QUARTERLY REVIEW OF FINANCIAL MARKETS AND OUTLOOK

2026/Q1

Renalco

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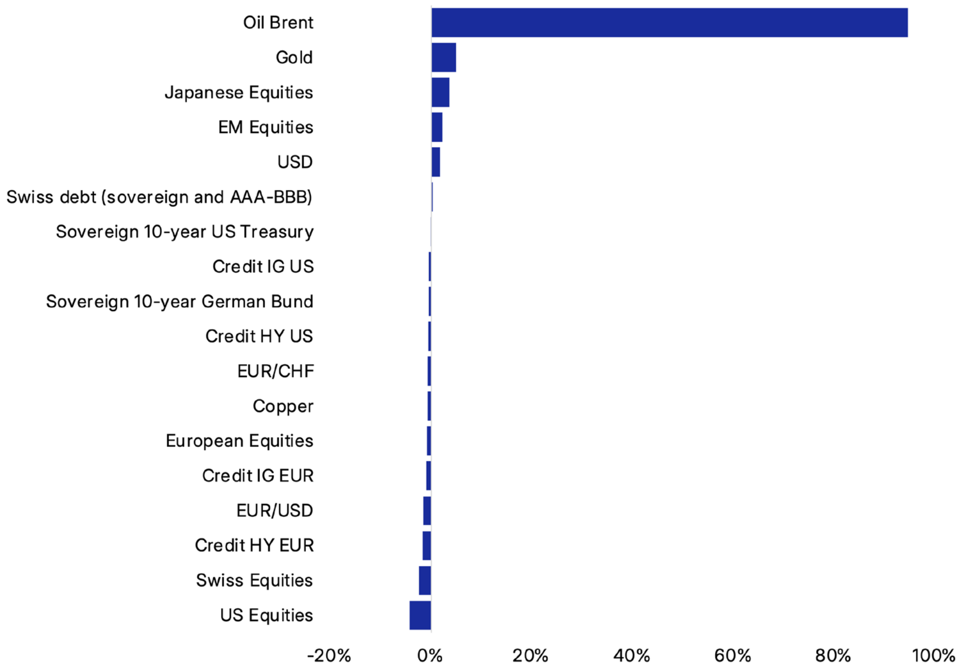
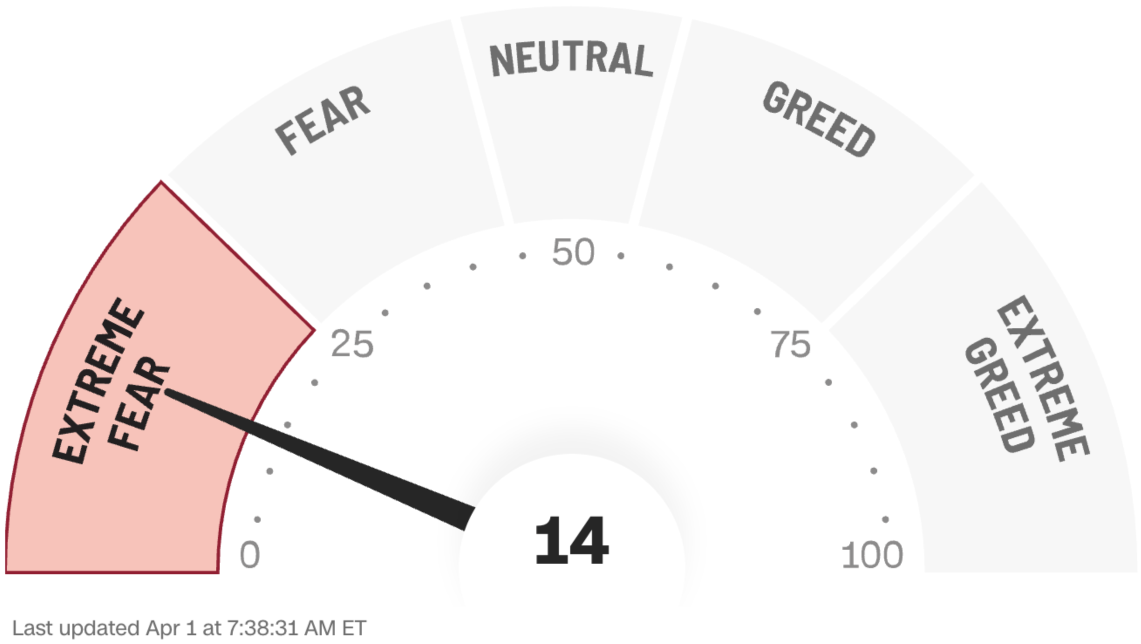
Overview

MAIN ASSET CLASSES
3-MONTHS PERFORMANCE



Source: Factset, 31/03/2026
Past performance is not a guarantee of future performance.

FEAR & GREED INDEX



Source: CNN Business, 1/04/2026
Past performance is not a guarantee of future performance.

Macroeconomics

United States: “An economy stronger than expected, but less free to move”

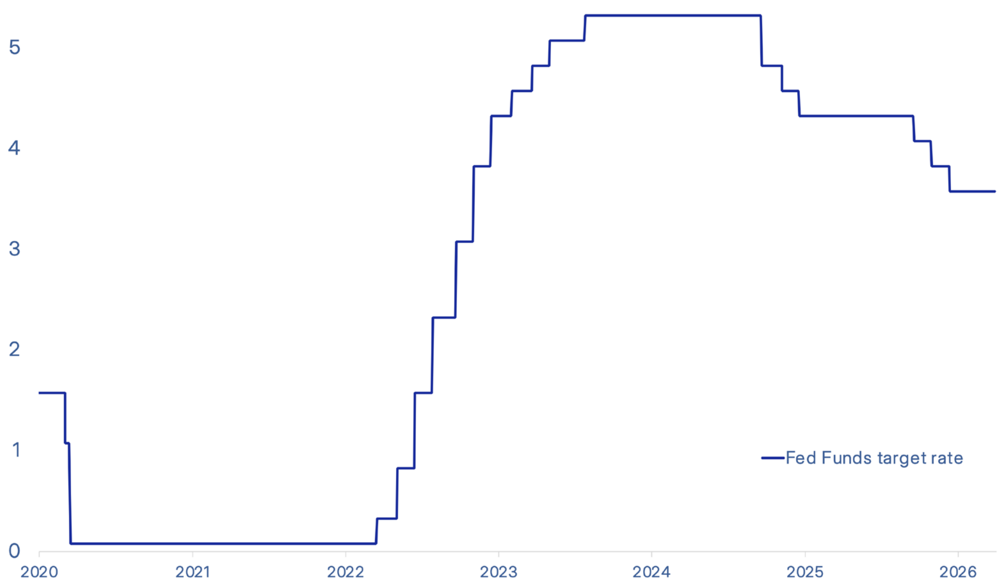
For much of the quarter, the U.S. economy was telling a constructive story. In January and then again in February, labor-market stabilization was confirmed, with unemployment holding around 4.3%–4.4%, wage growth remaining resilient, and jobless claims still very low.

At the same time, activity indicators pointed to a fairly clear reacceleration: services ISM remained elevated in January, manufacturing ISM rebounded sharply in February, durable goods orders stayed well oriented, consumers looked less depressed, and the housing market began to thaw. Even inflation, up to a point, appeared to cooperate: CPI fell back to its 2021 lows, around 2.5%, reinforcing the idea of an almost ideal scenario, before core PCE and the FOMC minutes nevertheless reminded investors that the Fed was not ready to resume easing too quickly.

On the trade front, the quarter also confirmed that even after the Supreme Court setback dealt to Trump over “reciprocal” tariffs, the trade war remained very much alive.

Then March changed everything. **The Iran shock triggered a sharp rise in inflation expectations**, a collapse in confidence surveys, and a reassessment of the previously favorable growth outlook for 2026–2027. **The Fed kept rates at 3.50%–3.75% and validated an extended pause: the time for “insurance” cuts is over; policy is now about managing a far less comfortable trade-off between activity and inflation.**

Fed Funds Target Rate



Source: Factset, 31/03/2026
Past performance is not a guarantee of future performance.

Macroeconomics (...)

Eurozone: "The improvement runs into the energy risk wall"

The euro area had started the year on a relatively solid footing. PMIs remained in expansion territory and firmed further in February as manufacturing moved back above 50. Inflation continued to converge toward target, with energy playing a supportive role, while consumption finally began to show tentative signs of improvement. The quarter also carried a broader political message: amid the trade wars, the European Union continued to defend free trade, with the Mercosur agreement and the conclusion of trade negotiations with India. **All of this was swept aside in March by the Middle Eastern shock.**

The euro area immediately rediscovered its Achilles' heel: energy dependence. The ECB did keep its deposit rate at 2%, but **its tone hardened materially**, with higher inflation forecasts and a clear signal that it would not remain passive in the face of second-round risks. Surveys published after the start of the conflict deteriorated quickly: composite PMI softened, services weakened, and both ZEW and IFO fell sharply. In the space of a few weeks, Europe moved from a modest but credible recovery to a far clearer display of vulnerability to higher oil prices.

United Kingdom: "From normalization to renewed strain"

For a good part of the quarter, the U.K. projected the image of an economy undergoing **gradual improvement**. PMIs repeatedly surprised on the upside, activity resumed growth, and the Bank of England could still suggest that monetary easing remained conceivable over the medium term as inflation moderated and the labor market showed some signs of loosening.

The picture was still imperfect, as U.K. inflation remained higher than on the continent and wage growth continued to require vigilance, but it nonetheless allowed for a scenario of gradual normalization. The rise in energy prices abruptly narrowed that room for maneuver. **The British economy, structurally sensitive to this type of shock and already more politically fragile**, found itself facing a central bank forced to defend its credibility.

The unanimous decision to keep rates unchanged in March, together with the **re-emergence of market expectations for two to three rate hikes**, illustrated that renewed strain. By quarter-end, the U.K. stood out as one of the advanced economies where the return of inflation risk was most uncomfortable: powerful enough to force monetary caution, yet unfolding in a growth environment that leaves very little room for policy error.

Macroeconomics (...)

China: "Less ambition on growth, greater resilience to the oil shock"

The Chinese quarter confirmed a now well-established contrast. On one hand, **China continues to impress through its export power**: a huge trade surplus in 2025, followed by another very strong start to 2026, with exports already running at a spectacular pace. On the other hand, domestic demand remains the weak link: a deflationary property sector, overly timid consumption, and still-hesitant private investment.

February brought some signs of stabilization, with decent PMIs and a firmer renminbi. But it was in March that Beijing delivered the most important policy signal of the quarter: **abandoning the single 5% growth target in favor of a 4.5%–5% range**. That is an admission of pragmatism. The energy shock did push prices higher, but more through costs than through any genuine improvement in household demand.

Even so, China appears relatively better equipped than Europe or the U.K. to deal with expensive oil, thanks to inventories, the partial continuity of Iranian supply, and a firmer industrial backdrop. In short, the Chinese economy remains unbalanced, but in Q1 it looks like one of the major regions least destabilized by the conflict.

India: "Solid domestic growth, very low inflation... but a currency under pressure"

India closes the quarter with an economy that remains, on paper, one of the most dynamic in the major emerging universe. Following the national accounts revision with a new base year, real growth for fiscal year 2025–26 was lifted to 7.6%, while **real GDP for Q3 FY2025–26 was estimated at 7.8%** year-on-year. Through February, leading indicators remained very solid: inflation rose from 2.75% in January to 3.21% in February, but remained contained relative to the 2-6% target, while PMIs stayed elevated before slowing materially in March under the impact of the Middle Eastern conflict (flash composite PMI at 56.5, manufacturing at 53.8, services at 57.2).

The RBI kept the repo rate at 5.25%, which broadly reflects India's current macro equation: still-robust domestic growth, but deteriorating visibility. The 2026–27 budget also confirms this continuity narrative, with a deficit target of 4.3% of GDP and public investment spending raised to INR 12.2 trillion. The real break in the quarter came from outside. **India remains highly vulnerable to structurally elevated oil prices through the inflation channel, the import bill, and a sliding rupee.**

Macroeconomics (...)

Japan: "Fiscal discipline offers some reassurance, but the next rate hike is drawing closer"

Japan also went through several phases. January was marked by a violent rise in bond yields, driven by fiscal concerns triggered by Sanae Takaichi's stimulus promises. Her landslide victory in the snap February election changed the mood, however: **by quickly sounding more responsible on the fiscal front, she reassured investors** and allowed yields to partially retrace. On the macro side, Japan continued to surprise on the upside, with strong export growth, robust activity, and increasingly dynamic wage negotiations.

Headline inflation did slow, but more granular measures show that **the inflation problem has not disappeared**. In March, the oil shock only reinforced the view that another BoJ rate hike was getting closer. The yen, for its part, was supported less by fundamentals than by **policymakers' determination to prevent another slide beyond 160** against the dollar. Japan therefore ends the quarter with a central bank still on hold, but under growing pressure to resume tightening.

Macroeconomics (...)

Switzerland: "The franc becomes the real issue again"

Switzerland also moved through three successive regimes. January was one of cyclical relapse, with disappointing activity indicators and inflation still close to zero. February then brought some improvement, helped by the restart of the global industrial cycle and a rebound in both the KOF and manufacturing PMI.

But by March, the core issue was no longer growth or even inflation: it was the franc. **Faced with a rush into safe-haven assets, the SNB made it clear that it was prepared to intervene to limit further currency appreciation.** In an economy where inflation remains extremely low, exchange-rate management has once again become the primary stabilization tool.

Source: Factset, 31/03/2026
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Bond Markets

Rates: “The abrupt return of the energy premium”

The quarter’s message for rates is clear: through February, the dominant story remained one of a world in which central banks could afford to wait, with the Fed on pause, the ECB stable, the BoE still open to easing, and the BoJ gradually moving closer to another hike.

In March, oil violently reintroduced an inflation premium into the curves. Bund yields rose sharply, gilts went through another bout of stress, and the Japanese curve remained under threat. Treasuries mainly reflected the end of hopes for rapid Fed easing. That said, the final days of March saw curves calm somewhat, as it became increasingly likely that **a prolonged Middle East conflict would eventually weigh on global growth**.

Credit: “Carry still works, but visibility deteriorates”

Credit likely did not suffer in Q1 the kind of accident associated with a genuine recession shock, but the quarter clearly reduced the carry comfort that still prevailed at the end of 2025. During the first two months of the year, **the backdrop remained compatible with relatively calm yield-seeking**: better U.S. growth, central banks on pause, and more legible inflation.

The Iran conflict then blurred that backdrop. The issue is not yet an immediate rise in defaults; **it is the sharp deterioration in visibility on funding costs, nominal growth, and the ability of central banks to cushion a shock**. In that context, the market message becomes more traditional: carry remains useful, but selectivity moves sharply higher up the priority list, especially in segments most exposed to energy and refinancing risk.

Equity Markets

Equity: "A quarter of rotations more than conviction"

In equities, the quarter did not really tell a simple story of cyclical reacceleration followed by a sudden return of risk aversion. It was instead marked by **successive and sometimes violent rotations** in an environment where investors struggled to anchor a durable reading of the macro regime.

The resilience of the U.S. economy, the rise in yields and then the rise in geopolitical risk successively reshuffled the sector hierarchy, **ultimately crowning energy as the clear winner of the Iran conflict**.

The March energy shock did not merely revive defensive reflexes; it also reinforced dispersion, complicating the outlook for consumption and preventing any linear continuation of the rotations initiated earlier in the quarter. All in, Q1 2026 was not the quarter of an equity market driven by a homogeneous macro conviction, but of **a more fragmented, more tactical market in which sector allocation often mattered more than the overall direction of the indices**.

Currencies

Currencies: "The dollar regains its shield function"

The quarter in FX unfolded in three stages. In January, the dollar first weakened, penalized by Washington's aggressive geopolitical posture (Greenland), before stabilizing on the back of U.S. economic resilience and the prospect of Kevin Warsh succeeding Jerome Powell. In February, it stopped falling as macroeconomic surprises remained firmly on the upside. **Then in March it surged, driven by the oil shock, the erasure of expectations for Fed rate cuts, and an improvement in U.S. terms of trade.**

The yen held up better than expected thanks to Japanese verbal intervention and the prospect of another BoJ rate increase. The euro and sterling lost ground, with sterling showing particularly clear vulnerability. **As for the Swiss franc, it ended up underperforming in March** as the SNB made it clear it would not allow further appreciation. Q1 therefore saw the dollar reassert itself as the dominant safe-haven currency. Not despite the conflict, but precisely because of it.

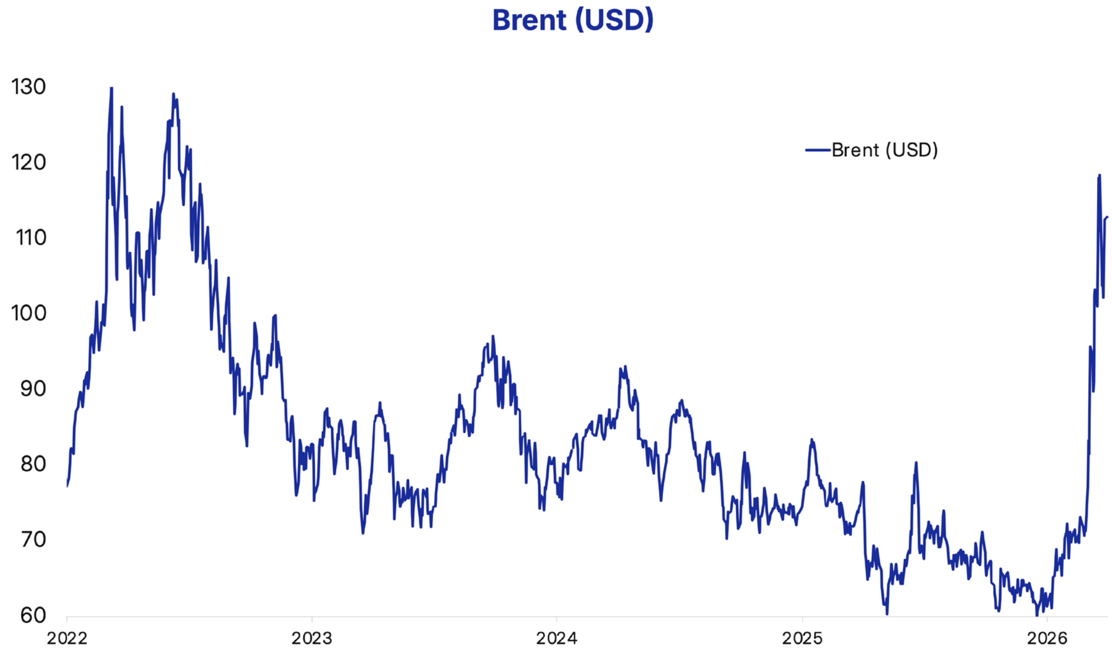
Commodities

Oil: "The surplus year narrative has shattered"

Oil was the quarter's major rupture. **January and February had already seen a very sharp rebound in crude**, reflecting mounting tensions around Iran, an implicit tightening in supply conditions, and buyers returning to "official" markets.

But it was in March that the regime changed completely. **The war in the Middle East shattered the consensus "year of surplus" narrative** by triggering a massive loss of barrels, a near shutdown of Hormuz, and a profound dislocation between crude benchmarks depending on their proximity to the physical market.

The use of strategic reserves, Saudi pipelines, and sanctioned oil has so far prevented an even more extreme spike, but **the market has clearly shifted from a regime of excess supply to one of geopolitical scarcity**.



Source: CRB - Commodity Research Bureau, 31/03/2026
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Commodities

Precious Metals: "A haven, but less linear than expected"

Precious metals delivered a spectacularly volatile quarter, though less straightforward than a pure flight-to-quality narrative would have suggested. **In January, gold and silver rallied strongly before correcting sharply**; in February, they resumed their ascent as international tensions intensified. Yet in March, **the first phase of the Iran conflict did not immediately benefit them**. Gold came under pressure from profit-taking and from sales by emerging-market central banks seeking to support their currencies.

It was only late in the month that an initial rebound emerged, as the idea of a future correction in real yields returned. The quarter's message is therefore subtler than usual: even in an extraordinarily anxious environment, precious metals do not always move in a straight line. They remain a haven, but one still subject to liquidity conditions, real rates, and central bank portfolio decisions.

Gold: Impressive Ups and Downs

Source: LBMA - London Bullion Market Association, 31/03/2026
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