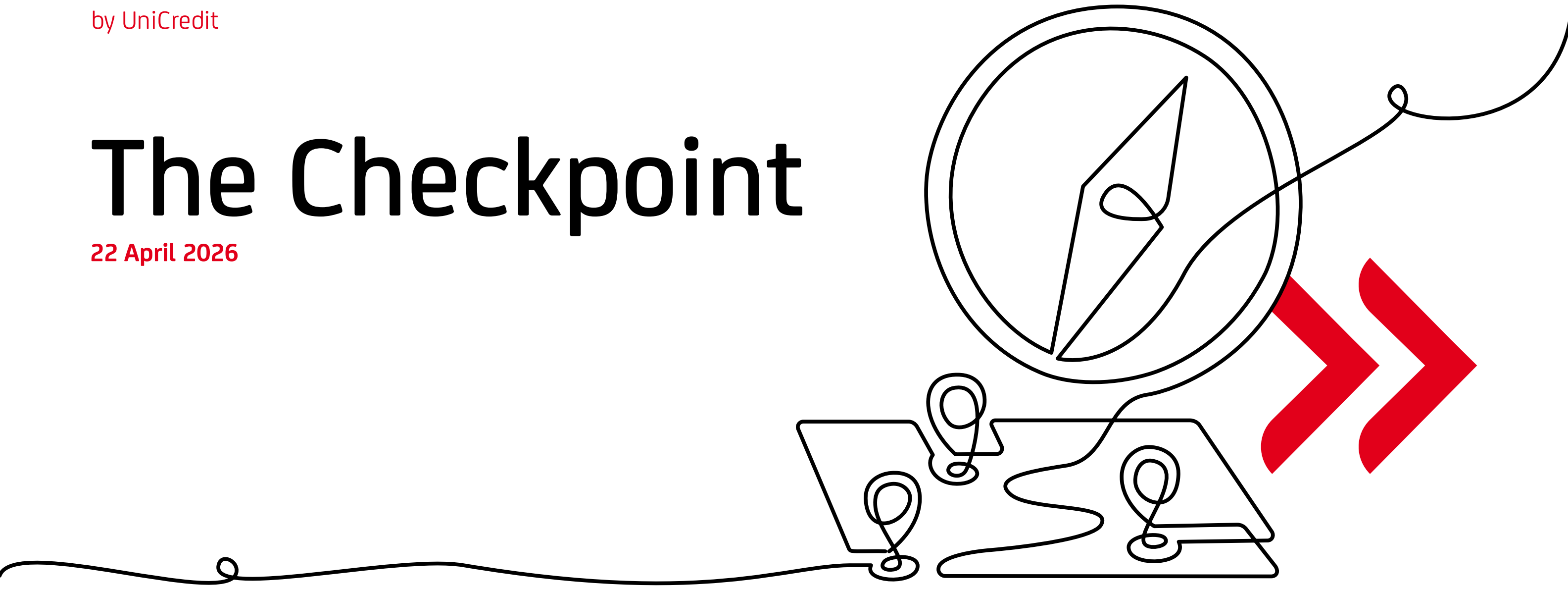
The Investment Institute
by UniCredit

The Checkpoint

22 April 2026



The China factor

We have entered a new phase of US-China rivalry. While Trump 1.0 and then the Biden administration focused on slowing China's economic ascent (for example, through tariffs, coercive measures against Chinese companies like Huawei and export bans on high-end chips), Trump 2.0 is pursuing something more ambitious: reducing China's geopolitical reach by limiting its influence, weakening its alliances and restricting access to key regions.

This shift clarifies the seemingly disparate theatres of recent US foreign policy moves. The kidnapping of Nicolás Maduro in January was meant to signal to Beijing that Washington is re-asserting itself in its own backyard, Latin America. Washington's expansionist territorial claims over Greenland were another reminder that it will not allow China to gain a foothold in an Arctic region that could offer direct access to North America. Finally, the war against Iran reflects an attempt by the White House to reclaim the Middle East, a region that had been drifting closer to China after former President Barack Obama's "pivot to Asia".

So far, China's response to a more assertive US posture has been muted for several reasons. First, Beijing was likely caught off guard by the speed and intensity of Washington's policy shift and has struggled to adapt its strategy. Second, the countries targeted so far by the US (Venezuela and Iran) are not top-tier priorities for Chinese President Xi Jinping. In the specific case of Iran, China's long-term interests with the Gulf monarchies of Saudi Arabia and the UAE are far more economically significant. Third, China has consistently avoided presenting itself as a security guarantor for the Global South, largely so as not to be dragged into costly conflicts, a lesson it has drawn from the US wars in Iraq and Afghanistan. But China's role in brokering a ceasefire between Washington and Tehran is well-documented.

Whether China can maintain this passive posture as the global environment shifts remains to be seen. Its economy is losing momentum. Its exposure to oil imports from Iran and Venezuela is significant. China's latest multi-year plan, presented in March, lowered the GDP growth target to somewhere between 4.5% and 5%. While its strategy focuses on pushing the technological frontier, it does little to revitalize domestic demand. This means that reliance on exports remains critical. However, trading partners are stemming China's overcapacity, as reflected in the Brussels' "Made in Europe" strategy.

For markets, this anti-China geopolitical shift implies a higher risk premium, benefiting defence and energy while leaving trade-exposed sectors more vulnerable to volatility as fragmentation accelerates.

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View from the CIOs

Alessandro Caviglia (Italy), **Philip Gisdakis** (Germany), **Oliver Prinz** (Austria)

Throughout the Iran war, market pricing has suggested a willingness to look beyond the conflict. One of the greatest energy shocks in recent history resulted in only a contained and temporary setback for equity indices, many of which have already recovered most, if not all, of their losses. The view that this would be a short-lived shock to risk appetite was reinforced by the oil futures curve, which remained heavily in backwardation, signalling expectations of falling prices. At the same time, earnings growth expectations have continued to rise and confidence in corporate profits has eased concerns over stretched valuations, especially in the US. Chinese equity markets, meanwhile, have absorbed the Iran shock with comparatively little volatility.

While this market resilience is impressive, it would be a mistake to conclude that the unresolved Iran crisis will have no lasting consequences. Even if the war ends soon, the damage is twofold. First, the physical damage: significant destruction of energy and transport infrastructure across the Gulf region may take years to repair. Second, the political impact: the conflict has intensified debate over the reliability of the US as a security guarantor and the future role of the US dollar. For China, these questions are not new, but the current crisis reinforces the need to reassess energy security, financial exposure and geopolitical posture as rivalry with the US intensifies.

Taken together, our main conclusion is that risks embedded in fixed income, particularly US government bonds and corporate credit, should not be underestimated, while equity investors are increasingly having to contend with a more fragmented global landscape. The crises of the past decade have shown that supply chains are being rebuilt for resilience rather than efficiency, accelerating trends towards nearshoring and onshoring. Against this backdrop, we believe that the case for broader regional diversification has strengthened. The traditional portfolio model, dominated by US and European equities with only a marginal allocation to emerging markets, is likely to give way to a more balanced geographic distribution. Accordingly, we remain underweight developed market government bonds and overweight emerging market equities and sovereign debt.

ASSET ALLOCATION

OUR INVESTMENT VIEW ON ASSET CLASSES

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Global equities		●	
US equities		●	
European equities		●	
Pacific equities (developed markets[1])		●	
Emerging-market equities			●
Global bonds		●	
Government bonds (EMU)	●		
Government bonds (N-EMU)	●		
Corporate bonds (EUR-denominated investment-grade)		●	
Corporate bonds (high-yield)	●		
Emerging-market bonds (hard currency)			●
Emerging-market bonds (local currency)			●
Money markets		●	
Alternatives		●	
Bitcoin		●	
Commodities		●	
Oil		●	
Gold		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore

What China wants

Author: Edoardo Campanella
Director and Chief Editor of The Investment Institute

A chat with... Meg Rithmire

James E. Robison Professor at Harvard Business School

Interviewed on 12 March 2026 as part of our webinar series "40 minutes with ...". Below is an edited excerpt of the script. You can find the recording here.

Edoardo Campanella: Beijing has just presented its new multi-year plan, setting a GDP growth target between 4.5% and 5%. In your view, is this plan sufficient to address the Chinese economy's key challenge, namely weak domestic demand?

Meg Rithmire: The short answer is no. In fact, I'm not convinced that boosting domestic demand is really the objective of the 15th Five-Year Plan. The plan largely resembles a renewed push toward heavy industry. It is heavily focused on investment and the supply side of the economy, with relatively little attention paid to demand. That's partly because strengthening domestic demand would require far-reaching reforms – particularly to China's fiscal framework and its welfare system, which remains very underdeveloped compared with other modern economies. Those kinds of reforms are politically and institutionally much more challenging. As a result, the tools currently being employed are not designed to transform the structure of demand within Chinese society.

Edoardo Campanella: It is often said that the US is focused on developing artificial general intelligence (AGI), while China – partly due to export restrictions on advanced chips – is more focused on applied AI and embedding it into manufacturing. Is this an accurate characterisation?

Meg Rithmire: Yes, although not solely because of chip restrictions. China has long seen AI as a tool to improve productivity in areas it already dominates, particularly industry. The government's "AI plus" strategy reflects a classic industrial policy approach: central guidance combined with implementation by local governments. Local authorities in cities such as Shanghai and Shenzhen require firms to adopt AI across workflows, increase industrial robotics and integrate advanced automation. This focus reflects a broader goal of upgrading existing industrial capacity. The US, by contrast, lacks a comparable planning system and incentive structure. As a result, its AI ecosystem is more driven by finance and technology, with greater emphasis on models and the pursuit of AGI.

Edoardo Campanella: Recent US actions involving the Panama Canal, Venezuela, Greenland and Iran suggest a broader effort to weaken China's global influence. Do you agree with this view?

Meg Rithmire: I don't see these moves as part of a coherent China-focused strategy. While it's often assumed that both China and the US act in highly coordinated ways, I don't think that applies here, nor that there is a systematic intent to undermine China's global influence. Although Venezuela and Iran matter for China, especially for energy, the US frames its actions as protecting global access to key routes like the Strait of Hormuz, including for China, and these countries are less central than Russia. If anything, the result may be rising global distrust of the US while China appears more predictable. Within the US administration, officials focused on China are reportedly frustrated by military resources being diverted from Asia, which Beijing may see as weakening US deterrence. Overall, I don't view this as a coordinated effort against China.

FOCUS 1

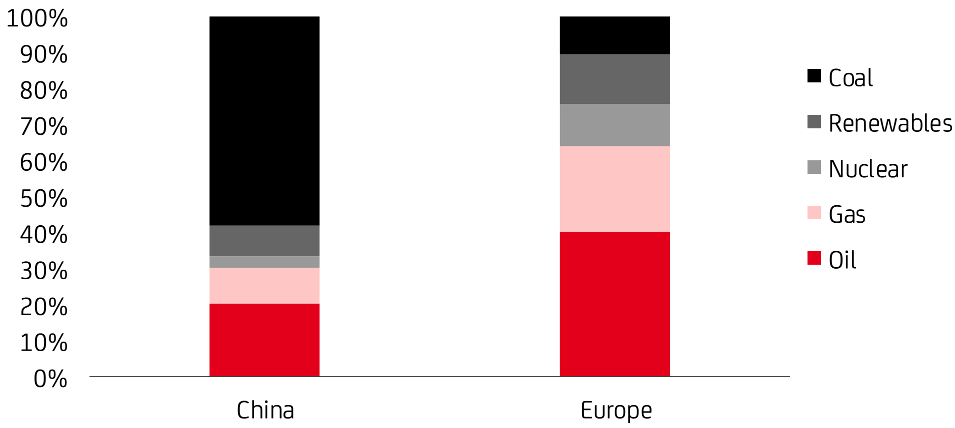
China's Iran lessons and why Europe should care

Author: Andreas Rees

The temporary two-week ceasefire between the US and Iran, announced on 8 April, has led to lower oil and gas prices, easing the immediate pressure on China and the global economy. It has not, however, changed deeper strategic lessons for policymakers worldwide. For Beijing, the US-Iran war is another reminder that the external environment is becoming more fragmented, more shock-prone and less forgiving for growth models that depend on foreign energy. China is likely to respond with further strategic reorientation: doubling down on energy security, exploiting its powerful clean-tech industrial base, defending and expanding global market shares and securing its supply chains. This will matter far beyond China itself. Especially European policymakers and companies should keep a watchful eye on the strategic changes to come.

1. **China's three-track energy doctrine has been paying off by dampening the rise in energy costs.** China has entered the latest shock with a much larger and less price-sensitive domestic energy buffer than many other Asian countries and Europe. Coal, largely domestically produced, accounts for nearly 60% of Chinese energy consumption, with about 10% coming from nuclear energy and renewables (see chart 1.1.). This stands in stark contrast to Europe, where foreign oil and gas account for more than 60% of energy needs. President Xi Jinping has recently called for faster construction of "new energy systems", while stressing orderly nuclear-energy expansion and coal's continuing role as a system stabiliser.

CHART 1.1: CHINA'S ENERGY MIX TO DAMPEN RISE IN ENERGY COSTS
ENERGY CONSUMPTION, IN % (2024)



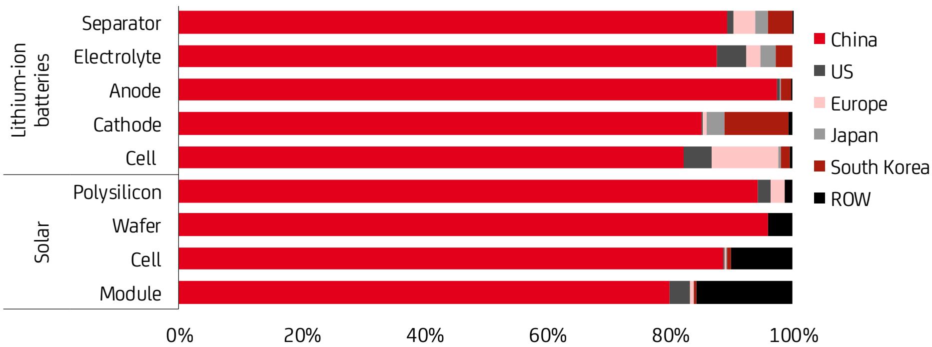
Source: Energy Institute, The Investment Institute by UniCredit
Note: Europe covers more than 30 countries, including the EU27.

2. **China's energy cost advantage is likely to put competitors in Southeast Asia and Europe under additional pressure.** As global growth is set to slow and energy costs begin to bite harder elsewhere, Chinese companies are well placed to capture additional market share. This risk applies particularly to European and German manufacturers, which have already been struggling to ward off fierce competition from China. Energy-intensive sectors in Europe, notably chemicals and pharmaceuticals, may be hit harder than others.

3. **As China will benefit from a faster reduction in global oil and gas dependency, the global energy transition becomes even more dependent on China.** The US-Iran war has strengthened the argument that renewables, batteries, electric vehicles and grids are not only climate tools, but also geopolitical shock absorbers that are important for national economic security. China is exceptionally well placed to exploit that narrative. Chinese companies account for about 80-90% of solar and lithium-ion battery production capacity worldwide, with even higher shares in some upstream segments such as PV wafers and anode materials (see chart 1.2).

CHART 1.2: CHINA DOMINATES GREEN SUPPLY CHAINS

CLEAN MANUFACTURING CAPACITY BY LOCATION, % OF GLOBAL CAPACITY (2024)



Source: BNEF, The Investment Institute by UniCredit

4. **The Trump-Xi summit is at best a stabilisation exercise for US-Chinese relations. For Europe, the results might be ambiguous.** Ahead of US President Donald's Trump postponed visit to Beijing, which is now expected to take place in mid-May, US policymakers have framed the goal as reaching stability, including the preservation of US access to Chinese critical raw materials. However, in March, the US administration launched new investigations into trading partners, including China, to help raise US tariffs back to levels before the US Supreme Court decision. China hit back by starting probes into the US investigations and signalling possible counter measures. Furthermore, the US administration has threatened extensive tariffs on pharmaceutical products in general, but with a particular focus on China as major producer of active ingredients. All in all, the Trump-Xi meeting may reduce the risk of renewed immediate bilateral escalation but is unlikely to lead to strategic trust. For Europe, such an outcome would produce upsides and downsides. On a positive note, European manufacturers would probably benefit from less restricted access to critical minerals. On the negative side, persistently higher US tariffs on Chinese goods than on European ones would sustain the risk of Chinese exports being diverted from the US to the EU, squeezing European manufacturers.

5. **Chinese President Xi Jinping's latest call for demand-driven growth in the Chinese services sector should not be misread as an impending consumption bazooka that would improve the export prospects of European companies. The more likely policy path is still selective support alongside a continued Chinese export-first growth bias.** Policymakers' focus on Chinese technologies and exports is unlikely to change, especially in light of the new five-year plan passed in March. The 2026-30 plan doubled down on greater technological progress and self-reliance, aiming to position China as a leader in frontier sectors such as AI and robotics. Hence, massive policy support for households remains unlikely and weak domestic demand is a structural problem for the time being. Furthermore, the real-estate sector remains under heavy strain and continues to generate negative wealth effects for consumers.

6. **Beijing's new supply-chain security regulation, published in early April and effective immediately, is China's first dedicated national rulebook for protecting its supply chains. For Europe, this could mean that pushing harder on "Made in Europe" tools as part of its de-risking strategy triggers countermeasures from China.** The new retaliation framework gives authorities a formal basis to act when foreign governments, organisations or companies are seen as undermining China's supply chains. Countermeasures include restrictions on exports, imports and investment, as well as the imposition of special fees and restrictions on transactions, among other actions.

FOCUS 2

China's relative insulation

Authors: Francesco Maria Di Bella, Tobias Keller

The escalation of the US-Israel conflict with Iran has unsettled global markets, underscoring the fragility of the current geopolitical equilibrium. Beyond the immediate price response, however, the episode points to a deeper shift: geopolitics has become a first-order determinant of equity risk premiums, driving regional dispersion.

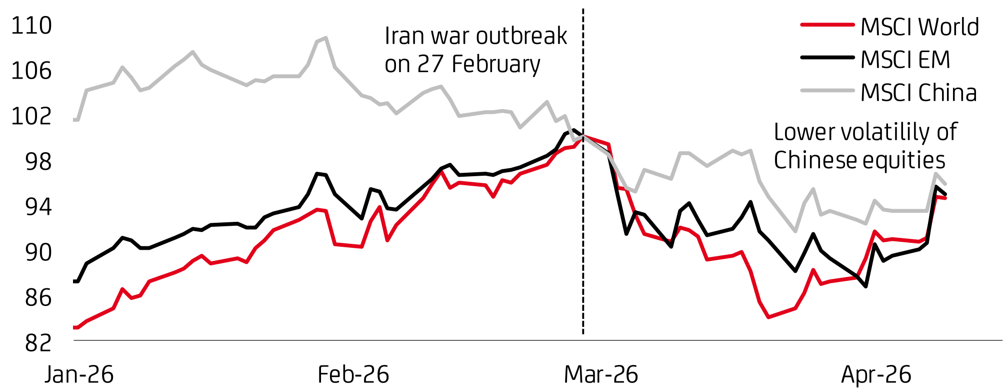
While Middle East tensions fed quickly into energy prices, inflation expectations and equity volatility elsewhere, **Chinese equity markets** remained comparatively composed, tracking global risk sentiment without amplifying it (see Chart 1.3). This resilience reflects neither immunity to geopolitical shocks nor renewed investor optimism, but rather a combination of structurally lower transmission channels and already depressed expectations. As discussed in Focus 1 on page 4, China's domestically anchored energy system plays a central role. Relatively limited reliance on imported oil and gas dampens the pass-through from geopolitical disruptions to domestic energy costs, inflation and corporate margins. In equity terms, this reduces the likelihood of sudden second-round effects weighing on earnings expectations. China's relative insulation is therefore as much about cost structures as it is about macro-financial stability.

Chinese equities have entered this new geopolitical episode with structurally low expectations and light positioning, limiting forced de-risking. Investor caution reflects persistent domestic headwinds, notably entrenched industrial overcapacity across much of the manufacturing sector and the prolonged adjustment in the real estate market, which continue to weigh on profitability, capital discipline and confidence. At the same time, persistent strategic competition with the US ensures that geopolitical risk premiums remain elevated for China even during periods of market calm. Risk is visible, debated and largely priced. This places greater weight on domestic equity dynamics, which remain mixed. Policymakers continue to prioritise stability over reflation. Measures to improve dividends, encourage buybacks and enhance market functioning have provided some support to sentiment, but they cannot replace a durable improvement in earnings growth or household confidence. Policy action lowers volatility, not the structural growth ceiling.

The AI theme retains long-term relevance for Chinese equities, but progress remains uneven. Hardware constraints, export controls and policy risk leave outcomes highly differentiated, offering structural potential without shielding investors from valuation swings. China's persistent valuation discount speaks less to near-term cyclical weakness than to entrenched scepticism over governance, demographics and geopolitics. While this discount cushions downside during global shocks, it also limits upside when global risk appetite improves.

CHART 1.3: CHINESE EQUITIES SHOW RELATIVE STABILITY AMID IRAN SHOCK

MSCI INDICES (27 FEBRUARY 2026 = 100)



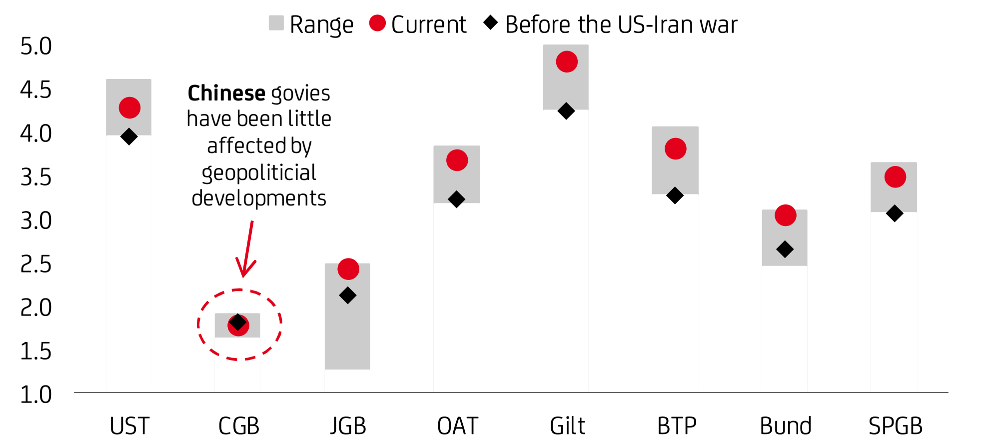
Source: LSEG Datastream, The Investment Institute by UniCredit

Despite a market structure that is usually more sentiment-driven owing to retail-investor dominance, Chinese equities have not amplified the latest geopolitical shock, as the absence of forced de-risking and already conservative expectations have contained volatility relative to institutionally leveraged developed markets. Within our overweight position in emerging-market equities, which we remain comfortable maintaining even in the face of heightened geopolitical uncertainty, China is neither a recovery trade nor a momentum allocation. While we do not expect China to be a leading market in the current cycle, it can represent a selective exposure characterised by uneven structural themes and diversification benefits.

Chinese government bonds (CGBs) have also shown resilience since the start of the conflict in the Middle East, especially compared to peers. Chart 1.4 shows the current 10Y yield, along with its 12-month range and its level on 27 February of the eight largest government bond markets around the world. Most government bond yields were trading at their 12-month low before the start of the war and rose as events in the Middle East unfolded. CGBs have shown a completely different behaviour, as they are not only little changed from their level before the start of the US-Iran war, but have also experienced extremely low volatility.

CHART 1.4: CHINESE GOVIES HAVE EXPERIENCED EXTREMELY LOW VOLATILITY

CURRENT AND 12-MONTH RANGE OF GOVERNMENT YIELDS OF LARGEST MARKETS



Source: Bloomberg, The Investment Institute by UniCredit
Note: Markets are sorted by size.

The outperformance of Chinese govies relative to peers stems from the contained impact of the US-Iran war on Chinese inflation. Indeed, inflation is expected to remain at 1% this year, which will prevent the central bank from raising rates. In addition, unlike in other countries, latest geopolitical developments are unlikely to weigh on fiscal metrics, although fiscal fundamentals are in less good shape compared to the past.

Another key factor to consider is the CGB investor base. Around 95% are held by domestic investors, mostly (70% of the total) by commercial banks that purchase domestic govies to manage liquidity, meet regulatory requirements and park liquidity when credit demand is weak. Hence, the vast majority of CGB holders are not driven by risk/return considerations and are not sensitive to macro or geopolitical developments. Moreover, foreign investors interested in buying CGBs must meet specific conditions and need to be registered.

Chinese govies offer a subdued yield and are not particularly appealing for European investors unless the CNY meaningfully appreciates relative to the EUR, which we do not expect. On the other hand, we see more attractive opportunities across fixed-income markets in emerging countries, and we maintain our positive stance on this asset class for both hard and local-currency bonds. Despite recent geopolitical events, the asset class has proved resilient, with the spread on the JP Morgan EMBI returning to its level before the start of the US-Iran war.

Macro Stories

Authors: Tobias Keller, Marco Valli, Daniel Richard Vernazza

1 Oil: temporary calm, persistent fragility

While hopes of an emerging understanding between the US and Iran temporarily eased near-term risk perceptions, confidence in regional supply security has weakened again as the US enforced a naval blockade on Iranian maritime traffic and Iranian forces carried out attacks on foreign commercial vessels, accompanied by renewed threats against Gulf ports. Oil inventory cover has eroded across key consuming regions, spare capacity is unevenly distributed and non-OPEC supply is slow to respond. Against this backdrop, we expect Brent prices to ease toward USD 90/bbl by end-2026 as risk premiums gradually fade. However, the outlook has become more explicitly conditional. Any renewed escalation, sustained disruption to Gulf exports or direct strikes on regional infrastructure that result in lasting damage would delay normalisation materially, while a credible and durable de-escalation could accelerate the easing of risk premiums and push oil prices below the baseline path.

2 ECB: rate hikes on the way

The war in the Middle East is likely to cause a meaningful divergence of monetary policies on the two sides of the Atlantic. While we still see scope for the Fed to cut interest rates once this year, the ECB is unlikely to "look through" the energy-driven inflation shock. Given our forecast that eurozone inflation will climb above 3% soon (from 2.6% in April) and hover around 3.5% in 2H26, we have pencilled in two 25bp rate hikes, in June and September, lifting the deposit rate to 2.50%, the upper bound of a plausible neutral range. The ECB's move would aim to keep inflation expectations firmly anchored and prevent meaningful indirect and second-round effects, while limiting the damage to economic activity and the labour market. Encouragingly, the eurozone economy has become more resilient to interest-rate increases over time, and tighter monetary policy is unlikely to create major problems for firms and households if an escalation of the geopolitical crisis is averted. Economic growth is likely to be weak but positive both this year (0.8%) and next (1.1%). We expect inflation to return to the ECB's 2% goal in 2H27 as the energy shock fades, allowing the central bank to reverse one rate increase in 3Q27.

3 Fed: delayed cut

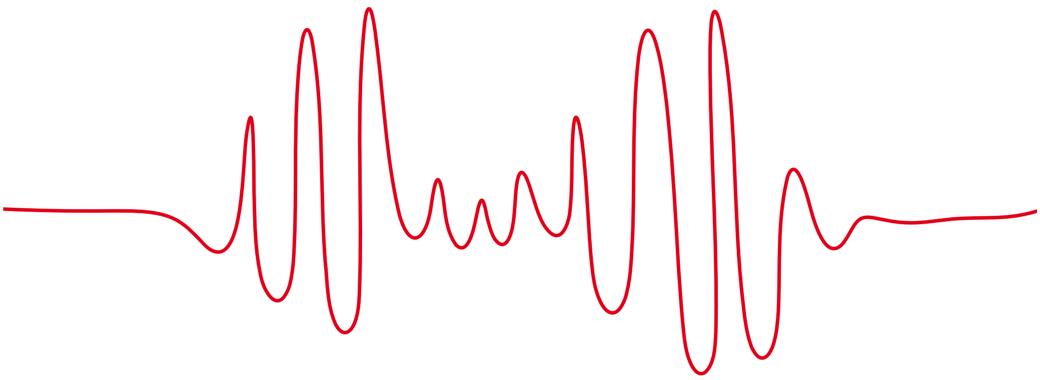
Even before the Iran war, the Fed's goals of maximum employment and 2% inflation were already in tension, with core PCE inflation around 3% and a gradually softening labour market. The energy price spike and supply chain disruptions will push inflation higher and weigh on US output, increasing this tension. In the near term, Fed officials are likely to prioritise inflation concerns over growth and employment, partly because the US is relatively insulated from Middle East events compared to Europe (with GDP growth still expected at 2.3% this year and 2% next). Our base case is that the energy price shock will only have a temporary effect on inflation (we expect CPI inflation to peak at around 3.6% in 3Q26 before easing), but Fed officials will likely want to wait to see the strength of second-round effects on other goods prices, services prices and wages before considering cutting rates. We expect the Fed to cut rates once more, in 4Q26. This is likely to be "one cut and done" given that we see the neutral rate at around 3.5%. Kevin Warsh is set to replace Jerome Powell as Fed Chair as soon as mid-May, although this could be delayed by one or more months. When Warsh takes over, he is likely to find himself in a very difficult position, given US President Trump's demand for much lower interest rates. He is unlikely to be able to convince a divided FOMC to back a rate cut until later this year.

Market Stories

Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

The noise ...

Markets have been repeatedly jolted in recent weeks by fast-moving Middle East headlines surrounding the US-Israel conflict with Iran, driving abrupt swings in sentiment. Energy prices and government bond yields have reacted sharply to swings between escalation fears and fleeting signs of de-escalation, often with little persistence. Equity markets have also experienced bouts of volatility as investors have responded to evolving news, with index-level behaviour pointing to underlying resilience. Political rhetoric, particularly from Washington, alongside uncertainty over central bank responses to war-related, energy-driven price pressures, has added to the complexity of the backdrop, reinforcing the headline-driven nature of recent market moves.



... and the signal

Beneath the volatility, markets remain grounded in fundamentals. The repricing associated with recent geopolitical events has been concentrated in risk premiums rather than forward growth or earnings expectations, with little evidence of a meaningful shift towards recessionary pricing. In fixed income, higher yields reflect renewed inflation concerns linked to the energy price shock and associated term-premium dynamics, rather than fears of a prolonged conflict, while in credit, spread widening remains gradual and orderly. Equities have demonstrated notable resilience, with drawdowns remaining contained, recoveries proving swift and market leadership anchored in earnings delivery. Overall, geopolitics has amplified short-term volatility but has not displaced the core forces guiding markets: earnings resilience, inflation dynamics and limited scope for rapid policy easing.

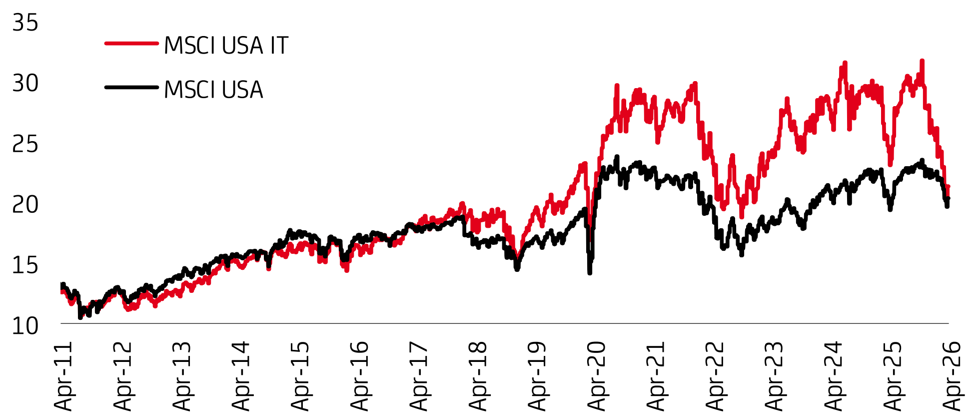
Equities

Equity markets look through geopolitics

US equity markets have absorbed the escalation involving Iran, Israel and the US with relative calm. Headline risk has risen, but confidence has not been shattered. This resilience mainly reflects the structure of the market itself: Information Technology (IT), which makes up close to a third of US market capitalisation and roughly a quarter of global equity markets, remains the primary engine of earnings growth. And this engine has already endured a significant test. The tech-valuation premium that had built up in the technology sector since 2019 and temporarily reached extreme levels (with a P/E premium of around 35% versus the broader market at the end of October last year) has been eliminated. Technology is now valued broadly in line with the overall market. Crucially, the adjustment started well before the latest geopolitical tensions (see chart 2.1), driven by a broader rotation away from long-duration growth. If anything, the Iran war has reinforced investor focus on fundamentals. Earnings expectations for the IT sector in the US have continued to rise (12M fwd earnings estimates have increased by 19% YTD to an all-time high) even as Iran-war-related inflation and growth concerns linger. With valuations reset and strong earnings momentum intact, technology looks more balanced than at any point since the AI cycle accelerated. The sector's strong performance in recent days suggests that investors are beginning to take note of this.

CHART 2.1: VALUATION COMPRESSION ALONGSIDE RISING EARNINGS EXPECTATIONS

12M FWD P/E



Source: LSEG Datastream, The Investment Institute by UniCredit

European equities face a more direct transmission of geopolitical risk. The region's sectoral structure – with higher weights in energy-intensive cyclical sectors, higher energy-import-dependency and a much smaller IT component – leaves it more sensitive to energy prices, trade disruption and confidence effects stemming from the Iran war. In contrast with the US, Europe lacks large, globally dominant technology platforms that can offset these pressures at the index level. Thus, valuations in Europe are more moderate, while aggregate earnings momentum lags behind that of the US. In this context, European financials stand out: the continent's banks, in particular, combine attractive valuations with strong capital positions, disciplined balance sheets and relative insulation from the energy shock – provided the economy avoids a recession, which we believe it will.

Our view on **emerging markets** remains constructive (see also View from the CIOs, page 2). Valuations are undemanding, offering scope for differentiation as capital seeks growth and stability beyond geopolitically concentrated developed markets.

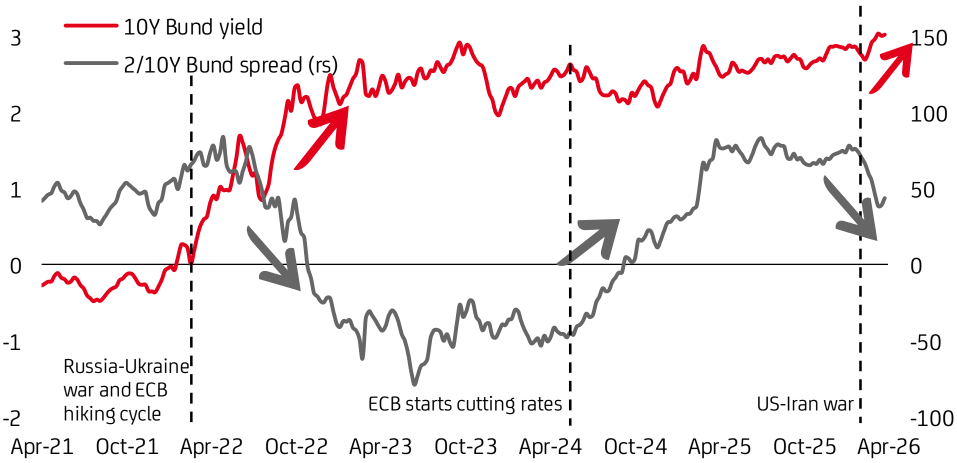
Fixed Income

Geopolitical tensions keep govies volatile

The ongoing conflict in the Middle East is providing no relief to government bonds, which remain highly sensitive to fluctuations in commodity prices and inflation expectations. The ECB is widely expected to take action to counter the inflation shock in the pipeline, with markets pricing between two and three rate hikes by the end of the year. We expect the ECB to hike the depo rate by 25bp in June and in September, with the upcoming meeting in April possibly shedding light on future moves. EGBs remain highly volatile, even intraday, as investors are trying to incorporate the latest developments in bond valuations. The 10Y Bund yield appears to have stabilised at around 3%, around 40bp higher than it was before the start of the conflict. In our baseline scenario, which assumes no further escalation of the war and a normalisation of energy prices, we see the 10Y Bund yield trading at 3% or slightly higher in the foreseeable future. The short end of eurozone curves remains more exposed to swings in investor mood. Following the ceasefire news, the 2Y Bund yield has returned to the 2.5% area after exceeding the 2.75% threshold. The Bund curve remains flatter than it was before the start of the conflict, with the 2/10Y Bund spread at 50bp (vs. 65bp). The 2/10Y spread is likely to remain around this level in the coming quarters before steepening back next year.

CHART 2.2: THE 3% LEVEL IS NO RUBICON FOR THE 10Y BUND YIELD

THE 10Y BUND YIELD (%, LS) AND THE 2/10Y BUND SPREAD (BP, RS)



Source: Bloomberg, The Investment Institute by UniCredit

Improving market sentiment has led to an overall tightening of EGB spreads to Bunds, which, however, remain wider than they were at the end of February. Their underperformance over the past two months has entirely been driven by systemic factors, while risks associated with specific countries remain contained.

Treasuries have been less exposed to geopolitical developments than EGBs, as the inflation shock is expected to be more contained on the other side of the Atlantic. Markets expect the Fed to remain on hold, while we anticipate a cut in 4Q26. The 10Y UST yield has stabilised at around 4.25%. We doubt it will decline from current levels, as fiscal risks and elevated economic uncertainty are likely to push the term premium higher.

Corporate credit: more weakness in the cards

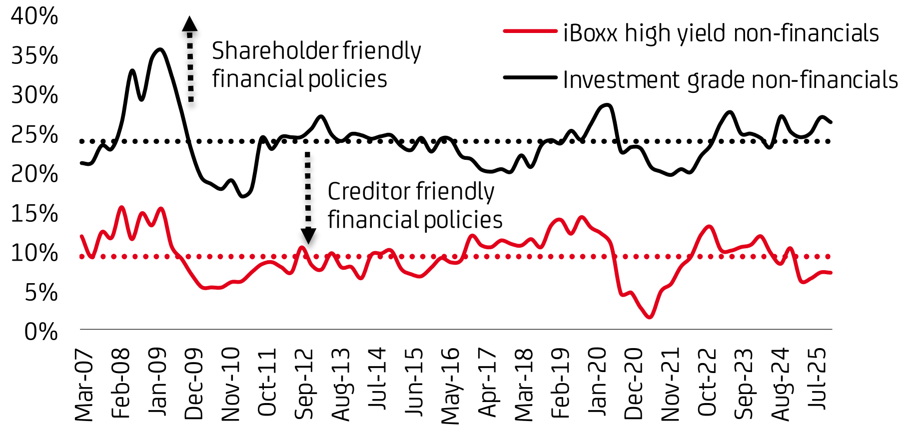
The US-Israel war against Iran creates headwinds also in European credit, though the spread widening we saw so far was rather moderate. iBoxx high yield non-financial spreads crossed temporarily the 300bp level, the highest since last June), and investment grade seniors – both banks and non-financials tested levels around 80bp. The YTD total performance is slightly negative across the credit market segments, and taking into account our revised spread forecasts – we see investment grade senior Banks and non-financials at 90bp and 95bp and high yield non-financials at 350bp by the end of the year - we are likely to end up the year with total returns between 1 and 2%, the weakest performance since 2022. Sector-wise we see value in oil & gas and basic resources, which have both outperformed YTD, and telecoms, while we underweight energy intensive sectors, i.e. automobiles & parts, chemicals, technology and travel & leisure.

While the current earnings season will not yet reflect the impact of the Iran War on issuers' credit metrics, focus will be on the guidance companies will issue, where we expect cautiousness to dominate, given the low visibility and high uncertainties related to the developments in the Middle East. Against this backdrop, we see issuers not only to keep capex low but also to further tighten their financial policies, i.e. mainly shareholder remuneration. As our chart shows, following the 2008-2009 Great Recession, European issuers switched from shareholder to credit investors friendly policies, a stance they sticked on balance since then. The shareholder remuneration – as percentage of operating cash flows, mainly in the form of dividend payments and share buybacks - has declined significantly and stood moderate since then and remains close to its long-term average. This is good news for credit investors, as it implies more cash for debt service in a period where access to bond market may become challenging, thus limiting also default rates.

For financials, **credit spreads** remained resilient as well. The sentiment was supported by good 1Q26 results from large US banks and constructive comments so far from European banks. Investor appetite for primary market deals was also very strong, despite higher geopolitical risks. Several senior bond issuances from private credit operators also reduced concerns around liquidity risk of the asset class, which supported also the sentiment for banks.

CHART 2.3: SHAREHOLDER REMUNERATION AS % OF OPERATINC CASH FLOW

EUROPEAN CORPORATE STICK TO CASH PRESERVING POLICIES



Source: S&P Global, Bloomberg, The Investment Institute by UniCredit

FX

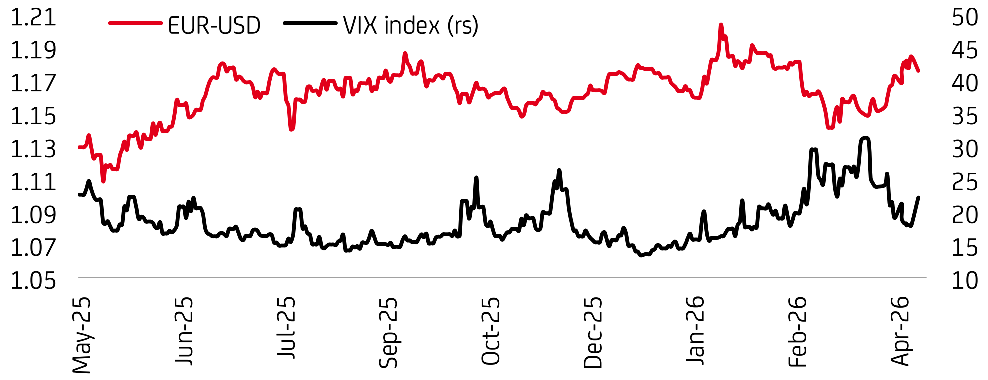
EUR-USD: swings in global risk aversion remain the key driver

Recent price action has highlighted the key FX market themes (for deeper analysis, please see our recent *Short View – USD at war: three lessons to be learned*, 8 April). **1.** the US dollar index (DXY), and by extension EUR-USD, which accounts for over 55% of the basket, is more sensitive to swings in global risk aversion than to changes in oil prices. This is illustrated in the chart below, which plots EUR-USD against the VIX (fear index). **2.** The de-dollarisation process is not over, but it requires a low-volatility environment to continue. **3.** Tightening by major central banks, the ECB included, cannot trigger a reversal in their currencies against the USD, if risk aversion does not ease in the meantime.

EUR-USD fell to 1.1412 (just few pips below the low of 1.1442 reached during last June's 12-day Middle East crisis), suggesting investors remain reluctant to ride a heavier bearish trend given the uncertainty surrounding the USD ahead of the current conflict, mostly due to US economic policies. Indeed, the pair rallied again after US President Donald Trump announced a 14-day truce on 8 April, as tensions temporarily eased. The HUF rally following Peter Magyar's victory in the Hungarian general election provided further support to EUR-USD. The pair then reached 1.1848, i.e. slightly above 1.1813, the closing level of 27 February, the day before the outbreak of the conflict, when Iran initially announced the re-opening of the Strait of Hormuz on 17 April.

Developments in the Middle East remain the key driver at present. If the conflict escalates again, a resurgence in global risk aversion could reinforce the greenback's safe-haven role and push EUR-USD lower. However, at the levels reached, the pair has already built enough downside cushion to limit any plunge towards recent lows near 1.14. The 1.15 area will probably hold in this case. After all, EUR-USD showed a muted reaction to the standoff in Strait of Hormuz and latest developments in the Iran crisis. Markets remain convinced that a meltdown will ultimately be avoided and a deal will eventually be reached, with investors preferring to adopt a wait-and-see stance for now rather than going massively long the USD. By contrast, a de-escalation in Middle East tensions, our baseline scenario, with the consequent shrink of the "war-driven" risk premium, will likely lift EUR-USD towards the upper end of the 1.15-1.20 trading band. However, the key question in this case would be whether a break above YTD high of 1.2078, although welcomed by the ECB due its negative impact on inflation, would be consistent with the current overall geoeconomic scenario. That said, EUR-USD could move higher even if the US is drawn into a protracted conflict, as this would become an idiosyncratic risk factor for the Trump administration if an exit-strategy fails to emerge. Trump might also favour a more competitive USD ahead of the US mid-term election to help US exports and narrow the US trade imbalance.

CHART 2.4: GEOECONOMIC FACTORS CONTINUE TO DRIVE EUR-USD DYNAMICS
EUR-USD AND THE VIX INDEX (RS)



Source: LSEG, The Investment Institute by UniCredit

Commodities

Crude oil

Oil markets have repriced sharply in recent weeks, with Brent sustaining materially higher levels as geopolitical risk has re-emerged as the dominant near-term driver. While hopes of an emerging understanding between the parties temporarily reduced immediate tail risks, confidence in regional supply security has weakened again following the US enforcement of a naval blockade on Iranian maritime traffic, alongside renewed Iranian threats of retaliation against Gulf ports and attacks on foreign commercial vessels. Heightened uncertainty has seen prices return to slightly below USD 100/bbl, underscoring the market's sensitivity to escalation risk. Surplus narratives no longer dominate. Inventory buffers have thinned across key regions, spare capacity remains uneven and non-OPEC supply is slow to respond, amplifying the price impact of geopolitical headlines. We expect Brent to ease toward USD 90/bbl by end-2026 as risk premiums gradually fade, but the pricing environment remains fragile. Any deterioration in the conflict would likely delay normalisation and keep prices elevated for longer, while a credible and durable de-escalation could push prices below our baseline path.

Natural gas

The benchmark European natural gas price (TTF) has continued to be highly volatile and is up nearly 30% since the start of the war in Iran at the end of February. Although prices have fallen markedly in recent weeks as markets have become more optimistic about a rapid easing of tensions, the near-term outlook remains challenging. Qatar and the UAE, which account for around 20% of global LNG supply, have been unable to export LNG since the start of the war. In addition, an estimated 16% of Qatar's capacity has been damaged and will be offline for years. This has tightened a previously positive supply and demand balance for importers. Although prices have retreated recently, the summer restocking season has not really begun in earnest and faces a challenging outlook in the coming months, even if hostilities in the Middle East begin to ease. Our forecast of an average TTF price of EUR 55/MWh is clearly above the most recent price level of EUR 40-45/MWh. We believe that the current price level reflects neither emerging risks to LNG supply nor the expected rising demand as Europe and Asia replenish stocks ahead of the 2026-27 winter heating season.

Gold

Gold traded near USD 4,800/oz and remained on track for a fourth consecutive weekly gain, supported by easing inflation concerns as prospects for a more durable ceasefire between the US and Iran improved. Optimism around a potential agreement has weighed on oil prices, alleviating inflationary pressures and tempering expectations of further central-bank tightening. While uncertainties persist around the verification and implementation of any deal and energy supply disruptions could take time to normalize, recent market developments have reduced immediate tail risks. Against this backdrop, gold remains around 17% above its March low, underlining its resilience. Looking ahead, we expect gold to continue to serve as a safe-haven asset. While short-term volatility is driven by liquidity and interest-rate factors, medium- to long-term support remains clearly underpinned by geopolitical uncertainty and sustained central-bank buying.

Forecast Tables

UniCredit Forecasts

GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Global	**3.2**	**3.1**	**3.2**	-	-	-	-	-	-
US	**2.1**	**2.3**	**2.0**	**2.7**	**3.3**	**2.6**	**-7.4**	**-7.9**	**-8.0**
Eurozone	**1.5**	**0.8**	**1.1**	**2.1**	**3.1**	**2.3**	**-3.4**	**-3.7**	**-3.6**
Germany	0.2*	0.9*	1.6*	2.2	2.7	2.3	-2.7	-4.3	-4.3
France	0.9	0.9	1.0	0.9	1.8	1.5	-5.1	-5.0	-4.6
Italy	0.7	0.5	0.6	1.5	3.2	2.1	-3.1	-2.9	-2.8
Spain	2.8	2.2	1.6	2.7	3.3	2.6	-2.5	-2.1	-2.2
UK	**1.3**	**0.6**	**1.0**	**3.4**	**3.3**	**2.2**	**-4.5**	**-3.8**	**-3.5**
China	**5.0**	**4.6**	**4.2**	**-0.2**	**1.2**	**1.1**	**-7.9**	**-8.2**	**-8.4**
Japan	**1.0**	**0.8**	**0.8**	**3.0**	**2.1**	**2.0**	**-3.1**	**-4.0**	**-3.8**
India	**7.6**	**6.5**	**6.5**	**2.1**	**4.7**	**4.0**	**-7.4**	**-7.4**	**-7.3**

Source: The Investment Institute by UniCredit
*Non-WDA figures. Adjusted for working days: 0.4% (2025), 0.6% (2026) and 1.5% (2027)

CENTRAL BANKS WATCH

	Current	2Q26	3Q26	4Q26	1Q27	2Q27
Fed	3.75	3.75	3.75	3.50	3.50	3.50
ECB	2.00	2.25	2.50	2.50	2.50	2.50
BOE	3.75	3.75	3.75	3.50	3.25	3.00
BoJ	0.75	1.00	1.00	1.25	1.25	1.25
Riksbank	1.75	2.00	2.25	2.25	2.25	2.25
Norges Bank	4.00	4.25	4.50	4.50	4.50	4.50

Source: The Investment Institute by UniCredit
Note: Figures are end-of-period

INTEREST RATE AND YIELD FORECASTS

	20.04.26	2Q26	3Q26	4Q26
Eurozone				
Depo rate	2.00	2.25	2.50	2.50
3M Euribor	2.19	2.31	2.52	2.55
2Y Schatz	2.46	2.65	2.65	2.60
10Y Bund	2.98	3.10	3.10	3.00
2Y EUR swap	2.64	2.90	2.85	2.75
10Y EUR swap	3.01	3.15	3.15	3.05
10Y swap-Bund spread	3	5	5	5
2Y BTP	2.64	2.85	2.85	2.80
10Y BTP	3.72	3.90	3.90	3.80
10Y BTP-Bund spread	74	80	80	80
US				
Fed fund rate	3.75	3.75	3.75	3.50
3M OIS SOFR	3.67	3.67	3.60	3.42
2Y UST	3.72	3.85	3.75	3.65
10Y UST	4.26	4.40	4.40	4.40
10Y UST-Bund spread	128	130	130	140

FX FORECASTS

	20.04.26	2Q26	3Q26	4Q26
EUR-USD	1.18	1.17	1.18	1.19
USD-JPY	159	157	154	152
EUR-JPY	187	184	182	181
GBP-USD	1.35	1.33	1.33	1.32
EUR-GBP	0.87	0.88	0.89	0.90
USD-CNY	6.82	6.88	6.85	6.80
EUR-CNY	8.02	8.05	8.08	8.09

Source: Bloomberg, The Investment Institute by UniCredit

RISKY ASSETS FORECASTS

	20.04.26	Mid-2026	End-2026
Oil			
Brent USD/bbl.	95	100	90
Equities			
Euro STOXX 50	5,986	6,000	6,300
STOXX Europe 600	621	630	660
DAX	24,418	25,000	26,000
MSCI Italy	124	125	135
S&P 500	7,110	7,100	7,400
Nasdaq 100	26,590	26,000	28,000
Credit			
iBoxx Non-Financials Senior	72	90	95
iBoxx Banks Senior	68	85	90
iBoxx High Yield NFI	279	325	350

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:
Economics > I **FI >** I **FX >** I **Risky Assets >**

Development of selected financial market indices

From	20.04.21	20.04.22	20.04.23	20.04.24	20.04.25	20.04.21	01.01.26
To	20.04.22	20.04.23	20.04.24	20.04.25	20.04.26	20.04.26	20.04.26
STOCK MARKET INDICES (TOTAL RETURN, IN %)							
MSCI World (in USD)	4.6	-3.7	17.7	8.0	35.7	73.4	5.2
MSCI Emerging Markets (in USD)	-16.6	-6.6	4.6	8.1	53.7	37.2	14.6
MSCI US (in USD)	7.6	-6.5	22.6	6.9	36.2	80.0	4.1
MSCI Europe (in EUR)	10.1	5.6	10.2	4.6	26.4	66.2	6.0
MSCI AC Asia Pacific (in USD)	-15.2	-2.6	5.7	7.9	46.1	39.3	12.9
STOXX Europe 600 (in EUR)	9.0	4.8	10.4	4.7	26.9	64.5	6.0
DAX 40 (Germany, in EUR)	-5.1	10.0	12.3	18.9	15.2	58.9	-0.3
MSCI Italy (in EUR)	7.0	15.0	31.7	13.0	39.4	148.7	7.1
ATX (Austria, in EUR)	8.9	2.6	14.7	16.6	55.1	126.5	10.9
SMI (Switzerland, in CHF)	14.3	-5.1	2.1	7.3	18.1	38.0	2.6
S&P 500 (US, in USD)	9.4	-5.8	22.2	6.9	36.3	83.6	4.2
Nikkei (Japan, in JPY)	-4.7	7.7	31.8	-7.0	72.4	118.4	17.7
CSI 300 (China, in Yuan)	-18.5	3.4	-11.7	9.2	29.6	6.0	3.0
BOND MARKET INDICES (TOTAL RETURN, IN %)							
US government bonds 10Y (in USD)	-9.6	-2.3	-4.9	6.8	5.4	-5.4	0.3
German Bunds 10Y (in EUR)	-9.4	-11.0	2.2	2.9	-1.0	-15.9	0.2
EUR government bonds 1Y-10Y (iBOXX, in EUR)	-8.4	-10.3	3.7	4.0	0.3	-10.9	0.1
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	-7.3	-6.1	5.8	5.8	2.5	0.0	0.4
BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)							
US government bonds 10Y (in USD)	135	62	108	-30	-8	266	11
German Bunds 10Y (in EUR)	112	162	4	-5	52	322	12
EUR government bonds 1Y-10Y (iBOXX, in EUR)	111	177	-6	-11	42	311	14
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	161	207	-37	-44	31	314	18
EURO EXCHANGE RATES (CHANGE, IN %)							
US dollar (EUR-USD)	-10.1	1.1	-2.7	6.4	3.5	-2.3	0.1
British pound (EUR-GBP)	-3.9	6.3	-2.9	0.3	1.4	0.8	-0.2
Swiss franc (EUR-SFR)	-7.0	-4.3	-1.3	-4.3	-1.1	-16.4	-1.3
Japanese yen (EUR-JPY)	6.0	6.5	11.7	-1.7	15.4	43.7	1.5
COMMODITIES (CHANGE, IN %)							
Commodity Index (GSCI, in USD)	9.3	2.5	18.9	37.4	43.9	162.5	10.8
Industrial metals (GSCI, in USD)	31.5	-21.3	6.1	-8.1	42.0	39.5	11.2
Gold (in USD per fine ounce)	10.0	2.4	19.7	38.7	45.3	170.3	11.0
Crude oil (Brent, in USD per barrel)	60.3	-24.1	7.6	-22.0	40.6	42.5	57.1

Source: Refinitiv Datastream, The Investment Institute by UniCredit (as of 20 April 2026)
Note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.

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Information and data contained in this document is updated as of 21 April 2026.