

Stocks sold in risk-off trade amid rise in global yields

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up, Gold down.
- **REAR VIEW:** Trump said he is okay with Iran suspending nuclear programme for 20 years, but there has to be a real commitment; Trump leaves China; Trump said they may or may not approve Taiwan weapons; Iranian Foreign Minister remarked contradictory messages from the US remain the main issue & "we have received messages from the US saying that they are seeking continued talks".
- **COMING UP: Holidays:** Canadian Victoria Day. **Data:** Chinese Industrial Production (Apr), Unemployment Rate (Apr), Retail Sales (Apr). **Speakers:** BoE's Greene, Mann. **Supply:** Japan, the EU. **Earnings:** Baidu, Ryanair.
- **WEEK AHEAD:** Highlights include NVDA earnings, FOMC Minutes, UK, Canadian, Japanese and NZ inflation. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES** Tech behemoth NVDA the highlight. [Click here for the full report.](#)

MARKET WRAP

US indices closed the last session of the week in the red with all sectors lower, aside from Energy, as Materials and Utilities lag, while broad based mega-cap weakness added to the losses. Energy was the only sector in the green and buoyed by gains in the crude complex amid renewed escalation risk as Trump returned from China and attention turned back to Iran. On that, little incrementally new came out of the Xi/Trump summit, and many await Trump's return from China. As a reminder, source reports through the week suggested Trump is weighing up possibly resuming military action, but sources added they don't think he would order any before he returns from China, while Israeli sources added that readiness will be raised upon the end of Trump's visit. There was plenty of commentary from Trump and the Iranian Foreign Minister on Friday, with the latter noting "we have received messages from the US saying that they are seeking continued talks". The Dollar Index saw gains with Antipodeans, the clear G10 laggards, and hit by losses in metals and risk sentiment. Treasuries saw pressure, as yields rose, as higher oil prices added to inflation fears in quite a quiet newsflow in the US afternoon. Into the weekend, attention still lies on any indication whether Trump is set to resume military operations against Iran this weekend.

FIXED INCOME

T-NOTE FUTURES (M6) SETTLE 30 TICKS LOWER 109-05+

T-notes moved lower across the curve on Friday, with yields rising as higher oil prices added to inflation fears. At settlement, 2-year +6.9bps at 4.084%, 3-year +9.1bps at 4.147%, 5-year +11.3bps at 4.262%, 7-year +11.8bps at 4.428%, 10-year +11.4bps at 4.597%, 20-year +11.3bps at 5.146%, 30-year +10.0bps at 5.130%.

THE DAY: Treasury trade was once again dictated by crude price action and ongoing geopolitical uncertainty. Oil prices rallied throughout the session, weighing on T-notes and pushing yields higher across the curve as inflation concerns rebuilt.

The geopolitical backdrop remains fluid. Iran's Foreign Minister suggested the US had reached out regarding further negotiations, although markets remain wary that President Trump could authorise a resumption of strikes against Iran once he returns to the US later tonight, with some desks expecting any decision to potentially come over the weekend.

On the data front, Industrial Production and Manufacturing Production both topped expectations, although the releases generated little meaningful market reaction, with focus remaining firmly on oil prices and geopolitics.

Meanwhile, Fed speak focused on the balance sheet debate ahead of Fed Chair nominee Warsh's expected arrival at the Fed. Fed's Barr pushed back against arguments for a materially smaller balance sheet, potentially setting up future debate within the Fed given Warsh's preference for a smaller balance sheet and reduced holdings of longer-dated Treasuries.

Elsewhere, Gilts also came under pressure amid growing political uncertainty in the UK. The Manchester Mayor Burnham is looking to re-enter parliament, while Streeting's resignation potentially sets up a future leadership contest involving Burnham, Streeting and Starmer. The weakness in Gilts added to the broader bearish tone in global fixed income markets and likely contributed to some follow-through pressure in Treasuries.

Overall, price action remained dominated by energy markets and geopolitics, with higher oil prices lifting inflation expectations and weighing on the Treasury complex.

SUPPLY

Notes

- US to sell USD 16bln of 20-year bonds on May 20th; to settle June 1st; to sell USD 19bln of 10-year TIPS; to settle May 29th

Bills

- US to sell USD 89bln of 13-week bills (prev. 89bln) and USD 77bln of 26-week bills (prev. 77bln) on May 18th.
- US to sell USD 85bln of 6-week bills on May 19th (prev. 80bln)

STIRS/OPERATIONS

- **Fed Pricing: Dec 16.5bps (prev. 11.9bps)**
- EFFR at 3.63% (prev. 3.63%), volumes at USD 120bln (prev. USD 123bln) on May 14th
- SOFR at 3.56% (prev. 3.59%), volumes at USD 3.115tln (prev. USD 3.119tln) on May 14th
- NY Fed RRP op demand at USD 0.647bln (prev. 2.034bln) across 5 counterparties (prev. 8)

CRUDE

WTI (M6) SETTLED USD 4.25 HIGHER AT USD 105.42/BBL; BRENT (N6) SETTLED USD 3.54 HIGHER AT USD 109.26/BBL

The crude complex saw gains to end the week on renewed escalation risk as Trump returned from China and attention turned back to Iran. Both Trump and Araghchi were frequently on the wires, with the Iranian Foreign Minister giving more market-moving headlines. Recapping, he said they have received messages from the US saying that they are seeking continued talks, and that Iran is trying to maintain the ceasefire to give diplomacy a chance, and will return to talks if the US is ready for a fair deal. However, he did add that contradictory messages from the US remain the main issue. As such, attention over the weekend will be on any escalation or de-escalation. For the record, in the weekly Baker Hughes rig count, oil rose 5 to 415, natgas fell 1 to 418, leaving the total up 3 at 551. To end the week, WTI traded between USD 97.23-101.39/bbl and Brent USD 106.26-109.75/bbl.

EQUITIES

CLOSES: SPX -1.24% at 7,408, NDX -1.54% at 29,125, DJI -1.07% at 49,531, RUT -2.44% at 2,793

SECTORS: Materials -2.74%, Utilities -2.40%, Consumer Discretionary -1.83%, Industrials -1.81%, Technology -1.61%, Real Estate -1.56%, Health -1.08%, Communication Services -0.98%, Financials -0.32%, Consumer Staples -0.32%, Energy +2.32%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.74% at 5,824, Dax 40 -2.05% at 23,955, FTSE 100 -1.71% at 10,195, CAC 40 -1.60% at 7,953, FTSE MIB -1.87% at 49,116, IBEX 35 -1.22% at 17,593, PSI -1.00% at 9,033, SMI +0.05% at 13,220, AEX -1.09% at 1,010.

STOCK SPECIFICS:

- **Applied Materials (AMAT):** Earnings beat offset by risk-off mood.
- **Figma (FIG):** Beat earnings & raised guidance.
- **Boot Barn (BOOT):** Earnings & outlook topped expectations.
- Blackstone and CD&R are reportedly some of the firms considering a bid for **Magnum Ice Cream (MICC)**.
- Elliott Investment Management has taken a stake in **DexCom (DXCM)**.
- **Babcock & Wilcox (BW)** announced a USD 200mln common stock offering.
- **Papa John's (PZZA)** largest US franchisee, Nadeem Bajwa, is joining Irth Capital's buyout bid for PZZA.
- **C.H. Robinson (CHRW)** upgraded at Citi to 'Buy' from 'Neutral'.
- **A.O. Smith (AOS)** downgraded at JPM to 'Underweight' from 'Neutral'.
- **SpaceX** picks Nasdaq as listing venue for its IPO, according to reports, citing sources; SpaceX to price initial public offering as early as June 11, set to list shares on June 12; set to trade under ticker 'SPCX'.
- Twenty people in Japan who took an **Amgen (AMGN)** rare immune-disease drug have died, according to the company that sells the Medicine in Japan; US drug regulators had asked Amgen to voluntarily withdraw the drug.

FX

USD was firmer in response to a global rally in government bond yields as inflation concerns intensified. A longer duration of the conflict is being increasingly considered as we look to conclude another week of no progress towards a long-lasting resolution. Overall, the Trump-Xi meeting offered little new on Iran, apart from both wanting the obvious, the Strait of Hormuz to be open. Trump, speaking to Fox News, said he is okay with Iran suspending its nuclear programme for 20 years, but there has to be a real commitment. Nonetheless, oil prices settled near highs as tangible progress remains to be seen, leaving the US 2yr at a new YTD high of 4.086%. Aside from the above, newsflow was light as global risk-off in equities contributed towards the USD strength and underperformance in high beta FX. DXY gained every day this week, ending at WTD highs of from the 98.04 open.

JPY saw some relative outperformance in the G10 space despite the uptick in global yields and higher oil prices, as lacklustre risk-taking worked to its benefit. USD/JPY now trades ~158.71, nearing the 160 level that participants may be wary of given the recent intervention. It remains an open question how effective the intervention will be, given the factors that would likely drive JPY strength are factors outside the MoF's control

Antipodes were hit the most to end the week, weighed by the risk-averse mood, a broad sell-off in metals, and higher energy prices. AUD/USD now trades around 0.7150 and NZD/USD at 0.5840.

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