

Market wrap

March 2026

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Key takeaways:

- The conflict in the Middle East has caused market volatility, as investors assess whether energy-driven inflation could alter the global economic outlook, pressuring both stocks and bonds.
- After a large tranche of President Trump's 2025 tariffs were struck down by the US Supreme Court, a new baseline global tariff has been imposed. AI uncertainty weighed on software in February.
- Looking ahead, we believe markets will continue to be driven by how the Middle East conflict evolves, alongside tariff negotiations, key US economic data and central bank decisions.



Middle East escalation

Late February saw a sharp escalation in Middle East tensions, with the situation still evolving. Risks around disruption in energy supply have been driving markets: damage to infrastructure and disruption to oil and gas exports have lifted energy prices, amid fears that further escalation could add to inflation pressures globally.

Investors reacted quickly because higher inflation changes the outlook for interest rates. Central banks such as the Bank of England (BoE) and the European Central Bank (ECB) adjust rates to manage demand and keep inflation near their target. They had already started lowering rates after aggressive post-Covid hikes. If inflation rises again, they may pause those cuts or even raise rates, which typically weighs on stocks and bonds as higher rates increase borrowing costs for companies and make existing bonds less attractive as new bonds are issued with higher interest rates.

However, this inflation is largely supply-driven, linked to higher energy prices rather than strong demand. Higher interest rates can reduce demand by making borrowing more expensive, but they can't increase oil or gas supply. That means central banks may choose to look through the shock, especially if they think it's temporary. If the conflict drags on and meaningfully disrupts energy flows, inflation could remain higher for longer, creating a more challenging backdrop for financial markets.



Trump sets baseline global tariff rate; AI concerns put pressure on software companies

In February, the US Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were unlawful. This included the broad 'reciprocal' tariffs on most US imports, country-specific measures and tariffs linked to fentanyl. In total, the ruling affects around 71% of the tariffs introduced in 2025.¹ New global tariffs were set at 10%, with potential to rise to 15%. Further country-specific tariffs are expected later in the year.

US software stocks came under pressure in February as new AI tools raised concerns about the future of traditional software business models. Investors are questioning whether companies can protect their revenues as AI becomes more powerful and widely available. However, at the same time, investors continue to assess whether heavy AI investment will translate into lasting profits, raising the bar in terms of financial performance for tech companies directly involved in the development of AI, such as hyperscalers.



Events on our radar in March

The conflict in the Middle East remains the most material event on our radar for now. The key questions for markets are how long the hostilities last, how much disruption there is to energy supply and what the political end-state looks like – meaning how the conflict ultimately resolves and what the region looks like afterwards. Together, these factors will determine whether this is a short-term volatility shock or something more persistent for markets, particularly through energy prices, inflation and global growth.

We're also watching post-IEEPA tariff negotiations, alongside key US data releases and central bank meetings, including the BoE, ECB, US Federal Reserve and Bank of Japan. On the political front, French local elections may act as a bellwether for the 2027 presidential race. We'll also be closely watching the summit between Presidents Trump and Xi at the end of the month, as any shifts in US-China relations can quickly ripple through supply chains and risk sentiment.

¹ Source: Yale Budget Lab, September 2025.

Performance of stock and bond markets, 2021-2026 YTD

	2021	2022	2023	2024	2025	2026 YTD
US tech (MSCI USA Information Technology Index)	-8.2	-30.1	55.1	36.3	23.4	-5.9
US software (the S&P 500 Applications Software Index)	-24.8	-37.2	67.1	10.2	7.2	-24.7
US stocks (S&P 500 Index)	5.4	-18.1	26.3	25.0	17.9	0.7

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Bloomberg, as of 28 February 2026.

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