

Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – relief rally as energy fears ease slightly

Global stock markets finished last week higher as investors responded to tentative signs of de-escalation in the Middle East, even as energy prices remained elevated and volatility stayed high. In sterling terms, the US **S&P 500 index rose 3.7%** and the **Nasdaq 100 gained 4.3%**, marking the strongest weekly advance for US stocks in several months, as the shares of large technology companies rebounded following a weak quarter-end. The **FTSE 100 climbed 4.7%**, supported by strength in energy and more defensive sectors, which continued to benefit from higher oil prices. European markets also bounced back, with the **MSCI Europe index (excluding the UK) up 4.3%**. In Asia, Japan lagged developed peers, with the **TOPIX up 1.7%**, as sensitivity to energy prices, and a stronger yen, capped gains. Chinese markets were subdued, with the **MSCI China broadly flat**, as improving domestic activity data was offset by persistent geopolitical uncertainty. Overall, investors showed improved risk appetite, but sentiment remained highly responsive to headlines.

Geopolitics – Middle East tensions continue to shape sentiment

Geopolitical developments in the Middle East remained the central driver of market sentiment. Early optimism that military action could be scaled back supported a relief rally in 'risk assets' like shares, although confidence wavered as policymakers provided limited clarity on timelines or concrete steps towards reopening key shipping routes. **Continued disruption risks around the Strait of Hormuz kept a risk premium embedded in oil prices**, reinforcing concerns about the knock-on effects for inflation and global growth. While diplomatic efforts offered some reassurance, the mood in markets remained cautious, with investors reluctant to fully price in a swift resolution.

Central banks – cautious stance amid energy-driven inflation risks

Central banks faced a more complex backdrop as higher energy prices threatened to push up inflation in the near term. In the US, commentary from the **Federal Reserve (the Fed) helped ease concerns** about interest rate rises, with policymakers emphasising a data-dependent approach as growth shows signs of moderating. In Europe, higher headline inflation driven by energy costs **complicated the outlook for the European Central Bank**, even as underlying price pressures continued to ease. **In the UK, policymakers remained alert** to the risk of higher inflation, particularly if energy prices stay elevated. In Japan, speculation grew that the **Bank of Japan could raise rates** if higher oil prices feed through to inflation expectations.

News – US stocks rebound after weak quarter-end

The dominant market story was a **sharp rebound in US stocks following a difficult end to the first quarter.** Shares in large technology companies led the recovery, which came amid investor hopes that geopolitical risks may prove manageable, although confidence was tested by renewed bouts of uncertainty later in the week. Despite this, the fact markets finished the week firmly higher suggests **investors remain willing to look through near-term 'noise'**, provided the conflict does not escalate materially.

Economic data – resilience, but momentum remains uneven

Economic data released during the week painted a mixed picture. **In the US, labour market indicators were broadly supportive**, with payroll growth exceeding expectations, although job openings declined and hiring slowed. Manufacturing activity remained in expansion, but firms reported rising input costs linked to higher energy prices. Consumer confidence edged higher, suggesting household sentiment remains cautious but stable. **In the UK, manufacturing output weakened slightly**, while house price growth showed signs of picking up. **In the eurozone, higher energy costs pushed headline inflation higher**, while growth forecasts for Germany were revised down. In China, economic activity data for March surprised positively, signalling improving near-term momentum despite ongoing pressure on profit margins from rising costs.

Commodities

Oil remained above \$110 per barrel, driven by ongoing disruption risks in the Middle East and continued concern over shipping through the Strait of Hormuz. The key question is whether prices stay elevated. If they do, inflation pressures are likely to intensify, though spare capacity among some oil-producing nations and strategic reserve releases may help limit the longer-term impact.

Gold moved back above \$4,500, recovering after recent losses as geopolitical uncertainty supported safe-haven demand, despite headwinds from a stronger US dollar and higher bond interest payments.

Week ahead – what to watch

US: ISM services purchasing managers' index (PMI) data (Mon), durable goods orders (Tue), Fed rate-setting committee minutes (Wed), core personal consumption expenditures (PCE) inflation, economic growth (Q4 final), personal income and spending (Thu), consumer prices index (CPI) inflation and University of Michigan consumer sentiment (Fri).

UK: No major data releases scheduled.

Europe: Germany trade balance (Thu).

Asia: Japan consumer confidence (Thu), China inflation (Fri).

Source: Marlborough Multi-Asset, Morningstar, Financial Times, PIMCO, T. Rowe Price, Anglia Advisors, Trading Economics

Risk Warnings

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