

### KEY ECONOMIC DATA

- The US S&P Global Composite PMI slipped to 51.4 in March from 51.9 in February, signalling a modest cooling in private-sector activity while remaining in expansionary territory.
- The Conference Board Consumer Confidence Index edged up by 0.8 points in March to 91.8, from 91.0 in February.
- The US Federal Reserve's 12-member policy committee voted 11–1 to leave the federal funds rate unchanged.
- The US 5-year breakeven inflation rate has risen by 26 bps since the conflict began, reaching its highest level since February 2025 and its second-highest level since March 2023.
- Euro area annual inflation increased to 2.5% in March, from 1.9% in February, coming in just below market expectations of 2.6%.
- The yield on Germany's 10-year government bond climbed to 3.04%, its highest level since 2011.
- Industrial production in China rose 6.3% year-on-year, the strongest pace since September, while manufacturing output increased by 6.6%.
- As of February, Switzerland's annual inflation rate stands at 0.1%, indicating that the cost of living has increased by 0.1% year-on-year.
- UK gross domestic product grew by 0.1% in the fourth quarter (October to December), according to the Office for National Statistics.

“The situation is very severe ... the largest supply disruption in the history of oil market.”

**63.3%**  
PERFORMANCE  
OF BRENT CRUDE OIL

### INVESTMENT PERSPECTIVE

The U.S. strike on Iran on 28 February triggered the current conflict, but markets initially treated it as a temporary shock. Five weeks into the Gulf war, the effective closure of the Strait of Hormuz and missile and drone activity around key shipping lanes have turned this into a live chokepoint disruption, with Brent up more than 50% in March, gasoline prices rising even more, and war-risk premia and freight rates sharply higher.

Yet this energy shock is still landing on a very different macro backdrop from the late 1970s: euro area inflation is projected to drift slightly below 2% in 2026-27 while growth hovers around 1.25%, and China is trying to pull itself out of a low-inflation, borderline-deflation environment with growth in the 4.25–5.0% range.

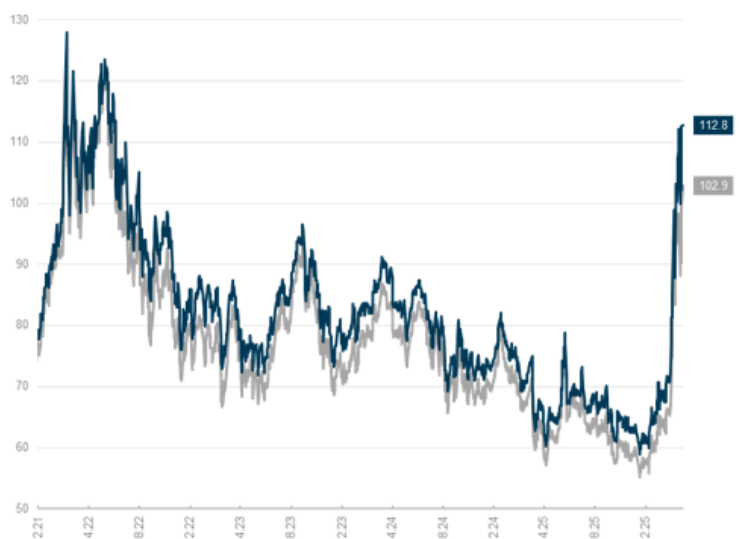
That combination argues more for a volatility shock and a redistribution of income between energy consumers and producers than for a repeat of the second oil shock's entrenched stagflation, even though stagflation risk has clearly moved back onto the table as growth expectations are revised down and inflation risks are pushed higher.

A prolonged disruption to flows through the Strait of Hormuz – where traffic has already been intermittently halted and partially diverted to alternative routes – or successful attacks on large Gulf production and export facilities would turn the current risk-premium-and-logistics episode into a genuine supply shock, with far larger and more persistent implications for European inflation and global growth.

Near-term market direction will hinge on the credibility of negotiations and the risk of further escalation targeting Gulf energy infrastructure, as well as the possibility that the conflict broadens via Houthi threats to traffic through the Bab el-Mandeb Strait and the Red Sea, a critical alternative route for regional energy shipments.

For now, major central banks, including the ECB, can still frame this as a relative-price shock in an otherwise disinflationary world, but the surge in energy prices is forcing a repricing of monetary-policy expectations from rapid cuts towards “higher for longer”, particularly at the front end of curves, which argues for caution and data-dependence rather than a wholesale hawkish pivot.

Crude Oil (WTI – Brent)



### INVESTMENT STRATEGY

The key systemic risk is a sustained disruption of the Strait of Hormuz; March's shutdowns and insurer withdrawals showed how quickly shipping can seize up, and months-long constraints - especially alongside renewed Red Sea disruptions - would warrant a far larger and more persistent spike in prices and volatility than markets currently discount.

In this binary energy shock, diversification is scarce - even gold has underwhelmed - but positioning has normalised and sentiment indicators are close to extreme pessimism, levels that have historically been powerful buy signals rather than points of capitulation.

Markets have sharply repriced the expected policy path for major central banks, shifting from imminent, front-loaded cuts toward a more cautious "higher for longer" stance as the Gulf energy shock lifts inflation risks.

The Fed, ECB and BoE are now priced for fewer cuts over the next 12–18 months and a non-trivial risk of renewed hikes, with the adjustment concentrated at the front end of yield curves as policy-sensitive maturities sell off while longer-dated yields move up more moderately.

In the near term, front-end yields may stay elevated or rise further as markets price "higher for longer" and potential second-round inflation effects, while long-dated yields are pulled between higher risk premia and weakening growth. In this context, a pragmatic strategy is to keep over all duration moderately underweight.

**“The Fear and Greed Index stand at 15, reflecting Extreme Fear in investor sentiment.”**

### PORTFOLIO ACTIVITY

Equity markets have so far held up better than feared despite the effective closure of the Strait of Hormuz, with the MSCI All Country Index down 7.2% in U.S. dollar terms and 4.9% in euro terms in March, leaving year-to-date performance at -3.2% and -1.3%, respectively.

Last week was the weakest for the Nasdaq since Liberation Day, with the index down 3.2%. The Nasdaq has now declined for five consecutive weeks and eight of the last nine, pushing the Nasdaq 100 into correction territory, more than 10% below recent highs.

Global government bond yields have moved higher, especially in the UK and the euro area, while credit spreads have widened only modestly but are trending less constructively.

At the same time, Brent crude oil up 63.3% in March and more than 94.5% year to date, while gasoline has risen 59.4% in March and 94.2% year to date.

Our positioning had already been made more defensive before the Iran conflict through reductions in both credit and equity exposure and higher allocations to alternative strategies, particularly in Europe, moving the stance to neutral.

Portfolios remain underweight rates, and credit beta has been cut by exiting financial and corporate hybrids in favour of more flexible credit long/short strategies, which are better suited to navigate a more volatile macro and market environment shaped by both a binary energy shock and a repricing of private credit liquidity.

	31/12/2024	31/12/2025	31/03/2026	Month-to-Date	Year-to-Date
<b>Yields (%)</b>				<b>Δ In basis points</b>	<b>Δ In basis points</b>
US 3-Month	4.31	3.63	3.67	2	5
German 3-Month	2.49	1.99	2.13	23	14
US 2-Year	4.24	3.47	3.79	42	32
German 2-Year	2.08	2.12	2.61	62	49
US 10-Year	4.57	4.17	4.32	38	15
German 10- Year	2.36	2.85	3.00	36	15
<b>Currencies</b>				<b>Δ In %</b>	<b>Δ In %</b>
EUR/USD	1.0354	1.1746	1.1553	(2.2)	(1.6)
USD/CHF	0.9074	0.7926	0.7995	3.9	0.9
EUR/CHF	0.9401	0.9307	0.9237	1.7	(0.8)
GBP/USD	1.2516	1.3475	1.3227	(1.9)	(1.8)
<b>Commodities</b>				<b>Δ In %</b>	<b>Δ In %</b>
Oil (WTI)	\$71.7	\$57.4	\$101.4	51.3	76.6
Copper	\$402.7	\$568.2	\$561.4	(6.5)	(1.2)
Gold	\$2,625	\$4,319	\$4668	(11.6)	8.1

Source: Bloomberg Finance L.P

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