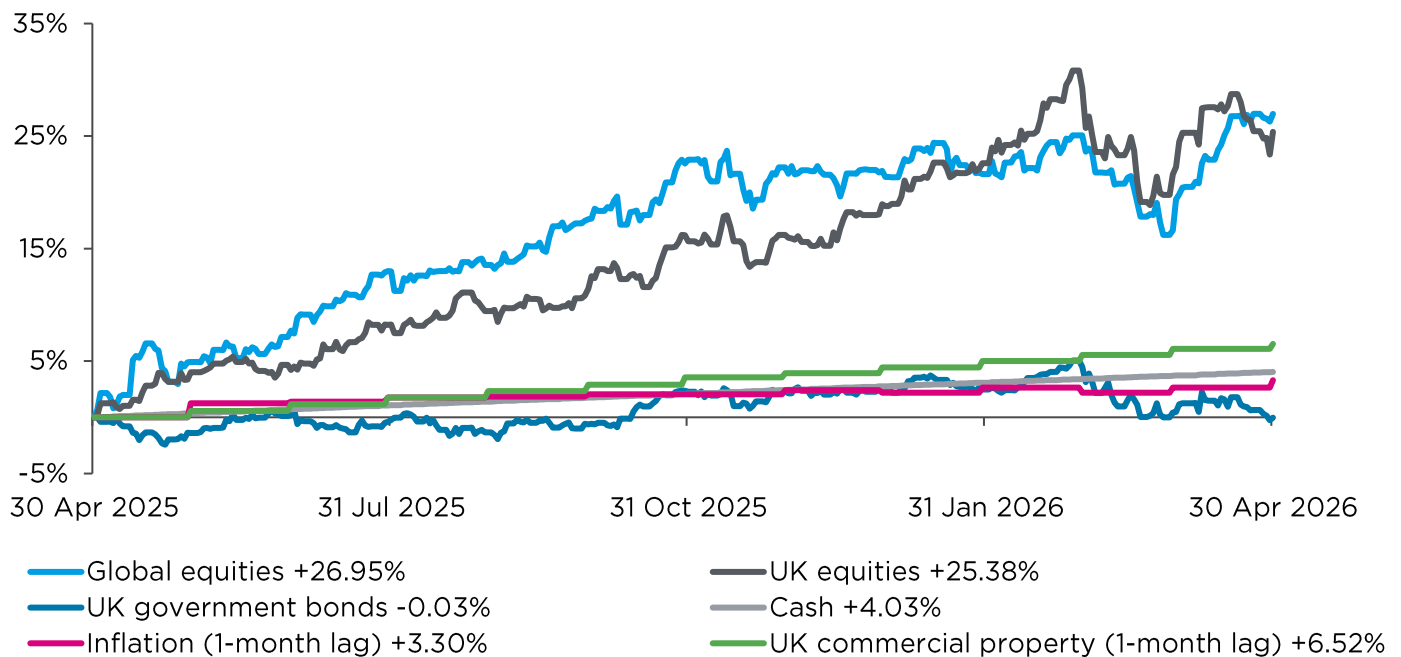


# Market review

## The headlines

- ▶ **A US-Iran ceasefire and strong first-quarter company results boosted shares in April. Companies' profits rose faster than their share prices, so valuations moderated.**
- ▶ **Inflation is rising, but central banks are keeping interest rates on hold until a clearer picture emerges of the effects of the Middle East war.**
- ▶ **Mindful of risks in both stocks *and* bonds, in Europe *and* in the US, we continue to grow the diversifying strategies that we first introduced in early 2026.**

**Market returns: Share prices rebounded during April, helped by stronger-than-expected company profits.**



Sources: Bloomberg, returns in pound sterling as of 30 April 2026 (30 April 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

## Economics and markets news

The war in the Middle East developed into a tense standoff during April. But world share prices rebounded by 9.6%.<sup>(1)</sup> US share prices advanced 10.5% during April, eurozone equities 5.5% and UK equities 2.6%.

The pound sterling strengthened against most other currencies during April, which lowered returns on foreign assets in pound sterling terms.

The price of Brent Crude peaked at \$126 per barrel in April, before settling at \$111 by the end of the month.

The Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) all kept interest rates on hold during April. However, short-term and long-term bond yields continued to rise in the US, the UK and the eurozone.<sup>(2)</sup>

## United States

US share prices had fallen in March, as the Middle East conflict went on for longer and expanded to more countries than investors had originally expected.

On 7 April, the US and Iran agreed to a Pakistan-brokered ceasefire. In the 24 hours after that ceasefire was announced, US share prices rose more than 3%. Prices continued to see-saw for the rest of the month, to the beat of the parties' war drums. And a two-way maritime blockade ensued. Iran now blocks ships of nations it deems hostile from leaving the Persian Gulf, while the US blocks ships that are going to or coming from Iran.

Later in April, US companies started to report their first-quarter results, which were exceptionally strong. Google's parent company Alphabet, for example, reported revenues of \$110 billion in the first quarter of 2026, a 22% increase on the first quarter of 2025, with an 80% increase in net quarterly profit, to \$63 billion.

Many companies in other sectors reported equally impressive results, including memory producer SanDisk, retail-to-cloud computing conglomerate Amazon, pharmaceuticals producer Eli Lilly, investment bank Goldman Sachs and energy firm Texas Pacific. Against that positive backdrop, US share prices gained 10.5% between the end of March and the end of April.

Only a handful of firms disappointed investors in April. Facebook parent Meta increased the amount that it intends to spend on AI infrastructure. Car maker Ford's share price suffered after it warned that rising commodity costs would impact its results. And information technology (IT) firm IBM's share price fell after it delivered higher-than-expected first-quarter profits, but its outlook for next year fell short of investors' expectations.

On the economic front, early estimates indicated that US gross domestic product (GDP) increased 2.7% in the first quarter of 2026, year on year (yoy). This is a higher growth rate than in the fourth quarter of 2025, when the US government 'shut down' for 43 days. First-quarter economic growth was lower than analysts had expected, however, mainly because consumer spending slowed, compared to the fourth quarter.

The Middle East war has raised expectations for US inflation. According to the University of Michigan, in February consumers expected 3.3% inflation for the year ahead, rising to 3.8% in March and 4.7% in April. Core personal consumption expenditure (PCE) inflation itself rose from 3.0% yoy in February to 3.2% in March.

Despite rising inflation expectations, America's central bank, the Fed, continued to take a 'hold-and-wait' approach during April, to see what impact the war with Iran would have. The Fed held its key interest rate, the federal funds target range, steady at 3.50%-3.75%.

Weaker consumer sentiment and higher inflation expectations raise an interesting policy dilemma. A few months ago, the Fed's focus was on how quickly it

might reduce interest rates. Now, investors increasingly wonder if the Fed might raise interest rates later this year or in early 2027.

Attempts by the Trump administration to force the Fed to lower interest rates add complexity to the Fed's discussions. Trump appointee Kevin Warsh will replace current Fed Chair Jay Powell on 15 May. Powell has remarked that the Fed is being 'battered' politically. Unlike previous Chairs, he has said that he will remain on the Fed's board of governors until January 2028.

## United Kingdom

UK share prices fell in March, but they rebounded 2.6% in April, led by energy and mining firms and by a seasonal inflow of investment funds at the start of the UK tax year. Share prices soon moderated, however, as concerns about the war, about new US tariffs and about weak consumer sentiment weighed on investors.

April's UK share price gains were led by testing group Intertek and energy solutions group DCC, both takeover targets. Financial and investment groups Standard Chartered, ICG and Scottish Mortgage Trust, and tech conglomerate Halma also performed well.

The weaker side of the UK market was made up of pharmaceuticals firms AstraZeneca and GSK, given pricing pressures in the US and because neither firm upgraded its full-year forecasts. Defence firms BAE Systems and Babcock's share prices fell as investor sentiment towards the defence sector cooled and investors became more sensitive to these companies' financial weaknesses.

Figures released in March showed that UK GDP grew by a faster-than-expected 0.5% in February, before the Middle East war started. But UK consumer price (CPI) inflation rose from 3.0% in February, yoy, to 3.3% in March, mainly because of rising fuel prices.

As expected, the BoE kept its Official Bank Rate on hold at the end of April, at 3.75%. The Bank has adopted a wait-and-see position, for now, but warned that higher inflation later this year is 'unavoidable'. Financial market participants therefore expect the BoE to raise interest rates later this year.

Bond yields had risen sharply in March, a process that continued with more moderate rises in April. The yield on 10-year UK government bonds (gilts) rose from 4.94% at the end of March to 5.06% at the end of April.

## Other markets

After their steep falls in March, **Eurozone** share prices rose 5.5% during April. German semiconductor manufacturer Infineon and industrial firms Siemens and Schneider Electric led that rally.

Eurozone inflation rose from 2.6% in March to 3.0% in April, mainly due to energy prices. The ECB kept interest rates on hold in April. It pointed out that inflation may rise later this year, but also that eurozone growth is weak. GDP growth in the 21 countries that

use the euro slowed from 1.2%, yoy, in the fourth quarter of 2025 to 0.8% in the first quarter of 2026.

**Japanese** share prices rose 7.5% in April. As in the US, share prices first rebounded after the US and Iran agreed a ceasefire, after which AI and semiconductor shares fuelled a rally for the rest of the month.

The Japanese stock market is benefiting from the fiscal stimulus that Japan's new prime minister is enacting, from rising shareholder activism and from a rise in mergers and acquisitions.

As in other developed countries, the Bank of Japan kept interest rates on hold in April. Three of its nine-member rate-setting board, however, proposed raising rates during the month.

**Chinese** share prices rebounded 3.4% in April, led by AI and technology shares. For now, the Chinese government is using its large strategic petroleum reserve of c. 1.2 billion barrels (c. 109 days of imports) and price controls to manage domestic inflation.

<sup>(1)</sup> Source: MSCI (total return, net of withholding tax, in local currency), except where stated

<sup>(2)</sup> Sources: US Fed, Bank of England, European Central Bank

## Looking ahead

Our central scenario remains that the US and Iran will find a way to halt this war. For now, the conflict has failed to generate the oil shock that some feared.

Moreover, positive corporate results boosted share prices in April. As expected, US firms proved themselves more insulated than European firms from events in the Middle East.

- By the end of April, c.60% of the S&P500 index of large-cap US firms had reported profits in the first quarter of 2026, on average 30% higher than in the first quarter of 2025. The IT sector was the biggest driver of this increase, with profits up 72% yoy.

US companies' profits rose more quickly than their share prices, so US shares became cheaper. The S&P500's average price-to-earnings ratio fell from 23x in late 2025 to 21x in April 2026.

- In addition, the downward trend, from 2021 to late 2025, in the share prices of companies with heavy

capital expenditure came to a halt in early 2026. Instead, these companies' share price performance improved. This trend started among IT firms, but we expect it to broaden, as opportunities for profitable investment present in defence, mining, transport and re-shoring industrial supply chains.

April's share price performance was solid, but we continue to be acutely aware of substantial vulnerabilities across various financial markets.

- Stagflation, i.e. the combination of zero or negative economic growth and high inflation, remains unlikely. The oil price shock to date hasn't been significant enough to trigger a recession, or to cause the level of inflation we saw after Russia invaded Ukraine.
- The US government's fiscal position continues to be of concern. Short-term and long-term bond yields have risen since 2020, but the extra yield that investors receive to buy longer-dated US Treasury bonds, has remained low. If the difference between short-term and long-term bond yields, the so-called 'term premium', were to rise, the cost of capital for private firms might rise along with it.
- If the current stock market rally continues, share price valuations may become less reasonable again, in particular in the US. Diversifying from US shares by rotating into European shares now seems less appropriate than in early 2026.

In our analysis, shares and bonds continue to be less efficient diversifiers from each other than they have been historically. As a result, we continue to build out the absolute-return diversifiers that we introduced to our portfolios in early 2026.

## Glossary

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