

thenavigator

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“Fear & greed”

From a behavioral finance perspective, these two opposing sentiment indicators stand for caution and optimism. In that sense, optimism has a good and positive connotation. You might even recall Gordon Gekko in “Wall Street” saying “Greed for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit”. Even though those words were spoken in a movie, they very much reflected the tone of Wall Street at the time. That was almost 40 years ago. In the meantime, and particularly after 2008 when central banks saved the financial system from the abyss, an extraordinary and head-spinning long equity bull market has, so to say, brain washed investors’ minds.

S&P500 Index 1995-2026



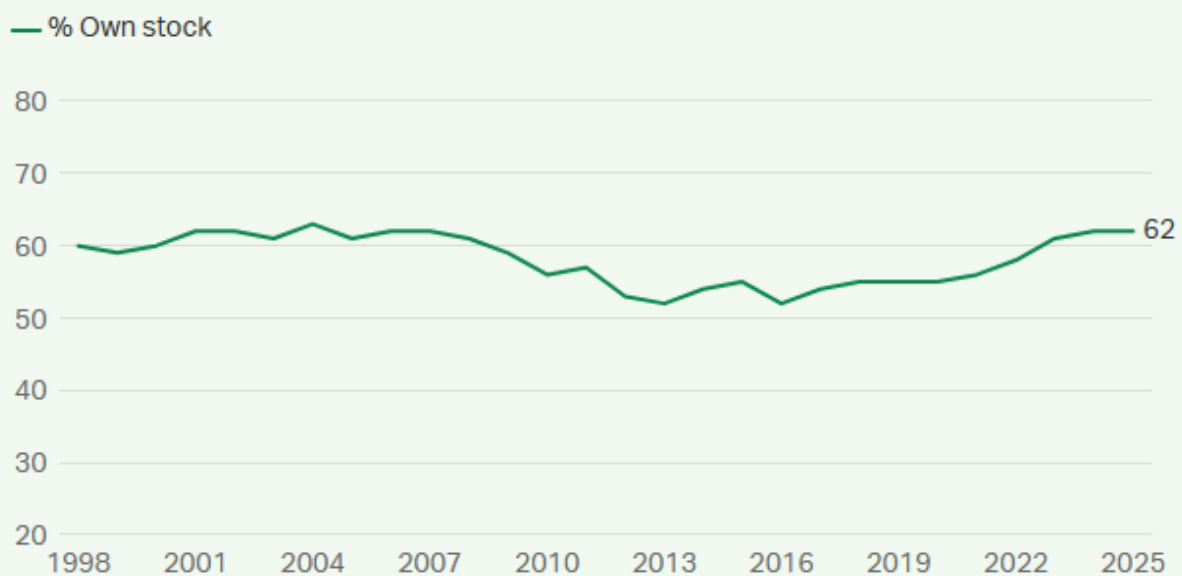
Source: Bloomberg: “S&P500 Index 1995-2026”

Equity market corrections never really tested the stress level of investors in earnest as losses were either made good within the same year (COVID-19 in 2020, Liberation Day – tariffs & tacos in 2025). Or in the no-hiding-in-any-asset-class-correction of 2022 (the Federal Reserve (Fed) hiked rates several times totaling 5% from March

2022 through July 2023), they were ironed out in two years. This experience changed the “fear” sentiment indicator in investors’ minds. Fear is no longer associated with caution and the risk of losing money. It has instead evolved into fear of missing out (FOMO). Why is that? It is very much related to the Fed put. In response to the dire economic outlook that followed on the heels of the global financial crisis in 2008 and having to acknowledge that the zero interest rate policy (ZIRP) did not provide the desired results, the Fed started introducing more unconventional measures. Quantitative easing (QE), which was previously applied in Japan, was introduced in the USA. This is where the central bank buys government bonds in the market with the aim of lowering yields in the bond and credit markets, which was not achieved by conventional interest rate policy. The program proved successful, as stock markets understood the message and the “wealth effect” as a contributor to the real economy through stimulated consumption was set in motion. With that, the genie was out of the bottle and many QE programs were launched as soon as any clouds appeared on the horizon. With equity risk being redefined, investors regained confidence and continuously increased their allocation to risky assets.

U.S. Stock Ownership, Annual Trends

Do you, personally, or jointly with a spouse, have any money invested in the stock market right now — either in an individual stock, a stock mutual fund, or in a self-directed 401(k) or IRA?



Based on annual averages from Gallup polls

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Source: Gallup: “U.S. Stock Ownership, Annual Trends, 1998-2025”

Saying that investors have been spoiled by central banks might be a bit harsh, as the Fed was not the only central bank to jump on the QE wagon. However, it could explain the “FOMISH” behavior of investors. We do not feel comforted by the fact that equity ownership has reached pre-financial crisis levels but rather view it as a sign that investors could be caught off guard should central banks not be able to help out next time. More on that later.

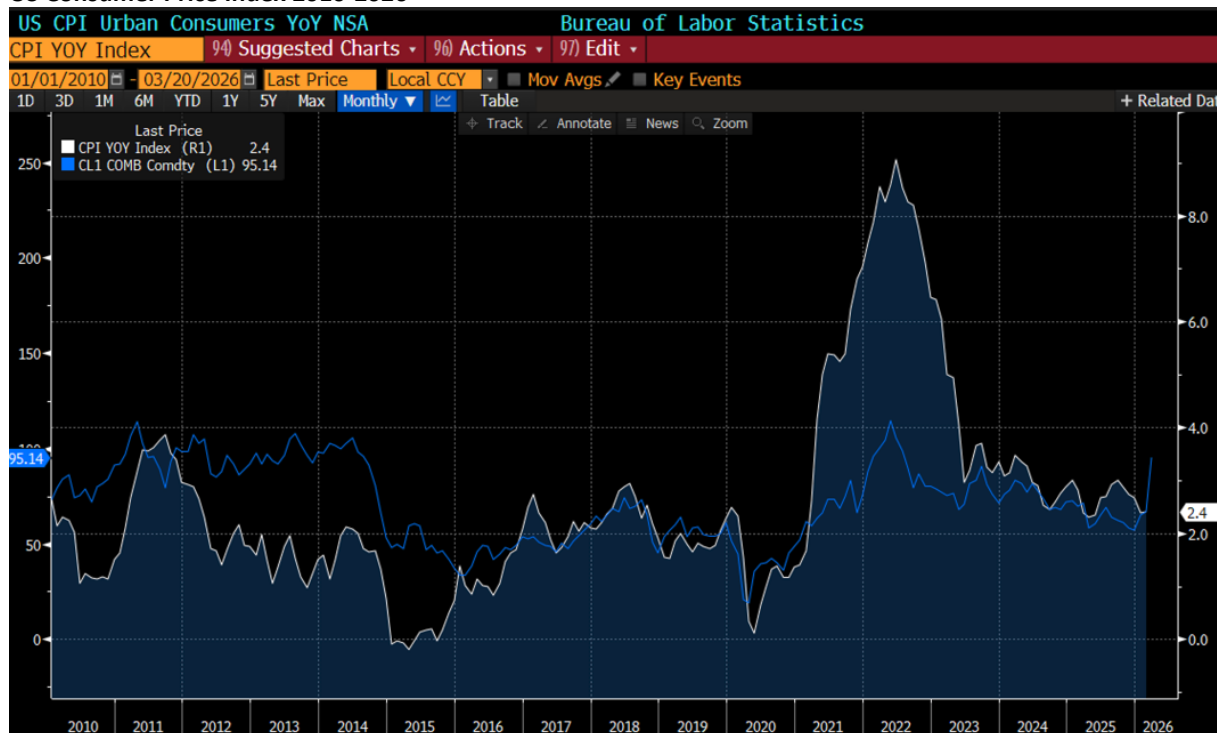
A bird's eye view

The main macro-economic factors – non-farm payrolls, which are basically flatlining, consumer Inflation, which is sticky with little progress to the downside in the last 12 months and GDP growth, which showed resilience by mid-year 2025 but then losing steam in Q4 – have taken a back seat. The elephant in the room and in the news is the oil price, which has spiked dramatically since the Gulf war broke out and is trading above USD 100 per barrel at the time of writing. This is a 50% jump compared to the pre-war prices. It goes without saying that Iran is not Venezuela and the duration of the war is difficult if not impossible to predict, as it always needs two parties to end it and the unexpected has become the norm rather than the exception in this case.

Various elements are responsible for the rise in energy prices. One imminent effect was the closure of the Strait of Hormuz through which 20-25% of the world's seaborne oil and gas supply is transported. Another crucial factor is energy infrastructure. Unlike the Strait of Hormuz, which can be opened for transit basically as soon as the bombing ends, damaged or even destroyed infrastructure would have a longer-lasting detrimental effect on energy prices. Thirdly, China, which is thought to have bought roughly 90% of Iran's sanctioned oil exports, needs to tap other sources, which will likely keep energy prices elevated for an extended period of time. The resulting higher prices will not only be felt at the gas stations but will have repercussions for the global economy too. While inflation in the USA was already sticky at 2.4%, it is now likely to rise back up to 3% if not higher. Given the circumstances, it cannot be ruled out that the Fed will be forced to pause on interest rate cuts, even if momentum on the labor market is expected to decelerate further.

While the USA is a net exporter of petroleum, it continues to import significant amounts from Canada and Mexico because of a mismatch between heavy and light crude oil. Europe and even more so Asia are in an even less comfortable situation as their oil needs have to be predominantly met through imports. While Europe's main oil suppliers are the USA (21%) followed by CIS countries like Kazakhstan and Azerbaijan (17%) and North & West Africa (12% each), Asia imports roughly 60% from the Middle East. The economic fallout for Asia is therefore expected to be more pronounced.

US Consumer Price Index 2010-2026



Source: Bloomberg: "US CPI Consumer Index 2010-2026"

Global economic growth was not exactly humming even before the Gulf crisis erupted. China's stimulation measures did not find traction and the country's officially reported GDP growth appears to be stuck at a relatively low rate of 5%. Europe's growth rate has been accelerating slightly since the energy price shock in 2022 that was caused by the still ongoing Russia-Ukraine war. However, at 1.5% in 2025, it still had not reached its pre-COVID-19 level of 2%. However, it comprised mostly debt financed growth due to less budgetary discipline being applied, particularly in Germany. Politicians in Brussels appear to only pay lip service to the urgently needed reforms listed in the Draghi report on improving EU competitiveness. This also seems to be the case on a national level. In the USA, the economy started with a small contraction of 0.6% in Q1, accelerating to 3.8% and 4.4% respectively in the quarters thereafter, before closing the year at only 0.7% in Q4 or 2.1% for the year. Has the effect of the OBBB Act been that short-lived or has it not yet started, or was it tariffs after all? Only time will tell. While there were signs of it beneath the surface, the risk of stagflation (stagnation paired with rising inflation) has increased since the start of the war in the Gulf.

Considerations expressed in certain circles on lifting sanctions on Russian oil seem very awkward, to say the least. The Kremlin can't believe its luck by this friendly gesture. The release of 400 million barrels from the strategic oil reserves in a concerted action by all of 32 member countries of the International Energy Agency (IEA) did little to mollify the nervous oil market. This is because it only makes up four days' worth of global supply or two weeks' worth of what is normally shipped through the Strait of Hormuz, respectively. This release is more than double the previous record amount, following the start of Russia's "Special Operation" in Ukraine.

Fixed income

The reaction of the US bond market was muted up until the time of writing, with 10yr Treasury yields rising towards the upper end of the 3.90% to 4.50% range in which it had previously hovered. Besides some heavy flows to the "riskless asset", the more likely explanation is that investors are looking beyond the current unpleasant situation and taking the US President at his word, expecting the operation to be over in four weeks. They seem to be hoping that oil prices would then settle back to levels traded in early 2026 before the resulting inflation could inflict real damage. While hoping this transpires, we would, however, not bet the farm on that prediction. Moreover, we are mindful that wars are expensive and usually financed by issuing additional debt on top of what is already needed to finance the OBBB Act.

What's more, you might have read or seen headlines about redemption problems and gating in the private credit market or business development credits (BDCs) investment vehicles. Such headlines are catching our attention with regard to possible spillover effects and risks to other parts of the financial market. It could be the canary in the coalmine or as Jamie Dimon, CEO of JP Morgan Chase, likes to call it "rivals do dumb things". Such developments are reminiscent of similar situations with hedge funds and real estate vehicles in late 2007 and we will therefore monitor them very closely.

Equities

US and European equity markets have barely shown any reaction worth writing home about, with YTD losses of about 5%-10%. Due to an extraordinary start to 2026, Japan and even more so South Korea (courtesy of strong demand for chips) are still in positive territory, which also limited the loss in the MSCI Global Index to 5%.

This can be interpreted in two ways. The buy-the-dip reflex of investors is still overwhelmingly strong as even small dips of 5% are used to jump in and accumulate more stocks. The mindset in which stock markets seem to know only one direction is still prevalent. Moreover, political markets are assumed to have short legs, the Gulf war is predicted to end soon, oil prices will fall and the inflationary flare is short-lived. This behavior is also evident whereby sector rotation is preferred to outright selling, as investors are keen to hang in there.

It could also be that the US administration has misjudged the entire situation and no longer has an easy way out. We remain very mindful of this increasingly possible scenario. Despite our previous cautious positioning, we do not feel the urge to increase our equity exposure as the bulls might be in for a rude awakening. This could trigger pressure, which will test the dip buyers' stamina in earnest. As mentioned at the outset of this letter, the equity weighting of US households has once again reached a historic high. We also pay attention to signs like the

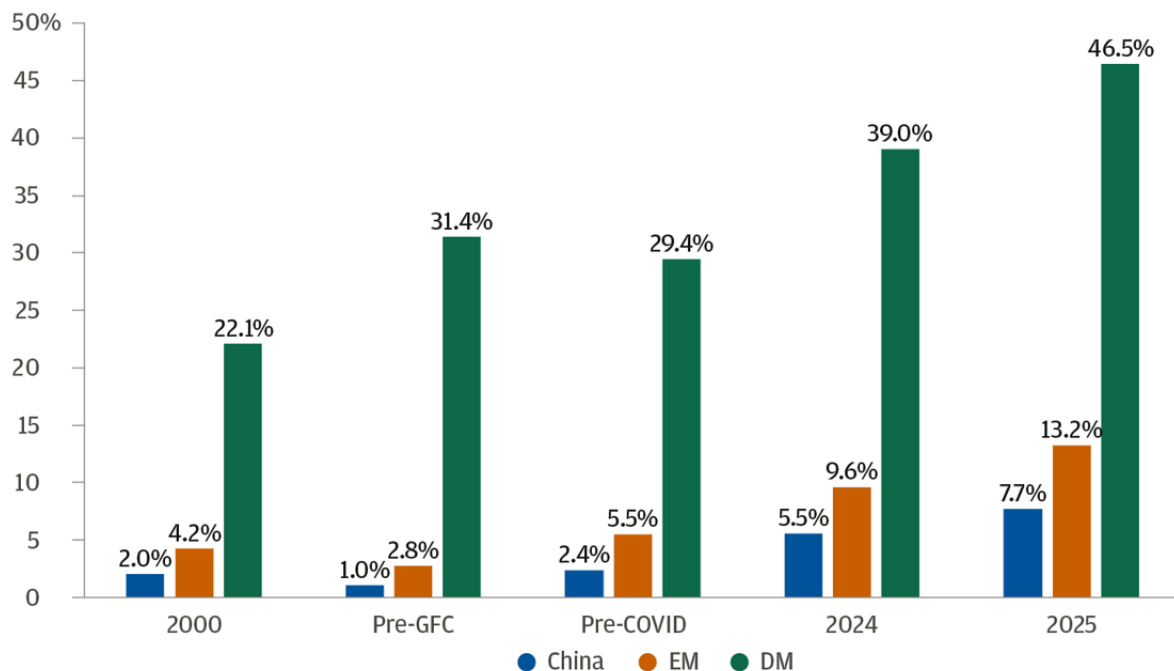
aforementioned cracks in the private credit market. When illiquid investments become even more illiquid by changing redemption schedules and gating, trapped investors could feel forced to move to more liquid assets like equity markets and take profits there. Given the focus of this letter on the situation in the Middle East, we will not dwell on the opaque situation of tariffs or on the disruptive effect AI could or will have on many industries of the global economy, and the doubtful return on investment – no misspelling – of the hyperscalers. Nonetheless, we will of course continue to follow those two topics closely.

Currencies & commodities

After weakening throughout 2025, the appreciation of the greenback against all currencies in March could initially be explained by safe-haven flows. Yet, the price of gold and other precious metals, usually also considered safe-haven assets, did not appreciate. The reason can be twofold. First, the two Fed rate cuts expected by the market for the first half of 2026 are off the table and at best postponed to the second half. The Fed’s decision at its March meeting to hold the key rate unchanged – with only the same lone governor voting for a cut – was therefore no surprise. Not lowering the interest rate differential to other currencies, for whom no rate cuts are discounted anyway, enhanced the dollar’s attraction. The second factor – energy prices – is probably even more important. Based on unchanged demand and the fact that oil and gas are traded in USD, non-US dollar buyers need to buy 50% more dollars to pay for the same quantities.

With these two countering elements of rising bond yields and USD, gold gave back some of the steep gains made in 2025 and 2026. While it could be plausible that Iran is selling some of its gold reserves to finance the war, this is pure speculation. This latest consolidation, of which gold has experienced a few in the past 15 years, could also shake off some bandwagon momentum buyers and lay the foundations for continued demand from stronger hands. In times of dedollarisation, EM and Asian central banks are expected to narrow the gap to their DM peers with regard to the volume of gold they hold as a percentage of their total reserves.

Gold reserves as a % of total central bank reserves as per Q3 2025



Source: J.P. Morgan Investment Bank, World Gold Council: “Gold reserves as a % of total central bank reserves”, Data as of 3Q 2025

Lastly, Christopher Wood, a prominent strategist who for years has held 10% of his asset allocation in bitcoin, decided to switch back to the real thing, thereby raising eyebrows in the crypto community. The latest leg of

bitcoin's correction from mid-January can be attributed to Wood's doubts about quantum computing threads to the coin's cryptographic foundations. Physical gold is not exposed to such risks.

We believe that oil stocks and physical gold are useful portfolio diversifiers in times of geopolitical risks.



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