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# Market Update - March 2026

The US-Israeli strikes on Iran that began on 28 February triggered the biggest geopolitical shock to global markets since the 2022 energy crisis, sending oil prices above \$100 per barrel and forcing central banks to reassess their rate-cutting plans. The Bank of England held rates at 3.75% in a unanimous vote, citing the new inflationary threat from energy prices. The FTSE 100, which had closed February at record highs, gave back some of its gains but proved more resilient than many global peers, buoyed by its heavy weighting to energy and defence. And as the calendar turned, the new UK tax year brought its own set of financial planning milestones for investors to consider.

## UK policy

At its meeting ending on 18 March 2026, the Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 3.75%. The decision was a striking reversal of the picture just weeks earlier, when a cut to 3.5% had looked almost certain.

War changed everything. Conflict in the Middle East has led to a significant increase in global energy and other commodity prices. These will affect households' fuel and utility prices and, indirectly, businesses' costs. Prior to this, there had been continued disinflation in domestic prices and wages.

In the minutes published alongside its 19 March decision, the Bank said inflation had been on track to fall from 3% towards the 2% target, but was now expected to rise to 3.5%. The MPC made clear it was not ready to move in either direction while the oil price trajectory remained so uncertain, signalling that the April meeting would depend heavily on how the conflict evolved. An interest rate cut on 30 April is considered unlikely. The most likely outcome is a hold, according to markets and the majority of economists surveyed by Reuters.

The BoE's stance reflects an uncomfortable bind. Growth is anaemic, the labour market is softening, and the pre-war case for further cuts was compelling. But with energy prices now elevated and inflation set to rise in the near term, the Bank has little choice but to wait.

## The UK economy

March painted a picture of a fragile economic recovery being interrupted. The UK inflation rate (measured by CPI) remained at 3% in February, in line with forecasts. However, the figures were collected before the start of the US-Israel war with Iran, which is expected to accelerate price rises.

The UK is very exposed to rising energy prices. The Organisation for Economic Co-operation and Development (OECD) expects the headline rate of inflation in the UK to rise to 4% this year, the second-highest in the G7 after the United States. It also believes the UK faces the biggest hit to growth from the conflict among the G20 advanced economies.

Unemployment remains concerning. The rate for over-16s stood at 5.2% in March (its highest level, excluding the pandemic, since 2015). Youth unemployment climbed further, with more than half a million 18 to 24-year-olds out of work.

The new UK tax year began on 6 April, and with it came several changes worth noting for financial planning. The Personal Allowance remains frozen at £12,570 - a freeze that has been in place since 2021/22 and is set to continue until at least 2028. As wages rise, more people are being pulled into higher tax brackets due to fiscal drag.

The ISA allowance has reset to £20,000. Please note that 2026/27 will be the last year in which savers under 65 can put their full £20,000 annual ISA allowance into cash. From April 2027, that figure reduces to £12,000 for under-65s, with the remainder required to be invested in a stocks and shares ISA.

# The UK market

The FTSE 100's record-breaking run came to an abrupt halt in early March as markets reopened to a transformed geopolitical landscape. Stocks sold off sharply, defence shares rallied, gold jumped and airline stocks fell on the prospect of sustained fuel cost increases.

Oil prices above \$100 per barrel hurt broader risk appetite, but the UK's outsized exposure to the energy sector also provided a meaningful buffer. Global Banking and Finance: BP and Shell (two of the index's largest constituents) saw their share prices supported by rising crude oil prices, partly offsetting weakness elsewhere.

Banks and consumer-oriented stocks saw reduced exposure as investors moved cautiously amid high uncertainty and inflation risk. Airlines and travel names were particularly hard hit as energy costs rose and demand concerns mounted.

Global Banking and Finance Housebuilders also came under pressure. Defence stocks continued their strong run, with Babcock, Rolls-Royce and broader aerospace and defence names remaining in demand. (The sector has been among the standout performers of 2026).

By the end of the month, oil prices were on track for their biggest monthly gain on record for March following the outbreak of war in Iran. The FTSE 100 closed the month around 10,350. This is well off its February peak above 10,900, but still holding above the important 10,000 level, demonstrating once again the index's defensive characteristics in turbulent conditions.

## The Global Outlook

The defining story of March was the Iran war and its cascading effects on energy markets, global trade and geopolitical stability. On 28 February, the governments of the United States under Donald Trump and Israel under Benjamin Netanyahu launched coordinated joint attacks on various sites in Iran. The strikes targeted key officials, military commanders and facilities - including Supreme Leader Ali Khamenei, who was killed in an Israeli air attack.

Iran's response was immediate and wide-ranging. Between 28 February and 4 March alone, more than 90 attempted strikes by Iran against Israel were recorded, with around 20 directly hitting civilian areas. Iran also closed the Strait of Hormuz - the narrow waterway through which roughly one-fifth of the world's seaborne crude oil normally transits.

The Federal Reserve held rates steady amid the added complexity of rising oil prices, which are complicating an already uncertain inflation picture. At its 19 March 2026 meeting, the ECB also kept its main interest rates unchanged for the eurozone, with the deposit rate left at 2.0%, noting that the Middle East conflict would push up near-term inflation.

Japan entered March in an increasingly complicated position. The Nikkei 225, which had surged to record highs in February, reversed sharply as the Iran conflict took hold - reflecting Japan's acute vulnerability due to dependence on imported oil and gas. The yen weakened further against the dollar as risk sentiment deteriorated, adding to import cost pressures.

China's response to the conflict has been watched closely by investors. Beijing condemned the US-Israeli strikes and has sought to position itself as a diplomatic broker, calling for an immediate ceasefire and offering to host talks. Economically, the picture is double-edged. China is among the largest importers of Iranian crude, and disruption to those flows represents a huge supply headache for the world's second-largest economy. At the same time, higher oil prices weigh on Chinese manufacturing costs and consumer spending at a moment when domestic demand is already under pressure.

Chinese equities, as measured by the Hang Seng, shed around 5% from the onset of the conflict through mid-March, before stabilising modestly on hopes of diplomatic progress. Beijing is expected to announce further stimulus measures to shore up domestic growth, but the scale and timing remain uncertain. For global investors, China's dual role - as a potential diplomatic actor and as a major demand-side variable in commodity markets - makes it one of the most consequential wildcards in the months ahead.

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