GENERALI INVESTMENTS

Market Compass

APRIL 2026

MARKET OUTLOOK

- The war makes the near-term investment outlook uncertain, suggesting a preference for a risk management approach. The AI capex boom may cushion the economic headwinds from the negative supply shock (war, energy) and offers the longer-term promise of higher productivity and corporate margins.
- Our base scenario sees a near-term peak in oil prices around $120/bbl, followed by slow de-escalation. The main risk scenario sees escalation and a surge towards $150. The unilateral end of the US military operations, without a full reopening of the Strait of Hormuz, would be an in-between scenario.
- The pre-war global economy was on a strong footing; this offers hope of resilience. The situation appears less dangerous than in 2022 – an awful year for balanced portfolios; we see stark differences, not least the fact that monetary policy starts from a neutral, rather than a super-accommodative position.
- In our risk-management framework, we continue to favour Credit. The war has confirmed the declining appeal of Govies as safe haven. We have reduced, not cancelled, our defensive duration position. We recommend a cautious Equity overweight, balancing cyclicals and defensives.

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

- (−) We revised down our GDP forecast on weaker consumption…
- (−) …as the oil price shock will add to persistent inflation
- (+) The labour market remains in balance with no signs of job destruction
- (!) Persistent inflation will lead the Fed to postpone the rate cut to year end

EUROZONE

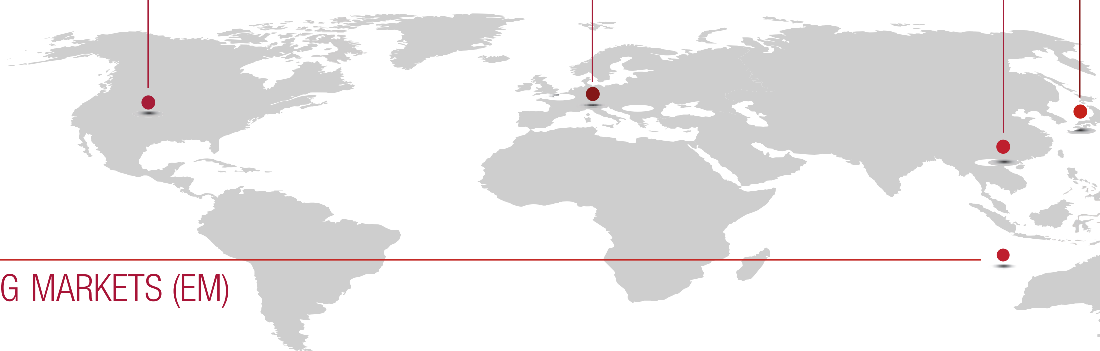
- (−) Sentiment weakened in response to war
- (−) Higher energy prices lifted inflation to 2.5% year one year in March …
- (−) … and further rises are ahead
- (!) ECB to hike by 25 bps

CHINA

- (−) Growth target being lower and more flexible
- (+) Better economic momentum, inflation gains traction
- (+) Dependence on Gulf oil cushioned by large reserves

JAPAN

- (−) Large exposure to Gulf oil increases the risk of a spike in inflation
- (−) Trade union requested a 4.3% increase in basic pay
- (!) Oil price hit to activity to delay BoJ's next rate hike to the summer.



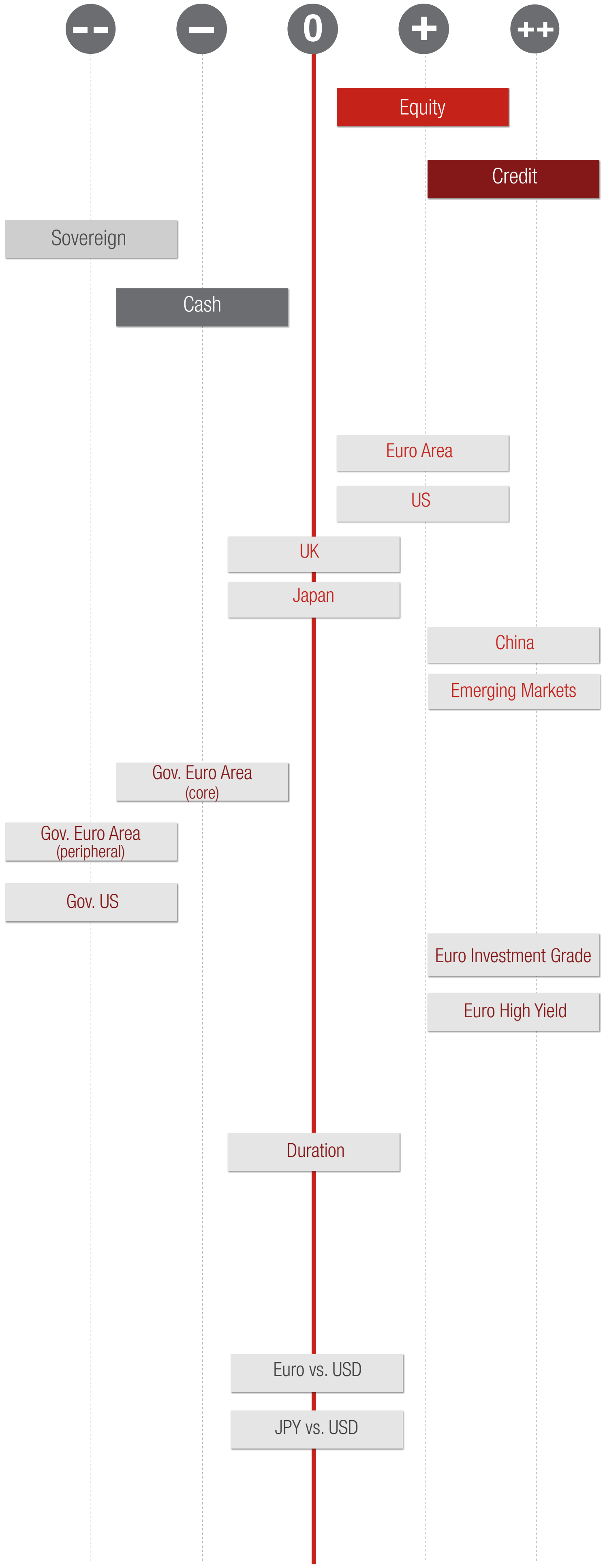
EMERGING MARKETS (EM)

- (+) Resilience despite the oil price rise and geopolitical tensions
- (+) Strong stance with high real rates, better external metrics
- (−) Heterogeneous impact: Latin America immune, Asia vulnerable

(+) Positive
(−) Negative
(!) Topic to watch

DIRECTION OF TRAVEL

- Maintain a small overweight (OW) in Credit, supported by resilient growth, solid earnings fundamentals and attractive carry across IG and HY
- Marginal OW in Equity
- Slight short stance on Euro Area (EA) duration and a bit more for the US
- Slight underweight (UW) in Cash



Equity

- Slight OW in Equities, with a selective mix of cyclical exposure and AI driven productivity themes, complemented by defensive hedges.
- No preference between EA versus the US.

Bonds

- Government bonds failed as a safe haven after the Iran war, with short-end yields rising on a sharp re-pricing of rate expectations.
- While the base case implies limited upside, escalation risks argue for a moderately short duration.
- Long rates are more attractive but would not rally much on a ceasefire.
- EA non-core spreads widened in an orderly manner and remain headline-driven.

Duration

- Moderatly EA short duration.

Currencies

- The Iran war lifted the USD (unlike “Liberation Day”); this isn’t a safe haven comeback but mainly an oil/energy-price effect.
- EUR/USD faces high two-sided near-term risk tied to oil. After tensions ease, USD should weaken again, also versus JPY.

TOPICS TO WATCH

	Probability	Impact
Iran war 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		

Probability: High ⟷ Low

Impact: High ⟷ Low

GLOSSARY

SAFE HEAVEN

A safe haven is an asset that is expected to retain or increase its value during periods of market stress or economic uncertainty, providing investors with protection against losses in more volatile asset classes.

Find out more:
www.generali-investments.com

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