

## Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	2.4%	0.9%	6.2%	21.1%
Global Equities	7.2%	4.9%	4.5%	28.9%
UK Gilts	-0.4%	-2.1%	-4.0%	-3.9%
UK Property	0.5%	0.9%	2.4%	4.9%
Gold	-3.0%	-7.3%	12.3%	37.3%
Commodities	3.3%	25.8%	28.6%	39.9%
Sterling	1.3%	-0.5%	1.9%	-0.3%

Returns to 30<sup>th</sup> April 2026. Source: Refinitiv

## Market Overview

Two months after the start of military actions by the US and Israel against Iran, there is still little clarity on what the outcome will be. A ceasefire, of sorts is uneasily in place, but clashes continue to occur and the Strait of Hormuz is still effectively closed. Remarkably stock markets rallied in April, despite the uncertainty and elevated energy costs. Two factors largely explain this, AI and peace discussions. Despite the headline verbal enmity, the fact that proposals are being made gives hope that resolution can be found. AI meanwhile continues to be an economic locomotive, driving both tech company quarterly results and capital spend.

Company reports for the first quarter have clearly reflected the rush of AI investment which, along with surging trading profits at oil companies and banks, boosted US stocks in particular. However, apart from those able to take advantage of the volatility created by the conflict, there has been limited time for any raised costs to impact on reported earnings of others. Most outlook statements reflect caution and uncertainty, but little by way of expected impact on earnings.

Central banks, by and large, made no change to interest rates in April, similarly referencing the high level of uncertainty and waiting for more data. Most highlighted the negative impact a prolonged conflict would have on inflation and growth prospects and have their finger on the trigger to raise rates should the inflation outlook worsen. Bond markets, in contrast to stock markets, did not recover in April and are baking in expectations of higher interest rates.

Supply shortages from the Gulf have, to some extent, been offset by releases from strategic reserves, but will increasingly start to impinge on real activity. Whilst we wait for the pain endured by both sides to start some blinking in the standoff, most portfolios are deliberately diversified to cover a range of outcomes, as we watch closely.

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. The embroiling of other Gulf states in the conflict, has led to the UAE leaving OPEC, potentially freeing supply in the future. 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. Globalisation and free flowing supply, look to be in the past, replaced by supply disruption and resource nationalism.

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. Added to this is growing unease about the quality of private credit lending which, although nominally outside the banking system, is often highly geared and has increasingly been invested in by pension funds and insurance companies.

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 data has yet to report any significant downturn from 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.

First quarter company results in 2026 have generally beaten expectations, especially for the dominant US tech companies and their suppliers, driving the push of AI, but more mixed elsewhere. Profits forecasts for 2026 have actually risen in the US, since the onset of the Iran conflict. 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. Wars are easier to start than finish. 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	Stock markets recovered in April as fragile ceasefires across the Middle East were agreed and hopes that this would lead to resolution and the opening of the Strait of Hormuz. However, it currently remains firmly closed and is leading to significant supply problems across a range of products, not just energy related. For now, markets are prepared to look past this and are focused on the growth surge emanating from almost everything AI related.
Fixed Interest	Bond markets have not enjoyed the recovery seen in stock markets as the inflationary impact of higher energy prices and even more so refined products, bumps up inflation expectations. Further concern is raised by the cost of tackling both the short term and long-term impacts of the Gulf conflict, which are likely to raise, already large, government deficits. Central banks have held interest rates, but indicated willingness to raise them should inflation be problematic.
Commercial Property	The sharp rise in the cost of debt puts 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, and desire to reduce dollar dependence by some, 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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