

2026 began with a period of calm in markets, continuing many of the themes we explored in my last newsletter. We noted then that markets often teach the same lesson: timing is rarely convenient, but corrections are inevitable. They are not a sign that something is “wrong” – they are part of the natural progress of markets.

That context remains important. While the start of the year was characterised by steady consumer activity and robust corporate earnings, both of which helped sustain elevated valuations, the rise in geopolitical risk in February served as a timely reminder of how quickly sentiment can shift. As we discussed previously, market declines, even those that feel dramatic, are far more common than many investors assume.

Against this backdrop, our focus remains unwavering: diversification, discipline, and a long-term perspective. Volatility can be unsettling, but it is also a healthy mechanism through which markets reset excesses and create future opportunities. What matters most is how investors respond, not the short-term movements themselves.

Here’s an overview of how the SJP Investment team is interpreting recent developments and how we are positioning portfolios to navigate the period ahead.

Factor Views	--	-	/	+	++
Equity	◇	◇	◆	◇	◇
Duration	◇	◇	◆	◇	◇
Credit	◇	◇	◆	◇	◇
Emerging Markets	◇	◇	◇	◆	◇
GBP	◇	◇	◇	◆	◇
Inflation	◇	◇	◆	◇	◇

Asset allocation views					
Equities	--	-	/	+	++
Developed Markets	◇	◆	◇	◇	◇
US	◇	◆	◇	◇	◇
UK	◇	◇	◇	◆	◇
Europe ex-UK	◇	◇	◇	◆	◇
Japan	◇	◇	◇	◆	◇
Japan SMID Cap	◇	◇	◇	◆	◇
Japan Large Cap	◇	◆	◇	◇	◇
Emerging Markets	◇	◇	◇	◆	◇
Smaller Companies	◇	◇	◇	◆	◇

Fixed Income	--	-	/	+	++
Global Sovereign	◇	◇	◆	◇	◇
Global IG	◇	◇	◆	◇	◇
Global HY	◇	◇	◆	◇	◇
Emerging Market	◇	◇	◆	◇	◇



Market outlook

The quarter began with relatively steady global economic conditions, supported by moderate growth and easing inflation across major regions. However, we were mindful throughout of the risks of a correction in equity markets. Against this backdrop, the rise in geopolitical uncertainty means it is important to consider a wider range of potential outcomes from here.

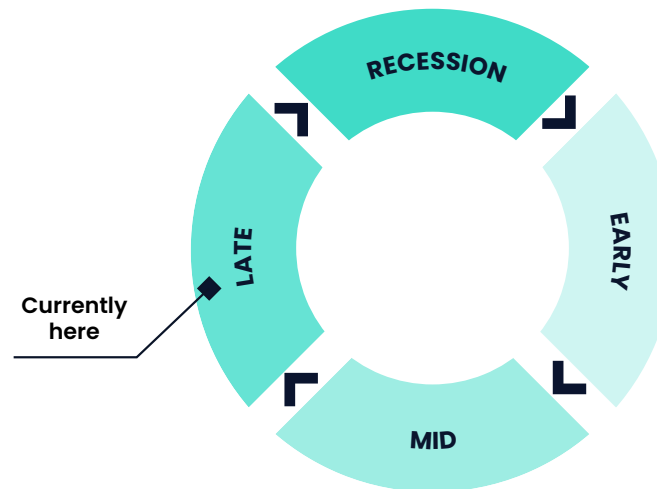
The ongoing conflict in the Middle East could create several important economic pressures in the months ahead, but the extent of these remains uncertain given the unknown severity and duration of the situation. The blockage of the Strait of Hormuz, a key route for a large share of global oil and gas shipments, has sharply increased the risk of supply disruptions as tanker traffic remains restricted. Attacks on production facilities have added to these concerns, since physical damage to capacity may keep energy markets tight even if tensions begin to ease.

Beyond the direct impact on energy markets, the uncertainty surrounding the conflict is creating wider ripple effects across global supply chains, which can weigh on trade and investment activity. If the disruptions persist or intensify, the economic impact is likely to become more prolonged, although a ceasefire in the coming months could point to a more contained scenario with limited impacts. US consumer spending has stayed steady, supported by a strong labour market, which has largely stabilised after showing signs of cooling last year.

Economic views: 12 to 18 month outlook

Deep recession	Stagflation	Mild recession	Steady-State	Re-acceleration
5%	15%	10%	55%	15%

Base case



- Investing **late cycle** is always difficult.
- Historically, **risky assets perform well** in this period. However, **volatility** can increase as markets assess the likelihood of a recession. We have a neutral view on equity risk, but have a bias away from richly valued US assets.
- Remaining diversified, we believe we can create **robust portfolios** over a number of scenarios in **Polaris**, our **models** and across the **IMA**.

Even so, there is some fragility since a large share of US household wealth remains concentrated among a smaller group of consumers. In contrast, the UK has seen unemployment rise and wage growth ease, which together have led to weaker expectations for economic growth in those regions.

Credit and financial conditions remain an important area to monitor. Over recent quarters, credit conditions had loosened and helped support investment and growth trends. These conditions should help to partially offset the adverse effects of the shock. At the same time, there are limited signs of overall vulnerability in recent economic data; no signs of excessive leverage in corporate or household debt, labour markets remain generally supportive of consumer demand, and central banks and governments retain tools to respond if conditions deteriorate further. This offers the Investment team reassurance that the global economic environment remains resilient despite the challenges created by the conflict.

The impacts of the conflict are likely to differ across regions. Europe and the UK are more exposed because they rely more heavily on oil and gas imports, making them more sensitive to disruptions in supply.

The US is comparatively less affected as it has a broader range of domestic energy sources, which helps cushion the impact.

Emerging markets and Japan also depend on the Strait of Hormuz for a significant share of their energy,

so disruption can create challenges for them too. Travel demand in the region has paused, and as higher oil prices feed through into kerosene and petrol costs, this may place some pressure on consumers, especially in countries closer to the affected area.

Taking these factors into account, the team has made some changes to their recession probabilities. They have increased the likelihood of a mild stagflation scenario from 10% to 15% and reduced the chance of a stronger pick-up in growth by 5%. Despite this, the 'steady-state' view continues to be the central expectation at 55%, reflecting the belief that the global economy is still on a broadly stable footing. While risks have tilted a little more to the downside, the adjustments are small.

Overall, the global economy enters the new quarter with a combination of resilience and vulnerability. Geopolitical uncertainty, energy market disruption and emerging signs of labour market softening require close monitoring. While the backdrop has become more challenging, the team is also cognisant of the opportunities this environment can present. Steady financial conditions, manageable debt levels and the capacity for policy intervention provide reassurance as we navigate this period of volatility.

Positioning

The investment team has been reviewing the asset allocation and house views and have made no changes this quarter. Current allocations continue to reflect our medium-term views,

building on the adjustments implemented at the start of 2026.

As a reminder, last quarter we strengthened our portfolios by increasing exposure to US Treasuries and other sovereign bonds, and by trimming higher risk investment-grade credit, where the balance of risk and reward had become less compelling. We also added to UK equities, and introduced an allocation to Emerging Market Debt (EMD). While our stance on EMD remains neutral, it is an important and underrepresented area of global bond markets that provides meaningful diversification benefits. Taken together, these adjustments are designed to enhance portfolio resilience and ensure we remain appropriately positioned across a range of market environments.

For the Investment team, global asset allocation begins with an assessment of valuations, fundamentals and sentiment, and a comparison of opportunities in a global context rather than viewing markets in isolation.

Since the start of the Middle East crisis, equity markets have de-rated globally, with the largest drawdowns seen in Europe and parts of Asia. Meanwhile, the US has been relatively more resilient, reflecting its lower reliance on the energy imports and investors' preference for perceived safe havens. Within equities, energy and other resource intensive sectors are outperforming, while consumer discretionary and financials have lagged amid concerns around higher inflation and weaker cyclical demand.

Overall, however, underlying fundamentals remain solid, with profitability and margins still comfortably above their long-term global equity market average. While the current conflict could precipitate earnings revisions, underlying fundamentals remain stable, with profitability and margins still above long-term median levels within global equity markets.

Our preference for equity markets outside the US remains unchanged. Despite the recent pullback, US valuations continue to look elevated—both relative to other regions compared with its own history.

In addition, the heavy concentration of the US market in the Magnificent Seven also continues to be a concern, as it increases the sensitivity of overall market performance to movements in a small group of companies.

The UK equity market remains relatively defensive, with a greater exposure to the energy sector, supporting its performance during the Middle East conflict. Rising investment in defence companies, reflecting heightened geopolitical risks, could provide an additional tailwind. UK valuations also remain attractively discounted compared with global markets.

European equities (excluding the UK) are also appealing, combining a balanced mix of value and growth alongside steady profitability. Although Europe is closer to the conflict and relies on some of the affected resources, many of its listed companies

generate earnings globally, which helps to reduce the impact of local disruptions on their equity returns.

Japan remains one of our strongest opportunities. Fiscal support and ongoing corporate reforms continue to improve the outlook, providing an offset to global tensions. Valuations are attractive and profitability is robust. Smaller and mid-sized companies in Japan look particularly promising as their domestic earnings focus makes them less exposed to external pressures, offering valuable diversification.

Emerging markets also offer attractive valuations and good diversification benefits relative to US-heavy developed market indices. With a growing emphasis on domestic demand rather than export-led growth, earnings in these markets appear more resilient.

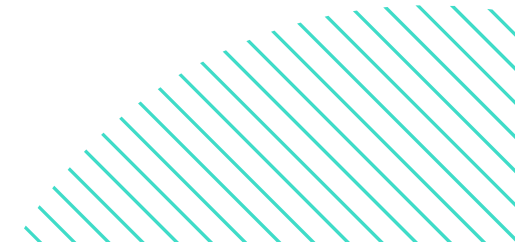
Recent declines in both government and corporate bond prices have improved valuations in fixed income. With yields now more attractive, government bonds provide a valuable cushion against global growth risks. Given the uncertain inflation backdrop linked to the conflict, inflation-linked bonds continue to provide a helpful hedge alongside equity exposure.

As conditions evolve, we are reviewing our asset allocation carefully to identify any widening gaps between market pricing and underlying fundamentals from a long-term perspective. Together, these factors reinforce our view that diversification across regions and sectors remains essential during periods of

geopolitical uncertainty. While notable, recent market moves have not been large enough, nor have they signalled a meaningful shift in fundamentals, to justify changing our current positioning, however, the team continue to monitor the situation.

Overall, we maintain a diversified and valuation aware approach across asset classes to help ensure portfolios remain resilient as we move through the year.

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