REVIEW & OUTLOOK

HYPOSWISS
ADVISORS

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Hyposwiss Advisors' mission is to offer personalized wealth management services and financial advice to high-net-worth individuals and families, with the overriding objective of capital preservation and asset growth, performance oriented.

QUARTERLY
REVIEW &
OUTLOOK

WAR, CEASEFIRE AND LINGERING EFFECTS

The events of the first two months of 2026 have been overshadowed by the effects of the March conflict in the Middle East.

During the first two months of the year, US equities lagged the rest of the world as the market questioned the monetization of AI infrastructure investments and the business model of software companies. The dollar weakened, gold soared, and emerging market assets staged a comeback.

Since early March; however, these trends have reversed. US equities outperformed the rest of the world on the way down. Gold, up 22.0% in USD terms before the war, fell 11.6% over the month. Other traditional safe havens also struggled, with yields rising across government bond markets.

Year to date, outside of oil and the USD, most major asset classes are negative. US equities lost -4.3% (in USD) and global equities (MSCI World) -3.6% (in USD. Corporate and government bonds are showing marginally negative returns and provided no protection to portfolios.

Going forward, the outlook for the remainder of the year will be determined by the shape of the exit from the current conflict.

The major channel through which the Middle East conflict is affecting financial markets is energy prices, as determined by:

- the flow of oil through the Strait of Hormuz,
- the extent of lasting damage inflicted on energy infrastructure in producing countries.

At the time of writing, it appears that the most extreme outcomes have been avoided in terms of infrastructure destruction, but there's a large level of uncertainty as to the eventual reopening of traffic on the Strait of Hormuz. The duration of the disruption and the shape of the arrangement going forward will be fundamental in determining the trajectory of oil and gas prices.

Our challenge is to identify the durable macroeconomic effects from this conflict and what can be considered as transitory. Here is our assessment at this point:

Even though we assume that the **war is past its apex** and is **now on the road to some level of resolution,** the process won't be linear; energy markets won't go back to where they stood before Feb 28 and there will be a substantial economic fallout from the last several weeks. The precise numbers are subject to uncertainty, but the direction is higher inflation and some (hopefully temporary) reduction in economic growth). Central banks are unlikely to accommodate higher inflation by labelling it as "transitory." As a result, rate cuts are off the table for the Federal Reserve, which operates under a dual mandate of inflation and growth, while rate hikes remain likely for central banks with single inflation mandates, such as the European Central Bank. The tentative implications for asset prices and asset allocation going forward can be thought of as follows:

- **Safe-Haven Performance:** Safe-Haven assets failed to provide the expected protection during the month of March. There will be value going forward in finding assets which provide diversification.
- **Persistent Inflation:** Even if a resolution is reached, inflationary pressures are expected to linger, specifically driven by the energy markets.
- **CPI Monitoring:** A key focus will be monitoring the transmission of inflationary pressure from headline figures to core CPI.

- **Long-Horizon Assets:** Assets with a long-term investment horizon, such as equities, can look through current volatility, provided there is no material growth shock and earnings growth remains intact.

Strategic Consequences and Considerations

The primary challenge moving forward will be determining which of these economic effects will be long-lasting. Potential strategic adjustments to consider include:

- **Commodity Allocation:** Should exposure to commodities be increased?
- **Inflation Protection:** Is it time to increase positions in inflation resistant assets?

OUTLOOK FOR MAJOR ASSET CLASSES

FIXED INCOME

The message emanating from major central banks during March is loud and clear: Don't expect us to accommodate energy driven inflation, we will not reduce rates if we have no visibility on the passthrough from headline to core (Federal Reserve) and we may actually raise them to achieve a return of inflation to its objective (ECB).

It is remarkable that long-term inflation expectations have not budged, and we interpret that as a sign of confidence in central bank policy going forward.

The sharp adjustment in bond markets witnessed during March reflects the changed central bank outlook. We are now left with higher yields, but a more cumbersome inflation outlook. All in all, we see no opportunity there to recommend a change in positioning.

The inflation outlook for the Emerging Markets (EM) has deteriorated more than it has in developed markets. We remain absent from local EM exposure.

CURRENCY MARKETS

The USD has been on the right side of haven flows during the war. It has also benefitted from its status as a net energy exporter.

Under most scenarios, this is only a temporary rebound. The USD is expected to resume its decline once the crisis subsides. The large external account deficit of the US is incompatible with a currency still valued 10-15% above its fair value by most measures.

EQUITY

The decline in equity markets witnessed in March (broadly 10% peak to through) reflected the pricing of a "left-tail" event, i.e. a long duration war leading to long-term supply and transportation disruption for energy. As this was never the central outcome, consensus earnings expectations were never revised downwards and moved modestly higher. This had convinced us to avoid reducing meaningfully our equity exposure during the crisis.

S&P 500 Index, from 31.12.2025 to 15.04.2026
Source: MarketMap FIS

At the time of writing, it appears that we may be moving beyond the acute phase of the conflict. We expect earnings growth to cushion stocks and leave our overall allocation unchanged. We will, however, explore ways to enhance the inflation resilience of our equity allocation.

In looking "under the hood" of the indices, we observe that dispersion is currently at historically elevated levels. This is occurring mostly due to the AI divide (winners versus losers from accelerated AI progression) and sector divergence (e.g. the massive outperformance of energy during the crisis).

This dispersion suggests that the opportunity set for active management is improving relative to passive exposure. We find it difficult to move from passive exposure to active managers in large and diversified markets (such as the S&P500) but more practical in thematic sleeves, such as the AI or technology exposure where we are recommending such transitions.

GOLD

In the current investment regime, gold has been positively correlated to risk assets and has exhibited a much higher volatility than historically. These characteristics limit the value of an allocation to gold in a portfolio context, and we have recommended, during March, to reduce holdings to 5%.

None of the longer-term arguments in favor of precious metal allocation have been impaired, and we expect to be able to consider again increasing allocations when financial conditions evolve.

Gold spot prices in USD, from 31.12.2025 to 16.04.2026
Source: MarketMap FIS

"Luck shouldn't be part of your portfolio."

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Expect the expected

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