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Financial markets rebound sharply despite fragile ceasefire

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A massive market rally despite uncertainties surrounding the conflict

As fragile as it may be, as illustrated by the failure of the Islamabad talks, the ceasefire agreed between Iran and the US has sent financial assets soaring. Equities and gold have rebounded sharply, interest rates and credit spreads have eased slightly, the dollar has fallen, and oil prices have plunged by more than 15%, their sharpest drop since April 2020, at the start of the Covid pandemic.

The rise in equity markets observed on 8 April was historic, particularly in Europe. A daily performance of over 5% for the Euro Stoxx 50 has occurred only 30 times in the last 25 years, mainly during periods of recession. This highlights the significant role that short covering¹ played in European equities during this episode. While almost all sectors of the Stoxx 600 (excluding energy) had corrected since 28 February, the start of the conflict, it is not surprising to see the opposite occur, with all sectors rising on this day of the rebound, with the exception of the oil sector.

The situation is different for the S&P 500 which, with a gain of 2.5% on the same day, ranks only 131st in terms of performance since the 2000s. The relative weakness of the rebound can be explained by the US market's lower sensitivity to the situation in Iran, due to its reduced dependence on trade flows passing through the Strait of Hormuz. Furthermore, technology accounts for over a third of the S&P 500, and this sector is less sensitive to movements in oil prices.

In just ten days, the market recovered the entire decline seen since the start of the conflict, with the S&P 500 rising back above the 200-day moving average and shifting from an oversold to an overbought condition. It notably managed to post seven consecutive days of gains, the longest stretch of positive closes in more than five months, before extending this rebound on the back of renewed optimism over a swift Iran-US agreement and moving closer to its record highs. All this despite the Strait of Hormuz not having fully reopened as hoped and global oil supply having been cut by 10 million barrels a day. Strategic reserves are dwindling worldwide, and the Iranian and US positions still appear difficult to reconcile at this stage.

¹ Short covering is the repurchase of shares or other assets that were previously sold short in order to close an open short position.



Although US air strikes do not appear to have resumed at the time of writing, Donald Trump's attempts to blockade Iranian ports, coupled with Iranian threats to the security of ports in the region, are adding a level of uncertainty that the markets could well have done without, while hundreds of ships remain stranded on both sides of the Strait. Iran is unlikely to relinquish control of the Strait, as it constitutes its main bargaining chip, while Trump appears intent on weakening the regime by effectively wiping out its oil exports. This ceasefire therefore appears very fragile and will be put to the test in the coming days by the multiple threats of retaliation from both sides, as well as by developments in the conflict in Lebanon. The number of ships transiting the Strait of Hormuz will therefore, unsurprisingly, be one of the key factors to watch in the short term.

Optimism prevails ahead of the release of first-quarter 2026 corporate earnings

Beyond this situation, and following a strong final quarter of 2025, attention will also turn to the publication of corporate results for the first quarter of 2026, which has just begun with the US banking sector. As the conflict in Iran and the rise in oil prices occurred towards the end of the quarter, the market expects a limited impact on earnings momentum. However, companies' forecasts and comments will of course be decisive, given the limited visibility regarding the outcome of the conflict at this stage.

At this point in time, the consensus forecasts 14.1% earnings per share (EPS) growth for the S&P 500 in the first quarter, which could exceed 17% if the average historical earnings surprise of around 3% is taken into account; this would represent the strongest year-on-year EPS growth in the US for four years. The technology sector as a whole is expected to outperform the market once again, with EPS growth of 30.4%. The S&P 500 excluding technology, meanwhile, is expected to post EPS growth of around 5.1%, higher than the 3.2% growth recorded in the previous quarter.

In Europe, the consensus forecast is for 3% growth in the first quarter, following 4% in the fourth quarter of 2025, driven by the energy and financial sectors. Excluding these two sectors, EPS is expected to fall by 3%, in line with the decline seen in the previous quarter. Since the start of the conflict, EPS expectations for the Euro Stoxx 600 index for the first and second quarters have been revised upwards by 2% and 7% respectively, largely driven by the energy sector against a backdrop of oil prices hovering around \$100 a barrel in recent weeks. EPS for cyclical sectors is expected to return to positive territory for the first time in a year, in line with positive macroeconomic surprises in Europe during the first quarter.



For 2026, the consensus still forecasts growth of +16% in the US and +11% in Europe. It should be noted that the market is anticipating a significant rebound in profits for the European automotive sector, which seems increasingly unlikely. Excluding the automotive sector, Stoxx 600 EPS is expected to grow by 6% to 7% in 2026. The risk of disappointment is therefore significant, given the high expectations on both sides of the Atlantic.

Valuations have returned to their historical average amid a slight slowdown in economic growth

In recent weeks, valuations have become attractive once again, particularly in the US. Indeed, whilst the scale of the market decline in March was half that of April 2025 (when tariffs were announced), the price-to-earnings ratio of shares fell by as much as it did during that period, namely nearly 19% in the US. This was mainly due to EPS continuing to rise and the numerous bargain-hunting purchases by investors betting on a resolution to the conflict in the medium term. Despite the strong rebound, the US technology sector is trading at valuations similar to those prior to the launch of ChatGPT, even as the executives of these companies continue to buy back significant quantities of their own shares.

The global economy nevertheless appears to be starting to slow down, although the inflationary pressure shows no sign of abating. Consumer prices in March 2026 showed an annualised rise of 3.3%, whilst gasoline prices rose by more than 20% in the US and account for more than three-quarters of the rise in inflation. This is reflected in opinion polls, with US consumer confidence at its lowest level in recent history, and household income and expenditure below expectations in February. Core inflation (excluding energy and raw materials), which stood at 3% in February in the US, has so far been relatively unscathed by this shock, rising by 0.2% month-on-month and 2.6% year-on-year, slightly lower than expected. It has now been five years since this measure, closely monitored by the US Federal Reserve, has fallen back to 2%, the institution's official target.

This episode once again underscores the importance of staying invested during periods of high volatility

In these times of high volatility and uncertainty, it is nevertheless important to remember that no portfolio, however robust, can completely shield an investor from sharp, widespread market falls. On the other hand, failing to take full advantage of market rallies is a real drag on long-term performance, as was clearly illustrated on 8 April.



For example, an investor who remained continuously invested in the S&P 500 for 30 years achieved a performance (excluding dividends) more than twice that which they would have achieved had they missed only the 10 best days of that same period. In most cases, these “best days” of performance actually occur immediately after the worst. Thus, giving in to panic proves more costly than positioning oneself to fully capture the rebounds while weathering the volatility.

Every year, there are plenty of good reasons to want to reduce exposure to equity markets; however, genuine crashes are very difficult to predict. It is easier to maintain a long-term perspective and reposition quickly to make the most of rebounds, provided we keep our cognitive biases in check and resist the temptation to offload part of our equity exposure at every new market crisis.

At this stage, we therefore maintain our preference for equities in our portfolios. We continue to believe that they will make a greater positive contribution to portfolio performance over the coming months than bonds, particularly due to their sensitivity to rising inflation.



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