

## Courtville Partners – Investment Outlook, April 2026

### Summary of the key points in this quarter’s Investment Outlook

- Higher inflation and weaker economic activity are inevitable consequences of the Iran war...
- ...but bond and equity investors have reacted very differently to this prospect
- In the medium term, we expect the key economic drivers of the last two years to reassert themselves
- The misallocation of capital to AI remains a massive threat to US equities
- Access to cheap energy is the key regional growth differentiator
- We broadly maintain our current asset allocation mix: overweight equities, underweight bonds, plus a small increase to commodities

“Don’t you know there’s a war on?” said the bond market to the stock market. On the face of it, Mr Bond has a point. In the space of just one month yields on 10-year gilts and US treasuries jumped 60bp and 40bp, respectively. Stock markets are mostly lower than when the shooting started, but have so far suffered only light damage: the MSCI All World Index is down 3% (in USDs) year-to-date, but more pertinently is only 7.5% adrift of its all-time high. We’re not yet in “correction” territory (conventionally defined as a 10% decline) – and certainly not in a bear market (a setback of 20% or more). Are bond investors right to be spooked? Or are equity investors behaving in a rational manner by “looking through” the war and its technicolour consequences?

We don’t want to add to the billion column-inches of prognostication on how the war is likely to evolve, let alone when it will end. We haven’t a clue – and neither has anyone else. We are on marginally firmer ground when we consider the conflict’s possible consequences for growth, inflation and various asset classes – but only marginally. At the risk of stating the obvious, the war’s impact will depend at least as much on the *duration* of commodity price spikes as on their *magnitude*. As a rule of thumb, the price of oil must be 50% higher for at least six months in order to inflict material damage on global growth. We still have some way to go, then.

The number of possible outcomes is infinite; but in broad brush terms, we might map out three, ranging from “Phew” through to “We’re doomed”. First, if disruption lasts only four-to-six weeks, we might see oil peaking at c. \$120/bbl, before it slides back towards \$75-85/bbl late-2026; inventory drawdowns and oil-on-the-water fill the gap; and the macroeconomic impact ends up being negligible. Second, the Strait of Hormuz (“SoHo”?) stays closed until the end of May; oil flows resume only in June, Qatari LNG only in 3Q26; and as much as 0.3% is trimmed from global GDP growth this year and probably less in 2027 – but crucially the world avoids widespread recession. Third, the war rages on for at least the next two quarters; oil and gas infrastructure suffers further damage; oil prices average \$150/bbl for the rest of this year and \$100/bbl in 2027; and global growth is hit to the tune of 1% or more this year with the effects concentrated in 2Q26 and 3Q26; and recovery takes root only in early 2027. (Needless to say, these scenarios don’t include the worst possible outcomes.)

For what it’s worth, Polymarket ascribes a greater than 50% chance to the war being over by the end of May (75% by the end of 2026) and the Strait of Hormuz being reopened. That is as near as we can get to quantifying the current consensus. Perhaps it is also worth remembering that shipping in the Strait of Hormuz was badly disrupted for several years between 1984 and 1988 as

part of the Iran-Iraq war. The comparison is far from perfect; but, as usual, there is little under the Sun that is entirely new.

What should long-term investors do at this point? Not much, we'd say. If this proves to be a re-run of 1990 (Iraq's invasion of Kuwait, followed by the First Gulf War), stock markets will be higher a year from now – a pattern that is often seen with geopolitical crises, though not always. More to the point, the macroeconomic conditions prevailing before the war were in aggregate very favourable for risk assets. Monetary and fiscal policy was distinctly loose in almost all major economies, developed and emerging – and getting looser. As a bonus, the US dollar had been depreciating since September 2022, which normally acts as a stimulant for the global economy. It is reasonable to expect that, once the shooting stops, those same macroeconomic forces will reassert themselves.

Four-fifths of the world's primary energy comes from fossil fuels – a proportion more or less unchanged this century, notwithstanding the surge in renewables. No wonder, then, that the most immediate consequence of the Iran war will be higher inflation. Seen from a wider angle, however, this war is being fought within the world's new multi-polar landscape, which is itself likely to exert an inflationary influence on the global economy. Canadian Prime Minister Carney (not long ago the “unreliable boyfriend” of Threadneedle Street) grabbed everyone's attention with his recent Davos speech in which he spoke of the “rupture” in the global economy. The post-War settlement of NATO, the UN and the World Bank is arguably being replaced with several blocs: Fortress America (with its so-called Donroe Doctrine); Europe (the continent of); China and its sphere of influence; and the remaining non-aligned states. Efficiency-maximising globalisation is out; security of supply, neo-mercantilism and domestic preference are in. Such a shift is going to be inflationary almost by definition.

And what does it imply for investors? First and foremost, remaining invested in real (rather than nominal) assets should be more important than ever. Second, the strong stock/bond correlations of recent years are likely to persist, which would continue to disqualify bonds as adequate hedges of equity risk. Third, tangible assets may regain some of their attractions relative to the intangible assets that have ruled the roost since the GFC in 2007-08. (Energy, other commodities, defence and food are the types of sectors that would presumably feature on the shopping-lists of both investors and governments.) Fourth, economic progress might well become more cyclical – and investment returns more volatile as a result – in a multi-polar world. We have added an industrial metals mining ETF to our model portfolio this quarter.

Whither Europe in this new world order? The European Union revels in its role as champion of the “rules-based” order. After all, “America innovates, China imitates and Europe regulates,” as the saying goes (though the China part is no longer true). Can Europe recapture its post-War industrial mojo? The iron laws of physics would require it first to abandon its ideological commitment to Net Zero. As US Treasury Secretary Scott Bessent put it recently, “There isn't a clean energy race. There is an energy race.” He's not wrong. Unfortunately, we see no sign of the EU's energy ideologues coming to their senses. By contrast, large European manufacturers are less reluctant to sound the energy alarm. It is not a coincidence that among European countries only the UK has higher electricity prices than Germany.

The real-world consequences of ideological energy policies were highlighted by the recent tsunami of EV-related write-downs taken by carmakers. The running total worldwide is about \$65bn, if you please. The Canutes of the European Commission can decree whatever they like; but consumers in aggregate simply refuse to buy what for now is an inferior technology. The result?

\$65bn down the drain. Unrepentant optimists might argue that at least the capital misallocation to EV production is negligible in comparison with the \$16trn so far invested in “green” energy in all its forms. Yet emissions continue to rise and fossil fuels still account for four-fifths of global energy consumption.

To complete the capital misallocation set, we should mention the AI bubble – not for the first time, of course. Taking Big Tech’s forecasts at face value, capital spending on AI this year is set to exceed \$750bn (equivalent to more than 2% of US GDP), up from \$425bn last year. We pointed out in January that there is little sign of the revenues needed to justify this scale of investment; and there has been no change on that score. Perhaps it is also worth saying that one crucial way in which the AI boom differs fundamentally from the dotcom frenzy of 2000 is the absence of economies of scale. Per unit economics for, say, early-stage Amazon improved with every additional transaction. The output of an LLM is by definition a one-off. The cost per response does not go down. If anything, it probably goes up as the models become ever larger (running on more expensive chips, using ever more power). Once the Iran war is over, we expect investors to go back to worrying about all this.

We may extol the virtues of precious metals (and commodities) as portfolio hedges, but at the same time we can’t ignore the extraordinarily volatile performance of gold so far this year (now 16% below its February peak, though still up year-to-date). What has been going on? Perhaps the simplest explanation is that the gold price went the way of all extremely overbought prices – i.e. suddenly and sharply down. A less straightforward explanation could be that the same central banks in Asia that had collectively bought as much as one-third of global gold production in recent years have responded to geopolitical dislocation by selling some of their gold to fund purchases of other, more workmanlike commodities (oil, gas, fertiliser, etc.). None of this shakes our belief that gold has a valuable role to play in most long-term investors’ portfolios – not so much as an inflation-hedge, but rather as a defence against the debasement of *fiat* currencies. The combined budget and current account deficits of the US expanded from less than 2% of GDP in 2000 to almost 11% of GDP now. Over the same period gold outperformed 10-year US treasury bonds by more than four times. We could paint a similar picture with German Bunds, the real value of which has fallen more than 30% since 2016. That was the price to pay for Mario Draghi’s “whatever it takes” promise in 2012.

The performance of our model portfolio during 1Q26 benefitted, first, from the underweight position in US equities versus the rest of the world and, second, from our preference for gold and commodities (especially oil) rather than bonds to hedge equity risk. The relatively strong correlations between stock and bond markets since the GFC have threatened to torpedo the classic 60/40 equity/bond portfolio. If bonds no longer offer resilience when stock markets tumble, but by definition don’t offer the exposure to real economic growth, what are they good for? Not much – until and unless a full-blown recession hoves into view.

Asset Classes	Courtville Partners Asset Allocation (%)	FTSE PI Balanced Index (%)
UK Equities	10.0	11.9
International Equities	56.0	52.8
Fixed Income	11.0	23.5
Alternatives	17.0	8.3
Commercial Property	0.0	0.1
Cash	6.0	3.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Courtville Partners Model Portfolio	ETF	Weight (%)	Changes this quarter	Weighted OMC (%)
<b>UK Equities</b>		<b>10</b>	<b>0</b>	
UK	VUKE LN	8	0	0.09
UK	VMID LN	2	0	0.10
<b>International Equities</b>		<b>56</b>	<b>-2</b>	
Global	IWQU LN	2	0	0.30
US	VUSA LN	7	0	0.07
	XDPG LN	9	0	0.09
	EWSP LN	9	0	0.20
	IUVD LN	3	0	0.20
Euro	VERX LN	5	0	0.12
	XDAX LN	0	-2	0.09
Japan	VJPN LN	4	0	0.19
Asia ex-Japan	VAPX LN	5	0	0.22
Emerging Markets	VFEM LN	9	0	0.25
Emerging Markets ex-China	EXCS LN	1	0	0.18
China	CNUA LN	2	0	0.24
<b>Fixed Income</b>		<b>11</b>	<b>0</b>	
UK	IGLT LN	3	0	0.07
US	IDTM LN	2	0	0.17
EM	SEML LN	4	0	0.50
China	CNYB NA	1	0	0.35
US	CORP LN	1	0	0.20
<b>Alternatives</b>		<b>17</b>	<b>3</b>	
Gold	PHAU LN	4	0	0.39
Oil	WELS GY	3	1	0.18
Global Miners	GDGB LN	2	2	0.53
Infrastructure	INFR LN	2	0	0.65
Electricity Infrastructure	FGRD LN	2	0	0.63
Uranium	NUCG LN	2	0	0.55
Water	IH20 LN	2	0	0.65
<b>Commercial Property</b>		<b>0</b>	<b>-1</b>	
Global	IWDP LN	0	-1	0.59
<b>Cash</b>	XSTR LN	<b>6</b>	<b>0</b>	<b>0.15</b>
<b>Total</b>		<b>100</b>		<b>0.23%</b>

Courtville Partners	Model Portfolio	FTSE PI Balanced Index	Relative performance
2026 YTD	1.6%	-0.2%	1.8%
Since inception(1/1/2015)	143.1%	122.3%	20.7%
CAGR	8.2%	7.4%	0.8%

The value of your investments can fall as well as rise. You may not get back all the money you invested.