



Introduction

The first quarter of 2026 proved challenging for investment markets, largely due to rising geopolitical tensions and the outbreak and escalation of the conflict between the United States and Iran. This created uncertainty across financial markets, leading to increased volatility across most asset classes.

Share prices fell in most parts of the world, and bonds, which normally rise in value when shares fall, also came under pressure due to inflation fears. The quarter was a reminder of how quickly global events can affect markets, reinforcing the importance of diversification and disciplined long-term investing.

Markets

The first quarter of 2026 was dominated by two key themes: growing uncertainty about the long-term impact of artificial intelligence, and the outbreak of war between the United States and Iran. Together, these drove sharp swings in markets worldwide. Share prices fell in most regions, bonds struggled, and energy prices surged.

Our ProsperityShield portfolio entered the period with an underweight position in developed market government bonds, while our allocation to emerging market debt had very limited exposure to Gulf countries. This positioning proved helpful as bond markets came under pressure. Our exposure to commodities provided additional support during the period, while alternative assets and credit markets struggled. Overall, performance evolved broadly in line with expectations, with the

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fund delivering a positive return over the quarter.

ProsperityBuild initially benefited from an overweight positioning in both Japanese and Emerging Markets, both of which performed well in the early part of the quarter. However, some of those gains were reduced as these regions experienced sharper declines than others. Importantly, we reduced our risk exposure as global market conditions deteriorated, which helped protect capital and resulted in broadly neutral performance for the quarter.

UK

The UK stock market bucked the global trend and delivered a positive return, helped by its large energy and mining companies, which benefited from higher oil and commodity prices. A weaker pound also benefited export-focused companies.

However, smaller, more domestically focused UK companies struggled, and hopes of a cut faded as the Bank of England held interest rates at 3.75%.

Europe

European share markets fell, with most of the damage coming in March as the US-Iran conflict escalated. Energy companies did well on the back of rising oil prices, but most other sectors saw a decline in equity prices. The higher energy costs heightened inflation concerns, and the broader



economic picture looked fragile, with business activity slowing noticeably.

US

US shares fell sharply, with the S&P 500 dropping by 2.5%, its worst quarter since 2022.

Investor sentiment turned negative after the US and Israeli strikes on Iran disrupted oil supplies through the Strait of Hormuz, which is a critical shipping route for global oil supplies.

In addition, market uncertainty weighed on investors, particularly in the technology sector, caused by questions about AI's effect on traditional software business models.

Japan

Japan was the strongest performing major market, rising by 3.85% over the quarter. A decisive election victory for the Liberal Democratic Party in the lower house elections boosted investor confidence, and a weaker yen helped Japanese exporters.

However, like the rest of the world, Japanese shares fell in March due to the US-Iran conflict and rising energy prices.

Asia & Emerging Markets

Emerging markets, which include countries like China, India, South Korea, and Brazil, held up better than developed markets overall, though they also saw negative returns in March.

Technology-heavy markets like South Korea and Taiwan performed well early in the quarter, but the rising oil prices and global uncertainty also hit many countries in this region hard.

China and India underperformed amid concerns about economic growth and high share price valuations.

Fixed Income

Bonds had a difficult quarter. Normally, bonds rise in value when there is uncertainty in markets, however, the spike in oil prices raised fears that inflation could stay high for longer, meaning central banks might delay cutting interest rates.

This caused bond prices to fall, and yields, which are the returns that investors receive, to rise. UK government bonds were hit hardest, while US government bonds held up better than most.

Commodities

Raw materials such as oil, metals and agricultural products delivered very strong returns across the quarter.

The main commodities index rose around 40%, driven almost entirely by surging oil prices after the effective block of the Strait of Hormuz, which is used for around 20% of global oil supply.

Gold and silver prices also rose over the quarter but experienced sharp declines in March, as higher interest rate expectations reduced their appeal to investors.



Outlook

At Flying Colours, we have become more cautious in our outlook since the US-Iran conflict began.

Markets remain unpredictable, and sharp swings in either direction are possible. Any meaningful peace agreement could trigger a rapid rebound in share prices, but both parties remain hard to predict, and our short-term visibility is limited.

That said, we believe there is a strong probability of resolution over the medium term, which is consistent with historical precedents where geopolitical shocks tend to be intense but ultimately temporary. As always, markets are forward-looking, and many price adjustments typically occur before clarity fully emerges.

Inflation pressures are easing and interest rates appear close to their peaks, which is a positive backdrop for investors. However, US shares remain elevated, and political and financial uncertainty persists across the UK and Europe.

At Flying Colours, we remain cautious in our approach to government bonds, preferring to focus on high-quality issuers with strong fiscal discipline, despite more attractive yields that may be appearing elsewhere.

We continue to maintain globally diversified and balanced portfolios, with a clear focus on protecting capital and delivering sustainable returns over the long term, including exposure to a range of assets beyond traditional shares and bonds.

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Glossary

ProsperityShield: A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.

ProsperityBuild: A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

S&P 500: A stock market trading index that tracks the performance of 500 leading companies listed on the US stock exchange.