

# The Global Investment Strategy View

We explore the outlook for economies and markets, and provide year-ahead views across asset classes.



APRIL 2026

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## KEY TAKEAWAYS

We continue to embrace the notion that geopolitical shocks rarely deliver long-lasting impacts on markets. But escalating conflict in the Middle East and the subsequent spike in energy prices remind us that geopolitical shocks can certainly cause disruption in the near term.

Thus far, the risk-off move in markets has weakened sentiment. Stocks have fallen even as earnings revisions have moved higher. While this de-rating could be creating a long-term buying opportunity, patience and humility are paramount. The outcome of the conflict is unknowable and the longer energy prices remain elevated, the greater the risk to our fundamental growth and inflation outlook.

This month we share our energy shock playbook. The range of potential market outcomes is broadening. In this report we think through three scenarios for oil prices and consider how they would affect our economic and investment outlook.

Our base-case view calls for a modest decline in oil prices over the next three to six months, which would mean only minor changes to our growth and inflation outlook. In this scenario, we would expect the Federal Reserve to remain on hold, rates and the dollar to remain range-bound, and equity markets to recover by year-end on the strength of earnings growth.

While our base case remains constructive, we also stress-test our views with two higher-for-longer oil price scenarios to assess what might cause a more meaningful increase in recession concerns and further de-risking in global markets.

While equities have sold off globally, we've seen greater downside in markets that are more dependent on energy from the Middle East. We examine both the macroeconomic and market implications of the energy shock at a regional level. While safe-haven assets such as the dollar have rallied, gold has underperformed as investors have locked in recent gains. We continue to see meaningful upside in gold prices by year-end, but have modestly reduced our year-end target to \$5,500-\$5,800 an oz as investors prioritize liquidity in the short term.

Uncertainty creates opportunity. Regardless of which scenario you believe is most likely, recent volatility has created compelling options across different markets. Now is the time to stay disciplined and diversified. Focus on long-term opportunities over short-term headlines.

### Three opportunities in focus:

**Take advantage of tactical opportunities in strategic industries.** The escalation of conflict in the Middle East further reinforces the shift from globalization to fragmentation. The move in energy markets should accelerate the focus on the security of domestic supply chains. Consider opportunities in U.S. industrials, European security and defense, and Chinese technology.

**The upside to downside - Monetize volatility.** Elevated market uncertainty has made option-based strategies that sell volatility more compelling. Strategies such as structured notes can offer downside protection to buffer against near-term volatility while still providing upside exposure to markets.

**Take small steps out of cash.** The spike in energy prices and inflation expectations has caused markets to dramatically reprice central bank expectations. The sharp rise in short-term rates has created an attractive opportunity to modestly extend duration, generating more income and adding potential protection should markets price in growing fears about economic growth.

## THE APRIL 2026 SNAPSHOT

EQUITIES				
GEOGRAPHY	Negative	Neutral	Positive	MoM
U.S.			●	
Europe		●		
Japan		●		
EM			●	
US SIZE/FACTOR				
Large Cap			●	
Small/Mid Cap			●	+1 ▲
US SECTORS				
Staples	●			
Energy	●			
Financials			●	
Industrials			●	
Info Tech			●	
Utilities			●	
Materials		●		
Healthcare			●	
Real Estate	●			
Other: Con Disc & Comm Svcs		●		

FIXED INCOME				
ASSET CLASS	Negative	Neutral	Positive	MoM
Government		●		
Inv. Grade			●	
Extended Credit			●	
SUB-ASSET CLASS				
Munis			●	
Hybrids (Preferreds)			●	
High Yield		●		
Emerging Markets			●	

FX & COMMODITIES				
ASSET CLASS	Negative	Neutral	Positive	MoM
DXY Dollar Index		●		
Brent Crude Oil	●			
Gold			●	

Note: MoM = Month over month. This snapshot summarizes conviction across key GIS views. It is not meant to constitute portfolio management or to be used as a portfolio construction tool.

All outlook estimates represent the midpoint of our range. Rates have a +/-25bps range, and all other outlooks are within the range that is provided. **Estimates, forecasts and comparisons are for illustrative purposes and are as of the dates stated in the material.** Please refer to "Definition of Indices and Terms" for important information. **Outlooks and past performance are no guarantee of future results and investors may get back less than the amount invested.** It is not possible to invest directly in an index.

## THE VIEW

The outlook from here comes down to one question: does the Iran conflict become a sustained supply problem or a transient shock? The macro consequences depend far more on the duration of elevated prices than the first headline-driven spike.

Last month we accurately pointed to the likely risk of economic warfare and a Strait of Hormuz closure; however, understanding the path forward is more challenging as the outlook is dominated by uncertainties that are both exogenous and nonlinear. The duration, scale, and transmission of any disruption depend on geopolitical responses, which are inherently unpredictable and can rapidly change. As a result, the range of plausible outcomes is wide, limiting the usefulness of a single-point forecast.

That is why we frame the outlook as scenarios rather than a single forecast. Our base case is Scenario 1, which assumes no sustained physical supply outage and a gradual fading of the near term risk premium. We then bracket that central case with less likely outcomes that require more persistent disruption and carry larger macro consequences.

### Scenarios

#### ① Oil averages around ~\$80/barrel over the next three to six months (our base case)

Conflict is resolved within weeks and oil supply returns toward pre-conflict levels. With no sustained physical outage, prices remain temporarily elevated as a geopolitical risk premium lingers—but fades as tail risks are avoided and markets regain confidence in flows, logistics, and spare capacity.

#### ② Oil plateaus around ~\$100/barrel for three to six months

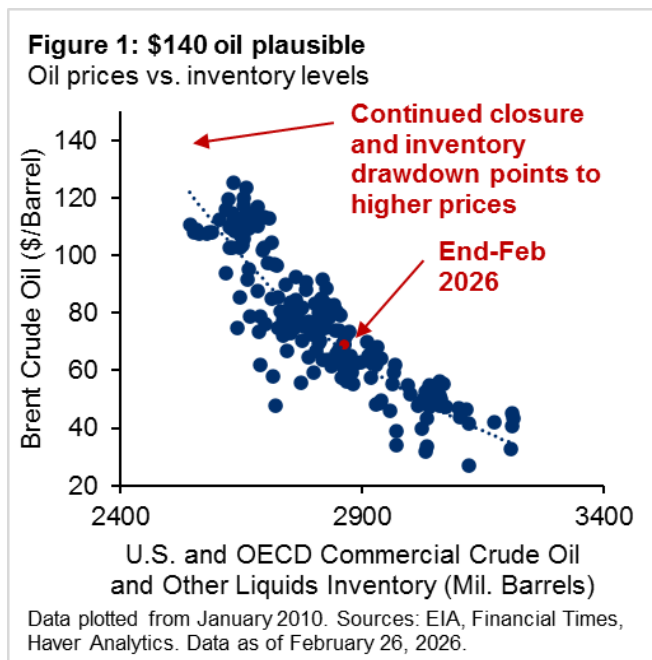
Disruption proves more persistent: the Strait remains partially constrained, some flows continue, and regional damage or shut-ins keep supply tight. A higher risk premium holds oil near ~\$100/bbl for longer, with growth slowing but recession narrowly avoided as policy stays cautious until inflation stabilizes.

#### ③ Oil at or above ~\$140/barrel for a prolonged period

A severe and prolonged disruption: the Strait remains closed through the summer and broader regional attacks materially impair production, storage, refining, and export facilities. The shock becomes intensified at the macro level, tightening financial conditions and significantly increasing recession risk; policy ultimately pivots toward rate cuts as growth indeed deteriorates towards recession (with the historical analog being the 1990/1991 oil-shock related recession).

#### Why we center on Scenario 1, and how we could get to scenario 3

We recognize it's hard to pin down a single base case with confidence. We choose Scenario 1 as our central case reflecting the historical tendency for geopolitically driven oil spikes to mean-revert as tail-risk pricing fades. While impossible to predict, we assume incentives are tilted towards a reopening of the Strait before we see sustained supply side damage. From roughly \$60/barrel pre-shock, we expect an average closer to \$80/barrel over the next few months to reflect a temporary risk premium as uncertainty around flows, shipping, insurance, inventories, and spare capacity is resolved, before gradually normalizing as worst-case outcomes are avoided. A sustained supply shortage that drains global inventories could plausibly move oil to \$140/barrel or higher (Figure 1), which characterizes the downside risk scenario.



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# THINKING THROUGH SCENARIOS: U.S., EMEA, ASIA MACRO & MARKETS

Asset class	Region	Metric	Prior baseline	Scenario 1: Oil averages \$80 for three to six months	Scenario 2: Oil averages \$100 for three to six months	Scenario 3: Oil at or above \$140 and stays there for three to six months	
		*Average of WTI & Brent	—	Conflict is resolved within weeks, oil supply returns to pre-war levels, physical destruction and a geopolitical risk premium keeps the oil price elevated above equilibrium levels.	Strait remains partially closed through April, but some oil flows through to Asian importers. Destruction to oil production facilities, lasting effects of shut in production, as well as elevated risk premium keeps oil elevated near \$100/bbl.	The Strait remains closed through the summer. Further attacks around the region destroy production, storage, refining, and export facilities.	
		<i>More likely</i>					<i>least likely</i>
Macro	US	Unemployment '27 mid-year, %	4.25%–4.75%	4.25%–4.75%	4.75%–5.25%	5.50%–6.00%	
		Real GDP	1.50%–2.00%	1.25%–1.75%	0.75%–1.25%	-0.50% to -1.00%	
		Core PCE inflation	2.30%–2.50%	2.45%–2.65%	2.60%–2.80%	2.70%–2.90%	
	Europe	Eurozone real GDP	1.00%–1.50%	0.75%–1.25%	0.25%–0.75%	-0.75% to -1.25%	
		Eurozone core inflation	1.80%–2.00%	1.9%–2.1%	2.1%–2.4%	2.3%–2.6%	
China	China real GDP	4.20%–4.70%	4.20%–4.70%	4.20%–4.70%	4.00%–4.50%		
	China CPI inflation	0.40%–0.60%	0.40%–0.60%	0.50%–0.70%	0.60%–0.80%		
Rates	US	Fed funds, %	3.25%–3.50%	3.50%–3.75%	3.25%–3.50%	2.25%–2.50%	
		U.S. 10-year, %	4.30%	4.05%–4.55%	4.45%–4.95%	3.55%–4.05%	
	Europe	ECB deposit rate, %	2.00%	2.25%	2.50%	2.00%	
	Bund 10-year, %	2.45%–2.95%	2.45%–2.95%	2.90%–3.40%	2.55%–3.05%		
FX	-	EURUSD	1.18	1.16	1.14	1.1	
	-	DXY	98	100	102	105	

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		<i>More likely</i>					<i>least likely</i>
Credit	US	U.S. IG spread, bps	80–110	80–110	105–135	170–200	
		U.S. HY spread, bps	325–375	325–375	425–475	625–675	
	Europe	European IG spread, bps	75–105	75–105	100–130	155–185	
		European HY spread, bps	275–325	275–325	350–400	525–575	
	EM	CEMBI spread, bps	185–235	180–230	210–260	300–350	
		EMBI spread, bps	265–315	265–315	310–360	425–475	
	Asia	Asia IG spread, bps	50–80	50–80	70–100	150–180	
		Asia HY spread, bps	375–425	375–425	450–500	625–675	
	Equities	US	S&P 500 YE'26	7,400–7,600	7,400–7,600	7,000–7,200	6,400–6,500
			Expected drawdown	6,500	6,500	6,200	5,800
Europe		Euro Stoxx 50 YE'26	6,000–6,100	5,850–5,950	5,500–5,700	4,800–4,900	
		Expected drawdown	5,350	5,350	5,000	4,400	
China		MSCI China YE'26	95–101	94–100	82–87	69–73	
		Expected drawdown	77	77	72	65	
Japan		TOPIX YE'26	3,800–3,850	3,710–3,800	3,400–3,500	3,300–3,450	
		Expected drawdown	3,500	3,500	3,300	3,100	

GDP and core inflation estimates represent Q4 year over year growth rates YE '26. Core inflation in the US is core PCE. \*China inflation is headline.

## Conflict in Iran: Transmission channels to the U.S. economy

The US is a net energy exporter, but that does not make it immune to a global oil price spike triggered by the conflict in Iran. Oil is globally priced, and the US stands out on the high side in oil consumption per capita versus other large economies (Figure 2). That matters because higher oil prices function like a tax on real incomes: in the short run, energy demand is relatively inelastic—commuting, freight, and heating demand does not adjust quickly—so households absorb the shock through reduced real disposable income and a rotation in spending away from discretionary categories toward essentials. The distributional effects are also meaningful. Energy represents a far larger share of the budget for lower-income households than for higher-income households (Figure 3), so an oil shock tends to be regressive, intensifying pressure on the marginal consumer, which has already been struggling with higher credit delinquencies (e.g., student loans and autos). If oil prices remain elevated long enough to pass through into retail fuel, transportation, and portions of core services, the near-term profile for inflation could become less favorable even as growth cools—an uncomfortable mix for policymakers.

However, inflation is only one part of the macro transmission. The other swing factor for growth is whether the energy shock tightens financial conditions, particularly through equity prices and broader wealth effects. That interaction is especially important in the current cycle because consumer spending has been supported disproportionately by wealth gains; consumption has been running ahead of underlying real disposable income growth in recent quarters (Figure 4). In a downside configuration where oil spikes and equities fall meaningfully, the growth hit could be amplified. Based on our estimates, if oil were to spike and stay elevated while the stock market were to decline by 15–20% or more, the combined impulse to growth would be comparable to what we typically observe in an average US recession (Figure 5).

There are additional channels worth monitoring, namely whether household saving rates shift in the context of the global energy shock and whether term premium frictions emerge in the US bond market. We delved more deeply into these transmission mechanisms in a recent publication, see [here](#).

### Scenario 1 – At Least For Now

As mentioned in the prior section, we believe Scenario 1 is the most likely. Scenario 1 acknowledges a shift; however, the changes to GDP, core inflation, the labor market impact

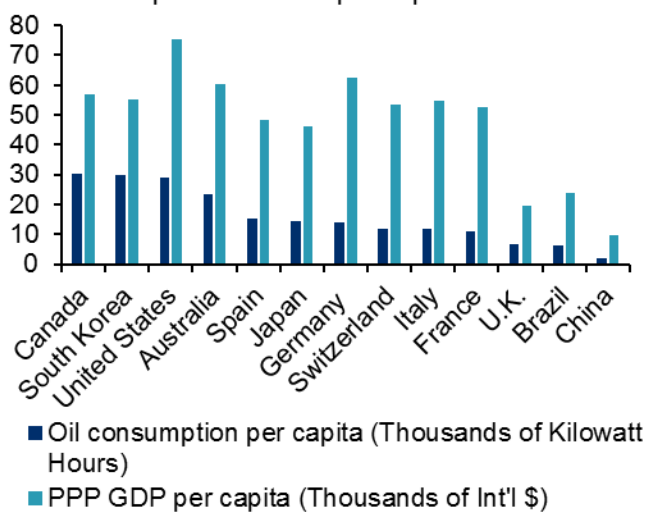
and the Fed view are minor when taking a zoomed out perspective.

Nevertheless, by communicating Scenarios 2 & 3, we are signaling that US macro risks are skewed to the downside. In Scenario 3 (the recessionary scenario) we project that the US unemployment rate would be rising to nearly 6%. Even with higher core inflation, the labor market damage in this scenario would likely force the Fed to cut rates meaningfully, by more than 100bps. We do not expect any major fiscal stimulus in this scenario, as we do not believe the political appetite in Congress would be there for it. While least likely, Scenario 3 anchors the recessionary tail risk; risk assets would likely reprice materially lower, comparable to what markets priced during last year’s peak “Liberation Day” angst (Figure 6).

We are often asked whether the Fed would hike in an oil spike? In short our answer is no, but admittedly it depends on certain assumptions. As long as 1) inflation expectations stay anchored, 2) the government doesn’t respond with large fiscal stimulus, and 3) meaningful “second round effects” driving wages higher do not emerge, then we believe the Fed will avoid hiking as a result of the oil price shock.

**Figure 2: U.S. has high oil consumption per capita**

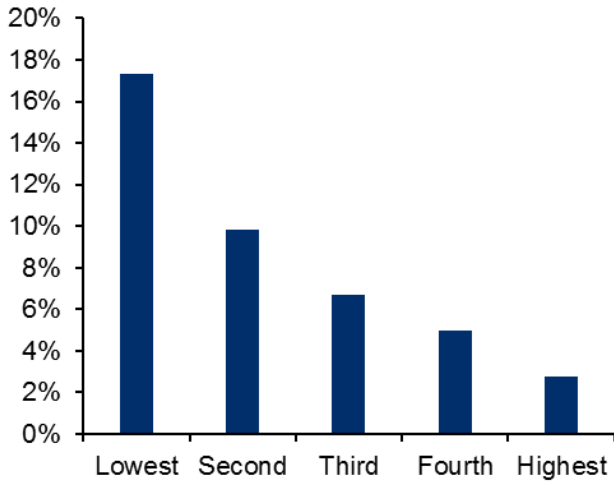
Oil Consumption and GDP per capita



Sources: World Bank, Haver Analytics. Data as of 2024.

**Figure 3: High energy prices fall more on lower-income consumers**

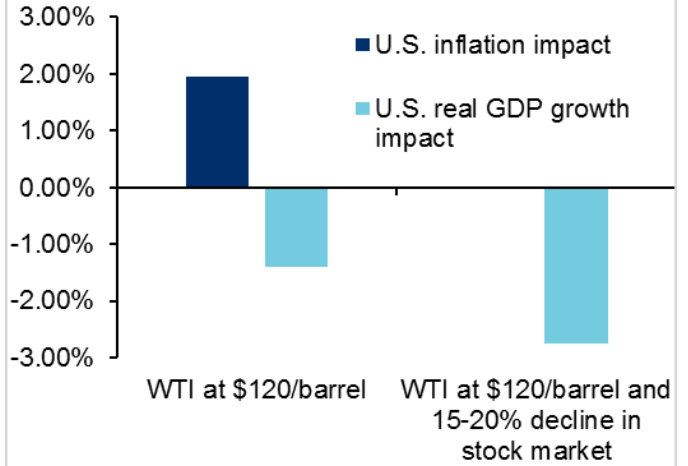
U.S. household energy expenditures by quintile of income, % of pretax income, 2024



Sources: BLS, Haver Analytics. Data as of 2024.

**Figure 5: In a downside scenario, oil prices interact with stocks**

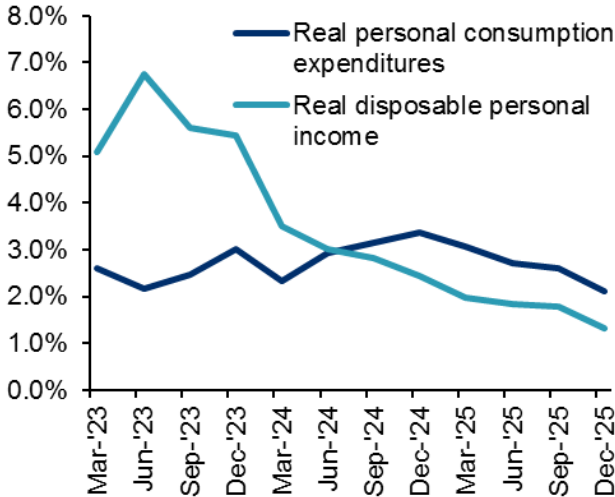
Impact on U.S. macro-outlook, %pts



Source: J.P. Morgan Private Bank. Forecasts as of March 16, 2026.

**Figure 4: Consumer income growth has been below spending**

Year over year change, %



Sources: Haver Analytics, BEA. Data as of December 31, 2025.

**Figure 6: Current market moves relative to Liberation Day**

	Liberation Day	Current
<b>Poly market recession odds</b>	70%	36%
<b>U.S. HY spreads</b>	475 bps	385 bps
<b>Equity drawdown</b>	-22%	-8.2%

Note: Uses VALUA index for equities. Source: Bloomberg Finance L.P. Data as of March 27, 2026.

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## Conflict in Iran: how does the impact vary from country to region?

Outside the US, the price shock is felt more directly. The US is a net energy exporter; most of Europe and Asia are not. For net importers, higher oil and natural gas (LNG) function as a direct tax on real incomes, corporate margins, and trade balances—and the effect is amplified when local currencies weaken, because energy is globally priced in dollars. That combination makes this shock stagflationary for much of the rest of the world: inflation moves higher while growth moves lower, and policymakers are forced into uncomfortable trade-offs between the two. But, it's not felt uniformly around the world.

**Europe: the policy bind is the main vulnerability.** Europe pays the global price for crude regardless of sourcing, and remains acutely exposed to LNG and power prices at the margin. The result is a difficult macro mix: higher inflation alongside weaker growth, right when the ECB—with its single mandate on price stability—is sensitive to its credibility. In our base case (oil averaging \$80 over the next three to six months), Eurozone growth slows and core inflation drifts higher, with the ECB hiking modestly. The central bank reaction function is concave: at moderate oil levels, policymakers lean hawkish to anchor expectations; but above ~\$140, demand destruction tips the Eurozone into outright contraction and the ECB is forced to cut as slowing growth eventually caps inflation. Europe is more likely than the US to get caught in the uncomfortable middle of that curve, where inflation fears linger even as activity deteriorates under the weight of higher rates and energy costs.

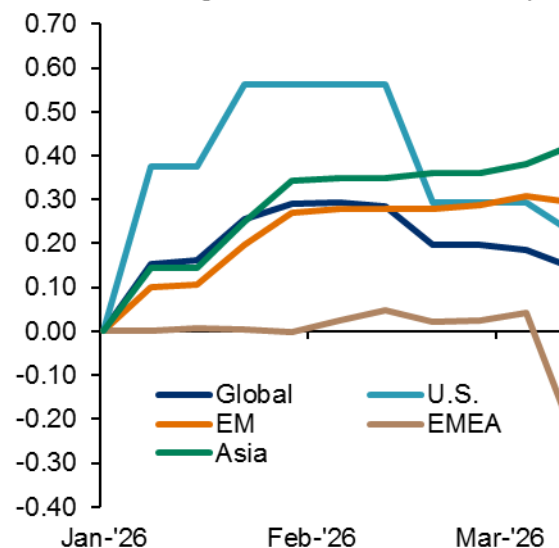
**Asia: who can weather the storm?** Many Asian refiners buy Middle East-linked grades priced off Dubai crude, not Brent. When the disruption is centered on the Gulf, the Dubai–Brent spread widens—meaning Asian importers pay a regional scarcity premium on top of the global benchmark. Near term, that premium has widened (Figure 8), implying approximately a +30% increase in the average crude price paid by Asia. The risk is not just expensive energy—it is that availability becomes tight enough that quantity, not price, becomes the binding constraint, particularly refined products where storage is harder (Figure 9).

**China** is comparatively insulated thanks to subsidies that limit the pass through to the consumer and substantial oil reserves. We expect China's GDP to hold steady at higher oil prices with CPI barely rising; the cost instead shows up in fiscal burdens, refiner margins, and corporate profitability. The big question is how large are China's strategic oil reserves? It's known they had been building their strategic

petroleum reserves and overall levels could speak to why China has been relatively quiet throughout this crisis. **Japan** is more growth-sensitive: output slows meaningfully at higher oil prices while core CPI rises, complicating the BoJ's path. In the severe downside (Scenario 3), Japan's economy contracts and yen weakness accelerates, illustrating how terms-of-trade damage can overwhelm the currency's traditional safe-haven status. Emerging Markets more broadly have held up better than expected given recent dollar strength. Although volatility could remain high in the near-term, we expect healthy EM fundamentals to reassert themselves once this crisis subsides.

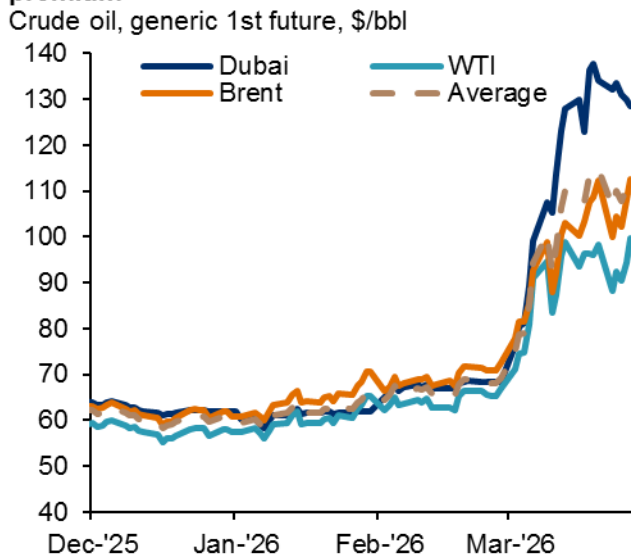
While commodity exporters clearly stand to benefit, the “losers” are less clear cut. **A more nuanced approach is to differentiate by who must absorb the shock visibly (through inflation and rates) versus who can absorb it through petroleum reserves or fiscal resources. In this vein, China and parts of Asia look better than expected, while Europe is in a tougher bind. The second takeaway is that the most difficult oil price zone for stock-bond asset allocation may not be the extreme (\$140+) but the middle (\$100) scenario, where stagflation compels central banks to tighten into weakening growth, versus an outright recession where they can cut rates—so investors should be most cautious on countries stuck in that policy no-man's land.**

**Figure 7: Large Europe growth downgrades**  
Cumulative change in JPM GDP forecast, %pts



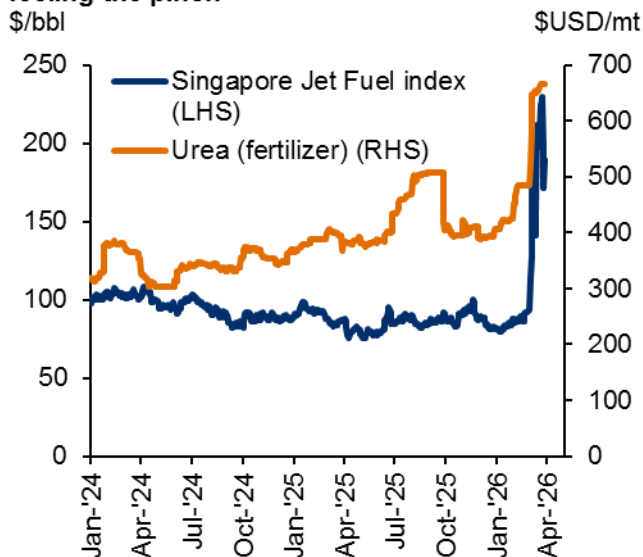
Source: Bloomberg Finance L.P. Data as of March 20, 2026.

**Figure 8: Asian refiners forced to pay regional premium**



Source: Bloomberg Finance L.P. Data as of March 31, 2026.

**Figure 9: Refined products and fertilizers are feeling the pinch**



Source: Bloomberg Finance L.P. Data as of March 26, 2026.

**Cross-asset analysis: Parsing the market narrative and diverging opportunities**

Recent market movements reveal a market that, on the surface, looks broadly risk-off, a development which challenges our “buy-less America” thesis we detailed in our February publication.

The risk-off signals are familiar: the U.S. dollar has rallied in its traditional safe-haven role; global equities have underperformed U.S. equities, consistent with risk aversion typically pressuring riskier, higher-beta markets; and gold has sold off, consistent with investors prioritizing liquidity (Figure 10)

Still, there are interesting nuances under the hood. The market is not uniformly dumping global assets for U.S. ones. It is being selective, splitting regions and assets by conflict exposure via the distinction between oil exporters and oil importers. This helps explain why some global exposures have held up better than others (e.g., COP, BRL, NOK) despite the headline USD/U.S. equity relative outperformance (Figure 11). This matters for our “buy-less America” thesis: we read the USD bid as a shock-phase liquidity move and an energy-exposure filter, rather than a clean regime shift back toward durable U.S. exceptionalism. In our base case, where the conflict proves relatively short-lived and the Strait of Hormuz reopens, we would expect the “buy-less America” thesis to reassert itself as the risk-off trade eventually unwinds.

Rates have been the clearest pressure valve of the conflict. Globally, investors have recalibrated expectations for central-bank reaction functions, driving a sharp repricing higher across the front end due to inflation fears. (Figure 12).

Against this backdrop, gold has not provided a clean hedge in the initial shock phase, which is consistent with our view that gold is better framed as a diversifier than a reliable, point-in-time “risk-off” hedge during fast geopolitical shocks or deleveraging episodes. In these windows, USD strength, rising real rates, and technical/liquidity dynamics (including profit-taking) can dominate near-term price action (Figure 13). Some commentary has suggested reserve managers may be slowing purchases—or even outright selling gold—to raise liquidity amid weaker currencies and higher near-term funding needs (energy import bills, defense needs, and/or FX intervention). We haven’t seen direct evidence of outright central bank selling, though at a minimum the pace of buying may be moderating at the margin. Still, our longer-term case for gold remains intact: we continue to see official-sector diversification away from USD concentration as an important pillar, and we view gold as a useful portfolio

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diversifier and store of value in a more fragmented global economy, particularly as a hedge to regime risks (fiscal/debt dynamics, sanctions/capital restrictions). Our gold outlook from here remains constructive, but we lower our end-of-year price target to \$5500-5800/oz, implying an ~25% gain from current levels.

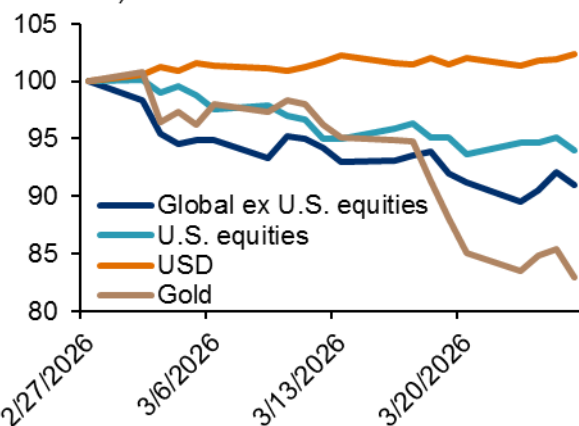
**Where we see opportunity:**

We see scope to position for normalization in markets less exposed to the oil shock premium, while staying selective in assets most sensitive to sustained energy-driven inflation. With that framing, we see three main opportunity sets:

- 1) **Short-dated bonds, with an emphasis on IG corporates:** We think that rates markets are too hawkish, creating an opportunity to lock in attractive yields. We see particular opportunity in short-dated U.S. sovereigns and IG corporates with decent forward looking returns (Figures 14 and 15), alongside select ex-U.S. front-end exposures in the U.K. and EMEA, anchoring our view that the recent repricing in policy rate expectations has likely overshot. Short-dated IG credit works in our base case and in a downside scenario, giving a portfolio stable returns and downside protection. We also call out the recent pullback in U.S. preferreds as an attractive entry point for longer-term portfolio carry.
- 2) **Strategic Industry Equities:** We continue to favor global national champions in sectors such as semiconductors, industrials (including defense), utilities, and selective healthcare subsectors. As outlined in our [2026 Outlook](#), geopolitical fragmentation is one of our high-conviction themes this year. We think estimates of defense spending growth are likely too conservative in the U.S. and Europe. Furthermore, many defense companies' stock prices are lower since the conflict started making this an attractive entry point. We remain positive on industrials, they have outperformed year-to-date, and remain supported by AI-related and the push towards sovereign self-sufficiency.
- 3) **Taking advantage of higher volatility through structured products:** Elevated volatility inflates option premiums. Investors can effectively convert heightened uncertainty into enhanced yield or deeper downside protection through structured products.

**Figure 10: Buy-less America theme challenged amid risk off environment**

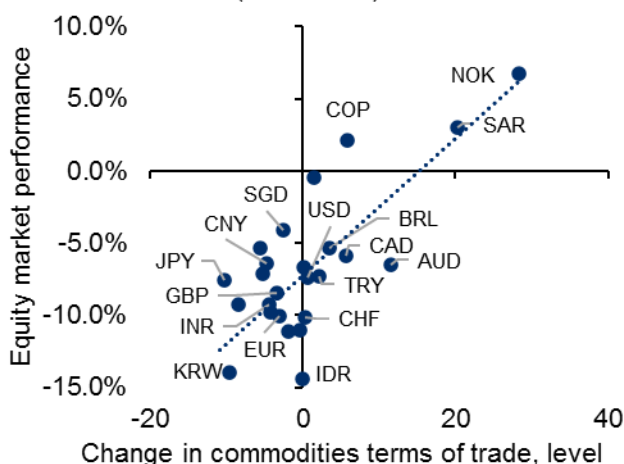
Instruments indexed to 100 at start of conflict (2-27-2026 = 100)



Note: Uses MSCI ACWI ex U.S. equal weighted, MSCI U.S. equal weighted, GS USD Trade-weighted index, and spot gold prices. Source: Bloomberg Finance L.P. Data as of March 26, 2026.

**Figure 11: Markets are differentiating between winners and losers**

Equity performance vs changes in terms of trade since conflict start (Feb-27 '26)

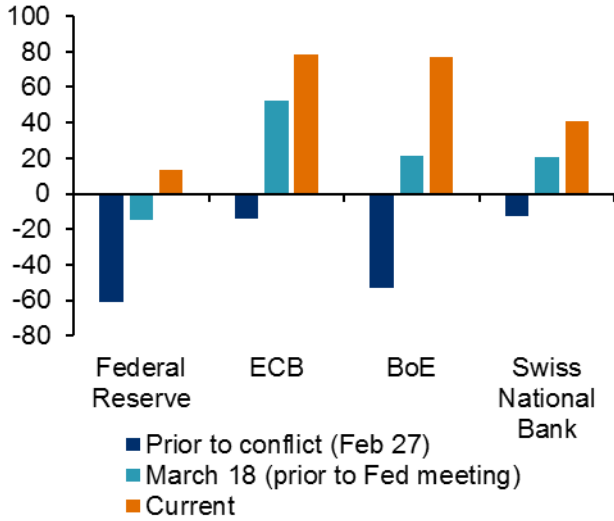


Note: Uses MSCI equity indices. Source: Bloomberg Finance L.P. Data as of March 27, 2026.

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**Figure 12: Globally, central bank expectations have dramatically shifted**

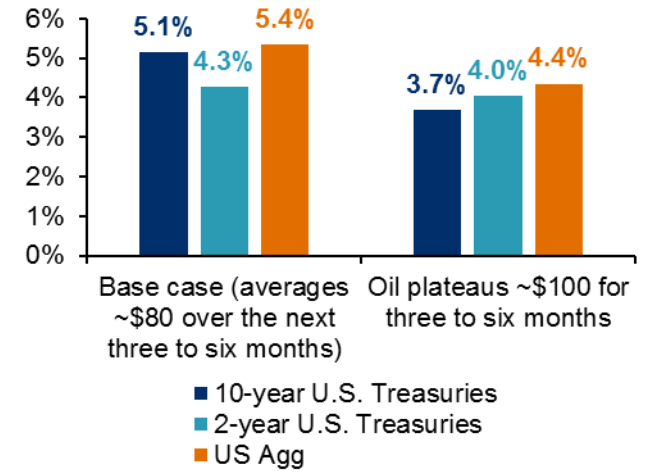
Change in overnight rate expected by Dec 2026, bps



Source: Bloomberg Finance L.P. Data as of March 26, 2026.

**Figure 14: Asymmetry in front end of the curve**

Expected 12 month return, %



Note:  $E(\text{Return}) \approx \text{Coupon income} \pm E(\Delta \text{Price})$  due to JPM WM view of benchmark yields. Indices used: Bloomberg US Agg Corporate. Source: Bloomberg Finance L.P. Data as of March 27, 2026.

**Figure 13: Average excess 1-year returns (over cash) in economic environments**

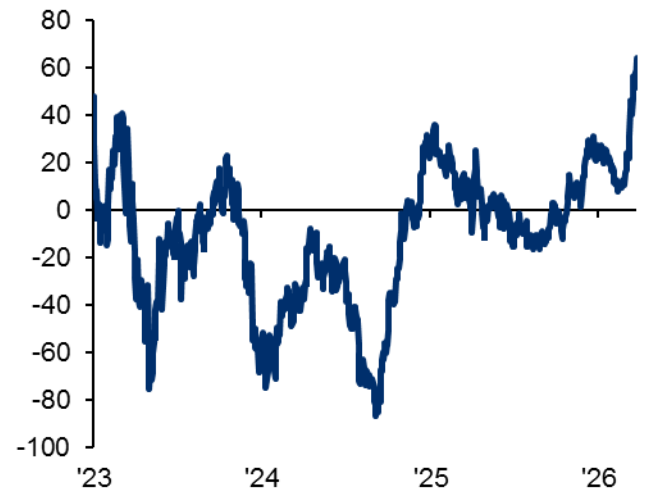
1/1/1997 – 12/31/2025 returns; quarterly periodicity

		U.S. Dollar (DXY)	
		Rising	Falling
Real 10-Year Yield (10yr TIPS yield)	Rising	Stocks: +6% Bonds: +1% Gold: -2%	Stocks: +16% Gold: +8% Bonds: 0%
	Falling	Gold: +4% Bonds: +4% Stocks: +0%	Gold: +16% Stocks: +6% Bonds: +4%

Sources: Bloomberg Finance, L.P.; Uses quarterly returns since 1997. A rising (falling) Dollar period is defined as a quarter in which the DXY is greater (lower) than the 1-year moving average level. A rising (falling) Real 10-year yield quarter is defined as a quarter in which the 10yr TIPS yield is greater (lower) than the 1-year moving average yield; Stocks = S&P 500, Bonds = US Treasuries

**Figure 15: Being paid to step out of cash**

2-yr. U.S. IG corporate bond yield - 3m T-bill yield,



Note: 2yr corporate bond uses IGUAC02 BVLI Index. Source: Bloomberg Finance L.P. Data as of March 26, 2026

## TOP TRADE IDEAS 2026

### Strategic Industries and National Champions

**Why now:** Governments are accelerating industrial policy as geopolitical risk rises and supply chains re-fragment. Defense rearmament, grid buildout, and onshoring incentives are driving multi-year capex cycles that can support earnings durability for “national champions” with domestic footprint, backlog visibility, and strategic relevance.

**Key Drivers:** (i) Defense budget expansion and faster procurement cycles, (ii) power and grid constraints driven by AI/datacenter load growth, and (iii) reshoring/nearshoring incentives plus supply-chain security priorities that favor domestic capacity and automation.

**Risks:** A faster de-escalation in geopolitics, fiscal tightening, or election-driven policy shifts could reduce spending momentum. Higher rates and input costs can pressure project economics; execution risk (permits, labor, supply bottlenecks) may delay cashflow realization. Concentrated exposure to government demand can increase headline and contract risk.

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### Structured Notes

**Why now:** Elevated volatility and macro uncertainty have lifted option premia, improving the value proposition for equity-linked structured notes. Investors can monetize higher implied vol to potentially enhance yield or define outcomes versus holding the index outright, while keeping exposure to equities with more explicit downside parameters.

**Key Drivers:** (i) Higher implied volatility supporting richer coupons/structures, (ii) dispersion and choppy markets that favor carry-oriented payoff profiles, and (iii) investor demand for defined outcomes amid uncertain growth/inflation paths.

**Risks:** Notes embed issuer credit risk and can underperform in sharp, sustained rallies versus outright equities. Path dependency, call features, and barrier/buffer mechanics can create non-linear losses in fast selloffs. Secondary liquidity and pricing transparency can be limited; outcomes depend on holding to maturity and on realized volatility vs implied.

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### Short Dated Bonds

**Why now:** Front-end rate markets have repriced sharply higher on the Iran conflict and resulting global energy shock, pulling forward a more hawkish central-bank path. In several markets, pricing now embeds multiple hikes and/or fewer cuts than fundamentals likely justify, creating an attractive asymmetry in short maturities: you earn elevated carry/roll, while the bar for “even more hawkish” outcomes is higher.

**Key Drivers:** (i) Energy-driven inflation upside and “second-round effects” concerns, (ii) notably hawkish central-bank messaging, and (iii) positioning/technicals amplifying the move at the front end. If growth softens or energy pressures fade, front-end yields can normalize faster than the market is currently pricing.

**Risks:** If the energy disruption proves larger and longer-lasting and inflation expectations re-accelerate, central banks may need to deliver more tightening than is currently expected. Volatility and liquidity/positioning dynamics can keep front-end yields elevated even if the peak in inflation is near-term.

## 2026 YEAR-END OUTLOOK NUMBERS

April 2026

Macro <sup>^</sup>		
Inflation	2026 YE	Old 2026 YE
U.S.	2.45-2.65%	2.30-2.50%
Eurozone	1.90-2.10%	1.80-2.00%
China	0.40-0.60%	
Real GDP Growth		
U.S.	1.25-1.75%	1.50-2.00%
Eurozone	0.75-1.25%	1.00-1.50%
China	4.20-4.70%	
Equities		
S&P 500	2026 YE	Old 2026 YE
Price	\$7,400-7,600	
P/E forward multiple	22.3x	
Stoxx Europe 50		
Price	€5,850-5,950	€6,000-6,100
P/E forward multiple	15.5x	
TOPIX		
Price	3,800-3,850	
P/E forward multiple	16.5x	
MSCI Asia ex-Japan		
Price	1,115-1,165	
P/E forward multiple	13.5x	
MSCI China		
Price	95-101	
P/E forward multiple	12.5x	

Currencies		
	2026 YE	Old 2026 YE
U.S. Dollar Index (DXY)	100 (98-102)	98 (96-100)
EUR/USD	1.16 (1.14-1.18)	1.18 (1.16-1.20)
USD/JPY	158 (156 - 160)	155 (153-157)
GBP/USD	1.30 (1.28-1.32)	1.33 (1.31-1.35)
USD/CNY	6.70 (6.60 - 6.80)	

Rates & Credit Spreads		
U.S.	2026 YE	Old 2026 YE
Eff. Fed Funds rate	3.50-3.75%	3.25-3.50%
ON SOFR	3.63%	3.33%
2-year UST	3.65%	3.60%
5-year UST	3.95%	3.85%
10-year UST	4.30%	
30-year UST	4.75%	
2s/10s spread	0.65%	0.70%
JPM U.S. Investment Grade	80-110	
JPM U.S. High Yield	325-375	
Europe		
	2026 YE	Old 2026 YE
ECB Deposit rate	2.25%	2.00%
5-year German Yield	2.30%	
10-year German Yield	2.70%	2.70%
BoE Bank Rate	4.00%	3.25%
10-year UK Gilt	4.30%	4.60%
EUR IG	75-105	
EUR HY	275-325	
EM		
	2026 YE	Old 2026 YE
EM Sovereign Index (EMBI)	265-315	
EM Corporate Index (CEMBI)	185-235	
JPM Asia IG (JACI IG)	50-80	
JPM Asia HY (JACI HY)	375-425	

Commodities		
	2026 YE	Old 2026 YE
Gold (\$ / oz)	\$5500 - \$5800	\$6000-\$6300
Brent (\$ / barrel)	\$62-\$67	
Commodity Index (BCOM)	130-133	
Natural gas (\$/MMBtu)	\$4.50 - \$5.50	

<sup>^</sup>GDP and core inflation estimates represent Q4 year over year growth rates. Core inflation in the US is core PCE. \*China inflation is headline.

Indices are not investment products and may not be considered for investments.

## MACRO VIEWS

### U.S. Growth

Most US macro data so far predates the Iran conflict, but March S&P Global PMIs offer an early read on potential impacts. The latest flash PMIs are clear: an inflation squeeze is weighing on activity. US businesses' output prices rose to 58.9 on the composite diffusion index, the highest since August 2022, while the output index fell to 51.4, the softest since the "Liberation Day" low in April 2025 of 50.6. S&P's economists noted the PMIs are consistent with underlying US real GDP growth of only 1.3% in Q1. Beyond PMIs, we're watching high-frequency consumer sentiment and credit card spending. Daily sentiment measures (e.g., Morning Consult) have weakened, with the March 25 print the lowest since Q4 2023. Despite softer sentiment, credit card spending has remained stable, per the daily Chase Card Tracker from JPMorganChase Investment Bank. Finally, the front-end repricing higher in the US yield curve aligns with a Fed likely on hold until it's clearer which side of the dual mandate is more stressed by the Iran conflict—inflation or unemployment. Even Governor Waller, who previously dissented in favor of lower rates, did not dissent at the latest FOMC and told CNBC that while the labor market still isn't completely healthy, "we'll [now] have to see what happens with inflation."

**What we're watching:** Global energy prices including for diesel fuels, daily consumer sentiment, measures of global supply side stress, the Iran conflict itself, layoffs data

**Our view: YE '26:** 1.25-1.75%



### U.S. Inflation

As with the growth data, most inflation data are stale. For higher-frequency signals, we look to the PriceStats daily inflation tracker published by State Street. That tracker—designed to approximate CPI—has risen from 2.7% year-over-year just before the Iran conflict to 3.55% as of March 22. Our framework for oil and US inflation follows the Fed's publicly available macro econometric model: each sustained \$10/barrel increase in oil prices raises inflation by roughly 30–35bps. WTI has moved from roughly \$60/barrel to \$90/barrel, which would imply about 1pp higher inflation. For core inflation, we use a rule of thumb that ~20–25% of an energy shock passes through to core. Our updated base case for year-end core inflation is 2.45–2.65%. The key watchpoint is whether Congress responds to the energy shock with renewed fiscal stimulus (e.g., consumer checks), and whether that interacts with longer-term inflation expectations. Our base case assumes no meaningful stimulus—we don't think the political support is there—and we expect long-run expectations to remain anchored. Still, this is the primary upside risk to the inflation outlook and bears close monitoring.

**What we're watching:** Energy prices, longer-term inflation expectations, Congress for signs of fiscal stimulus, wage growth, daily PriceStats tracker

**Our view: YE '26:** 2.45-2.65%



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### Europe Growth

The euro area faces mounting growth headwinds as the Middle East conflict drives a notable energy price shock, prompting us to revise our 2026 GDP outlook to 0.75-1.25% (from 1.00-1.50%). The growth impact transmits through two primary channels: elevated energy costs eroding household purchasing power, and the ECB's likely pivot to rate hikes tightening financial conditions to contain inflation spillovers. The region does, however, enter this episode from a position of relative strength compared to previous energy shocks (particularly versus 2022)—inflation had converged toward the ECB's 2% target and fiscal support has been notable. Growth should remain positive, albeit materially below potential. The key determinant is persistence: a protracted conflict would amplify these pressures and place the economy's underlying resilience under more strain.

The UK confronts a more acute challenge. The economy entered 2026 already grappling with persistent inflation, a weakening labor market, anemic growth, and limited fiscal headroom. With the BoE now poised to resume tightening to forestall second-round inflation effects, growth momentum could deteriorate further, while any fiscal support is likely to be limited and targeted in nature.

**What we're watching:** The duration and intensity of the Middle East conflict, second-round inflation effects in wages and prices, monetary response and financial conditions, household and business confidence, and the scale and targeting of any fiscal support.

**Our view: YE '26:** Euro area GDP: 0.75-1.25%.



### Europe Inflation

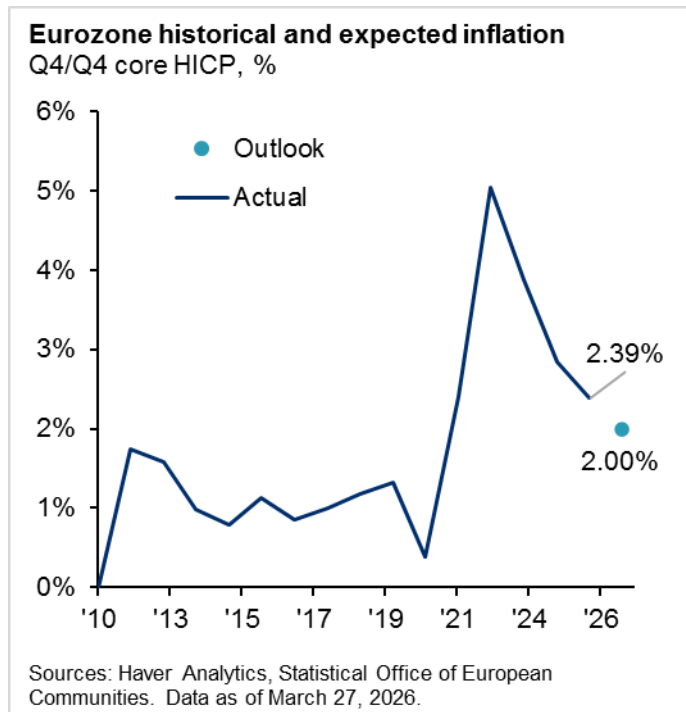
The euro area's disinflationary progress may stall. While inflation currently sits near the ECB's 2% target, surging energy prices threaten to push it higher, prompting us to nudge our year-end 2026 core inflation outlook to 1.90-2.10% (from 1.80-2.00%). Headline inflation could spike more notably before moderating throughout the year, assuming de-escalation in the conflict.

The key risk is entrenchment. If elevated inflation persists long enough to trigger wage pressures or shift firm price-setting behavior, the ECB would face a tougher test. The central bank has signaled it won't wait for second-round effects to materialize—a lesson from 2022—and will likely hike pre-emptively to anchor expectations before temporary shocks become embedded.

The UK inflation outlook is more precarious. Price pressures could persist longer, as the UK entered this shock with inflation already above the BoE's target, tighter labor markets, and more entrenched wage pressures—amplifying the risk that energy spikes translate into lasting inflation. The BoE's likely hawkish pivot reflects this vulnerability.

**What we're watching:** Energy pass-through speed, wage settlements, business pricing behavior, inflation expectations, and whether fiscal relief dampens or prolongs price pressures.

**Our view: YE '26:** Euro area Core HICP: 1.90-2.10%.



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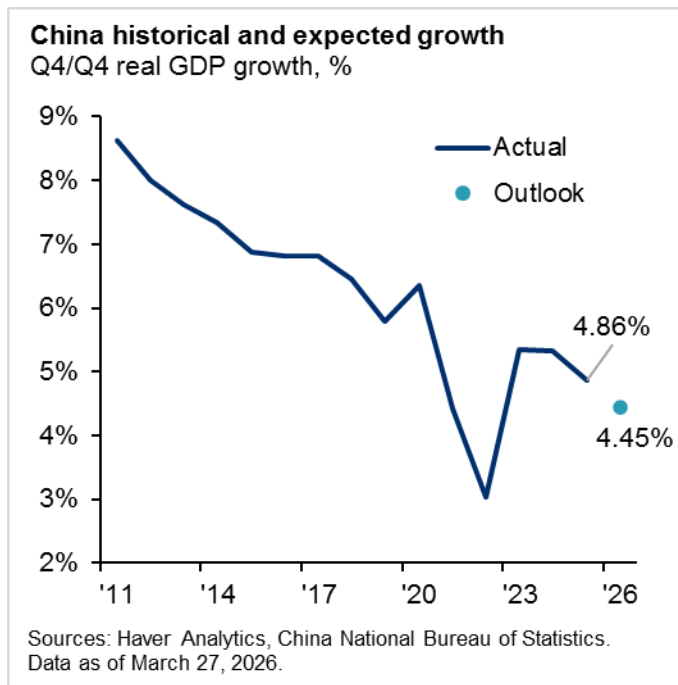
### China Growth

China's growth should be more insulated from high oil prices than Asian peers because it relies relatively little on oil and gas, with coal, nuclear and renewables dominating the energy mix. Jan–Feb 2026 activity surprised to the upside, led by technology and high-end manufacturing, but China isn't immune: if an oil spike triggers a global slowdown, China would likely feel it through weaker exports, still a key growth engine.

Recent data show modest improvement. Fixed-asset investment returned to positive growth (+1.8% y/y) on a sharp rebound in infrastructure investment (+11.4% y/y), while real estate remains a significant drag. Industrial production has been supported by high-tech manufacturing, though autos, NEVs and solar cells have softened. Consumption has improved only tentatively (Lunar New Year and resilient services), and the durability is uncertain. Policy signals from the 15th Five-Year Plan suggest continuity rather than major stimulus, with technology central and limited consumer support—pointing to a continued export-led strategy that may sustain trade tensions with the U.S. and Europe. Overall, we expect gradual, uneven growth around 4.5% GDP.

**What we're watching:** Will infrastructure investment bounce back? Can consumption of services pick up to offset weakness in goods? And will policymakers do more to directly support households?

**Our view: YE '26: 4.20-4.70%**

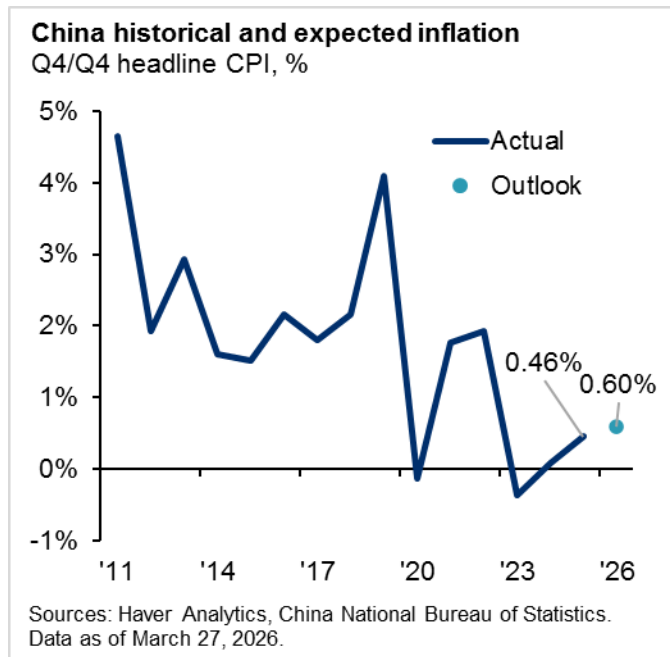


### China Inflation

China's inflation outlook is facing some upside pressure from higher global energy and commodity prices, though near-term pass-through is likely to remain contained. Ample energy inventories, a diversified sourcing strategy, and a structurally diversified energy mix provide an initial buffer as oil prices rise. That said, resilience would be tested in the event of broader and more persistent supply disruptions. On the producer side, we expect an earlier-than-anticipated pause in PPI deflation from April, driven by rising input costs across energy-intensive and upstream sectors. While oil-related industries account for only a small share of the PPI basket, higher energy prices tend to cascade through metals, coal, machinery and transport, consistent with China's historical sensitivity to global commodity cycles. We now forecast full-year PPI inflation at 1.1% y/y, up from a prior expectation of deflation. CPI inflation, by contrast, should remain relatively subdued. The NDRC's price-smoothing mechanism will limit retail fuel pass-through, lifting CPI by only around 0.3ppt to roughly 1.0% y/y. Weak consumer demand and limited pricing power downstream suggest inflation pressures remain largely supply-driven rather than demand-led.

**What we're watching:** Domestic demand, policies addressing overcapacity

**Our view: YE '26: 0.40-0.60%**



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## EQUITY VIEWS

### U.S. Equities

Worsening financial conditions and the volatile oil backdrop have made investing more complicated, increasing the dispersion of potential outcomes. However, we remain confident that the strong earnings story for 2026-2027 has not been impacted yet, giving investors an opportunity to buy dips in the U.S. equity markets. The investments in data centers and infrastructure appear buoyant and the growth in Tech and capital equipment show few signs of slowing through the first quarter. Meanwhile, valuations have contracted, fearing a potential deceleration in economic growth and higher inflation over the coming quarters. This makes the “micro” dialogue from earnings even more important than normal. Results and commentary from banks to the hyperscalers should help markets, under most scenarios, recover once we emerge from this period of uncertainty.

**What if.** There are many different scenarios for investors to consider. One such non-base-case scenario is a prolonged military event in the Middle East that closes the Strait of Hormuz for a period, pushing oil at or above \$100 for 3-6 months. While not a significant and immediate hit on overall corporate earnings, perhaps just 2-5%, valuations would likely drop further, pushing the S&P 500 temporarily below current support levels to the \$6,000-\$6,200 range. Upon a normalization of oil flow from the region, markets would likely recover quickly into year-end, which also corresponds with the clearing of the U.S. mid-term elections. Under this scenario, the market's recovery would likely fall ~5% short of our current base case expectation of \$7,500.

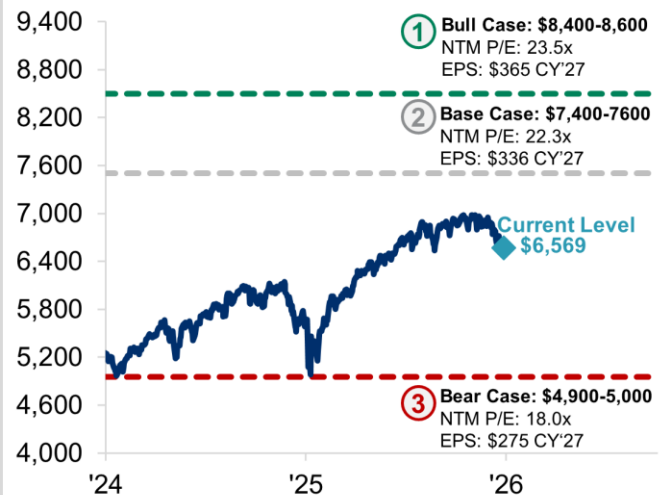
**Where to invest now.** Our year end Bull, Base and Bear targets are unchanged but the market pullback gives us an opportunity to highlight that U.S. small and mid-caps have an opportunity to bounce significantly after we exit this period of uncertainty. No material sector changes from the team as we reiterate our preference for five sectors: Technology, Utilities, Healthcare, Industrials and Financials (primarily, large banks).

**What we're watching:** Sustainability of AI capex and the ROI of the expenditure remain the most crucial factors in equity markets. Healthcare earnings growth acceleration. Credit stability.

**Our view: YE '26: \$7,400-7,600**

### Our base case S&P 500 outlook ranges from \$7,400-\$7,600 (mid-point \$7,500) by YE 2026

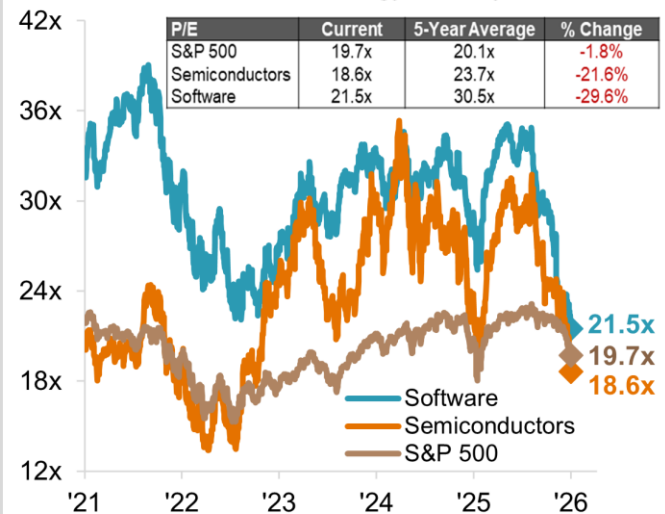
S&P 500 vs JPM WM Solutions Base, Bull and Bear



Source: Bloomberg Finance L.P., JPM WM Solutions. Data as of March 26, 2026.

### Valuations for Tech are down YTD, below liberation day, and below the 5-year average

S&P 500 Information Technology Industry NTM P/E



Source: Bloomberg Finance L.P. Data as of March 26, 2026.

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## Europe Equities

When we downgraded Europe to Neutral in early February, our thesis was that the market was expensive, trading at slightly above 16x NTM P/E versus the long-term average of 14x. The Euro Stoxx 50 hit all-time highs on 25 February, just a few days before the conflict in the Middle East began. At that point, the year-to-date move was driven more by a re-rating on expectations of an earnings recovery. The recent geopolitical developments reminded investors that Europe can be vulnerable during periods of uncertainty. As a result, the SX5E is down 9% in EUR and 11% in USD since 27 February. The market has since de-rated to below 15x, reflecting concerns about potential earnings downside risk. However, in our view, this represents a much more reasonable valuation multiple.

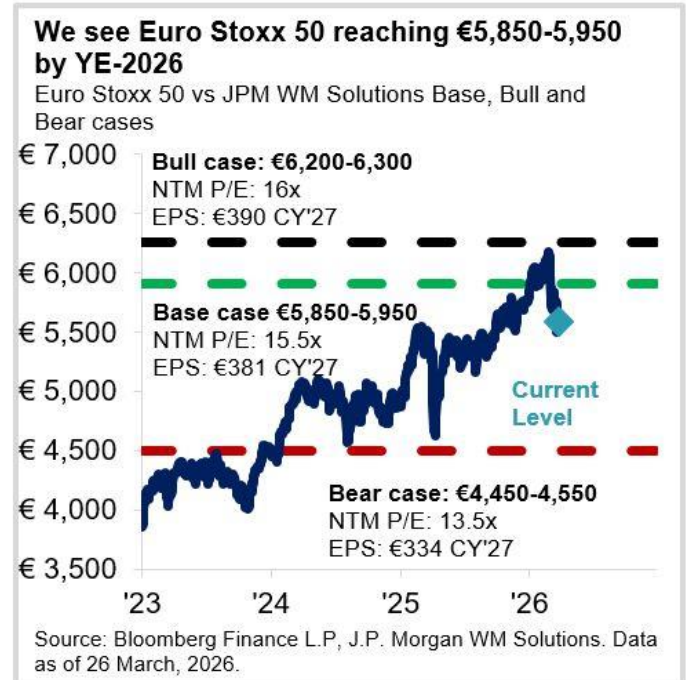
This month, we are downgrading our European targets to €5,850–€5,950 (midpoint €5,900) from €6,000–€6,100, as 2025 earnings came in lower than we expected (approximately -3% versus the flat to slightly down outcome we had anticipated down low single digits, compared to the flat to slightly down we had anticipated). However, our expectation for mid- to high-single-digit earnings growth remains unchanged but off a lower base. Our 15.5x NTM multiple also remains unchanged. We are revising our bull case to €6,200–€6,300 (from €6,350–€6,450) to reflect lower 2025 earnings. We are also changing our bear case, which now reflects a potential recession scenario, to €4,450–€4,550 (from €4,800–€4,900).

The expanded conflict in the Middle East has us considering additional scenarios, especially if oil stays higher for longer. If oil remains at \$100 for the next 3–6 months, the Euro Stoxx 50 could face an additional ~10% downside from current levels €5,000, as the market prices in a modest risk to earnings. In that case, 2026 earnings would likely take a manageable hit. However, the market is likely to recover quickly to ~€5,600 as valuations normalise by year-end to 15x (slightly below our 15.5x base-case assumption).

One of our highest-conviction ideas remains Industrials, especially after the recent pullback. The sector has favourable exposure to rising global defence spending. We also believe the opportunity extends beyond defence: Industrials with exposure to data centres continue to benefit from a strong hyperscaler capex cycle, and 2026 should be another strong year of growth. While Software and related companies have underperformed amid concerns about AI disruption, we continue to favour Semiconductors given the prospect of another strong year for AI investment. Luxury companies have also underperformed recently on growth concerns, but we find valuations attractive at current levels.

**What we're watching:** We continue to monitor political developments in Eastern Europe and the Middle East, German fiscal spending, the global defence cycle, oil prices, and private credit.

**Our view: YE '26:** €5,850-5,950



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## Asia Equities

The escalating conflict in Iran and elevated energy prices due to the closure of the Straits of Hormuz is unsurprisingly weighing on Asian equities. Not only are a number of regions dependent on the flow of oil from the Middle East, but are also sensitive to global growth that is increasingly at risk. Consequently, indices across the region have declined 8-10%. We acknowledge that if the Iranian conflict deteriorates and oil plateaus near \$100 for three to six months, there could be another 6-9% downside across the different Asian indices. While downside risks exist, our base case assumes that the conflict is resolved within the next few months. Under this scenario, we view the negative impact to earnings as modest, but valuations as very compelling. With MSCI Asia-ex Japan forward P/E at just 12.4x, and earnings expected to grow 34-35% in 2026 and 13-14% in 2027, investors are likely to aggressively re-add exposure once some clarity emerges regarding the conflict in Iran. We remain positive towards Korea, Taiwan, China, and India.

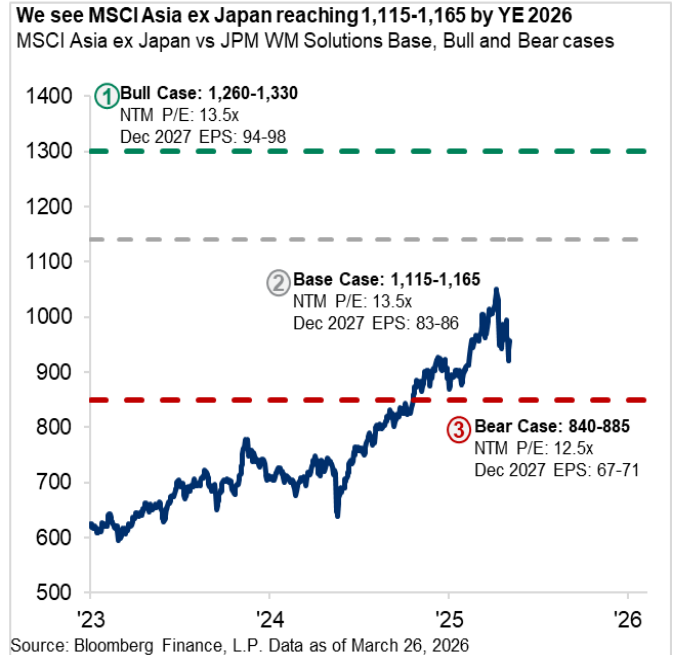
With the anticipated visit to China by President Trump postponed till mid-May, investors re-focused on fundamentals such as AI developments, macro data, and belated 4Q25 earnings. Starting with earnings, investor reaction has generally been negative with the internet platform giants prioritizing re-investment into areas such as AI data centre capacity, agentic AI, and e-Commerce market share over near-term profit growth. Macro data, particularly retail sales is showing some moderate improvement and agentic AI is taking off in China with rapid adoption of the autonomous AI agent, OpenClaw. This is likely to drive greater token usage and adoption of Chinese LLM's. With earnings now largely reset, profit growth expected to accelerate, and valuations below 10 year averages, the risk/reward skews positively for MSCI China.

The re-rating in global industrials on expectations of a re-acceleration in US/global growth went into reverse during March. This led to a 10%+ pullback in the TOPIX, and the index now better reflects underlying earnings growth. While we continue to view PM Takaichi as being pro-growth, the recent weakness in JPY and higher energy prices continue to lean towards the need for the BOJ to raise rates that will limit her policy flexibility. With just modest upside to our TOPIX target, we re-iterate a neutral market view. Select opportunities in banking, industrial, and technology sectors offer alpha potential.

**What we're watching:** Iran conflict development, memory prices, AI adoption and progress in China, Chinese

government policy announcements, President Trump's visit to China, 1Q26 earnings season

**Our view: YE '26:** MSCI AxJ: YE 2026: 1,115-1,165 Topix: YE 2026: 3,800-3,850 MSCI China: YE 2026: 95-101 CSI 300: YE 2026: 4,900-5,300 MSCI India: YE 2026: 3,350-3,450 MSCI ASEAN: YE 2026: 750-775



## RATES VIEWS

### U.S. Rates

The ongoing conflict has led to a rapid repricing across the rates market, with the 2y, 5y and 10y, +56, +54 and +44bps respectively. This bear flattening aligns with rising recession risks, with the betting market probability of the U.S. recession in 2026 increasing from ~22% to ~36%. Despite risks to growth, rising inflation has led to a repricing of Fed policy path, moving from 2 cuts priced through 2026 at the end of February to a partial hike today. We adjust our own Fed outlook from 2 cuts to on hold, pushing back our cuts into 2027. Whilst all assets, including rates remain sensitive to the path of oil prices from here, we believe investors can add tactical positions at the front end (up to 4 years of duration), given: 1) A high bar to hike. Unlike in 2022, longer-dated inflation expectations have remained insensitive to the current conflict. 2) Two of our three scenarios are a tailwind for bonds. Either a de-escalation and reopening of the Strait of Hormuz, removing inflationary pressure; or oil prices moving higher and catalyzing an investment-led recession. 3) This is not 2022. Russia-Ukraine coupled with COVID supply bottlenecks, sent CPI above 9% and core PCE closer to 5.6%, our worst economic scenario sees core PCE rising only to 2.9%.

**What we're watching:** US-Iran conflict, tariff driven goods PCE, labor market indicators, inflation expectations, fiscal policy.

**Our view: YE '26:** 10Yr. 4.30%



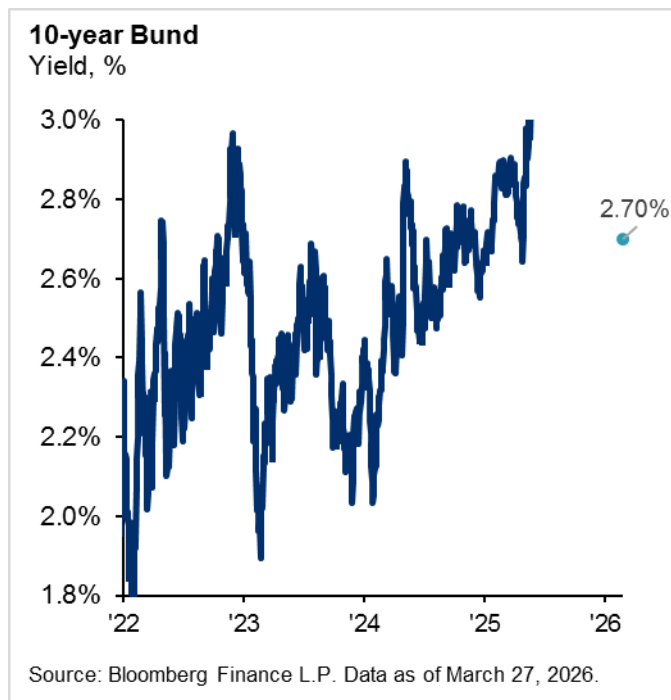
### Europe Rates

The ECB's pause looks set to end. After a series of cuts and holding its deposit rate at 2%, the central bank now faces pressure to resume tightening under the threat of energy-driven inflation. The ECB's March meeting signaled hawkish intent, and we now expect one 25bp hike this year, likely in the second quarter, taking the deposit rate to 2.25%. This represents risk management: anchoring expectations and signaling resolve against second-round effects, while avoiding overtightening that could derail growth. A protracted shock would likely require additional tightening.

The BoE faces a similar calculus but from a more challenging starting point. We expect policymakers to return to rate hikes, but with the path forward rooted in the evolution of the data. The MPC appears to be prioritizing inflation control over growth support, reflecting the UK's more precarious inflation dynamics. Unlike the ECB managing a potentially temporary deviation from target, the BoE will likely seek to prevent re-acceleration from an already elevated base.

**What we're watching:** Energy market developments, inflation expectations, wage outcomes, financial conditions, and fiscal responses and debt dynamics.

**Our view: YE '26:** ECB Deposit Rate: 2.25%, 10Y Bund: 2.45-2.95%; BoE Bank Rate: 4.00%, 10Y Gilt: 4.05-4.55%.



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## CREDIT VIEWS

### U.S. Credit

**Munis:** The municipal bond market is experiencing a broad sell-off since the start of hostilities with Iran. Despite the energy market volatility, inflationary concerns, and geopolitical tensions, municipalities are still in issuance mode and continue to flood the market with new supply. We are on pace for a third consecutive +500bn new issue calendar this year. Market participants are digesting this supply; however, these new issue deals are coming with pricing concessions. Volatility such as this was last seen in the days after 'Liberation Day'. To put it in context, month-to-date (MTD), the Bloomberg Municipal Yield curve is cheaper by 39-51-60-41 basis points (bps) in the 2y, 5y, 10y & 30y segments of the curve. The Bloomberg Municipal Bond Index (Ticker: LMBITR) entered the month of March at +2.20% on the year. As of yesterday's close, the index stands at -0.33% YTD, a swing of 253 basis points. Despite this broad sell off, opportunities abound. The new issue calendar remains robust. Clients should consider participating in new issues in order to deploy capital. Opportunistic investors should might consider waiting for the long-end, short call five percent coupon bonds at par otherwise known as '5s at Par'.

**IG:** US IG spreads have widened about 7 bps mom, marking the most significant repricing for high grade issuers so far this year. The move was driven less by credit fundamentals and more by the Iran conflict's knock on effects on energy prices, inflation expectations, and treasury yields, which have tightened financial conditions across the market. Sizable issuance during the month despite the geopolitical tension further contributed to the spread move, with the second week of March seeing over \$100 billion in issuance from bellwether names like Amazon and Salesforce. Looking ahead, we expect IG spreads to remain rangebound as fundamentals remain intact yet uncertainty continues to put a cap on spread tightening. Yields of 5.5% are now the highest since last July, and total return potential looks attractive. We continue to believe that investment grade offers compelling risk/reward prospects. Yields remain near post GFC highs and the asset class offers relative downside protection under tail risk scenarios.

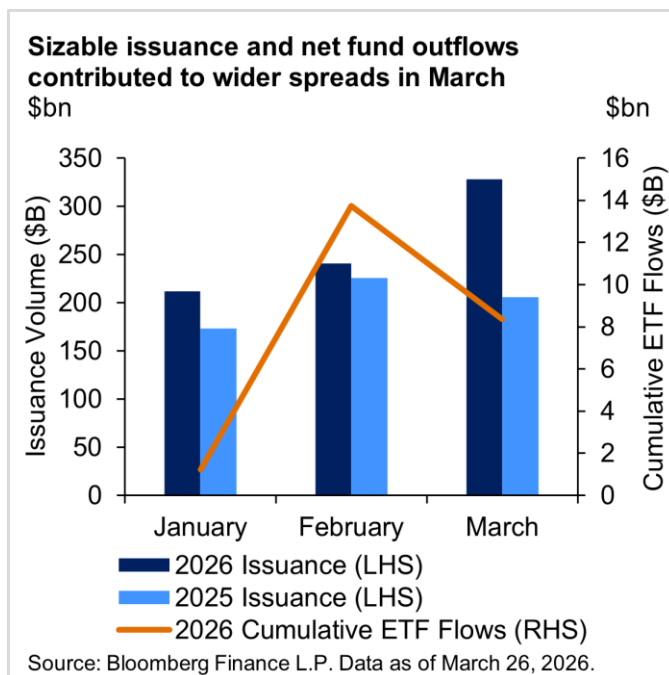
**HY:** Spreads have widened 39 bps MoM on the back of energy concerns from the conflict in the Middle East and continued concerns in AI. The market saw volatility in early March 2026, with price drops in pockets of tech and select cyclicals. High-yield energy issues displayed relative strength, as HY Energy widened only 13 bps MoM on the back of higher oil prices. Accordingly, we continue to view high-quality, high-yield credit—specifically BB bonds—as a

solid carry opportunity in 2026, with careful credit selection paramount given wider dispersion across names and sectors.

**Prefs/Hybrids:** The hybrid index widened only 8 bps MoM with preferreds widening approximately 15bps. Despite being a higher beta asset class, spreads held in relatively well on the back of continued demand for income, ultimately helping prevent a wider selloff even as yields rose. We continue to like prefs and hybrids which offer high yield like compensation, with less fundamental downside risks.

**What we're watching:** Core Fixed Income: Munis and Corporates over Treasuries. Extended Credit: Favor hybrid capital (preferreds and corporate hybrids) for attractive risk-adjusted returns

**Our view: YE '26:** US IG (Spread): 80-110 bps by YE'2026; US HY(Spread): 325-375 bps by YE'2026; Preferreds (Spread): 190-240 bps by YE'2026



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## Europe Credit

European credit underperformed both US and Emerging Market fixed income in March following the conflict in the Middle East, though the broader market reaction has been relatively contained. European IG spreads widened by 11 basis points and HY by 32 basis points, yet both indices posted returns of -1.9%, driven by a significant repricing in European rates. German government bond yields rose by an average of 55 basis points, reflecting the direct impact of higher energy prices on European inflation. The rate selloff, however, is providing a tailwind for valuations - European IG yields currently stand at ~3.7%, just 30 basis points below 2024 peaks. While the conflict introduces uncertainty for the European macro outlook, we remain comfortable with our positioning, underpinned by solid fundamentals.

As outlined in last month's GIS, we have maintained a constructive stance on European fixed income, supported by healthy fundamentals - IG and HY net leverage stand at 2.7x and 4.1x, respectively - and an expected pickup in economic activity from German fiscal stimulus and European defence spending. Looking forward, the Middle East conflict is likely to weigh on growth through elevated energy costs eroding purchasing power and the ECB's probable pivot to rate hikes to contain inflation spillovers.

While higher inflation may evoke 2022 déjà vu, European credit entered 2026 from a position of strength. IG net leverage remains near the bottom of its five-year range, while EBITDA margins have expanded to a record 21.3%. Crucially, yields stand at approximately 3.7%, compared to just 0.5% at the start of 2022. European credit is therefore well positioned to deliver positive total returns throughout 2026, underpinned by healthy fundamentals, continued - albeit more moderate - growth, and higher all-in yields.

These arguments speak in favour of stepping out of cash and into the higher carry on offer. A €10 million investment in European IG over cash would generate over €700,000 in additional income over 3 years, widening to over €1.2 million over 5 years.

With the yield curve having re-steepened, we maintain our preference for the 5-10 year maturity range, with particular value in 7-10 year tenors. The recent move higher in European rates reinforces our conviction to lock in elevated yields.

We identify the following attractive themes in European credit markets:

**Investment Grade (IG)** - With yields having risen to 3.7%, approaching the peaks reached in 2024, we see increasingly attractive value in European IG. Our focus is on sectors best equipped to withstand a lower-growth, higher-inflation environment, with a particular emphasis on Senior

Financials, Utilities, TMT, Energy, and Consumer Non-Cyclicals. Each of these sectors stands to benefit from upward earnings pressure driven by higher rates, higher inflation and higher oil prices.

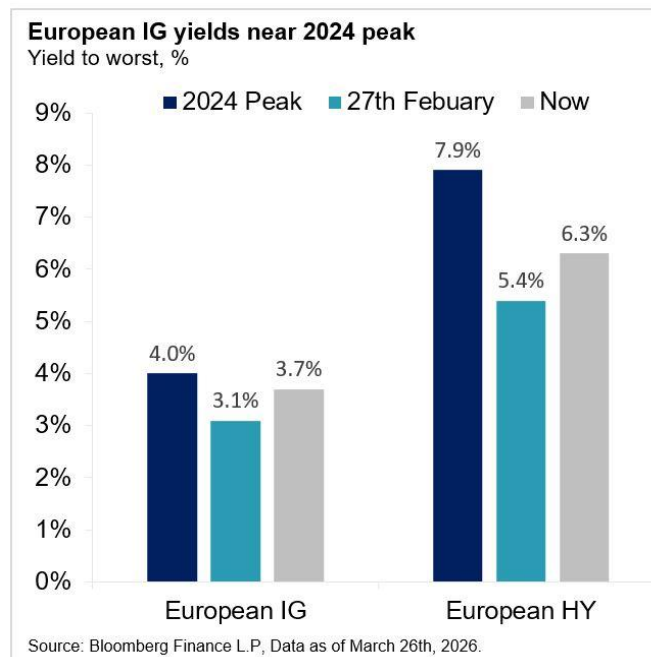
**Hybrid Capital** - We see carry-like returns, with yields ranging between 4.75% and 6.0%.

**Hybrid Bank Capital:** European banks demonstrate solid operational performance, with RoE of 10-15%, CET1 of 12-15%, and an average cost of risk of just 0.5%. Strong profitability and resilient earnings generation position banks to benefit from higher rates while absorbing any uptick in credit costs. We favour Junior Subordinated debt to maximise carry.

**Corporate Hybrids:** Over 60% of outstanding Corporate Hybrid notional is issued by defensive, non-cyclical sectors - Utilities, TMT, and Consumer Non-Cyclicals. IG-rated hybrids, comprising ~60% of the EUR hybrid market, typically offer 70-100 basis points of spread pickup over senior curves, while HY-rated hybrids from IG-rated issuers offer pickups exceeding 125 basis points.

**What we're watching:** We continue to prefer exposure to higher credit quality issuers both across Senior and Subordinated Financials and Corporates alike.

**Our view: YE '26:** EUR IG (Spread): 75-105 bps by YE'2026; EUR HY (Spread): 275-325 bps by YE'2026



## EM Credit

Emerging Markets (EM) credit continued to outperform in March but was not immune to the significant repricing in global rate curves. EM sovereign spreads widened by 11 basis points and corporate spreads by 9 basis points. Despite this modest widening, both indices posted negative returns -2.5% for sovereigns and -1.7% for corporates. US government bond yields rose by an average of 60 basis points, reflecting market concern over the Fed's ability to look through inflation effects stemming from the Middle East conflict. The rate selloff, however, is providing a tailwind for valuations - EM yields currently stand between 6.2–7.2%, repricing by +0.5%. While the conflict introduces uncertainty for the global macro outlook, EM remains less directly impacted given greater energy self-sufficiency and higher tolerance to periods of inflation.

As outlined in last month's GIS, we have been constructive on EM High Yield (HY) since September 2025. Two macro themes — an increasingly fragmented global landscape and elevated commodity prices — continue to reinforce the EM growth narrative. The Middle East conflict is likely to entrench fragmentation and weigh more heavily on DM growth, further underscoring the diversification benefits of EM debt.

Although EM remains relatively insulated from higher energy prices, rising inflation will inevitably draw comparisons to 2022. EM Sovereigns entered 2026 having made progress on cooling inflation, enacted reforms to reduce energy subsidies across Latin America and Africa, and used the recent economic backdrop to narrow deficits and build FX reserves. This should provide some cushion against the fallout from the conflict. Within EM, we expect Sovereigns to bear a larger share of the adjustment through lower growth and wider deficits, leaving them more exposed than Corporates. We continue to favour EM Corporates, given their greater flexibility to navigate periods of stress — reflected in IG and HY net leverage of 1.1x and 2.7x, below developed market peers.

Turning to the GCC, despite sitting at the epicentre of the conflict, the region is well positioned to withstand the economic fallout. Sovereign wealth fund assets and FX reserves exceed USD 6.5 trillion — roughly 40% of global SWF assets — providing a robust buffer. Economies with bypass capacity, notably Saudi Arabia and the UAE, can partially reroute exports away from the Strait of Hormuz. Under both one-month and prolonged disruption scenarios, fiscal balances are expected to improve for most GCC sovereigns, as higher oil prices more than offset temporary volume losses. As volatility creates dislocation, we see scope for attractive entry points in select GCC corporates.

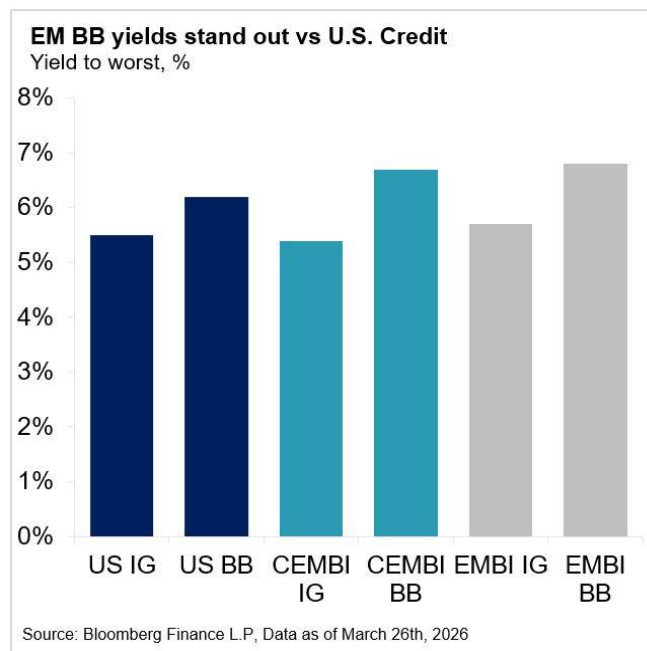
We focus on issuers that command strong domestic market share, maintain EBITDA margins above 15% — supporting consistently positive free cash flow — and exhibit stable to improving leverage profiles below 3x. These criteria identify opportunities across EM offering yields of 6–8%, underscoring the breadth of diversification available within EM fixed income. We favour credits from Turkey, Brazil, Israel and Mexico, and prefer Financials, TMT, Utilities, Oil & Gas, and Metals & Mining.

Consider a \$10 million portfolio. With cash rates averaging 3.7% and EM fixed income yielding 6.2%, choosing EM credit over cash would generate over \$800,000 in additional income over 3 years, widening to over \$1.5 million over 5 years.

With the yield curve having re-steepened, we maintain our preference for the 5–10 year maturity range, with particular value in 7–10 year tenors. The recent move higher in global rates reinforces our conviction to lock in elevated yields.

**What we're watching:** EM Corporate Hybrids, EM Corporate BBs, GCC Corporates

**Our view: YE '26:** EMBI (spread): 265-315 bps by YE'2026; CEMBI (Spread): 185-235 bps by YE'2026



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## Asia Credit

Asia credit markets faced a challenging month amid escalating geopolitical headlines, with both Investment Grade and High Yield indices flipping into negative territory. Asia IG and HY spreads widened 12bps and 89bps respectively, resulting in returns of  $-1.07\%$  and  $-0.67\%$  as both indices experienced 2–3% drawdowns. While the constructive medium-term thesis we have outlined since the start of the year remains intact, near-term headwinds warrant a more nuanced assessment.

### Oil Prices – Not All Asia Credits Are Equal

There is increasing commentary suggesting Asia credits will be negatively impacted by higher oil prices—a fair observation, particularly for net importers such as India, Korea, and the Philippines. However, we think it is useful to disaggregate the index to assess the impact from a fixed income credit perspective, as the picture is more nuanced than headlines suggest. Sensitivity varies meaningfully across the region: India, as one of the world's largest oil importers, is the most directly exposed, while economies like Hong Kong have limited direct linkage, and Indonesia carries a partial natural hedge through its own energy exports. Many issuers carry strong buffers to absorb losses, and the high-quality composition of the index—87% investment grade versus approximately 50% for broader EM debt—provides a meaningful layer of resilience. Below, we walk through the key country exposures in detail.

### Country-by-Country Assessment

**China (27% of index, A+)** – Chinese credit fundamentals remain supported by accommodative policy measures. As a major oil importer, China carries some sensitivity to higher energy costs, but the impact is mitigated by government subsidies, strategic petroleum reserves, and the ability to source discounted crude. Although the property sector has yet to experience a meaningful rebound, we believe its impact on the broader credit market is limited. RMB appreciation has reduced offshore debt burdens, and the deep, cost-effective onshore market is expected to serve as the primary refinancing channel, maintaining strong technicals. While China TMT spreads may widen in line with the equity market's weak performance, we are reassured by the sector's robust balance sheets. **Hong Kong (16% of index, AA+)** – Hong Kong's credit profile remains robust, underpinned by solid economic momentum. As a services-oriented economy, Hong Kong has relatively limited direct exposure to oil price shocks, though higher energy costs could feed through to inflation and operating margins over time. The government recorded a surplus in the latest budget, and a rebounding real estate market could serve as a positive catalyst for the territory's credit complex. **Korea**

**(16% of index, AA)** – Korea's credit story is anchored by semiconductor strength but faces near-term volatility from geopolitical tensions. As a net energy importer with a manufacturing-heavy economy, Korea is sensitive to sustained oil price increases, which can compress corporate margins and weigh on the trade balance. That said, the majority of Korea's bonds are rated investment grade, and the sovereign carries an AA rating; we therefore believe the recent headlines are likely to impact equities more than credit spreads. **Indonesia (13% of index, BBB)** – Indonesia is the key credit to watch amid rating agency concerns. While Indonesia is a commodity producer with some natural hedge through energy exports, higher oil prices can still strain the fiscal balance given domestic fuel subsidy obligations. Both Fitch and Moody's have revised Indonesia's outlook to negative, citing increasing policy uncertainty and governance issues. We expect longer-dated sovereign and quasi-sovereign bonds to remain under pressure until rating concerns stabilize. **Philippines (6% of index, BBB+)** – The Philippines faces a challenging backdrop of slowing growth and political headwinds. As a net oil importer, the Philippines is vulnerable to higher energy costs, which can exacerbate inflation and weigh on the current account. Unrated bonds are a common issuance structure in Philippine credit, and these can underperform when sentiment weakens—perpetuals are seeing the most pressure in the current risk-off environment. **India (6% of index, BBB)** – As one of the world's largest oil importers, India is acutely exposed to the current oil price surge. This inflationary pressure may widen the current account deficit and put pressure on the rupee. On the positive side, the government's policy focus on long-term growth through increasing capex and infrastructure spending is likely to provide some buffer. However, we expect India credits to remain under pressure until oil prices stabilize.

### Default Risk – Contained Despite Headline Noise

While headlines are weighing on sentiment and may lead to further spread widening, we see default risk remaining contained. Asia credit benefits from its high-quality composition—87% investment grade versus approximately 50% for broader EM debt. Furthermore, following record defaults in recent years, our bottom-up analysis of every index constituent suggests this year's Asia HY default rate is likely to be the lowest in five years, at approximately 2.5%. This reflects cleaner balance sheets post-default cycle and a limited near-term maturity wall.

### Our View

While Asia credit has historically offered stability during global sell-offs, the asset class is not immune to the recent geopolitical headlines given its higher sensitivity to oil

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prices. We acknowledge that geopolitical developments may continue to pressure sentiment and drive further spread widening. That said, meaningful value is emerging given the significant repricing in rates. Our focus areas in Japan Lifers, Asia HY, and AUD Fixed Income remain unchanged. We are adding Asia banks this month, as the recent repricing is making Asia G-SIBs attractive, offering yields of 5%+ for A-rated names.

**What we're watching:** • Japan Lifers: Attractive sector offering 5.5%+ yields in A-rated names • Asia HY: Default rate on track for five-year low at ~2.5%; value emerging post-repricing • AUD Fixed Income: Attractive yield with potential FX upside • Asia Banks (NEW): G-SIBs re

**Our view: YE '26:** • Asia IG (Spread): 50-80bps by YE'2026 Asia HY (Spread): 375-425bps by YE'2026

Country	Weight	Rating	Credit View
China	27%	A+	Neutral
Hong Kong	16%	AA+	Neutral
Korea	16%	AA	Slight pressure, but contained
Indonesia	13%	BBB	Under pressure (rating watch)
Philippines	6%	BBB+	Under pressure (growth/political)
India	6%	BBB-	Under pressure (oil/rupee)

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## FX VIEWS

### U.S. Dollar

The dollar strengthened forcefully in March following the escalation of the Iran conflict. Since higher than pre-conflict level oil prices could asymmetrically hurt ROW economies than the U.S., we revise our DXY outlook higher this month.

Before this, we have already expected the dollar to enter a choppy bottoming phase in 2026, given 1) cyclical convergence between the U.S. and ROW is largely behind us as U.S. growth rebounds following “peak weakness” in Q1 2026; and 2) rebalancing U.S. asset overweights and FX hedging by ex-U.S. investors has moderated since Q2 2025. Notably, foreign demand for U.S. assets remains resilient, and we see limited motivation for increased hedging activity, especially as the negative correlation between the dollar and U.S. equities has re-established.

Nonetheless, USD diversification remains a prudent investment principle for achieving more balanced global exposure across asset classes. Select high-beta FX i.e. AUD, EMFX may extend strength against USD on prospects of global cyclical recovery. Risk to the view is the U.S. economy underperforms expectations or a new catalyst reignites global reallocation.

**What we're watching:** U.S. growth momentum vs. rest of world, Fed policy expectations, risk sentiment.

**Our view: YE '26:** 100 (98-102)



### Euro

EURUSD weakened in March amid an escalation in the Iran conflict and broad USD strength. Even prior to the conflict, our view was that as long as relative growth and interest-rate differentials remain the dominant FX drivers, EURUSD is unlikely to sustain a move above 1.18–1.20—absent Eurozone growth materially exceeding our already optimistic expectations or a significant deterioration in the U.S. outlook. This asymmetry has since intensified. Energy supply shocks are disproportionately negative for Europe, particularly following damage to Qatari natural gas production. Accordingly, we revise our EURUSD outlook lower this month, with downside risks skewed further should the conflict prove prolonged. That said, we view the euro as a prime avenue for prudent USD diversification, thanks to its liquidity and deep financial markets. Our recommendation: euro-based assets should comprise roughly 20% of global investment portfolios.

**What we're watching:** Eurozone vs. U.S. growth momentum, energy price

**Our view: YE '26:** 1.16 (1.14-1.18)



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**British Pound**

GBPUSD weakened in March despite a sharp repricing of the BoE path—from two cuts to three hikes—as stagflationary energy shocks weighed on both sterling and gilts. Our view that sterling is less constructive than other alternative reserve currencies remains unchanged. Three factors continue to cap further GBP gains: recent data signal a faster slowdown in UK growth and inflation; the BoE appears increasingly sensitive to growth risks and may act more aggressively than markets expect; and persistent fiscal constraints continue to weigh on government spending. These headwinds have intensified following the escalation of the Iran conflict, with downside risks skewed further should disruptions prove prolonged. We therefore continue to expect sterling to underperform most other G10 currencies.

**What we're watching:** BOE trajectory, energy prices, global risk sentiment, fiscal concerns

**Our view: YE '26:** 1.30 (1.28-1.32)

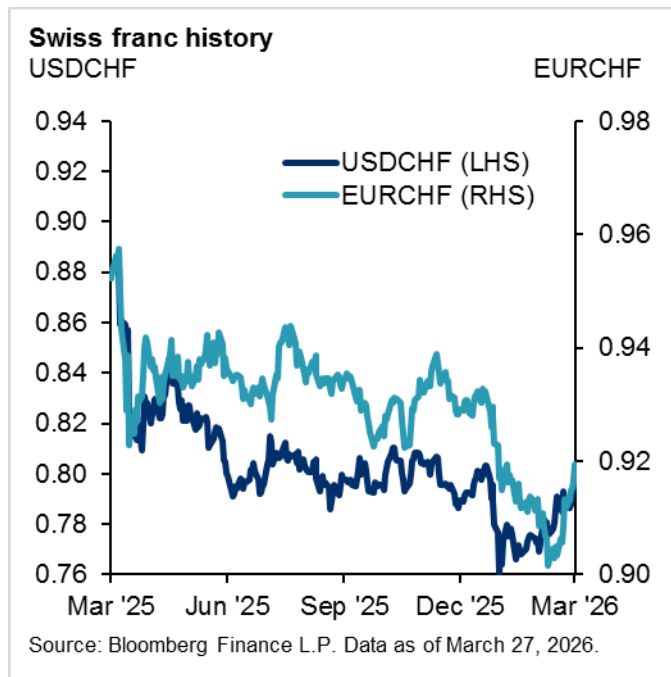


**Swiss Franc**

Following an initial spike after the escalation of the Iran conflict, CHF weakened in March as the SNB signalled a clear willingness to intervene in FX markets. Despite broad USD strength, we keep our USDCHF outlook unchanged, expecting the pair to remain range-bound, while we see EURCHF drifting lower amid negative Eurozone growth revisions driven by elevated energy prices. Our medium-term view that CHF will continue to outperform within G10 remains unchanged, as its safe-haven appeal is underpinned by Switzerland’s energy independence and strong fiscal position. For EUR-based investors using CHF as a funding currency, risk management remains key.

**What we're watching:** European growth, broader risk sentiment, SNB intervention signals

**Our view: YE '26:** USDCHF: 0.79 (0.77 - 0.81) EURCHF: 0.92 (0.90-0.94)



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**Japanese Yen**

Japan’s heavy reliance on energy flows through the Strait of Hormuz leaves it particularly exposed to stagflationary pressures stemming from the Iran conflict. That said, authorities appear determined to defend the yen around the 160–162 “line in the sand,” though the credibility of this stance would be tested should a prolonged conflict trigger a more severe energy shock. The trajectory of USDJPY has decoupled from interest-rate differentials in a sustained and meaningful way, with recent price action increasingly sensitive to perceived fiscal risks. Following Prime Minister Takaichi’s landslide victory in the February snap election, we now expect implementation of the proposed two-year suspension of the 8% consumption tax on food and non-alcoholic beverages. This could result in an annual revenue shortfall of roughly JPY 5 trillion (around 6% of total tax income). Should elevated energy prices further weigh on the growth outlook, pressures on Japan’s fiscal position could become more pronounced. In particular, the yen may not function as a reliable safe haven in the current environment, given Japan’s heightened vulnerability to energy shocks.

**What we’re watching:** USD yields, Japan inflation, BoJ policy guidance.

**Our view: YE '26:** 158 (156 - 160)

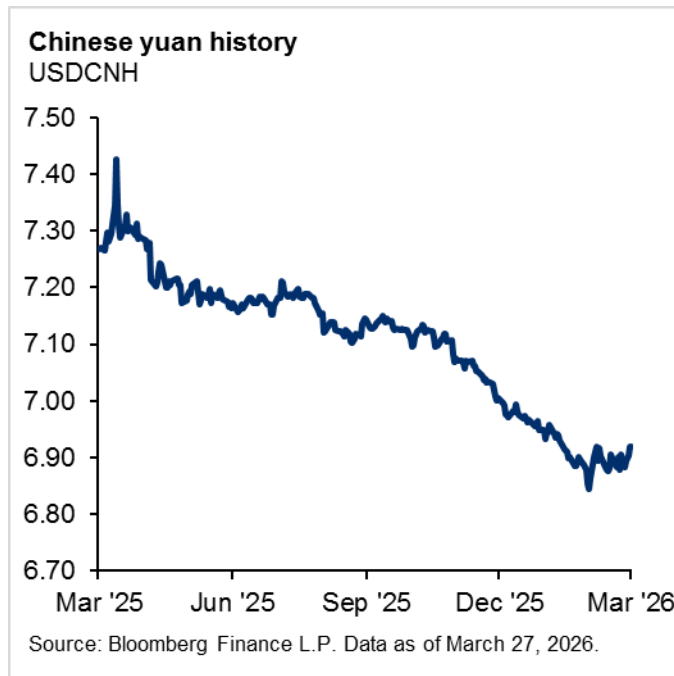


**Chinese Yuan**

We keep our CNY outlook unchanged this month despite the escalation in the Iran conflict, supported by two factors. First, China is relatively insulated from energy-related shocks given its diversified import base and low reliance on oil and gas. Second, exporters’ FX conversion ratios could rise as USD hoarding enters its third year, while trade surpluses continue to accumulate at around USD 100bn per month. We therefore continue to expect a managed appreciation path for the yuan. The upcoming Trump visit to China will be closely watched, as the exchange rate could emerge as a key negotiating lever. For USD diversification, EUR-, JPY- and AUD-denominated assets remain preferred. CNH continues to offer low volatility and attractive funding costs, but its risk-reward profile is deteriorating as appreciation risks rise. Investors without a need to hedge China exposure may consider diversifying funding currencies or reducing FX mismatches in their liabilities.

**What we’re watching:** U.S.-China trade tensions, China policy moves, capital flows.

**Our view: YE '26:** 6.70 (6.60 - 6.80)



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**G10 Commodity FX**

The commodity bloc sold off in March driven by risk-off sentiment given their high beta nature. The medium term outlook remains constructive given terms of trade support from higher commodity prices.

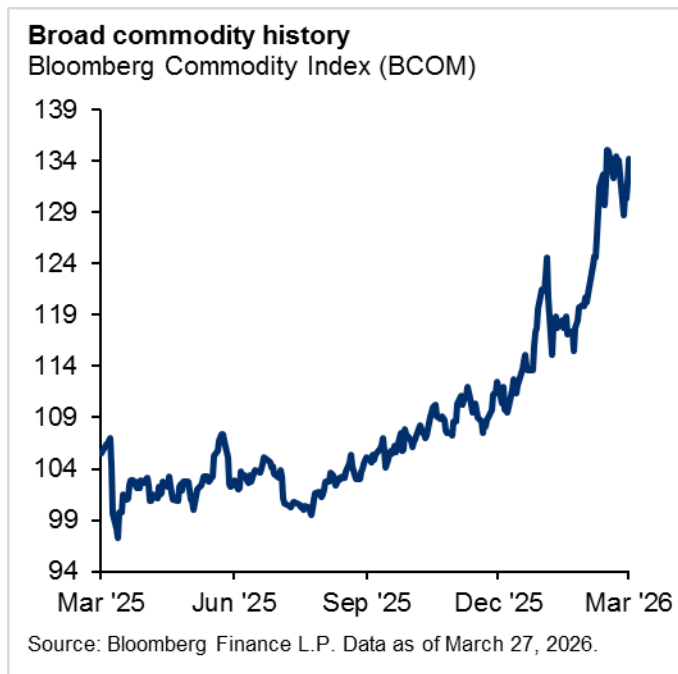
**CAD:** Neutral. CAD supported by higher energy prices but concerns linger on soft domestic growth outlook, low carry, and forward looking risks around USMCA negotiations.

**AUD:** Bullish view predicated on early RBA rate hikes, the commodity boom, and fiscal discipline, but see upside beyond 0.72 as more constrained.

**NZD:** Bullish from current levels. NZD has underperformed on weak domestic conditions but has room to catch up. We hold a more constructive medium-term outlook, with RBNZ an early mover.

**What we're watching:** Commodity prices, global growth outlook, central bank divergence

**Our view: YE '26:** CAD\*: 1.39 (1.37-1.41) AUD: 0.70 (0.68-0.72) NZD\*: 0.61 (0.59-0.63)



**Scandi FX**

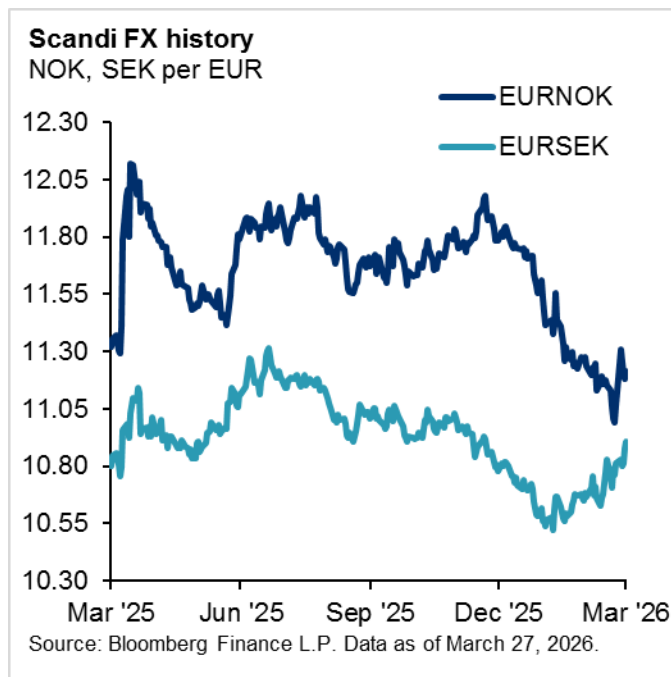
Geopolitics took dominance in March with energy exporting NOK meaningfully outperforming SEK.

**NOK:** Bullish. We upgrade NOK this month on improving terms of trade to go along with its high-yield status and resilient domestic growth.

**SEK:** Neutral. We downgrade SEK this month on on recent growth disappointments & Riksbank discomfort with FX strength, but still medium-term constructive vs EUR.

**What we're watching:** European vs domestic growth, commodity prices, central bank developments

**Our view: YE '26:** EURNOK: 10.85 (10.65-11.05) EURSEK: 10.50 (10.30-10.70)



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## Emerging Market FX

We are turning more cautious on the bloc amid a stronger USD and the fact that much of EM consists of net energy exporters.

**Latam:BRL:** Neutral. Political noise increased as Lula securing a win in Congress and the passage of tax cut bill. Fiscal overhang remains. **MXN:** Bullish. Carry advantage remains with positive structural story on supply chain reshuffling, USMCA renewal negotiations the next key to watch.

**EMEA:** We are neutral on this part of the complex. **ILS:** Bearish. Shekel downgraded as recent resilience is expected to fade with downgrades in growth & fiscal outlooks.

**Asia:** Resilience amid energy crunch is teested. **INR:** Bearish given high exposure to energy shock. **TWD:** Neutral, as hedging positions dialed down on lifer hedging rule amendments. **KRW:** Neutral, improved macro outlook given memory cycle uplift impaired by energy risks. **SGD:** USDSGD trading near 10-year low. Limited strength from here as MAS could turn incrementally more dovish.

**What we're watching:** Overall risk sentiment, global trade outlook, central bank divergence.

**Our view: YE '26:** BRL: 5.35 (5.15 – 5.55) MXN: 17.30 (17.10–17.50) ILS: 3.20 (3.00–3.40) INR: 93.00 (91.00–95.00) TWD: 32.60 (30.60–34.60) SGD: 1.30 (1.28–1.32)

### EM currency history

J.P. Morgan EM Currency Index



Source: Bloomberg Finance L.P. Data as of March 27, 2026.

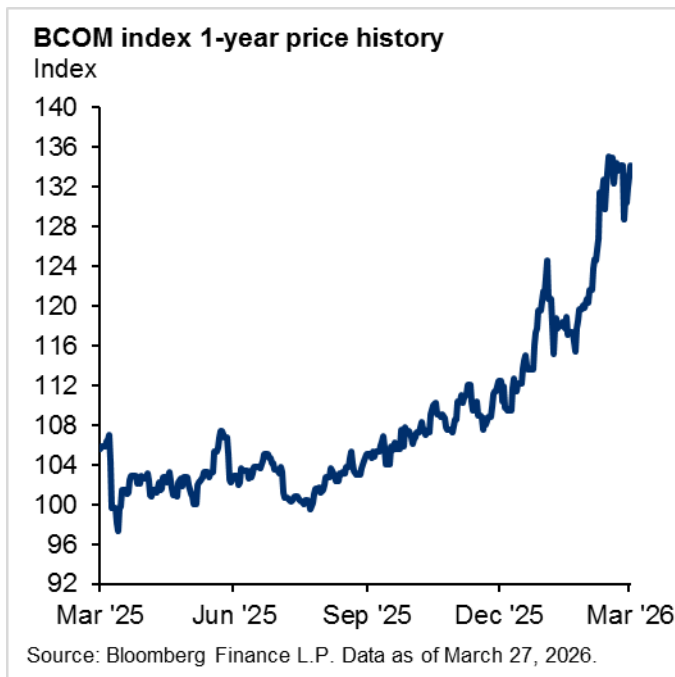
## COMMODITY VIEWS

### BCOM Index

March has been an incredible month of volatility and significant moves for commodities. The outbreak of conflict with Iran has led to an overall jump higher in the BCOM Index, currently sitting +9.7% for March and +21.6% YTD. However the price appreciation masks a lot of dispersion with large gains seen in Energy markets and large losses in metals. The path from here is very uncertain and will obviously depend upon how quickly hostilities end. Forecasts should therefore be seen as guideposts with low levels of conviction at this stage. The largest gains on the month were in European Gas Oil +81%, US Diesel +63% and Crude Oil +48%. On the losing side were Silver -27.2%, Gold -15.9% and Copper -8.8%.

**What we're watching:** The path of the Iran conflict.

**Our view: YE '26:** 130-133



### Gold

Gold and Silver have seen heavy losses in March, as markets unwind positions built in advance of Iranian hostilities. Gold has declined -15.9% and Silver has dropped -27.2%. There has been a lot of frustrations over the moves, as many investors had thought Gold in particular, would be a geopolitical hedge. We have cautioned many times in the past that Gold is a diversifier not a hedge and can have significant sell offs when markets enter into deleveraging regimes. This has been the case all month, and further stress has been layered on through a strengthening USD and higher real rates. It is very much our opinion that when the conflict ends, markets will normalize and Gold in particular will rally into Year-end. We advise buying on the recent dip for longer term gains. We are however lowering our YE target to \$5500 - \$5800 as we acknowledge the pace of appreciation maybe slower as time is more constrained.

**What we're watching:** The path of the Iran conflict.

**Our view: YE '26:** \$5500 - \$5800



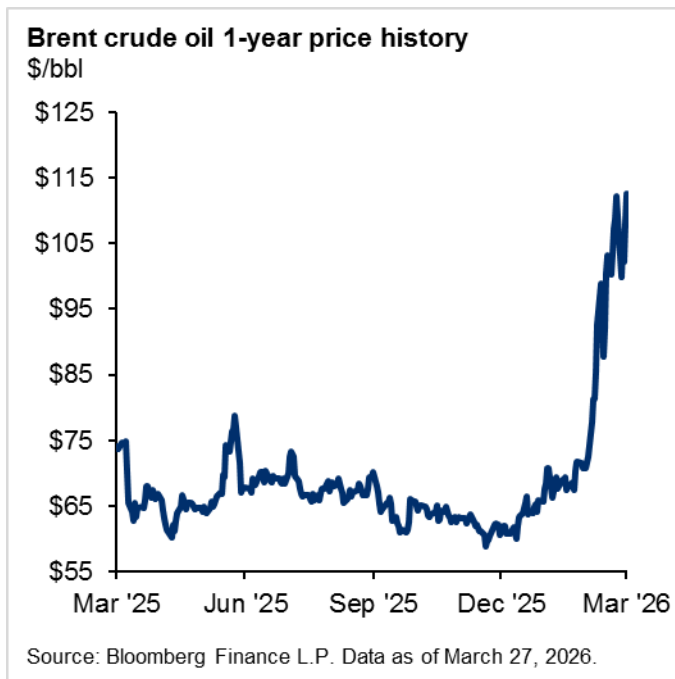
All outlook estimates represent the midpoint of our range. Rates have a +/-25bps range, and all other outlooks are within the range that is provided. **Estimates, forecasts and comparisons are for illustrative purposes and are as of the dates stated in the material.** Please refer to "Definition of Indices and Terms" for important information. **Outlooks and past performance are no guarantee of future results and investors may get back less than the amount invested.** It is not possible to invest directly in an index.

**Crude Oil**

Crude oil exploded higher in March and is currently +48% across the two benchmarks. Markets are moving quickly to reprice supply constrained markets that are grappling with shut-in production due to the closure of the Straits of Hormuz. We estimate that up to 16mbd are now missing from the markets and although some offset is being seen from various alternative shipping routes/pipelines, eventually oil on the water will be consumed as time drags on. Furthermore we have seen large cumulative releases of Strategic Reserves, but these releases can only be made incrementally due to logistical constraints and they cannot make up missing barrels. The longer the Straits remain closed the higher prices will climb. Interestingly the market prices future crude oil at steep discounts to spot prices as the view is the conflict will end relatively quickly. We caution that further price spikes maybe seen in the coming weeks. We maintain our YE targets as we remain optimistic that a peace deal will be struck sooner rather than later.

**What we're watching:** The Straits of Hormuz and then signs of demand destruction.

**Our view: YE '26:** WTI: \$58-\$63 Brent: \$62-\$67

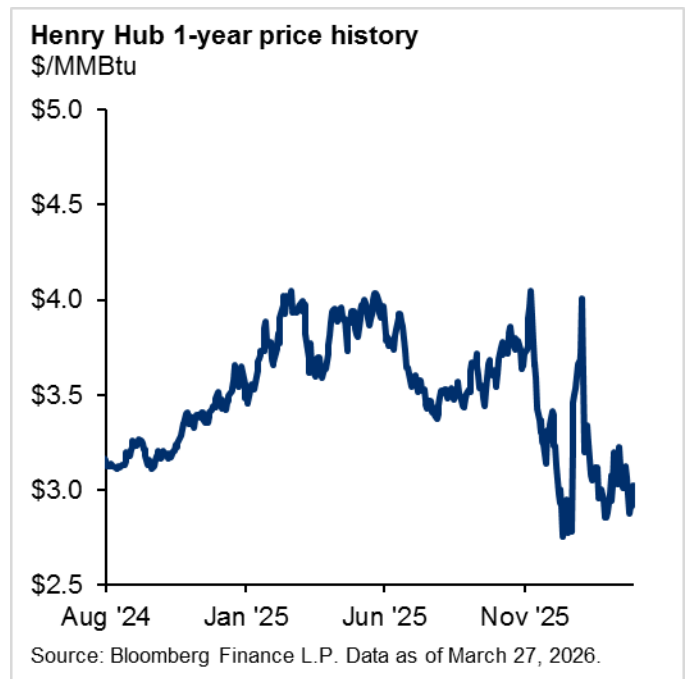


**Natural Gas**

Natural Gas is a story of two markets as US Nat Gas rose +7.6% and European Nat Gas jumped an astounding +72% as Qatari supplies of LNG were removed from the market. The BCOM Index does not include European Gas, so we always focus on US prices. However ignoring the price increase in Europe is dangerous as it will impact demand for US supplies and of course impact electricity pricing locally. The US can easily supply enough dry gas to supply the world, given time, but LNG is somewhat constrained by available infrastructure availability. The demand has pushed prices higher and we cannot effectively guide on prices until we have clarity on the peace negotiations. We keep our targets for now and remain vigilant as the opening of the Straits will impact UD demand.

**What we're watching:** The conflict...

**Our view: YE '26:** \$4.50 - \$5.50



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## Copper

Copper fell in March, a frustrating move for many investors who had hoped that the metal would provide some protection in an increasingly unstable world. Although we initially saw gains at the beginning of the month the price dropped as the realities of copper markets took hold and traders focused more closely on the economy that drives demand. China determines markets for now as they consume 64% of annual supply. The global impact of conflict with Iran could affect global growth and therefore Chinese industrial demand. As this realization crept into markets the metal began to fall losing -8.8% over the month. We maintain our view that peace negotiations will lead to an end to the conflict and prices should therefore recover, potentially very quickly. We suggest therefore that current levels around \$12,100 may prove to be a compelling entry point for longer term investors.

**What we're watching:** Iran Conflict and implications for global growth

**Our view: YE '26:** \$14,000 - \$14,500



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## ALTERNATIVES VIEWS

### **Private Credit**

Recent headlines around AI disruption, portfolio marks, and redemptions have reignited concerns about public and private credit (PC). Our full analysis can be found here, key highlights below.

**Right-sizing the growth narrative.** Private credit AUM in the US has grown at roughly ~14% CAGR over the past decade, yet still represents ~9% of total US corporate borrowing. 'Risky credit' has been stable at around ~20% of US GDP over the past decade, reflecting a share shift from other risky credit rather than an expansion of overall risk. The investor base remains ~80% institutional. Bank interlinkages also look manageable: loans to BDCs are ~12.5% of US bank lending versus ~53% real estate concentration in the mid-2000s, and bank lending relative to GDP has been subdued—reducing the likelihood of a bank-led amplification loop.

**We expect elevated redemption requests to continue through 1H26.** Important to note that redemption queues and gating mechanisms in evergreen structures are standard protective features—not distress signals. They safeguard remaining investors from forced asset sales during periods of heightened demand. During periods of elevated stress or heightened redemption demand, fund managers may invoke these provisions to preserve portfolio integrity. Today, elevated tender requests, which we expect, appear to be driven more by sentiment than fundamentals.

**Macro stable, micro cycles emerging.** We expect resilient 2026 economic growth to support spreads and credit fundamentals broadly. Default rates remain at or below historical averages across credit markets (US High Yield ~2.1%, Leveraged Loans ~3.2%, Private Credit ~2.5%). Stress is concentrated in smaller borrowers (\$25–\$50M EBITDA) and specific sectors like automotive and retail. Software defaults are likely to rise over a 3–5 year window as AI disruption takes hold, though the impact will not be uniform. Software is not a monolith: deeply embedded, usage-based, mission-critical platforms face less risk than generic, easily replaced tools or seat-based revenue models. Overall we expect defaults to rise in 2026 but remain contained to specific sectors and borrower sizes.

The cracks aren't necessarily unique to the US. Europe is seeing similar sub-surface pressure—particularly across cyclical sectors and smaller companies—but it appears more macro-driven (inflation, rates) rather than tech-concentrated. Structural differences versus the US are also notable: European borrowers tend to carry lower leverage and stronger equity cushions, loans often have tighter

covenants and better protections, and market fragmentation requires local expertise—all factors that can provide a greater element of downside protection. Europe's evergreen market is also far more nascent, with capital still predominantly in drawdown structures, limiting some of the redemption risk playing out elsewhere.

In sum, we view this as a sector-led reset rather than the start of a macro default cycle, and expect "micro" credit cycles to widen dispersion across issuers and managers through 2026.

**Private Market Portfolio Perspective.** Senior secured direct lending can still serve as part of a core private market portfolio as it serves an alternative source of income in a client portfolio, though yield premium vs. public markets have compressed vs '23 highs. In terms of sizing, we think private credit can be ~15% of a core private market allocation (anywhere from ~1.5-4.5% of overall portfolios), balancing direct lending with asset-backed finance and opportunistic/distressed to enhance durability and diversify risk. We think it is an opportune time to assess position sizing, whether exposure has become outsized given direct lending's outperformance over the past three years, and that risk taken is intentional.

**Where do direct lending yields go from here?** In the U.S., we expect yields to normalize to historical ranges in our base case (high single digits) and premium to public market equivalents to remain compressed vs. '23 highs. We continue to monitor defaults/credit losses closely, but note that current yields can provide some buffer to this risk. Selectivity is key as we expect performance dispersion to widen in 2026 (a break from historical precedent)—focus on portfolios with diversified sector exposure, seniority in the capital structure, and lean into larger companies (EBITDA > \$50M). Europe starting to look more attractive (less trafficked, less competition from public markets, robust spreads).

**'Credit complements' will continue to be critical as direct lending yields normalize and cracks in credit emerge.** Consider diversifying through asset-backed finance and find opportunity in "micro" credit cycles through opportunistic/distressed credit managers that can lean into dislocations..

**What we're watching:** Default activity and impact of AI disruption, fundamentals of underlying borrowers, yields vs public markets

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**Private Infrastructure**

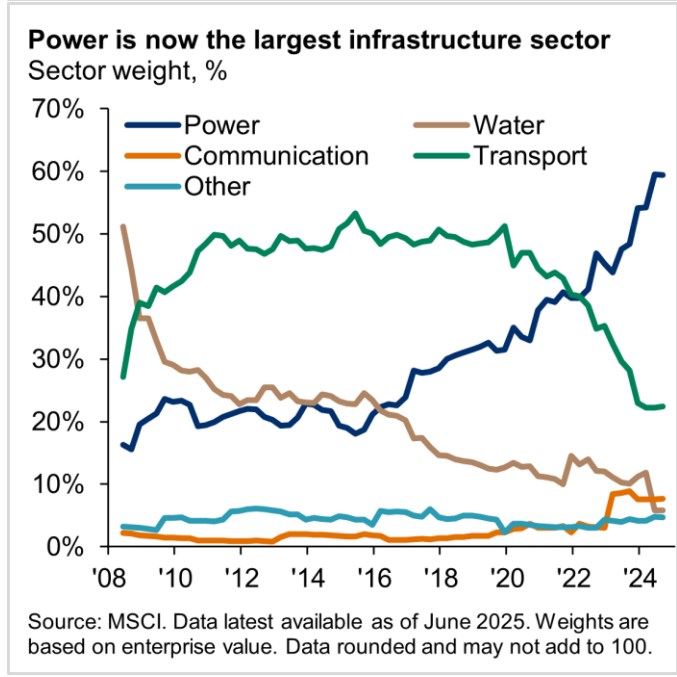
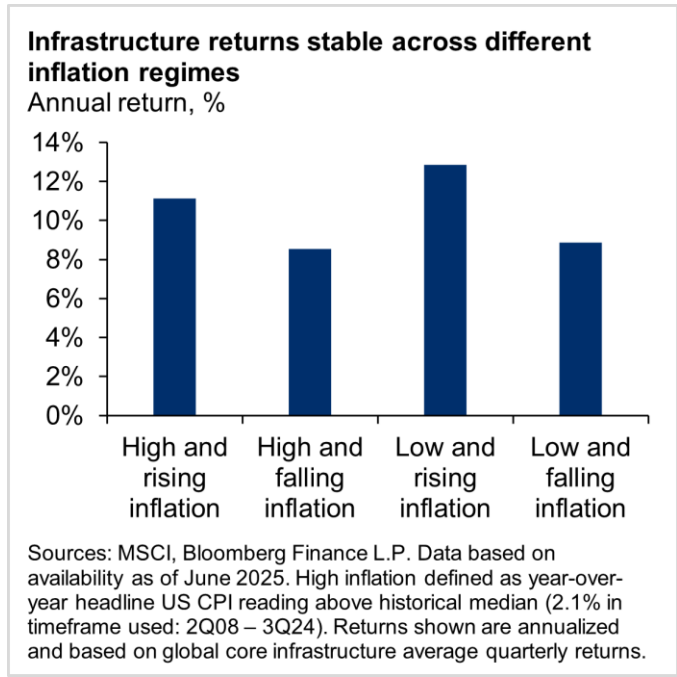
Infrastructure provides two key characteristics to investors: stable returns (supported by long-term, inflation-resilient, contractual cash flows) and less volatile exposure to secular growth backed by multi-year trends (acceleration in demand for power, resilient infrastructure escalating to a matter of national security). We believe these characteristics will become increasingly relevant in 2026 as investors look to create durable portfolios in a shifting macro environment (e.g., elevated rates and inflation vs recent history) and an increasingly concentrated public equity market.

Since 2Q08, core infrastructure has annualized high single digit to low double digit returns across various inflationary regimes. Let's double click into the multi-year trends supporting these consistent returns. **Acceleration in demand for power:** After two decades of near-zero growth, US power demand is expected to grow at ~2.5% CAGR through 2030 driven by industrialization (reshoring, resurgence of U.S. manufacturing), Data Centers (driven by growth in AI), and electrification (building electrification, EV growth & charging infrastructure). This acceleration in demand at a time of constrained supply could create a power deficit by 2029. We believe this will spur investment in power infrastructure (generation, transmission, distribution, storage). Indeed, power now represents ~60% of the global private infrastructure index. It will also create a resurgence in securing reliable sources of power (e.g., renewal in focus on oil & gas in the US, renewables in Europe).

**Resilient infrastructure now a matter of national security:** The past couple of years have also showcased in real-time the role that energy plays in influencing the geopolitical landscape. Securing reliable sources of energy / power - not only for essential services but also to power AI - has become a matter of national security. For investors, it means that investment in energy and power infrastructure will be supported by long-term secular forces, and that investing in globally diversified infrastructure is key as the type of asset (and therefore growth) you are getting exposure to will vary by region. But this moves beyond just power and energy - it touches all forms of infrastructure (e.g., ports, roads, rails, bridges, telecom). Indeed, NATO's defense spending guidelines initiated in 2025 incorporates guidelines on spending on creating resilient infrastructure (1.5% of country's GDP). Moreover, investors have historically had low allocations to infrastructure. The JPM Private Bank Family Office Report found that infrastructure represented less than 1% of assets under supervision in 2024. As the need for consistent, inflation-resilient income becomes a top priority in this cycle, we believe investor allocations to

infrastructure can (and should) shift higher. Bottom line, for private investors, infrastructure presents a unique opportunity to get access to both consistent returns (backed by contractual, inflation-resilient cash flows) and multi-year secular trends (power, resilient infrastructure escalating to a matter of national security)

**What we're watching:** Impact of geopolitical uncertainty on transport, impact of tariffs, signs of a cyclical slowdown, signs of overinvestment in datacenters, valuations in power infrastructure



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## Private Real Estate

After five years of volatility, we believe U.S. commercial real estate (CRE) is reemerging as an attractive segment within private markets in 2026. The sector is benefiting from shifting demand drivers, improved fundamentals, and new opportunities across asset classes. Real estate continues to offer portfolio diversification, inflation-resilient income, and upside potential, serving as a natural hedge in periods of elevated and volatile price pressures. Today's market is characterized by a mosaic of micro-trends, each with distinct challenges and demand drivers. Three themes are set to shape 2026 and the next decade: a demographic shift toward rental housing, the expansion and diversification of industrial real estate, and the emergence of new asset-backed credit opportunities.

**Demographic shift toward rental housing.** U.S. households are increasingly delaying home ownership, with the median age of first-time buyers rising to 40 from 33 just five years ago. Affordability pressures are acute: home ownership costs are now 45% higher than renting. What's more – this is occurring at a time of a shortage in supply. A persistent supply deficit—estimated at 2.8 million units—is expected to take up to a decade to resolve. Compounding the issue, about half of mortgage borrowers pay sub-4% rates, reducing incentives to sell and further constraining supply. We anticipate that sustained demand for rental assets at a time of tight supply, will likely support strong risk-adjusted returns.

**Industrial real estate, including warehouses, data centers, and manufacturing facilities.** This sector is being reshaped by the convergence of artificial intelligence, digitalization, and a renaissance in advanced manufacturing. Demand for high-powered industrial assets is rising, driven by technology and logistics firms seeking properties equipped to handle large electrical loads. Over the past year, high-powered industrial assets have delivered average returns of 8%, compared to less than 3% for standard properties<sup>1</sup>. Vacancy rates are below historical norms, supporting faster rent growth. Triple net leases, which are prevalent in the industrial sector, provide investors with inflation-hedged income streams and exposure to diversified portfolios, with lower default risk compared to high-yield public markets.

**Emergence of asset-backed finance opportunities.** Hundreds of billions in real estate loans are scheduled to mature over the next two to three years, requiring refinancing at higher rates. Regional banks, historically a backbone of CRE lending, have reduced their activity, creating a capital gap. Private lenders are stepping in, offering structured strategies with equity-like returns and

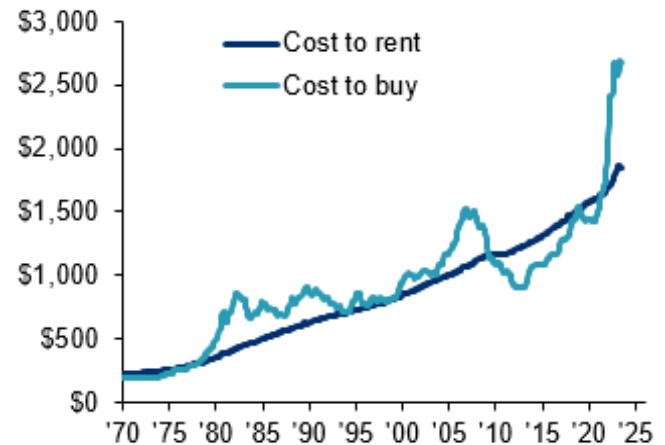
debt-like features, especially for well-collateralized industrial assets. Current yields in the sector are in the low double digits. For investors wary of commercial real estate risks—such as falling property values, tenant defaults, illiquidity, and elevated interest rates—real estate credit offers potential income, downside risk mitigation, and exposure to high-demand sectors, making it a logical entry point.

In conclusion, U.S. real estate is undergoing a selective, long-term reinvention. While values have reset since the start of the decade, new opportunities (rental housing, industrial assets, and RE credit) are emerging that are more targeted and likely to play out over the long term.

1 J.P. Morgan Asset Management Real Estate Research, November 2025. High-powered defined as assets with more than 4,000 amps of power, standard defined as assets with less than 2,000 amps.

**What we're watching:** signs of a macro slowdown, impact of tariffs on input costs, signals of impact of immigration policy on labor and therefore supply

**The cost of owning a home is meaningfully higher than the cost of renting one in the U.S.**  
Monthly cost to rent vs. buy, \$



Sources: Reventure Consulting, Zillow, Case Shiller, BLS, S&P CoreLogic Case-Shiller Home Price Index. Data as of 2023. Note: Represents cost of single-family residences, adjusted for inflation.

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### **Private Equity**

Conviction in PE has been tested as the median buyout manager underperformed public markets over the past three years, driven in part by the AI-fueled rally. Record dry powder, sluggish deal flow, and below-average distributions have added pressure. While we believe concerns that PE has lost its way are overstated, the industry is clearly stratifying.

**PE continues to offer differentiated exposure supported by strong fundamentals** - private companies posted ~11.5% annual EBITDA growth over the past decade, outpacing public markets. Key themes include technology, healthcare innovation, and security.

**AI disruption.** AI presents both opportunity and risk across PE. VC/Growth funds are backing disruptors in a potential \$6T "services as software" market by decade's end—AI companies like OpenAI and Anthropic added more net new ARR in 2025 than the rest of public software combined. For buyout, firms integrating AI into operations can strengthen operational value creation. However, 2020–2022 SaaS investments underwritten on peak multiples face risk as AI disrupts legacy models—companies with embedded AI may compound, while those defending labor-scaled models face obsolescence.

**Non-U.S. PE opportunities are expanding.** European buyout funds have outperformed both U.S. peers and public benchmarks (MSCI Europe), benefiting from fragmented markets, operational complexity, middle-market abundance, and greater exposure to secular themes (tech/telecom represents ~33% of European PE deals vs. ~10% of MSCI Europe). India is APAC's fastest-growing PE market, driven by strong economic growth, rising consumer demand, and supply chain shifts. Japan's opportunity set is expanding as corporate carve-outs and governance reforms accelerate.

**Deal activity is building momentum.** 2025 U.S. IPOs rose 11% y/y by deal count and 36% y/y by value, while M&A reached the second-highest year by deal value in North America over the past decade. The 2026 IPO pipeline is unprecedented in both size and concentration—rumored IPOs (SpaceX, OpenAI, Anthropic) could represent the three largest U.S.-listed IPOs in history, potentially reshaping index composition and capital flows.

We see opportunity in PE given the differentiated exposure private markets provide. As financial conditions ease, deal activity should accelerate into 2026—but vigilance is warranted. Within PE, we favor complementing core exposure with secondaries and taking a diversified approach across sector (balancing tech with healthcare and

security themes), size (mid-market and large buyout), and geography (Europe, India, Japan).

**What we're watching:** AI disruption potential, capital market activity (dealmaking, exit activity, dry powder, fundraising levels), valuations

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## VOLATILITY VIEWS

### Equity Vol

March saw a sharp rise in equity market volatility as the US-Iran conflict escalated. Global equities moved lower, but the US held up better than most, partly due to its relative insulation from the energy shock. The standout theme was the surge in implied volatility—investors' expectations for market turbulence—across the equity landscape. S&P 500 (SPX) volatility jumped, with 1-year implied vol reaching ~22v, a level not seen since the Liberation Day turmoil in April 2025.

Option markets responded by pricing in greater downside risk: puts became more expensive than calls, reflecting investor demand for protection and a more limited view on potential upside. While this environment has been tough for diversified portfolios—with equities, bonds, and gold all declining together—periods of elevated volatility can also create opportunities. Investors can take advantage of these conditions and monetize elevated volatility through structured notes and put writing strategies. These approaches, especially when tailored to risk appetite and maintained through uncertain times, can help portfolios stay invested with potentially more defined outcomes and risk-reward profiles, even when markets are unsettled.

**What we're watching:** Strait of Hormuz and energy prices, AI delivery vs expectations, blockbuster IPOs

### Macro Vol

Macro volatility rose sharply in March, with oil prices driving major cross-asset moves. Markets are closely watching how long oil can stay elevated before broader economic effects emerge. Gold, which hit record highs in January, sold off as the US dollar strengthened during the conflict. This reversal erased gold's double-digit gains for the year and pushed gold's implied volatility to multi-decade highs. US rates volatility also jumped as investors reacted to inflation risks from higher oil. Swap markets have adjusted quickly, fully removing expectations for Fed rate cuts in 2026. The key theme: macro assets are moving together, and markets are pricing in higher tail risks. Macro paths continue to widen. Persistently high oil prices could make it harder for the Fed to ease policy. Floating rate borrowers have seen yields rise sharply—consider bond rallies (yields lower) as an opportunity to fix a portion of these liabilities, or use puttable swaps, which benefit from elevated volatility to secure a lower fixed rate. We remain constructive on gold but see risks as more balanced; consider hedging on rallies or using structured notes with downside buffers to gain exposure.

**What we're watching:** Oil impact on inflation data, gold's relationship to the USD, Fed rhetoric amid conflict

Cross Asset Volatility Monitor						
Underlier	1 Month			1 Year		
	Vol	MoM Change	Historical	Vol	MoM Change	Historical
Equities - 100% Strike Implied Volatility						
S&P 500 Index	14.90	-8.13		16.74	-4.98	
EURO STOXX 50 Index	14.95	-3.51		15.52	-2.72	
Tokyo SE (TOPIX) Index	15.83	-8.60		17.32	-3.03	
Rates - SOFR Swaptions ATM Strike Implied Volatility (BP, Annualized)						
1Y	68.88	-36.90		108.31	-12.59	
5Y	99.90	-19.25		104.21	-8.49	
10Y	93.68	-14.40		97.65	-6.39	
Commodities - ATM Strike Implied Volatility						
Oil (Brent)	24.20	-8.05		25.33	-3.30	
Gold	14.20	-7.14		15.45	-3.02	
Currencies - ATM Strike Implied Volatility						
EUR/USD	7.40	-2.10		7.32	-0.93	
USD/JPY	9.42	-2.64		9.70	-0.90	
USD/CNH	4.67	-0.51		5.70	-0.58	

1) Source: J.P. Morgan. Data as of March 24, 2026

2) ATM refers to "At the Money Forward"

3) The illustration references the historical implied volatility over the last year.

Green dot denotes high, red dot low, and blue dot current

4) Historical 1 year window observed for the range

## THIS DOCUMENT

We explore the outlook for economies and markets and provide year-ahead views across asset classes.

## OUR MISSION

The Global Investment Strategy Group provides industry-leading insights and investment advice to help our clients achieve their long-term goals. They draw on the extensive knowledge and experience of the Group's economists, investment strategists and asset-class strategists to provide a unique perspective across the global financial markets.

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## DEFINITIONS OF INDICES AND TERMS

### Currencies and Central Banks

- USD – US dollar
- DXY – U.S. Dollar Index indicates the general initial value of the USD. The index measures this by averaging the exchange rates between the USD and major world currencies.
- EUR – Euro
- JPY – Japanese yen
- GBP – British pound
- CHF – Swiss franc
- CAD – Canadian dollar
- AUD – Australian dollar
- NOK – Norwegian krone
- MXN – Mexican peso
- BRL – Brazilian real
- CNH – Offshore deliverable renminbi
- CNY – Onshore non-deliverable renminbi
- RMB – Chinese renminbi
- KRW – Korean won
- INR – Indian rupee
- SGD – Singapore dollar
- SEK – Swedish krona
- XAU – Gold
- RUB – Russian ruble
- TRY – Turkish lira
- BCB – Central Bank of Brazil
- BoC – Bank of Canada
- BoE – Bank of England
- BOJ – Bank of Japan
- CBR – Central Bank of Russia
- CBRT – Central Bank of the Republic of Turkey
- CBRA – Central Bank of the Republic of Argentina
- ECB – European Central Bank
- Fed – Federal Reserve
- SNB – Swiss National Bank

### Additional abbreviations

- Bbl – Barrel
- Bps – Basis points
- Bcf – Billion cubic feet
- BoP – Balance of Payments
- BTP – Italian government bonds
- Bund – German government bonds
- CFTC – Commodity Futures Trading Commission
- COVID-19 – Coronavirus disease 2019
- DM – Developed Markets
- EM – Emerging Markets
- EMEA – Europe, Middle East and Africa
- FDI – Foreign Direct Investment
- FX – Foreign Exchange
- G10 – The Group of Ten is made up of 11 industrial countries that consult and cooperate on economic, monetary and financial matters
- GDP – Gross Domestic Product
- HY – High yield
- IG – Investment grade
- JGB – Japan government bond
- LATAM – Latin America
- OPEC – Organisation of the Petroleum Exporting Countries
- Oz. – Ounce
- REER – Real Effective Exchange Rate
- SPX – S&P 500
- UK – United Kingdom
- UST – U.S. Treasury note
- WTI – Western Texas Intermediate
- YTD – Year-to-date

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Note: Indices are for illustrative purposes only, are not investment products, and may not be considered for direct investment. Indices are an inherently weak predictive or comparative tool. All indices denominated in U.S. dollars unless noted otherwise.

All data sourced from Bloomberg Finance L.P. as of May 09, 2025, unless noted otherwise.

The **Bloomberg Commodity Index (BCOM)** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

The **Bloomberg US Agg Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The **JPM Corporate Emerging Market Bond Index (CEMBI)** series was launched in 2007 and was the first comprehensive USD corporate emerging markets bond index. There are two root versions of the CEMBI with a Diversified overlay for each version: the CEMBI and the CEMBI Broad. The CEMBI Broad Diversified version is the most popular among the four versions largely due to its issuer coverage and diversification weighting scheme.

The **CSI 300 Index** is a free-float weighted index that consists of 300 A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. Index has a base level of 1000 on 12/31/2004. \* Due to our agreement with CSI, shares in the index are restricted, please visit [SSIS<go>](#) for more information and access. This ticker holds prices fed from Shenzhen Stock Exchange.

The Citi **Economic Surprise Indices** measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.

The **Emerging Market Bond Index Global (EMBI Global)** was the first comprehensive EM sovereign index in the market, after the EMBI+. It provides full coverage of the EM asset class with representative countries, investable instruments (sovereign and quasi-sovereign), and transparent rules. The EMBI Global includes only USD-denominated emerging markets sovereign bonds and uses

a traditional, market capitalization weighted method for country allocation.

The **J.P. Morgan Asia Credit Index (JACI)** aids in evaluating investment opportunities in fixed rate USD denominated bonds issued in Asia ex Japan region. It follows a traditional market capitalization technique similar to the EMBI and the CEMBI Index series.

The **MSCI All World Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1987. MXWD includes both emerging and developed world markets.

The **MSCI AC Asia ex Japan Index** captures large and mid-cap representation across two of three Developed Markets countries (excluding Japan) and eight Emerging Markets countries in Asia. With 609 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the index include: Hong Kong and Singapore. Emerging Markets countries include: China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.

The **MSCI China Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1992. This index is priced in HKD. Please refer to M3CN Index for USD.

**MSCI AC ASEAN Index** (former: MSCI South East Asia Index) captures large and mid-cap representation across 4 Emerging Markets countries and 1 Developed Market country.

The **MSCI India Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1992.

The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of 23 developed market country indexes.

The **Nikkei-225 Stock Average** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225. \*We are using official divisor for this index

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The **Russell 2000 Index** is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**Standard and Poor's Midcap 400 Index** is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990. See MDY US Equity <GO> for the tradeable equivalent.

The **Standard and Poor's 500 Index** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941–43 base period.

The **EURO STOXX 50 Index**, Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of supersector leaders in the region. The index covers 50 stocks from 11 Eurozone countries. The index is licensed to financial institutions to serve as an underlying for a wide range of investment products such as exchange-traded funds (ETFs), futures, options and structured products.

The **STOXX Europe 600 Index (SXXP Index)**: An index tracking 600 publicly traded companies based in one of 18 EU countries. The index includes small cap, medium cap, and large cap companies. The countries represented in the index are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Holland, Iceland, Ireland, Italy, Luxembourg, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

**TOPIX**, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange.

## KEY RISKS

- Small capitalization companies typically carry more risk than well-established "blue-chip" companies since smaller companies can carry a higher degree of market volatility than most large cap and/or blue-chip companies.
- Investments in commodities may have greater volatility than investments in traditional securities. The value of commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Investing in commodities creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.
- Investing in alternative assets involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.
- The price of equity securities may rise or fall due to the changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.
- Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment and reinvestment risk. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss.
- Preferred securities are typically long dated securities with call protection that fall in between debt and equity in the capital structure. Preferred securities carry various risks and considerations which include: concentration risk; interest rate risk; lower credit ratings than individual bonds; a lower claim to assets than a firm's individual bonds; higher yields due to these risk characteristics; and "callable" implications meaning the issuing company may redeem the stock at a certain price after a certain date.
- Investors should understand the potential tax liabilities surrounding a municipal bond purchase. Certain municipal bonds are federally taxed if the holder is subject to alternative minimum tax. Capital gains, if any, are federally taxable. The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax (AMT).
- Holders of foreign securities can be subject to foreign exchange risk, exchange-rate risk and currency risk, as exchange rates fluctuate between an investment's foreign currency and the investment holder's domestic currency. Conversely, it is possible to benefit from favorable foreign exchange fluctuations.
- International investments may not be suitable for all investors. International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations. International investing can be more volatile.
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- Not all option strategies are suitable for all investors. Certain strategies may expose investors to significant potential risks and losses. For additional risk information, please request a copy of "Characteristics and Risks of Standardized Options." We advise investors to consult their tax advisors and legal counsel about the tax implications of these strategies. Investors are urged to carefully consider whether options or option-related products or strategies are suitable for their needs. In discussion of options and other strategies, results and risks are based solely on hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors

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