



Finding value in the volatility

We ask where volatility during the Middle East crisis has created opportunities in discounts.

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The conflict in the Middle East that began in late February has reintroduced a familiar source of volatility for global markets, forcing investors to reassess the outlook for inflation, interest rates and energy supply. Whilst geopolitical shocks are not uncommon, the latest bout of uncertainty arrives at a point when hope emerged around market conditions stabilising, and sentiment across asset classes was improving. That was particularly evident within the investment trust sector.

Having widened sharply through 2022 and into late 2023, discounts had been on a clear narrowing trajectory. Both equity-focussed trusts and the broader sector, including alternatives, had moved away from the extremes of that period, with several strategies returning to more normalised levels and, in some cases, back into premium territory as investor demand re-emerged.

The recent volatility has, at least in the short term, disrupted some of that progress. Whilst aggregate discount levels have not moved dramatically, the direction of travel has shifted. Momentum in areas has stalled, with both recent and established premiums coming under pressure, alongside pockets of the market where previously wide discounts were narrowing, have begun to open out once again.

That shift matters. The rerating seen since late 2023 was not indiscriminate; it was underpinned by genuine demand in specific areas of the market. The current environment, therefore, provides a useful test. Have those areas of strongest demand held up, or has recent volatility begun to reopen opportunities?

In this piece, we examine both sides of that equation, looking at trusts that had commanded premium ratings and assessing how they have behaved as conditions have become more challenging. We then turn to areas where discounts have widened or remain elevated, and where value may still lie for investors willing to look through near-term uncertainty.

First, why markets are wobbling

Geopolitical conflicts may be regional in origin, but their impact on financial markets is typically transmitted through global economic channels. In this case, the Iran war has turned the Strait of Hormuz into a focal point, a critical artery through which around a fifth of the world's oil supply passes.

The disruption, or even the threat of disruption, has driven a sharp repricing in energy markets. Oil prices have risen materially since the conflict began, as markets attempt to price in both near-

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term shortages and the risk of prolonged supply constraints. This matters because energy feeds directly into the broader macro backdrop. Higher costs ripple through transport, manufacturing and even household bills, all of which raise the risk that the disinflationary trend seen over the past year may stall or even reverse.

That, in turn, complicates the outlook for interest rates too. Markets had begun to price in a path towards lower rates, but the recent shock has reintroduced the possibility that policy may need to remain tighter for longer. For equity markets, this has triggered a reassessment of valuations. More richly valued, long-duration assets have come under pressure. There have been tentative signs of de-escalation more recently, with ceasefire discussions gaining traction. However, markets remain cautious. The risk of renewed disruption persists, and with inflation expectations still sensitive to commodity prices, the macro outlook remains finely balanced.

It is against this backdrop that the investment trust sector's recent moves should be viewed. The rerating seen since late 2023 has not been undone, but it has been tested. Areas that had previously attracted the strongest demand, often reflected in sustained premiums and share issuance, have come under



pressure, whilst others remain on wide discounts despite solid underlying performance. And this divergence is key. It highlights where conviction may be more fragile than previously thought, but also where opportunities may be emerging as sentiment shifts and valuations adjust.

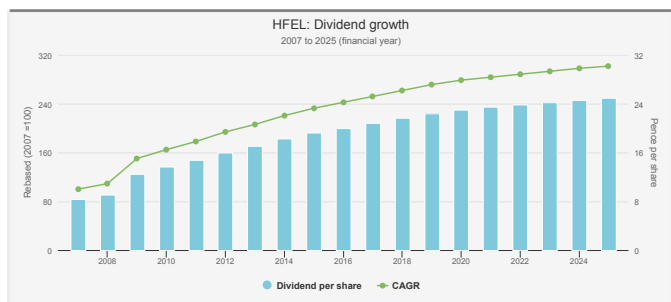
Premiums that have broadly held

Whilst sentiment has clearly been tested, not all premiums have disappeared. In a handful of cases, they have proven resilient, either holding firm or only briefly dipping before quickly reasserting themselves.

Henderson Far East Income (HFEL) is a good example. The trust has maintained a premium throughout the past 12 months and, whilst it briefly drifted towards par following the escalation in the Middle East, it did not move into discount territory and has since returned to a premium of around 4%. In our view, that resilience reflects a proposition that is difficult to replicate. With a dividend yield approaching 10%, HFEL offers high income from a region not typically associated with it, and that continues to attract strong demand.

Importantly, this is not simply yield-driven. The trust has also delivered consistent dividend growth, with annualised growth of roughly 4.5% since 2007, ahead of its regional benchmark's CAGR of c.3.3%. Combined with an approach that blends income with increasing capital discipline and a structural underweight to technology, HFEL offers a differentiated way to access Asian equities. Continued share issuance, even amid volatile market conditions, reinforces the strength of that demand.

Fig.1: HFEL Dividend Growth

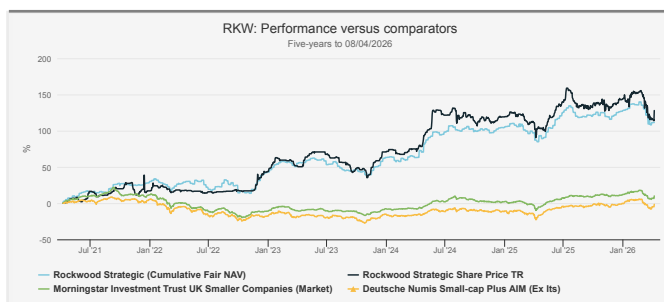


Source: Morningstar

Rockwood Strategic (RKW) offers a different, but equally instructive, example. Here, the premium has been driven by performance rather than income. RKW has delivered exceptional returns in recent years, supported by its high-conviction approach to UK micro caps, an under-researched area capable of generating outsized gains, materially outperforming its benchmark over the past five

years, with NAV and share price total returns of 111.4% and 128.0%, respectively, versus a 1.5% decline for the Deutsche Numis Smaller Companies Index. More recently, however, its premium rating came under pressure, as risk appetite weakened and returns moderated. Subsequently, the shares briefly moved to a discount of around 4%. What stands out, however, is how short-lived that move proved. The trust has since returned to a premium of roughly 2%, suggesting that investors' long-term confidence in the strategy, notably Richard Staveley's ability to exploit inefficiencies in a less crowded part of the UK market, remains intact despite near-term volatility.

Fig.2: Performance Versus Comparators



Source: Morningstar

Past performance is not a reliable indicator of future results.

Taken together, these examples highlight an important point. Premiums that persist, or quickly reassert themselves, through periods of volatility are rarely superficial. They tend to be anchored in something tangible, whether that be a high- and growing-income stream, differentiated investment approach or sustained outperformance. For that reason, we do not think investors should automatically recoil at the sight of a premium. The key question is not whether a trust trades above NAV, but why. In some cases, waiting for a discount that rarely appears can mean missing years of compounding. Where the investment case is built on income reliability, consistent execution or differentiated exposure, a modest premium may be a price worth paying.

Where premiums have compressed and value may have reopened

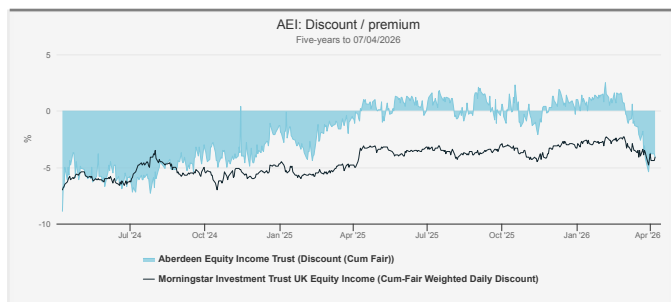
If the trusts above show where demand has held up, the more interesting opportunity set may lie where that demand has softened. In several cases, trusts that had previously issued shares and traded at premiums have seen their ratings reverse as volatility picked up. The key question is whether that reflects a change in fundamentals or simply a shift in sentiment.



Aberdeen Equity Income (AEI) is a clear example. The trust moved into premium territory in 2025, supported by strong performance and an attractive yield, relative to both the UK market and its peer group average. The yield now sits around 5.6%, well ahead of both and, alongside that, delivered strong capital returns over the past year. Overall, demand has supported ongoing share issuance. However, following the escalation in the Middle East, the shares have moved to a discount of around 4%, sharply moving back toward the sector average, as shown below.

In our view, this comes despite the underlying fundamentals remaining strong, and if anything, the proposition has arguably strengthened following the combination with Shires Income (SHRS), bringing greater scale, lower costs and a modestly broader toolkit, including exposure to preference shares and selected fixed income. We think the combination of a strong dividend growth record and diversified portfolio, enhanced by its recent combination, could mean the move to a discount looks more like a reset in sentiment than a deterioration in fundamentals.

Fig.3: AEI Discount



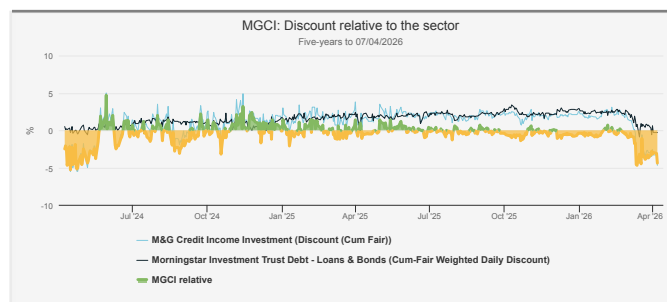
Source: Morningstar

M&G Credit Income (MGCI) provides a slightly different case. The trust has traded at a premium for much of the past two years, supported by a combination of high yield, low NAV volatility and a conservative risk profile. More recently, its shares moved sharply to a discount of around 4%, almost in tandem with the announcement of war, although this has moderated to 0.9% at the time of writing. The move was quite dramatic and is denoted in the chart below by the shaded orange area.

However, the investment case remains strong, in our view. If we do see rates stay high or even rate hikes, this will be very positive for MGCI's income return, as the portfolio is majority floating rate. With a yield of approximately 8.3%, delivered without gearing and with an investment-grade bias, MGCI occupies a relatively unique position within the income universe. Manager Adam English's flexibility to allocate across public and private credit markets allows the trust to capture attractive yields whilst maintaining a cautious stance, including holding liquidity

when opportunities are limited. Adam has plenty of cash invested in low-risk, highly liquid investments ready to provide the funds for any opportunities that emerge in the current market volatility, too, as we discussed in our **new note** published just two weeks ago. As such, the recent move to a discount appears more a function of sentiment than fundamentals, and could present an opportunity if demand for high-quality income remains strong.

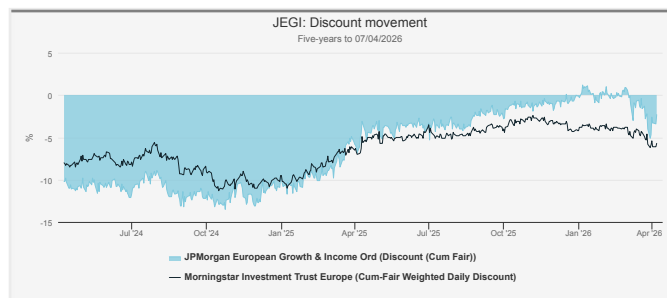
Fig.3: MGCI Discount Relative To Loan & Bond Sector



Source: Morningstar

JPMorgan European Growth & Income (JEGI) offers another example of a rerating that has reversed. The trust saw a sharp narrowing in its discount through 2025, briefly moving to a premium in 2026, supported by strong performance and its differentiated dividend policy gaining traction. Following the escalation in the Middle East, however, the shares moved sharply back to a discount, reaching around 5% at their widest before narrowing towards 2%, at the time of writing. Again, little appears to have changed fundamentally for the trust. Its dividend policy, aiming to pay 4% of NAV annually, allows the managers to prioritise capital growth whilst still delivering a competitive and relatively predictable income stream, broadening its appeal in a lower-rate environment. Combined with improving performance and a well-diversified and differentiated European portfolio, the recent discount widening may represent a dislocation rather than a deterioration.

Fig.4: JEGI Discount Relative To Europe Sector



Source: Morningstar



Across these examples, premiums had been supported by clear and identifiable strengths. The move back to discounts, therefore, appears less about those strengths fading and more about sentiment adjusting in a more uncertain environment. For investors, that distinction is important. Where the underlying case remains intact, periods of volatility can reopen access to strategies that had previously become harder to buy at attractive valuations.

Discounts where value may still lie

The other side of the equation is where discounts remain wide, or have widened, despite strong underlying performance and supportive long-term fundamentals. In several areas, discounts had been narrowing as sentiment improved, only to stall or reverse as geopolitical tensions reintroduced uncertainty. In our view, that creates a more selective, but still compelling, opportunity set.

Commodities are one such pocket. Trusts such as **Golden Prospect Precious Metals (GPM)** have delivered strong returns, supported by structural tailwinds including electrification, energy transition and the build-out of AI infrastructure. In GPM's case, this has been amplified by a sharp rerating in gold equities after years of underperformance. More recently, however, volatility has seen the discount widen from close to par in late 2025 to a material double-digit level currently. This reflects both the inherent cyclicity of the sector and a pullback in the gold price. Higher oil prices will increase the costs for miners and therefore also reduce profitability. However, we think geopolitical tensions should support demand for gold, whilst the structural shift by central banks away from the dollar is only likely to continue. As such, the recent widening may represent an opportunity to re-enter at more attractive levels.

China remains another compelling opportunity. Whilst geopolitical tensions continue to weigh on sentiment, much of the investment case is increasingly driven by domestic factors, including policy support for technological self-sufficiency, industrial upgrading and stabilising consumption. Valuations remain undemanding following a prolonged downturn, and much of the well-documented risk appears priced in. Despite a recovery in underlying markets, investment trust discounts in the China sector remain wide. **Baillie Gifford China Growth (BGCG)** illustrates this well. The trust has delivered strong performance versus its benchmark, as sentiment has improved, yet its discount has been slower to respond, sitting around 11%, wider than both its one- and five-year averages. Its focus on innovative, privately owned businesses aligns with domestic growth trends and policy

priorities, offering differentiated exposure away from state-owned incumbents. In our view, this disconnect between improving fundamentals and a still-elevated discount highlights a potential opportunity for investors willing to look through near-term uncertainty.

More broadly, emerging markets present a slightly different, but equally compelling, case. The backdrop has improved in some respects over the past year, supported by a weaker US dollar, easing inflation and more accommodative monetary conditions. At the same time, earnings have re-emerged as a key driver of returns, particularly across technology and industrial segments linked to the global AI investment cycle. Importantly, the opportunity set has broadened. Emerging markets are increasingly embedded in global supply chains, from semiconductor production in Asia to the raw materials required to build and power AI infrastructure. This has supported strong performance across a range of regions, yet in many cases, discounts remain.

Fidelity Emerging Markets (FEML) is a clear example. As of 07/04/2026, the trust had delivered NAV and share price total returns of 83.8% and 90.4%, respectively, over the prior 12 months, supported by its flexible long/short approach. This has allowed the managers to express conviction in structural themes whilst managing downside risk during periods of volatility. Despite this, the shares continue to trade on a discount of around 8%. Whilst this is just shy of its one-year average, in our view, it's still wide in absolute terms, particularly given the strength of its returns over the year. Looking ahead, emerging markets appear well positioned across a range of scenarios. In a more benign environment, improving earnings and supportive monetary conditions could continue to underpin returns. In a more uncertain backdrop, support may come through commodity exposure, domestic demand resilience and supply chain reconfiguration. In both cases, current discounts, including FEML's, provide a potentially attractive entry point.

Japan offers another example of where short-term pressures may be obscuring longer-term progress. The immediate challenge is clear. Japan remains highly exposed to imported energy, and the war in Iran has added pressure through higher oil prices and supply chain disruption. This has weighed on sentiment, contributing to a widening in discounts across the sector.

However, the longer-term investment case continues to strengthen. Corporate governance reform has gained real momentum following the Tokyo Stock Exchange's push for improved capital efficiency, with a growing proportion of companies responding through better capital allocation and rising shareholder returns. For active managers, this is creating a richer opportunity set, particularly within the under-researched small- and mid-cap universe.



Schroder Japan (SJG) highlights this dynamic. The trust had been seeing its discount narrow as outperformance and income appeal gained recognition, but recent volatility has pushed it back into double-digit discount territory. In our view, this move appears more sentiment-driven than fundamental. The underlying case, centred on stock selection in a market undergoing structural change, remains intact.

What also makes Japan particularly interesting in the current environment is that it can work across more than one scenario. If tensions in the Middle East ease and energy markets stabilise, Japan stands to benefit from improving risk appetite, a clearer policy backdrop and renewed investor focus on governance reform and domestic earnings growth. If tensions remain elevated, the picture is admittedly more mixed, particularly given Japan's reliance on imported energy. However, even in that environment, the market retains important attractions. Beyond its domestic recovery story, Japan offers exposure to a broad range of global industrial, automation and advanced manufacturing businesses, many of which sit further down supply chains and may benefit from continued capital spending in areas such as defence, electrification and AI infrastructure.

In other words, whilst the current environment has made Japan more challenging in the short term, it may also be reopening an opportunity through trusts like SJG, to access a market with a strengthening structural backdrop at a more attractive valuation.

The aforementioned examples are reinforced by the data below. Despite delivering very strong returns, each of the trusts highlighted continues to trade on a discount, in most cases wider than both their one- and five-year averages. FEML is the partial exception, but even here, an 8.4% discount appears notable given the strength of recent NAV performance. Taken together, this gap between performance and valuation is where opportunity may lie for investors, particularly for those willing to look beyond short-term volatility and uncertainty.

Final thoughts

Stepping back, the key takeaway is not that discounts have moved dramatically in aggregate terms, but that the direction of travel has shifted and, with it, the opportunity set. The rerating seen since late 2023 was built on genuine investor demand, reflected in sustained premiums and, in some cases, share issuance. Recent volatility has tested that demand. In some areas, it has held firm. In others,

Discount And Performance Comparison

	1YR NAV TR	5YR NAV TR	CURRENT DISCOUNT	ONE-YEAR AVERAGE	FIVE-YEAR AVERAGE
GPM	109.7	110.1	-22.2	-16.8	-16.5
Morningstar - Commodities & Natural Resources	99.4	107.2	-7.8	-8.5	-10.6
VanEck Junior Gold Miners ETF	138.3	185.5	N/A	N/A	N/A
BGCG	29.6	-22.9	-11.2	-9.9	-8.2
Morningstar - China / Greater China*	31.6	-33.6	-10	-9.7	-8.8
MSCI China All Shares	22.2	-13.1	N/A	N/A	N/A
FEML	83.8	44.1	-8.4	-9	-11.5
Morningstar - Global Emerging Markets	51.3	49.6	-4	-3.8	-8.7
MSCI EM	43.3	28.2	N/A	N/A	N/A
SJG	63.5	81.1	-14	-9.2	-10.7
Morningstar - Japan	47.6	19.7	-11.1	-9	-8.3
TOPIX	45.1	49.6	N/A	N/A	N/A

Source: Morningstar, as of 07/04/2026. *Unweighted, given three trusts make up the entire sector
Past performance is not a reliable indicator of future results



it has softened, reopening access to strategies that had previously looked fully valued. At the same time, pockets of the market continue to trade on wide discounts despite strong underlying performance and supportive long-term fundamentals.

For investors, that presents both a challenge and an opportunity. Discounts remain a feature of the investment trust structure, but periods such as this can create dislocations between price and underlying value. Where the investment case remains intact, those dislocations may offer an additional source of return, or continue to derate amid the wider market dynamics. Put simply, volatility has not undone the progress made over the past two years, but it has created a more nuanced landscape. One where being selective and understanding why a trust trades where it does matters more than ever.



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