



Investment Insights

Our monthly look at what's driving global markets

Decisive inactivity

Applying our investment principles to the facts as we know them

Energy reset

Higher demand clashes with more fragile supply

Divining the decade

We see inflationary pressure and opportunities in equities

Quick take

In this month's issue

Decisive inactivity

Applying our investment principles to the facts as we know them

The war in Iran has unsettled markets, driving volatility and energy price spikes, but the underlying investment outlook remains broadly intact.

Markets had entered the year in a strong position, with solid growth, easing inflation, and a broadening of equity performance beyond technology stocks.

While geopolitical shocks can trigger sharp sell-offs, history suggests markets often overshoot and recover, making disciplined positioning essential.

Rising energy prices have complicated the outlook for inflation and interest rates, reinforcing caution around longer-dated government bonds.

Despite near-term uncertainty, investment opportunities remain in areas such as building resilience, infrastructure, and AI, supporting a continued long-term focus on diversified portfolios.

Read the full story on page 3.

Divining the decade

We see inflationary pressure and opportunities in equities

Long-term forecasts suggest the global economy has entered a new era of higher and more volatile inflation, driven by fiscal expansion, geopolitical tensions, and structural changes such as the global effort to move towards a net zero economy.

These shifts are reshaping the investment landscape, reducing the effectiveness of traditional diversification between equities and long-dated government bonds.

In response, we're adapting portfolios through shorter-duration bonds, inflation-linked assets, and alternative diversifiers such as gold and macro strategies.

Despite increased volatility, equities remain central to long-term returns, supported by resilient earnings and the potential for improved productivity growth.

While the environment has changed, disciplined asset allocation and a focus on structural trends remain key to navigating the years ahead.

Read the full story on page 7.

Energy reset

Higher demand clashes with more fragile supply

Global energy markets are being reshaped by stronger-than-expected demand and rising geopolitical risk.

The rapid growth of AI, electrification and economic development is increasing energy needs, while renewables alone are not yet sufficient to meet demand reliably.

Recent disruption in the Middle East has exposed vulnerabilities in global supply, driving oil and gas prices higher.

Energy companies are maintaining capital discipline, focusing on cash flow, returns, and selective investment to sustain or grow production.

For investors, the sector offers a hedge against geopolitical risk and long-term opportunities, with success likely to favour companies balancing disciplined fossil fuel production with credible energy transition strategies.

Read the full story on page 5.



Snapshot

The global economy and markets

Key facts and figures from around the world, including how quickly markets have recovered from past geopolitical shocks, sharp rises in energy and fertiliser prices, a pullback in gold, and the latest movements across global equities, bonds and currencies.

Find out more on page 9.

Decisive inactivity

Applying our investment principles to the facts as we know them



John Wyn-Evans, Head of Market Analysis

The war in Iran has clearly been the dominant influence on markets since they opened on the first day of March, after a weekend of initial airstrikes. It's always easy to buy low and sell high in hindsight. But investors have to apply their principles to the facts they know at the time and their best subjective assessment of what happens next.

At the beginning of March, this led us to the view that it was in nobody's interest to prosecute a war in the Middle East that threatened oblivion on one side and severe economic dislocation on the other. From the perspective that the hostilities are continuing, one could say that we were wrong.

But there's been no material change in the underlying basis of our expectations. So for now, we haven't reduced our overall exposure to equities and other risk assets, although this is always subject to change.

It's well-documented that financial markets tend to overshoot on the downside in response to geopolitical events, with investors who get caught up in the selling failing to benefit from the recovery that follows. Avoiding this pitfall would involve perfect timing on both sides of a trade driven by forces well beyond any investor's control. Having said that, we remain acutely aware of the risks involved and construct portfolios with an eye on capital preservation. There can be a very fine line between deliberately maintaining

a position in the eye of the storm and appearing complacent. Rest assured: even decisions that appear to involve a degree of inactivity are given as much consideration as those that involve big portfolio reshuffles – if not more.

Before the war

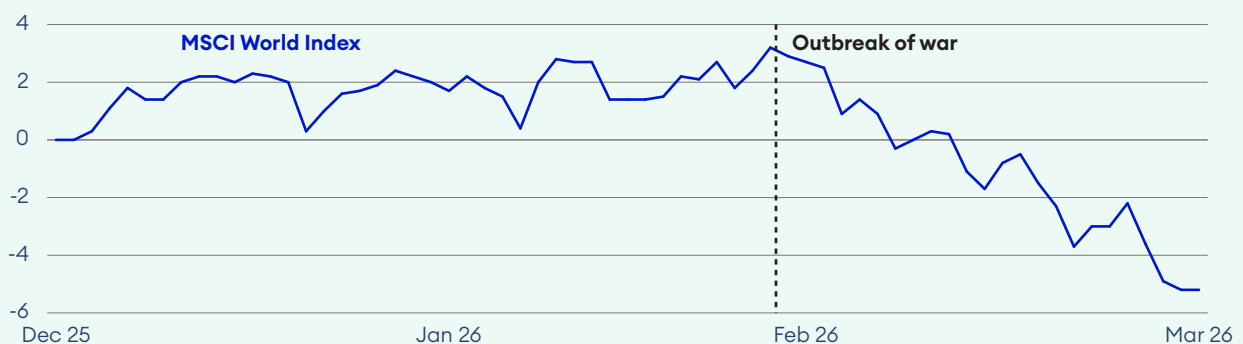
The year started with the dramatic capture and extraction of President Nicolás Maduro of Venezuela, followed by US threats to the sovereignty of Greenland, and hasn't been short of incidents since then. But since the 28 February attack on Iran by the US and Israel, everything has been overshadowed by events in the Middle East.

In defiance of early US geopolitical agitation, both equity and bond markets started the year in good form, with global equity indices reaching new all-time highs by the end of February. Global growth seemed set fair. Inflation was reasonably well under control, which would allow central banks to continue cutting interest rates. There was a healthy broadening of performance as investors sought out companies that might benefit from increased investment in more resilient supply chains, local infrastructure, and defence.

The latter was dubbed the 'Halo' trade, standing for "hard assets, low (risk of) obsolescence". It was the antidote to increasing fears about the long-term

Figure 1.1: Stocks stumble as conflict intensifies

Global equities have drifted lower since the outbreak of war, reflecting rising uncertainty, higher energy prices and shifting investor expectations.



Source: FactSet, Rathbones; reset to zero from 31 Dec 25; *total returns including reinvested dividends.

profitability of software and other white-collar service companies at risk from AI disruption. When the dust settles in the Middle East, it would be reasonable to expect this trade to reassert itself. Indeed, the effects of the war in Iran only serve to emphasise the risks to global supply chains.

March madness

Beyond the closing of the Strait of Hormuz and well-documented disruption to oil and gas shipments, the other shock element of Iran's response has been to attack infrastructure in other Gulf states. The damage to Qatar's liquefied natural gas (LNG) processing facilities is of particular concern because Qatar provides a fifth of global LNG production. LNG is not only an essential element of energy supplies but also a feedstock for other important industrial commodities used for many crucial products, from fertilisers to computer chips.

It's almost impossible to call the outcome of the war with any degree of certainty. But we can infer from surveys of investor sentiment, data on their positioning, and market performance what might be priced in. Surveys show investor exposure to equity markets is lower than average, which at least suggests a limitation to any forced selling for now, should the news turn even more negative. It also implies some buying power in the event of good news.

Although equities suffered a sharp reversal in March, it's been a steady grind lower rather than a dramatic collapse. This suggests that investors are updating their assumptions as new evidence comes in.

Central banks' dilemma

They are not the only ones facing such dilemmas. Central bankers are equally exercised, having to balance the twin risks of higher inflation and weaker economic growth. Given the potential for an energy-

induced inflation shock, investors have abruptly shifted from hoping for more interest rate cuts from the major central banks to being wary of possible increases. Bond yields have also jumped on concerns about rising inflation and interest rates, as well as the new threat to government finances from higher debt costs and military spending.

It's been our strategy to avoid longer-dated governments for precisely these reasons. When inflation concerns are rising, just as they did after Russia's full-scale invasion of Ukraine in 2022, these longer-dated bonds don't provide investors with any real diversification benefits.

Even so, we don't think we're about to see a rerun of 2022's severe market falls. Equity markets offer better value today. In the current situation, bond prices have started from a lower base (which yields from a higher base). That means bond prices don't have as far to fall.

The next final frontier

There are plenty of opportunities further ahead. Both countries and companies will invest in increasing resilience and look for ways to reduce their dependency on dominant, yet vulnerable, suppliers of commodities and services. The growth of AI will no doubt return to the top of the investment agenda and again provide potential sources of new wealth.

And companies are still wheeling and dealing. The consumer goods giant Unilever is in talks to sell its remaining food brands for \$15.7bn. Drinks companies Pernod Ricard and Brown Forman are reportedly discussing a merger worth more than \$30bn. We might even begin to see outer space becoming the new investment frontier, especially if Elon Musk succeeds in his plans to list his SpaceX extra-terrestrial exploration unit on the stock market this year.

Figure 1.2: Bonds are better anchored than in 2022

Higher starting yields mean bond prices are less exposed to sharp declines, even as inflation and rate uncertainty persist.



Source: Factset, Rathbones; reset to zero from 31 Mar 2021.

Energy reset

Higher demand clashes with more fragile supply



Claire Titmarsh, Equity Analyst

Two forces are reshaping the investment landscape for global energy. First, expectations for peak oil and gas demand have shifted further out, as structural factors continue to boost energy consumption. Second, geopolitical risk has intensified.

Higher for longer

The rapid expansion of AI and cloud computing is adding a new, electricity-intensive layer to global demand. Electricity consumption by data centres is expected to more than double by 2030. Much of this increase is likely to be for AI infrastructure, particularly in the US.

More broadly, population growth, economic development, and electrification continue to propel energy consumption higher.

Renewable capacity is expanding, but has so far met only part of this increase in demand. Moreover, because renewables supply is intermittent, excessive reliance on it can make the grid less dependable. And building nuclear generation takes a long time.

This suggests that the energy transition – the move from fossil fuels to net zero, to fight climate change – will take longer than previously expected.

The International Energy Agency’s (IEA’s) World Energy Outlook 2025 reflects this uncertainty. Its Current Policies Scenario shows oil demand growing until 2050. The Stated Policies Scenario suggests a plateau from around 2030. Only the Net Zero Emissions pathway – a scenario where states get on track to cut emissions to zero by 2050 – implies a sustained decline.

As well as oil, we expect natural gas to meet much of this additional demand. The narrative has therefore shifted from ‘energy transition’ to ‘energy addition’. This means that renewables are integrated into the system while oil and gas continue to provide affordable, reliable baseload power.

Supply shocks expose vulnerabilities

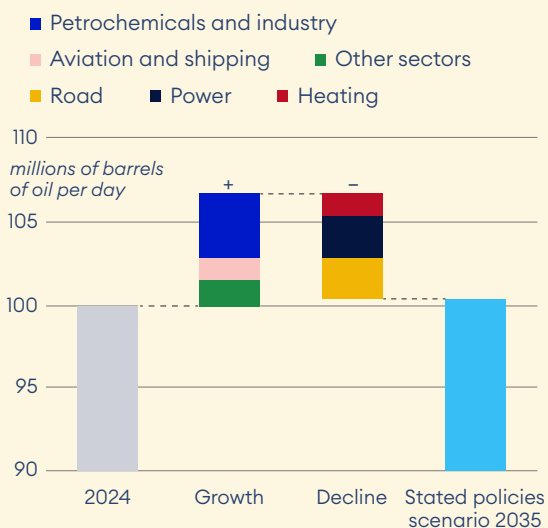
Even as demand expectations rise, conflict in the Middle East has highlighted the fragility of global oil and gas supply. It has severely disrupted shipping through the Strait of Hormuz – a vital chokepoint for around 20% of global oil and LNG exports. With limited alternative routes and storage filling quickly, Gulf producers have been forced to shut down production, reducing output by more than 10 million barrels a day.

IEA members have responded with a record 400 million-barrel release from strategic oil reserves. This measure can ease short-term disruptions, but can’t fully replace lost production. Prices for crude and refined products, particularly diesel and jet fuel, have risen sharply, and inventories will need rebuilding. This suggests higher oil prices not just in the short but also the medium term.

The war has also disturbed gas markets. Qatar, which accounts for around 20% of global LNG exports, has seen shipments disrupted. This has fostered price increases for natural gas across Europe and Asia. Damage to infrastructure at Qatar’s main LNG production site could take years to repair, raising the risk of prolonged tightness. For Europe, which relies heavily on LNG following the loss of Russian pipeline gas, the conflict underscores continued exposure to volatile global markets.

Figure 2.1: Oiling the economy’s wheels

The International Energy Agency forecasts slightly higher oil demand in 2035.



Source: IEA, Rathbones

For now, the world has no choice but to rely on fossil fuels. But the conflict might accelerate investment in renewable energy generation and battery storage in Europe to lessen its reliance (though not in the US, where the federal government is more hostile).

Discussing discipline

Cost and capital discipline remain the sector's defining feature. Oil companies continue to balance volatile prices, shareholder expectations for returns, and the need to replace declining reserves.

This discipline has improved free cash flow – cash generated after a company's operating expenses and capital spending – and returns. Companies have prioritised value over volume, reduced costs, and returned significant capital through dividends and buybacks. This has cut share counts – the number of shares outstanding for the average listed company – by about 20% over five years.

Capital allocation remains focused on high-return projects. Supply growth is currently driven by producers outside Opec+ (Opec and 10 other oil producers, most notably Russia). However, recent years have seen a fall in the number of final investment decisions, for non-Opec+ production. This suggests production may peak soon. Taking things in the round, while Opec+ is expected to increase production capacity gradually, slower growth elsewhere points to tightening supply as demand remains strong.

What investors want is changing

Oil and gas companies' shares have risen during the conflict, as the price of these commodities rises. But in fact, they had already risen in 2025, despite commodity price declines (figure 2.2).

For much of the past decade, oil and gas majors were valued primarily for cash returns rather than growth. That's changing. Investors are now focusing on offsetting natural decline rates of 4–6% each year – falls in production from existing assets, before accounting for new fields. That's shifting their attention towards companies that can sustain or grow production while delivering strong returns.

Companies with large resource bases and strong project pipelines are positioned best. Industry consolidation reflects this trend, as firms seek scale and replacement of reserves through acquisitions in a world of fewer project go-aheads.

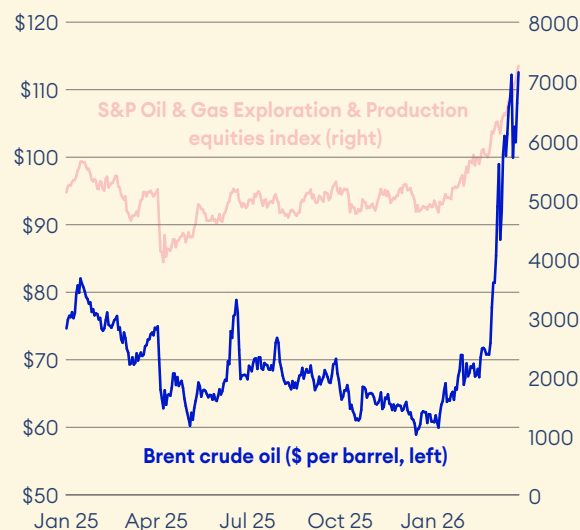
Trying transition

The energy transition remains central to long-term success. Companies are increasingly focusing on areas where they have competitive advantages, while continuing to generate returns from oil and gas.

Strategies are evolving. US majors remain largely focused on fossil fuels, while European firms have

Figure 2.2: Oil and gas stocks prove resilient

Stocks outperformed the oil price in late 2025; the surge in the oil price in 2026 has boosted them further.



Source: LSEG, Rathbones

scaled back aggressive renewable expansion after weaker returns and challenges in building production capacity. Investment is becoming selective, focused on areas such as biofuels and electric vehicle charging, often through partnerships to manage risk.

As we consider this, France's TotalEnergies stands out with its Integrated Power strategy. This combines renewables, flexible gas, and battery storage to deliver reliable, low-carbon electricity.

What this means for investors

Recent events have reinforced the role of energy equities as a hedge against geopolitical risk and price volatility. Over time, valuations are likely to favour companies that can sustain – or even selectively grow – production while maintaining capital discipline.

Companies maintaining this discipline have more robust balance sheets. This leaves them well-placed to invest counter-cyclically – when assets are cheaper to buy and project costs are lower – while returning capital to shareholders.

At the same time, the energy transition remains critical. The scale, pace and credibility of investment in low-carbon energy will shape long-term competitiveness. European majors are currently leading in their investment in the energy transition, while US peers lag. Companies that fail to diversify risk declining demand and increasing regulatory pressure, over time, to cut emissions. They shouldn't wait too long.

Divining the decade

We see inflationary pressure and opportunities in equities



Oliver Jones, Head of Asset Allocation

The relentless churn of today's 24/7 news cycle makes it easier than ever for investors to miss the wood for the trees. That's why, from a personal perspective, one of the most rewarding parts of my team's work is our annual review of Rathbones' 10-year projections for the world's major economies and a range of markets.

This process – which informs the long-term mix of assets in our portfolios – is always a welcome opportunity to step back from the headlines. It's designed to ensure we're focused on the structural forces shaping the investment landscape.

This year, two major themes stood out as we refreshed our forecasts. Both have important implications for investors.

First, we think the global economy is in an era of structurally higher and more volatile inflation, compared with the 2010s. The consistently subdued inflation of that period doesn't appear likely to return soon – it was a historical anomaly.

Ups and downs in inflation

Investors will, it seems, need to get used to ups and downs in inflation once more, just as before the turn of the century. The past few years have seen overlapping, interconnected changes across three spheres – political, geopolitical and environmental – that are likely to contribute to this. We've factored these changes into our forecasts.

One inflationary pressure is that in domestic politics, the one-time electoral support for tight fiscal policy has evaporated. Since the pandemic, structurally larger fiscal deficits have become the norm. Austerity no longer even makes it onto the ballot paper. In the US, 2025 saw the passage of tax cuts worth trillions of dollars over the next decade via US President Donald Trump's One Big Beautiful Bill Act. Germany rewrote its once-sacrosanct fiscal rules to allow far more spending on defence and infrastructure, while the EU announced a €150bn joint-borrowing scheme for similar purposes.

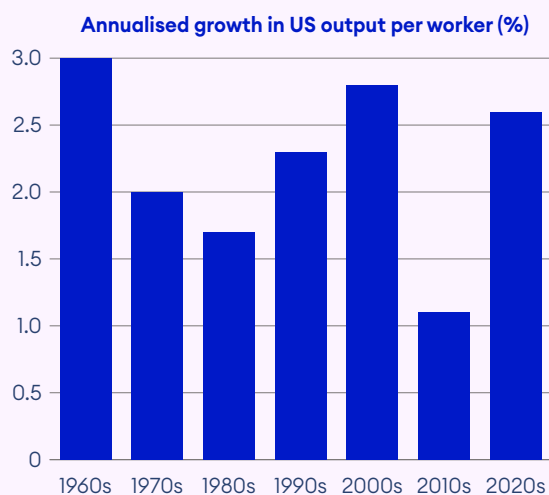
Our inflation forecasts factor in differences in countries' fiscal outlooks. In geopolitics, multilateralism has weakened and 'great power' competition has intensified, adding to inflation risk. The US had been retreating from its role as the lynchpin of global free trade since the late 2010s, even before Trump's much stronger 'protectionism' – the name for a policy of imposing trade barriers. Higher trade barriers increase inflation risk for several reasons. One is that they make it harder for firms to compete on price across borders. We account for this in our inflation forecasts by measuring the extent to which each country consumes products made outside its own geopolitical bloc.

Rising geopolitical tensions

Beyond trade, relations between major global powers have become more confrontational, to the point of outright war. In war zones, commodities are harder to produce and then transport. The conflicts in Ukraine and Iran have already caused shocks to global commodity supply larger than those in the 2010s. The weakening of US security guarantees has also helped propel the resurgence in military spending across Europe and Asia. This tends to raise inflation too, by loosening fiscal policy.

Figure 3.1: A lost decade for productivity

Productivity growth, in the US and elsewhere, was unusually weak in the 2010s



Source: LSEG, Rathbones

Climate change may also add an inflationary impulse. Its physical impact has recently caused volatility in the prices of some food commodities, like cocoa and olive oil. And the reconfiguring of energy production and infrastructure – also driven by geopolitical considerations – will drive higher investment. Ultimately, this should help to contain inflation by improving energy security. But in the short term, the associated investment spending may add to inflationary pressure.

Implications for portfolios

This profound change in the inflation backdrop requires a different approach to keeping portfolios resilient. The traditional approach no longer works, of holding conventional government bonds with maturity dates far in the future as protection against periodic bouts of weakness in equities. As the global economy has entered a more inflationary regime, the correlation between the returns from stocks and from these bonds has turned from negative to positive. This means they more often rise and fall together, rather than in an offsetting pattern.

We've responded to this. When investing in government bonds, we favour shorter over longer maturities, because their prices are typically less sensitive to changes in the inflation outlook. We hold inflation-linked bonds, whose cash flows have inbuilt protection against rising prices. We also favour a couple of other ways of providing diversification amid inflationary shocks. One is investing in gold, which despite its recent

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History shows that stocks can deliver inflation-beating returns even when inflation and GDP are higher and more volatile
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pullback has a strong track record at such points. The other is certain actively managed strategies that can capitalise on inflationary shocks, such as macro funds. These take positions across asset classes based on macroeconomic views.

Staying invested in equities

The second theme is that staying invested in equities still makes sense, even though it can feel uncomfortable in the face of greater economic volatility.

The extremely quiescent inflation and ultra-low interest rates of the 2010s reflected, in part, global economic weakness. Consumer demand was weak in the years after the Global Financial Crisis. And fiscal policy was overly tight, choking off investment spending. It was also a dreadful decade for productivity growth (figure 3.1).

Progress in productivity

In other words, not all change since that period is a bad thing. Greater fiscal support for public investment, for example, could enhance growth in productivity – and therefore in GDP. There's also tentative evidence that productivity growth has picked up since the pandemic. Stronger demand may have accelerated it, as this can foster technological change. AI advances are also likely to play an increasing role over the coming decade; we factor this into our forecasts too.

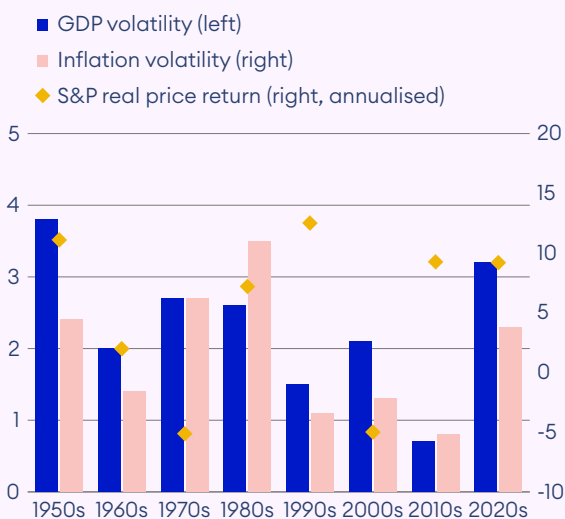
More generally, history shows that stocks can deliver inflation-beating returns even when inflation and GDP are higher and more volatile. In the US and elsewhere, this is the normal historical experience aside from the extremes of the 1970s and the period around the Global Financial Crisis (figure 3.2). And in the 2020s, stocks have delivered returns well above inflation despite the covid pandemic, conflicts in Ukraine and the Middle East, and a historic shock to trade.

The changes in the global economy we've discussed have caused the leaders and laggards among different stock sectors and national markets to change more frequently – and that's likely to continue. But they haven't altered the importance of equities as the key driver of our clients' long-term returns.

That, at least, has not changed.

Figure 3.2: Volatility is not an enemy

Stock returns can be high even when inflation and GDP are volatile (chart shows US data).



The volatility shown is the standard deviation, in percentage terms.

Source: LSEG, Rathbones

Snapshot

The global economy and markets

Figure of the month

189

The number of days it took US stocks to recover after Iraq's 1990 invasion of Kuwait triggered the Gulf War and disrupted oil supplies. The market regained lost ground within six months, reinforcing the case for staying invested through periods of uncertainty. [Our website includes an interactive table and maps on geopolitical events and market performance.](#)



At a glance

62%

March increase in jet fuel price, US Gulf Coast

59%

March increase in NW European natural gas price

55%

March increase in Middle Eastern urea (fertiliser) price

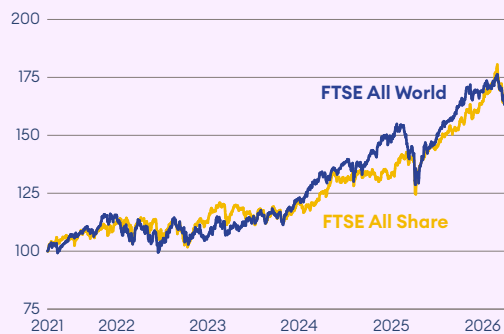
13%

March fall in gold price

Key market indicators

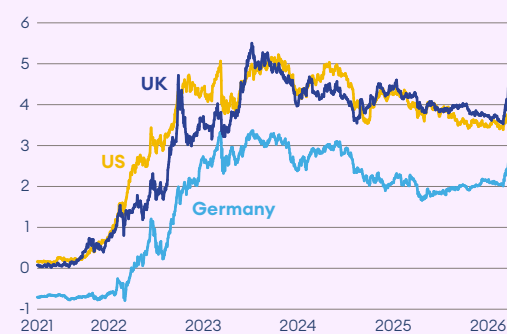
Equities

Total return in sterling (1 April 2021 = 100)



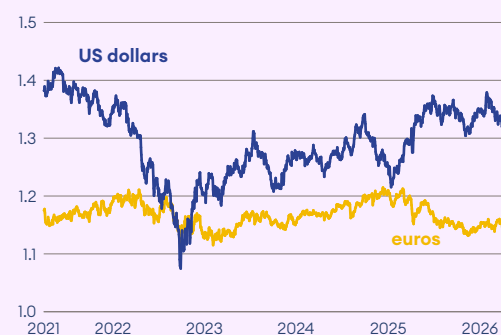
Government bonds

2-year yields (%)



Sterling

Value of £1 in US dollars and euros



Corporate bonds

Option-adjusted spread over government bonds (bp)



Sources: FactSet, LSEG, Rathbones

Find out more Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight



Video updates

Stay informed with regular update videos from our investment experts that explain how geopolitical tensions, market movements and global economic trends could affect your portfolio.



Weekly and monthly digest

Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports

In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks and opportunities could affect investors over the long term.



The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities and why we believe the extraordinary outperformance of the US could end.



Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

Experience and expertise

Rathbones has a large and experienced in-house research team covering global equities, fixed income, multi-asset strategies and responsible investing. With specialists dedicated to analysing market trends, sectors and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us



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