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

Trump brings out the heavy artillery

Donald Trump has once again placed the entire world before a done deal in triggering the so-called "epic fury"[(1)] operation in Iran. The start of the year had already been marked by a series of geopolitical events, such as the military operation that led to the capture of the Venezuelan president Nicolás Maduro, US claims on Greenland for national security considerations, and, since 28 February, the attack on Iran that eliminated a large number of its leaders, including Ayatollah Ali Khamenei, who had led the country with an iron fist for 36 years. The Iran conflict is now the main concern of markets - as much for Trump's war aims as for the duration of the conflict. The markets had thus far mostly shrugged off geopolitical risk, but it is now back with a vengeance, placing economic fundamentals - which remain positive - on the back-burner.

In addition to strictly geopolitical considerations, the markets are focusing on the Strait of Hormuz, a strategic chokepoint for commodities (oil, gas, refined products, aluminium, fertilisers and many others). A prolonged closure - not necessarily physical, but operational in nature if ships were no longer insured - would have serious repercussions. Gulf oil producers would run short on storage capacities and would be forced to reduce their output, which would trigger a spike in commodity prices, as well as major disruptions to supply chains. This is how the crisis could impact the global economy, beyond a mere shock to confidence.

However, a drawn-out conflict would be contrary to Trump's interests as it would become a political burden to him in the run-up to mid-term elections, with higher oil prices lowering his voters' purchasing power - one of his campaign promises - and, accordingly, undermine his popularity.

How long the conflict will last and whether the Strait of Hormuz will stay open will therefore be keys to the financial markets in the coming days.

Equity markets had held up well in February but have now also shifted gears with aggressive rotations: artificial intelligence (AI), the initial driver, is now raising doubts, thereby undermining several sectors. US market valuations are high, but company results are solid, and Donald Trump is likely to provide US consumers relief in the run-up to mid-terms. The EuroStoxx, meanwhile, had risen sharply but gave up all its gains in early March. Against this shifting backdrop, we expect opportunities to arise. We are therefore maintaining our exposures to Europe and the US. In fixed income, we are reducing duration marginally, as we believe that the 10-year US yield could revisit the 4.25% zone in a more inflationary context. Caution is therefore in order, pending more clarity on the ongoing Middle East conflict. The final arbiter may end up being oil prices!

On a more positive, medium-long term note, a fall of the Iranian regime within an orderly transition - a big assumption at this point - would provide geoeconomic stability to a region and would no doubt be cheered by the markets.

[(1)] Epic Fury: the name chosen by Washington for the massive military offensive led by the United States and Israël against Iran beginning on 28 February 2026

Our views as of ***05/03/2026***

BONDS

Prior to the 28 February attack on Iran, February had been marked by a steep drop in yields plus a widening in credit spreads. Fears over artificial intelligence (AI) and geopolitical risks have spread gradually to the markets. In early March, operation "Epic Fury" sent oil and gas prices up, along with the US 10-year yield (by more than 15 basis points). Inflation risks began to overshadow recession risks. How long the conflict in Iran lasts will matter greatly to bond markets as will access to the Strait of Hormuz. We believe that the US 10-year yield could rise further in this context. We are downgrading US government bonds to slightly underweight and reiterate our message of neutrality on overall duration. As for corporate bonds, we are making no change to our views. We maintain our cautious view on spreads. We nonetheless expect the markets to offer buying opportunities and that selectiveness will remain key.

EQUITIES

Recent economic releases in Europe and the US have provided some rather good news. But the military intervention in Iran has created a new context of uncertainty for global markets with volatile commodity prices likely to result. For the moment, company earnings capacities do not appear to have raised doubts by the consensus, and figures released last quarter are quite robust. That being said, it will probably be worth keeping a close eye on input prices in the coming weeks. This month we are downgrading our allocation to Japanese equities by one notch to neutrality, while taking some profits following very robust year-to-date gains.

CURRENCIES

We are sticking to our neutral stance on the euro-dollar exchange rate. We had written in past months that not all the foundations of American exceptionalism had vanished. And the dollar's safe haven status indeed materialised when the war began in the Middle East. Meanwhile, the dollar has been boosted by a more marked upward revision in monetary policy expectations in the US, as well as in the euro zone, where the economy is more oil-sensitive. Uncertainties on the outcome of the conflict and the lack of extreme dollar exposure make an assumption of a euro rebound risky in the short term.

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 Strait of Hormuz, a strategic chokepoint for commodities

Ombretta Signori
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The economic impact of the US-Iran conflict remains uncertain, but at this point we are making no change to our scenario of resilient growth in 2026 with inflation "under control", subject to developments in the situation.

So far this year, data have pointed to more stable US employment, improving business surveys despite the historic cold wave, and more solid manufacturing output. Durable goods orders suggest a broad recovery in investment on top of that being made in artificial intelligence (AI). On the price front, inflation has held no bad surprises, and the replacement of reciprocal tariffs, ruled illegal by the US Supreme Court, by 10% tariffs (slightly lower than reciprocal tariffs) buttresses our view that the peak of tariff-driven inflation is now behind us. Will that be enough to encourage the US Federal Reserve to lower its rates? In the short term, no. Inflation still looks too high, and we don't see any rate cut until the second half of the year and the arrival of the next Fed chairman, Kevin Warsh.

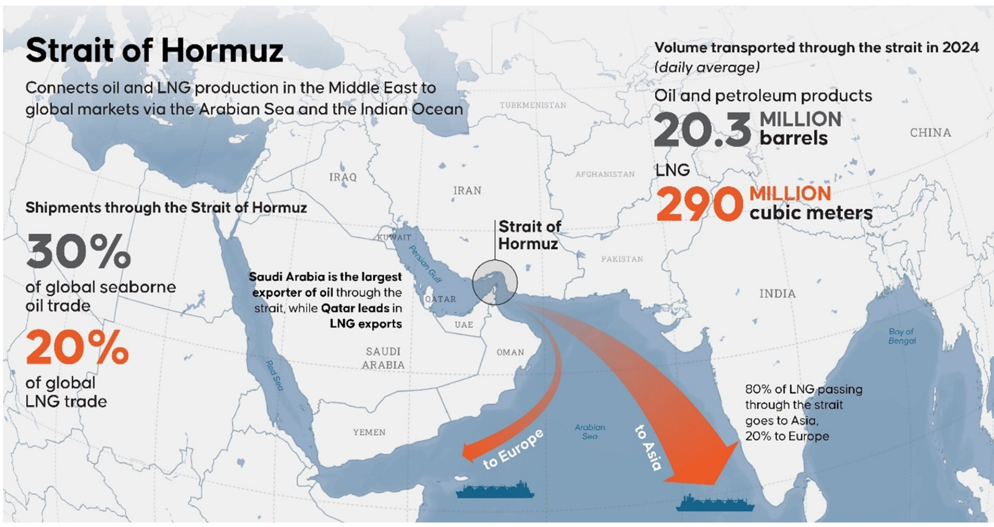
The European Central Bank (ECB) is also likely to keep its rates at 2%, as resilience of economic activity and the boost provided by the German stimulus plan – which is beginning to show up in the recovery of domestic manufacturing orders – offset underlying disinflationary pressures (slowing of wage momentum, the euro impact, and Chinese imports), baring conflict-related risks.

KEEP TRACK OF THE IMPACT ON INFLATION AND GROWTH

How could the Middle East conflict alter the environment? The conflict's first macroeconomic transmission channel is commodity process, oil in particular but also natural gas and other petroleum products (refined products, fertilisers, etc.). This negative supply-side shock reduces the wealth of importing countries – higher prices eat into household purchasing power and higher production costs drag down business investment. As the United States is now a net exporter of oil and gas, the economic impact would be greater in Europe than in the US, where lower consumption is partly offset by heavier investments in the energy sector. As for inflation, a sustained USD 10/bbl. increase would boost inflation by about 0.4%. Natural gas's inflationary impact in Europe is different from the oil impact. It is weighted less than oil in the inflation basket, and its transmission into end prices is slower, due to regulated pricing[1]. **The second transmission channel is the shock to confidence,** which encourages a wait-and-see attitude by households and companies.

The Middle East conflict no doubt exacerbates upward inflation risks and downward growth risks, especially in Europe, but the extent of the two effects will depend on how long and how intense the escalation is, and various scenarios are possible. The most extreme of these would probably be an extended closing of the Strait of Hormuz, either physical or operational (the latter due to the failure to obtain insurance coverage for ships), something that has never happened. The Strait of Hormuz remains **a chokepoint for transporting commodities,** as almost 30% of global flows of crude oil and about 20% of LNG pass through it, mainly to China and the rest of Asia. These aren't fears of shortages, as occurred in 2022 for natural gas, as Europe is far less dependent on Gulf oil and LNG than Asia. However, despite its limited physical imports, oil & gas markets are global and any spike in prices would hit Europe, thus squeezing margins of companies in energy-intensive sectors. Such a shock would boost commodity prices; crude oil could exceed USD 100, which we estimate would push the euro zone into quasi-stagnation. In reaction to such an extreme supply-side shock, which would probably hit the most volatile inflation components, we believe the ECB and probably the Fed would keep their rates stable at first, pending greater clarity on the situation.

We nonetheless stress that oil prices would also discourage an extended war by reducing US household purchasing power more – a key issue in the run-up to 2026 mid-term elections, to which the Trump administration is especially attentive. Moreover, opinions on this conflict are far from unanimous, neither in public opinion, nor even within the Republican Party.



Source: US Energy Information Administration, June 2025.

[1] The pass-through to inflation of natural gas price shocks has increased over the past few years but is still less than in the case of oil and very different from country to country – greater in German, Spain and Italy, and less so in France.

Before *"epic fury"*[1] *happened...*

Geoffroy Lenoir
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After a flood of bond issuance in January, the primary market exerted less upward pressure on interest rates in February. Rates were even driven down by nascent concerns over the impacts of artificial intelligence (AI), as well as growing tensions in the Middle East. In parallel, some tech-exposed private financing structures have raised some concerns.
During the month, the US Federal Reserve stressed that employment had stabilised, thus pushing monetary easing expectations back past the month of June. The US yield curve flattened, with the 10-year yield once again hovering around 4%. The tariff setback suffered by Donald Trump might have revived fiscal concerns (how to finance OBBB[2] if tariffs are illegal?) but the market focused on safety vs. equity volatility. All European yields, including UK ones, receded in sympathy, including the Bund to 2.64% by month-end, thus cancelling out its entire increase since December dernier. After an erratic month of January, government bond performances moved solidly into positive territory, at +2.1% on the euro, +1.9% on the US, and +2.3% on the UK (sources: ICE BofA indices).

A focus of recent weeks, Japanese yields also receded after the LDP's landslide election victory, thus validating Sanae Takaichi's strategy of dissolving the Diet. Since spiking in mid-January to 3.87%, the 30-year yield has pulled back by more than 50 basis points. Markets will nonetheless remain on high alert to what the government has to say about fiscal issues. Despite core inflation of 2.6%, the BoJ will no doubt play for time on its monetary policy, pending greater clarity on the prime minister's fiscal policy plans. And the appointment of two "reflationist" members to the BoJ's board is along the lines of the head of government's resistance to further key rate hikes, which could once again exert upward pressure on the long section of the curve.

EXPECTATIONS OF CENTRAL BANKS ARE SHIFTING

Following the attacks on Iran of 28 February, oil & gas prices have accelerated upward, and expectations of central bank action have adjusted accordingly. Regarding the European Central Bank (ECB), we have moved from a low probability of rate cuts to the possibility of a rate hike. As for the Fed, the market has shifted towards our expectations, which continue to see one or two rate cuts in 2026. With this in mind, we had taken some profits on US rates. With higher volatility, we now expect an increase in the Bund and the 10-year US yield to 2.90% and 4.25%, respectively. Once the current turmoil is over, we expect yields to recover relative stability, in line with fundamentals. A significant "AI shock", however, would open the door to a receding of bond yields.

SOME UPWARD PRESSURE ON CREDIT SPREADS

AI, moreover, has already affected some corporate bond issues, particularly in the software, data processing and legal sectors, among others. These risks then revived fears in private credit, exacerbated by the collapse of Market Financial Solutions (MFS)*, a small UK non-bank specialising in mortgage lending, with accusations of fraud and use of the same assets to back several loans. Then came the announcement by Blue Owl*, an asset manager that will restrict redemptions from one of its private credit funds.
Against this backdrop, euro investment grade and high yield spreads widened in February, revealing some nervousness on these markets after positive performances for months or even longer. **Caution remains the byword given the geopolitical context but, clearly, the credit market remains highly resilient and continues to be trusted by a large number of investors.**

FIGURE OF THE MONTH

2.21%

The 1-year euro inflation swap rate[3] as of 3 March 2026. The Middle East conflict has raised the inflation swap rate by about 0.5% since early February.

PERFORMANCES
Bond indices with coupons reinvested

	February 2026	YTD
JPM Emu	1.39%	2.05%
Bloomberg Barclays Euro Aggregate Corp	0.55%	1.31%
Bloomberg Barclays Pan European High Yield in euro	0.12%	0.93%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 27/02/2026.
Past performances are not a reliable indicator of future performances.

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**These companies are cited for information purposes only. This is neither an offer to sell nor a solicitation to buy securities.*

(1) Epic Fury: the name chosen by Washington for the massive military offensive led by the United States and Israël against Iran beginning on 28 February 2026.
(2) "One Big Beautiful Bill": the budget package signed by Donald Trump on 4 July that combines tax and social welfare spending cuts with investments in defence and national security.
(3) A financial derivative in which the two parties exchange payment flows based on a fixed interest rate and euro zone inflation trends.

Global equity markets diverge

Éric Turjeman
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Well before the Israeli-American operation in Iran, world equity markets were already diverging widely in February. While US markets were barely keeping in positive territory, emerging markets roared ahead with gains of more than 5% on the month, while Japan even topped 10%. The end of American exceptionalism is evident again this year, probably driven by the lack of clarity in US domestic policy.

The US Supreme Court ruled that tariffs imposed last April are indeed illegal. Notice has already been served that substitute tariffs will be imposed in the coming weeks, but investors don't like the resulting uncertainty. Although first-quarter US company earnings are excellent and well above consensus expectations on both top and bottom lines, that has not been enough to provide a new market catalyst.

A MARKET SANCTION BASED ON AN AI-IMPACT ANALYSIS

Fears of AI-driven disruption have swept away a number of stocks. Just a few weeks ago, the markets were wondering just how much sense it made to invest the hundreds of billions of dollars that tech giants planned to mobilise this year. Then, suddenly, the markets shifted their gaze elsewhere, when Anthropic* merely detailed changes being made in its AI Claude model, with new, advanced features, particularly for programming. That sent investors in search of those sectors most ripe for disruption, in turn, causing SaaS (software as a Service), media, and some specialised financial companies to plunge. The late-month announcement by Block*, a specialised payment platform, that it would lay off 40% of its staff and replace them by AI agents, weighed on companies sensitive to consumption by US white-collar workers. Market fears are probably highly overdone at this point, but its psychology is still negative. There are even recommendations out there to overweight HALO[1] stocks ("Hard Asset Low Obsolescence"), which are said to be safe from any disruption risk for the moment. As a result, the top year-to-date US market performers are exclusively in the old economy – consumer staples, construction, oil & gas, agro-food, telecommunications and utilities. That takes the cake for the world's most tech-heavy market!

Europe is still hanging on the roll-out of the German stimulus plan, although some fundamentals are improving elsewhere. Peripheral countries are showing robust economic growth, and currency in circulation in the euro zone is accelerating, thus pointing to more positive growth in lending. Corporate earnings are still nothing to shout about but are likely to improve sequentially month after month, as long as the euro does not reappreciate massively this year.

Japanese economic growth remains very impressive, with a year-to-date return of almost 15%. The markets cheered the new prime minister's consolidation of power as well as her expansionary budget. That being said, we believe that much of the good news is already priced in.

THE MIDDLE EAST INTRUDES INTO THE EQUATION

In addition to fundamentals, which remain solid, it is the Middle East conflict that will lay out the path of market performances. If, as we assume, negotiations begin between the US and Iran, energy cost volatility should remain under control and absorbable by economies and companies. Otherwise, assumptions may change on economic growth, margins and earnings growth. In that case, the markets would not have completed their adjustment phase.

FIGURE OF THE MONTH

$50bn

The amount of share buybacks planned by Salesforce*, the world leader in CRM software. This amounts to almost 30% of its market cap.

PERFORMANCES
Equity indices with net dividends reinvested, in local currencies

	February 2026	YTD
CAC 40	5.60%	5.30%
EuroStoxx	3.48%	6.43%
S&P 500 in dollars	-0.79%	0.62%
MSCI AC World in dollars	1.29%	4.29%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 27/02/2026.
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[1] HALO is based on real and durable assets that have very low obsolescence, thus giving them long-term visibility and stability.

The rediscovered potential *of Asian equities*

Jean-Marie Mercadal
CEO
SYNCICAP AM

Asian markets – and emerging markets more broadly – have accelerated strongly, with year-to-date gains of 20% and 14%, respectively. The environment is helping these regions to outperform and encouraging the gradual return of international investors. The outbreak of the conflict in the Middle East should not alter these trends, unless it were to become prolonged, which is impossible to predict at this stage.

On the year to date, US equities have no longer dominated international investment flows as they had since the 2008 financial crisis. Of USD 100 invested in global equity funds, only USD 26 are now headed towards the United States, down from USD 92 in 2022, USD 73 in 2024 and USD 45 in 2025. This reflects diversification towards European and emerging markets, which seems to be consistent with the current environment.

GEOPOLITICS AND THE QUEST FOR DIVERSIFICATION

Geopolitics is playing a key role in this shift. International tensions are encouraging several countries to reduce their dependence on the dollar, use of which may be constrained by the US government in the event of a major dispute. This cautious stance has resulted, among other things, in an increase in the share of gold in international reserves, particularly in China. Meanwhile, investors are taking on a more measured attitude to the "Magnificent 7"(1) and, more broadly, the artificial intelligence (AI) story. Fears are arising over the risk of overinvestment in a potentially "winner-take-all" competition, and over excessive interdependence between companies, driven by circular investments. Against this backdrop, reallocation of capital towards Europe and emerging markets reflects two approaches – reduced exposure to dollar risks and dampened enthusiasm for major US tech stocks. And it reflects **a quest for balance and safety in an environment marked by geopolitical uncertainty and potential excesses on some market segments.**

Asia is a large beneficiary of the current drive towards diversification, in particular Asia ex-China, which is playing a strategic role in the value chain arising from massive AI investments. To use a simple analogy, Asia ex-China supplies the "picks and shovels" that are essential to the technological goldrush, i.e., memories, processors, integrated circuits and other components that are essential to developing AI systems. This explains the spectacular year-to-date gains of almost 50% by the Seoul equities market. While the underlying trend remains favourable, the current pace does not look very sustainable in the short term, and it could clear a path to a rotation into other markets. Of these markets, India looks like an alternative that offers both defensive qualities and upside potential. Its equities market has flatlined for almost two years, thus allowing valuations to return to normal. It is now trading at an overall P/E of 21, while earnings growth has improved considerably, with corporate profits expected to rise by about 15% in 2026.

CHINA IN SEARCH OF A CATALYST

China is trading differently from the rest of Asia. After two solid years, Chinese equities have stabilised recently, as investors are awaiting clear signals on the economy and government policy. However, the latest indicators point to a slowdown. While exports remain robust, the real-estate crisis continues to drive down consumer confidence and, hence, domestic demand. Weak consumer confidence is reflected in bank savings, which are equivalent to 120% of GDP and raise the question of how they will be used. China is also facing keen "over-competition", which is squeezing prices and causing a deflationary risk. With this in mind, announcements from the National People's Congress will be decisive, especially as they will include guidance for the 2026-2030 five-year plan. The market is pricing in a growth target of 4.5% to 5.0%, with increased support for consumption and structural reforms, particularly in social welfare and pensions. A fiscal deficit equivalent to almost 4% of GDP is expected. Measures to stabilise the real-estate market and combat "over-competition" are also hoped for. The 5 March meeting will therefore have to restore confidence and clarify China's economic trajectory.

FIGURE OF THE MONTH

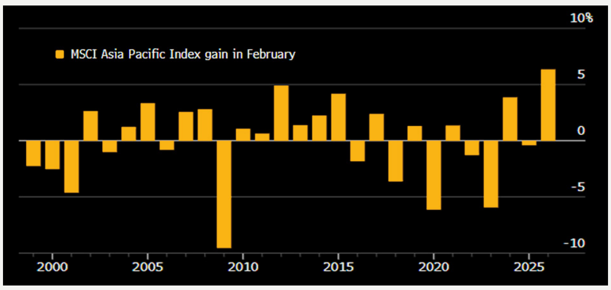
+21%

The performance in euros of the Emerging Markets Asia ex-China index.

MSCI ASIA-PACIFIC INDEX

It recorded its best month of February since its creation, in 1998, with a 6.7% gain in USD.

More broadly, investors are becoming more bullish on all emerging-market segments, including currencies, bonds and, of course, equities, driven by companies integrated into the AI value chain.



Source: Bloomberg - February 2026
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(1) The "Magnificent 7" are the GAFAM, Alphabet (Google), Amazon, Meta (Facebook), Apple and Microsoft, plus Nvidia and Tesla.
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GLOSSARY

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.

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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