GLOBAL MACRO QUARTERLY OUTLOOK

Flashback

- Oil supply disruption undermines the benign macro environment
- Recent developments bring back memories from 2022
- We believe that the recent repricing offers an opportunity to gradually rebuild positions

In our last outlook, *They want it all*, we argued that markets were priced for perfection, leaning on a broadly supportive macro backdrop to keep equity and credit valuations elevated. Any disappointment in these underlying assumptions risked shifting the market tone.

The near closure of the Strait of Hormuz has now introduced a significant energy-related disruption that threatens to undermine this previously benign environment. Recent developments have revived several dynamics last seen in 2022: energy prices moving sharply higher, bond yields rising quickly, and the stock-bond correlation at risk of turning positive just as inflation concerns re-emerge. Equity markets have, so far, digested these developments relatively calmly, suggesting investors still view the broader macro implications as manageable.

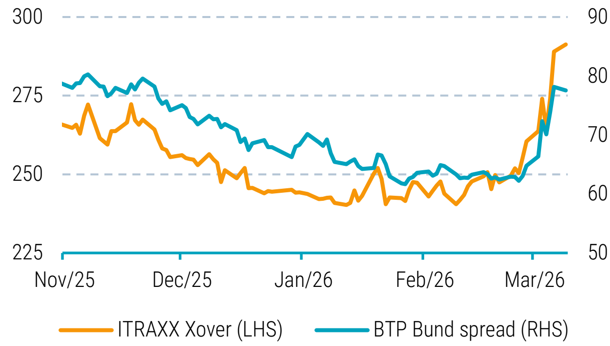
Indeed, as we discussed with our external speakers during our outlook sessions, the global economy enters this period of volatility from a much stronger starting point than during last year's Liberation Day episode, though that resilience is now clearly being tested.

Fixed income markets, particularly in Europe, are reacting far more forcefully. Front-end yields have risen sharply, spreads have widened (see Figure 1) and renewed concerns over energy dependency have added to volatility. Earlier in the year, sovereign bonds briefly regained a safe-haven role, but this quickly faded, especially in Europe, where short-dated yields moved aggressively higher (see Figure 2) and markets recalibrated towards an ECB rate hike for 2026.

Several central banks that had been signaling cuts, including the Bank of England, may now have to delay those plans. The US rates complex has remained relatively stable, supported by the view that the Fed still has the flexibility to cut if conditions soften, which is also our base case.

Market positioning has shifted toward slower growth expectations, with European country spreads widening. Credit markets have also seen some pressure, but all in all the moves have been quite benign so far.

Figure 1 – Credit and country spreads widen



Source: Bloomberg, March 2026

We used the strong January-February bond rally to reduce duration overweight positions, as both Bunds and US Treasuries valuations had become increasingly stretched.

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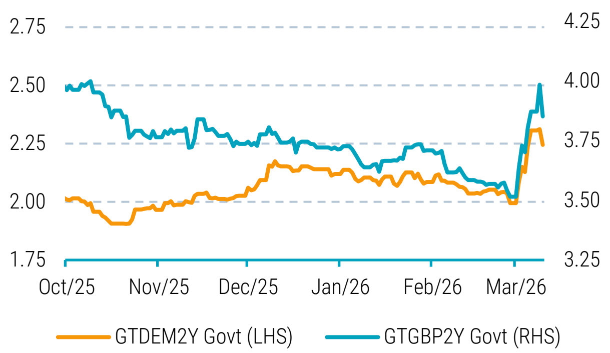
This left us entering the March sell-off with only modest duration exposure.

On duration, we believe the recent repricing offers an opportunity to gradually rebuild positions, particularly as the ECB could be reluctant to tighten policy into weakening growth. In this context, we favor adding exposure through short-dated BTPs, supported by still solid Italian fundamentals. In JGBs we trimmed the UW position after the continued sell-off. We still maintain an underweight but rotated it toward the front end of the curve, where BoJ hikes have a more direct impact.

Earlier this year we scaled back curve steepener positions. The significant supply wave in January and February has largely passed, removing a key steepening driver. Also, Dutch pension-related flows, widely expected to put pressure on the long end, have had little observable impact on valuations. Looking forward, we expect to see a wider variety of positions on the euro curve, driven more by relative value. In US rates, we implemented a sizeable back-end flattener, which we expect to offer an attractive asymmetric payoff profile.

Figure 2 – Markets recalibrate ECB and BOE interest rate policy



Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: Bloomberg, March 2026

In spread markets, we have tactically increased our hedges through front-end swap-spread positions, aiming to preserve carry while mitigating downside risk. Nonetheless, wider sovereign and semi-government spreads could offer opportunities, and any further credit market repricing may create more attractive entry points, consistent with our constructive view on Europe's fundamentals and a still resilient global macro backdrop.

In EM, despite the recent volatility, we see improving fundamentals being supportive of the asset class. We note that Central and Eastern European markets have sold off sharply due to their reliance on imported energy, creating attractive entry points.

Macroeconomic and policy outlook

- Pro-growth fiscal policies meet geopolitical shock
- Oil price surge shakes disinflation narrative
- Central banks under pressure

Growth outlook: too early to panic

The external speakers at our outlook argued that the global growth environment – on the eve of the conflict involving Iran – was clearly more favorable than it was in April last year, shortly after the announcement of elevated US import tariffs.

They highlighted several supporting factors: sustained growth momentum driven by technology investments, a positive fiscal impulse in both the US and the Eurozone this year, lower policy rates in many countries, and the potential for further rate cuts – particularly in economies where rates still sit somewhat above neutral, such as the US.

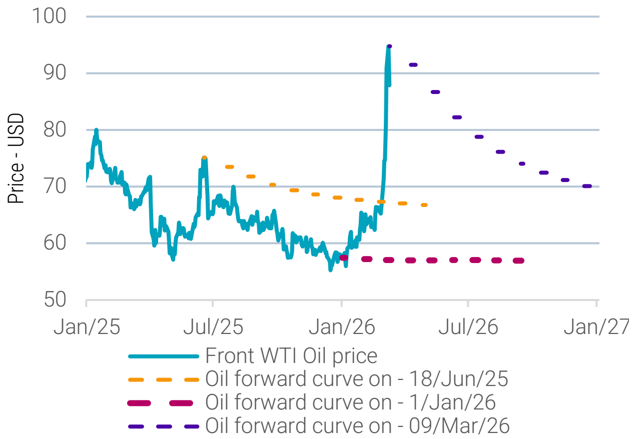
However, the fragilities of the US economy were also noted. In addition to well-known disparities between higher- and lower-income households and between large corporations and SMEs, the speakers pointed to the impact of trade tariffs, increased downside risks in private credit amid AI-related disruption, and the persistently weak hiring appetite of US firms. In Europe, the dependency on energy imports remains a key vulnerability – clearly visible in how markets have reacted to developments in the Middle East.

Conviction around a potential (modest) cyclical pickup in the Chinese economy – our base case – was limited, in part because there are still no convincing signs that the property sector has found a sustainable bottom. What is visible, however, is that Chinese exports are a clear source of goods disinflation in regions such as Europe.

In many emerging-market economies, growth prospects have also improved compared with April last year – supported especially in Asia by tech-related exports to the US. Even so, divergences are expected to emerge between energy importers and exporters if the oil shock proves persistent.

Overall, the conclusion was that growth in the US and Europe is likely to hover around trend over the next few quarters. The current stagflationary oil shock would only be expected to trigger significant growth concerns if oil prices climb above USD 100 for an extended period – something that will depend on how quickly the Strait of Hormuz can return to normal operation. And any prolonged disruption will likely ramp up pressure on governments to provide support to cut energy bills. That said, given existing fragilities and imbalances in several economies, and the late-cycle nature of some segments of the credit markets, there is little room for over-optimism regarding the growth outlook.

Figure 3 – Oil price vs futures curve



Source: Bloomberg, March 2026

Inflation outlook: fresh upside risks

In many DM and EM economies, inflation had been broadly on track with central bank targets. As a result, policy rates were lowered or visibility had emerged on forthcoming rate cuts (e.g. in Brazil). Exceptions include countries such as Australia and Norway, and in EM, Colombia. In Japan, (underlying) inflation – after years of undershooting – has also moved in the right direction, supported by accelerating wage growth. This is not yet the case for China.

A major driver behind the easing of inflation in the US, the UK, and the Eurozone is the slowdown in wage growth. With competitive pressure from AI, a reversal of this trend is unlikely in the near term.

However, pockets of inflation stickiness have remained. Services inflation in Europe is still pretty elevated, and in the US, the underlying pace of the Fed's preferred metric – core PCE – remains too high for comfort, partly reflecting delayed pass-through effects from the import tariffs.

Obviously, the recent surge in oil prices could deteriorate the improved inflation outlook in many countries. Yet, here too, the effects would likely only become significant if oil prices were to rise above USD 100 for an extended period – which is not what futures are discounting (yet) (see Figure 3). Regions dependent on oil and gas imports – such as Europe, CEE, and parts of Asia – look more vulnerable than the Americas.

For reference: standard rule-of-thumb estimates suggest that in both the US and Eurozone, headline inflation increases by roughly 15 basis points for every 10% real increase in oil prices over time.

Monetary policy: under pressure

The recent oil price shock has injected a significant degree of uncertainty into the policy-rate outlook for both developed and emerging markets.

Until recently, the policy outlook seemed relatively straightforward: (further) cuts in some countries such as the US, UK, and, in EM, Brazil and Mexico; rate holds in most others, including the likes of the Eurozone, Sweden and Canada; and hikes in a few specific markets such as Japan, Australia, and Colombia. That picture now appears less clear-cut.

Although central banks will be inclined to look through what is likely to be a temporary rise in oil prices, their rhetoric is likely to turn less dovish – particularly because many of them are keen to avoid repeating the policy mistake of 2022, when several developed-market central banks responded too late to the inflation shock.

In the US, the Federal Reserve can still lean on weak labor-market indicators due to its dual mandate. For this reason, and given the economic cracks we outlined earlier, we believe it is premature to assume unchanged or even higher policy rates later this year in our baseline scenario. Indeed, we still expect at least two 25 bps cuts from the Fed by year-end. For the ECB, we also maintain our baseline view, i.e. of unchanged rates over the coming months.

In Central and Eastern Europe, the shift in market expectations has been most pronounced, with markets now pricing in at least 25 bps of hikes. In Brazil and Mexico, markets continue to expect further easing – a view we understand and consider justified.

In Japan, markets have priced in very little additional tightening, perhaps due to the government's tendency to cushion energy-price shocks. Nevertheless, in our view the Bank of Japan remains on a gradual hiking path.

Finally, in China, the PBoC continues to maintain its easing bias – higher oil prices or not – but has recently favored non-conventional measures, such as reducing rates on structural lending tools, given concerns that cuts to key policy rates could compress banks' net interest margins.

Rates strategy

- Central bank repricing opens longer-term opportunities
- Reduction in duration risk creates room to add
- Greater variety of positions now in global yield curves

Rates markets have recently seen a V-shaped move in yields in response to the software crisis and the war in Iran. The primary channels via which these events influence our view on rates are through their expected impact on central bank policy. Other important factors for our rates view are the supply and demand for long-end duration and relative valuation levels.

In the policy section, we have explained that our central bank view has been adjusted somewhat by the recent jump in energy prices. Central banks that were still expected to cut rates will probably have to postpone such actions. Markets have been quickly repricing for this scenario, and we will be looking for opportunities to increase duration in areas where the repricing may have gone too far. We see these opportunities starting to emerge for instance in the euro area and the UK. In the US, the repricing of front-end rates has been less pronounced.

While being mindful of poor liquidity currently (mid-March), there should be some room to add duration, as we reduced OW duration risk in February. This followed the rally in government bonds in response to modest inflation and concerns about software companies. Still, we see OW duration positions now more as a tactical, rather than a strategic view. For Bunds in particular, it is getting harder to argue that the market climate is still constructive. Even in the rally in February, German yields were unable to break last summer's levels. Also, the relative value of 10-year Bunds vs 1y1y OIS is still limited, plotted against historical levels. For UK Gilts and US Treasuries there is a more convincing bullish case to be made. Fresh lows in yields were set in February, and their central banks will probably resume easing, albeit with some delay.

As JGBs continued their sell-off, we decided to take some profit on our UW position. We maintain an UW position, but have shifted this towards the front end of the curve, where the impact of BoJ hikes should be felt more directly.

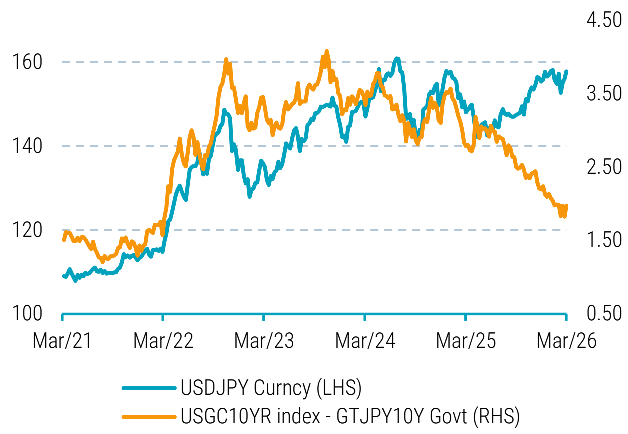
Over the past two years we have been enthusiastic advocates of curve steepeners, running sizeable positions in a variety of rates markets. Here we have made some changes over recent months, reducing risk and moving from a strategic to a tactical approach.

In the euro area we have significantly reduced curve risk, taking profit after a long period of steepening. The mismatch between long-end duration supply and demand is still a topic, but this coincides with a shifting view on the ECB. Looking forward, we expect to see a wider variety of positions on the euro curve, which will be more relative value driven. An example is the 2s5s flattener position we have run for some time, alongside back-end steepeners.

For US Treasuries and UK Gilts the case for steepeners of the belly versus the front-end looks more compelling as the curve in this segment (for instance 3s7s) is still relatively flat and we expect at some point a steepening impulse from lower official rates.

In some other markets we see increasing opportunities for flatteners. An example is Poland, where the easing cycle has progressed and the curve recently reached new highs.

Figure 4 – USD/JPY continues to diverge from rate differential



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In global rates, we also see relative value opportunities in markets where cross-currency rates spreads have been widening significantly. Being OW Australia versus New Zealand and Canada are examples of such positions. Additionally, in Scandinavian markets we are starting to see some cross-market opportunities.

Fixed income asset allocation

- Cash credit is weathering the Iran conflict
- Synthetic credit shows hedges are being implemented
- A storm is building in private credit

Credit markets: late cycle symptoms

Credit markets have remained resilient in the face of the oil price shock. Even with day-to-day spread volatility picking up, cash bond spreads on an index level are at similar levels to last quarter. In contrast, more liquid credit derivatives like CDS indices have moved wider. We believe this difference indicates that investors have increased their hedges. The combination of tight starting valuations and a late-cycle credit environment leaves markets on edge.

The grim situation on private credit and leveraged loan markets – which we discussed in our previous outlook – is increasingly gaining attention. The underlying issues in both markets stem from the same underlying drivers. First, continued advances in AI are likely to challenge the profitability of the software-as-a-service business model. Given the heavy sector concentration in software across both private credit and leveraged loans, a significant repricing in a single industry can reverberate broadly across the asset class. Second, both markets provide loans predominantly to SMEs, the segment of the K-shaped US economy where defaults remain disproportionately concentrated.

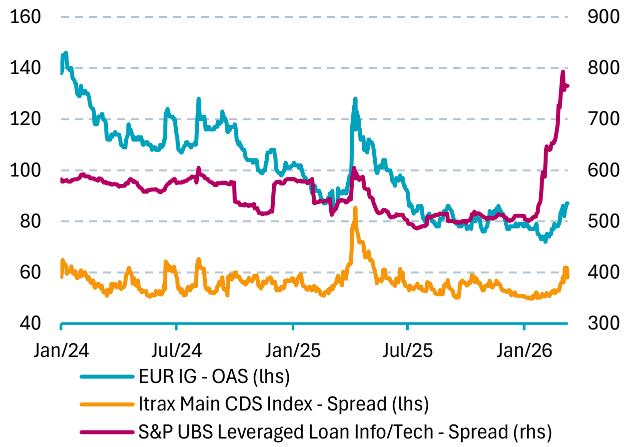
Listed US BDCs offer a mark-to-market lens on the private credit ecosystem, and many now trade at distressed levels. Meanwhile, the steady news flow of redemption suspensions in illiquid private credit products highlights the fundamental issue of offering quarterly liquidity to investors in strategies that depend on capturing an illiquidity premia. By contrast, the leveraged loan market is more transparent, and spreads in the information-technology sub-sector have widened to above 700 bps.

The main question for credit markets is whether these stresses will spill over into public markets. Both the leveraged loan and private credit markets are now comparable in size to the US high yield market, each representing roughly 5% of US GDP. A disorderly adjustment could pose a material shock to the broader risk complex.

In the corporate bond market, AI hyperscalers continue to issue record-size transactions as they secure long-dated funding for their expanding capex programs. Despite this surge in supply, broader corporate fundamentals remain relatively stable. However, valuations across investment grade credit have not improved enough to justify adding corporate spread risk at this stage.

Against this backdrop, our corporate credit positioning maintains a credit beta anchored around one. To manage near-term rate and spread volatility, we have tactically increased our hedges through front-end swap-spread positions, aiming to preserve carry while mitigating downside risk.

Figure 5 – Cash spreads remain resilient



Source: Bloomberg, S&P/UBS, March 2026

European country spreads: oil shock improves valuations

Country spreads in Europe have widened from multi-year lows, in sympathy with other spread markets, due to the escalation of the conflict in the Middle East. Europe, as a large importer of energy, is vulnerable as a whole to higher oil prices, and countries like Italy, Greece and Spain rely on imports for over 90% of their gas consumption.

Interestingly, France, the country in our view with the weakest fundamentals, is least vulnerable to a rise in energy prices due to its nuclear factories.

In sentiment-driven sell-offs markets hardly discriminate, so beta-adjusted spreads widened more or less in a similar fashion. This also presents opportunities: if and when the situation de-escalates the fundamentally stronger countries can be bought at a nice discount. Quickly after the outbreak of the hostilities in the Middle East we closed our overweight in Spain and increased our underweight in France, reducing risk and importantly giving us room to gradually increase positions in 3-year Italian bond futures at a higher spread.

Overall fundamentals in Southern Europe continue to be strong, with a stable political situation in Italy, strong growth in both Spain and Greece and declining debt to GDP ratios across the board, resulting in credit rating upgrades.

Technicals also remain supportive, with strong foreign investor flows into peripheral bonds over the past quarters, which we expect to continue. In addition, country spreads should be less affected as the strong safety net by the ECB could give support in case of further widening, meaning spreads could rapidly mean revert if the situation de-escalates. Notably, the new eurozone entrant, Bulgaria will now have its bonds under the ECB umbrella, which significantly reduces tail risks for spreads. Valuations were an argument to become somewhat more cautious on European country spreads, but that picture now has quickly improved. So, it will be a matter of patience and timing, but we continue to like the asset class and will look for buying opportunities.

EM debt: fundamentals resilient despite geopolitical shock

Emerging market debt extended its strong start to the year through January and February before giving back some gains in early March following the escalation of the conflict with Iran. Local currency markets were most affected, as higher oil prices supported the US dollar (see Figure 6) and pressured currencies in energy-importing economies. Hard currency bonds also posted negative returns, although this was largely driven by higher US Treasury yields, while spreads in several markets remained stable or tightened.

Despite the recent volatility, EM fundamentals continue to improve. Reserve buffers have risen across much of the asset class, current account deficits are smaller than in the past decade and near-term refinancing risks remain limited following the restructurings and reduced market access that followed the Covid pandemic. Until the recent geopolitical shock, market conditions had remained supportive and issuers were regaining market access, largely without a significant deterioration in fiscal discipline.

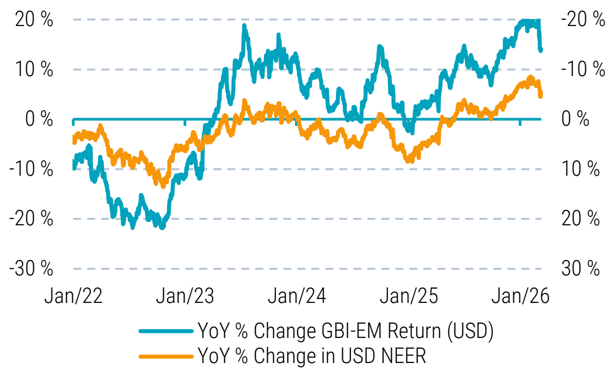
Hard currency spreads remain tight by historical standards, but overall yields still look attractive relative to developed market credit. Inflows have gradually returned to the asset class after a difficult post-Covid period, although demand has been concentrated primarily in local currency markets, suggesting there remains scope for additional allocation to hard currency bonds.

We maintain a constructive medium-term view on EM local currency debt. Resilient global growth, moderating inflation and expectations of eventual Fed easing remain supportive. The duration of the conflict in the Middle East will be an important near-term factor, particularly through its impact on energy prices, the US dollar and global risk sentiment.

EM balance sheets have strengthened meaningfully in recent years. Current account positions are improved, reserve coverage has increased and policy credibility has risen in many markets. Real yields in local bond markets remain elevated relative to both history and developed markets, leaving carry as an important buffer against periods of volatility. Foreign ownership of EM local bonds also remains low relative to historical norms, suggesting scope for renewed inflows once uncertainty subsides.

Within hard currency credit we continue to favor higher yielding issuers where valuations remain attractive and fundamentals are improving. Angola should benefit from stronger oil prices, while Argentina's and Romania's macroeconomic adjustment continues to support the case for their hard currency bonds. Brazilian sovereign credit also looks attractive given strong external balances and relatively appealing spreads. Colombia screens well on a relative basis despite political uncertainty ahead of next year's elections, while Mexico and South Africa also appear reasonably valued within the broader investment universe. Ecuador remains compelling: debt levels are below peers, interest costs are manageable, external financing conditions have improved and cooperation with the IMF continues.

Figure 6 – Weaker USD supports GBI EM returns



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In local currency markets we expect relative-value opportunities to remain important in the current environment. Central and Eastern European markets have sold off sharply due to their reliance on imported energy, creating more attractive entry points. Turkey has also seen a significant rise in yields this year and local rates are starting to look underpriced given still elevated real yields. Other high-yielding markets such as South Africa and Brazil, which had become crowded positions earlier in the year, could become more attractive again as investors reassess which economies are most vulnerable to prolonged disruptions in global energy flows.

By contrast, we remain cautious on Egypt while the regional conflict persists. Although macroeconomic fundamentals have improved following last year's adjustment, reserve buffers remain insufficient to comfortably absorb a large exit of offshore investors. Until geopolitical tensions ease, we prefer to remain on the sidelines.

Table 1 – Asset class preferences

	Constructive	Neutral	Cautious
Bunds		✓	
US Treasuries		✓	
JGBs			✓
Euro periphery	✓		
EM local		✓	
EM HC		✓	
IG credit		✓	
HY credit			✓
SSA	✓		

Source: Robeco, March 2026

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