



# The **Tatton** Weekly

**It takes two to TACO**

13 March 2026

**This week's topics:**

Capital markets' fragile optimism

Oil price scenarios

Private credit crunch, not credit crisis

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*A can of worms, KAL, 10 March 2026*

### Capital markets' fragile optimism

Stock markets pulled back over the last couple of days, as oil prices rose to around \$100 per barrel (pb). Before that, equities had been holding up okay, particularly large cap stocks. Sterling has slipped about 0.5% against the US Dollar which has helped to offset some equity weakness, meaning global equity portfolios are only slightly lower. Bonds continue to be surprisingly weak, especially in the UK. The 15-year UK government bond now yields 5.16% (0.5% more than before the war).

The Iran War has sent global oil prices on a wild ride over the course of this week – which we cover a separate article – but markets seem to be betting on a relatively swift end to the conflict, after which crude prices should settle back to a manageable \$75-\$85pb range. The 'swift' part here might be a little optimistic.

#### **It takes two to TACO**

Stock indices are below where they were last Friday but, compared to the dramatic escalation in the US and Israel's war on Iran, markets still look sanguine. Investors have flocked more toward large cap tech stocks – reversing the cyclical rotation into small cap stocks we have seen so far this year. You could perhaps interpret that as a move into 'safe haven' quality stocks (though see below).

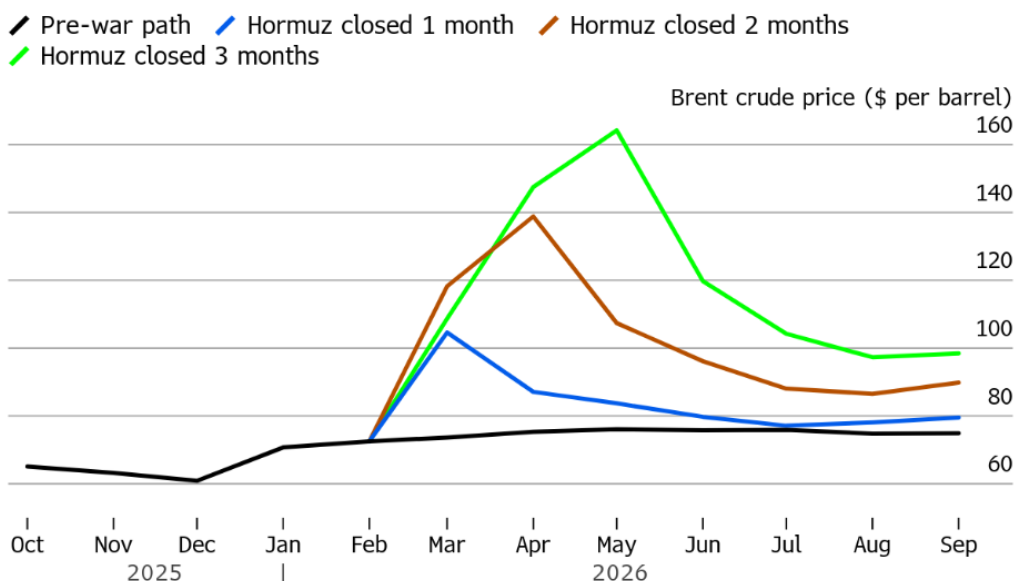
There was a sharp increase in long-term government bond yields across the world, meaning bond prices fell. Higher 'risk-free' government bond yields should make risk assets like equities less attractive by comparison, but there was no big fall in stock prices. That effectively means that the

bond-adjusted equity risk premium has gone down. In other words, remarkably, investors see stocks as *less* risky, compared to bonds, than a week ago.

That can only make sense if you believe in the TACO trade (Trump Always Chickens Out). Undoubtedly, the Trump administration has an incentive to end the war soon: \$100pb oil heading into November’s midterm elections is not a vote winner. Judging by Trump’s declaration of the war as “pretty much” over, he agrees. Perhaps he is already bored of his latest adventure, which lacks the immediate operational success of Venezuela.

But while we certainly see the incentive, we suspect markets might be overestimating Washington’s ability to end hostilities quickly. Iran clearly still has the capability and motivation to attack US and Israeli sites in the Middle East. There might not be an easy out for Washington. If that is right, the comparatively content view in stock markets makes equities vulnerable to a drawn out conflict.

### Oil Hinges on Hormuz



Source: Bloomberg Economics

### The cyclical rotation was already vulnerable

In the US, among the worst faring stocks have been private credit companies, after a cascade of retail-focussed private credit funds halted redemptions (they stopped retail investors getting their money back), and analysts sounded warnings about private credit loan defaults. In a separate article, we write about why private credit woes are not 2008 all over again. It is still a bad situation of course, and the Iran War makes it worse.

The war is bad news for housebuilders. UK constructors have had an especially difficult week. So did smaller companies everywhere, which are more sensitive to interest rates staying higher-for-

longer. Small-cap stocks had been doing well in 2026 but, even before the war, the data showed small-cap earnings growth starting to flounder, relative to large-cap companies. Cracks were already appearing in the small-cap cyclical rotation. The war split them open.

Earnings growth for large cap stocks has looked better, backing up the strong growth expectations markets had at the start of the year. But existing problems around private credit, small-cap struggles and looming AI displacement make investors nervous. If the war drags on for another few weeks, there is a danger that these anxieties bubble over.

### **Markets need lower bond yields and bonds need lower oil**

The key to all of this is what happens in government bond yields: if bond markets relax and yields come back down, global investors will feel more at ease. It is slightly odd that long-term government bonds should be so sensitive to short-term volatility in oil prices. The standard explanation is that the oil shock increases long-term inflation expectations and hence interest rates – as one official at the European Central Bank (ECB) suggested this week.

We think that the ECB comments are more about managing inflation *expectations*, however. If central banks really expected a repeat of the pandemic's inflation spiral, they could enact emergency rate hikes – not just talk about them.

Instead, we suspect that rapidly rising bond yields are about an increase in the risks attached to government bonds. The oil shock, if it persists, could force governments around the world to spend more on social support and defence. That worsens public debt metrics which are already bad amongst G7 nations – making bonds less attractive. Unhelpfully, the UK looks particularly vulnerable.

Over the last few decades, global government debt has increased relative to private sector debt – a signal of impaired private sector growth. At the start of 2026, it looked like that trend might reverse: AI promised to boost productivity growth, and tech companies were borrowing more, taking the growth burden away from governments. Regrettably, the oil shock has dashed those hopes over the short term.

The way for bond yields to fall back is for oil prices to settle back to manageable levels. That should provide yet another incentive for the US to end the war quickly, and markets are betting it will. We will have to wait and see. In the meantime, the stock market sell-off offers long-term investors an opportunity to use their end-of-tax-year liquidity to buy stocks at a relative discount. Earnings expectations have risen strongly since Christmas but index levels are back at the same prices. As the so-called Oracle of Omaha, Warren Buffett, once said in a letter to his shareholders "Price is what you pay; value is what you get. Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

## Oil price scenarios

Oil prices have swung wildly in the last week. Iran’s attacks on oil tankers travelling through the Strait of Hormuz – a choke point for around 20% of the world’s oil supply – caused Brent Crude prices to spike to almost \$120 per barrel on Monday, having been below \$70pb a couple of weeks ago. Brent dropped back sharply below \$90pb on Tuesday, after G7 finance ministers said they were prepared to release strategic fuel reserves – and then President Trump declared the war “very complete, pretty much”. Further attacks and the largest ever release of strategic oil reserves from the International Energy Agency saw prices ricochet for the rest of the week.

Prices are volatile because there are so many unknowns. Analysts make guesses about how long the war will last and the damage it will wreak, but no one really knows. We take a look at some scenarios of how it might play out.

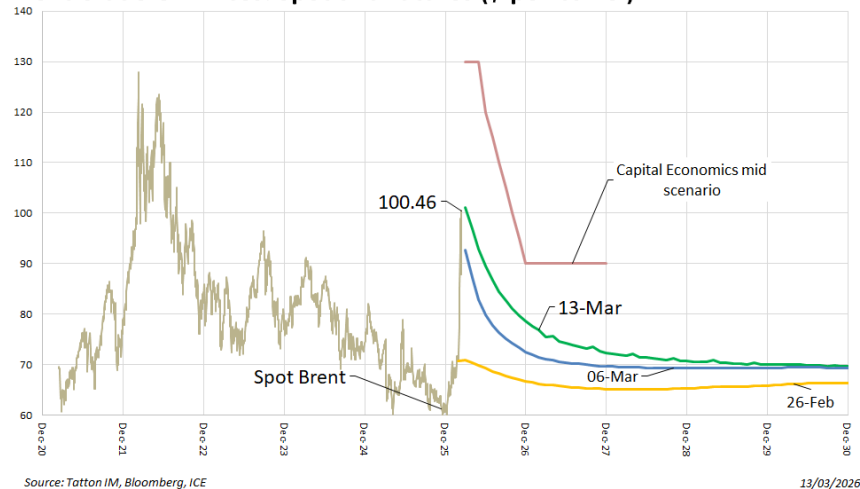
### Markets don’t expect the worst-case scenario

Research house Capital Economics put out a useful piece this week, outlining three possible outcomes of the Iran war, and what those would mean for oil prices. Their mild scenario sees the war lasting a couple of weeks, with minimal damage to oil infrastructure, pushing Brent down to \$65pb by the end of 2026.

Their medium scenario sees the war lasting three months, with the Strait of Hormuz effectively closed in the interim but only minor damage to Middle Eastern production. In that case, Brent peaks at \$130pb but settles to \$90pb by the year end. Their extreme case also assumes a three-month war, but with long-term damage to Middle East infrastructure, leaving Brent around \$150pb for six months, followed by a slow decline.

Above, the chart shows what oil futures markets expect (as of Friday 13<sup>th</sup> midday, shown by the green line) relative to the Capital Economics mid scenario. Expectations have moved higher than

**Brent Crude Oil Prices: Spot and futures (\$ per barrel)**



Source: Tatton IM, Bloomberg, ICE

13/03/2026

a week ago, and oil futures contracts suggest substantial supply disruption right now but a fairly quick return to the previous oil oversupply.

Even the mid scenario involves a rise in oil prices way beyond the current level, even more substantial in later deliveries than the markets have shown in the past two weeks. And while Trump's description of the war as "pretty much" over tells us basically nothing about the actual situation in Iran, markets interpreted the comments as a clear indication that the US wants a quick exit.

We would add, however, that there is an unlikely but possible worst-case scenario for oil supplies: that the US could use the war as a strategic chokehold on Chinese energy supply. In that doomsday scenario, it would be hard to put a price prediction on Brent crude, since it would effectively mean the dissolution of the globally traded oil market. The US, a net oil exporter, would likely force its production inward, and Europe would have to scramble to secure its own energy supply.

#### **Little appetite for long-term disruption**

Nothing that has happened so far points to that worst-case scenario. CNBC reported on Tuesday that Iran has sent 11.7mn barrels of crude through the Strait of Hormuz since the war began, all of which were headed to China. The US and Israel have shown no desire to stop these shipments. In fact, US attempts to protect oil tankers through the Strait – currently by attacking Iranian minelayers but potentially by military escort – benefit China. More ships through the Strait are bound for East Asia rather than Europe or America.

The US has not attacked Iran's oil infrastructure as part of its extensive bombing campaign. Israel has attacked two refineries, but the Trump administration reportedly asked them to stop on Monday. In general, there seems to be little appetite to disrupt Iranian oil production. Tellingly, Kharg Island – the conduit for 90% of Iran's oil exports – has not been targeted.

It is also worth noting that, while Iranian strikes have devastated oil transportation, they have only marginally impacted oil production across the Middle East. This seems to be more about effective defences across the region (drones headed for Saudi and Kuwaiti oil sites were downed this week) than a lack of desire, but it at least shows that damaging long-term capacity is not a priority for Iran – even if disrupting supply-chains in the short-term is.

In other words, neither side looks likely to cause long-term damage to Middle Eastern oil production. That backs up the implied expectations of oil futures markets: supply chains are backed up right now, but things should clear up when the Strait of Hormuz reopens.

#### **That doesn't mean inflation won't happen**

Markets might be underestimating the disruption, of course. Oil refineries across the Middle East are reportedly already cutting production because their oil storage and available tankers are full – and only so many of them can be rerouted through the Red Sea. Even if the Strait of Hormuz

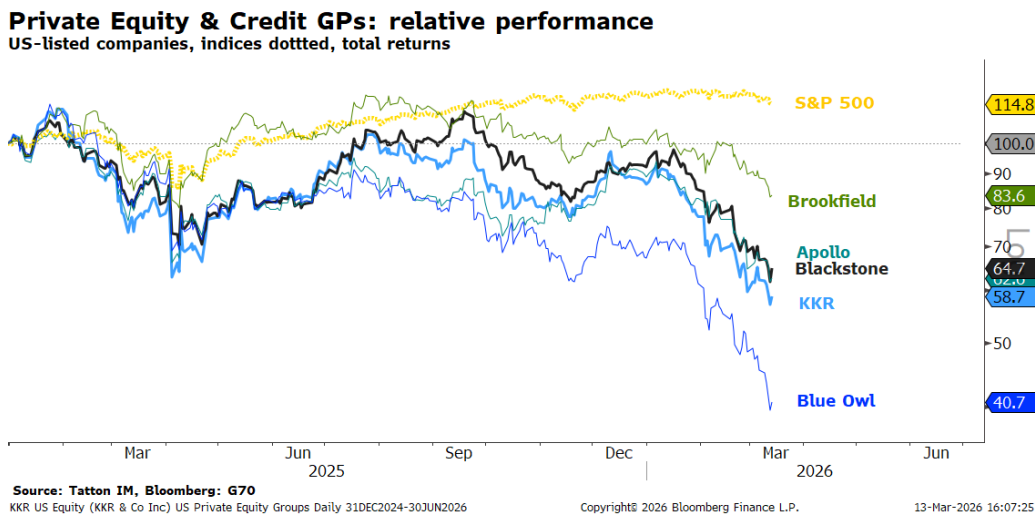
reopens soon, it could take some time to get refineries fired back up to previous levels. That could lead to more wild oil prices swings: a sudden drop as backed up supply flows out to the world, then another spike as we wait for new production.

Moreover, it is against the interests of the major oil producers – including the US – to have a sudden oil price drop after the war. The relaxing of Russian sanctions will likely be temporary, for example, if not for geopolitical reasons then to limit the impact of an oversupply on US oil companies.

As we discussed last week, the inflation outcomes from an oil shock are unfortunately worse for the UK and Europe than for the US. But, across the world, the prospect of interest rate cuts in the short-term has disappeared. As we cover in a separate article this week, that could have unintended consequences for large sections of the economy.

Finally, we should remember that the inflation impacts of the war are not just down to petrol prices. Freight shipping has also been disrupted, while crude oil has downstream effects on semiconductor manufacturing and many other industries. Even if the oil shock is short-lived, the supply chain disruption could last longer.

### Private credit crunch, not credit crisis



The problems keep piling up for private credit providers. Last Friday, BlackRock limited withdrawals on its \$26 billion private credit fund, after \$1.2bn redemption requests so far in 2026. That was followed by the news this week that JPMorgan will reduce its lending to private credit firms, after marking down the value of loans within private credit funds’ portfolios. Private credit firms have a well-known liquidity problem: they market investment products as liquid when they are not, making

them vulnerable to a run on their funds. But many are now wondering if their underlying assets have a problem too. If so, could private credit become a systemic risk?

### **Illiquidity is always a risk**

Retail-focussed private credit funds have been the most under pressure. As the private credit and equity industries have grown in the last decade, so has the popularity of these funds with retail investors. Strong returns can create the sense that these are liquid, but the underlying loans are anything but. When spooked investors ask for their money back, funds like Blue Owl's are forced to say no, which predictably leads to even more spooked investors demanding their money.

In this case, the inciting fear was around software companies at risk from new AI tools. Private credit firms lent to these software companies more heavily than public credit markets – though these loans are still a minority of the private credit industry's overall loan book. The higher proportion of AI-threatened loans in private credit is why, initially, there was not much of a knock-on effect from private credit woes to even the worst-rated publicly traded corporate bonds.

Illiquidity is not a problem in itself. The underlying private credit assets might be good value if you are willing to stay invested for the long-term – particularly if you can get them at a discount. The problem is that the illiquidity risk is often underappreciated. Private credit firms are not always upfront about it, and end investors can often be lulled into a false sense of security by funds' promises of daily liquidity for their individual withdrawal needs, while being quiet about what happens when all investors want to withdraw some of their investment at once. The fact private markets are private and do not have to disclose full information on the underlying assets complicates this further.

### **Private credit can't create money – so can't destroy it either**

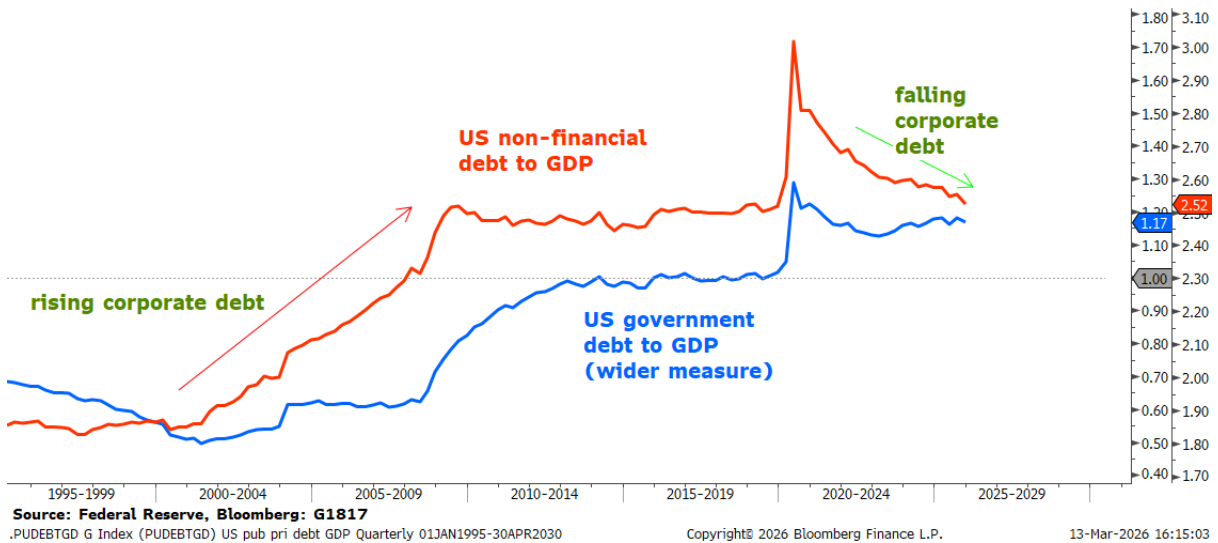
Many are worried about potential contagion from private credit into the wider financial system, like the subprime mortgage crisis that created the 2008 global financial crisis (GFC). Back then, the firms most heavily involved in the subprime market – like the infamous Bear Stearns – were the first to go. Could Blue Owl be the next Bear Stearns? We argued a couple of weeks ago that this was unlikely – and we still maintain that. But, the fact that credit spreads (the yield premium between publicly traded corporate bond yields and government bond yields) have increased this week certainly raises the temperature.

The reason we do not think private credit firms could directly cause another GFC is because they simply cannot create money in the way that banks can. Bank lending creates money – so collapsing loan values destroy money. Private credit firms use money that is already in the system and direct its flow. That is why there is less leverage in private credit, proportionally, than banks had before the GFC. Even if the underlying loans default, there should not be a house of cards effect for the wider financial system.

Of course, banks do lend to private credit firms, but this lending is already being dialled down, as shown this week by JPM. Doomsayers might see JPM’s lending restrictions as a sign of crisis, but you could just as well see it as a sign of financial prudence on the part of big US banks. The private credit industry invested heavily in a sector which now looks overvalued, but the leverage involved in that investment is more akin to 2000 than 2008.

**US state sector and private sector debt**

Private sector debt includes corporate bonds and loans, issued both in public and private markets



**It’s not a systemic risk, but it’s a warning sign**

That is not to say that everything is fine. Even if private credit firms are not the sources of a potential crisis, their struggles could be a warning sign. Broader markets have been chewing on the AI disruption theme for a while, and if it is hitting the firms that private credit has lent to, that itself is a worry. As Robert Armstrong argued in the Financial Times this week, there are signs that private credit has a problem of low quality loans – not just a lack of liquidity.

The other side of this equation is that private credit has become a vital source of capital for the world economy, particularly the US economy. A liquidity squeeze on private credit could cut off funding for a big chunk of the economy.

Companies would have had few problems getting through this credit hiccup had global interest rates continued to decline, as previously expected. But the current oil shock has disrupted the interest rate cycle; many now expect *rising* rates if oil prices push up inflation. It is notable that the worst hit stocks in the last week have been the most rate-sensitive, like real estate.

Private credit stress is unlikely to cause systemic risks – but it is fair to worry about what that stress represents. It will be crucial to watch credit spreads in public markets from here.

Global Equity Markets				13-Mar		Technical		Valuations		
Market	Level	% 1 Week	% 1 Week (GBP)	Short	Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE	
UK FTSE 100	10308	+0.6	+0.6	↗	↗	3.1	14.9	13.5	12.8	
UK FTSE 250	22168	-1.2	-1.2	→	↗	4.0	12.7	11.5	13.4	
UK FTSE All-Share	5521	+0.4	+0.4	↗	↗	3.2	14.8	13.3	12.8	
FTSE Small x Inv_Tsts	6283	-2.9	-2.9	↗	↗	4.4	19.6	10.7	10.1	
EU STOXX ex UK	758	+0.6	+0.4	→	↗	3.0	17.1	15.4	15.1	
France CAC 40	7960	+0.2	+0.0	→	↗	3.3	17.1	14.9	14.1	
Germany DAX 40	23563	+0.5	+0.3	→	↗	2.5	17.2	14.8	13.3	
US S&P 500	6680	-0.6	+0.5	→	→	1.2	24.0	20.5	19.0	
US NASDAQ comp	22230	-0.9	+0.3	→	→	0.6	34.8	24.2	26.1	
Japan Nikkei 225	53820	-3.2	-3.1	↗	↗	1.5	22.3	22.1	18.5	
World Bloomberg	2326	-1.1	+0.1	→	↗	1.7	20.9	17.7	16.6	
China Bloomberg	1338	+0.4	+1.5	→	→	2.1	14.6	12.6	12.5	
Emerging Bloomberg	1602	-1.5	-0.4	↗	↗	2.3	16.9	12.3	12.5	
FTSE100 Top 6		S&P Global Top 6		(GBP terms)		Global Sectors		(GBP terms)		
Company	%	Company	%	Sector	%	Sector	%			
Metlen Energy & Metals	+9.7	Sandisk DE	+21.7	Tech	+0.6	Staples	+0.6			
Centrica	+7.7	BE Semiconductor Industries	+21.0	Financials	-1.5	Energy	+3.3			
Shell	+7.3	Nintendo	+17.9	Health	-0.7	Materials	-1.3			
BP	+7.0	Ciena	+17.1	Discretionary	-1.1	Utilities	+2.1			
Pershing Square	+6.6	Zalando	+15.7	Industrials	-1.6	Real_Estate	-1.5			
Admiral	+6.4	Micron Technology	+15.6	Communications	+0.4					
FTSE 100 Bottom 6		S&P Global Bottom 6		(GBP terms)		Fixed Income				
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg				
easyJet	-8.3	Fair Isaac	-21.7	UK 5yr Gilt	4.31	+0.19				
Smiths	-8.2	Centene	-19.6	UK 10yr Gilt	4.80	+0.17				
Persimmon	-7.6	Northern Star Resources	-18.5	UK 15yr Gilt	5.19	+0.17				
Barratt Redrow	-7.2	Paramount Skydance	-16.2	US 10yr Treasury	4.27	+0.15				
Melrose Industries	-7.1	Campbell's Company	-13.3	France 10yr OAT	3.64	+0.13				
Intertek	-6.3	Constellation Software Canada	-12.9	Germany 10yr Bund	2.96	+0.10				
				Japan 10yr JGB	2.25	+0.09				
Currencies			Commodities			UK Mortgage Rate Estimates				
Pair	last	%1W	Comdty	last	%1W	Rates (LTV c.75%, no fee)	13-Mar	11-Feb		
USD per GBP	1.326	-0.6	Oil Brent \$:bl	100.74	+10.2	UK BoE base rate	3.75	3.75		
GBP per EUR	0.864	-0.4	Gold \$:oz	5040	-1.8	2yr fixed	4.24	3.91		
USD per EUR	1.146	-1.0	Silver \$:oz	80.64	-3.8	3yr fixed	4.34	3.95		
JPY per USD	159.37	+1.1	Copper \$:lb	579.4	-0.4	5yr fixed	4.33	3.95		
CNY per USD	6.897	-0.1	Alumnm \$:mt	3550	+4.9	10yr fixed	4.65	4.52		
USD per Bitcoin	72,423	+5.9	Agriculture BBG	56.47	+0.7	Standard variable	6.62	6.62		

Prices taken levels at 14:45 where possible

LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Mortgage estimates are derived from sterling swaps markets and moneyfacts.co.uk

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Lothar Mentel

