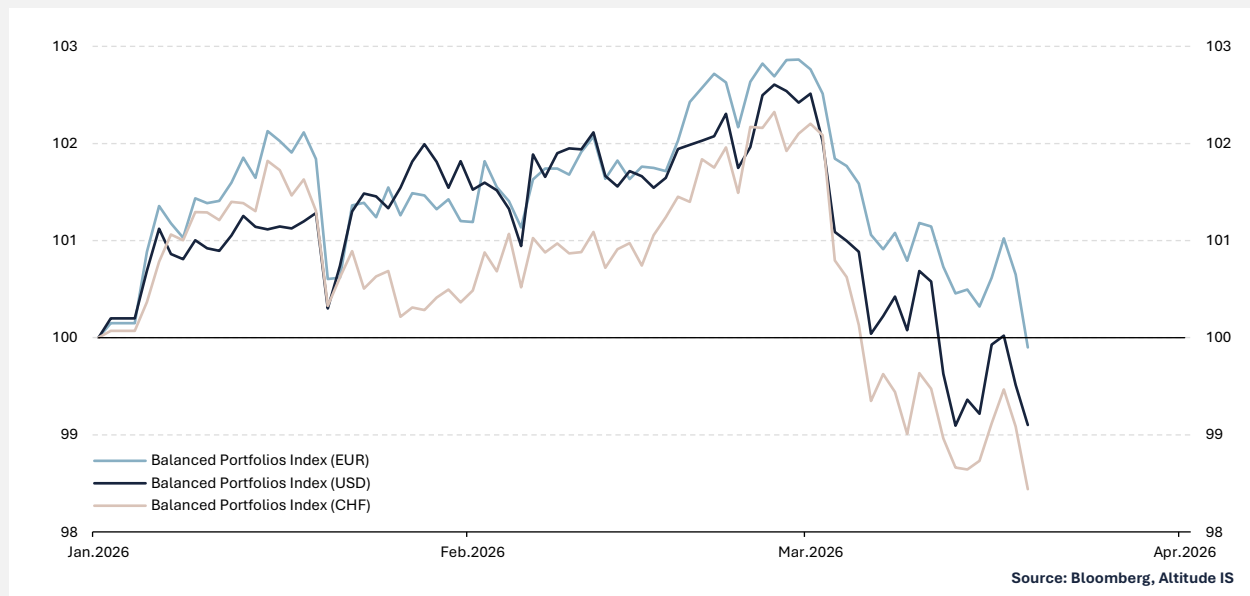


The flexiweekly that reaches new heights - published on 23 March 2026

"BETWEEN CRISIS AND OPTIMISM, PORTFOLIOS SWING"

- The March correction wiped out the strong performances of January and February
- Recently, only energy and the dollar have managed to generate profits
- The fall in equity markets appears justified and could deepen
- Conversely, gold and sovereign bonds are expected to rebound

CHART OF THE WEEK: "Back to square one for discretionary portfolio management"



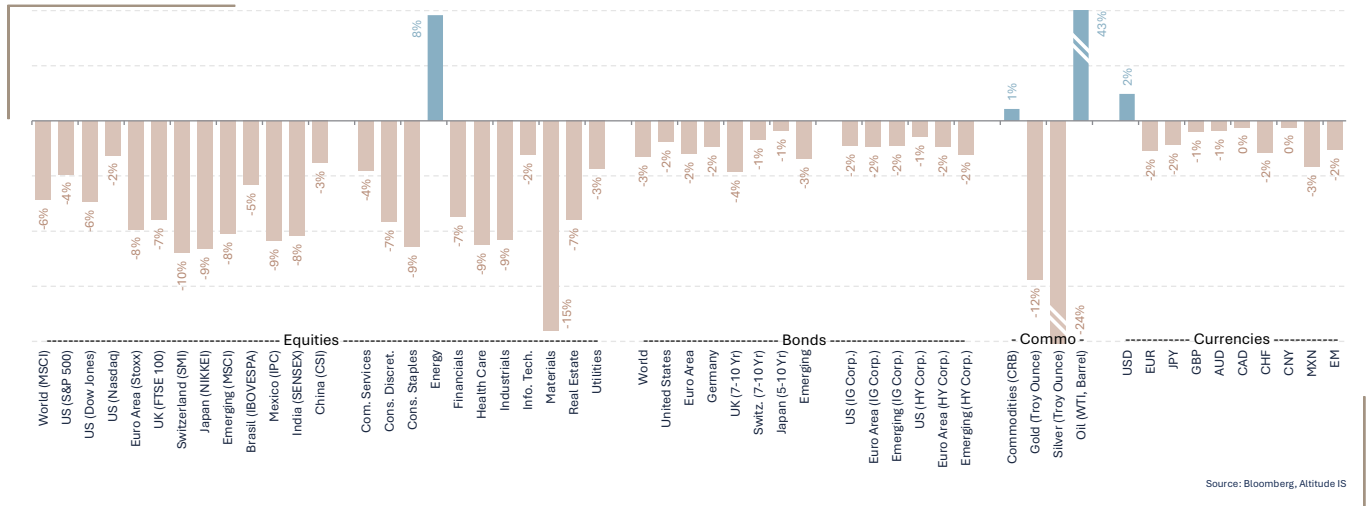
FINANCIAL MARKETS ANALYSIS

After enjoying a spectacular start to the year, investors struggled to navigate the market's shift in March. The war in Iran has thrown global growth and inflation forecasts into disarray. Economic stagnation is likely, whilst soaring oil prices have become a certainty. This combination, leading to stagflation, has hit the two main asset classes: equities, as earnings will suffer, and bonds, as interest rates rise. Gold, traditionally a safe-haven asset, has not had the opportunity to shine. Not only was the correction not severe enough for the yellow metal to be actively sought after by investors, but they were also forced to sell some of it to cover margin calls.



Over this three-week period, **only energy and the dollar generated a positive return on investment** (see Fig. 2). The greenback and US assets, to a lesser extent, played their usual protective role, despite the naysayers predicting the end of American hegemony. This respite was not enough to keep balanced portfolios afloat. The sharp, negative performance in March wiped out the very good results from January and February (see Chart of the Week).

Fig. 2 – Performance of the main asset classes in March



The war in Iran has called into question the sectoral and geographical rotations that had prevailed until then. The consumer staples sector, directly hit by the erosion of household purchasing power, has fallen off the podium. It has not yet caught up with the consumer discretionary, financials, technology and healthcare sectors, each of which is grappling with its own challenges. Similarly, Europe, Japan and emerging markets have given up much of the lead they had built up over the US at the start of the year. This sudden and unexpected upheaval has sent volatility soaring, in both the equity and bond markets. As is always the case in such circumstances, **credit spreads have widened rapidly** (see Fig. 3). Starting from very low levels, they nevertheless remain at absolute levels that could be described as modest. A prolongation of the conflict in Iran could easily push them higher and keep them at a higher level.

All these adjustments are perfectly logical and understandable. Conversely, the recent movement observed in interest rates seems suspicious. Since 28 February, yields on sovereign bonds have jumped by 30 to 60 basis points, depending on maturity and currency. Investors fear a stagflation scenario and a tightening of central banks' monetary policy. Our analysis leads us to question these two hasty conclusions.

- **Stagflation is extremely rare.** Over the past century, economists have regularly feared that this paradoxical situation might materialise, but there has been only one genuine period of economic stagnation combined with widespread price rises: during the 1970s. In all other cases, it was a 'simple recession', where the surge in prices naturally subsided as soon as the economy contracted, 12 to 18 months later.

It is worth recalling that, in the 1970s, the two oil crises prompted households to demand substantial pay rises in order to maintain their purchasing power in the face of rising prices (see Fig. 4). Companies then sought to pass on the rise in production costs to their selling prices. A wage-price spiral was set in motion. This strategy on the part of workers was only possible because, after 30



years of extremely low unemployment, their bargaining power was considerable. A generalised wage increase is not feasible today, as the labour market is anything but overheated, particularly given the fierce competition posed by artificial intelligence. **This time, if the inflationary shock were to continue, it would therefore lead to a ‘simple recession’.**

Fig. 3 – Volatility and credit spread

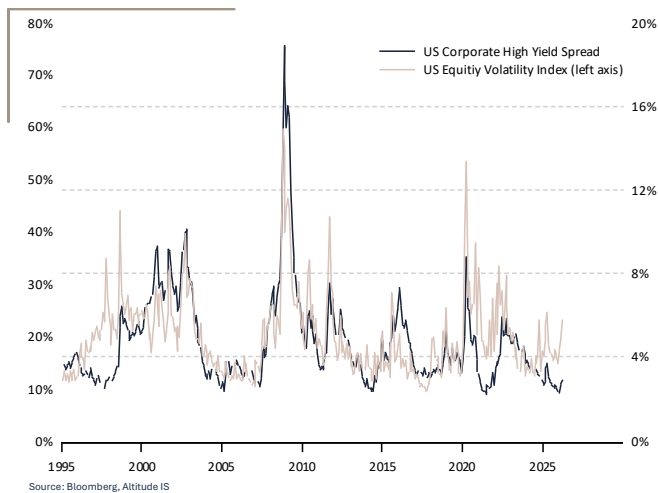
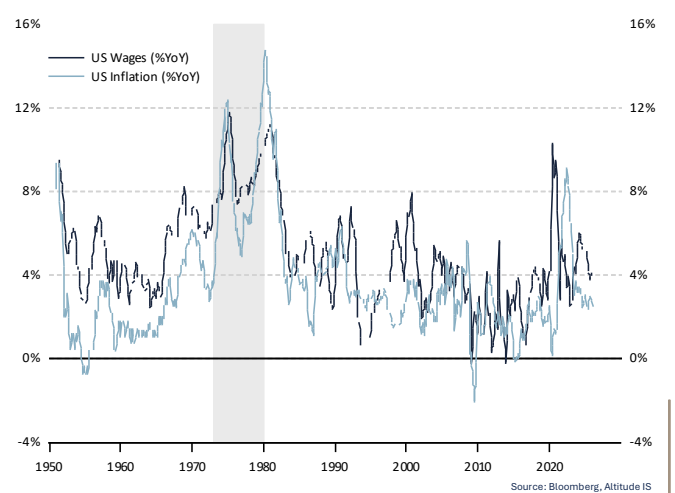


Fig. 4 – Price and wage growth



- **Central banks almost never react to a supply shock**, as raising interest rates would not bring down energy prices but would exacerbate the stagnation scenario. Would they seek to push the economy into recession for the sole purpose of bringing inflation back below 2%, as some analysts conclude? **It is possible if they are determined to stabilise inflation expectations, but it would be risky because, once the supply shock has passed, they might discover they have created a deflationary situation.** Yet, for economists, deflation is the worst of all evils, worse than inflation.

It is highly likely that investors have a misleading recollection of the situation in 2022, when central banks drastically raised their key interest rates. Admittedly, the COVID-19 pandemic also constituted a supply shock, and central banks eventually took action in response. But note that they did not do so because energy and transport prices had caused high inflation. They acted when they realised that this supply shock was accompanied by a demand shock. Indeed, after months of forced saving and government subsidies, households had ended up accumulating a massive amount of savings. Their frustration and purchasing power were such – almost compulsive – that firms could easily pass on increases in input costs to their selling prices. Firms had even agreed to raise wages, thereby triggering an inflationary spiral. It was at that point and for that reason that central banks raised their key interest rates, and not in response to the supply shock. **The current situation is very different. Households do not have the capacity to spend more.** The latest surveys show that they are cutting back on certain consumer spending to offset rising energy prices. They are making trade-offs, foregoing leisure activities and tightening their budgets for future holidays.

The implications of the war in Iran, however significant they may be, must not overshadow the other issues of concern to investors: the credit crisis (see [WIF of 2 March 2026](#)), overinvestment in artificial intelligence, drug price regulation, uncertainty over customs tariffs, the change of Fed governors (see [WIF of 16 March 2026](#)) and, last but not least, **the excessive valuation of stock market indices.**



Fig. 5 – US equity valuations

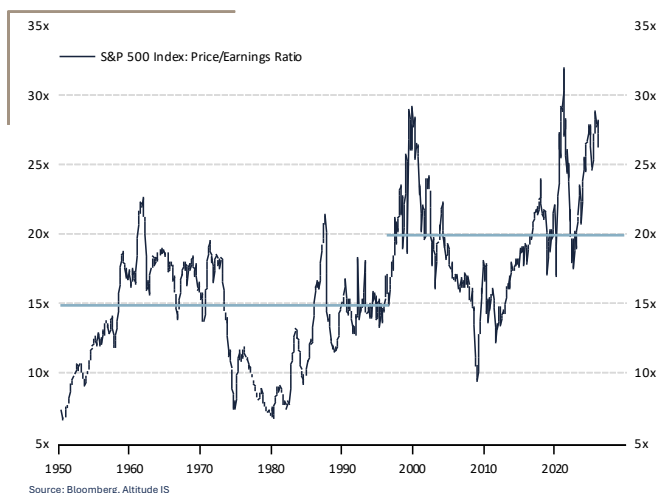
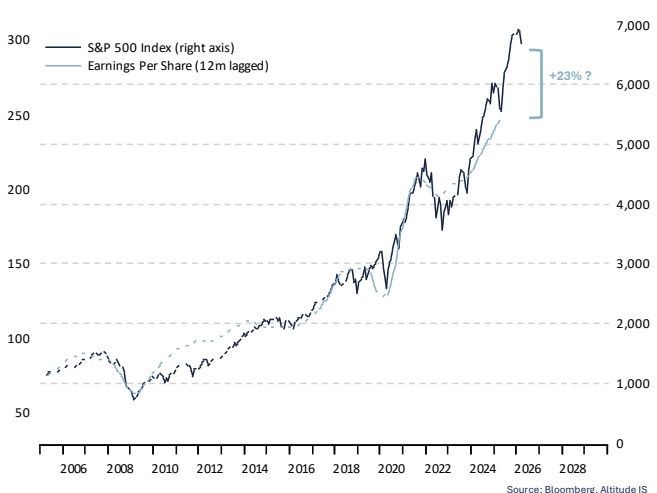


Fig. 6 – US share prices and earnings



Listed companies are expensive, but this is nothing new, as the ratios of their share prices to earnings have been above historical averages for nearly 10 years (see Fig. 5). **What is new is the extreme nature of these ratios.** To bring them back to an acceptable level and justify the current level of the indices, earnings would need to rise by 23% over the next 12 months (see Fig. 6). This is very optimistic – some might say utopian. **The most dangerous aspect is, above all, investors’ growing accustomed to this situation.** There are numerous factors reflecting investor complacency and a failure to adequately account for inherent risk. Let us mention two. US households’ equity allocation has never been higher, nor has the leverage employed by institutional investors. **This means that at the next market stress event, the unwinding of some of these positions will amplify the correction.**

Fig. 7 – Equity market & sector rotation

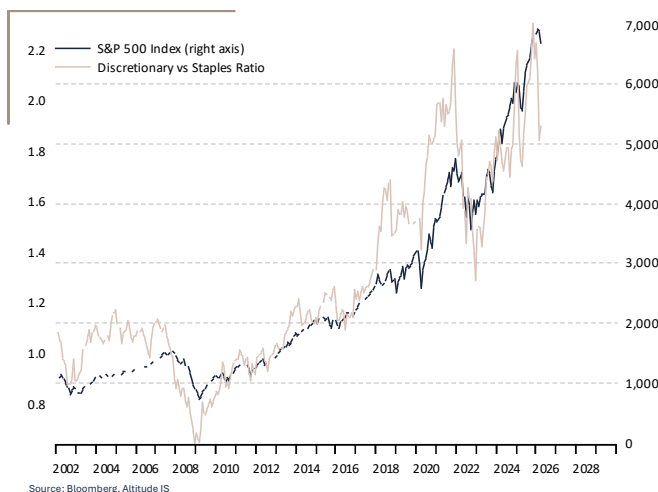


Fig. 8 – Public vs private equity markets



The aim is not to cry wolf and cause unnecessary alarm, but to remind investors that caution must remain a key consideration in portfolios. Just because a risk has not yet materialised does not mean it does not exist. **A bear market would be nothing out of the ordinary to correct excesses, and several leading indicators point to this possibility.** The recent sector rotation, favouring consumer staples at the expense of consumer discretionary, or value stocks over growth stocks, is usually a sign of a broad



market correction (see Fig. 7). As for the difficulties faced by private companies, these could ultimately drag down the entire listed market (see Fig. 8).

Fig. 9 – AI bubble and dot-com bubble

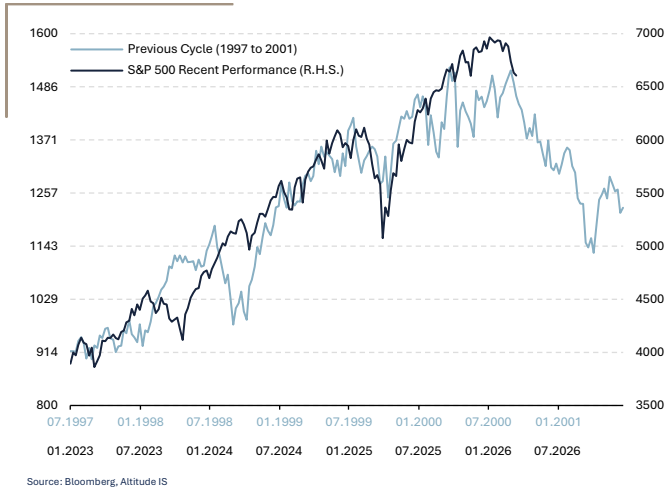
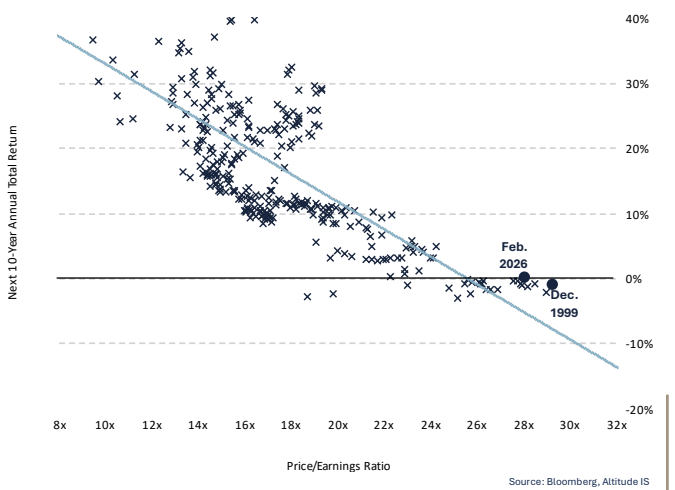
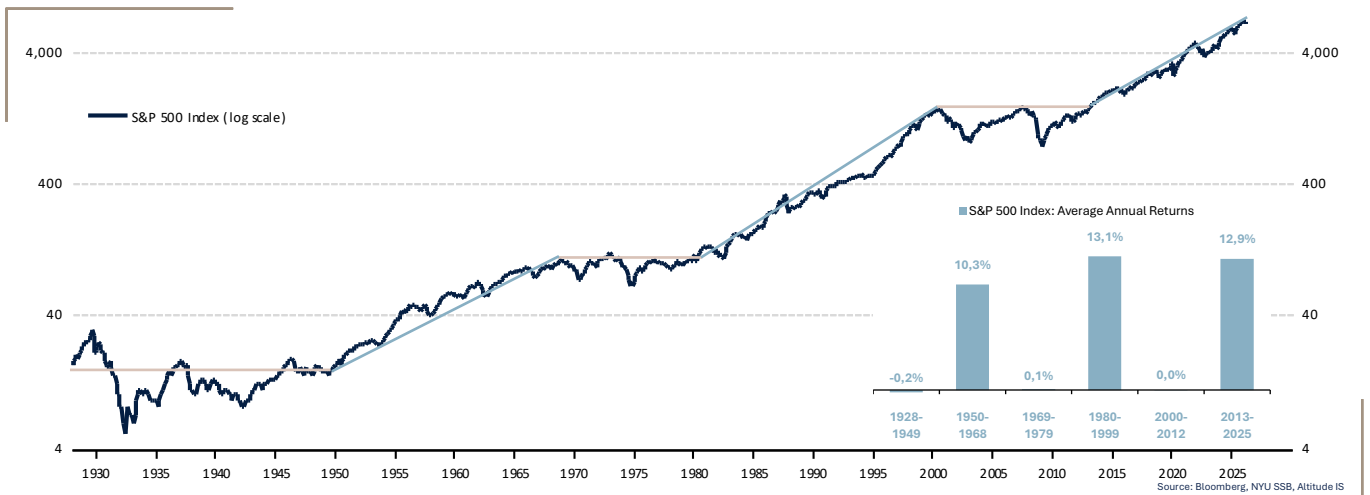


Fig. 10 – Expected return based on valuation



Most investors wonder what event will trigger the next stock market crisis. **For the record, there is no need for a trigger when markets are expensive.** The correction begins quietly, without fanfare, simply because there are no longer enough marginal buyers to absorb even small selling positions. This is what happened in 2000, during the internet boom. The financial bubble had not burst, but it had deflated (see Fig. 9).

Fig. 11 – Markets rising in stages



Given the valuation ratios at the time, **stock market performance was flat for over a decade** (see Fig. 10). In other words, it took 13 long years to surpass the highs reached by the indices in 2000 (see Fig. 11). This could happen again, which is why it makes sense to exercise caution. Anticipating the downturn will allow investors to increase their allocation to risky assets once the storm has passed. Investors will then not have to wait a decade for their positive returns to wipe out their losses.



Conclusion:

The 2026 returns of balanced portfolios are close to zero and could end up in negative territory. Fortunately, the worst is never certain, and equity investors' optimism could persist. However, to guard against a bear market, investors will likely turn to defensive sectors rather than reduce their equity allocation too much. At the same time, the forthcoming positive contributions from gold and sovereign bonds should help them cushion any future shocks.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)	
Equities								
World (MSCI)	981.3	28.15	-1.8%	-6.6%	-3.0%	22.9%	18.0%	
USA (S&P 500)	6 506	29.88	-1.9%	-5.7%	-4.7%	17.9%	25.0%	
USA (Dow Jones)	45 577	25.29	-2.1%	-8.0%	-4.8%	14.9%	15.0%	
USA (Nasdaq)	21 648	33.62	-2.1%	-5.3%	-6.7%	21.2%	29.6%	
Euro Area (DJ EuroStoxx)	586.1	29.88	-3.6%	-9.6%	-4.1%	25.2%	10.2%	
UK (FTSE 100)	9 918	32.42	-3.2%	-6.7%	0.7%	25.7%	9.6%	
Switzerland (SMI)	12 321	23.13	-4.0%	-10.2%	-6.1%	18.0%	7.5%	
Japan (Nikkei)	51 515	43.23	-2.0%	-7.1%	6.1%	28.7%	21.3%	
Emerging (MSCI)	1 463	41.35	-0.3%	-6.4%	4.5%	34.3%	8.0%	
Brazil (IBOVESPA)	176 219	39.88	-0.8%	-7.5%	9.4%	34.0%	-10.4%	
Mexico (IPC)	64 135	30.64	-2.3%	-10.1%	-0.1%	35.1%	-11.0%	
India (SENSEX)	72 803	31.02	0.0%	-10.0%	-12.4%	10.5%	9.6%	
China (CSI)	4 416	38.41	-2.2%	-2.0%	-1.2%	21.0%	18.2%	
Com. Services (MSCI World)	155.1	33.42	-1.9%	-4.4%	-5.4%	33.0%	31.9%	
Cons. Discretionary (MSCI World)	406.2	25.88	-2.9%	-8.9%	-11.1%	9.8%	20.7%	
Cons. Staples (MSCI World)	294.8	25.45	-4.0%	-8.2%	2.1%	9.3%	4.7%	
Energy (MSCI World)	340.7	77.11	3.1%	9.3%	29.8%	14.8%	2.9%	
Financials (MSCI World)	209.1	31.61	-0.1%	-8.4%	-7.2%	29.5%	25.1%	
Health Care (MSCI World)	369.1	21.82	-2.8%	-8.7%	-6.0%	15.3%	1.5%	
Industrials (MSCI World)	481.8	28.63	-2.1%	-9.2%	3.4%	26.2%	12.8%	
Info. Tech. (MSCI World)	922.0	37.67	-1.3%	-4.9%	-4.5%	26.6%	31.9%	
Materials (MSCI World)	396.2	25.90	-5.8%	-13.1%	0.8%	32.5%	-7.6%	
Real Estate (MSCI World)	984	25.03	-3.2%	-8.6%	-0.1%	3.6%	-0.4%	
Utilities (MSCI World)	203.7	35.74	-4.0%	-3.5%	5.8%	24.7%	13.0%	
Bonds (Bloomberg)								
World (Aggregate)	3.82%	32.16	-0.1%	-2.6%	-1.1%	8.2%	-1.7%	
USA (Sovereign)	4.22%	32.43	-0.5%	-1.6%	-0.6%	6.3%	0.6%	
Euro Area (Sovereign)	3.29%	31.02	-0.5%	-2.4%	-0.9%	0.6%	1.9%	
Germany (Sovereign)	2.90%	31.15	-0.4%	-1.7%	-0.6%	-1.6%	0.6%	
UK (Sovereign)	4.95%	30.13	-1.2%	-3.8%	-2.3%	6.1%	-3.0%	
Switzerland (Sovereign)	0.54%	37.82	0.0%	-1.1%	-0.2%	0.3%	5.4%	
Japan (Sovereign)	1.99%	43.39	0.0%	-0.6%	-0.5%	-4.6%	-2.1%	
Emerging (Sovereign)	6.41%	23.32	-1.2%	-3.5%	-1.9%	13.1%	7.0%	
USA (IG Corp.)	5.22%	30.99	-0.6%	-2.5%	-1.2%	7.8%	2.1%	
Euro Area (IG Corp.)	3.72%	27.61	-0.6%	-2.2%	-1.0%	3.0%	4.7%	
Emerging (IG Corp.)	6.55%	17.74	-0.8%	-2.0%	-0.7%	8.1%	7.0%	
USA (HY Corp.)	7.46%	29.05	-0.5%	-1.7%	-0.8%	8.6%	8.2%	
Euro Area (HY Corp.)	6.21%	28.26	-0.3%	-2.1%	-1.2%	5.2%	8.2%	
Emerging (HY Corp.)	7.96%	23.96	-1.2%	-3.3%	-1.3%	13.9%	14.9%	
World (Convertibles)	557.2	40.36	-0.1%	-3.3%	3.4%	22.4%	9.4%	
USA (Convertibles)	725.4	43.72	-0.3%	-2.5%	3.6%	16.9%	10.1%	
Euro Area (Convertibles)	297.5	39.56	-0.6%	-2.5%	2.4%	24.8%	14.7%	
Switzerland (Convertibles)	293.5	34.07	-2.1%	-2.0%	3.7%	17.5%	-10.5%	
Japan (Convertibles)	275.9	44.54	-0.1%	-4.3%	6.9%	13.8%	6.4%	
Hedge Funds (Bloomberg)								
Hedge Funds Industry	1 874	90.77	n.a.	1.0%	3.6%	12.3%	11.1%	
Macro	1 555	84.11	n.a.	1.6%	6.0%	9.4%	7.4%	
Equity Long Only	2 561	81.93	n.a.	1.6%	3.5%	11.8%	12.0%	
Equity Long/Short	2 055	90.93	n.a.	1.3%	4.3%	17.6%	14.0%	
Event Driven	1 980	89.77	n.a.	1.5%	3.2%	11.3%	8.7%	
Fundamental Equity Mkt Neutral	1 971	97.56	n.a.	2.3%	5.2%	13.4%	12.4%	
Quantitative Equity Mkt Neutral	1 773	71.47	n.a.	-1.2%	-2.0%	8.7%	9.8%	
Credit	1 742	98.80	n.a.	0.2%	1.4%	7.7%	8.5%	
Credit Long/Short	1 773	100.00	n.a.	0.2%	2.3%	6.5%	10.0%	
Commodity	2 151	93.48	n.a.	1.2%	7.5%	11.8%	14.7%	
Commodity Trading Advisors	1 549	72.47	n.a.	4.2%	9.0%	5.9%	7.9%	
Volatility								
VIX	26.78	58.21	-1.5%	40.3%	79.1%	-13.8%	39.4%	
VSTOXX	31.77	62.94	4.7%	70.0%	115.9%	-13.5%	25.3%	
Commodities								
Commodities (CRB)	555.9	n.a.	-1.1%	1.7%	3.0%	0.6%	5.1%	
Gold (Troy Ounce)	4 226	n.a.	-15.6%	-19.2%	-2.2%	64.6%	27.2%	
Silver (Troy Ounce)	62.77	n.a.	-22.3%	-28.8%	-12.4%	148.0%	21.5%	
Oil (WTI, Barrel)	98.32	n.a.	-0.4%	48.1%	71.2%	-19.9%	0.1%	
Oil (Brent, Barrel)	116.24	n.a.	12.2%	60.8%	86.1%	-15.7%	-4.6%	
Currencies (vs USD)								
USD (Dollar Index)	99.89	59.64	0.2%	2.2%	1.6%	-9.4%	7.1%	
EUR	1.1529	42.01	0.2%	-2.2%	-1.8%	13.4%	-6.2%	
JPY	159.51	39.77	-0.3%	-3.0%	-1.8%	0.3%	-10.3%	
GBP	1.3290	42.30	-0.2%	-1.5%	-1.4%	7.7%	-1.7%	
AUD	0.6958	43.87	-1.6%	-1.4%	4.3%	7.8%	-9.2%	
CAD	1.3732	42.75	-0.3%	-0.3%	-0.1%	4.8%	-7.9%	
CHF	0.7901	41.37	-0.3%	-1.9%	0.3%	14.5%	-7.3%	
CNY	6.9083	48.98	-0.3%	0.0%	1.2%	4.5%	-2.7%	
MXN	18.007	37.56	-1.8%	-4.1%	0.0%	15.7%	-18.5%	
EM (Emerging Index)	1 840.7	37.32	-0.2%	-1.7%	-0.6%	7.2%	-0.7%	
XBT	67 864	n.a.	-4.7%	5.1%	-22.6%	-6.5%	120.5%	

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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