



## THE GIANT SPACEX IPO WILL SET THE TONE FOR FURTHER AI SHARE ISSUES

This week sees SpaceX shares start trading in New York. The IPO was heavily oversubscribed and many investors will watch the first day's trading closely, looking to secure a stake or to pocket a quick profit, depending on their view of the company's valuation. The size of the offering shows the huge demand for cash caused by unprecedented investment in AI, as companies turn to bank borrowing, bond and share issues to fund their plans. With Anthropic, OpenAI and others looking to tap the market this year, the SpaceX listing will set the benchmark for the sector.

Meanwhile, markets have stayed relatively calm this week despite rapid shifts in Middle East politics. The two-month-old ceasefire was severely tested. By the end of the week, though, Donald Trump was again claiming that a deal to end the war is imminent. The possible reopening of the Strait of Hormuz sent global oil and gas prices lower. Equity markets recovered from heavy selling in tech stocks earlier in the week, taking heart from the AI space race and from hopes that the fighting will end.

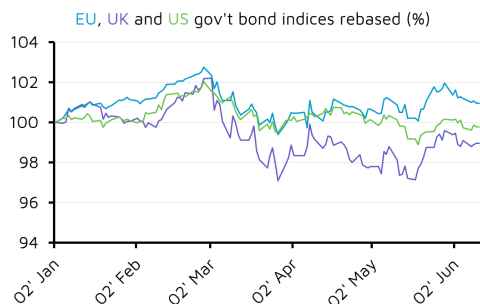
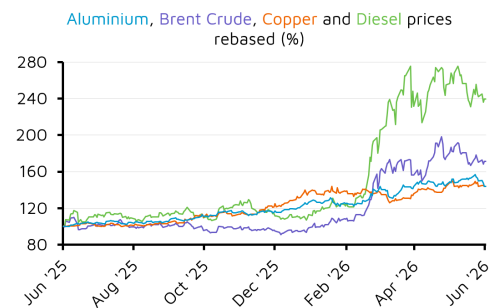
### THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.75%	-1.76%	-0.36%	+1.39%	-0.91%	-0.03%	-0.09%	-8.35%	-5.48%	-0.24%	-0.33%

### COMMODITIES: MISSILES FLY OVER THE GULF AS TANKERS SAIL IN THE DARK

The two-month US-Iran ceasefire was strained. Fresh strikes hit Iranian air defences, Tehran fired on bases in Bahrain, Jordan and Kuwait, and stated that the Strait of Hormuz remains completely shut. Yet oil barely flinched. Brent briefly touched \$95, then eased to about \$92.50. Pre-war surpluses, extra non-Gulf output and roughly 15 tankers a day slipping past Oman at night with transponders off have cushioned the blow. Stockpiles are doing the rest. US crude inventories fell 7.2m barrels in the week to June 5, more than double the expected draw and a seventh straight weekly decline, leaving stocks about 5% below their five-year average.

The bill is arriving elsewhere. Copper sits near record highs and aluminium at a four-year peak, as costlier sulphur and diesel squeeze already tight supply. Goldman Sachs now expects a 640,000-tonne copper deficit this year. IATA warns airlines face an extra \$100bn in jet fuel costs, nearly halving profits to \$23bn.



### US: STRONG JOBS AND RISING INFLATION RAISE RATE HIKE EXPECTATIONS

Expectations are rising that the Federal Reserve will raise interest rates at its next meeting. New chair Kevin Warsh has been more open to rate cuts than his predecessor, but evidence of a strong American jobs market and rising inflation has added to speculation that the Fed will raise rates. The monthly non-farm payrolls jobs survey showed 172,000 new jobs were created in May, well above the forecast of 82,000. Meanwhile, the annual rate of headline inflation accelerated to 4.2% in May. Core inflation ticked up to 2.9%, but the annual rate remains well above the target of 2%.

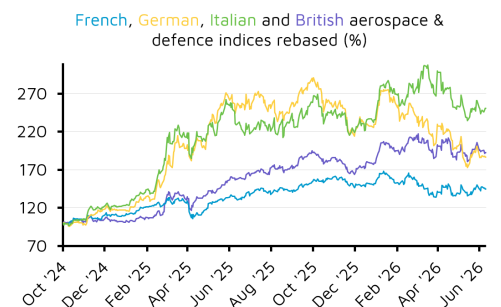
The prospect of higher rates contributed to some of the decline in tech stocks in the US and Asia either side of last weekend, as the US Nasdaq and Korean Kospi equity indices fell sharply. Although the increase in core inflation has been modest, government bond yields increased in the US and UK as bond prices fell. European government bonds also fell slightly as the European Central Bank increased its main interest rate by 0.25%, as expected.



### EQUITIES: DEFENCE SHARES LAG THIS YEAR BUT STILL LEAD OVER TIME

The aerospace and defence sector keeps changing as government spending and new defence technology reshape it. Mercedes-Benz has announced a partnership with Tytan Technologies, a German drone-defence specialist, to develop mobile air-defence systems. Italian firms Leonardo and Fincantieri have recently signed deals worth more than €700m to strengthen the naval defences of Kuwait and Saudi Arabia. Shares in Japan's Mitsubishi Heavy Industries have jumped as the country's defence spending grows and arms-export laws ease. Renault is also expanding military production, though its more cautious stance means it plans to cap defence revenue at 5% of group earnings.

Defence stocks have underperformed broad equity markets in the US, UK and Europe this year, as an AI-driven rally has powered those markets higher. Over a longer horizon, defence and aerospace companies have far outpaced the broad indices, helped by rising government spending.



Data sourced from FE Analytics

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