

Market Monitor (%): How did major stock markets perform last week*?



Key stories from last week



US: MIDDLE EAST CONFLICT AND MIXED ECONOMIC DATA

Investors digested escalating conflict in the Middle East in the wake of U.S. and Israeli military strikes on Iran, rising energy-driven inflation risks, and mixed economic data. Oil prices surged amid concerns about potential supply disruptions. Uncertainty about the conflict's duration and its potential impact on energy markets also impacted the US bond markets, as investors reassessed inflation risks and the outlook for interest rates. The latest economic reports show that factories and service businesses continued to grow in February. Hiring data, however, sent mixed signals: some reports showed companies adding jobs and fewer layoffs, while the official government report showed a surprise drop in employment and a slightly higher unemployment rate.



JAPAN: INVESTORS KEEP AN EYE ON OIL GIVEN JAPAN'S RELIANCE ON OIL FROM GULF

Markets were highly volatile amid uncertainty around the conflict in the Middle East. Investors sought to assess the potential impact of higher crude oil prices on domestic inflation, given Japan's significant reliance on oil and gas from the Gulf region. The Bank of Japan says it will keep raising interest rates if the economy and inflation continue as expected. The yen has weakened further, and the government has hinted it may step in to support the currency if necessary. At home, there are early signs that wages may keep rising, with major labour unions asking for pay increases similar to last year, an important trend that Japan's central bank hopes will help create a healthier cycle of stronger wages, spending, and economic growth.



CHINA: MIDDLE EAST CONFLICT AND CHINA'S 2026 ECONOMIC PRIORITIES

Markets retreated as investors weighed the conflict in the Middle East along with its implications for oil prices and global growth against Beijing's newly unveiled growth target and policy signals. China has set out its economic plans for 2026, expecting slower growth than in previous decades but continuing to focus on building up its own technology and manufacturing strength. The government wants to boost spending and is rolling out large new financing programs to support investment. Recent factory data shows a mixed picture: large, domestic-focused companies are still struggling, while smaller exporters appear to be doing better. Overall, China is preparing for a tougher global environment and is aiming to support growth through various measures.



EUROPE: MIDDLE EAST CONFLICT CASTS DOUBT ON INFLATION OUTLOOK

Investor sentiment deteriorated significantly following U.S. and Israeli military strikes on Iran and the subsequent widening of the conflict. Rising tensions in the Middle East have pushed oil and gas prices higher, raising worries that more expensive energy could slow Europe's economy while pushing inflation back up. Even before the latest conflict, eurozone inflation had already ticked higher, and markets now see a greater chance the European Central Bank may need to raise interest rates again. Despite these concerns, unemployment across the region unexpectedly fell to a record low, suggesting that Europe's job market is still resilient.



UK: MIDDLE EAST CONFLICT OVERSHADOWS REEVES' SPRING STATEMENT

Investors in the UK assessed rising inflation risks linked to the war in the Middle East, with Sterling falling to its lowest level since early December and the country's Office for Budget Responsibility (OBR) warning that the conflict could have "very significant impacts" on the UK economy. The conflict overshadowed the deliberately dull Spring Statement this week, which talked about weaker near term growth, improving inflation and borrowing, which could have given the Chancellor more headroom, but as expected no real policy changes. However, the inflation outlook remains more uncertain now given recent developments. In other news, data showed lower levels of new orders in construction. Meanwhile, UK house prices rose in February by a higher-than-expected 1.3% year over year, according to the closely watched Halifax House Price Index.



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*Source: Bloomberg. All performance measured in local currency.

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