



BANQUE
ERIC STURDZA

QUARTERLY OUTLOOK
2ND QUARTER 2026

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1. EDITORIAL

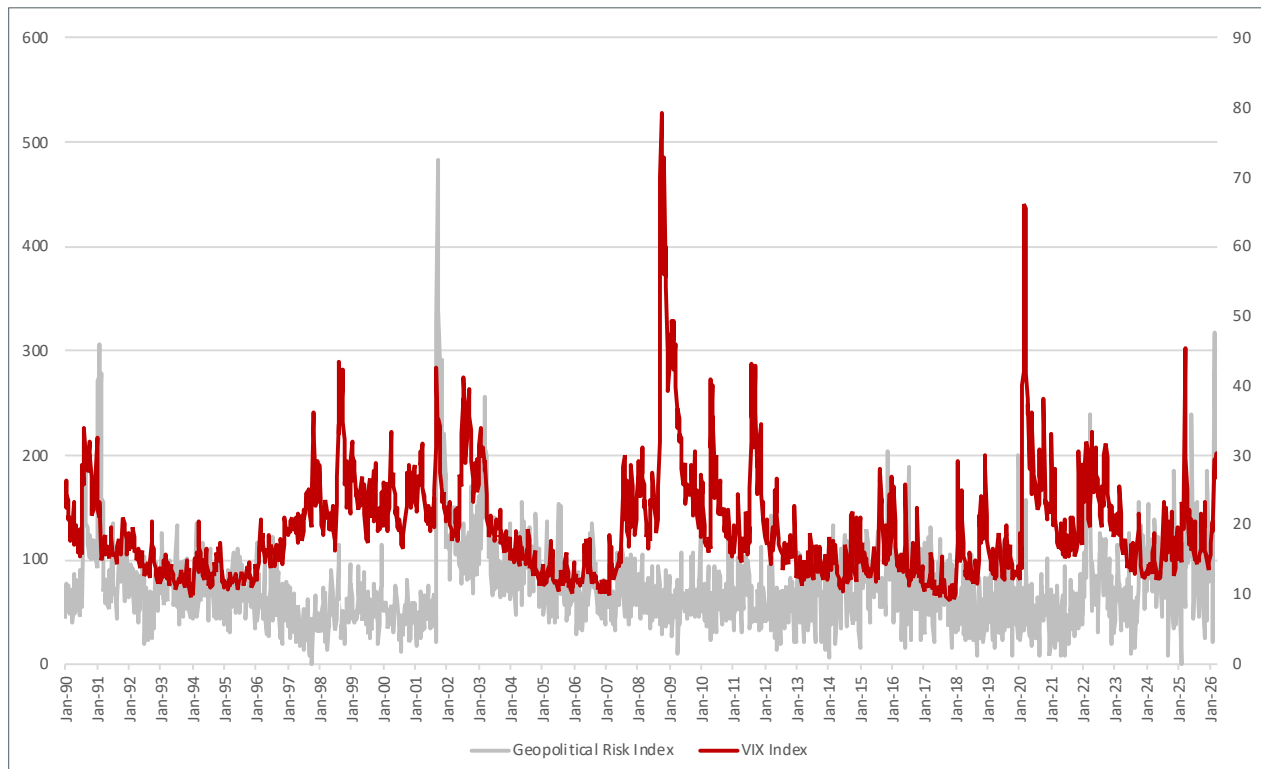
DID YOU SAY STAGFLATION?

One month after the start of the war in Iran, as the prospect of a lightning operation fades, the markets are beginning to envisage a protracted conflict, the consequence of which for the markets boils down to one inescapable implication: high oil prices = high interest rates and falling share values. All asset prices now depend on shipping conditions in the Strait of Hormuz and oil price levels. As one American fund manager put it so well: ‘whether we’re talking about Apple or the US 10-year bond, in the end we’ve all become oil traders’.

Despite the unpredictability of the US president, investors are trying to relate this to more familiar situations and often cite two historical examples to understand how the markets will behave in the coming weeks. Close to home, the start of the war in Ukraine; further back in time, the Yom Kippur War of 1973 and the ensuing inflation shock.

In both cases cited, we saw, as we do again today, a military conflict and a very severe shock to commodity prices (gas in particular in the case of Ukraine). The war in Ukraine – whilst still ongoing and with a death toll that has likely surpassed two million – has not plunged the world into recession.

G1 : ÉVOLUTION COMPARÉE VIX (ÉCH. DROITE) ET INDICE RISQUE GÉOPOLITIQUE (ÉCH. GAUCHE)



Source: Bloomberg, Banque Eric Sturdza, Janv. 90 - Mars 26

That war has, moreover, reinforced the view among fund managers that geopolitics ultimately has only a limited impact on share prices (an observation that is ‘often true’ but must be tempered by the fact that, in the first six months of the Ukrainian conflict, the US market fell by 20%... It still took a fair bit of patience to return to early 2022 levels).

The consequences of the 1973 oil shock on financial asset prices, however, were far more severe and persisted for several years. Growth slowed (in OECD countries it stood at 2% between 1974 and 1981, compared with 5% in the preceding decade) and inflation on consumer goods settled at around 10% for the long term. The word investors dread to hear has now been uttered: the market is entering stagflation – a negative scenario for bonds and even more so for equity markets.

Since the start of the conflict in Iran, the US market has fallen by around 8%; this is a significant decline but one that clearly does not reflect a 1973-style scenario. Market anxiety is currently very high, though not extreme. Admittedly, there are plenty of investors now seeking protection, and admittedly implied volatility (VIX index) has risen, but it is still below what it was a year ago when Donald Trump was the world terrifying, in the Rose Garden, his large paper board filled with punitive tariff rates.

Developments in recent days have served as a reminder that it is often harder to extricate oneself from a conflict than to enter one in the first place. The pain thresholds of the belligerents are often underestimated; Trump, elected on a platform of non-interventionism, is now embroiling his country in a major conflict... In short, impossible for us to predict a date for a resolution of this crisis. Two convictions apply however.

The first concerns the US president’s pain threshold; and the fact that this threshold is (cynically speaking) more closely correlated with the price of oil and the 10-year US Treasury yield than with anything else, so the 1970s scenario should be avoidable. That such a scenario might be ‘priced in’ by the markets cannot however be ruled out entirely, and there would undoubtedly as such be entry points created. As for our second – and longer-standing – conviction, the current situation (sadly) confirms that the sharp rise in commodity prices observed more than a year ago is surely set to be a long-term trend.

2. FIXED INCOME

THE RETURN OF THE INFLATION-RECESSION DILEMMA

Contained pressure on yields

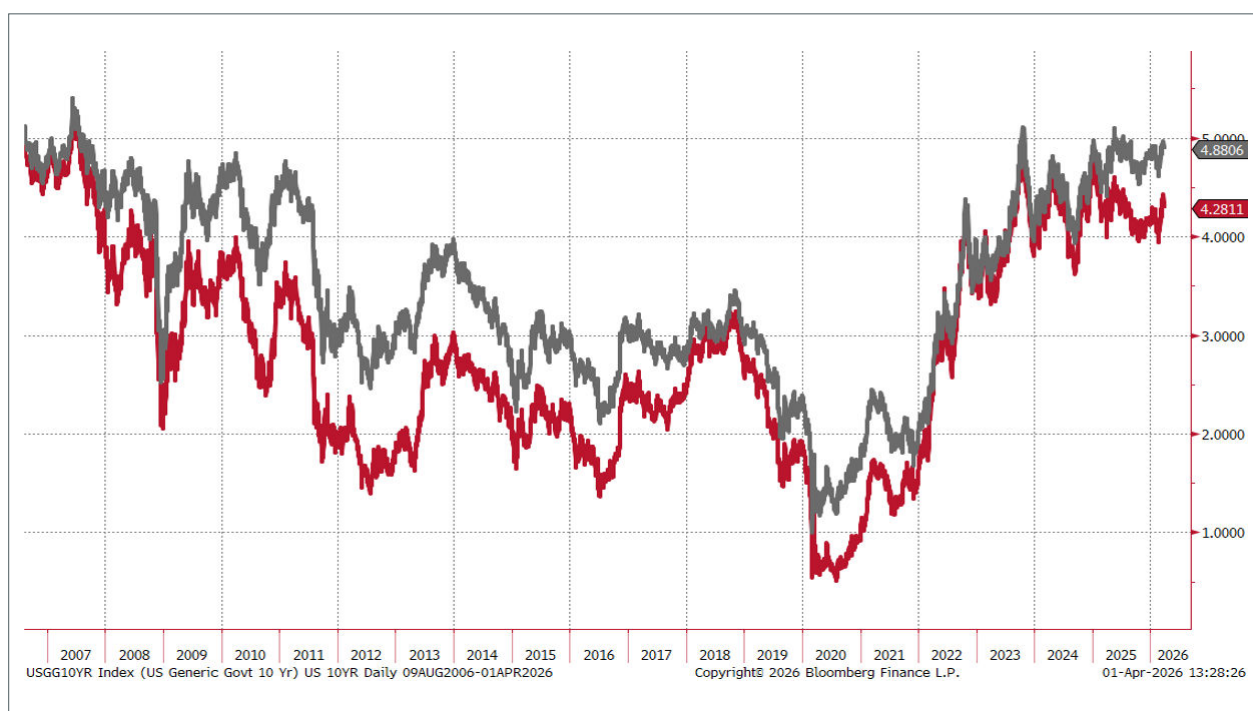
Against a backdrop dominated by the blockade of the Strait of Hormuz and a war that has already been raging for a month, we might have expected the US 10-year yield to easily breach the 4.5% mark with crude oil at \$100 a barrel and even higher. It must be said that, for the time being, we have clearly moved away from yields around 4% as seen at the start of the year. However, to use a military term appropriate to the current situation, it is not a rout. This observation applies to the 30-year bond, which is struggling to close in on 5%. US long-term rates are therefore in a zone that is starting to look interesting, but which is not yet the buying opportunity we might have expected. Inflationary risk is

back, but if the current situation does not find a swift resolution, a recession may well set in towards the end of the year. This is according to Moody's chief economist. Central banks will have to revisit the question that puts them in a bind: should they cut rates before an inevitable hard landing, or should they at the very least keep them at current levels and consider raising them again before the recurrence of an inflationary spike?

One eye on 30-year bonds, the other on hybrids

We tend to agree with Moody's US chief economist. This situation risks ending badly, and we will soon again be hearing talk of a hard landing and recession.

G2: US TREASURIES 10YR (RED) & 30YR (GRAY)



Source: Bloomberg, Banque Eric Sturdza, 2006-2026

In a portfolio that was duration-neutral, we are tempted to overweight long-term rates of over 10 years in the near future. Indeed, the 30-year bond remains the ‘sweet spot’ in the event of manipulation of long-term rates by the US authorities (the Fed, the Treasury, or both at the same time), or in the event of a ‘black swan’ crisis such as the private credit bubble bursting.

We have not (yet?) entered a bear market, but certain asset classes are starting to become attractive again. Among these, corporate hybrids are starting to attract renewed interest. Euro-denominated hybrids posted a return of just under 2% in March. They are undeniably becoming attractive to a certain investor base again, such as those seeking a yield of over 4% in euros on 3–5-year duration (equivalent to 6% once hedged into dollars). The short end of the US yield curve is under pressure, with the 2–5-year segment rising back towards 4%. This makes it possible to consider redeploying ‘buy and hold’ strategies offering yields above 4.5% through investments in high-quality investment-grade corporate bonds.

3. EQUITIES

NAVIGATION BY SIGHT IN THE PERSIAN GULF

March has been a busy month, to say the least, with Israeli-American strikes on Iran, the escalation of the conflict in the region and the subsequent blockade of the Strait of Hormuz. These events have led to a sharp rise in energy commodity prices, resulting in a deterioration in investor sentiment and a downturn in global equity markets. The leading global equity market index fell by 6.4% over the month and is now in negative territory for the year.

Whilst the conflict originated in the United States and stemmed from President Trump's actions, it is the US market that has proved most resilient (at least during the first few weeks of the conflict). The S&P 500, which had been hovering below the 7,000-point mark for several weeks, fell by 5.1% over the month and quickly slipped into negative territory for the year. It must be said that despite the sharp rebound

in oil stocks, their limited weight in the index (less than 4% of market capitalization) is not enough to offset the decline in technology or financial stocks. For the latter, it is less fears linked to the conflict than those of a possible spread of the private credit crisis beyond the big names in private equity that are causing concern. The major (among the few) winners remain energy commodities and, by extension, companies in the energy sector. Whilst the conflict appears to be becoming protracted, earnings per share (EPS) growth forecasts remain very resilient, helped in this regard by companies in the oil sector and a few IT stocks. This strong performance, coupled with falling share prices, is allowing valuation ratios to return to more reasonable levels. The upcoming earnings season should confirm US companies' resilience to the external environment and, whilst the conflict may have undesirable knock-on effects for US consumers, US companies should benefit from the comparison to a year ago, and the 'Liberation Day' episode.

G3: NTM P/E – US (DARK RED), SWISS (GREEN), JAPAN (DARK YELLOW), EUROPE (BLUE), ASIA EX JAPAN (ORANGE)



Source: Bloomberg, Banque Eric Sturdza, Janv. 16 - Mars 26

In Europe and Asia the most immediate reaction to the conflict can be seen. The STOXX600 index, which tracks major European stocks, has fallen by 8.0% over the month, the Topix by 11% and Asia ex-Japan by nearly 14.0%. We should note that the economies of these countries are among the most directly impacted by the conflict. In the case of Europe (which unlike the United States is not a major hydrocarbon producer), the transmission mechanism operates mainly through rising energy prices (oil and gas). In the case of Asia, the downward trend reflects both inflationary fears following the surge in prices, as well as concerns regarding potential supply disruptions.

Whilst the conflict may have undesirable knock-on effects for US consumers, US companies should benefit from the comparison to a year ago, and the 'Liberation Day' episode.

Therefore, conflicts are bringing home the critical importance of certain waterways such as the Strait of Hormuz, through which nearly 20% of the world's oil passes (85% of which is destined for Asia). The impact is also somewhat broader if we consider the critical role of the Persian Gulf for fertilizers, aluminium and helium (which is required in the production of semiconductors). Whilst the risk is real, it should nevertheless be put into perspective, as the Strait does not appear to be closed to Chinese or even Indian vessels, provided they pay a 'toll' to the Iranian authorities and are able to insure their ships. The strong position in which the Asian continent found itself before the conflict began (with inflation under control and robust growth momentum) also explains why the major Asian indices (including Japan) remain in positive territory despite some occasional significant dips.

Whilst uncertainty remains high regarding the duration of the conflict and its potential detrimental effects on growth and inflation, a wait-and-see approach still seems the most appropriate in an environment where markets are oscillating between the risk of escalation and de-escalation, depending on Trump's tweets or his mood. Although terrible, this conflict also reinforces some of our key convictions: metals critical to electrification are equally critical to the energy transition and reducing dependence on fossil fuels; the issue of sovereignty in Europe has never been more relevant; and Asia as the world's growth engine and as a stability anchor, with a marked focus on China, Japan and India.

5. PERFORMANCES

EQUITIES	31.03.26	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
US	DOW JONES	46'342	-5.4%	-4.4%	0.1%	-3.6%	13.0%	12.9%	16.2%	-6.9%	20.9%
	S&P 500	6'529	-5.1%	-5.5%	-2.0%	-4.6%	16.4%	23.3%	26.3%	-18.1%	28.7%
	S&P500 EW	7'779	-6.2%	-0.9%	1.4%	0.2%	9.3%	10.9%	13.8%	-11.5%	29.6%
	RUSSELL 2000	2'496	-5.2%	-0.9%	2.5%	0.6%	11.3%	10.0%	16.9%	-20.5%	14.8%
EUROPE	STOXX 600	583	-8.0%	-1.0%	5.0%	-1.5%	16.7%	6.0%	16.6%	-9.9%	25.8%
	FTSE 100	10'176	-6.7%	3.1%	9.4%	2.5%	21.5%	5.7%	7.7%	4.6%	18.4%
	CAC 40	7'817	-8.9%	-3.6%	-0.8%	-4.1%	10.4%	-2.2%	20.1%	-6.7%	31.9%
	DAX	22'680	-10.3%	-6.9%	-4.5%	-7.4%	23.0%	18.8%	20.3%	-12.3%	15.8%
ASIA	SPI SWISS	17'836	-7.4%	-1.9%	7.2%	-2.1%	17.8%	6.2%	6.1%	-16.5%	23.4%
	MSCI EM	1'397	-13.3%	-0.3%	4.3%	-0.5%	30.6%	5.1%	10.2%	-19.8%	-2.3%
	MSCI Asia ex Japan	900	-13.9%	-1.3%	3.0%	-1.5%	29.3%	9.8%	3.6%	-21.5%	-6.4%
	TOPIX	3'498	-11.2%	2.1%	11.7%	2.6%	22.4%	17.7%	28.3%	-2.5%	12.8%
	HANG SENG	24'788	-6.9%	-3.3%	-6.9%	-3.3%	27.8%	17.7%	-10.5%	-12.6%	-11.8%
	CSI 300	4'450	-5.5%	-4.1%	-3.7%	-3.9%	17.7%	14.7%	-9.1%	-19.8%	-3.5%
FX & COMMODITIES	31.03.26	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
CURRENCIES	EUR-USD	1.155	-2.2%	-1.9%	-1.5%	-1.6%	13.1%	-6.2%	3.1%	-5.9%	-6.9%
	EUR-CHF	0.924	1.7%	-0.6%	-1.3%	-0.8%	-0.9%	1.2%	-6.1%	-4.6%	-4.0%
	USD-CHF	0.800	3.9%	1.3%	0.2%	0.9%	-12.3%	7.8%	-9.0%	1.3%	3.1%
	USD-JPY	158.7	1.7%	1.7%	6.8%	1.3%	0.3%	11.5%	10.5%	13.9%	11.5%
	USD INDEX	99.96	2.4%	2.0%	2.1%	1.7%	-9.1%	7.1%	-2.1%	8.2%	7.0%
COMMODITIES	Gold	4668.06	-11.6%	7.7%	21.8%	8.1%	65.3%	27.2%	13.1%	-0.3%	-4.2%
	Silver	75.17	-19.9%	4.2%	60.2%	4.9%	132.4%	21.5%	-0.7%	2.8%	-13.6%
	WTI Crude Oil	101.38	51.3%	74.6%	59.8%	76.6%	-21.0%	0.1%	-10.7%	6.7%	59.1%
	Natural Gas	2.88	0.9%	-38.5%	-11.7%	-21.8%	9.7%	44.5%	-43.8%	20.0%	46.9%
	Copper	12'257	-7.8%	0.0%	18.0%	-1.6%	37.4%	2.2%	0.9%	-14.1%	25.7%
FIXED INCOME	31.03.26	CURRENT	1M	3M	6M	YTD	2025	2024	2023	2022	2021
RATES	US 10 year gvt	4.32	0.38	0.21	0.18	0.15	-42 bps	69 bps	0 bps	237 bps	60 bps
	German 10 year gvt	3.00	0.36	0.18	0.30	0.15	53 bps	34 bps	-54bps	275 bps	39 bps
BONDS	Global Aggregate USD hdg.	607.5	-1.8%	-0.2%	0.6%	-0.2%	4.6%	3.4%	7.1%	-11.2%	-1.4%
	Global Aggregate EUR hdg.	218.4	-2.0%	-0.7%	-0.4%	-0.6%	2.5%	1.7%	4.7%	-13.3%	-2.2%
	Global Aggregate CHF hdg.	158.6	-2.2%	-1.3%	-1.6%	-1.2%	0.3%	-1.0%	2.5%	-13.7%	-2.5%
	US Treasuries	2433.8	-1.7%	-0.2%	0.8%	0.0%	6.1%	0.6%	4.1%	-12.5%	-2.3%
	US TIPS	373.5	-1.3%	0.2%	0.4%	0.3%	6.8%	1.8%	3.9%	-11.9%	6.0%
	US IG Corporates	3526.2	-2.0%	-0.7%	0.2%	-0.5%	7.5%	2.1%	8.5%	-15.8%	-1.0%
	US High Yield	2900.0	-1.2%	-0.4%	0.8%	-0.5%	8.2%	8.2%	13.4%	-11.2%	5.3%
	Euro Government	243.4	-2.6%	-0.7%	-0.3%	-0.6%	0.3%	2.0%	7.1%	-18.2%	-3.4%
	Euro IG Corporates	263.2	-2.3%	-1.0%	-0.7%	-1.0%	2.8%	4.7%	8.2%	-13.6%	-1.0%
	Euro High Yield	494.7	-2.4%	-1.5%	-0.9%	-1.5%	4.6%	9.1%	12.8%	-11.1%	4.2%
EM USD Aggregate	1368.2	-2.9%	-1.4%	0.9%	-1.3%	10.9%	6.6%	9.1%	-15.3%	-1.7%	

Source: Bloomberg, 31/03/26

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