



QUILTER CHEVIOT

Market commentary March 2026



Events on the last day of February meant that much of what had gone on earlier in the month paled into insignificance as US and Israeli attacks on Iran marked a significant geopolitical escalation. Within days, the effective closure of the Strait of Hormuz sent oil and gas markets soaring while stocks and bonds declined. Encouraging remarks from US President Donald Trump suggest a significant de-escalation in the conflict could soon occur but, at the time of writing, the situation remains dynamic and fraught with uncertainty.

February was a good month for stocks, with the MSCI All Country World index returning 3.2%. UK and European equities outperformed (MSCI UK 7.3%, MSCI Europe ex UK 5.0%) US counterparts (MSCI North America 1.3%) while gilts (2.5%) also delivered a positive return.

While recent headlines have no doubt been negative it's worth noting that global markets, as of 9 March, were still up for the year, with the MSCI All Country World index returning 0.9%. The MSCI UK was up 4.3% and a broad-based gilt index was flat. These returns demonstrate some market resilience against a backdrop of simmering tensions in the Middle East which escalated on 28 February when US and Israeli attacks killed Iranian leader Ayatollah Ali Khamenei and several senior leadership figures.

President Trump claimed the attacks were triggered after his demands for a deal curbing Tehran's nuclear programme were not met. Iran struck back, targeting several nearby countries including the United Arab Emirates, Qatar and Bahrain, as the conflict became more wide-ranging.

Record weekly rise

It quickly became apparent that the conflict would have a further reaching impact than the 12-day war in 2025 and when traffic through the Strait of Hormuz effectively ceased to flow the market reaction became larger. The first week of March saw Brent crude, an international oil benchmark, rise 27% for its largest weekly gain since at least 1991. Monday 9 March was a historic day for Brent crude, as prices hit a four-year high just below US\$120 a barrel. The US\$26.81 rise was the oil market's largest ever intraday gain before a subsequent US\$35.80 fall meant it closed lower on the day following reports of a potential G7 co-ordinated release of emergency oil reserves and Trump's remarks suggesting the war was nearly over.

Another Taco for Trump?

President Trump has had a reputation for altering policy due to market movements since his first term when falls in the stock market often led to U-turns. Last year, it was the US Treasury market reaction to his Liberation Day tariffs that



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seemingly caused him to back down and the recent rapid rise in the oil price seems to have had the same effect. The regularity with which this has occurred led to the coining of the phrase TACO – Trump Always Chickens Out. His remarks about potential US Navy escorts for ships through the Strait of Hormuz to ensure their safe passage and easing Russian oil sanctions sent Brent crude to a low of US\$84. Taken in isolation this dramatic decline in oil could be seen as representing the end of the market-based concerns but the complex nature of Middle Eastern geopolitics and the history of fragile peace in the region suggest that a strategy of escalating or de-escalating based on market reactions is risky in the extreme.

Potential mitigating factors

The disruption to shipping oil and gas through the Strait of Hormuz has halted around 20% of global supplies, somewhere in the region of 20m barrels of oil per day. G7 finance ministers have met to discuss a release of emergency oil reserves to offset this shortfall, with the 32 International Energy Agency members reportedly holding around 1.2bn barrels of oil in strategic reserves (this figure is disputed and put significantly lower by some accounts).

A release of 300m-400m barrels has been touted, which would effectively provide the equivalent of what would pass through the Strait of Hormuz in 15-20 days. This would be a short-term reprieve but should shipping be disrupted for longer, then other measures would be needed to prevent prices pushing higher once more. One avenue which could significantly help is the Saudi Arabia East-West pipeline to the Red Sea which is reportedly close to reaching full capacity of 7m barrels per day, up from 1m barrels per day previously. However, in the meantime there have been reported refinery closures due to a lack of storage, with a combined 6.7m barrels per day currently offline across Saudi Arabia, UAE, Iraq and Kuwait.

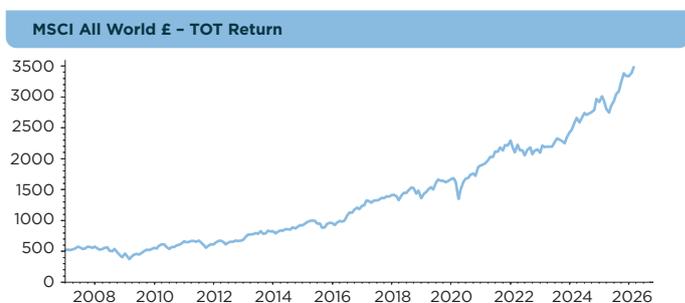
Levels to watch

It feels like stating the obvious but the macroeconomic implications of oil at US\$120 a barrel (the weekly high) or US\$84 a barrel (the weekly low) are markedly different, and this makes modelling the impact of first order effects – let alone second order effects – subject to a large margin of error. While the situation is far from binary, the general consensus is that oil around US\$80 a barrel will have a relatively minor impact whereas above US\$100 it becomes far more meaningful. US\$120 a barrel would lead to a substantial impact on the macroeconomic environment, primarily through inflation

Similarities, and differences, to 2022

The energy supply shock due to the war has some similarities to the Russian invasion of Ukraine in 2022, when Brent crude surged from around US\$95 a barrel before war broke out to a peak of US\$140 a barrel just under two weeks later, a rise of 47%. This time out, Brent crude has gained 63% in less than a fortnight to the recent peak of US\$120 a barrel, although it should be noted that the market was trading lower beforehand, around US\$73 a barrel.

It's not just high oil prices that can significantly impact the global economy, with natural gas prices having a greater effect on European energy costs. While gas prices have moved sharply higher as a result of the conflict, the recent high of €55/MWH is well below the peak of around €330/MWH hit in 2022. That said domestic energy prices are expected to rise, and motorists may already have noticed higher prices at the pump. And it is not just the direct impact that may be felt going forward, with fertiliser, food and other products such as petrochemicals, plastic and aluminium all sensitive to supply side disruption due to rising energy prices.



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Source: LSEG Datastream 09/03/2026

Central bank response

Derivatives markets have already shown a significant change in interest rate expectations following recent events. Just a few weeks ago there was a 95% chance the Bank of England (BoE) would lower rates in March and that probability fell to as low as 2.5% after energy prices rose sharply. Traders have flip-flopped between pricing in a cut or a hike in recent days and for now the only thing that can be said with any degree of certainty is that the future path is far less clear than it was a few weeks ago.

It's important to point out the difference between the current macroeconomic environment and that in 2022 when high inflation began to take hold following the Russian invasion of Ukraine. Firstly, interest rates are already at notably higher levels, meaning that they are far closer to neutral than stimulative like they were in 2022. The BoE base rate is currently 3.75% vs 0.5% in February 2022.

Secondly, inflation was already far higher and accelerating in February 2022, with the UK consumer price index (CPI) for the month 6.2% Y/Y – the most recent UK CPI reading was 3.0% Y/Y. While this was well above the BoE target, the central bank was seemingly reluctant to raise rates swiftly and cut off the post-pandemic recovery, so allowed an environment that was more susceptible to external shocks.

Labour market weakness

Another important difference to 2022 is employment levels, as the UK unemployment rate recently rose to 5.2%, a marked rise since a 2022 low of 3.6%. The unemployment rate is now higher than Italy's, which recently fell to 5.1% – its lowest level since 2004. Furthermore, the Office for Budget Responsibility (OBR) is forecasting further increases.

The US labour market is also softening, with total nonfarm payrolls showing a 92k drop in February and the unemployment rate coming in at 4.4%. This more than takes the shine off the previous monthly increase of 130k and together reveal how dependent recent job creation has been on the healthcare sector. 123k of the 130k jobs added in January were in healthcare and social assistance. Meanwhile, healthcare strike activity was cited as one of the main reasons for the decline in February. While healthcare job creation is a good thing in itself, it is more reflective of structural, demographic-based, non-cyclical demand and therefore not necessarily indicative of a strong economy.

Conclusion

Events in the Middle East and the oil price are the main drivers for financial markets in the near term, but investors should not lose sight of their long-term positioning. The speed and scale of the market reversal, with prices falling back to around US\$90 a barrel at the time of writing suggest that the initial rally is over, and a fresh catalyst would be required to push prices back to new highs. While the situation is complex and seems unlikely to be resolved as swiftly as previous Trump-led market fallouts, things can snap back quickly on positive news. The largest stock market rallies occur after market declines, as we saw during the 2008 global financial crisis, the Covid-19 pandemic and last year's Liberation Day decline. Despite the negative news flow, global stock benchmarks were only around 5% from their record highs on Monday 9 March.

We continue to monitor developments closely, watching for the potential release of strategic oil reserves, any further disruption to energy infrastructure or transportation and any other pertinent events. As a final thought, there has never been an event from which markets have not recovered, including World Wars, financial crises and pandemics. Although risks have increased of late, we maintain our belief in multi-asset diversification as the best way to manage these and avoiding knee-jerk, emotional reactions that may lead to worse long-term returns. Waiting for the apparent absence of risk to invest would historically have meant prolonged periods out of the market and missing out on a substantial proportion of long-term returns.



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