

Ongoing conflict in the Middle East piles pressure on central banks



Month in brief

Major central banks hold interest rates steady as inflationary pressures rise

The United Arab Emirates left the OPEC oil cartel in April

Despite conflict in Iran, US equities reached new highs

Pension scheme funding levels improved further

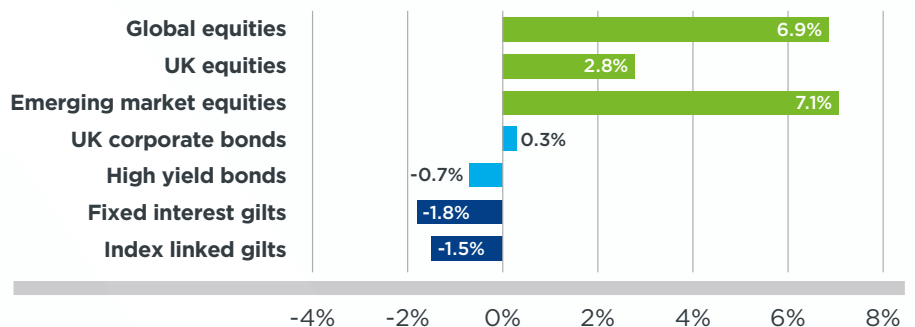
War in Iran has continued and tensions in the Strait of Hormuz have escalated despite both sides agreeing to an initial ceasefire. Rising oil prices and the knock-on impact on inflation have led major central banks to pause interest rate reductions whilst the situation in the Middle East develops.

In early April a two-week conditional ceasefire was agreed between the US and Iran. The outcome was expected to support a workable basis in which the conflict could be reasonably resolved. However, as April ended, Iran and the US were no closer to ending the conflict and tensions in the major global shipping lane, the Strait of Hormuz, escalated again.

The closure of the Strait has been a major disruption to global supply networks which has subsequently seen the price of oil soar. The Brent Crude international oil benchmark surpassed \$126 a barrel, its highest level since 2022, before falling back to \$114 by the end of the month amidst Trump's announcement that the closure could continue for some time. However, volatility in oil prices provided an opportune time for United Arab Emirates's (UAE) departure from OPEC. The UAE was the cartel's third largest oil producer accounting for around 12% of total output. Without cartel quota restrictions, the UAE has potential to increase its supply and push global oil prices down.

Rising energy costs have been a major driver in stubbornly high inflation. Over the month, Eurozone inflation rose to 3%, whilst both US and UK CPI inflation rose to 3.3%, as all three respective central banks voted to hold interest rates at current levels. The dovish approach signals concerns over a higher-for-longer impact of rising prices as a result of the Iran war. Stagflation has been another key factor in both the Bank of England and the European Central Bank's use of monetary policy, where they must balance their primary objective of targeting 2%

US and Emerging Market equities posted strong returns in April One month to 30 April 2026



Click to watch Jamie's two-minute video.

Jamie Queen

Assistant Investment Consultant



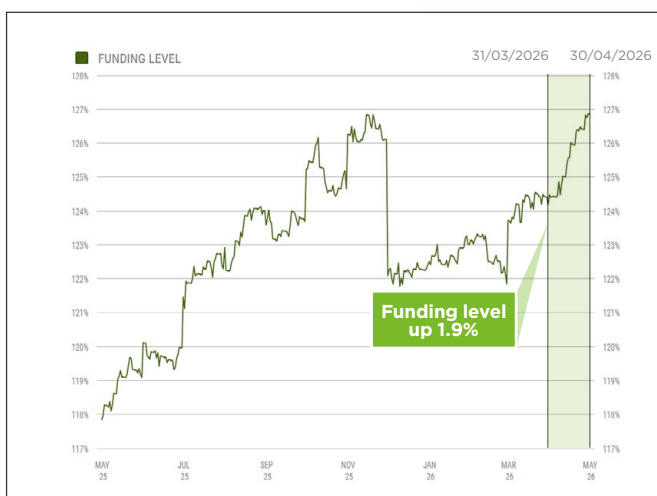
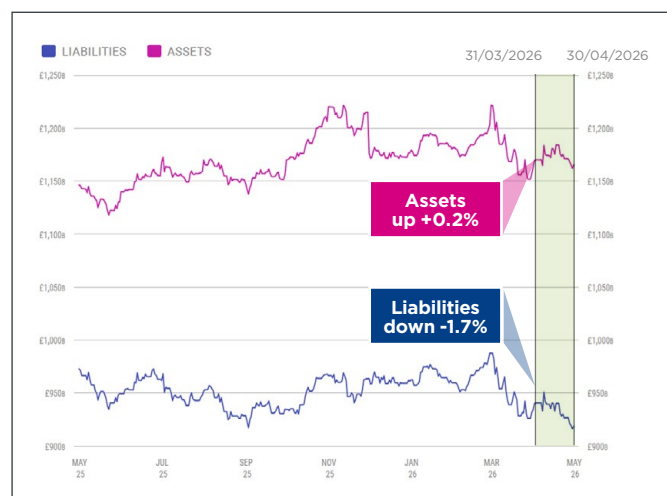
inflation against supporting economic growth. Over April, Eurozone growth slowed to just 0.1% GDP.

In equity markets, the S&P 500 enjoyed a bumper month buoyed off the back of the initial ceasefire announcement to reach a new all-time high. Tech stocks continue to be a significant driver of returns as robust corporate earnings have improved investor sentiment despite global energy shocks. Emerging market equities also hit record highs over April, recovering their losses from the early stages of the Iran conflict helped by a rally on a selection of Asian chipmakers.

The cost of UK government borrowing has increased over April owing to a sell-off in the gilt market.

Energy increases, political uncertainty and a shaky ceasefire pushed the 10-year yield up to just over 5% in April. The increase in the cost of government borrowing piles pressure on Chancellor Rachel Reeves as UK public sector borrowing exceeded expectations hitting £12.6bn in March, up from the £10.3bn previously forecasted. Investment grade credit spreads narrowed marginally over the month, whilst long term inflation expectations dipped mid-month but then rose back to broadly where they started the month.

The aggregate funding level of UK DB pension schemes on a low risk basis has improved over the month, driven by positive performance for growth assets combined with rising yields.



Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Jamie Queen**. Alternatively, please speak to your usual XPS contact.



Jamie Queen
Assistant Investment Consultant
e jamie.queen@xpsgroup.com



Important information: Please note the information and opinions expressed herein do not take into account the circumstances of individual pension funds and accordingly may not be representative of the circumstances affecting your fund. This note, and the work undertaken to produce it, is compliant with TAS 100, set by the Financial Reporting Council. No other TASs apply. The note has been written on the basis that decisions will not be based on its contents. Appropriate advice should be obtained before any decisions are made. The information expressed is provided in good faith and has been prepared using sources considered to be reasonable and appropriate. While information from third parties is believed to be reliable, no representations, guarantees or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in respect of this. This document may also include our views and expectations, which cannot be taken as fact. The value of investments and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount invested. Past performance is not necessarily a guide to future returns. The views set out in this document are intentionally broad market views and are not intended to constitute investment advice as they do not take into account any client's particular circumstances.

Please note that all material produced by XPS Investment is directed at, and intended solely for the consideration of, professional clients within the meaning of the Financial Services and Markets Act 2000 (FSMA). Retail or other clients must not place any reliance upon the contents.

This document should not be distributed to any third parties and is not intended to, and must not be, relied upon by them. Unauthorised copying of this document is prohibited.

© XPS Investment. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. Penfida Limited Registered No. 8020393. Polaris Actuaries and Consultants Ltd, Registered No. 9640309. All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).