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March 2026

Quarter in Review

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US AND ISRAEL LAUNCH WAR IN IRAN, SENDING GLOBAL MARKETS PLUMMETING

Q1 saw escalating US actions in Venezuela and Iran, tensions with European allies and a US-Israeli war with Iran triggering a major energy shock and tighter financial conditions. Early in the quarter, easing inflation, resilient growth and supportive central banks buoyed risk assets. However, following the start of the war in March, the closure of the Strait of Hormuz and damage to Gulf energy infrastructure drove a surge in oil prices and a rapid revision of rate expectations.

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Global themes

Over the quarter, the US-Israeli war with Iran became the dominant macro driver, triggering a historic energy shock after the effective closure of the Strait of Hormuz and damage to regional energy infrastructure pushed Brent crude towards US$118 per barrel and lifted European gas prices sharply. The surge in oil and gas prices fuelled stagflation fears, tightened global financial conditions and led investors to price out US rate cuts in 2026 while assigning a higher probability of ECB and BoE hikes, weighing heavily on global equities and bond markets. Europe was particularly exposed given its reliance on imported energy and low gas inventories, with the region quickly becoming the epicentre of the energy shock as inflation expectations rose and growth headwinds mounted.

Trade and policy developments remained an important driver of the macro backdrop in Q1 2026 but were ultimately overshadowed by escalating geopolitical risks and the energy shock. A key event was the US Supreme Court’s 6–3 ruling that tariffs imposed under IEEPA were unlawful, invalidating most 2025 tariffs and prompting the Trump administration to introduce a new 10% “global tariff” (with the option to raise this to 15%) under Section 122 of the Trade Act of 1974. The new tariff regime largely replicated the previous structure, reducing average US tariff levels by only about 1%, so markets reacted calmly: US equities rose modestly, bond yields ticked higher on the prospect of tariff rebates and the dollar slipped slightly immediately after the ruling. Earlier in the quarter, tensions around Venezuela, Greenland and NATO, along with protests in Iran, added to policy uncertainty but did not materially alter the growth outlook; by quarter-end, tariffs and trade policy had become secondary to the impact of elevated energy prices and the evolving conflict on global growth and inflation.

Corporate earnings remained a key support for risk assets in Q1, with strong US growth data and results in January driving upward revisions to forecasts and helping markets absorb rising geopolitical noise and concerns about Fed independence. By February, earnings expectations were being revised higher against a backdrop of moderating inflation and firm global growth, underpinned by robust business investment in equipment and intellectual-property products tied to AI-related data-centre and software spending. Although the March conflict and energy shock weighed on equity valuations and heightened macro uncertainty, consensus earnings forecasts for 2026 remained broadly positive at quarter-end, contingent on how long the conflict and its demand impact persists.

US

The US economy started 2026 on a relatively firm footing, but uncertainty rose over Q1 as geopolitical risks intensified and the energy shock threatened the disinflation trend. Early-quarter data pointed to resilient growth, with upgrades to 2026 forecasts linked to expected fiscal stimulus and improving activity levels. Revised figures showed Q4 2025 real GDP grew at an annualised 0.7%. Government shutdown effects were estimated to have reduced growth by about 1%, while consumption remained robust at 2%. Business investment rose 3.9% annualised, driven by a 5.7% surge in intellectual-property investment linked to AI-related capex despite continued contraction in structures investment. The escalation of the Iran conflict and associated energy shock in March complicated the growth and inflation outlooks further as headline CPI rose 0.3% in February (2.4% year-on-year) and core PCE increased 0.4% in January to 3.1%, suggesting disinflation had stalled even before the war and foreshadowing stronger CPI prints. Political uncertainty also increased, with a US$200 billion war-funding request raising concerns over long-term fiscal risks.

The Federal Reserve kept the policy rate unchanged at 3.50–3.75% through Q1 2026, balancing resilient activity, mixed inflation data and mounting political and geopolitical pressures. In January the FOMC signalled no urgency to resume easing and adopted a more hawkish tone, even as markets still priced about 50bps of cuts by year-end. Concerns over central bank independence were heightened by the criminal investigation into Chair Powell, though the nomination of Kevin Warsh as his successor eased these fears somewhat. The Fed remained cautious in February as it assessed moderating but uneven inflation and the lingering effects of the government shutdown in Q4. By March, the energy shock and war-related uncertainty led the Fed to double down on a data-dependent stance, leaving rates on hold with 11 of 12 members supporting the decision and prompting futures markets to move from expecting at least two cuts to pricing no change for the rest of the year. Short-term inflation expectations moved higher, but US 10-year inflation expectations edged down 5bps to 2.33%, indicating that long-run inflation credibility remained intact. The Fed’s projections continued to include at least one cut by year end, conditional on how growth and inflation evolve.

Europe

The Eurozone economy remained resilient at the start of 2026, but the outlook deteriorated as the quarter progressed and the energy shock intensified. Q4 2025 GDP grew 0.2% quarter-on-quarter, leaving annual growth at 1.2% with year-end inflation easing to 2.0% for headline and 2.3% for core. Unemployment was at a series low of 6.2% and the composite PMI at 51.5, supporting the ECB's decision to keep the deposit rate at 2.00% and signal no imminent policy changes even as inflation was projected to run below target in 2026. In January, headline and core inflation fell further to 1.7% and 2.2% year-on-year, helped by euro appreciation and lower energy prices, allowing the ECB to keep its deposit rate at 2.0% and reiterate its data-dependent stance as German activity and sentiment improved on the back of earlier fiscal stimulus. Conditions shifted sharply in March as Europe, heavily dependent on imported oil and LNG and entering spring with low gas inventories, became the epicentre of the energy shock, with preliminary data showing Eurozone inflation rising to 2.5% y/y from 1.9% y/y and the ECB revising up its 2026 inflation projections, explicitly citing the Middle East conflict and higher energy prices.

MARKET ROUND-UP

Equities

Global equities, as represented by the MSCI All Country World Index (ACWI) declined by 2.5% (-1.2% in euro terms) in Q1. Stocks made solid gains in January and February, supported by resilient macro data, ongoing AI-driven investment and strong earnings, but these were more than reversed by a sharp sell-off in March as the escalation of the US-Israeli war with Iran, effective closure of the Strait of Hormuz and a resulting spike in oil and gas prices triggered stagflation fears, higher bond yields and a broad risk-off move. The MSCI USA fell 4.5% (-2.7% in euros), hurt by profit-taking in large technology names earlier in the quarter and then by rising energy prices, higher Treasury yields and mounting concerns about the economic impact of the conflict. MSCI Europe ex-UK dropped 2.3% (-2.2% in euros), having benefited earlier from moderating inflation, resilient Eurozone data and hopes of a more supportive 2026 growth backdrop, but Europe later faced particular headwinds from its dependence on imported energy and rising expectations of ECB tightening. Emerging markets rose 2.2% (1.8% in euros), reflecting strong performance in January and February as Korea and Taiwan continued to benefit from the AI and semiconductor capex theme and from higher commodity prices, before experiencing a sharp setback in March when surging oil prices, a stronger US dollar and heightened geopolitical uncertainty triggered broad risk-off outflows from EM assets.

Bonds

The ICE BofA 5+ Year Euro Government bond index declined 0.7% in Q1 as the sharp March energy shock pushed German 10-year Bund yields up to 3.02% and led investors to price in a more hawkish ECB path. This reversed the earlier gains, which were driven by falling yields and strong demand for high-quality sovereigns in January and February on expectations that Eurozone inflation would remain below the ECB's 2% target throughout 2026.

CHARTS OF THE QUARTER

Global equities

Source: ILIM, FactSet. Data is accurate as at 31 March 2026.

Bonds – German 10-year yield

Source: ILIM, FactSet. Data is accurate as at 31 March 2026.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	-8.1	-8.1	39.9
MSCI United Kingdom	4.0	4.0	19.1
MSCI Europe ex UK	-2.2	-2.2	20.4
MSCI North America	-2.4	-2.4	4.5
MSCI Japan	3.5	3.5	10.3
MSCI EM (Emerging Markets)	1.8	1.8	18.5
MSCI AC World	-1.2	-1.2	8.3
10-Year Yields	**Yield last month**	**2025 Yield (%)**	**2024 Yield(%)**
US	4.32	4.17	4.57
Germany	3.02	2.86	2.37
UK	4.84	4.48	4.57
Japan	2.33	2.07	1.10
Ireland	3.25	3.01	2.64
Italy	3.92	3.55	3.52
Greece	3.85	3.44	3.22
Portugal	3.45	3.15	2.85
Spain	3.52	3.29	3.06
FX Rates	**End last month**	**2025 Rates**	**2024 Rates**
U.S. Dollar per Euro	1.15	1.17	1.03
British Pounds per Euro	0.87	0.87	0.83
U.S. Dollar per British Pounds	1.32	1.35	1.25
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2025 Return (%)**
Oil (Brent)	94.5	94.5	-18.5
Gold (Oz)	7.4	7.4	64.7
S&P Goldman Sachs Commodity Index	40.0	40.0	7.1

Source: ILIM, Bloomberg. Data is accurate as at 1 April 2026.

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THE ILIM VIEW – LOOKING AHEAD

Prior to the outbreak of the war in Iran, the fundamental backdrop was positive and improving and contributed to the strong start to the year for global equities. This macro picture has been threatened by the outbreak of the conflict and the risk of persistently high oil prices, which could give rise to a stagflationary backdrop with slower growth and higher inflation.

Key for determining the path for investment markets will be the duration of the conflict, the extent of damage to energy infrastructure in the Gulf region and how long the Strait of Hormuz remains closed, all of which will have an impact on where the oil price eventually settles.

A quick resolution with the Strait of Hormuz being reopened and oil returning close to pre-war levels would result in a limited impact on growth and inflation. With positive fundamentals reasserting themselves, both bonds and equities would be expected to recover towards their end of February levels.

In a more severe scenario with the war escalating, lasting longer than currently expected and with the Strait of Hormuz remaining closed for several months, oil could rise further giving rise to increasing fears around growth and could contribute to further downside in both equities and bonds. In such a scenario, as growth fears begin to dominate inflation fears, bonds yields would eventually be expected to fall and provide protection within a diversified portfolio.

Our base case is that the conflict can be resolved in coming weeks as it is ultimately in all parties' interest to do so.

Based on an eventual resolution and the positive fundamentals which exited pre-war reasserting themselves, although perhaps not the full extent that existed in late February, we continue to believe equities will be higher on a 12-month view.

A de-escalation or resolution of the conflict with oil falling back to circa $80 per barrel should contribute to lower bond yields as inflation fears fade, as well as some reversing of the more hawkish expectations around central bank policy rates, both of which would support equities.

Global equities are on a P/E multiple of 16.9x compared to the-long term average of 16.3x, and the US P/E has already contracted 16% since the October high to 19.4x. Assuming there is a resumption of the positive fundamental backdrop – with global economic and earnings growth of around 2% and in the mid-teens respectively – equities can be higher on a 12-month timeframe.

Positioning among long institutional investors and hedge funds has been significantly reduced over the last three to four weeks, with most positioning and sentiment readings now at levels which historically have been a buy signal. All these suggest equities are likely to be higher on a 12-month view, although conditions could remain volatile in the short term and will be sensitive to news flow around the war.

On a 12-month view, our base case is that the German and US 10-year government bond yields fall from current levels of 3.02% and 4.32% to 2.50% and 4.00%, respectively.

If a resolution to the Iranian conflict is reached, the recent rise in yields due to inflation concerns should reverse. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. From current levels, we believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform.

THE MONTH AHEAD

April

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			09 Japan consumer confidence Germany balance of trade US core PCE price index MoM; GDP growth rate QoQ final; personal income MoM; personal spending MoM	**10** US core inflation rate MoM, YoY; US inflation rate MoM, YoY; Michigan consumer sentiment (prel) Canada unemployment rate China inflation rater YoY
13 US existing home sales	**14** Australia Westpac consumer confidence change; NAB business confidence China balance of trade; exports YoY; imports YoY US PPI MoM	**15** Euro Area industrial production MoM India balance of trade	**16** China GDP growth rate YoY; industrial production YoY; retail sales YoY UK GDP MoM; good trade balance	**17** Euro Area balance of trade Canada housing starts
20 Japan balance of trade Canada inflation rate YoY, MoM	**21** UK unemployment rate Euro Ares ZEW economic sentiment index Germany ZEW economic sentiment index US retail sales MoM	**22** UK inflation rate YoY, MoM; core inflation rate YoY Euro Area debt to GDP	**23** Germany manufacturing, services & composite PMI flash UK manufacturing & services PMI flash US manufacturing, services & composite PMI flash India manufacturing, services & composite PMI flash	**24** UK retail sales MoM, YoY Germany Ifo business confidence US Michigan consumer sentiment final France consumer confidence
27 Germany consumer confidence US Dallas Fed manufacturing index	**28** Japan BoJ interest rate decision; BoJ quarterly outlook report India industrial production YoY; manufacturing production MoM	**29** Germany inflation rate YoY, MoM (prel) US Fed interest rate decision; building permits (prel); durable goods orders MoM; housing starts Canada BoC interest rate decision; BoC monetary policy report Brazil interest rate decision	**30** China manufacturing & non-manufacturing PMI France GDP growth rate QoQ, YoY (prel); inflation rate YoY (prel) Germany GDP growth rate QoQ, YoY (flash) Italy GDP growth rate QoQ, YoY (adv) Euro Area GDP growth rate QoQ, YoY (flash); inflation rate YoY (flash); deposit facility rate; ECB interest rate decision UK BoE monetary policy decision US core PCE price index MoM; GDP growth rate QoQ (adv); personal income MoM; personal spending MoM	

Source: tradingeconomics.com

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