

Quarterly Macro Report – 2nd Quarter 2026

The first quarter of 2026 has tested investors’ nerves like few periods in recent memory. What began as a cautiously encouraging year for the global economy has turned considerably more complicated with the outbreak of war in Iran and the energy price shock that followed.

The first quarter of 2026 has been as eventful as a typical full investment year. The US President’s erratic foreign policy moves, ranging from Venezuela to Greenland to Iran, have kept markets on edge. At the same time, growing doubts about the return prospects of the AI investment wave have raised deeper questions about valuations. Together, these forces have driven severe volatility and, in recent weeks, real losses across several major equity markets.

Economically, the year had started on a broadly encouraging note. Business sentiment improved modestly across many industrialized countries in the first two months, spanning both services and manufacturing. In manufacturing, this sometimes meant no more than fewer companies expecting things to get worse. Even so, taken as a whole, it was enough to suggest that the worst of the global slowdown might be behind us.

The war in Iran now threatens to reverse that fragile improvement. Contrary to what many

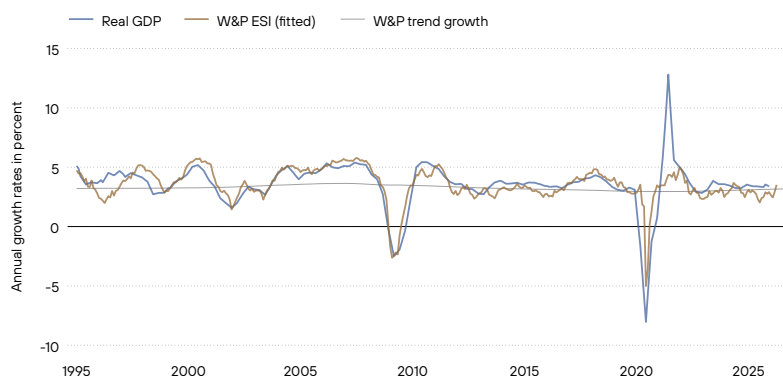
observers expected at the outset, there is no sign of a swift conclusion. The Iranian regime has remained functional under new leadership, capable of inflicting serious damage with limited means. The Strait of Hormuz, through which roughly one fifth of the world’s oil passes, has become effectively impassable. What the United States is actually trying to achieve remains entirely unclear. It is hard to see how the conflict could be declared a strategic success without further escalation.

World economy on the brink

The global economy will not emerge from this unscathed. Energy prices have risen sharply in recent weeks, and further upward pressure looks likely if the conflict persists. For many central banks and governments, this comes at an unfortunate time. Inflation rates remain stubbornly above target in many developed countries, with even signs of re-acceleration having been observed before the oil price shock. Switzerland is a

Fig. 1 : Global economic sentiment showed fragile recovery before Middle East conflict

Real GDP world and sentiment proxy



Global sentiment had improved in the opening months of 2026, pointing to a slight stabilization in global industry and solid growth in the services sector. The outbreak of the war in Iran now threatens to reverse these tentative gains. Real growth is also likely to suffer, given that emerging economies have been the main drivers of global growth in recent years and are particularly impacted by the closure of the Strait of Hormuz.

Source: LSEG, Wellershoff & Partners

notable exception, however, being one of the few currency areas where genuine price stability has been maintained.

Higher energy prices will also weigh on consumer and business confidence, threatening the tentative improvement that had only just begun to take hold. Nowhere would a renewed downturn be more unwelcome than in the United States. Consumer confidence there has historically been sensitive to oil prices, and the underlying picture was

The conflict also threatens recovery hopes in Germany and China. In Germany, the large fiscal stimulus package had begun to show early results, with incoming orders ticking up. Whether that momentum can withstand rising energy costs and geopolitical uncertainty remains to be seen. In China, a swift recovery was never really on the cards. Domestic demand remains persistently weak, and the war in the Middle East makes any near-term turnaround even less likely.

The hopes for global stabilization therefore continue to rest with the growth engines of the emerging world. Emerging markets outside China are among the few bright spots this year, still in positive territory while much of the developed world has struggled. India and Indonesia stand out in particular, having expanded robustly. That said, they will not be immune to poor economical conditions. As major importers of Middle Eastern oil, the closure of the Strait of Hormuz hits them directly.

“A year that started with cautious optimism is ending its first quarter with the risk of a global recession.”

already fragile. Growth slowed dramatically in the fourth quarter to just 0.2 percent, a fourfold deceleration in a single quarter. The labor market recorded an outright decline in employment, something that has preceded every recession since the Second World War.

Table 1: Macroeconomic estimates (in %)

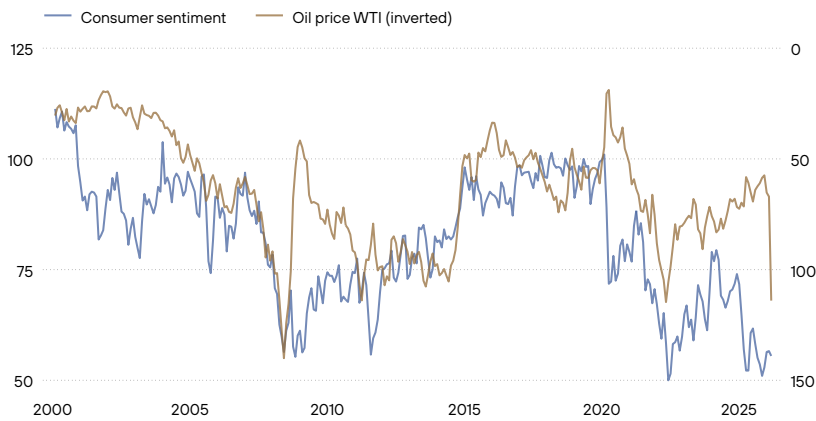
	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2026E	2027E	2026E	2027E	Q2 2026	y/y 03/2026
USA	1.8	1.2	2.1	2.7	2.5	3.75	4.0
Eurozone	1.1	1.2	1.5	2.1	1.9	2.00	6.0
UK	1.6	1.4	1.4	2.9	2.2	3.75	1.4
Switzerland	1.3	0.4	1.6	0.4	0.5	0.00	19.4
Japan	1.1	0.6	0.6	2.0	1.5	0.75	-0.5
China¹	4.5	4.5	4.5	1.5	1.5	4.35	5.9
Brazil	1.5	1.8	1.6	4.8	4.3	14.75	0.7
India	5.0	7.2	6.1	2.5	4.1	5.25	16.8
Russia	1.0	0.5	0.5	7.5	5.5	15.00	9.8
World	3.0	2.8	3.1	4.6	3.9	-	-

¹ China has expanded the statistical scope of M1 as of January 2025

Source: LSEG, Wellershoff & Partners

Fig. 2: Oil prices weigh on US consumer sentiment

University of Michigan consumer sentiment (LHS) and oil price (inverted, RHS)

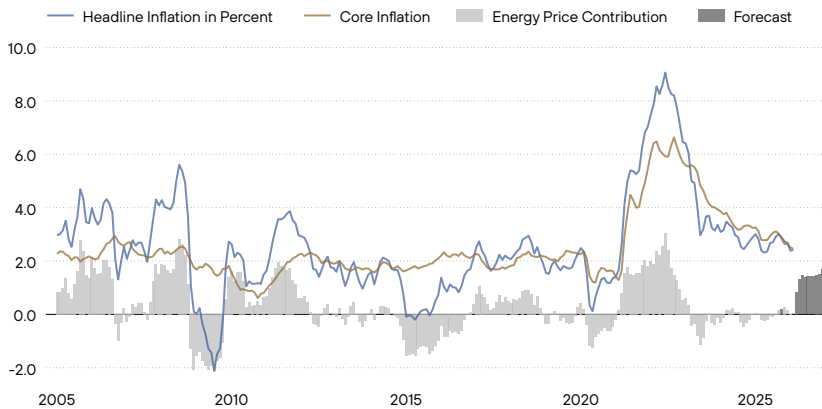


Source: LSEG, Wellershoff & Partners

The relationship between oil prices and American consumer confidence is historically consistent: as energy costs rise, household sentiment falls. Consumer confidence in the United States had already deteriorated sharply before the outbreak of the war in Iran, reflecting a domestic economy that was losing momentum. With oil prices rising on the back of the conflict, sentiment is being pushed further down. This is not a comfortable situation for an economy where private consumption is by far the biggest sector.

Fig. 3: Rising oil prices push US inflation higher

US inflation and forecasted oil price contribution

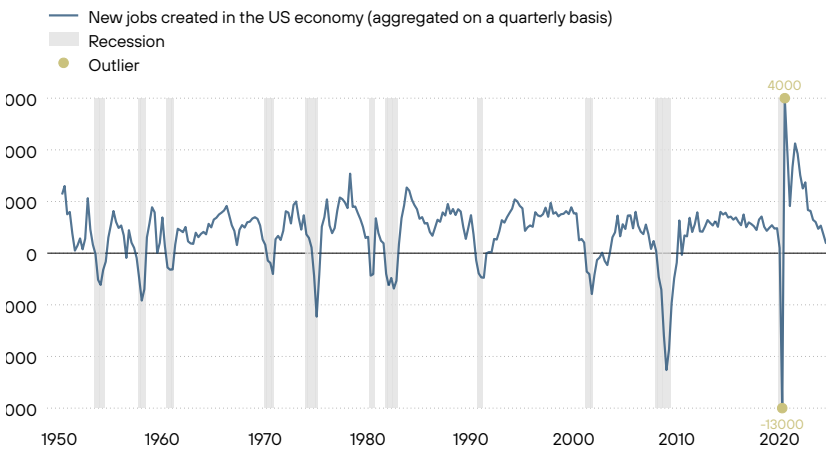


Source: LSEG, Wellershoff & Partners

Energy prices feed into headline inflation, and the trajectory looks set to worsen if the conflict in the Middle East persists. Furthermore, sustained energy price pressures will pass through into core inflation over time via logistics costs, production inputs and wage expectations. For the Federal Reserve, which was already navigating an inflation rate that remained above target, this significantly narrows the room for maneuver.

Fig. 4: US job creation stalls amid mounting headwinds

Nonfarm payrolls aggregated on a quarterly basis



Source: LSEG, Wellershoff & Partners

The US labor market has moved from fragility to contraction. New job openings recorded a decline on an aggregated basis in the fourth quarter of 2025, in line with the pattern observed during every recession in the US.

Capital Market

Until the end of February, global interest rates were mostly in steady decline. 10-year US Treasury yields briefly dipped below 4 percent as weakening economic growth, a softening labor market, and easing inflation led market participants to price in further rate cuts. This downward trend ended abruptly with the outbreak of the conflict between the US and Iran, which triggered a substantial rise in oil prices, reigniting inflation expectations globally and driving yields sharply higher across major markets. Notably, real rates also rose in the United

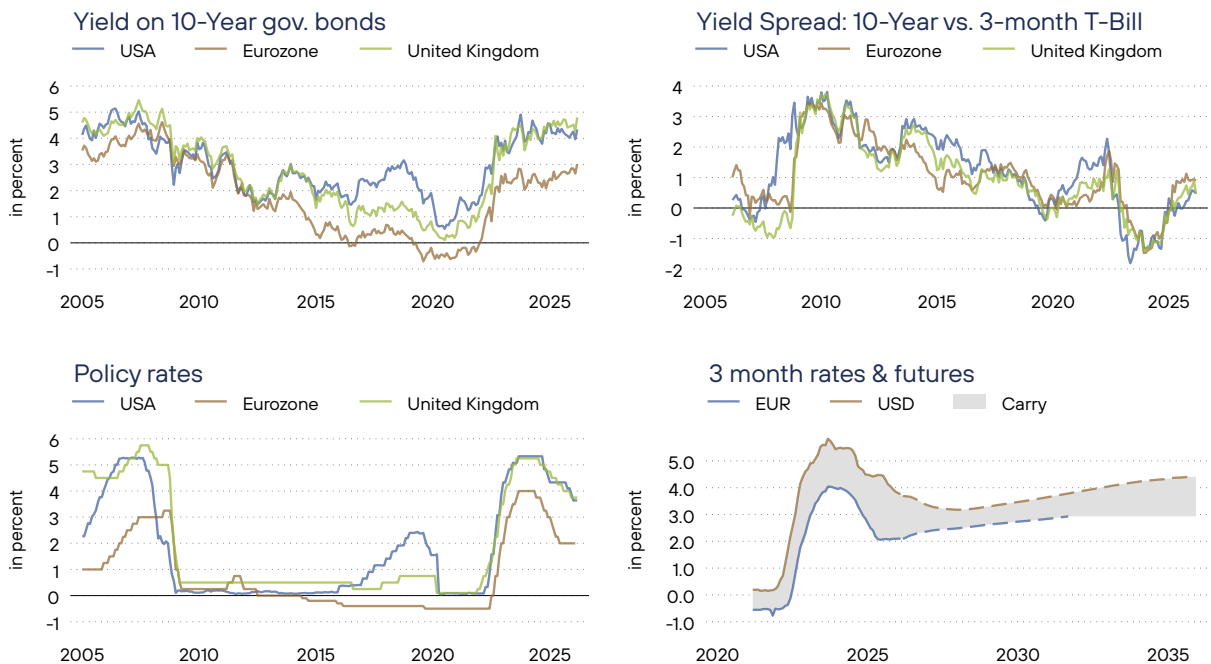
“US 10-year yields fell to 4 percent in February, only to reverse sharply as the Middle East conflict reignited inflation fears.”

Internationally, the United Kingdom was among the most affected markets. Given the country’s significant dependence on gas, rising energy prices hit particularly hard against a backdrop of inflation already running well above the Bank of England’s target. 10-year gilt yields rose sharply over the quarter, breaching the 5 percent threshold. In Japan, 10-year government bond yields remained elevated, holding above 2.3 percent despite signs that domestic inflation is beginning to ease.

Against this challenging backdrop, major central banks find themselves in a difficult position. With inflation already elevated and at risk of rising further on the back of higher energy prices, yet facing a weakening global growth outlook, policymakers have limited room to maneuver. Adding to the complexity, central banks have little direct influence over oil prices, the primary driver of the current inflationary impulse. The world’s largest central banks responded by keeping rates unchanged at their March meetings.

States, an unusual development during periods of market stress and a reflection of a growing erosion of confidence in US fiscal sustainability.

Fig. 5: Money market and capital market interest rates



Source: LSEG, Wellershoff & Partners

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