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WEALTH MANAGEMENT

Market Matters Q1 2026

In this latest edition of Market Matters, we review the key themes influencing global investment markets during the first quarter of 2026, including artificial intelligence infrastructure spending, interest rates, energy markets and geopolitical developments.

Market Overview

Global equity markets remained relatively resilient during the first quarter of 2026 despite increasing geopolitical tensions and ongoing uncertainty surrounding inflation and interest rates.[1] Investor sentiment continued to be supported by strong earnings growth from large US technology companies, particularly those benefiting from artificial intelligence ("AI") infrastructure spending.[2]

Concerns surrounding energy markets also returned following disruption to shipping activity through the Strait of Hormuz and escalating tensions involving Iran.[3] While oil supplies continued to flow, periods of disruption contributed to renewed inflation concerns and heightened volatility within commodity markets.[4]

Bond markets experienced increased volatility during the quarter as investors reassessed whether central banks may ultimately need to keep interest rates higher for longer.[5]

In both the UK and US, inflation has eased from previous highs but remains above long-term central bank targets.[6]

Another notable theme during the quarter was the divergence between resilient financial markets and weaker underlying economic sentiment. While equity markets remained relatively strong, economic data across several developed economies pointed towards slowing growth and softer manufacturing activity.[7]

Investors therefore continued balancing strong corporate earnings and optimism surrounding artificial intelligence investment against higher borrowing costs, geopolitical uncertainty and persistent inflation concerns.[8]

Equities

US equity markets continued to outperform many other regions during the quarter, driven largely by ongoing investment into AI infrastructure, cloud computing and data centres.[9]

Reuters estimates that major US hyperscalers, including Amazon, Microsoft, Alphabet and Meta Platforms, could collectively spend in excess of $700 billion on AI-related infrastructure during 2026 alone.[10] This spending includes data centres, semiconductor infrastructure, cloud computing expansion and AI chip deployment.

Importantly, the strength of earnings growth has not been isolated purely to technology companies. FactSet data suggests broader earnings growth across the wider S&P 500 has also improved, with several sectors reporting double-digit earnings growth during Q1 2026.[11]

However, market concentration remains elevated and investors continue to monitor whether AI-related capital expenditure can continue growing at its current pace without eventually impacting free cash flow generation and corporate balance sheets.[12]

UK equities delivered mixed performance during the quarter. Areas exposed to commodities, financials and overseas earnings remained relatively supported, while domestically focused sectors continued to face pressure from higher borrowing costs and subdued consumer confidence.

European markets also experienced increased volatility as weaker growth expectations competed against hopes that European interest rates may gradually stabilise later in the year.

Bonds & Interest Rates

Bond markets remained sensitive to inflation data and central bank commentary throughout the quarter.

In the United States, investors increasingly questioned whether the Federal Reserve may ultimately maintain higher interest rates for longer than markets had previously anticipated.[13] This contributed to upward pressure on government bond yields during periods of the quarter.

In the UK, inflationary pressures remain relatively elevated, particularly across services and wage growth, while higher energy prices have added additional uncertainty to the inflation outlook.

Despite this, higher bond yields continue to provide more attractive income opportunities than were available for much of the previous decade, although fixed income markets remain susceptible to ongoing volatility should inflation prove more persistent than expected.

Artificial Intelligence & Energy Demand

One of the most important long-term themes currently developing within markets is the rapid growth in electricity demand linked to artificial intelligence and global electrification.

The International Energy Agency ("IEA") estimates that electricity demand from data centres could rise significantly over the remainder of this decade as AI adoption accelerates globally.[14]

This growth is not being driven solely by artificial intelligence. Increasing electricity demand is also linked to electric vehicles, cloud computing, heat pumps, industrial reshoring and wider electrification across developed economies.

The United States remains at the centre of this trend, with several major technology companies continuing to invest aggressively into data centre infrastructure.[15]

This is beginning to have broader implications for power infrastructure, electricity grids, industrial commodities, natural gas demand and long-term inflation expectations. As a result, investors have shown increasing interest in areas such as utilities, infrastructure, industrial materials and energy security during recent quarters.

Asia & China

China's economic recovery remained uneven during the quarter.

While policymakers continue to support growth through stimulus measures and infrastructure spending, weaker consumer confidence and ongoing property market pressures continue to weigh on broader economic activity.

At the same time, geopolitical tensions between China and the United States remain an important consideration for investors, particularly across technology supply chains and semiconductor industries.

Japan, however, remained relatively resilient during the quarter, supported by improving corporate earnings and continued foreign investor demand.

Outlook

While economic growth is slowing compared with the strong post-pandemic recovery period, current conditions still appear more consistent with a moderation in growth rather than a severe global recession.

Inflation remains above long-term targets, but has generally stabilised across many developed economies. Employment conditions also remain relatively robust.

However, investors continue to face a more complex environment than has existed for much of the previous decade, with markets balancing slower economic growth, elevated government debt levels, geopolitical uncertainty, structurally higher energy demand and the ongoing impact of artificial intelligence investment.

As always, maintaining a diversified and disciplined long-term investment approach remains important during periods of heightened uncertainty and market volatility.

1. Reuters Markets – Global market performance and geopolitical developments
2. Reuters – Major takeaways from Magnificent Seven AI-fuelled earnings
3. Reuters Energy – Strait of Hormuz and oil market disruption coverage
4. Reuters – Oil market reaction to Iran tensions
5. Bloomberg Markets – Global bond market and interest rate commentary
6. Bank of England – Monetary Policy Report
7. S&P Global PMI – Global manufacturing and services data
8. Reuters – Investors weigh AI optimism against inflation and rates outlook
9. Reuters – Hyperscaler earnings and AI-driven market performance
10. Reuters – Google Cloud and Big Tech AI spending exceeding $700bn
11. FactSet – Three Magnificent 7 companies push S&P 500 earnings growth higher
12. Reuters Breakingviews – AI capex boom eclipses dotcom era
13. Federal Reserve – Monetary Policy and Economic Projections
14. International Energy Agency – Energy and AI Report
15. International Energy Agency – Energy demand from AI

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