

Sumus' Version

March 2026

Caveat: this document has been written on March 26th. With the current volatility and current turmoil, we feel important to specify.



Markets have been very volatile during the last quarter, even before the war against Iran. With current energy prices, inflation will rise, but the situation is now different from 2022. The yield of high-quality bonds is starting to become attractive, while the correction in equity and credit markets is too small to change our allocation and buy the dip.

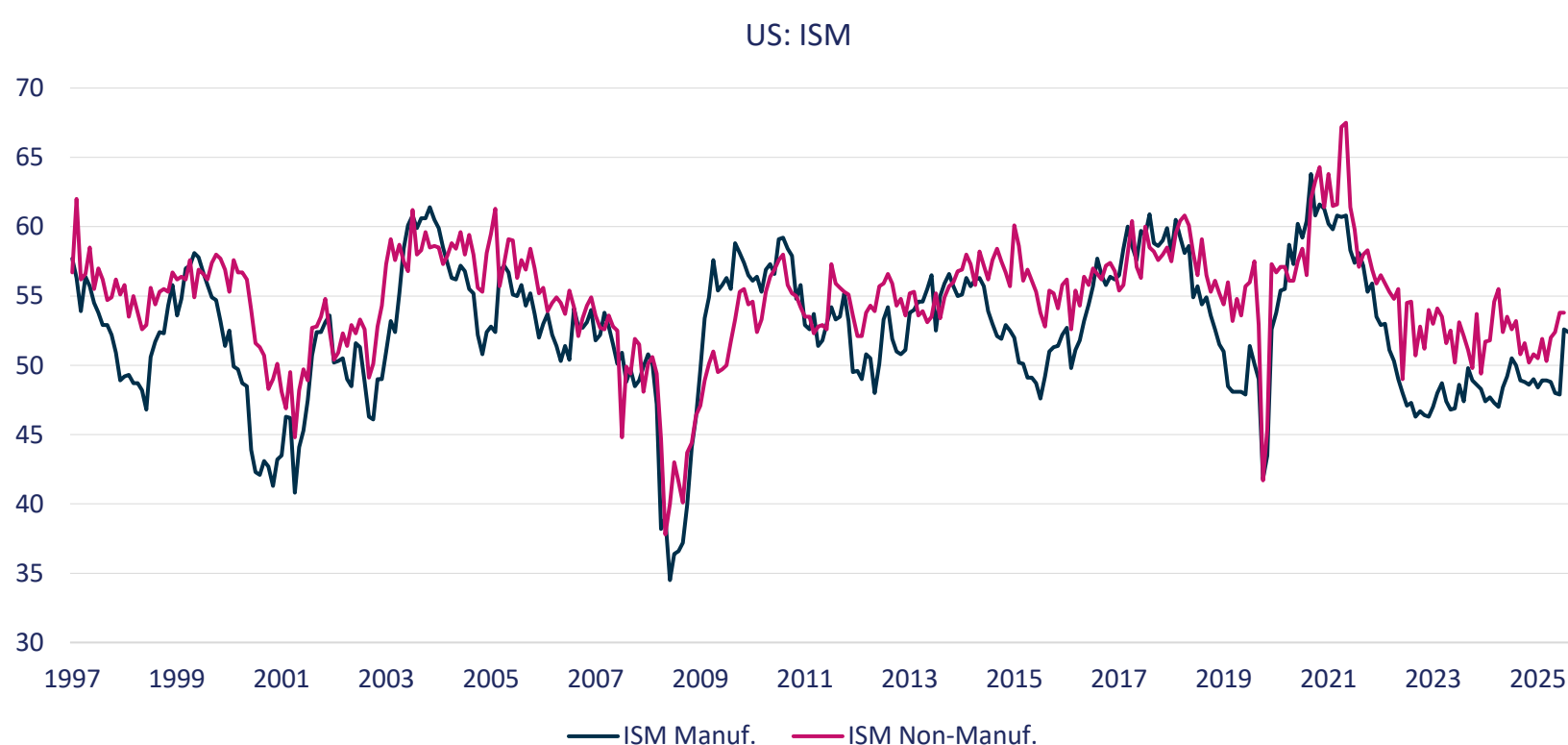
The last quarter has been very volatile for equity markets, even before the start of the war against Iran.

Many different themes led to significant rotations inside the market:

- The fear that investments in AI-related data centers will not generate enough revenue is negative for the Big Tech companies (Meta, Microsoft, Amazon etc.). The consequence is an underperformance of Mag7 and outperformance of S&P equally weighted.
- Fear of disruptions due to the implementations of AI in different sectors, especially in software is provoking a rotation from digital companies to HALO (Heavy/Hard Assets Low Obsolescence) companies.
- Fear that a wave of defaults by software companies could cause high losses in the private credit space sector is negative for BDCs (business developing companies) and for the financial sector in general.

Now the attention has shifted to the war in Iran and the spike in energy prices.

Before this shock, the latest data indicated an economic acceleration and a recovery in the manufacturing sector, according to the ISM indexes:

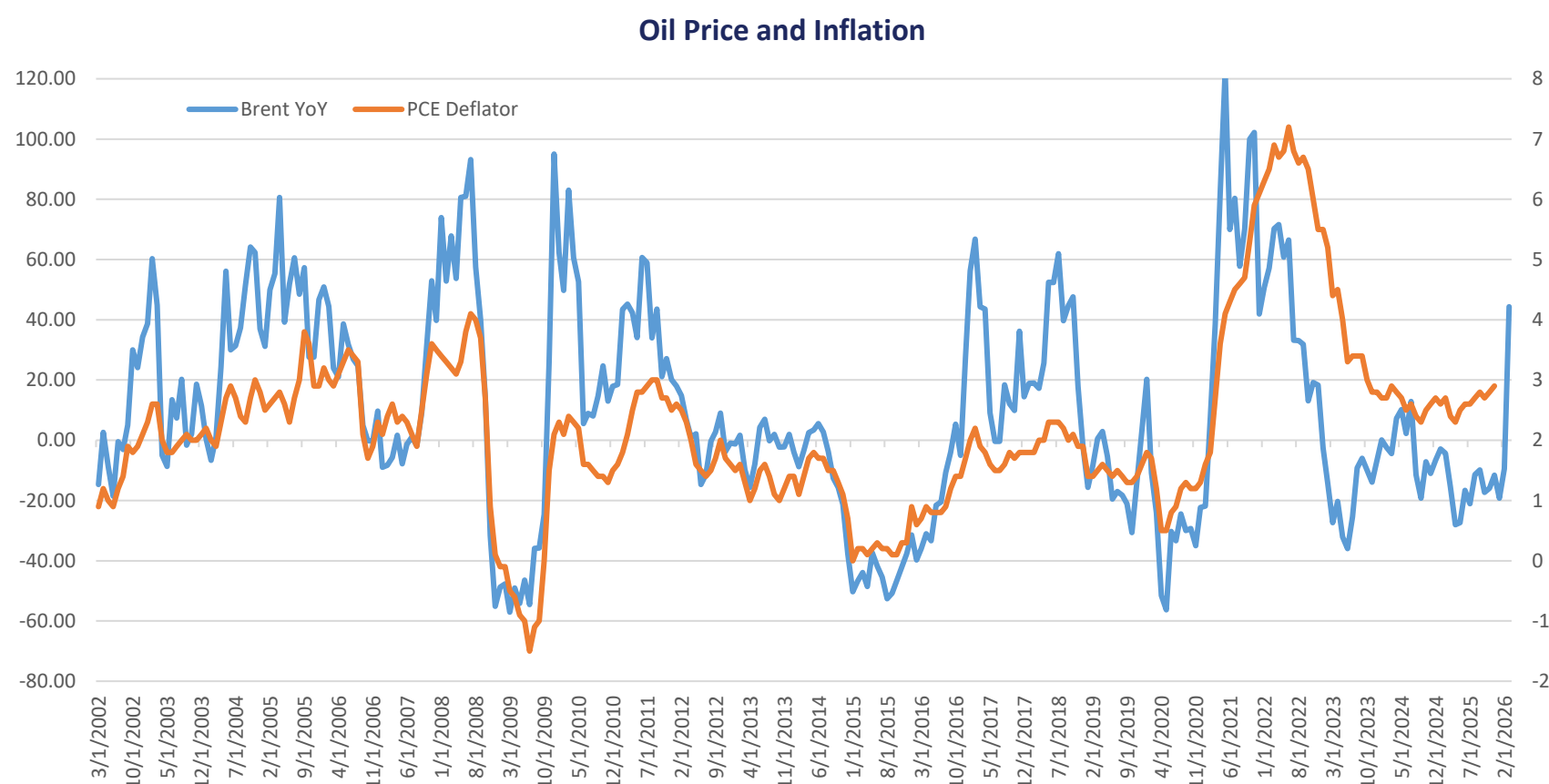


Earnings growth is expected at +16.0% for the S&P500 index.

This rosy scenario is now at risk due to rising energy prices and the uncertainty about how long they will remain high.

It is difficult to predict geopolitical developments, but a quick decrease of oil and gas prices seems unlikely.

With oil at current level (around 100 for Brent), inflation could increase by 1-1.5%. The weight of energy in the CPI index is 6.3%: 3.0% energy commodities and 3.4% energy services.



The risk is to have the second-round effect when after an inflation shock there are wage increases which lead to a new move up in prices.

The current situation is different compared to 2022, when inflation exceeded 7.0% in the US, because the labor market is less tight, wage growth is decelerating and housing inflation is now decreasing.

The actual inflation shock could be contained within a more reasonable shift. In this case the consequences are a different approach by the Central Bank (Fed on hold and ECB increasing rates toward 2.50%) and lower growth.

The bond market reaction is already pricing this scenario with the yield of 10y Bund at 3.1% (the highest since 2011) and 5y Bund at 2.80% (2.90% was the maximum in 2023).

The equity market correction has been small and, in this case, not enough to change our asset allocation of prudent but close to neutral weight.

The credit market reacted too little and spread remains too tight.

As a conclusion, only high rating bonds are starting to be cheap enough and can be appealing to increase the allocation.

Sumus Investment Committee