

Q1 2026 Market Update

Welcome to your Q1 2026 market update, giving you a comprehensive look at geopolitical developments, between January and March and how they affect your investments.

Asset Class Returns Q1 2026

Equities	Performance in Q1 2026
MSCI World (ACWI)	-1.17%
FTSE 100	3.42%
S&P 500	-2.42%
Eurostoxx 50	-3.43%
Nikkei 225	2.69%
MSCI Emerging Markets	1.89%

Bonds	Performance in Q1 2026
UK Gilts	-2.8%
UK Index-Linked Gilts	1.22%
UK Corporate Bonds	0.2%
Emerging Markets Debt	2.07%

Property/commodities	Performance in Q1 2026
Global property	3.19%
Gold (\$)	6.9%
Oil (\$)	94.49%

After a buoyant start to 2026, the first quarter was shaped by a sudden and significant shift in the global macroeconomic landscape, driven primarily by the outbreak of conflict in the Middle East. This geopolitical shock has had far-reaching consequences, most notably through its impact on energy markets, inflation expectations, and investor sentiment across asset classes.

At the centre of market movements has been the sharp increase in oil prices, with crude prices rising dramatically as concerns over supply disruption intensified. The strategic importance of the Strait of Hormuz has come into focus, with markets pricing in the risk of constrained energy flows. This has translated directly into higher inflation expectations, placing pressure on both consumers and policymakers, while simultaneously weakening the outlook for global growth.

Against this backdrop, financial markets have exhibited divergent performance. Global equities declined modestly over the quarter, with the US and European markets underperforming due to their sensitivity to interest rates and inflation expectations. In contrast, the UK equity market delivered positive returns, supported by its relatively high exposure to energy and commodity-linked sectors. Similarly, Japan and emerging markets showed resilience, reflecting a combination of sector composition and regional dynamics.

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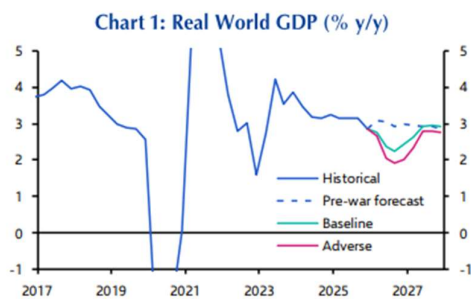
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Taken together, these developments mark a transition in market conditions—from a relatively benign disinflationary environment to one increasingly characterised by stagflationary risk. Investors are now navigating a more complex landscape in which both inflation and growth concerns must be balanced.

Economic Outlook

Looking ahead, the economic outlook is best understood through two distinct but plausible scenarios, each defined by the trajectory of the geopolitical situation and its impact on energy markets.

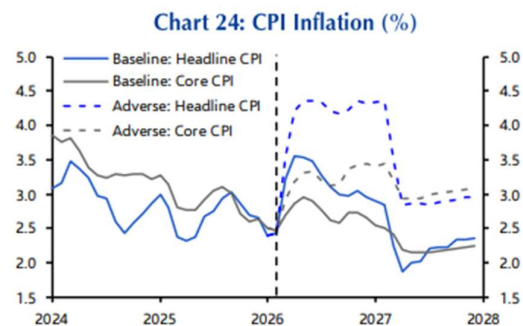


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The **adverse scenario** presents a more challenging outlook. Should the conflict persist for several months and result in sustained

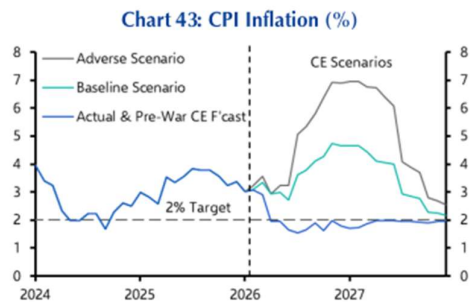
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At a regional level, **the United States** continues to demonstrate relative strength. Its lower dependence on imported energy and the ongoing momentum of the artificial intelligence-driven investment cycle provide important support to growth. While monetary policy is likely to remain restrictive in the near term, the Federal Reserve is expected to shift towards easing once inflation pressures subside.

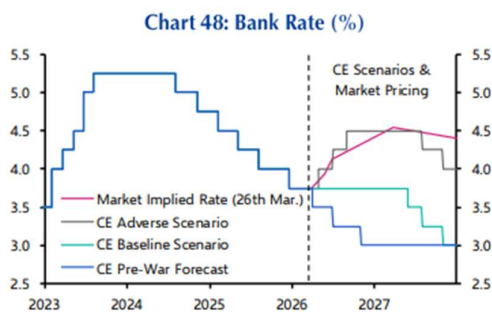


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A balanced approach - combining exposure to high-quality fixed income, structurally supported equities, and selective alternatives - offers the best pathway to navigate the current landscape while positioning for recovery.

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Managing Director

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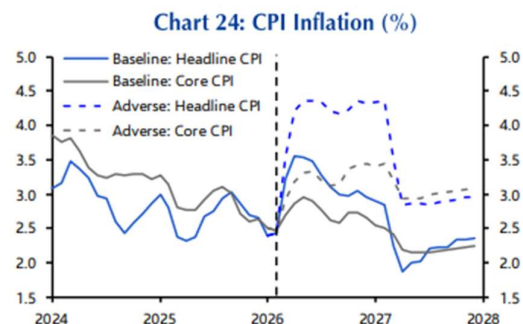


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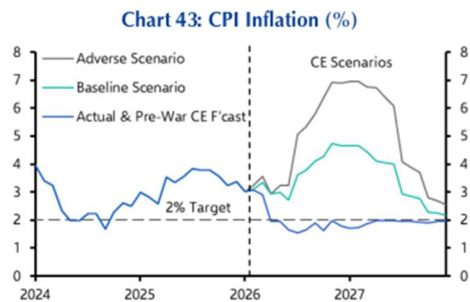
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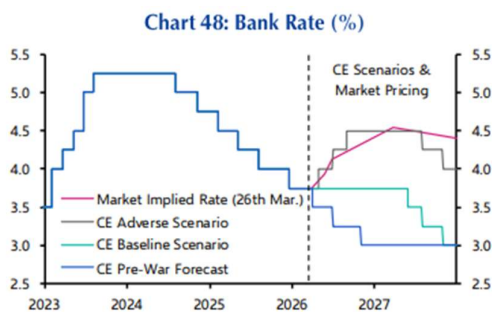


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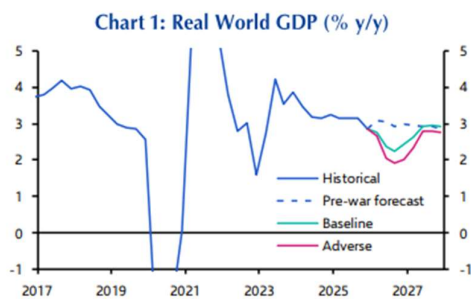
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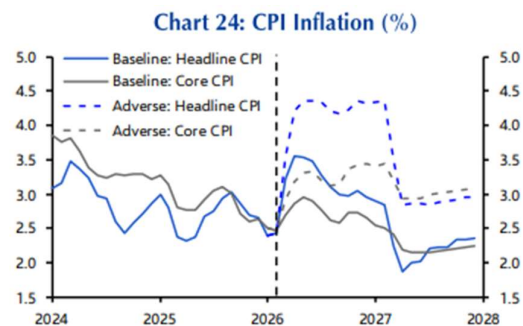


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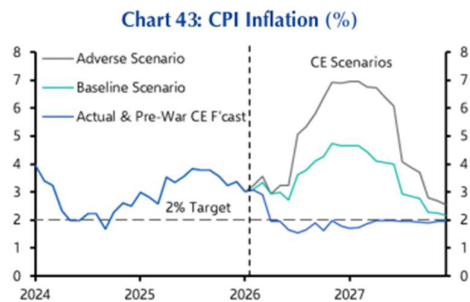
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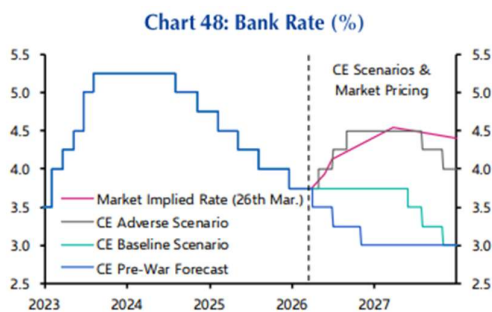


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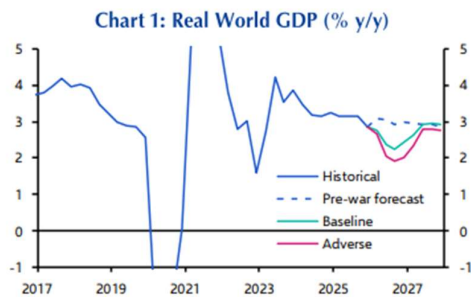
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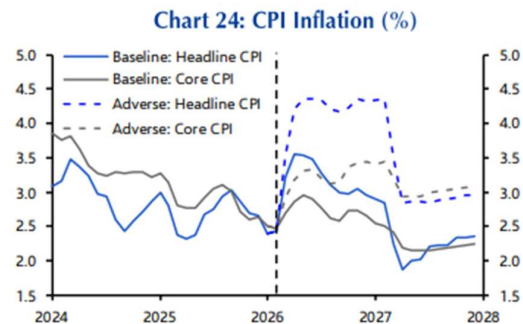


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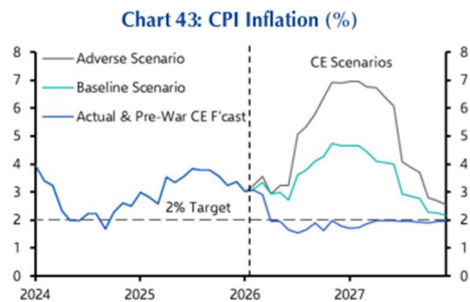
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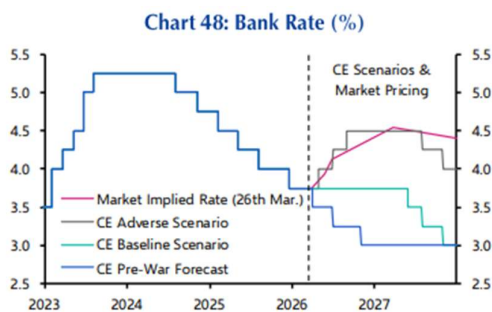


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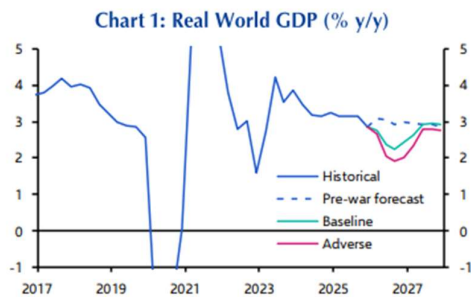
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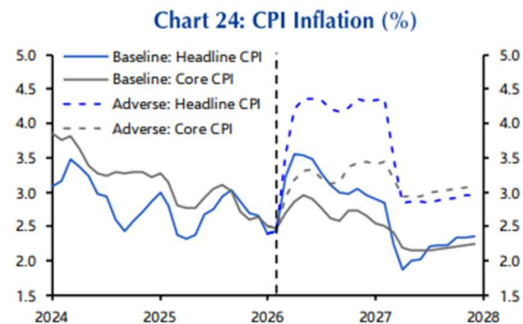


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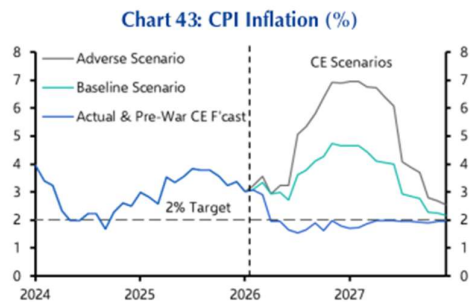
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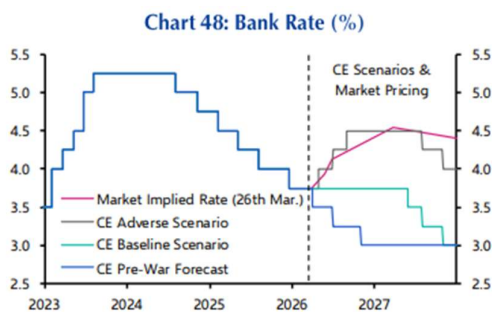


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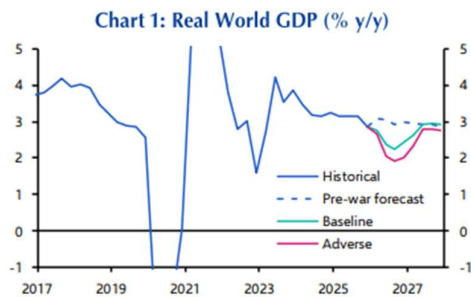
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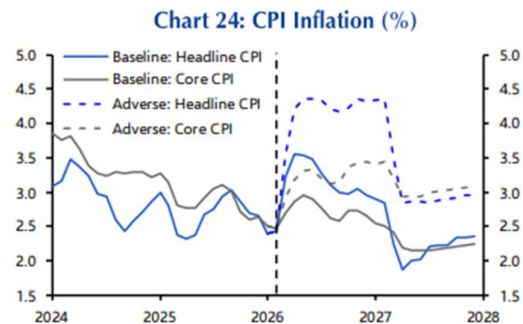


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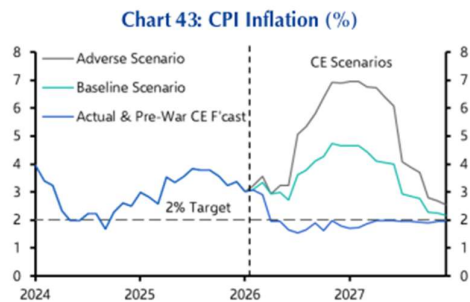
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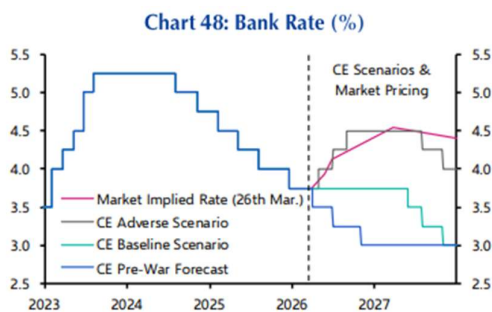


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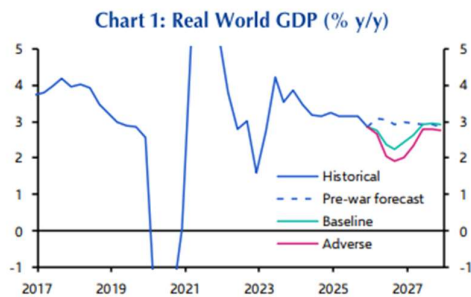
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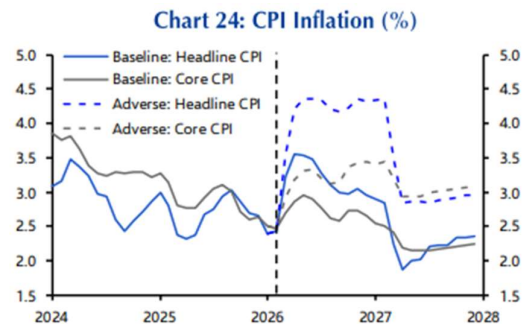


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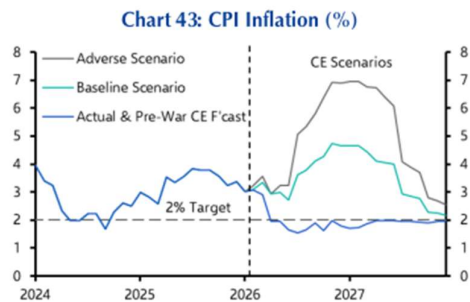
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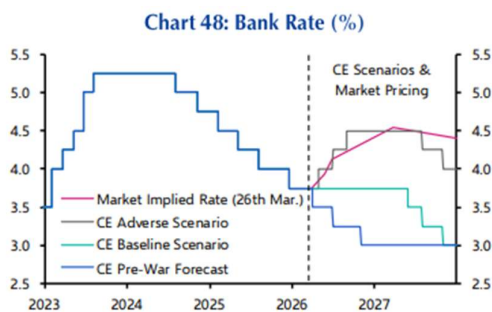


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FTSE 100	3.42%
S&P 500	-2.42%
Eurostoxx 50	-3.43%
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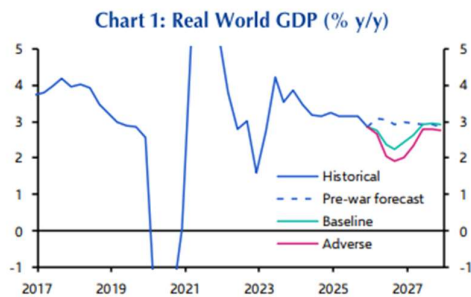
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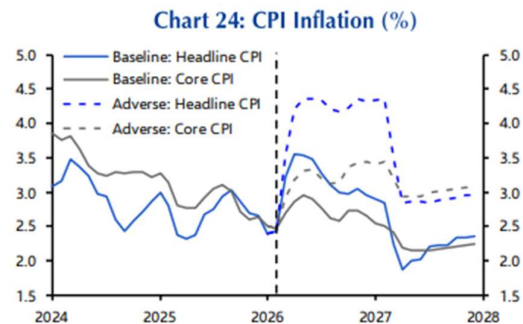


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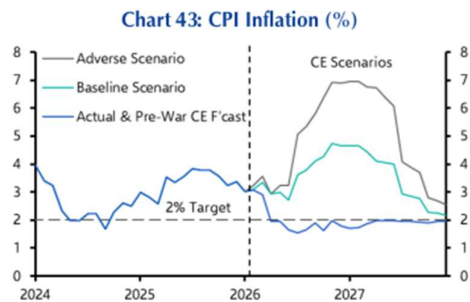
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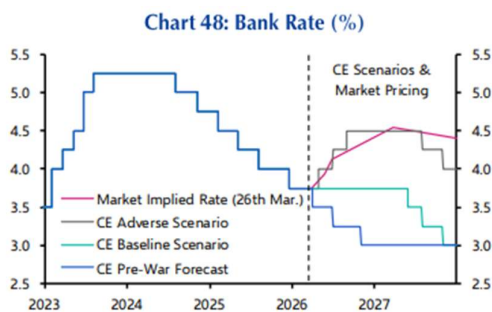


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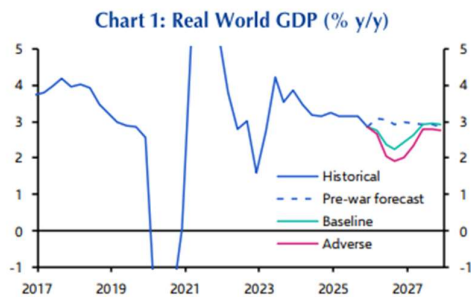
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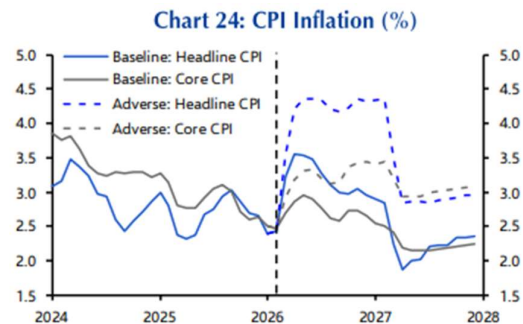


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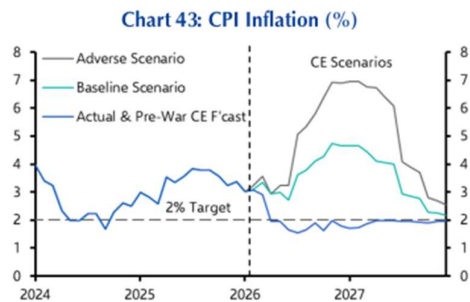
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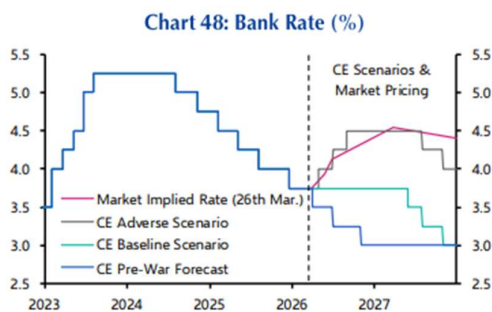


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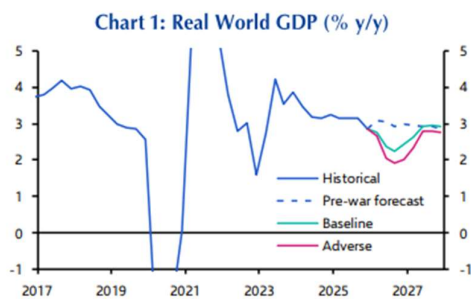
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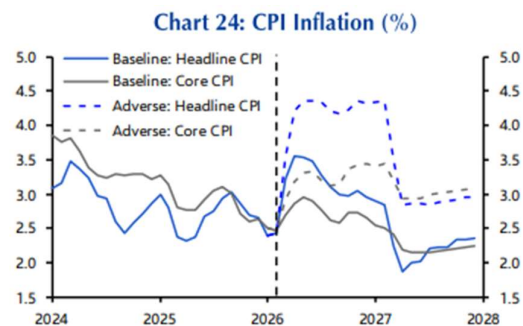


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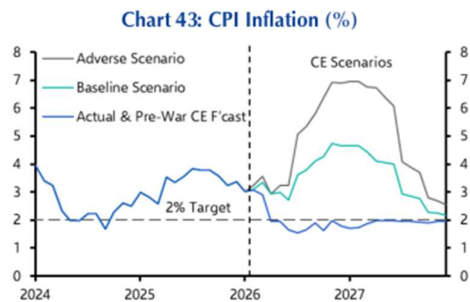
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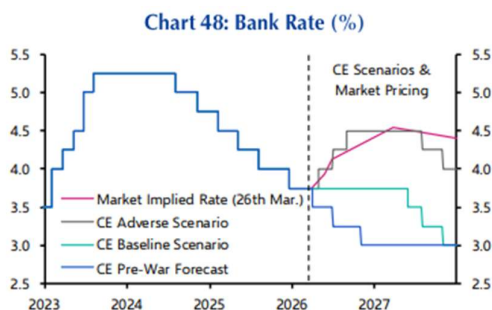


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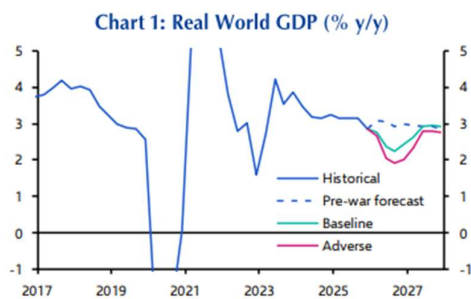
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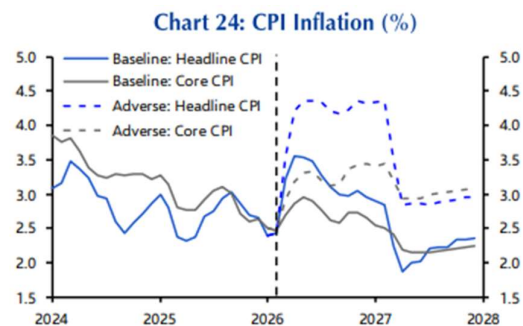


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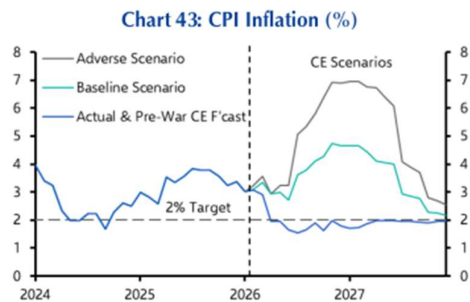
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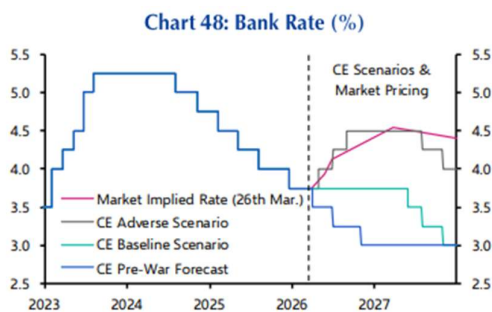


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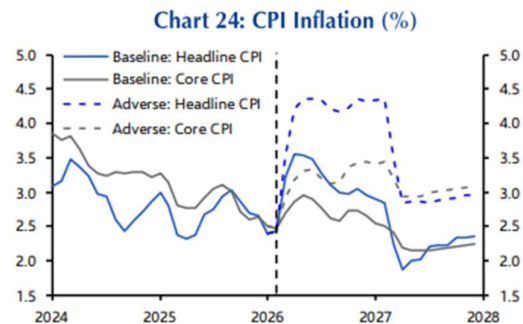


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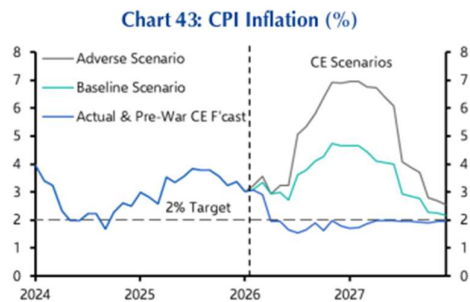
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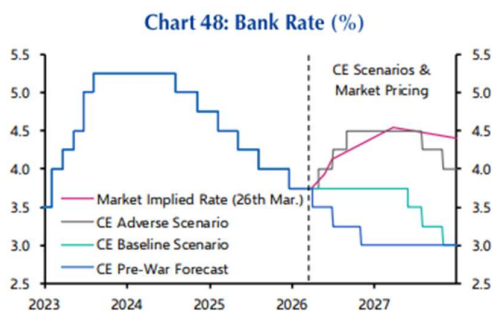


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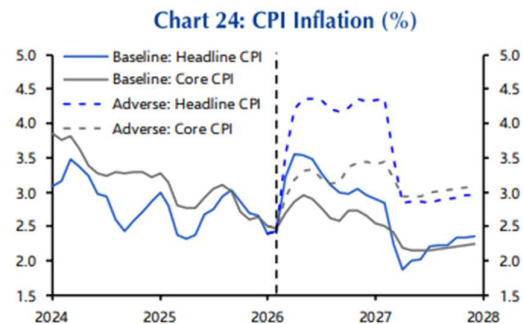


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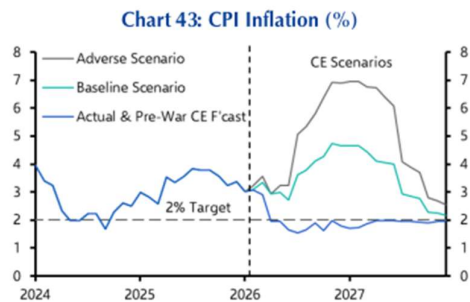
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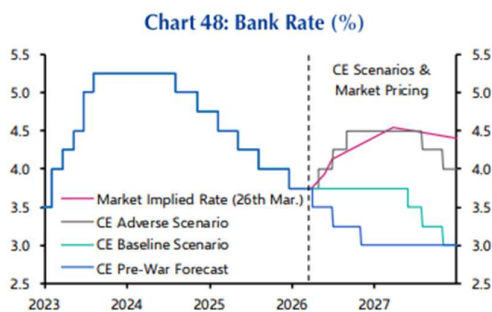


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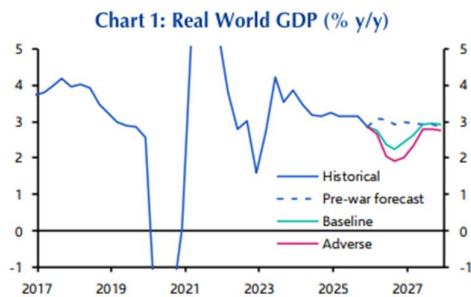
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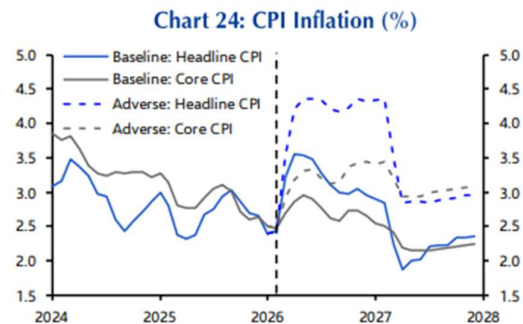


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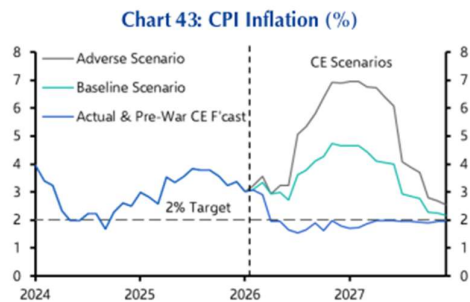
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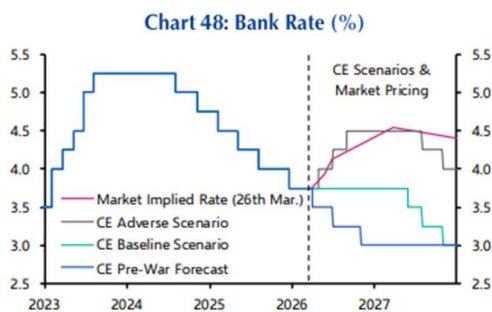


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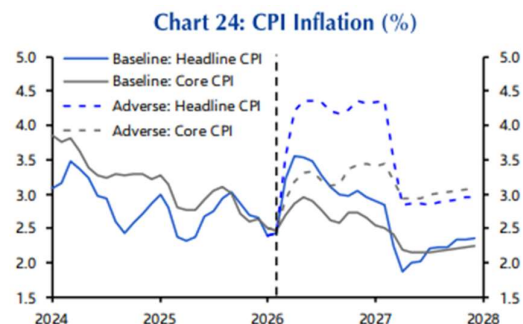


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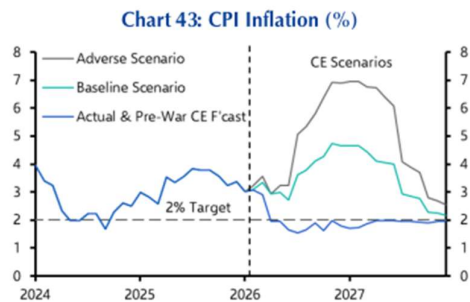
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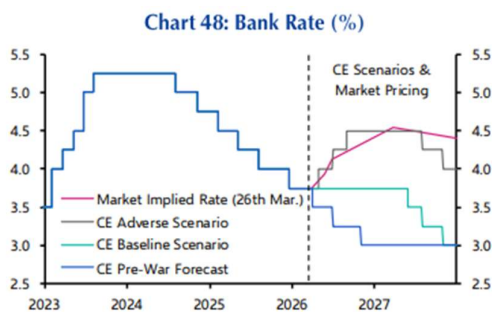


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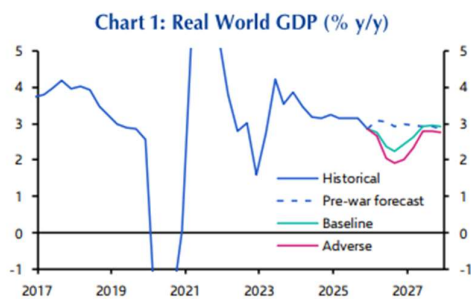
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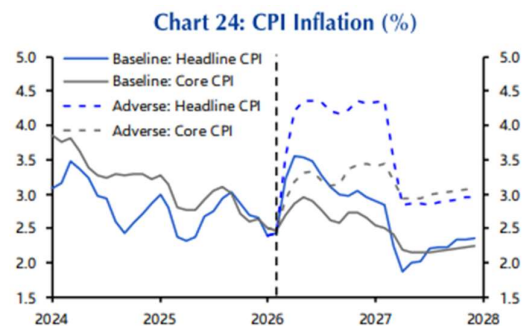


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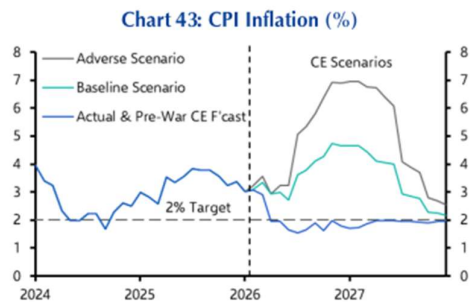
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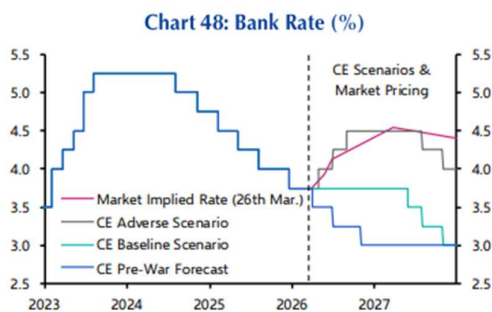


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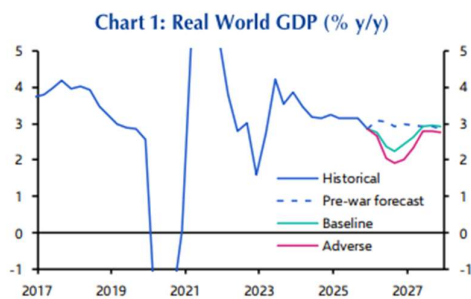
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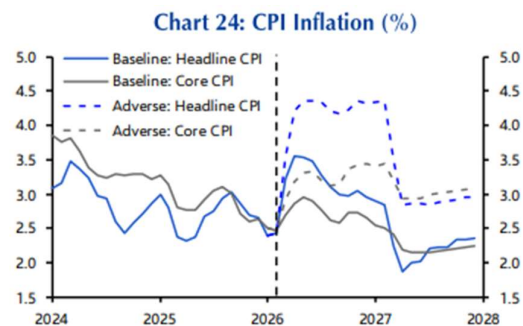


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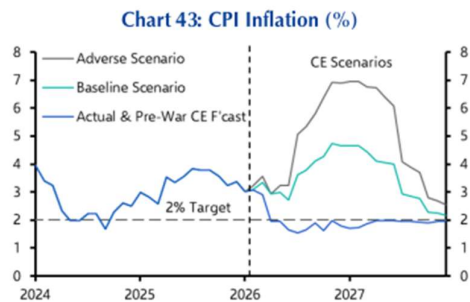
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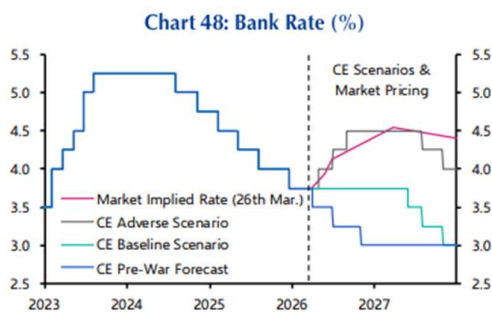


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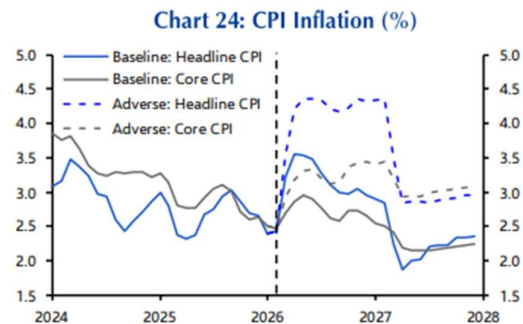


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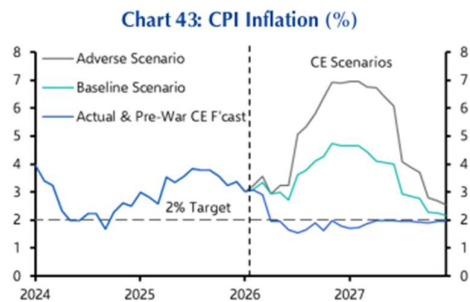
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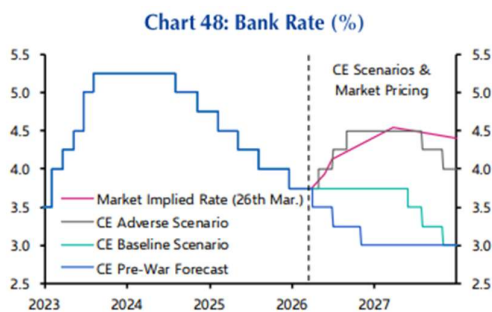


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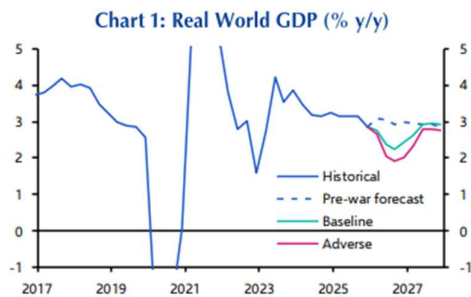
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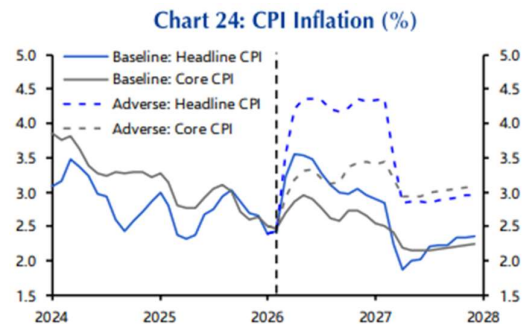


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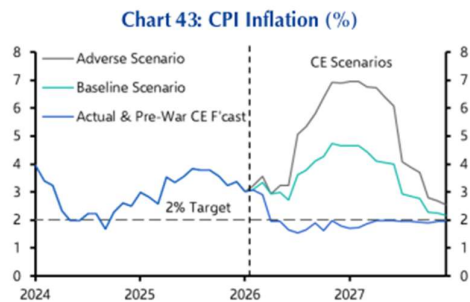
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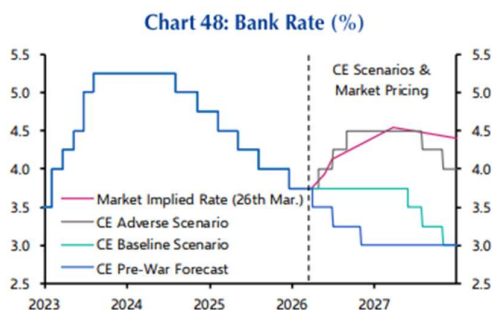


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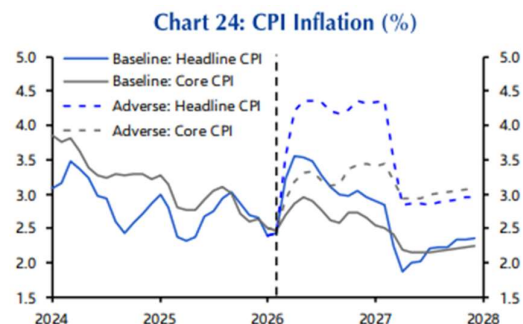


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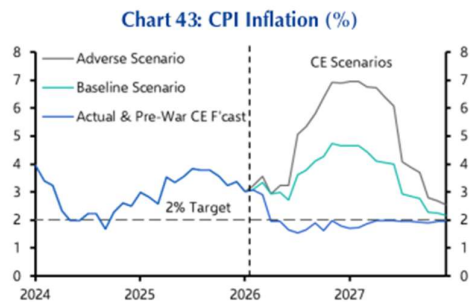
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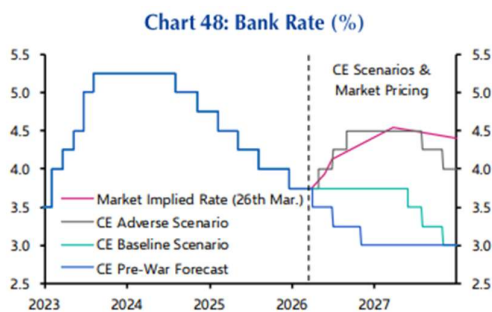


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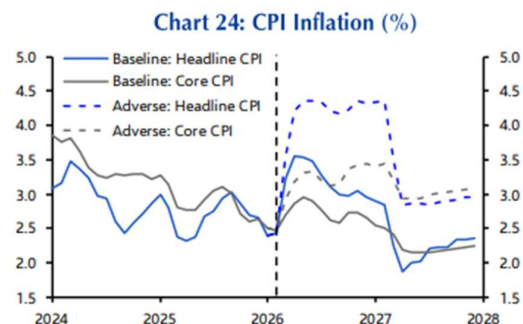


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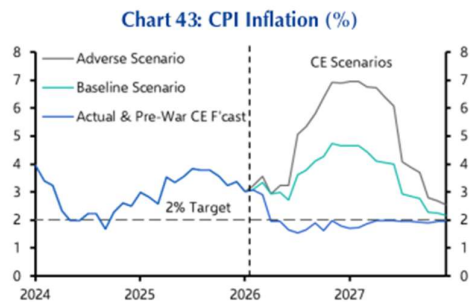
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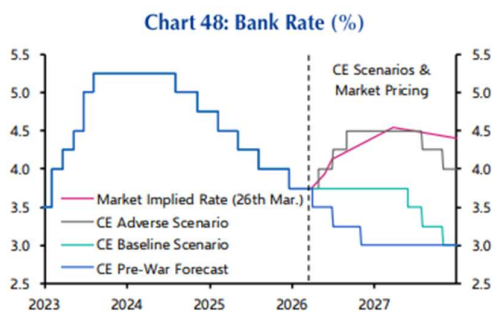


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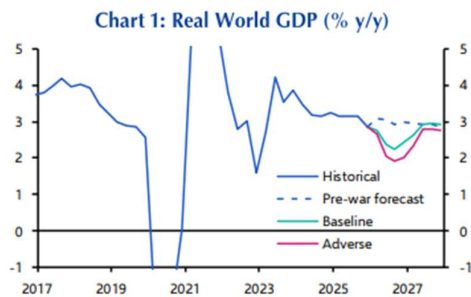
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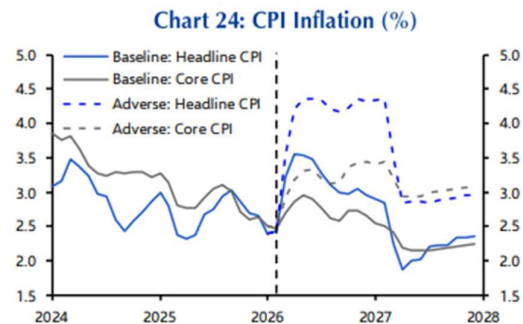


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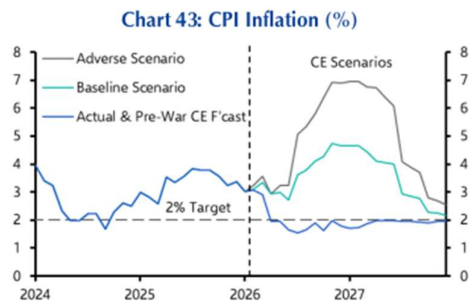
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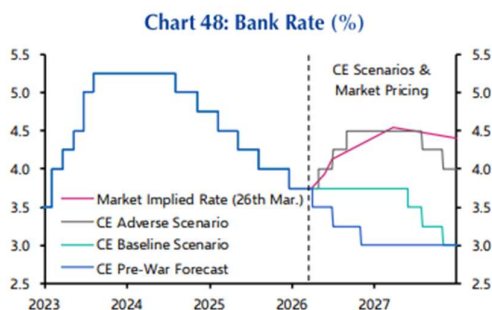


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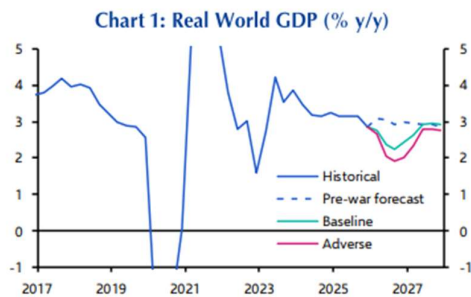
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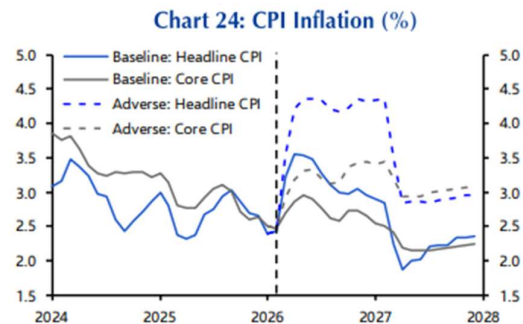


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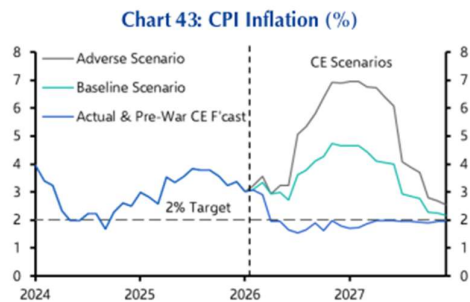
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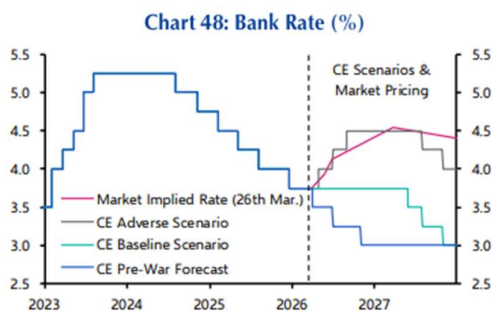


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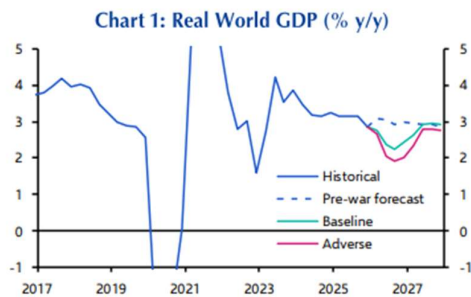
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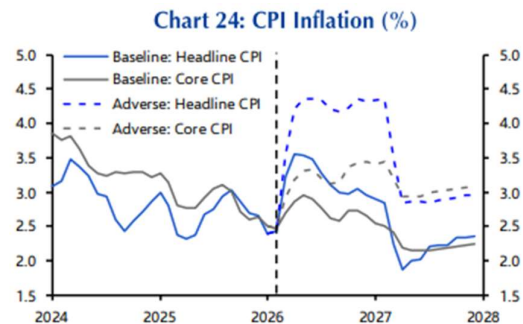


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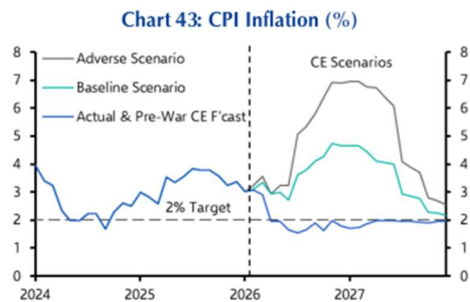
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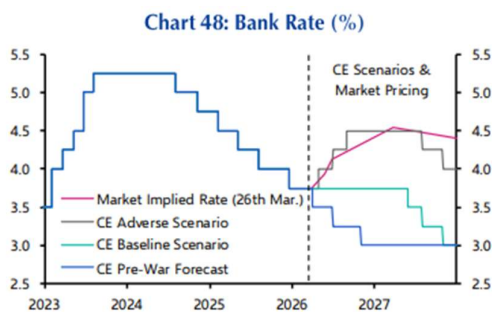


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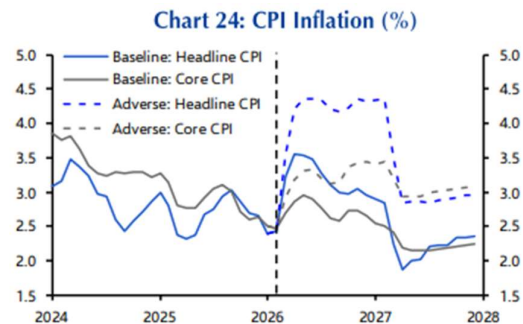


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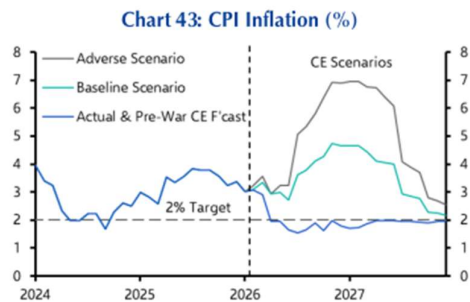
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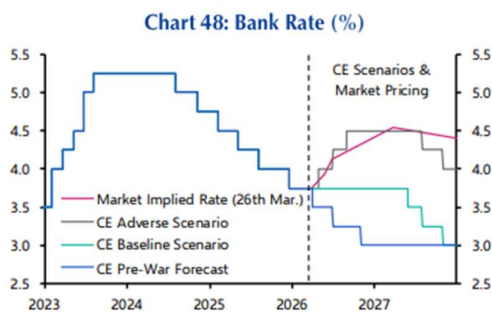


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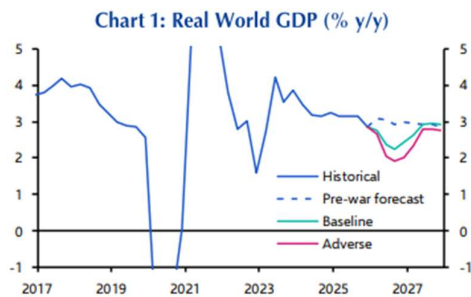
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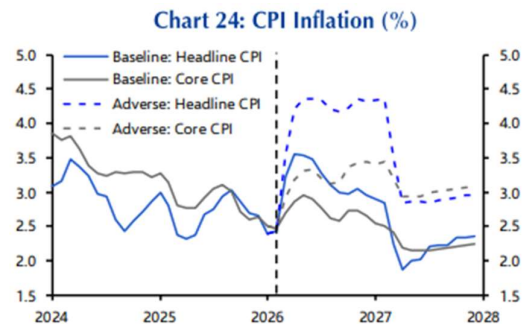


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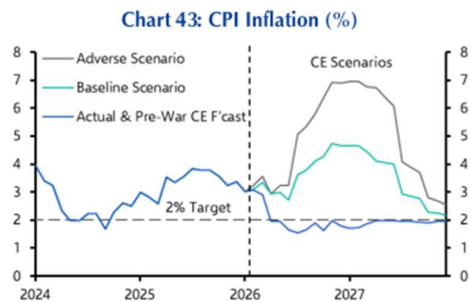
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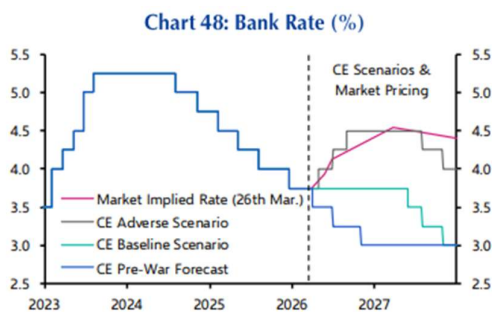


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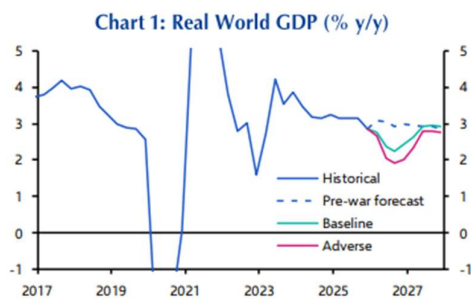
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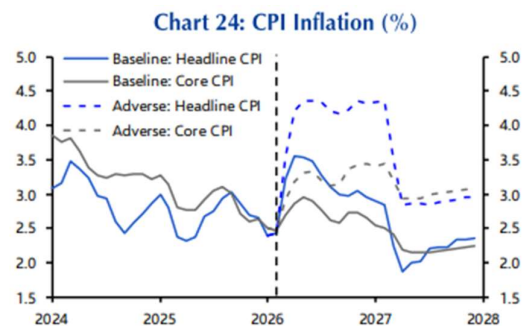


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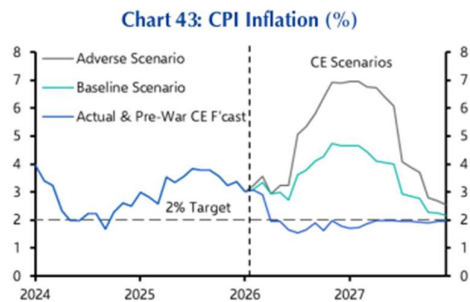
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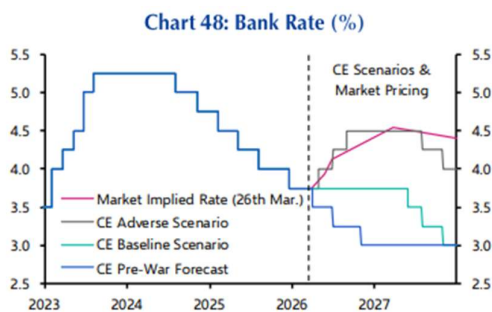


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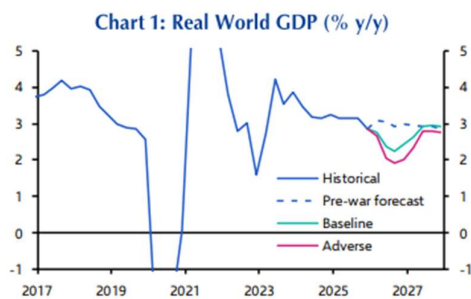
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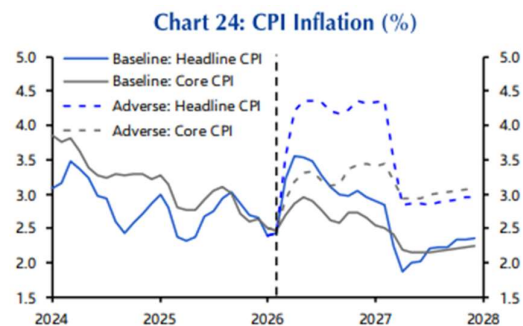


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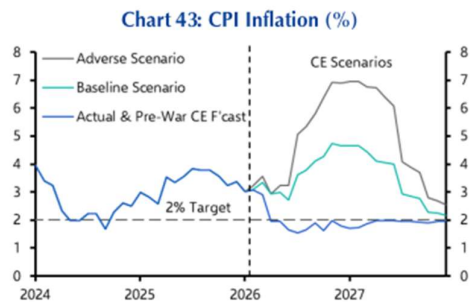
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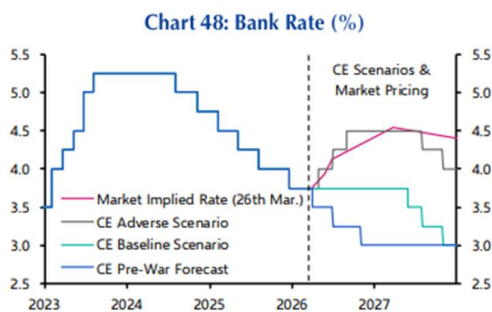


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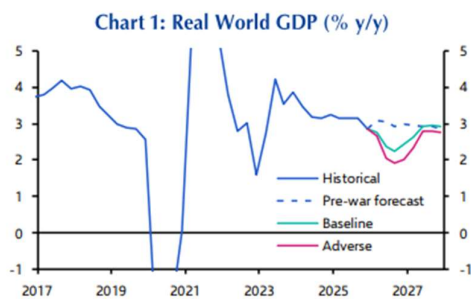
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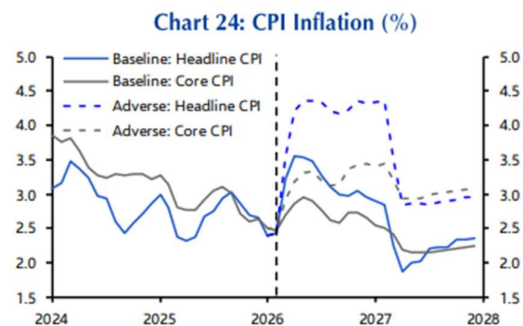


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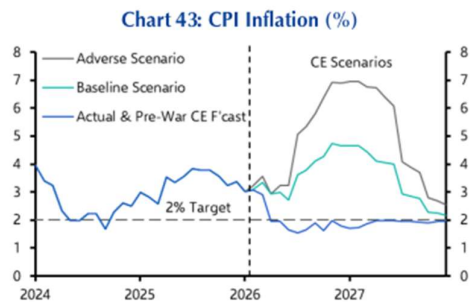
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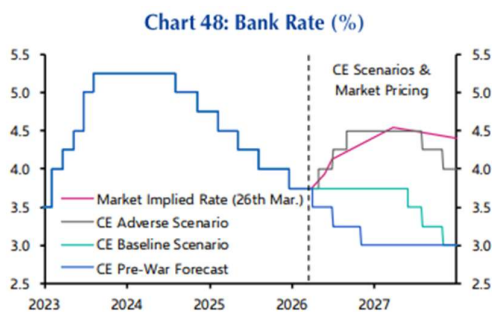


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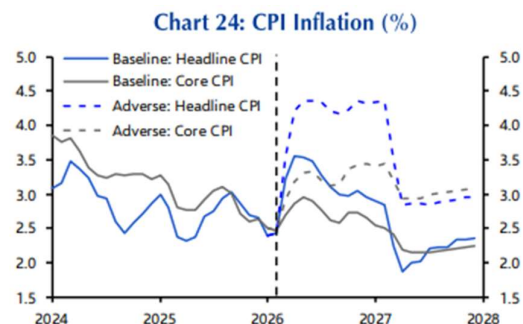


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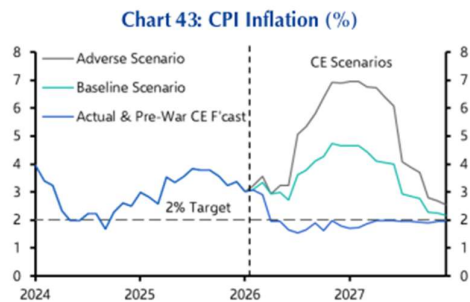
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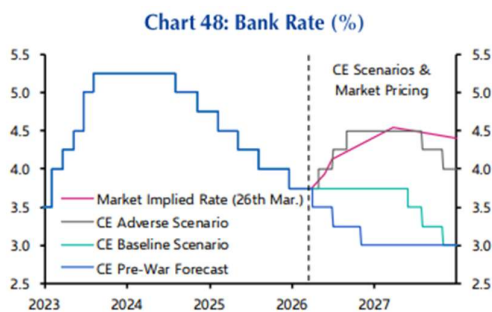


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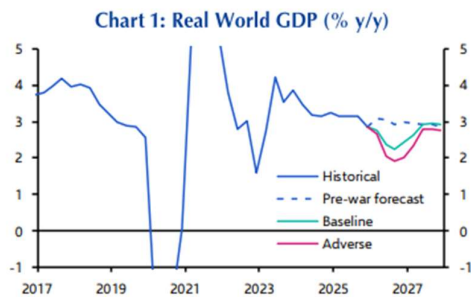
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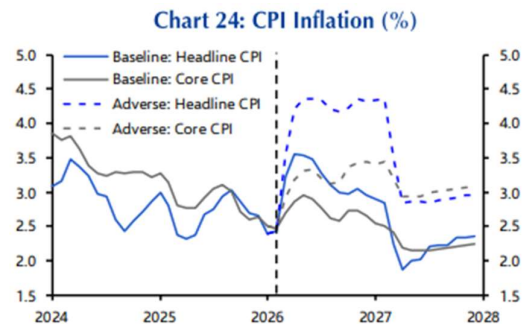


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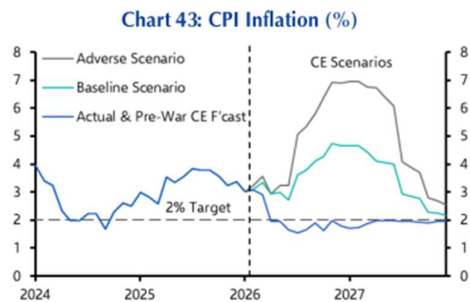
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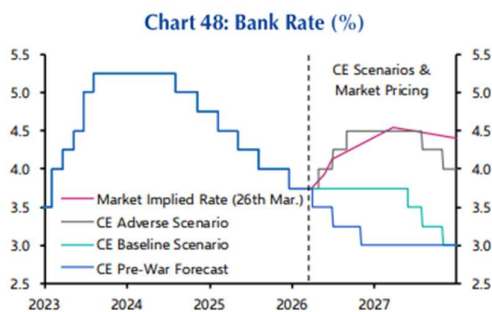


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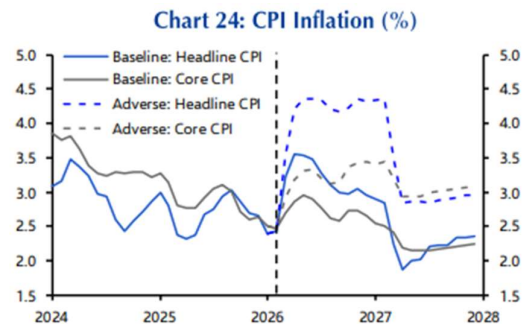


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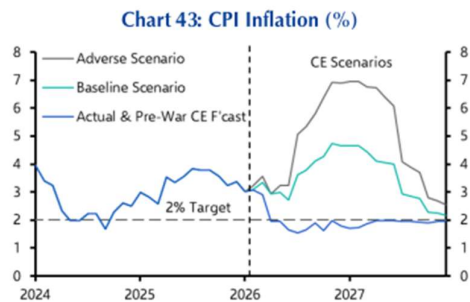
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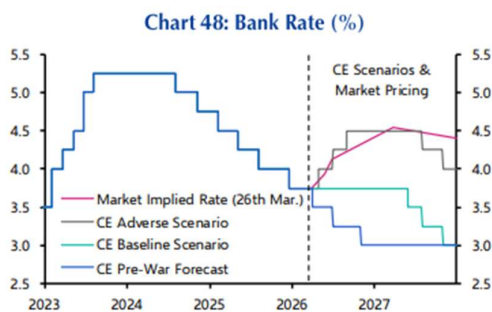


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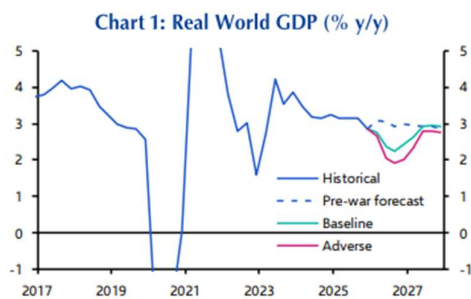
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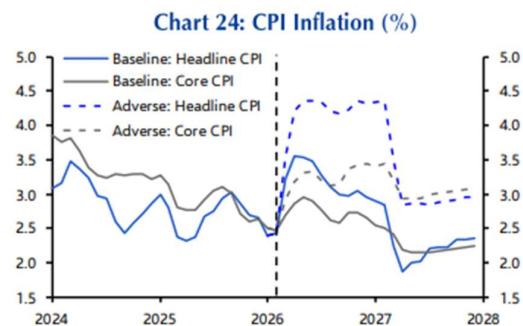


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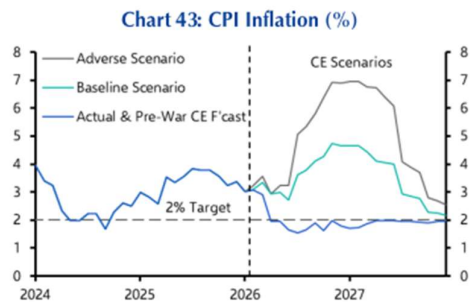
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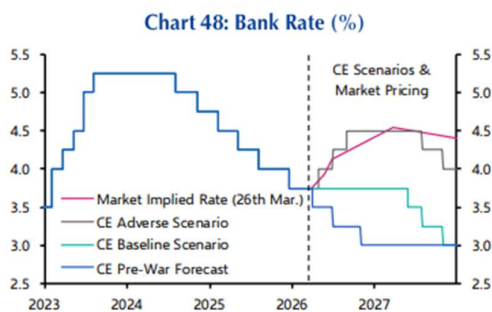


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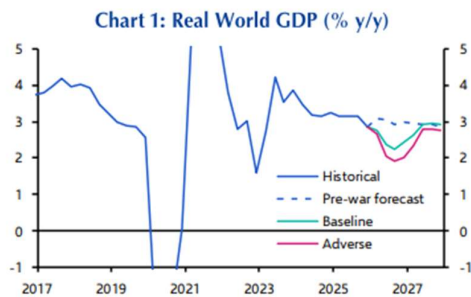
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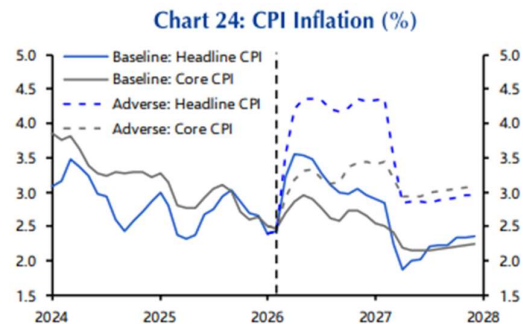


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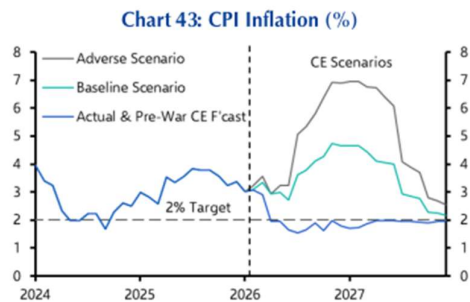
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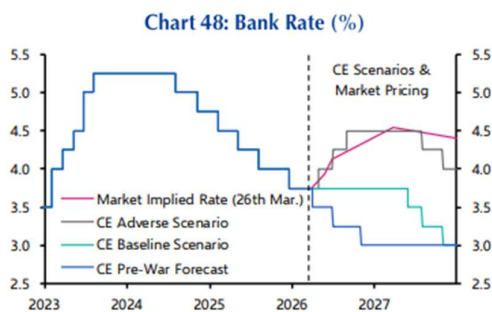


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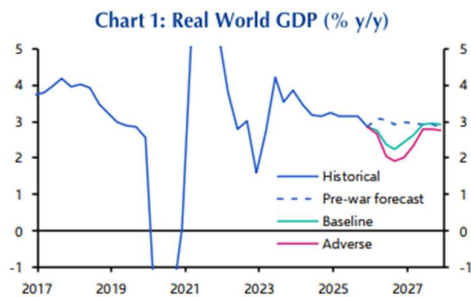
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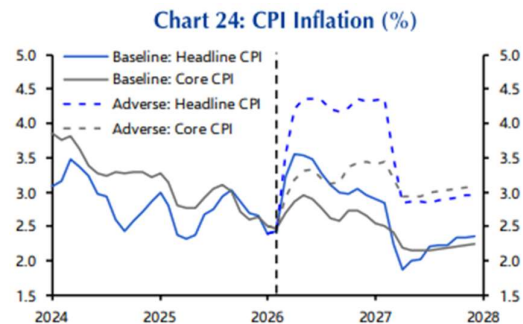


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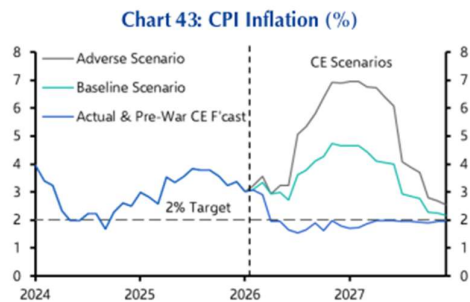
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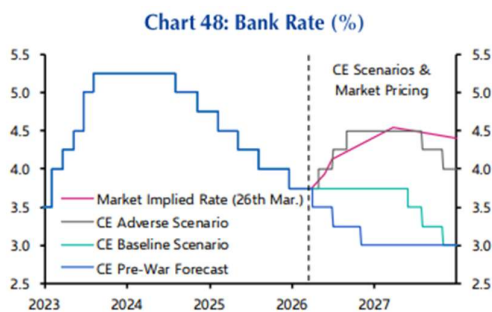


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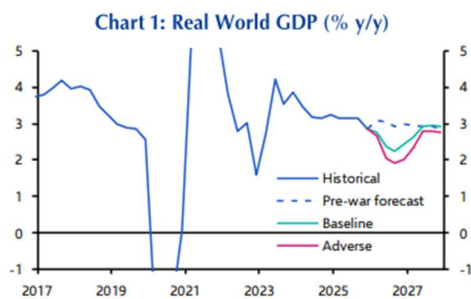
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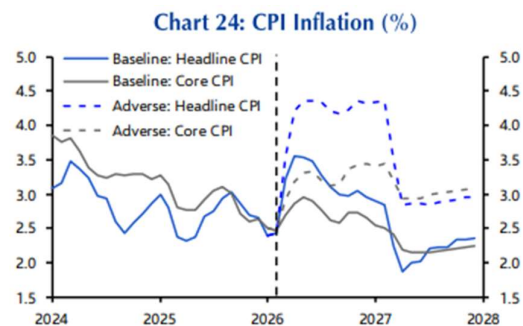


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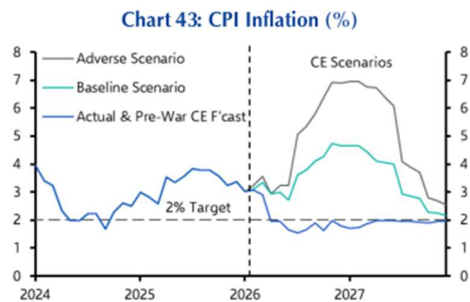
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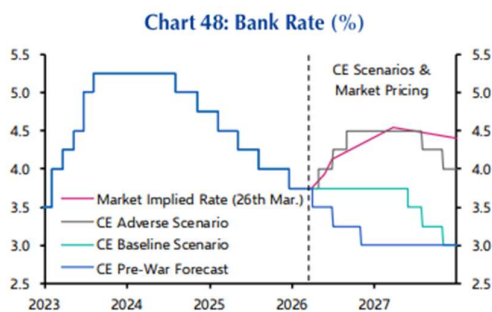


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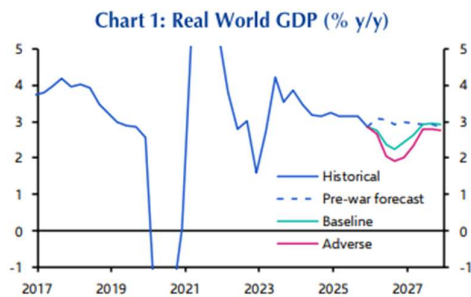
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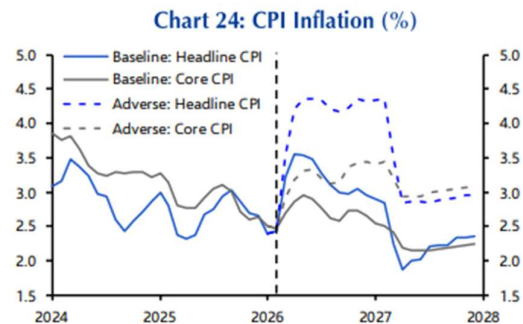


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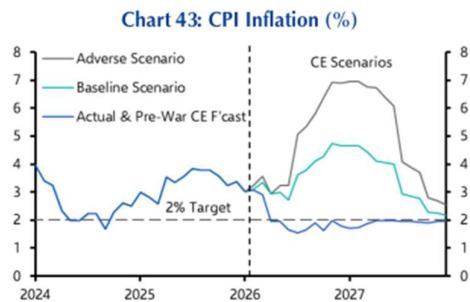
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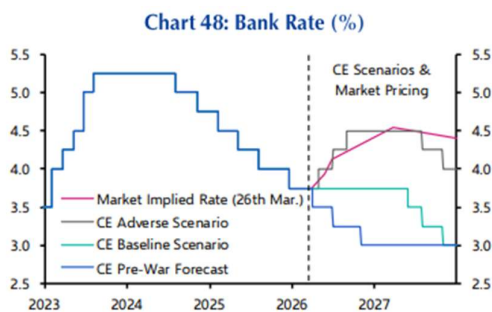


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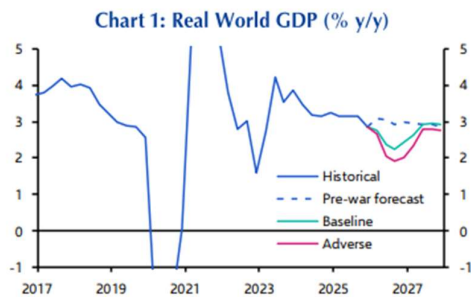
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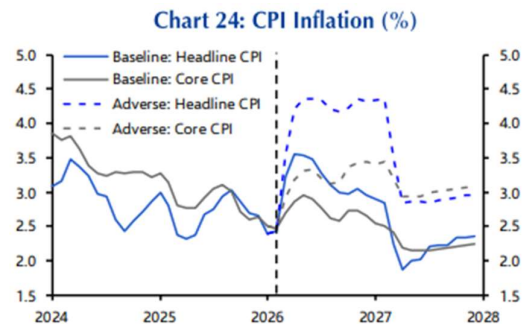


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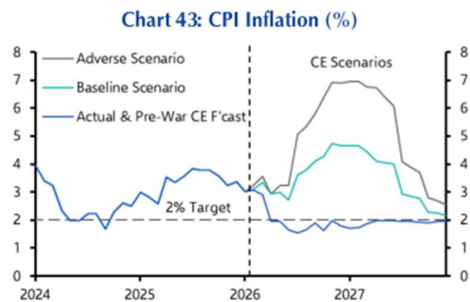
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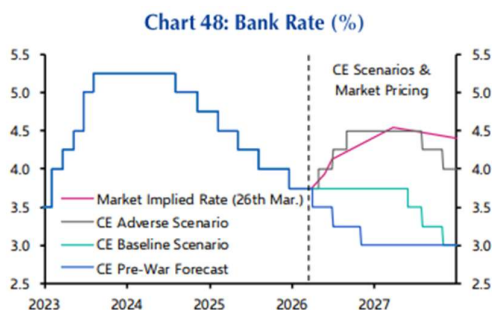


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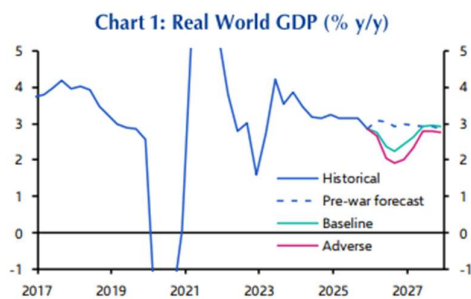
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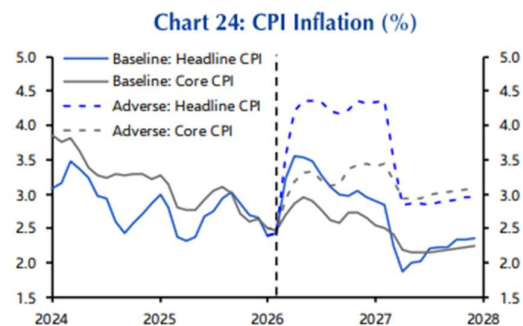


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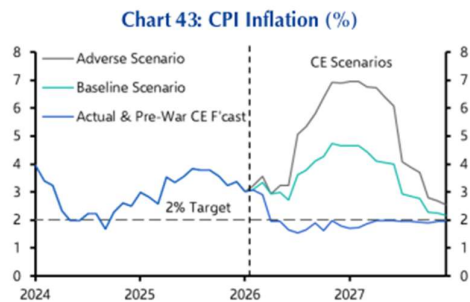
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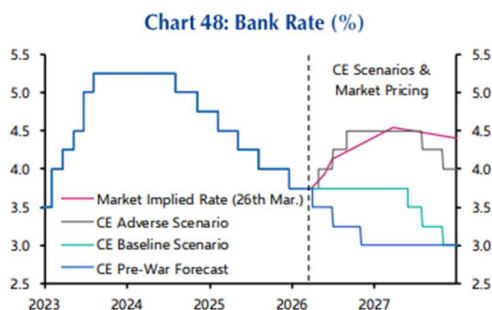


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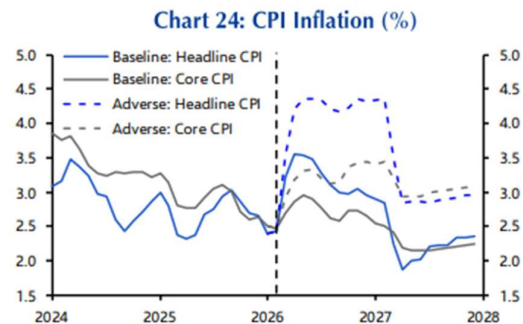


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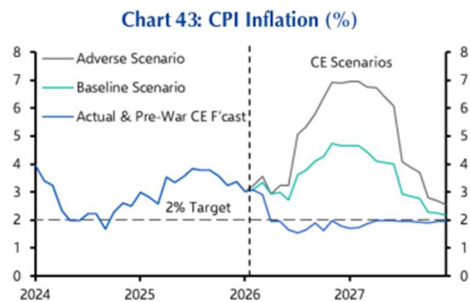
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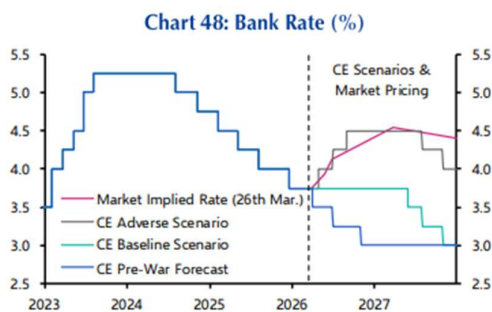


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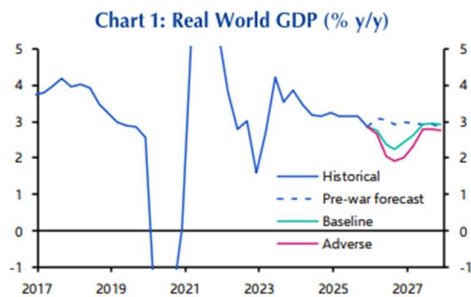
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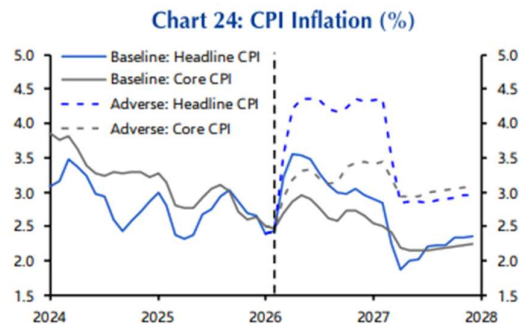


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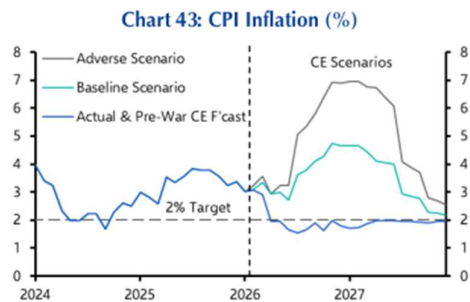
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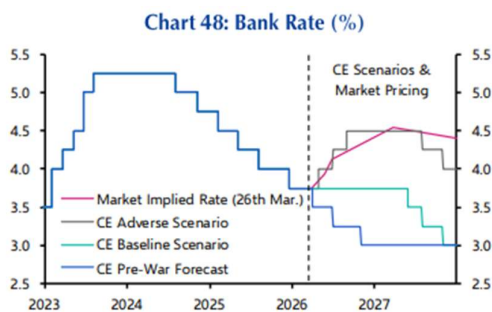


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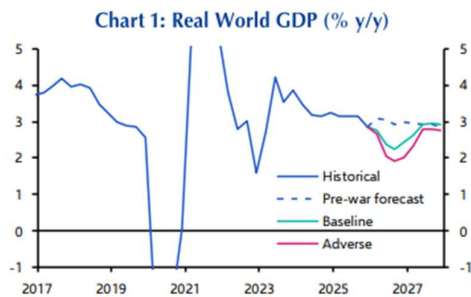
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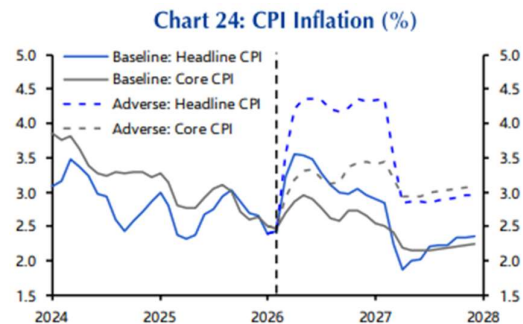


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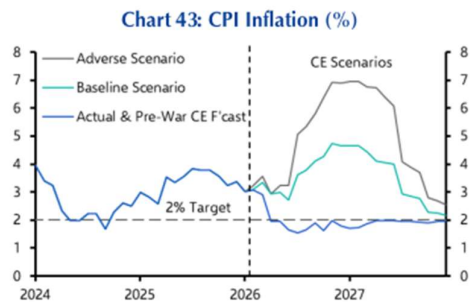
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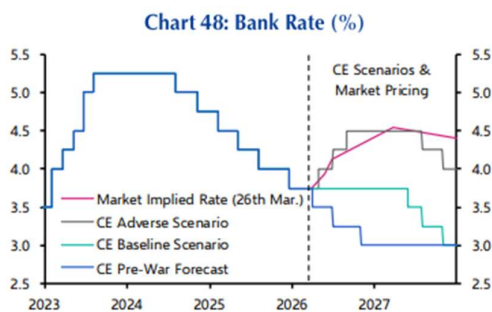


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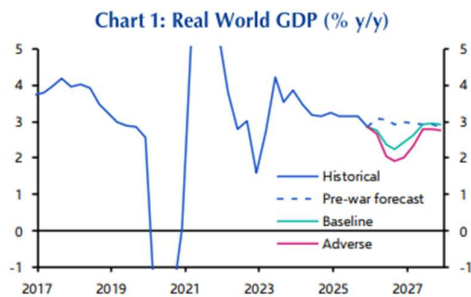
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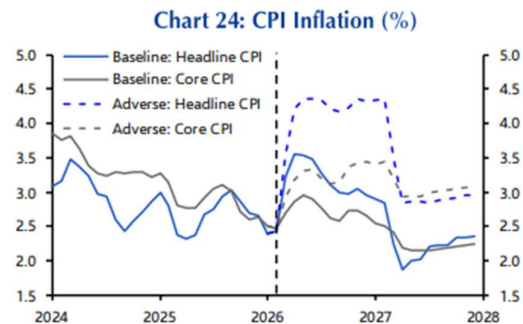


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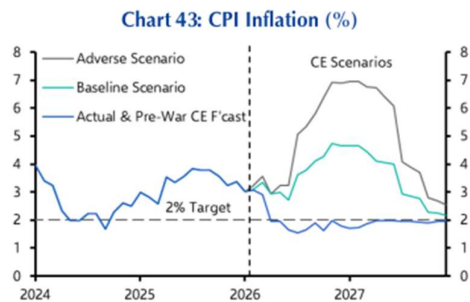
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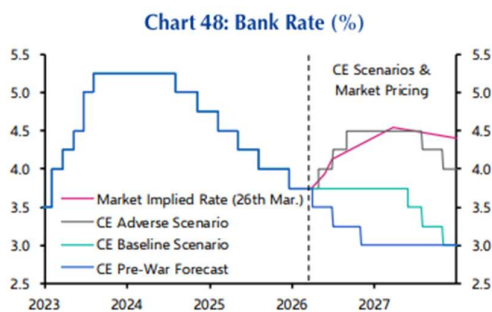


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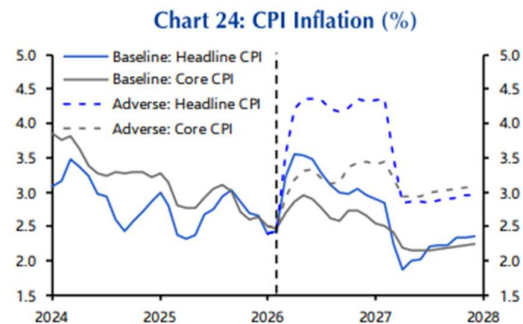


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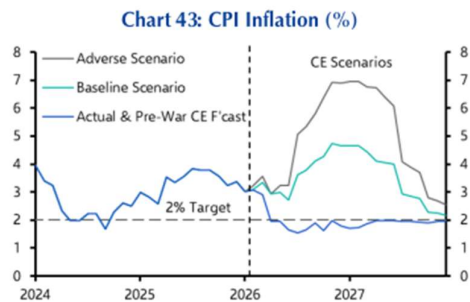
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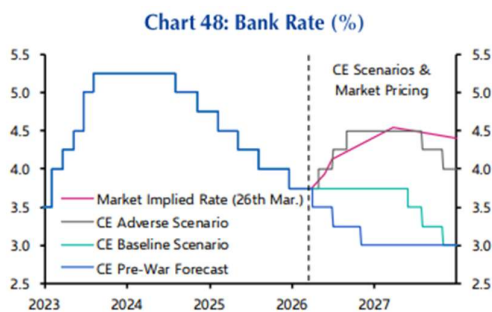


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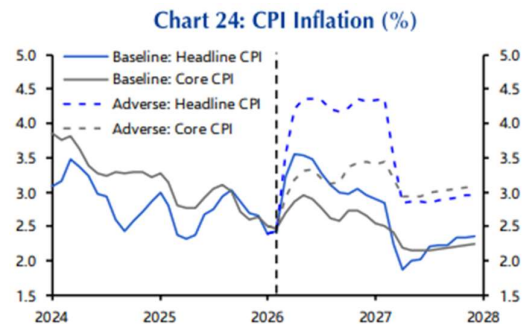


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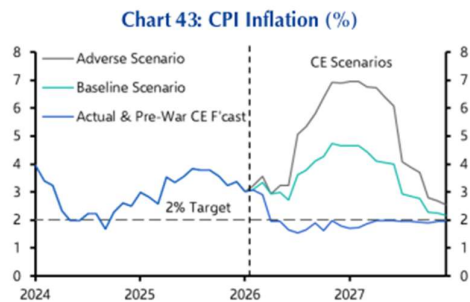
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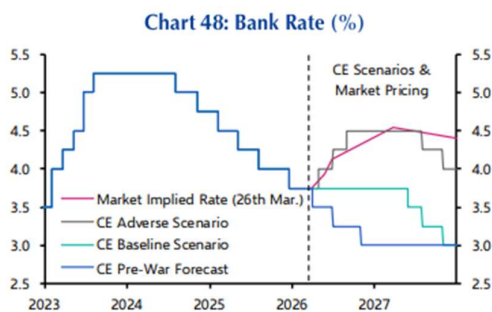


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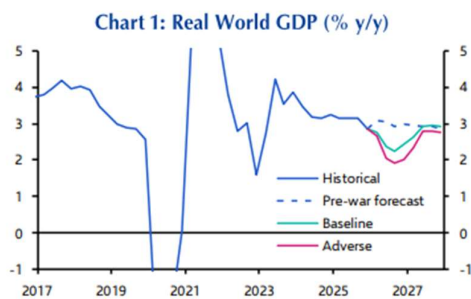
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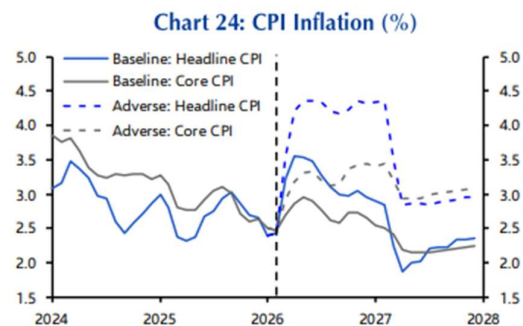


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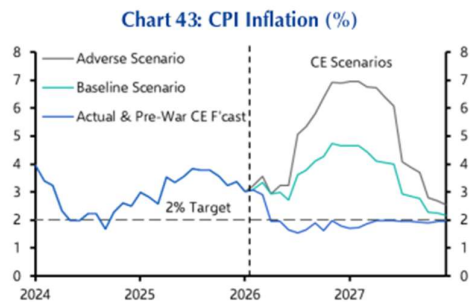
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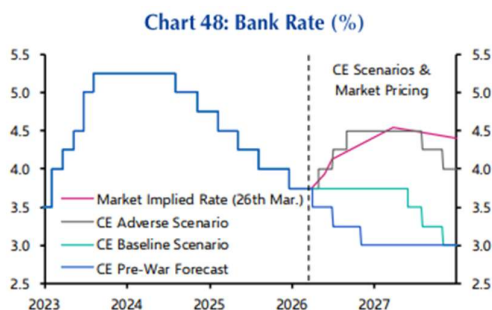


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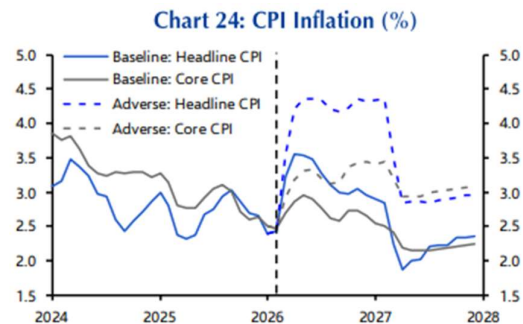


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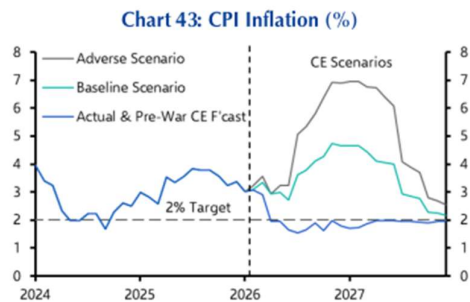
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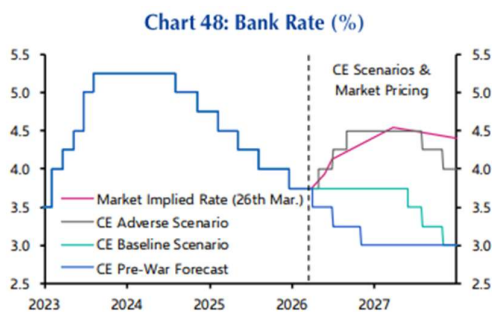


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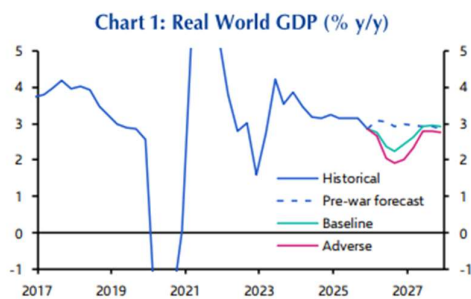
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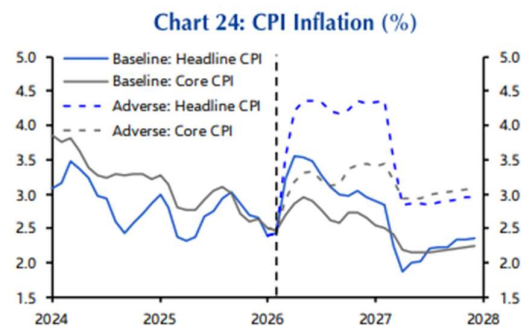


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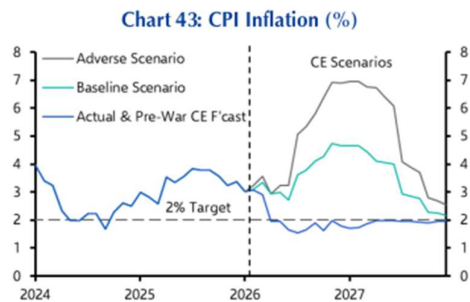
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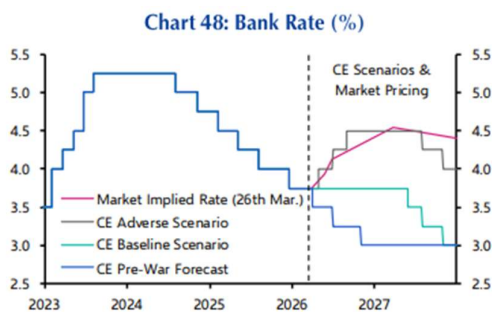


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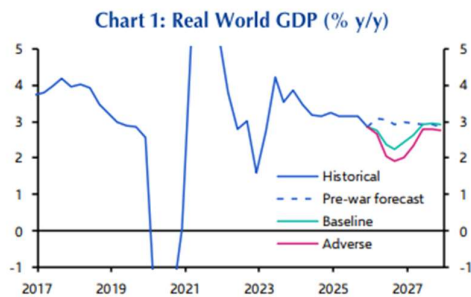
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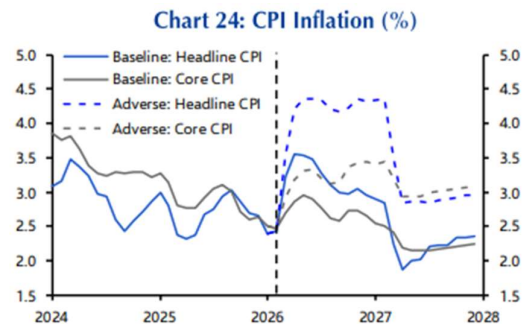


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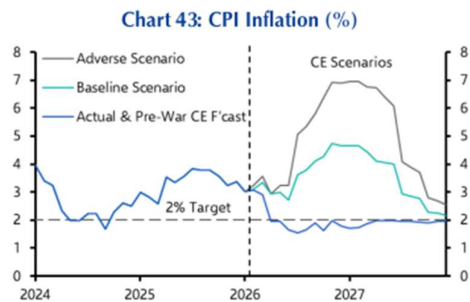
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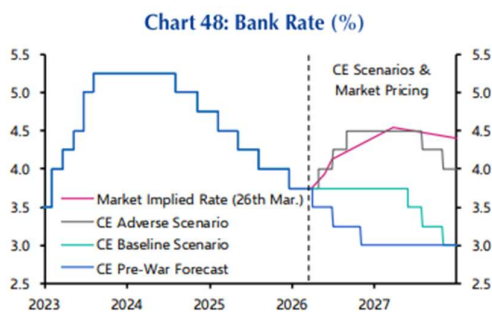


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At the centre of market movements has been the sharp increase in oil prices, with crude prices rising dramatically as concerns over supply disruption intensified. The strategic importance of the Strait of Hormuz has come into focus, with markets pricing in the risk of constrained energy flows. This has translated directly into higher inflation expectations, placing pressure on both consumers and policymakers, while simultaneously weakening the outlook for global growth.

Against this backdrop, financial markets have exhibited divergent performance. Global equities declined modestly over the quarter, with the US and European markets underperforming due to their sensitivity to interest rates and inflation expectations. In contrast, the UK equity market delivered positive returns, supported by its relatively high exposure to energy and commodity-linked sectors. Similarly, Japan and emerging markets showed resilience, reflecting a combination of sector composition and regional dynamics.

Fixed income markets experienced a more pronounced adjustment. **Government bond** yields rose sharply as investors reassessed the inflation outlook and the likely path of central bank policy. This resulted in negative returns for conventional government bonds, particularly in the UK. However, **inflation-linked bonds** performed positively, highlighting their role as a hedge in an environment of rising price pressures. **Corporate credit** remained broadly stable, though spreads remain tight and vulnerable to widening should economic conditions deteriorate.

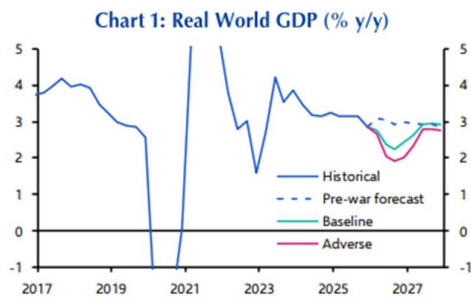
Commodities were, unsurprisingly, the standout performers of the quarter with energy leading the way. The surge in oil prices has reinforced the role of commodities as both

an inflation hedge and a key driver of macroeconomic conditions. Gold also delivered positive returns, although its performance was more muted, reflecting some unwinding of previously elevated positioning.

Taken together, these developments mark a transition in market conditions—from a relatively benign disinflationary environment to one increasingly characterised by stagflationary risk. Investors are now navigating a more complex landscape in which both inflation and growth concerns must be balanced.

Economic Outlook

Looking ahead, the economic outlook is best understood through two distinct but plausible scenarios, each defined by the trajectory of the geopolitical situation and its impact on energy markets.

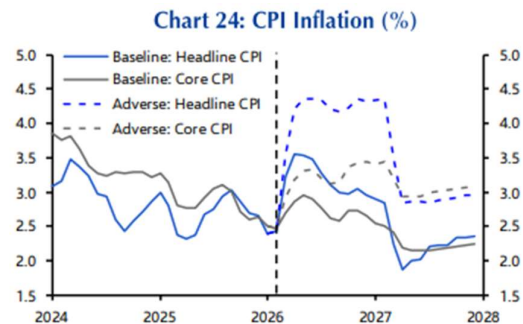


In the **baseline scenario**, the conflict is contained and begins to de-escalate within a relatively short timeframe, allowing energy markets to stabilise over the course of the year. Under these conditions, global growth is expected to remain resilient, with the world economy expanding at a moderate pace through 2026 and into 2027. Inflation, while elevated in the near term, is anticipated to decline gradually as energy prices normalise and supply conditions improve. Crucially, this scenario does not imply a widespread recession, but rather a period of subdued yet positive growth.

The **adverse scenario** presents a more challenging outlook. Should the conflict persist for several months and result in sustained

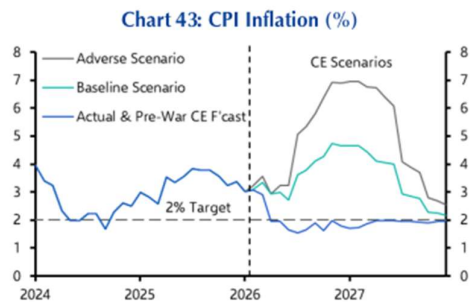
disruption to energy infrastructure and supply chains, the global economy would face significantly greater strain. In this environment, **higher energy prices** would act as a **tax on consumers and businesses**, dampening demand and increasing production costs. **Europe and Japan** would be particularly **vulnerable** due to their reliance on imported energy, while **the UK could face a mild recession**. Inflation would remain elevated for longer, complicating the task of central banks and potentially leading to tighter financial conditions.

At a regional level, **the United States** continues to demonstrate relative strength. Its lower dependence on imported energy and the ongoing momentum of the artificial intelligence-driven investment cycle provide important support to growth. While monetary policy is likely to remain restrictive in the near term, the Federal Reserve is expected to shift towards easing once inflation pressures subside.

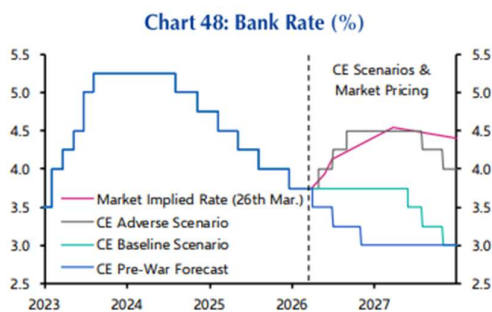


In contrast, the **Eurozone faces a more difficult environment**. Its exposure to energy shocks leaves it susceptible to stagnation, while persistent inflation may force the European Central Bank to maintain or even tighten policy despite weakening growth.

The United Kingdom sits between these dynamics, with modest growth prospects but a challenging inflation backdrop that limits policy flexibility. In the baseline scenario, inflation is expected to peak at 4.6% but in the adverse scenario it could go as high as 7% by February 2027.



UK stagflation – the combination of slow economic growth and high inflation - will create a challenge for the Bank of England. In the baseline scenario the Bank would place equal weight on high inflation and low economic growth, keeping interest rates at 3.75%. In the adverse scenario, higher inflation would cause the Bank to raise rates to 4.5%.



China's outlook is shaped less by the current energy shock and more by structural factors, including property market weakness and demographic trends. While its energy mix provides some insulation from global price volatility, growth is expected to remain subdued.

Japan, meanwhile, continues to pursue a gradual normalisation of monetary policy, with inflation relatively contained and economic growth modest but stable.

Overall, the balance of risks has shifted, with **the global economy now more exposed to downside scenarios** than at the start of the year. However, a severe contraction remains contingent on a prolonged and escalating geopolitical crisis.

Investment Implications

In this evolving environment, investment strategy must balance short-term uncertainty with longer-term opportunity. While markets have reacted sharply to recent developments, there is a strong case that some asset classes - particularly fixed income - have already priced in a significant portion of the risk.

Government bonds, have experienced a substantial sell-off as yields have risen. In the baseline scenario of moderating inflation and stabilising energy prices, this creates an increasingly attractive entry point for investors. As growth slows and inflation pressures ease, yields are likely to decline, **supporting capital appreciation**.

Corporate credit presents a more nuanced picture. Although returns have been relatively stable, spreads remain tight and do not fully reflect the potential for economic deterioration. As such, a cautious approach is warranted, with **a preference for higher-quality issuers and careful risk management**.

Equity markets continue to offer compelling long-term opportunities, particularly in the United States. The structural growth driven by technological innovation - most notably in artificial intelligence - remains intact and is expected to underpin earnings growth over the coming years. **In the baseline scenario**, equity markets have the potential to recover strongly, supported by both earnings expansion and improving investor sentiment. However, in the **adverse scenario**, equities - especially growth-oriented sectors - would be vulnerable to further downside.

Emerging markets, particularly in Asia, also present selective opportunities. Their exposure to global technology supply chains and potential to benefit from a recovery in global trade make them attractive within a diversified portfolio.

Commodities require a more tactical approach. While recent price increases have been significant, they are largely driven by geopolitical factors that may prove temporary. Over the medium term, prices are expected to normalise as supply conditions improve. As such, commodities can play a role as a short-term hedge but may not offer sustained long-term returns at current levels.

Gold and other precious metals, despite their traditional role as safe havens, have not fully benefited from the current environment. This reflects a combination of prior strong performance and shifting investor positioning. While they may still provide diversification benefits, their **near-term upside appears limited**.

Final Word

In conclusion, the current market environment is defined by heightened uncertainty but also offers opportunity. **The most likely outcome remains one of stabilisation following a temporary shock, rather than a prolonged downturn.** We would encourage investors to remain disciplined, maintaining diversified portfolios while being prepared to adjust tactically as conditions evolve.

A balanced approach - combining exposure to high-quality fixed income, structurally supported equities, and selective alternatives - offers the best pathway to navigate the current landscape while positioning for recovery.

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Sources: Capital Economics; FE Analytics

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