



Market Compass

MARCH 2026

MARKET OUTLOOK

- The stated rationale for the attack on Iran is clear – Iran’s refusal to renounce nuclear weapons – but the end target is not, which makes it hard to forecast the duration of the war. The minimum target is to change the regime’s behaviour. Our base case is a few weeks of war. We see the risks – a durable escalation or quick de-escalation – as symmetrical.
- Oil prices are up some 18\$ this year. A 10\$ increase undermines US GDP by 0.1-0.2pp over 12 months. Europe is not self-sufficient so the impact is slightly larger, more so with gas prices rising faster. Asia receives 80% of the transit through the strait of Hormuz, so is most exposed. A short-lived energy price spike will not destroy an otherwise steady global economy.
- We keep the duration marginally short. Our bias was for slightly higher yields, but recent concerns about AI’s impact on the labour market had led us to reduce the short. We had recently reduced our risk exposure in Equities but also in Financial Credit, not least on fears of collateral damage from the AI rotation trade.
- Unless the war spirals out, we would rebuild risk exposure on dips in the coming weeks, particularly in Euro Credit. We maintain a cyclical tilt in Equities, while sticking to defensives such as Pharma, Utilities, Telecoms, and inflation hedges. Such balanced portfolios can still perform well in a ceasefire scenario, as fiscal spending and commodity scarcity persist.

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

- + Despite weak Q4 tax cuts will boost growth to 2.5%. Risk from Gulf crisis minimal unless it spirals out of control...
- ...but job creation remains weak
- Core inflation remains too high, but Supreme Court decision on tariff provide mild relief
- ! Strength in demand and sticky inflation will keep the Fed pausing at least until June

EUROZONE

- + Q1 indicators imply ongoing solid activity ...
- ... but manufacturing outlook deteriorates due to Iran war
- Risk of a lasting inflationary shock
- ! ECB to stay at 2.0% but dovish stance

CHINA

- + Slight better growth momentum, at risk from oil prices
- Growth target to be revised lower. Focus on quality growth
- + Positive tariffs outlook. Trump/ Xi to meet

JAPAN

- ! Ruling LDP landslide win in election opens the ways to potentially large fiscal expansions
- + After a weak Q4, lower uncertainty and higher real wages point to a pick up in domestic demand
- + Inflation drifting down, but at risk from ¥ weakness and oil/gas
- ! Newly appointed board members lean dovish but fiscal worries and ¥ weakness remain key policy drivers

EMERGING MARKETS (EM)

- ! Positive EM fixed income environment endangered by oil related inflation spike
- + US tariffs development marginally positive

- + Positive
- Negative
- ! Topic to watch

DIRECTION OF TRAVEL

- Assuming quick resolution of Gulf crisis, keep moderate overweight (OW) in Equity diversify outside US tech
- Keep the strong underweight (UW) EUR in Govies, almost neutral EUR duration, risk to yields from strong net issuance
- Strong OW EUR IG Corporates. Prefer non-financials
- Keep strong UW Cash

Equity

- In our central scenario where uncertainty gradually abates and both inflation and medium-term macroeconomic prospects are only marginally affected, we see reasons to remain OW in Equities.
- That said, diversification remains key: we maintain a cyclical tilt while also including defensives such as Pharma, Utilities, and Telecoms alongside Gold and other inflation hedges.

Bonds

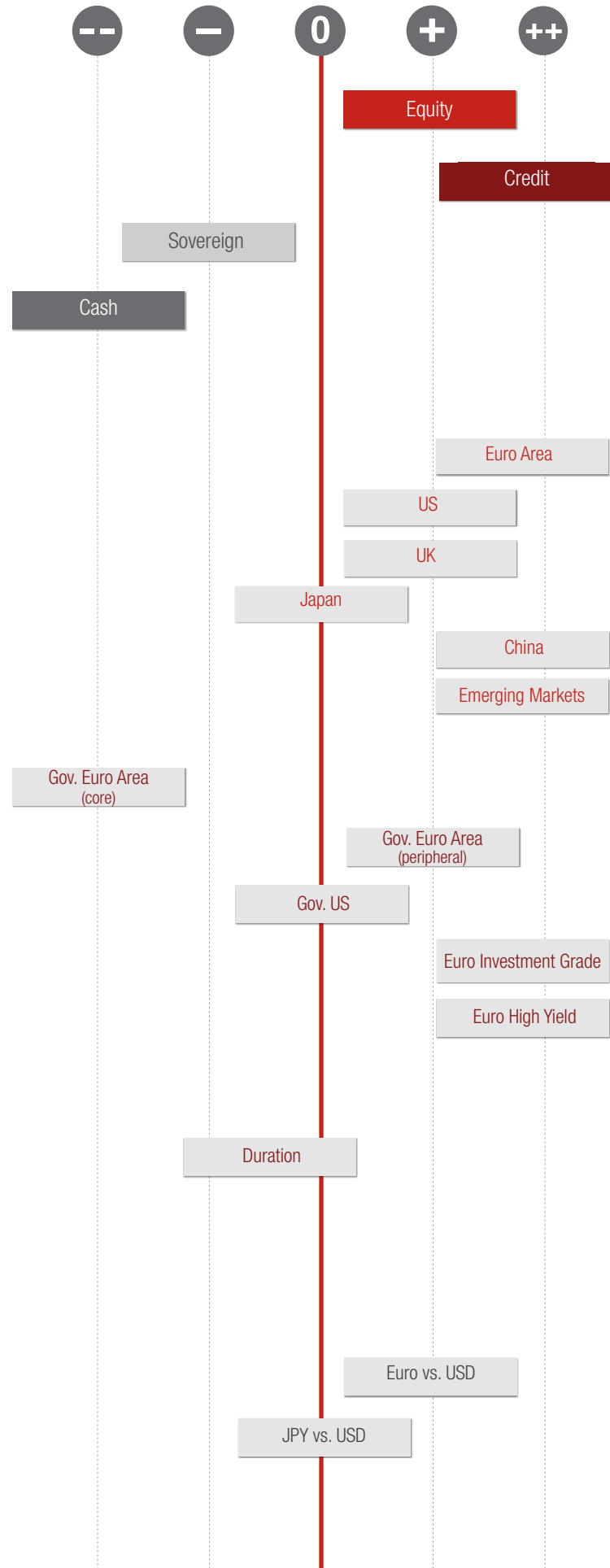
- With volatile Equities, unclear AI macro effects, faster growth, and rising debt we recommend a minor short Bund duration but amid two-sided risks in the US a neutral Treasury stance.
- Even in a favourable environment, Euro Area (EA) non-core spreads have only limited room to tighten, but carry can still support outperformance.

Duration

- Marginally EA short duration

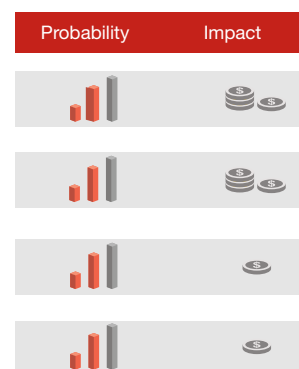
Currencies

- February's modest USD rebound reflects still robust US data and a cautious Fed stance. Policy uncertainty, ongoing investor diversification and a gradual European recovery, should keep the EUR/USD biased toward 1.20.
- Short term, however, the war in the Middle East keeps renders USD support on safe-haven flows.



TOPICS TO WATCH

- Escalation in US-Israel Iran confrontation, affecting heavily energy markets
- AI downturn amid high valuations, earnings expectations and heavy market weights of large tech stocks
- Trade tensions re-escalating after US Supreme Court Ruling but also chances of partial reversal of US tariffs.
- Synchronized sell-off in USTs and USD on rising US policy risk, including Fed appointments



GLOSSARY

INFLATION HEDGES

Inflation hedges are assets that help preserve purchasing power by holding or increasing their real value when inflation rises. They typically include commodities like gold, real assets such as real estate, inflation-linked bonds, and equities in sectors with strong pricing power. These assets tend to remain resilient during supply-driven inflation shocks or periods of commodity scarcity.



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