

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	6.2%	11.6%	17.7%	23.1%
Global Equities	3.6%	4.0%	12.2%	15.5%
UK Gilts	2.2%	2.4%	3.8%	1.4%
UK Property	0.8%	1.5%	2.8%	5.5%
Gold	6.6%	23.3%	53.4%	72.6%
Commodities	0.0%	3.1%	5.9%	1.0%
Sterling	-1.2%	0.5%	-0.7%	-0.1%

Returns to 27th February 2026. Source: Refinitiv

Market Overview

‘Events, dear boy, events’, a quote attributed to Harold Macmillan, aptly describe the first couple of months of 2026. Having initially intending to cover the improving prospects for global growth and spiralling spend on AI infrastructure, the weekend strikes on Iran, by Israel and the US, present a very different picture. The initial financial market response to the conflict has seen traditional safe havens such as gold and the US dollar rise in value, along with the price of oil, given how much comes from the gulf region.

Obviously with barely two days of conflict there is no way of knowing how long it will continue and what level of disruption it will cause. Following the short blitz on Iran last year and the brief military incursion in Venezuela, markets have pulled back a bit, but not significantly, probably in the hope that this latest clash will have a limited duration also. However, this is anything but certain as it has already embroiled other countries and is potentially much more serious in its consequences. Additionally, if regime change in Iran is the goal, there is no knowing what sort of regime might follow.

Looking back at February, markets continued to rise, as slightly more encouraging economic data reports and helpful company results maintained the positive mood. This was particularly true of the UK, where a better inflation report encouraged expectations of lower interest rates. The Hyperscalers continue to commit vast sums to AI investment, boosting economic growth, but have also caused fears that its rapid development might consume existing businesses as much as lift general productivity. Again, much is unknown.

Making knee jerk reactions without certainty is more often rued in time, than seen with relief. We continue to invest with broad diversification to cover a range of outcomes and maintain a very close watch as events unfold.

Concern about a military strike on Iran has proved real. Having already risen back over \$70 per barrel, oil is currently close to \$80. OPEC+ has agreed to hold production quotas going into 2026, but if it cannot be shipped out of the Strait of Hormuz, there will be a shortage globally. The same goes for gas and the supply of LNG from the region. Industrial metal prices have been strong following supply restrictions after several significant mine disruptions and closures. Gold and silver prices have climbed back close to their January highs.

Global supply chains will be further challenged, by the conflict with Iran, adding to security concerns and the US Supreme Court declaring the initial Trump Tariffs illegal, adds to uncertainty. China as the dominant supplier in several crucial product areas, such as rare earth metals where they control ~90% of global processed supply, look well-placed to keep competitive advantage in a range of manufacturing areas.

A global interest rate cutting cycle (bar Japan and Australia) is still likely. Small companies along with households should benefit. The yields on long bonds have steadied recently, despite being sensitive to the growing levels of government debt across the western world. Big 'ifs', but If we get some tariff certainty, and lower costs of debt, it might encourage some long-term investment commitments, outside of AI.

2025 saw a significant number of takeovers for property REITs with large discounts to underlying asset value attracting interest. Listed infrastructure trusts also trade on wide discounts, UK renewable energy focused plays have been unsettled by proposed changes to government set pricing. Despite windfall taxes and regulatory uncertainty there is still plenty of room to grow.

Politicians are having to tread a careful line on fiscal policy, with a reluctance or inability to cut costs and substantial budget deficits adding to national debt, testing bond markets' willingness to provide finance. In the US tariffs are meant to fill some of the hole, whilst

elsewhere tax increases are looking increasingly likely; none more so than the UK budget having raised taxes for a second time.

In the UK and Europe economic activity and confidence remain fragile, but there had been a slightly more positive run of economic reports, prior to the Middle East situation. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. There is some softness beginning to emerge in the employment market, although real wages continue to grow after a long period of erosion and a rise in household savings means consumer finances are generally quite healthy, even if confidence isn't.

Company results in 2025 held up well in general, with aggregate reported profits advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere, with increasing signs that tariffs are being passed through. Some consumers though have been showing greater price sensitivity, in what has been called a 'K' shaped economy, where those without investment savings, continue to struggle.

Obviously, the outbreak of conflict with Iran dominates everything and it is perhaps sobering to reflect that the conflict between Russia and Ukraine, has entered its fifth year. Lasting peace feels distant. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance.

Clearly peaceful settlement would be in everyone's interest, but there is no immediate sign of that currently. Financial markets are likely to be volatile as they scrabble around for certainty. Trying to stay calm in this atmosphere is a challenge, but is likely to provide a better outcome than rash decisions on emotional judgement.

Market Outlook

Equities	With many stock markets making new highs in February, we would naturally expect to see some retracement after the military flareup of hostilities in the Middle East. If these prove to be prolonged, they are likely to weigh on economic activity, especially if oil and gas prices are squeezed higher. If they settle quickly, then economic disruption should be limited, and markets should recover their poise. However, as of now, there is no way of knowing how events unfold!
Fixed Interest	Both the Bank of England and the US Federal Reserve Bank held back from cutting interest rates in February, but the Bank of England is most likely to follow up with another cut, following better than expected inflation numbers. The M East hostilities would normally see money flow into sovereign bonds for safety, but the initial response has seen them sell off, this may reflect concern over increased pressure on fiscal deficits.
Commercial Property	M&A activity in property trusts (REITs) continues, as market stabilisation and steep discounts to quoted asset values have attracted takeover offers. This has probably been aided by a growing consensus that supply, and demand have settled down and rents for good quality property are rising. Additionally, with higher build costs and higher energy standards required, it is still cheaper to buy, than to build new.
Alternative Assets	UK Infrastructure investment funds had a tricky year, with uncertainty over assumptions on the cost of debt, government reimbursement rates and private equity valuations. As these settle down, we would expect volatility to ease and steadier returns to be generated. Gold and metals saw wild moves in January, reflecting the uncertainty in institutional and geopolitical stability. Given the uncertainty remains, demand for gold is unlikely to disappear, but fluctuate!
Cash	The investment return on cash and cash like instruments is 'safe' but expected to gradually decline through 2026.

Drumnor Investments

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