March Market Overview

The first quarter of 2026 began with a sense of continuity. Markets rose 2.7% through February, extending the optimism of 2025, but beneath the surface leadership was shifting. Investors rotated decisively away from the US into international markets, with emerging economies leading the advance, supported by improving fundamentals and a weaker dollar. Europe and the UK also outperformed on more attractive valuations, while easing inflation and expectations of rate cuts reinforced the case for remaining invested, even as enthusiasm around AI became more measured.

March, however, reset the tone. Escalating conflict in the Middle East drove a sharp spike in oil prices, forcing markets to reprice inflation and interest rate expectations. The narrative shifted from rate cuts to the possibility of hikes, unsettling both bonds and equities and eroding earlier gains. Emerging markets led the decline, while the US dollar strengthened and the FTSE 100 proved more resilient, supported by energy exposure and a weaker pound. It was a clear reminder of how quickly sentiment can turn and why diversification remains central to portfolio construction.

Active portfolios declined between 3% and 6% in March, with weakness concentrated in equities, particularly higher volatility strategies and emerging markets where we had been overweight. Precious metals also detracted, behaving counter to expectations as positions were sold into the conflict. Encouragingly, diversification continued to work. Value-oriented strategies, smaller companies, commodities, trend following funds and inflation-linked bonds all delivered positive contributions, with more underlying holdings outperforming than underperforming during the period.

Portfolio Positioning

As TAM moves into April some exciting developments will be seen in portfolios with new funds coming online. Switches and Increases will be seen within our value investments in the US and globally. TAM will also be increasing exposure to commodity exposed funds and alternative trend following strategies. On the margin clients will see less emerging market exposure in the portfolios as we rotate this into areas of the global market which we feel are going to be better suited to a market in which oil and inflation remain elevated for the duration of 2026.

Outlook

Looking ahead, the outlook for 2026 is increasingly tied to oil. Energy prices will dictate inflation, shape interest rate expectations and influence growth. The recent ceasefire triggered a relief rally, but its fragility suggests volatility is likely to persist. A renewed escalation would risk higher oil prices and slower growth, while a sustained de-escalation would support a more constructive backdrop for equities. A partial resolution remains the most likely outcome, with oil settling at elevated but stable levels and markets adjusting accordingly.

Against this backdrop, we are refining rather than reinventing portfolios. We are gradually increasing exposure to value opportunities in the US and globally, alongside commodities and alternatives that can perform across different market conditions. At the same time, we are modestly reducing emerging market exposure in favour of areas better suited to a higher inflation environment. Throughout, our focus remains on balancing resilience with opportunity, ensuring portfolios stay aligned with long-term objectives for clients and their advisers through disciplined diversification and active management.

James Penny
Chief Investment Officer
james.penny@tamassetmanagement.com