Quarterly Investment Letter

Q1 2026

Review – Geopolitics driving market correction

Equity markets started the year on an optimistic note. We have seen gains on global equites and a continued rally in precious metals. At the end of February, the sudden bombing of Iran by the U.S. and Israeli armed forces led to a pullback in major markets bringing year-to-date returns to negative territory with the S&P 500 (-4%), Nasdaq 100 (-6%), the German DAX (-7%), the Swiss Market Index (-2%) all losing ground. This current pullback comes after three years of strong returns and is not at all unusual.

While a large part of the recent market swings can be attributed to the conflict in the Middle East and the fear of higher oil prices and inflation, we have also noticed significant shifts within industry sectors recently. This rotation is driven by the fear that artificial intelligence will challenge many current business models. For example, software stocks have fallen 32% from their six-month highs, though most analysts remain optimistic about the sector. Most companies have reported solid earnings for 2025 and positive outlooks for 2026 and beyond. We are holding onto our investments in the sector.

Geopolitics – Turmoil in the Middle East and Higher Energy Costs

As a result of the Middle East conflict, oil prices surged by more than 60% in four weeks as exports through the Persian Gulf practically came to a complete stop. This export route accounts for an estimated 20% of global oil exports and an even greater percentage of natural gas exports.

Iran is defending itself by attacking US/Israeli allies around the Persian Gulf, and the hope of a quick ending of this conflict is fading. President Trump is now looking for a way out, claiming that most goals have been met, even though Iran is not yet ready for real negotiations.

Consequently, oil and natural gas may become increasingly scarce, despite the release of some 400 million barrels from strategic oil reserves. Energy prices may even rise further, raising inflation expectations and dampening economic growth rates worldwide. A worst-case scenario would be oil trading at $200 per barrel that might potentially lead to a global recession.

Precious Metals

Surprisingly, gold and silver have fallen sharply since the end of February. While gold and silver are both still up for the year, both precious metals gave back large part of earlier gains this year. It is very important to understand the concept of contagion in periods of financial stress, i.e. even the most solid assets are being sold to raise cash.

We have not changed our long-term positive outlook, especially for gold. However, we have taken some profits in both gold and silver earlier this year which proved to be timely.

Asset Allocation and Themes

Our current equity stance remains neutral. As mentioned earlier and also in our last quarterly update, we shortened the average maturity of our fixed income holdings which also proved to timely.

Our equity themes GRID (global energy infrastructure), EUFN (European financials) and GDX (U.S. gold miners), as well as our allocation to the global defense sector (SHLD), have shown relative resilience during the recent market pullback.

Market Data

in USD as per March 31, 2026

Equities		YTD%
World		-3.3
USA 500		-4.4
USA 500 Equal Weighted		+0.7
Europe 50		-5.3
Swiss 30		-3.6
Asia 50		+8.9
Japan		+4.6
Bonds		**YTD%**
Global Aggregate (unhedged)		-1.1
U.S. Aggregate		-0.0
Pan Euro Aggregate (EUR)		-0.8
Global High Yield		-1.3
Interest Rates		**in %**
U.S. 3 months		3.6
U.S. 10 years		4.3
Euroland 3 months		2.2
Euroland 10 years		3.0
Commodities		**YTD%**
BB Commodity Index		+23.3
Gold oz		+8.6
Silver oz		+5.8
WTI Crude Oil		+63.5
Copper		-2.4
Currencies		**YTD%**
EUR in USD	1.1553	-1.6
CHF in USD	1.2509	-0.8
GBP in USD	1.3227	-1.8
JPY in USD	158.73	-1.3
Economies		
GDP Growth Estimate		2026%
USA		2.3
Euroland		1.1
Global		3.0
Inflation		**12M%**
USA		2.4
Euroland		2.5
Switzerland		0.1

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Outlook 2026

While we agree that this conflict is dangerous and the stakes are high for both sides, we expect negotiations to take place behind closed doors. China is the main buyer of Iranian oil and we expect them to be involved in the negotiations. India is a lesser buyer of Iranian oil, but we expect them to be involved as well. Oil and gas prices at these levels are not sustainable for anyone, except perhaps Russia and Saudi Arabia. However, the latter is a direct neighbor of Iran and within easy reach of their missiles and drones. The Iranian regime is fighting for its survival and will not give in easily.

As we pointed out in our March 3rd News Flash, geopolitical crises are often temporary and the stakes seem exceptionally high when considering the U.S. political landscape. The vast majority of the U.S. population does not support this conflict and the mid-term elections are only seven months away. Previous oil crises of the 1970s are not good reference points because the United States is technically self-sufficient nowadays and does not depend on oil imports from the Middle East. Nevertheless, West Texas Intermediate oil prices have spiked as well, albeit less than European Brent prices.

So, what is the real impact of higher oil prices on the economy?

The sensitivity of the US economy to oil has fallen from one barrel of oil per $1,000 of GDP in the early 1970s to about one-third of a barrel and the sensitivity of the global economy has fallen from 0.6 barrels to 0.2. In other words, the world is much less dependent on oil than it was 50 years ago.

Although it is challenging to remain optimistic about stocks, corporate profit expectations have not yet been materially reduced and are expected to grow by 12-17% globally over the next 3 years. These expectations, together with interest rates, will determine the fate of the stock market in the long run. Of course, short-term yields have risen due to higher inflationary expectations, but it's difficult to believe that central banks would raise rates in the short-term to combat inflation primarily driven by higher oil prices. Higher inflation for an extended period should also bolster precious metals and other real assets.

We will stay vigilant, carefully following the situation on the ground and making portfolio changes as we see fit. Given our cautious and defensive approach, we do not want to drastically reduce our equity exposure. We remain confident that we will overcome this crisis by focusing on facts rather than fears and rumors.

Our investment team wishes all a joyful spring time.

Ameliora Wealth Management Ltd.

Investment Office