

Q1 2026 Market Commentary

The first quarter of the year was a mixed period, with most markets being strong in January and February as falling inflation and anticipated interest rate cuts propelled returns. In addition, government spending was also supportive in Germany and tax cut extensions in the US. In March this rotated as the Middle East conflict between the US and Iran knocked markets as concerns around energy and the implications of a blockade on the Strait of Hormuz raised the prospects of potentially higher inflation, and less rate cuts impacted growth at the same time. We are just over a month into the conflict at the time of writing and feel the fluidness of the conflict requires stability in our approach. Indeed, an end to the conflict could potentially come quickly and the risk on environment could return but, we are also conscious of a longer conflict and potential implications. We at this point continue to remain blended in geographies, asset allocation, sectors and companies and remain actively engaged with our fund managers around the possibility of a longer conflict and how companies may be positioned to deal with increased inflation as every company is different.

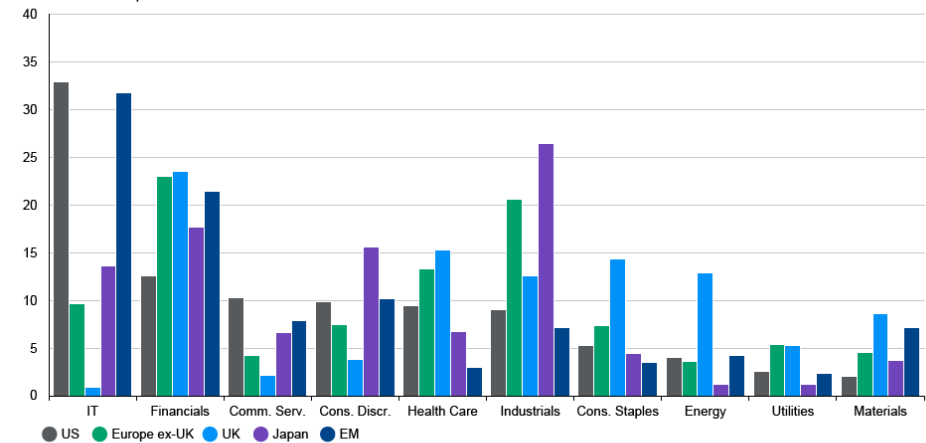
In other asset classes some profit was taken from Gold and Precious Metals after a strong run as investors looked for easy liquidity as the conflict commenced. Commodities performed strongly as Oil and Liquefied Natural Gas (LNG) supply side issues with the effective close of the Strait of Hormuz boosted prices. Fixed income had a mixed quarter akin to equity markets. In the early part, inflation reducing and rate cuts expectation sharply rotated after March to the prospect of potentially higher interest rates for longer and inflation going back up. We will continue to engage with our active managers as they navigate the ongoing market dynamics.



Geopolitical events are generally unwelcome in markets. Investors have seen many events over the past five years. In general, markets tend to react, absorb the information and then recover quite quickly.

Portfolios are diversified across asset classes, geographies, sectors and businesses to help spread risk over investment time frame. The chart below shows the % allocation within various global markets. The UK allocation to energy with the large cap indices as a standout as well as the allocation to IT in the US. This also illustrates the concentration amongst the indices which investors are often unaware of.

Global equity sector weights
% of total market cap



Source: LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. Indices are MSCI except for US, which is S&P 500. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2026.

Equities

The UK market, as measured by the Morningstar All Cap index, was up by 2.81% over the quarter as a combination of higher energy exposure helped returns. Corporate earnings overall remain resilient at this point with companies on the whole in a strong position. We continue to actively engage with fund groups on the implications should inflation become elevated again and how they are positioned to deal with this if the conflict goes on longer than anticipated.

The US market had a volatile quarter, as concerns around AI and earnings relative to valuations caused concern alongside the events in the Middle East. The dollar rallied as a traditional safe haven in risk-off environments. There was also a strong sell-off in some of the software names as concerns that new AI capabilities would significantly reduce the ability of the companies to grow margins moving forward. We have engaged with our active managers and whilst mindful of the potential disruption, feel careful stock selection will be key and it won't be an immediate change with many of these companies having their own proprietary data. In addition, many of the businesses who use the software have been using them for long periods of time and feel a change without full confidence in the new AI tool is unlikely in the short-term, particularly in professional services.

In Japan, equity markets appreciated but were volatile with concerns in March around the reliance on energy from the Iran region causing some short-term issues. Yen weakness alongside the ruling Liberal Democratic Party winning a snap election boosted markets in January and February. The appetite for Japanese exposure remains, as we see corporate governance reforms and companies are buying back shares at a greater pace. At the company level there are increased dividends supported by robust earnings. These catalysts look supportive moving forward.



In Europe, shares were weak over the quarter as geopolitical tensions impacted markets with a sharp increase in European gas prices and concerns around the impact on growth. Energy and hardware/semiconductors names performed well with the more economically sensitive areas such as consumer discretionary lagging over the quarter.

Emerging Markets and Asian markets had a volatile month as positive AI sentiment boosted stocks in Taiwan and Korea prior to the conflict, which was offset in March, with concerns around the amount of energy exports coming through the Strait of Hormuz (more than 80% of exports coming from this region). India struggled throughout the quarter with a combination as an oil importer, some growth concerns, and high valuations impacted. China also underperformed as some of the AI related advances impacted some IT stocks. The large oil reserve helped to offset some of the supply concerns from the Middle East.

Fixed Income



The FED kept rates on hold as the early quarter rate cut hopes were reversed in March as Middle East concerns led to increased government bond yields and the FED adjusted up their initial inflation projections and markets priced out the prospect of rate cuts for 2026.

The Bank of England held rates over the quarter and gilt markets were volatile in March, shifting rate cut expectations from two cuts for 2026 to four hikes. At this point we feel this seems extreme given where current rates are relative to 2022 and also the poor outlook for growth at this point. A sharp rates increase would be hugely problematic for growth at this point. The annual Consumer Price Index (CPI) inflation rate has started to fall back again to 3% but the recent events are likely to move this higher in the short term to some extent. Corporate debt continues to offer attractive income with defaults continuing to be low and balance sheets remain robust at this stage.

The ECB kept interest rates on hold with concerns around potential inflation from the energy position with President Lagarde stating the ECB are “well positioned and well equipped to deal with a major shock”. The growth expectations at the last meeting in March have been revised down to 0.9%, and then up to 1.3% for 2027 given the Middle East events. Unemployment remains low at 6.2% although demand for labour has weakened.

In credit markets the US was the standout performer relative to European counterparts, corporate balance sheets remain strong at this point.

Outlook

Looking at the investment outlook for the long term, we continue to focus on fundamentals and what drives investment returns over investment time frames. Over the last twelve months we have seen indiscriminate moves across markets, sectors, and individual companies which are short term and lacking fundamental support. Many short-term market movements are sentimental and reactionary without long-term consideration to how individual companies are performing and adapting to the economic environment. The dislocation in markets presents opportunities for active management.

Corporate earnings for now remain supported, and the US consumer remains in good shape with a tight job market. The outlook is mixed with a possible slowdown ahead of a slight pickup in unemployment. We do not envisage a deep recession in the US but will continue to keep a close eye on economic developments. We continue to focus on what drives asset class returns over investment time frames.

We continue to actively engage with all our fund managers on both a routine and ad-hoc basis to monitor how they are positioned and how the underlying companies are doing against wider media headlines and political changes if, and when, these get implemented. We remain focused on equities favouring active managers, who have been trimming and adding to positions when opportunities arise.

We remain overweight in a pool of diversified real asset funds. Some of the underlying investments in the funds are assets with inflation linked contractual payments often backed by governments. The more rate sensitive areas in this space such as Infrastructure and Real Estate should start to benefit as bank rates start to come down. At present many are attractively valued, offering a good level of income and potential appreciation. Increased corporate activity and internal buying back shares may also unlock the underlying value across the asset class.

Our portfolios remain blended and diversified throughout regions/sectors and asset types and will perform different roles in the portfolios over investment time frames. We continue to focus on

longer term drivers of asset class return and not trying to second guess short term sentiment or be too reactive to macro/geopolitical events.

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