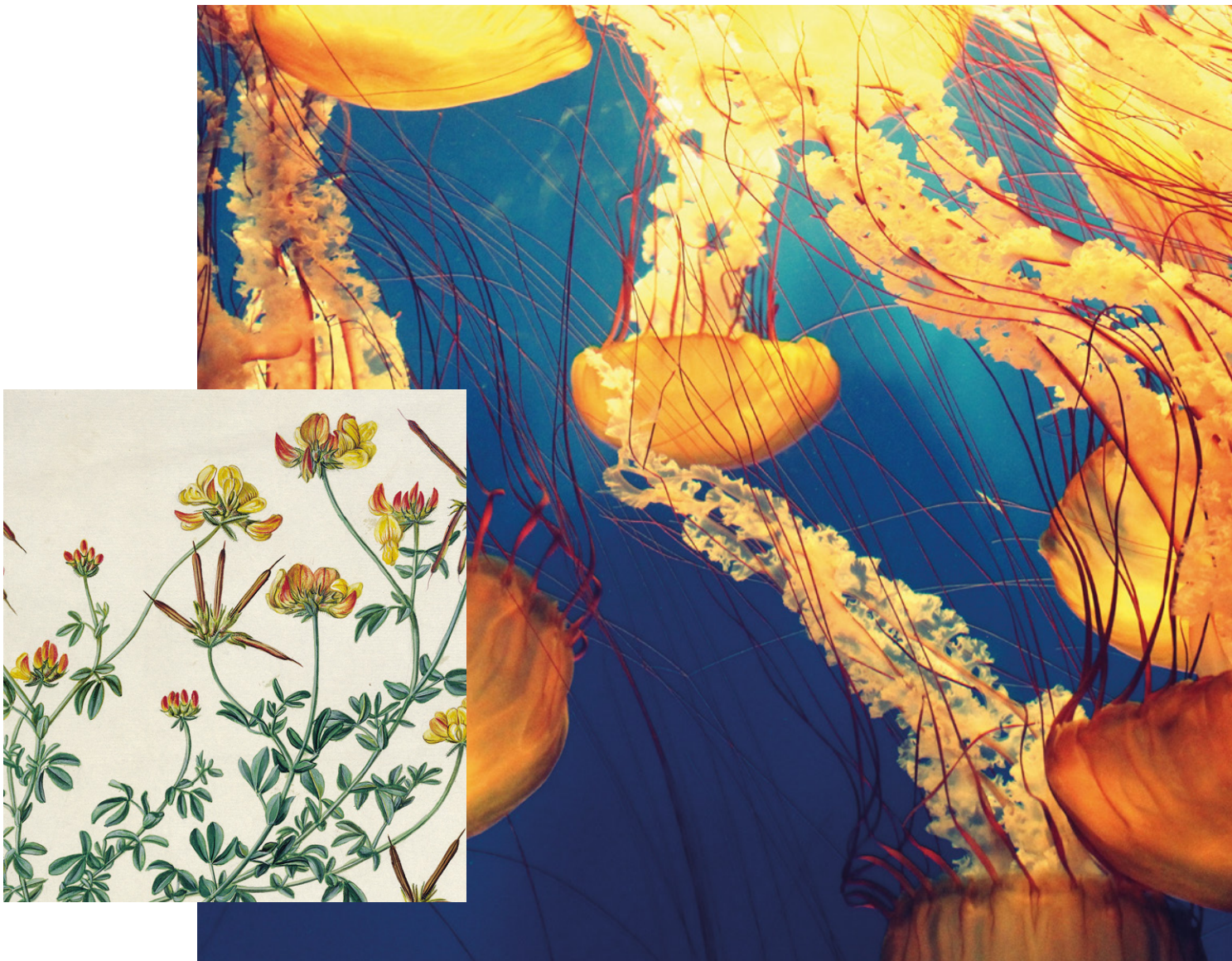




Wealth
Management

Quarterly Report Sustainable Portfolio Service

Q1 2026



| Forward-looking
for generations



Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lotus corniculatus L.," around 1788
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Q1 2026

Summary

Two powerful themes have driven markets in 2026. The first is the geopolitical uncertainty triggered by President Donald Trump's sharp shift in US foreign policy. The second is the AI-driven sell-off, with markets shifting from favouring AI leaders to focusing on companies whose business models are most threatened by the rapidly developing technology. These trends have reversed the market's strong start to the year, as investor attention turns to supply chain vulnerabilities and the potential growing risk of stagflation, when high inflation, weak growth and rising unemployment occur simultaneously.

Few anticipated gunboat diplomacy – the pursuit of foreign policy objectives using military force – would become a defining feature in 2026, particularly as Trump had built his campaign on opposing foreign military action. Positioning himself as a “candidate of peace”, Trump insisted he would use his deal-making skills to end multiple conflicts, notably Russia's invasion of Ukraine.¹

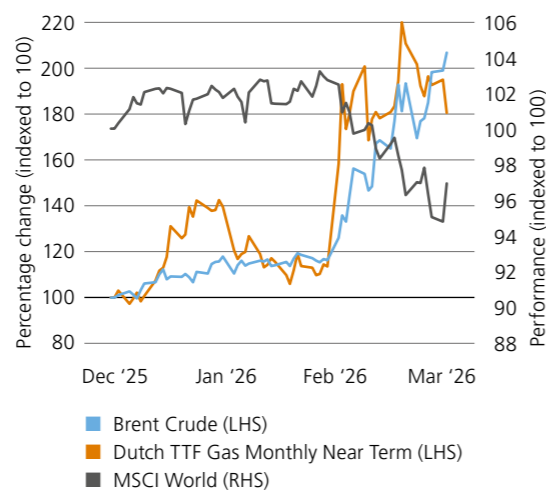
The opening quarter has instead been marked by direct US military action. The US launched an operation in Venezuela to remove President Nicolás Maduro, threatened to take over Greenland, and conducted joint strikes with Israel targeting Iranian military and nuclear facilities intended to destabilise its regime. While the action in Venezuela was contained, the escalation in the Middle East has had far broader consequences.

Iran war broadens out across the Gulf

Iran responded by targeting energy infrastructure across the Gulf and restricting passage through the Strait of Hormuz, the 21-mile passageway where about 20% of the world's oil supply passes daily.² The result has been a significant repricing in energy markets, sending oil and natural gas prices higher and materially affecting global inflation expectations.

Equities initially held up against earlier geopolitical developments, but most gains were erased in March, as the Iran conflict and its economic impact weighed on markets. European and Japanese equities were up 7% and 16% to the end of February, before ending the quarter down -0.8% and up 4%, respectively.

MSCI World vs crude oil and natural gas prices



Source: Bloomberg

¹ How to Avoid a Forever War in Iran | WPR

² Iran war: What is the Strait of Hormuz and why does it matter? - BBC News



The US was more mixed. The headline-level S&P 500 was little changed to the end of February, while the equal-weighted S&P 500 index – which gives each constituent the same weighting regardless of market capitalisation – was up 7%. However, as the quarter progressed, the S&P 500 ended down -4.4% while the equal weighted S&P 500 finished just slightly positive. Asian equities were hit hard by the conflict in the Middle East as the continent receives a significant amount of oil from the Strait of Hormuz. Over the quarter, Hong Kong's Hang Seng Index lost 3% while China's Shanghai Composite fell 1.8%. Bond yields moved higher as investors shifted from pricing rate cuts to hikes amid heightened inflation uncertainty.

The conflict in Iran sent oil prices surging in the quarter. Brent crude rose 94%, its biggest quarterly jump since the start of the Gulf War in 1990, to close the quarter at USD 118.35 per barrel.³ Natural gas rose 71% in Q1 as liquefied natural gas (LNG) disruptions emerged, and secondary effects on commodities such as sulphuric acid and fertiliser flows have added complexity beyond the energy sector.

Even traditional safe-haven assets such as gold have not been immune. After a strong 2025 and a record start to the year, gold fell 11.6% in March after the conflict escalated. While gold typically performs well

during periods of uncertainty as investors seek assets that preserve value, in extreme risk-off environments investors often sell their best-performing and most liquid holdings to raise cash – and gold, following its recent rally to record-high holdings, fits that profile. Its effectiveness as a safe haven is also highly dependent on the broader macro backdrop, particularly inflation, interest rates and currency movements. As such, the recent pullback is neither unexpected nor, in our view, a cause for concern, as asset prices tend to mean revert over the medium- to long-term.

Gold price per ounce (USD) over two years



Source: Bloomberg

³ Deutsche Bank, Bloomberg



The conflict is expected to feed directly into inflation – higher crude prices will raise transportation costs, airline fares and freight rates, while also affecting consumer sentiment. In addition, restricted shipping lanes are raising availability concerns for essential commodities. However, if a resolution is reached in the Middle East, the inflationary impulse would likely prove temporary, giving central banks scope to look through the near-term pressure rather than respond with further rate hikes.

AI developments shift focus to competitive threats

It was a solid earnings season, although shares of software companies suffered significant falls after the release of industry-specific plug-ins for Anthropic's new Claude Cowork tool. This tool – which uses language instructions to complete complex, multi-step work including file organisation and document creation – appears to compete with traditional software-as-a-service (SaaS) models. This has led investors to reassess SaaS company valuations. As a result, the S&P 500 Software Industry Index fell 24% in the first quarter, with most declines occurring before the war.

Central banks weigh energy shocks and growth impact

At the start of 2026, most expected central banks to continue cutting interest rates. This outlook has been upended by the ongoing Middle East conflict. The Federal Reserve (Fed), Bank of England (BoE) and European Central Bank (ECB) all met mid-March and as expected, each left policy rates unchanged, citing the uncertain outlook shaped by rising oil and natural gas prices, which will likely fuel inflation and weigh on growth. Businesses and consumers will need to adapt to higher costs and supply chain disruption, which could intensify if the conflict continues. Policymakers must now decide whether to pause the cycle or even raise rates as inflation pressures mount.

On 30 January, Trump nominated Kevin Warsh to replace Fed Chairman Jerome Powell, subject to confirmation and pending the ongoing investigation into Powell. The Fed is no longer expected to cut rates but will likely hold.

Expectations for the BoE have shifted from two cuts this year to pricing in possible rate hikes to control

inflation. The BoE's latest forecast shows inflation hitting 3.5% in July.⁴ Similarly, markets expect the ECB to raise rates a few times this year, although before tightening policy, global central banks will need to weigh the trade-off between containing inflation and supporting growth.

Takaichi victory opens door for fiscal expansion

On 8 February, Japanese voters handed Prime Minister Sanae Takaichi and the long-ruling Liberal Democratic Party a supermajority in the lower house of Parliament – the first party in the post-war era to achieve such dominance. This gives Takaichi greater political room to pursue her agenda, which includes a tougher stance on immigration, a review of rules around foreign ownership of Japanese land, and policies to increase spending while cutting taxes to stimulate the economy.

Japanese equities posted strong gains post-election, although some of these gains had tapered off by quarter-end. Japan's Topix (Tokyo Stock Price Index) rose 16% through February but ended the quarter up only 4%. Before the election, Japanese government bonds sold off amid election pledges for more consumption tax cuts, with 30-year yields rising to 3.86%, the highest since their introduction. Yields fell back from these highs, only to rise again with the Iran conflict.⁵

Supreme Court ruling clouds US trade policy

On 20 February, the US Supreme Court ruled that sweeping tariffs imposed by Trump on key trading partners violated federal law, dealing a major blow to the administration's trade strategy and creating uncertainty over existing agreements. In response, the administration introduced a replacement tariff framework, starting at 10% and potentially rising to 15%, using a little-tested provision that allows the president to impose broad tariffs for up to 150 days without congressional approval.

Markets brace for geopolitical and AI shifts

Looking ahead to the remainder of 2026, markets are likely to remain highly sensitive to both geopolitical developments and the pace of technological disruptors. The ongoing conflict in the Middle East will continue to influence energy markets, global supply chains and inflation expectations. In our experience, while these periods are unsettling and unpredictable, history reminds us that knee-jerk reactions tend to cost investors over the long run. We continue to actively monitor developments in markets and stand ready to reposition portfolios should opportunities arise. Volatility often creates attractive entry points and maintaining a disciplined, long-term approach can allow investors to capture gains as markets recover.

“
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Sanjay Rijhsinghani, Chief Investment Officer

⁴ Interest rates held at 3.75% as Bank of England warns Iran war 'shock' will push up inflation - BBC News
⁵ Deutsche Bank, Bloomberg

Portfolios in review

Fixed income

Volatility in global fixed income stayed high in the first quarter of 2026 as an initially benign backdrop gave way to an energy driven inflation shock and a sharp repricing of interest rate expectations. January and February were relatively calm in markets despite rising geopolitical tensions. In the US, short dated Treasury yields rose in January as the Federal Reserve held rates at 3.5–3.75% and pointed to a more balanced outlook, while softer labour data appeared driven by weaker hiring rather than layoffs.

Eurozone government bonds outperformed early in the quarter. Resilient activity and a January inflation reading of 1.7%, the lowest since 2021, allowed the European Central Bank to keep rates at 2% and describe inflation as in a “good place”. In the UK, the gilt curve steepened in January as short dated yields fell and long dated yields rose, while the Bank of England’s decision in February to hold rates at 3.75% with dovish messaging boosted expectations for a March cut, even as politics and fiscal questions added uncertainty.

The picture changed decisively in March as the war in Iran escalated, the Strait of Hormuz remained largely closed and key gas infrastructure was hit. Oil and gas prices rose sharply, driving inflation expectations higher and forcing investors to reassess the path for interest rates. The Fed, BoE and ECB all left policy rates unchanged but shifted to much more hawkish guidance, signalling that earlier expectations for multiple cuts were no longer realistic and that rate hikes were now a clear possibility.

Government bond yields in major energy importing economies moved meaningfully higher from late February, with the adjustment led by the front end of the curve. Short dated yields rose much more than

long dated yields, reflecting a market that now anticipates higher policy rates in the near term but still expects the inflation shock to be relatively short lived. This dynamic highlighted both the immediate inflation challenge and lingering concerns about the longer term drag on growth.

From a portfolio perspective, our government bond allocation generated modest losses. The global repricing of sovereign yields has been especially pronounced in the UK, where gilts have lagged other major government bond markets. This reflects the UK’s greater sensitivity to higher imported energy costs, which is contributing to wider term premia and a more cautious reassessment of the disinflation path than in many other developed economies. We view these market moves as creating more attractive entry points and selective opportunities within the gilt market. The portfolio’s best performer was unsurprisingly the holding in **Legal & General Global Inflation Linked Bond (+0.8%)**, as inflation-linked government bonds provided a degree of protection as rising energy prices resulted in higher inflation expectations in March.

Credit markets mirrored the changing backdrop over the quarter. Investment grade credit performed well at the beginning of the year, but spreads in both investment grade and high yield widened through February and March as geopolitical risks rose and central banks shifted from an easing bias towards a more cautious, potentially tightening stance. The holdings in **TwentyFour Sustainable Short Term Bond (-0.4%)** and **Brown Sustainable Total Return (-0.7%)** fell modestly, with their shorter duration profiles and focus on higher-quality areas of the corporate bond market designed to provide downside protection, even as credit spreads remained tight.

Equity

Global equities began the first quarter of 2026 with strong momentum and a broader base of participation before a sharp reversal in March. The rally that started late last year continued into January and February, supported by expectations of easing monetary policy, resilient economic data and ongoing corporate investment. Geopolitics remained a key driver over the quarter with the US intervention in Venezuela and tensions involving Greenland and Iran initially weighing on the US dollar and supporting oil and precious metals, before US and Israeli strikes on Iran and subsequent retaliation escalated concerns. March then marked a turning point, with a broad-based sell off across most asset classes as markets began to treat the US Iran conflict as a more prolonged risk. Most equity markets fell between -7% and -9% in March, gold weakened, oil prices spiked and bond yields moved higher, challenging some traditional portfolio relationships. For the quarter as a whole, US equities declined -7.0%, global growth stocks fell -10.5% and the Magnificent Seven dropped -15.6%, while Japan (+6.6%), Asia ex Japan (+4.8%) and Emerging Markets (+4.7%) led returns after a strong first two months of the year.

In terms of the portfolio’s equity allocation, in a generally negative quarter for the asset class the two value-oriented holdings in **Schroder Global Sustainable Value Fund (+5.5%)** and **Sparinvest Ethical Global Value Fund (+4.4%)** delivered positive returns. Active global equity managers with a quality bias struggled in comparison, with the holdings in **Morgan Stanley Global Quality Select (-9.5%)** and **Lazard Global Sustainable Equity Fund (-6.6%)** exemplifying this in a quarter in an environment which favoured value and more cyclical parts of the market. Underperformance of these strategies was also related to their bias to sub-sectors like software and data analytics which underperformed during the period on fears of AI disruption.

Thematic satellites generally delivered positive returns, with **NinetyOne Global Environment (+1.2%)** and **Foresight Global Real Infrastructure (+8.9%)** benefiting from their exposure to areas like renewable energy in the context of issues of energy security coming to the fore in the context of geopolitical tensions.

Regional performance was mixed: the **Polar Capital Emerging Market Stars Fund (+0.6%)** benefited from technology enthusiasm in Asia and emerging markets – although the fund gave back much of its good performance in January and February in March’s risk off mood - while in North America, **Alliance Bernstein Sustainable US Equity (-8.7%)** and **Mirova US Sustainable Equity (-4.8%)** underperformed their index comparators in the context of the aforementioned challenges facing quality active managers.

Alternatives

Within alternatives, the holding in **Brevan Howard Absolute Return Government Bond (+1.1%)** provided a positive return that was uncorrelated with equities and bonds, with the elevated volatility in global government bond markets providing opportunity for the manager in the period. **Trojan Ethical (-2.2%)** had a softer quarter after a positive 2025.

Portfolio changes

The only strategic trades in the quarter were in fixed income, where we exited the long dated UK gilt exposure through the sale of the 2053 UK Gilt in January after a strong rally. Much of the original investment case including curve flattening, normalisation of inflation premia and improving UK macro sentiment had largely materialised. To retain balanced duration exposure while improving valuation and carry, proceeds were redeployed into the UK Gilt 0.625% July 2035, offering more attractive value in the belly of the curve.

Sustainability update

Crisis as a catalyst: why geopolitics is accelerating the energy transition

The conflict in the Middle East has once again exposed a fundamental vulnerability in the global energy system: dependence on fossil fuels concentrated in geopolitically unstable regions. Far from slowing the energy transition, this crisis is strengthening the economic and strategic case for accelerating it.

At the centre of the disruption is the Strait of Hormuz, through which roughly 20% of global oil and gas supply flows. With Iran blocking this crucial shipping route, and energy infrastructure being targeted on both sides of the strait there has been a significant drop in supply, leading to a spike in oil and gas prices. This in turn is raising concerns on inflation and economic growth globally. Given energy is a fundamental input into all economies the impacts have been broad, however it has been noticeable that regions that are more dependent on energy imports have generally fared worse.

This volatility shows the vulnerability of global fossil fuel supply chains. Around 75% of the world's population live in countries that are net importers of fossil fuel energy.⁶ Such dependency and instability reinforce the strategic imperative for countries to reduce reliance on imported energy and accelerate domestic renewable capacity. Doing so not only enhances security but also helps reduce price volatility over time, an outcome that benefits governments, companies, and consumers alike.

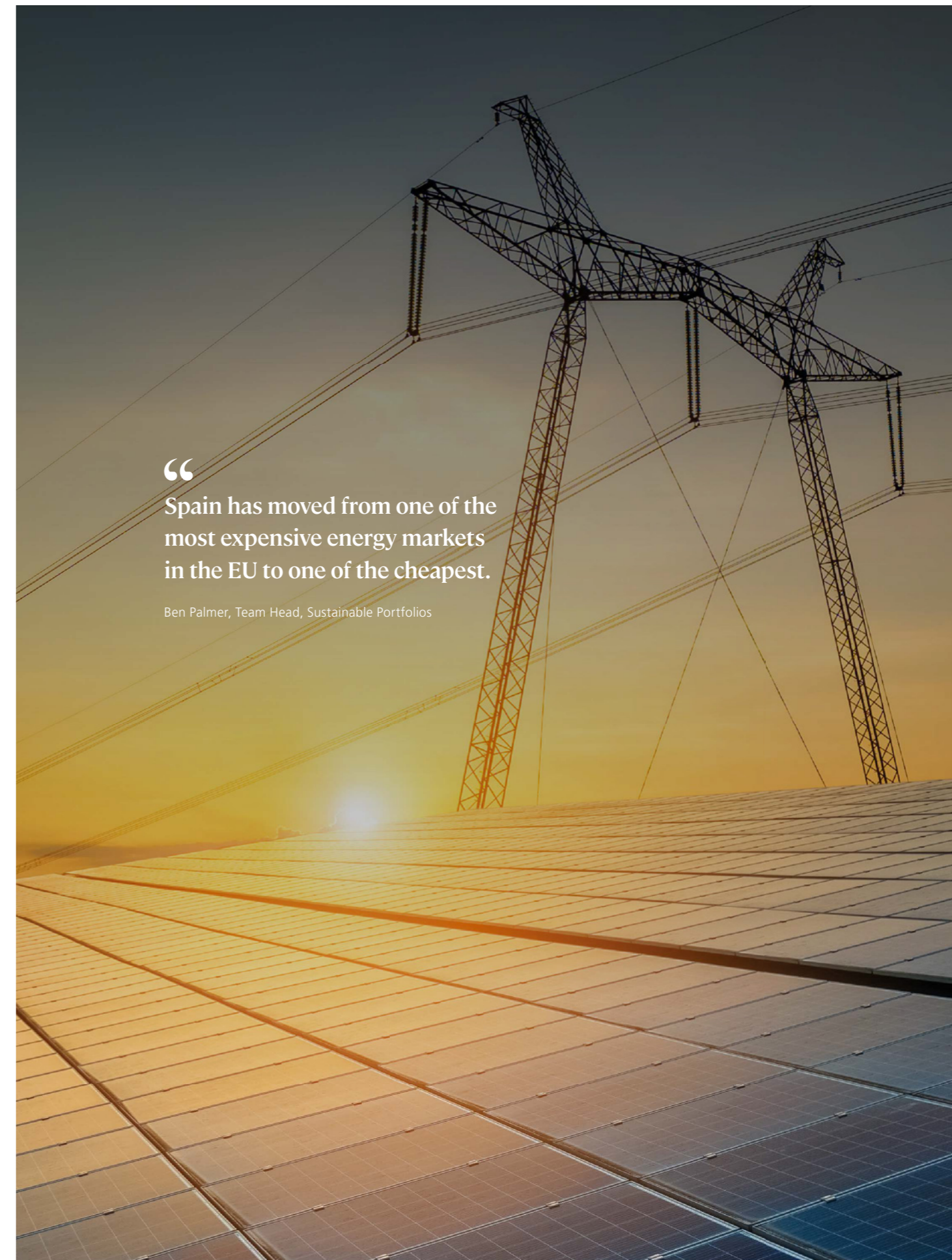
Spain provides a compelling case study, since 2019 it has rapidly expanded renewable capacity. As a result, Spain has moved from one of the most expensive energy markets in the EU to one of the cheapest. The economic benefits are tangible, during periods of fossil fuel price spikes, Spain's wholesale electricity prices have been more stable than those in countries heavily reliant on gas imports.⁷ It should be noted though that past policy outcomes, such as Spain's, do not guarantee similar results elsewhere and energy transition paths can differ significantly by country.

Strategically, the implications are equally significant. Energy has long been central to national security and the Iran conflict demonstrates that true security cannot be achieved through dependence. Even major producers are vulnerable to chokepoints, infrastructure attacks, and market shocks. In contrast, renewables are domestically generated and decentralised. From an investment perspective this strengthens the structural outlook for companies that help scale renewables capacity, develop energy storage solutions and expand the use of electricity within the economy.

The Iran conflict has reinforced a critical lesson: fossil fuel dependence is both an economic liability and a strategic risk. Spain's experience demonstrates that large-scale renewable deployment can help shield economies from volatility, offering a model for how nations can navigate an increasingly unstable energy landscape.

⁶ Energy Security in an insecure world | Ember

⁷ Decoupled how Spain cut the link between gas and power prices using renewables | Ember



“Spain has moved from one of the most expensive energy markets in the EU to one of the cheapest.”

Ben Palmer, Team Head, Sustainable Portfolios

Conclusion

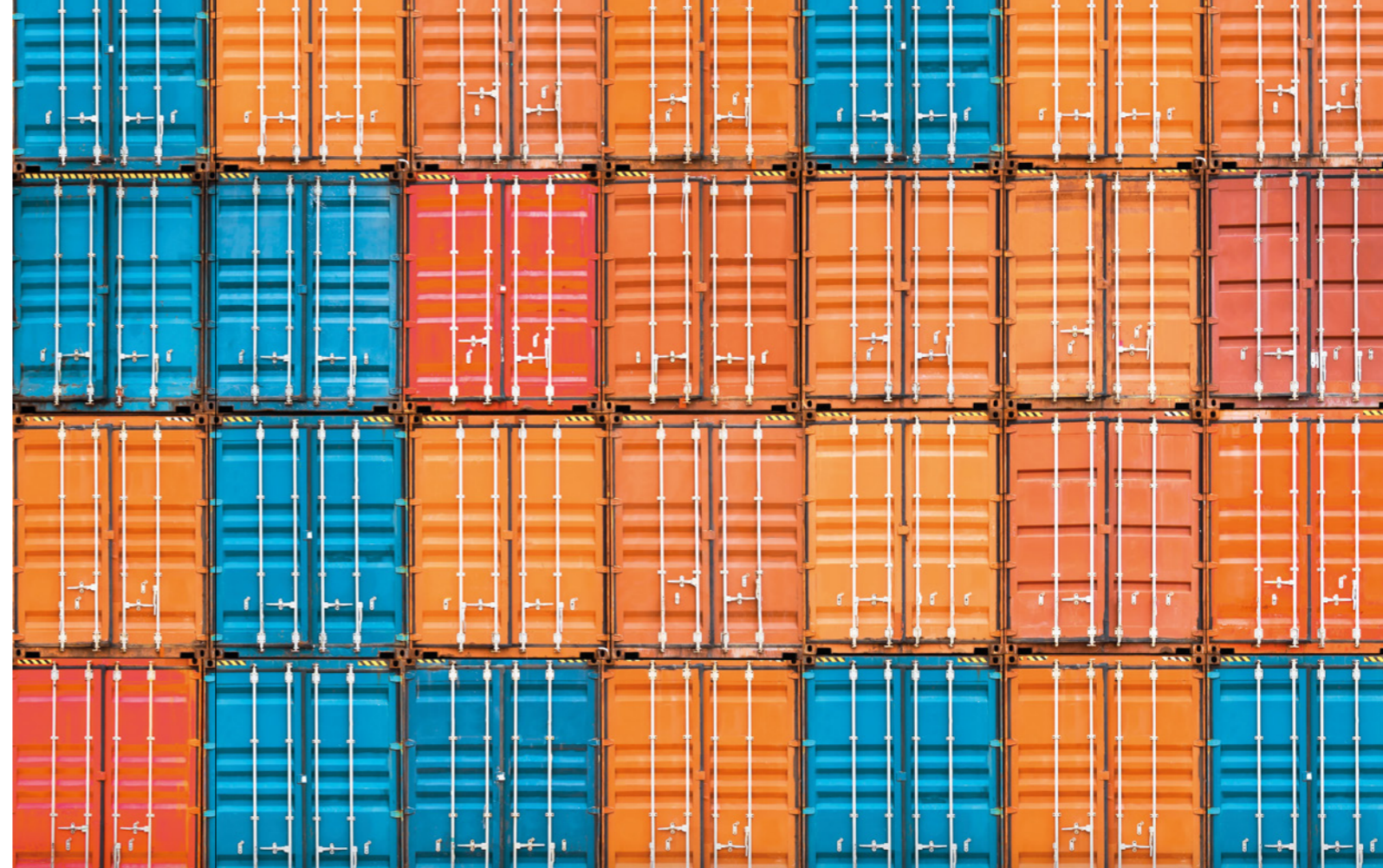
The first quarter has shown how quickly conditions can change. The conflict in the Middle East has pushed energy prices higher and reminded markets how dependent the global economy still is on exports from politically fragile regions. At the same time, the gradual-then-sudden shift from a US-dominated unipolar world to a more multipolar order, defined by competing spheres of influence, is reshaping policy and capital flows. Many governments are being pushed towards looser fiscal stances to maintain both defence and competitiveness. For a number of countries, especially energy importers like the UK and Eurozone, this raises the risk of higher inflation just as growth is slowing, and has contributed to renewed volatility across bond and equity markets. In parallel, more attractive starting valuations and improving momentum in several markets outside the US are helping to reverse the decades-long period of US relative outperformance – a trend we expect could continue into 2026, particularly given the higher end of the US valuation range and a more uncertain policy backdrop.

Against this backdrop, two powerful long-term themes continue to shape the opportunity set. The latest energy shock strengthens the case for accelerating the transition to cleaner, more secure power systems. Countries that have built out renewables and modernised their grids – Spain is a good example – have generally been better insulated from recent price spikes than those still heavily reliant on fossil fuel imports, which we see as supportive over time for enablers of reliable, lower-carbon energy. Artificial intelligence is the other major driver. Companies providing the hardware and infrastructure that make AI and data centres possible continue to see strong demand, while some business models are facing questions about how AI will affect them. Over time,

AI is likely to influence productivity, pricing power, cost bases and competitive intensity across many parts of the market simultaneously, creating both opportunities where efficiency gains are captured and pressure where barriers to entry fall or excess capacity emerges.

In this more complex environment, we see renewed value in companies and funds with high-quality characteristics: strong balance sheets, resilient earnings and consistent business models capable of compounding steadily over time. Markets have recently preferred more cyclical and speculative areas, often overlooking these attributes, and many higher-quality businesses now trade at more reasonable valuations than several years ago, even though their long-term prospects remain intact. We remain wary of allowing the index to pull us into an undiversified stance, particularly in areas such as the mega-cap US technology stocks that have dominated performance and headlines in recent years. With valuations already elevated and attractive opportunities available elsewhere, we prefer to be selective rather than heavily concentrated in any single theme, sector or region, accepting that performance within these leadership groups is likely to become more divergent over time.

Monetary and bond markets add another layer of uncertainty. The identity of the next Fed Chair will loom larger for markets, and while there is some concern that political influence could erode the Fed's independence, we think institutional checks and balances make a disorderly outcome less likely. A more realistic path is one where the Fed adopts a somewhat more dovish tone if the economy allows, without rushing back to the policies of the pandemic period – and if growth remains steady and inflation



persistent, the greater risk is that US interest rates do not fall at all in 2026. Closer to home, we believe UK government bonds can increasingly trade in line with interest rate expectations rather than political headlines, and we still see a role for high-quality government bonds as a portfolio hedge if growth slows or an external shock occurs. Credit markets, meanwhile, continue to offer appealing income even though spreads are relatively tight, supported by broadly stable company fundamentals. Here, too, success is likely to come from careful selectivity rather than simply owning the entire market.

In this more uncertain world, the portfolio remains anchored in diversified exposure to high-quality assets through a range of specialist funds. Emphasis is placed on resilient business models, sustainable cash

generation and prudent balance sheets, accessed across equities, fixed income (including government bonds) and selected alternatives, as well as thoughtfully chosen credit exposures. For a portfolio-of-funds strategy, the response to shifting geopolitics, energy security concerns and rapid technological change is not to concentrate exposure narrowly, but to ensure the portfolio is positioned across a range of assets, styles, regions and return drivers that can adapt to, and absorb, these developments as they play out unevenly over time. We believe this approach – combining quality, sustainability and broad diversification – remains an appropriate way to navigate a world in which geopolitical risk, fiscal regimes, energy systems and technological innovation are increasingly interconnected.



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