INVESTMENT OUTLOOK
APRIL 2026

RECOVERY OVERTAKEN BY EVENTS

If the three months of the first quarter felt like an entire year, that impression is justified. Even before the outbreak of war in Iran at the end of February, 2026 had already seen an exceptional concentration of political and geopolitical tensions.

Friction surrounding Greenland at the start of the year briefly raised questions about NATO's cohesion. The issue was soon contained by clear rejections from the Greenlandic and Danish authorities, military signalling by European allies and Canada, and growing domestic unease in the US as well as NATO-led mediation efforts. Nonetheless, at the World Economic Forum in January, Canadian Prime Minister Mark Carney and Finnish President Alexander Stubb issued their sobering assessment that a stable, rules-based international order could no longer be assumed.

Markets initially appeared unfazed and continued their trends from late 2025. Global equities advanced, gold tested new highs and the US dollar softened. But beneath the surface, equity positioning began to shift. Reflecting the new geopolitical reality, investors quietly rotated away from US equities toward Asian, European, and emerging markets, reducing their exposure to US dollar assets.

At the same time, markets benefitted from a number of supportive factors. Early signs of a recovery in global manufacturing and goods trade were reflected in improving business sentiment across Europe, Asia and the emerging markets in January and February. Expectations for US policy easing, the release of pent-up demand after the US government shutdown and the continued momentum of the AI-related US investment boom all provided cyclical support, as did prospects for fiscal expansion on both sides of the Atlantic and tentative optimism about Europe.

The late January nomination of Kevin Warsh, widely seen as a monetary policy hawk, to chair the US Federal Reserve briefly strengthened the dollar and triggered a correction in precious metals while easing concerns about political pressure on the Fed. But in hindsight, this episode—along with the Supreme Court ruling on tariffs imposed under the IEEPA—proved largely incidental, quickly overtaken by subsequent events and policy responses.

On February 28, these earlier developments were eclipsed by the outbreak of war in Iran and the near closure of the Strait of Hormuz. The resulting global energy price shock—stagflationary in nature and historic in scale—has driven a sharp rise in oil and gas prices and threatens to derail the fragile recoveries that had begun to take shape in Europe and parts of Asia. Higher energy costs spread quickly to logistics, transportation, fertilisers, and food prices, compressing corporate margins and eroding real household incomes worldwide. Asian economies are particularly exposed, given their dependence on Gulf energy imports and their energy-intensive manufacturing bases.

The renewed inflationary impulse has forced a repricing of monetary policy expectations and a tightening of financial conditions, once again pushing policy normalisation and a broader manufacturing recovery further into the future. Consumer and producer sentiment already began to soften in March. The ultimate impact on inflation and growth will depend on the duration of the crisis and any lasting destruction of energy infrastructure, with second-round effects representing a key risk given the still fresh experience of high inflation.

Equity markets have so far responded with restraint, declining by around 7 percent from their February peak . We would use any further weakness to rebalance portfolios toward their strategic allocations. We have also selectively added high-quality fixed income exposure amid wider yield spreads. Our overall positioning remains defensive and broadly diversified. We refrain from active tactical positions save for our gold position, where we took profits in February following gold's sharp ascent. In an environment defined by volatility and uncertainty, we remain convinced that investment process discipline outweighs headline-driven positioning.

1.1 NORTH AMERICA

- The US economy slowed sharply in the fourth quarter of 2025 as the government shutdown weighed on activity. Real GDP increased at a rate of only 0.2 percent over the quarter, down from the strong pace in the third quarter and consistent with estimates that the shutdown subtracted roughly one percentage point from growth. Federal spending fell sharply and exports softened, confirming that the slowdown was largely policy induced rather than a sign of weakening consumer demand.

- During the first quarter of 2026, demand rebounded as delayed activity resumed. Consumer spending strengthened early in the quarter, supported by rising disposable incomes and the release of pent-up demand after the shutdown. Fiscal policy is expected to add further support throughout 2026 as tax measures and recently legislated incentives take fuller effect.

- Business investment remains a major source of momentum, driven by a historic surge in AI-related capital spending. The five major hyperscalers alone have announced commitments that amount to hundreds of billions of dollars for 2026, representing a likely share of GDP of nearly 2 percent and reinforcing investment as a key pillar of growth.

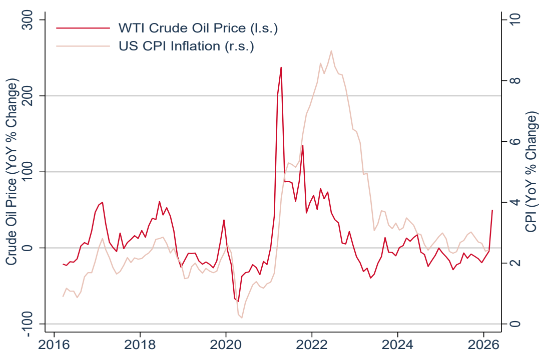
- Business surveys sent mixed signals at the start of 2026. The *S&P Global Composite PMI Index* pointed to slower growth in domestic activity in February, while the *ISM Manufacturing Index* jumped in January on higher orders and production, in line with the global manufacturing recovery underway prior to the war in Iran.

- Labour market conditions also diverged. Strong job gains in January were followed by declines in February, with unemployment edging up and labour market participation slipping slightly. Wage growth, however, remained firm, reflecting a cooling but still relatively tight labour market.

- The stagflationary commodity price shock from the conflict in Iran hits the US at a moment of relative resilience. As a net exporter of energy commodities, the country is partly cushioned, but the jump in energy costs is set to reignite inflation pressures at least in the near term, after consumer inflation had eased to around 2.4 percent in February.

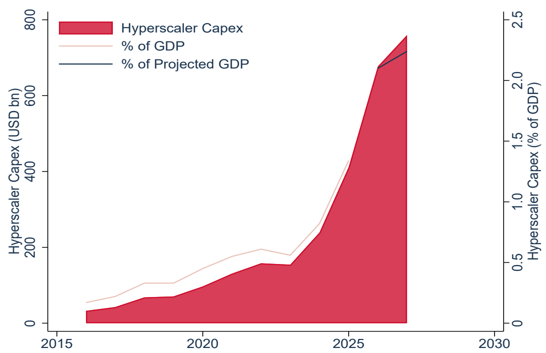
- Given inflation's persistent overshoot in recent years and despite past criticism that it reacts too slowly, the Fed is likely to proceed cautiously. The FOMC signalled patience regarding rate cuts in March and appears inclined to remain on hold until the effects of the commodity price shock become clearer.

Inflation redux



Source: LSEG, MFO

AI capex remains a key growth driver



Source: Bloomberg, MFO

1.2 EUROPE

- Eurozone growth remained subdued in Q4 2025, with GDP expanding by 0.2 percent quarter-on-quarter and 1.2 percent year-on-year, reflecting modest gains in consumption and government spending, while investment and exports softened under lingering tariff effects, persistent geopolitical uncertainty and structural weakness in Germany's automotive sector.

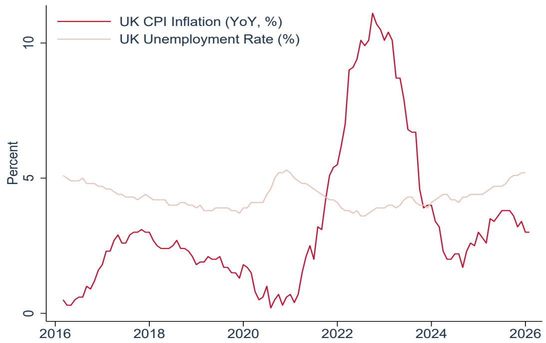
- Entering 2026, early signs of stabilisation emerged: business sentiment improved, consumer confidence initially steadied (before dropping again in March on negative, Iran-related news), unemployment fell to a record low of 6.1 percent, and inflation eased. The *HCOB Eurozone Composite PMI* rose in February, supported by firmer manufacturing and services activity, before softening again in March. Germany led the early-year rebound thanks to dissipating trade-related uncertainty, still-accommodative monetary conditions and prospects of growing fiscal support.

- However, that benign outlook has since been overshadowed by the war in Iran, which has disrupted global trade flows and triggered a stagflationary energy-price shock. In March, TTF gas futures in Europe soared by almost 70 percent, reviving memories of the 2022 gas crisis, when gas prices more than tripled in the wake of Russia's invasion of Ukraine. Higher energy costs are squeezing household budgets and corporate margins and pose upside risks to inflation while weighing on growth and sentiment—confronting the ECB with a challenging balancing act.

- The UK economy remains in an even weaker position. Q4 growth was limited to 0.1 percent quarter-on-quarter and 1 percent year-on-year, while unemployment rose to 5.2 percent in January, its highest level since early 2021. Inflation eased to 3.0 percent in January but remains well above the Bank of England's 2-percent target—and the latest oil- and gas-price surge risks pushing that target further out of reach again.

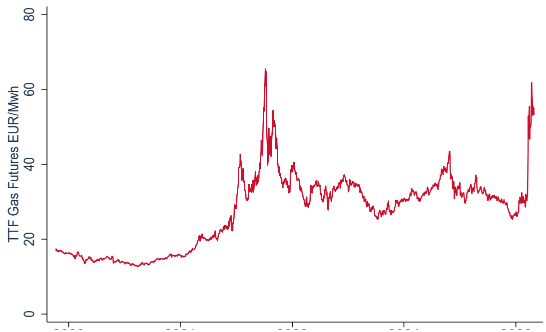
- Switzerland returned to growth in Q4 after US tariffs had dented exports in Q3. At the start of 2026, improving global conditions and accommodative monetary policy supported business sentiment. But the war in Iran and a swiftly appreciating Swiss franc have intensified pressures on exporters. In response, in March the SNB signalled its readiness to intervene in FX markets while keeping its policy rate at zero.

UK: Stagflation even before the war



Source: Bloomberg, MFO

Another gas crisis in Europe?



Source: Bloomberg, MFO

1.3 ASIA AND EMERGING ECONOMIES

- At the beginning of 2026, activity in Asia and Emerging Markets strengthened visibly and broadly. The *J.P. Morgan Global Composite PMI* continued to rise, supported by firming services—notably in China—and a broad-based rebound in global manufacturing. Manufacturing output reached a multi-year high and export orders increased, marking the first expansion in global trade flows since March 2025 and pointing to a synchronized upturn in global goods demand.

- However, February PMIs pre-dated the outbreak of war in Iran, which blocked most ships from going through the Strait of Hormuz, where normally about one fifth of global oil and LNG flows pass. This disruption triggered a major energy supply shock, driving sharp price increases in oil, LNG and refined oil products and causing major interruptions in global trade and logistics. Fertilizer, food and transport costs rose quickly, with the impact felt most acutely in Asia.

- Asia is strongly affected because around 80 percent of crude oil and oil products and over 80 percent of LNG shipped through Hormuz are destined for Asian buyers. Japan relies on the Strait for about 90 percent of its oil imports, while South Korea is also highly dependent. Pakistan, Bangladesh and India face acute strain, as Qatar and the UAE supply the bulk of their LNG. As a result, several Asian economies are drawing on strategic reserves and implementing targeted demand management, while elevated energy prices weigh on margins and real incomes.

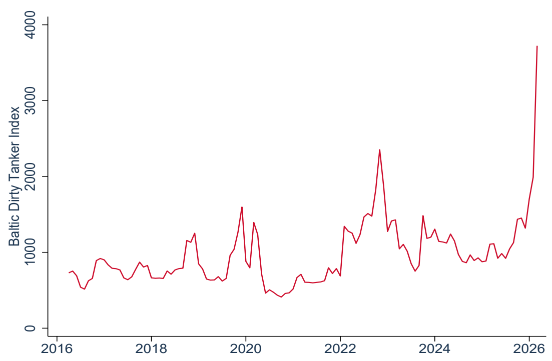
- Beyond higher fuel costs and soaring shipping insurance premia, congestion and rerouting have increased global freight and logistics costs. Higher LNG prices and Hormuz-related supply disruptions are driving up fertilizer costs, amplifying pressures on global grain markets, while shortages of LNG for power generation pose risks to energy-intensive industries across Asia, including petrochemicals, semiconductors, metals and advanced electronics.

- For energy importers, the price shock is also transmitted to their economies through weaker exchange rates and fiscal and current account positions. Energy importing EMs with weaker currencies and limited fiscal space face stronger inflation pass-throughs and tighter financing conditions. In the near term, this implies weaker growth, higher inflation, and, in some cases, elevated currency volatility, with depreciations amplifying the impact of energy price rises and constraining governments' ability to issue debt and cushion the terms-of-trade shock with public means. In contrast, energy exporters like Brazil benefit from rising prices.

Recovery setback

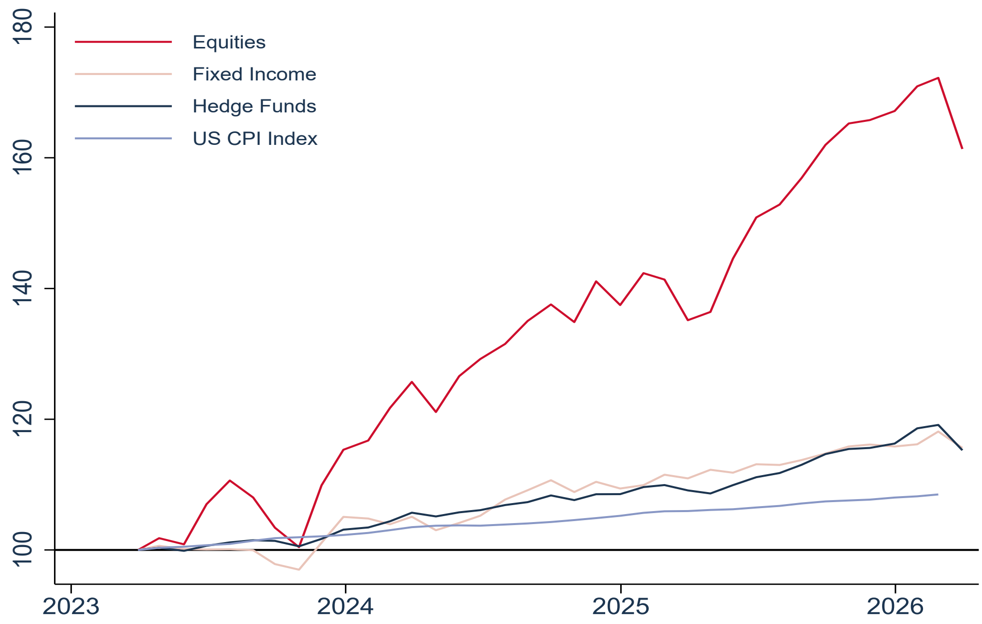
Source: Bloomberg, MFO

Tanker rates are up



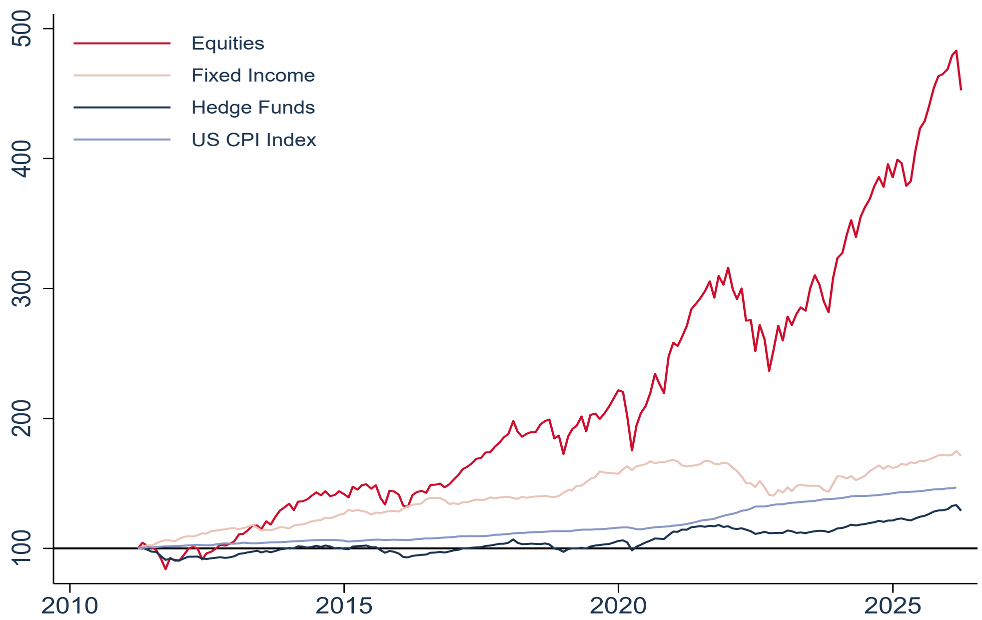
Source: Bloomberg, MFO

Medium-term market developments



Source: LSEG, MFO

Long-term market developments



Source: LSEG, MFO

- The first quarter of 2026 was defined by an escalating Middle East conflict, pushing energy prices higher and unsettling markets. Before tensions rose in March, January and February were broadly constructive: equities opened the year with a risk-on tone, supported by solid earnings, improving sentiment and rotation toward cyclicals, value and small caps, while Asia and Europe posted steady gains.

- Market concentration eased slightly in early 2026 as more sectors participated in the advance, but large-cap tech still exerted an outsized influence on index performance. The market wasn't as narrowly driven as in 2025, yet leadership remained tilted toward a small group of dominant AI-related names, keeping concentration an ongoing consideration rather than a resolved issue.

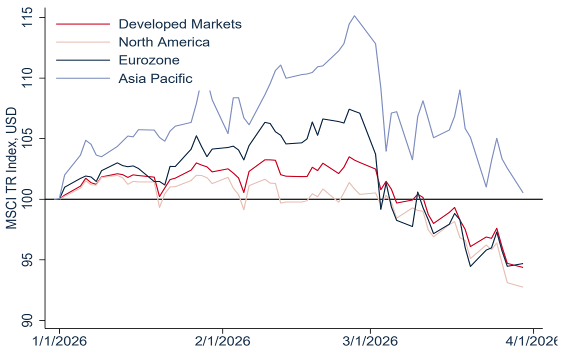
- During the first quarter of 2026, global equity performance was mixed. Japan outperformed, with the *Nikkei* rising 2.1 percent in JPY, while *MSCI Asia ex Japan* lost 1.1 percent in USD. Major US indices declined, with the *Nasdaq 100* down 6.6 percent and the *S&P 500* down 5.1 percent both in USD. Europe also softened, with the *MSCI Europe Index* falling 0.9 percent in EUR, and Switzerland's *SPI* losing 2.1 percent in CHF.

- As of March 27, 2026, the *S&P 500* traded at a forward P/E of 19.9x, equal to its 5-year average and slightly above its 10-year average but below the 22.0x level at the end of 2025. The combination of softer prices and rising earnings estimates has eased valuations modestly, yet equities can't be described as cheap at these levels.

- Valuations in non-US markets remain more attractive, offering a relative cushion should global volatility persist. We also see room for ongoing derisking away from USD assets and the highly concentrated US equity market. With fundamentals in parts of Asia still supported by earnings strength and less stretched multiples, we see scope for selective outperformance. Against this backdrop, we added exposure in Europe and Asia to capture these opportunities more effectively.

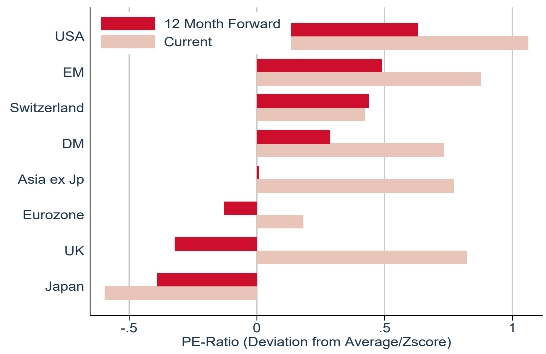
- We maintain a neutral global-equity stance, expecting moderate mid-single-digit returns amid stretched valuations and macro risks, with a relative preference for non-US markets, where valuations are more attractive and momentum stronger.

Global equity performance is diverging



Source: LSEG, MFO

Valuations favor non-US markets



Source: LSEG, MFO

2.2 FIXED INCOME

- Global bond markets saw a volatile first quarter, driven by shifting geopolitics, changing central bank expectations and sharp moves in energy markets. After a calm start, volatility rose notably as investors reassessed inflation risks and interest-rate trajectories, resulting in only a modest 0.2 percent decline in the global investment grade bond market, as measured by the *Bloomberg Global Aggregate Index* (USD-hedged).

- Political developments dominated sentiment early in the quarter. US tariff announcements linked to tensions over Greenland temporarily boosted demand for short- and mid-term euro bonds. This was later reversed when risk aversion fell after the World Economic Forum, while the nomination of Kevin Warsh as the next Fed Chair led markets to price a more hawkish monetary policy path.

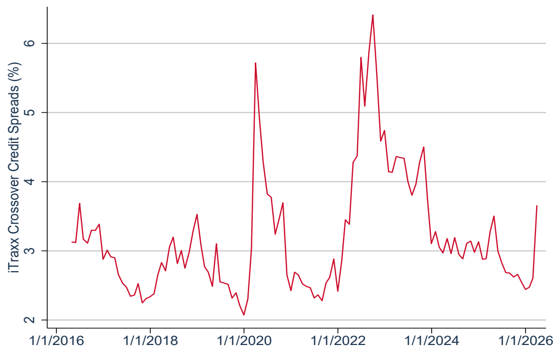
- In February, geopolitical tensions and central bank messaging again shaped markets. The ECB held rates steady, with President Lagarde highlighting a more balanced risk outlook. In the US, the Supreme Court's ruling against elements of prior tariffs and the subsequent round of new tariffs again weighed on sentiment, before rising US-Iran tensions and softer economic data pushed global yields lower.

- In March, the war in Iran drove oil prices above USD 100 per barrel, leading to the largest bond sell-off since 2024. Yields spiked again, and yield curves steepened markedly, especially at the belly of the curve, as markets priced rising, energy-commodity-driven inflation and no longer priced in any near-term Fed rate cuts. The Bank of England and ECB signalled that further tightening remained possible if energy-driven inflation persisted.

- Credit spreads widened modestly over the quarter in response to geopolitical uncertainty. Investment grade credit spreads increased from their decade lows of 0.5 percent to 0.7 percent, while high yield moved from 2.4 percent to 3.5 percent, consistent with broader risk aversion and the underperformance of lower-quality issuers, as measured by *iTraxx Main* and *Crossover*, respectively. Despite this, credit markets remained broadly resilient given the scale of geopolitical volatility.

- Overall, Q1 was defined by large yield swings driven by energy markets and inflation repricing. While market volatility eased late in the quarter, ongoing geopolitical uncertainty and fluctuating inflation argue for a neutral fixed-income stance with balanced duration and disciplined credit selection.

Only limited credit market damage...



Source: Bloomberg, MFO

...and attractive yields amid high volatility

Source: Bloomberg, MFO

HEDGE FUNDS, PRIVATE MARKETS AND COMMODITIES

- Equity long/short, relative value and global macro managers delivered solid performance in January and February. However, momentum reversed sharply in March as geopolitical tensions escalated, triggering abrupt market reactions. Fixed income markets began repricing aggressively as rising oil prices fuelled inflation concerns, leading investors to anticipate further central bank rate hikes. This shift caused losses for global macro managers, offsetting earlier gains. Nonetheless, the industry managed to protect capital despite what proved to be a challenging quarter for most asset classes.

- Gold saw wild moves in the first quarter of 2026, starting strongly and nearing USD 5,600 per ounce. It sold off vigorously in late January after Kevin Warsh was nominated to lead the Fed, then resumed its rise. Prices initially jumped as the conflict between Iran and the US/Israel started but quickly reversed as investors faced losses elsewhere. Gold then suffered its steepest weekly drop in 40 years amid a stronger USD, higher rates and likely liquidations.

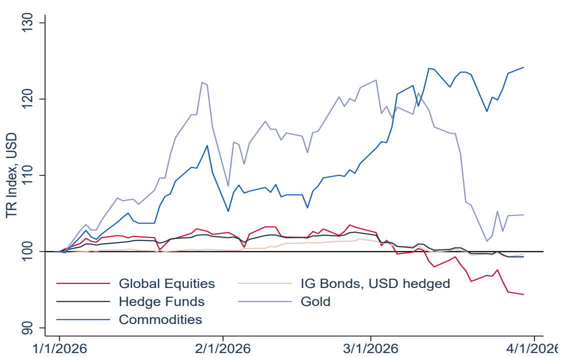
- Private equity recorded strong gains in deal and exit value in 2025, driven by large US transactions that dominated overall activity. While total deal value increased by approximately 44 percent year-over-year, deal count declined by 6 percent, highlighting a continued concentration of capital in fewer, larger transactions. Below the megadeal segment, the recovery remained uneven, although deal value showed consistent growth across the broader market. Fundraising, however, continued to lag amid persistent liquidity constraints, with buyout capital raised declining by 16 percent (*Bain & Company*).

CURRENCIES

- The dollar briefly resumed its earlier decline in January but shifted into a strong appreciation from late January onward, reinforced by the war in Iran and rising inflation and interest-rate expectations. The Swiss franc also strengthened as a safe-haven asset, pressuring exporters until the Swiss National Bank signalled its readiness to intervene, helping curb the franc's rise.

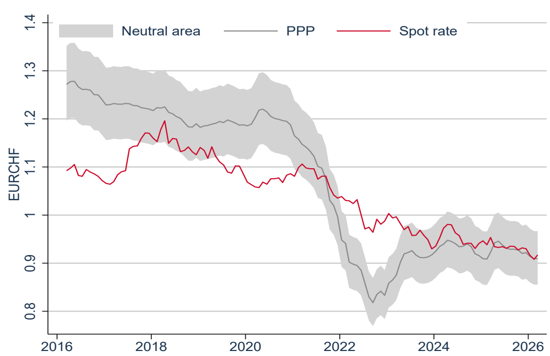
- In contrast, several emerging and energy-importing currencies—including the Indian rupee, Indonesian rupiah, South Korean won, Thai baht, Hungarian forint and Polish zloty—fell sharply, intensifying the burden of higher energy import costs.

Gold quickly unwinds recent gains



Source: LSEG, MFO

Stronger franc challenges the SNB



Source: LSEG, MFO

3. INVESTMENT VIEWS

- Equities: We maintain a neutral allocation, reflecting the still-intact medium-term momentum amid elevated uncertainty. In February, we used improving relative trends in non-US markets to shift part of the equity exposure toward Europe and Asia, thereby reducing exposure to the richly valued US market. Given the uncertainty surrounding the duration and macroeconomic impact of the commodity-price shock, we view premature tactical activism as costly. Instead, a further deepening of the current market correction would be used to rebalance portfolios and build exposure at more attractive valuations.

- Fixed Income: Our stance remains neutral. The energy-price shock and the associated repricing of inflation risks have lifted yields and widened credit spreads, improving the asset class's attractiveness. We have selectively increased exposure to high-quality corporate issuers. By contrast, the deteriorating fiscal outlook of major sovereign issuers, including the US, remains a structural concern, compounded by higher debt-servicing costs and the postponement of rate cuts.

- Gold: The repricing of the monetary policy outlook, rising real yields and liquidity-driven selling have weighed on gold, erasing its earlier gains this year. The metal's recent vulnerability reflects its prior explosive price dynamics and an exceptionally sharp rise in real prices, even as its longer-term structural support factors remain in place. We used the continuation of the rally early in the year to take profits in mid-February, leaving portfolios less exposed when the subsequent correction unfolded.

- Hedge Funds: We maintain a neutral allocation within our diversified hedge fund portfolio that encompasses equity long/short, uncorrelated, convex and alternative fixed-income strategies. While macro strategies came under pressure in March following the abrupt repricing of interest-rate expectations triggered by the commodity-price shock, we remain confident in the asset class's portfolio-stabilising properties over the cycle.

Overview

	Equities				Fixed income		Alternatives			Liquidity
	North-America	Europe	Asia-Pacific	Emerging Markets	Duration	Credit	Hedge Funds	Commodities	Precious Metals	
Macro	→	→	→	→	→	→	→	↗	→	→
Market	↗	↗	↗	↗	→	→	→	↗	↗	→
Valuation	↘	↗	↗	→	↗	↘			↓	→
Sentiment	↗	→	→	→	→	↘	→	→	→	→
Aggregate	→	↗	↗	→	→	↘	→	↗	↗	→

Source: MFO

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