



Window on the World

APRIL 2026

The conflict in the Gulf, which began at the end of February, has dominated the market narrative in March, reversing what had been a strong start to the year for global equities outside the U.S.

As we moved through March, the conflict continued, and market volatility rose meaningfully. However, it did remain below the levels seen in April 2025 (“Liberation Day”) and in August 2024 (growth fears and the carry trade unwind). Importantly, the sell-off has so far been orderly, leading to a reset in valuations across both equity and fixed income markets. Encouragingly, in early April, a two-week ceasefire was agreed between the U.S. and Iran, signalling a potential de-escalation in the conflict.



Capital market returns in Q1 2026

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	-6.2	3.4	22.6	3.4
US Equities	-5.0	-4.4	17.8	-4.4
European Equities	-9.1	-3.5	9.5	-3.5
Japanese Equities	-10.4	3.6	34.5	3.6
Emerging Market Equities	-13.0	-0.1	30.3	-0.1
UK Gilts	-4.3	-2.0	2.4	-2.0
UK Corporate Bonds	-3.4	-1.9	4.5	-1.9
UK High Yield Bonds	-2.5	-0.6	5.9	-0.6
US Corporate Bonds	-2.0	-0.4	4.9	-0.4
US High Yield Bonds	-1.2	-0.5	6.9	-0.5

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



Investors have had plenty to contend with in the first quarter of 2026. Key developments included closely watched fourth-quarter earnings from major U.S. technology companies, a renewed focus on tariffs following the U.S. Supreme Court ruling (and the subsequent introduction of a flat 10% tariff on imports), and, most significantly, the escalation of geopolitical tensions in the Middle East.

The outbreak of conflict at the end of February triggered a sell-off in both equities and bonds, with inflation expectations moving higher as markets began to price in the risk to energy supply – particularly oil and LNG – from the region.

March also saw a sharp repricing of interest rate expectations, particularly in the U.K. Having priced in two rate cuts earlier in the year, markets shifted to expecting two rate hikes – a meaningful swing in a short period. Similar, albeit less pronounced, moves were seen across other developed markets. This repricing pushed bond yields higher and led to a decline in bond prices.

In the U.K., 10-year gilt yields rose above 5% at one point and ended the quarter around 40 basis points higher than they were at the start of the year. A slightly more hawkish tone from the Bank of England – signalling it “stands ready to act as necessary” – added to the upward pressure. As is often the case, longer-duration assets bore the brunt of the move, with gilts falling by over 4% in March.

Credit markets also weakened over the quarter, reflecting the rise in underlying yields. Spreads have widened modestly, with sentiment also affected by ongoing concerns around risks in parts of the private credit market – a theme that continues to evolve.

Equity markets were similarly volatile. Those regions and sectors that had performed most strongly earlier in the year saw the sharpest pullbacks in March, as did economies more exposed to higher energy costs – including Europe, parts of Asia, and the U.K.

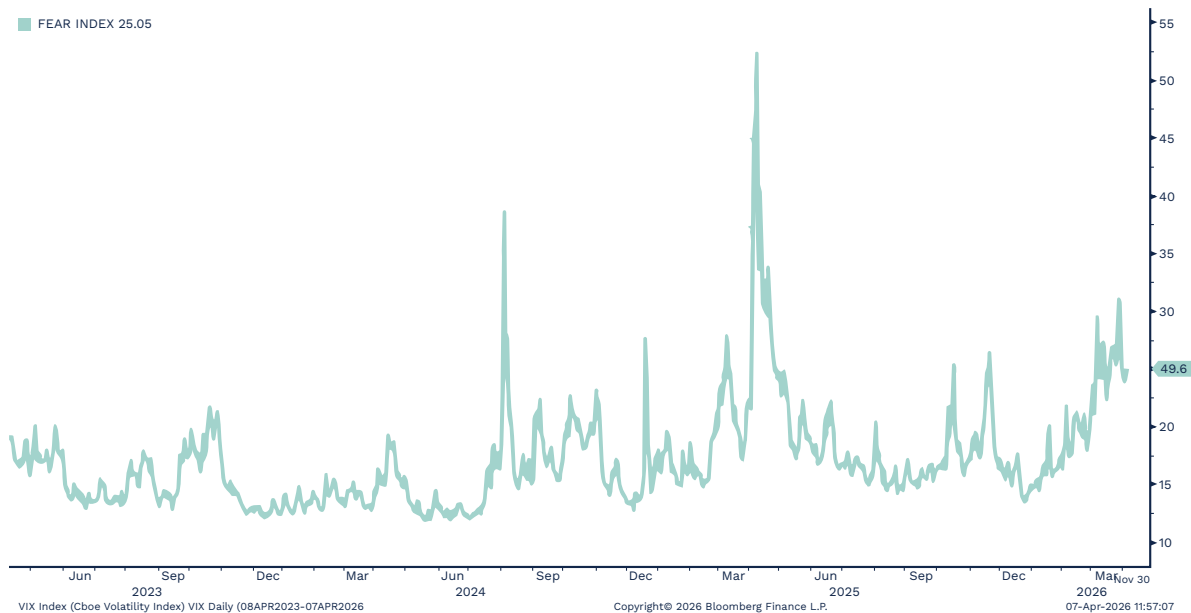


Even so, there were some notable areas of resilience. Japan remained one of the stronger performers over the quarter, supported by optimism around fiscal policy under the new Government. The U.K. equity market also held up relatively well, with its defensive characteristics proving attractive. Emerging markets, despite giving back some gains in March, finished the quarter broadly flat.

European and U.S. equities lagged. Europe was particularly sensitive to higher energy prices, while in the U.S., parts of the technology sector – particularly software – saw sharp declines as investors reassessed the potential disruptive impact of new AI capabilities.

EQUITY MARKET VOLATILITY, AS MEASURED BY THE “FEAR INDEX”, MOVED HIGHER IN MARCH, BUT DIDN’T REACH THE LEVELS SEEN IN THE SUMMER OF 2024 AND SPRING OF 2025.

FEAR INDEX 25.05



Source: Bloomberg, Verso Investment Management, as of 7th April 2026. *The “Fear Index”, or VIX (Volatility Index) measures the market’s expectations of near-term volatility in the U.S. stock market.

The conflict enters its second month, but there are signs of a de-escalation

April marks the second month of the conflict between Israel, the U.S., and Iran. Encouragingly, momentum towards a ceasefire has gathered pace in early April, despite some alarming rhetoric from the U.S. ahead of a deadline to reopen the Straits of Hormuz. Ultimately, a two-week ceasefire was agreed at the eleventh hour late on 7 April.

This development presents a potential off-ramp and a pathway towards ending the conflict. Under the terms of the ceasefire, the U.S. will halt military action against Iran, while Iran will allow safe passage of vessels through the Straits of Hormuz for an initial two-week period. Negotiations are set to centre around a 10-point Iranian proposal, which President Trump has described as a “workable plan”, noting also that U.S. military objectives have been “already met and exceeded”.

This was clearly a welcome development for capital markets. Both equities and bonds rallied on the news, while oil prices fell sharply on the day of the announcement – one of the largest percentage declines on record, surpassed only recently by moves seen during the Covid pandemic in 2020 and Operation Desert Storm in 1991. Areas that had seen the sharpest declines in March rebounded most strongly, as investors began to price in reduced geopolitical risk.

That said, it remains early in the negotiation process, and the shape of any lasting settlement is still uncertain. As with all ceasefires, the risk of a breakdown – and renewed escalation – cannot be ruled out. Nevertheless, we continue to believe that all key stakeholders have a strong incentive to bring the conflict to an end. Iran remains heavily reliant on oil revenues, the U.S. administration will be mindful of the domestic political backdrop, and major economies such as China will be keen to see energy supply restored.

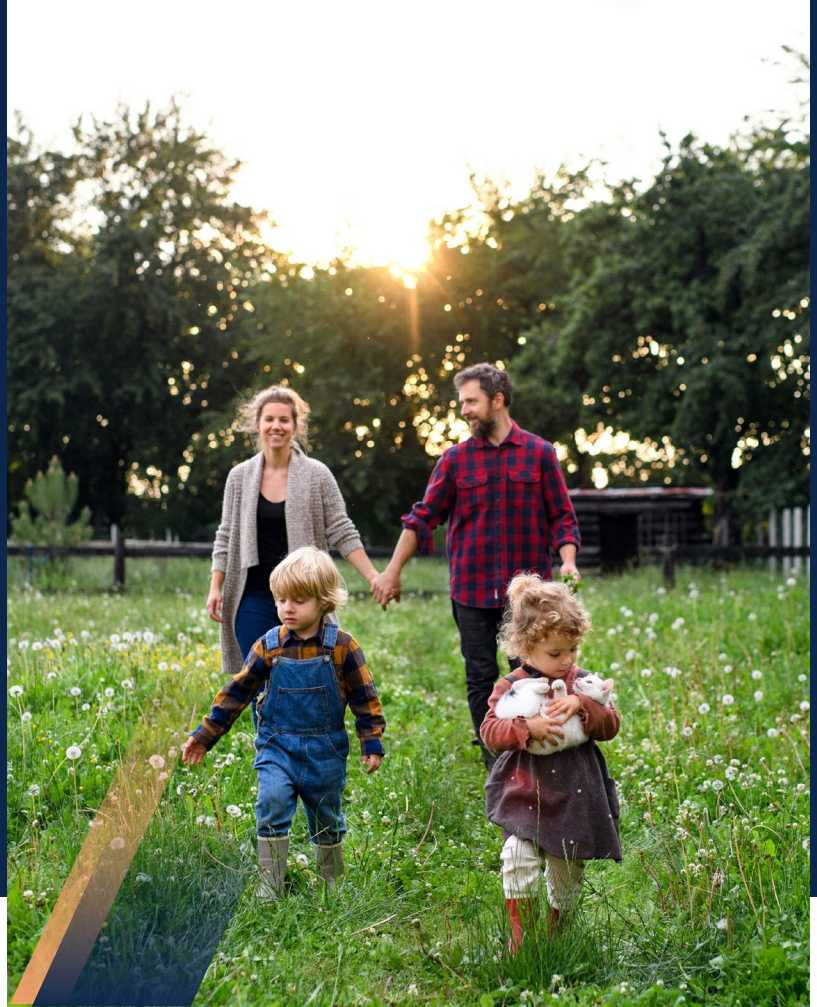
The coming days and weeks should provide greater clarity on whether this ceasefire represents a genuine turning point. For markets, the key issue remains the impact that elevated energy prices and disrupted supply have on inflation and economic activity. Even prior to the ceasefire, Governments had begun to respond through a range of measures – including releasing strategic reserves, introducing subsidies, and, in some cases, implementing price controls or rationing – all aimed at limiting the impact on growth and corporate margins.



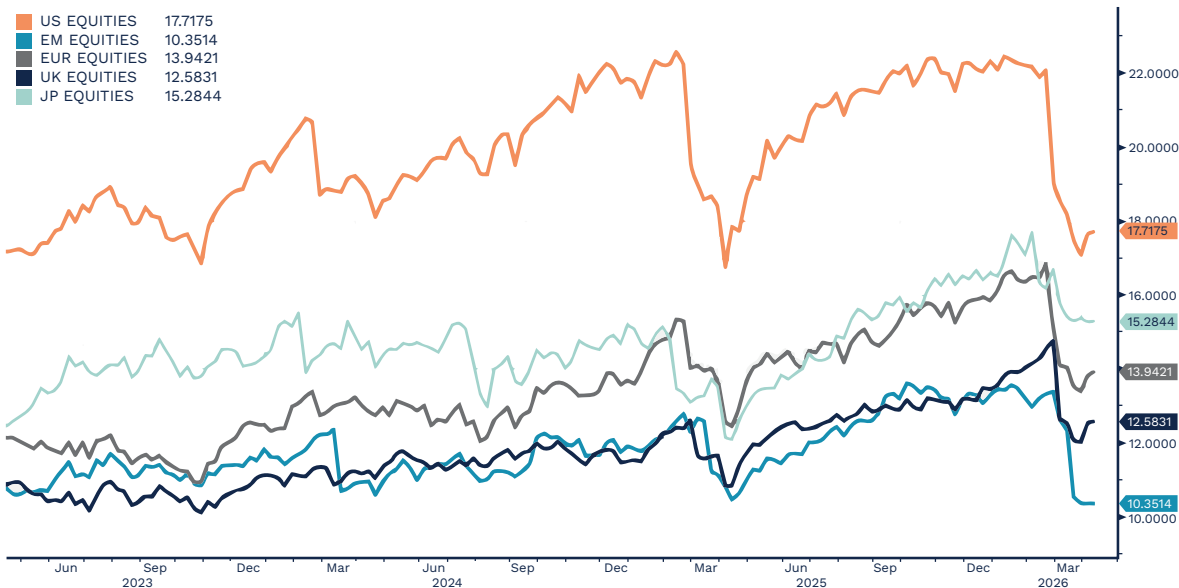
If negotiations progress and the conflict proves relatively short-lived, with supply through the Strait of Hormuz normalising, the impact on inflation and growth should be contained. In that scenario, we would expect a relatively sharp recovery in those areas that sold off most heavily – something we began to see immediately following the ceasefire announcement. However, energy prices remain elevated relative to earlier in the year, and this is likely to feed through into near-term economic data.

The tail risk of a more prolonged and escalatory scenario remains, particularly if the ceasefire breaks down. In that environment, energy prices could remain higher for longer, weighing on economic activity. The likelihood of a mild recession across several economies – particularly energy importers such as Europe and the U.K. – would increase. Corporate earnings would come under pressure, although Government bonds could once again provide an effective counterbalance, with Central Banks potentially easing policy to support growth.

Markets had already begun to price in elements of this risk at their recent lows. Equity valuations in some regions have fallen back to levels last seen during previous growth scares, although earnings expectations remain relatively optimistic.



EQUITY MARKET VALUATIONS (AS MEASURED BY FORWARD PRICES / EARNINGS RATIOS) HAVE COMPRESSED BACK TO LEVELS LAST SEEN DURING THE LIBERATION DAY SELL-OFF, WHEN INVESTORS HAD BEGUN TO PRICE IN RECESSION.



SPX Index (S&P 500 INDEX) PE RATIOS MAJOR MARKETS Weekly 08APR2023-07APR2026

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Source: Bloomberg, Verso Investment Management, as of 7 April 2026.

Portfolio positioning

In the near term, the range of potential outcomes remains wide, and it is an environment where investors can easily be whipsawed by short-term developments. While the path towards a resolution of the conflict has become clearer, there remains a risk that talks could break down.

Our neutral stance on equities – based on a constructive medium-term outlook for corporate earnings, supported by resilient global growth, fiscal support, and still-accommodative policy – has helped limit the impact of the recent market moves. Our focus on shorter-duration fixed income has also been beneficial, given the rise in yields.

While a prolonged disruption to energy supply would increase both inflation and recession risks, we believe some of these risks are already reflected in markets. Even in that scenario, any downturn in economic activity would likely be relatively shallow and could present opportunities to add to equities.

Our portfolios remain well diversified, with minimal direct exposure to the Middle East. While our overweight in emerging markets has faced some near-term pressure, the asset class remains ahead of developed markets year-to-date. U.K. equities have provided useful resilience, helping to offset weakness elsewhere, and we had already reduced our exposure to Japan ahead of the recent volatility.

Within fixed income, our emphasis on short-dated investment-grade credit has helped cushion the impact of rising yields. Should growth weaken more materially, our Government bond holdings should provide an effective counterbalance.

Periods like this inevitably bring heightened uncertainty, but they also reinforce the importance of maintaining discipline. Rather than reacting to short-term market moves, we remain focused on building well-diversified portfolios aligned with long-term objectives.

History has shown time and again that market sell-offs driven by geopolitical events tend to be relatively short-lived and have limited impact on long-term returns. Our approach remains grounded in that perspective.



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