



Window on
the World

MARCH 2026

February proved to be quite a month for investors to digest, not least the U.S. Supreme Court ruling that many of the tariffs imposed by President Trump were illegal.

But this has been swiftly superseded by conflict in the Gulf, which started with Israel and the United States conducting air strikes on Iran on Saturday 28 February. At the time of writing, the conflict continues apace, with likely tragic loss of life, and with no clear signs of de-escalation or what the attacks are seeking to achieve. In this month's Window on the World, I explore what the next steps could be, assess the likely economic implications, and review our current portfolio positioning. Our thoughts are with those affected by the conflict.



Capital market returns in February

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	7.0	12.7	28.0	10.2
US Equities	-0.8	0.7	17.0	0.7
European Equities	3.3	8.6	15.9	6.2
Japanese Equities	10.5	16.8	50.5	15.6
Emerging Market Equities	5.5	18.3	50.8	14.9
UK Gilts	2.5	2.6	5.7	2.4
UK Corporate Bonds	1.3	2.0	7.0	1.6
UK High Yield Bonds	0.6	2.7	8.1	1.9
US Corporate Bonds	1.3	1.3	6.8	1.6
US High Yield Bonds	0.2	1.3	7.0	0.6

Source: Bloomberg, Verso Investment Management, as of end February 2026. Returns in local currency

Global markets delivered positive returns for investors over the month of February, with performance increasingly broadening beyond the leadership of U.S. mega-cap technology. U.K. equities rose 7% while European equities gained over 3%. Japanese equities were particularly strong, rising more than 10%, with investors warming to the prospect of further fiscal stimulus under the new Prime Minister, who secured a resounding majority in a snap election, and emerging market equities advanced over 5%. It was only U.S. equities that lagged, with large cap technology stocks underperforming, highlighting that market gains are becoming more diversified across regions and sectors.

In addition to positive returns from markets, economic data was also supportive; February business surveys pointed to continued resilience in global growth, and signs that inflation was slowing was well received, leading to Government bond yields moving lower. In turn this drove a 2.5% return from gilts over the month. More broadly, credit markets also delivered positive returns. However, a slight widening in spreads meant credit underperformed gilts over the period.

Technology and AI remained a central theme through February. Nvidia's latest earnings highlighted once more the huge scale of investment tied to AI and underscored the strength of demand for advanced computing infrastructure, yet despite the pluses, concerns about the returns on this investment did weigh on the large technology stocks. In addition, the rapid pace of AI adoption is also raising broader questions about disruption to business models outside the technology sector, with investors increasingly assessing which industries may face structural challenges as AI capabilities expand. As a consequence, there have been some sharp price movements, but much of these are based on expectation and not on underlying fundamental changes.

U.S. Government policy developments also influenced market sentiment. The U.S. Supreme Court ruled that President Trump had exceeded his authority in imposing sweeping tariffs, prompting the administration to introduce a revised tariff framework shortly afterwards. Unsurprisingly, this increased uncertainty around global trade policy and its implications for inflation and supply chains. Elsewhere, concerns around parts of the private credit market (referred to as "cockroaches" by Jamie Dimon of JP Morgan) have increased, with reports of sizeable redemptions from some funds raising questions around liquidity in parts of the market.

Tensions with Iran had been brewing as talks between the U.S. and Iran regarding its nuclear programme made limited progress, and this ultimately led to the outbreak of conflict at the end of the month. On 28 February, Israel and the United States launched air and missile strikes on Iran, killing its Supreme Leader, Ali Khamenei. Iran has retaliated by launching missile and drone attacks across multiple Gulf countries with the intention it seems of widening the conflict. As of early March, the conflict has resulted in a sell-off in European, Japanese, and emerging market equities, while bond yields have moved higher.



Conflict in the Middle East

Clearly developments in the Middle East are alarming and have generated a significant amount of market noise and fear around energy supplies.

The Gulf region is a key supplier of global energy needs, and conflict in the Gulf region presents a notable risk to this supply and global energy pricing. The clear transmission mechanism from a regional conflict to the wider global economy is a concern and the focus is on the key supply route for oil exports, the Strait of Hormuz, and the potential for production to be compromised by military action.

Turning to the Strait of Hormuz, it carries roughly one-fifth of globally traded crude oil, making it a critical route but also a potential chokepoint. Even without a full closure, tanker rerouting, higher insurance premiums, and precautionary stockpiling can tighten effective supply and lead to higher prices (effectively a geopolitical risk premium). As oil is priced on a globally integrated market,

disruptions would affect prices internationally – which is what we are currently seeing with oil prices rising by 15% in the first few days since the outbreak of the war. At present, shipping through the Strait has stopped, prompting the U.S. to suggest they will insure ships to pass, and if necessary, offer military escort.

So far, there has been no large disruption to oil and natural gas production due to military damage, and many of the missile and drone attacks Iran has been launching into its neighbours have been dealt with by air defence systems. Iranian oil production – which is estimated at around 4% of total global oil output – continues to operate. In plants where production has seized, this is because storage has been filled.

Duration of the conflict is key

For the economy and investors, the critical question is how long oil supplies from the Gulf region could be disrupted – which is clearly linked to the likely duration of the conflict.

For now, predicting when a ceasefire may be agreed remains incredibly difficult, with both Israel and Iran pledging to continue their attacks. The intentions of the U.S. are also unclear – whether focused on regime change within Iran, stopping any nuclear program, or seeking to secure Iranian oil supply. Question marks also remain over whether the U.S. administration will want to carry the war risk into the mid-term elections. It would seemingly be in the best interests of all parties for this conflict not to be extended for a long period of time.

To be clear, we do not face an imminent oil shortage or rationing at the petrol pump. In the near-term, countries have policy buffers in place to meet demand. Under International Energy Agency (IEA) rules, member countries must hold oil stocks equivalent to at least 90 days of net imports. This framework enables coordinated emergency releases and meets ongoing demands. In the U.S., the Strategic Petroleum Reserve (SPR) currently holds just over 400 million barrels, while China's reserve is estimated at roughly 300 million barrels.



Assessing the impact on the global economy

The economic impact of all this is a little clearer. As a general rule of thumb, a \$10 move up in oil prices, if sustained, has an inflationary impact globally of approximately 0.2%.

It also acts as a drag on economic growth of approximately 0.15%. In addition, the longer oil prices and natural gas prices remain elevated, the greater the impact – both on second round effects (higher transportation and food costs) and the broad economy (impacting consumption and corporate costs).

It is also worth noting that the impact varies by country and region – the U.S. is broadly energy self-sufficient these days, so its reliance on imports has declined. Europe, however, is particularly sensitive to higher natural gas prices, as are parts of Asia. Countries with a high dependency on oil and gas imports would therefore be most affected, while oil producing nations are the beneficiaries.



OIL PRICES HAVE MOVED UP BY \$20 THIS YEAR AND HAVE SPIKED IN MARCH. WHILE HIGHER, THEY REMAIN SOME WAY OFF THE LEVELS SEEN DURING THE OUTBREAK OF THE RUSSIA-UKRAINE WAR



Source: Bloomberg, Verso Investment Management, as of 5th March 2026



If the conflict proves to be short-lived and concludes within the 4 to 5-week time frame indicated by President Trump, then this oil price spike should be short-lived, with prices declining thereafter. Under this scenario, the macroeconomic impact will be limited, and the market reaction would be muted. This appears to be the prevailing view in the market, despite the sell-off experienced in certain areas.

If the conflict is prolonged, then the impact on global inflation and global growth will become more meaningful over time, having a greater impact on areas such as Europe and some emerging markets. This scenario would present risks to the investment base case on which our investment strategies

are positioned and could warrant some changes to our investment views. While there are always unknowns, with the probability of an inflation-related tail risk and tighter financial conditions having risen, it remains an outlier outcome, and we are therefore not making any material changes to portfolios at this juncture.

Nevertheless, ongoing uncertainty around the duration of the conflict and the risks it presents to energy supply means that markets could remain volatile in the near-term. Based on our current assessment of the Middle East situation, we would likely view any meaningful drawdown in equities as an opportunity to buy.

Positioning and outlook

Despite the conflict in the Middle East, the economic outlook coming into 2026 remains constructive – a resilient U.S. backdrop, reasonable global economic activity, ongoing capital investment in AI and related areas, coupled with easy financial conditions and supportive fiscal policy – furthermore most recent economic data also points towards a cyclical upturn. As discussed, events in the Middle East do increase the tail risks to this central case, but do not warrant a change to our neutral stance in equities. Our portfolios remain well diversified across regions and asset classes, and our direct exposure to the Middle East is minimal.

Our overweight to emerging market equities has suffered in the very near-term, but they remain 3.5% ahead of their developed market peers year-to-date, and their longer-term appeal is intact. We continue to see the appeal of valuations in Europe and U.K. over the U.S., and have trimmed our Japanese equity allocation to underweight, reflecting risks to tighter monetary policy and volatility in the yen. Outside of equities, within fixed income, we retain a focus on short duration, both in credit and U.K. Government bonds, as we believe this continues to be the appropriate course of action given the tail risks of higher inflation.



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