MARKET INSIGHT

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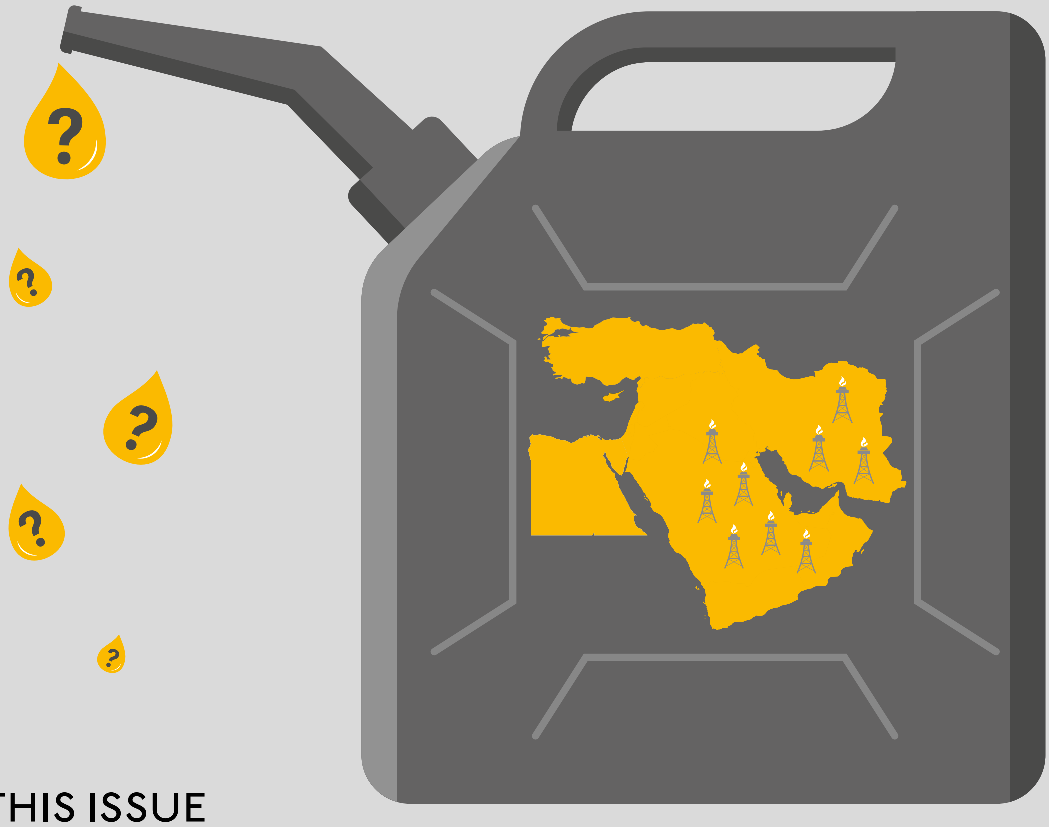
Navigating Geopolitical Uncertainty



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NAVIGATING GEOPOLITICAL UNCERTAINTY

ALASTAIR POWER | INVESTMENT RESEARCH MANAGER

Recent market activity has provided a timely reminder that geopolitics can be a key driver of short-term market volatility. Developments in the Middle East mark an escalation of prior tensions and the risk of a more prolonged energy crisis that could lead to slower economic growth and a more uncertain inflationary outlook.

ECONOMIC IMPLICATIONS

Oil prices moved higher through the initial stages of the conflict, remaining volatile as the conflict develops, causing a knock-on effect with increases in wholesale UK electricity prices. Prolonged conflict in the Middle East and disruption within the Strait of Hormuz, a strategically important sea passage from the Persian Gulf, could see oil prices remain elevated. With energy prices being a component of the Consumer Price Index (CPI) measure of inflation, there is some concern regarding the potential for inflation rates to move higher, although the scale will be dependent on several factors, especially the duration of the conflict. In the near-term, UK households will be feeling the initial impact at petrol pumps but are expected to be somewhat insulated from rising energy costs given the pre-announced reductions to the energy price cap.

Interest rate markets saw adverse reactions in the period leading up to the Bank of England's Monetary Policy Committee meeting on 19th March. The Committee opted to hold interest rates at 3.75% and may be forced to delay further reductions to later in the year. It's likely there will be a return to the 'wait and see' rhetoric to assess the economic implications of higher energy prices. In the meantime, lenders are expected to continue repricing mortgage rates, which could lead to slower housing market activity.

IMPACT ON THE MARKETS

Global equity markets moved lower through the early stages of the event as a 'risk-off' stance took hold, leading to wider selling of liquid risk assets. For UK markets, the FTSE 100 experienced successive days of negative returns with sectors such as airlines and banking being some of the worst affected. UK government bonds have seen yields increase, with the 10-year UK gilt yield rising to the 4.7% level. Thus far in 2026, UK government bonds have produced a small negative return as prices reacted negatively to unexpected increases in inflation given expectations of the future cashflows being less valuable in today's terms.

Oil prices have been the primary focus of market reactions, with the price during this conflict first rising above the US$100 per barrel threshold on Monday 9th March. Gold, which has historically been used by investors as a way to diversify their portfolios in times of market uncertainty, remains elevated and above the US$5,000 level per troy ounce, indicating the wider levels of risk aversion in the face of geopolitical volatility.

> *"While current events are unsettling, the outlook for the coming year remains constructive despite volatility being expected to persist in the coming weeks."*

LOOKING AHEAD

While current events are unsettling, the outlook for the coming year remains constructive despite volatility being expected to persist in the coming weeks. Iran itself has experienced a challenging period of economic performance, suffering from elevated rates of inflation and slowing economic growth, which could worsen if there is an ongoing loss of key revenue from oil exports should the Strait of Hormuz remain closed. With President Trump likely seeking a quick win in the run up to the November mid-terms, and China being the biggest importer of Iranian oil, both will want to avoid sustained higher energy costs. Should the situation be resolved in the coming weeks and energy price increases reverse, markets will likely revert attention to fundamental performance, leaving current escalations as another short-term period of volatility. ■

INSIGHT

TAKING THE ROUGH WITH THE SMOOTH

INVESTING THROUGH GEOPOLITICAL UNCERTAINTY

THOMAS HYDE | JUNIOR INVESTMENT RESEARCH ANALYST

Investing today can be overwhelming as news cycles and markets have become deeply interconnected. Investors may feel the need to constantly react to developments or risk falling foul of an ever-changing world. Few issues command headlines quite like geopolitics. Diplomatic spats, trade tensions and military conflicts can introduce significant uncertainty into markets.

Often easy to explain with the benefit of hindsight, these events are far more difficult to predict accurately and consistently in advance.

In this article, we discuss how geopolitical shocks influence markets and consider how long-term investors can better navigate the volatility they create.

RE-EVALUATING INVESTMENTS WHEN UNCERTAINTY RISES

Financial markets dislike uncertainty, and geopolitical crises often trigger precisely that. Consider an individual investing in the stock market: they buy a company's shares believing the future upside outweighs the downside. When a shock unfolds, be it tariffs or war, for example, the investor is forced to reassess how this event may affect their rationale, which involves accounting for a dramatically widened range of potential outcomes. These outcomes, which were previously unlikely, have suddenly become front and centre, forcing a reconsideration of whether the investment remains worth the risk. This happens simultaneously for all other investors in the market.

UNDERSTANDING INVESTOR BEHAVIOUR

With the pressure to act fast, or risk the market moving adversely against them, investor psychological biases can take hold. **Recency bias**, the belief that recent events are most important to historical trends, may lead investors to think 'this time it's different' and sell. **Herd behaviour**, when investors follow the crowd, can accelerate price declines as participants rush to exit positions. This is influenced by **loss aversion**, the behavioural bias whereby losses are felt more intensely than gains, leading investors to want to minimise their potential downside. With these biases in mind, it is often observed that markets sell off excessively during geopolitical crises. Moreover, modern technology such as algorithmic trading, which uses computer programmes to execute hundreds of trades every second, has the potential to exacerbate market volatility in the short-term.

MARKETS CAN RECOVER QUICKLY

Research by JPMorgan suggests that military conflicts tend to have a subdued impact on the market, especially over a longer time horizon. This contrasts with initial investor sentiment, which assumes that these events will trigger a sustained market decline. On average, past military conflicts have resulted in a maximum drawdown (peak-to-trough decline) in the S&P 500 – the US stock market which tracks the performance of 500 leading companies listed on US exchanges – of -4.5% following their onset. Despite this initial decline, the index recovered quickly, with recorded gains of +1.4% and +2.5% one and three months later, respectively. Although past performance does not guarantee future results, historical trends indicate that investors have typically overreacted to geopolitical conflicts, overestimating their impact on economic prospects than in reality. Those who tolerated the volatility and remained invested in the market, instead of selling into weakness, would have participated in its recovery. For example, in the lead up to the 2003 Iraq War, many commentators feared the conflict could disrupt oil markets, triggering a spike in energy prices, the impact of which would cascade into other markets. On the war's onset, oil prices were far less volatile than expected and many investors who sat on the sidelines missed out on a recovery as sentiment improved. Over the next 12 months, the S&P 500 recorded gains of nearly 29%, highlighting the risk of trying to time geopolitical events.

WHY MARKET REACTION IS UNPREDICTABLE

Given the history of market overreaction, it is natural for some investors to consider how to avoid losses completely or even try to profit from a geopolitical crisis. Yet these strategies are difficult to execute in practice. One may try to pre-empt a crisis by selling risky assets as tensions rise and hold cash; aiming to use a risk-free asset to ride out the market drawdown with the intention of participating again once markets recover. However, trading around geopolitical events is difficult due to their unpredictability. Some small tactical portfolio reallocations may work, but consistently predicting the timing and market impact of shocks is extremely difficult. Markets may continue to rise while waiting on the sidelines, and the opportunity cost of holding cash can be significant if the anticipated crisis never occurs. Even macro hedge funds, specialist investment houses dedicated to capitalising on economic change, can struggle to outperform around certain crises.

CLOSING THOUGHTS

Over time, history has taught us how financial markets have exhibited resilience to geopolitical shocks. When considering conflicts, however, it is important not to lose sight of the human impact even while navigating market volatility. A well-diversified portfolio across asset classes, geographies and sectors can help reduce the impact of geopolitical volatility without the need for constant intervention. Yet, if history is any guide, an important, if unappealing, lesson emerges that short-term volatility should be an expected part of the investment process. ■

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'*How Much* You Invest Matters… *Where* You Invest Matters More'
Vittoria Vaccaro, Financial Planner

Hear from Vittoria, one of our in-house Financial Planners, on what to consider as we approach the upcoming tax year end.

READ THE ARTICLE

STOCK FOCUS

NORTH AMERICAN INCOME TRUST (NAIT)

RUTH HARRIS | INVESTMENT RESEARCH ANALYST

For income-seeking investors, the United States can be a challenging equity market. Since 2020, the dividend yield on the S&P 500 has been consistently under 2%, substantially less than UK and European equity markets. Many US companies often prefer to buyback stock as opposed to offering a dividend, due to preferential tax treatment for shareholders. That said, given the scale and historic strength of the US market, investors who need an income may still desire an allocation to the region.

The North American Income Trust (NAIT) is one investment trust designed to offer a relatively attractive yield in the US market. As of the end of January 2026 the yield was 3.3%, with the Trust paying dividends four times per year. The Trust's board has adopted a progressive dividend policy and has increased the dividend every year since 2011, though this is not guaranteed.

EXPERIENCED EQUITY MANAGEMENT

The Trust was historically managed by Aberdeen Investments under Fran Radano but, following a board review and struggling performance, the mandate moved to Janus Henderson. Fran Radano moved to Janus Henderson alongside the Trust and now works alongside co-manager Jeremiah Buckley. Both have significant experience managing US equity strategies, with complementary styles leading to a balanced approach to income investing.

> *"NAIT may continue to appeal to investors looking for income in the US market, as well as those who are hesitant around valuations related to the artificial intelligence trade after a strong period of performance."*

A FOCUS ON INCOME

Traditionally, the income focus of the Trust meant majority investment in higher-dividend, cheaper companies, such as financials, industrials and healthcare. Many of these sectors have struggled in recent years, which was a headwind to strategy performance. When the management moved to Janus Henderson, the portfolio was shifted to a more moderated style balance with some exposure to lower yielding, fast-growing companies, such as those in the technology and communications sectors. While the initial yield on the portfolio fell, the approach has worked for total returns and, in the twelve months to the end of January 2026, the Trust saw a share price return of 13.8%, ahead of the reference index 4.9%.

As well as being potentially appealing for income-seeking investors, NAIT also offers diversification away from the S&P 500. Technology names such as Nvidia, Apple, Microsoft and Alphabet, as well as names outside the IT sector but are exposed to technology, such as Amazon and Tesla, comprise 32% of the index. Due to NAIT's investment style, it has limited exposure to such names, with only an 11.5% weighting to information technology. It has a greater emphasis on the financial and health care sectors, with top holdings including pharmaceutical company Johnson & Johnson, oil and gas major Chevron, and PNC Financial Services, a large US bank. If there are investor concerns around the large technology companies, in particular if there are concerns about the build-out of artificial intelligence (AI), NAIT could provide diversified exposure to other areas of the US equity market. If we see a continued concentrated market rally in IT names, we expect NAIT to lag due to its limited exposure to this area. However, given the more flexible investing approach, the managers are able to take advantage of opportunities in the market, for example by investing in companies which saw a sharp fall in share price in April 2025 during the fallout from President Donald Trump's 'Liberation Day' tariffs.

POTENTIAL HEADWINDS

The Trust's ongoing charge of 0.77% is in line with peers in the US investment trust sector, but more expensive than some passive strategies which look to replicate the performance of an index. Shareholders in investment trusts can also see a headwind to performance from shares trading at a discount to the Net Asset Value (NAV) of the Trust's holdings. Even if the underlying assets perform well, an increasing discount can lead to lacklustre shareholder returns. Over the last year, NAIT's discount has narrowed significantly to around -3.3% as of early March. However, any cooling investor sentiment, either to the US equity market or the investment trust sector in general, could lead to the discount widening. A sell off in the market could lead to both NAV falling and the discount increasing, causing an even greater fall in share price. Moreover, weakness in the US health care or financial sectors would have a disproportionate impact on the Trust given its exposure to those areas. However, NAIT may continue to appeal to investors looking for income in the US market, as well as those who are hesitant around valuations related to the artificial intelligence trade after a strong period of performance. ■

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