



SKYBOUND
CAPITAL

Quarterly Report

Q1 2026 Review and Q2 2026 Outlook



Market & Macro Review for Q1 2026

It has been a rough quarter, once again triggered by the month of March. Last year (March 2025) we had the tariff fiasco. This year, it was the turn of the Middle East, specifically the attack on Iran which began on 27th February. As always, let's start with the "periodic table of returns":

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q1 '26
Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 26.2%	MSCI EM 34.4%	Cmdty 24.4%
Value 13.2%	Growth 28.5%	Global REITs -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 19.2%	Value 21.6%	Small cap 1.5%
Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.3%	Small cap 16.3%	Value 12.3%	DM Equities 21.6%	Value 1.3%
MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.4%	DM Equities -17.7%	Value 12.4%	Small cap 8.6%	Growth 21.3%	Global REITs 1.2%
DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 8.1%	Small cap 20.4%	MSCI EM -0.1%
Global REITs 6.5%	Global REITs 8.0%	Cmdty -11.3%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 5.4%	Cmdty 15.8%	Global Agg -1.1%
Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs 2.8%	Global REITs 8.4%	DM Equities -3.5%
Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -1.7%	Global Agg 8.2%	Growth -8.4%

The current, and ongoing war, has significantly impacted oil and gas supply. The Strait of Hormuz oversees some 20% of total world oil throughput; ship crossings are now down to a trickle. While officially Iran is not denying passage, in reality every ship has to justify to Iranian authorities who they are and why they want to cross. Some even have to pay a hefty tariff.

The tracking table below will hopefully give readers a sense of just how steep some of the market moves have been. Some key points of note:

- The sharp rise in energy costs has been felt immediately in transportation, domestic and commercial, as well as across different sectors.
- In what has been a classic "risk-off" playbook, the US\$ has risen as asset flows seek safe-haven "homes".



- This safe-haven move has NOT gone into equities and bonds, evident from the way global equities have fallen and bond yields have spiked; instead, they have flowed into money-market funds which offer ultra-short duration (days to weeks) and a coupon. It's a temporary parking bay until the "dust settles".
- Precious metals, especially gold, have surprised people. There was a valid school of thought that economic uncertainty plus geopolitical uncertainty plus a challenging inflation environment plus a massive debt burden in the US would mean this time the US\$ would give way to gold. It hasn't happened, not yet at least.
- In terms of equities, not surprisingly, defence, energy and fertiliser sectors have performed well. Otherwise, just about everything else has declined.

Asset / Indicator	Change	Signal / Interpretation	Market Impact
Hormuz Ship Transits	-100+ ships	Supply constraint; throughput impaired	Cyclicals ↓; energy/logistics ↑
Brent Oil	+40-50%	Supply-driven regime shift	Energy ↑↑; transports ↓↓
US Gasoline	+30%+	CPI pipeline active	Consumer ↓; margins ↓
European Gas	+70%+	Europe structurally exposed	Eurozone ↓; industrials ↓↓
Global Equities	-5% to -7%	Repricing incomplete	Further downside risk
US Dollar	+2%	Moderate risk-off	EM ↓; liquidity tightening
US 10Y Yield	+30-50bps	Inflation shock dominates	Multiples compress
Gold	Flat / ↓	Liquidity-driven selling	Turns positive if yields peak
Silver	Weaker	Industrial slowdown signal	Risk sentiment ↓
IG Credit	+10-20bps	Early stress	No systemic alarm yet
HY Credit	+50-100bps	Risk repricing	High-beta ↓↓
EM FX	Weaker	Funding pressure	EM underperformance
Financials	Underperform	Credit + yield tension	Banks lag
Energy Equities	Strong	Cashflow surge	Overweight
Defence	Strong	Structural re-rating	Multi-year upside
Tech	Rebound	Narrative reset	Still vulnerable

Outlook for Q2 2026

So, what to make of all this?

Even prior to the start of this crisis, markets in Q4 2025 were being shaped and roiled by the following, and they remain present:



- 1. Tariffs:** President Trump had imposed further tariffs on European partners of 10% as a result of what he saw as their non-compliance and non-co-operation over the Greenland saga. He then offered a reprieve on this, but the matter has far from been put to rest. In fact, he has repeatedly voiced his frustration and annoyance at Europe for not assisting with his efforts against Iran and helping to keep the Strait of Hormuz open. European countries (Italy, Spain) have even refused to allow US planes to fly over their airspace. The future of NATO is in doubt and it is more than likely tariffs will resurface.
- 2. Private Markets:** There have been a growing number of high-profile events in private markets, especially in the world of private credit. This has been brewing over the past 12 to 18 months and the table below highlights some of them:

Fund / Manager	Event	Scale
Apollo (ARES BDC-type vehicles)	Withdrawal cap imposed	Requests reached ~11.2% of shares; capped at 5%
Ares Management	Redemption gating	Requests exceeded 11% of NAV
Blue Owl / HPS-adjacent vehicles	Elongated distribution cycles	Q3-Q4 2025 distributions delayed
Multiple mid-market BDCs	NAV markdowns	Software and asset-light sector exposure repriced

The above are indeed real events and dismissing them as noise would be wrong, but similarly, characterising them as proof that all private credit is broken would also be wrong.

The private credit market has faced heightened scrutiny and redemption pressure, but its underlying fundamentals remain resilient. Leading industry voices, including Goldman Sachs, highlight that the asset class is unlikely to pose a systemic risk. Unlike past financial cycles, leverage levels remain contained, often around one-to-one, and there is a strong alignment between assets and liabilities.

Despite the noise around retail outflows, institutional conviction is intact. Large allocators continue to view private credit as a core component of diversified portfolios, supported by its ability to deliver consistent income and provide capital to a broad range of businesses.

This confidence is reflected in ongoing capital formation. Ares Management recently closed its third opportunistic credit fund, raising over \$9.8 billion, even while managing redemption pressures in parts of its platform. Monroe Capital has also successfully raised its fifth private credit fund, bringing total investable capital for the strategy to \$6.1 billion. Major platforms such as Blackstone continue to report stable performance metrics, including strong distribution rates and disciplined loan-to-value ratios.

Rather than signalling structural weakness, the current environment is reinforcing discipline across the sector. Increased transparency, tighter underwriting and a focus on capital preservation are strengthening the asset class and supporting its evolution as a durable component of the global financial system.



Within this environment, strategy selection becomes critical. Investors need to assess their **Duration Risk (DR)** carefully as this impacts the **Illiquidity Risk Premium (IRP)**, i.e. the extra premium demanded for lending monies for longer periods of time).

The table below is a succinct comparison between conventional (long-duration strategies) vs short-duration asset-backed ones:

Return Component	Long-Duration Stressed Strategies	Short-Duration Asset-Backed
Base yield / coupon	7-10% (floating)	8-14% (typically fixed)
Valuation / capital gain	Dependent on exit multiples	Minimal – assets self-liquidate
Illiquidity premium	Partly real; partly smoothed volatility	Real – earned through monitoring and origination
Total gross return	9-12% (before impairments)	10-15% (before impairments)
Volatility (reported)	Very low – mark-to-model	Low but cash-validated
Volatility (true economic)	HIGH — fat tails, deferred recognition	LOW – cash receipts confirm return

The key point: in short-duration (typically 1y to 3y), cash-yielding strategies, the return is realised in cash, not via modelling (mark-to-model). Each loan repayment validates the underwriting. There is no accumulation of unrealised gains requiring exit at a future valuation. The IRP is earned through underwriting discipline, not through duration exposure.

- 3. Persistent inflation / central bank action:** Leave aside energy for the moment, one only has to look at the February inflation print to see that the sticky and persistent nature of core inflation is not going away. This leaves central banks in a conundrum: do they raise rates, or at the very least leave them on hold, or do they take a chance and cut rates which risks re-igniting the inflation mountain? All this goes right back to the heart of my previous quarterly in which I wrote about the R^* (the equilibrium interest rate = real rate at which GDP, inflation and employment are roughly aligned). The war on Iran re-ignites the headline rate of inflation (energy and food included), just as we saw in 2022 when Russia invaded Ukraine. Choking off 20% of the world's energy passage very quickly impacts the global supply chain.
- 4. AI/CAPEX:** Spending and investment concerns still persist. The problem now has been compounded in two respects: (1) bond yields have risen so sharply that it naturally impacts the discount rate used in Discounted Cash Flow (DCF) calculations. DCF is fundamental for valuations. The rise in yields, which is a direct consequence of higher perceived inflation, all of which is accentuated by central bank policy action, raises the discount rate; and (2) with dimming growth prospects, doubts are forming over the growth in AI and the potential returns that can be generated. Once again, I wrote about this at length in my previous quarterly.
- 5. “The Four Horsemen of the Apocalypse”:** The modern-day interpretation could be framed as saying it's a war over transmission mechanisms: air strikes → oil prices soaring → inflation rising → yields soaring and market upheaval, hence the “four horsemen” analogy. The first horseman raises the oil price. The second embeds inflation. The third pressures policy. The fourth tightens financial conditions, and this is where it's important to understand what Iran's optimal strategy is.

In a nutshell, controlled instability. It has been very successful at it. It wants to continue maximising oil risk premium while avoiding full-scale retaliation. The former hurts importers



(allies of the US) while also raising its leverage; the latter destroys infrastructure, including Iran's. They are restricting throughput without full closure, creating ambiguity and insurance risk and weaponising uncertainty. Peace leads to oil price collapse; outright war leads to regime risk. Bluntly, this is asymmetric warfare applied to commodities.

The table below sets out the different phases of how the transmission mechanism works and approximate timescales. The highlighted portion is roughly, allowing for price gyrations, where we are currently stuck, the persistence test:

Phase	Timeline	What Matters	Oil Dynamics	Inflation Impact	Policy / Rates	Market Behaviour
1. Shock & Transmission	0–2 weeks	Initial escalation, headlines, liquidity	Spike driven by risk premium; highly volatile	Expectations rise; no CPI impact yet	Central banks pause; watch mode	Risk-off bursts; USD ↑; yields ↑; equities volatile; flows to cash
2. Persistence Test	2–6 weeks	Whether oil remains elevated	Stabilises in \$90–100 range	Fuel feeds into CPI; disinflation slows	Rate cuts delayed; curve flattens	Rotation begins; Energy/Defence ↑; cyclicals ↓; credit starts widening
3. Policy Friction (see explanation above)	2–3 months	Inflation becomes visible	Sustained \$90–110 critical range	+0.3 to +0.7pp; early second-round effects	More hawkish tone; real yields rise	Multiples compress; quality outperforms; HY/EM weaken; gold firms
4. Macro Regime Shift (see explanation above)	3–6 months	Duration of shock	Sustained \$100+	+0.7 to 1.5pp; core inflation risk	Cuts delayed materially; tighter conditions	Broad risk-off; earnings downgraded; credit widens; commodities outperform
5. System Stress / Resolution	6–12 months	Endgame (resolution vs escalation)	\$120+ = stagflation risk	Inflation entrenches; expectations at risk	Policy dilemma (growth vs inflation)	Either stagflation (risk ↓, gold ↑) or sharp relief rally

The **persistence test phase** essentially embeds inflation. Unless a resolution can be reached very quickly such that energy reverts to where it was originally, which is most unlikely, and besides, prices do not revert immediately, then policy friction beckons.

Current Market Impact

There's no sugar-coating here. We are at a critical juncture. The impact of high and rising energy prices on global budgets is clear to see. Both oils (Brent and crude) are up some +50% in March. In the US, gasoline is +33%. Rising energy costs are having a direct transmission effect (aka the first-order effect):

- Airlines are cutting routes
- Airfares, especially routes to and from Asia, have increased materially
- Logistics companies (e.g. FedEx, USPS) are adding surcharges
- The likes of 3M are facing industrial pricing pressure
- Households are finding travel more expensive, goods inflation rising and confidence falling
- Government bond yields have soared (e.g. in the UK yields are above 5% and have eroded the Chancellor's fiscal headroom by some £5bn)
- In emerging markets, fuel rationing is already underway



The second-order (indirect) transmission effect (the amplifier effect) is impacting fertiliser (+50%), which will hit food prices, creating aluminium shortages (resulting in an industrial squeeze) and a risk to helium supplies (important in semiconductor disruption). Basically, we move from oil inflation to system-wide cost inflation.

Investment Implications

- **Are there buying opportunities?** Not really, but they are building; things are cheap, but the likelihood is they need to get cheaper. Don't forget markets are, give or take, only some 8% off their highs. That's not a lot in the grand scheme of things. The capitulation stage is not really upon us yet. As I mentioned above, Iran has the leverage and the US can't just walk away. Liquidity is still functioning; wait until it hits a clear bottom and then it will be time to buy.
- **What is becoming interesting?** SaaS (Software-as-a-Service). Investors have aggressively priced in the idea that AI will reduce demand for SaaS, compress pricing and increase competition. So, the market has pre-emptively repriced SaaS stocks as if this is already happening. We have seen multiples down, growth assumptions cut and some names trading at "no-growth" valuations. In other words, the market has front-loaded the bad news. If the market is right then AI destroys pricing power of SaaS. If not, SaaS is undervalued. The payments sector looks interesting. Well-known names have been hit hard and are even priced for zero or negative growth. Another area is some consumer staples. These are a defensive, stable and reliable play; valuations have been hit hard.
- **Positioning:** Keep your investment duration short. The best yields are in short-duration private credit. That's not to say it's risk-free, but comparing risk to the worlds of investment grade and especially high yield, your total return stream is largely cash yield, and the latter goes a long way to mitigating defaults.

Conclusion

This is a valuation reset, not a structural collapse. However, buyer beware: macro pressures haven't finished repricing it all yet. It's not about whether the conflict escalates, it's about how long the pressure is maintained.



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Jabir joined Skybound Capital in 2011 and serves as Group Chief Investment Strategist. He leads the firm's macroeconomic research. He sits on the Investment Committee, where he evaluates prospective lending opportunities, assesses credit quality and downside risk, and determines whether proposed transactions meet the firm's return and risk criteria. He plays a central role in shaping Skybound's credit framework and communicating market insights to institutional and professional clients.

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