



The Tatton Weekly

War disrupts energy markets

6 March 2026

This week's topics:

Known Unknowns return

February asset returns review

How inflationary is the oil shock?

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Major geopolitical gamble, Bill Bramhall, 5 March 2026

Known unknowns return

The US and Israel's war against Iran has plunged capital markets into uncertainty. No one knows how long it will last, what the endgame is or how much the global economy will be disrupted along the way. Markets are famously ignorant of human suffering but hate uncertainty. So, it is hardly a surprise to see some extreme price movements. But not knowing is not the same thing as fearing the worst. We started 2026 with expectations of stronger global growth and corporate earnings – and that should still be the focus for investors. We cannot downplay the risks from this conflict, but missing out on the next leg up would be a risk too.

Markets shake but don't break

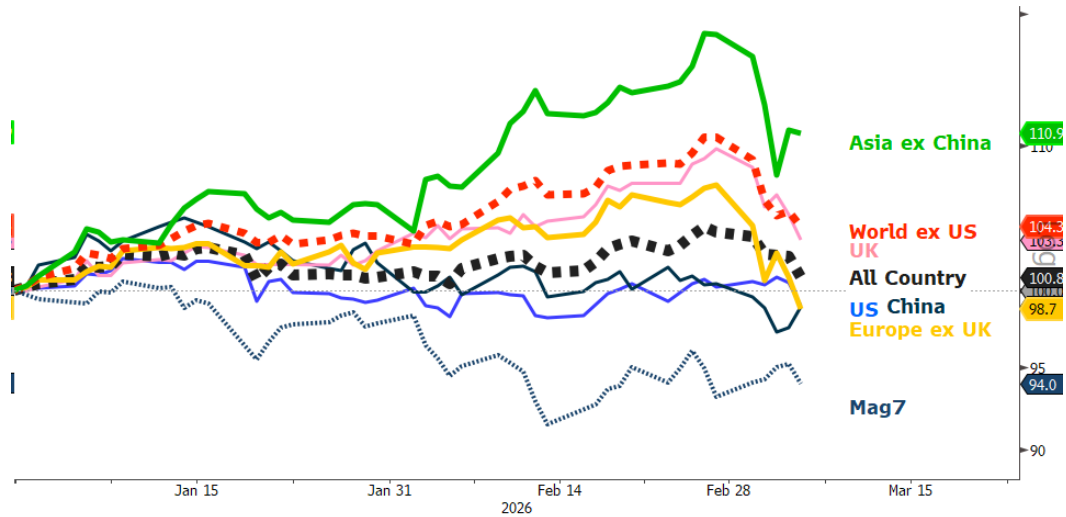
Markets were thrown out of alignment by the geopolitical events this week. European natural gas prices nearly doubled at the start of the week, reversing a year-long downward trend. European stocks were hit much harder than the US, after months of outperformance. The dollar spiked against global currencies, after sustained weakness. The biggest price action came in Korea: its stock market sold off around 20% on Monday and Tuesday, before recovering 12% on Thursday. Incredibly, Korea's market is still up around 30% since the start of 2026.

East Asia is particularly at risk, due to its dependence on oil and gas imports. Korean volatility also shows how assets favoured by speculative leveraged traders (i.e. hedge funds) are the most

vulnerable. We suspect a similar dynamic explains the large rise in UK bond yields (as discussed in a separate article).

All things considered, the aggregate global equity market reaction was not as bad as historical precedent would have suggested. Europe and Asia came under the most pressure. The UK's FTSE 100 held up a bit better, due to its high proportion of energy companies. The sell-off seems like a shake-out of speculative positions in the previously profitable "cyclical versus tech" trade (value versus growth). Investors worried about AI disruption may have bought the Magnificent Seven tech stocks (rediscovering their 'quality growth'), which rose 2% in sterling terms.

Global equity total return indices year-to-date
 Bloomberg All-Country and selected regions, rebased to start of 2026



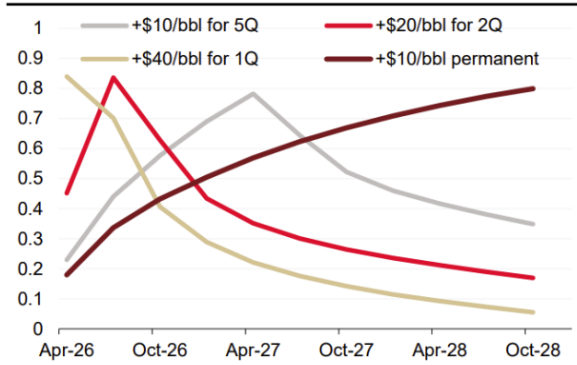
Source: Tatton IM, Bloomberg: G2508
USN Index (Bloomberg United States Large & Mid Cap Net Return Index) Bbg equity rtn tr 2 Daily 31DEC2025-23MAR2026 Copyright © 2026 Bloomberg Finance L.P. 06-Mar-2026 14:42:20

Perhaps markets have, in general, become desensitised to repeated shocks. The last global oil and gas shock came in 2022, and it did not destroy the world economy. Oil and gas prices have not spiked as high as they did after Russia invaded Ukraine but, even if they do, plenty of investors would back the world economy to overcome them.

The war's known unknowns

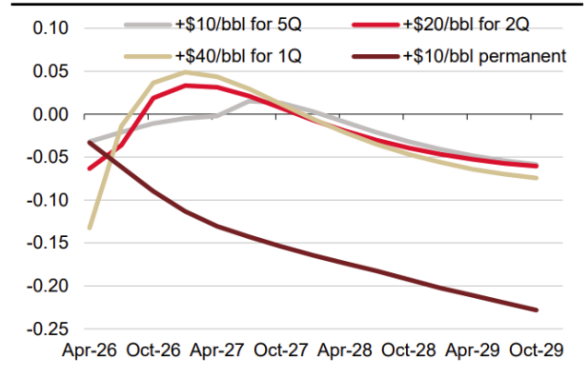
We do not think the risks should be ignored. There are 'known unknowns' about the length, outcome and collateral damage from the Iran war, the most obvious oil's inflation impact. We write about that separately, but the chart below (from Societe Generale Economics and Cross Asset Research) shows some projections for global growth and inflation. They look at temporary rises over different periods, and a permanent (longer than four years) impact scenario:

The percentage point increase in Global consumer price level relative to baseline model



Source: SG Cross Asset Research/Economics, NIGEM

The percentage point changes in the level of Global GDP relative to baseline model



Consumer prices are projected higher everywhere, but global growth is barely affected, falling initially, then reversing before settling at a lower trend. More importantly, growth will differ regionally. The US, now a net oil and gas exporter, might actually benefit, at least in the short-term. Asia is hit hardest, followed by Europe.

Investors worry about the short-term, but also about the possible end states. Is this a regime shift (like Venezuela), a regime replacement (like Iraq) or an future failed state (like Libya)? Trump seemingly prefers a short war. Judging by the apparent lack of military preparedness, he may have only wanted sabre-rattling in the first place. But wanting to keep it brief does not mean he will.

There is some suggestion that the Venezuela and Iran attacks are part of a broader hawkish strategy to starve China of energy supplies. We think that is unlikely (the US has offered to protect tankers through the Strait of Hormuz, more of which are bound for Asia than the US) but, again, that does not mean things cannot escalate in that direction.

Then there is the disruption along the way. Markets are understandably focussed on oil and gas, but all sorts of trade ships through the Persian Gulf. The world has only just recovered from years of supply chain problems – and now another shipping crisis could be upon us.

Markets are distracted but the economy keeps going

The irony is that the war has distracted markets from their other worries. Just last week, everyone was panicking about AI destroying the software industry and a potential run on private credit firms. Those themes have not gone away, but few are talking about them anymore. Neither are markets focussed on Trump trying to reimpose tariffs after the Supreme Court loss, when that could equally disrupt global supply chains.

In many respects, the world economy has been humming in the background. Until recently, 2026 growth indicators rose as high as 2% for the combined economies of Europe, North America and Australasia – up from 1.6% in 2025.

This week, at the National People's Congress, China set a 4.5%-5% growth target for 2026. While this is the lowest target since 1991 (a recognition of its economic challenges), its population will benefit from Beijing re-emphasising domestic demand. This will also boost the rest of the world, particularly its near-neighbours in Asia.

In the UK, the chancellor's spring statement barely registered as news – partly because it did not contain anything new, but mainly because it rapidly became irrelevant. Rachel Reeves spoke about lower inflation, lower debt and improving growth – and she was not wrong – but all of those are now in doubt.

Investors were ambivalent to economic data even before the war, but many components have improved. Business confidence surveys were better than expected in the US and Europe. US employment data was improving, but then February's data, released today, strongly disappointed. The non-farm payroll dropped 92,000 thanks to the strike and weather, however, layoffs do not seem to be AI-related, judging by tech and service job data.

If things do calm down, markets could easily turn positive. Investors that sell out of short-term panic often miss out on the broad recovery that follows. In uncertain times, we always emphasise the importance of 'time in the market' over 'timing the market'.

February asset returns review

Despite the weight of negative narratives, February was a strong month for investment returns. Friday 27th was the last day of trading – right before the US and Israel attacked Iran – so the returns table below does not yet include the impacts of the war. Global stocks climbed 3.4% in sterling terms, and global bonds added 1.4%. Global growth data looked robust, inflation softened and corporate earnings reports were better than expected. Anxieties bubbled under the surface: potential AI disruption, a private credit markets crunch and geopolitical tensions (now realised). This hurt returns into the end of the month, but they were still strong across most major indices.

The US was one of the worst performing major equity markets in February, but still gained 1.3% in sterling terms. Much of that underperformance came from tech stocks, which dropped 1.3% amid fears of AI disruption and excessive infrastructure spending. Fear of disruption is the opposite of the 'AI bubble' talk from a few months ago: investors are worried that new AI tools will be so effective that they could make certain industries obsolete.

Predictions of the so-called 'SaaS-pocalypse' – the wiping out of software-as-a-service firms – grew through the month. Playing into these fears, Citirini Research put out a hypothetical piece last week describing a future world economy ravaged by AI, which shook markets.

Asset Class	Index	February	YTD	12 months	2025	3-yr	5-yr	10-yr
						rolling annualised	rolling annualised	rolling annualised
Equities	UK Large Cap	7	10.2	28.1	25.8	15.6	15.1	10.1
	UK Ethical Large Cap	7.0	8.9	20.1	18.8	11.1	10.6	6.2
	Europe ex-UK	4.9	7.1	22.0	26.2	13.7	11.7	11.0
	US Large Cap	1.3	0.7	9.6	9.8	17.6	15.1	15.9
	US Technology Large Cap	-1.3	-2.4	13.4	12.8	22.1	13.1	18.9
	Japan	10.8	15.8	34.8	16.0	18.3	10.5	10.9
	Global Stocks	3.4	4.3	16.3	13.9	16.6	12.6	13.4
	Emerging Markets	7.7	14.9	40.4	24.4	17.3	7.1	11.1
	China	-2.2	0.8	10.8	22.6	7.6	-3.2	8.0
Bonds	UK Gilts All Stocks	2.3	2.2	5.7	5.0	2.8	-3.5	-0.3
	£-Sterling Corporate Bond Index	1.2	1.5	7.1	7.3	6.3	0.1	3.0
	Global Aggregate Bond Index	1.4	1.7	4.8	4.8	5.1	0.6	1.5
Commodities	Commodity Index	4.5	12.5	10.7	-0.3	5.7	14.8	8.5
	Brent Crude Oil Price	7.3	19.8	-6.3	-24.1	-7.7	3.3	7.5
	Spot Gold Price	4.3	20.2	69.4	53.6	37.0	25.0	15.8
	Spot Silver Price	-11.0	25.0	170.6	131.9	58.0	28.5	20.3
Inflation	UK Consumer Price Index (% Chg for period)*	-0.4	-0.4	2.6	3.4	-	-	-
Cash rates	SONIA 3-Month	0.3	0.6	4.3	4.5	4.8	3.2	1.9
Property	Global REITs	8.3	9.3	5.7	0.3	4.7	6.0	5.3
Alternatives	Multi-Strategy Liquid Alternatives	3.9	3.6	2.5	0.3	3.4	4.8	3.8
	Bitcoin	-20.1	-24.9	-27.1	-13.5	-	-	-

Source: Morningstar Direct as at 28/02/26. * to end of previous month (31/01/26). All returns in GBP.

Even AI market darling Nvidia's stellar earnings results were not enough to spur a recovery in tech stocks. Markets seemed to realise that, if too many people lose from AI, there can be no winners. In aggregate, US corporate earnings forecasts for the current quarter were downgraded last month.

At the end of the month, the US Supreme Court ruled against Donald Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose tariffs. The ruling was largely expected, but still moved markets, as the Trump administration seemed surprisingly unprepared on how to reimpose tariffs under alternative laws.

Tighter market liquidity conditions hurt private credit firms, culminating in Blue Owl halting redemptions on a retail-focussed private credit fund. The panic led to a sharp fall in the shares of private credit and equity firms. We note, though, that this did not have a knock-on effect even on the lowest rated investment-grade bonds – suggesting the private credit crunch should be fairly

contained. We suspect this is about the difference in underlying assets: private credit firms lent extensively to tech firms now at risk from AI.

Despite gloomy predictions, AI investment is clearly benefitting many companies – evidenced by February’s surge in Asian shares (which have admittedly slumped back after the Iran war). Korea was the standout overall, but Japanese shares also gained 10.8% in sterling terms last month. Japanese equities benefitted from Prime Minister Takaichi’s landslide win in the snap election. Her promises of fiscal stimulus add to investors’ positive perceptions of Japanese growth.

Chinese stocks could not take advantage of this good will, however, falling 2.2% in sterling terms through February, as its economy continued to disappoint. Despite the weak economy, the renminbi continued to strengthen against global currencies. We have argued for a while that the renminbi’s current rise is more about power and status than economic growth.

Emerging market (EM) currencies in general performed well last month, helped by the weakness of the dollar. That was a major reason for EM equities’ 7.7% sterling-terms gain last month. We wrote recently that EMs stand to gain from a currency adjustment towards purchasing power parity (PPP) levels, a knock-on effect from Trump’s shock to global trade. Strangely, one country missing out on this positive trend – both in currency and stock market terms – is India. EM positivity has been more focussed on commodity exporters.

Government bond yields fell sharply through February, thanks to lower global inflation (though see our other article for a post-Iran update). US 10-year bond yields briefly dropped below 4% at the end of the month, but UK bond yields dropped by an even bigger margin. This came after news of a higher-than-expected UK tax take, and expectations of interest rate cuts. The government’s continued commitment to fiscal discipline is shoring up its reputation with international investors, even if UK citizens are not pleased with higher taxes.

UK stocks had a stellar month, gaining 7%. Domestic business activity grew at the fastest pace in two years, and improving productivity raises Britain’s growth potential (the amount we can grow without stoking inflation). This week’s oil shock throws a spanner in the works, but the background outlook improved in February. European stocks gained 4.9% in sterling terms, thanks to a similar story around lower inflation pressures. Europe was also helped by US tariff relief, following the outline of a Greenland agreement in January.

Commodity prices rose 4.5% in anticipation of the Iran war. Oil prices surged 7.3% through February and have spiked even higher since. Gold prices rose 4.3%, partly due to geopolitical and policy fears, but likely due to private credit woes too.

The US-Israel-Iran war has plunged markets into uncertainty at the start of March, but few expect an oil shock to derail the world economy. Just as with markets’ other anxieties, it is worth bearing in mind that the fundamental outlook for global growth remains solid.

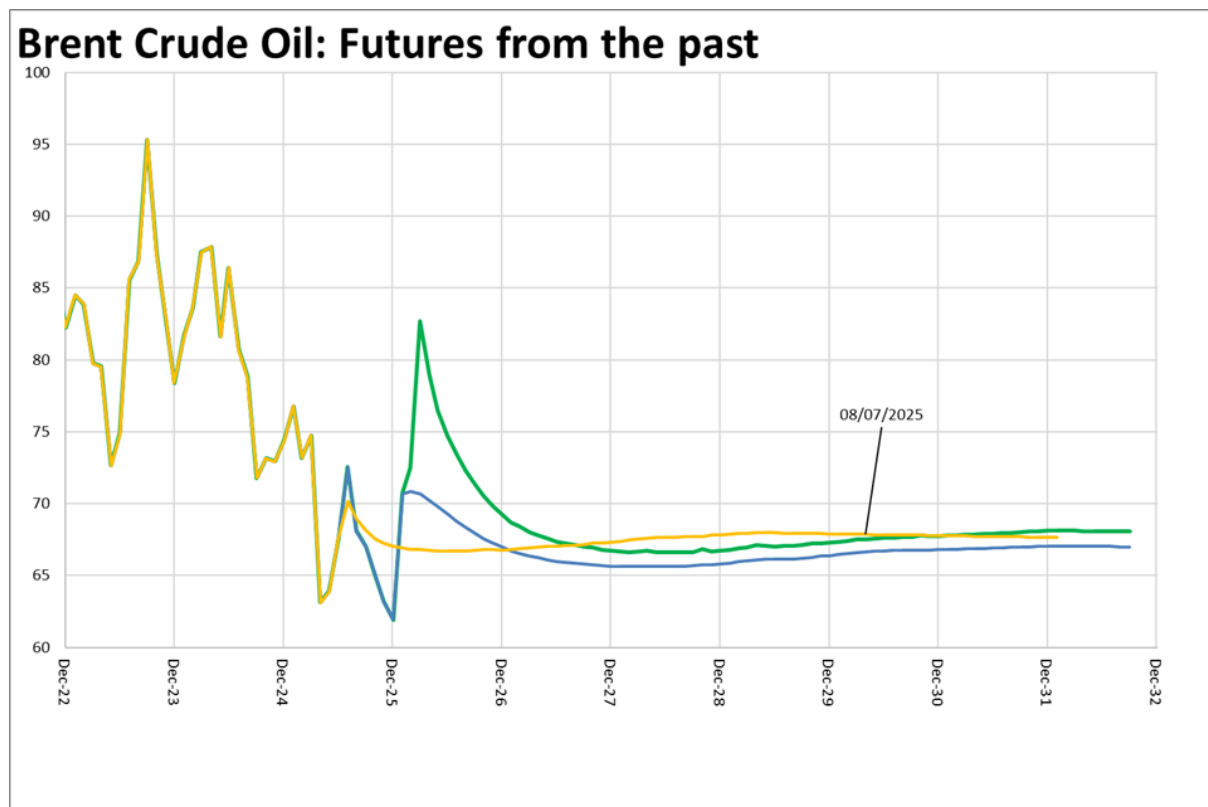
How inflationary is the oil shock?

Spiking oil prices are pushing up inflation expectations. Brent Crude, the international oil price benchmark, jumped from \$70 per barrel last week to over \$90pb at the time of writing. We do not know how long the US-Israeli war against Iran will last, but the fallout is already disrupting global supply lines. Sustained higher oil prices will push up inflation and detract from long-term global growth – but not equally, judging by bond markets’ reaction. We suspect that says more about bond market dynamics than it does inflation, though.

High oil prices expected to fall

US strikes against Iran were not exactly a surprise. The US and Israel had signalled readiness to attack well in advance, and oil prices had been climbing pretty sharply since the start of 2026 in anticipation of disrupted supply. And yet, the start of the war still caused an 18% spike in oil prices. That is more than markets adjusting their expectations from likely to actual. While US strikes were telegraphed in advance, there does seem to be genuine surprise at both the scale of the attack and Iran’s retaliatory capabilities across the Middle East. Tanker traffic through the Strait of Hormuz has been halted after several ships were hit.

The oil futures market suggests that the problems are in the short-term. Contract prices for the next few months are up sharply, but longer-term delivery contracts – beyond a year – have barely moved. Oil traders are effectively saying that oil will settle down within a year or two.



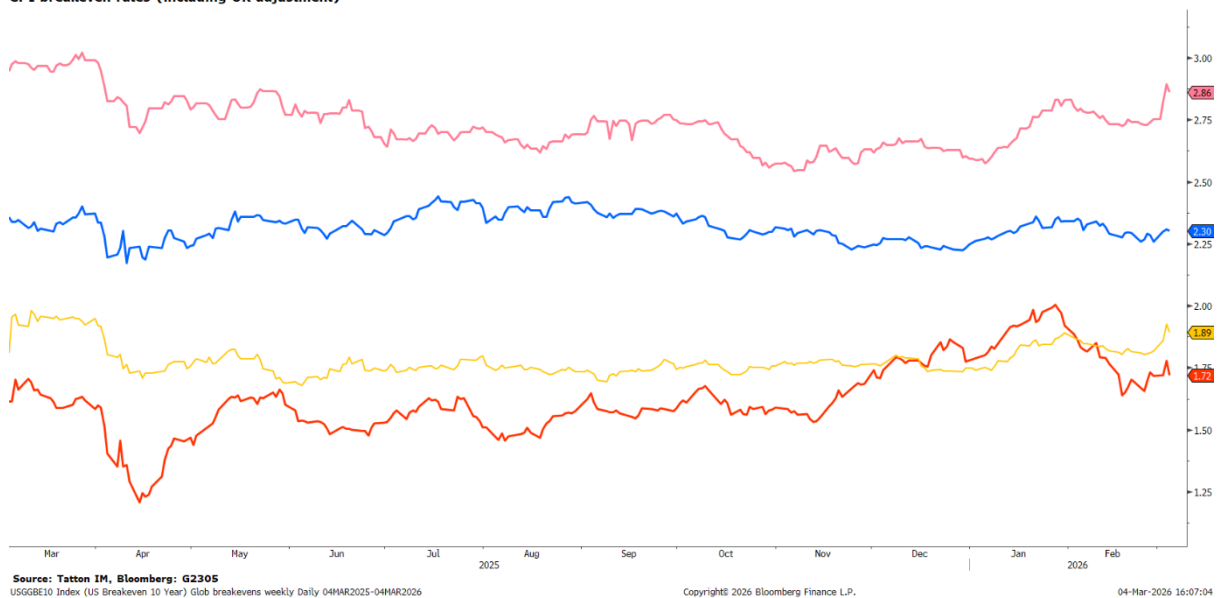
No one really knows how long the war will last, but the consensus among most commentators is a month or two, followed by a slow resumption of Iranian oil flow. If that is right, then the oil curve looks reasonable. There is still an oversupply in global oil markets, and the long-term projections point to weaker demand.

That does not mean there is nothing to worry about. Even if the relatively optimistic view is right, a sustained \$10pb premium for a year would add around 0.1 percentage points to global inflation (judging by analyst projections), which would detract from real growth.

UK inflation breakevens unusually high

Long-term government bond yields have moved up, suggesting higher inflation expectations and – probably – higher interest rates to contain prices. Goldman Sachs analysts expect this to take 0.1 percentage points off European growth this year, for example.

10-year inflation breakevens
CPI breakeven rates (including UK adjustment)



The best way to gauge markets' inflation expectations is by looking at the so-called breakeven rates, comparing nominal bond yields with inflation-linked bonds. The residual should, in theory, reflect bond markets' long-term inflation expectations. As the chart above shows, US expectations have barely moved, European expectations have bumped up a little, and UK expectations have increased dramatically.

You could try to spin this as a story about energy security (the US has it, Europe has a little, and Britain has none) but the glaring omission from this story is Japan. Japan's breakeven rates have

moved down – suggesting lower long-term inflation expectations, despite being far more dependent on imported oil and gas.

The disparity between UK and Japanese rates is exceptionally hard to justify, especially considering Prime Minister Takaichi's recent appointment of two dovish central bankers (preferring lower interest rates) to the Bank of Japan. The one possibility is that an oil shock could impair Japan's long-term domestic demand – which has been improving but is historically fragile – shaking the economy out of its current growth and inflation path. But even then, it is not clear why this dynamic should apply to Japan and not to the UK.

It's about bond markets – not inflation

Our best guess is that the disparity in breakeven rates is not about inflation expectations at all, but rather about bond market inefficiencies. Breakeven rates are difficult to trade directly; they are effectively a residual between two different and imperfectly liquid bond markets. A lack of liquidity in inflation-linked bond markets, for example, can lead to differences that may look strange.

If we are right about that, then that effectively means UK inflation-linked bonds are underpriced relative to Japanese equivalents – and possibly US and European bonds too. But it is not always possible to arbitrage these disparities, which is why they can persist for a long time. Ironically, if you think disparities will persist for a while, that might stop you from attempting arbitrage in the first place.

Markets could be underestimating the inflationary impacts of higher oil prices. If the war lasts beyond a couple of months (as President Trump has alluded to) then oil prices will likely stay higher for longer than the current futures market suggests. Even if oil traders are right about future prices, the cumulative effects of inflation shocks since the pandemic could lead businesses and households to run higher inventories – increasing demand and pushing up inflation. Still, if this oil shock creates an inflationary dynamic, it will do so for everyone, not just the UK.

Global Equity Markets		06-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	10248	-5.8	-5.8	↗	↗	3.1	15.1	13.8	12.8
UK FTSE 250	22441	-5.3	-5.3	↗	↗	4.0	13.1	11.9	13.4
UK FTSE All-Share	5501	-5.7	-5.7	↗	↗	3.2	15.0	13.6	12.8
FTSE Small x Inv_Tsts	6471	-3.4	-3.4	↗	↗	4.2	20.3	11.3	10.1
EU STOXX ex UK	753	-6.1	-7.1	→	↗	3.0	17.3	15.6	15.1
France CAC 40	7941	-7.2	-8.2	→	↗	3.3	17.3	15.2	14.1
Germany DAX 40	23453	-7.0	-8.0	→	↗	2.5	17.5	15.0	13.3
US S&P 500	6722	-1.8	-0.9	→	↗	1.2	24.6	21.1	19.0
US NASDAQ comp	22426	-0.8	+0.0	↘	→	0.6	35.4	24.8	26.1
Japan Nikkei 225	55621	-5.5	-5.7	↗	↗	1.4	23.1	22.4	18.5
World Bloomberg	2352	-3.5	-2.7	→	↗	1.7	21.4	18.2	16.6
China Bloomberg	1333	-2.6	-1.7	→	→	2.3	14.6	12.1	12.5
Emerging Bloomberg	1627	-6.4	-5.6	↗	↗	2.3	17.2	12.4	12.5

FTSE100 Top 6		S&P Global Top 6		(GBP terms)		Global Sectors		(GBP terms)	
Company	%	Company	%	Sector	%	Sector	%		
BAE Systems	+4.3	Hanwha Aerospace	+21.1	Tech	-0.2	Staples	-5.4		
Admiral	+3.7	CF Industries	+20.9	Financials	-4.0	Energy	+2.2		
BP	+3.1	Trade Desk	+19.5	Health	-4.8	Materials	-7.4		
Entain	+2.8	Neste Oyj	+16.6	Discretionary	-2.9	Utilities	-2.8		
Sage	+2.4	Crowdstrike	+16.1	Industrials	-4.4	Real_Estate	-2.7		
Rightmove	+2.3	AppLovin	+14.9	Communicatic	-1.1				

FTSE 100 Bottom 6		S&P Global Bottom 6		(GBP terms)		Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg		
Fresnillo	-17.1	Zealand Pharma	-33.6	UK 5yr Gilt	4.17	+0.49		
Reckitt Benckiser	-15.0	Beiersdorf	-23.4	UK 10yr Gilt	4.68	+0.44		
Persimmon	-15.0	Kia	-20.6	UK 15yr Gilt	5.07	+0.42		
Intertek	-14.6	Sumitomo Metal Mining	-20.0	US 10yr Treasury	4.16	+0.19		
Weir	-14.4	Norwegian Cruise Line	-19.5	France 10yr OAT	3.52	+0.31		
Int'l Consolidated Airlines	-14.1	First Quantum Minerals	-19.0	Germany 10yr Bund	2.86	+0.22		
				Japan 10yr JGB	2.16	+0.05		

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Comdty	last	%1W	Rates (LTV c.75%, no fee)	06-Mar	04-Feb
USD per GBP	1.334	-0.8	Oil Brent \$:bl	91.38	+25.8	UK BoE base rate	3.75	3.75
GBP per EUR	0.867	-1.1	Gold \$:oz	5133	-1.8	2yr fixed	3.79	3.91
USD per EUR	1.157	-1.9	Silver \$:oz	83.82	-8.6	3yr fixed	3.97	3.95
JPY per USD	157.67	+1.0	Copper \$:lb	581.6	-4.4	5yr fixed	3.96	3.95
CNY per USD	6.904	+0.6	Alumnm \$:mt	3293	+5.4	10yr fixed	4.59	4.52
USD per Bitcoin	68,410	+3.8	Agriculture BBG	56.08	+3.0	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

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel

