

# Investment Matters

Scottish Widows Platform | April 2026



## Looking back: market review Q1 2026

### Summary

Over the first quarter of 2026, the MSCI ACWI Index, a representative measure of global equities across developed and emerging markets, declined 1.3% in sterling terms and retreated 2.6% in local currency terms. Japan, the UK and emerging markets performed robustly and gained ground in sterling terms, while the US and Europe ex UK fell back. Value sectors outperformed growth. Geopolitics was the main issue as the US and Israel launched airstrikes on Iran, which started at the end of February and continued through March. The conflict led to an energy supply bottleneck through the Strait of Hormuz in the Persian Gulf, sending oil and gas prices sharply higher and leading to a return of inflation concerns. Meanwhile, the US Supreme Court ruled against the powers the US government used to introduce tariffs last year, which led to the announcement of a new 10% tariff on all imports. In fixed income, the ICE BofA Global Government Index was up 0.6% in sterling terms but down 0.5% in local terms. Sterling dropped against the US dollar.

Crude oil futures prices soared on the news of the US-Israel airstrikes on Iran. Prices remained elevated as supply concerns

grew on damage to infrastructure and the supply-chain bottleneck in the Persian Gulf. European natural gas futures also surged on supply fears.

### UK equities

The FTSE 100 Index, a commonly used representative benchmark of the UK's largest equities, added 3.4% over the quarter. The FTSE All Share Index rose 2.4%, as share-price weakness in mid- and small-cap stocks reduced overall returns. The UK market partly benefited from its energy exposure and lack of technology stocks. After February's close vote, interest rates were left unchanged despite four members of the Bank of England's Monetary Policy Committee voting for a cut. It was the same outcome in March, as rates were kept on hold once more, but soaring energy costs in March, following the conflict in the Middle East, changed the voting pattern as the decision was unanimous amid worries about the potential for inflation to rise across other goods and services. Meanwhile, the UK's annual inflation rate softened from 3.4% in December to hit 3% in both January and February. Unemployment crept up from 5.1% in the three months to November to close out the period at 5.2%.

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## Looking back: market review Q1 2026 (continued)

### US equities

In US equities, the S&P 500 Index declined 2.5% in sterling terms and 4.4% in US-dollar terms. The Nasdaq Composite Index, which has a growth focus, dropped 8.7% in sterling terms and 10.4% in dollar terms. Aside from geopolitical issues, concerns about capex plans for AI-related stocks and the potential for AI to damage the business models of software companies were key factors affecting equities in the US. The Federal Open Markets Committee (FOMC) kept interest rates on hold at its two policy meetings. In March, it noted that the economy had been improving, though inflation was slightly raised. Even though the outcome of the conflict in Iran added uncertainty, the FOMC kept its broad expectation of a further policy cut in 2026. After 130K jobs were added in the US during January, the non-farm payrolls report for February came in at a worse-than-expected 92K loss of jobs, and the January figure was revised down slightly. The second estimate of US annualised fourth-quarter gross domestic product (GDP) growth saw a downward revision on the initial reading to come in at 0.7%. This is compared with the previous quarter's 4.4% pace. However, inflation was at 2.4% in January and February, a softening from December's 2.7%.



### Europe equities

There was a fall of 2.3% in the MSCI Europe ex UK Index in sterling terms. The Netherlands led local currency returns, while Germany, France and Switzerland declined. Eurozone flash fourth-quarter GDP growth came in at 0.3% quarter-on-quarter (q/q), which matched the level in the previous quarter, but the second estimate was reduced to 0.2% q/q. Unemployment in the Eurozone decreased to a new record low of 6.1% before bouncing back up slightly to 6.2%. The European Central Bank (ECB) kept rates on hold, but annual inflation stepped up to 2.5% in March, having been at 1.9% in February and 1.7% in January.



## Looking back: market review Q1 2026 (continued)



### Japan equities

The MSCI Japan Index gained 3.4% in sterling terms. It benefited from yen weakness boosting export-focused stocks as well as the result of the general election. The Bank of Japan (BoJ) kept its key interest rate at 0.75%. It highlighted that the economy was improving slowly but that it was difficult to assess the impact of the geopolitical situation in the Middle East. Sanae Takaichi, the country's Prime Minister consolidated her position with a solid election win, which boosted investors' hopes for growth-focused policies. Inflation softened from 2.1% in December to hit 1.3% by February, in part due to slower price rises in transport.

### Emerging market equities

During the first quarter, the MSCI Emerging Markets Index added 1.8% in sterling terms. The weakening US dollar and strength in shares expected to benefit from AI helped lead emerging markets higher at the start of the period, though shares weakened in March, in part on a rebound in US-dollar strength. Korea, Brazil, Taiwan and Saudi Arabia made the strongest gains, while India and China declined the most. Brazil's central bank reduced its benchmark interest rate in March on a slowdown in the economy. Meanwhile, the country's annual inflation dipped to 3.81% by February, having been at 4.26% in December. India's market weakness was driven by several factors, including foreign investor flows, energy import dependency and poor earnings from one of the country's largest conglomerates, and despite the country reaching a trade deal with the US. The Reserve Bank of India (RBI) kept rates on hold at its February policy meeting, given its confidence in the country's growth levels and on keeping inflation contained. The country saw 7.8% year-on-year (y/y) GDP growth for the fourth calendar quarter of 2025, which was below the previous period but above market expectations. Equities in China were weak in part on worries about growth levels. China's industrial production rose by a better-than-expected 6.3% over the combined two-month data release for January and February, which was up from December's 5.2% y/y expansion. Exports grew by a better-than-expected 21.8% y/y over the January-February period, and compared with December's 6.6% y/y increase, amid relatively solid global demand. China's economy grew 4.5% y/y in the fourth quarter, marginally above market consensus but lower than the 4.8% y/y growth in the third quarter, in part due to ongoing weakness in the real estate sector.





## Looking back: market review Q1 2026 (continued)

### Asia Pacific equities

The MSCI AC Pacific ex Japan Index added 4.6% in sterling terms. At the country level, Korea, and Taiwan gained ground, while India and China declined in local terms. Korea and Taiwan's technology hardware sectors performed well, pushing these markets to record highs, before they retreated somewhat on global worries. South Korea's quarter-on-quarter (q/q) GDP contracted by 0.2% in the fourth quarter of 2025, compared with the previous level of 1.3% growth. In part this was due to weakening internal demand. The Bank of Korea maintained its benchmark rate at 2.5% as it monitored the current global and local backdrop. Similarly, Bank Indonesia held rates steady during its three meetings during the quarter as it aimed to reinforce the rupiah and keep inflation contained. Australia's central bank upped its benchmark rate twice during the quarter on further inflationary pressure. Having remained at 3.8% between December and January, the country's inflation rate dipped to 3.7%, but remained above the central bank's target range of 2-3%.

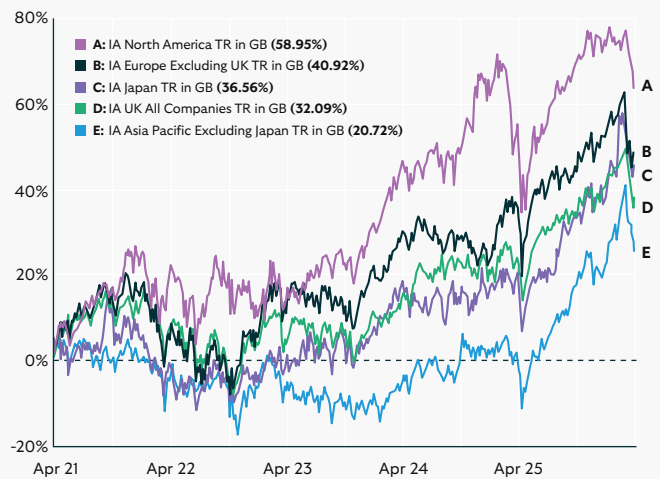
### Bonds

Fixed income markets had a mixed and volatile quarter. In the first weeks of the quarter, government bond yields broadly dropped (prices rose) before soaring on the conflict in Iran and related inflation fears. The 10-year US Treasury yield moved from 4.15% at the start of the quarter to 4.31% at quarter-end, but moves were less sharp than in several other major government bond markets as the US does not rely on energy imports. Meanwhile, the Fed maintained its outlook for one interest rate cut this year. The UK's 10-year gilt yield rose overall despite a steady decline in the yield early in the quarter on waning inflation concerns and bolstered prospects for further rate cuts. When fuel prices jumped in March, the yield soared on concerns about the reappearance of inflation risks. In Germany, 10-year bund yields also stepped higher by quarter-end on the rising possibility of rate hikes on a potential return of elevated prices. Credit spreads widened for both high yield and investment grade bonds. Emerging market debt declined amid broad worries about the situation in Iran and on the US dollar's strengthening.

### Property

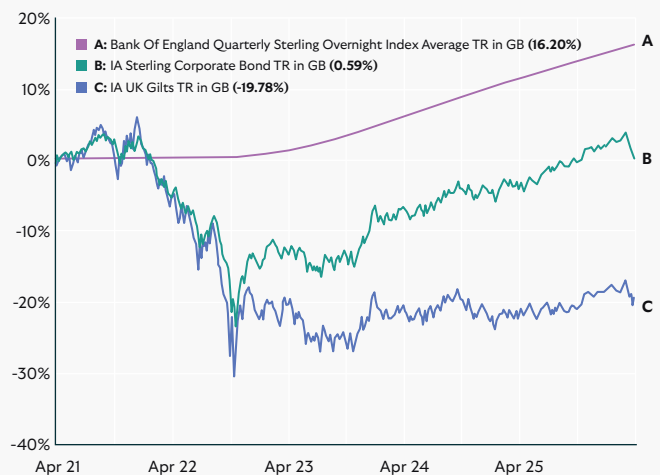
The FTSE EPRA Nareit Developed Index, a measure of the performance of Real Estate Investment Trusts (REITs), advanced 3.1% in sterling terms. Note that REITs tend to be sensitive to interest rate expectations. During the three months to end-February – the latest period with available figures – the MSCI UK Monthly Property Index was up 1.1%. The London office and retail segments remain resilient, with supply of top-quality office space in the capital relatively limited. Prime office rental elsewhere has been improving, but the secondary office segment is weak. Data centres have been another robust sector.

### Average total returns of funds in IA equity sectors over 5 years to March 2026 (in UK sterling terms)



Source: FE fundinfo (31/03/2021-31/03/2026). Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall as well as rise. Investors may not receive back the full amount originally invested.\*

### Average total returns of funds in IA bond sectors over 5 years to March 2026 (in UK sterling terms)



Source: FE fundinfo (31/03/2021-31/03/2026). Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall as well as rise. Investors may not receive back the full amount originally invested.\*

\* These graphs reflect the average performances of funds that feature in different IA (Investment Association) sectors. The performances are in sterling terms, which means that the effects of changes in the value of sterling versus other currencies are incorporated in the performance figures. Performances are calculated on a bid to bid basis, which means that any costs associated with the purchase or sale of shares/units are not included.



## Looking forward: outlook as at March 2026

Though we manage funds for the long term, here are our thoughts on markets as we look forward over the coming quarters.

Despite the pullback in March because of the conflict in Iran, we believe equities remain relatively fully valued. In our view, volatility could continue, and uncertainty about the direction of interest rates could still favour value sectors and companies with robust balance sheets. We believe in having a geographical spread of equity market exposure, while continuing to monitor risks, such as the impact of trade tariffs, market concentration and geopolitical conflicts.

In fixed income, inflation risk has returned which may limit the upside for government bonds over the coming quarters. Despite the recent widening of spreads, credit is relatively fully valued, though opportunities in high yield could appear. We believe in holding a diversified blend of government bonds and credit, in different geographies and with different characteristics, and which can continue to provide income-generation benefits.

### UK equities

UK inflation was already relatively elevated compared with peers, but the airstrikes on Iran have increased the chances of price rises and rate hikes. UK equities have performed well over the quarter, helped by the market's value skew. However, despite low economic growth, we are relatively constructive on the UK market's defensive skew and limited technology sector exposure.

### US equities

The relatively elevated US valuations have lessened somewhat as AI capital expenditure worries affected some of the larger stocks, while the potential for AI to disrupt business models hit the software segment in the first quarter. Sector leadership may continue to evolve if the war and its inflationary impacts continue. Over the longer term, we believe US economic growth prospects are better than many other developed markets.



## Looking forward: outlook as at March 2026 (continued)

### European equities

Economic growth may remain lacklustre, and the European Central Bank could be forced to start raising interest rates given rising inflation expectations. Fiscal spending and capital investment plans along with attractive valuation levels could continue to help the region's equities in the coming quarters.

### Japanese equities

Japan's stocks have benefited from positivity around its recent election and longer-term structural reforms, but valuation levels are now relatively full.

### Asia/Emerging Markets

Emerging market valuations still appear relatively attractive, despite the performance improvements in recent quarters. However, further US dollar strength could prove a headwind. In our view, emerging markets still represent an important long-term growth opportunity.

### Developed Market Government Bonds

Ahead of the outbreak of conflict in the Middle East, we believed we were nearing the bottom of the interest rate cycle. And despite the spike in energy prices, the US closed the first quarter with central bank policymakers still expecting one more cut this year. In our view, the return of inflation risks on the back of the oil price shock has now increased the chances of rate hikes in the US, UK and Europe. Government debt levels in developed markets will remain an important focus for investors and limits the ability of many developed markets to soften the impact of any inflationary pain. We remain positive on the asset class. As we believe the recent impact of inflation could be short lived, we prefer longer-term government bonds.

### Credit

Credit spreads have widened somewhat but still remain relatively tight in both high yield and investment grade bond markets. However, we continue to believe that volatility could open up opportunities in credit, particularly in high yield.

### Emerging Market Debt

We monitor for idiosyncratic risk on an ongoing basis. However, over the past few years, several emerging economies have benefited from fiscal pragmatism. If US-dollar strength continues it could limit near-term potential, but recent events have helped improve already relatively attractive valuations.