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INVESTOR INSIGHT

A look at the markets by RSMR

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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

A strong start overshadowed by global tensions.

The first quarter of 2026 was a story of two very different moods. Markets began the year with confidence, supported by strong company earnings, easing inflation, and hopes that interest rates would fall steadily throughout the year. Global stock markets reached new highs in February, and investors were broadly optimistic about the outlook.

This positive momentum faded quickly in March as the conflict in the Middle East escalated. What initially appeared to be a short, targeted intervention has evolved into a prolonged and unpredictable confrontation. The closure of the Strait of Hormuz - one of the world's most important trade and energy routes - has added a new layer of uncertainty for global markets.

As a consequence, energy prices rose sharply, inflation concerns resurfaced, and bond yields climbed as investors reassessed the likelihood of interest rate cuts. Stock markets became more volatile, reacting to every new development in the conflict. Despite this, not all regions struggled. The UK and Japan delivered positive returns over the quarter, and emerging markets continued to offer attractive long-term opportunities.

Inflation remains a central theme. Higher oil and gas prices are putting pressure on households and businesses, and central banks are being cautious about easing policy too quickly.

Overall, the global economy is still growing, but the path ahead is less predictable than it appeared at the start of the year.

> "Stock markets became more volatile, reacting to every new development in the conflict."

The asset classes – a quick round-up

EQUITY MARKETS

The UK economy is growing slowly, with rising energy prices expected to push inflation higher later this year. Despite these challenges, the UK stock market has performed better than expected, supported by large global companies in sectors such as energy, financials, and consumer staples. These firms generate significant overseas revenue, helping offset domestic weakness. In contrast, smaller and mid-sized companies have struggled due to pressure on consumers and higher borrowing costs. While volatility may remain elevated amid the ongoing Middle East conflict, UK equities still appear attractively valued relative to global peers.

The US economy has been more resilient, largely due to its domestic energy production. Although petrol prices have increased, rises have been less severe than in Europe and Asia. This has supported consumer spending and business stability. A stronger US dollar, driven by investor demand for safety, has also bolstered markets. Retail investors continued buying during dips, while institutional capital returned from overseas. However, prolonged conflict could eventually slow global growth and impact the US, though it remains the strongest major economy for now.

Europe entered 2026 with modest growth expectations, but rising energy costs linked to geopolitical tensions threaten to push inflation higher again. This may limit the European Central Bank's ability to cut interest rates. Growth is expected to remain weak, and structural challenges mean Europe is likely to lag behind the US.

Emerging markets began the year strongly, with China benefiting from policy support despite ongoing structural issues. India faced headwinds from inflation and currency weakness, while Latin America, particularly Brazil, performed well before retreating amid rising uncertainty.

Japan saw strong market gains early in the year, supported by a weak yen and corporate reforms. Despite recent volatility, it remains well positioned for recovery as global conditions stabilise.

FIXED INTEREST

Bond markets were unsettled during the quarter as rising oil prices pushed inflation expectations higher. UK government bond yields rose to their highest levels since 2008, with the 10-year gilt yield moving above 5%. This reflects concerns that inflation may remain higher for longer, delaying the prospect of interest rate cuts.

Short-dated gilts (UK government bonds) performed better than longer-dated ones, as their prices are less sensitive to changes in interest rate expectations. Corporate bonds held up relatively well, supported by strong company balance sheets and steady demand from investors seeking income.

High-yield bonds (these are higher risk bonds with higher interest payments) delivered small positive returns, although investors are becoming more selective as economic risks rise. Private credit markets are also under pressure as the uncertain backdrop raises concerns about future borrowing conditions.

Global government bonds also weakened as oil prices climbed above $100 per barrel, reviving inflation fears. Monetary policy is no longer aligned across major economies, adding to volatility.

ALTERNATIVE INVESTMENTS

Infrastructure investments continued to provide steady, defensive income, although energy price volatility remains a challenge. Many infrastructure assets benefit from inflation-linked revenues, which helped support returns during the quarter.

Commodity markets were mixed. Oil prices surged due to supply concerns, while gold - which usually rises during uncertainty - fell unexpectedly as investors sold assets across the board. Agricultural commodities were stable but vulnerable to fertiliser supply disruptions caused by the conflict.

Commercial property markets showed early signs of stabilisation after two years of adjustment. Rental growth remains strong in high-quality sectors such as logistics, data centres, and modern offices. However, returns remain driven mainly by income rather than rising property values.

RSMR Global round-up

- Markets started the year strongly but lost momentum as the Iran conflict escalated.
- The UK and Japan delivered positive quarterly returns from stock markets as these markets were seen as less reliant on technology/AI stocks.

- The US remains the most resilient major economy with low unemployment and strong consumer spending levels.
- Europe faces renewed inflation pressures from higher energy prices and weak growth.
- Emerging markets offer value at current market levels but face increased uncertainty because of the geopolitical situation.
- Bond yields rose sharply reducing capital values, delaying expectations for interest rate cuts.
- Alternatives such as infrastructure and selective commodities provided diversification benefits offering an offset to falling stock markets.

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SO, WHAT'S NEXT?

The biggest question for markets is how long the conflict in the Middle East will last. A prolonged disruption to energy supplies could slow global growth, while any progress toward peace would likely trigger a strong rebound in markets.

For long-term investors, the most sensible approach remains staying invested and avoiding attempts to time short-term market movements. Historically, markets have recovered quickly once uncertainty begins to ease.

Diversification - across regions, sectors, and asset types - remains essential. While the current environment is challenging, it also creates opportunities for patient investors.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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