



Market Compass

MAY 2026

MARKET OUTLOOK

- With the Iran conflict now into its third month, the Strait of Hormuz remains closed despite a pivotal ceasefire. We still see good chances of a negotiated reopening over the next weeks, removing a key headwind to risk assets. But we acknowledge that risks to this view are high given the inconclusive talks so far.
- Markets appear to be overpricing the central bank response. We expect only one ECB hike versus three currently priced in, as energy-driven inflation is unlikely to spark a 2022-style wage-price spiral. This supports a neutral duration stance and underpins credit valuations.
- Amid ample global liquidity and solid earnings growth – particularly in the US – the V-shaped equity recovery has fundamental backing but is already advanced, notably in technology. European stocks, still below pre-war levels, offer upside in case of a swift de-escalation.

Edited by
**MACRO & MARKET
RESEARCH TEAM**

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- ⚠ GDP up by 2% annualised in Q1. Strong investment offset decelerating consumption
- ⊖ The oil shock is feeding through prices, with inflation above 3% in March
- ⊕ The labour market remains in balance. No job destruction outside tech sector (AI replacing workers)
- ⊖ The Fed turned more hawkish. The risk of no rate cuts this year has increased

EUROZONE

- ⊖ Q1 growth of only 0.1% quarter-on-quarter...
- ⊖ ...weak April indicators imply Q2 stagnation
- ⊖ April inflation up to 3.0% year-one-year and to rise further
- ⚠ At least one 25 bps ECB rate hike

CHINA

- ⊕ Slight growth acceleration in Q1
- ⊕ Resilience to the energy price shock
- ⚠ Trump/Xi meeting in mid-May with limited breakthrough

JAPAN

- ⊖ Inflation heading to 3% on oil shock
- ⊖ Growth revised down to 0.3% on weaker global growth
- ⚠ Despite slowing growth, BoJ likely to raise rates in July to tame inflation

EMERGING MARKETS (EM)

- ⊕ EM assets are almost back to pre-Iran conflict levels
- ⊕ Resilience of EM economy to higher energy prices
- ⊖ EM central banks have turned more hawkish

- ⊕ Positive
- ⊖ Negative
- ⚠ Topic to watch

DIRECTION OF TRAVEL

- Keep OW in Equity, on positive earning news. Protect with selective defensive and inflation hedges
- Strong overweight (OW) in Credit (both IG and HY), as corporate fundamentals are strong and carry favourable
- Keep underweight (UW) in Core Government Bonds. Duration close to neutral
- Slight UW Cash

Equity

- Slight OW Equities, with a cyclical tilt while balancing it with defensives such as Pharma, Utilities, and Telecoms, which offer solid fundamentals and attractive valuations, plus Gold basket, Uranium and other inflation hedges (defence and Industrials-physical AI).

Bonds

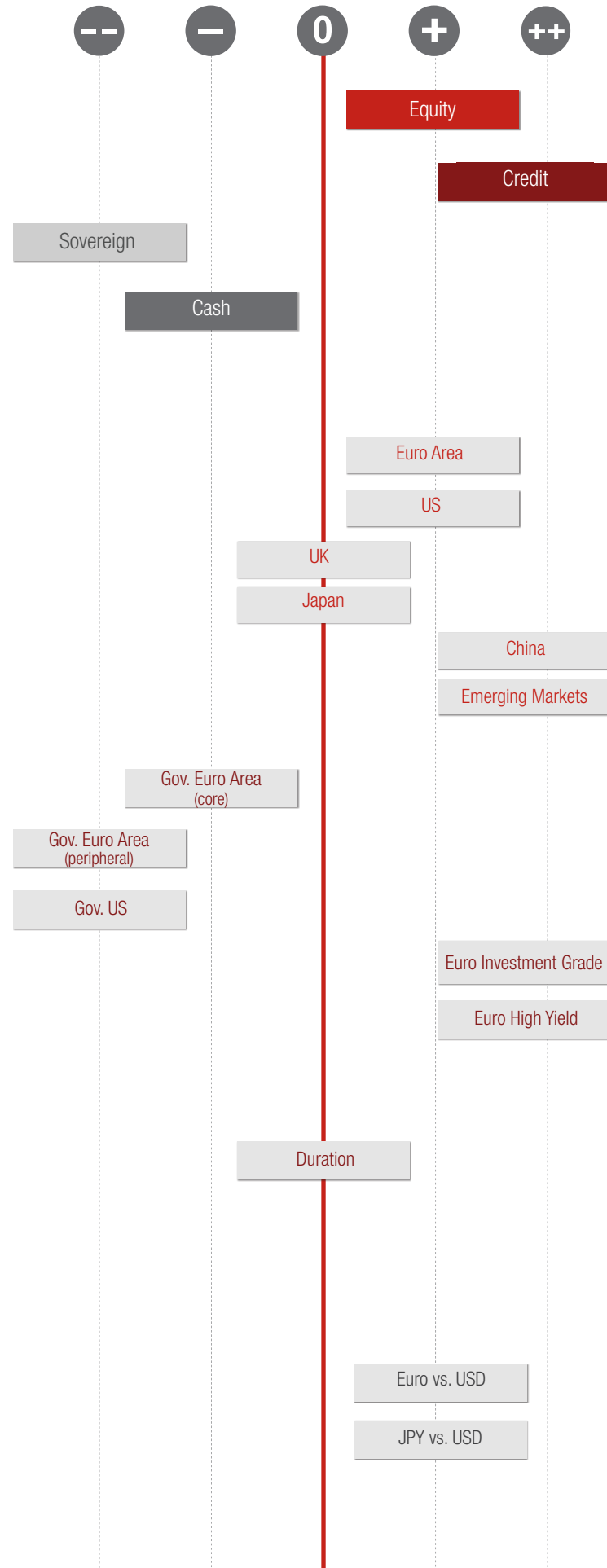
- Future yield moves will be shaped by geopolitics. If the oil market eases, upside appears limited. But, further escalation could intensify stagflation risks, making current inflation pricing too conservative and pushing yields higher.
- Easing tensions would allow non-core bonds to outperform.

Duration

- Moderately short duration.

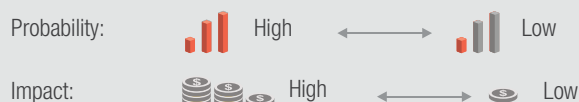
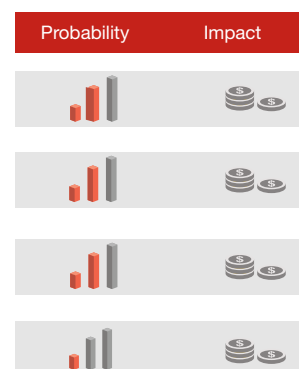
Currencies

- Oil/Middle East tensions drive the USD; easing should weaken it.
- EUR/USD biased higher on ECB tightening and diversification away from USD, but Europe's slower recovery may cap gains.
- JPY undervalued; sustained USD/JPY drop needs BoJ tightening and asset repatriation.



TOPICS TO WATCH

- Iran conflict escalates further into prolonged regional war; but also chances of swifter deal/ US withdrawal
- AI downturn amid high valuations, earnings expectations and heavy market weights of large tech stocks
- Synchronized sell-off in US Treasuries and USD on rising US policy risk, including Fed appointments
- Cracks in Private Credit markets (leverage and concentration), especially in the US, trigger systemic fears



GLOSSARY

WAGE-PRICE SPIRAL

An inflationary process in which rising prices erode real wages, prompting workers to demand higher pay; higher wages then increase firms' costs, leading to further price increases and creating a self-reinforcing upward cycle between prices and wages.



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