PEREGRINATION

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PEREGRINE

WEALTH

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THE FOG OF WAR

George Herman
Chief Investment Officer

Financial markets have always had to contend with uncertainty. What is different now, however, is not its presence but its source. For much of recent history, investors have interpreted markets primarily through the lens of cyclical economic forces: growth, inflation, interest rates and earnings. These variables, while complex, are at least observable, measurable and, to some degree, modellable.

Today, that framework is being challenged.

Geopolitics has reasserted itself as the dominant force shaping markets. The escalation of conflict in the Middle East has shifted the fulcrum of risk away from the relatively predictable cadence of the economic cycle toward a far more opaque and fluid set of variables. In this environment, information is incomplete, narratives shift rapidly, and outcomes are inherently difficult to assess with confidence. We are operating, quite literally, in the fog of war.

At present, markets are being pulled between two distinct scenarios.

SCENARIO ONE: RESOLUTION AND REVERSION

The first is a scenario of relatively swift de-escalation. Diplomatic efforts gain traction, hostilities subside, and the risk of sustained disruption to global energy supply begins to fade. Oil prices, while volatile in the interim, settle back below $100/barrel as supply concerns ease and trade flows move back towards normal.

In that environment, financial markets would likely respond positively. The underlying fundamentals of the global economy remain reasonably supportive, where corporate balance sheets are sound, earnings growth is still healthy, and consumer demand remains resilient. Inflation pressures would also begin to ease, allowing central banks greater scope to maintain and, in time, possibly extend a more supportive policy stance.

This would represent a return to the economic cycle model. Markets would once again focus on growth, earnings and liquidity. Risk assets – like equities and commodities – would likely perform well, while valuations could remain supported and potentially extend further.

SCENARIO TWO: ESCALATION AND ENTRENCHMENT

The second scenario is more troubling, not only because of its severity, but because of the way it evolves.

This is not a binary outcome triggered by a single event. It is a path-dependent process in which both escalation and the passage of time matter. Each day that the conflict continues without resolution, it incrementally raises the probability of a more adverse outcome.

In this scenario, energy markets remain structurally stressed. Oil prices stay well above $100/barrel, reflecting both physical supply risk and an elevated geopolitical premium. The consequences for the global economy would be significant. Higher energy costs act as a tax on consumption, pressure corporate margins, and reintroduce inflationary stress at precisely the wrong time.

Central banks would then face an uncomfortable constraint. Their ability to support growth would become more limited just as growth begins to weaken. The result is a classic stagflationary impulse: slower growth, higher inflation, and tighter financial conditions.

If that dynamic were to persist, the risk of global recession would rise materially. In that environment, risky assets would face a much more difficult backdrop as earnings expectations are revised lower, risk premia widen, and volatility rises.

THE CRITICAL VARIABLE: TIME

What makes the current environment especially challenging is that these are not simply two static, competing outcomes. They are linked through time.

The probability distribution is not fixed; it evolves by the day.

Unlike traditional macro scenarios, where probabilities can be assigned with some confidence from observable economic data, the key variable today is duration. The longer the conflict remains unresolved, the greater the likelihood is that the more adverse scenario begins to dominate. Time, itself, becomes a transmission mechanism through which risk compounds.

That is what makes this environment so delicate. Markets are recalibrating continuously, responding not only to new information, but also to the absence of resolution. Periods of optimism, often sparked by headlines hinting at de-escalation, can quickly reverse when those hopes fail to translate into durable progress.

NAVIGATING THE FOG

For investors, this presents a profound challenge. The traditional tools of macro analysis remain necessary, but they are no longer sufficient. When outcomes are driven more by geopolitical developments than by economic data, conviction must be tempered and flexibility becomes essential.

In such an environment, Peregrine Wealth’s role is not to predict the exact path of the conflict, it is to understand the range of plausible outcomes, assess their implications for asset prices, and position portfolios so that they remain robust across different scenarios.

At present, the balance of risks remains finely poised. The upside for risk assets in the event of resolution is meaningful. But the downside associated with prolonged conflict is equally significant and grows with time.

CONCLUSION

The defining feature of this moment is not uncertainty alone, but the fact that the probabilities themselves are shifting as events unfold.

That is the fog of war.

In periods like these, discipline, patience, and respect for risk matter more than conviction unsupported by evidence. Markets will ultimately regain clarity. Until then, prudence and flexibility remain among the most valuable assets an investor can hold. At Peregrine Wealth, our multi-scenario approach is designed for precisely these environments. We participate in opportunity, but we do not rely on a single outcome.

I hope you enjoy this edition of Peregrination.

WHEN GEOPOLITICS DISTORTS THE CYCLE

Maarten Ackerman
Chief Economist

A month into the second quarter of 2026 and we have a replay of 2025, where United States (US) President Donald Trump's actions have disrupted world markets. On 28 February 2026, President Trump ordered an airstrike on Iran, which has thrown global markets into a tailspin. We believe that President Trump is continuing to play out a geopolitical chess game, but this time, he has underestimated his enemy.

TRUMP'S GAME

Almost exactly a year ago, President Trump sent the global economy into a panic with the announcement of blanket tariffs on all US trading partners. Following his "Liberation Day" announcement, global markets slumped. Seeing the result of that announcement, President Trump took a breath and directed a three-month pause to allow markets to calm down.

Using the same play, he went big and ordered an attack on Iran. Then, over the course of the war, he has made various threats, and when the markets start to swing wildly, he extends his deadlines – simply a variation of his tariff game.

President Trump always seems to adopt a plan B when things are not going to plan. This is important, because with the November mid-term elections coming up, he appears to be keenly aware of upsetting his voter base. He is therefore walking a tightrope of acting on aggressive policies, while trying to not upset the US consumer.

TRUMP'S UNDERESTIMATION

When President Trump went into Venezuela, the strikes on key infrastructure lasted 30 minutes, and within two hours, the leader of Venezuela was captured before a US-friendly leader was installed in his place.

Over the last few weeks, President Trump has seen that Iran is a lot more resilient and is not interested in rolling over for the US. In fact, it seems happy to kick the war-can down the road a little longer as it is in a position of power, given its ability to hold the Strait of Hormuz hostage and target the oil and gas infrastructure of its Gulf neighbours.

In addition, Trump underestimated his allies. After a year of bullying them with tariffs, when he needed their help, they all essentially said, “You picked this fight, now you sort it out.” For now, we believe this is very positive because it shows the escalation will be contained. Should more countries get involved on a military basis, the war could escalate which is a scenario we would like to avoid.

We must also remember that from an economic point of view, both the US and Iran need a solution as it is an expensive war for both sides. From Iran’s point of view, the country’s per capita income has halved over the last five years, which means the country needs to be open for business, and it can only do that if the war ends. The war cost the US roughly $11.3 billion in the first six days and every day that it continues, it costs an additional $1 billion.

THE HISTORY OF OIL SHOCKS

As we stand, the oil price has been hovering above $110/barrel, and the oil price, going forward, will depend on how long there is a disruption in supply. In other words when will ships be allowed to pass through the Strait of Hormuz again? Some analysts suggest that if the closure continues for many more months, the oil price could go up to $160/barrel.

To understand what the outlook may be, we can gain some valuable insights from the previous oil shocks over the last six decades:

1973 - 1974
The 1970s oil crisis, saw the oil price increase by four times. In today’s terms, that would be the equivalent of $300/barrel. The result of this was double-digit inflation, and aggressive interest rate hikes.

In the 70s the world was much more reliant on oil, and it needed a lot more oil to drive gross domestic product (GDP) growth. Today, in a world economy that is more service based, we need less oil to generate the same levels of GDP output. As such, we are fortunate to not currently find ourselves in this scenario. However, in the current global climate, we are more reliant on refined products like jet fuel, a lot of which comes from the Gulf.

Due to the world’s dependence on oil in the 70s, the oil shock saw global GDP fall from around 5% to 0.6%, which was significant. This was the first true global recession post the Second World War.

1979 - 1980
During the 1979 - 1980 Iranian Revolution, the oil price doubled, also resulting in double-digit inflation. At the time, the Carter administration appointed Paul Volcker as the Chairman of the Federal Reserve, in August 1979. Under his watch, US interest rates rose to an unprecedented peak of 22% in 1981. This “interest rate shock” pushed the US into its deepest recession since the great depression in the 1930s, but it was successful in bringing inflation down to 4% by 1983. Again, we do not think we are in this type of environment with the current Iran war.

This oil crisis saw global GDP fall by about 3%.

2007 - 2008
During the global financial crisis, the oil price spiked to $150/barrel, but unlike the other two oil shocks, this only resulted in a moderate increase in inflation. However, as the world was experiencing a significant financial crisis, rather than raise rates, central banks were lowering rates to try and stimulate their economies.

The 2008 recession was not a result of increased oil prices. Rather, it was the housing crisis which triggered the financial crisis.

2020 - 2023
Worldwide supply disruptions caused by COVID-19 and the Russia-Ukraine war, saw the oil price go as high as $120 a barrel. Again, there was a synchronised inflation wave and synchronised interest rate hikes, globally.

During this period, global GDP remained resilient because the shock of the war was felt regionally, impacting Europe more than other regions. So, while it raised global inflation, it did not knock GDP that much.

2026
At the start of 2026, the world was finally getting inflation under control and most central banks were entering rate-cutting cycles. Now, as oil has been hovering over $100/barrel for close on two months, inflation is expected to rise dramatically and we will see most central banks, if not raise rates, then put any cuts on hold. The US Fed is holding rates steady and will monitor inflation, with the likelihood of rate increases during the year and cuts only becoming a possibility in 2027.

This current oil shock and its effect, however, will depend on how long the war lasts and how high the oil price goes. At the moment, unfortunately, the answer seems to be longer and higher.

PEREGRINE WEALTH'S SCENARIO ANALYSIS

The mixed messaging flowing from leaders involved in the Iran war means nobody can predict what is going to happen. The various narratives are creating confusion as every player, especially President Trump, change their tone on a daily basis. When operating in an environment that is this volatile and uncertain, we can only think in terms of scenarios. The Peregrine Wealth team is working on three scenarios, and their likelihoods, when positioning for this conflict.

Scenario one: Stagflation lite – 65% probability
We call our first scenario, which has the highest probability, Stagflation lite. This is where we stand at the moment.

In this scenario, the Strait of Hormuz remains mostly closed, with limited traffic flow. Markets have priced in elevated war-risk premia. While it is not a total cut-off, it is enough to create a persistent energy and freight shock. Oil prices, at above $110/barrel, are reflecting this.

The impact on the global economy is highlighted by the fact that over 3,000 vessels have been locked behind the Strait of Hormuz and cannot move out of the Gulf. In addition, shipping costs from Oman to Singapore have increased sixfold from pre-war levels.

Assumptions:

- Shipping flows through the strait will be well below normal levels for several months.
- Oil and gas prices will remain materially higher during this period and for some time following the reopening of the strait.
- Freight and insurance rates will remain elevated.
- Europe and Asia will feel the brunt of this scenario, as they are the most reliant on Gulf oil and gas.

Second and third round effects:

- Elevated oil and gas prices will have an impact on inflation.
- This will put a squeeze on real incomes around the world as an increased oil price acts as a tax on business and consumers. It takes money that could have been spent elsewhere out of the system.
- Increased delivery costs for all traded goods because of higher freight costs and longer delivery times as ships will likely be rerouted around Cape Town.
- Central banks will become more hawkish on rising inflation and will be more cautious in their monetary policy stances.
- Given ongoing sticky inflation, interest rates will stay higher for longer, reducing both business performance and consumer spending.

In this environment, world growth will reduce by about 0.75% and global inflation will increase by around 1% above the base case.

We also believe that in this scenario, there will be very different regional impacts.

The US is self-sufficient when it comes to their oil supply. In fact, they are currently benefitting by exporting more oil to the rest of the world. Furthermore, their economy is proving to be extremely resilient given the CAPEX spending on technology and artificial intelligence, which is contributing significantly to the US's GDP. This will not change because of an increase in the oil price. The US also benefits from higher productivity levels compared to its peers on the global stage.

Where the US will be hit is in the increase in the oil price. Gasoline prices in the US will go up dramatically, with the price already $4/gallon higher than pre-war levels. And this will increase the price of goods, which will increase inflation and, thereby, potentially interest rates.

The US does have a buffer in the high-income consumer base, however, which makes up 50% of US consumption. This segment will continue spending because they are less impacted by an increase in oil prices as they typically spend less on energy and fuel as a percentage of their wallet. However, lower income consumers will be hit hard by rising oil prices because a bigger proportion of their wallet goes towards the cost of transport and energy bills.

From a growth point of view, the US is not going to feel the impact of this war as intensely as other regions. In fact, at the March Federal Open Market Committee meeting, the Fed raised the US's growth outlook, despite the current environment, given the non-correlated tailwinds for the US economy. But it also raised the inflation forecast. This means that while the US is more protected than other countries against the impact of the war, it will not be protected from rising inflation, given the oil price. As such, they probably won't see any rate cuts in 2026.

Europe and China are going to be hit hard by this war given the extent to which they are exposed to the external supply of oil and gas. This means that any energy-intensive sectors will be under significant pressure.

China and Asia will feel the brunt of the impact as the largest share of their oil flows comes from the Middle East and we will likely see stronger fiscal support from those governments.

Scenario two: Full-blown stagflation – 35% probability
The Full-blown stagflation scenario will occur if there is a severe escalation of the war. This will result in major downward pressure on global growth and result in high, sticky inflation. The narrative is a period of complete disruption for months, that will trigger a global energy shock never seen before.

This will be a scenario of double-digit inflation, and it will be compounded by the rise in gas prices. Even after the war ends and the strait is open, prices will remain high, because it will require time to rebuild capacity. The oil and gas output from the Gulf will be diminished and oil prices will remain higher for much longer. The assumption is that flow through the Strait of Hormuz will remain at minimal levels, and while strategic stock will be released, it will not offset the shortfall.

The Full-blown stagflation scenario will disrupt the energy cycle for a much longer period before it and the world economy can return to normality.

Assumptions:

- Oil and gas prices spike to around $160/barrel.
- Freight rates and insurance move even higher.
- Increased risk sentiment induces a sell-off in financial markets with emerging markets feeling the brunt of this.
- Inflation moves to double digits and monetary policy tightens further with central banks increasing interest rates across the board.

Second and third round effects:

- Employment levels fall.
- Wage growth slows down or moves negative.
- Consumers stop spending because they are put under increased pressure.
- To boost economies, governments may turn to subsidies and price caps to keep inflation under control.
- Supply-side rationing for products like petrol, diesel, and gas.
- Gas rationing for power generation and industrial production.

Again, the US will feel this scenario less than other countries because of its growth dynamics. But it will experience an inflation shock which will start to impact consumers and pull the US growth well below capacity.

Europe, which is struggling to maintain 1% GDP growth, will struggle and definitely go into a recession. The region will likely also have to start rationing gas. The fortunate thing is that the northern hemisphere is heading towards summer, so demand will be lower for the next six months.

China and Asia will experience major energy and logistics disruptions and will require aggressive policy support from their governments.

It is in this environment that companies start making losses, and markets go into a significant sell-off, European and Asian markets will feel the pain more than the US.

Under this scenario, global growth will fall around 1.5% from the base case which, despite still growing marginally, will be considered a global recession. While the US economy may buoy global growth numbers, regions like Asia and Europe will create a drag. Inflation will rise to around 4% or 5%.

This scenario will play out should there be a severe escalation in the current conflict.

Scenario three: De-escalation <10% probability
The De-escalation scenario is obviously the scenario that investors and markets are hoping for. This is where we see an agreement and a negotiated settlement. This will reduce the risk premia being priced into markets. Shipping will normalise more rapidly through the Strait of Hormuz, along with freight costs. The assumption is that energy flow will stabilise, and oil and gas prices will show some relief.

However, given the current level of damage to the Gulf's energy infrastructure, the impact of the war will be felt for many months after a ceasefire. If we had seen a de-escalation within the first few weeks of the war, we would have seen a short-term impact on financial markets, inflation and global economies. However, with the war having lingered for so long, and the destruction of key Gulf infrastructure like the gas fields and refineries, the transition from a war economy to being back on track will take at least a year, if not longer. The oil price will also remain higher for longer because of the damage to the supply chain.

Scenario three is the best outcome, but, even in this scenario, central banks will only be able to start cutting rates and providing liquidity into the markets at the back end of 2027, because of the extent of the infrastructure damage, which will delay recovery.

Once that happens, then risk appetite will improve and financial conditions will ease and, in time, the world's growth can return to normal, or maybe even move a bit higher than the base case. But we believe that risk appetite is going to remain sticky until the energy supply chain is fixed. Only then will central banks start cutting rates.

The US economy will not be materially impacted should we see a De-escalation scenario. In fact, it is the scenario that President Trump would prefer. This is not a popular war, and he is facing the November mid-term elections, meaning he will want to make sure that he retains his supporter base.

A de-escalation will see confidence return to Europe and China, and those two regions will probably outperform the US in terms of, not economic growth, but markets, as their economies stabilise.

The damage is done
No matter what scenario plays out, the damage has been done. The various scenarios mean that the global economy is either caught between facing higher inflation and tighter monetary policy for 2026 only or it continues into 2027.

PEREGRINE WEALTH IS CALM UNDER PRESSURE

In scenarios like this, I always return to the four pillars of the Peregrine Wealth Investment Philosophy:

1. The future is uncertain and will often surprise
2. Asset allocation drives performance
3. Diversification improves risk adjusted outcomes
4. Valuation matters

This philosophy is designed to ensure that we will not overreact in situations like this, where the future has surprised, again.

Because of our disciplined adherence to this investment strategy, our clients can rest assured that all of our portfolios are diversified across different regions of the world and in different asset classes, which provide support in both risk-on and risk-off environments. No matter the cycle, Peregrine Wealth always ensures that it gets value built into the portfolios, and in tough times, having better quality, better value assets serve us well. While small cap and lower quality assets typically sell-off more in these environments, there is protection in good quality large-cap assets, diversification, and asset allocation. Our investments span many different asset classes that can add value in tough times.

Peregrine Wealth is disciplined when navigating challenging environments and we always plan for unexpected events. We never know if we are going to have a positive or negative cycle, but part of our strategy is to have the right tools.

This time is no different.

ASSET VALUATION SIGNALS

Harold Strydom
Investment Strategist

Scenario modelling has formed part of Peregrine Wealth's investment philosophy for over two decades, and it enables us to better understand potential market outcomes and construct stronger portfolios. The Peregrine Wealth Investment Management team has a core or "High Conviction" scenario based on a three-year view, which is expressed as macroeconomic and market assumptions, including economic growth, inflation, interest rates, price-earnings multiples, and credit spreads, to list a few. Based on these assumptions, our asset valuation models produce expected returns for various asset classes. This section is used to summarise our High Conviction view and the resulting asset signals.

HIGH CONVICTION SCENARIO: MEDIUM-TERM EXPECTED RETURNS

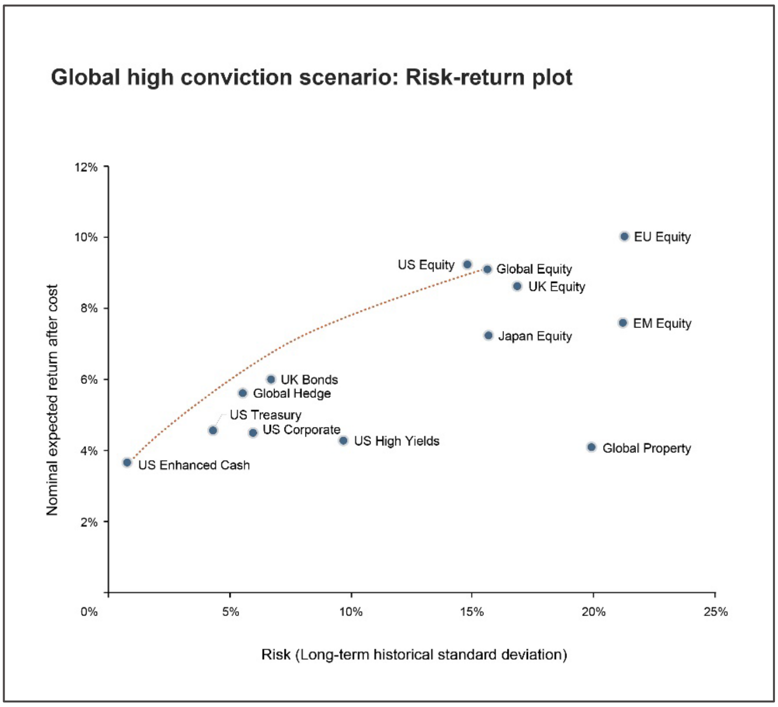
Under our High Conviction scenario, we have reduced our one-year economic growth expectations across all major regions following the outbreak of the war in Iran, the resulting spike in energy prices, and likely shortage of energy and related byproducts. We assume, however, that the global economy will rebound and grow around capacity in year's two and three of our projection period. As a result, our three-year economic growth assumption is now slightly below capacity. Inflation assumptions were increased for the near term due to higher energy and transport costs, but inflation is expected to moderate again over the three-year projection horizon.

In terms of monetary policy, we now assume central banks will move more cautiously in the near term and previously assumed interest rate cuts for the United States (US) and the United Kingdom (UK) have now been pushed later into 2026 and 2027. The European Central Bank is expected to remain on hold, while a further rate hike is expected in Japan. Government bonds have sold off since the start of March and their yields are now close to our fair value assumptions in most regions. Credit spreads (the difference between higher-risk corporate bonds and lower-risk government bonds) have started widening but remain tighter than our fair-value assumptions, reflecting generally healthy corporate fundamentals.

Equity earnings growth is expected to remain fairly attractive over the next three years, despite the current deterioration in global conditions. Valuations have improved as markets have sold off, especially in the US where near-term earnings growth is expected to be strong. Global equities and the major regions are currently rated neutral over the medium term, with the strongest signal coming from US equities.

The UK's outlook has softened in the near term, reflecting weaker growth momentum and renewed inflationary pressures. Under our High Conviction scenario, we assume that conditions stabilise over the medium term, with inflation easing back towards target. The Bank of England is expected to proceed cautiously with policy easing, with previously anticipated rate cuts now deferred further into the outlook period. UK government bond yields remain elevated and volatile, and we maintain a neutral stance on gilts. Credit markets continue to be supported by generally resilient corporate balance sheets, with spreads reflecting current conditions reasonably well. UK equities continue to screen attractively on valuation metrics, although earnings momentum remains subdued. Overall, medium-term expected returns for UK assets remain neutral.

The chart below shows the three-year expected return versus the historical standard deviation of each asset class, based on our High Conviction scenario.

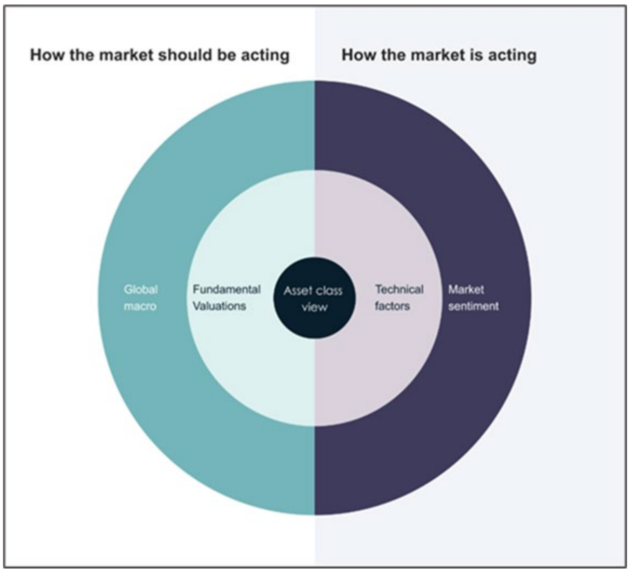


NEAR-TERM ASSET CLASS VIEWS

Our investment process is anchored by a High Conviction macroeconomic scenario and the corresponding expected returns for asset classes. This foundation helps us form expectations about how markets should behave. However, we are keenly aware that short-term market behaviour frequently deviates from these expectations. We have long recognised that medium-term, valuation-based signals are often poor guidance for short-term asset performance.

To address this, we've developed a range of tools and indicators to enhance our short-term analysis. These include a close examination of market dynamics, cross-asset correlations, and currency and commodity trends, and several other technical factors. These insights help us adapt our views and make more informed short-term decisions.

The diagram below gives a visual representation of how these two parts of the process play into each other.



In addition to our top-down (looking at the broader market) analysis, we integrate the bottom-up (company) insights provided by our analysts. Their detailed research on individual companies and sectors plays a crucial role in shaping our overall views. When bottom-up analysis reveals fundamentals that diverge from market signals – positive or negative – we take this into account in refining our positioning. This dynamic approach allows us to balance macroeconomic factors with granular insights, ensuring our investment decisions reflect both the broader market environment and underlying characteristics of individual assets.

Our latest asset class views are summarised below. The orange circles represent the short-term views from the team, sometimes with an additional arrow if a Neutral view has more up or downside potential. Where the High Conviction scenario medium-term signals are different from the short-term views, it is indicated in blue. To determine the signal as Neutral or Above and Below, the model compares expected returns to what investors have historically required from these asset classes. For example, a Neutral Outlook implies a real expected return range of -0.5% to 1.5% for US Cash, 0.5% to 3.5% for US Bonds, and 3.5% to 8.5% for Global Equity. Views are expressed in the base currency of each asset class; currencies views are expressed separately.

Asset class (base currency)	Below neutral	Neutral	Above neutral
UK Cash		🟠	
US Cash		🟠	
UK Bonds		🟠	
US Bonds		🟠	
UK Equity		🟠	
Global Equity		🟠	
Hedge Funds		🟠	
Global Property	🟠		

US$ Fixed Income	Below neutral	Neutral	Above neutral
Short duration		🟠	
Treasuries		🟠	
Corporate bonds	🟠	🔵	
High yield bonds	🟠	🔵	
EM USD bonds	🔵		

Equity regions (base currency)	Below neutral	Neutral	Above neutral
US		🟠	
Eurozone	←	🟠	
Japan	←	🟠	
Emerging markets		🟠	

Currencies & commodities	Below neutral	Neutral	Above neutral
US Dollar Index (DXY)		🟠	
British Pound / US$		🟠	
Gold (US$)	←	🟠	

🟠 **Asset class view (Short-term CAM view)**

🔵 **Medium-term valuation signal (if different from short-term CAM view)**

← **Potential Downside** → **Potential Upside**