SOUTHERN ROCK CAPITAL

What We’re Watching

March 2026

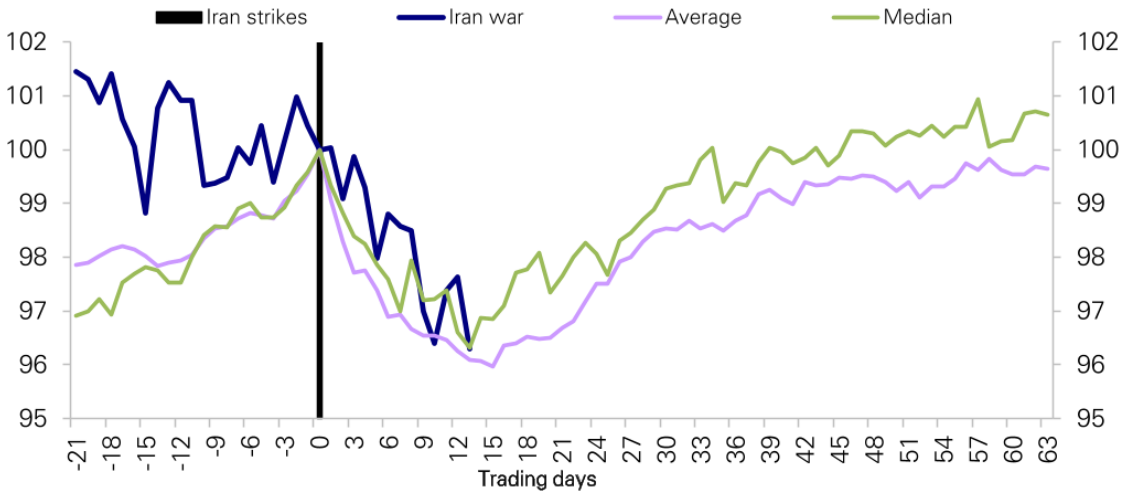
Where Macro Forces and Innovation Collide

Recent Deutsche Bank research highlights how the investment landscape is being shaped by a mix of geopolitics, shifting economic policy, and rapid technological change. Markets have been particularly sensitive to events in the Middle East and movements in energy prices, which are feeding through into inflation expectations and interest rate outlooks. At the same time, longer-term forces like increased government spending and the rise of AI are supporting growth and creating new opportunities, even as volatility remains elevated.

What is increasingly clear is that markets are transitioning away from a regime dominated by central bank liquidity toward one driven by real-world constraints - energy, security, and fiscal capacity. In this environment, capital is being reallocated toward areas tied to national priorities and physical scarcity, rather than purely digital or long-duration growth themes. This shift helps explain why traditional relationships are breaking down and why dispersion across sectors has widened meaningfully.

The takeaway is that while the environment is more complex and unpredictable than usual, opportunities remain for investors with clear strategies in place and the discipline to execute on them.

S&P 500 around over 30 major geopolitical events since 1939. As events in the Middle East get more worrying, we are approaching the usual bottom in terms of timing... will this time be different.



Median and Average calculated for events since 1939

Source: Deutsche Bank

Higher for Longer Is Back in Focus

5-year breakeven inflation has pushed back up to around 2.6% -levels last seen during the 2022 inflation shock - highlighting a renewed shift in market expectations toward persistently higher prices. This matters because breakeven inflation rate reflect what investors collectively expect inflation to average over the medium term, and when they rise like this, it signals growing concern that inflation may stay above central bank targets for longer.

Against that backdrop, it becomes increasingly difficult for the Fed to justify cutting interest rates anytime soon. Rising inflation expectations are often seen as a “red flag” for policymakers, as easing policy too early risks reigniting price pressures. It also reinforces the sense that another key backstop for the economy is fading - there is no longer such a thing as “good news” rate cuts, and the Fed is unlikely to step in quickly even if unemployment begins to climb, effectively lowering the strike price on the so-called Fed put.

In short, while markets had been pricing in rate cuts, the steady climb in inflation expectations suggests the path forward may be more constrained, reinforcing a “higher for longer” interest rate environment and a need for investors to remain selective and disciplined.

5-Year breakeven inflation rate

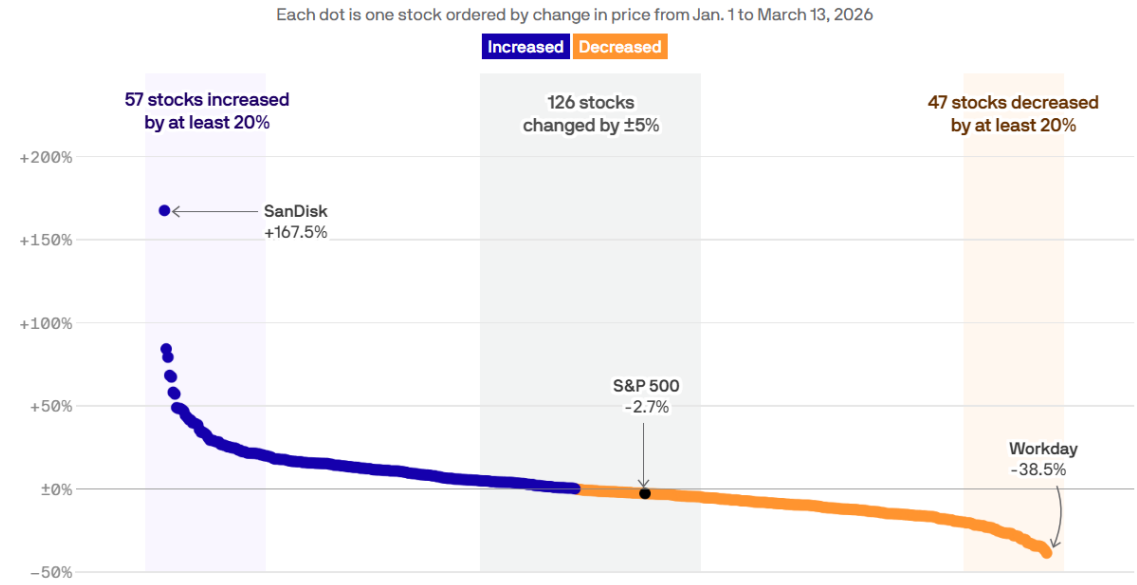
The 5-year breakeven inflation rate is the market’s estimate of average inflation over the next five years, derived from the difference between regular and inflation-linked government bond yields.

The Market Is Moving - Just Not Where You Think

Beneath the surface, markets are telling a much more interesting story than headline indices suggest. While the S&P 500 has only moved modestly, there's been a sharp rotation underway, driven by the intersection of geopolitics and technology. Energy and defence names have surged as the Iran conflict pushes oil prices higher and governments ramp up spending, while parts of the AI and software complex have come under pressure, reflecting both shifting investor appetite and the rising cost of energy needed to power that growth.

The takeaway is that this isn't a broad market move, but a reallocation of capital beneath the surface. In periods like this, markets tend to reward what is immediately scarce or strategic- energy security and defence - while longer-duration growth themes face more scrutiny. For investors, it's a reminder that even when indices look relatively stable, positioning and selectivity matter more than ever.

Year to date change in S&P 500 stock prices



Source: Bespoke, Axios

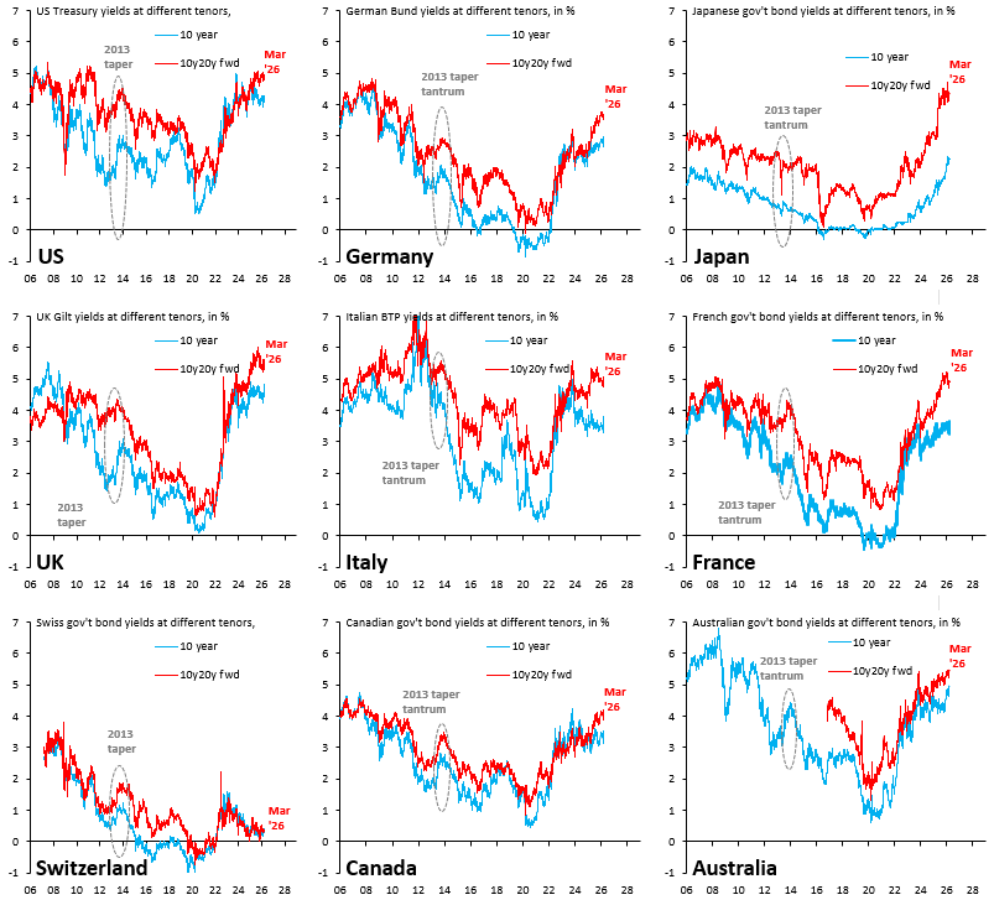
The Fiscal Cushion Is Gone

Long-term government bond yields are sending an increasingly uneasy signal. While short-term rates remain anchored by expectations of central bank policy, longer-dated yields - particularly forward measures looking 10–20 years ahead - have continued to rise, pointing to deeper concerns about fiscal sustainability rather than just cyclical dynamics.

This divergence suggests markets are becoming less convinced that inflation and borrowing costs will normalise over time. The underlying issue is broader than just inflation. The recent spike in oil prices is less a standalone shock and more a symptom of a shifting global order - where old alliances are weakening and new ones are forming. At the same time, governments are carrying historically high debt levels, limiting their ability to respond. In an environment like this, low public debt becomes a key advantage - but major economies like Japan and parts of the Eurozone lack that flexibility, leaving them increasingly exposed.

In short, markets are beginning to price a more structural risk: that the next downturn may not be met with the same policy response as in the past. With debt levels elevated and inflation pressures lingering, the ability of governments and central banks to cushion shocks is more constrained - raising the likelihood that volatility persists and reinforcing the need for investors to remain selective and disciplined.

A Synchronized Rise in Global Term Premiums



Source: Peter Brooks

Company Watch : Apollo Global Management

APOLLO

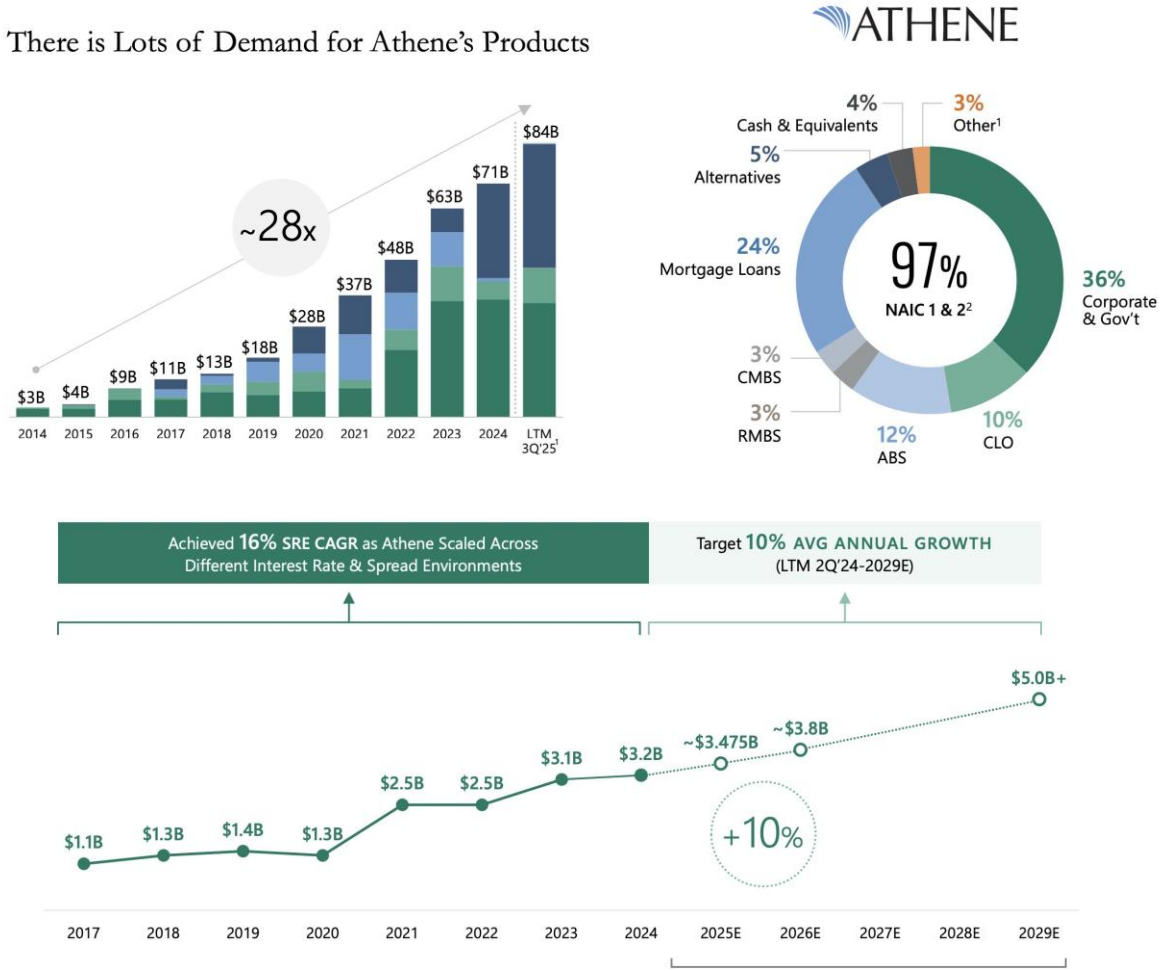
Athene is not just an important part of Apollo - it is the core of the entire business model today.

- *From an earnings perspective, Athene is the dominant driver. It has historically contributed around two-thirds of Apollo's total earnings, making it the single biggest profit engine in the firm.*
- *It fundamentally reshaped Apollo's identity. What used to be a traditional private equity firm is now described as an "insurance-fueled credit powerhouse", with Athene at the centre of that shift.*
- *Athene provides something incredibly valuable: a permanent, low-cost source of capital. Through annuities and other insurance products, it continuously brings in large amounts of money that Apollo can invest.*

This gives Apollo a structural advantage - effectively a steady funding base to originate and hold credit assets at scale, unlike peers that rely more on external fundraising.

Finally, management itself views Athene as the main growth engine going forward, calling the retirement business its "single biggest opportunity" as demand for income products continues to rise globally. Athene is what powers Apollo's model - it generates most of the earnings, supplies the capital to invest, and is the key reason Apollo can grow faster and more consistently than traditional asset managers.

A glimpse at Athene



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