Fundamental positives win over geopolitical concerns

- **Last week started with hopes for geopolitical improvement, which didn't translate into actual progress**
- **Nevertheless, spectacular earnings and reassuring economic data were enough to further support markets**
- **The week ahead will focus on the China/US Presidential summit, and we will hold our monthly investment committee**

Looking at market returns from last week, one could easily believe that the conflict in the Middle East is about to be solved. Oil prices fell 7% from Friday to Friday, stocks rallied almost 7% in the emerging regions and 2% in the developed ones, gold rose, while fixed income didn't budge. It was a positive week for all asset classes, at least expressed in US dollars with some help from its -0.3% weakening.

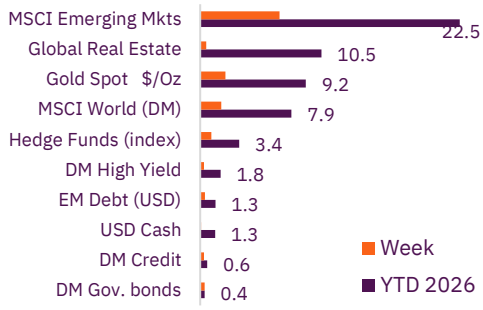
Yet, the geopolitical situation is at best in a state of unstable equilibrium, with no clear breakthrough. Peace proposals were exchanged between belligerent parties and the least we can say is that they are far from a consensus. President Trump in a social media post on Sunday night even said Iran's response was "totally unacceptable". The parties also exchanged sporadic fire, and aerial attacks were unfortunately reported again in the UAE.

Still, market participants don't seem to be too concerned. As we write this Monday, oil prices are rising in reaction to President Trump's social media post, though stock markets are steady and even rallying in China and Korea.

The reason is simple: many investors were probably defensively positioned, at a time when fundamental news was positive. The Q1 earnings season was spectacular in the US, with profits exceeding expectations by a historically very strong margin. Meanwhile, economic data, from leading indicators to the US labor report, was unanimously reassuring, signalling deceleration rather than outright contraction.

Another reason to "wait-and-see" is the summit between President Xi and President Trump this week. China is a powerful stakeholder and could help formalize an offramp. Markets will focus on the outcome, as well as on US CPI and retail sales. Meanwhile, we will hold our monthly investment committee this Tuesday, with a nice starting point as our three profiles are delivering returns between 4% and 9% so far this year.

Asset Classes USD % total. Return, week and YTD 2026



May 11th, 2026

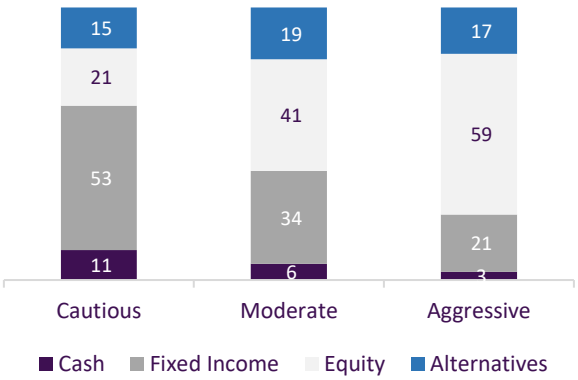
Cross-asset Update

The global economy seems to have waded through the closure of the Strait of Hormuz remarkably well so far. Business sentiment for the month of April was very solid globally for manufacturing, a bit more mixed across countries for the services sector, that anyway in aggregate remained in expansion territory. The US jobs report for the same month was very constructive as well, confirming that a strong recovery in the industrial sector should be underway. In China, exports rebounded more than expected on AI demand. Elsewhere, global equities recorded new all-time highs powered by a buoyant earnings season in the United States and economic activity still resilient across the major countries. There is no trace whatsoever of the current energy crisis in market prices. Fair enough, some crude avoided the Strait of Hormuz via pipelines in the UAE, in Saudi Arabia, and in Iraq. Also, ships that were enroute when the conflict had already started helped, though they have by now been fully discharged. China is helping as well, releasing some of its plentiful reserves to Asian countries. And investors have continued to look through the impact from the Middle Eastern events as something temporary. According to some studies 70% of energy flows through Hormuz would be resumed within three months of the reopening, and up to 88% in the subsequent three. Overall, this train of thoughts keeps hopes alive and markets on track for further gains. Now, there is also a different train of thoughts, skewed towards the details of the here and now, rather than on the post-reopening outlook. According to Jeff Currie, now senior advisor to Carlyle and ex-commodity-research-head at Goldman Sachs, oil storage tankers in the United States would hit bottom levels round the July 4 holiday time, unless the Strait is reopened. There is not much time for further dithering and seemingly endless negotiations. Once tankers get close to being empty, there are no more price buffers and the effects on crude pricing from even small imbalances can be disproportionate. This most likely must be pushing the White House towards a more flexible stance.

Hopefully, at latest by the end of the meeting between President Trump and President Xi this week a breakthrough may be reached that solves the current impasse. Some investor nervousness is starting to transpire in crude pricing, as Brent is still trading above $100/bbl and seems set to rise in the shorter term. Also, in US credit the most speculative spreads have started to trade wider versus the most defensive ones, suggesting stress is beginning to creep in into the asset class. Overall, we conclude markets could be curbing their enthusiasm ahead of rising uncertainty following this strong rally.

We are confronted with more unknowns amidst a dearth of defensive assets, as gold has continued to trade in line with risk assets. Our tactical asset allocation is still moderately cautious as it should be in the current volatile environment.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>
DM Gov.			>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<<		
EM Equity			>
Gold			>
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

Recent macroeconomic indicators reflect robust growth despite mounting inflationary pressures. In April, US employers added 115,000 jobs, surpassing forecasts and marking the strongest two-month gain since 2024 when combined with March's upwardly revised figure, with jobless claims also falling to their lowest since early 2024. Treasury yields were volatile, influenced by fluctuations in crude oil prices amid US-Iran tensions, but eased as geopolitical risks subsided. The US 10-year Treasury yield declined from 4.44% on 4 May to 4.36% on 8 May. However, Treasury yields underperformed other DM bonds as expected on conflict resolution optimism. UK and Euro areas remain more vulnerable to second order impacts from crude price increases compared to the US. This is reflected in the rate hikes priced in for the two central banks from these regions. Hence, whenever crude prices fall, we have typically seen these area bonds outperform Treasuries.

Gradual improvements in labour market data and a more hawkish tone from the Fed support higher yields. However, current yield levels do not warrant being bearish, and a lasting resolution to the Middle East conflict would likely lead to lower yields. Moreover, at the May refunding, the Treasury maintained nominal coupon and FRN auction sizes, as expected. According to JPM, the next round of increases is projected for February 2027. This guidance suggests yields are unlikely to rise significantly over the next six months unless Brent crude exceeds $130.

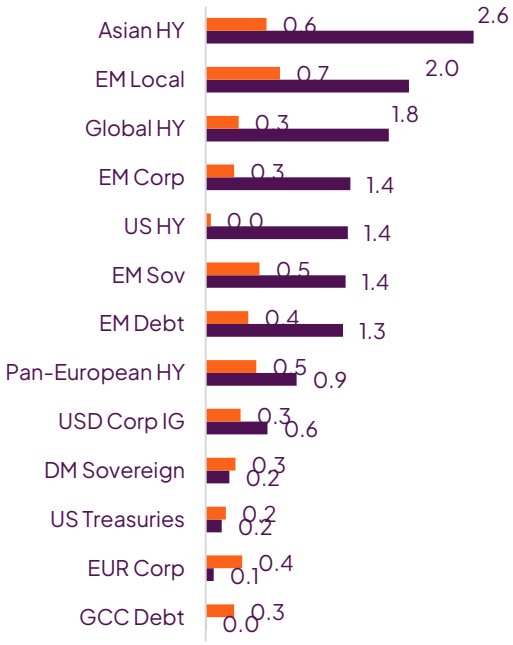
Credit spreads remained stable, even as equities achieved new record highs. Investment-grade issuance continued at elevated levels. US investment-grade bond sales totaled $39.9 billion from 32 issuers for the week. US high-yield corporate bond sales increased to $15.8 billion from 26 issuers. Europe's primary market saw strong activity, with issuance volumes reaching about €70.3 billion, despite a shortened week due to the UK bank holiday. Fixed income fund flows remained positive, although momentum slowed compared to earlier weeks. Short and intermediate investment-grade bond funds attracted $6.8 billion in inflows for the week, the largest since September 2020. High-yield notes drew $643.2 million in inflows, down from $1.49 billion the previous week.

GCC issuance was led by the $7 billion triple-tranche PIF deal: $2.75 billion for three years at T+95bps, $1.75 billion for seven years at T+105bps, and $2.5 billion for thirty years at T+135bps. First Abu Dhabi Bank (FAB), rated AA- by Fitch, issued a five-year sukuk at T+85bps, matching the existing curve. Bahrain and Egypt saw notable improvements, with their five-year CDS levels tightening by almost 34bps and 13bps, respectively. The newly issued EBIUH 6¼ PERP continues to perform strongly, now trading 25bps tighter to its issue yield two weeks after pricing.

Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral Corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US$ TR, week, YTD 2026)



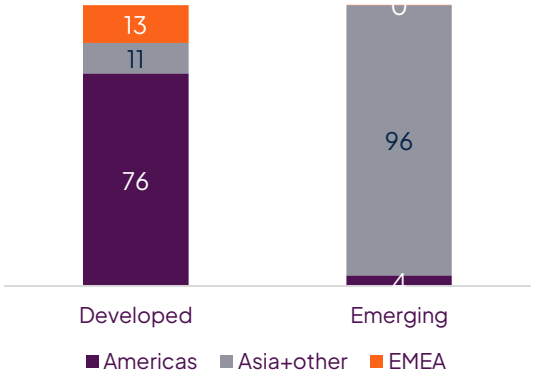
Equity update

Global equities were driven by two very strong forces last week. One was the clear improvement in geopolitical sentiment, with markets increasingly leaning toward the view that the US-Iran conflict may finally be moving closer to containment rather than another major escalation. The other was earnings, which kept coming in far stronger than expected, especially in the US. That backdrop kept risk appetite strong even as headlines around Hormuz, oil shipments and military developments continued creating sharp intraday swings. MSCI ACWI rose 2.5%, with developed markets up 1.8% and emerging markets surging 6.9%. The S&P 500 gained 2.4% and closed at fresh highs again. What really stood out was how quickly markets moved past every geopolitical scare. Earlier in the conflict, similar headlines would have triggered broader de-risking. Last week, they mostly created temporary pullbacks before equities pushed higher again. Markets became noticeably more comfortable pricing the idea that diplomatic discussions were at least moving in the right direction, even if the situation remained fragile.

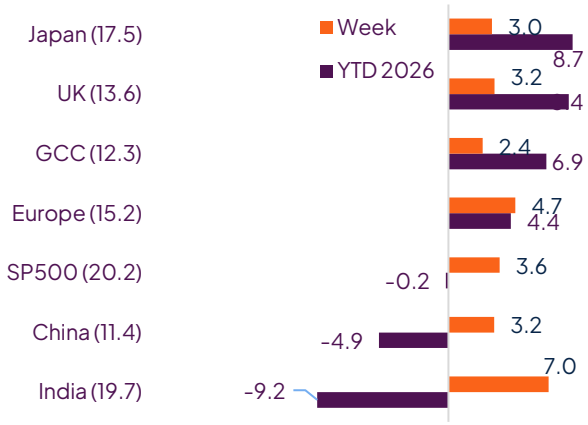
Earnings ended up being the real engine behind the rally. With 89% of S&P 500 companies having reported first-quarter results, 84% beat EPS expectations and 80% beat on revenue, while blended earnings growth accelerated to 27.7% YoY versus expectations of just 13.1% at the start of the reporting season. The AI trade stayed firmly at the center of leadership, but the tone changed quite a bit compared with earlier phases of the rally. Markets are no longer rewarding AI exposure alone. They are rewarding visible monetization, infrastructure demand and earnings leverage. Semiconductors and cloud beneficiaries continued driving gains, with the Philadelphia Semiconductor Index hitting another record while Asian technology shares posted their strongest week since 2022. Alphabet became one of the clearest examples of how aggressively markets are rewarding companies showing tangible AI monetization, with its cloud backlog nearly doubling to $462 billion helped by large compute commitments tied to Anthropic and growing demand for AI infrastructure.

Elsewhere, Europe lagged again, with MSCI Europe rising just 0.3%, reinforcing the view that the region still lacks earnings momentum. A large part of Europe's recent earnings upgrade cycle has come from energy companies, while the broader corporate backdrop still looks much less convincing once energy is stripped out. In Asia, the MSCI China gained 3.2%, but the bigger story was Korea and Taiwan, where markets continued aggressively repricing AI and semiconductor exposure. The KOSPI surged 13.6%, while Taiwan gained 6.9%, helping drive the broader 6.9% rally in emerging markets. Japan also remained strong, with TOPIX up 2.7%, supported by semiconductors, robotics and AI-linked industrials. Dubai advanced 2.4% alongside improving regional sentiment and hopes that tensions may gradually stabilize. Aramco's results were a reminder that energy markets are still far from normal. The company reported a 26% increase in adjusted profit and warned that even if Hormuz shipping flows normalize immediately, oil markets may still take months to rebalance, while a prolonged disruption could keep supply conditions dislocated well into 2027. The difference last week was that markets treated those risks as manageable as long as earnings and growth kept surprising positively.

Equity Recommended Regional Positioning

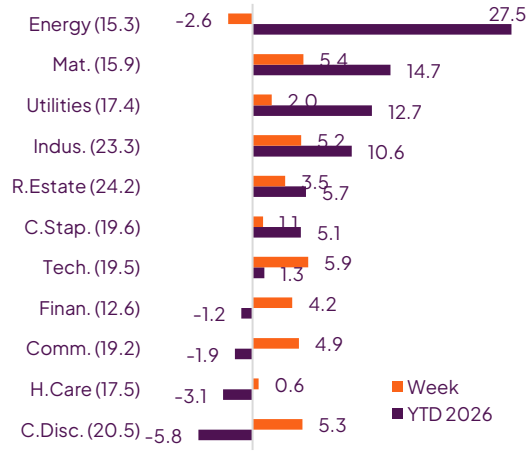


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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