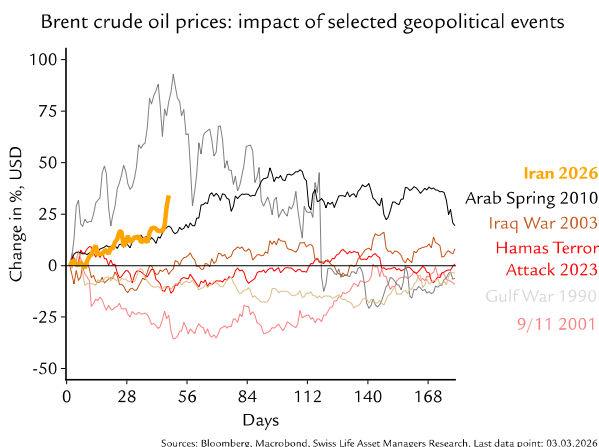


3 March 2026

Iran war and its implications

Our economic assessment

- The US and Israel entered a direct war with Iran.
- Oil prices have surged to around \$80/bbl due to supply risk premia. As the oil price is the main global macro transmission channel, three plausible scenarios for this month are outlined below.
- *Base case – elevated oil prices in the range of \$80–90/bbl:* hostilities persist as the US and Israel seek to further weaken Iran’s military and nuclear capabilities. Iran does not fully close the Strait of Hormuz, but tankers increasingly avoid the area. Offsetting factors help cap the upside on prices: a) OPEC+ supply increases b) Saudi & UAE pipelines combined are able to divert roughly 6.5 million bbl per day, bypassing Hormuz c) China’s high inventories reduce near-term replacement needs d) Iran front-loaded exports, providing a floating-storage buffer.
- *Positive scenario – swift de-escalation:* a rapid halt to hostilities, possibly including a “deal” with new Iranian leaders, brings oil prices back to pre-war levels.
- *Negative scenario – lasting oil price shock:* the destruction of energy infrastructure or a long closure of the Strait of Hormuz pushes oil prices above \$100/bbl. Europe/Japan are also hit by higher gas prices. Central banks, notably in energy-importing economies, face a trade-off between supporting economic growth and containing renewed inflationary pressure.



Financial markets developments

- The overall market impact has so far been limited, as the escalation was not unexpected. The main factor driving markets is the price of energy.
- European equities dropped sharply, given Europe’s high reliance on Middle Eastern energy. US equities were less affected due to US energy independence.
- Market-implied inflation expectations have risen, pushing global government bond yields up.
- Credit spreads widened in Europe and in lower-rated or energy-sensitive sectors; US spreads were largely stable. EM bonds of countries outside the Middle East saw indirect pressure from higher US yields and a stronger USD.
- CHF briefly strengthened before the SNB pushed back; the USD benefitted from safe-haven flows due to the US status as a net energy exporter.

Our current market assessment

- The market reaction so far is consistent with previous periods of heightened geopolitical tension. The market does not seem to be pricing in a high probability of our negative scenario.
- In our base case, we expect equity markets to recover, credit spreads to remain broadly stable, and interest rates to show limited movement as the global economic backdrop continues to be supportive and corporate earnings are solid. However, net energy-importing countries and energy-intensive sectors are likely to lag those that are energy exporters or less oil-dependent.
- The Swiss franc should stay firm but is unlikely to appreciate significantly against the euro, given the SNB’s readiness to intervene. The USD may strengthen further versus the EUR, reflecting the eurozone’s reliance on imported energy.
- Uncertainty around geopolitical developments and oil prices remains exceptionally high. In this environment, we continue to adopt a prudent risk stance while ensuring portfolios remain broadly diversified, including real assets, commodities, and precious metals in the portfolios, where possible.

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March 2026 – Update on the latest geopolitical developments in the Flash Comment at the top of the publication

Interest rates & bonds

Spread volatility due to AI disruption fears

	10-year government bond yield			Investment-grade credit spread		
	Current	Feb. 2026*	Year-to-date*	Current	Feb. 2026*	Year-to-date*
US	4.0%	-23 bps	-16 bps	82 bps	9 bps	4 bps
Eurozone	2.7%	-15 bps	-16 bps	80 bps	6 bps	2 bps
UK	4.3%	-25 bps	-20 bps	89 bps	8 bps	6 bps
CH	0.2%	-1 bps	-8 bps	69 bps	-5 bps	-11 bps

10-year government bond yield eurozone = DE, bps = basis points.
* Change as at 26 February. Source: Bloomberg

USA

- In February, US rates declined across the curve, and the yield curve flattened. USD credit spreads widened both in investment-grade (IG) and high-yield (HY). USD HY spreads were hit by fears that many IT & service businesses could be disrupted by AI.
- Inflation overall moderated in January. We expect the Fed to look through tariff-related inflation and to deliver two further policy rate cuts in 2026.

Eurozone

- Yield curves flattened in February as longer rates declined more than the short end. Credit spreads widened, and the excess return above government bonds was negative. HY underperformed IG credit.
- We expect unchanged monetary policy by the ECB as inflation and market inflation expectations remain well anchored.

UK

- 10-year gilt yields fell in February, but the yield curve between the 2-year and 10-year point is still steeper than the US treasury and Bund yield curves.
- We still forecast another two 25 bps policy rate cuts by the Bank of England in 2026.

Switzerland

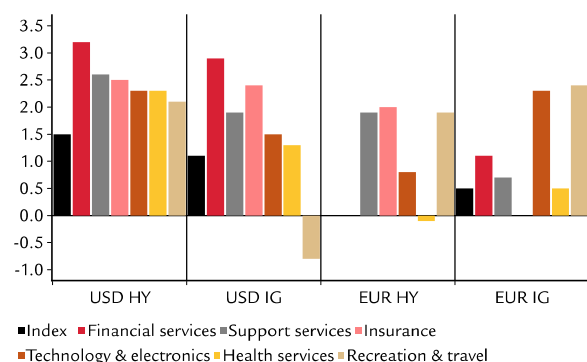
- New credit issuance was well absorbed in February and Swiss IG credit spreads tightened.
- The SNB still has some tolerance for inflation to slightly undershoot projections. The recent CHF appreciation is insufficient to alter the SNB's neutral stance. As we expect no rate cuts in 2026, the front-end of the curve should remain well anchored.

AI worries mainly affected USD credit markets

Triggered by the launch of agentic AI tools, designed to automate multi-step workflows in finance and legal services, credit markets in February were hit by an “AI scare trade”. As a result, investors reduced exposure to the software & tech sector but also to other sectors with a high vulnerability to AI disruption. In this respect, we note that: **1.** HY credit was more affected than IG given that the decline in stock valuations and higher refinancing costs is particularly critical to companies with a high loan-to-value ratio (LTV), high leverage (e.g. private equity-owned companies in the single-B rating category) and/or weak free cash flows (after shareholder remuneration). **2.** Spreads in USD HY widened more than in the EUR HY market given its higher share in B/CCC rated credits. **3.** The exposure of private credit, BDC (business development companies), CLO (collateralised loan obligations) and loan markets to the Tech sector is higher than the HY bond market with a higher sector share and a worse sector credit quality.

Given the ongoing volatility from AI disruption stories, we expect wider spreads in HY this month but are keeping a neutral view on IG credit as IG is still enjoying inflows. Given the lack of clear drivers regarding growth and inflation and given that risks – especially politically – can tip either way, our 1-month duration view for the US, Europe and Switzerland is neutral for both the 10-year and 2-year horizon.

Option-adjusted spread (OAS) over government bonds:
Z-score as at 24 February 2026 compared to the past 3 months



Sources: ICE, Macrobond, Swiss Life Asset Managers

Equities

AI blues

Regional equity markets	Feb. 2026*	Year-to-date*
USA	-0.5%	0.8%
Eurozone	3.8%	6.7%
UK	6.6%	9.9%
Switzerland	5.1%	4.9%
Emerging markets	6.0%	15.4%

MSCI net total return indices in local currency.
* Performance as at 26 February. Source: Bloomberg

USA

- The US market has been the weakest of all major markets so far in 2026. The performance in February was at least almost 4% weaker than all other markets.
- Software stocks sold off heavily after news that AI can now create software solutions itself. The dividend theme outperformed the broad market so far by around 10%.
- The earnings season delivered strong results with earnings growth of 11% and sales growth of 7%.
- Despite strong earnings growth, the market valuation is still high.

Eurozone

- The European market decoupled from the US market and continued its uptrend in February.
- Like in the US, the earnings season delivered results above expectations. The valuation is now at the upper end of the neutral range.

UK

- The UK market had a strong month in February, and its valuation is still attractive.

Switzerland

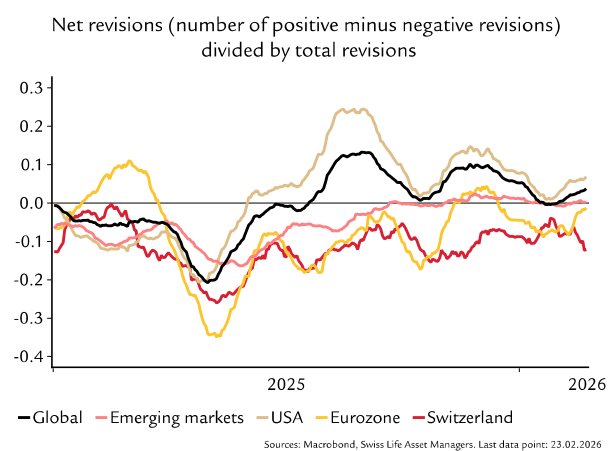
- Switzerland caught up in February as Nestlé stocks moved up by more than 10%.
- Swiss stock market valuations remain high.

Emerging markets

- The run of emerging market equities continues, and the market is now up around 15% year-to-date. The performance is backed by strong earnings growth.
- Regionally, Asian and Latin American markets have moved sharply higher this year, while India is the laggard. The Korean stock market is up around 50% year-to-date.
- In contrast to the US, AI-related stocks continue to perform well.

Earnings season and outlook

The earnings season once again delivered very good results. In the US, revenue growth was almost 7% – one of the highest growth rates for many quarters. Earnings growth was almost 12%. Both growth rates were above expectations. In terms of company results, the gap between the US and the eurozone has narrowed: In the eurozone, earnings were up 7% while sales were flat. It is only the second time since the first quarter of 2023 that the eurozone delivered positive earnings growth. Developed market stocks as a whole saw earnings grow by 8% and sales growth by 5%. Emerging markets saw earnings grow by around 17% and sales by around 8%. These positive results are mirrored in the earnings revision data (the data shows net upward revisions divided by total revisions): they are now at zero after having been negative until October 2025. The remarkable exception is Switzerland where analysts revised down earnings estimates significantly recently, and the net revision ratio is still negative.



In summary, the earnings season delivered very good results and earnings expectations for 2026 and 2027 point to significantly higher earnings. It is rare that significant market corrections or crashes happen in periods of sharply rising earnings and no recession. We are therefore retaining a positive outlook for equities for now. As outlined in the January edition of *Perspectives*, we favour the high-dividend theme as well as small caps and emerging market stocks. High-dividend indices are much less exposed to AI disruption risks, and valuation is low compared to the full market. Small caps are expected to see strong earnings growth. Emerging markets benefit from the weak dollar, a strong position in AI and a still reasonable overall valuation.

Currencies

A tentative rebound of the USD

	Feb. 2026*	Year-to-date*	1-month view
EUR/USD	-0.5%	0.4%	↘
EUR/CHF	-0.3%	-1.9%	→
GBP/USD	-1.5%	0.1%	↘
USD/JPY	0.9%	-0.4%	↗

* Performance as at 26 February. Source: Bloomberg

USA

- The USD regained ground in February on a trade-weighted basis.
- We see further upside potential for USD in March, driven by resilient US data and supportive real yield differentials. Also, the trust in US institutions looks somewhat improved after the recent Fed chair nomination and the Supreme Court tariff ruling

Eurozone

- EUR gained 0.2% on a trade-weighted basis in February, driven by gains versus SEK and GBP, while EUR depreciated against USD and CHF.
- With growth and inflation expected to remain steady, we see limited domestic catalysts for EUR moves. The expected move lower in EUR/USD is mainly driven by the USD leg.

UK

- GBP lost against both USD and EUR in February. The weakness was driven by domestic political developments and the dovish repricing of Bank of England expectations following its February meeting.
- As we see some upside potential for USD in March, we are maintaining a negative stance on GBP/USD. Our view on GBP/EUR remains neutral.

Switzerland

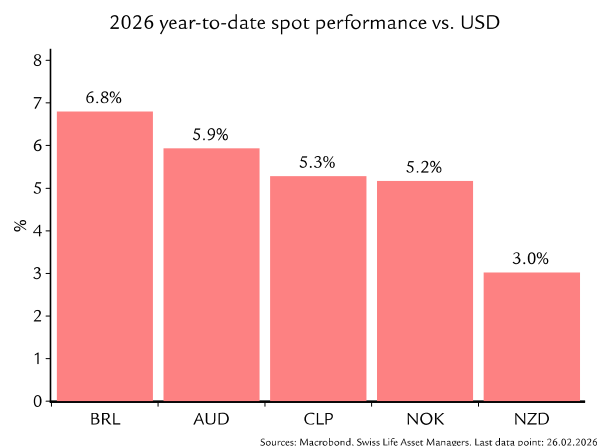
- CHF strength remains broadly intact, although the currency edged slightly lower against USD in February.
- We do not expect further CHF appreciation and are therefore keeping a neutral view on EUR/CHF and a positive view on USD/CHF.

Japan

- The JPY experienced a volatile February, with market attention focused on Prime Minister Takaichi's landslide election victory, her pro-stimulus fiscal policy stance and her cautious remarks regarding rapid rate hikes by the Bank of Japan.
- We expect USD/JPY to move higher in March.

Commodities and carry stage a comeback

The best performers against the USD among major currencies year-to-date have been the Australian dollar, the Norwegian krone and the New Zealand dollar. Among emerging market currencies, the Brazilian real and the Chilean peso have led the field.



What unites these currencies is the significant commodity exposure of their respective economies. This has partly supported their robust performance, driven by sharp price increases in copper, oil, and other key commodities. In addition to the commodity support, AUD, NZD and NOK have also benefitted from a market repricing of monetary policy expectations. Australia's central bank raised interest rates in February for the first time since 2023 to counter renewed inflation pressures, making the Reserve Bank of Australia (RBA) one of the first major central banks to raise borrowing costs again. At the same time, expectations about future rate hikes have increased, turning the relative interest rate advantage (the so-called carry) of AUD against the USD attractive again. A similar dynamic applies to NZD and NOK. Although their respective central banks have not yet hiked interest rates, market pricing shows increasing probability of such a move happening this year, increasing the carry for both currencies. Meanwhile, the US Fed is still expected to continue its easing cycle, and we expect two additional rate cuts this year.

Asset allocation

Broadening of equity market performance

February in review

- Global equities posted only moderately positive returns in February, dragged down by US stocks which had negative returns. Swiss stocks were among the top performers, supported by a continued broadening out of equity market performance and solid fundamentals. Also, Japanese equities and emerging market stocks performed well.
- US government bonds' yields moved lower, but they continue to trade range bound.
- The USD had a weak first half of February but rebounded in the second half of the month to close higher on a trade-weighted basis.
- Corporate credit spreads widened in February, but they remain at a tight level from a historical perspective.

Current asset allocation views

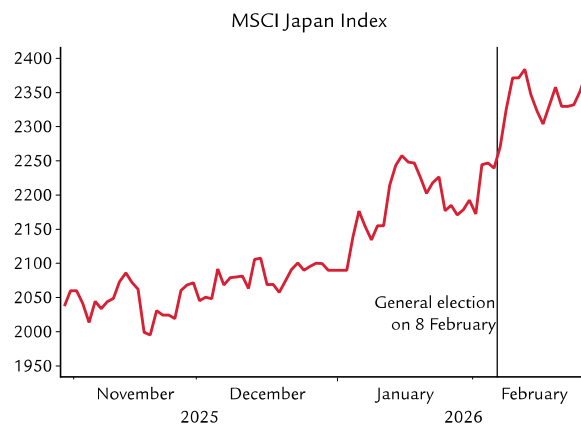
Asset class	Active weight
Global government bonds	neutral
Global investment-grade credit	underweight
Global equities	overweight

Source: Swiss Life Asset Managers

- We maintain an overweight position in global equities, supported by solid earnings trends and accommodative monetary conditions. Within this universe we continue to favour Japan, the US and emerging markets.
- We also hold an overweight stance on Swiss equities, reflecting the market's defensive sector composition and the consistently strong fundamentals of leading Swiss companies.
- In corporate credit, we remain cautious. Spreads continue to trade near historically tight levels, limiting return potential and offering insufficient compensation for risk relative to equities.
- While all-in bond yields remain attractive, high hedging costs for CHF-based investors erode much of this advantage. As a result, we favour emerging market bonds, which provide a more compelling yield pick-up.
- For government bonds, we are keeping a neutral positioning, expecting yields to remain largely range bound.
- For CHF-based investors, we are maintaining an overweight allocation to Swiss NAV-based real estate, where we continue to see favourable market dynamics and supportive demand.

Japan's return to centre stage

Japan has re-emerged as a focal point for global investors. The MSCI Japan has gained nearly 12% year to date, prompting questions about the sustainability of the rally. Current conditions suggest that further upside is possible. The political landscape has shifted markedly, with Prime Minister Sanae Takaichi securing a near-70% super-majority in the lower house, giving her administration significant latitude to drive a pro-growth agenda. Planned measures include higher spending on defence and strategic industries, temporary household tax relief, and continued progress on corporate governance reforms – steps that could further enhance Japan's appeal to international investors. Markets responded swiftly to the snap election results: the MSCI Japan rose 4.5% in the two days that followed (see chart). Historically, similar political turning points have supported extended periods of strength in Japanese equities. The earnings backdrop also remains constructive. Rising real wages are contributing to healthier, demand-driven inflation, supporting consumption and profit growth. Corporate earnings are expected to accelerate from roughly 4% this fiscal year to around 10% in 2026. At the same time, Japan's monetary policy is in a meaningful transition. After decades defined by ultra-accommodative policy, the emergence of modest rate increases reflects a healthier economic backdrop and a more balanced market environment. Although this adjustment introduces occasional volatility, Japanese equities should continue to benefit from firm earnings momentum, more shareholder-friendly governance, and enhanced capital-efficiency initiatives – all of which have been instrumental in attracting greater international investor participation.



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