

ECONOMIC RESEARCH – MARCH 2026

INVESTMENT INSIGHT

USA

- ✓ **Outlook for bonds reverses**
- ✓ **Investor enthusiasm for the dollar returns**
- ✓ **Uncertain environment remains negative for U.S. stocks**



STAGFLATION IS ALSO THREATENING THE UNITED STATES

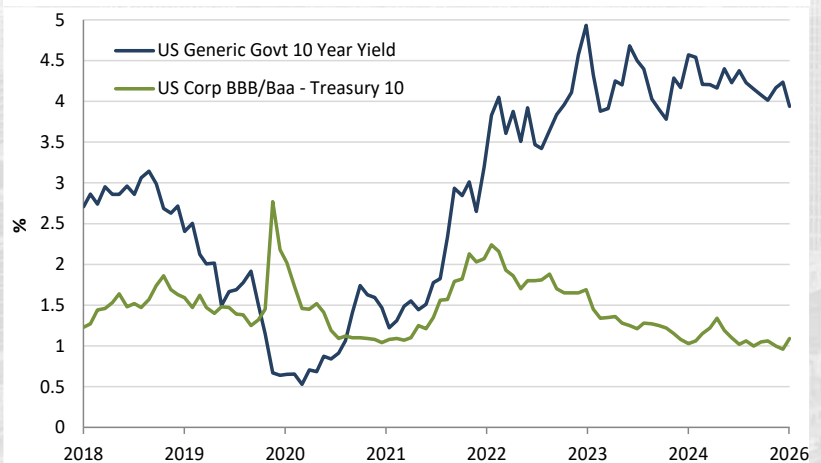
Bond yields: The death knell of easing

The Middle East conflict has overturned the 2026 bond outlook, abruptly ending the downward trend that saw 10-year U.S. Treasury yields hit a yearly low of 3.93% in February. As inflation expectations pivot toward a 3.5%–4% range, the 10-year yield has surged to 4.46%, with technical resistance levels suggesting a potential climb toward the 4.8%–5% mark. This rapid repricing has effectively erased short-term prospects for capital gains, forcing a strategic shift toward shorter maturities and reduced portfolio duration.

The dollar's return as the ultimate safe haven

The crisis has acted as a primary "game changer" for the U.S. dollar, which has gained +2.5% on the DXY index as investor enthusiasm shifts away from gold and the Swiss franc. The combination of surging "petrodollar" demand and higher risk-free yields makes the greenback the most attractive asset in a high-uncertainty environment. Currently, the DXY is testing the crucial 100 level, a psychological barrier that, if broken, could trigger a massive 5% to 10% technical rally. This momentum is further bolstered by the U.S. economy's relative resilience compared to energy-import-dependent peers. As global liquidity tightens, the dollar's dominance is expected to exert significant pressure on emerging market currencies.

US Treasury yields and BBB bonds (Spread)



Sources : Bloomberg, BBGI Group

Equity vulnerability: A zero margin for error

U.S. stock indices are facing a severe reassessment as historically stretched valuations with S&P 500 P/E ratios exceeding 25x leave no room for negative surprises. The emerging stagflation scenario threatens a dual blow to corporate America, simultaneously compressing profit margins through input costs and eroding sales volumes via weakened demand. Following an initial 10% decline, the market remains vulnerable to further "multiple shocks" as the Fed's hawkish pause persists. We maintain a negative outlook, recommending reduced equity allocations.

Yield spreads and the competitiveness of cash

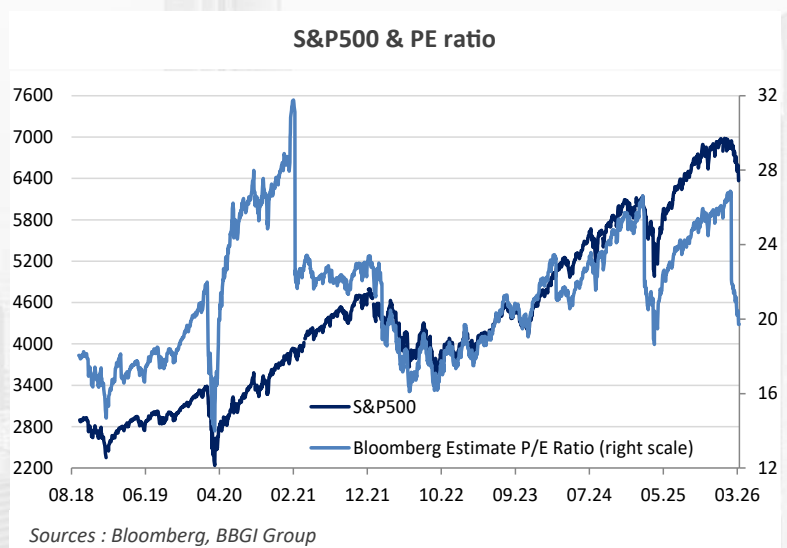
Rising bond yields are now providing a serious, low-risk alternative to the volatile equity market, fundamentally altering the "TINA" (There Is No Alternative) narrative of 2025. The narrowing spread between earnings yields and Treasury returns is driving a rotation out of growth stocks and into fixed-income instruments. This shift is particularly pronounced as investors seek shelter from the potential earnings disappointments expected in the upcoming reporting cycles. Markets are now prioritizing immediate yield over future earnings potential.

Technical breakdown and support levels

From a technical perspective, the recent 10% pullback in major indices has damaged long-term uptrends, turning previous support levels into formidable overhead resistance. Chart patterns suggest that without a de-escalation in the Middle East, the S&P 500 could be forced to retest much lower valuation floors to find buyers. This technical fragility is compounded by a lack of "buy the dip" conviction, as professional managers stay in a defensive, cash-heavy posture. Current technical fragility suggests the correction may have more run.

Macro headwinds and margin compression

The cumulative pressure of high interest rates and soaring energy inputs is beginning to bleed into the bottom lines of even the most resilient tech giants. While AI remains a long-term catalyst, the immediate reality of \$100+ oil is creating a drag that technology-led productivity gains cannot entirely offset. Companies are finding it increasingly difficult to pass on these costs to an already exhausted consumer base, leading to the first significant contraction in corporate guidance since the pandemic. This environment ensures that 2026 will be defined by a battle for margin preservation rather than aggressive expansion. Corporate earnings forecasts are likely to undergo significant downward revisions as the true cost of the blockade is realized. The persistent nature of these supply chain disruptions suggests a long-term erosion of operational efficiency across all industrial sectors.



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