MONTHLY REVIEW – APRIL 2026

OUR PERSPECTIVE

"The dollar is our currency, but it's your problem." ~ John Connally, United States Treasury Secretary under President Richard Nixon, 1971

For more than a decade, investors have benefited from what many came to call "U.S. exceptionalism": which is an environment where the U.S. equity market, the U.S. dollar, and U.S. Treasury markets consistently outperformed other similar assets globally. Supported by technological leadership, deep capital markets, and a powerful reserve currency, global capital has been flowing, almost reflexively, into U.S. assets. But the foundations of that exceptionalism have shown signs of strain.

The challenge is not growth. America remains one of the most innovative economies in the world and will likely remain so well into the AI-era. The challenge is financing. The United States is running historically large fiscal and current account deficits simultaneously. This so-called twin deficit dynamic is emerging at a time when government debt issuance continues to accelerate, forcing Treasury markets to absorb ever larger supply. In response, investors are increasingly demanding a higher term premium, the additional compensation for holding longer-dated U.S. debt. The result is structurally higher bond yields, tighter financial conditions, and one could reasonably expect lower valuation multiples for risk assets.

At the same time, foreign ownership of U.S. financial assets sits near record levels. For years, this was a source of strength. Today, it represents a vulnerability. If global reserve managers, sovereign wealth funds, or international investors begin diversifying even modestly away from the U.S. – whether for valuation, geopolitical, or strategic reasons – the implications could be profound.

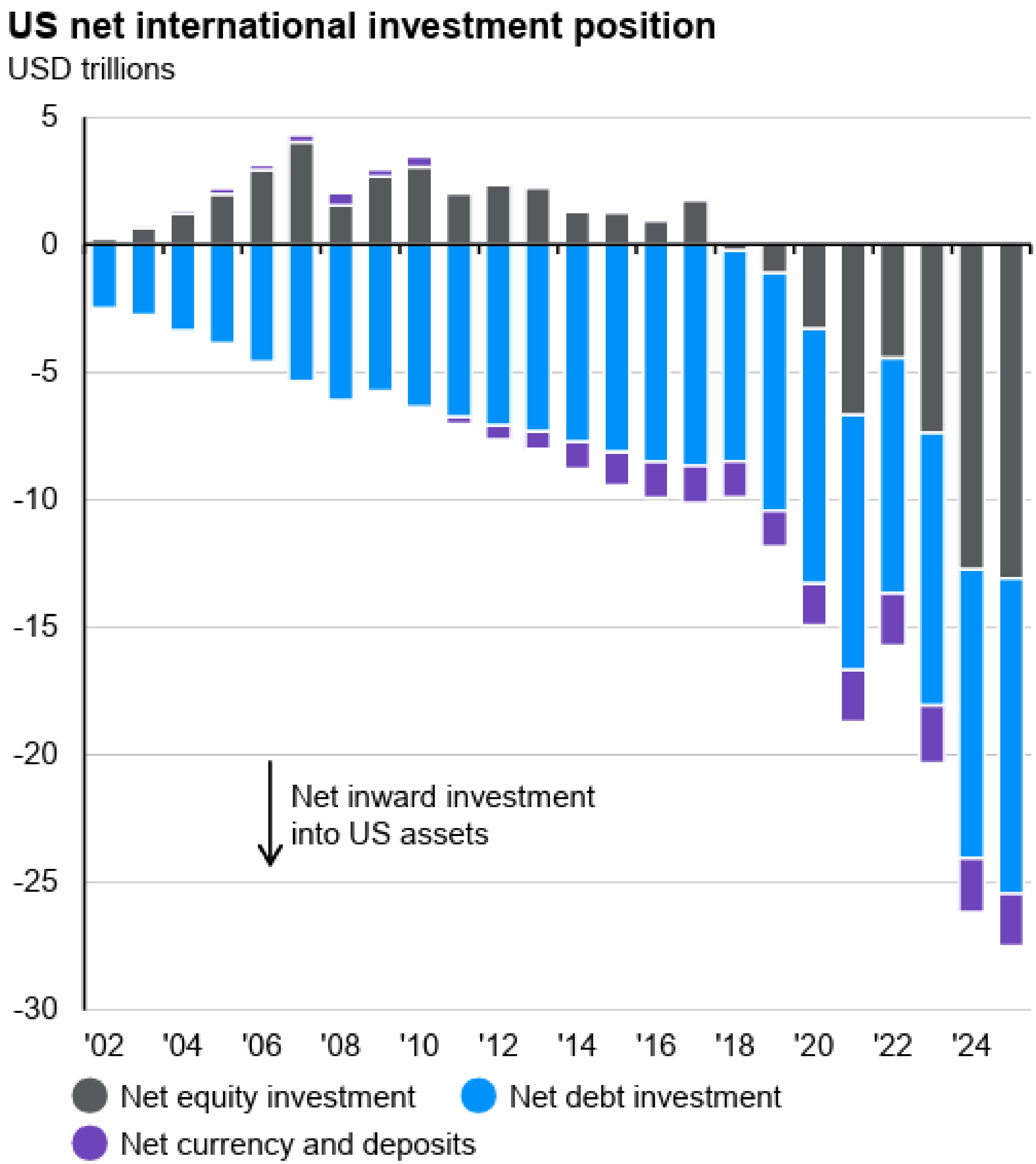
> **De-dollarisation** is the gradual reduction in reliance on the US dollar for trade, reserves, and financial settlement, driven by geopolitical risk, fiscal and monetary credibility concerns, and the desire to diversify exposure within an increasingly fragmented global financial system.

This is where de-dollarisation matters. We do not believe the U.S. dollar is facing collapse. Not yet anyway.

Rather, we believe 2026 may mark the next phase of gradual erosion in its dominance, as bilateral trade agreements, commodity settlements, and reserve diversification continue outside the dollar system. A weaker dollar would likely ease financial conditions globally, creating a tailwind for risk assets. Emerging market equities, local currency bonds, and real assets in particular.

In such an environment, assets such as gold, which carry no sovereign liability, may continue to benefit – not merely as an inflation hedge, but as an alternative store of trust. At the same time, we see emerging markets (EM) currencies and EM equities as the primary beneficiary as these economies benefit from improved liquidity and stronger funding tailwinds.

Exhibit 1: *Asset flows into US Dollar denominated assets has been relentless. This has superficially lowered funding costs, all else equal, ensured persistent U.S. Dollar strength, which resulted in the U.S.-exceptionalism narrative. When this turns, things will get ugly.*



Source: BEA, LSEG Datastream, J.P. Morgan Asset Management. Equity and debt investments include funds. [JP Morgan Guide to the Markets – UK](), 31/03/2026.

MARKET REVIEW

Deflationary Boom

Risk assets rebounded sharply in April after the violent sell-off in late March, which had been triggered by the unexpected U.S.-Israeli escalation against Iran and fears of a broader regional conflict, disruption through the Strait of Hormuz, and a renewed energy-driven inflation shock. By April, markets began pricing a less severe outcome as ceasefire discussions emerged and oil supply fears partially eased. This, combined with continued optimism around hyperscaler AI infrastructure spending and resilient corporate earnings expectations, drove a powerful recovery in global equities. The S&P 500 rallied 10.5% (USD), while the "Magnificent 7" surged 15.7% (USD), highlighting the market's continued dependence on AI-led growth narratives. International markets also participated strongly, with MSCI Emerging Markets Index up 14.7% (USD) and MSCI AC Asia ex Japan Index gaining 16.3% (USD), supported by a weaker U.S. dollar and improving global liquidity conditions. Credit markets recovered, with emerging market debt and European corporate bonds outperforming as spreads tightened and risk sentiment improved. However, U.S. equity valuations remain historically rich, leaving markets vulnerable should earnings or AI capex expectations disappoint.

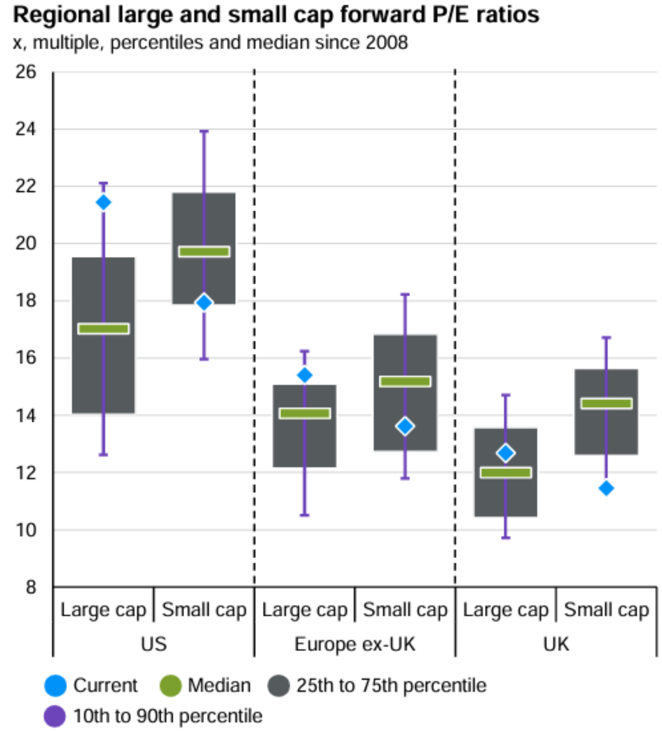
Deflationary Bust

Government bonds delivered mixed returns. European sovereign debt recovered as inflation moderated and ECB easing expectations strengthened, while UK gilts also moved higher. U.S. Treasuries, however, were broadly unchanged (-0.1%), as longer-dated yields remained pressured by elevated issuance, persistent fiscal deficits, and rising term premia. This divergence continues to challenge the traditional safe-haven role of U.S. duration.

Inflationary Boom

Managed futures and commodities continued to perform strongly amid elevated macro volatility. The SG CTA Managed Futures Index returned 1.5%, while our composite gained 3.7%. Energy markets remained volatile, with WTI crude advancing 10.0% despite the de-escalation, reflecting persistent geopolitical risk premia. Copper gained 5.5%, supported by infrastructure and AI-related electricity demand, while natural gas fell 9.3% on softer seasonal demand.

Exhibit 2: *The swift recovery and passive flows into US equity markets have pushed large cap valuations back to all-time high levels.*



Source: JP Morgan Guide to the Markets – UK, 30/04/2026

Inflationary Bust

Precious metals consolidated after strong Q1 gains. Gold was broadly flat in April but remains up 5.6% YTD, reflecting continued central bank buying, reserve diversification, and geopolitical hedging. Inflation-linked bonds outperformed nominal bonds across Europe, the UK, and the U.S., suggesting inflation expectations remain sticky in the face of uncertainty in headline CPI.

CONTACT US

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