

The Financial Letter

Review, opinions and markets' perspectives

Summary

Global vision
Page 1

Currencies
Page 9

Bonds
Page 11

Equities
Page 14

Alternative Investments
Page 18



Global vision

Regime analysis

A seismic shift has been underway in economic, political, and financial spheres. The US–Iran conflict adds a further layer of uncertainty, with the prospect of an energy and food crisis, not to mention the disruption this would cause to many supply chains. Numerous and highly unpredictable repercussions will reshape incentives, institutions, and behaviours in ways that are only partly visible in the present.

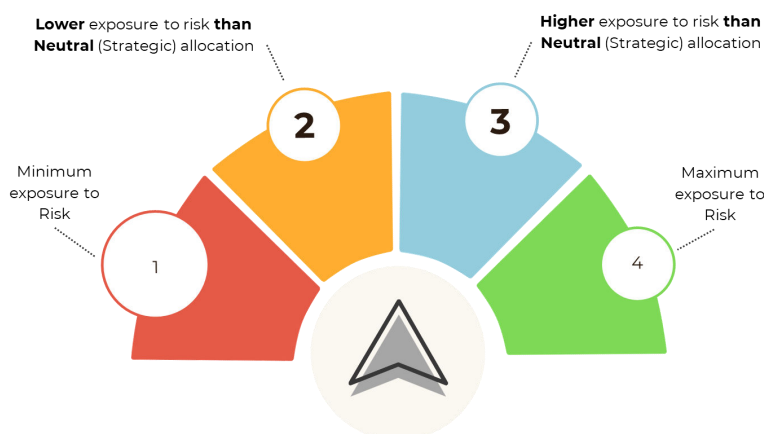
Regime change and disruptions have become the defining mantras of the age

Investment framework

The US/Israel-Iran war is a major disruption triggering additional macro imbalances. This also exacerbates the USD rebound and the cyclical decline of global liquidity. The orderly pullback in the stock markets and the widespread rise in both short- and long-term interest rates reflect an objective deterioration in the investment environment.

We neither expect a recession, nor an uncontrollable surge in rates. The risks of a bear market are increasing, but are not yet dominant. All this raises the probability of a – last (?) – round of financial repression.

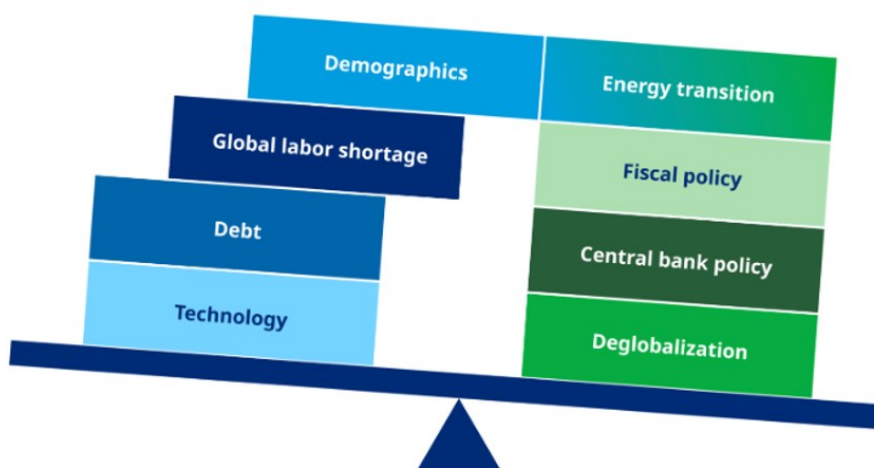
- Stay invested according to your strategic allocation, paying renewed attention to asset quality.
- Maintain a significant proportion of uncorrelated /defensive assets, whether real assets or cash.
- Be alert and ready to rapidly change your risk exposure in the coming weeks, depending on geopolitical and energy price developments.



Long-term drivers

Review of key Long-term drivers

Chart. Macro trends.
The spectre of secular inflation is resurfacing.



The nascent and synchronised recovery of nominal growth in the global economy is under threat. Wars are inflationary. A prolonged conflict in the Middle East in Q2 would have a greater impact on growth than inflation. The end of cyclical disinflation occurred faster than anticipated. The likelihood of a secular rise in inflation is increasing.

- Inflation volatility and regional divergences will increase
- US is less impacted by supply chain disruptions / rise in energy prices than Asia and EU

US Tariffs Changed More Than 50 Times Under Trump, Peaking at 21.5%

Weighted Average Applied Tariff Rate on 2024 US Import Mix

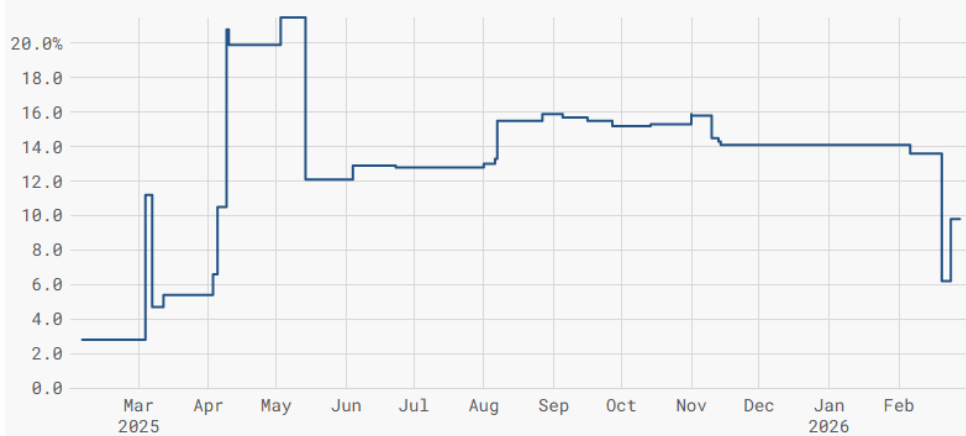


Chart. US tariffs are no longer prominent.

SCOTUS has certainly struck down the US customs policy, whilst leaving the door open for a future adjustment without causing too much financial damage to the Treasury.

- The issue of customs duties has now lost much of its significance in the context of broader international relations and financial markets

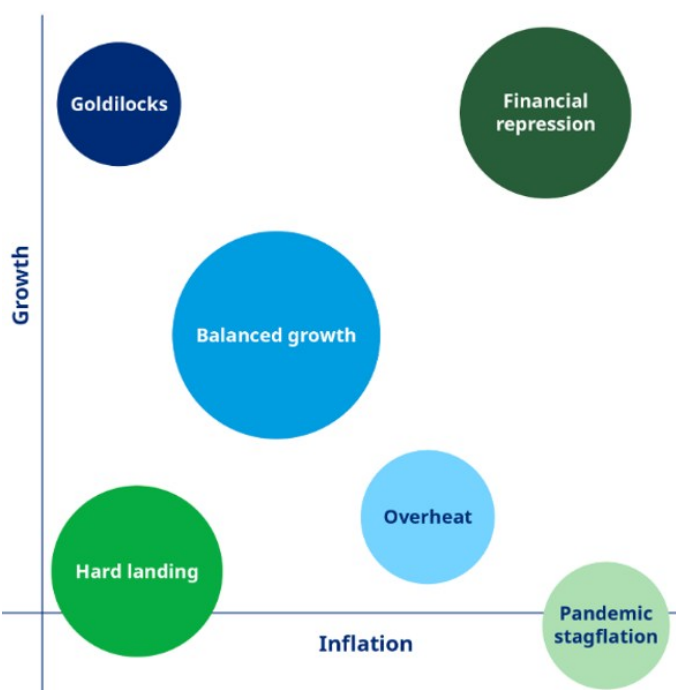


Chart. Macro Régimes. Unstable, still.

The upcoming rise in cyclical inflation and interest rates reinforce the perspective of a new round of financial repression, to keep funding costs down. The private sector leverage will rise due to tighter real restrictions and more volatile income streams.

- Financial repression will persist, as policymakers seek to avoid a debt crisis. This will increase the risk of overheating, and a hard landing.

US Debt super-cycle. Unprecedented perspectives

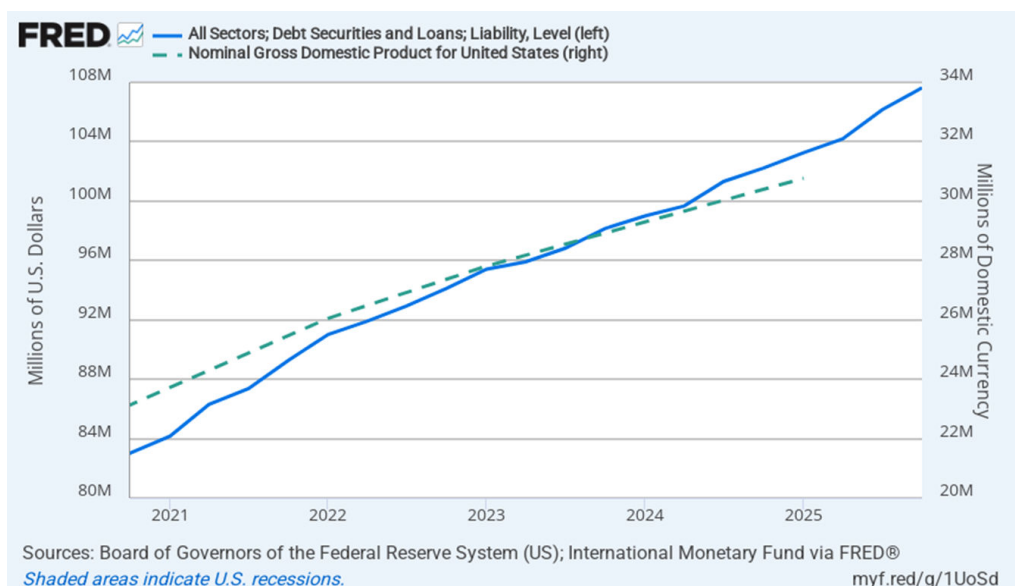
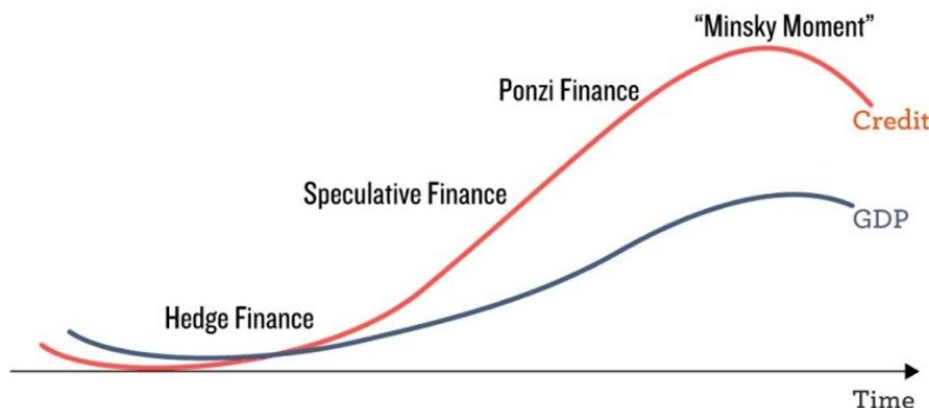


Chart. US nominal GDP and total debt.

Since 2000, US nominal GDP has risen from USD 10 trillion to USD 29 trillion, an increase of USD 19 trillion. Over the same period, total outstanding debt rose from USD 27 trillion to USD 100 trillion, an increase of USD 75 trillion. This corresponds to less than 25 cents of additional nominal GDP per dollar of new debt. The total debt-to-GDP ratio rose from around 260% to around 360%, despite a significant expansion of the monetary base.

Chart. Stylized Minsky cycle.



US growth increasingly resembles a Ponzi financing scheme, with debt servicing totally dependent on the issuance of more debt or asset sales.

According to Minsky's model, the endgame is approaching as the situation appears to be reminiscent of 2008 (which led to the GFC).

- The US is approaching a critical Minsky moment

In practice, Trump's 2.0 is primarily influenced by Hasset and his tax-cut-friendly economic team, by Vought and Miller and the Project 2025 network.

- Consequently, absent a - serious - financial crisis, options a), c), d) have no chances to be adopted in 2026. The situation could change in the event of a Democratic landslide in Congress, but not until mid-2027 at the earliest.
- Before that, S. Bessent, who has a real flair for financial engineering, might try to make use of levers (b) and (e). It remains to be seen whether the markets will give him the benefit of the doubt. Given that he has already made – and failed to keep – promises along these lines regarding the T225...

To avoid a Minsky moment, **textbooks say** that the Trump administration should:

- rein in tax cuts and spending growth, whilst maintaining public investment
- extend the maturity of federal debt and defuse any standoff over the debt ceiling
- target tightening in the private sector and the shadow banking system to limit the most fragile excesses
- impose stress tests incorporating a genuine bond and stock market shock, combined with greater transparency regarding the leverage of major funds, to bolster stability
- Elaborate a credible medium-term fiscal framework, in which a portion of the additional revenue would be allocated to reducing deficits and debt.

Liquidity super-cycle (Crossborder)

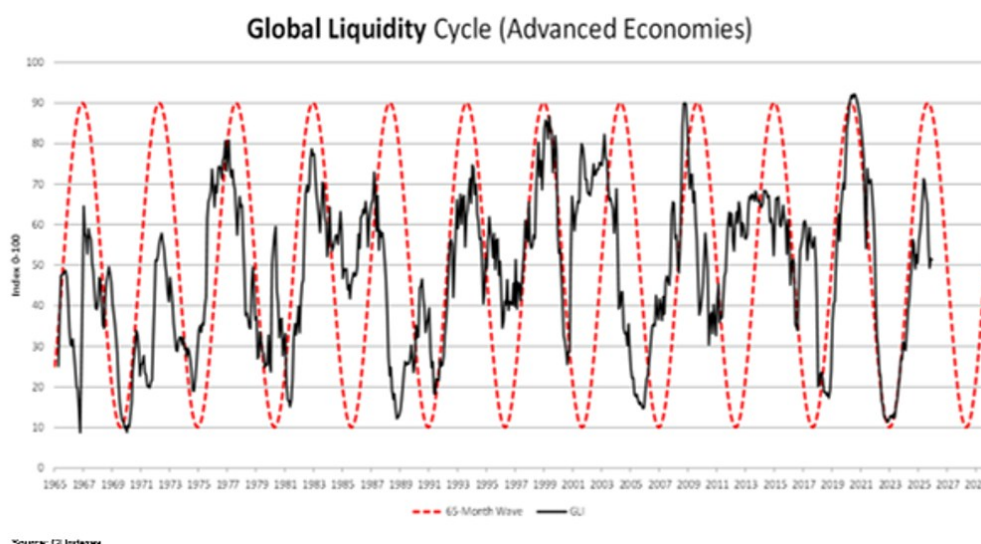
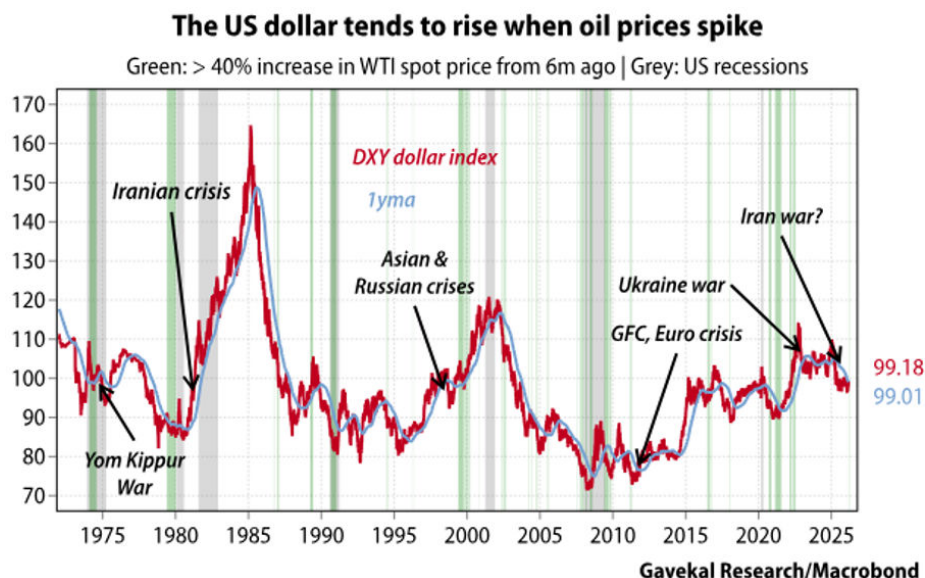


Chart. Visible deceleration.

All things being equal, the global liquidity cycle was expected to peak in the second half of the year. But the sudden oil/food crisis changed tack abruptly.

The collateral value of financial intermediaries' portfolios of US Treasuries diminishes with rising yields/volatility of sovereign bonds.



Geopolitical and real shocks accentuate liquidity deceleration through various channels. Rising oil prices favour USD strength and reduce excess liquidity (used to finance stocks).

- The peak of the liquidity cycle has passed

Liquidity Cycles: US & China

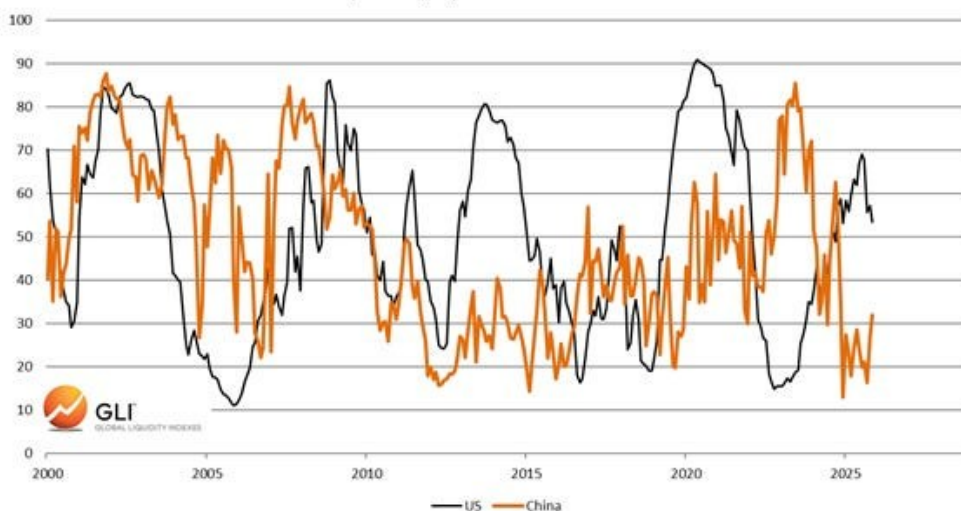
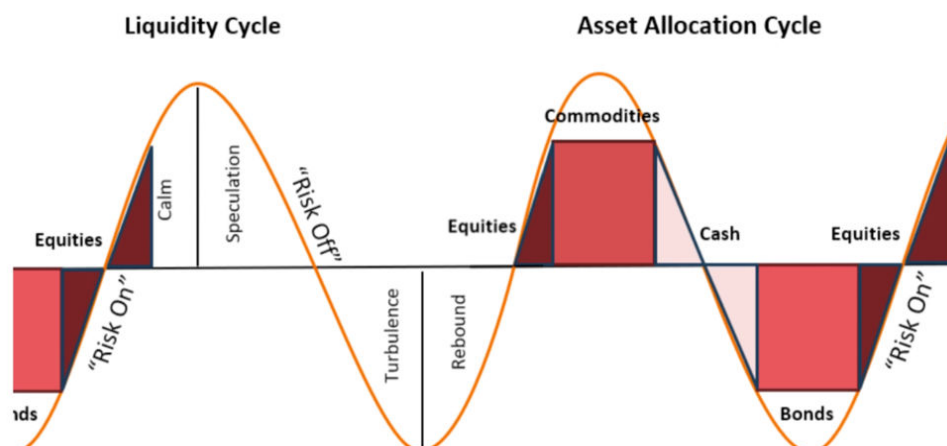


Chart. G2 decoupling goes on.

Since the pandemic, the economic cycles of the United States and China have become completely decoupled. Lately, the deterioration in global liquidity is mainly attributable to the United States.

- Global landscape does not prefigure a reversal towards higher liquidity
- Unless G7 central opt for liquidity injections

Chart. Will risky assets have no direction in 2026 ?



The speculative / exuberant phase of financial markets is probably over.

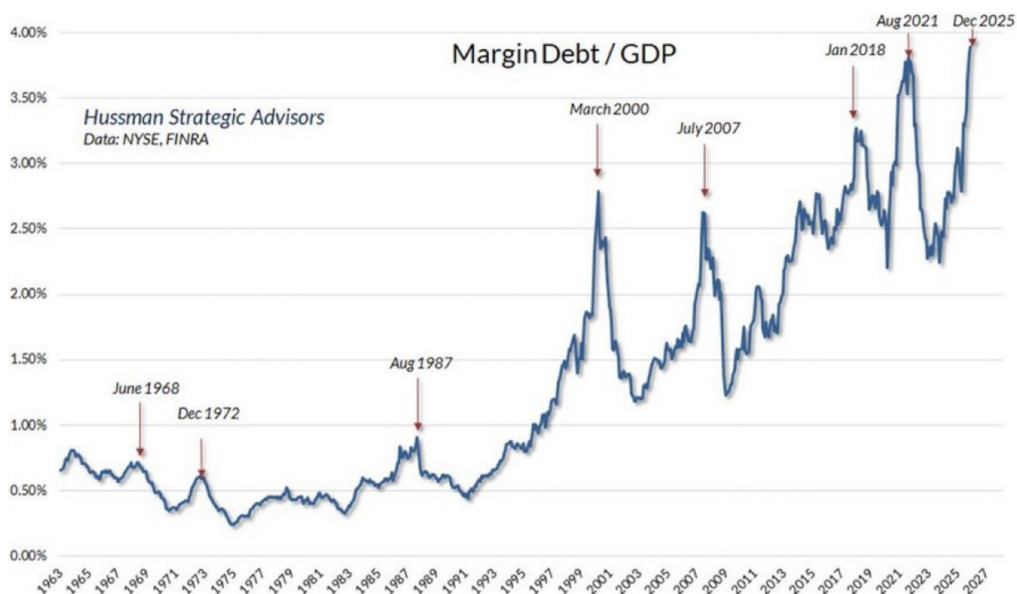
A less liquidity-supportive environment would warrant a gradual reduction in the exposure to momentum and risky assets.

Investors positioning, sentiment

Chart. Investor risk appetite has been plunging.



The sudden burst of bonds' volatility triggered massive, forced sales among investors. It all started with most speculative positions. It ultimately concerned all assets, including hedging ones like precious metals.



The speculative / exuberant phase of financial markets was led for long by retail investors. Now it has given way to general unwinding / panic mode.

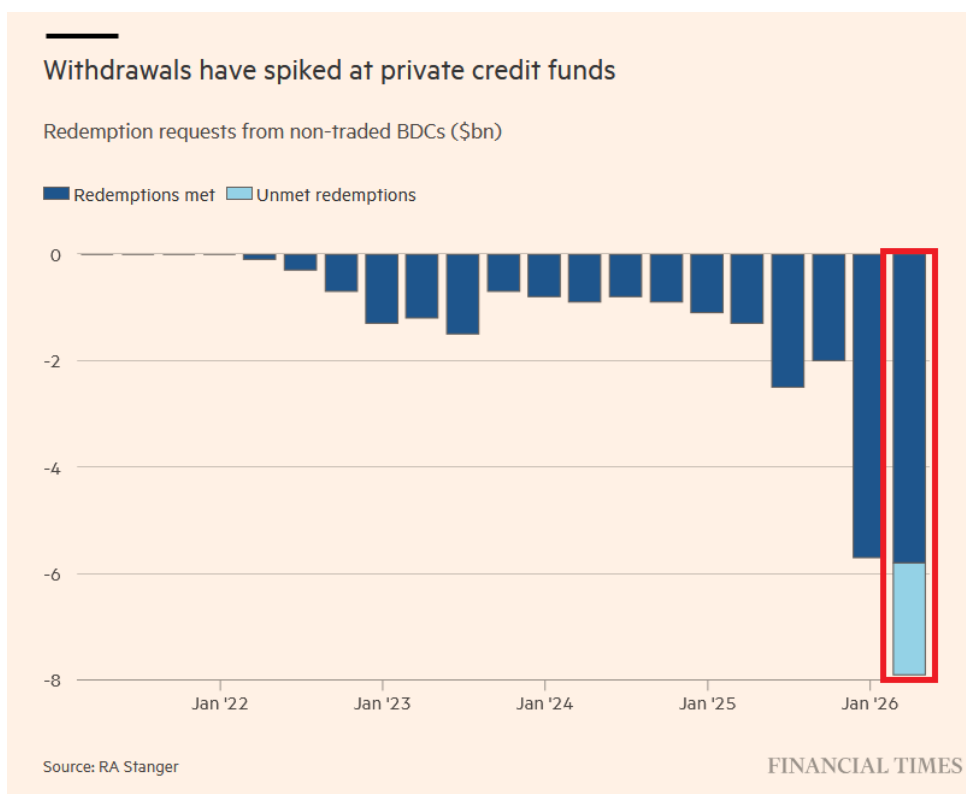
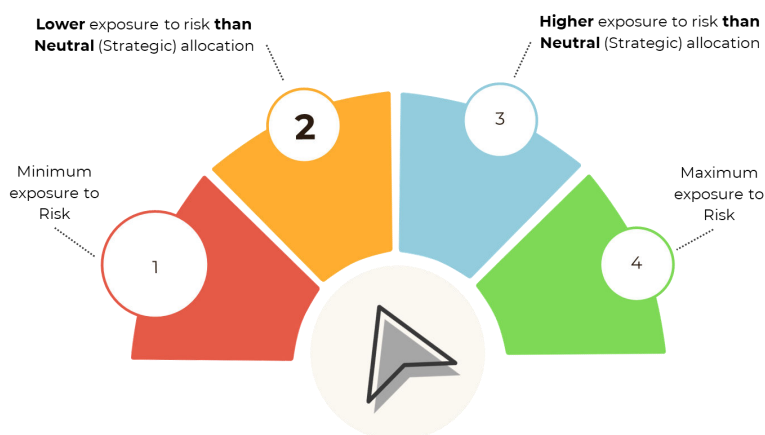


Chart. Liquidity mismatch is worrying.

Even unlisted assets, which were supposed to provide some relief, have been wiped out. This is a sign of the extremely gloomy mood among investors, who now fear the worst and, above all, are selling off en masse regardless of price. This is often a sign of capitulation. History will be the judge.

Currencies



Real interest rates still important

Most analysts would have argued, and we did, that EUR/USD should trade lower from this Middle East energy shock. It has traded weaker than nominal yield differentials would have predicted. The focus has been very much on a 2022 playbook, where Europe's exposure to imported fossil energies delivers a big terms-of-trade shock to the eurozone, while US energy independence was rewarded.

In this fast-moving environment, the relative monetary stance of central banks can easily be overlooked. Or indeed, the sharper re-pricing of tighter ECB relative to Fed monetary policy, in nominal terms, might have been providing EUR/USD some support.

The real rate differentials confirmed the story. It was not just the terms of trade story hitting EUR/USD in 2022, but also the relative setting of real interest rates. The dominant story in 2022 was a huge swing in 2-year USD real yield from -300 to +200bps – much greater than EUR yields adjustment.



Chart. EUR/USD vs. 2-year real rate differentials.

Nominal yield spreads have narrowed in favour of EUR/USD this month while real interest spreads have been sideways. This year, central banks are not

expected to be behind the curve and real yields to decouple as they did in 2022.

Monitoring real yields is essential.

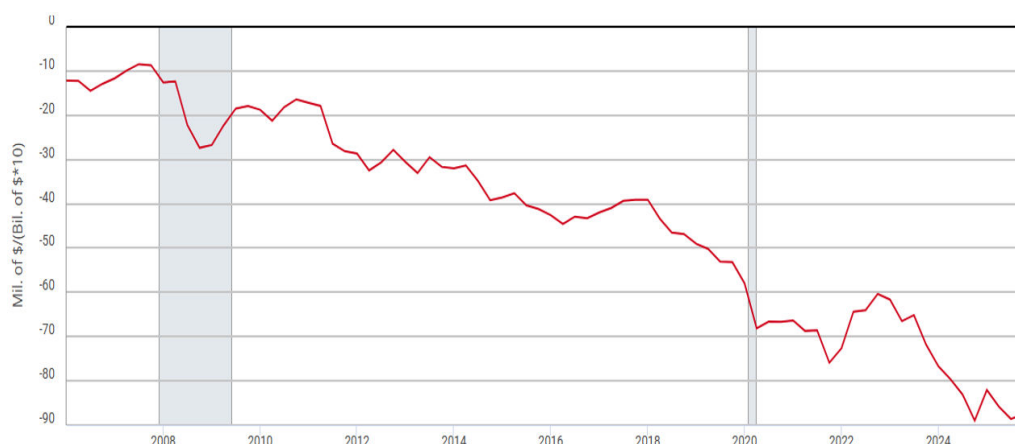
The Looming USD Depreciation

The USD's value is at risk, though its role in global invoicing remains stable for now. While the reserve status isn't immediately challenged, a "misguided" policy shift affecting creditors could trigger an exodus. Last year, the dollar lost 10% in trade-weighted terms following "Liberalisation Day." While military tensions in Iran and Venezuela provided a temporary safe-haven boost, this support will evaporate once the U.S. pulls back, exposing deep macro imbalances.

The U.S. has outperformed Europe, but at the cost of a 6.5% average annual budget deficit. Without adjustment, the interest-to-revenue ratio is projected to hit 23-25% within a decade. These deficits have fuelled a massive deterioration in the Net International Investment Position (NIIP), which has plummeted from balanced to -\$27.6 trillion (85% of GDP). This level of indebtedness mirrors historical lows seen in Greece and Portugal.

Markets are underestimating shifts in the Middle East. Unlike the 1970s, Arab oil producers no longer recycle revenues back to the US, investing instead at home and globally. This weakens the "petrodollar" foundation. Simultaneously, the USD is roughly 30% overvalued relative to PPP calculations.

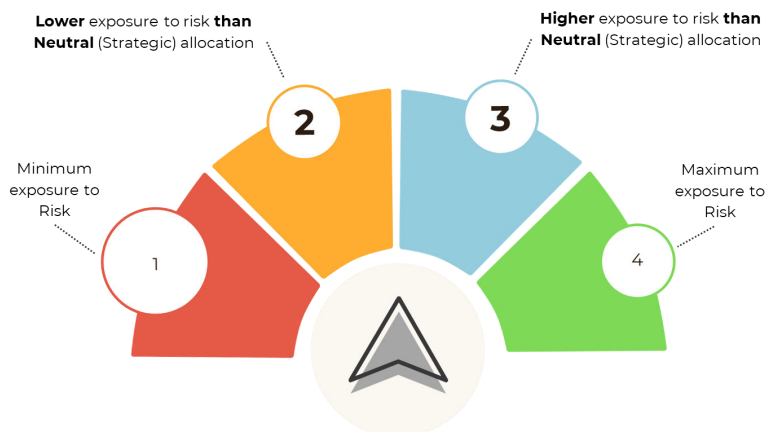
Chart. US NIIP (% GDP).



With a significant deficit reduction unlikely, a sharp market correction is expected during 2026-27. The symbolic addition of President Trump's signature to USD bills - marking the 250th anniversary of the US - coincides with a period where capital inflows may no longer bridge the current account gap. Creditor nations like China, Japan, and Germany are now incentivized to limit downside risk before this "perfect storm" hits.

The US has become the most indebted major economy to the rest of the world - by far. Policies are making it worse, not better. Big, and wide-spread, USD correction ahead during 2026-27.

Bonds



Fed independence has 75 years

For over 100 years, the Fed has evolved to maintain economic stability. March 4, 2026, marked the 75th anniversary of its operational independence, established by the 1951 Treasury-Fed Accord. This ended the requirement to keep rates low for government debt.

Though accountable to Congress, the Fed pursues a dual mandate: price stability and maximum employment. This requires the flexibility to make unpopular decisions. History shows that when independence erodes—often due to political pressure for low rates—inflation and volatility rise, as seen in the 1970s.

Credibility anchors inflation expectations. If lost, long-term yields rise, making restoration difficult. Continuity, such as Chair Powell potentially staying on the Board through 2028, reinforces this stability. Ultimately, Fed independence supports market confidence; challenging it risks raising borrowing costs instead of lowering them.

The Fed's ability to independently pursue long-term economic stability has supported credibility, anchored expectations, and confidence in US financial markets.

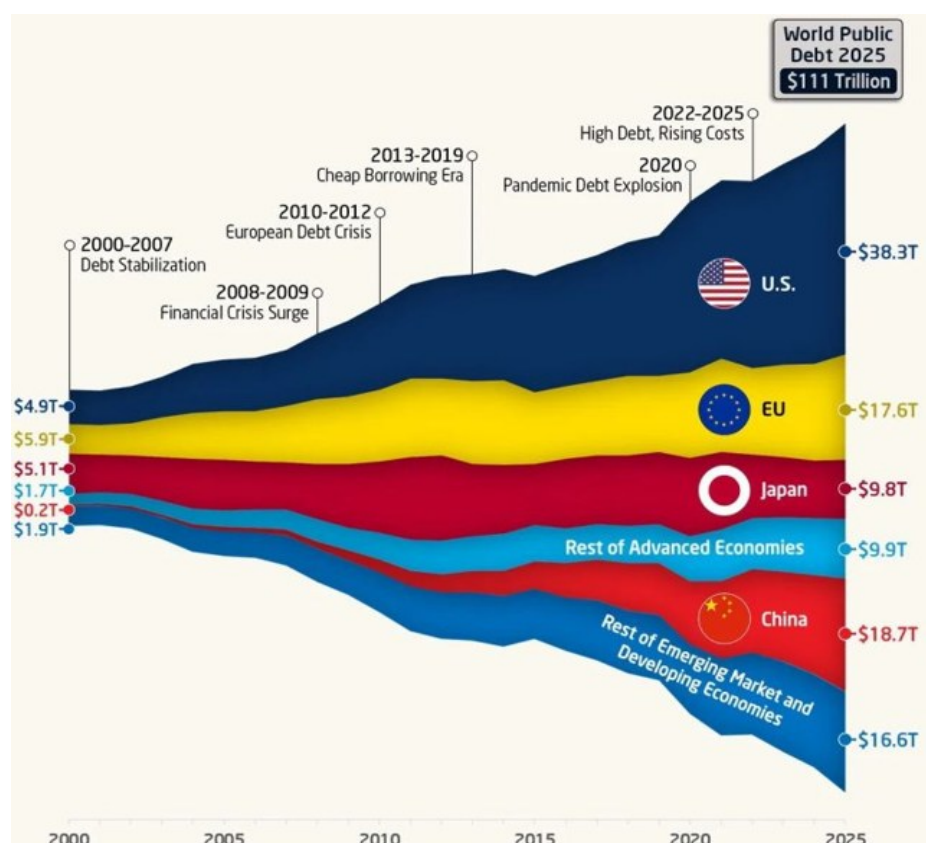
Challenging central bank independence has the potential of having the opposite effect of its intended purpose, pushing borrowing costs higher rather than lower.

Global debt evolution

Since 2000, global debt has shifted through distinct phases. From 2000–2007, public debt grew modestly to \$35.8trn, aligning with GDP. The 2008 Financial Crisis then spiked sovereign borrowing to \$45.5trn due to bank bailouts and stimulus. This was followed by the European Debt Crisis, forcing austerity as EU debt hit \$13.1trn.

Between 2013–2019, cheap borrowing and low rates allowed debt to reach \$73.9trn. The 2020 pandemic caused the largest one-year jump on record to \$84.9trn. Recently, high inflation and rising interest rates have pushed the total to \$111trn, sharply increasing servicing costs.

The US public debt has outpaced other advanced economies since 2024, growing 8.0% annually from 2000 to 2025, more than twice the pace of peers. China public debt grew 18% annually over the same period, about 14x faster than the global average and outpaced other Ems since 2021.



US deficit and foreign bond holders

The 2025 US budget deficit reached 5.8% of GDP, far exceeding the 3.8% historical average. By 2026, the deficit is projected at \$1.9trn, driven by the 2025 Reconciliation Act and interest costs. Public debt now hits \$31trn (101% of GDP) and may reach \$56trn by 2036. Stabilizing this requires cutting the deficit to 3%, keeping the US dependent on foreign creditors.

Foreign holdings rose to \$9.3trn in early 2026, up 8% annually. Japan remains the top holder at \$1.22trn, followed by the UK (\$895bn), often acting as a proxy for hedge funds. Conversely, China (\$694bn) is actively diversifying away from Treasuries on regulatory orders. Saudi Arabia holds \$135bn, slightly down recently. Saudi Arabia ranked the 18th largest foreign holders.

Foreign central banks have slashed their US Treasuries holdings at the NY Federal Reserve. Countries are selling their US government bonds to prop up

their economies and currencies. The Iran conflict is just confirming a trend in place since 2022. The total foreign Treasury held in custody by official institutions has dropped to \$2.7trn, its lowest level since 2012.

Monthly data also reveal a slowed pace of net foreign buying of US corporates, with reduce private sector demand pacing the deceleration. Net purchases of nearly \$12bn lifted holdings near record highs, while Asia led all regions in buying. Private investors showed a reduced appetite for US corporates with net buying of \$10.6bn, the slowest pace since November 2024, while foreign official institutions added \$1.3bn of net demand.

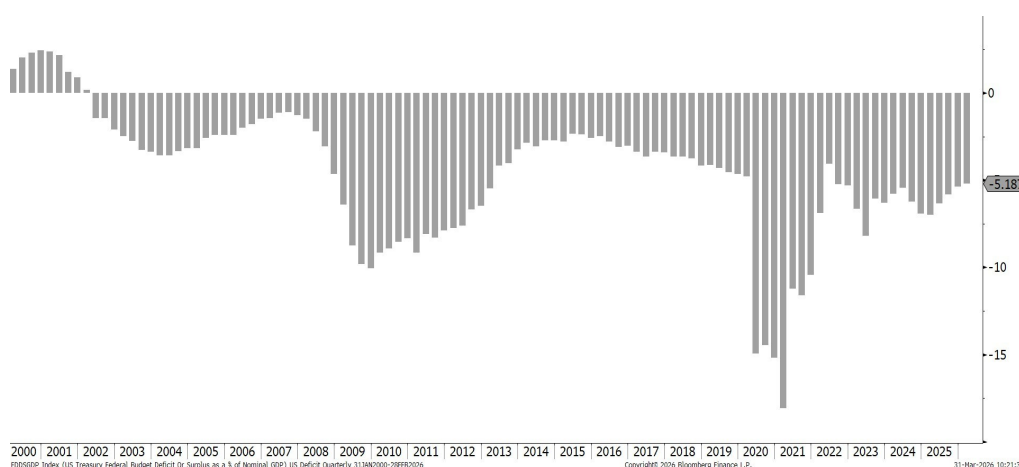


Chart. US government deficit.

Credit is not that stressed

The war in Iran has increased risk aversion and is nudging credit markets slightly wider. So far, the reaction remains contained. It is consistent with historical patterns showing that geopolitical shocks typically have a limited and short-lived impact compared to recessions or financial crises.

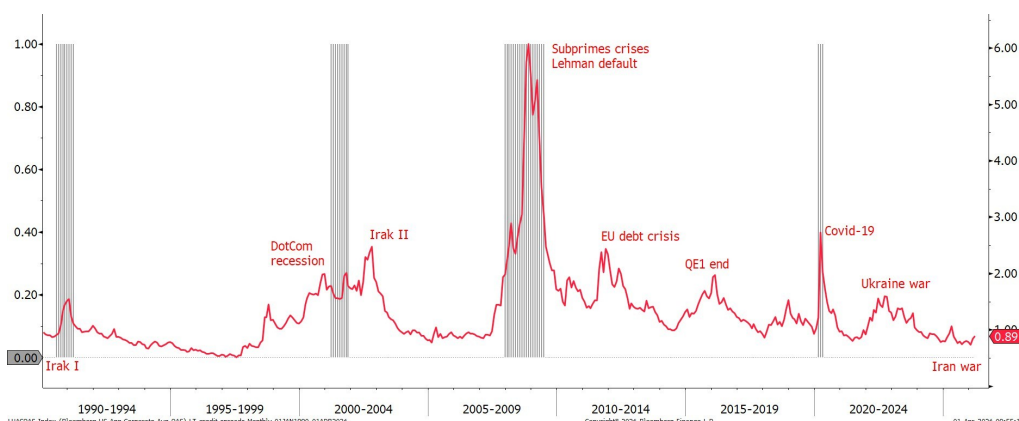


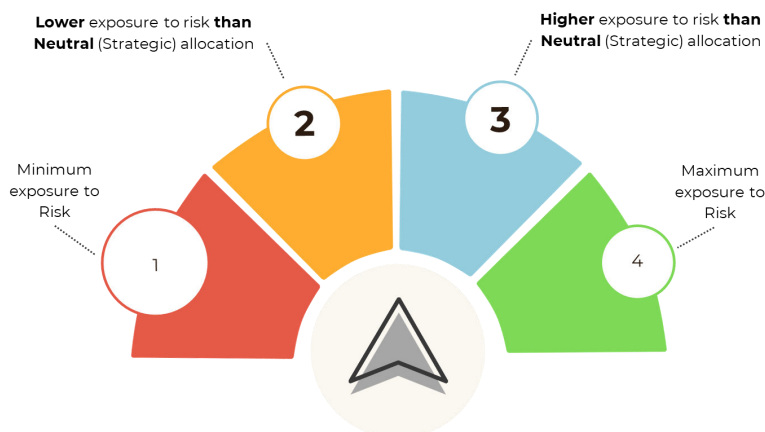
Chart. US IG spread over the years.

All recent periods of tightening have ended the same way. Large spreads widening (above 100bps) happened only in periods of significant economic slowdown.

Given the solid recent leading indicators, and if we are not entering a significant economic slowdown period, we could expect another (potentially long) period of low credit spreads levels.

Actions

The energy shock could lead to stagflation. This is not our main scenario. The global economy and the microeconomy are resilient. Trump has too much to lose by letting the war in Iran drag on.



Oil company CEOs are warning that disruptions related to the war in the Middle East are more significant than the market realizes. The situation is particularly critical for jet fuel, diesel, and gasoline. Asia is especially hard hit, but Europe will be affected in April.

An escalation of the war (bombing of Iranian production sites and oil monarchies) will cripple the economies of the Gulf states.

Size of shocks to the global oil market

■ Supply disruption ■ Spare capacity available

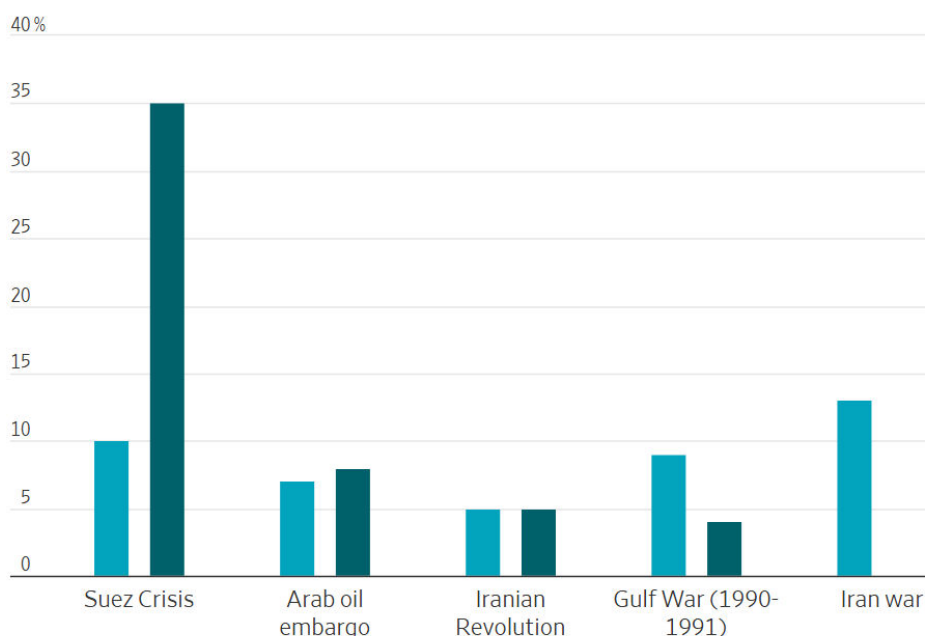


Chart. The disruption to the oil market has never been so severe.

Source: Rapidan Energy Group

The world cannot do without 20% of the global oil and gas supply. This is especially true for Asia, which imports 80% of the region's oil and gas and is 100% dependent on Qatari gas. Nothing is leaving Qatar anymore. The blockade of the Strait of Hormuz is one thing, but the destruction of production and refining facilities is another, very serious matter, as it takes several years to rebuild the infrastructure. This war is also affecting 45% of global fertilizer production (the start of the planting season) and helium (a gas used in semiconductor manufacturing). Eight percent of the world's aluminum supply comes from the United Arab Emirates, and the current shutdown will require six to eight months to restart.

However, investors remain cautiously constructive, fearing they might miss a rally. Volatility is the order of the day with Trump's erratic behavior. They are not panicking:

- Hope for the imminent fall of the Iranian regime and a safe reopening of the Strait of Hormuz.
- The positive performance of stock markets on average 2-3 weeks after the start of a geopolitical shock.
- A barrel price below \$120, not corresponding to an oil shock, likely thanks to the 400 million barrels of strategic reserves released by the 32 IEA member countries.
- A contained rise in the US 10-year Treasury yield.
- The TACO index in extreme territory (buy signal).
- Trump's upcoming withdrawal from the Iran war due to the proximity of the midterm elections and a gallon of unleaded regular gasoline above \$4 as the driving season is coming.

TACO index. This index combines the inverse returns of the S&P 500, 10-year Treasury yields, 30-year mortgage rates, gasoline futures, 1-year CPI swaps, and presidential approval ratings into a single measure of economic and political hardship. This index is relevant because Trump is sensitive to Wall Street's performance.

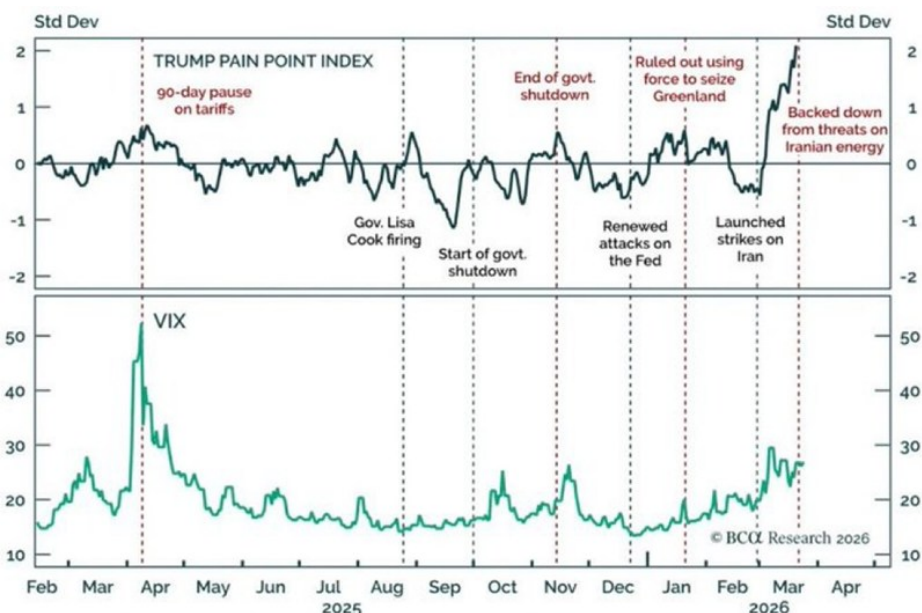


Chart. TACO Index

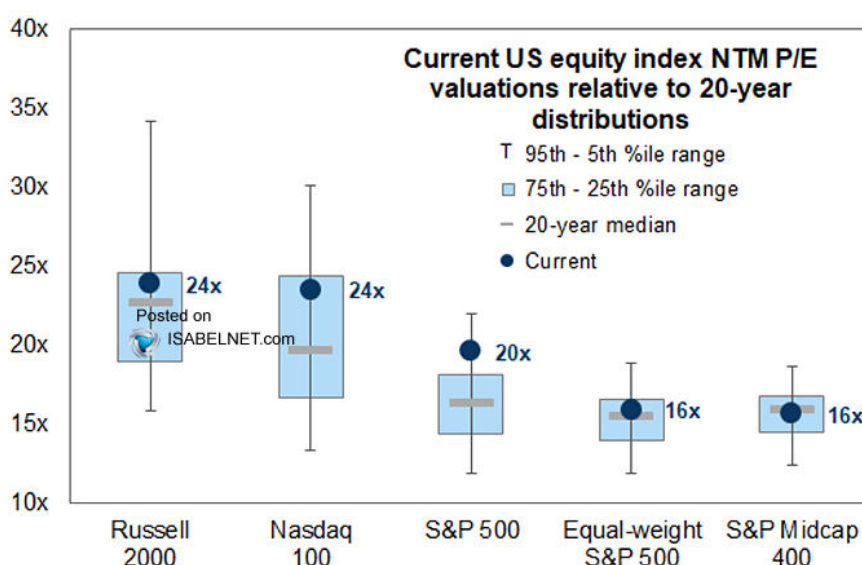
In March, the stock markets did not price in the worst-case scenario. Index performance hovered around -10%. As a reminder, a correction is a decline of between -10% and -20%. Beyond 20%, a market enters a bear market.

Since November 2025, P/E ratios have contracted by an average of 15%, particularly the S&P 500, driven by consolidation among Big Tech companies and the decline of software publishers due to the real threat of AI replacing some software. In March, P/E ratios also contracted due to inflationary risk related to the Iran war.

Exhibit 41: US equity index P/E valuations vs. history

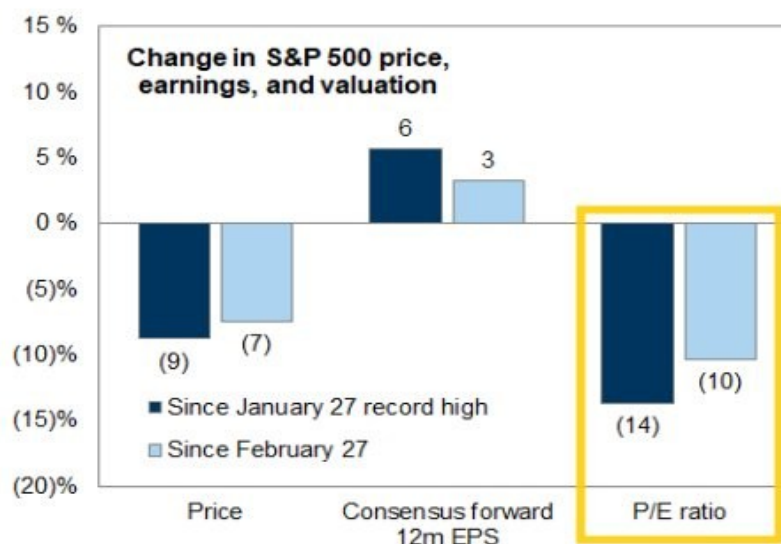
Chart. US P/E ratios have returned to their historical averages

Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research



The decline in indices was due to a contraction in P/E ratios. Since November 2025, stock markets have consolidated while profits have increased.

Exhibit 1: The S&P 500 has declined by 9% from its January high



Source: FactSet, Goldman Sachs Global Investment Research

The global economy is resilient, even in the face of Trump's tariffs. AI is a powerful driver of global trade, with semiconductors and equipment for AI infrastructure accounting for more than 30% of exports from major Asian hubs like Taiwan and South Korea.

At the end of 2025, we predicted that 2026 would be a bullish year, supported by US, German, and Japanese spending plans, but with increased volatility due to the impact of AI on certain economic sectors, where the winners and losers would become more apparent. We maintain our positive 2026 outlook for the stock markets.

Software companies plummeted on global markets in early February. The reason? Investors panicked over the launch of an AI tool by Anthropic, which could cause massive disruption within the sector. Anthropic launched Cowork, a new feature for its Claude AI platform, designed to automate a number of legal drafting and research tasks.

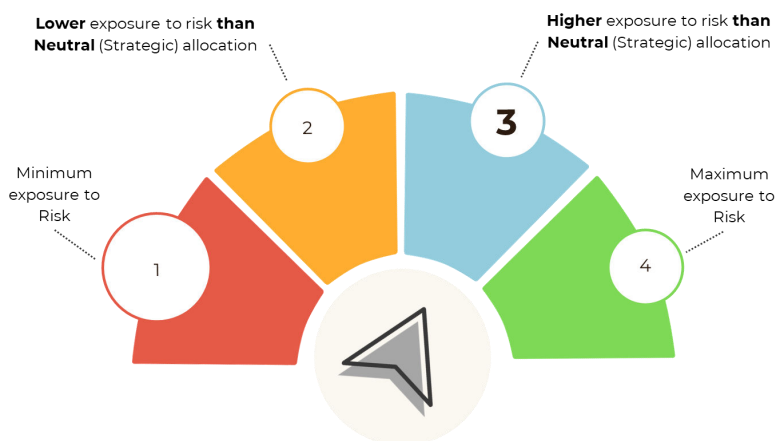
For the past two years, most software publishers had adopted a reassuring stance. Artificial intelligence was presented as an additional layer, a productivity accelerator enriching existing products without disrupting their architecture or business model. This narrative has long reassured investors: AI was supposed to strengthen existing positions, not threaten them. The reality is that AI is capable of generating financial reports, orchestrating business processes, and automating entire processes without relying on a traditional software interface, rendering some applications redundant.

The Iran war highlights once again Europe's energy weakness. Germany is questioning the return of nuclear power. Thanks to its savings surpluses, Europe could embark on major investment plans in energy (nuclear and solar), defense, and technology.

Frustrated, Trump is once again questioning the United States' integration into NATO, which he considers a "paper tiger." Trump added that Putin felt the same way. European NATO members were unwilling to support the United States in Iran, and rightly so, as NATO is a defensive alliance. The European defense sector remains, of course, a strong conviction.

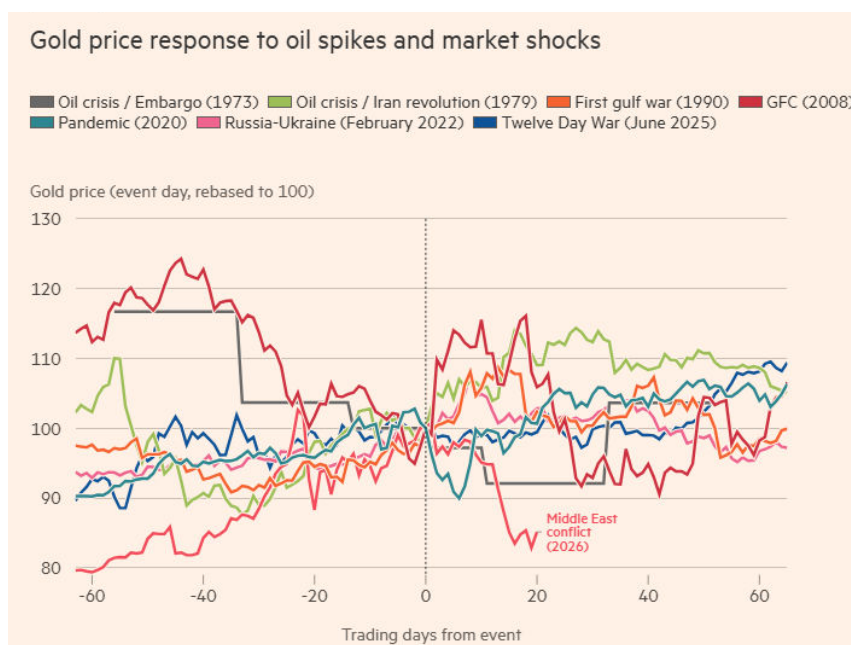
Alternative Investments

A bull cycle for commodities. Buying opportunities for gold and industrial metals. The price of Brent crude is expected to remain around \$100 a barrel for a relatively long period.



In March, gold and industrial metals were penalized by the appreciation of the dollar, a safe-haven currency with the Iran war, and the risk of stagflation. Gold also suffered from expectations of rising inflation and the Fed's questioning of a 2026 Fed Funds rate cut. For industrial metals, the prospect of an economic slowdown weighed on prices. March was marked by outflows from funds invested in physical gold. Its safe-haven status was called into question. The price of gold fell by 24% during March. Gold is primarily used for generating liquidity to meet margin calls on other assets. After very strong demand in January, gold was one of the best asset to sell in March thanks to past great returns.

Historically, gold underperforms in the 4 to 6 weeks following the start of a crisis due to a liquidity effect.



Source: FT, Bloomberg, Standard Chartered Research

Positive factors for a medium- to long-term rise in the price of gold remain: high US and global debt, tariffs and nationalism, and trade and geopolitical uncertainties.

Central banks are currently in a sell-off position to take profits. The Polish central bank, which has been a major buyer, is considering sales to finance military spending. Turkey sold a lot of gold.

As a cyclical segment, industrial metals performed the worst in March.

Yet, in the United Arab Emirates, a factory that produces 8% of the world's aluminum is shut down following Iranian bombing.

The war in the Middle East is causing a shortage of sulfide, necessary for the production of sulfuric acid, used in the copper extraction process. If the situation continues, this will lead to a rise in the price of copper, a metal that is already in short supply.

This war will not halt the structural trend in industrial metal prices due to their critical importance to national security and the concentration of their production in a few countries.

The world has become dangerous, and some countries must regain their industrial, energy, military, and technological independence. This new paradigm is highly consuming of industrial metals.

Any correction in mining company stock prices presents buying opportunities. After the war, oil and gas prices are expected to remain high for an extended period - above \$100 a barrel - to finance the reconstruction of oil and gas infrastructure (Qatar) destroyed by bombing.

Oil companies are expected to generate significant cash flow and increase dividends for shareholders.

The Financial Letter

Disclaimer - This document and the information contained or referred therein (the "document") is for informational purposes only. It does not constitute a solicitation, offer or recommendation to buy or sell any securities, collective investments or other financial instrument, to effect any transaction, to implement any particular trading strategy or to conclude any legal act. This document does not provide any investment, legal, accounting or tax advice. It has been prepared without taking into account the objectives, financial situation or needs of any particular investor and does not represent that any products, securities or services discussed are suitable for any investor. Its recipient shall make its own independent decisions whether products, securities or services discussed in this document are appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. Any recipient shall independently ensure that it understands the products, securities or services discussed in this document and the risks involved with the execution of such transactions. None of Selvi & Cie SA or any of its representatives or affiliates shall have any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. Selvi & Cie SA does neither represent or warrant the completeness or correctness of this document nor undertake to update the information contained in this document.