

Macro Quarterly

Insights on market dynamics
and investment themes

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UBS

Rebounding from a supply shock

1. A renewed energy-driven supply shock has pushed inflation higher and made diversification harder, as traditional safe havens have proven unreliable.
2. The global economy enters this shock from a position of relative strength, with improving manufacturing momentum, fiscal support and healthy private sector balance sheets.
3. We believe inflation pressures will remain largely concentrated in energy which would in turn limit the risk of a broad, persistent inflation cycle.
4. Markets have likely overpriced central-bank hawkishness, particularly for the Fed, where we believe subdued employment and fading core inflation keep rate cuts in play.
5. We remain overweight equities and are increasingly constructive on duration, but have taken profits on gold which has become particularly correlated to risk assets.

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Supply shocks, which push inflation higher while weighing on growth, are among the most challenging environments for investors to navigate. They have also become more frequent. The recent spike in oil and gas prices tied to the conflict in Iran marks the fourth major supply shock in just the past few years, following post-COVID supply-chain disruptions, the Russia–Ukraine war and the introduction of tariffs.

The core challenge is that traditional safe havens don't always work in the face of a supply shock. Higher inflation leads markets to price more hawkish central banks, putting pressure on bonds and raising the discount rate applied to risk assets. Persistently elevated and volatile inflation has kept the stock–bond correlation generally positive since COVID, after nearly two decades of sharply negative correlation.

Alternative diversifiers such as gold can also be unreliable, as has been evident in recent weeks. Higher real yields and crowded positioning can trigger liquidations in metals, even when rising geopolitical risk would, in theory, support prices.

Currencies have also behaved inconsistently. In the current episode, the USD has benefited from the US's relatively strong energy position vs. the rest of the world. However, the dollar sold off sharply when tariffs were introduced, as global investors reassessed their exposure to US assets. Meanwhile, the traditional safe-haven JPY has struggled, reflecting Japan's vulnerability as a major energy importer.

We recently discussed how investors can **build more resilient portfolios for supply shocks through alternatives**. CPI-linked infrastructure and certain hedge-fund strategies stand out as ways to offset some of the pain. Targeted exposure to specific commodities can also help, particularly when the commodity itself is at the center of the supply shock. Still, in this episode, unless investors entered with meaningful exposure to energy-related assets – which had underperformed for years – most portfolios have experienced some pain in recent weeks.

One silver lining is that supply shocks do eventually end. One way or another, supply adjusts, even if the new equilibrium price settles at a higher level than before. In isolation, supply shocks typically lead to a de-rating of risk assets, which is what we have seen so far. The more important question is whether the shock becomes severe enough to push the economy into recession, as that is when equities and credit tend to experience their largest drawdowns.

What now for the economy?

Developments remain fluid, and economic damage has already occurred following the closure of the Strait of Hormuz and the destruction of some Gulf energy facilities – the key question is the magnitude of the impact. Higher energy prices will lift headline inflation and weigh on real incomes, placing downward pressure on consumer spending. That said, the timing of the shock is relatively favorable, as it coincides with fiscal support from the US tax bill and German fiscal stimulus entering its economy. In addition, global manufacturing momentum had already been improving, as reflected in the February pickup in global PMIs. If a shock was going to occur, this was not an especially unfavorable point in the cycle. Private-sector balance sheets remain healthy, limiting the risk of a sharp retrenchment. Assuming the Strait of Hormuz is gradually reopened and oil prices avoid multiple months above USD 120, the economy should have sufficient resilience to muddle through.



We also expect the inflation shock to remain largely concentrated in energy and agriculture (which is feeling the effect of a spike in fertilizer prices). If that turns out to be the case, it could keep inflation from broadening meaningfully into manufacturing and services as it did in 2021–2022. The earlier episode reflected a combination of pandemic-related factory shutdowns and an abrupt demand surge fueled by overstimulus from government tax relief and spending programs. Today, even with fiscal support in place, US nominal GDP growth is running closer to 4%–5%, compared with double-digit rates during that period. The labor market is also materially less tight, reducing the risk of a wage–price spiral.

Against this backdrop, we believe the recent hawkish repricing of central-bank policy expectations has overshot. Given single inflation mandates and high reliance on imported energy, it is understandable that markets have priced rate hikes in the UK and Europe, although we believe expectations have gone too far given the negative growth implications. By contrast, the Fed’s dual mandate – which includes full employment as well as price stability – leaves room for rate cuts later this year, assuming core inflation continues to normalize toward 2% as we expect.

Asset Allocation

Markets entered the year pricing an improving growth–inflation mix; the war has degraded, but not fundamentally upended, that dynamic. Despite volatile headlines, underlying earnings growth has remained strong and has, unusually, been revised higher this year. Against this improved earnings backdrop, the S&P 500 forward P/E has de-rated by roughly 15% since October, representing a meaningful adjustment. Sharp swings in sentiment and positioning have also triggered several of our contrarian buy signals, which have historically back-tested well. As a result, we remain overweight equities, with a preference for emerging markets and Japan, where earnings growth remains strongest. We hedge this exposure with an underweight to Europe, where earnings growth is weaker and vulnerability to higher natural-gas prices would increase should the Iran war escalate.

We also find duration increasingly attractive, as the shift in central-bank pricing appears extreme. De-escalation between the US/Israel and Iran would reduce inflation risks, while a more adverse scenario of sharply higher energy prices would ultimately weigh on growth and force central banks to ease. Recessions tend to extinguish inflation, and we have conviction that bonds would regain their hedging

properties in that environment. While we have not formally moved overweight duration given the still-positive stock–bond correlation, government bonds are increasingly attractive on an outright basis.

We remain neutral on credit. Although spreads have widened modestly, the asymmetric return profile leaves credit less compelling than equities at this stage. In addition, we see scope for private credit investors to hedge exposures through more liquid public-market instruments.

We removed our USD underweight during the escalation of the war, reflecting the US’s relative insulation from energy shocks, given its role as a major producer. That said, we continue to favor selective carry opportunities, particularly in BRL, which continues to offer attractive yield.

Finally, while gold remains part of our Strategic Asset Allocation, we have shifted from overweight to neutral in Tactical Asset Allocation. Gold has become too correlated with risk assets to justify additional tactical exposure. We continue to see a structural case for higher central-bank and private-sector holdings over time, but we view this as a strategic allocation rather than a near-term tactical trade.



Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness for global equities, rates, and credit as of 24 March 2026. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

Asset Class	Relative weight	UBS Asset Management's viewpoint
Global Equities	Overweight	We remain overweight global equities, supported by strong earnings and still solid growth. We prefer Japan and EM vs. Europe, Switzerland and Australia.
US	Neutral	Earnings should remain strong in the US and fundamental backdrop is solid. Cyclical strength supports continued earnings growth across sectors.
Europe	Underweight	We are underweight European equities, as earnings growth remains weaker than other regions. We like European banks, which should benefit from strong earnings.
Japan	Overweight	We are overweight Japanese equities, which we believe should benefit from high domestic nominal GDP growth and improving earnings. More stimulative policy combined with a weak JPY may also support future earnings growth.
Emerging markets	Overweight	We are overweight EM equities as earnings are strong across most regions. The MSCI EM index is heavily weighted toward North Asian tech giants – which should still benefit from the AI capex cycle over the medium term.
Global Government Bonds	Neutral	We are neutral duration. Although we think US disinflationary forces are still intact (housing, wages), we acknowledge that stock–bond correlations have moved positively and see duration trading in line with risk assets for the time being.
US Treasuries	Neutral	We expect continued core disinflation and mediocre employment to prompt a resumption of Fed cuts in 2H. Still, the positive stock-bond correlation limits the attractiveness of duration as long as oil risks are in focus.
Bunds	Underweight	We are underweight bunds primarily to fund the gilts position. Both countries are major gas importers, yet the Bank of England has been repriced by significantly more than the ECB. With more fiscal stimulus in the EU, we think pricing should converge w/ UK.
Gilts	Overweight	We remain overweight gilts as we find valuations are attractive with the 10yr yield historically attractive. Very restrictive policy is being priced for the BoE which should eventually hamper growth and keep a lid on how much higher 10yr yields can go.
JGBs	Neutral	We are neutral on Japanese government bonds. Although the BoJ is likely to raise interest rates further, we expect it will act slowly, while carry costs of shorting JGBs are elevated due to the low BoJ policy rate.
Swiss	Neutral	We are neutral on Swiss bonds. While the domestic economy remains lackluster, valuations are expensive on a relative basis.
Global Credit	Neutral	Backward-looking fundamentals look strong amid low default rates and solid corporate earnings. That said, spreads at these levels still maintain an unattractive asymmetry, particularly as investors in private credit may hedge via public markets.
Investment Grade Credit	Neutral	IG spreads remain relatively tight, while earnings and balance sheets remain solid, helping limit downside risks. The US IG market must increasingly absorb supply related to AI capex financing needs.
High Yield Credit	Neutral	We expect spreads to remain range-bound amid rising but contained default rates. Investors interested in hedging private credit exposures may do so via more liquid public markets.
EM Debt Hard Currency	Neutral	We are neutral on EMD in hard currency but overweight local currency EM debt, as we view policy rates as restrictive given current inflation levels; nevertheless, we remain attentive to the reaction function of EM central banks as they face possible inflation spillovers from the Iran conflict.
FX	N/A ¹	N/A ¹
USD	Neutral	We upgraded our underweight USD position to neutral following the onset of the Middle East conflict. It serves as one of the few hedges for further escalation in the ongoing war.
EUR	Neutral	We downgraded our overweight EUR position to neutral after war in the Middle East broke out due to the region's sensitivity to energy prices. That said, we still favor long EUR against GBP, amid weakening UK employment data.
JPY	Neutral	We see 160 as a rough ceiling for USD/JPY given the current administration's stated FX desires but would anticipate policy rates still have to converge further to the rest of the DM before the currency can appreciate durably.
CHF	Neutral	We are neutral on the CHF, as an expensive valuation and low yield are counteracted by strong balance of payment inflows.
EM FX	Overweight	We favor high carry EM currencies, including BRL, which offer high real interest rates and attractive valuations.
Commodities	Neutral	We have taken profits on gold as central bank purchases have slowed, and it has failed to hedge against rising geopolitical risks. We are neutral oil as risks are binary around the outlook for the partial reopening of the Strait of Hormuz.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 24 March 2026. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning, and are subject to change.

1 N/A (consistency) was added for accessibility purposes. For FX, our view is shown according to its respective currencies (USD, EUR, JPY, CHF and EM FX).

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Americas

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