

April 2026: Oil volatility, Geopolitical risk, and Inflation pressures delay policy easing

Global markets in April were dominated by escalating geopolitical tensions, persistent oil-market volatility, and rising inflation pressures, creating a fragile and highly uncertain macro environment. The ongoing US-Iran conflict remained the central driver of market dynamics, with repeated cycles of escalation and fragile diplomacy. Early optimism around ceasefire agreements was repeatedly undermined by renewed military activity, maritime blockades, and continued disruptions to energy flows through the Strait of Hormuz, reinforcing concerns of a prolonged supply shock. Developments late in the month, including renewed tensions and control over key shipping routes, further highlighted the absence of a durable resolution.

Oil-market instability became the primary channel through which geopolitical risks fed into global inflation dynamics. Energy-driven price pressures intensified across regions, contributing to a renewed rise in inflation and complicating the outlook for central banks. In the United States, inflation surged during the month, with CPI rising sharply on higher fuel costs, while producer and import prices also accelerated. Similar trends were evident globally, with UK inflation rising to 3.3% YoY, eurozone inflation revised higher, and China's factory-gate prices turning positive for the first time in several years, signaling the emergence of pipeline inflation pressures.

Central banks responded by adopting a more cautious and increasingly divided stance, as the balance of risks shifted. The Federal Reserve maintained a "wait-and-see" approach, with policy debates intensifying around whether to prioritize inflation control or growth support amid the energy shock. Across other major economies, the ECB, Bank of England, and Bank of Canada also held rates steady while emphasizing upside inflation risks, reinforcing expectations that the path toward monetary easing would be delayed and more gradual than previously anticipated. By early May, policy divergence remained limited, with central banks broadly aligned in maintaining restrictive stances despite rising uncertainty.

Economic data across major economies pointed to a mixed and gradually weakening growth environment. In the United States, activity remained resilient early in the month, supported by strong retail sales and a return to expansion in manufacturing. However, signs of moderation became more evident, with weaker industrial production, softer housing activity, and declining consumer sentiment amid rising gasoline prices and uncertainty. While growth showed some resilience into early May — with Q1 GDP accelerating to 2.0% annualized and business investment strengthening — inflation remained firm, reinforcing a cautious outlook.

Across Europe, growth conditions remained fragile and uneven. Industrial production and retail activity weakened, sentiment indicators deteriorated further, and inflation pressures intensified due to higher energy costs. The UK showed pockets of resilience in credit and housing activity, but broader economic momentum remained subdued. In Asia, conditions were comparatively more mixed. China reported solid first-quarter growth but showed signs of slowing consumption and weaker exports as the energy shock filtered through, while policy support continued to underpin stability. Regional performance diverged, with Taiwan benefiting from strong AI-driven demand and Japan showing modest improvement in manufacturing, even as inflation softened.

Despite the challenging macro backdrop, corporate earnings provided an important offset to market risks. Strong results from major global technology firms, particularly in AI and cloud-related segments, supported sentiment and highlighted the continued role of structural growth themes in driving markets. More than 80% of S&P 500 companies reporting during the period beat expectations, reinforcing confidence in earnings resilience despite macro uncertainty.

Overall, April marked a transition toward a more complex and risk-sensitive macro environment, where geopolitical developments and energy-market disruptions increasingly shaped inflation, policy expectations, and growth dynamics. With inflation pressures re-emerging, growth momentum softening, and central banks maintaining a cautious stance, markets entered a phase of heightened sensitivity to external shocks, reinforcing a higher-for-longer rate environment and a more uncertain outlook for global markets.

Mohammed Al Hemeiri

Senior Specialist

Tel: +971 (0)2 812 6450

mohammed.alhemeiri@adcb.com

Kishore Muktinutalapati

Head - Investment Strategy

Tel: +971 (0)2 812 6457

kishore.muktinutalapati@adcb.com

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