



# Wealth Insights

## Q2 2026

*By KFH Capital Investment Company*



At KFH, we pride ourselves on providing our clients with access to world-class financial expertise, services, and solutions. In keeping with this, we are pleased to share our Quarterly Wealth Insights publication, which includes our House View on the markets along with our outlook for Q2 2026. Each quarter, we seek to answer a selection of key questions from our clients, and in the process, set out our House View with respect to the global economy and financial markets.

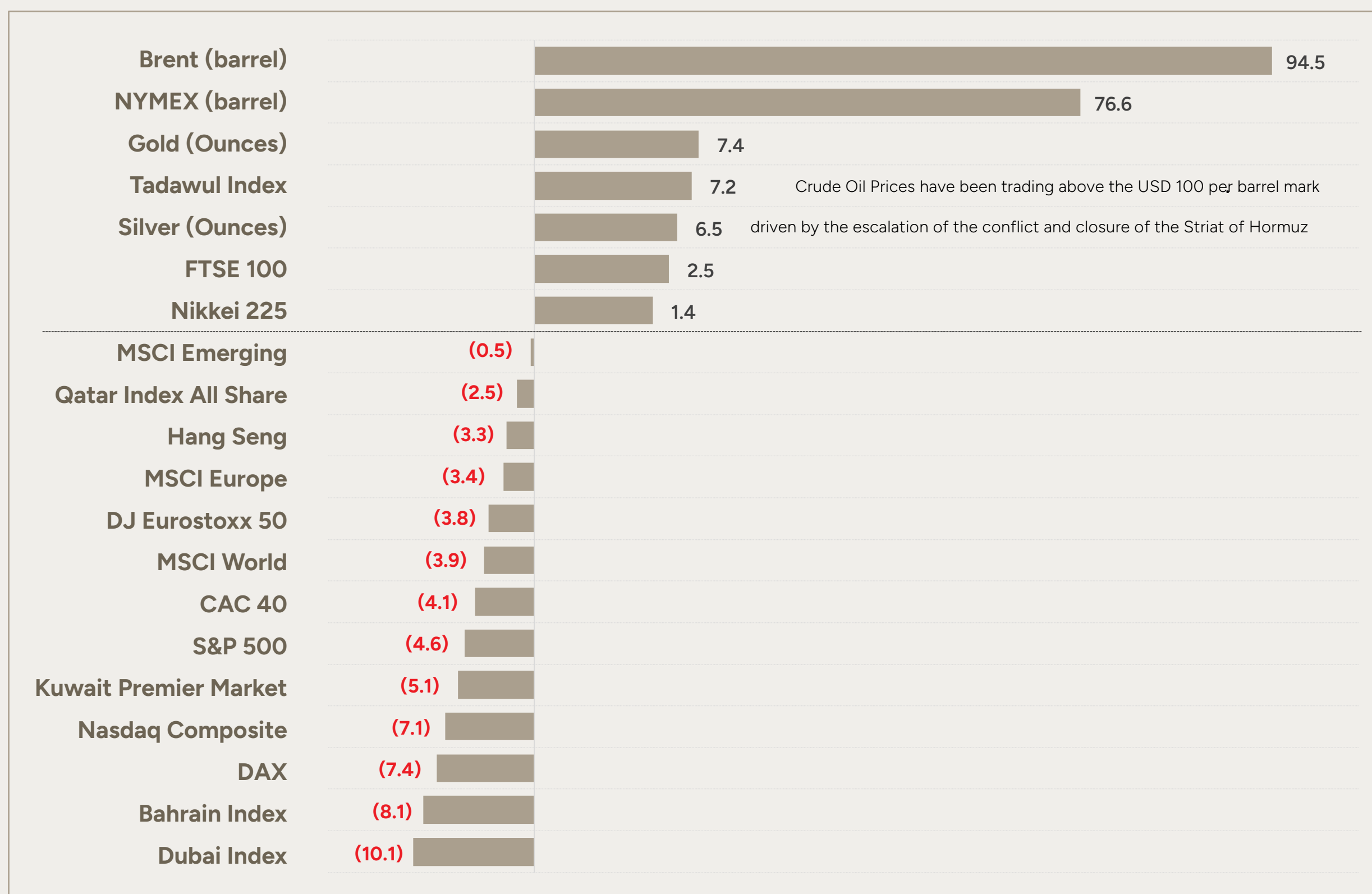
In this issue, we look at three salient topics that are currently impacting investors and clients:

- I. A Review of Global Asset Performances (YTD) & Inflation Dynamics** - Our general practice does not typically include a review of global assets at this point in the year. However, given the current geopolitical events in the Middle East, we thought it would be important to discuss its impact on Capital Markets on a Year to Date (YTD) basis, followed by a scenario-based market outlook, particularly with investors being keen to assess the associated oil price shock, with prices above USD 100 per barrel. To fully comprehend the impact of inflation, we explore how select asset classes have performed in different inflation ranges and use this template to explore the outlook and possible market implications based on the various potential inflation ranges.
- II. Market Behavior During Geopolitical Turbulence-Despite constant geopolitical turbulence** - including an ongoing Eastern European conflict, US-China trade tensions, and a widening Middle East war - capital markets have historically demonstrated remarkable resilience, recovering and reaching new highs even after severe downturns like the 2008 financial crisis. Markets respond not to geopolitical events themselves, but to their potential economic consequences, which rarely alter the long-term trajectory of growth. The investors who have consistently reaped the greatest rewards are those who stayed the course during volatility, rather than reacting impulsively to headlines - making three principles timeless: stay invested, diversify effectively, and resist knee-jerk reactions.
- III. Why Gold still Matters: A Strategic Case** - Gold has always been difficult to analyze from a tactical point of view, reflecting the zero-income nature of the asset. At the time of writing, during this specific geopolitical event in 2026, gold has sold off sharply - it certainly has not been a short term "Geopolitical Hedge". It is quite illuminating to consider that even if an investor had known in advance about this conflict and bought gold as a geopolitical hedge - the investor would be sitting at a loss at the time of writing. We believe Gold should be approached as a strategic, long-term portfolio allocation rather than a tactical trade, with the rationale being that traditional short-term drivers like interest rates or geopolitical crises have become unreliable indicators of the price direction.

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# I.A Review of Global Asset Performances during Q12026: Impact of the Middle East Conflict



Global Asset Performances YTD (%), as of March 31, 2026, Source: Refinitiv

**Q1 2026 Review:** Commodities outperformed due to a supply shock generated by the escalation of the conflict. There are increased supply concerns due to the closure of the Strait of Hormuz which is accountable for 20% of global energy flows. Though crude prices have crossed USD 100 per barrel, the average price for **Brent Crude** stands at USD 78.4 per barrel, which is an increase of 4.5% when compared to the same period last year during which the average price was USD 75.0 per barrel. Note the situation remains very fluid and markets are sensitive to headlines. And, as we write, there have been talks on a possible winding down of the war operations, which has impacted the price of Brent Crude - already down 13.5% (as it trades at 102.39 per barrel) from the month close of USD 118.4 per barrel.

**Gold** was up 7.4% on a YTD basis. As we write, gold trades at USD 4,647.6 per ounce, a correction in price after it recorded a new high of USD 5,318.4 per ounce earlier in 2026. Further, there has been a surge in prices across **Base and Industrial Metals** segments as they have recorded double-digit price increases on a yearly basis. At the time of writing, Aluminum prices were up 38.3% on a Year-on-Year (YoY) basis, with a recent Refinitiv report noting that the GCC contributes 9% of global Aluminum supply. Similarly, Copper, a lead indicator of economic activity, was up 27.3% during the same period, and the median price gains in the Petrochemicals segment were over 38.2% on a YoY basis.

**Global Equities** have closed in the negative with markets considering the economic implications of the conflict as energy prices and shipping rates soar. With no end in sight we believe markets will remain volatile with increased potential downside risks. The VIX Index, which is the measure of implied volatility for the S&P500, closed at 31.1, translating into expected implied volatility of + 8-9% on a monthly basis.



**Outlook Q2 2026:** Fitch reports indicate that a 2-3-week partial/full closure of the Strait of Hormuz will push crude prices into the USD 75-110 per barrel range. We believe this scenario is currently playing out, as prices have already crossed the USD 100 per barrel mark. If the closure persists and drags into April, then there is a possibility of oil prices moving into the USD 110-130 range. Also, the consensus outlook for Brent has been revised upward by 5% to USD 70 per barrel for 2026 driven by the change in dynamics in the region.

In the case of global equities, one can expect increased volatility and markets to remain range bound on a short-term basis with significant downside risks. Fitch estimates a 5-10% correction driven by uncertainty.

In our Q1 2026 quarterly review we emphasized “Geopolitics” as a key theme for 2026 with a moderate to high risk profile, and this theme has come to fruition on the higher end of the risk spectrum. With that theme in focus, we have outlined a summary of plausible scenarios below.

**Scenario I:** Oil-driven inflation fears; Gold strengthens; Equities decline amid uncertainty; Hawkish Central Bank stance.

Theme	Increased Uncertainty and Inflation Risks	Comments
<b>Crude Oil</b>	Crude Oil trades in the USD 75 -110 per barrel range	The scenario is in play as Crude trades above USD 100 per barrel
<b>Gold</b>	Gold trends upwards amid increased uncertainty with a potential upside of 5-12%	-
<b>Equities</b>	Negative for Equities with potential downside risks of 5% - 15%	The Median decline across Global Equities is 4-5% on a YTD basis
<b>Fixed Income</b>	The theme of increased uncertainty and inflation risks should drive fixed income yields up	-
<b>Monetary Policy</b>	Hawkish Central Banks as they maintain a cautious approach and hold rates at current levels	-

Source: BMI; KFH Capital Investment Company

**Scenario II:** Markets shift from broad inflation worries to GDP-growth-losing momentum; Gold rallies strongly; Equities would likely come under significant pressure; Central Banks turn dovish and initiate rate cuts to support waning growth.

Theme	Fears of significant slowdown in economic activity	Comments
<b>Crude Oil</b>	Crude Oil prices surge to USD 110 -130 per barrel range and trade for a prolong period	Further escalation of the conflict with the Strait closed for a long period
<b>Gold</b>	Gold gains upward momentum amid increased uncertainty	-
<b>Equities</b>	With an impact on growth, Equities are likely to be under significant pressure	Equities drop more than 15%
<b>Fixed Income</b>	With fears of recession, expected rate cuts and safe haven demand should drive yields down	-
<b>Monetary Policy</b>	Central Banks respond to the decline in economic growth	More dovish stance with higher rate cuts to support growth

Source: BMI; KFH Capital Investment Company



Inflation has been above the central bank target rate of 2% for the past five years and based on the above scenarios, one can expect an oil / commodities driven inflation-spike during 2026. Note that in 2022, post Russia's invasion of Ukraine, we witnessed a similar supply-side energy shock that saw inflation levels surge, with US inflation peaking in the 8%-8.5% range.

With this in mind, in the following segment we explore the relationship between inflation ranges and the returns from different asset classes.

## How Select Asset Class have Performed in Different Inflation Ranges (1964-2024)

CPI Range	FTSE NAREIT Equity Index	Gold Bullion	US 10Y Treasury	US 3M Treasury	S&P 500 Index	Russell 2000 Index - Small Cap Index
0% - 2%	7.8%	7.4%	5.0%	1.3%	15.2%	12.0%
2% - 3%	10.6%	3.3%	3.4%	2.9%	12.2%	12.3%
3% - 5%	11.1%	9.9%	4.1%	1.8%	9.4%	5.7%
>5%	8.6%	8.4%	-0.8%	0.2%	7.1%	5.9%

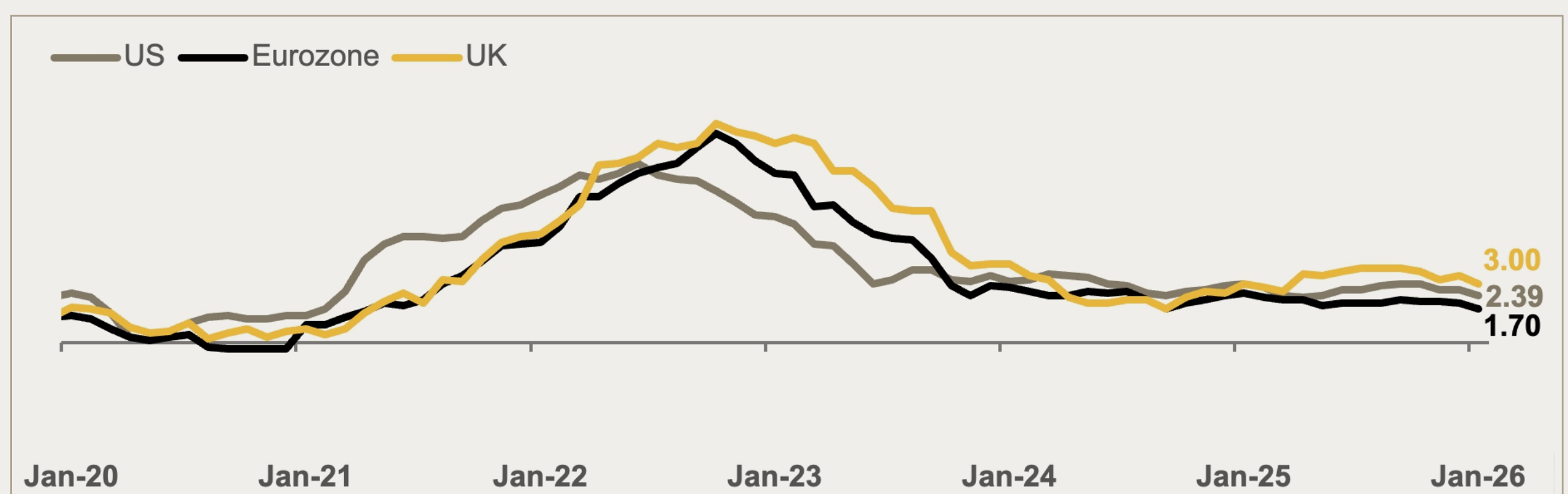
Source: Fidelity Investments; Return data in the table represents average annualized results for the number of years for each CPI range observed. Real Estate = FTSE NAREIT Equity Index. Gold = Gold Bullion, LBMA PM Fix. 10 Year = 10-Year U.S. Treasuries. 3 Month = 3-Month U.S. Treasury Bills. S&P 500 = S&P 500 index. Small Cap = Russell 2000® Index.

The above table is an extract of a study conducted by Fidelity Investments in 2025. Based on historical data, the study concluded that in the case of Equities, returns are inversely proportional to inflation, i.e. the lower the inflation ranges, the higher the returns and vice versa. The rationale being that a low inflation period concurs with strong GDP growth supported by loose monetary policy and higher corporate earnings.

On the other hand, Real Estate and Gold have a reasonable positive correlation with inflation as both act as a hedge against price increases, thus the returns improve with a rise in inflation. The period concurs with a hawkish monetary stance coupled with a higher interest rate environment impacting GDP growth and earnings growth

**Case Study – The Russian Invasion of Ukraine during 2022:** The implications included the Brent average price for 2022 being at USD 100 per barrel and the supply led shock resulting in inflation peaking at 8.5%. The S&P500 index was down close to 20% during 2022; Gold peaked at USD 2,040 per ounce which was an increase of 12% when compared to the 2021 closing of USD 1,828 per ounce.

### Where are we now on Inflation:



Source: Bloomberg



As we write, the disinflation process remains intact, but it would be too early to understand the impact of the ongoing conflict. That notwithstanding, near-term inflation expectations have risen. The US Consumer Price Index recorded an increase in prices of 2.41% for the month of February 2026 compared to last year. In the Eurozone, inflation stood at 1.7%, remaining below the ECB target range of 2.0%, but UK inflation remains elevated at 3.0%.

**Market Implications:** The last Fitch Global Macroeconomic forecast (published before the inception of the Middle East Conflict), reported that average US consumer inflation for 2026 was expected to be at 2.5% - in line with the US Fed economic projections of an inflation range of 2.5-3.0%. However, we believe the recent conflict has increased uncertainty with the potential upside risks to inflation. Moreover, if the conflict continues, inflation fears will translate into potential downside risks to global growth.

Therefore, based on the table above, in a scenario where the inflation range is 2-3%, coupled with robust global GDP growth of 2.8-3% and supportive monetary policy, this could be supportive for Equities. Alternatively, a scenario that sees an elevated inflation range of 3-5% or higher, deceleration in economic activity and a hawkish monetary policy stance would likely trigger increased allocation towards Real Estate and Gold.



## II. Market Behavior During Geopolitical Turbulence: *When the World Shakes, The Markets Endure*

Modern investing is influenced by constant news alerts and political drama that keep investors on edge. However, capital markets consistently show resilience, recovering and growing despite crises. After the 2008 financial downturn, global markets hit new highs within a decade, illustrating that recovery is the norm rather than the exception. This article will explore further examples of market resurgence.

As we enter the second quarter of 2026, investors face a complex geopolitical landscape: an active conflict in Eastern Europe now in its fifth year; escalating US-China trade tensions and a fragmented Middle East in which the Israel/US-Iran war has expanded to involve GCC nations in the region.

History has repeatedly validated the following three fundamental investment rules: stay invested, effectively diversify and avoid knee-jerk reactions. Markets do not react to the presence of geo-political uncertainty; they react to how that might affect the economy. Geopolitical events seldom change the long-term trajectory of economic progress. Investors who have consistently captured long-term rewards of global capital markets are not those who reacted to the prevailing crisis - it is those who refused to exit the markets in times of volatility.

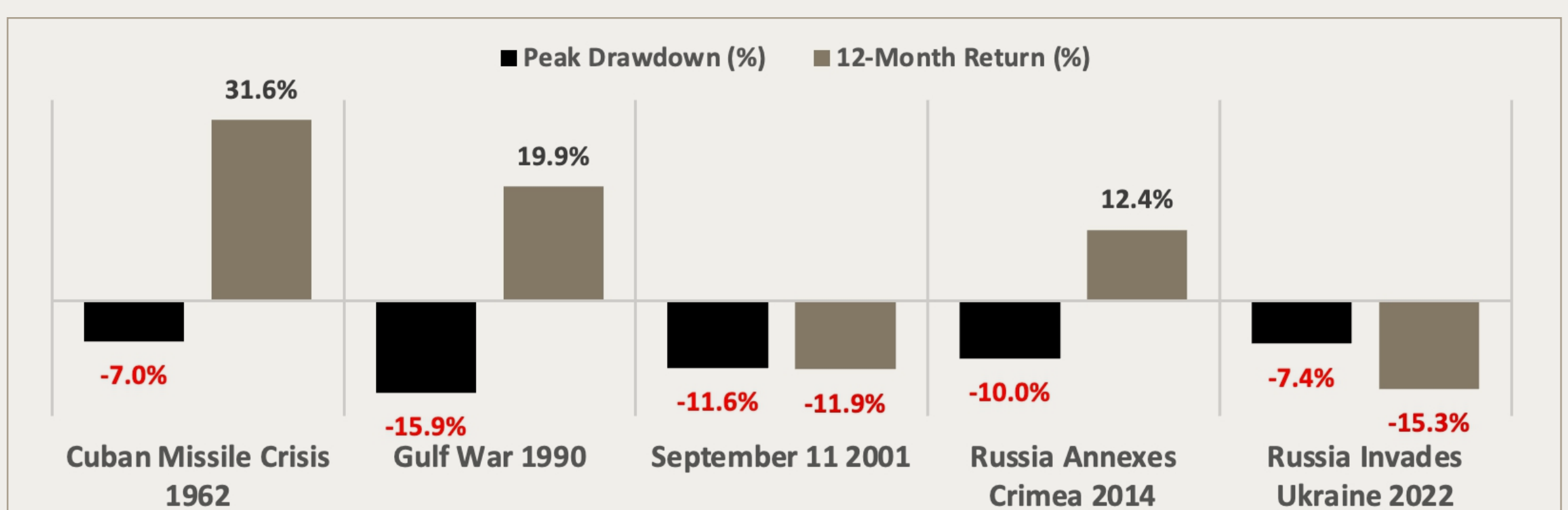
### Understanding the Market Reaction

Before examining what investors should do during periods of geopolitical instability, we must appreciate how markets actually respond to these events - this demonstrates the growing difference between investor psychology and common intuition.

Geopolitical shocks trigger what behavioral economists call a "fear cascade" i.e., a rapid, emotionally driven repricing of risk assets. The anticipation of a major geopolitical event can cause more volatility than the event itself, as investors hedge against expected volatility. The actual event - at its peak - paradoxically, quite often marks the beginning of the recovery - because it converts uncertainty into known risk, which markets can price far more efficiently than ambiguity.

The IMF's April 2025 Global Financial Stability Report - one of the most comprehensive assessments of geopolitical risk and asset prices ever conducted - found that stock prices depreciate in the immediate aftermath of major geopolitical events, with international military conflicts producing an average monthly equity decline of 5% in Emerging Markets. The market recovery is equally dynamic - across 80+ years of market data, equity markets have shown an extraordinary tendency to absorb these shocks and resume their long-term growth trajectory.

### S&P500 Drawdowns and Recovery After Major Geopolitical Events (1941-2025)



Source: LPL Research; Bloomberg; Fact set



The data demonstrates why every investor must not be tempted by the exit button. Moreover, we have observed that across more than two dozen major geopolitical shocks over the past few decades, the S&P 500's average one-day decline was just 1%. The average peak-to-trough drawdown across 20 major post-WWII military interventions was 6% and in 19 of those 20 cases, the market returned to pre-event levels within an average of just 28 days. Markets typically bottom within three weeks and recover within one to two months.

The 2022 Russia-Ukraine invasion deserves a special examination, because it illustrates the conditions under which geopolitical events do cause sustained market disruption. The cause of extended market damage was not the geopolitical event itself, but its economic transmission mechanism: a severe supply-side energy shock that triggered multi-year inflation and forced central banks into aggressive monetary tightening. The lesson is precise: geopolitical risk becomes a durable market threat when it triggers a structural shift in the macroeconomic environment. Without that transmission, historical evidence overwhelmingly favors the patient investor.

What this data reveals is not that geopolitical events are unimportant - they can be deeply consequential for affected populations, industries, and specific asset classes. It reveals that the market is sensitive to economic fundamentals and not geopolitical headlines. The critical variable is whether a geopolitical shock materially disrupts global economic growth, corporate earnings trajectories, or the interest rate environment. When it does not - as has been the case in most historical instances - markets recover with often surprising speed.

## S&P500 Performance Following Major Geopolitical Events

Event	Year	Initial Decline	Days to Trough	Recovery (Days)	12-Month Return (%)
Pearl Harbor Attack	1941	-2.9%	<30	<30	15.1%
Korean War Outbreak	1950	-5.3%	23	45	20.8%
Cuban Missile Crisis	1962	-7.0%	8	19	31.6%
Yom Kippur War / Oil Embargo	1973	-16.1%	180+	Extended	-17.4%
Iraq Invades Kuwait	1990	-15.8%	71	189	19.9%
September 11 Attacks	2001	-11.6%	10	31	-11.9%
Iraq War Begins	2003	-3.6%	18	25	32.1%
Russia Annexes Crimea	2014	-1.0%	6	12	12.4%
Saudi Aramco Drone Strike	2019	-4.9%	7	41	9.1%
Russia Invades Ukraine*	2022	-7.4%	21	49	-15.3%
Hamas October 7 Attack	2023	-2.3%	8	16	27.0%
<b>Historical Average</b>		<b>-5.6%</b>	<b>18</b>	<b>39</b>	<b>8.4%</b>

Source: LPL Research; RBC Wealth Management; FactSet;

\*The Russia-Ukraine Event was impacted by concurrent Federal Reserve Rate Hiking Cycle



## The Geopolitical Landscape - Q2 2026

### Key Threats of Risks and their Market Implications

To invest intelligently in today's environment, one must understand the specific characteristics of each geopolitical event and whether each has the economic capacity to become a sustained market disruptor.

### BlackRock Geopolitical Risk Monitor – Q2 2026 Assessment

Risk Theatre	Attention Score	Escalation Probability	Primary Market Channel	Portfolio Impact
US–China Trade / Tech Tensions	High	Medium-High	Tech equities, supply chains, CNY	Elevated
Russia–Ukraine Conflict (Year 5)	High	Low-Medium	European energy, EUR, commodities	Moderate
Middle East / Iran Escalation	High	Medium	Oil prices, gold, USD safe-haven	Moderate
US Foreign Policy Realignment	Very High	Structural	USD, Treasuries, NATO-linked assets	Elevated
Taiwan Strait Tensions	Medium	Low-Medium	Semiconductors, Asia-Pacific equity	Moderate
Emerging Market Debt Stress	Medium	Medium	EM bonds, local currencies, DXY	Moderate
Global Trade Fragmentation	Structural	Structural	Cross-border flows, logistics, FX	Systemic

Source: LPL Research; RBC Wealth Management; FactSet;

\*The Russia-Ukraine Event was impacted by concurrent Federal Reserve Rate Hiking Cycle

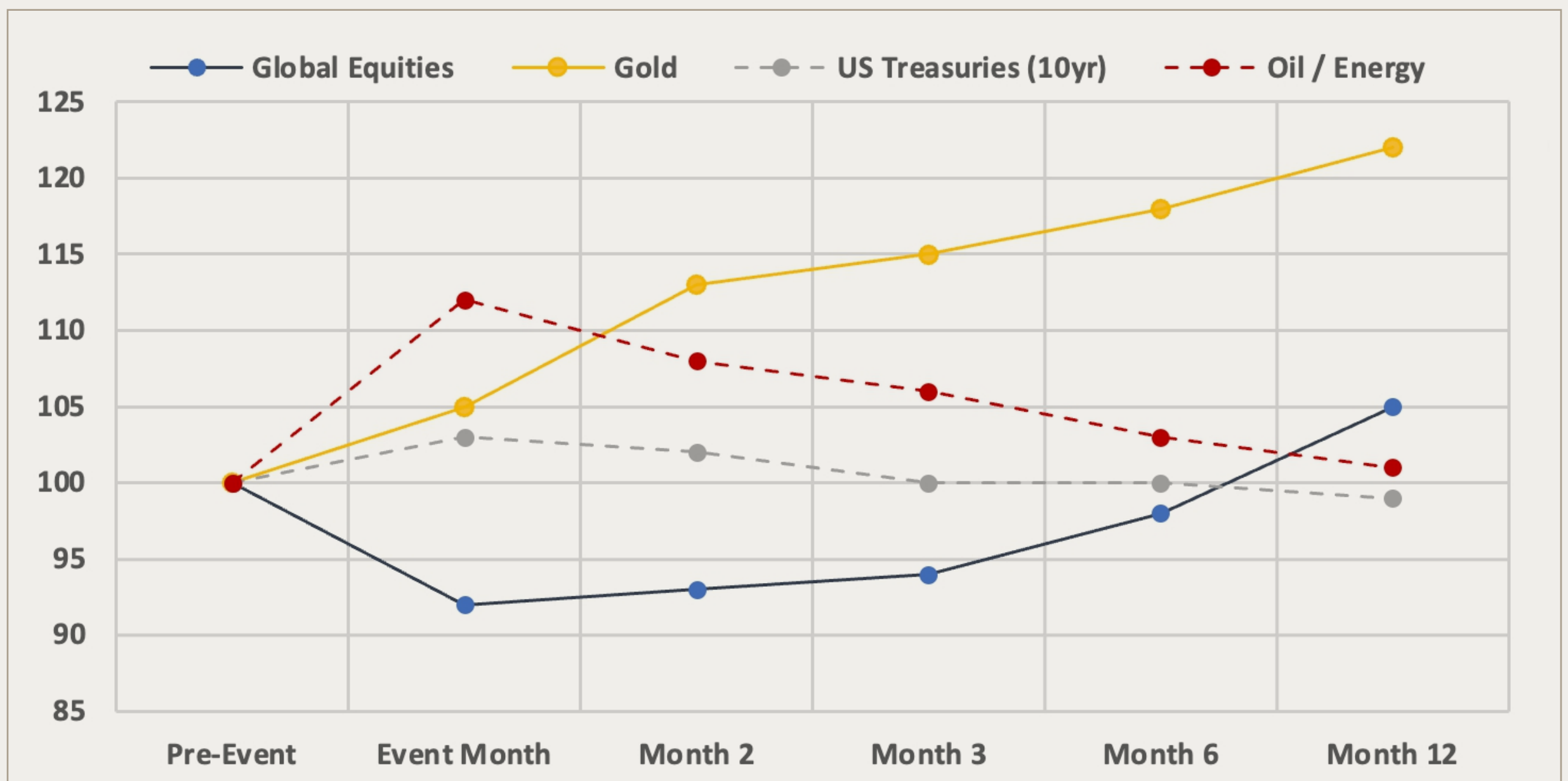
- **US-China and the New Goeconomic Order.** The key structural change is the split of the global economy into rival blocs. S&P Global's goeconomic fragmentation index, tracking 14 measures, has risen steadily since 2020. This shift poses risks, such as US tech reliance on Chinese supply chains, but also benefits defense, domestic manufacturing, and allied-economy infrastructure.
- **Russia-Ukraine: The Enduring Backdrop.** The Russia-Ukraine conflict has become a persistent factor in global markets. According to J.P. Morgan Private Bank, European energy competitiveness has suffered, impacting Germany's industrial sector. Small-cap EPS forward estimates in Germany dropped nearly 50 points since January 2022, while large-cap firms proved more resilient. Portfolio takeaway: diversify across large and small caps, as energy-intensive sectors remain vulnerable, whilst the defense sector will likely garner potential gains.
- **Middle East and the Oil Premium.** The Iran escalation cycle is the main near-term market risk due to its potential impact on oil supply. OPEC+ holds over 79% of proven global reserves, and about 20% of world oil passes through the Strait of Hormuz. Disruptions there could create a significant supply shock.



## The Asset Class Mosaic - How Geopolitics Moves Different Markets

Managing geopolitical risk effectively means considering each asset class separately. Assuming that all markets fall during conflict oversimplifies the situation and ignores important cross-asset dynamics that can guide better portfolio choices.

### Cross Asset Performance During Major Geopolitical Stress Episodes (The Graph is Rebased to 100)



Source: Bloomberg; Worl Gold Council; IMP; JP Morgan Asset Management

**Equities: Volatility Is Not Permanent Loss.** Sophisticated investors must distinguish between volatility and permanent capital loss. A typical 6% S&P 500 drawdown after a geopolitical event - usually recovered within 39 days - is merely volatility. Selling at the lowest point causes capital loss. Eight decades of market history show that long-term wealth is lost due to exit decisions, not initial shocks. Sector-level dynamics though, are meaningfully differentiated. However, geopolitical shocks are highly sector-specific in their volatility impacts. Some sectors react more strongly to geo-political events. Energy, defense, and domestic-facing sectors tend to outperform, while globally integrated technology and consumer discretionary names face greater near-term pressure.

**Fixed Income: The Safe-Haven Premium Has Limits.** Traditionally, investors would move to US Treasuries during geopolitical stress but rising fiscal risks have complicated this strategy. While geopolitical risk typically boosts Treasury prices, this effect is now challenged by US fiscal policies, particularly under the Trump administration. According to the IMF, sovereign risk premiums rise after major geopolitical events (30 basis points for advanced economies and 45 for emerging markets), which highlights the importance of diversification in fixed income.

**Commodities and Gold: The Crisis Premium.** Gold has proven its value as a geopolitical hedge, surging nearly 50% in 2025 and outperforming other major assets. Its continued rise into Q2 2026 is fueled by geopolitical uncertainty, central bank de-dollarization, and strong demand, with annual purchases exceeding 1,000 tons for three years. Gold's low correlation with equities (0.31) and US bonds (0.39) makes it an effective portfolio diversifier as stock-bond correlations climb (Refer to the table below for more details). Outside the US markets, however, a broader 50/50 allocation is suggested, with Gold being a constituent of the non-equity component.



## Portfolio Allocation Comparison – Traditional 60/40 Vs Geopolitically Aware 60/20/20

Metric	Traditional 60/40	60/20/20 (With Gold)	Improvement
Annualized Return (10-yr)	6.3%	7.5%	+120 bps
Annualized Volatility	8.0%	8.1%	Similar
Sharpe Ratio	0.25	0.38	+52%
Max Drawdown (2022 Stress)	-16.4%	-10.9%	-5.5pp
Gold Correlation to Portfolio	–	+0.31	Low / Additive
Recovery Time (2022 event)	11.2 months	7.4 months	-34%

Note: 60/20/20 portfolio; 60% Global Equities; 20% Fixed Income; 20% Gold; Source: FTSE Russell; LSEG; Hypothetical Portfolio for Illustrative Purpose only  
Influence of Gold to asset allocation during periods of geopolitical stress, 2020-2025. Source: World Gold Council; Bloomberg.

### The Enemy of Returns: Reactive Decision-Making

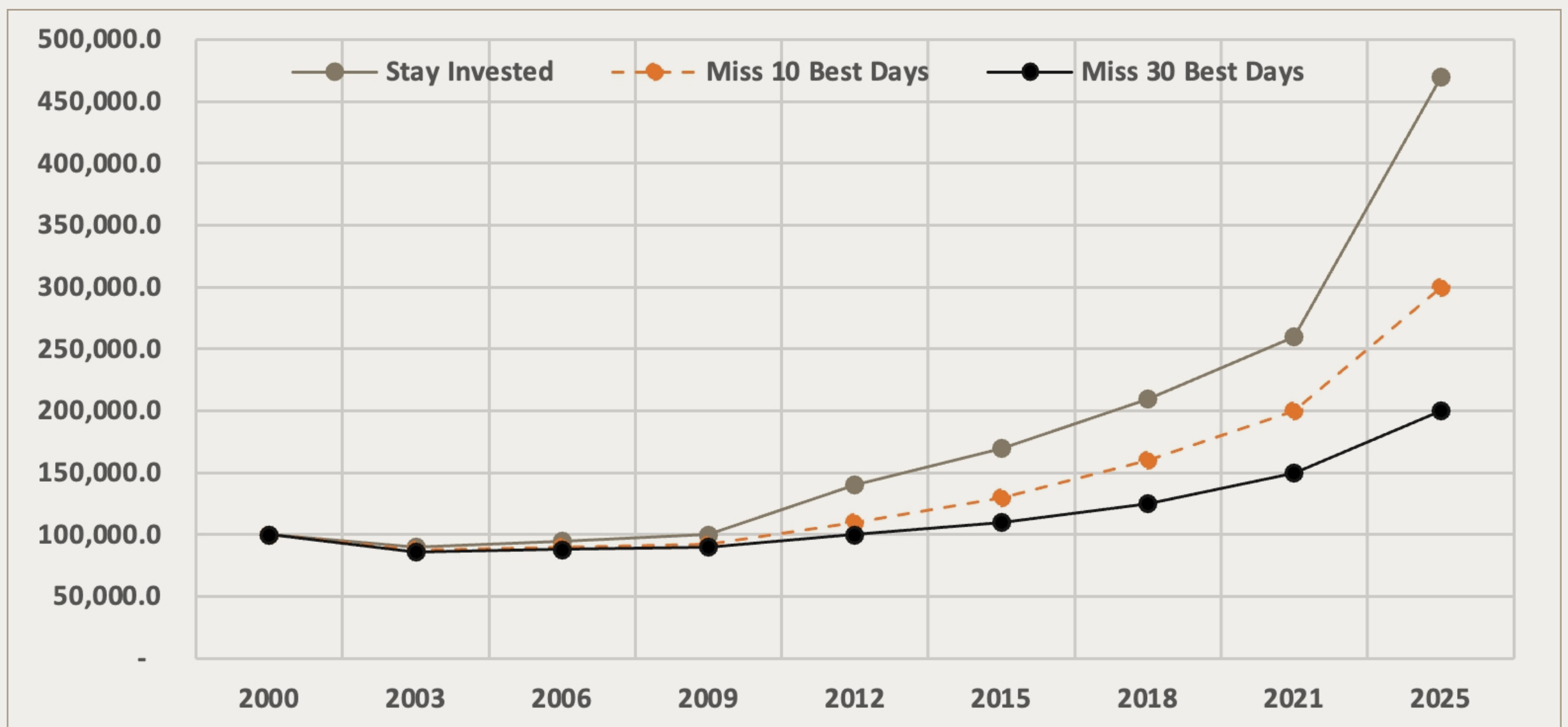
#### Why the Exit Button is the most expensive key on your keyboard

If the data on market resilience is so compelling, why do investors consistently underperform? The answer lies not in market mechanics but in investor psychology. Three cognitive biases drive investors toward irrational behavior during geopolitical stress events:

- I. **Loss aversion is a key vulnerability:** Behavioral finance shows that losing money hurts about twice as much as gaining the same amount. A 6% equity drop due to geopolitical events elicits an emotional reaction far bigger than the real risk or historical norm. The brain treats market downturns like threats and reacting to this often leads to poor outcomes.
- II. **Availability bias** leads us to overestimate the economic risks of geopolitical events due to constant exposure to dramatic news. For example, despite fears during the Cuban Missile Crisis, the S&P 500 rebounded within 19 days. As our judgment is easily influenced by emotion, systematic investment strategies like rebalancing and following set rules tend to yield better results than emotionally driven decisions.
- III. **Recency bias** is a key factor in poor investment decisions. Investors who exit the market during geopolitical downturns often miss the recovery, thus locking in losses. The 27th Annual Investment Returns Yearbook (2025) from UBS, analyzing 125 years of market data, found no consistent link between geopolitical threats and future equity returns; economic factors matter more. Investors letting geopolitical fears guide their decisions have historically been both inaccurate and costly.



## The Cost of Panic: Growth of USD 100,000 – Stay Invested vs. Reactive Exit Strategies



Source: JP Morgan Asset Management; Illustrative Analysis based on S&P500 historical Data (2000-2025); Figures in USD

### The Behavioral Trap: What Reactive Investors Get Wrong

- They sell the dip - typically at or near the trough, just before the recovery begins.
- They wait for "clarity" - which arrives only after prices have meaningfully recovered.
- They confuse news flow with market signals - the intensity of coverage does not correlate with market impact.
- They anchor to recent pain - believing the current event is uniquely catastrophic when history suggests otherwise.
- They miss the best days - which tend to cluster immediately after the worst ones, in the early stages of recovery.

### The Strategic Imperative: Three Principles for Geopolitical Markets A Framework for Disciplined Capital Allocation

After reviewing market history and investor psychology, we focus on investment strategies for Q2 and beyond. Our approach relies on three interconnected principles supported by the evidence discussed.

- **Stay Invested:** Time in the market consistently outperforms timing the market. Missing the recovery costs more than enduring the drawdown.
- **Diversify Intelligently:** Geopolitical risk flows differently across asset classes, geographies, and sectors. A well-structured portfolio treats volatility as a feature to be managed, not a threat requiring exit.
- **Resist Hasty Decisions:** The most expensive decisions are made in the first 48 hours of a crisis. Systematic rebalancing frameworks consistently outperform emotionally driven active management.



## **I. Stay Invested: The Compounding Argument**

The mathematical case for staying invested is simply overwhelming. The S&P 500, through World War II, the Korean War, the Cuban Missile Crisis, Vietnam, multiple Middle East conflicts, 9/11, the Global Financial Crisis, COVID-19, and the Russia-Ukraine war, has delivered a nominal compound annual growth rate that has rewarded long-term holders with wealth creation of an order that short-term market timers have consistently failed to replicate. The index that was trading at approximately 100 in 1940 closed 2025 at over 5,800.

According to J.P. Morgan Asset Management's 2025 Guide to the Markets, an investor who missed just the 10 best trading days in the S&P 500 over any 20-year period would have seen their returns cut by approximately 50%. And, as noted above, the best days tend to cluster in the immediate aftermath of the worst ones - in the early recovery phase following a geopolitical shock. The investor who exited during the 2022 Ukraine-driven downturn and re-entered in "safety" missed not only the 2023 equity rally of 26%, but the subsequent 2024 gains as well.

## **II. Diversify Intelligently: Beyond the 60/40**

The implication for today's geopolitical environment (characterized by persistent inflation risks, ongoing energy uncertainty, and a structurally higher correlation between bonds and equities than the pre-2020 era) is that intelligent diversification must extend beyond the traditional equity-bond axis. Gold has seen exceptional gains, rising 14% in 2023, 27% in 2024, and about 65% in 2025, up over 170% since the Russia-Ukraine war began. This surge reflects a shift by institutional investors and central banks, not just speculation. Global central bank gold holdings now stand at 36,000 tonnes, beating previous records. Historically, adding gold to mixed portfolios has improved risk-adjusted returns.

## **III. Resist Hasty Decisions: The Architecture of Discipline**

The third principle is challenging since it counters natural instincts. While investment and diversification require analysis, resisting action in a crisis is psychological and needs structural support like clear investment mandates, set rebalancing frameworks, and behavioral "commitment devices." Our suggestion for clients navigating Q2's geopolitical environment is not passive indifference to risk — it is structured composure. This means, pre-defining the conditions under which rebalancing will occur (e.g., when an asset class deviates by more than 10% from target allocation), rather than responding to headline events.



## **The Structured Composure Framework: What Disciplined Investors Do**

- Maintain a written Investment Policy Statement with pre-defined rebalancing rules. Do not amend it during crisis periods.
- Distinguish between volatility (temporary price movement) and fundamental deterioration (lasting change to earnings, growth, or policy trajectory).
- Use portfolio drawdowns as rebalancing opportunities - buying more of what has declined toward target weight, reducing what has appreciated.
- Evaluate geopolitical events through the "economic transmission" lens: does this event materially alter growth, inflation, or the rate environment? If not, the historical base rate overwhelmingly favors staying the course.
- Review portfolio positioning quarterly - not reactively to news events, but systematically against a forward-looking macroeconomic and geopolitical scenario framework.

## **Conclusion: The Investor Who Endures, Wins**

Modern investing faces a unique tension as global market noise is at an all-time high, and as Q2 2026 progresses amid complex geopolitics, investors feel this tension keenly. Our analysis, grounded in eight decades of market data and the most current research from the IMF, BlackRock, J.P. Morgan, UBS & the World Gold Council, arrives at conclusions that are simultaneously humbling and reassuring. Humbling, because geopolitical risk is genuinely complex and its extreme tail outcomes are genuinely severe. Reassuring, because the weight of evidence (73% of conflicts seeing equities higher after 12 months; average recovery in 39 trading days; no statistical relationship between geopolitical threat indices and 12-month forward equity returns) points decisively to the patient, diversified, disciplined investor as the long-term winner. The three principles outlined here stem from decades of market experience: stay invested, diversify wisely, and avoid rushed choices. In a complex and volatile world, these practices offer essential risk management for long-term investors.



## Why Gold still Matters: A Strategic Case

Gold has always been difficult to analyze from a tactical point of view - reflecting the zero-income nature of the asset. At the time of writing, during this specific geopolitical event in 2026, gold has sold off sharply – it certainly has not been a short term “Geopolitical Hedge”. It is quite illuminating to consider that even if an investor knew in advance about this conflict and bought gold as a geopolitical hedge – the investor would be sitting at a loss at the time of writing.

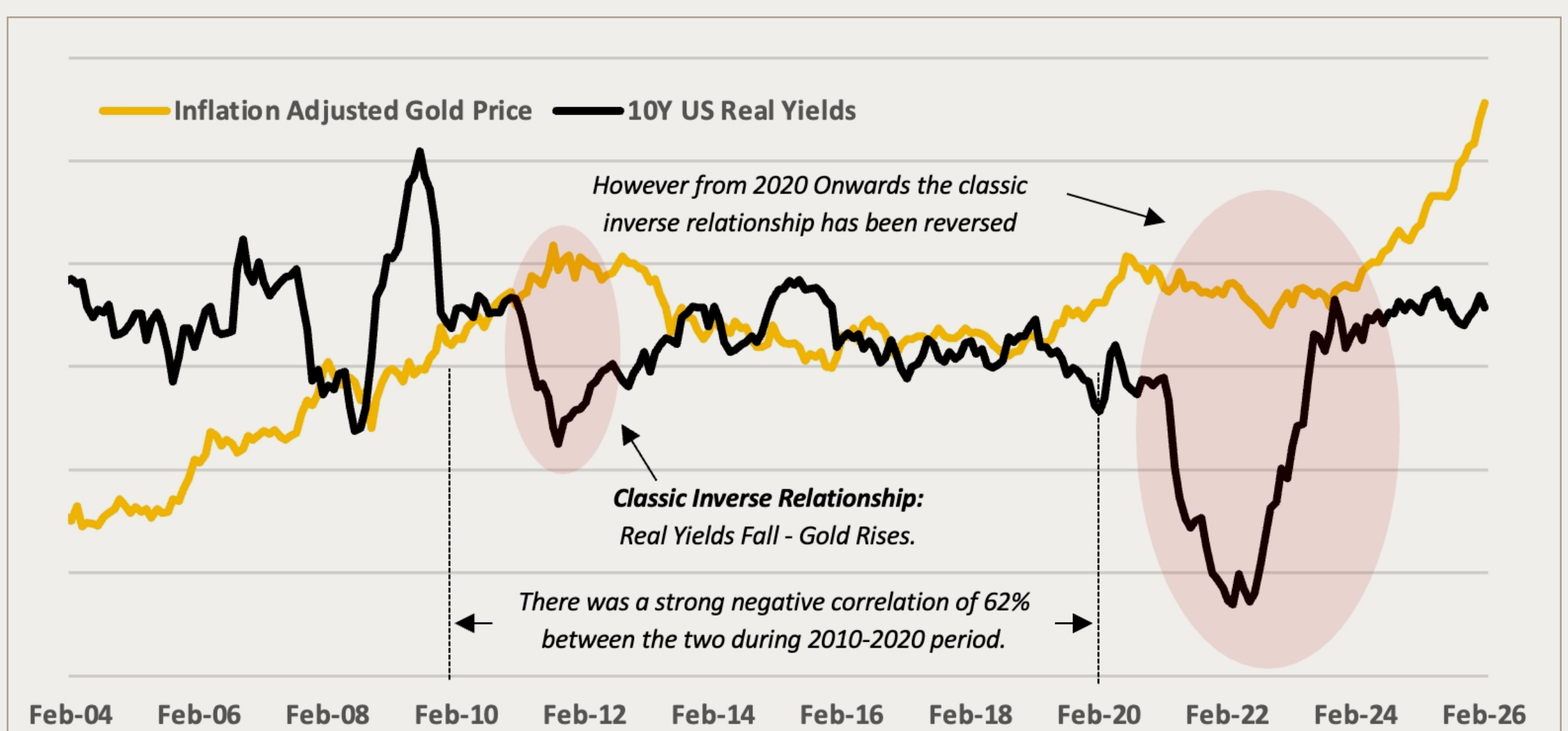
Instead, we focus on gold’s strategic role, namely:

- **Portfolio Construction:** The attractive diversification benefits of gold, in particular when the main historic diversifier of equities has been bonds as evidenced by the classic use of a simple 60% equity / 40% bonds (mainly in the US) portfolio. However, today, sovereign debt including US Treasury bonds are challenged by substantial deficit arithmetic in most major developed economies.
- **Gold is Under Owned:** We set out what we think this means and why we see this as a longer-term driving force behind gold.

If we were to try to set out a tactical view on gold, we note that unfortunately, there is very little by way of data and economic analysis that can help with predicting the gold price on a tactical (1–2 Year) view. This partly reflects its unique nature as a zero-income investment but also as a long-term store of value. For example, it would make sense that as interest rates rise, then gold becomes less attractive, reflecting a now higher guaranteed income stream versus gold. However, the graph below shows how this relationship has broken down as gold has soared despite higher US rates. Put simply, a previous correlation of gold with real rates and therefore a potential tactical timing tool for gold no longer works.

Post COVID (2020), several structural factors emerged that broke, and eventually reversed, the relationship between inflation adjusted gold prices and 10Y US Real Yields. The primary factors being aggressive central bank purchases; events like COVID; the Russia-Ukraine conflict; US-China tensions over tariffs etc.

## Inflation Adjusted Gold Prices v/s The US 10-Year Real Yields: Correlation



Source: Bloomberg



We therefore believe considering a more strategic (rather than tactical) view of gold is the best course of action. However, from a tactical point of view, one key question that we have been considering is: Is gold under owned?

In our Q3 2025 Wealth Insights publication, we discussed the reasons why we consider gold to be an attractive investment outright and especially in a multi-asset portfolio. The attractive returns from gold are well documented. For example, the table below shows that over the last 20 years, gold has compounded at 10.4% versus 7.9% for global stocks and just 2.6% for US Treasuries. One would have thought that the historical returns would result in significant investment flows. However, we show below that this is not the case – with the exception of selected central banks.

### Annualized Returns as of End of March 2025

Asset class	20 years*	10 years	5 years
Gold	10.4%	10.2%	14.6%
Global Equity	7.9%	9.5%	16.1%
US Treasuries	2.6%	1.0%	-1.7%
Real Estate (US REITs)	6.7%	5.3%	11.3%

\*19.75 years reflecting the US REIT index start. Source Bloomberg

### Is Gold Under Owned?

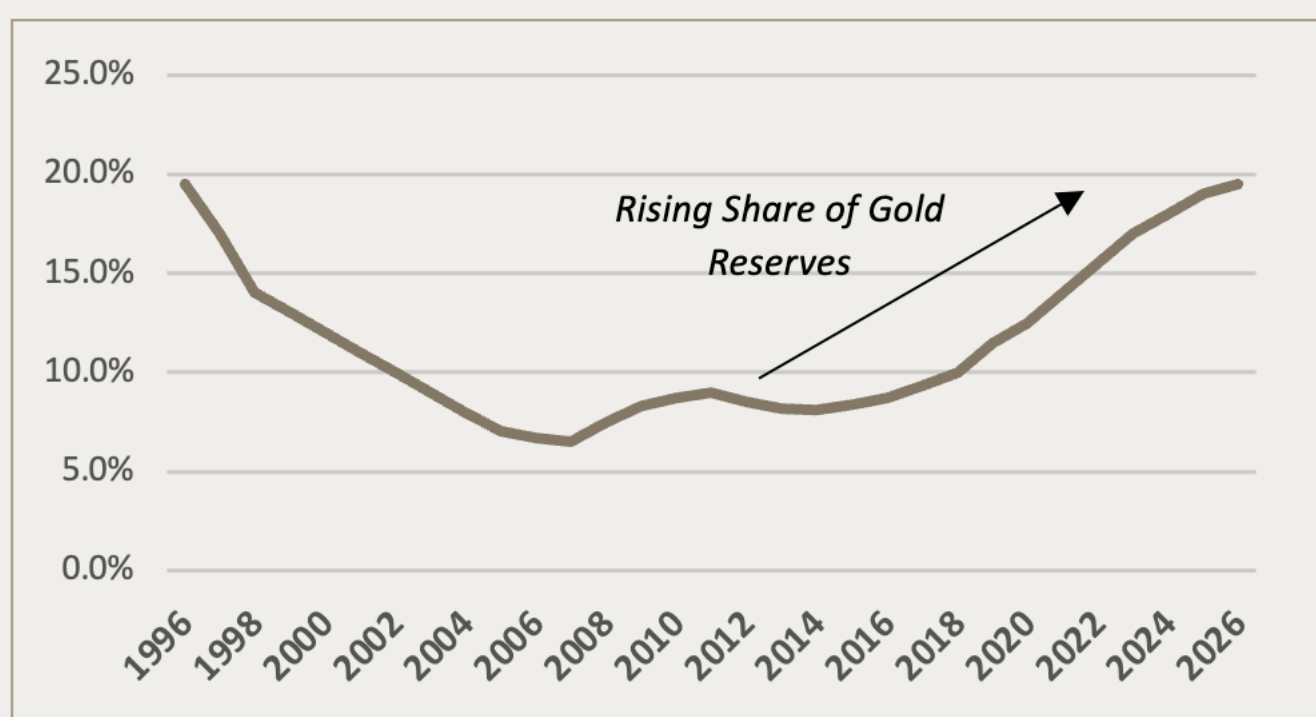
#### Impressive Re-Weighting in Gold: The Central Bank Story

We see the underlying strategic theme of under ownership of gold within the investment management / asset owner industry.

We break down the ownership of gold by type of investor starting with central banks. It is well known that central banks have been the main structural buyer of gold, partly as a result of the unintended consequences of the freezing of Russia’s central bank reserves by the US and EU, post Russia’s invasion of Ukraine.

The graph below from Amundi - which shows the share of gold within central bank reserves over the last 20 years - may indicate that gold weightings look historically high. The combination of increased buying and the effect of the last two years’ increase in the gold price has resulted in a sharp increase in the weighting of gold as a percentage of reserves.

#### Central Bank Holdings in Gold as a % of Total (3-Month Average)



*From a historical perspective, Gold Reserves have risen significantly during 2024-2025. The key driver being increase in purchases coupled with price appreciation*

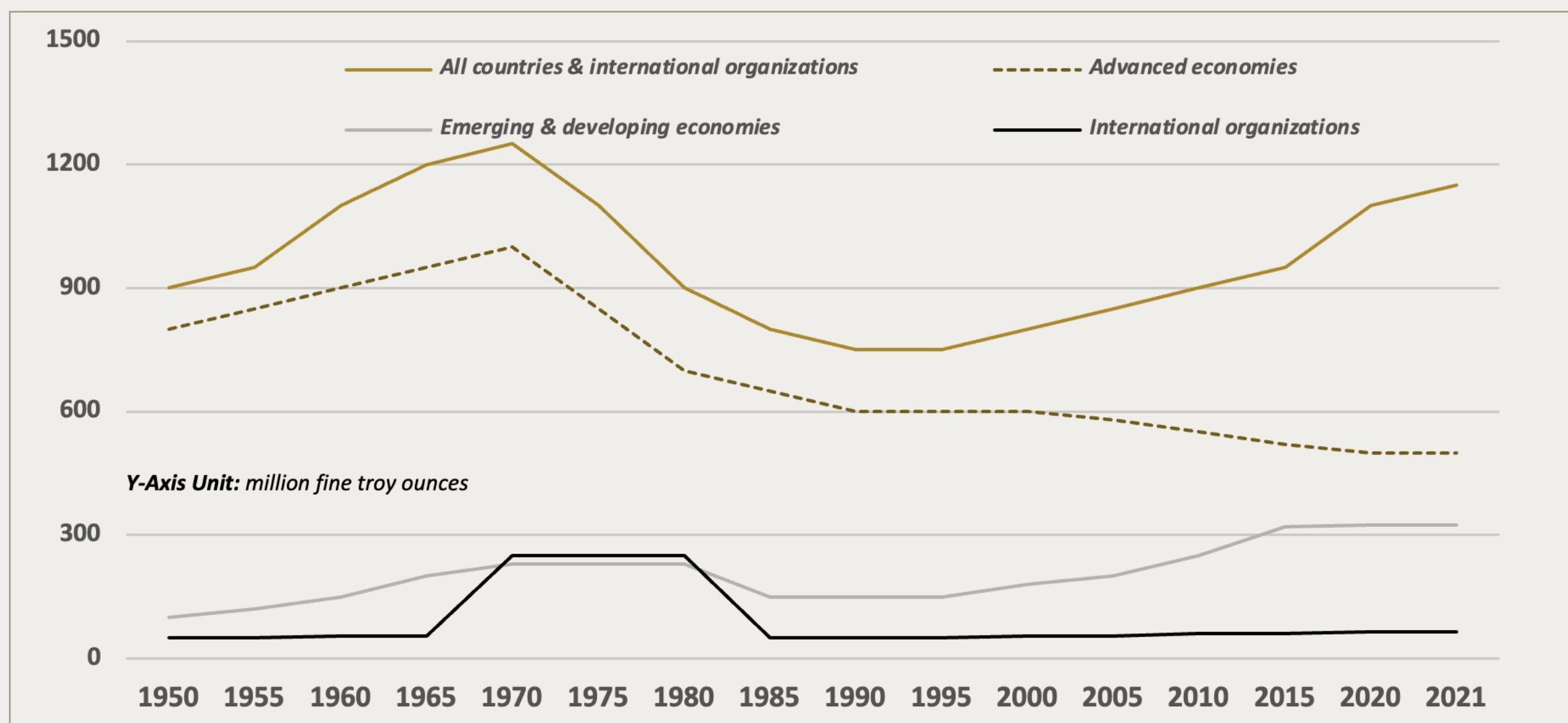
Source: Amundi Investment Institute on Bloomberg; Macrobond; DataStream



However, the very long-term picture is quite different as demonstrated by the IMF's paper titled "Gold as International Reserves: A Barbarous relic no more".

The graph below shows that during the period between 1970-2000, central banks were not buying gold at all - with the exception of emerging market central banks which can be explained by issues such as currency stability. In essence, the major central banks have used annual excess reserves (interest and capital account flows) to buy mainly bonds.

### Gold Held by the Official Sector: 1950-2021



Source: International Monetary Fund (IMF)

An honorable exception to the Swiss central bank – not for buying gold but for instead heavily investing in equities. But look at what they have to say about gold.

### Swiss National Bank: What role does gold play in your portfolio?

"Our gold holdings have remained constant for many years at 1,040 tonnes. Given the unchanged size of our gold holdings, the relative share of gold within our currency reserves declined significantly with the balance sheet increase that started in 2009. We take into account the gold allocation when evaluating the risk of the currency reserves, but it is not part of the annual strategic asset allocation review."

Allocation (Currency)	Foreign Exchange Reserve
CHF	-
USD	37.0%
EUR	39.0%
JPY	7.0%
GBP	6.0%
CAD	3.0%
Others	8.0%

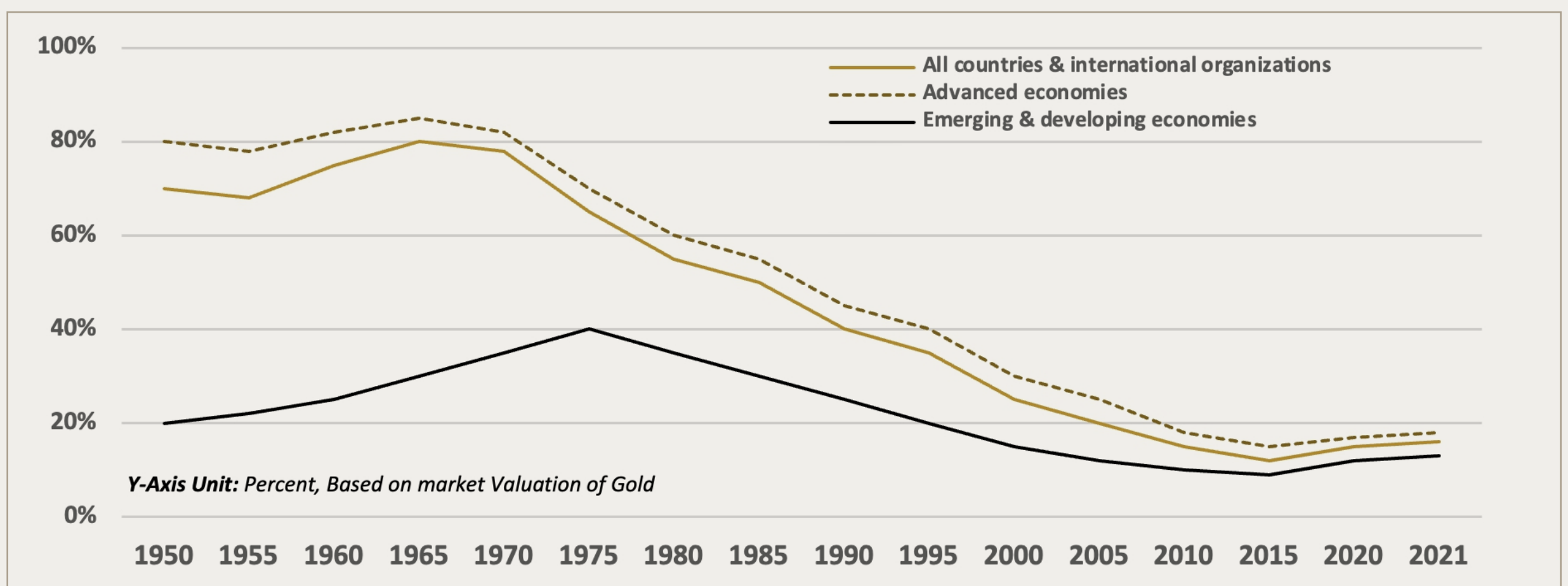
Allocation (Asset Classes)	Holding
Investments With Bank	-
Government Bonds	64.0%
Other Bonds	11.0%
Equities	25.0%

Breakdown of the Swiss National Bank (not including gold) assets (source Swiss National Bank)



However, it is the graph below which highlights that despite increases in central banks, holdings of gold were historically a much higher percentage of total assets.

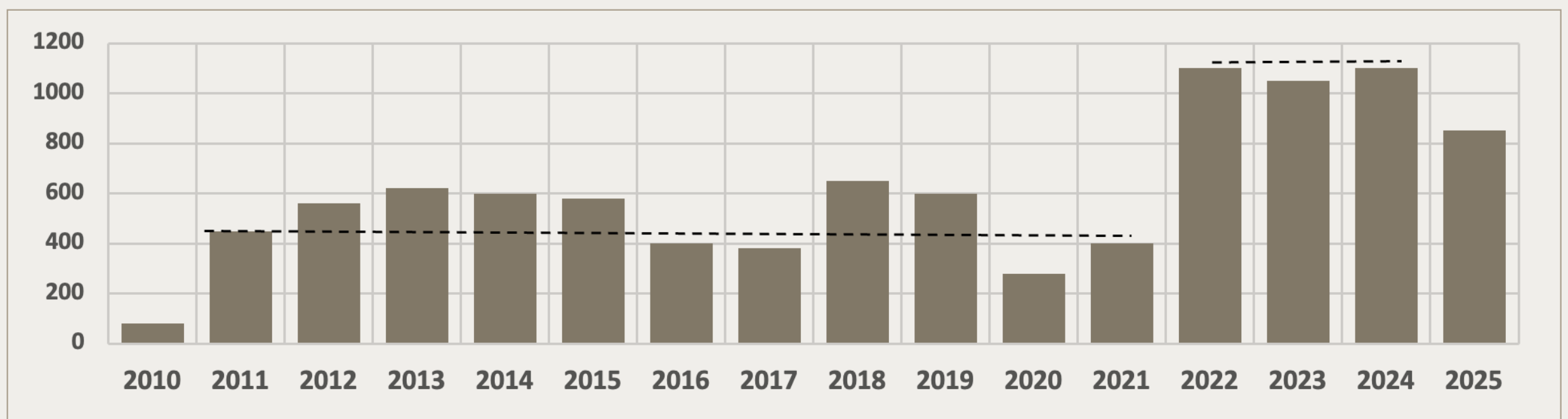
### Share of Gold in Official Reserve Assets: 1950-2021



Source: International Monetary Fund (IMF)

In recent years, we have seen an acceleration in central bank gold purchasing, particularly led by China. We believe that this trend is a natural reaction to the freezing of the (non-gold) Russian central bank assets held in the US and EU, and that this trend has only just begun, noting in particular that China’s central bank holdings are still low even in comparison to other central banks. We also see this recent trend as a recognition by many other central banks that their gold weighting has typically drifted down over many decades.

### Central Bank Demand in 2025 remained Resilient in the Face of Record Gold Prices



Source: Metals Focus; Refinitiv; World Gold Council; Data as of December 31; 2025; Figures are in Tonnes

Allocation (Currency)	Foreign Exchange Reserve
US	78%
Germany	77%
Russia	36%
Kuwait	15%
Bahrain	9%
Turkey	44%
Saudia Arabia	7%
China	6%

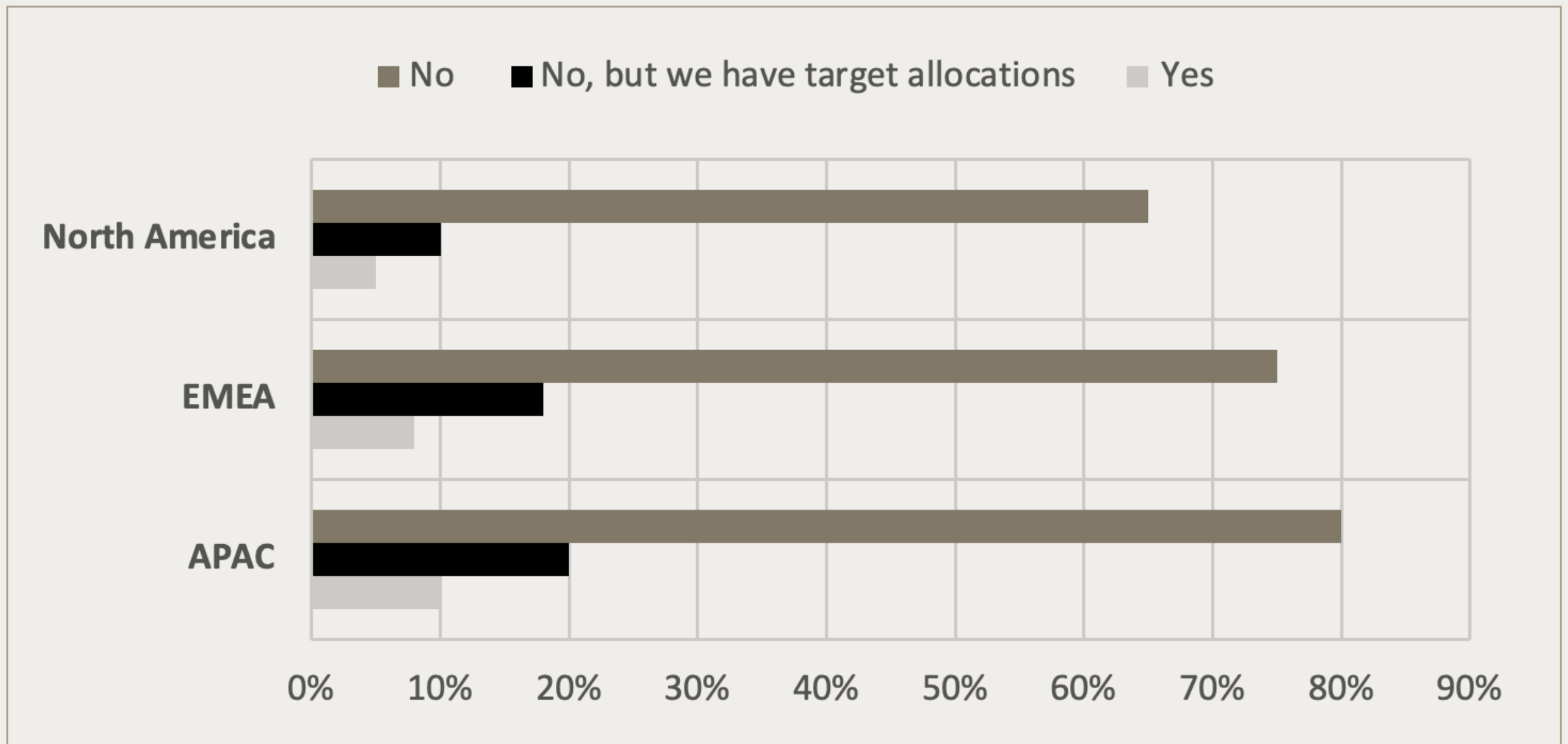
Source: World Gold Council; IMF



## Gold Ownership - The Institutional Investors

We wrote extensively in our Q3 2025 report about the very low general allocation to gold from institutional investors like pension funds, endowments and sovereign wealth funds. For example, the World Gold Council conducted a detailed study in 2022 about the use of gold in institutional portfolios which still has resonance today. Firstly, as the chart below shows, allocating to gold amongst institutional investors is a minority view. Simply put, many institutional investors do not allocate at all.

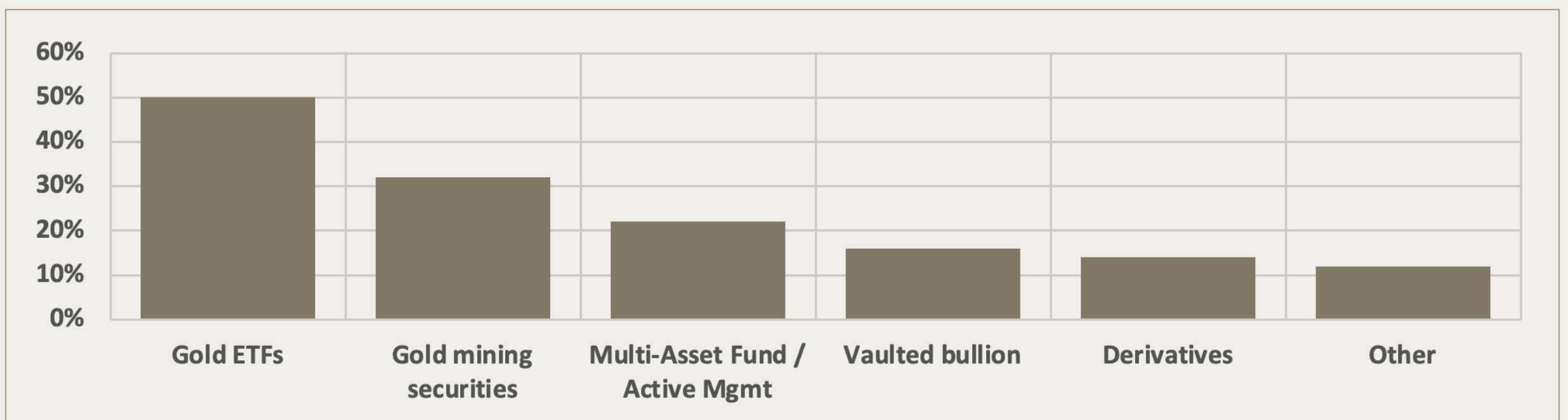
### Gold Allocations are more likely among Institutions in EMEA and APAC



Source: Coalition Greenwich; World Gold Council.

However, the following graph shows that amongst the minority group of these investors that does invest, only circa 65% invests in gold directly (via gold ETFs and bullion). Other investors gain their exposure via the stock market or via look through set hedge funds like Bridgewater (a widely held hedge fund / multi asset fund with a strategic allocation to gold).

### Gold ETFs are the Primary Vehicle for Allocation to Gold



Source: Coalition Greenwich; World Gold Council.



## What about individual investors exposure to gold?

We start with the larger individual investors - investors with family offices - it is clear that their allocation is closer to institutional investors as set out by the UBS family office report.

### Average gold allocation for family offices over the last several years (source UBS Global Family office report 2025)

2019A	2020A	2021A	2022A	2023A	2024A	2025E
3.0%	2.0%	1.0%	2.0%	1.0%	2.0%	2.0%

On a regional basis, allocations amongst family offices show a surprising zero allocation to gold in the US and just a 1% allocation in the Middle East.

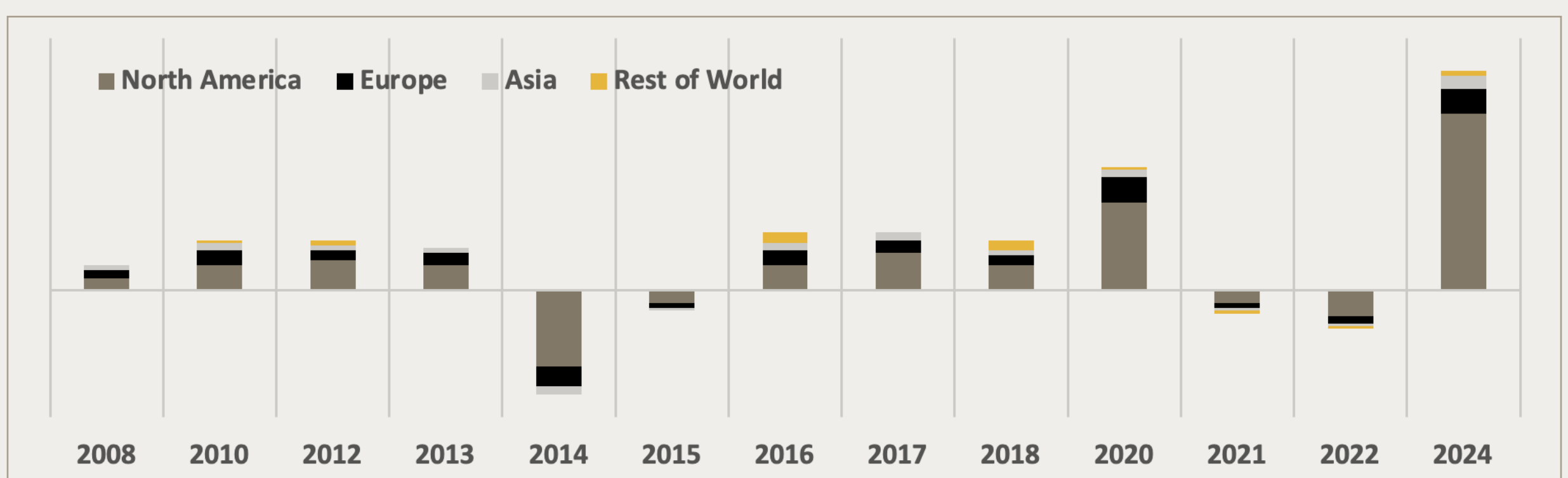
Global	US	Latin America	China	Europe	Middle East	Asia Pacific	North Asia	Southeast Asia
2.0%	0.0%	1.0%	3.0%	2.0%	1.0%	2.0%	2.0%	2.0%

In essence, we have a situation where family offices are typically allocated to private assets and more esoteric strategies instead of straightforward gold despite the historical evidence that an allocation would be additive to the overall portfolio. Is gold too simple an asset class for sophisticated investors?

### What about other individual investors?

Investors typically get exposure via ETFs – we note that physically backed ETFs are the most efficient and low-cost method of investing in gold. The graph below shows the heightened 2025 ETF flows into gold which helps explain why we have seen a 2026 correction - no doubt we have had some speculative flows. These flows are made up of advisory and discretionary allocations and individual investors buying via platforms. Fast corrections like 2026 are more a sign of a multi-asset investor panicking compared to multiple individual investors. That is not our approach – we take a long-term strategic approach.

### Global Gold ETF Yearly Flows:

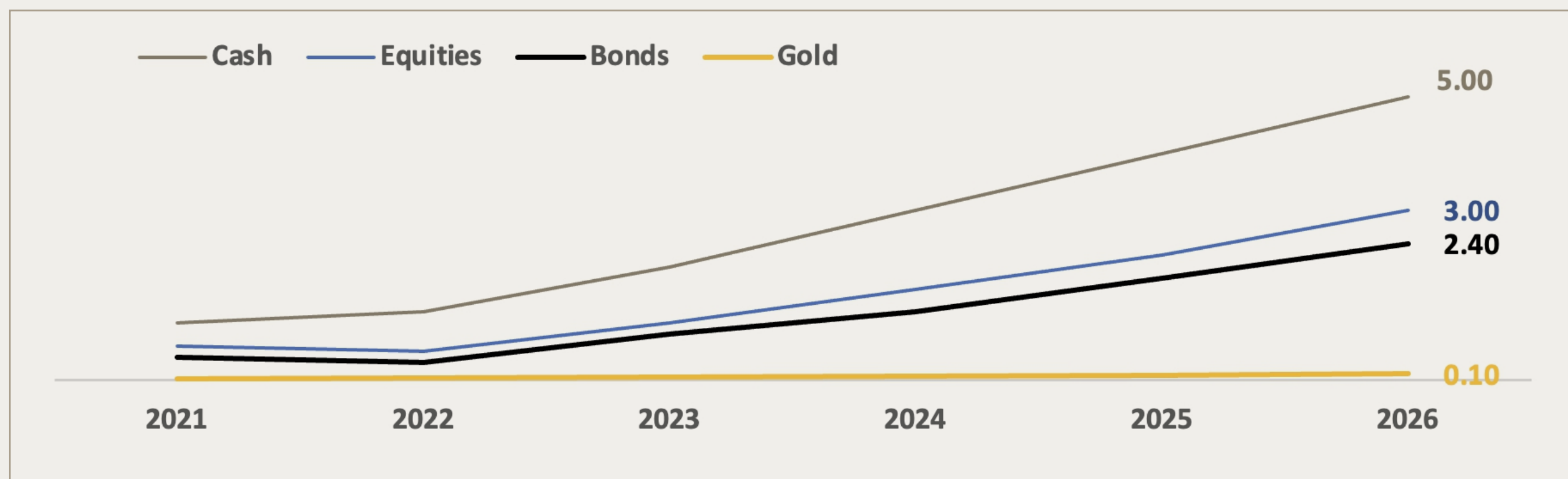


Source: Bank of America; Figures in USD Billion



So, whilst there have been strong flows into gold ETFs in 2026, look at the big picture, as the following graph from Bank of America shows. If there was one chart that we would like investors to focus on it is this – gold allocation has only just begun.

**Cumulative Inflow by Asset Class Decade to Date (Figures in USD Trillion):**



Source: BofA Global Investment Strategy

**In conclusion,** of course all Tactical Asset Allocations (TAA) have degrees of difficulty, but gold provides a specific challenge due to its zero-income nature. Our view is that a strategic framework will help with the tactical view alongside judicious re-balancing of portfolios when the gold weighting becomes too high. In summary, our approach is to focus on the strategic allocation of gold based on the attractive portfolio characteristics and the fact that it is under owned in the investment industry.



## Conclusion

As we enter Q2 2026, global markets continue to navigate a challenging backdrop marked by geopolitical uncertainty, elevated energy prices, and inflationary risks. Despite this volatility, history shows that markets remain resilient, with long term performance driven not by geopolitical headlines, but by the underlying economic trajectory.

Our House View recognizes that the near term environment is likely to remain unsettled, with risks skewed to the downside for equities should inflation accelerate or energy disruptions persist. At the same time, a still intact disinflation trend, supportive medium term growth expectations, and the prospect of eventual policy easing offer important stabilizers. In this setting, gold and real assets continue to provide strategic diversification benefits, particularly given their positive historical correlation with higher inflation.

For investors, three principles remain paramount:

- Stay invested, as attempts to time geopolitical volatility consistently erode returns;
- Diversify intelligently across asset classes that respond differently to inflation, growth, and risk; and
- Avoid reactive decision making and allow disciplined portfolio construction to work through periods of uncertainty.

In a world shaped by complex macro and geopolitical forces, these fundamentals remain the most reliable drivers of long term wealth preservation and growth.

Equally, if you are thinking of investing but have not yet decided, it is worth noting markets are 5-10% less expensive than a month ago, and history demonstrates that markets typically recover.

If you'd like to discuss any of these themes in more detail, please contact your Relationship Manager.



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