

The monthly letter

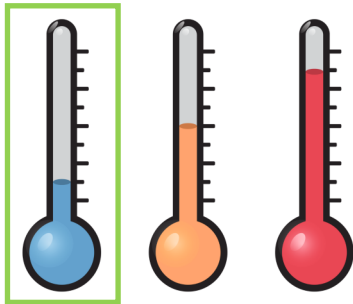


TACTICAL SITUATION
REPORT
May 2026

Global landscape

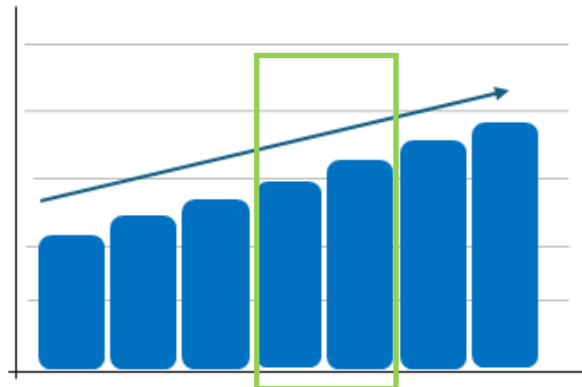
Global framework conditions

Inflation in the next 6 months



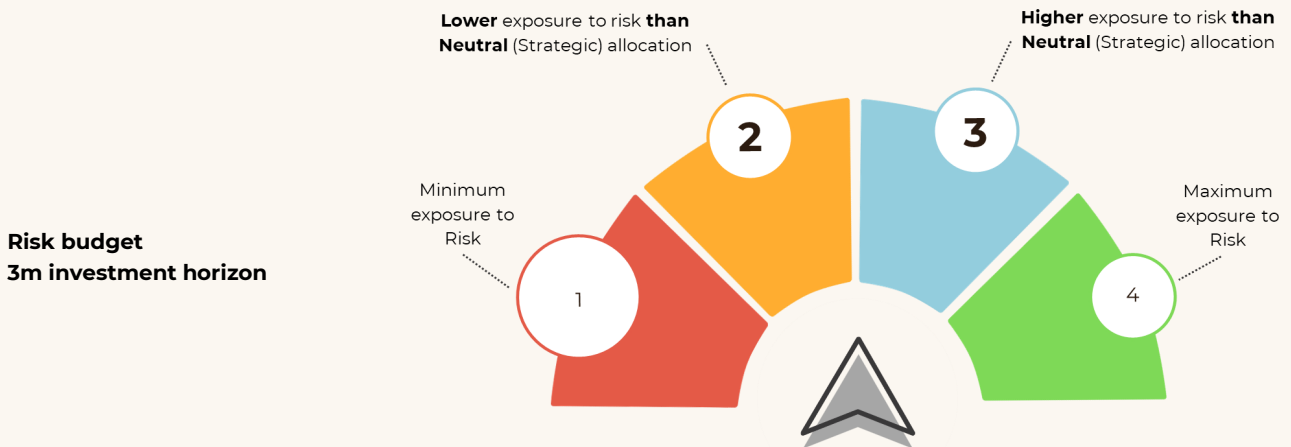
Stance: in line with central banks targets (ex-Japan)
Trend: Decelerating

Economic growth in the next 6 months



Stance: below LT potential
Trend: stable

Global view

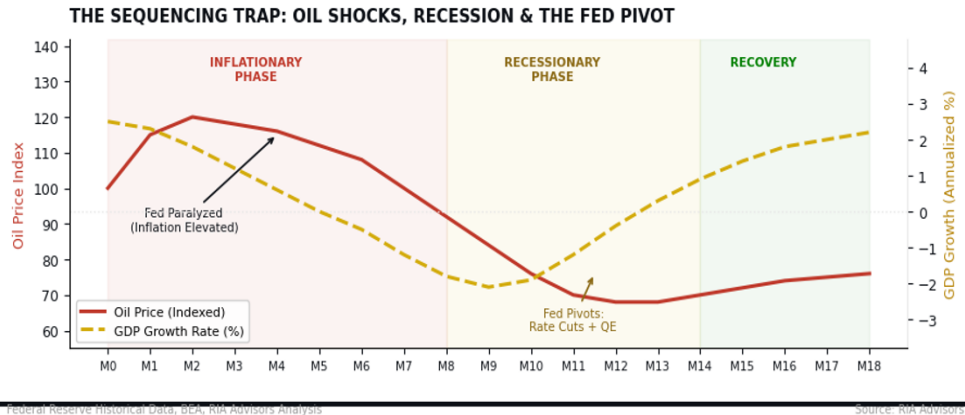


Global landscape

Macro - Cyclical outlook

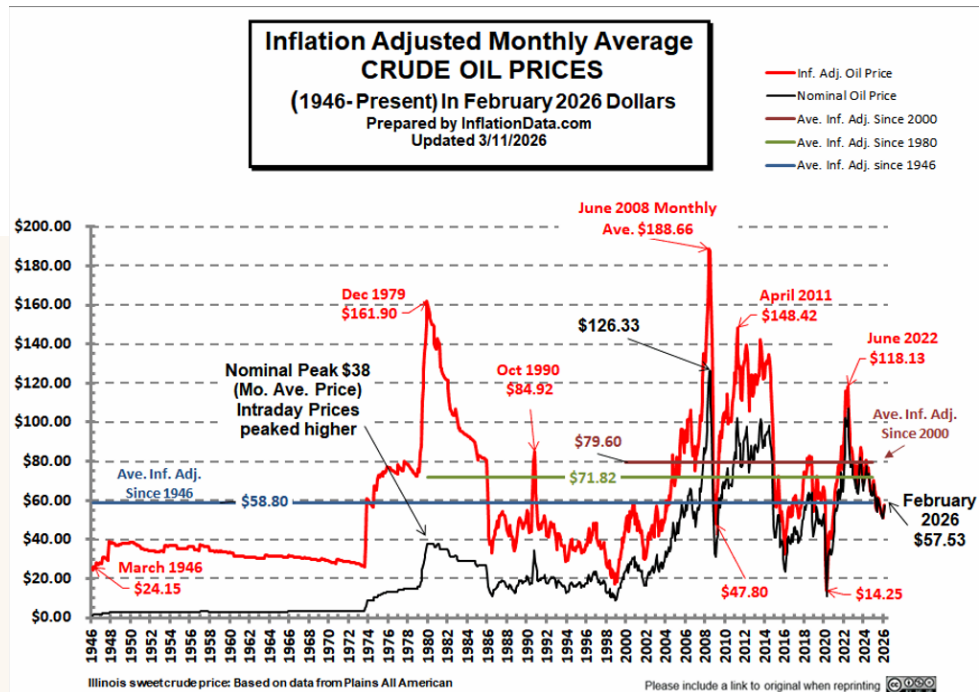
The ghost of higher – secular – inflation is popping up again. Don't blame geopolitics...

Chart. **Stylised Oil Shocks.**
It usually takes at least two quarters of – sharply - rising inflation for growth to succumb.



Oil shocks are both inflationary and recessionary, making them insidious and difficult to manage. Short-term spikes in energy prices and inflation mean the Fed cannot ease. Elevated energy costs act as a regressive tax on consumers. Disposable incomes are crushed, input costs compress margins, and layoffs follow. Consumer demand collapses before supply can adjust, and inflation collapses.

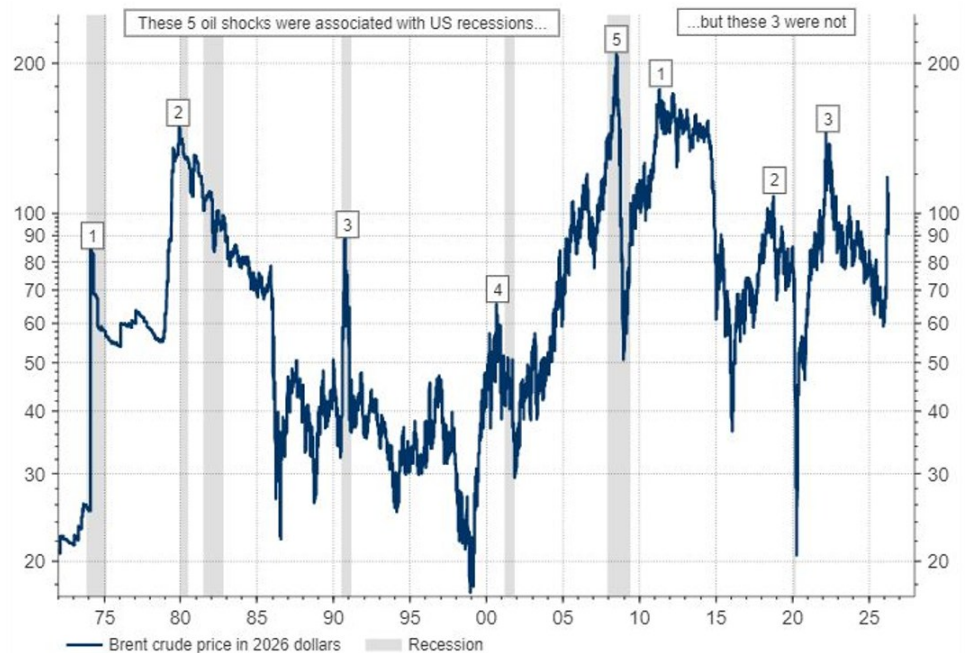
Chart. Oil Shocks in perspective.



A barrel at \$100 isn't necessarily a record high. The 2008 peak of around \$147 for Brent corresponds to an even higher real-term level today, often estimated at over \$180 to \$200 depending on the price index used.

The UAE's exit from OPEC makes future supply more unpredictable. Watch out for Venezuela following suit.

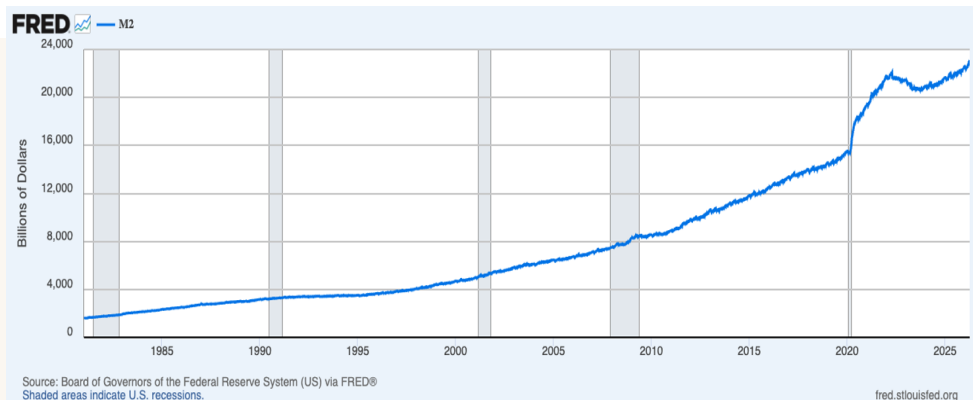
Chart. The last 3 oil shocks were not associated with US recession.



Source: LSEG Datastream

The US economy is becoming service-based, reducing its oil intensity. This means that oil price rises have less of an impact on growth and employment. The US is less dependent on net oil imports, so the impact of shocks is absorbed domestically. The macroeconomic impact is more diffuse, affecting inflation, services, transport and purchasing power.

Chart. Under Powell, the Fed increased the money supply by almost \$9 trillion.



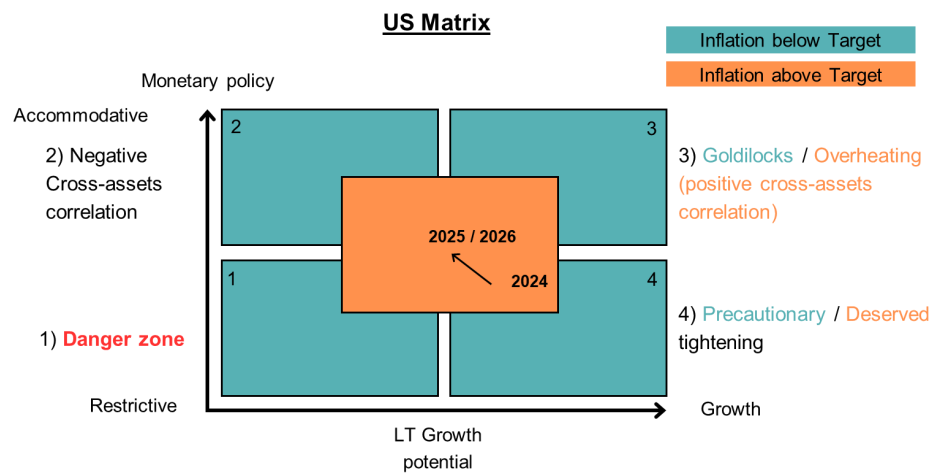
The latest US inflation wave was rather caused by Washington (as it essentially is), and due to too much government borrowing, spending and money creation.

- ⇒ Energy crisis. Although it is unpleasant and insidious, it is not yet a dramatic risk factor for future inflation.
- ⇒ Profligate Washington was, is and will remain the root cause of US inflation.

Despite the conflict in the Middle East, a relatively sanguine outlook for the coming months remains valid, with *nominal* global growth approaching long-term potential. While rising inflation will undermine the

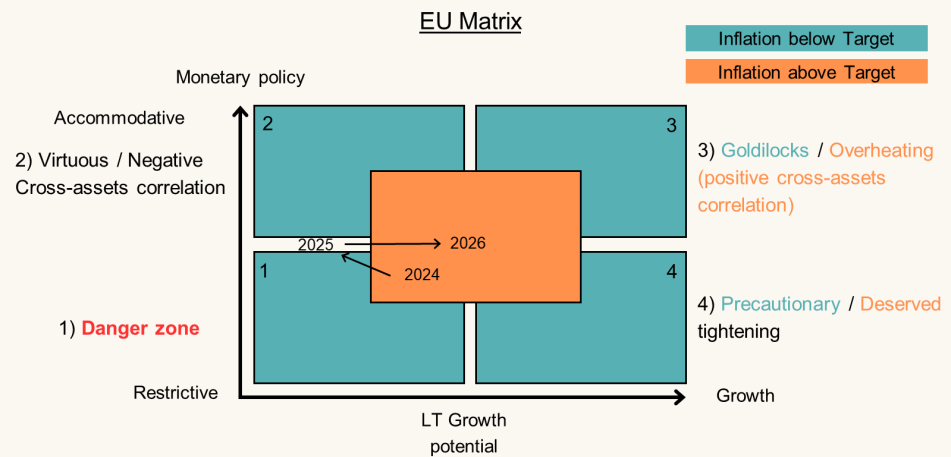
quality of this expansion; the impact on growth will not be significant. Accordingly, the IMF's April 2026 baseline scenario forecasts global *real* growth of 3.1% in 2026 and 3.2% in 2027, assuming de-escalation and partial normalisation of oil prices in the second half of 2026. However, it stresses that a prolonged oil shock could cause growth to fall to around 2.5% in 2026, with global inflation reaching around 5.4%.

- ⇒ Strong global nominal with growingly variable regional components.
- ⇒ The disinflation “window” experienced a brutal end.



The US will experience solid nominal growth of in 2026.

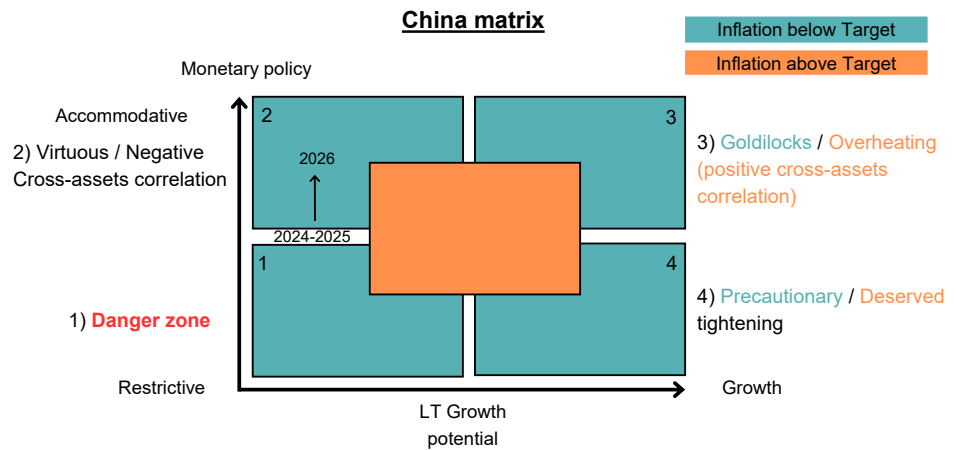
- High nominal growth coupled with Fed in wait and see mode.
- Non-marginal odds of an “overheating” landscape from S2.



EU nominal growth will accelerate moderately in 2026.

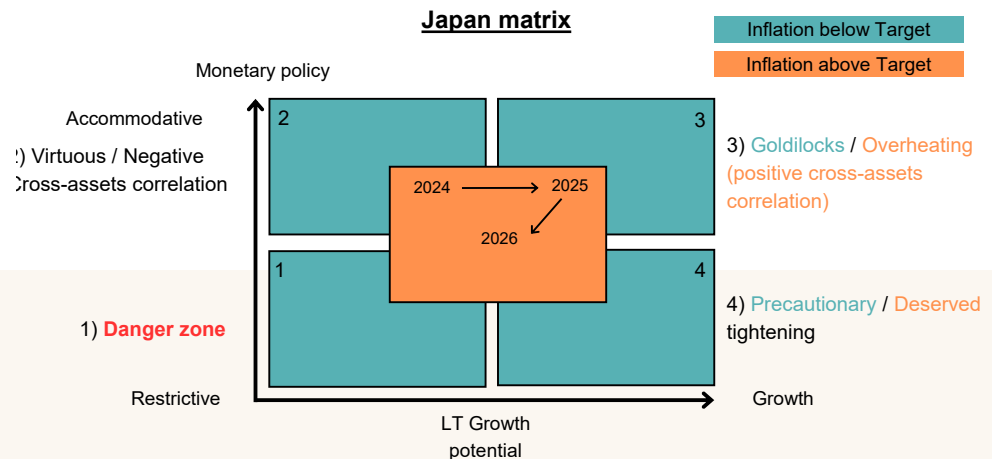
EU inflation is expected to resurge, challenging central bank’s policy.

- Vigilant ECB.
- EU investment landscape: marginal deterioration vs last months.



China activity is set to remain well below long term potential. China's nominal GDP growth for 2026 is projected around 5%.

- PBoC is not concerned by inflation risks.
- Expect a benign / favourable investment landscape.



Japan growth is downgraded, but sticky inflation remains in place.

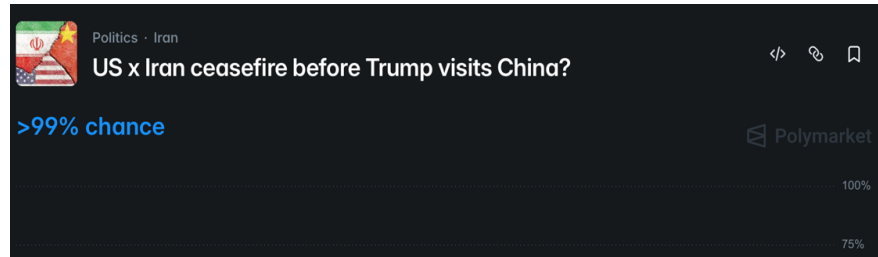
- Behind the curve BoJ is reluctantly normalising.
- Investment landscape will remain hectic, complex .

Geopolitics

Hardly a week goes by without the Trump administration opening a new front, whether military, economic or political. As Steve Bannon theorised in 2015-16, the aim is to overwhelm the media and fragment public attention in order to disorientate and distract people from crucial issues. This strategy is all the more effective because it relies on emotional, polarising or sensationalist narratives, which capture people's attention more quickly than structural issues do. This frenetic pace is unlikely to slow down before the midterm elections in November next year.

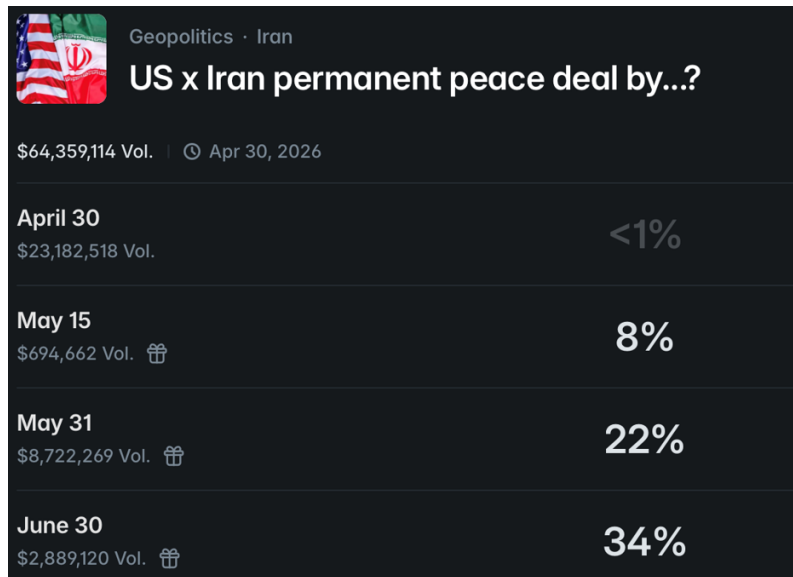
- ⇒ The US is experiencing a brutal political revolution.
- ⇒ On the international stage, the unpredictable 'rule of Don' is also taking hold.
- ⇒ US-China bilateral talks will be crucial.

Chart. Polymarket : cease fire to hold short-term.



A renewed military action by the US would be a surprise.

Chart. Polymarket : Little chance for a Middle-East resolution.



But there is little complacency regarding the end of the conflict.

Chart. Key assets barely acknowledge for risks linked to Middle-East war.



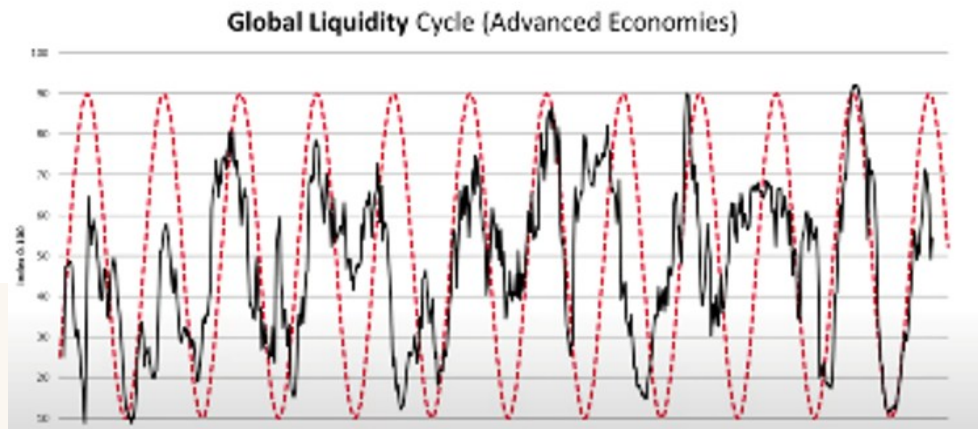
If NACHO (Not A Chance Hormuz Opens) takes roots and over from TACO (Trump Always Chickens Out), then economic agents and financial markets will be obliged to obey.

Global Liquidity

A shift in policy is on the horizon with Warsh. The Fed will cease to be the sole source of liquidity; the baton must be passed to the private sector. Since 1 April 2026, banking regulations have been relaxed, so the private sector's capacity to take on risk is increasing. The hope is to create a more compliant, deeper and more captive domestic market. Ideally, this would reduce the politicisation of the Fed. Ongoing deregulation and financial innovation would stimulate the allocation of credit, support investment and boost productivity, and thus growth. Indeed, certain forms of deregulation also increase business innovation and economic growth. However, excessive competition and risk-taking will ultimately encourage aggressive behaviour, inflate credit and weaken balance sheets. Ultimately, this increases vulnerability to bubbles and banking crises, with heavy economic costs.

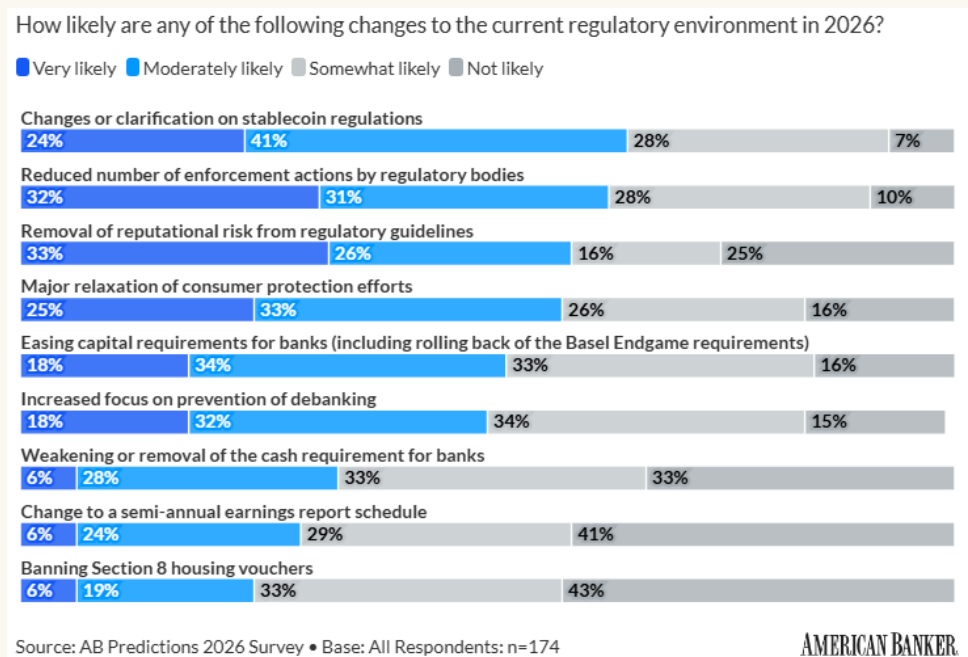
- ⇒ Expect more hectic developments of US liquidity.
- ⇒ Global liquidity has entered its deceleration phase.
- ⇒ Tail risks (a Minsky moment) are rising due to unbridled innovation.

Chart. GLI down to 50.



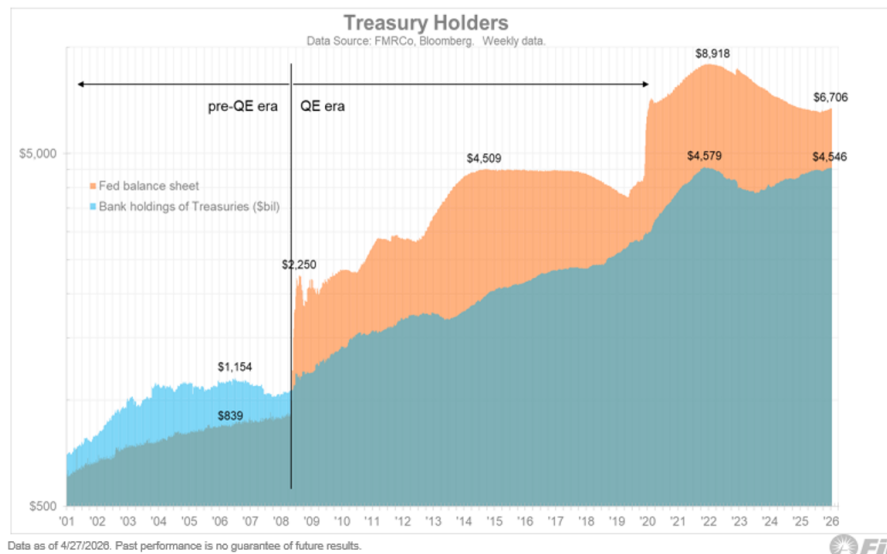
A significant deceleration of US liquidity is underway. The counteractive PBoC production of liquidity is not sufficient to smooth the process.

Chart. Trump administration is deregulating hastily.



Trump administration is promoting broad-base innovation for the financial sector.

Chart. Fed balance-sheet evolution will be centre-stage.

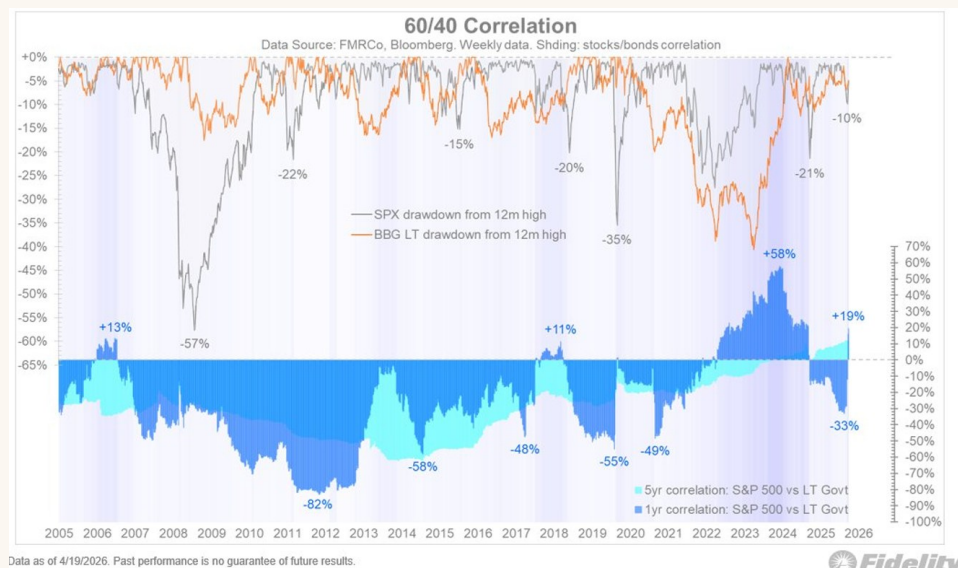


A Warsh-Bessent Treasury-Fed Accord featuring the 'privatisation' of the Fed's balance sheet is in the making. The idea is to lower short rates and tolerate a steeper yield curve to a certain extent. To avoid economic damage, mortgage rates would need to be capped or nationalised.

Tactical allocation - 3m view

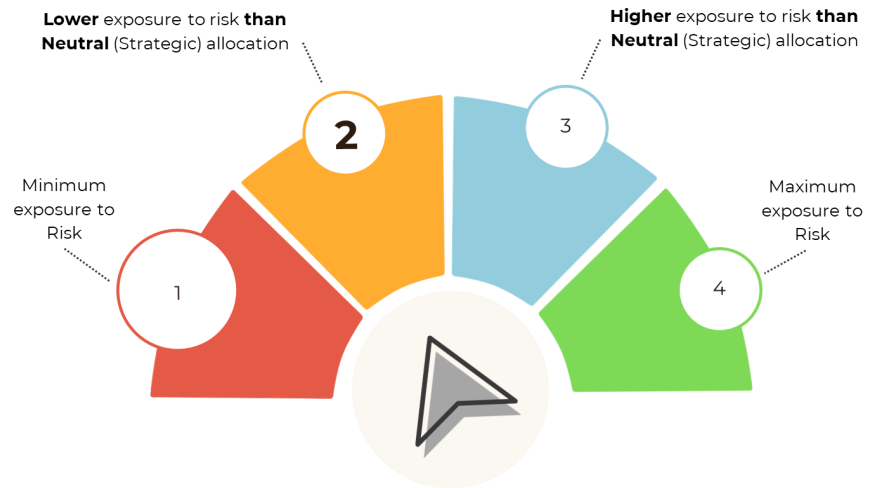
The global macro perspective remains OK for now, with the obvious caveat of a resurgence of war in the Middle East or a long blockade of the Strait of Hormuz. So far, markets have assessed the prospect of a new inflation regime remarkably calmly. Nevertheless, the decline in the VIX and Move indices should not mask the significant underlying deterioration in correlations. Developments in US liquidity over the next few quarters bear careful watching.

- ⇒ Correlation of key assets have - again - become positive.
- ⇒ Stay fully invested over the next three months.
- ⇒ But maintain a significant portion of asset allocation in real assets, commodities, metals and alternative investments.



Currencies

Risk budget
3m investment horizon



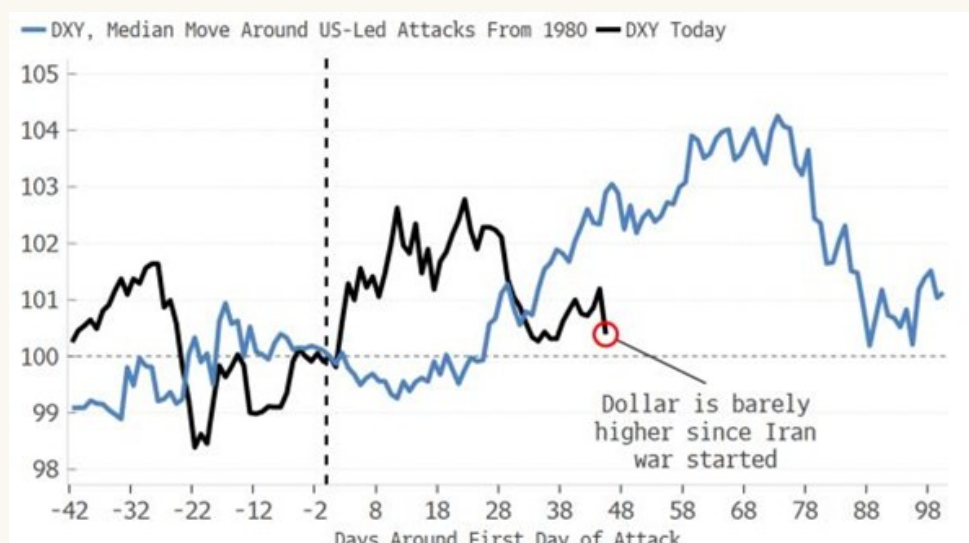
Central bank war trap

The Iran war has trapped central banks in a stagflationary deadlock. Soaring energy prices drive inflation while simultaneously crushing growth. Previously on track to normalize policy, they are now paralyzed; with supply-side shocks, no interest rate adjustment can solve this fundamental threat to the global economy.

The USD is not shining despite higher oil prices

Despite high oil prices and ceasefire uncertainty, the USD is failing to rally. Structural headwinds—persistent deficits, overvaluation, and declining global reserves—now outweigh its traditional "safe-haven" status. As trade and loans diversify away from the greenback and Treasuries lose their risk-off appeal, the dollar's ability to sustainably climb during global crises is no longer guaranteed.

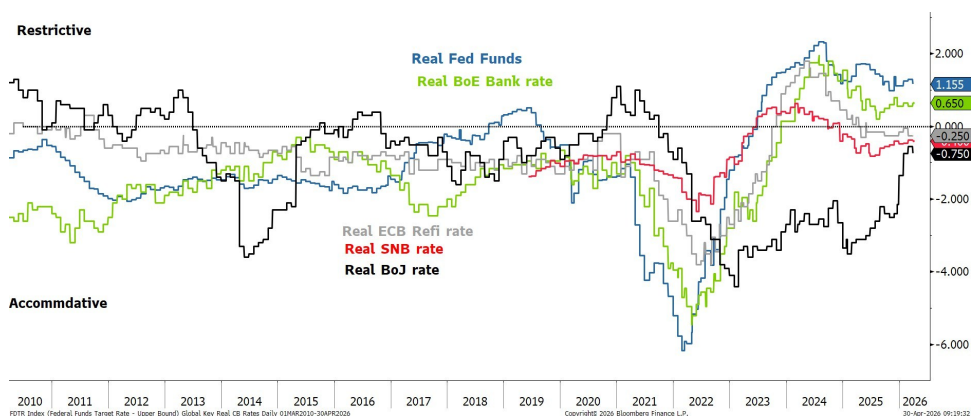
Chart. USD risk-off cachet is depleting.



The Fed held rates steady, marked by a rare four-member dissent—the most since the 1990s. The tug-of-war between the hawks and doves was

on full display with 3 hawkish dissents and the well-anticipated dovish Miran in favour of a cut. With inflation nearing 4%, Powell signalled a potential hawkish shift and the possible removal of the easing bias. Between historic internal opposition and Powell's own transition, a prolonged pause or "no-cut" 2026 scenario is increasingly likely. Warsh said that the Fed needed a serious shaking up, with "messier meetings" and "a good family fight" at an institution that has cultivated discipline and consensus, just when his future colleagues are moving away from supporting rate cuts.

Chart. ECB, SNB and BoJ have room to tighten.



Ueda rhetoric failed to convince

The BoJ held rates at 0.75%, but a 6-3 split signalling a hawkish shift toward normalization. While core inflation forecasts rose to 2.8%, growth was halved to 0.5%. The Ministry of Finance intervened to support the yen. This is the first intervention in nearly 2 years. Despite this MoF intervention at the 160 threshold, the Yen remains weak. Without a significantly more hawkish BoJ tone, isolated interventions are unlikely to reverse the trend. The JPY will remain the funding currency and the most exposed economy to imported energies costs.

Another ECB hawkish shift

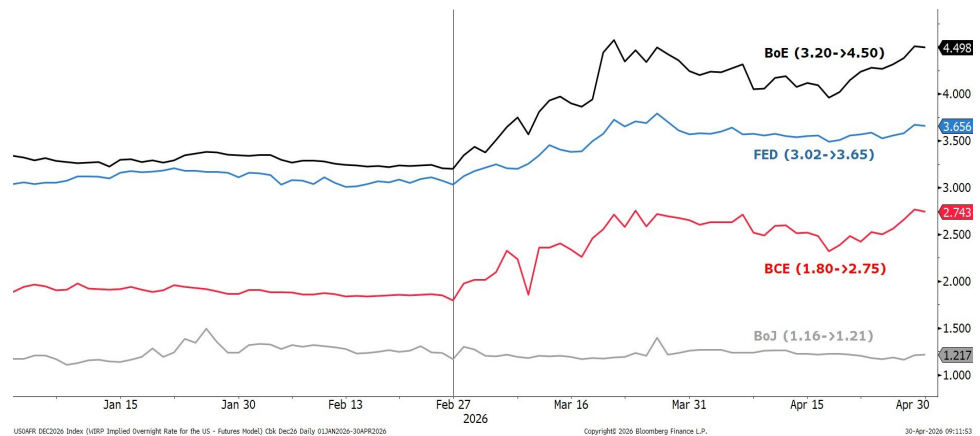
The ECB held rates but debated a hike, shifting toward a hawkish June pivot as stagflationary pressures mount. While German core inflation is easing, soaring energy costs and weak Eurozone growth are complicating policy. The March baseline itself was predicated on rate hikes, while oil prices have moved significantly higher since then. We expect a 25bp hike at each of the next two meetings taking the deposit rate to 2.5%.

Despite Governor Bailey's earlier caution, the BoE remains caught in geopolitical uncertainty. Its current "middle scenario" assumes energy prices will retreat, preventing long-term inflation. While the committee remains sceptical of a 2022-style inflation spiral, the Middle East crisis suggests a return to austerity, albeit with a more restrictive stance, due to a not credible central scenario.

The CHF, GBP and JPY remain the 3 unloved currencies, according to the speculative positioning. While investors started the year with a long EUR vs. short USD, the positioning has fully reverted. The USD is the preferred speculators currency, not ours.

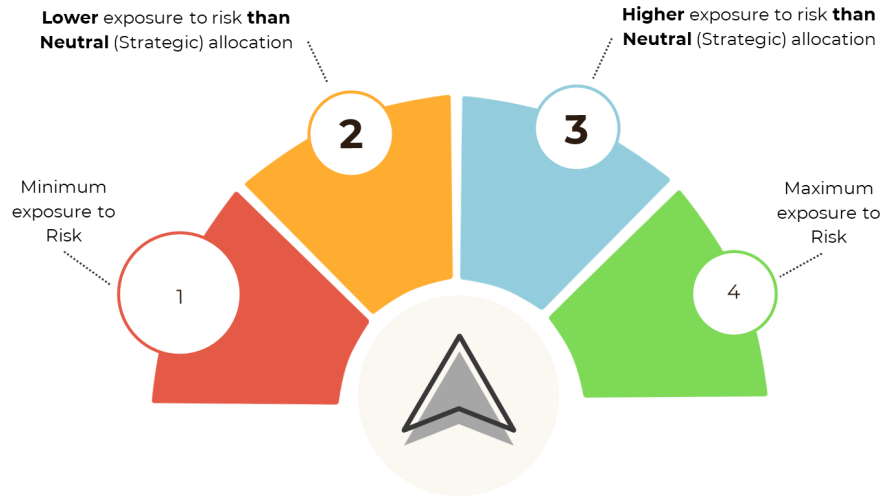
In relative terms, the war has transformed expectations for all central banks. The ECB and BoE are now expected to hike 3 more times this year. Investors have de-priced 3 Fed cuts, but BoJ expectations have not changed. The EUR and GBP are our favoured currencies.

Chart. Iran war transformed FED, ECB and BoE expectations by year-end, but not the BoJ.



Bonds

Risk budget
3m investment horizon



Despite April's cooling European inflation, relief is short-lived. Spain's subsidies and weak German activity provide only temporary buffers against record-high household and industrial price expectations.

Despite these cooling signals, the European bond market remained largely unmoved. Notably, household inflation expectations have surged to levels not seen since April 2022. Concurrently, price expectations in the industrial sector continue to climb, and service sector professionals have reported their first uptick in pricing outlooks. The current stability in underlying inflation may be transitory.

While domestic European data might have had a negligible effect on bonds in isolation, recent developments in the US have triggered immediate market volatility. US economic indicators continue to diverge from monetary policy forecasts, creating significant pressure on global rates.

Chart. Inflation expectations rebound.



Historically, markets remained relatively insulated from the geopolitical tensions in Iran; however, this sentiment has shifted. The prolonged nature of the conflict, coupled with resilient economic data, has driven a sharp increase in long-term inflation expectations. This shift explains the intensified pressure and upward movement seen in forward rates over the past several days.

The fiscal dimension

The Iran war has shifted focus to fiscal sustainability. While the Eurozone's debt trajectory remains largely intact, constrained fiscal space may force a less aggressive monetary response to inflation.

The bond market is under pressure again. Meanwhile, Global bond yields rose sharply alongside the rally in oil prices, reaching new year-to-date highs. With the 2y, 10y and 30y yields approaching key thresholds of 4%, 4.5% and 5%, their "policy pivot" level that previously triggered interventions from President Trump, signalling imminent risk for the US economy.

Fed balance sheet

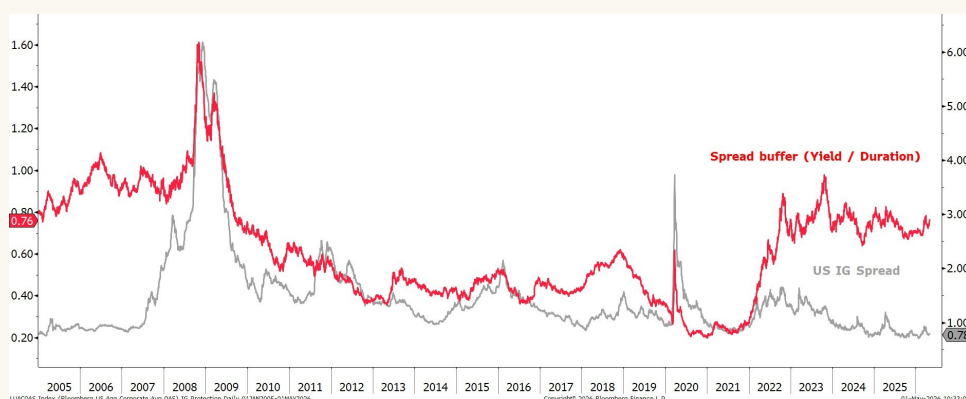
Warsh may align Fed holdings with Treasury maturity profiles. Since the SOMA portfolio overweight long-duration assets, this shifts pressures to the long end. Because the 10y UST term premium correlates with SOMA size, a shorter duration would likely raise the premium as the UST.

- The bond market will soon become the centre of attention.
- Given the energy prices dynamics, we remain underweight US Government bonds.

Resilient balance sheets support credit

Despite geopolitical volatility, IG and HY spreads remain near post-GFC tights, anchored by healthy fundamentals and diversified revenue growth. While AI-driven Capex has increased supply, elevated all-in yields provide a dependable return cushion. We favour IG credit as a stable portfolio anchor, offering resilient cash flows and a better risk-adjusted foundation than volatile government bonds.

Chart. Despite tight spreads, IG yield protects against spreads widening.

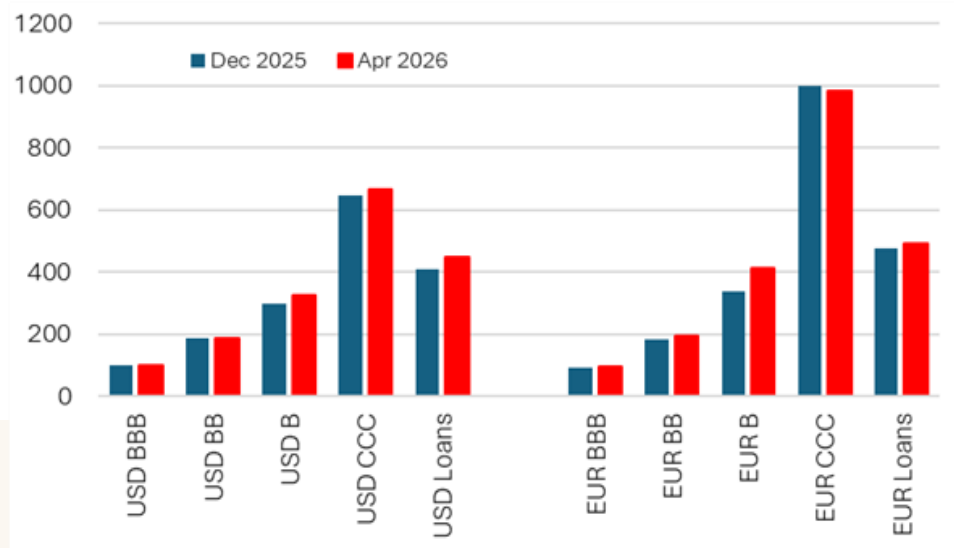


Constructive on US HY fundamentals despite macro uncertainty

While 2026 earnings growth may slow, leverage remains stable. Recent spread widening reflects geopolitical volatility and macro reassessment rather than fundamental decay. Spreads will stay range-bound, supported by attractive all-in yields that provide a meaningful cushion.

Technical conditions remain favourable. Proactive refinancing has minimized near-term maturity walls, allowing issuers to remain patient despite higher rates. With disciplined supply and solid fundamentals, US HY remains a compelling allocation for risk-adjusted returns in a volatile environment.

Chart. Macro uncertainty has a limited impact on low rated bonds.



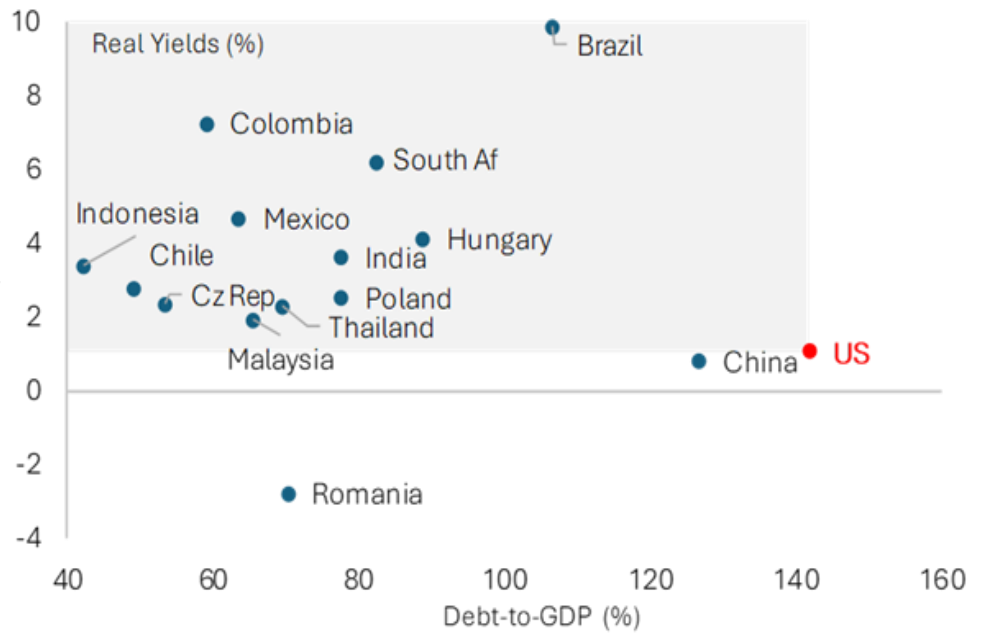
Global events pose challenges to EM

Prudent policy adjustments have left many EM less vulnerable to geopolitical shocks than in the past. Beyond Middle East tensions, the backdrop remains supportive due to positive global growth, manageable debt, and contained inflation. Technicals have also improved as the asset class transitions from years of outflows to recent inflows.

Despite supportive growth, we are underweight hard-currency credit due to tight valuations and downside risks in distressed debt. We favour local currency duration, where high real yields and steep curves offer protection, alongside select currencies supported by trade terms and USD weakness.

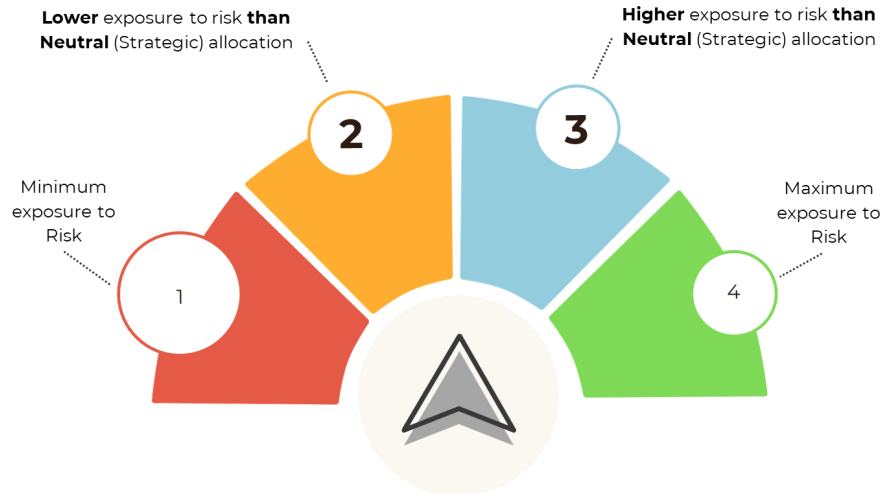
- EM real yields and lower indebtedness drove opportunities.

Chart. Macro uncertainty has a limited impact on low rated bonds.



Equities

Risk budget
3m investment horizon



Stocks are expected to continue their upward trend in 2026, with volatility and a target of 7,800 for the S&P 500.

In the short term, a correction is expected

We are ruling out a stagflationary scenario. Certainly, the war in Iran is raising concerns about an economic slowdown and a resurgence of inflation, already noticeable with a 100 basis point acceleration in Western economies. There are also restrictions on certain refined petroleum products, such as kerosene used in commercial aviation.

But the "limited" rise in oil prices has caught experts off guard. The Middle East accounts for 20% of the world's oil and gas supply. Since the start of the US-Iran war on February 28, the average price of Brent crude has been \$100 per barrel, with two peaks between \$120 and \$125. Far away from the \$150 of the Great Financial Crisis in 2008 and the \$140 at the start of the Ukraine war. Many experts had predicted a price between \$150 and \$200. This "good" news limited the rise in the US 10-year Treasury yield to an average of 4.27%, compared to 4.5%-5% in 2022-2024 (Ukraine war). If the interest rate situation remains stable, we do not see a risk of a contraction in stock valuations, even though the April rally raised P/E ratios to pre-Iran war levels.

Profits are supporting stocks. Indices are being buoyed by the explosive growth in profits, driven by AI. In Q4 2025, profits rose by 14%, compared to an expected 8%. In Q1 2026, profits is climbing by 27%, compared to the 13% expected at the end of March, and revenues by 11%. The strongest positive contributions come from technology (semiconductors) and Big

Tech. Profit growth is estimated at 22% in Q2 2026 and at +21% for the year 2026.

Exhibit 9: Consensus estimates point to 12% S&P 500 EPS growth in Q1 2026

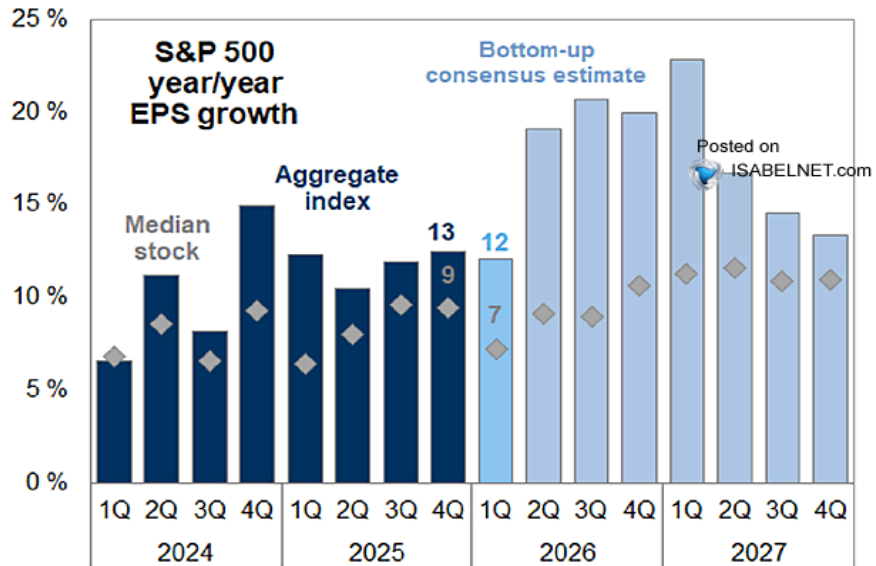
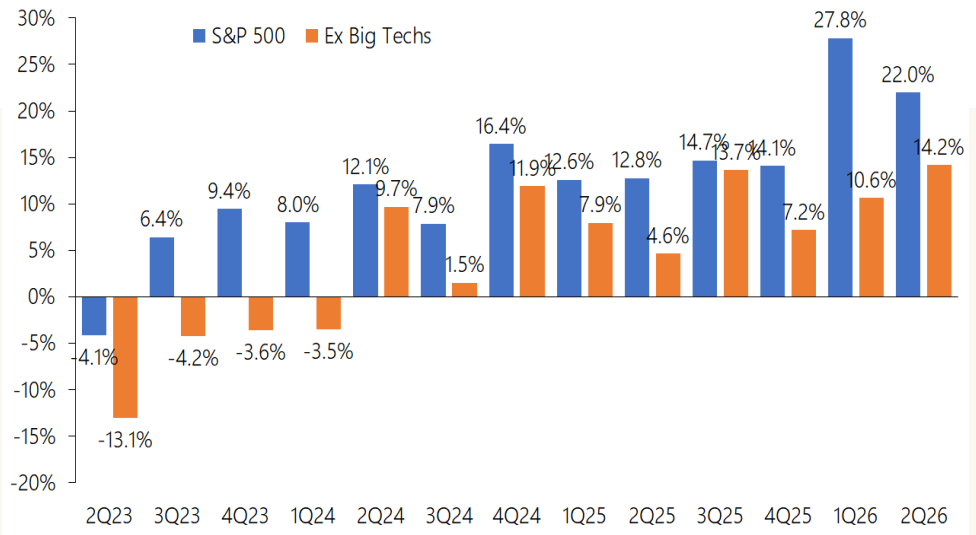


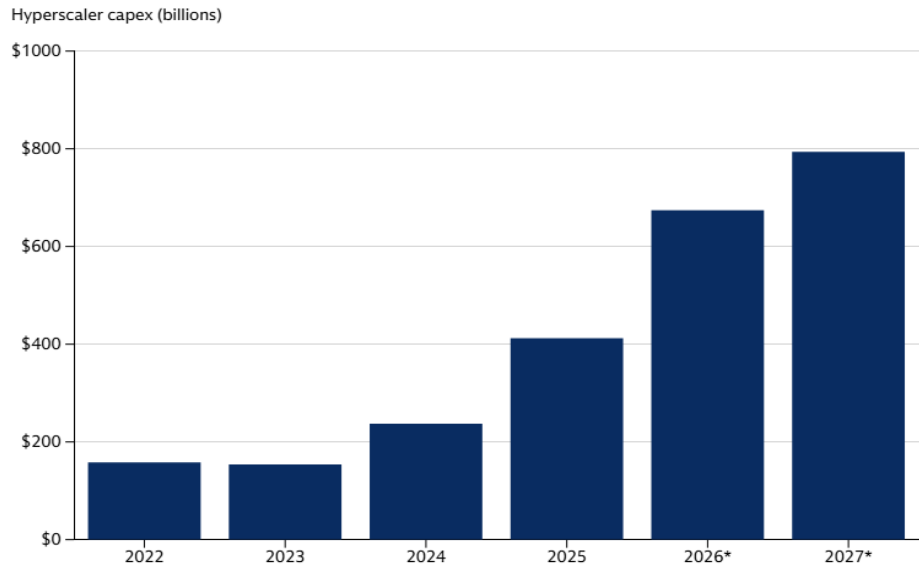
Chart. Big Tech and semiconductors account for 50% of the S&P 500's profit growth. S&P 500 profit growth is expected to reach 20% in 2026!

Source: FactSet, Goldman Sachs Global Investment Research



Over the next few quarters, profits will continue to be supported by investments in AI, the energy transition (electrification), defense spending, the expansion of power generation capacity, and economic stimulus packages in Germany and Japan. From a regional perspective, the reconstruction of Ukraine should benefit European companies. The strength of profits overshadows geopolitics, the Fed, and legitimate concerns about AI capital expenditures. Eli Lilly's results confirm the strong sales growth potential for weight-loss medications.

Chart. The massive investments in AI by the 5 hyperscalers. \$190 billion in 2026 for Alphabet and Microsoft.



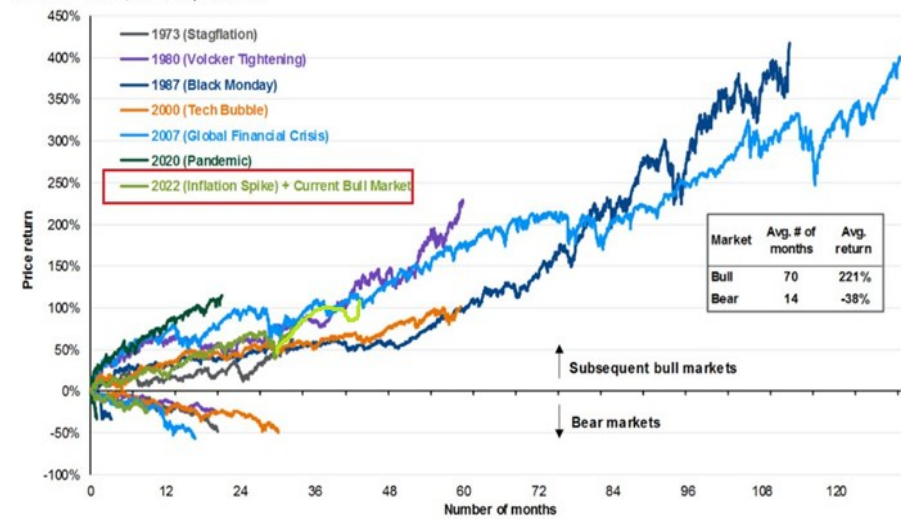
Source: FactSet, Goldman Sachs Research
*Consensus estimates



Chart. This bull market (which started in October 2022) is still young with 43 months and a rise of 102%. The average of a bull market is 70 months and a rise of 221%.

Length and severity of bear and subsequent bull markets

Number of months, S&P 500 price return



Volatility will persist in 2026 with the ongoing threats and Trump's backpedaling. At the end of 2025, we wrote that the bull market would continue into 2026, until the first quarter of 2027 (a technical analogy between the Dotcom bubble of 2000 and the current massive capital expenditures in AI), but with significant phases of rallies and corrections.

Stock markets are holding up well, betting on a more cautious Trump stance on the Iran war as the November midterm elections approach, where he is in a very poor position in the polls. The price of a gallon of US unleaded 95 has fallen below \$4, but remains too high, while Trump had promised \$2 per gallon. Already on financial ice for several months, the Iran war has accelerated the collapse of the American airline Spirit Airlines due to the sharp rise in jet fuel prices. Even though the United States is

virtually energy independent, oil, gas, and refined product prices are global. No airline of this size had gone bankrupt in the United States for twenty years.

Buyback announcements remain strong

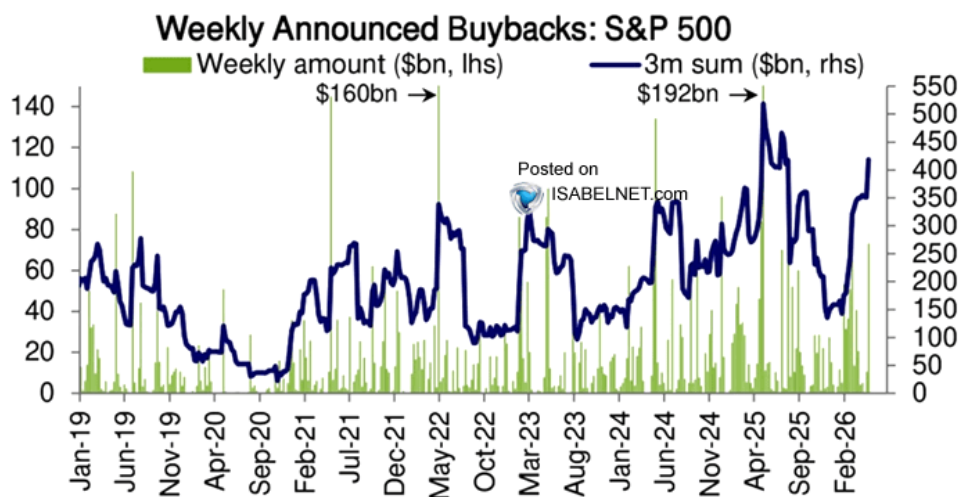


Chart. The increase in share buybacks in the US is a sign of strong balance sheets and a desire to favor shareholders.

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

In the short term, European stocks are be favored over US and emerging market stocks. After a corrective phase in March, stock markets experienced one of their fastest rallies in April. The adage "Sell in May and go away" has long since ceased to hold true. Over the past 10 years, the S&P 500 has only fallen once in May, followed by a single decline in June and no declines in July. However, with the exception of European stock markets, May began in a (very) overbought environment; this would warrant consolidation, or even a correction. The April rally occurred with limited participation from stocks.

Unhappy with the absence of Europeans in his war on Iran, Trump wants to punish Europe by withdrawing American troops from Germany and Spain and raising tariffs on cars to 25%. An increase in US tariffs from 15% to 25% on European automobiles would cost between €15 billion and €30 billion, according to the Kiel Institute. "Germany's already sluggish growth rate would be severely impacted," said IfW economist Julian Hinz. The institute currently anticipates a growth for the German GDP of 0.8% this year. Italy, Sweden, and Slovakia are also expected to be severely affected. Since the beginning of the year, the best performers (MSCI World Index) have been energy (Iran war), materials (national security), technology (AI), industrials (defense, industrial equipment), communication services (AI), and power producers (AI and energy transition). We remain positive on these sectors.

Since September 2025, the financial sector has exhibited high relative volatility. Since early February 2026, the financial sector has decoupled from the yield curve, but with the steepening of the yield curve, it should perform better.

Defensive sectors (healthcare, consumer discretionary, and staples) are suffering. Healthcare is being penalized by the price cuts for medications imposed by Trump, with the exception of Eli Lilly thanks to its super-powerful anti-obesity drug, and consumer discretionary by the impact of the war in the Middle East on the luxury segment and by the technological transition in the automotive sector. Consumer staples are performing better thanks to their ability to raise prices. In the defensive segment, we are overweighting food, beverages, and tobacco.

Regionally, we overweight emerging markets. Latin America is benefiting from the arrival of new, right-wing, pro-reform governments and rising commodity prices, while Asia is benefiting from its exposure to exports of industrial and military equipment and technology.

Chipmakers and Big Tech are dominating EM stock markets, mirroring the US pattern

Weightings of MSCI EM and S&P 500 indices, with top 10 companies by weight highlighted

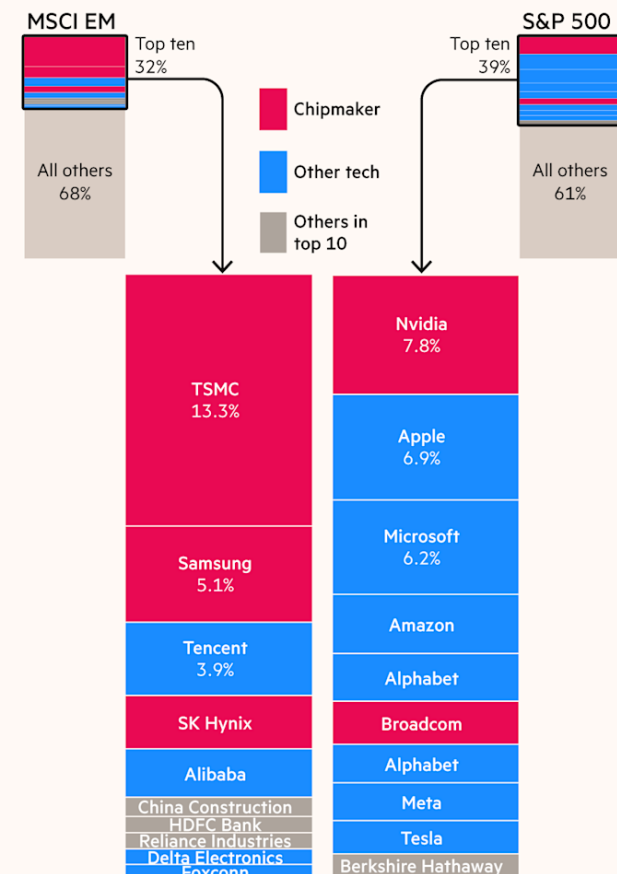
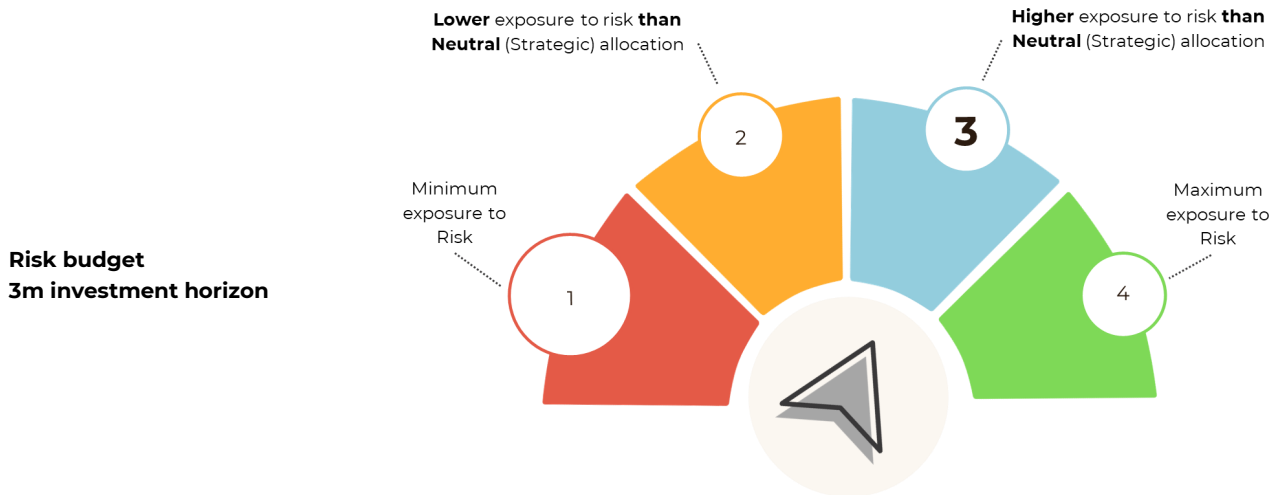


Chart. With the explosion of AI, the technology sector is taking an important place in Asian indices, explaining the strong rise in Taiwanese and Korean indices.

Alternative Investments



Precious and industrial metals are holding steady. The green theme has resurfaced

Gold is consolidating. Investors are awaiting developments in the US-Iran conflict, with the risk of inflation and diminished hopes for interest rate cuts by central banks. In the short term, we have little conviction regarding gold. A correction in an overbought stock markets could weigh negatively on precious metals. In the first quarter of 2026, central banks purchased gold at their highest rate in a year. The largest buyers were Poland and Uzbekistan. Russia and Turkey were sellers. China remains a strong buyer, both through its central bank and by households and individual investors.

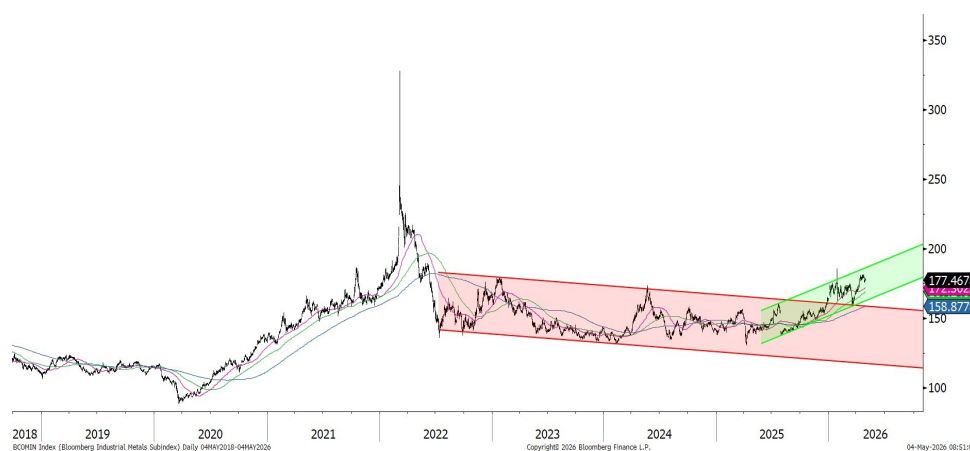
In India, gold imports reached their lowest level in 30 years, with 15 tons in April compared to a monthly average of 60 tons. Banks, which import most of India's refined gold, have halted their imports due to a new 3% tariff imposed by customs. India is the second-largest consumer of gold, after China.

Chart. Gold. Consolidation phase.



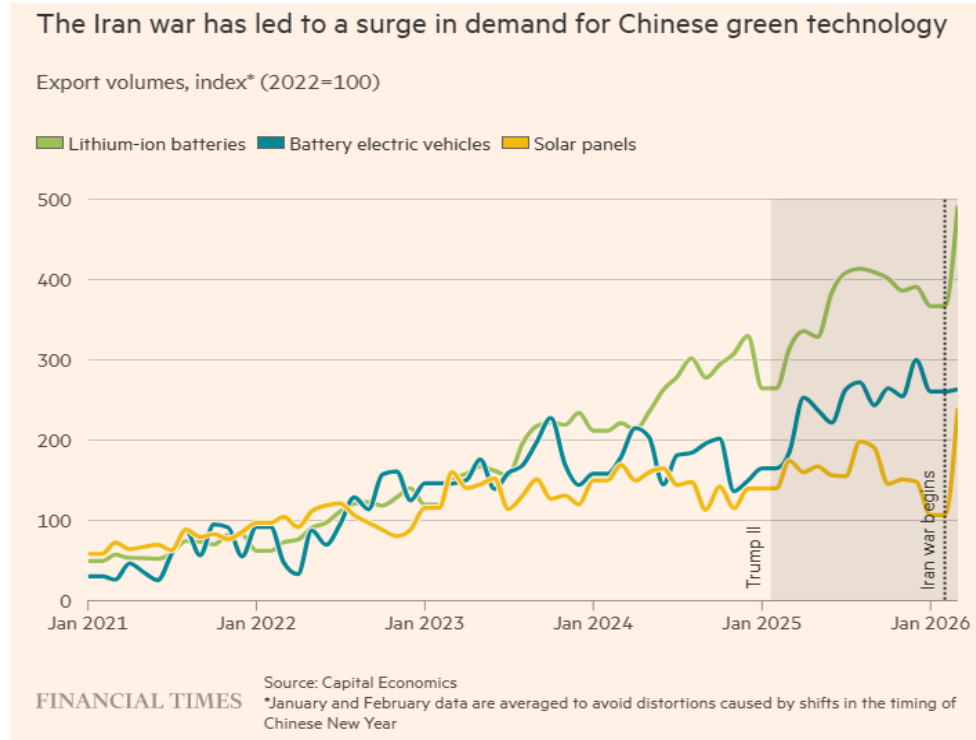
Industrial metals experienced a strong rally in April, following an exaggerated correction in March. However, investors are awaiting a resolution to the US-Iran war. Negotiations between the US and Iran are a key driver influencing industrial metal prices. We should buy the sector on setbacks in mining company stocks. Some industrial metals, such as copper and nickel, are experiencing supply shortages. Aluminum supplies have decreased due to the war in the Middle East, where 8% of global production is located. The North American automotive industry is on the verge of a crisis due to insufficient aluminum supply. It uses 30% more aluminum than in 2020. When the risk of a global economic slowdown is lifted, industrial metals will continue their rally.

Chart. Industrial metals.
Upward trend.



The Iran war is not over, but we do not anticipate an escalation, as Trump, despite his repeated threats, cannot afford a protracted and costly war from a domestic political standpoint, six months before the midterm elections. Prices will not fall substantially, as oil and gas producing countries need high prices to rebuild destroyed infrastructure and recover revenue after two months of war. Trump has created a situation that did not exist before the war: tensions in the Strait of Hormuz and the payment of a toll to Iran. With his transactional mindset, Trump proposed to Iran the creation of a joint venture to share transit fees. Consumers will pay these transit fees. In the medium term, the United Arab Emirates' exit from OPEC on May 1st will have a downward effect on prices. With rising oil and gas prices, Trump has revived interest in renewable energy despite his aversion to it. South Korea, which imports 70% of its oil from the Middle East, has also boosted its green energy sector. In the United States, rising gasoline prices have led to a 20% jump in electric vehicle sales. In March, with nearly 540,000 registrations, Europe achieved an all-time monthly record with a 37% surge in electric vehicle sales. This renewed interest stems directly from the soaring price of unleaded gasoline. In April, investors invested in green energy funds at their fastest pace in five years. In conclusion, we are overweighting both the Energy sector (short term) and the green energy theme (medium- to long-term). However, the green energy theme is expected to outperform fossil fuels. Trump won't stop the obvious.

Chart. Demand for Chinese green technologies has exploded with rising oil and gas prices.



In the absence of fundamentals, cryptocurrency analysis relies exclusively on technical setups. This situation has persisted for almost a year now.

Chart. Bitcoin. A break above \$80K would take us towards \$100K.



The monthly letter

TACTICAL SITUATION REPORT

May 2026

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