VINTAGE asset management

## Market Commentary

**After a strong start to the year markets were impacted in the month of March by the conflict in the Middle East which caused a spike in energy prices. Concerns over the economic impact hit equities and bonds suffered over fears of a shift in the rate of inflation, while alternative assets such as gold lost their lustre and the US$ strengthened. The outlook had been broadly positive and much will depend on the duration of the conflict as well as the ability of companies to adjust in what seems to be an increasingly fractured world.**

The attacks on Iran by the United States and Israel did not bring an immediate regime change amidst confused objectives and prompted renewed regional tension, as Iran attacked its Gulf neighbours and Israel attacked Lebanon. The strikes on the Qatari Ras Laffan gas complex, which provides a fifth of the world's liquefied natural gas (LNG), and the restrictions on the Straits of Hormuz, which usually sees approximately a fifth of global oil supplies pass through, fed into higher energy prices which had an immediate impact at petrol pumps and in a range of countries with limited reserves, notably in Asia. The price of Brent crude oil rose by 38% if closing below its peak over a month that saw the largest ever release of emergency reserves, while LNG prices in Europe doubled. There will be a further impact on food prices through higher fertiliser costs as well as higher shipping charges.

Expectations of interest rate cuts in the US and UK shifted to possible rate rises, which are likely in Europe too, and the ten-year gilt yield briefly rose above 5% for the first time since 2008. The risks to markets lie in the impact of potentially higher inflation and a further supply shock to a global economy that has been resilient but has shown a degree of vulnerability – a prolonged disruption to energy flows risks a recession, although the latest indication of a timely end will provide support. The US would be cushioned to an extent given its energy production, yet any inflationary pressures ahead of the mid-term elections might be a factor in the likely outcome. China would also be relatively insulated even with its oil imports from Iran in part as renewable energy reached 40% of its total needs in 2025; it might have seen benefits in its ambitions for Taiwan, just as Russia has seen a boost to its revenues with reduced sanctions and a shift in focus from Ukraine.

The forecasts for global economic growth are liable to revision depending on the turn of events. The OECD said in March that it anticipated global expansion to remain the same overall as its previous estimate in December at 2.9%, with better growth in the US offsetting a weaker outlook in many countries.

The annualised rate of growth in the US in the fourth quarter was revised down from 1.4% to 0.7% - there had been previous expectations above 5% - although the first quarter might see a boost and come in around 2.5%. The initial data saw America shed 92,000 jobs in February which largely offset the reported creation of 130,000 new jobs in January. In the UK the Office for Budget Responsibility lowered its estimate of GDP growth for 2026 from 1.4% to 1.1% and the OECD now expects only 0.7%; there was no reported growth in the month of February. The Chinese government said its target rate of growth was 4.5-5% for 2026, the lowest level since on record since the early 1990s.

In the UK the consumer price index (CPI) stayed at 3% in the year to February as lower fuel prices were offset by a rise in the price of clothing, before the impact of rising energy prices; the Bank of England had expected the rate to be at 2.1% for the second quarter which it has now revised to 3%. In the US the CPI rate remained at the same rate of 2.4% in February as in January. In the eurozone the headline rate of inflation rose to 1.9% in February from 1.7% the prior month, with prices surprisingly high in France and Spain. In Japan the annual rate of inflation fell again to 1.3% in February from 1.5% in January while in China the annual rate of CPI was also at 1.3%, up from just 0.2%.

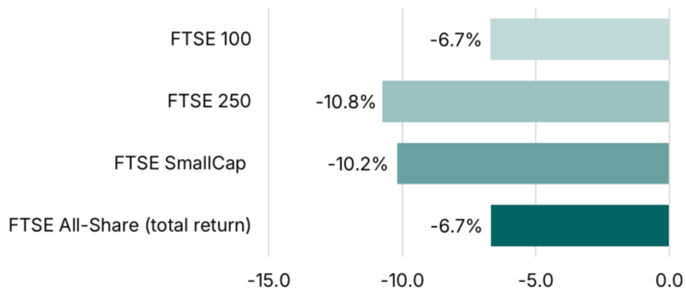
The US Federal Reserve held its interest rate at the level of 3.5-3.75% and said it still anticipated making one cut by the end of the year, although seven of the nineteen members on the committee expected no change while some anticipated a rise. The Bank of England held its rate at 3.75% in a vote that was unanimous for the first time since September 2021, having been broadly expected to cut before the conflict began; the central bank warned that it might need to raise rates to meet its inflation target of 2%. The European Central Bank held rates at 2% if also being more likely to act to control inflation. The Bank of Japan held its rate at 0.75%.

There has been little change to forecasts of earnings growth for the year and markets will respond to the reports from managements this month. The impact of Artificial Intelligence has remained significant if hard to predict while corporate activity was plentiful in the first quarter. In a world with revised national security priorities our investment approach has at its core the view that markets are adapting to a structurally higher cost of capital with inflation remaining above central bank targets, so we favour protection against that as well as resilience and diversification as before.

## United Kingdom

The FTSE 100 index fell by 6.7% over the month to 10,176 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index fell respectively by 10.8% and 10.2%.

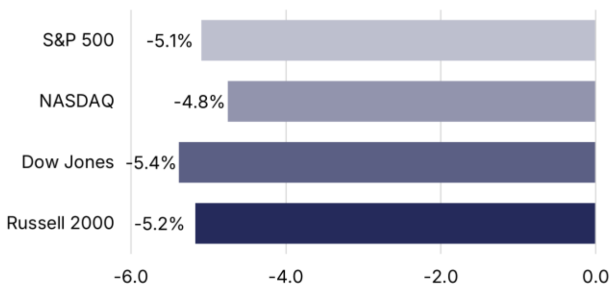
The total return for the FTSE All-Share index, including income, was -6.7% in the period.




## United States

In the US the S&P 500 index was down by 5.1% in the month, while the equal-weighted version fell 6.2%; the technology-oriented NASDAQ index fell by 4.8% and the Dow Jones Industrials index fell by 5.4%.

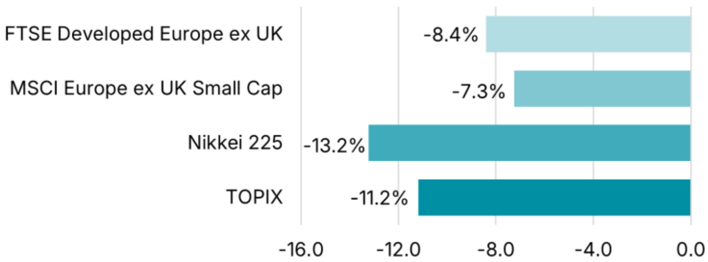
The Russell 2000 index of smaller companies was down by 5.2%.




## Europe & Japan

The FTSE Developed Europe ex UK index was down by 8.4% over the month, with all major markets making losses. The German market faring worst at -10.3%. The MSCI Europe ex UK Small Cap Index including income fell by 7.3%.

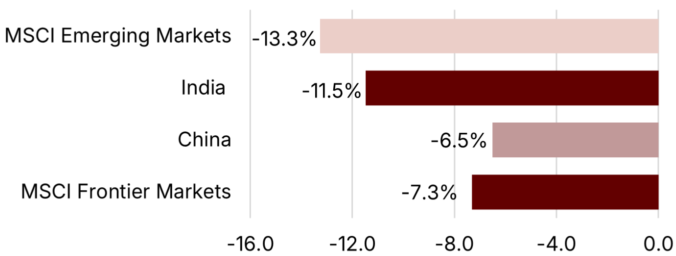
In Japan the Nikkei 225 index was down by 13.2% and the more representative TOPIX index fell by 11.2% in the period.




## Emerging Markets

MSCI Emerging Markets index in US$ was down by 13.3% in the month; there were significant losses of 19.1% in Korea and 11.5% in India, while the Brazilian market held up best with a modest decline of 0.7%. The Shanghai index was down by 6.5% and the Hang Seng index in Hong Kong was down by 6.9%.

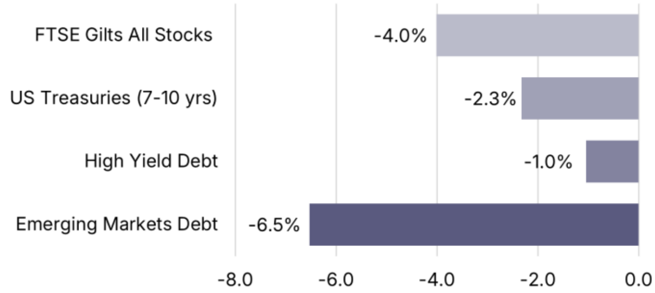
The MSCI Frontier Markets index was 7.3% lower and the Vietnamese market fell 11.0%.



## Bond Markets

In bond markets the UK 10-year gilt yield increased from 4.23% to 4.92% and the total return for the FTSE Gilts All Stocks index in the month was -4.0%. In Germany the 10-year bund yield moved from 2.64% to 3.0% and in the US the 10-year yield was also higher at 4.32% from 3.94%.

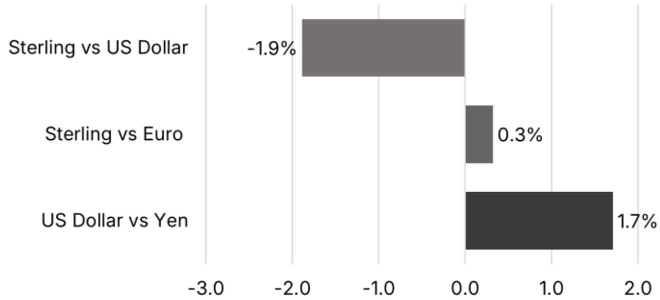
There were losses in all the major bond markets, with Emerging Market local debt doing the worst.




## Currencies

Sterling was down by 1.9% against the US$ in the month, ending at a rate of $1.32:£, while against the euro Sterling was 0.3% higher to end at a rate of €1.14:£.

The US$ was up by 1.7% at ¥159:$ against the Japanese yen.




## Commodities

The price of Brent crude oil ended the month up significantly by 38.0% at a level of $102 per barrel. Gold fell over the month by 11.6% to close at $4668 per troy ounce.

The main metals were mostly lower in the month, with the bellwether copper down by 7.4%, and the main agricultural commodities were higher, with wheat up 4.2%.