Uncertainty in the Middle East, where Are the Opportunities for Stability?

Video highlights:

- The latest macroeconomic outlook has been modestly adjusted by Amundi to account for the temporary shock from the recent conflict in the Middle East. Overall, global inflation expectations are slightly raised, while the world economy is still expected to remain resilient. However, the impact is expected to be more pronounced in energy-sensitive regions, such as Europe and some countries in Asia.

- Rising oil prices can affect more than just energy costs—they can also increase uncertainty for global central banks. If oil prices stay high, inflation pressure may build, making monetary policy more complex. In this environment, policymakers may take a more cautious, wait-and-see approach and potentially delay any early, more aggressive interest-rate cuts that markets had expected.

- For asset allocation, the equity message is to avoid over-concentration in U.S. mega-cap technology stocks. The argument is that the profitability growth of the “top tech” group has slowed compared with a couple of years ago, while other companies’ projected earnings growth is catching up. Because investors have increasingly focused on large technology firms driven by heavy artificial-intelligence-related capital spending—and high earnings expectations are often required to justify elevated valuations—risk is reduced by diversifying away from a single crowded segment. Index ETFs can make this concentration problem worse because the largest index weights are also heavily dominated by those same mega-cap names; therefore, a more actively managed approach may provide better diversification.

- In terms of sector preference, the outlook favors “value” sectors over “growth.” Compared with the last five decades, value stocks are trading at a noticeable discount relative to growth stocks on valuation measures. Sectors such as financials, healthcare, and materials are therefore viewed as potentially more attractive.

- Finally, controlling portfolio volatility is emphasized as crucial. Beyond selecting undervalued stocks, adding higher-quality bonds can help stabilize returns. For further volatility management and income enhancement, equity-linked instruments can help generate income from the dividend-like payments associated with the underlying stocks and from option premiums collected by selling call options, while still allowing some participation in potential capital gains.

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