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Market Snapshot

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From the perspective of those in markets, events in the Middle East were absorbed with surprising resilience, even as energy and geopolitical risks remained elevated. Oil prices stayed firm amid the continued US-led naval blockade of Iranian ports and the effective disruption of traffic through the Strait of Hormuz, keeping fears alive over potential supply shocks and reinforcing inflation concerns. Yet global equities pushed higher, with the S&P 500 hitting a record high, as investors took comfort from the fact that a fragile ceasefire between Iran and its opponents was holding and that a separate 10-day truce between Israel and Lebanon reduced the immediate risk of regional escalation.

The FTSE 100 was -0.2% over the week by mid-session on Friday, with the more UK-focused FTSE 250 trading +2.0%.

Middle East

The two-week ceasefire between Iran and the US-backed Israeli coalition in the Middle East has held so far, but it remains fragile. Equity markets responded well to this and the Israel-Lebanon deal. Gains were led by big technology and Wall Street banks. However, there was still a dislocation in energy markets.

Israel agreed to a 10-day ceasefire with Lebanon aimed at halting fighting with Hezbollah, although sporadic rocket fire, Israeli strikes and mutual threats cast doubt on its durability, even as direct US-brokered talks between Israeli and Lebanese officials got under way in Washington.

Meanwhile, Pakistan emerged as a key intermediary, hosting and shuttling delegations in a bid to revive US-Iran nuclear talks before the ceasefire's scheduled expiry, with President Donald Trump expressing optimism but warning that hostilities could resume without a deal. Across the region, humanitarian conditions continued to deteriorate, particularly in Lebanon, where displacement topped one million, underscoring how a war paused but unresolved was still exacting a heavy economic and human toll.



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The situation continues to be a drag on the global economy. The International Monetary Fund struck a notably downbeat tone in its World Economic Outlook released earlier this week, warning that the global economy faces its sternest test in years as the war in the Middle East drives up energy prices and threatens growth and disinflation. The IMF cut its global growth forecast for 2026 to 3.1%, from 3.3% previously, and said inflation is now set to rise again this year before easing in 2027, with emerging and developing economies bearing the brunt. While the IMF expects the shock to be manageable if the conflict remains short-lived, it outlined more severe scenarios in which prolonged disruption to oil and gas supplies – particularly through the Strait of Hormuz – could push world growth as low as 2% and tip the economy close to recession.

March saw the largest increase in global energy inflation in at least 25 years, according to investment bank UBS. The Swiss bank analysed the latest inflation reports from advanced and emerging economies and found that energy prices rose by 5.5% on average in March. That exceeds the surge seen after the onset of the Russia-Ukraine conflict in March 2022.

Economics

US producer price inflation rose less than expected in March, offering some relief on underlying pressures even as an energy shock gathered pace. The producer price index for final demand increased by 0.5% month-on-month, well below economists' forecasts, after a downwardly revised 0.5% rise in February, as flat service-sector prices offset a sharp jump in energy costs triggered by the war with Iran. Goods prices climbed 1.6%, driven by an 8.5% surge in energy that included a 15.7% spike in

gasoline, while core producer prices rose just 0.2%, signalling that broader inflation pressures remain contained for now. On an annual basis, producer prices rose 4.0%, the fastest pace since early 2023, reinforcing expectations that the Federal Reserve will stay cautious on interest rate cuts as higher fuel costs begin to work their way through the inflation pipeline.

The Federal Reserve's Beige Book depicted a US economy still expanding but only at a slight to modest pace, increasingly weighed down by uncertainty and higher energy costs linked to the Middle East conflict. Activity grew in most of the 12 Fed districts, with consumer spending and manufacturing edging higher, but hiring was largely cautious, with firms holding headcount flat and recruiting mainly to replace leavers, while wage growth cooled to modest rates. Price pressures remained moderate overall, though many businesses reported a marked rise in fuel, transport and input costs, and contacts widely described adopting a "wait-and-see" approach to investment and pricing decisions as volatility persisted. Although anecdotal rather than statistical, the Beige Book is closely watched because it offers policymakers and markets real-time, ground-level insight into business behaviour and sentiment ahead of official data releases.

Company news

US investment banks delivered a strong but uneven set of first-quarter results earlier this week, with a clear pattern emerging across Wall Street. Trading desks were the standout performers as sharp market volatility – driven by the Middle East conflict, swings in technology stocks and uncertainty over interest rates – fuelled a surge in equities and fixed-income trading revenues at banks including **JPMorgan Chase**, **Citigroup**, **Morgan Stanley** and **Bank of America**. Investment banking also showed signs of revival, with advisory and underwriting fees rising at firms such as **JPMorgan** and **Goldman Sachs** as a backlog of large mergers and equity deals began to clear, although executives struck a cautious tone on the outlook given geopolitical risks. By contrast, core lending was more subdued.

Luxury groups' first-quarter updates this week painted a picture of a sector still searching for firm footing, as geopolitical shocks and patchy consumer demand blunted hopes of a clean rebound: **LVMH**, the bellwether, posted organic sales growth of just 1%, missing expectations as weakness in fashion and leather goods and a sharp hit to Middle East spending offset steadier demand in the US and tentative improvement in China, while **Kering** reported a sharper slump led by another weak quarter at Gucci. Even **Hermès**, long seen as the industry's gold standard, fell short of forecasts

despite mid-single-digit growth, with executives and analysts pointing to disruption from the Middle East conflict and still-fragile Chinese consumption. Elsewhere, watches and jewellery proved more resilient – benefitting groups such as **Richemont** – but wholesale and travel retail remained under pressure, dragging on sentiment across European luxury stocks as investors digested a reporting season that underlined how uneven and vulnerable the recovery remains.

Earnings from the chip sector this week underlined the continuing strength of the artificial intelligence boom, even as stratospheric expectations weighed on share prices, with **ASML** and **Taiwan Semiconductor Manufacturing Company** delivering standout results. ASML, the world's largest supplier of chipmaking equipment, beat first-quarter forecasts and raised its 2026 revenue outlook to €36bn–€40bn as demand for its advanced lithography tools surged on the back of AI-driven data centre investment, although investor enthusiasm was tempered by concerns over tighter export controls to China. **TSMC**, the world's biggest contract chipmaker, reported a record 58% jump in first-quarter profit and lifted its full-year growth forecast to more than 30%, citing "extremely robust" demand for leading-edge AI chips and reinforcing its central role in global chip manufacturing. Despite the strong numbers, both shares fell after results, highlighting how geopolitical risks, capacity constraints and lofty valuations are increasingly shaping market reactions as much as earnings themselves.

Tesco reported a solid set of full-year results but struck a cautious note on the outlook, warning that rising economic uncertainty could put pressure on profits. Britain's biggest supermarket said adjusted operating profit rose 0.6% in 2025/26 to £3.15bn, supported by market-share gains and resilient sales as it continued to invest heavily in keeping prices down for consumers. However, the retailer said surging energy costs and wider inflationary risks linked to the conflict in the Middle East had clouded the outlook for the year ahead, forecasting adjusted operating profit of between £3.0bn and £3.3bn for 2026/27, compared with analysts' expectations of around £3.2bn.

Amazon.com announced an \$11.57bn deal to buy satellite operator Globalstar, to accelerate the rollout of its satellite operation, Leo. The deal will allow Amazon Leo to add direct-to-device (D2D) services to its low Earth orbit satellite network and extend cellular coverage to customers beyond the reach of terrestrial networks, the company explains. Amazon says acquiring Globalstar's network of non-geostationary orbit (NGSO) satellites is part of its "long-term vision for space-based connectivity". It

will help Amazon to challenge Elon Musk's Starlink satellite network.

Johnson & Johnson reported stronger-than-expected first-quarter results, boosting its full-year outlook as robust growth in oncology and medical devices more than offset pressure from expiring drug patents. The US healthcare group posted sales of \$24.1bn in the three months to the end of March, up 9.9% from a year earlier and ahead of forecasts, while adjusted earnings of \$2.70 a share also narrowly beat expectations. Growth was led by its Innovative Medicine unit, where cancer treatments such as Darzalex and Tremfya delivered double-digit gains, alongside a 7.7% rise in MedTech sales driven by cardiovascular and electrophysiology devices.

Netflix posted a strong set of first-quarter results, beating market expectations on revenue and profit but unsettled investors with cautious guidance. The streaming group said revenue rose 16% year on year to \$12.25bn, while earnings per share almost doubled to \$1.23, lifted in part by a \$2.8bn termination fee after it walked away from a proposed deal with Warner Bros Discovery. Operating margins improved and advertising continued to gain traction.

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