

# Marketupdate

March 2026

## March 2026: in the eye of the storm

Financial markets were dominated in March by the war in the Middle East. Equity prices declined and interest rates rose. However, because January and February showed an opposite trend, market movements over the first quarter of 2026 as a whole remained relatively limited.

Equities, bonds and real estate all delivered negative returns in March. The cause was clear: the attack by the United States and Israel on Iran on 28 February and the subsequent escalation of hostilities in the Middle East. Sharp increases in oil and gas prices fuelled inflation concerns, resulting in higher interest rates on capital markets. European government bonds therefore recorded a negative return of 2.7% in March. Higher interest rates are generally also unfavourable for corporate bonds, although the impact remained relatively limited. Monthly returns amounted to -2.3% for European investment-grade corporate bonds and -2.5% for the higher-risk high-yield bonds.

Equity markets also responded sharply negatively to developments in the Middle East, although with significant regional differences. Asian equity markets and emerging markets performed worst, with returns of -10.3% for the MSCI Asia Pacific Index and -10.4% for the MSCI Emerging Markets Index. Within Asia, countries most dependent on oil and gas from the Gulf region lagged the most, including South Korea, India and Indonesia.



Europe is also relatively dependent on external energy supplies, which translated into a negative monthly return of 7.7% for the MSCI Europe Index. US equities were relatively less affected by the war in Iran. The MSCI North America Index declined by only 2% in March, measured in euros. This was partly due to the appreciation of the US dollar by 3% against the euro.

By far the worst-performing asset class in March was European listed real estate, with a monthly return of -14.5%. The combination of rising interest rates and a weak equity market environment was particularly unfavourable for this asset class. Over the entire first quarter of 2026, listed real estate also remained the weakest performer. Notably, despite the poor performance in March, Asian equities and emerging markets are still up by more than 2% since the start of the year. This does not apply to the other asset classes, although overall losses since the beginning of the year, excluding real estate, remain limited to declines of between 0.5% and 2%. Compared with a year ago, most equity markets are still up by around 10% in Europe and the United States and by more than 20% in emerging markets.

The returns of the various asset classes were as follows:

Rendementen (total return, in euro's)	march	Q1	2026	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-2.7%	-0.6%	-0.6%	1.3%
Bloomberg Barclays Euro Bedrijfsobligaties	-2.3%	-1.0%	-1.0%	2.0%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	-2.5%	-1.5%	-1.5%	3.0%
FTSE/EPRA Europe Onroerend Goed	-14.5%	-5.3%	-5.3%	-1.2%
MSCI Europe Aandelen	-7.7%	-0.9%	-0.9%	11.7%
MSCI North America Aandelen	-2.0%	-2.0%	-2.0%	11.5%
MSCI Asia Pacific Aandelen	-10.3%	2.4%	2.4%	19.8%
MSCI World Developed Markets Aandelen	-3.7%	-1.5%	-1.5%	10.8%
MSCI Emerging Markets Aandelen	-10.4%	2.3%	2.3%	22.3%
EUR/USD	-3.0%	-2.4%	-2.4%	5.9%

Source: Bloomberg

## US–Israeli attack on Iran decisive for the economy and investment climate in March

After a relatively calm February, the attack by the United States and Israel on Iran caused renewed turmoil, including in financial markets. Economically, Iran plays a modest role. The country ranks 44th globally in terms of GDP, roughly one quarter of Dutch GDP, and produces only 3% of global oil supply. However, Iran is not without leverage, as it has full control over the Strait of Hormuz, through which 20% of global oil transport passes. Iran deployed this leverage almost immediately, resulting in an effective blockade of this maritime trade route since early March.

Despite a continuous stream of bombardments, the Iranian regime appears entrenched and is, for the time being, offering President Trump no way out. Trump appears to have overplayed his hand by initiating a conflict from which it is not easy to disengage. However, a prolonged conflict is also not in Tehran's interest. It therefore remains likely that tensions will eventually ease, although a structural solution is not yet in sight. This implies that oil prices are likely to remain elevated for now, putting pressure on economic growth. The risk of a 'stagflation' scenario, characterised by low growth and high inflation and unfavourable for most asset classes, has increased significantly and will continue to rise the longer the conflict persists.



## US economy under pressure, partly due to policy

If the IMF's projections materialise, the US economy will grow by 2.4% in 2026. This figure already incorporates the catch-up effect following the negative impact of the US government shutdown in the fourth quarter of 2025. The IMF expects that the setback in the fourth quarter of 2025, when the US economy grew at an annualised rate of only 0.7%, will be offset over calendar year 2026. In October 2025, the IMF initially estimated growth of 2.1% for 2026, which represented a downward revision compared with its earlier estimate for calendar year 2025. The foreign policy agenda of the United States remains a significant source of uncertainty in these projections, as illustrated by the conflict initiated by the United States in the Middle East. On the other hand, compared with eurozone countries, the United States is less affected by the conflict, as it is now a net exporter of oil and gas, while most eurozone countries are net importers. The question remains whether the Trump administration will continue to take this into account when implementing its foreign policy agenda.

In addition, the Trump administration's import tariffs continue to create uncertainty. Trump faces obstacles in rolling out his agenda, as the US Supreme Court invalidated the emergency law IEEPA in February, which had served as the legal basis for reciprocal tariffs. As a result, the US Treasury risks having to refund part of the collected tariffs, estimated at USD 166 billion. The Supreme Court ruling does not mean that reciprocal tariffs are entirely off the table. Under Section 122, tariffs for all countries have temporarily been reduced to a base rate of 10%. This measure applies for a maximum of 150 days. In the meantime, the US government will need to substantiate that foreign trade practices impede the domestic economy in order to impose structural import tariffs in a legitimate manner.

## Eurozone: reasonable growth expected, but Middle East conflict may disrupt outlook

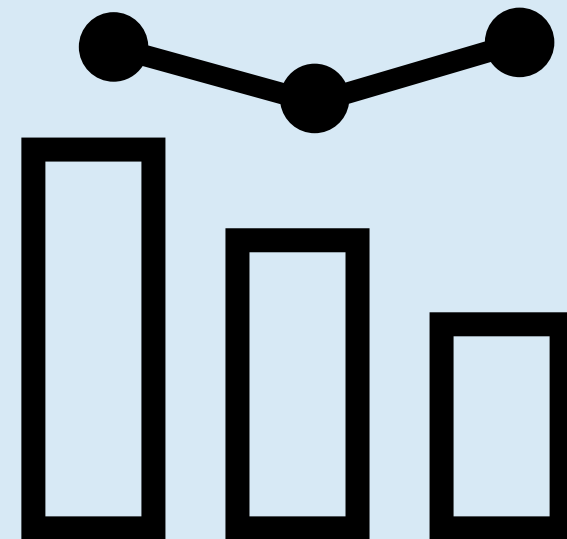
For this reason, the ECB also calculated a severe scenario. In this scenario, oil and gas prices rise to USD 145 per barrel and EUR 106 per MWh respectively in the second quarter of 2026, after which prices remain elevated and only normalise in 2028. In this case, economic growth in 2026 would slow to just 0.4%, while inflation would rise to 4.4% in the same year. Notably, even under this extreme scenario, the eurozone would avoid a recession according to these calculations. This is due to the robust labour market, with historically low unemployment, and rising real disposable incomes. As a result, consumer spending is expected to remain relatively resilient, providing the economy with a degree of resilience.

As described in an earlier ['blog'](#), eurozone member states are affected to varying degrees by rising energy prices. Southern countries in particular are heavily dependent on energy imports, making them more vulnerable to price shocks. Notably, these economies are currently performing better than their northern counterparts. While Germany recorded modest growth of 0.4% in 2025, Spain at 2.6% and Greece at 2.4% made above-average contributions. Thanks to stronger growth momentum, southern countries currently have slightly more room to absorb higher energy costs before entering a recession.

## Japan: inflation at last, but higher interest rates may become a problem

Outside the eurozone, much attention focused on Japan. After decades of persistent deflation, the country is now faced with containing price increases. Capital market interest rates therefore rose, and the yield curve steepened. Against this backdrop, Prime Minister Sanae Takaichi and her Liberal Democratic Party won the snap elections in February. Takaichi is pursuing a strategy of fiscal stimulus by making substantial investments in defence and critical sectors aimed at boosting productivity. In addition, her party seeks to provide direct tax relief to households by reducing the tax on food to 0%. The overarching goal of this policy is to enable the Japanese economy to grow its way out of debt through higher productivity.

Financial markets have responded with mixed enthusiasm to these plans. The Japanese ten-year government bond yield rose to nearly 2.4% in March. While this may seem modest compared with European or US levels, with a debt ratio of 220% of GDP, an interest rate of 2.4% creates a significant burden on the budget. To offset these financing costs, government investments would need to deliver exceptionally high returns in terms of productivity growth to prevent the debt ratio from rising further. The timing of escalating hostilities in the Middle East is therefore particularly unfortunate for Japan.



## China: towards structurally lower growth and a more technology-driven economy

The Chinese economy grew by 4.5% in 2025, falling short of the target of around 5%. China continues to struggle with the aftermath of the real estate crisis. Because a large share of household wealth was invested in property, the crisis has significantly weakened the financial position of Chinese consumers. This negative wealth effect has kept consumer confidence well below its historical average for almost five years, limiting domestic consumption. The Chinese government has been unable to fully restart the economic engine, which remains a concern for the National People's Congress. Acknowledging these persistent headwinds, the NPC revised the official growth target for 2026 downward from 5% to 4.5%.

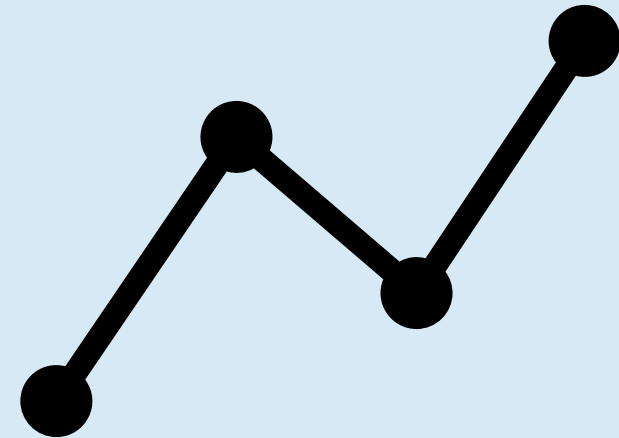
In March, China presented its 15th five-year plan. In addition to a lower growth target, the government aims to further promote a structural transition from low-value to high-value production. To achieve this, R&D investments are set to increase by an average of 7% per year. Specific sectors targeted for further development include semiconductors, quantum technology and AI applications. In addition, China aims to further digitise the economy, as the country continues to face a rapidly ageing workforce.



## India: an alternative to China in terms of growth, and to the US for Europe in terms of trade?

India is positioning itself as an alternative to China, and in terms of economic growth it is succeeding. In 2025, the Indian economy grew by 7.8%, significantly exceeding growth expectations. This robust growth was largely driven by domestic consumer spending, supported by real wage increases and tax relief. In addition, India likely benefited from relatively favourable US import tariffs compared with China, strengthening its export position.

Although the IMF forecasts a slight cooling of growth to 6.4% in 2026, India remains one of the fastest-growing economies in the world. On the diplomatic front, India has also been active. Following a trade agreement with the United Kingdom in 2025, India made significant progress in early 2026 by concluding an agreement with the European Union. The European Union is seeking a stable new trading partner in India, as the United States risks becoming a less reliable partner. While the agreement stimulates bilateral trade by significantly reducing import tariffs, a critical assessment remains warranted. The agreement contains various protective mechanisms, including import quotas and price floors for tariff exemptions.



## Impact of the Middle East conflict on inflation stronger in Europe than in the US

Developments in the Middle East affect not only economic growth but also inflation dynamics and, as a result, interest rates. A positive aspect is that this scenario is unfolding against the backdrop of largely normalised inflation levels. In the eurozone, headline inflation stood at 1.9% in February. Core inflation, excluding volatile food and energy prices, edged up slightly to 2.4% in February. Renewed increases in oil and gas prices will inevitably push up goods inflation, increasing the likelihood that headline inflation will again rise significantly above the ECB's 2% target over the coming year. Preliminary inflation figures for March already came in higher at 2.5%, compared with 1.9% in February.

Inflation in the United States has also largely normalised. The inflation shock initially expected by many as a result of the import tariffs introduced in April 2025 has been less severe than anticipated. In addition, the US is less dependent on imports from the Middle East, as it is now a net exporter of oil and gas. This does not mean that the US economy is entirely insulated. Prices of oil contracts traded in the US have also risen since the outbreak of the war, from USD 65 to USD 100 per barrel. An additional risk is that producer prices increased by 1% in February compared with the previous month. While producer prices are typically volatile and could ease in the coming month, the timing of the increase is particularly unfavourable. These prices are at the start of the production chain and tend to feed through to consumer prices over time.

## Likelihood of ECB rate hikes increases, while the Fed faces a complex situation

Developments in the Middle East increase the likelihood of a persistently inflationary environment, both in the United States and the eurozone. According to the Bloomberg consensus, the forecast for US inflation in 2026 has risen to 3.0%, from 2.7% before the conflict. In the eurozone, expectations have been revised upward less sharply. Whereas market participants in February expected inflation of 2.1%, this forecast has only marginally increased to 2.2%. This likely reflects the fact that market participants now assign a higher probability to policy action, namely interest rate hikes, by the ECB than by the Fed. Based on recent public statements by members of the ECB's Governing Council, rate hikes in the near term are certainly not unlikely. Interest rate markets currently expect the ECB to raise policy rates three more times this calendar year, each by 25 basis points, bringing the policy rate to 2.75% by the end of 2026. The first rate hike is expected in April or June.

For the US central bank, the Federal Reserve, the situation is more complex. The Fed operates under a dual mandate, aiming not only to maintain price stability but also to ensure maximum employment. In addition, the Fed Chair, Jerome Powell, and other members of the Board of Governors are openly pressured by the US President to lower policy rates. The Fed took no action in the past quarter, and interest rate markets also expect no action next year. This would leave the policy rate at 3.75%. While this may seem like a static scenario, a significant shift has taken place. Just one month ago, the market was still anticipating at least two, possibly three, rate cuts.

### Valuations have improved, but at what cost?

In December, in our [outlook for 2026](#), we described a fairly balanced economic outlook. Across most asset classes, we noted that opportunities were present, but that valuations and risk premia were very limited given geopolitical risks. Three months later, a modest market correction has taken place, resulting in slightly improved valuations. The question remains whether this sufficiently compensates for the still elevated geopolitical risk. One thing is certain: the likelihood of a stagflationary scenario has increased since the war in Iran, which in relative terms typically benefits real assets.



#### Disclaimer

This document has been prepared by ASR Vermogensbeheer N.V., hereinafter referred to as a.s.r. asset management. a.s.r. asset management is a manager of investment funds and is supervised by the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten, AFM) in Amsterdam. a.s.r. asset management holds a licence to manage investment institutions pursuant to Section 2:65 of the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft). Under this licence, a.s.r. asset management is permitted to provide the following investment services: discretionary portfolio management, investment advice, and the receipt and transmission of orders in relation to financial instruments. a.s.r. asset management is registered in the register referred to in Section 1:107 Wft.

The contents of this document are based on information from sources deemed reliable. However, no guarantee or representation is given as to the accuracy, completeness or timeliness of this information, whether express or implied. The information provided is indicative only and subject to change. Forecasts are not a reliable indicator of future results. No rights may be derived from the contents of this document, including any calculated values and presented results. The value of your investments may fluctuate. Past performance is not a guarantee of future results.

All copyrights and other information contained in this document are the property of a.s.r. asset management. The information is intended solely for specific recipients and is confidential. This document is not intended as investment advice, as it does not take into account the personal circumstances of the client, nor is the presentation aimed at an individual client. The information provided in or through this document does not constitute an offer of any financial service.

The information is also not intended to encourage any person or entity to buy or sell any financial product, including units in an investment fund, or to make use of any service of a.s.r. asset management, nor is it intended as a basis for an investment decision.

For the applicable terms and risks of the a.s.r. asset management investment funds mentioned in this document, reference is made to the prospectuses, fund conditions and key investor information documents (KIIDs) of these funds. Copies of these documents and the annual reports are available via [www.asrvermogensbeheer.nl](http://www.asrvermogensbeheer.nl), where all information relating to a.s.r. asset management can also be consulted. The products of a.s.r. asset management are intended for professional investors only.

---

#### **a.s.r.**

Archimedeslaan 10

3584 BA Utrecht

[www.asrvermogensbeheer.nl](http://www.asrvermogensbeheer.nl)

ASR Vermogensbeheer N.V, KVK 30227237 Utrecht

57552EN\_0626