



EDMOND DE ROTHSCHILD ASSET MANAGEMENT

MARKET FLASH: THE SITUATION REMAINS VERY UNCLEAR

- **Three weeks after the US-Iran conflict began, there is no clear resolution in sight.**
- **Meanwhile, US-China tensions persisted even though talks had resumed.**
- **Central banks are caught between the energy shock and the risk that inflation expectations might de-anchor.**

Three weeks after the US-Iran conflict began, there is no clear resolution in sight. The fact that the Strait of Hormuz is still blocked for almost all shipping sent oil prices soaring to almost \$120 at one point in the week. The opposing forces had previously avoided targeting energy facilities but Israel bombed some of Iran's sites and Tehran retaliated by seriously damaging Qatar's LNG capacity, a strike that could have a lasting impact on global supplies. However, tensions eased at the end of the week after Benjamin Netanyahu promised to stop targeting energy facilities and European countries agreed to Donald Trump's request to help secure the Strait of Hormuz. (This followed a blank refusal from Australia and Japan at the beginning of the week.) Exactly how the Strait could be made secure is as yet unclear.

Meanwhile, US-China tensions persisted even though talks had resumed. For the time being, Beijing has no real incentive to heed US suggestions to put pressure on Iran. This may be because the latest macro data reflect some resilience in China's economy. Industrial production is up 6.3% and retail sales rose 2.8% over a year. Residential property investment is down 11% over a year but this is less than in 2025. In Germany, the IW and IFO institutes said the implementation of the country's infrastructure plan was not helping growth. It would appear that 90% of the money spent in 2025 went on administrative expenses rather than genuine investments. The ZEW indicator said growth expectations had collapsed from 58.3 in February to minus 0.5 in March. In the US, PPI (ex food and inflation) rose by 0.5%, or less than the 0.8% in the previous month but more than the 0.3% expected. The figure spotlights the increased risk of a revival in inflation due to soaring oil prices.

Central banks are caught between the energy shock and the risk that inflation expectations might de-anchor. The Bank of International Settlements (BRI) is advising them to tread cautiously and look beyond an oil shock that might be only temporary. The Fed is being very cautious over the possibility of fresh rate cuts. The new dot plot suggests there will only be one cut this year. The labour market has not deteriorated further. The ECB is also being careful. The bank was keen to point out the difference with the 2022 inflation shock but has adapted its core scenario for a potential return of underlying inflation and the possibility of a rate hike if necessary. The Bank of England left its rates unchanged but is also prepared to raise them. In fact, one committee member was in favour of raising them now. Australia's central bank decided to continue raising rates as inflation is already running above 3%. The Bank of Japan is also mulling an increase, based on wage data and not as a hurried response to the oil shock.

Low visibility on a positive resolution to the conflict, especially for the US, means we are sticking with our portfolio hedges and maintaining a positive view on the dollar. We remain cautious on duration as central banks might have to factor in inflationary consequences. We still prefer investment grade bonds.

EUROPEAN EQUITIES

European equity markets lost further ground as energy shock worries continued and central banks shifted to a hawkish stance. Brent crude rose to around \$100 and European gas prices jumped above €60/MWh after the US and Israel hit gas and oil facilities in the Middle East and Tehran threatened to riposte. Central banks reacted by turning more hawkish. The Fed, ECB and Bank of England left rates unchanged and are now clearly factoring in a risk of a protracted supply shock. As a result, rate cut expectations fell. But private credit fears abated, especially in Europe, after several financial institutions suggested losses were more limited and systemic risk not a concern at this stage.

With the results season about to end, more than 73% of STOXX 600 companies have now reported figures and commented on prospects. So far, 48% have beaten expectations. Downward revisions to earnings are limited with about a 0.5% cut to guidance. The situation at **Accenture** is mixed. Quarterly guidance fell short of expectations due to client caution over AI spending but the group said it was confident about order momentum in the coming quarters. Elsewhere, **HSBC** plans to cut around 10% of its workforce over the next 5 years as it rolls out AI tools. Several companies are already adjusting for the impact of the war with Iran. **BASF** said higher energy and logistics costs would mean a 30% rise for some products. **Brembo**, which depends in part on Middle East demand, is now expecting no growth at best in 2026. In construction, results at **Nemetschek** were in line and guidance for this year was considered promising. **Exail Technologies**, which makes anti-mine submarines, reported robust figures for 2025. Operational momentum was strong and profitability improved, allowing the group to reaffirm its goals for this year.

US EQUITIES

Wall Street suffered another choppy week as traders grappled with the ongoing oil shock, no signs of de-escalation in the Middle East and the Fed's more hawkish mood. The S&P 500 lost 0.4%, the Nasdaq was practically unchanged (0.07%), and the Russell 2000 gained 0.6% as small caps rebounded from recent marked underperformance.

The US-Israel war with Iran continued to worsen with attacks on energy infrastructure sites at South Pars, Gulf installations and Qatar's LNG facilities. Tehran issued precise threats about other regional sites, fueling fears that the Strait of Hormuz would be blocked in part or for some time. Crude prices remained elevated. WTI traded between \$95-100 and Brent above \$100. Several players suggested energy prices, especially LNG, could stay high until 2027 at least. Washington and its allies unveiled a series of mitigating measures but without easing market expectations. The Fed, meanwhile, left its rates unchanged at 3.50-3.75% but struck a markedly more hawkish note. Jerome Powell emphasised that higher oil prices would drive inflation and that disinflation was not going as fast as expected. The new dot plot only sees one 25bp cut this year followed by another in 2027, thus confirming the "higher for longer" scenario for interest rates. Overall macro data remained resilient: February's CPI was in line, the labour market is still strong and manufacturing PPI is rising. But producer prices for

February came in markedly higher than expected. Concerns over persistent inflationary pressure rose as goods prices accelerated. After starting the week with a brief rally, US 2 and 10-year Treasuries rose to 3.7-3.8% and 4.25-4.30%, respectively, while the dollar traded in a narrow range of 1.15-1.16 against the euro.

There were significant sector price shifts over the week. Energy led gains as crude prices remained higher and short-term visibility on cash flow for North American producers improved. Information Technology rose 0.35% on gains in AI players (semiconductors, memory chips, cloud and software) thanks to upbeat results and massive investment plans in infrastructure and data centres. Financials edged 0.20% higher. The sector is torn between higher interest rates -which mean an increase in the cost of capital and more worries over some private credit segments- and resilient balance sheets in an economy which is still growing. In contrast, consumer discretionary fell 0.89% but with dispersion between mass retail, autos and non-essential services, all segments hit by the energy shock, and premium areas like leisure, travel and restaurants which are seeing sustained demand from wealthier households. Consumer staples led losses on fears of a lasting impact on household spending and pressure on margins from rising energy, transport, commodity and labour costs. Healthcare was down 2.18% as fears of higher for longer rates weighed on long duration segments like biotech, tools and CROs. In any case, investors were already overweight following the strong rally since October and a lack of clear leadership apart from some defensives also weighed on sentiment. Materials also tumbled on the less favourable cocktail of industrial demand, energy costs and geopolitical uncertainties. Utilities and listed property also fell as real interest rates rose and the cost of capital increased. Industrials were volatile as the sector is sensitive to the cycle and higher oil prices. Communication services were almost flat thanks to some major digital platforms holding up well.

EMERGING MARKETS

The MSCI EM was up by 0.54% in USD as of Thursday. Korea, Brazil and Taiwan rose 6.88%, 2.17% and 0.55%. China, India, and Mexico were down by 1.43%, 1.27% and 0.35%.

In **China**, the economy rebounded in early 2026 with an uptick in domestic consumption and investment. January-February retail sales rose 2.8% YoY and industrial output increased 6.3%, both ahead of forecasts. Fixed investment climbed 1.8% YoY vs. an estimated 5.1% drop, therefore significantly exceeding expectations. US and Chinese economic officials kicked off trade talks in Paris, focusing on tariffs, rare earths, and high-tech export controls. However, Donald Trump said his summit with Chinese President Xi Jinping was postponed to mid-May due to the Iran conflict. **Tencent's** fourth-quarter revenue rose 13% YoY, meeting estimates and the group announced plans to double AI investments to over RMB 36b in 2026. **Alibaba** reported a weak quarter revenue up 1.7% YoY, below estimates, with net profit down 67% due to heavy investment in food deliveries. The company also hiked AI service prices by up to 34% after demand soared and set a target of \$100bn in cloud and AI revenue within five years. **Xiaomi** announced a new AI model and SU7 EV facelift.

In **South Korea**, import prices rose 1.1% MoM in February. The government lifted the cap on coal-powered generation capacity to 80% and boosted nuclear power usage amid energy supply concerns from the Iran conflict. **Samsung Electronics** announced plans to invest more than \$70bn in capex and R&D in 2026.

In **Taiwan**, February export orders rose 23.8% YoY, or slightly below high expectations. **Hon Hai's** fourth-quarter net income missed estimates but the group expects strong AI server business growth in 2026.

In **India**, the trade deficit narrowed to \$27.1bn in February from \$34.68bn in January. Wholesale inflation accelerated to 2.13% YoY in February from 1.81% in January. Prime Minister Modi spoke with the leaders of Oman, Qatar, Jordan, Malaysia, and France, calling for de-escalation in the Middle East conflict and condemning strikes on energy installations. **HDFC's** chairman quit unexpectedly, increasing uncertainties on the bank's results. Next catalyst will be the RBI's new CEO indication in October.

In **Mexico**, the first USMCA review meeting took place in Washington DC, with officials discussing expectations for the trade agreement and addressing US concerns over non-tariff barriers. The president announced fuel subsidies through IEPS tax reductions as the Middle East conflict pushed diesel prices up 7%. She also presented a modified electoral reform proposal ("Plan B") after lawmakers rejected the original plan. The head of the Bank of Mexico launched a public consultation to accelerate digital payments in Mexico.

In **Brazil**, the central bank cut the benchmark Selic rate by 25bp, the first reduction since May 2024.

In **Chile, Freeport** submitted a \$7.5bn project to increase copper production.

CORPORATE DEBT

Short term rates eased at the beginning of the week and risk assets recovered but markets fell back on Wednesday after Israel launched attacks on Iran's gas installations and Iran riposted by targeting Qatar's facilities. Tensions eased again on Friday morning after signs that civilian energy facilities were no longer under attack.

As expected when the conflict began, the overall impact on the economy is difficult to gauge before we know how long the conflict might last and with how much damage on energy infrastructure. The Fed, Bank of England and ECB generally adopted a more hawkish stance faced with this uncertainty, revising inflation forecasts higher and growth lower. They are all keen to avoid repeating the mistake of reacting too late should the energy shock have a broader impact on inflation.

Over the week, the Xover rose from 306 on March 16 to 311 on March 19 (before the roll) before falling back to 298 at the March 20 opening. Short term rates moved higher with Germany's 2-year Bund up from 2.44% to 2.59%. The Euro IG index was down 0.7% by March 19 and High Yield and hedged Euro CoCo indices 0.33% and 0.34% lower. The hedged Euro Hybrid index outperformed by only slipping 0.10%.

At the beginning of the week, **Danske** and **HSBC** issued subordinated financial debt, **SES** sold a hybrid bond and there were deals in the Xover segment from **HLD** and **Kion**. Order books were reasonably healthy. There is still an appetite for deals as soon as volatility stabilises.

GLOSSARY

- Investment Grade: bonds rated as high quality by rating agencies.
- High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.
- Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.
- Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.
- Tier 2 / Tier 3: subordinated debt segment.
- Duration: the average life of a bond discounted for all interest and capital flows.
- The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.
- The so-called "Value" stocks are considered to be undervalued.
- EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.
- CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.
- The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.
- AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.
- RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.

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