoughts

When do you think Strait of Hormuz ship traffic will return to pre-war levels? Click here to send us your response.

✍Here's what a reader commented ✍

Q: What do you make of AMD's Taiwan investments?

A: The AMD Board should be asking tough questions: 1) when, not if, China takes over Taiwan, will the US allow AMD to continue producing leading-edge products there? 2) how much of AMD's core IP will be immediately lost to China? 3) If we have to stop production in Taiwan, what is our business impact and how long will it take to recover in another country? 4) TSMC has spent the past few years adding factory footprints in Arizona and Japan, shouldn't we do the same? Side note: There's been much focus & investment on duplicating the semiconductor wafer fabs outside of Taiwan, but very little has been done to reproduce the advanced packaging outside of Taiwan, this is by no means trivial.

Catch up with Fundstrat

We are giving a mid-year update and raising our year-end target for S&P 500. This is mainly due to higher EPS for 2027.

Technical

New non-tech leadership keeps surfacing, as homebuilders and health care continue to strengthen near-term, and the airlines ($$JETS) ETF has just broken out to the highest levels since 2018.

Crypto

Yesterday's crypto selloff was broad-based, but BTC appeared to have an additional idiosyncratic supply-driven component. That distinction matters because it makes me hesitant to aggressively buy the dip despite BTC again defending the ~$60k area.

News We're Following

Breaking News

- Core inflation rate hit 3.4% in May, highest since October 2023, Fed’s preferred gauge shows CNBC

Markets and economy

- Fed stress test: Big banks pass, paving way for payouts BBG
- Wealthy nations reap huge benefits from immigration, study finds REU

Business

- Qualcomm just revealed its mystery big tech customer—and its stock is soaring BAR
- Ex-tricolor COO pleads guilty to fraud in company’s collapse BBG
- Anthropic claims Alibaba ran ‘brazen’ campaign to access its Claude AI model WSJ

- Micron soars after AI-fueled forecast shatters estimates BBG

Politics/U.S.

- Trump's meeting with senators turns fiery over Iran war WSJ
- Trump voting changes struck down over lack of fraud evidence BBG
- Donald Trump blows up at Bill Cassidy over Iran war powers resolution HILL

Overseas

- Back-to-back Venezuela earthquakes kill 164, USGS fears thousands more dead REU
- China defends patrols east of Taiwan after 3 European nations raise alarm AP
- Tacloban shooting: Philippines bans gaming app Gorebox played by teenage suspect BBC

Of Interest

- Grand Ole Opry House put up for sale by owner Ryman Hospitality BBG
- IOC to pay Olympians for the first time in its history FT

Overnight

S&P Futures	+54 ▲ point(s) (+0.73% ▲)
overnight range:	+24 ▲ to +63 ▲ point(s)

APAC

Nikkei	+4.61% ▲
Topix	+1.33% ▲
China SHCOMP	+0.23% ▲
Hang Seng	-1.43% ▼
Korea	+5.42% ▲
Singapore	+0.06% ▲
Australia	-0.68% ▼
India	+0.19% ▲

Taiwan	+0.46% ▲

Europe

Stoxx	50 +0.67% ▲
Stoxx	600 +0.54% ▲
FTSE	100 +0.26% ▲
DAX	+0.60% ▲
CAC	40 +0.42% ▲
Italy	+0.25% ▲
IBEX	+0.13% ▲
Canada	-0.55% ▼
Mexico	-0.85% ▼
Brazil	-0.44% ▼

FX

Dollar Index (DXY)	-0.11% ▼ to 101.50
EUR/USD	+0.06% ▲ to 1.1365
GBP/USD	+0.14% ▲ to 1.3187
USD/JPY	-0.02% ▼ to 161.82
USD/CNY	+0.17% ▲ to 6.7992
USD/CNH	+0.14% ▲ to 6.8037
USD/CHF	+0.12% ▲ to 0.8112
USD/CAD flat at	1.4234
AUD/USD flat at	0.6901

UST Term Structure

2Y-3M Spread narrowed	-1.1bps ▾ to 35.2bps
10Y-2Y Spread widened	1.8bps to 26.0bps
30Y-10Y Spread widened	0.5bps to 45.0bps

USD HY OaS

All Sectors	+5.6bps ▴ to 300bps
All Sectors ex-Energy	+6.8bps ▴ 301bps
Cons Disc	+7.4bps ▴ to 481bps
Indu	+6.6bps ▴ to 250bps
Tech	+11.1bps ▴ to 232bps
Comm Srvcs	+5.5bps ▴ to 296bps
Materials	+6.1bps ▴ to 251bps
Energy	-2.9bps ▾ to 276bps
Fin Snr	+5.3bps ▴ to 202bps
Fin Sub	+8.5bps ▴ to 305bps
Cons Staples	+6.6bps ▴ to 464bps
Healthcare	+6.1bps ▴ to 318bps
Utes	+6.4bps ▴ to 207bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/25	8:30 AM	May PCE m/m	0.5	0.4
6/25	8:30 AM	May Core PCE m/m	0.31	0.24
6/25	8:30 AM	May PCE y/y	4.1	3.8
6/25	8:30 AM	May Core PCE y/y	3.4	3.2892
6/25	8:30 AM	1Q F GDP QoQ	1.6	1.6
6/25	8:30 AM	May P Durable Gds Orders	-5	8
6/26	10:00 AM	Jun F UMich 1yr Inf Exp	4.6	4.6
6/26	10:00 AM	Jun F UMich Sentiment	50	48.9
6/30	9:00 AM	Apr S&P Cotality CS 20-City m/m	n/a	-0.16
6/30	10:00 AM	Jun Conf Board Sentiment	94.2	93.1
6/30	10:00 AM	May JOLTS	7360	7618
7/1	9:45 AM	Jun F S&P Manu PMI	n/a	55.7

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