

Quarterly Commentary

Miralta Narval Europa

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MiraltaBank
Advanced Banking

" You have the watches, we have the time "

— Old Taliban Proverb

"The most important thing in a negotiation is to allow the other person to save face."

— Henry Kissinger

OFF-RAMP

One of the most frequent critiques from the intelligence and security community, which has increasingly made its way into Wall Street commentary, is the alleged lack, from the outset, of a defined plan for the current conflict with Iran, with clear objectives and a credible exit strategy (an "off-ramp"). In our view, the main weakness of that argument is the assumption that the current U.S. Administration operates under the same strategic logic as its predecessors.

For Biden, Obama or Bush, among others, military engagements carried, at least in the public narrative, a meaningful ideological component: the expansion of liberal democracy and, by extension, the defence of the "rules based international order", so frequently invoked in recent weeks. That framework enabled prolonged campaigns, supported by allies who acted as genuine force multipliers, while also making them easier to justify domestically on both sides of the Atlantic.

In today's **neo-mercantilist era**, the Administration appears to view conflict very differently. Across publications and public appearances, it has suggested a lens in which war, or even the threat of war, becomes a negotiating asset: a way to **monetise tension**, project power, secure strategic resources, correct trade imbalances through coercion and, ultimately, reinforce the dollar's reserve-currency primacy within the logic of the **petrodollar system**. Put plainly, it is an approach that is distinctly transactional.

Under this logic, global security is being reframed as an almost compulsory subscription model. Allies are no longer partners bound by shared values, but rather customers of a defence umbrella whose price is ultimately settled, one way or another, in Wall Street terms.

What may initially look like a direct and positive boost to the earnings outlook for major defence, technology and related sectors, which have seen sales surge in recent quarters, is also generating **unintended consequences**.

From the perspective of U.S. allies, the shift is clear. Once the "toll" has been paid, they no longer view themselves as automatically committed to participate in conflicts that are difficult to legitimise domestically, a dynamic that, judging by his statements, appears to frustrate Trump.

There are also potential second-order effects, particularly in the sphere of domestic security. In parallel, this dynamic has intensified the debate around the merits of developing independent nuclear deterrent capabilities, even as their relative effectiveness has been called into question by developments over the past year involving Russia, Israel or Pakistan. It also reinforces the case for effective diversification of geopolitical risk, both in trade exposure and in asset allocation.

From Trump's own standpoint, the strategy also entails drawbacks. The United States is not currently positioned to sustain protracted conflicts, neither fiscally nor amid the economic and political pressure they create. If war is framed in predominantly economic terms, a prolonged deterioration in financial markets and in 401(k) plans, one of Trump's preferred yardsticks for policy success, alongside a persistent rise in gasoline prices and interest rates, would ultimately undermine both the rationale for the strategy and the sustainability of U.S. public debt.



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Against that backdrop, it would be a mistake to assume that Trump cannot declare his objectives achieved unilaterally, while still providing an off-ramp to adversaries and shifting to third parties the logistical burden and cost of overseeing oil flows through the **Strait of Hormuz**. Such a stance would also be difficult to justify to the U.S. taxpayer, given the cost of protecting flows primarily destined for Europe and Asia.

Ultimately, whereas other presidents relied on the economy to finance wars, Trump uses war, or the threat of war, to finance the economy. The risk is clear: a radically transactional approach could hollow out long-standing alliances, erode the ability to project power over the long term and reduce allies to the status of mere clients.

PERFORMANCE

The fund delivered +3.81% in Class A over Q1 2026, materially outperforming its benchmark, the MSCI Europe (Net Dividends), which fell -0.94%. The quarter was clearly two-speed: a strong start to the year, with January as the best month on the back of a powerful move in commodities and energy; a transitional February, during which we proactively reduced exposure; and a final stretch shaped by the escalation of the conflict involving the United States, Israel and Iran, which triggered the **largest monthly drawdown in European equities since 2020**.

European markets were dominated by the contrast between a constructive first two months and a sharply dislocated March. The ECB held rates unchanged at 2% throughout the period, although President Lagarde's tone turned noticeably more cautious after the conflict escalated. The risk of a closure of the Strait of Hormuz pushed Brent towards \$120/bbl, lifting euro area headline inflation from 1.9% in February to 2.5% in March. Sector dispersion was exceptional: Oil & Gas led with gains of over 35%, followed by utilities and basic resources, while cyclical and consumer sectors were hit hard by indiscriminate end-of-quarter selling.

In this environment, our results benefited from positioning that captured the quarter's key themes. Energy was the largest contributor to quarterly performance, reflecting both the structural rise in crude and our timely profit-taking during March. Utilities and renewables, our largest portfolio allocation, contributed consistently across the three months, supported by rising power demand linked to infrastructure build out and AI. Semiconductors and defence also delivered meaningful positive contributions. On the downside, materials and industrials, which had led earlier in the year, corrected sharply in March following the conflict and were the main detractors for the quarter. Real estate and pharmaceuticals detracted marginally.

In the U.S., the quarter was shaped by the appointment of Kevin Warsh as Chair of the Federal Reserve, whose hawkish stance supported a stronger dollar and drove a sharp correction in precious metals in January. The Fed held rates in the 3.50%–3.75% range throughout the quarter, and its projections point to at most one cut in 2026 following upward revisions to inflation expectations. The S&P 500 ended Q1 down 4.3%, weighed down by the escalation in the Middle East and uncertainty around the impact of the energy shock on corporate margins.

Our tactical U.S. exposure remained focused on tokenisation, which showed mixed performance over the quarter, and a small AI allocation that we increased via a payments angle through names such as Klarna or Block. In parallel, we continued to enhance portfolio efficiency through our covered-call programme, which provides recurring income and allows us to actively manage risk exposure.

POSITIONING AND OUTLOOK

The escalation of the conflict came as a cold shock to the global investor community, reviving the stagflation debate reminiscent of the Volcker era. In our view, today's set-up is materially different. Oil has not quadrupled as it did then, and there are mitigating mechanisms that make a repeat of that episode far harder to replicate. Unlike in the past, many countries now hold **strategic reserves** that can cushion a supply shock at least temporarily. In addition, Bessent and the Trump Administration have moved to ease sanctions on Russian and Venezuelan crude, as well as Iranian barrels already afloat. Perhaps most importantly, the wage indexation mechanisms that fuelled the wage-price spiral back then are largely absent today, helping to keep inflation expectations better anchored.

This is, in our view, what 5y5y inflation swaps are pricing: in contrast to the sharp widening in breakevens, 5y5y pricing has tightened meaningfully. We interpret this as the market anticipating adverse effects on aggregate demand from higher energy prices and tighter financial conditions dynamics that are more recessionary than inflationary. As argued earlier, the essentially commercial framing through which Trump approaches the use of the U.S. defence industrial base also suggests the conflict is unlikely to be prolonged. As the market begins to price that outcome alongside greater oil availability we would expect a meaningful correction at the front end, a normalisation of financial conditions and, ultimately, a compression in risk premia. Combined with fiscal support measures adopted by many governments, this could underpin a strong rebound in risk assets.

While remaining mindful of near-term risks, we believe that a reopening of transit through Hormuz would quickly shift attention back to the structural themes shaping the new cycle. The first is the reindustrialisation of the West, driven by economic security considerations a theme we express via exposure to industrials, materials and networks. The second is the gradual reallocation of capital away from the United States towards geographies with more attractive relative valuations, less strained fiscal frameworks and ideally abundant critical natural resources. This reinforces our conviction in a European tilt and our exposure to metals and mining. The third is the ongoing **real adjustment of Western debt**, as monetary discipline gradually gives way to more expansionary fiscal and monetary policies a regime that favours real assets and infrastructure, supporting our positioning in utilities, renewables and energy.

We remain selective and disciplined, with beta at 88% and a more concentrated portfolio than in previous quarters. We continue to run our covered call programme, which provides recurring income and **protection against volatility**. Our positioning higher weight in Europe and Eastern Europe, alongside selective U.S. exposure through tokenisation and artificial intelligence reflects our conviction that the new order requires effective geographic diversification. In an environment where volatility is the norm, rigorous risk management paired with strategic clarity remains our key competitive advantage.