

**ECONOMIC RESEARCH – MARCH 2026**

**INVESTMENT INSIGHT EUROPE**



- ✓ **Rising bond yields and risk premiums**
- ✓ **The oil crisis weighs on the euro against the dollar**
- ✓ **The rate shock weighs on securitized real estate**
- ✓ **European stocks react to possible stagflation**

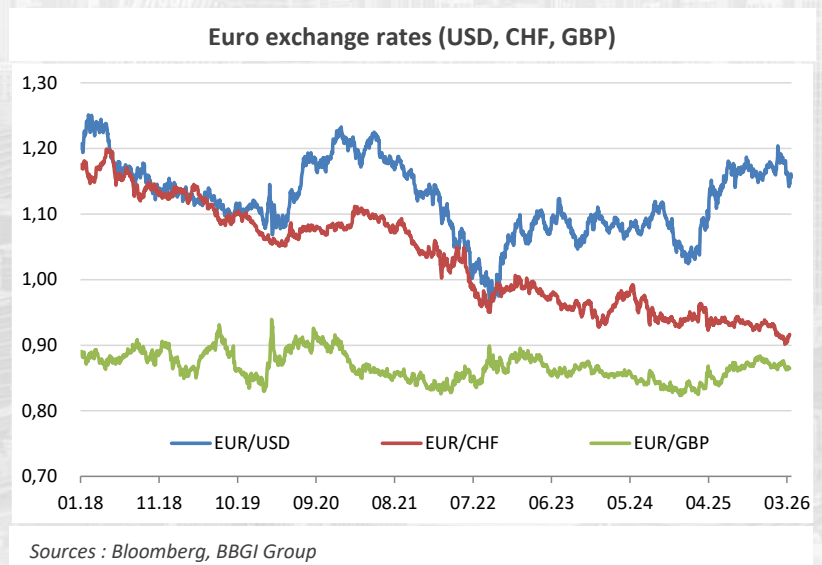
**STAGFLATION: A NEW CHALLENGE FOR THE EURO ZONE**

**Sovereign bond sell-off and re-emergence of spreads**

European bond markets transitioned from a flattening yield curve to a sharp spike in yields within mere sessions. The benchmark 10-year German Bund breached the 3% psychological threshold, while the French OAT surged toward 3.8%, levels not seen in years. This mass sell-off reflects a total reconfiguration of inflation expectations, accompanied by widening spreads as investors begin to re-price the varying fiscal vulnerabilities of member states in a high-rate environment.

**Euro vulnerability and the dollar's energy advantage**

The EUR/USD pair has broken through 1.15 support, facing a "triple threat" of geopolitical, energy, and monetary risks. Unlike the Eurozone, the U.S. economy's status as a net energy exporter provides the dollar with a "petrodollar" cushion, making it a superior safe-haven asset during this oil shock. If Brent crude remains sustainably above \$100, the Euro faces a potential 5% decline toward a 1.10 target as the threat of European stagflation intensifies. This downward pressure is further compounded by a widening growth gap as U.S. industrial resilience outpaces the energy-starved European manufacturing core. The resulting capital flight toward dollar-denominated assets suggests a prolonged period of currency weakness for the bloc.



## Swiss franc appreciation and SNB intervention risk

The Swiss franc has resumed its role as a regional sanctuary, putting downward pressure on the EUR/CHF cross toward the 0.93–0.94 range for Q2 2026. This move highlights the market's lack of confidence in the Euro's ability to withstand a prolonged energy blockade. Consequently, the SNB may be forced to deploy aggressive liquidity measures to prevent a runaway appreciation that could stifle Swiss export demand. This flight to quality underscores the Swiss economy's historical role as a hedge against Eurozone-specific geopolitical fractures.

## Securitized real estate hit by rate reversal

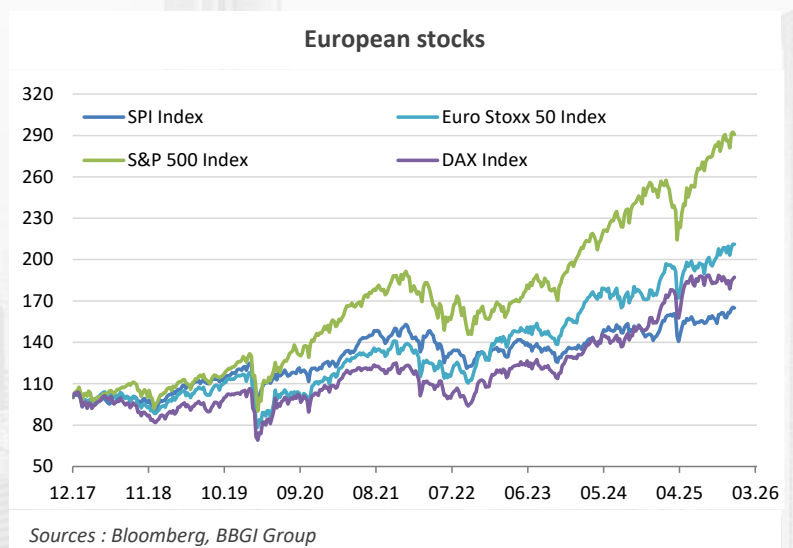
European listed real estate has suffered a sharp 17% correction, with the EPRA Nareit Euro Zone index retreating to April 2025 lows. The rapid rise in bond yields has narrowed the attractive spread between property yields and corporate debt, while rising financing costs are forcing a downward revision of Net Asset Values (NAV). This abrupt valuation reset has left the sector highly sensitive to any further hawkish shifts from the ECB. Markets are now pricing in a sustained period of capital outflows as institutional portfolios pivot toward higher-yielding sovereign debt.

## Equity market contraction and growth stock penalties

The Euro Stoxx 50 is under pressure to retest the 5,200 level as soaring energy costs hit industrial margins and consumer-facing sectors. Growth-oriented industries, specifically Technology and Luxury, are being penalized by the "denominator effect" of rising yields, which reduces the present value of future earnings. As risk premiums expand, investors are increasingly discounting the long-term profitability of sectors with high capital expenditure requirements. This shift is particularly evident in the sell-off of high-multiple stocks that thrived during the low-rate environment of 2025.

## Defensive rotation and energy/defense gains

While the broader market retreats, a clear rotation is underway toward "pricing power" sectors like Healthcare and Consumer Staples, which are less sensitive to inflationary shifts. Energy majors and the Defense sector remain the primary beneficiaries, driven by high commodity prices and an urgent expansion of European military budgets. Despite the current downtrend, European stocks maintain a significant valuation discount (15x P/E) compared to U.S. peers (20.5x), suggesting a potential floor if geopolitical tensions stabilize. This valuation gap may eventually attract bargain hunters, though current sentiment remains anchored by the immediate reality of high operational costs. Ultimately, the durability of this rotation depends on whether the energy crisis evolves into a full-scale industrial recession.



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