

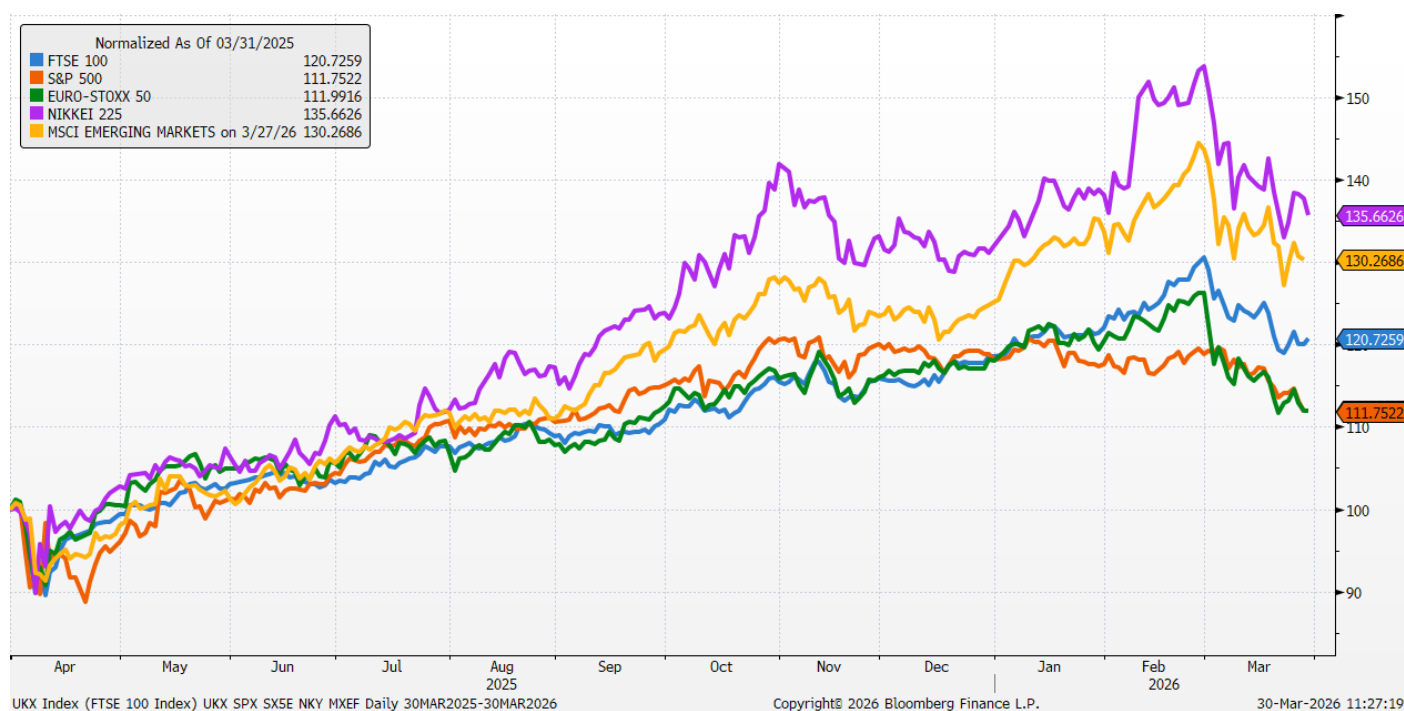
Conflict in the Middle East

We have now entered the second month of the conflict in the Middle East, with initial expectations of a short-lived disruption proving unfounded. Despite continued bombardment from Israel and the US, Iran has remained effective in its retaliation and, crucially, in restricting oil supply through the Strait of Hormuz. This has placed significant upward pressure on energy prices, with Brent crude rising above \$115 per barrel—its highest level since 2022 and approximately 60% higher than at the end of February 2026. Supply disruption has also prompted several emerging market economies to implement demand-reducing measures, including fuel rationing, shortened working weeks and school closures.

Against this backdrop of heightened geopolitical risk and rising energy costs, capital markets have responded broadly as expected. Higher oil prices are inherently inflationary, and consequently short-term inflation expectations have moved higher. This has materially altered the outlook for monetary policy, particularly in regions with a high dependency on imported energy such as Europe, the UK and parts of Asia. Investment market expectations have also shifted meaningfully, with investors now pricing in at least two rate hikes from the Bank of England this year, compared to expected rate cuts prior to the escalation.

As a result bond markets have come under pressure. In the UK, 2-year gilt yields have risen from around 3.6% to approximately 4.5%, while 10-year yields have moved from 4.3% to around 5%. Credit markets have also weakened, with spreads widening across both investment grade and high yield. Overall, this has translated into a challenging period for fixed income, with UK gilts declining between 1% - 5% over March. Notably, gold—typically viewed as a safe haven—has also sold off sharply, falling close to 20% from its recent peak of \$5,420 per ounce as investors took profits from golds strong run.

Whilst equity markets have declined, they remain much higher than 12 months ago in Sterling Terms



Source: Bloomberg, 30th March 2026

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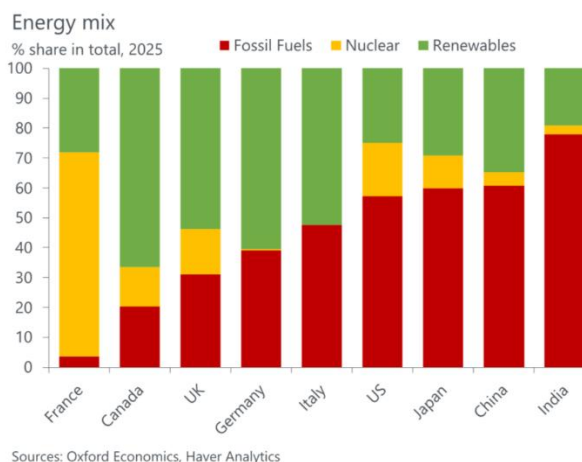
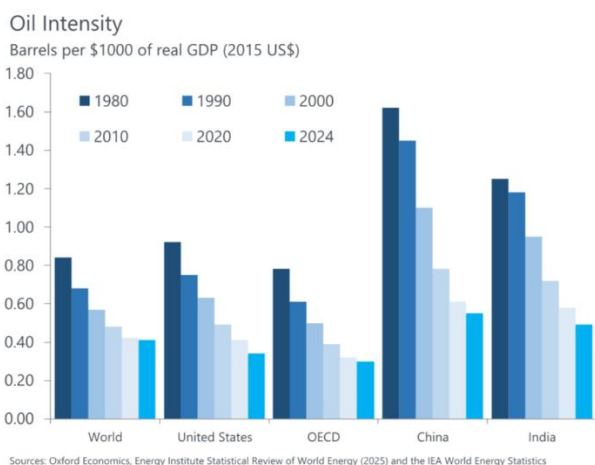
Equity markets have not surprisingly been weak in March. Europe, Japan and emerging markets have entered correction territory, while US equities have declined by around 7% in sterling terms and UK large caps by just over 8%. These moves reflect growing concerns that a prolonged conflict could drive sustained inflation, weaken demand and tighten financial conditions, ultimately weighing on economic growth and corporate earnings.

The key determinant for markets remains the duration of the conflict and the extent of disruption to the energy supply, whether through continued closure of the Strait of Hormuz or damage to Gulf production infrastructure. There are however tentative indications of indirect negotiations between the US and Iran, reportedly brokered by Pakistan, which may hopefully provide a pathway to de-escalation. It's noted that this has coincided with Pakistan-flagged tankers being permitted to transit the Strait.

President Trump has found Iran to be a much more difficult situation than he probably anticipated and consequently extended the deadline for the full reopening of the Strait to 6th April to allow negotiations to continue, although the broader military backdrop remains tense. Reports suggest an additional 10,000 US troops are being sent to the region, alongside consideration of more direct actions targeting Iranian export infrastructure, including Kharg Island. At the same time, the involvement of Houthi forces in Yemen introduces further risks to regional supply, particularly from Saudi Arabia's western coast.

A range of potential outcomes remains. A swift ceasefire and full reopening of the Strait would likely see oil prices fall sharply, alongside a recovery in both bond and equity markets, with limited lasting economic impact. Conversely, a prolonged closure and further damage to energy infrastructure could drive a more persistent inflation shock and a meaningful slowdown in global growth, potentially tipping some regions into recession. Current market pricing appears consistent with a partial reopening scenario, where oil prices remain elevated in the near term, contributing to a temporary rise in inflation. As expected, energy-importing economies are likely to be more adversely affected than those with domestic supply.

Oil intensity has declined and many parts of the world have diversified their energy sources



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There are, however, incentives for de-escalation across key stakeholders. The US administration may seek stability ahead of upcoming political milestones, including the mid-term elections and international engagements, including President's Trump visit to China in mid-May. China and other Asian economies also have a strong interest in restoring stable energy flows, while for Iran, oil exports remain a critical source of revenue.

Against this backdrop, we continue to monitor developments closely and, at present, see no need to alter our asset allocation views or portfolio positioning. The broader economic backdrop coming into 2026 remained constructive, supported by resilient US growth, steady activity across other major economies, ongoing capital investment in AI and related areas, as well as supportive fiscal policy and generally accommodative financial conditions. Developments in the Middle East do increase tail risks to this central case—particularly via higher energy prices, their inflationary implications and impact on economic activity— but they do not, in our view, warrant a change to our current equity allocation.

Portfolios remain well diversified across regions and asset classes, with minimal direct exposure to the Middle East. Within equities, our overweight to emerging markets has faced near-term headwinds but continues to outperform developed markets year-to-date, and its longer-term investment case remains intact. We continue to see relative value in European and UK equities compared to the US, while we have reduced exposure to Japan, reflecting risks associated with tighter monetary policy and currency volatility. Within fixed income, we retain a preference for short duration exposure across both credit and UK government bonds, which we believe remains appropriate given the risk of further upward pressure on inflation.

In periods of heightened geopolitical uncertainty, we remain focused on maintaining discipline in portfolio construction and avoiding reactive, short-term decision making. While volatility may persist in the near term, we do not believe it alters the underlying long-term investment opportunity set. As such, our emphasis remains on diversification, prudent risk management and adherence to our asset allocation framework, ensuring portfolios are positioned to navigate evolving market conditions while remaining aligned with long-term investment objectives.

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