

Market Review - March 2026

**Middle East Battle Again**

In the Golden Age of Grift, Wars only take place when the Market is closed ¹

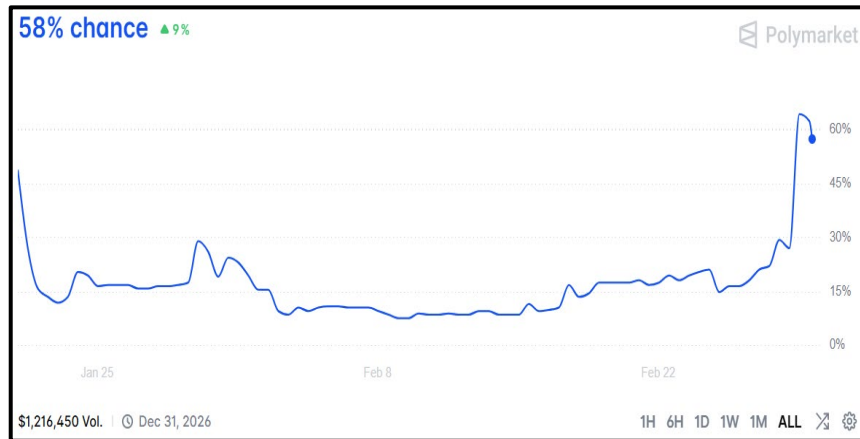
For the past month, pressure has been mounting on Iran. With negotiations underway, they were set to resume in Vienna on March 2, but then the US and Israel launched a series of strikes against Iran. Supreme Leader Ali Khamenei is dead, along with other senior Iranian officials. It seems that, contrary to what has been said previously, the goal is indeed regime change; there are not only military and strategic objectives at the uranium enrichment sites. Every hour brings new developments, and it is difficult to know whether these operations will achieve their objectives, even for specialists, which we are not. The Iranian government, with nothing left to lose, could close the Strait of Hormuz, through which 20% of the world's oil passes, or bomb civilian infrastructure in the Middle East, thereby sowing chaos. The markets will try to interpret the consequences of these events, and the price of oil will be affected and volatile in the coming days. If investors believe that oil supplies could be affected in the long term, they will price in the risk of recession. This will add volatility to all asset classes. If, as the Trump administration probably believes, things quickly return to normal, with a new regime in Iran that is more open to negotiation, then this will be nothing more than a quickly forgotten episode.

Over the past 50 years, whenever there have been military operations in the Gulf, it has been difficult to keep count: there have been so many; the markets have resumed their initial trend, the one that prevailed before the events. The probability of this happening again is therefore high; in fact, it is the most likely scenario. This could offer buying opportunities in the capital and stock markets. It may seem cynical, but that is how markets work. It is unlikely that this war will bring peace to the Middle East. The most likely scenario is a return to the ex-ante situation; the worst case would be a failed state in Iran and continued disruption for the Gulf countries. The rest of this commentary is written with a return to normalcy in mind.

¹ Source: Le Shrub <https://substack.com/@leshrub>



US Monthly Custom Duties



Source: Polymarket.com

Scotus decision on tariffs

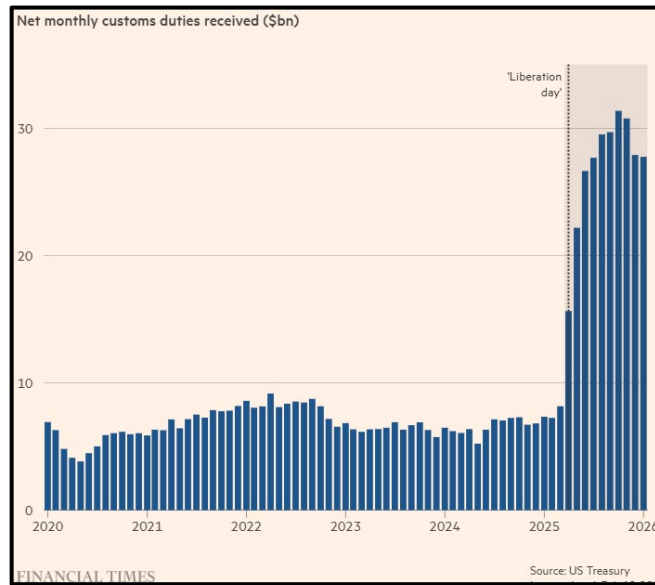
A legal earthquake occurred on February 20. The US Supreme Court invalidated most of the tariffs imposed by President Trump, known as "IEEPA," including the reciprocal "Liberation Day" tariffs, ruling 6-3 that the Emergency Powers Act does not authorize the president to impose tariffs. This is a historic decision. These new taxes had generated more than \$160 billion in federal revenue through February 20, 2026, according to the Tax Foundation. This decision cancels out about three-quarters of the new customs revenue the administration was counting on.

President Trump, who was very unhappy, immediately announced a new global tariff of 10%, which he then raised to 15% the next day, relying on another legal authority, Section 122. Ultimately, it will be 10%. Customs duties have therefore not disappeared but are based on a more fragile foundation. Congress has 150 days to validate this new tax, which replaces the old ones. This institutional zigzag raises many questions, with sometimes significant financial consequences for the US's economic partners. The financial markets did not experience increased volatility following SCOTUS's decision, as this risk was already priced in. Nevertheless, legal uncertainty remains. More than 900 companies have already filed lawsuits against the US government to recover billions of dollars in unduly paid taxes.

In his State of the Union address on Tuesday, February 24, President Trump praised his administration's exceptional results and the good health of the US economy. In fact, growth in 2025 was fairly good at 2.2%. Although the last quarter was weaker than expected, a rebound should occur in Q1 2026. However, most of the population feels differently: consumer confidence is at an all-time low, which is why there is talk of a "K-shaped" economy: wealthy households spend without, while others, the "true" middle-class, tighten their belts. On a macroeconomic level, only the numbers count, but politically, this leads to electoral defeats. It is true as well that immigration has been brought to a halt, which is seen as a success by most Americans, but one will have to wait and see whether this is a success or one of the fundamentals of American dynamism that has disappeared.

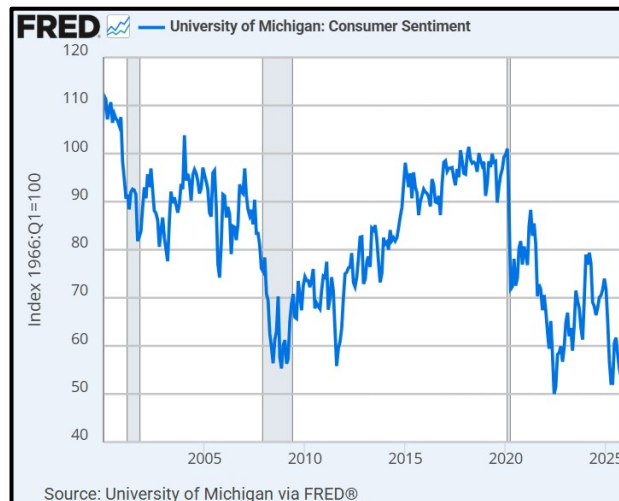


US Monthly Custom Duties



In Europe, economic growth forecasts have been revised slightly upward. Households have accumulated savings and are in good health, which constitutes a reserve for consumption. In addition, Europe and Germany have infrastructure and defense spending programs that should support growth. Therefore, economists' expectations seem overly cautious.

Universtiy of Michigan: Consumer Sentiment



Nothing can disrupt the bond market

Since January 30, the Federal Reserve has a new chairman: Kevin Warsh, if confirmed by the Senate. His father-in-law, Robert Lauder, is a friend of President Trump, and, more importantly, Bessent and Warsh are friends as well. We can expect the US central bank to be subordinate to the Treasury Department starting in May. As a result, the monetary institution is likely to see its importance diminish and its collaboration with the government increase. This raises questions about the Fed's independence, but the market is not concerned and has not added a risk premium following this appointment.



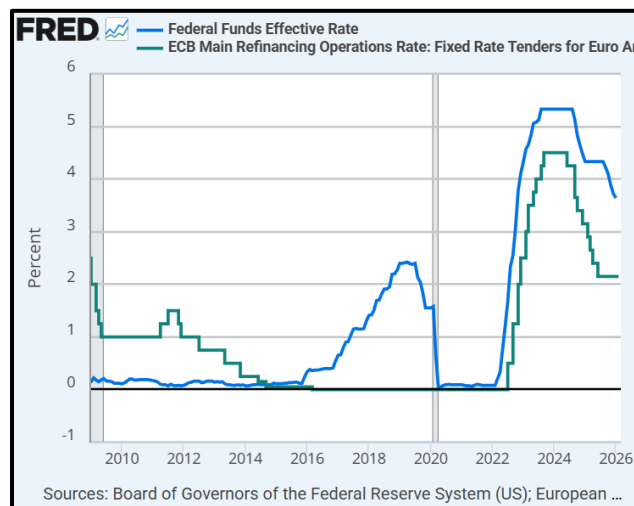
Moreover, investors do not expect short-term rates to fall before the summer. The era of fiscal dominance will therefore continue.

According to the Financial Times, there are rumors that Mrs. Lagarde, the ECB Chairwoman, will be resigning before the end of her term. She has denied this. Citing a single anonymous source described as "close to Ms. Lagarde's thinking," the FT claims that she wants to allow French and German leaders to agree on her successor at the helm of this key institution before the French presidential elections in April 2027. The euro has not reacted, and it should be noted that the ECB's key interest rate is not expected to change in the coming months.

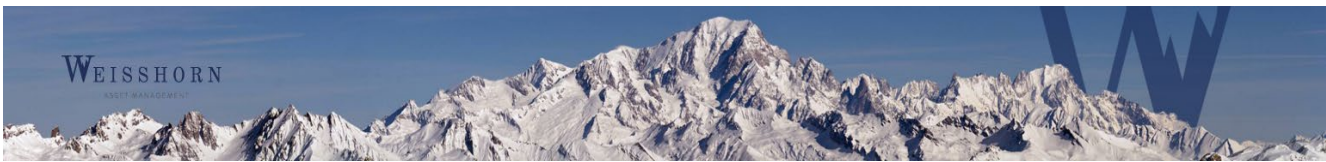
The bond markets are exceptionally calm. Credit risk premiums are at their lowest and remain so, except for the riskiest loans, such as those rated "B" and below, where there is some spread widening. However, this remains anecdotal. As we have seen, the US Supreme Court's decision did not affect Treasury bond holders, with the 10-year rate now hovering around 4%, at the lower end of its range since the end of 2024. This behavior is surprising given the context of large public deficits and persistent inflationary pressures. Does this herald an economic slowdown?

One might have thought that the bond market crash in Japan would cause stress. This was not the case, despite the landslide victory of the new Prime Minister, Taikaichi, in the general election. She now has a two-thirds majority in the lower house, which will give her considerable room for maneuver, particularly to amend the Constitution, if necessary, but also to implement her stimulus plan. Here too, the Japanese bond market had anticipated this, and the 10-year rate fell from 2.34% to 2.15%. For the time being, Japanese institutional investors are not repatriating funds invested abroad.

FED And ECB (green) Main Rates



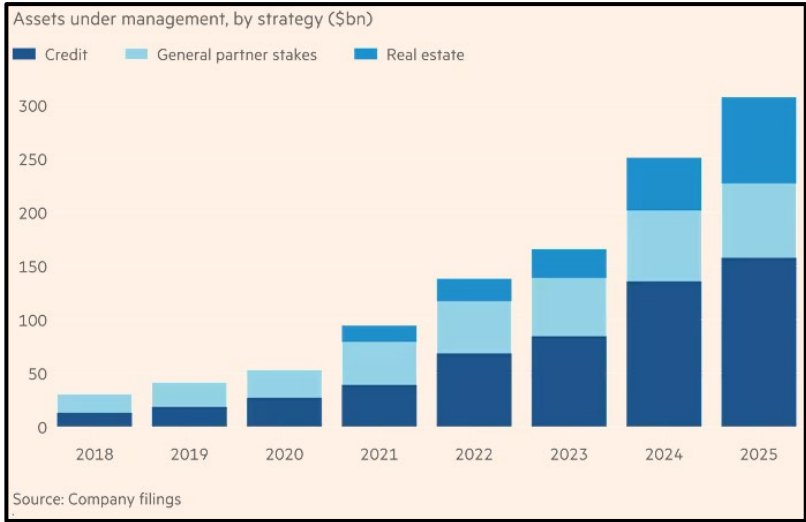
If one is looking for a sector with stress, look no further than private credit. Blue Owl announced that it was limiting withdrawals from one of its private credit funds, Blue Owl Credit Corporation II (OBDC II), after attempting to merge the fund with the equivalent listed product, which would have resulted in a 20% dilution for unit holders. This highlights the structural tensions within the private credit sector.



Private credit firms such as Blue Owl have made significant loans to software and information technology companies, sectors currently under pressure due to fears of AI disruption.

However, this episode raises the question that regulators and investors should now be asking openly about the entire \$3 trillion private credit complex. Is the liquidity premium they charge still adequate compensation for the risks involved? Could this affect the entire credit market? If there is overcapacity in artificial intelligence soon, there will be consequences beyond private debt.

Blue Owl, A Giant In Private Markets



Source: FT

Good quality earnings

Most large companies have published their results, which were generally good on both sides of the Atlantic. According to FactSet, annual US earnings growth for the fourth quarter stands at 14%, higher than the 9% expected just a month ago. In Europe, the picture is similar: starting from a lower base, analysts had expected earnings to contract by 4% (MSCI Europe), but the final figure will only be 1%. Earnings growth expectations for 2026 are high, at 14% for the US and 11% for Europe. The major equity indices appear calm. However, there are still areas of stress. While artificial intelligence remains a hot topic, it is no longer expressed in the same way. Today, fears that AI tools will replace entire categories of software, such as payments or enterprise resource planning, have triggered successive waves of selling. The losses are significant for the companies affected, such as Salesforce, Palantir, Oracle, and Palo Alto.

The iShares Expanded Tech Software ETF, which includes many companies such as those mentioned above, has lost more than 30% since its highs reached at the end of October 2025. The decline could continue before one knows who is affected and, more importantly, how. There is no doubt that AI will impact growth and margins, but most software companies will survive. Declining valuations could trigger a wave of M&A activity, reducing supply and restoring profitability. But this is not a scenario for this year. Wall Street's new motto is HALO: Favor Hard Assets, Low Obsolescence companies. Capital spending by large technology companies is growing significantly. The combined sums of Amazon, Alphabet, Meta, and Microsoft are expected to increase by more than 70% year-on-year, reaching a record \$610 billion in 2026.



This represents nearly three times the \$217 billion spent in 2024 and more than four times the levels seen in 2023. Each company is expected to spend almost as much in 2026 as it did in the previous two years combined. The rush to build AI infrastructure is unprecedented.

What will be the return on investment? And above all, what will be the impact on valuations? These companies were considered "asset light," which allowed them to achieve high returns on investment (ROI); now that they are becoming "capital intensive," ROIs will fall, and valuations are likely to follow.

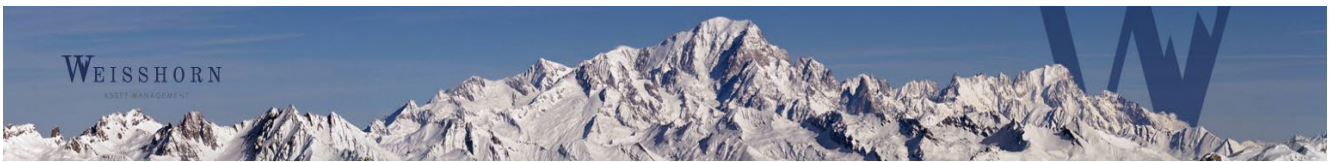
iShares Expanded Tech Software Sector ETF Price



The change in market sentiment towards large technology companies was also evident when Nvidia released its results. These were exceptional, with sales growth of 73% for the quarter compared to last year, margins of 75% and forecasts for the coming quarter 7% above analysts' expectations. CEO Jensen Huang is still talking about exponential growth. Nvidia continues to benefit disproportionately from investments in AI, which now account for 90% of its sales. The stock price fell 5% the day following the earnings release. Nevertheless, the company is not in danger of becoming obsolete.

Nvidia Quarterly Revenues





As such, the geographical, sectoral, and style rotation currently affecting the markets is likely to continue. Flows are favoring markets outside the United States. Small additional volumes can have a significant impact on prices, as markets outside the US are less liquid.

Moreover, in emerging markets and Europe, the trend is strongly bullish, even overbought; a correction, or at least consolidation, would be healthy to allow the uptrend to continue. The current Middle East turmoil is a perfect excuse to let some steam out of the markets.

Consolidation

Gold consolidates healthily after its surge at the beginning of the year. The fundamentals for the yellow metal remain excellent, and central banks have continued their purchases. Today, there is a bullish consensus on the metal; therefore, a prolonged consolidation before resuming the uptrend is the main scenario. A return to USD 4,200 to 4,400 levels in the coming months is possible despite the Middle East events.

The year 2026 began as 2025 ended: with an environment conducive to investment, with financial flows rebalanced, less oriented towards the US and more towards the rest of the world. The impact of artificial intelligence on certain business models is leading to the revaluation of entire sections of the market, as investors rediscover traditional companies with fewer intangible assets on their balance sheets and lower valuations. The capital expenditure of large technology groups is a cause for concern, but also a source of growth for companies involved in infrastructure development.

Many economists are warning the public about the dangers of artificial intelligence, which could lead to massive job losses as it replaces human labor. A “sci-fi” report by investment firm Citrini Research has been quite successful, describing the economic environment of 2028, transformed by machines. These fears seem greatly exaggerated; clicks are needed, so many information providers resort to sensationalism. Human intelligence will not be replaced by machines in the coming decades, even though there is no doubt that productivity in the service sector will be significantly improved. Will this allow us to work less? As was the case thanks to the industrial revolution? There are reasons to believe so. The French Socialists' 35-hour working week, with no reduction in pay, could become a reality for everyone on the planet. And this time, it will not be imposed by a government, but will be the result of technological change. Catastrophic scenarios sell better than reassuring ones, but artificial intelligence will not replace humans; it will accompany them.

The expected volatility in the markets over the next few days should create buying opportunities if price declines are sufficient. The war in the Middle East reinforces existing themes, whether defense, the strong comeback of commodities, de-dollarization, access to energy sources, or the race for infrastructure.



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