

# Investors on the defensive — as war stokes inflation expectations

Last week was overshadowed by the escalation of tensions between the US and Iran and the repercussions across energy markets. The closure of the Strait of Hormuz triggered an abrupt supply glitch, rekindling inflation fears at the same time. Brent crude briefly rose above USD 120 a barrel at the start of the week before easing back towards USD 100.

## An energy shock unsettles monetary expectations

In response to this stress, member countries of the International Energy Agency agreed to release a record volume of strategic reserves: 400 million barrels, the largest drawdown ever authorised. This is intended to mitigate supply disruptions caused by attacks on vessels and energy infrastructure in the region.

Despite these measures, markets remained extremely vulnerable to the headlines. Comments by the White House suggesting the conflict might prove short-lived provided a temporary lull. Yet attacks on oil tankers and persistent tensions in the Gulf have kept a substantial geopolitical risk premium embedded in crude prices.

The sharp rise in energy prices and the increase in inflation expectations last week weighed heavily on global equity markets. European and Swiss indices were particularly hard hit given their heavier dependence on imported energy. The correction in the US was more limited, reflecting its comparatively favourable energy position (the US has been a net exporter since 2018). Higher oil prices therefore partly support the US trade balance and the dollar.

## Oil surge prompts upward revision in inflation expectations

Bond markets responded with a renewed rise in sovereign yields. Ten-year government bond yields in the US and Germany rose by a further 10 basis points, ending the week at 4.28% and 2.98%, respectively. On the macro front, US inflation clocked in at 2.4% year-on-year and 0.3% month-on-month in February, confirming that price pressures had already been firming even before the energy shock hit.

## Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.79	0.90	12'839.27	5'716.61	23'447.29	7'911.53	10'261.15	6'632.19	22'105.36	53'819.61	1'469.47
Trend	↑	➡	↓	↓	↓	↓	↓	↓	↓	↓	↓
YTD	-0.25%	-3.04%	-3.23%	-1.29%	-4.26%	-2.92%	3.32%	-3.12%	-4.89%	6.91%	4.64%

(values from the Friday preceding publication)

Markets have sharply scaled back expectations for Fed monetary easing. Expectations for rate cuts in 2026 have shifted from two to zero.

Paradoxically, gold is currently failing to benefit from its traditional safe-haven status. After a strong rally since the start of the year, the precious metal is now being weighed down by rising real yields and a stronger dollar. For now, oil remains the key asset driving market dynamics, as the energy shock has become the dominant macroeconomic variable for investors.

During another turbulent week, the S&P 500 fell 1.60% and the Nasdaq Composite lost 1.26%. In Europe, the Euro Stoxx 50 managed to limit its decline to 0.06%, while Switzerland's SMI fared worse, falling 1.96%. The drop was exacerbated by a sell-off in Roche shares following disappointing news on the efficacy of its phase-three obesity drug Persevera.

In the coming days, market direction will depend primarily on three factors: how the conflict in the Middle East evolves, the reaction of oil markets once the strategic-reserve releases are fully implemented and shifting monetary policy expectations. If Brent were to remain around USD 100 a barrel, volatility in risk assets would likely persist and the path towards monetary easing by central banks would become more complicated. Conversely, a swift easing in energy prices could pave the way for a technical rally in markets in the weeks ahead.

## Swiss Market Index (SMI)

The SMI broke past 13110 to test support at 12750. The last support is at 12520. If this is breached on the downside, Swiss equities could be facing a bear market..



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