Weekly round up (Week 16)

Global markets maintained a strong “risk-on” bias last week, supported by easing geopolitical tensions as the likelihood of a major escalation in Iran diminished. Improved sentiment, reflected in lower volatility, allowed investors to refocus on economic data and corporate earnings. Central banks signaled a more measured monetary policy path, and despite lingering risks, the outlook remains broadly favorable, provided the conflict remains contained.

Price dynamics in financial markets continued to follow a classic “risk-on” pattern. Sentiment remains optimistic, with our preferred indicator, the VIX, staying below 20 and continuing its decline throughout the week. Financial conditions have eased, reflecting relief in global markets as the worst-case scenario—a full-scale ground offensive in Iran—becomes increasingly unlikely. As a result, extreme downside risks have diminished significantly. Earnings season and the International Monetary Fund’s (IMF) spring meetings also helped divert attention from geopolitical tensions, allowing investors to refocus on their priorities: the economic outlook and corporate earnings.

President Trump expressed optimism regarding negotiations with Iran, stating that Tehran had agreed to “almost everything” and that a deal could be reached “fairly quickly,” potentially rendering an extension of the ceasefire unnecessary. On a separate but related front, Trump announced a 10-day ceasefire between Israel and Lebanon, now in effect, and expressed his intention to welcome Prime Minister Netanyahu and President Aoun to the White House. Additionally, Iranian Foreign Minister Abbas Araghchi stated that the sea route crucial for global energy supplies was now “completely open” for the duration of the 10-day truce between Israel and Hezbollah in Lebanon (note, however, that the strait was subsequently closed again over the weekend).

The vast majority of investors now believe that a re-escalation of the conflict is in no one’s interest. The United States has achieved its stated goal of degrading Iran’s military capabilities, while the Iranian regime has survived and may even emerge from the conflict with a strengthened regional position, having demonstrated its control over the Strait of Hormuz. Meanwhile, behind the scenes—and in line with its diplomatic approach—China has clearly encouraged a peaceful resolution, reinforcing the general view that de-escalation will continue. Predictive markets currently assign an 84% probability that Trump will announce the end of the military operation before the end of May.

It was a relatively quiet week for U.S. Treasuries compared to their European counterparts, with a slight “bull flattening” of the yield curve. The IMF, however, issued a strong warning to the U.S. Treasury, highlighting the U.S.’s persistent budget deficit—about 6% of GDP—combined with a growing reliance on short-term debt issuance, which now accounts for 22% of total financing. According to the IMF, this situation erodes the safety premium historically associated with Treasuries, with broader consequences, including higher borrowing costs globally.

By way of illustration, the IMF highlighted the narrowing spread between AAA-rated corporate bonds and Treasuries, which has fallen from over 55 basis points in early 2019 to about 35 basis points today—a sign that investors are demanding a lower premium to hold high-quality corporate bonds, reflecting reduced confidence in Treasuries’ traditional safe-haven status. Former Treasury Secretary Henry Paulson was even more direct, suggesting that U.S. authorities should prepare a contingency plan to prevent a future collapse in demand for Treasuries, due to a growing imbalance between supply and a large wave of upcoming maturities. “We need a targeted, short-term contingency plan, ready to be implemented as soon as we hit the wall.”[6]

In European bond markets, yield curves have shifted sharply toward “bull flattening,” with short-term rates falling by more than 20 basis points, as central bank communications have eased the urgency to tighten monetary policy in response to rising energy prices. Christine Lagarde noted that rising energy costs had pushed the eurozone away from the European Central Bank’s (ECB) baseline scenario, though she did not see this as justifying rate hikes at this stage. For his part, Andrew Bailey noted that there was no urgency to tighten monetary policy, believing it is still too early to assess the economic impact of the conflict in Iran. He described the situation as a “very significant energy shock,” while emphasizing that its duration will be decisive for the Bank of England’s inflation outlook.

Against this backdrop, money markets now anticipate roughly 40 basis points of tightening by the ECB and 23 basis points by the Bank of England, compared with peak expectations of 76 and 87 basis points, respectively, as of March 20.

In its Spring Economic Outlook update, the IMF assumes—broadly in line with the consensus—that the conflict will remain limited in duration and scope. In this baseline scenario, global growth is revised slightly downward to 3.1% in 2026 from 3.3% previously.

Europe is expected to be slightly more affected than the United States, while Latin America appears to be a relative beneficiary. Global inflation is expected to rise slightly in 2026 before resuming its decline in 2027. However, the IMF emphasizes that downside risks dominate, particularly in the event of a longer or more widespread conflict, a reversal of AI-driven productivity gains, or new trade tensions.

Corporate credit and currency markets continue to reflect a “risk-on” environment. Credit had another strong week, with positive returns across all asset subclasses and emerging markets outperforming, in both investment-grade and high-yield segments. Capital flows have also improved, with hard-currency emerging market bonds and developed market high yield now attracting significant inflows.

The U.S. dollar continued to weaken broadly. Kenneth Rogoff, former chief economist at the IMF and a professor at Harvard, added a structural dimension to the debate on the dollar, warning that the currency could be overvalued by nearly 20% relative to current levels—though he expects any adjustment toward its fair value to take five to six years rather than occur abruptly.

The best-performing currency of the week was the Hungarian forint, up more than 3% against the dollar following a landmark election result. Peter Magyar’s landslide victory brings an end to Viktor Orbán’s 16 years in power and heralds a major political realignment. For the markets, the key factor is the likely normalization of relations between Hungary and Brussels, which could unlock billions of euros in currently frozen EU funds, providing significant fiscal support to the Hungarian economy and positive spillover effects throughout the Central and Eastern European region.

In the commodities markets, energy prices continued to fall, with Brent crude dropping below $90 per barrel. At the same time, industrial metals reached new highs: the London Metal Exchange (LME) index, which tracks six major metals, rose nearly 12% over the past four weeks, driven by soaring aluminum prices. JPMorgan Chase warned that the aluminum industry was heading toward a “black hole” as a severe and prolonged supply shortage takes hold in the market.

Finally, global stocks rose overall, with the Bloomberg World Large & Mid Cap Index gaining more than 3%.

In the United States, the S&P 500 broke through the 7,000-point mark for the first time, while tech-heavy indices outperformed: both the Nasdaq and the Korean Kospi rose by more than 6% over the week. Earnings season in the United States got off to a strong start, led by the major banks, which generally exceeded expectations. JPMorgan posted record quarterly trading revenue, Citigroup saw its equity revenue jump 39% to a historic high, [15] Bank of America reported results well above forecasts, [16] and Morgan Stanley exceeded expectations for the second consecutive quarter, driven by record performance in wealth management. [17] Wells Fargo lagged behind, with net interest income falling short of estimates.

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