

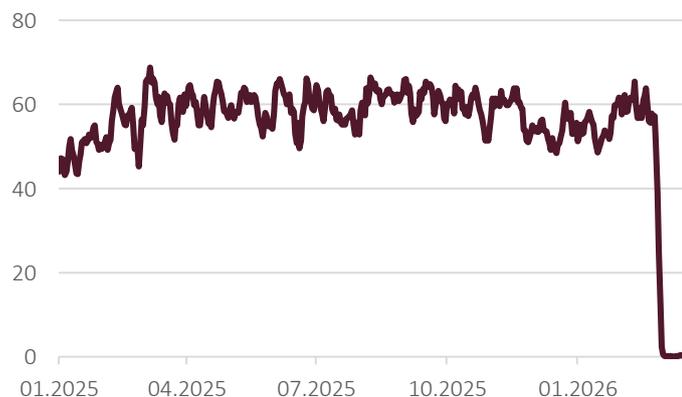
Financial Markets 2026: Economic Recovery Abruptly Interrupted

Iran conflict rattles energy markets

The year 2026 began on a promising note for financial markets. Early benefits from Germany's landmark investment initiative, robust order books across European industry and the prospect of further rate cuts in the United States fuelled hopes for a long-awaited economic recovery. Equities rallied, cyclical stocks were back in favour and investor sentiment improved markedly.

The military strikes against Iran launched on 28 February and the subsequent closure of the Strait of Hormuz, through which approximately 20% of global oil consumption is transported, have abruptly dampened the optimism. Beyond the sharp rise in oil prices, significantly higher natural gas prices and rising costs for oil- and gas-derived products such as fertilisers are adding to the burden.

Graph 1: Daily tanker transits through the Strait of Hormuz



Source: Bloomberg, Belvalor; number of daily transits, bidirectional, 01.01.2025 - 20.03.2026

The repercussions are immediately visible: **inflation expectations are rising and hopes for further rate cuts have evaporated.** Central banks around the world held their policy rates unchanged in March – among them the US Federal Reserve, the European Central Bank, the Bank of England and the Swiss National Bank.

Rising inflation expectations present central banks with a dilemma: rate hikes to combat inflation could stifle the economic recovery that had been taking shape until recently. In equity markets, the uncertainty is driving heightened volatility and a pronounced rotation into equities of energy companies.

Equity valuations are near their average

The recent correction has reduced equity valuations, yet a historically attractive entry point to meaningfully increase equity allocations has not yet materialised – even though such market dislocations have historically always proven to be good buying opportunities. European and Swiss equities have seen their valuation cushion erode following last year's strong rally, while the US equity market had already been richly valued for some time. Moreover, higher energy prices could weigh on earnings expectations for the coming quarters, creating additional headwinds for equity markets.

Graph 2: Price-to-earnings ratio of the Swiss equity market



Source: Bloomberg, Belvalor; monthly basis; earnings: consensus estimates for the next 12 months, Swiss Performance Index (SPI), 01.01.2018 - 19.03.2026

Conclusion and positioning

The energy price shock and the geopolitical escalation have abruptly interrupted the recovery momentum. The prospect of lower interest rates has faded for now, while downside risks to the economy continue to mount. Nevertheless, we view the cyclical recovery as postponed, not cancelled. Should the conflict de-escalate or be resolved, we expect lower interest rates and a more accommodative monetary policy, which would provide a positive tailwind for equity markets. Our thoughts on this can be found on the next page.

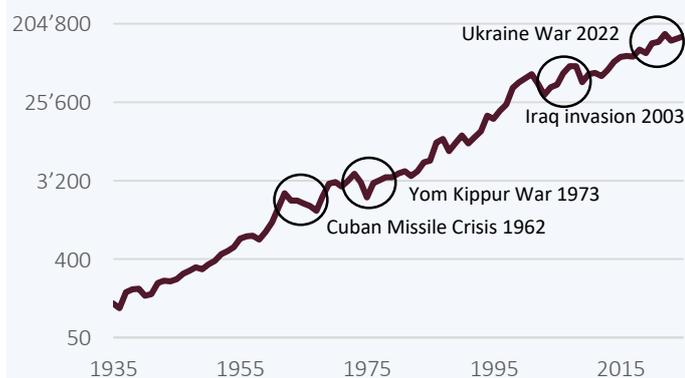
We remain invested in equities and the Swiss franc remains our preferred currency. As noted, we are holding back on larger equity purchases for now. However, we are selectively taking advantage of opportunities on a gradual basis, particularly in quality names that have been unduly punished. In our view, the Swiss equity market remains attractively positioned.

Geopolitical Shocks and Their Impact on Financial Markets

The escalation in the Middle East has left clear marks on equity markets. Most equity indices have lost around 10% from their recent highs, with cyclically oriented indices faring worse. **The unease among investors is palpable, understandable, and may well persist for some time.** A look at history helps to put the current situation in perspective.

From the Cuban Missile Crisis of 1962 to the Yom Kippur War in 1973, the Iraq invasion of 2003 and the Russian invasion of Ukraine in 2022, markets have invariably responded to the outbreak of armed conflicts with sharp declines. Just as consistently, they recovered within a matter of months. **Experience shows that the point of maximum uncertainty often coincides with the lowest prices.** Over the long term, equity returns are not driven by geopolitics but by corporate earnings, productivity growth and innovation. **Those who sold during periods of acute uncertainty typically locked in losses and missed the subsequent recovery.**

Graph 3: Long-term performance of the Swiss equity market



Source: Belvalor, Pictet Asset Management; long-term development of the Swiss equity market, indexed (01.01.1935 = 100), logarithmic scale

The surge in energy prices against a backdrop of weakening economic momentum evokes memories of the stagflation of the 1970s. The parallels are striking, yet today's starting point is fundamentally different. The United States is now the world's largest oil producer, the global energy mix has diversified considerably and the strategic petroleum reserves of industrialised nations stand at their highest level since 2021, according to the International Energy Agency.

That said, the risks should not be underestimated. Rising energy costs feed through to the entire value chain via higher transport, fertiliser and production costs. In Europe, the inflationary pressure is particularly acute. Central banks once again face a dilemma: raising rates risks

tipping the economy into recession and jeopardising the sustainability of the enormous debt burden. Leaving rates unchanged risks an unanchoring of inflation expectations.

Graph 4: Oil price development over the past 10 years



Source: Bloomberg, Belvalor; ICE Brent Crude, USD per barrel, 20.03.2016 - 20.03.2026

Conclusion and positioning

We consider a stagflationary environment on the scale of the 1970s to be unlikely. The decisive factor will be the duration of the conflict, and particularly the disruption to international energy supply chains. Should energy prices normalise in the second half of the year, which reflects our current expectations, the inflationary impulse is likely to prove temporary. **Following a resolution of the conflict, we expect lower interest rates and accommodative monetary policy, which would be supportive for equity markets.**

In periods of heightened uncertainty, activism in financial markets is rarely productive. **Hasty portfolio reshuffles typically produce suboptimal outcomes, as both the exit and re-entry points are nearly impossible to time reliably.** Rather, the priority should be to adhere to the long-term asset allocation and to use opportunities to reinforce existing convictions.

This environment continues to favour real assets with inflation-hedging characteristics, equities in particular. Gold reaffirms its role as a hedge against inflationary risks. As the temporary strength of the US dollar fades, the precious metal is likely to resume its upward trend. We remain sceptical towards long-dated bonds.