

MARKETS UNWRAPPED

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Navigating a fast-moving geopolitical shock

This month's edition focuses on the rapidly developing conflict in the Middle East and the impact it has had on markets in just a matter of days.

With events evolving by the hour, the environment is highly fluid and markets have reacted with sharp, sentiment-driven moves across asset classes.

A sudden shock and immediate market reaction

The attacks over the weekend triggered a swift repricing across global markets. Oil prices surged - up around 9% on Monday alone - as concerns grew over potential disruption around the Strait of Hormuz. Volatility spiked across equities and fixed income, with both moving in tandem - something that can happen when inflation concerns rise. Gold has swung sharply too, rising strongly on Monday, falling back on Tuesday, and rebounding again - signs of liquidity-driven positioning rather than calm price discovery.

Markets initially expected the conflict to be short-lived, but sentiment has shifted quickly. Expectations have now moved towards a conflict lasting several weeks, and anything longer risks more severe consequences, particularly for inflation.

Inflation, interest rates and shifting expectations

The conflict has upended the market's assumptions for interest rates this year. Only days ago, central banks were expected to cut rates meaningfully in 2026.

Those expectations have now been scaled back significantly. Investors are questioning whether the next move in rates could be upward if inflation pressures intensify.

This aligns with a broader trend already underway: geopolitical tensions, deglobalisation, and shorter supply chains have been creating a structural tailwind for higher inflation. These forces increase the likelihood that shocks such as the current conflict feed directly into inflation expectations and push equities and bonds in the same direction.

Portfolio positioning: resilience over reaction

The speed of news flow and sentiment shifts has reinforced the importance of long-term positioning rather than short-term reaction. Portfolios entered this period with a cautious stance: underweight fixed income, shorter duration, and an overweight to alternatives. This positioning has helped limit the impact of bond market weakness and provided a defensive ballast as volatility has risen.

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Alternatives remain a key theme, offering diversification at a time when traditional defensive assets may not behave as expected. With nominal bonds struggling and inflation-linked bonds holding up better, the value of a diversified defensive toolkit is clear.

Managing uncertainty without emotion

In fast-moving environments, attempting to time markets or reposition aggressively can be counterproductive. The focus remains on tangible information rather than speculation, and on removing emotion from decision-making. The team continues to monitor a watchlist of funds, stocks and scenarios daily, ready to act if the situation evolves materially but always with discipline and long-term objectives in mind.

Looking ahead

The conflict is evolving quickly, and its duration will be a key determinant of market behaviour in the weeks ahead. While the situation is unpredictable, portfolios have been built with resilience in mind, reflecting the possibility of inflationary shocks and geopolitical instability. The priority remains protecting long-term outcomes while staying alert to opportunities that may emerge as conditions change.

For anyone personally affected by the events in the Middle East, our thoughts are with you. And as always, the Progeny Asset Management team is available to discuss portfolios and help make sense of what's happening in markets.

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Watch full video here



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