



## US EQUITY MARKETS MOVE HIGHER AS INVESTORS LOOK PAST SHORT-TERM DISRUPTION

This week has seen many global equity markets push upwards despite few signs of progress in the conflict with Iran. Although the ceasefire is mostly holding, the US and Iran have both intercepted ships passing through the Strait of Hormuz as each side waits to see who blinks first. Meanwhile, earnings updates remain relatively positive, helping equity markets to keep calm and carry on rising. This phenomenon has inspired a reimagining of the acronym EBITDA: Earnings before Iran, Tariffs and Dubious Announcements.

The effects of the conflict continue to feed through. Airline and travel companies are downgrading or abandoning revenue forecasts, headline inflation is rising and retailers such as Sainsbury's and WH Smith have warned that higher costs are eroding profits. Markets appear to expect a swift resolution. Yet, there is a risk to ignoring the dubious announcements from Washington and assuming the best outcome. With no clear objectives defined, the range of possible outcomes remains wide – particularly when those making the decisions are not the ones bearing the cost.

### THE MARKETS THIS WEEK

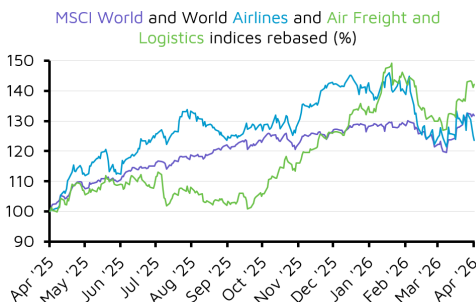
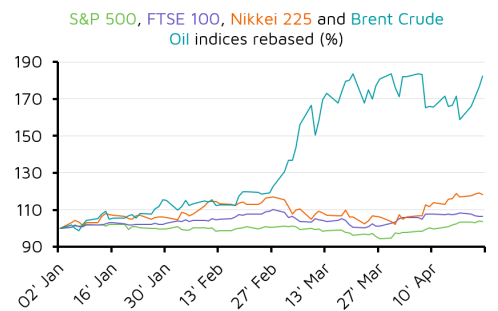
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-1.94%	+0.87%	+1.12%	-1.48%	-1.02%	+0.03%	+0.23%	+9.65%	-1.90%	-0.99%	-0.39%



### GLOBAL: OIL PRICES RISE DESPITE EXTENDED CEASEFIRE WITH IRAN

Oil prices rose this week as the US and Iran failed to convene a second round of talks to secure a permanent end to the war. The price of Brent crude climbed back above \$100 a barrel as Iran and the US began intercepting ships passing through the Strait of Hormuz, with each seeking to enforce its own blockade.

Blockade tensions led to the cancellation of planned peace negotiations in Pakistan. However, US President Donald Trump said the temporary ceasefire, which was due to expire on Wednesday, had been extended indefinitely. Despite rising energy prices, global equity markets advanced as investors drew comfort from the extension. Positive corporate updates helped lift the mood. More than 80% of S&P 500 companies that have reported quarterly results have beaten revenue forecasts. However, UK retailers including Sainsbury's and WH Smith have warned that higher costs are squeezing profits, and PMI surveys of business activity in Europe fell sharply in April due to rising energy prices.



### EQUITIES: RISING FUEL COSTS AND CAUTIOUS TRAVELLERS HIT AIRLINES

Rising jet fuel costs have forced airlines to scale back operations significantly. Lufthansa has cancelled approximately 20,000 flights between May and October to reduce fuel consumption, marking one of the largest capacity reductions by a single carrier. This reflects a broader pattern as Cathay Pacific, AirAsia X and Air New Zealand cut routes in response to soaring costs following the conflict with Iran.

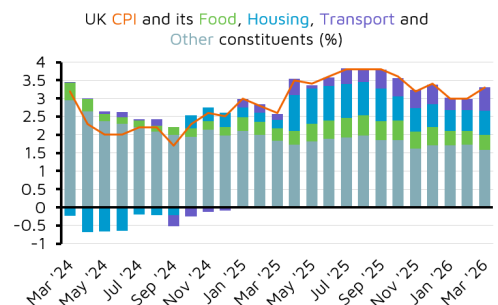
Dozens of airlines worldwide have introduced fuel surcharges or increased ticket prices, passing higher costs directly to consumers. Demand uncertainty has also grown, with TUI and United Airlines both cutting their profit outlooks. Rising costs are pushing travellers to reconsider their plans. In the UK, Airbnb reported a 15% year-on-year rise in bookings for the May bank holidays, as more consumers opt for staycations. Airline shares have borne the brunt. The MSCI World Airlines Index has fallen 10% since 27 February, compared with a gain of 2% for the MSCI World Index.



### UK: RISING INFLATION REFLECTS COSTS OF IRAN WAR

UK headline inflation jumped to 3.3% in March, up from 2.8% in February, as higher petrol and diesel prices fed through to consumers. Core inflation (excluding more volatile fuel and food prices) slowed slightly to 3.1%, although goods inflation picked up. Business activity is under strain from the Iran war. Although the latest PMI surveys show both manufacturing and services expanded in March, part of the rise was due to manufacturers accelerating orders to get ahead of potential price rises caused by the war.

The labour market has softened, with average wage growth slowing in the year to February as job vacancies and the number of salaried employees fell. These conflicting signals complicate the Bank of England's next interest rate decision. Bond markets currently expect rates will be left unchanged at next week's Monetary Policy Committee meeting. Even so, markets still anticipate one or two further quarter-point rate hikes this year. A further rise in oil and gas prices this week pushed government bond prices lower, lifting yields.



Data sourced from FE Analytics and ONS

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