BASE INVESTMENTS SICAV

WHY WE DO NOT EXPECT A REPEAT OF 2022
MARCH 2026

The war in Iran is having a significant impact on the macroeconomic landscape, for obvious reasons. This situation is particularly complex to manage, especially because it is unclear how long the conflict will last and what its medium-term consequences may be. In the face of such uncertainty, it is risky to hold strong convictions about the direction of markets. However, in the bond market a trend has emerged that has led many observers to compare the current moment with what happened in 2022.

Four years ago, an energy shock linked to the war in Ukraine worsened the inflationary environment, prompting central banks to raise interest rates rapidly, with very negative consequences for both bonds and real assets. In the first days of the current conflict, the market began pricing in the possibility that rates could rise in Europe in the coming months, with the ECB and the BoE forced into tightening to prevent inflationary spirals.

We believe that, at this stage, the comparison is overstated, as macroeconomic conditions are very different. In February 2022, before the sharp increase in gas and oil prices, year-on-year inflation in Europe was already above 5% and rising rapidly, while in the United States it was above 7%. Economies were overheating due to the enormous fiscal stimulus of the previous two years, which had generated an inflationary boom initially unchallenged by monetary policy. The energy shock was therefore added to dynamics already underway, worsening an inflationary spiral within an economic cycle capable of sustaining it.

At present, we believe the context is completely different. The economic cycle appears to be in an advanced phase, with consumers and the labor market already under pressure for several months, inflation rates on average above target but under control, and fiscal deficits high but not comparable to the stimulus of 2020–2021. An oil shock would have consequences for energy inflation, but at the same time would likely push major economies toward recession, thus preventing inflationary spirals in the core component.

If this were the case, the situation would resemble periods such as 2008 and 2011, when the ECB mistakenly raised rates at the beginning of a recession in order to counter inflation driven solely by the energy component.

This analysis leads us to the following operational considerations:

⇒ We maintain relatively long duration, aiming to fade any aggressive moves on the short end of yield curves that might price in a rate-hiking cycle.

⇒ We remain cautious on risk assets; in the event of significant spread widening, we will look for opportunities to accumulate credit risk at attractive valuations.

⇒ We are increasing tactical activity to take advantage of elevated volatility, while remaining aware that the environment may change rapidly.

⇒ While we still have the idea of a dollar bear market, we are approaching it with greater caution at this stage due to its role as a safe-haven asset.

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