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## IN BRIEF

- The war in the Middle East has dominated the news and is having major ramifications.
- Financial markets have reacted, surprisingly so, in some cases.
- But there are clear long-term consequences.
- However, events are moving quickly, and the short-term outlook is rapidly changing

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## The economic consequences of the war are clear and immediate.

The common view is that the overall impact of the war will be driven by how long it lasts. That is true; the longer it goes on, the more impactful it will be. However, there have already been clear consequences. The obvious ones are energy prices, with oil and gas jumping sharply and moving around day by day as rumours or actual news flows change for good and for bad. Higher prices, particularly in a globally key resource such as energy have widespread consequences. They would be expected to be inflationary, immediately, see the price of petrol at the pumps. Central banks have reacted immediately, in one week alone in mid-March policy makers in the US, UK, Eurozone, Japan, Switzerland, Sweden and Canada all decided to hold interest rates where they were, and their messaging was clear; inflation is back on the agenda, and they will act to counter it.

The hopes of interest rate cuts through the course of 2026 have been dashed. To give a feel for the change in expectations, at the end of December 2025, between one and two 0.25% cuts were expected in the UK, at the end of March, between two and three increases are now anticipated. As a result of that, mortgage rates have been on the rise as well. It is a similar trend in major economies globally.

There is talk of a global recession; higher interest rates and inflation reduce economic activity and growth slows, time will tell if it slows enough to lead to recession, but the outlook is worse.

If there was a major de-escalation or the war were to end tomorrow, it wouldn't just be alright again. The Liquefied Natural Gas (LNG) fields in Qatar have been so badly damaged that it could take 3 to 5 years for the world's key LNG producer to get back to full capacity. Of course, other resources and goods will be less impacted than that, but the impact will take many months to get back to normal.

Now put yourself in the position of a Chief Financial Officer of a multinational company, or even a smaller company looking to develop and grow your business, the prevailing uncertainty and rising cost base is bound to have a dampening effect on your spending and investment plans and confidence in the future.

Furthermore, the cost of government borrowing has jumped sharply. Governments need to borrow to meet their spending plans, they therefore need to get financing from elsewhere, possibly through tax increases.

The world economy had been moving along nicely before the war started, it has now got a major problem to navigate. Although, it has proven to be robust through the introduction of US trade tariffs; can that remain the case?

## Financial market reactions

There is not much point in discussing energy prices anymore, but it is worth noting that there will be a knock-on effect on metals such as aluminium and resources such as fertilisers, the impact is widespread.

I also noted above the increase in borrowing costs for governments. The chart below shows the yield on the UK Government's 2-year gilt, which has risen to the level it got to at the time of the disastrous "Liz Truss budget" in 2022.



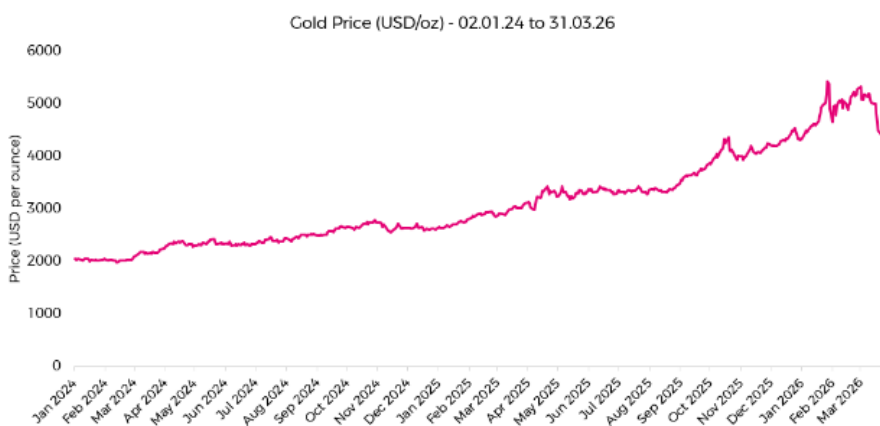
Source: Bloomberg data from 01.04.2021 to 31.03.2026

Equity markets have been weak as well, although maybe not as weak as some may have expected, including myself. Generally, they were doing well in the early part of the year, although there was a lot of volatility within markets as investors switched between different sectors, often driven by views on how AI would impact on a company, in both positive and negative ways.

But the start of hostilities saw a widespread move downwards. It's a bit of a generalisation, but equity markets were down between around 5% and 10% in most regions of the world, although Japan did stand out as being weaker. Given the scale of events that have taken place, that strikes me as a good outcome. However, we should think more about the future than the past and that is the big unknown. I think it is appropriate to express some caution at present.

However, events are moving fast; on the last day of March, hope prevailed over fear and equity markets, particularly in the US, jumped sharply as those hopes centred on better news around a resolution to the conflict. The question is whether it can come soon enough to stop the scaring of the world's economy, and as I write this, a resolution is not forthcoming, yet. It really is a world we are living day by day at present.

It is also worth mentioning gold. It is often thought of as a good place to invest in periods of stress in economies and financial markets, partly because it is a real asset that ultimately you can physically hold. It is also often seen as an investment that should do well in periods of rising inflation, partly for the same reason. However, it has fallen sharply at a time when you might have thought it would have been strong. This might simply be because the price had been very strong since the beginning of 2024 and investors took profits and simply held cash in such an uncertain time.



Source: Bloomberg data from 02.01.24 to 31.03.26

## The longer-term ramifications of the war

It seems clear that we are in a period of deglobalisation, more probably a long-lasting trend that will play out over decades, just as globalisation did. The war in Ukraine and the US administration's stance on foreign policy, NATO, international trade and its own self-interests have been amplified by the current conflict and energy supply issues.

Countries are now focused on being as self-reliant as they can be on the provision of energy, food and goods and services. Clearly, in the modern world, that is not possible and we are all reliant on each other to some degree, therefore, there is an increasing focus on reliable supply chains being set up.

All this requires enormous spending on infrastructure over a long-time span. It is likely to be one of the major themes in the world economy and investment markets for us to consider.

In the meantime, uncertainty prevails and caution should be the watchword but also be prepared for volatile markets as news flow drives them up and down.

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## Glossary

### Bonds (or fixed income)

Types of investments that allow investors to loan money to governments and companies, usually in return for a regular fixed level of interest until the bond's maturity date, plus the return of the original value of the bond at the maturity date. The price of bonds will vary, and the investment terms of bonds will also vary.

### Equities

Another name for shares (or stock) in a company.

## Risks

**Forecasts are not reliable indicators of future returns.**

## Important Information

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