

Market Digest

Q1 2026

This commentary provides a review of global markets in Q1 2026. It takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 31 March 2026.

> Q1 2026 highlights

Markets had to contend with a series of geopolitical and economic developments, including the Middle East conflict

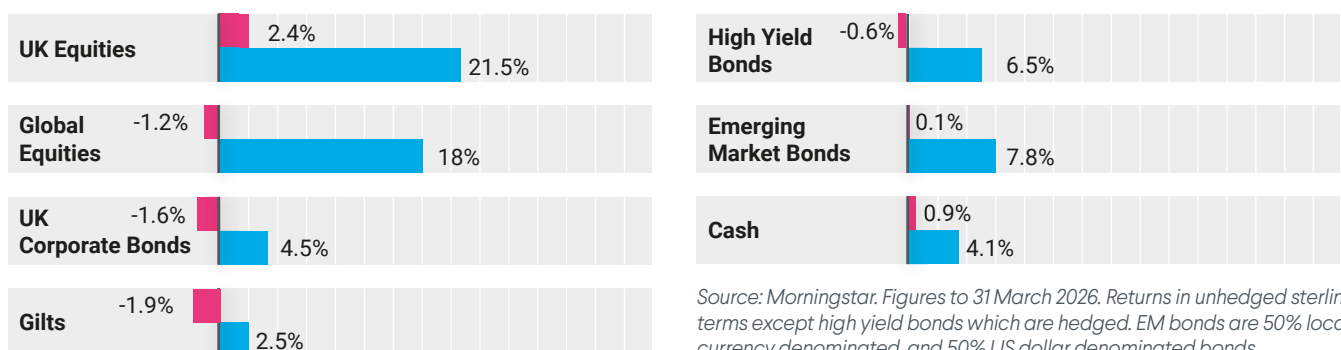
Overall, global equity performance was negative, although there was notable dispersion in styles and regional returns

Bonds saw negative returns as yields rose on the back of concerns over rising inflation

- Our model portfolios typically invest in a combination of the asset classes shown in the below chart.
- Global equities fell 1.2% over the quarter, despite posting gains in January and February. Returns over the past 12 months remain strong.
- Returns across equity regions varied considerably, with Asia-Pacific ex Japan the best performing region, returning 10.6% over the quarter, while the US lagged, returning -2.8%. This was in part due to the market placing a greater emphasis on market valuations and more caution in relation to the mega cap stocks which had benefited most from investors' artificial intelligence-related optimism.
- In bond markets, yields rose as higher energy prices increased inflation expectations and likelihood of higher interest rates for longer, resulting in negative returns.
- Emerging market bonds outperformed gilts and corporate bonds over the quarter, boosted by a strengthening dollar and a higher starting yield.
- With bonds and cash performing better than equities, lower risk portfolios performed better than higher risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for  Q1 2026 and for  12 months to 31 March 2026



Source: Morningstar. Figures to 31 March 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Outlook and topical market themes as at 9 April



On 8 April, Iran and US agreed a two-week ceasefire while negotiations continue, allowing the Strait of Hormuz to reopen

The implications of the conflict on inflation and global growth will still be felt for some time

Rising energy prices continue to put pressure on public finances – the Bank of England may have to raise interest rates

The effects of the Middle East Conflict will be felt for some time

Whilst markets rallied on the announcement of a two-week ceasefire, there are two key areas that could have a lasting economic impact:

The reopening of the Strait of Hormuz

A key uncertainty is whether shipping through the Strait of Hormuz remains free flowing, or whether Iran seeks to impose tolls or other restrictions. Ships may remain cautious given the risk that negotiations may break down and vessels become stranded. The daily number of ships passing is expected to remain well below the c.140 pre-conflict average initially. Any sustained disruption would keep energy prices elevated by constraining supply, as around 20% of the world's oil and liquefied natural gas (LNG) passed through the Strait before the conflict.

Damage to oil and gas infrastructure

There has been extensive damage to energy infrastructure in the Gulf, including refineries, oil fields and gas plants that will take years to repair and get back to pre-conflict supply levels. For example, Ras Laffan Industrial City in Qatar, the world's largest LNG export hub, which underpins around 20% of the world's supply of LNG, estimated capacity would be reduced by 17% and it may take up to 5 years to repair the damage following attacks. The costs to repair and reduction in supply means energy costs are expected to remain higher for longer once the conflict ends.

Implications for investors

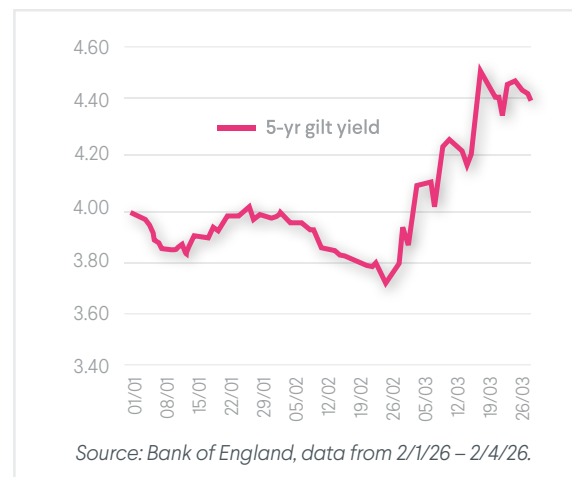
At time of writing, energy prices have fallen from recent highs (Brent Crude currently under \$100 a barrel, down from a peak of \$119) but remain almost 50% above pre-conflict levels. This is likely to push up the cost of goods and services causing higher inflation later this year and is expected to ultimately reduce global growth.

The scale and duration of the impact on inflation and growth will depend on whether fighting resumes once the two-week ceasefire ends, or whether a more durable resolution is reached. A longer-lasting conflict restricting travel through the Strait of Hormuz, or further damage to infrastructure, would increase inflation and reduce global growth outlook.

Periods of geopolitical stress can drive short-term market volatility. This reinforces the importance of taking a long-term view, maintaining well diversified portfolios, and looking through near-term market shocks rather than reacting to headline risk.

Chart of the month

UK gilt yields rise as hopes of rate cuts in 2026 fade



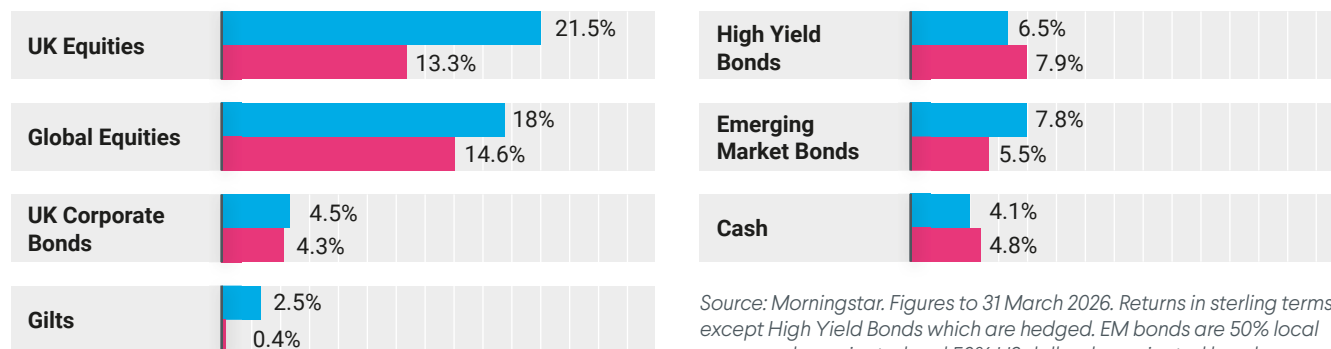
Key takeaways

- As a net energy importer, the UK is more sensitive to rising energy costs, with gilt yields rising significantly since the start of the conflict versus other developed countries, reflecting higher inflation concerns
- Although yields have fallen since the ceasefire, they remain around 40bps above preconflict levels, increasing government debt servicing costs and adding pressure to public finances
- This economic backdrop will likely see the Bank of England pause its rate-cutting programme, with markets now pricing a potential rate rise in 2026 to combat inflation (previously pricing multiple cuts)

Annual market summary: covering the 12 months to 31 March 2026

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 31 March 2026 versus the three years ending 31 March 2026. ■ 1 year ■ 3 years (p.a.)



Source: Morningstar. Figures to 31 March 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Market Volatility and Recovery

The period began with President Trump's 'Liberation Day' and subsequent market disruption and volatility. Markets recovered quickly, following a tariff postponement and indications of positive trade talks, but volatility persisted. This recovery continued over the third quarter of 2025 as better-than-expected corporate earnings, strong performance in the technology sector and the Federal Reserve resuming interest rate cuts, increased investor confidence. In the final quarter of 2025, overall equity performance remained strong despite concerns relating to the technology sector around the high valuations of these companies and the level of AI spending.

Geopolitical Escalation and Market Impact

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February and subsequent escalations caused a sharp fall in global equities, which ended the quarter negative. The energy sector rallied, benefitting most from the surge in global oil prices.

Central Bank Policy Developments

Over the period, the Bank of England cut interest rates by 0.75% to 3.75%, and the Federal Reserve resumed rate cutting in late 2025, also cutting rates by 0.75% to 3.75%. Most central banks took a cautious stance in the first quarter of 2026, pausing rate cuts in light of escalations

in the Middle East and the potential inflationary impact. Markets have moved from pricing in further rate cuts to pricing in a prolonged pause, and in some cases, the risk of renewed rate hikes over the remainder of 2026.

Equity Market Performance

Overall, the 12 months to 31 March 2026 were positive for equity performance, despite market volatility following tariff introductions and geopolitical events. The Asia-Pacific ex Japan and Japanese markets ended the period as the top performing regions.

Fixed Income and Credit Markets

Bond performance was positive across the different markets. Gilt returns were positive as a result of falling gilt yields over the period (bond prices rise as yields fall) as inflation receded in the final quarter of 2025, although yields rose considerably over the first quarter of 2026.

Corporate bonds outperformed government bonds over the period, supported by strong earnings growth. High-yield bonds delivered strong 12 month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall). Emerging market bonds delivered strong 12 month returns, benefitting from a weakening of the US dollar.



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