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Market Update - April 2026

Global markets remained on edge throughout April, despite a decline in oil prices as diplomatic backchannels opened between regional powers. The Bank of England held rates at 3.75% for a second consecutive meeting, signalling patience while inflation pressures from energy costs worked through the system. The FTSE 100 recovered some lost ground, buoyed by continued strength in energy and defence names, whilst the new tax year prompted a renewed focus on financial planning priorities for UK investors.

UK policy

At its meeting ending on 29 April 2026, the Monetary Policy Committee (MPC) voted 8-1 to maintain the Bank Rate at 3.75%. One member voted to raise by 0.25 percentage points to 4%, reflecting growing concern about the weakness of domestic demand and a softening labour market. The majority, however, judged that it was too soon to ease policy while the inflationary consequences of elevated energy prices had yet to fully feed through.

The Bank noted that further price rises could occur, potentially driving inflation to 6.2% in the coming months if conflict in the Middle East worsens. Their worst-case scenario is a drawn-out war leading to \$100 a barrel oil into 2028.

Governor Bailey stressed that the current inflationary pressure was driven principally by higher fuel and utility bills rather than domestically generated price pressure. As such, the Bank seems the energy-driven spike as likely temporary - but was unwilling to pre-commit to a cut.

Furthermore, Bailey (in remarks following the decision) struck a cautiously optimistic tone, suggesting that if the conflict situation stabilised and oil prices retreated, the MPC would be in a position to resume its easing cycle before the end of the summer.

The BoE's bind remains uncomfortable. The underlying domestic economy is weak, real wages are under pressure, and the pre-war trajectory (pointing clearly towards further rate reductions) has been disrupted. The Bank is waiting for events to resolve - but the wait has a cost.

The UK economy

April's economic data offered a mixed picture, as the lagged effects of the Iran conflict began to show up more clearly in official figures. CPI inflation rose to 3.3% in March, up from 3.0% in February, in line with the Bank of England's revised projections. The increase was driven almost entirely by energy and fuel components, with services inflation easing slightly.

GDP data for February, released in April, showed the UK economy expanded by 0.5% (ahead of the Iran War) - comfortably beating economists' forecasts of 0.1%. Services output grew by 0.5%, production grew by 0.5%, and construction grew by 1.0% in the month. January's figure was also revised upward, from no growth to 0.1%

The unemployment rate unexpectedly fell to 4.9% in the three months to February 2026, down from 5.3% previously - a move that might ordinarily signal a strengthening jobs market. However, analysts noted that the decline was partly driven by a rise in economic inactivity, particularly among students leaving the workforce, rather than by robust employment growth. The underlying trend, therefore, remains one of cooling rather than genuine improvement.

On the financial planning front, April marked the start of the 2026/27 tax year in earnest. The Personal Allowance remains frozen at £12,570, meaning fiscal drag continues to draw more earners into higher rate tax bands as wages rise. For clients with ISA allowances not yet fully utilised, the £20,000 annual limit has reset. Financial advisers have been reminding clients that this is the final year in which

under-65s can allocate their full allowance to cash ISAs, ahead of the rule change taking effect from April 2027.

The UK market

The FTSE 100 had a volatile April, ultimately ending the month having made very little net progress from its March close. The index recovered sharply in the first half of the month, briefly touching around 10,600 on 8 April as oil prices pulled back from their peaks and diplomatic signals offered some cautious optimism. However, that recovery ran out of steam in the second half of April, with the index selling off steadily to close the month around 10,360 - only marginally above where it ended March.

Energy and defence names continued to provide support throughout. BP, Shell, Rolls-Royce and BAE Systems all remained well bid, underpinned by elevated oil prices and continued defence spending commitments across NATO member states. However, these gains were offset by weakness elsewhere - particularly in housebuilders, consumer discretionary stocks and airlines - as the reality of a prolonged period of elevated energy costs and economic uncertainty weighed on sentiment. The FTSE 100's flat April performance underlines both its resilience relative to more domestically-exposed indices and the significant headwinds that remain for a broader market recovery.

The global outlook

Oil prices were highly volatile throughout April. WTI crude began the month above \$110, having surged in the immediate aftermath of the conflict, before selling off sharply through mid-April, falling to around \$85 as diplomatic backchannels opened and some investors took profits. However, the recovery in the second half of the month was equally sharp, with WTI climbing back above \$100 by the close of April. The swing underlined just how sensitive energy markets remain to every development in the Middle East, and left oil effectively ending the month where many analysts had expected it to stabilise - around the \$100 mark.

In the US, the Federal Reserve kept rates on hold at its 7 May meeting (its first since the conflict began) with chair Jerome Powell noting that the energy price shock had complicated an already delicate inflation picture. Markets had largely expected the hold, having moved away from pricing in imminent cuts following the March shock. The Fed signalled it would need several months of data before reassessing.

The European Central Bank likewise held rates steady in April, leaving its deposit rate at 2.0%. ECB president Christine Lagarde acknowledged that the near-term inflation outlook had deteriorated, but stressed that underlying price pressures across the eurozone remained contained. Several member states, particularly those more dependent on Middle Eastern energy imports, saw inflation projections revised higher.

Japan's Nikkei 225 delivered a surprisingly strong April, confounding expectations that the index would struggle given Japan's acute dependence on imported energy. The index climbed steadily throughout the month, rising from around 50,000 at the start of April to close near 59,500 by month's end - a remarkable performance in the context of elevated oil prices. The gains appear to have been driven by a combination of strong corporate earnings, continued weakness in the yen boosting exporters, and broader optimism around Japan's domestic reform agenda. While Japan's vulnerability to energy import costs remains a genuine medium-term concern, equity investors in April were clearly focused on other drivers. The Nikkei's performance stands as one of the more surprising bright spots of an otherwise turbulent month for global markets.

In China, the Hang Seng benefited from renewed optimism around Beijing's role as a diplomatic intermediary in the Middle East and from expectations of targeted domestic stimulus. Chinese authorities announced a series of measures aimed at supporting property sector stability and consumer

spending. However, the underlying growth picture remains uncertain, and disruption to Iranian crude imports continues to represent a significant supply-side challenge for the world's second-largest economy.

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