

THE Quarterly Edit

2026 Outlook |
& review of Q1 2026



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Q1
2026

Quarter

IN REVIEW



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It has been a bumpy start to the year for the world's equity markets, with the unfolding industrial revolution continuing to jostle with a mercurial POTUS for dominance.

UK and European equities did well during the early part of the quarter, alongside some of the dustier corners of the world's stock markets in sector and style terms.

(Generative) Artificial Intelligence remained a key structural theme. However, multiplying questions over the mega cap infrastructure spending spree changed the winner list somewhat.

Market dynamics shifted as the quarter progressed, as tensions escalated towards yet more tragedy in the Middle East. The region's role as a key supplier of many commodities, particularly fossil fuels, forced sharp adjustments in expected paths of inflation and interest rates around the world. Events have continued to move fast and, mostly, unpredictably. As usual, the industry was not short of armchair generals happy to opine on what came next.

For the most part, it remained the opportunities provided by a still growing world economy that had the most important say in capital markets. Incoming data and news flow reaffirmed the idea economic growth is trending at a higher level than for much of the time since the Great Financial Crisis. Incoming technologies, as well as the useful assimilation of old ones, were generally the most important themes for investors to pay attention to.





Leadership broadened across equity markets

One of the more positive features of markets in the early part of the first quarter was a broadening in equity market leadership. After a couple of years in which US equities (particularly a small group of large technology stocks) dominated returns, performance became more evenly spread across regions and sectors. UK and European equities outperformed the US, helped by more attractive valuations and greater exposure to areas such as financials, industrials and energy. At the same time, US stocks outside of the technology sector made a larger contribution to returns, reducing reliance on a narrow group of market leaders. This broader participation is generally a healthier backdrop for markets and supports diversification. However, much of this rotation took place before the escalation in geopolitical tensions around Iran. While the durability of this trend is tested, the early signs of broader leadership reinforce the case for diversified portfolios rather than concentrating on the most recent winners.

Geopolitical risk and the impact of higher oil prices

The messages from history on the connection between geopolitics, economic growth and asset returns are more muddled than many commentators will allow for. The reminder here is that it's not just different this time, but every single time. The oil intensity of GDP growth in much of the developed world has plunged lower since the 1970s for a start. More fuel-efficient transport and the growth of services as a proportion of the economy are just some of the reasons why this is the case. More broadly, in periods of strong technological change, such as we are living through, economies are perfectly capable of growing fast despite ugly geopolitics. One of the best examples of this is the growth boom across the developed world in the 1950s and 60s. The world of today, thankfully, still has some way to go to match the geopolitical temperature of those more turbulent times. However, then as now, it is likely the rapid expansion of the technological frontier and its widespread adoption that will define both economic growth rates and the returns to investing in a diversified portfolio.



Central banks pause, but a more cautious tone emerged

March was a significant month for monetary policy, with policy meetings from four major central banks, including the US Federal Reserve, European Central Bank, Bank of England and Bank of Japan. In each case, interest rates were left unchanged, reinforcing the view that policy rates are near their peak. However, messaging remained cautious. Central banks stressed that future decisions will be data dependent, reflecting ongoing uncertainty around inflation and growth. This has prompted bond markets to reassess earlier expectations for faster or deeper rate cuts. Market pricing now points to a more uncertain path, as policymakers warned that progress towards lower rates could be uneven, particularly if inflation proves more persistent. The message is that while interest rates may fall over time, the journey is unlikely to be smooth. For investors, this underscores the importance of realistic expectations and a measured approach in managing portfolio duration.

Global economy remains more adaptable than feared

So far, the global economy has proved significantly more adaptable than its ever-present detractors warned. Still strong private sector balance sheets are an important part of this, as are mostly resilient labour markets. It remains important to approach analysis of the economy by treating it as innocent until proven guilty. The interaction of new technology with the learning curve, neither of which are inherently predictable, tend to mean that growth is the norm not the exception. These driving factors of economic growth are also, mostly invisible to our current statistical framework, which was designed in the aftermath of the second world war to capture the 'steel and wheat' economy. Furthermore, declining responses to the surveys on which these datasets rely, mean that we should listen even less attentively than usual! There are certainly pockets of stress and plenty of risks – there usually are. However, alongside all this, there is cause for optimism in spite of the tone of our news feeds.



2026

OUTLOOK

Discipline as the anchor for asset allocation and portfolio construction

We remain in a dangerous and tragic moment for the world. However, there are a few things for investors to bear in mind.

The forces driving the world to unevenly and messily integrate are likely not done with yet. Distance shrinking technologies (from cultural to geographic) proliferate. As before, the various political and other forces trying to turn the clock back to some imagined halcyon era are best seen as fishermen shaking their fists at the incoming storm. This is making for an ever more attractive opportunity palette for the open-minded investor.

Plotting the highs and lows of measured geopolitical risk against ensuing returns for stocks and other risky assets, points to it being an unreliable tool for investors. One good qualitative example is the rolling strife of the 1950s and 60s, as mentioned above. This turbulent period, with fresh memories of far worse, coincided with an economic boom in much of the developed world and soaring stock markets.

This example is perhaps useful for today, given that it was the messy birth of multiple new technologies, (some of which had been gestating in one form or another for decades), that were the prime drivers of the economy, not the horror that justifiably filled the news of the time. In turn, it was these changes in the

real economy that spurred investment returns higher. The message from history, for what it's worth, is that an investor's time may be most profitably spent assessing the outlook for productivity growth, not the convulsing geopolitical backdrop.

The forces at work here often move too slowly and unmeasurably to be of much interest to our newsfeeds. Outside of the blockbuster technological breakthroughs, the most important part of the story surrounds the tinkering by the world's entrepreneurs as these leaps forward are commercialised. This process is thought to lean on all sorts of unsexy stuff, from the setting of institutions to the freedom of the individual. Nothing that would knock President Trump's latest swipes off the front pages anyway.

Portfolios remain positioned with resilience in mind. We are neutral on equities with a balance between value and growth and maintain lower sensitivity to longer-term interest rate movements. While some rebalancing has been appropriate to bring positions back to their intended weights, there have been no headline asset allocation changes. This speaks of the team's impressive efforts at building resilience and diversification into portfolios ahead of these more turbulent markets.



Equity Regional Outlooks

UK

UNITED KINGDOM EQUITIES

UK equities remain attractive on a relative valuation basis, with the core index trading close to 13x earnings and offering a dividend yield of over 3%. Mid and small-cap segments appear even more attractively valued, with the FTSE 250 now yielding around 4%. In a more volatile and uncertain environment, these income characteristics, alongside ongoing share buybacks and historically deep valuation discounts, provide an important cushion for returns. The UK market therefore continues to play a core role in portfolios, offering a value-oriented exposure with a degree of defensiveness should sentiment remain fragile.

US

UNITED STATES EQUITIES

US equities continue to be supported by resilient earnings growth and ongoing AI related capital investment, with consensus still pointing to mid to high single digit returns in 2026. However, valuations remain elevated at around 19x forward earnings, limiting the scope for multiple expansion and making returns more dependent on delivery rather than optimism. Dividend yields remain modest, so earnings growth and buybacks remain the primary return drivers. In a more unsettled macro and geopolitical backdrop, elevated valuations increase sensitivity to policy uncertainty, shifts in rate expectations and any disappointment in growth, reinforcing the case for selectivity within the market.

EU

DEVELOPED EUROPE EQUITIES (EXCLUDING THE UK)

European equities (excluding the UK) continue to offer more attractive valuations relative to the US, trading near 15x forward earnings with dividend yields averaging 2.5–3%. Balance sheets are generally strong, which provides some resilience in a more challenging environment. While earlier optimism around easing financial conditions has been tempered, targeted fiscal support and structural investment themes remain supportive over the medium term. That said, heightened geopolitical uncertainty and exposure to global trade mean performance may remain uneven, reinforcing the importance of a measured allocation rather than a directional conviction.

AP

ASIA PACIFIC EQUITIES (EXCLUDING JAPAN)

Valuations across Asia Pacific Ex Japan remain reasonable, with healthy dividend yields offering some income support. Longer-term structural drivers such as rising consumption, digitalisation and infrastructure investment remain intact, particularly in India and parts of Southeast Asia. However, near-term conditions are more complex. Slower growth in China, ongoing property sector challenges, trade uncertainty and currency volatility continue to weigh on sentiment. In the current environment, these markets offer longer-term growth potential but are likely to remain sensitive to external shocks.

JP

JAPAN EQUITIES

Japanese equities continue to benefit from ongoing corporate governance reforms, rising shareholder returns and a supportive domestic policy backdrop. Valuations remain reasonable, dividend yields are close to 2% and share buybacks are at record levels, providing support during periods of global uncertainty. However, rising bond yields and tightening monetary policy introduce additional complexity, and potential currency strength could influence capital flows. As such, Japan remains an attractive structural allocation, but one where volatility may increase as policy normalisation progresses.

EM

EMERGING MARKETS EQUITIES

Emerging market equities remain attractively valued, trading at around 12x forward earnings with dividend yields of approximately 2.5%. Structural growth drivers, including domestic demand in India, potential policy support in China, and commodity exposure in parts of Latin America, continue to underpin the long-term case. However, the region remains highly sensitive to geopolitical tensions, US dollar strength and shifts in global risk appetite. In the current environment, emerging markets continue to play a role primarily as a diversifier rather than a source of near-term conviction.

Outlooks defined: We express positive, neutral, and negative outlooks across a range of asset classes. These are defined as our judgement as to the expected return compared to the relevant broader asset class benchmark over our central forecast period of twelve months.

● POSITIVE ● NEUTRAL ● NEGATIVE

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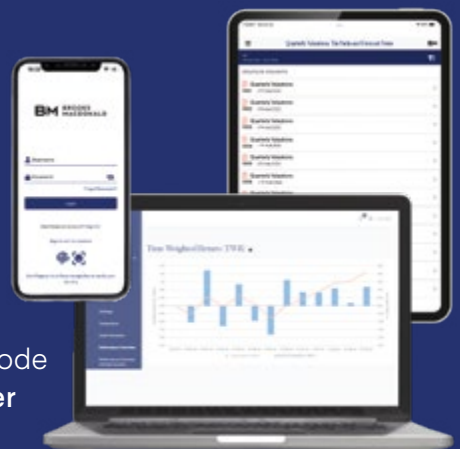


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The views in The Quarterly Edit are correct as at 31 March 2026. All information is current at the time of issue and, to the best of our knowledge, accurate.

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