CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
FIXED INCOME

April 2026

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Further Extreme Market Volatility as Iran Conflict Escalates

US Treasuries sold off over March 2026, with yields moving decisively higher as the market repriced both the inflation outlook and the likely policy response. The escalation of the Iran conflict proved a key catalyst, driving a sharp increase in global energy prices and reintroducing a material upside risk to headline CPI just as disinflation had appeared to be gaining traction. This fed directly into expectations of a more restrictive monetary stance, with the market pushing back the timing of easing and rebuilding term premia across the curve. The March FOMC meeting reinforced this shift: the updated Summary of Economic Projections (SEP) incorporated an upward revision to core PCE inflation alongside a noticeably wider dispersion of outcomes, highlighting increased uncertainty around the inflation path. While the dot plot still pointed to one 25bp rate cut by year-end, the longer-run policy rate was edged higher, signalling a modest reassessment of the neutral rate. Although growth projections remained broadly resilient, the Fed's messaging emphasised vigilance around second-round energy effects and inflation persistence. In combination, the geopolitical shock and the more hawkish inflation signal within the SEP drove a bear-flattening of the curve, with shorter dated yields being more impacted than longer dated Treasury yields.

UK Gilts weakened in March as markets repriced the policy outlook following the Bank of England's decision to hold rates on 19 March, despite an implied easing probability of around 90% at the start of the month. The unexpected unanimous 9–0 vote by the Monetary Policy Committee underscored a clear preference to prioritise inflation control over near-term growth support. The Committee appears increasingly focused on the risk of second-round effects from higher energy prices, particularly given the UK's relatively high reliance on LNG imports, which leaves it more exposed to the current shock. There is also an evident emphasis on credibility, following the policy misjudgements associated with the 2022 inflation spike. Reflecting this shift, pricing briefly swung sharply during the month, with markets at one stage discounting as many as four 25bp rate hikes by the Bank. In this context, front-end yields moved higher and the curve bear-flattened, with Gilts underperforming as expectations for the timing and scale of policy easing were pushed back.

European government bonds sold off in March, led by the front end, as markets moved to price a materially more hawkish path for the European Central Bank. Two-year German OBL yields rose by around 60bp, from 2.00% to 2.60%, reflecting a sharp reassessment of policy expectations amid persistent inflation risks and the energy shock. OIS pricing now implies approximately 77bp of tightening over 2026, suggesting that further rate hikes are effectively embedded as the base case. In this context, the outlook for ECB policy tightening appears increasingly certain, with core curves bear-flattening and peripheral spreads broadly stable.

Japanese government bonds sold off in March, with the 10-year yield rising to 2.4%, the highest level since the 1990s. The move reflects a combination of persistent domestic inflation, gradual policy normalisation, and spillovers from higher global yields. At the same time, renewed weakness in the yen—depreciating back towards the 160 level against the US dollar—has heightened concerns around imported inflation, particularly given Japan's heavy reliance on energy imports and its exposure to the current geopolitical shock. This dynamic places the Bank of Japan in a difficult position requiring a continued exit from ultra-loose policy. Indeed, persistent currency weakness risks forcing the BoJ to an even more restrictive stance or even FX intervention. Market pricing increasingly reflects the risk of further incremental rate hikes and reduced balance sheet support, with volatility rising across the JGB curve.

Chinese government bonds were effectively the only consistent safe haven during the March volatility, outperforming most global fixed income markets. While US Treasuries, UK Gilts and European Government bonds sold off sharply, CGBs remained stable to slightly lower, with minimal correlation to global moves. Domestic liquidity conditions stayed accommodative, and the People's Bank of China maintained a measured policy stance, anchoring the front end and keeping the curve well contained. The renminbi was broadly stable to slightly weaker over the month, with recent adjustments by the PBOC to FX forward reserve requirements aimed at managing currency volatility. Overall, CGBs continue to provide meaningful diversification benefits, with low cross-market beta and a comparatively stable yield profile, particularly during periods of global stress.

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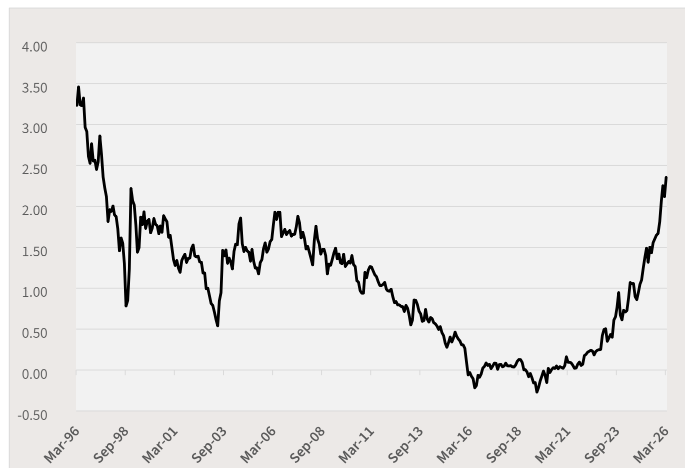
Emerging market debt came under pressure in March, with risk sentiment deteriorating alongside higher global yields and ongoing geopolitical tensions. The JPMorgan EMBI Global Index spread widened from 236bp to 261bp over the month, reversing some of the prior tightening trend and reflecting a more cautious investor stance. The repricing was driven by a combination of higher developed market rates, a stronger US dollar and concerns around the inflationary impact of elevated energy prices. In this environment, higher beta credits underperformed, while more resilient sovereigns with stronger external balances proved relatively defensive. Overall, EM debt remains sensitive to global macro conditions, with spreads likely to remain volatile as markets reassess the outlook for rates and growth.

The following chart shows the 10-year Japanese Government Bond Yield over the past 30-years

Japanese Government 10-Year Yield



Source: Bloomberg Finance L.P., 31 March 2026.

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FOREIGN EXCHANGE

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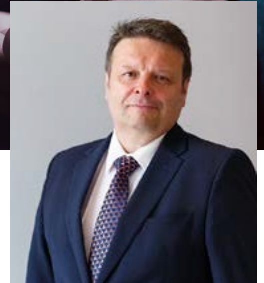


US dollar's home sweet home

The war in the Middle East shaped investment themes in March, as fast (leveraged) money reduced risk exposure in a wave of panic. As a result, assets that had previously delivered abnormally strong returns came under significant repricing pressure. Several emerging market equity indices recorded double-digit losses, while weakness in some emerging market currencies forced central banks to intervene and provide support.

Events in the Strait of Hormuz shook the investment landscape, as soaring energy prices began to produce secondary effects on the real economy. Many economists revised their medium-term outlooks accordingly.

A similar shift occurred in financial markets. Expectations that certain central banks—particularly the Federal Reserve and the Bank of England—would continue their monetary easing cycles were replaced by calls for a change in the monetary regime and potential rate hikes. We view this market reaction as somewhat excessive, driven largely by the unwinding of crowded speculative long positions, both outright and along the yield curve (e.g., steepeners).

Government bonds also surprised many investors by losing their traditional safe-haven appeal. Precious metals followed a similar path, failing to preserve value and instead becoming a drag on capital. Gold prices declined by 12%, marking their worst monthly performance since the Global Financial Crisis.

Within G10 currencies, the US dollar was unsurprisingly the best performer. The Chinese renminbi (CNY) ranked second, weakening by only 0.5% against the dollar, despite the People's Bank of China's intervention to weaken its value via its fixing mechanism. The Japanese yen was the third-best performer, largely due to market sensitivity to intervention levels that might prompt action from the Bank of Japan.

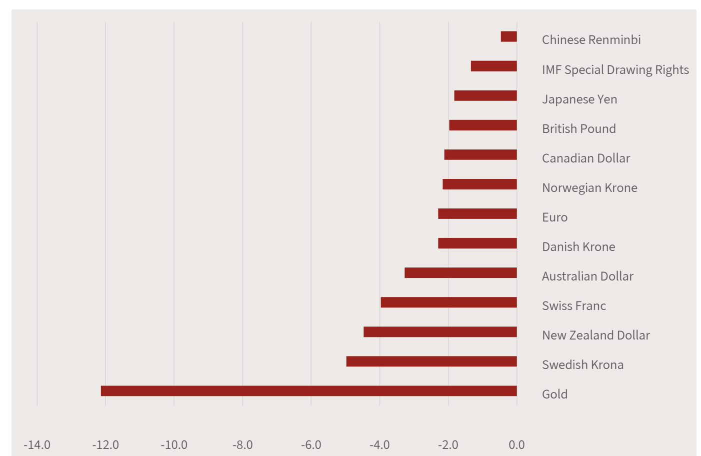
Factors that supported the yen weighed heavily on the Swiss franc, another traditional safe-haven currency. The USD/CHF pair had reached an all-time low of 0.76 earlier in the year, leaving the franc in overbought territory. This appears to have been a key driver of its weak performance in March, during which it declined by nearly 4%.

The Swedish krona and the New Zealand dollar were among the worst-performing currencies. Their weakness can be attributed to global diversification flows and relatively shallow liquidity conditions, which amplified adverse price movements.

Across the rest of the G10, most currencies depreciated by 1.5% to 3.0% against the US dollar. While several key technical support levels were tested, they ultimately held.

Looking ahead, geopolitical developments and their impact on fundamentals such as inflation, growth, and fiscal balances will remain in focus. However, we believe that the longer-term theme of diversification away from the US dollar will eventually re-emerge as conditions stabilize and peace returns.

March performance vs. USD (%)



Source: CAIM, 31 March 2026.

CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
EQUITIES

April 2026

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United States

Middle East conflict and its ramifications drive markets

U.S. equities declined over the month as markets increasingly priced in the risk of a prolonged conflict. With no clear signs of de-escalation, oil prices stayed elevated, heightening concerns around second-round inflation effects and a broader stagflationary shock. Chair Powell's more cautious tone on inflation, following the Fed's decision to remain on hold, led investors to pare back expectations for rate cuts this year. Market sentiment was also weighed down by renewed concerns in credit markets, including reports of restricted withdrawals, tighter lending to private credit, and loan valuation markdowns at JPMorgan. Trade tensions added to the headwinds after U.S. Trade Representative Greer announced Section 301 investigations into several major economies, including China, the EU, India and Japan, over alleged excess manufacturing capacity.

As widely expected, the FOMC kept rates on hold at 3.50-3.75%, with Governor Miran the dissent in favour of a rate cut. The median SEP dot continued to pencil in one rate cut this year, though some of the more dovish members trimmed their expectations for rate cuts. Hawkish nuances were then more evident in Powell's press conference. He acknowledged Middle East uncertainty creates risks to both sides of the Fed's dual mandate, but it is the inflation outlook that drew more of his attention. Powell argued that the Fed needs to see "progress on inflation" to cut rates again later this year, noting that core goods disinflation was "really important" in this respect. All this left a sense of increased concern about the continued overshoot of the inflation target, though he did say that a "vast majority" of the FOMC did not anticipate rate hikes.

Macro data remained broadly supportive, though largely predating the Middle East conflict. February nonfarm payrolls fell by 92k and the unemployment rate edged up to 4.4%, with part of the weakness reflecting temporary factors, including a strike at a large healthcare employer. Broader underemployment declined and nominal wage growth remained healthy, supported by steady hours and solid pay gains. February CPI was broadly in line with expectations, while Q4 GDP was revised down from 1.4% to 0.7%, reflecting the impact of the government shutdown.

U.S. equities outperformed their global counterparts as they were deemed more resilient to the global energy shock, amidst geopolitical escalations. All US sectors closed lower, except for energy, which outperformed in line with the move higher in oil. Technology was also relatively resilient, with Nvidia outperforming after its CEO Jensen Huang said the company expects to generate at least $1trn in revenue from its Blackwell and Rubin chips by the end of 2027. Other relative outperformers were Utilities and Financials while the main laggards were Industrials, Healthcare and Consumer Staples. Despite the broad risk-off, Cyclicals outperformed, while the momentum trade held up well.

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Europe

Energy price vulnerability is rapidly reshaping growth and inflation expectations

European equities declined as the Middle East war disrupted the macro recovery narrative. Europe's vulnerability to higher energy prices, and comparisons with 2022, prompted a swift reassessment of growth and inflation expectations, raising concerns that central banks may be forced back towards rate hikes.

The macro impact has begun to feed through to the data, with March inflation rising on higher energy prices and sentiment surveys weakening, including a decline in euro area consumer confidence. The ECB left its deposit rate unchanged at 2%, with President Lagarde striking a calm tone, arguing the bank is "well positioned and well equipped" to manage the energy shock. While the ECB signalled a preference to wait for evidence of second-round effects, Lagarde's remark that the region is "starting from a good base" suggested risks are now tilted towards hikes, without ruling out more imminent action.

In equity markets, all sectors fell except energy. Unlike the US, defensives outperformed cyclicals, extending February's heavy asset, low obsolescence driven trends. Despite weaker macro expectations and a softer euro, EU domestic stocks marginally outperformed exporters. At the sector/industry level, chemicals, utilities, telecoms and insurance performed relatively well, while banks, industrials and basic resources lagged amid profit-taking. Consumer-exposed sectors also struggled, with real estate the worst performer.

Developed Asia

Middle East energy shock drives a stagflationary repricing

Asian equities weakened over the month as prolonged Middle East tensions, including the unprecedented, in effect, closure of the Strait of Hormuz, pushed markets towards a more stagflationary outlook, pricing in weaker demand alongside tighter financial conditions.

In Japan, the BoJ left the overnight call rate unchanged at 0.75% in an 8–1 vote. While inflation is expected to temporarily dip below 2% due to slower rice price increases, the Bank highlighted that higher crude oil prices linked to the Middle East conflict are likely to place renewed upward pressure on inflation, reinforcing a more hawkish bias.

Japan underperformed in March, with energy import exposure and profit-taking in crowded cyclicals overwhelming rising BoJ hike expectations.

Emerging Markets

EM equity

Emerging-markets underperformed developed markets, producing their worst monthly performance since March 2020, after three months of outperformance. Geopolitics was the dominant driver, triggering a risk-off in EM equities.

Regionally, LatAm was relatively the most resilient due to its high commodity exposure, while EM Asia sold off the most. Energy supply risks are most acute in Asia, given heavy dependence on Middle East imports and for some countries seeing profit taking following strong pre-conflict performance.

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