



Quarterly review

GBP Global Medium Portfolio

Market highlights

Q1 2026

Summary

Two powerful themes have driven markets in 2026. The first is the geopolitical uncertainty triggered by President Donald Trump's sharp shift in US foreign policy. The second is the AI-driven sell-off, with markets shifting from favouring AI leaders to focusing on companies whose business models are most threatened by the rapidly developing technology. These trends have reversed the market's strong start to the year, as investor attention turns to supply chain vulnerabilities and the potential growing risk of stagflation, when high inflation, weak growth and rising unemployment occur simultaneously.

Few anticipated gunboat diplomacy – the pursuit of foreign policy objectives using military force – would become a defining feature in 2026, particularly as Trump had built his campaign on opposing foreign military action. Positioning himself as a “candidate of peace”, Trump insisted he would use his deal-making skills to end multiple conflicts, notably Russia's invasion of Ukraine.¹

The opening quarter has instead been marked by direct US military action. The US launched an operation in Venezuela to remove President Nicolás Maduro, threatened to take over Greenland, and conducted joint strikes with Israel targeting Iranian military and nuclear facilities intended to destabilise its regime. While the action in Venezuela was contained, the escalation in the Middle East has had far broader consequences.

Iran responded by targeting energy infrastructure across the Gulf and restricting passage through the Strait of Hormuz, the 21-mile passageway where about 20% of the world's oil supply passes daily.² The result has been a significant repricing in energy markets, sending oil and natural gas prices higher and materially affecting global inflation expectations.

Equities initially held up against earlier geopolitical developments, but most gains were erased in March, as the Iran conflict and its economic impact weighed on markets. European and Japanese equities were up 7% and 16% to the end of February, before ending the quarter down -0.8% and up 4%, respectively.

The US was more mixed. The headline-level S&P 500 was little changed to the end of February, while the equal-weighted S&P 500 index – which gives each constituent the same weighting regardless of market capitalisation – was up 7%. However, as the quarter progressed, the S&P 500 ended down -4.4% while the equal weighted S&P 500 finished just slightly positive. Asian equities were hit hard by the conflict in the Middle East as the continent receives a significant amount of oil from the Strait of Hormuz. Over the quarter, Hong Kong's Hang Seng Index lost 3% while China's Shanghai Composite fell 1.8%. Bond yields moved higher as investors shifted from pricing rate cuts to hikes amid heightened inflation uncertainty.

The conflict in Iran sent oil prices surging in the quarter. Brent crude rose 94%, its biggest quarterly jump since the start of the Gulf War in 1990, to close the quarter at \$118.35 per barrel.³ Natural gas rose 71% in Q1 as liquefied natural gas (LNG) disruptions emerged, and secondary effects on commodities such as sulphuric acid and fertiliser flows have added complexity beyond the energy sector.

Even traditional safe-haven assets such as gold have not been immune. After a strong 2025 and a record start to the year, gold fell 11.6% in March after the conflict escalated. While gold typically performs well during periods of uncertainty as investors seek assets that preserve value, in extreme risk-off environments investors often sell their best-performing and most liquid holdings to raise cash – and gold, following its recent rally to record-high holdings, fits that profile. Its effectiveness as a safe haven is also highly dependent on the broader macro backdrop, particularly inflation, interest rates and currency movements. As such, the recent pullback is neither unexpected nor, in our view, a cause for concern, as asset prices tend to mean revert over the medium- to long-term.

The conflict is expected to feed directly into inflation – higher crude prices will raise transportation costs, airline fares and freight rates, while also affecting consumer sentiment. In addition, restricted shipping lanes are raising availability concerns for essential commodities. However, if a resolution is reached in the Middle East, the inflationary impulse would likely prove temporary, giving central banks scope to look through the near-term pressure rather than respond with further rate hikes.

It was a solid earnings season, although shares of software companies suffered significant falls after the release of industry-specific plug-ins for Anthropic’s new Claude Cowork tool. This tool – which uses language instructions to complete complex, multi-step work including file organisation and document creation – appears to compete with traditional software-as-a-service (SaaS) models. This has led investors to reassess SaaS company valuations. As a result, the S&P 500 Software Industry Index fell 24% in the first quarter, with most declines occurring before the war.

On 30 January, Trump nominated Kevin Warsh to replace Fed Chairman Jerome Powell, subject to confirmation and pending the ongoing investigation into Powell. The Fed is no longer expected to cut rates but will likely hold.

On 8 February, Japanese voters handed Prime Minister Sanae Takaichi and the long-ruling Liberal Democratic Party a supermajority in the lower house of Parliament – the first party in the post-war era to achieve such dominance. This gives Takaichi greater political room to pursue her agenda, which includes a tougher stance on immigration, a review of rules around foreign ownership of Japanese land, and policies to increase spending while cutting taxes to stimulate the economy.

Japanese equities posted strong gains post-election, although some of these gains had tapered off by quarter-end. Japan’s Topix (Tokyo Stock Price Index) rose 16% through February but ended the quarter up only 4%. Before the election, Japanese government bonds sold off amid election pledges for more consumption tax cuts, with 30-year yields rising to 3.86%, the highest since their introduction. Yields fell back from these highs, only to rise again with the Iran conflict.⁵

On 20 February, the US Supreme Court ruled that sweeping tariffs imposed by Trump on key trading partners violated federal law, dealing a major blow to the administration’s trade strategy and creating uncertainty over existing agreements. In response, the administration introduced a replacement tariff framework, starting at 10% and potentially rising to 15%, using a little-tested provision that allows the president to impose broad tariffs for up to 150 days without congressional approval.

[1] [How to Avoid a Forever War in Iran | WPR](#)

[2] [Iran war: What is the Strait of Hormuz and why does it matter? - BBC News](#)

[3] Deutsche Bank, Bloomberg

[4] [Interest rates held at 3.75% as Bank of England warns Iran war 'shock' will push up inflation - BBC News](#)

[5] Deutsche Bank, Bloomberg

Fixed Income

Volatility in global fixed income stayed high in the first quarter of 2026 as an initially benign backdrop gave way to an energy-driven inflation shock and a sharp repricing of interest rate expectations. January and February were relatively calm in markets despite rising geopolitical tensions. In the US, short-dated Treasury yields rose in January as the Federal Reserve held rates at 3.5–3.75% and pointed to a more balanced outlook, while softer labour data appeared driven by weaker hiring rather than layoffs.

Eurozone government bonds outperformed early in the quarter. Resilient activity and a January inflation reading of 1.7%, the lowest since 2021, allowed the European Central Bank to keep rates at 2% and describe inflation as in a “good place”. In the UK, the gilt curve steepened in January as short-dated yields fell and long-dated yields rose, while the Bank of England’s decision in February to hold rates at 3.75% with dovish messaging boosted expectations for a March cut, even as politics and fiscal questions added uncertainty.

The picture changed decisively in March as the war in Iran escalated, the Strait of Hormuz remained largely closed and key gas infrastructure was hit. Oil and gas prices rose sharply, driving inflation expectations higher and forcing investors to reassess the path for interest rates. The Fed, BoE and ECB all left policy rates unchanged but shifted to much more hawkish guidance, signalling that earlier expectations for multiple cuts were no longer realistic and that rate hikes were now a clear possibility.

Government bond yields in major energy-importing economies moved meaningfully higher from late February, with the adjustment led by the front end of the curve. Short-dated yields rose much more than long-dated yields, reflecting a market that now anticipates higher policy rates in the near term but still expects the inflation shock to be relatively short-lived. This dynamic highlighted both the immediate inflation challenge and lingering concerns about the longer-term drag on growth.

From a portfolio perspective, our government bond allocation generated modest losses. The global repricing of sovereign yields has been especially pronounced in the UK, where gilts have lagged other major government bond markets. This reflects the UK's greater sensitivity to higher imported energy costs, which is contributing to wider term premia and a more cautious reassessment of the disinflation path than in many other developed economies. We view these market moves as creating more attractive entry points and selective opportunities within the gilt market. The portfolio's best performer was unsurprisingly the holding in inflation linked US Treasury bonds, which maintained their value despite nominal yields moving higher.

Credit markets mirrored the changing backdrop over the quarter. Investment grade credit performed well at the beginning of the year, but spreads in both investment grade and high yield widened through February and March as geopolitical risks rose and central banks shifted from an easing bias towards a more cautious, potentially tightening stance. Within the portfolio, the defensive positioning of AXA US Short Duration High Yield offered remarkably resilient returns, despite credit spreads widening over the quarter.

Equity

US Equities delivered negative absolute returns over the quarter, albeit to the start of March US equities had delivered positive absolute performance, with the outlier being Jennison US Growth. With significant exposure to US Mega Caps, including the AI hyperscalers, market sensitivity to capital expenditure commitments and stretched valuations, as well as the general theme of diversifying away from the US saw these names struggle, with the likes of Microsoft (-9%), Alphabet (-8.55%), Nvidia (-6.40%) all underperforming. Snyder US All Cap & T. Rowe Price US Structured Research both benefitted from the broadening out theme we've seen through Q4 into this quarter, both bringing positive returns up to March. Since March however, returns have been defined by the market's negative reaction to conflict in the Middle East. The outlier has been the un-hedged position of the Snyder US All Cap fund, benefitting from the US Dollar strength we have seen since conflict in the middle east began.

Equity performance across Asia and Emerging was positive, supported by the theme of diversifying away from US assets, favouring the re-allocation of capital to regions demonstrating cheaper valuations and positive earnings growth. The Asia and Emerging Markets funds benefitted from resilience in names such as Taiwan Semiconductors (+17.1%) and Samsung Electronics (+68%) both outperforming to the end of February, as demand for AI hardware and semiconductors continued. However, the Chinese internet mega caps Tencent (-22.3%) and Alibaba (-21.6%) both struggled over the quarter. Nonetheless, share prices came under pressure amid the Middle East conflict in March as investors weighed up the potential impact of energy supply chain issues on the region. Broadly we've seen EM regions sensitive to energy prices suffer more, with a number of companies giving up a lot of their gains since the end of February.

European equities outperformed over the quarter despite the risks associated with protracted conflict in the Middle East. A continued positive view on interest rate policy, supportive fiscal policy and cheaper valuations saw investors favour the region over other developed markets. The dedicated European fund, Ardtur Continental European continued to positively contribute to performance, with exposure to European Oil & Gas including Shell, BP and Total all contributing positively.

Japanese Equities benefited from the broader market rally and positively contributed to performance over the quarter, despite seeing negative returns in March. Over the quarter, equity performance benefitted from the landslide victory of the incumbent Liberal Democrat Party (LDP) and the prospect of fiscal support, as well as the ongoing corporate reform. This has particularly benefitted names with a more domestic focus, which the Chikara Japanese fund has exposure to. Notable contributors were the Japanese financials Tokio Marine Holdings (+23.6%) and Mitsubishi UFJ Financial Group (+2.2%).

Performance among the global core equity managers was mixed. Global value managers positively contributed to performance, both benefitting from an underweight to US region as well as broad exposure to Financials, Industrials and Energy sectors, notably

Redwheel Global Intrinsic Value (+2.79%) and Fidelity Global Dividend (+1.57%). The quality managers within the portfolio had a difficult period, with the combination of quality factor and stock specific risks detracting from absolute performance.

Blackrock Natural Resources was the strongest performer over the quarter, benefitting from positive performance of Oil & Gas majors Shell, Exxon and Chevron all demonstrating resilience despite the risk off nature of equity markets in March. Global miners broadly positively contributed to performance, however the Middle East conflict ignited fears of global demand softening and higher costs associated with supply chain disruption, which had a negative impact on share prices through March. In particular, precious metal miners underperformed as their sensitivity to spot prices shone through, with Barrick Mining Corp falling 29% from intra-quarter highs.

Alternatives

It was a broadly positive quarter for the alternative allocation against an eventful backdrop for global markets.

The Winton Trend Fund was the standout performer delivering +5.1% in the quarter. The fund made a strong start to the year generating profits on long positions on equity indices, and on its commodity and currency trading which continued to show strong persistent up trends in January and February. The fund declined 0.82% in March, giving back part of the gains generated earlier in the quarter. The month was dominated by heightened geopolitical tensions in the Middle East, which triggered sharp, short-lived reversals across several key futures markets. These abrupt moves proved challenging for medium term trend following signals, which typically perform best in stable, directional environments.

Macro strategies generally struggled in the period against a volatile backdrop as shifting policy expectations and ongoing geopolitical tensions shaped investor sentiment. The Graham Macro Fund delivered -2.7% in the quarter struggling in March as a combination of sharp position reversals and increased cross asset volatility created a challenging backdrop for the Fund's strategies. The environment was characterised by abrupt shifts in risk sentiment, inconsistent price trends, and elevated event driven uncertainty—all conditions that historically reduce the efficacy of medium-term macro and trend-based models.

Brevan Howard Absolute Return delivered +1.1% in the quarter, as the team continues to trade tactically, taking advantage of short-term dislocations and asymmetries within fixed income markets. The fund remains a good diversifier within our portfolio, offering differentiated returns in a complex and uncertain macro landscape.

Portfolio Changes and Asset Allocation

The first quarter of 2026 was rife with investment opportunities, the team implemented multiple targeted portfolio adjustments, reflecting our macro assessment and conviction views. Within fixed income, we exited our long dated UK gilt exposure through the sale of the UK Gilt 1.25% July 2051, after a strong recent rally. Much of the original investment case including curve flattening, normalisation of inflation premia and improving UK macro sentiment had largely materialised. To retain balanced duration exposure while improving valuation and carry, proceeds were redeployed into the UK Gilt 0.625% July 2035, offering more attractive value in the belly of the curve.

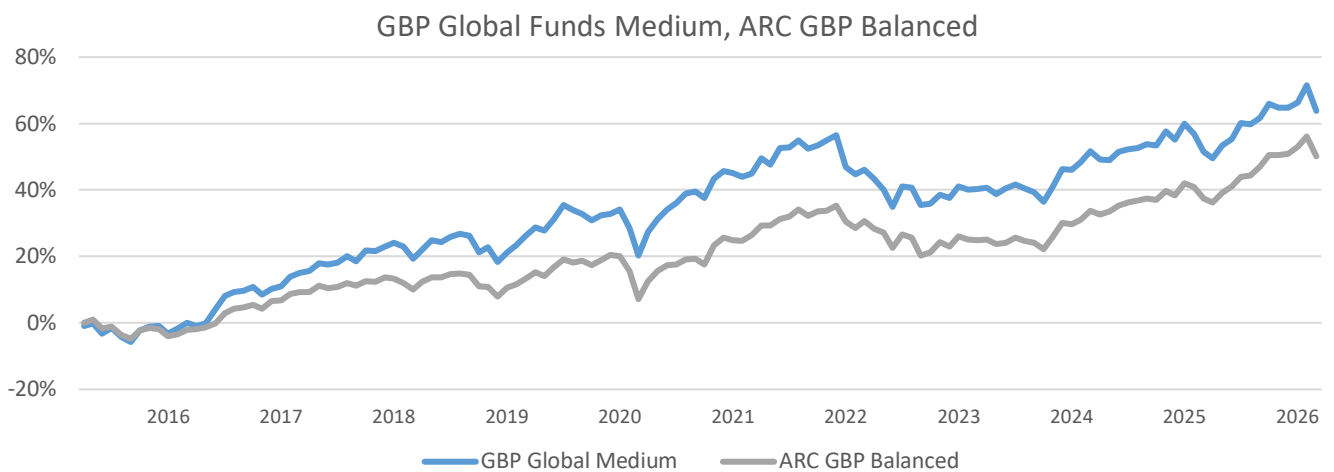
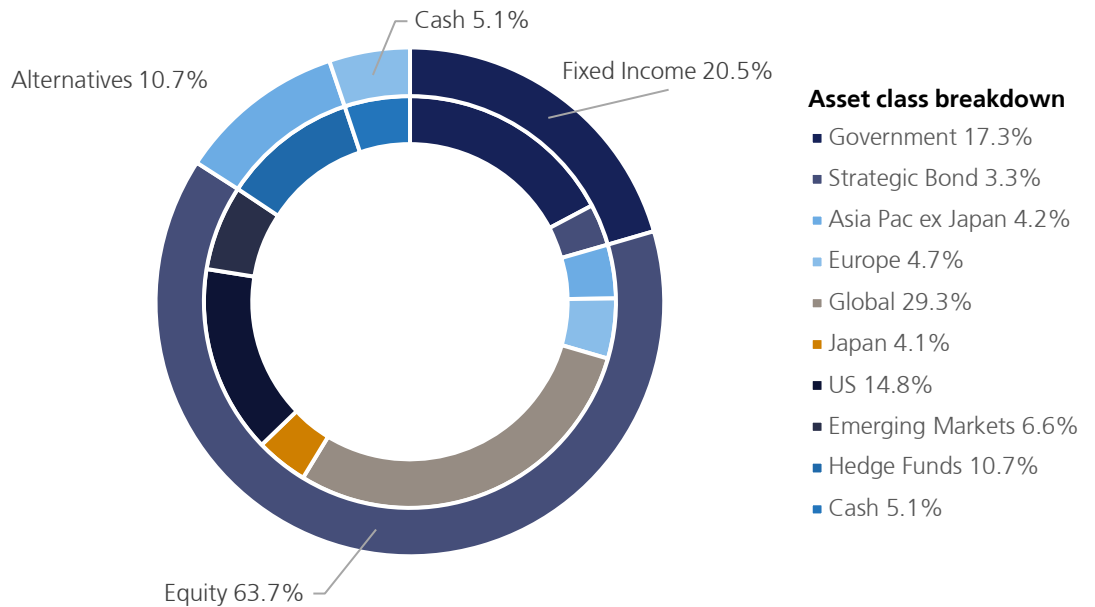
In global equities, the value allocation was refined through the sale of Schroder Global Recovery, with proceeds reallocated to Redwheel Global Intrinsic Value. This higher conviction strategy combines disciplined valuation with a strong emphasis on sustainable long term profit growth and is well positioned to exploit sentiment driven dislocations over a three to five year horizon while avoiding traditional value traps.

In March we moved to simplify the portfolio's quality exposure. Given rising uncertainty around the durability of competitive advantages particularly amid rapid technological change and the increasing influence of artificial intelligence reliance on a small number of concentrated active managers was reduced. Reallocations from Lazard Global Equity Franchise, Morgan Stanley Global Brands and Evenlode Global Opportunities into the State Street World Quality Index and iShares MSCI World ex USA retained core quality characteristics while improving diversification, cost efficiency and reliability. F

Elsewhere, the team reviewed growing concerns in private credit markets, where rising defaults and fund gating have highlighted risks associated with aggressive deployment and weaker underwriting an area the portfolio has deliberately avoided. While no immediate negative view was taken on public high yield, potential spill over risks were discussed. Against this backdrop, exposure to AXA US Short High Yield was exited as a precautionary measure, with proceeds redeployed into the UK Gilt 0.25% July 2031 and a small allocation held in cash pending redeployment into higher conviction ideas.

Finally, to close the quarter, renewed safe haven demand for the US dollar emerged amid rising market uncertainty and relative weakness in sterling and the euro. The team therefore completed the second phase of our US dollar hedging strategy, moving HC Snyder US All Cap into a fully hedged share class to improve resilience to currency volatility while maintaining exposure to a high conviction US equity strategy.

Portfolio Positioning



Conclusion

Geopolitics has once again been a dominant feature of the investment landscape. The potential for disruption to global energy supply via the Strait of Hormuz introduces a direct channel through which geopolitical developments can feed into both inflation expectations and economic activity. The scale of the disruption has been significant, and investors will be hoping that its duration proves manageable.

Markets now appear to be settling on a base case in which the acute phase ends and the US steps back from the region. Under this scenario, Iran remains weakened militarily but retains the capacity to intermittently disrupt energy supply. Some of the economic impact is already in train and will be felt with a lag. For now, markets are assuming that if the situation stabilises relatively quickly, this will be largely looked through.

Higher energy prices have already led to a repricing of interest rate expectations. As the underlying driver of this pressure is geopolitical rather than monetary, we would expect the response of central banks to be one of patience in the first instance. While policymakers have remained measured so far, the extent to which they look through a supply-driven shock, versus responding more directly to inflation, will be an important determinant of market behaviour in the months ahead.

Against this backdrop, it is important to distinguish between short-term noise and longer-term trends. Periods of uncertainty such as this can feel highly significant in the moment, but history shows that markets are generally resilient to geopolitical shocks unless they result in sustained economic disruption. The primary drivers of long-term returns remain corporate earnings growth and the path of interest rates.

For clients, periods such as this can understandably create uncertainty. It is therefore worth reiterating two key principles. First, volatility is a normal and unavoidable feature of investing. While each episode feels unique at the time, market drawdowns are a regular part of the journey towards long-term returns. Second, successful investing is ultimately about maintaining discipline through these periods, rather than attempting to react to every development.

All long-term market charts share the same broad shape - a steady upward trend, punctuated by periods of volatility. The objective of our portfolios is to capture that long-term progression, recognising that doing so requires accepting a degree of short-term uncertainty along the way. While the current environment presents challenges, it does not alter that fundamental principle.

While markets have experienced periods of weakness, we have not yet seen the type of conditions that typically provide a high level of conviction to add meaningfully to equity exposure. Equally, attempting to time short-term market movements in response to evolving news flow is inherently challenging and risks undermining long-term outcomes.

Instead, our focus has been on adjusting the composition of risk within portfolios. This includes increasing exposure to real assets and gold, which we believe offer useful diversification benefits in an environment where the traditional relationship between equities and fixed income has become less reliable. More broadly, we continue to emphasise a balanced approach, combining a robust core allocation with selective opportunities to express specific views.

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