

Weekly Brief

Strategy and Quantitative research

WHAT WE LEARNED LAST WEEK

Markets: Global markets continue to decline and oil prices are soaring as the conflict intensifies.

- The Euro Stoxx index declined by 3.8% to 5501 points (YtD: -5.0%) and the S&P 500 fell by 1.9% to 6506 points (YtD: -5.0%). Implied volatility softened in the US with the VIX at 26.8 and grew in Europe with the V2X Index at 31.8.
- Brent price advanced by 8.8% to \$112.2.
- The German Bund yield moved higher by 6.3 bps to 3.038% and the US 10Y yield was up by 10.5 bps to 4.390%.
- The French spread stretched by 1.4 bps to 71 bps. The Italian and Spanish spreads broadened by 9.9 bps to 91 bps and by 1.5 bps to 53 bps respectively.

World: Major energy infrastructure in the Gulf is hit.

- **Geopolitics:** In a major escalation on the Iran war front, Israel struck Iran's massive offshore South Pars natural gas field. In response, Iran launched missile strikes on Qatar's Ras Laffan Industrial City, home to the world's largest LNG export facility, causing fires and "extensive damage," according to QatarEnergy. QatarEnergy's CEO said repairs could take three to five years and will cost about \$20 billion a year in lost revenue. The US and Israel continued targeting Iranian military assets and leadership later in the week, including killing senior figures. In parallel, Trump issued an ultimatum to Iran: reopen the Strait of Hormuz by Monday evening or the U.S. will strike power plants. Iran warned it would launch a massive response across the Middle East if that happens.

Europe: ECB and BoE deliver a hawkish hold.

- **Central Banking:** The ECB, as expected, kept its rates unchanged. The central bank doesn't see itself in a good position anymore but rather "well positioned" to deal with the conflict-related risks. The economic projections showed an upgrade in inflation forecasts and a downgrade in growth projections, with the change in 2026 projections quite significant, but the ECB sees a quick normalization, with inflation converging back to 2% next year and growth up to the prior 1.4% forecast. However, the central bank also avoided committing itself, presenting three scenarios that highlight the current lack of visibility it faces. The ECB tried to show that it is agile and appears ready to react quickly to the conflict, with an overall hawkish bias that reinforced market bets of hikes in 2026, now at 3 hikes of 25 bps each. The BoE also remained on hold, delivering a rather hawkish message that also pushed up market pricing of hikes.

U.S.: Fed remains optimistic on growth despite the Middle East conflict.

- **Central Banking:** The Fed left policy on hold, as widely expected, with only one dissent from Miran who voted for a 25 bps cut. Powell is not giving up on his role as Fed chair until the DOJ's investigation is complete, a signal he's asserting independence and resisting pressure from the Trump administration. The Fed does not see stagflation coming, which was reflected in both its economic projections as well as the narrative. The Fed expects a temporary effect on inflation, whether from tariffs or rising oil prices, with inflation in 2027 projected to converge back close to 2%. Neither the latest weak payrolls print nor the uncertainty surrounding the US-Iran war deterred the Fed from upgrading its GDP growth forecasts. FOMC median projections of a rate cut this year were seen as a dovish signal, with markets pricing-in at the end of the week a 25 bps hike with 40% probability.

Asia: Bank of Japan prefers to wait and see.

- **Japan:** The BoJ kept its policy rate unchanged at 0.75%, opting for caution amid rising global uncertainty, especially due to the Middle East conflict. While inflation is above target and supported by wage growth, policymakers are increasingly concerned about upside inflation risks, particularly from energy costs and a weak yen. One member pushed for a hike, but the majority preferred to wait for more data.
- **China:** February data showed modest consumption recovery, with retail sales beating expectations at 2.8% YoY vs 2.5% expected, indicating some post-holiday pickup but still weak demand overall. Authorities published a combined Jan-Feb figure (6.3% YoY%) for industrial production due to seasonal distortions, that was also higher than the forecast.

WHAT TO WATCH THIS WEEK

- **Europe:** PMIs in March.
- **US:** PMIs in March.
- **China:** Industrial profits YtD.

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