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INVESTMENT SOLUTIONS

weekly investment focus

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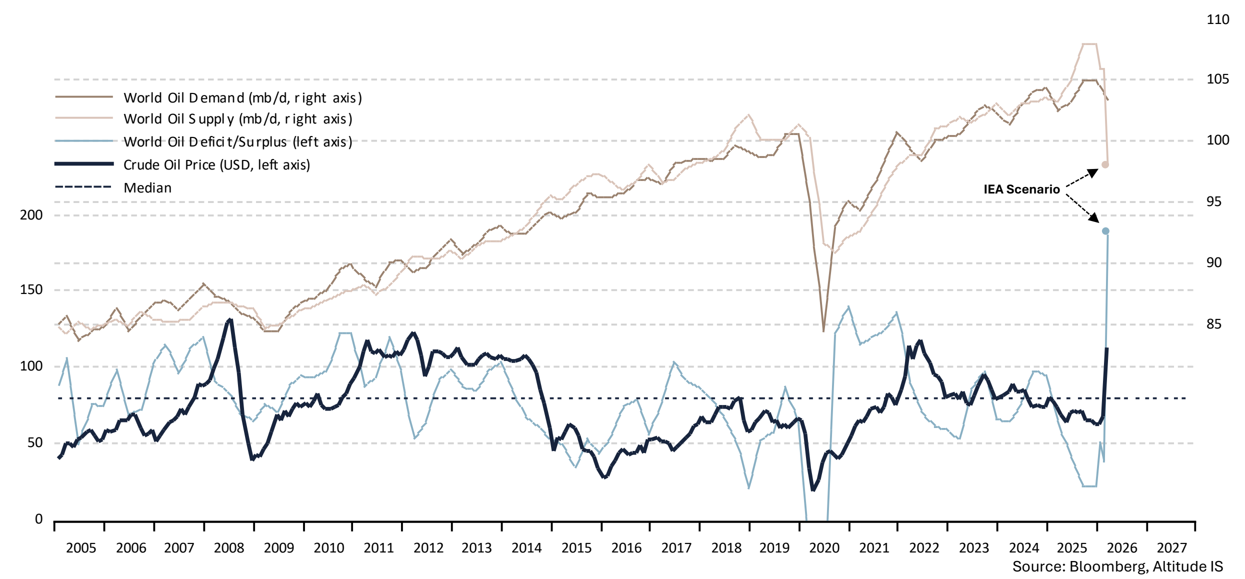
"WHAT IF THE WAR LASTED A LONG TIME?"

- The consequences of the conflict in Iran on the global economy are becoming apparent
- Financial markets are being affected, creating a range of opportunities
- The trend in energy prices will be decisive for the rest of the year
- Oil companies and Swiss banks are coming out on top

CHART OF THE WEEK: "If oil supply were to fall further, prices would soar"



Source: Bloomberg, Altitude IS

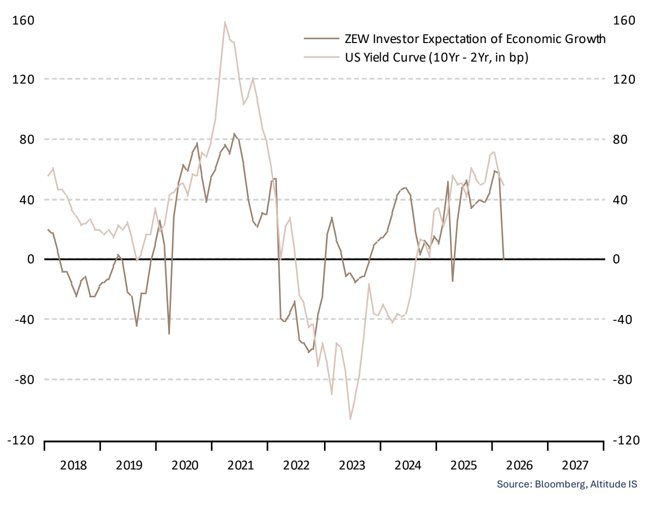
FINANCIAL MARKETS ANALYSIS

March is drawing to a close, but the war in Iran continues, and its negative repercussions on the global economy are becoming increasingly apparent. Strategists are attempting to quantify the impact of the oil shock based on various geopolitical scenarios. Goldman Sachs has just raised the probability of a recession in the United States to 30 per cent. Others, such as JPMorgan and Moody's Analytics, estimate it at 35% and 48% respectively. **If the economic consequences of this war differ, it is only in terms of their intensity, for it is absolutely certain that inflation will be higher, growth weaker, business investment and employment revised downwards, and consumption sluggish.** All this will be accompanied by a sense of uncertainty that is more pronounced than usual. Purchasing managers' confidence is already beginning to erode. In the United States, the purchasing managers' index is still holding up at 51.4 points, but in the Eurozone, it is once again hovering around the 50-point mark that separates periods of economic expansion from contraction. In Germany, the Ifo index confirms the deterioration in business sentiment (see Fig. 2), putting the long-awaited recovery at risk. In Japan, the UK, Switzerland and China, economic prospects are visibly deteriorating almost everywhere. **The only hope lies in the war ending quickly, but nothing could be less certain.**

Investors are also voicing their concerns. The ZEW index of German investor sentiment fell to -0.5, down from 58.3 in February. This sharp decline has pushed it back into negative territory for the first time since April 2025 (see Fig. 3). **In the equity market, indices have fallen** by **an average** of **9%** from their February highs. **In the bond market,** the picture may seem less clear-cut, as yields have risen to reflect higher inflation expectations. Investors would have preferred yields to fall, thereby acknowledging the increased risk of recession, reflecting investors' renewed appetite for safe-haven assets and generating positive returns. Be that as it may, **the very sharp flattening of the yield curve** (see Fig. 3) **leaves no doubt that the risk of recession is rising.**

Fig. 2 – Business confidence

Fig. 3 – Investor confidence



Despite the deteriorating economic outlook, central banks may choose to raise their key interest rates in order to demonstrate their firm commitment to fulfilling their mandate, namely, to control inflation and anchor expectations around 2%. On the day the war broke out, federal funds futures were pricing in two to three Fed rate cuts in 2026. Today, they anticipate between zero and one 25-basis-point hike. For the ECB, the consensus forecast has shifted from the status quo to three rate hikes (see Fig. 4). This volatility in expectations perfectly illustrates investors' dismay in the face of the geopolitical upheaval.

Paradoxically, there are signs that the bond markets are pricing in a simple recession rather than a stagflation scenario. This may seem technical, but the five-year-ahead inflation rate did not rise at all in March. On the contrary, it now stands at below the five-year break-even inflation rate, a sign that the recent price shock is likely to be only temporary (see Fig. 5). This means that the market expects a sharp rise in prices in the immediate term but that they will stagnate later. It does not believe in an out-of-control inflationary spiral but, on the contrary, believes that monetary tightening will eventually stifle the rise in prices.

Fig. 4 – Central bank rate expectations

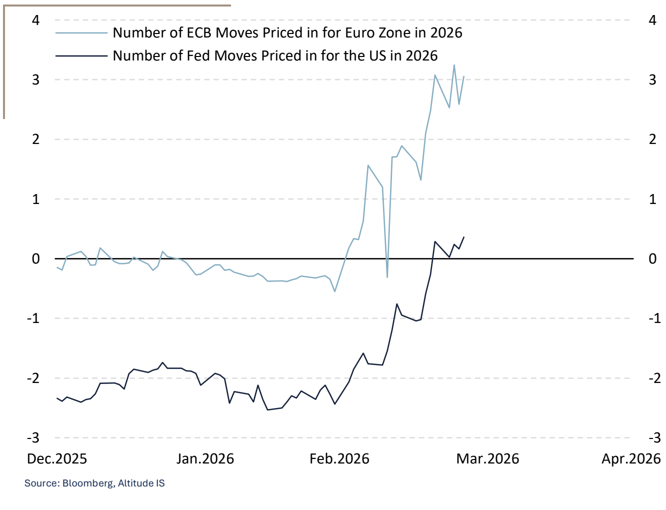
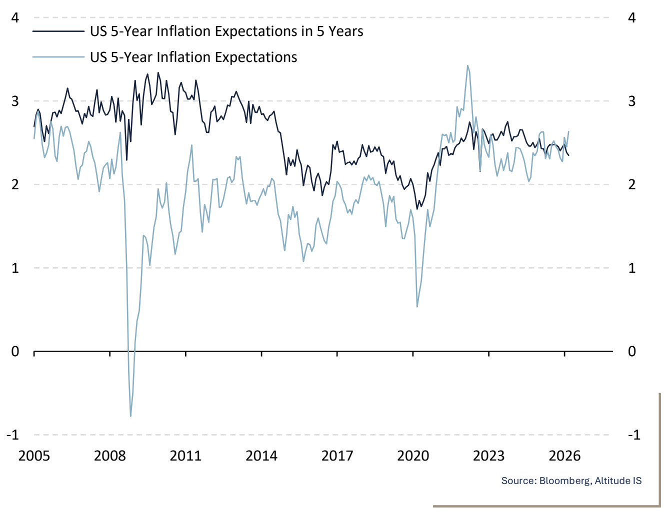


Fig. 5 – Inflation and long-term rate expectations



In the corporate bond market, bond yields have also risen. Most of this rise is attributable to changes in the risk-free rate. Investors are anticipating an inflationary shock and a tightening of monetary policy. **By contrast, the credit risk premium has remained virtually unchanged** (see Fig. 6). **This is rather reassuring.**

As regards the future of the global economy and financial markets, the burning question is whether the rise in oil prices will be sustained. Obviously, everything will depend on how the conflict unfolds – whether it subsides or escalates – and, even more so, on the free passage of oil and gas tankers through the Strait of Hormuz. **Investors must bear in mind that the issue of inflation is more a matter of the transport of fossil fuels than their production.** Before the conflict, supply far exceeded demand (see Chart of the Week). The free movement of tankers through the Strait of Hormuz is therefore indeed the key issue. If the International Energy Agency's (IEA) forecasts are correct and supply is reduced by 8 million barrels per day, then the price of oil could soar to around $150.

Fig. 6 – Changes in corporate spreads

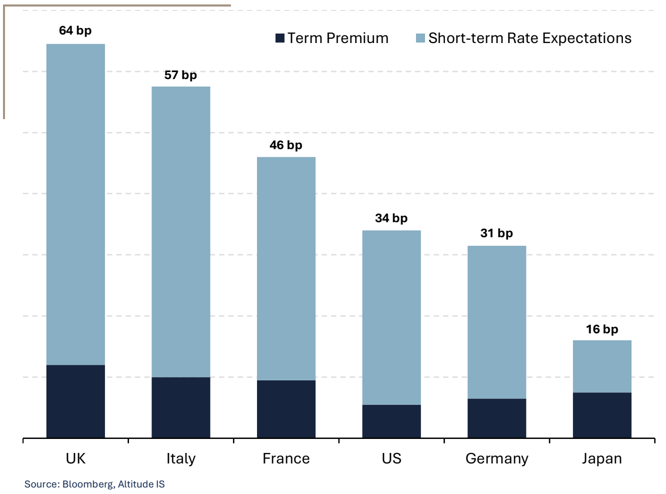
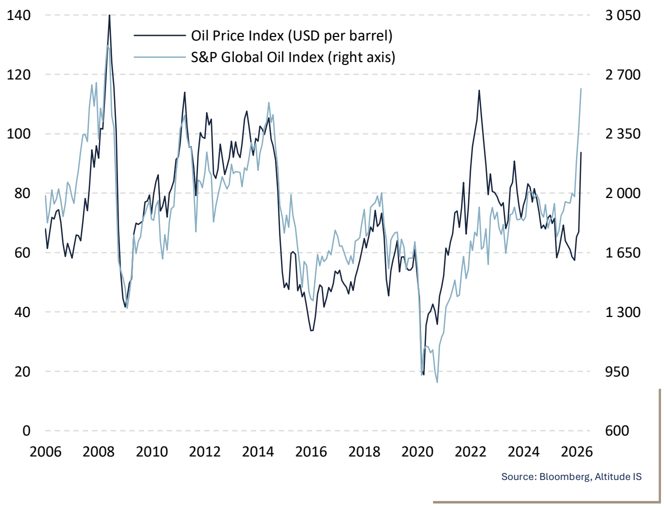


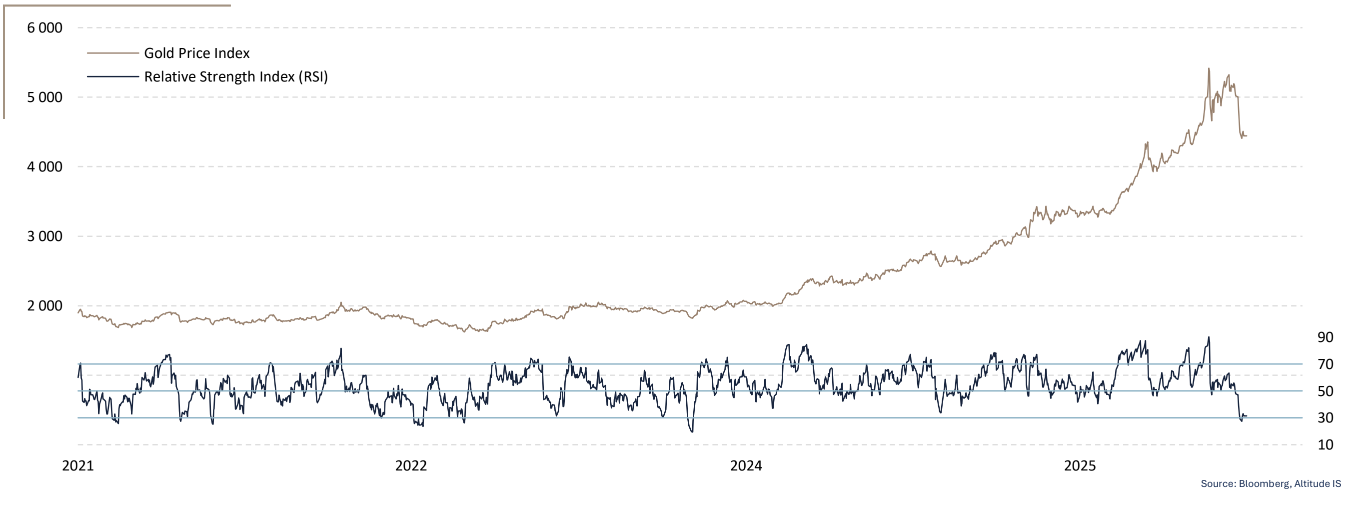
Fig. 7 – Oil company share prices



The US administration is said to have modelled an extreme crisis scenario, with oil at $200 a barrel. The White House may well have sought to deny this information reported by Bloomberg, but the Treasury Secretary must certainly be considering it. Scott Bessent finds himself in an uncomfortable position. He is seeking to limit the surge in petrol prices, which have already risen by 30% in the United States, to avoid stifling not only consumers but also the aviation and logistics industries. UPS is reportedly preparing to announce an 8% surcharge on parcels. Every cloud has a silver lining, as **energy-related investments, particularly oil companies, will continue to generate positive returns** (see Fig. 7). Portfolios exposed to this theme benefit from natural hedging against geopolitical risk.

For its part, the price of an ounce of gold has corrected sharply. It has not lost its status as the ultimate safe-haven asset. Nor has it suffered from the fact that it does not pay coupons, as some analysts imply; otherwise, bonds would have seen a massive surge in demand. If gold has returned to its[1]January level, it is mainly because investors had significant liquidity needs and chose to take profits on this highly liquid asset. Recent price movements have pushed it to a markedly oversold level (see Fig. 8). **A rebound seems inevitable,** especially as emerging market central banks continue to accumulate gold to diversify their foreign exchange reserves. The upward trend in gold has therefore probably not been undermined by the recent sharp correction. Gold is simply very volatile, but that is no secret.

Fig. 8 – Price of an ounce of gold



Finally, the war in Iran could have significant consequences for the Swiss financial centre, which is enjoying a resurgence of interest. Whilst the conflict in Iran is affecting many Middle Eastern countries that had promoted economic and financial stability, some clients are transferring funds to Geneva and Zurich. Others are considering relocating their assets to the heart of the Alps in on a permanent basis. Switzerland is capitalising on its reputation for calm, stability and neutrality. Swiss banks are maintaining a low profile but are preparing to welcome this influx of clients.

Conclusion:

The war continues, and the resulting economic fears are increasingly forcing investors to adjust their investments. Fortunately, it is never too late to rebalance portfolios.

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)	966.4	28.65	-1.5%	-8.4%	-4.4%	22.9%	18.0%
USA (S&P 500)	6 369	28.66	-2.1%	-7.3%	-6.7%	17.9%	25.0%
USA (Dow Jones)	45 167	29.41	-0.9%	-7.6%	-5.6%	14.9%	15.0%
USA (Nasdaq)	20 948	30.14	-3.2%	-7.5%	-9.7%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	587.4	35.46	0.3%	-9.6%	-3.8%	25.2%	10.2%
UK (FTSE 100)	9 967	38.23	0.6%	-8.1%	1.3%	25.7%	9.6%
Switzerland (SMI)	12 570	36.68	2.3%	-9.1%	-4.0%	18.0%	7.5%
Japan (Nikkei)	51 648	45.77	0.0%	-9.3%	6.1%	28.7%	21.3%
Emerging (MSCI)	1 437	40.88	-1.7%	-10.6%	2.7%	34.3%	8.0%
Brasil (IBOVESPA)	181 557	49.39	3.0%	-3.8%	12.7%	34.0%	-10.4%
Mexico (IPC)	66 686	46.64	4.0%	-6.6%	3.9%	35.1%	-11.0%
India (SENSEX)	72 425	35.21	-1.3%	-9.5%	-13.5%	10.5%	9.6%
China (CSI)	4 481	40.55	-1.4%	-4.4%	-2.6%	21.0%	18.2%
Com. Services (MSCI World)	146.0	21.65	-5.9%	-10.5%	-10.9%	33.0%	31.9%
Cons. Discretionary (MSCI World)	400.2	29.40	-1.5%	-10.2%	-12.4%	9.8%	20.7%
Cons. Staples (MSCI World)	297.0	33.69	0.9%	-9.1%	3.0%	9.3%	4.7%
Energy (MSCI World)	354.2	83.19	4.0%	11.4%	35.0%	14.8%	2.9%
Financials (MSCI World)	206.8	32.49	-1.0%	-8.3%	-8.1%	29.5%	25.1%
Health Care (MSCI World)	368.5	28.16	-0.1%	-9.9%	-6.1%	15.3%	1.5%
Industrials (MSCI World)	475.8	31.22	-1.2%	-11.1%	2.2%	26.2%	12.8%
Info. Tech. (MSCI World)	891.3	31.63	-3.3%	-7.6%	-7.7%	26.6%	31.9%
Materials (MSCI World)	409.1	38.77	3.3%	-13.7%	4.2%	32.5%	-7.6%
Real Estate (MSCI World)	968	22.94	-1.7%	-10.9%	-1.8%	3.6%	-0.4%
Utilities (MSCI World)	206.6	44.07	1.4%	-5.1%	7.4%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	3.87%	32.02	-0.5%	-3.6%	-1.6%	8.2%	-1.7%
USA (Sovereign)	4.24%	36.96	-0.1%	-2.3%	-0.7%	6.3%	0.6%
Euro Area (Sovereign)	3.37%	32.22	-0.5%	-3.5%	-1.4%	0.6%	1.9%
Germany (Sovereign)	2.95%	33.31	-0.3%	-2.6%	-0.9%	-1.6%	0.6%
UK (Sovereign)	4.95%	35.89	0.1%	-4.6%	-2.2%	6.1%	-3.0%
Switzerland (Sovereign)	0.56%	41.20	0.0%	-1.6%	-0.2%	0.3%	5.4%
Japan (Sovereign)	2.11%	31.83	-0.8%	-1.5%	-1.3%	-4.6%	-2.1%
Emerging (Sovereign)	6.48%	29.56	-0.4%	-3.7%	-2.2%	13.1%	7.0%
USA (IG Corp.)	5.27%	34.60	-0.7%	-2.9%	-1.4%	7.8%	2.1%
Euro Area (IG Corp.)	3.82%	29.17	-0.5%	-2.6%	-1.3%	3.0%	4.7%
Emerging (IG Corp.)	6.67%	22.88	-0.3%	-2.6%	-1.1%	8.1%	7.0%
USA (HY Corp.)	7.68%	30.18	-0.8%	-2.0%	-1.3%	8.6%	8.2%
Euro Area (HY Corp.)	6.36%	31.02	0.0%	-2.4%	-1.5%	5.2%	8.2%
Emerging (HY Corp.)	8.08%	30.30	-0.7%	-3.4%	-1.6%	13.9%	14.9%
World (Convertibles)	549.6	36.75	-1.4%	-5.0%	2.0%	22.4%	9.4%
USA (Convertibles)	715.4	39.75	-1.4%	-3.6%	2.2%	16.9%	10.1%
Euro Area (Convertibles)	295.8	37.63	-0.6%	-3.9%	1.8%	24.8%	14.7%
Switzerland (Convertibles)	285.3	22.02	-2.8%	-6.7%	0.8%	17.5%	-10.5%
Japan (Convertibles)	277.2	48.42	0.5%	-5.4%	7.4%	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	31.05	64.02	15.9%	56.3%	107.7%	-13.8%	39.4%
VSTOXX	34.78	66.14	9.5%	76.7%	136.3%	-13.5%	25.3%
Commodities							
Commodities (CRB)	563.7	n.a.	1.4%	2.1%	4.4%	0.6%	5.1%
Gold (Troy Ounce)	4 527	n.a.	2.7%	-14.9%	4.8%	64.6%	27.2%
Silver (Troy Ounce)	70.71	n.a.	2.3%	-20.9%	-1.3%	148.0%	21.5%
Oil (WTI, Barrel)	99.64	n.a.	1.3%	48.7%	73.5%	-19.9%	0.1%
Oil (Brent, Barrel)	120.31	n.a.	3.5%	69.9%	92.7%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	100.07	59.57	1.1%	2.5%	1.8%	-9.4%	7.1%
EUR	1.1518	41.51	-0.8%	-1.5%	-1.9%	13.4%	-6.2%
JPY	159.65	41.73	-0.8%	-1.4%	-1.8%	0.3%	-10.3%
GBP	1.3279	42.30	-1.1%	-1.0%	-1.5%	7.7%	-1.7%
AUD	0.6871	37.69	-2.0%	-3.1%	3.0%	7.8%	-9.2%
CAD	1.3892	28.99	-1.2%	-1.6%	-1.2%	4.8%	-7.9%
CHF	0.7983	35.17	-1.5%	-2.4%	-0.7%	14.5%	-7.3%
CNY	6.9046	49.60	-0.3%	0.0%	1.2%	4.5%	-2.7%
MXN	18.065	37.91	-1.5%	-4.1%	-0.3%	15.7%	-18.5%
EM (Emerging Index)	1 837.4	38.04	-0.2%	-2.5%	-0.8%	7.2%	-0.7%
XBT	67 498	n.a.	-4.9%	1.2%	-23.0%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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