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FINANCIAL PLANNING

Market Update

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TITAN SQUARE MILE

The Macro

In summary, the first quarter of 2026 started on a cautiously optimistic note, with policymakers maintaining a holding pattern and central banks signalling they would respond to incoming data. Growth forecasts remained modest, with global expansion projected at 3.3 per cent for the year (1), whilst inflation was expected to continue cooling in most regions. However, the quarter delivered a sharp shock in late February when geopolitical tensions in the Middle East erupted into open conflict, sending energy prices soaring and forcing policymakers and investors alike to recalibrate their expectations about the path ahead.

Through January and early February, economic data painted a mixed picture. In the United Kingdom, consumer price inflation eased to 3.0 per cent in the year to January, down from 3.4 per cent the month before (2), giving the Bank of England some room to manoeuvre. The Bank held its policy rate at 3.75 per cent at both its February and March meetings (3), conscious that whilst inflation remained above target, labour market momentum had weakened and growth had lost pace. The latest data suggested the economy expanded by just 0.1 per cent in the final quarter of 2025 (4), leaving policymakers wary of tightening conditions unduly. Across the Atlantic, the Federal Reserve similarly opted to stand still, maintaining its policy rate in the 3.5–3.75 per cent range (5), with officials noting that whilst economic activity remained solid, job growth had stalled and uncertainty loomed. The European Central Bank kept rates unchanged as well, seeing inflation tracking towards its 2 per cent target (6).

The mood in financial markets during these early weeks was broadly constructive. Companies began reporting earnings results, and technology firms in particular issued guidance suggesting a robust outlook for revenue and profit growth. A record number of information technology firms issued positive earnings guidance for the first quarter, signalling that the heavy investment in artificial intelligence infrastructure over the past two years was finally beginning to translate into tangible returns.

This optimism proved fragile. In late February, tensions between the United States, Israel and Iran escalated sharply, prompting Iranian military retaliation with a barrage of missiles and drones across the Middle East region. The strikes disrupted energy infrastructure and shipping routes, most critically the Strait of Hormuz, which handles roughly one-fifth of global oil and liquefied natural gas flows. Oil prices, which had been trading in a stable range, surged to well above USD 100 per barrel (7), as markets repriced the risk of prolonged supply disruption. By late March, Brent crude had climbed as high as USD 104 per barrel before easing somewhat as ceasefire negotiations gained tentative momentum (8). Energy prices in Europe climbed even more sharply than in the United States, since Europe relies far more heavily on Middle Eastern energy imports.

The implications of this energy shock rippled through economic forecasts. Central banks rushed to revise their inflation projections upwards. The Bank of England warned that consumer price inflation could surge to around 3.5 per cent by the middle of 2026 if energy prices remained elevated (9), whilst the European Central Bank also raised its headline inflation forecast for 2026. Growth forecasts, by contrast, were revised lower. Policymakers faced an uncomfortable choice: inflation was ticking back up, but growth was faltering. This stagflationary dynamic, familiar from previous oil shocks, left them reluctant to cut rates as aggressively as markets had been pricing in at the year's start.

Bond Markets

In Q1 2026, global bond markets suffered a series of shocks that rewrote the expected path of interest rates and reshaped portfolio positioning.

Through January and into February, government bond markets were relatively calm. The Bank of England held rates steady, and investors had expected a gentle continuation of rate cuts through the spring. UK government bond yields eased lower as risk appetite held and inflation data surprised to the downside. Sterling gilt yields moved down modestly, with the ten-year yield settling in around the mid-4 per cent range (10). Across the Atlantic, US Treasury yields remained stable, as investors priced in further rate cuts from the Federal Reserve.

The Iran conflict changed the picture dramatically. As energy prices surged in late February and early March, inflation expectations shifted. Investors rushed to reprice the expected path of monetary policy, with rate cuts looking less certain and potential rate rises re-entering the discussion for the first time in months. UK government bond yields climbed sharply, with the ten-year rising above 4.9 per cent by late March, reaching levels not seen since mid-2008 (11) and US Treasury yields followed suit. The move was particularly severe in the United Kingdom, where the energy shock hit harder and where inflation had only recently fallen back towards target.

The effect on bond prices reflected genuine uncertainty about the outlook: would the conflict be resolved quickly, allowing energy prices to fall and growth to stabilise, or would it persist, forcing central banks to navigate the difficult balance between fighting inflation and supporting a slowing economy?

Corporate bond markets experienced similar volatility. Credit spreads, which had been historically tight at the year's start, widened modestly as risk appetite faltered (12). Investment-grade issuers found funding conditions less friendly than in January. However, the deterioration was not disorderly; corporate balance sheets remained solid, and the rise in underlying yields actually provided more attractive carry for fixed-income investors entering the market.

Emerging market debt also sold off alongside energy prices, as many emerging economies are net energy importers and thus particularly vulnerable to oil shocks.

Equity Markets

Equity markets began 2026 in an upbeat mood, with technology stocks leading the way as earnings season kicked off and artificial intelligence enthusiasm reached a fever pitch. Many strategists were forecasting double-digit gains for the year. By mid-March, this optimism had given way to considerable anxiety, with markets down sharply as the Iran conflict escalated, and investors fled to safer assets.

The sell-off was swift and broad. By late March, major equity markets globally were down materially from their early-quarter highs, as oil prices spiked and recession concerns mounted.

Defensive sectors such as utilities and consumer staples, which had lagged earlier in the year, suddenly began to outperform as investors sought shelter from volatility. Energy stocks rallied sharply on the back of soaring oil prices, providing one of the few bright spots in the market. Technology stocks, which had been momentum leaders through January and early February, stumbled as profit-taking kicked in and concerns emerged that higher energy costs would crimp corporate margins. The outperformance of "mega-cap" technology companies, which had driven much of the gains in late 2025, began to reverse, with a notable rotation into more traditional cyclical and defensive holdings.

Regional dynamics also shifted. US equities proved relatively resilient compared to European markets, partly because the United States is a net energy exporter and thus faces a smaller drag from oil price shocks. The UK market was hit particularly hard, with Sterling weakness adding to the pain for overseas investors and reflecting both the energy shock and the prospect of higher rates for longer from the Bank of England. Emerging market equities staged a mild recovery into late March as hopes of a ceasefire lifted some of the geopolitical risk premium, though the quarter remained volatile for the asset class.

The geopolitical uncertainty also depressed equity valuations. Forward earnings multiples, which had looked stretched at the year's start, compressed as the profit outlook came under pressure. Consumer confidence also took a hit, with sentiment surveys showing a meaningful deterioration, particularly among higher-income households which had been providing crucial support to spending (12). This broadening of weakness across the wealth spectrum raised concerns about the resilience of the consumer.

Dollar strength emerged as a theme during the conflict, as investors sought the safety of US assets. Sterling similarly weakened against the dollar, despite the prospect of higher rates from the Bank of England, as the energy shock and growth concerns outweighed rate differentials.

Outlook

As Q1 2026 drew to a close, policymakers face an uncomfortable environment. The path of monetary policy, which appeared clear at the year's start, is now murky. The Bank of England held rates in March and signalled it could move either way depending on how the energy shock plays out. The Federal Reserve likewise signalled caution, noting that it will assess data carefully before deciding whether to cut rates as expected. The European Central Bank faces perhaps the greatest challenge, with energy-dependent Europe facing a more severe stagflationary squeeze.

The resolution of the Middle East conflict is critical to the outlook. If diplomatic efforts succeed in stabilising the region and energy prices ease, central banks may be able to return to modest rate cuts by mid-year and the risk of recession would recede. If, by contrast, the conflict drags on and energy prices remain elevated, inflation could re-accelerate, forcing policymakers to hold rates higher for longer and weighing materially on growth. Markets currently seem to be pricing in the latter scenario with higher rates now expected for 2026.

Corporate earnings have proven resilient so far, with technology firms in particular demonstrating that artificial intelligence investment is delivering returns. However, higher energy costs, supply chain disruption and weakening consumer sentiment pose downside risks to profit growth in coming quarters. The labour market, which has been a surprising soft spot all quarter, could weaken further if companies face margin pressure and choose to cut costs through headcount reductions.

Asset allocation strategy should remain focused on diversification and quality. Equity valuations at the start of Q1 looked stretched, and the volatility of recent weeks has reset them somewhat, but caution remains warranted. Within fixed income, the rise in yields has created more attractive entry points for investors with a medium-term horizon. The geopolitical backdrop remains fragile, and further shocks cannot be ruled out. In such an environment, positioning for resilience and holding a broad mix of exposures seems prudent. The market excesses of late 2025 have been partially corrected, but risks remain tilted to the downside in the near term.

All Information Sourced from: IMF (1), ONS (2, 4), Bank of England (3, 9), Federal Reserve (5), European Central Bank (6), The Times (7,8), Trading Economics (10,11), Aberdeen (12), and other reputable sources.

Date of data: 26 March 2026.

Research Sources

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