# Monthly Market Commentary

## March Week Two Update 2026

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## An orderly response to a dangerous moment

There can be no doubt that this is a profoundly dangerous moment for the world. The risk that the current conflict in the Middle East becomes an entrenched war that could undermine global economic growth is very real.

The current scenario is one where oil prices have risen sharply, rising to above $100 a barrel in Asian trading overnight on Sunday. This reflects a growing belief that oil traffic will be curtailed for a prolonged period of time in the Gulf and that there will be significant spillover effects to other forms of global trade; particularly as oil tankers are prioritised for naval escorts through the Strait of Hormuz over other goods.

It should be noted that the actual effect on portfolios from this crisis has so far been slight. Our portfolios with around a 60% exposure to shares have fallen by around 2.5% from their peak at the end of February until last Friday. Diversifying assets have defended well in this crisis, and we have been rewarded by our recent decisions to sell down highly exposed European smaller companies, reduce our gilt positions and to keep our fixed income exposure on a highly defensive footing. Likewise, holding firm to our US equity positions even as valuations were elevated has protected us in this crisis as the dollar has strengthened.

There is however, no balanced allocation that can protect us completely from this crisis. This is an old-fashioned economic shock. It is initially inflationary, reducing hopes of interest rate cuts in the short-term. However, if it is sustained, it can rapidly become deflationary as higher prices push down on an economy which was already showing signs of weakness in areas like the jobs market across the rich world.

The critical question is how to respond in a measured way that is consistent with a long-term outlook and our data-led process. For us, the key data point to understand here is the extent to which this shock will affect interest rates across the world. An energy shock does not affect all countries equally. The most exposed nations are principally European and Asian, with particular risk points being in Italy and the UK. Here, consumers pay more for their energy than in other parts of the world and are more sensitive in their bills to shorter-term fluctuations in energy prices. The UK is particularly vulnerable because our national war chest is somewhat empty. Should it be necessary to borrow more from the markets to protect consumers from an energy shock, we cannot be sure that markets will allow this. This threatens a gilt crisis, and this underlying vulnerability is one key reason we have avoided this asset class in our strategic asset allocation.

Overall, the shock makes it relatively easier for the United States to keep interest rates low compared to the rest of the world. Interest rate expectations will rise in the US as well as everyone else, but likely by less because their homegrown oil supplies can alleviate some of the inflationary pressure from this crisis.

For this reason, we can conclude that the medium-term interest rate differential between the US and other markets will grow. This is good for US dollar assets, bad for cyclical areas of the UK and European stock market, such as financial and consumer discretionary.

In recent weeks, we have been acting to position for this reality both within the recently completed rebalance and in shorter-term adjustments to the Prima funds, which make up a significant portion of many of our portfolios. The immediate heat in this crisis may cool in the months ahead, but we believe the inflationary pressures it produces could be longer-lasting and are preparing cautiously for this, but with a clear roadmap built on decades of evidence for how to respond.

We believe these preparations have and will continue to serve us well in protecting portfolios and providing the resilience clients seek during this challenging time.

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