REYL
OVERSEAS
Intesa Sanpaolo Group

STRATEGY OUTLOOK

JUNE 2026

"Ground control to Major Tom…"

"To revolutionise space technology, with the ultimate goal of enabling people to live on other planets."
— *SpaceX mission statement*

	May	YTD
S&P	5%	11.2%
Rest of the World	2.6%	9.8%
US Treasury	0%	0.2%
Gold	-1.6%	5.4%
Bitcoin	-5.4%	-16%
WTI Crude	-14.3%	52%
USD Index	0.8%	0.6%

The equity market rally continues apace. AI and space-related themes are leading the advance, accompanied by a notable broadening in market participation. **This is no longer a rally driven by just seven stocks.**

There are several reasons why this market can continue higher, just as there are grounds for caution. US midterm elections loom in November; the anticipated SpaceX IPO is approaching; tensions around the Strait of Hormuz remain unresolved; and, perhaps most importantly, government bond markets continue to weaken.

Earnings growth remains robust. The "other 493" companies in the S&P 500 delivered approximately 17% growth in Q1, with EPS estimates still being revised upward. Yet, despite this strength, a degree of scepticism persists—particularly among institutional investors. Hedge funds remain underexposed, maintaining short positions and continuing to fade semiconductor names that are driving much of the rally.

Fund flows remain skewed towards bonds, even as the Federal Reserve maintains relatively conservative forecasts of 2.4% GDP growth and 2.1% inflation. Momentum in equities remains strong and shows little sign of abating.

A potential challenge lies in the upcoming wave of IPOs. SpaceX is expected to come to market (reportedly around June 12) at a valuation exceeding $1.75 trillion, despite annual cash burn of approximately $9 billion and the absence of a fully proven landing of its most critical rocket.

SpaceX's valuation is currently underpinned by three distinct segments:

- **Starlink**: c. $44bn operating profit (2025)
- **Launch/Space**: c. $657m loss (2025)
- **AI/Infrastructure**: c. $12.7bn capex (2025)

Index inclusion alone is likely to drive strong demand, though this may come at the expense of existing index constituents. Importantly, a wide range of early investors—including family offices, hedge funds, and sovereign wealth funds—entered at significantly lower valuations. Their monetisation could create a substantial supply overhang, particularly into Q4.

While Elon Musk remains an exceptional entrepreneur, **the broader “space” narrative may prove vulnerable** to over-extrapolation—echoing prior market themes that ultimately failed to meet expectations. SpaceX is likely to be followed by other high-profile listings, including Anthropic and OpenAI, later this year.

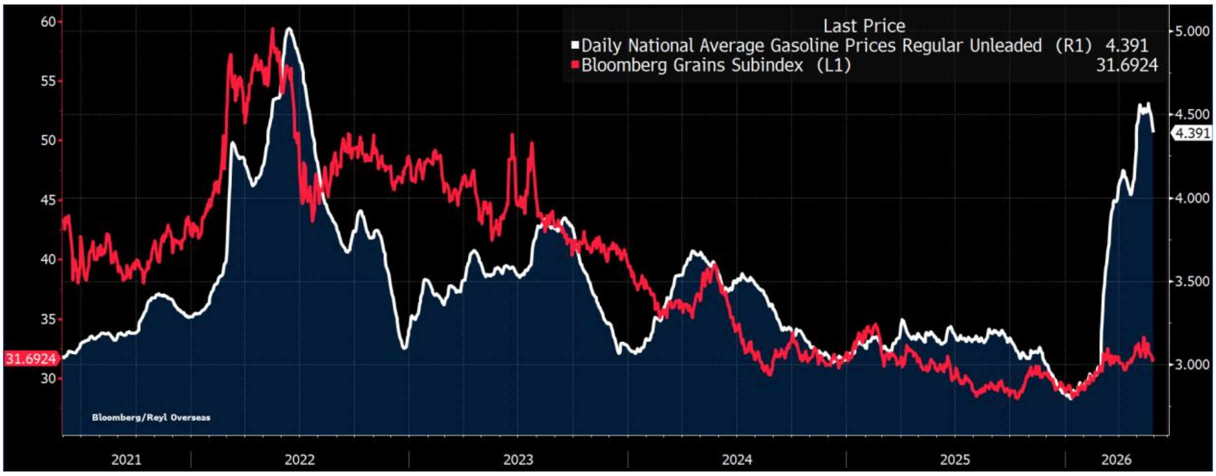
History offers a note of caution: Facebook came to market with ~40% margins yet still lost approximately 50% of its value in the subsequent months. Today, SpaceX appears to be priced at roughly 100x revenue, compared to c. 20x for Nvidia. **Caveat emptor.**

Geopolitics remains a critical variable. Six weeks into the effective closure of the Strait of Hormuz (first chart), and despite competing narratives of escalation and negotiation, the situation remains unresolved. **The path forward is uncertain.** A cynic might expect a resolution to coincide with key market events such as the SpaceX IPO; alternatively, the US may be content to leverage its energy independence in the interim.

The longer the disruption persists, the greater the risk of global supply constraints—particularly outside the US. The UAE’s accelerated development of a pipeline bypass (reportedly approaching 50% completion, with Chinese involvement) is noteworthy, but unlikely to provide near-term relief.

The more structural risk remains sovereign debt. In the US, interest expense combined with entitlement spending is now absorbing most federal revenues. Across major economies, government bond yields continue to climb—Japan, the UK, and the US all reflecting this pressure. Notably, **Japan has recently been a significant seller of US Treasuries.** Rising yields are a headwind to asset valuations.

Rising energy prices risk adding further inflationary pressure, potentially forcing policymakers’ hands. Whether through rate cuts or regulatory interventions designed to stabilise bond markets, authorities may ultimately act to contain volatility.

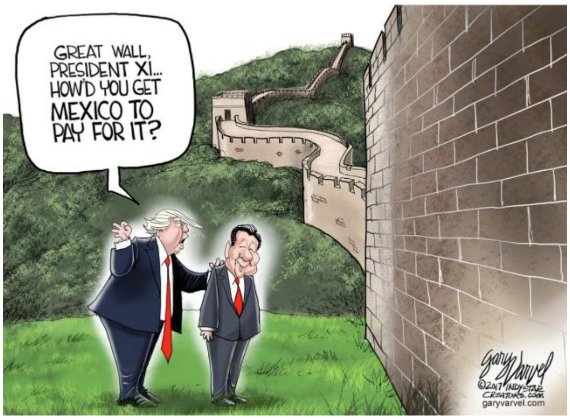


Government bonds remain the "engine oil" of financial markets, underpinning collateral structures across the derivatives complex. The continued need to issue debt to service existing obligations implies **ongoing currency debasement**—a structurally supportive backdrop for gold.

US midterm elections in November add another layer of complexity. As the second chart highlights rising gasoline prices—particularly given the central role of trucking in US goods transport—could have political implications. However, recent developments, including the Supreme Court ruling in *Louisiana v. Callais*, will allow a redrawing of maps and hence a flip of up to 19-20 seats moving **away from the Democrats.**

As we enter June, markets appear resilient—perhaps increasingly so. A degree of complacency may be emerging, particularly around the risks in sovereign bond markets.

The greatest near-term risk may not be domestic, but rather contagion from elsewhere. This does not yet feel like a classic blow-off top; however, optimism increasingly appears to be priced into assets—something that warrants caution.



At the same time, opportunities remain. Selected areas of the market still offer attractive valuations, and the broader trend could persist through the balance of the current US administration.

Ultimately, **we are in the midst of an exponential shift**, and we need to be very careful not to make conclusions based on linear thinking. In this world the only thing we can be sure of is that investors will continue to be gripped by periods of both **fear and greed**. Over and above these human trait's technology is going to continually reset everyone's expectations.

We remain invested in long-term thematic opportunities—energy transition, digitalisation, hard assets, and demographics—while maintaining a more cautious stance on valuation extremes, particularly in the context of SpaceX.

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