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AACHEN INVESTMENT CLUB

Newsletter CW 11/12

News Recap

Iran War Uncertainty Keeps Markets on Edge as Trump Signals Mixed Strategy

Uncertainty surrounding the conflict with Iran continues to weigh on global markets, as investors struggle to interpret an inconsistent U.S. strategy. While the situation has already disrupted energy markets and trade expectations, mixed signals from President Donald Trump have added to volatility, leaving businesses and policymakers facing an increasingly unclear outlook.

At the center of concerns is the Strait of Hormuz, a key route for global oil shipments. Escalating threats between the U.S. and Iran have raised fears of supply disruptions, pushing oil prices higher and increasing market volatility. Investors remain sensitive to any signs of escalation, given the potential impact on inflation and global growth.

Compounding the situation is a lack of strategic clarity from Washington. While Trump has taken a more aggressive stance in rhetoric and military positioning, he has also indicated that the conflict could remain contained. This mixed messaging has made it difficult for markets to price in risk, contributing to uneven reactions across asset classes.

The economic implications are already emerging. Rising energy costs are adding inflationary pressure, particularly in energy-dependent regions such as Europe, while central banks face growing uncertainty over their policy paths. At the same time, markets have not fully priced in a worst-case scenario, reflecting cautious optimism that escalation may still be avoided.

Whether stability returns will depend on clearer policy direction and the trajectory of the conflict. For now, geopolitical tensions and strategic ambiguity are likely to keep markets on edge.

(Sources: Bloomberg, Financial Times, Reuters, The Wall Street Journal)

DAX Surges on Rate Cut Hopes and Geopolitical Developments

Germany's DAX recorded a remarkable rally, driven by a combination of shifting monetary policy expectations and geopolitical developments that significantly boosted investor sentiment. The index surged sharply, at one point gaining around 1,300 points, reflecting a strong return of risk appetite in European equity markets.

A central factor behind the upward movement is the growing expectation that major central banks, particularly the Federal Reserve and the European Central Bank, may soon pivot toward interest rate cuts. As inflationary pressures show signs of easing, markets anticipate a less restrictive monetary environment, which supports equity valuations and improves financing conditions for companies. This outlook has provided a broad-based tailwind for the DAX, with cyclical and interest-sensitive sectors leading the gains.

In parallel, developments in global energy markets continue to influence market dynamics. Oil prices remain volatile, reflecting uncertainty around supply conditions and geopolitical tensions. These fluctuations play a critical role in shaping inflation expectations and corporate cost structures, making them highly relevant for equity investors.

A major trigger for the DAX rally was a geopolitical announcement related to U.S. policy toward Iran. Statements by U.S. President Donald Trump were interpreted by markets as a potential reduction in geopolitical risk, prompting a rapid shift toward equities. The strong reaction highlights how sensitive markets remain to political signals, especially in an environment already shaped by macroeconomic uncertainty.

Despite the strong performance, risks remain. The sustainability of the rally will depend on the actual timing and scale of monetary easing, as well as continued stability in geopolitical conditions and energy markets. For now, however, the DAX reflects renewed optimism, supported by improving macro expectations and a more constructive global risk environment.

(Sources: Handelsblatt, Tagesschau)

New fuel price relief package aims to ease pressure on consumers

Fuel prices rose sharply in early 2026 as global oil markets reacted to geopolitical tensions, particularly the escalation of the Middle East conflict. Brent crude prices increased to over \$90 per barrel, compared to around \$75 in late 2025, while petrol and diesel prices across Europe climbed accordingly. This development has led to higher transport and living costs, putting additional financial pressure on households and businesses.

The increase is mainly linked to concerns over supply disruptions in key shipping routes and overall market uncertainty. Reduced supply expectations and higher demand contributed to price volatility. In response, several European governments introduced targeted relief measures. These include temporary reductions in fuel taxes, financial support for low- and middle-income households, and discussions about limiting excessive

price increases. At the EU level, policymakers are also considering adjustments to energy taxation and more flexible state aid rules. At the same time, some countries are promoting energy-saving measures to reduce demand and stabilise the market. These developments underline the economic importance of fuel prices for both consumers and industry. Higher energy costs influence transport, production, and overall inflation, making fuel prices a key factor in economic stability and a central focus of government policy.

(Sources: Bundesregierung, Business Insider, Reuters)

EU-China Auto Trade Flips Negative as Exports Collapse 34%

For the first time on record, the European Union is importing more cars and automotive components from China than it exports, a historic reversal in one of the world's most important bilateral trade relationships.

EU exports of automobiles and components to China fell 34% in 2025 to €16 billion, which is more than half the level recorded in 2022. At the same time, EU imports from China increased 8% to €22 billion, flipping a long-standing surplus into a deficit.

Germany sits at the centre of the decline. China ranked only as the sixth-largest export market for German automakers in 2025. Exports dropped from around €30 billion in 2022 to €13.6 billion last year, while vehicle imports from China surged two-thirds to €7.4 billion. If current trends continue, import and export values between China and Germany could reach parity in 2026.

Germany's overall trade deficit with China shot up 142.8% to US\$17.4 billion in the first eight months of 2025, compared to US\$7.2 billion a year earlier. The product mix tells its own story: Chinese shipments of plug-in hybrid electric vehicles to the EU soared 439% in value terms over the first nine months of 2025, as exporters moved to sidestep anti-subsidy duties that apply only to pure electric models. Over the same period, Chinese lithium-ion battery exports to the EU rose 36.6%.

At the components level, the picture is equally stark. EU exports of automotive components to China reached only €7.5 billion in 2025, while imports exceeded €8 billion, turning what had previously been a strong surplus into a deficit of around €650 million. The structural shift reflects a broader competitive realignment. In 2022, Europe recorded a surplus of €15 billion in car exports to China. In just three years, the situation has undergone a fundamental reversal. European manufacturers have struggled to keep pace with Chinese producers who have scaled rapidly in electric and hybrid vehicles, aided by the depreciation of the renminbi by more than 8% against the euro over

the past year and the diversion of previously US-bound Chinese exports toward Europe.

(Sources: Ernst & Young, *heise medien*, The South China Morning Post, Rhodium Group)

ECB Holds Rates Steady as Markets Weigh Next Policy Move

The European Central Bank (ECB) has decided to leave its key interest rates unchanged in March, reinforcing a cautious “wait-and-see” stance as inflation continues to ease but underlying uncertainties persist. After an aggressive tightening cycle over the past two years, policymakers are now signaling a shift from active rate hikes toward a more data-dependent approach, closely monitoring economic developments across the eurozone.

The deposit rate remains at 4.0%, a level that continues to exert restrictive pressure on economic activity. While headline inflation has declined significantly from its peak, the ECB remains concerned about core inflation and wage dynamics, which are proving more persistent. In particular, rising wages across several member states are seen as a potential risk to achieving the central bank’s medium-term inflation target of 2%. ECB President Christine Lagarde emphasized that it is still too early to discuss imminent rate cuts, despite growing market expectations for monetary easing later this year. The Governing Council made clear that future decisions will depend on incoming data, especially regarding inflation trends, wage growth, and overall economic resilience. This reinforces the ECB’s commitment to maintaining credibility after a prolonged period of above-target inflation.

Financial markets initially reacted with restraint, as the decision had largely been anticipated. However, attention quickly shifted to forward guidance, with investors parsing every nuance for signals on the timing of potential rate cuts. Current market pricing suggests that the first reductions could occur in mid-2026, though this outlook remains highly sensitive to macroeconomic data.

At the same time, the eurozone economy continues to show signs of weakness. Growth remains subdued, with Germany in particular struggling amid industrial slowdown and weak external demand. The ECB therefore faces a delicate balancing act: easing policy too early could risk reigniting inflation, while maintaining high rates for too long may further dampen economic recovery.

Overall, the ECB’s latest decision underscores a transitional phase in monetary policy. The era of rapid tightening appears to be over, but a clear pivot toward easing has not yet begun. For investors and businesses alike, the coming months will be critical, as



each new data point could shift expectations and redefine the trajectory of European monetary policy.

(Sources: Frankfurter Allgemeine Zeitung, Tagesschau)

M&A/VC News

ADNOC and OMV to combine chemicals businesses in global platform deal

Abu Dhabi National Oil Company and OMV are set to combine their chemicals operations, including Borouge, Borealis and Nova Chemicals, into a new entity called Borouge Group International. The transaction represents a major consolidation in the global petrochemicals sector and is aimed at strengthening scale, vertical integration and geographic diversification, particularly through added exposure to North America. The structure reflects a phased capital approach, with certain assets such as Borouge 4 initially retained outside the platform while still contributing to expected profit growth of around \$400 million over three years. The deal highlights increasing pressure for consolidation in capital intensive industries where scale and feedstock integration drive competitiveness.

(Source: Reuters)

Prestige Consumer Healthcare to acquire Breathe Right brand for \$1.05 billion

Prestige Consumer Healthcare has agreed to acquire the Breathe Right nasal strip brand for approximately \$1.05 billion, expanding its portfolio of over the counter consumer health products. The brand generates roughly \$200 million in revenue and about \$95 million in core profit, offering immediate earnings contribution and strong cash flow visibility. The acquisition follows a classic consumer healthcare strategy of acquiring established, high margin brands and leveraging existing distribution and marketing infrastructure to drive incremental growth. The transaction further strengthens Prestige's positioning in branded consumer wellness products with predictable demand characteristics.

(Source: Reuters)

Zurich Insurance to acquire Beazley in £8.1 billion specialty insurance expansion

Zurich Insurance is acquiring specialty insurer Beazley for approximately £8.1 billion as part of a strategic push into higher margin insurance segments. The transaction enhances Zurich's exposure to specialty underwriting lines, which offer stronger profitability and differentiation compared to more commoditized insurance products. To finance the deal, Zurich raised around \$5 billion in equity, complemented by cash and debt, balancing capital structure considerations with growth ambitions. While the market reaction reflects short term dilution concerns, the acquisition is expected to strengthen long term underwriting performance and diversification.

(Source: Reuters)

Zurich raises \$5 billion to support strategic expansion and acquisition financing

Zurich Insurance has raised approximately \$5 billion in equity to partially finance its acquisition of Beazley and support broader strategic expansion. The capital raise functions similarly to late stage growth funding, enabling the company to scale its presence in higher growth and higher margin insurance segments. The transaction underscores how public market financing can play a comparable role to private capital in funding platform expansion and repositioning in mature industries.

(Source: Reuters)

Borouge Group International formation reflects large scale platform investment strategy

The creation of Borouge Group International through the combination of ADNOC and OMV chemical assets represents a large scale platform build with characteristics similar to infrastructure and sovereign backed growth investing. Rather than a traditional venture round, capital is deployed through asset consolidation and operational integration to create a globally competitive chemicals player. The strategy focuses on long term cash flow generation, scale efficiencies and geographic diversification, reflecting a broader shift toward strategic capital deployment in industrial sectors.

(Source: Reuters)



Prestige acquisition of Breathe Right highlights brand scaling investment approach

Prestige Consumer Healthcare's acquisition of Breathe Right can also be viewed through a growth investment lens, where capital is deployed to scale an established consumer brand within a larger platform. The transaction emphasizes predictable demand, strong margins and the ability to leverage existing infrastructure for growth, aligning with private equity and late stage venture strategies that prioritize scalable, cash generative assets over early stage innovation.

(Source: Reuters)

Outlook

Earnings and key events

- 27.03.: US PCE
- 31.03.: China Annual Results Deadline, Nike
- 01.03.: Euro Area HICP Flash
- 03.03.: US NFP

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Editorial Team:

Eric Bergmann, Leon Eckmann, Hannes Klettke, Jia-Syuan Li, Ninh Nguyen, Mateo Prinz, Joschka Sanders, Nick Stumpp