



## Too Weak Ceasefire?

### Markets swing amid ceasefire theatre

#### Key points:

- **Ceasefire fragility:** markets rallied sharply on Trump's Iran ceasefire announcement this week, but hostilities resumed hours later, exposing investor complacency.
- **European rates rally:** core European rates have fallen this week as oil prices dropped below \$100 and central bank rate hike expectations were scaled back.
- **U.S. labour market resilience:** U.S. labour data has remained robust, with March payrolls adding 178k jobs despite mounting conflict-related pressures.
- **EU political pressures:** Europe faces challenges from another inflation shocks, populist politics, and heightened defence spending amid geopolitical uncertainty.
- **Macro outlook uncertainty:** the economic impact of sustained oil price elevation and supply chain disruption is still emerging, with downside risks to growth persisting.

**London, 10 Apr 2026:** Markets continue to swing back and forth as investors grapple with the ping-pong of headlines coming from the White House and developments in the Middle East.

Earlier in the week, Trump announced a two-week ceasefire with Iran, in a bid to stave off further escalation. U.S. equities ripped higher on the news, clawing back much of their YTD losses, while credit indices tightened aggressively back towards pre-conflict levels. However, just hours after the ceasefire declaration, hostilities resumed, highlighting the fragility of the truce.

Markets have consolidated since, but the price action this week speaks to the entrenched investor mindset to "buy the dip." There is still a sense that some form of de-escalation and resolution of the conflict is inevitable.

The reality, however, is that unlike the policy reversal on tariffs last April, the off-ramp the Trump administration is seeking this time is far more complicated and fraught with risks, given this is now a major war involving multiple combatants and agendas.

In general, core rates markets rallied over the week, particularly in Europe, as oil prices dipped back below \$100 and rate hike expectations were pared back. U.S. rates were also lower but to a lesser extent. The biggest moves have been in EM, where markets like South Africa, Mexico and Brazil have seen significant moves lower in yields.

More generally, we do observe a shift from a myopic focus on inflation and the need for central banks to tighten monetary policy, to the impact that the conflict in the Middle East will have on confidence, consumption, and growth in the quarters ahead.

As long as The Strait of Hormuz remains largely shut, and the flow of shipping remains compromised, this event will have more long-lasting economic damage. Indeed, we would argue that enough harm to output

has already been done to create a supply-shock across energy and energy-intensive manufacturing and services over the coming year.

In the U.S., recent economic data should be caveated given the lagged reverberations of the conflict.

Disruptions felt in supply chains and at the petrol pump have barely begun feeding through into food and goods prices and into corporate behaviour. Nevertheless, the most material takeaway for us is that the U.S. labour market appeared to be in relatively good shape coming into this crisis, and thus far is holding up well to the strain exerted by the conflict in Iran.

The hard data releases on U.S. employment last week, including the weekly unemployment claims data, the ADP employment report, and perhaps most importantly the March U.S. Payrolls report, adding +178k in March (versus expectations for only +65k) have been solid.

It is not surprising that more forward-looking business survey data from the ISM was more mixed, but the bottom line is the U.S. economy is resilient and was already displaying robust momentum coming into the conflict. Going forward, there is uncertainty as to whether U.S. households and corporates will hold up in the face of what is now certain to be a durable energy shock, and it is too early to be too predictive.

Away from the U.S., the impact of the conflict is beginning to feed through in data, but again we would make the point that there is much more to come. Right now, there is significant uncertainty over how this event pans out from a macro fundamental perspective.

On a broader theme, we are convinced it won't be long before Trump and his team return to the fact that Europe did not play ball and provide any help to the U.S. in the fight with Iran. As the relationship continues to sour, focus will shift back to Greenland, NATO and Ukraine.

An all-important election in Hungary this weekend could also provide a flashpoint. Vice President Vance and Secretary of State Rubio have both been in the country trying to boost Victor Orban's chances of retaining power, while ironically criticizing the EU for interfering in national elections.

We think there are tricky times ahead for the EU, where officials need to simultaneously deal with protecting households and businesses from another inflation shock, stave off populist politics and deal with the pressures of increased defence and security spending in a fractured geopolitical world.

In that respect we see scope for higher government deficit/borrowing, and wider European sovereign credit spreads, from already tight levels.

## **Looking ahead**

We come back to the point that the investor community still feels desperate to buy on any weakness.

From a fundamental perspective, higher oil and gas prices are already having an economic impact on a global basis, with policymakers revising inflation forecasts higher and growth lower as they reflect on the outlook due to the ongoing disruption.

Any off-ramp will be bumpier than in previous geopolitical episodes if the reality is one where oil and gas prices remain elevated and supply chain disruptions take time to bubble up to the surface.

Amid the ceasefire confusion, there is plenty of scope for this complacency in markets to be challenged, and to adjust to the new reality that comes into view.

As ever, separating signal from noise is not as straightforward as a single 'truth' from DJT.

Either way, despite the fragility of the current environment, a hope for peace remains front and centre, and we pray that it's not a too weak ceasefire after all.

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