



Investment strategy

March 2026



"THERE IS A BEAUTY THAT REMAINS WITH US AFTER WE'VE STOPPED LOOKING."

CORY RICHARDS,
PHOTOGRAPHER AND EXPLORER, WEARS THE
VACHERON CONSTANTIN OVERSEAS.


VACHERON CONSTANTIN | ONE OF
GENÈVE | NOT MANY.

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INTRODUCTION

Letter to Investors - Investment Climate

- The war in the Middle East threatens all forecasts for 2026
- The oil shock is a “game-changer” for inflation outlooks
- Central banks caught off guard, forced to revise their monetary policies
- Global economic growth is severely impacted, with serious risks of stagflation
- A strong return of volatility and uncertainty for most financial assets
- Potential pivot for the dollar, with a possible appreciation phase in 2026

The quarter was heavily marked by the outbreak of conflict in the Middle East on February 28 and the dramatic developments that unfolded throughout March. The conflict's extremely rapid spread beyond Iran's borders and Israeli territory to all Gulf countries literally set the powder keg ablaze, regionalizing the conflict against all expectations. Iran's closure of the Strait of Hormuz on February 28 significantly escalated the threat to the global economy posed by this war by disrupting crude oil and gas shipments accounting for approximately 20% of global demand. The immediate drop in traffic to zero is poised to create the largest global oil shock since the 1970s. The occurrence of this major event has already had immediate effects on energy prices, fuel costs, inflation outlooks, and interest rates. The war, which has now been raging for over a month, is threatening to upend all the forecasts made by strategists and economists for the coming quarters. Consensus economic forecasts at the start of the year had anticipated positive global growth, albeit at a slightly slower pace, and a generally favorable inflation environment that would allow central banks to continue or resume accommodative monetary policies. Against this backdrop, the outlook for both bond and equity markets remained optimistic for the entirety of 2026. The almost instantaneous and massive surge in energy prices already represents the most severe oil shock that modern, highly integrated economies, despite the previous COVID crisis, have had to face. For many of these economies, dependence on Gulf supplies is extreme, and while some countries can rely on sufficient strategic reserves to offset the drop in exports from Gulf nations, the lack of such reserves for others poses an existential threat to their economies. More broadly, the disappearance of 20% of crude oil from the global supply cannot be replaced by any solution on a global scale. Crude oil prices reflect the battle that immediately began to secure the oil supplies essential to the functioning of economies. We believe that even if the Strait of Hormuz reopens soon, the disruptions to global supply chains are such that they will have lasting effects on average crude oil prices. The impact on price indices will be very rapid in the current context, affecting import, production, and consumer prices alike. Central banks will once again struggle to adjust their monetary policies in the face of rising inflation, even as the direct risks to economic growth are extremely high. The looming inflation shock will quickly affect consumers, who will be forced to make trade-offs in their spending. While we had expected a resumption of the downward trend in the Fed's policy rates, for example, this new context already suggests several rate hikes in 2026. Central banks will likely want to claim, as they have in the past, that inflationary risks are temporary, but we fear, on the contrary, that a normal cycle will take hold, exerting gradual effects on price indices.

In this new environment, the economic risks are very serious for Asian economies dependent on Middle Eastern crude oil, but they are equally serious for Europe and non-energy-producing emerging economies. The United States could theoretically consider itself relatively immune given its oil self-sufficiency, but the transparency and globalization of commodity markets will also affect prices within its borders. Our growth outlook is understandably reduced in this context.

These exceptional circumstances have already had a significant impact on most financial assets in just a few days. The severity of the attacks on production facilities, in particular, and the global consequences of the blockade of the Strait of Hormuz have triggered a sharp resurgence of volatility in financial markets. All asset classes experienced price corrections during the month, with the exception of commodities, which, as in 2022, acted as one of the very few uncorrelated assets, posting a positive return (+24.5%). Changing expectations regarding inflation and monetary policy quickly affected bond yields, weighing on indices, which fell by -1.15% in Switzerland and -3.07% internationally. It was difficult for equity markets to shake off these risks and the potential impacts on corporate earnings in 2026. The decline in indices in Switzerland (-7.3%) and internationally (-6.3%) was similar. Swiss securitized real estate (-5.2%) and global securitized real estate (-9.4%) were doubly impacted by rising interest rates and vacancy risks amid an economic slowdown. Private equity continued its downward spiral (-5.5%) and posted the worst three-month performance (-20.1%) among financial assets.

For now, this volatility is heavily influenced by the flow of geopolitical news, which, depending on political developments, can swing between positive and negative and affect investor sentiment. We believe that the effects of this war on inflation and monetary policy will gradually become apparent and have a more lasting impact on the markets. Caution remains warranted at the start of the second quarter regarding risky assets, which may react negatively again once economic data confirms current fears of a slowdown and price pressures. As for currencies, the dollar appears poised to benefit from rising commodity prices and investors' willingness to view the greenback as a safe-haven asset offering attractive returns in an uncertain environment.



Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Inflationary consequences of the war in the Middle East
- Reversal of outlook for interest rates and monetary policy
- Global growth reduced by 25% to 30% in 2026, short-term consumption shock
- Continued volatility in financial markets

Inflationary consequences of the war in the Middle East

The blockade of the Strait of Hormuz triggered an immediate systemic shock: Brent crude surged toward \$120, and European natural gas prices soared by 40%. This disruption in physical supply creates a severe supply shock in primary energy, driving prices at the pump and heating bills to historic highs. In the long term, the persistence of the blockade threatens to paralyze energy-intensive industries, while global strategic reserves are being depleted, imposing a permanent risk premium on oil prices for the coming months. The rise in prices will be violently transmitted to producer prices through two channels: the direct cost of maritime transport, driven up by the need to circumnavigate Africa, and the explosion in prices of petroleum derivatives and nitrogen fertilizers. For the United States, energy independence limits the damage, but for most other countries the effects will be significant and linked to their dependence on energy imports. The direct mechanical impact on national CPIs is substantial given the magnitude of the shock, despite the low weighting of energy in price indices, less than 10% in most major economies. Nevertheless, it is estimated that the surge in prices could mechanically add between 2.5% and 3.5% of gross inflation to CPI indices. The "second-round" effects will be more lasting. In the transportation and logistics sectors, freight costs could surge by 15% to 25%, and companies will pass these costs on to consumer goods prices. In the food sector, the effects will be the same, with a likely second wave of price increases linked to the massive rise in fertilizer costs; the impact on CPI indices is estimated to be around 1% six months from now. If the situation persists, central banks could once again fear a wage-price spiral that would fuel inflation more sustainably. We do not rule out the risk of a 2.5% to 5.5% rise in the CPI in the United States, while in Europe a return of inflation above 6% is also possible. In Switzerland, the unique energy mix may limit inflationary impacts, but inflation could still jump from 0.3% in March to 1% and exceed the SNB's current forecasts. The most predictable consequences of the war in the Middle East are those directly linked to the disruption of oil, gas, and fertilizer supply chains. Inflation will be the persistent disruptive factor affecting monetary policy and investor sentiment over the coming months.

Reversal of outlook for interest rates and monetary policy

The potential impact of this unexpected oil crisis on price indices is causing significant concern among central banks, which are navigating by sight in the face of the "Strait of Hormuz crisis." The overall tone has shifted from a willingness to cut rates to one of extreme caution, driven by fears of stagflation and the need to safeguard price stability. Inflation in the United States, reported at +0.9% for March and +3.3% year-over-year, has already risen sharply from the 2.4% level recorded in February. This marks the sharpest acceleration in prices since 2022. The U.S. Federal Reserve had already responded by adopting a potentially more restrictive stance. The minutes released in early April indicate that rate cuts, initially planned for the spring, have been postponed indefinitely. Jerome Powell emphasized that the U.S.'s status as a net energy exporter offered some protection, but that "sticky inflation" caused by oil at \$120 was forcing the Fed to keep rates at their current level. The risk of a slowdown is considered secondary to the risk of inflation expectations becoming entrenched.

In Europe, the ECB is undoubtedly the most concerned central bank. Christine Lagarde has warned that the Strait of Hormuz crisis could reduce the eurozone's GDP by 0.5 to 1 percent while pushing inflation up to 3.1 percent in the second quarter. The ECB finds itself in a classic stagflation dilemma. It cannot lower rates to support a slowing economy because it must combat massive imported inflation on gas and oil. It has revised its inflation forecasts upward for 2026, citing a "historic supply shock." A more restrictive policy is now expected from the European Central Bank. In the United Kingdom, the BoE stated that the goal of returning to 2% inflation this spring is now jeopardized by the war. With a population already burdened by energy debt, the bank fears a severe recession in the UK. It warned that if the stalemate persists, it may be forced to raise rates further to stabilize the pound against the dollar, despite the obvious fragility of domestic consumption. In Switzerland, the SNB remains the most composed but has nevertheless raised its inflation forecast for 2026 to 0.4% (up from 0.1% previously). The rise in energy costs will be more gradual and will have a lasting impact on the trend.

In Japan, the BOJ is facing the worst-case scenario of stagflation. Japan, which is heavily dependent on imports via the Strait of Hormuz, is seeing its producer price inflation jump from 2% to 2.6% (driven by costs rather than demand). The BoJ is now hesitant to continue its exit from accommodative monetary policy: on the one hand, it wants to raise rates to support the sinking yen; on the other, it fears putting the final nail in the coffin of already anemic growth. In China, the People's Bank of China (PBoC) is the only central bank maintaining a growth-supportive stance. Faced with the risk of an industrial slowdown caused by energy costs, it injected massive amounts of liquidity into the financial system in April. Its message is clear: the priority is to avoid a "hard landing" for the Chinese economy. It downplays imported inflation, preferring to focus on supply chain stability and support for export sectors burdened by freight costs. Overall, central bankers have very quickly shifted from hoping for a "soft landing" to managing a "supply-side" crisis.

For investors, this means that key interest rates will remain high for longer than expected, and that in the bond markets, the yields demanded by investors to compensate for the visible and anticipated rise in inflation will necessarily be higher. We believe that yield curves will see two-year yields rise faster than long-term yields. Overall, this environment points to potential short-term losses.

Global growth reduced by 25% to 30% in 2026, short-term consumption shock

The war in the Middle East is drastically reshaping the outlook for economic growth across all regions of the world. The disruption of 20% of oil exports and 25% of LNG exports is causing an immediate shortfall estimated at 12 million barrels per day, out of a global consumption of around 100 million.

Rerouting ships around the Cape of Good Hope lengthens voyages, increases costs, and disrupts supply chains. Uncertainty regarding supply and consumer behavior will also affect companies' investment decisions. Global growth forecasts must be revised downward. While at the start of the year we could expect global growth of +3.5%, we now estimate that global GDP may grow by only +2.9% to +3% in 2026.

Three major factors related to the oil shock will have an impact that must be taken into account. The “oil tax” effect will be immediate, as consumer spending will be diverted by rising energy prices without delay. It can be estimated that a sudden and sustained rise in the price of a barrel of crude oil from \$60 to \$100 over several months could reduce global GDP growth by approximately 0.5% to 0.7%. The regional impact will affect economies in different ways. The United States, thanks to its energy independence, could weather this shock better than Asian, emerging, and European economies, which are more dependent on crude oil imports. The more lasting long-term impact hinges on the potential trajectory of inflation and its effects on consumers. We should also consider the fact that, against this backdrop of rising inflation, central banks will not lower interest rates as expected, but will likely tend to raise them. Higher interest rates overall in the coming months will weigh on consumption and investment. In this new environment, the United States could also be shielded by the relative strength of the dollar and better withstand the headwinds on the horizon.

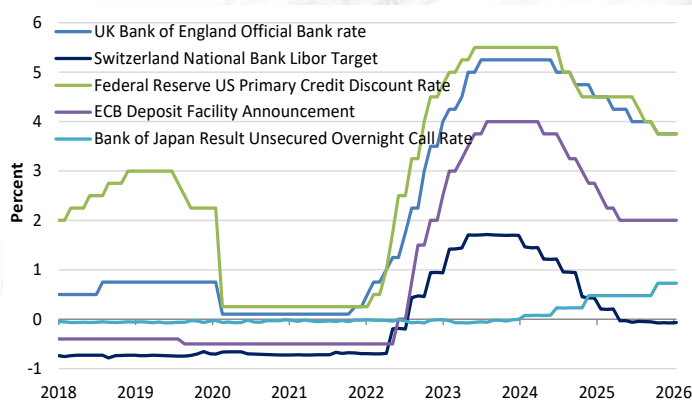
Overall, however, we believe that all countries will face both a supply shock and a demand shock, which will occur simultaneously and dampen growth prospects for the coming quarters.

Continued volatility in financial markets

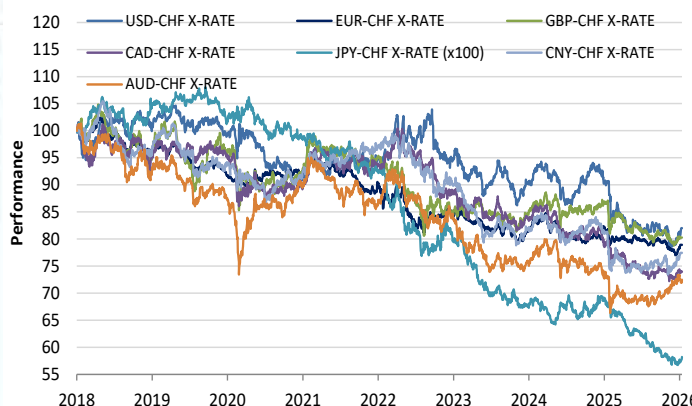
In this new environment, one marked by significantly weaker economic growth and monetary policies that differ radically from those anticipated by the consensus at the start of the year, the investment climate looks more uncertain than ever. These exceptional circumstances have already had a considerable impact on most financial assets in just a matter of days. The intensity of attacks on production sites in particular, along with the global consequences of the blockade of the Strait of Hormuz, have triggered a sharp resurgence of volatility in financial markets. All asset classes experienced price corrections over the course of the month, with the exception of commodities, which, as in 2022, acted as one of the very few uncorrelated assets, posting a positive return (+24.5%). Changing expectations regarding inflation and monetary policy quickly affected bond yields, weighing on indices, which fell by -1.15% in Switzerland and -3.07% internationally. It was difficult for equity markets to shake off these risks and the potential impacts on corporate earnings in 2026. The decline in indices in Switzerland (-7.3%) and internationally (-6.3%) was similar. Swiss securitized real estate (-5.2%) and global securitized real estate (-9.4%) were hit on two fronts by rising interest rates and the risk of vacancies amid an economic slowdown. Private equity continued its downward spiral (-5.5%) and posted the worst three-month performance (-20.1%) among financial assets.

For now, this volatility is heavily influenced by the flow of geopolitical news, which, depending on political developments, can swing between positive and negative and affect investor sentiment. We believe that the effects of this war on inflation and monetary policy will gradually become apparent and have a more lasting impact on the markets. The general mood is not one of panic at the moment, as suggested by the markets' positive reactions when “positive” news is announced. We believe that the markets are extremely fragile due to the factors mentioned above and are likely to resume a downward trend in “risk-off” mode if the situation does not improve quickly. Caution remains warranted at the start of the second quarter regarding risky assets, which are likely to react negatively again once economic data confirms current fears of a slowdown and price pressures. As for currencies, the dollar appears positioned to benefit from rising commodity prices and investors' willingness to view the greenback as a safe-haven asset offering attractive returns in an uncertain environment.

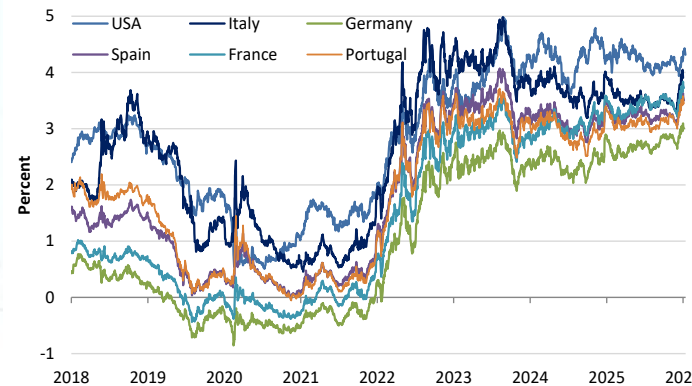
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Global growth cut by 25%–30% following the oil shock
- The oil shock is already signaling stagflation in the U.S. in Q1
- Will European GDP forecasts for the first half of the year be revised down to zero?
- The war in the Middle East also threatens Switzerland
- A first half of the year under pressure in Japan, caught between resilience and external shocks



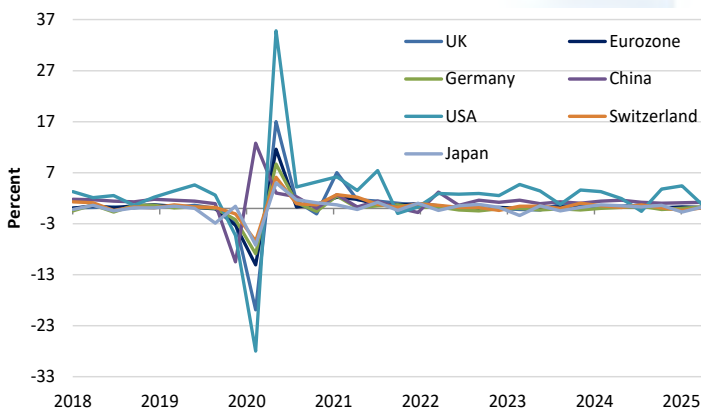
Global growth cut by 25%–30% following the oil shock

The war in the Middle East is drastically reshaping the outlook for economic growth across all regions of the globe. The blockage of 20% of oil exports and 25% of LNG exports is causing an immediate shortfall estimated at 12 million barrels per day, out of a global consumption of around 100 million. Rerouting ships around the Cape of Good Hope lengthens travel times, increases costs, and destabilizes supply chains. Uncertainty regarding supply and consumer behavior will also affect corporate investment decisions. Global growth forecasts must be revised downward. While at the start of the year we could expect global growth of +3.5%, we now estimate that global GDP may grow by only +2.9% to +3% in 2026. Three major factors related to the oil shock will have an impact that must be taken into account. The "oil tax" effect will be immediate, as consumer spending will be diverted by rising energy prices without delay. It can be estimated that a sudden and sustained rise in the price of a barrel of crude oil from \$60 to \$100 over several months could reduce global GDP growth by approximately 0.5% to 0.7%. The regional impact will affect economies in varying ways. Thanks to their energy independence, the United States may be better able to weather this shock than Asian, emerging, and European economies, which are more dependent on crude oil imports. The more lasting long-term impact hinges on the potential trajectory of inflation and its effects on consumers. We should also consider that, against this backdrop of rising inflation, central banks will not lower interest rates as expected, but will likely tend to raise them. Higher interest rates overall in the coming months will weigh on consumption and investment. In this new environment, the United States could also be shielded by the relative strength of the dollar and better withstand the headwinds on the horizon.

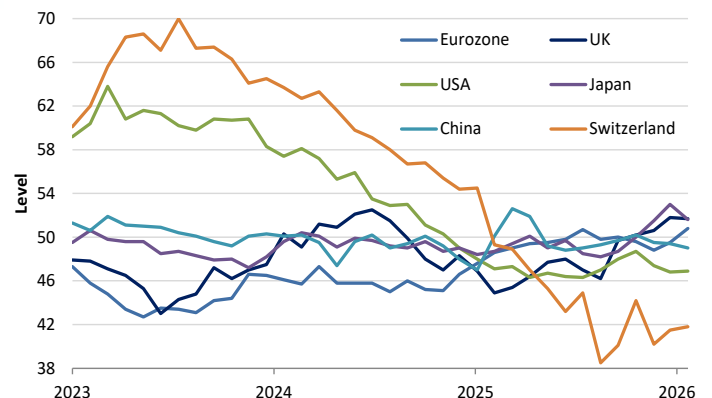
The oil shock is already signaling stagflation in the U.S. in Q1

As spring begins, the oil crisis in the Middle East will also have significant implications for the U.S. economy. Despite the United States' complete energy independence from crude oil exports, which have been blocked by the closure of the Strait of Hormuz, crude oil prices in the United States (WTI) have, unsurprisingly, followed a similar trend. Economic forecasts for the first months of 2026 must be significantly revised downward in this new context of a likely global economic slowdown. The consensus among Wall Street strategists and experts, concerned by the closure of the Strait of Hormuz, points to the emergence of a major risk of stagflation. In our view, the scenario of a post-shutdown rebound is therefore fading in favor of economic stagnation that could extend even beyond the second quarter. We believe the slowdown could be severe in the United States as well and expect extremely weak growth or even a possible contraction in economic activity. Hopes for monetary easing are fading, as inflation, both directly and indirectly linked to rising energy prices, will force the Fed to adopt a monetary policy very different from what had been anticipated. The impact of energy costs on Americans' budgets will be severe and is expected to crush consumer spending starting in March. The manufacturing sector remains paralyzed, while the logistics market is showing signs of disruption that could affect production chains. Nor should we overlook the detrimental effects of geopolitical tensions, which are impacting not only the global supply of crude oil but also the confidence of business leaders as they see the negative effects on their future margins. We are already seeing accelerating inflation at the pump and a massive drawdown of savings to offset the cost of living. This signals an inevitable reduction in spending in the coming months. While the resilience of the U.S. economy has been surprising so far, Q1 2026 is expected to mark a shift toward a much gloomier outlook, potentially signaling significantly reduced growth for Q2.

Quarterly GDP



Manufacturing PMIs



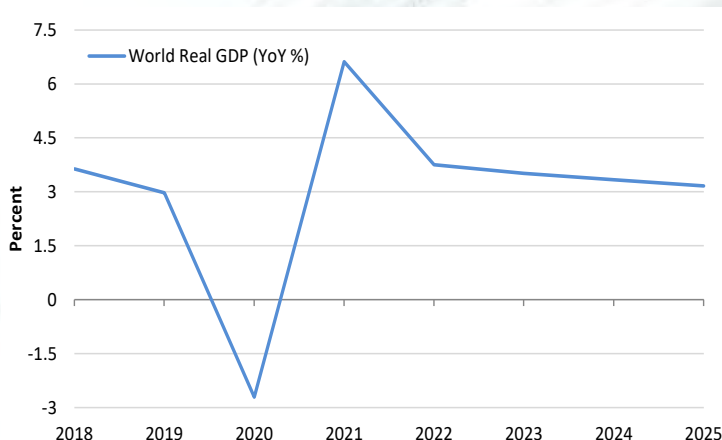
Will European GDP forecasts for the first half of the year be revised down to zero?

The energy crisis stemming from the Middle East is indeed drastically reshaping the outlook for the eurozone at the start of 2026. Just as the monetary union was hoping to consolidate its recovery, the total closure of the Strait of Hormuz and attacks on oil infrastructure have sent Brent crude above \$110 a barrel, sending shockwaves through gas prices. Unlike the United Kingdom, which has its own production in the North Sea, the eurozone is bearing the full brunt of its dependence: nearly 20% of its oil imports and a growing share of its LNG (particularly from Qatar) pass through this conflict zone. This structural vulnerability, a legacy of the shift from Russian gas to more volatile global supplies, is once again putting the European industry under severe strain. The coordinated response by the International Energy Agency (IEA), which authorized the historic release of 400 million barrels of strategic reserves, has helped curb the sharp rise in prices, but the effect remains precarious. For the eurozone, this use of emergency stocks acts as a short-term buffer, preventing a physical supply disruption, but it does not solve the inflationary equation. Inflation could rise back toward 3% in the second quarter of 2026, forcing the Frankfurt-based institution to reconsider its monetary policy. This “supply shock” is already affecting confidence indices and production costs, particularly in Germany and Italy, where the industrial sector is most sensitive to fluctuations in energy inputs. The decoupling observed in late 2025 is likely to intensify. While France and Spain are holding up thanks to more diversified energy mixes or a less energy-intensive services sector, Europe’s manufacturing heartland is seeing its margins erode. The release of reserves offers a tactical respite, but markets anticipate sustained volatility. Ultimately, the start of 2026 marks not only a price crisis but a fundamental challenge to the Union’s energy security. The region’s resilience will now depend on its ability to transform this emergency into an acceleration of its strategic autonomy, or risk seeing its growth permanently curtailed by this new geopolitical reality. We believe the eurozone will soon feel the effects of this shock on growth in most of its member countries. GDP, expected to grow by +0.5% in Q1, could well fall to 0% during the first half of the year.

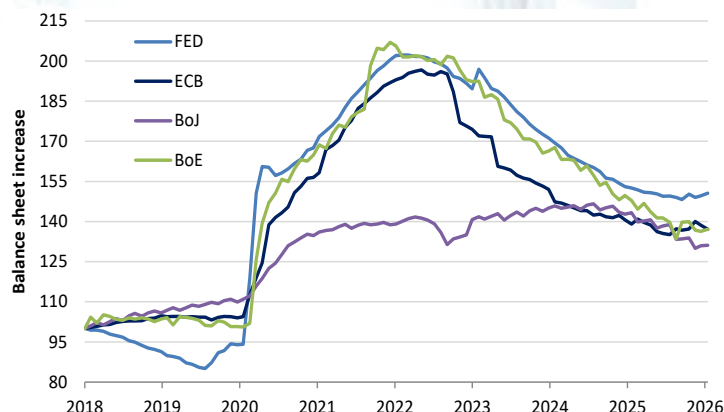
The war in the Middle East also threatens Switzerland

In the wake of the release of Switzerland’s GDP figures, a new conflict broke out in the Middle East on February 28 involving the United States, Israel, and Iran, which now threatens the international political balance, the region’s geopolitics, and the global economy through the potential effects of this war on the security of the world’s energy supply. Although the conflict is thousands of miles away from Switzerland, our economy will be impacted by the conflict that has just erupted. First and foremost, it is important to remember that Switzerland also depends on imports of fossil fuels, the availability of which is not guaranteed and whose prices can fluctuate significantly depending on market conditions. Despite the diversification of its energy supply sources and the significant role of hydropower in its energy mix, Swiss imports of hydrocarbons are also essential for ensuring the smooth functioning of our economy and account for approximately 70% of the total. We share legitimate concerns about the current situation, which has deteriorated rapidly over the past few days and is marked in particular by the Iranian military’s blockade of the Strait of Hormuz and the increasingly significant involvement of Gulf countries in the conflict. In recent days, the escalation of the conflict and the intensification of bombings in Iran, as well as across all Gulf states, unfortunately suggest a significant increase in risks to crude oil supply on global markets. Merchant fleets and tankers are currently halted near the Strait, awaiting new conditions that would allow them to pass safely. In a few days, if the conflict escalates, temporary storage capacities of various kinds will quickly be exhausted, certainly forcing oil and gas producers to at least partially suspend their pumping operations. Ultimately, restarting idled oil facilities could also take longer and contribute to sustained supply chain constraints. Our bullish outlook for crude oil prices had already been partially realized with a 20% price increase in 2026 prior to the Israeli-U.S. strike on Tehran, but since then, the additional 69% surge to \$120 per barrel at the market open on Monday, March 9, largely

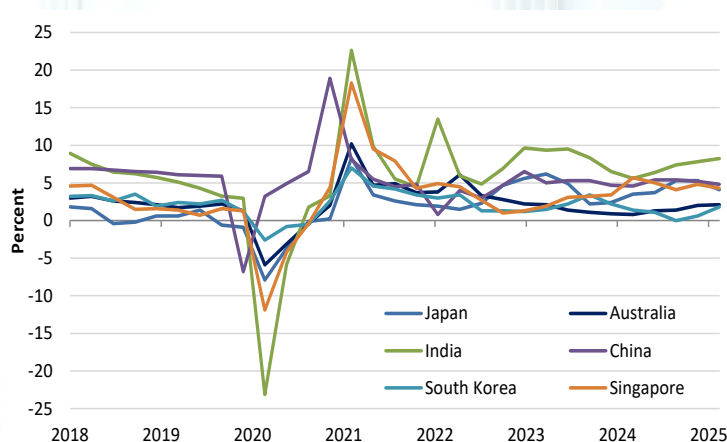
Real growth of the global economy



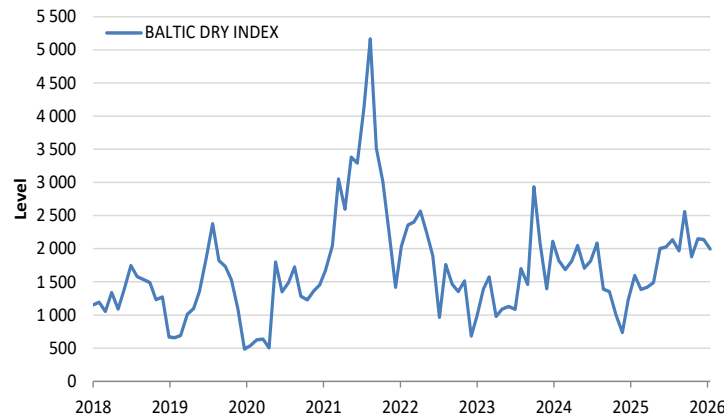
Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index



reflects growing concern and a certain degree of panic in the markets regarding the regionalization of the conflict and the risks of widespread escalation. Since the beginning of the year, crude oil prices have risen by nearly 100%. To put things in perspective, after the outbreak of war in Ukraine on February 24, 2022, crude oil prices rose from \$98 per barrel to \$140 per barrel in seven days (+42%), before stabilizing between \$100 and \$120 for six months. The current situation seems very different to us, partly because it affects about 20% of global consumption and partly because President Trump does not seem willing to let this conflict drag on. But to continue the comparison on the main front of interest to us today for Switzerland—the impact on inflation—it is worth noting that rising energy prices were the primary driver of inflation in all countries in 2022, including Switzerland. In 2022, energy imports contributed significantly to the rise in imported inflation and producer prices, which reached +6.9% in May 2022 and also pushed the consumer price index to its peak of +3.5% annually. If this conflict were to have a lasting impact on energy prices, its implications for inflation would obviously be detrimental to most economies.

Stagflation is likely in the United Kingdom

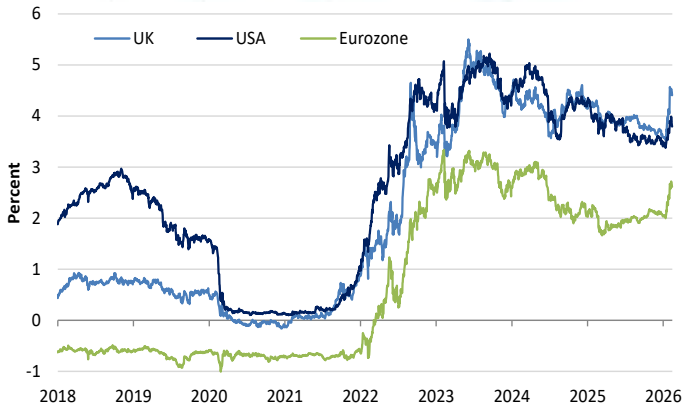
The British economy entered 2026 in a highly vulnerable position, oscillating between faint signs of resilience and persistent headwinds. Data from the first weeks of the year suggested falling inflation and a cooling labor market, pointing to prospects for monetary easing. However, the outbreak of a major conflict in the Middle East in late February 2026, involving strikes between the United States, Israel, and Iran, sent massive shockwaves through global markets. European gas prices doubled in a matter of days, and the price of a barrel of Brent crude surged by more than 26% to exceed the psychological threshold of \$100. This external energy shock has hit a British economy already on its last legs. The medium-term implications of the massive rise in energy prices on inflation will be significant for the vast majority of countries, and for the United Kingdom as well. The technical rebound seen at the start of the year, supported by slightly stronger domestic demand for goods, remains extremely fragile. Arithmetically speaking, it will not be enough to offset the slowdown in services in the face of this new and very serious threat of a resurgence in inflation. The situation that is unfolding, if it were to persist, could have effects similar to those

observed in 2022 during Russia's invasion of Ukraine. This potential new "inflation tax" would directly erode consumers' purchasing power. Marine insurance premiums have quadrupled for ships transiting the Red Sea, immediately exerting unprecedented upward pressure on the prices of goods imported from Asia. These severe logistical bottlenecks also serve as a painful reminder of the post-COVID supply chain paralysis. Indeed, analysts expect energy prices to surge starting in April, wiping out the meager wage gains anticipated. They are already sharply revising downward their growth forecasts for Q2 2026 to -0.4%. The specter of severe and prolonged stagflation is looming.

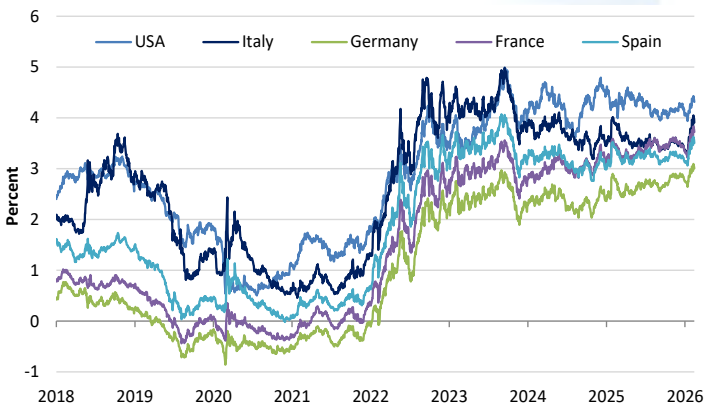
A first half of the year under pressure in Japan, caught between resilience and external shocks

Just as the country was trying to stabilize its trajectory at the start of the year, the sudden military escalation in the Middle East and threats to crude oil supplies have thrown all forecast models into disarray. Japan, which imports 95% of its energy needs from this region, is on the front lines. For Q1 and Q2 2026, we anticipate a slowdown in industrial production starting in March. The destocking we feared could be more severe than expected, cutting early-year growth by 0.3 percentage points. The monetary normalization scenario is now being disrupted by geopolitics. The outlook for the first half of 2026 is now clouded by geopolitical uncertainty; the economic trajectory now depends heavily on the duration of the conflict in Iran.

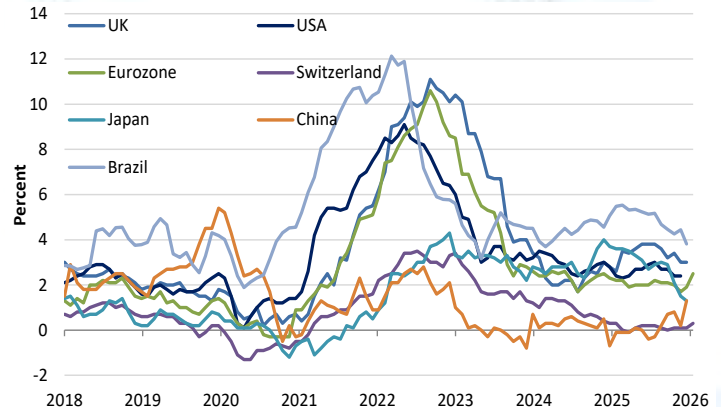
2-year government rates



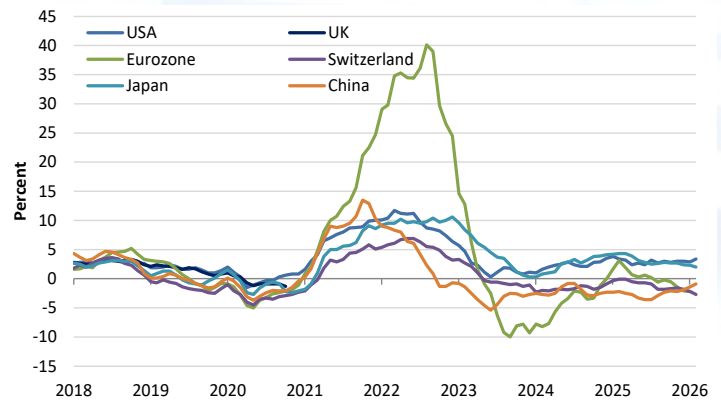
10-year government rates



Inflation - CPI indices



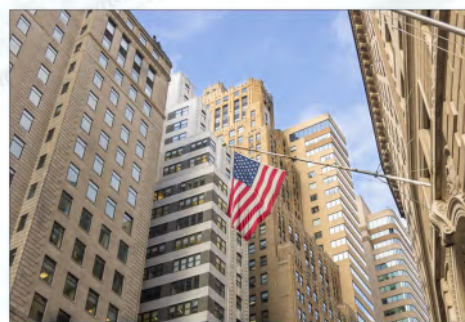
Inflation - PPI indices



MACROECONOMIC SCENARIO

United States

- The oil shock is already signaling stagflation in Q1
- Job growth begins to slow
- The Fed is once again facing the risk of stagflation
- Inflation likely to rebound to between 3.5% and 4%
- Outlook for bonds reverses



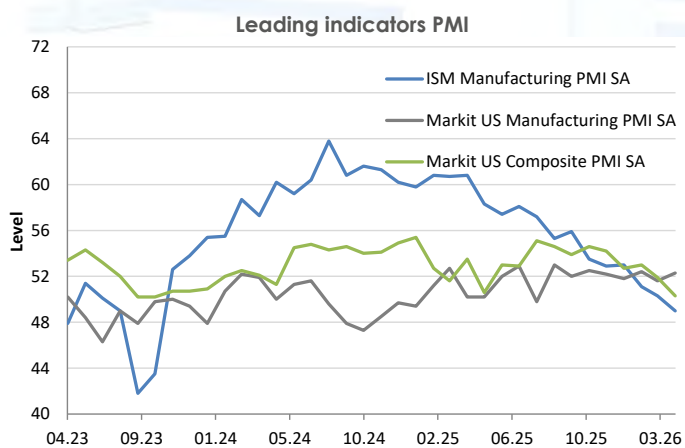
A sharp slowdown in Q4 due to the government shutdown

In Q4 2025, the scars left by the 43-day federal government shutdown, the longest in history, had a much deeper impact than expected on the figures released by the Bureau of Economic Analysis. Official data now show sharply reduced growth of +0.7% in Q4, well below market expectations of +1.4% and the previous Q3 figure, which had surprised with its strength (+4.4%). This underperformance marks a sharp break from past momentum. These figures illustrate a marked erosion of economic activity, primarily due to the prolonged paralysis of public services and a sharp contraction in federal spending of -16.6%. Foreign trade also weighed heavily, with a persistent deficit and net exports down by 3.3%, the victims of trade tensions. The duration of the shutdown not only froze public sector wages but also instilled widespread mistrust among private-sector players. The growth mix was saved from negative territory solely by the technology sector. Q3 had already shown signs of weakness in certain sectors, but Q4 confirms the entry into a period of turbulence where non-technology investment has come to a complete standstill. This downturn intensified in Q4. During the weeks of government shutdown, household consumption, though resilient at +2%, was not enough to offset the halt in construction projects and government contracts. The CBO estimates that the direct cost of the budget impasse shaved 1.15 percentage points off final growth, an impact far more devastating than short-term models had predicted. Uncertainty froze strategic decisions, as the lack of statistical visibility kept companies in a defensive posture. Job creation, though showing a slight rebound compared to the summer, remained insufficient to boost aggregate demand. Ultimately, the rise in import prices linked to tariffs ended up eroding corporate margins and the average American's basket of goods (durable goods). While capital investment in Artificial Intelligence is showing robust growth of +5.7%, it remains the sole engine of an otherwise stalled economic machine. This sector literally carried GDP on its shoulders to avert a technical recession, while the manufacturing sector remained mired in contraction and the real estate market has yet to benefit from the Fed's monetary easing. Interest rates, although falling, are still perceived as too restrictive in this climate of low confidence. Q4 growth is therefore a major warning sign, revealing an

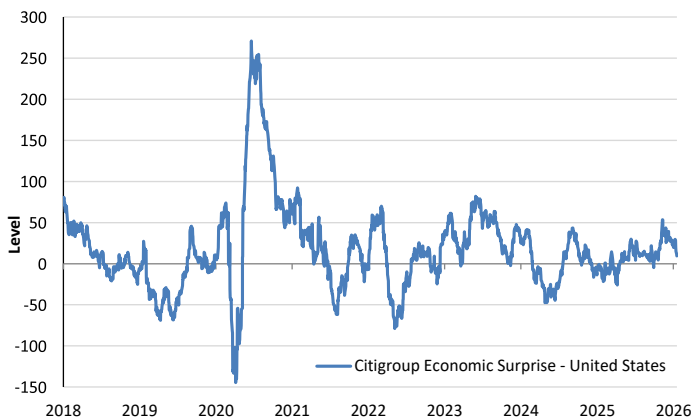
economy vulnerable to domestic political shocks, with wealth creation plateauing at +0.7%. This structural weakness had previously placed the Fed under some pressure, caught between the need to provide support and managing inflation. But now, since February 28, the emergence of a new major external shock, one that will unexpectedly affect prices and growth prospects, presents the Fed with a serious new dilemma.

The oil shock is already signaling stagflation in Q1

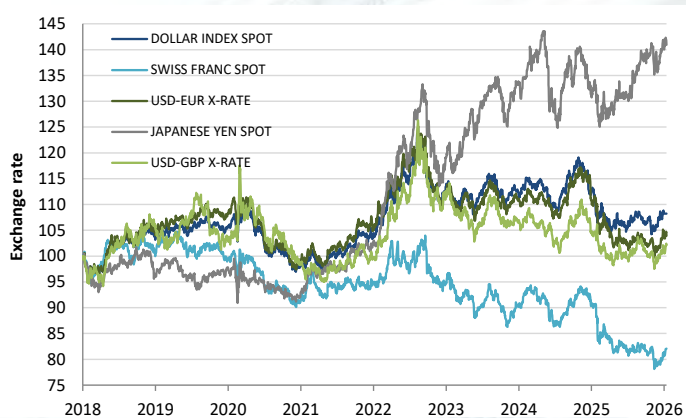
As spring begins, the oil crisis in the Middle East will also have significant implications for the U.S. economy. Despite the United States' complete energy independence from crude oil exports blocked by the closure of the Strait of Hormuz, U.S. crude oil prices (WTI) have, unsurprisingly, followed a similar trend. Economic forecasts for the first months of 2026 must be significantly revised downward in this new context of a likely global economic slowdown. Wall Street strategists and experts, concerned by the closure of the Strait of Hormuz, agree that a major risk of stagflation is emerging. In our view, the scenario of a post-shutdown rebound is therefore fading in favor of economic stagnation that could extend even beyond the second quarter. We believe the slowdown could be severe in the United States as well and expect extremely weak growth or even a possible contraction in economic activity. Hopes for monetary easing are fading, as inflation, directly and indirectly linked to rising energy prices, will force the Fed to adopt a monetary policy very different from what had been anticipated. The impact of energy costs on Americans' budgets will be severe and is expected to crush consumer spending starting in March. Nor should we overlook the detrimental effects of geopolitical tensions on future profit margins. We are already seeing accelerating inflation at the pump and a massive drawdown of savings to offset the cost of living. This points to an inevitable reduction in spending in the coming months. While the resilience of the U.S. economy has been surprising so far, Q1 2026 is expected to mark a shift toward a much gloomier outlook, potentially signaling significantly reduced growth for Q2.



Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



Oil shock still not clearly reflected in the PMIs

The current situation reveals a two-tiered U.S. economy, characterized by surprising resilience in the industrial sector (driven by rising demand for “Made in USA” products) but a sharp slowdown in the services sector, directly linked to the oil shock and tensions in the Middle East. The impact of rising uncertainty is already very visible, particularly through soaring production costs and declining business confidence. The March composite flash index fell by 0.5 points to 51.4, but remains in expansionary territory. Both in the PMI indicators (the sharpest rise in production and sales costs since 2022) and in the ISM, a surge in the price component has been observed since February, signaling that input inflation was already evident before the oil shock. We are already seeing longer delivery times and logistical disruptions, while the services sector recorded its first decline in employment in a year.

Job creation begins to slow

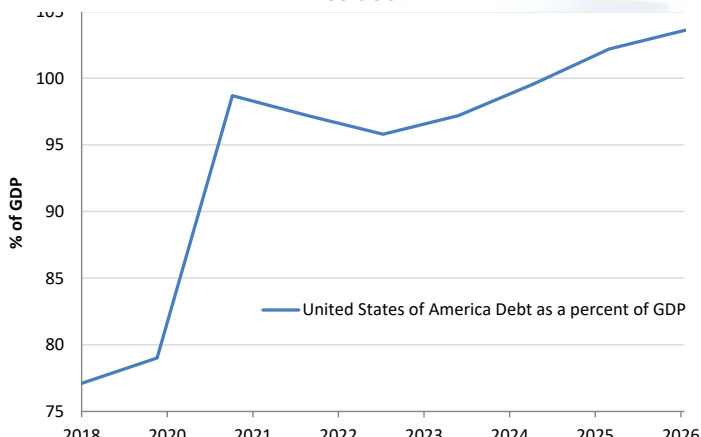
Employment statistics for March 2026 confirm that the U.S. labor market has entered a phase of significant cooling, shifting from a driver of growth to a potential drag on the economy. Although the official BLS report for March will not be released until early April, leading indicators and massive revisions to previous months paint a troubling picture. The psychological tipping point came in early March with the release of February’s figures, which showed a loss of 92,000 jobs, whereas the consensus had expected a gain of 55,000. This is the worst performance—excluding shutdown periods—since the pandemic began. The figures for December 2025 and January 2026 were also revised downward (notably December, which went from a modest gain to a net loss of 17,000), proving that weakness was already taking hold even before the oil shock. The unemployment rate remained relatively unchanged at 4.4%, dangerously approaching the 4.5% threshold, which historically often signals the start of a recession. For now, this is more of a hiring freeze than mass layoffs. With the exception of the AI and tech sectors, manufacturing and services have actually been shedding jobs. The balance is fragile; companies are waiting to see if the conflict in the Middle East drags on before laying

off workers. The risk is that this slowdown in overall revenue will eventually weigh on consumer spending, triggering a real wave of layoffs in the second quarter of 2026.

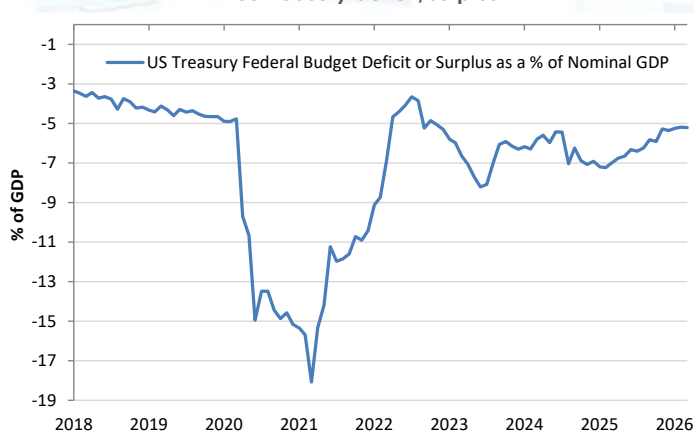
The Fed is once again facing the risks of stagflation

This is yet another nightmare scenario for the U.S. central bank, which now once again faces a high risk of a sharp economic slowdown accompanied, or rather driven by, a surge in inflation triggered by an unexpected external shock. The Fed now finds itself caught between a labor market that is losing steam and inflation that is skyrocketing. At its March 18, 2026, meeting, the Fed kept rates unchanged in the 3.50% to 3.75% range. But there was a shift in the “Dot Plot”: whereas in December, the consensus forecast three rate cuts for 2026; today, the median forecast calls for only one cut (or none at all for 14 of the 19 committee members). The shift is already noticeable, but it is undoubtedly still lagging far behind the likely evolution of the economic situation. The Fed has officially raised its core PCE inflation forecast to 2.7% for the end of the year, acknowledging that the energy shock is “raising the floor” on prices. But let us recall the previous surge in inflation, long denied by the Fed, which saw only a temporary impact requiring no firm action. While the Fed will, as usual, wait for actual data before taking action, we are already seeing a clear shift in market expectations. Whereas at the end of February the consensus was for a first rate cut in July, today Fed Funds Futures contracts no longer anticipate any cuts before December, and the CME Fed Watch is even beginning to assign a 20% to 35% probability of a rate hike by September if the conflict in the Middle East drags on. Clearly, the Fed has ceased to be proactive and has become purely reactive. It is waiting to see whether \$100 oil will “kill” consumption by May (which would help it cut rates) or whether companies will pass these costs on to their selling prices (which would force it to remain restrictive). We believe the risks of a resurgence in inflation are serious and will ultimately force the Fed to act.

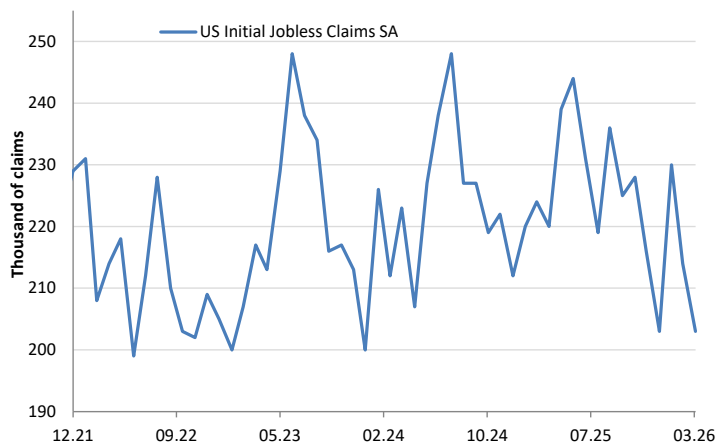
US debt



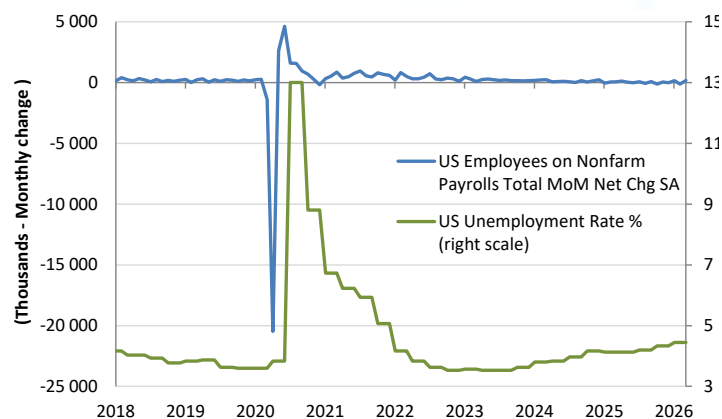
US treasury deficit/surplus



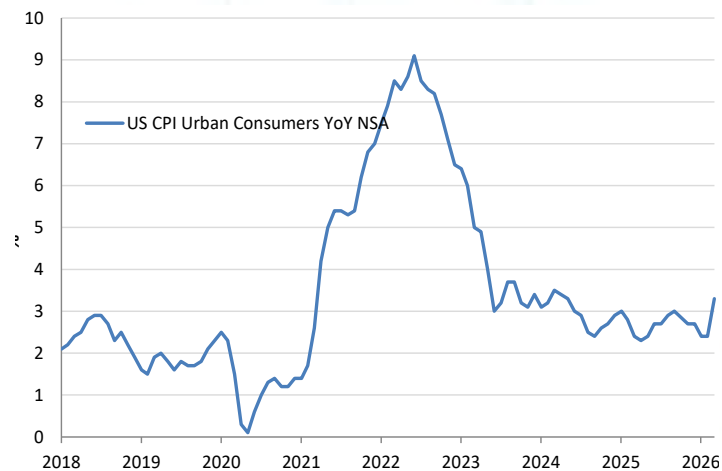
Unemployment benefits in thousands of claims



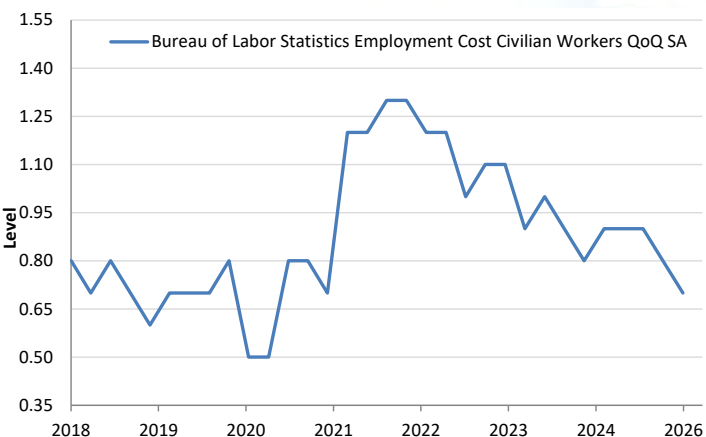
Job creation outside the agricultural sector (net monthly var.)



Annual inflation rate USA 2018-2026



Employment cost index



Inflation likely to rebound to between 3.5% and 4%

While year-end inflation figures were at times questionable due to data collection issues related to the government shutdown, corporate profit margins, which had served as a buffer until now, are being eroded. The pass-through rate from input costs to final prices was already approaching 90% in some sectors. We had already noted in December that Q1 2026 could prove more problematic once the distortions from the government shutdown had been resolved, as inflation could automatically rebound to around 3.2%–3.5% and catch the Fed off guard with no real capacity to respond. The headline figures for January and February created an illusion of calm that initially reassured the markets, before the PPI (Producer Price Index) dashed those hopes. CPI inflation came in at 2.4% year-over-year (down from 2.7% in December) in January and February. The first surprise came from the PPI (Wholesale Inflation), which jumped by +0.7% in February alone. Cost pressures were already building up in the corporate pipeline. Deflation in goods prices (used cars, electronics), which had driven the decline in inflation in 2025, came to a halt in February. Inflation in non-housing services (the well-known indicator monitored by Powell) was stagnating at around 3.0% on an annualized basis. Wages in the services sector remained too high to bring the index back toward the 2% target. Finally, we began to see rising prices for clothing and furniture, a sign that companies were starting to pass on new trade barriers to the end consumer. The economy was not slowing down enough to curb inflation, forcing the Fed to remain restrictive. The March oil shock therefore did not break a downward trend; rather, it propelled already stubborn inflation toward a potential new peak. Now, with oil prices and the price of a gallon of gas soaring toward \$4.25, the risks of acceleration are very high. For the manufacturing and industrial sectors, import and production costs are rising just as demand risks weakening, potentially causing a drop in their margins and earnings. “Just-in-time” assembly lines, which were just beginning to normalize, are once again under pressure. For consumers, filling up the gas tank is an immediate “tax.” Every extra dollar at the pump is one dollar less for dining out, tourism, and leisure. The most likely scenario for Q2 and Q3 2026 is near-zero (or negative) growth coupled with inflation rebounding to around 3.5%–4%.

Outlook for bonds reverses

The oil shock has completely upended the medium-term outlook. The resurgence of inflationary risks has reshuffled the deck, leaving no room for the monetary easing that was so eagerly anticipated, and potentially justified, at the start of the year. Risks of an economic slowdown had been fueling expectations of rate cuts and a downward shift in yield curves. While the 10-year U.S. Treasury yield hit its lowest level since April 2025 at 3.93% on February 27 and was poised to slip to 3.6%, the war in the Middle East sounded the death knell for the prevailing trend. The closure of the Strait of Hormuz and its global inflationary implications very quickly altered the short-term outlook for bond markets. In the United States, despite its energy independence, the consequence was that this new factor was quickly factored into the market. With inflation potentially rebounding to 3.5%–4% instead of moving toward the Fed’s 2% target as expected, bond yields have gradually adjusted over the course of the month. The rise from 3.93% to 4.46% is already quite significant for the 10-year Treasury yield, but the risks of the trend continuing up to 4.8%–5% are still very much present. The Fed was not very active during the month, although it increased its Treasury bond purchases to around \$40 billion without affecting prices. In this phase of yield levels adjusting to new expectations, the prospects for capital gains have clearly vanished in the short term. Our outlook has also shifted rapidly and, in this new context, calls for a degree of caution in Q1 2026 as well as a reduction in maturities and average duration.

Investors' enthusiasm for the dollar is back

At the start of the year, we noted that, from a quantitative and technical perspective, the dollar was likely coming off an eight-month period of sideways consolidation, from which it could nevertheless regain some momentum that was unexpected from a fundamental standpoint. The crisis in the Middle East clearly appears to be a potential short-term "game changer" for the U.S. currency. Since February 28, the DXY Trade Weighted USD Index has risen slightly by +2.5%. The rise in crude oil prices denominated in USD is certainly a factor supporting demand for the dollar, which also benefits from its status as a safe-haven asset during periods of high uncertainty. In this crisis, we observe that the dollar is once again becoming a safe-haven asset, even more so than gold or the Swiss franc. The ongoing adjustment in dollar-denominated yields represents an attractive, risk-free alternative for many USD-based investors. Technically, the 100 level on the DXY index is crucial and could trigger significant buy orders if it is sustainably broken. We believe the odds are strongly in favor of such a "break" in the coming weeks, which would push the dollar 5% to 10% higher if successful.

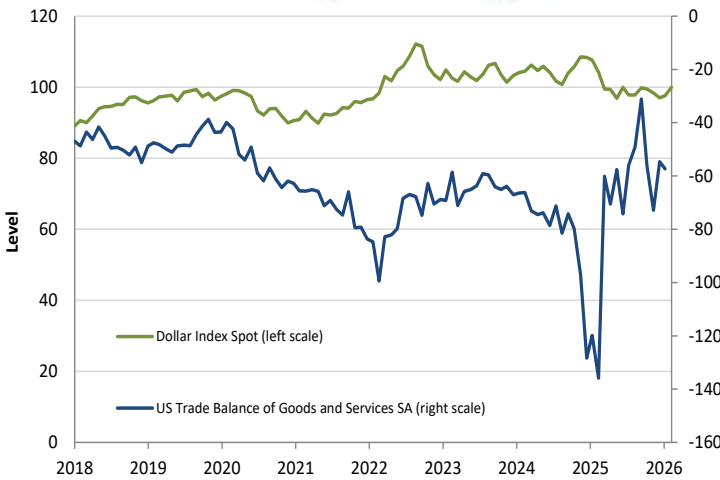
Uncertain outlook continues to weigh on U.S. stocks

A few months ago, we already noted that the risks seemed clearly greater than the opportunities for U.S. stocks. We pointed out that there was no margin of safety to absorb any negative surprises. Expectations for 2026 appear to be ignoring these likely headwinds. A longer-than-expected pause by the Fed, or a more hawkish tone, could trigger a sharp reassessment of risk. Valuations were historically stretched, with price-to-earnings (P/E) ratios for the S&P 500 above 25x—well above historical averages—leaving no room for disappointment. Following a decline of around -10%, we believe risks persist in the current environment, which could trigger multiple shocks

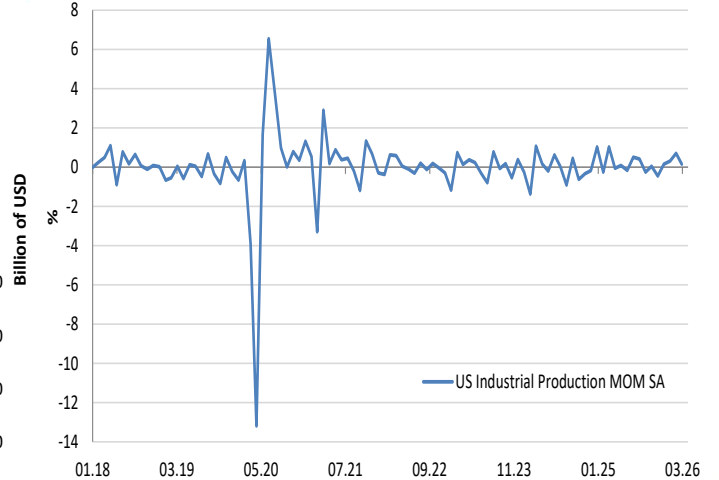
capable of causing further declines. The stagflation scenario has the potential to impact both corporate margins and volumes. In this context, rising bond yields represent a serious alternative during a period of high and ever-increasing uncertainty. Our medium-term outlook remains negative, suggesting a reduced allocation to equities.



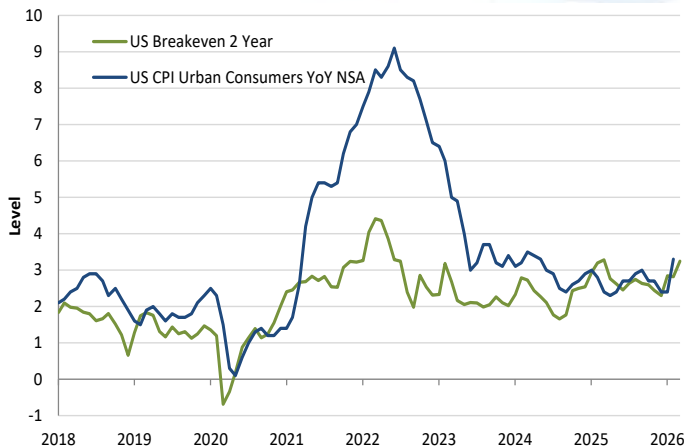
Trade balance - Trade-weighted US



Industrial production - USA



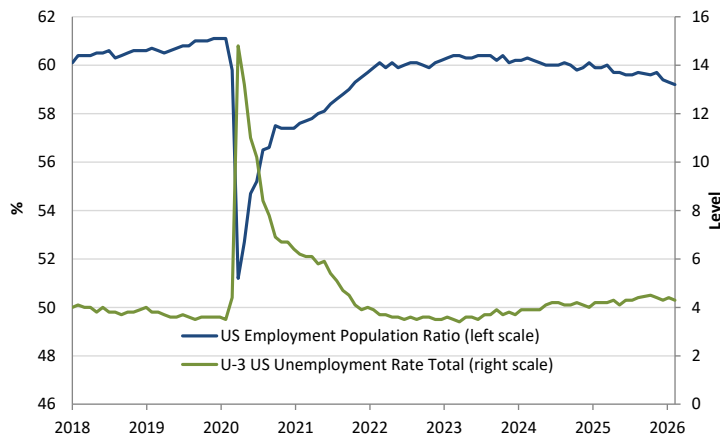
Expected inflation and CPI index - USA



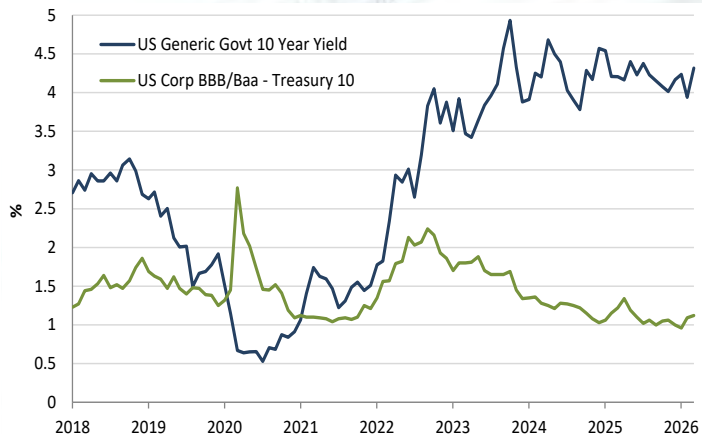
Fed Funds Futures



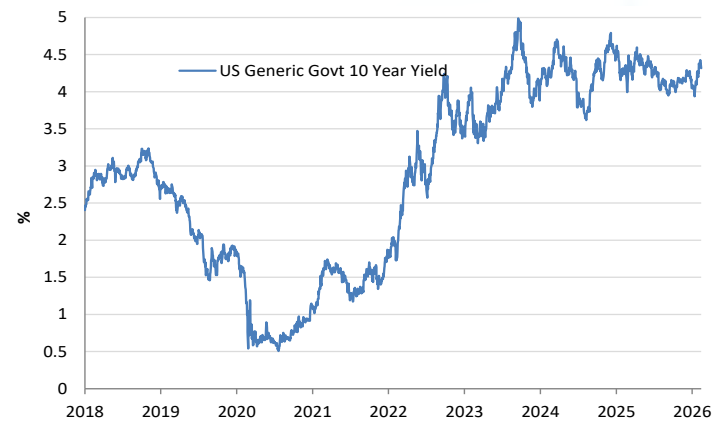
Unemployment and employment rates



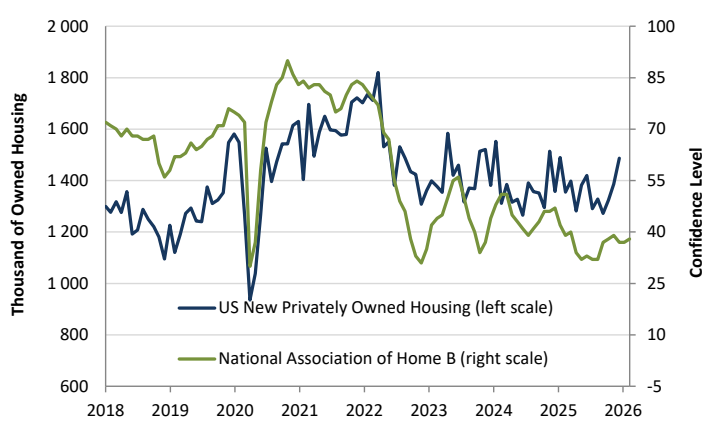
US Treasury-BBB 10-year yield spread



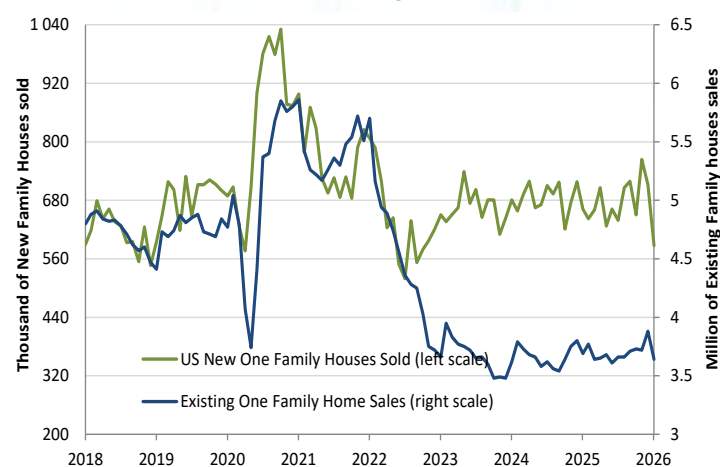
Interest rates on 10-year US Treasury bonds



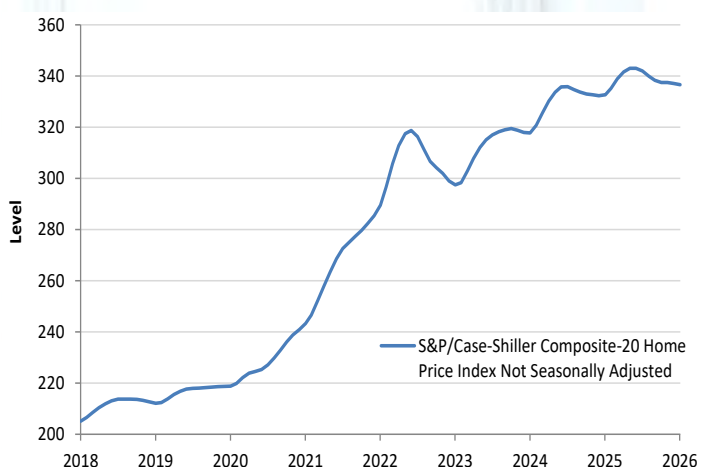
New housing and NAHB USA



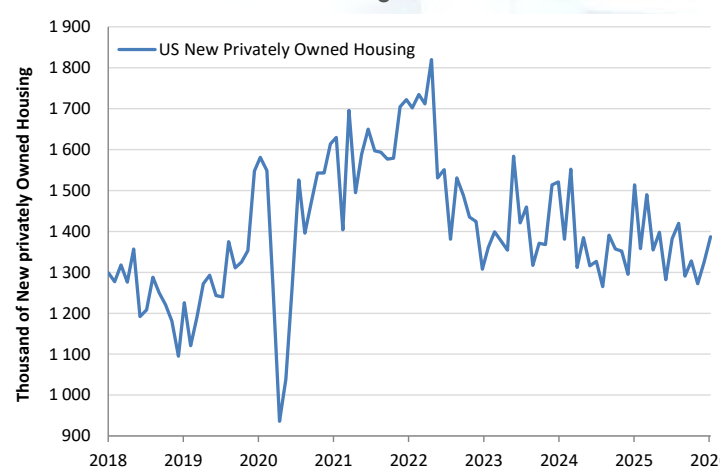
New and existing home sales



S&P Case-Shiller real estate prices



New housing starts



New MBA financing applications



MACROECONOMIC SCENARIO

Switzerland

- The war in the Middle East also threatens Switzerland
- Headwinds for the Swiss economy amid the oil shock
- Inflation likely to reverse course
- A new dilemma for the SNB ahead of its meeting
- The franc remains buoyed by the surge in geopolitical risks



The Swiss economy avoids a technical recession in Q4

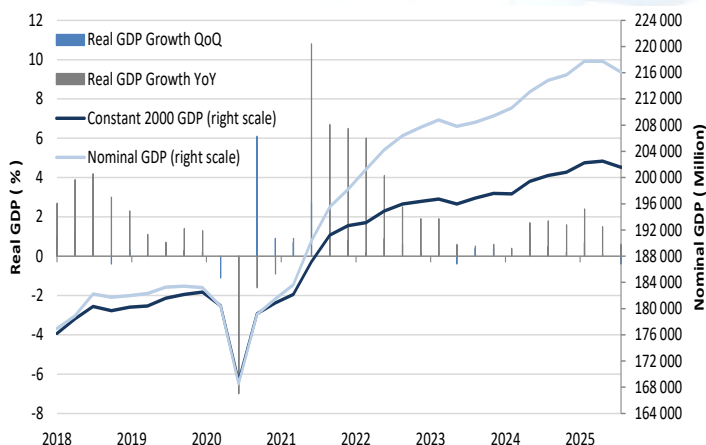
The release on February 27 of Swiss GDP figures for the fourth quarter of 2025 ultimately disappointed forecasters, who had on average expected a more pronounced recovery in economic momentum in our country. The 0.1% increase in Q4 nevertheless helped avert a technical recession following the 0.4% decline recorded in Q3. On an annualized basis, Swiss GDP ultimately rose by +0.7%, significantly better than the consensus forecast of +0.5%. Growth stabilized toward the end of the year. Value added in the industrial sector stagnated, while goods exports saw a slight rebound (+0.6%) after two quarters of decline. Chemicals and pharmaceuticals performed well with growth of +1.9%, while other sectors recorded a decline of -1.3%. It was domestic demand—driven by resilient private consumption (+0.4%) and continued strong activity in construction (+0.6%)—that prevented GDP from continuing its decline. The strength of consumption was reflected in retail sales figures (+2%). The services sector contributed only marginally (+0.2%) to the overall result. Adjusted for sporting events, GDP rose by +1.4% in 2025.

The war in the Middle East also threatens Switzerland

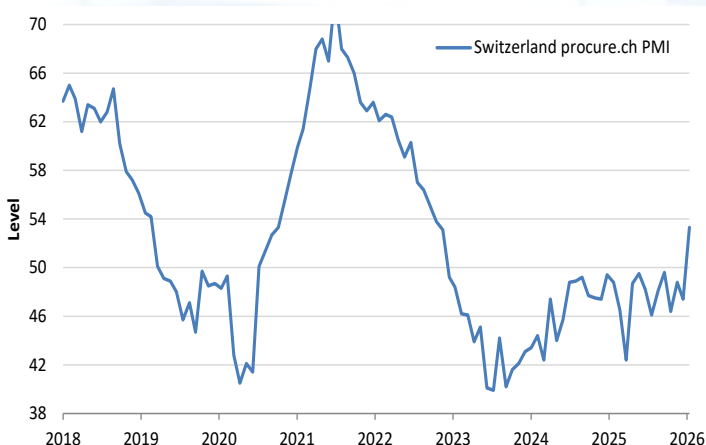
In the wake of the release of Switzerland's GDP figures, a new conflict broke out in the Middle East on February 28 involving the United States, Israel, and Iran, which now threatens the international political balance, the region's geopolitics, and the global economy through the potential effects of this war on the security of the world's energy supply. Although the conflict is thousands of miles away from Switzerland, our economy will be impacted by the conflict that has just erupted. First and foremost, it is important to remember that Switzerland also depends on imports of fossil fuels, the availability of which is not guaranteed and whose prices can fluctuate significantly depending on market conditions. Despite the diversification of its energy supply sources and the significant role of hydropower in its energy mix, Swiss hydrocarbon imports are also essential for ensuring the smooth functioning of our economy and account for approximately 70% of the total. We share legitimate concerns in the current context, which has

deteriorated very rapidly over the past few days and is characterized in particular by the Iranian military's blockade of the Strait of Hormuz and the increasingly significant involvement of Gulf countries in the conflict. In recent days, the escalation of the conflict and the intensification of bombings in Iran and across the Gulf states have unfortunately led to a significant increase in the risks to crude oil supplies on global markets. Merchant fleets and tankers are currently anchored off the Strait, awaiting new conditions that would allow them to pass safely. In a few days, if the conflict escalates, temporary storage capacities of various kinds will quickly run out, likely forcing oil and gas producers to at least partially suspend their pumping operations. Ultimately, restarting the shut-down oil facilities could also take longer and contribute to sustaining constraints on supply chains. Our bullish outlook for crude oil prices had already been partially realized with a 20% price increase in 2026 prior to the Israeli-American intervention in Tehran, but since then, the additional 69% surge to \$120/barrel at the market open on Monday, March 9, largely reflects growing concern and a certain degree of panic in the markets regarding the regionalization of the conflict and the risks of widespread escalation. Since the start of the year, the rise in crude oil prices has thus reached nearly 100%. To put things into perspective, after the outbreak of war in Ukraine on February 24, 2022, crude oil prices rose from \$98 per barrel to \$140 per barrel in seven days (+42%), before stabilizing between \$100 and \$120 for six months. The current situation seems very different to us, partly because it affects about 20% of global consumption and partly because President Trump does not seem willing to let this conflict drag on. But to continue the comparison on the main front of interest to Switzerland today, the impact on inflation, it is worth noting that rising energy prices were the primary driver of inflation in all countries in 2022, including Switzerland. In 2022, energy imports were a major contributor to the rise in imported inflation and producer prices, which reached +6.9% in May 2022 and also pushed the consumer price index to its peak of +3.5% year-over-year. If this conflict were to have a lasting impact on energy prices, its implications for inflation would obviously be detrimental to most economies.

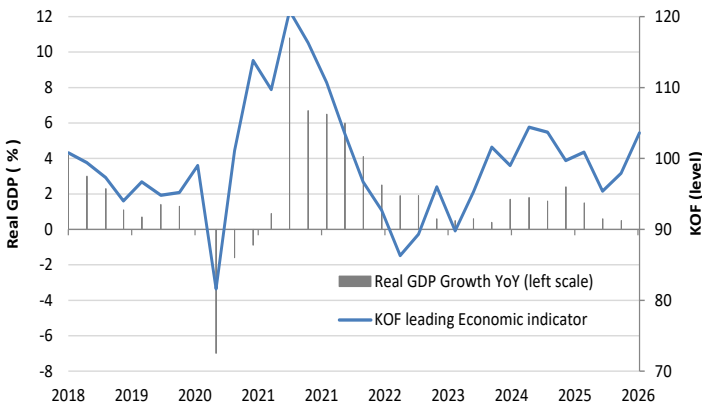
Nominal GDP - Nominal and real growth rates



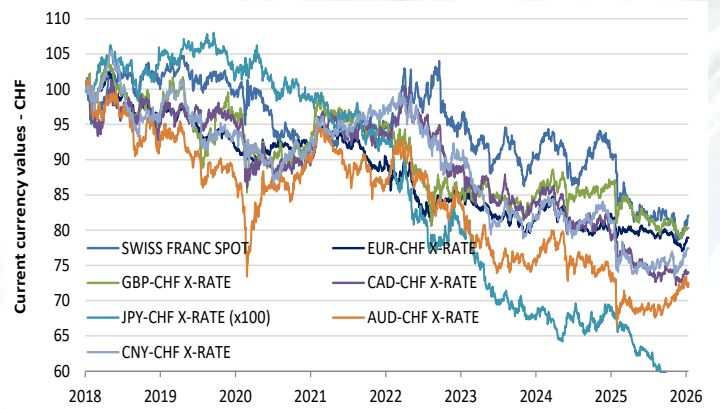
Swiss PMI leading indicator (purchasing managers)



Real GDP - Annualized growth - KOF Leading Indicator



Exchange rate CHF (base 100)



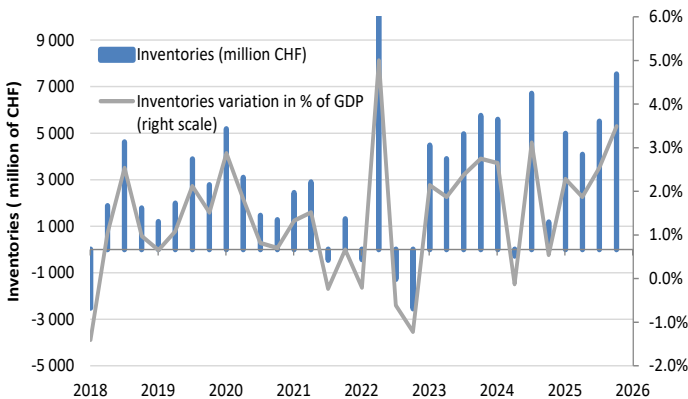
Headwinds for the Swiss economy amid the oil shock

Even before the outbreak of the conflict in the Middle East, the Swiss economy was already slowing down and had only just avoided a technical recession at the end of the year. The SNB's monetary policy remained cautious, keeping key interest rates "neutral," despite conditions that remained highly favorable for the franc, conditions that might have justified lowering rates into negative territory. The sudden and unexpected emergence of the risk of an ongoing oil shock therefore caught the Swiss economy off guard at a time of great fragility and weakness. In 2022, growth was on track, and the central bank could, given the circumstances at the time, allow the Swiss franc to appreciate. The rise in the franc had in fact largely helped curb the rise in import prices and inflation in our country. Today, the Swiss franc is practically at its highest level against the US dollar, after appreciating by about 14% over the past year, and is surprisingly not being sought after by investors as the primary safe-haven currency, as evidenced by its 1.4% decline against the dollar over the past week. If this initial trend continues and the increasingly uncertain international environment persists, we believe it is likely that the U.S. dollar will continue to gain ground as a safe-haven asset offering an attractive direct return. Unlike in 2022, this phenomenon will not help contain imported inflation in Switzerland but will, on the contrary, exacerbate its effects. As for Swiss growth, the slowdown we anticipate once again for the Swiss economy in the coming months will also be exacerbated by the risks that this oil shock poses to all economies, particularly those most dependent on oil, such as Japan, India, and China, as well as in Europe and many emerging markets. Highly exposed to international trade, the Swiss economy is therefore directly threatened, first by the likely slowdown in global growth in the first half of the year, which is bound to affect international demand and Swiss exports. It will also be threatened by increased risks on the domestic front. We anticipate a decline in domestic demand, both in terms of household consumption, as households adopt a more cautious approach, and in the construction sector, with both potentially affected by rising interest rates and financing costs. A prolonged conflict could well have a more significant impact on our economy than in 2022 by directly and rapidly affecting inflation expectations, which would trigger a completely unexpected adjustment in interest rates.

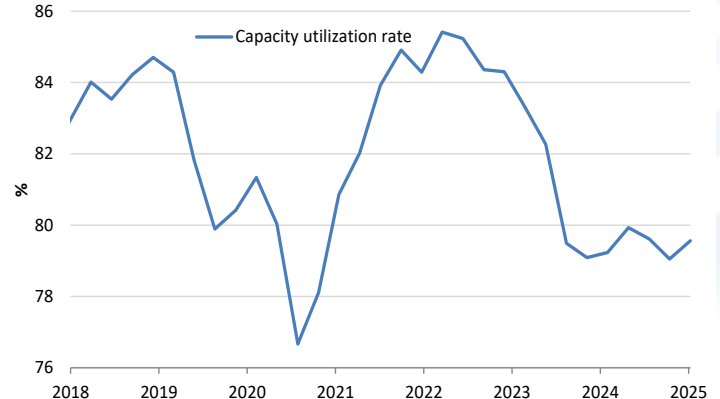
Inflation likely to reverse course

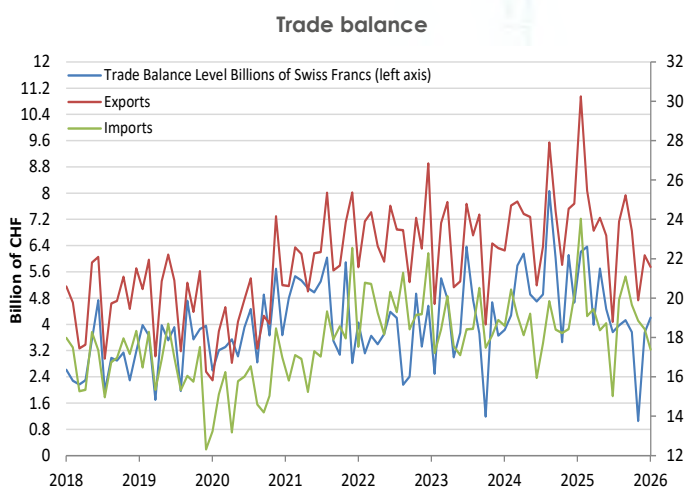
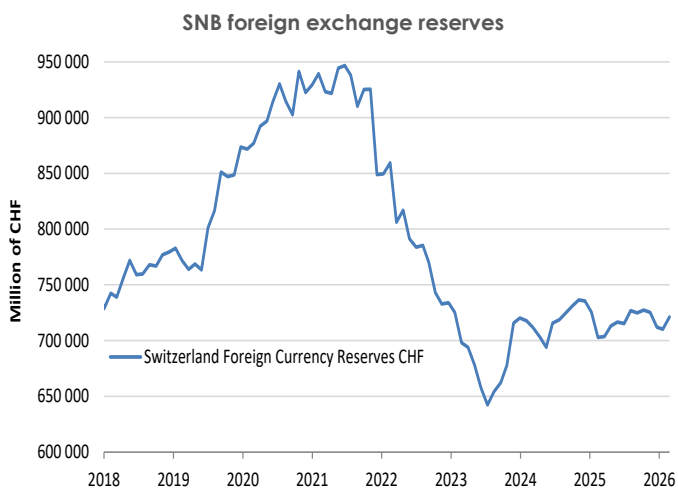
The CPI figure of +0.6% released for February might have seemed like a negative surprise, but this month often sees a notable increase due to the implementation of price hikes for administered goods and services, particularly rents. On a year-over-year basis, the CPI remained stable at +0.1%, which did not suggest any change in the SNB's monetary policy. Core inflation slowed to +0.4% from +0.5% in January. In February, energy was already making a positive contribution to price increases, particularly due to rising electricity prices. Services inflation remained low. Consumer price indices in February were well at the lower end of the SNB's target range (0%–2%), a critical situation, as the shock from U.S. tariffs had slowed economic activity against the backdrop of a strong Swiss franc, exacerbating downward pressure on prices. This disinflationary trend was even more pronounced upstream in the value chain, as evidenced by the Producer and Import Price Index (PPI) published for January (-1.9%), the lowest level since 2021. The strong franc made imported goods (energy, raw materials, consumer goods) significantly cheaper, thereby "importing" deflation into Switzerland. The war in the Middle East is dramatically altering the situation and now points to a likely reversal in global price trends, particularly in Switzerland. The 100% surge in crude oil prices is expected to quickly ripple through economies and affect producer prices, transportation costs, processing costs, and retail prices. The SNB's inflation forecast for 2026 was +0.2% excluding the impact of an oil shock. Although it is currently difficult to predict what the effects on inflation indices will be, we believe it is essential to revise these expectations in light of recent events. While the risks discussed to date have primarily concerned deflationary factors, the current environment reverses these risks and now suggests upside surprises in inflation. A comparison with the 2022 period, although significantly different, reveals upside risks that are not yet anticipated by the markets.

Inventories - Inventory change



Capacity utilization rate





A new dilemma for the SNB

The Swiss National Bank was likely preparing to defend its “wait-and-see” stance in the face of deflationary risks in Switzerland and a slowing economy. It has now been overtaken by new developments, which instead suggest a resurgence of inflationary risks potentially as significant as those seen in 2022 during the Russian invasion of Ukraine, should the ongoing conflict last several weeks and have a lasting impact on energy prices. On the monetary front, nothing has fundamentally changed in recent months regarding the value of the Swiss franc, which is likely not considered overvalued by the SNB. However, since the outbreak of this war, the franc has surprisingly not been the first safe-haven currency considered by investors, who have instead favored the dollar. The SNB might exceptionally consider that the franc is not as sought-after against the dollar in the context of the international crisis as it was before, but also assess that a strengthening remains likely against most other currencies. This situation may, in the very short term, nevertheless be a useful factor for the SNB, which did not wish to have to repeat the episode of negative interest rates to combat the strength of the franc and the deflation that was setting in. As expected, the SNB took no action at its meeting on March 19, 2026. It is keeping interest rates unchanged while waiting to see whether the new risks posed by rising energy prices will affect prices in Switzerland. Without knowing whether this rise will prove temporary or lasting, we believe that the policy will be to keep key interest rates at zero until June. However, the door will be open to a possible rate hike at the next meeting if the situation in the Middle East remains tense and crude oil prices end up weighing on inflation.

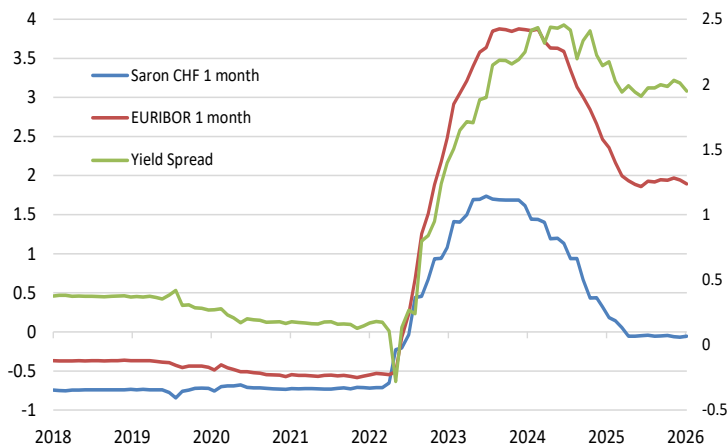
The franc remains buoyed by the surge in geopolitical risks

After nine months of stabilization at a high level, the Swiss franc’s current strength, driven by a demand for safe-haven investments, illustrates a striking paradox at a time when recession risks remain and the interest rate differential works against it. The franc remains a safe haven against most other currencies in the current context of war in the Middle East, which is likely to affect the global economy and supply chains even more severely than in 2022 during the invasion of Ukraine. In this new context, it is difficult to foresee a weakening of the franc, despite its already significant recent appreciation, which would justify a consolidation.

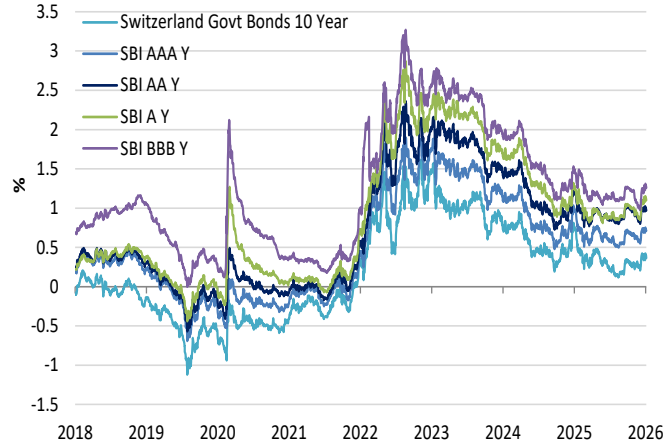
Inflation risks are turning the bond market on its head

In our most recent strategic analyses, we concluded that the risk-return profile had become thoroughly unfavorable and consequently recommended maintaining our underweight stance on Swiss bonds, which no longer offered any yield but, on the contrary, guaranteed an erosion of nominal capital. However, the risks of a trend reversal were not immediate given the growing risks of recession in our country and inflation near zero. The SNB’s expected monetary policy was set to remain accommodative in this context and could even temporarily shift to negative rates if deflation and the slowdown were to intensify. The scenario is now significantly different following the recent dramatic developments in the Middle East. The risks of a reversal in the trend of inflation in Switzerland are now significant and will affect the fixed-income market very quickly. We also noted in our previous analyses that an external shock could occur and trigger a reassessment of expectations for Swiss bonds. Today, these risks are materializing and could push 10-year Swiss government bond yields from 0.2% to 0.8%-1%. We therefore maintain our recommendation to adopt an extremely cautious approach to Swiss bonds.

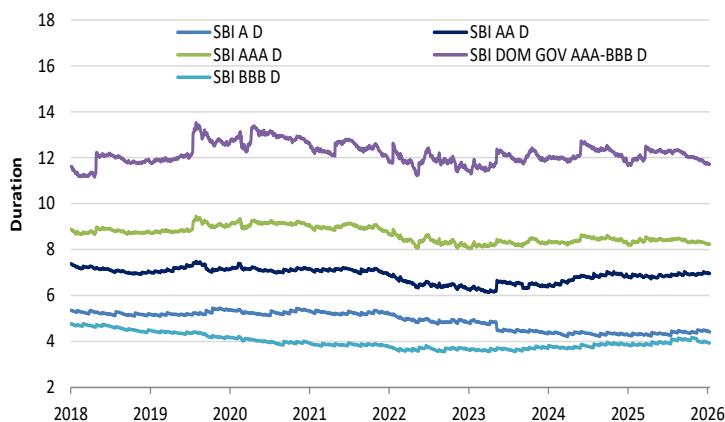
Saron/Euribor 1-month spread



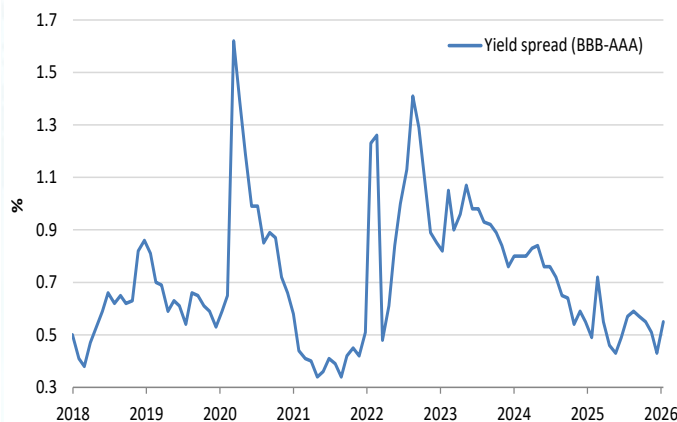
Interest rates (Confederation, AAA, AA, A, BBB)



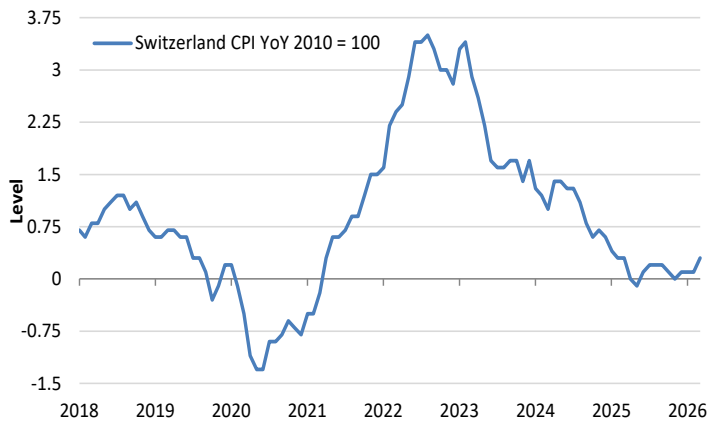
Duration of Swiss bonds



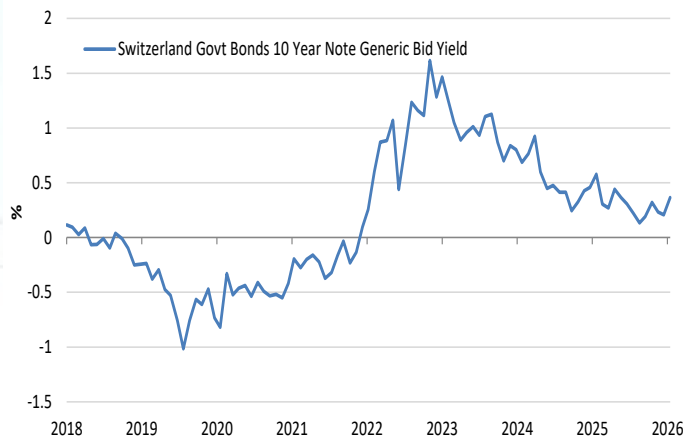
Yield spread



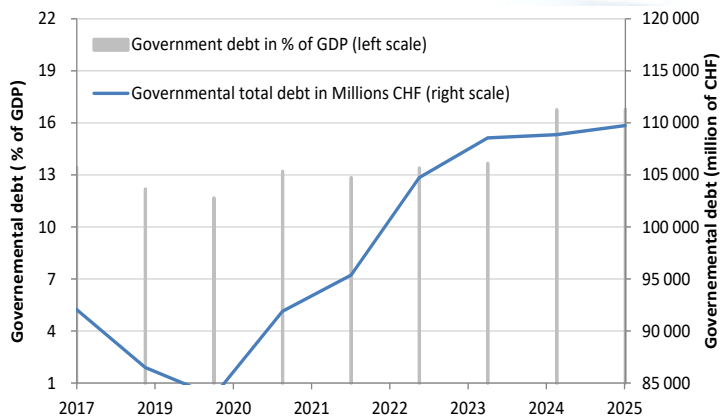
CPI Inflation



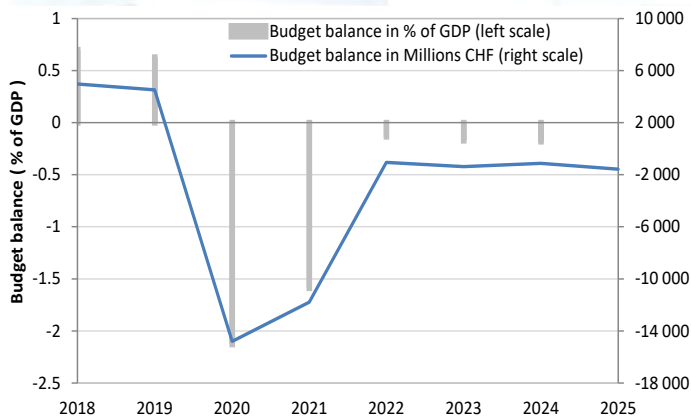
Confederation long rates since 2018



Total federal debt



Federal budget balance



MACROECONOMIC SCENARIO

Eurozone

- Will GDP forecasts for the first half of the year be revised down to zero?
- Leading indicators point to stagflation
- Inflation: Energy risks set to return in 2026
- ECB policy shift: three rate hikes in 2026?



The positive trend seen in Q4 was severely called into question in Q1

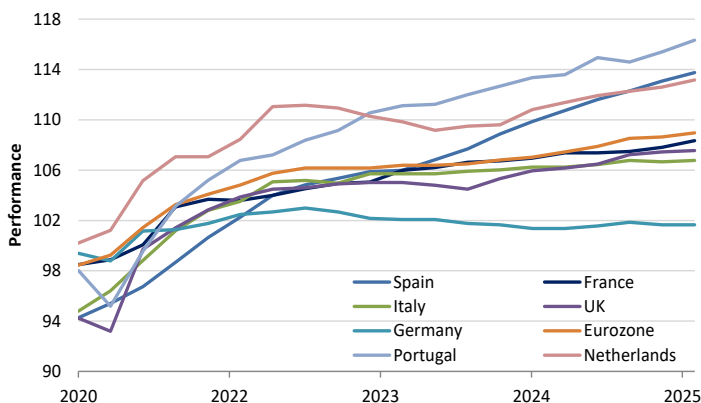
The momentum of the recovery is proving to be slightly less robust than expected following the revision, despite the easing of political uncertainties and the gradual recovery in demand. Q4 GDP is now estimated at +0.2%, while for 2025 as a whole, growth has consolidated at +1.2%. The eurozone economy thus ended the year on a positive, albeit relatively modest, note, as we had anticipated, thanks to the continued easing of credit conditions and disinflation. Private consumption (+0.4%) and public spending (+0.5%) supported growth, in contrast to inventories. Overall, the eurozone demonstrated impressive resilience amid trade adjustments, undoubtedly thanks to a labor market that remained close to full employment, allowing household spending and investment to stay at a healthy level. The environment of low interest rates and a more accommodative monetary policy also contributed to this positive trend. The recovery has thus taken hold, but its sustainability remains to be confirmed, particularly regarding exports and in Germany. The zone's resilience was driven notably by the strength of France (+0.2%), Germany (+0.3%), Italy (+0.3%), and Spain (+0.8%). Spain (+0.8%) confirmed its current status as the driving force with robust growth, supported by a still-thriving services sector. Overall, consumer confidence was driven by falling energy prices and subdued inflation. These nations were on a clearly more promising trajectory, but in contrast to this momentum, Europe's traditional industrial heartland was still struggling to gain momentum, raising questions about the pace of Germany's recovery. Germany, in fact, recorded growth of +0.3%, emerging from stagnation but without a real rebound. Its economic model remains hampered by the costly energy transition and by Chinese demand which, although stabilizing, weighs on its industrial competitiveness. This German fragility indirectly affects Italy, whose manufacturing sector remains highly dependent on orders from across the Rhine. Ultimately, the fourth quarter of 2025 did not show a promising acceleration, but rather a slow convergence toward more uniform, low-level growth. Uncertainty related to trade barriers had certainly weighed on sentiment in Q3, but this factor faded, supporting a recovery in industrial orders in Q4. It is also worth noting,

in this regard, that the global economy has held up fairly well in the face of the price shock and that it could now draw on improving domestic fundamentals and global trade at the start of the year. That said, while initial growth estimates suggested stronger momentum in early 2026, with GDP expected to grow by +0.3% in Q1, the outbreak of the crisis in the Middle East will also affect the eurozone, which is highly sensitive to energy and gas supplies from the region, and alter the outlook.

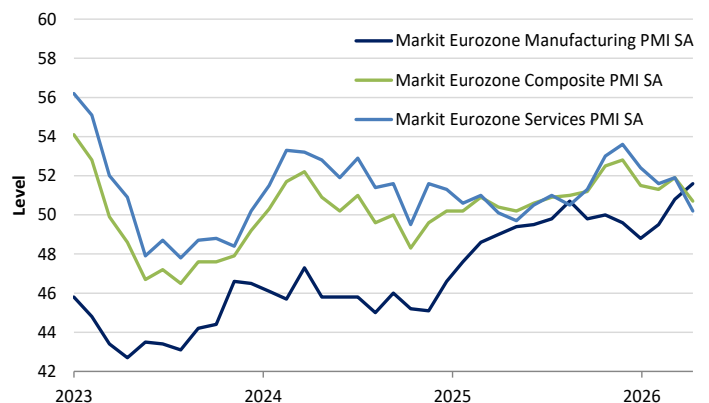
Will the GDP forecast for the first half of the year be revised to zero?

The energy crisis originating in the Middle East is indeed drastically reshaping the outlook for the eurozone at the start of 2026. Just as the monetary union was hoping to consolidate its recovery, the total closure of the Strait of Hormuz and attacks on oil infrastructure have sent Brent crude above \$110 a barrel, sending shockwaves through gas prices. Unlike the United Kingdom, which has its own production in the North Sea, the eurozone is bearing the full brunt of its dependence: nearly 20% of its oil imports and a growing share of its LNG (particularly from Qatar) pass through this conflict zone. This structural vulnerability, a legacy of the shift from Russian gas to more volatile global supplies, is once again putting the European industry under severe strain. The coordinated response by the International Energy Agency (IEA), which authorized the historic release of 400 million barrels of strategic reserves, has helped curb the sharp rise in prices, but the effect remains precarious. For the eurozone, this use of emergency stocks acts as a short-term buffer, preventing a physical supply disruption, but it does not solve the inflationary equation. Inflation could rise back toward 3% in the second quarter of 2026, forcing the Frankfurt-based institution to reconsider its monetary policy. This "supply shock" is already affecting confidence indices and production costs, particularly in Germany and Italy, where the industrial sector is most sensitive to fluctuations in energy inputs. The decoupling observed in late 2025 is likely to intensify. While France and Spain are holding up thanks to more diversified energy mixes or a less energy-intensive services sector, Europe's manufacturing heartland is

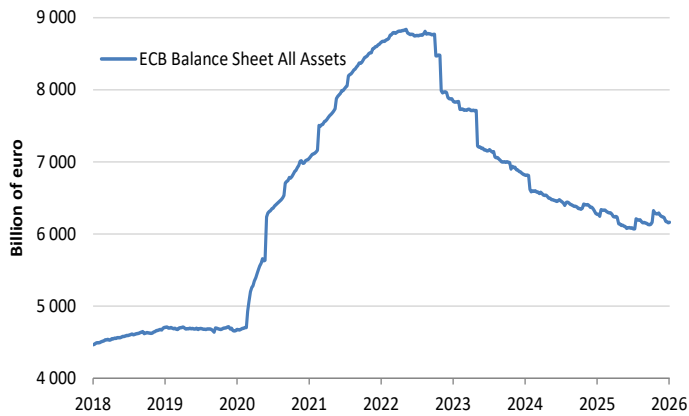
Croissance du PIB — Euro-zone



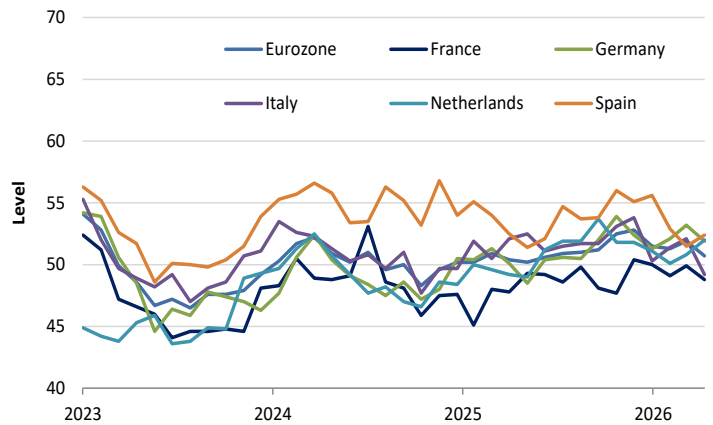
PMI manufacturier, service et composite



ECB balance sheet



PMI Composite - Countries



seeing its margins erode. The release of reserves offers a tactical of 2026 marks not only a price crisis but a fundamental challenge to the Union's energy security. The region's resilience will now depend on its ability to transform this emergency into an acceleration of its strategic autonomy, or risk seeing its growth permanently curtailed by this new geopolitical reality. We believe the eurozone will soon feel the effects of this shock on growth in most of its member countries. GDP, expected to grow by +0.5% in Q1, could well fall to 0% during the first half of the year.

Leading indicators point to stagflation

The Eurozone Composite PMI fell to 50.5 in March (from 51.9 in February), its lowest level in 10 months. Although it remains just above the 50-point threshold, this reading indicates that expansion in the private sector has virtually stalled. The decline is directly attributable to the conflict in the Middle East, which has led to a drop in new orders and soaring costs. Against all expectations, manufacturing reached a 45-month high (51.4), largely driven by Germany, where production accelerated. However, this momentum is precarious, as delivery times have lengthened considerably due to disruptions in the Strait of Hormuz, signaling upcoming bottlenecks. The services sector (50.1) is the weak spot in March. The sector, which was driving growth at the end of 2025, is now teetering on the brink of contraction. Household confidence plummeted by 4.0 points, reaching its lowest level since 2023. The immediate rise in energy prices (gasoline, heating) is eroding purchasing power and weighing on consumption of services (leisure, transportation). The March indicators serve as warning signs for the coming months. Inflation, which had fallen below 2% in February, is showing signs of a rapid rebound. This reduces the ECB's room for maneuver at a time when businesses will need liquidity to weather the energy shock. The business confidence index has turned negative, suggesting that investments planned for the spring may be postponed until oil prices stabilize.

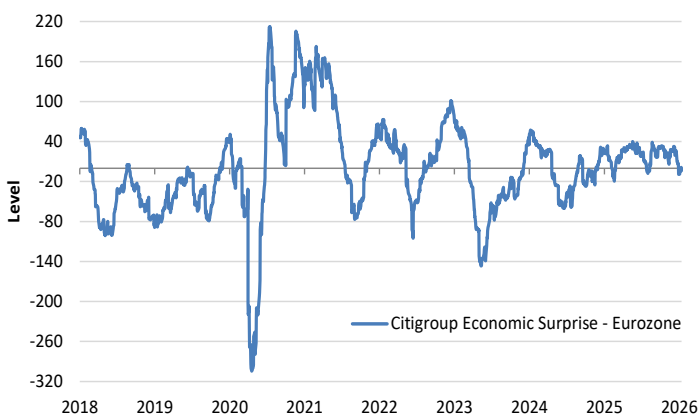
Consumer confidence is plummeting

Consumer confidence in the eurozone has come to a sudden halt after a start to the year that had raised hopes of a consolidation of the recovery. Available statistical data show a clear deterioration, driven mainly by the new energy shock linked to tensions in the Middle East. The "flash" consumer confidence indicator, published by the European Commission on March 23, 2026, plummeted by 4.0 points to -16.3. This is the lowest level recorded in nearly two and a half years. This plunge is far steeper than analysts' forecasts (which had projected -14.4). It reflects immediate concern over rising prices at the pump and higher gas bills, which are eroding purchasing power that was thought to have stabilized. The situation is particularly tense in the eurozone's largest economy. The GfK index, which measures consumer sentiment for April (published in late March), fell to -24.7. The savings component climbed to a record high of 18.9 points. German households, worried about the future, are holding back on consumer spending to build up reserves. The impact on purchasing intentions is clear: the indicator has plummeted from -4.0 to -9.3, signaling a freeze on major purchases (home appliances, automobiles). In France, INSEE released its data on March 26. After a slight rebound in February (91 points), the composite indicator has stalled. Inflation expectations are rising after several months of decline. In the real estate sector, sentiment is particularly affected by rising mortgage rates, a direct consequence of the ECB's forced pause and new risks in its rate-cutting cycle, which is stalling households' purchase plans.

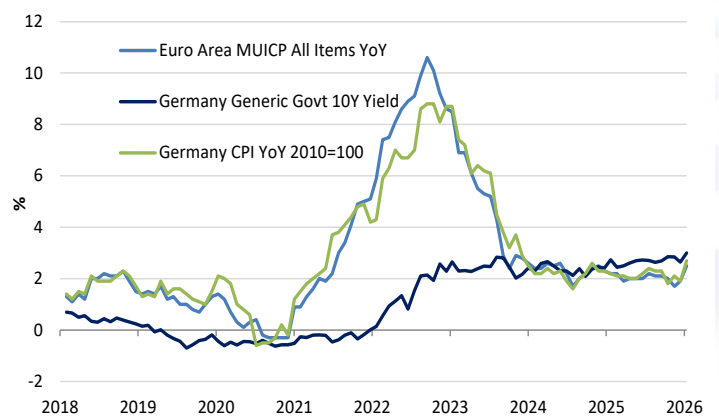
Inflation: Energy Risks Set to Return in 2026

The scenario of a smooth stabilization of prices at the start of 2026 has been shattered by geopolitical tensions. Just as the battle against inflation seemed technically won, the eurozone is facing a new "supply shock" that renders the forecasts from the beginning of the quarter completely obsolete. Headline inflation, which was

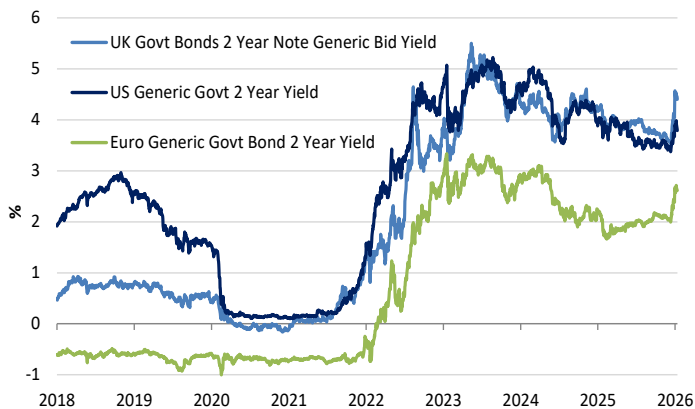
Citigroup Economic Surprise Indicator - Eurozone



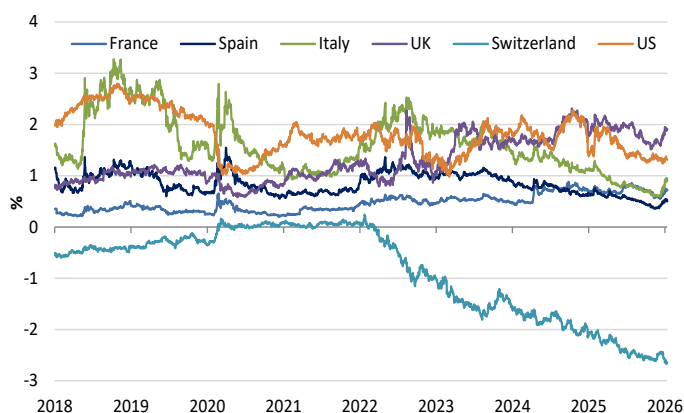
10-year interest rate - CPI



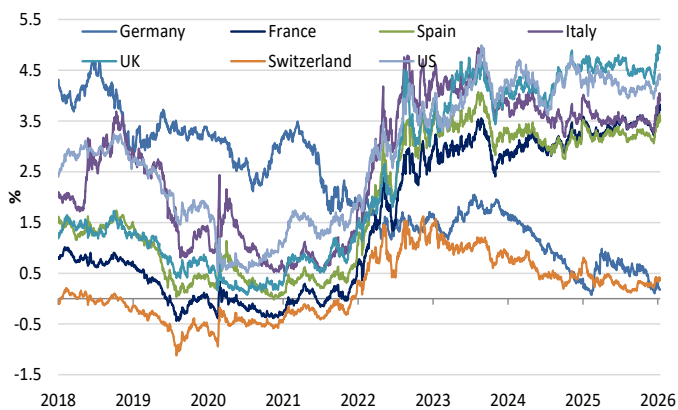
2-year government rates (US, Euro, UK)



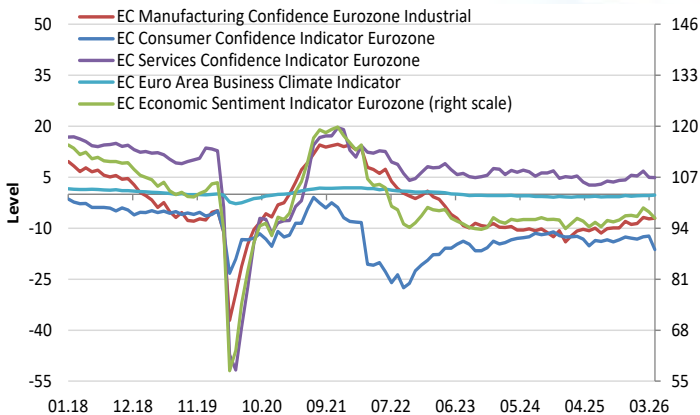
Government risk premium vs. Bund



10-year government bond yields



Economic Confidence Index in Europe



expected to be between 2% and 2.3%, rebounded sharply to reach 3% in March, breaking the momentum toward the ECB's target. This reversal is driven by extreme volatility in energy components. Base effects, which were expected to be neutral, have turned inflationary as the price of a barrel of Brent crude has settled firmly above \$100. This real increase is already being passed on to prices at the pump and to electricity rates for businesses. In the industrial sector, we should soon see a resurgence of inflationary pressures due to rising energy costs, which threaten to be passed on to ex-factory prices as early as the second quarter. The risk is no longer that of inflation stagnating around a 2% growth rate, but rather that of it becoming firmly entrenched above 3% for most of 2026. For the ECB, the "last mile" has turned into a steep climb. This new paradigm will force the institution to suspend its rate-cutting cycle, as the risk of household inflation expectations soaring again is very real. Ultimately, 2026 will not be the year of the "final phase of disinflation," but rather one of crisis management in the face of a new painful episode of imported inflation. Convergence toward 2% is pushed back, at best, to 2027. Inflation is once again becoming the major cause for concern, weighing on household consumption and also radically complicating the fiscal equation for member states.

ECB policy shift: three rate hikes in 2026?

The ECB's initial response in March 2026 marked a shift toward "extreme caution" in the face of the oil shock. The institution had to revise its communication strategy to address this external crisis, which threatened to completely derail the disinflationary trend that had prevailed until recently. The ECB President spoke in a significantly less positive tone, quickly acknowledging that the Middle East crisis clearly constituted a new and entirely unexpected supply shock. The ECB acknowledged that inflation was no longer following the expected downward trajectory, describing the rise in energy prices as a "serious threat to price stability in the medium term." It reaffirmed that any rate cut is now off the table until volatility in Brent crude prices subsides. The rhetoric has shifted from "rate normalization" to "necessary vigilance." The primary concern now is that rising energy prices will feed into wages, creating an inflationary spiral that is difficult to break. In response to this crisis, the ECB has several tools at its disposal that it is already beginning to adjust. The most immediate option is to keep rates at their current level for an extended period. The market, which had anticipated further rate cuts by summer, now expects at best a status quo, but more likely a tightening of monetary policy, particularly if oil prices rise above \$120 per barrel, for example. Second, the ECB could act by returning to liquidity management (Quantitative Tightening) to offset imported inflation. It could accelerate the reduction of its balance sheet (QT) to tighten financial conditions without necessarily raising key rates sharply. This is the most favorable scenario for crisis management, based on maintaining current rates throughout the second half of 2026. However, we believe the ECB should nonetheless be concerned about energy prices and their spillover effects on other sectors. It will likely not hesitate, if necessary, to conclude that the more pessimistic inflation scenario is materializing and justifies gradual rate hikes in 2026. For their part, financial markets are already pricing in three 0.25% rate hikes in 2026.

Rising bond yields and risk premiums

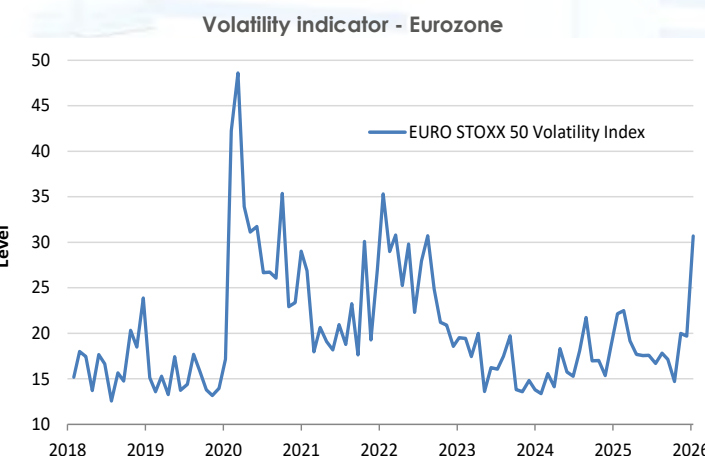
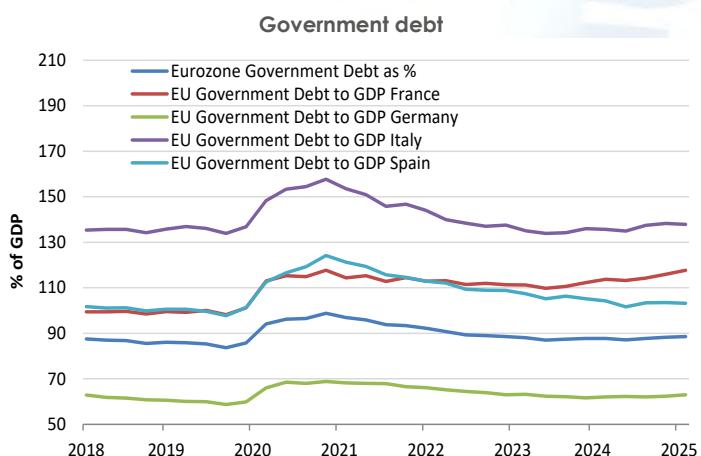
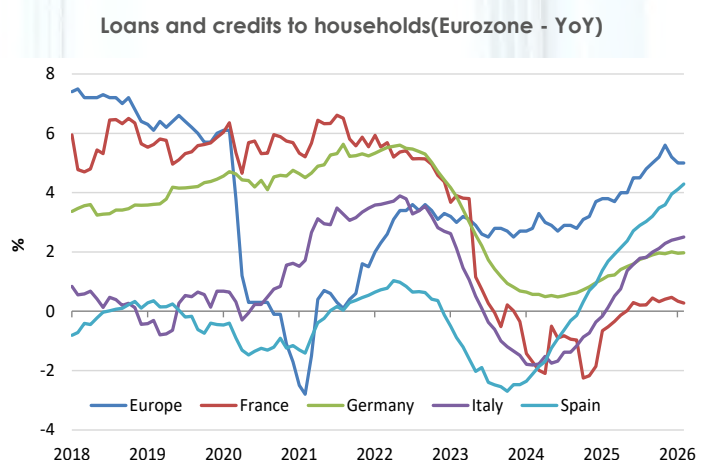
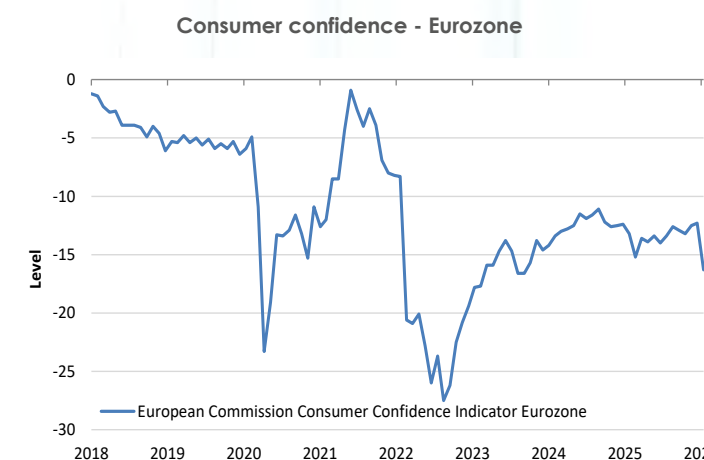
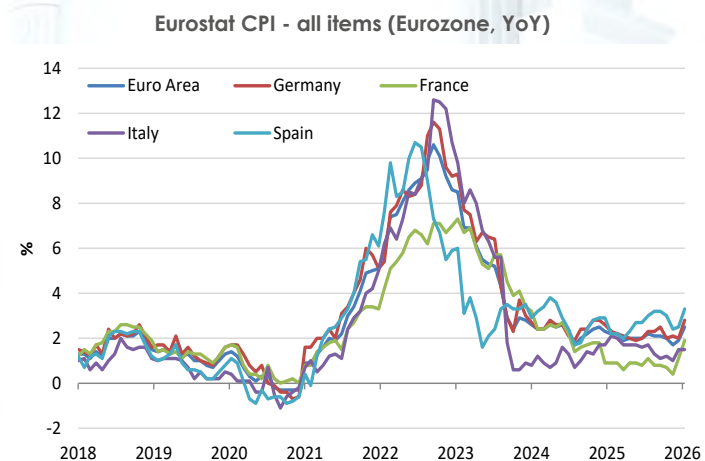
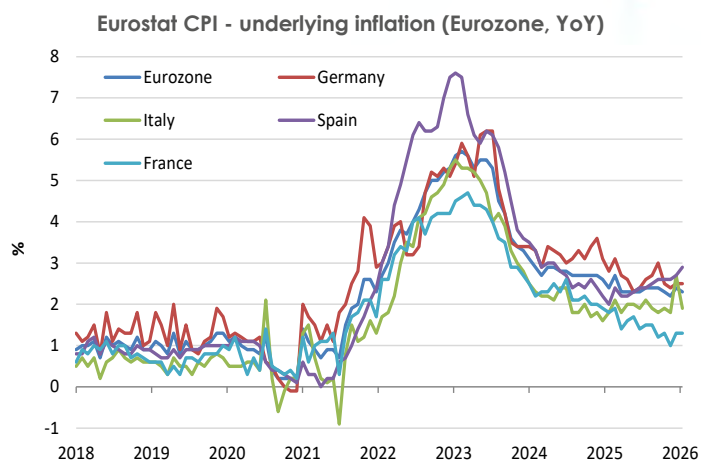
Before the outbreak of the Iran conflict, the overall trend had turned positive again and pointed to a further flattening of yield curves in the eurozone. The German Bund had resumed a downward trend and stood at 2.65%, down from 2.9% at the end of January. European bond markets reacted with rare severity in March 2026, pricing in a complete shift in the monetary paradigm within just a few trading sessions. The shift from a disinflationary scenario to fears of an oil shock triggered a sharp spike in yields and a reconfiguration of yield curves. The shockwave from the Middle East immediately pushed up long-term inflation expectations. Investors sold off debt securities en masse, driving yields higher. The 10-year German Bund, the market benchmark, crossed the psychological threshold of 3%. The French 10-year OAT rose toward

3.8%, returning to levels of tension not seen in several years amid real risks of rising inflation in the eurozone. At the same time, we are seeing a return of the risk premium, with spreads widening, signs of increased consideration of the various respective situations. The outlook remains highly uncertain and calls for a degree of caution in light of the risks of rising inflation, particularly in the short term.

of 1.15, and if the price of Brent crude settles sustainably above \$110, the stagflation scenario in Europe could push the euro/dollar toward a new target of 1.10, representing a 5% decline. The performance of the EUR/CHF pair will depend on respective monetary policies, particularly the SNB's willingness to act to control the franc's appreciation. A return to the 0.93–0.94 range seems likely to us in the second quarter.

The oil crisis is weighing on the euro against the dollar

The euro faces a threefold challenge: geopolitical, energy-related, and monetary. Tensions in the Middle East have radically altered the outlook for the dollar and the Swiss franc. The U.S. dollar has resumed its role as a safe-haven asset and "petrodollar." Unlike the eurozone, the United States is a net energy exporter, which automatically makes the greenback more attractive during an oil shock and the economy more resilient. Economically speaking, there is therefore reason to fear that the European economy could slip into stagflation before the U.S. economy does, even if the ECB becomes more "hawkish" due to inflation. The pair has broken through the psychological support level



MACROECONOMIC SCENARIO

United Kingdom

- A difficult end to the year and a major geopolitical shock in 2026
- An imminent reversal in PMI leading indicators
- Inflation once again threatened by the oil shock
- The BoE maintains the status quo in the face of inflationary pressures
- Changing expectations for the British pound



A difficult end to the year and a major geopolitical shock in 2026

The British economy entered 2026 in a highly vulnerable position, oscillating between faint signs of resilience and persistent headwinds. Data from the first weeks of the year suggested falling inflation and a cooling labor market, pointing to prospects for monetary easing. However, the outbreak of a major conflict in the Middle East in late February 2026, involving strikes between the United States, Israel, and Iran, sent massive shockwaves through global markets. European gas prices doubled in a matter of days, and the price of a barrel of Brent crude surged by more than 26% to exceed the psychological threshold of \$100. This external energy shock has struck a British economy already on its last legs. The medium-term implications of the massive rise in energy prices on inflation will be significant for the vast majority of countries, including the United Kingdom. The technical rebound at the start of the year, supported by slightly stronger domestic demand for goods, remains extremely fragile. Arithmetically, it will not be enough to offset the slowdown in services in the face of this new and very serious threat of a resurgence in inflation. The situation that is unfolding, if it were to persist, could have effects similar to those observed in 2022 during Russia's invasion of Ukraine. This potential new "inflation tax" would directly erode consumers' purchasing power. Marine insurance premiums have quadrupled for ships transiting the Red Sea, immediately putting unprecedented upward pressure on the prices of goods imported from Asia. These severe logistical bottlenecks also serve as a painful reminder of the post-COVID supply chain paralysis. Indeed, analysts expect energy prices to surge as early as April, wiping out the meager wage gains anticipated. They are already sharply revising downward their growth forecasts for Q2 2026 to -0.4%. The specter of severe and prolonged stagflation is looming.

toward outright stagnation. The post-election euphoria has definitively faded, giving way to budgetary realities and global headwinds. Year-end data marked a notable shift in sectoral momentum. The services sector was stalling, hampered by high operating costs. The main engine of growth, which had still been in robust health just a few months ago, saw its activity slow sharply.

Household confidence is set to take a hit

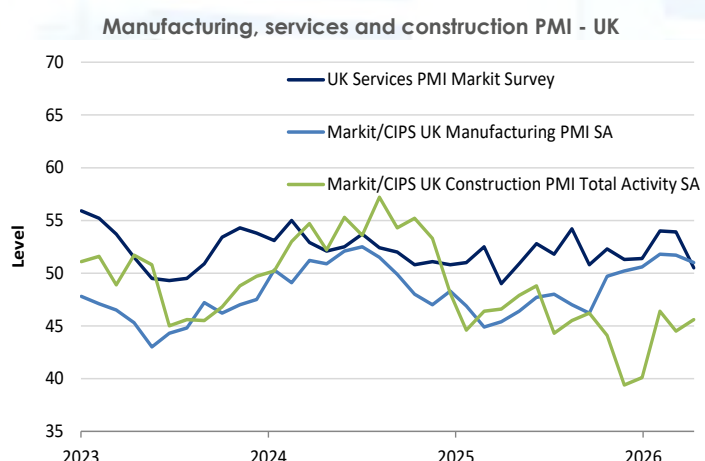
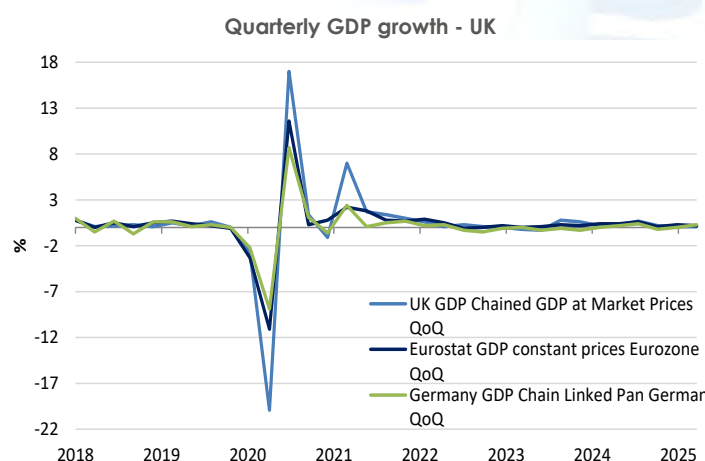
The latest confidence surveys (GfK) confirm that consumer sentiment had already taken a hit in February (-19), before hostilities broke out in the Gulf. It was hit even harder in March by the geopolitical reality. This figure is all the more worrying given that it comes at a time when the British were finally hoping for a respite. The specter of higher gas prices at the pump and rising heating bills is reigniting the trauma of the 2022 energy crisis. The major purchases index has plummeted, sending a very clear signal that households are postponing discretionary spending (on appliances, cars, and home renovations) to prepare for a further loss of purchasing power. GfK's composite indicator is expected to quickly reflect this shift in risk perception. In response, precautionary savings are likely to rise rapidly, depriving the local economy of a vital source of fuel. Meanwhile, the use of unsecured consumer credit is reaching critical levels, threatening to turn into a growing wave of defaults.

Inflation once again threatened by the oil price shock

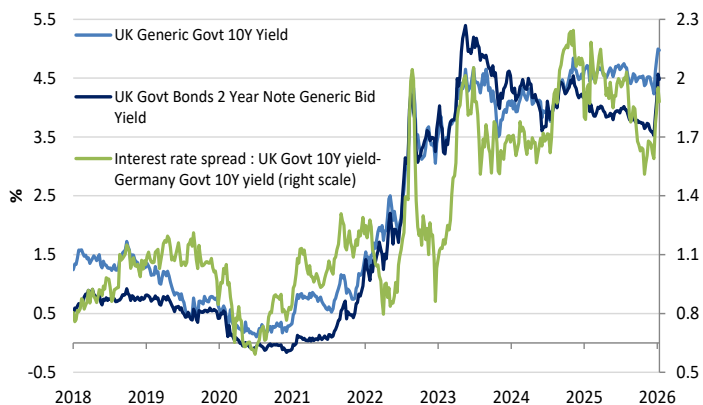
The latest inflation figures for January 2026, however, marked a very positive turning point. Inflation (CPI) had fallen to 3.0% year-over-year, down from 3.4% in December 2025. This decline, driven by falling food prices, pointed toward normalization and a return close to the 2% target. However, the war in the Middle East has just wiped out this progress in record time. Taking the latest geopolitical developments into account suggests that energy costs are surging again and that UK inflation could now climb back toward 4.0% by summer if the conflict

An imminent reversal in PMI leading indicators

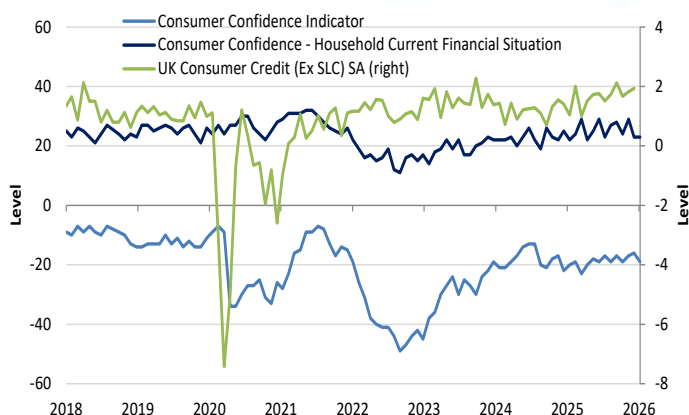
The release of the latest PMI indices confirmed the shift in the British economy's trajectory. While the start of 2025 had been driven by a dynamic services sector, leading indicators pointed to a renewed slide



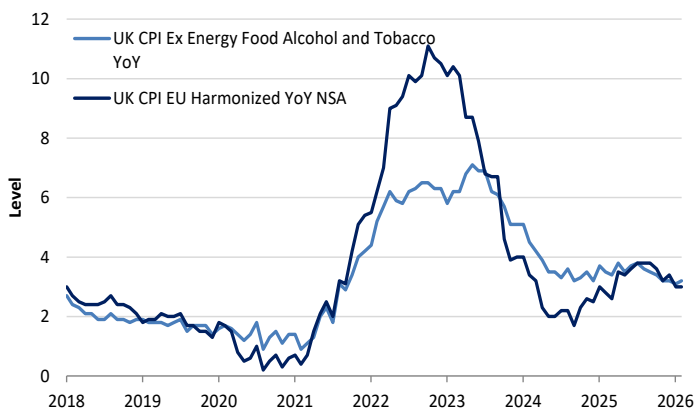
UK 2-year and 10-year government rates



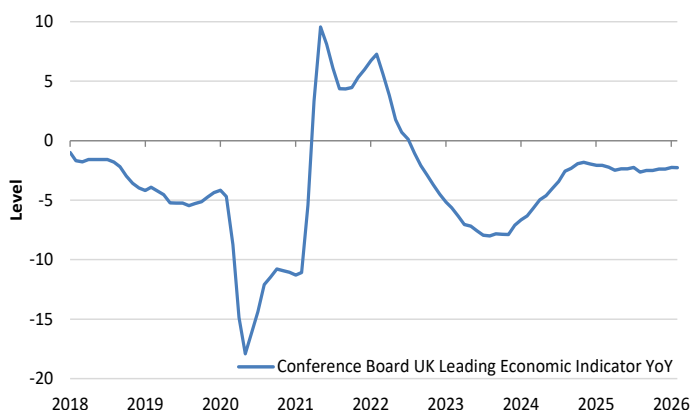
Consumer confidence



CPI Inflation



Advanced indicator



persists and the Strait of Hormuz remains disrupted. The battle against soaring prices, which seemed on the verge of being won, is once again the top priority. Against this backdrop, second-round effects are once again threatening the economy, forcing authorities to revise all their plans. Core inflation (excluding energy and food) is also proving more persistent than expected, due to price rigidity in the private healthcare sector. The sudden rise in fertilizer and transportation costs also points to a new wave of food price hikes by next fall. Furthermore, service inflation—a key indicator for the Bank of England—remained high at 4.4%, driven by wage increases. A wage-price spiral is taking hold, projecting a rise in headline inflation above 4.5% through the end of 2026. This severe macroeconomic deterioration will reduce real disposable household income by 1.50%, casting serious doubt on hopes for a rapid recovery in domestic consumption.

The BoE maintains the status quo in the face of inflationary pressures

Against this backdrop of external shocks, the Bank of England’s Monetary Policy Committee (MPC) finds itself once again at a historic crossroads. The current policy—with the base rate held at 3.75% in February—was expected to be eased. Just a few weeks ago, markets estimated the probability of a rate cut as early as the March 19, 2026, meeting at over 80%. Today, that probability has plummeted. The BoE is forced to change its tone and indicate that the risks to inflation now outweigh the risks of recession. Futures contracts now anticipate almost no rate cuts for the entirety of 2026. The BoE cannot afford to ease its policy while oil prices are soaring, at the risk of seeing the pound sterling plunge. We believe the BoE will maintain a prolonged status quo, sacrificing short-term growth to avoid stagflation at all costs. Recent statements by Governor Andrew Bailey confirm this abrupt shift: the utmost vigilance is required in the face of risks. Quantitative tightening (QT), meanwhile, will continue at an aggressive pace of 100 billion pounds per year, further drying up the liquidity available to retail banks. As a result, markets now consider it likely that there will be another 25-basis-point rate hike before the end of the year if the energy crisis worsens. This shift in monetary policy, combined with the central bank’s “quantitative tightening” program, will make it more difficult for economic agents to secure financing.

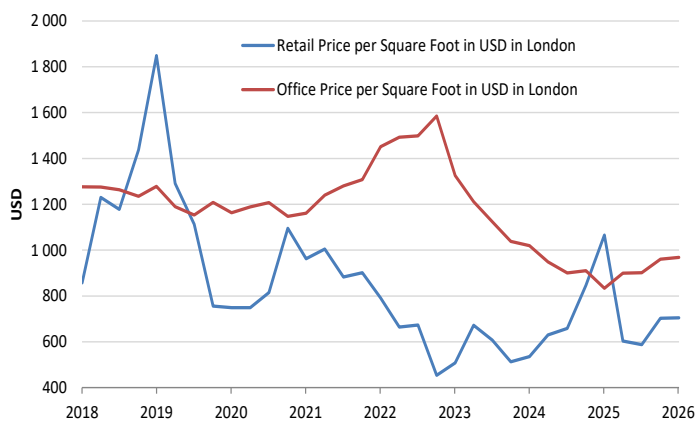
Sharp rise in bond yields

In this uncertain environment, the sovereign bond market is experiencing volatility not seen since the 2022 mini-budget crisis. The nominal yield on two-year British Gilt, which had stabilized around 3.55%, surged dramatically in just a few days to exceed 4.12%, its highest level since April 2025. This massive surge reflects investors’ capitulation as they abandon their expectations of rate cuts. This trend makes new government bonds significantly more attractive to yield-seeking investors, but is generating steep unrealized losses for existing portfolios. Ten-year Gilt were not spared, easily breaking through the psychological barrier of 4.40% in a massive rally of nearly 60 basis points in just a few days. Long-term rates are once again near their highest levels in recent years, at 4.82%. At the same time, risk premiums on corporate bonds (spreads) have widened by more than 45 basis points in the space of two weeks, reflecting extreme nervousness regarding the refinancing wall that highly indebted companies will soon face. The high-yield bond segment has been hit even harder, with yields crossing the critical threshold of 8.5%. Moody’s thus forecasts that the default rate for British companies will double, reaching 6.8% by the first quarter of 2027. Faced with a wall of maturities estimated at over £100 billion over the next eighteen months, value destruction is accelerating. Risk aversion is causing a prolonged freeze in the primary market. As a result, sterling-denominated bonds offer an attractive nominal yield and a positive real yield similar to that of U.S. bonds.

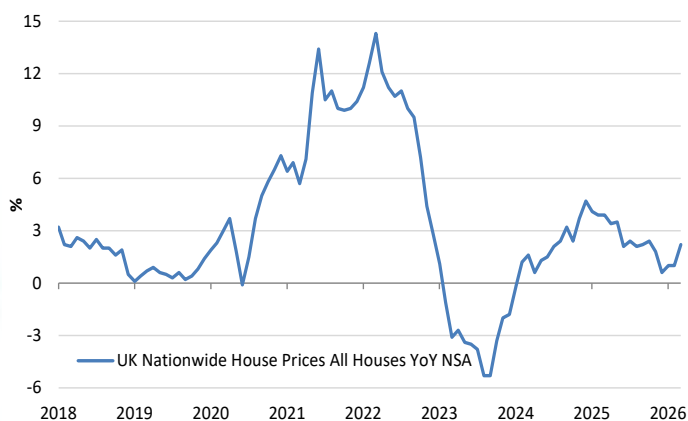
Changes in expectations for the British pound

In recent weeks, the British pound has regained strength, particularly against the euro and the dollar, trading above 1.34 USD. This paradoxical movement reflects a dramatic shift in monetary

Property prices per m2



Real estate price growth



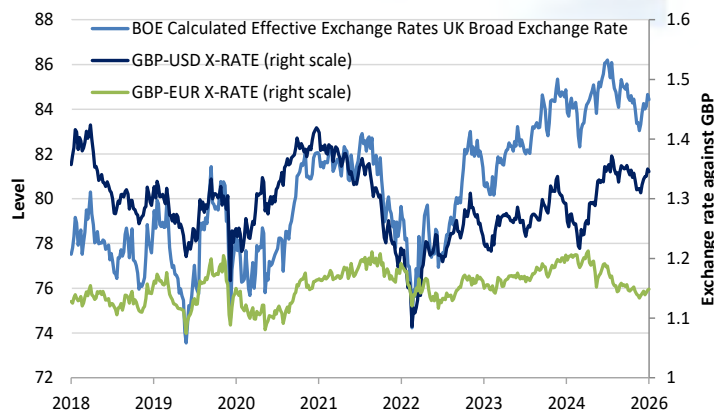
expectations. By implicitly signaling that rates will remain high “for longer,” the Bank of England is providing strong yield support for its currency. Markets quickly concluded that the interest rate differential would work in favor of the British currency, thereby offsetting the bleak GDP growth outlook. The EUR/GBP cross rate thus plummeted toward 0.8420, severely undermining the price competitiveness of British exports to the continent in the process. Nevertheless, against the US dollar, the pound is struggling to establish itself as a safe-haven asset in the long term, as safe-haven flows overwhelmingly favor the dollar. The UK’s structural current account deficit remains an Achilles’ heel limiting its future appreciation. This deficit, which is expected to cross the alarming threshold of 3.80% of GDP in the first quarter of 2026, according to the Office for Budget Responsibility, makes the pound extremely vulnerable to external shocks.

is also plummeting, with record vacancy rates in the City. Unsurprisingly, major British real estate companies suffered a sharp decline, falling by 11% in just a few weeks. Caution is once again warranted regarding British securitized real estate.

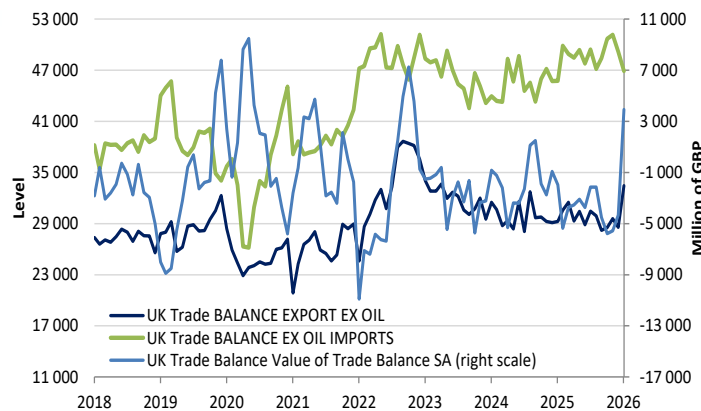
Real estate hit by the rate reversal

In the physical housing market, the overall mood has shifted from cautious wait-and-see to deep concern. Mortgage rates, which had begun to ease slightly, providing relief to buyers, have surged aggressively once again. The average rate for a two-year fixed-rate mortgage climbed to 4.87% in early March 2026. Real estate investment trusts (REITs) are feeling the impact and have experienced a sharp correction since the start of the Middle East crisis. Investors are legitimately concerned that the unexpected maintenance of high interest rates for an extended period will trigger a rise in defaults and a decline in the Net Asset Value (NAV) of real estate companies. The latest indices from Halifax and Nationwide confirm this downturn with an unexpected monthly drop of -1.5% in physical property prices in February. Transaction volumes have plummeted by more than 20% year-over-year, while buy-to-let landlords are accelerating the sale of their properties, weighed down by hostile tax policies and rising mortgage payments. Recent data from Knight Frank suggests a 6.8% decline in property values for the full year 2026. The financing market is disrupted, dashing first-time buyers’ hopes of closing their purchases as down payments have become too high. At the same time, commercial real estate

Effective pound sterling exchange rates



Trade balance - Exports - Imports



MACROECONOMIC SCENARIO

Japan

- Q1: A tense balance between resilience and external shocks
- The equation has become more complex for the BoJ
- The specter of stagflation looms over the yield curve



Q1: A tense balance between resilience and external shocks

Just as the country was trying to stabilize its trajectory at the start of the year, the sudden military escalation in the Middle East and threats to crude oil supplies have thrown all forecast models into disarray. Japan, which imports 95% of its energy needs from this region, is on the front lines. For Q1 and Q2 2026, the risk is that of “imported inflation.” If the price of Brent crude remains sustainably above current levels (\$3/barrel), the 37% increase recorded since the start of the year could well wipe out the expected gain in purchasing power for 2026 even before the start of Shunto (wage negotiations). We anticipate a slowdown in industrial production starting in March, as companies begin to anticipate logistical disruptions in the Strait of Hormuz. The destocking we feared in the previous quarter could be more severe than expected, cutting early-year growth by 0.3 percentage points. The monetary normalization scenario is now being disrupted by geopolitics. The BoJ, which had planned to raise its policy rate to 1% in April, now faces an impossible trade-off. It will find it difficult to raise interest rates to prop up a yen weakened by the cost of energy imports, at the risk of stifling capital expenditures and the real estate market, or to maintain the status quo to protect consumer spending, at the risk of seeing inflation take root through import prices. The precarious balance at the end of 2025 leaves room for a wait-and-see approach. Japan has the financial resources to cushion the short-term shock thanks to its strategic reserves, but its ability to generate self-sustaining growth in 2026 will depend almost exclusively on the outcome of the conflict in the Middle East. The geopolitical situation has indeed changed radically in recent days with the outbreak of conflict with Iran and airstrikes across the Gulf states. The effective closure of the Strait of Hormuz by Iranian military forces constitutes a major “volatility shock” on the international stage and even more so for Japan, which is extremely dependent on energy supplies from the region. In fact, Japan imports more than 95% of its crude oil from the Middle East. Although the government has 254 days’ worth of strategic reserves, the surge in global crude oil prices threatens to reignite uncontrollable imported inflation. On the currency front, the yen, often viewed as a safe-haven asset, has paradoxically suffered from rising energy costs (which have worsened the trade balance), trading at around 157 JPY/USD. The outlook for the first half of 2026 is now clouded by geopolitical uncertainty; the economic trajectory now depends heavily on the duration of the conflict in Iran.

Positive leading indicators ahead of the energy crisis

The latest PMI leading indicators for February pointed to a strengthening of positive sentiment and a continuation of the economic recovery in Q1, with levels well above the theoretical growth threshold of 50%. The manufacturing PMI rose further to 53, while the services PMI stabilized at 53.8. The picture painted by the surveys prior to the outbreak of the crisis in the Middle East thus suggested quite clearly a favorable trend in early 2026. Even industrial production (up in January) supported the argument of a resilient economy. The new and significant uncertainties linked to the energy crisis are obviously not reflected in these published indices and are sure to affect the March figures.

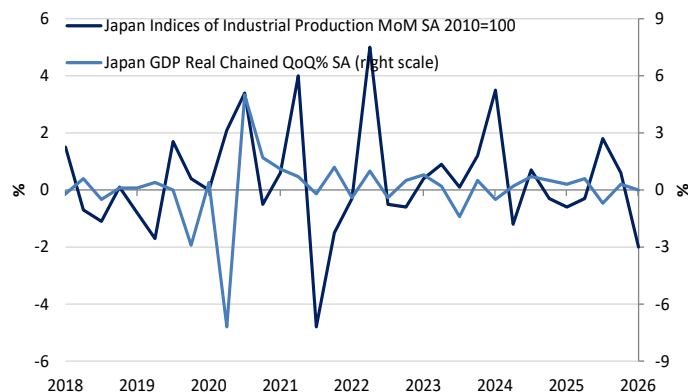
Household confidence is likely to fall again

While the near-stagnation in consumption in Q3 and Q4 2025 signaled a slowdown, data from January and February 2026 revealed a more pronounced recovery in household consumption, with retail sales showing a clear uptick (+1.8%). The hoped-for boost in confidence following winter bonuses will ultimately be called into question by the military escalation in the Middle East and rising energy prices. The consumer confidence index rose in February, reflecting growing confidence prior to the risks of soaring energy prices. Although nominal wages are rising, imported inflation—exacerbated by a weak yen and high oil prices—is expected to increase and reduce the anticipated gains in purchasing power. The risks of contraction are now high, suggesting that households will prioritize precautionary savings in the face of uncertainty regarding crude oil supplies and the likely rise in inflation.

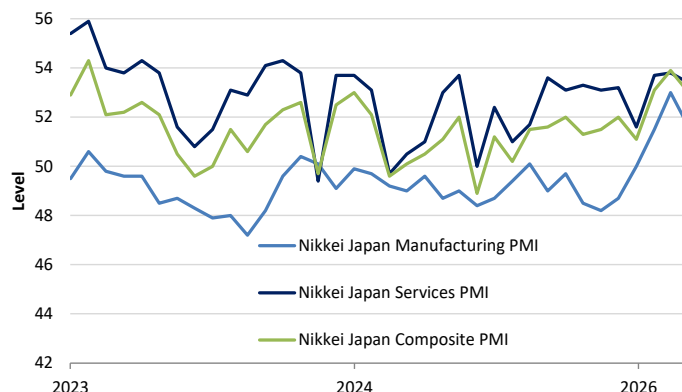
A likely but temporary spike in inflation

After exceeding forecasts at the end of 2025, the headline CPI index excluding food and energy fell back to 2.6% (YoY), while the national headline index dropped to just 1.5% at the end of January. Now, recent developments in the Middle East are set to significantly alter the future trajectory of prices in Japan. Inflation, which was finally beginning to follow a trajectory that could lead to stabilization

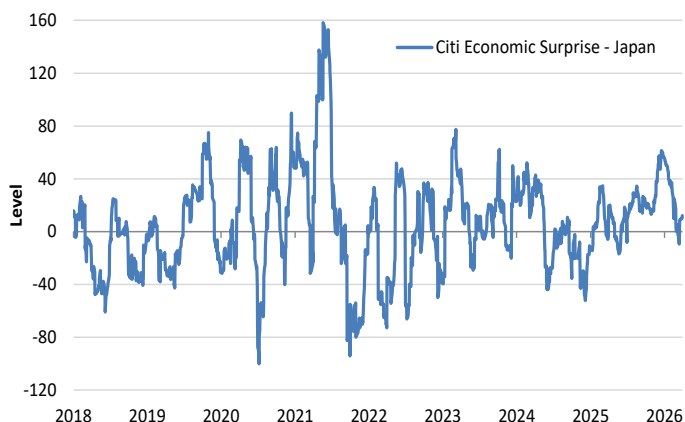
GDP and industrial production



PMI Composite, manufacturing, services - Japan



Economic Surprise Index

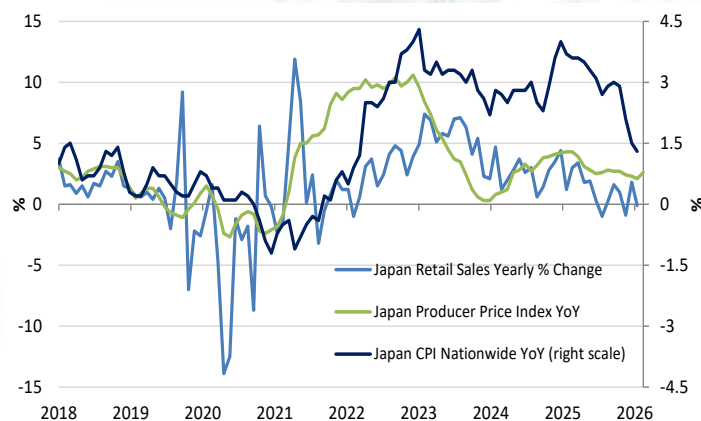


below the 2% target, is once again threatened by the massive rise in energy prices on global markets. The yen's persistent weakness will also prevent the effects of rising crude oil prices from being contained and will instead contribute to a rise in imported prices. This dynamic is also expected to trigger a rise in producer prices (PPI), which had been on a downward trend for several months. Japan, which had been facing inflation of a more domestic nature in recent months, is therefore likely to face new external pressures if the conflict in the Middle East persists.

The equation has become more complex for the BoJ

Japan narrowly avoided a recession in Q4 (+0.1%), but the new oil shock in the Middle East and the yen's plunge to 157 JPY/USD have placed the Bank of Japan (BoJ) in a historic dilemma. The Bank of Japan now faces the risks of a new energy shock and imported inflation threatening growth. The release of data showing reduced but still present inflation, combined with sluggish GDP growth, had already complicated the equation for the Bank of Japan (BoJ). While the institution had hoped for a gradual normalization after raising rates to 0.75%, it now finds itself trapped by a major energy supply shock in the Middle East. The current state of monetary policy thus boils down to crisis management, where the risk of stagflation, zero growth compounded by imported price pressures, is becoming a systemic threat. With oil prices exceeding \$80 per barrel and tensions in the Strait of Hormuz, the argument for "transitory" inflation is crumbling. The yen, trading around 157 JPY/USD, amplifies this crisis by automatically driving up the cost of vital energy and food imports. To defend the currency and limit this imported inflation, orthodox logic would call for an immediate hike in the benchmark rate to around 1% to narrow the gap with the rates of other Western central banks. However, the BoJ is aware that domestic demand is fragile. Households, whose confidence is likely to plummet once again under current conditions, will face the risk of soaring gasoline prices. A sudden tightening of monetary policy would undermine the only resilient driver of Q4 growth, business investment, at a time when the public sector no longer offers a source of growth. This would turn the current slowdown into a potential recession for the remainder of 2026. We believe the BoJ will wait for the outcome of the Shunto to see if wage increases can absorb this oil shock.

Inflation (CPI and PPI) and Retail Sales

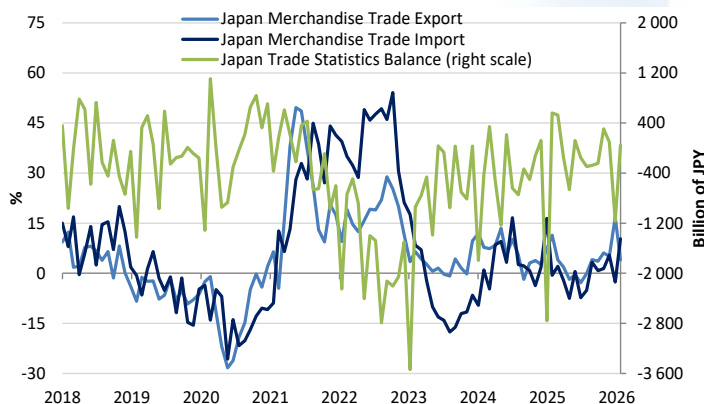


The BoJ will take the risk of tolerating temporarily higher inflation to avoid sacrificing growth that has become too fragile. While a hike to 1% was anticipated for March or April, recent statements by Deputy Governor Himino suggest a status quo. The Bank of Japan cannot risk tightening credit while energy costs are already weighing on consumption. Monetary normalization is now on hold.

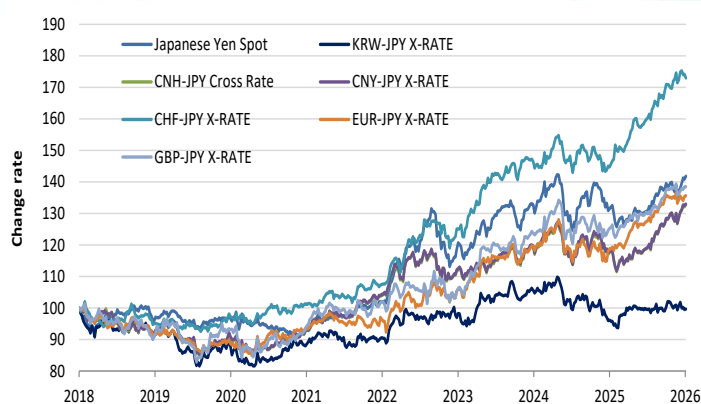
The specter of stagflation looms over the yield curve

The fixed-income markets began the year amid clear tensions, particularly in the long-term segment. Better-than-expected inflation data and the economic slowdown in Q4 eased some of the pressure, leading to a period of stabilization at levels slightly higher than those seen at the start of the year. The easing of 10-year government bond yields from 2.35% to 2.1% reflected a decline in tensions. However, these levels remained far below the yields that had previously prevailed during the Japanese authorities' yield curve control phase. While the 10-year yield fluctuated peacefully between 1.1% and 1.3% during the summer, the acceleration observed in 2026 occurred primarily against a backdrop of renewed inflation fears and the "normalization" of policy rates—a development not yet linked to the looming energy crisis. In this new environment, the bond market appears to us to be more closely correlated than ever with the risks of a resurgence in inflation triggered by the war that has broken out in the Middle East, which will have inflationary repercussions for Japan. We believe that the 10-year yield should resume an upward trend after breaking through and then consolidating above 2%. While the BoJ is unlikely to change its policy rates in the near future, the yen could still benefit from tensions in longer-term maturities to strengthen somewhat. In this context, JGB performance will most likely remain negative over the coming months. The coupon is insufficient to offset the loss in capital value caused by rising yields. For foreign investors, the yield spread relative to U.S. Treasuries or German Bunds does not justify taking on risk in a Japanese market caught between recession and inflation. The Japanese bond market is, however, becoming less and less risky, but we will need to wait for a reversal in the yen's trend and slightly higher yield levels before it becomes a potential investment opportunity.

Trade Balance in JPY Billion



Exchange Rates (base 100)



MACROECONOMIC SCENARIO

China

- The pivot toward recovery amid the energy crisis
- Inflationary pressures remain contained for now
- Monetary policy will remain accommodative
- A strong yuan to counter the risks of imported inflation



The pivot toward recovery amid the energy crisis

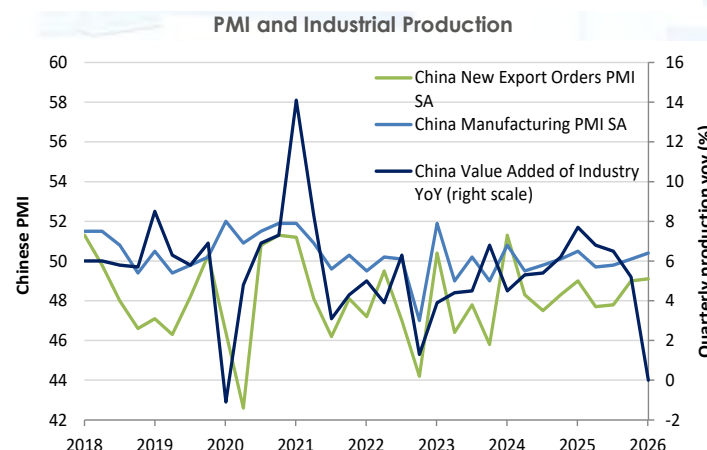
The Chinese economy ended 2025 just short of its 5% growth target. Contrary to President Xi Jinping's statements in late 2025, the final figures released in mid-January showed GDP growth of 4.8% for 2025. The fourth quarter fell short of the upper end of the range (4.9%), held back by a persistent real estate crisis that continued to erode household savings, despite liquidity injections from the PBoC. In the first quarter, hopes for structural transformation were derailed by the Hormuz crisis. While we had hoped for "stabilized growth," the first quarter of 2026 shows signs of a slowdown, as the government's "stimulus pivot" was insufficient to counter the March oil shock. The engine of the "New Economy" appears to be slowing down. Growth in semiconductor and new-energy vehicle production, which had previously been at +12%, fell to +7.5% in March due to a surge in the costs of petroleum-derived chemical inputs and disruptions in maritime supply chains. As for fixed capital investment, special local government bonds have effectively supported infrastructure (+6.2%), but this investment is now viewed as unproductive. The spillover to the real economy, which was deemed "slow" by the end of 2025, can be described as virtually at a standstill, as private companies are choosing to hoard cash in the face of geopolitical uncertainty.

On the foreign trade front, shipping costs to Southeast Asia have tripled due to the blockade of the Strait of Hormuz, which is partially affecting trade. The trade surplus, while positive, is being eroded by the energy bill. China is now spending an additional \$1 billion per day on crude oil imports compared to January. The PBoC's injections in late September 2025 did not stimulate the real economy as expected. In March 2026, a liquidity trap emerged, with M2 money supply growing but credit to private enterprises failing to benefit and remaining stagnant. The PBoC had to intervene again in April to support the yuan, which was under depreciation pressure against the "safe-haven" dollar during this period of global crisis. The supply-side growth model (high-tech and infrastructure) is reaching its limits. Without a massive direct stimulus plan to boost consumption (stimulus checks to households) to offset energy inflation, China risks seeing its growth slip to around 4% for the full year 2026, far short of the hopes for stability expressed six months ago.

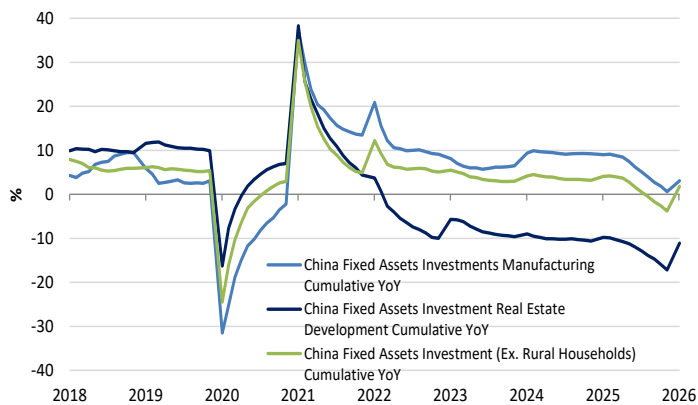
Inflationary pressures remain contained for now pour l'heure

In March 2026, the Chinese economy responded with calculated resilience, though under strain, to the oil shock triggered by the crisis in the Middle East. As the world's largest importer of crude oil, Beijing deployed a multi-pronged strategy to cushion the impact of oil prices that had approached \$120 a barrel at the beginning of the month. Here are the four main pillars of China's response in March, according to reports from the NDRC (National Development and Reform Commission) and the PBoC. On March 9, 2026, in response to rising crude oil prices, China had to implement its largest fuel price hike in four years (approximately 700 yuan per ton for gasoline). However, the government deliberately capped this increase at about 50% of what market forces would have dictated. The goal was to protect household purchasing power and limit logistics costs, while forcing state-owned refiners (Sinopec, PetroChina) to absorb part of the losses to prevent a surge in CPI inflation. As for producer prices (PPI), the trend is significant and marks a return of inflation for the first time in three years; the Producer Price Index (PPI) did indeed return to positive territory in March (+0.5%). This shift marks the end of China's deflationary period, though it has come about reluctantly. Rising raw material and energy costs have been the main drivers of this rebound, putting significant pressure on margins in the manufacturing and chemical processing sectors. China enjoyed a short-term advantage, as during 2025 it massively stockpiled oil at reduced prices (around \$55–60) from Russia and Iran. The recent release of these inventories acted as a buffer in March 2026. These stocks allowed Chinese refineries to avoid relying entirely on Brent at sky-high prices. This cost advantage could, however, fade if the blockade of the Strait of Hormuz persists beyond spring.

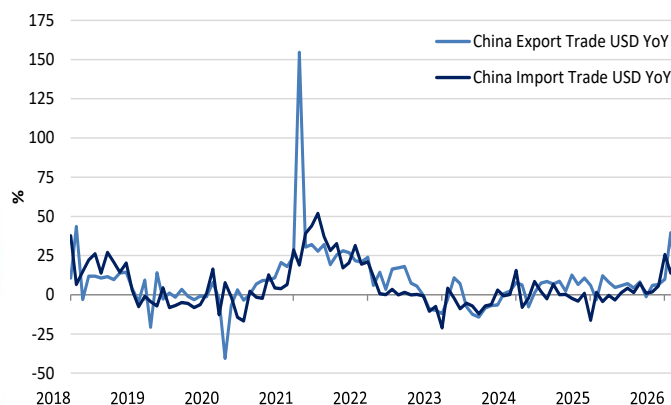
The 1.0% rise in the CPI for March 2026 sends a mixed signal. While it marks an acceleration compared to the deflationary fears of 2025, it primarily reflects "forced" inflation rather than a rebound in consumer spending. Indeed, the paradox lies in the fact that behind the annual increase lies a monthly decline of 0.7%. The end of the Chinese New Year festivities led to a sharp seasonal drop in prices for services and food, offsetting part of the surge in energy costs. Core CPI, which excludes energy and food, fell to +1.1% (compared to 1.8%



Real Estate Investment, Infrastructure and Industry (YoY)



Exports-Imports (YoY)



in February). This confirms that Chinese households remain cautious. The rise in prices is driven by costs (oil) rather than demand. The service sectors (travel, hotels, restaurants) are seeing their price growth slow, a sign that the “stimulus pivot” at the end of 2025 is struggling to create a consumer boom.

Monetary policy will remain accommodative

This 1% increase puts the People’s Bank of China (PBoC) in an uncomfortable position. Inflation driven by rising costs (oil) limits the room to maneuver for lowering interest rates without further weakening the yuan. However, we believe that China will prioritize fiscal stimulus (infrastructure) over monetary easing if the CPI continues to rise due to oil prices, in order to prevent capital flight. While a rate cut was widely expected to stimulate sluggish consumption, the consensus has shifted. The PBoC is expected to keep its LPR (Loan Prime Rate) unchanged in April and May. Cutting rates now could risk exacerbating capital flight and further weakening the yuan, which is already under pressure from a strong “safe-haven” dollar. Rather than acting on the “price” of money (interest rates), the PBoC will act on the “quantity.” A cut in the RRR of 25 to 50 basis points by June 2026 is, however, likely. The PBoC aims to inject massive amounts of liquidity into the banking system to ensure that local governments can continue to finance major infrastructure projects without drying up credit for private enterprises. This is a “supply-side support” measure that does not directly impact the exchange rate.

A strong yuan to counter the risks of imported inflation

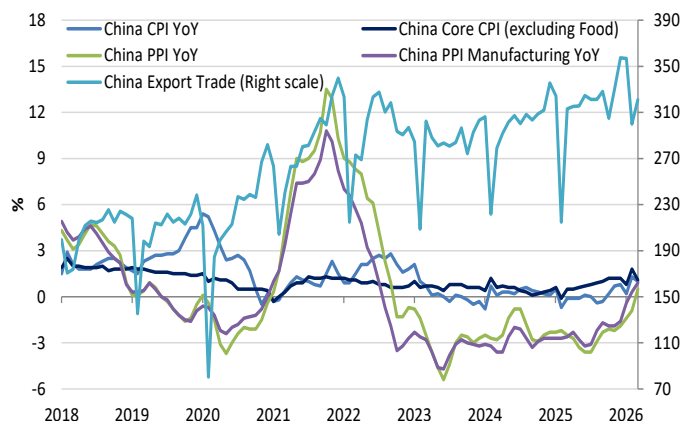
The PBoC’s exchange rate management policy was particularly strained in April 2026 and was based on a “managed float” strategy aimed at keeping the currency within a stable range that would serve Beijing’s trade interests without triggering capital flight. In this time of crisis, the PBoC first and foremost uses the “countercyclical factor.” It deliberately sets the pivot higher (stronger) than the market suggests to signal that it will not tolerate a sharp drop in the currency against the dollar. Since the yuan is also traded in Hong Kong (CNH), the PBoC

acts in that market to “punish” speculators betting on a decline in the yuan. By selling bonds in Hong Kong, the central bank withdraws yuan liquidity. This drives up interest rates on the offshore yuan, making it very costly (if not prohibitive) for hedge funds to borrow yuan to sell them short. At the same time, it acts through state-owned banks, and instead of intervening directly with its foreign exchange reserves (so as not to burn through its \$3 trillion too quickly), the PBoC orders major state-owned commercial banks (ICBC, Bank of China) to buy yuan and sell dollars on the spot market. The PBoC works closely with SAFE (State Administration of Foreign Exchange) to tighten or relax capital outflow regulations. In response to the oil shock, Beijing restricted overseas investment quotas for Chinese institutional investors in order to keep capital within the country and thereby automatically support demand for the yuan. In this context, the yuan, which had appreciated by 7% against the dollar since the end of March 2025, has stabilized slightly below 6.9 yuan per dollar. We believe the PBoC aims to control the exchange rate within a stabilization band set between 6.7 and 6.9 yuan per dollar.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



MACROECONOMIC SCENARIO

Emerging Markets

- A fragile global environment
- Persistent geopolitical tensions
- Uneven growth in emerging markets



The global environment remained fragile in the third quarter of 2025. The slowdown in international trade, persistent geopolitical tensions, and increased financial volatility weighed on emerging economies. While disinflation continues in most countries, growth remains uneven and fragile: Brazil is marking time, Russia is embarking on cautious easing, India remains robust, while South Africa and Mexico are facing near-stagnant activity. Emerging markets are thus operating in an environment of gradual monetary normalization, more volatile capital flows, and still-weak global demand.

Brazil — The baseline scenario, which anticipates a slowdown in economic activity as a necessary condition for inflation to converge toward its target in the context of a prolonged monetary transition, remains broadly unchanged, but data from October to December 2025 qualify the diagnosis of the third quarter. After virtually stable growth in Q3 (GDP: +0.1% q/q), year-end indicators suggest a more than anticipated: activity remains sluggish, but the labor market remains exceptionally tight, with the unemployment rate falling to 5.2% in the rolling quarter ending in November, a historic low, which is delaying the full adjustment of services. The economic signals available for the start of Q4 do not point to a clear reacceleration in domestic demand; rather, they support a soft landing scenario, with external factors continuing to act as a buffer. On the inflation front, the latest data significantly alter the picture painted by Q3. While 12-month inflation still stood at 5.17% in September, it continued to decline in Q4: the HICP fell from 4.68% in October to 4.46% in November, then to 4.26% in December, ending 2025 within the target range (3% ± 1.5 pp). This improvement was mainly due to lower fuel prices and a more favorable exchange rate, but it was partially offset by inflation in services, which remained high (around 6% over the year) in a context of still dynamic wages and a tight labor market. While 12-month inflation still stood at 5.17% in September, it continued to decline in Q4: the HICP fell from 4.68% in October to 4.46% in November, then to 4.26% in December, ending 2025 within the target range (3% ± 1.5 pp). This improvement was mainly due to lower fuel prices and a more favorable exchange rate, but it was partially offset by inflation in services, which remained high (around 6% over the year) in a context of still dynamic wages and a tight labor market.

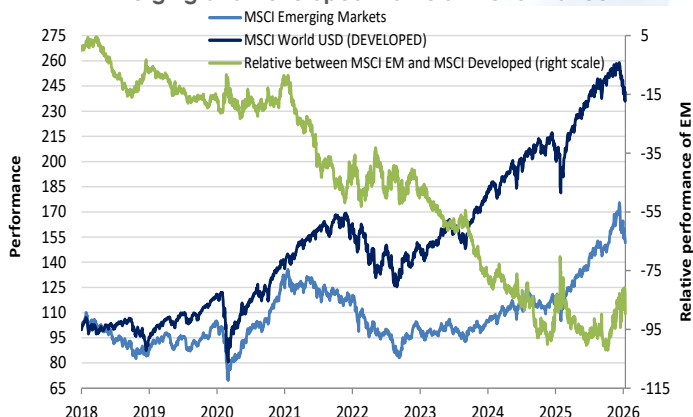
In other words, the October-December data confirm faster-than-expected disinflation, while maintaining a cautious stance with regard to domestic components. In this context, the Brazilian Central Bank has

maintained a resolutely restrictive stance: the Copom kept the Selic rate at 15.00% at its December 2025 meeting (the fourth consecutive time it has been held steady) and reiterated that current conditions require rates to remain unchanged “for a very prolonged period,” despite the recent improvement in the IPCA.

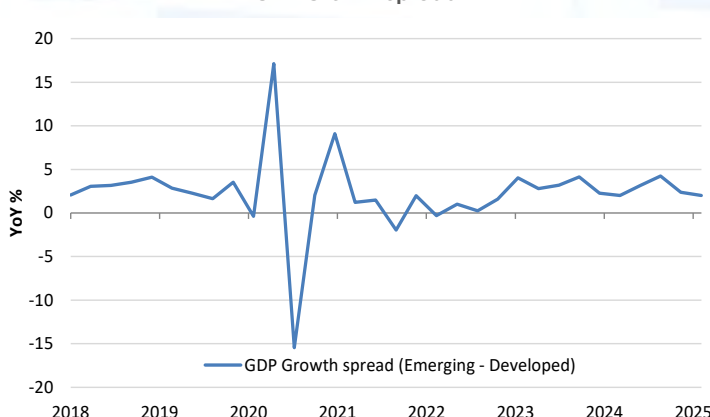
This combination —slower activity but still tight employment, visible disinflation but rigid services— reinforces the idea of a cautious monetary transition: the data for the end of 2025 reduce the immediate risk of a prolonged overshoot of the band, without being sufficient to validate a sustainable convergence towards 3% in the short term.

Russia — On February 14, 2026, the Bank of Russia kept its key policy rate at 16.00%, after gradually lowering it in Q4 2025. This decision confirms a pause in monetary easing, against a backdrop of still-incomplete disinflation. Data from January through March 2026 show a more hesitant price trend than at the end of the year, with core inflation remaining high. Domestic demand continues to slow, and the economy is moving toward a more balanced trajectory, while credit remains relatively dynamic. Credit growth remains contained, and household savings remain high, limiting imbalances. The Bank assesses that the current level of interest rates remains consistent with a return of inflation to around 4% in 2026, provided that disinflation is sustained. It notes, however, that inflation expectations remain high and that the fiscal adjustments expected in 2026 could maintain upward pressure. In Q4 2025, seasonally adjusted inflation continued to slow, hovering around 6.0%. Recent data point to stabilization rather than a marked continuation of disinflation: annual inflation fluctuates around 6.8%–7.0% in early 2026. This trend reflects weaker demand, but also some volatility in the ruble and persistent price increases for certain imported goods. Tensions remain evident in the services sector, where labor costs continue to outpace productivity gains. The geopolitical environment and supply constraints are keeping latent pressure on prices. Inflation expectations among households and businesses remain high, fueling inertia in price-setting. Recent surveys suggest that activity remains sluggish: the manufacturing PMI remains close to the contraction zone, and the composite index is hovering around 50 in early 2026. The labor market is showing gradual signs of easing: unemployment remains low, but labor market tightness is easing and hiring is slowing. Wage growth remains robust, but is trending toward aligning with productivity growth, which could contribute to disinflation if this convergence holds.

Emerging and Developed Markets – Performance



GDP Growth Spread



GDP Russie (YoY)



GDP Brazil (YoY)

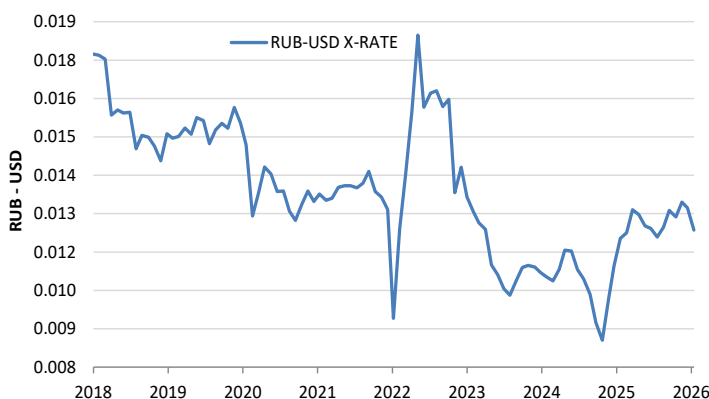


India — The Indian economy continued to demonstrate strong resilience at the end of 2025, but data released between October and December temper the very robust picture seen in the third quarter. Following sustained growth in Q3, driven by domestic demand and the services sector, recent indicators suggest a slight moderation in the pace of expansion without any break in the cycle. The first estimates available for the second quarter of fiscal year 2025–2026 (July–September) confirm strong growth, while confidence surveys and PMIs for October–November indicate activity that remains solid but less dynamic, particularly in the manufacturing sector. Household consumption remains the main driver of growth, supported by rising real income, though certain segments are showing signs of normalization following the sharp acceleration observed in the first half of the year. Public spending continues to play a stabilizing role, particularly through infrastructure investments, although its marginal boost is waning toward the end of the year. By sector, services remain the central pillar of economic activity, driven by information technology, financial services, and trade. Exports of services continued to show strong momentum toward the end of the year, partially offsetting the persistent weakness in goods exports amid a tighter global environment. Data for October–December, however, show a slowdown in the manufacturing sector, with PMIs hovering around their long-term average, reflecting weaker external demand and increased caution among firms regarding investment. The agricultural sector remains a supportive factor, as strong harvests are limiting pressure on rural incomes and food prices. On the price front, the most recent data significantly alters the reading for the third quarter. After hitting a low in early 2025, headline inflation picked up slightly between October and November, driven by a rise in food prices and certain services, before stabilizing in December at a level consistent with the target. Core inflation remained more persistent than headline inflation, reflecting domestic pressures related to services and labor costs. Year-end data thus confirm a scenario of gradual but incomplete disinflation, which limits the scope for rapid monetary easing. The central bank maintained a cautious stance during the fourth quarter of 2025, keeping interest rates unchanged and emphasizing that future policy will depend heavily on the evolution of core inflation and demand dynamics. The combination of still-high but normalizing growth and now more stable inflation reinforces the view of a soft landing for the Indian economy.

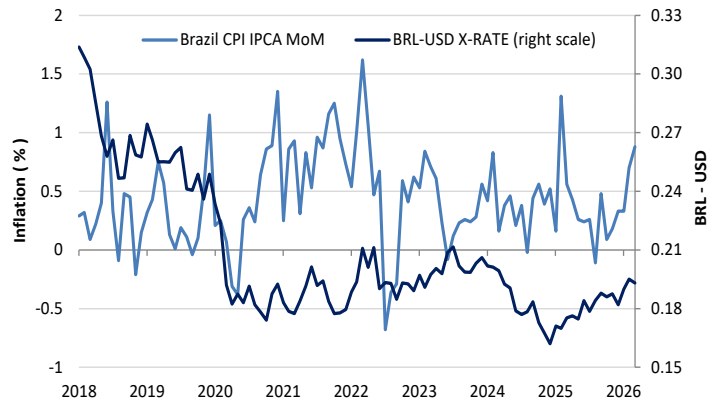
The most recent available data thus confirm the robustness of the baseline scenario, while indicating that the exceptional acceleration observed at the start of the year is gradually giving way to more balanced growth as 2026 approaches.

South Africa — In Q4 2025 and early 2026, the South African economy continued to operate in an environment of weak growth, characterized by generally sluggish activity and mixed sectoral performance. Recent data suggest that real GDP remained near stagnation, at around 0.1%–0.3% quarter-on-quarter, extending the loss of momentum observed in 2025 and confirming the absence of a clear recovery. Industrial production remains under pressure, hampered by persistent constraints in the energy and logistics sectors. Disruptions in the electricity supply, although showing slight improvement, continue to hamper manufacturing and mining activity, exacerbating underutilization of capacity, squeezing corporate margins, and delaying investment projects. In this context, the secondary sector remains a structural drag on growth, while the tertiary sector, particularly financial services, trade, and transportation, provides partial support to economic activity, driven by resilient but still cautious household consumption. Domestic demand is growing at a moderate pace. Household spending is benefiting from disinflation and relative labor market stability, but real purchasing power remains constrained by limited income growth and still-restrictive credit conditions. Private investment remains weak, as companies continue to postpone their projects amid an uncertain macroeconomic environment and a fragile business climate. Data from early 2026 confirms this assessment: confidence indicators and PMIs point to persistently weak activity, with no clear signs of recovery, particularly in the manufacturing sector. On the price front, inflation remained contained in Q1 2026, hovering around 3.5%–3.8% year-over-year, supported by moderate food prices and relative stability in the rand. Core inflation remains more stubborn, reflecting persistent pressures on services and rents. Inflation expectations have stabilized, remaining close to the midpoint of the target range. At its most recent meetings, the central bank kept the repo rate unchanged, reaffirming that the monetary stance remains “restrictive but appropriate” in a context where disinflation is progressing but remains exposed to risks related to energy and supply constraints. Financial conditions show a relatively stable rand and

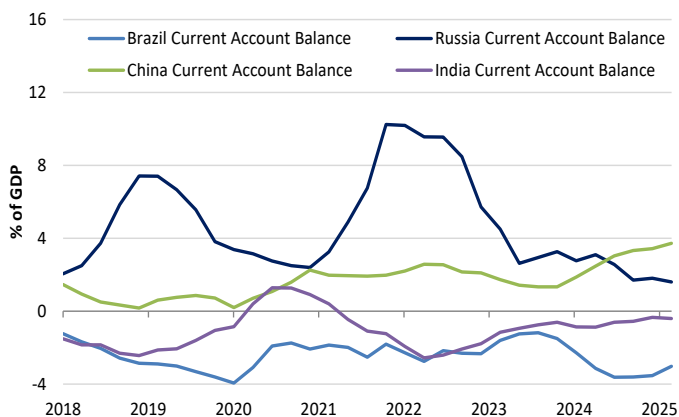
Rouble VS USD



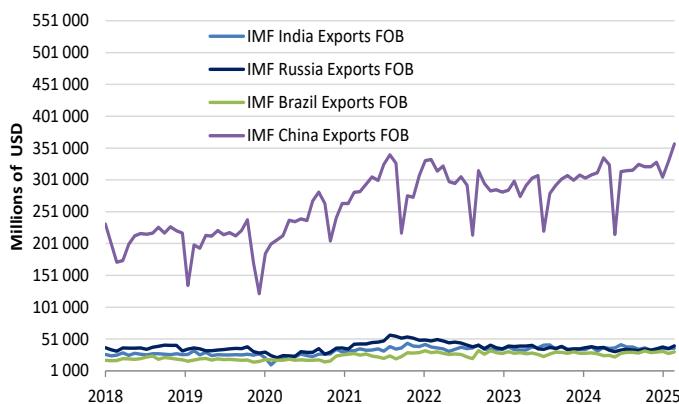
Inflation and Exchange Rates



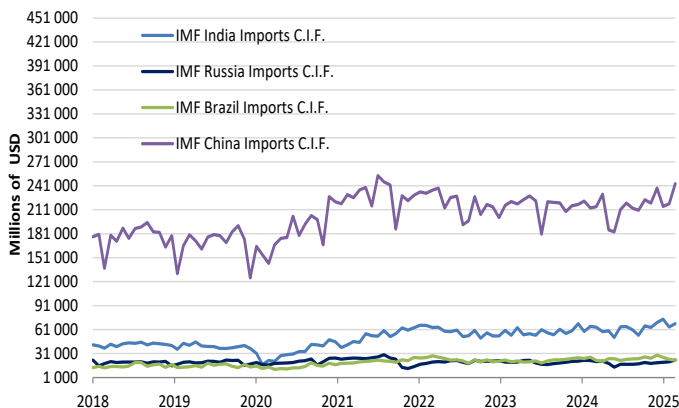
Current balance



BRIC Exports



BRIC Imports



slightly eased bond yields, although the external environment remains uncertain. Overall, the information available through early 2026 confirms the picture of weak and fragile growth, offset by better-controlled inflation, with no immediate catalyst for a marked recovery in the short term.

Mexico — The Mexican economy remained sluggish between the fourth quarter of 2025 and early 2026, confirming the loss of momentum observed since late 2024, against a backdrop of continued moderate external demand and still-tight financial conditions. Real GDP grew at a modest pace, ranging from +0.1% to +0.3% quarter-over-quarter, reflecting generally sluggish economic activity. From a sectoral perspective, the primary and secondary sectors remain fragile, particularly agriculture, construction, and certain manufacturing sectors, despite the relative resilience of automotive and mining production. Services continue to show moderate growth, but remain below the pace observed in 2024. Overall inflation in Mexico continued its disinflationary trajectory in early 2026, hovering around 4.0% year-over-year, close to the central bank's target. Recent data confirm that inflation is generally under control, despite occasional fluctuations linked to food and energy prices. Core inflation remains contained at around 4%, reflecting the gradual normalization of goods prices, while non-core inflation remains more volatile without a persistent trend. Looking beyond 2025, disinflation remains supported by a restrictive monetary policy and a more favorable cost environment. Against this backdrop, the Bank of Mexico has pursued a very gradual easing, lowering its policy rate to 10.50% in early 2026, while maintaining a cautious tone. Monetary authorities emphasize that future decisions will remain dependent on inflation trends and economic dynamics. Recent data confirm a scenario of weak growth and gradual disinflation, in an environment still exposed to external risks, particularly through the U.S. economic cycle and bilateral trade conditions with the United States, the country's main trading partner.

South Korea — Growth for 2025 is still projected at 1.5%, confirming moderate economic activity, below the 2.0% recorded in 2024. In the third quarter, real GDP growth stood at around 0.3%, slightly above initial expectations, driven by a partial recovery in semiconductor exports and moderate support from domestic consumption. However, data released between October and December suggest that this improvement remains fragile: exports slowed toward the end of the year, and PMI surveys indicate manufacturing activity nearing stagnation, reflecting persistently weak global demand and corporate caution. Financial conditions eased slightly, supporting domestic demand, but productive investment remains limited amid regional geopolitical uncertainty. On the price front, inflation continued to moderate beyond Q3. After settling at 2.3% in September, it remained subdued in October and November, supported by lower energy and food prices. Core inflation remained near 2.4%, a level consistent with the Bank of Korea's target. The year-end data thus confirm a contained inflationary environment with no significant demand-driven pressure; the Bank of Korea kept its policy rate at 2.75% at its September meeting and reaffirmed its stance in the fourth quarter.



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PROSPECTS AND STRATEGIES



PROSPECTS AND STRATEGIES

Currencies

- Investor enthusiasm for the dollar is back
- The franc remains buoyed by the surge in geopolitical risks
- A strong yuan to counter the risks of imported inflation
- The oil crisis is weighing on the euro against the dollar
- Shifting expectations put pressure on the pound

LIQUIDITY/CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
EUR vs CHF	↗	↗								
USD vs CHF	↗	↗								
GBP vs CHF	↗	↗								
JPY vs CHF	→	→								
EUR vs USD	↗	→								
USD vs JPY	↗	→								
GBP vs USD	→	→								

Asymmetric volatility in the foreign exchange market

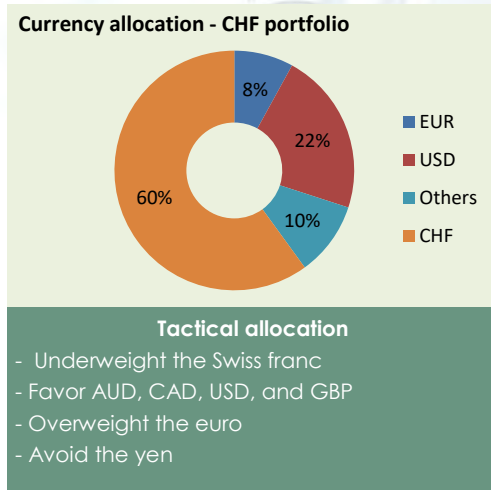
The quarter was marked by "asymmetric volatility" and a sharp flight to safe-haven assets. The foreign exchange market operated in "orderly panic" mode, with the U.S. dollar crushing nearly all global currencies. The market punished the currencies of energy-importing countries. The euro and the yen came under massive pressure, while "commodity" currencies (the Canadian dollar, the Norwegian krone) held up better thanks to rising crude oil prices, creating an almost perfect correlation between exchange rates and the energy balance.

Investor enthusiasm for the dollar is back

At the start of the year, we noted that, from a quantitative and technical perspective, the dollar was likely coming off an eight-month period of sideways consolidation, from which it could nevertheless regain some momentum that was unexpected from a fundamental standpoint. The crisis in the Middle East clearly appears to be a potential short-term "game changer" for the U.S. currency. Since February 28, the DXY Trade Weighted USD Index has risen slightly by +2.5%. The rise in crude oil prices denominated in USD is certainly a factor supporting demand for the dollar, which also benefits from its status as a safe-haven asset during periods of high uncertainty. In this crisis, we observe that the dollar is once again becoming a safe-haven asset, even more so than gold or the Swiss franc. The ongoing adjustment in dollar-denominated yields represents an attractive, risk-free alternative for many USD-based investors. Technically, the 100 level on the DXY index is crucial and could trigger significant buy orders if it is sustainably broken. We believe the odds are strongly in favor of such a "break" in the coming weeks, which would push the dollar 5% to 10% higher if successful.

The franc remains buoyed by the surge in geopolitical risks

After nine months of stabilization at a high level, the Swiss franc's current strength—driven by a demand for safe-haven investments—illustrates a striking paradox at a time when recession risks remain and the interest rate differential works against it. The franc remains a safe haven against most other currencies in the current context of war in the Middle East, which is likely to affect the global economy and supply chains even more severely than in 2022 during the invasion of Ukraine. Exemplary fiscal discipline remains the foundation of this confidence, setting it apart from its peers. Switzerland has a public



debt of just 40% of its GDP, a balance sheet of unparalleled strength among developed nations. This figure stands in stark contrast to debt levels exceeding 100% of GDP in the United States, France, and far beyond in Japan. The country's political stability, its predictable system of governance, and a robust rule of law offer unparalleled protection against growing geopolitical risks. In this new context, it is difficult to foresee a weakening of the franc, despite its already significant recent appreciation, which would justify a consolidation.

A strong yuan to counter the risks of imported inflation

The PBoC's exchange rate management policy was particularly strained in April 2026 and was based on a "managed float" strategy aimed at keeping the currency within a stable range that would serve Beijing's trade interests without triggering capital flight. In this time of crisis, the PBoC first and foremost uses the "countercyclical factor." It deliberately sets the pivot higher (stronger) than the market suggests to signal that it will not tolerate a sharp drop in the currency against the dollar. Since the yuan is also traded in Hong Kong (CNH), the PBoC acts in that market to "punish" speculators betting on a decline in the yuan. By selling bonds in Hong Kong, the central bank withdraws yuan liquidity. This drives up interest rates on the offshore yuan, making it very costly (if not prohibitive) for hedge funds to borrow yuan to sell them short. At the same time, it acts through state-owned banks, and instead of intervening directly with its foreign exchange reserves (so as not to burn through its \$3 trillion too quickly), the PBoC orders major state-owned commercial banks (ICBC, Bank of China) to buy yuan and sell dollars on the spot market. The PBoC works closely with SAFE (State Administration of Foreign Exchange) to tighten or relax capital outflow regulations. In response to the oil shock, Beijing restricted overseas investment quotas for Chinese institutional investors in order to keep capital within the country and thereby automatically support demand for the yuan. In this context, the yuan, which had appreciated by 7% against the dollar since the end of March 2025, has stabilized slightly below 6.9 yuan to the dollar. We believe the PBoC aims to control the exchange rate within a stabilization band set between 6.7 and 6.9 yuan to the dollar.

The oil crisis is weighing on the euro against the dollar

The euro faces a threefold challenge: geopolitical, energy-related, and monetary. Tensions in the Middle East have radically altered the outlook for the dollar and the Swiss franc. The U.S. dollar has

resumed its role as a safe-haven asset and “petrodollar.” Unlike the eurozone, the United States is a net energy exporter, which automatically makes the greenback more attractive during an oil shock and the economy more resilient. Economically speaking, there is therefore reason to fear that the European economy could slip into stagflation before the U.S. economy does, even if the ECB becomes more “hawkish” due to inflation. The pair has broken through the psychological support level of 1.15, and if the price of Brent crude settles sustainably above \$110, the stagflation scenario in Europe could push the euro/dollar toward a new target of 1.10, representing a 5% decline. The performance of the EUR/CHF pair will depend on respective monetary policies, particularly the SNB’s willingness to act to control the franc’s appreciation. A return to the 0.93–0.94 range seems likely to us in the second quarter.

Shifting expectations put pressure on the pound

Over the past eight weeks, the British pound has lost some of its luster. After a relatively stable start to the fall, the British currency has undergone a significant correction, particularly against the U.S. dollar, while navigating turbulent waters against the euro. This movement reflects a rational readjustment of expectations in light of the country’s new economic reality. The main catalyst for the volatility was the budget presented in late October. Unlike the 2022 “mini-budget” crisis, the reaction was not driven by fears of insolvency, but by fears of stagnation. By announcing a massive increase in corporate National Insurance contributions, the government sent a negative signal for investment and future growth. Markets quickly concluded that this tax burden would slow GDP growth. The pound thus suffered from a kind of devaluation of growth prospects. But the BoE’s new monetary policy expectations were also another key factor contributing to this trend. The release of disappointing statistics shifted expectations away from maintaining high rates to combat inflation, as it is now believed that the BoE will need to cut rates more quickly to support the economy, which also caused a decline in gilt yields.

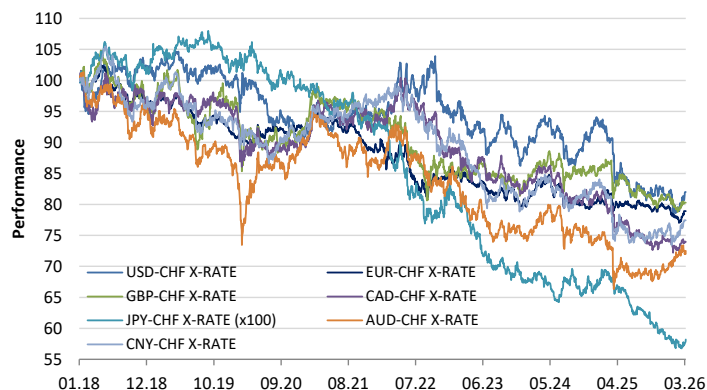
The pound has therefore come under selling pressure due to weaker growth prospects. It has, however, shown some resilience against the

euro, continuing to appreciate. The situation has remained complex against the Swiss franc, which—despite an interest rate differential of more than 400 basis points—continued to appreciate through mid-November due to the franc’s status as a safe-haven currency. However, we believe that the British currency’s future performance should now be more favorable against the euro due to the growth shock observed in Switzerland and the imminent introduction of negative interest rates in our country. The pound should now benefit from this very favorable yield differential and appreciate once again.

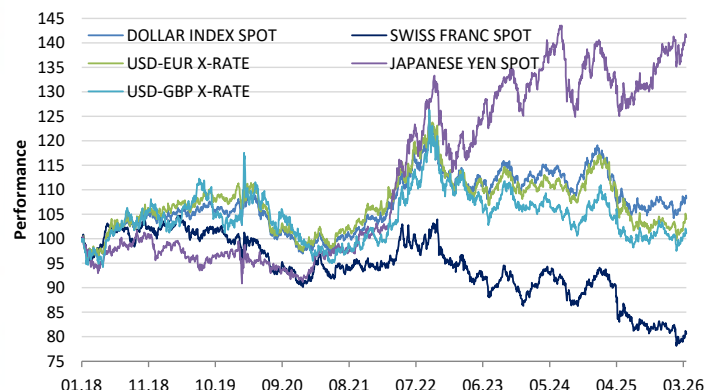
The yen reeling from the energy crisis and monetary deadlock

The yen remains caught in a geopolitical and monetary stranglehold, exacerbated by the oil shock in the Middle East. Although Q4 2025 GDP avoided a recession (+0.1%) and the outlook for the start of the year was moderately optimistic, growth estimates are now too fragile to support an aggressive pivot by the Bank of Japan (BoJ). With oil prices exceeding \$80, the energy bill could rise sharply, forcing importers to sell yen en masse to obtain dollars, which will keep the exchange rate in a weak range between 155 and 160 JPY/USD. Japan faces a complicated situation in which currency weakness is fueling imported inflation. Real yields will remain negative and on the rise, as the BoJ will hesitate to raise its policy rate beyond 0.75% for fear of crushing domestic consumption. The interest rate differential with the United States remains the main driver of the “carry trade,” as investors shun a currency whose yield does not cover inflation. The BoJ is hoping for a boost during the Shunto to support demand, but the threat of stagflation looms larger than ever over the Japanese economy. Until the BoJ crosses the psychological threshold of 1% to stabilize market expectations, the yen will remain at the mercy of market forces. A sharp slowdown in the U.S. economy could provide some relief through a Fed rate cut, but current geopolitical risks favor the dollar as a safe-haven asset, further isolating Japan. Structural selling pressure therefore persists, fueled by a trade deficit that rising crude oil prices only exacerbate. We believe the yen is likely to weaken further in this environment and do not recommend taking an active position in favor of the Japanese currency.

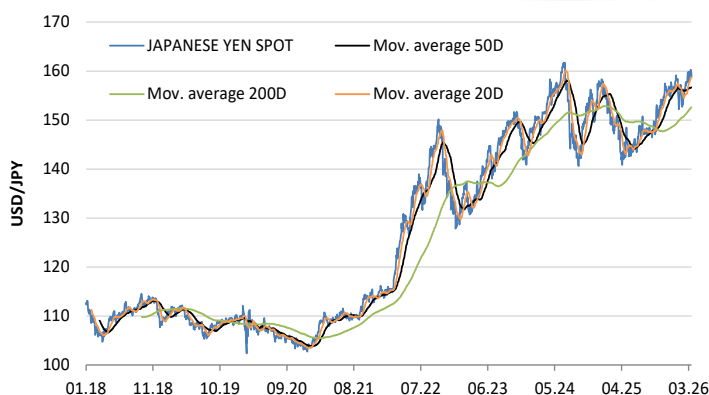
Evolution of the 7 Main Currencies against CHF (base 100)



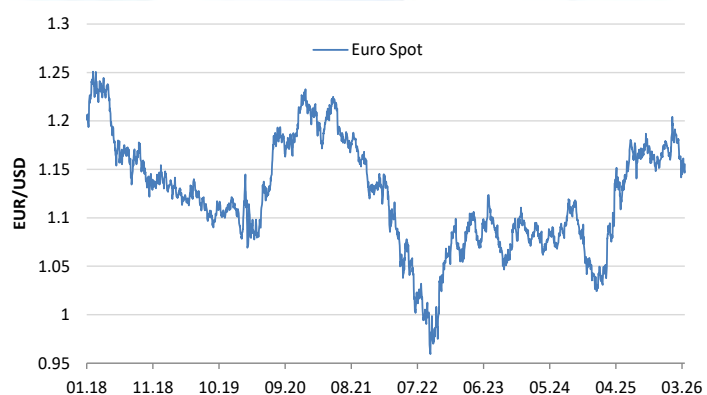
Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



Exchange Rate EUR/USD

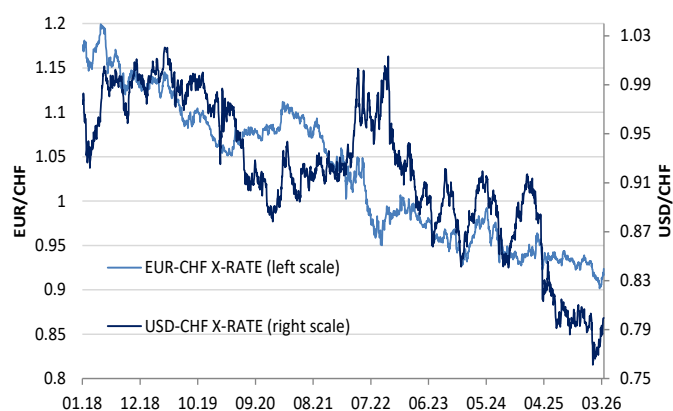


CURRENCIES

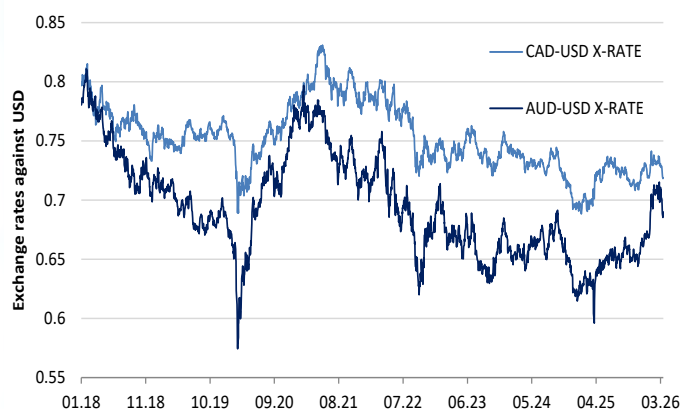
31.03.2026

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.16	-0.47	-2.19	-1.64	-1.54	-1.64
CHF-USD X-RATE	1.25	-1.40	-3.77	-0.85	-0.37	-0.85
GBP-USD X-RATE	1.32	-1.37	-1.89	-1.84	-1.63	-1.84
JPY-USD X-RATE	0.01	-0.02	-1.69	-1.27	-6.82	-1.27
CAD-USD X-RATE	0.72	-1.10	-1.98	-1.37	0.03	-1.37
AUD-USD X-RATE	0.69	-1.37	-3.06	3.40	4.34	3.40
RUB-USD X-RATE	0.01	-0.81	-5.32	-3.23	1.82	-3.23
CNY-USD X-RATE	0.15	-0.02	-0.47	1.37	3.29	1.37
INR-USD X-RATE	0.01	-1.00	-4.05	-5.20	-6.35	-5.20
BRL-USD X-RATE	0.19	0.99	-1.08	6.04	2.71	6.04
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.80	1.43	3.93	0.87	0.39	0.87
EUR-CHF X-RATE	0.92	0.96	1.67	-0.76	-1.16	-0.76
GBP-CHF X-RATE	1.06	0.03	1.91	-0.99	-1.27	-0.99
JPY-CHF X-RATE (x100)	0.50	1.39	2.13	-0.45	-6.46	-0.45
CAD-CHF X-RATE	0.57	0.31	1.93	-0.55	0.44	-0.55
AUD-CHF X-RATE	0.55	0.02	0.71	4.23	4.73	4.23
RUB-CHF X-RATE	0.01	0.61	-1.60	-2.38	2.18	-2.38
CNY-CHF X-RATE	0.12	1.05	3.48	2.20	3.76	2.20
INR-CHF X-RATE	0.01	-0.11	-0.67	-4.35	-6.12	-4.35
BRL-CHF X-RATE	0.15	1.99	2.67	6.94	2.67	6.94

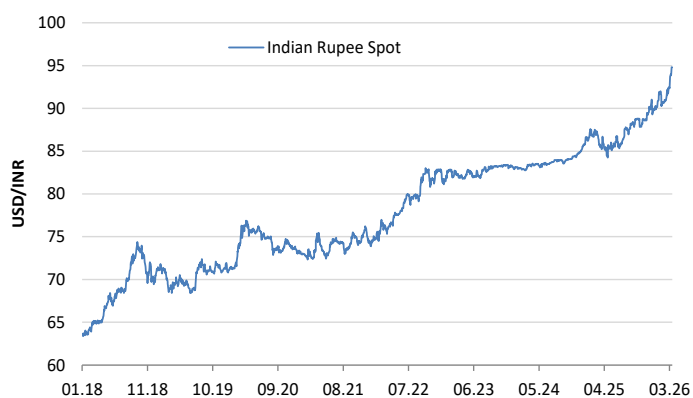
Exchange Rate EUR/CHF - USD/CHF



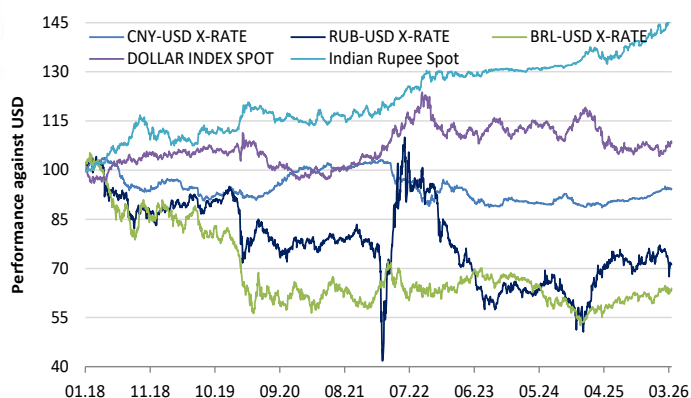
Exchange Rate CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)



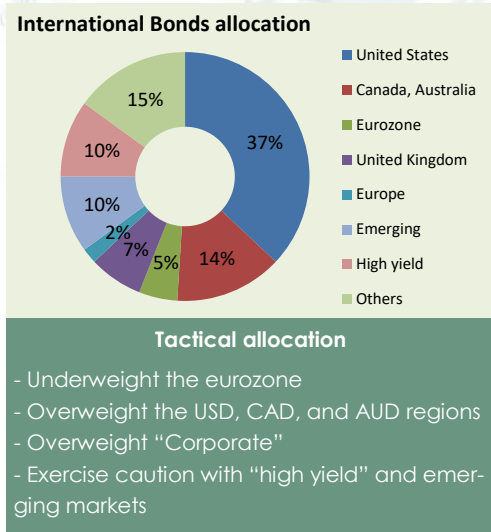
A sharp slowdown in the U.S. economy could provide some relief through Fed rate cuts, but current geopolitical risks are boosting the dollar as a safe-haven asset, further isolating Japan. Structural selling pressure therefore persists, fueled by a trade deficit that rising crude oil prices only exacerbate. We believe the yen is likely to weaken further in this environment and do not recommend taking an active position in favor of the Japanese currency.

PROSPECTS AND STRATEGIES

International Bonds

- Reversal in the outlook for interest rates
- Reversal in the outlook for bonds
- Rise in European bond yields
- Sharp rebound in sterling bond yields

BONDS (Areas/currency)	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
Suisse	↘	↘								
Etats-Unis	↘	↘								
Eurozone	↘↘	↘								
Royaume-Uni	↘	↘								
Europe	↘↘	↘								
Japon	↘	↘								
Emergents	↘↘	↘								
Autres (AUD, CAD, NOK...)	↘	↘								



Reversal in the outlook for interest rates and monetary policy

The potential impact of this unexpected oil crisis on price indices is causing significant concern among central banks, which are navigating by sight in the face of the "Strait of Hormuz crisis." The overall tone has shifted from a willingness to cut rates to one of extreme caution, reflecting both fears of stagflation and the need to safeguard price stability. Inflation in the United States, reported at +0.9% for March and +3.3% year-over-year, has already risen sharply from the 2.4% level recorded in February. This marks the sharpest acceleration in prices since 2022. The U.S. Federal Reserve had already responded by adopting a potentially more restrictive stance. The minutes released in early April indicate that rate cuts, initially planned for the spring, have been postponed indefinitely. Jerome Powell emphasized that the United States' status as a net energy exporter offered some protection, but that "sticky inflation" caused by oil at \$120 was forcing the Fed to keep rates at their current level. The risk of a slowdown is considered secondary to the risk of inflation expectations becoming entrenched.

In Europe, the ECB is undoubtedly the most concerned central bank. Christine Lagarde has warned that the Strait of Hormuz crisis could reduce the eurozone's GDP by 0.5 to 1 percent while pushing inflation up to 3.1 percent in the second quarter. The ECB finds itself in a classic stagflation dilemma. It cannot lower rates to support a slowing economy because it must combat massive imported inflation on gas and oil. It has revised its inflation forecasts upward for 2026, citing a "historic supply shock." A more restrictive policy is now expected from the European Central Bank. In the United Kingdom, the BoE stated that the goal of returning to 2% inflation this spring is now jeopardized by the war. With a population already burdened by energy debt, the bank fears a severe recession in the UK. It warned that if the stalemate persists, it may be forced to raise rates further to stabilize the pound against the dollar, despite the obvious fragility of domestic consumption. In Switzerland, the SNB remains the most composed but has nevertheless raised its inflation forecast for 2026 to 0.4% (up from 0.1% previously). The rise in energy costs will be more gradual and will have a lasting impact on the trend.

In Japan, the BOJ is facing the worst-case scenario of stagflation. Japan, which is heavily dependent on imports via the Strait of Hormuz, is seeing its producer price inflation jump from 2% to 2.6% (driven by costs rather than demand). The BoJ is now hesitant to continue its exit from accommodative monetary policy: on the one

hand, it wants to raise rates to support the sinking yen; on the other, it fears putting the final nail in the coffin of already anemic growth. In China, the People's Bank of China (PBoC) is the only central bank maintaining a growth-supportive stance. Faced with the risk of an industrial slowdown caused by energy costs, it injected massive amounts of liquidity into the financial system in April. Its message is clear: the priority is to avoid a "hard landing" for the Chinese economy. It downplays imported inflation, preferring to focus on supply chain stability and support for export sectors burdened by freight costs. Overall, central bankers have very quickly shifted from hoping for a "soft landing" to managing a "supply-side" crisis.

For investors, this means that key interest rates will remain high for longer than expected, and that in the bond markets, the yields demanded by investors to compensate for the visible and anticipated rise in inflation will necessarily be higher. We believe that yield curves will see two-year yields rise faster than long-term yields. Overall, this environment implies potential short-term losses

BOND INDICES (local currency)

31.03.2024		Total Return Performance						
Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %	
SWISS BONDS	SBI AAA-BBB	138.7	CHF	0.3	-1.2	0.2	-0.4	0.2
UE BONDS	Barclays EuroAgg	245.2	EUR	0.1	-2.5	-0.6	-0.4	-0.6
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	140.1	EUR	0.1	-0.9	-0.3	0.1	-0.3
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2347.8	USD	0.5	-1.8	0.0	1.1	0.0
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USA1	8.2	USD	0.3	-0.8	0.0	1.1	0.0
EMERGING BONDS	JPMorgan Emerging Markets Bond	675.5	USD	0.0	-3.5	-1.9	1.1	-1.9
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	495.9	USD	-0.1	-3.1	-1.1	-0.8	-1.1
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro-Aggregate	245.2	EUR	0.1	-2.5	-0.6	-0.4	-0.6
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	138.3	CHF	1.6	1.5	0.1	0.5	0.1
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq Hy USD	197.0	USD	-0.2	-2.8	-1.8	-0.7	-1.8
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.3	USD	0.1	-0.9	-0.4	0.7	-0.4

Reversal in the outlook for bonds

The oil shock has completely upended the medium-term outlook. The resurgence of inflationary risks has reshuffled the deck, leaving no room for the monetary easing that was so eagerly anticipated, and potentially justified, at the start of the year. Risks of an economic slowdown had been fueling expectations of rate cuts and a downward shift in yield curves. While the 10-year U.S. Treasury yield hit its lowest level since April 2025 at 3.93% on February 27 and was poised to slide to 3.6%, the war in the Middle East sounded the death knell for the prevailing trend. The closure of the Strait of Hormuz and its global inflationary implications very quickly altered the short-term outlook for bond markets. In the United States, despite its energy independence, the consequence was that this new factor was quickly factored in. With inflation potentially rebounding to 3.5%–4% instead of heading, as expected, toward the Fed’s 2% target, bond yields gradually adjusted over the course of the month. The rise from 3.93% to 4.46% is already quite significant for the 10-year Treasury yield, but the risks of the trend continuing up to 4.8%–5% are still very much present. The Fed was not very active this month, although it increased its Treasury bond purchases to around \$40 billion without affecting prices. As yields adjust to new expectations, the prospects for capital gains have clearly faded in the short term. Our outlook has also shifted rapidly and, in this new context, calls for a degree of caution in Q1 2026 as well as a reduction in maturities and average duration.

Rise in European bond yields and risk premiums

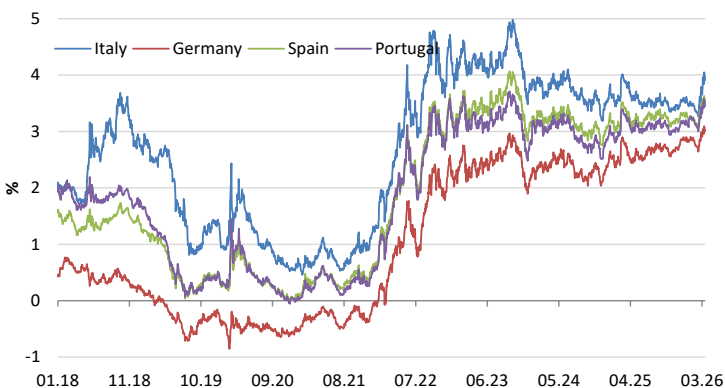
Before the outbreak of the Iran conflict, the overall trend had turned positive again and pointed to a further flattening of the yield curve in the eurozone. The German Bund had resumed a downward trend and stood at 2.65%, down from 2.9% at the end of January. European bond markets reacted with rare severity in March 2026, pricing in a complete shift in the monetary paradigm within just a few trading sessions. The shift from a disinflationary scenario to fears of an oil shock triggered a sharp spike in yields and a reconfiguration of yield curves. The shockwave emanating from the Middle East immediately pushed up long-term inflation expectations. Investors sold off debt securities en masse, driving yields higher. The benchmark 10-year German Bund

crossed the psychological threshold of 3%. The 10-year French OAT rose toward 3.8%, returning to levels of tension not seen in several years amid real risks of rising inflation.

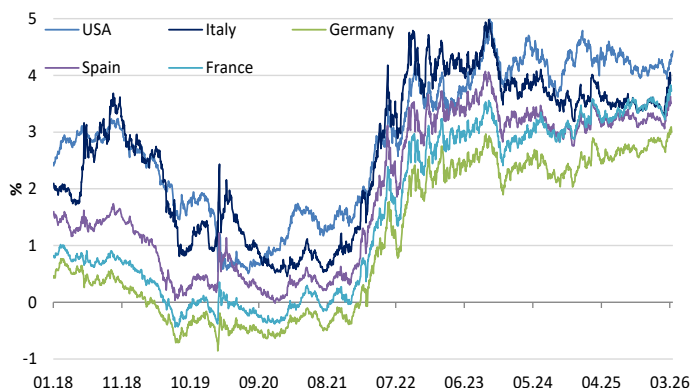
Sharp rise in sterling-denominated bond yields

In this uncertain environment, the sovereign bond market is experiencing volatility not seen since the 2022 mini-budget crisis. The nominal yield on two-year British Gilts, which had stabilized around 3.55%, surged dramatically in just a few days to exceed 4.12%, its highest level since April 2025. This massive rise reflects investors’ capitulation as they abandon their expectations of rate cuts. This dynamic makes new government bonds significantly more attractive to yield-seeking investors, but generates steep unrealized losses for existing portfolios. Ten-year Gilts were not spared, easily crossing the psychological threshold of 4.40% in a massive rebound of nearly 60 basis points in just a few days. Long-term rates are once again near their highest levels in recent years, at 4.82%. At the same time, risk premiums on corporate bonds (spreads) have widened by more than 45 basis points in the space of two weeks, reflecting extreme nervousness about the refinancing wall that highly indebted companies will soon face. The high-yield bond segment has been hit even harder, with yields crossing the critical threshold of 8.5%. Moody’s thus forecasts a doubling of the default rate among British companies, which is expected to reach 6.8% by the first quarter of 2027. Faced with a wall of maturities estimated at over £100 billion over the next eighteen months, value destruction is accelerating. Risk aversion is causing a prolonged freeze in the primary market. As a result, sterling-denominated bonds now offer positive nominal and real yields comparable to those of U.S. bonds.

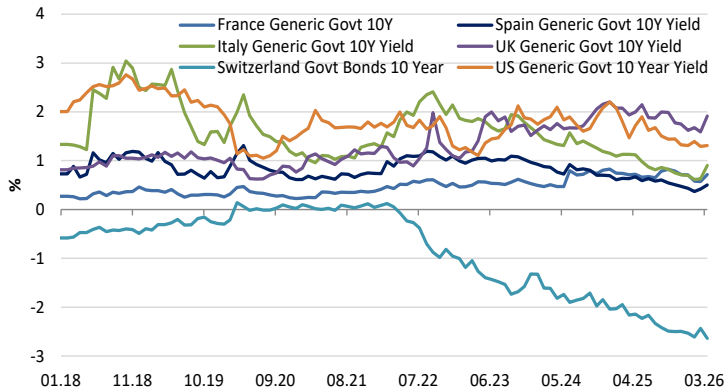
10 year Rate - Gvt Europe



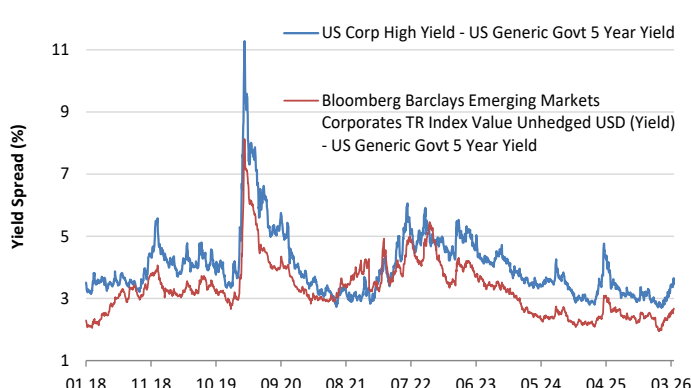
10 year Rate - Gvt



Risk Premium vs German Government



Risk Premium vs US Treasury



The specter of stagflation threatens Japan's yield curve

The fixed-income markets began the year amid clear tensions, particularly in the long-term segment. Better-than-expected inflation data and the economic slowdown in Q4 eased some of the pressure, leading to a period of stabilization at levels slightly higher than those seen at the start of the year. The easing of 10-year government bond yields from 2.35% to 2.1% reflected a decline in tensions. However, these levels remained far below the yields that had previously prevailed during the Japanese authorities' yield curve control phase. While the 10-year yield fluctuated peacefully between 1.1% and 1.3% during the summer, the acceleration observed in 2026 occurred primarily against a backdrop of renewed inflationary fears and the "normalization" of policy rates, a development not yet linked to the looming energy crisis. In this new environment, the bond market appears to us to be more closely correlated than ever with the risks of a resurgence in inflation triggered by the war that has broken out in the Middle East, which will have inflationary repercussions for Japan. We believe that the 10-year yield should resume an upward trend after breaking through and then consolidating above 2%. While the BoJ is unlikely to change its policy rates in the near future, the yen could still benefit from tensions in longer-term maturities to strengthen somewhat. In this context, JGB performance will most likely remain negative over the coming months. The coupon is insufficient to offset the loss in capital value caused by rising yields. For foreign investors, the yield spread relative to U.S. Treasuries or German Bunds does not justify taking on risk in a Japanese market caught between recession and inflation.

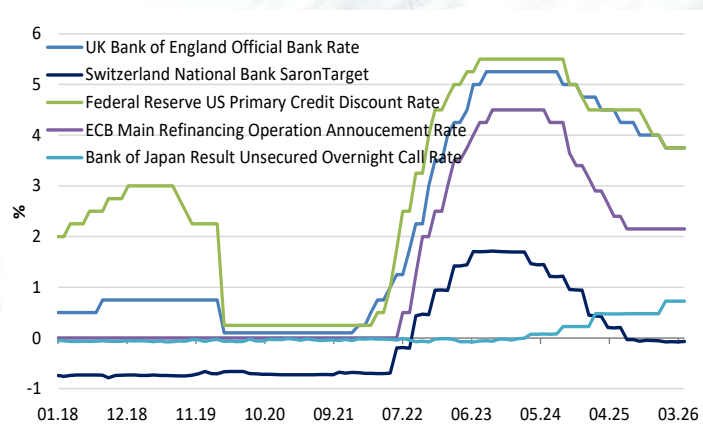
Stability of Chinese government bond yields

The slight rise in the CPI (+1%) puts the People's Bank of China (PBoC) in an uncomfortable position. Cost-driven inflation (oil) is reducing the room to maneuver for cutting interest rates without further weakening the yuan. However, we believe that China will prioritize fiscal stimulus (infrastructure) over monetary stimulus if CPI continues to rise due to oil prices, in order to prevent capital flight. While a rate cut was widely expected to stimulate sluggish consumption, the consensus has shifted. The PBoC is expected to keep its LPR (Loan Prime Rate) unchanged in April and May. Cutting rates now would risk exacerbating capital flight and further weakening the yuan, which is already under pressure from a strong "safe-haven" dollar. Rather than acting on the "price" of money (rates), the PBoC will act on the "quantity." However, a cut in the RRR of 25 to 50 basis points by June 2026 is likely. The PBoC aims to inject massive amounts of liquidity into the banking system to ensure that local governments can continue to finance major infrastructure projects without drying up credit for private companies. This is a "supply-side support" measure that does not directly impact the exchange rate. For the Chinese government bond market, this policy will have little impact on long-term yields. We expect these yields to remain within a range of 1.75% to 1.90% over the coming months.

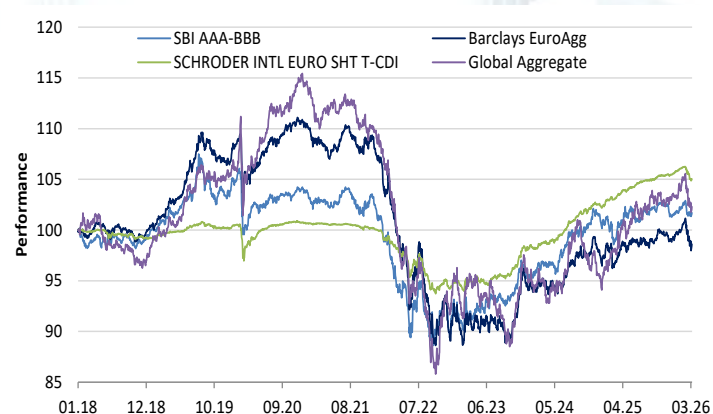
Investment policy focused on high-yield markets

Our investment policy favors, for the coming months, fixed-income markets offering high yields and some opportunities for capital appreciation. The geographic allocation thus favors North America, Australia, the United Kingdom, and emerging markets at the expense of the Eurozone, Japan, China, and Switzerland. Corporate bonds remain the primary focus in implementing this strategy, which also favors high-yield investments—though to a lesser extent, as well as adequate diversification into specific bond segments, such as cat bonds and senior loans, in particular.

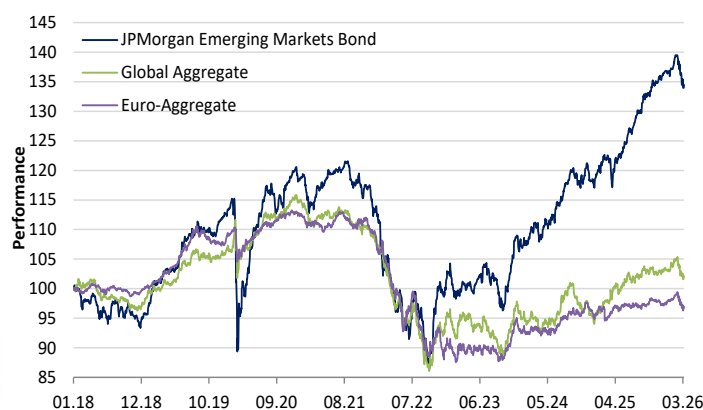
Key Rates (EUR, CHF, GBP, USD, JPY)



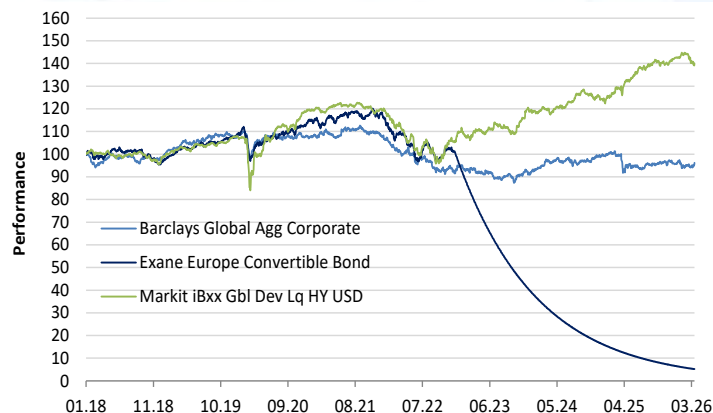
YTD Performance of 1- 5 year Bond Indices (base 100)



Emerging Bonds - Performance (base 100)



Eastern Europe Bonds - Performance (base 100)

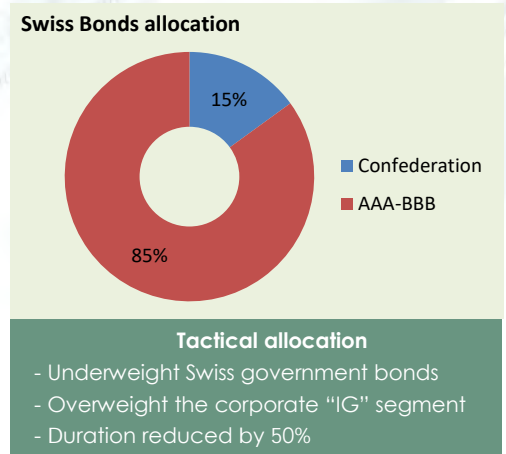


PROSPECTS AND STRATEGIES

Swiss Bonds

- The crisis in the Middle East threatens Swiss interest rates
- Inflation risks are turning the bond market on its head

BONDS Type of Debtor	Expected Return		ALLOCATION (CHF Portfolio)									
	3months	1year	underweight			neutral overweight						
			---	--	-	=	+	++	+++			
Government	↗	↗										
Corporate (IG)	↗	↗										
Others	↗	↗										



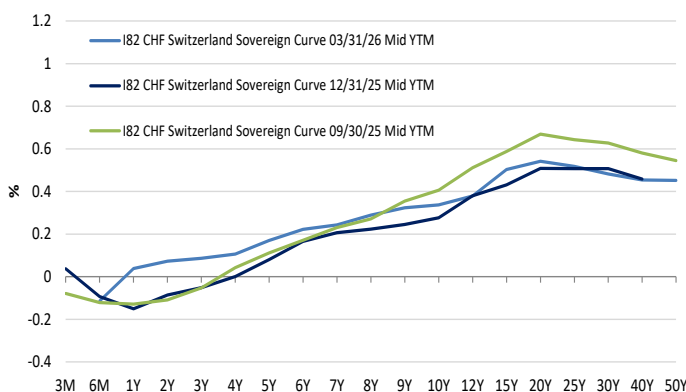
The crisis in the Middle East threatens Swiss interest rates

Capital markets had started the year on a calm note, mirroring Swiss government long-term yields, which fluctuated only slightly between 0.2% and 0.3% between January and February. Yields of virtually zero did not encourage domestic investors to hold Swiss franc-denominated bonds. At the same time, the risk of a reversal of the trend due to domestic factors did not appear imminent, given the SNB's reluctance to return to negative rates at a time when inflation was still close to zero and the Swiss economy was showing signs of contraction. In February, 10-year Swiss government bond yields were again hovering around 0.2%, having already hit their 2024 low of 0.1%—just 0.1 percentage points above the 2025 yield floor. Without the crisis in the Middle East, Swiss rates would likely have remained for some time within a narrow range of 0.1% to 0.4% against the backdrop of expected sustained economic weakness and persistently very low inflation in our country. The war in the Middle East is dramatically changing the situation and now suggests a likely reversal in the trend of price developments worldwide and in Switzerland in particular. The 100% increase in crude oil prices is expected to quickly spread throughout economies and affect producer prices, transportation costs, processing costs, and retail prices. The SNB's inflation forecast for 2026 was +0.2% excluding the impact of an oil shock. Although it is currently difficult to predict what the effects on inflation indices will be, we believe it is essential to revise these expectations in light of recent events. While the risks discussed to date have primarily concerned deflationary factors, the current environment reverses these risks and now suggests upside surprises in inflation. A comparison with the 2022 period, although significantly different, reveals upside risks that are not yet anticipated by the markets.

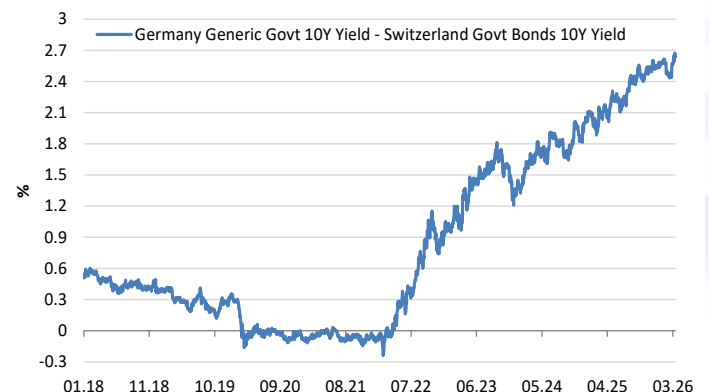
Inflation risks are turning the bond market on its head

In our most recent strategic analyses, we concluded that the risk-return profile had become thoroughly unfavorable and consequently recommended maintaining our underweight position in Swiss bonds, which no longer offered any yield but, on the contrary, guaranteed an erosion of nominal capital. However, the risks of a trend reversal were not immediate given the growing risks of recession in our country and inflation near zero. The SNB's expected monetary policy was set to remain accommodative in this context and could even temporarily shift to negative rates if deflation and the slowdown were to intensify. The scenario is now significantly different following the recent dramatic developments in the Middle East. The risks of a reversal in the trend of inflation in Switzerland are now significant and will affect the interest rate market very quickly. In Switzerland, the country's unique energy mix may limit inflationary pressures, but inflation could still jump from 0.3% in March to 1% and exceed the SNB's current forecasts. The most foreseeable consequences of the war in the Middle East are those directly linked to the disruption of oil, gas, and fertilizer supply chains. Inflation will be the persistent disruptive factor affecting monetary policy and investor sentiment over the coming months. We also noted in our previous analyses that an external shock could occur and trigger a reassessment of expectations for Swiss bonds. Today, these risks are materializing and could push Swiss 10-year bond yields from the current level of 0.2% to 0.8%–1% within a few months. We therefore maintain our recommendation to adopt an extremely cautious approach to Swiss bonds.

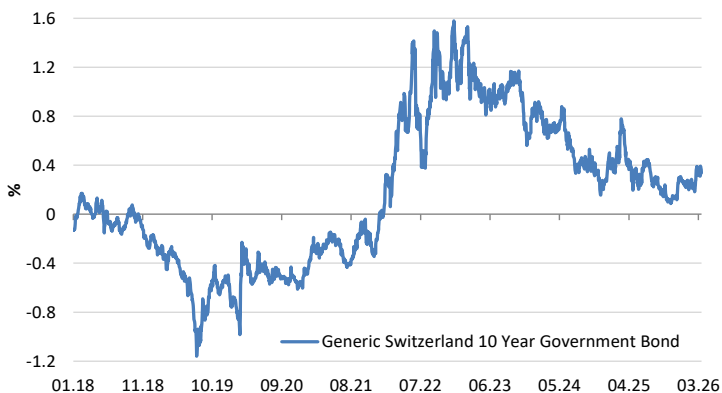
Yield Curve Swiss Government



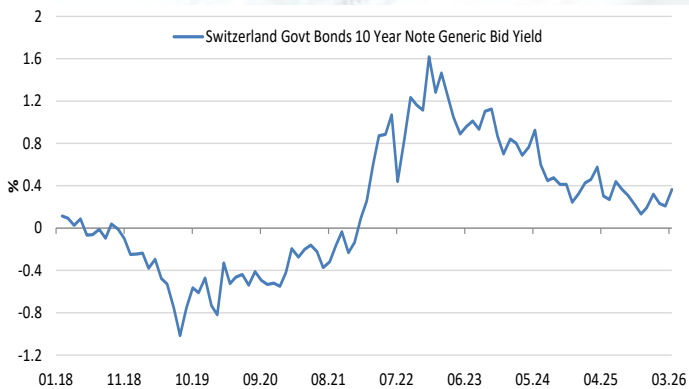
Long-term Interest Rate Differential (German Bund - Swiss Gov)



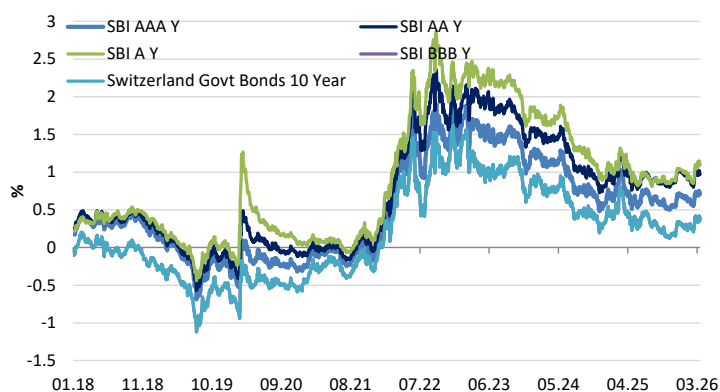
Swiss Government Bonds - 10 year Rate



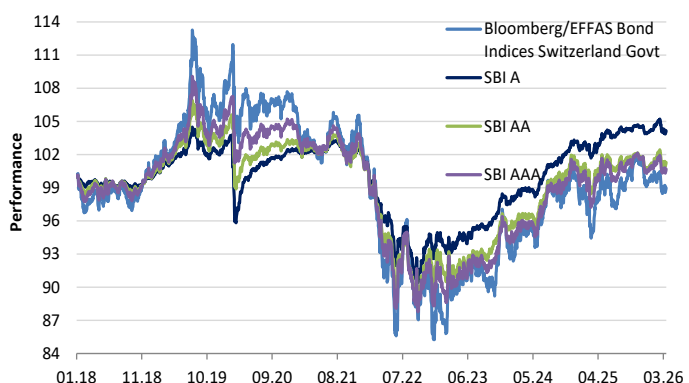
Swiss Government Long Rates since 2018



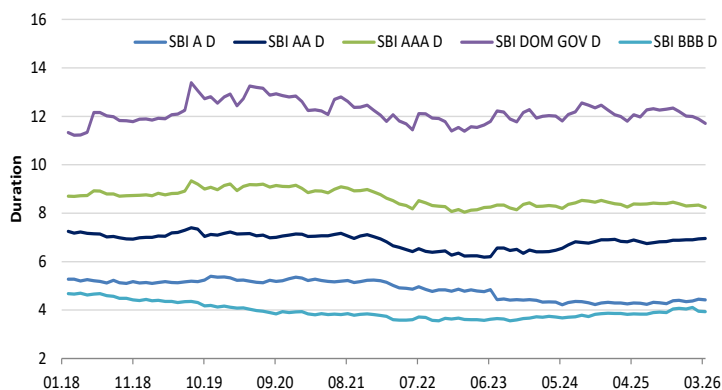
Yield (in %) by Type of Debtor



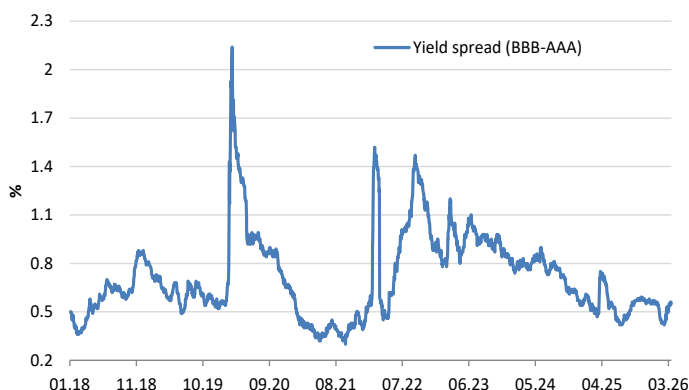
Performance of Swiss Bonds (base 100)



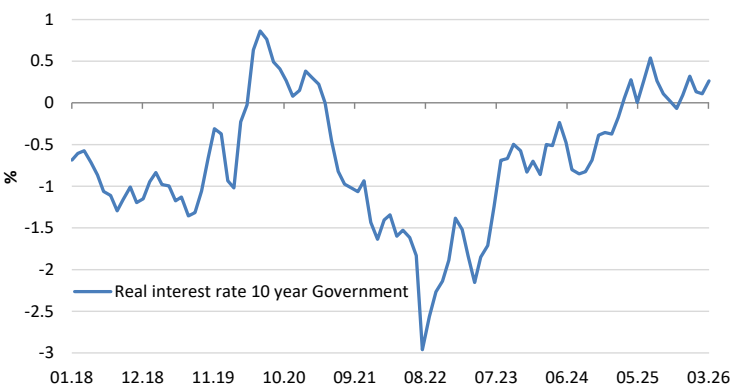
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

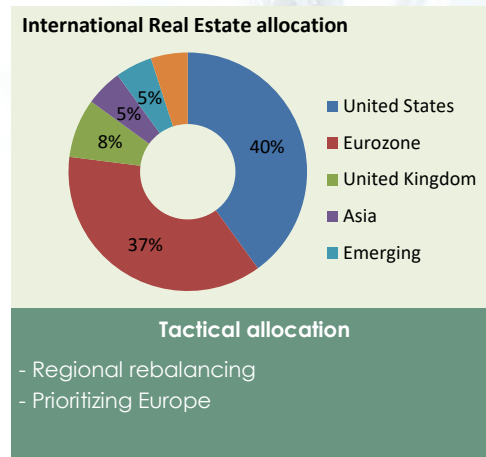
	Last price	Curr.	Total Return Performance				
			7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	258.7	CHF	0.3	-1.4	-0.6	-1.5	-0.6
SBI A-BBB	142.4	CHF	0.2	-1.0	0.1	0.0	0.1
SBI AA-BBB	138.6	CHF	0.3	-1.0	0.3	-0.2	0.3
SBI AAA-AA	137.2	CHF	0.3	-1.2	0.3	-0.6	0.3
SBI BBB	155.2	CHF	0.1	-1.0	0.2	0.1	0.2
SBI AAA-BBB	138.7	CHF	0.3	-1.2	0.2	-0.4	0.2
SBI DOM GOV AAA-BBB 1-3P	57.0	CHF	0.1	-0.7	-1.0	-2.1	-1.0
SBI DOM GOV AAA-BBB 3-7P	75.0	CHF	0.3	-0.8	-0.3	-1.0	-0.3
SBI DOM GOV AAA-BBB 7+ P	115.7	CHF	0.2	-2.0	-1.2	-2.7	-1.2

PROSPECTS AND STRATEGIES

International Real Estate

- The Gulf shock and the global REIT meltdown
- Analysis of regional disparities (EPRA Nareit Index)
- The “forced pivot” of the U.S. real estate market in the face of the march 2026 shock

REAL ESTATE Areas	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
Suisse	↘	→								
Etats-Unis	↘	↗								
Eurozone	↘	↗								
Royaume-Uni	↘	↗								
Asie	↘	↗								
Emergents	↘	↗								
Liquidités										



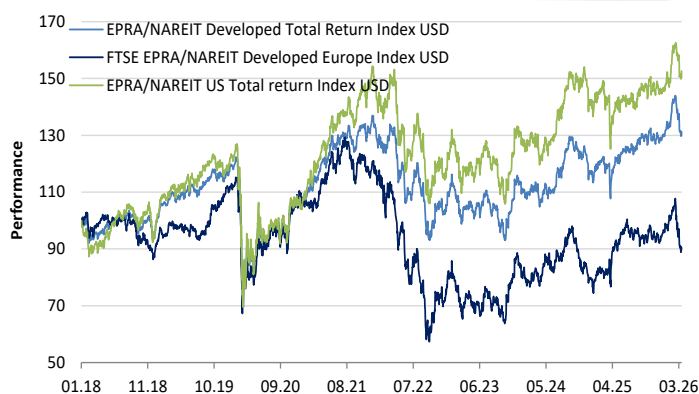
The Gulf shock and the global REIT meltdown

The real estate investment trust (REIT) sector, which was just emerging from a period of stabilization following the 2023–2024 rate hike, suffered a devastating “black swan” event in March 2026. The outbreak of armed conflict involving Iran sent immediate shockwaves through the FTSE EPRA Nareit Global indices, with a -9.4% drop over a few days erasing all the gains already made in the first two months, resulting in a flat quarter (+0.6%). Securitized real estate was thus generally more affected than equities (-6.3%) during the same period. Although real estate is a physical asset, its securitized form reacts like a “liquid asset” and can undergo significant adjustments and profit-taking over short periods, particularly when key valuation parameters are called into question. This is exactly what happened when the conflict in the Middle East broke out, causing a short-term upheaval in market expectations. The war in the Middle East was immediately perceived as an energy and inflationary shock. Brent crude oil surged by more than 75% in just a few days amid a frenzy that quickly led investors to fear a “second wave” of inflation, forcing central banks to maintain, or even raise, interest rates that the market had hoped to see lowered. At the same time, geopolitical instability and inflationary risks have also triggered a sharp rise in bond yields across all countries. Mathematically speaking, the value of real estate companies declines when interest rates rise, as their refinancing costs increase.

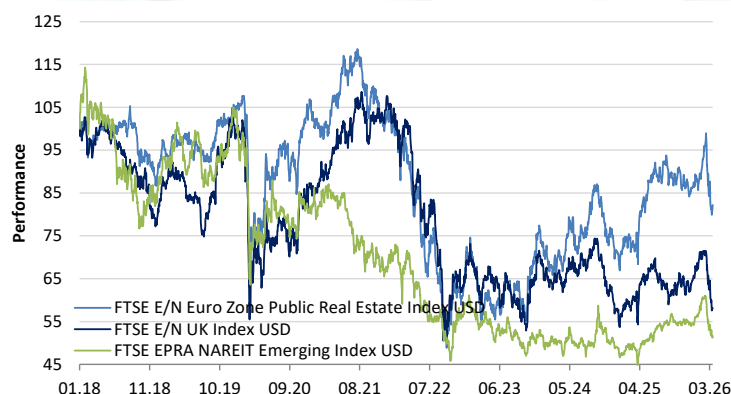
Analysis of regional disparities (EPRA Nareit Index)

Negative performance varied depending on energy exposure, lease structures, and geographical proximity to the conflict. The epicenters of the global shock were Europe and Asia. Europe is the region hardest hit due to its energy dependence. The United Kingdom and continental Europe are bearing the brunt of soaring gas and oil prices. Building operating costs (heating, electricity) are skyrocketing, threatening landlords’ net profitability. With a 17% drop, the UK market is experiencing a major crisis of confidence. The already fragile London office sector is being shunned by international investors fleeing European assets deemed too exposed to the risk of conflict contagion. Emerging markets are suffering a double blow. In addition to the oil shock, they are facing a “flight to quality.” Capital is fleeing these regions en masse to seek refuge in the U.S. dollar, causing a devaluation of local currencies that wipes out the performance of emerging-market REITs for global investors. Asia, particularly Japan and India, depends on oil and gas transiting through the Gulf for more than 80% of its supply. The energy rationing already observed in certain industrial areas in March has directly impacted logistics and manufacturing real estate companies, whose tenants can no longer operate normally. The U.S. index has limited the damage, with a decline of just 5.7%, largely due to the United States’ energy independence, which is seen as a safe haven thanks to its domestic production. Furthermore, the significant weighting of data centers and telecom towers in the Nareit US index protects the index, as these sectors are less sensitive to immediate geopolitical cycles than shopping centers or traditional office buildings.

EPRA Nareit Indices-USA, Europe, World (in USD)



EPRA Nareit Indices - Eurozone, UK, Emerging Markets (in USD)



The “forced pivot” of the U.S. real estate market in the face of the march 2026 shock

The pre-March 2026 consensus analysis painted a bleak picture for U.S. REITs, which were being impacted by rising service sector inflation, structural office vacancies, and a lack of a discount to Net Asset Value (NAV). However, the outbreak of conflict in the Middle East and the fact that the EPRA US Index closed March at -5.7% compared to -15% for Europe and -17% for the UK, are forcing us to revise our outlook for several reasons that now suggest U.S. securitized real estate could benefit from the current situation by appearing as the least bad safe haven in the new context of rate pressures and prospects for a rapid rise in inflation.

First, the current environment suggests that the level of long-term interest rates will not be the sole factor affecting the outlook for REITs. March 2026 demonstrated that the spike in the 10-year Treasury yield following the oil-driven inflation shock was not, in fact, the primary determining factor for the performance of the U.S. real estate market, which held up better than the widespread collapse of regional indices and the overall index.

In the current environment, the risk-free rate and the cost of capital are no longer the key factors; instead, energy security has taken on new importance. Thanks to their energy independence, the United States acts as a buffer against the surge in operating costs that has severely impacted European and Asian real estate companies. While the marginal cost of debt is certainly high, the creditworthiness of U.S. tenants in the face of the energy crisis is considered superior. As for the office sector, concerns have eased. While the 19.8% vacancy rate projected for the end of 2025 remains a physical reality, the Gulf crisis is shifting investors' focus.

The Nareit US Index is now driven by its new pillars of logistics and data infrastructure. In a world where supply chains are once again under threat and digital sovereignty is a defense priority, U.S. data center and warehouse REITs are demonstrating exceptional resilience.

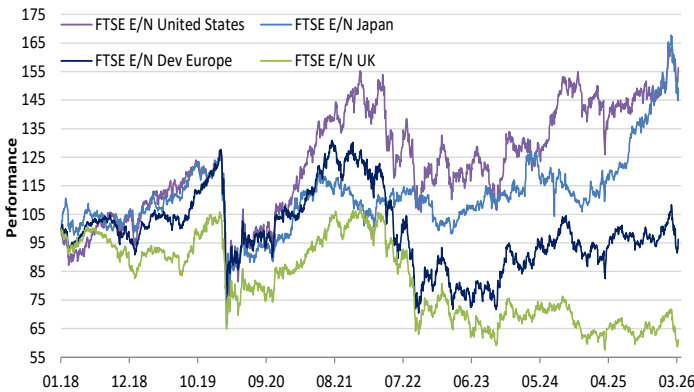
Risks related to the overvaluation of U.S. REITs and higher premiums over NAV, as well as average debt levels that are often significantly higher than those of European counterparts, remain major sources of concern when determining a diversified investment strategy for the coming months.

Given the current context, one might question the value of discounts on NPVs in Europe if the underlying asset is facing a major energy crisis. The market may now be willing to pay a “jurisdiction premium” for the United States on a long-term basis.

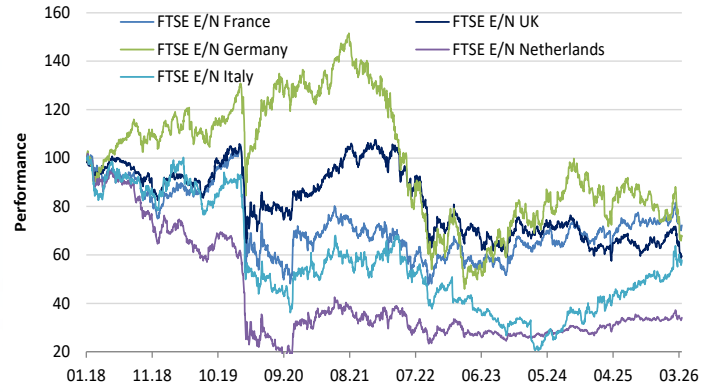
The March 2026 scenario significantly alters our positioning regarding the U.S. real estate market. The United States is becoming a defensive growth position. It is no longer a quest for yield, but a quest for capital preservation. As long as the Strait of Hormuz remains a zone of tension, this jurisdiction premium will likely support the relative value of U.S. real estate.

The structural breakdown of the commercial and office sectors remains a risk, but it may now be priced into the market. Geopolitical risk, however, was not priced in for Europe, which explains the sharp catch-up in valuations in favor of the United States in the spring of 2026.

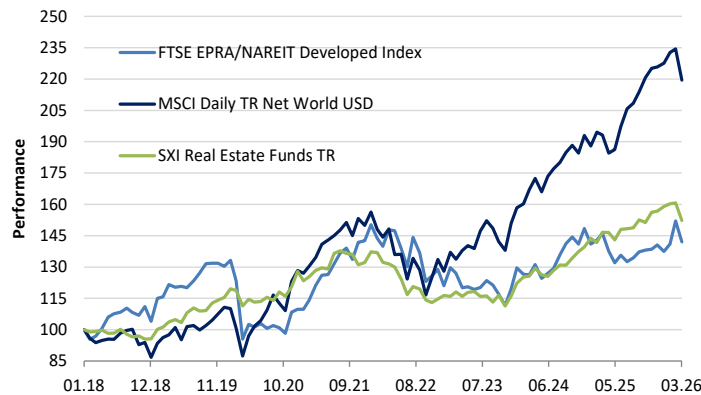
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



Long-term Performance ; International Real Estate, Swiss Real Estate (CHF) and International Equities (base 100)



INTERNATIONAL REAL ESTATE INDICES (local currencies)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	3345.8 USD	0.0	-9.3	0.9	0.3	0.9	
DEVELOPED	EPRA/NAREIT Dev TR USD	6542.4 USD	0.0	-8.9	1.3	0.8	1.3	
DEVELOPED EUROPE	FTSE E/N Dev Europe	1549.5 EUR	0.6	-13.9	-4.5	-2.6	-4.5	
EUROZONE	FTSE E/N Euro Zone	1578.8 EUR	1.5	-15.0	-4.3	-6.5	-4.3	
USA	FTSE E/N United States	3262.8 USD	1.0	-5.7	5.0	3.2	5.0	
DEVELOPED ASIA	FTSE E/N Dev Asia	1263.8 EUR	-2.3	-11.7	-3.0	-2.7	-3.0	

The interest rate shock is having a negative impact on securitized real estate in Europe

The real estate market reacted sharply to the complete reversal of inflation expectations and interest rates in March. The sharp rise in bond yields narrowed the yield spreads between real estate stocks and high-quality corporate bonds. The EPRA Nareit Euro Zone TR Index fell by 17% and is poised to stabilize at the lows seen in April 2025.

Europe is historically the region where the correlation between interest rates and REIT valuations is strongest. As bond yields rise, the yield spread between real estate and government bonds narrows. Investors then demand a decline in real estate stock prices to restore this spread. A rate hike immediately increases the cost of refinancing, weighing on the cash flow available for dividends (operating cash flow). Conversely, rent indexation will play a positive role in the medium term because, in Europe, most commercial leases are indexed to inflation. This allows the decline in valuation to be partially offset by an increase in revenue.

The revised outlook for European listed real estate is being weighed down by rising financing costs and valuations hurt by a higher capitalization rate, but it is becoming attractive again with a yield of 5.6% and a 34% discount to net asset value.

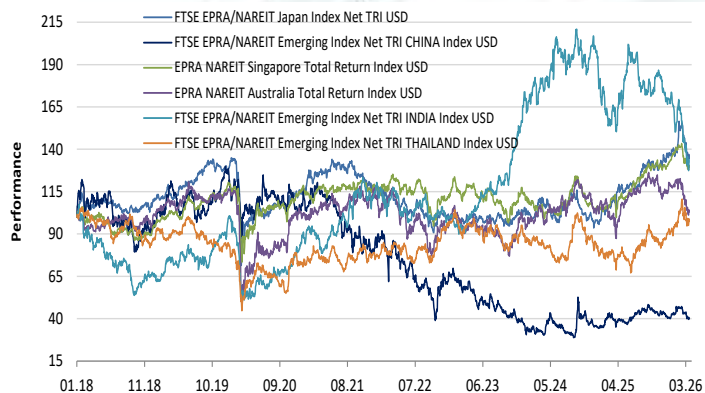
UK real estate hurt by the shift in interest rates

In the physical housing market, the overall mood has shifted from cautious wait-and-see to deep concern. Mortgage rates, which had begun to ease slightly, providing relief to buyers, have surged aggressively once again. The average rate for a two-year fixed-rate mortgage climbed to 4.87% in early March 2026. Real estate investment trusts (REITs) are feeling the impact and have experienced a sharp correction since the start of the Middle East crisis. Investors are legitimately concerned that the unexpected maintenance of high interest rates for an extended period will trigger a rise in defaults and a decline in the Net Asset Value (NAV) of real estate companies. The latest indices from Halifax and Nationwide confirm this downturn with an unexpected monthly drop of -1.5% in physical property prices in February. Transaction volumes have plummeted by more than 20% year-over-year, while buy-to-let landlords are accelerating the sale of their assets, overwhelmed by hostile tax policies and rising monthly mortgage payments. Recent data from Knight Frank suggests a 6.8% decline in valuations for the full year 2026. The financing market is disrupted, dashing first-time buyers' hopes of finalizing their purchases as down payments have become too high. At the same time, the commercial real estate market is also plummeting, with a record vacancy rate in the City. Unsurprisingly, major British real estate companies saw their share prices plummet, falling by 11% in just a few weeks. Caution is once again advised regarding British securitized real estate.

Higher risk of stagflation in Asia and emerging markets

For these regions, rising energy import costs clearly pose a high risk of a resurgence in inflation and an economic slowdown. Countries like Japan, which are just emerging from decades of deflation, are seeing their economic models disrupted. If inflation exceeds targets, the Bank of Japan could raise rates faster than expected, which would be a major shock for local real estate companies accustomed to "zero interest rates." In emerging markets, monetary effects are also a cause for concern. Inflation is forcing local central banks to aggressively raise rates to protect their currencies, which "kills" real estate valuations by making the cost of capital prohibitively high. The risks are therefore likely higher in the short term for these real estate markets, which have been weakened by recent global developments regarding the security and sustainability of energy supplies.

Real Estate Market Developments (USD)



Adjustment of allocations in favor of the United States

The events of March had significant implications for various regional securitized real estate markets

Price declines in Europe, the United Kingdom, and Asia were indeed steeper than in the United States, reflecting a rapid pricing in of the risks posed by rising inflation driven by higher energy prices; the levels reached already suggest that these factors have been factored in. The attractive risk premiums of these markets relative to those measured on U.S. REITs would, under normal market conditions, be sufficient to justify net overweight positions in their favor. However, we consider the new factor that appears to have supported the U.S. market in March to remain the primary driver of regional real estate asset reallocations in the coming months.

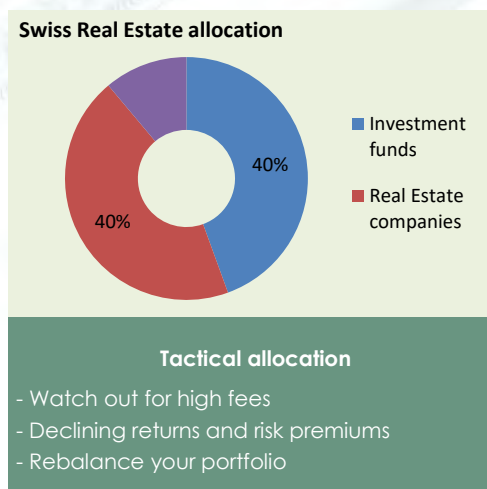
We are rebalancing allocations across regions to increase diversification into US REITs at the expense of Europe and Emerging Markets. The key driver of future performance will not come from U.S. monetary policy or attractive relative valuations, but from a global reallocation of capital fleeing conflict zones and areas with higher energy supply risks toward the only deep and energy-independent real estate market.

PROSPECTS AND STRATEGIES

Swiss Real Estate

- A quarter-end marked by the crisis in the Middle East
- A new, less favorable environment for securitized real estate
- High interest rates again and falling risk premiums

REAL ESTATE Switzerland	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
Investment funds	↘	↗								
Real Estate companies	↘	↗								
Foundations	→	→								
Cash										



A quarter-end marked by the crisis in the Middle East

Securitized real estate began the year on an unchanged trend amid a notable economic slowdown in Switzerland and very limited risks of interest rate hikes. With inflation near zero, there was little chance that the SNB would be prompted to change its zero-interest-rate monetary policy. The environment therefore remained favorable for listed real estate stocks, but increasingly risky given the steady rise in valuation levels. Real estate investment funds posted a very modest gain of +0.9%, while the real estate companies favored in our investment strategy soared by +15.8%. The Hormuz crisis significantly altered risk perceptions, triggering widespread profit-taking across both segments. While the drop in investment fund prices (-5.1%) over the month brought premiums back to August 2025 levels, erasing all gains from the past six months, the movement observed in real estate companies (-5.2%) remained more moderate and still allowed for a positive quarterly return of over +10%. The current muted reaction in the bond markets should reassure real estate investors following these short-term pullbacks, but we believe volatility in this sector is likely to return with the imminent emergence of new inflationary risks.

A new, less favorable environment for securitized real estate

Securitized real estate has benefited significantly in recent months from the extremely low interest rates in Switzerland, representing a preferred alternative for many institutional investors. We have often highlighted the risks associated with a premium on investment funds that is close to the highs observed before the market correction in 2022. The current context bears similarities to the sequence of events observed during the invasion of Ukraine. The revision of inflation expectations and its impact on the appropriate level of interest rates will inevitably have

repercussions on securitized real estate. A rise in long-term rates toward the 0.8%–1% range could trigger a 10% to 15% correction in real estate indices in an environment of highly excessive valuations conducive to rapid profit-taking.

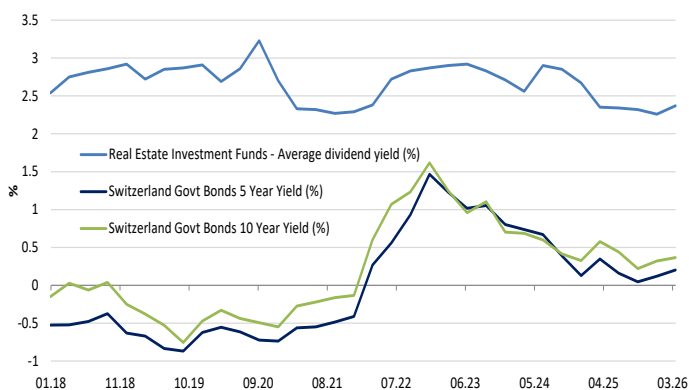
High interest rates again and falling risk premiums

In terms of valuation, given that premiums remain tight following the price drops in March (30% and 38%), risks are increasing. The average yields of real estate funds (2.3%) and real estate companies (2.6%) remain attractive compared to the Swiss government's 10-year rates (0.32%), but risk premiums are narrowing for both funds and real estate companies. Greater vigilance is now essential to navigate headwinds that could prove powerful if ten-year Swiss government bond yields were to approach the 1% range.

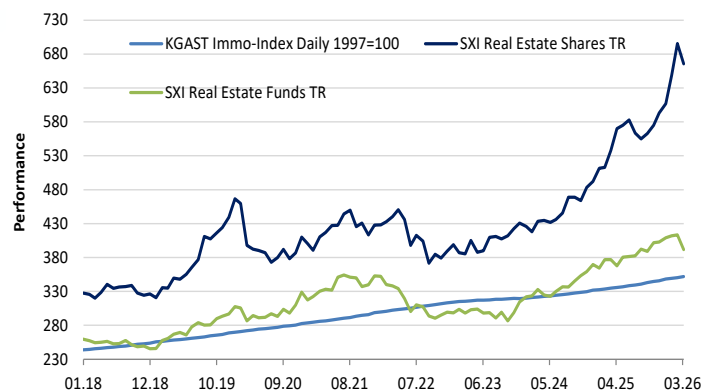
SWISS REAL ESTATE

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	575.8	1.4	-5.3	-4.2	0.6	-4.2
SXI Real Estate Idx TR	4959.8	1.7	-4.3	9.7	18.3	9.7

Interest rates and returns on real estate funds



Swiss real estate performance

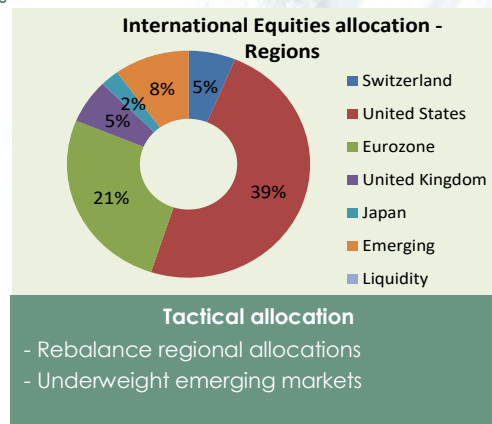


PROSPECTS AND STRATEGIES

International Equities - Regions

- The impact of the Middle East war is upending market expectations
- Uncertain outlook remains negative for U.S. stocks
- European stocks react to the possibility of stagflation
- Negative outlook for the FTSE 250 in the first half of 2026

EQUITIES REGIONS	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight neutral overweight						
			---	--	-	=	+	++	+++
Switzerland	↘	↗							
United States	↘	↗							
Eurozone	↘	↗							
United Kingdom	↘	↗							
Japan	↘	↗							
Emerging	↘	↗							
Liquidity	↗	→							



The impact of the Middle East war is upending market expectations

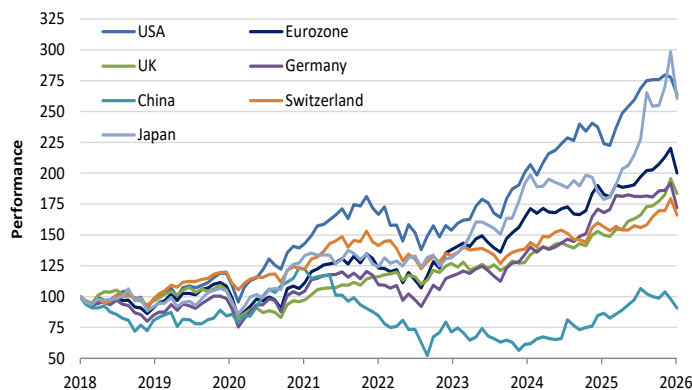
The first quarter of 2026 will go down in financial history as a period of abrupt transition. After a start to the year marked by new all-time highs against a backdrop already characterized by a clear loss of momentum in the United States, markets were hit hard in March by the military escalation in the Middle East, involving strikes between Iran and the coalition led by the United States and Israel. Prior to March 3, 2026, the MSCI World All Countries Index had posted a solid gain of +4.3% over the first two months. But the outbreak of hostilities triggered an immediate "risk-off" move. Unlike other international crises, however, this one did not have major effects on financial markets, which certainly reassessed opportunities and risks but did not succumb to panic. This is the great paradox of spring 2026. While economic fundamentals turned negative in March, with initial massive impacts on prices and an underlying acceleration of inflation, and no prospects for a rapid reopening of the Strait of Hormuz, stock indices, notably the S&P 500 (-5%), demonstrated a resilience bordering on defiance. The March corrections were more severe in Europe (-9.1%), Japan (-12.7%), and emerging markets (-13%). The MSCI World Index, down 6.4% for the month, ended the quarter with a smaller decline of just 3.6%, despite the highly uncertain environment. We believe, however, that current market reactions still reflect the overconfidence prevailing among a number of investors. The market is currently narrow, with a limited number of stocks participating in and supporting the indices. If Q1 2026 earnings (expected in late April) show a decline in revenue, particularly among tech giants, the dam could burst suddenly, as current valuation levels (a P/E ratio of 22x for the S&P 500) leave no room for disappointment. It is also worth noting that "equal-weight" indices are already clearly trending downward,

demonstrating that the rise in long-term rates in response to the Gulf crisis is already having a more pronounced negative impact on the outlook for mid-cap growth stocks. In Europe, market breadth has also deteriorated sharply, suggesting that equity markets are likely nearing the end of their cycle and vulnerable to disappointing earnings and forward guidance.

Uncertain outlook remains negative for U.S. stocks

A few months ago, we already noted that the risks seemed clearly greater than the opportunities for U.S. equities. We pointed out that there was no margin of safety to absorb any negative surprises. Expectations for 2026 appear to be ignoring these likely headwinds. A longer-than-expected pause by the Fed, or a more hawkish tone, could trigger a sharp reassessment of risk. Valuations were historically stretched, with price-to-earnings (P/E) ratios for the S&P 500 above 25x—well above historical averages—leaving no room for disappointment. Following a decline of around -10%, we believe risks persist in the current environment, which could trigger multiple shocks capable of causing further declines. The stagflation scenario has the potential to impact both corporate margins and volumes. In this context, rising bond yields represent a serious alternative during a period of high and ever-increasing uncertainty. Our medium-term outlook remains negative, suggesting a reduced allocation to equities.

Marchés actions long terme (base 100)



Actions chinoises A et B (base 100)



European stocks react to the possibility of stagflation

The escalation in the Middle East and the blockade of the Strait of Hormuz have triggered a sharp decline in stock indices. Soaring gas and oil prices are directly impacting energy-intensive sectors. Companies may struggle to pass on these costs amid weak demand. As with real estate, rising bond yields automatically reduce the present value of future earnings, which particularly penalizes growth stocks (Technology, Luxury) that had driven the market in 2025. Consumer sentiment at an all-time low suggests a "dead quarter" for discretionary spending. The already fragile airline and hotel sectors are seeing their jet fuel costs double, threatening their 2026 earnings forecasts. Oil majors and the defense sector, on the other hand, are benefiting from the situation, driven by rising commodity prices and increased European military budgets. So-called "defensive" sectors such as Healthcare and Consumer Staples, where demand is less price-sensitive, should also benefit from a rotation of investments. Despite the shock, European stocks are trading at a discount (P/E of 15x) relative to U.S. stocks (20.5x). In the short term, we believe the downtrend may continue and retest the 5,200 level on the Euro Stoxx 50. We therefore recommend a more cautious approach to European stocks.

Negative outlook for the FTSE 250 in the first half of 2026

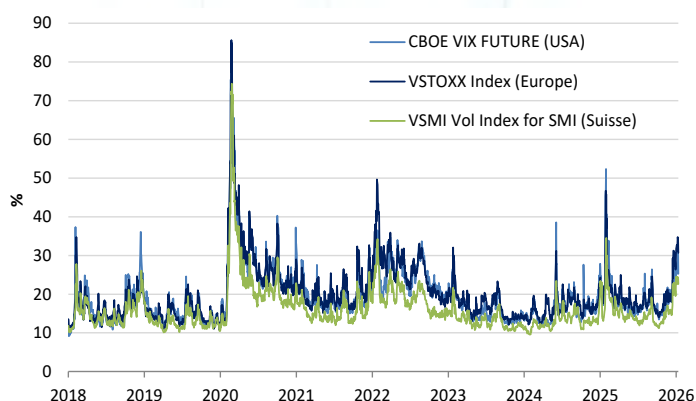
The risks of zero economic growth, persistent inflation, and a prolonged oil shock are weighing heavily on the potential performance of the FTSE 100 in the coming weeks. London's flagship index has plummeted to around 10,200 points following the outbreak of the conflict with Iran. Despite its historically defensive nature and heavy weighting in energy stocks (which automatically benefit from rising oil prices), the market as a whole is suffering from the contraction in valuation multiples caused by the sharp rise in bond yields. The severe lack of macroeconomic visibility will prevent any organic expansion of these multiples. Investors will have to settle for dividend yields and adopt a highly selective approach, focusing solely on companies with absolute "pricing power" to weather the stagflation phase looming on the horizon. While giants like Shell, BP, or BAE Systems are propping up the index thanks to the oil and military sectors, the outlook is far bleaker for domestic stocks. The FTSE 250 Index, which is more representative of the UK domestic economy, has fallen by 7% since January and has

returned to its July 2025 level. Earnings-per-share (EPS) revisions are expected to increase, reducing profit growth for domestic companies in 2026. The overall price-to-earnings (P/E) ratio is trending downward, though it still compares favorably to the multiples of most stock indices in Europe. Given the specter of feared stagflation, we recommend adopting a cautious strategy toward British stocks.

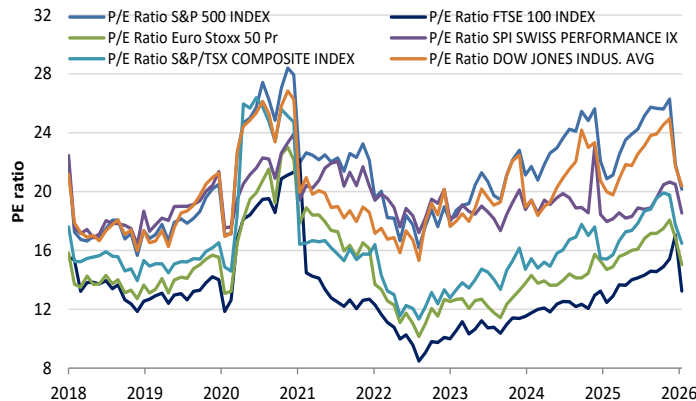
The risk of stagflation is threatening the Nikkei

Since the start of the year, following the extraordinary gains in January, February was disrupted toward the very end of the month by changes in interest rates and inflation, as well as exchange rate volatility, but it reacted most strongly to events in the Middle East. The sharp rise in oil prices to over \$80 exacerbated a trend that had already been clearly evident for several months and triggered a reassessment of risk premiums for Nikkei stocks. It is too early to estimate what the implications will be for profit growth, currently projected at around +10% for 2026. However, it is likely that the downward revision of profit expectations will have significant effects on stock prices. Despite a reasonable average P/E ratio to date, upcoming developments will play a more significant role in the stock selection process and in international investors' willingness to take on Japanese risk, despite positive structural trends. The unwinding of cross-shareholdings and the requirement for a price-to-book (P/B) ratio above 1.0 will further compel companies to return more cash to shareholders. This creates a floor for the market, even in the event of an economic slowdown, but will not prevent an adjustment of tactical outlooks and short-term risks. From a sectoral perspective, technology stocks (semiconductors) will remain the favorites among foreign investors, but renewed concerns about potential supply chain disruptions linked to the energy crisis will dampen investors' willingness to maintain exposure to the Japanese equity market. We believe there is a high risk of the Nikkei consolidating by 10% to 12%, falling below 50,000 points, and suggest a more cautious allocation to this market going forward.

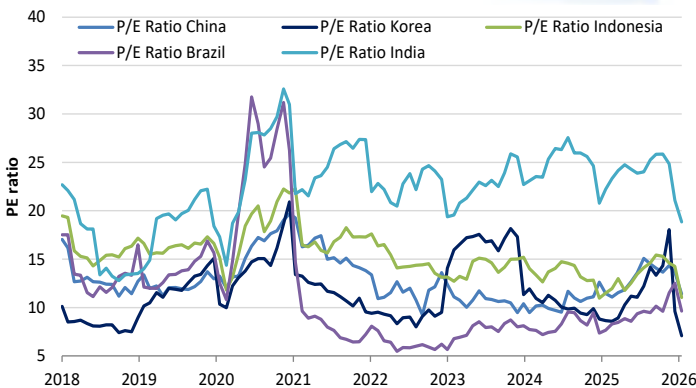
Volatility indicators (USA, Europe, Switzerland)



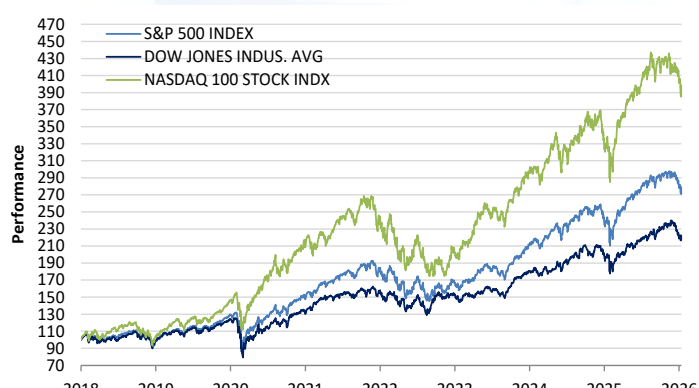
PE in developed markets



PE in emerging markets



US equity markets (base 100)



Emerging Markets in Trouble

The Strait of Hormuz crisis is hitting Asia's emerging economies hardest, particularly those that are highly dependent on imports from the region. The surge in energy import costs is worsening their trade balances, putting pressure on their currencies, and acting on consumers like a new tax with significant effects on growth prospects. China is an exception thanks to its massive crude oil reserves, and this crisis comes at a time when it is emerging from a period of deflation. It appears well-prepared for this situation but will also feel the effects of slowing global growth.

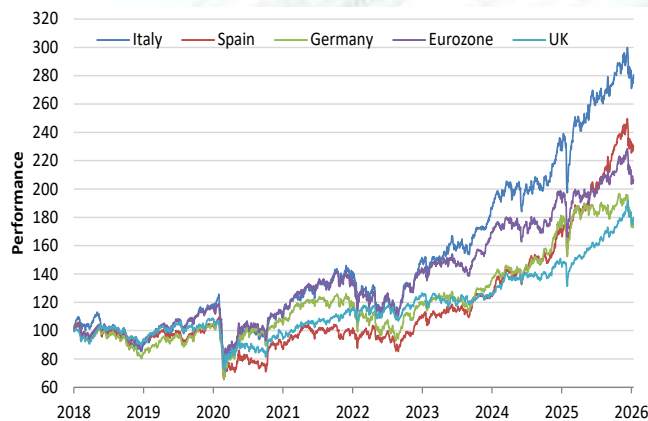
A generally more defensive tactical positioning

Our investment policy has been generally more defensive since the start of the year, with a relatively low overall allocation to equities compared to our long-term strategic positioning, which favors this asset class over other forms of investment. We believe this cautious approach remains appropriate today given the new, highly uncertain environment for the global economy and for the earnings outlook of listed companies. From a regional perspective, the U.S. economy may be the least affected by the oil shock. We suggest overweighting the U.S. market and commodity-producing markets. We maintain a reasonable exposure to undervalued European markets, although they remain sensitive to the oil shock. Among emerging markets, China appears better positioned to weather this crisis than other economies and would be our preferred choice. Finally, managing risks and opportunities also, and above all, requires a more defensive sector-based strategy.

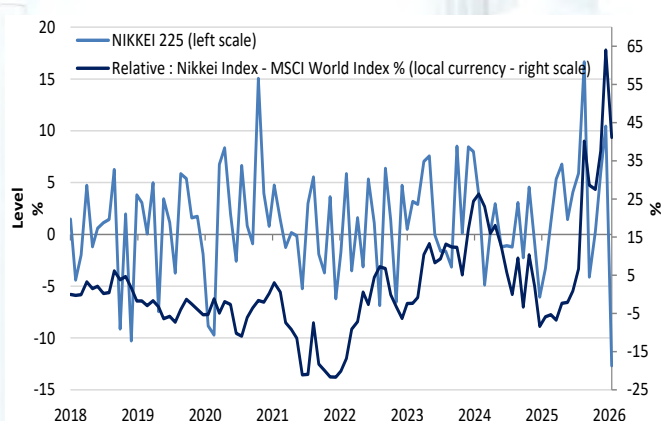
EQUITIES - BY REGION (local currency)

		Total Return Performance							
		Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	17835.7	CHF	2.1	-7.4	-2.1	6.5	-2.1	
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	5963.5	CHF	1.8	-6.5	-1.0	5.0	-1.0	
EUROPE	STXE 600 € Pr	583.1	EUR	0.9	-7.5	-0.8	5.6	-0.8	
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	629.7	EUR	0.9	-8.3	-2.8	0.6	-2.8	
UK	FTSE All-Share Index	5430.7	GBP	2.0	-6.7	2.4	8.9	2.4	
USA	S&P 500 Index	6528.5	USD	-0.4	-5.0	-4.4	-1.8	-4.4	
USA SMALL-MID CAPS	RUSSELL 2500	1072.4	USD	-0.5	-5.1	2.1	4.3	2.1	
JAPAN	NIKKEI 225	51063.7	JPY	-1.7	-12.7	2.1	14.6	2.1	
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	2022.5	JPY	-0.4	-10.4	6.1	15.1	6.1	
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	715.0	USD	-3.7	-13.2	-0.5	3.1	-0.5	
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1423.8	USD	-2.3	-12.6	-3.2	-2.4	-3.2	
EMERGING	MSCI EM	1397.2	USD	-3.2	-13.0	-0.1	4.7	-0.1	
INTERNATIONAL EQUITIES - DIVERSIFIED USD	MSCI Daily TR Net World	13698.2	USD	-0.3	-6.4	-3.6	-0.6	-3.6	

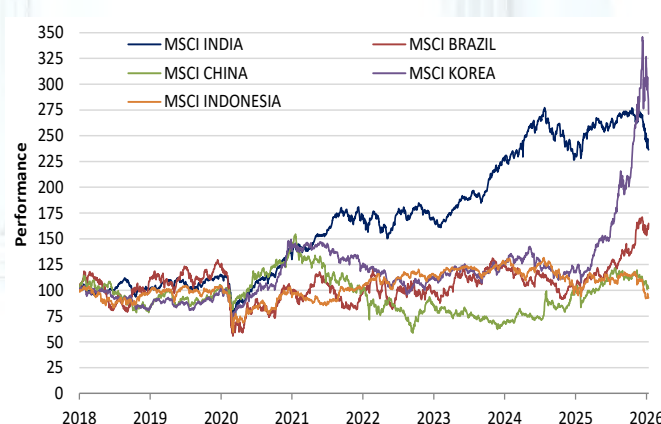
Equity markets (base 100)



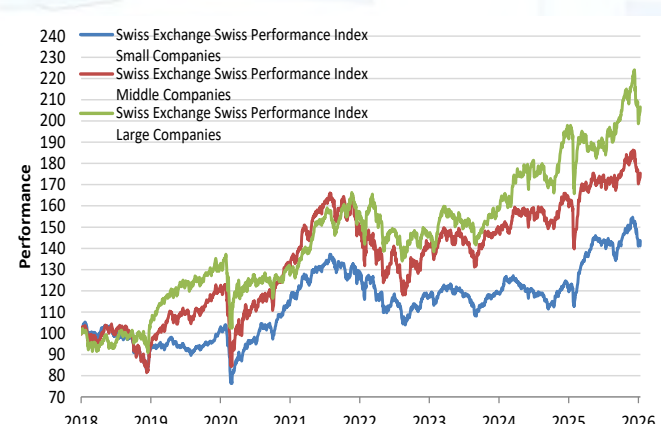
Japan equity markets VS MSCI World



Emerging equity markets (base 100)



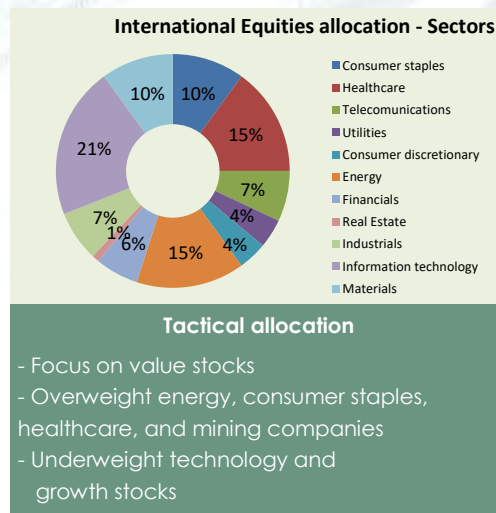
Swiss equities (large - middle - small caps/base 100)



PROSPECTS AND STRATEGIES

International Equities - Sectors

- A new paradigm for sector selection
- Continue to place a strong emphasis on the energy sector
- A historically exceptional situation for the mining sector
- Overweight consumer staples and healthcare
- Diversification across various niche sectors



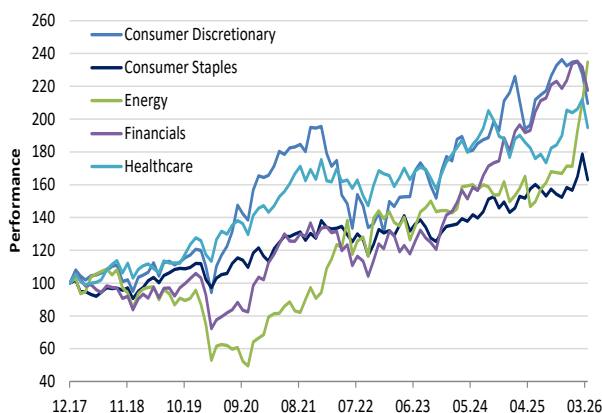
EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight neutral overweight						
			---	--	-	=	+	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
Telecommunications	↘	↗							
Utilities	↗	↗							
Consumer discretionary	↘	↗							
Energy	↗	↗							
Financials	→	↗							
Real Estate	↘	→							
Industrials	↘	↗							
Information technology	↘	↗							
Materials	↗	↗							

EQUITIES - BY SECTOR

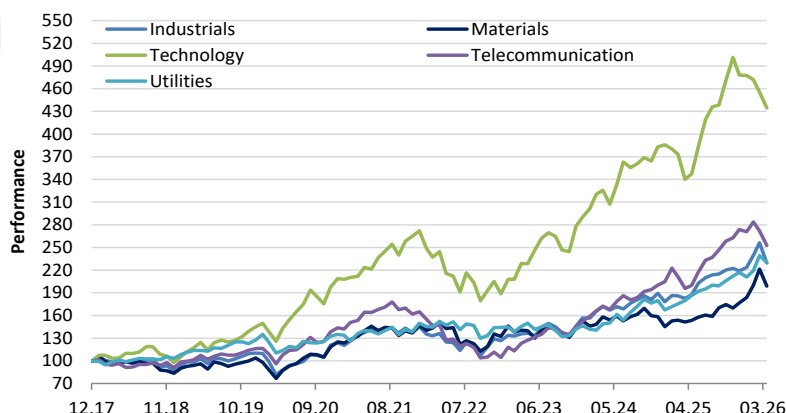
31.03.2024		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	447.8	USD	-0.6	-7.9	-10.7	-9.9	-10.7
CONSUMER STAPLES	MSCI WORLD/CON STPL	307.6	USD	1.0	-8.8	4.1	5.7	4.1
ENERGY	MSCI WORLD/ENERGY	363.4	USD	1.4	11.6	37.1	40.3	37.1
FINANCIALS	MSCI WORLD/FINANCE	213.4	USD	0.2	-6.2	-7.0	-2.5	-7.0
HEALTHCARE	MSCI WORLD/HLTH CARE	379.2	USD	1.7	-8.2	-4.4	5.8	-4.4
INDUSTRIALS	MSCI WORLD/INDUSTRL	510.8	USD	-1.5	-10.4	2.7	4.2	2.7
MATERIALS	MSCI WORLD/MATERIAL	425.8	USD	3.7	-10.1	8.2	13.9	8.2
REAL ESTATE	MSCI WORLD/REAL ESTATE	2164.5	USD	1.0	-7.1	2.6	-0.1	2.6
TECHNOLOGY	MSCI WORLD/INF TECH	884.8	USD	-1.8	-4.6	-9.0	-7.7	-9.0
TELECOMMUNICATION	MSCI WORLD/TEL SVC	155.0	USD	-0.8	-7.2	-6.8	-2.3	-6.8
UTILITIES	MSCI WORLD/UTILITY	215.9	USD	1.9	-3.9	9.1	11.8	9.1

We began the year with a sector allocation that heavily favored stocks in the energy, mining, and healthcare sectors. This positioning proved particularly beneficial, especially for energy stocks, both before and after the outbreak of the Gulf crisis in March. Today, the risks of rising inflation are just as present as the risks of a sharp slowdown in growth. The expected macroeconomic environment is now increasingly one of likely stagflation, though the extent will vary by country. Overall, we are logically maintaining our overweight position in the energy sector, which is benefiting more than ever from high oil prices but is also viewed as insurance against geopolitical risk. Companies with solid balance sheets and strong cash flow will not be affected by rising financing costs. The mining sector remains a top pick, particularly gold and silver mines, which are benefiting from an exceptional and historic situation of very high margins and relatively low valuations by historical standards. In times of inflation, these assets serve as a bulwark against currency depreciation and represent a unique alternative. In the technology sector, it makes sense to refocus on software and platform giants that have massive cash reserves and strong pricing power to pass on inflation-related price increases to consumers. The consumer staples sector is also a priority, particularly stocks that will support consumers in their forced strategy of managing expenses and using savings efficiently. Conversely, the consumer discretionary sector is underweight in our strategy. In an environment of slowing growth, healthcare retains and regains its prestige thanks to its defensive nature. Large pharmaceutical companies are a priority as they can pass on rising costs to selling prices. Overall, the medtech sector should be able to benefit from the integration of AI by 2026 as a tool for cost reduction and profitability. Finally, the agriculture, agritech, energy storage infrastructure, and cybersecurity sectors are also attractive diversification opportunities.

Sector performance MSCI World (base 100)



Sector performance MSCI World (base 100)

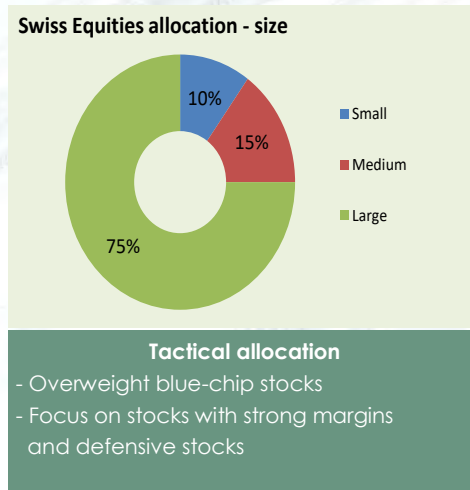


PROSPECTS AND STRATEGIES

Swiss Equities

- Swiss stocks were not spared from profit-taking
- The consensus remains complacent in the face of mounting risks
- Temporarily cautious tactical allocation

EQUITIES capitalization	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight		neutral	overweight				
			---	--	-	=	+	++	+++	
Small	↘	↗								
Medium	↘	↗								
Large	↘	↗								



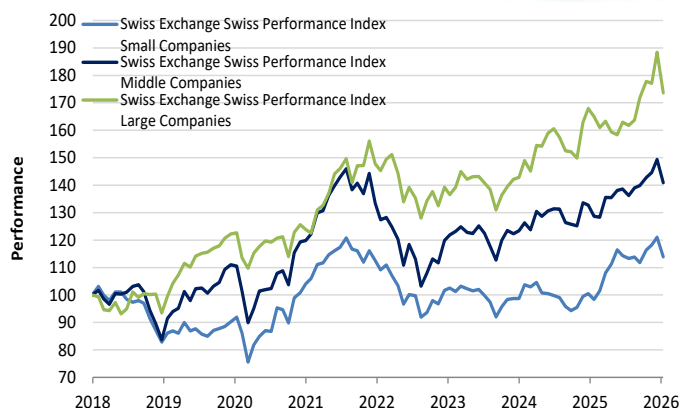
Swiss stocks were not spared from profit-taking

The quarter ended with a 2.1% decline for the SMI, which does not appear alarming given the particularly challenging conditions of these first few months. While global markets were marked by greater volatility and steeper declines, the Swiss financial market can be said to have fared well thanks to a generally more defensive profile and the strength of corporate balance sheets and dividends. Swiss stocks, however, were not immune to profit-taking and investors' desire to hedge against the hard-to-predict effects of the inflation and interest rate shock that the war in the Middle East is currently causing on a global scale. The index's 14.2% drop at the height of March's turmoil had, however, brought the SMI back to the level it had already reached in April 2025 before a last-minute, lifesaving rebound. Volatility proved extreme for several weeks, unlike in previous months, to the point of erasing all the gains of the past ten months. We believe the rebound at the end of the month was primarily a reaction to the reality of a market that was likely heavily "oversold" in the short term. We estimate that this recovery will be only temporary and cannot be separated from the international context, which will continue to affect financial markets for several more months. Investors have certainly hoped that Swiss equities will be able to maintain their advantage of low-cost financing for their operations thanks to an accommodative monetary policy and near-zero interest rates, but inflation in Switzerland will also be affected by rising energy prices and their impact on key interest rates and financing costs. We estimate that Swiss government bond yields could rise toward a target of 0.8% to 1% if imported inflation in Switzerland has the expected impact. For now, the fate of small-cap stocks appears to be the same as that of blue-chip leaders, with various market segments following a similar downward trend of approximately -2%.

The consensus remains very complacent in the face of mounting risks

The fundamentals for Swiss equities have clearly deteriorated in the current unique environment, marked by a shift in market expectations regarding economic growth, interest rates, and profitability for listed multinational companies. A selective approach and more tactical management will likely be necessary given the ongoing international uncertainties and in light of the upcoming updates on financial outlooks to be provided by companies. If the international stock market environment continues to be affected by the same negative geopolitical factors and the growing risks of an economic slowdown, Swiss stocks will also undergo further adjustments and price corrections and will not be immune to the negative trend in the international stock market climate. Furthermore, we believe that the economic impacts of the biggest oil crisis in recent decades are still largely overlooked by investors, who remain inclined to seek out and bet on alternatives to low interest rates in Swiss francs. The Swiss franc may no longer play as decisive a role in supporting new foreign investment in the Swiss stock market, given that the US dollar appears to be regaining its appeal. Nor may it sufficiently enable companies to better withstand rising import costs. After a long bull market, Swiss companies' valuations are very high. Current stock prices reflect optimistic earnings growth that will soon have to stand up to reality. While Swiss companies are accustomed to exporting under difficult conditions due to the strength of the franc, it should be noted that this strength has now become difficult for many of them to bear. Recent studies also suggest that just over a third of Swiss CEOs believe that Swiss GDP will grow in 2026. In this much more uncertain environment, the resilience of Swiss stocks appears to us to be clearly based on a dangerous complacency among investors, which foreshadows likely new shocks.

Performance of Swiss equities



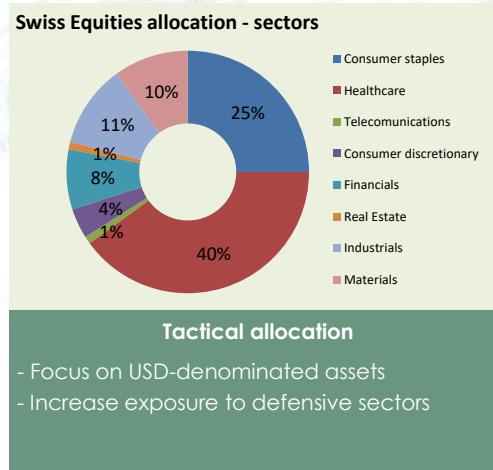
SWISS EQUITIES - Capitalization

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE INDX	17835.7	2.1	-7.4	-2.1	6.5	-2.1
SPI SMALL COMPANIES INDX	31542.5	1.1	-5.9	-2.1	0.5	-2.1
SPI MIDDLE COMPANIES INDX	23332.3	1.7	-5.7	-1.3	3.4	-1.3
SPI LARGE COMPANIES INDX	17353.0	2.2	-7.8	-2.3	7.4	-2.3

PROSPECTS AND STRATEGIES

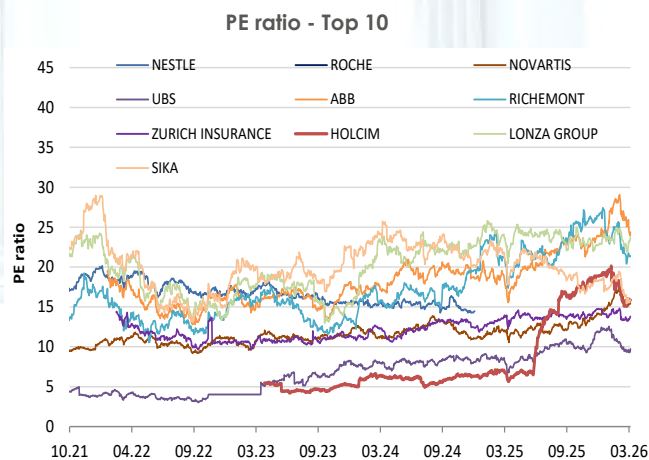
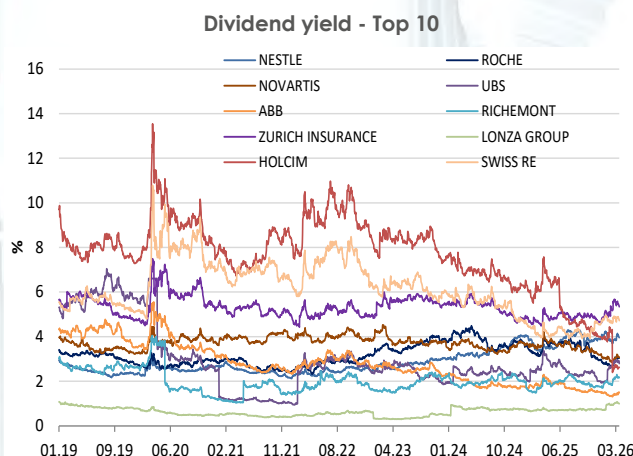
Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)								
	3months	1year	underweight			neutral overweight					
			---	--	-	=	+	++	+++		
Consumer staples	↗	↗									
Healthcare	↗	↗									
IT & T	↘	↗									
Consumer discretionary	↘	↗									
Financials	↘	→									
Real Estate	↘	↗									
Industrials	↘	↗									
Materials	→	↗									



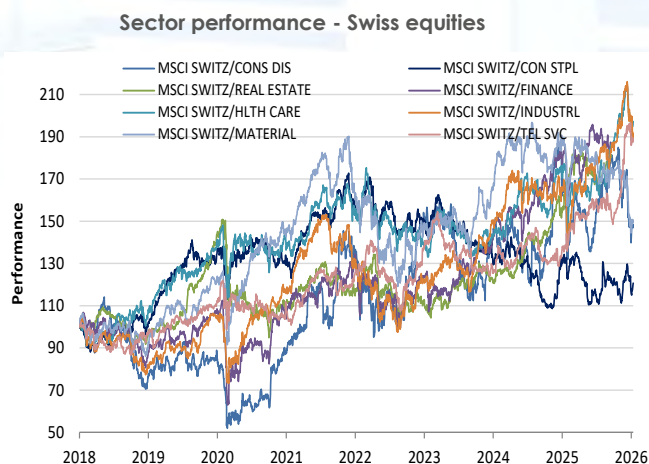
A temporarily conservative tactical allocation

Our underweight recommendations at the start of the year, driven by valuations that were already historically very high, remain even more relevant in the current environment. Among the few supportive factors we identified at the time was, paradoxically, the expectation that a deterioration in economic conditions in the second half of 2025 would prompt the SNB to adopt an accommodative monetary policy as early as the beginning of 2026. We also noted that this monetary support should not obscure the reality of the fundamentals, which were already weakened by aggressive U.S. trade policy, which penalizes Swiss companies, as well as by the international and Swiss economic slowdown we anticipated, both of which risked negatively impacting profit growth prospects. Now, these risks are significantly exacerbated by the unfolding conflict in the Middle East and are substantially altering the positive scenario that had prevailed in the consensus. The readjustment of expectations in light of the new economic and political environment, which is taking shape and worsening, should lead to a gradual reassessment of opportunities and risks. We believe that Swiss stocks will not escape profit-taking and a reduction in institutional investors' exposure over the coming weeks, and we consider a drop below 12,500 points on the SMI to be highly likely. In this particularly uncertain market environment, we recommend a degree of tactical caution and an underweight allocation to Swiss equities relative to diversified indices in favor of short-term cash.



SWISS EQUITIES - BY SECTOR

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	428.3	0.6	-11.7	-17.6	-6.6	-17.6
MSCI SWITZ/CON STPL	269.9	2.7	-7.0	-0.4	6.2	-0.4
MSCI SWITZ/FINANCE	80.3	4.0	-3.1	-9.4	-4.0	-9.4
MSCI SWITZ/HLTH CARE	221.1	3.2	-7.9	3.3	19.3	3.3
MSCI SWITZ/INDUSTRIL	299.3	-2.1	-11.3	2.0	6.6	2.0
MSCI SWITZ/MATERIAL	361.7	0.9	-10.9	-14.4	-12.0	-14.4
MSCI SWITZ/REAL ESTATE	1571.4	2.2	-5.5	12.5	24.5	12.5
MSCI SWITZ/TEL SVC	126.1	-1.2	-4.0	20.4	20.0	20.4

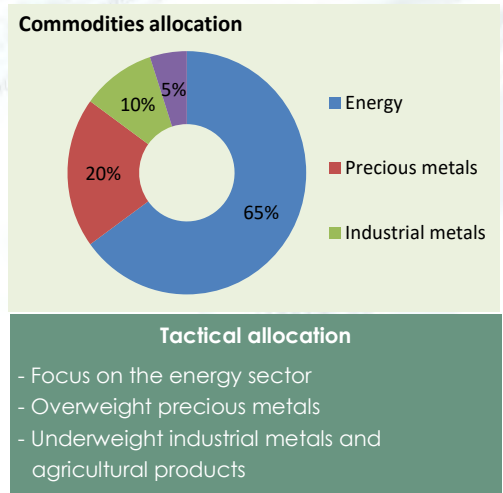


PROSPECTS AND STRATEGIES

Commodities

- A resurgence of energy amid geopolitical turmoil
- Precious metals: structural resilience and the dollar's resurgence
- Crude oil: heading toward a structural supply shock

COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
Energy	↗	↗								
Precious metals	↗	↗								
Industrial metals	↗	↗								
Agricultural products	↗	↗								



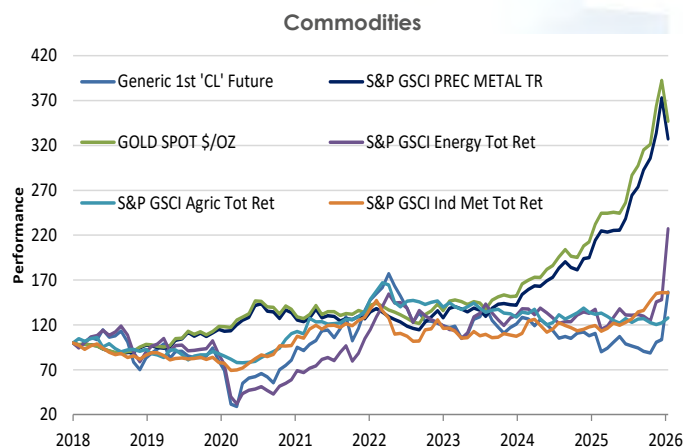
A resurgence of energy amid geopolitical turmoil

The first quarter of 2026 marked a sharp shift in the performance rankings within the commodities sector. While 2025 had ended with precious metals dominating the market, the start of 2026 saw the energy sector reclaim its role as the primary driver, fueled by an unprecedented escalation of tensions in the Strait of Hormuz. The quarter thus concluded with a leadership transition that occurred in March during the oil shock in the Middle East. After a 2025 in which the S&P Goldman Sachs Commodities Index (GSCI) posted a gain of +7.12%, the first quarter of 2026 saw this momentum accelerate to reach +40.02% by the end of March. This overall result, however, masks a sharp sector rotation. The energy segment surged by +82.77% and was the true catalyst for the quarter. After a decline at the end of last year, crude oil prices soared, with Brent breaking the \$110 mark in March. Precious metals saw some profit-taking following the extraordinary gains of 2025, but with a +7.04% increase in Q1, they are still holding their own early this year. Gold, while remaining a safe-haven asset, suffered from the rebound in the U.S. dollar that few strategists had anticipated. In the industrial metals sector, the 6.05% gain is encouraging and, ultimately, largely unaffected by the immediate risks of a global economic slowdown. Certain metals, such as aluminum (+18.22%), were particularly affected by supply and production issues in the Middle East during Q1. The Hormuz crisis was truly the key factor of the quarter, having a significant impact on commodity prices in March. The major event, which we had anticipated as a "new and surprising development," materialized in March with the partial blockade of the Strait of Hormuz. This bottleneck, through which 20% of global oil consumption passes, transformed a fear of oversupply into an immediate supply crisis. While the Trump administration had destabilized markets with trade barriers in 2025, today it is pure geopolitics that dictates the terms. This shock served as a powerful

wake-up call for investors, who suddenly realized that the energy transition had not yet reduced the global economy's vulnerability to oil or Middle Eastern crude. In line with our "contrarian" outlook at the end of the year, the U.S. dollar also defied the consensus forecast. After nine months of consolidation, the Dollar Index (DXY) finally surprised on the upside. This rally in the greenback, driven by a favorable interest rate differential and its status as the "ultimate safe haven" amid systemic risk from the Strait of Hormuz, limited gold's appreciation. While gold remains at historic levels, it is no longer the sole safe haven. The dollar has once again become a credible alternative, creating an unusual correlation where energy and the dollar rise in tandem, to the detriment of risky emerging market assets.

Precious metals: between structural resilience and the dollar's resurgence

Following a historic 2025 in which gold (+64.58%) and silver (+147.95%) redefined the performance benchmarks for safe-haven assets, the first quarter of 2026 marked the beginning of a much more complex transition phase. While the sector maintained positive momentum in Q1 (+7.04%), March served as a barometer of the conflicting forces we had anticipated as early as the previous quarter: the clash between geopolitical instability and the resurgence of the U.S. dollar. Gold maintained a solid floor above \$4,350 per ounce, supported by the escalation in the Strait of Hormuz. Silver, more sensitive to industrial prospects, showed signs of losing steam, weighed down by fears of a global growth slowdown linked to the oil shock. While the shockwaves from the Strait of Hormuz will eventually be absorbed by the market, the key question for the remainder of 2026 remains whether the bull market in precious metals will continue. Following the truly remarkable performance of recent years, the risk of a technical correction is very real. Silver could suffer further if the current energy crisis turns into a



COMMODITIES (USD)

31.03.2026		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
GLOBAL	S&P GSCI Tot Return Indx	5483.4	USD	4.8	24.5	40.0	41.4	40.0
WTI CRUDE	Generic 1st 'CL' Future	101.4	USD	9.8	51.3	76.6	62.5	76.6
BRENT OIL	Generic 1st 'CO' Future	118.4	USD	13.3	63.3	94.5	76.6	94.5
NATURAL GAS	Generic 1st 'NG' Future	2.9	USD	-2.0	0.9	-21.8	-12.7	-21.8
GOLD	GOLD SPOT \$/OZ	4668.1	USD	4.3	-11.6	8.1	21.0	8.1
SILVER	Silver Spot \$/Oz	75.2	USD	5.6	-19.9	4.9	61.1	4.9
AGRICULTURE	S&P GSCI Agric Indx Spot	369.5	USD	0.5	4.2	4.8	5.1	4.8
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	582.8	USD	3.8	-0.5	5.5	21.3	5.5

prolonged manufacturing recession, weakening demand linked to the energy transition. If the reassessment of the United States' international role is confirmed, we could see a normalization of gold prices. The dollar, having regained its status as an undisputed instrument of economic power, could act as the primary ceiling for precious metals. Gold and silver remain essential components of a diversified portfolio in 2026, but the era of parabolic appreciation seems to be giving way to a period of consolidation. The dollar is no longer gold's enemy; it has once again become its main competitor for the title of global safe haven.

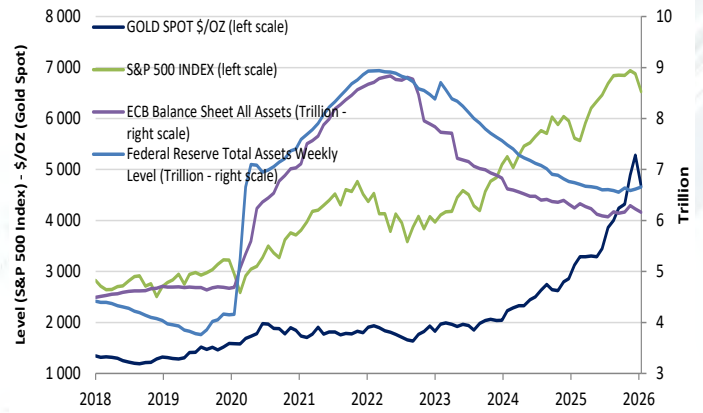
Toward a Structural Supply Shock Beyond the Strait of Hormuz Crisis

The first quarter of 2026 confirmed, with a force exceeding even the boldest forecasts, our view that the oil market was undervalued. While we had anticipated a price per barrel above \$65, Brent closed March at an average of \$108.4, with volatility spikes reaching \$118 following incidents in the Strait of Hormuz. However, attributing the current rise solely to geopolitical tensions would be a misinterpretation. The figures show that even a full reopening of the strait in the coming weeks would not resolve the structural deficit that has widened. The aggressive shift by the United States that we mentioned in January has translated into concrete figures. Russian maritime exports fell by 1.2 mb/d in March compared to December 2025. Insurance premiums for oil tankers operating outside G7 routes have surged by 350%, making Russian arbitrage economically risky. OECD inventories are currently at their lowest level since 2012, covering only 54 days of demand. Excluding Saudi Arabia and the UAE, spare production capacity is estimated at less than 1.5 mb/d, a historically low level that leaves no room for error. Contrary to expectations of a slowdown due to high prices, demand has remained robust in South Asia. In India, demand for distillates (diesel and kerosene) rose by 5.8% year-over-year in Q1 2026. In China, despite the turbulence, Chinese refineries maintained high utilization rates, driven by an expanding petrochemical sector. Even in the event of an immediate de-escalation in the Strait of Hormuz, the market must absorb a fundamental imbalance. If the strait reopens, we expect a temporary technical correction of \$10 to \$15, bringing Brent back toward the \$90-\$95 range. However, this decline will be short-lived. The chronic investment deficit, which we estimate at \$14 trillion by 2045, is beginning to be felt in the natural decline of existing wells. The second half of the year will be marked by the Atlantic hurricane season and summer demand for air conditioning. Without a massive return of Russian or Iranian crude (unlikely under the current policy), the price per barrel should stabilize in the upper range of \$95 to \$105. OPEC+'s shift from a "volume" strategy to a "value" strategy is now firmly established. The cartel has realized that in a world in transition, scarce and expensive oil is preferable to market share.

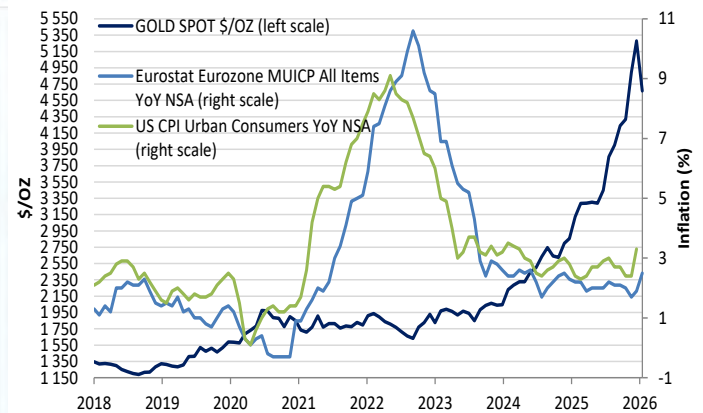
The Hormuz crisis will affect agricultural commodity prices

The Strait of Hormuz crisis is also a systemic shock to the fertilizer market, a far more critical issue that is blocking the export of 33% of the world's urea and ammonia, creating a physical supply disruption. Factories in the Gulf are operating at full capacity, and farmers, deprived of nitrogen inputs in the middle of the planting season, are seeing their future yields plummet. This "input famine" will eventually drive agricultural prices to record highs. Corn, which is highly nitrogen-dependent, is on the front lines, followed by wheat, whose protein quality is at risk. Meanwhile, coffee and cocoa, following a correction phase, will face soaring freight and potash fertilizer costs. For these four commodities, the reduction in global supply, coupled with inelastic demand, will fuel sustained food inflation throughout 2026. For investors, this context of scarcity offers a strategic opportunity to hedge against inflation. From a risk management perspective, it is recommended to take long positions, either through diversified agricultural ETFs to capture the sector's overall rise, or through ETFs specializing in corn, wheat, cocoa, and coffee to maximize exposure to these under-pressure assets.

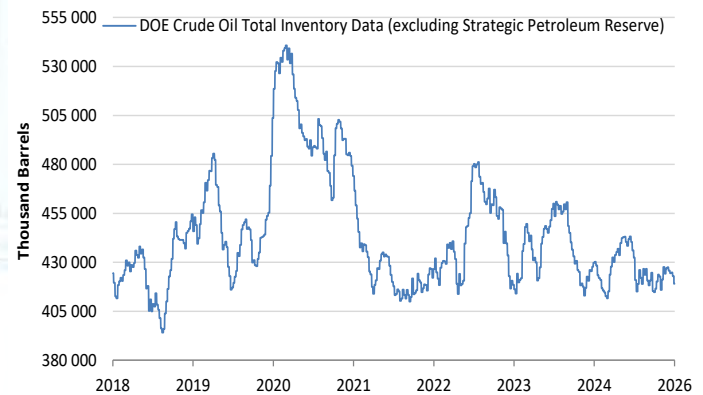
High correlation between gold and global liquidity



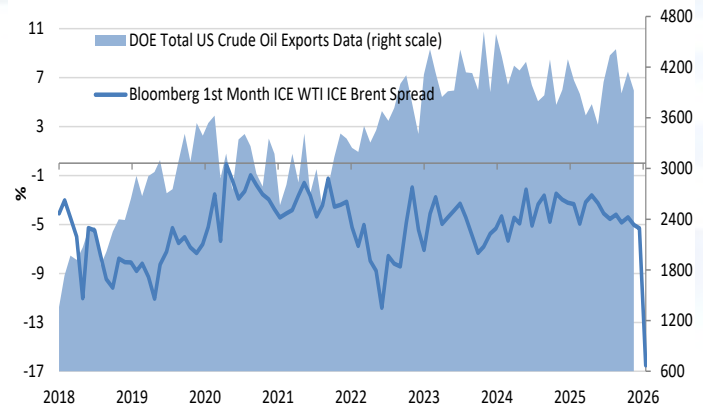
High correlation between gold and inflation



Oil inventories (United States)



Price differential between WTI and Brent crude oil



PROSPECTS AND STRATEGIES

Hedge Funds

- The challenge of preserving gains for 2026

Financial markets traded in a generally positive environment at the start of 2026, characterized by subdued volatility and a continued "risk-on" bias, supported by expectations of gradual monetary easing and resilient U.S. growth. Despite an ongoing complex geopolitical landscape and persistent uncertainties regarding trade policies and tensions in the Middle East, investors maintained a favorable allocation to risky assets, allowing the hedge fund industry to extend the positive momentum observed at the end of 2025. Total hedge fund capital remained stable, slightly above \$4.9 trillion at the start of 2026, supported by asset performance and a gradual return of institutional inflows. The HFRI Fund Weighted Composite Index posted a positive return at the start of the year, driven primarily by Equity Hedge and Event-Driven strategies. The former benefited from the continued rise in equity markets, particularly in the United States, as well as from persistent sectoral divergence, which favored long/short strategies. Event-Driven strategies continued to capitalize on an active pipeline of mergers and acquisitions, restructurings, and capital transactions. Special Situations funds posted solid returns, benefiting from a more rational valuation environment and increased idiosyncratic opportunities. Relative Value Arbitrage strategies maintained a steady performance profile amid more predictable and less volatile fixed-income markets. Conversely, discretionary Macro strategies delivered more mixed results, hampered by a lack of clear directional trends across major asset classes, despite some opportunities in currencies and commodities. Systematic approaches remain under pressure overall in an environment of less persistent signals and rapid market rotations. On the whole, the industry enters 2026 on a solid footing, with the main challenge being the ability to sustain performance amid gradual monetary normalization, increased asset divergence, and persistent geopolitical fragmentation.

Private Equity

- Continuation of cycle normalization

The more favorable trends observed in the third quarter across the private debt, private equity, and IPO segments generally continued into the fourth quarter of 2025, confirming a gradual improvement in the U.S. economic environment. This trend was supported by the Federal Reserve's continued monetary easing, the easing of financial conditions, and the persistence of a "risk-on" sentiment in public markets. Despite persistent trade and political tensions, the combination of better-controlled inflation, more abundant liquidity, and a gradual adjustment in valuations continues to bolster confidence in the private market.

In the private debt sector, fundraising remained robust in the fourth quarter, continuing the momentum seen earlier in the year. Capital concentration intensified, with fewer but larger funds, benefiting the most institutionalized platforms. Retail-oriented semi-liquid vehicles continued to capture a growing share of subscriptions, confirming the asset class's appeal for attractive real returns. U.S. private equity confirmed its recovery in the fourth quarter. Transaction activity remained robust, driven by the return of megadeals and improved financing conditions, although the pace normalized toward the end of the year. Carveout transactions remain dynamic, while exits are increasing in volume, fostering a gradual loosening of the secondary market. Holding periods are approaching their historical averages, reflecting a normalization of the cycle. Finally, the IPO market showed signs of consolidation in the fourth quarter. Activity remained at a moderate pace, primarily in the technology and business services sectors, continuing to depend on macroeconomic stability and political visibility. Overall, the private equity ecosystem ends 2025 on a more balanced footing, with a gradual but still selective recovery, where discipline and caution remain essential.

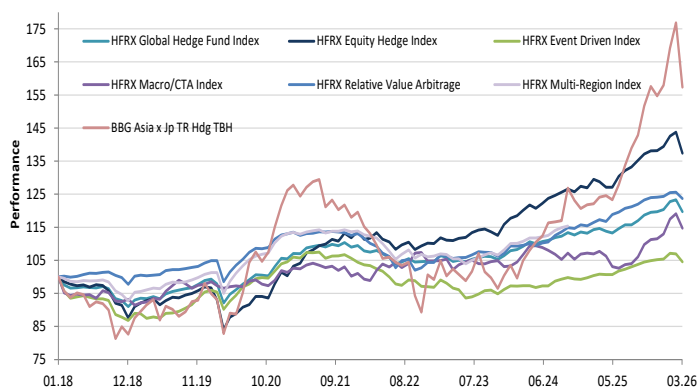
HEDGE FUNDS (USD)

		31.03.2026				
	Name	Curr.	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRI Global Hedge Fund Index	USD	-3.0%	-0.4%	1.5%	-0.6%
EQUITY HEDGE	HFRI Equity Hedge Index	USD	-4.4%	-1.4%	0.5%	-1.5%
EVENT DRIVEN	HFRI Event Driven Index	USD	-2.3%	-0.5%	0.4%	-0.8%
MACRO/CTA	HFRI Macro/CTA Index	USD	-3.7%	1.5%	5.9%	1.6%
RELATIVE VALUE ARBITRAGE	HFRI Relative Value Arbitrage	USD	-1.5%	-0.4%	1.2%	-0.5%
MULTI-REGION	HFRI Multi-Region Index	USD	-2.7%	-1.4%	0.6%	-1.8%

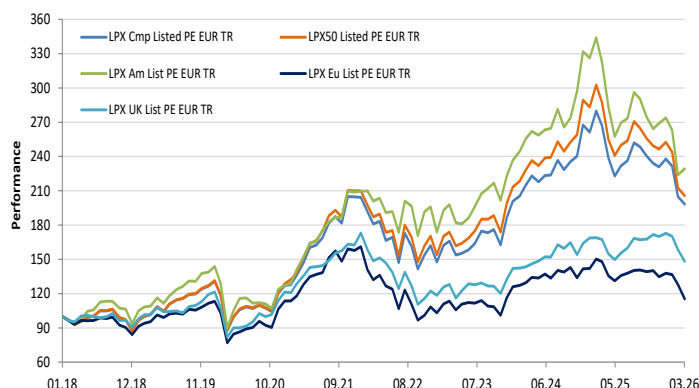
PRIVATE EQUITY INDICES (EUR)

		31.03.2026						Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %				
COMPOSITE	LPX Cmp Listed PE EUR TR	477.2	EUR	1.1	-3.3	-16.7	-17.5	-16.7				
MAJOR COMPANIES	LPX50 Listed PE EUR TR	4650.4	EUR	1.0	-3.2	-18.6	-19.6	-18.6				
USA	LPX Am List PE EUR TR	739.5	EUR	2.0	2.4	-16.3	-16.4	-16.3				
EUROPE	LPX Eu List PE EUR TR	1113.8	EUR	0.7	-9.8	-16.4	-16.7	-16.4				
UK	LPX UK List PE EUR TR	436.6	EUR	-1.0	-6.5	-14.3	-11.7	-14.3				

Hedge fund indices



Private equity indices



GLOBAL STRATEGY AND ASSET ALLOCATION



GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio CHF

- The Middle East crisis is affecting inflation and interest rates
- An economic slowdown is likely in the first half of the year
- Increased risks for short-term financial assets
- Ensure a well-diversified investment strategy

ASSETS	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight		neutral	overweight			
			---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↘	↗							
Hedge funds	↗	↗							
Commodities	↗	↗↗							
Private equity	↘	↗							

Asset allocation

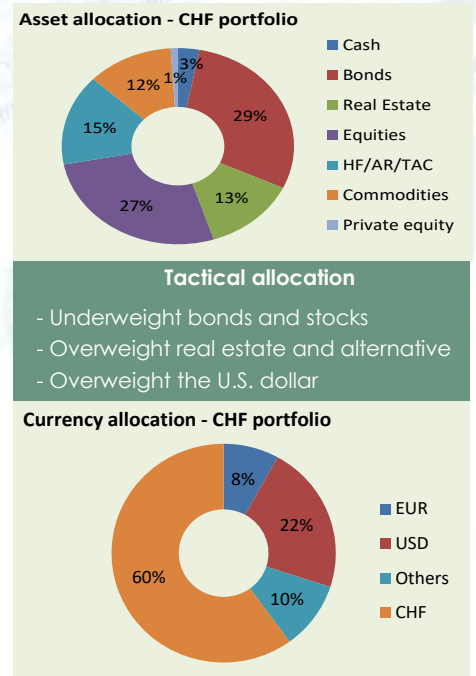
The core of our investment strategy consists of traditional liquid assets (cash, bonds, equities, and real estate), supplemented by other diversified and tradable assets (commodities, hedge funds, private equity, etc.). Our tactical asset allocation is currently highly diversified across asset classes, with equity exposure once again slightly reduced. The international economic environment in the first quarter of 2026 was significantly impacted by rising geopolitical risks in the Middle East and, ultimately in March, by the outbreak of war between Iran and the United States and Israel. Market sentiment deteriorated rapidly as risks to crude oil and natural gas supplies materialized with Iran's closure of the Strait of Hormuz. The consequences of this action were catastrophic for oil and gas supplies to many countries, leading to a sharp rise in energy prices. Rising inflation and the reversal of interest rate trends were also key factors in market developments. As Q2 begins, risks to financial markets remain high, suggesting diversified investment strategies to mitigate potential short-term negative effects.

Bonds

The quarter ended with negative returns for international bonds denominated in local currencies. The shock in March completely reversed the positive trend that had taken hold in January and February. Expectations of rate cuts have now been ruled out by the reversal in inflation trends. Central banks will likely have to raise their policy rates, contrary to investors' expectations, who had instead anticipated cuts in 2026. We have adjusted our bond strategy to account for these new parameters. We expect further tensions ahead, depending on inflation trends and the observed monetary tightening.

Equities

Following the shock of March, there is now an extremely high risk that international crude oil supply chains will break down due to the closure of the Strait of Hormuz. Many countries will be affected by supply disruptions, leading to economic slowdowns with potentially severe consequences, particularly in emerging markets. Europe will not escape this trend despite the release of strategic reserves. Overall, we believe the risks of disappointment regarding corporate earnings expected in Q1 and Q2 are high. This environment suggests a more balanced strategy with slightly less exposure to equities.



Commodities

On the contrary, the uncertainty weighing on financial markets is driving up energy and commodity prices. Our positive outlook for oil has been confirmed by its extraordinary performance in March. We do not believe the current crisis will be resolved quickly and are maintaining our overweight position in the energy sector for 2026.

Real Estate

The real estate sector has been hit hard by rising capitalization and financing rates. However, this asset class remains an attractive alternative to the bond markets. Current valuations and yields on securitized real estate are attractive and present promising opportunities in the medium term.

Currencies

The dollar appears poised for a rebound in 2026. We recommend underweighting the CHF and overweighting currencies that offer higher yields.

Market performances - Q1 2026

	Q1 2026		YTD		Q1 2026		YTD	
	local	CHF	local	CHF	local	CHF	local	CHF
Exchange rates								
USD/CHF	0.9%		0.9%					
EUR/CHF	-0.8%		-0.8%					
GBP/CHF	-1.0%		-1.0%					
JPY/CHF	-0.5%		-0.5%					
Interest rates (3 months) (level)								
CHF			-0.04%					
EUR			2.08%					
USD			3.68%					
JPY								
Equity markets								
World	MSCI World USD	-3.6%	-2.7%	-3.6%	-2.7%			
Europe	DJ Sbxbox 600	-1.0%	-1.8%	-1.0%	-1.8%			
Eurozone	DJ Eurosbbox 50	-3.8%	-4.6%	-3.8%	-4.6%			
	MSCI Europe S.C.	-3.1%	-3.8%	-3.1%	-3.8%			
Germany	Dax 30	-7.4%	-8.1%	-7.4%	-8.1%			
France	Cac 40	-4.1%	-4.8%	-4.1%	-4.8%			
United Kingdom	FTSE 100	2.5%	1.5%	2.5%	1.5%			
Switzerland	SPI	-2.1%	-2.1%	-2.1%	-2.1%			
	SMI	-3.7%	-3.7%	-3.7%	-3.7%			
	MSCI Swiss S.C.	-3.7%	-3.7%	-3.7%	-3.7%			
North America	SP500	-4.6%	-3.8%	-4.6%	-3.8%			
	Nasdaq	-7.1%	-6.3%	-7.1%	-6.3%			
	Tse 300	3.3%	2.8%	3.3%	2.8%			
	SP600 Small C.	3.1%	4.0%	3.1%	4.0%			
Japan	Nikkei 225	1.4%	1.0%	1.4%	1.0%			
Emerging	MSCI EMF USD	-0.5%	0.4%	-0.5%	0.4%			
Bonds markets								
World	Cit Gr Global Govt USD	-1.1%	-0.2%	-1.1%	-0.2%			
Europe	Euro Ser-E Gov > 1	-0.6%	-1.4%	-0.6%	-1.4%			
United Kingdom	UK Ser-E Gov > 1	-2.0%	-3.0%	-2.0%	-3.0%			
Switzerland	SBI Général AAA-BBB	0.2%	0.2%	0.2%	0.2%			
	SBI Govt	-0.7%	-0.7%	-0.7%	-0.7%			
USA	US Ser-E Gov > 1	0.0%	0.8%	0.0%	0.8%			
Japan	Japan Ser-E Gov > 1	-1.6%	-2.1%	-1.6%	-2.1%			
Emerging	J.P. Morgan EMBI Global	-1.1%	-0.3%	-1.1%	-0.3%			
Miscellaneous								
	LPP 25 Index	-0.4%	-0.4%	-0.4%	-0.4%			
	LPP 40 Index	-0.7%	-0.7%	-0.7%	-0.7%			
	LPP 60 Index	-1.1%	-1.1%	-1.1%	-1.1%			
Real Estate CH	DB RB Swiss Real Est Fd	-3.8%	-3.8%	-3.8%	-3.8%			
Hedge Funds	Hedge Fund Research USD	3.2%	4.1%	5.6%	6.5%			
Commodities	GS Commodity USD	40.0%	41.2%	40.0%	41.2%			

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio EUR

- The Middle East crisis is affecting inflation and interest rates
- An economic slowdown is likely in the first half of the year
- Increased risks for short-term financial assets
- Ensure a well-diversified investment strategy

ASSETS	Expected Return		ALLOCATION (EUR Portfolio)						
	3months	1year	underweight			neutral	overweight		
			---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↓	↓							
Real Estate	↗	↗							
Equities	↓	↗							
Hedge funds	↗	↗							
Commodities	↗	↗↗							
Private equity	↓	↗							

Asset allocation

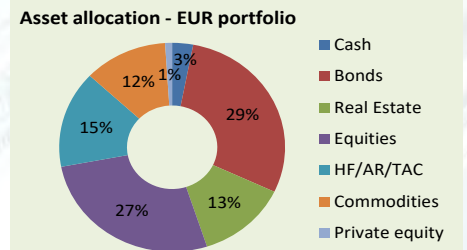
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Bonds

The quarter ended with negative returns for international bonds denominated in local currencies. The shock in March completely reversed the positive trend that had taken hold in January and February. Expectations of rate cuts have now been ruled out by the reversal in inflation trends. Central banks will likely have to raise their policy rates, contrary to investors' expectations, who had instead anticipated cuts in 2026. We have adjusted our bond strategy to account for these new parameters. We expect further tensions ahead, depending on inflation trends and the observed monetary tightening.

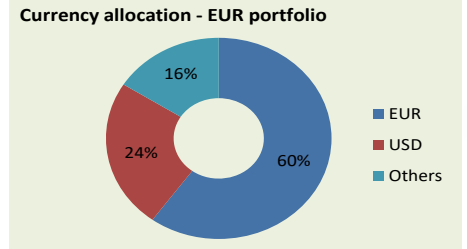
Equities

Following the shock of March, there is now an extremely high risk that international crude oil supply chains will break down due to the closure of the Strait of Hormuz. Many countries will be affected by supply disruptions, leading to economic slowdowns with potentially severe consequences, particularly in emerging markets. Europe will not escape this trend despite the release of strategic reserves. Overall, we believe the risks of disappointment regarding corporate earnings expected in Q1 and Q2 are high. This environment suggests a more balanced strategy with slightly less exposure to equities.



Tactical allocation

- Underweight bonds and stocks
- Overweight real estate and alternative investments
- Overweight the U.S. dollar



Commodities

On the contrary, the uncertainty weighing on financial markets is driving up energy and commodity prices. Our positive outlook for oil has been confirmed by its extraordinary performance in March. We do not believe the current crisis will be resolved quickly and are maintaining our overweight position in the energy sector for 2026.

Real Estate

The real estate sector has been hit hard by rising capitalization and financing rates. However, this asset class remains an attractive alternative to the bond markets. Current valuations and yields on securitized real estate are attractive and present promising opportunities in the medium term.

Currencies

We continue to recommend a significant allocation to the euro while pursuing a strategy of diversifying opportunities beyond the euro, with a greater focus on the dollar.

Market performances - Q1 2026

		Q1 2026		YTD			Q1 2026		YTD		
		local	EUR	local	EUR		local	EUR			
Exchange rates						Interest rates (3 months)					
USD/EUR		1.7%		1.7%		CHF		-0.04%			
CHF/EUR		0.8%		0.8%		EUR		2.08%			
GBP/EUR		-0.2%		-0.2%		USD		3.68%			
JPY/EUR		0.4%		0.4%		JPY					
Equity markets						Bonds markets					
World	MSCI World USD	-3.6%	-2.0%	-3.6%	-2.0%	World	Cit Gr Global Govt USD	-1.1%	-0.2%	-1.1%	-0.2%
Europe	DJ Stxx 600	-1.0%	-1.0%	-1.0%	-1.0%	Europe	Euro Ser-E Gov > 1	-0.6%	-0.6%	-0.6%	-0.6%
Eurozone	DJ Eurostxx 50	-3.8%	-3.8%	-3.8%	-3.8%	United Kingdom	UK Ser-E Gov > 1	-2.0%	-2.2%	-2.0%	-2.2%
	MSCI Europe S.C.	-3.1%	-3.1%	-3.1%	-3.1%	Switzerland	SBI Général AAA-BBB	0.2%	1.1%	0.2%	1.1%
Germany	Dax 30	-7.4%	-7.4%	-7.4%	-7.4%		SBI Govt	-0.7%	0.2%	-0.7%	0.2%
France	Cac 40	-4.1%	-4.1%	-4.1%	-4.1%	USA	US Ser-E Gov > 1	0.0%	1.6%	0.0%	1.6%
United Kingdom	FTSE 100	2.5%	2.3%	2.5%	2.3%	Japan	Japan Ser-E Gov > 1	-1.6%	-1.3%	-1.6%	-1.3%
Switzerland	SPI	-2.1%	-1.3%	-2.1%	-1.3%	Emerging	J.P. Morgan EMBI Global	-1.1%	0.5%	-1.1%	0.5%
	SMI	-3.7%	-2.9%	-3.7%	-2.9%	Miscellaneous					
	MSCI Swiss S.C.	-3.7%	-2.1%	-3.7%	-2.1%	LPP 25 Index		-0.4%	0.4%	-0.4%	0.4%
North America	SP500	-4.6%	-3.0%	-4.6%	-3.0%	LPP 40 Index		-0.7%	0.1%	-0.7%	0.1%
	Nasdaq	-7.1%	-5.6%	-7.1%	-5.6%	LPP 60 Index		-1.1%	-0.3%	-1.1%	-0.3%
	Tse 300	3.3%	3.6%	3.3%	3.6%	Real Estate CH	DB RB Swiss Real Est Fd	-3.8%	-3.8%	-3.8%	-3.0%
	SP600 Small C.	3.1%	4.8%	3.1%	4.8%	Hedge Funds	Hedge Fund Research USD	1.8%	-6.5%	0.9%	-11.4%
Japan	Nikkei 225	1.4%	1.8%	1.4%	1.8%	Commodities	GS Commodity USD	40.0%	42.4%	40.0%	42.4%
Emerging	MSCI EMF USD	-0.5%	1.1%	-0.5%	1.1%						

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio USD

- The Middle East crisis is affecting inflation and interest rates
- An economic slowdown is likely in the first half of the year
- Increased risks for short-term financial assets
- Ensure a well-diversified investment strategy

ASSETS	Expected Return		ALLOCATION (USD Portfolio)							
	3months	1year	underweight			neutral overweight				
			---	--	-	=	+	++	+++	
Cash	→	→								
Bonds	↘	↘								
Real Estate	↗	↗								
Equities	↘	↗								
Hedge funds	↗	↗								
Commodities	↗	↗↗								
Private equity	↘	↗								

Asset allocation

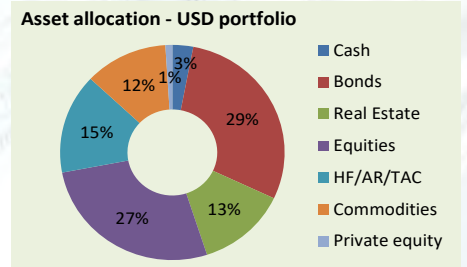
The core of our investment strategy consists of traditional liquid assets (cash, bonds, equities, and real estate), supplemented by other diversified and tradable assets (commodities, hedge funds, private equity, etc.). Our tactical asset allocation is currently highly diversified across asset classes, with equity exposure once again slightly reduced. The international economic environment in the first quarter of 2026 was significantly impacted by rising geopolitical risks in the Middle East and, ultimately in March, by the outbreak of war between Iran and the United States and Israel. Market sentiment deteriorated rapidly as risks to crude oil and natural gas supplies materialized with Iran's closure of the Strait of Hormuz. The consequences of this action were catastrophic for oil and gas supplies to many countries, leading to a sharp rise in energy prices. Rising inflation and the reversal of interest rate trends were also key factors in market developments. As Q2 begins, risks to financial markets remain high, suggesting diversified investment strategies to mitigate potential short-term negative effects.

Bonds

The quarter ended with negative returns for international bonds denominated in local currencies. The shock in March completely reversed the positive trend that had taken hold in January and February. Expectations of rate cuts have now been ruled out by the reversal in inflation trends. Central banks will likely have to raise their policy rates, contrary to investors' expectations, who had instead anticipated cuts in 2026. We have adjusted our bond strategy to account for these new parameters. We now expect further tensions ahead, depending on inflation trends and the observed monetary tightening.

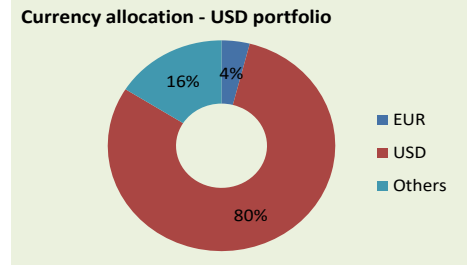
Equity

Following the shock of March, there is now an extremely high risk that international crude oil supply chains will break down due to the closure of the Strait of Hormuz. Many countries will be affected by supply disruptions, leading to economic slowdowns with potentially severe consequences, particularly in emerging markets. Europe will not escape this trend despite the release of strategic reserves. Overall, we believe the risks of disappointment regarding corporate earnings expected in Q1 and Q2 are high. This environment suggests a more balanced strategy with slightly less exposure to equities.



Tactical allocation

- Underweight bonds and stocks
- Overweight real estate and alternative investments
- Underweight currencies



Commodities

On the contrary, the uncertainty weighing on financial markets is driving up energy and commodity prices. Our positive outlook for oil has been confirmed by its extraordinary performance in March. We do not believe the current crisis will be resolved quickly and are maintaining our overweight position in the energy sector for 2026.

Real Estate

The real estate sector has been hit hard by rising capitalization and financing rates. However, this asset class remains an attractive alternative to the bond markets. Current valuations and yields on securitized real estate are attractive and present promising opportunities in the medium term.

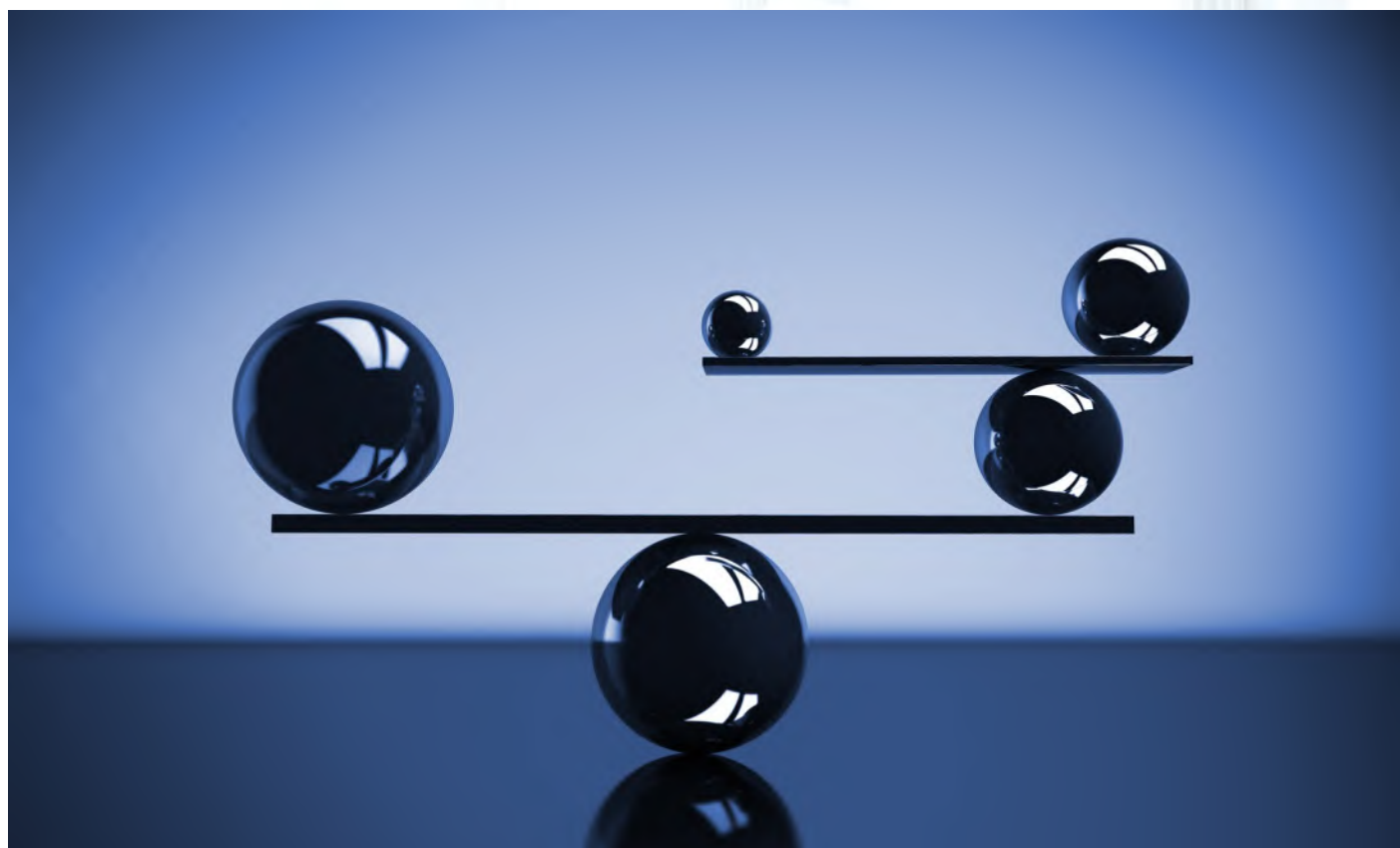
Currencies

We recommend a significant allocation to the U.S. dollar, while reducing exposure to opportunities outside the greenback and also favoring the Canadian and Australian dollars.

Market performances - Q1 2026

	Q1 2026		YTD			Q1 2026		YTD			
	local	USD	local	USD		local	USD	local	USD		
Exchange rates											
CHF/USD		-0.8%		-0.8%	Interest rates (3 months) (level)						
EUR/USD		-1.6%		-1.6%	CHF		-0.04%				
GBP/USD		-1.8%		-1.8%	EUR		2.08%				
JPY/USD		-1.3%		-1.3%	USD		3.68%				
					JPY		-20.25%				
Equity markets											
World	MSCI World USD	-3.6%	-3.6%	-3.6%	-3.6%	Bonds markets					
Europe	DJ Stoxx 600	-1.0%	-2.6%	-1.0%	-2.6%	World	Cit Gr Global Govt USD	-1.1%	-1.9%	-1.1%	-1.9%
Eurozone	DJ Eurostoxx 50	-3.8%	-5.4%	-3.8%	-5.4%	Europe	Euro Ser-E Gov > 1	-0.6%	-2.3%	-0.6%	-2.3%
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Germany	Dax 30	-7.4%	-8.9%	-7.4%	-8.9%	Switzerland	SBI Général AAA-BBB	0.2%	-0.6%	0.2%	-0.6%
France	Cac 40	-4.1%	-5.7%	-4.1%	-5.7%		SBI Govt.	-0.7%	-1.5%	-0.7%	-1.5%
United Kingdom	FTSE 100	2.5%	0.6%	2.5%	0.6%	USA	US Ser-E Gov > 1	0.0%	0.0%	0.0%	0.0%
Switzerland	SP1	-2.1%	-2.9%	-2.1%	-2.9%	Japan	Japan Ser-E Gov > 1	-1.6%	-2.9%	-1.6%	-2.9%
	SMI	-3.7%	-4.5%	-3.7%	-4.5%	Emerging	J.P. Morgan EMBI Global	-1.1%	-1.1%	-1.1%	-1.1%
	MSCI Swiss S.C.	-3.7%	-3.7%	-3.7%	-3.7%	Miscellaneous					
North America	SP500	-4.6%	-4.6%	-4.6%	-4.6%	LPP 25 Index		-0.4%	-1.2%	-0.4%	-1.2%
	Nasdaq	-7.1%	-7.1%	-7.1%	-7.1%	LPP 40 Index		-0.7%	-1.5%	-0.7%	-1.5%
	Tse 300	3.3%	1.9%	3.3%	1.9%	LPP 60 Index		-1.1%	-1.9%	-1.1%	-1.9%
	SP600 Small C.	3.1%	3.1%	3.1%	3.1%	Real Estate CH	DB RB Swiss Real Est Fd	-3.8%	-3.8%	-3.8%	-4.6%
Japan	Nikkei 225	1.4%	0.2%	1.4%	0.2%	Hedge Funds	Hedge Fund Research USI	1.8%	1.8%	0.9%	0.9%
Emerging	MSCI EMF USD	-0.5%	-0.5%	-0.5%	-0.5%	Commodities	GS Commodity USD	40.0%	40.0%	40.0%	40.0%

INVESTMENT THEME FOCUS



INVESTMENT THEME

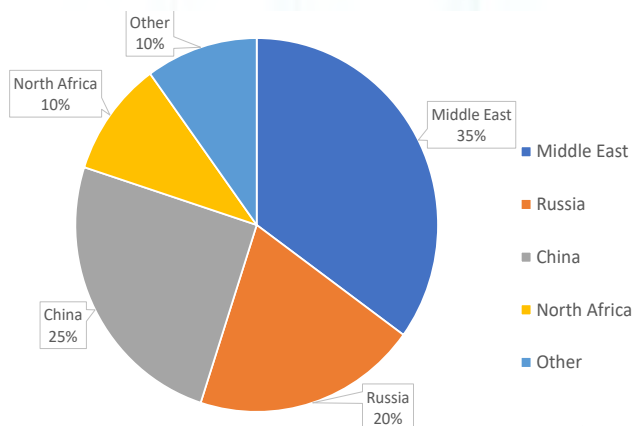
Risks of disruption of global agriculture

- Global Fertilizer Market Caught in the Crosshairs of the Strait of Hormuz Blockade
- Significant Asymmetry in Dependencies (Energy vs. Fertilizers)
- “Underestimated” vulnerability of fertilizer supplies
- The 2026 shock: contagion mechanisms
- Stock market behavior and macroeconomic risks
- Inevitable return of inflation in H2

Global fertilizer market held hostage by the Strait of Hormuz

The military escalation in the Middle East in March 2026 marked a fundamental shift in the geopolitics of raw materials. Just as the global economy was attempting to stabilize following the inflationary upheavals of 2022–2023, the near-paralysis of the Strait of Hormuz acted as a catalyst for a systemic crisis. This chokepoint, through which nearly 33% of global maritime trade in fertilizers (notably urea, ammonia, and phosphates) passes, is no longer merely an energy artery but the focal point of an imminent agricultural shock with significant consequences for the supply of agricultural products and, of course, their market prices. The common misconception that the risks to the global economy associated with the closure of the Strait of Hormuz are solely energy-related is a major error in analysis and understanding of global issues and the specific situation of the essential global fertilizer production sector. While the blockade of the strait currently has all eyes fixed on the price of a barrel of oil, it is in fact the global fertilizer market that is, by extension, experiencing a shockwave that could prove far more devastating for global food security in the medium and long term.

Geographical distribution of global fertilizer production



Significant asymmetry in dependencies (energy vs. fertilizers)

It is crucial to distinguish between the nature of the dependence on energy products, on the one hand, and fertilizers, on the other, in order to understand why we believe fertilizers are far more vulnerable than crude oil in the current crisis, which is intensifying and will have lasting effects.

The relative resilience of oil – Adjustment mechanisms

Although approximately 20% of the world’s crude oil passes through the Strait of Hormuz—a proportion large enough to pose a major threat to the global economy if the strait were to be closed—the oil market nevertheless has adjustment mechanisms that can be quite powerful. These include national strategic reserves (managed by the IEA), alternative pipeline networks (such as the East-West pipeline in Saudi Arabia), and increased supply diversity from producers outside the region (the United States, Brazil, Guyana) that can offer temporary solutions in the event of a crisis. In such a scenario—and this is clearly

the case today with Iran’s total closure of the Strait of Hormuz—the oil market can, to a certain extent, “rebalance” volumes, albeit at the cost of increased volatility due to the time required to adjust and rebalance the markets.

While mechanisms do exist in theory, in practice it has been clear for several days now that the initial impact has been a sharp rise in crude oil prices, which remain at high levels and which, in our view, are likely to rise further if the deadlock is not resolved quickly, despite the release of strategic reserves.

Structural fragility of the fertilizer market

Unlike the oil market, the fertilizer market is characterized by much greater geographical concentration and by the near-total absence of global strategic reserves that could be tapped in the event of a crisis.

The concentration of production areas in the Persian Gulf is not widely known to the public and, in fact, has not been mentioned at all by any commentator on 24-hour news channels since the start of this crisis. Yet it is a glaring reality—and, unfortunately, a deeply concerning one for the future of global agricultural production—that approximately 33% of the world’s maritime trade in fertilizers (urea, ammonia, sulfur, phosphate) passes through the Strait of Hormuz. It should be noted that there is no “fertilizer pipeline” to bypass the strait, and that any other form of transport would prove particularly costly if alternative routes were to be activated. In the event of a total closure of the strait, approximately 16 million tons per year cannot be delivered to their buyers and are physically trapped.

The “underestimated” vulnerability of the fertilizer supply chain

This reality is largely overlooked for three main reasons. First, the public perceives fertilizer as a secondary raw material, whereas it is an essential upstream component of all agricultural production. A ton of fertilizer stuck at the Gulf’s exit does not merely mean a price increase, but a physical shortage of inputs during critical planting seasons. Second, it is important to note the lack of substitutability. While for oil, substitution is possible (renewable energy, natural gas, other importers), for nitrogen (derived from ammonia), there is no immediate alternative for farmers in March 2026. Without nitrogen input, the yield of corn and wheat crops drops non-linearly. Finally, the concentration of capacity in the Persian Gulf, which is not merely an export hub but a major production center. The closure of the Strait of Hormuz forces petrochemical complexes (such as Ras Laffan in Qatar) to shut down, as storage tanks reach capacity within a few days due to a lack of ships to empty them. This results in total industrial disruption, which is far more difficult to restart than an oil well.

Structure of the global supply chain

Fertilizers are divided into three main categories, each with its own production process.

Nitrogen (N) - The cornerstone of energy: Produced from natural gas (methane) to make ammonia, which is then used to produce urea. It is the most widely used fertilizer. The key players are Russia, China, the United States, Qatar, Saudi Arabia, and Egypt.

Phosphate (P) - The cornerstone of the mining industry: Extracted from phosphate rock mines and then processed into phosphoric acid and DAP/MAP. The key players are Morocco (the world's leading exporter), China, Saudi Arabia, and the United States.

Potash (K) - The geological pillar: Extracted from potassium salt deposits. The key players are Canada, Russia, Belarus, Israel (via the Dead Sea), and Jordan.

The most commonly used blended fertilizers, such as DAP—which has a higher nitrogen content than MAP—contain more phosphorus.

Shares of North American producers such as CF Industries, Nutrien, and Mosaic are seeing a sharp rise. This performance can be attributed to their geographic protection: they produce locally using cheap shale gas, thereby avoiding the logistical risks associated with the Strait of Hormuz. Conversely, companies exposed to Middle Eastern assets or dependent on imports are facing downward pressure due to operational uncertainty and skyrocketing marine insurance premiums (with freight costs having jumped by more than 50% in just a few days).

The impact on plantations

In March 2026, the planting window for spring crops is critical in the Northern Hemisphere and for major tropical crops. Farmers are caught in a bind: the lack of availability of nitrogen and phosphate fertilizers is forcing many to reduce the area planted or cut back on application rates. A 20% reduction in nitrogen inputs can automatically lead to a 15–25% drop in yields for corn and wheat, directly threatening food security in the most vulnerable regions (East Africa, South Asia).

Forecast - The "Input Famine": If the blockade of the Strait of Hormuz continues, we will emerge from the energy crisis only to face a global crisis in biological productivity.

Short term (1–3 months): Exponential rise in input costs, rationing at mills in Asia (already observed in Bangladesh), and a massive reduction in planted acreage.

Medium term (6–12 months): Inevitable impact on global food prices (second-round effect). The availability of staple grains will decline not due to a lack of land, but due to lower yields per hectare.

In short, if oil is the "fuel" of the economy, fertilizer is the "fuel" of human life. To ignore the fertilizer blockade at Hormuz is to underestimate the likelihood of a structural food crisis which, unlike the oil crisis, will not be resolved simply by pumping more barrels into the market.

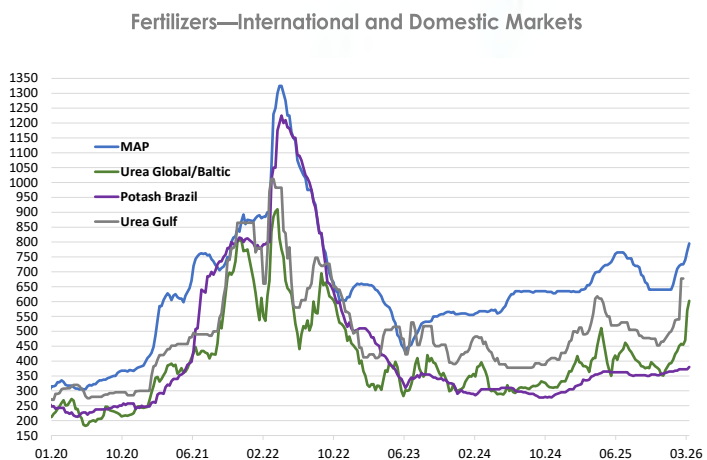
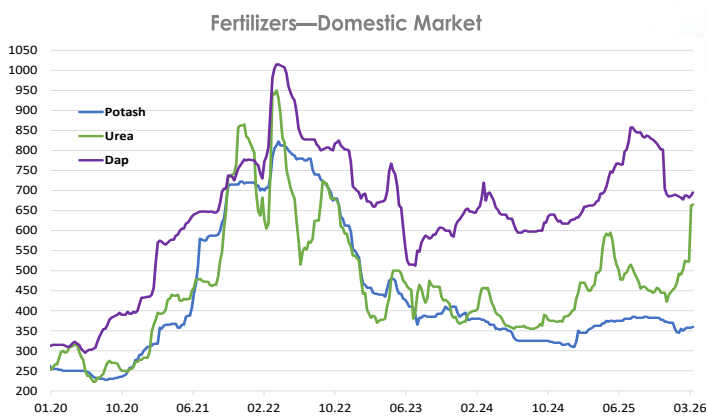
Toward a reshaping of production chains

A prolonged closure of the Strait of Hormuz could trigger a historic shift toward self-sufficiency in agricultural inputs. If the crisis persists through the 2026 growing season, the pass-through of higher input costs to food prices (meat, dairy products, grains) will become inevitable by fall, amplifying the likely effects that will already be visible in inflation measures (PPI & CPI) during the summer in most countries, as demonstrated by the 2021–2022 episode. In the medium term, the crisis will act as a technological wake-up call. We anticipate a massive acceleration in investment in green ammonia and controlled-release (specialized) fertilizers, with the market expected to grow from \$30.8 billion in 2026 to over \$52 billion by 2034. In the long term, we may also see a geopolitical shift. Importing countries will seek to diversify their sources toward producers outside conflict zones, favoring North America, North Africa (OCP in Morocco), and local producers capable of decarbonization. The global fertilizer market is no longer merely an industrial commodity; it has become a barometer of stability for modern civilization. The current situation, characterized by constrained supply and inelastic demand, places companies operating toward self-sufficiency in a strong position in the stock market, while the risk of famine in import-dependent economies is at its highest level in a decade.

The resilience of the 2026 harvest will now depend less on farmers' willingness than on governments' ability to secure alternative logistics routes or subsidize substitute inputs; otherwise, food inflation risks becoming the primary driver of global instability.

Stock market behavior and macroeconomic risks

Stock markets are beginning to reflect this difference. While oil companies see their stock prices fluctuate with crude oil prices, fertilizer producers are valued based on their "production capacity in secure regions." North American companies (such as CF Industries or Nutrien) are seeing their valuations rise, as they are the only ones capable of saturating the global market, which has become "starved" due to the



Pre-crisis overview (2025 – early 2026)

Until February 2026, the fertilizer market was in a fragile consolidation phase. Following the historic peak in 2022—when urea reached \$900 per ton in April compared to an average of \$290 per ton in 2020—prices had partially normalized thanks to a restructuring of supply chains and a relative easing of natural gas prices. Supply was supported by massive investments in the Middle East (Qatar, Saudi Arabia), aimed at capturing growing demand from emerging economies (India, Brazil, Indonesia). Global demand, projected to grow by 4% annually, was linked to an urgent need for agricultural productivity. As early as 2025, Europe had initiated a structural transition via the Carbon Border Adjustment Mechanism (CBAM), aimed at incorporating imported nitrogen fertilizers. This mechanism sought to limit "carbon leakage" by taxing the environmental footprint of products, although this strategy was perceived as a factor driving up costs for European farmers.

The 2026 shock: contagion mechanisms

Unlike the crisis of 2022, which was primarily a cost crisis (soaring gas prices), the crisis of 2026 is a crisis of physical availability.

Stock market reaction and risk premiums

The markets are reacting with extreme volatility.

absence of Gulf volumes. For farmers in importing countries (Africa, South Asia), the risk is not only inflation but the inability to purchase. Ocean freight rates, which jumped 50% in March 2026, combined with physical scarcity, create an insurmountable barrier to entry for smallholders. In the current context, we believe that fertilizer prices are likely to reflect a significant disruption in global supply chains for the foreseeable future and will affect agricultural-producing countries differently depending on their product mix and their ability to absorb rising fertilizer prices. Urea prices have already surged from \$351 to \$600 in just a few weeks in 2026.

Forecasts and risks for the 2026 harvests

There is a direct correlation between fertilizer availability and crop yields; without sufficient fertilizer in March/April, the harvest is jeopardized. A reduction in fertilizer availability — such as the one feared with the closure of the Strait of Hormuz in March 2026 — does not affect all crops to the same degree. The impact depends on the plant's "appetite" for nutrients, primarily nitrogen (N). Farmers (particularly in the U.S. and Brazil) might choose to reduce the acreage planted with corn in favor of soybeans, which would cause global corn prices to skyrocket.

Corn and wheat: Corn is the crop most "dependent" on nitrogen fertilizers. Unlike soybeans, it cannot fix nitrogen from the air. A reduction in fertilizer application immediately results in a drastic drop in yield per hectare. Insufficient nitrogen fertilization at the end of the growing season reduces the protein content, directly impacting quality.

Wheat requires precise nitrogen inputs to ensure not only a high yield but also the protein content necessary for breadmaking. Europe and North Africa, which are heavily dependent on fertilizers from the Middle East, are on the front lines.

Rice: In Asia, rice is a staple food. Rice production is highly dependent on nitrogen and phosphate fertilizers. India purchases more than 40% of its urea from the Gulf region. The current blockade of the Strait of Hormuz directly threatens Asian rice crops, often prompting governments to ban exports to protect their own stockpiles, causing panic in global prices.

Soybeans: Soybeans are the relative "big winner" of this crisis. Since they are legumes capable of fixing nitrogen from the air, they require very little nitrogen fertilizer. In times of crisis, farmers often switch from corn to soybeans, which can paradoxically stabilize soybean prices relative to other grains.

Coffee and Cocoa: The situation for coffee and cocoa in March 2026 stands in stark contrast to that of fertilizers. While fertilizers are suffering from a supply shock (the physical inability to transport them), coffee and cocoa are emerging from a phase of sharp deflation following a period of intense speculation. The cocoa sector is experiencing a dramatic turnaround. After reaching historic highs in 2024 and 2025, global prices have collapsed. High prices spurred massive investments in new growing regions (Latin America) and encouraged better management of plantations in West Africa. The market is now facing an expected surplus for the 2026/27 crop year. But the nearly 80% drop in prices is jeopardizing the economic survival of small-scale producers, creating a deep social crisis, even as prices for finished products (luxury chocolate) remain high in consumer countries, illustrating massive value capture by the processing industry.

As for coffee (Arabica and Robusta), following record highs in 2025, global prices have begun to decline (-35%). Robusta, which had skyrocketed due to supply issues in Southeast Asia, is stabilizing. Coffee is more sensitive than cocoa to the "energy crisis." Drying and processing coffee require a constant supply of energy. Although coffee is not currently blocked in the Gulf, rising gas and oil prices (driven by the Strait of Hormuz crisis) are increasing transportation (shipping containers) and packaging costs.

Although coffee and cocoa are perennial crops, they require fertilizers to maintain yields. If fertilizer prices remain high due to the Strait of Hormuz, growers will be forced to reduce their use. A decline in yields by 2027 would trigger another surge in coffee and cocoa prices, this time due to a shortage of production. The crisis in the Middle East acts as a latent threat that, through logistics and fertilizer costs, could turn this surplus into a shortage.

Inevitable return of inflation in H2

The blockade of the Strait of Hormuz will therefore have cumulative effects on production and supply chains that are greater than those observed during previous crises and shocks. We are likely to see another widespread rise in energy prices and agricultural commodity prices. It will take several months for the increase in input costs to be passed on to the end consumer, but we are entering a phase where food inflation will no longer be driven by energy prices, but by the biological scarcity of crops.







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