BEA MPF e - Newsletter

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Message from the Investment Manager

Geopolitical Tensions Continue to Shape Market Conditions

In the United States, escalating tensions between the U.S. and Iran, along with the risk of a disruption in the Strait of Hormuz, have led to heightened short-term market volatility. Meanwhile, the longest government shutdown on record weighed on economic activity, with real GDP growth slowing to 0.5% in Q4 2025. Despite this, underlying fundamentals suggest the economy is cooling but remains resilient. A sharp rise in oil prices has reignited stagflation concerns. The Federal Reserve kept policy rates unchanged in March, highlighting uncertainty stemming from geopolitical risks, with markets now expecting only one rate cut this year.

In Europe, rising energy prices driven by Middle East tensions have triggered a sell-off in risk assets. The 2026 GDP growth forecast has been revised down to 0.9%, reflecting weak consumer confidence. The composite Purchasing Managers' Index fell to 50.7 in March, weighted down by surging energy prices, supply chain disruptions, and soft demand. The labor market remains relatively stable, with unemployment staying at low levels in February. Core Consumer Price Index rose to 2.3%, and market now expects the European Central Bank ("ECB") to raise rates twice this year. The ECB kept rates unchanged in March and said it stands ready to respond to the evolving Middle East conflict.

In Japan, markets have been particularly sensitive to oil supply risks, leading to notable declines in export, technology, and financial sectors. Domestic growth remains modest, although the 2026 GDP forecast has been revised lower due to tariff impacts. Core inflation eased to 1.6% in February, but the Bank of Japan expects rising energy costs to exert upward pressure going forward. The labor market remains tight, with unemployment at 2.6%. The BOJ maintained its short-term policy rate at 0.75% in March and reiterated that its stance remains accommodative.

In China, first-quarter GDP grew by 5.0% year-on-year, up from 4.5% in the previous quarter. March CPI rose 1.0% year-on-year, while PPI increased by 0.5%, turning positive for the first time in years. Consumption remains subdued, with retail sales growing only 1.7% in March. As policy support gains traction, alongside a recovery in manufacturing and firmer industrial prices, deflationary pressures appear to be easing. However, a more balanced recovery will require stronger domestic demand.