

Investment Views

March 2026

Strategy:

Geopolitics Again

Fixed Income:

Tariff Relief, Middle East Shock

Equities:

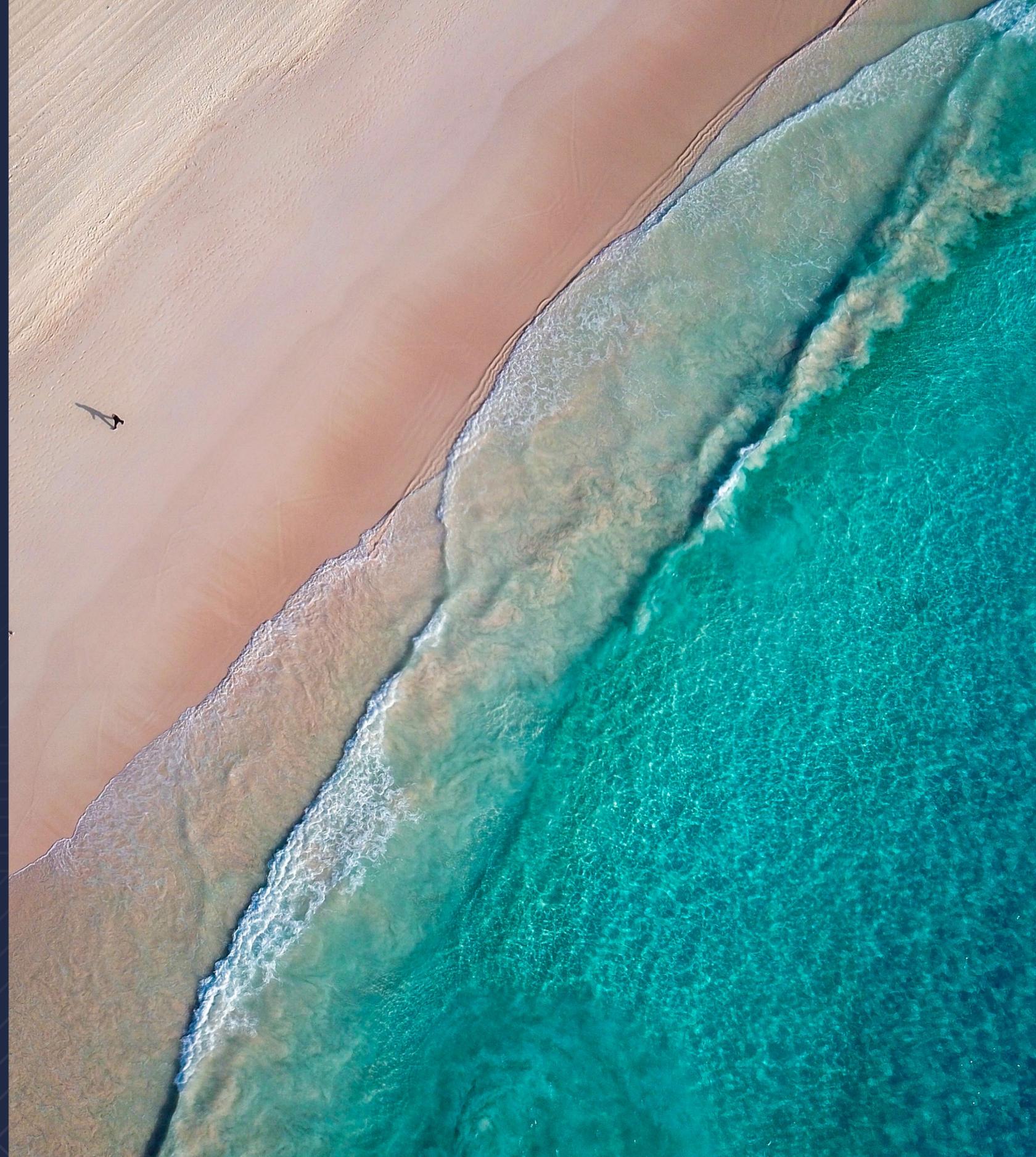
Energy Sector Outperforms

Geopolitics Again

- Middle East conflict hits markets
- Echoes of the energy price shock in 2022
- US more insulated than the rest of the world

January and February were characterised by improving global economic growth and a focus on the winners and losers of the AI revolution. The US Supreme Court's landmark ruling also struck down some of President Trump's trade tariffs, which was a relief for markets. Checks and balances in the political system have been under pressure, but this ruling helps provide a constraint on executive power. This was a good backdrop for stock markets, especially non-US equities, which had a strong start to the year. The war in Iran then introduced a new source of volatility and made for a more difficult market environment.

The primary way in which unrest in the Middle East spills over to global economies and markets is through higher commodity prices. In this sense, it has echoes of 2022, when Russia invaded Ukraine and commodity prices rose materially. In early 2022, the



STRATEGY

oil price rose 50%, from \$80 to \$120 per barrel. It stayed around that level for three months, before drifting back towards \$80 over the rest of the year. In addition to oil, gas prices in Europe also rose significantly. This time, we have seen the oil price move by a similar magnitude, but so far, European gas prices have not risen as far. Commodity price shocks are damaging as they constrain economic growth and increase inflation.

The fundamental challenge for the global economy is that the Strait of Hormuz has effectively been closed. This is a narrow strip of water, only 33 kilometres wide, which sits between Iran and Oman. It is the key passage for oil tankers and other ships from the Persian Gulf out to the open ocean. Exports from countries like Saudi Arabia, Qatar, Iraq, Kuwait, and the UAE leave through this passage to reach buyers around the world. Around 20% of the world's oil passes through here, so it is critically important. Furthermore, around 20% of the world's Liquefied Natural Gas also passes through the Strait. Other materials such as fertilizer and aluminium also come through here.

There is no real precedent for effectively closing this passage of water. In the 1980s, during the Iran-Iraq war, both sides fought what became known as the “tanker wars”. It was one of the worst sustained assaults on shipping, with hundreds of ships damaged. Yet even that prolonged conflict never actually closed the Strait of Hormuz.

The world was hit by a commodity price shock in 2022, when the Russia-Ukraine war began and energy flows from Russia to Europe were curtailed. This was a major shock to both consumers and businesses, and there are both similarities and differences. The rise of energy production in the US has been one of the most important stories in the global economy over the last 15 years. Technological advances where companies can drill down, then drill horizontally, then fracture rock to extract oil and gas has seen the US become the largest oil producer in the world in each of the last seven years.

20%

The amount of the world's Liquefied Natural Gas that passes through the Strait of Hormuz



This means that the US is far more insulated from an energy price shock relative to the rest of the world. This supports the US dollar, which appreciated in 2022, and has appreciated recently.

Our investment portfolios are designed with the aim of being resilient to a range of different risks. Within equity allocations, we have exposure to the Energy sector equal to respective benchmarks, such as the MSCI World index. We have seen strong gains here. Some areas of the market that performed well at the start of the year, such as Japanese and Emerging Market equities, have underperformed in March. For clients with exposure to Alternative assets, we hold gold and commodity or real return funds, which help provide diversification benefits at times like this. Gold had a very strong start to the year, but sentiment got a little exuberant, and it has been more volatile in February and March.

Volatility is a natural part of investing, and this market weakness and higher US energy prices will increase the pressure on President Trump to bring this war to an end. He has recently noted that “the war will end soon”. In the meantime, we are focusing on risk management and good portfolio construction.



Tariff Relief, Middle East Shock

- Interest rate outlook more uncertain
- US dollar appreciates
- Trade relief gives way to conflict risk

February saw global government bond yields fall, while the US dollar found support, as geopolitical risks increased. US Treasury yields fell across the curve, with the 10-year declining by roughly 30 basis points to finish just below 4.0%. A string of softer US data drove the move: retail sales stalled, job openings fell to their lowest level since 2020, and ISM services employment undershot consensus. Markets responded by pricing in three Fed cuts for 2026, up from two at the start of the month.

The nomination of Kevin Warsh as the next Fed Chair, announced on 30 January, initially calmed concerns around central bank independence, with markets viewing the appointment as a relatively safe choice. However, his confirmation became complicated by a Senate blockade, with



senators vowing to hold up all Fed nominations pending a Department of Justice investigation into Chair Powell. Bond volatility climbed through the month, reflecting interest rate volatility driven by the interplay between slowing growth, tariff uncertainty, and the looming Fed transition.

Investment grade spreads (the premium that corporates pay to borrow) widened modestly on heavy new issuance, though fundamentals remained supportive. Credit displayed notable calm relative to equities, with global investment grade and high yield delivering significantly more stable returns year-to-date than equities. Agency mortgage-backed securities also posted solid returns, although there was some weakness in software company bonds, as Anthropic's Claude threatened established business models. With risk-off sentiment rising, corporate credit could be a beneficiary as investors trade up the capital structure, pivoting out of equities while all-in yields remain attractive.

The European Central Bank held rates unchanged, keeping the deposit facility at 2.00% for the sixth consecutive meeting. Eurozone inflation surprised to the downside, raising questions about disinflation being imported via the stronger euro. Minutes revealed policymakers were comfortable holding base rates steady while monitoring downside inflation risks. In Japan, government bond yields hovered near multi-decade highs amid fiscal concerns and a snap election on 8 February. Board members continued to signal that further gradual normalisation of interest rates remained the base case.

The US dollar's trajectory shifted towards month-end. The Supreme Court's 6-3 ruling on 20 February, striking down the International Emergency Economic Powers Act (IEEPA) tariffs as unconstitutional, initially appeared dollar-negative, removing a key plank of trade policy. But the US administration moved quickly, imposing a new 10% global tariff under Section 122, effective 24 February, with plans to raise it to 15%. Days later, the outbreak of US-Israeli military operations against Iran triggered a sharp safe-haven bid, sending the US dollar higher as risk appetite fell and oil prices spiked.

2.00%

The rate that the European Central Bank held the deposit facility at.

Gold was the standout performer, rising by 11% to close around \$5,250 per ounce, underpinned by Fed easing expectations, central bank purchases, with the People's Bank of China extending its buying streak, and mounting geopolitical risk. Silver also rallied strongly on a structural supply deficit and growing industrial demand from solar and AI hardware, though markets remained wary after January's dramatic correction.

In energy markets, the broader supply picture had been bearish, with non-OPEC production outpacing demand and prices locked in a downtrend since early 2025, with oil bottoming at \$55 in December. But with the well-telegraphed military build-up in the Middle East since January, oil prices had been creeping higher, closing at \$67 per barrel. With the US and Israel launching major combat operations against Iran, energy prices have rallied sharply.

With the Iran conflict now the dominant variable, the duration of hostilities will determine whether the oil shock feeds through to headline inflation in a way that complicates the easing trajectories of central banks around the world. The Supreme Court tariff ruling has reshuffled trade policy, but the administration's rapid pivot to Section 122 duties and new Section 301 investigations suggests uncertainty is far from resolved. Gold and Treasuries retain their appeal as hedges, while risk assets face a more challenging environment if negative sentiment persists.

Portfolio positioning has leaned towards reducing duration heading into March, primarily due to the buoyant performance of the US economy, with fiscal stimulus and AI capex spending likely to keep US nominal growth close to 6%. However, the outbreak of hostilities in the Middle East could jeopardise global growth, with energy exports so crucial to supply chains and key inputs not just in industry but also in vital fertiliser for food supplies. Given these risks, we maintained our allocation to inflation-protected securities, but will pivot into nominal US Treasuries if a permanent hit to global growth looks set to become entrenched.

Energy Sector Outperforms

- Initially a good start to the year
- Middle East conflict has introduced volatility
- Energy price shocks good for energy companies but few others

Global equities returned 3% in US dollar terms in the first two months of the year. Equities outside of the US led the way, with Japanese equities up 15.9% in US terms, while Emerging Market equities were up 14.8%. The tide then turned at the start of March when the Middle East conflict broke out. Equities have pulled back, with previously strong areas of the market falling more than US equities, which have been outperforming so far in March.

Commodity shocks are generally positive for commodity producing sectors, but negative for all other sectors. Unsurprisingly, the Energy sector has performed well this year, and especially since the start of the war. The Energy sector has returned 28%, well ahead of the MSCI World index, which has returned -2.0%. However, the Materials sector has been weak. Metals and Mining companies are large weights in the Materials sector and have fallen in recent weeks. This suggests that the market is pricing in weaker growth in the global economy.



For all other sectors, higher energy prices are a headwind to corporate profit margins. Energy is an input for all companies, so when input costs go up this makes it harder to generate corporate profits. Furthermore, high energy prices squeeze the real income of consumers, so some companies will also see a revenue headwind. The Consumer Discretionary sector has had a challenging few years, as lower income consumers have been under pressure due to inflation.

However, it did seem that the headwinds were lifting. Interest rates were being cut and tax cuts in the US means that many consumers would be getting tax refunds this year. The sector has been one of the weakest since the start of the war. Within equities, we have less exposure to the Consumer Discretionary sector than our benchmarks, so this has benefitted portfolios.

Asia and Europe are two of the most exposed regions to a global energy price shock. There is a lot of focus on oil prices, but gas prices are equally important. There is a pipeline in Saudi Arabia that allows some oil to be transported to the Red Sea, which avoids using the Strait of Hormuz. However, there is no similar outlet for gas, so exports from Qatar to the rest of the world are more of an issue. The United States is far less reliant on energy imports, so it is unsurprising that US equities have been more resilient than equities outside of the US.

While recent news flow has been challenging, corporate earnings are key to the equity market and have been positive. For the first quarter of this year, the estimated year-over-year earnings growth for the S&P 500 is around 11%. This would mark the sixth consecutive quarter of double-digit earnings growth for the index. Information Technology, Materials, and Financials are leading the way, with Health Care lagging. Earnings growth in the Energy sector has lagged, but is now being revised higher due to higher oil prices.

11%

Estimated year-over-year earnings growth for the S&P 500

The Software sector had a challenging start to the year as concerns grew around the ability of AI to disrupt incumbent software companies. Some of these companies are large constituents of the equity market, such as Microsoft. On the flipside, technology hardware has outperformed. There are a number of different layers to the AI buildout, and the demand for computing power has been in focus. Recent AI models from OpenAI (ChatGPT), Anthropic (Claude), and Google (Gemini) have continued to demonstrate the importance of computing power. This has been helpful for technology hardware and this has provided an offset to the weakness seen in software.

Geopolitical shocks are by their nature unpredictable and the duration of this energy price shock will be a key variable for the equity market. We have been managing our risk and remain well diversified across sector and geography. Equity valuations have fallen from an elevated level, but we will be watching earnings revisions closely to see how companies are able to navigate this period of volatility.



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Tel +(441) 299 3817
www.butterfieldgroup.com/Investments

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Tel +(345) 949 7055
www.butterfieldgroup.com

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Tel +44 (0)1481 711521 Fax +44 (0)1481 714533
www.butterfieldgroup.com

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Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy

	UNDERWEIGHT -	+ OVERWEIGHT
Asset Allocation	<p>FIXED INCOME (MODEST UNDERWEIGHT) \$</p>	<p>ALTERNATIVES (MODEST OVERWEIGHT) </p>
Fixed Income		<p> EMERGING MARKET DEBT INFLATION PROTECTION SHORT DURATION HIGH YIELD</p>
Equities Regional		<p> JAPAN EMERGING MARKETS EX CHINA</p>
Equities Sector	<p>CONSUMER DISCRETIONARY REAL ESTATE </p>	<p> UTILITIES</p>

