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CREATING OPPORTUNITIES

Global capital markets

2Q26 update

April 2026

Capital Markets 2Q26 Update

Summary

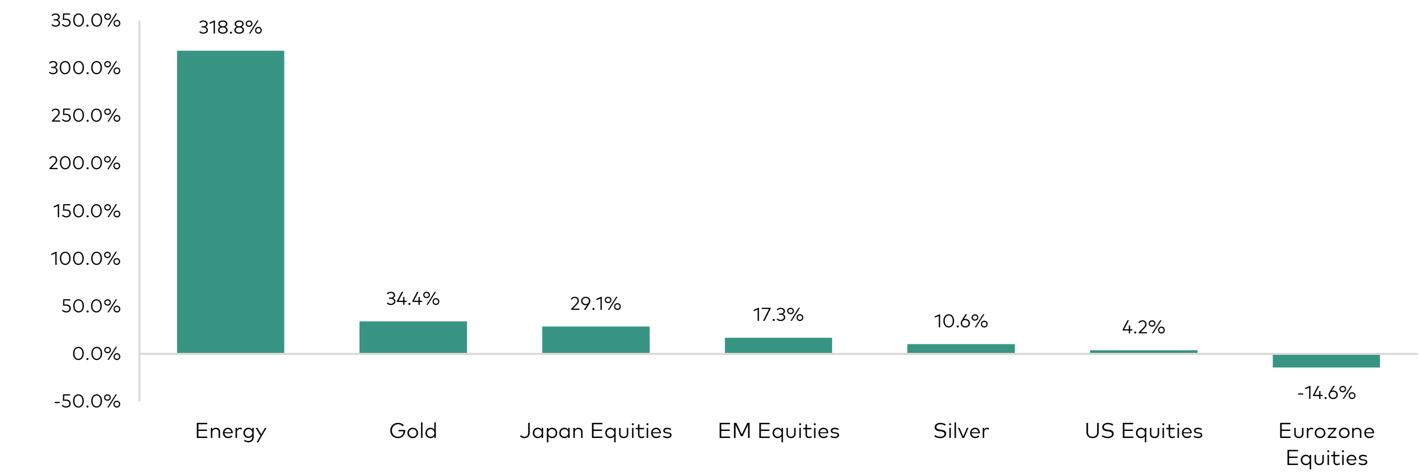
- Energy costs linked to the Iran conflict and tariff pass-through are pushing inflation higher simultaneously, leaving the Fed unable to cut rates at its April meeting - Jerome Powell's last meeting as chair. With March CPI at 3.3% and rate hikes explicitly live, short-term, high-quality bonds remain the safest choice.

- US stocks have fully recovered from Iran war-related losses, with the S&P 500 just off its record high, Q1 earnings growth is running at 15.1%. Among Big Tech, Alphabet was the standout, surging 6% after hours; Microsoft and Amazon beat estimates but slipped on valuation and capex concerns; Meta fell 5% on flat Q2 guidance. Apple reports after the close today.

- The Iran conflict caused the largest oil supply disruption in modern history, with Brent above $113/bbl after US–Iran talks in Pakistan collapsed over the weekend (11-12 april). Trump has signaled dissatisfaction with Iran's latest proposal, keeping the Strait of Hormuz and oil prices on a knife-edge.

- Asia is hit hardest because 84% of Gulf oil and 83% of LNG flows there. China is the exception: Q1 GDP beat at 5.0%, the CSI 300 has outperformed regional peers. South Korea and Taiwan remain most exposed to tech supply chain disruption.

Selected Asset Class Returns: 1Q26 Performance (Jan 1 – End of Quarter)



Source: Bloomberg
Silver: iShares Silver Trust (SLV);: SPDR Gold Trust (GLD); Eurozone Equities: iShares MSCI Eurozone ETF (EZU); EM Equities: iShares MSCI Emerging Markets ETF (EEM); Japan Equities: iShares MSCI Japan ETF (EWJ); US Equities (small-cap): Russell 2000 (RUT); Investment Grade Bonds: iShares Investment Grade Corporate Bond ETF (LQD); High Yield Bonds: iShares High Yield Corporate Bond ETF (HYG)

Fixed Income

Inflation, energy, and a reluctant Fed

Bond investors enter 2Q26 facing a very different landscape than a year ago. On April 29, the Fed held interest rates steady at 3.50–3.75% — the 3rd consecutive meeting with no change. It was also Jerome Powell's final meeting as chair; Kevin Warsh is expected to take over in mid-May. With rates unchanged, market attention shifted to Powell's closing press conference and any signals about the path ahead. One notable detail: Powell confirmed he will stay on as a Fed Governor, keeping a seat — and influence — on the board.

Inflation Is Picking Up Again

US annual inflation jumped to 3.3% in March from 2.4% in February, driven by tariff costs feeding into consumer prices as pre-tariff inventories run out and by higher energy prices tied to the Iran conflict. The tariff effect alone could add around 0.5 percentage point to inflation by mid-year. Against this backdrop, the Fed has struck a more cautious tone and signaled that rate hikes remain on the table.

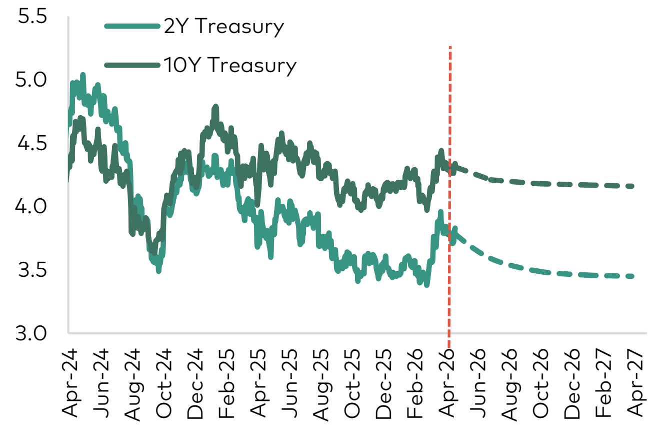
Europe: Pausing, but Watchful

The European Central Bank has kept its key policy rates unchanged at its latest meeting, following the easing cycle earlier this year. Updated staff projections point to a more challenging outlook, with inflation expected at 2.6% in 2026 and growth slowing to 0.9%. Christine Lagarde emphasized that policy will remain data-dependent, with no pre-commitment to further tightening. Markets currently expect limited additional rate moves, reflecting uncertainty around both inflation persistence and growth momentum.

Investment implications

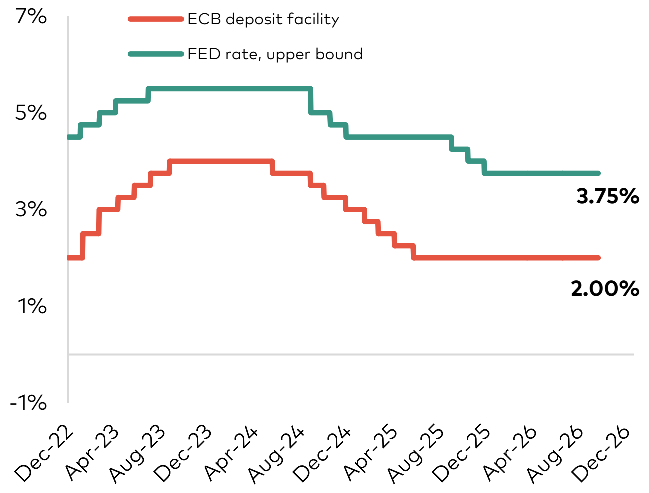
In this environment, steady income from bonds matters more than hoping for prices to rise. Shorter-term bonds, maturing in 2 to 5 years, offer decent yields without taking on too much interest-rate risk. It is safer to stick with high-quality borrowers, as weaker companies may struggle if growth slows and costs keep climbing. In Europe, longer-term bonds are riskier because the ECB may still raise rates. Inflation-linked bonds such as TIPS can also help protect returns while inflation remains elevated.

US 10-year and 2-year treasury yield, %



Source: Bloomberg
*Dashed lines show the forecast after April 2026.

Fed and ECB interest rates



Source: Fed, ECB

Equities

Relief rally underway — and the ceasefire trade

US stock markets have recovered strongly. The S&P 500 reached a record level of 7,136 and has fully recovered from the drop caused by the Iran conflict. The Nasdaq Composite rose for 13 days in a row, its longest streak since 1992, before a small fall on April 20.

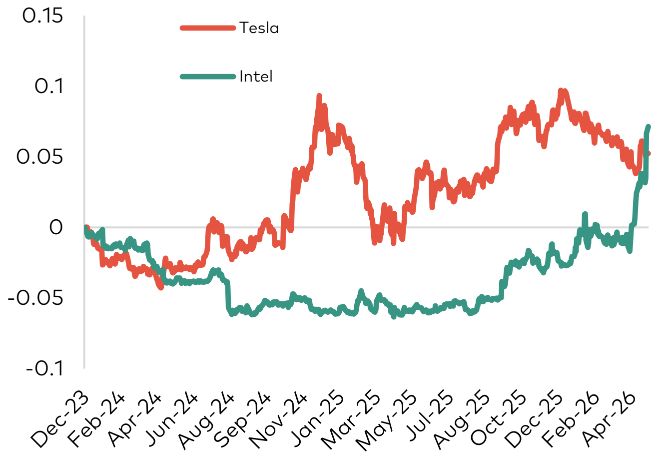
Markets are reacting less to bad news. Each new event in the Strait of Hormuz is causing smaller market moves. This shows that investors are getting used to the situation. However, stocks are expensive. The S&P 500 is trading above its usual levels compared to past years.

Company results are the main focus now, and they are stronger than expected. About one quarter of S&P 500 companies have reported results so far, and profits are growing by 15.1%. This would be the 6th quarter in a row with strong growth. Many companies are reporting higher profits and sales than expected.

The biggest surprise came from Intel. Its results on April 23 were much better than expected, with revenue beating forecasts by more than US$ 1bn. Its stock price jumped 23.6% in one day, the largest increase since 1987. Intel also said it will work with Elon Musk on a large AI chip factory.

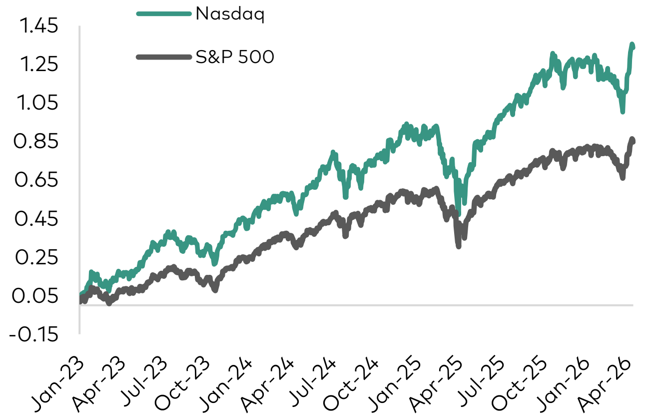
This week proved pivotal, as Microsoft, Alphabet, Meta Platforms, Amazon, and Apple reported results. Together, they now plan to spend upwards of US$ 645bn on AI in 2026 — with Meta raising its capex range to US$ 125–145bn and Alphabet lifting its full-year figure to as much as US$ 190bn. What they said about these investments reinforced confidence in AI infrastructure spending, though mixed after-hours reactions suggest markets are increasingly focused on returns, not just commitments.

Total return of selected stocks - dates



Source: Bloomberg
*Total return - how much an investor earns if they hold a stock, accounting for both price changes and dividends, assuming dividends are reinvested.

Index value change of selected indexes



Source: Bloomberg
*Index value - shows how a simple example portfolio of selected stocks is doing, with each stock given a set weight and adjusted over time so results stay comparable

Investment implications

If tensions between the US and Iran improve, technology stocks may continue to rise. If the conflict continues, energy, defense, and basic consumer goods companies may perform better. For long-term investors, spending on AI, including chips, energy, and data storage, is still a strong trend. Since expectations are already high, what companies say about the future is more important than their past results.

Energy & Oil

The Hormuz shock: fragile ceasefire, active blockade

The Iran conflict, now in its 9th week, has produced what the International Energy Agency has called the most serious energy crisis in history. The Strait of Hormuz, which carries about 20% of the world's traded oil, is nearly shut down, with both the US and Iran blocking commercial shipping.

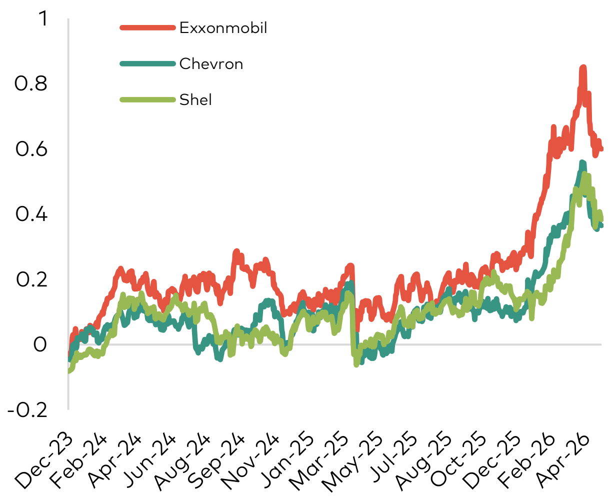
Oil prices have been swinging sharply with each development. Brent crude briefly fell 13% on a ceasefire announcement in early April, only to reverse course when the US announced a naval blockade. As of April 30, Brent is trading in the $121–126 range — a 4-year high. Even if a deal is reached soon, analysts estimate it could take 4 to 6 months for oil flows through Hormuz to return to normal.

The outlook remains highly uncertain. OPEC is also in flux, with the UAE announcing its departure from the group. And the fallout extends well beyond oil — gas prices in Europe have increased, and fertilizer shortages are starting to affect food production in parts of South America and Asia.

Investment implications

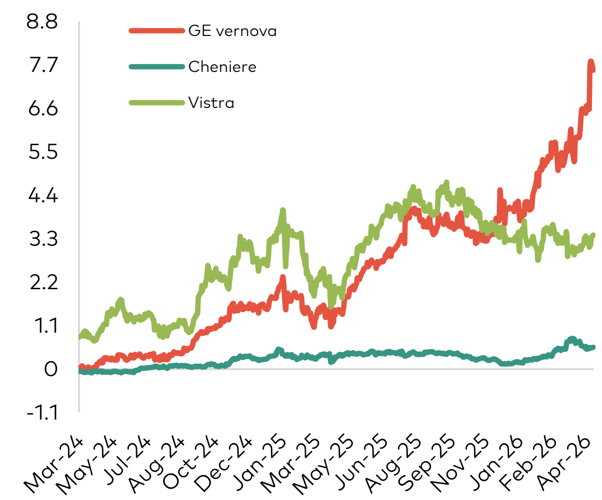
Oil company stocks have already risen by about 34% this year, so much of the positive news is already reflected in prices. If a peace deal is reached, these gains could reverse quickly. Other areas may offer better long-term opportunities. Governments are now focusing more on renewable energy, nuclear power, and alternative gas supplies to reduce reliance on Middle Eastern energy.

Total return of selected stocks



Source: Bloomberg
*Total return - how much an investor earns if they hold a stock, accounting for both price changes and dividends, assuming dividends are reinvested.

Total return of selected stocks, x



Source: Bloomberg
*Total return - how much an investor earns if they hold a stock, accounting for both price changes and dividends, assuming dividends are reinvested.

Asian Market

China holds its ground and Japan's narrative sharpens

Asia is the region most exposed to the Iran conflict, since about 84% of oil and 83% of gas passing through the Strait of Hormuz is destined for Asian countries. Recent US–Iran talks held in Pakistan collapsed after Donald Trump cancelled the visit of his envoys, leaving the diplomatic outlook unclear.

China is holding up better than most. Its economy grew by 5% in 1Q26, above expectations, driven by strong factory activity and exports. Stock markets have performed well and government bond yields have stayed stable, signaling investor confidence. The weak spot is consumer spending, which grew only 2.4% in March. The IMF has lowered its 2026 growth forecast for China to 4.4%.

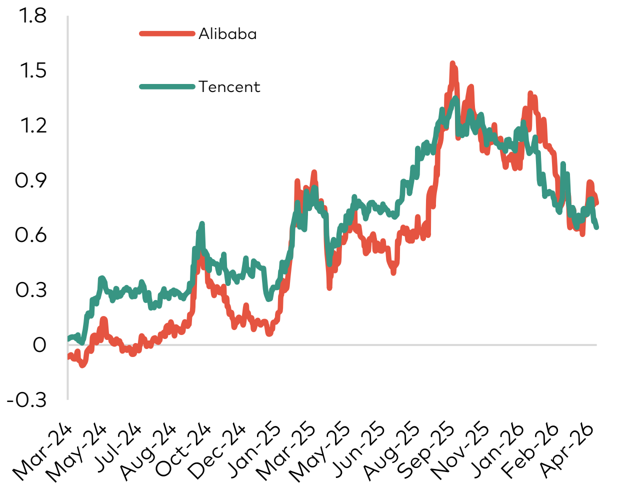
Japan kept its interest rate at 0.75%, but cracks are appearing within the central bank — 3 out of 9 policymakers voted to raise rates now, suggesting a hike could come before the end of June. The yen strengthened and stocks dipped on the hawkish signal. Prior to this, Japanese equities had been on a strong run, with the Nikkei 225 reaching a record level. Companies are also buying back more of their own shares, showing confidence.

South Korea and Taiwan followed a similar pattern. Both markets reached highs earlier in April on strong chip demand, but pulled back as oil price concerns resurfaced. Both economies remain sensitive to disruptions in technology supply chains.

Investment implications

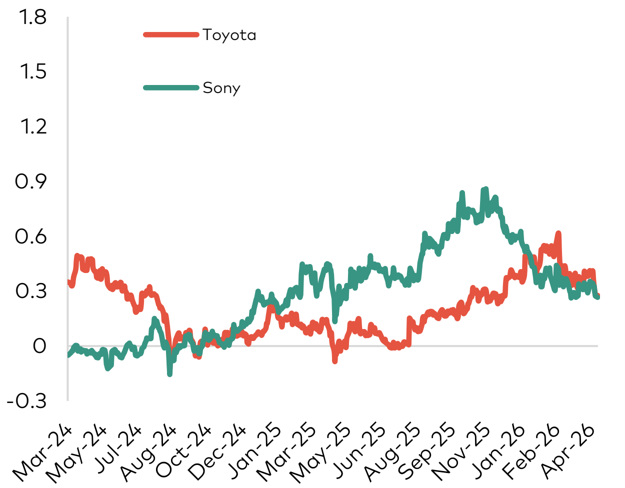
China appears to be the most stable option in the region right now. Its economy and markets are holding up well. Japan could be a good longer-term opportunity, but investors should watch the yen, as it may strengthen if rates rise. For the whole region, the key factor is whether Iran and the US reach an agreement. If the strait reopens, it would be positive for all Asian markets.

Total return of following stocks, China, x



Source: Bloomberg
*Total return - how much an investor earns if they hold a stock, accounting for both price changes and dividends, assuming dividends are reinvested.

Total return of following stocks, Japan, x



Source: Bloomberg
*Price to book value - shows how a company's market value compares to the value of its assets, based on its balance sheet.

Forecasts for 2026 and beyond

Based on market expectations as of today, US Treasury yields are forecast to rise before they fall. The 2-year yield is expected to climb to 3.69% in 2Q before gradually easing to 3.49% by end-26, as the Fed holds rates higher for longer. The 10-year yield is forecast to rise to 4.26% in 2Q before settling near 4.18% by 4Q — no meaningful relief for long-duration holders in the near term.

In Europe, the 10-year German Bund yield is forecast to jump to 3.00% by Q2 and hold near that level through end-2026, with EURIBOR rising to 2.31% — reflecting genuine market pricing of ECB rate hikes ahead.

Oil forecasts carry unusually wide bands: Goldman Sachs raised 4Q Brent forecast to $90/bbl average (from $80). Citi flags $150 tail risk if disruptions persist through June — now more relevant than before.

FIXED INCOME

Yield forecasts (%)

	Last	2Q26F	3Q26F	4Q26F	1Q27F
US treasuries					
30-year	4.72	4.84	4.77	4.73	4.72
10-year	4.11	4.26	4.21	4.18	4.17
5-year	3.65	3.88	3.82	3.75	3.72
2-year	3.44	3.69	3.59	3.49	3.46
SOFR	3.49	3.6	3.47	3.36	3.28
German bunds					
10-year	2.77	3.00	3.00	2.98	3.00
2-year	2.06	2.54	2.51	2.47	2.40
EURIBOR	2.07	2.31	2.40	2.42	2.41

Source: Bloomberg

6–12-month outlook

12-month outlook

S&P 500 Sectors	ETF	Outlook
Financials	XLF	
Materials	XLB	
Energy	XLE	
Technology	XLE	
Consumer Staples	XLB	
Communications	XLK	
Utilities	XLV	
Industrials	XLP	
Health Care	XLRE	
Real Estate	XLU	
Consumer Discretionary	XLI	

Source: Charles Schwab

Equities	ETF	Outlook
US	SPY	
Japan	EWJ	
China	MCHI	
UK	EWU	
Emerging Markets	EEM	
Europe	IEUR	

Positive Neutral Negative

Source: BlackRock Investment Institute

Disclaimer

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