BLACKWOOD QUARTERLY COMMENTARY

We will discuss the first two months of 2026 later on, but this quarter, and possibly future ones, will be defined by the last third of this quarter. On 28th February, the assassination of Ayatollah Khamenei marked the onset of Operation Epic Fury - a name drawn from the Donald's book of hyperbole.

We wrote a note in the following days suggesting that the optimal path under these conditions was to recognise that the risks that scare people and the risks that kill people are very different.

"The situation in Iran is causing some disruption to financial markets. While this is in its early days and clearly has scope to develop, the lesson of history is that we should not expect any enduring or material impact on financial markets. The Middle East has been unstable for much of the last fifty years and indeed it is hard to find periods of stability in that region in history books."

Since the start of 2026, the UK stock market (FTSE100) is up by 3.4%. The US stock market (S&P500) is down by 2.6%; the Magnificent 7 (Alphabet (Google's parent company), Amazon, Apple, Meta, Microsoft, Tesla, Nvidia) are down by 9.7%, so the majority of other US companies have had a positive return over the period. The price of gold has risen in line with UK equity markets. The US dollar is slightly weaker against the £, and sovereign debt yields are unchanged (UK 10-year gilt 4.82% v 4.78% one year ago). This collection of data points is likely to surprise people who consume the mainstream media. Wars are associated with panic, loss and screaming headlines. These investment returns are redolent of a sleepy summer, not the backdrop of war.

Markets are saying that this war is not consequential; it will be brief and will have no lasting impact on the global economy. The futures price of oil (the price at which buyers and sellers of oil are willing to transact at a fixed point in the future) has found an equilibrium price of around $80 by the end of the year. The important question therefore is "are markets right?". Have they under-priced the risk of escalation? Have they failed to price the reduced GDP growth? Are they being blasé about the potential for an oil supply shock? The answer is, of course "possibly" but one should always be highly wary of betting against markets.

We know Donald Trump is impulsive and unpredictable, but also that he has a short attention span and pays close attention to the polls that show waning US enthusiasm. We also know he has no compunction about describing almost anything as a great victory, and will walk away with "winning bigly" on his lips, irrespective of any tangible achievement. Similarly, whatever the actual circumstances, we should expect the regime in Tehran to claim victory, and if they retain control over the Strait of Hormuz, then who could argue with that?

Over the last month more infrastructure has been damaged than might have been expected at the start of March, but Iran has displayed no material ability to project beyond its borders other than with modestly powerful drones. We noted in early March that "The flow of oil through the Strait of Hormuz is clearly sensitive to this tension. Iran has leverage to inflict pain on the West via oil price rises and disruption, and will play this weak hand as hard as it can."

The lack of any discernible strategy and boots on the ground means that the US has overwhelming strength, but nothing to achieve. One Ayatollah is dead, his replacement may be mortally injured, but anti-regime protests have ceased, not increased. The loss of the replacement Ayatollah (and perhaps even a few more) doesn't seem that it would be sufficient to undermine this well entrenched dictatorship. The hindrance of Iranian nuclear enrichment - a sometime objective from the US perspective - will have been progressed by amounts unknown, but Iranian resolve to arm itself this way will only have been deepened.

Our busiest time, investment wise, took place in the first two months of 2026. Silver's price has historically been closely correlated with gold, but we observed in August 2024 that silver's price had failed to match the strongly rising price of gold. Over 2025, the prices of gold and silver rose 65% and 147% respectively - an outstanding performance for our clients. As silver's discount to gold diminished and then became a premium, our desire to continue holding the asset diminished and we reversed the trade on Jan 21st (selling silver and buying gold). As the price of gold continued to rise, we decided to reduce that significant holding down to levels that more closely matched our long-term allocation and invested the profits into global equities.

As we have mentioned before - we spend far more time trying to find ways to make our clients assets resilient, irrespective of economic and political forces, than we do trying to forecast the unforecastable. Our portfolios have performed robustly in the face of the US interventions in Iran. Our base case is that the fallout will be limited in scope and magnitude, but we will of course be testing this assumption with data as it emerges. However, as the situation progresses in Iran, it appears unlikely that Iran will be the last of the US "adventuring". If Trump requires no more justification for decapitating a nation than his dislike of the rulers/regime then there are several more targets he might well turn to, after his Persian foray subsides. We should expect heightened tensions of this nature to persist.

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