

Weekly Macro and Markets View

30 March 2026



Highlights and View

Government bond markets remain volatile as the oil price rebounds sharply

Key European yields rise to decade highs as investors price in aggressive rate hikes despite mounting growth headwinds.

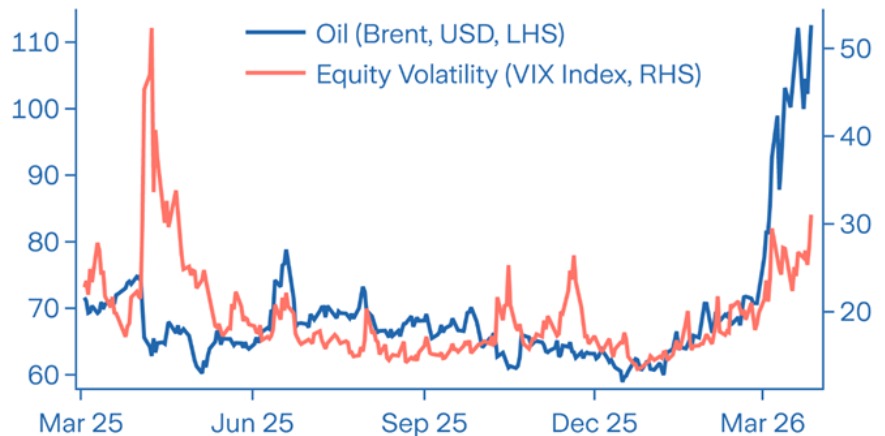
Eurozone data reflect geopolitical impact: growth surveys fall significantly and early regional March inflation data rise sharply

Further negative impacts will depend on the length and scale of energy disruption, while inflation markets continue to price a temporary price shock.

LatAm central banks strike a more cautious tone as geopolitical risks increase

Banxico cut rates with a split vote and a more conservative tone. Chile's BCCh kept the policy rate steady while shifting to a meeting-by-meeting approach going forward.

A new conflict-high for oil, with equity volatility sharply higher as well



Source: Bloomberg

In a challenging week for equities, many markets start off on better footing. An extension of the US pause on hitting energy installations in Iran and hopes of negotiation lifted stocks. Unfortunately, this was short-lived, with Iran still holding control over the Strait of Hormuz and seeming in little hurry to negotiate. Ongoing exchanges of strikes and the entry of the Iranian-backed Houthis into missile attacks on Israel escalated tensions. With oil prices at a new conflict-high, and the VIX Volatility Index jumping (though less than on 'liberation day'), it is surprising to us that the MSCI World Equity Index has not even reached -10% correction territory. The index slipped a further -1.5% on the week, having been up 2% by Wednesday, but remains only -8.7% down from its record high of last month. While the Euro STOXX 600 index and FTSE 100 actually managed fractional gains last week, the same was not true for US tech companies. The sector has both general equity softness and technological disruption to contend with, and investors continue to sell. The Nasdaq Index is now in full correction mode, down -12.6% from its high. Key components lagged heavily last week, with META off over -11% and Microsoft down another -7%, taking both down over -30% since last summer. With little evidence of investor panic showing so far and market losses still relatively small, we continue to see risks for stocks skewed to the downside.

Bonds

Market volatility persists

Middle East events continue to rattle government bond markets. Treasury yields, which initially had been relatively resilient, rose further last week. The move was led by the long end of the curve, with the 10yr yield back above 4.40%. While this marks a meaningful repricing from the pre-Iran War level, Treasury yields have only just returned to where they were trading last summer. This partly reflects the relatively dovish pricing of the Fed rate outlook, with the Fed expected to stay on hold over the coming year. By contrast, European yields saw some stability

after selling off heavily in the prior week, but the 10yr Bund yield is trading above 3% while the 10yr gilt yield is just a notch below 5% — their highest levels since 2011 and 2008, respectively. The rise in European yields has been led by an aggressive repricing of the rate outlook. While rate hike expectations were tempered last week as concerns began to shift from inflation towards growth, pricing still implies three ECB rate hikes by year end and well over two from the BoE. This assessment appears stretched, particularly given mounting growth headwinds.

US Municipals

Turbulent amid volatile rates and elevated supply

In a tumultuous week for risk assets, Municipals sold off last week. Continued rate volatility created a challenging environment for tax-exempt bonds, exacerbated by heavy March issuance. Technicals are expected to weaken further in the coming weeks as the issuance pipeline remains elevated, and redemptions in April will be substantially lower than in previous months. Seasonality is also working against Municipals, which tend to weaken in April due in part to tax-related outflows. Indeed, municipal bond mutual funds recorded outflows last week for

the first time in 17 weeks, according to LSEG Lipper. After strong performance in January and February, month-to-date returns for the Bloomberg Municipal Bond Index turned negative, underperforming Treasuries while modestly outperforming corporates. While Municipals still outperform both corporates and Treasuries year-to-date, the recent sell-off has pushed YTD returns into negative territory, underscoring that Municipals are not immune to turmoil from the prolonged Middle East conflict, particularly through the channel of elevated rate volatility.

Eurozone

Geopolitical ripples become waves

Eurozone economic data has begun to reflect the economic and inflationary impact of the Middle Eastern situation. PMI data released last week show resilience in activity as the composite indicator fell from 51 to 50.5, remaining in expansionary territory. However, other forward-looking surveys paint a more worrying picture. The German ifo expectations survey fell from 90.5 to 86, the lowest level since the German fiscal stimulus was announced. Consumer sentiment is deteriorating across the region and should weaken further. Details within the Eurozone

Manufacturing PMI also showed a surge in input prices and a shallower rise in output prices. Early March inflation data is already showing the impact, with Spanish inflation rising from 2.5% YoY to 3.3%. If the geopolitical situation improves in the coming weeks, the energy price impact on the economy will be limited, but the risks here are clear. In a rare bit of good news, French public finance data showed a revised fiscal deficit of 5.1% of GDP for 2025, down from 5.4%.

Japan

Pressure from all sides

February CPI surprised on the downside, with headline inflation easing to 1.3% YoY, slipping below the BOJ's 2% target as energy subsidies and high base effects from last year continued to drive down headline figures. However, core core inflation remained at 2.5%, signalling still firm underlying momentum. The spring wage round reinforces this view. Rengo's first Shunto tally shows average wage hikes above 5% for a third consecutive year, with solid base pay increases supporting the case for more durable, domestically driven inflation.

Markets remain unsettled. Equity and FX selloffs have dragged on as the Iran war has raised cost-push inflation risks via higher oil prices, exacerbated by a weaker yen. JGB yields have edged higher again as inflation risks have re-emerged, with markets now pricing a high probability of a BOJ rate hike as early as April. We think a risk-off mood will be here to stay given heightened uncertainty around the timing and intensity of the Middle East conflict.

LatAm

Central banks strike a more cautious tone

Despite a recent shift in market expectations toward an on-hold decision amid the worsening geopolitical backdrop and reacceleration of inflation, Mexico's Central Bank cut the policy rate by 25bps to 6.75%. The decision was split 3-2, with one additional board member shifting to the conservative side and the statement turning more hawkish, although it still suggested that an additional 25bp cut remains possible. While May's meeting could bring a pause, we continue to hold our 6.5% year-end policy rate call given the current backdrop.

In Chile, the Central Bank kept the policy rate unchanged at 4.5%, in line with expectations. While YTD inflation dynamics had been supporting further easing, the Middle East conflict has materially worsened the outlook, with the Central Bank now expecting inflation to rise from 2.4% in February to 4% YoY as soon as Q2. Although the board expects these effects to fade over the medium term, with inflation returning to target in 2027, elevated uncertainty will warrant a cautious, meeting-by-meeting approach going forward.

What to Watch

- US retail sales, ISM surveys, and labour market data will give crucial insights into the current state of the US economy.
- Tuesday brings March Eurozone HICP data, which is expected to rise from 1.9% YoY to 2.6%. Italian and Spanish PMIs will be released on Wednesday, as well Eurozone-wide unemployment data.
- Asia PMIs, Tokyo's CPI and Japan's Tankan Survey are key to watch.
- Chile's February monthly activity indicator will be observed closely after January's soft print.

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Investment Management
Mythenquai 2
8002 Zurich