



QUARTERLY INSIGHTS – Q1 2026

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IN SUMMARY

The Big Picture

- The Iran war has moved rapidly from geopolitical shock to economic reality, setting in motion the familiar sequence:

War → supply shock → inflation → demand destruction → policy response.

- Markets are still debating whether the shock is temporary, but the more important point is that we are already in the most dangerous part of the cycle: the physical disruption has happened, inflation expectations are rising, and growth risks are only just starting to appear.

Politics & Policy

- The U.S., UK and Europe face the same problem – an inflationary supply shock into weakening growth, but their policy constraints differ with the U.S. best placed to delay pain, the UK most vulnerable to it, and Europe most exposed but with greater fiscal flexibility.
- The bigger long-term risk is not simply higher priced oil, but a more fragmented global order of bilateral energy deals, sovereign guarantees and non-dollar settlement, accelerating strategic autonomy in Europe and reinforcing the case for gold and financial repression.

Inflation & Economic Growth

- The inflation shock is now visible in energy, transport and food, but the more important development is what comes next: squeezed real incomes, weaker confidence, tighter financial conditions and delayed demand destruction.
- Labour markets are softening, households are more exposed than in 2022, and while AI may support the next recovery through productivity gains, it may also make that recovery more uneven, more fragile and more job-light.

Asset Allocation

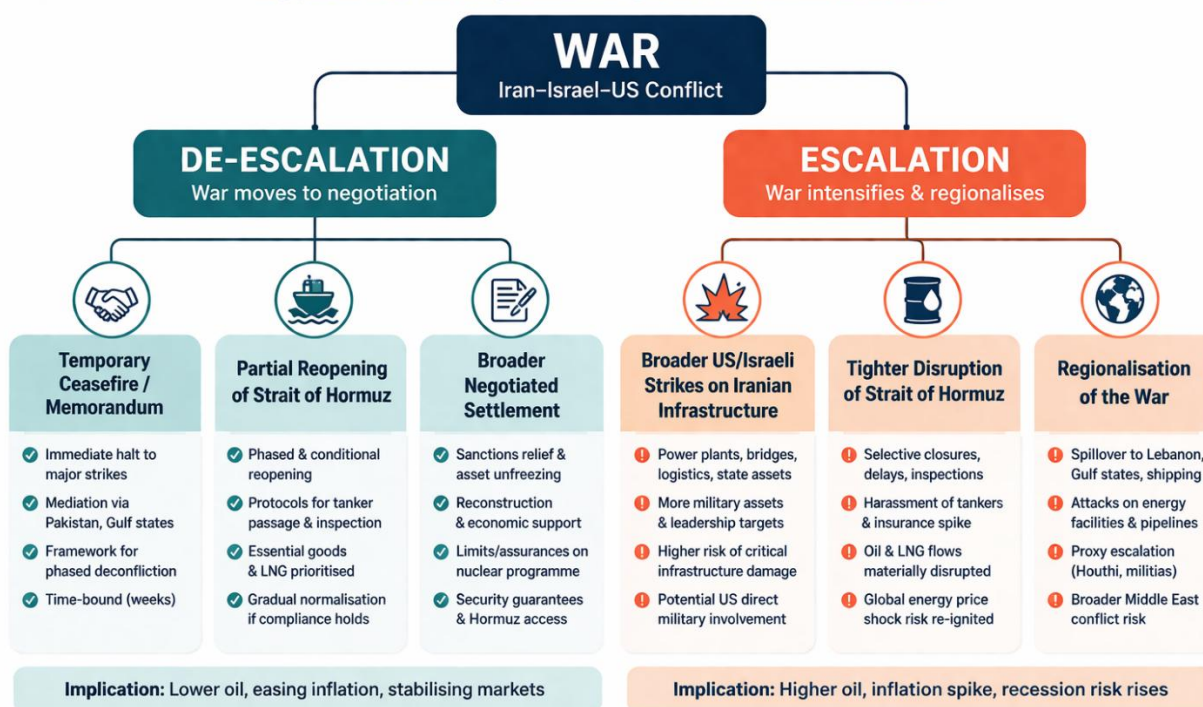
- Asset allocation is no longer about chasing a single macro-outcome, but about respecting the sequence: 'Inflationary Boom' first, 'Inflationary Bust' next, and potentially 'Deflationary Bust' later if growth buckles hard enough.

- Gold, selective sovereign duration and alternative strategies remain the key portfolio defences, while broad equity beta and credit face a more hostile backdrop of rising volatility, wider spreads and greater uncertainty around policy and reserve assets.

Exhibit 1: The following decision tree illustrates our base-case interpretation of likely paths forward. From a probability perspective, we believe it might get worse quicker than markets expect. Subsequent to that, it will likely get better more quickly than markets price as well. Emotional and behavioural biases dictate as much.

DECISION TREE: HOW THE IRAN WAR COULD MOVE FORWARD

Key paths that will shape inflation, growth, and markets in 2026



Source: ChatGPT, 6 April 2026

THE BIG PICTURE

War → supply shock → inflation → demand destruction → policy response.

We came into 2026 with sustained conviction in global markets, expectations of falling inflation, and the continuation of a central bank easing cycle. Whilst wary of weakening labour markets, and concerned about the Trump factor and geopolitical uncertainty, we were quietly confident.

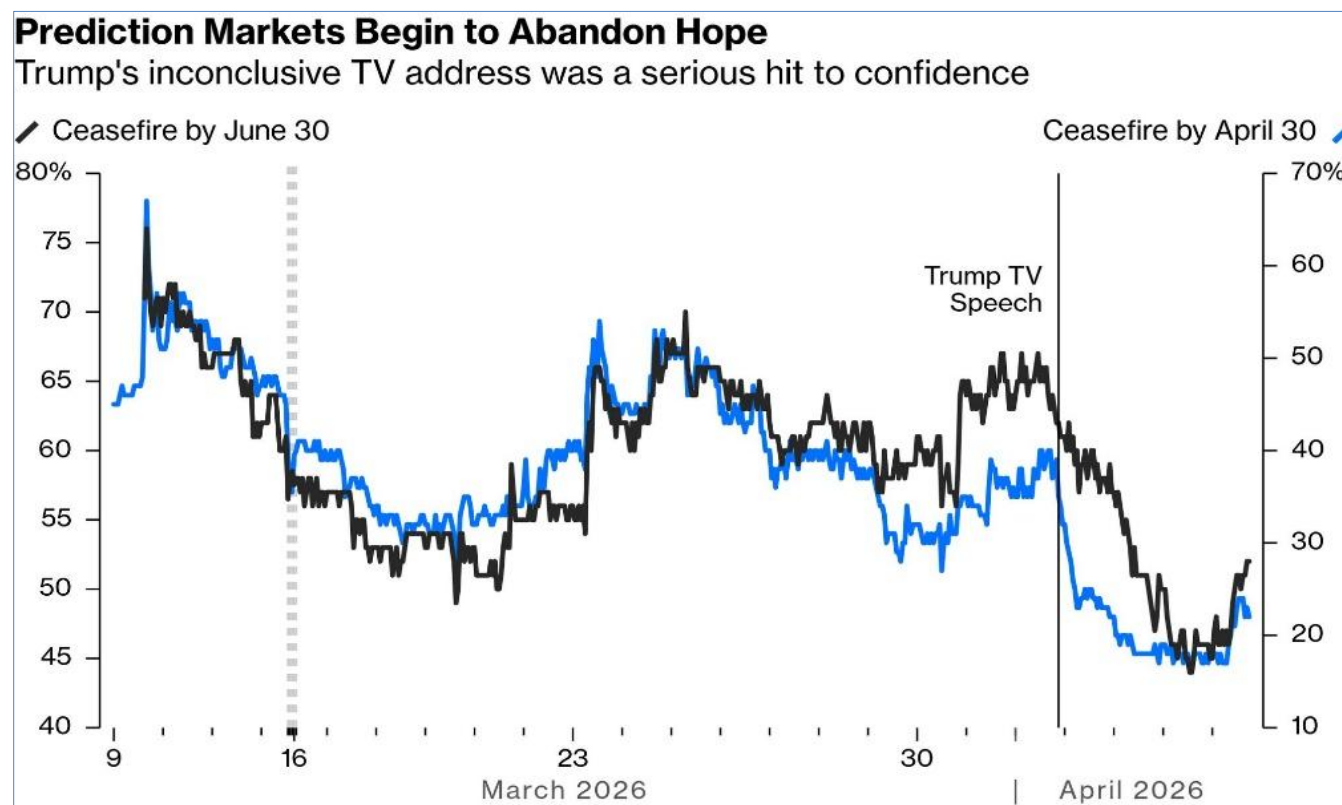
And then there was chaos.

If we were quick to criticise Putin over Ukraine, it raises the question of whether we apply those same principles evenly to other world leaders, particularly those seen as leading the free world.

Operation Epic Fury began at the end of February and has already produced the first two stages of the classic macro chain as the Iran war trigger supply shocks.

The Strait of Hormuz has been severely disrupted and OPEC output fell sharply in March. The IEA says more than 12 million barrels of supply have already been lost, with April disruptions likely to be worse.

Exhibit 2: If a war has no objective, how it will end is even less known. According to Polymarket, there is very little chance disruptions will fade away during April. Even an end-of-June ceasefire is only a 50:50 chance right now.



Source: Bloomberg Opinion, Bloomberg L.P., Polymarket, 4 April 2026

In GBP-terms, Brent crude rose more than 50% during March alone. Reuters' poll of analysts lifted the 2026 Brent forecast to \$82.85, the largest month-on-month upward revision in the poll's history. According to Bloomberg data on 1 April, 31 sell-side analysts' estimates imply that the average year-end oil price will be c. \$70. This seems to assume a relatively short-lived war. A war that seems to be completely underestimated and miscalculated by the Trump administration. We'll have to see if these estimates are high enough. We have our doubts.

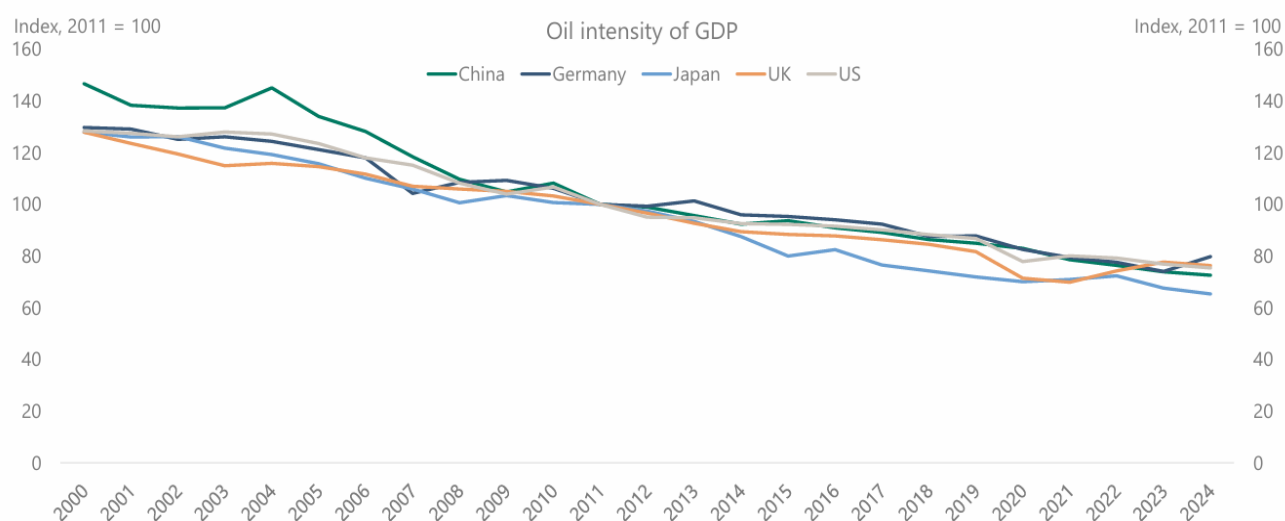
Exhibit 3: Sell-side oil price estimates we believe underestimate the risks. As of 1 April, not one has a year-end estimate above \$90.

Consensus Data of 32 Sell-Side Estimates	Forecast Date					
	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27
Median	74.6	71.5	70.0	68.0	68.8	66.0
Mean	79.9	72.4	70.3	69.0	68.6	68.5
High	125.0	100.0	90.0	87.0	84.0	82.0
Low	54.0	55.3	55.0	55.0	57.0	57.0
Forward Curve	96.8	83.3	78.5	76.1	74.7	73.9

Source: Bloomberg L.P., 1 April 2026

The price of oil determines the marginal cost of energy. And that matters because energy is not merely a commodity. Energy is the foundation of life. In economic terms, a rise in energy costs is a tax on growth.

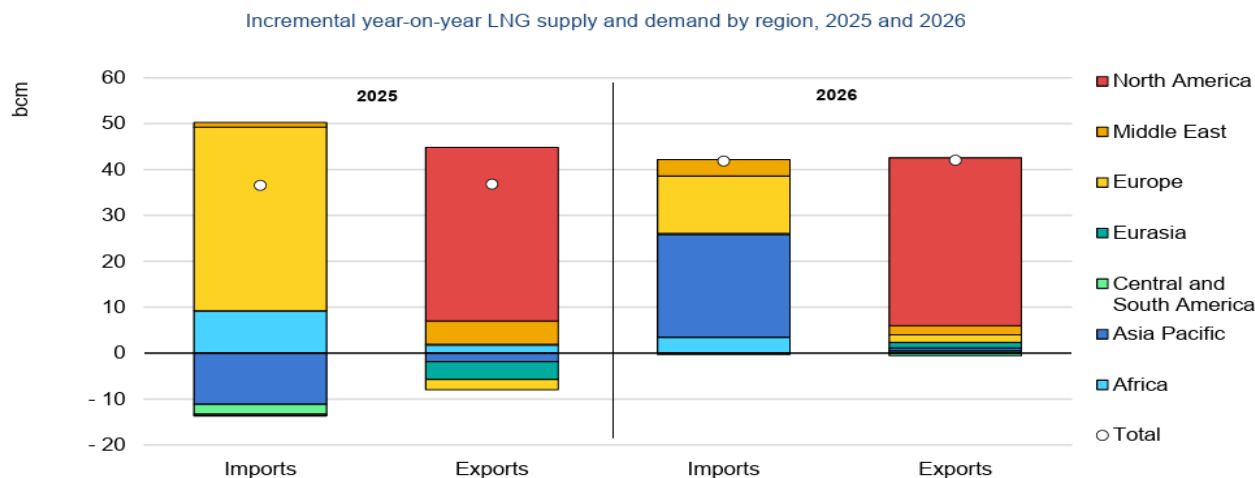
Exhibit 4: Despite a significant decline in our reliance on oil, society still requires energy to function – and oil sets the marginal cost of energy.



Source: Apollo Chief Economist, BNEF, IMF, April 2026

Note: Oil burned per unit of GDP indexed to 2011. But we know not everyone is equally dependent.

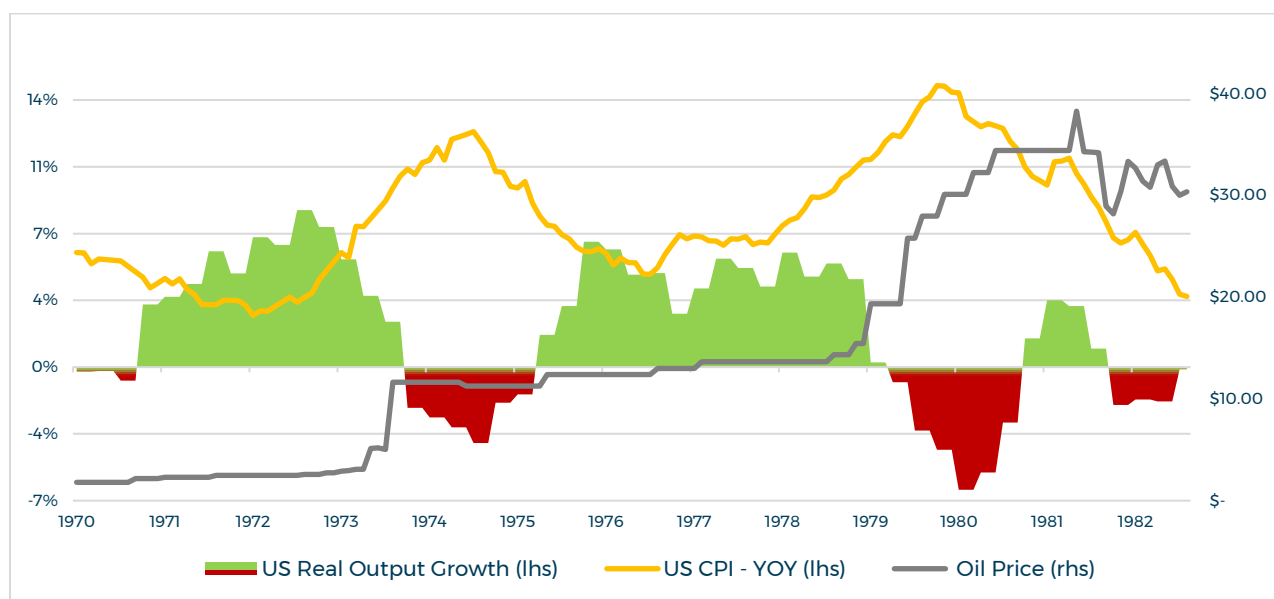
Exhibit 5: LNG exports from the United States saw a significant increase in 2025 and is now expected to rise significantly more in 2026. Just saying...



Source: <https://www.iea.org/reports/gas-market-report-q1-2026>, January 2026

The most likely path from here is not a straight line into the abyss or better days. Rather, we see it as a sequence of path dependant events. However, history tells us a lot. First, the supply shock lifts headline inflation and unsettles inflation expectations. Second, the monetary easing cycle comes to a halt as central banks hesitate. The next steps: real incomes come under pressure, margins compress, and financial conditions tighten. Finally, demand destruction begins to do its work. That is how the 1973 and 1979 oil shocks propagated: not as an immediate collapse in activity, but as a delayed squeeze on household cash flow, business confidence and monetary flexibility. The IEA's own description of the current disruption is that it could potentially be larger than 1973, 1979 and the 2022 gas shock. This underscores the scale of the risk.

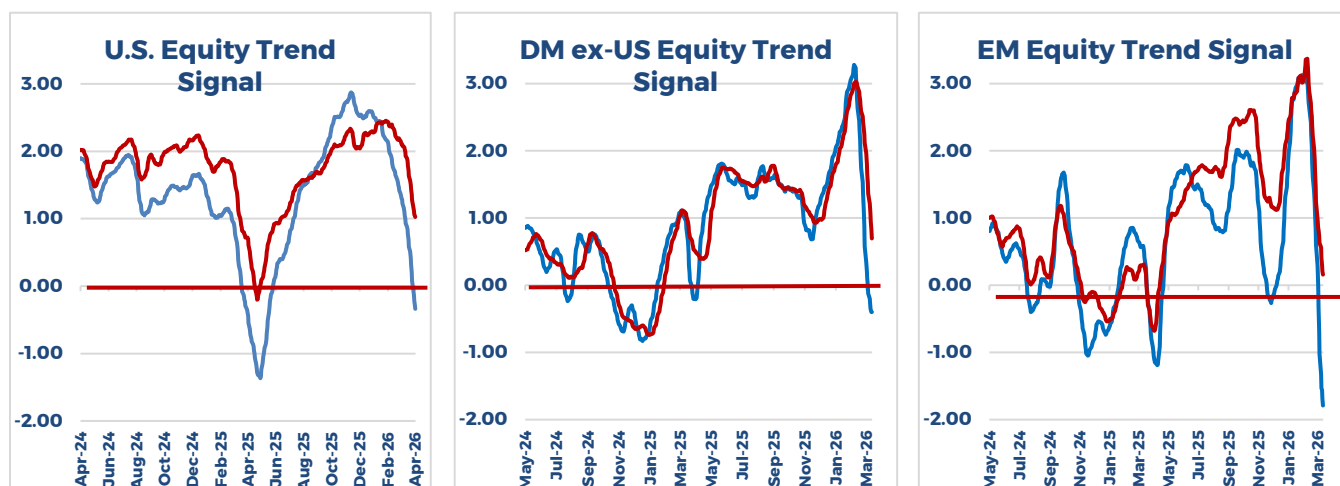
Exhibit 6: 1973 and 1979 all over again?



Source: Bloomberg L.P., Shard Capital, March 2026

For markets, the regime map is already shifting. 'Deflationary Boom' assets, such as broad equities, are losing their footing, and credit spreads are starting to widen as the cost of capital rises and profit risks emerge. 'Inflationary Boom' assets have already had their moment: oil, energy-sensitive commodities and managed futures have done what they are supposed to do in an energy-supply shock. However, in the absence of demand most commodities will struggle in the higher energy-cost environment.

Exhibit 7: The first of our two quantitative trend signals have turned negative in all equity markets. This suggests investors should use short term rallies to sell beta and not buy-the-dip.



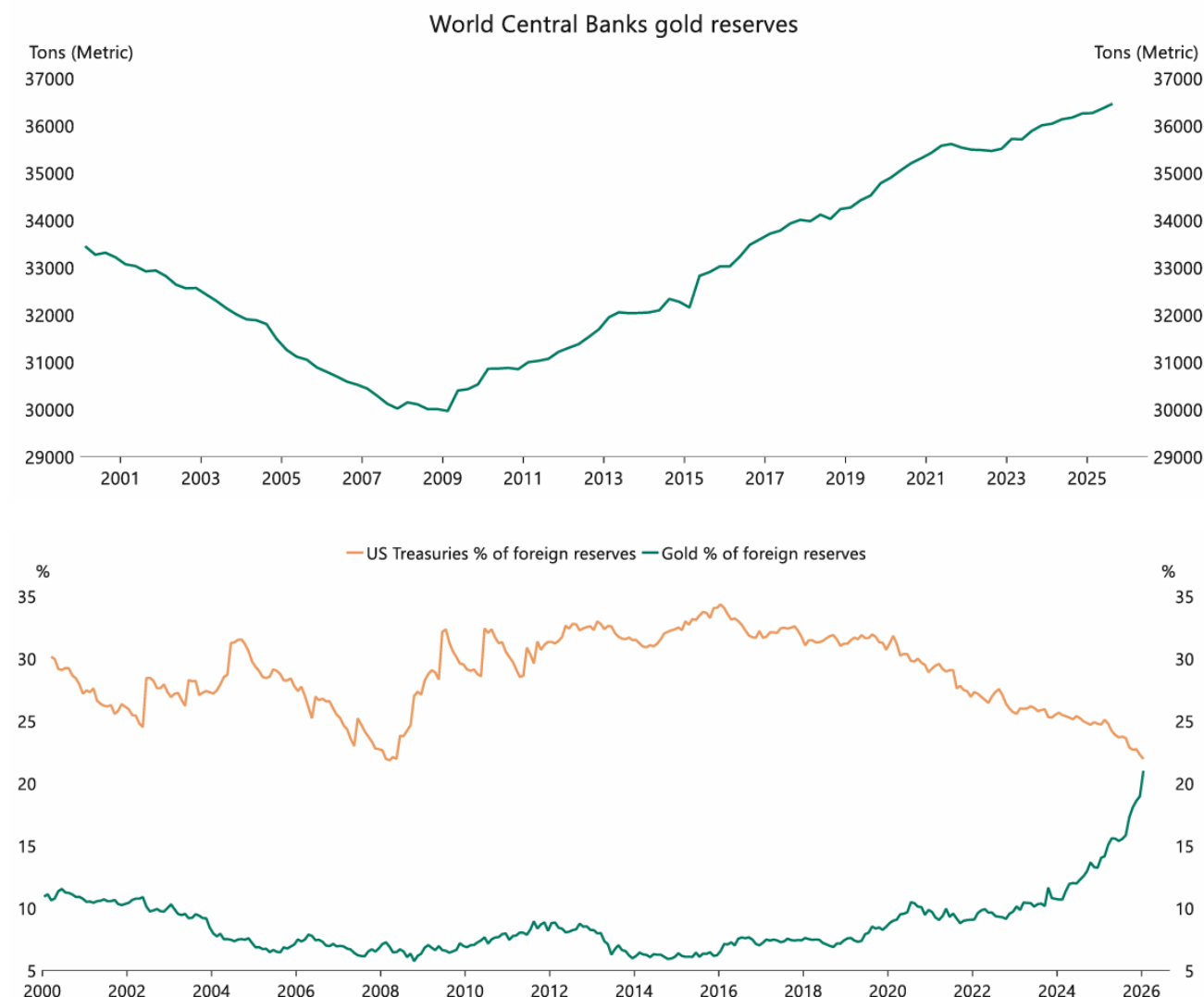
Source: Shard Capital, 2 April 2026

The more interesting transition now is towards an 'Inflationary Bust', which should support gold and inflation-linked bonds.

Gold has not behaved like the safe haven one might expect. In the short term, however, it is often driven by investors needing liquidity as they absorb losses elsewhere in their portfolios, and by hedge-fund deleveraging.

At the same time, the medium-term case strengthens as fiscal burdens rise and policymakers edge toward repression rather than austerity. Meanwhile, the risk that this eventually spills into 'Deflationary Bust' is real: if high prices crush demand and policy doesn't support growth, government bonds will matter again. Unlikely and we're not there yet. Global bond markets have already sold off sharply as investors price inflation and shun government bonds.

Exhibit 8: The two charts below, from Apollo Chief Economist Torsten Slok, highlight the increasing importance of gold. We believe the confiscation of Russian assets in 2022 set in motion a de-dollarisation cycle, one that erratic, irresponsible and offensive behaviour will likely accelerate.



Source: Apollo Chief Economist, World Gold Council, IMF, April 2026

So where are we today? One month into the war, demand destruction has not yet set in. However, we are clearly beyond mere geopolitical theatre. We are in the phase where the physical shock has happened, inflation expectations are reacting, and uncertainty with regard to the impact on growth and profits rising. This is usually the most dangerous point in the cycle, because the market is still debating whether the shock is temporary while the consequences just about start to show up in the real economy.

ON POLITICS & POLICY

In many ways, the policy problem in Washington, London and Brussels is the same, but outcomes differ significantly as Trump's actions force policymakers' hands.

The United States has the greatest fiscal flexibility, the deepest capital markets, and the least direct dependence on imported energy. But that does not make it immune. It makes it more capable of delaying the pain. The Trump-administration can lean on reserve releases, targeted subsidies, defence spending and industrial policy. What it cannot do is order QE. The Fed held the policy rate at 3.5%-3.75% on 18 March 2026, and its median projections still point to 2.7% PCE inflation, 2.4% real GDP growth, and a 3.4% year-end fed funds rate for 2026.

In other words, before the war's full effects hit, the Fed was already unwilling to declare victory – or perhaps prove their independence?

Exhibit 9: *On the March 18th FOMC meeting Fed-chair Jerome Powell made it clear that they see no need to cut rates, and indeed, if inflation and expectations for inflation to rise, cuts are very much off the table.*



"The US economy has been expanding at a solid pace. While job gains have remained low, the unemployment rate has been little changed in recent months, and inflation remains somewhat elevated."

"Consumer spending has been resilient, and business fixed investment has continued to expand. In contrast, activity in the housing sector has remained weak."

"A good part of the slowing in the pace of job growth reflects a decline in the labor force due to lower immigration and labor force participation. Though labor demand has clearly softened as well."

"In the near term, higher energy prices [related to events in the Middle East] will push up overall inflation, but it is too soon to know the scope and duration of the potential effects on the economy."

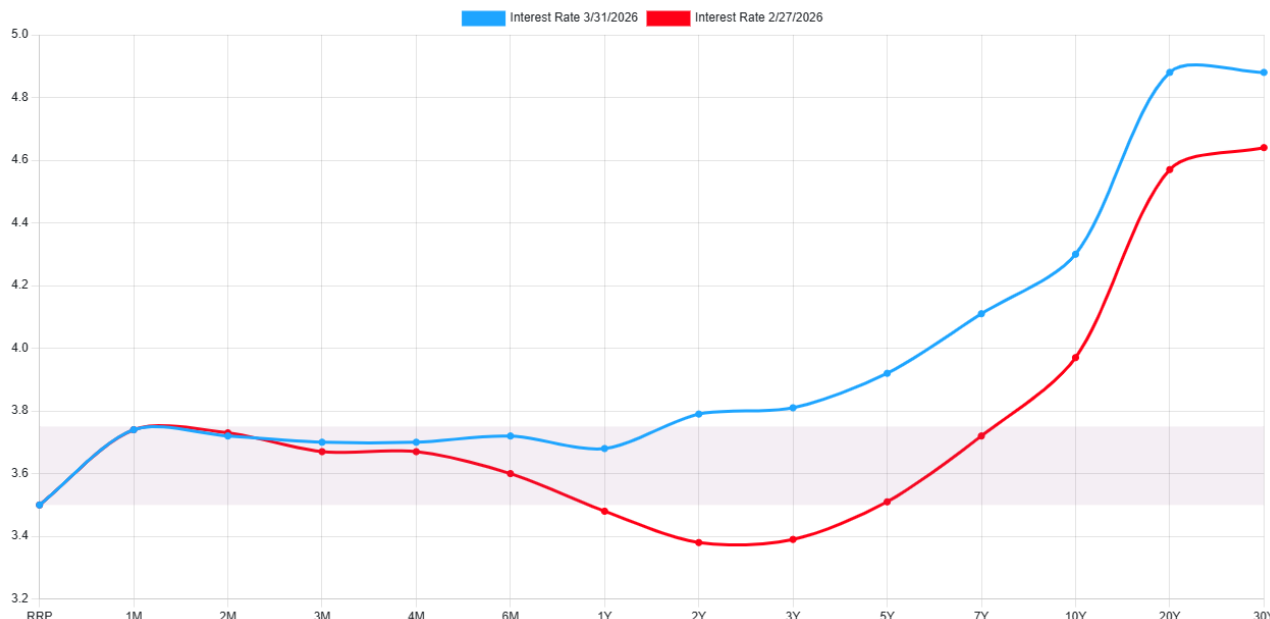
"If you look at total core inflation, it's about 3%, and a big chunk of that, about ½ to ¾ of [a point] is tariffs."

"If we don't see that [expected] progress [on inflation], then you won't see the rate cut."

Source: *Federal Reserve, March 2026*

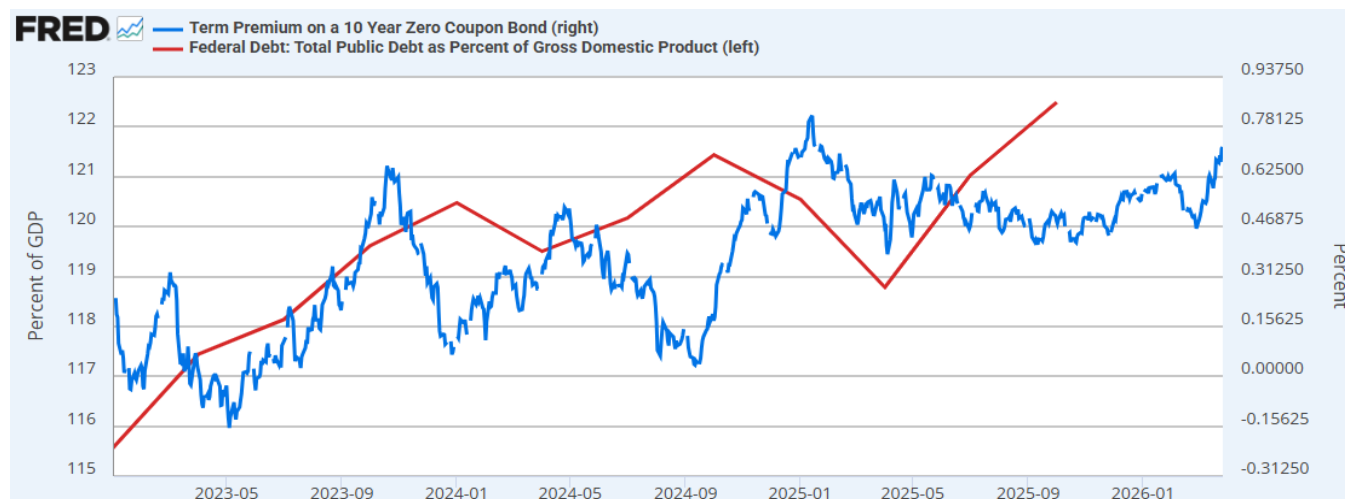
The likely U.S. policy response is therefore fiscal first, monetary later. That means more support through the Treasury and Congress, alongside a Fed that waits, watches and only cuts once labour market damage and corporate failures become unmistakable. Fed members have already warned against complacency on inflation, whilst markets have sharply reduced expectations for near-term easing as oil surged. The implication for yield curves is straightforward: the front end stays sticky for longer, while the long end wrestles with a tug-of-war between weaker growth and a higher term premium. In plain English: policy rates may not fall soon, but deficits and inflation risk make it hard for long bonds to rally.

Exhibit 10: The U.S. Treasury curve has steepened. But the biggest rise has been in the belly of the curve, between 2 and 7 years, as the Fed's easing cycle is taken off the table.



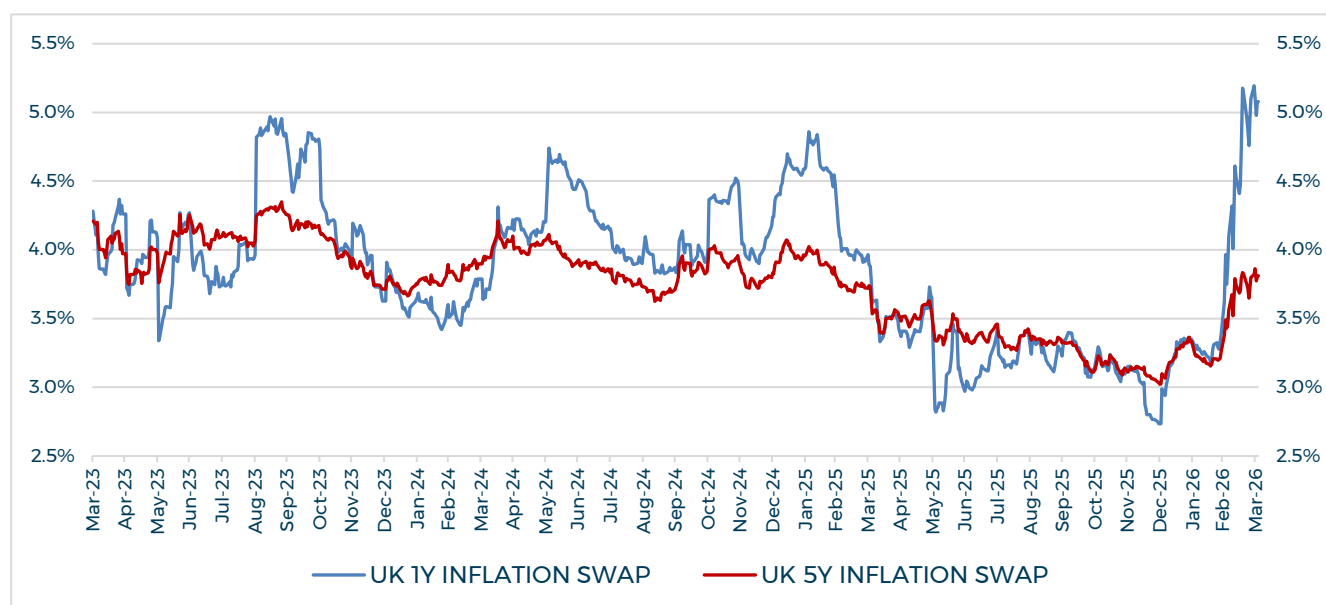
Source: <https://www.ustreasuryyieldcurve.com/>, March 2026

Exhibit 11: If governments and policy makers increase spending...higher term premia are inevitable. This is the downside risk of owning a 'safe asset'. A reminder...wars are not cheap!



Source: Board of Governors of the Federal Reserve System (US); Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®, 2 April 2026

The United Kingdom is in a worse position. It is more exposed to energy and food, carries less market confidence than the United States, and has a mortgage structure that transmits tighter financial conditions faster. The Bank of England has already warned that the Iran war has materially increased threats to financial stability; UK gas prices have risen more than 70%, petrol prices are up, and mortgage products have become more expensive and less available.

Exhibit 12: Short term inflation expectations in the UK are already up to 5%!


Source: Bloomberg L.P., Shard Capital, March 2026

That is the essence of modern monetary constraint: Central Banks cannot tighten into a supply shock, but they cannot ease either. The most likely outcome is also the wrong one...a pause! Delayed easing, and a growing reliance on quasi-fiscal support...fuel relief, targeted household assistance, and perhaps further industrial support if food inflation begins to bite. UK consumer sentiment has already dropped sharply, and grocery inflation remains elevated even before the full pass-through of higher fertilizer and transport costs. Sterling, in that environment, is unlikely to be a shock absorber in the comforting sense. It is more likely to be pro-cyclical: a death spiral where weaker growth and imported inflation lead to an ever-weaker pound.

The European Union is the most economically exposed. It is more dependent on imported energy and more industrially sensitive to fuel, chemicals and transport. European officials are already discussing whether deficit rules may need to be suspended if the war persists, while Germany's institutes have cut growth forecasts and raised inflation forecasts sharply. ECB officials are now openly discussing rate hikes as an option if inflation broadens beyond energy.

This is the narrative of what we call the 'Fiscal Age'.

Not because the central banks will suddenly monetise debt overnight, but because each new shock increases the political pressure for subsidies, defence spending, industrial policy and social compensation, even as debt sustainability worsens. The UK and Europe may not respond with one giant bazooka. It will more likely muddle through with targeted support, looser fiscal interpretation, and a central bank forced to choose between credibility and growth. That is fiscal dominance by drift rather than decree.

There is one leftfield option: breaking the status quo. The reality is that where there is risk, there is opportunity.

The real risk is not simply higher oil. It is that the war draws other nations, including Europe and China, into the debacle; and hastens the emergence of a parallel global architecture of bilateral energy deals, sovereign guarantees and non-dollar settlement. An outcome that weakens U.S. soft power, forces Europe toward strategic autonomy, and accelerates the transition to a more fragmented world order.

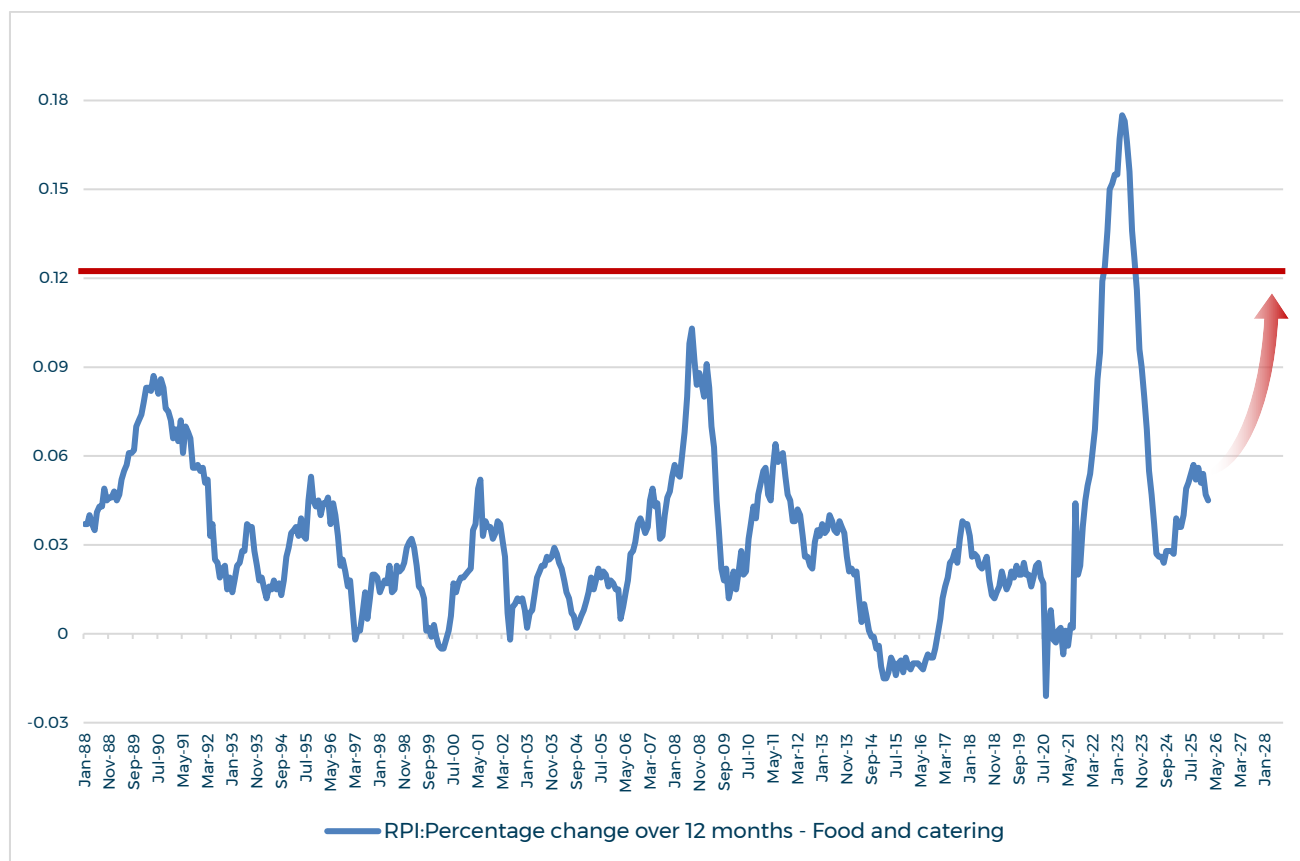
For portfolio construction, this matters. Gold demand should remain structurally supported as a hedge against policy constraints and an accelerated de-dollarisation narrative. Long-dated sovereign bonds are not the obvious refuge they were in past growth scares, because the term premium is alive again and reserve assets in question. And it means credit and equities face a more hostile and uncertain backdrop, with volatility and spreads rising. More importantly, is the second-order consequences which are almost impossible to imagine.

ON INFLATION AND ECONOMIC GROWTH

The transmission mechanism is now visible, and we know this rollercoaster well... Buckle up!

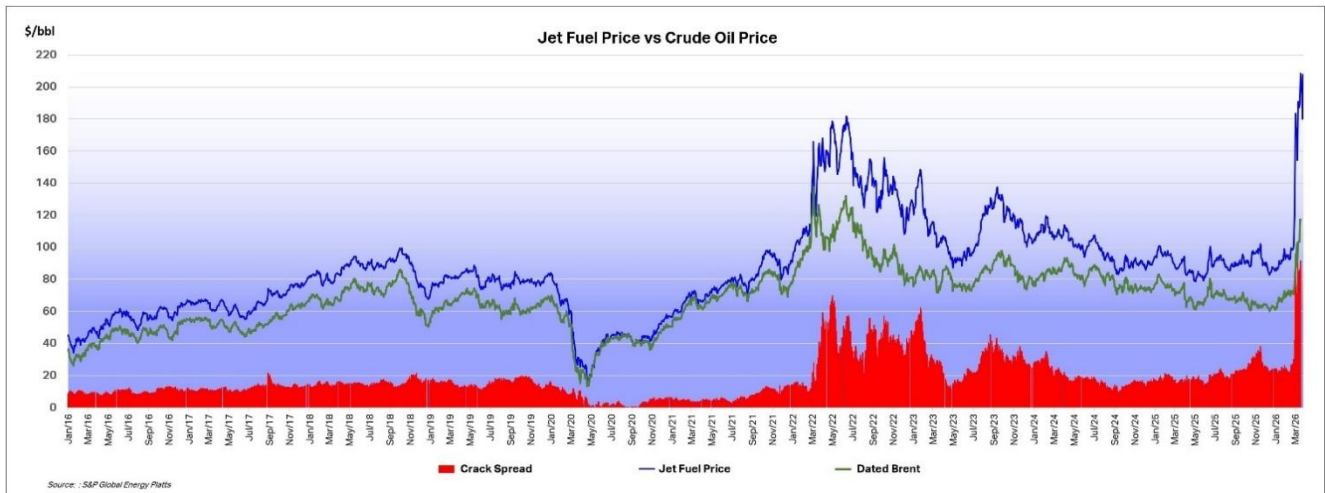
The first move is in headline inflation. Oil, gas, diesel, jet fuel and fertilisers move almost immediately. Europe is already seeing it in factory surveys and producer costs. The next move is in core inflation, albeit with a lag. Supply shocks do not stay neatly contained within the energy complex. They bleed into freight, food processing, travel, chemicals, packaging and, eventually, services. UK food producers are already warning that food inflation could approach double digits by the end of 2026 if disruption in the Strait of Hormuz persists. ECB officials, meanwhile, are explicitly focused on whether this latest energy shock begins to spread more broadly across the price basket, and whether the inflation psychology of 2022 means second-round effects now arrive faster.

Exhibit 13: Food inflation in the UK is likely to rise to similar level and potentially higher if the Strait of Hormuz remain closed to Western demand.



Source: UK ONS, Shard Capital, March 2026

Exhibit 14: Jet fuel prices have soared to historic highs as supply collapses. This allows refiners to increase their profits: the crack spread.



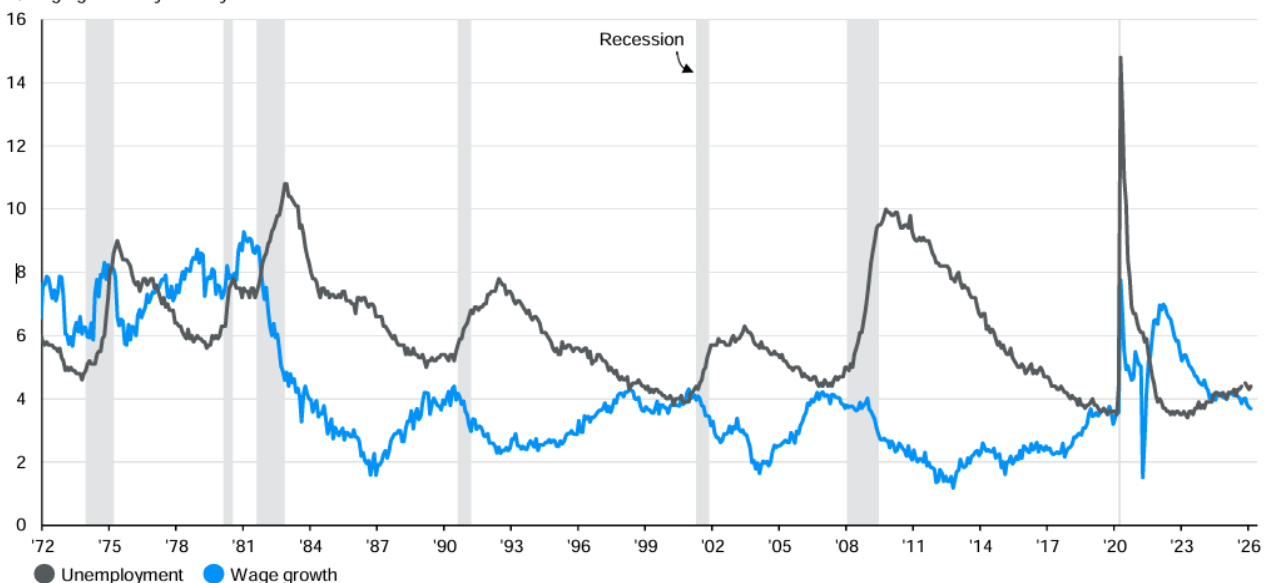
Source: <https://www.iata.org/en/publications/economics/fuel-monitor/>, March 2026

That does not mean we are condemned to a 1970s-style wage-price spiral. Labour markets are weaker than they were in 2022, excess savings have been depleted, and households are simply less able to absorb another prolonged rise in living costs. The Phillips Curve is not dead, but it is less menacing when hiring is fading and confidence is deteriorating. The more likely risk is not an endless inflation spiral. It is a shorter, nastier period in which headline inflation rises sharply, central banks hesitate, and real incomes are squeezed before demand eventually rolls over.

Exhibit 15: The levels of U.S. unemployment and wage growth have crossed...in a negative way...

US unemployment and wage growth

% wage growth is year on year



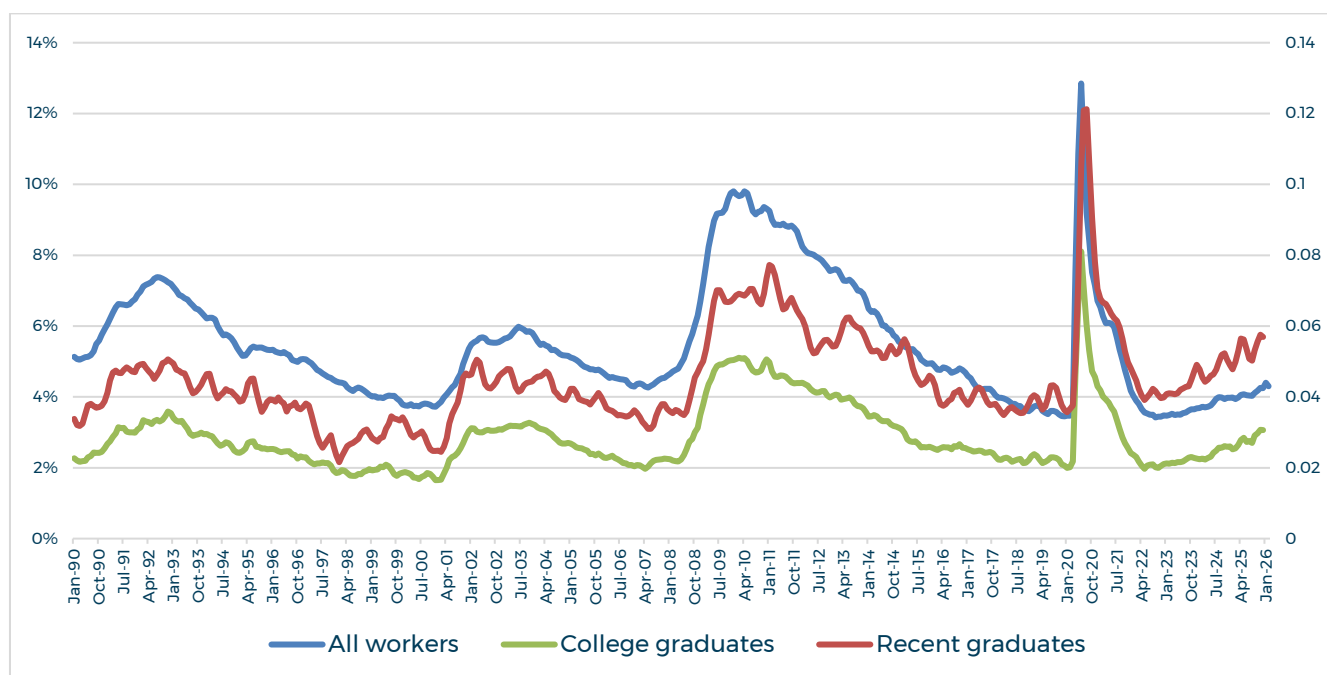
Source: [JPMorgan Guide to the Markets](#), March 2026

That is where inflation and growth collide. Demand destruction has not fully arrived, but the fuse is lit.

In the United States, the consumer is still standing, but the labour market beneath the surface is softening. Job openings have fallen, hiring has dropped to a six-year low outside the pandemic, and unemployment had already risen to 4.3% in March. That is classic late-cycle behaviour. Resilience remains, but it is increasingly the resilience of momentum rather than fundamentals. More worryingly, recent graduate unemployment has persistently risen above that of the broader workforce for the first time on record. That is not a trivial footnote. It may well be the first clean labour-market signal of an economy beginning to feel the consequences of AI-led disruption at the margin.

The irony is striking: AI may well support the next recovery through productivity and lower unit labour costs, but it may also make that recovery more job-light than previous cycles.

Exhibit 16: For the first time...EVER...unemployment of recent graduates has persistently been higher than that of the overall U.S. workforce. Don't tell me AI won't take your job!



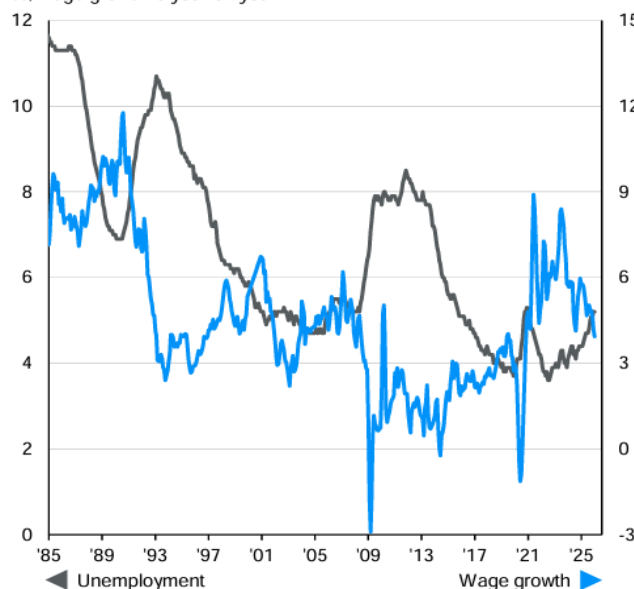
Source: U.S. Census Bureau, U.S. BLS, Federal Reserve Bank of New York, Shard Capital, March 2026

In the United Kingdom, the squeeze arrives faster. Consumer sentiment has deteriorated sharply, mortgage sensitivity remains high, and food inflation is likely to become politically and economically toxic if the energy shock persists. The UK remains especially vulnerable to a negative loop of weaker growth, sticky imported inflation and tighter household cash flow. That is not a good mix for consumption, small businesses, or the housing market.

Exhibit 17: UK household inflation expectations have – unsurprisingly – soared following the U.S.A and Israel's conflict with Iran. This comes at a time when labour market weakness is setting in. The easiest way to throw an economy into a recession is by doubling the cost of energy just as vulnerability appears over the horizon.

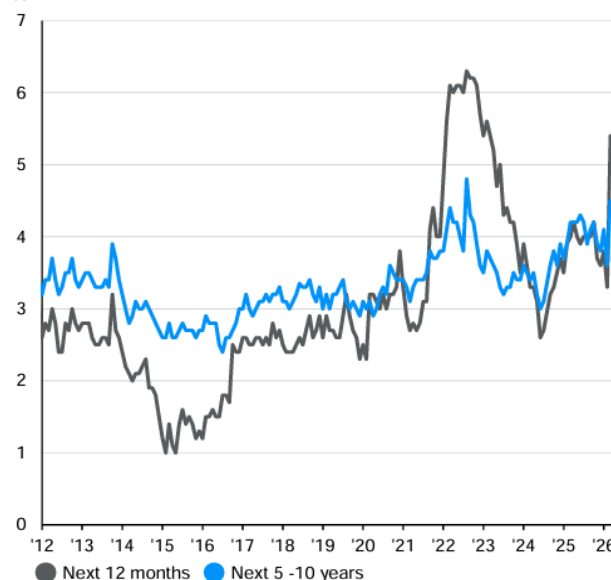
UK unemployment rate and wage growth

%, wage growth is year on year



UK household inflation expectations

%



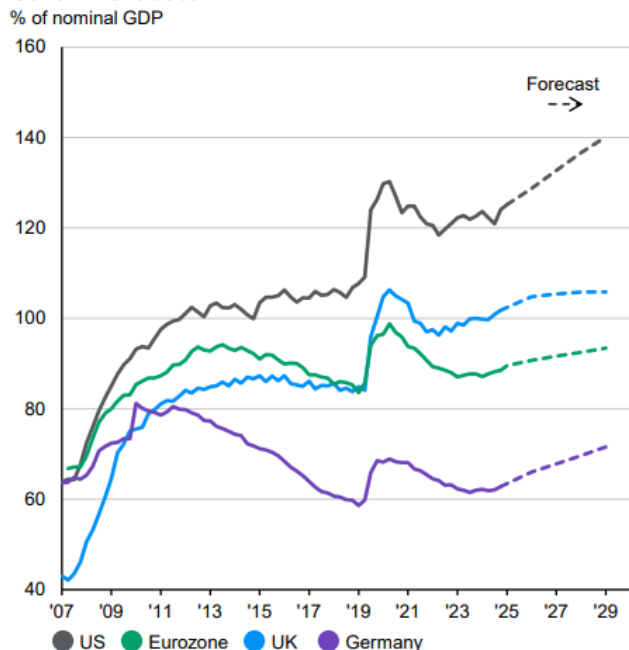
Source: *JPMorgan Guide to the Markets*, March 2026

The European Union is in some ways the most immediately exposed to the supply shock, given its greater dependence on imported energy and industrial sensitivity to fuel, chemicals and transport. Yet Europe also enters this period with an underappreciated advantage: greater fiscal flexibility. Unlike the United States or the United Kingdom, large parts of Europe – and Germany in particular – still retain more balance-sheet capacity, lower debt burdens, and greater political room to expand spending if required.

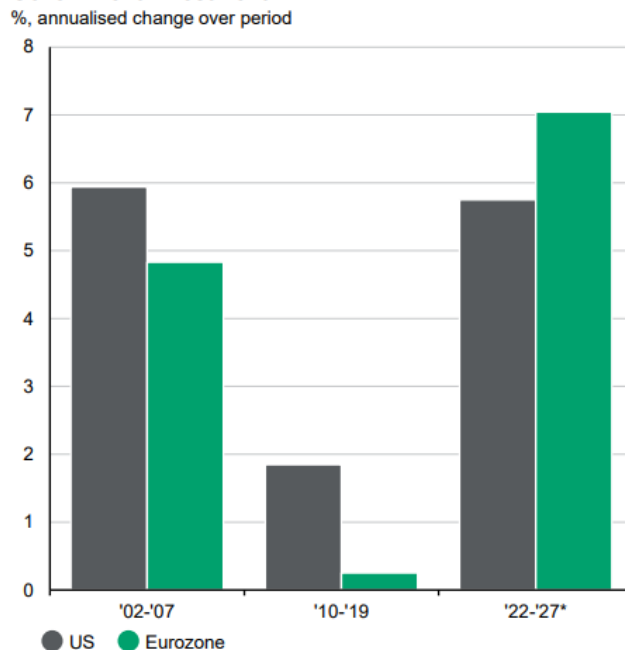
The willingness to increase defence spending is no longer theoretical. It is happening. And while defence spending is often dismissed as economically inefficient, history suggests that periods of military investment can generate important spillovers into industrial capacity, energy systems, logistics, advanced manufacturing and innovation. The United States' own experience with defence-linked innovation – from semiconductors to the internet – is a reminder that military necessity can become the mother of commercial invention.

Exhibit 18: Whilst Europe have been the flag-bearer for globalisation and liberalism, if forced, it can operate independently. Indeed, as long as the European Union retain a united front, we view Europe as the premier aspirational destination of choice for almost all 'normal' people around the world.

Government debt



Government investment



Source: [JPMorgan Guide to the Markets](#), March 2026

That does not mean Europe escapes recession risk. Far from it. Industry is still reporting expansion in some PMI surveys, but those signals are contaminated by delivery disruptions and inventory distortions. We have seen this movie before: supply disruption can flatter activity data in the short run even as underlying demand weakens. Germany's growth forecasts have already been cut materially, and ECB officials have conceded that the economy may already be tracking something close to their adverse scenario.

Still, in contrast to the UK, Europe may ultimately prove more capable of cushioning the downturn through a combination of defence spending, industrial policy and energy-security investment. In a bleak irony, war may yet force Europe into the kind of fiscal activism it should perhaps have embraced years ago.

So, the regional ranking is not entirely straightforward. Europe is the most exposed to the shock, the UK is the most vulnerable to the squeeze, and the U.S. is likely the last to crack – but also the most to lose and more likely to emerge with a more uneven, AI-disrupted labour recovery.

ASSET ALLOCATION

Asset allocation is becoming less about bold directional calls and more about respecting the sequence of events. The war has not changed the macro regime so much as accelerated it. Commodities have already done the violent part. Bond yields have risen as investors reprice inflation and fewer rate cuts. Equity markets have struggled, especially the most expensive segments, while credit spreads have begun to widen from levels that looked far too complacent for the world we now inhabit. This is no longer a one-regime environment. It is a shift from a 'Deflationary Boom' to an 'Inflationary Bust', with a brief detour at the 'Inflationary Boom' station driven by a supply-shock. Then there is the risk that a 'Deflationary Bust' emerges if demand destruction becomes severe enough.

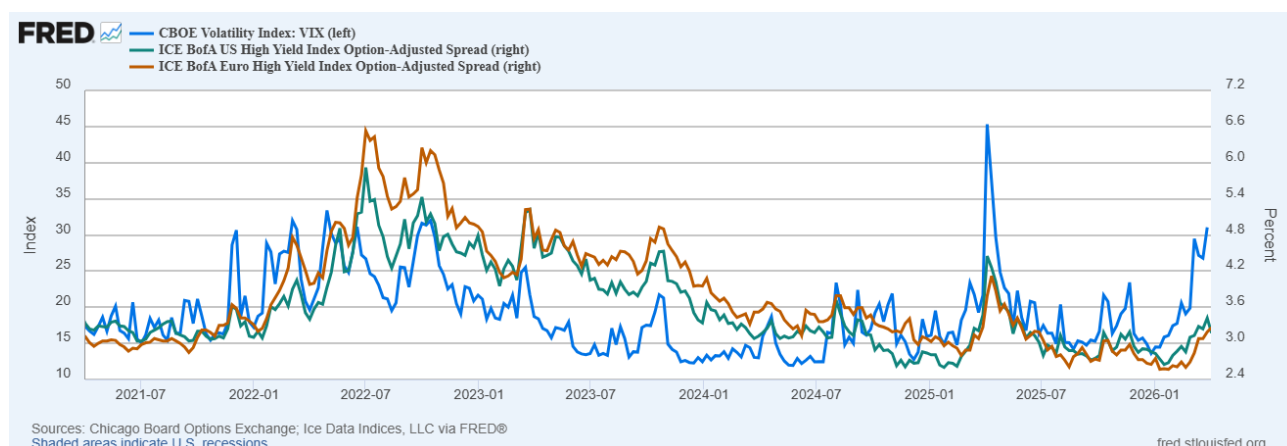
That argues for selectivity, liquidity and most of all, diversification.

We continue to believe gold deserves to sit in a category of its own. It is not always the first responder in a geopolitical shock, and short-term deleveraging can interrupt the move. But medium term, gold remains one of the few assets that benefits when investors conclude the likely endgame is not austerity, but some form of financial repression.

In a world of higher fiscal burdens, rising term premia and deteriorating confidence in policymakers' ability to engineer a clean escape, gold remains a core allocation.

Within fixed income, quality sovereign bonds still matter, but duration should be handled carefully. Long-dated government bonds are not yet the obvious refuge they were in previous growth scares, because this time the inflation shock comes first. We therefore favour quality government exposure, but with a bias toward flexibility rather than blind duration risk. If demand destruction becomes more obvious later in the year, sovereign duration should regain its role as a meaningful hedge. Corporate credit, by contrast, still looks insufficiently priced for weaker growth, tighter liquidity and refinancing stress.

Exhibit 19: Credit spreads are on the rise – but still significantly below 2022 levels. The VIX Index however, are pushing up to 2022 levels.



Source: fred.stlouisfed.org, CBOE, Ice, 3 April 2026

In equities, broad beta looks less attractive than it did at the start of the year. Earnings estimates remain likely too high, margin pressure is rising, and valuation compression remains a serious risk where multiples are rich. We remain cautious on the United States, where structural AI tailwinds are undeniable, but valuations still assume an overly benign macro backdrop. In the UK and Europe, valuations are more supportive, but near-term macro risk is higher, especially given energy sensitivity and political uncertainty. That said, Europe's greater fiscal flexibility and increasing willingness to spend on defence, energy security and industrial policy may yet become meaningful once the first-round shock is absorbed.

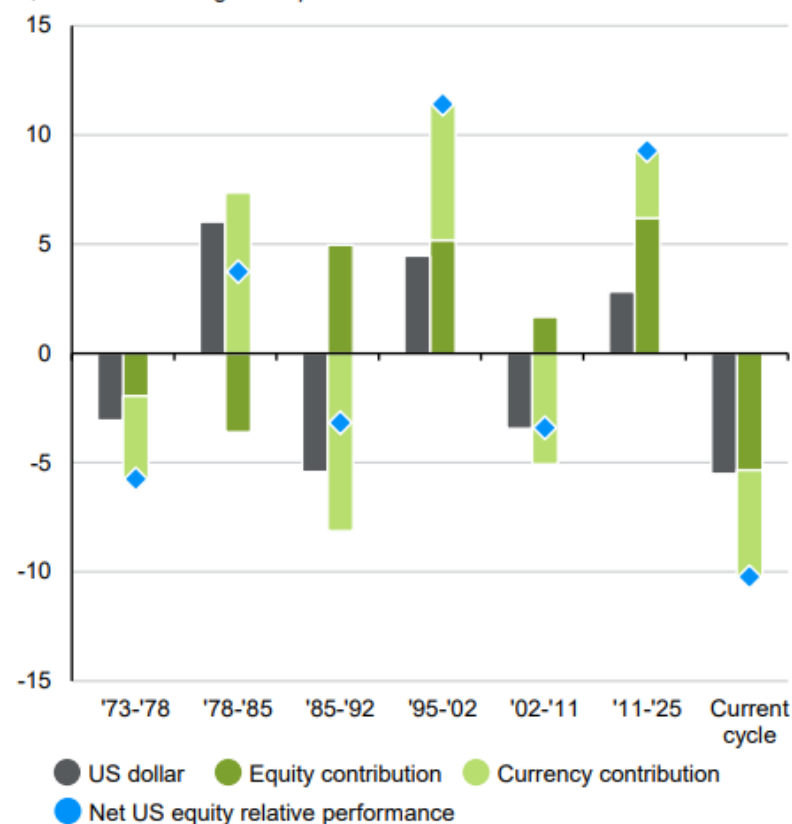
Japan continues to stand out as one of the more attractive developed markets, supported by valuation, reform and corporate balance-sheet quality. In emerging markets, selectivity is crucial. We continue to see opportunity where valuations are low, sentiment is washed out, or structural beneficiaries of near-shoring and geopolitical fragmentation are emerging.

Within alternatives, the case remains particularly strong. Managed futures and systematic trend-following strategies should remain valuable in a world of unstable correlations, inflation volatility and shifting macro narratives. Infrastructure also remains attractive where cash flows are durable and inflation resilient.

Exhibit 20: All major U.S. Dollar weakening cycles have been accompanied by U.S. equity underperformance. We do not believe this time is any different.

US dollar cycles and relative US equity performance

%, annualised change over period



Source: JPMorgan Guide to the Markets, March 2026

In short, portfolios should remain diversified across the factor quadrants, but with a clear tilt toward assets that can survive policy error, inflation volatility and weaker growth. Gold, sovereign bonds and alternative strategies remain the defence. Selective equities, infrastructure and structural themes remain the offence.

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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