

# *Investment* OUTLOOK

April 2026



*A monthly round-up  
of GLOBAL MARKETS  
and trends*

*In this issue:*  
Navigating warflation

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# Navigating WARFLATION



## Summary

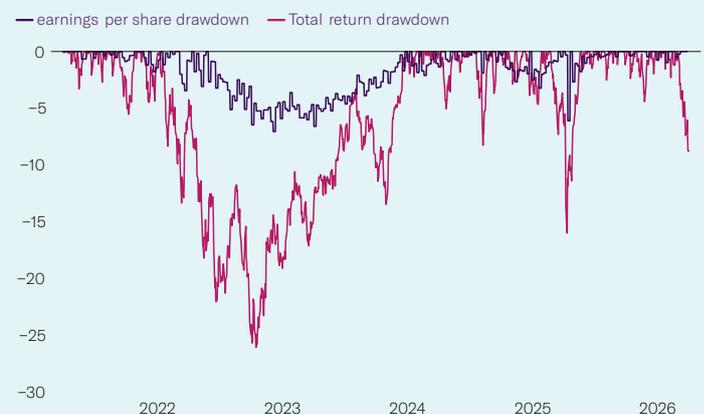
The Middle East conflict has driven oil prices higher, causing market volatility and triggering “warflation,” where inflation rises due to supply shocks while employment stays firm. Equity markets remain resilient, but risks include rising recession odds, tighter financial conditions and higher interest rates. Energy stocks, US dollar exposure in portfolios, inflation-linked bonds and short-duration sovereigns potentially offer some protection, while gold’s sell-off may be temporary.

## *The economic risks of a widening Middle East conflict*

A new wave of uncertainty is washing over the global economy as the conflict in the Middle East intensifies and disrupts energy markets. The partial closure of the Strait of Hormuz, combined with repeated attacks on oil infrastructure across the Gulf, has pushed oil prices sharply higher and introduced significant volatility into global financial markets. According to the International Energy Agency, more than 40 oil and gas assets across nine Gulf countries have suffered damage, suggesting the region’s export capacity could be durably impaired even if hostilities ease.

The broader stock market and government bonds have been surprisingly resilient in the face of this crisis. This likely reflects solid corporate fundamentals and a global economy that remains steady for now. Notably, analysts have maintained their forward earnings per share (EPS) forecasts, which helps reduce the risk of a sharp drawdown across equity markets.

## Global equities - earnings per share & total return drawdown from peak (%)



Source: LSEG Datastream / Evelyn Partners. MSCI AC World in US dollars. As at 1 April 2026

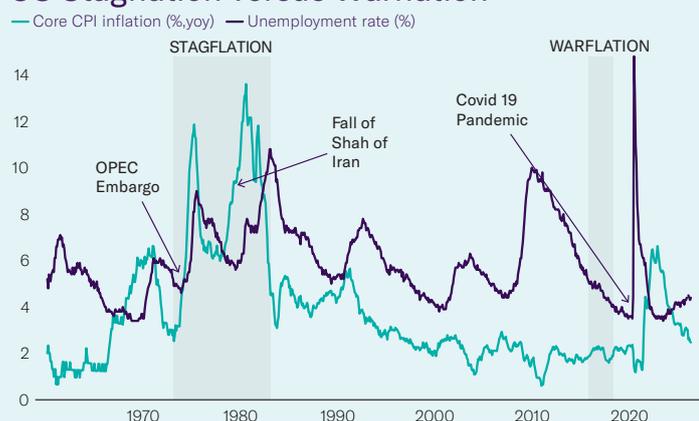
Investors have reacted quickly, bidding up energy stocks on expectations of stronger earnings.

Inflation is also set to rise, and major central banks are now expected to delay rate cuts or even consider raising them. Traders have already moved to price in nearly three separate quarter point Bank of England base rate hikes in the futures market. The longer the conflict persists, the greater the risk that elevated energy costs, weakening demand and tighter financial conditions will trigger earnings downgrades and pressure equity valuations.

### US warflation differs from stagflation

The environment could be described as “warflation”: a temporary inflation spike from supply disruption, while employment holds up. By contrast, the more commonly known “stagflation” involves persistent inflation, rising unemployment and weak growth, the backdrop seen in the 1970s and early 1980s.

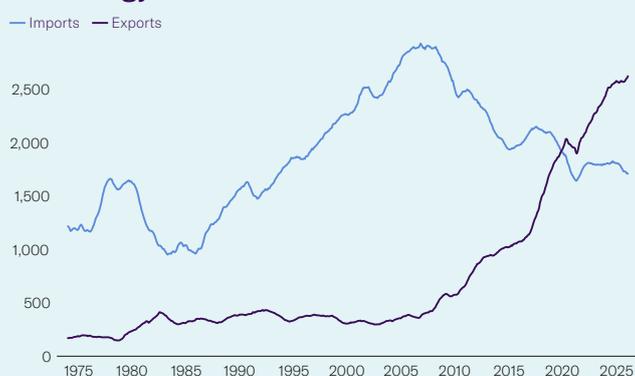
### US Stagflation versus Warflation



Source: LSEG Datastream / Evelvn Partners. As at 1 April 2026

The US economy today is probably less vulnerable to stagflation. It is far less energy-intensive, having shifted from heavy industry, like steel, toward lighter manufacturing. The country’s status as a net energy exporter allows supplies to be redirected domestically.

### US energy trade\*



Source: LSEG Datastream / Evelyn Partners. \*British Thermal Units, Trillions, 12 month moving average. As at 1st April 2026

Wage inflation is less of a concern as workers have less pricing power. President Reagan’s dismissal of striking air-traffic controllers in the early 1980s symbolised the structural pivot away from union-driven wage inflation. Today, US worker compensation as a share of GDP is at a record low.

Moreover, for decades several structural forces have exerted downward pressure on inflation and continue to do so. The adoption of the internet, which became publicly accessible when the World Wide Web was released in 1993, accelerated price discovery and comparison. This reduced pricing power across many industries.

China’s accession to the WTO in 2001 greatly expanded global manufacturing capacity, while outsourcing to India and other emerging markets lowered the cost curve for goods and services. Corporate margins expanded, and inflation stayed relatively low even during periods of strong demand.

Together, these forces make a 1970s-style stagflation regime unlikely, given relatively stable employment and resilient corporate profitability.

### Assessing equity market drivers

Balancing market drivers requires weighing opposing forces. Headwinds include rising US recession risk from surging crude oil prices, increasing financing pressures in Artificial Intelligence (AI), as rates rise.

Moreover, uncertainty in the UK government bond market has intensified, with 10-year gilt yields recently reaching their highest level since 2008.<sup>1</sup> These have risen as fiscal rules become harder to meet, and speculation grows that the government may need to provide additional support to offset energy costs and possibly delay the rise in fuel duty scheduled for September. Adding to the challenges, growth expectations are weakening, with the OECD cutting its 2026 UK forecast to 0.7% from 1.2%, the sharpest downgrade among major economies.<sup>1</sup>

Taken together, these pressures have heightened the likelihood of tax increases in the autumn budget, weighing on growth prospects and complicating the broader challenge of maintaining debt sustainability.

Tailwinds include elevated US profit margins, supported in part by Big Data and AI-driven productivity gains, which may help cushion firms against rising cost pressures. Earnings expectations for global listed companies also remain firm, with analyst consensus pointing to a robust 19% EPS growth in 2026.

There has been little disruption to corporate borrowing, with credit spreads remaining relatively stable. A key factor behind this is that companies have been able to pay down debt on the back of solid profitability. The latest data (Q4 2025) show that US net

credit-market debt (as a share of GDP) has declined to 29%, its lowest level since 1985. This healthier corporate balance-sheet position has also supported market liquidity, limiting the risk of a sharp tightening in financing conditions.

### US net credit market debt (% of GDP)



Source: LSEG Datastream / Evelyn Partners. As at 1 April 2026

In the near term, these tailwinds may be outweighed by several headwinds, particularly the volatile situation in the Middle East and the uncertainty surrounding the duration of the conflict. Nonetheless, President Trump has scheduled a meeting with President Xi in China on 14–15 May, a development that introduces a potential diplomatic turning point. The summit could prove pivotal in efforts to de-escalate tensions and bring an end to military strikes in the Gulf.

### *Hedging market downside risk*

The outlook for stocks remains relatively positive, supported by an ongoing expansion in company earnings. Nevertheless, investors are having to navigate the tension between a powerful AI-driven growth boom and the economic drag from an emerging energy shock.

In this environment, diversification plays an essential role in managing portfolio volatility. Maintaining US dollar exposure has become increasingly valuable, as the currency tends to strengthen during periods of geopolitical stress and in response to higher US interest rates. For sterling-based investors, dollar exposure can also enhance returns through currency appreciation, while US equities have benefited from resilient earnings. As a result, allocating a greater share of equity exposure to companies earning a significant portion of their revenues in US dollars may help stabilise portfolios in volatile conditions.

Owning oil and gas stocks also remains a compelling strategy in a warflation environment, as sector earnings are closely tied to energy prices. Structural supply tightness, intensified by Middle East tensions, continues to support fundamentals, while rising crude oil spot prices typically feed into earnings upgrades. Physical shortages reinforce a tailwind for the sector.

Traditional diversifiers have behaved unusually, but some still help manage risk. US Treasury Inflation Protected Securities (TIPS) remain effective against inflation shocks, and inflation-linked bonds retain room to outperform if energy driven inflation persists. Short-dated government bonds can provide portfolio stability, but their effectiveness may diminish in a rising interest rate environment.

Recently, gold has sold off after some strong performance over recent years, driven by liquidity factors rather than fundamentals. A surging dollar, rising real yields, forced liquidations after Gulf cash-flow blockades, and the unwinding of crowded long positions all contributed.

Today, with Western economies weighed down by high public debt and central banks, particularly in emerging markets, continuing to accumulate physical bullion, the long-term structural case for gold remains compelling. This dynamic intensified when President Putin signed an order on 26 March 2026, banning the export of refined gold bars over 100 grams from 1 May 2026, as part of a wider effort to curb illicit outflows and tighten capital controls. As the world's second-largest gold producer, Russia is effectively reducing global supply and adding upward pressure to prices.

As financial conditions stabilise and liquidity normalises, the underlying support for the gold price is likely to re-emerge.

### *Closing thoughts*

The duration of the Middle East conflict and the extent of the disruption to energy exports will determine the severity of its impact. While warflation dynamics dominate the near-term outlook, the risk of stagflation in the US remains low. Investors may wish to focus on managing inflation risk, balancing currency exposure, owning energy assets and diversifying through instruments that hedge geopolitical uncertainty and a warflation environment.

# *Speak to us*

## Source

<sup>1</sup> LSEG Datastream, Evelyn Partners 1 April 2026

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