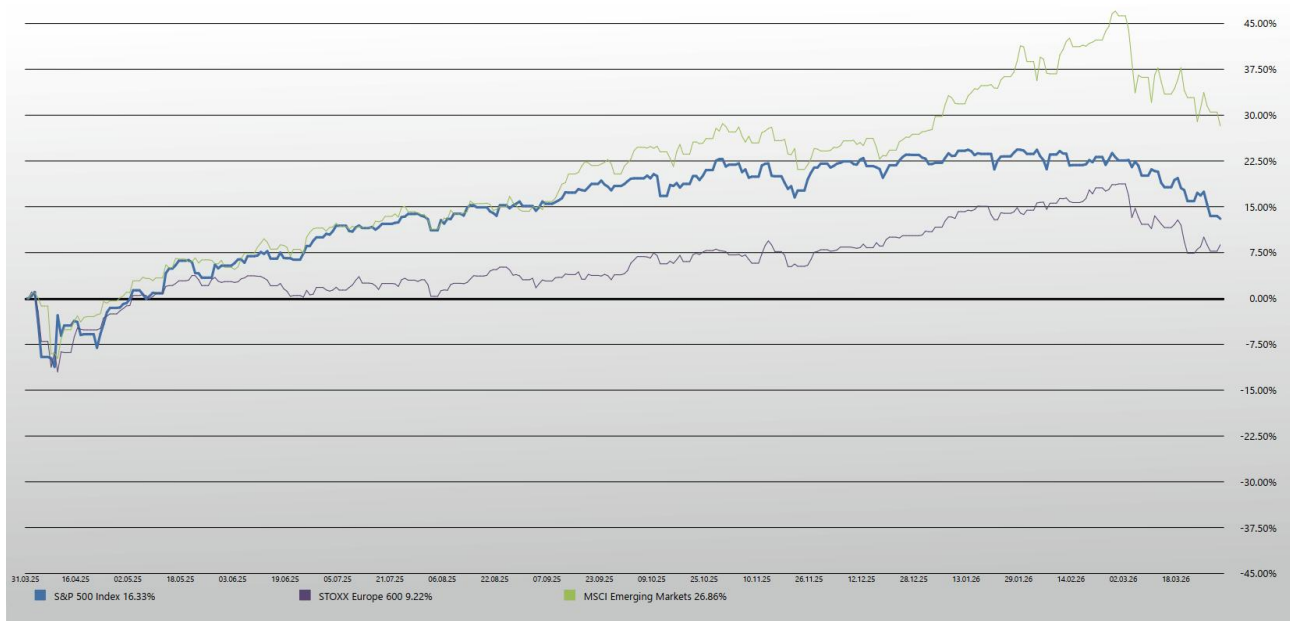


Quarterly Financial Market Update, March 2026

After a very solid start to the year, the financial markets dropped in March following the attack by the US and Israel on Iran. Other than in oil, there was no place to hide, with gold and equities losing their momentum. To a lesser extent, bond prices were also down due to rising interest rates.

For the first quarter of the year, global equities posted a return of -3.1%. The S&P 500 Index declined by 4.4% over the period, the STOXX Europe 600 Index lost 0.8% and the MSCI Emerging Markets Index remained virtually unchanged. However, since the war in Iran started at the end of February, the MSCI All Country World Index dropped 7.1% in March only. Not surprisingly, what was performing well until then lost the most in March. Emerging Markets share prices declined 13.0%, followed by Europe (-7.5%) and the USA (-5.0%). Bond prices lost only 3.1% in March (-1.1% year-to-date). Gold was particularly weak, down 11.6% during the last month of the quarter. That said, the price of the precious metal is still up 8.1% in 2026, trading at USD 4'709.-/oz. at the time of writing, thanks to an extraordinary run earlier in the year.

Equity Index Performance, rolling 12 months (%)



Source: Kestrel Wealth Management

At the end of February, the US and Israel launched an attack on Iran. The latter retaliated by sending drones and missiles across the entire Middle East, mostly targeting US assets and Israel, as well as some oil infrastructure. Iran also closed the Strait of Hormuz, where about 20% of global oil demand passes through. This has quickly sent the oil price above USD 100.- per barrel. At the time of writing, the price for the Brent stands at USD 103.-/bbl (+69% year-to-date).

This rise in oil price will likely have an impact on the inflation rate, which was gently coming down to an appropriate level before this war started. Indeed, in the US, inflation was at 2.4% in February. Looking ahead, the consensus predicts the inflation rate to be at 2.7% for the entire first quarter, then 3.4% in Q2 before coming back down to 3.1% by the end of 2026. If this would effectively be the case, we believe that the financial markets have priced in this higher inflation, with higher interest rates overall. Indeed, the yield on the US 10-year Treasuries rose 38 bps in March to 4.32%. The rise is more pronounced for the UK 10-year Gilts (68 bps to 4.91%). These moves were also in anticipation of the central banks raising their benchmark interest rates to fight inflation.

That said, we cannot call for a bottom in the markets, as there are too many variables at play. Looking at the inflation rate for example, the spectrum of estimates for Q2 2026 is very wide (from 2.4% to 5.2% depending on the economist/strategist). Furthermore, the longer the war lasts, the more impact on the oil price and de-facto on the inflation it will cause. For example, Goldman Sachs estimates that a 10%-rise in oil price leads to an increase of 20 bps in the US inflation rate and a 10 bps-reduction in the economic growth. Whilst not their central scenario, they also believe that there is a 30%-probability of seeing a recession over the next twelve months.

The above figures are only a few examples of many scenarios published by strategists and economists since the energy crisis started. Aside the common message of staying invested, we can regroup those scenarios in three categories, all based on oil price as it is the only thing that matters for the financial markets now. Indeed and in spite of ongoing concerns over AI-related disruption, particularly in the software sector, corporates and economic fundamentals were better than expected at the start of the year. All of these have been placed in the background for the past few weeks.

In the optimistic scenario, a de-escalation will occur, sending the oil price back down to about USD 70.-/bbl, as the Strait of Hormuz is re-opened. In this case, central banks will likely keep rates on hold or even re-start the cutting cycle for the US Federal Reserve (Fed). Asset prices would rally, quickly reversing March's losses.

On the pessimistic side, an escalation will occur with long standing damage to oil infrastructure in the Middle East and prolonged closure of the Strait. This could send the oil price above USD 150.-/bbl. In this scenario, stagflation would hit the economies, central banks would likely increase their benchmark interest rates and asset prices will decline.

In the middle of the above-mentioned spectrum comes the central scenario, calling for an oil price hovering in the USD 100.-/bbl-region. The Strait of Hormuz is partially re-opened, at least for Iran's counterparts (China for example), or with the US successfully protecting ships. The benchmark interest rates could be steady or see only a few increases. This might be the scenario that investors are currently pricing with the fall seen in March.

Putting these above-mentioned scenarios into perspective with a valuation, we believe heightened volatility will remain, as analysts still need to adjust their earnings forecasts. For example, the S&P 500 Index trades at an estimated forward price-to-earnings ratio of 19.5x, which could be interesting in absolute terms. However, analysts still predict that corporates' earnings will grow 17% over the next twelve months. This looks too high overall given the current situation. Furthermore, the financial markets hate uncertainty and with President Trump, the evolution of the wars (Iran and Ukraine) and geopolitical tensions (Taiwan), there is plenty. Furthermore, news from the upcoming mid-terms elections in the US will gently take investors' attention, as well as Mr. Kevin Warsh taking the Fed's Chairmanship in May, if confirmed by the Senate.

Currently we are neutral on stocks and on bonds. Profiting from a strong run in stock prices in 2025, we reduced the exposure during the course of last year and kept the proceeds in liquidity. We readily admit that we did not make this change in anticipation of what happened in Iran months later. That said, given the difficulty to see where the world is heading, we are comfortable keeping 10%+ in liquidity in portfolios where there are some equities, thus diminishing the impacts from big drops in share prices. Should the equity markets reverse course, the opportunity cost would not be elevated either. As far as bonds are concerned, we keep our stance of investing only in Investment Grade issuers with up to about seven years in maturities. Keeping a duration relatively short reduces the negative impact from rising interest rates.

Risks Warning and Disclaimer

This publication is intended for information purposes only and should not be construed as an offer or recommendation or solicitation for sale, purchase or engagement in any other transaction. Tax treatment depends on individual circumstances and may be subject to change in the future. Kestrel Wealth Management SA does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client circumstances and needs. Clients should obtain independent legal and tax advice on the implications of the products/services in their respective jurisdiction and on the suitability of products and services before investing. Kestrel Wealth Management SA does not provide any warranties or representations for the content of this presentation, in particular with respect to its accuracy, completeness or fair balance, and no liability is accepted. The products mentioned in this presentation are not suitable for all recipients. The investor acknowledges that a risk of loss exists in the case of all investment mandate types, including a cautious and conservative investment. A movement of exchange rates may affect, favourably and unfavourably, any gain or loss on an investment. Kestrel Wealth Management SA does not assume any liability for the attainment of a given return or any liability for the preservation of the assets under management. Therefore, the investor may not get back the amount invested. Investments in any financial product should only be made after a thorough reading of the most recent relevant legal documentation taking into consideration any sales restrictions and risk factors mentioned. Subject to copyright with all rights reserved.