

## Transcript

### Financial Market Commentary – Review of Q1 2026 and Future Outlook

Simon Lewis on 13 April 2026

Hello and thank you for joining our latest financial market commentary. I'm going to provide a review of how global financial markets fared in the first quarter of 2026 and set out our thoughts regarding the investment prospects for the rest of the year.

#### Review of the First Quarter

Those investors who were looking forward to a less eventful year than they endured in 2025 have already had their hopes dashed. The war in the Middle East has had a profound impact on the global economy and whatever the outcome, the financial impact is likely to endure. It's simply a case of how much economic pain there is going to be and where that pain is going to be felt most acutely.

It is hard to overstate the extent to which financial market forecasts have changed.

Before we dig into the detail about what has happened to expectations for the global economy let's have a quick look at how a typical PMW Balanced portfolio navigated the first quarter.

Generally speaking, investors started the year with a positive outlook. Financial markets expected inflation to moderate and interest rates to continue to fall. For example, in the UK, three quarter point interest rate reductions from the Bank of England were priced in. By the end of February portfolios gained nearly 5% year-to-date. Let's not forget, that these are conservative portfolios so that represented a very good return.

Although financial markets were paying attention to the buildup of US military assets in and around the Middle East and the steady flow of President Trump's ultimatums to the Iranian regime, the consensus financial market view was that war would be averted. When that changed, markets reacted negatively so that by the end of the quarter, the gains made during the first two months quickly dissipated to show a decline for the year to date.

Just one day later, a recovery in financial markets reversed some of that decline, leaving a Balanced portfolio level on a year to date basis. As I film this commentary on 13th April, a further recovery has taken such portfolios to a 2.6% gain year to date.

It's important to remember that investors with both patience and time on their side tend to do well. Such patience has been rewarded by an underlying investment return of over 11% over the last 12 months and in excess of 25% over the last 3 years.

The recent volatility in financial markets provides a useful reminder that investors are no better than anyone else at predicting wars and the outcomes of them.

However, facts can help shine a light on some of the possible economic consequences. In the near term, the primary concern is the significant reduction in maritime traffic through the

Strait of Hormuz, the only entrance to the Persian Gulf. Prior to the conflict over 100 ships passed through the strait each day, mostly laden with oil, liquified natural gas and petrochemicals. It normally accounts for about 20% of global supply and most of it heads to China, India and the Far East.

The closure of the Strait by the Iranian regime has halted traffic and this recent satellite image shows the build of ships unable to pass. A very small number of ships have been allowed to transit, but only after paying a toll, allegedly up to \$2 million each. Most of those ships have been carrying Iranian oil, providing a source of revenue for Iran.

Having recently failed to negotiate an end to hostilities the US has announced that from today, a naval blockade will prevent ships from leaving the gulf without permission, presumably with the objective of ending that revenue stream.

In the circumstances, it is no wonder that oil prices have increased dramatically, rising quickly from around \$60 to over \$100 a barrel, increasing to the levels last seen in the aftermath of the invasion of Ukraine.

One might have expected the impact on financial markets to have been more extreme. After all, financial markets fell heavily in 2022. It seems that investors expect this time to be different.

### **Future Outlook**

In 2022 the global economy was bouncing back from the supply chain disruption of the pandemic and inflation was already on the rise. Furthermore, there had previously been a heavy dependency in Europe on oil and gas from Russia and it took time to establish new sources of supply.

Evidence of this view can be found in the oil futures market. It might cost you \$110 for a barrel of oil today, but if you were now buying oil to be delivered in a years' time, the price would be \$80. This is partly explained by the fact that investors are not expecting a prolonged conflict, but the most significant factor is that at the beginning of this year, energy markets were predicting a future global oil glut. An increase in supply from OPEC and the US combined with slowing economic growth meant that prices were expected to be driven down. Therefore, the capacity to absorb a prolonged supply interruption is greater than before.

Although not insulated from the increase in the global oil price, the US is self-sufficient in oil and gas and has plenty to spare. It is the world's largest energy exporter so counter-intuitively, will be a net beneficiary of the current crisis.

An oil shock creates a dilemma for central bankers. On the one hand reduced supply pushes up prices and that feeds through into the price of pretty much everything. Only around half of oil consumed is used by transportation. Around 15% is used in the manufacture of fertiliser, so a higher oil price means higher food prices. It is also the origin of plastics and so many of the household products we consume. So, inflation rises.

However, higher energy prices act like a tax on consumption, and this reduces demand and slows economic growth. The knee-jerk central bank response of monetary policy tightening just kicks the economy while it's down.

It's an easier square to circle for the US Federal Reserve, which has a dual mandate that requires it to target both inflation and employment. The Bank of England targets only inflation and the fear is that they will dogmatically increase rates, adding further damage to the UK economy.

This expectation is seen clearly in how long-term interest rates have moved, particularly in the UK. The UK is particularly vulnerable, and the OECD has predicted both a reduction in UK economic growth and an increase in government borrowing rates.

Whatever happens, our view is that the combination of structural change to oil supply chains and the loss in confidence of supply from Gulf states will be inflationary. Our portfolios have been positioned for higher-than-expected inflation over the medium term and recent events only serve to reinforce our view.

### **Postscript**

One final thought. In trying to understand some of the less obvious motivations for this war, it's worth thinking about the marginal cost of oil production. Onshore Middle Eastern oil is the cheapest to extract because of high pressure and shallow wells. On average it costs around \$27 a barrel and for parts of Saudi Arabia it's as low as \$10. By comparison, in the US where oil must be forced out of the ground through fracking, the cost of production is closer to \$70 a barrel.

Before this conflict, the futures market was predicting an oil price of around \$50 by the year end. That would have left most US oil uneconomic to extract, depriving the US economy of a substantial flow of revenue. With oil prices now set at a higher base, US oil production is safe for the time being. In 2025 the US produced 13.5 million barrels a day, its highest ever production. A \$30 swing in the oil price is worth around \$1.5 trillion in oil and petrochemical revenue. That's a lot of money and therefore a lot of motivation.

Looking forward, we should expect investment volatility to continue. Nevertheless, there remain plenty of opportunities for investors and we will be continuing with our highly diversified approach with the intention of keeping volatility to a minimum.

I'll provide a further update at the end of second quarter. In the meantime, thank you for your attention.

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