

CIO Office Morning Notes

16 March 2026

All major asset classes were negative last week: the war is a threat to both growth and inflation, as Brent price rose +11% after +28% the previous week. Returns were also affected by a +1.4% strengthening of the dollar against trade-weighted counterparts. Expressed in US currency, global stocks lost -2% across developed and emerging regions. The fixed income asset class was hit by an average +13bps increase in US Treasury yields across the curve, as well as by spread widening. Gold, down -3%, or silver, down -5%, were no shelter in a combination of risk aversion with tightening financial conditions. There was nowhere to hide within traditional asset classes, but bitcoin gained +4%.

It's obviously all about the war: the Strait of Hormuz is factually closed, and non-military targets are hit by all sides. It's a threat to both growth and inflation, at a time when the latest economic data already showed a disappointment on the US economy, which grew by only +0.7% annualized in the 4th quarter of 2025, without any positive surprise on inflation as the core PCE stayed at +2.7% and as both CPI measures for Feb were also stable. In essence, even before the war, the US labor market was soft, leading indicators were decelerating, and disinflation had stalled. Fed funds futures now barely price in one 25 basis points cut at the end of 2026.

Our Tactical Asset Allocation committee held last Tuesday decided to trim down risk in our multi-asset strategies. We cut both gold and emerging market stocks from overweight to neutral, keeping the proceeds in cash. We are now overweight cash by 3 percentage points (to 8% in a moderate profile), underweight in stocks and hedge funds, and neutral on fixed income where we also materially reduced our overweight on emerging debt to replenish more defensive segments, still with caution on duration.

We keep on thinking that the intense pressure from markets, economic risks and electoral consequences on the US administration supports the scenario of a short conflict. There are two ways. The first would be to declare victory and leave: the objectives of the attacks have never been very clear anyway. The issue is that while it is easy to unilaterally start a war, it's more difficult to end it alone, with an enemy and an ally who may not align. The second option is much more sinister and riskier: a dramatic escalation in the level of violence to speed up victory. We lean towards the first one but reckon that the situation is fluid and extremely dangerous with intense kinetic action that can drift anytime. As scary as it may be, it's good to keep in mind that more pressure may also paradoxically be good news, moving closer to an end. To illustrate, after extremely aggressive declarations, President Trump said that the US was talking with Iran. He also called for global assistance to keep the strait of Hormuz open, which would be unrealistic, if not outrageous, in the context of continued military escalation.

In any case, we reiterate that markets are as unpredictable as ever on the short-term and radically advise against any short-term speculation, especially with constraints such as leverage or negative gamma exposure over days or weeks rather than months or years. Our positioning corresponds to our 60/40 probability for a short conflict but only in the context of explicit investment horizons of at least 3 years for a cautious, 5 for the moderate and 7 for the adventurous. On short horizons, with cash yields comfortably above 3% in dollars, one can live without risk assets for now.

Markets this morning:

It's good to note that there is only limited anxiety in Asia as we write this morning. Brent crude oil is up +1.1% to \$104, but the dollar is stable and US Treasury yields are even shedding a basis point or two in Tokyo trading. Stocks are down around -1% in Tokyo but flat in Korea and up +0.5% in Hong-Kong, the latter being helped by a good set of numbers: retail sales and industrial production for February were both better than forecast, at respectively +2.8% and +6.3%. China may have a less aggressive growth target for 2026 but their 5-year plan looks once again solid and well aligned on crucial topics including technology as well as energy and food security. Gold is marginally down just above \$5,000 and bitcoin gains +3% to \$73,800.

Upcoming key events/data:

The week ahead will see policy meetings from no less than seven central banks, including the Fed, the ECB, the Bank of Japan and the Bank of England. In a very peculiar context of war uncertainty, we expect more communication than action. We will also get some interesting economic data but the focus is obviously on geopolitics.

Keep safe and have a great week.

Chief Investment Office
Wealth Management, Emirates NBD

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