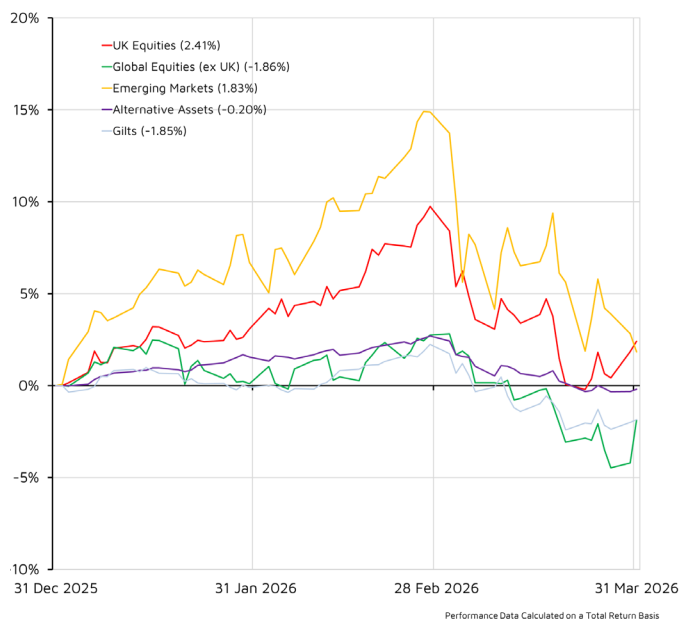


REVIEW OF THE PAST QUARTER:

Markets made strong gains in January and February, however, this was reversed following the US-led attack on Iran. Before US military action began, Japanese markets had reached new highs, helped by expectations of market stimulus from prime minister Sanae Takaichi's big election victory. Emerging markets benefited from a weaker US dollar and more spending of AI technology. US equities lagged as some investors questioned whether the huge investment in AI will pay off. Meanwhile, services companies seen as vulnerable to cheap AI-led alternatives saw their share prices fall. UK and European equities gained as value companies performed well.

Oil and gas prices surged following the US-led attack on Iran, leading to fear of rising inflation and slower global economic growth. Equity markets experienced a broad decline, with US stocks faring better as America is a net oil and gas exporter.

Investors had been expecting interest rate cuts in the US and UK, but government bonds sold off as the prospect of central banks keeping interest rates high if they have to deal with rising inflation triggered by high energy costs as government bonds failed to offer much protection from falling equity markets. Gold also fell in value, as the US dollar appreciated.



ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Alternative Assets
+0.95%	-1.85%	+1.26%	-1.60%	+2.41%	-1.86%	+1.83%	-0.20%

MARKET OUTLOOK:

The Middle East conflict is pushing up energy and food prices and disrupting supply chains, but the impact is smaller than the 2022 shock. Higher oil and gas prices and rising food inflation are likely to slow world GDP growth this year, but only slightly. Inflation is expected to rise from its current rate, which remains above target in the UK and US, but this is likely to be far short of the rising to the rate of 8% seen in 2022.

The continued closure of the Strait of Hormuz and the damage done to oil and gas production and export facilities throughout the Gulf region mean the average price of crude oil could remain well above \$100 in Q2. But markets still see a relatively quick resolution to the conflict and oil and gas prices are expected to gradually return to normal by 2028. Higher prices and uncertainty will squeeze household spending and investment.

Higher inflation means the European Central Bank is likely to raise rates, but the Bank of England is more likely to hold steady. The Federal Reserve is still likely to cut this summer given softer inflation and labour market concerns.

Financial markets face a difficult environment, but with interest rates and yields already higher than in 2022, bond market turbulence should be more limited. Equity markets will be volatile, but steep falls like those of four years ago seem unlikely.

WHAT TO LOOK FOR:

- UK:** Bank of England Monetary Policy Committee meetings on 30 April and 18 June. ONS CPI releases on 22 April covering March; April figures on 20 May; and May figures on 17 June. Q1 2026 GDP around 22 April.
- US:** Federal Reserve rate decisions on 28–29 April and 16–17 June. Inflation figures for March are due on 10 April. Jerome Powell's term expires on 15 May. The Bureau of Economic Analysis's Q1 GDP and inflation are due in April.
- Eurozone:** European Central Bank interest rate meetings on 29 April and 11 June. Preliminary Eurozone Q1 GDP on 30 April.
- Other:** Bank of Japan monetary policy decisions on 27 April and 15 June. Chinese GDP growth, industrial production and retail sales due mid-month in April, May and June.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: US strikes on Iran keep energy markets unstable and central banks alert, but inflation stays controlled. The Bank of England leaves rates unchanged despite weak UK growth, while other central banks monitor for economic weakness. UK equities rise unevenly, with energy stocks and large-cap international earners showing strength, but there is a weaker backdrop for domestic cyclical companies.

Worst Case: The US-Iran war broadens and triggers an energy and shipping shock. Inflation accelerates as central banks are forced to prioritise inflation over weak growth. UK equities fall, with domestic cyclicals and smaller companies underperforming most, while energy and defensives offer only partial shelter. Domestically sensitive areas (domestic cyclicals and smaller companies) underperform meaningfully.

Best Case: The conflict stays contained and oil and gas price spike fades before it becomes embedded in broader inflation. The BoE can focus to softer wage growth and weak domestic activity. UK equities would be better placed to broaden out from energy and defensive sectors into more rate-sensitive and domestically exposed areas, helped by low starting valuations and an improving policy outlook.



CASH

Most likely: Money-market returns are stable as central banks exercise caution amid rising energy costs, global tensions, and persistent inflation. The Bank of England has kept its stance cautious because higher energy costs and global tensions have slowed progress on bringing inflation down. Businesses are concerned about energy costs, but money-market funds continue to provide steady, low-risk returns.

Worst case: Inflation falls faster and the Bank of England cuts rates aggressively. This would impact money market returns. Rising global tensions could unsettle financial markets, and energy related risks could increase swings even in safer assets. In this scenario, short term bond funds may look more appealing.

Best case: The UK achieves a gentle slowdown in inflation while keeping growth steady. The Bank of England slowly and steadily cuts rates, helping cash investments hold on to their strong real returns. A continued fall in global inflation and more stable outlook would support confidence in short term investments, while investors may still prefer cash for its safety as longer term assets remain sensitive to market swings.



GLOBAL EQUITY

Most likely: US inflation stays elevated, partly due to the conflict with Iran, but consumer spending and AI investment sustain economic growth. Japan faces imported inflation from high oil prices, as Bank of Japan considers rate hikes. In Europe, public investment and defence sectors benefit, while export-driven industries struggle with weak global growth and policy uncertainty.

Worst case: Tariffs spread and push inflation back up as growth slows and the Fed pauses, or even reverses, rate cuts. Tech stocks fall as investors question whether huge capital spending will pay off. Europe is hit by weaker external demand and renewed energy sensitivity. Japan struggles as global demand weakens and the yen strengthens.

Best case: Oil prices stabilise as inflation falls, giving the Fed room to cut rates. Falling geopolitical tensions boost risk appetite and support smaller-cap, rate-sensitive stocks. A better outlook for growth benefits exporters, with Japan potentially outperforming. European stimulus lifts confidence, credit, and earnings and this helps small and mid-caps and domestic cyclicals, while pressure on exporters declines.



FIXED INCOME

Most Likely: War with Iran keeps energy prices high and inflation proves persistent. Central banks wait and see, leaving yields trading in a range as growth slows. Government bonds offer modest returns. Investment-grade corporate bonds outperform high yield. Emerging market sovereign bonds diverge as high prices help commodity exporters, but importers face rising inflation and tighter financing costs.

Worst Case: Conflict escalation leads to another energy price surge, driving up inflation and forcing central banks to raise rates as growth slows. Government and corporate bonds drop as inflation expectations reset and refinancing costs increase. Emerging market sovereign bonds decline as sentiment weakens and funding costs rise.

Best Case: An end to war with Iran means inflation falls decisively, so central banks cut rates while growth slows gradually. Government bonds rally, with gilts benefiting from softer UK inflation and improved fiscal sentiment. Corporate bonds strengthen as yields decline. Emerging market sovereign bonds recover as inflation moderates, conditions ease, and commodity exporters retain demand support.



EMERGING MARKET EQUITY

Most Likely: Emerging markets gain from lower global inflation and stable policies. The Fed may cut rates once energy-driven inflation eases. Taiwan and South Korea benefit from rising demand for AI-capable chips. Latin America stays resilient due to contained inflation and better financial conditions.

Worst Case: Persistent US inflation limits the Fed's ability to cut rates, reducing capital flows to emerging markets. China's domestic weakness deepens, reinforcing deflation pressures despite export strength. Taiwan and South Korea feel the effect of any slowdown AI investment. Latin America struggles with weaker commodity prices, trade uncertainty, increasing currency volatility and borrowing costs.

Best Case: US inflation slows, allowing the Fed to ease interest rates and lift capital flows to emerging markets. China stabilises growth through firm export performance and modest policy support. Taiwan and South Korea experience strong semiconductor demand. Latin America gains from steady commodity demand, easing inflation, and gradually improving financial conditions.



ALTERNATIVES

Most likely: War keeps energy prices and inflation high amid slower global growth. Commodities linked to AI and electrification gain. Gold stays strong due to persistent inflation and uncertainty. Governments maintain infrastructure spending for energy security. Macro and event-driven strategies see selective opportunities in a volatile market.

Worst Case: The conflict escalates, triggering another energy price surge. Central banks to stay tight even as growth deteriorates. Commodities are caught between supply shocks and weakening demand. Gold acts hedge against stagflation and geopolitical risk. Infrastructure assets come under strain from rising rates and slowing growth. Macro and event-driven strategies find diversification harder.

Best Case: An end to war sees energy supplies recover. Demand for commodities linked to AI, electrification, and infrastructure remains. Gold retains a floor from geopolitical risk and inflation. Infrastructure gains from restored confidence, robust power demand, and investment in data centres and grid capacity. Macro and event-driven strategies find opportunities in policy divergence and episodic volatility.

Data Sourced from FE Analytics and MSCI Barra

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