

An aerial photograph of a river delta, showing a complex network of water channels and sandbars. The water is a vibrant, almost neon green, while the sandbars and surrounding land are a mix of light brown and tan. The overall scene is dynamic and textured, with the water flowing through the channels in various directions.

CG INSIGHTS

# Quarterly perspectives from the CG team

FIRST QUARTER 2026

cgam



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# A place to hide?

Julian Baring, the gold guru at the time, pointed out in the late 1970s that the same amount of gold was required to buy dinner at the Savoy since the Savoy was founded, roughly 100 years before. Claims were made that the rough constancy of real value could be extended back to Roman times. Traditionally the cycle of prices above or below that value was driven by changes in real interest rates.

While we are a long way from that relationship now, demand for gold has been supported for most of this century by fear that government finances were out of control and deficits were at unsustainable levels so that the only solution would be elevated inflation and / or defaults in government bonds. Inflation was the dominant fear.

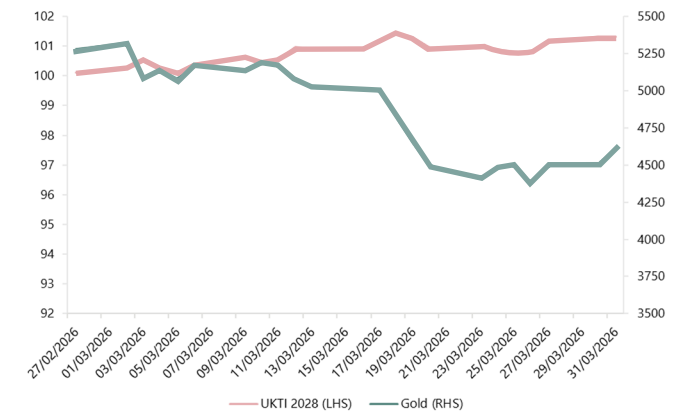
Since 2022, there has been a powerful additional source of demand, namely, that the sequestration of Russian assets following the invasion of Ukraine has made central banks keen to diversify away from US assets. That was notably true of regimes which felt they might incur the displeasure of Trump, in particular China. Nevertheless, by early 2024, gold was still \$2,000 and even by August last year, it was \$3,300. Over the next six months, the price went on a tear to \$5,300 as substantial speculative flows, largely retail, pursued the extraordinary momentum. We fear that this might be a classic bubble where a good fundamental narrative gets taken too far by speculative fever.

Now, gold is the biggest single reserve asset of central banks outside the United States. There have been some rumours that, for example, the central bank of Poland, has been selling some gold to pay for increased defence spending. Certainly in Italy, the Treasury has proposed taking over some or all of the gold reserves from the central bank, presumably with the idea of cashing in on the huge gains. Central bank gold holdings are now back at levels previously enjoyed during the Bretton Woods system, when gold was an integral part of the monetary regime. It is curious that central banks should choose to hold this quantum in an asset which is not easily realisable in an emergency. This consideration could inhibit further purchases.

One thing can be said, which is that the reaction of gold to an actual crisis in the form of the Iran War has been quite disappointing. It was negatively correlated on a daily basis with the oil price and positively correlated with the Nasdaq. At least in the short term, it had become a risk on asset. Some of this may have been a general scramble for liquidity in difficult times. But nevertheless it called into question the motive for holding gold. It is fair to say that gold now trades in response to technical analysis rather than any fundamental judgement. We do not know what the future price of gold will be any more than we know what the future price of Bitcoin will be. But it is clear that it is not a secure

haven in times of trouble. Therefore, at a price of \$5,150 we took the opportunity to sell all of our holding.

Chart: Short-dated inflation-linked gilts have outperformed gold since the outbreak of the Iran War.



Investment conclusion: Gold (\$ per Troy ounce) has sold off since the Iran War, whereas the 2Y inflation-linked gilt (clean price in £) has held its value despite sharp increases to short-term interest rate expectations.

1) Source: Bloomberg Finance LP.

# The road to nowhere

## *The UK economy risks going nowhere fast*

Raising the rate of growth has been a central platform of the UK Government's economic policy. Recent years have demonstrated the very real hurdles to delivering this: some of these stem from the nature of the fiscal framework; some from parliamentary politics; some from global growth dynamics. By far the most proximate headwind is the war in the Middle East.

While the UK Government has adopted a strictly "defensive only" stance towards the war, bond markets have told a different story. Despite not being a central player, UK 2Y and 10Y gilt yields have increased by more than yields in any other developed bond market.

Although market participants were quick to cite hedge fund positioning as an initial driver, there is clearly a more fundamental concern: the UK is a net energy importer and the UK economy is highly sensitive to increases in oil and gas prices. The extent of the shift in the Bank of England's tone conveyed the seriousness a prolonged energy price shock to the UK economy: in short, higher inflation and weaker growth. Against this, MPC members communicated that they were "ready to act".

Markets are now pricing in two rate hikes over the next 12 months, in contrast to the gradual cutting cycle priced in before war broke out. As much as the Bank needs to keep inflation expectations in check, a series of interest rate increases looks impossible to deliver.

Unlike in 2022, the labour market is deteriorating. Unemployment is rising, and wage growth is slowing. Taxation is at the margin becoming more contractionary, as threshold freezes increasingly impact living standards. While energy prices suggest elevated inflation for the rest of this year, the UK's March PMIs are consistent with near-zero growth for Q1. Higher mortgage rates – reflecting market expectations – may soon begin to squeeze households further.

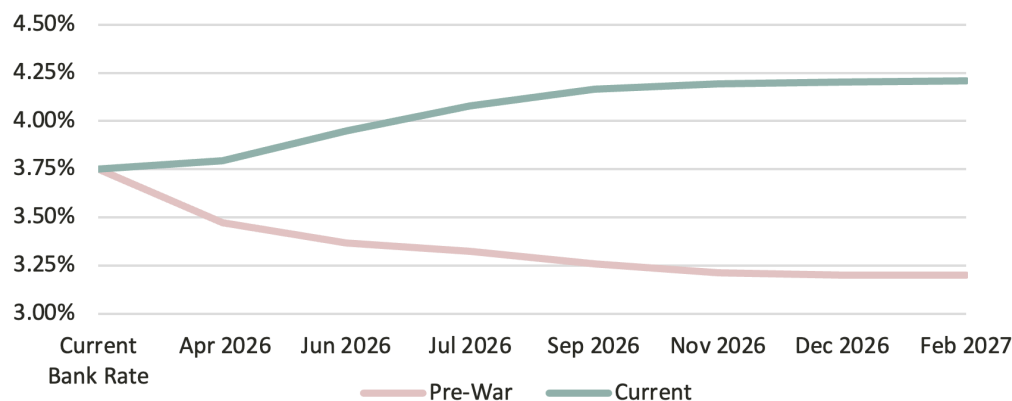
We hope for a swift and enduring resolution to the conflict in the Middle East, but we are preparing our portfolios for all outcomes. For the UK, our base case must now be one of higher inflation and weaker growth.



## Our Investment Judgement

1. Our outlook for the UK economy is for higher-for-longer inflation and weaker economic growth.
2. Our multi-asset portfolios are positioned defensively against this, emphasising allocations to inflation-linked government bonds, and short-dated managed liquidity reserve (cash and very short-dated bonds). We have historically low allocations to risk assets.
3. We are concerned that an energy price shock will exacerbate yield curve steepening pressures, and so our inflation-linked bonds' duration remains materially shorter than benchmark indices.

## Bank Rate expectations have shifted materially since war broke out <sup>1</sup>



**Chart takeaway:** Markets now expect short-term interest rates to increase, a marked change from the cutting cycle that was still priced in at end-February.

1) Interest rate expectations are derived from the GBP Overnight Index Swaps (OIS) market. "Pre-War" data are as of 27 February 2026. "Current" are as of 1st April 2026. Source: Bloomberg Finance LLP.

# Breakevens to the rescue

## *Index-linked bonds emerge well from an inflationary quarter*

**This decade the gilt market has suffered three major convulsions (to date).** The first of these in 2022, the Truss/Kwarteng “giltmageddon”, was a truly toxic combination of a political crisis, an inflationary shock, a currency crisis and a pension crisis all motivated by debt sustainability concerns. The next convulsion in summer 2025 played out against a less chaotic political and inflationary backdrop, however debt sustainability concerns were so acute that long bond yields rose to higher levels than their 2022 peak. The third convulsion, experienced this quarter, was caused by the Iran war energy shock and associated inflationary concerns that pushed the 10-year gilt yield to 5%, its highest level since 2008.

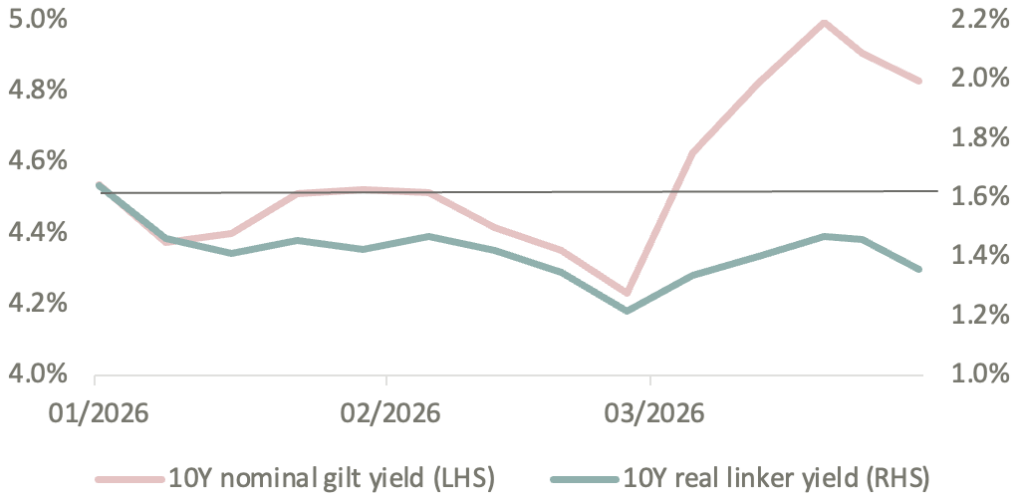
**It is notable that the frequency of gilt crises appears to be increasing.** Excessive debt and anaemic economic growth has left the UK economy extremely vulnerable to adverse economic developments. As there is no political will to enact expenditure cuts on a scale required to consolidate debt, successive governments stagger helplessly from one crisis to the next.

However another notable feature is **that index-linked yields have fallen over the quarter even as nominal yields have risen.** As inflation fears have been the principal cause of this recent sell off investors have been prepared to pay more for inflation protected bonds, particularly at the short end of the curve where our funds are positioned.

Many investors turned away from index linked bonds after their poor performance in 2022. However **since 2022 linkers have repriced to much more defensive levels** and are now acting in a much more reliable fashion. All of our bond funds have made modest gains over this quarter despite the rising nominal yield environment.



# 10Y Nominal vs Index-Linked Gilt Yields during 2026



**Chart takeaway:** Index-linked bond yields have fallen (prices have risen) even as nominal bond yields have risen (prices have fallen).

## Our Investment Judgement

- 1. Across developed markets governments are struggling to manage gaping fiscal deficits, high debt and stubborn inflation
- 2. A series of rolling crises is likely to put increasing pressure on the long end of sovereign bond yield curves
- 3. Shorter dated inflation-linked bonds, which still offer positive real yields, remain the most reliable instruments for the defensive allocation in an investor's portfolio

# Tell it to me strait

## *Lofty valuations are in for a crude awakening*

**Every major supply-side oil shock has compressed valuations.** They combine two forces equity markets struggle to absorb simultaneously: weaker growth and higher interest rates.

Through the first channel, higher oil prices act as a tax on growth: they reduce real incomes and raise input costs, weighing on consumer demand and compressing margins. Through the second, they drive inflation, reducing the scope of central banks to ease policy, thereby reducing the price investors are willing to pay for future cashflows.

The earnings outlook remains mixed. This is understandable: the duration of the conflict is uncertain and US relative energy independence offers some insulation.

However, energy prices are set globally and with over half of global crude production now affected by conflict, the aggregate effect is likely to be negative on corporate earnings and could compound concerns on energy-intensive AI capital expenditure or the deteriorating quality of private credit lending.

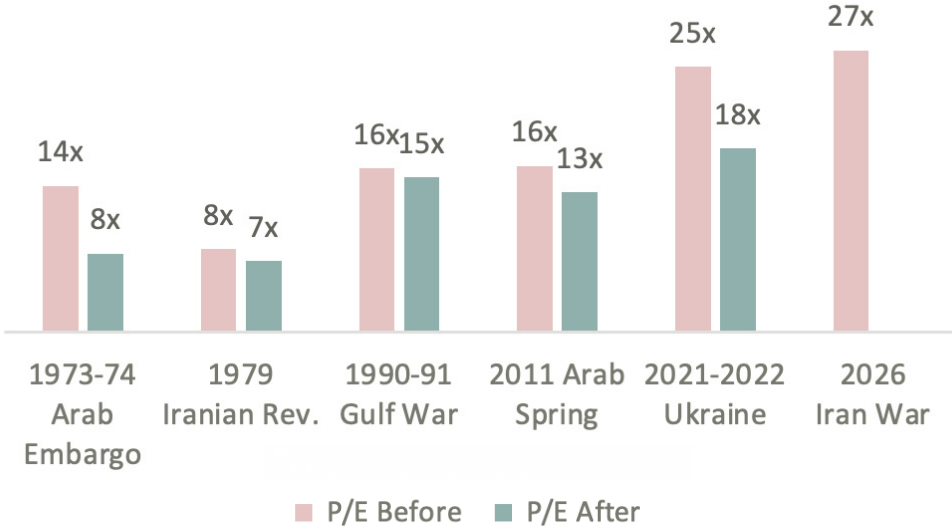
The US entered this shock at a trailing P/E of 27x and a CAPE near 39x - the most expensive starting point for any oil shock in the historical record. These multiples require optimistic assumptions about inflation, bond yields, and policy. The Iran war challenges those assumptions directly. As discount rates increase to reflect those risks, the arithmetic is unforgiving at these levels.

We believe the equity market may be underestimating these risks, as the chart opposite illustrates. The combination of elevated equity valuations and an energy shock tends to be a meaningful derating.

Our allocation to risk assets heading into the conflict was already at historical lows. It reflected our concerns that global equities were vulnerable to a correction. The Iran war, should it persist, has increased those risks. History suggests the resulting repricing of equities could be material.



# S&P multiple compression during oil shocks <sup>1</sup>



**Chart takeaway:** Oil shocks reduce valuations. The largest falls have been when the starting points were elevated and disruption prolonged

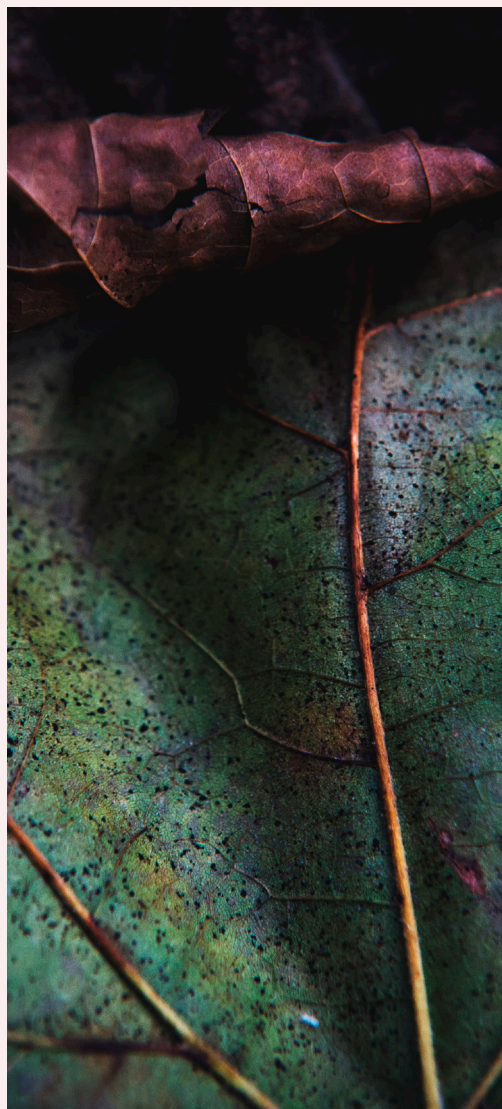
## Our Investment Judgement

- 1. Oil price shocks exert enormous pressure to compress valuation multiples, with the most significant drops seen when starting valuations were high and disruption prolonged
- 2. The US market enters this shock at the most expensive starting point in any recorded oil shock
- 3. We continue to view US equity valuations as expensive and vulnerable to correction. Recent events have increased that risk, therefore our allocation to risk assets remains at historical lows.

1) Source: Bloomberg, Shiller for 1970s, trailing twelve-month P/E

# WHAT'S CHANGED

## Recent changes to multi-asset portfolio positioning



### PORTFOLIO CATEGORY

#### MANAGED LIQUIDITY RESERVE (32%)<sup>1</sup>

### ASSET CLASSES

Cash, Treasury Bills & Short Duration Government Bonds  
Short investment grade credit  
Preference shares

### CHANGES IN PORTFOLIO POSITIONING

- Managed liquidity reserve remained at 32% over the period
- Corporate bonds increased from 7% of the portfolio to 13% with a preference to hold very short duration, investment grade credit over UK Treasury Bills

### PORTFOLIO CATEGORY

#### ↑ INDEX LINKED BONDS (45%)<sup>1</sup>

### ASSET CLASSES

Sovereign inflation linked bonds  
UK, US and other developed markets

### CHANGES IN PORTFOLIO POSITIONING

- Allocation to inflation-linked bonds has increased by 2% over the period
- We have increased our UK index-linked gilts (20% of the portfolio) by 1% this quarter and have allocated to the belly of the yield curve, resulting in an unchanged duration of 5.6 years
- US inflation-linked bonds have increased by 1% to 25% of the portfolio.
  - Duration on the TIPS portfolio is 4.9 years and remains short, due to concerns around increasing deficits and unsustainable government spending

### PORTFOLIO CATEGORY

#### ↓ RISK ASSETS (23%)

### ASSET CLASSES

Investment Trusts  
ETFs  
Non-investment grade credit  
Gold

### CHANGES IN PORTFOLIO POSITIONING

- Risk assets were reduced by 2% over the quarter against a backdrop of stretched equity markets
- In the period we have had capital return from our holdings in Smithson Investment Trust and Doric Nimrod Air 3
- We exited our position in gold (previously 1%) with concerns around the recent volatility and behaviour of the precious metal

1) Data refers to Capital Gearing Trust. Weighting to index-linked bonds in CG Absolute Return Fund is 44% (with 33% in managed liquidity reserve)

## MANAGER UPDATE

# Asset Valuations and Investor Behavior Summary

PORTFOLIO CATEGORY	UK	US	JAPAN	EUROPE	CG VIEW
INVESTMENT TRUST DISCOUNTS	ATTRACTIVE				Increasing corporate activity for both conventional and alternative trusts provide a favourable backdrop for investment opportunities
EQUITY MARKETS	FAIR	UNATTRACTIVE	FAIR	FAIR	CAPE: UK (20), US (39), Japan (27), Europe (21) US equity markets valuations are at extreme levels with elevated risks of a significant correction
SHORT GOVERNMENT BONDS	ATTRACTIVE	FAIR	UNATTRACTIVE	UNATTRACTIVE	Short duration UK government bonds and short duration JGBs remain attractive, when hedged back to GBP
LONG INDEX LINKED BONDS	ATTRACTIVE	ATTRACTIVE	UNATTRACTIVE	UNATTRACTIVE	Although concerns remain about the long-end of the yield curve, short dated US and UK index-linked bonds look attractive
CURRENCY	BASE CURRENCY	FAIR	FAIR	UNATTRACTIVE	The US Dollar has caught a modest safe haven bid during the recent Geopolitical instability. The Euro faces headwinds from trade competitiveness against both China and Japan
CREDIT	FAIR	UNATTRACTIVE			Credit spreads remain historically narrow, however, there are interesting opportunities in very short-dated Investment Grade credit without significant risk of spread widening
INVESTOR BEHAVIOUR	FAIR	UNATTRACTIVE	ATTRACTIVE	FAIR	Despite geopolitical uncertainty, increasing deficits and a concerning economic outlook, US valuations remain close to record highs. Takaichi has proved constructive for shareholder engagement and corporate reform in the Japanese market

An aerial photograph of a desert landscape. The scene is dominated by sand dunes and a dry riverbed. The dunes are illuminated from the side, creating strong shadows and highlights that emphasize their undulating forms. The riverbed is a dark, winding channel that cuts through the lighter-colored sand. The overall color palette is a mix of warm, golden-brown and tan tones, with deep shadows in the dunes and the riverbed.

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