MARKET INSIGHT

May 2026

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Faced with limited economic and political visibility, we are largely holding our positions

Investors remain focused on energy prices, particularly crude oil. We are no exception! Our asset allocation has therefore evolved in line with oil prices over the past two months.

As a reminder, the Brent price breaking above the USD 100 threshold during the first half of March led us to adopt a more defensive stance on equity markets and reduce our exposure.

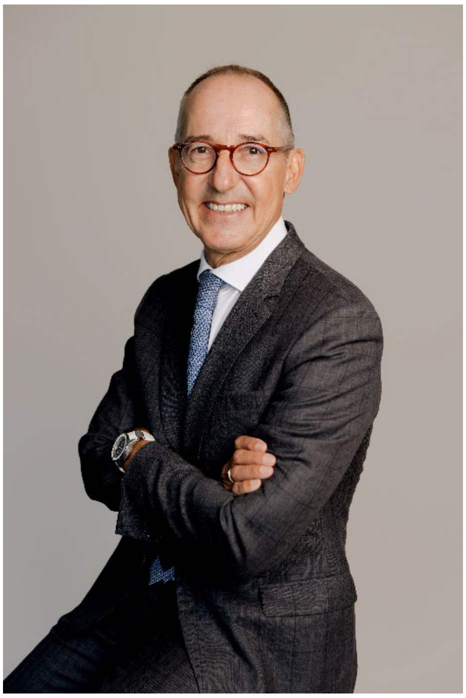
Conversely, the materialization of a ceasefire in the Gulf at the beginning of April, along with the resulting decline in Brent prices, prompted us to make opportunistic purchases (mainly in the commodities segment), without calling into question our cautious bias toward equities.

While remaining highly attentive to daily geopolitical developments, the situation still appears too uncertain to justify revisiting the core orientations of our investment policy adopted at the onset of the conflict.

We continue to place particular emphasis on overall portfolio risk management.

In the face of equity markets whose monthly performance suggests that investors are already treating the geopolitical crisis as "profit and loss," we remain cautious.

Seeing the S&P 500 rise by 10% to reach all-time highs, observing gains of 15% on the Nasdaq, and noting that the "Magnificent Seven" have surged by more than 20% in just a few weeks all raise questions for us.



"The situation remains too uncertain to increase overall portfolio risk."

FRANÇOIS SAVARY, CIO

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Admittedly, the earnings season is delivering very solid results, but both the strength and speed of the market rebound are exceptional, particularly in the United States and even in emerging markets.

In this respect, it should not be overlooked that the recent rally is primarily driven by the renewed strength of technology stocks.

The more optimistic will see this as a revival of strategies focused on earnings growth visibility over cyclicality, in a context where doubts surrounding the structural theme of artificial intelligence are fading. The clear outperformance of US stocks compared to their European counterparts supports this view.

The more pessimistic will point out that the highly concentrated nature of the rally is its greatest weakness and should discourage investors from giving in to the prevailing "euphoria."

At the time of writing, major technology companies have yet to release their results and provide updates on their medium-term investment plans.

The coming weeks will be a key test for the renewed momentum of the AI theme and, more broadly, for the sustainability of the equity rally.

One thing is certain: medium-term economic visibility has not improved in recent weeks. After briefly retreating toward USD 90, Brent crude is once again flirting with USD 110.

In this context, while we continue to give some probability to a soft landing scenario—which remains our base case—we still assign significant probability (55%) to less favorable economic developments.

"Economic visibility has not improved in recent weeks, as illustrated by European PMI indices."

The question of stagflation continues to concern us, especially as recent inflation data already point to renewed price pressures.

As a result, visibility regarding future monetary policy decisions by major central banks remains limited.

The ECB, whose mandate is exclusively focused on controlling inflation, finds itself in a particularly delicate situation. However, we remain inclined to believe that it is unlikely to raise rates before summer at the earliest, giving time for greater clarity on the geopolitical front.

The recent decline in certain leading indicators in Europe (PMIs) and the deterioration of global economic surprise indices are also noteworthy. The seeds of a stagflationary drift are clearly present.

While we still believe that the conflict cannot last beyond a few additional weeks due to economic and political constraints, it should not be overlooked that the Strait of Hormuz remains, for now, largely under a tight blockade.

This prevents us from reconsidering our cautious view on the global economic outlook.

Moreover, sovereign bond markets are far from having returned to their pre-crisis yield levels.

This is an indication that investors remain driven by inflation concerns, which could weigh on equity valuations (P/E ratios) unless yields ease more significantly in the coming weeks.

It is also worth noting the improved performance of gold in April (+3%) after two difficult months. Renewed inflation concerns have contributed to this. The weaker performance of the US dollar, which appears to have "lost" its safe-haven status, has also supported gold prices.

In this context, announcements of potential USD swap lines by the US Treasury in favor of certain Gulf states should not be taken lightly.

They highlight potential difficulties within some regional banking systems, but may also indicate that the US Treasury fears that major Middle Eastern institutional investors could sell USD-denominated assets.

While such a scenario would be negative for the US dollar, it could also destabilize global financial markets.

In the short term, the issue of USD liquidity needs for Gulf countries should remain on investors' radar as long as the Strait of Hormuz remains closed.

Over the longer term, the cost of rebuilding damage caused by the regional conflict will remain a "sword of Damocles" for the US dollar.

Indeed, no one knows the amounts involved, while foreign investment flows to the region have significantly (and perhaps permanently) declined. Are Gulf institutional investors, under any circumstances, forced to divest some USD assets? This is a question we keep in mind, especially as the US administration does not appear inclined to rein in its budget deficit.

As you will have understood, our positive view on gold and our continued caution on the US dollar remain unchanged from last month.

In this regard, the likely appointment of K. Warsh as head of the Federal Reserve—made possible by the conclusion of the investigation into J. Powell—adds further support to our bearish stance on the dollar. We maintain our scenario of further depreciation of the greenback toward 1.20–1.22 against the euro over a 6–9 month horizon.

Similarly, we remain cautious on sovereign debt within our bond allocation. While we slightly increased our exposure to fixed-income assets in April, we favored the credit segment, while remaining mindful not to extend portfolio duration excessively.

We took advantage of widening spreads to accumulate securities or funds heavily invested in this segment, in an opportunistic manner.

In addition, we have not altered our preference for emerging market debt. After a difficult period following the early weeks of the Iranian conflict, these assets have recently rebounded, a trend that should be supported by our US dollar scenario over the medium term.

In conclusion, last month we ended this publication with the following words:
"Economic and financial conditions have been reshuffled. However, claiming to clearly identify the magnitude of the movement is excessive. We must wait for greater clarity. That is our choice."

This call to remain level-headed, at a time when markets were still correcting, still seems appropriate now that "euphoria" appears to have returned, particularly in equity markets.

We remain convinced that beyond certain opportunistic adjustments, the lack of economic and financial visibility should discourage investors from giving in to impulsive buying. The environment does not appear conducive to "buy the dip" strategies.

Without a concrete return to normality in the Strait of Hormuz, increasing portfolio risk does not seem justified.

From the outset of the conflict, we have adhered to the hypothesis of a relatively swift resolution (within a few months). This scenario cannot yet be ruled out.

A negotiated solution by the end of May would pave the way for a gradual return to normality for the global economy, in line with our central soft-landing scenario.

Beyond that timeframe, the situation could take a less favorable turn, not only for the economic outlook but also for financial markets. Therefore, it seems appropriate to favor patience over significant allocation shifts within a diversified portfolio.

Geneva, April 28, 2026

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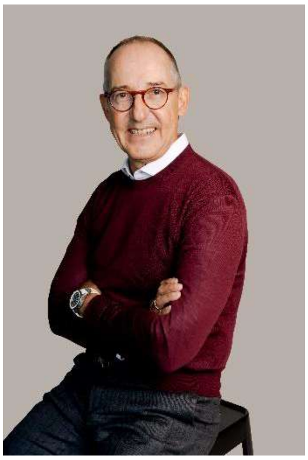

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