

Markets prove resilient despite unrest in the Middle East and Trump tariffs 2.0



Month in brief

Oil and gas prices jumped in early March after US and Israel launch air strikes on Iran

US President reignites hostile tariff policy after Supreme Court ruling

Global equities remained resilient despite a difficult backdrop for the US market

The US Dollar appreciated amidst the uncertainty

US and Israeli air strikes launched at the beginning of March added to the array of geopolitical uncertainties currently gripping investors. Whilst the escalation dented global equity and bond market prices, February's positive performance pointed to some resilience.

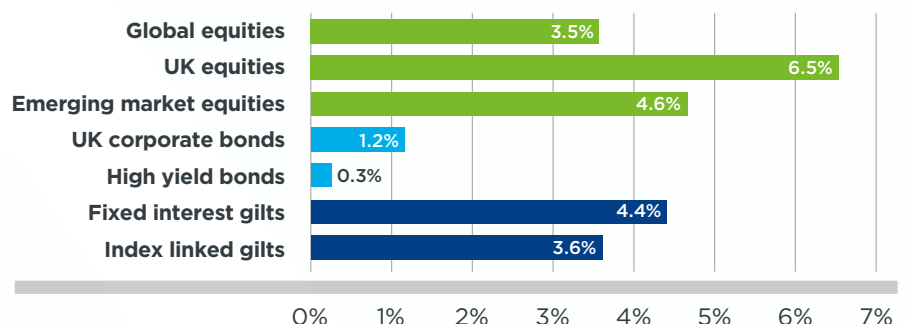
Oil and gas prices surged at the beginning of March as a direct consequence of the widening conflict in the Middle East. Retaliatory strikes from Iran on US assets in neighbouring countries raised concerns over the threat of damage to key oil and gas infrastructure which could seriously hamper the global economy through higher costs and inflation.

Over February, equity markets had performed positively despite President Trump's latest iteration of his hostile tariff policy. Following a US Supreme Court ruling which concluded that he did not have power to impose tariffs, Trump announced a 15% flat-rate tariff on all trading partners of the US, only for the actual level of tariffs imposed to fall to 10%. Stocks fell in the immediate aftermath of Trump's announcement. Tech stocks also suffered in mid-February from the latest in a series of recent sell-offs. Another impressive earnings call from Nvidia – the world's largest company by market capitalisation – wasn't enough to offset continued concerns of overspending on AI technology. Having staged something of a fight back towards the end of February, US stocks fell again early in March.

Meanwhile the global stock market, having been driven by the AI rally for the last few years, was still able to post strong returns despite the struggles of the tech-heavy US equity market. It is expected that there will be record investor inflows into European stock markets to diversify away from expensive US companies coupled with growing optimism over the European economy.

Equities and bonds both posted strong returns in February.

One month to 28 February 2026



Click to watch Aj's two-minute video.

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Japanese equities also climbed to record highs after Prime Minister Sanae Takaichi's landslide victory in the snap general election with Asian equity markets also performing strongly more widely.

Whilst government bonds have typically been a safe-haven for investors in times of conflict, expectations of an inflation shock triggered by the US-Israeli conflict with Iran have steered investors towards the US Dollar, which led to progressive appreciation in the currency over February. Short-dated bonds of major European economies and the US all sold off when markets opened on the first trading day of March. Swap markets had previously priced in two quarter-percentage rate cuts by the Bank of England in 2026

but the market-implied likelihood of two cuts had fallen to around 60% by the end of the month.

As things stood at the end of February, long-term UK government bond yields had actually fallen by around 0.2% over the month. This was in part driven by projections that new UK government debt issuance is set to fall for the first time in four years in 2026. With inflation expectations broadly flat over the month, strong returns from growth assets were not sufficient to offset the impact of rising liabilities on aggregate UK DB pension scheme funding, which is expected to have fallen on a low risk basis over February. Aggregate funding on this basis remains in a healthy surplus, however.



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 **Aj Amurtherajan**. Alternatively, please speak to your usual XPS contact.



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