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Weekly Macro and Markets View

20 July 2026

Highlights and View

US headline and core inflation slow to 3.5% YoY and 2.6% YoY, respectively

The slowdown in inflation was broad-based, making a Fed rate hike in July very unlikely.

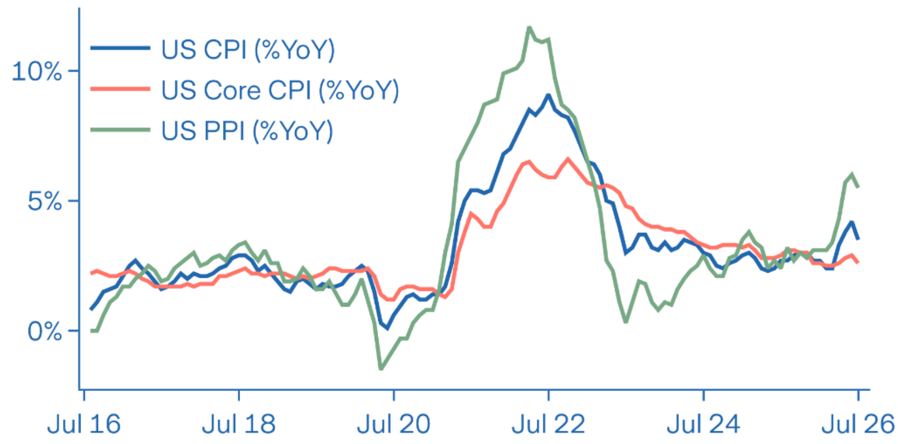
The launch of Kimi K3, the world's largest open-weight AI model, narrows the gap between Chinese and US AI in the ongoing race

With users facing high token costs from proprietary US models, advances in Chinese open-weight models will likely continue to support their global adoption.

Equity markets face modest headwinds as investors rotate away from technology stocks

The shift out of some of the strongest performing technology stocks removes froth as we enter the reporting season in the US.

US inflation slows substantially



Source: Bloomberg

US inflation rates slowed substantially in June and came in significantly below consensus expectations. Headline inflation fell 0.4% MoM, the biggest monthly drop since the Covid-induced disruptions in April 2020, pushing down the annual rate to 3.5% from 4.2% the month before. Falling energy prices were a major driver of falling inflation, but the slowdown was more broad-based. Core CPI was marginally negative for the first time since Covid, bringing the annual rate down from 2.9% to 2.6%. The Cleveland Fed's monthly measure of trimmed mean inflation stood at the second lowest in sixteen years, emphasising the broad-based nature of the inflation slowdown. Similarly, producer prices were also weaker across the board in June. Inflation risks have not disappeared, particularly given the recent rise in energy prices triggered by the flare-up in tensions between the US and Iran, but the significant slowdown in inflation paired with some weaker labour market data makes a Fed rate hike in July very unlikely. Meanwhile, consumer spending is holding up, with core retail sales growing by 0.4% MoM in June. Small business optimism has improved slightly, helped by a pickup in capex plans and hiring intentions. The improving inflation picture has not helped the stock market, however, with the S&P 500 shedding 1.6% last week, dragged down by the technology sector.

China

Living its two lives

China's Q2 GDP slowed notably from 5% YoY to 4.3%, undershooting consensus expectations. With robust exports, China's competitiveness in EVs and AI hardware is bolstering its position overseas. In contrast, consumers at home are not showing the same excitement, with retail sales staying notably weak at 1% YoY in June, dragged by contractions in EV and home appliance sales. Fixed asset investment saw the third negative YoY print in a row. Property prices continued to correct nationwide, with only first-tier cities showing some pockets of stabilisation. These factors, along with recently released weak credit growth data, show that the domestic economy is clearly losing momentum. All signs point to a need for further policy support in H2. That said, on the tech front, the release of Kimi K3, the world's largest open-weight AI model, marked a step closer in the race to catch up with US models. At a time when users face high token costs from proprietary US, models the progress being made in Chinese open-weight models will likely further support the global adoption of Chinese AI.

ASEAN

Well-positioned to benefit from the global AI upswing

Singapore's GDP release saw stable growth of 5.7% YoY for 2026 Q2, with manufacturing the strongest sector at a 5.3% QoQ increase. Strong demand in semiconductors and semiconductor manufacturing equipment supported this growth. Singapore's non-oil exports rose 20.7% YoY, with electronics surging 105% YoY, driven by integrated circuits and semiconductor hardware. Exports to Taiwan and Korea led the charge, highlighting the strong linkage between Singapore's semiconductor sector and top chipmakers in the AI build-out. Similarly, Malaysia, which remains a key ASEAN player in the semiconductor sector, posted 5.6% YoY GDP growth, supported by strong output in mining (natural gas) and tech manufacturing. While Taiwan and Korea remain leaders in semiconductor manufacturing, the rest of the region is tightly involved in the AI supply chain, producing intermediate components and AI-enabling products. With global AI capex remaining remarkably strong, we expect Asia to continue to be a key winner from the AI build-out.

LatAm

Chile's pro-investment bill clears a key legislative hurdle

Last week, Chile's Senate approved the Kast administration's flagship pro-investment bill, sending it back to the Lower House. The package included a phased corporate tax cut from 27% to 23% by 2029, faster permitting, and a revised tax-stability regime for up to 20 years. The bill would also restore capital gains tax exemptions for highly traded stocks from 2027. The proposal marks a clear return to an explicitly pro-investment agenda. Greater tax and regulatory certainty should improve visibility and help unlock delayed projects, creating upside risks to growth after more than a decade of stagnation. The near-term fiscal cost appears manageable, although the reform relies heavily on stronger growth to offset lower tax revenues, which could become challenging if the investment response disappoints. The Chamber of Deputies must now approve the Senate's amendments, with any rejection triggering a joint committee review. Potential constitutional challenges could also delay implementation. Nevertheless, the base case remains that the core pro-investment measures will ultimately be enacted.

Credit

Calm despite semiconductor woes

In a week that saw notable volatility in semiconductor stocks, credit markets continued to display calmness. This suggests that the jitters seen in the stock markets are not being driven by fundamental concerns but rather by unwinds of crowded leveraged positions. The US Philadelphia Stock Exchange Semiconductor Index dropped by almost 8% last week, bringing total losses to 20% since its peak in late June. In contrast, credit spreads widened only modestly last week across most segments. Issuance has been running hot following a record June, with US Investment Grade credit markets already printing over USD 1.275 trillion of new debt deals so far in 2026. Flows also remain supportive, with most segments seeing inflows while new deals see healthy subscriptions, although there are some signs of emerging investor fatigue around AI related jumbo deals. US bank earnings were solid and kicked off new issuance from banks that was well received. Overall, credit markets remain healthy, with AI related supply continuing to surge while spreads remain tight.

Covered Bonds

A supportive backdrop for the safe-haven segment

Euro-denominated covered bond issuance slowed in July as the traditional summer lull began, a trend expected to persist until mid-August. The slowdown followed an exceptionally active June, which recorded the highest June issuance volume since 2010 and the second-highest monthly total so far this year behind January. In addition to strong gross issuance, net supply was also firmly positive in June. Despite the elevated supply, deals were well received, with limited new issue concessions and healthy order book oversubscription. At the index level, EUR covered bond spreads were unchanged in June and ended the month 1bp tighter than at the start of the year. We expect net supply to decline in H2 and likely turn negative as redemptions increase and outpace gross issuance, with issuers already well advanced in their 2026 funding programmes. The safe-haven characteristics of covered bonds should continue to offer support against geopolitical uncertainty in H2 while favourable supply technicals and sustained investor demand should help keep spreads broadly stable.

What to Watch

- It's a relatively quiet data week in the US, but PMIs will offer valuable insights into the current state of the economy, and the earnings season is gathering steam.
- The ECB meets on Thursday and is expected to keep interest rates unchanged but signal ongoing concern around inflation pressures. July PMI data is due at the end of the week.
- In Asia, Japan's CPI, export data for Korea and Taiwan, Australia's jobs data, and Bank Indonesia's rate decision are key to watch.

Disclaimer and cautionary statement

Zurich Insurance Group Ltd

Investment Management
Mythenquai 2
8002 Zurich

P1046630 (07/25) TAG