

Vontobel

Investors' Outlook

On tenterhooks



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On tenterhooks



—
Dr. Pascal Köppel
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Dear readers,

Investor attention has shifted to the escalated conflict in the Middle East. Immediate questions include how far it could escalate, what it could mean for energy supply and inflation, and whether the Strait of Hormuz becomes a longer-term point of disruption.

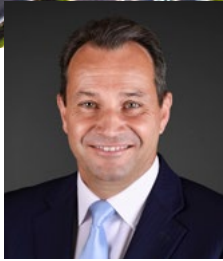
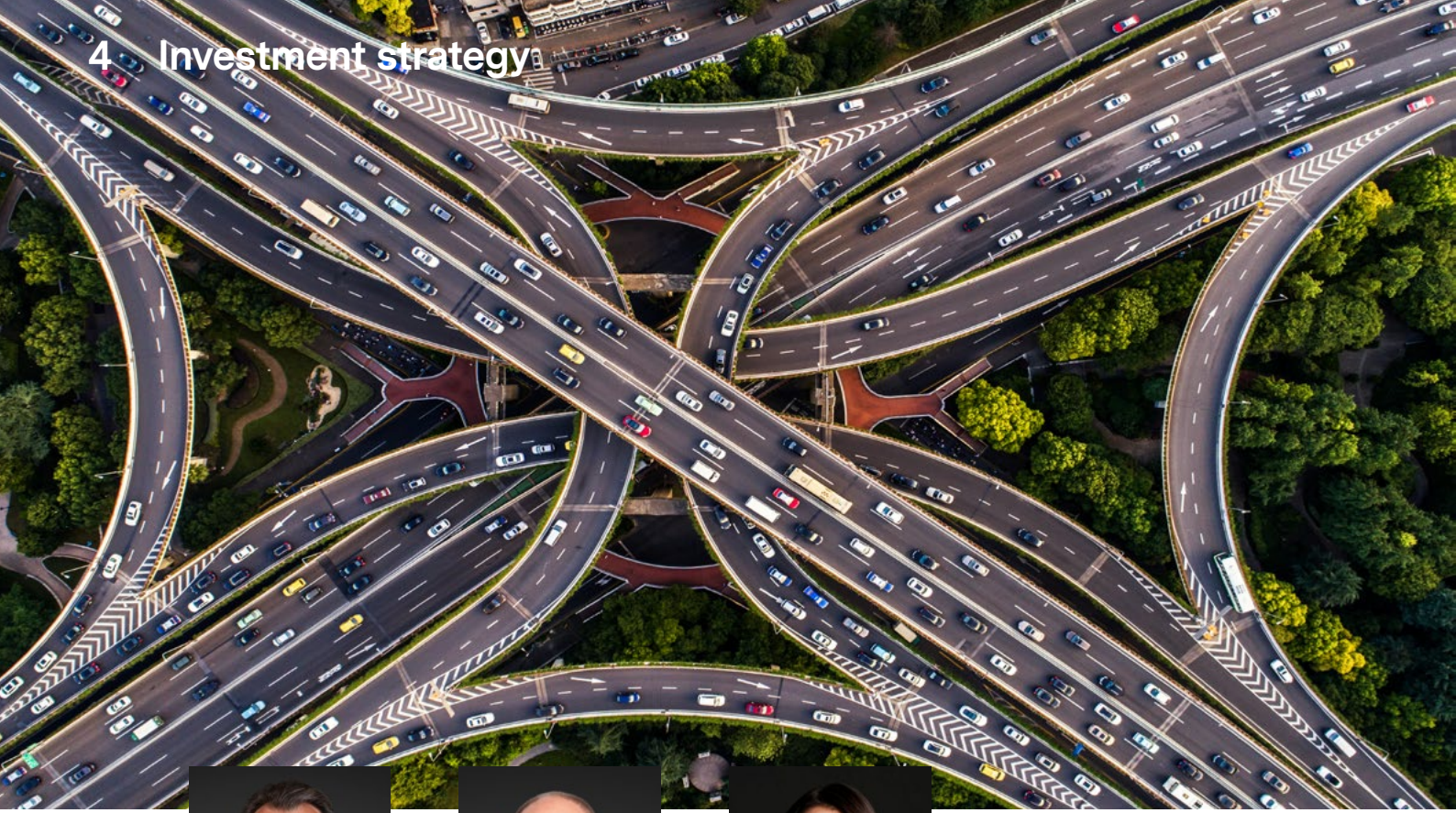
If the Strait of Hormuz reopens, the outlook for decent global economic growth and corporate profits can be maintained. If not, and if energy prices rise and remain higher for longer, we could see a slowdown in growth. With so many unknowns, markets are holding their breath. In the near term, a repricing shock is possible as investor expectations adjust from rate cuts to rate hikes as central banks weigh the war's impact on inflation. In general, we have seen significant repositioning across asset classes, which can also provide new opportunities.

We currently believe there will be sufficient de-escalation for the Strait of Hormuz to reopen, even if the conflict is not resolved. While we are still maintaining a positive macroeconomic outlook, the current situation highlights a set of emerging risks to that base case. We also see many companies emphasizing their minimal direct exposure to the Middle East, but find that misses the point. The global economy is interconnected and one clear example is energy: oil and gas. Even without direct exposure to the region, there is still indirect exposure through the energy markets. On top of that, an economic crisis in the Gulf may not necessarily impact global growth but it could negatively affect capital markets.

Private credit has the potential to become a risk for markets, too. The funds offering private credit often lend to software and technology-linked companies (business models at potential risk of AI disruption) through illiquid, privately negotiated loans whose valuations are less transparent than public debt, which makes it harder to assess true credit quality. What tends to unhinge markets is a sudden withdrawal of liquidity, especially in systems with built-up leverage. Within private credit, there are aspects of debt-on-debt¹ structures that have the potential to trigger a domino effect, where people start experiencing losses because they are heavily invested in private credit and need to sell their assets. That can become the initial pressure point for broader markets and it is not entirely clear whether we have not already seen early signs of this dynamic unfolding.

In our view, this only becomes a potential issue if the Strait of Hormuz remains closed for an extended period. Even then, it is still open to Chinese and Iranian vessels, while being effectively closed from a Western perspective.

¹ Refers to the use of new borrowing to support or refinance existing debt.



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Quo Vadis?

With the war in Iran ongoing, the outlook for the global economy has changed and market volatility has picked up. Positive growth momentum will probably stall temporarily, while higher oil and gas prices risk fanning inflation amid attacks on energy infrastructure and escalating rhetoric between the US and Iran. As such, central banks are likely to delay interest-rate cuts in the near term.

We currently assign the highest probability to a relatively short-lived conflict. Rational factors that support this view include limited US public support for a prolonged, costly war, the fact that a protracted conflict is not in the best interest of regional players such as Saudi Arabia and Qatar, and the broader pressure on major economies like China. Under this scenario, the global economic recovery will more likely bounce back again. But the longer the conflict goes on, the greater the risk of a more meaningful slow-down.

The war also complicates matters for central banks. Many had been easing or pausing rate cuts, but surging energy prices now cloud the path ahead. US Federal Reserve Chair Jerome Powell acknowledged that higher energy costs will push overall inflation higher and that nobody knows the economic impact of the war. The challenge is even more acute for the European Central Bank, considering Europe's energy dependence. Rising oil prices increases economic uncertainty, which supports the case for cuts but also increases inflation risks.

As is often the case with shocks like these, they create significant market moves, with investors reducing positions in risk assets and locking in profits on others (like gold and international equities), and returning to an allocation closer to benchmarks. This may provide opportunities as well.

Find the details of our asset allocation on page 5.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity	→					We are keeping a lower allocation to liquid assets. This reflects our current assessment that fixed income investments may offer a more favorable risk-adjusted return potential than cash in the current environment.
2 Bonds				→		We believe the outlook for high-quality fixed income is constructive, with support offered by current market conditions, including a moderately upward-sloping yield curve and positive real yields. However, we are selective as to where our risk preference lies within the bond universe. We have a preference for quality and longer duration.
3 Equities				→		Despite geopolitical challenges, the underlying global macro environment remains constructive and, in our opinion, an equity allocation with a moderate cyclical tilt is appropriate. Regionally, we prefer Switzerland, the euro area and emerging markets. The latter two typically benefit from improved cyclical conditions, while Swiss companies can capitalize on a better European growth environment. We also maintain a favorable view of the Swiss franc. We are keeping an underweight allocation in the UK, as we continue to see downside risks to the UK economy and British pound.
4 Commodities / Gold			→			Our positive view on gold remains intact. Gold rallied strongly in 2023, 2024 and 2025. This increase has attracted more speculative investors, which has probably contributed to higher volatility. Heightened geopolitical and macroeconomic uncertainties, and ongoing strategic purchases of gold, especially by emerging markets central banks, continue to support the demand for this asset in our view.

Japan—A new economic experiment

Sanae Takaichi is making waves in Japan. She made history in 2025 as Japan's first female prime minister and quickly consolidated her power with a historic landslide victory in February 2026. Her Liberal Democratic Party now holds a two-thirds supermajority in the lower house, granting her a legislative mandate for change.



—
Dr. Pieter Jansen
Chief Investment Strategist,
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Her political agenda places strong emphasis on fiscal expansion. Key promises include significant investments in economic security, with a focus on sectors such as semiconductors, fusion energy and artificial intelligence. She has also pushed for popular measures like suspending the consumption tax on food to ease the financial burden on households. Unlike previous leaders who prioritized balancing the budget, she argues that growth must come first, asserting that a revitalized economy will eventually outpace its debt. Her dovish position is not just limited to fiscal policy. She is also a vocal advocate of maintaining accommodative monetary conditions, even describing the Bank of Japan (BoJ) interest-rate hikes in 2024 as “stupid”.²

Japan's long winter: decades of deflation and demographic challenges

For over three decades, Japan has been a global case study in economic stagnation, low or negative inflation and demographic decline. The burst of the early-1990s asset-price bubble marked the start of Japan's “lost decades,” a prolonged period of economic malaise.

The era of Abenomics, launched in 2012 by Prime Minister Shinzo Abe, attempted to break this cycle through the “three arrows” policy: aggressive monetary easing by the BoJ to combat deflation and stimulate economic activity, flexible fiscal stimulus to boost short-term demand while addressing long-term fiscal challenges, and structural

reforms to enhance Japan's economic competitiveness. While Abenomics succeeded in weakening the yen, and propping up the Japanese housing and equity markets, the BoJ's two percent inflation target remained out of reach—until the Covid-19 pandemic.

The global supply shocks of the early 2020s did what a decade of stimulus could not: they imported inflation and finally shattered deflationary expectations. In April 2022, headline inflation surpassed the BoJ's target for the first time in years and remained above it until December 2025. This shift in economic conditions also changed wage negotiation dynamics. Before the inflation surge, large companies were generally reluctant to grant significant pay increases, typically limiting wage hikes to around two percent. However, in 2024 and 2025, businesses were compelled to offer raises exceeding five percent to keep pace with rising inflation and retain staff.

Why we believe Takaichi must tread carefully

While Takaichi's assertive statements have made waves, we believe she must tread carefully in execution. The Japanese public, accustomed to stable prices for a generation, remains highly sensitive to the rising cost of

² Source: CNBC article, published October 30, 2025, www.cnbc.com/2025/10/30/bank-of-japan-holds-rates-in-first-meeting-after-abenomics-proponent-takaichi-took-power.html

living. According to an Asahi opinion poll on the country's most pressing issues, inflation claimed the top spot (at more than 60 percent) in September 2025. This is hardly surprising, as real (i.e., inflation-adjusted) wages have remained in negative territory for years, only recently turning slightly positive (see chart 1).

To mitigate the risk of a potential backlash, we feel Takaichi must prioritize supply-side reforms. A critical bottleneck in this effort is labor. With a shrinking population and a strict anti-immigration stance that risks further tightening an already constrained labor market, Japan's economic growth hinges on improving productivity. This necessitates reforms in labor flexibility—potentially relaxing overtime regulations to allow willing workers to earn more—and deeper integration of automation.

We also believe Takaichi may want to tread carefully when navigating monetary policy. While she favors lower interest rates, the BoJ has repeatedly emphasized the necessity of raising them. Even after increasing the policy rate to 0.75 percent in late 2025, real (inflation-adjusted) interest rates remain deeply negative (see chart 3). With inflation still somewhat sticky and the yen weak, the BoJ may be forced to hike rates toward a terminal rate of 1.25–1.50 percent. This creates a tug-of-war between a

government that wants to spend and a central bank that must normalize monetary policy.

The bond market has already begun to voice its concerns. In January 2026, yields on 10-year Japanese government bonds (JGB) pushed past 2.3 percent and the 40-year yield breached four percent for the first time in decades (bond yields move inversely to prices).

Another fiscal experiment is not without risk. After struggling for decades to regain control of fiscal dynamics in an environment of no growth, deflation and high fiscal deficits, the environment has much improved, helped especially by inflation as well as the significant decline in the budget deficit. However, higher interest rates will gradually feed through. In 2024, Japan paid 0.03 percent of GDP on interest payments. The IMF estimates this will rise to 1 percent of GDP by 2027. Interest payments will become more of a headwind from a fiscal perspective, against a background of estimated gross debt of 227 percent of GDP in 2026 according to the latest IMF estimate.³

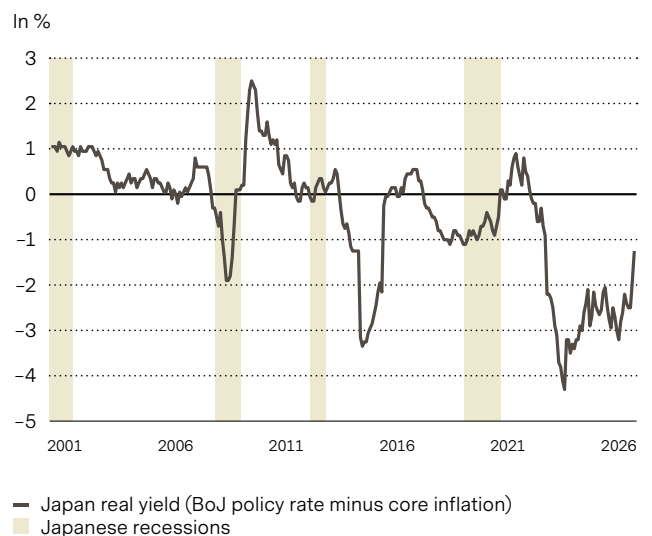
³ The Japanese government and government entities hold a significant part of the debt, leading to a much lower net debt of 129 percent. However, it is still a very significant debt level in an international context

Chart 1: Real wage growth is basically nonexistent



Source: LSEG, Vontobel; as of March 20, 2026.

Chart 2: Further monetary policy tightening needed



Source: LSEG, Vontobel; as of March 20, 2026.

Reassessing the situation



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

What once looked like a fairly straightforward easing story no longer does. The Fed has moved into a wait-and-see phase as growth is slowing and the labor market is softening, while higher oil prices have pushed inflation risks back to the forefront. This trade-off is keeping monetary policy on hold for now.

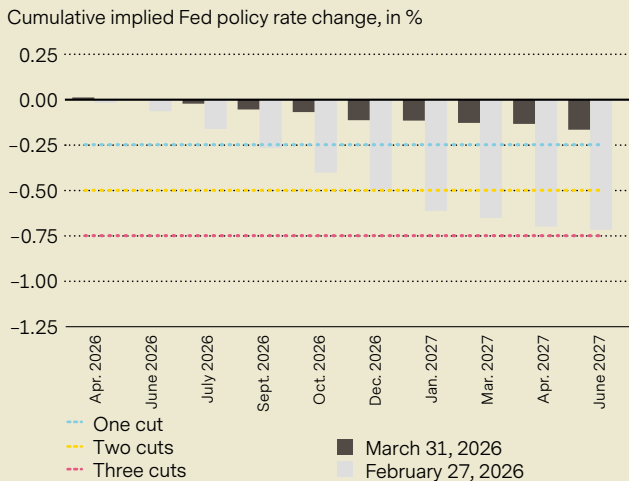
Markets have already repriced (see chart 1). Expectations for near-term rate cuts have been deferred and front-end yields have moved higher. As long as energy prices remain elevated, the Fed has limited scope to ease without risking a renewed inflation impulse response. That said, the direction has not changed, only the timing. If growth continues to weaken and labor market slack increases, the Fed is still likely to cut. The key difference is that the easing cycle is now expected to continue later and be more gradual than previously expected. For investors, that tempers the case for a strong duration position in the near term, in our view. Yields could stay elevated and volatile as markets weigh inflation risks against slowing growth. However, we believe duration still provides protection in downside scenarios.

A more challenging backdrop for IG and EM credit

Since the start of the war, credit has started to underperform as higher oil prices, rising uncertainty, and repricing of rate expectations weighed on sentiment and pushed spreads wider. CDX IG 5Y⁴ widened by around six basis points to 61 basis points since the end of February (see chart 2). The impact on the emerging markets spread (EMBI Global Diversified) has been relatively contained, trading in line with the risk-off environment that saw the spread moving to 250 bps (+20 bps since end of Feb). EM local markets however have been confronted with higher volatility. Bond total returns have deteriorated sharply since the war started, as government bond yields rose and are the primary driver of YTD losses in EM bonds. Although volatility in rates markets increased, there seems to be no major signs of distress, even among Middle East issuers. We could see further spread widening depending on how the energy crisis evolves, with spreads remaining volatile to any shifts in market expectations for inflation and growth. Spreads have been historically tight and markets have been repricing credit and inflation risks, and we believe this geopolitical event may offer an interesting investment opportunity in corporate bonds. We continue to focus on higher quality bonds (i.e. investment grade over high yield) and within global bonds we prefer names that are less vulnerable to higher energy prices (i.e. Brazil and Colombia who are net exporters of oil).

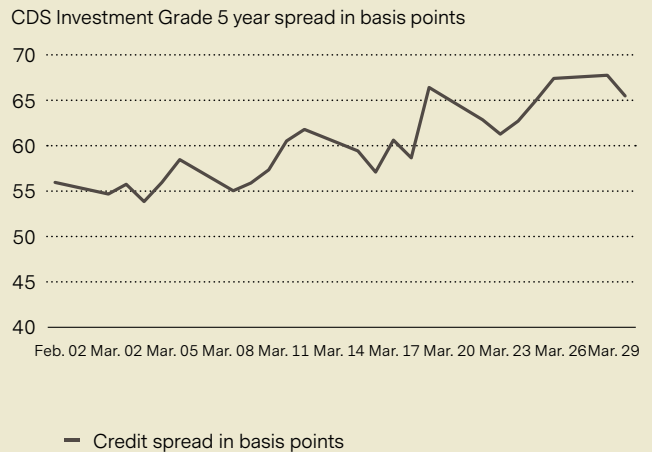
⁴ The North America Investment Grade 5Y CDS Index

Chart 1: Markets have become more cautious in their Fed easing expectations



Source: LSEG, Vontobel; as of March 31, 2026.

Chart 2: United States credit spreads widened in March



Source: LSEG, Vontobel; as of March 19, 2026.

What a difference a month makes



—
Susanne Knorr
 Deputy Head Managed Solutions,
 Vontobel SFA

In March, the escalation in Iran dramatically changed the global market narrative for the first quarter, putting global stock markets under additional pressure after an already choppy February. Market skepticism about the sustainability of the AI-driven economy rapidly shifted to the old economy's main engine, oil and gas.

Higher energy costs have triggered short-term inflation repricing that fully reversed the early-quarter rotation. However, we have seen limited panic selling since the conflict began, while markets remain far removed from the deep oversold levels seen in past crises, such as Liberation Day in April 2025 or the Covid-19 shock in 2020. This is evident in the VIX index, which has doubled from December levels but remains well below 30 compared to peaks of above 70 in April 2025.

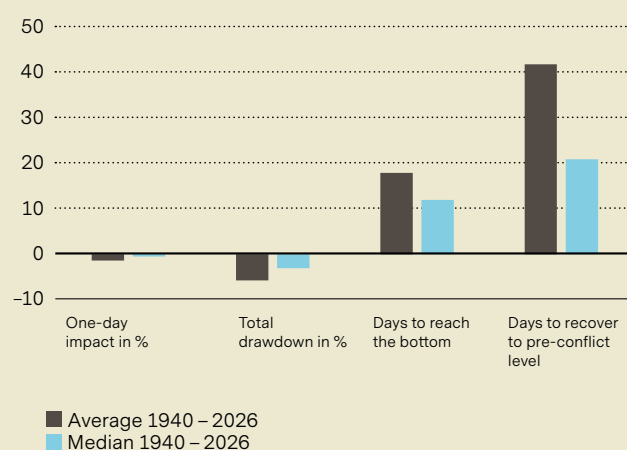
In short, since the conflict started, energy and communication services have outperformed the MSCI ACWI in USD, along with growth and large-cap styles. Regionally, at the time of writing, only the US market has outperformed the MSCI ACWI across every major Index.

One of the sources of market uncertainty has been the implication of Iran-related economic disruptions on European earnings, stemming from a spike in energy prices, reminiscent of what was experienced at the start of the war in Ukraine. However, in this case, the inflation upside risk should be more limited, as less than 10 percent of the EU's oil & gas imports come from the Middle East. Germany, for example, sources the majority of its gas needs from North Sea production and US imports. On the other hand, there can be a second-order effect of rising prices of raw materials and semi-manufactured goods imported into Europe (e.g. fertilizers).

Our preference towards equities remains intact, based on expectations that the conflict will likely be temporary. As past patterns suggest, initial drawdowns from geopolitical shocks often recover, on average, within a matter of months if not weeks (see charts 1 and 2). Despite near-term headwinds, the supportive macroeconomic backdrop prior to the war (fiscal stimulus, contained inflation, neutral monetary policy) is likely to help cushion the energy cost impact to corporate earnings. Finally, the ongoing investment cycle in AI is expected to partially offset the drag from slightly weaker economic activity.

Chart 1: Stock markets have digested geopolitical shocks relatively quickly

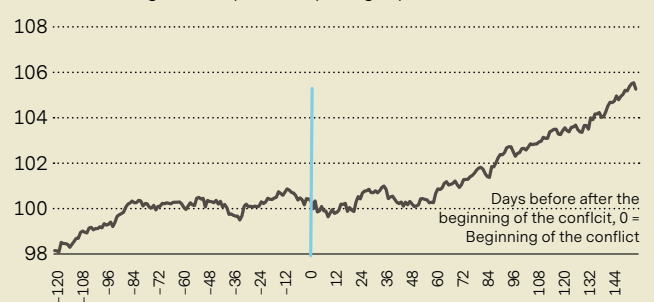
S&P 500 return after geopolitical shocks, in % / in days



Source: LSEG, Vontobel; as of March 19, 2026.

Chart 2: Historically, average returns have been positive beyond one month after geopolitical conflicts

S&P 500 average return pre- and post-geopolitical escalations*, in %



*Indexed to beginning of conflict = 100, period 1968 – 2026.

Source: LSEG, Vontobel; as of March 19, 2026.

The return of the geopolitical risk premium



—
Ljilja Jevtic
Senior Investment Adviser,
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The escalation in the Middle East has sent shockwaves through global commodity markets, with crude oil and natural gas experiencing significant disruptions. The Strait of Hormuz, a vital artery for global energy trade, facilitates the transit of approximately 20 million barrels of oil daily—accounting for around 20 percent of global consumption. It is also a key route for liquefied natural gas (LNG) exports, with Qatar and the UAE playing prominent roles in global LNG supply. However, since the strikes began on February 28, shipping activity through the Strait has slowed dramatically, creating a supply shock in energy markets. It has effectively halted much of the energy flow through this chokepoint.

As a result, crude oil prices have surged substantially. While key OPEC members, including Saudi Arabia and Russia, have pledged to increase production quotas starting in April, these measures are unlikely to fully offset the supply losses from the Strait. In response, the International Energy Agency (IEA) announced a coordinated release of 400 million barrels from strategic reserves. However, logistical challenges in transporting these reserves, particularly to refiners in Asia, mean that the

impact of this intervention may be delayed. The repercussions extend beyond the energy markets to agriculture, as the Gulf States account for roughly 20 percent of the global supply of phosphate fertilizers. The disruption of fertilizer shipments, combined with the reliance on natural gas and sulfur for production, could exacerbate challenges for global food prices and security.

Gas storage levels in Europe are lower than usual due to a colder winter, albeit remaining sufficient to meet demand through the remainder of the heating season. By late March 2026, EU gas storage was below 30 percent capacity (see chart 1), although operators are actively working to refill inventories in preparation for next winter. While gas prices in Europe have risen from USD 52 per MWh in February to USD 52 per MWh in March, these levels are still well below the 2022 peaks (see chart 2). Europe is far less dependent on Gulf oil and LNG than China, India, Japan or South Korea, relying more on LNG imports from the US and Norway. Nonetheless, the region continues to be influenced by global supply constraints.

Chart 1: European gas storage

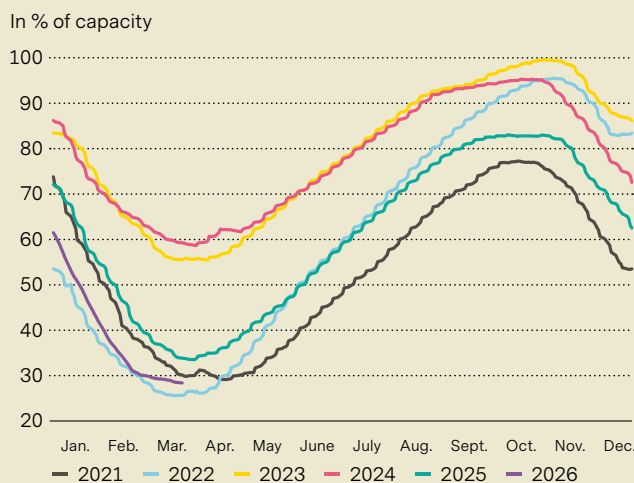
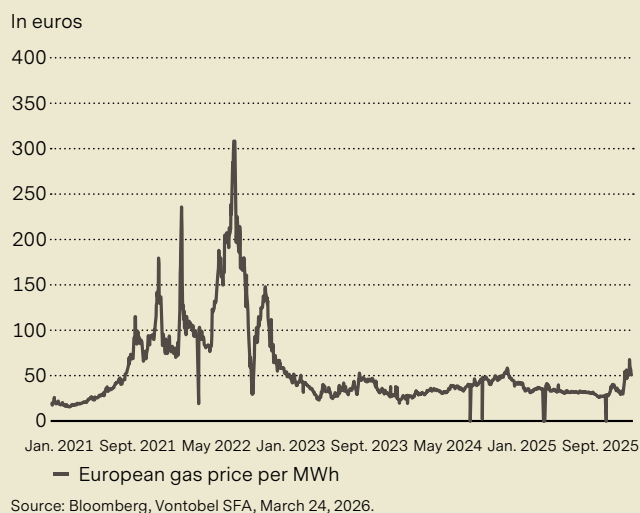


Chart 2: European gas price per MWh



The search for safe havens



—
Dr. Pieter Jansen
 Chief Investment Strategist,
 Vontobel SFA

The dollar has recently experienced renewed strength due to safe-haven demand amidst the Middle East conflicts and due to increased inflation risks on the back of higher energy prices, temporarily overcoming its depreciating trajectory. The Swiss franc, on the other hand, confirms its classic safe-haven support based on firmer fundamentals.

First, a classic risk-off environment has revived the dollar's safe-haven appeal. This also happened at a time where speculative US dollar positioning versus other currencies was quite bearish. Global events likely triggered a repositioning. Second, higher energy prices have increased inflation risks, forcing markets to scale back expectations for Fed easing. This combination has pushed up short-end US yields and supported the dollar (see chart 1). As long as uncertainty remains elevated and oil prices stay firm, the Fed seems in no rush to cut rates. Should the price of oil remain high and signs of spillovers into core inflation emerge, rate hikes cannot be ruled out either. This dollar support is mainly driven by the current risk backdrop rather than by stronger long-term fundamentals. Once geopolitical risks recede and the focus returns to these

fundamentals, structural headwinds are likely to re-emerge. The US fiscal position remains weak, Treasury supply is high and external balances have not improved. These factors tend to matter more in stable environments. In the near term, the dollar is supported by risk and rates. Further down the line, the case for a softer dollar still holds if inflation stabilizes and the Fed eventually resumes easing.

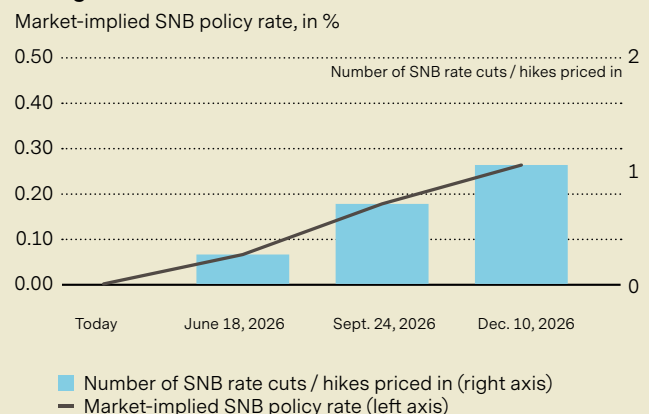
Elsewhere, the Swiss franc is conspicuous for combining classic safe-haven support with stronger long-term fundamentals, even as policy resistance builds. The franc shares the dollar's safe-haven characteristics but rests on firmer foundations. In periods of stress, the Swiss franc typically stays strong and the current environment confirms it. Switzerland's persistent current account surplus, relatively disciplined fiscal policy and low inflation give the Swiss National Bank (SNB) more flexibility than most central banks, and provide the currency with a stronger medium-term anchor. At the same time, that strength comes with an important policy constraint (see chart 2). The SNB is unlikely to welcome excessive franc appreciation, as it tightens financial conditions and risks pushing inflation even lower. It has already leaned against further franc strength through verbal intervention, explicitly signaling a greater willingness to step into the foreign exchange markets if shifts become too rapid or excessive. We believe the franc is poised to remain supported as long as geopolitical risks abound. Over the medium term, the franc still looks fundamentally strong, thanks to low debt and low inflation.

Chart 1: Can the dollar rally extend further after the currency rebounded from its recent lows?



Source: LSEG, Vontobel; as of March 19, 2026.

Chart 2: The SNB has been holding rates at 0% amid a strong franc



Source: LSEG, Vontobel; as of March 19, 2026.

12 Forecasts

Economy and financial markets 2025 – 2027

The following list shows the actual values, exchange rates, and prices from 2025, as well as consensus forecasts for 2026 and 2027 for gross domestic product (GDP), inflation/inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2025¹	CURRENT²	2026 CONSENSUS	2027 CONSENSUS
Global (G20)	2.7	2.1	2.8	2.7
Eurozone	1.4	1.2	1.2	1.5
USA	2.1	2.0	2.5	2.0
Japan	1.2	0.4	0.8	0.9
UK	1.4	1.0	1.0	1.4
Switzerland	1.3	0.5	1.2	1.5
Australia	2.0	2.6	2.2	2.2
China	5.0	4.5	4.6	4.4

INFLATION	2025³	CURRENT⁴	2026 CONSENSUS	2027 CONSENSUS
Eurozone	2.1	1.9	2.0	1.9
USA	2.7	2.4	2.7	2.4
Switzerland	0.2	0.1	0.4	0.7

KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (deposit rate)	2.00	2.00	2.00	1.99
USD (Fed funds rate, upper bound)	3.75	3.75	3.63	3.24
CHF	-	-	-0.03	0.01

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	2.86	2.95	2.87	2.97
USD	4.17	4.23	4.14	4.12
CHF	0.32	0.36	0.38	0.48

FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
CHF per EUR	0.93	0.91	0.92	0.94
CHF per USD	0.79	0.79	0.78	0.77
USD per EUR	1.17	1.15	1.18	1.21

COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	61	109	65	66
Gold, USD per troy ounce	4,319	4,862	4,725	4,750
Copper, USD per metric ton	12,423	12,775	12,600	12,000

Note: Views are as of March 18, 2026. Forecasts are based on current market conditions and assumptions and are subject to change without further notice. They do not guarantee future results.

¹ Subject to revisions (e.g., potential revisions to 4Q data)

² Latest available quarter

³ Subject to revisions

⁴ Latest available month, G20 data only quarterly

⁵ ↑ above consensus, → in line with consensus, ↓ below consensus

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Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties.

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