

Investment Commentary

11 MARCH 2026 — MIDDLE EAST CONFLICT

Since the Middle East conflict commenced at the end of February 2026, investment markets have been highly volatile, reacting to the constant newsflow about the war and the impact on the region, the safety of its people, on their economies and on those of the wider world. The key concern for the global economy is the sustainability of the flow of oil and gas from the world's major energy producers in the Middle East. The Strait of Hormuz is the channel through which 20% of the world's oil and gas passes to reach global markets. Iran, which borders one side of the strait, has warned that any tankers passing along it will be fired upon. Consequently, most oil and liquified natural gas (LNG) tankers are either waiting to leave with their cargo or to enter to collect it. Gas and oil installations have been attacked and/or closed. Therefore, gas and oil prices have increased rapidly as supply is under threat. At the start of the crisis, oil was around \$70 per barrel, but in recent days the oil price reached \$120 per barrel and then fell back to less than \$100 per barrel, following President Trump's comment that the war was "very complete, pretty much". Nevertheless, the President is still threatening to hit Iran harder if the Strait of Hormuz is shut.

The prospect of elevated oil and gas prices for a prolonged period has stoked inflationary expectations. It seemed that US and UK inflation was slowly turning towards their Central Banks' 2% targets over 2025 and into 2026. It had been expected that the US Federal Reserve and the Bank of England would make further interest rates cuts against a backdrop of moderating inflation. However, higher energy prices will lead to rising prices of goods and services needing energy to operate or manufacture. It now appears that interest rate cuts will be 'off the table' until the conflict is concluded and the impact on economies known. Higher inflation and elevated interest rates are likely to affect investor sentiment both in bond and equity markets.

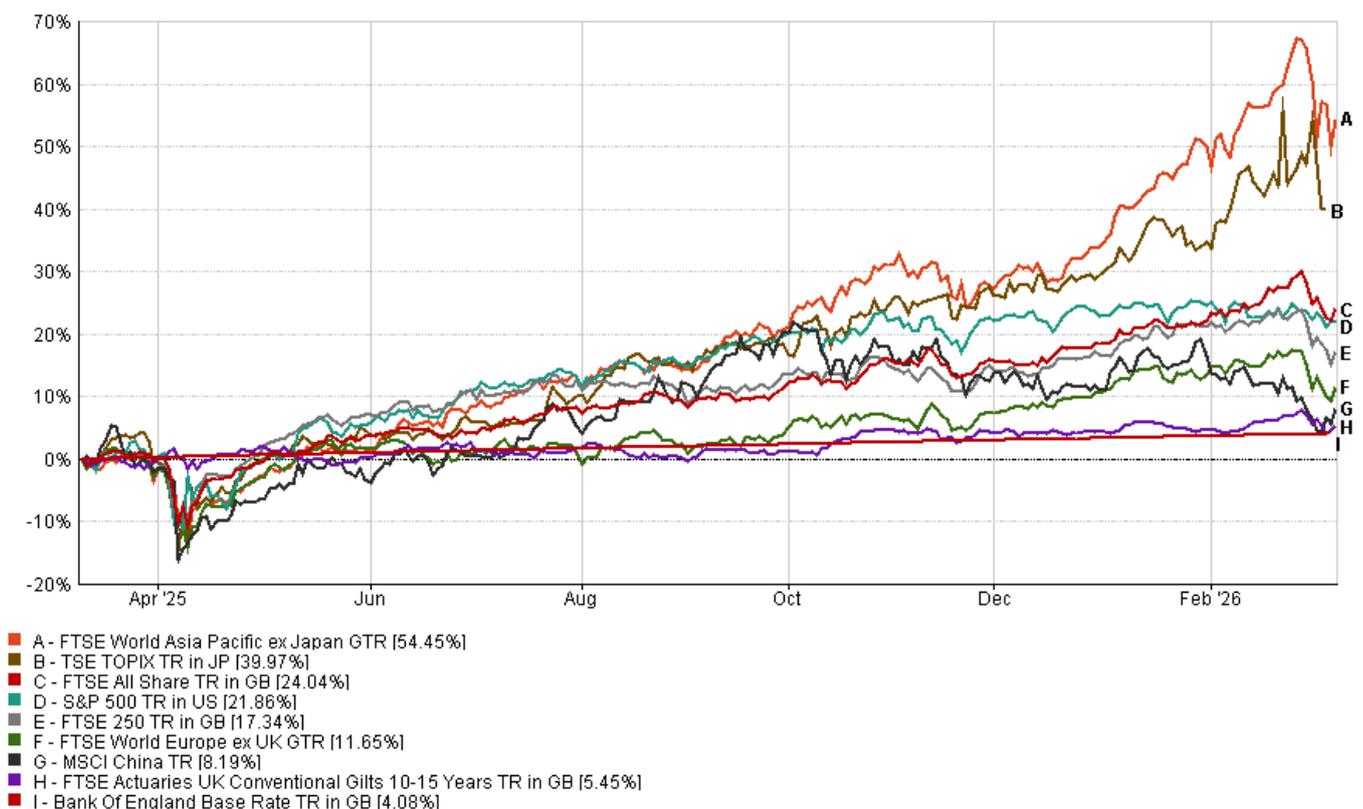


We have purposely not written to clients until now as we have waited to see events unfold. As with all geopolitical turbulence and the resulting investment market volatility, a natural reaction is a flight to safer assets such as cash and shorter term government bonds, but such action can often be an expensive mistake. From experience, we know that major market disruptions have tended to be relatively short lived and that markets generally recover quickly after the initial shocks. By selling assets in the midst of market uncertainty and moving to cash, investors may be capturing losses unnecessarily, if they had looked to the longer term. Market recoveries are not usually smooth and investors may miss the most significant upside movements in markets by reducing their exposure.

We have always maintained portfolios which are fully diversified by asset class – cash, bonds and equities - and by region, with our portfolios reflecting the risk appetite of clients. Such diversification offers exposure to rising markets, but also provides some downside protection when markets fall. Cash and fixed interest can provide protection in the short term, whilst equities tend to deliver inflation-beating returns over the longer term.

It should be remembered that investment markets had performed strongly in 2025 and into 2026, despite concerns over US tariffs, massive expenditure on AI infrastructure and the possible impact of AI on certain sectors. Over the past year, equity market returns are still positive.

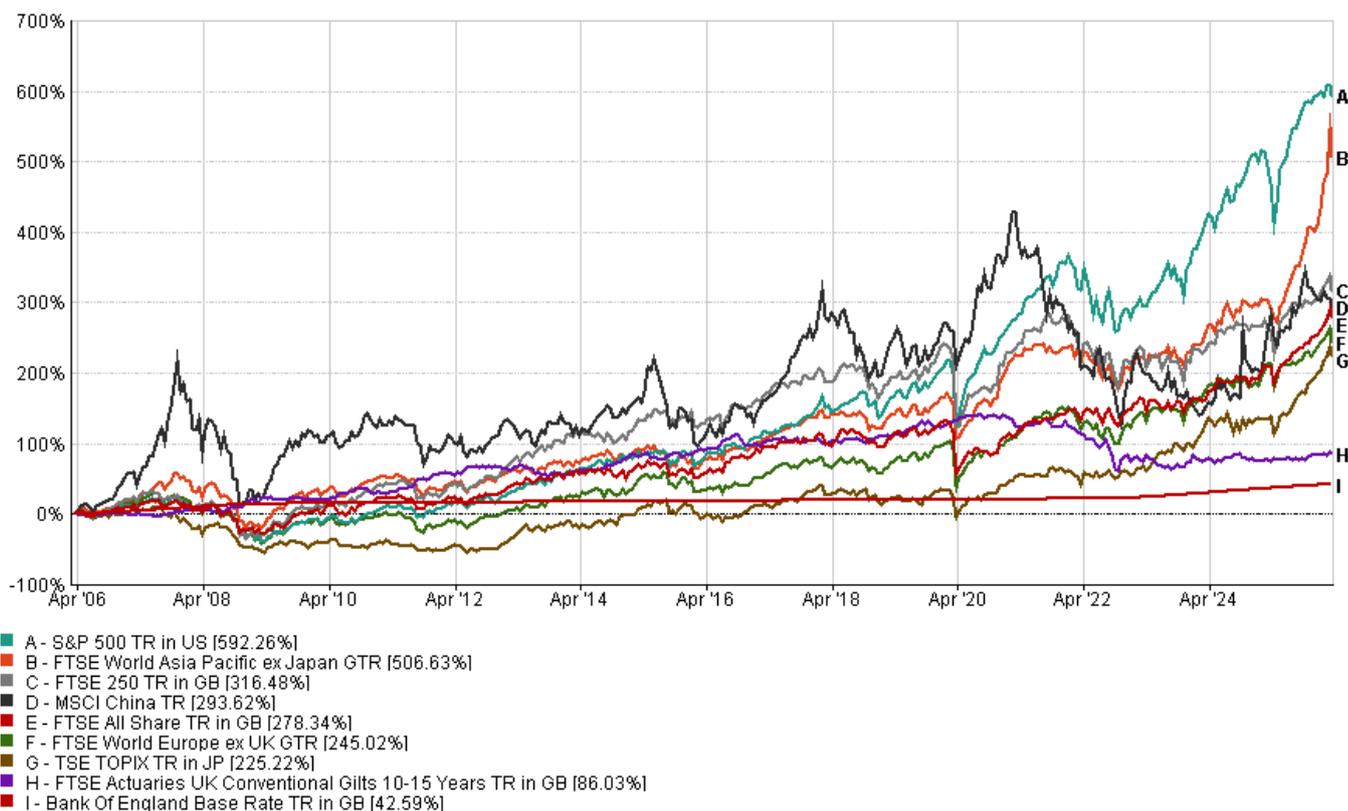
INVESTMENT MARKET LOCAL CURRENCY RETURNS OVER ONE YEAR



10/03/2025 - 10/03/2026 Data from FE fundinfo2026

We cannot time the market, it is easy to sell assets to cash but choosing when to reinvest is far more difficult. Therefore, we have chosen to stay fully invested over the thirty years that we have been managing client portfolios - which has proved to be a prudent strategy.

INVESTMENT MARKET LOCAL CURRENCY RETURNS OVER TWENTY YEARS



10/03/2006 - 10/03/2026 Data from FE fundinfo2026

OUR VIEW

It seems highly probable that combined US/Israeli military strength and modern weapon systems, will defeat Iran's less technologically advanced armed forces. This said, drone technology permits Iranian forces far greater agility in terms of ability to harass shipping and indeed neighbouring countries. This highly diversified and lower tech threat may prove far harder to defeat than columns of planes or heavy armour. Much will depend upon the degree of unrest in Iran and whether the combined US/Israeli assault results in a surge of support for the current Iranian government, or a revolt against its rule. It seems doubtful a government protected by its well-armed 'Revolutionary Guard' can be overthrown, without a revolt by the regular army as part of a popular movement. A period of conflict and uncertainty might persist for longer than originally anticipated but a reliable means will be found to protect shipping and neighbouring states. Drone production/launch sites will be identified and destroyed. Some form of calm is likely to be restored relatively quickly and once it is, markets will rally. Confidence will falter over the shorter term if the period of intense conflict/disruption to shipping movements is prolonged.

**As always if you have any concerns please contact your usual
Cartlidge Morland Partner/Director/Consultant.**



CARTLIDGE MORLAND

80 Coleman Street London EC2R 5BJ
t +44 (0)20 7709 5560
e: enquiries@cartlidgemorland.com
www.cartlidgemorland.com

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