

# Outlook & Convictions

Private Banking #16



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# Outlook & Convictions

Private Banking #16



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## Editorial



**Nicolas Bickel, CFA**  
Group Head of Investment  
Private Banking & CIO

The year began with extremely different trends on each side of the Atlantic. While the S&P 500 ended February almost where it started in January, the Euro Stoxx 600 was up 7% and emerging markets more than doubled. The ten largest capitalisations, which contributed over two-thirds to the performance of the flagship index in 2025, started the new year on a downturn. In contrast, their European counterparts performed impressively in the first few months, after underperforming their benchmark index last year. Gold continued to rise, gaining 22% in just two months, despite a record dip of over 20% at the end of January. US 10-year sovereign yields fell to their lowest level since September 2024 and German yields lost 20 basis points. Meanwhile, the US dollar continued to lag, at 1.18 against the euro on 27 February. The markets were positioned for a cyclical rotation, with the global economy resilient and rate cuts expected, particularly in the US.

But at the end of February, the outbreak of the conflict pitting the United States and Israel against Iran shook up the world order, financial markets and maritime flows, with Tehran blocking the Strait of Hormuz. The situation in the Middle East became the primary driver for investors, dictating most market trends, with almost all asset classes affected to varying degrees. The equity markets reacted according to the dependence of geographical regions on hydrocarbons and other derivatives directly impacted by the closure of the Strait of Hormuz. The latter is a veritable global trading hub, through which a full 20% of the global oil supply passes, along with a significant share of liquefied natural gas and other products essential to a host of sectors, including aluminium, nitrogen and helium.

The crisis has affected Asia the most, followed by Europe. The equity markets of the two regions have corrected quickly, though not transforming into *bear markets*<sup>1</sup>. Traditional safe-haven assets have failed to provide much support during the downturn, with gold also falling sharply, sold on a large scale in exchange for dollars by economies seeking to secure purchases of hydrocarbons, the prices of which sky-rocketed at the beginning of the conflict.

Expectations of central bank rate cuts have shifted considerably, with markets now expecting significant increases across almost all regions globally following the conflict. These shifts are being driven by fears of a rebound in core inflation and a change in central bank monetary policy. The result could be a slowdown in global growth, coupled with negative surprises regarding companies' earnings expectations. Sovereign bond yields have risen across the planet, as have corporate credit premiums, particularly in the lower quality segments, after months of almost uninterrupted compression.

At the same time, equity market valuations have contracted sharply. While the scale of the correction has been half that of April 2025 (after Donald Trump's tariff announcements), the price-to-earnings ratio of equities has fallen to the same extent during that period, i.e. by nearly 19% in the US. In early April, at the height of the market correction, valuations of US tech stocks were lower than before the launch of ChatGPT, even though the managers of these companies continue to buy back significant amounts of their own shares.

This trend was underpinned primarily by continued growth in earnings per share, reflecting solid fourth-quarter 2025 results. The consensus growth expectation for 2026 remains +16% in the United States and +10% in Europe, i.e. 7% and 2.2% higher than the average over the past ten years. Given these high expectations on both sides of the Atlantic, the disappointment could be substantial.

In this phase of the conflict, most market participants rebuilt their cash buffers by reducing portfolio risk, with hedge funds shedding shares massively. As a result, investors were less exposed to equities at the beginning of April, increasing the risk of being under-invested and missing out on the strong rebounds that often occur after this type of conflict has been resolved.

The announcement of a ceasefire on 7 April immediately drove equities and gold upwards. In just ten days, the market made up for its losses since the beginning of the conflict on the swift return of optimism over an Iran-US agreement. Rates and credit spreads<sup>2</sup> eased somewhat, while the dollar fell and the oil price plunged by more than 15%, its sharpest contraction since April 2020 and the start of the COVID pandemic.

<sup>1</sup> A bear market is one in which the prices of financial assets decline sharply, by at least 20%, over a long period, accompanied by strong investor pessimism, often in an unfavourable economic environment. It is the opposite of a bull market.

<sup>2</sup> A spread is the difference between two prices or two interest rates.

This substantial rebound in equity markets, which has enabled several indices to surpass their previous records, suggests that investors at this stage believe that the impact of the conflict and the rise in energy prices and inflationary pressures are likely to have only a limited effect on global growth and the ability of businesses to increase profits. And all this despite a sharp decline in consumer confidence indicators, particularly in the United States.

Beyond the short-term risks stemming from the war in the Middle East, it is the duration of the conflict and the potentially significant transformation of global flows over the long term that can change market valuations. The resumption of normal trade flows in the Strait of Hormuz and the rebuilding of pre-conflict oil stocks could take months, despite a lull in the combat, jeopardising the winning combination of robust growth and contained inflation that bolstered the markets at the beginning of the year. The risk remains that inflation could make a comeback, while monetary policy becomes more restrictive and global growth slows further, and these factors will determine who stands to win or lose from this potential change in economic regime. At this stage, the latest inflation data shows a considerable impact from the rise in energy prices, responsible for the lion's share of the increase. But, for now at least, the impact on core inflation has been slight, so the data for the coming months will be decisive.

The conflict has served once again as a wake-up call for financial market participants. As during COVID and supply chain disruptions, it has revealed that the globalised economy, the fluidity of trade and the supply of energy depend on a few strategic crossing points across the globe, which, when tensions arise and blockages occur, can tip the global economy into recession. The rise in uncertainties and geopolitical tensions will continue to drive the move to reshore and secure energy supplies, strategic materials, essential goods, and medicines.

In the longer term, many questions remain. What effect will this conflict have on the risk premium allocated to energy prices and how will it impact economic growth in the coming years? The high costs of the conflict will inevitably weigh on the US deficit, which is expected to reach 7% of GDP and contribute to the escalation of US debt. Will sovereign rates stay high for longer despite de-escalation? Will central banks around the world need to adjust their monetary policies to combat inflation? How will corporate earnings be impacted and will businesses revise their forecasts despite the easing of tensions? Will the fundamentals of emerging corporate debt be permanently impacted by tensions in the Middle East?



Looking beyond this conflict, the markets have also been shaken by developments in artificial intelligence and private credit. Are concerns about the ability to monetise huge investments in AI justified? Is there a real risk of disruption in other sectors? Are recent defaults on private debt, as well as decisions by some fund issuers to block investor withdrawals, likely to trigger contagion to other credit segments and generate a new financial crisis?

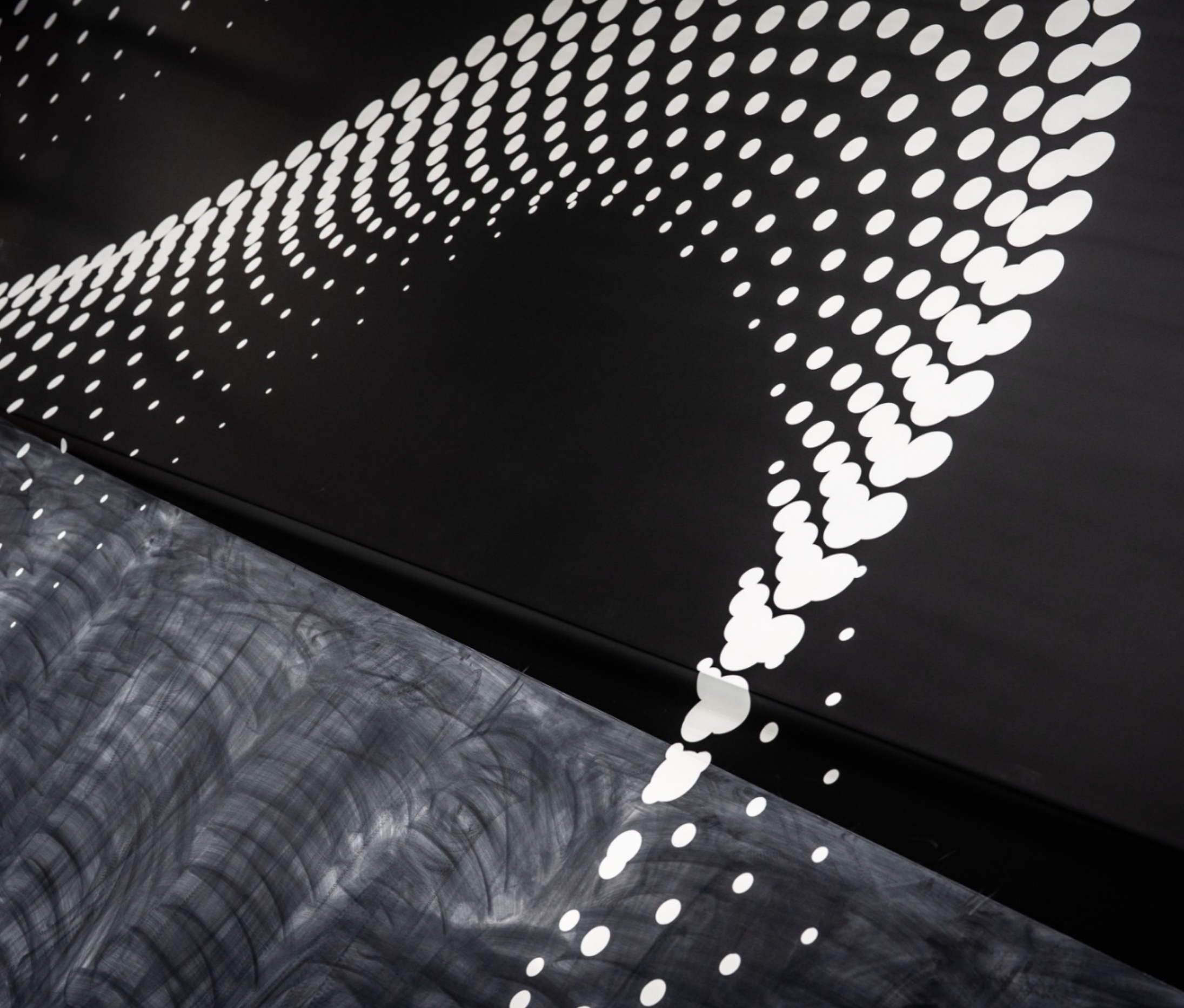
In this new issue of Outlook & Convictions, our experts tackle these key questions and review our outlook for the financial markets in the coming months.

In the current period of high volatility and geopolitical tensions, we discuss the issue of investing in times of conflict, taking a close look at the long-term technological consequences, such as the increasing use of drones and the development of new means of interception. In the special report, we explore changes in the consumption habits of new generations and their impact on the various sectors of the economy.

We hope you enjoy this new issue and that it will enrich your investment thinking.



Our outlook in video



Gitana 18, Maxi Edmond de Rothschild, Lorient

Macro-eco



# From energy to the global economy: the shock of the war in the Middle East is spreading

**Dr. Mathilde Lemoine**

Group Chief Economist Edmond de Rothschild

The war between Iran, the United States and Israel has led to a new energy crisis, as well as value chain and supply disruptions. The consequences of the conflict are extremely wide-ranging, going far beyond the increase in the price of oil, gas and fertilisers. It has led to numerous production shutdowns. Petrochemical sites in Taiwan, South Korea and Japan say they have cut production. Transport has slowed or even come to a halt in some regions, and the rise in the price of gas, also used in Asia for heating and by restaurants, is adversely affecting consumption and leisure activities. Economic activity in the Gulf countries is slowing. In a further worrisome development, demand for proven oil has fallen by a third for 2026.

**What we are facing, then, is a supply shock recession.** This phenomenon generates an increase in marginal costs and a decrease in aggregate supply, leading simultaneously to a rise in inflation and a decline in output owing to a deterioration in real incomes, the effects of adverse terms of trade, costly sector reallocations, and mounting uncertainty on investment.

As a result, even if trade flows through the Strait of Hormuz resume before the summer, the global slowdown will be more pronounced than previously expected. **This is our central scenario at this stage.**

A lengthening of the conflict in the Middle East could lead to a widespread rise in the prices of goods and commodities other than those directly influenced by the war. This could tip us into an **“inflationary crisis” scenario**. To keep a lid on inflation expectations and limit knock-on effects, central banks would be forced to initiate a new cycle of rate hikes. Monetary tightening could be more pronounced in the eurozone. This is because the weight of energy and food in the consumer price index is 40% higher in the eurozone than in the United States, the transmission of rising commodity prices to core inflation is higher, and a higher share of wages is indexed to inflation. However, unlike in 2022, direct transfers to households would be lower, limiting the extent of the knock-on effect on inflation and wages. The **“inflationary crisis” scenario** would lead to a partial recession.

Our third, **“recessionary” scenario** is that of a **“stalemate”**. It would consist of the permanent destruction of oil and gas production capacity, potentially reaching 20% of the capacity of the Middle East. The recession would extend beyond the most fragile countries and become global. Central banks would be confronted with the knock-on effect of rising energy prices on the rest of the economy together with a fall in aggregate demand. This would drive short-term rates higher, and the yield curve would fail to invert owing to the high term premium. **Under this scenario, the supply crisis would be accompanied by a financial crisis.**

**Chart 1 – Recessive impact of the Middle East conflict from 2026**

In our “partial recession” scenario, the effects on the real economy will be more visible in 2027.

	Central scenario <i>Best-case scenario</i>		Inflationary scenario <i>Partial recession</i>		“Stalemate” scenario <i>Global recession</i>	
	GDP	Inflation	GDP	Inflation	GDP	Inflation
2026						
World	2.6	3.7	2.0	4.7	1.3	5.6
United States	1.9	3.4	1.3	3.8	0.5	4.4
Eurozone	0.5	3.1	0	4.1	-0.5	5.1
Switzerland	1	0.8	0.7	1.1	-0.1	1.6
China	4.8	0.7	4.6	1	4.5	1.3
Japan	0.8	2.5	0.5	3.1	-0.1	4.2
India	5.8	5.1	5.2	6.2	4.3	7.1
Brazil	2.1	4	1.6	4.2	0.8	4.6

Calculations: Edmond de Rothschild Economic Research.

## Shortages in Asia

Asian countries are particularly affected by the virtual closure of the Strait of Hormuz, as they receive 89% of the crude oil and petroleum products and 86% of the liquefied natural gas (LNG) that pass through it. More than 90% of the LNG imported by Pakistan comes from Qatar and the United Arab Emirates, compared with 60% for India and Bangladesh and 35% for China and Taiwan. Asian countries are among the most dependent on gas and oil, Thailand, Korea, Taiwan, the Philippines, Japan and Vietnam being the most vulnerable.

The Middle East is also a key supplier of inputs to major emerging economies. India, Australia and South Africa rely on the Gulf countries as fertiliser suppliers. India counts on the Gulf countries for nearly a quarter of its imports of mineral products (sulphur, plasters, lime, cements) and a fifth of its purchases of fertilisers and precious metals. Japan is mainly exposed through its aluminium imports, while Turkey is heavily dependent on the United Arab Emirates for precious metals. As a result, in addition to price increases, the war in the Middle East and the virtual closure of the Strait of Hormuz have already led to the closure of production sites.

Value chains have also been destabilised by higher transport costs and reduced production capacity. At the same time, mounting uncertainty has led to a postponement of investments, which are a source of imports. Global trade is set to slow further than expected on two fronts. To curb the rise in energy prices, several Asian countries have introduced subsidies. Even though some countries, such as Indonesia, announced rationing measures to control their budgetary costs as of 1 April, this precipitation has increased the financing needs of emerging countries against the backdrop of an investment “supercycle”. The downturn in economic activity has been compounded by debt, as was the case in the eurozone during the 2022 energy crisis.

#### One energy crisis too many for Europe?

Eurozone countries, already weakened, are bearing the full brunt of the rise in the price of gas, oil and fertilisers. As in 2022, this further increase in commodity prices could destroy production capacity. At the end of 2025, industrial production in the eurozone was 3% lower than in 2022, while it was higher by nearly 1% in the United States, by 4% in Brazil, 5% in South Korea, 6% in Switzerland and 17% in China. As we expected, sharp contractions have come in the most gas-dependent sectors, particularly chemicals, agrifood and metals, along with publishing, paper, furniture and electricity. Manufacturers have stepped up their imports of intermediate goods previously produced in Europe.

In addition, government subsidies to limit the purchase price of energy have significantly deteriorated European public finances, particularly in France, with its generous support for households. Energy price subsidies are estimated to have reached some €600 billion for the European Union as a whole.



The latest rise in European oil and gas prices, standing at nearly 60%, is occurring against the following backdrop:

- economic activity is slowing (the eurozone’s output gap is negative);
- industrial production capacity has been destroyed;
- productivity is low;
- public finances have deteriorated owing to energy price subsidies.

Last but not least, European long rates rose more sharply than US long rates at the start of the conflict in the Middle East. At the end of March, French 10-year sovereign yields stood at 3.8%, compared with 4.4% for US Treasury yields, and nominal growth is substantially lower. This means that the level of European real long-term rates is particularly recessionary.

#### 10-year yields: still our early warning system

We have entered an investment “supercycle”. Today, major investments are required not just for the digital and energy transitions but also for new economic policies on sovereignty and defence. OECD<sup>1</sup> sovereign bond issues are expected to increase to \$18 trillion in 2026, or 85% of GDP, compared with 39% in 2007. Gross corporate bond issuance could well exceed \$7 trillion.

And sovereign borrowing rates, which were high already, have risen further in the wake of the war in the Middle East, particularly in the eurozone, where inflationary risks are greater. These high levels do not reflect an expected overheating but a revaluation of the overall macro-financial risk. The transition from a global order underpinned by globalisation to a system of “power rivalries” has increased uncertainty. The term premium – i.e. the additional remuneration required to lend money over a long rather than a short period – is higher. Central banks have reduced their presence in the bond markets. **The cost of time, risk and uncertainty has risen once again.**

Lastly, central banks have become more attentive to inflationary risks. The change in tone has been quite clear, and expectations of monetary tightening have increased. Any lengthening of the conflict in the Middle East could further increase the term premium, as well as the likelihood of a rise in short-term rates.

<sup>1</sup> Organisation for Economic Cooperation and Development.



We continue to expect a more pronounced rise in long-term rates in the eurozone due to expectations of short-term rate hikes and a higher risk premium. This could generate an opposite trend relative to that seen on the forex market when the war initially broke out in the Middle East. The euro could appreciate against the dollar, even though the latter benefited from its safe-haven status. The currencies of net energy importers could stabilise or even strengthen if their central banks were to raise rates sharply to counter inflationary risk. The level of long-term rates is likely to remain a downward factor for economic activity even if the pick-up in inflation reduces real rates.

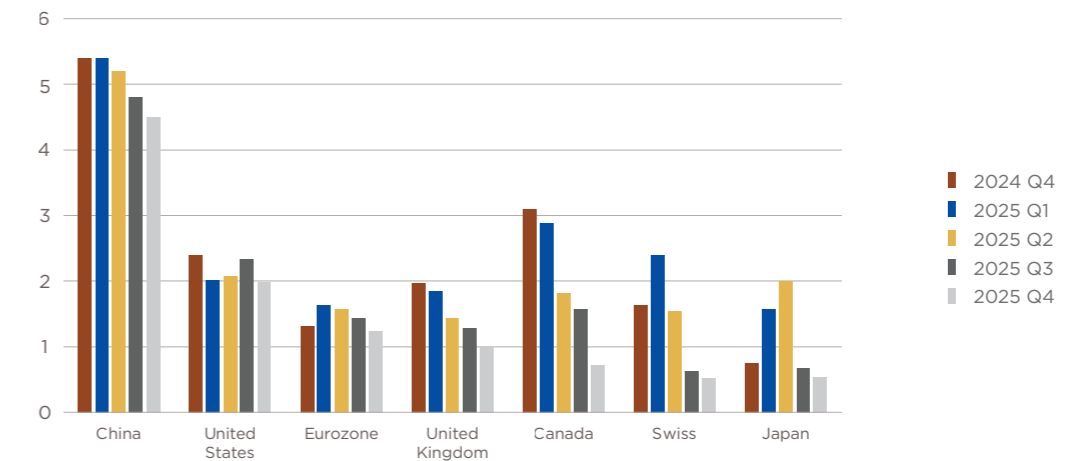
**Deteriorated growth outlook despite the investment supercycle**

The war in the Middle East is already having a negative impact on global economic growth. This impact is being exacerbated by widespread supply disruptions and rationing measures. While the Middle East's 3.5% contribution to global growth is relatively low, cascading effects on production chains are mounting. Moreover, the instability resulting from the US tariff policy has been compounded by the US Supreme Court's cancellation of the "reciprocal tariffs" rolled out by the Trump administration, on the grounds that this power should be put to a vote by Congress.

**As such, we continue to expect a slowdown in global growth in 2026, but we now think it will be sharper.** Our central assumption at this point is that the war will not last long enough to generate an inflationary knock-on effect. We expect economic activity will continue to be influenced by downward factors, chief among them the negative effects of protectionist measures, persistent uncertainty and high nominal and real long rates. But activity will also be bolstered by the structural investment supercycle driven by sovereignty objectives and artificial intelligence.

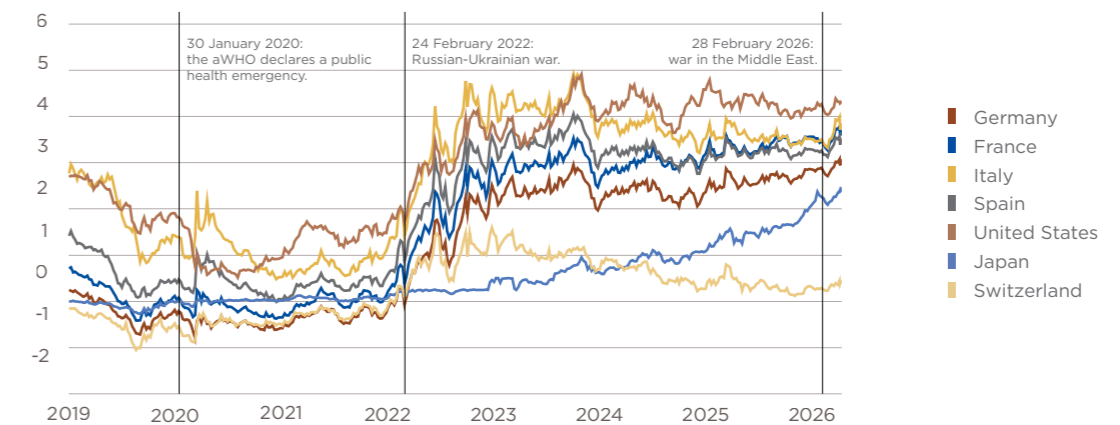
**With the war in the Middle East, the financial challenge has become even tougher:** to ensure plentiful investment against a backdrop of high term premiums and central bank concerns over inflationary risk. Anchoring inflation expectations remains vital. The energy crisis of 2022 confirmed their solidity. But the size of the US budget deficit, the increase in energy price subsidies in Asian countries (which will erode their budgetary positions) and any impact from high inflation in 2021-2023 on household expectations could have lasting effects on beliefs. One thing is sure: the task of the central banks just got tougher.

**Chart 1 – The war in the Middle East could exacerbate the global slowdown**  
Real GDP growth, year-on-year



National sources, Edmond de Rothschild Economic Research.

**Chart 2 – High 10-year real and nominal rates are hampering central banks and the financing of the investment “supercycle”**  
10-year sovereign yields, as a %



Refinitiv, Edmond de Rothschild Economic Research.



Stainless steel vats, Château Clarke, Listrac-Médoc, France.

Commodities

# Strait of Hormuz: from a logistics crisis to a possible return of bull cycles

Manuel Maleki, Ph. D.

Senior Economist US & Commodities

The blockade of the Strait of Hormuz was seen as an immediate shock. The dominant reading has focused on rising prices, pressure on trade flows, and increased volatility. Though this reading is valid, it fails to address all the issues involved. It takes account of current events but neglects the underlying trend. Because the real issue here is not just the short-term crisis, it is that this event could rekindle a deeper-seated logic, that of cycles, and in particular a possible return to rising commodity prices.

## Reading the shock wrong

The history of commodity markets shows that cycles result not just from quantitative imbalances but from disruptions in how we perceive the continuity of systems. The oil crises of the 1970s profoundly transformed the structure of the market by permanently changing supply expectations. More recently, the 2020–2022 sequence consisting of the COVID-19 pandemic and the war in Ukraine reminded us that supply and energy chains can generate macroeconomic instability. In this respect, **the Strait of Hormuz plays a central role. It is not only a crossing point, but a critical node for the synchronisation of global trade flows** (for more details see Steen Wettstein's analysis in the Flash Global Trade of March 2026: *"Middle East war: the Strait of Hormuz at a standstill"*).

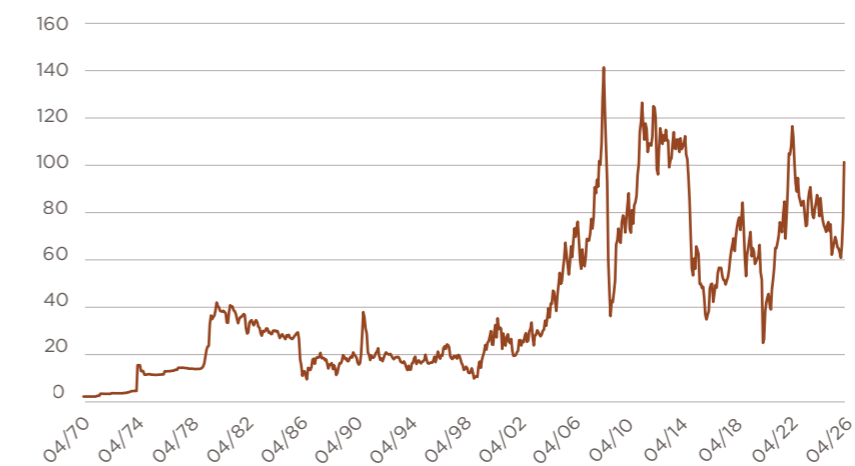
## Short-term: a crisis of fluidity rather than volume

In the short term, the effect of a blocked Strait of Hormuz is paradoxical. The market is reacting aggressively, but this response does not necessarily reflect an immediate shortage. Yet the scale of the risk is clear when you look at the figures. Normally, 20 to 21 million barrels per day (mbd) pass through the Strait, accounting for nearly 20% of global consumption and one-third of maritime oil trade. Also passing daily through Hormuz are 5 mbd of refined products, as well as nearly 20% of the world's trade in liquefied natural gas (LNG), mainly from Qatar, the world's largest LNG exporter. But impressive as these volumes are, they are not the core of the problem. The first thing to be affected is not the overall level of stocks but the ability of the system to operate smoothly. With cargoes no longer certain to arrive, transport costs are soaring.



And this is not a first. In 2019, the attack on the Abqaiq oil processing facilities in Saudi Arabia temporarily removed nearly 5.7 mbd, or about 6% of global supply. The price of Brent jumped by nearly 20% in a single session. But the correction was swift, as the market was confident that production capacity would be restored quickly. Conversely, the shocks of 1973 and 1979 not only reduced supply but profoundly altered the perception of future availability, triggering a sustained bull cycle. In this context, the price does not only reflect a shortage, it becomes a price of continuity. When the latter falters, the risk premium dominates.

Chart 1 — Brent oil price, in dollars per barrel



Edmond de Rothschild, Refinitiv.

## Medium-term: systemic spread

If the disruption continues, the shock changes in nature. It ceases to be logistical and instead becomes systemic, the effects spreading gradually throughout the real economy. This mechanism is based on a central aspect: energy is at the heart of production chains.

**Natural gas** plays a pivotal role in this respect. It is used to generate electricity but is also the fundamental input of industrial chemistry. About 70% of the production cost of nitrogen fertilisers depends on gas. Annual global ammonia production exceeds 180 million tonnes. A substantial share of this production comes from the Gulf, a sizeable proportion of which passes through the Strait of Hormuz. The precedent in 2021–2022 is enlightening in this respect. During this period, soaring gas prices in Europe led to a partial halt in fertiliser production capacity, causing prices to double in some regions. The energy crisis morphed into an agricultural crisis, and then into food inflation. But the process of economic contamination is not limited to fertilisers.



**Take aluminium**, for example, which acts as a condensed form of energy. Some 14 to 15 megawatts of electricity are required to produce one tonne of aluminium, making it one of the most electricity-intensive metals. Any sustained rise in energy prices leads to capacity shutdowns, as seen in Europe in 2022. The disruption of energy flows subsequent to the blockade of the Strait of Hormuz indirectly affects the global supply of aluminium (beyond Bahrain's production alone) and impacts other industries.

**Helium** is another case in point. A by-product of natural gas, it is highly concentrated geographically. The global helium market, estimated at some \$6 billion, is structurally tight, with Qatar accounting for around a quarter of global production. During the Gulf crisis in 2017, the closure of logistics routes caused a sudden halt in Qatari exports, leading to an immediate shortage in some markets. Helium is a critical and rare resource that is difficult to substitute. In particular, it is vital to medical imaging and the semiconductor industry. The crisis is not leading systematically to widespread inflation, but to localised disruptions with a high technological impact.

**A further key substance, nitrogen**, stands as the most direct link to food safety. Because the Haber-Bosch process depends on natural gas, any energy disruption is mechanically passed on to agricultural costs. This direct link between energy and food is one of the most important knock-on effects of the Hormuz blockade. What we have here is not an accumulation of markets, but an architecture of cross-dependence.

Chart 2 — European gas prices, in euros per megawatt hour



Edmond de Rothschild, Refinitiv.

#### Long term: towards a new market regime?

It is at this point that the question of the cycle really arises. **Not all shocks produce sustained bull cycles. History shows that the only shocks that generate cycle changes are those that alter expectations on supply, investment and energy security.** The 2000s were marked by a supercycle driven by Chinese demand. The context shifted in the 2010s with the expansion of US shale oil. Today, the configuration of the system appears to be changing again. Under-investment in extraction, estimated at several hundred billion dollars in the past decade in the energy sector, has limited the ability to adjust supply. The energy transition is creating new tensions on certain metals. With geopolitical fragmentation complicating supply chains, the Strait of Hormuz stands more as an indicator that is not creating these tensions but making them visible and accelerating them. The question, then, is not whether a blockage causes prices to rise, but whether it changes expectations on a lasting basis.

#### The risk of confusing peak and cycle

The main analytical risk is confusing a peak in tensions with a change in regime. The difference may seem theoretical, but it is decisive. A peak is a violent reaction to an identified shock; a cycle is a deeper transformation of expectations, cost structures and economic behaviour. The first is measured in days or weeks, the second over the long term. The history of commodities shows that this distinction is based less on the magnitude of the initial shock than on its ability to spread.

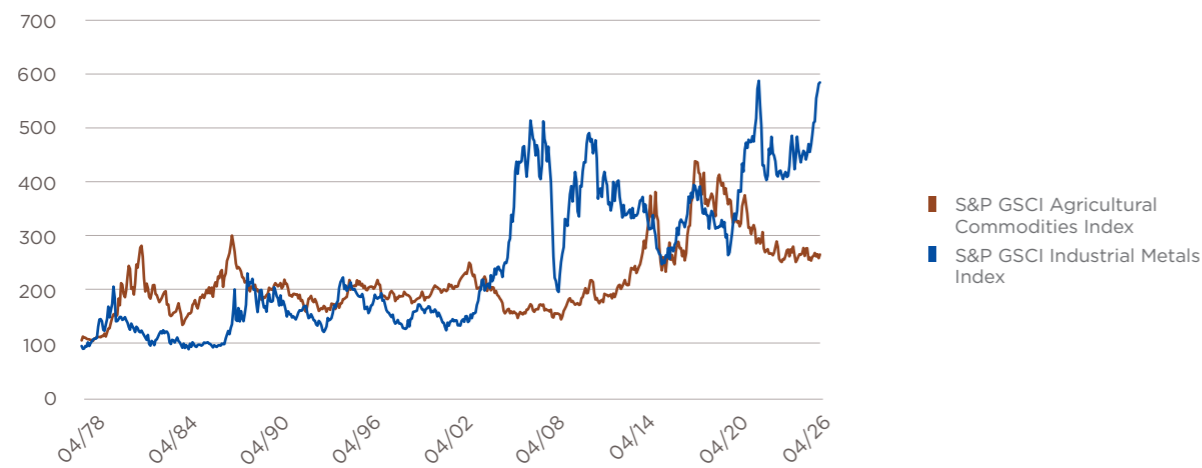
The crises of the 1970s provide an initial illustration of this phenomenon. The price of energy increased several times in a few years. The crisis spread to the entire system, engendering a sharp rise in global inflation, tensions on industrial commodities and higher agricultural input prices. The price of wheat more than doubled between the beginning and the middle of the 1970s. Prices of industrial metals rose substantially and, most importantly, the entire production system was reorganised based on new energy costs. This was no longer a sectoral shock, but a change in global regime. In contrast, some spectacular episodes have had limited impacts. The Gulf Crisis in 1990 sent energy prices soaring, but its impact on other commodities remained limited over time. Agricultural and industrial markets quickly returned to normal as the prevailing perception was that this was a temporary shock. Though disrupted, the fluidity of the system was not called into question over the long term.



## COMMODITIES

This contrast can also be seen in more recent episodes. In 2008, the widespread rise in commodity prices could have been seen as a new supercycle, with oil, metals and agricultural products all setting new records. A tonne of copper topped the \$8,000 mark, wheat peaked, and commodity indices posted exceptional performances. But the financial crisis brought this trend to an abrupt end. Powerful as it may have been, this movement was based on cyclical demand rather than structural transformation. It was the peak of a cycle, not a change in regime.

Chart 3 — S&P GSCIs, in dollars



Edmond de Rothschild, Refinitiv.

But the 2021–2022 period was an entirely different beast. The initial energy and logistics shock spread to all commodities and the World Bank estimated that energy prices would rise by more than 50%. But the crux of the matter lay elsewhere: non-energy prices rose by a full 20%, industrial metals by 16%, and agricultural products by more than 40% for crops such as wheat. This contamination effect is the central characteristic of a change in regime. Most importantly, after the peak, prices did not return to their previous levels but stabilised at a higher level.

This point is essential. **A peak in tensions generates a violent but transient movement. A cycle leaves traces. It changes cost structures and procurement and investment strategies on a lasting basis.** In metals, this is reflected in longer lead times for opening new capacities; in agriculture, in crop arbitrage and production adjustments; and in chemicals, in relocations or temporary closures of capacity.

This interpretative framework can be tested with more targeted episodes. The Abqaiq attack in 2019 caused an immediate but isolated

shock, with prices reacting strongly then correcting rapidly. Conversely, gas tensions in 2021–2022 led to a decrease in fertiliser production and an increase in agricultural costs and global food prices. The initial shock turned into a systemic wave.

And this is where the decisive criterion becomes apparent. **A peak is characterised by powerful intensity but limited distribution. On the contrary, a cycle is recognised by its ability to cross markets.** It starts in one segment (often energy or logistics) and then spreads to others, including metals, agriculture, chemicals and, ultimately, consumer prices. The distinction between the two is based less on the level of prices than on the structure of their evolution. As long as markets remain segmented, the shock remains transitory. When they become correlated, the regime changes. The real question, then, is not whether prices rise sharply, as they almost always rise during a crisis, but whether this increase spreads and takes root over time. If production costs remain higher on a lasting basis, if supply chains are reorganised, and if investment behaviour changes, then the peak becomes a cycle.

It is precisely this type of shift that could be triggered by a shock at a critical point such as the Strait of Hormuz. It would not come as a result of the immediate scale of the volumes concerned, but because it would simultaneously affect energy, industrial and agricultural trade. **This propagation to multiple sectors is what distinguishes a regime change from a shock.**

### Hormuz, or the end of the illusion of fluidity

The blockage of the Strait of Hormuz should not be seen simply as an oil crisis. More essentially, it is a true test of the robustness of the global economic system. It reveals that the fluidity of trade is based on a limited number of critical points and that any disruption of these points can have cascading effects extending far beyond the energy market. In commodities, cycles begin not when scarcity is visible but when normality ceases to be credible. In this sense, Hormuz is not just a strait: it is a potential tipping point. And tipping points like these frequently trigger cycles.

The longer the conflict lasts, the greater the geopolitical risk premium that the price will have to incorporate when peace returns. The duration as well as the nature and extent of the crisis could have a lasting impact on how investors assess that premium. As a result, the price of oil could fall when the conflict ends but without returning to pre-conflict levels, owing to the increase in this premium. However, it should be borne in mind that each commodity has its own track record. For example, the price of natural gas in Europe could be more impacted for longer than the price of other raw materials, as inventories were already historically low at the beginning of March. In addition to the strong relationships between commodities, we also need to consider the specific characteristics of each product, which influence their price trends.



Light fixture, tasting room, Château Clarke,  
Listrac-Médoc, France.

# A game-changing geopolitical conflict

**Hervé Prettre**

Head of Global Investment Research

The recent conflict in the Middle East has disrupted the previously resilient global economy, buoyed by rate cuts and strong AI momentum. While we still favour a medium-term de-escalation scenario rather than a long-term conflict scenario, the war could have a negative impact on consumption and mining companies and a positive one on oil and utilities. Securities are expected to rebound in the event of a resolution of the conflict, with strong fundamentals for equities.

## How did things stand before the conflict?

In early 2026, the markets were positioned in expectation of a cyclical rotation, with a resilient US economy driven by rate cuts, a recovering European economy with stable rates, and an improvement in Chinese deflation suggesting a long-awaited rebound in profits. Large caps underperformed small caps, as investors switched from tech to more general cyclical stocks, and from US to European, Japanese and emerging market equities. The main driver of this dynamic – a favourable combination of growth and inflation – is now under threat, although markets continue to expect a gradual resolution to the conflict.

## What has changed with the conflict?

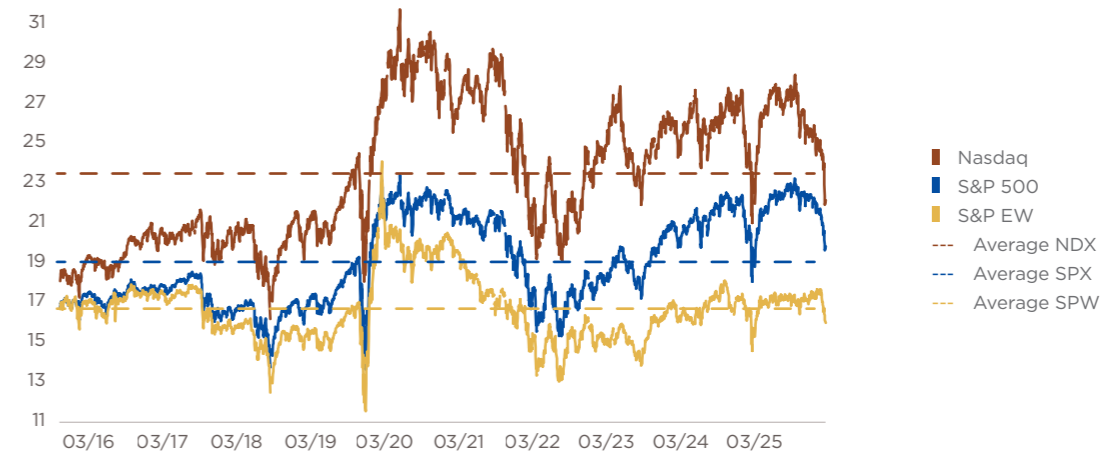
The paradigm has shifted since March with the outbreak of conflict in the Middle East. What was initially presented as a “momentary disruption” has now lasted several weeks and Iran has shored up its position by blocking the Strait of Hormuz in the first weeks of the conflict. Energy infrastructure has suffered extensive damage. Around 20% of Qatar’s gas capacity is out of service and will take years to repair, while nearly 20% of global oil and gas flows have been further hampered by the closure of the Strait of Hormuz. Kuwait, Iraq, Saudi Arabia, Qatar and the United Arab Emirates have closed oil and gas fields and refineries.

As a result, rate hikes are now expected in Europe versus no change/ rate cuts previously priced in. Expectations of rate cuts have been revised in the United States, and the consequences on businesses are substantial, with a reduction in investments and energy-intensive production (chiefly chemicals, fertilisers and materials). The heightened uncertainty has also called consumer spending into question and is generating a “crowding-out” effect, with higher energy spending coming



at the expense of that on other goods and services. The markets duly corrected in March, with an underperformance by sectors exposed to energy costs and interest rates, ahead of a recovery in April following the ceasefire, since markets are anticipating a stalemate but no further escalation.

Chart 1 – 2026 forward P/E for the S&P 500, NDX 100 and S&P 500, equally weighted



Edmond de Rothschild, Bloomberg.

## What should investors expect?

As explained in more detail in the article on page 38, when conflicts break out, financial markets generally start by reacting negatively and then tend to stabilise when the situation de-escalates. And as hopes of a ceasefire are confirmed, the equity market tends to recover its losses. We expect short-term market volatility with defensive stocks outperforming, followed by a mid-term recovery driven by cyclical stocks.

That said, we expect the world after this conflict in the Middle East to be different from the world that came before. Oil could potentially maintain a geopolitical premium for the long term, a 30% increase in energy prices having historically reduced real discretionary spending by around 10%.

But this relationship is unstable over time, and the energy intensity of most economies has declined sharply in the last 50 years. However, even with consumption down, the financial markets remain supported by several factors:

- Donald Trump is still expected to go through with his “put option” in the event of a significant negative impact on the S&P 500;
- The market is more concerned about inflation and fiscal measures than growth, which is good for equities relative to asset classes such as bonds;
- Earnings per share estimates are up, thanks in particular to persistently positive revisions in technology through investments in AI and the rise in manufacturing PMIs;
- Valuations are more affordable, with the S&P 500 having returned to average valuations after exceeding its median since May 2025;
- The situation remains different from that in 2022. The crisis is purely energy-related, whereas in 2022 it was combined with post-COVID growth, supply chain problems and “whatever it takes” programmes on the part of governments. Also, US energy production is higher, energy intensity is lower, and Europe has diversified its oil and gas supplies. The current environment is therefore less inflationary with a smaller economic rebound than in 2022.

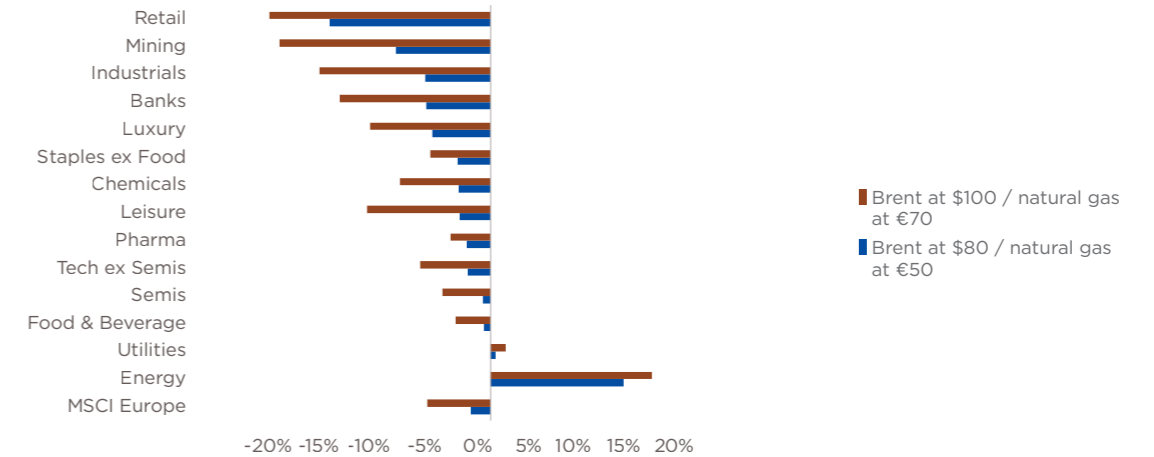
Some sectors in particular would be impacted if oil and European natural gas prices remain high in the long term, especially retail and mining companies. In contrast, the situation would benefit the energy and utilities sectors.

Consequently, though we expect still high volatility in the short term, we remain constructive on equities in the medium term, especially since even though they have stabilised since their peak in March, interest rate hike expectations still appear exaggerated at this point, as the situation is very different from that of 2022. Investors fearing a long conflict may choose to diversify their equity portfolios by reducing exposure to the consumer discretionary sector in anticipation of structurally higher energy prices. The tech sector (excluding software, see next article) has also outperformed since the start of the conflict owing to strong AI momentum, which justifies remaining exposed to the segment. Longer-term themes such as resilience, the European rebound, AI and the consumption of younger generations (see our special report) could also prove interesting over time, with current volatility constituting an entry point for these trends.

<sup>1</sup> A put option is a forward sale at a set price. The value of a put option rises when markets fall owing to its predefined price, which gains in value with lower market levels. By extension, Donald Trump's past interventions in the event of an excessive fall in the US equity markets had the same impact as a put option, i.e. protecting portfolios from market downturns.



Chart 2 — Impact of higher oil and natural gas prices on the earnings per share (EPS) of European companies, as a percentage



Edmond de Rothschild, Bloomberg.

# Artificial intelligence and software: risk of deep disruption or market excesses?

**Anthony Toupin**

Senior Research Analyst, Global Investment Research

With artificial intelligence (AI) infrastructure and semiconductors capturing most of the value chain of the AI spending supercycle, the software industry is entering a deep-seated transformation. The emergence of agentic AI<sup>1</sup> is redefining work flows and threatening incumbents unable to protect their margins. For investors, the period of linear growth is coming to an end, success now hinging on a company's ability to transform AI into a sustainable and monetisable competitive advantage.

## 2026: The year of technological decoupling

Since the beginning of 2026, the technology sector has ceased to trend as a harmonious block. AI was until recently seen as a widespread support for the growth of the sector, but it now stands as a differentiating factor. This new phase is increasingly contrasting. AI infrastructure players, particularly those working in semiconductors, are directly benefiting from the increase in investment spending, while a large part of the software sector now finds its business model up against a more structural challenge.

The breaking point is not generative AI as such, but the rise of agentic AI. The latter no longer merely assists the user or enriches an existing tool; it is now performing complex tasks itself, navigating between applications, orchestrating processes and, ultimately, replacing traditional software. The market is beginning to price in the idea that AI will not only be an additional layer of productivity, but potentially a new entry point into work flows, able to bypass or undermine the utility of SaaS applications<sup>2</sup>.

It is precisely this shift that explains the abrupt correction in the software sector. The market is no longer merely sanctioning a cyclical slowdown in growth or pressure on valuations; it is revising downwards the annuity period of certain business models. Software has long been valued for its stable recurring revenues, clearly visible margins, linear cash generation and low capital intensity. This paradigm is now being challenged by the prospect that an AI agent can do the work of multiple users, weakening historical pricing models.

<sup>1</sup> Agentic AI refers to autonomous artificial intelligence systems capable of setting objectives, planning complex tasks and executing them by interacting with external tools, all with minimal human supervision.

<sup>2</sup> SaaS: Software as a Service, invoiced on a recurring basis per user over a renewable fixed period.



**Chart 1 — The software sector has significantly underperformed the semiconductor sector since the end of 2025**

Performance of the software and semiconductors sectors relative to the S&P 500, base 100 in January 2025



Edmond de Rothschild, Bloomberg.

## Two types of software companies

However, this challenge does not have the same impact on all segments. Horizontal software, with low-level differentiation, focused on generic writing, synthesis, assistance, simple automation and user interface functions, now appears to be the most exposed. The value of this software can be more quickly replicated by smart agents offering competitive offers at lower cost. Conversely, barriers to entry remain stronger for vertical platforms, backed by proprietary data, deeply integrated into companies' critical work flows, regulated and complex to replace.

## Software: a structure in five key layers

To understand the hierarchy of risk across the software ecosystem, we need to look at how this ecosystem itself is structured. This structure is based on five pillars: (1) the user interface (2) the API<sup>3</sup> (3) the business logic (4) the database and (5) the hosting infrastructure. These pillars are not all affected in the same way by the rise of agentic AI. The user interface is probably the most at threat, as an agent capable of executing an action from a simple instruction mechanically reduces the value of a sophisticated dashboard. The business logic also comes under threat when rules fixed in the software can be reproduced, with greater flexibility, by a reasoning AI. In contrast, proprietary databases, the quality of data access, governance, traceability and security issues, and, more importantly, the physical computing infrastructure appear to be more protected.

<sup>3</sup> API, short for application programming interface, is a set of rules and protocols that allow two software programmes or services to communicate and exchange data.



This interpretative approach also helps to avoid a common pitfall in technological disruptions: excessive generalisation. Admittedly, AI can theoretically attack many business lines based on information intermediation, be it in terms of customer support, legal functions, compliance, marketing, analysis or administrative services. But technological opportunity does not automatically equate to a large-scale economic reality. Demonstrating a use is one thing, but implementing it widely is hindered by constraints in terms of regulation, responsibility, system integration, governance and reliability. The fear of disruption can spread quickly in the markets, but disruption itself often materialises in a more gradual, costly and heterogeneous manner.

It is important to remain pragmatic in this respect since, historically, technological paradigm shifts have rarely taken linear trajectories. The Internet did not instantly destroy print media, the cloud did not erase old software models overnight, and some companies succeeded in reinventing themselves (such as IBM and Corning) while others failed to adapt (Xerox and Alcatel). The real challenge, then, lies not in picking the final winners and losers too early, but in identifying the segments showing a clear deterioration in their risk/return ratios, as opposed to segments in which the market correction may have overtaken the fundamental reality.

#### The limits of AI disruption

At this point, the scenario of widespread software replacement by AI is limited by several factors. First, major language models remain fundamentally probabilistic (subject to random variations), while the lion's share of business software is part of deterministic work flows (based on established and reliable rules) in which repeatability, verifiability and reliability are essential. Second, buying a software package is not just about buying code. It also means buying responsibility, a guarantee of quality and authenticity, assistance with roll-out, maintenance, compliance with current standards, regular updates, and a form of risk transfer to the publisher. Third, the most solid players often have proprietary business data accumulated over long periods, particularly in sectors such as healthcare, insurance, finance and legal, where these assets remain difficult to replicate.

#### AI infrastructure the winner in the medium term

While the market is aggressively revaluing software, semiconductors and stocks exposed to AI infrastructure continue to benefit from structural support. Currently, AI is first and foremost a wave of construction. Data centres, servers, graphic processing units (GPUs)<sup>4</sup>, networks, memory, storage, energy, cooling and industrial capacities form the hardware base without which applications cannot be monetised. Players in this field remain very much the “shovels and pickaxes” of the AI gold rush. Regardless of who comes out on top in terms of applications, part of this infrastructure will need to be financed, built and deployed.

<sup>4</sup> GPU (graphics processing unit) is a specialised electronic integrated circuit designed to accelerate image processing, 2D/3D rendering and parallel mathematical calculations.

This dynamic is strengthened by a virtuous-circle mechanism, whereby as inference costs<sup>5</sup> decrease, use cases multiply, adoption accelerates, and the need for computing capacity, and, hence, infrastructure, increases. This is why the market has ended up reclassifying some cost cuts not as threats, but as catalysts for adoption. Accordingly, companies exposed to advanced AI infrastructure and value chain bottlenecks continue to boast the strongest positions.

#### Selectivity: the new key word in the tech sector

In our view, the correction in the software sector should not be seen as a one-off accident, but as the starting point to a new selection approach. The market is becoming more demanding on asset quality, depth of integration, data ownership, the ability to transform AI into a competitive advantage, and the resilience of the monetisation model. The time when linear growth and high margins sufficed to justify sustainable valuation premiums looks to be coming to an end. A new valuation standard – more prudent and selective – is taking root.

**Chart 2 – The correction in the software sector is relatively rare, being just the third time in three decades that the sector has traded at a discount to the S&P 500**

12-month P/E differential (premium/discount) for US software vs the S&P 500, since 1996



Edmond de Rothschild, Bloomberg.

<sup>5</sup> Inference and training: AI training is the initial phase of AI development, in which a model learns. AI inference comes at a later stage, when the trained model applies its knowledge to new data to make predictions or draw conclusions.



**AI models will continue to benefit from the law of scales<sup>6</sup>**

In the medium to long term, we think it highly likely that AI will continue to surprise with increasingly powerful and lower-cost features. While models such as Claude GPT or, more recently, Anthropic’s Mythos have largely contributed to the new fear-of-disruption paradigm, it is worth remembering that these models, like most cutting-edge AI models today, were trained on the GPU and ASIC<sup>7</sup> architectures of the penultimate generation (ChatGPT is trained on Nvidia Hopper, Google on its own ASICs, Meta Spark on Nvidia Hopper, Claude Anthropic on a mix of Nvidia Hopper, ASIC Google and AWS, and Mistral on Nvidia Hopper). Furthermore, Blackwell, the latest-generation GPU architecture of Nvidia, which remains the undisputed leader in computing power for model training, is now being used to drive future AI models set for release in the next six to twelve months. The Blackwell architecture offers two to five times the performance of the previous Hopper architecture for model training, and nearly 30 times more powerful performance for model inference. Consequently, the intelligence of AI models should continue to increase in line with computing power and the underlying hardware on which they are trained, as part of the “law of scales”. This will be reflected in a continued increase in the capabilities offered by generative and agentic AI, both in the consumer (personal use) and business markets, explaining the market fear of disruption to the traditional software industry.

Given these developments, we prefer to remain vigilant with regard to the software sector. We continue to favour software stocks with a low-risk market position, preferring a vertical model with proprietary data, which implies a high replacement cost for customers and the ability to monetise AI without cannibalising pricing power. The valuations of these stocks reflect expectations of growth rate contractions that are exaggerated relative to future realities. We remain cautious on segments in which functionality is easily repeatable, differentiation is low, the model is strictly based on user pricing, and agentic AI can replace work flows.

**We remain constructive on the AI theme**

Our long-term view on artificial intelligence as a whole remains constructive. Progress on hardware architectures and the ramp-up of computing capacity, together with the law of scales, suggest that the performance of AI models will continue to improve. This will provide a lasting boost to infrastructure spending while heightening competitive pressure in the most fragile software segments. This environment requires investors to be more selective than ever in the software sector, eschewing horizontal companies with easily replicable functions and instead favouring vertical platforms with proprietary assets, high replacement costs and able to use AI as a strategic lever rather than being undermined by how it trivialises their services.

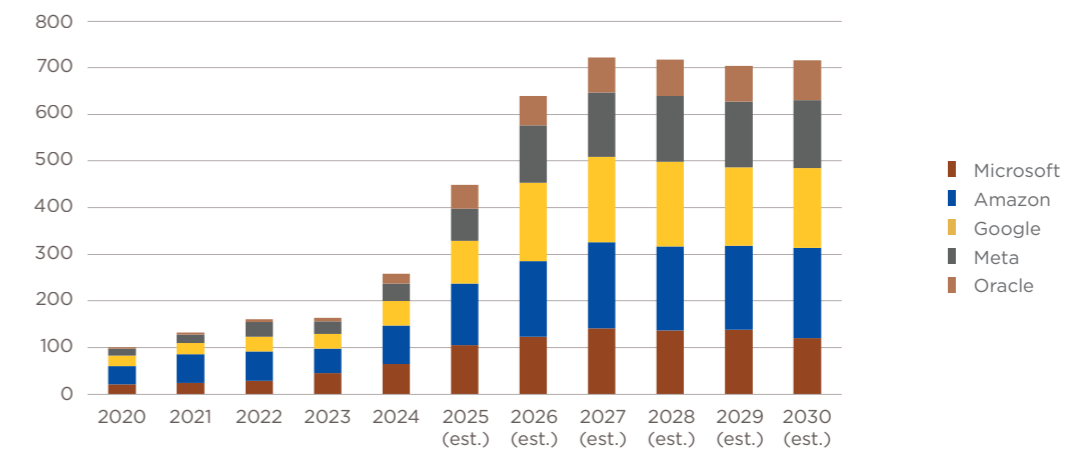
<sup>6</sup> The laws of scale describe how a model’s performance changes as data, parameters and computing power increase. In general, larger models, driven by better data, offer better performance.

<sup>7</sup> ASICs, or application specific integrated circuits, are specialised chips designed for a single task, delivering superior energy efficiency and computing power. They are less versatile than GPUs.

In conclusion, the current divergence between semiconductors and software reflects not so much a cyclical opposition as a deeper reshaping of the technological value chain. On the one hand, infrastructure captures the visibility of tangible expenses and revenues; on the other, the historical earnings of some software are now being called into question. In the short term, the market is probably exaggerating the speed and scale of certain disruptions, as in reality these are medium- and long-term developments. But the market is probably right on one key point: AI will make discrimination more important and undifferentiated allocation within the software sector (and by extension within the technology sector) riskier than before.

**Chart 3 — Large US cloud companies (hyperscalers) are expected to spend more than \$3 trillion on AI infrastructure by 2030**

Fixed capital expenditure expected by the market for the main US hyperscalers, in billions of dollars



Edmond de Rothschild, Bloomberg.

# Investing in a time of conflict

**Hervé Prettre**

Head of Global Investment Research

The history of the equity market during conflicts since World War II shows a recurring trend whereby the market dips after the start of a conflict, stabilises as soon as investors expect de-escalation, and rebounds as an end to hostilities becomes more and more likely. The equity markets should follow the same pattern with the conflict in Iran, with de-escalation and the prospect of peace necessary for a rebound.

The conflict between the United States, Israel and Iran, which began on 28 February, has ultimately impacted the entire Middle East region and lasted longer than expected. Although negotiations had stalled at the time of writing, investors are reassured by the ongoing talks and proposals from Iran and the US, against a backdrop where the ceasefire does not appear to be under threat. We are moving towards a gradual resolution, punctuated by concerns over the continued closure of the Strait of Hormuz. Which outcomes currently appear likely? And more broadly, how have equities historically reacted during conflicts?

Equity and bond markets initially reacted negatively to the conflict in Iran owing to geopolitical risk and rising energy prices. The long-term higher oil and natural gas prices resulting from the destruction of capacity have in turn increased inflation risks and rate-hike expectations, as in 2022 after Russia invaded Ukraine.

In equities, cyclical sectors have come under pressure, particularly those dependent on oil prices (tourism, travel, consumer discretionary), while energy stocks have posted positive returns. Some defensive sectors, such as communication services and utilities, have outperformed overall indices. Europe has been harder hit owing to the more cyclical nature of its indices and its dependence on Brent oil from the Middle East, while the US consumes more of its own production and the S&P 500 is less cyclical than the Stoxx 600.

## How do investors react in times of conflict?

**The markets initially react negatively to the outbreak of a conflict.**

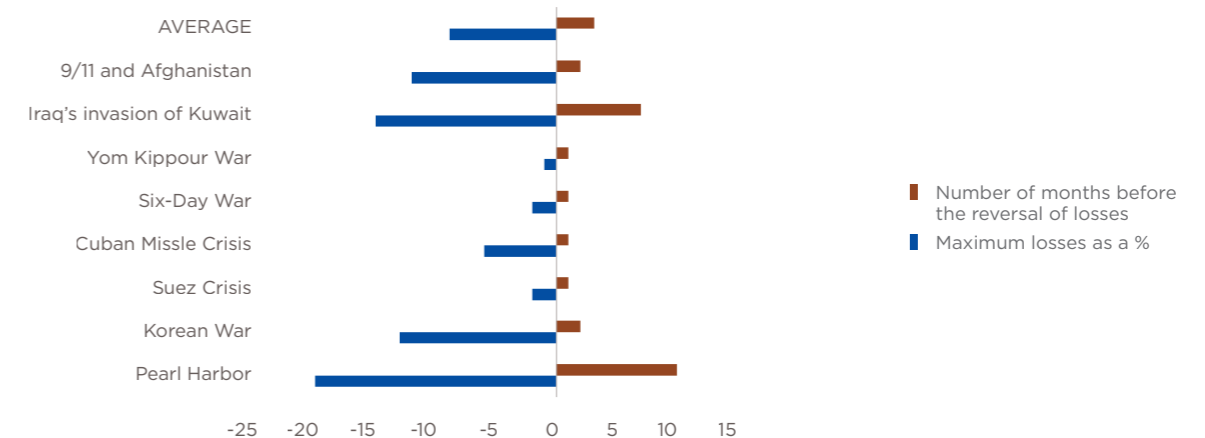
On average, markets have lost 9% at the onset of war, with economy-sensitive cyclical sectors posting the biggest losses. Market losses are commensurate with the scale of the conflict, with the S&P 500 losing up to 20% of its value after the Pearl Harbor attack in 1941, 13% at the start of the Korean War in 1953, and 15% during the first Gulf War in 1990.



**The markets tend to stabilise when de-escalation occurs, or at least when the situation stops deteriorating.** This was the case with the Battle of Midway in June 1942, in which the United States halted the Japanese advance. Much the same occurred in October 1991, when the United States secured an alliance with numerous nations for Operation Desert Storm in Iraq and the neutrality of the Soviets.

**When signs of a ceasefire are seen, the equity market tends to recover its losses.** This was the case almost 20 months after Pearl Harbor, following the United States' second naval victory over Japan at Guadalcanal. It was also the case when the 1991 military operation Desert Storm revealed that Iraq would not resist coalition attacks even though its army was at the time considered the fourth largest in the world. In the Second Gulf War, the recovery of the S&P 500 began in April 2003 after the fall of Saddam Hussein. **The markets need an average of three months to recover their losses.** Further, since 1945, they have finished 9% higher on average in the 12 months after the outbreak of conflict.

Chart 1 – Maximum losses and number of months required to offset initial losses



Edmond de Rothschild, Bloomberg.

## What is the outlook for the current conflict?

We believe that a collapse of the current regime of the Islamic Republic is unlikely. But a long-term conflict also seems unlikely, as it would demolish Donald Trump's popularity and erode the purchasing power of US households ahead of the mid-term elections. The probability, then, is that the conflict will last several more weeks. However, the current ceasefire is likely to be respected, hence the absence of escalation (except in the short term, as each side seeks to gain a position of strength ahead of the negotiations) and a



## EQUITIES

gradual move towards a resolution. The other Gulf states affected by the regionalisation of attacks could also provide their support for resolving this conflict. An easing appears to be a priority for Trump, as the political and economic consequences are beginning to prove too damaging. Time is playing against both Trump and the Iranian regime, hence the probability of conflict resolution after several weeks.

As with previous major conflicts, we believe that the markets are likely to rise when the resolution and the reopening of the Strait of Hormuz are in sight, and perform well in the months following the end of the conflict. We expect market volatility in the short term, with an outperformance by defensive stocks, followed by a medium-term recovery driven by cyclical stocks. Stocks sensitive to oil prices and central bank rates, such as luxury goods, travel and financial companies, could perform poorly during the conflict and then be expected to outperform following a ceasefire.

In the medium term, the conflict does not call into question our constructive view on equities. As such, we remain slightly positive on this asset class. Diversifying equity portfolios between different sectors and maintaining exposure to defensive stocks make it possible to better navigate these periods. For risk-bearing investors, it is advisable to add to positions in more cyclical stocks, which should outperform when the conflict ends. The optimistic – albeit unlikely – scenario of Iran opening up to reconstruction and a sharp drop in oil prices could even drive an equity market upturn.

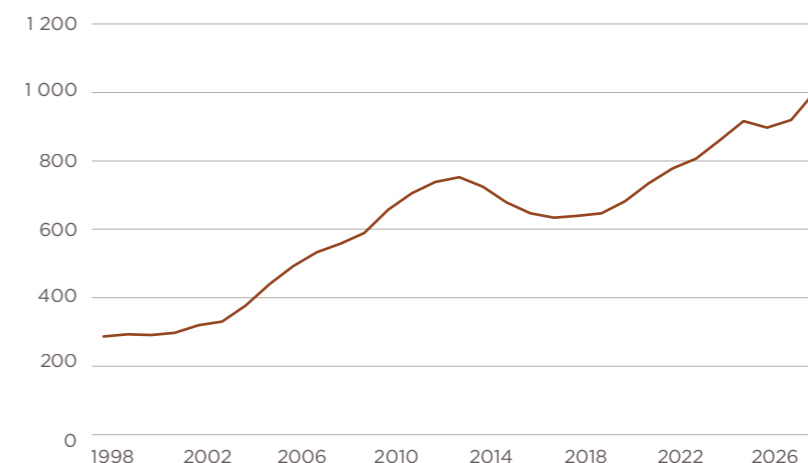
### When war spurs technological innovation

Structurally speaking, conflicts often serve to spur progress and the development of new technologies, such as the submarine during the US Civil War, the assault tank during World War I, the radar during World War II, the Patriot missiles used for the first time during the 1991 Gulf War, and drones since the war in Ukraine. The current conflict in the Middle East shows that Iran can block the Strait of Hormuz and hit targets in neighbouring countries with limited means, such as fairly basic drones that according to experts cost just \$20,000 to \$30,000 each. The problem intercepting these drones is the cost of anti-drone missiles, such as the Patriot, at more than \$4 million per unit. Based on this recent experience, new techniques for intercepting and downing drones are under review. One such technique is laser, which has not been developed in recent decades because decentralised launchers lack the requisite energy power. The development of this technology could be furthered by higher energy storage capacity, more durable batteries, and increased precision, such that several experts see them as the new panacea against military drones. In the longer term, the use of laser technology could become widespread in non-military applications.

A further key takeaway from the current conflict is that the US armed forces are unwilling to accept human losses. No ground operations had been launched by the United States at the time of writing of this article, even though many observers see this as vital to speeding up the resolution of the conflict. This aspect could spur the development of military robots (still under study) to carry equipment, remove mines, carry out reconnaissance missions, and, in the more distant future, potentially serve as soldiers. This would be a game-changer for many military operations, as it would potentially mean less loss of life and therefore less reluctance to intervene.

A more direct consequence of the crisis in Iran will surely be the increase in military budgets post-conflict, with the United States rebuilding its stockpile of weapons (primarily missiles) and the Gulf countries neighbouring Iran strengthening their defence and interception capabilities. This will no doubt be the case for Dubai, which, if it is to remain attractive, will be obliged to prove its ability to protect its citizens and affluent foreigners living in the city. Rearmament frequently accompanies the end of conflicts. Even after de-escalation, and regardless of how long hostilities last, the conflict in the Middle East could have lasting effects, promoting the swifter and sustained development of these sectors.

Chart 2 - United States defence budget per year, in billions of dollars



Edmond de Rothschild, Bloomberg.



Philippe Druillet (born 1944), wall lamp, special order for the bank's reception rooms, Paris, France.

Special feature



# Myths and realities in the consumption trends of younger generations

**Nadjat Hamrouni, CFA**  
Sustainable Investment Solutions Director

**Darius Bakhtari**  
Research Analyst, Global Investment Research

The consumption of younger generations, and in particular Generation Z (or Gen Z, i.e. people born between the late 1990s and early 2010s), is often described as paradoxical. While most of these consumers have strong convictions on sustainability, ethics and environmental responsibility, they also make extensive use of platforms that embody fast, affordable and unsustainable consumption, both in fast fashion and meal deliveries. This seeming contrast has long been seen as a generational contradiction. But that interpretation underestimates the role played by the economic, technological and cognitive constraints that now dictate purchasing decisions. In reality, youth consumption is less paradoxical than it seems. It is rational, arbitrated, constrained, and situated at the nexus of three major forces: purchasing power, digitalisation, and aspirations on well-being and sustainability. It is through this lens that the younger generations see their main focus areas: digital consumption, health, sport, self-image, and political commitment.

## Sustainability and prices: an illusory paradox

For several years, youth consumption has largely been seen as contradictory. But studies show a more nuanced reality. Empirical evidence confirms the existence of a gap between intentions and acts. While 64%<sup>1</sup> of Zoomers say they are willing to pay more for certified sustainable products, nearly 40%<sup>2</sup> concretely refuse to bear additional costs in real-life purchasing situations, particularly in the travel sector.

Yet it would be wrong to see this discrepancy as a moral inconsistency. Above all, it reflects decision-making under duress. Consumer behaviour can be explained by a combination of factors, including pressure on purchasing power, the ubiquity of digital technology, the rise of artificial intelligence, and the transformation of spending structures. Recent work on conscious consumers sheds light on this dynamic. It highlights three interdependent drivers that coexist and come into play in each purchasing decision: well-being, financial pragmatism, and personal values<sup>3</sup>.

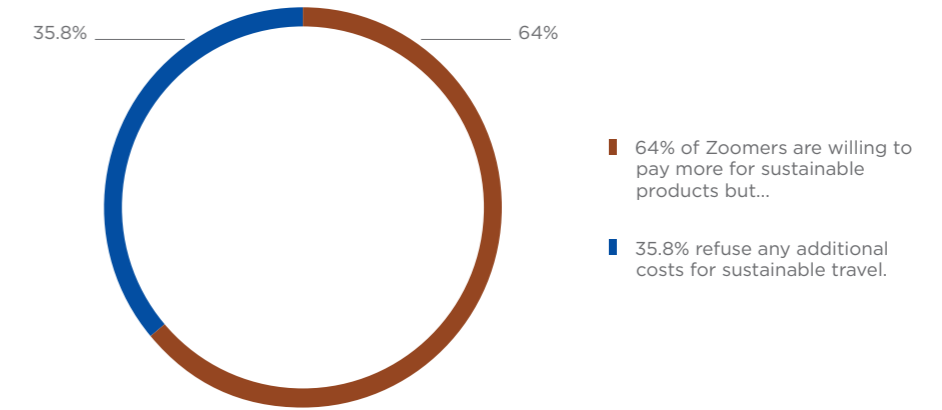
<sup>1</sup> Deloitte, 2024 Gen Z and Millennial Survey.

<sup>2</sup> Trip.com Group, 2024 Sustainable Travel Consumer Report.

<sup>3</sup> Barclays Thematic Investing Conscious Consumer, "Where wellness, wealth and values collide".

**Chart 1 – The 3 forces underpinning youth consumption**

The "paradox" is above all a product of trade-offs between budget, digitalisation and the search for well-being



### 1. Purchasing power

30%

of Zoomers do not feel financially secure.

24.1%

of 15-29 year olds in the EU are at risk of poverty or social exclusion.

### 2. Digitalisation

97%

of 16-29 year olds in the EU use the internet every day.

84%

of 16-24 year olds in the EU made a purchase online in 2025.

### 3. Well-being

47%

of respondents say health is a purchasing priority.

\$6.8tn > \$9.8tn

Projected size of the global wellness market, 2024-2029E.

Edmond de Rothschild; Deloitte, 2024 Gen Z and Millennial Survey; Eurostat; Barclays, Thematic Investing Conscious Consumer, "Where wellness, wealth and values collide"; Bank of America Global Research, "Tech care of yourself" – Future Wellness Primer, 17 March 2026.

## Purchasing power at the root of behaviour

Purchasing power continues to be the main determinant of consumer behaviour. According to several surveys, almost half of Zoomers<sup>4</sup> do not feel financially secure. In Europe, a quarter of 15-29 year olds<sup>5</sup> are at risk of poverty or social exclusion. The cost of living is still the primary concern for many, relegating environmental issues to the back burner.

And so resorting to low-cost products and services is not about opportunistic arbitrage but about affordability. Digital platforms make it possible to maintain a certain level of consumption despite financial constraints.

Youth consumption is now inseparable from digital technology, which is no longer a channel but a real decision-making infrastructure. In Europe, almost all young people use the internet on a daily basis, and more than 80% shop online<sup>6</sup>.

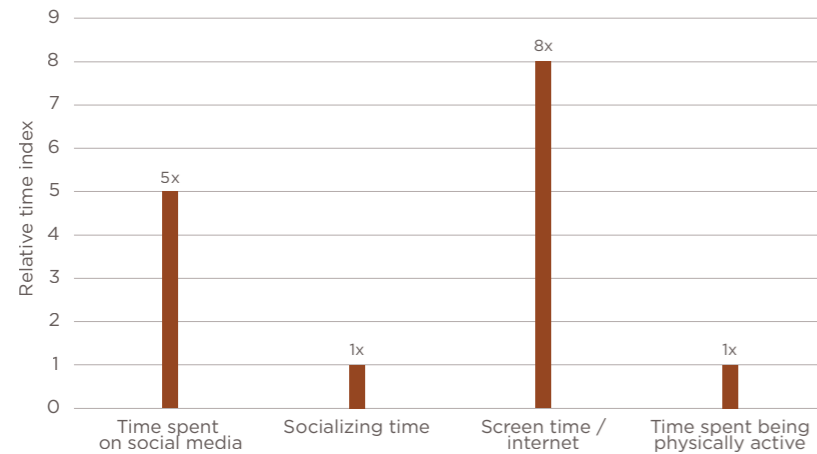
<sup>4</sup> Deloitte, 2024 Gen Z and Millennial Survey.

<sup>5</sup> Eurostat.

<sup>6</sup> Eurostat – E-commerce statistics for individuals.



Chart 2 – Spending more time on screens



Edmond de Rothschild; Bank of America Global Research, “Tech care of yourself” - Future Wellness Primer, 17 March 2026.

Artificial intelligence is further accelerating this trend. According to a Capgemini study published in 2024<sup>7</sup>, more than half of the people using generative AI for shopping have already replaced traditional search engines with AI tools to obtain product recommendations, and 60% say they trust the products and services suggested.

Looking beyond financial constraints, fast consumption responds to a further reality, that of cognitive overload. According to a 2026 Bank of America study<sup>8</sup>, the digital environment generates constant exposure to information, increasing mental fatigue and complicating decision-making. This is why solutions combining simplicity, speed and readability are becoming particularly attractive. Buying, ordering or making a reservation in just a few clicks reduces mental effort, lending fast consumption a central role in the simplification economy.

The models of Shein, Uber Eats and Airbnb perfectly illustrate this transformation. Though applying to different sectors, they are underpinned by the same approach: low prices, immediate availability, an intuitive interface and a seamless experience. These three companies do not just market products or services; they reduce friction and provide instant gratification. In fashion, delivery and transport alike, speed and simplicity are central attributes of value.

<sup>7</sup> Capgemini Research Institute 2024, “What Matters to Today’s Consumer, 2024”.

<sup>8</sup> Bank of America Global Research, “Tech care of yourself” - Future Wellness Primer, 17 March 2026.

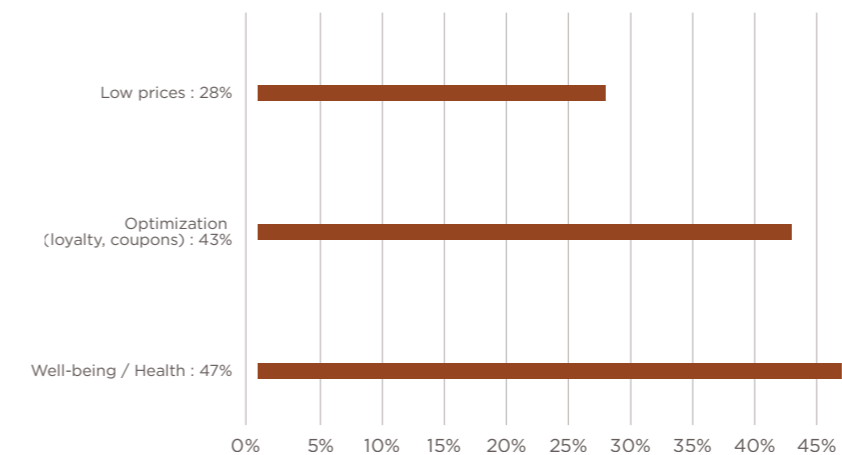
**Consumption increasingly polarised**

Rather than a harmonious transition to more responsible consumption, we are actually seeing increasing polarisation. This shift is underpinned by three trends:

- **Economic polarisation:** consumers switch between ultra-affordable minimum spending and targeted premium purchases;
- **Polarisation of uses:** consumers save on certain everyday expenses to preserve experience purchases;
- **Moral polarisation:** consumers value sustainability but purchases depend on simplicity and cost.

Chart 3 – The main consumption trade-offs of younger generations

This graph offers a reading of the main trade-offs that structure the behaviour of younger generations. It does not aim to propose a breakdown of consumption budgets, as the categories are not mutually exclusive and may apply to several types of consumer behaviour.



Edmond de Rothschild; Barclays, Thematic Investing Conscious Consumer, “Where wellness, wealth and values collide”.

In practice, young people combine three approaches: low-cost for access, second-hand for optimisation, and targeted premium for identity and well-being, relegating the mid-range to the rank of most vulnerable segment. Consumers are thus faced with an ongoing dilemma between sustainability, price and simplicity. This mismatch, often referred to as a “say-do gap” (gap between words and actions), is widely documented<sup>9</sup>. Sustainability is valued in terms of intentions but continues to be predicated on cost, simplicity and behavioural compatibility. The central question, then, is a strategic one: **can sustainable options be made as simple and accessible as low-cost ones?**

<sup>9</sup> Deloitte, 2024 Gen Z and Millennial Survey; Trip.com Group, 2024 Sustainable Travel Consumer Report.

The key conditions for success today are perceived affordability, a more seamless experience, clear proof of impact, and full digital integration. Consequently, the most strongly positioned companies are those able to strike a balance between economic efficiency and responsibility without complicating the user experience.

The consumption of younger generations is not a paradox, but a system of reasoned choices made under constraint. It is characterised by an acceleration in uses, greater expectations, and the fragmentation of behaviour. The future of consumption will not be entirely sustainable or exclusively low-cost, it will be a combination of the two. The challenge is not to transform the consumer, but to adapt economic models to this new reality.

#### Which areas are popular with young people?

It has now been clearly established that younger generations combine rather than choose between rapid consumption and long-term aspirations. Some segments appear better positioned to capture the attendant demand, which is constrained, digitalised and geared towards well-being.

#### Digital consumption:

The everyday use of digital technology by younger generations has become more than a change in lifestyle: it is reshaping consumption choices over the long term. According to Reviews.org, Americans viewed their smartphones on average nearly 186 times a day in 2025<sup>10</sup> and spent nearly seven hours online, much longer than the time spent in physical social interactions. Extrapolating, this means that they will spend nearly 44 years of their lives looking at screens. The increase in screen time is expected to accelerate in coming generations, with the youngest cohorts being even more connected. For investors, this trend continues to support platforms, attention infrastructures, subscription models, and ecosystems capable of monetising everyday, recurring usage that is highly integrated into life courses. As the younger generation gains purchasing power with age while maintaining the same digital habits, these trends are likely to gather even more steam.

The ceiling of 25% to 30% of consumer spending on e-commerce is widely considered as impassable owing to the consumer's need to see the product "in real life" (for example, to properly assess the texture or colour of a garment) or to benefit from the service physically (such as sports coaching). But this percentage could be exceeded in the 2030s due to the digital habits of the younger generation. In addition to consumer habits, social networks also help shape certain collective perceptions and preferences.

<sup>10</sup> Reviews.org, 2026 Cell Phone Usage Stats (2025 data).



In a further aspect, the preferences of new generations are also set to profoundly transform the financial world. Traditional banks are expected to step up their digitalisation under pressure from neo-banks designed on the model of "super-apps"<sup>11</sup>. Payment methods could also be impacted by the growing disintermediation opposed by the blockchain<sup>12</sup> infrastructures used by cryptocurrencies. The latter could continue to establish themselves as an alternative asset class for a generation of investors that has grown up with the technology, with around half of Zoomers and Millennials (the generation born between 1980 and 1995) having already owned cryptos, compared with just 10% of Baby Boomers (born between 1945 and 1965).

#### Physical and mental health:

Lest we forget, this hyperconnection comes at a cost. The increasing digitalisation of lifestyles is accompanied by an increase in physical and psychological pathologies, ranging from obesity and myopia to anxiety, depression and certain forms of chronic loneliness. The economic cost of these health problems has been estimated at at least \$7,000 billion a year, or about 6% of global GDP. And younger generations are in the front line. According to Cigna's 2024 Vitality Index, nearly two-thirds of Zoomers in the United States say they feel alone<sup>13</sup>, the highest proportion of all generations. At the same time, the average prevalence of anxiety in the US doubled between 2010 and 2022, the highest increase (2.6x) coming among 18-25 year olds. The sharp increase in short-sightedness also illustrates this underlying trend: more than 60% of 20-24 year olds could be affected by 2050, compared with 37% in 2000. This health pressure is creating a promising ground for organisations working in mental health, optics, prevention, diagnosis and solutions for the management of pathologies linked to digital uses.

#### Experience:

Young consumers continue to prioritise spending on experience, not only for their immediate use value, but also for their social and symbolic dimension. Live events, concerts, restaurants, outings and trips are becoming increasingly important when making budgetary choices, sometimes to the detriment of more traditional material expenses. This phenomenon follows on directly from the polarisation described above, with consumers compressing certain everyday expenses in order to preserve those that generate memories, emotions or social visibility. In investment terms, this trend favours companies working in leisure, hospitality, booking, experiential catering and, more broadly, all models capable of transforming spending into a shareable moment perceived as identity-based. In contrast, this movement is to a certain extent calling into question the growth algorithms of more traditional companies focused on the sale of food products consumed at home.

<sup>11</sup> A super app is an "all-in-one" mobile app combining a set of distinct services (messaging, payment, mobility, shopping, etc.) in a single interface.

<sup>12</sup> The blockchain is a digital technology for storing and transmitting data that operated without a central authority. Originally designed in 2009 for Bitcoin, its use has since been extended to other fields.

<sup>13</sup> Bank of America Global Research, "Tech care of yourself" - Future Wellness Primer, 17 March 2026.

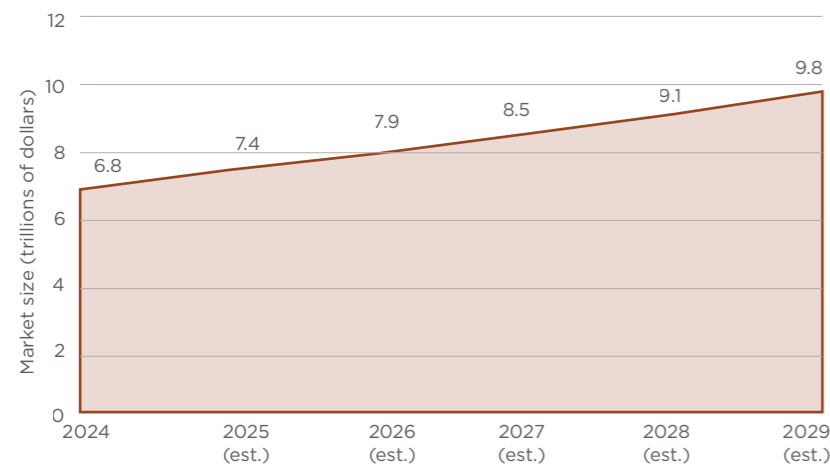


**Sports:**

With digital technology playing an ever more intense part in our lives, sports and well-being appear to be “rebalancing” purchases. According to Bank of America<sup>14</sup>, the global well-being market could reach nearly \$10 trillion by 2029, confirming the structural rather than cyclical nature of this demand. Importantly, the quest for well-being does not contradict the quick-and-easy consumption behaviours described above: it responds to them. The same generation can look for low prices, convenience and immediacy in some of their purchases while at the same time protecting their spending on sports, preventive health or personal balance. For investors, this approach supports the fitness, sports equipment, wearables<sup>15</sup>, nutrition and sleep segments, as well as services related to physical and mental performance. Sportswear manufacturers benefit from a reservoir of sustainable growth, as younger generations practice a sport but also seek to look sporty, an aspect seen as a common denominator of numerous Zoomers. The innovative ability of brands and the appeal of the values they embody should stand them in good stead for taking advantage of the increase in purchasing power of young people in the coming years.

**Chart 4 – Growth of the global well-being market**

Well-being appears to be a force for rebalancing in response to the growing use of digital technology.



Edmond de Rothschild; Bank of America Global Research, “Tech care of yourself” – Future Wellness Primer, 17 March 2026.

**Pets:**

Studies have shown that spending time with a pet can significantly increase levels of oxytocin (a neurotransmitter promoting stress reduction) and reduce those of cortisol, the main stress hormone in humans. Pet ownership is on the rise among the younger generation, accompanied by the corresponding veterinary and food budget. According to the American Pet Products Association, about 16% of Zoomers own a pet, up from 14% in 2020 and 11% in 2018. Zoomers attach special importance to their pets. Although not unique to this generation, the tendency to consider animals as members of the household appears to be particularly strong among younger consumers. Companies that make vaccines, food products and pet leisure activities stand to benefit from this trend.

**Beauty and self-image:**

The image economy is also benefiting from this reconfiguration. The ubiquity of social media, non-stop exposure to audiovisual content, and the constant incentive to show oneself in one’s best light are reinforcing the focus on appearance, personal care, and wellness routines. Beauty, healthy eating, physical activity and self-care are no longer just a matter of discretionary consumption. They now play a powerful role in our approaches to self-presentation and personal discipline and also send out a strong social signal. This phenomenon favours companies able to combine desirability, relative affordability, digital influence and recurring use, particularly in beauty, personal care, functional nutrition and related services. Cosmetics manufacturers also have opportunities to move upmarket through product innovation and advances in AI-driven personalisation.

**Polarised rather than virtuous consumption**

Taken together, these segments do not paint a picture of more virtuous consumption. The nature of consumption they do reveal is more selective and polarised, and more consistent with the real constraints of younger generations. The companies likely to benefit from this shift are, in theory, less “sustainable” than those providing a combination of usefulness, affordability, ease of use, digital intensity and perceived value. In short, the rise of Gen Z (and, potentially, its successor Gen Alpha) should above all benefit business models able to respond to the generation’s dual logic, consisting, on the one hand, of fast consumption, and, on the other, the quest to “rebalance” through experience, health and well-being, sport, appearance and experience. These habits, deeply rooted in Gen Z, are likely to persist and even strengthen in the future as Zoomers grow older and increase their incomes. Companies strongly positioned to benefit from this development stand to generate higher and lasting growth in sales and profits.

<sup>14</sup> Bank of America Global Research, “Tech care of yourself” – Future Wellness Primer, 17 March 2026.

<sup>15</sup> Connected objects (watches, wristbands, sensors) worn to monitor activity, sleep and health metrics.



Architectural detail of our new head office in the heart of the Etang eco-district, Geneva, Switzerland.

Bonds

# Sovereign rates higher for longer

**Guilhem Savry**

Head of Strategy Research, Global Investment Research

Against a tense geopolitical backdrop generating high volatility and pushing up energy prices, the bond markets reacted strongly in March by revising the inflation premium upwards. With deficits remaining high and debt sustainability critical in many countries, we believe that sovereign rates are likely to stay high for a long time, with inflationary risks stemming from the conflict in the Middle East standing as an additional headwind. In contrast, corporate balance sheets remain highly robust despite heightened uncertainty, which is an advantage for credit. Yields remain attractive but call for selectivity in terms of sectors and segments.

## Geopolitical environment pushing interest rates higher

The international macroeconomic environment has become significantly more complex since the end of February, impacted by an energy shock stemming from geopolitical tensions in the Middle East. Oil and gas prices have soared, shifting inflation expectations and leading to a sharp rise in sovereign bond yields. This increase results from an adjustment by the money markets of expectations on central bank interest rate trajectories. The increase in the inflation premium comes on top of the persistently high credit premium, the consequence of large deficits and critical debt-to-gross domestic product ratios in numerous countries. Against this backdrop, G7 long-term rates increased significantly in 2026 and are expected to remain high for a long time. Since the start of the Iranian conflict, German yields have risen by around 35 basis points to 3.07%, a high since 2011. Yields are rising across Europe, with the 10-year Italian BTP (*Buoni del Tesoro Poliennali*) standing at 3.88% and the 10-year French OAT (French Treasury Bond) at 3.70%, up 60 basis points in just a few weeks. And this trend is global, as seen in the tensions in the UK, Canadian, US and even Swiss sovereign markets.



Chart 1 – Changes in central bank rate expectations in 2026 before and after the start of the Middle East conflict



Bloomberg, Edmond de Rothschild.

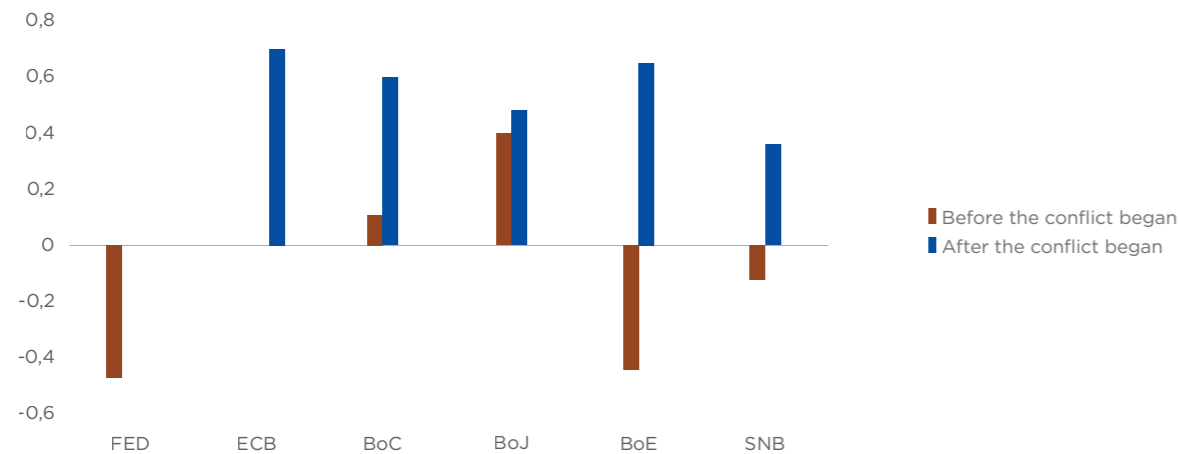
## The consequence of an adjustment in monetary policy expectations

Bond yields have risen mainly due to the revaluation of inflation expectations linked to the rise in energy prices and the increase in the geopolitical risk premium. Monetary policy expectations have changed rapidly in a few weeks. The markets were still expecting a status quo or even a rate cut by the European Central Bank in 2026, but they are now factoring in the possibility of two rate hikes in 2026. The market has fully priced in the probability of an initial rate hike before the summer. This adjustment in expectations is not limited to the eurozone, also concerning the Bank of England, the Swiss National Bank and, to a lesser extent, the US Federal Reserve. Investors have substantially adjusted their expectations for all these central banks. At its March meeting, the Fed maintained its forecast of a rate cut in 2026, but subject to a significant reduction in inflation. As a result, the market no longer expects rate cuts in 2026. Recent history shows that central banks issue communication to anchor inflation expectations and avoid “second-order” effects, with higher wages to offset higher prices. In previous episodes of sharp increases in oil prices, such as in 2007–2008 and 2010–2011, the Fed did not raise its rates. The ECB tightened its monetary policy in the spring of 2011, before subsequently easing again in response to the sovereign debt crisis, which has since been perceived as a monetary policy error in Europe.



## BONDS

Chart 2 — Changes in central bank rate expectations in 2026 before and after the start of the Middle East conflict



Bloomberg, Edmond de Rothschild.

The major developed economies today are confronted with an asymmetric macroeconomic risk, characterised by potentially more persistent inflation and weaker growth due to rising energy costs. The main factor behind recent market developments remains the rapid rise in energy prices. The Brent topped the \$115 per barrel mark at the end of March, compared with around \$72 at the end of February, gaining nearly 70% in just a few weeks. Natural gas prices in Europe have also risen sharply. Despite this increase, prices today are lower than during the 2022 energy crisis when oil reached nearly \$140 and European gas exceeded €340/MWh. We believe that the situation in 2026 is very different from that in 2022, when the energy supply crisis came hand in hand with a supply crisis resulting from COVID-related support policies and a supply chain shock. Given these factors, inflationary risk appears to be more moderate in 2026 than in 2022. In addition, the risk weighing on economic growth is increasing, as reflected in the ECB's downward revisions of growth forecasts in Europe and the decrease in eurozone PMIs, whereas in 2022 post-COVID fiscal support strongly supported the rebound of the economy.

### Sovereign bonds still lack appeal

Regarding bonds, sovereigns continue to prove unattractive. Developed countries remain highly indebted, and are unlikely to reduce deficits in 2026 due to: current fiscal policies in the U.S. with mid-term elections approaching, the announcement of tax cuts and early legislative elections in Japan, and the defence and infrastructure investment plan in Europe. As a result, investors are likely to remain highly vigilant on government term premiums and thus maintain long-term rates at

high levels. In the short term, a longer-than-initially-expected rise in oil prices is inflationary, doing no favours for government bonds and potentially leading central banks to tighten, even if the market seems to be exaggerating the magnitude of future tightening.

### Continued selectivity in the choice of corporate bonds

Appetite for corporate bonds remains strong despite extremely high issuance at the beginning of the year and with the VIX and MOVE (Merrill Lynch Option Volatility Estimate) volatility indices having risen on geopolitical tensions. Yields offered in absolute terms remain above their long-term average, making this bond segment attractive in terms of risk/return. Moreover, corporate balance sheets remain solid, with fundamentals benefiting from a low risk of recession and a favourable financial environment. But if it were to last, the rise in long-term rates could weigh on the solvency of the most indebted sectors and generate greater widening. For this reason, we are becoming more selective on debt ratios in corporate bonds.



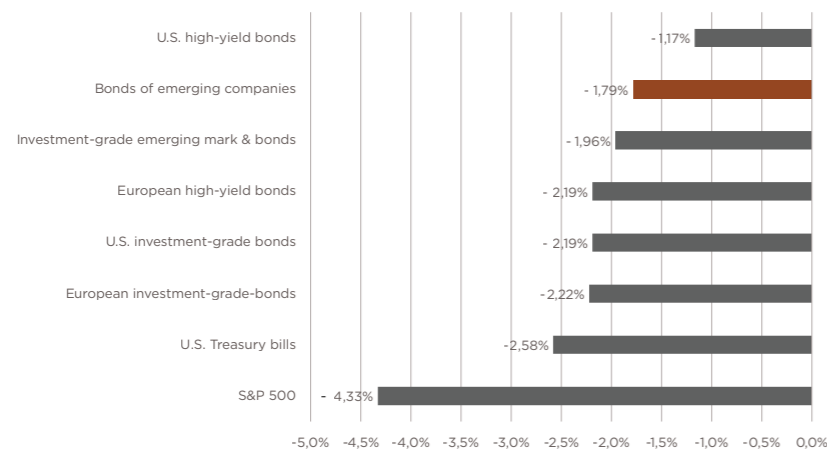
# Emerging corporate bonds: solid fundamentals despite uncertainties in the Middle East

**Lisa Turk**  
Emerging Credit Manager, Edmond de Rothschild Asset Management

**Rami Boustany**  
Head of Fixed Income Credit Research, Global Investment Research

While emerging markets have been at the centre of geopolitical discussions since the start of the conflict in the Middle East, the impact on emerging market (EM) debt markets remains limited for now compared with other asset classes. Above all, the conflict has rekindled inflationary fears through the rise in the oil price, negatively impacting longer-dated bonds, regardless of their origin, more than specifically emerging corporate bonds, which generally have shorter maturities and have thus shown strong resilience. The asset class has also been bolstered by exposure to regions remote from the conflict, such as Latin America, but benefiting from rising oil prices.

**Chart 1 — Performance of benchmarks since the beginning of the conflict in the Middle East (27.02-23.03.2026)**



Bloomberg, Edmond de Rothschild.

Even before the conflict began, a number of structural factors advocated for EM corporate debt, as evidenced by the strong return of flows since mid-2025. This renewed interest continues, driven by stronger South-South trade, the desire of investors to diversify their portfolios, a weak dollar that benefits emerging countries borrowing in this currency, dynamic growth, attractive yields in the asset class, and rising commodity prices.

### Long-term outperformance of EM bonds

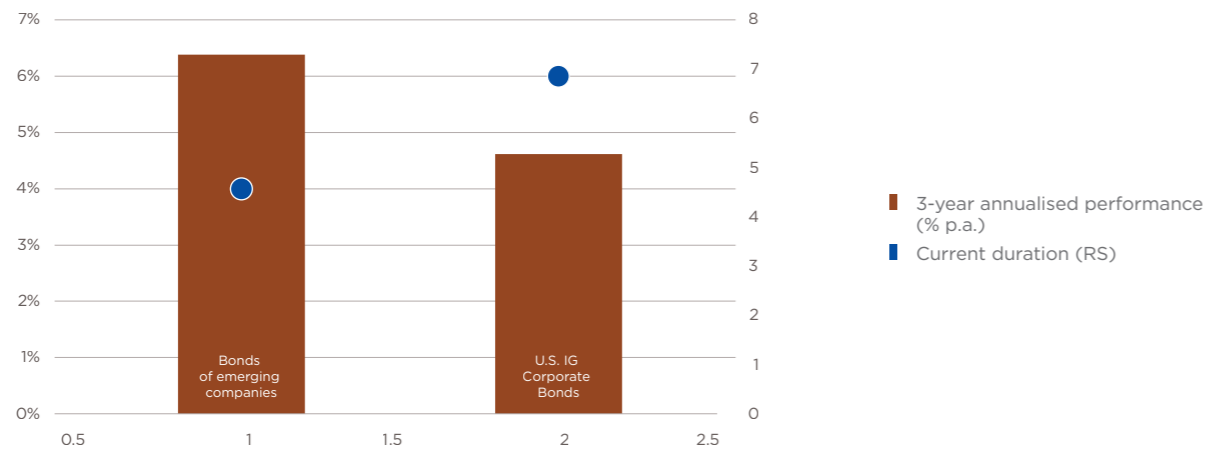
Many countries in Latin America, Africa, the Middle East or Asia extract and export resources such as base metals, gold and hydrocarbons. Their growth has been boosted by the soaring prices of these commodities, particularly since the COVID-19 pandemic and the supply chain mismatch resulting from the end of lockdowns and massive economic stimulus plans. In addition, many emerging markets are characterised by strong demographic growth combined with increased purchasing power, which is a considerable source of revenue growth for domestically oriented companies, such as companies active in the telecommunications and consumer sectors.

This allows investors to diversify their portfolios through EM dollar-denominated corporate bonds, an asset class that offers higher long-term yields than developed market bonds and may offer some technical advantages, such as generally shorter durations and relatively high coupon rates providing carry opportunities. This long-term outperformance can be explained in part by potentially higher risk premiums, particularly linked to country risk, which may be fuelled by a geopolitical situation, vulnerability to inflation, government institutions or less robust corporate governance. However, performances in this asset class are far from uniform, so selectivity and active risk management are key. This is especially true during crises such as the conflict in the Middle East, which is currently disrupting corporate bonds in the Gulf countries and net oil-importing countries such as Turkey, while other regions are proving more resilient.



## BONDS

**Chart 2 — Annualised returns in the last 3 years and current durations: emerging corporate bonds vs US investment grade**



Bloomberg, Edmond de Rothschild.

### Latin America, the big winner in commodity trends

Against the backdrop of heightened geopolitical tensions, political polarisation in the US and fragmentation in Europe, emerging market debt continues to offer attractive opportunities. Latin America, a major beneficiary of the demand for commodities and the redefinition of supply chains, holds strong appeal for investors. As net oil exporters and far removed from the conflict, most Latin American countries are benefiting from the rise in energy prices, the negative impacts for now being concentrated on a few airlines, in a contrasting manner depending on their energy risk hedging. A stalemate in the conflict could weigh on global growth, but this is not our central scenario at this stage. The investment climate in the region is benefiting from persistently robust GDP growth rates (Argentina 3.1%, Colombia 2.7%, Peru 3%, Chile 2.5%, Brazil 1.8%; growth expected by the markets in 2026) and a change in the political landscape, with a shift to the right for several quarters. This trend could be further bolstered by several elections in 2026 (Brazil, Peru, Colombia), with policies potentially more favourable to the private sector.

Broader exposure to commodities is also a positive theme for EM corporate debt. In addition to energy, the momentum in metals (copper, cobalt, zinc, aluminium, lithium, gold, silver and palladium) continues to be fuelled by structural drivers, including the energy transition, data centres, automation and the arms race, against a backdrop of chronic under-investment in mining. This combination benefits issuers directly exposed to metals as well as related sectors (transport, logistics, finance).

Emerging corporate debt therefore remains central to portfolio diversification, with Latin America now one of the preferred regions for investors. For now, the conflict in the Middle East has revived fears of inflation via oil more than fears of a recession, as evidenced by stable risk premiums. With a relatively short duration, the asset class is fairly well equipped to weather the current volatility in rates.

**Chart 3 — S&P GSCI (March 2016 - March 2026)**



Edmond de Rothschild, Bloomberg.



Vines of the Château Clarke, Lustrac-Médoc, France.

# Private debt

# Private debt market: strong recent growth

## Guilhem Savry

Head of Strategy Research, Global Investment Research

## Alexander De Bruin

Head of Fund Research

The private debt market, which has grown substantially in recent years, has been subject to an adjustment in valuations over the past few months. This correction is linked to doubts as to the sustainability of certain tech firms due to the development of artificial intelligence, and to persistently high interest rates. At this stage, we do not see any systemic risk for the banking sector as the size of this market and its exposure remain moderate.

The private credit market is valued at more than \$2 trillion worldwide. Private debt in the US is currently equivalent to 6% of nominal GDP, up from 1% in 2008. Private debt outstandings have soared in recent years. While corporate debt has increased by 5.5% per year on average in the past ten years, bank loans have grown by just 3.5% while private debt has risen by a full 14.5%.

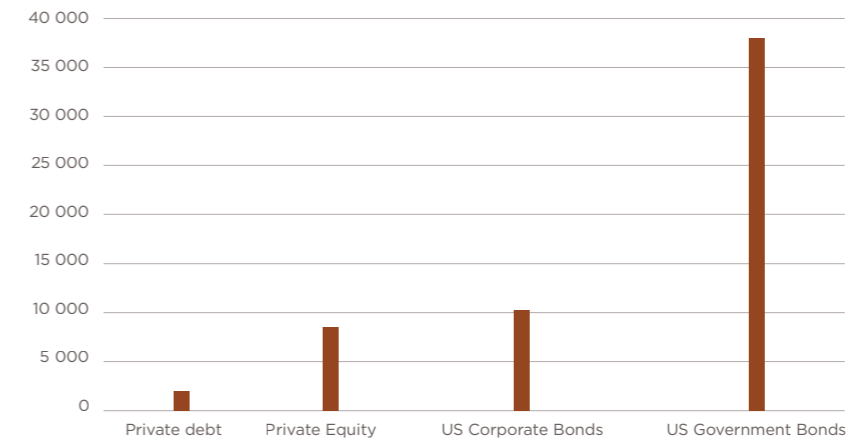
This can be explained by two reasons:

- New higher capital requirements for US banks and regular stress tests after the 2008 financial crisis, and new prudential rules in Europe.
- Low interest rates in the 2010s and until 2022 prompted many institutional investors to seek higher returns, particularly on private debt.

However, while growth has been significant in the past ten years, the private debt market remains relatively small relative to the sovereign bond market (\$38 trillion for US bonds) and listed corporate bonds (\$10 trillion combined for the US investment grade and high yield market).



Chart 1 – Total amount of US debt markets in billions of dollars in early 2026



Bloomberg, Edmond de Rothschild.

## What are the current tensions in this market?

The asset class has experienced some difficulties in the past few quarters, notably owing to corporate bankruptcies, including those of US auto lender Tricolor Holdings, US spare parts retailer First Brand Group, and UK asset manager MFS. Problems have also been posed by a limitation on withdrawals from large investment funds, particularly from Blue Owl Capital's private debt funds. Blackstone raised the redemption limit for its flagship BCRED fund to meet record redemption requests. BlackRock also limited withdrawals from its \$26 billion HPS Corporate Lending Fund after receiving \$1.2 billion in redemption requests in the first quarter, or roughly 9.3% of its net asset value. The private debt fund Cliffwater Corporate Lending Fund received redemption requests worth over 7% of its \$33 billion private credit fund.

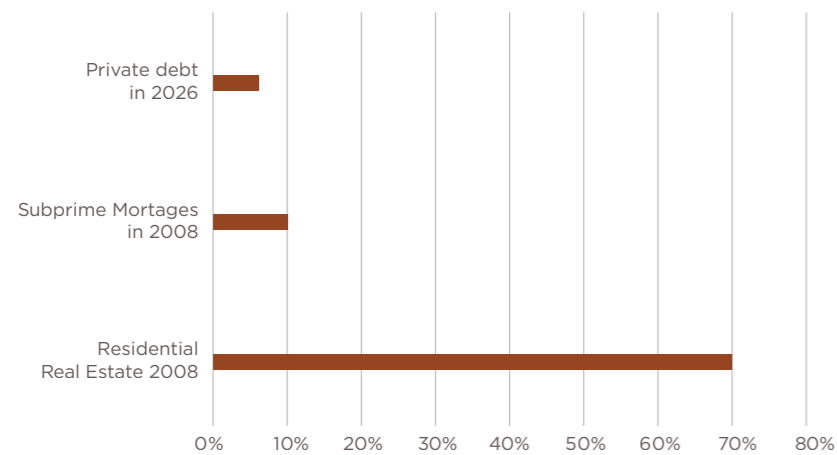
Meanwhile, JPMorgan recently downgraded its private debt portfolio, further highlighting the deterioration in the quality of issuers in this market. The recent rise in central bank interest rate expectations to counter the inflation fuelled by the conflict in the Middle East, together with investor mistrust of certain sectors such as software (where AI is raising doubts on the monetisation of investments), are ramping up the pressure on these companies, which are often poorly capitalised, somewhat poorly regulated, indebted and not particularly transparent about their profitability.



**Is there a systemic risk at this stage?**

Not in our view, mainly because the weight of private debt in the economy can in no way be compared with that of US mortgages in 2008 during the subprime liquidity crisis (70% of GDP, including 10% for subprime mortgages). In our view, the global private credit market is not in crisis, but several conditions are in place for a more severe volatility cycle, which may be heightened by the opacity of the sector and its current sector concentration.

**Chart 2 — Debt as a percentage of US GDP, 2008 vs 2026**



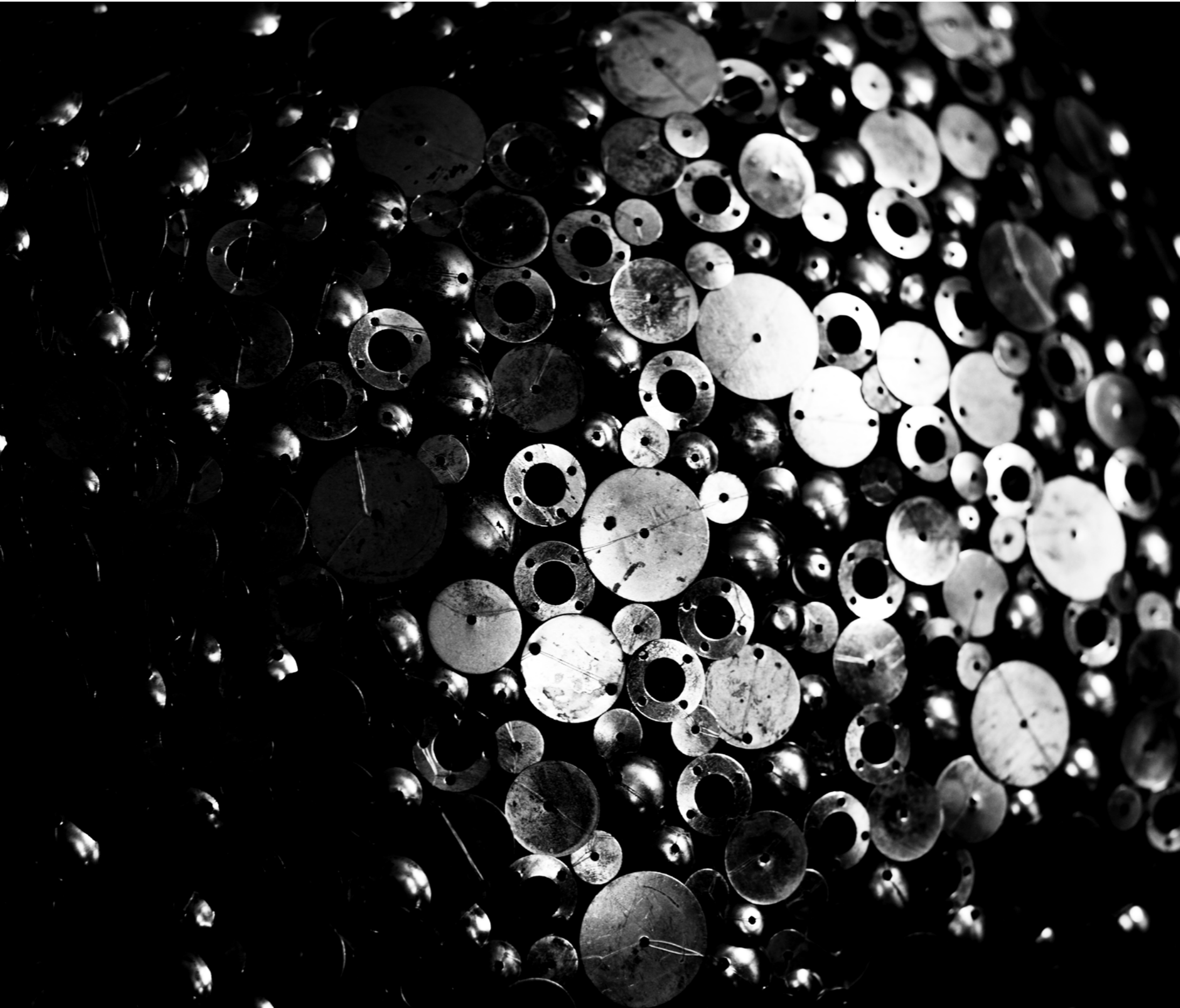
Bloomberg, Edmond de Rothschild.

Recent tensions have remained idiosyncratic thus far and have failed to contaminate other credit segments, particularly high yield. Private debt is being revalued downwards in an orderly and discriminating manner; loans to sectors considered at-risk (such as software and automotive) have come under pressure, but other private debt outstandings have not. The valuations of private debt listed vehicles have certainly come under pressure in recent months, but in no way as substantial as that observed during the 2008 financial crisis. In addition, spreads in the banking and insurance sectors continue to trend positively and in line with the rest of the market, reflecting the absence of tension on the interbank market, as opposed to the explosion in lending rates between banks in 2008. This can be explained by the moderate exposure of these sectors to private debt. The private debt exposures of insurers appear to be fairly limited (despite some upside), currently standing at around 6% of their assets. The private debt exposure of the banking sector is currently worth around 10% of assets.

**What position to take?**

Private credit appears to be going through a crisis of confidence after years of easy growth at low rates and middling transparency on some investments. The crisis is visible in sectors at risk of disruption (mainly software and automotive) but does not call into question this type of financing or impact other bond asset classes (listed debt in particular). The risk, then, does not lie in investing in private debt per se, as private credit is often secured by senior collateral, which means that recoveries could be high. Rather, the risk lies in the fact that the increased leverage of some companies has a snowball effect in the event of an activity downturn for distressed companies. As the market tends to anticipate and exaggerate future risks in certain sectors, private debt fund revaluations are likely. The best tactic here is to diversify bond holdings, particularly towards listed debt, and steer clear of portfolios overly concentrated on risky sectors. The quality of the underlyings also calls for a thorough analysis. This constructive view could be called into question if the Middle East conflict were to last, since an environment of lower growth and higher rates could impact private debt more than listed debt (because the former is riskier), even if this is not our main scenario at this stage.

Lastly, in terms of equities, private debt accounts for only a moderate share of the exposure of banks and insurance companies. European financials appear to be less exposed than their US counterparts. Due to the risks of market exaggeration, volatility on US banks and insurance companies could be higher in the short term than on their European counterparts, all else being equal.



Detail, bank reception rooms, Geneva, Switzerland.

# Forex: war, inflation and economic crisis

**Jean-Marc Guillot**  
Group Treasurer

Donald Trump's presidency continues to be marked by extreme uncertainty and substantial volatility on the financial markets. On 28 February, alongside Israel, the United States launched an armed conflict with the Islamic Republic of Iran, eliminating the Supreme Leader and many of the regime's top dignitaries. The mirage of a swift and concentrated campaign quickly faded, giving way to the prospect of a simmering conflict impacting all the countries bordering Iran. As feared, the Strait of Hormuz was quickly blockaded, and Iranian missiles hit key energy infrastructures in Qatar, Saudi Arabia and the United Arab Emirates. The boom of the cannon, the spectre of an oil and gas crisis, and fears of a blockage in international trade have revived tensions on the financial markets. Inflation has made a strident comeback, as have fears of an economic slowdown. The dollar has resumed its role as a safe haven in times of conflict, while gold has suffered from its liquidity and early-year performance. The Swiss franc remains under pressure as steering has become more complicated for the Swiss National Bank (SNB). The euro is starting to suffer from the largely unfavourable situation in Europe stemming from its high dependence on both gas and oil.

## Central banks and the Iran crisis

**In the United States**, the market no longer expects the Federal Reserve to cut its key interest rates before July 2027, despite the arrival of Kevin Warsh at the head of the central bank and Donald Trump's clearly asserted hopes. The risk of a return of inflation is a concern for investors, as is the risk of an economic slowdown. Stock market indices initially stalled and tested their support levels in response to the impact of the conflict in the Middle East and the blockage of the Strait of Hormuz. The indices have since bounced back each time the hope of an end to the conflict has been expressed, adding to the widespread volatility. As a result, the US dollar has recovered against all currencies. It is benefiting from the stabilisation of its positive carry in response to the risk of a return of inflation, and it is playing its customary role as a safe haven in times of international conflict. The Dollar Index gained 5% between its January 2026 low and February 2026 high. But it would take a decisive move above 100.35 for the index to continue its run towards 102.85 and potentially 104.60, while 97.50/98 offers support. It is unlikely that interest rate and inflation expectations will quickly reverse given the current geopolitical environment and Iran's strikes on energy production sites.



**In Switzerland**, the situation differs somewhat from that in the United States. Although the market is once again considering the possibility of an upcoming increase in the Swiss National Bank's key interest rate, with a 0.25% hike expected in September 2026, the central bank is in a somewhat complicated situation. The latest inflation figures for March showed an increase of 0.30%, which is still quite close to the deflation threshold. At its March monetary policy committee meeting, the SNB opted for the status quo, keeping its rate at 0% while remaining ready to intervene in the currency market to avoid an excessive appreciation of the Swiss franc. Nudging 0.90 in mid-March, the EUR/CHF exchange rate remains a concern for the ECB. The pressure has been eased by the recent rebounds of the US dollar against the Swiss franc, from 0.76 to 0.80 and the euro against the Swiss franc, from 0.90 to 0.9250. These levels are sufficient to contain imported inflation without the need to raise short-term rates and sufficiently high to ward off the risk of deflation. The SNB should therefore aim for some stability on current rates in the coming weeks. In the longer term, the EUR/CHF rate will continue to approach 0.94/0.95 and the USD/CHF rate 0.84.

Chart 1 – US Dollar Index



Bloomberg, Edmond de Rothschild.



**Europe** has been unable to speak with one voice on the role it needs to play in the ongoing conflict. The lack of political cohesion continues to be seen as a weakness by investors and is weighing on the worth of the euro. Europe also appears to be totally dependent on the Middle East for its energy supplies. Iran's bombardment of oil and gas production sites in other Gulf countries lead one to fear the worst. The blockage of the Strait of Hormuz is also impacting Europe through trade in other products, particularly fertilisers for the agricultural sector. In terms of monetary policy, with the announced return of inflation, investors now expect the ECB to raise its key rates by 0.50% by the end of the year. However, the historic mistake of former ECB president Jean-Claude Trichet, who raised rates too much and too fast in 2011, should give current president Christine Lagarde pause for thought. A 0.25% increase (or a status quo) could well be more credible than the 0.50% currently envisaged. Against the safe-haven dollar, the EUR could therefore continue to slide gradually towards 1.12/1.13 by the end of the year.

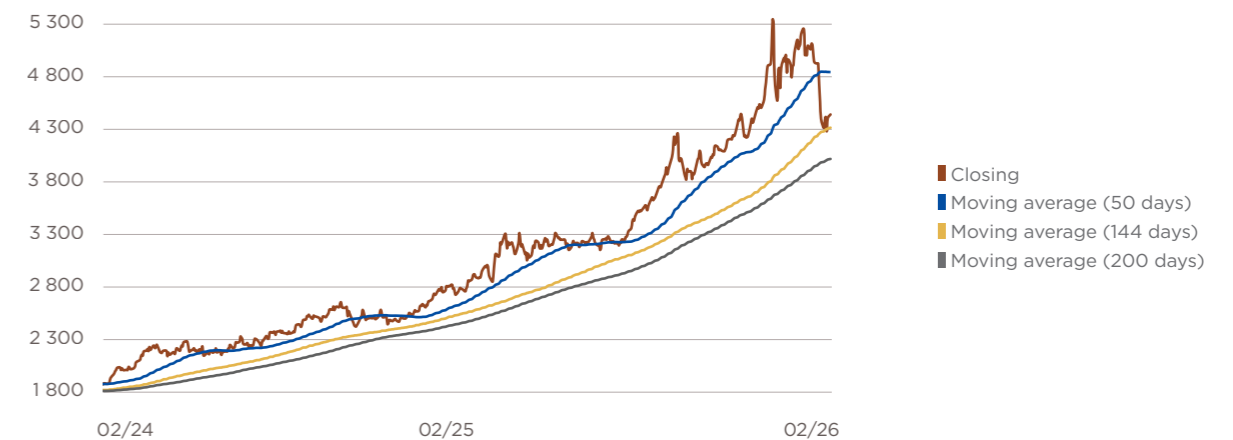
**In Japan**, Prime Minister Sanae Takaichi succeeded in winning a large parliamentary majority. Which means that she can pursue her policy of increasing purchasing power through a special budget and fiscal largesse, with the attendant increase in government spending. But the Iranian conflict has made her task that much tougher. Japan depends nearly 95% on Middle Eastern oil, and a prolonged blockage of the Strait of Hormuz will put its supplies at risk. The resulting risk is twofold, with a rise in pump prices and a fall in business activity. This further increases the need for a liquidity injection by a state with far-from-unlimited financial resources. The use of domestic oil reserves and those of the International Energy Agency is only a temporary reprieve. Japan's Ministry of Finance is even considering intervening on the oil futures market<sup>1</sup>. Given these factors, the market expects the Bank of Japan (BoJ) to raise its key rate by 50 basis points to counter the likely re-acceleration of inflation. This measure makes particular sense given that the Japanese currency remains at a record low level, close to 160 yen to 1 US dollar and 185 yen to 1 euro. A weak currency increases the risk of imported inflation and stands as an additional hurdle for Sanae Takaichi in her quest to restore purchasing power. Consequently, the Ministry of Finance may well broaden its considerations of intervention in the currency market. The risk in the short term is that the exchange rate could sorely test current psychological levels, rising to 162 USD/JPY and 187 EUR/JPY, before the yen strengthens towards 152 and 178, underpinned by the measures of the BoJ and the Ministry of Finance.

<sup>1</sup> A futures contract or forward contract is a derivative product by which investors undertake to buy or sell, at a predetermined date and at an agreed price, a specified quantity of this commodity.

### Has gold lost its safe haven status?

Why is gold falling more than stock market indices against the backdrop of war? Several factors need to be taken into account here. First, the fact that recent demand has consisted of purchases of Exchange Traded Funds (ETFs) has created greater market fragility and volatility, as investors dispose of ETFs more easily than physical gold bars. Second, when stress mounts, investors commonly take profits where they remain to be taken and liquidate the most liquid assets to meet margin calls. Gold fell below its 2025 closing level only on 23 March 2026, the day it plummeted. Third, expectations on interest rates have changed. The higher expected return on the dollar calls into question the holding of gold, which pays no interest. Lastly, some central banks have bucked the trend prevailing in their sector by selling a modest amount of gold for specific reasons. Most recently, the Central Bank of Turkey reduced its gold reserves to intervene in its currency. Gold's 23 March plunge appears to have purged the market and the \$3,800 to \$4,000 per ounce range should be a solid medium-term support. However, beyond \$4,500, any rebound could severely hit the psychological threshold of \$5,000.

Chart 2 — Gold price against the US dollar (XAU/USD)



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