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 away from the US into international markets, with emerging economies leading, 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 staying invested, even as sentiment around AI became more measured.

March, however, reset the tone. Escalating conflict in the Middle East pushed oil prices sharply higher, 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 essential for clients and their advisers.

Portfolio Positioning

Income portfolios declined between 2% and 5% in March, broadly in line with wider market moves. Weakness was driven by exposure to UK equities, which held up relatively well but still fell, alongside US and global income stocks. Encouragingly, the income profile provided some insulation versus more growth-oriented assets. Cash holdings and infrastructure were positive contributors, reflecting their resilience in inflationary conditions, while short duration high yield bonds also performed well despite broader credit headwinds.

Outlook

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

Against this backdrop, our approach remains consistent. We continue to balance resilience with opportunity, maintaining diversified income streams while leaning into areas that can navigate inflation more effectively. Active allocation, disciplined diversification and a long-term focus remain central to how we steward portfolios for clients and their advisers through periods of uncertainty.

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