

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	-7.2%	1.5%	7.3%	17.5%
Global Equities	-5.5%	-1.3%	2.1%	17.2%
UK Gilts	-3.9%	-1.5%	-0.9%	-1.7%
UK Property	0.0%	1.1%	2.3%	5.1%
Gold	-10.3%	9.0%	23.1%	44.8%
Commodities	21.8%	28.3%	28.9%	22.7%
Sterling	0.3%	-0.4%	-0.5%	-0.8%

Returns to 31st March 2026. Source: Refinitiv

Market Overview

To call events in the Middle East fluid, is probably an understatement. Trying to make sense of the conflict in market terms can cause whiplash, but it seems like it has not gone exactly as President Trump might have hoped! With the Iranian regime's existence under threat and their military capability depleted, they quickly weaponised the economic chokehold of blocking the Strait of Hormuz and dragged most other Gulf States into the conflict.

Financial markets have had to quickly recalibrate for risk, with many correcting (-10%) and most giving up all the gains made over the first two months. However, markets appear to reflect a conflict that will be limited to weeks in its scope, rather than extended. This is the situation as we start April, but there is no certainty. Trump's tariff 'Liberation Day' of a year ago seems like a distant memory and the Supreme Court's ruling against them passed with little fanfare.

Many of the traditional financial assets sought as defence in times of elevated risk did not offer protection through March. The potential inflationary impact saw government bonds sell off heavily and gold had one of the biggest falls (although still up year-to-date), weakened by a stronger dollar and higher bond yields, but also as a readily sellable asset with liquidity pursued in falling markets. Commodities provided the upside, most obviously with oil and natural gas, but also in aluminium and fertiliser which the Gulf region is also a significant supplier of. In the case of some refined products, such as aviation fuel, the price rise has been double that of oil. Much of this will feed into inflation very quickly.

With the path of the conflict still highly uncertain and subsequent economic impact equally vague, we hope that the financial pain being endured, not to mention the human suffering, will encourage a speedy resolution. Most portfolios are still up on the year with diversification to cover a range of outcomes, as we closely watch as events unfold.

Energy prices have soared on the back of the conflict, with 20% of global oil and LNG supplies ordinarily flowing through the Strait of Hormuz. Damage done to Gulf infrastructure, notably Qatar LNG facilities, will take time to repair after conflict ends meaning energy prices are likely to be higher than pre-conflict levels for this year at least. Other commodities, such as aluminium and fertiliser, which also need to be exported through Hormuz have also seen sharp price rises.

Global supply chains have been significantly challenged, by the conflict with Iran, adding to security concerns. Asia, followed by Europe have proven to be most exposed, with some Asian countries already restricting fuel availability. China with its rapid transition to renewables looks well-placed to keep competitive advantage in a range of manufacturing areas. We appear to be in an era of bottleneck supply constraints, rather than the era of globalisation we were used to.

A global interest rate cutting cycle is currently off the table, unless a significant recession takes hold, which nobody hopes for. Bond yield curves have risen substantially, as markets price in possible interest rate increases to combat inflation and long dated bonds factor in ever larger deficits over increased government spending commitments.

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 were designed to fill some of the hole, but that is now uncertain. Squaring the circle on reducing fiscal deficits is becoming increasingly difficult and economic growth required to help in this process, still in short supply.

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 but may now benefit from the price jump in carbon-based energy sources.

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. In aggregate, both household and business balance sheets 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. Profits forecasts are likely to be significantly revised with first quarter results. 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 conflict with Iran dominates everything and it is perhaps sobering to reflect that the conflict between Russia and Ukraine, is in 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	The conflict across the Middle East led to nearly every stock market pulling back, with most giving up all the gains from January and February. With no certainty of duration, or eventual resolution, markets are assuming that the conflict will end sooner rather than later. The economic consequences have been negative and could be significantly so if prolonged. But we start April with some hopes of early resolution, encouraged by channels of communication and an economic imperative on all sides.
Fixed Interest	Bond markets were as dramatically impacted as stock markets in March. Most central banks held their policy rates in March but indicated a willingness to raise interest rates should the situation in the Middle East push inflation up. Bond yield curves rose significantly, particularly over shorter time periods, to reflect the changed stance on monetary policy. This will hopefully be an overreaction; however, events are not helping the outlook for reducing government deficits.
Commercial Property	The sharp rise in the cost of debt has put a cap on the gentle recovery that has been taking place in property. M&A activity will be put on hold to reassess return assumptions, but if markets calm down and the cost of financing eases it is likely to recover. Discounts on listed property are still significant, and 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 have had a tricky period, with uncertainty over assumptions on the cost of debt, government reimbursement rates and reliability of private equity valuations. However, both insulation from AI disruption and a sharp rise in energy costs, helping renewables, are attractions. Commodities have risen notably because of Gulf supply constraints, but gold fell sharply as investors sought liquidity in stressed conditions. Given the current uncertainty, demand for gold is unlikely to disappear.
Cash	The investment return on cash and cash like instruments is 'safe' and provide ballast to portfolios in current markets.

Drumnor Investments

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