

On Point
Market Outlook Q2 2026

Strategic Resilience amid
a 'Shock to the System'



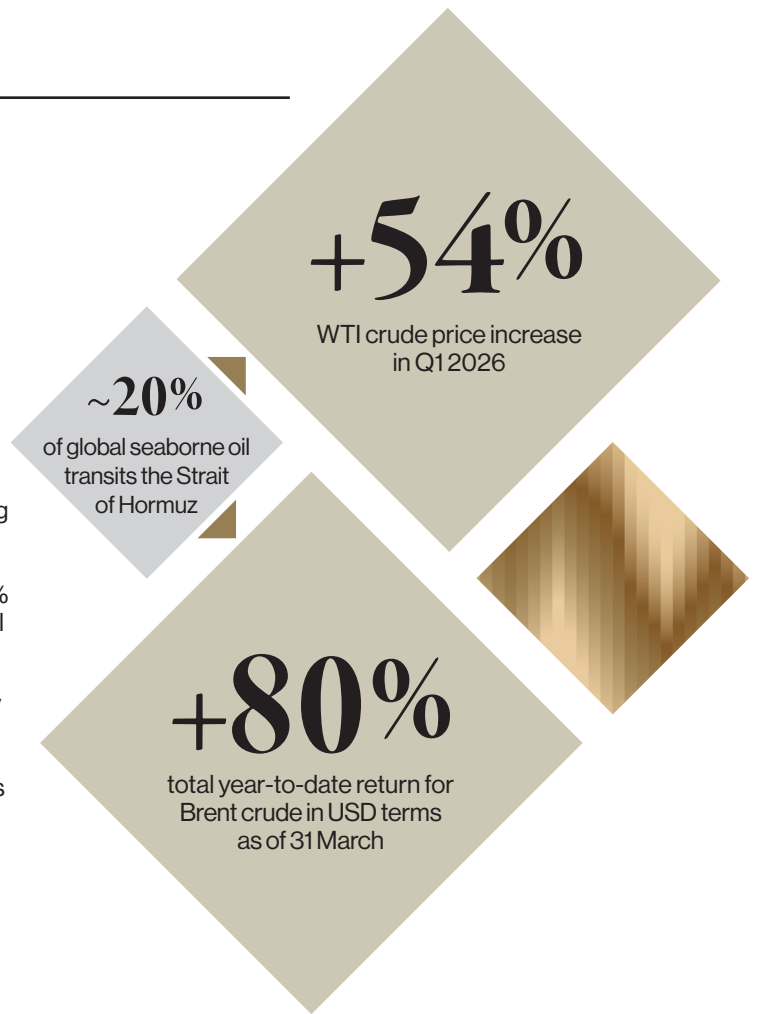
Tipping Points

Q1 2026 began with the constructive conditions we described in our annual outlook – solid growth, AI-driven productivity, and an equity market that had delivered well for investors. It ended in a very different place.

The defining event of the quarter was the outbreak of military conflict involving the US, Israel, and Iran, which began with air strikes in late February. The Strait of Hormuz – through which roughly 20% of the world’s seaborne oil flows – saw tanker traffic effectively halt, sending oil sharply higher.

Equity markets reflected the shock. The NASDAQ fell 8% in the quarter in dollar terms, US small caps dropped 8.3%, and Emerging Markets shed 12.5%. European equities were not spared, with the EuroStoxx 50 down nearly 10% in euros. The standout performer in the period was energy, with WTI crude up 54% and Brent up 80% year-to-date in dollar terms by the end of March – numbers that tell the story of the quarter more concisely than any commentary.

The conditions entering the year were strong – robust earnings, healthy employment, and a policy backdrop that we described as ‘run it hot’. Those conditions have not evaporated. However, they are being tested. A sustained energy shock of this magnitude acts as a tax on consumers and businesses alike, adding to input costs, suppressing real incomes, and complicating the path for central banks. The resilience that characterised financial markets through 2025 will be tested in Q2.



Data Points

Asset Class	Outlook	Change	Comments
Equities	Neutral	▼	Rising volatility, rising long term rates, and deteriorating trend shifting the outlook
Sovereign Bonds	Negative	▼	Commodity price uncertainty and climbing inflation expectations
Inflation Linked Bonds	Neutral	—	Relatively attractive in the bond complex as inflation uncertainty dominates
Corporate Bonds	Negative	▼	Risk appetite deteriorating across financial markets
Gold	Neutral	▼	Rising real yields, strong Dollar, weak Emerging Markets are all negative for the precious metal
Industrial Commodities	Neutral	—	The tug of war between rising oil prices and the outlook for economic growth is unresolved

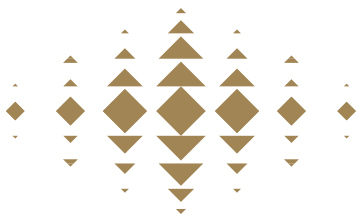
Investment Performance

Strategy	2025 Full Year		Q1 2026	
	NFG Partners	ARC (PCI)	NFG Partners	ARC (PCI) estimates
US Dollar Balanced	+18.7%	+12.2%	-1.1%	-1.5%
US Dollar Growth	+21.2%	+13.9%	-2.7%	-2.2%

All performance quoted net of fees.



Taking *Stock*



We have transitioned from ‘risk-on’ momentum to an evidence-led defensive posture. By rotating growth into value and trimming equity risk, we are insulating portfolios against the ‘triple brake’ of rising oil, rates, and a strong dollar.



De-risking into the storm

Our approach has always been to let the evidence lead. Importantly, our end-of-February rebalance, made before the war broke out, already reflected deteriorating signals in growth assets. We rotated from growth-oriented to value-oriented equity sectors and added exposure to industrial commodities, specifically oil and copper.

That positioning proved timely. As conditions continued to worsen through March, we took the additional step of trimming overall equity risk by 5–10%, cutting our NASDAQ and Emerging Markets exposure as those indicators deteriorated further. The combined effect of these two moves – the February rotation and the March reduction – leaves our portfolios meaningfully more defensively positioned than they were entering the quarter.

Within equities, our current focus is on lower-volatility, value-oriented sectors and US domestically-orientated businesses less exposed to the global energy and supply-chain disruption. These are not exciting themes, but they are deliberate ones.

A strong dollar, rising oil, and rising rates – three brakes on growth

The combination of a stronger US dollar, materially higher oil prices, and rates that are unlikely to fall quickly creates a meaningful headwind for economic growth. Each acts as a brake in its own right: a stronger dollar tightens financial conditions globally, particularly for Emerging Market borrowers; rising oil pushes inflation higher and reduces household ▶

spending power; higher-for-longer rates increase the cost of capital for businesses and consumers. Together they represent a meaningful challenge to the growth outlook.

It is worth noting that the conflict puts the Federal Reserve on hold – more reluctant to cut rates than it was before – at a time when US inflation already sat at 2.4% in January, above the Fed's 2% target. The 'run it hot' policy environment we described at the start of the year has been made considerably more complicated by the shifting inflation picture.

Fixed income – short duration, protected, and deliberate

We carry very little traditional bond duration in portfolios – long-dated bonds being the instrument most impacted by rising inflation expectations, as higher yields push prices sharply lower. What we do hold is focused on two areas: short-duration high yield and inflation-protected bonds (TIPS). TIPS have provided some insulation in the current environment – their yield and capital value adjusts with inflation – and they are well placed to benefit should long-term inflation expectations become more firmly embedded. Short-duration high yield provides income without meaningful sensitivity to interest rate risk, and the spread available in this segment still offers reasonable compensation. Neither is glamorous. Both are appropriate to protect assets in a period of conflict and uncertainty.

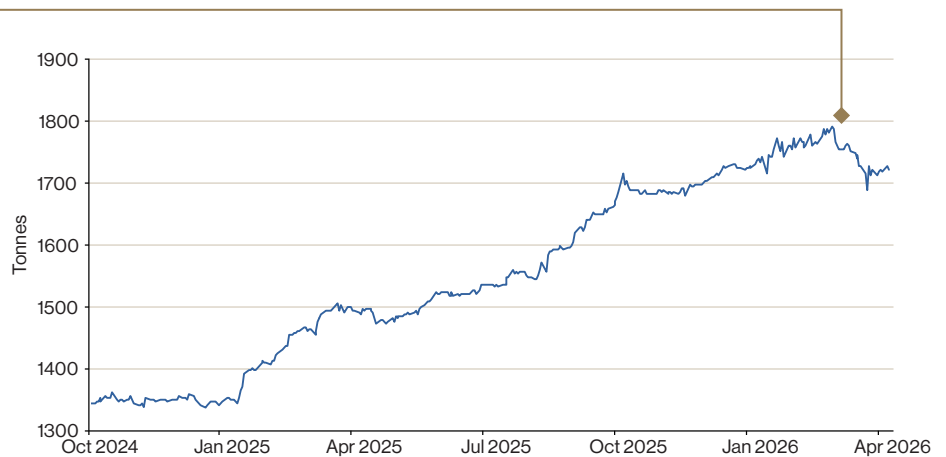
Real assets – rotating within the space

Gold was one of the notable repositioning stories of the quarter. Having maintained meaningful gold exposure throughout 2025, our indicators prompted a significant reduction early in the quarter. This may seem counterintuitive given the geopolitical backdrop – gold is traditionally regarded as a safe haven in times of conflict. The picture has been more nuanced. Rising real yields reduce the opportunity cost of holding non-yielding assets like gold, and a strengthening dollar creates a direct headwind to dollar-denominated commodity prices. Our indicators captured this dynamic ahead of the market, and we acted accordingly, reducing our gold exposure.

15%

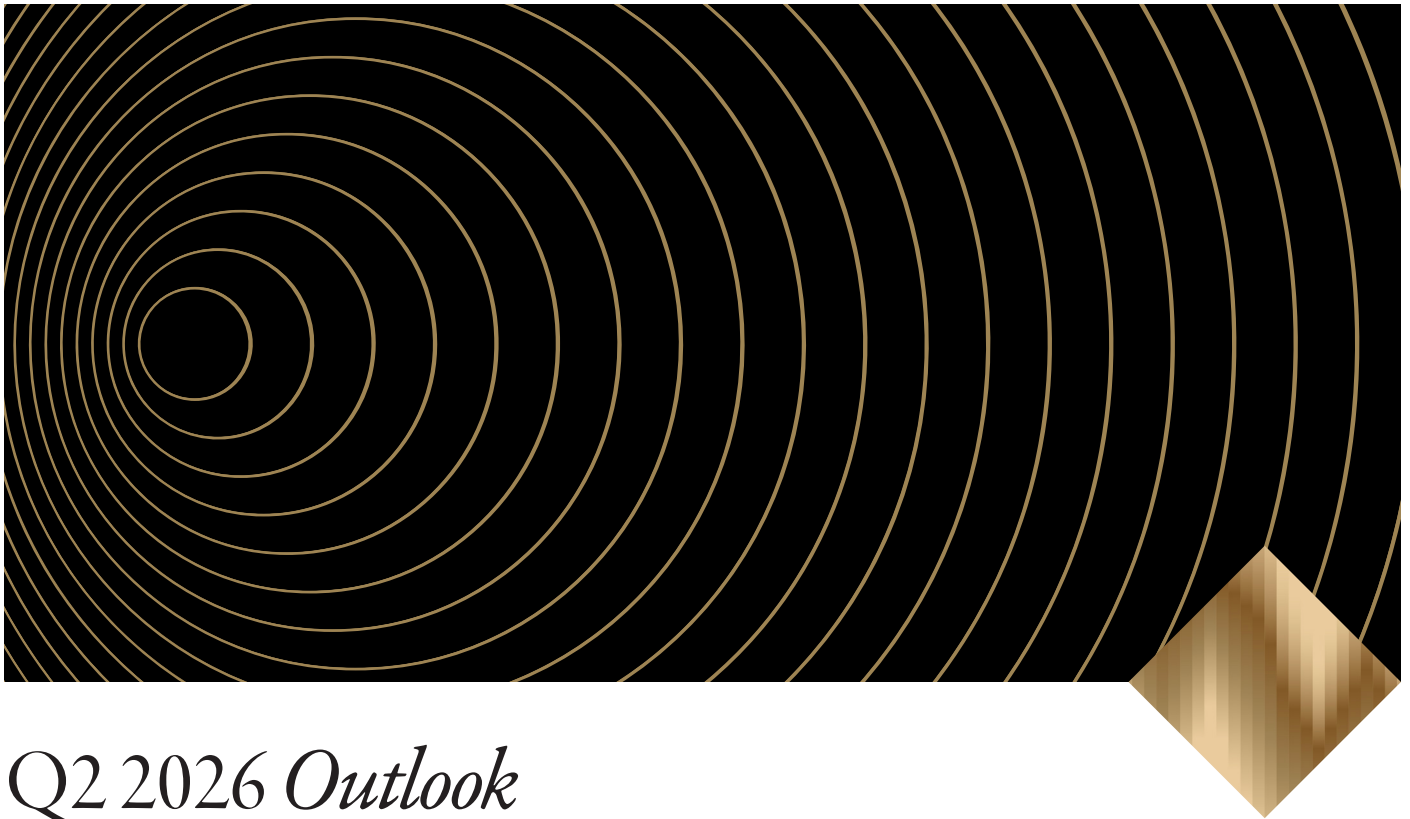
gold price drop in March followed institutional rotation

Losing its lustre – US Gold ETF holdings in tonnes

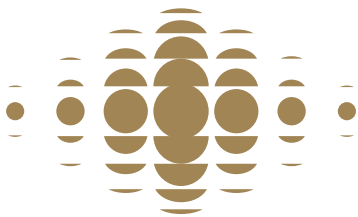


Source: Bloomberg

The brighter note in real assets has been industrial commodities. We received a buy signal in late February – just ahead of the conflict – and that exposure has been a positive contributor during an otherwise challenging quarter. This is precisely the kind of signal-driven allocation decision that our evidence-based process is built to identify: not a macro 'call', but a systematic response to deteriorating fundamentals in one area and improving signals in another.



Q2 2026 Outlook



The “Run it Hot” optimism of the new year has met a sobering reality of geopolitical noise and structural shifts. We pivot from momentum-chasing to evidence-based positioning and disciplined selectivity across all asset classes.

+0.7%

potential global inflation spike if oil holds above \$100

The war in Iran – separating signal from noise

There has been no shortage of commentary, communiqués, and conflicting reports since the war began. US and Israeli officials have at various points indicated that negotiations were progressing, that a ceasefire was imminent, and that diplomatic channels remained open. Iran has issued its own statements in kind. On several occasions market participants have moved on the expectation of an agreement, only for those expectations to be disappointed.

This is, in our view, precisely the environment in which an evidence-based investment process earns its keep.

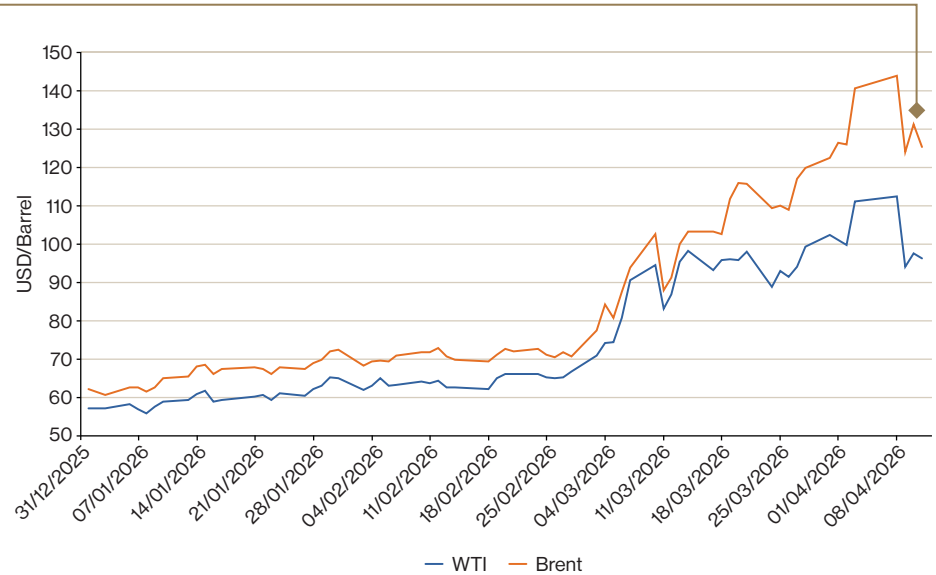
Geopolitical risk is one of many uncertainties we accept as investors. More often than not, it exists in the background – something to be mindful of but rarely a primary driver of market movements. This time it is different, and the reason it is different is specific: the conflict directly threatens the world’s most critical oil chokepoint. If crude oil prices were to rise to in excess of \$100 per barrel and remain at those levels for a sustained period, economists estimate that could add 0.6-0.7 percentage points to global inflation – a material impact on monetary policy across multiple regions. ▶

0.5%

anaemic Eurozone growth projected if regional conflict persists

The jawboning from Washington, Tel Aviv, and Tehran generates enormous amounts of noise. Peace deal rumours move markets intraday. Rhetoric escalates and then softens. If the war ends in a matter of weeks, the macroeconomic impact outside Gulf economies will be limited. If it continues for several months, Eurozone GDP growth could slow to just 0.5% year-on-year in the second half of the year. That is a wide range of outcomes, reflecting genuine uncertainty rather than analytical imprecision.

Oil price volatility amid geopolitical uncertainty



Source: Bloomberg

Our response is not to bet on a particular diplomatic outcome. It is to monitor what our indicators are telling us about the measurable consequences – energy prices, rate expectations, risk appetite, credit spreads – and to position accordingly. When the evidence changes, we will change with it. Until then, we are not in the business of being optimistic or pessimistic about ceasefire negotiations on the basis of a statement from a government spokesperson.

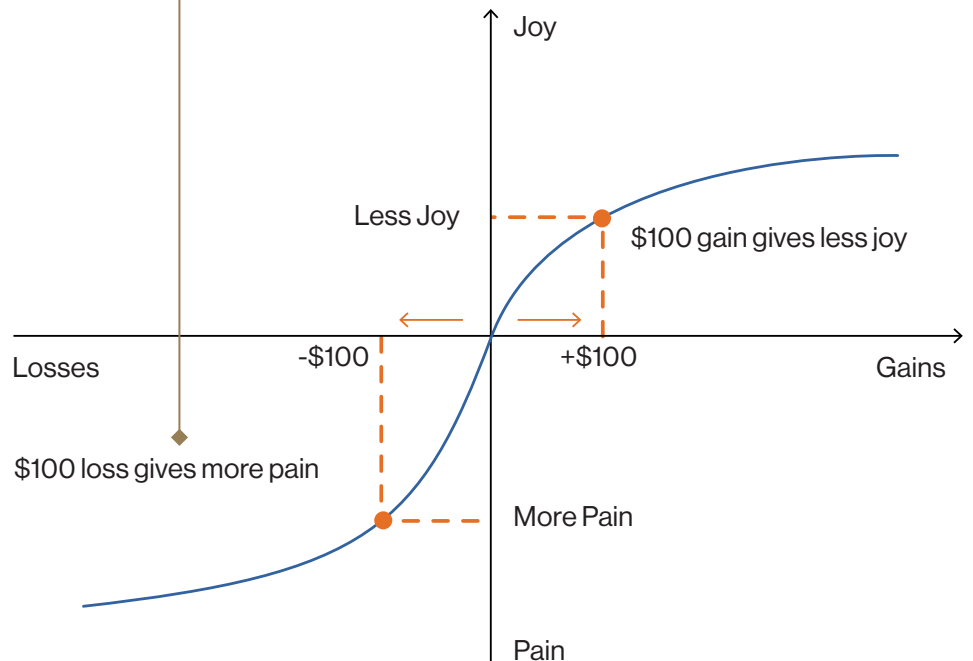
The behavioural challenge – remaining disciplined during challenging times

Environments like the current one are where investment returns are most often destroyed – not by the crisis itself, but by the investor’s response to it. The academic evidence on this point is extensive and largely uncontested. Investors consistently feel the pain of a loss roughly twice as intensely as the satisfaction of an equivalent gain – a phenomenon Daniel Kahneman and Amos Tversky identified as loss aversion nearly fifty years ago, and one that has survived every subsequent attempt to disprove it. In practice, this means that a 10% drawdown generates a behavioural impulse that is disproportionate to the actual financial impact, and that impulse almost always points in the same direction: sell now, ask questions later.

10%

drawdown often triggers
a behavioural selling
impulse

Daniel Kahneman and Amos Tversky – Prospect Theory



The cost of acting on that impulse is well documented. Annual studies of investor behaviour have consistently shown that the average equity fund investor underperforms the funds they invest in – not because they choose the wrong funds, but because they buy after rallies and sell after declines. The gap between fund returns and investor returns is not a fee problem or a selection problem; it is a timing problem driven by emotion. In a quarter where oil prices have surged, equity markets have fallen sharply, and the news cycle is dominated by military conflict, the temptation to de-risk entirely is understandable. It is also, historically, precisely the wrong response.

Our systematic approach exists in large part to remove that temptation from the process – to ensure that positioning decisions are made on the basis of measurable evidence rather than the anxiety of the moment. We did reduce risk this quarter, but we did so because our indicators highlighted rising risks, not because the headlines made us uncomfortable. That distinction matters more than it might appear.

SaaS under pressure – when AI erodes the moat

Before the conflict dominated headlines, Q1 had already delivered a significant repricing in the software sector. In early February, a single product launch erased approximately \$285 billion in software market capitalisation in a single day, forcing investors to confront a question they had been deferring: what happens to SaaS businesses when AI can replicate their core functionality?

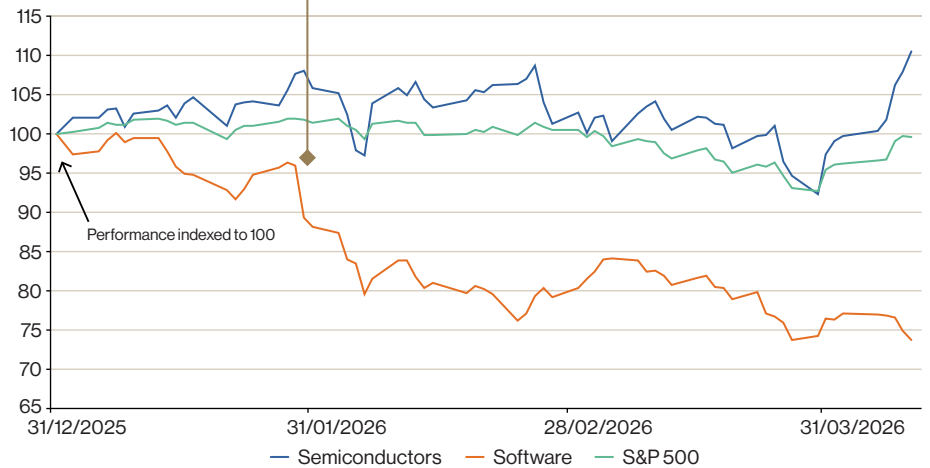
The pressure comes from two directions. AI reduces the number of software seats a business needs – if one person can do the work of two, fewer licences are required. And by lowering barriers to entry, AI intensifies competition and compresses the margins that once made this sector so attractive. Since the software ETF IGV peaked in September 2025, it has fallen 30%, while semiconductors are up 30% over the same period. The divergence reflects a genuine structural shift, not a temporary sentiment move.

Not all software is equally exposed. Platforms with deep data moats and high switching costs – where years of proprietary customer data make migration genuinely painful – are considerably more defensible than narrow, task-specific tools. The investment implication is selectivity, not avoidance.

285

billion dollars of software market capitalisation erased in one day

A structural shift: semiconductors, software, and the S&P 500



Source: Bloomberg

1%

of shareholders drove most of Blue Owl's flagship fund redemptions

Private credit – a stress test, not a crisis

Private credit has grown from a niche institutional strategy into a \$1.8 trillion market, offering higher yields than public bonds, low correlation with equities, and consistent income generation. The first quarter of 2026 brought a meaningful test of those credentials, centred on elevated redemption requests at several retail-focused vehicles.

The reaction in parts of the financial press was louder than the data justifies. Redemption requests were heavily concentrated – 1% of shareholders in Blue Owl's flagship fund accounted for the majority of tender requests – pointing to institutional reallocation rather than broad panic. Across the larger funds, gross inflows in Q1 still reached approximately \$7 billion, with net outflows of only around \$2 billion.

The structural foundations remain sound. Non-accrual rates sit at approximately 1.2% of total portfolios, well below COVID-era peaks and below pre-pandemic levels. With a typical loan carrying a three-year life, roughly one-third of any portfolio turns over naturally each year – a built-in liquidity buffer that comfortably exceeds standard redemption thresholds. The highest-quality managers are navigating the current environment well, and dispersion between managers is the key variable to monitor.

Looking ahead, when sized appropriately, with the right managers and as part of a well-diversified portfolio, private credit can continue to offer investors attractive risk-adjusted returns. That said, we may need to see some NAV adjustment first before the asset class attracts meaningful net new inflows.

Summary

“We are actively adjusting portfolios to reflect this environment – de-risking where our indicators direct us, and seeking opportunities where they arise”

Navigating an evolving environment

The conditions that made 2025 a rewarding year for investors have not disappeared. Corporate earnings remain solid, the AI productivity cycle continues to develop, and the US economy has demonstrated considerable resilience. But the war in Iran has introduced an inflation shock that complicates the path for central banks, slows real income growth, and creates genuine uncertainty about the medium-term outlook. The SaaS repricing and private credit stress add further complexity to a technology sector that was previously driving a disproportionate share of market returns.

We are actively adjusting portfolios to reflect this environment – de-risking where our indicators direct us, and seeking opportunities where they arise. Our industrial commodities signal in February is a good example of the latter: evidence-driven, specific, and ultimately rewarding. That discipline – separating what matters from what doesn't, ignoring the noise, and acting on what the data tells us – is what we believe differentiates our approach in periods like this.

We remain cautiously constructive. The starting point matters, and it was a good one. We expect financial markets to prove more resilient than a simple reading of the geopolitical headlines would suggest. But resilience does not mean complacency, and we will continue to adjust as the evidence evolves.



Glenn Coxon | Chief Investment Officer
15th April 2026



Contact

Rue du Mont-Blanc 4, 1201 Geneva

T: +41 22 566 02 20

E: admin@nfgpartners.ch

nfg.partners

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