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Our View in April

Neither carefree nor tense



Neither carefree nor tense

It is difficult to keep up with the US president's views. Anyone who changes course with every shift in his mood is not investing, but merely reacting. We are not.

In recent weeks, Donald Trump has threatened the Iranian people with annihilation, announced a ceasefire, welcomed peace talks and, following their failure, declared that he didn't care about any of it. The relevant question, however, is not what Trump says today. It is rather, what has really changed?

The answer is inconvenient. The Strait of Hormuz remains blocked. The oil price is trading a third above pre-war levels. The first signs of this are showing up in the inflation data. As is well known, Iran has a new Supreme Leader in Mojtaba Khamenei - the son of the previous one, a hardliner. No fresh start. Continuity with a more hawkish stance.

That is the reality. Trump's rhetoric is noise that masks this.

Yet something has changed. Not in geopolitics, but in the markets themselves. The phase of maximum uncertainty seems to be over for now. Interest rate and growth expectations have been adjusted, risk premiums have widened, and sentiment has cooled. The markets have processed a great deal of information without succumbing to panic. This is not the all-clear, but it is still a sign.

We closed our underweight position in European equities following the announcement of the two-week ceasefire and are now back to a neutral position. Not because Trump has promised peace. But because, after a period of extreme uncertainty, the middle ground is the right place to be - neither carefree nor defensively tense.

Those who believe the worst is behind them should not celebrate but keep a clear head. Gold remains an anchor. Emerging market bonds remain attractive.

Dr. Felix Brill, **Chief Investment Officer**

Our View on the Portfolio



- Phase of **maximum uncertainty** seems to be over for now
- Markets don't panic and **remain resilient**
- **Gold** as an anchor of stability



- Oil shipments through the Strait of Hormuz **remain blocked**
- Oil prices are fuelling **inflation** and weigh on the real economy
- **Geopolitical reality** remains difficult - regardless of Trump's words

- ● ● ● ● strong overweight
- ● ● ○ ○ neutral
- ○ ○ ○ ○ strong underweight

(Base: Mandate CHF balanced)

Money Market



Bonds



Government Bonds



Corporate Bonds



USD Bonds



Emerging Market Bonds



Equities



Equities Switzerland



Equities Europe



Equities USA



Equities Japan



Equities Emerging Markets



Equities World and Themes



Alternative Investments



Hedge Funds



Insurance-linked Securities



Gold



Industrial Metals



Real Estate



Our View on the Economy



- **German infrastructure and defence spending** supports the European economy
- **Investments in AI** drive global growth
- Central banks still have **room to cut interest rates**



- **Iran war** is likely to fuel inflation
- **Significant currency fluctuations** pose economic risks
- **Central banks** could raise interest rates

Iran conflict: risks distributed unevenly

The ceasefire has raised hopes that the damage to the real economy caused by the conflict will be limited, but the situation remains volatile. One thing is certain, though: the war has already caused economic damage due to a significant rise in oil prices. The consequences vary considerably. As a net exporter of oil, the US not only suffers from higher energy prices but also profits from them. Consequently, the economic damage will be less severe than in Europe and Asia, for example. Both regions are dependent on energy imports.

In Europe, Germany's higher defence and infrastructure spending will at least provide some compensation. These measures provide domestic economic stimulus that is independent of current energy price levels. In Asia, Japan and the Philippines are highly dependent on energy imports from the Gulf region. This poses a significant economic risk for these countries - even though oil prices have fallen slightly.

Our View on Monetary Policy



- **People's Bank of China** is likely to support the economy with further interest rate cuts
- **Swiss National Bank** is expected to keep interest rates unchanged for the time being
- Given the economic risks, the Fed has **scope for interest rate cuts**



- **Geopolitical conflicts** are driving up inflation
- **Higher tariffs and petrol prices** are pushing up prices in the US
- **Central banks** are responding more quickly with interest rate hikes

ECB sticks to its course for now

The European Central Bank (ECB) is caught between a rock and a hard place. It has stated that the war in the Middle East has led to a significantly more uncertain outlook. The conflict is increasing inflationary risks whilst simultaneously hampering growth. This already takes into account pass-through effects: rising energy prices are therefore likely to push up inflation noticeably in the short term. The new inflation projections point to higher price pressures. The inflation forecast for the euro area rises from 1.9% to 2.6%. The core inflation is also forecast to rise this year, from 1.9% to 2.3%. On the other hand, growth in the eurozone for 2026 has been revised down slightly from 1.2% to 0.9%. The ECB is doing the right thing and keeps rates steady. The situation is too unstable for a clear-cut strategy. However, the sharp surge in inflation in 2022 is still reverberating, as central bankers were criticised that they reacted too late back then. In any case, they will act more swiftly this time.

Our View on Government Bonds



- **Yields** in the US are high in comparison
- **Government bonds** are part of a diversified portfolio



- The Iran conflict is driving up inflation rates, which puts pressure on government bonds
- **Swiss bonds** are particularly exposed to interest rate risk
- **Rising government debt** in industrialised countries poses a risk to fixed-income securities

Stocks and bonds are moving alike

When equities recently fell on news from the Middle East, this was linked to rising oil prices. Higher oil prices, in turn, increase inflation risks, which consequently makes bonds unattractive as well.

In the eurozone and in the US, current yields at least still offer some compensation for price losses. This is hardly the case for Swiss government bonds due to the low interest rate environment. We keep, therefore, our underweight in CHF government bonds in our portfolios. Swiss bonds offer an unfavourable risk-reward ratio, regardless of current developments in the Middle East. The reason for this is the very low yield, which is significantly below that of dollar- and euro-denominated bonds.

Our View on Corporate Bonds



- Corporate bonds are proving to be **resilient** to stress
- **Fears of inflation** outweigh fears of recession



- **Less potential for recovery** than in other bond segments
- Situation in the Middle East **remains unclear**

Fears of inflation dominate, recession fears remain absent

Credit markets have coped well with the war in Iran so far. Whilst credit spreads for top-rated bonds barely reacted, those in the high-yield segment only briefly broke out of the price range seen over the past two years. So there is no sign of panic or fear of recession. The main focus is on the increased inflation risks resulting from the rise in oil prices. Bond markets were therefore more affected by rising government bond yields than by a widening of credit spreads.

Due to the higher interest rate sensitivity of investment grade bonds, a loss of 2% was recorded in March, whereas for high yield the figure was only 1.2%. High-yield credit spreads had already slipped back into their previous range even before the ceasefire was announced. At that point, the asset class stood just 0.1% below its all-time high. This illustrates just how healthy the companies' fundamentals appear to be.

Our View on Emerging Market Bonds



- **Broad diversification** across different countries and macro factors
- Some debtors benefit **from higher oil prices**, whilst others lose out
- **Higher economic growth** and falling inflation expected



- Relatively **high interest rate sensitivity** with a duration of around six years
- Modest **credit spreads** of around 2%

Light and shadow

Emerging market bonds delivered a significant outperformance relative to corporate, high yield and government bonds last year and up until the start of the war against Iran. In March, however, they fell more sharply by 2.9%, as two countries directly affected by the conflict – Saudi Arabia (10.3%) and the United Arab Emirates (7.1%) – are among the index's heavyweights. Other exposed countries include Qatar (2.8%), Israel (2.3%), Bahrain (1.3%) and Oman (1.2%).

Around half of these countries underperformed the overall market slightly, whilst the remainder remained stable or outperformed. Countries heavily reliant on energy imports, such as Turkey, clearly underperformed compared to oil exporters such as Mexico and Brazil. This shows that external shocks have varying effects and that diversification increases resilience. Should a peace agreement in the Iran conflict be reached, the highs in this asset class are likely to be reached again quickly.

Our View on Equities



- **MSCI World Index** slightly up since the start of the year
- **Lessons from past crises** are bolstering investor discipline



- **Stock markets in Europe and Asia** are hit harder
- **Higher energy prices** are likely to fuel inflation and put pressure on supply chains

A geopolitical shock with limited impact on the market

In recent weeks, international financial markets have been heavily influenced by the war in the Middle East. It is striking, however, that the MSCI World Index stayed in positive territory since the start of the year. Lessons learnt from previous crises appear to be bolstering investor discipline. Many investors know that geopolitical shocks often have only a temporary impact. Since the start of the Iran conflict, however, regional differences in performance have been observed: whilst the stock markets in the US and Hong Kong have remained comparatively robust, Korea and Japan in particular have reacted more sensitively to the heightened uncertainty. Whether the Strait of Hormuz can once again be used without restriction remains crucial for the market's future development. Equally relevant is the extent of the damage to energy infrastructure in the Gulf region. Furthermore, it matters how quickly production shortfalls in oil, gas and other commodities can be offset.

Our View on Equities Europe



- **Stock markets** recover following ceasefire
- **A reduction in excessive optimism** lowers the risk of setbacks
- **Market stabilisation possible** provided energy supply routes are secured



- Deterioration in **economic expectations**
- **Rising inflationary pressure** limits the ECB's room for manoeuvre
- Persistent **high geopolitical uncertainty**

Under the spell of the Middle East conflict

The conflict in the Middle East is having an increasingly negative impact on the European economy, particularly due to rising energy prices. This is also affecting households and dampening consumption, causing economic momentum to lose significant momentum. Consequently, leading economic researchers have revised their forecasts downwards. At the same time, persistently high oil and gas prices are increasing inflationary pressure. This restricts monetary policy scope. These developments are weighing on financial markets. Although share prices recovered following the announcement of the ceasefire, the previously overly positive market sentiment has also normalised. It is crucial that oil transport through the Strait of Hormuz is secured on a permanent basis. But the situation remains volatile and keeps investor sentiment unstable.

Our View on Equities USA



- The US, as a net exporter of energy commodities, **has been less affected by the crisis**
- Improved **market structure and valuation**



- **Doubts** as to whether the ceasefire will lead to a permanent solution are weighing on confidence
- Markets remain **driven by news**
- **Risk of bouts of volatility** remains

Improved market structure meets geopolitical risks

Following the ceasefire in the war against Iran, a sense of relief was evident on the financial markets. However, this gave way to doubts as to whether the ceasefire could pave the way for a lasting resolution to the conflict. Regardless of this, the situation on the stock markets may be analysed as follows: the Iran conflict triggered the recent fall in share prices, but it struck a market that was already vulnerable. Elevated valuations and investor confidence had increased the risk of a setback. This starting point improved. Sentiment cooled down, even though panic has so far failed to materialise. Some equity positions were reduced and valuations eased. Although the price-to-earnings ratio of the S&P 500 equity index remains lofty, it is at its lowest point in over two years. Overall, the conditions on equity markets have improved. However, as long as the Middle East conflict drags on, the market remains prone to volatility.



- **Central bank** buy during market downturns
- Technical support levels explain **price momentum**
- Highly liquid investment for **portfolio diversification**



- **Speculative positions** remain elevated
- Inflation risks are easing **central banks' scope for rate cuts**
- **De-escalation in Iran** would favour riskier investments

In the hands of speculators

It is not unusual for gold to not withstand the initial selling pressure on the financial markets during a crisis. In such periods, investors sell assets such as gold to secure liquidity. However, in the wake of the Iran conflict, price fluctuations and the subsequent recovery proved disappointing. Even equities proved more resilient. Nevertheless, it would be wrong to strip gold of its status as a safe haven. Among speculators, it was a particularly popular trading position in the weeks leading up to the conflict. The narrative of de-dollarisation, coupled with strong price momentum, fuelled interest and thus drove prices significantly higher. A correction of speculative positions is still pending, which is why consolidation may continue. In any case, should the situation in Iran continue to calm down, this would favour riskier investments. In the longer term, we remain convinced of the merits of gold for diversification purposes.

Our View on Oil



- Asian countries are implementing measures to **curb demand**
- Futures markets are only pricing in a **short-term supply shock**



- Shipping traffic in the Strait of Hormuz **remains restricted**
- **Damaged infrastructure** poses a risk of a prolonged supply bottleneck
- Long transport routes and congestion outside ports can lead to **delivery delays**

Time remains the biggest unknown

Energy prices have eased somewhat since the ceasefire was announced. However, the US-imposed naval blockade of Iran is not helping the situation in the Strait of Hormuz for the time being. So far, shipping traffic remains restricted. Even if the strait were to open, further delays are likely due to long transport routes and potential congestion outside ports. Normalising supply chains is a lengthy process.

The oil shortage has now become so acute that countries are increasingly resorting to measures to curb demand. This is reflected in significant price premiums for short-term deliveries. The market is still assuming that this is only a brief supply shock. Consequently, prices for future deliveries are significantly lower. However, the extent of the infrastructure damage in the Gulf region remains difficult to assess. Investors must therefore prepare for sustained higher prices and volatility in the energy markets.

Our View on Currencies



- **The dollar and the Swiss franc** remain in demand in times of high uncertainty
- **Swedish krona** is fundamentally undervalued and offers upside potential
- **Valuation of the yen** is the most distorted of all currencies



- Interest rate advantage of the **USD** comes back into focus
- High levels of **dollar forward sales** act as a counter-indicator to short-term dollar strength
- **Euro** is suffering from the war in Iran

The dollar reaffirms its status as a safe haven

The fact that the dollar is a safe haven was demonstrated by its appreciation following the military intervention by the US and Israel in Iran. The greenback strengthened across the board. In crises, the focus is less on a fundamental assessment of a currency and more on liquidity considerations. And it is precisely here that there is no alternative to the US currency, owing to the size of the currency area. Fundamental factors, such as the high US trade deficit or the overvaluation of the dollar, take a back seat.

Another factor is at play: speculative dollar sales on the futures markets, acting as a contrarian indicator, also point to a rise in the USD. As long as uncertainty persists regarding a lasting resolution to the war, the dollar reacts to any negative news from the Middle East with gains.

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Please note that this is a general investment recommendation and therefore does not take into account your personal circumstances.

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