FISHER INVESTMENTS EUROPE™

MARKET PERSPECTIVES
REVIEW & OUTLOOK

FIRST
QUARTER
2026

FIRST QUARTER 2026 REVIEW & OUTLOOK

TABLE OF CONTENTS

The below table of contents contains hyperlinks allowing the reader to quickly navigate to the desired section.

EXECUTIVE SUMMARY 1

GLOBAL UPDATE AND MARKET OUTLOOK 4

UNITED STATES COMMENTARY 15

GLOBAL DEVELOPED EX-US COMMENTARY 18

EMERGING MARKETS COMMENTARY 26

FIRST QUARTER 2026 REVIEW & OUTLOOK
EXECUTIVE SUMMARY

13 April 2026

PORTFOLIO THEMES

- While we don't rule out the potential for further volatility, we believe the market's underappreciated positives outweigh potential headwinds, supporting a continuation of the global bull market.
- We expect non-US and Value equities to continue leading global performance over the year, while US equities and Technology should also fare well.
- A steep global yield curve continues fueling strong loan growth. This trend should remain a relative tailwind for non-US economies and markets, particularly as the US Fed evaluates its own policy path.

MARKET OUTLOOK

- **Geopolitical Conflict Should be Less Impactful than Feared:** While many fear a prolonged conflict with Iran and the inflationary pressures oil supply constraints might bring, we believe these fears to be overblown. History shows that as worst-case fears prove overly dour, equities typically rally and oil prices fall back to pre-conflict levels long before fighting stops, typically within 6 – 12 months of the conflict's onset.
- **Political Tailwinds Should Support this Bull Market:** With few major elections globally and most trade negotiations now resolved, political uncertainty outside the US remains subdued. With US midterm elections on the horizon, the Trump administration has a major incentive to reach a quick resolution with Iran. Market volatility sets the stage for the US Midterm Miracle in the latter half of the year, with the election expected to bring greater legislative gridlock – boosting returns.
- **Investor Sentiment Has Been Reset:** In contrast to the warming investor sentiment that followed the 2025 market correction, the conflict in Iran has reset sentiment, rebuilding the wall of worry. The growing gap between sentiment and strong underlying fundamentals provides fuel for this bull market to continue.

The bullish start to 2026 gave way to negative volatility in March, as the Iran war soured sentiment and delivered a near-correction from late February's highs. At quarter-end, the MSCI ACWI Index was down -3.2%.[i] The downturn might be over, or there could be more pain ahead. No one can know when largely sentiment-driven moves like this will abate. However, we see little altering our forecast for continued, back-end-loaded bull market driven by the US Midterm Miracle.

Investors and pundits have a strong tendency to focus on daily market moves, with the war blacking out all other news. Stocks are reflecting this swiftly. In our view, this downturn looks like the market's typical, fleeting response to regional conflict, which should give way to a rebound much faster and sooner than most expect.

i Source: FactSet, as of 02/04/2026. MSCI ACWI Index return with net dividends, 31/12/2025 – 31/03/2026.

The specifics vary, but sharp shocks like March's are correction-like and typical of the increased volatility we normally see ahead of US midterms. Corrections come and go often during bull markets, but they don't impede stocks for long. While we are always looking for risks to our forecast, a prolonged bear market immediately ahead remains unlikely.

The war and its effect on energy prices have hit sentiment hard, rebuilding the wall of worry. The serious optimism we saw among many investors toward US stocks entering the year has faded. Sentiment elsewhere is even more pessimistic. Pundits cast any news or data reflecting the still-growing global economy and solid corporate earnings as outdated, undermined by war. The gap between sentiment and fundamentals is growing. Meanwhile, stocks are pre-pricing worst-case scenarios, priming a recovery when those prove excessive. Markets have plenty of positives to price as war fears lose their power.

The conflict in the Middle East weighed on Emerging Markets (EM) sentiment throughout March, with the MSCI EM Index ending the quarter down -0.17%.[ii] For EM, Middle Eastern markets amount to less than 5% of EM equities' market capitalisation, limiting the regional conflict's direct effect.[iii] Moreover, its effect on EM growth generally appears less severe than many worst-case scenarios paint, which we think markets largely reflect. For example, India's flash Purchasing Managers Index (PMIs) showed services at 57.2 and manufacturing at 53.8 last month.[iv] Those were weaker than February's figures, but above-50 readings indicate continued expansion. Other available March PMIs at month end were also expansionary (Chinese, Taiwanese, Korean, Malaysian, Indonesian and Filipino). While it wouldn't surprise us if future data showed that the conflict has had an impact on EMs, we believe this would likely be driven by sentiment rather than fundamentals.

Yet few fathom a brighter future—likely because the war, like everything these days, is so politicised. People now filter every piece of news through a political lens. Markets are politically agnostic. As a reminder, we remain intentionally nonpartisan when providing our review. We consider this vital to delivering a sober analysis of many issues, including the war, tariffs and more.

Relative to past conflicts, there is little detailed reporting of the facts, leaving a vacuum for pundits to fill with opinions. Headlines fuel a sense of urgency, claiming disaster will occur if the war isn't over and the Strait of Hormuz reopened within days or weeks. Economic forecasts project indefinite $150 or even $200 crude oil prices, warning disaster ensues. None of it has factual basis. In our view, the US can get the Strait reopened in a few months, rendering the war likely to end in a way that makes the region and oil transit more stable in the long run. This could mean vast reserves from Iran and Venezuela become increasingly accessible in time, undermining the long-range interests of nations like Russia. Further, given inflation's runup since 2019's end, it's important to remember that $100 oil today is akin to sub-$80 then.

While stocks' sharp decline may feel unsettling, they are following the standard three-step playbook for energy-centric conflicts. Step one: Volatility arrives and oil prices rise during pre-conflict saber rattling. Step two: Initial fighting exacerbates both as markets price worst-case scenarios—which we lived in March. Step three: Markets fathom the conflict's limited, temporary economic footprint, realise long before war ends that global growth will persist, and rally while oil prices fall.

ii Source: FactSet, as of 02/04/2026. MSCI EM Index return with net dividends, 31/12/2025 – 31/03/2026.

iii Source: FactSet, as of 02/04/2026.

iv Source: S&P Global, as of 24/03/2026.

Looking beyond the war, stocks have plenty to like. Economic data reflect continued growth. The global economy and energy markets are quietly adapting to war. The global yield curve is nice and steep, and central banks don't look poised to kill this with big rate hikes. The US Fed has quietly proposed easing banks' capital requirements, which would enable more lending and investment. Europe's political calendar looks quiet, with gridlock entrenched. US midterms are still in the noisy phase but should crystallise late this summer, helping markets price more gridlock—the Midterm Miracle. The US Midterm Miracle should serve as a boost to equities, as Q4 of the midterm year through year three's first half are historically among the presidential cycle's best, with a high frequency of gains and above-average returns. Further, while tariff uncertainty lingers as the administration adapts to the Supreme Court's ruling against blanket and reciprocal tariffs, markets moved on long ago. Tariff news has little power to sway stocks now, for good or ill.

GLOBAL UPDATE AND MARKET OUTLOOK

8 May 2026

MARKET RECAP

A BACK-AND-FORTH QUARTER AND BEYOND

2026's first two months extended global stocks' 2025 trends. The MSCI ACWI closed February up 4.3%, led by non-US stocks.' However, with the onset of the war in Iran came sharp volatility. Global markets' March's slide rendered a -3.2% Q1 decline, stirring bear market fears.[v]

The downturn looked correction-like throughout to us, typical of regional conflicts. Regional conflicts often hit sentiment hard but fade fast, defanged by ubiquitous media attention. Like most sentiment-driven declines or corrections, world markets fell sharply from 25 February's all-time high. Leadership flip-flopped, with non-US stocks lagging. (Exhibits 1 and 2) Headlines pumped worst-case scenarios, casting all good news as fleeting, irrelevant or outdated.

This looked nothing like a bear market, which usually involves long, gradual declines with no "scare story." Bear markets begin with a whimper, not a bang. Much like the market's rapid rebound following 2025's tariff announcement, the rally since 30 March looks little different. Global and US stocks are back at new all-time highs already.

EXHIBIT 1: PREVAILING TREND AND CORRECTION-LIKE COUNTERTREND

Indexed to 100 at 31/12/2024

Source: FactSet, as of 15/04/2026. MSCI World Index and MSCI World ex USA Index with net dividends, S&P 500 total return, 31/12/2024 – 15/04/2026. War period is 27/02/2026 – 15/04/2026.

EXHIBIT 2: US VS. NON-US IN 2026

Indexed to 100 at 31/12/2025

Source: FactSet, as of 15/04/2026. S&P 500 total return and MSCI World ex USA Index with net dividends, 31/12/2025 – 15/04/2026.

There is a long history of regional conflict and stocks. None have caused a bear market—and we doubt today is any different. When markets focus on one thing—as they have since bombings began—it forces stocks to pre-price worst-case scenarios and speculation swiftly. Stocks take their losses, then move on well before people see improvement. This is why investors must look past daily developments. Markets price news faster than you can fathom it—often *in anticipation* of headlines.

v Ibid. MSCI ACWI Index return with net dividends, 31/12/2025 – 31/03/2026.

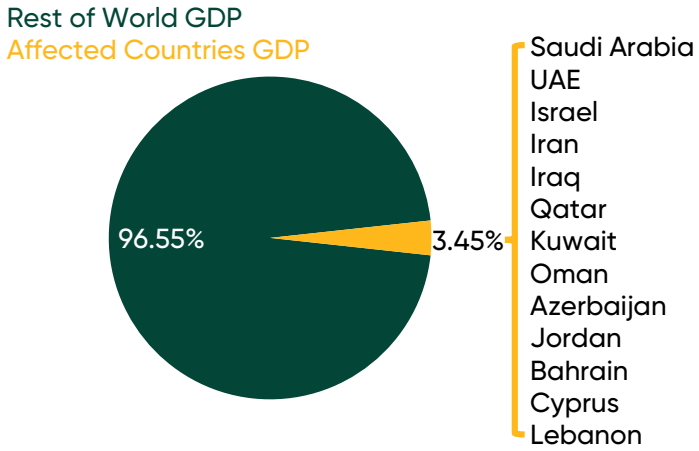
FORECAST UPDATE

The war's outbreak doesn't change our views. We expected a rocky grind early in keeping with midterm trends—before a late-year rally to good returns.

Pullbacks bullishly lower sentiment—rebuilding a wall of worry. Today's has many bricks: fears of energy price spikes whacking European industry; fuel rationing roiling Asian economies reliant on Middle Eastern energy; inflation inundating Britain. Many sweat a 1973 – 1974-style "oil shock" hammering stocks.

Markets should soon look past the war and see a resilient global economy. They should see economic conditions didn't suddenly change for the worse, given combat directly affects 3.5% of world GDP (Exhibit 3).[vi]

EXHIBIT 3: SCALING THE WAR



Source: World Bank, as of 13/03/2026. Share of World GDP in 2023, latest full dataset available.

ASSESSING THE IRAN WAR'S EFFECTS

The war continues monopolising sentiment. This is understandable—war is a terrible tragedy. Our hearts go out to all affected by loss of life and property as well as disruption throughout the Persian Gulf. Yet markets routinely deal with regional war faster than people fathom.

Initially, stocks raced to price the economic effects, including feared global energy shortages erupting from the closed Strait of Hormuz and attacks on Qatar's liquefied natural gas (LNG) infrastructure. Worst-case scenarios dominate economic forecasts, but stocks are already pricing a better-than-feared future.

CLEARING THE FOG OF WAR

The fog of war is always thick as warring parties race to control the narrative. This time however, there seems to be less detailed, factual reporting than in other conflicts, as partisanship influences coverage. Opinions and bias therefore feed panic, defeatism and a false sense of urgency. Pundits insist everything must resolve fast, or economic and market catastrophe awaits.

MARKETS' THREE-STEP REACTION

Markets' reaction to regional conflicts—even wide-ranging quagmires—is typically fleeting. Saber rattling and initial fighting hit sentiment, but stocks usually bounce fast. Stocks realise the conflict lacks the multitrillion dollar wallop necessary to derail a bull market.

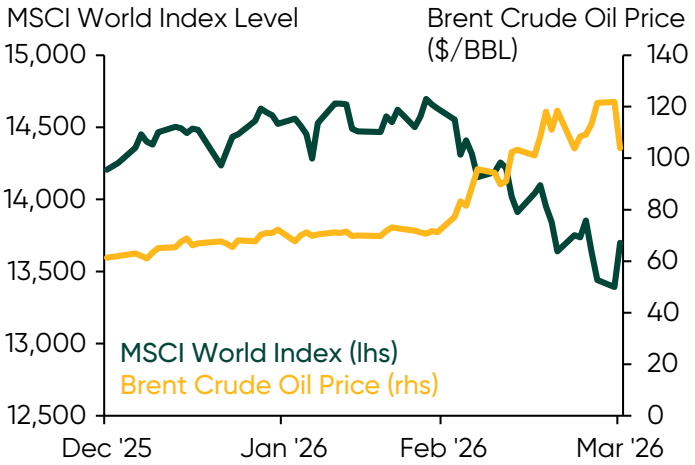
vi Source: World Bank, as of 07/04/2026.

No regional war alone drove a bear market. In the last 100 years, only WWII was big enough to end a bull market. Even then, the downturn ended *three years* before peace arrived. 2022's Ukraine war was one of many fears stinging investors during a rare sentiment-induced bear market. That fighting rages now, over three years into the bull market beginning that October. In 1973 – 1974, an example many cite today, the bear market started 10 months *before* the Yom Kippur War, which sparked the Arab oil embargo. It also coincided with white-hot inflation (turbocharged by ill-conceived price controls' relaxation) and Watergate's huge political uncertainty.

Since then, markets endured several regional wars in energy hubs. They follow a three-step process. Step one: Stocks stumble and oil rises as saber-rattling sparks fear. Step two: Initial fighting worsens stocks' volatility and oil spikes as markets price worst-case scenarios. Finally, step three: Markets gain perspective, realising global energy markets are adaptable. Long before the war ends, markets foresee persistent global growth and rally while oil prices fall.

January and February brought step one. Global markets climbed but fitfully. Brent crude oil prices crept from $61.35 per barrel at yearend to $71.32 on 27 February, the last pre-war trading day.[vii] March brought step two as oil jumped and stocks dropped (Exhibit 4).

EXHIBIT 4: OIL, STOCKS AND THE WAR



Source: FactSet, as of 06/04/2026. Brent crude oil price and MSCI World Index with net dividends, 31/12/2025 – 31/03/2026.

Stocks' return to all-time highs 15 April looks like step three's dawn, although this doesn't rule out further volatility. Short-term swings are impossible to time, but the fast bounce shows volatility cuts both ways.

Oil's spike caused particular anxiety, though we believe fears are likely overblown. Crude regularly falls soon after energy-centric conflicts break out (Exhibit 5).

EXHIBIT 5: OIL PRICES AND ENERGY-CENTRIC CONFLICTS

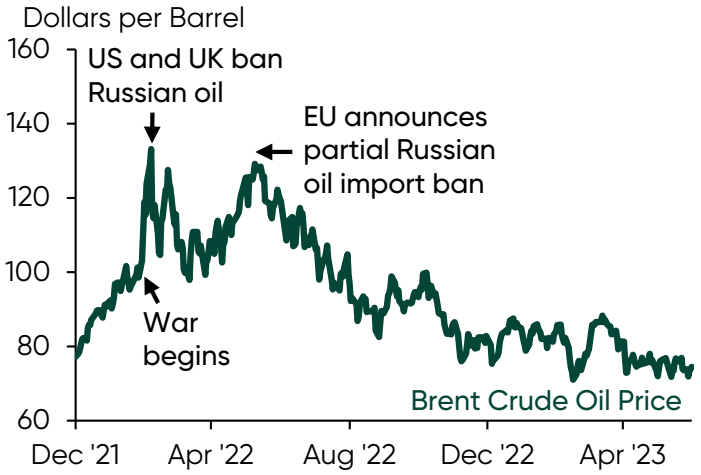
	Months After Start		
Event	1	6	12
Iran–Iraq War (1980)	13.5%	14.8%	7.5%
Iraq-Kuwait Invasion (1990)	24.9%	-6.5%	-12.8%
Desert Storm (Gulf War) (1991)	-13.0%	-3.9%	-12.4%
Iraq Invasion (2003)	-8.0%	-8.9%	22.6%
Israel–Hezbollah War (2006)	2.9%	-29.2%	7.0%
NATO-Libya Conflict (2011)	6.6%	1.9%	10.2%
Crimea Annexation (2014)	-2.0%	-8.5%	-44.3%
Russia-Ukraine War (2022)	21.1%	-0.2%	-18.7%
Israel-Hamas War (2023)	-0.6%	5.6%	-7.0%
US-Iran War (2026)	77.6%	?	?
Median	**4.8%**	**-3.9%**	**-7.0%**
Average	**12.3%**	**-3.9%**	**-5.3%**

Source: FactSet, as of 31/03/2026. Brent crude oil price following selected conflicts feared to have potential oil implications since 1980.

vii Source: FactSet, as of 06/04/2026. Brent crude oil price, 31/12/2025 – 27/02/2026.

Oil's 2022 journey is instructive. In the Ukraine war's first month, Brent crude jumped 21.1%, crossing $130 per barrel as investors feared losing Russian oil.[viii] However, markets soon adjusted. Russia's Western-world clients found new oil sources, while its "shadow fleet" continued supplying countries willing to skirt sanctions. Other oil producers pumped more to meet higher demand, and crude was at pre-war prices by mid-August. Sidelining a major oil supplier didn't roil markets for long (Exhibit 6).

EXHIBIT 6: OIL'S LESSONS FROM 2022



Source: FactSet, as of 06/04/2026. Brent crude oil price, 31/12/2021 – 31/06/2023.

European natural gas prices also had a rollercoaster 2022, jumping from about €80 per megawatt-hour at the year's start to €350 that August as Russia cut European gas flows.[ix] While global gas was abundant, the eurozone lacked import infrastructure. Yet the surge proved temporary. Gas eased as Europe built LNG import infrastructure and secured new suppliers. By June 2023, European gas prices were down in the €20s.[x]

Those measures continue bearing fruit: While European gas jumped as Asia's supply scramble spurred fears of competition for American gas, their high was just €71.21 on 19 March. In mid-April, with global supply adjusting, prices are down below €50.[xi]

STOCKS' LONG HISTORY OF RESILIENCE

Markets move past regional conflict quickly. Stocks quickly scale the conflict's limited economic footprint. As life and commerce continue elsewhere, world markets rally, pricing continued global growth (Exhibit 7). Even "forever wars" like the second Iraq war, which started in 2003, had fleeting market effects. This one looks little different.

EXHIBIT 7: S&P 500 RETURNS DURING SELECTED REGIONAL CONFLICTS

		Months After Start		
Global Events	Full Conflict	1	6	12
Suez Crisis (1956)	1.6%	-3.9%	0.5%	-8.1%
Six-Day War (1967)	3.6%	3.6%	9.4%	16.6%
Yom Kippur War (1973)	0.8%	-3.7%	-13.8%	-38.4%
Iran–Iraq War (1980)	180.0%	1.6%	5.7%	-6.9%
Iraq-Kuwait Invasion (1990)	6.8%	-7.8%	-0.6%	14.1%
Desert Storm (Gulf War) (1991)	12.5%	13.0%	19.1%	31.9%
Iraq Invasion (2003)	65.4%	2.2%	19.4%	29.0%
Israel–Hezbollah War (2006)	0.9%	0.8%	14.2%	25.7%
NATO-Libya Conflict (2011)	-0.8%	2.2%	-4.0%	12.6%
Crimea Annexation (2014)	0.9%	1.6%	9.2%	17.1%
Russia-Ukraine War (2022)	?	6.1%	-4.6%	-5.9%
Israel-Hamas War (2023)	?	1.4%	21.7%	34.1%
US-Iran War (2026)	?	-7.7%	?	?
Median	-	**1.6%**	**7.5%**	**15.3%**
Average	-	**0.7%**	**6.3%**	**10.1%**

Source: Finaeon, Inc., as of 13/04/2026. S&P 500 total returns, 28/10/1959 – 12/04/2026. Daily total return figures pre-1988 are interpolated due to data availability.

viii Ibid. Brent crude oil price, 24/02/2022 – 31/03/2022.

ix Ibid. Dutch TTF gas price, 31/12/2021 – 31/08/2022.

x Ibid. Dutch TTF gas price, 01/06/2023.

xi Ibid. Dutch TTF gas price, 06/04/2026.

DIVING DEEP ON ENERGY

Today, investors' big fear is energy supply disruptions from the Strait of Hormuz's closure—shortages, rationing and high prices. March's slide hammered nations and regions hit hardest by high prices and potential supply disruptions. Big energy producers including the US and Brazil held up better, while import-reliant South Korea, India, Philippines and Japan got whacked.[xii] Much of Europe suffered low double-digit falls.

Those drops were markets' pricing worst-case projections of oil soaring to $150 or $200 per barrel and staying there as Middle Eastern supply vanishes. They include the feared economic impact of Southeast Asian energy rationing. This set the stage for positive surprise to spark a relief rally as the conflict resolves much faster than everyone expects.

Fears regarding the Strait of Hormuz overlook several important facts. Yes, 20% of global supply passes through the Strait, but about one-third of that goes *in* for refining—it goes elsewhere now. Of the remainder, producers rerouted substantial amounts via pipeline, bypassing the Strait. Saudi Arabia's East-West pipeline upped flows to the Yanbu port, where tanker traffic tripled.[xiii] The UAE upped pipeline transmissions to its Fujairah port.[xiv] The world is adjusting. The closure isn't fully negated, but give it time.

There are also unheralded additions: The US removed sanctions on Venezuelan oil and eased them on Russian shipments, enabling freer flow. This brings up one longer-range potential outcome: More abundant global supply.

Iran and Venezuela have some of the world's largest reserves, but with low production due to sanctions, mismanagement and antiquated infrastructure. The US has record-high production but low reserves, while Europe's mineral rights and restrictions hamstring production. In the long run, a more stable Iran that works better with the US (echoing Venezuela's new approach) would likely secure future supply for the West, perhaps boxing out Russia and China. Markets don't price such long-term factors today, but it shows the potential for good outcomes. Beyond this, Gulf nations will probably build more workarounds to mitigate the Strait's future influence.

As for natural gas, this isn't 2022. Europe now has multiple LNG import terminals and receives US gas regularly—very little from the Middle East. Many fear Asian shortages will trouble Europe, but today's price spikes were nowhere close to then. Markets and are already finding workarounds. Japan is increasing coal-generated electricity production and restarting nuclear reactors that were offline since 2011's Fukushima disaster. Other nations are eyeing rapid solar buildouts. While some small markets have genuine fuel crises, these are less-developed Emerging and Frontier Markets. We don't dismiss their pain, but they are tiny slivers of global GDP and stocks.

HIGH OIL'S DIMINISHING ECONOMIC EFFECT

For those who lived through the 1970s, oil looms large. Yet the world has come a long way. High energy prices have far less economic effect than people think.

Today, oil barely factors in electricity generation. Natural gas generated 43.1% of US electricity in 2023 (the latest data available), but that is a *minority* of US power.[xv] Headlines hype data centres' increasing energy needs, portraying higher natural gas prices as a threat, but Tech firms are pursuing nuclear power instead.

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xii Ibid. S&P 500 total return and MSCI Brazil, South Korea, India, Philippines and Japan Index returns with net dividends, 27/02/2026 – 31/03/2026.

xiii "A Way for Oil to Bypass the Strait of Hormuz Isn't Just a Pipe Dream," Fiona Parker, *The Telegraph*, 04/04/2026.

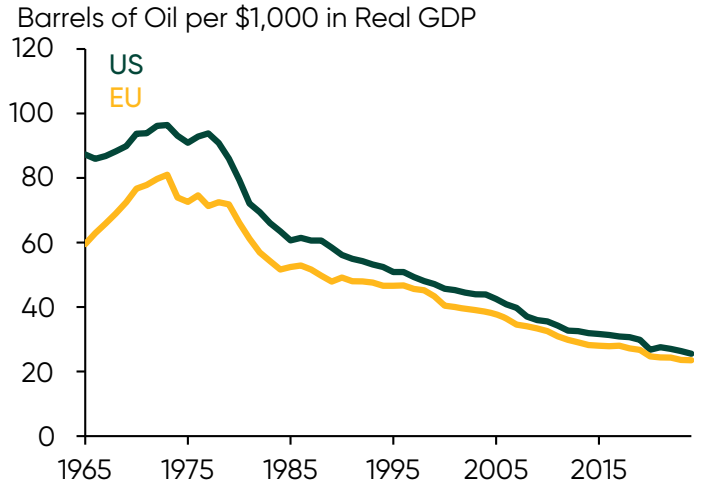
xiv "UAE Boosts Fujairah Oil Exports as Hormuz Disruption Redirects Crude Flows," *Bloomberg*, 27/03/2026. Assessed via WorldOil.com.

xv Source: US Energy Information Administration, as of 06/04/2026.

Oil's importance lies in transportation (gasoline, diesel and jet fuel) as well as being a feedstock for plastics, polyester and mineral oil (e.g., cosmetics). Natural gas is a feedstock for fertiliser, helium (critical to semiconductor production) and much else. These building blocks matter.

However, the US and other developed economies consume far less oil to generate equivalent GDP. This severely limits high prices' ability to curtail output. (Exhibit 8) As for high oil risking hot inflation, this isn't possible without fast money supply growth—which we don't have. In 2022, COVID lockdowns' red-hot money supply growth left excess money as oil and gas jumped. This, not oil, kindled hot inflation. Without it, pricey oil and gas prompt substitution, reducing demand for other goods and services—weighing on their prices.

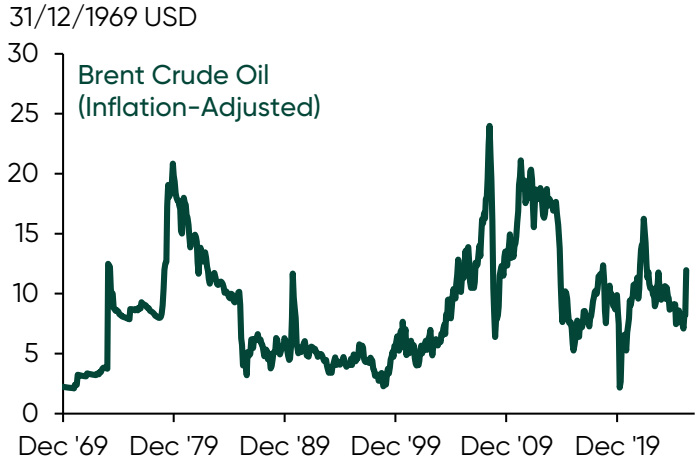
EXHIBIT 8: GDP'S ENERGY INTENSITY IS WANING



Source: FactSet, as of 06/04/2026. Annual oil consumption and GDP, 1965 – 2024 (latest available).

Oil isn't even really that high today. $100 oil isn't a tipping point. With the US consumer price index up almost 27% since 2019's end, today's $100 oil is more like $75 oil then. That wasn't a problem, nor was oil's topping $100 from 2011 through much of 2014. Better still, Exhibit 9 shows Brent crude oil prices since 1969, adjusted for inflation. Today's prices look pedestrian when you strip out inflation's impact and that was before the pullback in early April.

EXHIBIT 9: DEFLATING OIL PRICES



Source: FactSet, as of 06/04/2026. Month-end Brent crude oil price and monthly US consumer price index, December 1969 – March 2026. October 2025 and March 2026 readings are imputed from the prior months' cumulative inflation due to data availability.

WHERE WE GO FROM HERE

Oil and natural gas move on supply and demand. There are real supply curtailments. Some Gulf nations reduced oil production as storage facilities maxed out. Idled wells can be difficult to restart. Some regional natural gas assets were also damaged and will take time to repair.

Yet the world can adapt much faster than people realise. Again, remember the Ukraine war's lessons. The US and Europe adapted to losing Russian oil and natural gas. The crisis sparked big investments in energy infrastructure. This is happening now, as Gulf nations are planning new pipelines, Canada is investing to boost oil and gas exports, and Argentina's shale fields ramped up bigtime. Offshore production from Guyana and other South American fields nicely adds to world supply.

Higher prices are an incentive to drill and pump more, and the market is responding. It wouldn't come as a surprise if oil and natural gas prices ultimately end up *below* pre-war levels faster than most can fathom today.

OVERLOOKED POSITIVES

Economic cheer is scarce. Even before war fear took over, many hyped tariffs' risks, a wobbly US job market and perceived European "weakness." Rampant focus on "negatives" contributed to souring sentiment, which blinded many investors to healthy economic fundamentals. This disconnect between perception and reality is bullish, a factor holding even more true today.

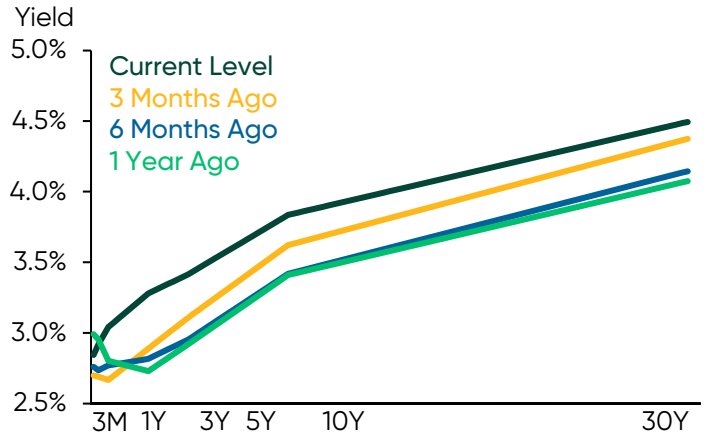
Despite headwinds, corporate earnings and the global economy continued growing—reflecting the strong fundamentals underpinning the global bull market and the global economy entering the Iran war on firm footing. As sentiment moves on, the fundamentals detailed here should come more into focus.

THE UNSEEN YIELD CURVE

As we have previously noted, the global yield curve steepened over the past year, a vastly underappreciated forward-looking economic positive.

Yield curves plot an issuer's interest rates across maturities, from short to long. When upward sloping, like today, it generally indicates future economic growth. When inverted (short rates above long), it is often a warning for forthcoming recession. Capital crosses borders easily in the developed world, so we have long used a GDP-weighted global yield curve. Unseen, it has steepened over the past three months, six months and year (Exhibit 10). This suggests growth should persist.

EXHIBIT 10: THE STEEPER GLOBAL YIELD CURVE



Source: FactSet, as of 06/04/2026.

Why this works is critical. Sovereign yield curves matter because they influence banks' future lending. Banks borrow short term to fund long-term loans, and government bond rates are good, credit-risk-free baselines for both. When short rates are below long (again, like today) bank lending is profitable. When the spread between them grows—as it has over the past year—lending becomes *more profitable*, which encourages more lending. At a lag, steeper yield curves encourage faster loan growth, which delivers more capital to households and businesses to spend and invest—driving economic growth. Exhibits 11 and 12 show lending is growing at healthy rates worldwide—and businesses are investing.

EXHIBIT 11: LENDING IS ACCELERATING

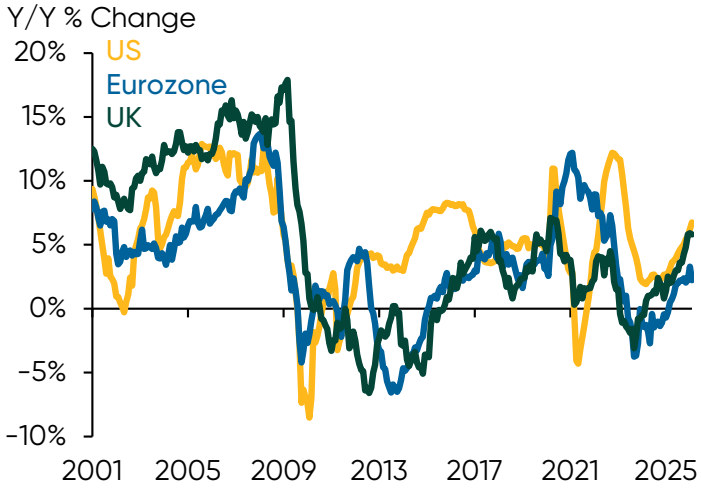
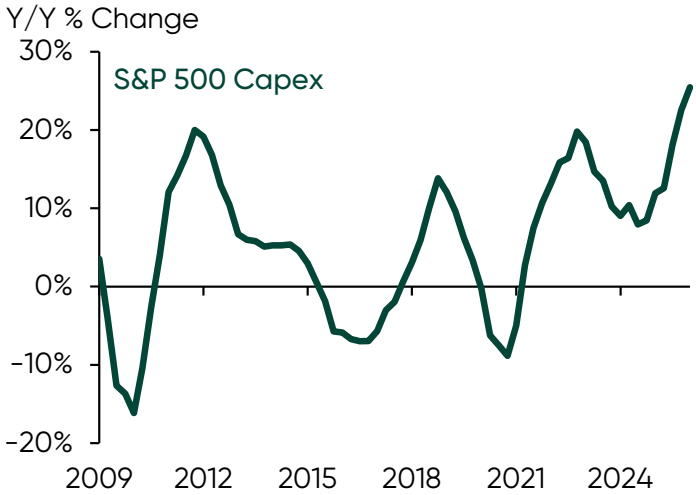


EXHIBIT 12: US FIRMS ARE INVESTING



Sources: FactSet and Macrobond, as of 08/04/2026. Loan growth is January 2001 – February 2026 (latest available). Capex is Q1 2009 – Q1 2026.

ECONOMIC TRENDS PERSIST

Most economic data confirm long-running trends persisted before the war. For one, US employment data continue to reveal a low-hire, low-fire environment, perhaps best illustrated by payrolls' choppy growth. When employers shed jobs in February (-133,000), it triggered myriad fears of an economy weakening ahead of the war. However, this figure comes after growth in January (160,000) and before further growth in March (178,000), extending a long-running back-and-forth.[xvi]

Regardless, jobs data are late-lagging and say next to nothing about current or even very recent economic activity. GDP is more recent, and here again extant trends persist. Q1 2026 US GDP grew 2.0% annualised, accelerating from Q4 2025's 0.5% annualised rate. While growth may seem to have slowed following Q3's 4.4% and Q2's 3.8%, focusing on the headline figure can yield erroneous conclusions.[xvii]

To see past that, consider the sum of consumer spending, business investment and residential real estate investment. In Q1 2026, these combined grew 2.5% annualised. This is higher that Q4 2025's 1.6% annualised, and in line with Q3's 2.5% or Q2's 2.4% rate.[xviii]

UK monthly GDP flatlined to start the year, but the three-month trend showed output rose 0.2% in the three months to January.[xix] Data aren't available for Q1 yet, but eurozone GDP grew throughout 2025, rebuking fears of tariff-driven recession. Chinese data improved in the January-February period (combined to account for Lunar New Year holiday), with industrial production and retail sales both beating expectations.

Lastly, in the limited data reflecting the war, like S&P Global's March purchasing managers' indexes, there are few signs of contraction. These surveys tally the breadth of growth, with readings above 50 indicating more responding firms saw growth than contraction. Across major economies, composite gauges combining manufacturing and services topped 50 for the US, UK, Eurozone and Japan.[xx] Pockets of contraction exist, but they are the exception, not the rule.

ASSESSING HEADLINE RISKS OUTSIDE THE WAR

Aside from the war, tariffs, the Fed and private credit continue drawing some media attention. There are factors worth considering among these, but none appear to present risks to the bull market at this time. Here is an update on each to help illustrate why.

TARIFFS ARE OLD NEWS

One year since Trump unveiled his surprisingly far-reaching, steep and curiously structured "Liberation Day" tariffs, trade news continues spurring headlines. Yet the shock factor—for good or ill—has largely evaporated, as all the attention priced them into stocks. To be clear, we still think tariffs are an economic negative, but initial fears exaggerated their scope, as exemptions, deals, collection difficulties and legal challenges eroded them.

xvi Source: US Bureau of Labor Statistics, as of 08/04/2026.

xvii Source: Bureau of Economic Analysis, as of 09/04/2026.

xviii Source: Bureau of Economic Analysis, as of 09/04/2026.

xix Source: Office for National Statistics, as of 13/03/2026.

xx Source: S&P Global, as of 08/04/2026.

Q1 featured more legal news, with the Supreme Court overturning most of Trump's tariffs 20 February. Upholding lower court rulings, the Justices ruled 6 – 3 that 1977's International Emergency Economic Powers Act (IEEPA)—the legal basis for most of Trump's Liberation Day actions—doesn't grant the president discretion to levy tariffs (or any tax). They found the law doesn't specifically mention tax authority, which the Constitution delegates solely to Congress. Absent explicit mention, the Court determined the White House lacked this power. Thus, 60% of all $224 billion in tariffs collected over the last year are potentially subject to reimbursement.[xxi]

This may seem bullish, as it reverses tariffs' negative influence. There are positives to the court's ruling, as it reins in some executive authority to act arbitrarily under "emergency" declarations. However, the effect over the next 3 – 30 months, the window stocks weigh most, is minimal. Refunds, if they happen, will likely take a long time to play out. Meanwhile, Trump can replace the tariffs under more established legal means. He partially did so already, enacting 10% global tariffs under Section 122 of the Tariff Act of 1974, which permits them for six months. While that is also subject to court challenge, he also launched studies that would authorise more permanent tariffs on other, already-tested legal grounds.

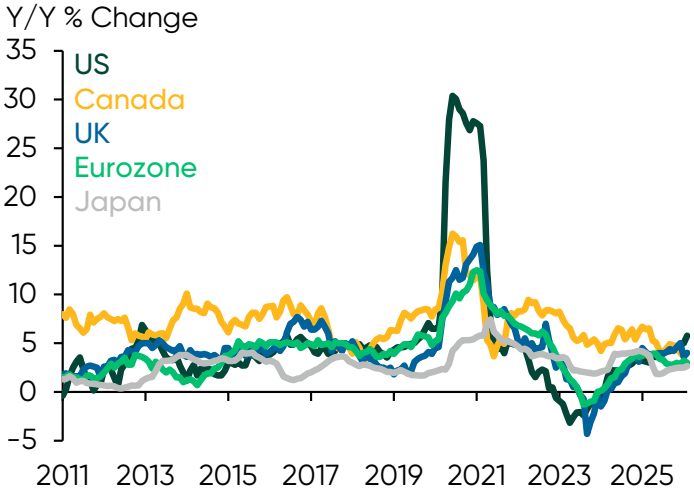
While the Supreme Court ruling is significant, the status quo effectively remains. Higher trade barriers aren't great, but stocks pre-priced and moved on from them long ago.

WHY INFLATION ISN'T A TIGHTENING NOOSE FOR MARKETS

With crude oil and energy prices jumping, many fear a 2022 inflation reprise looms, seeing rising oil prices as a broad-based inflation driver. However, we view this logic to be flawed, as rising oil prices force substitution. Perhaps consumers shift from higher- to lower-priced goods or delay some discretionary purchases. However, oil prices don't raise prices *economywide*, which is what inflation is.

As Milton Friedman taught, inflation is always and everywhere a monetary phenomenon caused by too much money chasing too few goods and services. This played out in 2022. In 2020, at the pandemic's height, the Fed boomed broad M4 money supply by 30% y/y.[xxii] Other central banks followed. Meanwhile, lockdowns curtailed both goods and services businesses. Hence, much more money chased fewer goods and services, with hot inflation resulting at a lag. Today, US M4 money supply's 5.8% y/y growth matches pre-pandemic rates (Exhibit 13). Other nations' are similarly cool. There isn't fuel for hot inflation.

EXHIBIT 13: SELECT DEVELOPED MARKETS' BROAD MONEY SUPPLY GROWTH



Source: Center for Financial Stability, FactSet and Bank of England, as of 08/04/2026.

Inflation fear does raise one risk: Monetary policy error. If the Fed and other central banks were to yank rates markedly higher, it *could* flatten or invert the yield curve (push short rates atop long), leading banks to rein in lending. Such fast hikes *could* turn an oil price spike into a credit crunch. Currently, the Fed and other central banks mostly appear poised to look through the rise. However, this can't be ruled out since central bankers' word isn't exactly their bond, as 2022 demonstrated (among other episodes).

xxi "IEEPA Tariffs," Staff, Cato, 31/03/2026.

xxii Source: Center for Financial Stability, as of 06/04/2026.

As we wrote last quarter, the Fed will also likely get a new chair in Q2, after Trump nominated former Fed Governor Kevin Warsh. Many parse his history for clues about policy amid lingering worries over Trump trying to influence monetary policy. Study Warsh's background if you wish, but as we wrote last quarter, it likely won't reveal how he will act once in charge. Fed heads are famous for taking Martin's Little Pill—shorthand for forgetting everything they once espoused when they take office.

They also don't dictate policy. The Federal Open Market Committee (FOMC) decides it, and its makeup likely won't change much. Interestingly, as we hinted last quarter, current Fed head Jerome Powell has confirmed that he will stay on the FOMC after his term as chair ends in May. While it is unclear how long he will decide to remain a governor on the FOMC, his membership doesn't expire until January 2028. His decision to stay will dilute Trump's potential influence over policy even further.

FALSE PRIVATE CREDIT FEARS

Private credit is another fear simmering on the backburner, with some drawing comparisons to 2008. We think this is vastly overrated, a false fear conflating liquidity issues and actual credit market woes. Last year, fears percolated after two firms—Tricolor and First Brands—defaulted on private loans. Fears receded as headlines moved on, but a third default in the UK this winter rekindled the concern. Following this, many retail investors sought to pull money from private credit funds and firms (a *Financial Times* estimate puts the sum at $20 billion in Q1), which were forced on several occasions to block or limit withdrawals.[xxiii]

Three small borrowers defaulting on private loans doesn't constitute a contagion. In the 12 months through February, Fitch estimates the US's private credit default rate at 5.4%, above the roughly 2.5% historical average.[xxiv] However, the average implies it is sometimes higher and sometimes lower. With February's rate off January's 5.8% peak, stress may be beginning to ease.[xxv]

Besides, private credit lacks the scale and links to the broader economy to cause a full-blown financial crisis. America's amounts to around $1.8 trillion, which may seem large, but it is rather small next to its more than $100 trillion in total loans and debt securities outstanding, the vast majority of which hasn't defaulted and likely won't.[xxvi] Some claim banks funding private credit firms could transmit their problems to the wider financial system, but at $348 billion it is only 2.6% of all commercial banks' loans and leases ($13.7 trillion).[xxvii]

The real issue here is a liquidity mismatch. Individual investors plowing into private credit may require more access to their cash than these firms are set to provide. Private credit firms try to match their funding to the maturity of loans, limiting withdrawals to set percentages of committed money. This is a problem for retail investors wanting to pull their funds suddenly from fear or need. This is also a core difference between this industry and 2008, when runs on banks and money markets caused great stress across the financial system.

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xxiii "Investors Sought to Pull $20bn From Private Credit Funds in First Quarter," Eric Platt, *Financial Times*, 09/04/2026.

xxiv "US Private Credit Defaults Ease to 5.4% in February 2026," Timothy Lee and Lyle Margolis, Fitch Ratings, 18/03/2026. "Private Credit's 'Zero-Loss Fantasy' Is Coming to an End as Defaults and Fund Exits Rise," Hugh Leask, *CNBC*, 25/03/2026.

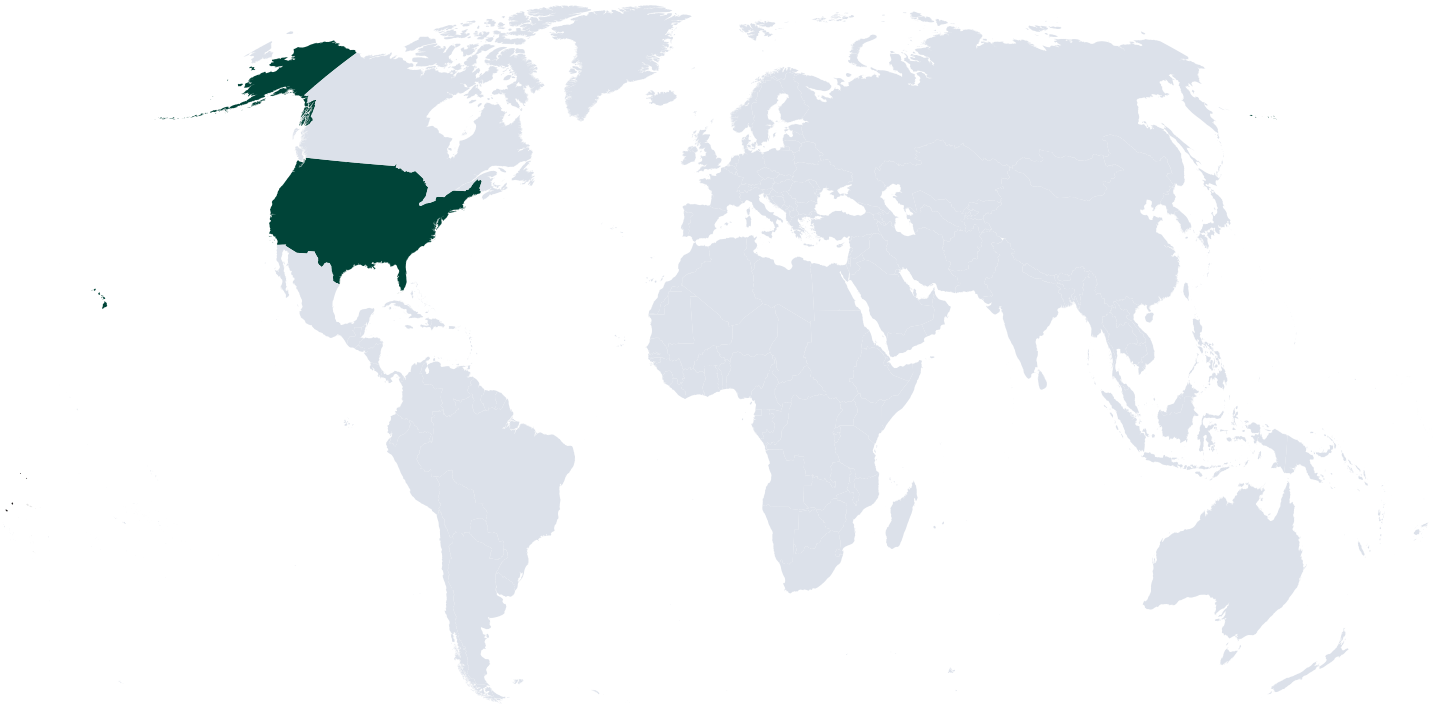
xxv Ibid.

xxvi Source: Federal Reserve Bank of St. Louis, as of 06/04/2026. All Sectors Debt Securities and Loans, Liability Level, Q4 2025. "Why You Should Care About Private Credit," Joe Weisenthal and Tracy Alloway, *Bloomberg*, 06/04/2026.

xxvii Source: Federal Reserve Bank of St. Louis, as of 10/04/2026. Loans and Leases in Bank Credit, All Commercial Banks, 01/04/2026. "US Banks' Private-Credit Zeal Fuels $348 Billion Pile of Loans," Olivia Fishlow, *Bloomberg*, 31/03/2026.

There are some ancillary risks here we are watching. For example, if private assets come under pressure or funds were blocking withdrawals broadly, it could lead investors to fire sell liquid assets like stocks or bonds to raise cash. That isn't today, though, and doesn't seem near to us.

UNITED STATES COMMENTARY

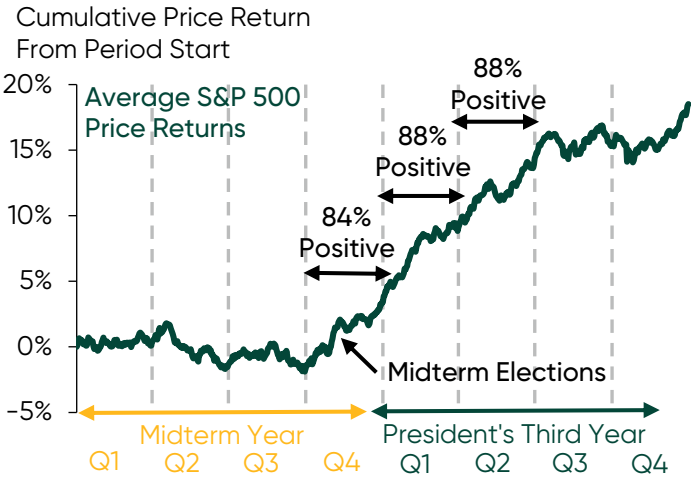


ON THE MIDTERMS

Tense US political rhetoric will soon give way to midterms. The most bullish part of the US political calendar—the three quarters starting in Q4 of the midterm year—should take the wheel. (Exhibit 14)

While it remains premature to discuss midterms in detail, we can say two things now: One, we expect the elections to happen. Two, gridlock should result, with the degree to be determined.

EXHIBIT 14: GRINDING THEN GLORIOUS—THE MIDTERM MIRACLE



Source: FactSet, as of 08/04/2024. S&P 500 average midterm and third year price return, 31/12/1925 – 31/12/2023.

The president has no power to declare an emergency affecting election timing. Only Congress can. There is zero chance Congress can overcome gridlock and members' own re-election incentives to pass such legislation. Partisanship often makes people fear things that aren't rational—including rumors of election delays or cancelation. Extremists left and right floated such theories before every US election since at least 2008—probably longer.

Midterms will happen, likely boosting gridlock. The presidents' party lost House seats in 22 of 25 midterms since 1926. In the Senate, where only a third of seats are up, election structure matters more. Yet the president's party lost seats in 18 of 25 midterms. Following California Rep. Kevin Kiley's shift from Republican to Independent and several resignations, the GOP has a 217-212-1 House majority (5 seats are vacant).[xxviii] Republicans hold just 53 of 100 Senate seats.[xxix] Such slim majorities flip easily, potentially handing the Democrats one or both chambers—deepening bullish gridlock.

A MINOR REGULATORY BOOST TO BANK LENDING

Beyond the yield curve, there is another lending tailwind: The US Fed's proposals to lower bank capital requirements.

After 2008, anti-bank backlash swept the world, with governments issuing a bevy of rules forcing firms to carry ever-more excess capital. One set of rules was a framework called Basel III—an effort to coordinate international bank capital rules, ostensibly to strengthen the financial system and end "too big to fail." The rules passed in 2010. But implementation underwent years of fits and starts, with the Basel committee issuing further rules in 2023. After regional bank failures that spring, US regulators under the Biden administration pushed for aggressive implementation and globally high capital requirements. But the rules never took effect.

Now the proposals are being rolled back. The US Fed proposed lowering capital requirements (the rule is in a temporary comment period before finalisation), which some pundits suggest will free up to $200 billion in capital, potentially underpinning even faster loan growth. Now, our estimates of the effect are smaller, but this still presents a tailwind to lending. It remains unclear how much banks would deploy, considering the volatility and fluctuation in capital requirements these past 15 years. They may hold excess capital in case regulatory winds shift again after 2028's election.

Regardless, this helps lending in general and Financials stocks specifically. Additionally, it may be a way regulators are trying to rein in private credit's growth, as letting banks allocate less to buffer against loan losses may enable them to grow their loan books more and regain market share. Non-US banks may benefit, too, as America's regulatory recalibration puts competitive pressure on EU and UK regulators. The upshot: Banks are flush with capital and have been for years and years. Relaxing strict rules should help them serve the public better through lending.

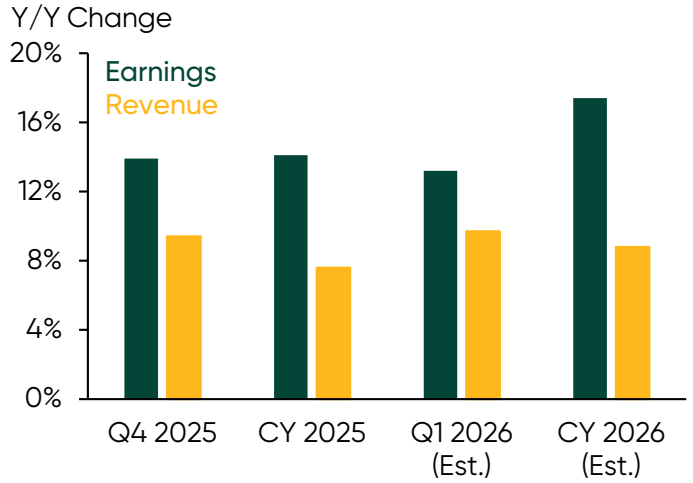
SOLID CORPORATE EARNINGS

Corporate America entered 2026 in good shape (Exhibit 15, see next page). In 2025, S&P 500 companies notched 14.1% full-year earnings growth, powered by sales' 7.6% rise. As the year closed, as Q4 earnings grew 13.9% y/y, powered by even stronger, 9.4% sales growth. Firms are churning out profits, and it isn't about cost-cutting, it's about sales.

xxviii Source: US House of Representatives Press Gallery, Party Breakdown as of 22/04/2026. Figure is adjusted to reflect the Georgia special election that handed former Rep. Marjorie Taylor Greene's seat back to the Republicans, three overall resignations and one death since.

xxix Source: US Senate, Party Division, as of 06/04/2026.

EXHIBIT 15: CORPORATE AMERICA IS ON SOLID GROUND



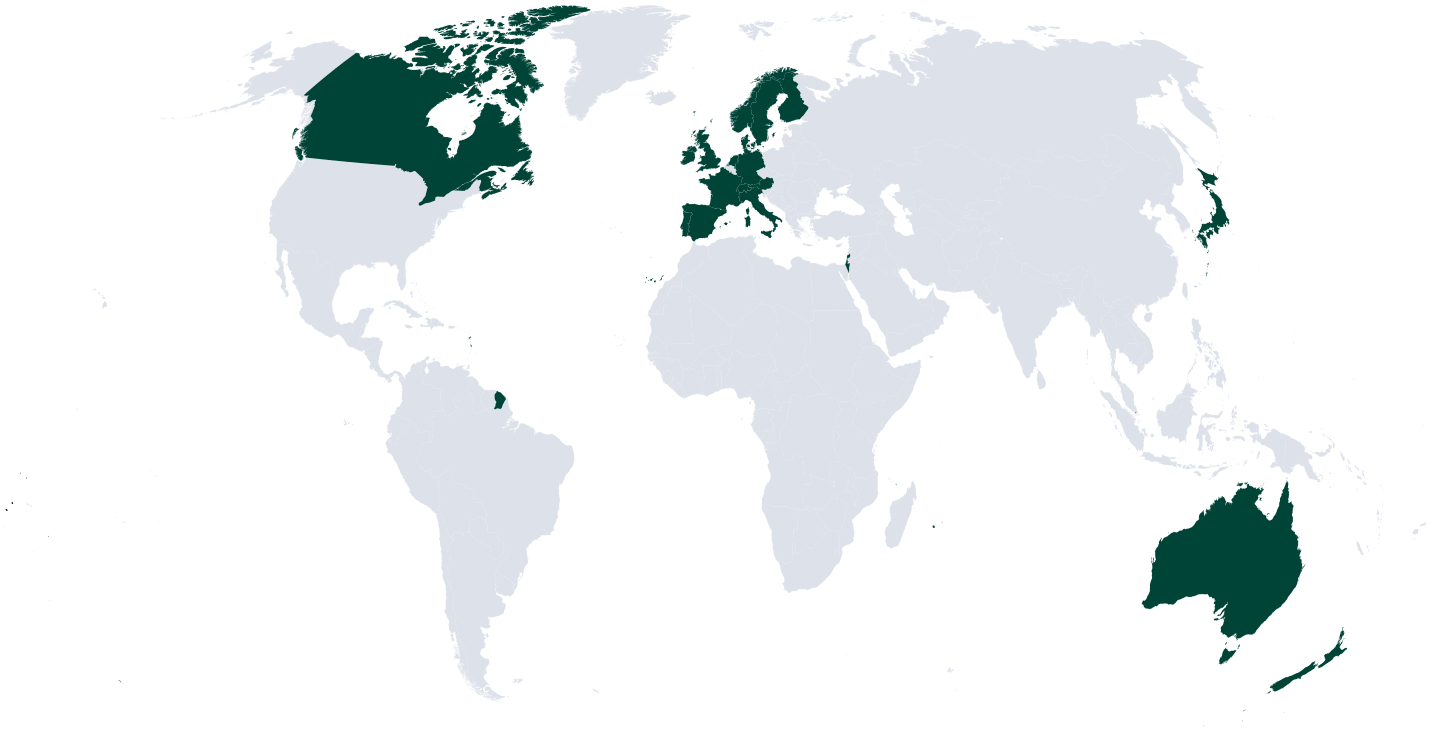
Source: FactSet Earnings Insight, as of 02/04/2026.

Now, all that is pre-war—easy for pessimists to dismiss, particularly when some high-profile CEOs warn the war will lift costs and inflation. We don't dismiss higher prices, but in our experience, CEOs never met an external boogeyman they wouldn't blame for unpopular decisions. (Blaming layoffs on "AI" is another example.) More telling: Entering 2026, analysts projected 12.8% y/y Q1 earnings growth.[xxx] That was before the war. On 2 April, analysts projected 13.1% y/y—even higher.[xxxi] Underpinning this, an above-average number of firms issued positive guidance for profits in the quarter, leading analysts to dial expectations up.

xxx Source: FactSet, *Earnings Insight*, as of 02/04/2026.

xxxi Ibid.

GLOBAL DEVELOPED EX-US **COMMENTARY**



DEVELOPED WORLD EX-US POLITICAL UPDATE

Even outside the war in Iran and developments in Venezuela, 2026's opening quarter was busier than expected in global politics, with elections stealing headlines in Denmark, Canada, Italy and Japan. But with the dust now largely settled, the landscape seems little changed. Gridlock reigns globally—and even where it nominally doesn't, political reality likely means inactivity on the legislative front anyway. This means that there is little risk for disruption from political drivers, historically supportive of stocks.

DENMARK'S SNAP ELECTION FRAGMENTED ITS PARLIAMENT (THE FOLKETING) FURTHER

In late February, Prime Minister (PM) Mette Frederiksen called a 24 March snap election—a gambit aiming to capitalise on her rising popularity tied to her administration's stance in the spat with US President Donald Trump over Greenland earlier this year. Frederiksen's repeated pushback against Trump's talk of US annexation or increased involvement in Greenland spurred nationalistic pride in Denmark, boosting her and her party in polls. Accordingly, it seems she saw an early snap election as a way to boost her party's 50 seats in the Folketing, giving it a stronger hand in a left-leaning "red bloc" coalition, scrapping the current centrist one.

However, the snap election backfired. Her Social Democrats lost seats as voters' pre-Greenland worries (including cost-of-living and welfare) seemingly lingered.[xxxii] Still, no one party garnered the 90 seats necessary for a majority. Frederiksen's Social Democrats finished with 38 seats, shedding 12—a sizeable loss. Partly as a result, her left-leaning "red bloc" ended with 84 seats, six short of a majority. The opposing "blue bloc" of lawmakers headlined by the Liberals took 77. This left the centrist Moderates and former Prime Minister Lars Lokke Rasmussen, who garnered 14 seats, as kingmakers. Enter coalition talks, which are underway presently.

One key aspect of these discussions will be the potential resurrection of Denmark's wealth tax, which was scrapped in 1997. However, Frederiksen has proposed reviving it to fund smaller school class sizes, currying favour with left-leaning parties and voters. Importantly, though, Rasmussen and other centrist parties oppose it, citing the risk of eroding the tax base and losing entrepreneurs. Frederiksen will have to juggle this if she wishes to retain her post, likely stretching talks out over months.

Regardless of how things end up, political gridlock is likely to remain in Denmark. A multi-party coalition is assured, likely with even less clout than the outgoing government. This usually drags out passing laws and often waters down bills to garner enough support. While this is typically bullish, lowering legislative risk, Denmark's tiny market means only a few companies and sectors dominate. Their drivers, therefore, loom larger. For Denmark, gridlock strikes us mostly as a sign politics won't get in the way much.

CANADA'S LIBERALS WON A THIN PARLIAMENTARY MAJORITY

Since taking office last year, Canadian PM Mark Carney has headed a minority Liberal government—impairing his ability to act. However, after several recent defections and a trio of April by-elections, that has changed—the Liberals now hold a slim majority in Parliament. While many say this will speed along legislation, we have our doubts.

Since last November, a gradual drip of five Members of Parliament (MPs) left their parties to join the Liberals. Four defected from the opposition Conservative party, and one from the left-wing New Democratic party. This left Carney's Liberals just one seat short of a parliamentary majority.

Then came April's by-elections, required to fill two seats vacated by the resignations of former Cabinet Ministers Bill Blair and Chrystia Freeland—as well as one in Quebec opened due to the Supreme Court's annulling the prior election on vote-card errors. The Liberals were always heavily favoured in the two Ontario seats, but they also won the Quebec one. Thus, Carney got his majority government, but only barely. As things stand, the Liberals hold 174 seats—just over the 172-majority line.

Since the elections, many have speculated Carney's new majority government will become much more active, claiming only about half of mooted bills passed in the last year. Without gridlock, they say, bills can pass much more easily. To be clear, if true, that likely would raise uncertainty for stocks—swift, sweeping legislation tends to create winners and losers and cause businesses and individuals to delay investment. This is typically a headwind.

xxxii "Denmark's Frederiksen Bruised in Election, as Voters Put Trump's Greenland Ambitions to the Side," Staff, *Associated Press*, 24/03/2026.

However, Carney's razor-thin majority doesn't guarantee sweeping legislation. The Liberals remain vulnerable to backbench dissent on divisive social and climate policy that renders intraparty dissent. For example, a domestic energy production push could meet opposition from Liberals' internal "environmental caucus." Or, as seen in last November's Budget discussions, Liberal MPs vary widely on items like spending and taxes.

Big tent parties like Canada's Liberals often feature many internal disagreements. This may be even more true today, when you consider the recent defectors from other parties may not swallow the Liberals' agenda in its entirety. Only a few dissenting votes on any issue would drum up gridlock. While gridlock isn't as entrenched as before April's by-elections, it is still present in Canada—bullish.

ITALY'S MELONI LOST A JUDICIAL REFORM REFERENDUM, KNOCKING HER POLITICAL CAPITAL

Italian PM Giorgia Meloni held a constitutional vote (called "the Nordio Reform") on 22 – 23 March, seeking to overhaul Italy's justice system. Her proposed reform aimed to separate the career paths of judges and public prosecutors so they could no longer switch roles.[xxxiii] Meloni framed the changes as a way to make justice more efficient and impartial, while critics in the justice system and among the centre-left opposition parties argued it threatened judicial independence and failed to address core issues like slow trials and prison conditions. Italy's courts had previously blocked some high-profile parts of Meloni's agenda—especially migration—so many folks saw it as a referendum on Meloni herself.

Yet the move proved unsuccessful as Meloni lost 54% – 46%, sinking her political capital.[xxxiv] Mind you, this result doesn't change the immediate balance of power in Rome, yet Meloni losing what was essentially a self-referendum pierced her previous "aura of invincibility" since taking office in 2022. She has clearly lost some political capital, giving her less clout to push other bills through. This does increase gridlock at the margins. The result could also give Italy's centre-left opposition some momentum heading into December 2027 general elections, though much can still change between now and then.

This, too, suggests to us Meloni may want to avoid rocking the proverbial boat much before 2027's election. Historically speaking, politicians globally tend to leave wedge issues alone in the run up, leaving them as fodder for campaign season. We reckon that holds with Meloni this year.

We have seen some suggest this is an equity market negative because it means pro-market reforms, whose progress had already disappointed, will stall out. Yet Italy's debt is down, its GDP is growing and its stocks have outperformed broader Europe markets since Meloni took charge, so it appears so-called pro-market reforms aren't really necessary.[xxxv] Over the next year or so, it seems the status quo in Italy should be just fine.

JAPAN'S TAKAICHI, LIBERAL DEMOCRATIC PARTY WON A SUPERMAJORITY

February's snap election delivered a surprise supermajority for the Prime Minister Sanae Takaichi and her Liberal Democratic Party (LDP) as her strong personal polling and the opposition's disarray overcame the LDP's tepid opinion polling. Accordingly, investors' expectations for pro-growth policies ratcheted up. We remain bullish on Japan, but we think enthusiasm risks running too hot on this front.

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xxxiii "Italy's Meloni Concedes Defeat on Judiciary Referendum," Darko Janjevic, *Deutsche Welle*, 23/03/2026

xxxiv Ibid.

xxxv Source: FactSet, as of 20/04/2026. Statement based on Italy government debt levels, quarterly GDP growth and MSCI Italy and MSCI Europe Index with net dividends in USD, 31/12/2021 – 20/04/2026.

While a supermajority does enable the LDP to overrule the upper house, where it has a minority, this doesn't guarantee a spate of market-friendly reforms rushes through. So far, the main measure to pass is 2026's budget, which the LDP mostly rubberstamped from the prior government's drafts. For more contentious measures, like a temporary consumption tax holiday, Takaichi has chosen to form exploratory committees with opposition party participation to try to build consensus. Ostensibly an effort to move slowly in order to reassure bond market concerns aboust higher deficits, it throws sand in the gears and risks disappointing stock investors' hopes for quick or large stimulus when talks drag out and plans get watered down.

Economic measures aren't the only items on Takaichi's agenda, which adds further complications. She is also pushing to reduce the number of seats in the Diet, which smaller parties oppose, and restart former Prime Minister Shinzo Abe's push for a constitutional amendment to bolster Japan's military capabilities. The latter surfaced again as Japan faced energy shortages from the Strait of Hormuz's disruption, prompting Takaichi to promote constitutional revision as a necessary means of increasing Japan's naval capabilities in the region.

Every politician, no matter how popular, has finite political capital. When Abe shifted focus to constitutional revision, it took time away from economic reforms and proved deeply unpopular with voters, ultimately sidelining more difficult measures (like changes to Japan's rigid labour code). Takaichi's economic agenda isn't as aggressive as Abe's was, focusing more on stimulus than reform. But if constitutional revision becomes a policy focal point again while remaining unpopular, it could push economic measures to the backburner.

While that could weigh on sentiment, we don't think Japan needs much policy help economically. The economy has been improving without big stimulus, and the reforms passed during Abe's administration are gradually starting to bear fruit. Business investment was growing nicely even before the temporary tax breaks included in last year's supplementary budget. A Japanese economy that continues growing nicely without big stimulus would likely prove a positive surprise for stocks.

UK STOCKS SHOULD MOVE PAST RENEWED TAX FEARS

Politics remained top of mind for investors throughout Q1, with headlines continuing to question Prime Minister Keir Starmer's staying power. Talk of a potential leadership challenge reached fever pitch surrounding now-former US Ambassador Peter Mandelson's prominence in the Epstein files and subsequent arrest, with former Labour Deputy Leader Angela Rayner and other mooted challengers reportedly on manoeuvres. Starmer appeared to quell the dissent, at least temporarily, and managed to hold on through the Green Party's victory in the Gorton and Denton by-election. However, with local elections looming and polls indicating Plaid Cymru is poised to take the Welsh Senedd for the first time in the devolved chamber's history, murmurings of a leadership change continue—and with them, fears that a less centrist Labour government could push further anti-business policy.

In our view, the prime headwind here is political uncertainty, which can deter risk-taking and investment—a trend you can see in UK business investment's recent ups and downs surrounding Budget pronouncements. The pull to wait for clarity can be powerful. However, whether or not Labour leadership changes, divisions within the party run deep, likely hampering major legislation. This intraparty gridlock may not block all measures, but it typically leads to contentious policies getting watered down, as we have seen since Starmer became PM. When legislation ends up being less radical than feared, it can be a tonic for markets whether or not the bill itself is what one would consider pro- or anti-business, which is always a matter of opinion anyway. Markets deal in the gap between reality and expectations and don't demand perfection—a key reason why we always counsel investors to check political bias at the door and remember markets prefer no party nor any politician.

One way to see all this in action is in the UK's abundant tax fears, which resurged as the new tax year took effect in early April. Industry groups warn the associated higher costs threaten businesses big and small, potentially taking UK GDP down with them. Whilst we don't dismiss the pain, it is important to separate local businesses' concerns from stock market pressures—and UK stocks have long signaled tax tweaks aren't a big threat.

Fears of fiscal policy straining business are long-running. Last year brought minimum wage hikes and higher employer National Insurance Contributions (NIC). This year's changes include mandated sick and paternity leave and changes to business rates that threaten to leave pubs and factories with much higher bills. This pain comes on top of corporate taxes, which rose from 19% to 25% in 2023 for companies netting over £250,000.

In October's Budget, Chancellor of the Exchequer Rachel Reeves announced business rates relief that aimed to ease this burden for physical retail, given its heavier real estate footprint than e-commerce. But the cheer lasted just a couple days before details of simultaneous business rates reform plans emerged, which would change how properties were valued and, in many cases, lead to higher tax bills. The big story at the time was pubs, which had enjoyed a business rates holiday since COVID lockdowns. That measure's sunsetting, coupled with the broader changes, led to several pubs pulling their last pint.

The spring manufacturing trade group Make UK warned UK manufacturers face a £940 million business rates increase this year. It also noted an odd discrepancy landing the sector with a disproportionate burden: "It said that factories accounted for a fifth of England and Wales's property by rateable value, despite manufacturers only accounting for a tenth of economic output."[xxxvi] So a sector that contributes a sliver of GDP is contributing a much larger chunk of the business rates haul.

It all sounds like a headwind, and we don't dismiss the difficulties many businesses will face. Yet it is also important not to extrapolate this as a broad economic or stock market risk.

Though it gets few headlines, UK companies are quite profitable. While overall corporate profits have flatlined in recent years using the Office for National Statistics' flagship measure, annual net rate of return, that is skewed by the Energy windfall profits tax, which flipped offshore oil and gas producers into the red. The annual net rate of return in 2024, the latest figure available, for operations on the UK Continental Shelf was a dismal -2.9%.[xxxvii] Focus on onshore services and manufacturing, and the picture is brighter. Services' rate of return climbed from a recent low of 11.9% in 2018 to 15.2% in 2024.[xxxviii] Manufacturing had a tougher road, falling from a 21.3% return in 2014 to 10.4% in 2022, but it recovered to 11.7% in 2024.[xxxix]

Note, too, that the recent higher numbers coincided with a historically weak currency after the Brexit vote, which let exporters reap easy profits from currency conversion. Taxes are just one variable in all this, and they are one businesses are used to managing, however unpleasant it may be.

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xxxvi "UK Manufacturers 'Will Pay £940m a Year More in Business Rates Due to Reeves Changes,'" Jasper Jolly, *The Guardian*, 07/04/2026.

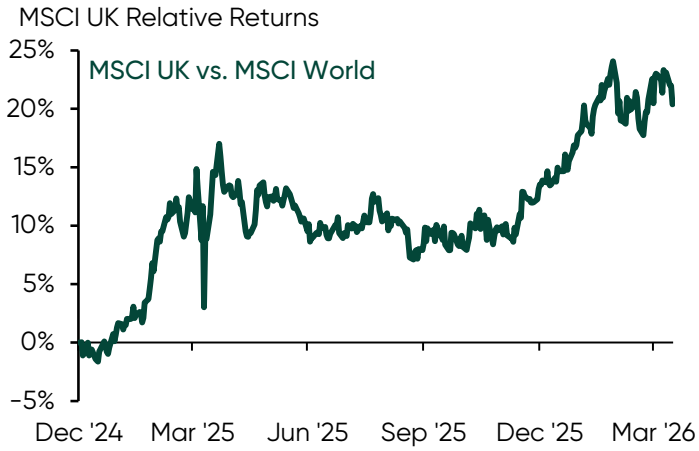
xxxvii Source: Office for National Statistics, as of 07/04/2026.

xxxviii Ibid.

xxxix Ibid.

Crucially, none of this is sneaking up on UK stocks. These measures have been known for months, and markets are forward-looking. UK stocks trounced global markets last year, soaring 25.8% in a year headlines warned nonstop that higher business costs would wreck the UK economy.[xl] They are also leading this year to date, one of a handful of MSCI World Index constituent countries with a positive return even before the big ceasefire rally on 8 April (Exhibit 16).[xli]

EXHIBIT 16: UK EQUITIES CONTINUE TO OUTPERFORM



Source: FactSet, as of 15/04/2026. MSCI World Index and MSCI World UK Index, 31/12/2024 – 15/04/2026.

From this, we can glean two things. One: Big, sustained outperformance isn't what you would expect if higher business costs were a severe threat to earnings. Two: The UK stock market isn't broader UK Plc. The market reflects Britain's publicly traded companies, many of which do business globally, and is heavily weighted to Financials, Materials and Energy. Industrials, which would feel more of the business rates pinch, is only 12.6% of the MSCI UK Index.[xlii] Consumer Discretionary and Consumers Staples Distribution & Retail, the main consumer sectors affected by business rates, combine for about 5.6% of local market cap.[xliii] mFurther, even with all these changes taking effect, consensus expectations are for overall MSCI UK corporate earnings to grow this year, led by bigtime revenue growth. Higher sales give businesses more wiggle room to absorb annoying fixed costs.

AUSTRALIA HIKES RATES AS OTHER NON-US CENTRAL BANKS JAWBONE

The Reserve Bank of Australia (RBA) raised its Cash Rate Target a quarter percentage point in both February and March to end Q1 at 4.1%, reversing most of its three quarter-point cuts last year. The RBA said its goal is to rein in inflation, which sped to 3.7% y/y in February from under 2.0% last summer.[xliv] With the ECB and Bank of England (BoE) also eyeing inflation upticks from war-driven oil-price spikes and chattering about following suit, this potentially raises the risk of monetary error. While worth watching, we don't see monetary moves—and talk—to date affecting markets much.

xl Source: FactSet, as of 14/04/2026. MSCI UK Index return with net dividends, 31/12/2024 – 31/12/2025.

xli Ibid. MSCI UK Index return with net dividends, 31/12/2025 – 06/04/2026.

xlii Ibid. MSCI UK sector and industry weights on 06/04/2026.

xliii Ibid.

xliv Source: FactSet, as of 13/04/2026.

For the RBA's initial 3 February hike, RBA Governor Michele Bullock stated, "we cannot allow inflation to get away from us again," aiming to bring it down into the bank's 2% – 3% target range. The problem is that the rising prices the RBA frets aren't under its control. Much of the recent acceleration was due to one-off electricity price reviews lifting power tariffs and the timing of energy rebates, which caused Australian CPI to jump from 1.9% y/y in June 2025 to 3.0% the following month.[xlv] That is still in the year-on-year calculation today. Further illustrating the point, on a month-over-month basis, inflation was 0.0% in February, the third flat month in six.[xlvi]

Meanwhile, recent energy-driven price increases are supply-side shocks from the Iran war. Since the RBA—or any central bank—can't set electricity prices or increase global oil supply, much less open the Strait of Hormuz, rate hikes to combat them seem feckless to us. Besides, inflation isn't a narrow set of price changes, but economywide ones caused by too much money chasing too few goods and services. Australian M3 money supply's 7.7% y/y growth in February is at typical pre-pandemic rates and a far cry from January 2021's 12.8%.[xlvii] Moreover, inflation in 2022 and 2023 was a global phenomenon. Global money supply growth is even more tame today.

Many still fear the pain of hikes will yield negative economic and market fallout. Because most Australian mortgage payments aren't fixed and vary with the Cash Rate, the country is technically more sensitive to rate hikes than most nations. Headlines worry that the first hikes in two years will swiftly hit household budgets and quell spending and economic activity.

We don't think such concerns are justified. Between early May 2002 and March 2008, the RBA hiked interest rates by three full percentage points, from 4.25% to 7.25%. Aussie stocks rose 105% between the first and last hike.[xlviii] The next tightening cycle, from October 2009 to November 2010, saw seven hikes in a little over a year. Stocks rose 6.5%.[xlix]

Now, May 2022 – November 2023's steep rate hike cycle began during a global bear market. This was partially tied to central banks' surprising with rapid rate hikes, but they were just one of several sentiment headwinds that hit stocks then: Russia's Ukraine invasion, global supply chain disruptions, surging inflation, recession fears and more. Even so, from the RBA's first hike to its last in that cycle, the MSCI Australia Index rose 4.2% in local currency.[l] Then, with overnight rates staying elevated at 4.35% for over a year, Australian stocks gained even more. From the first hike until the first cut, they returned 32.3% in Aussie dollars.[li]

That doesn't mean there are no risks. Monetary mistakes remain possible, especially considering the RBA's misguided reason for its rate hike: low unemployment and faster job growth pressuring prices. These data are both backward-looking and factors that don't drive future inflation. Should global central banks err and tighten rapidly on these or illusory war-related factors, it could flatten or invert the yield curve, restraining lending and growth excessively. However, it is premature to worry about overtightening today. A couple hikes don't seem to amount to that and considering future monetary shifts are unknowable now—and affect growth at a long lag—there is ample time for investors to assess them if and when more come.

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xlv Source: FactSet, as of 13/04/2026.

xlvi Source: Australian Bureau of Statistics, as of 13/04/2026.

xlvii Source: FactSet, as of 13/04/2026.

xlviii Source: FactSet, as of 13/04/2026. MSCI Australia return with gross dividends in AUD, 07/05/2002 – 05/03/2008.

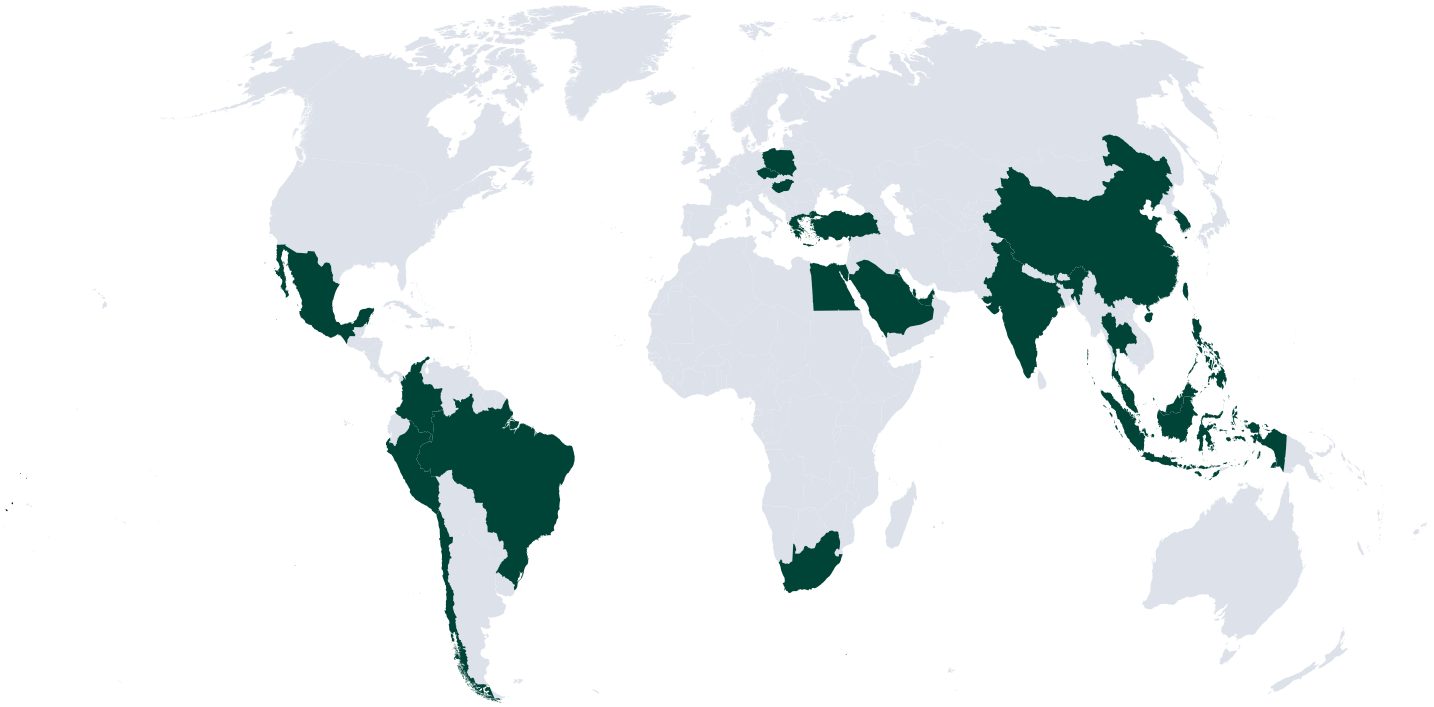
xlix Source: FactSet, as of 13/04/2026. MSCI Australia return with gross dividends in AUD, 06/10/2009 – 03/11/2010.

l Source: FactSet, as of 13/04/2026. MSCI Australia return with gross dividends in AUD, 03/05/2022 – 08/11/2023.

li Source: FactSet, as of 13/04/2026. MSCI Australia return with gross dividends in AUD, 03/05/2022 – 18/02/2025.

Meanwhile, the ECB and BoE are making noises about hikes of their own. Again, an isolated hike here and there isn't anything to sweat—what matters is the cumulative effect on bank lending and credit—and Australia, the UK and Europe aren't close to inverting their yield curves yet.

EMERGING MARKETS **COMMENTARY**



ASIAN MARKETS SHOULD RECOVER DESPITE ENERGY SUPPLY DISRUPTIONS

While we think headlines largely overestimate the Iran War and Strait of Hormuz closure's economic effects, there are real pockets of pain, particularly in Asia, which relies on the Middle East for energy imports. Yet markets have already discerned where the toughest conditions are arising and are differentiating between them and less-exposed regions, with global markets overall seemingly realising the worst pain concentrates in a small segment of global GDP.

Similar to how markets dealt with last year's broad US tariff announcements, stocks swiftly priced the risk of severe energy disruptions across Asia, with the countries most affected falling more than the broader MSCI All-Country World Index, which includes all Advanced and Emerging Markets, from pre-war levels to the world's year-to-date low on 30/03/2026 (Exhibit 17, see next page).

EXHIBIT 17: AT-RISK ASIAN NATIONS GOT HIT HARDEST

Returns from 27/02/26 - 30/03/26	
MSCI AC World	-8.9%
Korea	-20.8%
India	-14.9%
Vietnam	-13.4%
Philippines	-14.8%
Sri Lanka	-12.8%

Source: FactSet, as of 15/04/2026. MSCI All Country World, Korea, India, Philippines, Vietnam and Sri Lanka Index returns in USD with net dividends, 27/02/2026 – 30/03/2026.

Since then, the region has endured disruptions, stemming largely from panic buying and hoarding ahead of feared shortages. In response to perceived and potential shortages, governments took various actions. Reminiscent of refueling restrictions in America in the mid-1970s, South Korea placed all public-sector employees (including teachers) on every-other-day driving restrictions, with license plates ending in even and odd numbers taking turns. The government also banned all hoarding of petrochemical products, including feedstocks, though it isn't clear how this will be enforced. Meanwhile, India steered supply of liquefied petroleum gas (LPG), the country's primary cooking fuel, from restaurants and hotels to households—discouraging household hoarding but raising concerns in the hospitality industry. Officials also raised oil and gas export taxes while cutting fuel duty domestically and capping jet fuel prices in order to support supply and lower costs.

Elsewhere, the Philippines has cut fuel taxes and enacted subsidies for poorer households while adopting a four-day workweek to curb demand. Vietnam temporarily suspended taxes on gasoline, diesel and jet fuel and pushed private-sector employers to adopt work from home policies. Sri Lanka also adopted a four-day week and began rationing fuel for private motorists.

There is obviously some real pain here, and these measures—many of which amount to rationing—will probably have an economic effect. Yet in some of these places, the policies are more pre-emptive to prevent hoarding and aren't guaranteed to last that long, as governments are securing new fuel suppliers. Korea announced in early April, for instance, that it has secured fuel for the rest of the year from Kazakhstan and other Middle East suppliers that won't rely on Hormuz.

Markets seem to be pre-pricing this. Korean stocks, down -20.8% from pre-war levels at the low to date, have now clawed much of that back, sitting down just -6.7%.[lii] Vietnamese stocks are in a similar position, down just -4.1% from their pre-war close after being down -13.4% at the low.[liii] Indian stocks' recovery isn't as robust thus far, but they have pared about half their decline. The Philippines and Frontier Market Sri Lanka, by contrast, remain near their year-to-date lows.

This, coupled with global markets' ongoing recovery, is a reminder markets rush to pre-price worst-case scenario projections, then recover as those prove overwrought. But in places where the effects are likely to be more real and lasting, that recovery takes longer. Crucially, though, these and other heavily affected countries (including Laos and Cambodia) amount to a sliver of global GDP, not large enough to render recession globally. Nor are their problems enough to keep broader global markets down. The Philippines is just 0.3% of MSCI Emerging Markets Index market cap and 0.04% of MSCI All Country World Index market cap.[liv] Sri Lanka is, again, a Frontier Market, included in neither benchmark. Still, it is just 0.9% of the MSCI Frontier Markets Index, which is now up year-to-date and since the war began.[lv] Tough as conditions in these nations may be for a while, cold-hearted markets have seemingly moved on.

lii Source: FactSet, as of 15/04/2026. MSCI Korea Index returns in USD with net dividends, 27/02/2026 – 30/03/20260 and 27/02/2026 – 14/04/2026.

liii Ibid. MSCI Vietnam Index returns in USD with net dividends, 27/02/2026 – 30/03/2026 and 27/02/2026 – 14/04/2026.

liv Ibid.

lv Ibid.

BEYOND CHINA'S GROWTH TARGET: GDP KEEPS CHUGGING

Chinese economic planners lowered 2026's target growth rate to a 4.5% – 5.0% range after three consecutive years (2023 – 2025) set at "around 5%." Some suggest this signals weakness, but we see it as widely expected and acknowledging reality markets already priced. Slightly slower growth simply extends a long-running trend many nations have faced as they develop: Economies tend to slow as they get larger, due largely to compounding. This is normal, not evidence of underlying fragility. Moreover, recent data suggest Chinese growth is persisting.

China's 2026 GDP growth target marks its slowest goal since 1991. When making the 4 March announcement, Chinese Premier Li Qiang cited geopolitical risks, sluggish global growth, trade friction and, domestically, the ongoing property market downturn. Setting a cautious tone, Li said China confronted "a grave and complex landscape, where external shocks and challenges were intertwined with domestic difficulties and tough policy choices," while adding the economy faced "deep-seated structural problems."[lvi]

Analysts seemingly took cues from this, saying it shows Beijing is less concerned about hitting rote numerical targets than shifting to "high-quality" growth in areas the government views as strategic, including AI, robotics, semiconductors, quantum computing, biotechnology, aerospace and energy. To help address structural issues on the demand side—besides ongoing consumer goods subsidies—officials have lifted pensions and child-care support. In late March, they also rolled out a long-term care insurance system nationwide, seeking to bolster China's social safety net as its population ages. This isn't likely to boost domestic consumption, which many view as key, but we think it does signal China's efforts to further economic development and modernisation while maintaining social stability, always a priority there.

Crucially, these are all long-running and well-known issues—without surprise power for stocks. Whereas in the early 2000s, when Chinese GDP growth was humming around 10% annually and five-year plans emphasised rapid industrialisation and export-led development, gradual GDP slowdown by the 2010s to high-single digits prompted planners to shift from "high-speed" to "high-quality" growth, which they remain focused on today. This means rebalancing toward consumption, services and high value-added "advanced" production, aimed at innovation and efficiency to sustain its growth trajectory—all laid out years ago.

Despite Q1's challenges, China's economy continues expanding and contributing to global growth. Coming in at the top of planners' target growth range, Chinese GDP rose 5.0% y/y last quarter, accelerating from Q4 2025's 4.5% and exceeding economists' expectations for 4.8%.[lvii] Under the hood, Q1 industrial production jumped 6.1% y/y and exports accelerated to 14.7%. Q1 retail sales were more muted, up just 2.4% y/y, as auto sales declined and the property downturn persisted, but ongoing broad expansion indicates pockets of weakness aren't eclipsing consumer demand growth.

Meanwhile, pockets of strength are starting to shine through property developers' long-running travails. Q1 fixed-asset investment (FAI), which includes real estate and infrastructure, climbed 1.7% y/y after contracting last year for the first time in three decades.[lviii] At 2025's end, financial news outlets took shrinking investment as evidence of insufficient policy support as the real estate slump continued, threatening to drag the rest of the economy into the sinkhole. Now, though, with infrastructure and manufacturing investment recovering led by equipment and tools, the narrative is shifting to one of FAI stabilisation. While still guarded, some now say renewed growth "has reduced the need for policymakers to double down on fiscal stimulus or monetary easing."[lix]

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lvi "Facing 'Grave and Complex Landscape,' China Sets Lowest Economic Growth Target in Decades," John Liu, *CNN*, 04/03/2026.

lvii Source: FactSet, as of 16/04/2026.

lviii Source: FactSet, as of 16/04/2026.

lix "China Economic Growth Accelerates to 5% in First Quarter — but Iran War Clouds Outlook," Anniek Bao, *CNBC*, 15/04/2026.

Of course, Q1 data mostly predate the Iran conflict. But March-specific reports still support China's growth story. Though weaker than combined (due to Lunar New Year holidays' shifting schedule) January-February retail sales' 2.8% y/y growth, March's rose 1.7%.[lx] Similarly, industrial production decelerated from the first two months' 6.3% y/y pace to 5.7% last month. But with March's monthly data still growing faster than December's, China's economy appears to be weathering war headwinds better than many may realise. This should continue given its relative insulation from Strait of Hormuz oil shipments (just 6.6% of its total energy consumption) and diversified energy mix, including the world's largest renewable power capacity and ample oil stockpiles.[lxi]

March purchasing managers' index (PMI) surveys signaled expansion, too. The official manufacturing and services PMIs rose from under 50 (indicating contraction) to 50.4 and 50.1, respectively.[lxii] Although nothing gangbusters with readings barely above 50, they beat dreary expectations, nonetheless. The RatingDog PMIs—reflecting smaller private-sector firms (versus official PMIs' larger state-owned enterprise representation)—showed manufacturing slipping to 50.8 from February's 52.1 and services to 52.1 from 56.7.[lxiii] Again, Chinese business activity kept ticking along.

Looking ahead, firms' orders—which represent future output—suggest business expansion continues. From RatingDog's March manufacturing release:

> *"Goods producers in China reported higher inflows of new orders in March, attributed to greater market demand, customer acquisitions, business expansion, promotions and competitive pricing. The rate of expansion eased from February's multi-year high, but was nevertheless the second-fastest in six months."*

And for services':

> *"Incoming new business increased for the thirty-ninth successive month, the second-longest period of continuous expansion in the survey history. New business was linked to rising customer demand, expanded customer bases, referrals from existing clients and new projects."*

Furthermore, March trade and lending data also indicate ongoing growth. Exports slowed substantially to 2.5% y/y from February-January's 21.8% but still managed a gain.[lxiv] Outstanding yuan loans rose 5.7% y/y while broader total social financing (including government bond issuance) grew 7.9%, though again slower than February's 6.0% and 8.2%, respectively.[lxv] Regardless, overall credit extension remains sufficient to support increasing economic activity. With ready access to financing, China's households and businesses have more firepower to spend and invest.

All in all, we see the world's second-largest economy proving more resilient than feared. Even with slower targeted growth rates, we think the economy's health against a dour sentiment backdrop looks likely to deliver positive surprise.

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lx Source: FactSet, as of 16/04/2026.

lxi Source: S&P Global, as of 24/03/2026.

lxii Source: FactSet, as of 16/04/2026.

lxiii Source: S&P Global/RatingDog, as of 03/04/2026.

lxiv Source: FactSet, as of 16/04/2026.

lxv Source: FactSet, as of 16/04/2026.

INDEX DESCRIPTIONS

MSCI ALL COUNTRY WORLD

The MSCI ACWI Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of developed and emerging markets. The MSCI ACWI Index consists of 23 developed country and 24 emerging market country indexes. With 2,687 constituents, the index covers approximately 85% of the global investable equity opportunity set. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI EMERGING MARKETS

MSCI Emerging Markets Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

S&P 500

The S&P 500 Composite Index is a capitalisation-weighted, unmanaged index measuring 500 widely held US common equities of leading companies in leading industries, representative of the broad US equity market. Past performance is no guarantee of future results. A risk of loss is involved with investments in equity markets.

MSCI WORLD

The MSCI World Index consists of 23 developed market country indexes. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI WORLD EX USA

The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries, excluding the United States. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes.

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