

STRATEGY & OUTLOOK

Market Update

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Q1 Review & Q2 Outlook

Global investment markets entered Q1 2026 expensive and complacent but comforted by impending rate cuts, earnings upgrades and an acceleration of the AI led capex cycle. They exit Q1 2026 still expensive and complacent but facing potential rate hikes, earnings downgrades, and clear impending slowdown in the pace of the build out of the AI infrastructure globally. The inflationary impact of the middle east crisis is the primary driver of this shift.

This conflict couldn't have happened at a worse time in the Inflationary cycle, nor in a worse place, the Strait of Hormuz. The rapid progress Central banks had been making against inflation since 2022 had already begun to slow above target as tariffs and a strong US economy were driving sticky inflation earlier in the year. The global energy crisis triggered by the disruption to Middle Eastern Oil and Gas production will be felt for some time, regardless of when or how the war ends. Strategic stockpiles have helped buffer some of the hit in the short term. There is however no strategic stockpiles of products such as jet fuel and diesel. These markets are seeing price increase above and beyond the dramatic rise in the oil and gas markets. Associated petro chemical by products which are used in the global supply chain to manufacture everything from copper in your pocket to the converse on your feet are also affected, as is global fertiliser supply. Even in a perfect resolution some fossil fuel supply would remain offline for years, due to being directly hit. Industry meetings we have had have

been consistent in their message that other producing assets can come back on stream but not fully to their prewar levels due to technical and real-world realities of restarting multiple oil and gas producing facilities across the gulf at the same time. There is also no indication of how bad Iran's ability to produce has been affected.

This supply shock is on par, and probably exceeding any in recent history, with multiple implications. Unlike the post covid cost of living crisis the global consumer has run down their excess savings. Government budgets are stretched and their balance sheets have not been rebuilt. There will be further pressure to increase defence spending, driving rates higher and crowding out other government spending and support initiatives. Job security is worse as AI disruption lingers. Pre this war we had already begun to see negative monthly Jobs data in the US. The AI and general capex spend in the US, which had driven so much of the strength of the US economy will begin to slow as the cost of energy becomes an

even bigger impediment and both cost and availability of financing become an issue. The Gulf countries at the heart of this war run the largest Sovereign Wealth funds in the world and will be under their own acute pressures as their economies have come to a halt. Rising rates and lack of risk appetite are worsening the issues in private credit also with a raft of high-profile funds now gated to investors due to their inability to meet redemptions as questions arise over how these assets have been priced. Emerging markets, which had been one of the most popular investment themes to start the year are seeing not only inflationary impacts but actual shortages, resulting in the governments issuing economic curtailment orders. Without an imminent resolution this pattern will probably be repeated in the west as governments will look to save energy ahead of the winter.

The multi asset fund range has performed well in the Quarter, led by significant outperformance in March when the crisis began. With some leading European stock markets down almost double digits on the month, we were delighted to be able to protect our investors capital and generate a flat return. This outperformance was driven by a number of factors

- **Overweight Energy Commodities** - The fund purchased oil in February as a hedge against a potential middle eastern crisis. We were surprised how low the price of oil was in the early part of the year. There was little or no risk premium priced into the commodity despite the clear politization of all strategic assets and the record build up of US military presence in the gulf. Even in the absence of any crisis the medium- and longer-term supply imbalance in oil was also evolving as the post Ukraine supply explosion was slowly unwinding at a time when US shale production would no longer be increasing but global demand was still growing.
- **Overweight the Dollar** - Our conviction about the dollar proving to be safe haven in times of crisis was proved correct, helped in part by supreme court rulings against tariffs and Trumps inability to influence the Federal reserve. The Checks and Balances would appear still to be working in some instances.

- **Exposure to Alternative investment fund** - This fund was up materially on the month as its ability to buy index protection and offer uncorrelated returns to the equity market came to the fore.
- **Asset Allocation** - We entered the year at the lower end of our risk asset allocation as well as concentrating those risk assets in low beta/risk holdings. As global stock markets collapsed our funds held steady due to this.

Our stock selection on the quarter overall was a slight drag as our global Equity fund slightly underperformed its benchmark. We would note however the significant outperformance in March during the volatile risk off period. The Positive impact of some decisions made in 2025 such as to be materially underweight the Mag7 was offset by some single stock holdings in US software, European business service and US Medtech names. The common theme amongst these detractors for us was the perception of them being AI losers as the rapid development of certain LLM providers accelerated in January. We largely exited most of these losers in the Quarter. We added substantially to our Global Energy holdings as these stocks continue to offer strong free cash flow yields and operational improvements, as well as exposure to any upside in Oil price and refining margins.

We enter Q2 with a high level of cash and a low level of risk. We are overweight Utilities and Energy in particular. We have added to stocks in sectors such as chemicals and materials where the medium-term disruption hasn't been priced into the valuations or earnings expectations. The change in rate expectations is another tailwind to certain financials which we have also added to. Although the imminent backdrop for markets is ominous, we are already beginning to think ahead of how, when, and where to deploy this cash. Strong long-term returns are driven in part by being able to deploy cash during short term pockets of volatility. The lasting effects of this crisis will see even more investment in the West as we look to re shore critical energy, defence and industrial capabilities. Transformational AI beneficiaries should become available at appealing valuations, just when enterprise proof of concept examples come to the fore.

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