



Perspectives

Market and allocation



Our experts
monthly overview

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Ofi invest
Asset Management

Negotiations under way but Hormuz still blocked



② **Eric Bertrand**
CEO
OFI INVEST AM

Despite ongoing negotiations between Iran and the United States, the Strait of Hormuz remains closed. Each day that goes raises the probability of an unfavourable scenario, at least for the European economy. True, the ceasefire has held on the whole, and the latest media leaks suggest that the belligerents have made substantive progress towards reaching an agreement, and this has triggered a steep rally in risky assets, thus demonstrating their resiliency. However, Iran's economy is more than just oil and its perseverance in recent years must be measured against Donald Trump's tighter deadlines, high oil prices for US consumers, and his upcoming meeting with Xi Jinping. In short, uncertainty is still running high.

The inevitable rise in inflation was confined in March and April to the energy sector but it still exerted pressure on central banks. Facing a still robust economy and high inflation, the US Federal Reserve has little choice in the coming months but the status quo, despite Kevin Warsh's arrival as chairman, while Jerome Powell will stay on board to defend the Fed's independence. The European Central Bank (ECB) has not committed to raising rates in June, taking its cue from past mistakes, but it has nonetheless laid the groundwork to do so. The only factor that could change this state of affairs would be reopening of the Strait of Hormuz and a quick normalisation of energy prices. **Central bank status quos should not lull the markets into complacency. Rather, they reflect a forced trade-off between energy inflation, slower growth and second-round effects.**

Against this backdrop, the markets are wondering just how transitory the energy shock actually is and are manifestly pricing an inflation premium into both nominal rates and inflation breakeven rates. Basically, the markets seem to be betting that the energy shock is indeed transitory, although the stance of Iran – which has not confirmed that an agreement is imminent – suggests that more caution is in order. The 10-year German yield, for example, has settled in around 3% and the US T-Note yield around 4.40%. Such levels, in our view, justify a slight tactical overweighting. However, our medium-term directional view will depend on whether or not the Strait of Hormuz reopens soon.

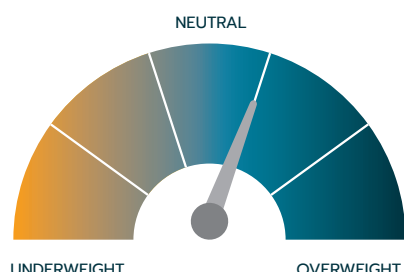
Remarkably, **the riskiest markets** – equities and debt – **are very in very little of these risks.** Credit spreads have returned to their February levels and US equity markets are at their year's highs, driven by robust fundamentals and a "tech and AI" story that is still going strong.

In light of the above, this is not a good time for aggressive directional bets. Better to actively steer duration, credit and convexity. For the moment, we continue to slightly overweight European high yield credit and equities, in light of prospective returns that remain positive from now to yearend. **However, our stance is tactical and is exposed to a major downturn in the geopolitical situation or the spread of the energy shock to core inflation. Any dip in volatility can be exploited to initiate hedges in the event that risk assets continue to rally.**

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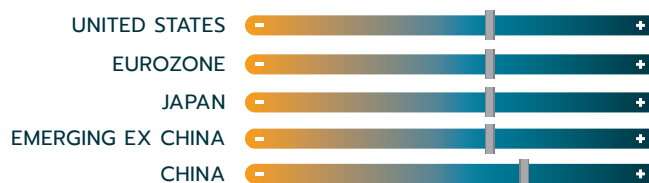
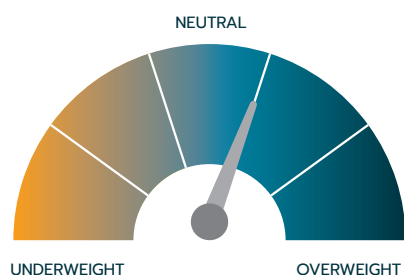
Our views as of 07/05/2026

BONDS



The cease-fire triggered a rally in risky assets and credit spreads. Fixed-income nonetheless remains under pressure while pricing in an increasingly large inflation premium. Against this backdrop of a gradual rebound in interest rates, we are maintaining a slightly over-sensitive bias in the portfolios. Any dip in yields in the coming weeks can be exploited to close out these positions, as we are pricing stubborn inflation into our expectations due to the Middle East situation. This is making us more cautious on directional trades on government bonds. We are leaving our cursors unchanged with the exception of US government bond yields, which are up sharply. As for corporate bonds, we are leaving our cursors unchanged despite tactically reducing our protections in portfolios due to companies' solid fundamentals.

EQUITIES



After holding up well in March, the equity markets rallied sharply in April. Investors cheered the cease-fire in the Middle East while shrugging off Hormuz-driven inflationary risks. This serene scenario will not necessarily last, but that did not keep investors from focusing on corporate fundamentals. In our view, the markets have somewhat underestimated the risks to inflation and growth. We believe that each day that goes by without a true reopening of the Strait of Hormuz brings us closer to a scenario of stagflation, particularly in Europe. We are leaving our cursors unchanged for the moment with a slight overweighting that we will be able to adjust during the month, if necessary.

CURRENCIES

The euro-dollar exchange rate has returned close to its pre-conflict levels. The dollar's safe-haven status did not last long, as heavy long dollar positions in March subsided in the first half of April and did not reemerge despite stubborn geopolitical tensions and the rebound in oil prices. In light of uncertainties on how long the conflict will last, we are sticking to a neutral stance on the euro-dollar exchange rate.



Hormuz: a breaking point?



Ombretta Signori
Head of Macroeconomic
Research and Strategy
OFI INVEST AM

The Strait of Hormuz has remained closed since early March. It is normally a chokepoint for commodities and as such has been the main channel of economic transmission of the Iran war, on top of the shock to confidence.

Last month, we suggested that, barring a long-lasting shut-down of the Strait of Hormuz, solid fundamentals were likely to keep the economic outlook from changing significantly. We also noted that if the Strait remained closed for a long period, with a longer-lasting impact on energy prices, that would have a greater impact on growth and inflation. It has been possible to manage things so far with reserves and adjustments of trading flows of certain commodities, but there could be potential shortages of some of these commodities this summer. If so, rationing would be the only way to deal with such shortages, which would mean an automatic contraction in demand.

Each day that goes by moves us further away from our baseline scenario and closer to the more unfavourable scenario that we presented last month (for details refer to our [April release](#)).

Growth data show, as expected, that the European economy is more exposed to the conflict than the US economy. Already in the first quarter, growth was weak (+0.1% for the quarter, or 0.4% annualised), with domestic demand still strong only in Spain (out of the euro zone's four largest economies). The prolonging of the conflict could also undermine growth this spring, and it is almost certain that the euro zone will be unable to achieve 1% expansion in 2026.

In contrast, **US growth has remained robust over the same period** (2% annualised in the first quarter), **driven by resilient consumption and investments in technology.** Based on our calculations, artificial intelligence contributed just

0.8 percentage point of growth in the first quarter, as the extraordinary increase in AI-related imports must be subtracted from the exponential growth in AI investments.

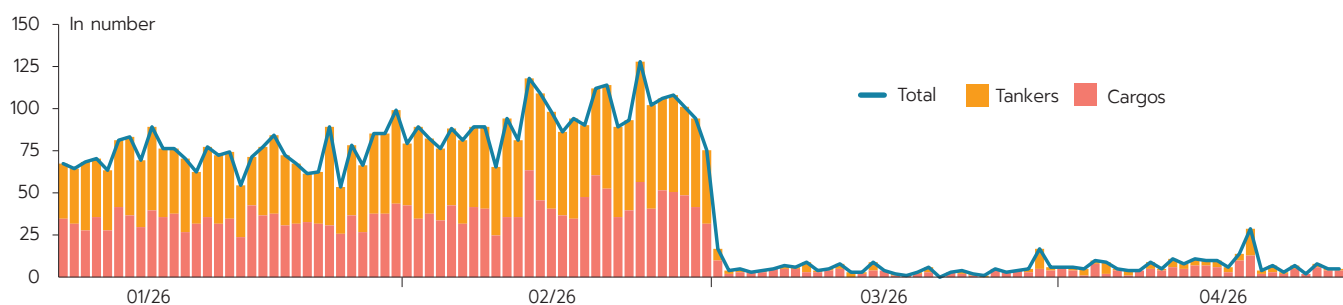
In the second quarter, tax refunds (17% higher than those of the same period of 2025 as of the end of April) are likely to offset, on average, the loss of purchasing power caused by higher gasoline prices, thus leaving consumption unscathed. However, if energy prices were to remain high beyond the second quarter, US consumer spending might also suffer.

Inflation hit 3.0% in the euro zone in April and 3.3% in the US in March, but the resurgence in inflation at this point remains confined exclusively to energy, and no second-round effects have been seen. On the contrary, core euro zone inflation receded to 2.2% from 2.3% in March, and service inflation eased to 3.0% for the first time since 2022. **This is a challenging situation for the central banks**, which face a negative supply-side shock that is undermining growth and boosting inflation. At their April monetary policy meetings, central bankers did not question market expectations.

At the US Federal Reserve, no consensus has emerged in favour of a new monetary easing in the coming months, despite Kevin Warsh's taking over the chairmanship. Jerome Powell, meanwhile, has said that he will stay on as a member of the Board of Governors, in order to preserve the Fed's independence, something that is unprecedented since just after World War II.

At the European Central Bank, where there were still questions one month ago about whether the ECB was considering a rate hike, the question now is what could keep this from happening. Data so far show no sign of second-round effects on inflation, but **we believe that if the Strait is not reopened soon, the ECB will raise its rates in June.** The April press conference did send out several signs in this direction but without any formal commitment. Christine Lagarde, for example, said that a rate hike as early as the May meeting had been debated and that the ECB's baseline scenario was moving gradually away from the one it presented in March, which assumed a transitory energy shock.

TRANSIT THROUGH THE STRAIT OF HORMUZ



Sources: Macrobond, Ofi Invest Asset Management as of 05/05/2026.

Very relative optimism



Geoffroy Lenoir
Head of Collective Investment Management
OFI INVEST AM

Since early April, the markets have focused on the financial fallout of the Middle East conflict. The announcement of a partial cease-fire gave them some reason to hope, but traffic in the Strait of Hormuz remains a crucial challenge. It is still slow and can return to normal only with firm guarantees by the various countries involved in the conflict. But if traffic does not improve, prices of oil, gas and other commodities will remain high. Even worse, supply risks could emerge in certain countries and weigh increasingly on economies.

INFLATION EXPECTATIONS ARE UP

On fixed-income markets, we are seeing an orderly but persistent rise in yields, driven mainly by the inflation component. This movement is especially visible in shifts of inflation breakeven points, which increased significantly on the month. The five-year EUR inflation swap, for example, rose by another 20 basis points in April after a 50-basis-point gain in March. As a result, real interest rates remain close to their February, pre-conflict levels. Likewise, in the US, the 10-year swap inflation rate is at a two-year high of more than 2.60%, reflecting less investor confidence that the energy shock is a transitory phenomenon. This rise in inflation expectations has combined with a moderate increase in the term premium, which explains how long bond yields have risen without causing any panic. The US 10-year yield, for example, has settled into a trading range around 4.40% while the 10-year Bund is oscillating between 3.00% and 3.10%.

CENTRAL BANKS ON HIGH ALERT

Central banks' perceptions have clearly changed since early April. The US Federal Reserve is officially sticking to the status quo, but any rate cut prospects have been postponed. The market is now pricing in a prolonged

period of restrictive key rates in 2026 and 2027. In the euro zone, the pivot is even more obvious, and the markets are now pricing in a scenario of a rate hike as early as June, as the European Central Bank seeks to head off second-round effects on wages and long-term expectations.

This has made upward pressures on bond yields perceptible and they could also be exposed to fiscal factors. One more thing: the asset class has not proven to investors its capacity as a safe haven during recent phases of stress, which could limit a downward trend in yields.

THE CREDIT MARKET IS HOLDING UP WELL

Surprisingly, this upward pressure on yields is not showing up in credit spreads. On the contrary, spreads narrowed considerably on the month. The cease-fire announcement and continued solid corporate fundamentals placed extreme scenarios on the backburner, and primary-market issues have been taken up well. This has benefited both euro high yield and investment grade segments, lowering risk premiums to levels close those seen prior to the escalation in geopolitical tensions.

In portfolios, shifts in real rates and inflation breakeven rates make active management of duration more worthwhile. In corporate bonds, the macroeconomic environment and valuations are no cause for excitement. And yet, the asset class is being supported by corporate fundamentals and technical factors. A buy-and-hold strategy, particularly in high yield, provides protection from interest-rate effects, but thorough selectivity focusing on balance sheet quality and liquidity is called for in an environment where technical supports are not as automatic as in past years.

FIGURE OF THE MONTH

2.80%

The 5-year inflation swap rate as of early May. The Middle East conflict has caused the swap inflation rate to rise by 0.45% since the end of February, a high since March 2023.

PERFORMANCES

Equity indices with net dividends reinvested, in local currencies

	April 2026	YTD
JPM Emu	0.33%	-0.28%
Bloomberg Barclays Euro Aggregate Corp	0.94%	-0.06%
Bloomberg Barclays Pan European High Yield in euro	1.92%	0.39%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/04/2026. Past performances are not a reliable indicator of future performances.

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An AI boost to equities



Geoffroy Lenoir
Head of Collective
Investment Management
OFI INVEST AM

April saw risk appetite return to the equity markets with record performances in the US. The S&P 500 and Nasdaq rallied by more than 10% and 15%, respectively. The rally was driven not by an end to geopolitical or inflationary risks but by a refocusing on fundamentals, such as solid earnings, margin visibility, robust balance sheets and capacity to finance growth in spite of high rates. Artificial intelligence (AI) once again drove the market forward, no longer as a mere market theme but, rather, as a tangible investment engine.

The US continued to lead the way with an earnings season that demonstrated companies' ability to protect their margins in a more challenging environment. In this context, investors homed in on companies combining organic growth, cost discipline, cash-flow generation and pricing power. This preference for quality allowed US mega-stocks to absorb pressure from interest rates and higher energy prices.

AI IS LEADING THE TREND

The market has overweighted companies exposed to computing infrastructures, datacentres, the cloud and semiconductors. Investment spending by major tech players has reinforced the idea of structural demand throughout the value chain. Megacaps have accordingly been treated like quality growth companies, capable of self-financing their investments and preserving their margins.

These gains are noteworthy, as headwinds such as high oil prices, Middle East tensions and surging bond yields might have penalised long-duration stocks. However, the market has sought out companies that are not very dependent on external refinancing.

EUROPE HAS JOINED THE RALLY

European equity markets have also performed well, albeit less broadly. Europe has benefited from improved global sentiment while continuing to be penalised by its exposure to energy costs and lower exposure to major tech themes. Investors have thus overweighted sectors whose earnings could benefit directly from the current environment, such as energy and oil & gas majors whose cash-flow outlook is getting a boost from higher oil prices. Banks remain attractive, thanks to high interest margins and control over asset quality. In contrast, sectors exposed to input costs and end demand, such as manufacturing, automaking and some consumer companies, have fared less well. With higher inflationary risks lessening the visibility on central bank actions, European investors have sought out solid balance sheets and companies capable of protecting their margins.

In Asia, the rally was driven by those markets that are the most integrated in the global tech value chain. Taiwan and South Korea got a boost from the return of investment flows into semiconductors, memories and AI suppliers. Japan, meanwhile, has drawn in international capital with solid structural arguments, including improved governance, share buybacks, better capital allocation and higher shareholder return.

ALL TIED UP

European and Japanese equities had outperformed the US in the first two months of the year, but US stocks have roared back ahead since the start of the Middle East conflict and are now approaching our full-year targets. US markets have set new records. In light of the uncertainty over traffic in the Strait of Hormuz, we prefer to stick to a cautious stance with no distinction between the US, Europe and Japan. The tech sector remains, in our view, especially worthwhile, but valuations in Europe look a little more attractive in relative terms. Meanwhile, under a market adverse scenario, US equities could come in for more pronounced profit-taking.

FIGURE OF THE MONTH

+25%

The average increase
in AI-related capex announced
by major global tech firms in 2026.

PERFORMANCES

Equity indices with net dividends reinvested, in local currencies

	April 2026	YTD
CAC 40	4.29%	0.12%
EuroStoxx	6.39%	3.73%
S&P 500 in dollars	10.47%	5.59%
MSCI AC World in dollars	10.17%	6.65%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 30/04/2026.
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Asia weathers the Iranian crisis thanks to its tech sector



② **Jean-Marie Mercadal**
CEO
SYNCICAP AM

Asian markets have, on the whole, held up rather well to the geopolitical tensions that have triggered a spike in energy prices. The main reasons for this are their integration in the global tech value chain and China's surprising resilience. Chinese equities have flatlined on the year to date, while Asian ex China stocks have gained more than 20%.

That being said, the Strait of Hormuz, through which about 30% of the world's oil passes, remains a chokepoint for global economic equilibrium. Each uptick in tension in the Persian Gulf region causes supply security concerns, with direct repercussions on Asian economies, which are major energy importers and are closely dependent on this maritime route. India and South Korea, in particular, are heavily exposed to these risks.

SOUTH KOREA: ASIA'S TECH DRIVER

The initial correction on the Korean market quickly gave way to a spectacular rally. It is now up by 40% on the year to date, driven by its tech champions Samsung* and SK Hynix*, whose stock performances (+86% and +98%) reflect the boom in global demand for semiconductors. These companies are at the heart of the AI revolution supplying memories and components that are essential, particularly to US companies.

ASIA IS AT THE HEART OF THE GLOBAL VALUE CHAIN

Beyond the special case of South Korea, Asia is benefiting from a structural shift – the growing integration of its companies in the global value chain. Taiwan, Malaysia and Thailand are playing a key role in manufacturing semiconductors and electronic components and in assembling tech products. This integration is making Asia more resilient to external shocks and allowing it to capture

a growing portion of global investments in AI and cutting-edge technologies.

INDIA: BETWEEN CONSOLIDATION AND ENERGY VULNERABILITY

After an exceptional decade in the 2020s, the Indian market seems to be entering into a phase of normalisation. Valuations (with P/Es around 20) have returned to their historical mean, and the earnings growth outlook remains solid. India still looks like a long-term attractive market thanks to its demography, its rising middle class, and its ambitions in digital technologies. Indian equities have nonetheless fallen by almost 9% on the year to date, due to the country's heavy dependence on energy and fertilisers from the Persian Gulf region.

CHINA HAS HELD UP WELL TO THE OIL SHOCK AND TO THE RISK OF A GLOBAL SLOWDOWN

At its 28 April meeting on economic issues, the Chinese Politburo reported that indicators so far this year have exceeded expectations, reflecting the resilience and vitality of the Chinese economy. The tone is more confident, supported by 5% GDP growth in the first quarter, 4.5/5% full-year target. With no immediate pressure to boost growth, no new stimulus plan was announced. On the fiscal front, the focus is on optimising expenditure without an increase in bond issuance or acceleration in spending. On the monetary front, the "moderately loose" stance was reiterated, with the only requirement being abundant liquidity. The lack of reference to reductions in interest rates or mandatory reserves confirms that the People's Bank of China is unlikely to ease its monetary policy unless growth slips below 4.5%. The approach to consumption is more supply-side-oriented than demand-side, with direct consumer subsidies having been reduced compared to last year. China's investment priorities are strategic infrastructures (water, electricity, telecoms, computing, pipelines and logistics), in accordance with the 15th Five-Year Plan. Ultimately, Chinese equities' risk-return profile does look rather attractive. Their valuations are relatively low in absolute terms and in comparison to other equity markets, whereas international investors remain underinvested.

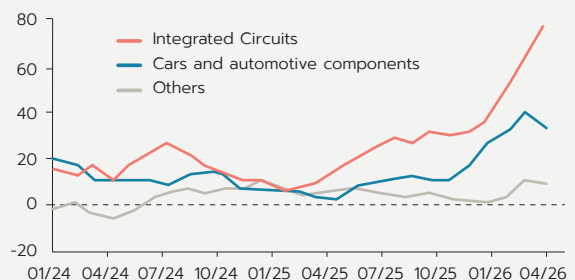
FIGURE OF THE MONTH

+15.5%

The 1st-quarter earnings gains by major Chinese manufacturing companies (source: National Bureau of Statistics).

GROWTH IN CHINESE EXPORTS BY SECTOR

Chinese exports are being driven this year by the strong acceleration of exports of integrated circuits, cars and auto parts.



Sources: China's Customs, CEIC BNP Paribas - April 2026
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GLOSSARY

5-year inflation swap: a swap between real inflation and a fixed 5-year forward inflation rate, which reflects the market's expectations of future inflation.

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

Convexity: one of the main objectives of convexity strategies is to maximise a portfolio's resilience to shifts in interest rates and market conditions.

Core inflation: inflation ex energy and ex food.

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.

Spread: difference between rates.

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

Term premium: the portion of a long bond's yield that remunerates duration-related risks, particularly the uncertainty on future inflation and on interest rate shifts.

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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