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# MARKET OVERVIEW APRIL 2026

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## THE WAR IN THE MIDDLE EAST IS RESHUFFLING THE CARDS

The crisis in the Middle East is challenging the baseline scenario for the current year. Markets, however, continue to bet on a short-lived conflict with limited consequences for global trade and energy prices. The stagflation scenario is currently ruled out. Investors seem convinced that the White House will not be able to withstand the pressures of US domestic politics for long, especially with the midterm elections looming (November). The peace proposals from the various parties are based on seemingly incompatible positions, which argues for a rather defensive and wait-and-see investment strategy. Central banks are closely monitoring inflation expectations among economic agents, which have so far remained firmly anchored.

### MOVING FROM FORECASTS TO SCENARIOS

Markets continue to bet on a short-lived conflict with limited macroeconomic effects, as evidenced by oil futures prices (\$85 for a barrel of two-year Brent crude, compared to \$65 at the end of February), the moderate correction in stock market indices, down 5% to 10% from recent highs, and the still modest, albeit slightly rising, risk premiums on high-yield bonds. The stagflation scenario prolonged period of high inflation combined with sluggish economic activity—is not reflected in financial asset market prices. **However, hopes for a swift diplomatic resolution to the conflict appear slim, as the negotiators' demands seem irreconcilable (the US demands the abandonment of its nuclear program and the opening of the Strait of Hormuz, while Iran demands security guarantees and sovereignty over the strait).** The Iranian regime now appears to be dominated by its most radical fringe, which does not bode well for blind optimism in the face of enthusiastic statements from the White House.

The strategic importance of the Strait of Hormuz extends far beyond the issue of oil and LNG (approximately 20% of global consumption). Financial markets could rightly be concerned about the disruptions caused to numerous sectors. For example, 10% of aluminum production comes from the Middle East. A third of helium production, used primarily in the semiconductor industry, is located in Qatar, whose giant energy and petrochemical complex at Ras Laffan is currently shut down. In the fertilizer sector, approximately 30% of the global urea trade and 23% of phosphate fertilizers depend on the smooth functioning of the strait. Many inputs needed for pharmaceutical production, derived from petrochemicals, are produced in the Gulf, which has become a hub for the global trade in active pharmaceutical ingredients (produced in China) and generic molecules (India). Global production of plastics, adhesives, and synthetic fibers is threatened by disruptions in petrochemical supplies. Asian countries rely on Gulf naphtha for nearly 60% of their consumption. **In short, the**

global manufacturing and technology sectors are threatened with collapse if the conflict continues.

In the current context, investors can only develop scenarios based on the duration and intensity of the conflict, as well as the collateral damage inflicted on the region's energy infrastructure and global trade. The baseline scenario from the beginning of the year (global growth around 3%, a 12-15% increase in listed company profits, continued disinflation in the Eurozone, and the status quo at the European Central Bank) is no longer relevant. **Unfortunately, even assuming a swift end to hostilities (excluding Lebanon), the international trade situation will not return to normal for several months. Even in the scenario of a rapid, complete, and risk-free opening of the Strait of Hormuz, the damage to energy infrastructure will continue to weigh on hydrocarbon prices.** Despite the oil and LNG production surpluses prior to the conflict (an imbalance between supply and demand), it is unlikely that prices will return to their February levels before the summer. Nevertheless, this would already represent a huge relief for financial markets, as the risk of stagflation would remain largely contained, the shock having been temporary and far less dramatic than in 2022 (the war in Ukraine). A short-term conflict (five to six weeks) would not have time to push up long-term inflation expectations among economic agents, which have so far remained firmly anchored (see the five-year inflation swap contracts, which are close to their averages over the last twelve months). Any potential slippage in expectations would inevitably lead to a tightening of monetary policy by central bankers concerned about their credibility.

It should be noted, however, that the situation is very different from that which prevailed in 2021-2022: at that time, inflation was fueled by exceptional demand following the pandemic, by disruptions in supply chains due to lockdowns, and then by an energy shock exacerbated by the war in Ukraine. This was a parallel supply and

demand shock, which spread inflationary pressures more broadly throughout the economy and allowed the start of a wage-price spiral that central bankers vigorously combated. Today, it is solely a supply shock. The euro yield curve, however, reflects two or even three rate hikes by the European Central Bank (ECB) within the next twelve months, compared to the status quo expected before the start of the conflict. Keep in mind that OECD member countries' spending on primary energy (oil, gas, coal) represented approximately 3% of their GDP (gross domestic product) before the crisis, compared to 5% at the 2021-2022 summit. Such a level would undoubtedly mean an oil price of \$200 per barrel and a closure of the Strait of Hormuz for many months.

**On the growth front, economists agree that the negative impact on global growth over the next twelve months will be around 0.3% to 0.5% (still assuming a short-term conflict), resulting in growth of around 2.7% compared to the consensus forecast of 3.1% before the conflict began.** However, we are only at the beginning of downward revisions to these estimates. European growth would likely fall to around 0.5% in 2026, essentially another lost year. Tensions on the yield curve, and more particularly on long-term rates (around 30 to 50 basis points higher, depending on the currency, since the end of February), are not reassuring, while global financing needs are immense, in the context of the energy transition (electrification of the economy and decarbonization), the digital transition and AI, and investment efforts in defense.

## EUROPEAN VULNERABILITIES HIGHLIGHTED ONCE AGAIN

**The United States has requested international assistance from its allies, NATO, and even China to secure the Strait of Hormuz. In vain!** Unless there is a dramatic turn of events, which we find difficult to believe will occur at this stage, the crisis in the Middle East will bury European ambitions for sovereignty and strategic leadership, particularly in defense matters, for a long time to come. The European Union (EU) remains an association whose members have foreign policies that are, at best, contrasting, and at worst, completely divergent. A coordinated defense policy requires, at a minimum, a convergence of views on foreign policy, even if this is not among the Commission's prerogatives as defined by the treaties.

**If we understand correctly the reasoning of the Europeans—deeply divided on the conflict—and the allies of the United States, it would be undesirable to protect international shipping lanes during hostilities, even if their blockade seriously threatens global prosperity, when such military protection could be perceived by potential adversaries as a provocation and could, in turn, provoke an armed response against ships escorting merchant vessels on purely defensive missions.** One can hardly believe one's ears at such pusillanimity tinged with hypocritical rhetoric about international law. It's tantamount to declaring that the major shipping lanes, essential to the smooth functioning of the global economy, can at any moment be taken hostage by authoritarian regimes with neo-imperial ambitions. The countries bordering the South China Sea now have reason to tremble. We would have much preferred that the Europeans recognize their military incapacity in this crisis, in particular their insufficient stocks of

**From an economic standpoint, the crisis in the Middle East ultimately allows us to rank major geographic regions according to their exposure to energy shock and disruptions in international trade.** The United States, self-sufficient in primary energy and a net exporter of hydrocarbons, is faring best, although the behavior of the American consumer must be closely monitored (a barrel at \$100 for a year would negate the effects of the \$200 billion fiscal stimulus for households!). Next comes Europe, which is suffering from rising prices but is not directly threatened by supply disruptions. Paradoxically, its deindustrialization and lower energy intensity make its GDP less vulnerable to this crisis. Asia is much more problematic, given its heavy dependence on oil, its derivatives, and LNG from the Middle East, and its higher energy intensity as a percentage of GDP (the manufacturing sector represents a significant portion of GDP, from 25% to 30% in China, Taiwan, and South Korea). Should we therefore favor US financial assets? Not necessarily, given the actuarial impact of rising interest rates on market valuations. **US technology stocks (long-duration growth assets), and in particular the "Magnificent Seven" index (Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, Tesla), down 11% since January 1st, have not acted as safe havens since the start of the conflict.** The evolution of long-term interest rates (nominal and real rates) must be monitored very closely. **Ultimately, in this chaos, outside of the energy and defense sectors, only cash and long volatility positions (hedging strategies) are capable of absorbing the shock.**

munitions and drones, like the Royal Navy which is now only a shadow of its former self.

Two NATO countries have suffered missile and drone attacks on their national soil: Cyprus (specifically on a sovereign military territory of the United Kingdom) and Turkey (against Kurdish positions). Have we heard any NATO officials or member states threaten to invoke Article 5 of the treaty? Furthermore, what about the credibility of Western powers in matters of military partnerships? With the Gulf states—not all of which, of course, have alliance treaties—they have received stark confirmation that only the United States can offer them life insurance and help protect their vital infrastructure. Despite their anti-Trump sentiment fueled by repeated humiliations from the White House, Europeans would be well advised to defend their own interests first and foremost, and not to mistake their adversary. **For Europe, the closure of the Strait of Hormuz for more than a few weeks could lead not only to another major energy crisis, but more broadly to a new disruption in supply chains (petrochemicals, plastics, fertilizers, semiconductors, etc.).** While Middle Eastern LNG represents only a small share of Europe's natural gas imports (just 3%), rising spot prices and supply problems for Asian consumers are intensifying competition for LNG carrier cargoes, even though European natural gas reserves were only 30% full at the end of winter, before the start of the conflict. The war in the Middle East does not pose an acute supply problem for Europeans, unlike the start of the conflict in Ukraine, which led the EU to turn away from Russian gas and urgently diversify its supply sources. Asia is far more exposed to supply disruptions. **Nevertheless, the sharp**

price pressures, which incidentally benefit North American LNG exporters, are once again weakening European economic growth, which was expected to rise by barely 1% in 2026 before the events of March. Once again, this crisis highlights the extreme fragility of the European economy and its external dependence on key products such as refined petroleum products and fertilizers. Europe is ultimately paying the price for its neglect of heavy industry and the export of its negative externalities (relocation of production sites) thousands of kilometers away.

**Eighteen months after the publication of the Draghi report, where does the reindustrialization of Europe stand, especially as some public officials acknowledge the disastrous choices of the last twenty years (see the Commission President's insightful comments on abandoning civilian nuclear power, a dispatchable, affordable, and carbon-free energy source)?** The European Union (EU), whose institutions were created to administer a free trade area, lacks both the competence and the *appropriate structures* to direct policies requiring industrial planning, engineering, and technical expertise. In the realm of international trade, the EU still manages to play its role fully and sign free trade agreements (India, Mercosur, Australia, etc.). However, recent European recovery plans, such as *Next Generation EU* adopted during the pandemic, have revealed the main flaw of this bureaucratic nightmare that Brussels has become: its inability to ensure the proper

implementation of decisions made at the highest level. The most pitiful illustration of the European institutions' lack of productivity, in terms of concrete results, is the fiasco surrounding the billions of euros in subsidies poured into battery *gigafactories* (the bankruptcy of Northvolt, the cancellation of numerous projects, etc.), which never managed to reach the quality standards of Chinese batteries, nor, above all, their production costs. Without absolving member states of their responsibility for the weakening of the European project over the past twenty years—primarily Germany and France—we must acknowledge that the EU has a knack for stringing together summits, declarations of intent, impassioned speeches, and omnibus directives. The awareness is there. But is it truly sincere? "Naïve" is the adjective usually chosen to describe European policy over the last twenty-five years, and to absolve the institutions of all responsibility. It is rather poorly chosen, when ideological choices vie with blatant incompetence. **Anticipation and planning should be the key missions, at the heart of European integration.** The United States places greater trust in private initiatives, providing them with unwavering public and bipartisan support; China, with its more statist approach, leaves the planning of competitive industrial sectors to engineers. **The EU would do well to draw inspiration from these two models, which do not preclude state intervention but prioritize the defense of their respective national interests.**

## CONCLUSION

The confused situation on the military and diplomatic fronts does not justify taking reckless risks on the financial markets. The trend in economic forecast revisions and the earnings of listed companies is decidedly downward, even in the best-case scenario of a short-term conflict with limited damage to the vital infrastructure of the Gulf countries.

**Diversification, especially sector-based diversification, will certainly play its role in mitigating market volatility, provided one is willing to invest in sectors considered "unsustainable," yet essential in a conflict-ridden economy where sovereignty issues have become vital** (carbon-based primary energy, mining stocks, energy-intensive industries, defense stocks, etc.). **The pressure on long-term interest**

**rates, both nominal and real, demonstrates that the New York Stock Exchange, heavily weighted towards growth stocks, is by no means a safe haven for investors, despite the US economy's lower sensitivity to energy shocks.** Asia is highly exposed to supply disruptions.

While the US Federal Reserve is adopting a wait-and-see approach, monetary policy errors cannot be ruled out in the eurozone, as the ECB remains fiercely committed to its mission of fighting inflation, even though the current crisis is primarily a supply shock. Economic agents' inflation expectations, which have been firmly entrenched until now, need to be closely monitored. In this context, we reiterate our recommendation for caution on bond markets, both in terms of duration and credit risk, and favor *investment-grade issues*.

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