



**BROMPTON**  
ASSET MANAGEMENT

## Quarterly review

for the three months to 31 March 2026



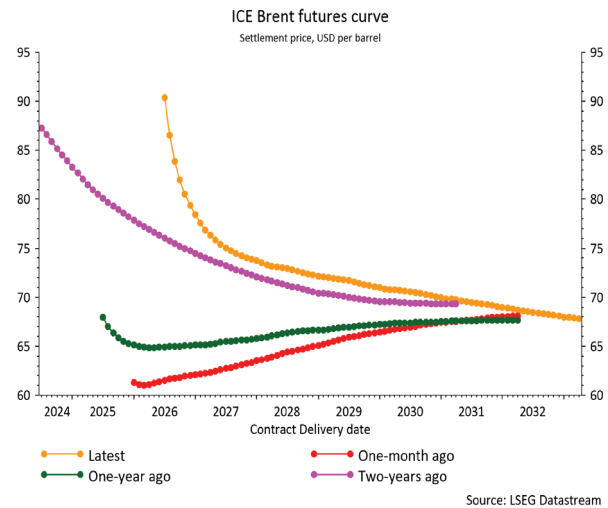
**Gill Lakin**  
Chief investment officer

Global equities and bonds fell 5.32% and 1.18% in sterling respectively in March in response to the US-Israeli war against Iran. The falls left global equities down 1.17% in sterling over the first quarter of 2026 while the quarterly return for bonds was 0.90%.

With the Strait of Hormuz closed to shipping, oil rose 87.02% in sterling over the quarter. Energy prices retreated somewhat in early April as a ceasefire and US-Iranian talks raised peace hopes but higher inflation leading to rising interest rates and lower economic growth may be unavoidable.

Equities in emerging markets and Asia excluding Japan outperformed, up 1.89% and 0.85% in sterling respectively over the quarter, but falls in March of 12.02% and 11.33% respectively all but erased gains made earlier. Many developing economies are energy importers and may be affected by higher prices and supply shortages. Gold, typically a safe-haven in uncertain times, offered no protection in March, retreating 9.49% in sterling as investors took profits from this nil-yielding asset in anticipation of higher interest rates, trimming its first-quarter gain to 9.28%.

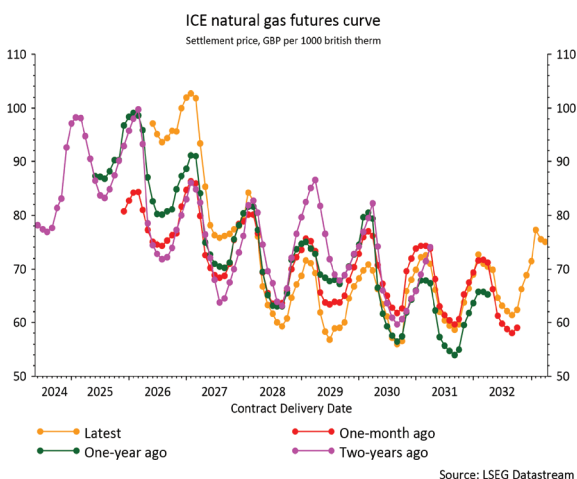
The energy markets' response to Middle East events is shown in the gas and oil futures curves in the graphs below and opposite. These plot the prices for future delivery, compared to the prices one month ago and one and two years ago. They show investors expect gas prices for UK delivery to be higher than previously expected for two years while Brent crude oil price futures imply prices will be elevated compared to pre-war levels until 2032.



Higher energy prices and inflation will generate central bank interest rate rises. The Federal Reserve, European Central Bank and Bank of England (BoE) kept their rates on hold over the quarter but rates are likely to rise, not fall this year as had been expected, in the wake of the war. US headline inflation hit 3.3% in March, against 2.4% in February, fuelled by higher petrol prices. These may offset to some extent the tax cuts in President Trump's One Big Beautiful Tax Act and inflation is likely to rise further even if there is a swift resolution to the war. The University of Michigan survey of inflation expectations one year ahead shows a rise from 3.8% for next March to 4.8% next April.

Eurozone and UK inflation hit 2.6% and 3.3% respectively in March and the war's impact is likely to be even greater on Europe's energy importing countries than on the US, which enjoys energy self-sufficiency. UK government bonds fell 4.34% in March, leaving the quarterly fall for gilts at 2.09%. The International Monetary Fund said UK gross domestic product (GDP) growth would be just 0.8% this year, having downgraded its January prediction of 1.3%, while inflation may rise to almost 4%. The Brompton portfolios ended the quarter with no investments dedicated to gilts.

Andrew Bailey, the BoE governor, has warned of the risks to markets from the lack of lending discipline in the private debt markets, where there have been a number of bankruptcies, leading to funds halting redemptions. US private debt financing by non-bank institutions has grown since the Dodd-Frank Act





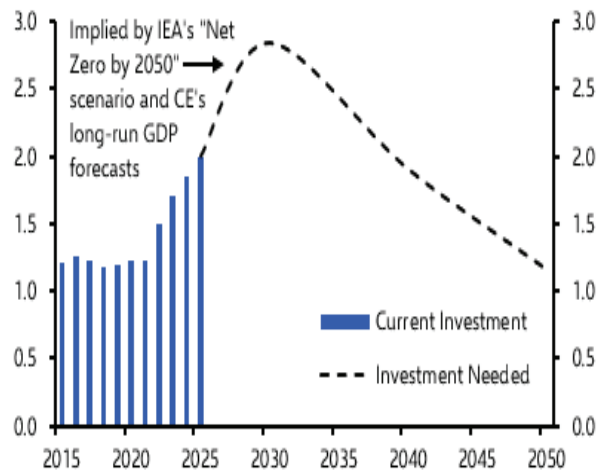
## Quarterly review (continued)

for the three months to 31 March 2026

imposed tighter constraints on bank lending following the Great Financial Crisis. Some loans have been made to software companies facing structural challenges from the advent of artificial intelligence, which performs many of the functions previously performed by software packages. Higher interest rates fuelled by rising energy prices may lead to defaults by borrowers and this could spread to public markets as investors seek to reduce exposure to credit.

Sterling corporate and high-yield bonds fell 3.29% and 2.51% respectively in March to leave their quarterly declines at 1.89% and 0.63% respectively. Yet corporate bonds ended the quarter still looking expensive, offering yields just one percentage point higher than government bonds of the same duration, the lowest credit spread since the Great Financial Crisis. Sterling-hedged investments in short-dated, inflation-linked bonds, however, appeared attractive because they provide some protection in the face of rising inflation. The portfolios' sterling-hedged holdings in Pimco Low Duration Real Return rose 0.47% over the quarter.

Stocks benefitting from the transition from fossil fuels to cleaner energy should deliver good long-term returns. The chart opposite shows energy infrastructure investment is forecast almost to double to 3% of GDP by 2032 to meet "clean energy" targets. Developed world governments will struggle to fund such investments because of fiscal deficits and high public sector indebtedness, leaving the field to private companies, which will demand economic returns. The Russia-Ukraine and Iran wars have exposed the energy vulnerability of many European countries dependent on gas imports. Developing economies may be less dependent on oil and gas because of their domestic coal reserves but the current energy crisis is likely to accelerate the global adoption of renewable energy.



The World Economic Forum reckons the transition will require a doubling of global electricity grid capacity over the next 20 years. Electric utilities represent the largest sector in ClearBridge Global Infrastructure Income and First Sentier Global Listed Infrastructure, which rose 12.59% and 9.31% respectively over the quarter. Infrastructure investments appear attractive not only because of their holdings in electric utilities but also because companies in these sectors are typically defensive, with high visibility of future cash flows and strong regulatory and contractual "moats" around their businesses, protecting them from competition.

Looking ahead, there are grounds to be positive about the prospects for larger UK companies, emerging market equities and infrastructure stocks. Amongst defensive assets, sterling-hedged investments in shorter-dated inflation-linked government bonds appear relatively attractive. The war-induced inflation revival has highlighted the importance of actively investing in diversified multi-asset portfolios.

### Important information

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