

Hopefully approaching peak pessimism

- Markets continue to suffer in the absence of clear de-escalation indications
- Major central banks highlighted uncertainty last week, letting markets anticipate the possibility of rate hikes
- Our positioning remains slightly defensive with no visibility on the short-term though no reason to panic



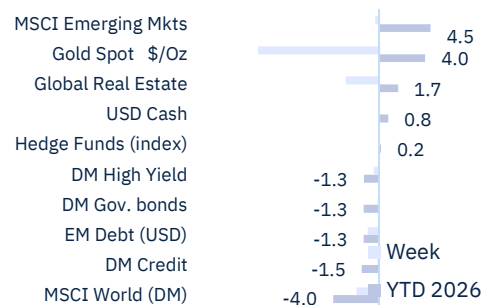
Geopolitics are of course the single most important driver for markets now, and unfortunately, we have no visibility on the short-term.

Last week was logically negative for all major asset classes. Gold was the worst performer, down an impressive -10%, for the same two reasons that we highlighted when we reduced exposure 10 days ago. First, it is widely owned and subject to profit taking. Second, it suffers from the tightening of financial conditions with a stronger dollar and rising US Treasury yields. Last week was no exception on that front, taking a toll on fixed income markets, while global stocks were logically under pressure from the current uncertainty. There were nowhere to hide, except for cash. With regards to monetary policy, the fog of war extended to central banks. None of the major ones who held their policy meetings last week took any decision on interest rates, but all highlighted maximum uncertainty with an already material risk on inflation, and threats on activity. They are not in an easy situation, and future markets started to price in the possibility of rate hikes, from Europe, the UK and Japan to the US, in 2026.

As we repeatedly said, the short-term is absolutely untradable with zero visibility on geopolitical developments. Having said that, we continue to believe that all parties have all reasons to find an exit to the current situation. It may get worse before it gets better, or we may already be close to peak pressure. Time will tell.

Time is the most important factor for your portfolios. Our three profiles are built on respectively 3,5- and 7-years horizons, on which they minimize the risk of capital loss while aiming at the best possible expected return under this capital preservation objective. Our current tactical positioning is defensive with an overweight in cash, underweight in equities, neutral on fixed income and gold.

Asset Classes USD % total. Return, week and YTD 2026



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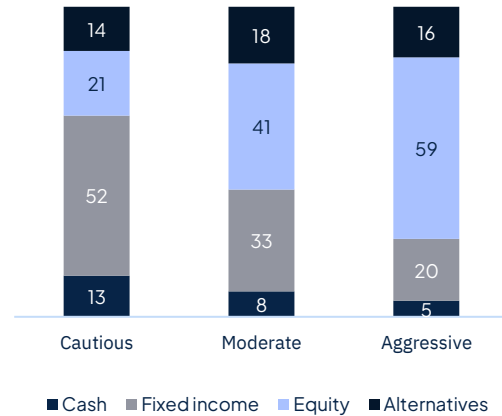
Cross-asset Update

Despite the war drawing out into its 24th day, we are still in an escalation phase. The Washington Administration is seeking an off-ramp that is currently hard to find, mostly evident from President Trump's latest declarations. While he mentioned on Friday that he is considering "winding down" military efforts, during the weekend he gave a 48 hours ultimatum for the Strait of Hormuz to be reopened. Markets last week had to digest this and more: from increasing stagflationary concerns exacerbated by longer-lasting tensions, to energy supply disruptions, to hawkish-leaning central banks. Unfortunately, we must reiterate that lacking any de-escalation, market volatility can only increase. Investor concerns about economic growth are now filtering through to asset class performance. Materials have recently started to underperform despite the ongoing AI and arms race, while emerging market stocks are trailing behind DM peers since late February despite favorable valuations and a constructive secular backdrop. Inflation expectations are still well-behaved at the longer time horizons, that is a relevant piece of information that will be affecting Fed policy decisions. It is also extraordinary that the oil curve is not discounting permanent energy supply disruption in spite of potential risks. Markets will have to come to terms with a stagflationary outlook, irrespective of when the current state of affairs finds a resolution. We were rather surprised by the hawkish language of some central banks, in particular the ECB and the BOE, given the limited effectiveness of monetary policy in the case of supply shocks. We do not think that the Fed would be failing to cut rates in a midterm election year in the midst of an energy crisis that already is tightening financial conditions very significantly.

Gold has underperformed since the start of military operations against broadly held expectations of new all-time highs. There is a straightforward explanation to this: the yellow metal historically has moved in line with global money supply, with excessive monetary expansion pointing to currency debasement and gold outperformance. The opposite is also true: tighter financial conditions have worked against gold irrespective of the geopolitical backdrop, as it is currently the case. Indeed, a confirmation of this is renewed dollar strength, with the world currency doing well against the backdrop of increased tightening.

We reiterate that for a full market recovery we should see an end to the ongoing tensions, as well as central bank easing. None is in sight so far, so investors should still wield patience. We reiterate that, until that time, dollar-centric assets will tend to outperform.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt			>
DM Equity	<		
EM Equity		=	
Gold		=	
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

The Federal Reserve kept its benchmark interest rate unchanged at 3.5% to 3.75% for a second consecutive meeting, with only Governor Stephen Miran dissenting in favour of a 25 bps cut. The outlook remains for a single rate cut in both 2026 and 2027, as previously projected. The end-2026 federal funds rate forecast stayed at 3.4%, while the longer-run estimate edged up to 3.1%. Fewer policymakers now expect multiple cuts in 2026. GDP growth expectations were slightly increased to 2.4% for 2026, with unemployment steady at 4.4%. The Fed raised its 2026 core PCE inflation projection to 2.7%.

Chair Powell reiterated that future rate reductions depend on sustained progress in lowering inflation. Long-end inflation expectation such as 5y5y swaps haven't moved up significantly. Market has priced in hikes now instead of any cuts. The hikes feel a bit overstretched at the moment, since Fed ideally should not tighten when there are supply side shocks. This leads us to believe that this may be the time to extend duration on developed market government debt. We won't be surprised to find US 10-year Treasury yields temporarily hover above 4.5%.

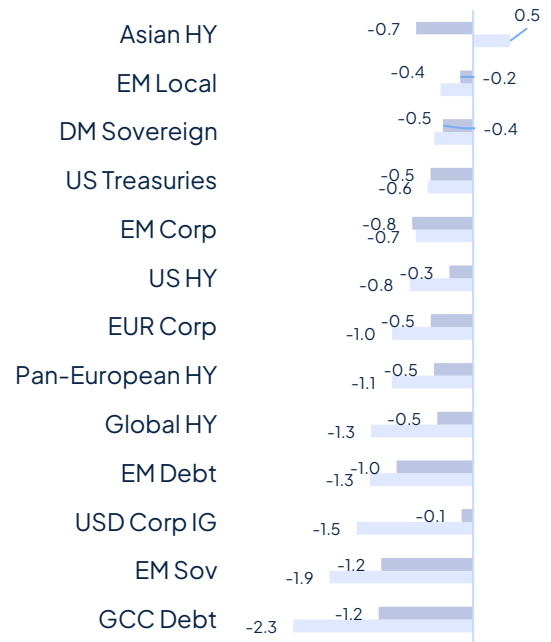
Credit spreads have started reacting the current situation even though the impact is still concentrated on the weaker part of the credit spectrum. IG spreads have widened by 8 bps since the start of this year with \$ IG credit returning -1.2%. High Yield spreads in contrast have widened by 40 bps and \$ HY has returned -0.8%. EM Debt has suffered because of its longer duration returning -1.3% even though spreads have been more stable.

On MTD basis, credit spreads have widened across the region, with Bahrain being the most affected. Bahrain spreads have widened by approximately 110-190 bps MTD (and 50-70 bps on a weekly basis). Oman, Abu Dhabi, and Qatar have seen spread widening in the range of 20-25 bps, while Kuwait and Qatar have experienced relatively moderate widening of 10-15 bps. Within our coverage, real estate, Bahrain, and long-duration bonds remains the worst-performing segments. Long-duration government bonds have seen spreads widen by around 20 bps and along with rise in yields, have generated negative returns of 5-8%. Omnyat has been the most impacted, followed by Sobha and Arada. Additionally, Fitch Ratings has placed Omnyat Holdings Ltd.'s rating on Rating Watch Negative.

Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US\$ TR, week, YTD 2026)



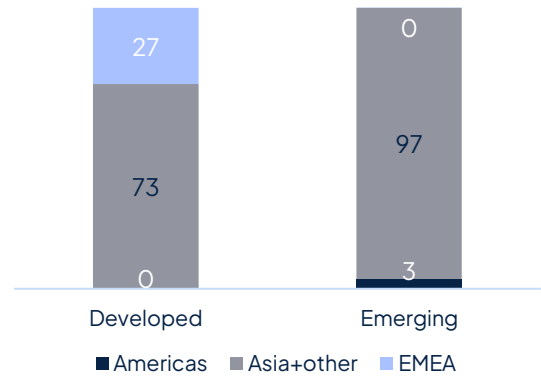
Equity Update

Markets extended their decline for a fourth consecutive week as developments in the Middle East moved further into a prolonged phase, forcing a continued repricing of risk across global equities. The MSCI ACWI fell 1.8% during the week, taking total losses since the start of the war to roughly 7–8%, with developed markets down 2.0% while emerging markets held up better, declining just 0.3%. That relative resilience in emerging markets was not broad-based but driven almost entirely by strength in semiconductor-heavy indices, with Taiwan up 3% and Korea rising around 8% as AI-related demand continues to anchor positioning in select parts of the technology supply chain. In the US, the S&P 500 declined 1.9%, marking its fourth straight weekly loss and leaving the index at six-month lows, with a clear pattern now emerging where early-week optimism driven by temporary declines in oil prices gives way to renewed selling as the conflict escalates and energy infrastructure disruptions re-enter focus. As policy expectations shifted, equity outflows accelerated and the selloff broadened, with materials, utilities and consumer staples among the worst-performing sectors, while energy remained the only consistent outperformer, rising roughly 2–3% during the week.

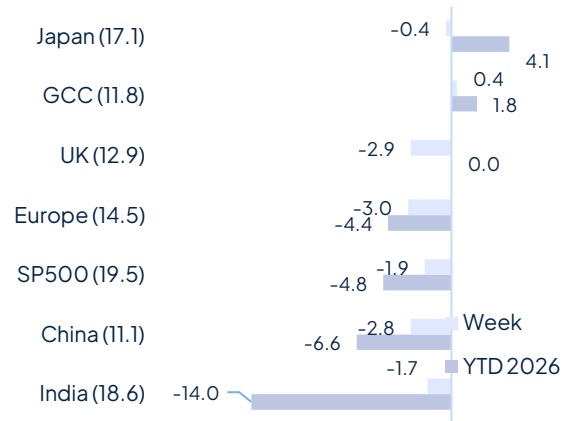
Europe experienced a more pronounced adjustment, with the MSCI Europe index falling 3.9% and extending its decline into a third consecutive week, as the region continues to face the most direct exposure to both higher energy prices and rising yields. Several major indices have now entered correction territory, down more than 10% from recent peaks, with the move driven not just by oil but by a sharp repricing in bond markets, where yields have surged to levels last seen around the global financial crisis. This combination is particularly challenging for Europe because it simultaneously pressures corporate margins through higher input costs while tightening financial conditions, leaving little room for policy support. In Asia, the transmission has been more visible through supply chains and energy dependency. Japan declined modestly on the week, but the underlying trend remains weak, with equities now in a multi-week losing streak as rising oil prices feed into cost pressures for manufacturers and exporters, while the Bank of Japan's decision to hold rates has done little to offset concerns around a potential shift toward tightening if inflation accelerates

China continues to trade differently within this environment, though the divergence is becoming more nuanced. This is increasingly being linked to the country's lower dependence on Middle Eastern energy, substantial strategic reserves, and a much higher share of renewable energy within its consumption mix, which reduces the direct impact of higher oil prices on growth and inflation. The MSCI China index declined 2.8% over the week, with weakness concentrated in offshore markets where large internet names such as Alibaba and Tencent came under pressure following earnings disappointments and increased AI-related capital spending, which is weighing on near-term profitability. Within the GCC, markets moved higher during the week, a technical rebound, with Dubai gaining 2.9% and Abu Dhabi rising 1.6%. What has become clearer over the past two weeks is that markets are no longer reacting purely to headlines but are increasingly pricing the second-order effects of the conflict, with higher energy prices feeding into inflation, policy expectations, and earnings risk simultaneously, leaving equities without a clear stabilizing anchor for now.

Equity Recommended Regional Positioning

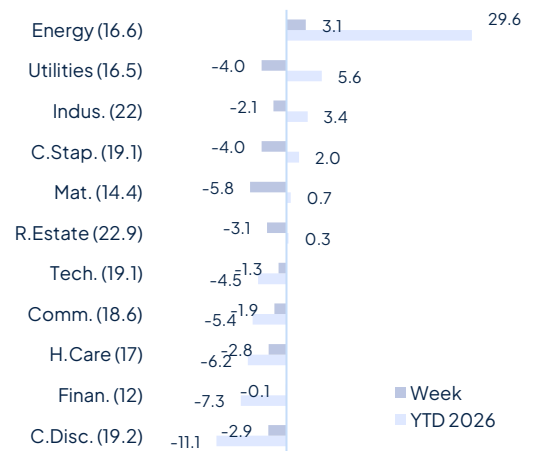


Major Indices Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US\$.

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