MAKING SENSE OF *THIS* WORLD **06 July 2026**

R&R Weekly Column
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US 250th Anniversary, Iran's Funeral For Khamenei Sr., and the Future of the US-Iran War

Two important events took place last week, virtually at the same time. In the US, the celebrations for the 250th anniversary of the American independence from Britain culminated in the speech by President Donald Trump at Mount Rushmore on July 4th. In Iran, the funeral of the Supreme Leader Ali Khamenei, which will last 7 days, also had a crucial moment on July 4th, when the body of the deceased Ayatollah was exposed to the public.

The coincidence of the events was not casual: the two sides, which are engaged in a 60-day negotiation to reach a final peace deal, decided to suspend the process until July 11th, when it will resume in Pakistan, to allow these celebrations on both sides to take place without military or official diplomatic exchanges. Trump said that the US could take advantage of the funerals to hit the crowd and kill what's left of the Iranian leadership, but he prefers not to do it because the US wouldn't know who to negotiate with.

All this is happening a few days after the second round of talks in Doha, which took place when military skirmishes between the two sides were escalating. Those skirmishes originated from the fact that Iran hit a vessel that had decided to follow a route not authorised by the regime to cross the Strait of Hormuz. The US denounced this as a violation of the terms of the ceasefire, and reacted by bombing some important military objectives in Iran. Iran retaliated, once again, by attacking the military facilities of US allies in the region.

The first round wasn't particularly successful as it was shaken by Trump's post on his social media Truth Social, saying: "*Iran must immediately stop their highly paid PROXIES in Lebanon from causing trouble. If they don't, we'll hit Iran very hard again, just like we did last week, only harder!!!"… "You close it and you won't have a country. You won't even make it back to your fucking country."* After that, the Iranian delegation refused to take part in the quadrilateral talks format and only accepted to talk to the Pakistani and Qatari mediators.

In this column we analyse these events and try to get a sense of how the conflict may continue in coming months. First of all, the US claims that Iran violated the ceasefire by hitting a vessel crossing the Strait on a route not authorised by the regime. But this is not a violation, but rather an implementation of the Islamabad Agreement, and in particular of its Article 5. This article states that "*Upon the signing of this MoU, the Islamic Republic of Iran will make arrangements using its best efforts for the safe passage of commercial vessels with no charge for 60 days only from the Persian Gulf to the Sea of Oman and vice versa.* […] *The Islamic Republic of Iran will conduct dialogue with the Sultanate of Oman to define the future administration and maritime services in the Strait of Hormuz in discussion with other Persian Gulf littoral states in line with the applicable international law and the sovereign rights of coastal states of the Strait of Hormuz."*

So Article 5 states that it's Iran's responsibility only to "*make arrangements using its best efforts for the safe passage of commercial vessels with no charge"* for the first 60 days. Then the Islamic Republic of Iran [i.e. not other Iranian authorities that may exist or emerge meanwhile] will have to cooperate with Oman and "other Persian Gulf littoral states" to "define the future administration" of the Strait. The US, or any other country (e.g. China, Russia, EU, etc i.e. the signatories of the JCPOA of 2015) has no voice in this process. So, why Trump is frustrated when Iran implements Article 5?

It is obvious that the US has conceded too much in the Islamabad Agreement. Independent, pro-western think tanks like the London-based IISS, showed how the US got almost nothing out of the Agreement, while Iran got almost everything they asked for. Even pro-MAGA supporters like Oren Cass wrote an article saying ""*Some people are confused by this notion that we lost*." In this article, titled "Cutting Bait on a Bad War", he argues that the best thing that the US could do is 1) recognise that the war was lost; 2) cut the losses; and 3) go back home, trying to minimize the damage. This is exactly what we suggested in our column of the VL on 16 March 2026, two weeks after the beginning of the war, titled "The Unwinnable War in Iran Destabilises the Global Geopolitical Landscape."

Will Trump learn the lesson? It's unlikely. If anything, he may double down, as he suggested in a recent Truth post, when he wrote: "*It is very possible that they [*i.e. Iran] *will never learn! There may come a point when we are no longer able to be reasonable, and will be forced to militarily complete the job that we very successfully started. If that happens, the Islamic Republic of Iran will no longer exist!*" We have extensively written about "The False Myth of Finishing the Job" in our column on June 1st, 2026. However, there are repeated calls from experts in the US that claim that what we see now is just a temporary ceasefire, which is only allowing the US to amass more troops in the Middle East and wait for a cooler period in the region to start a ground invasion, which may take place in December 2026-27.

How credible is this scenario? In our column of 15th June, we discussed a semi-conspiracy theory suggesting a scenario that may chime with this intel from the US and the above-mentioned Truth post. It is worth mentioning it again. "*In Iran and elsewhere, some fear this [i.e. the temporary ceasefire agreement] could be a massive trap. The story goes as follows: Trump obtains a ceasefire and — while negotiating the terms of a more durable peace deal — a US vessel, whether civilian or military, is sunk (by unspecified actors). The US would accuse Iran of sinking the ship. At that point the US could claim it had been attacked by Iran and invoke Article 5 of NATO, forcing allies to intervene in the Strait, something they have so far been reluctant to do. Additionally, Trump may use the state of war to further interfere with the midterm elections — some even fear he may ask Congress to pass a bill to postpone them. You think this is too wild? Well, just consider that the US entered World War 1 after the sinking of the RMS Lusitania; they entered WW2 after the Pearl Harbour attack; the US started the war in Vietnam after the incidents of US vessels in the Gulf of Tonkin, which historians claimed never happened."*

Looking Ahead

The Week Ahead: Headline Inflation To Ease Off In Germany And In France; PMIs To Rise In US

In the US, in June, according to the final estimates, S&P Global Services and Composite PMIs are expected to rise to 51.3 (*p:* 50.7) and 52.2 (*p:* 51.5).

In the EZ, in May, retail sales are expected to advance by 0.2% m-o-m (*p:* -0.4%) and 1.5% y-o-y (*p:* 1.0%). Among the largest EZ economies, in June, headline inflation rate is likely to: *i)* ease off to 2.3% y-o-y (*p:* 2.6%) in Germany; *ii)* cool off to 1.8% y-o-y (*p:* 2.4%) in France.

The Quarter Ahead: OpenAI Proposes Government Equity Stake; OPEC+ Boosts Output; Supreme Court Curbs Trump Policies

OpenAI is reportedly exploring an unprecedented proposal to grant the US government a 5% equity stake, as CEO Sam Altman seeks to ease mounting political pressure while ensuring the public shares in the economic gains from artificial intelligence. The early-stage proposal would likely require congressional approval and aims to give the public a stake in AI's economic gains. ***OPEC+ is expected to approve another output increase for August***, continuing to unwind its voluntary production cuts as oil prices return to pre-conflict levels and supply conditions improve following the reopening of the Strait of Hormuz. The move comes as the alliance faces internal pressures, with Iraq seeking higher production quotas and the UAE's recent exit reshaping OPEC+ dynamics. ***The US Supreme Court has curbed several of President Trump's key policies***, most recently rejecting his effort to end birthright citizenship, despite its conservative majority.

Last Week's Review

Real Economy: US Unemployment Rate Fell; EZ Inflation Cooled Off; UK QoQ GDP Advanced

In the US, in June, unemployment rate edged down to 4.2% (*c:* 4.3%; *p:* 4.3%). NFPs rise by 57K (*c:* 110K; *p:* 129K).

In the EZ, in June, headline inflation rate eased off to 2.8% y-o-y (*c:* 3.0%; *p:* 3.2%) and 2.4% y-o-y (*c*: 2.6%; *p:* 2.6%). In May, unemployment rate stood at 6.2% (*c:* 6.3%). In June economic sentiment rose to 95.0 (*c:* 94.3; *p:* 93.7). Consumer confidence increased to -17.7 (*c:* -17.7; *p:* -19). In June, S&P Global Manufacturing PMI declined to 51.4 (*c*: 51.3; *p:* 51.6), while Services PMI increased to 49.4 (*c:* 48.9; *p:* 47.7). Composite PMI edged up to 50.0 *(c:* 49.5; *p*: 48.5).

In the UK, in Q1, according to the final estimate, GDP growth rate advanced by 0.6% q-o-q (*c:* 0.6%; *p:* 0.2%) and 0.9% y-o-y (*c:* 1.1%; *p:* 1.0%). In June, S&P Global Manufacturing and Services PMIs declined to 52.5 (*c:* 53.1; *p:* 53.9) and to 48.8 (*c:* 48.7; *p:* 49.3). Composite PMI edged down to 49.3 (*c:* 49.4; *p*: 49.7).

Financial Markets: Stocks and Yields Increased; Dollar Declined; Oil Prices Fell, While Gold Prices Rose

Market Drivers: US equities ended mixed, as weakness in large-cap technology and AI stocks weighed on the S&P 500 and Nasdaq. Treasury yields declined, as lower oil prices and in-line inflation data supported bonds. A late-week selloff in global technology stocks on AI valuation concerns weighed on sentiment in Europe as well.

Global Equities: increased *w-o-w* (MSCI ACWI, +1.9%, to 1,123.81). The US S&P 500 index increased (+1.8% w-o-w, to 7,354.02). In the EZ, share prices were up (Eurostoxx 50, +3.1% w-o-w, to 6,412.68) In EMs, equity increased (MSCI EMs, +0.9%, to 1,721.50). Volatility fell to 17.50 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: *w-o-*w, the 10-year US Treasury yields were up (+12 bps to 4.49%). The 2-year US Treasury yields rose (+4 bps to 4.13%). The German 10-year bund yields edged up (+8 bps to 2.93%).

FX: *w-o-w,* the US Dollar Index fell (DXY, -0.5%, to 100.86; EUR/USD +0.5%, to 1.14). In EMs, currencies increased (MSCI EM Currency Index, +0.1% w-o-w, to 1,859.19).

Commodities: *w-o-w,* oil prices declined (Brent, -0.5% to 72.1 USD/b). Gold rose increased w-o-w (+2.2% to 4,187.30 USD/Oz).

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Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*Five Star Movement, Italy*
ann.	*annualized*	*m-o-m*	*Month-on-month*
ARS	*Argentinian Peso*	*mb*	*Million barrels*
avg.	*Average*	*mb/d*	*Million barrels per day*
bn	*Billion*	*MENA*	*Middle East and North Africa*
BoC	*Bank of Canada*	*MHP*	*Nationalist Movement Party, Turkey*
BoE	*Bank of England*	*mn*	*Million*
BoJ	*Bank of Japan*	*MPC*	*Monetary Policy Committee*
bpd	*Barrels per day*	*NAFTA*	*North-American Free Trade Agreement*
bps	*Basis points*	*NATO*	*North Atlantic Treaty Organization*
BS	*Balance sheet*	*OECD*	*Organization for Economic Cooperation and Development*
c	*Consensus*	*Opec*	*Organization of Petroleum Exporting Countries*
C/A	*Current account*	*p*	*Previous*
CB	*Central bank*	*P2P*	*Peer-to-peer*
CBB	*Central Bank of Bahrain*	*PBoC*	*People's Bank of China*
CBK	*Central Bank of Kuwait*	*PCE*	*Personal Consumption Expenditures*
CBT	*Central Bank of Turkey*	*PE*	*Price to earnings ratio*
CDU	*Christian Democratic Union, Germany*	*PM*	*Prime minister*
CNY	*Chinese Yuan*	*PMI*	*Purchasing managers' index*
CPI	*Consumer Price Index*	*pps*	*Percentage points*
DJIA	*Dow Jones Industrial Average Index*	*pw*	*Previous week*
DJEM	*Dow Jones Emerging Markets Index*	*QCB*	*Qatar Central Bank*
d-o-d	*Day-on-day*	*QAR*	*Qatari Riyal*
DXY	*US Dollar Index*	*QE*	*Quantitative easing*
EC	*European Commission*	*q-o-q*	*Quarter-on-quarter*
ECB	*European Central Bank*	*RE*	*Real estate*
ECJ	*European Court of Justice*	*RBA*	*Reserve Bank of Australia*
EIA	*US Energy Information Agency*	*RRR*	*Reserve Requirement Ratio*
EM	*Emerging Markets*	*RUB*	*Russian Rouble*
EP	*European Parliament*	*SWF*	*Sovereign Wealth Fund*
EPS	*Earnings per share*	*tn*	*Trillion*
EU	*European Union*	*TRY*	*Turkish Lira*
EUR	*Euro*	*UAE*	*United Arab Emirates*
EZ	*Eurozone*	*UK*	*United Kingdom*
Fed	*US Federal Reserve*	*US*	*United States*
FOMC	*US Federal Open Market Committee*	*USD*	*United States Dollar*
FRB	*US Federal Reserve Board*	*USD/b*	*USD per barrel*
FX	*Foreign exchange*	*UST*	*US Treasury bills/bonds*
FY	*Fiscal Year*	*VAT*	*Value added tax*
GCC	*Gulf Cooperation Council*	*VIX*	*Chicago Board Options Exchange Volatility Index*
GBP	*British pound*	*WTI*	*West Texas Intermediate*
GDP	*Gross domestic product*	*WTO*	*World Trade Organisation*
IMF	*International Monetary Fund*	*w*	*Week*
INR	*Indian Rupee*	*w-o-w*	*Week-on-week*
IPO	*Initial public offering*	*y*	*Year*
IRR	*Iranian Rial*	*y-o-y*	*Year-on-year*
JPY	*Japanese yen*	*y-t-d*	*Year-to-date*
k	*thousand*	*ZAR*	*South African Rand*
KSA	*Kingdom of Saudi Arabia*	*2y; 10y*	*2-year; 10-year*