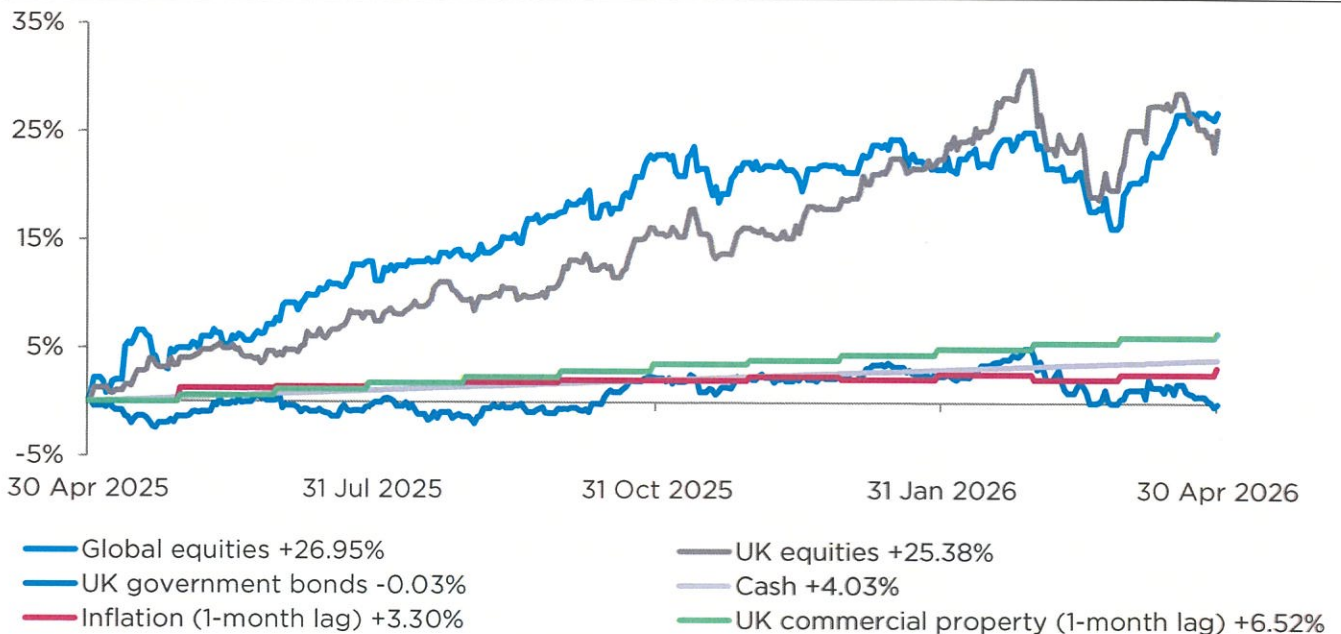


Market review

The headlines

- ▶ **A US-Iran ceasefire and strong first-quarter company results boosted shares in April. Companies' profits rose faster than their share prices, so valuations moderated.**
- ▶ **Inflation is rising, but central banks are keeping interest rates on hold until a clearer picture emerges of the effects of the Middle East war.**
- ▶ **Mindful of risks in both stocks *and* bonds, in Europe *and* in the US, we continue to grow the diversifying strategies that we first introduced in early 2026.**

Market returns: Share prices rebounded during April, helped by stronger-than-expected company profits.



Sources: Bloomberg, returns in pound sterling as of 30 April 2026 (30 April 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

The war in the Middle East developed into a tense standoff during April. But world share prices rebounded by 9.6%.⁽¹⁾ US share prices advanced 10.5% during April, eurozone equities 5.5% and UK equities 2.6%.

The pound sterling strengthened against most other currencies during April, which lowered returns on foreign assets in pound sterling terms.

The price of Brent Crude peaked at \$126 per barrel in April, before settling at \$111 by the end of the month.

The Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) all kept interest rates on hold during April. However, short-term and long-term bond yields continued to rise in the US, the UK and the eurozone.⁽²⁾

use the euro slowed from 1.2%, yoy, in the fourth quarter of 2025 to 0.8% in the first quarter of 2026.

Japanese share prices rose 7.5% in April. As in the US, share prices first rebounded after the US and Iran agreed a ceasefire, after which AI and semiconductor shares fuelled a rally for the rest of the month.

The Japanese stock market is benefiting from the fiscal stimulus that Japan's new prime minister is enacting, from rising shareholder activism and from a rise in mergers and acquisitions.

As in other developed countries, the Bank of Japan kept interest rates on hold in April. Three of its nine-member rate-setting board, however, proposed raising rates during the month.

Chinese share prices rebounded 3.4% in April, led by AI and technology shares. For now, the Chinese government is using its large strategic petroleum reserve of c. 1.2 billion barrels (c. 109 days of imports) and price controls to manage domestic inflation.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Fed, Bank of England, European Central Bank

Looking ahead

Our central scenario remains that the US and Iran will find a way to halt this war. For now, the conflict has failed to generate the oil shock that some feared.

Moreover, positive corporate results boosted share prices in April. As expected, US firms proved themselves more insulated than European firms from events in the Middle East.

- By the end of April, c.60% of the S&P500 index of large-cap US firms had reported profits in the first quarter of 2026, on average 30% higher than in the first quarter of 2025. The IT sector was the biggest driver of this increase, with profits up 72% yoy.

US companies' profits rose more quickly than their share prices, so US shares became cheaper. The S&P500's average price-to-earnings ratio fell from 23x in late 2025 to 21x in April 2026.

- In addition, the downward trend, from 2021 to late 2025, in the share prices of companies with heavy

capital expenditure came to a halt in early 2026. Instead, these companies' share price performance improved. This trend started among IT firms, but we expect it to broaden, as opportunities for profitable investment present in defence, mining, transport and re-shoring industrial supply chains.

April's share price performance was solid, but we continue to be acutely aware of substantial vulnerabilities across various financial markets.

- Stagflation, i.e. the combination of zero or negative economic growth and high inflation, remains unlikely. The oil price shock to date hasn't been significant enough to trigger a recession, or to cause the level of inflation we saw after Russia invaded Ukraine.
- The US government's fiscal position continues to be of concern. Short-term and long-term bond yields have risen since 2020, but the extra yield that investors receive to buy longer-dated US Treasury bonds, has remained low. If the difference between short-term and long-term bond yields, the so-called 'term premium', were to rise, the cost of capital for private firms might rise along with it.
- If the current stock market rally continues, share price valuations may become less reasonable again, in particular in the US. Diversifying from US shares by rotating into European shares now seems less appropriate than in early 2026.

In our analysis, shares and bonds continue to be less efficient diversifiers from each other than they have been historically. As a result, we continue to build out the absolute-return diversifiers that we introduced to our portfolios in early 2026.

Glossary

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