

## Geopolitics takes the wheel

- ▶ **Geopolitical risks in the Middle East have become the main driver of recent market volatility, inflation uncertainty, and policy repricing.**
- ▶ **Disruptions in the Strait of Hormuz are amplifying energy related pressures and reshaping macro expectations across major economies.**
- ▶ **These dynamics frame our review of growth, inflation, monetary policy, and asset allocation developments this month.**

### Geopolitics: has markets' attention

The global backdrop with the Middle East's geopolitical risks is best understood through three distinct scenarios, each with different implications for growth, inflation, financial markets, and investor sentiment. These predominantly reflect the duration of the conflict in the middle east.

**1. Short Sharp Shock (55% probability):** This is the base case and assumes a risk-off episode without a fundamental shift in global conditions. Global growth could prove more resilient than feared, although GCC economies may experience a temporary soft patch. Oil prices see a sharp rise followed by normalization, while fixed income markets face upside risk to yields driven by real rates and inflation. Credit spreads widen initially but later normalize, and the USD strengthens as investors seek safety.

**2. Adverse scenario (35% probability):** This scenario reflects an energy-driven stagflation scare that eventually fades. Global growth weakens at the margin, and inflation concerns surface more visibly. Oil prices settle into a higher range for a prolonged period, and yields face upside pressure from rising inflation expectations. Credit spreads widen and remain wider for longer, while currencies of oil-importing economies come under pressure.

**3. Tail risk scenario (10% probability):** The most severe scenario assumes a sustained closure of the Strait of Hormuz and regional escalation. Inflation becomes a major global problem, forcing central banks to consider hawkish outcomes. Oil prices spike into the USD120–150/bbl range and stay elevated, while fixed income markets see downside risk to yields due to prolonged risk-off sentiment. Credit spreads widen sharply, putting weaker credits under scrutiny. Currencies of oil importers and economies with fragile fundamentals face acute pressure.

Across all three scenarios, the common threads are volatility, energy-market sensitivity, and a global investor base that remains highly reactive to geopolitical developments. These dynamics shape the near-term macro environment and sectoral performance.

### Growth: flash PMIs signal softening momentum as geopolitics hits supply chains

The March 2026 flash PMIs, the first comprehensive macro dataset since the Middle East conflict began, indicate that global growth momentum is losing steam. Headline activity shows a broad deceleration across major economies, with the US, Eurozone, UK, and Japan all slowing, France and Australia slipping into contraction, and India remaining the lone outlier – though even there momentum is easing. Manufacturing performance is increasingly uneven: Germany and the US are experiencing war related precautionary demand that temporarily supports output, while France, the UK, Japan, and Australia continue to soften. Services, which have been the engine of global growth for the past two years, now appear to be rolling over as confidence weakens and cost pressures rise.

The OECD notes that the global economy – previously supported by strong demand, AI-driven investment, and accommodative financial conditions – is now facing a severe external shock from the Middle East conflict. The OECD highlights that higher energy prices, fertilizer shortages, and shipping disruptions act as a “tax” on economic activity, squeezing real incomes and weighing on industrial output. The risk distribution is skewed to the downside: prolonged disruptions could trigger more pronounced shortages and a sharper slowdown.

### Inflation: market-based expectations stay anchored despite energy price spikes

According to the latest PMI survey, prices are responding to the developments in the Middle East with a synchronized inflation spike that may prove to be the strongest since the post-pandemic energy shock. The intensifying conflict is amplifying these dynamics, creating the first truly global supply-chain disruption since 2021 but with a more forceful inflationary impulse due to its direct impact on energy, shipping routes, and critical commodities. Despite the surge in oil and gas prices, medium-term inflation

**Kishore Muktinutalapati**  
Head - Investment Strategy  
Tel: +971 (0)2 812 6457  
[kishore.muktinutalapati@adcb.com](mailto:kishore.muktinutalapati@adcb.com)

**Mohammed Al Hemeiri**  
Senior Specialist  
Tel: +971 (0)2 812 6450  
[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

Visit [Investment Strategy Webpage](#)  
to read our other reports

expectations/breakeven inflation rates have not moved materially higher, suggesting markets still view the shock as temporary rather than structural. This is consistent with the OECD's and our assessment that while energy prices have spiked, the inflation impulse depends heavily on the duration of the disruption. The divergence between headline inflation risk and anchored break evens is a critical signal: markets are pricing geopolitical volatility, not a regime shift.

## **Monetary policy: Hawkish repricing across the Fed, ECB, BOE, and BOJ**

The geopolitical shock has triggered a synchronized hawkish repricing across major central banks. The OECD emphasizes that central banks "should remain vigilant," as monetary adjustments may be needed if price pressures broaden or if growth prospects weaken.

Recent market pricing shows a clear and coordinated hawkish shift across major central banks, with the no Fed rate cuts priced for 2026 as investors reassess the persistence of inflation risks. The ECB has experienced a notable repricing as well, with markets assigning a meaningful probability to renewed tightening given the region's acute energy vulnerability. In the UK, expectations for policy easing have been pushed further out as imported inflation pressures intensify. Meanwhile, the Bank of Japan continues to face a weaker yen and a stronger global inflation impulse, reinforcing expectations for acceleration of the ongoing policy normalization rather than any return to accommodation.

We think the market pricing out the interest rate cuts and pricing in rate hikes has gone too far. Especially for the Fed, the focus should shift back to the weakening labour market in the US once the geopolitical headlines abate. While Eurozone, UK, and Japan are more vulnerable (both on inflation and growth risks) to energy disruptions, even here the markets might have overdone in pricing tightness in monetary policy.

## **Asset allocation: markets reprice risk, liquidity tightens, and we adjust marginally**

March 2026 price action reflects a classic stagflationary shock: Global sovereign yields have risen, driven by hawkish repricing rather than stronger growth. European assets have underperformed, consistent with the region's energy exposure and weaker PMI data. Liquidity indicators have deteriorated, with tighter financial conditions across EMEA and Asia. Flows into cash and short-duration assets have increased, reflecting a defensive rotation. Prolonged disruptions due to geopolitical risks could "prompt more extensive repricing in financial markets," weaken private demand, and raise financial stability risks. While we understand the market mood, we think positioning for an outright stagflationary environment at this stage is not prudent. For stagflation to materialise, the current situation should persist for a couple of more months and we do not consider that as our base case. Having said that we want to move on those positions which are more likely to be impacted by the near-term stagflationary headwinds.

We maintain our overall TAA stance against our SAA (exhibits 1 and 2), but introduce two targeted downgrades and one offsetting adjustment:

- ▷ **European equities: downgraded to Underweight (from Neutral).** Europe faces the sharpest stagflationary impulse due to energy dependence, rising input costs, and a potentially hawkish ECB. Western Europe is particularly vulnerable to higher gas prices and weaker growth momentum. In case our alternative scenarios play out, this segment might come under further pressure.
- ▷ **EM Local Currency IG Sovereign bonds: downgraded to Neutral (from Overweight).** Higher inflation risks in Asia and hawkish central bank signaling reduce the attractiveness of local currency exposure. Many Asia Pacific economies are heavily reliant on Middle Eastern energy, making them sensitive to prolonged disruptions. In case our alternative scenarios play out, this segment might come under further pressure.
- ▷ **DM Sovereign Bonds: trim Underweight.** The recent backup in yields – driven by risk-premium than inflation expectations – improves the risk-reward profile for this segment. While our underweight position on this segment has played out largely as expected, we now see risks in being too underweight the sovereign bonds which could rise if interest rate cuts creep back into market pricing.

# Tactical Asset Allocation

Investment Strategy | March 27, 2026

## Cross-asset focus list

We made the following changes (exhibits 3 and 4) to our focus lists since last publication.

1. Our position in US Homebuilders equities got stopped out after having fallen 10% (on March 12, 2026) since its inclusion on our lists. Market repricing of Fed rate expectations has impacted the sector negatively. While we still remain constructive on the sector's fundamental outlook, we would wait for more macro clarity before reinstating this position.
2. We introduce a position in Nasdaq 100 after its recent correction. In our view, this position benefits from any revival in the sentiment around software stocks and potential repricing of the Fed cuts.

# Tactical Asset Allocation

Investment Strategy | March 27, 2026

## Tactical Asset Allocation

Exhibit 1: Tactical Asset Allocation with a 3m-6m view

Asset Class	Positioning					Balanced		
	SUW	UW	N	OW	SOW	SAA	TAA	Active
<b>Equities</b>						<b>41.2</b>	<b>44.0</b>	<b>2.8</b>
North America						25.8	28.0	2.2
Europe						7.0	5.9	-1.1
Japan						2.3	2.8	0.5
APac ex Japan						5.0	6.4	1.3
EM ex Asia						1.0	1.0	0.0
<b>Fixed Income</b>						<b>58.8</b>	<b>56.0</b>	<b>-2.8</b>
DM Treasuries IG						32.9	30.0 ▲	-2.9
DM Corporate IG						12.5	12.5	0.0
EM USD Sovereigns IG						0.8	0.8	0.0
EM LCY IG						5.1	5.1	0.0
EM Corporate IG						0.6	0.6	0.0
Global HY						5.0	6.0	1.0
Cash						2.0	1.0	-1.0
<b>Alternatives</b>						<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Colour legend

■ Current      ■ Previous

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, LSEG Workspace, and ADCB Asset Management | Notes: \*Positioning recommendations: SUW = Significant Underweight; UW = Underweight; N = Neutral; OW = Overweight; SOW = Significant Overweight. \*\*Based on balanced risk profile. SAA = Strategic Asset Allocation; TAA = Tactical Asset Allocation; Active weight = TAA weight – SAA weight. Weights may not sum to 100% due to rounding.

Exhibit 2: Strategic Asset Allocation

	Cautious	Balanced	Aggressive
<b>Investment objective</b>	Capital Preservation & Moderate growth	Growth & Income	Growth & Moderate Income
<b>Investor Suitability</b>	Moderately Conservative	Moderate	Moderately Aggressive
<b>Asset Allocation</b>			
Equity	20%	35%	65%
Fixed Income	65%	50%	20%
Alternatives	15%	15%	15%

Source: ADCB Asset Management

# Tactical Asset Allocation

Investment Strategy | March 27, 2026

## Cross-asset focus lists

### Exhibit 3: Our high conviction tactical investment themes – open positions

New/Open positions	Asset class	RV?	Date opened	Current date	Performance	Target	Stop
Gold	Commodities		2-Feb-26	26-Mar-26	-6.1%	20%	-10%
US Large cap Innovation Growth	Equities		26-Mar-26	26-Mar-26		20%	-10%
US Small Caps (Russel 2000)	Equities		6-Oct-25	26-Mar-26	0.3%	20%	-10%
Indian equities	Equities		11-Apr-25	26-Mar-26	-5.4%	20%	-10%
<b>Average</b>					<b>-3.8%</b>		

Source: Bloomberg, and ADCB Asset Management

### Exhibit 4: Our high conviction tactical investment themes – closed positions

Closed positions	Asset class	RV?	Date opened	Closed date	Performance	Target	Stop
Silver	Commodities		15-Oct-25	31-Dec-25	35.1%		
Silver	Commodities		22-Sep-25	15-Oct-25	20.4%	20%	-10%
Copper	Commodities		15-Jun-23	15-Oct-25	26.5%		
Silver	Commodities		10-Jun-25	22-Sep-25	20.6%	20%	-10%
Gold	Commodities		14-Nov-22	14-Jun-23	10.4%		
<b>Commodities average</b>					<b>22.6%</b>		
US Homebuilders	Equities		2-Sep-25	12-Mar-26	-11.0%	20%	-10%
US Small Caps (Russel 2000)	Equities		6-Mar-24	6-Oct-25	20.2%	20%	-15%
High dividend yielders index	Equities		6-Mar-24	10-Jun-25	15.1%	15%	-10%
Gold miner equities	Equities		17-Mar-25	2-Jun-25	20.8%	20%	-10%
SPW relative to SPX	Equities	Yes	6-Mar-24	10-Apr-25	-5.7%	15%	-10%
Gold miner equities	Equities		25-Nov-24	17-Mar-25	22.3%	20%	-10%
HK equities	Equities		14-Nov-22	13-Nov-24	13.3%		
Chinese hotels & leisure	Equities		14-Nov-22	13-Nov-24	-18.6%		
Chinese semiconductors	Equities		22-Mar-23	13-Nov-24	9.0%		
Dow Jones World Cons. Goods	Equities		25-Aug-23	6-Mar-24	1.5%		
Indian equities	Equities		22-May-23	6-Mar-24	31.3%		
Cybersecurity	Equities		22-Mar-23	6-Mar-24	26.9%		
Gold miner equities	Equities		14-Nov-22	14-Jun-23	13.1%		
US Div.banks over US Regional	Equities	Yes	13-Mar-23	13-Jun-23	24.8%		
<b>Equities average</b>					<b>11.6%</b>		
US Mortgage Backed Securities	Secur. credit		11-Apr-25	5-Sep-25	5.2%	5%	-5%
UK gilts over other DM Sov.	Rates	Yes	14-Nov-24	1-Sep-25	-2.5%	5%	-5%
UST (7Y-10Y) over other DM Sov.	Rates	Yes	5-Jul-22	13-Nov-24	-1.1%		
EU IG Corp over US IG Corp	Credit	Yes	9-Jan-23	13-Nov-24	6.0%		
Asia investment grade credit	Credit		9-Jan-23	14-Jun-23	1.8%		
<b>Fixed Income average</b>					<b>1.9%</b>		
USDJPY	FX		6-Mar-24	26-Apr-24	-6.0%		
GBPUSD higher	FX		15-Jun-23	20-Sep-23	-3.4%		
USDJPY lower	FX		9-Jan-23	14-Jun-23	-6.1%		
GBPEUR lower	FX		9-Jan-23	14-Jun-23	-2.9%		
<b>FX average</b>					<b>-4.6%</b>		

Source: Bloomberg, and ADCB Asset Management

## Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.