



Market Commentary

The month of April saw a full recovery in most equity markets from the weakness in March over the conflict in the Middle East, whereas bond markets were mixed. Investors took comfort from the ceasefire in place, despite little apparent progress in negotiations to end the war, and from an easing in energy prices, although they rose again if erratically towards the month end. Central banks held interest rates and there was notable strength in the technology sector, which drove indices in the US and in Asia, while the US\$ gave back some prior gains.

The ceasefire in the war in Iran seemed to hold whereas attacks continued in Lebanon. There were initial negotiations between the US and Iran in Pakistan, which itself continued in an uneasy truce with its neighbour Afghanistan. The US added its own blockade of Iranian ports to the restrictions in place in the Straits of Hormuz and concerns that the conflict would persist contributed to a rise in the price of Brent crude futures, the usual benchmark, to \$125 per barrel, the highest level in four years; it dropped back to end the month at \$112, still up 8% over April and 58% over the year to date. There remain concerns over a further impact on food prices through higher fertiliser costs as well as on the disruption to other supplies, such as on helium for the manufacture of semiconductor chips. The United Arab Emirates opted late in the month to leave the oil-exporting OPEC cartel, which should see it increase production in time. Airline fuel has been a notable challenge and about 3% of global flights have been cancelled.

The forecasts for global economic growth remain liable to further revision depending on the turn of events. The International Monetary Fund adjusted down its forecast for 2026 to 3.1% from the 3.3% projection in January, noting a particular impact on developing economies with high commodity imports; without the war the Fund had been likely to increase this earlier figure. America reported that its economy had expanded at an annualised rate of 2% in the first quarter, which was a little below expectations, and that there had been 178,000 new jobs created in March, which was the most since December 2024 although the calculation for those lost in February was increased from 92,000 to 133,000. The healthcare sector has been a particular contributor to growth. In the UK there were improved figures for the economy which was now calculated to have expanded by 0.1% in January and 0.5% in February if before the energy price rise: business confidence reached its lowest levels since the early days of the pandemic in 2020 and output fell in March for the first time since February 2021.

Central banks have also needed to take a view on the duration of the energy price squeeze and for now have been minded to hold interest rates even as the rate of inflation rises above their 2% target in the short term. The US Federal Reserve held its rate at the level of 3.5-3.75% in its last meeting with Jerome Powell in its chair, as the Senate Banking Committee approved the appointment of his replacement Kevin Warsh ahead of a full vote. The Fed was mindful of inflationary pressures: the consumer price index (CPI) rose again to 3.3% in March, as it did in the UK. The Bank of England held its rate at 3.75% in a 8-1 vote, with its chief economist favouring a rise that the Bank warned might come later in the year; its most pessimistic of three scenarios if the oil price stayed above \$120 a barrel for the rest of the year would see inflation peak at 6.2% at the beginning of 2027 and as many as six interest rate rises to a level of 5.5%. The European Central Bank held its rates at 2% even as the rate of inflation rose sharply to 3% in April. The Bank of Japan held its rate at 0.75% although for the first time three of the nine committee members dissented in voting for the rise that is likely now to come in June; the headline rate of inflation and the core rate both rose in March.

There has been considerable confidence in the ability of companies to deliver a high level of earnings growth for the year in spite of the global turmoil. For the US and for emerging markets the strength derives primarily from the technology sector, reflecting the substantial investment in Artificial Intelligence while for Europe and Japan there has been a domestic driver from increased government spending in areas such as infrastructure and defence. The big banks with a trading division and the large oil companies have had something of a bonanza, which has contributed to a positive start to the reporting season although the optimism may prove too high.

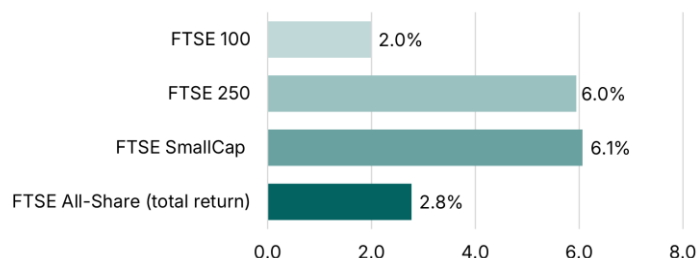
The Artemis II mission shifted some of the world's focus to space and Space X pointed to plans to raise up to \$75bn in a listing later this year. On a state visit to the US King Charles showed a mastery of diplomatic skills, unlike the ambassador. President Trump had sent his deputy JD Vance to Hungary in a bid to prop up Viktor Orbán in its elections but there was instead a regime change as Péter Magyar's centrist party Tisza won a resounding victory. This promptly eased the block on the European Union's €90bn loan to Ukraine, where the brutal war continued if increasingly with robots. Russia also saw a setback in Mali where the jihadist network JNIM and ethnic Tuareg separatists attacked military targets in a country under a military junta that has support from Moscow.



United Kingdom

The FTSE 100 index was up 2.0% over the month to 10,379 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index rose respectively by 6.0% and 6.1%.

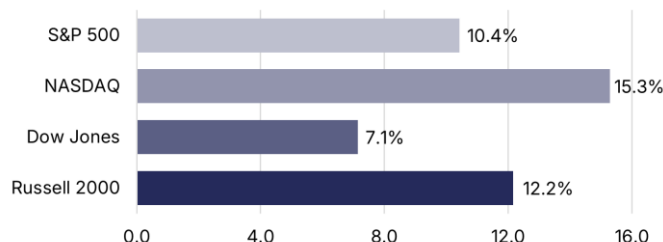
The total return for the FTSE All-Share index, including income, was 2.8% in the period.



United States

In the US the S&P 500 index was up by 10.4% in the month, while the equal-weighted version rose 5.9%; the technology-oriented NASDAQ index rose by 15.3% and the Dow Jones Industrials index returned 7.1%.

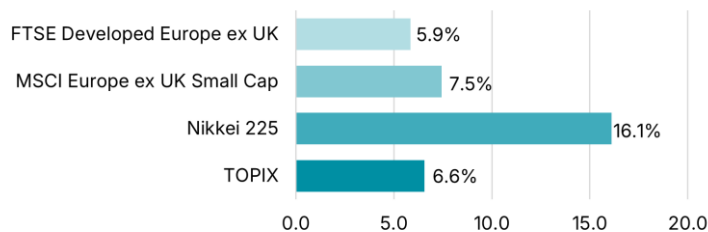
The Russell 2000 index of smaller companies was up by 12.2%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 5.9% over the month, with all major markets making gains. The German market returned 7.1% and the Italian market was up by 8.9%. The MSCI Europe ex UK Small Cap Index including income rose by 7.5%.

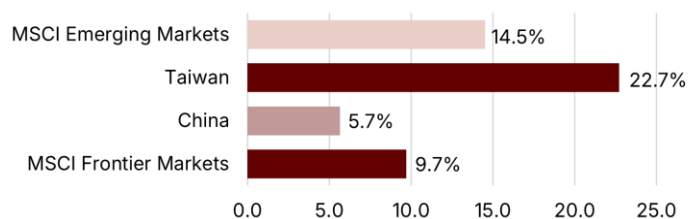
In Japan the Nikkei 225 index was up by 16.1% and the more representative TOPIX index rose by 6.6% in the period.



Emerging Markets

The MSCI Emerging Markets index in US\$ was up by 14.5% in the month; there were significant gains of 30.6% in Korea and 22.7% in Taiwan, while India rose 6.9% and the Brazilian market fell by 0.1%. The Shanghai index was up by 5.7% and the Hang Seng index in Hong Kong rose by 4.0%.

The MSCI Frontier Markets index was 9.7% higher and the Vietnamese market rose 10.7%.

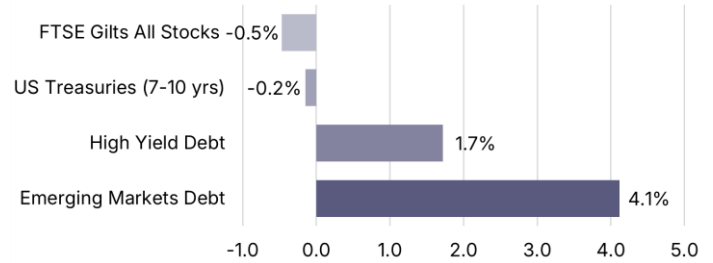




Bond Markets

In bond markets the UK 10-year gilt yield increased from 4.92% to 5.01% and the total return for the FTSE Gilts All Stocks index in the month was -0.5%. In Germany the 10-year bund yield moved from 3.0% to 3.04% and in the US the 10-year yield was also higher at 4.37% from 4.32%.

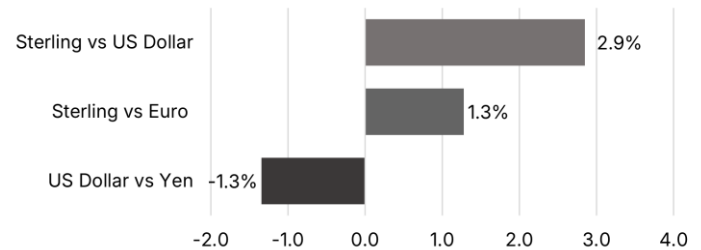
There were mixed returns the major bond markets, with US Treasuries down and Emerging Market local debt doing the best.



Currencies

Sterling was up by 2.9% against the US\$ in the month, ending at a rate of \$1.36:£, while against the euro Sterling was 1.3% higher to end at a rate of €1.16:£.

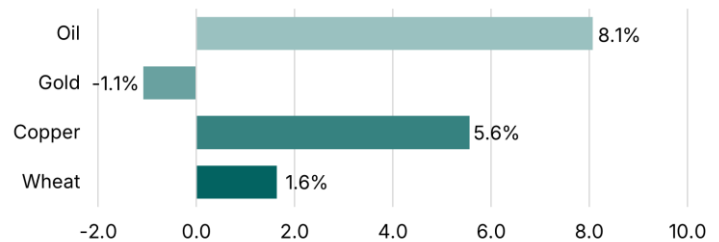
The US\$ was down by 1.3% at ¥157:\$ against the Japanese yen.



Commodities

The price of Brent crude oil ended the month up by 8.1% at a level of \$110 per barrel. Gold fell over the month by 1.1% to close at \$4618 per troy ounce.

The main metals were mostly higher in the month, with the bellwether copper up by 5.6%, and the main agricultural commodities were mostly higher, with wheat up 1.6%.



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