

Weekly Macro and Markets View

23 March 2026



Highlights and View

Major central banks hold rates unchanged but signal that they remain focused on inflation and are ready to act should it be needed

Financial markets have been quick to price in rate hikes, despite elevated uncertainty and potential growth headwinds.

Lower rated segments of credit underperform, with US High Yield funds suffering notable outflows

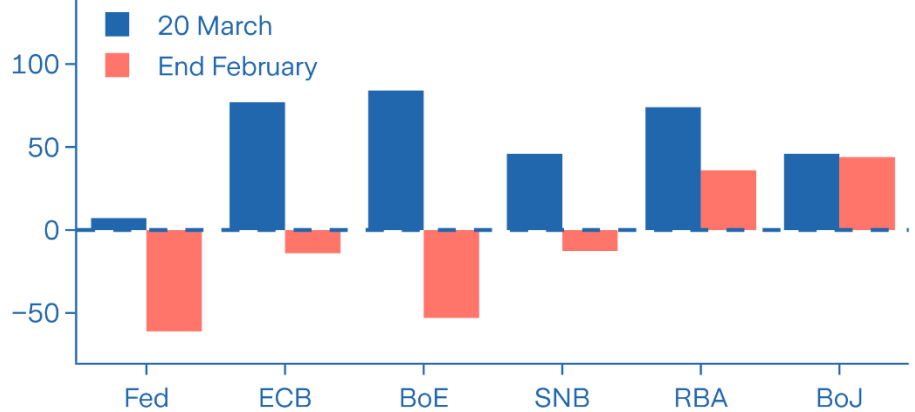
The recent move higher in front-end yields and tighter financial conditions are quite negative for lower rated credit as leveraged borrowers had already been struggling for the last three years.

Stocks continue to slump as investors wake up to the world around them

Reality is now knocking investor optimism as the war degrades the economic backdrop and financial condition for businesses.

A sharp repricing of the outlook for monetary policy

Market Implied Policy Rate Change, by end 2026 (bps):



Source: Bloomberg

Major central banks, including the Fed, the ECB, the BoE, the SNB, the RBA and the BoJ, held policy meetings last week. Despite the sharp rise in energy prices, which will inevitably push headline inflation up, the majority kept rates on hold, citing elevated uncertainty and a lack of visibility around the duration and scale of the energy shock. One exception was the RBA, which hiked rates as anticipated.

Guidance was seen as hawkish, however, as the banks stressed that they remain focused on inflation and are ready to act should it be warranted. This, coupled with a jump in oil prices, triggered a sharp sell-off in rates markets. In Europe, where gas disruptions add to the woes, pricing implies that both the ECB and the BoE will hike rates by 75bps in 2026, and similarly for the RBA. Even the SNB, which is challenged by deflationary pressures and a strong currency, is priced to hike rates before year end. Repricing has been more moderate in the US, with the Fed seen to stay on hold, delaying further rate cuts to 2027. Longer-term borrowing costs surged as a result, with the 10yr gilt yield approaching 5%, the highest level since 2008, while Bund yields breached 3%. While central banks should be vigilant, financial markets have been very quick at pricing in rate hikes. Given that growth will come under pressure should the crisis escalate further, pricing appears somewhat stretched.

Credit

Lower quality is vulnerable to changing rates expectations

The move higher in front-end yields and tighter financial conditions are negative developments for lower rated credit, as the most leveraged borrowers had already been struggling over last three years. Broader corporate credit markets held up relatively well last week, although underperformance was notable at the lower end of the ratings spectrum, amid ongoing geopolitical tension and persistent software weakness. Within High Yield (HY) weakness remains concentrated in the B credit segment in both the US and Europe, where spreads trade

significantly wider to the BB rated bucket. While US B rated credit delivered -0.37% on an excess return basis month-to-date, the underperformance is even more pronounced in Europe where the B bucket is returning -1.03%. Primary supply slowed in both the US and Europe as oil-driven volatility kept issuers on the sidelines and fund flows continued to show a defensive tilt. According to LSEG Lipper data, US HY funds saw an outflow of USD 3.34bn, the largest since 'liberation day', while US Investment Grade (IG) and Municipals continued to attract inflows.

Equities

Investors wake up to reality

Another tough week for stocks saw the markets slip further towards correction territory as investors gave up on hopes of a possible sharp recovery. Given the conditioning of mindsets from political and geopolitical disruptions over the past 12 months, it appeared that until recently fears of being whip-lashed from selling dominated thinking. We have noted many times that this war with Iran is not the same as the market disruptions over the past year, where policy backtracking or military success allowed stocks to flourish. The MSCI World Equity

Index slid a further 2% last week and is now down 7.3% from the highs at the end of February, while the Eurozone Stoxx 600 Index and the US Nasdaq are down 9.6% and 9.7% from their respective highs—only a tad below the 10% definition of a market correction. This is still within the historic range of a bull market setback, but we suspect that given the nature of the catalyst and few signs of a reduction in stock allocations or investor capitulation, risks remain to the downside for equity markets.

China

Knock on wood

China's activity showed signs of life in early 2026 after a series of disappointments in Q4 2025. The sudden dips last year in manufacturing and infrastructure investment were somewhat puzzling given the central government's clear emphasis on 'productive forces,' which refers to high-tech investment. Encouragingly, this trend started to reverse in January and February, with manufacturing investment rising 3.1% YoY and infrastructure increasing by more than 11%. It remains to be seen if the momentum can be sustained given the distortions to data arising from the

Chinese New Year. Unsurprisingly, exports continue to be a star performer amid China's rising competitiveness, underpinning strong industrial production. This is in stark contrast to the more modest growth in retail sales of 2.8%, a bounce from December but underwhelming by historical norms. We expect the bifurcated economy, in which strong exports offsets weak domestic consumption, to persist in 2026, especially as the post NPC announcements offered little new stimulus.

LatAm

Brazil's BCB opens a cautious easing cycle; growth holds firm in Chile

In Brazil, the BCB lowered the Selic rate by 25bps to 14.75 %, marking the start of the long-awaited easing cycle. The move was in line with consensus, with policymakers opting for a cautious initial cut despite ample room for monetary normalisation. While the Committee avoided repeating January's explicit forward guidance, it noted that this decision initiates a calibration phase in its policy stance. It also indicated that further easing remains possible, though it is clearly dependent on geopolitical developments. Chile's 2025 GDP expanded 2.5 percent,

slightly above consensus, driven by strong domestic demand, particularly in investment. Net exports detracted from activity as imports outpaced exports. This backdrop supports above-trend growth into this year, reinforced by the new administration's pro investment agenda. However, the intensified Middle East conflict poses downside risks as prolonged high oil prices could revive inflationary pressures given Chile's heavy dependence on energy imports. Under these conditions, we expect the Central Bank to remain on hold at tomorrow's meeting.

US ABS

Resilient, so far

US ABS continued to outperform corporate bonds, with the Bloomberg US ABS Index posting a year-to-date (YTD) return of 0.03%, versus the -1.2% of the US Corporate IG Index. ABS spreads tightened 1bp to 48bps this month in contrast to IG corporate spreads that widened by 3bps to 87bps. This outperformance is not surprising as ABS tends to hold firmer than corporates during periods of heightened volatility, thanks to shorter duration and structural protections. Issuance momentum remains strong, with YTD volumes surpassing those of both 2025

and 2024. While auto ABS still accounts for nearly half of the ABS primary market, issuance is increasingly diversifying into sectors such as equipment and consumer ABS. Notably, credit card ABS made a comeback last week with Synchrony's well-received deal, ending the hiatus triggered by the proposed 10% interest rate cap. We expect ABS spreads to remain resilient, underpinned by solid demand. However, downside risks warrant attention as consumers face growing pressure from the economic fallout of the Middle East conflict.

What to Watch

- Flash PMIs for March will be published for key regions, giving a first glimpse of the economic impact from the crisis.
- In a light week for US data, investors will look to the services and manufacturing PMIs for March, where little change is expected.
- Releases for the Eurozone include the German IFO survey, French business confidence, and ECB lending data. In the UK, CPI data will be published for February.
- The Chilean central bank is expected to keep policy rates on hold while Banxico is expected to deliver a hawkish 25bp cut.
- Japan and Australia inflation data are key to watch.

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Investment Management
Mythenquai 2
8002 Zurich