5 May 2026

Market Update

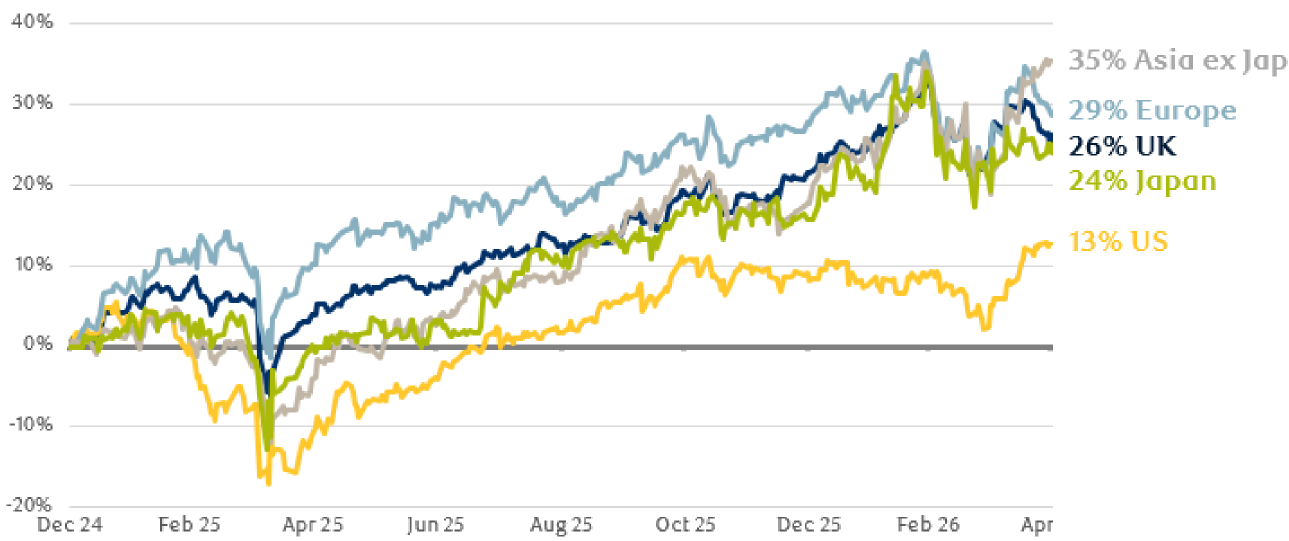
Performance Summary

Portfolios started 2026 positively with very strong performance in January and February, driven by a continuation of stock market returns very much suited to our diversified and differentiated equity strategy. However, the initiation of the Iran war in March caused a market contraction which reversed all the investment returns in the first 2 months of the year. The market contraction was felt across nearly all asset classes except energy/oil, leaving investors with little choice but to brace themselves throughout the volatility and wait to see how both the Iran war, and broader inflation implications, unfold. Given the higher weighting to the energy sector, to the end of March, the UK FTSE 100 fared much better than most other major markets, rising 2.5%, compared to the US S&P500, which fell 2.75% over the same period.

Investors would be somewhat relieved to see that equity market drawdowns (and more importantly portfolio losses) have been well contained over the period, despite the closure of the most important waterway in the entire world, the Strait of Hormuz. Certainly, when compared to the stock market fall out from President Trump's 2025 Liberation Day Tariff announcements, you would be correct in asking why this economically significant event has caused considerably less damage to stock market returns. Whilst it is impossible to know for certain why the drawdowns have to date been less aggressive during this Middle East crisis compared to the Liberation Day tariffs, we discuss possible reasons for this a little later in this update.

Whilst portfolio performance for the first quarter of 2026 reflected the initial concerns of the conflict, we have seen a significant rebound in April which has put performance firmly back into positive territory. This also comes after a very strong year of performance in 2025. This is highlighted in the chart below, which shows the strong progress for markets since the start of 2025, with other global markets still leading the US over this period by a significant margin.

Global Equity Index Performance 1st January 2025 to 30th April 2026 in £:



A week is a long time in geopolitics!

As the saying goes, "a week is a long time in politics" and this has certainly proved to be the case this year, which began with President Trump authorising the raid and capture of the Venezuelan dictator Nicolas Maduro and his wife, where both are being held in New York City. While the operation is seen to have been largely successful, with relatively minimal fallout within the region, Cuba continues to struggle with energy scarcity and economic turmoil. The US imposed energy blockade has left Cuba with fuel shortages and power outages, with the US desiring regime change, and threatening potential military intervention should a deal fail to arrive. Negotiations are ongoing.

Elsewhere, Europe and NATO struggled with ongoing threats towards the sovereignty of Greenland. While the US' interest in Greenland has dissipated in recent weeks, the geographic value (monitoring the Arctic Circle for defence/influence purposes) and natural resources held within the island leaves European leaders nervous that this topic may be revisited when the US is less distracted. "Operation Arctic Endurance" has been implemented in response to US threats, with nations including France, Sweden, and the UK sending troops to the island as a deterrent.

As mentioned above, in late February, Israel and the US jointly launched surprise attacks across Iran. The conflict has spilled into the wider Middle East, with surrounding nations including Qatar and the UAE recipients of Iranian missile attacks, and traffic through the Strait of Hormuz initially being halted by Iran before the US decided to enforce an official blockade. Iran's supreme leader Ali Khamenei was killed at the outbreak of the conflict, triggering US hopes of a regime change. However, such hopes have likely been dashed, with the outcome of the conflict now more difficult to predict. At the point of writing, an extension to the existing ceasefire has been agreed, reducing the human cost of the conflict and creating hope for a long-term peace agreement.

The conflict has created a substantial increase in global energy costs, which has reignited inflation fears and paused most central banks from further interest rate cuts. The disruption to global fertiliser supplies is also a concern, with up to a third of globally traded fertilisers impacted by the closure of the Strait of Hormuz. Fertiliser prices have increased, which is leading to the use of lower-nitrogen (and lower yielding) alternatives. The longer the conflict continues, the higher the risk of increased global food inflation (at best), or genuine food scarcity and insufficient production (at worst).

What about closer to home?

From a UK perspective, perhaps the saying should be adjusted to "a day is a long time in politics". The year started with a subtle sense of optimism as the country distanced itself from the anxiety surrounding the 2025 autumn statement. The ONS even revealed GDP growth estimates for February 2026 of 0.50%, which surpassed expectations and suggested the UK economy was building momentum prior to the Iran war. However, we have seen this positivity somewhat diminish, with the UK continuing to struggle with poor consumer confidence, not helped by the increased inflation concerns and the changed expectation of interest rate rises rather than cuts, all of which pushes out the hope of any meaningful recovery in consumer spending. Political uncertainty also remains, for Keir Starmer in particular. After seeing his approval ratings increase earlier in the year, his position now looks on shaky ground following the ongoing controversy surrounding the appointment of Peter Madelson as UK Ambassador to the US.

In spite of the more negative headlines, it is worth noting that the average UK consumer remains financially robust with lower average borrowings alongside higher cash savings. A pick up or ongoing stability in domestic consumption therefore does not look beyond the realms of possibility. Given the low expectations for the UK economy, any positive signs could lead to a meaningful improvement in the share prices of UK medium and smaller sized listed companies, which are trading at historic discounts to their larger peers. As a consequence we believe there is a good risk/reward here, supported by low valuations, corporate activity (takeovers), share buybacks and dividends.

AI eats software?!

Despite the focus on geopolitical events so far this year, there continues to be rapid developments made within artificial intelligence. The latest releases of various AI models (such as Anthropic' s Claude Mythos) show a substantial leap forward in capability, with investors now rushing to identify which companies and sectors are most at risk. Software companies (such as RELX and Microsoft) have been most impacted by the concerns that AI Agentic models would displace their software offerings or erode pricing power. The 'AI Scare Trade' has since moved to almost every sector, including technology, insurance broking, and payments. We continue to dedicate our time towards understanding the broader impacts of AI to our investments, and with this clear step change in AI model capability it is more important than ever to ensure our companies are well insulated from the risks and able to capitalise on integrating AI tools into their businesses.

What does this mean for portfolios?

Whilst we watch events unfold with a keen eye, we have not needed to make any snap decisions in the wake of the war owing to the strategy already in place. We maintain a good allocation to gold, to energy and to alternatives such as infrastructure which tend to be the 'safe haven' assets when there is uncertainty. We continue to invest across various regions and market cap spectrums – all of which has helped to protect portfolio values during market downturns whilst allowing strong participation in the recent market rally. During 2025, we took profits from several technology stocks and re-invested proceeds into more defensive areas of the market – such as healthcare – which have served us well going into 2026. This is a time when active management, stock picking and careful asset allocation can add real value to portfolios and we retain some cash to take advantage of any opportunities that may present themselves over the coming months.

Recent Portfolio Activity

As mentioned above, we have not felt the need to make any drastic changes to portfolios this year, following plenty of activity towards the end of last year to derisk portfolios, take some funds out of the more highly valued areas of the market and add to areas where there were attractive opportunities. This included topping up our holdings in the Federated Hermes Asia ex-Japan Fund, given we are constructive on the region, where we can access attractive companies (many at the forefront of technological advances) at far more attractive valuations than their US peers.

We also added a position of International Public Partnerships Investment Trust, which gives us diversified exposure to infrastructure assets, that focuses on assets with a government backed cash flow and low sensitivity to economic activity, with a strong yield of nearly 7%. We were also able to buy the shares at an attractive discount of c.15% to their underlying net asset value.

In February we added to RELX, which is a data, technology and software company, following the negative shift in sentiment as investors felt Artificial Intelligence could challenge the need for software more generally, which in the case of RELX we believe is unwarranted. The company continues to demonstrate growth across multiple sectors and we believe this provides a good opportunity to add to the holding. Pleasingly, we have seen a meaningful increase in the share price since we topped up.

While we remain positive on the outlook for the healthcare sector, we adjusted our exposure, switching Bellevue Healthcare Trust (BBH) into Worldwide Healthcare. After some disappointing performance, BBH enjoyed a strong run and offered a timely opportunity to rotate into the larger Worldwide Healthcare Trust, which has a strong track record of returns.

In March, ASML was trimmed following exceptional returns and all-time highs for the share price. ASML are the sole manufacturer of highest-quality machinery necessary to produce semiconductors and forecasted a significant increase in sales in 2026, following an extremely strong fourth quarter in 2025. Forecasts for 2026 revenues extend up to €39bn from an already impressive €33bn in 2025. While we believe ASML's monopoly position leaves them well placed for continued success given the ongoing spending in artificial intelligence, we believe it is prudent to take some profits given expectations and the share price have moved a long way.

As the conflict in the Middle East continued, oil prices rose substantially and so did the share price of Shell. We therefore took the opportunity to trim larger holdings, albeit retaining a healthy position to act as a hedge should hostilities continue. We have also reduced the First Trust Eurozone holding, taking some profits after last year's very strong run, which seems sensible given Europe are more exposed to higher energy prices.

Outlook for the remainder of 2026

The conflict in the Middle East has raised a number of economic and geopolitical risks, which are likely to last considerably longer than the war itself. Both inflation risk and resource scarcity will keep a handbrake on the global economy, whilst the higher oil price and reduction of economic sanctions will support Russia's economy and its funding towards extending the war in Ukraine. Despite losing access to a vast amount of oil, China has stayed relatively quiet over both the Venezuelan raid and War in Iran. We expect this stance to change as their oil reserves begin to deplete, creating a potential confrontation between the world's two economic and military superpowers.

Despite the increased risk to the global economy, equity markets have been surprisingly resilient with many global indices hitting fresh all-time highs at the time of writing. There appears to be a few reasons for this. Firstly, investors had a significantly higher allocation to equity hedging strategies (insurance) leading into this conflict. Following the severe negative reaction to the Liberation Day Tariff announcement in April 2025, investors have remained more cautiously positioned ever since. This in turn reduced the amount of panic selling when the first missile strike was launched. Secondly, corporate earnings have been resilient with little to no sign that the war is impacting the revenues of the largest and most important global companies (yet). Finally, the market is demonstrating some signs of "muscle memory", expecting that a Trump U-turn is imminent which will allow for a sharp rally in stock prices. Given President Trump associates the performance of the stock market with the success of his policies, it remains likely that he will attempt to keep stock markets rising, particularly going into a mid-term election cycle that polls currently have the republicans losing both the house and the senate to the democrats. This leads us to believe that maintaining our equity position and avoiding the risk of missing these sudden market rallies is the best strategy in this environment, especially considering that company earnings remain in a healthy place, aided by the interest rate cuts we have seen, deregulation and tax cuts.

That said, we are certainly not complacent and think it is sensible to retain good diversification within portfolios, both geographically and across investment styles. The have a real focus on high quality companies that we believe are well placed to withstand any short term volatility and are helpfully currently trading at multi decade lows relative to the rest of the stock market. We are also mindful of the valuations that we are paying for companies and having exposure to other assets, including the likes of gold and infrastructure, that can perform even if the mood music turns a little more cautious.

Ultimately, we can use volatility to our advantage over the long term, as it will undoubtedly provide opportunities to buy good companies and investments, as it has done over the past couple of years.

The Winchester Investment Team

RADCLIFFE & CO
INDEPENDENT FINANCIAL ADVISERS • EST. 1959