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View from the CIO

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LV= INVESTMENTS

View from the CIO

Update in brief

- Despite heightened geopolitical tensions and inflation concerns following disruption in the Strait of Hormuz, the S&P 500 reached a new all-time high in April and is up 3.9% year-to-date, with gains of 30.6% over the last 12 months.
- Commodity markets reacted sharply to the Iran conflict, with Brent crude rising from $60–$70 per barrel to nearly $120 before settling closer to $100, while broader supply disruption across fertiliser, chemicals and industrial materials has increased inflation risks globally.
- Our Smoothed Managed Funds have remained resilient through market volatility, with both smoothed price and smoothed value not falling on a single day so far in 2026, including throughout the Iran War period.

Market Commentary

2026 has continued many of the themes that defined 2025. We remain in a world where government policy, particularly in the US, is increasingly disruptive rather than stabilising, and where investment opportunities are often emerging in spite of policy rather than because of it. At the same time, the era of globalisation has given way to geopolitical fragmentation, creating a more complex backdrop for investors seeking resilient long-term returns.

Earlier in the year, markets were focused on questions such as whether we were entering an AI bubble, whether private credit valuations had become stretched, who would become the next Chair of the Federal Reserve, and how investors could gain greater exposure to so-called HALO assets - Heavy Asset, Low Obsolescence opportunities. Those debates were rapidly overtaken by the outbreak of the Iran War.

War carries profound human consequences, but it also has significant economic and market implications. While hopes remain that the recent ceasefire may hold, the disruption to global trade and supply chains has already been material.

US

Despite heightened geopolitical tensions and renewed inflation concerns, US equity markets have remained resilient. The S&P 500 reached a new all-time high during April and is up 3.9% year-to-date, with gains of 30.6% over the last 12 months.

Markets appear to be looking through the immediate risks for three key reasons. First, the inflationary shock may prove temporary if weaker consumer demand limits second-round price pressures. Second, interest rates are materially higher than they were during previous geopolitical shocks, meaning monetary policy already restrictive. Third, investors continue to believe that companies can adapt through innovation and automation propelled by AI-led productivity gains.

This backdrop may also increase pressure on the Federal Reserve, whose dual mandate includes both inflation control and labour market stability, potentially bringing rate cuts back into focus despite increased inflationary pressures.

Europe

Europe remains particularly exposed to the inflationary consequences of supply disruption through the Strait of Hormuz. Prior to the conflict, markets had expected the European Central Bank to continue easing policy. Those expectations reversed sharply as energy prices surged and inflation risks re-emerged.

The ECB moved from a 50% probability of a rate cut to pricing in two hikes, illustrating how quickly the policy outlook can shift when supply-side inflation shocks return.

Emerging Markets

Emerging markets and Asia face meaningful exposure to trade disruption given the Strait of Hormuz's importance to energy, petrochemicals and industrial supply chains. Over 50% of Asia's naphtha imports pass through the Strait, with implications for manufacturing, plastics production and industrial activity across the region.

At the same time, selective emerging market opportunities remain attractive where domestic demand, structural growth and more supportive valuations can offset some external pressures.

Commodities

The most immediate market reaction to the conflict was in commodities. Brent crude nearly doubled from a range of $60–$70 per barrel to close to $120, and even after easing remains around 70% higher.

However, the broader commodity impact extends well beyond oil. The Strait of Hormuz remains one of the world's most important trade chokepoints, with around 36% of global urea, 29% of global ammonia and 50% of global sulphur[1] traded through the Strait. These inputs are critical to global fertiliser production and agricultural supply chains, increasing the risk of higher food prices later in the year.

The Strait is also a key route for helium, petrochemicals and naphtha. 6% of petrochemicals[2] used in medicines like painkillers, antibiotics and vaccines sail through the Strait. Helium is essential in semiconductor manufacturing and MRI scanners[3], while naphtha is widely used in plastics production across everyday and industrial goods. Disruption here has the potential to create broader inflation ary pressures across multiple sectors of the global economy.

Market valuations

The resilience of equity markets in the face of war and inflationary pressures suggests investors continue to place significant weight on long-term earnings potential rather than short-term macro shocks. Markets appear willing to tolerate elevated valuations where they believe companies can preserve margins, adapt supply chains and benefit from AI-driven efficiency gains.

That said, valuations remain sensitive to interest rate expectations, inflation persistence and any deterioration in global growth.

[1] The Iran war's impacts on global fertilizer markets and food production | IFPRI

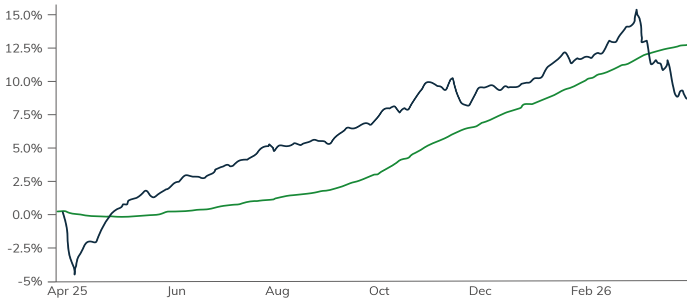
[2] Strait of Hormuz: How closure could affect food, medicines and smartphones | BBC News

[3] Strait of Hormuz: from helium to aluminium, the non-oil raw materials crisis Materia Rinnovabile | Renewable Matter

Smoothed Managed Fund (SMF) Performance

Investment strategies need to remain dynamic in order to navigate the challenges ahead. Our Smoothed Managed Funds continue to benefit from a disciplined investment process designed to manage volatility while maintaining exposure to long-term growth opportunities.

Importantly, over 2026 to date, both our smoothed price and smoothed value have not fallen on a single day, including throughout the Iran War period. This reflects the resilience of our smoothing mechanism, combined with robust investment oversight and award-winning expertise.



LV= Smoothed Managed Balanced Pn GTR in GB [12.13%]

ABI Mixed Investment 20-60% Shares GTR in GB [8.58%]

Source: FE Fundinfo 31/03/2025 – 31/03/2026

Please remember past performance is not a reliable indicator of future returns. The value of your client's investment can go down as well as up.

Outlook and Tactical Positioning

As the war has begun to ease, equity markets have shown notable resilience. In April, the S&P 500 reached a new all-time high and is up 3.9% so far in 2026, with gains of 30.6% over the last 12 months. Japan has also been particularly strong, with the Nikkei up 18.6% year-to-date and an exceptional 70.4% over the last year.

Why are markets looking through what could become a painful inflationary shock? We see three primary reasons.

First, investors may believe the inflationary impact proves temporary, with weaker consumer confidence, sentiment and spending limiting second-round price pressures before they become entrenched.

Second, interest rates are already materially higher than during previous geopolitical shocks. At the start of the Ukraine War, Bank of England base rate had only just risen from 0.25% to 0.5%. At the time of writing, it stands at 3.75%. Today's more restrictive policy backdrop may help contain inflation more effectively.

Third, markets continue to back corporate adaptability. With AI adoption now far more advanced than at the onset of the Ukraine conflict, companies may be better placed to reorganise operations, substitute labour, protect margins and respond more dynamically to cost pressures.

For central banks such as the Federal Reserve, the dual mandate of controlling inflation while supporting employment means that if growth weakens materially, interest rate cuts could still become increasingly likely.

Our focus remains on delivering strong long-term outcomes for advisers, customers and members through changing market conditions.

Changes:

- **Reduced our underweight in US Treasuries.** Markets have materially increased long-term yield expectations and so presented a timely point to close the underweight. We retain underweight duration with the Credit underweight. Despite a significant rise in UK Gilt yields, we have retained our neutral allocation to UK Government Bonds, to better the political impact from UK local election results.
- **Closed overweight Emerging Market Debt,** as a large number of the index is exposed to the Middle East and so could be negatively affected by the conflict, with more issuance to rebuild expected.
- **Adding back to Emerging Market Overweight.** This position was removed in early March, however, seeing the market as being oversold, BlackRock have added back to Emerging Markets at the end of the month.

Retained Equity Positioning:

- **Overweight global equities**, the broadening of the AI theme is expected to be beneficial to stock prices alongside easing financial conditions.
- **US overweight** with deregulation, tax cutting and a broadening earnings trend beyond big tech being supportive.
- **Europe underweight,** driven by earnings signals within the region.
- **Emerging markets overweight,** where EM has materially cheapened given the closure of the Strait of Hormuz.

Retained Fixed Income Positioning:

- **Underweight Global Credit** with spreads at near historic tights, and increasing issuance from the AI hyperscalers, we are underweight taking risk in equities where the risk is better rewarded.
- **Underweight High Yield** as we do not believe yields sufficiently reflect the risks.
- **Overweight Gold** given medium-term tailwinds for gold due to structural demand for the asset, alongside a short-term supportive backdrop from geopolitical uncertainty.

	-3	-2	-1	Neutral	+1	+2	+3
Equities					●		
US					●		
UK				●			
Europe			●				
Japan				●			
Emerging Markets					●		
Fixed Income			●				
US Treasuries				●			
UK Gilts				●			
Credit		●					
High Yield			●				
Emerging Market Debt				●			
Gold						●	
USD				●			

Our Tactical Asset Allocations

My team designs the Strategic Asset Allocations (SAA) for our Smoothed Managed Funds and oversees their investment performance. Our asset management partners, BlackRock then use their expertise to overlay the 'Tactical Asset Allocations' (TAA) within the parameters set out by LV= and manage the underlying investments.

If you would like to learn more about the asset allocations for our Smoothed Managed Funds, please refer to our fund factsheets, which can be found in the **LV= Fund Centre**.

Thanks for reading and please join us again next quarter

Adam Ruddle
Chief Investment Officer

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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