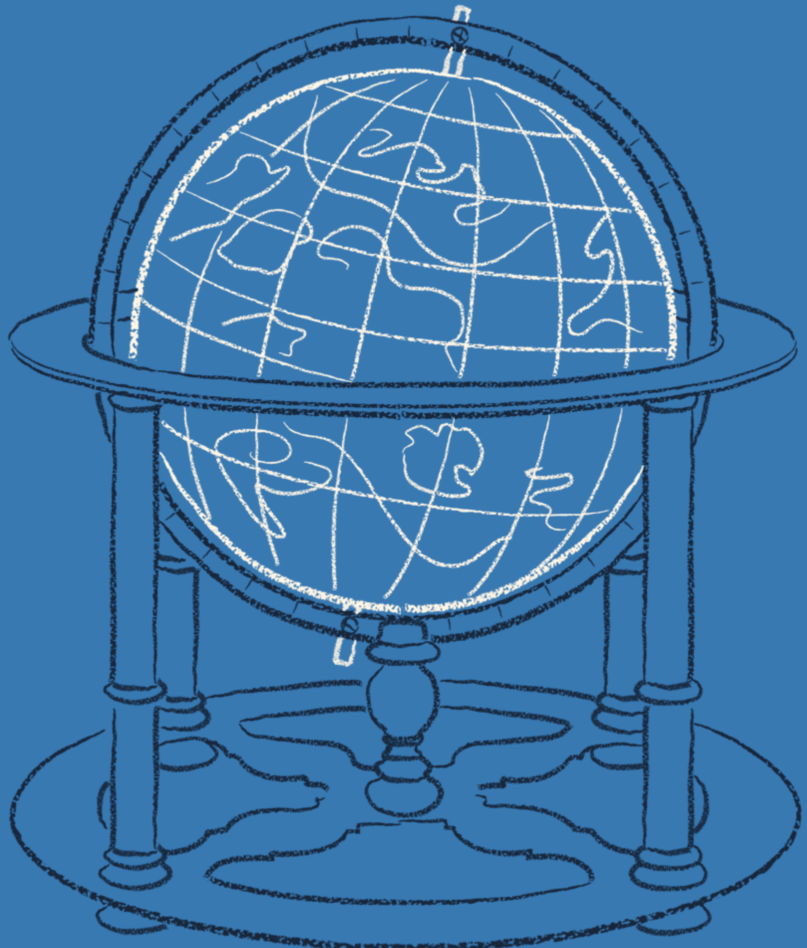
Quarterly Market Update

Q1 2026



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Reflections of the CIO

March 2026

March was another month full of drama and volatility, with the strong performance of January and February reversing sharply in March, as the impact of the war in Iran made itself felt across global markets. Although the geopolitics and news flow accompanying the war are fiendishly complex to navigate and forecast, from the market's perspective the events were very straightforward to interpret. A huge spike in the price of oil (c. +50%) was caused by Iran's effective closure of the Strait of Hormuz, an action which deprived the global oil market of about 20% of its daily supply in an instant.

The longer this supply remains disrupted, the higher the oil price will stay, acting as a tax on global growth and providing a boost to global inflation. Higher inflation in turn usually requires higher interest rates to control it, that or a slowdown in end final demand. Neither outcome is a good one for stock or bond markets, explaining why both fell in tandem during March as they factored in a deteriorating outlook. There was some discrimination, with those countries importing oil falling the most whilst those exporting oil remaining relatively resilient, but the overall picture was one of retreat. Outside of oil and gas prices, nearly every other asset fell during the month, handing back all or most of the gains made in the year to date. How we proceed from here depends crucially on the duration of high oil prices and the reaction of central banks as they adjust their policies (or not) to deal with the consequences of that price spike. However this ends up playing out, we do at least start from a position of relative strength in the global economy and much less of an inflation issue than in previous years. That at least gives us a 'buffer' of sorts to deal with the next few months of uncertainty.

We should also remember that when thinking about long term outlooks from here that the period before the war was also choc a bloc with its own dramas and reversals too. Perhaps the most important issue to keep in mind alongside the impact of the Iran war is the impact of new artificial intelligence (AI) related products and services. The potential threats and opportunities from this new technology have already caused violent price movements impacted stocks and sectors, and we think that they will continue to do so in the months ahead.

Forming an outlook in this environment starts with a healthy dose of humility, as probability weighting any particular scenario is fraught with difficulty. Such is the nature of the 'fog of war', but we do, unfortunately, have plenty of precedents and looking at those helps us shape the likely path from here. History suggests that, eventually, the supply shock passes and passes fairly quickly. The reasons revolve around the physical constraints on the combatants – constraints from munitions or from achievement of military objectives – and from the constraints placed upon the combatants by the rest of the world, as the pain of higher oil prices is felt globally. The costs quickly start to outweigh the benefits for all parties, leading to a settlement process. As we write, the oil market expects a high, volatile price for at least another month before falling steadily over the next year. The stock market drawdowns so far are also small enough to imply agreement with this relatively optimistic scenario as a central case. As mentioned earlier, the global economy is also currently believed to be strong enough to absorb the negative effects of the oil price rise, without spiralling off into recession. There is also still plenty of historical government fiscal stimulus in the economic pipeline, helping to prop up demand and mitigate the worst of the war effects.

Taking all of these influences together, we can see why the consensus outcome from the Iran war is, ultimately, manageable. However, there are so many cross currents that it is difficult to be sure of any scenario. Portfolio wise, we had already been positioning in advance for a year in which returns would be harder to come by when compared to the previous few years. The appropriate risks were being taken for each risk profile, but we were also consistently broadening our portfolio diversification as far as we could. The diversification benefit is the single best protection we feel during tougher times. It is also the means through which opportunities for the longer term are captured and there are more and more of these being presented as valuations become more attractive across the board. Long term opportunity has always been the flip side of shorter term threats, and we believe the most likely scenario as we write is that the current war related turbulence will eventually pass and most likely turn out to be manageable.

David Cooke, CIO

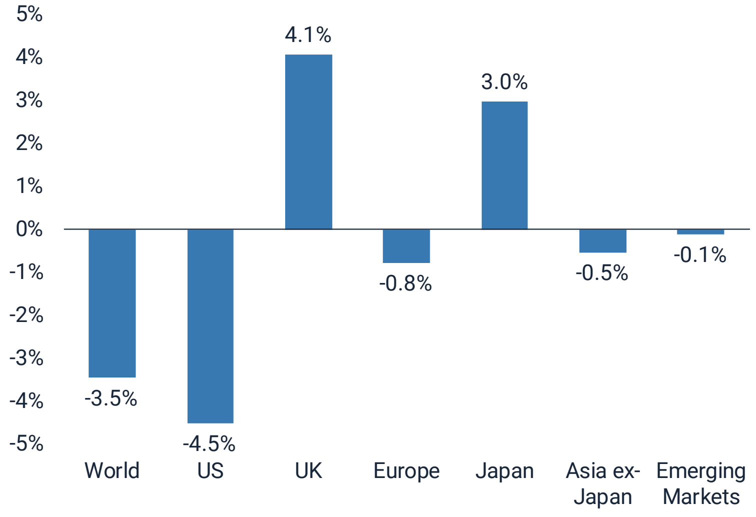
Market Overview: Equities

Global Equities

- The first quarter of 2026 started strongly, but these gains were quickly wiped out in March as conflict in the Middle East sent energy prices higher.
- Equity prices fell significantly in March as investors braced for an energy supply shock which clouds the macroeconomic outlook.
- US equities fell the most over the quarter, dragging down the global index.
- Japan and the UK were two bright spots. The UK market has a relatively large share of energy and commodity producers. Japan performed strongly in February as the new Prime Minister secured a large majority in the election.
- Large cap growth stocks fell most over the period, with value and small cap stocks achieving positive returns.
- Global equity valuations fell but are still meaningfully above long term averages.

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise. Indices used: MSCI World (World), MSCI US (US), MSCI UK (UK), MSCI Europe ex-UK (Europe), MSCI Japan (Japan), MSCI Asia ex-Japan (Asia ex-Japan), MSCI Emerging Markets (Emerging Markets). Style indices are the MSCI World and the relevant size/styles. E.g. MSCI World Small Cap Growth.
PE Ratio is a 12m trailing price earnings ratio.

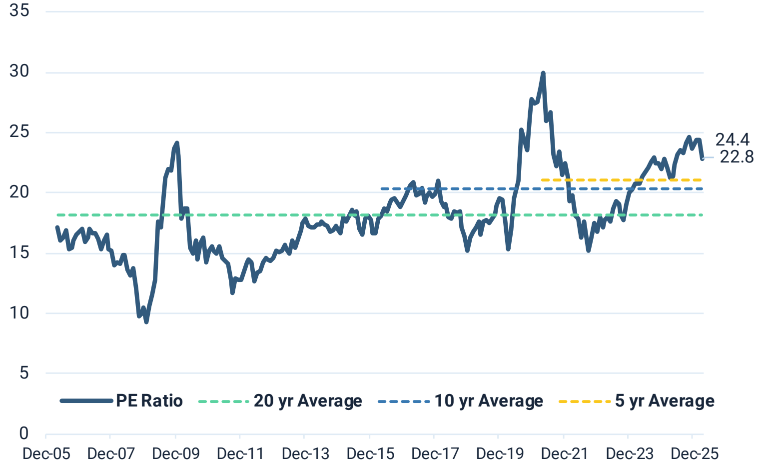
Q1 2026 Performance



Q1 Equity Style Performance

	Value	Blend	Growth
Large	1.34%	-3.47%	-8.40%
Mid	0.60%	-0.59%	-4.35%
Small	1.05%	1.48%	0.89%

Global Equity Valuations



Longer term (5 Yr) performance

US Equities

- US stock markets fell in Q1 2026 and underperformed global peers, including emerging markets, Asia, and the UK.
- A key driver was investor rotation away from US equities toward other regions.
- Markets started strongly, with the S&P 500 reaching a record high in January on AI optimism and strong earnings.
- Sentiment reversed due to Middle East conflict and rising energy prices, increasing inflation concerns.
- Expectations shifted from interest rate cuts to potential rate hikes, pressuring equities.
- Technology stocks declined amid doubts about AI investment returns and fears AI could disrupt industries like software and wealth management.

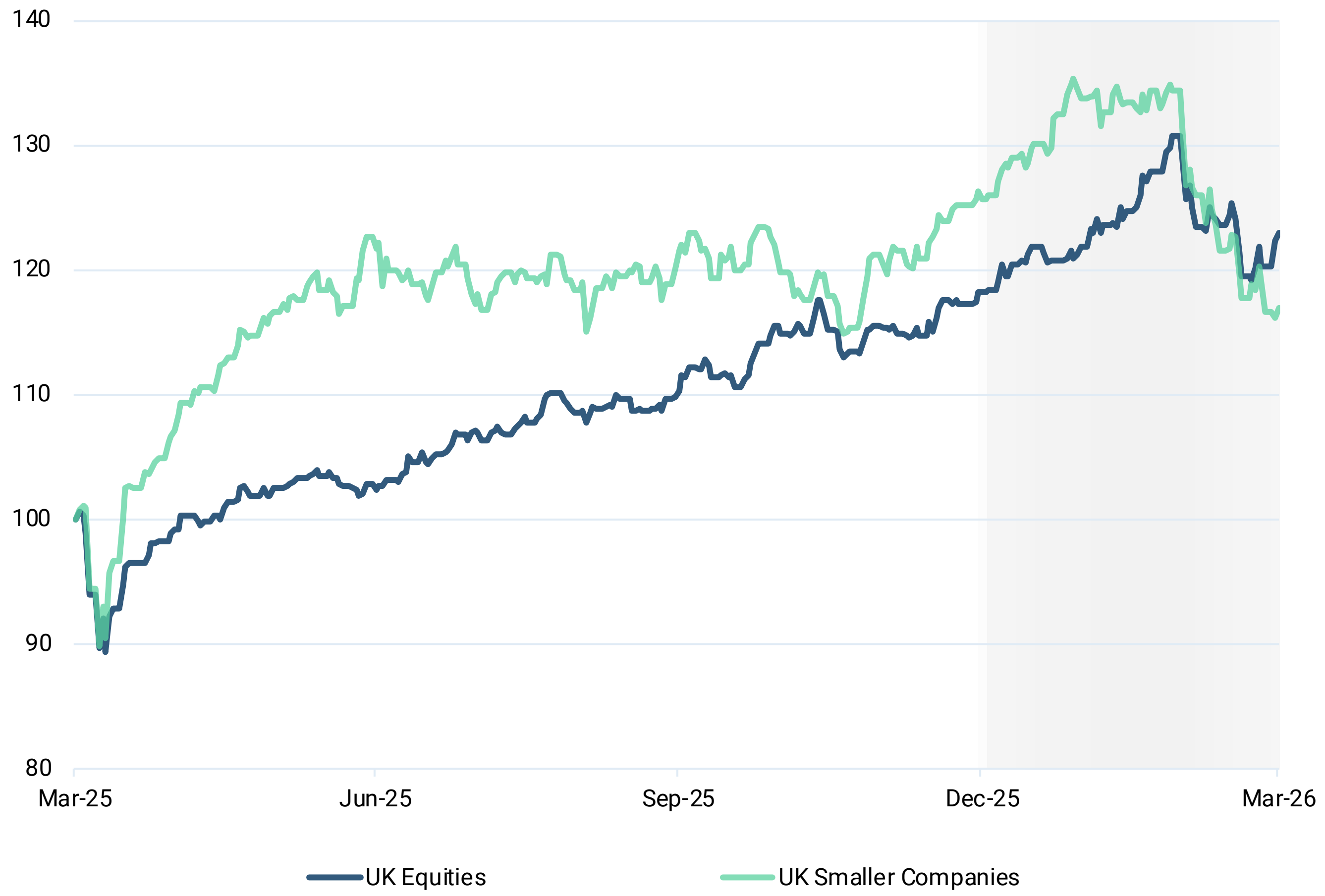
Q1 Performance (LCL)	-4.5%

Last 12 Months (LCL)	+17.7%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI US (US Equities)

UK Equities

- UK equities delivered positive returns in Q1 2026, outperforming the broader global market decline.
- Gains in January and February were driven by easing inflation and expectations of interest rate cuts.
- The FTSE 100 reached a record high during the period.
- Markets reversed in March due to Middle East conflict and rising oil prices, increasing inflation and slowdown fears.
- Despite a significant March drop, UK equities ended the quarter up by more than 4%, supported by energy and commodities stocks.
- Mid- and small-cap stocks underperformed, with the FTSE 250 down 5.1% amid domestic economic concerns.



Q1 Performance (LCL)	+4.1%

Last 12 Months (LCL)	+23.0%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI UK (UK Equities)

European Equities

- European equities declined in Q1 2026, marking their first drop in five quarters.
- The quarter began strongly, with record highs in February and continued investor inflows.
- Early optimism was supported by favourable comparisons with the US and strong bank stock performance.
- Sentiment deteriorated sharply in March due to Middle East conflict and rising oil prices.
- Inflation concerns increased, raising expectations of potential European Central Bank rate hikes.
- Germany and France were among the weakest markets, while Spain proved relatively more resilient despite still declining.

Q1 Performance (LCL)	**-0.8%**		**Last 12 Months (LCL)**	**+12.4%**

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Europe (Europe Equities)

Japanese Equities

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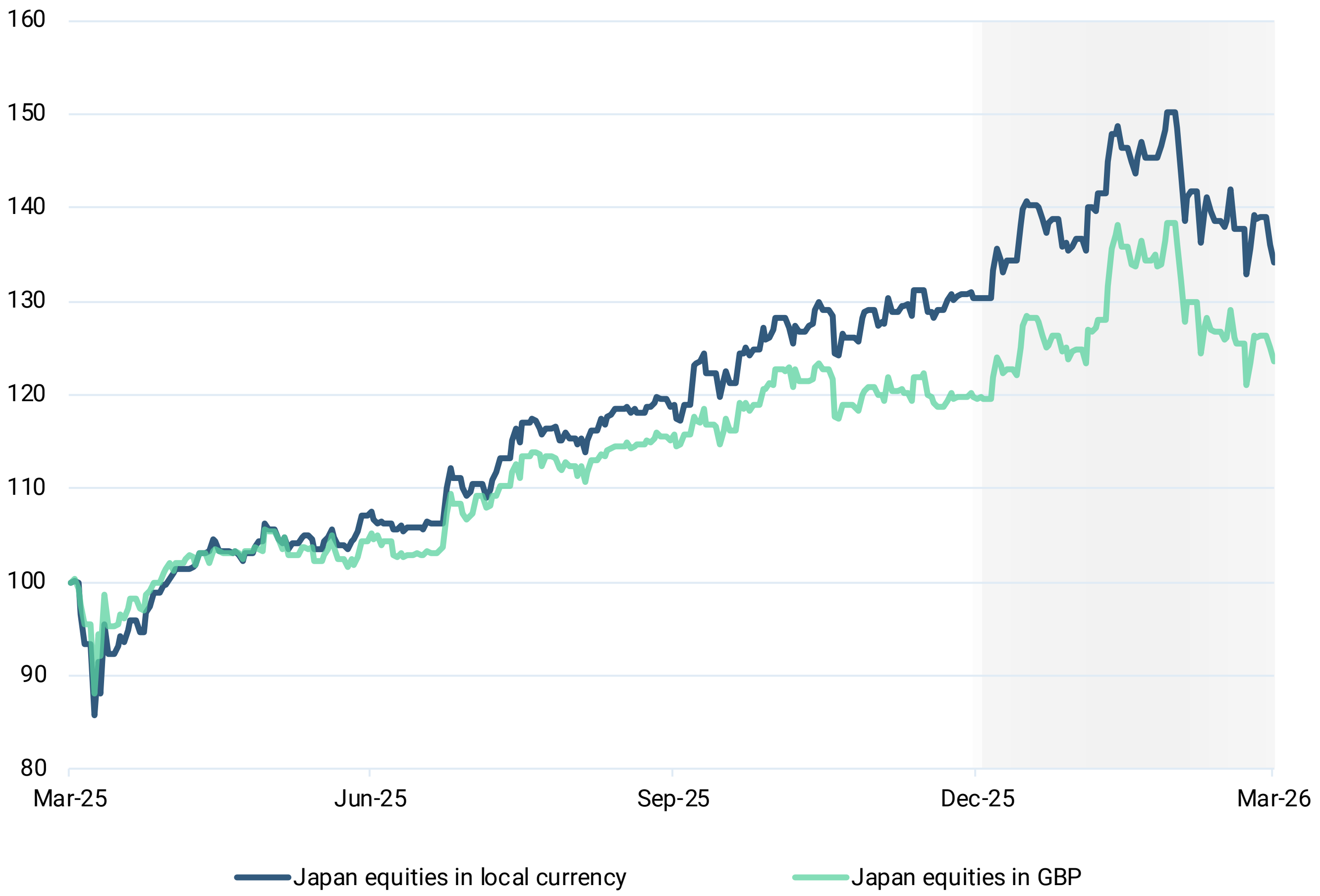
- Japanese equities rose strongly in January–February 2026, extending an 11-month rally.
- Gains were supported by Prime Minister Sanae Takaichi's snap election victory and pro-growth fiscal stance.
- Some late-February weakness emerged due to concerns over high software sector valuations.
- Overall sentiment remained positive through February despite this pullback.
- Markets sharply declined in March due to the Middle East conflict and rising oil prices.
- Japan's heavy reliance on Middle Eastern oil (over 90%) made it particularly vulnerable to energy shocks.



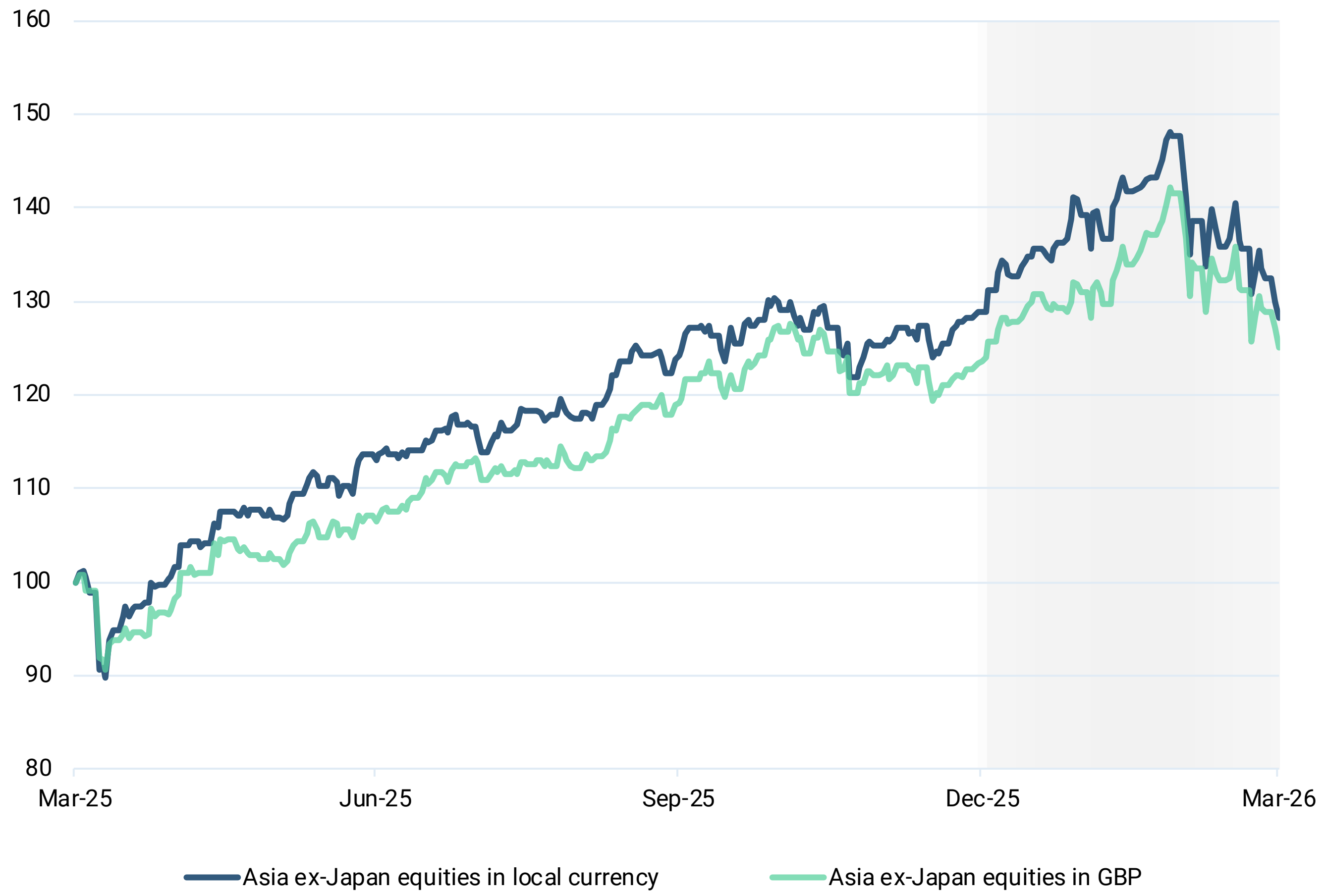
Q1 Performance (LCL)	+3.0%

Last 12 Months (LCL)	+34.2%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Japan (Japan Equities)

Asia Ex-Japan Equities

- Asia Pacific ex-Japan equities posted flat returns in Q1 2026, outperforming the broader global market.
- South Korea and Taiwan were top performers, driven by their strong technology sector exposure.
- South Korea stood out globally, supported by governance reforms and robust semiconductor demand.
- China and India underperformed relative to the rest of the region.
- Volatility increased in March due to the Middle East conflict and rising oil prices. The region was impacted via higher energy prices, constrained gas supply, and supply chain pressures.



Q1 Performance (LCL)	-0.5%

Last 12 Months (LCL)	+28.2%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Asia ex-Japan (Asia ex-Japan Equities)

Emerging Market Equities

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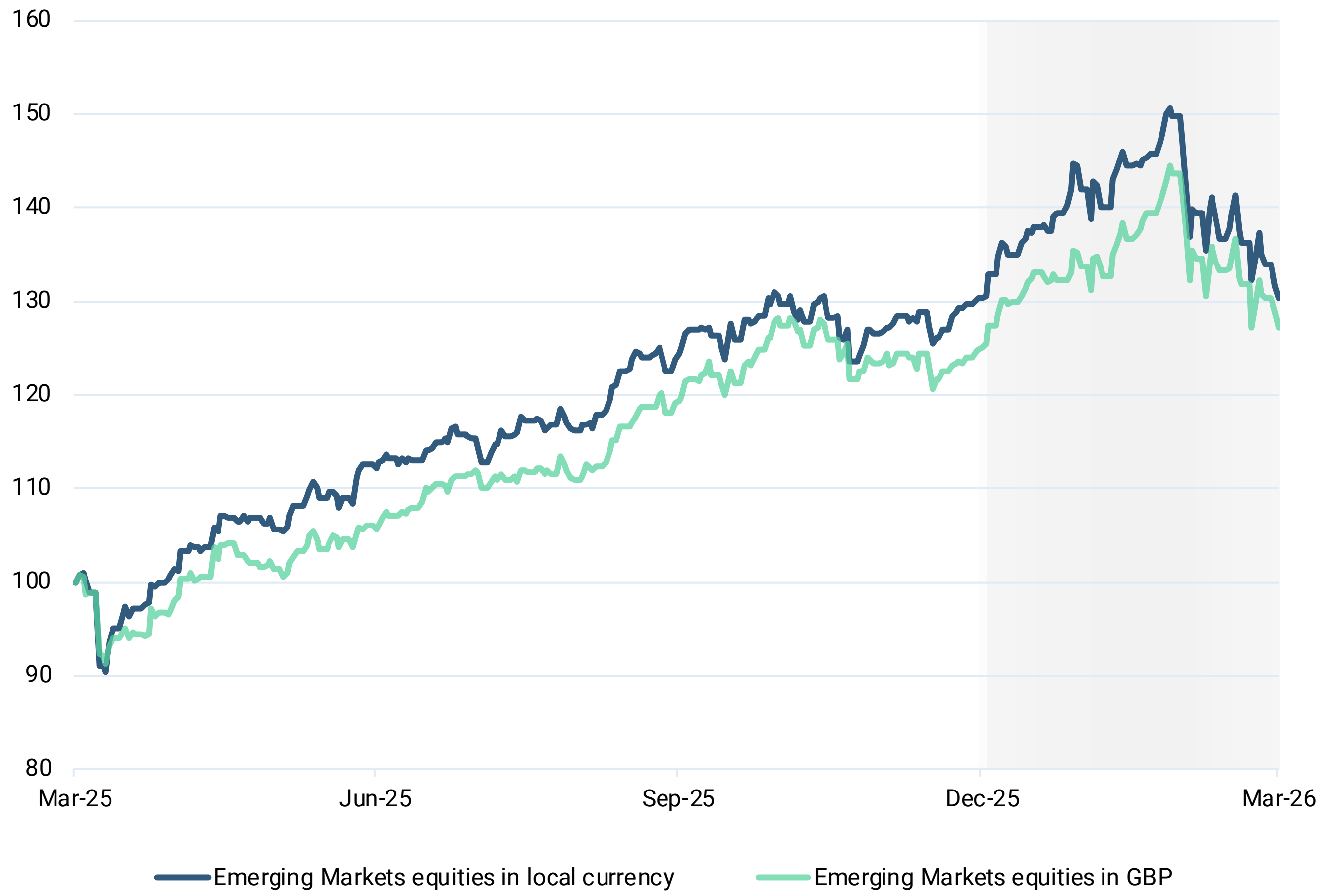
- Emerging market equities delivered flat returns in Q1 2026, with strong gains in January–February.
- Performance was supported by robust foreign inflows but disrupted in March by rising geopolitical tensions linked to the Middle East conflict.
- Asia ex-Japan saw strong performance in South Korea and Taiwan, while China and India lagged.
- The region faced pressure from higher energy prices, constrained gas supply, and supply chain disruptions.
- In EMEA, South Africa and Greece underperformed, while Saudi Arabia performed relatively well amid broader regional weakness.
- Latin America was a bright spot, with strong gains in Brazil and Mexico.



Q1 Performance (LCL)	-0.1%

Last 12 Months (LCL)	+30.3%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Emerging Markets (Emerging Market Equities)

Market Overview: Fixed Income

Global Government Bonds

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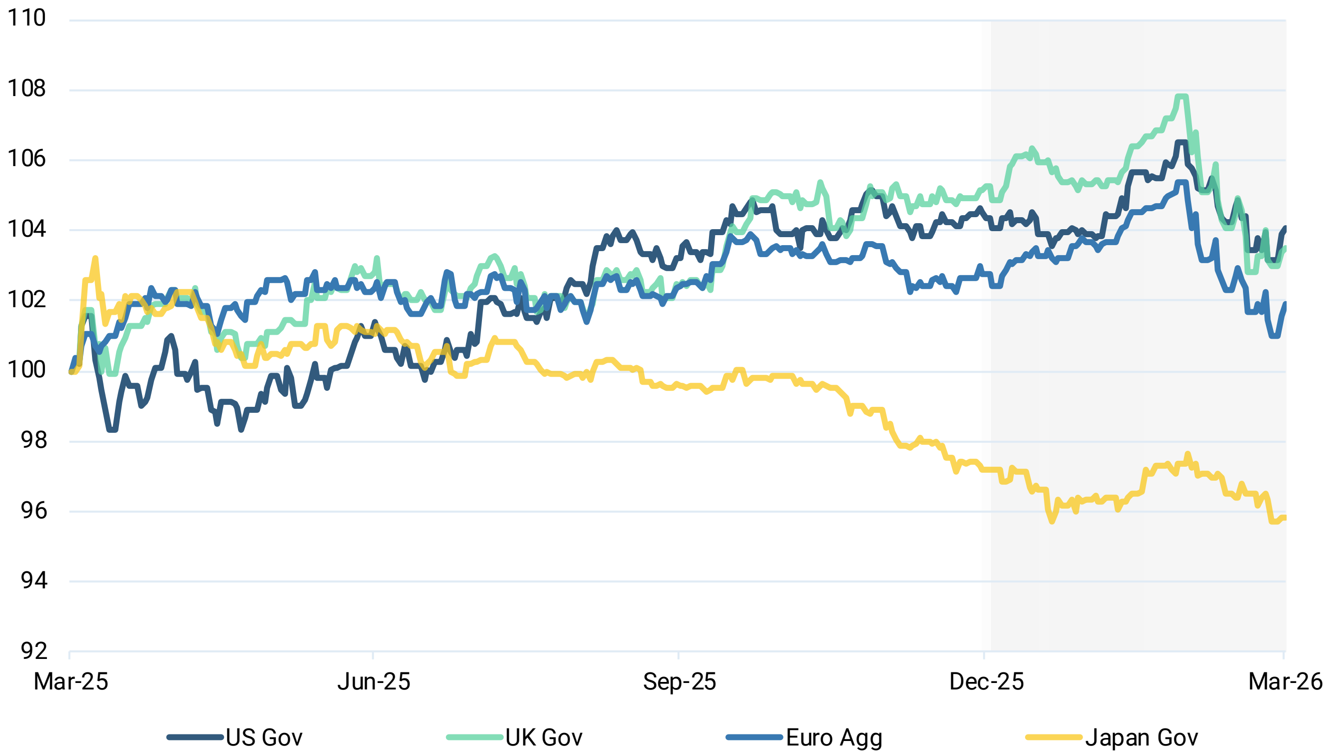
- Global government bonds declined across the board in Q1 2026, driven by the inflationary impact of the Middle East conflict.
- A sharp rise in oil prices (largest Brent crude increase since 1990) led investors to revise expectations toward higher interest rates.
- Bond yields rose globally, with the US 10-year Treasury yield increasing to 4.3%; US Treasuries posted small losses.
- UK gilts were among the weakest performers, while German bunds and other European bonds also delivered negative returns.
- European bonds were pressured by rising inflation expectations and ECB signals of potential rate hikes; yields hit highs not seen since 2011.



Q1 Performance

US Government Bonds	-0.3%
UK Government Bonds	-1.7%
Eurozone Government Bonds	-0.9%
Japanese Government Bonds	-1.4%

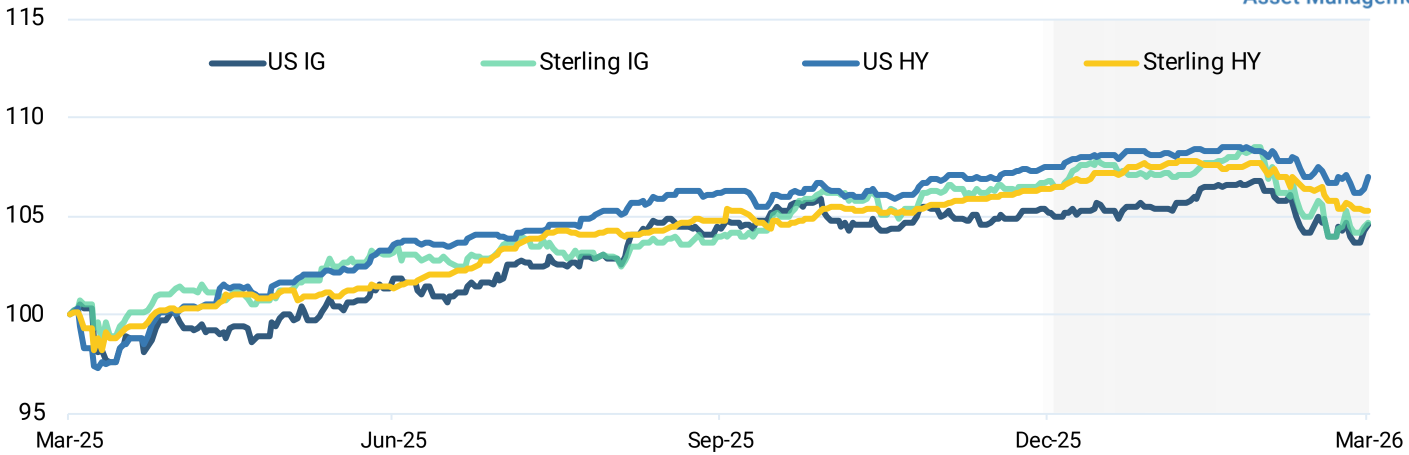
Last 12 Months

US Government Bonds	+4.0%
UK Government Bonds	+3.5%
Eurozone Government Bonds	+1.9%
Japanese Government Bonds	-4.2%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: Bloomberg U.S. Treasury: 7-10 Year TR Index (US Gov), Bloomberg EuroAgg Treasury 7-10 Year TR Index (Euro Agg), Bloomberg UK Gilt 7-10 TR Index (UK Gov), Bloomberg Japan Govt 7-10 Bond Index

Corporate Bonds

- Corporate bonds delivered negative returns globally in Q1 2026 amid rising inflation concerns and interest rate repricing.
- US corporate bonds fell 0.5 - 0.6% over the quarter.
- European corporate bonds also underperformed, declining by about 1.0% in the period.
- UK investment-grade corporate bonds were weaker still.
- Losses were driven by rising bond yields as markets adjusted expectations toward fewer rate cuts and potential hikes.
- The primary catalyst was the Middle East conflict and surge in oil prices, which increased inflation and pressured fixed income assets.

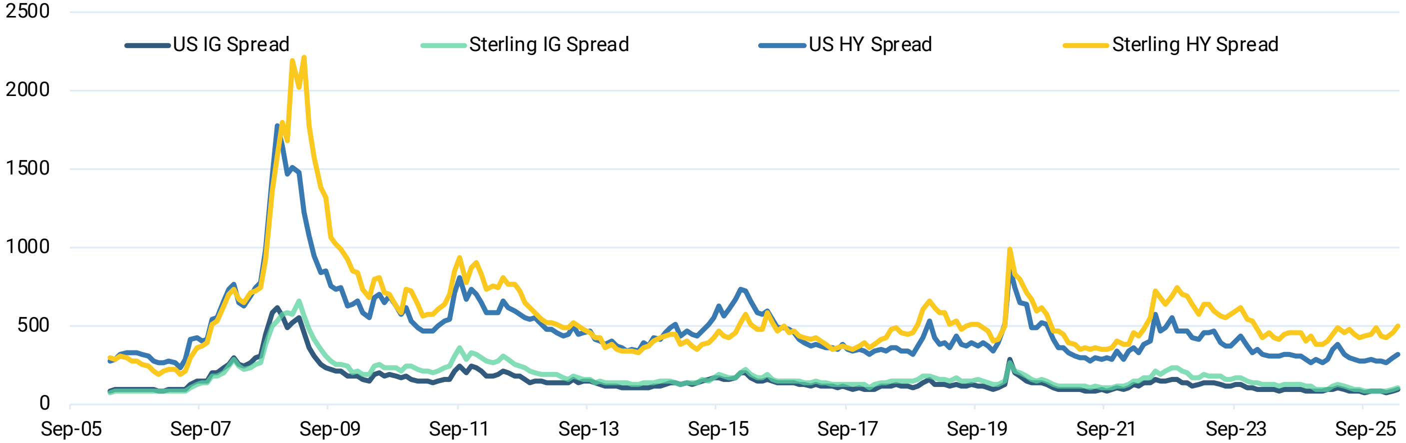


Q1 Performance

US Investment Grade	-0.6%
Sterling Investment Grade	-2.0%
US High Yield	-0.5%
Sterling High Yield	-1.0%

Last 12 Months

US Investment Grade	+4.6%
Sterling Investment Grade	+4.7%
US High Yield	+7.0%
Sterling High Yield	+5.3%



Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: Bloomberg Barclays U.S. Corporate Bond (US IG), Bloomberg Sterling Corporate Bond Index (UK IG), Bloomberg US Corp High Yield TR Index (US HY), Bloomberg Pan-Euro Sterling High Yield TR Index (Sterling HY)

Market Overview: Alternatives

Alternatives

- Alternative assets showed mixed performance, with defensive and inflation-hedging assets leading gains.
- **Gold**: Gold was a strong performer in Q1 2026, rising 7.8%, supported by inflation concerns and geopolitical uncertainty.
- **Property:** Property delivered modest positive returns of 0.2%, reflecting relative stability despite macroeconomic pressures.
- **Commodities**: Commodities surged 24.4%, benefiting significantly from rising energy prices and supply disruptions.
- **Hedge Funds**: Hedge funds were broadly flat, posting a slight decline of 0.1%.

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise. Indices used: S&P GSCI Gold Index Spot (Gold), S&P Global Property (Property), Bloomberg Commodity Index Total Return (Commodities), Bloomberg All Hedge Fund Index (Hedge Funds)

Gold

Q1 Performance	+7.8%

Property

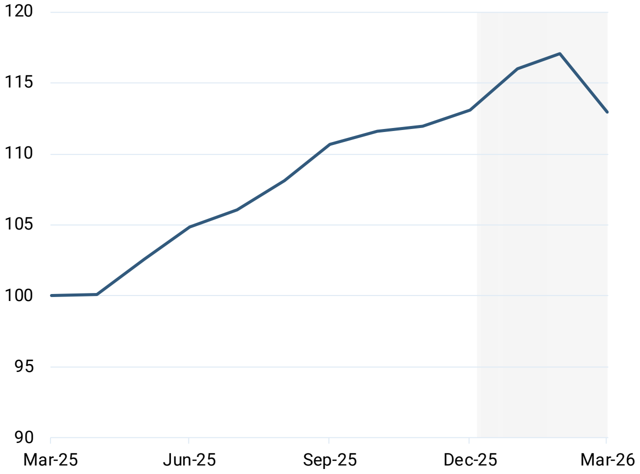
Q1 Performance	+0.2%

Commodities

Q1 Performance	+24.4%

Hedge Funds

Q1 Performance	-0.1%

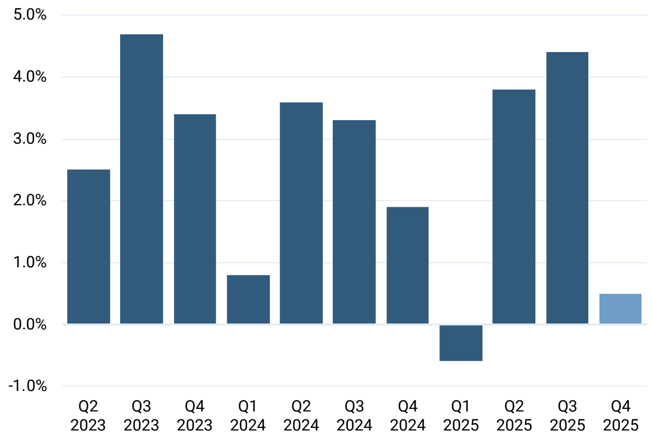


Macro Overview

US

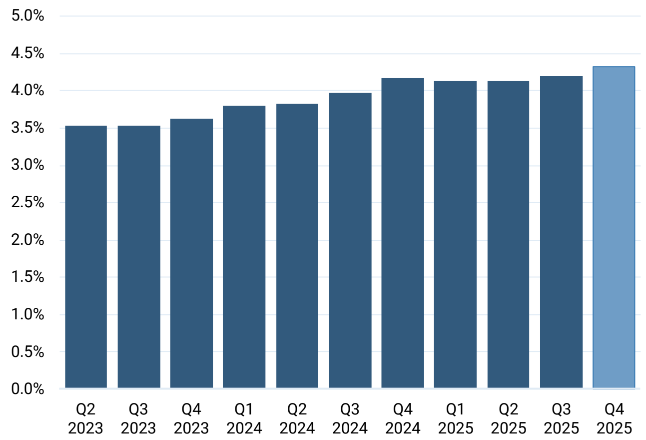
Real GDP Growth*

Q4 2025	+0.5%



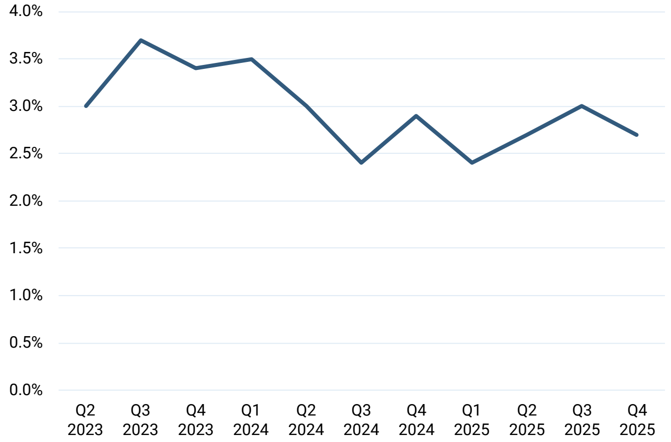
Unemployment

Q4 2025	+4.3%



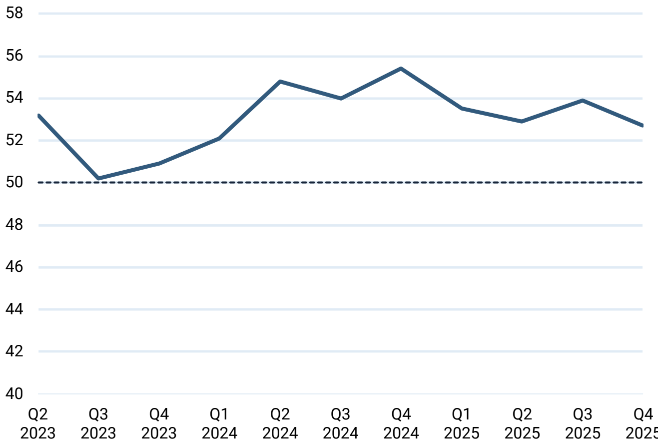
Inflation

Q4 2025	+2.7%



Composite PMI

Q4 2025	+0.3%

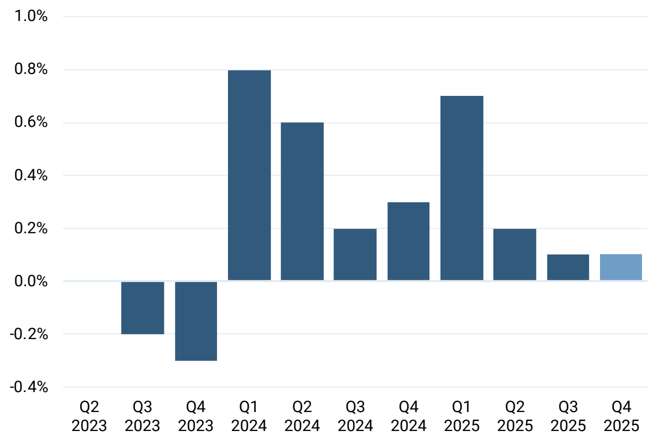


Source: Bloomberg
All data is to the end of the stated quarter, unless stated otherwise. Indices used: GDP CQOQ Index (Real GDP Growth), EHUPUS Index (Unemployment), CPI YOY Index (Inflation), MPMIUSCA Index (Composite PMI)
**US Real GDP is a quarterly figure annualized, unlike other regions.*

UK

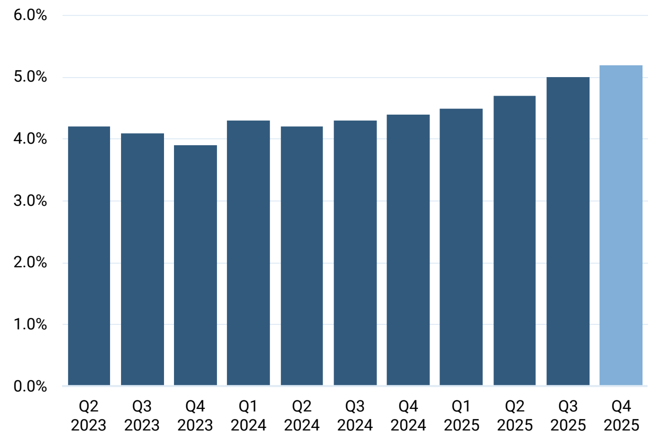
Real GDP Growth

Q4 2025 | +0.1%



Unemployment

Q4 2025 | +5.2%

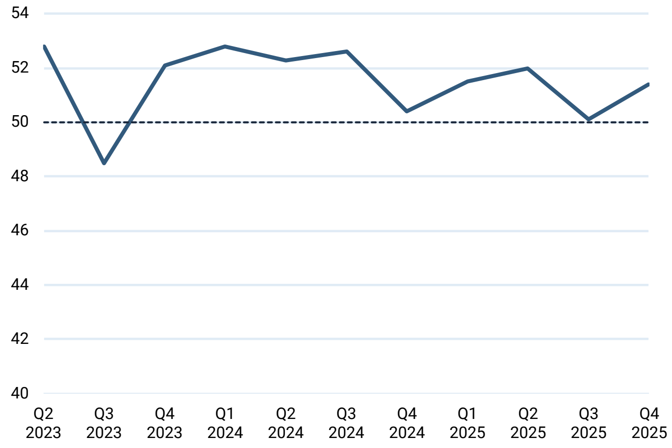


Inflation

Q4 2025 | +3.4%

Composite PMI

Q4 2025 | +0.4%



Source: Bloomberg
All data is to the end of the stated quarter. Indices used: UKGRABIQ Index (Real GDP Growth), UKUEILOR Index (Unemployment), UKRPCJYR Index (Inflation), MPMIGBCA Index (Composite PMI)

Europe

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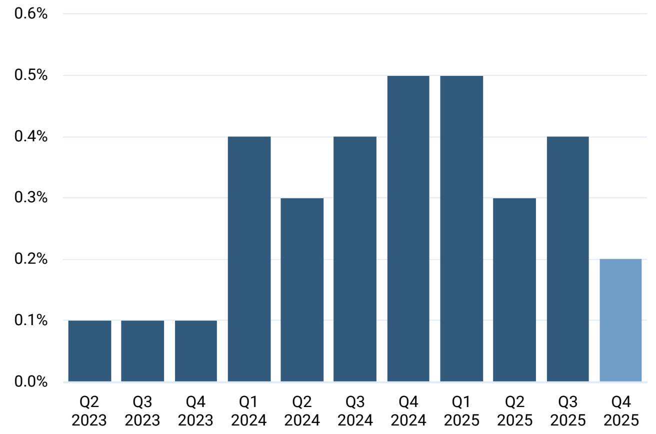
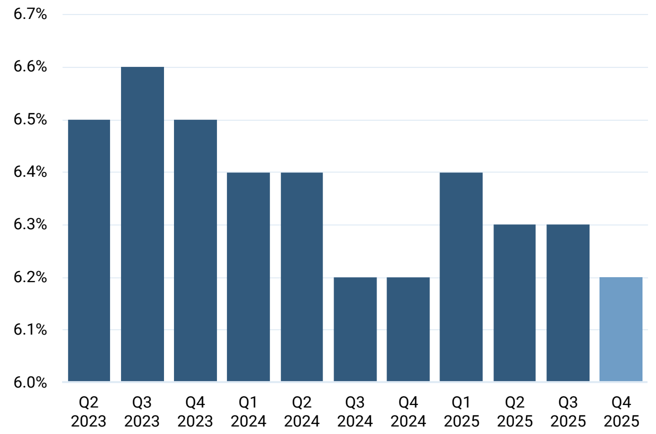
Real GDP Growth

Q4 2025	+0.2%



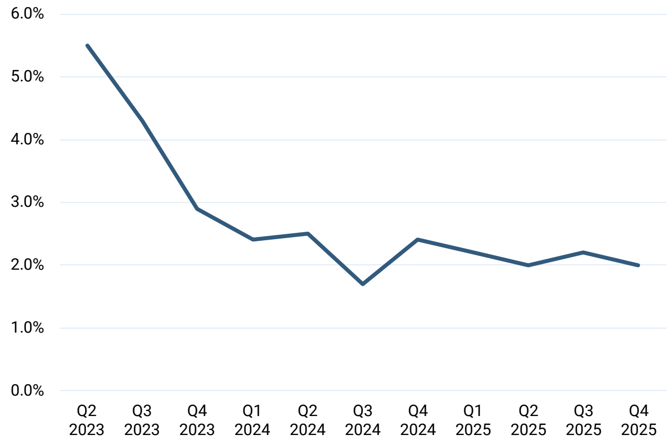
Unemployment

Q4 2025	+6.2%



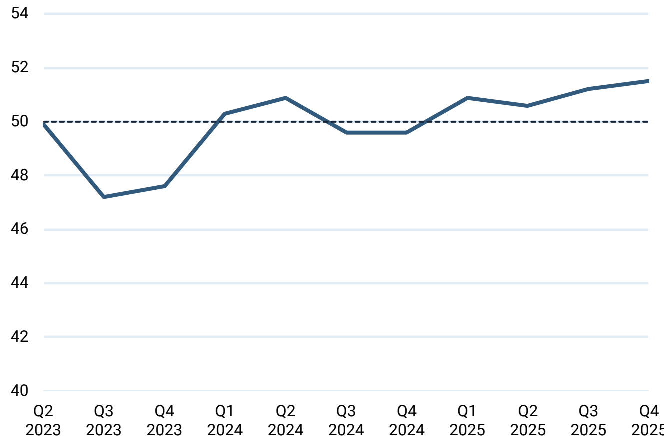
Inflation

Q4 2025	+2.0%



Composite PMI

Q4 2025	+0.2%



Source: Bloomberg
All data is to the end of the stated quarter. Indices used: EUGN27QQ Index (Real GDP Growth), UMRTEMU Index (Unemployment), ECCPEMUY Index (Inflation), MPMIEZCA Index (Composite PMI)

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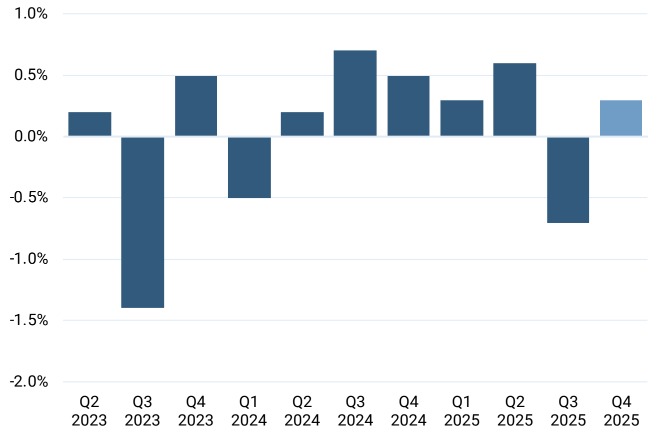
Japan

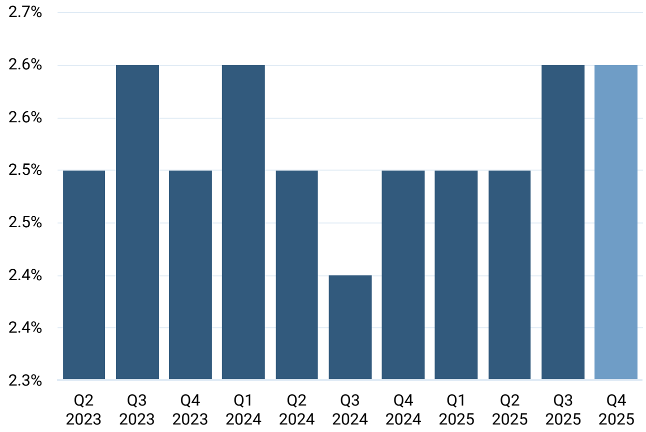
Real GDP Growth

Q4 2025	+0.3%



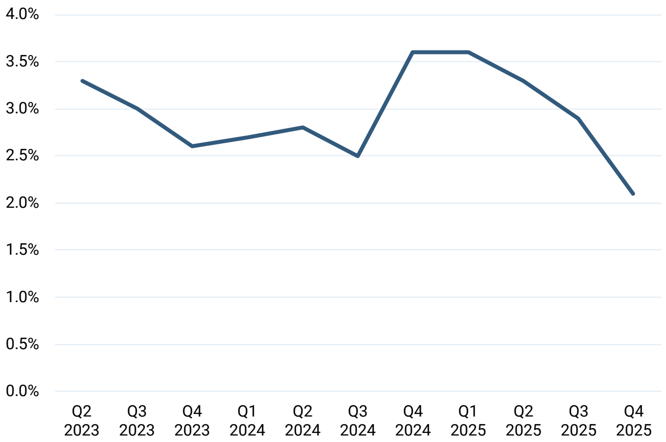
Unemployment

Q4 2025	+2.6%



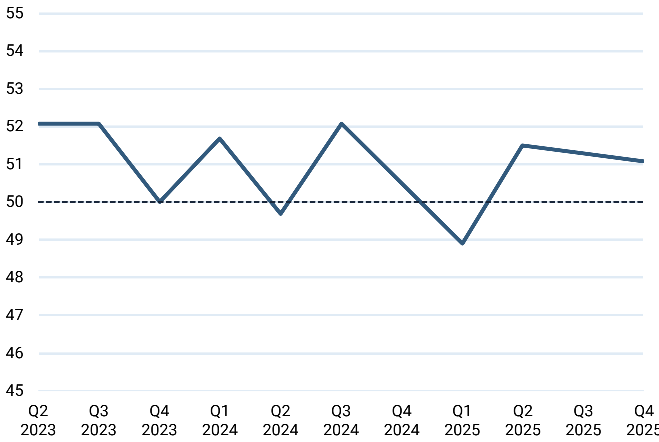
Inflation

Q4 2025	+2.1%



Composite PMI

Q4 2025	-0.2%



Source: Bloomberg
All data is to the end of the stated quarter. Indices used: JGDPQGDP Index (Real GDP Growth), JNUE Index (Unemployment), JNCPIYOY Index (Inflation), MPMIJPCA Index (Composite PMI)