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PRIVATE OFFICE

# Q1 2026 MARKET REVIEW AND OUTLOOK

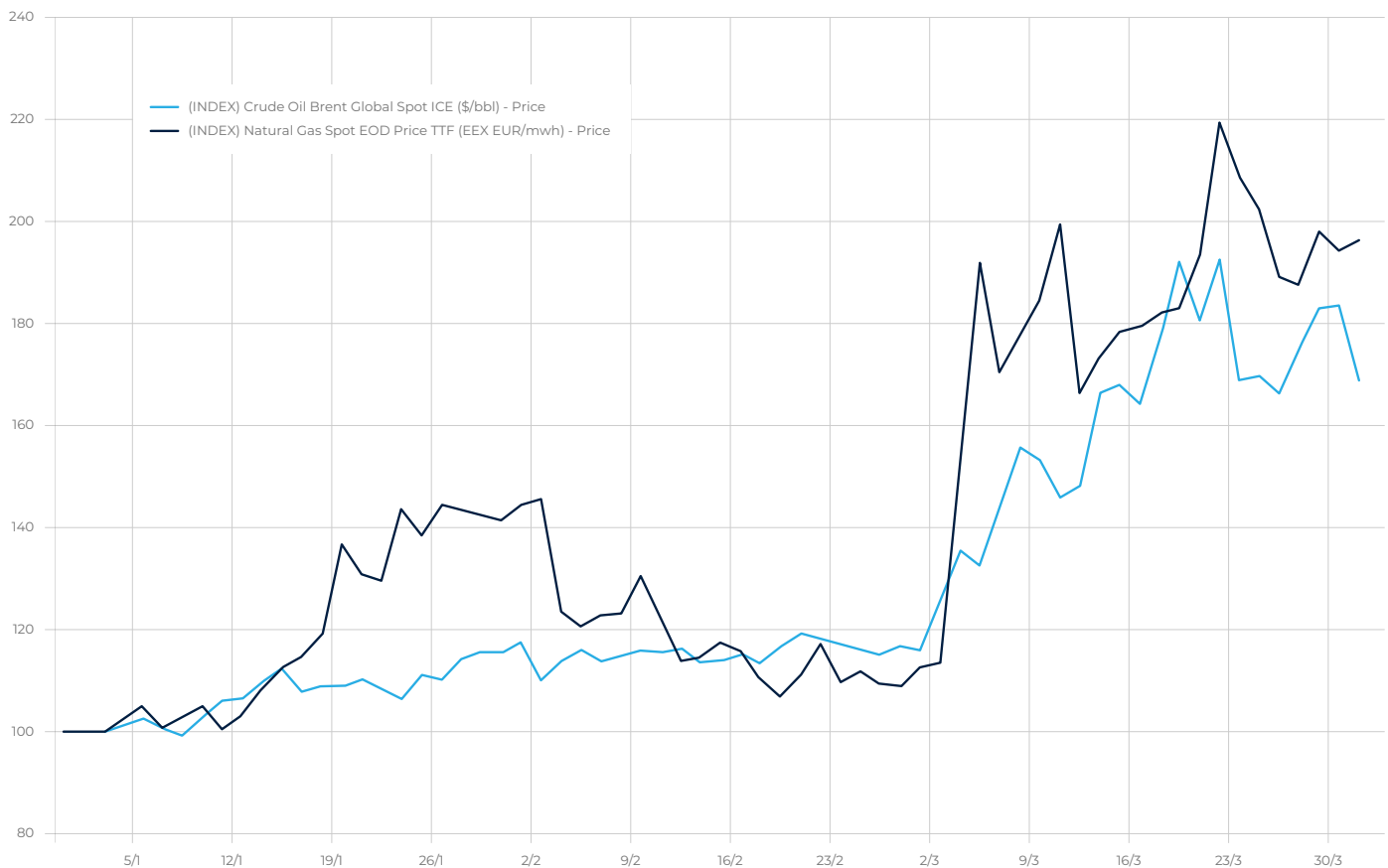
# Q1 MARKET REVIEW AND OUTLOOK

After a strong 2025, markets entered the new year with momentum still intact, and equities continued to move higher through much of January and February as underlying fundamentals remained supportive. Beneath the surface, however, the quarter was increasingly shaped by geopolitical developments and continued scrutiny of AI-related spending expectations and valuations, before the escalation of war in the Middle East triggered a sharp reversal in March.

Despite the 9% pullback from peak to trough, global equities proved relatively resilient, with the MSCI World Index down 3.5% in the period. The early part of the quarter largely extended trends already in place last year, with Europe outperforming, value and cyclical sectors leading, and parts of the US market continuing to face pressure from a more cautious view on AI-linked growth expectations. However, as discussed in our Q4 Market Review & Outlook, we continue to see much of that reassessment as sentiment-driven rather than indicative of a material change in the underlying long-term opportunity.

As the war in the Middle East escalated, regional performance became increasingly driven by differences in macroeconomic sensitivity. Europe, the UK and Japan, underperformed the US during the March sell-off as the sharp rise in energy prices increased the risk of a more stagflationary environment. Since the onset of the war, Brent Crude Oil prices have risen by around 45% from the levels seen immediately prior to the US and Israeli attacks on Iran, while European Natural Gas prices have risen by around 75% as supply disruptions in Qatar fed through global markets (Chart 1). That matters more for economies where energy import dependence leaves both growth and inflation more exposed to higher commodity prices. By contrast, the US remains relatively more insulated given its greater energy self-sufficiency, which partially explained the resilience of US equities during the downturn.

**CHART 1**  
**ENERGY PRICES HAVE REPRICED SHARPLY SINCE THE ESCALATION IN THE MIDDLE EAST**

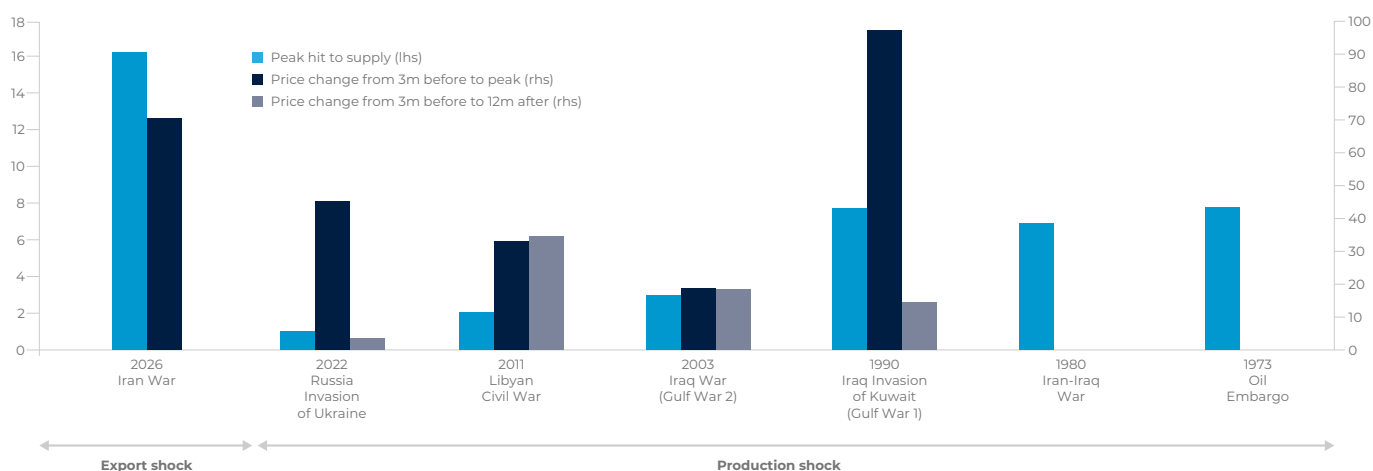


Source: FactSet. Data as of March 31, 2026.

As Chart 2 below highlights, the current hit to Persian Gulf oil flows already ranks among the largest oil supply shocks on record in headline terms. With around 20 million barrels per day of crude oil products transiting through the Strait of Hormuz, equivalent to roughly one-fifth of global consumption, policymakers have already moved to contain the fallout, including the IEA's announcement of a 400-million-barrel release from emergency reserves. For markets, however, the more important question is whether the shock proves temporary or persists. If flows normalise relatively quickly, a meaningful portion of the recent move in oil and gas prices could unwind, limiting the lasting impact on inflation, monetary policy and broader economic activity. If disruption persists, however, the risk of a more durable stagflationary environment would rise materially.

## CHART 2 THE CURRENT DISRUPTION TO PERSIAN GULF OIL FLOWS RANKS AMONG THE LARGEST SUPPLY SHOCKS ON RECORD

Historical oil supply hit events (% of global supply, lhs) vs. corresponding price change (%), (rhs)



Note: Peak price is the highest daily close price. For the 2026 Iran War, peak hit to supply is defined as the estimated latest hit to Persian Gulf oil exports based on reported vessel count; peak price is taken to be the highest realized daily close price since February 28. Source: IEA, ICE, Goldman Sachs GIR.

Source: Goldman Sachs Global Investment Research. Data as of March 31, 2026.

This shifting macroeconomic backdrop was also evident in relative sector performance. Earlier in the quarter, value and economically sensitive areas of the market continued to outperform as investors positioned for a reacceleration in economic growth, relatively stable inflation and a supportive rate backdrop. As the quarter progressed, that narrative came under increasing pressure. Naturally, Energy was the clear standout, with the MSCI World Energy Index (USD) rising 37.1% year-to-date as oil and gas prices surged. However, other cyclical sectors became less well supported as higher commodity prices began to raise concerns around slower growth, more persistent inflation and a market increasingly forced to once again reprice the risk of higher interest rates.

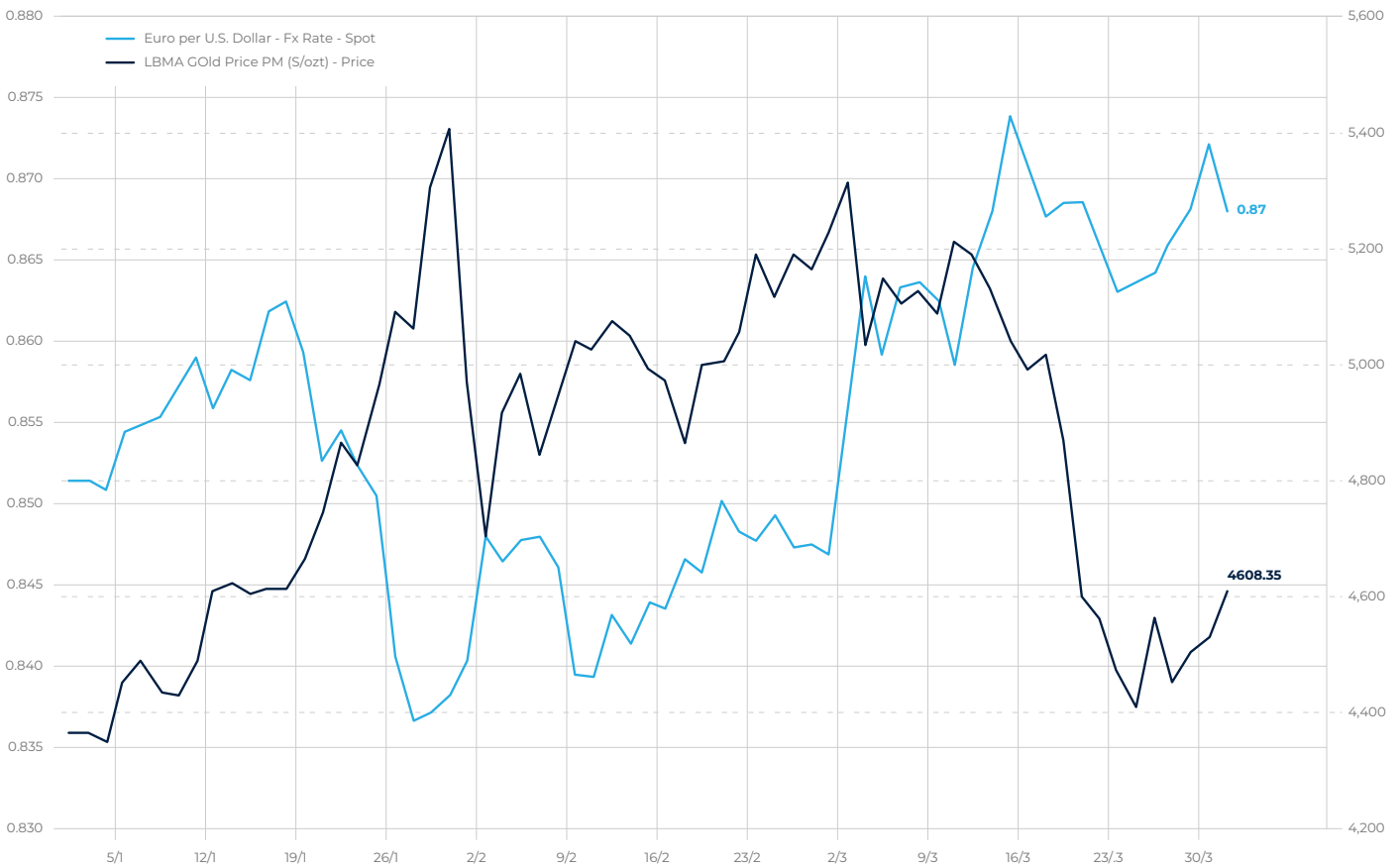
By contrast, sectors such as Information Technology and Communication Services held up better. Alongside their structural growth tailwinds, these sectors also benefited from stronger balance sheets, higher margins and earnings profiles that are generally more insulated from the pressure that higher energy prices can exert on margins, real incomes and broader economic activity. Even so, value has continued to outperform

growth on a year-to-date basis, although that leadership is likely to come under greater pressure if the conflict proves prolonged and the balance between growth and inflation potentially deteriorates from here.

Fixed income markets also reflected the nature of the geopolitical shock. However, this was not a conventional period of market weakness in which falling bond yields helped offset equity market declines. Instead, rising energy prices and inflation concerns pushed yields higher across major bond markets, meaning fixed income provided less protection than would normally be expected during periods of heightened volatility. US Treasury markets illustrated this clearly, with the 10-year yield rising from 3.95% immediately prior to the conflict to as high as 4.4% at the peak of the move, while German Bund and Japanese government bond yields also moved higher. As a result, bond market returns were negative over the period, with the Bloomberg Global Aggregate Bond Index down 1.1% year-to-date. Broader credit markets also weakened, with spreads widening across both investment grade and high yield as risk appetite deteriorated.

Having been the standout performer in 2025, gold extended its rally with a further 23% gain in January, driven primarily by continued safe-haven demand amid heightened geopolitical and economic uncertainty, with ETF inflows and central bank buying also providing support. That reversed sharply following Kevin Warsh's nomination as the new Fed Chair in early February, which contributed to higher bond yields and a firmer US dollar, weighing heavily on gold prices. By the time conflict broke out in the Middle East, however, gold had already recovered almost all that weakness. Since then, both gold and silver have moved decisively lower, falling by around 12% and 20% respectively. At the same time, the US dollar index has risen by 2.5% (Chart 3), suggesting that the dollar has been the market's preferred safe-haven asset. More broadly, this reflects a market in which the inflationary implications of higher energy prices, and the associated rise in yields and the US dollar, have outweighed the support that geopolitical tensions might otherwise have provided precious metals.

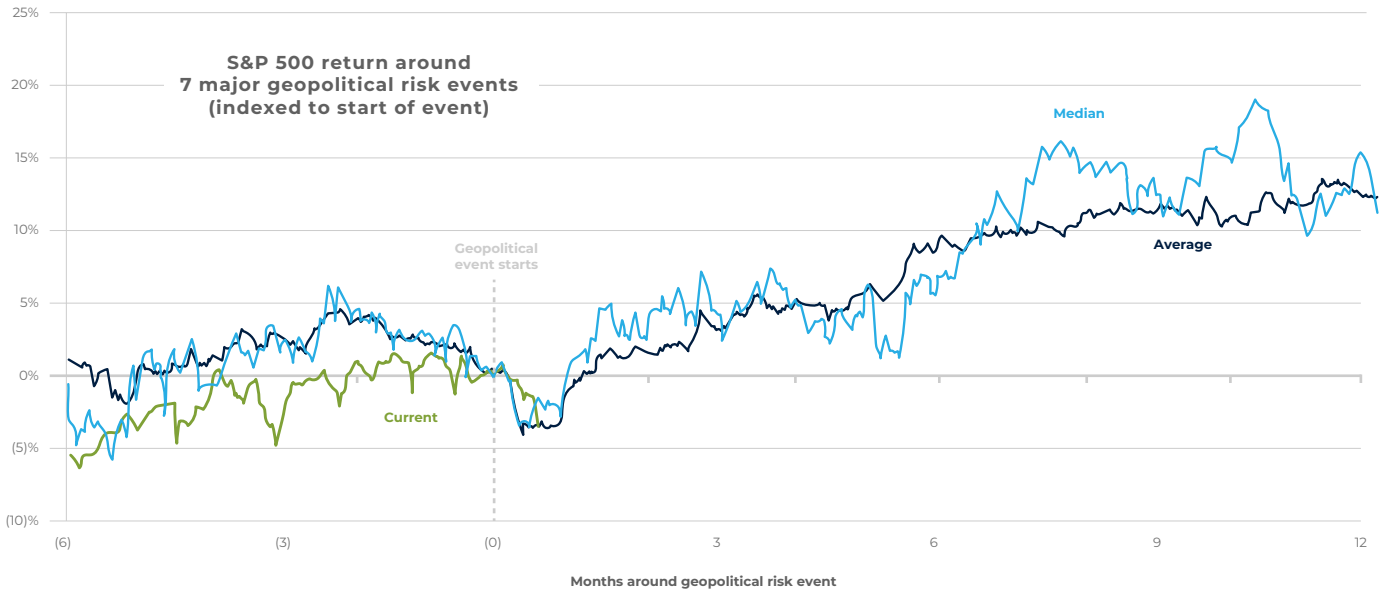
CHART 3  
THE US DOLLAR HAS BEEN THE MARKET'S PREFERRED SAFE-HAVEN ASSET



Source: FactSet. Data as of March 31, 2026.

Furthermore, history offers some useful perspective here. While geopolitical events often trigger sharp market reactions in the near term, their impact on equity markets has typically proved more short-lived than investors initially fear, particularly where the underlying economic backdrop remains intact. As Chart 4 shows, the path of the S&P 500 around major geopolitical shocks has often been characterised by an initial setback followed by a recovery as uncertainty begins to fade. While that does not mean the current episode should be dismissed, particularly given the significance of the energy shock, it does reinforce the importance of distinguishing between short-term sentiment moves and a more lasting deterioration in economic fundamentals. For long-term investors, the appropriate response is therefore to avoid making investment decisions in response to periods of heightened uncertainty and instead remain focused on the compounding power of equities across market cycles.

**CHART 4**  
**EQUITY MARKET DRAWDOWNS FOLLOWING GEOPOLITICAL SHOCKS**  
**HAVE HISTORICALLY BEEN SHORT-LIVED**



Source: FactSet. Data as of March 13, 2026.

A final development worth highlighting over the quarter is private credit, where some of the vulnerabilities we outlined in our Q4 Market Review and Outlook have become more visible, particularly in structures offering periodic liquidity against inherently illiquid underlying loans. Redemption requests have risen sharply across several semi-liquid vehicles, with Ares at 11.6% of shares, Apollo at 11.2% and Blackstone’s BCRED at 7.9%, all above typical quarterly limits and leading managers to cap or otherwise restrict withdrawals in line with fund terms. Furthermore, Blue Owl has been at the centre of this scrutiny, having sold \$1.4 billion of assets, returned 30% of NAV to investors in one vehicle and permanently removed quarterly redemptions, with its shares down 39% year-to-date.

This reflects a market that has become increasingly cautious around valuation levels, underwriting standards, liquidity terms and software exposure, particularly as AI disruption fears have intensified. While none of this necessarily points to a systemic event, it does reinforce the point that in a less forgiving environment, structures that appear robust in benign conditions can come under greater pressure once investor confidence weakens and redemption demand begins to rise.

Nevertheless, periods of heightened volatility such as this can understandably feel unsettling, especially when the events driving markets are unfolding so close to home. However, it remains important to scale the market reaction appropriately and avoid making investment decisions in response to emotion rather than long-term objectives.

As ever, our role is to look through the noise, assess whether developments are changing the underlying investment backdrop in a more lasting way, and adjust portfolios where necessary. We continue to monitor the situation closely on behalf of our clients, but our approach remains grounded in discipline, perspective and a long-term view of capital compounding.

We look forward to updating you again next quarter and thank you for taking the time to read our Market Review & Outlook.

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