

MARKETS UNWRAPPED

April 2026

CRAIG MELLING Director of Investment



NICK ASTLEY Investment Manager

Geopolitics, volatility and portfolio perspective

The first quarter of 2026 has been dominated by a sharp escalation in the conflict between the United States and Iran, creating significant disruption across global financial markets.

The closure of the Strait of Hormuz, a critical route for global energy supply, has been the central catalyst, driving a rapid rise in energy prices and heightened volatility across equities, fixed income and even traditional safe haven assets such as gold. Oil prices have surged to over \$100 per barrel, reinforcing concerns around inflation and testing investor confidence.

A challenging environment for investors

As the quarter progressed, markets became increasingly reactive to daily headlines, making it a challenging environment for investors to navigate. Rhetoric from both the US administration and Iran has evolved rapidly, contributing to uncertainty and forcing markets to continually reassess expectations. While both sides appear motivated to reach a resolution, particularly around reopening the Strait of Hormuz, the timing and outcome remain unclear. Recent comments from President Trump suggesting the conflict could end within weeks have shifted market focus toward the Easter period as a potential inflection point.

One of the most striking features of the past month has been the breadth and intensity of volatility. With the exception of certain oil and gas stocks that benefited from higher energy prices, market moves were largely indiscriminate. Assets that had performed well previously became sources of liquidity, with investors selling what they could rather than what they wanted to. Even gold, typically viewed as a safe haven, experienced sharp declines as investors raised cash amid heightened uncertainty.

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The emotional impact

From a client perspective, the emotional impact of these market conditions has been significant. Many investors have questioned whether they should sell holdings, increase exposure, or even exit markets entirely - particularly those nearing retirement. However, an important theme throughout the discussion is that market drawdowns are a normal feature of long term investing. What has been unusual is the extended period of relatively smooth gains over the past year. Periods of volatility, while uncomfortable, do not typically derail long term financial plans when portfolios are appropriately constructed.

Importantly, market pullbacks can also create opportunities. Lower valuations allow investors to add to high quality assets or initiate positions that may previously have seemed expensive. Decisions, however, must remain grounded in long term objectives rather than reactions to short term headlines. Staying disciplined and focused on portfolio fundamentals remains critical.

A tale of two halves

Looking back at the broader quarter, it has been very much a tale of two halves. Entering 2026, markets were supported by optimism around global growth, easing financial conditions, and a broadening of equity returns beyond a narrow group of mega cap stocks. While recent events have challenged this narrative, the earlier strength in January and February has helped offset March's volatility. As a result, many portfolios are still broadly in line with where they started the year, following strong returns in 2025.

Regional performance has varied notably. The UK benefited from its exposure to energy majors and currency movements, while energy importing regions such as Europe, Japan, and South Korea faced sharper pressures. Expectations around central bank policy have also been volatile, with inflation concerns resurfacing due to sustained higher energy prices. Inflation and interest rate dynamics are now expected to be a key focus for the remainder of 2026.

Diversification remains essential

Against this backdrop, diversification remains essential. Maintaining exposure across asset classes, regions, and investment styles helps portfolios absorb shocks and reduces reliance on any single outcome. While the outlook remains uncertain and heavily dependent on the duration of the conflict, the central message is one of reassurance: portfolios are positioned cautiously, monitored closely, and structured to support long term financial plans.

For investors, the key guidance is to avoid panic, recognise the emotional intensity of the moment, and remain focused on longer term goals. As always, advisors and investment managers remain available to discuss concerns, review positioning, and provide clarity during what continues to be a highly dynamic market environment.

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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