A cautionary quarterly tale

We look at what has performed best in the volatile first quarter of 2026

Update
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Throughout the 2020s, the first quarter of each calendar year has regularly seen a seismic market event. In 2020, there was the COVID pandemic, 2022 saw the Russian invasion of Ukraine lead to inflation spiking, 2023 was impacted by a banking crisis as Credit Suisse collapsed, and 2025 started with an AI-related sell-off, before falling sharply on Liberation Day in the first days of April.

The war in the Middle East in Q1 2026 is arguably up there in terms of monumental situations. However, global markets have been remarkably sanguine, with the MSCI World Index having not even seen a technical correction, only falling c. 8% from peak to trough. This sell-off has not been universal, though, with some regions doing considerably worse than others and some being surprising beneficiaries. In this piece, we look through the range of trust sectors, discussing which have been the most impacted in the first three months of the year, as well as those that have held up remarkably well.

The winners

The accolade of the top-performing trust sector in Q1 2026 goes to Latin America (Latam), which delivered an average return of 16.2%. Considering the volatility often associated with the region, especially considering another major news story was the effective coup in Venezuela, it is perhaps surprising to see Latam top the charts. One factor influencing this is the law of averages. The 'sector' is made of just one trust, **BlackRock Latin American (BRLA)**, meaning the performance is entirely down to it. That said, both the market and the trust have performed well, with several factors contributing to this. The region came into the year carrying good momentum. After a challenging 2024, markets bounced back last year, aided by increasing commodity prices, particularly metals, as well as a falling US dollar. BRLA's managers, Sam Vecht and Gordon Fraser, note that easing inflation, attractive valuations across key markets, and continued dollar weakness mean market conditions remain favourable. Sam talked us through the region's strengths in a **live webinar** last month. Furthermore, the region as a whole is a modest beneficiary of higher oil prices seen as a result of the Iran war. Whilst markets such as Chile and Peru are net importers of energy, Brazil, which makes up over half of the index, is a net exporter of oil through the partially state-owned entity Petrobras. In fact, energy makes up a total of 8% of the region's index, something that will have been a tailwind in the near term, especially as its supply remains unaffected.

The strong performance in the first couple of months of the year meant that Latam/BRLA was flying higher than most before the impact of the Iran war hit markets. Furthermore, the pullback in the region was less severe than others, due to support from the notable oil and gas sector in March, meaning cumulative returns have remained ahead of others and ultimately ended the quarter as the best performer.

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Top-Ten Sectors

RANK	SECTOR	% NAV TR
1	Latin America	16.2
2	Commodities & Natural Resources	14.4
3	Debt - Direct Lending	11.3
4	Global Emerging Markets	10
5	Infrastructure Securities	9.4
6	Global Equity Income	9
7	Environmental	5.3
8	Global	3.4
9	Asia Pacific Equity Income	3.2
10	Japanese Smaller Companies	3
N/A	MSCI World Index	-3.6

01/01/2026 to 31/03/2026

Source: Morningstar
Past performance is not a reliable indicator of future results

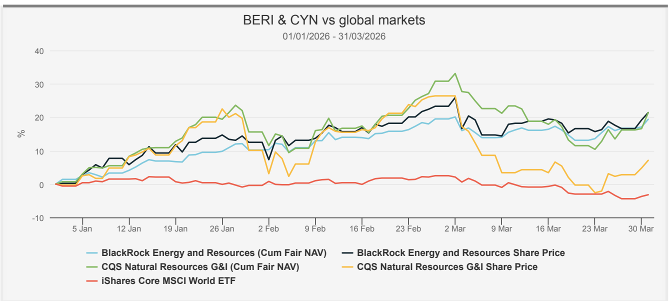
The sector that came in second behind Latam is perhaps less surprising considering the macro backdrop, with the Commodities and Natural Resources sector returning a weighted average of 14.4%. The war in Iran and its effective blockage of the Strait of Hormuz have led to oil and gas prices spiking, creating a short-term boost for companies selling these products. The share prices of Shell and BP, for example, are both up c. 30% year-to-date.

Within the sector, there are several trusts that are direct beneficiaries of this, such as **BlackRock Energy and Resources Income (BERI)**, which has around a quarter of the portfolio in traditional energy as at 31/01/2026, helping NAV total returns to rise c. 20% in the quarter. Despite this improvement in outlook, the share price has only marginally outperformed the NAV, meaning BERI is trading at a discount of 4.5% versus 5.7% at the beginning of the year, which could present an opportunity, particularly if elevated oil and gas prices continue into the medium term.

Several other commodities also began 2026 strongly, such as copper, which rose due to expectations of increased demand from the AI build-out, as well as the energy transition. Similarly, uranium was another beneficiary of AI due to an expected increase in demand from nuclear power to fuel AI's high energy demands. Gold also started the year very positively, carrying strong momentum from 2025 to peak at a record high in late January. However, all three markets have since retrenched as concerns of an economic slowdown have risen and, in the case of gold, as higher energy costs have made extraction more challenging. Despite this, the gold price is still around 8% higher than at the beginning of the year, a similar level to uranium, with copper approximately in line with its year-opening level. Beneficiaries of such moves have included **CQS Natural Resources Growth & Income (CYN)**, which has just under half the portfolio in precious metals, including gold, with uranium at 12% and copper at c. 5%. Furthermore, the portfolio has an oil and gas allocation of c. 20%, which will have also benefitted from its own moves. This has led to a NAV total return of 20.1% for the first quarter of the year.

As a result of these factors, trusts in the Commodities & Natural Resources sector have delivered returns considerably ahead of the -3.6% return of the MSCI World Index over the same period. This has led to the sector being the second-best performer on average, although several trusts have comfortably outperformed this, as we have seen with BERI and CYN, shown in the chart below, with an ETF as a proxy for global markets. Despite this, some of the laggards in the sector have held the sector average back a little, enabling Latam to pinch the lead due to the lower number of trusts.

Fig.1: BERI & CYN Versus Global Markets



Source: Morningstar

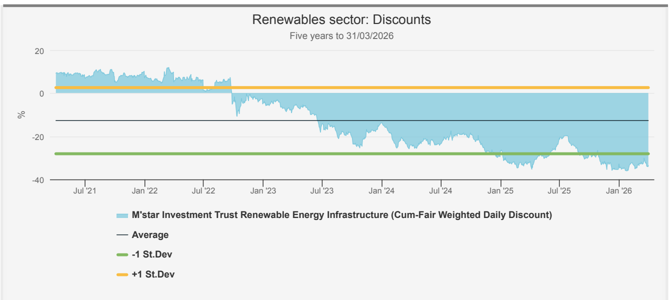
Past performance is not a reliable indicator of future results.

The wildcard

Whilst the impact of higher oil and gas prices have had a positive impact on the trusts specifically focussed on that sector, one more wildcard beneficiary could be the renewables sector, although this hasn't yet been reflected in the NAV total returns in our table. In simple terms, these trusts make and sell energy, and in the UK, the price of that energy is heavily linked to the wholesale price of gas. Therefore, as gas prices have risen, the potential for the renewable infrastructure securities trusts to increase their earnings has also risen. Examples include **Greencoat UK Wind (UKW)**, which owns one of the largest portfolios of wind turbines in the country. Around 60% of UKW's revenues are fixed, meaning an increase in power prices can have a material impact on their revenue and bottom line. This was the case in 2022, when the surge in energy prices led to a massive boost in cash generation, enabling the trust to increase its dividend by 14% over its target, whilst still having considerable cash on hand for additional issuance if needed. The upside potential has arguably been reflected in UKW's share price performance towards the end of the period, which whilst not directly comparable to NAVs, is a good barometer of sentiment. Since war in the Middle East broke out to the end of the quarter, UKW's share price is up around 2.5% which is modest, although much better than the FTSE 100 Index, which fell around 6%.

Should higher energy prices be sustained, they could begin to impact the NAVs of such trusts, as one element that goes into them is long-term power prices. Regardless, whilst the Middle East situation may have caused a short-term tailwind for some trusts, many in the sector are focussed outside the UK, where the price of gas is less of a factor. In addition, power price changes will take a while to feed through to NAVs, meaning the average return for the sector is only up modestly year-to-date, 2.6%, ranking it just 12th in our table, albeit still ahead of the MSCI World Index return. However, for an asset class that has faced some challenges over the past few years, this could prove beneficial, and could even see a re-rating with the sector average trading at near record wide discounts.

Fig.2: Renewables Discounts



Source: Morningstar

The laggards

Bottom Five Sectors

RANK	SECTOR	% RETURN
1	India/Indian Subcontinent	-16.8
2	UK All Companies	-7.6
3	Europe	-7.4
4	Property Securities	-5.7
5	UK Smaller Companies	-5.3
N/A	MSCI World Index	-3.6

01/01/2026 to 31/03/2026

Source: Morningstar
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In such short time periods with acute market issues, there are inevitably more challenged sectors. In the first quarter of 2026, the weakest sector on average has been India. One of the issues has again been oil, as India imports c. 80% of its crude, predominantly from the Middle East. This has led to concerns over rising inflation, reducing expectations for rate cuts, as well as concerns for corporate earnings. The latter of these extends a broader issue for the Indian market, which has stuttered over c. 18 months as earnings growth expectations have come into question. This was compounded by other macro issues, such as the threat of tariffs, which meant that the country came into 2026 on the back foot, before seeing an extension of the sell-off as investors remained concerned over premium valuations and a weakening earnings outlook. As a result, the average trust in the sector has delivered returns of -16.8% in 2026, firmly rooting the asset class at the bottom of the table.

That said, the longer-term potential for India remains positive. As the managers of **Ashoka India Equity (AIE)** noted in **their recent results**, the long-term structural growth story for the country remains firmly intact, driven by strong demographics, government reform and large increases in infrastructure spending, meaning the country could well bounce back strongly when the headwinds subside.

Another notable resident in the lower part of the table is the UK. This comes off the back of a much better year for the market in 2025, with the FTSE 100 Index actually beating the S&P 500 Index over the course of the year, and seeing the **best year of new issuance** since 2021. Furthermore, the UK has one of the highest weightings in the energy sector among many developed market peers at 9%, largely due to both BP and Shell being listed in the country. However, this wasn't translated into investment trust NAV returns, with both the UK All Companies and Smaller Companies sectors underperforming the MSCI World Index, returning -7.6% and -5.3% respectively, largely over concerns over a domestic slowdown due to the UK being particularly heavily affected by energy prices. This is also a bit weaker than the US trusts, which returned a weighted average of -3.2%, performing approximately in line with the global index, arguably reflecting the outsized influence of US markets on global markets, which now make up c. 71% of the MSCI World Index (as at 31/03/2026). However, whilst the performance of UK markets will be disappointing for investors, this only adds to the undervaluation story that has dominated the narrative over the past few years and could see a strong reversal should conditions ease, as the market was performing relative well prior to Middle Eastern hostilities commencing.

Conclusion

Whilst the first quarter of the year has been dominated by the impact of the war in the Middle East, most notably on oil prices, it has not been the only factor influencing markets. Several investment trust sectors carried strong momentum into the year, leaving them in a much better place when the shock did come, therefore still producing impressive cumulative returns by the end of the period.

Furthermore, whilst Q1 has followed the pattern of many recent years in being marred by yet another seismic event, it's worth noting that in each event previously, markets have recovered eventually, whether the issues were fully resolved or not. We believe this demonstrates the abilities of businesses to adapt and markets to look through such issues. Moreover, investment trusts have the 'pressure valve' of discount to reflect sentiment in the near term, meaning that for many investors, there is the potential to find an attractive entry point for a long-term holding.

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