

MARKET REVIEW & OUTLOOK



April 2026



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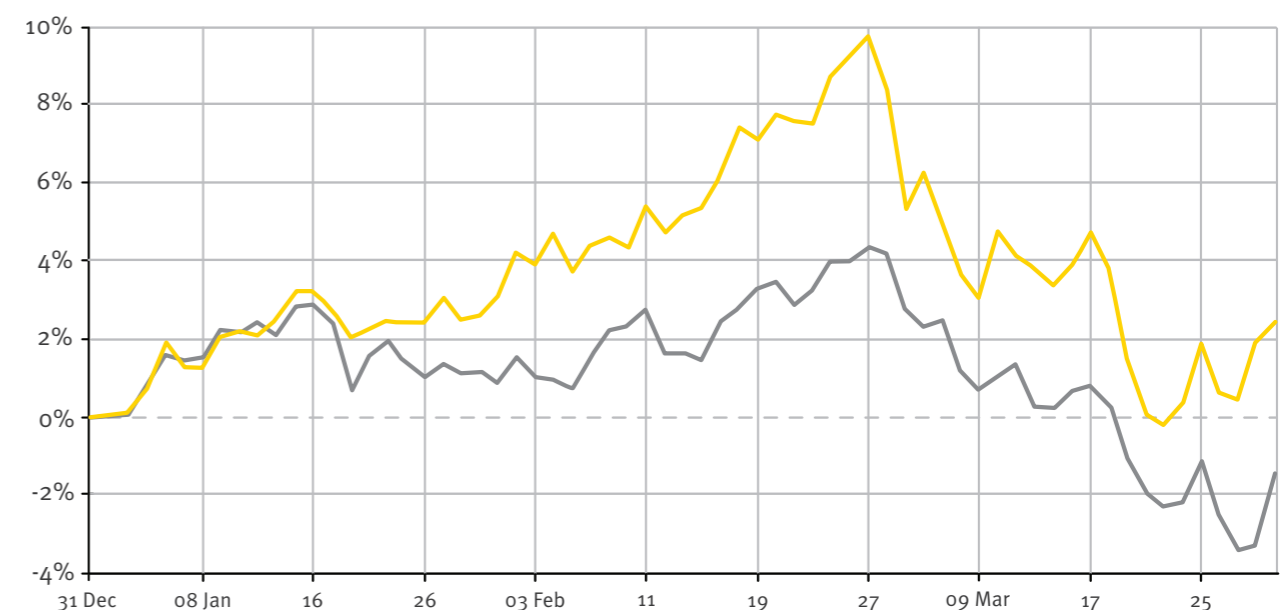
MARKET REVIEW

The positive momentum from 2025 continued into the first two months of 2026, with widespread asset class gains, however the conflict in the Middle East and its significant impact on energy prices created a challenging backdrop for investors in March and resulted in a relatively flat first quarter for most asset classes.

Whilst there had already been a number of challenges for markets to navigate prior to recent events in the Middle East, they had shown good resilience and had remained largely focused

on the ongoing broadly favourable backdrop of solid global economic and corporate growth, subdued inflation, declining interest rates and fiscal stimulus, with added impetus coming from the overall promising potential of artificial intelligence.

Unfortunately, the Middle East conflict caused a significant increase in energy prices, impacting both energy production and distribution due to the closure of the vital Strait of Hormuz, also impacting other important commodities such as



■ A - FTSE All Share TR in GB (2.41%)
 ■ B - FTSE All World ex UK TR in GB (-1.43%)

	31/03/2025 - 31/03/2026	31/03/2024 - 31/03/2025	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022
FTSE All Share TR in GB	21.5	10.5	8.4	2.9	13.0
FTSE All World ex UK TR in GB	17.3	4.8	20.8	-1.7	12.1

Total return income reinvested. Pounds Sterling.
 Data from FE fund info 2026

Please remember that past performance is not a reliable indicator of future results. The value of investments and the level of income received from them can fall as well as rise, and is not guaranteed. You may not get back the amount of your original investment.

fertiliser and helium. This changed the market narrative around inflation and interest rates, with rising inflation expectations causing central banks to revise their monetary policy stance away from the previously anticipated 2026 rate cuts. Economic growth forecasts have already seen some downward revisions for many countries, especially those most reliant on energy imports, but to date these have been relatively modest.

Recent market direction has been primarily linked to the ebbs and flows of prospects for an end to the conflict, but outside of these geopolitical tensions the focus in Q1 was also on developments around tariffs and artificial intelligence. A US Supreme Court ruling led to some tariff softening, and the growing focus on AI saw some concerns over the massive levels of investment and the potentially negative impact on sectors such as software. Economic data was relatively benign in the quarter, and central banks were mostly on hold regarding interest rates as they monitored the impact of the Middle East conflict.

After a strong start equities ended Q1 with mixed results. Within international equities, the overall index saw a sterling terms loss of -1.4%, with the dominant North America region seeing the largest losses and Asia Pacific ex-Japan the strongest gains. UK equities continued their good run, with the FTSE All-Share index gaining 2.4%. Q1 performance was aided by the UK's above average exposure to the energy sector, and modest sterling weakness helped export-oriented larger companies.

Fixed income markets were also impacted in March by concerns over inflation and changing interest rate expectations. For the quarter, UK gilts lagged with a loss of -1.9%, whilst other fixed income asset classes saw more modest losses or small gains.

The Middle East conflict paused the short-term UK commercial property market recovery, with

currently few active investors. Returns continue to be driven by income and rental growth and robust occupier demand, with an estimated Q1 market total return of 1.0%, whilst overseas real estate and infrastructure markets also saw modestly positive estimated returns as our relevant funds continued to gently build up their exposure.

Market outlook

Key Takeaways

Whilst we expected another active year of policy announcements from the US administration, the conflict in the Middle East has been an unwelcome development that has negatively impacted the global economy and investment assets. However, to date the underlying fundamental investment environment for a long-term investor remains broadly constructive although vulnerable in the shorter-term to an extended conflict.

Background Investment Environment

Heightened geopolitical risks and ongoing conflicts remain a potential cause for concern, and the Middle East is a key watchpoint for markets. The most direct impacts will be felt through energy prices and inflation expectations, disruption to global shipping routes, and changes in risk appetite. While markets have generally shown resilience to periodic escalations, a sustained rise in oil prices or material disruption to trade flows can complicate the inflation outlook and slow progress towards lower interest rates.

The damage to Middle East energy infrastructure has been especially concerning and will cause some lingering supply issues even if a lasting peace deal is reached, but if the conflict eases in the next few weeks we remain hopeful that lower energy costs will enable the focus to return to a still broadly positive outlook for the global economy and corporate profits. Some central banks are ready to raise interest rates if



necessary to deal with rising inflation, but they will be mindful of the economic impact and may look through the short-term inflation increase and remain on hold for a while unless energy costs escalate further.

Trade tensions and tariffs have been another worry for markets, but recent negotiations and a degree of adaptation by companies and consumers have resulted in a more limited impact on growth expectations than initially feared.

US political policy remains a source of market volatility, but history shows it is important for investors to remain focused on the key fundamental longer-term drivers such as growth, inflation, interest rates and valuations. Key policy uncertainties include conflicts, tariffs, immigration, the US budget, and central bank independence, although many still welcome the broadly pro-growth intent of tax cuts and deregulation.

Elevated government debt levels and ongoing budget deficits are a challenge in many countries such as the UK, and bond markets may demand higher returns if debts are not seen as sufficiently under control. There are plenty of current headwinds to controlling government spending, but recent UK fiscal messaging has provided

some reassurance following previous political concerns. Despite these debt challenges, several countries continue to lean on fiscal support to underpin growth, most notably Germany through significant spending plans for defence and infrastructure.

Economic and Rates Outlook

Inflation and interest rates remain key factors for investors, as evidenced by recent events, and how they develop will be important for the market outlook. Energy-driven inflation is likely to rise in the near term, delaying the rate cuts markets had expected for 2026. We do not expect a repeat of the inflation surge seen in past commodity shocks, and we believe parts of the market move towards pricing rate increases may prove premature, with the medium-term outlook remaining largely unchanged.

Despite subdued economic expansion in much of the developed world, and recent modest downward revisions to short-term growth projections, the global outlook remains reasonably robust at around 3% growth led by emerging market economies. Although the previous monetary stimulus will be fading, growth will still be supported by fiscal spending and from continued significant investment

in building out the infrastructure for artificial intelligence. It is likely to be another important period for AI, although investors will increasingly look for further evidence that a broader range of companies are adopting AI and delivering productivity gains and profit growth. This will be important in justifying the scale of AI investment and the elevated valuations seen across parts of the AI supply chain.

Cash and Investments Mix

In terms of investment opportunities, cash remains the baseline low-risk option and can play a useful role alongside other assets, although rate cuts have seen the UK bank rate reduce to 3.75%. Shorter-term rate moves depend on Middle East developments, but the medium-term outlook remains for rates to settle towards 3%. Compared to other countries UK citizens tend to have an above average exposure to cash relative to investment assets, but cash returns are unlikely to match the medium to long-term return potential from investing, so it remains important for investors to strike the right balance of assets to suit their risk appetite and to meet their longer-term growth aspirations.

Fixed Income Assets (Bonds)

Asset class valuations remain important, and within fixed income assets their prospects are much improved after the welcome increase in yields from the exceptionally low levels of the previous cycle. While the period of rising yields was painful for existing holders of many bond assets, the current more normalised level of yields is more supportive of positive returns. Renewed concerns over government debt levels or signs of accelerating inflation could still impact government bond returns, but with 10-year UK government bonds (gilts) yielding almost 5% and at a premium to other developed markets facing similar issues, it is widely considered that many of these risks are priced in, and gilts can provide useful income and balance in mixed asset portfolios. Other fixed income options such

as investment grade corporate bonds, high yield and emerging market debt offer higher income to compensate for greater potential risk. Corporate balance sheets overall remain in reasonable shape and default rates are still relatively low, so while additional yields over gilts (known as spreads) remain narrow by historic standards, overall yields of up to 8% continue to offer investors attractive levels of income.

Equities (Company Shares)

Equity markets have navigated the multiple challenges of recent years remarkably well, with companies benefiting from profit growth, easing interest rate pressures and structural opportunities in areas such as technology, healthcare, and increased defence spending. Large technology and especially AI-related companies have been a major driver of returns, which previously favoured the US market, but we have also seen periods of broader leadership in sectors such as banks, defence, industrials, and parts of the commodity sector. Some areas have been looking more fully valued, and profits remain vulnerable to Middle East developments, higher energy costs, and supply chain uncertainty, but for now corporate earnings forecasts remain healthy and many equity valuations are reasonable by historic standards. Whilst there will be winners and losers from AI, it has the potential to be a significant multi-year development for markets and credible evidence of widespread, profitable adoption would be supportive, with benefits spreading beyond the core AI technology leaders. Equities remain prone to bouts of volatility, but their long-term track record remains strong, and we retain conviction in their ability to provide relatively attractive longer-term income and growth potential for patient investors.

Within equities, the US retains many structural advantages including a large domestic and growing economy, plentiful energy supplies, a vibrant financial ecosystem, and corporate

leadership in key innovative areas such as technology. However, after a prolonged period of US equity outperformance and dollar strength, concerns over elevated valuations, political uncertainty and developments such as China's emergence as a credible competitor in areas like AI and electric vehicles, have encouraged investors to reconsider the US exceptionalism narrative and to broaden exposures. While we retain a meaningful allocation to US equities, we continue to diversify towards other more attractively valued markets such as Europe, Japan and emerging markets which also have their own strengths.

UK equities have faced some structural headwinds such as persistent outflows from institutional and private investors, a subdued domestic economy, and a limited exposure to listed technology stocks. However, valuation and dividend income levels remain attractive compared to other markets, as recognised by ongoing takeover interest from overseas buyers and private equity. It also contains many high-quality multinational companies across a variety of sectors, and as investors consider greater diversification, there is the potential for sentiment to continue turning towards markets such as the UK.

Private Assets (less liquid assets that are not publicly traded)

Within our private assets, the UK commercial property market would also be vulnerable to a prolonged conflict, but a resolution should see a pick-up in activity, and underlying fundamentals remain broadly positive. 2026 total return forecasts have been reduced to around 6%, with rental income remaining the main driver. Overseas real estate and infrastructure exposures continue to be established in appropriate portfolios, with the expectation that they will provide additional diversified sources of returns over time.

Conclusion

Headlines may remain challenging, and recent events have worsened the near-term inflation, growth, and interest rate outlook. However, the broader backdrop of resilient global economic and corporate growth remains largely intact, supported by fiscal stimulus and technology developments.

Despite ongoing fiscal sustainability concerns the overall valuation appeal of fixed income assets remains reasonable, and they provide good income and useful attributes in mixed asset portfolios. Some parts of the equity markets have been looking more fully valued after their previous strong run, and the exciting potential of AI will need to be delivered to justify valuations in that key area, but the longer-term attraction of equities remain intact and valuations, particularly outside of the US, remain relatively supportive given the healthy corporate earnings outlook.

Overall, whilst we remain mindful of the risks and the need to monitor the impact of current events in the Middle East, we continue to be broadly constructive on the outlook for investment markets. We will continue to look to manage the risks through diversification across different asset classes, sectors and geographies, and investors should remain focused on the longer-term attractions of staying invested through periods of short-term volatility.



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- Call us on 0800 622 323, our telephone lines are open on weekdays from 9am to 5pm
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