



MARKET INSIGHT

SIGNALS, NOISE AND KEEPING PERSPECTIVE

Roy Leckie, Executive Director – Investment & Client Service, April 2026

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Key takeaways

- The market's pessimistic view of certain sectors may be creating opportunities
- The future of software is likely more nuanced than apocalyptic headlines suggest
- Events in the Middle East have shifted the long-term dynamics for select energy companies

When asked what most often derails political plans, former UK prime minister Harold Macmillan famously replied "Events, dear boy, events."

I was reminded of Macmillan's words when re-reading last quarter's Market Insight. Talk of a "benign backdrop" for global equity markets in 2026 has not aged well – events in the Middle East have seen to that. Gone is the optimism around economic growth, central bank policy and corporate earnings that helped drive markets earlier in the year.

And yet, faced with this turbulent economic and geopolitical backdrop, I remain upbeat. Not necessarily about the near-term direction of markets, which will remain volatile, but on the prospects of the companies in our clients' portfolios. To understand why, it's worth returning to something else I wrote last quarter (thankfully, not every statement made has aged badly).

Noting that investors had "left behind some great businesses" in pursuit of AI and other themes, I highlighted that many quality growth stocks had seen their valuations sink to multi-year lows despite solid earnings growth. This remains the case today.

This valuation de-rating was a headwind to portfolio performance in the first three months of 2026, as it has been for the last couple of years. However, for those of us who believe that over time share prices track earnings, the current dislocation suggests opportunity.

Healthcare – the wrong diagnosis?

Healthcare has been under pressure in recent years, with a post-pandemic slowdown and policy upheaval in the US taking a toll on the sector. That's been a painful backdrop for several of our portfolio companies. But while many investors may have a dim view of the sector's prospects, we think they risk underestimating some very high-quality businesses.

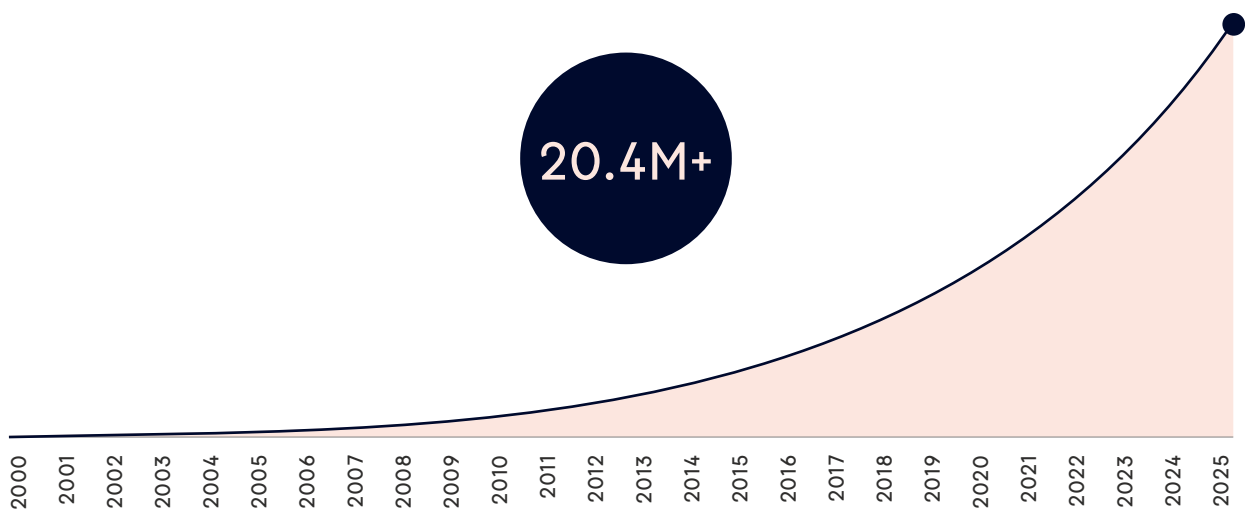
Intuitive Surgical is a case in point. The robotic surgery pioneer continues to report excellent numbers – revenue growth in the final quarter of 2025 comfortably outstripped expectations, capping off another strong year.

What caught the market's attention, however, was the number of surgical procedures Intuitive expects to be performed in 2026 by its flagship da Vinci robot. Overlooking management's habit of starting the year with conservative guidance, investors took fright at a marginally lower-than-expected growth rate, sparking a period of marked share price weakness.

What does this reaction tell us about Intuitive's long-term fundamentals? Very little, we would argue. This is a business with a formidable market position underpinned by a proven innovation pipeline and an expanding installed base of surgical tools.

Busy robots

Number of surgical procedures conducted using Intuitive systems



Source: Intuitive Surgical Annual Report 2025

A high proportion of revenues are recurring, providing resilience and visibility, while societal ageing and the shift towards minimally invasive procedures represent durable growth drivers. Rather than undermine our conviction, the recent selloff – coupled with a “double beat” on revenue and earnings in the first three months of 2026 – has strengthened it.

Hard times in software land

Another corner of the market suffering from what we see as excessive pessimism is software and IT services. According to the bear case, these businesses stand to be massively disrupted by AI-native insurgents.

It's a familiar story – the mighty incumbent outmanoeuvred by more innovative newcomers – but one that we think is too simplistic. Not only does it fail to account for the deep competitive advantages enjoyed by many incumbents, but it underestimates their own ability to innovate and leverage AI.

Be clear, we're not burying our heads in the sand here. AI is without doubt a revolutionary and disruptive technology. But, at a time when the market is displaying its time-honoured predilection for translating uncertainty into negativity, we think it is overlooking the fact that not all software companies are created equal.

To help our research efforts, we've developed an analytical framework for assessing the resilience of an incumbent's competitive moat in an AI context.

Does the business provide mission critical workflows? Does it possess valuable proprietary data? Do its customers operate in an industry with stringent regulations, with little room for error? Is it incorporating AI to strengthen its existing proposition?

The more we can answer these and other questions in the affirmative, the more we build conviction in the durability of an incumbent's moat. **Experian** is a good example. Although the market has increasingly cast the company as an 'AI loser', our analysis points to a very different conclusion.

As the world's leading provider of credit data and analytics, Experian controls vast, non public datasets that are inaccessible to large language models – other than its own. Tools for fraud detection, credit underwriting and other tasks are deeply embedded in the workflows of customers, many of which operate in tightly regulated environments where errors carry significant financial, legal and reputational risks.

When combined with the fact that Experian is already deploying AI productively across its platforms, we believe its competitive moat may be more difficult to bridge than the market has assumed. That conclusion extends to **Intuit**, **Moody's**, **SAP**, **Amadeus** and several other holdings deemed to be facing an existential threat from AI.

Signals and noise

The unease gripping the software sector reinforces an important principle of our investment approach: in periods dominated by shrill headlines and speculation, the job of the long-term investor is to distinguish genuine fundamental signals from short-term noise.

Nowhere is that discipline required more today than when assessing developments in the Middle East. A blizzard of opinion, rumour and volatility challenges perspective and tests judgement.

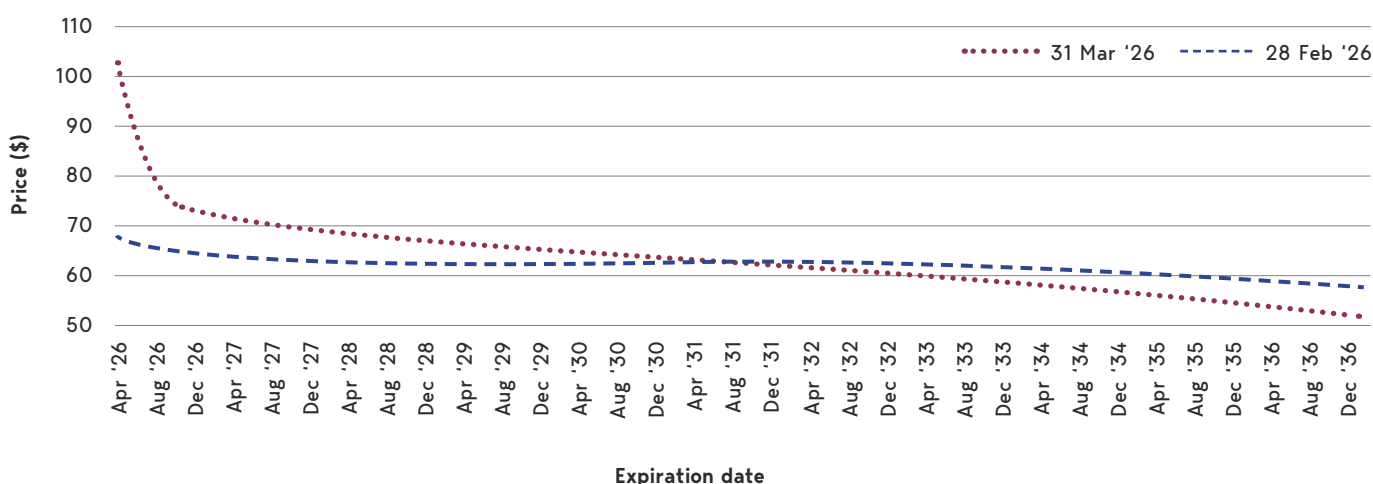
One conclusion we have reached, however, is that the scale of the disruption to energy flows and regional productive capacity has materially reshaped the outlook for oil and gas prices. Even in the event of a swift resolution, the dislocation in supply–demand dynamics is likely to persist for a considerable period.

That doesn't appear to be consensus view at present, certainly not if the shape of the futures curve for crude oil is any guide. Spot prices trading at a significant premium to longer-dated contracts imply a short, sharp shock followed by a relatively rapid return to stability.

Jam tomorrow?

Crude oil futures are pointing to a quick return to price stability

Crude Oil West Texas Intermediate (NYMEX, US\$ per barrel) Continuous



Source: FactSet

While the futures curve is admittedly only one of many indicators in the oil market, we think this too sanguine a view and suspect the global economy is entering a period in which energy prices remain structurally higher for longer. In turn, this should support a meaningful improvement in the fundamental backdrop for energy companies.

That view has catalysed new investments in select high quality oil and gas businesses in some portfolios and prompted us to increase exposure to existing holdings in others.

Importantly, these investments have not been driven by higher prices alone. Rather, they serve to amplify our bottom-up conviction in a group of companies with growth profiles underpinned by strong balance sheets, disciplined capital allocation, low break-even points and high return, cash generative assets.

For these companies, higher-for-longer energy prices offer potentially meaningful upside, but they are not a prerequisite for sustained long-term growth. This should provide them with a degree of control over their own destiny at odds with the widely held view of energy companies as simple proxies for prices.

In an increasingly uncertain world, this control matters. Much better to have the strategic autonomy to respond to events with agency, than to be at their mercy.

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Stock Examples

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