



MONTHLY INVESTMENT *Brief*

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Don't lose track of the goal in the 'fog of war'



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The military confrontation between the US, Israel and Iran has quickly spread to other countries in the Middle East. Iran responded to targeted attacks by the US and Israel on the political and military leadership in Tehran with a series of retaliatory actions. Attacks on US military bases, tourist facilities and, above all, energy infrastructure were particularly severe. The blockade of the Strait of Hormuz has disrupted one of the most important chokepoints for global oil and LNG transport. The immediate jump in oil and gas prices showed how strongly the markets react to the possibility of supply disruptions. At the end of the first week of the war, the price of Brent crude oil exceeded the sensitive mark of 100 US dollars.

Despite the geopolitical escalation, price losses on the international stock markets remained manageable at first, but intensified after concerns about a prolonged conflict drove oil prices ever higher. Regions such as Asia, particularly South Korea, which are heavily dependent on energy imports and therefore vulnerable to price shocks, were particularly affected. At the same time, demand for safe havens rose significantly: the price of gold reached a new record high, the US dollar appreciated, and global government bond yields rose as a result of new inflation concerns, ending the first week of the war with heavy losses. This priced out expectations of further interest rate cuts.

Impact of military conflicts limited in duration

How the conflict will develop remains to be seen. Historically, wars have often lasted longer than initially anticipated. For long-term investors, which we consider ourselves to be, it rarely makes sense to avoid risk entirely. Rather, it is a matter of exploiting the opportunities arising from volatile market movements in line with one's own long-term investment goals. Higher energy prices are undeniably a burden on the global economy. Whether they can trigger a recession depends on how long they remain at levels that are detrimental to the economy. These factors will most likely also influence the conduct and duration of the war. Furthermore, historical experience suggests that the impact of military conflicts on the stock markets is often only temporary: in many cases, the markets return to normal around three months after the start of a military conflict. In the current geopolitical 'fog of war', it is crucial for investors not to lose sight of their long-term goals.

As long as the conflict remains regional and its economic impact limited, the key long-term drivers of the capital markets – technological progress, strong corporate earnings and supportive monetary policy – will remain largely intact.



At the same time, there are still short-term factors that support growth and can offset the negative effects of the Iran war. In the EU, particularly in Germany, extensive public investment programs are having an impact; in the US, tax cuts are providing additional economic stimulus. Continued investment in artificial intelligence also remains a strong driver for the stock markets.

Regarding inflation, price increases are currently limited to the energy sector. Inflation expectations have not spiraled out of control. Nevertheless, the US Federal Reserve is likely to wait before making further interest rate cuts, also considering the possible price-driving effects of new trade tariffs. However, postponed does not mean cancelled: monetary policy could remain loose and supportive. The European Central Bank is in a similar situation. It will have to keep a close eye on energy prices to avoid an inflation shock like that seen in 2021/2022. However, as long as the price increase remains temporary and there are no signs of second-round effects, an interest rate hike this year is considered unlikely.

Take advantage of price declines

In the current geopolitical turbulence, it is crucial for investors to stay focused on their long-term goals while taking advantage of opportunities arising from short term market movements. When investing in equities, the development of oil and gas prices is crucial for stock selection. In the short term, this favors US stocks, which are less dependent on energy imports. Even though corrections are always possible given the high valuations, we tend to use price declines in our favorite stocks as an opportunity to buy more. Memory chips remain attractive because data centers

need huge amounts of DRAM and especially HBM (high Bandwidth Memory). In contrast, software stocks that have been overly punished could be worth buying again. In Europe, too, opportunities are opening in sectors benefiting from economic stimulus programs, such as infrastructure and defense. In the banking sector, we also find European institutions that are less involved in credit financing for AI infrastructure more attractive than US financial stocks.

In the bond segment, spreads on high-yield bonds have begun to widen, while the investment-grade segment is proving more resilient. While we take a constructive view of long-duration IG bonds due to the strong fundamentals, we are more cautious on long-duration high-yield bonds as volatility has increased, and risk premiums barely compensate for the risks. From a risk/return perspective, we continue to favor short-duration investment grade and high yield, as the drawdown potential is low. In the short term, we favor the US dollar as a hedge against geopolitical risk factors, but we plan to limit this bet in buying EUR/USD calls in case of quicker than expected end of the conflict.

Conclusion

These positions are not set in stone but can change quickly in a highly volatile environment. Long-term high energy prices and an escalation or unforeseeable end to the military conflict in the Gulf could be signals to adjust portfolios. This is not yet foreseeable, but in the fog of war, it is important not to commit too quickly, but to respond flexibly to a changing environment.

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