MARKET VIEWS

Market & Strategy Update

Q2 2026

PROBUS PLEION

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Executive summary

Economy

The goldilocks environment of early 2026 has been upended by the significant rise in energy prices resulting from the Iran war. Every passing day without a resolution increases the odds of an inflationary bust, i.e. slowing growth and rising inflation. While every economy is set to be affected if the situation persists, net importers of energy with limited reserves will be affected the most. The US should fare relatively better, while Europe and many Asian countries appear particularly fragile. Central banks could face a difficult equation, with rising inflation and slowing growth, particularly as governments around the world attempt to limit the impact of higher energy prices with subsidies, keeping fiscal deficits elevated.

Equities

Investors were heavily positioned for a continuation of the goldilocks environment, with evidence of excessive risk taking across all market participants right as the war begun. Equity markets have started pricing in the rising risks of an inflationary bust, but neither positioning or valuations suggest that investors should increase their exposure at this stage, particularly when considering that earnings estimates have not yet been revised down. The strategy of early 2026 should be completely shifted; namely, investors should favor US equities over international equities and avoid heavy exposure to cyclicals. Certain sectors with specific structural tailwinds should be monitored for entry points on signs of major capitulation. In the meantime, energy is likely to be center stage for equity investors.

Bonds

The combination of rising inflation risks, rising government deficits and expectations of tighter monetary policy have pushed global bond yields higher, providing another instance where DM bonds have failed to act as a hedge against equity weakness. The rise in EU & US short-term yields should be taken advantage of by increasing duration up to 3 years. While evidence of economic deceleration could end up weighing on yields, duration should still be avoided. Credit spreads have justifiably widened but remain unattractive. Emerging market debt is also at risk in the short-term, as many EM governments might raise fiscal spending to support consumption; investors should look for opportunities in the coming weeks and favor debt from commodity exporting countries.

Currencies

Dollar strength is likely to persist as long as this conflict lasts, particularly given the prevailing USD bearishness of early 2026.

Commodities

Energy prices have risen sharply given the disruptions of the Hormuz Strait. Further increases in prices should be expected without an imminent resolution. The inflationary environment will keep favoring commodities, even with a growth slowdown. Investors should remain exposed to energy, look to buy the dip in some industrial metals and get exposure to agricultural commodities as a hedge.

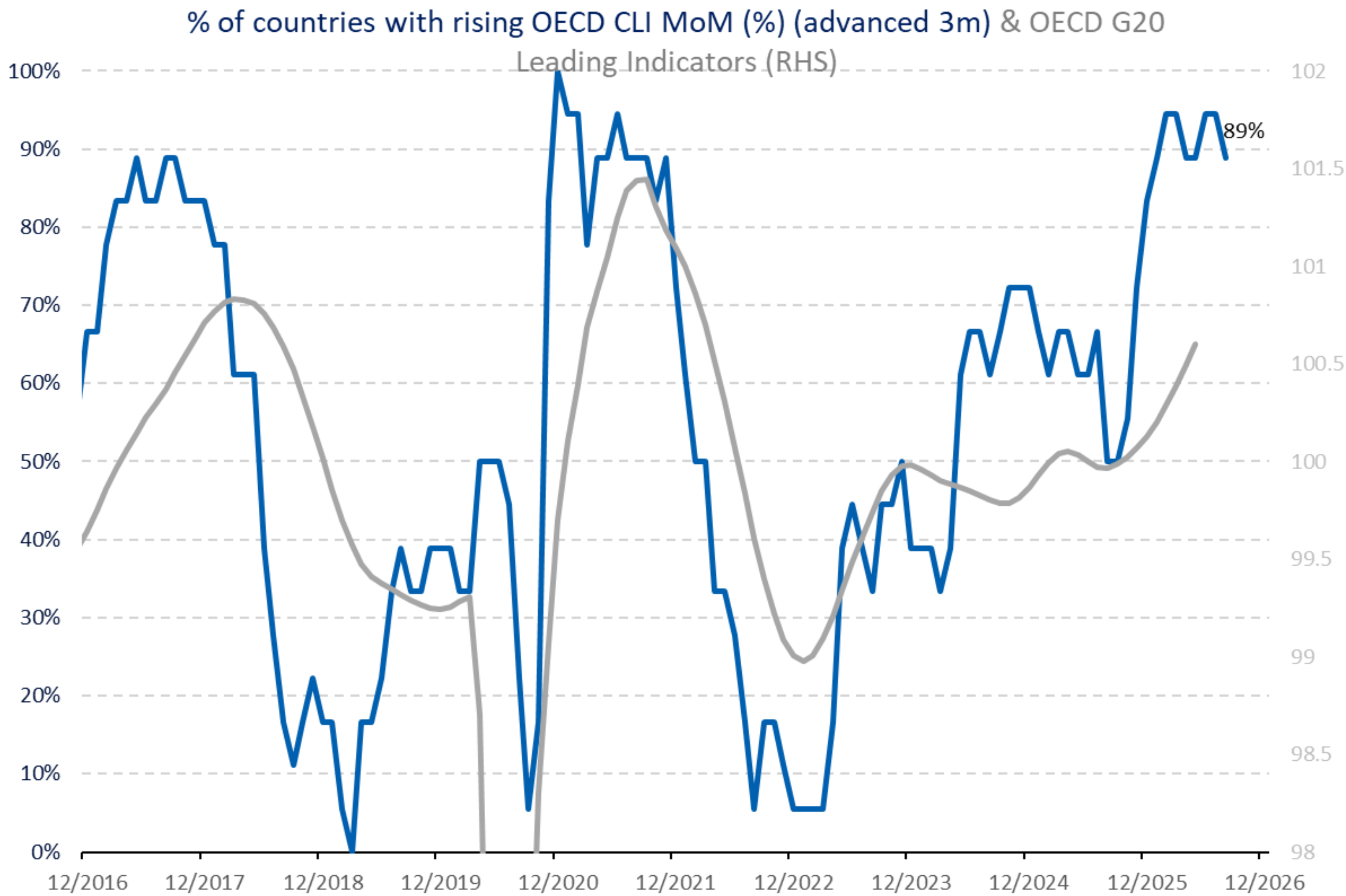
Precious metals

Gold has seen a speculative climax in early 2026 which warranted short-term caution. The material correction seen since has cleared out excessive positioning and should be taken advantage of given the rising odds of an inflationary bust.

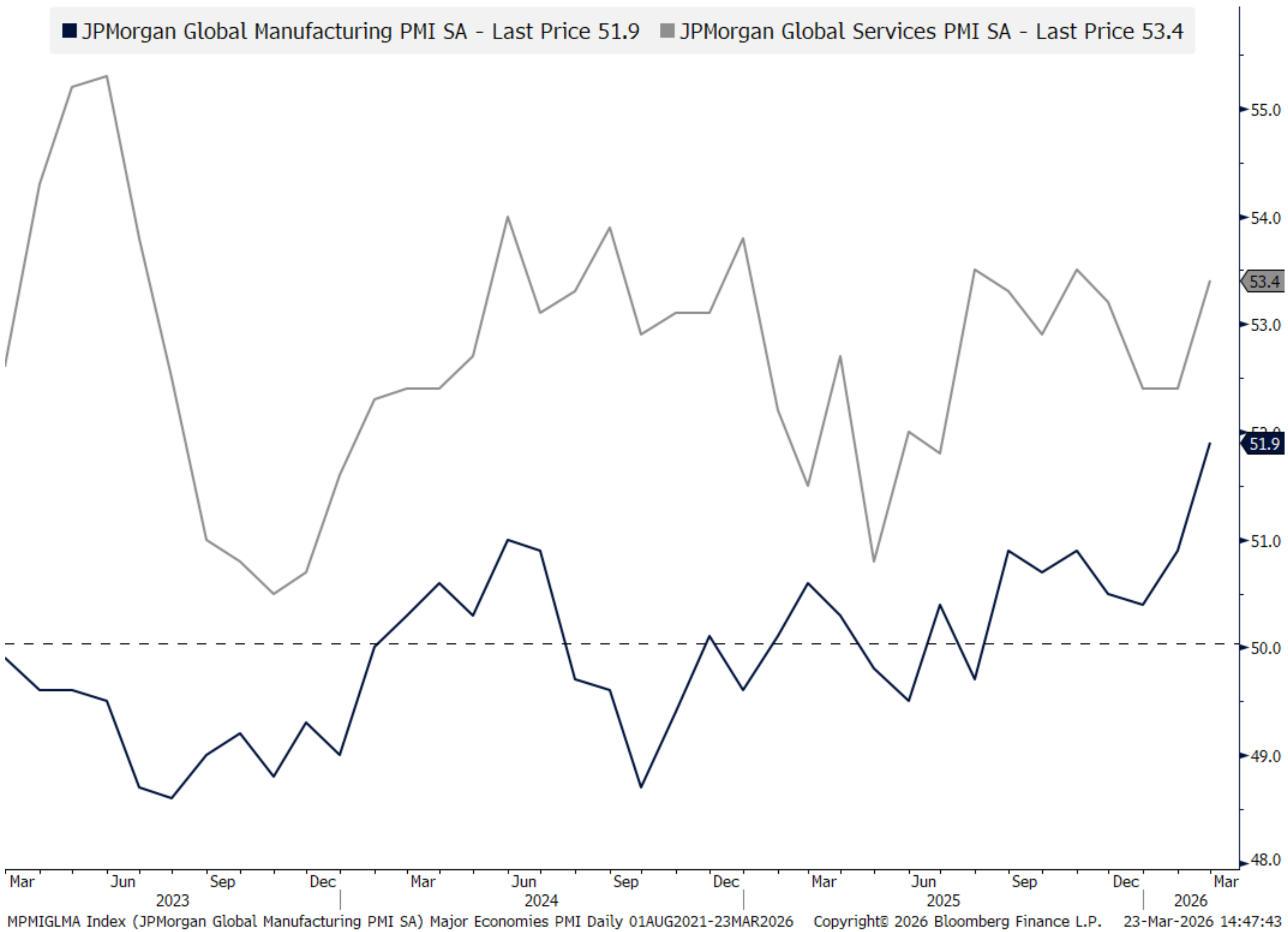
Market & strategy update

PROBUS PLEION

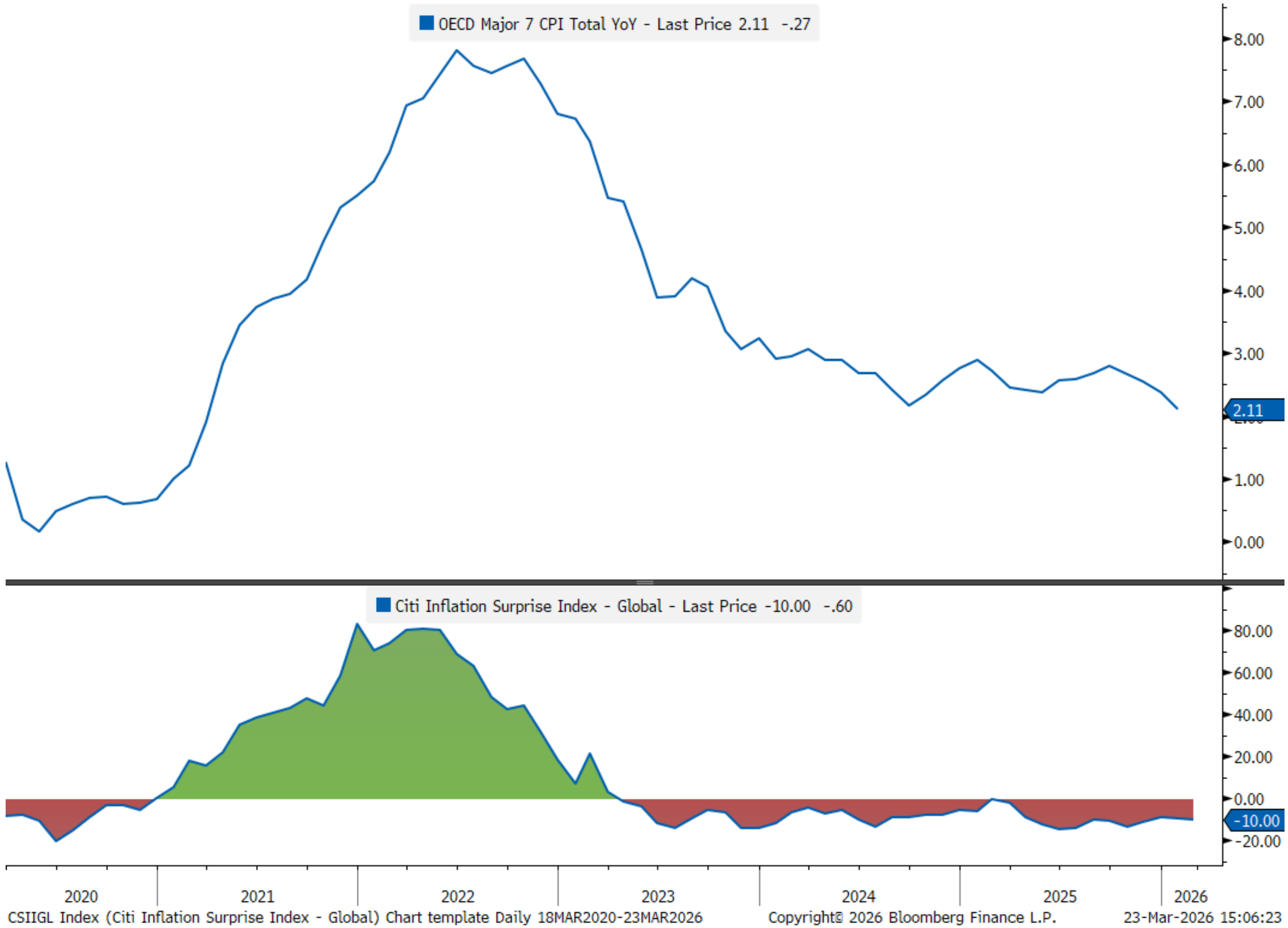
In early 2026 we were seeing a coordinated cyclical growth upswing



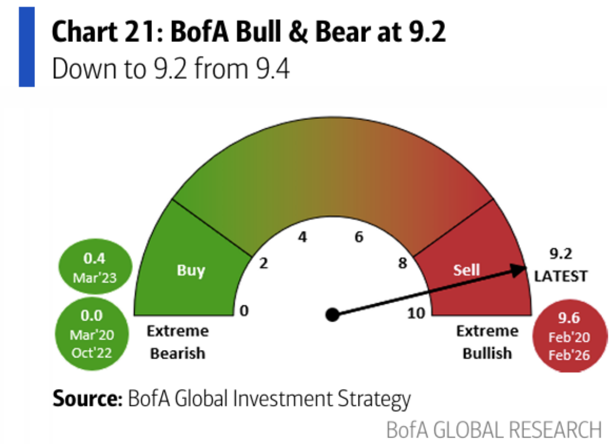
Both services and manufacturing activity were doing well

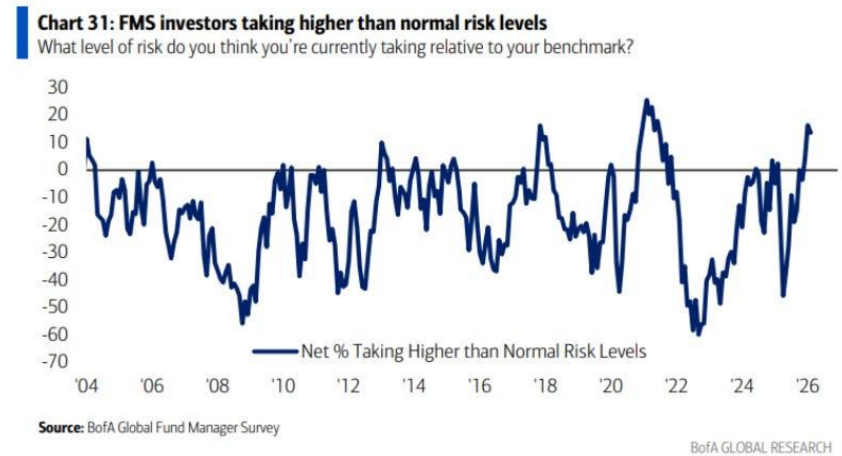


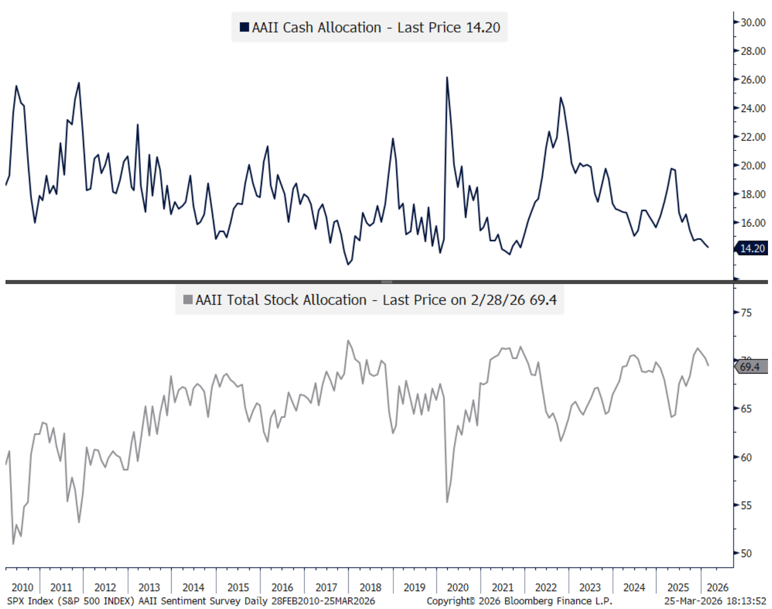
And inflation was well behaved, with readings coming in below expectations, creating a favorable disinflationary boom (goldilocks)

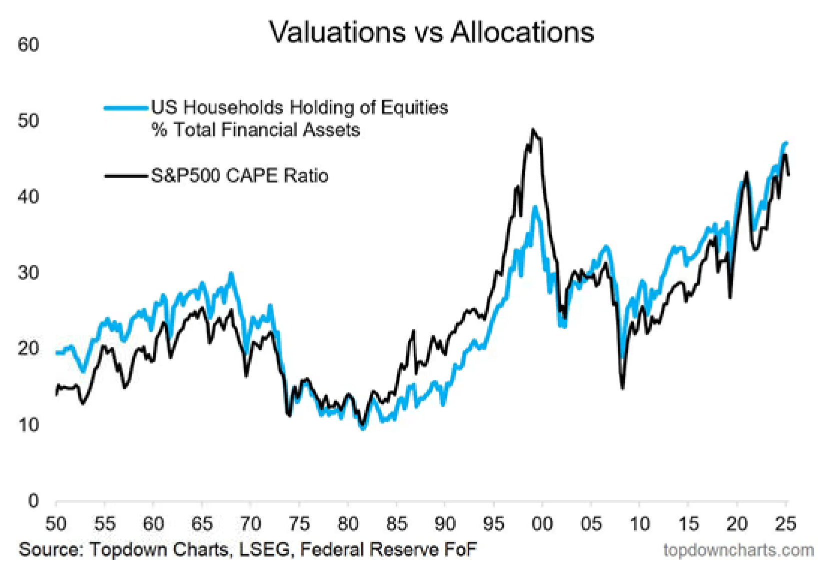


This goldilocks scenario pushed investors into excessive risk taking

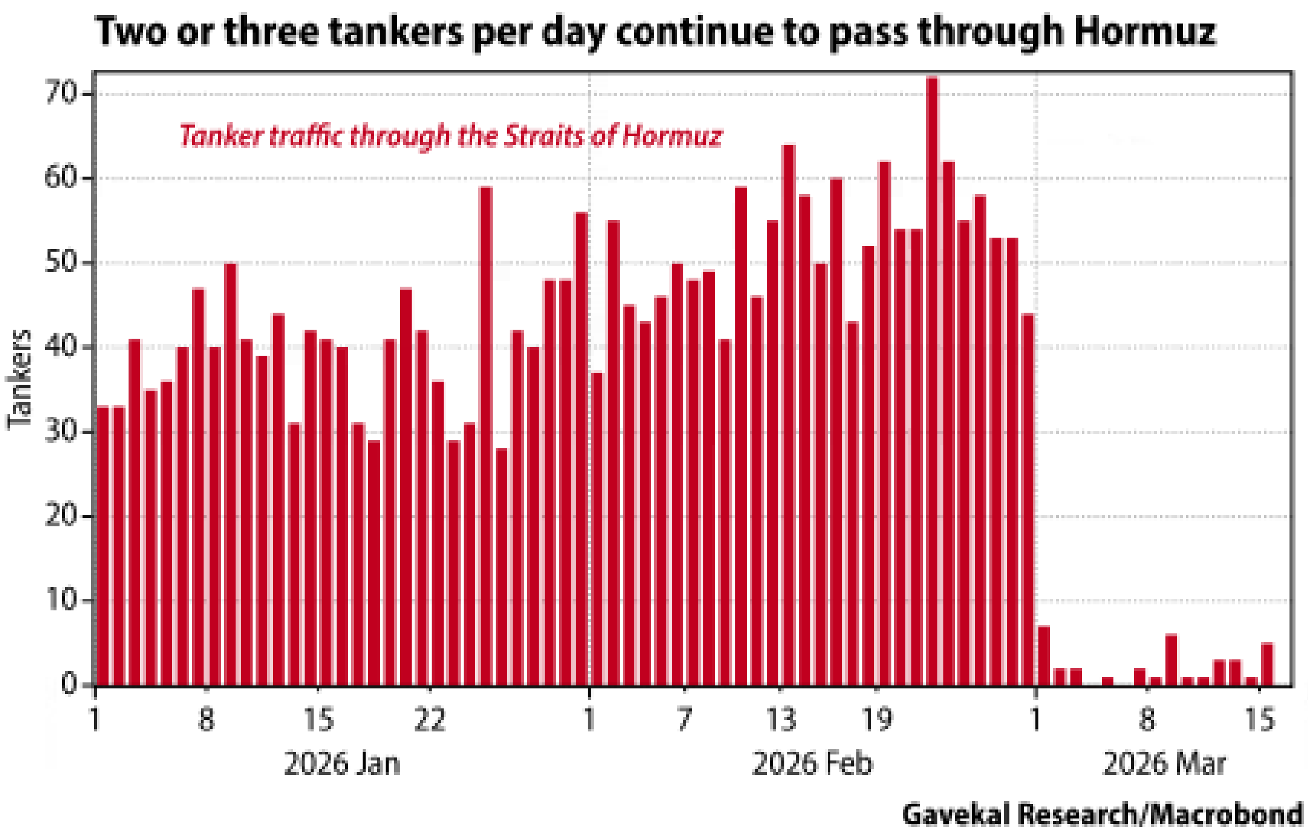




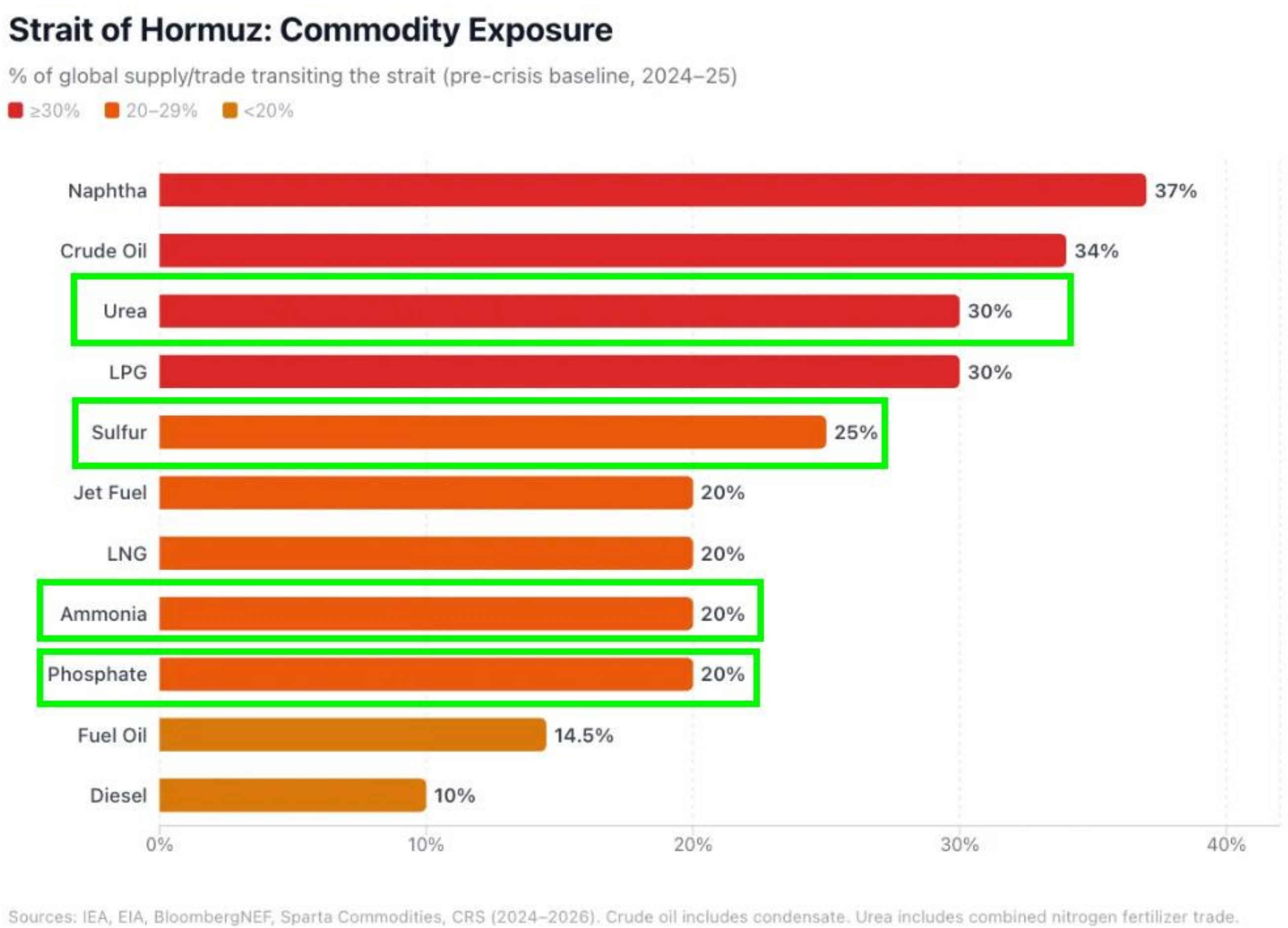




The Iran war and effective closure of the Hormuz Strait is upending the rosy global outlook...



The Hormuz strait is a global chokepoint for key commodities

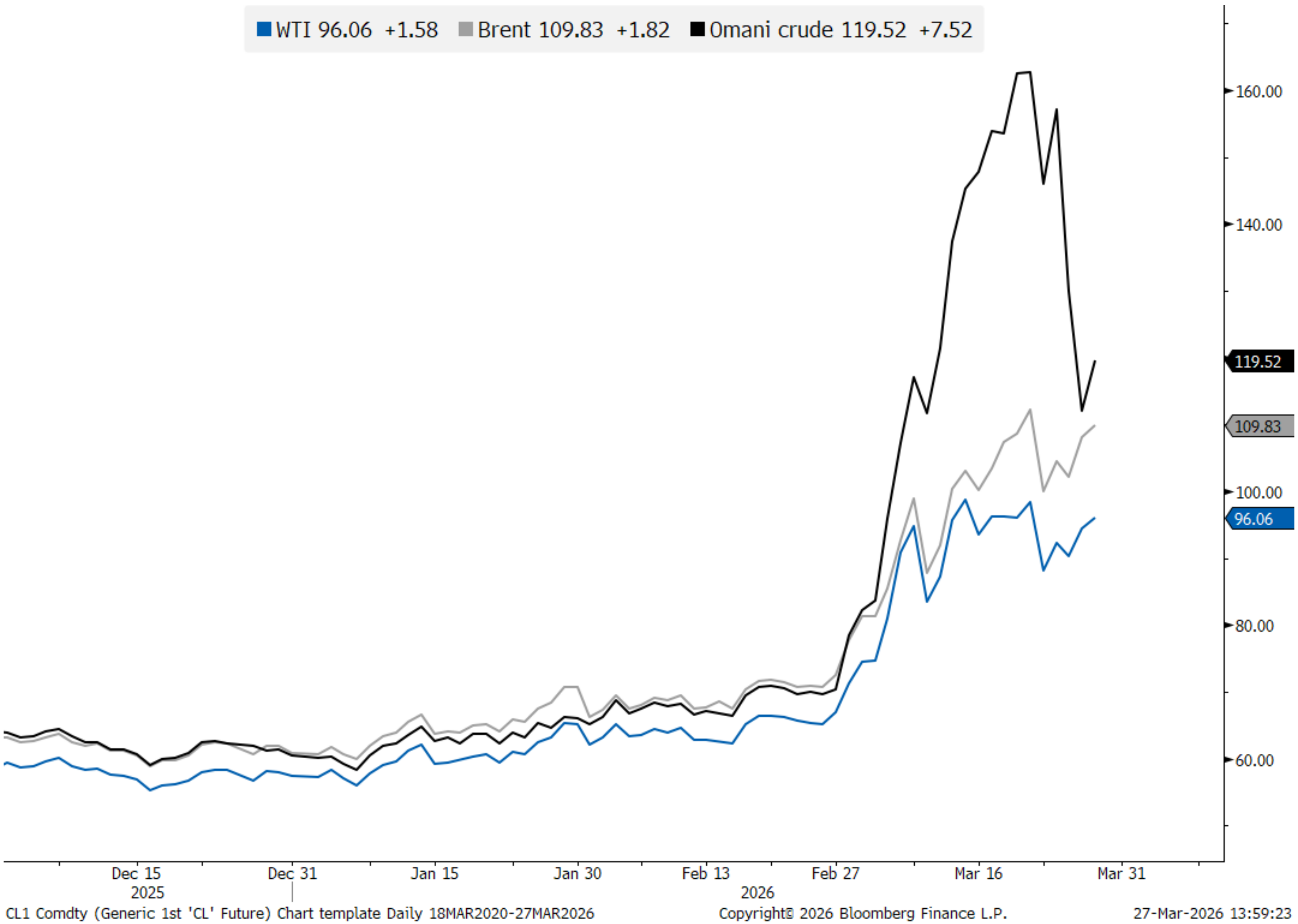


The start of the Iran war has pushed energy prices sharply higher, increasing the odds of a shift in the macroeconomic landscape

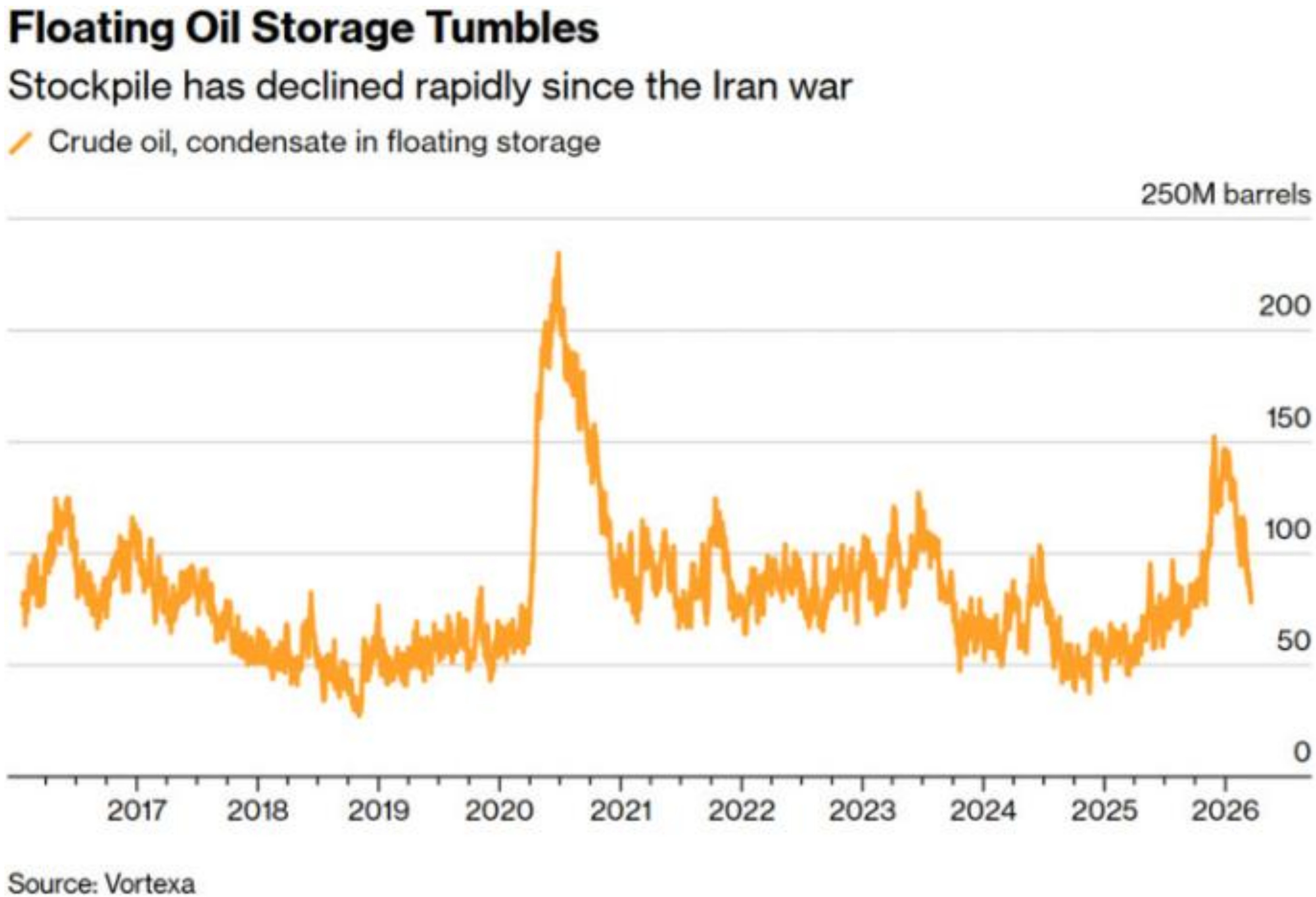
Commodity	Last	1w Return (%)	1m Change (%)	3m Change (%)
EU Natural Gas	53.7	-13.1	67.1	98.8
Gasoline	307.1	-1.8	51.1	81.0
WTI	92.8	-3.4	42.4	63.6
Commodity Index	131.1	-1.9	9.0	16.6
Agriculture	57.3	0.2	5.6	5.1
Natural Gas	3.0	-6.3	5.0	-9.8
Industrial Metals	163.5	0.3	-4.7	0.1
Uranium	83.9	-2.5	-5.6	4.1
Gold	4453.9	-4.2	-14.1	-1.8
Platinum	1883.5	-4.5	-17.5	-23.4
Palladium	1397.5	-3.7	-21.7	-28.0
Silver	69.5	-4.6	-21.3	-12.4

As of 26.03.2026

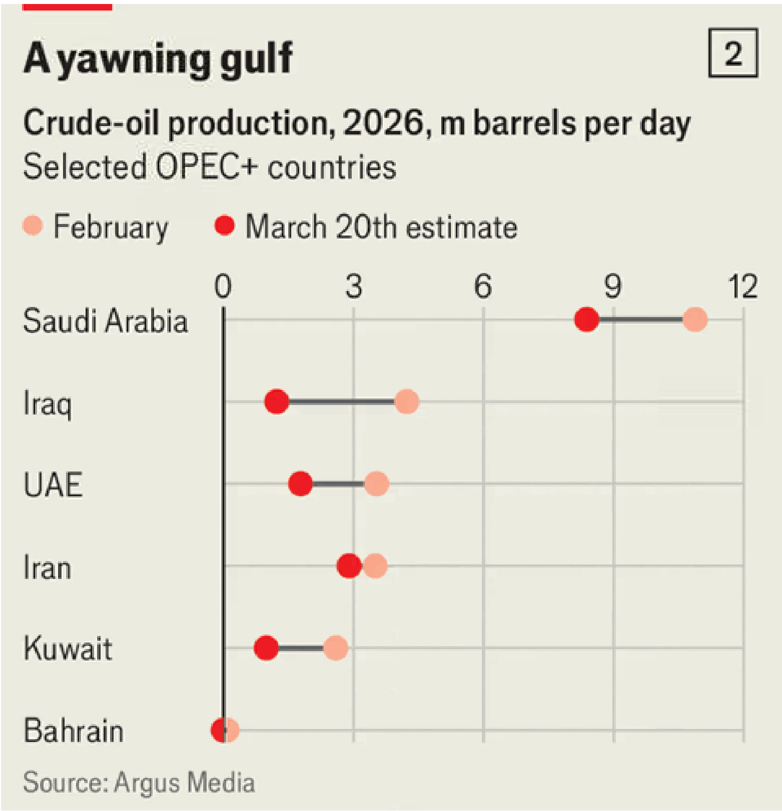
Not every crude blend is the same in this environment...

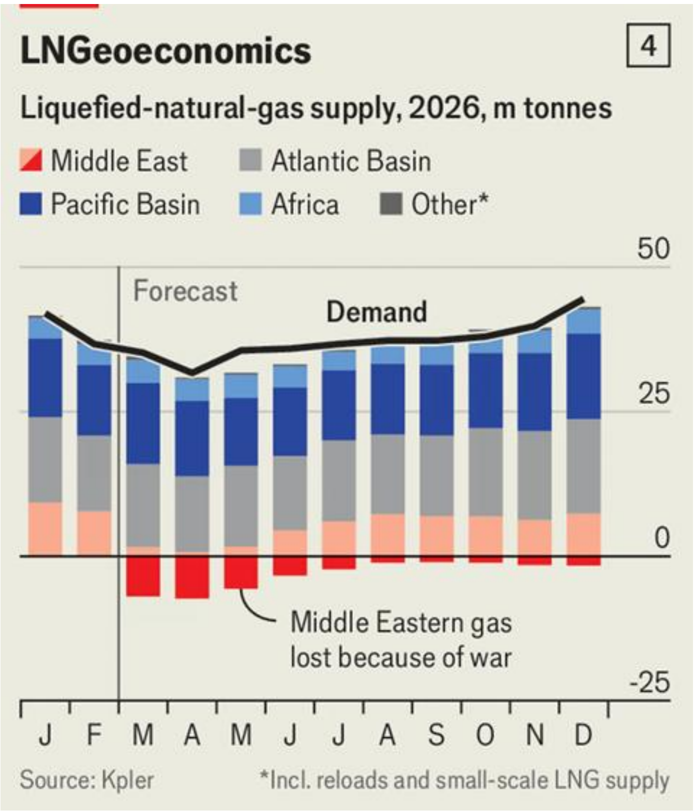


The impact on oil of the Hormuz strait disruption has been muted by elevated floating storage, which is rapidly declining. Every additional day without a resolution raises the odds of a major economic impact.

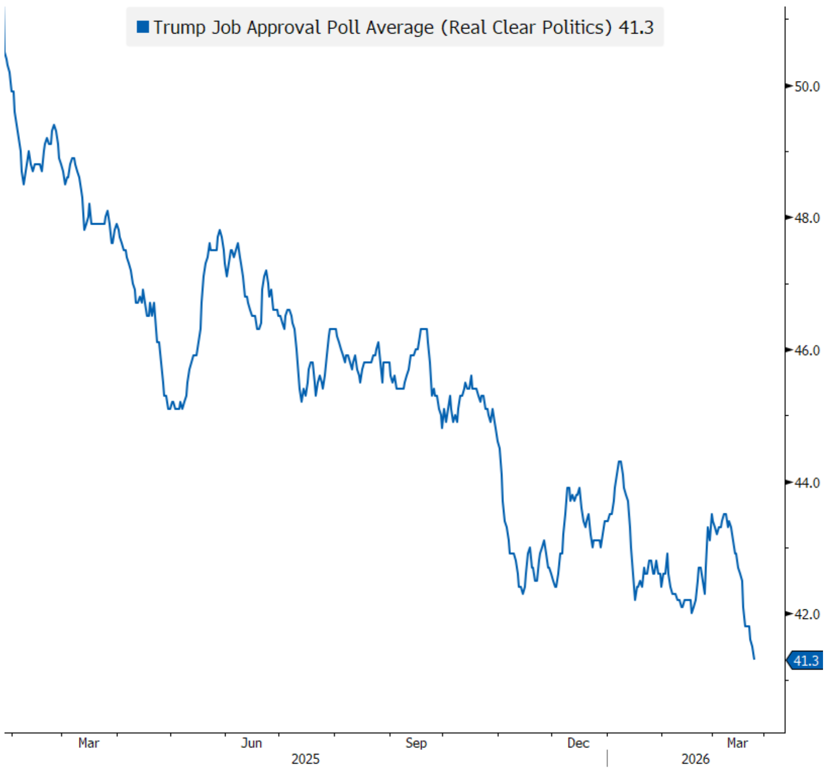


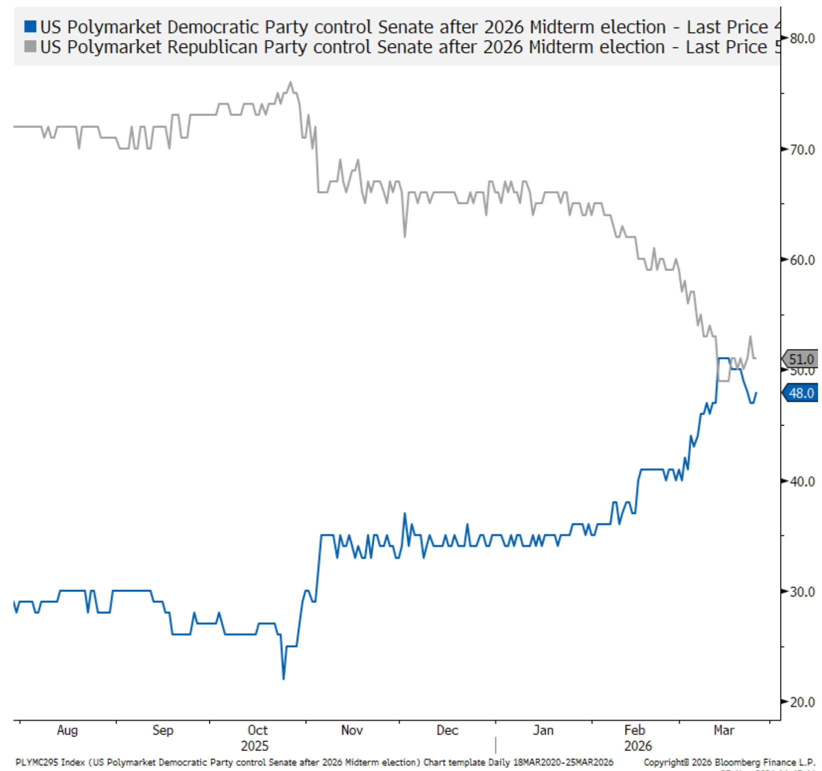
Between OPEC producers being forced to cut production and damages on Gulf infrastructure, notably Qatari LNG facilities, a swift resolution of the conflict might not prevent a negative economic impact



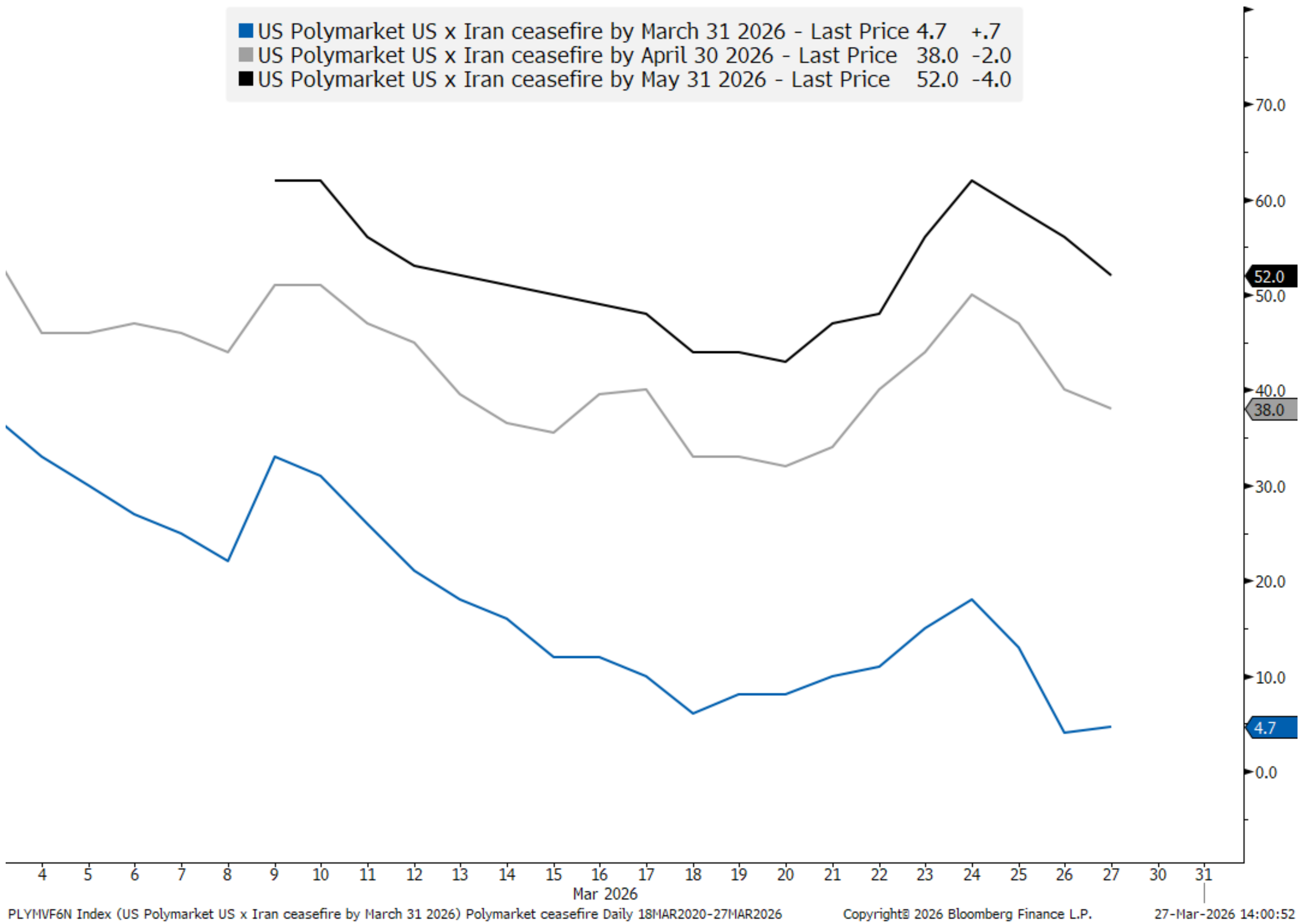


As the consequences of the war become increasingly material for the economy, the pressure on Trump to find a way out will rise. Will he choose strategic defeat or economic crisis?





Betting markets are still pricing a low probability of an imminent ceasefire



The regime change to an inflationary bust is increasingly likely

Growth (+ / -) × **Inflation** (- / +)

Disinflationary boom

Earnings accelerate while discount rates stabilize. Markets price in growth and operating leverage.

Best Assets

Equities (tech, cyclicals), Credit, FX

Worst Assets

Fixed income, Cash / USD

Inflationary boom

Nominal growth rises faster than rates. Pricing power and real assets outperform.

Best Assets

Commodities, Equities (cyclicals), Real Assets

Worst Assets

Long-duration bonds, Defensive equities, Cash / USD,

Disinflationary bust

Demand collapses faster than policy can respond.

Best Assets

Government bonds, Gold, Cash / USD

Worst Assets

Equities, Commodities, Credit

Inflationary bust

Margins compress and real incomes fall. Markets seek inflation protection.

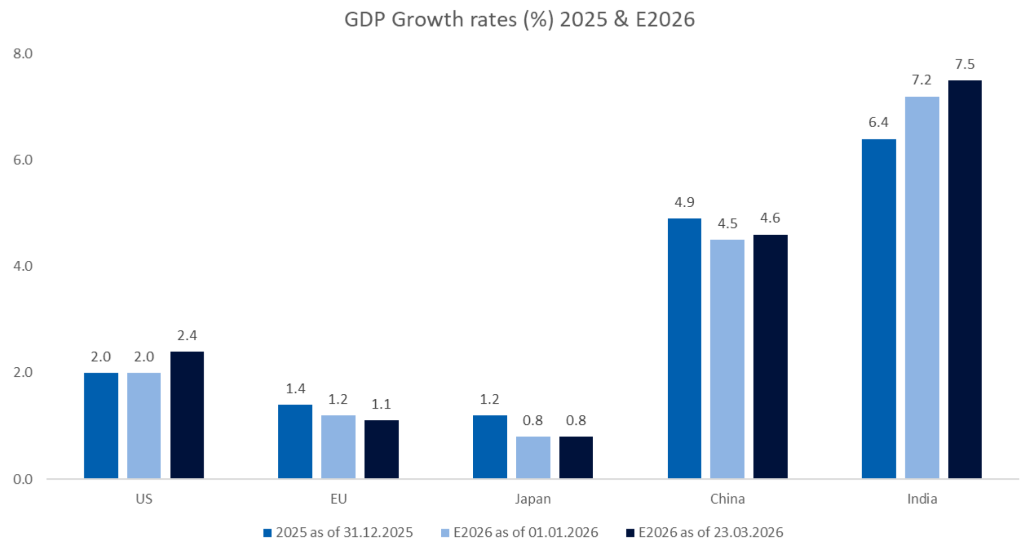
Best Assets

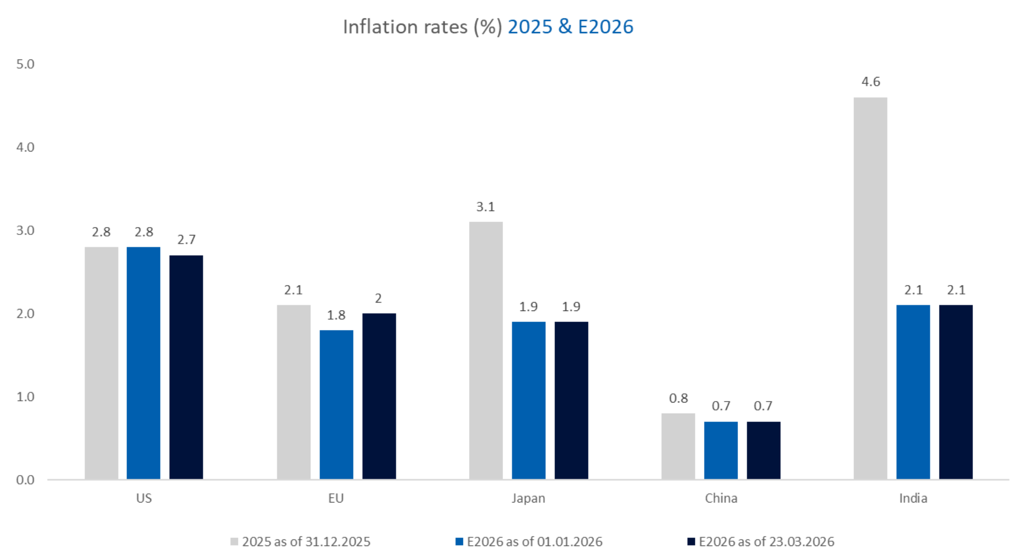
Gold, Commodities, Inflation-protected bonds

Worst Assets

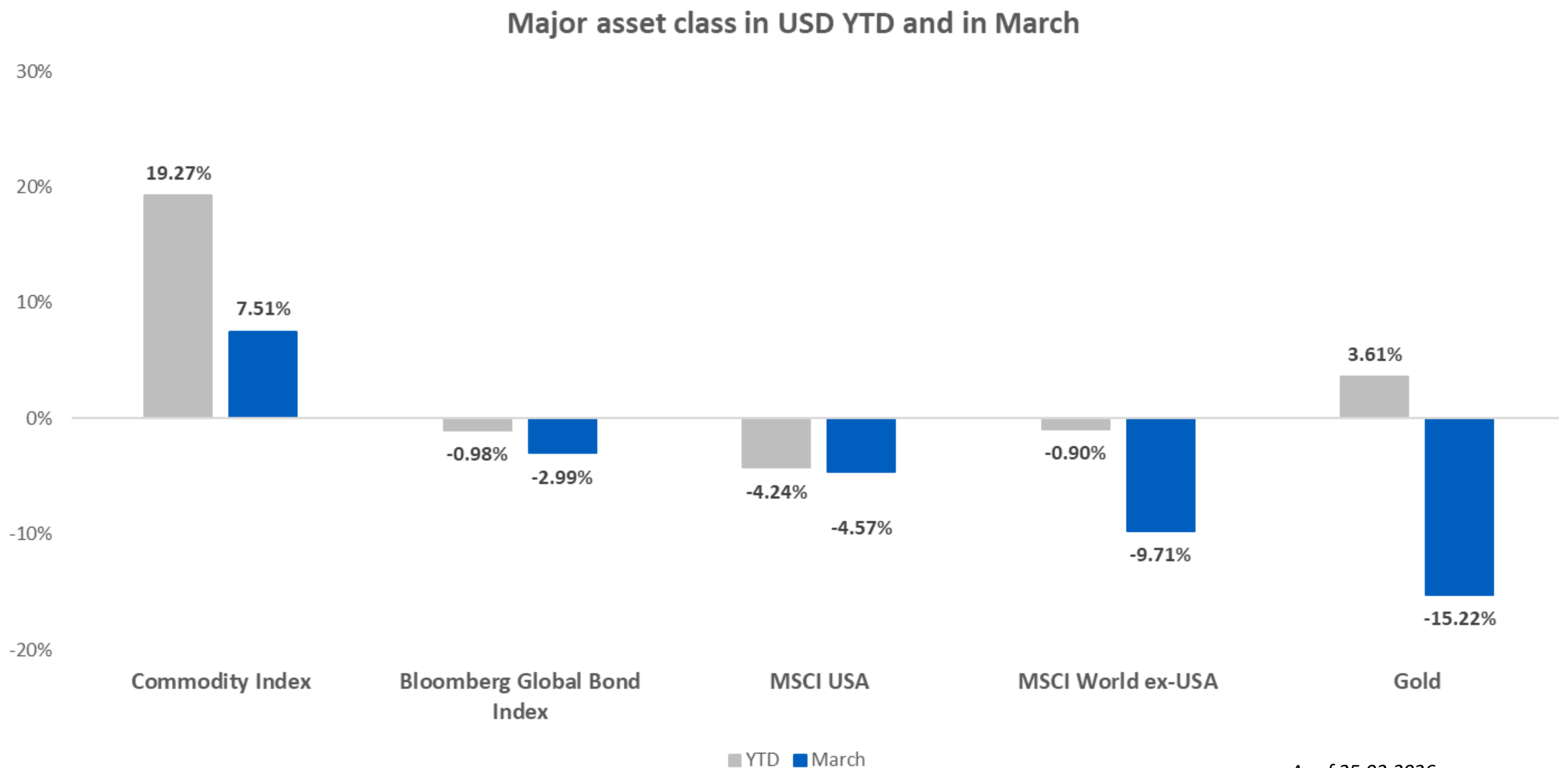
Equities, Credit

Consensus growth and inflation expectations have not moved...



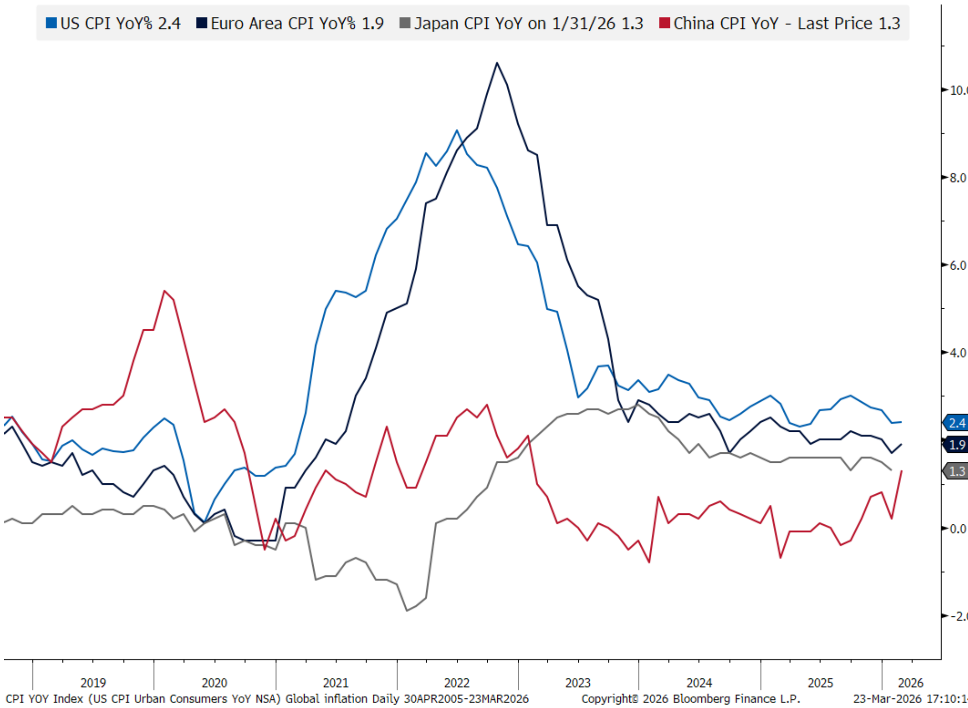


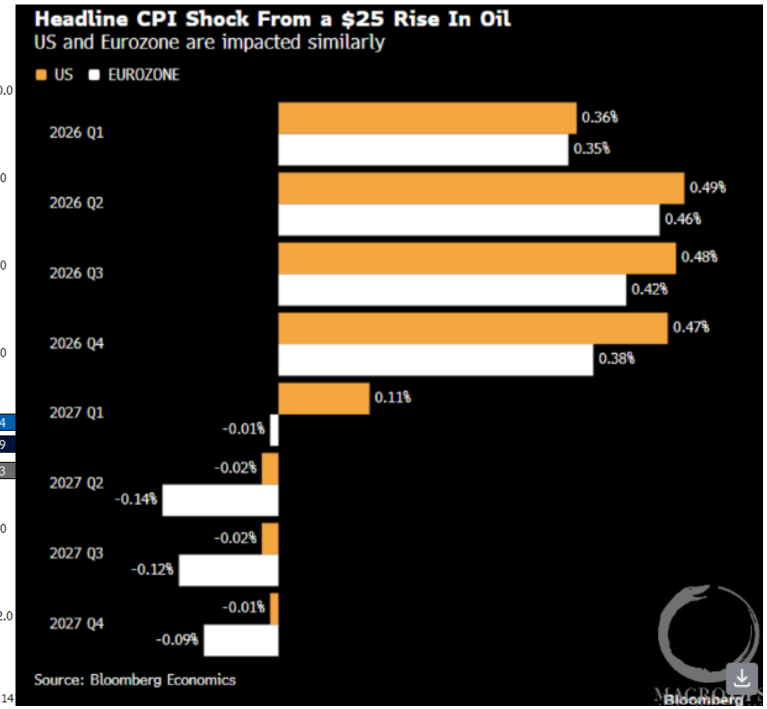
Asset class returns in March are however consistent with the regime shift, except for gold where the correction is excessive.



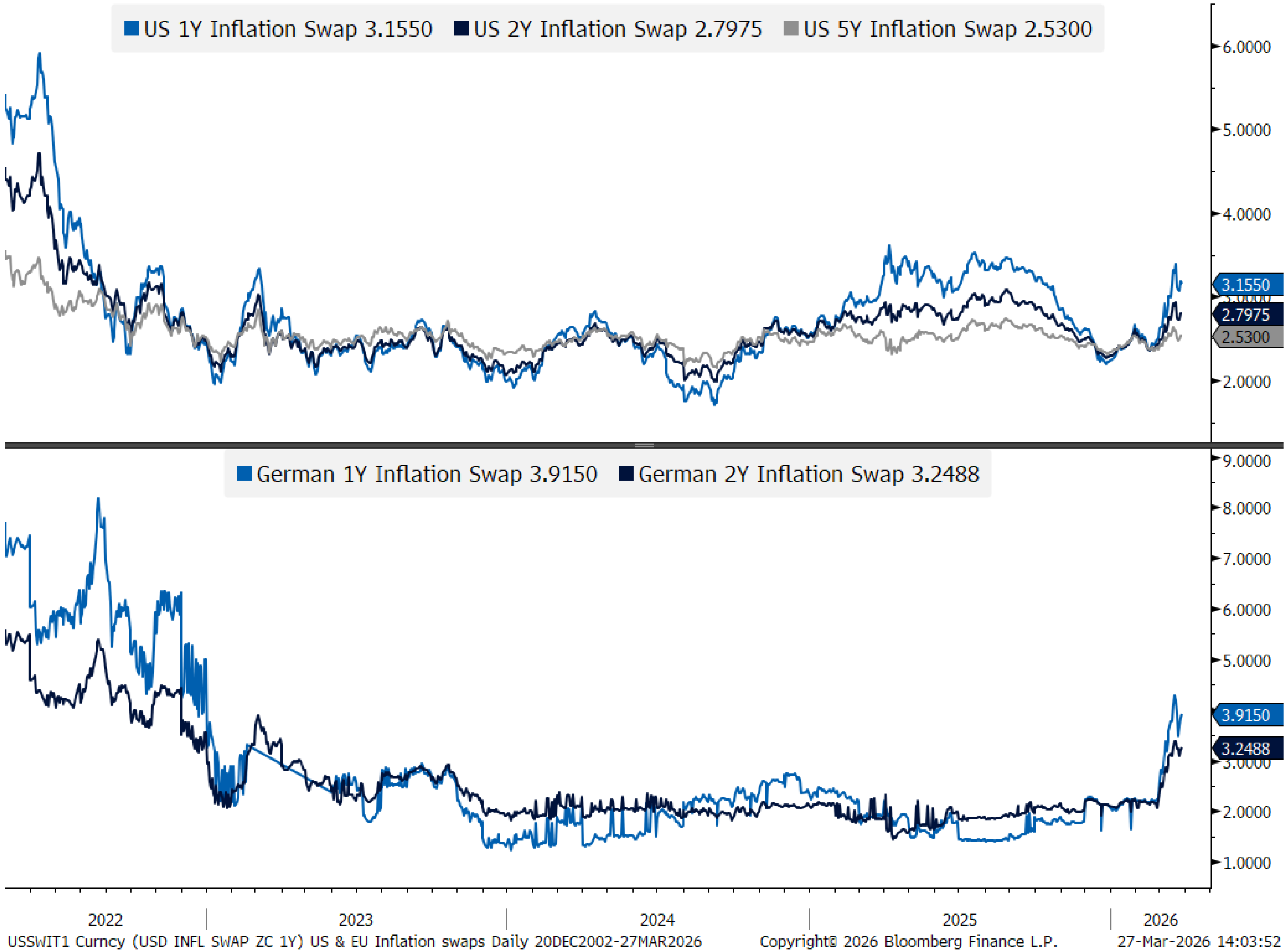
As of 25.03.2026

Global inflation will rise given the energy price spike

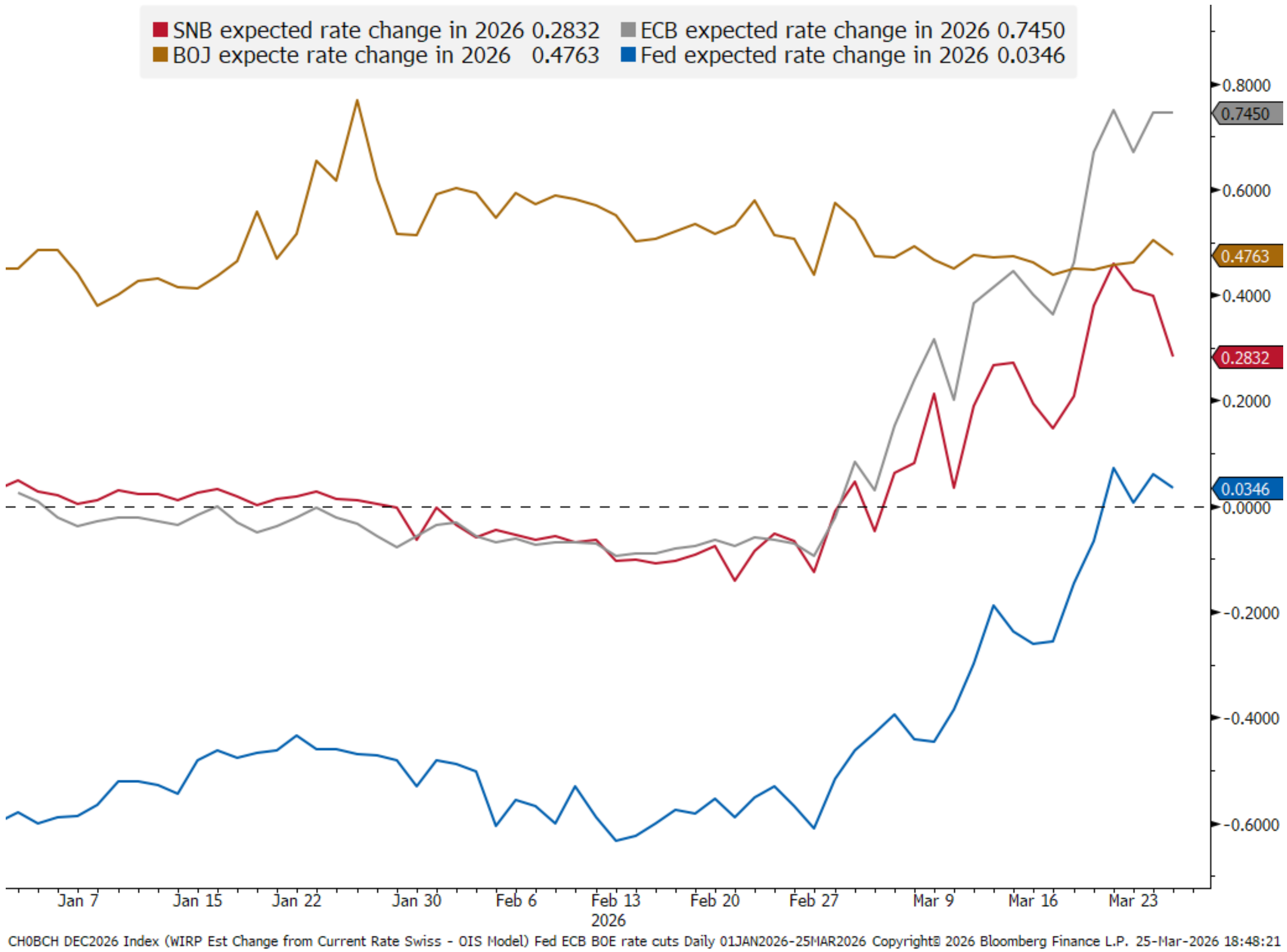




Market based inflation measures have moved significantly, with 1-year expectations rising to 3.1% in the US and 3.9% in the EU.



Central banks will face a difficult equation with slowing growth and rising inflation. Most see a transitory impact and therefore expect to be on hold, but markets have priced out cuts and priced in hikes.



Fed summary of economic projections not recognizing a shift in the regime and still pointing to one cut. As growth slows and unemployment rises, the Fed might still consider a cut.

Percent

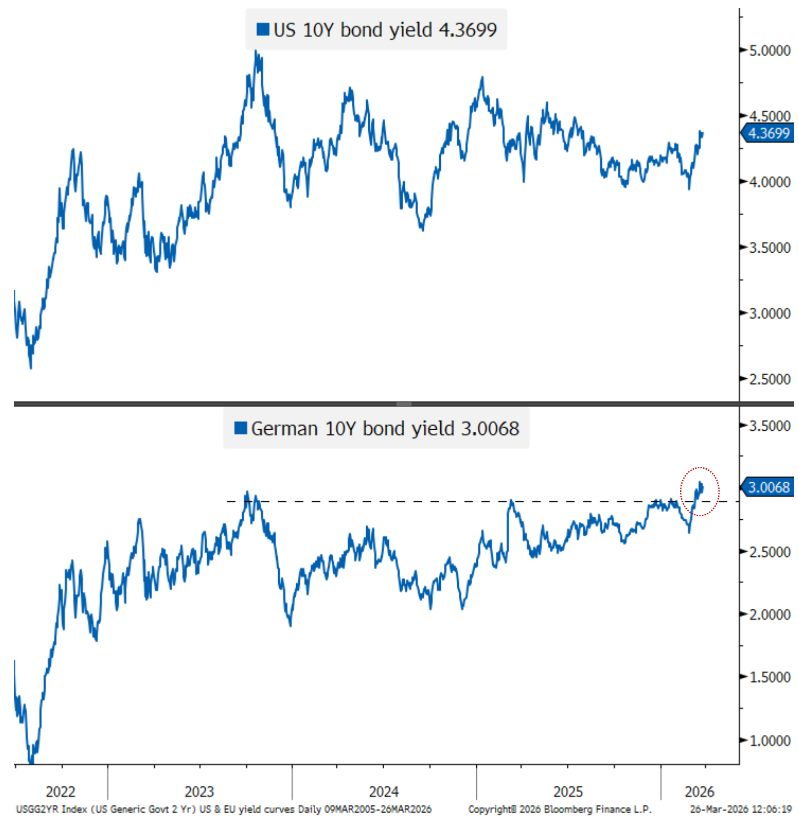
Variable	Median[1] 2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0
December projection	2.3	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.2	4.2
December projection	4.4	4.2	4.2	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.4	2.1	2.0	2.0
Core PCE inflation[4]	2.7	2.2	2.0	
December projection	2.5	2.1	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.1	3.1	3.1
December projection	3.4	3.1	3.1	3.0

Higher yields on the back of higher inflation expectations, rising deficits, and pricing of less cuts (or hikes). Credit spreads widen and are not yet attractive. TIPS should be considered in this phase.

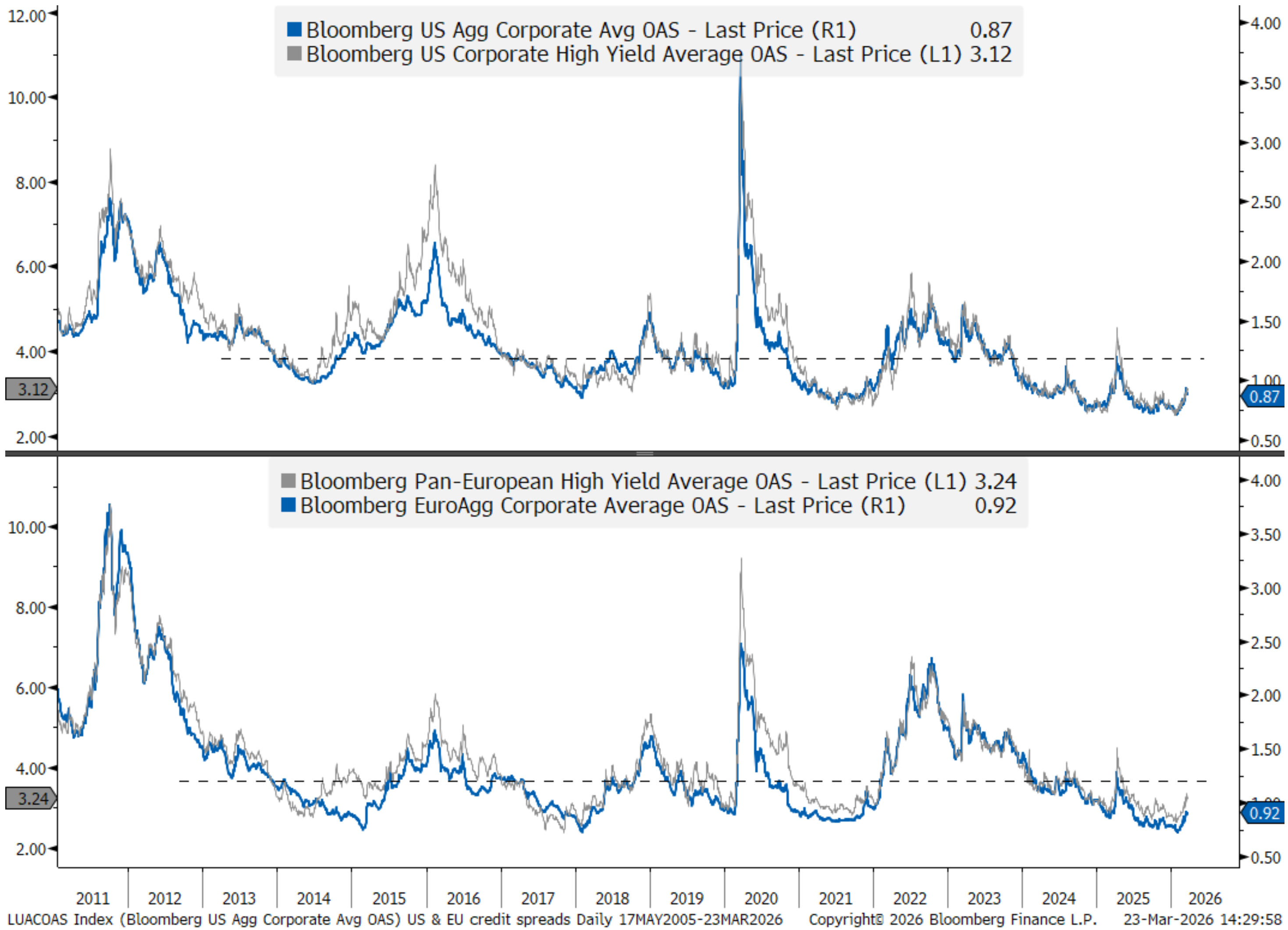
Rates	Yield (%)	1w change (bps)	1m change (bps)	3m change (bps)
US 30-year Yield	4.90	1.9	20.3	10.6
US 10-year Yield	4.33	6.9	28.2	20.1
US 2-year Yield	3.87	9.6	39.8	36.8
US Yield Curve 10-2	0.46	-2.0	-11.6	-16.1
US credit spreads	0.84	-6.0	4.0	7.0
US HY spreads	3.05	-5.0	24.0	38.0
US inflation swap 1Y	3.01	-30.9	54.9	78.0
US inflation swap 2Y	2.72	-19.5	31.6	42.4
US inflation swap 5Y	2.48	-16.5	9.0	13.8
US inflation swap 10Y	2.41	-10.6	0.4	1.9
German 30-year Yield	3.45	-2.5	7.7	-3.6
German 10-year Yield	2.97	3.4	26.7	11.2
German 2-year Yield	2.62	17.9	57.6	48.1
German Yield Curve 10-2	0.35	-14.4	-31.1	-37.0
EU credit spreads	0.94	4.0	15.0	15.0
EU HY spreads	3.33	3.0	43.0	53.0
Japan 30-year Yield	3.53	2.9	14.5	11.5
Japan 10-year Yield	2.26	4.3	12.4	21.2
Japan 2-year Yield	1.31	5.1	8.4	17.7

As of 25.03.2026

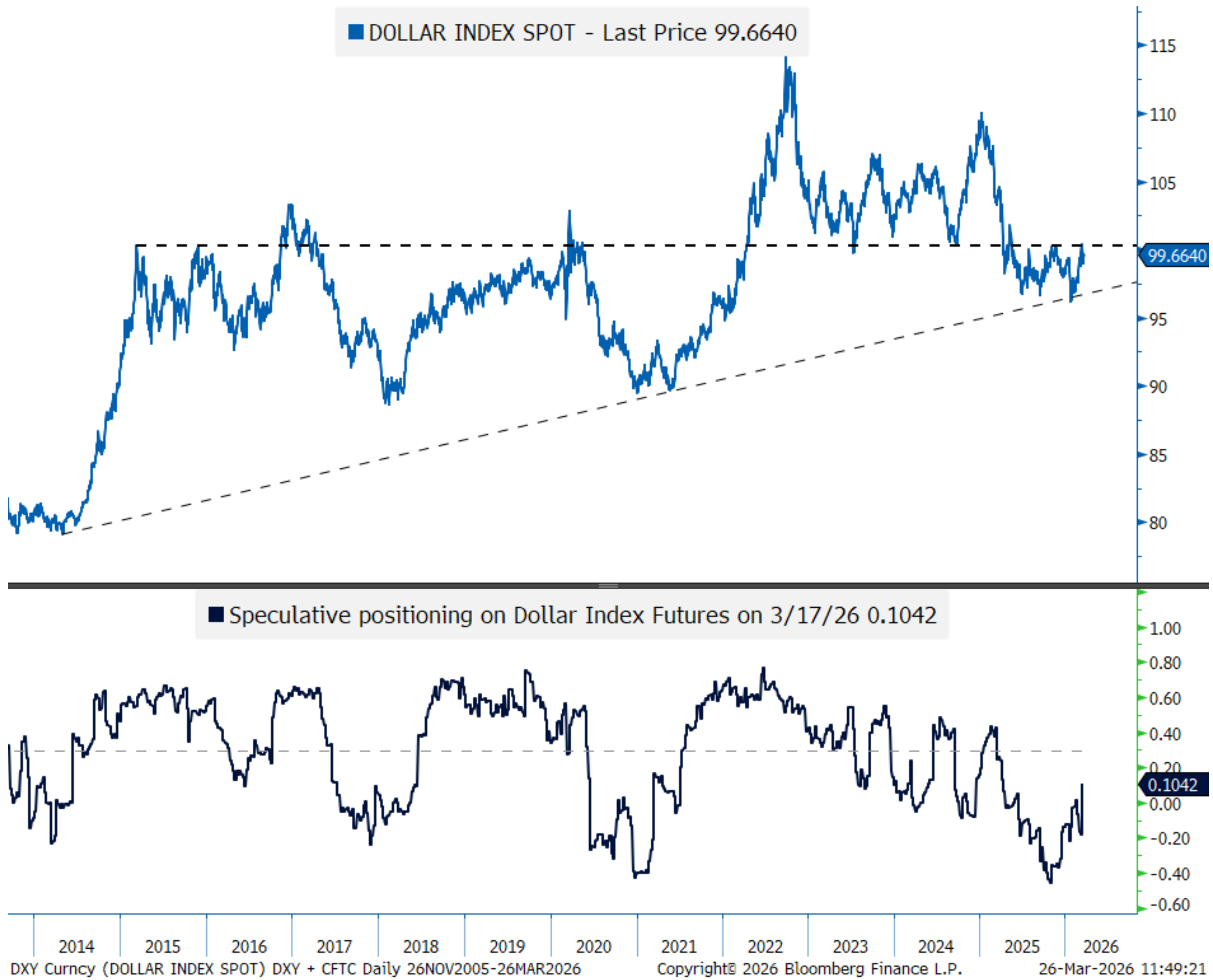
The rise of short-term yields in the EU and US are starting to look attractive. Duration should however still be avoided. In the EU, the long-end is making new cycle highs, a worrying sign.



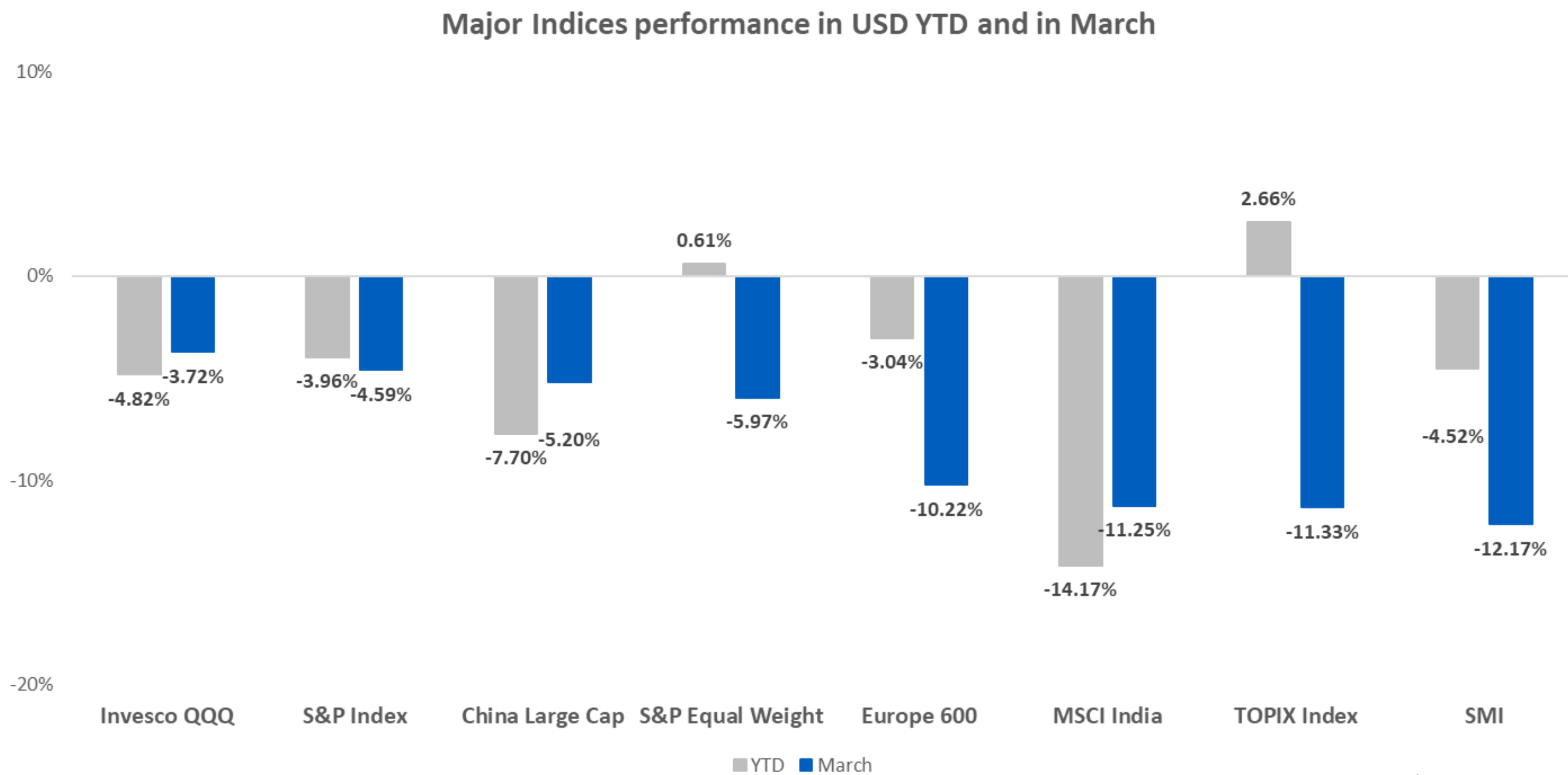
Credit spreads are widening and confirming the rising risks to growth. They are not yet wide enough to take on more credit risks.



The bearish USD consensus is upended in this phase, as the US economy will be relatively less affected. Expect dollar strength as long as this conflict lasts, with a possible break of the key 100 level on the DXY.

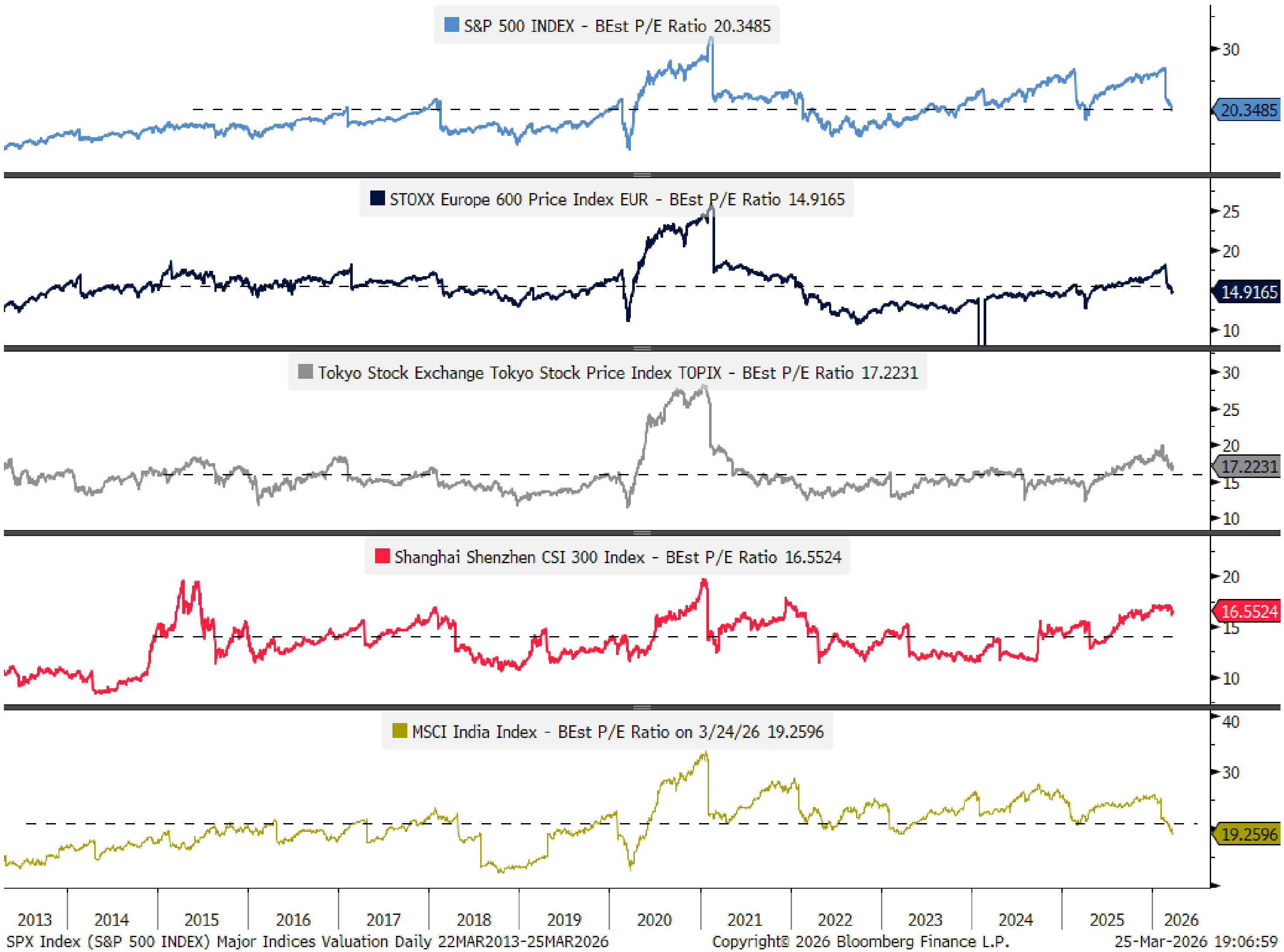


Equity market have justifiably been under pressure given the changing macroeconomic landscape. Energy importers have been hit the most and the US has proven more resilient, particularly tech.

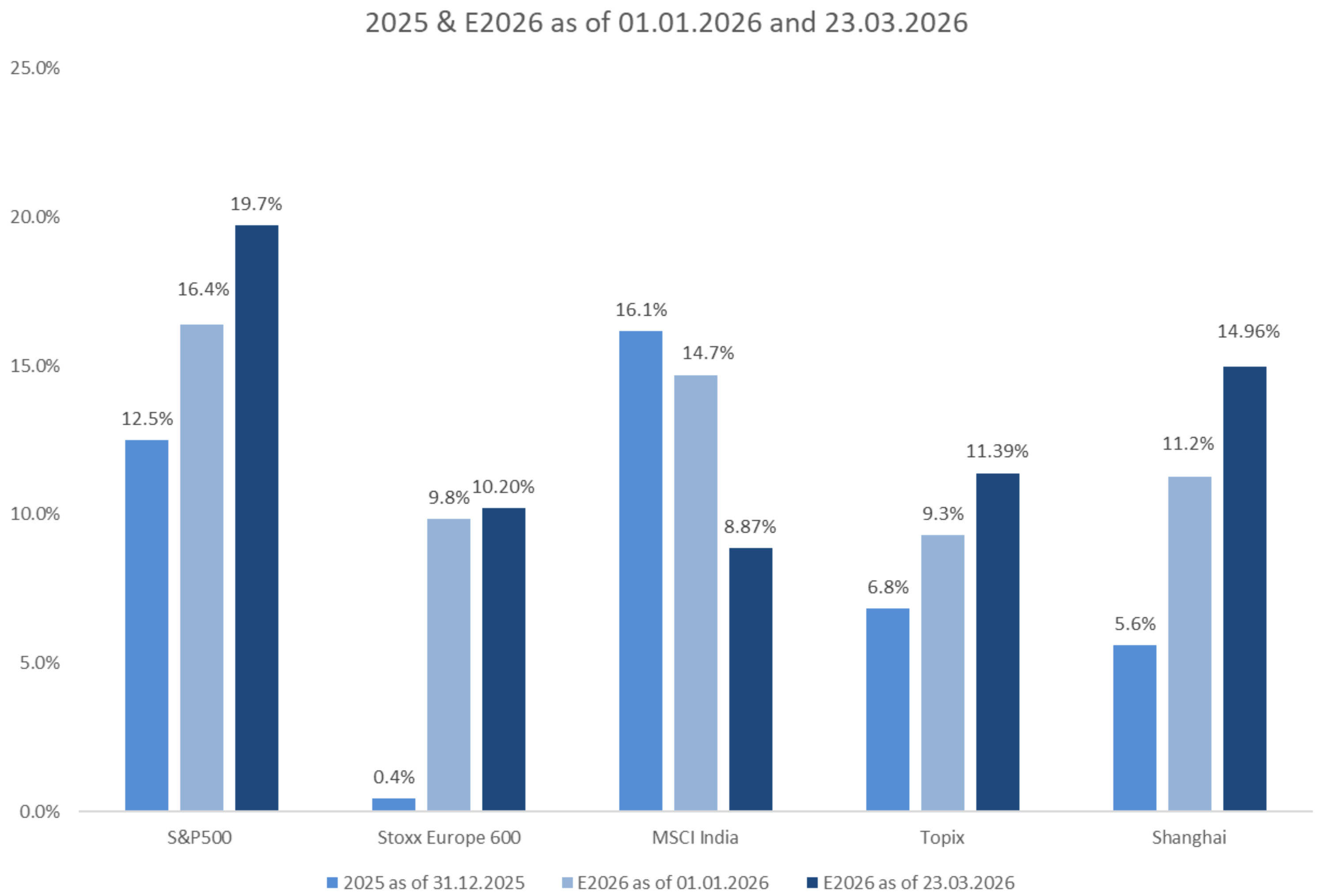


As of 25.03.2026

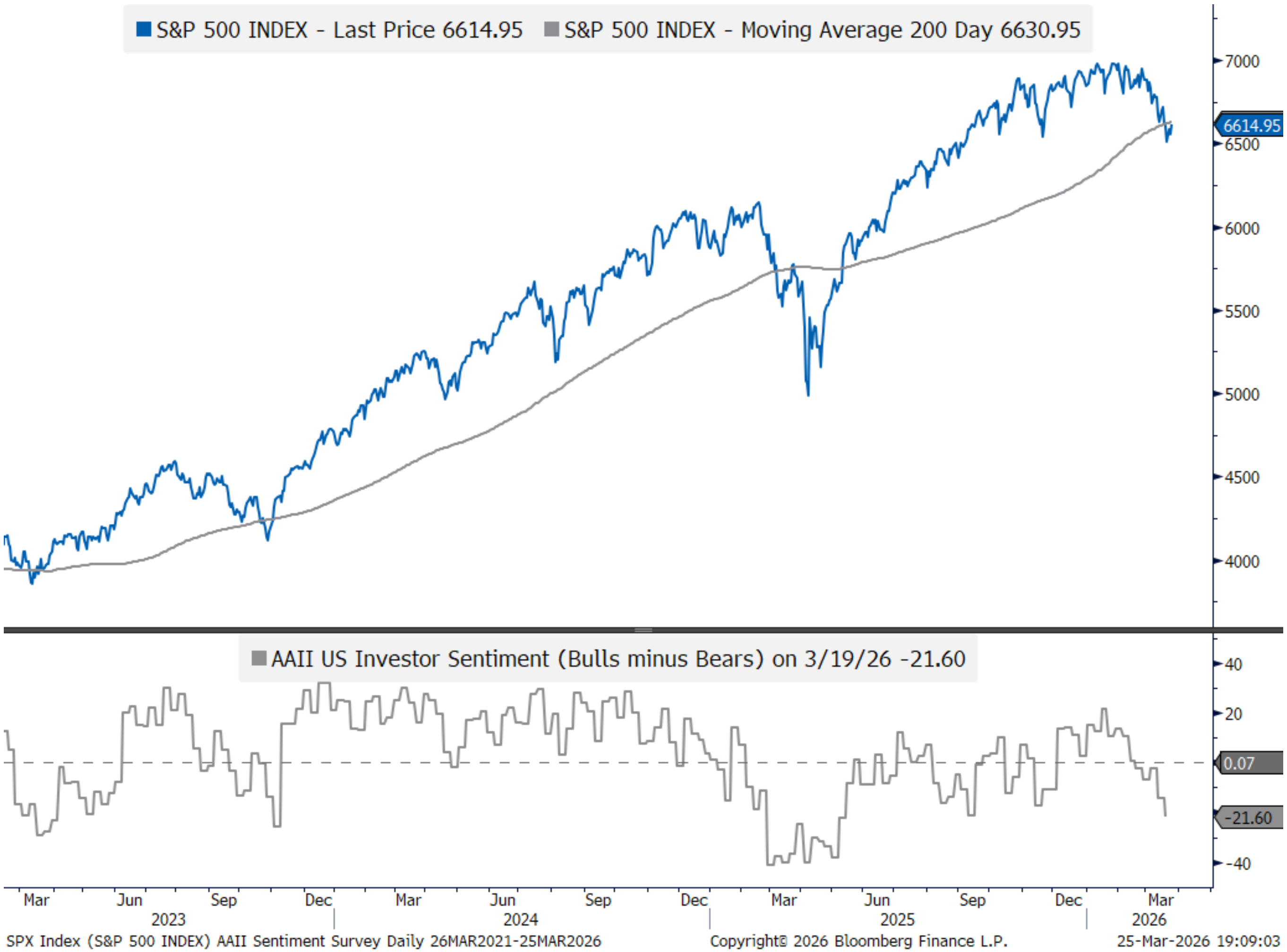
Valuations for most major equity indices have declined but are far from attractive in an inflationary bust scenario.



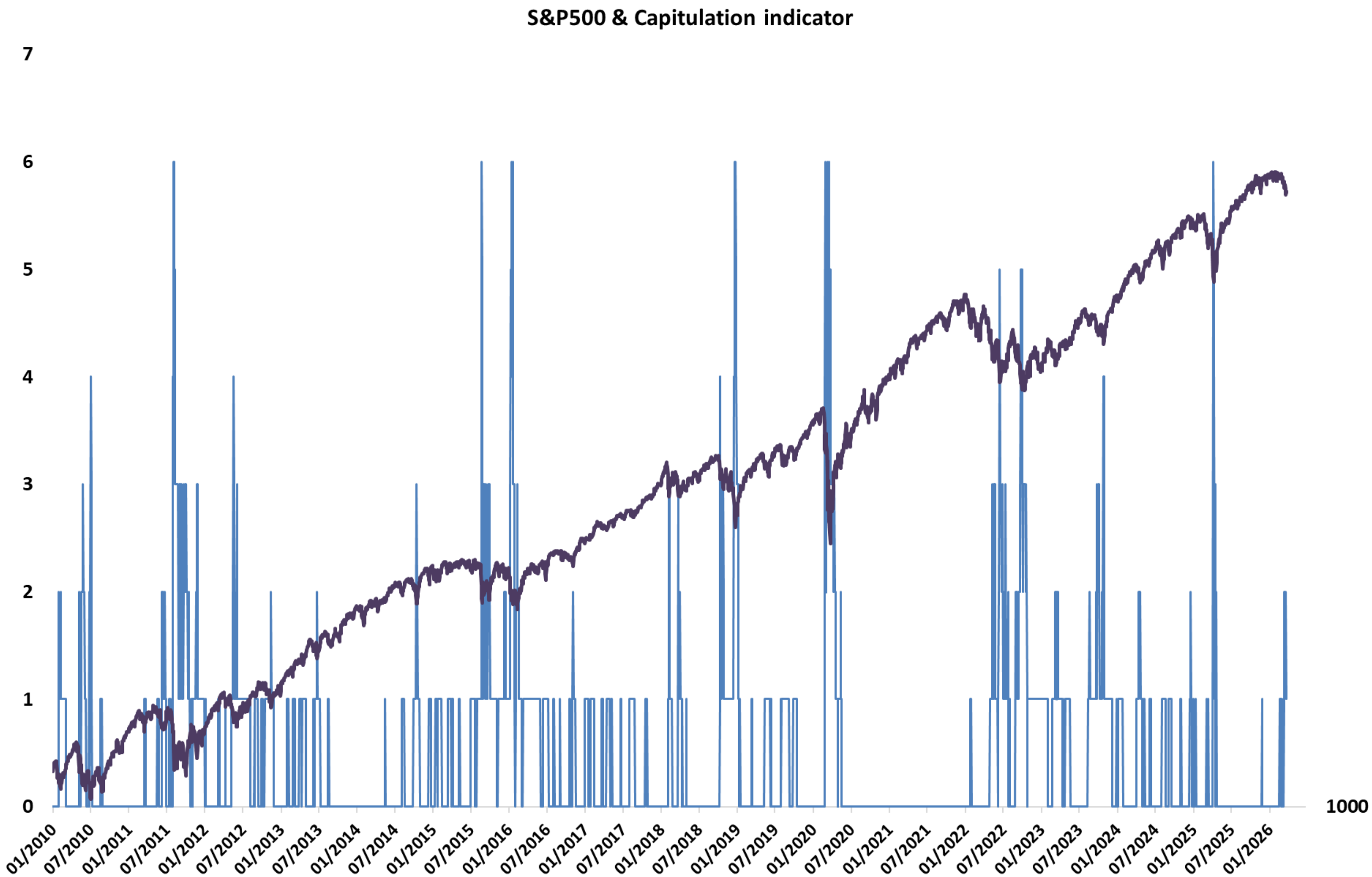
Earnings expectations are set to be revised down, which makes current valuations even less attractive.



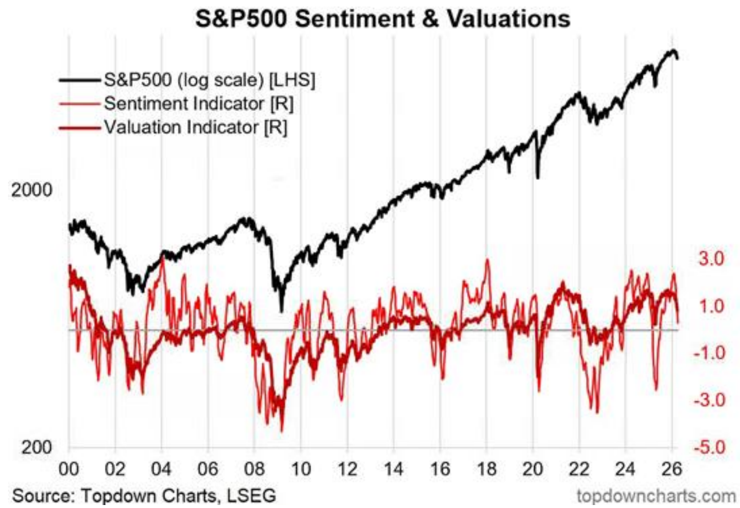
The S&P500 has broken the recent range and is testing the 200dma. While likely to perform better than other major indices, continued pressure should be expected.

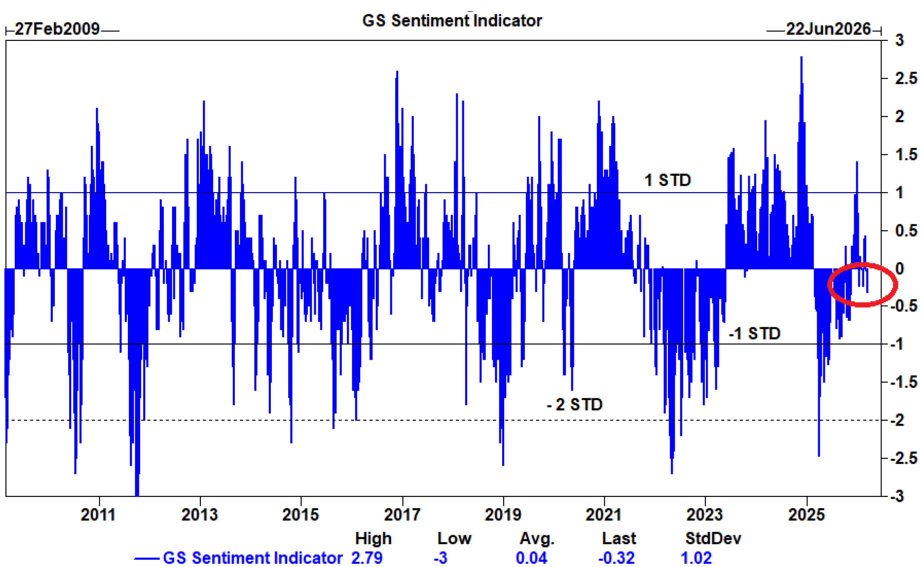


Signs of extreme oversold conditions could warrant buying the correction, but we are not there yet.

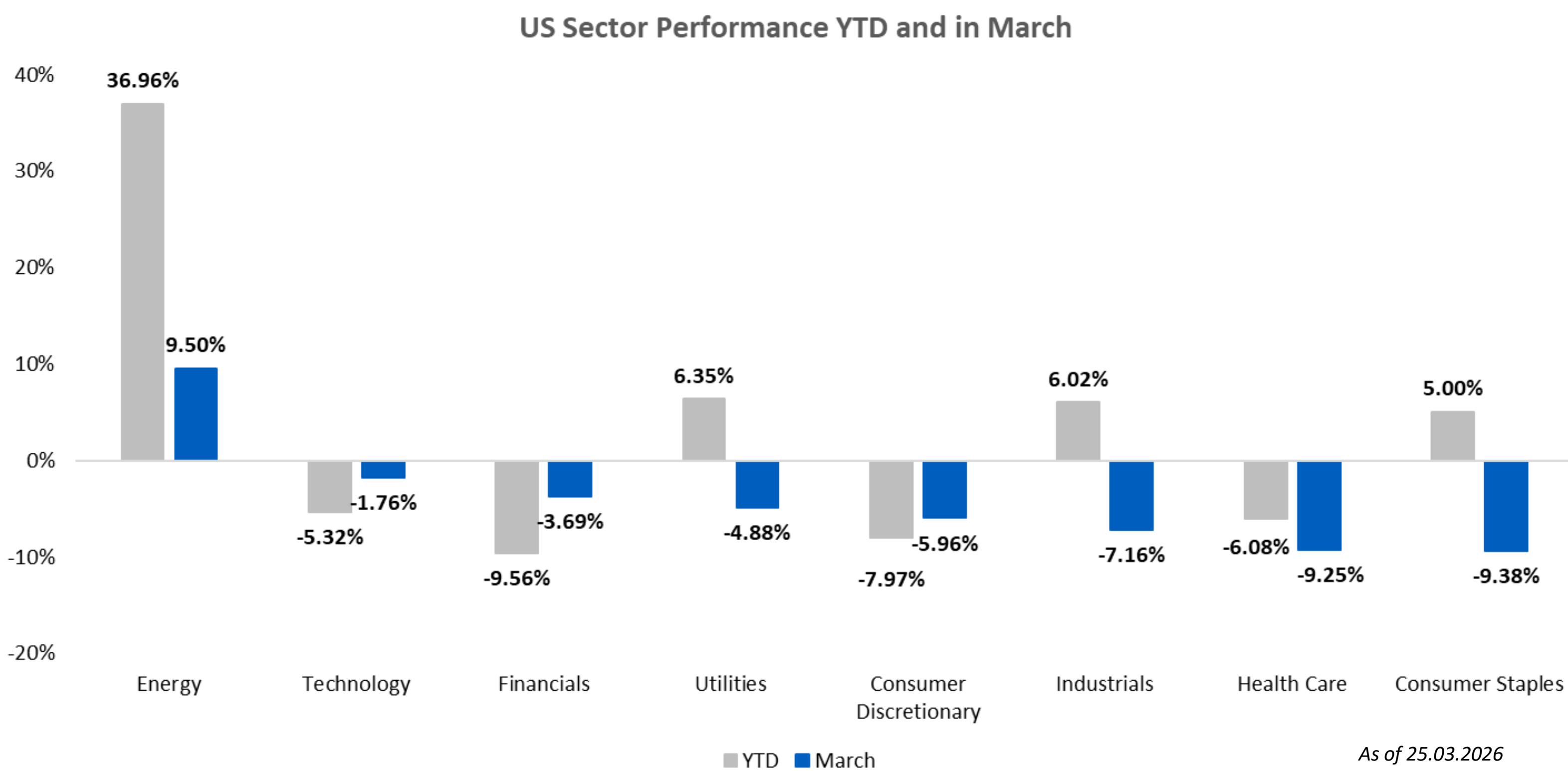


No clear sign that sentiment and positioning has fully reset

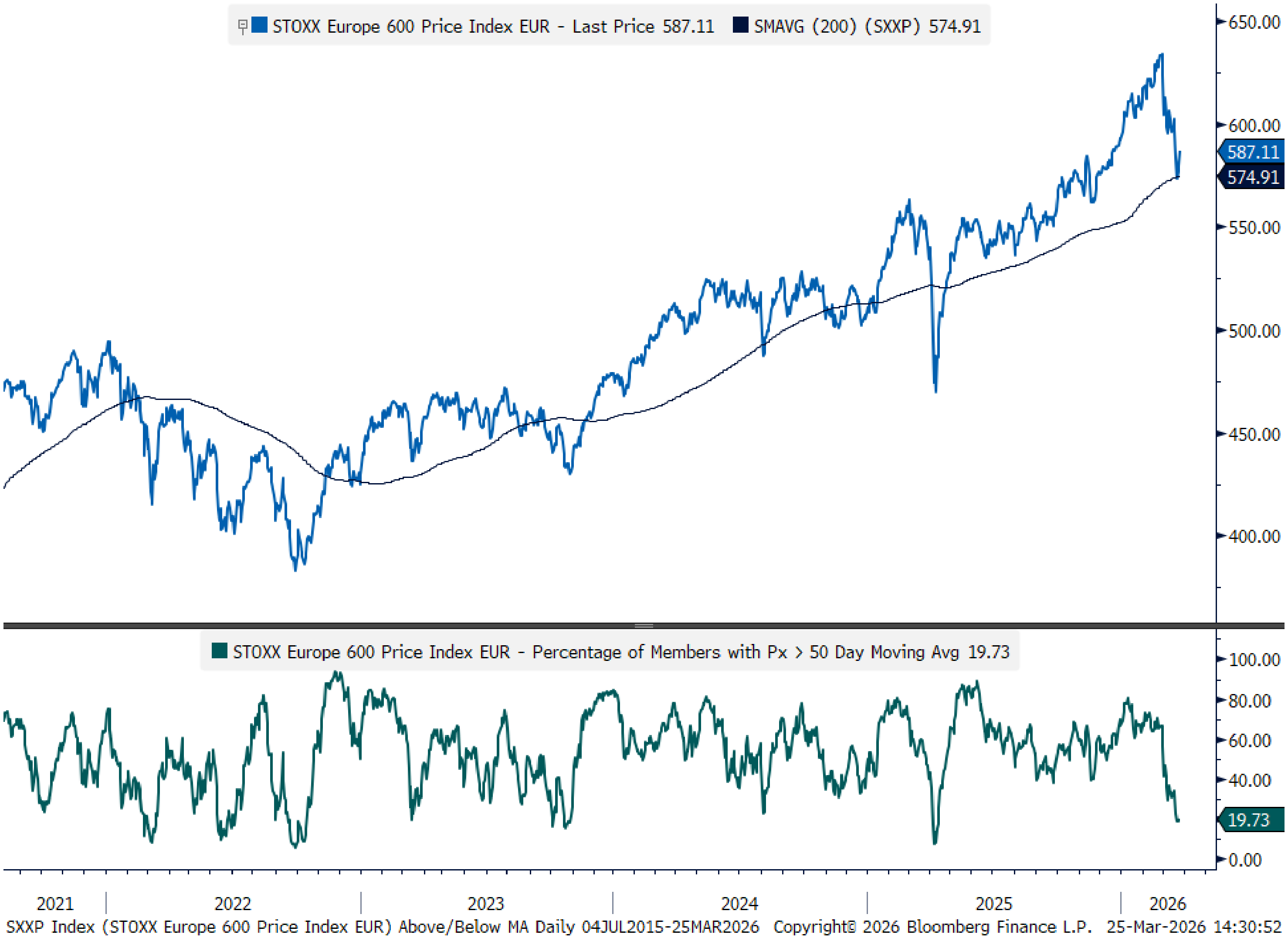




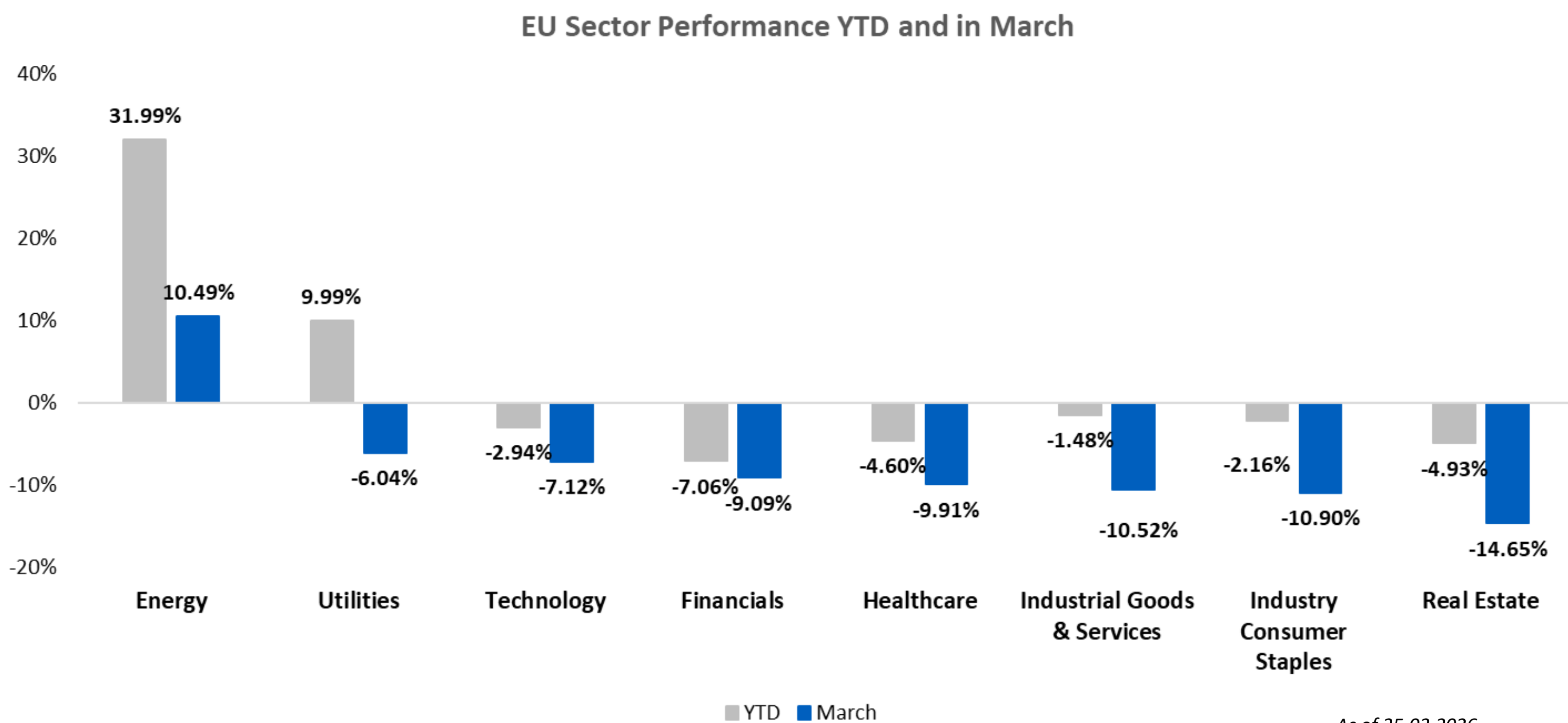
Tech has been a haven in this phase, as the growth picture is less influenced by the energy shock. There is also a case where AI adoption may rise to increase efficiency to offset higher energy input costs.



EU equities retesting the 200dma and in oversold territory – expect continued pressure in the current environment.

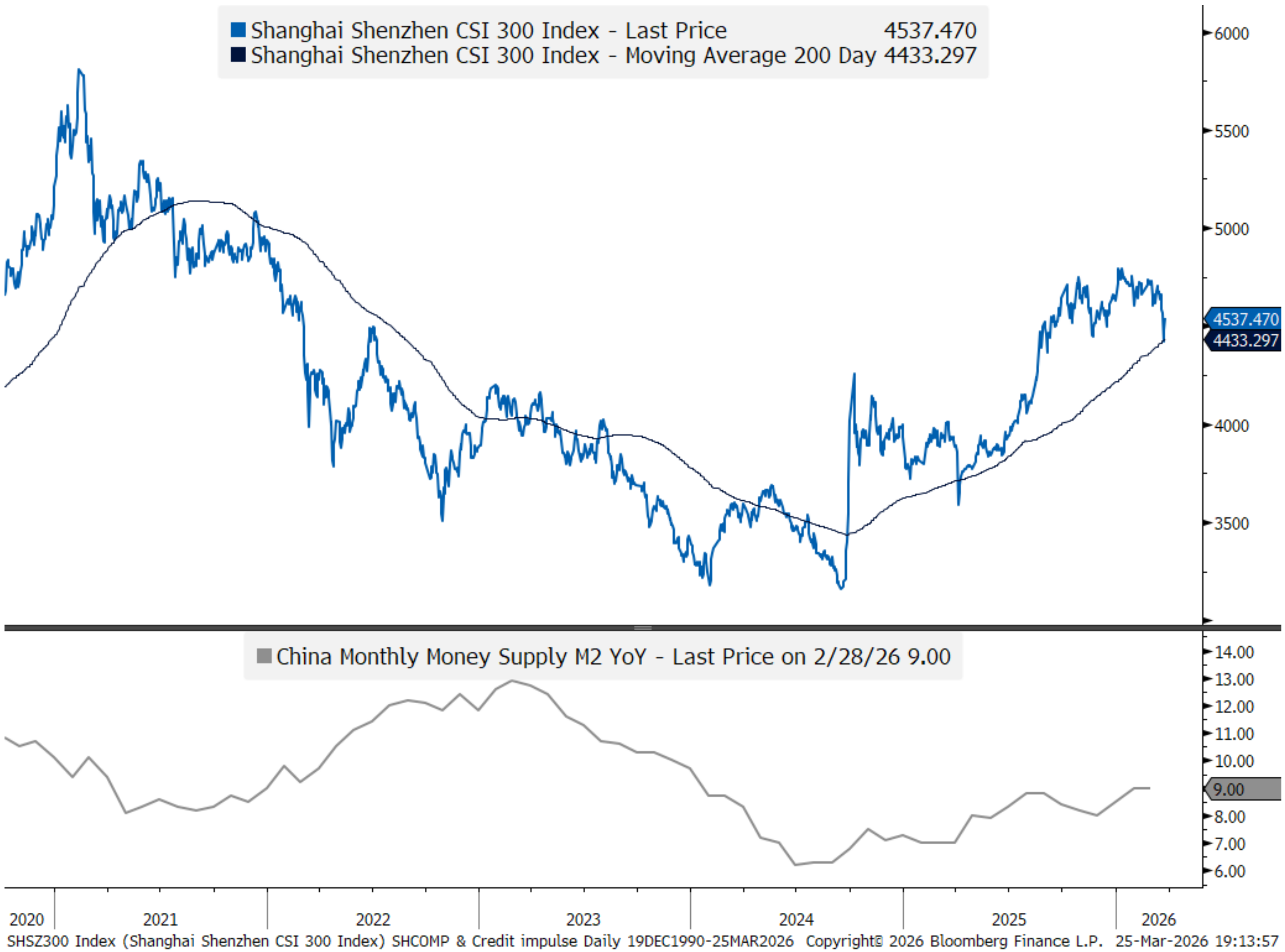


Few places to hide in Europe, with defensive sectors under pressure too. Investors need to be on the lookout for a bottom in industrials which have structural tailwinds but face short-term energy-related pressure.

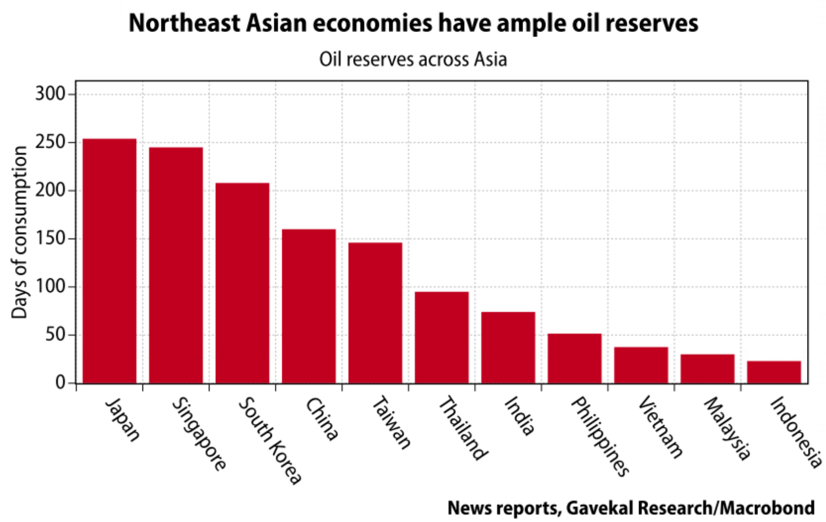


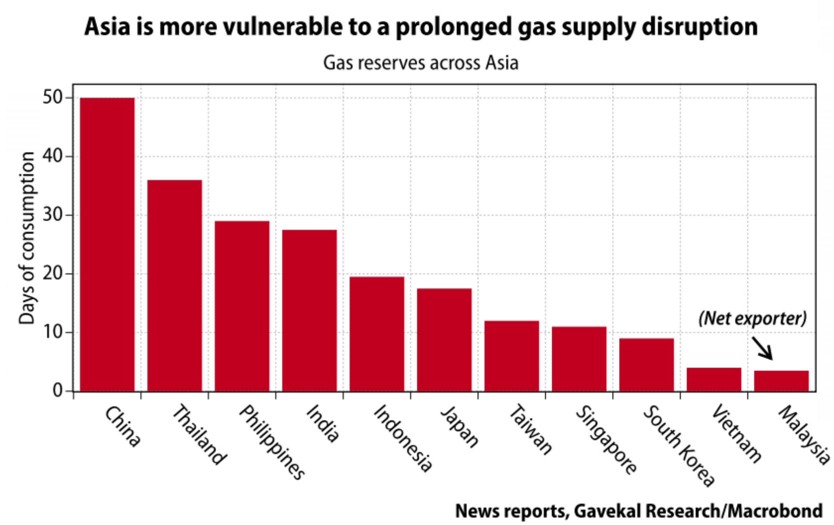
As of 25.03.2026

Chinese equities are retesting the 200dma. Noteworthy that there is more space for stimulus given the level of inflation. Large energy reserves also provide a sizable buffer.

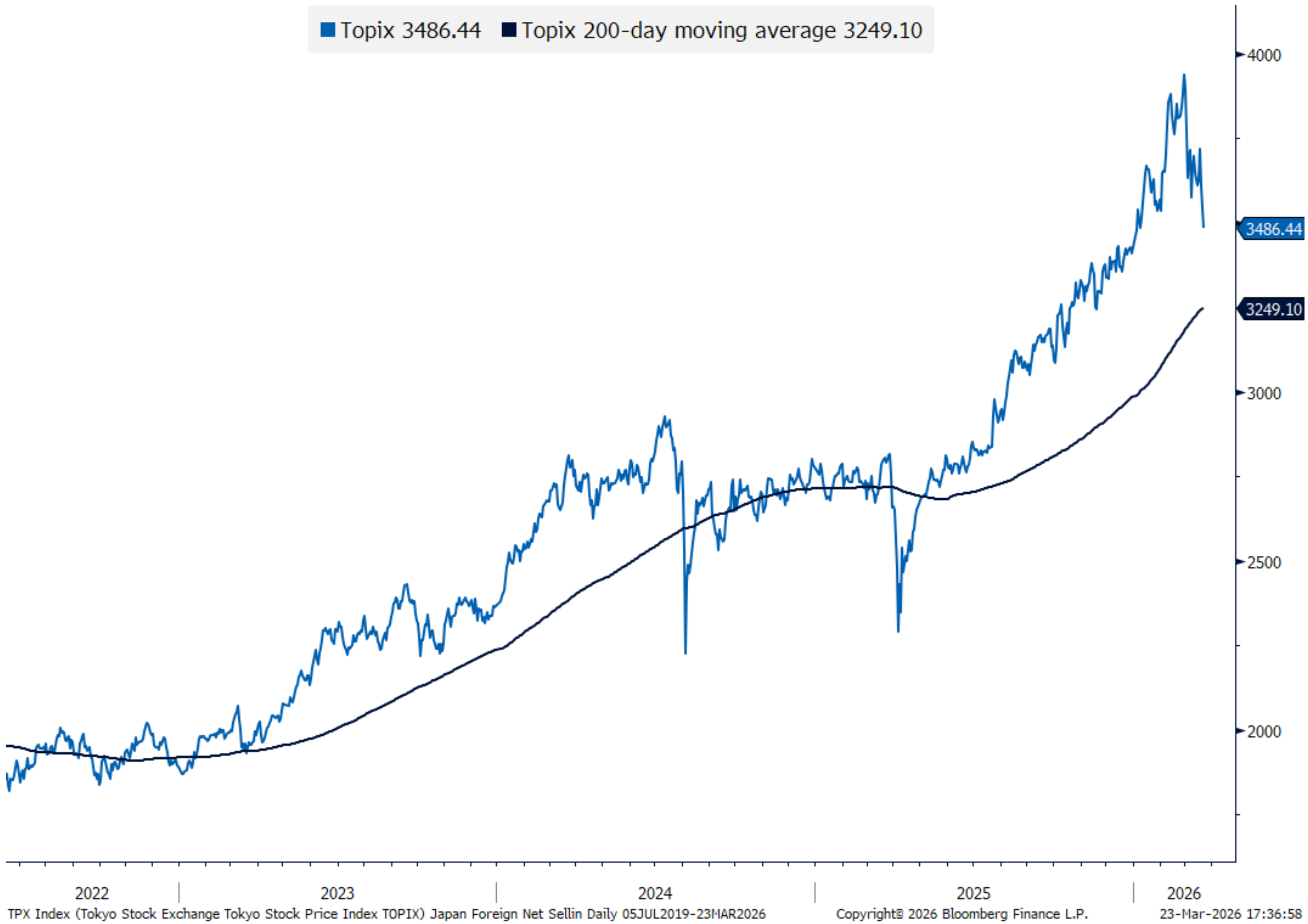


India and southeast Asia are more vulnerable to an energy shock, while China stands out as the best prepared for the current situation. Japan has ample oil reserves but is somewhat lacking on gas reserves.

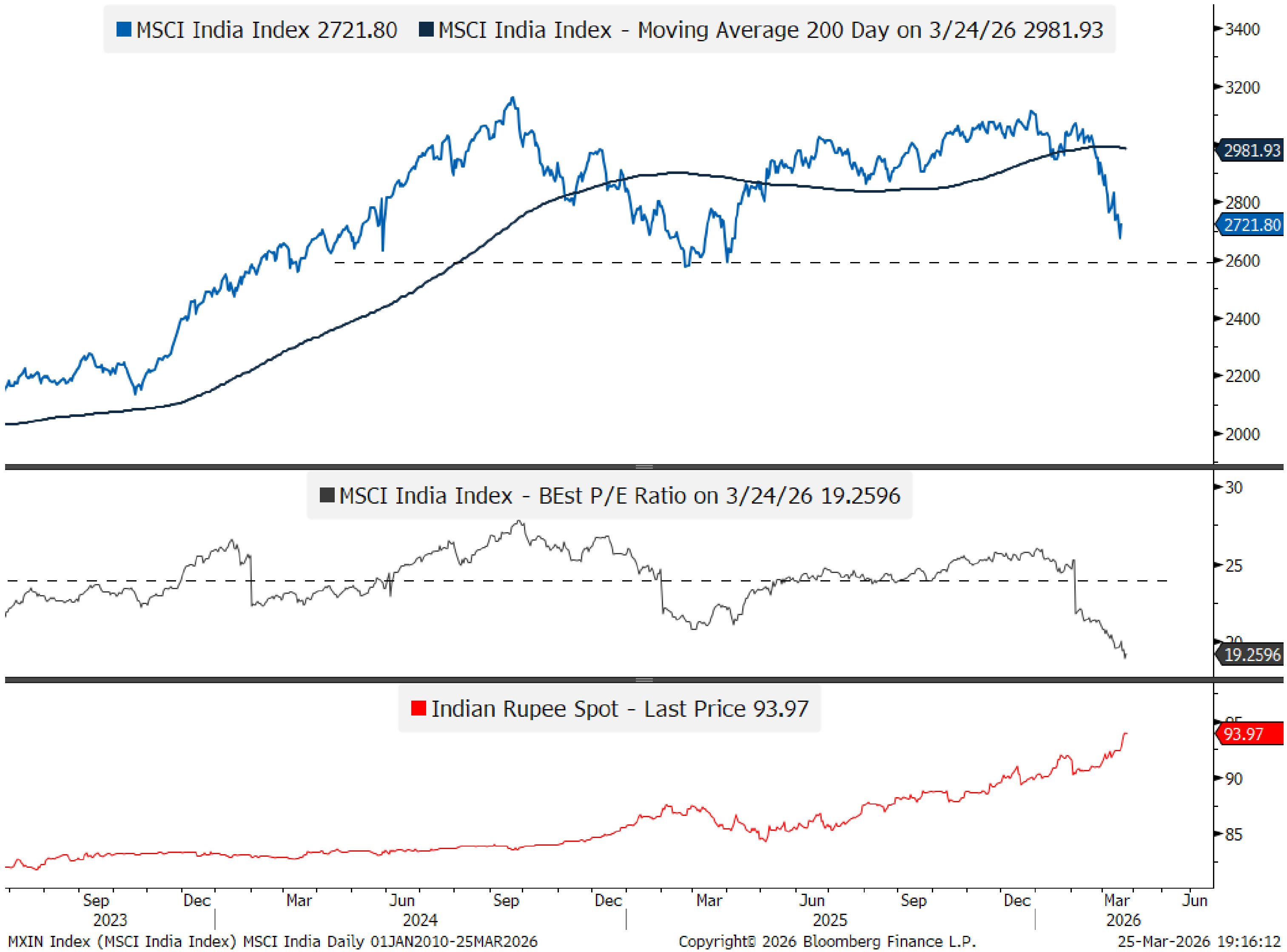




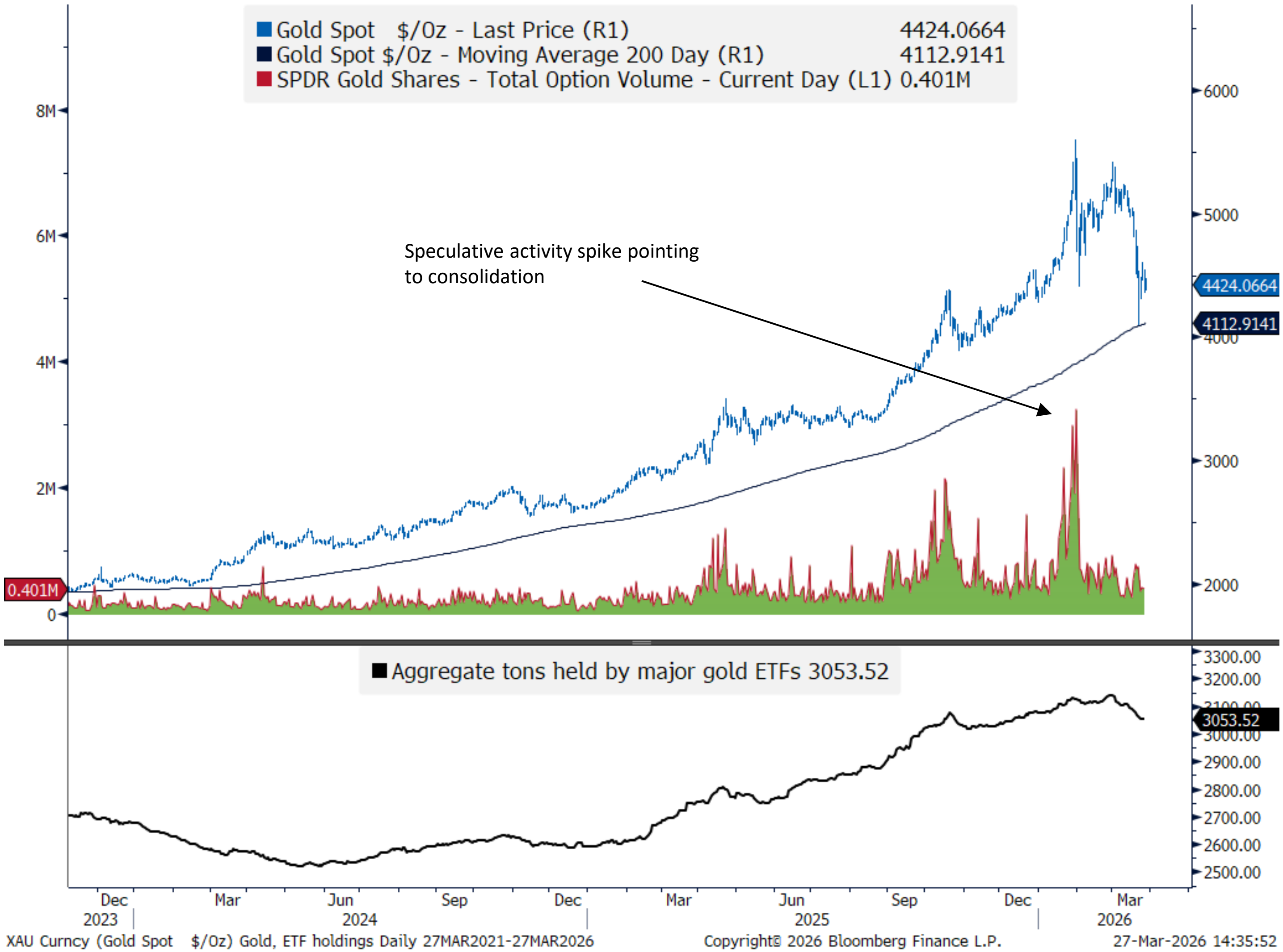
Topix likely headed for the 200dma, at which point investors should consider adding to their exposure.



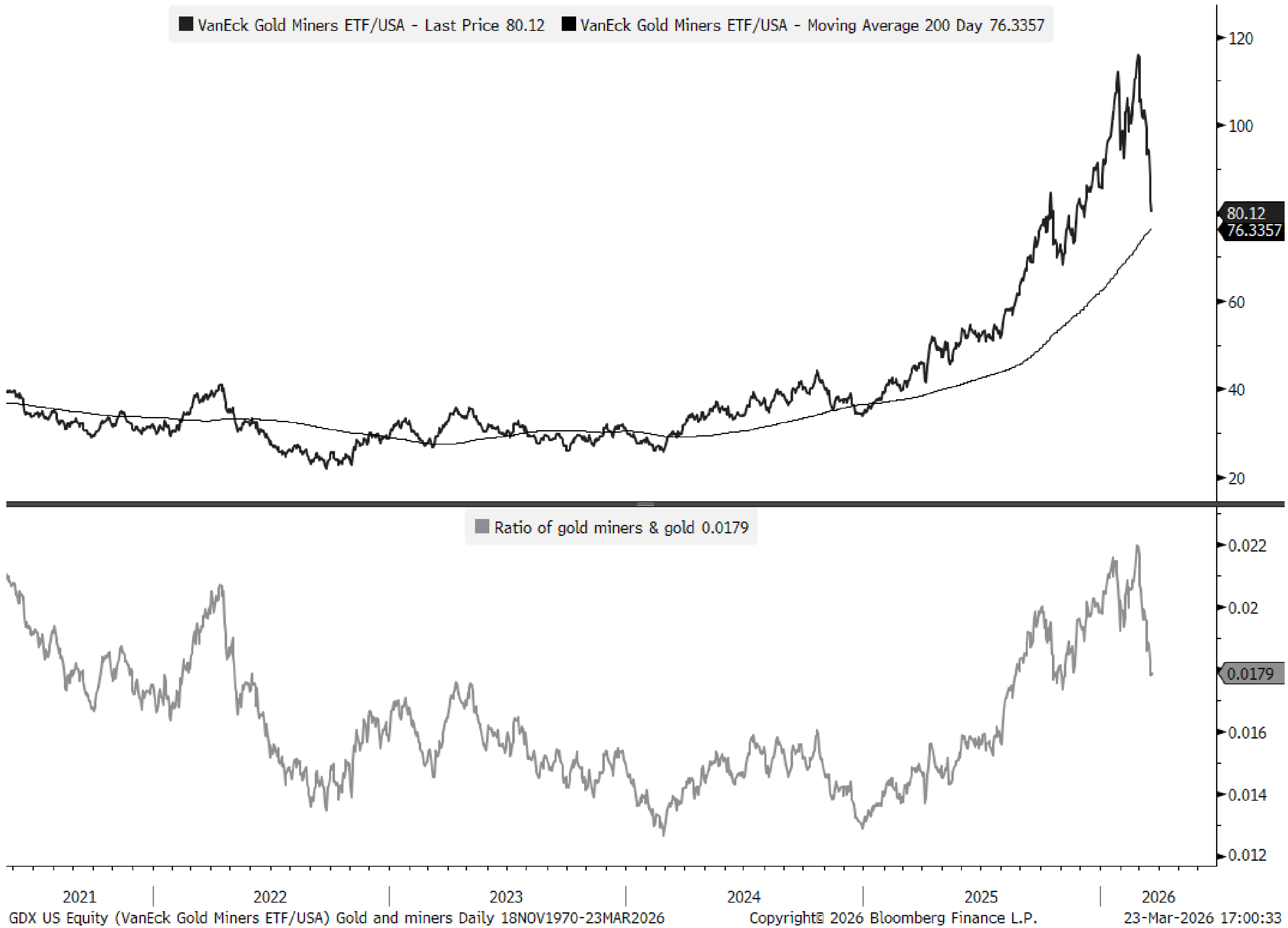
The latest energy crisis delays the formation of a bottom for Indian equities, which remain vulnerable.



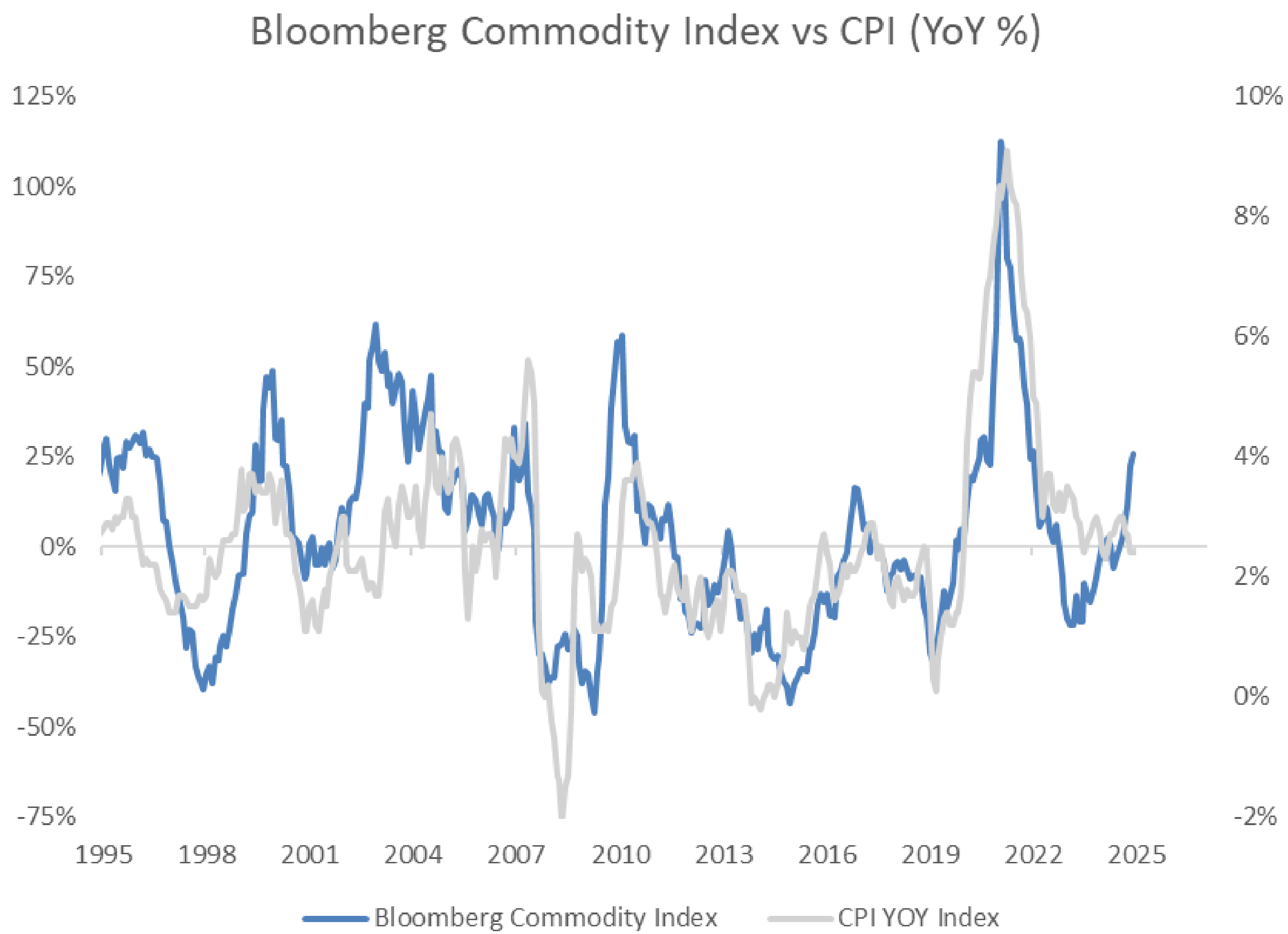
The correction in gold has reset sentiment and should be used to add to positions around USD 4250, as the yellow metal performs well in a stagflationary environment.



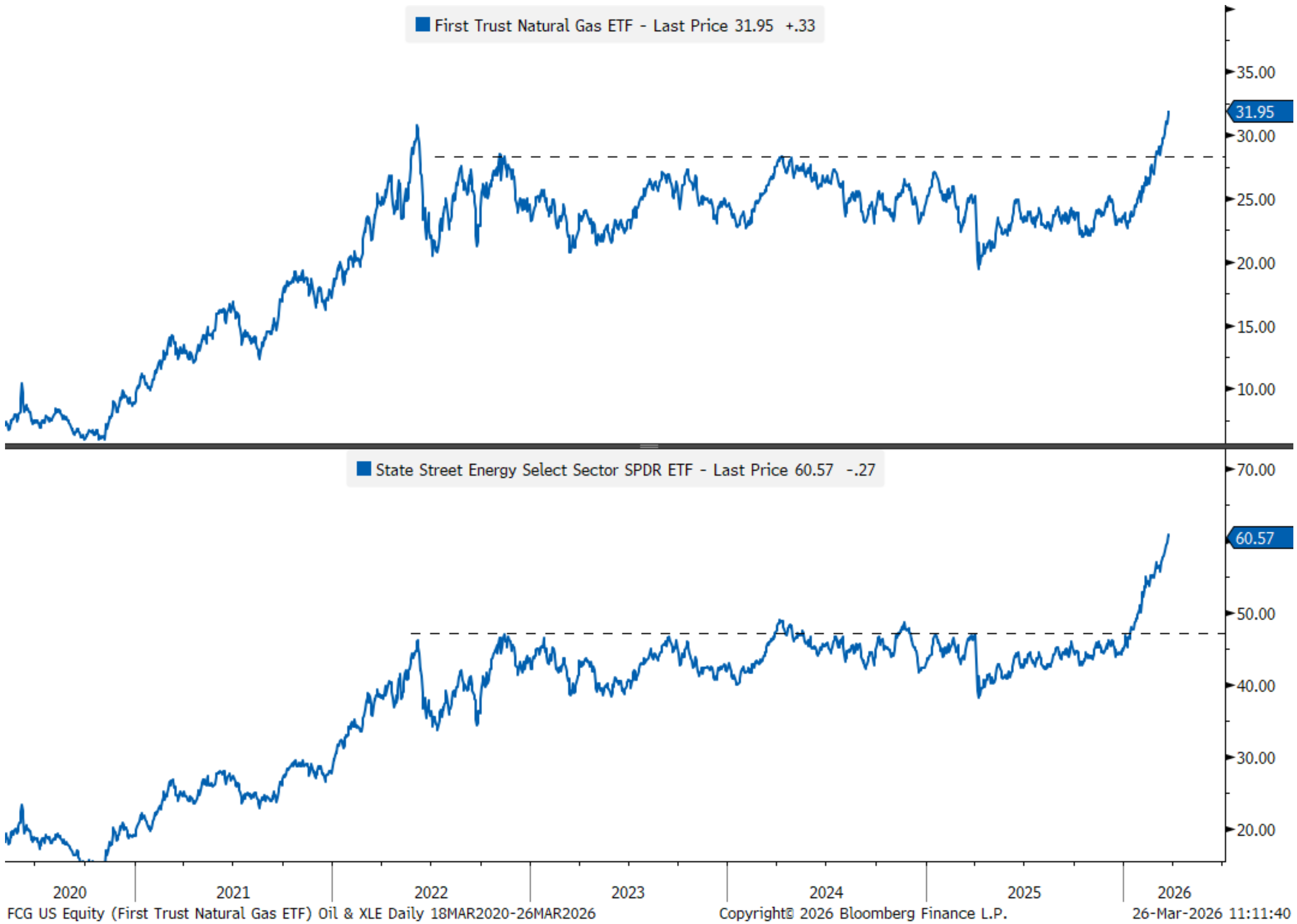
Gold miners are buyable again but are not as attractive as the metal given the rise in energy prices.



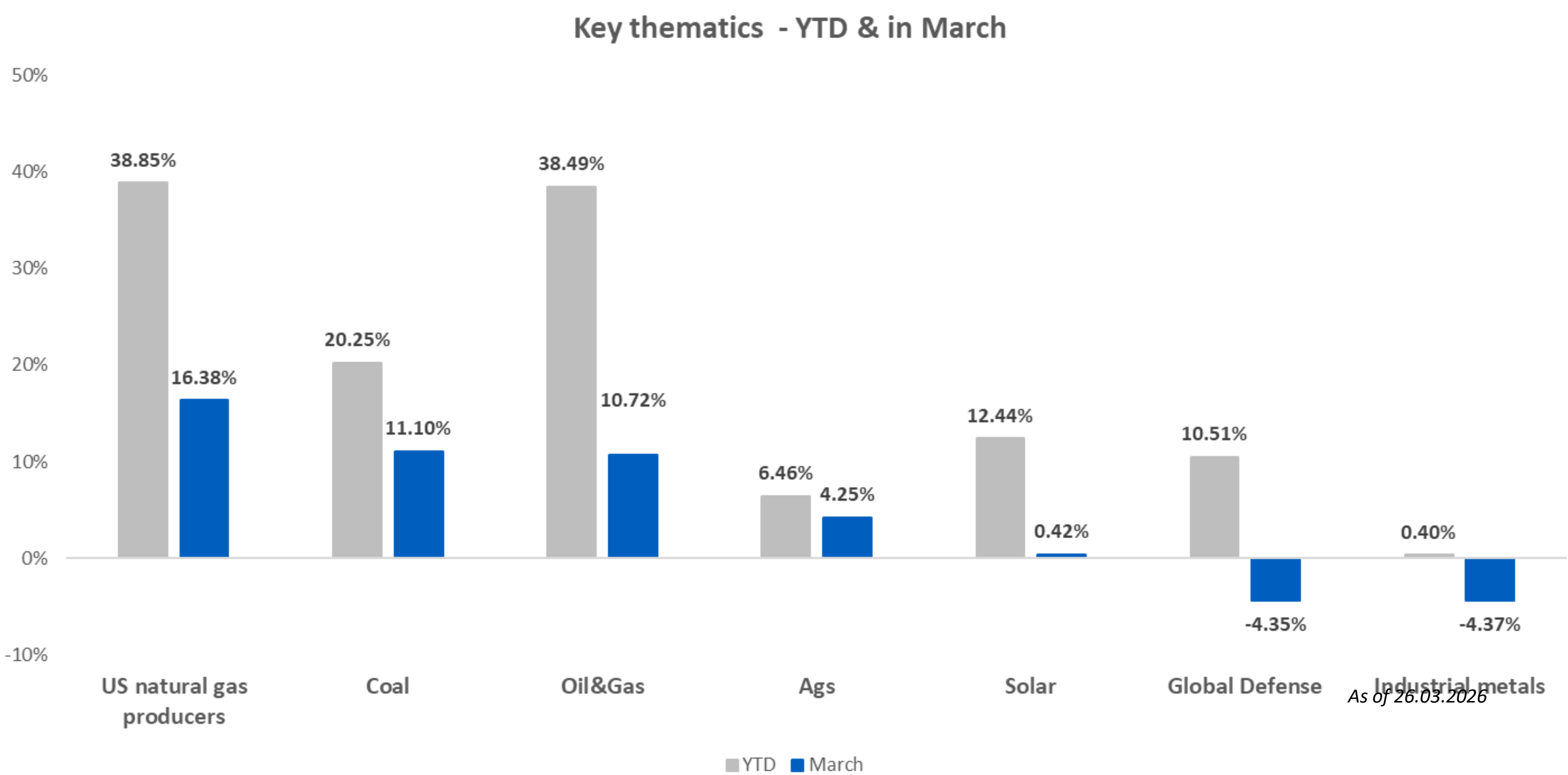
Commodities should be a key component of portfolios, as they perform well when inflation accelerates, even if growth slows…



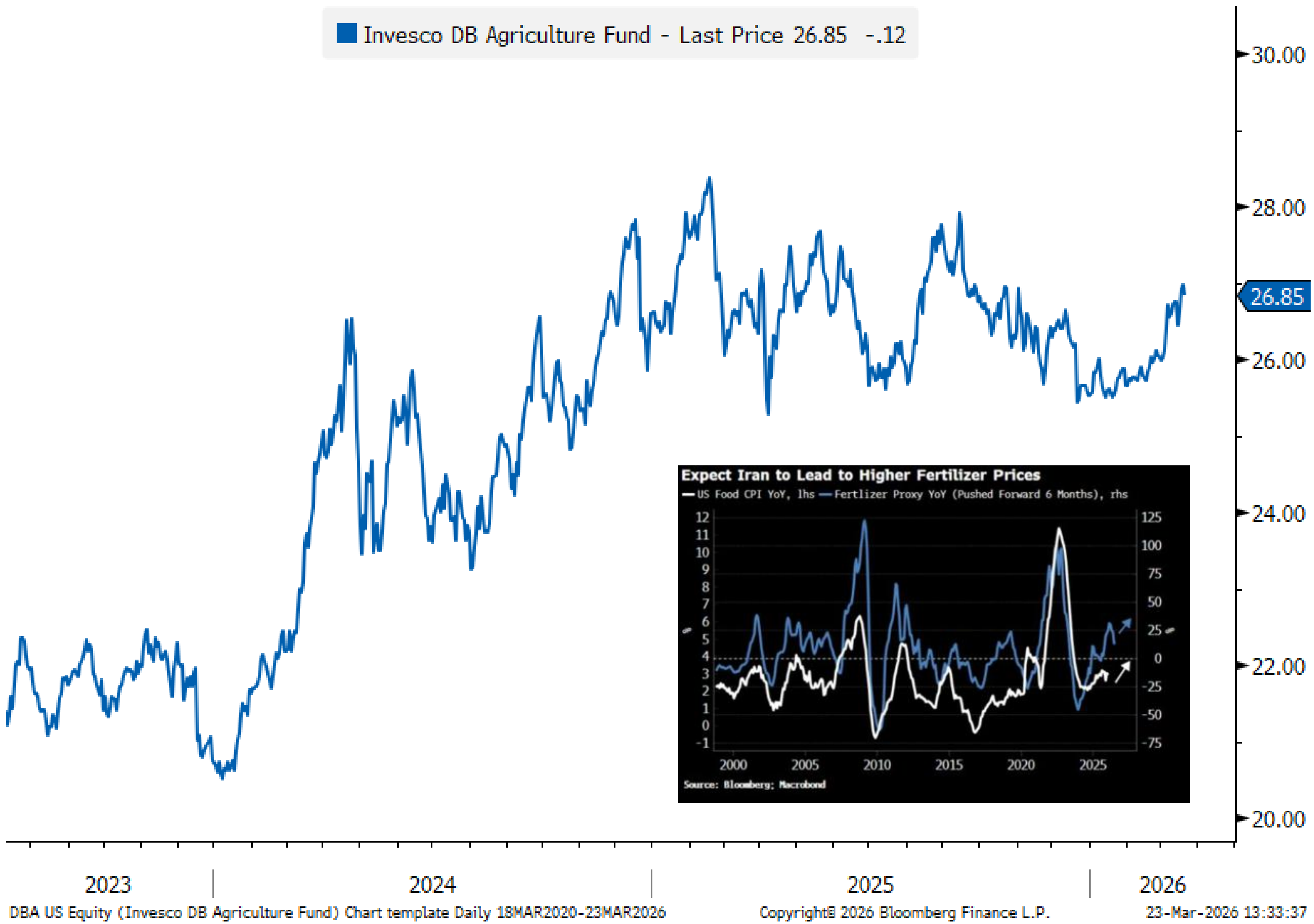
Oil & gas stocks have done remarkably well and should be bought on pullbacks. US natural gas producers are particularly attractive given the expected surge in oil LNG export capacity.



Between short-term disruption risks to longer term trends that are reinforced by the current situation, all sources of energy will see rising structural demand to ensure less dependence, while agricultural commodities might prove to be an effective hedge in this phase. Finally, specific industrial metals should be bought during this correction.



Being long agricultural commodities is a sensible hedge in the current environment given the impact on fertilizer prices and food production.



Summary table of our views

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Q2 2026 convictions table

		Underweight		*Neutral*	*Overweight*	*Comments*
Equity	US Equity			●		
	EU Equity	●			○	
	Swiss Equity		●		○	
	Japanese Equity		●		○	Stay long JPY
	Chinese Equity			●	○	
	Asian EM	●		○		
Fixed Income	Cash & Short term debt				●	duration 3-4 years and TIPS
	US Long term debt	●				
	EU long term debt	●				
	DM High Yield	●				
	EM Debt (Local)				●	
	EM Debt (Hard)			●		
Alternatives	Precious Metals & Miners				●	
	Commodities				●	
	REITs (EU + CH)	●		○		
	Hedge Funds			●		Favor Long-short
	Private Markets		●	○		

● Current View ○ Previous View

Forex					
EURUSD	EURCHF	EURGBP	USDCHF	USDJPY	GBPUSD
↓	→	→	↑	↓	↓

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