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Market outlook | Q2 '26

Fed facing inflation risk

Growth slows while inflation lingers

Oil supply shock

Volatility is back in focus

Gold isn't moving in one direction anymore

Rising real yields are weighing on prices

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Gold is being pulled in two directions

Gold enters Q2 in a more complex environment than initially expected. What looked set to be a quarter driven primarily by safe-haven demand has evolved into a broader interplay between geopolitics, energy prices, inflation expectations and rate sensitivity.

Caught between support and pressure

The announcement of a two-week US-Iran ceasefire, tied to the partial reopening of the Strait of Hormuz has eased immediate fears of a severe energy shock and prompted markets to reassess the inflation outlook and the monetary policy path that had recently moved against gold. In recent weeks, gold has traded less like a pure crisis hedge and more like a macro-sensitive asset, pulled between two opposing forces. On one side, structural support remains intact. Ongoing geopolitical fragmentation continued reserve diversification and a still-fragile global confidence backdrop all support demand for gold. On the other, the war-driven surge in oil prices revived inflation concerns and strengthened the case for a more cautious Federal Reserve. This has increased pressure from higher real yields, limiting gold's upside. New York Fed President John Williams warned that the conflict could push inflation higher this year, while Fed Vice Chair Philip Jefferson also flagged rising energy costs as a risk to both inflation and employment.

Ceasefire shifts the near-term outlook

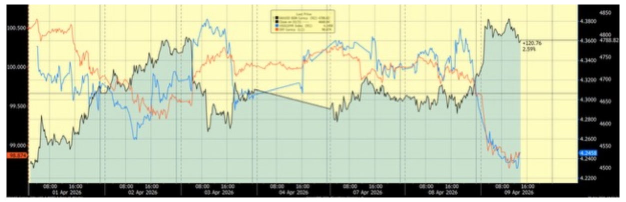
The ceasefire temporarily eased this pressure. As oil prices fell back below $100, markets began to scale back the more aggressive inflation expectations that had built up during the peak of the Hormuz disruption.

This does not remove gold's underlying support, but it does change the shape of the outlook. The near-term story is no longer one of crisis-driven acceleration, but of consolidation within a still constructive longer-term trend.

That said, the current relief should not be mistaken for resolution. The ceasefire remains fragile, and Iran has already indicated that any path to lasting peace will be conditional and politically complex. If uncertainty around the Strait of Hormuz and broader regional stability persists, gold is unlikely to lose its strategic role. The recent shift has softened the urgency of the bullish case, but it has not undermined it.

What this means for Q2

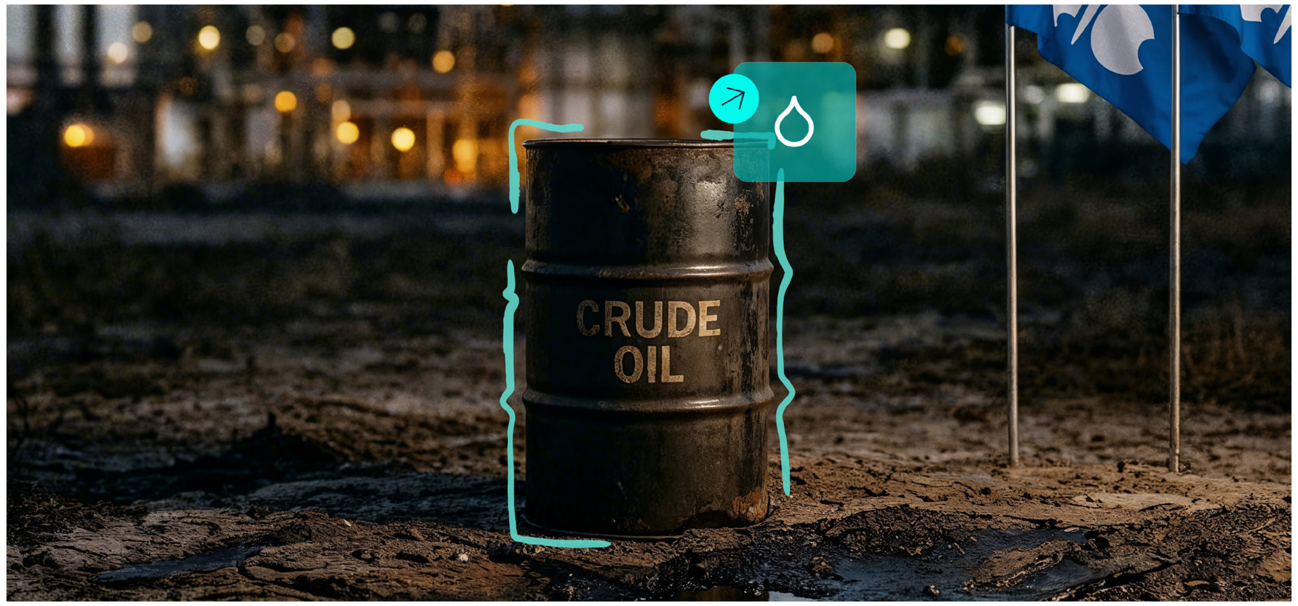
Gold is best viewed as an asset that is likely to remain reactive in the short term, while continuing to serve as a hedge against renewed geopolitical risk and policy uncertainty. The outlook has shifted from a purely geopolitical upside narrative to a more balanced phase of volatile consolidation. While the long-term case remains intact, the near-term path will depend more closely on three factors: whether oil prices stay lower, whether US rate expectations begin to ease and whether the ceasefire holds.



Gold vs. US real yields and the dollar before and after the April 7 ceasefire

Raed AlKhedr

Chief Market Analyst



Oil has repriced but the risk hasn't gone away

Oil's outlook has shifted from extreme supply panic to cautious stabilisation. The peak crisis premium has eased, but the market is still likely to trade with a structurally higher risk floor, reflecting the fragility of the ceasefire, constrained supply flexibility and the enduring strategic vulnerability of Hormuz.

Oil moved from risk premium to real supply shock

Oil has undergone the most dramatic change in outlook of any major asset class recently. At the height of the Hormuz crisis, the market was no longer merely pricing a geopolitical premium, it was pricing a genuine physical supply shock. Reuters reported that physical crude prices approached $150 per barrel, with around 12 million barrels per day disrupted as the Strait of Hormuz crisis intensified and refiners scrambled for prompt barrels. That phase of the market reflected not financial anxiety alone, but a tangible breakdown in immediate supply availability.

The decisive shift came with the announcement of a two-week ceasefire between the United States and Iran on April 7, accompanied by signals that safe passage through Hormuz would be possible during that period. The market response was immediate and violent: Brent fell

Oil moved from risk premium to real supply shock

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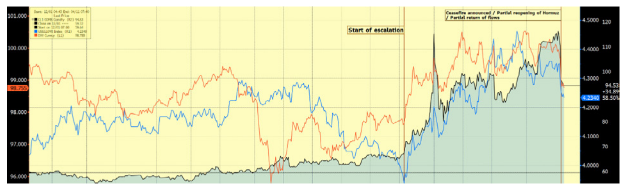
The decisive shift came with the announcement of a two-week ceasefire between the United States and Iran on April 7, accompanied by signals that safe passage through Hormuz would be possible during that period. The market response was immediate and violent: Brent fell sharply below $100, while WTI recorded its steepest decline in years. This was not simply a correction in speculative excess; it was a wholesale repricing from a scenario of prolonged physical dislocation toward one of temporary operational relief.

Risk premium remains in place

Even so, the new outlook should not be interpreted as a return to normality. The ceasefire may have removed the most acute tail-risk scenario, but it has not erased the broader geopolitical risk premium embedded in crude. Iran has outlined demanding preconditions for lasting peace and the region's energy arteries remain politically exposed. Meanwhile, OPEC+ dynamics continue to reinforce a structurally tight backdrop. Iraq, the UAE, Kazakhstan and Oman have submitted updated compensation plans extending through to June, while the group's planned May output increase is seen as largely symbolic under current logistical constraints. There is also a second-order macro implication. The earlier oil shock had materially altered global inflation thinking, prompting concerns that central banks would be forced to stay restrictive for longer. The temporary collapse in crude has relieved some of that pressure, but not enough to fully normalise the policy outlook. The World Bank has already warned that the war is likely to leave the global economy facing some combination of slower growth and higher inflation, even if the conflict begins to ease.

What this means for Q2

For Q2, the most appropriate framework is no longer "enduring supply shock," but rather elevated volatility above a higher geopolitical floor. Prices may continue to retreat from crisis highs if the ceasefire holds and trapped flows begin to normalise, but oil is unlikely to revert quickly to its pre-war equilibrium. The market has already learned how narrow the margin of safety can become when Hormuz is threatened and that lesson is unlikely to disappear within a matter of weeks.



WTI crude before, during and after the Hormuz crisis / ceasefire

Raed AlKhedr
Chief Market Analyst

The Fed is stuck between inflation risk and slowing growth

The Federal Reserve enters Q2 facing a familiar challenge in a more complex form. Markets have reacted quickly, but for policymakers, the real question is what comes next. An energy-driven shock has hit as inflation was easing but not yet under control, while growth is slowing but not breaking. That leaves the Fed with little room for error, making patience the most likely path.

Ahmed Azzam

Head of Financial Market Research

Markets have calmed, but the Fed's problem hasn't

The two-week ceasefire announced on April 8 helped ease immediate panic across markets. But for the Fed, that does not mean the shock has passed.

The focus has shifted. It is no longer about the initial spike in oil prices, but whether the disruption filters through slower and more persistent channels, freight costs, shipping delays, fuel prices, consumer expectations and broader pricing behaviour.

With transit through the Strait of Hormuz still uncertain and major shipping firms warning that a full return to normal could take weeks, the Fed is left managing a more complex version of a familiar problem. Market volatility may have eased, but the macro impact is only starting to unfold.

Q2 is less about fear and more about timing

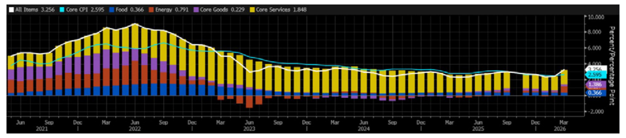
This is what makes the second quarter particularly challenging for policymakers. By the March meeting, the policy debate had already shifted beyond the timing of rate cuts. Minutes show that almost all participants supported keeping rates unchanged, viewing policy as close to a neutral range after 75 basis points of easing in the second half of last year. More importantly, officials were increasingly concerned about upside inflation risks linked to energy, while still uncertain about how deeply the Middle East shock could affect growth. That combination leaves little room for decisive action. If growth were collapsing, easing would be clearer. If inflation were falling cleanly, the path would also be simpler. Instead, the Fed faces a supply-driven risk just as inflation was improving but not fully resolved. In that environment, caution becomes the default.

Inflation has picked up, but not across the board

The latest CPI data reinforces why the Fed is likely to remain patient. Headline inflation rose 0.9% in March, bringing the annual rate to 3.3%. Core inflation was more contained at 0.2% month-on-month and 2.6% year-on-year. The increase was driven largely by energy, with the energy index up 10.9% and gasoline rising 21.2%, while shelter increased 0.3% and food remained unchanged.

For policymakers, this creates an uncomfortable but not decisive signal. Inflation has clearly been impacted by the oil shock, but core dynamics do not yet point to a broad-based reacceleration.

This supports a hold-first approach into the April meeting, as the Fed waits to see whether the energy-driven move remains isolated or begins to spread.



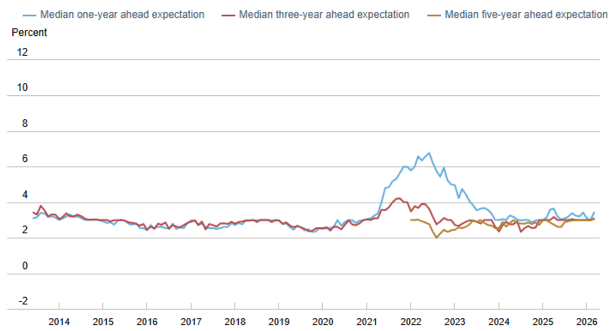
Source: Bloomberg

Inflation expectations are becoming more sensitive

The greater risk is not a single spike in inflation, but how households respond to it. Latest data from the New York Fed shows one-year inflation expectations rising to 3.4% in March, with three-year expectations at 3.1% and five-year expectations holding at 3.0%.

Longer-term expectations remain relatively anchored, but the shift suggests households are becoming more sensitive to price risks again.

The sharp rise in expected gasoline inflation reinforces that concern.

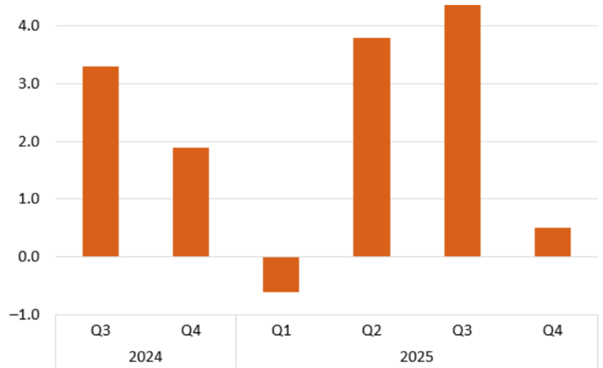


Source: newyorkfed

For the Fed, the experience of 2022 still matters. Policymakers are less willing to assume that a supply shock will remain contained. Once expectations begin to adjust, the risk extends beyond energy into wages, services and broader pricing behaviour.

Growth is slowing, but not enough to force action

There is also no clear growth argument for immediate easing.

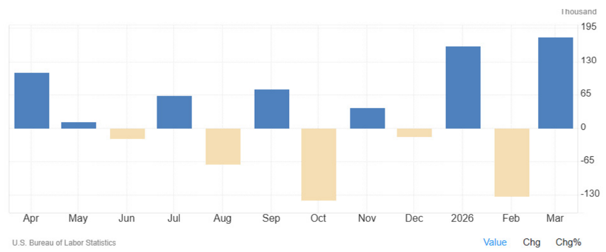


Source: newyorkfed

Real GDP growth slowed to a 0.5% annualised pace in Q4 2025, down from 4.4% in the previous quarter. That points to a softer economy, but not one weak enough to trigger urgent policy support.

RThe labour market remains relatively stable. March payrolls increased by 178,000 and the unemployment rate held at 4.3%. While conditions have cooled compared to last year, they have not deteriorated to a level that would force the Fed into a defensive cut.

This leaves policymakers in an uncomfortable position. Growth is losing momentum, but employment remains firm enough to justify patience, especially with inflation risks still present.



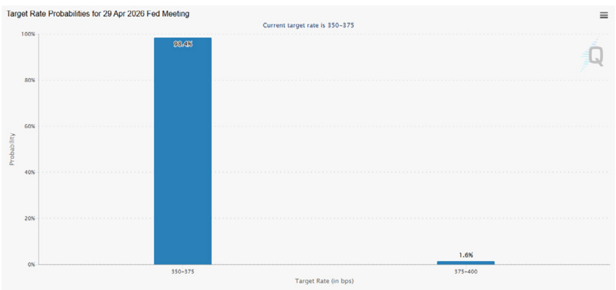
Source: US Bureau of Labor Statistics

The Fed is waiting because the outcome is still unclear

The Fed is not waiting because the shock has passed. It is waiting because it does not yet know what the shock becomes.

The ceasefire has reduced the risk of an immediate energy disruption, but it has not restored clarity to the macro outlook. Inflation remains above comfort levels and growth is slowing without collapsing.

The key question is whether this is a temporary energy shock that lifts headline inflation, or the start of a broader pricing dynamic that delays easing further. For now, the most credible path remains steady. Hold rates, monitor how the shock feeds through the economy and avoid reacting before the full impact is clear.



Source: CME Group

Europe's recovery is being tested again

Europe's recovery was starting to take hold, but the environment has shifted again. A new external shock is feeding through energy markets and trade, just as growth remains fragile. The result is a more complex outlook, where inflation risks are rising and policy choices are becoming harder.

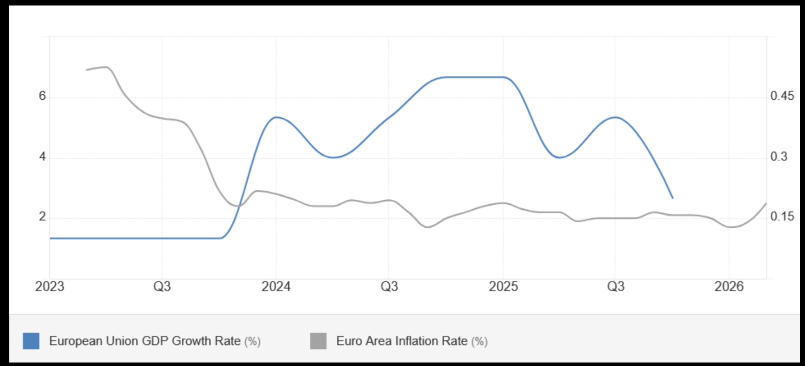
Noureldeen Al Hammoury

Chief Market Strategist

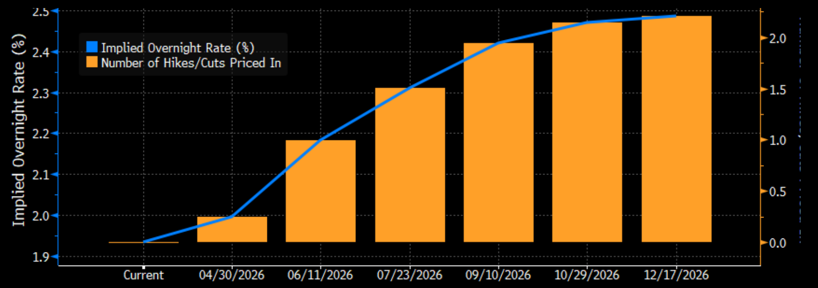
A fragile economy with limited room to absorb shocks

Europe's economy is once again facing a difficult balancing act. Just as the euro area had started to show signs of stabilisation, the conflict in the Middle East has introduced a new external shock through energy markets, trade routes and business confidence.

The European Central Bank has already acknowledged that the situation has made the outlook "significantly more uncertain", creating upside risks for inflation and downside risks for growth. That combination is exactly why stagflation risks are back in focus.



The latest data show that the euro area economy was growing, but only modestly, even before the latest energy shock intensified. GDP rose by 0.2% in the fourth quarter of 2025, with full-year growth for 2025 coming in at 1.4%. At the same time, the labour market has remained relatively resilient, with unemployment at 6.2% in February 2026, still low by historical standards. On their own, these figures do not point to a recession. However, they do highlight an economy that was already expanding at a fragile pace, with limited capacity to absorb a sudden rise in oil prices and shipping costs.



Inflation returns as the main risk

Inflation is once again the central concern. Euro area headline inflation is estimated to have risen to 2.5% in March 2026, up from 1.9% in February, moving back above the ECB's 2% target.

The ECB's March staff projections had already anticipated inflation averaging 2.6% in 2026, explicitly pointing to higher energy prices linked to the conflict in the Middle East.

At the same meeting, the ECB left its key rates unchanged, keeping the deposit facility rate at 2.00%, while stressing that future decisions will remain data-dependent and taken meeting by meeting.

The real risk is that Europe could face the worst of both worlds. Shipping through the Strait of Hormuz has fallen sharply, according to recent reporting, while oil market analysts warn that delayed normalisation could keep Brent prices elevated and push them higher. For Europe, which remains highly sensitive to imported energy costs, this means higher fuel and transport prices feeding into household bills and business input costs just as demand remains soft. This does not mean a return to 1970s-style stagflation is inevitable.

Wage growth, labour market conditions and the duration of the geopolitical shock will all play a role. But the risk is clear: if inflation stays elevated due to energy while growth weakens under uncertainty and tighter financial conditions, the ECB could find itself caught between supporting the economy and maintaining price stability. In that sense, the conflict in the Middle East is no longer just a geopolitical issue for Europe, it is becoming a monetary policy challenge.

Silver is under pressure and the next move matters

Silver has already seen a record rally, a sharp supply shock and a historic one-day collapse, all within weeks. Now, as Q2 begins, geopolitics, policy and positioning are starting to collide, leaving the outlook far less clear.

The rally is under pressure

Silver opened the year at $72.17/oz and surged to a record high of $121.62/oz, a 68.52% gain in January alone. The move was driven by a global supply shock, after China introduced export licensing restrictions that limited shipments to a small group of state-approved firms, effectively sidelining hundreds of smaller exporters.

At the same time, silver's designation as a critical mineral in the US added to market uncertainty, fuelling concerns around potential import tariffs. Physical demand surged, with large flows moving into COMEX-linked vaults in New York. This drained London LBMA inventories, pushed lease rates to record highs and briefly disrupted the physical market.

However, the rally reversed sharply. On 30 January, silver recorded its largest single-day drop since 1980, falling 26%. Since then, prices have moved into a more range-bound phase. Amid the ongoing US-Israel-Iran conflict, volatility remains elevated, but overall gains have moderated, with silver up around 5% year-to-date.

Caught between geopolitics and a supply squeeze

The silver market is entering Q2 at a critical point, following President Trump's announcement of a two-week conditional ceasefire with Iran on 8 April 2026. The development has immediate and complex implications for silver, which is currently trading around $76/oz. A key condition of the ceasefire is the reopening of the Strait of Hormuz. If traffic through this route normalises, it should ease global transport costs and reduce the "physical scarcity" premium that pushed both silver and oil higher in Q1. At the same time, underlying fundamentals remain tight. The Silver Institute expects the market to record a sixth consecutive annual deficit in 2026, with a shortfall of around 67 million ounces. Physical tightness in London, continued inflows into exchange-traded products, with global holdings near 1.31 billion ounces as of February 2026, and strong industrial demand continue to support the imbalance. In this context, a de-escalation in Q2 could allow the silver rally to resume, as selling pressure linked to margin calls and panic subsides. A renewed escalation, however, would likely weigh on momentum and disrupt the bullish trend seen over the past two years. Beyond geopolitics, industrial demand remains firm. Solar panel installations are up 18% year-on-year in early 2026, while China's ongoing export controls on critical materials are likely to keep physical supply tight regardless of developments in the Middle East. Taken together, these factors provide a supportive floor for silver from a macro perspective heading into Q2.

What's driving silver now?

Rates holding higher are weighing on sentiment

The Fed held rates at 3.50%-3.75% in mid-March, maintaining a hawkish stance. Alongside stronger-than-expected PPI data, this triggered a sharp speculative unwind. Silver fell more than 10% in the week of 20 March as leveraged and momentum positions were rapidly unwound.

While CPI held steady at 2.4% year-on-year in February, unchanged from January, PPI rose to 3.4% from 2.9%, pointing to renewed inflation pressure. This raises the likelihood of rates staying higher for longer, which could weigh on silver relative to US Treasuries.

Tariffs and trade tensions are adding friction

Beyond geopolitics, tariffs and export controls are becoming an important driver for silver markets in Q2. On 25 February 2026, the US introduced a 15% global import tariff under Section 122 of the Trade Act. There are also indications that tariffs could rise to 25% by 1 June for countries that do not meet certain strategic conditions.

Silver products from China may face additional duties ranging from 7.5% to 25%, while the European Union is considering retaliatory measures that could also include silver. These developments add another layer of uncertainty to pricing and trade flows.

Solar demand faces a substitution challenge

Structural demand remains strong, but there are emerging headwinds. Bloomberg analysts expect silver use in solar modules to decline by 7% to 194 million ounces in 2026, driven by a shift toward copper-based technologies.

Rising costs and ongoing "thrifting" across the industry are accelerating this transition, creating a potential cap on longer-term demand growth.

Positioning shows a clear unwind

OMEX silver futures open interest peaked at 156,637 contracts in the week of 27 January before falling sharply after the 30 January price decline. By 3 February, open interest had dropped to 143,180 contracts, a decline of 8.6% in just one week.

The trend continued through Q1, falling to 133,641 by 10 February, 125,454 by 24 February and 113,164 by 24 March. This represents a 27.7% decline from the January peak, confirming a broad liquidation of positions following the rally.

A similar pattern was seen in China. The Shanghai Futures Exchange recorded a single-day drop of 58,754 contracts on 3 February, reflecting global deleveraging alongside margin increases and tighter hedging limits.

Volatility remains elevated despite strong demand

Volatility surged in Q1. Silver rallied to $121.62/oz on 29 January before falling more than 33% to $76/oz the next day, driven by Fed expectations and forced liquidations.

In response, CME raised margin requirements multiple times in early February, while the Shanghai Metals Market introduced margins of 19-22% and price limits of 20% by 4 February. Both realised and implied volatility rose significantly compared with Q4 2025.

Despite this, activity remained strong. Around 70% of Shanghai Futures Exchange volume was concentrated in front-month contracts in early February, while physical and investment demand remained elevated across LBMA and India's MCX. This suggests underlying demand is still firm, even after the post-crash liquidation phase.

Geopolitics remains the key risk

The US-Israel-Iran conflict remains the biggest risk factor heading into Q2. A further escalation could trigger renewed deleveraging across precious metals, leading to additional liquidation and downside pressure.

On the other hand, a sustained ceasefire and progress in negotiations could ease pressure, allowing the silver market to stabilise and potentially find a bottom.

Rufas Kamau

Regional Financial Market Analyst

BoE navigating sticky inflation and fiscal strain

In Q2 the Bank of England is facing a difficult trade-off. Inflation remains stubborn, growth is weak and public finances are under increasing strain. Together, these forces are limiting policy flexibility and reinforcing the case for rates to stay higher for longer.

Yazeed Abu Summaqa

Market Analyst

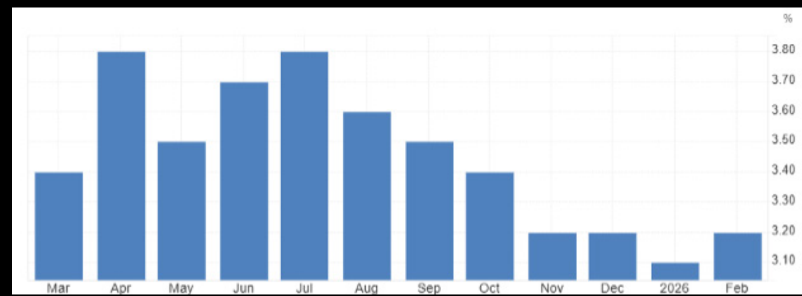
Reacceleration risks emerge

Inflation is no longer moving in one direction. Core inflation has edged up to 3.2%, while services inflation remains elevated at 4.3%. This matters because services are largely driven by domestic wages and demand, making them slower to ease than goods prices.

At the same time, external pressures are starting to build. Renewed tensions in global oil markets have pushed crude prices higher, reflecting both supply risks and geopolitical uncertainty.

For the UK, the impact is less about direct energy bills and more about second-Source: bea.gov

round effects. Rising costs in transport, logistics and production could slow, or even reverse, the recent easing in goods inflation.



Source: Office for National Statistics

The most likely outcome is not a sharp rebound, but a pause in disinflation. CPI is expected to hover between 4% and 5.5%, while core inflation remains above 3%. This keeps inflation firmly above target and reinforces the view that the return to 2% will be gradual, not immediate.

Higher-for-longer returns to the forefront

Higher-for-longer is back in focus. Markets are no longer assuming rate cuts will follow automatically. The Bank of England's March survey shows a split view, with expectations ranging from Bank Rate holding at 3.75% to only a modest easing toward 3.50%. At the same time, growth remains too weak to support a decisive shift. Real GDP was flat in January and up just 0.2% over three months, leaving the Bank caught between subdued activity and inflation that is still too high. Policy is therefore likely to stay on hold as policymakers wait for clearer signs that services inflation is easing. A rate hike cannot be ruled out, but it remains a conditional risk rather than the base case. Markets are pricing in around 52 basis points of tightening by year-end, roughly two hikes, though Governor Andrew Bailey has suggested those expectations may be too aggressive.

For now, the most likely path is patience. Rates are expected to remain restrictive for longer, rather than moving higher in the near term.

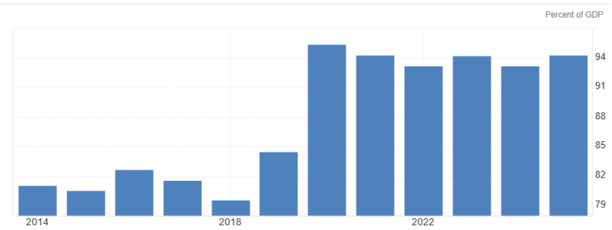
Looking ahead, the balance tilts toward stability rather than action. Unless inflation picks up meaningfully, particularly in services, tthe Bank of England is likely to hold rates steady and allow previous tightening to continue feeding through. The risk is not an immediate policy shift, but a prolonged period of restrictive conditions.

Borrowing adds to fiscal pressure

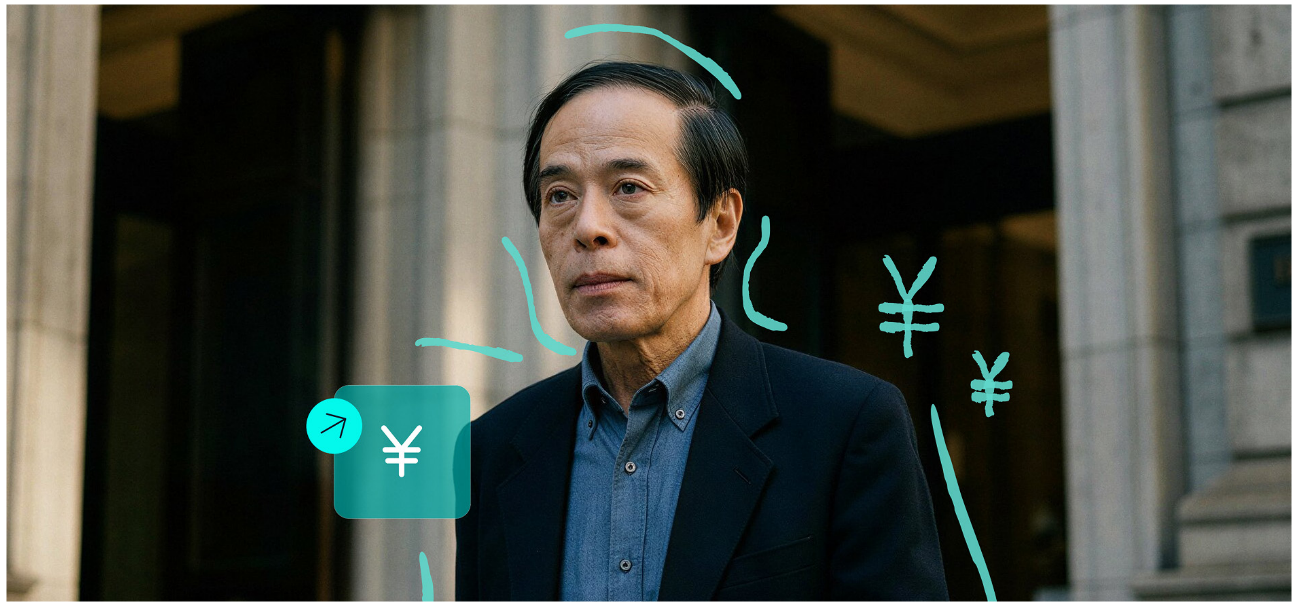
Public borrowing for the financial year to February 2026 reached £125.9bn, one of the highest levels outside crisis periods, with February alone coming in above OBR forecasts, the official projections from the Office for Budget Responsibility. This is feeding directly into the overall debt burden, pushing the debt-to-GDP ratio back to its 2021 peak at a time when growth is too weak to offset it.

This dynamic keeps fiscal policy closely tied to the interest rate outlook. Higher debt levels make public finances more sensitive to rates staying elevated, as refinancing costs and debt interest payments remain exposed to both yields and inflation. With a significant share of index-linked liabilities, any persistence in CPI feeds directly into government spending, tightening fiscal conditions even without new policy measures.

Looking ahead, this supports the case for policy to remain restrictive. The Bank of England is unlikely to ease quickly while inflation stays above target, particularly given the fiscal backdrop. A rate hike is not the base case, but it cannot be ruled out. If CPI were to move back towards or above 5%, the combination of persistent inflation and fiscal vulnerability could prompt a more hawkish response, even at the cost of tighter financial conditions.



Source: Office for Budget Responsibility, UK



Japan hit by inflation, policy and trade pressures

Japan's economic outlook is tightening, as persistent inflation, energy-driven uncertainty and weakening trade dynamics come together to create a more constrained and less predictable environment.

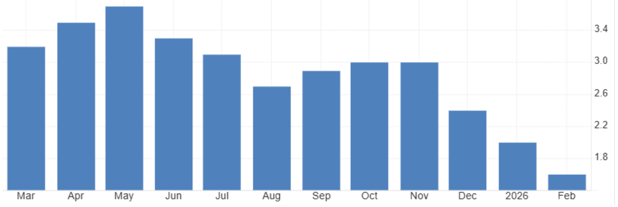
Imported inflation with delayed relief

The yen's move toward 160 is adding to imported inflation, but the real story lies in how those costs are being passed through. Energy and food remain the first channels, but second-round effects are picking up. Higher import costs are now feeding more quickly into intermediate goods and retail prices, rather than being absorbed by companies.

This points to a structural shift. The deflationary mindset that once limited pricing power is fading and firms are becoming more willing to pass on higher costs, embedding external shocks into domestic inflation. Even if commodity prices stabilise, yen weakness alone could keep core-core inflation near 2%, especially if wage growth does not accelerate enough to offset pressure on real incomes. This leaves Japan in a fragile position, with persistent inflation but limited demand support.

Recent geopolitical developments, including a temporary ceasefire, are unlikely to bring immediate relief. Shipments still need to pass through the Strait of Hormuz and energy supply takes time to normalise. More importantly, the pace of any decline in oil prices will determine how quickly the impact fades.

The most likely outcome is a one-off effect, but with delayed transmission, keeping inflation elevated into Q2 before gradually easing.



Source: Statistics Bureau of Japan

Energy shocks complicate the BOJ's path

Energy shocks are making the Bank of Japan's gradual approach harder to sustain. Japan imports around 90% of its oil from the Middle East, leaving it highly exposed to any disruption around the Strait of Hormuz.

Even with the ceasefire and the sharp pullback in Brent, any inflation relief will not be immediate. There are clear delays. Cargoes still need time to move through shipping routes, insurers and shipowners remain cautious and damaged energy infrastructure cannot recover overnight. Lower oil prices on paper do not translate straight into lower import costs for Japan.

At the same time, yen weakness is amplifying the impact. Higher fuel costs are already feeding into transport, industrial inputs and overall business sentiment. The BOJ has also warned that the Middle East conflict could weigh on regional economic conditions. Markets are still pricing in around a 70% chance of a rate hike in April, even as the BOJ debates whether this is a temporary shock or something more persistent.

Looking ahead, the bar for tightening is lower than it was a year ago. The BOJ is unlikely to react mechanically to oil prices alone, but if yen weakness continues to drive imported inflation and services prices remain firm, policy normalisation could come sooner than previously expected.

Japan's export model under pressure

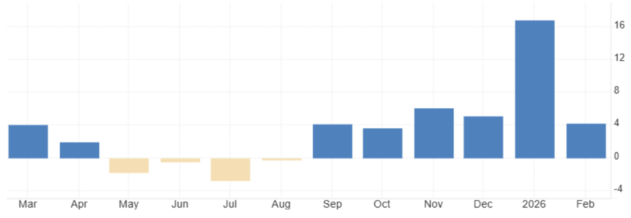
Trade tensions with China are becoming a structural challenge rather than a cyclical risk. China still accounts for around a fifth of Japan's exports, but the relationship is growing more complex as geopolitical and technological frictions intensify. Restrictions on critical minerals, semiconductors and dual-use goods are no longer marginal. They are now binding constraints on production.

Japanese firms are being pushed to diversify supply chains and production bases, often at higher cost and with lower efficiency, gradually eroding the gains of the previous globalisation model.

Recent data is already pointing to a slowdown. Exports rose 4.2% year-on-year in February 2026 to JPY 9.6 trillion, down sharply from 16.8% the month before and marking the weakest growth since October. The slowdown reflects softer demand from both China and the US, suggesting external support is fading even before any sharper deterioration.

Looking ahead, this adjustment is likely to deepen at the margin. Trade volumes may remain relatively stable, but profitability is expected to come under pressure as firms absorb higher input costs and accelerate supply chain shifts.

The external sector is unlikely to contract sharply, but its role is changing. Rather than driving growth, it is gradually becoming more of a constraintis gradually becoming more of a constraint.



Source: Ministry of Finance

Yazeed Abu Summaqa

Market Analyst

What's driving digital assets?

Digital assets are entering Q2 under pressure, shaped by global uncertainty, shifting risk appetite and tighter financial conditions. As capital moves toward safety, the crypto market is adjusting to a more selective and cautious environment.

Market cap softens as investors shift to safety

The total cryptocurrency market capitalisation remains around 45% below its October 2025 peak, as global uncertainty continues to weigh on sentiment.

A more challenging macro environment is pushing investors toward safer, more established assets. Precious metals and equities with strong balance sheets are seeing renewed demand, particularly those known for holding up better during periods of stress. At the same time, rising energy prices, driven by ongoing tensions involving the US, Israel and Iran, are adding to concerns around a potential stagflationary backdrop. Markets are now factoring in tighter monetary policy, as central banks respond to inflation pressures alongside weakening consumer confidence.

With crypto, the gap between Bitcoin and the broader altcoin market is beginning to narrow. Bitcoin's dominance currently sits at around 59% of total market value, highlighting its continued role as the anchor of the digital asset space.

Figure 1: Total crypto market cap, Bitcoin market cap and altcoins market cap (2021–2026). Source: Data from Crypto Cap; own analysis conducted via TradingView.

Implied volatility holds steady despite rising geopolitical risk

Despite ongoing uncertainty driven by the energy shock in the Middle East, implied volatility for Bitcoin and Ethereum, the market's key benchmarks, is still trading close to its two-year average.

This points to two possible interpretations. Either markets have already priced in the current wave of pessimism, suggesting a phase of stabilisation, or they are underestimating the level of risk still present in digital assets.

Recent history adds some context. Notable spikes in volatility in August 2024, February 2025 and February 2026 all aligned with sharp market pullbacks. Each of these periods was driven by a mix of macro and geopolitical pressures, including a slowdown in the US labour market, the emergence of global trade tensions and escalating conflicts.

The pattern is clear. Even when volatility appears stable on the surface, markets remain sensitive. Any further shocks could still have an outsized impact on prices..

Figure 2: Bitcoin (BVIV) & Ethereum (EVIV) Implied Volatility (2022–2026). Source: Data from Volmex Finance; Own analysis conducted via TradingView.

Bitcoin ETFs show repositioning

Since the launch of spot ETFs in early 2024, institutional capital has been a key driver of cryptocurrency valuations, helping push total market capitalisation to $4.2 trillion in October 2025. Following that, Bitcoin-linked spot ETFs have seen consistent net outflows, reinforcing the bearish momentum observed over the past two quarters.

However, data from the CBOE and Nasdaq suggests a more nuanced picture. Net balances across leading spot ETFs remain at historically elevated levels. BlackRock and Fidelity's Bitcoin ETFs continue to hold dominant positions, with consistently strong cumulative inflows over time. This suggests institutional investors are not exiting the market at scale. Instead, current flows point to strategic rebalancing within a broader risk-off environment.

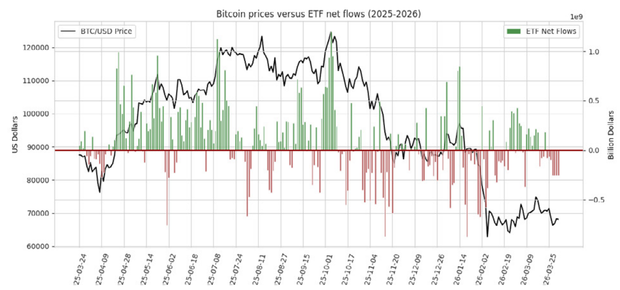


Figure 3: Bitcoin prices versus Bitcoin ETF net flows (2025–2026). Source: Own analysis using data from the CBOE, NASDAQ, and NYSE Arca Exchanges.

Daniel Mejia

Market Analyst

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