Vontobel

Investors' Outlook

On tenterhooks

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On tenterhooks

—
Dan Scott
Head Multi Asset,
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Dear readers,

Investor attention is fixed on the war in Iran. The immediate questions include how far it could escalate, what it could mean for energy supply and inflation, and whether the Strait of Hormuz becomes a longer-term point of disruption.

If the strait reopens, the outlook for decent global economic growth and corporate profits can be maintained. If not, and if energy prices rise and growth slows, the prospect of stagflation[1] becomes a possibility. With so many unknowns, markets are holding their breath while central banks weigh the war's impact on inflation.

We currently believe that there will be enough of a de-escalation for the strait to reopen even if the conflict isn't resolved and we maintain a positive macroeconomic outlook. But the current situation highlights a set of emerging risks to that base case. We're also observing that many companies emphasize their minimal direct exposure to the Middle East, but we find that misses the point. The global economy is interconnected, and one clear example is energy: oil and gas. Even without direct exposure to the region, there is still indirect exposure through energy markets. On top of that, an economic crisis in the Gulf may not necessarily impact global growth, but it could negatively affect capital markets. We believe this second-order effect shouldn't be underestimated.

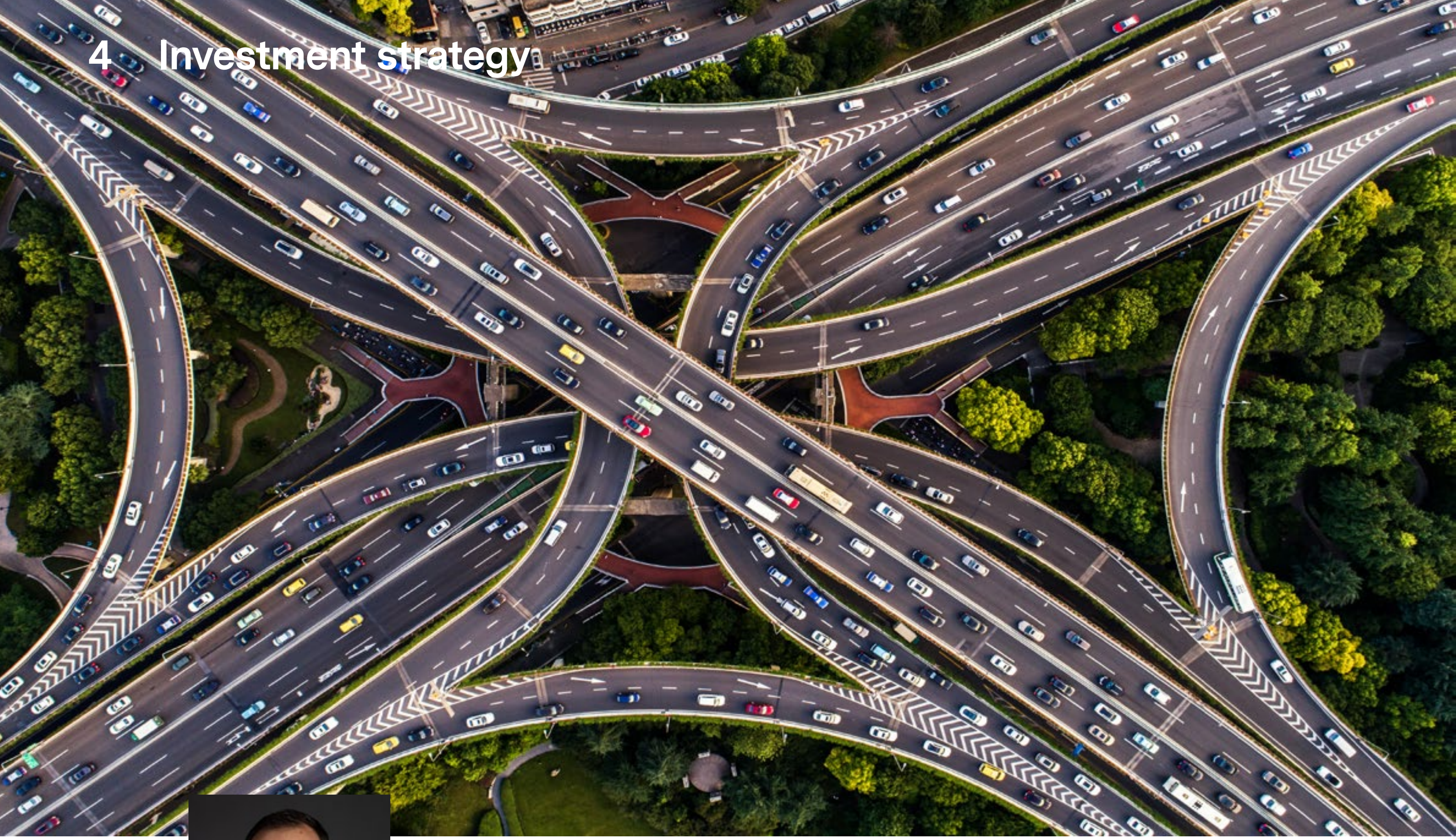
Private credit has the potential to become a risk for markets, too. These funds often lend to software and technology-linked companies (so, business models at potential risk of AI disruption), through illiquid, privately negotiated loans whose valuations are less transparent than public debt, which makes it harder to assess true credit quality. What tends to unhinge markets is a sudden withdrawal of liquidity, especially in systems with built-up leverage. Within private credit, there are aspects of debt-on-debt[2] structures that have the potential to trigger a domino effect, where market participants start experiencing losses because they're heavily invested in private credit and need to sell their assets. That can become the initial pressure point for broader markets, and it's not entirely clear whether we haven't already seen early signs of this dynamic unfolding.

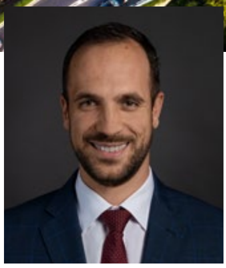
In our view, this only becomes a potential issue if the Strait of Hormuz remains closed for an extended period. Even then, it's still open to Chinese and Iranian vessels, while being effectively closed from a Western perspective. We provide Multi Asset Boutique clients with separate, detailed updates on the evolving situation in the Middle East as developments warrant.

In this Investors' Outlook, we take a closer look at Japan's economy and its prospects under Prime Minister Sanae Takaichi, connect the dots between the war in Iran and what it means for food prices, and explain what central banks are now grappling with.

→ Webcast
To view our webcast on recent market developments, click **here.**

[1] See "Glossary and sources" on p. 19.





—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Quo vadis?

With the war in Iran ongoing, each passing day raises new questions for investors and casts some doubt over our 2026 economic baseline. Positive growth momentum has temporarily stalled, while higher oil and gas prices risk fanning inflation amid attacks on energy infrastructure and escalating rhetoric between the US and Iran. As such, central banks are likely to delay interest-rate cuts in the near term.

At present, we assign the highest probability to a relatively short-lived conflict. Rational factors that support this view include limited US public support for a prolonged, costly war, the fact that a protracted conflict is not in the best interest of regional players such as Saudi Arabia and Qatar, the difficulty of regime change in Iran, and the broader pressure on major economies like China.

Under this scenario, growth is more likely to stall than contract. But the longer the conflict goes on, the greater the risk of a slowdown or recession. And despite the rational arguments listed above, there is no guarantee that all actors will behave rationally. The US may seek de-escalation, but Iran has significant leverage and is unlikely to concede without major concessions.

The war also complicates matters for central banks. Many had been easing or pausing rate cuts, but surging energy prices now cloud the path ahead. US Federal Reserve Chair Jerome Powell acknowledged that higher energy costs will push overall inflation higher and that nobody knows the economic impact of the war. The challenge is even more acute for the European Central Bank, considering Europe's energy dependence. Rising oil prices increase economic uncertainty and inflation risks.

At an ad-hoc meeting in early March, our Investment Committee closed its overweight in commodities, reallocating proceeds to cash, and at its subsequent meeting two weeks later, left asset allocation unchanged. Find the details on page 5.

	UNDERWEIGHT[3] significantly	UNDERWEIGHT[3] slightly	NEUTRAL[4]	OVERWEIGHT[5] slightly	OVERWEIGHT[5] significantly	
1 Liquidity				↗		We upgraded our cash positioning to slightly overweight at an ad-hoc Investment Committee meeting in early March. We are prepared to redeploy this capital as new opportunities emerge.
2 Bonds		→				We maintain our underweight stance on the fixed-income segment. Our underweight positions in corporate investment-grade (IG)[6] and high-yield (HY) bonds[7] remain unchanged. On the former, valuations appear tight and supply is becoming a bigger issue. Surging AI-related bond issuance is adding to high-grade supply and is poised to keep pressure on spreads. On the latter, fundamentals are not yet deteriorating sharply, but spreads are already tight and leave limited room for further compression. If supply rises and growth cools only modestly, spreads are more likely to drift wider over the next year. We hold a neutral position on emerging-market (EM) hard-currency bonds.
3 Equities				→		Our overweight in equities remains in place, based on our expectation that the conflict will be relatively short-lived. While the oil shock creates near-term headwinds, the supportive macroeconomic backdrop prior to the war (fiscal stimulus, contained inflation, and neutral rather than restrictive monetary policy) is likely to help cushion the impact of higher oil prices. The ongoing investment cycle in AI is also expected to partially offset the drag from slightly weaker economic activity. The Gulf War has weighed on our regional preferences for EM and Eurozone stocks, given both regions' reliance on energy imports. However, many of these short-term headwinds already appear to be priced into markets.
4 Gold			→			We continue to hold a neutral view on gold, which has come under pressure since the onset of the Iran war, temporarily falling below USD 4,500 per ounce. Some weakness following geopolitical events isn't unusual, but what stands out is that gold has not rebounded since. Gold's strong pre-war rally, coupled with a strengthening US dollar and concerns about inflation and a more hawkish monetary policy stance, appears to have outweighed the typical safe-haven demand driven by geopolitical risks. Looking ahead, the Fed's policy path will be key for gold prices. If the Middle East conflict escalates into a prolonged crisis that pushes oil prices and inflation high enough that the Fed can no longer "look past it," gold could face more downward pressure, as in 2022. Exchange-traded fund (ETF)[8] flows and central bank activity will also be important to monitor.
5 Commodities			↘			We closed our overweight position in commodities in early March. Our January upgrade was based on a pro-growth outlook, a weaker US dollar, and commodities' role as a hedge against geopolitical risk. Since then, these supports have either weakened (growth and dollar outlooks) or already played out. The geopolitical shock has materialized, with oil prices surging more than 55 percent over the past month. If history is any guide, periods of very high oil prices rarely end well for commodities, as they lead to increased supply (e.g., US shale) and, over time, demand destruction.
6 Alternative strategies			→			We maintain a neutral stance on alternative funds and real estate.

Note: Views are as of March 2026. Subject to change without further notice.

Changes month-on-month: same → higher ↗ lower ↘

Is Japan about to bloom again?

Every spring, Japan is transformed by the sakura, a fleeting season when cherry blossoms blanket the archipelago in soft pinks and whites. For centuries, this has been more than a visual spectacle. It is a cultural shorthand for saisei, or renewal. In 2026, the metaphor has rarely felt more apt for the Japanese macroeconomy. After decades of winter-like stagnation, the political and economic landscape is stirring. The question for investors is no longer whether Japan can wake up, but whether, under the newly minted supermajority of Prime Minister Sanae Takaichi, it is finally able to bloom in a way that is not only vibrant but also sustainable.

—
Michaela Huber
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel

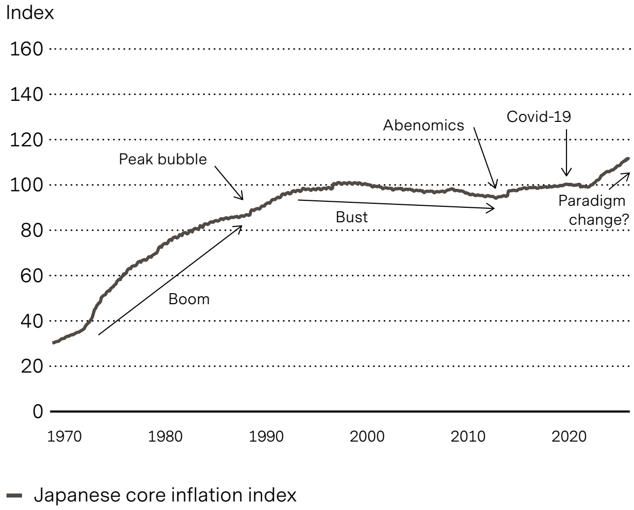
—
Stefan Eppenberger
Chief Investment Strategist,
Multi Asset Boutique, Vontobel

Sanae Takaichi is making waves in Japan. A protégé of the late Shinzo Abe, she made history in 2025 as Japan's first female prime minister and quickly consolidated her power with a historic landslide victory in February 2026. Her Liberal Democratic Party now holds a two-thirds supermajority in the lower house, granting her a legislative mandate for change that her predecessors could only have dreamed of. Her political agenda, often dubbed Sanaenomics, places strong emphasis on fiscal expansion[9]. Key promises include significant investments in economic security, focusing on sectors such as semiconductors, fusion energy, and artificial intelligence. She has also pushed for popular measures like suspending the consumption tax on food to ease the financial burden on

households. Unlike previous leaders who prioritized balancing the budget, she argues that growth must come first, asserting that a revitalized economy will eventually outpace its debt. Her dovish position isn't limited to fiscal policy. She is also a vocal advocate of accommodative monetary conditions, and in 2024 even described Bank of Japan (BoJ) interest-rate hikes as "stupid.[10]"

Beyond the economy, Takaichi is a staunch foreign-policy hawk. She is not only determined to double defense spending to 2 percent of gross domestic product (GDP) but has also pushed for an amendment to Japan's pacifist constitution. Specifically, she wants to revoke Article 9, which states that Japan renounces "war as a sovereign right of the nation" and "the threat or use of force as a means of settling international disputes" (i.e., it explicitly forbids Japan from going to war)[11]. In China, Takaichi has already ruffled feathers by stating that a Chinese attack on Taiwan could constitute a "survival-threatening situation" for Japan[12], which sparked a diplomatic row with Beijing. Her vision of a strong Japan also extends to promoting traditional social values and adopting a tough stance on immigration.

Chart 1: Japan experienced 30 years of deflation, which came to an end with the pandemic



Source: LSEG, Vontobel; as of March 20, 2026.

Japan's long winter: Decades of deflation and demographic challenges

To understand the significance of Takaichi's bold approach, one must acknowledge the weight of the history she is attempting to overturn. For over three decades, Japan has been a global case study in economic stagnation, low or negative inflation, and demographic decline. The burst of the early-1990s asset-price bubble marked the start of Japan's "Lost Decades," a prolonged period of economic malaise. As the first major developed economy to face a shrinking workforce, Japan became a cautionary tale. An aging population and declining birth rates stifled domestic demand, while the bubble's collapse created a deflationary mindset. Scarred by uncertainty, consumers and businesses hoarded cash instead of spending or investing, deepening the stagnation.

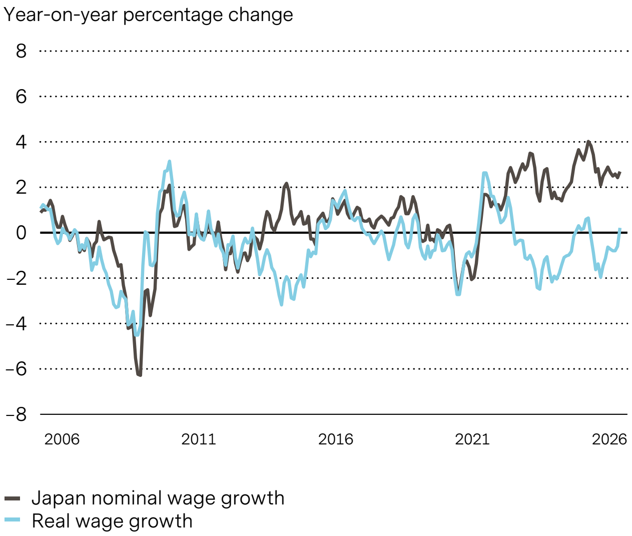
The era of Abenomics[13], launched in 2012 by Prime Minister Shinzo Abe, attempted to break this cycle through the "three arrows": aggressive monetary easing by the BoJ to combat deflation and stimulate economic activity, flexible fiscal stimulus to boost short-term demand while addressing long-term fiscal challenges, and structural reforms to enhance Japan's economic competitiveness. While Abenomics succeeded in weakening the yen and propping up the Japanese housing and equity markets, the BoJ's 2 percent inflation target remained out of reach—until the pandemic (see chart 1).

The global supply shocks of the early 2020s did what a decade of stimulus could not: they imported inflation and led to a rise in inflation expectations. In April 2022, headline inflation surpassed the BoJ's target for the first time in years, and remained above it until December 2025. This shift in economic conditions has also changed wage negotiation dynamics. Before the inflation surge, large companies were generally reluctant to grant significant pay increases, typically limiting wage hikes to around 2 percent. However, in 2024 and 2025, businesses were compelled to offer raises exceeding 5 percent to keep pace with rising inflation and retain staff.

Why we believe Takaichi must tread carefully

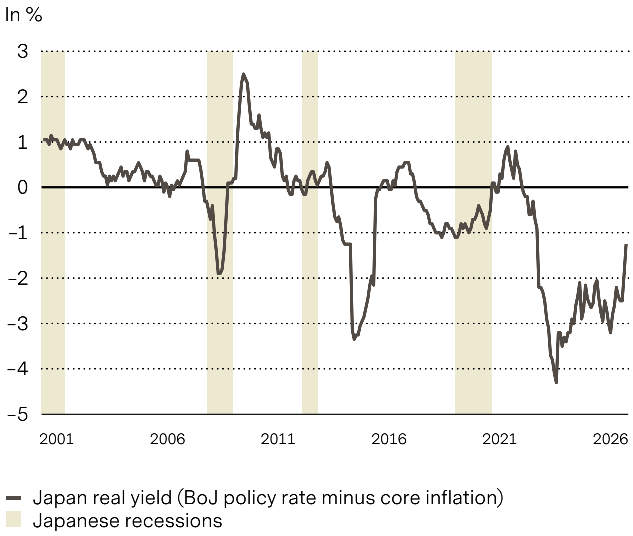
While Takaichi's assertive statements have made waves, she must tread carefully in execution, in our view. This is because she inherits a Japan that is no longer "cold." With headline and core inflation still hovering around 2 percent, her challenge is to stimulate the economy without overheating it. The Japanese public, accustomed to stable prices for a generation, remains highly sensitive to the rising cost of living. According to an Asahi opinion poll on the country's most pressing issues, inflation claimed the top spot (at more than 60 percent) in September 2025. This is hardly surprising, as real

Chart 2: Real wage growth is basically nonexistent



Source: LSEG, Vontobel; as of March 20, 2026.

Chart 3: Further monetary policy tightening needed



Source: LSEG, Vontobel; as of March 20, 2026.

(i.e., inflation-adjusted) wages have remained in negative territory for years, only recently turning slightly positive (see chart 2).

To mitigate the risk of potential backlash, we believe Takaichi must prioritize supply-side reforms. A critical bottleneck in this effort is labor. With a shrinking population and a strict anti-immigration stance that risks further tightening an already constrained labor market, Japan's economic growth hinges on improving productivity. This necessitates reforms in labor flexibility, potentially relaxing overtime regulations to allow willing workers to earn more, and deeper integration of automation.

We also believe Takaichi may want to tread carefully when navigating monetary policy. While she favors lower interest rates, the BoJ has repeatedly emphasized the necessity of raising them. Why does the BoJ aim to raise interest rates further, even though inflation has recently slowed to around 2 percent? The answer lies in the fact that its monetary policy remains stimulative. Even after increasing the policy rate to 0.75 percent in late 2025, real (inflationadjusted) interest rates remain deeply negative (see chart 3). With inflation still somewhat sticky and the yen weak, the BoJ may be forced to hike rates toward a rate of 1.25 – 1.50 percent. This creates a tug-of-war: a government that wants to spend and a central bank that must normalize monetary policy.

The bond market has already begun to voice its concerns. In January 2026, yields on 10-year Japanese government bonds (JGBs) pushed past 2.3 percent, and the 40-year yield breached 4 percent for the first time in decades (bond yields move inversely to prices). Upward pressure intensified again in February following reports that Takaichi met with BoJ Governor Kazuo Ueda and expressed reservations about further interest-rate hikes. Adding to the market's concerns, she also nominated two "reflationists" to the BoJ's board[14].

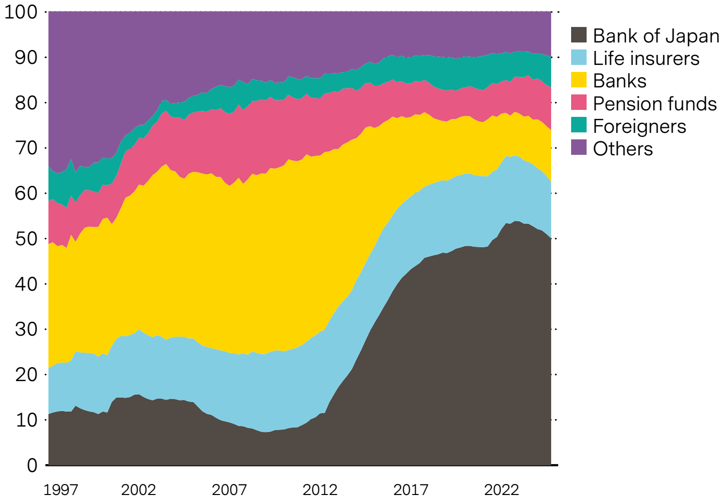
In short, investors worry that her fiscal boldness, combined with rising interest rates, could render Japan's massive debt-to-GDP ratio (estimated at around 235 to 250 percent of GDP as of early 2026) unsustainable.

Why we believe a fiscal crisis is unlikely

Despite the return of bond vigilantes[15] to Tokyo, we are not overly concerned about the likelihood of a full-scale fiscal crisis. This confidence stems from several factors.

Chart 4: Japan's government debt market is primarily dominated by domestic players

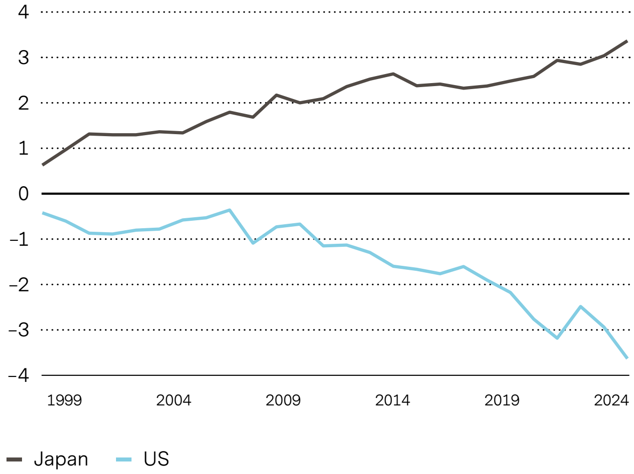
In %



Source: LSEG, Vontobel; as of December 31, 2025.

Chart 5: Japan does not rely on foreign capital for funding

Net international investment position, in % of GDP



Note: The Net International Investment Position (NIIP) is a key economic metric representing the difference between a nation's stock of foreign financial assets and its liabilities to foreign residents. A positive NIIP indicates a net creditor nation, while a negative NIIP indicates a net debtor nation.

Source: LSEG, Vontobel; as of December 31, 2024.

First and foremost, because Japan borrows in its own currency, it is unlikely to run out of money (in a worst-case scenario, Japan could simply print more money to meet its obligations.)

Second, Japan's government debt market is predominantly held by domestic investors. Roughly 90 percent of JGBs are held by domestic institutions, including the BoJ, banks, and insurance companies (see chart 4). These institutions, in our view, have a vested interest in stability. This reduces the risk of foreign capital flight, which often triggers sovereign defaults.

Third, a look at Japan's net international investment position—a key economic metric representing the difference between a nation's stock of foreign financial assets and its liabilities to foreign residents—suggests that Japan is a net creditor nation that holds a massive portfolio of international investments. This effectively means that it is not reliant on the kindness of strangers (read: foreign capital) to fund its deficit (see chart 5).

Fourth, investors should also consider that Japan's gross debt, currently at around 235 percent of GDP, needs to be adjusted for public sector assets and the central bank's government bond holdings. After these adjustments, Japan's debt burden decreases to a net debt level of "only" 134 percent of GDP, or 45 percent of GDP when BoJ holdings are excluded. Another often-overlooked reason is that Japan incurs very low interest expenses compared to its peers. In 2024, the general government's net interest expense, as a percentage of total expenditures, was approximately 1 percent. For context, the Eurozone spent around 3.2 percent, while the US allocated more than 9 percent to interest payments.

Lastly, inflation (as unpopular as it may be) also has a silver lining. By inflating tax revenues and nominal GDP, it naturally shrinks the relative size of the debt.

Why we believe a yen appreciation is likely

While Takaichi has historically been a vocal proponent of a weak yen to support exports, the macro regime shift of 2026 is creating a perfect storm that points toward yen appreciation. The bull case for the yen rests on several arguments.

First, with USD / JPY trading at around 159, the yen remains undervalued according to purchasing power parity models.

Second, narrowing interest-rate differentials and the unwinding of the yen carry trade[16]. For years, the yen was the global funding currency for the carry trade, a strategy where an investor borrows capital at a lower interest rate to invest in assets with potentially higher returns, because Japanese rates were stuck at zero (or below), while the rest of the world was hiking rates. As long as the BoJ raises rates while others are either holding them steady or cutting them, the yield disadvantage of the yen is diminishing. This reduces the appeal of the yen carry trade, which essentially represents a massive short position in the currency. As a result, the yen is becoming fundamentally more attractive to hold.

Third, a likely repatriation wave. In 2025, Japan was the world's second-largest creditor nation after Germany. As yields on 10-year JGBs approach 2.5 percent and those on 40-year JGBs breach 4 percent, the "risk-free" return at home is finally becoming interesting again. As such, Japanese life insurers and pension funds have an incentive to sell US Treasuries and European Bunds to buy JGBs. A massive flow of capital back into the country could create structural demand for the yen that could override Takaichi's rhetorical preference for a weak currency.

Fourth, we believe the yen is also likely to receive support from foreign interests. What does this mean? The US, particularly under the leadership of President Donald Trump, has made it clear that it will not tolerate excessively weak foreign currencies, as they are seen as a threat to American competitiveness. The Treasury Department closely monitors the currency practices of major trading partners and publishes a semiannual report to Congress. To be labeled a currency manipulator by the US, a country must meet three specific criteria: a significant bilateral trade surplus with the US, a material current account surplus, as well as evidence of persistent, one-sided intervention in the foreign-exchange (FX) market to weaken its currency. While Japan has not been labeled a currency manipulator in recent years, it is already meeting two out of three criteria (a trade and current account surplus). Given Trump's tendency to impose tariffs on countries that have provoked his ire, we believe Japan has a strong incentive to avoid being placed on that list.

Lastly, it is important to note that the BoJ has a history of intervening in the FX market following significant yen depreciation. For instance, in September 2022, Japan's Ministry of Finance, executed by the BoJ, intervened by selling US dollars and purchasing yen after the currency fell to a 24-year low of 145 against the dollar due to the widening interest-rate differential between Japan and the US. Another intervention occurred in October 2022, when the yen surpassed 150 yen per dollar. While the yen is likely to appreciate, we believe it is unlikely to return to the extremely strong levels (below 100 JPY / USD) that crushed exporters in the 2010s. Takaichi's supermajority provides a kind of political floor: if the yen strengthens too rapidly, she has the mandate to intervene with further fiscal measures or to jawbone the BoJ into a temporary pause.

Where could we be wrong?
We see three key risks to our Japanese macroeconomic outlook. First, Japanese policymakers may make critical missteps. For instance, the BoJ could raise interest rates too aggressively, too slowly, or fail to act altogether if its independence is compromised by potential interference from Takaichi. Second, fiscal sustainability could face greater-than-anticipated challenges, particularly if policy errors occur. Lastly, geopolitical escalations could prematurely derail Japan's newfound bloom. This could be in the form of a military standoff with neighboring Asian countries, or sudden energy price shocks that lead to surging inflation. As a reminder: Japan depends on the Middle East for approximately 95 percent of its oil supply and 11 percent of its liquefied natural gas (LNG) imports, with roughly 70 percent of its oil and 6 percent of its LNG passing through the Strait of Hormuz.

Reassessing the situation

—
Christopher Koslowski
Senior Fixed Income &
FX Strategist,
Multi Asset Boutique, Vontobel

What once looked like a fairly straightforward easing story no longer does. The Fed has moved into a wait-and-see phase as growth is slowing and the labor market is softening, while higher oil prices have pushed inflation risks back to the forefront. This trade-off keeps monetary policy on hold for now.

Markets have already repriced (see chart 1). Expectations for near-term rate cuts have been deferred, and front-end yields have moved higher. As long as energy prices remain elevated, the Fed has limited room to ease without risking a renewed inflation impulse. That said, the direction has not changed, only the timing. If growth continues to weaken and labor market slack increases, we believe the Fed is still likely to cut. The key difference is that the easing cycle is now expected to continue later and be more gradual than previously expected. For rates, that tempers the case for a strong duration position in the near term, in our view. Yields could stay elevated and volatile as markets weigh inflation risks against slowing growth. But we believe duration still provides protection in downside scenarios.

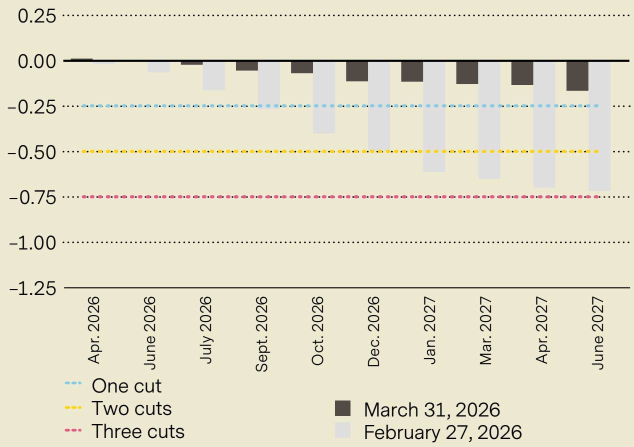
A more challenging backdrop for credit
Since the start of the war, credit has started to underperform as higher oil prices, rising uncertainty, and a repricing of rate expectations have weighed on sentiment and pushed spreads wider.

On the one hand, slower growth, higher funding costs, and uncertainty around inflation and central bank policy make the environment less supportive for spread products, in our view. Credit can absorb one of these pressures, but not all at once.

On the other hand, stress in parts of the private credit market, whether through tighter lending terms, weaker liquidity, or isolated credit events, can spill over into public markets by triggering a broader reassessment of credit risk. And supply is also a headwind (see chart 2). Investment grade is facing a growing wave of issuance, especially from hyperscalers funding AI-related capital expenditure. The market has absorbed that supply so far, but it adds pressure at a time when investors are becoming more selective. If issuance continues to run above its historical norm, the market has to digest more paper, which makes further spread tightening harder even if fundamentals remain reasonably solid.

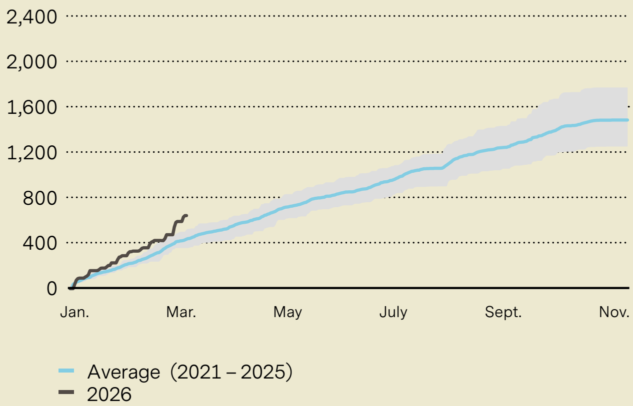
This means that credit is increasingly exposed to a combination of macroeconomic pressure, structural risks, and rising supply, which we believe argues for a more cautious stance.

Chart 1: Markets have become more cautious in their Fed easing expectations
Cumulative implied Fed policy rate change, in %



Source: LSEG, Vontobel; as of March 31, 2026.

Chart 2: Investment-grade issuance is running above the five-year trend
In USD billion



Source: LSEG, Vontobel; as of March 19, 2026.

Holding steady

—
Mario Montagnani
Senior Investment Strategist,
Multi Asset Boutique, Vontobel

The escalation in the Middle East has put stock markets under additional pressure after an already choppy start to the year.

We believe the uncertainties markets currently face boil down to three main variables: the likely duration of the conflict (weeks or months?), how long the Strait of Hormuz is effectively closed or disrupted (with knock-on effects on global energy prices), and the extent to which the war weighs on global economic growth as risks range from stagflation to outright recession.

In our view, it may be a relatively short-duration conflict or, alternatively, a prolonged but contained stalemate, potentially lasting a few more weeks with intermittent de-escalation signals. Even in a modestly extended stalemate, we believe the impact on markets and the economy would likely be manageable. Credible de-escalation would probably bring oil prices back to more reasonable levels, causing only a short-term drag on economic growth. Our view reflects a less energy-intensive global economy, with oil playing a smaller role in inflation today than in the 1970s or 2022. Starting points for oil and inflation also differ from past episodes. Another mitigation factor includes the International Energy Agency's emergency release, which provides a buffer and valuable time for policymakers.

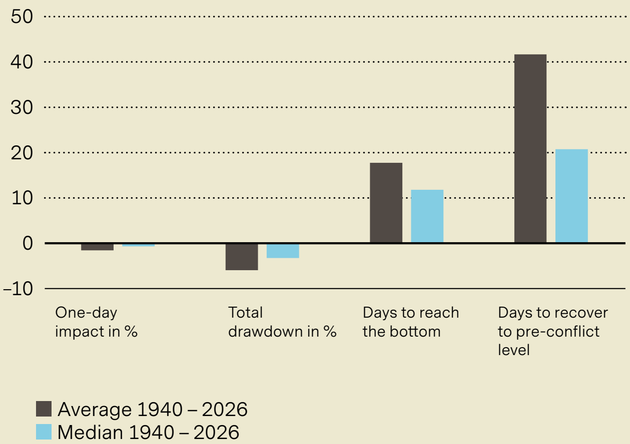
We reiterate our current tactical overweight positioning in equities. We believe a de-escalation scenario would quickly realign with our broader 2026 baseline, potentially setting up a phased recovery: continued pressure in the first half, especially in the second quarter, followed by anticipation of improvement in the second half and easier year-on-year comparisons into 2027.

Historically, stock markets have rebounded once there were credible signs of de-escalation. Global equities are currently down 5 to 10 percent from their early-year peaks, in line with the average length and magnitude of pullbacks observed during geopolitical instability episodes over the past 80 years (see chart 1). With this historical perspective in mind, we have not made changes to our equity allocation.

Past patterns suggest markets typically digest geopolitical conflicts relatively quickly, whereby initial drawdowns often recover, on average, within a matter of weeks. Looking at three, six, and nine months after major escalations, forward returns have typically been positive (see chart 2). We continue to monitor developments closely and will adjust our positioning if and when the situation warrants.

Chart 1: Stock markets have digested geopolitical shocks relatively quickly

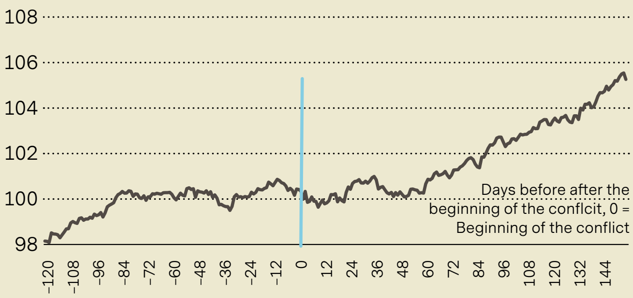
S&P 500 return after geopolitical shocks, in % / in days



Source: LSEG, Vontobel; as of March 19, 2026.

Chart 2: Historically, average returns have been positive beyond one month after geopolitical conflicts

S&P 500 average return pre- and post-geopolitical escalations*, in %



*Indexed to beginning of conflict = 100, period 1968 – 2026.

Source: LSEG, Vontobel; as of March 19, 2026.

Food-flation falling on fertile ground?

—
Michaela Huber
Senior Cross-Asset Strategist,
Multi Asset Boutique, Vontobel

When geopolitical tensions in the Middle East escalate into open conflict, the world's attention usually fixates on the impact on oil prices. But an often overlooked risk is the second-wave shock it can send to global dinner tables.

Agriculture is energy-intensive. When oil prices spike because tankers are stuck or diverted, the cost of running tractors and harvesters climbs—as does the cost of transporting food from exporting hubs like Brazil or the US to the rest of the world. However, the most severe damage happens through natural gas markets.

Nitrogen-based fertilizers, such as urea, which support crops responsible for roughly half of the world's food supply, rely on gas as their primary feedstock. After strikes forced Qatar, a liquefied natural gas heavyweight[17], to declare force majeure and halt exports, gas prices surged, driving fertilizer prices higher as well. The fertilizer market has been hit two-fold. First, when gas prices surge, fertilizer plants are often forced to scale back production or shut down entirely, as manufacturing becomes economically unviable. Second, the closure of the Strait of Hormuz also left many fertilizer exports sidelined (see chart 1).

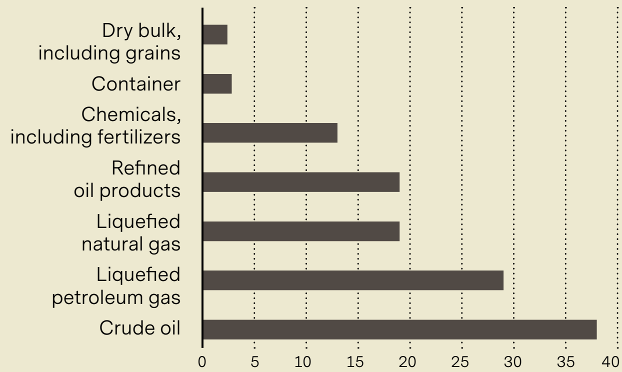
Within the grains complex, corn is the most exposed (see chart 2). It is highly fertilizer-intensive, with fertilizer accounting for up to 40 percent of production costs. To put that in perspective, wheat stands at about 30 percent, while soybeans are much lower at 15 percent. While higher fertilizer prices could eventually contribute to rising grain prices (via higher production costs), the largest potential impact on prices may come from reduced supply. Sustained high fertilizer costs may lead farmers to apply less fertilizer, resulting in suboptimal yields. Additionally, high fertilizer prices could prompt farmers to shift acreage away from fertilizer-intensive crops, such as corn, toward less fertilizer-dependent crops like soybeans. This shift could reduce corn supplies and drive up prices.

In this environment, countries that are somewhat "better off" are those that sit on their own energy or mineral reserves. We believe Russia and the US are in a somewhat better position as they possess the domestic natural gas needed to fuel their own production.

Countries like Brazil and India face a more challenging backdrop. Despite being major food producers, they are heavily dependent on imported fertilizers. At the end of the day, higher food prices will also show up differently in inflation data. Developed economies like the US have a relatively low weighting of food in their inflation baskets. But in emerging markets, food can account for 30 to 50 percent of the average household's spending.

Chart 1: The Strait of Hormuz is a vital passage—not just for oil

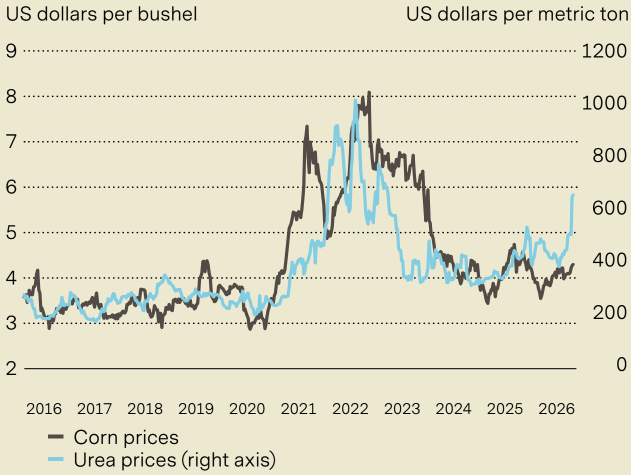
Share of global trade passing through the strait, in %*



*Based on average flows during the week before the military escalation that began on February 28, 2026.

Source: UN Trade and Development (UNCTAD), based on data provided by Clarksons Research 2026.

Chart 2: Higher fertilizer prices, higher corn prices



Source: LSEG, Vontobel; as of March 20, 2026.

The search for safe havens

—
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The 2026 bear narrative for the US dollar has been challenged by an evolving macroeconomic backdrop, as geopolitical tensions and higher oil prices have reintroduced two important sources of dollar support.

First, a classic risk-off environment has revived the dollar's safe-haven appeal. Second, higher energy prices have increased inflation risks, forcing markets to scale back expectations for Fed easing. This combination has pushed up short-end US yields and supported the dollar (see chart 1), even as growth shows signs of slowing. As long as uncertainty remains elevated and oil prices stay firm, the Fed has limited room to cut, which keeps the rate support for the dollar intact.

But that support is mainly driven by the current risk backdrop, not by stronger long-term fundamentals. Once geopolitical risks recede and the focus returns to fundamentals, structural headwinds are likely to re-emerge. The US fiscal position remains weak, Treasury supply is high, and external balances have not improved. These factors tend to matter more in stable environments. In the near term, the dollar is supported by risk and rates. Further out, the case for a softer dollar still holds if inflation stabilizes and the Fed eventually resumes easing.

Strong Swiss franc
Elsewhere, we believe the Swiss franc stands out for combining classic safe-haven support with stronger long-term fundamentals, even as policy resistance builds. The franc shares the US dollar's safe-haven characteristics but rests on firmer foundations. In periods of stress, the franc has historically remained strong, and the current environment is no exception.

Switzerland's persistent current account surplus, relatively disciplined fiscal policy, and low inflation give the Swiss National Bank (SNB) more flexibility than most central banks and provide the currency with a stronger medium-term anchor. At the same time, that strength comes with an important policy constraint (see chart 2).

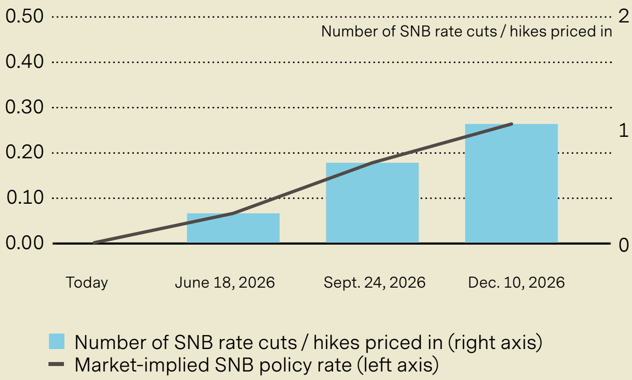
The SNB is unlikely to welcome excessive franc appreciation, as it tightens financial conditions and risks pushing inflation even lower. It has already leaned against further franc strength through verbal intervention, explicitly signaling a greater willingness to step into FX markets if moves become too rapid or excessive.

We believe the franc is poised to remain supported as long as geopolitical risks abound. Over the medium term, the franc still looks fundamentally strong, but further gains may become harder to sustain if the SNB pushes back more actively.

Chart 1: Can the dollar rally extend further after the currency rebounded from its recent lows?
Index

Source: LSEG, Vontobel; as of March 19, 2026.

Chart 2: The SNB has been holding rates at 0 % amid a strong franc
Market-implied SNB policy rate, in %



Source: LSEG, Vontobel; as of March 19, 2026.

Economy and financial markets 2025 – 2027

The following list shows the actual values, exchange rates, and prices from 2025, as well as consensus forecasts for 2026 and 2027 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2025[1]	CURRENT[2]	2026 CONSENSUS	2027 CONSENSUS
Global (G20)	2.7	2.1	2.8	2.7
Eurozone	1.4	1.2	1.2	1.5
USA	2.1	2.0	2.5	2.0
Japan	1.2	0.4	0.8	0.9
UK	1.4	1.0	1.0	1.4
Switzerland	1.3	0.5	1.2	1.5
Australia	2.0	2.6	2.2	2.2
China	5.0	4.5	4.6	4.4

INFLATION	2025[3]	CURRENT[4]	2026 CONSENSUS	2027 CONSENSUS	VONTOBEL VIEW IN 2026[5]
Eurozone	2.1	1.9	2.0	1.9	→
USA	2.7	2.4	2.7	2.4	→
Switzerland	0.2	0.1	0.4	0.7	→

KEY INTEREST RATES (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (deposit rate)	2.00	2.00	2.00	1.99	→
USD (Fed funds rate, upper bound)	3.75	3.75	3.63	3.24	→
CHF	–	–	–0.03	0.01	→

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
EUR (Germany)	2.86	2.95	2.87	2.97	→
USD	4.17	4.23	4.14	4.12	→
CHF	0.32	0.36	0.38	0.48	→

FOREIGN EXCHANGE RATES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
CHF per EUR	0.93	0.91	0.92	0.94	↑
CHF per USD	0.79	0.79	0.78	0.77	↓
USD per EUR	1.17	1.15	1.18	1.21	↑

COMMODITIES	2025	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS[5]
Brent crude oil, USD per barrel	61	109	65	66	↑
Gold, USD per troy ounce	4,319	4,862	4,725	4,750	→
Copper, USD per metric ton	12,423	12,775	12,600	12,000	↓

Note: Views are as of March 18, 2026. Forecasts and consensus estimates shown are based on current market conditions and assumptions as of the stated date and are subject to change without notice. Actual outcomes may differ materially. This information is provided for illustrative purposes only and does not constitute investment advice or a recommendation. Please refer to the full disclaimer on page 17.

1 Subject to revisions (e.g., potential revisions to 4Q data)
2 Latest available quarter
3 Subject to revisions
4 Latest available month, G20 data only quarterly
5 ↑ above consensus, → in line with consensus, ↓ below consensus

Source: Vontobel, respective statistical offices and central banks; as of March 18, 2026.

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Glossary and sources

[1] Refers to when an economy has slow or no growth, high inflation, and often higher unemployment at the same time.

[2] Refers to the use of new borrowing to support or refinance existing debt.

[3] "Underweight" means the Vontobel Multi Asset Investment Committee has a lower preference for an asset class or sub-asset class. This reflects the belief that the asset class is less attractive relative to others in the current market environment. It is not a recommendation to avoid the asset entirely but suggests a reduced allocation.

[4] "Neutral" means the Vontobel Multi Asset Investment Committee has neither a higher nor lower preference for an asset or sub-asset class. This reflects a balanced view, where the asset class is expected to perform in line with its historical or market-average performance. It is not a recommendation to take action but suggests maintaining the current allocation.

[5] "Overweight" means the Vontobel Multi Asset Investment Committee has a higher preference for an asset class or sub-asset class. This reflects the belief that the asset class is more attractive relative to others in the current market environment. It is not a recommendation to invest heavily but suggests increasing the allocation.

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[6] Refer to bonds issued by companies with strong financial health and a low risk of default. They offer lower interest rates because they're considered safer.

[7] Refer to bonds issued by companies with weaker credit profiles and a higher risk of default. They offer higher interest rates to compensate investors for the increased risk.

[8] Refers to investment funds that hold a basket of assets, like stocks or bonds, and are traded on stock exchanges like individual shares.

[9] Fiscal expansion refers to a government's policy of increasing its spending or reducing taxes (or both) to stimulate economic growth. This approach is typically used during periods of economic slowdown or recession to boost aggregate demand, create jobs, and encourage consumer and business spending. Fiscal expansion is a key tool in fiscal policy and is often contrasted with fiscal contraction, which involves reducing government spending or increasing taxes to slow down an overheated economy.

[10] Source: CNBC article, published October 30, 2025. www.cnbc.com/2025/10/30/bank-of-japan-holds-rates-in-first-meeting-after-abenomics-proponent-takaichi-took-power.html

[11] Article 9 states: "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.", see also: japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html

[12] Source: Kyodo News article, published November 7, 2025. english.kyodonews.net/articles/-/64475

[13] Abenomics refers to the economic policies implemented by former Japanese Prime Minister Shinzo Abe, who served from 2012 to 2020. The term is a combination of "Abe" and "economics." Abenomics aimed to revitalize Japan's stagnant economy, which had been struggling with deflation, low growth, and high public debt for decades.

[14] Source: Japan Times article, published February 25, 2026. www.japantimes.co.jp/business/2026/02/25/economy/new-boj-board-members/

[15] Refers to investors who sell government bonds to protest or punish government policies they believe are irresponsible, especially policies that could increase inflation or debt.

[16] An investment strategy where investors borrow money in Japanese yen at very low interest rates and invest it in assets or currencies with higher interest rates to earn the difference.

[17] Qatar accounts for 20 percent of global gas supply

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