The Way We See It

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Goji Consulting Limited

enquiry@goji-consulting.com

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What will the New Lunar Year of the Fire Horse bring? Month of March to date: Fire!!!

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

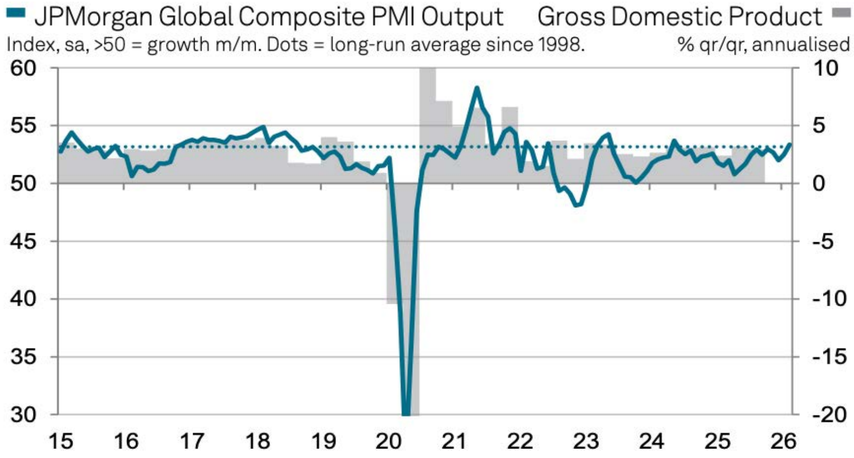
- Global Economies

The initial official estimate of US GDP growth for Q4 2025 was markedly weaker than anticipated. The economy expanded at an annualised rate of 1.4%, significantly below the 5.4% projected by the Federal Reserve Bank of Atlanta. This shortfall was largely attributed to the Federal Government shutdown, subdued net exports, and a drawdown in inventories.

In Europe and Japan, GDP growth of approximately 1% per annum aligned with expectations. China continues to record positive, though moderating, growth, supported by net exports. However, weak consumer sentiment and persistent softness in the property market are constraining domestic demand.

Inflationary pressures across OECD economies had broadly stabilised until recently, when oil prices rose sharply due to escalating military tensions involving the United States, Israel, Iran, and allied nations. Prior to this conflict, core inflation in Europe and Japan had been converging towards 2% per annum. In contrast, the US core PCE deflator remained elevated at 3%, above the Federal Reserve's long-term target of 2%.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global PMI,

Following last year's 75 basis point reduction in the Federal Funds rate to 3.50–3.75%, the January FOMC meeting concluded that monetary policy remains broadly neutral, striking a balance between steady GDP growth and moderating inflationary pressures. In our assessment, despite the recent surge in oil prices, the Federal Reserve and other leading central banks are likely to maintain current policy settings, favouring stability and predictability over further adjustments in the near term. This stance reflects confidence in underlying economic resilience, while acknowledging the risks posed by external shocks.

The January FOMC meeting concluded that monetary policy remains broadly neutral.

Looking ahead, geopolitical risks have re-emerged as a significant headwind for 2026. The ongoing conflict involving the United States and Israel against Iran and its allies, coupled with political instability in Venezuela, Greenland, and Mexico, continued tensions in Ukraine, and unresolved disputes between China, Japan, and Taiwan, present material threats to regional stability and global supply chains. These developments underscore the importance of integrating geopolitical risk into strategic asset allocation frameworks. Ensuring portfolios remain resilient, diversified, and adaptable will be critical in navigating an increasingly complex and uncertain global environment.

- Global Markets
Review of the Month of February 2026

US equities slipped in February, led by profit-taking in the “Mag-7”, software, and banking sectors. In contrast, international markets delivered strong gains, supported by diversification flows and relative value opportunities. Europe, Japan, and selected emerging markets benefited from expectations of firmer GDP growth and a gradual recovery in corporate earnings.

AI-driven expansion, alongside accommodative fiscal and monetary policies, continues to underpin upward revisions to global growth forecasts. Institutional investors modestly reduced US equity exposure, citing concerns over AI’s impact on software companies, elevated valuations, and the sustainability of recent rallies. Renewed inflationary pressures and the Federal Reserve’s decision to hold rates further dampened sentiment.

Near-term performance of various asset classes

Asset Class	US Equities	Global Equities	Global ex US Equities
Index	MSCI USA	MSCI World	MSCI World ex USD
1 month	-0.88%	0.76%	4.82%
3 months	0.41%	3.90%	13.10%
YTD	0.40%	3.03%	9.78%
FY 2025	17.75%	21.60%	32.55%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	1.29%	1.82%	1.64%
3 months	1.27%	1.39%	1.60%
YTD	1.47%	1.72%	1.75%
FY 2025	7.77%	6.32%	7.30%

Asset Class	Global Govt Bonds	Global Aggregate	GEM Equities
Index	Bloomberg Global TSY	Bloomberg Global Agg	MSCI EM
1 month	1.17%	1.12%	5.51%
3 months	2.18%	2.33%	18.34%
YTD	2.06%	2.06%	14.86%
FY 2025	6.82%	8.17%	34.36%

Asset Class	Asia ex Japan Equities	China A	China Offshore
Index	MSCI AC AxJ	MSCI China A Onshore	MSCI China
1 month	5.89%	2.36%	-5.77%
3 months	17.72%	12.16%	-2.53%
YTD	14.57%	6.92%	-1.34%
FY 2025	33.02%	30.26%	31.42%

Asset Class	Global Commodities	Gold	USD
Index	CBR	Spot Price	Norm. Broad USD Index
1 month	-2.32%	7.83%	-0.07%
3 months	3.71%	25.21%	-2.97%
YTD	4.99%	22.24%	-1.91%
FY 2025	0.37%	65.51%	-7.24%

Source: GOJI, MSCI, Bloomberg; data as of 27/2/2026

US equities slipped in February; non-US markets delivered strong gains.

Global equities rose 0.8% in February (USD terms), boosted principally by developed markets ex US (+4.8%), and emerging markets (+5.5%). US Treasuries rose by a strong 1.8%, boosted by a fall in long bond yields. Global government bonds rose 1.2%.

While the overall Commodities CBR index showed a mild fall in the month, this masks a rise in energy prices and a fall in precious metals and other commodities (e.g. US Natural Gas). The US dollar depreciated slightly by 0.1% over the month.

Market Outlook
1st Quarter 2026

GOJI's outlook for the opening months of 2026 was initially constructive; however, the ongoing military conflict in Iran has tempered our positive tactical stance. We consider it prudent to realise some profits and adopt a neutral risk exposure at this stage.

Prudent to realise some profits & adopt a neutral risk exposure at this stage; maintain a more cautious view for H2.

As highlighted previously, we maintain a more cautious view for the second half of the year. Inflationary pressures in the United States—already evident prior to the Iran conflict—may compel investors to reassess expectations, shifting from easing to a potential tightening bias.

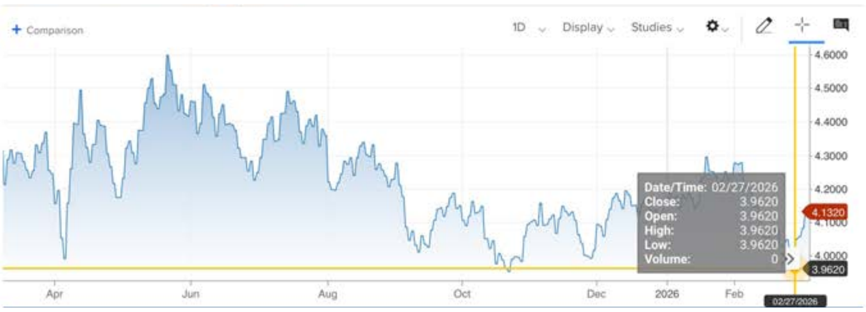
Longer-term thematic drivers continue to support a neutral bias in equity markets. Artificial intelligence, the broadening of market leadership, and seasonally favourable dynamics in early 2026 offer some positive momentum. Yet, the Iran conflict and a mixed global macroeconomic backdrop present challenges: persistent imbalances, elevated valuations, high retail and speculative participation, and ongoing geopolitical risks.

The US economy is expected to sustain relatively firm momentum, supported by tax refunds and reductions following the passage of the Big Beautiful Bill, robust capital expenditure in AI, and a near fully employed labour market. Nonetheless, core inflation trends remain, in our view, an underappreciated risk within US financial markets.

Outside the US, conditions are broadly supportive provided war and trade tensions do not escalate. Europe and China have introduced expansionary fiscal and monetary measures to stabilise growth and offset US trade actions. These interventions may sustain momentum, though structural headwinds persist, particularly in export-dependent economies. Global GDP growth is projected to advance close to its long-term average. Europe's easing cycle appears near completion, while China maintains an accommodative stance. US monetary policy is expected to remain on hold until the Federal Reserve Chair transition in May.

Corporate earnings, particularly across AI, technology, and financials, are expected to remain resilient, supported by strong demand and innovation. However, valuation pressures could intensify if long-duration bond yields continue to rise. With the S&P 500 forward P/E ratio at 22–23x, sustaining current levels will depend on continued strength from high-growth technology leaders and a stable 10-year Treasury yield remaining below 4.50%.

U.S. 10 Year Treasury

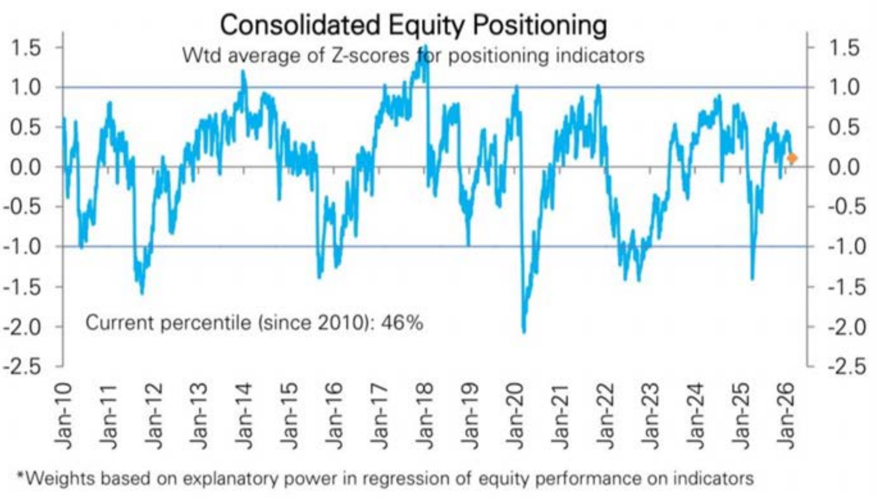


Source: CNBC.com

The US bond market remains volatile, influenced by both technical and structural factors. GOJI favours selective entry into Treasuries when yields approach 4.50%, viewing this level as an attractive entry point. Non-US bonds have experienced notable yield compression, limiting upside potential unless recession risks intensify. Duration exposure must be managed carefully, given prevailing valuations and shifting rate dynamics. Investor positioning remains divergent: systematic strategies are overweight, trading actively on momentum and volatility signals. Any adverse shock could trigger rapid selling, introducing meaningful downside risk if sentiment weakens unexpectedly.

We favour selective entry into TSY when yields approach 4.5%

Consolidated Equity Positioning

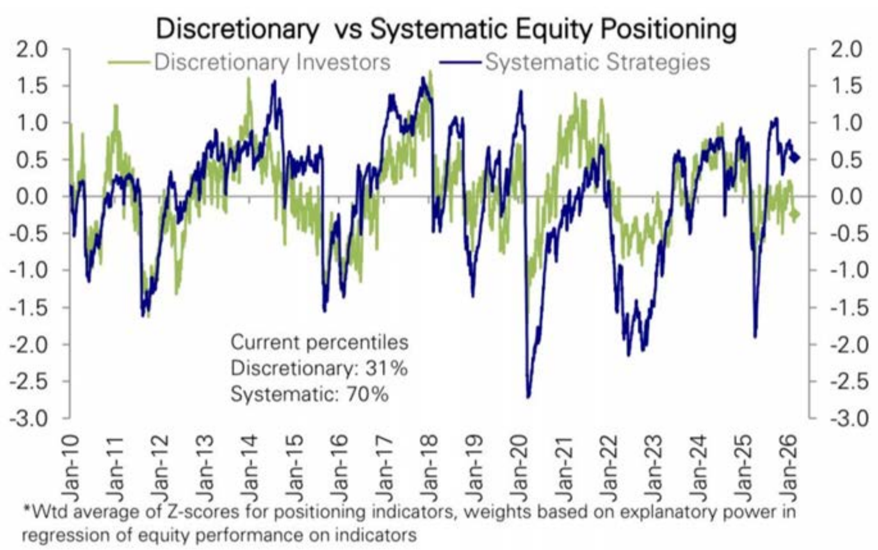


Source: Deutsche Bank Asset Allocation

Discretionary managers have once again modestly reduced equity exposure, reflecting a more cautious stance towards current market dynamics. Renewed concerns centre on the Iran war associated with surging energy prices, disruptive impact of advanced AI applications on established software companies, alongside fears of an AI-driven bubble forming in certain segments. Equity valuations remain increasingly expensive, while expansionary fiscal measures combined with prevailing monetary policy raise the risk of inflationary pressures, reinforcing the case for a more measured approach.

Discretionary managers have turned cautious.

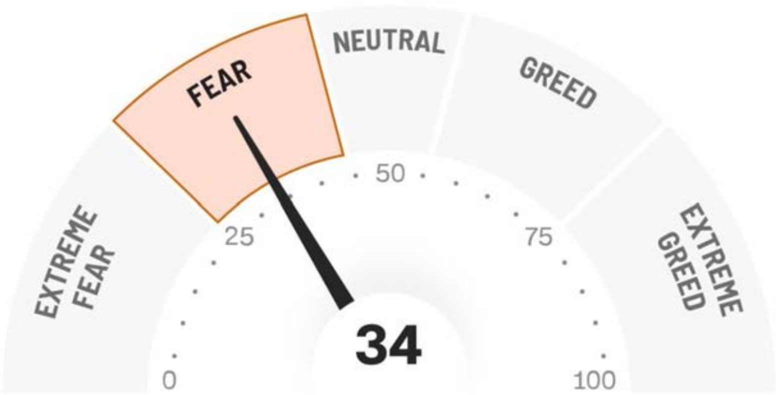
Discretionary vs Systematic Equity Positioning



Source: Deutsche Bank Asset Allocation

Retail sentiment has softened but remains moderately bullish, supported by forthcoming IPOs from OpenAI (ChatGPT), Anthropic (Claude), and SpaceX-XAI. Upside call option activity slowed in February, with the call/put ratio normalising from elevated levels. Traders and institutions have increased hedging strategies in response to challenges arising from the AI revolution and renewed geopolitical risks, highlighting a more cautious approach despite continued optimism in certain segments.

Fear & Greed Index
- What emotion is driving the market now?

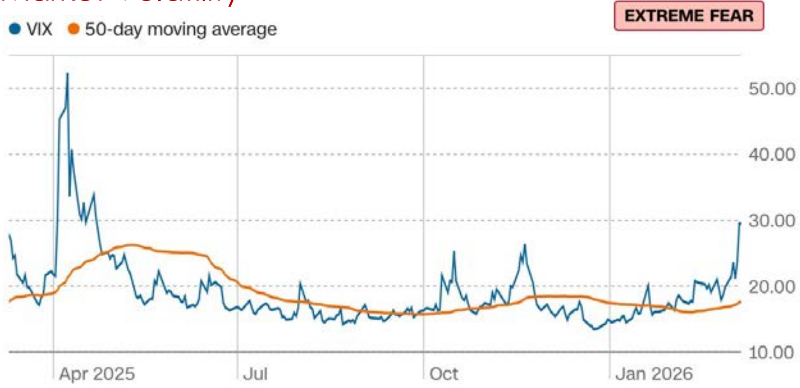


Source: CNN Business
Last update March 2 at 8:00:00 PM ET

The CNN Fear & Greed Index has been oscillating between Neutral and Fear.

Market Volatility (VIX), one of the seven Fear & Greed indicators, spiked up in the first week of March after the US attack on Iran.

Market Volatility



Source: CNN Business
Last update March 6 at 04:15 PM ET

Outbreak of war saw VIX spiked to *extreme fear.*

Short-term Technical Analysis

US equity indices remain above their 200-day moving average, though profit-taking in Technology and Software stocks, combined with the Iran-US conflict, has dragged them below the 50-day average. This underscores a divide between investors: the bullish camp, confident in AI-driven growth, Federal Reserve easing, and relative political stability; versus the cautious group, sceptical of the AI boom's sustainability, wary of policy risks, and mindful of geopolitical uncertainty.

This tension continues to shape short-term market behaviour. Corporate earnings remain resilient and technical indicators supportive, yet the outlook is far from assured. Elevated momentum and strong retail participation, set against war concerns and fears of an AI bubble, demand agility, discipline, and vigilant risk management.

S&P 500 Stock Price Index

Source: MarketWatch.com

S&P 500 Equal Weight Index

Source: Google Finance

S&P 500 Equal Weight reached historical high (before outbreak of war).

The Way We See It
- Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

Long-Term Risk-Neutral Strategy Rationale

GOJI maintains its long-term risk-neutral stance, unchanged from last month. Elevated valuations and subdued global growth continue to shape the investment environment, with markets still anchored in optimistic assumptions favouring pro-growth, pro-equity, and pro-digital asset policies.

LT: Maintain a long-term risk-neutral stance.

Against this backdrop, we reiterate a modest underweight in high-beta growth assets, given stretched valuations and heightened volatility. Conversely, overweight allocations to cash and high-quality, stable assets remain appropriate. This positioning is designed to preserve capital, strengthen resilience, and maintain flexibility amid ongoing policy uncertainty. Our strategy continues to balance risk and opportunity across global portfolios, reflecting an unchanged long-term view.

Short Term: change from a moderately bullish tactic to neutral.

America's recent involvement in Iran, Venezuela, and Greenland has introduced fresh geopolitical uncertainty, heightened volatility, and new risks to global financial markets. These developments have prompted us to recommend taking profits on our moderately overweight equity position and reverting to a neutral tactical asset allocation stance, thereby reducing exposure to potential shocks.

ST: Change from moderate bullish to neutral.

As highlighted in our monthly reports, GOJI consistently advocates nimbleness and flexibility in tactical positioning, ensuring portfolios remain resilient, adaptable, and well-prepared to navigate evolving market conditions in an increasingly complex environment.

Special Section: Conflict in Middle East, Inflationary Implications, and Safest Assets in 2026.

1) Iran's war and impact on US and Global economies and Markets

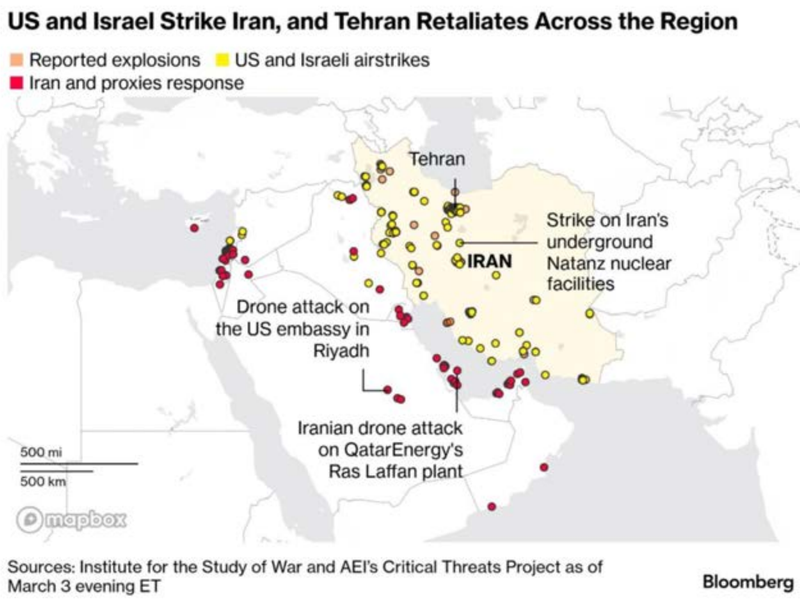
A week has passed since the first day of military attack on Tehran by Israel and America, on Saturday, February 28th.

Oil prices have been skyrocketing, fuelling inflation fears and a temporary fall in economic activity around the world.

The war also caused investors' sentiment to switch to a "risk off" mode. Both fundamental institutions and quant / algo-driven systematic funds were reported to have "de-grossed / de-risked" in the week ending March 6th. They have been reducing stocks, precious metals, crypto and even US government bonds (fear of inflationary impact).

The war caused sentiment to "risk off" mode.

At the time of writing (Sunday, March 8th), despite some semblance of alleged attempts of Iranian representatives to establish rapport with American counterparts, the fighting remains fierce. The war has spread to other Gulf nations and practically shut down the passage of the majority of oil and LNG tankers through the Strait of Hormuz (which handles 20% of the total daily volume of oil & gas produced globally. The latter is mostly exported to China, Japan and the rest of Asia).



Should the war continue until the end of March and through April, and that the Strait of Hormuz remains effectively closed, experienced oil analysts predict that oil prices are likely to rise to $120-150/bbl (currently $91).

This would definitely result in a more severe short term stagflationary environment (high inflation, stalled economic activity).

This would thus lead to a more negative backdrop for risky cyclical assets, notably stocks.

Conversely, should Iran or America blink first, then the probability of a cease fire or truce would increase.

TACO: Trump Always Chickens Out

This scenario could unfold if Iran were to run out of missiles and drones to fight back, or Trump does his usual TACO stepping back. This could happen because of the domestic backlash of rising petrol prices in America, together with billions wasted on a country which actually has not caused direct harm nor a national security threat to American people. Lastly, *it seems that* many people in America do not even know anything about Iran!

In brief, because the war status in the Middle East is unsettled and fluid, holding additional cash is not a bad thing.

Having said that, should the liquidation of equities and other risk assets create a great tactical buying opportunity, we will send to our clients a Special Tactical note to inform them of this.

2) Inflationary Implications and Fed's likely response

There is little doubt that headline inflation will most likely jump up in the month of March. Whether the core inflation rate (ex-food and energy) will reflect the oil impact is uncertain, particularly if the war were to end quickly.

Central banks are expected to regard the rising energy price development as transitionary.

The Fed and other major central banks are expected to regard the rising energy price development as transitionary. We thus do not expect them to change their monetary stance in the short term.

Should there be liquidity issues in the banking or financial system, one can expect central banks to inject more liquidity to assist troubled corporates or financial institutions (but not rate cuts).

3) Likely safest assets in the short-term and remainder of 2026?

In the short-term, given the uncertainties relating to both the internal succession / leadership issues and external escalating war, combined with the trajectory of skyrocketing oil prices, we believe that holding a moderately-higher-than-normal USD / HKD cash equivalent seems to be the most sensible course of action.

Moderate overweight in Cash seems to be sensible.

In addition, in the short-term, as we outlined in our tactical asset allocation in the body of the main report, we recommend a neutral position to equities and fixed income, plus a modest exposure to commodities.

Neutral to equities and fixed income, plus a modest exposure to commodities.

As far as the remainder of the year is concerned, in our 2026 Outlook document which we published in December of last year, our readers may recall that we are concerned about the risk of inflation rising in the second half, with potential adverse implications on both stocks and bonds.

That concern is being brought forward when the US PCE and PPI data were recently released, and importantly, even before the Iran war event.

As a result, after three consecutive years of extraordinary returns, it is possible that 2026 may be a flat or even negative year, should the adverse trends of the US core inflation rate and the Middle East war prevail.

This is the reason why, for 2026, from a Strategic viewpoint, we have been advocating to reduce expensively-valued assets and accumulate more reasonably-priced assets, particularly the high-quality, steady growth and defensive type.

GOJI CONSULTING LIMITED

Level 34, Tower One, Times Square
1 Matheson Street, Causeway Bay, Hong Kong

www.goji-consulting.com

enquiry@goji-consulting.com

+852 3951 0359