

ROCQ CAPITAL

First Quarter 2026

Global markets entered 2026 with a cautiously constructive tone, and the first two months of the year proved broadly supportive for risk assets. January saw a steady if uneven start, with developed market equities posting modest gains against a backdrop of mixed earnings and shifting expectations around AI-related capital expenditure. UK equities were among the stronger performers, while emerging markets also enjoyed a period of renewed interest. Bond markets were relatively stable: US Treasury yields remained anchored in the mid-4% range, reinforcing a higher-for-longer narrative, while gilt yields drifted gradually lower as softer UK data tempered inflation expectations. February then built on this positive trend. Global equity markets advanced meaningfully, and credit conditions remained firm. Despite a volatile macro backdrop – including a Supreme Court ruling on US tariffs, the reinstatement of emergency-measure tariffs and rising geopolitical tension – market performance remained resilient. For our strategies, January and February combined delivered strong returns, aided by broad-based gains across global equities, notably those listed outside the US.

March ultimately proved the defining month of the quarter. Joint US-Israeli strikes on Iran at the end of February triggered retaliatory actions and brought significant disruption to energy markets. Concerns centred on the Strait of Hormuz – a critical channel through which roughly 27% of the world's maritime crude oil passes. In early March, Iran declared the Strait of Hormuz closed and carried out attacks on commercial shipping attempting passage, dramatically curtailing oil and LNG flows through the region. Additional strikes across the Gulf – targeting infrastructure in Qatar and the UAE, amongst others – led to insurers withdrawing or repricing cover and major carriers rerouting via the Cape of Good Hope, materially increasing global supply-chain stress. Markets reacted swiftly. Brent crude spiked by 50% in March to surpass \$110 per barrel at times, while European natural gas prices jumped even more as fears of prolonged disruption deepened. This route is also key for urea, helium and several other key agricultural and industrial inputs, highlighting the many pressure points that Iran has managed to find via its actions around the strait.

Equity indices sold off globally as investors assessed the potential fallout from an extended energy shock. US and Asian equities were particularly weak in the days following the escalation, reflecting not only surging energy prices but also renewed uncertainty about global growth prospects and inflation pressures. The latter is the dominant theme at present, and in the US the 10-year Treasury yield rose from below 4% to around 4.4% over the course of the month as investors weighed up the increasing likelihood that central banks could tighten policy again if higher energy prices become entrenched. The UK Gilt market was most heavily affected, with yields rising sharply and to a greater extent than other regions – the 10-year yield ended the month around 5%, more than 0.8% above its level at the end of February. The UK has relatively high structural inflation and a recent history of turbulence in government bond markets, which seems to make gilts particularly vulnerable to sharp sell offs. Credit markets also experienced spread widening as funding conditions tightened. By month-end, the sharp correction had effectively erased the gains accumulated during the strong start to the quarter, leaving most holdings flat to modestly lower year-to-date.

Outlook

The outlook for the coming months is inevitably dominated by the uncertainty surrounding the conflict in the Middle East. At present, the future path of the war remains highly unpredictable, and markets are likely to remain sensitive to any signs of escalation or de-escalation. A ceasefire or negotiated settlement – should one materialise – would almost certainly be welcomed by investors and could prompt a meaningful relief rally across

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risk assets, particularly given that the recent surge in energy prices has not yet had time to fully feed into underlying inflation or growth dynamics. In such a scenario, the market reaction could be swift, with limited long-term macroeconomic damage.

However, the longer the conflict endures and the more persistent the disruption to energy supplies becomes, the higher the risk that central banks will be forced to respond. Sustained elevated oil and gas prices would risk embedding inflationary pressures at a time when policymakers had expected continued disinflation. We have seen this within bond markets, where yields have adjusted higher in anticipation of central banks needing to shift to a tightening bias. In the UK, in particular, this movement was swift and perhaps overdone, making assets such as gilts look rather cheap and capable of a strong rebound if conditions shift.

In short, while the early part of the quarter hinted at a constructive start to 2026, the events of March have introduced a level of uncertainty that will shape market dynamics for some time. We remain attentive to developments and continue to believe that diversified portfolios, with balanced exposures across regions and asset classes, are well positioned to navigate what is likely to remain a volatile environment. In our opinion, there are still strong valuation arguments in favour of non-US equities when compared to the American market, while the actions of the Trump administration over the past few weeks have alienated many allies and therefore point to the re-establishment of a weakening bias for the US dollar, should the current period of turbulence pass in the near future.

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