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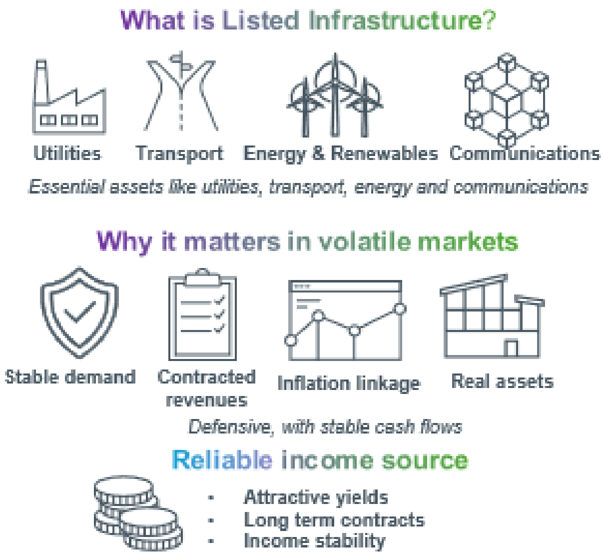
Portfolio diversification: Three key takeaways from Q1 2026

April 2026

Geopolitical risk, inflation and prospects for the stock markets' future earnings all dominated investors' thoughts over the first quarter of 2026. And while it was a challenging environment for a number of asset classes, several still generated positive returns over the period and robust diversification added value. **Here, we set out three key diversification related takeaways from the first quarter of 2026.**

Takeaway 1: genuine diversification adds value

Q1 was a volatile and eventful quarter for investors. Markets were influenced by a range of geopolitical, economic and technological developments, including concerns about the impact of artificial intelligence on business models, and the ongoing conflict in the Middle East. Against this backdrop, global equities fell by around 1.2% in sterling terms, although performance varied materially by region, with some markets such as Asia and the UK delivering positive returns.



Importantly, volatility was not confined to equities. Gold, often viewed as a safe-haven asset, fell sharply, declining by 12% in March, reflecting rising bond yields and selling pressure as investors sought liquidity. **This serves as a reminder that, aside from cash, no single asset reliably protects against all market sell-offs; especially if that asset class has recently increased in value and is deemed to be expensive by investors.**

The most effective defence remains diversification, achieved through holding a range of assets that respond differently to changing conditions. For example, during Q1, listed infrastructure, cash and shorter-dated bonds all played a valuable role within HRIS portfolios, helping to reinforce portfolio resilience.

Takeaway 2: regional positioning adds value

Regional equities saw a significant rotation over 2025 and in the first three months of 2026, as seen in Table 1 below.

Table 1: Regional equity performance

Returns	2019	2020	2021	2022	2023	2024	2025	2026 YTD
Best	North America (26.4%)	North America (16.9%)	North America (28.1%)	UK (7.2%)	North America (19.5%)	North America (26.8%)	Europe (ex UK) (27.2%)	Asia (Ex Japan) (5.%)
	Europe (ex UK) (21.%)	Emerging Markets (15.%)	UK (19.6%)	Asia (Ex Japan) (6.%)	Europe (ex UK) (15.8%)	Japan (10.6%)	UK (25.8%)	UK (4.1%)
	UK (16.5%)	Japan (11.4%)	Europe (ex UK) (17.6%)	Japan (-5.8%)	Japan (14.%)	Emerging Markets (10.%)	Emerging Markets (25.1%)	Japan (3.5%)
	Japan (15.4%)	Europe (ex UK) (8.2%)	Asia (Ex Japan) (5.8%)	Europe (ex UK) (-6.9%)	UK (7.7%)	UK (9.5%)	Japan (16.4%)	Emerging Markets (1.9%)
	Emerging Markets (14.3%)	Asia (Ex Japan) (3.4%)	Japan (3.%)	North America (-8.9%)	Emerging Markets (4.%)	Asia (Ex Japan) (6.6%)	Asia (Ex Japan) (12.4%)	Europe (ex UK) (-2.1%)
Worst	Asia (Ex Japan) (13.9%)	UK (-13.2%)	Emerging Markets (-1.3%)	Emerging Markets (-9.6%)	Asia (Ex Japan) (.5%)	Europe (ex UK) (2.8%)	North America (10.4%)	North America (-2.3%)

Jan-26	Feb-26	Mar-26
Emerging Markets (6.7%)	Japan (10.8%)	North America (-3.1%)
Asia (Ex Japan) (4.8%)	Emerging Markets (7.7%)	UK (-5.9%)
Japan (4.5%)	Asia (Ex Japan) (7.7%)	Asia (Ex Japan) (-6.9%)
UK (3.1%)	UK (7.3%)	Europe (ex UK) (-8.7%)
Europe (ex UK) (2.2%)	Europe (ex UK) (4.9%)	Japan (-10.6%)
North America (-.7%)	North America (1.5%)	Emerging Markets (-11.3%)

Source: Morningstar. Data quoted in GBP terms. 2026 YTD to 31 March 2026.

Since 2019, the US has largely been the "darling" of the equity market, driven by its large exposure to technology-based companies. However, this reversed in 2025 as investors' concerns grew over a combination of: elevated valuations, increasing market concentration and growing expenditure on Artificial Intelligence (AI). As a result, equity market performance broadened over 2025 and other regions (those perceived cheaper by the market) such as Europe and the UK outperformed. Investors' preference to look outside the US continued in early 2026, with Asia-Pacific and Emerging markets leading regional returns, benefiting from strong technology-driven Chinese performance. Japan was buoyed by the scale of Takaichi's election victory and stimulus plans; whilst the UK benefited from less technology exposure and gains from energy companies. However, come March, regional equity performance rotated yet again, with investors looking back towards the US as a defensive trade, most notably due to its robust growth and energy self-sufficiency.

Table 1 (above) nicely highlights the fluctuations in regional performance as a result of ever-changing market conditions. It also highlights the dangers of using past performance to predict future market returns and the speed at which the market can rotate. For this reason, we diversify our regional equity exposures to help in both generating returns and navigating periods of market volatility.

Takeaway 3: multi-factor diversification supports greater predictability

Related to the regional point above, but subtly different, is the fact that investment styles have also seen significant rotation over recent years, most notably with more "Quality" technology company driving markets over much of 2019-2024 and less fashionable styles e.g. value, min volatility, smaller stocks all struggling to keep up on a relative basis. However, as outlined above, this changed in 2025, and in 2026 we have continued to see rotation across styles. For example, the min volatility style, typically viewed as being more defensive, was the worst performing factor in January, but among the best two performers in February and March.

Table 2: Factor performance

Returns	2019	2020	2021	2022	2023	2024	2025	2026 YTD
Best	Quality	Momentum	Quality	Value	Quality	Momentum	Momentum	Small Cap
	Momentum	Quality	Value	Min Vol.	Small Cap	Quality	Value	Value
	Small Cap	Small Cap	Small Cap	Small Cap	Value	Min Vol.	Small Cap	Momentum
	Value	Min Vol.	Min Vol.	Momentum	Momentum	Value	Quality	Min Vol.
Worst	Min Vol.	Value	Momentum	Quality	Min Vol.	Small Cap	Min Vol.	Quality

Jan-26	Feb-26	Mar-26
Momentum	Small Cap	Min Vol.
Small Cap	Min Vol.	Value
Value	Value	Small Cap
Quality	Momentum	Quality
Min Vol.	Quality	Momentum

Source: Morningstar. Data quoted in GBP terms. 2026 YTD to 31 March 2026.

Table 2 above highlights the fluctuations in style performance and the speed at which the market can rotate. For this reason, when building portfolios, we adopt a multi-factor approach to help support diversification and give greater predictability of outcomes.

Summary and outlook

A summary of some of HRIS key strategy positions are set out below:

Key positions include	Rationale for position	How it's added value recently	Asset classes used for the Implementation include:
Cautious duration position & bond diversification	Risk free assets to support portfolio in times of market stress, via income.	Strong income generation. Our cautious approach has been appropriate, given market's nervousness over fiscal spending.	○ **Shorter-dated government bonds** ○ **Cash** ○ **High Yield bonds**
Infrastructure diversification	Implicit inflation protection.	Inflation backdrop remained sticky. Allocation benefitted from rising energy prices.	○ **Listed Infrastructure**
Equity diversification	Desire for broader regional equity diversification, rather than single style or region.	Our style neutral approach, has meant equity element has been reasonable at navigating rotation over quarter.	○ **Regional diversification and the use of Multi-Factor equities**

So far in April, markets views could be summarised as being somewhere between relatively positive, albeit placing a greater weight on tangible actions towards de-escalation rather than rhetoric. Looking ahead, three factors are likely to be particularly influential for markets:

1. the success of the ceasefire
2. the extent of damage to infrastructure
3. the resulting path of oil prices.

A successful resolution - allowing Brent crude to move back towards pre-crisis levels - would support a more benign macroeconomic backdrop, characterised by continued growth and moderating inflation. By contrast, re-escalation, accompanied by persistently higher oil prices, would create a far more challenging environment - one marked by weak or stagnant growth alongside elevated inflation. History suggests that oil prices of around $150 per barrel or higher would materially increase the risk of a global recession. Where outcomes ultimately settle between these two extremes remains uncertain. Our central expectation continues to be that some form of resolution will be achieved, albeit not without further bouts of market volatility.

The degree of dispersion we have seen between and within asset classes year to date, combined with the ongoing uncertainty surrounding the Middle East, is a clear reminder of why we look through short-term market sentiment and take a long-term approach to investing. We draw on our institutional experience of navigating a wide range of market environments, including through structured scenario planning. It also reinforces the importance of holding well diversified portfolios, both across and within asset classes.

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