

# Investment Views April 2026

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# Geopolitical Risks in Focus

- Middle East conflict derails positive sentiment
- Commodity prices climbing
- Energy and Alternatives good diversifiers

To say that it was an eventful quarter in markets would be an understatement. The year started on a strong footing, with global equities returning 3% in US dollar terms over January and February. March was then a difficult month for markets, with global equities falling 6.4%. Over the full quarter global equities were down 3.6%, falling into the 20th percentile for performance when looking at the last 25 years. Said differently, markets do better than -3.6% in a quarter 80% of the time and worse than that 20% of the time.

The cause of the market sell-off was the conflict in the Middle East. The region is relatively small in terms of global growth, at just over 2% of the global economy. However, the region is a key supplier of energy and materials to the world economy. The area in focus has been the Strait of Hormuz, which is a key shipping channel for goods



## STRATEGY

leaving the Persian Gulf. The Strait is just 21 miles wide, and actual shipping lanes are only 2 miles wide in each direction, with a two-mile gap between them. But, this is one of the world's most critical shipping lanes as 20% of global oil, 20% of Liquefied Natural Gas (LNG), and 20-50% of numerous fertilizer ingredients pass through here.

This crisis has echoes of the 2022 energy shock when the Russia-Ukraine war broke out. Oil prices have risen by a similar percentage amount, but European gas prices have, so far, risen nowhere near as far. The potential for a prolonged disruption to shipping through the Strait of Hormuz presents a larger risk than 2022. US and Qatar were able to increase exports of gas to Europe, but the scale of disruption here is potentially larger. The world therefore has a very strong incentive to work together to re-open the Strait.

For investors, more frequent geopolitical shocks have become a feature in financial markets over the last decade. These are by their nature hard to predict and measure. Commodity price shocks are damaging as they put upward pressure on prices (inflation) and downward pressure on economic growth. This is not a good mix for markets, as it means that bonds and equities can both sell off at the same time. We have seen a sharp shift in interest rate expectations in the US and Europe. Expectations for cuts this year have given way to potential increases in rates. Central banks do not want to increase interest rates in response to high commodity prices, but they have made it clear that they are prepared to.

We made a couple of changes to our House Views on asset classes in the first quarter. In February, we reduced our view of bonds from Equal Weight to Modest Underweight. Global economic data looked solid at the start of the year and inflation remained above central bank targets. With the market already pricing in a series of interest rate cuts, we felt Cash was better placed. Geopolitical risk was not part of the thesis, but being underweight bonds was helpful

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# 20%

The amount of global oil which passes through the Strait of Hormuz



in March as yields rose (prices fell). Shortly after the onset of the war, we reduced our view on Equities from Equal Weight to Modest Underweight. This was a relatively modest move, but helpful from a risk management perspective.

In a backdrop of higher inflation and lower economic growth, alternative investments can be helpful allocations in portfolios. The Gold price went on a rollercoaster ride in the first quarter. It was higher by around 25% at one point, before suffering a sharp fall in March. It closed the quarter up 8.1%, which helped to offset some of the losses in equity markets. Commodities saw mixed performance. Oil and gas prices rose in response to supply disruptions, while more cyclical commodities such as copper fell. Similar to equities, hedge funds had a good start to the year, before weakness in March. Sharp moves in interest rates caught out some managers, while the breadth of the weakness in equities was a challenge for Long/Short managers. Overall, alternatives were helpful allocations for those clients where they are appropriate.



# From Cuts to Caution

- Geopolitical shock reverses easing expectations and lifts yields
- Energy prices drive inflation fears back to the forefront
- Credit stayed resilient despite rising volatility and uncertainty

This quarter began with softer US economic data, falling bond yields, and renewed confidence that central banks could continue easing. It ended with a geopolitical shock, a sharp rise in energy prices, and a rapid repricing of inflation risk. The Supreme Court ruling against President Trump's emergency tariffs briefly looked like a step towards lower policy uncertainty, while data through February was good for bond markets and revived expectations for rate cuts. That backdrop did not last. By quarter-end, the US-Israeli attack on Iran and the resulting surge in oil prices had become the dominant force across markets, forcing investors to reassess inflation, growth, and positioning.

February was supportive for government bonds, especially in the US, where weaker retail sales, softer job openings and



slower services employment encouraged markets to price a more dovish Fed path. US Treasury yields fell across the curve, and the view heading into March was that softer growth would give policymakers room to ease further. Instead, the inflation shock from the Middle East overrode that logic. By quarter-end, Fed expectations had swung from cuts being firmly priced to a more cautious stance, while US Treasury yields rose, led by the short end. The 2-year yield moved to 3.80%, while the 10-year rose to 4.32%, leaving the curve flatter. Markets are not yet pricing a recession. They are pricing higher near-term inflation expectations driven by energy, while longer-term expectations remain relatively contained. This suggests the conflict is still seen as a temporary but disruptive shock rather than an embedded inflation regime change.

Outside the US moves in global government bonds were mixed, but the message was the same: energy vulnerability and fiscal credibility mattered. The UK was the weakest performer in the G10, with 10-year gilt yields finishing the quarter close to 5% as investors focused on the fiscal backdrop and sensitivity to higher imported energy costs. Italy and Japan also struggled as more energy-exposed markets, while Canada was relatively stable thanks to its energy independence. China stood out for different reasons. Deflationary pressure at home and a stronger renminbi meant it was better placed than most to absorb a rise in commodity prices. Global duration is no longer moving as one trade, and country-specific resilience mattered more once the quarter shifted from growth concerns to energy shock.

Credit spreads were surprisingly calm given the scale of the geopolitical event. US high yield spreads widened by around 50 basis points (bps) from very tight levels, while US investment grade spreads widened just 12bps. This suggests markets still expect the conflict to be contained and do not believe the shock will immediately feed into a significant deterioration in growth or corporate fundamentals. Mortgage-backed securities (MBS) also held up better than the move in rates volatility might have implied. Even with the MOVE index rising sharply, agency MBS were broadly unchanged, helped by 30-year US mortgage rates

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# 3.80%

The amount the 2-year yield moved to.

moving back towards 6.48%, limiting new issuance and improving the technical supply backdrop. The shakeout in US private credit also reminded investors that tighter liquidity conditions and risk aversion can expose weaker structures quickly once confidence starts to wobble.

Commodities were central to the quarter's macro repricing. Oil dominated, with WTI rising from \$57 at the start of the quarter to above \$100 by quarter-end as markets priced in disruption risk tied to the Strait of Hormuz and broader instability in the Middle East. This was not a normal commodity rally driven by stronger global demand. It was a geopolitical repricing, creating a less comfortable backdrop for policymakers. Higher oil prices driving inflation just as growth uncertainty is rising.

In currency markets, the quarter was a reminder that the US dollar's flight-to-quality role remains intact. Despite recurring debate around de-dollarisation, geopolitical stress drove a safe-haven bid into the dollar, which rose against most of the G10. By contrast, traditional defensive currencies were less effective. The Japanese yen failed to rally meaningfully, reflecting Japan's energy import dependence, while the Swiss franc did not offer the protection investors might normally expect given Europe's proximity to the conflict risk.

The challenge now is that much of the pre-war economic data is already stale. Just before the conflict escalated, nominal growth trends were improving across much of the global economy, led by the US and China. Inflation pressures in Japan and the UK had shown signs of easing, allowing central banks to remain patient or continue cutting. That outlook has become materially less certain. The dominant risk now is a more stagflationary environment, where central banks are forced to balance slowing real activity against renewed headline inflation pressure. If the shock persists, duration may become attractive again as growth concerns start to dominate the narrative and overwhelm the inflation outlook. For the time being, we remain nimble and continue to monitor global events.

# AI Winners and Losers and Impact of Commodity Price Shock

- Global equities give up early gains
- AI spending still going strong
- Energy and Utilities outperforming

There were a number of twists and turns for equity markets over the quarter. The year began with a focus on improving global growth and the market weighing up the winners and losers of the AI revolution. Equities outside of the US have more cyclical businesses and less exposure to Software companies, so they had a good start to the year. The MSCI World ex USA Index returned 9.8% in US dollar terms in the first two months of the year, but then gave back those gains after falling 9.7% in March. In the US, the S&P 500 had a slower start to the year, returning 0.6% through the end of February. US stocks then held up a little better than global stocks in March, but still fell 5.0%.

The main risks from the Middle East conflict for equity markets are higher commodity prices and central banks constrained from lowering interest rates due to inflationary pressure. Some companies benefit from higher commodity prices, but the challenge for the equity market is that the losers outweigh the winners.



## EQUITIES

Energy companies are clear beneficiaries of high oil prices, and this was the best performing sector by some way in the first quarter. Global Energy stocks returned 36.9% in US dollar terms.

In our equity strategies, we have exposure to the Energy sector close to respective benchmarks and that diversification was helpful for portfolios. The sector has had an eventful period over the last 15 years. The revolution in drilling and rock fracturing technology enabled significant growth in US energy production starting in 2011. The sector struggled in 2015 and 2016 as global oil prices fell, then suffered again in 2020 during the pandemic. However, the US has been the largest oil producer in the world in each of the last seven years. The US economy is therefore more insulated from an energy price shock compared to other countries, but it is not immune.

The Technology sector also had an eventful start to the year. There was significant dispersion within the sector and a wide gap between beneficiaries of large spending on AI Infrastructure and those deemed at risk from disruption. These trends favoured Technology hardware companies relative to software providers. AI applications like ChatGPT, Gemini, and Claude require significant amounts of computing power. There are a number of different layers to this infrastructure necessary to power AI, but semiconductor firms and hardware firms are key suppliers of this infrastructure. Nvidia is the most famous beneficiary of all the spending on building out AI, but we have seen this theme broaden out over recent quarters.

In contrast, Software and Professional Services companies are seen at risk from disruption by new AI enabled competition. The Software industry has enjoyed healthy profit margins and the market has valued these companies highly due to the recurring nature of their revenue. AI's ability to write computer code means the cost of producing software has fallen significantly, so concerns

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# 36.9%

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

around the durability of their revenue growth and profit margins have increased.

Another component to the AI infrastructure theme is the energy required for the power-hungry computer processing. After a 20-year period with very little growth in demand for electricity, demand has inflected higher. The Utilities sector has been a key beneficiary of this. The sector outperformed in both the rising market during January and February, then also in the weaker market in March. We have more exposure to Utility stocks than our benchmarks, so that has been helpful.

The wider buildout of data centres to house all this computing power has also benefitted stocks in the Industrials sector, such as construction companies for example. In the wider Industrials sector, defence stocks outperformed in the first quarter. Many defence stocks actually fell in March, but had performed well in the run-up to hostilities. President Trump is pushing for more money for defence spending, but Congress is likely to be more cautious about higher spending.

Overall, a commodity price shock is a net negative for the equity market. At the start of March when the war broke out, we moved our House View on equities to Modestly Underweight versus benchmarks. There is clearly a lot of domestic pressure on President Trump to negotiate an end to the war that re-opens key global shipping routes. Volatility is a natural part of investing and historically, geopolitical shocks have provided good buying opportunities. In the meantime, we are focussed on diversification across sectors and geographies to build resilience in portfolios.

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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) EQUITIES (MODEST UNDERWEIGHT)</p> <p>\$</p>	<p>ALTERNATIVES (MODEST OVERWEIGHT) CASH (MODEST OVERWEIGHT)</p> <p></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></p>	<p>UTILITIES</p> <p></p>

