



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 31 Jan	Level 28 Feb	Change*
S&P 500	6939	6879	-0.86%
FTSE 100	10226	10910	+6.7%
Euro Stoxx 600	610	633	+3.8%
Nikkei 225	53322	58057	+8.9%
Shanghai	4117	4162	+1.1%
US 10 Yr Treasury Yield	4.24%	3.96%	-0.28
UK 10 Yr Gilt Yield	4.52%	4.30%	-0.22
Bund 10 Yr	2.84%	2.65%	-0.19

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

Markets continued to follow a trend that has been in place for a few months now, as the main US market moved sideways, yet we saw mid- and small-sized company indices perform well. Both have now delivered around 8% returns year to date versus the main market's nearly flat performance. This broadening out of returns away from technology stocks and the previously dominant AI theme in the US has been reflected elsewhere. We saw Japan continuing its advance post the election and the UK's FTSE 100 closing in on the 11000 level. However, it was other markets in Asia that stole the show with Taiwan, Thailand and Korea delivering double-digit returns, with the latter now up over 50% year to date.

The military strikes on Iran by Israel and the US and the subsequent retaliatory actions by the Iranian military unfolded once the markets had closed for the month and thus had little impact on February's returns. Clearly, the events are unsettling, and whilst it is too early to draw any conclusions about the long-term impact, the focus will undoubtedly be on oil and gas supplies/prices and any rise's impact on inflation. The sooner the conflict is resolved, the less this impact is likely to be. However, unlike previous major conflicts in the region, supply chains have been altered post-COVID, and North America is relatively energy independent now.

The major news earlier in February was the US Supreme Court's ruling that President Trump's emergency tariffs were illegal. This prompted Trump to respond by imposing universal 10% tariffs under a separate piece of legislation limiting the effect to 150 days, having threatened at one point to apply a rate of 15% (which may still be applied). The overall impact of the decision remains unclear, as the European Parliament has yet to sign off on the Turnberry Deal. Markets seemed relatively untroubled as a consequence, despite fears that the reduced revenue would impact the US budget deficit. Indeed, US long-term bond yields fell following the decision, evidencing the market's lack of concern.

The combination of strong equity markets and falling yields in bonds (prices move inversely to yields), coupled with our approach of diversifying across markets globally, meant all portfolios experienced strong monthly returns, continuing the trend for the year so far.

US

Notwithstanding the intensifying of US-Iran tensions and the news on Tariffs, US markets continued to move away from the AI spending led technology theme, broadening out into different sectors, such as energy, utilities and consumer staples, which perhaps indicates investors taking a more defensive stance. This contrasted with the technology stock-laden NASDAQ index, which was down around 3% over the month. As mentioned earlier, we also saw continued strong returns in the secondary, mid and small cap markets.

A higher Producer Prices Index number towards the end of the month led to increased volatility, as investors concerned themselves with the impact on inflation. However, this contrasted with a report earlier in the month as core inflation fell to 2.4%. All of which muddied the waters regarding the extent of future interest rate decreases.

On the political front, Trump set a new record for the longest 'State of the Union' speech, exceeding 100 minutes for the first time. This consisted largely of self-praise, particularly regarding the strong US economy, despite a widely recognised affordability crisis (for which he continues to blame the Democrats), a defence of his handling of immigration and criticism of the Supreme Court for knocking back his tariffs, amongst other things. A particular point of interest was his insistence that major tech companies will pay for their own energy in order to prevent price increases due to data centre demand, which was seen as a way of presenting himself as consumer friendly.

UK

Although there was not much to shout about in respect to the domestic economy, the global earnings profile of FTSE 100 companies led to the index being one of the best performers. This was led by energy stocks, as we saw a build up of tensions in the Middle East. Other commodity-related stocks, such as miners, also performed well. Despite the lack of impetus in the UK economy, the domestically orientated FTSE 250 index managed a respectable 2% return. This provides some positivity for the index, which has lagged behind its bigger sibling, the FTSE 100, over the last year.

Domestically, the UK economic environment continues to look weak, with unemployment increasing to 5.2%, consumer confidence falling and the economy registering a tepid 0.1% growth in the fourth quarter of 2025. However, there was better news on the inflation front, as we saw the headline rate fall to 3% in January, with the Bank of England expecting this to fall to 2% by April. Whether the pickup in energy prices impacts this will very much depend on the level of supply disruption in the Middle East and the length of time it remains in place, particularly in relation to natural gas, on which the UK is dependent.

Europe

European markets as a group had a reasonable month, with France being one of the better performers. This was despite the continuation of a levy on large company profits, which, although initially temporary, was continued by the government to appease socialists to get their latest budget passed, as they attempt to curb the budget deficit. The largest companies in France now have an effective corporation tax of 35% (UK equivalent is 25%), which opponents to the tax say reduces competitiveness and incentive to invest in the country.

On the economic front, we saw the German manufacturing Purchasing Managers Index (PMI) show a reading of 50.9 (a reading above 50 is regarded as expansionary), the first return to growth territory for 3.5 years, driven by increased output and new orders. This is perhaps an indication that the country's increased fiscal spending on infrastructure and defence is beginning to filter down into the real economy. This is particularly important as competitive pressures from China have been leading to fears of a rapid 'deindustrialisation' in Germany. This is a subject very much on Chancellor Merz's agenda for his meeting with Xi Jinping in China, as he complains about China's overcapacity causing competitive distortions.

Meanwhile, outside northern Europe, Spain had another strong month, as banking stocks continued to deliver strong results and the country's energy companies benefitted from the pickup in energy prices. Spain continues to have one of the strongest economies in the region, driven by record levels of tourism, recording 2.6% GDP growth in 2025. It also has low comparative valuations, which combine with the economic backdrop to make stocks attractive.

Japan

Japan's stock market continued to push higher, aided by a weaker Yen (as an exporter, a weaker yen makes Japanese goods more attractive). This effect was exacerbated, as Prime Minister Takaichi, perhaps taking a leaf out of the Trump playbook, appointed two doveish candidates to the Bank of Japan's policy board. They are known to be keen on easier monetary policy, which flies in contrast to the Bank's recent approach, but which is in keeping with Takaichi's belief that a little inflation is a good thing. Many Japanese stocks also benefit from being 'old economy' rather than AI/software-related and are benefitting from investors' desire to diversify away from this trade.

Japan is facing significant challenges amid rising energy prices, as it is highly reliant on oil and gas imports, so investors will be keenly sensitive to the impact of a prolonged conflict in the Middle East.

Asia and Emerging Markets

Asian markets outside Japan had another excellent month, led by Korea, which rose an astonishing 20% in February and is up 50% year to date. This was driven by a mixture of government support for stock market investments as well as Samsung and Hynix's exposure to the AI spending boom (these companies make up 50% of the index). Having been one of the more reasonably priced markets in the world at the start of 2025, the market is now at the higher end of the range, so a note of caution should be struck about the amount of exposure portfolios should have here. Other markets, such as Taiwan, continue to benefit from investors' desire to diversify away from the US to get exposure to the AI trade, but other markets, such as Thailand, are benefitting from wider interest unrelated to AI. China continues to lag, as the domestic economy continues to struggle with deflationary effects from the property market collapse. Asia too is vulnerable to energy supply disruption, which may help apply pressure on Iran, as its biggest customer is China, so disrupting supplies long-term is not in its interest.

Latin America had a quieter month, aside from Argentina, with the Merval index falling sharply as President Milei cut tariffs on foreign imports, prompting consumer demand for goods produced overseas, rather than domestically. He also clashed with unions as he attempted to reform the labour market. However, Argentina is only a small amount of most Latin American funds' exposure, due to its closed nature.

Summary & Outlook

Whilst February continued what has been a good run in markets generally, they now face the uncertainty over the possibility of a prolonged conflict between Israel/US and Iran and its impact on the Gulf as a whole, and crucially, energy supplies. Europe and Asia are particularly vulnerable in this respect, as they are the most reliant on oil and gas delivered via shipping, and a fifth of global production is shipped through the Strait of Hormuz. The immediate upward effect on prices could lead to inflation rates picking up, thus limiting options for interest rate cuts. This, in turn, could have an impact on bond prices. However, the important thing to remember is that volatility and shocks do happen, and markets move on quickly once they are over. The important thing is to construct portfolios at the outset bearing this in mind and to limit any negative short-term effects through appropriate diversification. Many portfolios also hold alternative assets in lieu of equities and bonds, so they have a greater diversification benefit than many to help lessen any short-term volatility. Time will be an important factor here, so we will be monitoring portfolios closely to assess if any adjustments are required to reflect the underlying environment as it develops. Meanwhile, we stay invested in the knowledge that attempting to time markets can be futile.

Rockhold Asset Management, with contributions from 7IM, March 2026



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