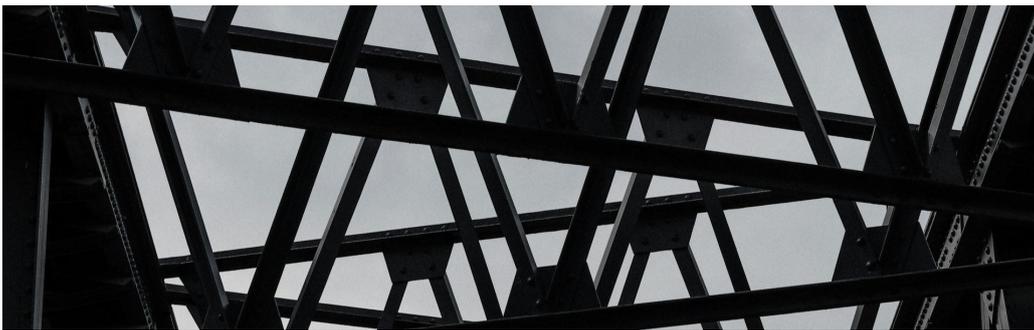


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BILBoard March 2026 – Getting physical



As software stocks shed roughly \$1 trillion in market value in February, investor attention swung toward capital intensive businesses with durable physical assets, captured by the acronym HALO: “heavy assets, low obsolescence.” These companies are seen as being less vulnerable to AI driven disruption, and in some cases, AI may even enhance their scale and profitability. Utilities, energy producers, materials companies, chipmakers, miners, and heavy manufacturers have all benefited from this rotation, as industries rooted in hard assets regained favour after years of lagging behind asset light technology firms. Their appeal lies in the difficulty of replicating such operations: building mines, refineries, plants, and fabrication facilities requires substantial capital, long lead times, and specialised expertise.

Defense and energy companies are also drawing renewed interest, not only because of their capital heavy profiles but also due to escalating geopolitical tensions and ongoing turmoil in the Middle East, which continues to disrupt the flow of oil and gas. Brent crude has climbed by roughly 40% following the outbreak of conflict, while European natural gas prices have also shot up. These moves reflect fears of prolonged supply interruptions, particularly shipments through the Strait of Hormuz, a critical artery for global energy trade, as well as production losses elsewhere across the region.

The chief risk is that the conflict brings prolonged disruptions to global energy markets and renewed inflationary pressures, which in turn may delay, derail, or even reverse the anticipated monetary easing by major central banks. Major importers of crude, most heavily concentrated in Europe and Asia, remain particularly exposed to price shocks, a vulnerability reflected in the steep declines seen across national equity indices. By contrast, the US, now a net exporter of

oil, has so far experienced more contained market losses.

Fixed income markets show similar divergences. While bonds came under pressure, US inflation expectations remained relatively anchored, whereas European expectations climbed sharply, pushing long term yields higher as inflation fears overshadowed safe haven flows. For now, markets are focused squarely on inflation rather than on the potential drag from energy driven growth shocks; this is reflected in stable credit spreads. Should concerns rotate toward growth, spreads could widen, and yield curves move lower.

MACROECONOMIC OUTLOOK

Global growth is expected to hover around **3% this year**, broadly in line with the long-run historical average. Developed economies are expected to settle into a phase of low but positive growth, while China remains a key contributor to global expansion, even as it slows structurally.

Fallout from the conflict in the Middle East is set to deliver a **larger hit to European and Asian economies than to the US**, which remains partially insulated thanks to its sizeable domestic energy sector. Indeed, the US has been a net exporter of natural gas since 2017 and of oil since 2020, meaning its energy industry benefits from higher prices, even though middle- and lower-income households – already under pressure - will be hit by rising gasoline costs. President Trump has warned that the conflict could span several weeks, opining that \$100 crude was “a very small price to pay” for “safety and peace.”

Prior to the conflict, the **US economy had already begun to cool: Q4 GDP grew just 1.4%**, down from 4.4% and below the 3% consensus. Yet the slowdown looks less severe once one factors in the prolonged government shutdown, estimated to have shaved nearly one percentage point off growth. **Consumption** appears increasingly fragile, propped up by a **declining savings rate** (currently just 3.6%), while **fixed investment remains resilient**, especially in intellectual property products and equipment.

Inflation risks persist. While headline inflation eased to **2.4% in January**, the deceleration largely reflects base effects. **Producer prices rose 3.6% YoY**, driven in part by tariffs on imported materials, prompting firms to raise prices to protect margins. These pressures are likely to filter into consumer inflation in coming months, reinforcing the Fed's pivot back toward prioritising price stability. Markets currently anticipate **two additional rate cuts** this year, but a sustained rise in oil and gas prices could delay or reduce the scale of easing.

This is even more concerning for **Europe**, where energy dependencies make inflation more responsive to supply shocks. Interest rate swap markets now imply nearly a **50% probability of an ECB hike**, signalling renewed anxiety over rising energy costs. Policymakers face a difficult trade off: higher inflation argues for tighter policy, while weaker growth argues for caution. GDP

is expected to grow **1.2% in 2026**, down from 1.4% in 2025.

Recent PMI figures show a modest improvement, with the **Composite PMI rising to 51.9** as manufacturing returned to expansion. But momentum remains fragile, constrained by weak external demand, longstanding productivity issues, and competitive pressure from both a stronger euro and cheaper Chinese imports.

China, which imports roughly **three quarters** of its crude—with much passing through Hormuz—does have guardrails: larger strategic stockpiles, the ability to curb refinery exports, and scope to lean more heavily on Russian supply. At the annual **Two Sessions**, Beijing announced a lower GDP target of **4.5%–5%**, the lowest since 1991, as it shifts toward “quality first” growth amid deflationary pressures and unresolved trade tensions with the US. The government reaffirmed its pursuit of technological self-reliance, prioritising AI, quantum computing, 6G, humanoid robotics, and nuclear fusion, further underlining the fact that US–China technological competition remains a **structural** force shaping global markets.

INVESTMENT STRATEGY

Few asset classes have been insulated from the conflict-driven volatility. Even gold, typically a safe-haven asset, saw a pullback, highlighting the broad-based nature of recent de-risking. Against this backdrop, we have adjusted our investment positioning to both manage risks and capture emerging opportunities.

1. FX and Equity Allocation Adjustments

At the onset of the conflict, the US dollar strengthened as investors fled to safety and unwound USD shorts. We used this move to further reduce USD exposure, reallocating a portion of our core US equity position into **euro-hedged equally weighted US equities**. We view the dollar as increasingly vulnerable to abrupt White House policy shifts and to a broader global push for diversification away from US assets. The adjustment also reduces concentration in mega-cap tech names facing heightened scrutiny over AI-driven disruption.

2. Regional Allocation

We switched our **Euroland exposure to broader Europe** to enhance diversification and gain exposure to key non-euro markets with particular focus on increasing positions in large UK energy names, which stand to benefit disproportionately from elevated oil and gas prices.

3. Credit positioning

We **exited our position in US High Yield bonds**, moving the proceeds to cash. Beneath headline performance, dispersion in high yield has increased, with visible stress in loans, private credit, and lower rated segments (CCC/B). While the macro backdrop remains broadly supportive, we prefer to trim risk at this time.

4. Further reduction of duration

We **trimmed our European Sovereign holdings once more**, noting that inflation risk is clearly eclipsing the safe-haven narrative in the Eurozone, as was the case after the onset of the war in Ukraine. Rates had been trending lower before the attack on Iran on the back of AI and private credit concerns and we considered European sovereigns as overvalued given the backdrop of an improving European economy. So even taking the Iran impact on the bond prices out of the equation, we see a 10Y bund yield of around 2.85% closer to fair value.

5. Equity Sector Adjustments

IT Software — downgraded to Neutral | IT Hardware & Semiconductors — Positive

Software stocks have stabilised from the February selloff but remain volatile amid ongoing concerns about AI disruption and valuation resets. In contrast, hardware and semiconductor names continue to benefit from acute memory chip shortages and strong AI related demand, reinforcing the “Getting Physical” theme as capital intensive tech regains leadership.

EUR Consumer Discretionary — Negative

Luxury remains weak due to soft Chinese demand, while the European auto sector continues to struggle.

Energy — upgraded to Neutral

Elevated geopolitical risk supports energy producers, but sustainability depends on the duration and depth of the conflict.

Sector preferences

NEGATIVE	NEUTRAL	POSITIVE
Real Estate	Healthcare	IT hardware
Consumer Discretionary	Materials	Utilities
Consumer Staples	EUR Communication Services	Industrials
	IT software	EUR Financials
	Energy	US Communication Services
	US Financials	

In a world defined by supply chain fragility, energy insecurity, and accelerating AI disruption, market leadership increasingly appears to be shifting back toward physical assets, real infrastructure, and the companies that build and power them. With it still unclear as to how software and other capital light sectors will fare, we see a general shift towards energy producers, industrials, hardware manufacturers, and other HALO aligned businesses whose value is grounded in tangible assets rather than in code alone.



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