Market Update: So… Who Blinked?

In last Monday morning's note we titled our update Who Blinks First?. Within hours, markets seemed to have their answer as equities rallied on signs of de-escalation, perhaps declaring victory a little early.

That proved short lived.

As the week progressed, the focus shifted away from politics and back to economics. Concerns around the Strait of Hormuz pushed oil prices higher, while US bond yields moved up as markets began to price the inflation impact. At the same time, US/Iran talks appear to be stalling, and equity markets have weakened again, with the US moving into correction territory.

This shift matters. Markets are no longer reacting to headlines alone, but to what those headlines mean for inflation and interest rates. Higher oil prices reduce the likelihood of near term rate cuts and tighten financial conditions. That is now what markets are trading.

From a portfolio perspective, this is exactly the type of environment portfolios are built for. For example,

in our Balanced 60 portfolio, just over half is invested in global equities, with the remainder spread across bonds, alternatives and cash. This provides multiple sources of return rather than reliance on any single outcome.

We have around 5% allocated to gold and silver, alongside broader commodity exposure, which are more directly sensitive to geopolitical events. These areas helped offset equity weakness initially. However, as rate expectations have shifted, gold has given back some of those gains. It is a useful reminder that even traditional "safe havens" can become sources of volatility if held in size.

It is also worth noting that some of the largest US technology companies have seen a more pronounced pullback than the broader market. While higher yields have been the immediate driver, this also reflects a modest reset in valuations and some early questioning around the timing and returns from significant AI-related investment.

Importantly, we avoid concentrated sector positions. Even where we have exposure to themes such as AI, this sits within diversified global funds rather than standalone allocations.

The key question from here is whether this develops into a sustained energy shock. If supply remains intact, markets are likely to settle once positioning adjusts. If not, the impact will come through inflation and interest rates rather than an immediate collapse in global growth.

As ever, the biggest risk is reacting to each turn in the story. We remain focused on the underlying data rather than the headlines and will act where the long term outlook changes.

For now, discipline and diversification remain the most important tools.

If helpful, we are happy to talk through any of these points or support conversations with your clients. Please feel free to get in touch.

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