



CIO Office Morning Notes

12 March 2026

Tuesday was war day number 12. Situation unchanged, with escalation on both sides, Strait of Hormuz mined and to all effects blocked. Time was bought via the release of strategic oil reserves deemed by investors to be a stopgap. Markets need soothing words followed by de-escalation, while soothing words followed by kinetic action dash hopes and cause sell offs. The end game is clear: there being no historic precedent of regime change without boots on the ground, eventually victory would be declared unilaterally once enough war fatigue has set in. The issue is, how much havoc would be caused in between. It seems that markets understand the only way forward for now is that of more pain to come, that in all practical terms translates into a tightening of financial conditions via higher oil prices. In simpler terms: crude prices that had been talked down by President Trump on Monday are expected to jump above USD100 again as the conflict intensifies and supply bottlenecks stay in place. The dollar likes tighter liquidity and gold does not, so the reserve currency should strengthen and gold weaken, despite the spiking geopolitical risks. And equities don't like lingering uncertainty, let alone hopes being dashed, so they would be selling off, while Treasuries suffer a lot under inflationary pressures, so they would be selling off as well. Under this scenario where there is not much that seems to be working cash is actually a performing asset. The Tactical Asset Allocation Committee on Tuesday took the decision of raising some cash, lightening up mainly on equities and gold, as per rationale illustrated above. It could be that volatility in the end comes to the rescue. What if Treasury yields spike and equities sell off to a point pressure on the White House becomes excessive? It would be a sort of Liberation Day 2.0, with the difference that this time the dollar would be strengthening. It is a possible scenario, maybe delayed by the release of strategic oil reserves, one more creative way of kicking the can down the road.

Equities closed mixed, the S&P 500 and the Nasdaq unchanged, while the Dow lost 0.6%. The energy sector performed best gaining 2.5%. Treasuries sold off across the curve driven by inflation risk with the yield on the 10-year note settling at 4.23%. Brent crude topped USD92 despite the International Energy Agency approval of its largest-ever release of emergency reserves worth 400m of barrels. The US dollar rose 0.4% against peers pointing to tightening financial conditions. And a relatively tame CPI release from before the outbreak of the conflict failed to boost equity sentiment. US core inflation slowed from a month earlier rising 0.2% as expected in February. Money markets became more pessimistic about the opportunity that the Fed cuts rates this year, with only one move projected into 2026-end. Meanwhile, the potential for Iranian drone attacks in California would only add to uncertainty, exacerbating bearish market conditions. The FBI issued a warning that Iran could consider launching drones against the West coast.

Markets this morning

US equity futures and Asian stocks declined in the morning session under further threats to energy assets in the Middle East. Brent crude jumped higher to trade above USD100/bbl after an attack on two tankers on Iraqi waters. Iraq stopped operations at its oil ports. Separately, in Bahrain Iran targeted fuel tanks, while Oman as a precautionary measure evacuated all its vessels from its key oil export terminal at Mina al Fahal. Increasing disruption reinforced the view of compromised security of flows and transportation-cost shocks adding to the energy supply shocks. Contracts for the S&P 500 were down 1.1%, while Asian shares fell 1.6%. The US dollar traded close to new highs for the month and gold slipped almost 0.5%. Meanwhile, mounting strain in private credit weighed on sentiment as Morgan Stanley capped redemptions from one of its private credit funds. That added to a wave of redemptions in the industry on concerns about loan quality.

Upcoming key events/data

The highlight for the day will be US housing starts and trade data. Tomorrow there will be data packed with focus on PCE inflation, the GDP release, the University of Michigan Consumer Sentiment, and durable goods orders.

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