

Letter n°148

Diverging trends between stock markets and the real economy. What should we make of it?

“The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man.”

George Bernard Shaw in Man and Superman.

Trump, as everyone now understands, is an unreasonable man. A provisional assessment since the beginning of the year: the price of Brent crude has risen by 57%, gas in Rotterdam by 63%, wheat prices by 13.5%, and aluminium by 19%, as 10% of global production has been disrupted in Abu Dhabi. Similarly, supply reductions are being observed for helium, which is essential for semiconductors, as one-third of the helium used worldwide is produced in Qatar. There are also reductions in urea and fertilisers, as 10% of the urea used globally and the equivalent of one-eighth of fertilisers transported through the strait in 2024 are also produced in Qatar.

Admittedly, the price of gas, at €43/MWh, remains far from the €340/MWh reached at the start of the war in Ukraine; likewise, the price of a ton of wheat, at €196, is far from the €400 reached at that time. However, current market levels assume a short war.

Can we ignore the risks associated with rising prices of these commodities, or even supply disruptions, when, according to the IEA, OPEC production is said to have fallen by 9.4 million barrels per day in March, that is, almost 10%? Can we overlook the impact of rising interest rates – 40 to 50 basis points on 10-year rates – on the debt burden of governments, companies, and households? Can we forget the expectations of rate cuts in the United States, now threatened by the possibility, if not the likelihood, of rate hikes? Can we dismiss the risk of recession in several countries and stagflation in many others?

Despite these risks, while the global economy is slowing, financial markets remain resilient, and our portfolios have recorded positive performance since the beginning of the year.

Let us therefore analyse the slowdown in the economy and the evolution of the markets.

- **The slowdown of the global economy:**

According to the IMF, a 10% increase in oil prices results in a -0.15% impact on global growth and a +0.4 percentage point increase in inflation. Thus, under the assumption of a ceasefire in June and a barrel price maintained at \$100, the IMF has just revised down its 2026 growth forecast from 3.3% to 3.1%. In a twist of irony, all countries are penalised except Russia, which benefits from higher oil prices and an upward revision of its growth outlook from 0.8% to 1.1%.

The most affected countries are, first and foremost, poorer nations, as they face a triple shock: rising oil prices, rising food prices, and higher interest rates on their debt, all while their currencies depreciate. According to a United Nations study, 32 million people worldwide could fall into poverty as a result. Beyond fuel shortages, which is already rationed in several countries, populations must also contend with rising food prices, which account for 30% to 50% of the consumer price index in these countries.

Next are Asian countries, all highly dependent on supplies from the Gulf. According to studies by the Asian Development Bank, a \$10 increase in the price of oil results in a slowdown of 0.2 to 0.3 percentage points in growth. Bangladesh, Nepal, Pakistan, Sri Lanka, and Myanmar are the most affected, as they import more than

80% of their oil from the Middle East. One example among others: the IMF has had to grant an emergency loan to Bangladesh because textile exports, representing 80% of its exports, are being impacted by higher freight costs.

Among all Asian countries, China, surprisingly, is not the most affected. There are two reasons for this. It is indeed the world's largest importer of crude oil, but it appears to have very large reserves and is less dependent on the Middle East than other Asian countries: 42% of its oil imports come from the region, compared with 95% for the Philippines, 88% for Vietnam, 70% for South Korea (and 20% of its gas), and 60% for Thailand. Moreover, as the undisputed leader in the energy transition, it stands to benefit fully from renewed interest in these industries, with 80% global market share in batteries and solar panels, more than 70% in wind energy, and nearly 40% in heat pumps. It will therefore export more equipment. CATL, the global leader in batteries, is benefiting from the geopolitical context, and its share price in Hong Kong has risen by 30% since the beginning of the conflict. Jinko Solar is increasing its solar panel exports, as is Ningbo Deye, whose stock price has risen by 56% this year. The same applies to Sieyuan, a manufacturer of energy storage components, up 38% this year. In 2024, solar companies had lost \$40 billion and laid off 30% of their workforce. In 2025, Chinese solar panel production capacity (1,200 GW) was twice global demand (640 GW), and although China increased its exports by more than 70%, their value declined by 8% to \$28 billion. 2026 is therefore expected to be better.

The same cannot be said for India, which imports all of its oil and is losing "remittances" from the 9 million Indian workers previously employed in the Gulf. The current account deficit is expected to worsen from 1% of GDP to more than 2%. The currency is under pressure; foreign exchange reserves have fallen by \$40 billion in one month to defend it, down 4% this year and 9% since the beginning of 2025. This has also failed to curb the rising cost of oil. Inflation is worsening, with 5% expected by the OECD, compared to 2% in 2025.

Among European countries, those most exposed to rising gas prices are Italy and Spain, and expectations of a recovery in the German economy this year are already fading.

The United States, as an exporter of hydrocarbons, benefits from higher prices, but consumers, who account for 70% of GDP, are clearly penalised, and growth forecasts have been revised downward to 2%.

- **The resilience of financial markets:**

As with every conflict, market declines typically reach their maximum on average 15 days after the start of operations, after which a volatile recovery begins.

To date, the European market is down 2.5% compared to its level on February 28, while the U.S. market, traditionally more resilient, is up 1.3 points.

In Europe, logically, major oil companies are the winners of rising hydrocarbon prices; the energy sector is up nearly 15% compared to February 28. BP, ENI, and TotalEnergies have risen by 12% to 18% since the beginning of the conflict and by 28% to 42% since the start of the year. Thanks to our exposure to this sector, we have benefited significantly from this appreciation.

Also up, and following the same logic, are electricity-related utilities: Endesa +9.5% in Spain, Fortum in Finland +8%, and Orsted, a Danish group notably exposed to wind energy, +8%.

All other sectors are stable (technology +1%) or down. The most affected are consumer-related stocks: -10% for consumer staples, -7.5% for discretionary consumption due to the loss of purchasing power, and real estate stocks -11% due to rising interest rates.

In the materials sector, the few winners are fertiliser-related stocks: Norsk Hydro +20% and Yara +12%. The industrial sector is interesting to observe. On the upside, companies linked to the energy transition such as Vestas Wind Systems +22%. On the downside, a defence stock like Rheinmetall -8.7%. We have been heavily exposed to the defence sector since early 2024 and have gained 150%, but these stocks are now richly valued. Attention is now shifting more toward drone manufacturers and less toward large defence industrials.

Among consumer stocks, price declines are more pronounced in luxury names: Hermès -20%, LVMH -8.8%. This is due to a halt in luxury sales in Dubai, affecting 9% of Richemont's revenue, 7% of Ferrari's, 5% of

LVMH's and Kering's, and 4% of Hermès'. In the first quarter, LVMH's revenue was down -6% year-on-year but up +1% organically. In our view, the correction in consumer stocks, often considered defensive, is excessive, including Beiersdorf -27%, Reckitt Benckiser -20% (the Anglo-Dutch household products group), Unilever -20% in the Netherlands, and Lindt in Switzerland -17%.

In the United States, gains recorded in the energy sector have already been erased. Exxon is down 3% since February 28, Baker Hughes in oil services down 5% – a sign that the market's favour toward this sector may be turning. The same applies to Constellation Energy, a leading clean energy group, down 9% since the end of February and 19% this year.

Tech stocks, up 6% since February 28, have rebounded. Sandisk, a star in flash memory, has gained another 52% since the end of February and is up 2700% over one year. Seagate Technology and Western Digital, hard drive manufacturers, continue their rise, up +40% and +35% since the end of February, and +640% and +920% over one year.

The two most affected sectors are consumer staples (-8.5%) and, surprisingly, but similarly to Europe, healthcare (-7%). For consumption, it is worth noting that the price per gallon has risen from \$2.8 to \$4.15, and the consumer confidence index measured by the University of Michigan has fallen to its lowest level in the past 70 years. As in Europe, stocks such as Colgate -13%, Philip Morris -13%, and Procter & Gamble -11% have likely experienced excessive declines since the end of February.

Conclusion: “All warfare is based on deception,” Sun Tzu.

- From a geopolitical perspective, Sun Tzu's observation remains relevant. Trump launched the war without a strategy, with the sole objective of profit – namely, the appropriation of Iranian oil to prevent China from accessing it at low cost. However, after an initial setback in the standoff with China over rare earths, the United States would face a second failure if Iran's control over the Strait of Hormuz were to become permanent.

Never has NATO appeared so threatened in its survival. Never have relations between the United States and its Western allies been so strained. Never have relations between the United States and the Gulf monarchies been so fragile. Never has Trump's word been so discredited. For the United States' traditional allies, America is no longer a shield but a risk, no longer a partner but a potential adversary, no longer a peacemaker but an initiator of conflicts. America is becoming not only illiberal but dangerous for the world, predatory toward states and societies, and corrupted at the highest levels of power. In the Middle East, the countries benefiting from the loss of U.S. credibility appear to include Ukraine, Pakistan, South Korea, Turkey, France, and others.

- From an economic perspective, it should not be forgotten that 10% to 15% of global crude production, 20% of LNG production, and even more for certain refined products have been missing since the start of this war six weeks ago. According to Kpler, around 180 oil tankers and about 15 LNG carriers are currently blocked in the Strait of Hormuz. Even in the event of a reopening of the strait, it would take 5 to 6 weeks to restore trade flows, and an additional 3 weeks to deliver cargoes to Asia. Prices of the various products mentioned above are therefore expected to remain elevated until the fourth quarter.
- From a market perspective, this divergence between downward revisions in economic outlooks and the resilience of financial markets implies an imminent and favourable end to the conflict in the Middle East. Failing that, profit expectations will decline. In the background, there remains the risk of a valuation bubble in artificial intelligence, as well as the risk of Chinese intervention in Taiwan, both of which could derail global equity markets.

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