Markets search for clues on Iran

Key takeaways

Global shares retreated slightly as markets were whipsawed by changing US rhetoric. Shares in the UK and Europe made modest progress, bonds were flat, and gold retreated slightly.

The month of March

Stock markets have ricocheted between media reports of deadlines, and deadline extensions, for the re-opening of the Straits of Hormuz, and contradictory reports of how negotiations are progressing. What was the fourth week of the Iran war brought up five consecutive weeks of losses for the S&P 500 Index of US companies.

So far, traditional diversifying assets, such as government bonds and gold have failed to offer a safe haven. Despite being flat last week, UK government bonds were down 4.8% in the month to March 27, US Treasuries had given up 2.5%, while gold had tumbled 12.8%. The few winners in March have been energy, fuel prices, and the US dollar. As of today, Brent crude prices were c50% up, European gas prices had surged 70%, and the dollar had gained around 3%.

Growth and inflation shocks

The OECD (Organisation for Economic Co-operation and Development) now predicts that US inflation will hit 4.2% this year – the highest in the G7 economies – due to the Iran war. The group's latest outlook highlighted that the "breadth and duration of the conflict" would determine the extent of the damage done to global growth and inflation expectations.

According to the OECD, the UK will suffer the biggest hit to growth of any G20 economy. It now forecasts just 0.7% UK growth this year, and has raised its UK inflation forecast to 4% – the biggest revision for any G7 economy. It now expects global growth to slow from 3.3% in 2025, to 2.9% in 2026. Within this, US economic growth is forecast to slow to 2% as consumer price pressures mount, while 0.8% growth is now estimated for the eurozone.

Backs to the wall

British consumer confidence hit its lowest reading since President Trump's 'Liberation Day' tariffs were announced last April. British consumers' outlook for the economy fell significantly in March, while the headline GfK consumer confidence reading fell to minus 21. GfK's index of savings intentions also jumped as Britons began to tighten their belts and to delay major purchases.

Unlike other G7 economies, British consumer (per capita) spending has not returned to the pre-pandemic levels of 2019. By contrast, US consumer spending has grown by 14% over the same period.

Consequently, British households were already saving more than their G7 peers before the latest fears of a spike in energy and food costs. Economists are now forecasting a 0.5% fall in UK disposable income this year, and for consumer spending growth to grind to a halt.

Market moves

Global stock markets declined 1.4% despite the ongoing market volatility driven by the Iran war, with US shares the biggest fallers.

UK shares were the top performers with a modest advance of 0.7%. European and Japanese stocks delivered smaller positive gains while emerging markets were down 1.6%.

UK government bonds (gilts) were flat. US government bonds (Treasuries) were fractionally down, while gold gave up a little over 1%.

What to look out for this week

Monday brings European consumer confidence data. Tuesday sees Nationwide (UK) house price data alongside the latest UK GDP and European inflation prints.

Tuesday also sees US house price data and job openings. US jobless numbers are on Thursday followed by unemployment, earnings, and payroll numbers on Friday.

This week also sees another slew of manufacturing PMI (Purchasing Managers' Index) data for major markets. PMI data is a 'leading indicator'; a score above 50 signals economic expansion, below 50 shows contraction.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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