HOUSE VIEW

PETROL IS DRIVING PROFITS

BancaMarch

PETROL IS DRIVING PROFITS

STRATEGIC POSITION

ASSET ALLOCATION

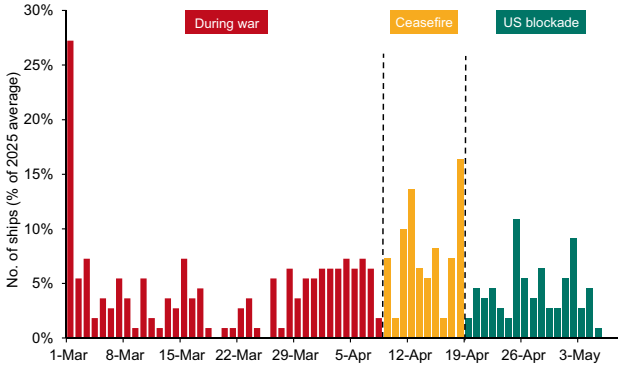
ASSET CLASS	-2	-1	NEUTRAL	+1	+2
LIQUIDITY		■			
FIXED-INCOME			■		
EQUITIES			■		
ALTERNATIVES				■	
FIXED-INCOME	**-2**	**-1**	**NEUTRAL**	**+1**	**+2**
SOVEREIGN DEBT		■			
United States			■		
Euro			■		
CORPORATE BONDS				■	
Investment Grade				■	
High Yield			■		
EMERGING MARKET DEBT				■	
CONVERTIBLE BONDS			■		
EQUITIES	**-2**	**-1**	**NEUTRAL**	**+1**	**+2**
EUROPE			■		
UNITED STATES				■	
EMERGING MARKETS				■	
REST OF WORLD		■			
ALTERNATIVES	**-2**	**-1**	**NEUTRAL**	**+1**	**+2**
LIQUID				■	
ILLIQUID					■

CURRENCIES	-		NEUTRAL		+
DOLLAR		■			
POUND STERLING			■		

The biggest cut in oil production in four decades will have an impact on inflation and economic growth. Despite this, the global economy's lower dependence on energy and the release of strategic reserves will help cushion its impact, allowing the economic cycle to continue.

1. VESSEL TRAFFIC THROUGH THE STRAIT OF HORMUZ

Sources: Bloomberg and Banca March



Although the strait remains closed, we believe we are now in the final phase of the dispute over Hormuz. The incentives of both sides are aligned in the same direction: to end the conflict before it causes permanent damage to both the global economy and the very survival of the Ayatollah regime.

Despite an OPEC crude oil production cut of 9 million barrels per day, the global economy continues to perform reasonably well and growth is continuing across the major regions.

We interpret this as a sign that the global economy has gradually been decoupling from fossil fuels and that, if the conflict is resolved soon, the Third Gulf War will not plunge the global economy into recession.

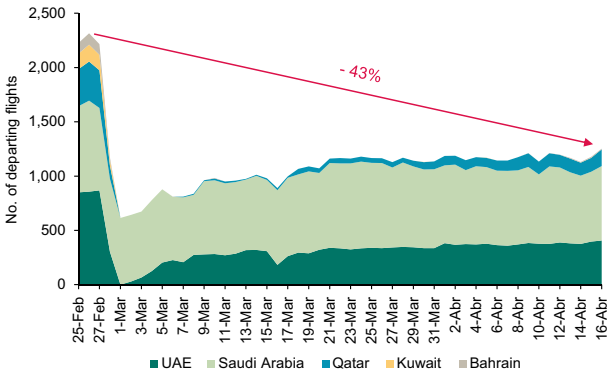
The reduction in crude oil supply has translated into higher oil prices — with Brent crude above $100 a barrel — but without the same degree of severe pass-through to electricity, gas and food prices seen in the past. Years of investment in diversifying the energy mix have meant that the current impact is a long way from that seen during previous energy shocks. It is telling that, despite Qatar's importance in the gas market — with production accounting for close to 20% of the global total — gas prices in European markets have risen by only around 38%, to €44/MWh. This is a very contained increase compared with the war in Ukraine, when contracts rose above €200/MWh.

Meanwhile, shortages were largely avoided thanks to the coordinated release of strategic oil reserves worldwide, with combined reserves of approximately 400 million barrels, as well as efforts by countries outside the Persian Gulf to increase production. During this period, the United States has led the way, with its exports of crude oil and petroleum products reaching 8 million barrels per day on some days in April — 1 million more than in February — the highest level since records began.

The conflict will leave behind a complete reconfiguration of the geopolitical balance in the Persian Gulf, transforming what for years had been perceived as an oasis of stability.

2. DEPARTURES OF FLIGHTS FROM GULF COUNTRIES (*)

Sources: Flightradar24 and Banca March



(*) Where a country has several airports, we take the two busiest.

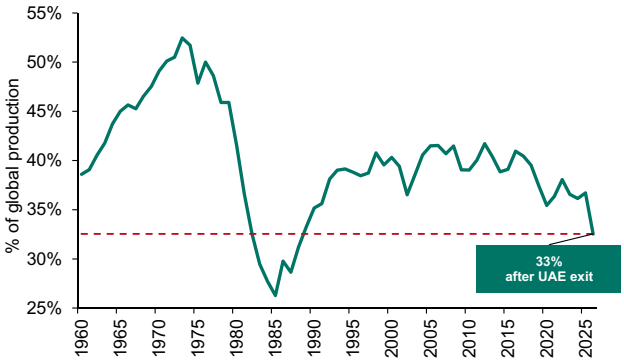
One of the most striking consequences of the conflict has been the loss of the aura of security that some of the Gulf's leading monarchies had managed to establish over recent decades. According to data from the end of April, flight departures from the region's four major powers — Saudi Arabia, the United Arab Emirates, Qatar and Kuwait — have fallen by 43%. Some of these countries, such as the United Arab Emirates and Qatar, had been pursuing ambitious global campaigns to position themselves as attractive destinations for international investment, supported by favourable tax regimes — 0% personal income tax and corporate tax rates of around 10% — and powerful sovereign wealth funds managing assets worth $4.7 trillion. This figure is 20% higher than the total savings invested in funds by households in France, Spain and Italy combined, countries with a combined population of 174 million compared with just 55 million inhabitants across the four Gulf nations.

Once the conflict ends, and given the near-certain survival of the Iranian regime, the desert monarchies will embark on an intensive campaign to rearm and reinforce their defensive capabilities. A recent example is the emergency deployment of Israel's missile defence system in the United Arab Emirates, a move that could pave the way for the future acquisition of the "Iron Dome" system by the Arab country. The Emirati government also announced that, as part of its investment programme, it will launch a fund dedicated to investing in defence companies worldwide.

Finally, April saw a new rift emerge with the announcement that the United Arab Emirates would leave OPEC. After almost 60 years as a member, one of the cartel's most important and disciplined members is leaving the organisation, following the earlier departures of Qatar (2019), Ecuador (2020) and Angola (2024). As a result, the cartel's share of global production falls to 33%, its lowest level since the late 1980s. The Emirati energy minister justified the decision on the grounds that greater strategic flexibility was needed, against the backdrop of the ambitious investment programme that the federation plans to roll out. In this regard, the drive to reduce dependence on crude oil shipments through the Strait of Hormuz has led to a substantial portion of the $55 billion investment programme for 2026–2028 being allocated to the development of new pipelines to the port of Fujairah, infrastructure that the Emirati government itself currently considers underutilised.

3. OPEC: GLOBAL PRODUCTION SHARE PERFORMANCE

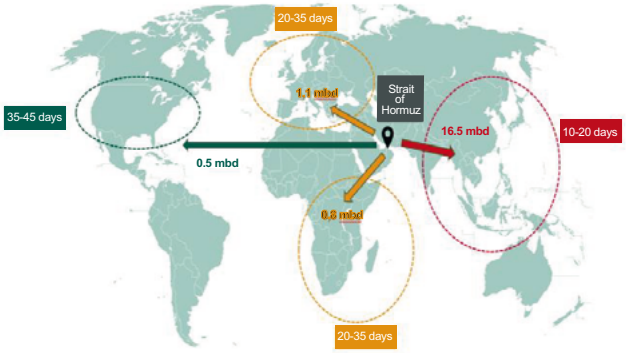
Sources: OPEC and Banca March



The reopening of the strait will come as a relief, but we nevertheless anticipate differing effects over time: In the short term, oil prices will remain elevated, but over the medium term, the substitution effect and the weakening of OPEC will help bring energy costs down.

4. TRANSPORT TIME FROM THE STRAIT

Sources: IEA and Banca March



However, the eventual end of the conflict will not mean an immediate return of oil prices to pre-war levels. The transition back to normality will be uneven and exposed to episodes of volatility due to two factors.

First, the recovery in production will take time, since some capacity — particularly in the gas sector — has been damaged. Specifically, it is estimated that it will take up to five years to restore 17% of the Ras Laffan facility in Qatar. This is compounded by transit times, which range from 15 to 45 days, delaying the full normalisation of oil and gas flows.

Second, beyond any tensions that may emerge between the United States, Israel and Iran, there is also the need to replenish strategic reserves, which will exert additional pressure on demand. According to data available as of February, the global reserves held by member countries of the International Energy Agency (IEA) stood at slightly more than 4 billion barrels. The release of reserves that began in March will push them below this threshold for the first time since 2008.

By contrast, this episode once again highlights the high degree of energy dependence of some economies. In this case, Asian economies are the most affected by the conflict, as 87% of the oil exports passing through the Strait of Hormuz were destined for the region. Although the use of fossil fuels has declined in China — where renewables now account for around 35% of the energy mix — other major economies such as India, South Korea and Japan, with renewable shares of 25%, 9% and 20% respectively, will probably be forced to reconsider their energy sources, increasing their use of renewables or nuclear power.

Likewise, the United Arab Emirates' departure from OPEC will translate into increased supply over the medium term, once tensions in the strait have been resolved.

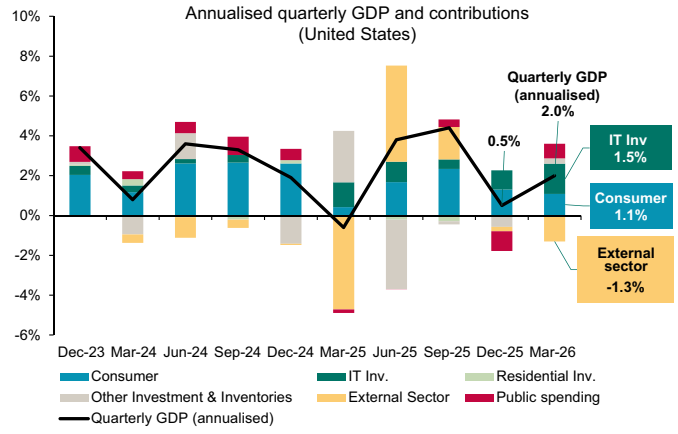
Consequently, we believe that, in the short term, oil prices will remain above pre-conflict levels. Over the medium term, however, the outlook points in the opposite direction: cheaper oil with an increasingly smaller influence on the global economy.

Higher energy costs will be a drag, but a resilient labour market and accelerated technology investment in response to the inevitable adoption of artificial intelligence will provide support for economic activity, particularly in the US economy.

In the United States, economic activity remains supported by the usual strength of the consumer but, above all, by increased technology-related investment, which is being driven by the need for most companies to adopt artificial intelligence in their production processes. As we have argued for months, this innovation will drive a process of "creative destruction" in the economy and make investment one of the engines of growth over the coming quarters.

5. CONSUMPTION AND IT INVESTMENT DRIVE US GDP

Sources: Bloomberg and Banca March



As the latest data show, GDP growth reached 2%, with a favourable composition (Chart 5): the only component to make a negative contribution was the external sector, while domestic private demand remains highly dynamic, led by consumption and investment more closely related to the technology sector. Together, these two components contributed 2.6 percentage points to US growth in the first few months of the year.

Notably, in the first quarter, investment in equipment surged by 17.2% (vs. 4.3% previously), driven particularly by information-processing segments (computers, servers and other devices), which grew by 43%.

Intellectual property investment also recorded strong growth (+13% vs. +5.4% previously), showing that spending on business software development continues to expand at a strong pace (+22.6% vs. +4.8% previously). These figures confirm the strength of this technology investment cycle and represent a positive structural factor for the US economy.

Against this backdrop, and despite household spending maintaining a healthy rate of growth (+1.6% in the first quarter), we expect higher fuel prices to eventually weigh on private consumption in the coming months. However, we do not expect a sharp deterioration, as the labour market remains resilient and layoffs remain contained. For example, in the last week of April, initial unemployment claims fell to their lowest level since 1969 and, more importantly, the number of people receiving ongoing benefits stood at 1.78 million, its lowest level in two years.

Moreover, with the US tax-filing season now over, households have received most of their tax refunds — around 75–80% are paid out before May. In 2026, these refunds are higher as a result of the "Big Beautiful Bill" tax reform, providing additional temporary support for disposable income: the average refund has increased by around $345 compared with the previous year, an 11% increase.

Against this backdrop, we expect GDP growth to be lower than forecast before the conflict, but we maintain our view that, if the Strait of Hormuz can be reopened in May, the US economy should accelerate in the second half of the year.

The refund of tariffs following the Supreme Court's annulment of the measures will provide an additional stimulus for American importers.

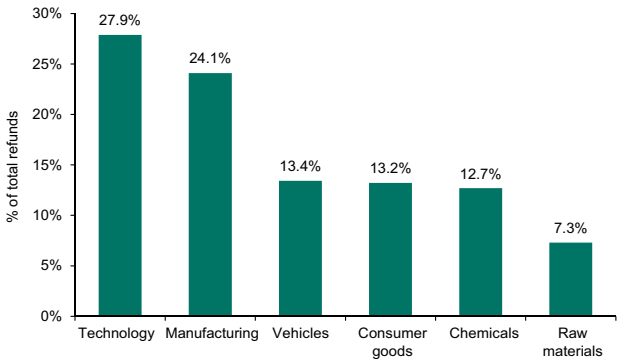
Last February, the Supreme Court struck down the tariffs imposed by the Trump administration under the section known as IEEPA, paving the way for the repayment of the $166 billion collected through this mechanism from 330,500 importers. If the full amount were refunded and we applied a conservative fiscal multiplier — which we believe should be in the range of 0.3–0.5x — we could expect a boost to growth of between 0.2 and 0.3 percentage points in 2026.

The first phase of the reimbursement process has already begun with the launch of the electronic refund system. By mid-April, at least 56,500 importers had submitted refund claims totalling approximately $127 billion, representing around 77% of the total amount to be refunded. So far, refunds appear to be processed relatively quickly, within an estimated 60–90 days of submission, and the first payments have already been received.

The refunds will be paid to the US companies that physically paid the tariffs at the time of import. Consequently, customers or consumers who ultimately bore the price increases — because companies passed on the cost of the tariffs — will not necessarily benefit from the measure, except in specific cases such as those announced by some courier companies, including FedEx and UPS, which have said they intend to pass these amounts back to their customers.

6. SECTORS BENEFITING FROM TARIFF REFUNDS

Sources: ITA and Banca March



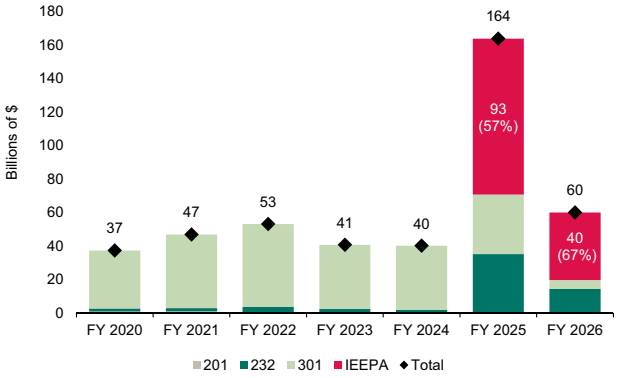
By sector, the main beneficiaries will be industries that are more import-intensive and have complex production chains. In particular, the technology and electronics sector will account for around 28% of refunds, followed by manufacturing, at approximately 24%.

The Supreme Court ruling will create a $60 billion shortfall in revenue, equivalent to 60% of the revenue generated through tariffs between October 2024 and December 2025. It will also increase the public deficit and could lead to a 9% increase in financing needs (the deficit forecast for this year is $1.853 trillion).

Meanwhile, Trump has revived his tariff threats by announcing a possible increase in tariffs on European vehicles, from the current 15% to 25%. The official justification for the threat is the EU's delay in ratifying the agreement. However, the EU maintains that it is following its legislative procedure and expects to approve it in June. The delay is due to the process having been temporarily suspended following Trump's threats to impose new tariffs on European allies that did not support his proposal to acquire Greenland.

7. GOODBYE TO 60% OF TARIFF REVENUE (*)

Sources: CBP and Banca March



(*) Data through Dec. 2025.

Against this backdrop, and with other major automotive exporters, such as Japan and South Korea, having also secured a 15% tariff rate for their vehicles, the increase would pose an additional risk to competitiveness, strengthening the EU's incentives to avoid the tariff hike. Since the tariffs were introduced, the share of car exports to the US has fallen from 22% to 19%, with volumes down 10%. Despite this decline, the impact on European GDP has been limited, with an estimated loss of just 0.02 percentage points. The exports that could therefore be affected account for only 0.2% of the GDP of the EU as a whole, although the impact would vary across member states, with some more exposed economies, such as Germany, bearing the brunt.

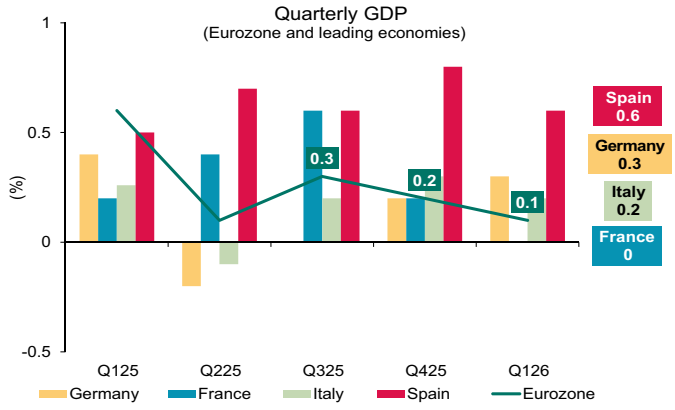
For the US, this is not the first time Trump has resorted to this strategy: at the beginning of the year, he issued a similar warning to South Korea, threatening to raise tariffs on Korean exports — including cars — to 25% in order to accelerate its compliance with the trade agreement. The threat was ultimately not carried out.

Higher energy costs are beginning to affect Europe's major economies, and we expect economic activity to slow further this quarter.

Dark clouds are gathering over the eurozone economies, which in the coming months will face higher energy costs and tighter financial conditions, putting downward pressure on growth. That said, we believe the current energy shock is a long way from what was experienced in 2022 following the invasion of Ukraine, as the eurozone is less exposed to energy transported through the Strait of Hormuz. This should prevent a prolonged period of stagnation such as that seen during that period.

8. GROWTH SLOWS IN THE EUROZONE

Sources: Bloomberg and Banca March



First-quarter GDP figures showed this loss of momentum, with quarterly growth of just 0.1%, down from 0.2% in the previous quarter and below expectations. At national level, the data point to a mixed performance, with Germany the only country to accelerate its growth, by one tenth of a percentage point, to 0.3% in the quarter. Italy, meanwhile, slowed to 0.2%, while the weakest result came from France, where economic activity stagnated. In Spain, meanwhile, economic momentum remains strong, but there were also signs of a slowdown, with GDP growing by 0.6% quarter on quarter, two tenths of a percentage point below the previous figure.

Although the breakdown is not yet available, these figures suggest that higher energy costs are already beginning to weigh on domestic demand in several countries, an impact that is likely to intensify in the second quarter, when a contraction cannot be ruled out.

Europe remains heavily dependent on fossil fuels, which account for almost 70% of all energy consumed, particularly in transport. Moreover, the main risk of transmission from this energy shock comes from the marginal pricing system used to set electricity prices, which could amplify the impact of higher gas prices, with significant consequences for industry and households.

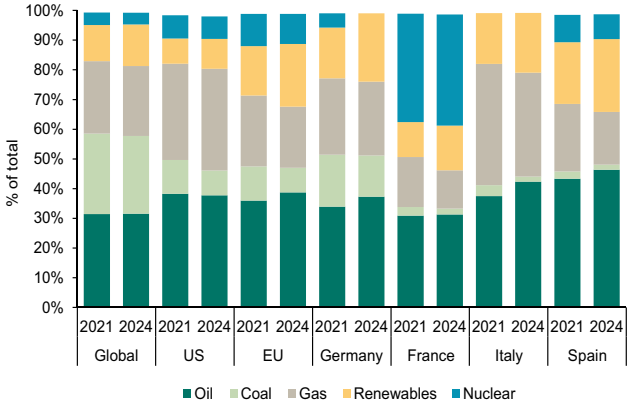
However, we believe it is too early to talk about a scenario of stagnation and a sharp resurgence in inflation such as that seen in 2022, given that electricity price increases in the eurozone are currently more "contained" and there are factors that will mitigate the impact of higher fossil fuel prices.

First, the initial fiscal measures have already been rolled out to try to cushion the impact of higher energy prices. On the one hand, the major economies have adopted a series of temporary measures designed to minimise the cost to the public purse and make support more targeted, with direct assistance for vulnerable households and cuts in fuel taxes among the measures introduced. And on the other, drawing on the experience of 2022, the European Commission has also developed an action plan including coordinated emergency measures such as gas storage, the release of reserves, and a strengthened temporary framework for aid and direct support for energy-intensive companies.

Although these efforts are important, the real difference — and what allows us to be less pessimistic than in 2022 — lies in the changes to the energy mix that the eurozone has undergone since the Russian gas crisis. As the chart shows, gas now accounts for just over 20% of total energy consumption, three percentage points less than four years ago. More importantly, renewables have overtaken gas and are now the eurozone's second-largest energy source, with a 21% share. Together with nuclear power, they account for more than one third of total consumption.

9. ENERGY MIX BY COUNTRY

Sources: Our World in Data and Banca March



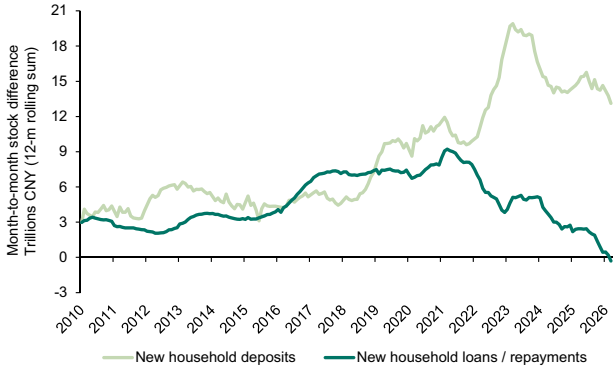
In China, signs of technological innovation, but the property sector continues to weigh.

In the first quarter, GDP grew by 5%, accelerating from 4.5% in Q4 2025. However, the underlying pattern remains the same: growth continues to be driven by the supply side, while domestic demand continues to act as a drag. Industrial production remains strong, expanding by 6.1% year on year in the first quarter, while fixed private investment is in negative territory so far this year (-2.2%).

The main development comes from the property market, which has begun to show signs of stabilisation in the major cities, although it is still too early to interpret this as the beginning of a recovery. New home prices across the four largest cities (grouped as Tier 1 cities) rose by 0.2% month on month in March. At the same time, cities such as Shanghai and Beijing recorded their highest levels of demand for second-hand homes for the month of April in seven and five years, respectively. These are nevertheless modest adjustments, and they are not occurring nationwide but are concentrated in the most dynamic urban centres.

10. CHINESE HOUSEHOLDS DELEVERAGE

Sources: Bloomberg and Banca March



This cautious view is reinforced by persistently weak consumer confidence. Households remain reluctant to take on new debt. In March, the balance of household loans recorded negative year-on-year growth for the first time (-0.4%), indicating that households have not only stopped borrowing but are actually repaying debt rather than allocating resources to consumption. This is consistent with the overall contribution of credit to the Chinese economy, which also remains stagnant or even detracted from growth in March (-0.7%).

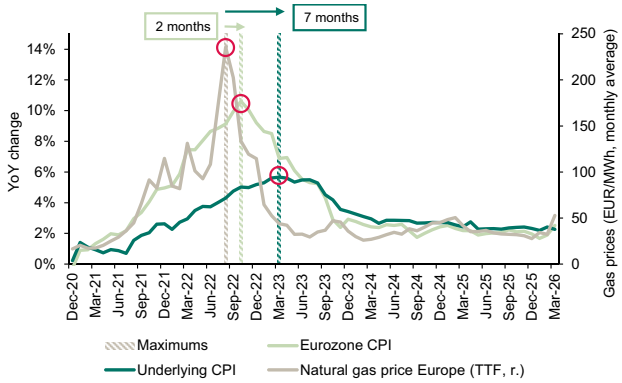
If the conflict does not become entrenched, there is scope for second-round effects on inflation to remain contained.

Higher energy prices have begun to feed through into inflation on both sides of the Atlantic. Headline rates are already reflecting this initial round of transmission in both the US (+3.3% year on year in March, compared with 2.4% previously) and the eurozone (+3% in April, compared with 1.9% pre-conflict). In the US, the rise in CPI was driven by the energy component, which increased by 12.5%, and higher air fares (+14.9%). For the time being, there is no significant evidence of spillover into other categories: in the breakdown by component, virtually all of the increase in inflation came from energy, which contributed 0.8 percentage points, while core CPI — excluding energy and food prices — remained at similar levels to the previous month. The eurozone showed the same pattern, with the energy component contributing 1 percentage point and accounting entirely for the increase in the headline rate, with no evidence of knock-on effects on the other components.

The case of Europe in 2022 provides a useful illustration of the pace at which energy shocks feed through into inflation. When gas prices peaked, headline CPI followed more immediately, two months later. By contrast, core inflation, which captures the indirect effects, peaked with a seven-month lag.

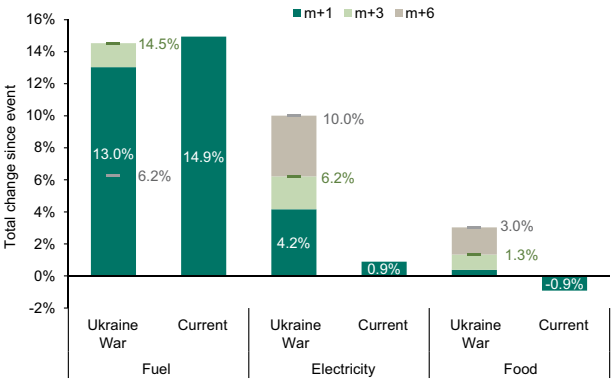
11. 2022 EXAMPLE: ENERGY SHOCKS ARE TRANSMITTED AT DIFFERENT SPEEDS

Sources: Bloomberg and Banca March



12. FOR THE TIME BEING, THE RISE IN PRICES IS CONCENTRATED IN FUEL (*)

Sources: Bloomberg and Banca March



(*) Average for China, the eurozone and the US.

The current episode has a key feature at this early stage of the shock: within the energy component, the increase in prices during the first month has been concentrated in fuels, with no pass-through to electricity or food prices yet. This contrasts with what happened at the start of the war in Ukraine, when the pass-through to electricity prices occurred more rapidly.

In fact, when considering the average of the CPI components in China, the eurozone and the US, fuel prices have risen more in a single month than they did in the first three months following the outbreak of the war in Ukraine.

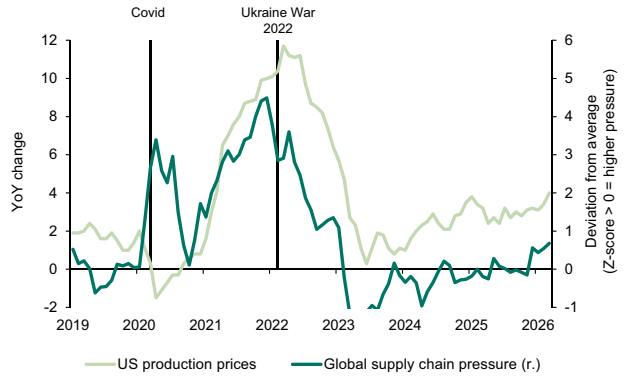
By contrast, electricity prices have risen by an average of just 0.9% in the first month of the current episode, compared with 4.2% in the previous episode. As for food prices, which so far show no signs of spillover, they could be affected not only by higher energy costs but also by potential disruptions in the fertiliser market, given that a significant share of key components comes from Gulf countries, such as urea (35%) and sulphur (48%).

Consequently, in the coming months we are likely to see increases in both electricity and food prices as second-round effects take hold, as well as some upward pressure on core inflation; however, these inflationary pressures could remain moderate provided the conflict does not continue for an extended period.

Supply chains are showing some signs of strain, although they remain well below the elevated levels recorded at the start of the war in Ukraine. Moreover, the United States is less exposed than other regions.

13. PRODUCER PRICES AND GLOBAL SUPPLY CHAIN INDEX

Sources: NY Fed, Bloomberg and Banca March



The conflict in the Middle East, together with the resulting diversion of vessels and the sharp increase in freight costs — which have risen by 708% year on year on the Persian Gulf–UK route — has begun to reveal disruptions in global supply chains. These tensions are reflected in the increase in delivery times reported by PMI surveys. Overall, pressures remain contained and are well below the levels seen during severe disruption episodes such as the pandemic or the outbreak of the war in Ukraine; nevertheless, the impact varies across regions. Major economies such as the United States and the eurozone have so far experienced moderate effects, while the impact has been more pronounced in smaller, open economies such as the UK and Japan.

CENTRAL BANKS

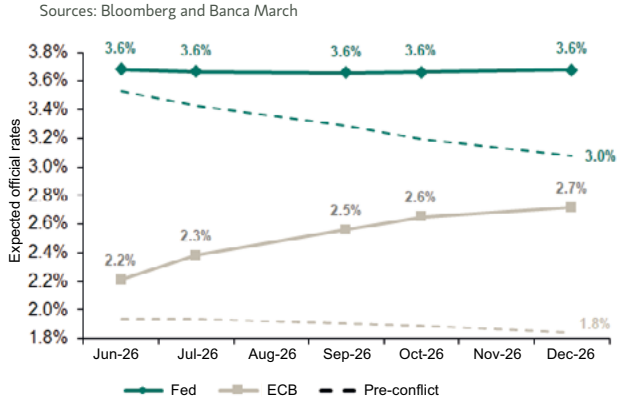
Despite all the uncertainty, we do not share the tightening implied by interest-rate futures curves. Three ECB rate hikes this year would do little to curb a rise in oil prices caused by an energy supply shock rather than a demand shock.

In line with the message conveyed by leading central bankers last week, we believe more time is still needed to assess the impact of the war in Iran on the economy. Although the upside risks to inflation and downside risks to growth are intensifying as the conflict progresses, the economic activity indicators available so far — retail sales, job creation and capital goods orders — do not point to any significant deterioration in activity.

This relative resilience can be explained by the fact that, so far, and unlike what happened in 2022 following the invasion of Ukraine, higher fuel prices have not been passed through significantly to other components of inflation. The impact on items such as electricity and food remains limited, dampening second-round effects and influencing how central banks assess the inflationary environment.

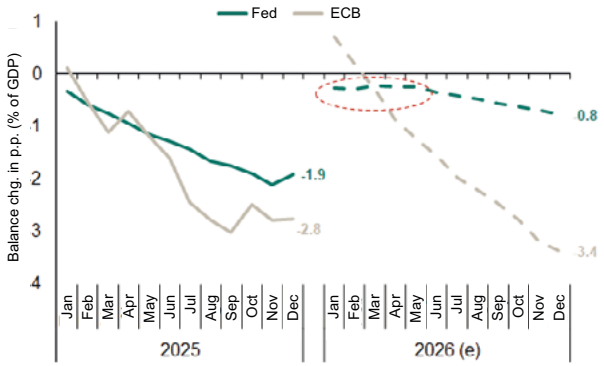
14. FED VS. ECB: EXPECTED OFFICIAL RATES

Sources: Bloomberg and Banca March



15. FED VS. ECB: CHANGE IN BALANCE SHEET AS A % OF GDP

Sources: Bloomberg and Banca March



This environment also highlights the fact that monetary policy is not transmitted exclusively through interest rates. Despite the high level of geopolitical uncertainty, the major central banks are maintaining their balance-sheet strategies unchanged. In particular, the Federal Reserve expects to pursue a broadly neutral policy in 2026, with a slight easing bias in the first half of the year, while the ECB will continue to withdraw liquidity from the system. According to our estimates, the Fed's assets will end the year at around 21% of GDP — compared with 19% before COVID-19 — while the ECB's balance sheet will stand at around 36% of GDP, below the 39% recorded at the beginning of 2020.

Kevin Warsh: Independence under scrutiny.

Kevin Warsh will have to work hard to demonstrate his independence as Fed chair. His appointment by Donald Trump — who has repeatedly questioned the autonomy of monetary policy — will keep his credibility under constant scrutiny.

Following the conclusion of the US Department of Justice's investigations into Jerome Powell, the way is now clear for Kevin Warsh to take over as Fed chair. Once the vote in the Senate Banking Committee — which has a Republican majority — has been passed, the full Senate — also with a Republican majority — will vote in mid-month.

For his part, and breaking with tradition, Powell surprised markets by announcing his intention to remain a member of the Board of Governors — whose term runs until 2028 — once his tenure as chair comes to an end. There is only one precedent for such a decision in the central bank's 113-year history: in 1948, Marriner Eccles chose to remain as a governor after stepping down as chair in an effort to safeguard the Fed's independence from pressure by then-President Truman, who, like Trump, advocated a more dovish monetary policy.

For now, this move rules out the possibility of Trump using Powell's departure to appoint a new governor more closely aligned with his views. If Powell does remain on the Board, Trump will not have any new vacancies at the Federal Reserve until January 2028.

The Fed's new chair will have to manage an environment characterised by higher energy prices, with inflation still above the central bank's target.

Regardless of the stance Kevin Warsh may advocate, his actual room to manoeuvre will ultimately be constrained by the macroeconomic environment. For this reason, we believe that his potential arrival at the Fed, while likely to bring some adjustments, will not result in a radical shift in monetary policy.

Against this backdrop, the candidate to succeed Jerome Powell has advocated two courses of action that point in opposite directions. On the one hand, he has argued in favour of lower interest rates — in line with Trump's demands — based on the idea that productivity gains resulting from AI could help keep prices contained. At the same time, however, he remains critical of the size of the Fed's balance sheet and its use as a monetary policy tool. In response, the Fed is expected to resume a gradual reduction in its assets (QT), similar to that seen between mid-2022 and the end of last year. This would withdraw liquidity from the system and run counter to a policy of lowering the cost of borrowing.

Even under a particularly favourable scenario for Warsh, in which balance-sheet reduction were to resume from June at the average pace seen during the previous QT episode — around $54 billion per month — the size of the balance sheet would stand at 19.5% of GDP in December 2026. This level would be only 1.2 percentage points below the baseline scenario, which assumes no changes for the remainder of the year.

Moreover, even assuming that Warsh took office in May and that the conflict's second-round effects on inflation remained contained, the price of oil is currently 60% above its level a year ago. Furthermore, beyond any potential pressure from the markets, any change in monetary policy requires the support of at least seven of the twelve committee members, highlighting the fact that, while the chair's role is decisive, it is far from omnipotent. In this regard, the Committee's views on rate cuts are highly divided: according to the March dot plot, seven members expect no change in official rates this year, another seven anticipate a single cut, and five expect two or more.

In relation to the latter, Warsh remains critical of communication that is excessively forward-looking in its approach to monetary policy. He has openly questioned the dot plot, arguing that it conveys a false sense of precision and unnecessarily commits the Federal Reserve to future rate paths, maintaining that decisions should be based strictly on how the data evolve rather than on explicit prior commitments.

Overall, we believe that, in the short term, multiple factors will significantly constrain Kevin Warsh's room for discretion at the helm of the Federal Reserve. Nevertheless, we continue to believe that the Fed has room to make two rate cuts during 2026. The conflict in Iran is likely to delay the timing of these cuts, which are unlikely to materialise before the summer, with the possibility that the second cut could be postponed until early 2027.

FIXED INCOME

The abrupt steepening of the curve creates an opportunity to increase exposure in the 1–3-year maturity segment.

Higher energy prices resulting from the conflict in the Middle East have led the market to price in as many as three official rate hikes in the eurozone — when previously no moves by the ECB were expected — while expectations of two cuts in the United States have disappeared.

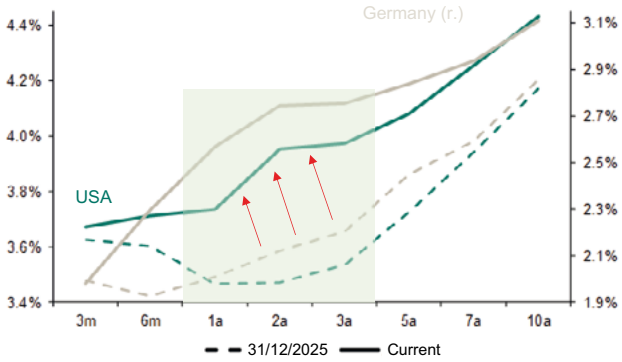
In our view, the monetary tightening currently priced into futures curves is excessive under our central scenario, which envisages a prompt resolution to the conflict and a gradual normalisation of energy flows. Under these assumptions, the inflationary impact should moderate progressively, limiting the need for further adjustments by central banks.

In this scenario, we believe positioning in the shorter end of the curve — between one and three years — offers a particularly attractive risk-return profile. In numerical terms, since the start of the hostilities, two-year yields have risen by around 50 b.p. in the United States and 65 b.p. in Germany, creating an attractive entry point.

This exposure allows investors to lock in current yield levels without taking on disproportionate duration risk, while also benefiting if expectations for monetary policy are eventually revised lower.

16. USA VS. GERMANY: SOVEREIGN YIELD CURVES

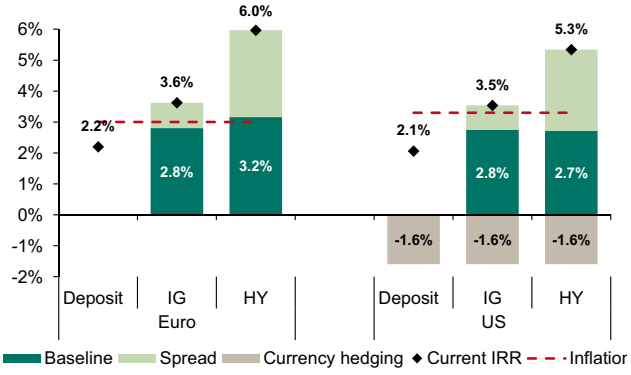
Sources: Bloomberg and Banca March



Within fixed income, we continue to favour the highest-quality segment, although its upside potential is becoming increasingly limited.

17. YIELD BREAKDOWN BY SEGMENT

Sources: Bloomberg and Banca March



By segment, we believe government debt offers limited appeal and will continue to be weighed down by both rising inflation and the likely announcement of fiscal measures aimed at mitigating the adverse effects of the conflict. Likewise, very short-term interest rates — with maturities of less than one year — are insufficient to keep pace with inflation.

In this environment, we maintain our preference for high-quality debt, which offers a yield to maturity of 3.6% in Europe and 3.5% in the United States (currency hedged), slightly above the latest inflation reading in each region.

However, we believe its appeal is diminishing for two main reasons. First, valuations — measured by credit spreads — are particularly tight, limiting the scope for further price appreciation. Specifically, investment-grade credit spreads in both regions are currently around 80 b.p., just 10 b.p. above the lows of the past decade and well below their historical averages of 120 b.p. in Europe and 110 b.p. in the United States. Second, even if the current rise in inflation proves temporary, it will continue to exert upward pressure on prices and erode real returns.

All in all, the asset class is performing well despite the uncertainty. European investment-grade credit is virtually flat year to date, supported by carry, which has contributed 1 percentage point to returns. Meanwhile, duration continues to be a drag, detracting 1.5 percentage points from the overall return.

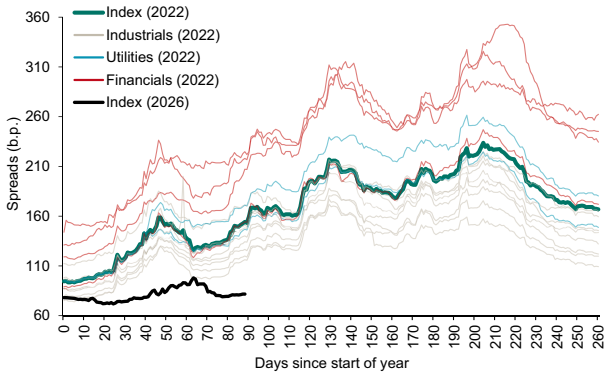
Leaving aside certain common elements, the current environment is very different from that of 2022 following the invasion of Ukraine, with a clearly more limited impact on European companies.

In Europe, beyond certain similarities in terms of energy, the current environment differs substantially from that observed in 2022 following the invasion of Ukraine. First, the current shock is clearly more global in nature and therefore has a less concentrated impact on Europe. This structural difference is reinforced by a more favourable starting point. Specifically, the margin of protection currently offered by corporate bonds — measured as yield to maturity divided by duration — stands at around 80 b.p. in the investment-grade segment, well above the 10 b.p. recorded at that time. A similar pattern can be seen in the United States, where investment-grade corporate debt offers a cushion of around 76 b.p. versus the 24 b.p. in 2022.

The greater resilience of European credit supports this view. So far this year, euro IG spreads have widened by only around 4 b.p., contrasting with the performance seen in 2022. The deterioration was therefore concentrated in the sectors most sensitive to interest rates — such as REITs, whose spreads widened by as much as 126 b.p. — in an environment marked by an especially aggressive ECB hiking cycle, which raised the cost of borrowing from 0% to 2.5%.

18. EUROPEAN IG CREDIT: SPREAD PERFORMANCE (2022 VS. 2026)

Sources: Bloomberg and Banca March



Private credit: too early to talk about systemic risk.

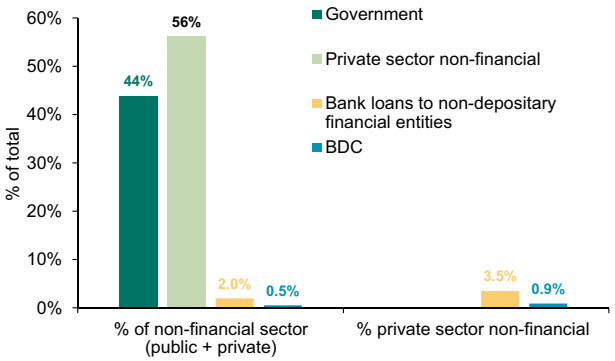
Despite the growing media attention surrounding private credit in recent months — largely prompted by redemption requests from private debt funds during the first quarter — we believe it is still too early to classify it as a source of systemic risk. It is worth remembering that, given the inherent illiquidity of these vehicles, redemptions are generally limited to 5% of net asset value, although some major managers, such as Blackstone, Cliffwater and Oaktree, opted to return amounts above that threshold in an effort to preserve investor confidence. Beyond the noise this has generated, our assessment is based primarily on the relative weight of private credit within the system's total financing and on a maturity structure that, for the time being, limits the likelihood of widespread stress in the short term.

Private credit, understood as the pool of loans extended outside the traditional banking system, has accounted for a significant share of recent growth in corporate lending. This dynamism is largely driven by the search for more agile financing arrangements that reduce reliance on coordinating banks and allow borrowers and lenders to negotiate more directly, with greater flexibility in terms of structure and conditions.

Given the difficulty of measuring the size of the private credit market — estimates range from $1.5 trillion to $2 trillion, with around 75% concentrated in the United States — a useful approach is to look at bank lending to non-depository financial institutions (NDFIs). These institutions provide financing without taking deposits from the public and act as a channel for non-bank credit intermediation. At present, they account for 3.5% of total lending to the non-financial private sector and around 2% of total system debt, significantly limiting their potential for systemic contagion.

19. USA: PRIVATE CREDIT MARKET SIZE

Sources: BIS, FFIEC and Banca March



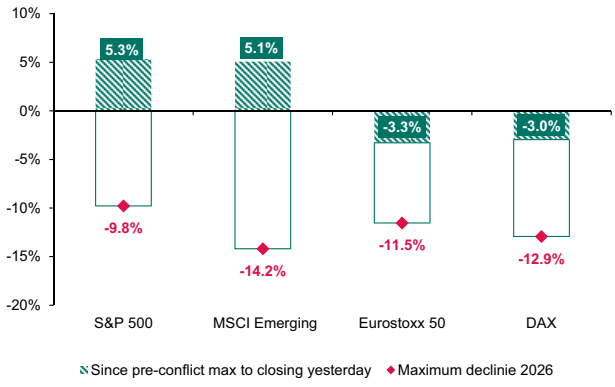
Within this universe, business development companies (BDCs) stand out as a type of non-depository financial institution that plays a highly significant role in financing businesses. They currently manage more than $400 billion in assets across different sectors, with a composition clearly dominated by debt, which accounts for around 90% of the total. Against this backdrop, it is worth highlighting that around 55% of their debt assets mature from 2030 onwards, helping to reduce refinancing risks and ease liquidity pressures in the short term.

EQUITIES

The key remains staying invested in a market whose recovery has been rapid but which, supported by strong earnings, still has significant upside potential.

20. RETURNS DURING THE CONFLICT (*)

Sources: Bloomberg and Banca March



(*) Maximum decline (from the 2026 pre-war high to the post-war low) and return from the pre-war high to the latest close.

Global equity markets have recovered rapidly from the shock caused by the war in Iran. April was the S&P 500's strongest month in 50 years (+10.4%), reaffirming our strategy of staying calm and not panicking following the attack on Iran and Lebanon.

As we stressed during the most acute phases of the conflict: missing just the three best market days following the start of conflicts reduces the average 12-month return from +7.8% to virtually 0%. Something similar has happened again during the Iran episode, as staying out of the market both on the day when a possible truce was first priced in (31/03) and on the day it was actually announced (08/04) would have resulted in the current +5% gain relative to pre-conflict levels turning slightly negative.

Emerging markets, meanwhile, have already fully recovered the decline recorded in March, while Europe — the laggard due to the lower weighting of the technology sector in its index — is still 3.3% below its highs. This regional divergence is largely explained by sector composition: the greater the exposure to technology — and particularly semiconductors — the stronger the recovery. The global semiconductor sector has gained close to 30% so far this year.

Following this rapid rebound, we believe the temptation to reduce exposure in response to the dizzying pace of the gains is not sufficient grounds for underweighting risk. On this occasion, the rise in equity markets is not only due to markets pricing in a more constructive scenario for negotiations between the US and Iran, but also to corporate earnings, whose revisions have been surprisingly positive, with expected growth for the quarter rising from 14% to 29%.

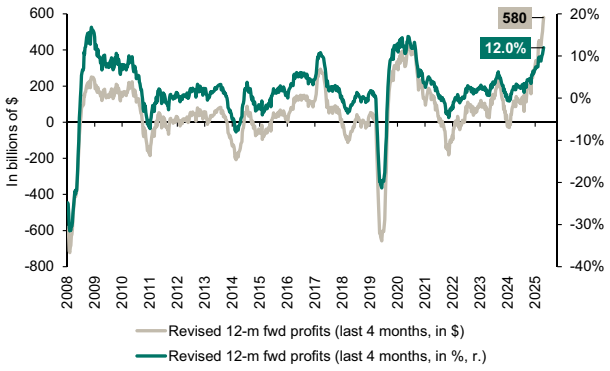
Likewise, the negative impact of the weaker seasonality from May onwards could be less significant on this occasion. As we have pointed out in previous editions, this pattern is heavily influenced by very specific episodes – the September 2008 crisis, for example – and does not constitute a consistent investment framework. In addition, the reopening of the strait would act as a further catalyst, with the potential to unfold over the summer months if our forecasts of a swift agreement process are borne out.

Lastly, we do not anticipate an abrupt slowdown in the economic cycle, which in our view remains the key factor. So far, semiconductors and AI-related investment have acted as unexpected catalysts for further gains, and a swift resolution to the conflict, together with the normalisation of the Strait of Hormuz bottleneck, should continue to support market gains for the rest of the year. Global equities are also trading at 18 times earnings, 6% below their levels at the beginning of the year.

The sharp upward revisions to earnings are being driven by supply shortages. Strong demand for memory chips, with bottlenecks still in place, together with the rise in oil prices, has driven first-quarter results well above even the most optimistic expectations.

21. MSCI WORLD (ACWI) 12-MONTH FORWARD EARNINGS REVISIONS (LAST FOUR MONTHS)

Sources: Refinitiv and Banca March



Results had already been showing considerable strength since the end of December. However, despite the revisions made at the beginning of the year and an optimistic expected 14% growth in US corporate earnings for the quarter, companies' ability to beat expectations has exceeded all forecasts, pushing this figure up to 29% for the S&P 500.

In Europe, revisions have been more moderate. Even so, the strong increase in earnings at oil-related companies has led to a further improvement in estimates, taking aggregate EPS growth to 7%, compared with the 4% expected in the first few weeks of April.

With these new figures, global earnings growth for 2026 has been revised upwards, from 14% to 21%. From a historical perspective, the pace of revisions observed over the past four months is comparable only to that typically seen as an economy emerges from recession. And much of the credit goes to shortages of semiconductors and crude oil.

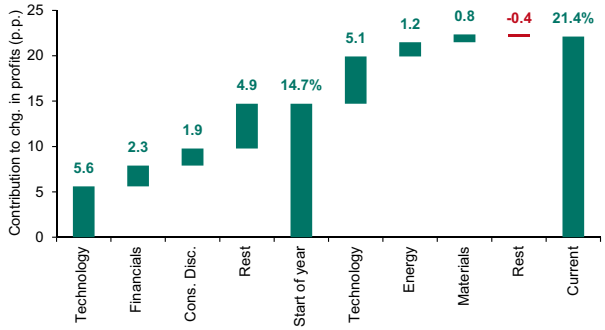
On the one hand, the shortage of memory chips has fed directly through to prices. On average, the cost of the most advanced memory semiconductor products (DDR5) has increased sixfold since September. This sharp increase in prices has benefited the three companies that dominate the market — Samsung Electronics and SK Hynix in South Korea, together with US-based Micron Technology.

As a reference point, in December last year, Micron was expected to report earnings of around $4.8 billion for the first quarter of 2026. However, the reality was vastly different: earnings reached $14 billion, with forecasts suggesting that, within a year, these quarterly earnings could double to around $30 billion. To put this into context, at these levels Micron has generated virtually the same quarterly earnings as JPMorgan this quarter. Looking ahead to 2026, SK Hynix is expected to reach a level of earnings similar to that of the entire listed European industrial sector, at around €100 billion.

Meanwhile, although it has a smaller weighting in the market as a whole, the energy sector has also become an important source of upward earnings revisions, contributing 1.2 percentage points to this year's earnings revision. With oil prices expected to remain above pre-conflict levels, energy companies are emerging from their earnings contraction and helping to return European equities in particular to positive quarterly growth rates.

22. CONTRIBUTION TO 2026 EARNINGS GROWTH

Sources: Refinitiv and Banca March

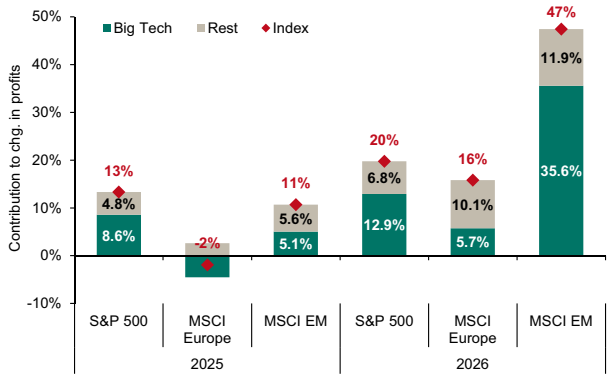


The unprecedented strength of first-quarter figures therefore consolidates a third consecutive year of earnings growth in global equity markets. Although the momentum is still primarily driven by a single sector — technology — this time the gains are more broadly distributed, with the biggest surprises coming from companies outside the hyperscaler universe. A new phase is therefore taking shape, in which the computing giants are stepping up their investment while the ecosystem around them benefits both from the scale of this spending and from the scarcity of resources associated with the theme.

With technology driving growth, we believe we should remain more heavily exposed to the US and emerging markets. The structural advantages of both regions over Europe will become more firmly established in 2026.

23. EXPECTED EARNINGS GROWTH BY REGION AND SEGMENT

Sources: Refinitiv and Banca March



US equities have led the gains since the conflict, rising 15.5% from their lows, and are among the regions that have seen the largest upward revisions to earnings estimates. This has been complemented by strong results from the hyperscalers, growing demand for computing capacity and Chinese competition that has failed to replicate DeepSeek's success last year. All of this, together with the launch of new AI models and commercial products — with Anthropic reaching $30 billion in recurring revenue, similar to OpenAI's levels in just a year and a half — continues to underpin stronger earnings growth than in Europe (+20% versus +16%).

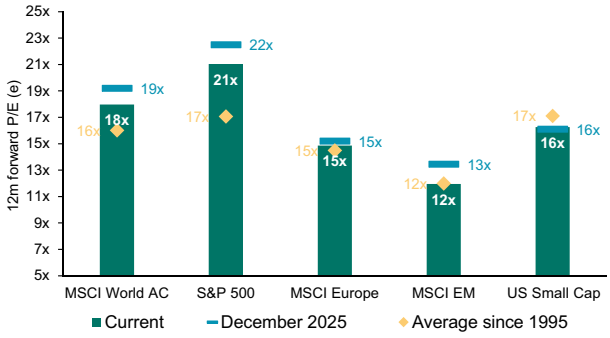
The emerging-market bloc is also joining this structural advantage, with Taiwan and South Korea playing a particularly prominent role. In these regions, semiconductor companies — Taiwan Semiconductor, Samsung Electronics and SK Hynix — have been responsible for the strong performance of the indices, accounting for virtually all of the year's return and a significant share of the estimated 30% growth in earnings for 2026. The shortage of memory chips is expected to persist at least until 2027, allowing these stocks to maintain favourable momentum over the coming quarters.

At the other end of the spectrum, the weak performance of China and India is striking (-4% and -5.2%, respectively). Both regions remain in negative territory for 2026, affected partly by the oil crisis but also by the effects of creative destruction. In India, the technology segment — heavily focused on IT services — has been particularly hard hit, while in China markets have reacted negatively to the major technology companies' heavy investment in computing capacity, in a move similar to that seen in the United States at the end of last year.

From our perspective, exposure to the technology sector will be key throughout this year, and we believe the United States and emerging markets offer the most appropriate exposure to these opportunities. Moreover, an early reopening of the Strait of Hormuz could act as a catalyst for Indian and Chinese equities, as these are two of the regions most affected by disruptions to energy supplies. All of this is taking place in a valuation environment that is not particularly demanding: in the United States, the S&P 500 multiple is 8% below its levels at the beginning of the year, while valuations in emerging markets are in line with their historical average.

24. VALUATIONS BY REGION

Sources: Refinitiv and Banca March



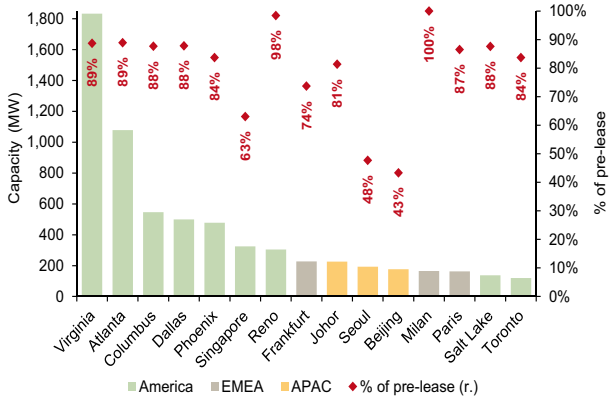
Beyond Iran, it is important to remember that 2026 is the year of creative destruction. The artificial intelligence revolution remains firmly intact and is gradually broadening its base of beneficiaries, creating a more broadly distributed market, with a greater number of companies participating in the gains and less concentrated leadership.

We continue to advocate broadening the investment spectrum within technology. Beyond the hyperscalers, companies participating in the AI value chain are beginning to play a more prominent role, indirectly benefiting from the investment cycle.

The strength of the current investment cycle is reflected in the demand for data centres, which remains exceptionally high. 84% of the capacity of the main projects currently under construction has already been pre-let before becoming operational, a trend closely linked to the strong expansion of the hyperscalers. In this context, the backlogs of four of the leading hyperscalers — Microsoft, Amazon, Alphabet and Oracle — have tripled in 2026, reaching $2 trillion. To put this figure into perspective, it is equivalent to 1–2% more than Spain's GDP in 2025.

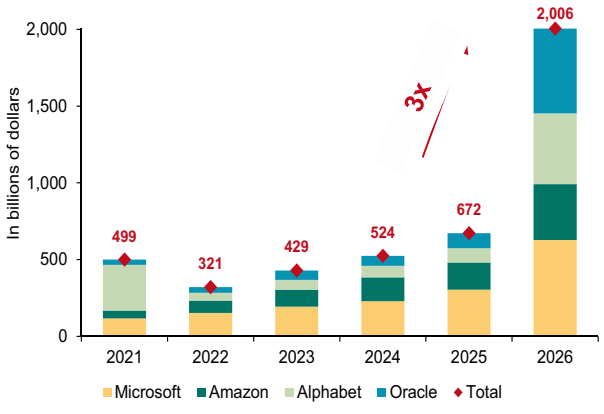
25. DATA CENTERS UNDER CONSTRUCTION: CAPACITY VS. % PRE-LET

Sources: Bloomberg, Cushman & Wakefield and Banca March



26. HYPERSCALERS: ORDERS (BACKLOGS)

Sources: Bloomberg, Cushman & Wakefield and Banca March



However, this strong growth in backlogs has not translated into equivalent stock-market leadership. While the hyperscalers are up an average of 5% this year, other segments more closely linked to real investment are performing significantly better. In particular, the global infrastructure index and the industrial sector have both gained 11%, reflecting a rotation towards assets that indirectly capture the expansion of capacity associated with AI.

This pattern is even more evident among companies that form part of the AI value chain, which have posted much stronger gains this year. Key companies involved in the manufacture of semiconductors and critical components — such as Dutch company ASML, US-based Micron Technology and Asian companies Taiwan Semiconductor, Samsung and SK Hynix — have gained an average of 97% this year. As a result, the MSCI Emerging Markets index is up 23%, with the three Asian companies mentioned above accounting for more than 60% of the index's total return despite representing just 21% of its market capitalisation.

Finally, lower geopolitical uncertainty, together with still attractive valuations, is supporting other cyclical segments, such as US small and mid-cap companies. The small-cap index has gained 14.7% this year, compared with 7.6% for the S&P 500, while continuing to trade at a 23% discount, well below its historical premium of 7%. This is further supported by our conviction that the market is pricing in a very aggressive scenario of interest-rate rises: less restrictive financial conditions should primarily benefit smaller companies, which are more sensitive to the cost of financing and the economic cycle.

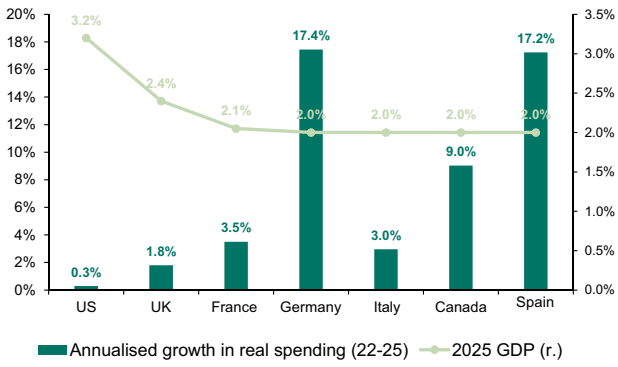
The potential of the defence sector lies not in rebuilding arsenals but in a historic shift towards modernisation.

In our previous House View we highlighted the pressing need for European armed forces to increase their structural spending to meet NATO targets, and the latest Pentagon data confirm that this need is an unavoidable global reality.

While Europe is seeking to close its investment gap — with Germany one of the countries where actual defence spending has increased the most since 2022 — the United States is seeking to move towards a "war economy", with a budget proposal of $1.5 trillion for fiscal year 2027. This 44% year-on-year increase prioritises modernisation, which will now account for 50% of the total ($758 billion), compared with a historical 30–35%. This dramatic shift creates an unprecedented window of opportunity for the sector's major defence contractors.

27. EVOLUTION OF DEFENCE SPENDING SINCE 2025

Sources: IISS, NATO and Banca March



The acceleration is being driven by a critical depletion of arsenals following recent conflicts in the Middle East, where in just 39 days more than half of stocks of key systems such as Tomahawk and Patriot missiles were used. For investors, this means defence companies have guaranteed revenue visibility for years, given the technical need to replenish inventories and lead times that in many cases exceed 48 months.

Although the market remains cautious about the budget execution risks associated with political obstacles — approval of up to $350 billion through budget reconciliation depends on the Government resolving these issues before the November midterms — the sector's compelling fundamentals, namely the non-negotiable need to replenish stocks, the barriers to entry created by advanced defence technology and renewed commitment from European allies, position the sector as a robust driver of industrial growth in the years ahead.

The new defence cycle: beyond traditional multiples.

The expansion in defence-sector valuations (P/E below 30x in Europe) is no longer a technical anomaly but has become established as a structural security premium. The market is no longer pricing in mere expectations, but the visibility of cash flows arising from record backlogs and a floor for military spending that is moving towards 3.5% of GDP.

This year, the market's focus will shift from contract awards to the execution of order books, which are already 10% above 2024 levels. The commitment to ensuring that 70% of contracts carry a European label will secure a captive market share for the continent's industrial champions, turning order books into recurring revenue. At the same time, the sector is shifting towards a model based on mass production of affordable, easily replaceable equipment, prioritising the ability to deploy at scale over traditional solutions characterised by extremely high costs and lengthy production times. In conclusion, the strategic urgency of defence sovereignty has taken precedence over traditional valuation metrics, establishing the sector as an indispensable structural asset.

Gold: growing demand and scarce supply. We are taking advantage of the recent drops to increase our exposure to the asset.

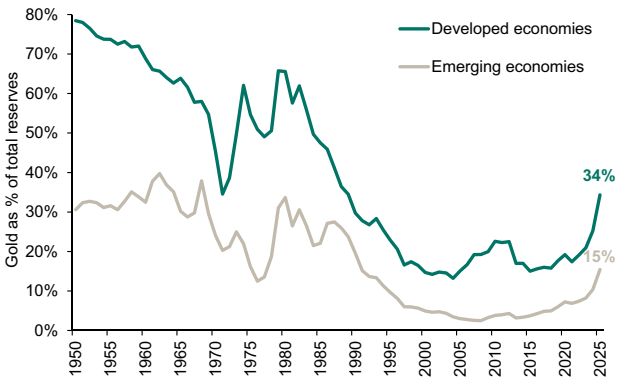
The outlook for gold remains constructive over the medium term, supported by both demand and supply factors.

On the demand side, purchases by central banks and official institutions continue to provide a clear tailwind. In the first two months of the year, official institutions purchased around 75 tonnes of gold, representing a 50% increase compared with the same period in 2025.

Looking further ahead, we believe there is considerable scope for purchases by the central banks of the major emerging economies, where gold accounts for barely 15% of total reserves, compared with 34% in developed economies. China stands out in this regard. The world's fifth-largest gold holder, with 2,313 tonnes, has gold reserves equivalent to just 9.1% of its total reserves, well below the levels of other major holders such as the United States and Germany (83%), France (81%) and Italy (80%).

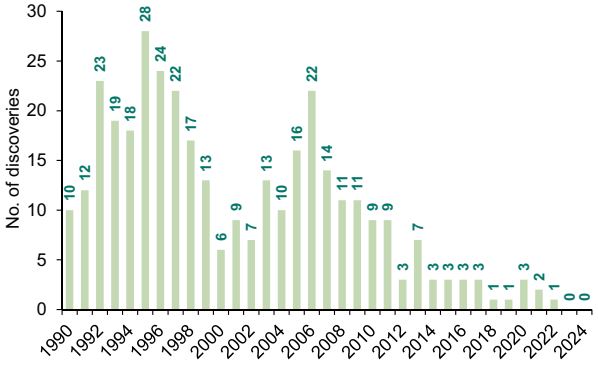
28. GOLD AS A % OF TOTAL RESERVES

Sources: IMF, S&P Global and Banca March



29. GOLD: GLOBAL DISCOVERIES OF 2 MILLION OUNCES OR MORE

Sources: IMF, S&P Global and Banca March



From a supply perspective, the outlook is also favourable. The discovery of new gold deposits has declined significantly in recent years: since 2020, only six discoveries of more than two million ounces have been identified, compared with a historical average of 11.6. This reinforces the structural constraints on production growth.

CURRENCIES

Adjusting our dollar strategy: the fading safe-haven bias and structural deficits suggest reducing positions if the greenback returns to 1.16 EUR/USD.

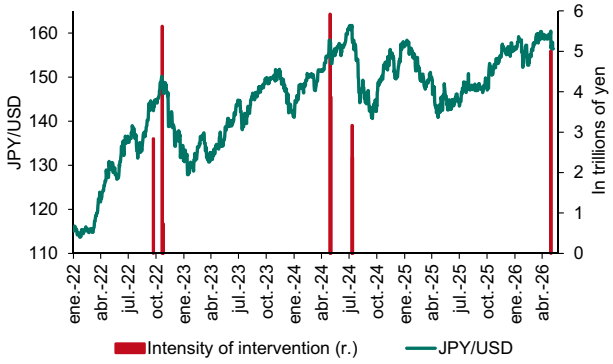
Since the start of the conflict in Iran, the US dollar has shown a moderate strengthening trend against the euro, moving from a phase of significant appreciation in March to a correction in April. This weaker momentum in the US currency has coincided with the market's belief that the conflict will be resolved through negotiations and that the Strait of Hormuz will reopen sooner rather than later.

It is worth noting that during the aforementioned period of risk aversion in March, the exchange rate traded with a geopolitical premium, pushing the EUR/USD rate up to 1.15. In this technically overbought area, we took advantage of the dollar's appreciation to make a tactical reduction in our positions, capitalising on the flight to quality before the current phase of easing tensions.

In the current environment, and once the initial "scare" effect has dissipated, we see that the US currency is unable to price in the favourable interest-rate differential — neither the Fed nor the ECB changed rates last week — or the stronger economic momentum in the US versusthe eurozone, as confirmed by the GDP data released last week. This resistance to appreciation is partly due to a deterioration in structural fundamentals that the market continues to monitor closely: the impact of twin deficits — fiscal and current-account — and a historically overvalued real effective exchange rate, which acts as a ceiling for the currency.

30. BANK OF JAPAN INTERVENTIONS VS. USD/JPY

Sources: Bloomberg and Banca March



In addition, other factors could emerge in the coming months and act as a headwind for the greenback, notably Kevin Warsh's arrival at the Fed and foreign-exchange interventions by the Bank of Japan. Last week, the Japanese monetary authority reportedly bought around ¥5 trillion — more than $32 billion — to stem the depreciation of its currency, marking the third-largest intervention of the past five years.

Against this backdrop, we have defined a new trading range for the pair of 1.16–1.21 EUR/USD and are awaiting further developments in the Iranian crisis. Thus, a deterioration in the situation that pushed the exchange rate towards the upper end of the dollar's valuation range, around 1.16 EUR/USD, would lead us to favour unwinding further positions in the US currency.

Leaving tactical considerations aside, we believe that the medium-term risks, compounded by fiscal uncertainty and the possibility of a more dovish monetary policy, do not justify maintaining a large exposure to the dollar when it is already trading at demanding valuation levels.

Sterling is experiencing a period of contained volatility, leading us to narrow our expected range to 0.86–0.89 EUR/GBP.

The UK economy is entering 2026 against a backdrop of structural weakness — Q4 2025 GDP was virtually stagnant — and a marked slowdown in demand. This stagnation is being compounded by an atmosphere of political uncertainty, fuelled by the electoral agenda — local, regional and mayoral elections on 7 May — which the market is viewing cautiously. In light of this situation, the Bank of England decided to leave the policy rate unchanged at 3.75%, creating a balance between opposing forces: A monetary policy on hold and focused on keeping inflation under control — with CPI at 3.3% year-on-year in March — combined with a restrictive fiscal budget aimed at consolidating the public finances and strengthening the long-term credibility of its sovereign debt.

Despite the complex backdrop described above, sterling has performed with contained volatility against the euro in 2026, suggesting that the market has already priced in the political risks and economic weakness. The absence of disruptive catalysts in the short term leads us to narrow our expected range for the pair to 0.86–0.89 EUR/GBP. We therefore recommend a tactically neutral position, trading within the established range, as the balance between fiscal discipline and economic weakness acts as an effective anchor for the currency.

Banca March Market Strategy Team:

Joan Bonet Majó
Pedro Sastre
Paulo Gonçalves, CAIA
Luis Coello, CFA
Juan Manuel Tealdi
Cristina Reyes Latorre

IMPORTANT REMARK:

The contents of this document are merely illustrative and do not pretend, are not and cannot be considered under any circumstances as an investment recommendation towards the contracting of financial products. This document has only been prepared to help the customer make an independent and individual decision but does not intend to replace any type of advice needed for the contracting of such products. The terms and conditions described in this document are to be viewed as preliminary terms only, subject to discussion and negotiation as well as to the agreement and final drafting of the terms affecting the transaction, which will appear in the contract or certificate to be issued. Consequently, Banca March, S.A. and its customers are not bound by this document unless both parties decide to embark on a specific transaction and agree on the terms and conditions concerning the final documents to be approved. Banca March, S.A. does not offer any guarantee, expressly or implicitly, in relation with the information shown in this document. All terms, conditions and prices contained in this document are merely informative and subject to modifications depending on the market circumstances, changes in laws, jurisprudence, administrative procedures or any other issue which may affect them. The customer should be aware that the products mentioned in this document may not be appropriate for his/her specific investment targets, financial situation or risk profile. For this reason the customer must make his/her own decisions by taking into account such circumstances and by obtaining specialised advice in tax, legal, financial, regulatory, accounting issues or any other type of information required. Banca March, S.A. does not assume any responsibility for any direct or indirect costs or loss which may result from the use of this document or its contents. No part of this document can be copied, photocopied or duplicated in any way or through any means, redistributed or quoted without a previous written authorisation by Banca March, S.A.