Q1 2026 Market Commentary

Q1 2026 Market Review

The first quarter of 2026 was dominated by a sharp change in market leadership. Entering the year, investors were still leaning into the themes that had driven markets higher through late 2025, particularly US mega cap growth and AI-related optimism.

That left parts of the US equity market looking priced for near perfection after what had become a bubble-like rally. As the quarter progressed, that leadership began to crack, and the outbreak of war in the Middle East then accelerated the correction as markets quickly shifted their focus towards inflation risk, energy supply disruption and the possibility of a more prolonged geopolitical shock.

Commodity markets were at the centre of the move. The Bloomberg Commodity Index rose 24.4% in Q1, with Brent crude jumping 63% in March alone following damage to regional energy infrastructure and the effective closure of the Strait of Hormuz. Government bond markets also struggled as investors moved from pricing rate cuts to pricing hikes in several major economies, with long-dated bonds hit

particularly hard by the reassessment of inflation risk.

Equity performance reflected that change in regime. Value outperformed Growth over the quarter, while regional returns were far less US-led than investors had become used to. Japanese equities were among the strongest major markets, emerging market equities held up better than developed markets overall, and European shares proved relatively resilient. Bycontrast, the US led the decline, with the S&P 500 falling 4.3% as investors became more sceptical about elevated valuations, concentrated leadership and the ability of heavy AI-related capital expenditure to translate into returns.

This environment played to our positioning. While we did not foresee the start of the conflict, our equity regionalisation strategy had already enabled us to selectively lower exposure to the most stretched areas of the market. That cautious stance helped cushion portfolios during the sell-off and contributed to outperformance versus the index. In some cases, portfolios were also able to protect capital and generate a positive return over the quarter. More broadly, market developments reinforced our fundamental view that US equities had become priced very aggressively and that a shift from Growth towards Value was warranted.

Another decision that helped reduce volatility was the introduction of money market funds as a tool to lower portfolio duration in our lower risk strategies. We remain neutral duration overall, but felt that the binary nature of interest rate risk, amid the geopolitical crisis, argued for caution where capital preservation matters most. In an environment where a spike in oil prices could quickly push bond yields higher, reducing duration helped limit the impact of that outcome on lower risk portfolios. That remains consistent with the broader framework set out in the prior quarter, where lower risk portfolios were designed to avoid unintended volatility from interest rate stress and where duration was managed with risk profile in mind.

We also maintained a cautious stance on gold. Following a very strong rally, we considered the trade increasingly crowded, particularly given how widely it had been adopted as a hedge against geopolitical uncertainty. At the same time, our allocations to absolute return strategies and real estate continued to provide useful diversification benefits, helping reduce overall portfolio volatility. That approach also remained in line with the role alternatives were intended to play in portfolios: not return chasing, but diversification and stability.

Overall, Q1 was a reminder that markets can change leadership quickly when valuations are stretched and macro risks reassert themselves. The quarter began with optimism around growth, AI and easier policy, but ended with markets more concerned about war, energy prices and inflation. In that environment, diversified portfolios with a cautious starting point were better placed than highly concentrated ones.

Investment Outlook

Looking ahead, we expect the main themes to remain broadly unchanged.

The first is the war between the US and Iran, and in particular its impact on energy prices. Markets are likely to stay highly sensitive to any disruption in the Strait of Hormuz, not only because of the immediate effect on oil prices, but because of the risk of second round inflationary effects.

The second is central bank policy. Policymakers may have to look through any short-term spike zin headline inflation if growth and consumer confidence begin to soften.

The third is weakening demand across Western economies, where early signs of disinflation are beginning to emerge through softer labour markets and lower house prices.

Our central view is that the conflict is likely to be protracted, but that markets will continue to respond positively to any signs of de-escalation or ceasefire attempts. At the same time, rate markets already reflect a relatively hawkish path, with hikes rather than cuts priced into the curve. That leaves room for interest rate expectations to move lower if growth slows and central banks shift their focus towards supporting demand. In that scenario, the recent correction could create the conditions for an equity rebound.

Against that backdrop, we have upgraded our equity positioning from slight underweight to neutral in the TAM Active range. This reflects a more opportunistic stance following the sell-off rather than a change in our medium-term discipline. Regional positioning remains an important lever within equities. We still see better relative value outside the most expensive parts of the US market, a continue to favour a more diversified exposure across regions and styles rather than relying on narrow market leadership. That remains consistent with our broader approach of adjusting risk gradually as the balance of opportunity changes.

In fixed income, we remain neutral duration overall and slightly overweight credit. Duration remains a tool to manage overall portfolio sensitivity to macro shocks, particularly in lower risk strategies where capital preservation matters most.

Credit spreads are still relatively narrow, but liquidity in borrowing markets remains benign and a modest overweight to credit should provide a small improvement in portfolio yield without materially changing the overall risk profile. This fits with the framework set out in the previous quarter: duration managed carefully by risk profile, and credit used selectively with an emphasis on quality and liquidity.

Alternatives also remain an important part of the portfolio toolkit. We continue to see value in diversified exposures such as absolute return and real estate, both of which can help reduce reliance on traditional equity and bond behaviour. More broadly, alternatives remain useful where geopolitical risk and policy uncertainty create a wider range of possible outcomes.

Overall, our positioning is best described as balanced. We are not ignoring the risks, but neither do we think the recent sell-off should be viewed only through a defensive lens. With valuations improved in parts of the equity market, policy expectations still able to move lower, and portfolios already built with diversification in mind, we believe a neutral equity stance, neutral duration and a modest credit overweight remain the right combination for now.

From the investment team

If you would like to discuss our portfolio positioning, the current market environment, or any aspect of this update in more detail, please feel free to reach out and speak with a member of our investment team.

We welcome thoughtful discussion and are always happy to provide additional context where helpful.

ERIC SILVESTRE
Chief Investment Officer

TAM EUROPE ASSET MANAGEMENT
Port Adriano, Nivel 1, Local 12 | Urbanización El Toro s/n | 07180 Calvià | Mallorca, Spain
+34 871 038 181 | info@tameurope.com | www.tameurope.com

This Market Insight was originally published by our EU-based investment partner, TAM Europe Asset Management. It may have been adapted from its original format for clarity or relevance to our audience.

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management International Limited, represent only one possible outcome and do not constitute investment advice.

TAM Asset Management International Limited is regulated by the Financial Services Commission of Mauritius and is an authorised Financial Services Provider regulated by the South African Financial Service Conduct Authority.