UBS

1 April 2026, 14:55 UTC
Chief Investment Office GWM
Investment Research

March 2026: Month and quarter in review

Global financial markets

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- Global financial markets endured their worst month in years, with equities and bonds falling in tandem. Even gold—typically a beneficiary of geopolitical turmoil—suffered, recording its sharpest weekly drop since 1983 (over 11%) and its worst monthly performance in 17 years.
- The S&P 500's late rebound highlights how quickly markets can recover on signs of de-escalation, reinforcing the case for long-term investors to stay invested. However, the potential for a prolonged conflict remains. The longer transit through the Strait of Hormuz is restricted, the greater the negative consequences for economies and markets.
- In this environment, we recommend diversifying excess exposure to at-risk equity markets in favor of structural growth and defensive areas. With elevated correlations between equity and bond portfolios eroding traditional diversification, it is increasingly important to hedge and progressively de-risk beyond conventional asset classes.

Geopolitical tensions triggered a risk-off move in equities, sending global stocks (MSCI ACWI Index) down 6.2% in March and 2.5% for the quarter—the steepest monthly setback since 2022—as investors grappled with the prospect of prolonged hostilities between the US and Israel on one side, and Iran and its proxies on the other, as well as mounting disruptions to global energy supplies. This turmoil pushed Brent crude sharply higher, up 63.3% in March and 94.5% for the quarter—its biggest quarterly jump since the First Gulf War in 1990. US equities (S&P 500) rebounded nearly 3% on the final trading day amid hopes of a resolution to the conflict, but still ended March down 5% and the quarter 4.3% lower after a five-week losing streak. Although the Middle East was the main focus of attention, volatility in memory stocks also resurfaced, amid concerns over hardware requirements for advanced AI chips and the outlook for high-bandwidth memory demand.

Geopolitical tensions have dominated market sentiment throughout the first quarter. The period began with the US administration removing Venezuela's president, followed by renewed threats of tariffs on Europe as President Trump continued his claims over Greenland. Afterward, markets' focus shifted to the Middle East, where joint US-Israeli airstrikes across Iran at the end of February marked a major escalation. As the conflict enters its second month, investors remain torn between hopes for a diplomatic breakthrough and fears of further escalation. Iranian President Pezeshkian stated that Iran has "the necessary will to end this war" if certain requirements are met, while US President Donald Trump signaled a desire for an off-ramp, saying the US could end the war in "two or three weeks" regardless of whether a deal is struck. While signs of a willingness to negotiate are positive, hurdles remain before an actual end to the conflict.

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Concern that the conflict could lead to both accelerating inflation and slower growth triggered a synchronized decline in both equities and bonds—a move last seen in 2022. Investors have moved to price a more sustained disruption to energy supplies, with some refined product prices such as jet fuel and diesel rising far more than crude. Meanwhile, gold—typically seen as a beneficiary during geopolitical crises—has had a tough month. March recorded its steepest weekly drop since 1983, falling over 11%, and its worst monthly performance in 17 years.

Fixed income markets came under pressure from worries over the potential for a renewed rise in inflation, and the risk that cental banks would tighten monetary policy. At the peak, markets were pricing three rate hikes by the European Central Bank and Bank of England, even the possibility of a tightening by the Fed at its final meeting of the year. This was despite cautious language from top central banks over the need for vigilance over inflation, rather than signals that tightening was necessary or imminent. On 30 March, Fed Chair Jerome Powell downplayed the need for tighter policy in response to higher energy prices, saying that the central bank was "in a good place" to wait and assess the economic effects of the Middle East conflict.

Beneath the surface, the tech sector experienced renewed volatility. Memory stocks saw a big selloff amid concerns that hardware requirements for advanced AI chips and servers could decline—a worry intensified by Google's release of a new software algorithm that some believe could reduce AI chipset memory usage. The sector had already faced outsized volatility in response to the Middle East conflict, with rising energy prices, shifting US rate expectations, and profit-taking on tech positions all contributing to sharp two-way swings. The S&P 500 IT index ended the quarter down 9.25%, its biggest decline since the height of the financial crisis in Q4 2008.

Against this backdrop, we recommend investors to position as follows:

1) Hedge market risks: Volatility is likely to remain elevated as markets digest a fluid cycle of escalation and de-escalation in the Middle East, rising AI competition, and signs of stress in parts of the bond and credit markets. Investors should consider adding hedges to manage portfolio risks. This includes locking in yields on government debt up to 10 years, gaining equity downside protection, adding upside hedges for perceived "safe-haven" currencies (such as the US dollar), and considering upside commodity exposure. The goal is to reduce the risk of large drawdowns while maintaining participation in potential rebounds.

2) Favor commodities: Commodities remain an important hedge against inflation and serve as a useful portfolio diversifier in the current environment of elevated geopolitical risk and energy market disruption. Despite gold falling significantly since the beginning of the Middle East conflict, we believe it will continue to act as a geopolitical hedge, with central bank demand and concerns over rising global debt levels providing support. Meanwhile, industrial metals, especially copper, offer exposure to themes such as electrification and the energy transition. We recommend maintaining an allocation to broad commodities, with a focus on active management.

3) Diversify across equities: The potential risks of portfolio concentration are rising. A period of higher energy prices will help some and hurt others. The AI capex cycle may be peaking. And the risk of AI disruption is spreading. To participate in a medium-term rebound in stocks while managing specific risks, we recommend broadening equity exposure across sectors, regions, and styles. This includes going beyond US tech, adding to global industrials and US utilities, building exposure to select parts of Asia, Japan, and China, and adding more predictable income. Investors with concentrated positions should diversify and rebalance.

	March	1Q 2026	YTD
Bloomberg US Treasury	-1.7%	0.0%	0.0%
Bloomberg Pan-European Aggr.	-2.6%	-0.7%	-0.7%
Bloomberg US Credit	-2.0%	-0.5%	-0.5%
Bloomberg Euro Aggr. Corp.	-2.3%	-1.0%	-1.0%
ICE BofA US High Yield	-1.2%	-1.2%	-0.7%
ICE BofA Euro High Yield Index	-2.1%	-2.0%	-1.5%
MSCI AC World (USD)	-6.2%	-2.5%	-2.5%
S&P 500	-5.0%	-4.3%	-4.3%
S&P 500 equal-weighted	-6.0%	0.7%	0.7%
MSCI EMU	-8.4%	-2.4%	-2.4%
MSCI Switzerland	-7.5%	-2.4%	-2.4%
MSCI UK	-5.9%	4.0%	4.0%
MSCI Japan	-10.6%	3.0%	3.0%
MSCI EM (USD)	-13.0%	-0.1%	-0.1%
MSCI China	-7.4%	-8.5%	-8.5%
Gold - spot	-11.2%	7.2%	7.2%
Brent - spot	21.9%	41.6%	41.6%

Note: All indices in local currencies except for global and EM equities (in USD)

Source: Bloomberg, UBS as of 31 March 2026

Asset class developments

Equities

Global equities (MSCI AC World) suffered their worst month in years, falling 6.2% in March—their steepest monthly loss since 2022—and ending the quarter down 2.5%, primarily due to the conflict in the Middle East. US equities (S&P 500 Index) declined 5.0% in March and 4.3% for the quarter, while the equal-weighted S&P 500 fell 6.0% in March but gained 0.7% for the quarter, supported by a sharp 2.9% rally on the final day amid hopes of an imminent resolution of hostilities. Emerging markets (MSCI Emerging Markets Index) were hit hardest, dropping 13.0% in March—mainly on profit-taking in

crowded tech trades and exposure to energy-importing Asian economies—but ended the quarter nearly flat (–0.1%). European equities (MSCI EMU Index) fell 8.4% in March and 2.4% for the quarter, reflecting sensitivity to elevated oil and gas prices; Switzerland (MSCI Switzerland Index) and the UK (MSCI UK Index) declined 7.5% and 5.9% in March, with Switzerland down 2.4% for the quarter and the UK up 4.0%. Japan (MSCI Japan Index) was down 10.6% in March, but still gained 3.0% for the quarter. China (MSCI China Index) fell 7.4% in March and 8.5% for the quarter, showing relative resilience to higher oil prices, though sentiment was dampened by delays in DeepSeek's next model, rising intra-sector competition, heavier AI-related spending, ongoing regulatory probes, and a higher geopolitical risk premium.

We maintain an Attractive stance on global equities. However, we see heightened risks in regions most sensitive to elevated energy prices and geopolitical uncertainty —specifically, we downgrade Europe, the Eurozone, and India to Neutral. In contrast, we find Switzerland and the European health care sector Attractive, given their defensive qualities, secular growth prospects, and appealing dividend yields. We recommend using any market rebound to diversify away from at-risk equity markets and reallocate toward these more resilient areas, while considering capital preservation strategies to help manage ongoing volatility.

Fixed income
Fixed income markets experienced significant volatility and a broad sell-off in March, driven by inflationary pressures from surging oil prices amid the US-Iran conflict and the potential for tighter central bank policy. For example, the yield on the 10-year US Treasury rose 38 basis points in March—the largest monthly increase since December 2024—and ended the quarter up 15 basis points at 4.32%. Overall, US government bonds (Bloomberg US Treasury) declined 1.7% in March and finished the quarter flat (0.0%).
In Europe, the 10-year German Bund yield climbed 15 basis points in March, closing above 3% for the first time since 2011. Broadly, European government bonds (Bloomberg Pan-European Aggregate) fell the most for the month, down 2.6% in March and 0.7% for the quarter. Credit segments also came under pressure: US investment grade credit (Bloomberg US Credit) fell 2.0% in March and 0.5% for the quarter, while European corporate bonds (Bloomberg Euro Aggregate Corporate) dropped 2.3% in March and 1.0% for the quarter. US high yield (ICE BofA US High Yield) was down 1.2% in March and 1.2% for the quarter, while euro high yield (ICE BofA Euro High Yield) declined 2.1% in March and 2.0% for the quarter.

We maintain a positive view on high-quality fixed income, such as government bonds and investment grade credit, seeing them as attractive sources of income and diversification in today's environment. With yields still elevated and central banks expected to cut rates later this year, locking in income at current levels makes sense. We also favor select emerging market bonds and securitized products for additional yield and diversification.

Commodities
After the joint US-Israeli strikes on Iran on February 28, Brent crude oil surged immediately, recording the biggest gain across all asset classes for both the month (21.9%) and the quarter (41.6%), based on UBS CMCI Components USD Total Returns. In contrast, gold—typically seen as a beneficiary of geopolitical tensions—fell 11.2% in March, reversing earlier gains to end the quarter up 7.2%. This decline reflected rising real yields, a stronger US dollar, and profit-taking as investors rotated out of perceived safe-haven assets in response to shifting market dynamics.

Recent declines in oil prices present a potentially attractive entry point for investors seeking to build exposure to oil within a portfolio and diversify equity and bond risk. We believe oil prices are likely to rise again if the Strait of Hormuz remains closed, or if the process of restoring energy flows proves more protracted than hoped. We also continue to view gold as an effective long-term portfolio hedge and forecast higher prices ahead. For those who favor gold, we suggest allocating a small portion—around a mid-single-digit percentage—of total assets, to diversify portfolios and provide medium-term insulation from macro-related shocks.

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Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

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