

LETTER FROM THE CIO AM

**MARKET ANALYSIS AND PRINCIPAL INVESTMENT
THEMES - APRIL 2026**
by Benjamin Melman

Global Chief Investment Officer, Asset Management



The Cyclopes, or the illusion of reality

The market movement observed in recent weeks fits into a rather classic mechanism, similar to a pendulum swinging from excess fear to relief. However, this time, the breadth of the movement reflects more than a simple technical adjustment. **After a phase of brutal escalation in the Middle East, the intensity and speed of the rebound posted by risk assets was particularly surprising. Indeed, this upward move ranks within the 100th percentile of 10-day rallies recorded by the S&P since 1950**, lifted by growth stocks – and notably tech-related sectors (hardware, semi-conductors and memories). As if investors, already hardened by the series of shocks in recent years – pandemic, Ukraine, trade tensions – had already factored in the idea that whatever the geopolitical crisis, it is followed by rapid normalisation.

Yet behind this rebound, the change in fundamentals has been more subtle, if not concerning. Far from having abated, the energy crisis has continued to spread across the most exposed economies, notably in Asia and Europe, where the long-term rise in gas prices – up to +120% on some contracts – is already weighing on economic growth and corporate margins. **The disconnect between stock markets and the momentum of the real economy, akin to a cyclops who only sees the world through one eye, may be a first sign of weakness for the current market regime.**





During this crisis – the worst in the history of the global energy sector – our geo-economic vision initially focused on hedging tail risks, notably those related to the potential destruction of oil and gas production capacities, on the belief that the risk of escalation would rise before ushering in a longer period of de-escalation, a classic in the Trump doctrine. Second, we did not give in to durable panic, considering that for the White House, economic factors would supersede military matters: the Trump administration is looking ahead to the mid-terms and is keen to protect purchasing power as much as possible. We therefore chose to reallocate our portfolios gradually into risk assets (equities and corporate bonds) at the end of March, as we felt that investors were over-interpreting a durable crisis scenario. Notwithstanding the fact that the market can “see through” events, it would be just as unwise to get carried away by the current euphoria. **The current rebound is no confirmation of a positive scenario; it reflects a technical positioning driven by inflows and under-exposed investors.**

Indeed, while the current conflict seems unlikely to call the global business cycle into question, it can nevertheless alter its hierarchy. **In our view, the U.S. is emerging as the main winner (in relative terms) of this new environment, buoyed by the country’s energy independence, the (still) inexhaustible driver that is AI and the related investment boom, and a fiscal/monetary policy that remains more flexible than elsewhere in the world.** As such, the astounding performances of Anthropic’s new model, Mythos, fuel hopes of tangible AI applications and substantial productivity gains that would justify the huge capex deployed by Tech giants.

Despite its structural slowdown, **China’s energy mix and government interventions have somewhat preserved the country’s economy.** Conversely, **Europe and Japan are piling up vulnerabilities. The timing is unfortunate as economic voluntarism had recently allowed** these countries to stand out from other developed economies. Looking forward, energy dependency, the ECB’s unilateral mandate to anchor inflation expectations, and limited room for any fiscal manoeuvre suggest some downward revisions to GDP growth (in Germany, for example) and to large-cap earnings in the Eurozone, where EPS (earnings per share) is still projected to grow +12% in 2026 and +11.5% in 2027. Japanese equities are facing some of the difficulties also experienced in Europe, as stock valuations return to well-above their long-term median levels. These regional disparities are not cyclical; they are gradually altering the breakdown between the winners and the losers of this atypical and fitful paradigm. A process that is challenging the peace dividend of the past decades more than ever before.

If one of the lessons learned from past crises is to hold on to your well-chosen stocks, as American exceptionalism still prevails, several fault lines require careful attention.

- **The first is related to the nature of the shock impacting oil and derivatives (petrol, diesel, kerosene, natural gas).** Indeed, to quote the IEA, this is the worst energy crisis in history, causing



a higher net oil supply reduction than during the 1970s shocks combined. While this situation persists and the Strait of Hormuz remains closed, tensions in oil markets can only get worse. Exports are badly disrupted and oil-producing countries are having to lower their production as storage facilities become saturated. Iraq has cut volumes drastically, Kuwait is about to follow, and the United Arab Emirates are also expected to hit a critical storage limit within the next few days if no agreement is found. The normalisation of the oil market will be a lengthy process. First, the tankers that are currently stranded need to deliver their current loads, before sailing back to the Persian Gulf to evacuate the stocks accumulated by exporting countries. Production can only return to normal once these stocks have been gradually resorbed. This entire process could span over a period of two to three months before the situation stabilises. Tensions shall remain just as high for fertilisers and food prices.

- **The second item requiring attention is debt and leverage**, as underlined by the IMF's Global Financial Stability Report, against a background of rising sovereign yields that is becoming structural owing to public funding requirements and inflationary tensions. As a corollary, the fragmentation of the financial system, as evidenced by the rise of private credit and wider dispersion in financing conditions (between regions and sectors) calls for stronger vigilance. While Private Credit in the U.S. is not showing signs of "sub-prime style" systemic risk today, this segment could potentially amplify the damage in the event of an external shock on account of poor liquidity, discretion on valuations, and limited transparency on the quality of its underlying assets. For the time being, market signals are converging towards a scenario of global normalisation – incremental deleveraging, contained pressures on liquidity, tensions in some sectors – but with adjusted expectations, notably with the technology and artificial intelligence segments, which could be a catalyst and prompt a broader correction that could spread to credit.
- **The third risk touches upon the equity momentum itself, as stock markets become increasingly dependent upon narrow drivers – namely technology and artificial intelligence –** with the risk of fostering a K-shaped economy where growth no longer expands. According to S&P500 index earnings expectations for 2026, 14% of earnings growth is concentrated within the tech and cyclical sectors, with respective earnings capacities of +30% and +6%, including +22% for materials. By contrast, earnings expectations for non-cyclical sectors are down by about 4%.

In this environment, central banks are facing an acute dilemma. Up against an inflation supply shock, though different to 2022 when excess demand had already been driving prices up, **central banks are now torn between the need to support growth and the credibility of their mandate.** In Europe, the risk of monetary policy error – observed in 2008 and 2011 – is tangible, at a time when



each 50-basis point rate hike can potentially wipe out 0.5 point of growth, as suggested by the ECB's DSGE model. **In the United States, the situation is more favourable. The Fed has maintained its adjustment capacity thanks to well-anchored inflation expectations and a job market that is heading towards normalisation.** One should also note that Kevin Walsh's most recent hearing suggests a preference for trimmed mean measures for inflation, which consists in stripping out the extremes (the highest price rises and the lowest price cuts) to identify a more stable trend. Indeed, according to the Fed Chair, the damages caused by inflation have abated and the trend has improved over the past year, justifying a relatively confident vision on disinflation and ultimately, rate cuts.

As a result, in terms of asset allocation, the feeling of stability sent out by markets is illusory. It is founded upon the implicit assumption of a temporary shock that will be quickly absorbed, and on the belief that central banks will continue to provide support. But this interpretation omits to consider that imbalances – financial, energy and fiscal-related – don't disappear; they shift and fortunately, do not occur simultaneously. **In this environment, the decision to maintain an equity and credit overweight is not driven by over-optimism, but founded upon a pragmatic observation: the cycle is not broken but has altered the relative appeal of the U.S. and emerging countries over others that are still overly dependent on access to energy, such as the Eurozone and Japan.** However, investors exposed to equities and corporate bonds must be more vigilant and use periods of ebbing volatility to build up more portfolio convexity. If investors take a cyclops' view of the market and only focus on one horizon – the rebound – they could miss out on the peripheral signals that are already pointing to tensions going forward.

For long-term investors, this major crisis also underpins the shifting geopolitical tectonic plates. This contrast strengthens our belief that more than ever, **mid-term investors should diversify their allocation and investment themes, particularly if the latter are still popular.** It also confirms the pertinence of our recent fund launches, Global Resilience and Mission Europa. The first focuses on resilient companies in an unstable world, while the second targets companies poised to gain as Europe responds to this environment. This investment thesis is very much aligned with Mark Carney's recent address in Davos, in which he laid out the emergence of a new doctrine for Western middle-powers now that the 'American umbrella' can no longer be viewed as entirely automatic or politically neutral, also re-asserting the urgent need for strategic sovereignty.



	Our convictions	Changes compared to the previous month
ASSET CLASSES		
Equities	= / +	→
Fixed Income	= / +	→
Dollar	=	→
Cash	-	→
EQUITIES		
US	+	↑
Europe (ex-UK)	=	→
UK	=	→
Japan	=	↓
China	= / +	↑
Global Emerging	= / +	↓
SOVEREIGN BONDS		
US	= / +	↑
Euro Zone	= / +	↑
Emerging Markets	+	→
CORPORATE BONDS		
US Investment Grade	+	↑
Euro Investment Grade	+	↑
US High Yield	= / +	→
Euro High Yield	= / +	→

Range of investment committee ratings on the asset class/ geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 20/04/2026.



KEY POINTS

- Having participated in the market rebound within our asset allocation following the escalation in the Middle East, we believe its intensity and speed reflect, above all, a technical repositioning (short-covering, prior underweighting) rather than the validation of an optimistic macroeconomic scenario. This movement masks a growing disconnect between financial markets and the real economy, which is being weakened by a sustained energy shock, particularly in Europe and Asia.
- Three major risks are emerging: an energy crisis of historical proportions, increased vulnerability related to debt and private credit, and stock markets increasingly dependent upon narrow drivers (Technology and AI), at the risk of reinforcing a "K-shaped" economy where growth is no longer expands.
- Central banks must arbitrate between fighting inflation and supporting growth, with a higher risk of monetary policy error in Europe and greater flexibility in the United States. Remaining overweight in equities and credit is still consistent, but it requires heightened vigilance and greater portfolio convexity to withstand upcoming tensions.

LEGAL DISCLAIMER : Written on 20/04/2026. This document is issued by Edmond de Rothschild Asset Management (France).

This document is non-binding and its content is exclusively for information purpose. Any reproduction, disclosure or dissemination of this material in whole or in part without prior consent from the Edmond de Rothschild Group is strictly prohibited. The information provided in this document should not be considered as an offer, an inducement, or solicitation to deal, by anyone in any jurisdiction where it would be unlawful or where the person providing it is not qualified to do so. It is not intended to constitute, and should not be construed as investment, legal, or tax advice, nor as a recommendation to buy, sell or continue to hold any investment. EdRAM shall incur no liability for any investment decisions based on this document. This document has not been reviewed or approved by any regulator in any jurisdiction. The figures, comments, forward looking statements and elements provided in this document reflect the opinion of EdRAM on market trends based on economic data and information available as of today. They may no longer be relevant when investors read this document. In addition, EdRAM shall assume no liability for the quality or accuracy of information / economic data provided by third parties. Past performance and past volatility are not reliable indicators for future performance and future volatility. Performance may vary over time and be independently affected by, inter alia, changes in exchange rates. « Edmond de Rothschild Asset Management » or « EdRAM » refers to the Asset Management division of the Edmond de Rothschild Group. In addition, it is the commercial name of the asset management entities of the Edmond de Rothschild Group.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of €11,033,769 - AMF registration No. GP 04000015 - 332.652.536 R.C.S Paris

www.edmond-de-rothschild.com

