

MONTHLY NEWSLETTER

MIRABAUD WEALTH MANAGEMENT



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INTERNATIONAL

“THE TRUEST CAUSE, THOUGH LEAST IN SPEECH, I CONSIDER TO BE THE GROWTH OF THE POWER OF ATHENS, AND THE ALARM WHICH THIS INSPIRED IN SPARTA.”

History of the Peloponnesian War, Book I, 23

Part I: *Prophasis* in the Gulf, Markets at the Edge of Escalation

In periods of heightened geopolitical tension, markets can appear to move in rhythm with headlines. Military escalations, sanctions, elections and diplomatic ruptures generate immediate price reactions across equities, bonds, currencies and commodities. Volatility rises, correlations converge. Yet the durability of these market moves is often far more limited than the intensity of the news flow might suggest.

To understand why, it is useful to return briefly to Thucydides, the fifth century BC Athenian general and historian whose *History of the Peloponnesian War* remains one of the earliest and most rigorous works of political realism. Writing not as a moralist but as an analyst of power, he introduced a distinction that remains strikingly modern: that between *Prophasis* and *Aitia*. The *Prophasis* refers to the stated grievance or immediate trigger of conflict. The *Aitia* is the deeper structural cause, often less visible but ultimately decisive.

For investors, this distinction is more than classical erudition. It offers a framework for separating transient shocks from structural regime change. Markets react to the *Prophasis*. Long term returns are shaped by the *Aitia*. The essential investment question is therefore not whether geopolitical events are dramatic. It is whether they alter the structural drivers of inflation, interest rates and financial stability.

The *Prophasis* of the month: a sharp escalation in the Gulf

On Saturday 28 February, following joint US and Israeli air strikes, Iran's supreme leader, Ayatollah Ali Khamenei, was among those killed, while several senior military figures were also reported dead. The US president warned that strikes would continue without interruption for as long as necessary. Iran's leadership condemned the operation, and the Revolutionary Guard pledged a crushing response.

The situation quickly broadened beyond the initial strike. Israel and Iran continued to exchange fire. Missiles triggered sirens in Israel, explosions were reported in Tehran, and attacks involving missiles and drones were reported across the Middle East,

including incidents near US linked military facilities that activated air defences. Civil aviation was disrupted across the Gulf, with major airports in Dubai and Doha suspending operations and several airlines cancelling most flights. In parallel, Iranian forces reportedly contacted oil tankers to warn that passage through the Strait of Hormuz would not be permitted.

With energy markets closed over the weekend, the immediate price signal was delayed. Regional equity markets that opened on Sunday reportedly fell between 2% and 5%. Ahead of the escalation, Brent had already reached a seven-month high, and gold had climbed to around USD 5,277 per ounce, close to recent records. This is precisely how *Prophasis* presents itself to markets: a dramatic event cluster, compressed time horizons, and a rapid repricing of near-term risk.

The more difficult task is to determine whether the episode remains a *Prophasis* or reveals an *Aitia* capable of changing the macro regime.

Historical evidence: conflict and market outcomes

A survey of modern history supports this structural interpretation.

During the Second World War, equity markets experienced volatility, yet once industrial mobilisation expanded output and fiscal stimulus supported employment, US equities embarked on a durable recovery. The scale of the conflict was unprecedented, yet the long term market trajectory was shaped by productivity and growth rather than battlefield developments alone.

The Korean War generated an immediate sell off, largely driven by uncertainty and commodity price pressure. However, as inflation stabilised and monetary policy adapted, markets recovered. The conflict itself did not produce a sustained bear market.

The Vietnam War is frequently associated with economic instability, yet much of the 1960s witnessed robust equity performance. The deeper structural issue emerged later, when expansive fiscal policy contributed to inflationary pressure. The bear market of 1973 to 1974 was not caused by

war alone. It was the product of an inflation regime shift, exacerbated by the oil embargo. The immediate conflict in the Middle East was the *Prophasia*. The structural consequence was a quadrupling of oil prices, double digit inflation and aggressive monetary tightening. Equity valuations compressed accordingly. Here, geopolitics mattered because it transformed the inflation regime.

Subsequent crises reinforce the pattern. The Gulf War in 1990 led to a sharp but short-lived correction. Once oil supply normalized and policy eased, equities recovered. The attacks of September 11, 2001 represented a profound geopolitical shock, yet the prolonged market weakness of the early 2000s was primarily linked to excessive valuations and the bursting of the technology bubble.

More recently, the annexation of Crimea in 2014 generated limited sustained global market impact. Inflation remained subdued and financial conditions accommodative.

The invasion of Ukraine in 2022 is more instructive. The conflict disrupted energy supply to Europe, accelerated global

inflation and forced central banks into the most aggressive tightening cycle in decades. The bear market that followed was fundamentally an inflation and interest rate repricing. Again, the decisive channel was macroeconomic transmission.

Across these episodes, the pattern is consistent. Geopolitical conflict alone rarely produces durable market decline. It becomes structurally significant when it reshapes inflation dynamics, monetary policy or financial stability.

Part II: February 2026, a month between *Prophasis* and *Aitia*

At a headline level, February was a constructive month for global assets. Yet the dispersion

across regions and sectors suggests that investors were already distinguishing between transient noise and structural shifts.

Japan offered an even clearer example of structural repricing. Following Prime Minister Takaichi's decisive majority in the 8 February snap election, the Nikkei 225 surged +10.4% to a new record high. Political stability, corporate governance reforms and sustained earnings momentum combined to reinforce confidence in Japan's long term trajectory. In Thucydidean terms, the election result was a visible event. The deeper cause of the rally lies in structural reform and capital reallocation, *Aitia* rather than *Prophasis*.

Performance of the main financial indices since 2021:

	Feb.	Feb. \$	2026	2026 \$	2025	2025 \$	2024	2024 \$	2023	2023 \$	2022	2022 \$
S&P 500	-0.8		0.7		17.9		25.0		26.3		-18.1	
Sloxx 50	3.3	2.9	6.2	7.0	22.1	38.5	11.9	4.7	23.2	27.3	-8.5	-14.0
MSCI EM	5.5		14.9		34.3		8.0		10.1		-19.9	
SMI	6.3	6.7	5.6	8.7	18.0	35.0	7.5	-0.3	7.1	17.6	-14.3	-15.0
Euro - USD	-0.3		0.6		13.4		-6.2		3.1		-5.8	
US Dollar Index	0.6		-0.7		-9.4		7.1		-2.1		8.2	
Gold Spot - USD	7.9		22.2		64.6		27.2		13.1		-0.3	
CHF - USD	0.5		3.0		14.5		-7.3		9.9		-1.3	
Bitcoin	-14.7		-23.9		-6.5		120.5		157.0		-64.3	
Global Aggregate	1.1		2.1		8.2		-1.7		5.7		-16.2	
US Aggregate	1.6		1.7		7.3		1.3		5.5		-13.0	
US Treasury	1.8		1.7		6.3		0.6		4.1		-12.5	
US T Bills	0.3		0.6		4.3		5.3		5.1		1.3	
Global High Yield	0.2		1.2		12.1		9.2		14.0		-12.7	

**« GEOPOLITICAL
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Emerging markets advanced as well, with the MSCI Emerging Markets Index rising +5.5%. Here again, investors appear to have judged that global liquidity conditions and trade flows, while politically contested, have not yet undergone a structural rupture.

The United States presented a more complex picture. The S&P 500 declined -0.8% in total return terms, though it ended the month within 2% of its late January record high. The weakness was concentrated in software and mega cap technology, with software down -8.9% in February alone and the so called Magnificent Seven down -7.3%.

At first glance, this appears to be a reaction to *Prophasis*: the release of new AI tools, a prominent research memo outlining labour displacement risks, and earnings that, while strong, failed to exceed elevated expectations. Nvidia delivered positive results, yet the scale of the surprise was smaller than markets had grown accustomed to.

However, beneath this correction lies a deeper question. Is the AI driven investment cycle entering a new phase of competitive

normalisation? If so, the repricing would not be merely episodic volatility but an adjustment in expected profit distribution. In Thucydidean language, markets are probing whether recent developments constitute *Prophasis*, a temporary shock to sentiment, or *Aitia*, a structural shift in earnings power.

Gold's +7.9% rise to USD 5,279 per ounce, marking a seventh consecutive monthly gain, can similarly be interpreted through a Thucydidean lens. The metal functions as insurance against structural uncertainty. Its strength reflects hedging demand, but not necessarily a conviction that a regime shift has already occurred. It is a response to perceived risk, not definitive evidence of structural break.

Trade policy developments further illustrate the distinction. The US Supreme Court's ruling that the use of the International Emergency Economic Powers Act for broad based tariffs was unconstitutional, altered the legal architecture of trade policy. President Trump's subsequent announcement of a temporary 10% global tariff under Section 122 of the Trade Act of 1974 reintroduced uncertainty. Yet markets absorbed the news without systemic stress. For now, these

developments appear as political *Prophasis*. Only if they evolve into durable fragmentation of global trade flows would they become *Aitia*.

capital allocation in an age where headlines are immediate but structural change unfolds more slowly.

In essence, February demonstrates the layered nature of market causality. The visible triggers, Gulf escalation, tariff rulings, AI competition, generated volatility and sector rotation. Yet the structural pillars, inflation trajectory, monetary policy credibility, financial system stability and earnings resilience, remain largely intact.

Thucydides wrote that the growth of Athenian power and the fear it inspired in Sparta made war inevitable. The visible disputes were secondary to that structural dynamic. For investors today, the question is analogous: are we witnessing isolated disputes, or the emergence of a deeper structural shift in the global economic order?

For now, the evidence suggests that February 2026 remains primarily a month of *Prophasis*. The *Aitia*, inflation persistence, real rates, liquidity and productivity, continues to guide medium term asset pricing. Distinguishing between the two is not an academic exercise. It is the foundation of disciplined



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BRAZIL

A BRIEF ANALYSIS OF THE INFLATION AND INTEREST RATE CYCLE IN BRAZIL

Although the eyes (and hearts) of the world are currently focused on the Middle East, we would like to seize this opportunity to briefly review the Brazilian economic outlook for this year and how the war in Iran may affect us in the short term.

The recently released GDP for 2025 showed an increase of 2.3% compared to 2024, reaching a nominal value of R\$ 12.7 trillion. Similarly, the average unemployment rate in 2025, as measured by the Continuous National Household Sample Survey (PNAD), was 5.6% among the economically active population, the lowest average unemployment rate in this series, which began in 2012.

The IPCA, as is already known, ended the year with a 4.26% increase, within the inflation target set by the National Monetary Council (CMN) of 3.0% with a tolerance interval of +/- 1.5%, but at the cost of 14.31% interest (CDI), also setting a record level of 10% real interest (interest rate remaining after inflation).

Although bringing the annual IPCA back within the inflation target range can be considered a victory for the Central Bank, this success did not come without a cost, as the extremely high real interest rates caused and continue to cause deleterious effects on public debt and corporate indebtedness.

In fact, if we review what the most established macroeconomic theories teach us, we would expect that the high interest rates recorded last year would have depressed economic activity and raised unemployment, which, as we saw above, did not happen.

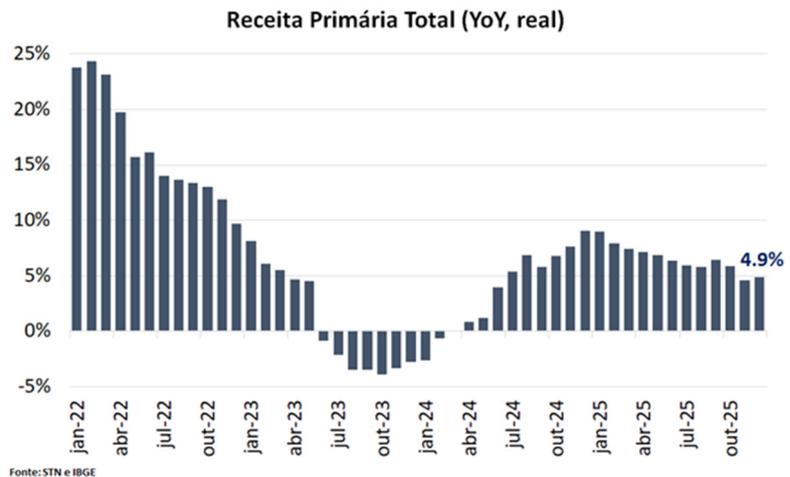
On the other hand, a virtuous outcome also could have been achieved, with a fall in inflation without economic sacrifice in terms of GDP and unemployment, if government spending had contracted sharply, since the government is the largest net consumer within an economy, and its spending competes directly with private sector spending to push up inflation.

In this case, too, we see no improvement in the government's primary result compared to the previous year, since in both 2024 and 2025, the government's primary result recorded a deficit of around 0.4% of GDP.

On the contrary, as there was a real increase (above inflation) of 4.9% in tax revenue, it is easy to conclude that a similar fiscal

result between 2024 and 2025 means that there was a pari-passu increase in current expenditure, absorbing the entire increase in revenue with an equivalent increase in expenditure.

The chart below, prepared by BRGC Consultoria Econômica, shows how the increase in tax revenue has remained at high rates in recent months.



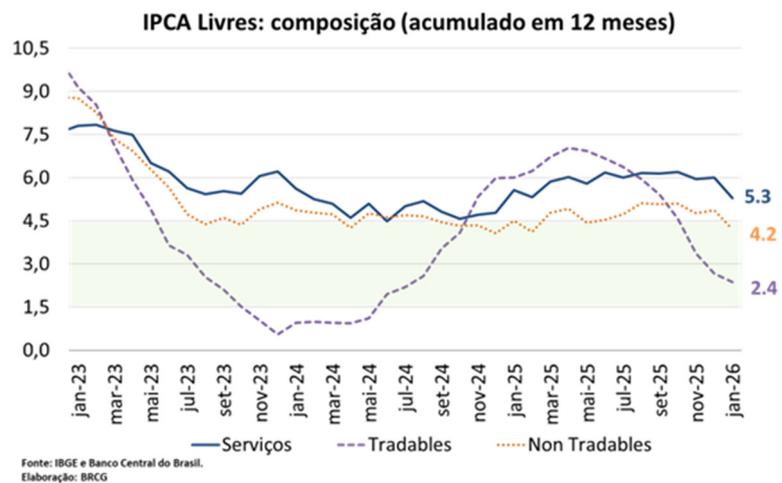
Based on these indicators, we can easily conclude that if the record level of real interest rates did not harm economic activity, it was largely due to the demand pressure that increased public spending had on GDP in 2025.

But if the overall economy did not slow down, as evidenced by GDP and employment levels, and if the government did not reduce its pace of spending (quite the contrary), where did the drop in inflation come from?

« ...WE REMAIN VERY CAUTIOUS ABOUT RISK ASSETS, AS OUR SCENARIO IS THAT INFLATION AND INTEREST RATES THIS YEAR WILL BE HIGHER THAN PREVIOUSLY EXPECTED... »

The chart below, also prepared by BRGC Consultoria Econômica, shows that if we break down the IPCA into the subgroups Tradeables, Non-Tradeables and Services, we see that tradable goods were

responsible for most of the disinflation recorded in 2025, with non-tradable goods hovering at levels equivalent to the ceiling of the inflation target band (4.5%) and Services well above that.



In other words, we can infer that Brazilian disinflation was caused by the appreciation of the real against the dollar, which made the prices of tradable goods cheaper in the domestic market through imports.

target, guarantee that if (or when) the prices of tradable goods rise, inflation will return to above the ceiling of the inflation target band, with obvious consequences for the Central Bank's monetary policy.

Furthermore, we can also deduce that the fall in inflation is largely temporary, since the prices of tradable goods are highly dependent on the exchange rate, which is volatile by nature.

The war and the outlook for inflation and interest rates

Now, with the situation fully described above, it is easy to understand that the rise in oil prices and the exchange rate of the real against the dollar will negatively affect inflation, through the channel of higher prices for tradable goods and energy prices in general.

On the other hand, the prices of non-tradable goods and services (which are more rigid and less volatile), by remaining consistently above the inflation

Local financial markets, which were operating in a state of pure (and naive) euphoria, are being brought back to reality by a complex geopolitical scenario that has been in place since Trump's return to the American presidency and has become even clearer with the start of a new cycle of external military interventions, beginning with the bombing of the Iranian facilities in Fordow in June 2025.

As a result, expectations for the start of the Selic rate reduction cycle are being questioned, as well as the terminal rate for this downward cycle, which is likely to be higher than originally expected, since it will take time for the international energy markets to stabilise.

In summary, we remain very cautious about risk assets, as our scenario is that inflation and interest rates this year will be higher than previously expected, with significant fiscal impacts, in an electoral environment that is still inhospitable to deeper and more mature discussions on Brazil's fiscal issue.

As discussed in the September 2025 Newsletter, Parkinson's Law ensures that we will not face our fiscal recklessness until we are in the midst of a full-blown crisis of confidence.

With recent events unfolding, this outcome could reach us as early as 2027, and we will therefore continue to pursue a conservative and defensive investment strategy in order to protect the interests of our clients and investors.

PERFORMANCE OF THE MAIN FINANCIAL INDICES:

Renda Fixa		27/02/26	MTD	3M	YTD	
CDI	-	100,40	1,00%	3,53%	2,17%	
IMA-B	-	11.245,58	1,79%	3,05%	2,81%	
IMA-B 5	-	10.899,42	1,22%	3,42%	2,44%	
IMA-B 5+	-	12.484,00	2,24%	2,75%	3,09%	
IRF-M	-	22.247,13	0,99%	3,42%	2,97%	
IMA-S	-	8.312,58	1,01%	3,57%	2,20%	
Índices Globais		País	27/02/26	MTD	3M	YTD
Ibovespa	BRL	188.786,98	4,09%	19,07%	17,17%	
Dow Jones	USD	48.977,92	0,17%	3,27%	1,90%	
S&P 500	USD	6.878,88	(0,87%)	0,97%	0,49%	
NASDAQ	USD	24.960,04	(2,32%)	(1,10%)	(1,15%)	
Euro Stoxx 50	EUR	6.138,41	3,20%	8,54%	5,99%	
FTSE 100	GBP	10.910,55	6,72%	12,58%	9,86%	
MSCI Emerging	EM	62,58	5,89%	17,03%	14,38%	
MSCI World	World	4.556,79	0,64%	4,22%	2,85%	
Moedas		País	27/02/26	MTD	3M	YTD
Real/Dólar	USD	5,13	2,63%	3,91%	6,39%	
Euro	EUR	1,18	(0,33%)	1,87%	0,56%	
Franco Suíço	CHF	0,77	0,49%	4,54%	3,04%	
Libra Esterlina	GBP	1,35	(1,49%)	1,82%	0,05%	
Bitcoin	BTC	65.527,34	(22,14%)	(27,34%)	(25,24%)	
Hedge Funds		País	27/02/26	MTD	3M	YTD
Ind. de Hedge Funds	BRL	6.342,88	1,33%	4,38%	3,60%	



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