



Investment strategy

June 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 global economy is being held hostage in the Strait of Hormuz
- The U.S.-Iran agreement offers the markets a reprieve—perhaps only a temporary one
- Growth is eroded, inflation is rebounding sharply, and central banks are under intense pressure
- Stock markets are being saved by AI, while the bond market reacts to inflation
- The dollar emerges as the dominant force in foreign exchange
- In a highly uncertain and volatile environment, caution remains the order of the day

The past quarter was marked by the unfolding repercussions of the major geopolitical shock that hit the global economy on February 28th. Following the dramatic events of March and the spread of the conflict to all Gulf countries, Iran's closure of the Strait of Hormuz deprived the global market of nearly 20% of its crude oil and natural gas supplies for nearly four months. This prolonged blockade triggered the biggest oil shock since the 1970s, propelling Brent prices above \$110 to \$120 per barrel during the quarter. This extreme situation forced observers to definitively rule out the optimistic scenarios from the beginning of the year, which had predicted a gradual and steady decline in inflation below central bank targets and, consequently, widespread monetary easing that was expected to unfold throughout 2026.

Against an extremely turbulent and threatening backdrop, particularly for the global economy, the end of June marked a decisive turning point. The signing of a framework ceasefire agreement between the United States and Iran in mid-June, accompanied by a truce and an agreement to gradually reopen the Strait of Hormuz, helped ease the pressure somewhat. At the same time, successive quota increases decided by OPEC+ to compensate for blocked volumes have reignited supply, bringing crude oil prices back toward the \$73 range by the end of June. Despite this welcome short-term easing of energy prices, the cumulative disruptions to global supply chains and the persistence of higher marine insurance premiums will leave lasting scars. Consumer price indices remain under pressure, and the estimated loss of fuel demand, more than 1 million barrels per day over the course of the year, confirms the magnitude of the macroeconomic slowdown.

Faced with persistent inflation, projected by the IMF at 4.4% for 2026, central banks have had to abandon any plans for aggressive rate cuts. While the Fed (status quo) and the ECB (0.25% hike) have avoided the worst-case scenario thanks to the recent ceasefire, they are maintaining a restrictive policy longer than expected, pushing back significant monetary easing until the end of the year. The IMF has officially revised down its global growth forecast to +3.1% for 2026, as the "oil tax" effect from this spring has heavily weighed on consumer purchasing power and business investment. In this new environment, regional disparities have become more pronounced. Europe (expected to recover with growth of just +1.1%) and emerging economies that are net energy importers have emerged from this crisis-ridden quarter significantly weakened. In contrast, the United States has demonstrated remarkable resilience, supported by its energy self-sufficiency and its status as a net exporter of petroleum products. This environment has been favorable for the greenback, which is benefiting from a capital inflow that is boosting the U.S. economy, which is outperforming its peers. After undergoing significant corrections in the spring, financial markets are showing signs of precarious stabilization in early July, with their performance hinging on the actual pace of normalization of maritime traffic in the Gulf and the trajectory of interest rates for the second half of the year. The dollar is reaffirming its role as a key benchmark and the ultimate safe-haven asset within this reshaped financial landscape.

These exceptional circumstances have profoundly reshaped the performance of asset classes during the first half of 2026. Following the spike in volatility this spring caused by the prolonged blockade of the Strait of Hormuz, financial markets are beginning to stabilize, albeit precariously, in early July, buoyed by the ceasefire agreement and the rapid decline in crude oil prices to around \$73 by the end of June. Commodities, which had surged by 24.5% at the height of the crisis, naturally gave back some of their gains as energy prices eased, but they emerged as the standout safe-haven asset of the half-year. Meanwhile, the lasting shift in expectations regarding inflation and monetary policy played out in the bond markets. With central banks ruling out any aggressive monetary easing in the short term, yields remained under pressure, consolidating the decline in bond indices to -1.85% in Switzerland and -4.12% internationally over the entire half-year.

In the equity markets, the initial correction (-7.3% in Switzerland and -6.3% internationally) gave way to a tentative rebound in late June, driven by geopolitical relief. Equity indices posted a down but resilient half-year performance (-3.8% for the Swiss SPI and -2.4% globally), spared from a steeper decline by the strength of large-cap U.S. tech stocks and productivity gains driven by AI. Securitized real estate continues to recover, weighed down by persistently high interest rates that are keeping indices on a downward trend (-4.8% in Switzerland and -8.1% globally). Finally, private equity has stabilized its slow decline, posting a negative return of -3.2% for the quarter, bringing its cumulative decline to nearly -23.3% over the past six months, weighed down by the persistent freeze on refinancing and capital exits. Volatility, although sharply down following the signing of the framework agreement in the Middle East, remains a latent risk.

Investors are moving beyond a purely emotional phase and entering a phase of fundamental analysis. The ripple effects of the spring oil shock are beginning to show up in second-quarter corporate earnings. Caution therefore remains warranted as we enter the second half of the year, with the trajectory of the indices now depending on the pace at which global supply chains normalize. In the foreign exchange market, the dollar has fully cemented its status as a key currency. Supported by U.S. macroeconomic resilience and Fed interest rates maintained at restrictive levels, the greenback has appreciated significantly against the euro and the Swiss franc, establishing itself as the go-to safe-haven asset of the first half of the year.



Alain Freymond
Associé & CEO
BBGI Group

BIG PICTURE

Main Convictions

- The specter of stagflation looms over the second half of the year
- New outlook for interest rates and monetary policy
- The USD dominates the foreign exchange markets
- Instability and increased volatility in financial assets

The specter of stagflation looms over the second half of the year

The illusion of a soft landing for developed economies has evaporated in early July 2026. The ripple effects of the spring oil shock, combined with the rigidity of restrictive monetary policies, are forcing the major Western powers to face a dreaded scenario: severe economic stagnation coupled with persistent inflation. Stagflation is no longer a distant risk; it is becoming the operational reality for the coming months. While the United States has long displayed remarkable resilience thanks to its energy independence, the warning lights are flashing red for the second half of the year. Forecasts now factor in a high probability of a break in growth momentum. The cumulative effect of the “oil tax” over the previous quarter has ultimately eroded the remaining savings of U.S. households. Consumer spending, the historic driver of U.S. GDP, is losing steam under the weight of consumer prices (Core PCE) that remain stubbornly above +3%. The Federal Reserve (Fed), trapped by this stubborn inflation, is forced to keep its policy rates at restrictive levels for much longer than expected. The cost of capital is affecting business investment and the housing market. The risk of a sharp slowdown in economic activity by the end of 2026 has intensified. Even more vulnerable to real estate cycles and household debt, the Canadian economy is bearing the brunt of the decline in U.S. demand, despite its status as an energy producer. On the other side of the Atlantic, the situation is even more critical. Europe and the United Kingdom lack the structural buffers of the United States and are sinking ever more visibly into stagflation. Growth in the Eurozone is now projected to be subdued, hovering near technical stagnation (around +0.8% to +1.1% for all of 2026). Germany, the region's industrial heart, is struggling to regain momentum, stifled by medium-term energy costs and weak external demand. The European Central Bank (ECB) faces an intractable dilemma: economic activity calls for a rapid cut in interest rates, but rising import prices caused by a weaker euro against the dollar tie its hands. The United Kingdom exhibits the most classic stagflationary profile among the G7 nations. The British economy combines anemic growth—hampered by structural trade barriers and sluggish investment—with wage and service inflation that refuses to subside. The coming months look set to be particularly austere for British consumers, who are forced to make tough budget trade-offs.

New outlook for interest rates and monetary policy

International bond markets are undergoing a major restructuring as of early July 2026. The dynamics of yield curves in developed countries highlight a profound analytical conflict between the imperatives of central banks and the risk-offset requirements of institutional investors. Our recent analyses confirm that we are entering an unprecedented market environment, marked by a steepening of the yield curve (where long-term rates are rising faster than short-term rates). The short end of the curve (short-term maturities) remains under the direct control of central banks. Faced with an increasingly visible economic slowdown in the United States and Europe, traditional cyclical logic would have called for rapid monetary easing. Yet the Fed and the ECB, in particular, are maintaining a restrictive stance. They face a dilemma: headline inflation persists at uncomfortable levels, precluding any cut in policy rates for the time being. Central banks have signaled their intention to raise short-term rates very gradually by the end of 2026 if price pressures do not ease. However, since central banks are facing a supply shock rather than a demand shock, they will be

reluctant to raise rates and will likely wait for the effects on inflation to subside almost naturally. Current inflation is driven by energy costs (a consequence of the Hormuz Strait blockade) and the fragmentation of supply chains. An ultra-restrictive monetary policy is, in fact, ineffective at reopening shipping lanes or extracting crude oil; it would only unnecessarily undermine economic activity. We believe that, aware of this limitation, central banks will act to preserve their credibility, but they will not sharply raise short-term rates. They will avoid triggering a severe recession through excessive tightening. At the other end of the yield curve, long-term rates (maturities of 10 years or more) are beyond the direct control of central banks. This segment is driven by investor expectations, and their assessment is unequivocal. Since inflation is structural in nature (a supply shock) and central banks will not strangle the economy to bring it back down to 2%, inflation will settle permanently above historical targets. Faced with this inevitable erosion of their purchasing power, bond investors are now demanding a higher nominal yield to compensate for this long-term inflation risk. This shift in the “term premium” is pushing long-term rates higher, regardless of the cautious trajectory of short-term rates. The combination of these two forces will cause a historic distortion of the yield curve. After a long period of yield curve inversion (during which short-term rates were higher than long-term rates, signaling an impending recession), we are now seeing the yield curve steepen as long-term rates rise.

The USD dominates the foreign exchange markets

While 2026 began amid a complex global monetary transition, the foreign exchange landscape was abruptly reshaped during the first half of the year. After suffering significant erosion in 2025, the U.S. dollar (USD) has once again established itself as the undisputed linchpin of the global economy. This turnaround is no accident. It is rooted in a marked macroeconomic divergence, exacerbated by the spring oil shock (the temporary closure of the Strait of Hormuz) and by a glaring asymmetry in growth among regional blocs. As the second half of 2026 begins, the U.S. dollar is reaffirming its financial supremacy. While global equity and bond markets are digesting the aftereffects of the spring crisis and attempting a precarious stabilization thanks to the mid-June framework ceasefire agreement in the Middle East, the USD is cementing its dual status as both the ultimate safe-haven asset in a turbulent world order and the primary driver of returns, thanks to the Fed's tight monetary policy. Driven by the combined effects of energy self-sufficiency, an AI-driven economy, and persistently high interest rates, the structural fundamentals of the USD remain undeniably superior to those of its main rivals (the euro, the yen, and the Swiss franc). The main driver behind the dollar's strength lies in the resilience of the U.S. real economy relative to the rest of the world. While growth forecasts for the global economy are being revised downward, particularly in Europe and Japan, the United States has shown remarkable resilience to date. This resilience continues to be driven by productivity gains linked to artificial intelligence and by the impact of recent tax incentives on business investment. In contrast, Europe is stagnating amid a painful recovery, and net energy-importing emerging markets have emerged deeply weakened from the energy crisis of this past spring. The U.S. economy, which is less dependent on highly disrupted transcontinental supply chains, naturally attracts international capital flows.

While Europe experiences every rise in crude oil prices as a veritable "oil tax" that erodes the purchasing power of its consumers and weighs on the profitability of its industries, the United States is navigating this crisis from a position as a net exporter of petroleum products and natural gas. This relative immunity safeguards the U.S. trade balance, supports the greenback through favorable trade flows, and transforms the USD into a direct hedge against geopolitical risks related to commodities. On the monetary front, the Fed is keeping interest rates at restrictive levels for much longer than expected, pushing back any significant monetary easing to the very end of 2026, or even into 2027. This maintenance of high interest rates in the United States widens the yield spread relative to other currencies. Driven by the combined effects of energy self-sufficiency, an AI-driven economy, and persistently high interest rates, the structural fundamentals of the USD remain undeniably superior to those of its main rivals (the euro, the yen, and the Swiss franc). Finally, the geopolitical shock of spring 2026 reactivated a powerful historical mechanism for recycling petrodollars. Since global commodities are denominated in U.S. dollars, the surge in prices—marked by Brent crude peaking at \$120 and a massive increase in the cost of inputs such as sulfur—automatically caused global demand for greenbacks to skyrocket to settle these transactions. This situation creates a devastating squeeze for the rest of the world, as net energy-importing countries are forced to sell their local currencies to buy dollars on a massive scale.

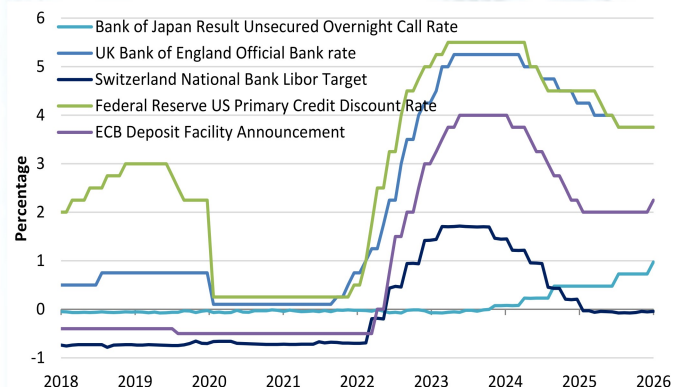
Renewed appeal of U.S. assets

After years of smooth globalization, the geopolitical shock of this spring served as a harsh wake-up call. In a fragmented world, economic security and energy self-sufficiency take precedence over the pursuit of global efficiency. This new reality is driving a massive reallocation of capital toward the United States. First and foremost, because the U.S. growth premium remains unbeatable. Given the high valuations of the S&P 500, which is trading at multiples of 22x to 23x earnings, the central argument is earnings growth. While European indices are stagnating, S&P 500 companies are projecting a 22% year-over-year increase in earnings per share (EPS). This momentum is driven by very significant capital expenditures (CapEx) dedicated to AI infrastructure. With \$650 to 800 billion invested by 2026, these massive capital inflows create a ripple effect that shields the U.S. market from the sluggishness of the global economy. By comparison, Europe, despite an attractive P/E ratio of 13x, remains held back by virtually zero growth. Japan is now feeling the impact of the BoJ's monetary tightening, which is dampening momentum in Japanese markets. The yield spread is the silent driver behind the dollar's dominance, fueling a "carry trade" whose total volume, including derivatives, exceeds \$1,000 billion. In this context, European sovereign debt is not a very attractive alternative. In the alternative assets space, traditional private equity—weighed down by a 23.3% decline over six months due to a freeze on refinancing—has lost its appeal in favor of private credit solutions indexed to the Fed's high interest rates. The transition to an AI-driven economy requires colossal amounts of electricity; as a result, network infrastructure and power plant projects in the United States have become premier bond alternatives, offering predictable cash flows backed by the country's energy sovereignty. In the global context, U.S. assets simultaneously offer technological growth uncorrelated with the traditional industrial cycle and natural protection against commodity shocks through oil independence. Competitive interest rates keep global demand for the greenback at record highs, which in turn reduces the risk for non-domestic investors holding U.S. dollars and improves expected returns in their own currencies. In conclusion, after a brief period of underperformance earlier this year relative to European investments, U.S. assets are once again benefiting from favorable conditions to outperform their peers.

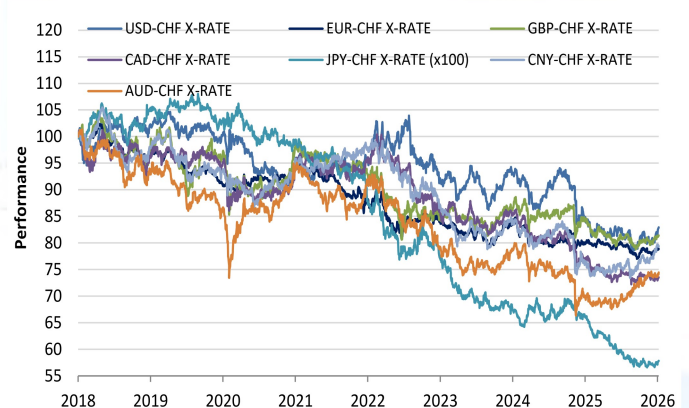
The risk of a reality check when school starts again

The current Wall Street consensus remains structurally positive for the end of the year, supported by massive investments in AI and productivity. However, given current high valuations, if in September the short-term profitability of massive investments in AI (CapEx) is called into question by tech giants during their back-to-school earnings calls, then the combination of "resilient inflation" and "economic slowdown" will no longer be ignored. Corporate earnings reported in Q2 were well above expectations, creating a base effect that will be difficult to beat in Q3. Furthermore, if summer inflation figures show inflation stagnating above central banks' targets, expectations for policy rates will tighten, leading to increased market volatility. A consolidation period after the summer break, forcing the market to pare back its excesses and shift toward more defensive or undervalued sectors, such as continental European or Chinese stocks or government bonds, is by no means out of the question.

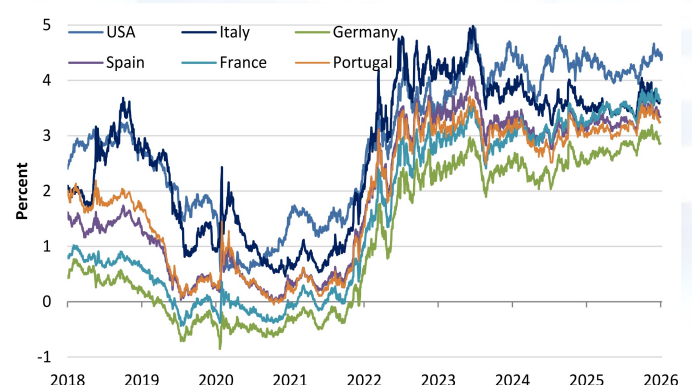
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Moderate but resilient global growth
- United States: The stagflation anticipated for Q2 is materializing
- Eurozone: Growing risks of a technical recession as early as Q2
- Switzerland: A slowdown that will extend into Q3
- Japan: Uncertain Q2 amid an energy shock and a wage surge



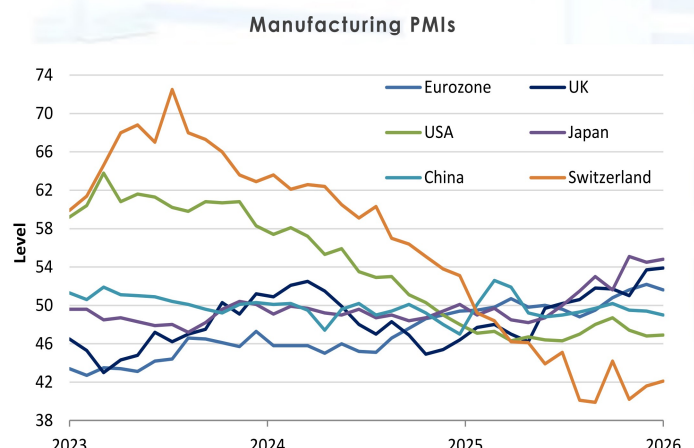
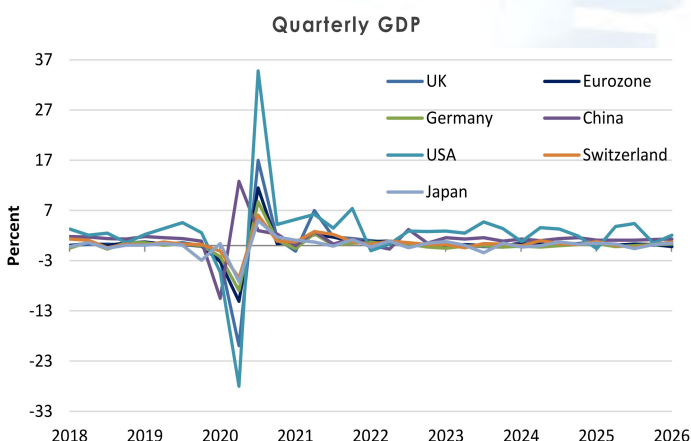
Moderate but resilient global growth

The global economy is navigating turbulent waters as the second quarter draws to a close. After a start to the year marked by cautious optimism, economic conditions have been overtaken by geopolitical realities and persistent monetary constraints. We expect global economic activity to slow compared to previous years, though we do not foresee a risk of a global recession. Global growth for 2026 is now projected at +3.1% by the IMF, driven by the outbreak and escalation of the conflict in the Middle East, which have acted as a supply shock. Rising crude oil and natural gas prices have acted as an instantaneous "oil tax" on household purchasing power and corporate margins, automatically curbing global growth. While markets had anticipated an aggressive cycle of policy rate cuts starting at the beginning of the year, the rebound in energy prices and stubborn inflation in the services sector have forced the Federal Reserve (Fed) and the European Central Bank (ECB), in particular, to adjust their policies. A number of other central banks have already raised their policy rates. Overall, interest rates will remain high for longer than expected, which will weigh heavily on the economic outlook, consumption, and investment.

The resilience of the U.S. economy, particularly its labor market, had raised hopes for a more favorable trajectory, but the latest figures actually show a marked deterioration in employment. Global growth will therefore not be uniform in 2026; we estimate that the headwinds affecting the European and U.S. economies will cause their growth momentum to slow more sharply than in China and India. Growth in India (+6.5%) and China (+4.5%) will account for about 60% of global economic growth this year. Among developed countries, the United States will likely fare the best compared to a struggling Europe.

United States: The stagflation anticipated for Q2 is materializing

An analysis of the U.S. economic outlook at the end of the second quarter of 2026 reveals an economy walking a tightrope, marked by the waves of geopolitical shocks from earlier in the year, but demonstrating greater resilience than anticipated in the face of the risk of outright stagflation. Rather than a collapse or contraction, the trajectory resembles a soft landing, albeit under intense pressure, driven by a weakening labor market and consumer spending that is bending but not breaking. The U.S. economy's trajectory initially weakened to an alarming degree before showing new, more positive signs toward the end of the period. The revised consensus among Wall Street analysts recently raised its expectations to +2.5%, while the Atlanta Fed's growth indicator, by contrast, plummeted from over +4% to 1.18% at the end of June. This particularly severe downward adjustment to real GDP growth forecasts suggests a marked slowdown is underway, against a backdrop of confusing, highly volatile, and divergent statistics. The economy is caught between two powerful opposing forces: geopolitical inflationary pressures on one hand, and the artificial intelligence supercycle on the other. The oil shock, however, suggests structurally higher inflation, with the headline CPI and core CPI (underlying inflation) hovering around 3% to 3.5%, driven by the relocation of supply chains and energy costs. Rising energy prices are slowing economic activity, but the real risk lies in physical shortages of petrochemical and industrial components, which threaten to bring logistics to a standstill in Q2 and Q3. The U.S. economy will avoid a standstill thanks to massive spending by tech giants on AI infrastructure, but if the middle class feels the pinch of higher gas prices at the pump, their consumption levels are likely to suffer, particularly in the services sector. This complex environment of "micro-stagflation" may be temporary, but we believe the most likely scenario is one in which the slowdown continues through the summer, with Q3 GDP also coming in weaker.



Eurozone: Growing risks of a technical recession as early as Q2

The economic landscape in the eurozone for Q2 is proving to be more complex than expected. Shaken by the recent tightening of the energy market following geopolitical tensions in the Middle East, economic activity is struggling to regain momentum, confirming an overall economic scenario marked by consumer caution. The year 2026 got off to a disappointing start, and estimates for the second quarter rule out a deep recession but do not anticipate a strong rebound either. Growth is expected to remain sluggish at best and likely stand at -0.1%, further validating our scenario of stagflation and a technical recession beginning in the second quarter. This trajectory reflects the slow absorption of the inflationary shock by the European productive sector, a process that is expected to continue in the coming months. Annual macroeconomic forecasts have, unsurprisingly, been revised downward. The European Central Bank's Survey of Professional Forecasters (SPF) has lowered its growth outlook for the full year 2026 to +1.0%, while the Eurosystem's projections are even more conservative, targeting annual growth limited to +0.8%. Our baseline scenario calls for a period of stagflation that is likely to be temporary but should nonetheless characterize the coming months. Energy prices will continue to put pressure on the consumer price index. While the ECB's 2% target was briefly reached at the end of last year, inflation is expected to stabilize.

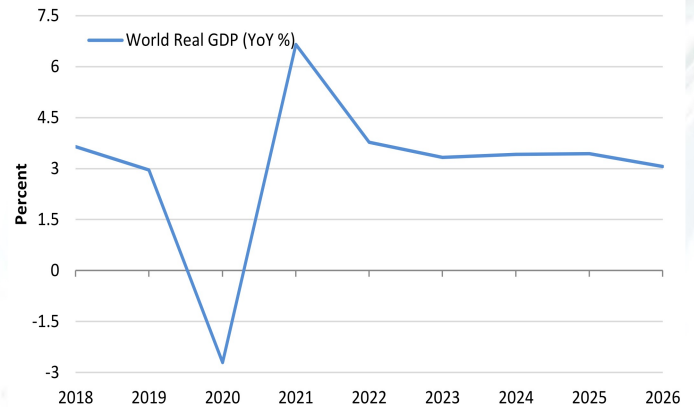
Switzerland: A slowdown that will extend into Q3

The sudden and unexpected onset of the ongoing oil shock in March caught the Swiss economy off guard at a time when it was particularly fragile and weak. But the Swiss economy is also highly dependent on other developed economies, which will also impact its momentum in Q2 and Q3. Indeed, the oil shock linked to the war in Iran is hitting Europe hard, as it relies on energy imports. If Germany slows down, it will order fewer machines, electronic parts, and chemical components from Switzerland. While the Swiss pharmaceutical sector is holding up well, sectors highly sensitive to global economic conditions, such as watchmaking and the mechanical engineering industry (MEM), are sluggish. The decline in global demand for luxury goods and capital goods is directly weighing on Swiss order books.

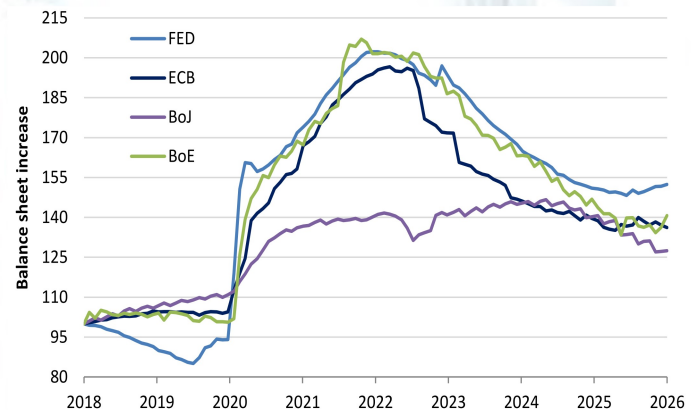
Just as worrying for Swiss growth as a slowdown in external demand, the risk of a decline in domestic demand seems highly likely to us. Swiss consumers, while less sensitive to international crises, are not entirely immune to them. We are already seeing stagnation in private consumption in Q1, which could well contract in Q2. Consumer sentiment plummeted in Q2, reaching a low comparable to the shock caused by the tariff barriers in August 2025. Global geopolitical uncertainty is driving households toward precautionary savings rather than spending. While the loss of purchasing power is certainly limited, if inflation continues its recent upward trend, rising energy prices will directly erode the budget available for other spending (retail, leisure). Unemployment remains low but is rising to 3.1%, while job creation is slowing. Prospects for wage increases are fading, which is also dampening consumer spending.

We expect domestic demand, both in terms of household consumption, as households adopt a more cautious approach, and in the construction sector, to decline in Q2 and Q3, as both are likely to be affected by rising interest rates and financing costs. A slowdown in public spending is also expected to reinforce this trend. Against this backdrop, we anticipate growth of just +0.2% in Q2 and Q3.

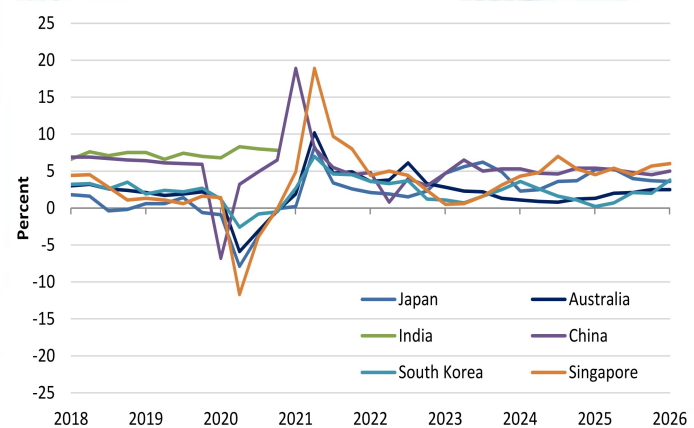
Real growth of the global economy



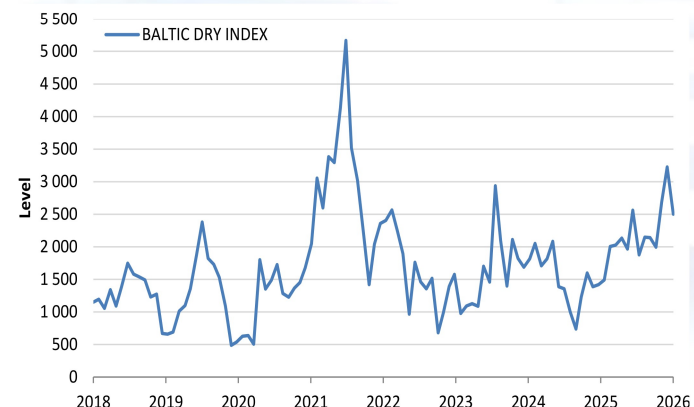
Global liquidity



Growth rates of Asian economies (GDP)



Baltic Dry Index



United Kingdom: Negative growth (-0.2%) expected for Q2

Beyond the issue of seasonality, growth is now threatened by the repercussions of the conflict in the Middle East in Q2. Reports from April and May indicate that the imported supply shock has become embedded in the price structure, dashing hopes for a rapid drop in interest rates. Furthermore, persistent regional geopolitical tensions and the partial blockade of shipping lanes have pushed the price of Brent crude oil above \$90 per barrel. This prolonged energy crisis is acting as a de facto tax on the UK's manufacturing sector. Gas prices remain stagnant at high levels, eroding the competitiveness of factories. This sustained exogenous shock is stifling domestic demand, which was already severely weakened. The consequences of persistently high energy prices are being felt acutely in UK price indices, confirming the structural deterioration in supply. The semblance of stabilization in retail sales observed in early spring is evaporating. It is proving insufficient to offset the sharp decline in the services sector, which is hampered by rising labor and electricity costs. Monthly Q2 data show a broad-based pass-through of cost increases to final prices, reminiscent of the post-pandemic inflation crisis and signaling an economic slowdown. This persistent burden directly erodes households' disposable income. Container shipping costs remain extremely high on east-west routes, maintaining strong inflationary pressure on imported manufactured goods. These supply chain disruptions are forcing companies to urgently reassess their supply networks. The April surge in domestic energy prices absorbed most of the increase in nominal wages. GDP for the current quarter is likely to contract by 0.2%. The stagflationary environment, which was feared three months ago, is now taking root in the British economy.

Japan: Uncertain Q2 amid an energy shock and a wage surge

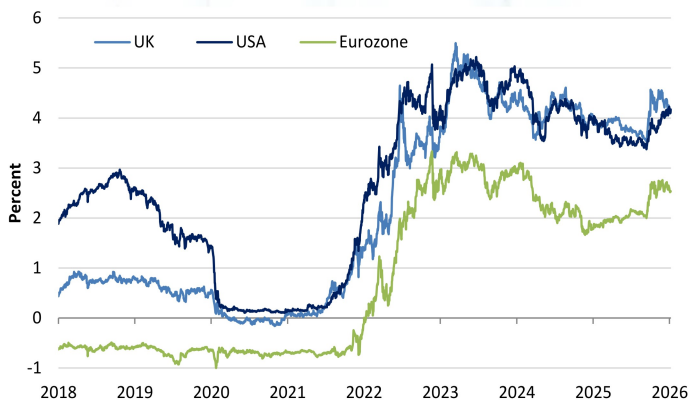
The repercussions of the maritime blockade in the Middle East and the surge in crude oil prices are reshaping Japan's economic trajectory in Q2. Japan, caught in a vise by its energy dependence, is beginning to feel the effects of this imported inflation. For Q2 2026, the key challenge lies in the ability of domestic demand to withstand this erosion. Soaring energy prices are eating into corporate margins, but the macroeconomic picture is partially supported by the

implementation of the Shunto agreements. Nominal wage increases, now reflected on pay stubs, provide a welcome buffer for household consumption. However, we anticipate a contraction in manufacturing output for the quarter, constrained by persistent logistical bottlenecks. The emergency strategic restocking carried out by major industrial groups to secure their inputs should, paradoxically, support the investment component, preventing a sharp decline in GDP, which is likely to come in at around +0.3% on a quarterly basis.

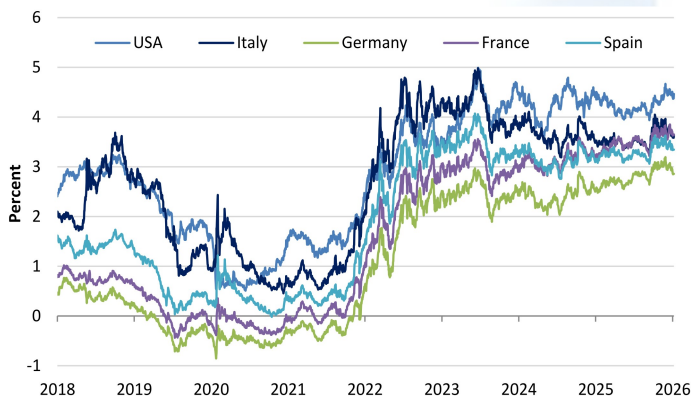
On the monetary front, the BoJ's dilemma has become even more acute. With the yen facing historic selling pressure and hovering around 160 JPY/USD due to rising oil costs, the central bank can no longer afford to wait. Consensus forecasts point to an imminent technical adjustment to its interest rate control policy by the end of the quarter. The goal is twofold: to curb speculation against the national currency without stifling mortgage lending or undermining local small and medium-sized enterprises. The precarious balance seen at the start of the year is giving way to highly targeted macroeconomic management.

The Japanese government is using its fiscal levers to subsidize electricity and gas, mitigating the immediate impact on purchasing power, but this strategy is widening the deficit. At the same time, the competitiveness of technology exports to Europe and Asian markets is providing a crucial lifeline to conglomerates, offsetting weak U.S. demand. The outlook for the second quarter remains, however, contingent on ongoing tensions in the Middle East. If the blockade of the Strait of Hormuz drags on, the gradual depletion of national strategic reserves will force the country to make complex industrial trade-offs, threatening the recovery in capital goods production in the third quarter.

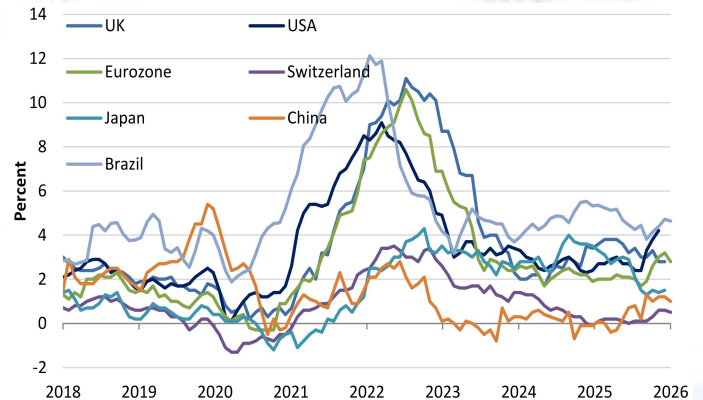
2-year government rates



10-year government rates



Inflation - CPI indices



Inflation - PPI indices

