Perspectives

Market and allocation

Our experts monthly overview

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Ofi invest
Asset Management

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OFI INVEST AM

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A glossary listing the definitions of all the main financial terms can be found on the last page of this document.

OUR CENTRAL SCENARIO

Hormuz: a fragile lull

First, a turbulent March, then a two-week truce. The cease-fire is a necessary, but not sufficient, shift towards a normalisation of energy flows and regional oil & gas production. But the US and Iran are still far from an agreement. The risk of a rapid resurgence in tensions and hence market volatility cannot be ruled out.

The latest events suggest that an end to the conflict would make macroeconomic issues manageable. The European economy would emerge intact on the whole, while the United States looks even less exposed, as it is a net energy exporter and more fundamentally solid. A few months of inflation looks inevitable, but under this scenario, indirect effects would probably remain under control.

Economic theory on supply-side shocks teaches us to "look through" such shocks without prematurely tightening monetary policy. This is our scenario for the US Federal Reserve and the European Central Bank (ECB). But that could change with a resumption in hostilities or a stalemate in the conflict. In Europe, pre-emptive rate hikes as early as this summer cannot be ruled out if data were to reveal a heightened risk of second-round effects on inflation.

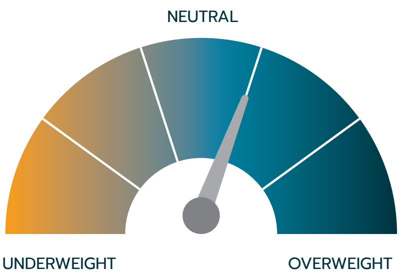
As uncertainty will stay with us, investment decisions must continue to be guided by nimbleness and flexibility. In addition to short-term volatility, we expect sovereign yields to converge towards levels that are more consistent with fundamentals: a Bund close to, but below 3% and a US 10-year yield above 4 %.

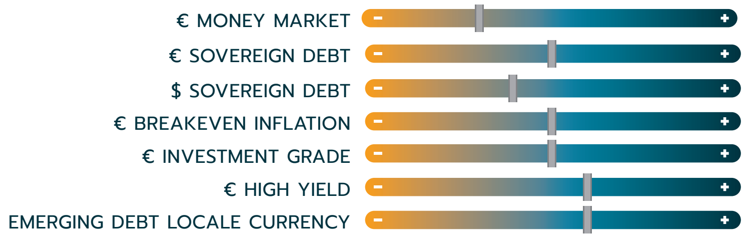
With corporate bonds expected to remain expensive in 2026, we will continue to overweight them for their carry trade possibilities. Selectiveness remains essential, given the ongoing concerns over private debt, although we consider that risk to be mostly under control, particularly in Europe.

We have made no change to our equity market exposure, with the exception of Japan, where we are raising our weighting slightly. The truce still looks too fragile at this point to justify a more significant increase in equity exposure after the recent rally. Under a less favourable scenario, we believe a tactical approach will be decisive in exploiting other buying windows on a long-term investment horizon.

Our views as of ***09/04/2026***

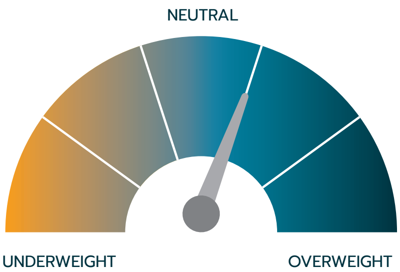
BONDS

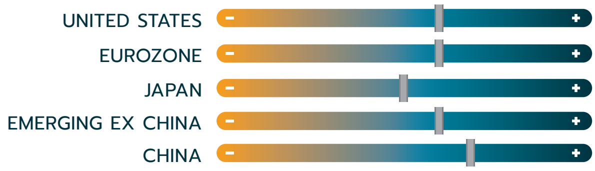




Volatility in government and corporate bonds has increased markedly since 28 February, when the attacks began on Iran. The German 10-year yield rose from 2.64% to 3.00%, and as high as 3.09%, but it was the short-term section of the yield curve that was the most volatile, with very large shifts in expectations of central banks. Despite signs of calm and a cease-fire announced on 8 April between Iran, Israel and the United States, the markets remain focused on the conflict's duration and on access to the Strait of Hormuz. We believe that current levels offer a good opportunity to slightly overweight government bonds in Europe, while also raising money-market exposure somewhat. As for corporate bonds, we reiterate our cautious stance on spreads, which allowed us to cushion March's market shocks. Carry opportunities are nonetheless keeping us invested in the asset class.

EQUITIES





The launch of operation "Epic Fury"[1] now more than one month ago has caused volatility to surge on the world's main financial markets. Despite a steep drop on the month, equity markets have held up rather well on the whole, while continuing to price in a rapid drawdown of the conflict, which would send oil & gas prices down. We share this belief and are sticking to a resolutely constructive vision for the coming months. The two-week cease-fire announcement also backs a scenario of an easing in tensions and is in line with our baseline scenario. Market dips, in our view, are worth exploiting for gradually increasing exposure, a view we are reiterating. We are now raising our rating of Japanese equities by one notch, now that they have almost given up all their year-to-date gains. We will revisit our stance in the coming weeks, based on progress in negotiations between the US, Israel and Iran and on developments in traffic in the Strait of Hormuz.

CURRENCIES

The euro-dollar exchange rate has traded within a narrow range since the Middle East conflict began, with the dollar once again playing its role as a safe haven. Dollar positions have completely reversed themselves from their pre-conflict situation, making it one of the most overbought currencies and hence increasing the risks of a reversal. However, given the uncertainties on how long the conflict will last, we are sticking to a neutral stance on the euro-dollar exchange rate.

[1] Operation "Epic Fury" was launched on 28 February 2026 by the US in tandem avec Israel, against Iran.

Our views on the different asset classes provide a broad and forward-looking framework that is used to guide discussions between Ofi Invest Asset Management's investment teams. These views are based on a short-term investment horizon and may change at any time. The framework therefore does not provide guidance for those looking to build a long-term asset allocation strategy. Past performances are not a reliable indicator of future performances.

The central banks' dilemma in dealing with the energy shock

Ombretta Signori
Head of Macroeconomic Research and Strategy
OFI INVEST AM

A little more than a month after the outbreak of the Middle East conflict, the first business surveys released in March confirm that the US economy looks less exposed than the euro zone to the resulting energy shock. US consumer spending had been resilient before the conflict began, and this year's higher tax refunds are likely to cushion the loss of purchasing power, with the exception of the lowest-income households, which spend on average 18% of their revenues on energy (almost triple the national average)[1].

Barring a long-lasting closing of the Strait of Hormuz, fundamentals remain sold and we will make no meaningful change in our forecasts. The US is a net oil & gas exporter, and the oil intensity of the US economy has shrunk markedly to about one third of its level of the 1970s, thanks to a more service-oriented economy, better energy efficiency, and technological progress. National accounting figures show that the weight of energy in total consumption is about 3.5%, an all-time low.

Meanwhile, recent academic findings show that higher oil prices are boosting investment in the US oil & gas sector, with a positive impact on business activity offsetting some of the lost purchasing power and the negative repercussions on GDP[2]. The US economy could accordingly perform well this year, with growth of 2% or more, while the impact on the euro zone would be greater, with growth of about 1%.

INFLATION EXPECTED TO INCREASE

We are raising our forecasts of total inflation from 2.5% to about 3.2% for the US and from 1.6% to 2.5% for the euro zone (based on annual averages). This increase would be driven mainly by energy, as higher oil prices flow almost immediately into higher gasoline prices, as seen in March euro zone inflation figures (which rose from 1.9% to 2.5%). Our baseline scenario excludes significant second-round effects and suggests that there would be little change to core inflation compared to the pre-war scenario. However, a prolonged shutdown of the Strait of Hormuz, resulting in a long-lasting increase in energy prices, would have indirect and second-round effects on inflation, and a marked impact on growth. Central banks are facing a second energy shock in four years. So, pre-emptive tightening or a "look-through" strategy[3]? That is the question everyone is asking. An approach consisting in looking beyond a crisis is often jus¬tified, as energy shocks are generally temporary, whereas monetary policy is projected over long periods and moves business activity and inflation in opposite directions. However, if the energy shock is severe and long-lasting, a pre-emptive tightening may be justified in order to anchor inflation expectations and limit second-round effects. There is no panacea, and the probability of second-round effects depends on several factors, including the extent and duration of the energy shock, an economy's energy mix, macroeconomic conditions prior to the shock in terms of key rates, inflation and inflation expectations, as well as the state of the job market, the reaction of fiscal policy and possible other simultaneous shocks. Empirical studies have shown that the inflationary impact of an oil shock is far greater when inflation is already high, when the job market is tight, and when fiscal policy is expansionary[4].

LOOKING THROUGH THE SHOCK

Households and companies are more vulnerable to inflation than they were pre-Covid, a factor that exacerbates the risk of second-round effects. However, unlike in 2022, there is no demand-side inflation and key rates are neutral or hawkish (except in Japan). With initial inflation at the target and more neutral fiscal policy, initial condi¬tions look less risky in the euro zone than in the US. We expect the ECB to wait for more data and to "look through the shock". That being said, the possibility of rate hikes cannot be ruled out in managing second-round effects on inflation, in particular if things aren't back to normal by June. As for the Fed, the marginal easing in its key rates that we were expecting for the second half of the year could be postponed if higher energy prices push renewed inflation towards the target.

		United States		Euro zone	
		2026	**2027**	**2026**	**2027**
Inflation (annual average)	Pre-conflict	2.5%	2.3%	1.6%	1.7%
	New baseline scenario	3.2%	2.0%	2.5%	1.6%
	Alternative scenario	4.2%	2.1%	3.1%	2.0%
Growth (annual average)	Pre-conflict	2.3%	2.0%	1.4%	1.6%
	New baseline scenario	2.1%	2.0%	1.0%	1.4%
	Alternative scenario	1.6%	1.7%	0.6%	0.8%

(1) American Council for an Energy-Efficient Economy.
(2) « Effets du prix du pétrole sur l'économie américaine », Direction Général du Trésor, France.
(3) "Look-through" strategy: to look beyond current conditions and not raise rates.
(4) « The global inflation and monetary policy outlook », BIS.

INTEREST RATES

A high-risk month for bonds

Geoffroy Lenoir
Head of Collective Investment Management
OFI INVEST AM

The Middle East conflict has monopolised the markets' attention since operation "Epic Fury"[1] was launched on 28 February. Since then, traffic in the Strait of Hormuz has come almost to a halt, and the uncertain timing on reopening it are posing serious risks to the global economy. Bond markets have accordingly had to price in the inflationary risks that are being driven by higher oil prices. This risk, which would send interest rates up, comes with risks of a recession, which would drive rates downward. Indeed, an escalation of the conflict, with a prolonged closing of the strait would impact not just inflation but also growth. The probability of a stalemate under a stagflation scenario thereby rose during the month. This would pose a quandary for central banks, as they may have to raise key rates and then lower them later. The markets have therefore homed in on the central banks' reaction function, pricing in rate hikes first, particularly in Europe. This led to a flattening in yield curves on the whole in March, with a steep rise in the short-term section. Longer-dated yields rose less, as they focus more on growth concerns.

CENTRAL BANKS ARE TORN

At this point, we expect the European Central Bank (ECB) to wait until June before deciding on a possible rate hike. If the cease-fire announced by the US president does produce an agreement, the ECB could keep its key rates unchanged until yearend. As for the US, we expect Federal Reserve to opt for the status quo for several more months before steering towards a rate cut, as expected at the start of the year. Once the current turbulence has blown over, we expect rates to be relatively stable, in line with fundamentals, i.e., a Bund close to, but below, 3% and a 10-year US yield above 4%.

CAREFUL ON CORPORATE BONDS

Interest-rate volatility has come alongside volatility on spreads. The corporate bond market bent during the month but didn't break. Spreads widened in investment grade and high yield in euros by, respectively, 10 and 50 basis points on the month. This is nowhere near the reaction to the April 2025 tariffs announcement or to the outbreak of the war in Ukraine and central banks' steep hikes to fight against higher inflation in 2022. True, credit markets are in negative territory on the year to date, as they have priced in a risk premium, but there have been no signs of panic from investors.

Corporate fundamentals and technical factors continue to provide valuable support to the market, but, clearly, investors and investment banks have become more cautious. Although the markets have been relative solid, some weakness has emerged in the form of inflows into the asset class. After three very strong years of subscriptions on these markets, redemptions are becoming steadier in investment grade and high yield funds.

As the year began, we took a cautious approach to constructing the portfolio, believing that spreads were too narrow. We reiterate this stance, as we see less technical support. Moreover, growing concerns on the US private debt market – although this risk is under control in Europe – would seem to counsel against taking on greater risk, particularly in the speculative high yield segment. To end on a positive note, we nonetheless acknowledge that, with yields of 3.4%and 6.3% respectively in euro investment grade and euro high yield, carry does offer protection and encourages us to stick with this market.

FIGURE OF THE MONTH

+38bps

The change in the US 10-year yield on the month, from 3.94% to 4.32% after hitting a high on the year at 4.43%.

PERFORMANCES
Equity indices with net dividends reinvested, in local currencies

	March 2026	YTD
JPM Emu	-2.60%	-0.61%
Bloomberg Barclays Euro Aggregate Corp	-2.27%	-0.99%
Bloomberg Barclays Pan European High Yield in euro	-2.41%	-1.50%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 31/03/2026.
Past performances are not a reliable indicator of future performances.

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[1] *Operation "Epic Fury" was launched on 28 February 2026 by the US in tandem avec Israel, against Iran.*

Beware the Ides *of March?*

Geoffroy Lenoir
Head of Collective Investment Management
OFI INVEST AM

This year, March certainly lived up to this expression. Since the outbreak of operation "Epic Fury"[1], global markets have hung on the next tweet from Donald Trump in the hope that he would manage to reopen the Strait of Hormuz, which is vital to European and Asian energy supplies, as well as to the supply chains of a large number of industries worldwide. Prior to the two-week truce, the markets continued to see the glass half-full, as seen in the moderate declines on major equity indices since the conflict began.

2026 earnings estimates were raised once again in March (thanks to the oil sector) and investors continued to count on a TACO[2] scenario. Even so, volatility returned with a vengeance and while tail risks, such as recession and stagflation had been mostly ruled out, they are an integral part of all possible scenarios. One side can start a war, but it takes two to finish it!

From the very first hours of the conflict, US markets were once again relatively attractive to global investors. The US has achieved a level of energy independence that is the envy of other G7 countries. A stalemate scenario for the Middle East conflict is therefore less likely to derail economic growth in the US, especially as spending on artificial intelligence infrastructure, on which oil prices have little impact, continues to account for a significant portion of growth expected in 2026. And tech stocks did perform rather well on the month, although they have lagged behind the broader market on the year to date, due mainly to the collapse in software stocks.

Consumer stocks are faring less well. Gasoline prices have risen above $4 on average in the US and more than $6 in states such as California. None of this will help out lower-income Americans' finances, which had already been squeezed for several quarters. Companies' pricing power and ability to hold onto their margins will once again be tested, but the markets look pessimistic about their chances for success.

EARNINGS OUTLOOK UNDER PRESSURE

European equities took a greater hit, as initial downward revisions in European economic growth forecasts are already emerging. Energy inflation is hitting Europe especially hard and is pushing up inflation expectations. The nagging question in investors' minds is future central bank policy and the risks that this poses to the 2026 earnings outlook, at a time when traders are already pricing in rate hikes. The consensus continues to adjust its forecasts upward, as in the US, but risks are clearly beginning to cluster around European companies' supply chains. This is no doubt why the DAX index, with its heavy weighting of manufacturers, is among the laggards among equity markets on the year to date.

The Japanese market's correction is even greater and is driven by the same thinking as in Europe. Investors are offloading some exposure to companies likely to be affected by a sustained run-up in energy costs and, instead, are buying US assets, which are thought to be safer in that regard. Meanwhile, Japanese indices have been hit by their lack of exposure to oil stocks. Oil stocks are indeed the big winners in the war in Iran and are leading the indices by far almost everywhere in the world.

FIGURE OF THE MONTH

+57%

The increase in oil prices since the Iran war broke out.

PERFORMANCES
Equity indices with net dividends reinvested, in local currencies

	March 2026	YTD
CAC 40	-8.83%	-3.99%
EuroStoxx	-8.39%	-2.50%
S&P 500 in dollars	-5.01%	-4.42%
MSCI AC World in dollars	-7.18%	-3.20%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 31/03/2026.
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[1] Operation "Epic Fury" was launched on 28 February 2026 by the US in tandem avec Israel, against Iran.
[2] TACO: "Trump Always Chickens Out", meaning he always ends up losing his resolve.

"Epic Fury"[1] : the impact on Asia

Jean-Marie Mercadal
CEO
SYNCICAP AM

Although solid and resilient, Asian economies are still closely dependent on energy supplies from the Persian Gulf. A quick end to the conflict would help maintain the positive momentum on Asian markets seen in recent months.

Exposure to oil imports from the Middle East varies from one country to another. Thailand, Japan, Korea and Taiwan are the most dependent. Of the 15 Asian countries, 9 import more than 70% of their energy from the Middle East, and 70% of Indian imports pass through the Strait of Hormuz. China is less exposed, as it gets only 50% of its oil & gas supplies from the Middle East, and those two fossil fuels combined account for only about 25% of its total energy mix. As in the rest of the world, the fear in Asia is stagflation – an economic slowdown combined with higher inflation. A quick end to the war, as announced by Donald Trump, would be good news. And a prompt resumption of normal business activity would spare corporate earnings prospects, even as valuations have declined...

ALREADY SOME SIGNIFICANT DIPS

From the outbreak of the conflict to 31 March, the MSCI Emerging Markets Asia ex China index lost almost 15% in euros but is still up by 5% on the year to date. By way of comparison, the Euro Stoxx index declined by almost 10%, and by 4% YTD. The Korean market naturally consolidated after a spectacular last-12-month run-up of more than 120%. Indian equities have also taken a hit in a country heavily exposed to oil & gas imports. Indian shares are down by 11% since the conflict began and by 13% YTD. They are starting to look attractive again, at a P/E of about 20, in line with their historical average, and earnings momentum is looking more positive.

CHINA WANTS TO WIN THE "BATTLE OF KEY TECHNOLOGIES"

China has held up better than during previous oil shocks. The MSCI China All Shares index is down by 6% (in euros) since the conflict began. Amidst a challenging economic context likely to weigh on its exports, China is steering its model towards domestic demand even faster. In his presentation of China's priorities for 2026-2030, Prime Minister Li Qiang stated its ambition unambiguously: "to win the battle of key technologies". Beijing has identified 10 priority emerging industries: semiconductors, humanoid robots, life sciences, new-generation batteries, reusable rockets, aerospace (with the goal of becoming competitive on long-haul flights), low-altitude mobility (drones in particular,), green hydrogen, mind-machine interfaces, and medical equipment. Meanwhile, 6 industries "of the future" have been targeted in the expansion of regional economic growth poles, driven by an increased number of projects and regulatory easing: quantum computing, nuclear fusion, 6G, embedded artificial intelligence, bio-manufacturing and human-machine interfaces. This is an impressive list, in laying out a clear political strategy, and the ecosystem created is likely to provide many companies with a favourable framework.

Meanwhile, the latest economic statistics, even in March, show that the Chinese economy remains rather strong. Manufacturing output expanded by an annualised 6.3% in January-February, and retail sales by +2.8%. Both of these beat forecasts. And in March, which was hit by the conflict-driven run-up in oil prices, manufacturing and service surveys improved to above 50, which is the threshold between acceleration and contraction. Only export-intensive industries took a hit in March, as one would expect. **We reiterate our positive view of Chinese equities, which look reasonably prices at a P/E of about 13 and which are still underweighted in international portfolios.**

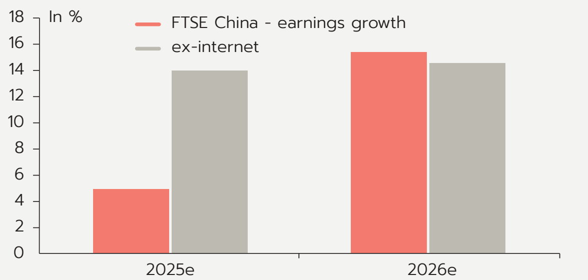
FIGURE OF THE MONTH

7,732

The number of secondary real-estate transactions in Shanghai in the second week of March, a high since 2021. Prices have not yet rebounded, but this number of transactions points to a stabilisation of the real-estate market.

EARNINGS IN CHINA EXPECTED TO GROW BY ABOUT 15% THIS YEAR

With a recovery expected in internet sector, where a squeeze on margins - driven by keen competition - is expected to subside.



Sources: FTSE Russell, Factset, HSBC - March 2026
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[1] Operation "Epic Fury" was launched on 28 February 2026 by the US in tandem avec Israel, against Iran.
Syncicap AM is a portfolio management company owned by Ofi Invest (66%) and Degroof Petercam Asset Management (34%), licensed on 4 October 2021 by the Hong Kong Securities and Futures Commission. Syncicap AM specialises in emerging markets and provides a foothold in Asia, from Hong Kong.

GLOSSARY

Carry : a strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

Credit risk: in bond management, this is the risk that a bond's issuer will be unable to repay the principal or interest owed to investors.

Credit spread: difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

Duration: weighted average life of a bond or bond portfolio expressed in years.

Inflation: loss of purchasing power of money which results in a general and lasting increase in prices.

Inflation breakeven rate: the difference between the yield on a traditional bond (nominal yield) and the yield on its inflation-indexed equivalent (real yield).

Investment Grade/High Yield credit: Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

PER : Price to Earnings Ratio. A stock market analysis indicator: market capitalisation divided by net income.

Risk premium: reflects the additional return demanded by investors compared to a risk-free asset

Spread: difference between rates.

Stagflation : situation of an economy that simultaneously suffers from low or no economic growth and high inflation.

Volatility: corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

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