

Window on the World

MAY 2026

You'll no doubt remember that March was a difficult month for markets with a broad sell-off triggered by the U.S. attack on Iran. Well, April 2026 has been another reminder of the importance of staying focused on long-term investment outcomes to avoid being whipsawed by short-term market volatility. Despite a continuing barrage of negative headlines from the Middle East and persistently high energy prices, equity markets regained much of the ground they lost in March, with most major markets now back in positive territory for the year.

Although the U.S.-Iran negotiations have ebbed and flowed, investor optimism has increasingly grown around the prospect of a peace agreement between them. However, there remains a tail risk that the conflict quickly re-escalates, which would create more meaningful challenges for the global economy if oil prices were materially higher for an extended period due to a prolonged supply disruption.



Capital market returns in April 2026

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	2.3	2.7	26.2	5.8
US Equities	10.5	4.2	31.0	5.7
European Equities	6.4	-0.1	17.7	2.7
Japanese Equities	6.6	5.6	43.0	10.5
Emerging Market Equities	14.7	5.3	47.5	14.6
UK Gilts	-0.6	-2.4	0.0	-2.5
UK Corporate Bonds	0.2	-2.0	3.4	-1.7
UK High Yield Bonds	1.8	-0.1	7.3	1.2
US Corporate Bonds	0.6	-0.1	5.4	0.2
US High Yield Bonds	1.7	-0.7	8.7	1.1

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



Despite all the tensions in the Middle East and the consequent ongoing disruption of oil and natural gas supplies from the region, equity markets rebounded strongly in April, with most major indices nearing their highs. This renewed confidence reflected a growing consensus that the conflict will ultimately prove relatively short-lived and the ceasefire will pave the way for a negotiated settlement. Whilst that confidence has yet to be fully validated, signs emerging in early May suggest that an agreement may be drawing closer.

While markets finished the month higher, it's no surprise that volatility remained elevated throughout April, with headlines driving significant intra-day moves across asset classes. This was particularly evident in the oil market, where Brent crude traded over a wide range, between \$86 and \$127 per barrel, during the month. Ultimately, oil prices finished April around 3% lower, but they remain nearly 57% above levels seen prior to the outbreak of the conflict.

Bond markets were also volatile. Yields moved sharply higher in March as investors repriced inflation risks and the interest-rate outlook, and while yields settled down somewhat in April, they still finished modestly higher over the month.

With higher oil prices, there is renewed upward pressure on inflation, so Central Bank commentary generally pointed towards a more cautious approach to cutting interest rates, with policymakers increasingly focused on the inflation risks associated with higher energy prices.

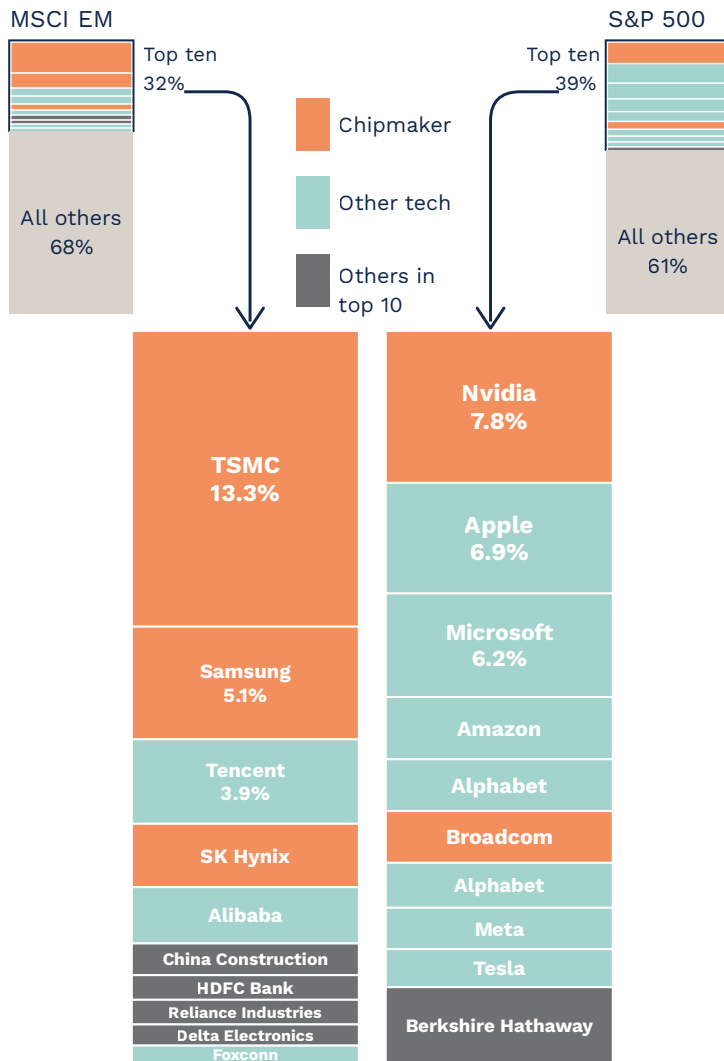
In the U.K., this was particularly evident at the Bank of England's April meeting, where one committee member voted in favour of a rate rise. U.K. Gilts consequently delivered negative returns during the month, although corporate credit markets performed more positively, with both investment-grade and high-yield credit benefiting from improving risk appetite and a modest tightening of spreads.

Within equities, while the rally was relatively broad-based, one area stood out once again: technology. The Nasdaq rose by more than 12% during April, reaching new all-time highs. Semiconductor companies, particularly those exposed to the AI supply chain, performed exceptionally well — especially in South Korea and Taiwan. This, in turn, helped drive strong returns from emerging market equities, which were among the strongest-performing regions over the month.

CONCENTRATION IS NOT JUST A U.S. PHENOMENON, WITH TSMC AND SAMSUNG ELECTRONICS NOW ACCOUNTING FOR AROUND 20% OF THE MSCI EMERGING MARKETS INDEX

Chipmakers and Big Tech are dominating EM stock markets, mirroring the US pattern

Weightings of MSCI EM and S&P 500 indices, with top 10 companies by weight highlighted



Graphic: Hakyung Kim, Alan Smith
Sources: Bloomberg, MSCI (MSCI data as of March 31 2026)
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From an investment style perspective, growth stocks significantly outperformed value stocks, contributing to the outperformance of U.S. equities relative to other developed markets. Consequently, Japanese, European, and U.K. equities all lagged the U.S. and emerging markets but still delivered positive overall returns. In the U.K., the structural make-up of the market – with its heavy weighting in energy, financials, and defensive sectors – was a factor in its relative underperformance. Meanwhile, high energy prices continued to weigh on the recovery prospects for both Europe and Japan, given their dependence on imported oil and natural gas.

Drivers behind the April bounce

The strength of the rebound in April may appear somewhat surprising given the continued negative headlines from the Middle East and the persistence of elevated energy prices. However, improving investor sentiment can largely be attributed to two factors: growing confidence that the conflict will prove temporary and ultimately end through negotiation, alongside another strong U.S. corporate earnings season.

Expectations around the duration of the conflict have shifted repeatedly over the past two months, but encouragingly, the ceasefire announced in early April has broadly held and has since been extended by President Trump, which markets have interpreted as a signal that the U.S. is actively seeking a way to exit the conflict.

Although shipping through the Strait of Hormuz remains heavily restricted, negotiations between Iran and the United States have continued, and recent rhetoric from both sides has appeared increasingly constructive. From the outset, the key issue for markets has been both the duration of the conflict and the extent of disruption to global energy supply. The conflict has now extended beyond the initial four-to-five-week timeframe originally suggested by the U.S. administration and is entering its tenth week, no doubt a factor it is keenly aware of.

If a permanent resolution can be reached and energy supply from the region begins to recover through May and June, then oil prices would likely begin to fall. Economies would still face a near-term inflation impact, complicating the outlook for interest rates, but the broader economic damage would likely remain contained. Like the consensus view, this continues to be our base case.

However, should the conflict be prolonged, which remains a tail risk, then supply disruption for an extended period will have an increasingly problematic impact on inflation and economic activity, particularly through second-round effects. That said, the global economy is materially less dependent on oil than it was several decades ago, reducing the overall sensitivity of growth to higher energy prices, which helps to explain why investors have been willing to look through part of the recent spike.



GLOBAL DEPENDENCE ON OIL HAS REDUCED SHARPLY, REDUCING THE IMPACT OF HIGHER OIL PRICES ON ECONOMIC GROWTH

World Oil Consumption as % of GDP



Source: Fidelity, April 2026

Away from the geopolitical backdrop, we are also in the middle of the U.S. corporate earnings season for the quarter ending March 2026, and results so far have been encouraging. Approximately two-thirds of the largest U.S. companies have now reported, with 61% delivering earnings ahead of expectations — comfortably above the historical average of 49%. Only 5% of companies have missed expectations, the lowest proportion since the Covid period in 2020. Excluding the contribution from mega-cap technology companies, year-on-year earnings growth for the broader U.S. market is running at 16% — the strongest level in five years. Technology companies themselves have also continued to deliver strong results. Importantly, corporate guidance for the remainder of 2026 has generally remained constructive, prompting analysts to raise earnings expectations for the year ahead.

Coming into 2026, our view was that with the global rate-cutting cycle approaching its end, corporate earnings delivery would become a much more important driver of market returns. In that respect, the resilience shown so far has been encouraging. Attention will now increasingly turn towards the sustainability of these earnings, given the prospect of higher input costs linked to conflict in the Middle East. For now, however, this earnings season continues to reinforce the view that underlying corporate fundamentals remain strong and resilient, providing further support to investor confidence and the recovery in equity markets.

Portfolio positioning

While an end to the conflict in the Middle East now appears more plausible, nothing is guaranteed. Negotiations could still break down, leading to renewed escalation and further disruption to energy supplies.

Encouragingly, the financial performance of most companies has so far remained resilient, and aggregate corporate earnings remain on track to deliver strong growth in 2026. Against this backdrop, we have maintained our neutral stance on equities, balancing the still-constructive earnings environment against the tail risk that a more prolonged supply shock weighs on economic activity.

Our portfolios remain well diversified, with minimal direct exposure to the Middle East, and our overweight position in emerging markets has been a positive contributor to returns in April, with the region continuing to outperform developed markets year to date. Strong returns from Japan, the U.K., and the U.S. have also supported performance, while Europe has staged a more recent recovery and is now back in positive territory for the year.

Within fixed income, our focus on short-dated investment-grade credit has helped cushion the impact of higher bond yields and should economic growth weaken more materially, we would expect our Government bond exposure to provide an effective counterbalance within portfolios.



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