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SECTOR REPORT

What next for oil and gas companies after the big energy price shock?



FUNDS

US small-cap fund managers eye recovery



UNDER THE BONNET

Vodafone dialling up growth



INCOME INVESTING

FTSE 250 beats FTSE 100 for income

Contents

03 EDITOR'S VIEW

Driving the conversation on money and the markets

04 MONTH AHEAD

Big tech in focus as crunch quarterly numbers awaited

07 INCOME INVESTING

Move over FTSE 100: the UK's dividend throne has a new ruler

10 ASK PAUL

High-yield bonds: are they safer or riskier than stocks for someone nearing retirement?

13 UNDER THE BONNET

Mounting geopolitical tensions have changed the game for BAE Systems

16 ASK LAURA

I've got some spare cash: should I overpay my mortgage or invest?

18 FEATURE

Hunting for stocks with less valuation risk

21 UNDER THE BONNET

Vodafone is finally dialling up growth after years in the doldrums

25 SECTOR REPORT

What next for oil and gas companies after the big energy price shock?

30 RETIREMENT IN FOCUS

How does your retirement income stack up?

33 ASK RUSS

What do events in the Middle East mean for the commodities market as a whole?

36 MY PORTFOLIO

How I invest: The NHS doctor giving their Lifetime ISA a second life after buying a house

38 FUNDS

Why US small-caps have seen an uptick in fortunes

41 DEEP DIVE

Managing your money in retirement

44 ASK RACHEL

I live overseas: how can I access my UK pension?

25



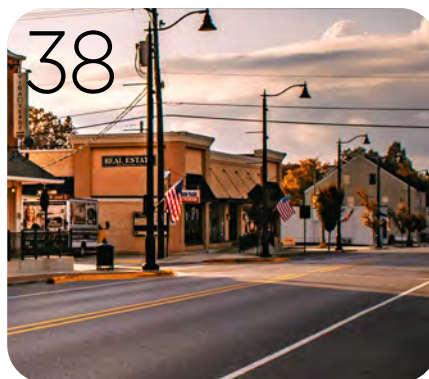
21



30



38



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Driving the conversation on money and the markets

Who do you talk to about investing? Some people may be fortunate enough to have a friend or family member with some knowledge of the markets to help set them on the right path, However, for many of us, including our *My Portfolio* contributor [Aaron](#), investing can be a lonely furrow to plough at times.

That's where we come in. Not only through regular articles offering education and analysis, both on the [AJ Bell website](#) and in these pages, but also with a level of interaction thanks to our roster of experts who are on hand to answer your queries about money and markets.

If you've ever wondered "what is Russ Mould's take on this issue" or "what would Laura Suter say about this", well wonder no longer.

Our Ask columns are your place to ask the questions you want answered and while we can't offer direct financial advice we can help provide a framework for your decisions and offer insights to other savers and investors too.

Just drop us a line at sharesmag@ajbell.co.uk or, if you're accessing the story on our website, leave a rating for the relevant article and ask your question in the comment box.

Sometimes it may feel like your question is too obvious or you can be afraid of looking foolish but, speaking from experience, I'm always learning new things about the financial

markets in this role. It's one of the things which makes it rewarding and enjoyable.

Much better to make informed decisions than end up making a mistake in ignorance which proves costly in the end.

I can still remember my frustration years ago when my parents, who while reasonably savvy were from a teaching rather than a financial background, were directed towards an investment product which just wasn't appropriate for them on any level.

Despite doing this for a living they hadn't thought to ask me about it and ended up losing money. Fortunately, it was a sum they could absorb but it's a useful reminder to take advantage of the knowledge available to you and thanks to our columnists that applies to anyone reading this magazine.

If you think someone in your life who's either yet to start their investment journey or is a bit stuck with what to do next could benefit from what we have to offer, please point them in our direction. And, if you have any topics or areas you'd like us to cover anywhere in the magazine we're keen to hear from you.

This is your magazine. We want to do everything we can to make your own investing easier by increasing your understanding of the factors affecting your money and the markets and we want you to be part of the conversation.

“**If you've ever wondered “what is Russ Mould's take on this issue” or “what would Laura Suter say about this”, well wonder no longer”**”

Big tech in focus as crunch quarterly numbers awaited

Towards the end of April, we will get quarterly earnings from [Microsoft](#), [Alphabet](#), [Apple](#), [Meta Platforms](#) and [Amazon](#), representing a combined \$14 trillion of market value, or just over a quarter of the S&P 500 index.

The technology narrative has shifted from excitement around the potential of AI to a ‘show me the money’ story, to quote Wells Fargo chief investment officer Darrell Cronk.

The big four hyperscalers are expected to fork out more than \$600 billion in capital expenditures for 2026, compared with \$400 billion in 2024. The impact on free cash flow generation will be a key focus.

Why Alphabet may offer the most interest

Google-owner Alphabet may be the most interesting update. A year ago, OpenAI was leading the AI race through its ChatGPT chatbot and there were fears that Google’s legacy search engine would be left behind.

That changed after the well-received launch of Google’s large language model Gemini 3 in late 2025 which catapulted Alphabet into a leading AI company.

Gemini was integrated across Google’s ecosystem including Docs, Maps, Chrome, Phones, YouTube and Cloud. Investors will be watching for updates on the 750 million monthly active users of Gemini and the rate of conversion to premium tiers.

What's expected from big tech this quarter?

Company	Sales (\$bn)	EPS (\$)
Amazon Q1	177.2	1.63
Alphabet Q1	106.8	2.61
Apple Q2	109.3	1.94
Microsoft Q3	81.4	4.06
Meta Platforms Q1	55.3	6.61

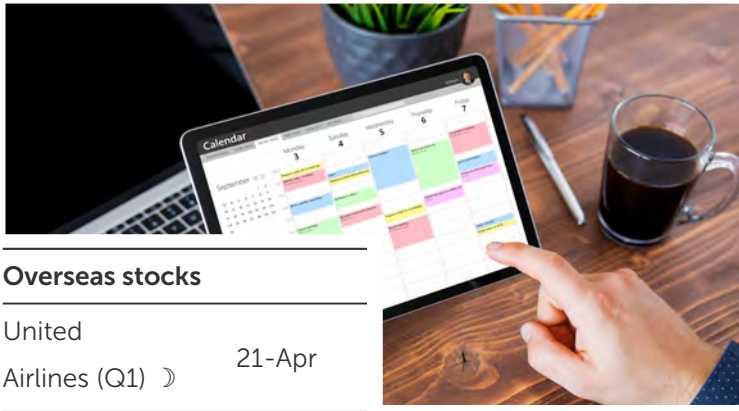
Source: LSEG



Other areas of interest include Google Cloud which saw 48% year-on-year growth in the prior quarter and YouTube advertising revenue, where a revival is anticipated.

While Alphabet is reconfiguring its legacy search business Microsoft has a similar challenge with its legacy Office products suite. CEO Satya Nadella has shifted the narrative from Copilot assistants to autonomous AI agents.

The focus will be on Copilot adoption rates with the company revealing 15 million



Overseas stocks

United Airlines (Q1))	21-Apr
IBM (Q1))	22-Apr
Boeing (Q1) *	22-Apr
Amazon (Q1))	23-Jan
Caterpillar (Q1) *	23-Apr
McDonald's (Q1) *	23-Apr
American Express (Q1) *	23-Apr
Exxon Mobile (Q1) *	24-Apr
P&G (Q3) *	24-Apr
Alphabet (Q1))	28-Apr
Microsoft (Q3))	28-Apr
Tesla (Q1) *	28-Apr
Coca-Cola (Q1) *	28-Apr
Meta Platforms (Q1))	29-Apr
Apple (Q2))	30-Apr
Eli Lilly (Q1) *	30-Apr
Berkshire Hathaway (Q1))	02-May
Pfizer (Q1) *	04-May

UK Stocks

BHP (Q3)
Associated British Foods (HY)
Reckitt Benckiser (Q1)
Relx (Q1)
Sainsbury's (FY)
BP (Q1)
Barclays Bank (Q1)
AstraZeneca (Q1)
GSK (Q1)
Lloyds Bank (Q1)
NatWest (Q1)
HSBC (Q1)
Whitbread (FY)
Key economic announcements
UK GDP (Feb)
European consumer prices (Mar)
US Industrial production (Mar)
UK average earnings (Feb)

UK consumer prices (Mar)

European consumer prices (Mar)
US interest rate decision

Key: Q=Quarter. HY= Half year. FY=Full year. TS= Trading statement.) = After market close. * = Before market open. CPI = consumer price index. PPI = producer price index



paid subscribers last quarter and 4.7 million subscribers for its developer coding tool GitHub Copilot.

After three quarters of 40% growth in Cloud services, Microsoft has signalled a slight cooling, with guidance set at 37% to 38%.

Why Apple is different

Apple's strategy is fundamentally different from the hyperscalers as it relies on a partnership model with Alphabet to do the heavy spending on AI, which means its capital expenditures are much lower.

Investors will be looking for continued growth in iPhone sales which notched up a record \$85.3 billion in the most recent quarter. Analysts estimate over 300 million users haven't upgraded their phones in more than four years, suggesting pent-up demand.

Amazon is sitting on a \$244 billion backlog in cloud contracts with analysts looking for 24% to 25% year-on-year growth in the coming quarter. Amazon is seeing cost benefits from AI as it deploys over one million robots in its fulfilment centres.

Having fully integrated adverts into Prime Video, Amazon now offers AI tools to generate video ads for small businesses. Analysts are projecting ad revenue growth of 22% to more than \$20 billion.

Meta Platforms has guided for 30% annual revenue growth to \$55 billion at the midpoint of the range for the first quarter of 2026, the fastest pace since 2021.

While the company has promised higher operating profits in 2026 despite doubling capital expenditure, the next quarter may prove more challenging, with costs expected to rise significantly.

Money & Markets podcast

Weekly discussions on everything investing from the teams at AJ Bell, all available on your favourite streaming platforms.

The easy way to stay up to speed with the investing world with new episodes each week from Dan Coatsworth, Laura Suter, Charlene Young and Danni Hewson.

**LISTEN
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Move over FTSE 100: the UK's dividend throne has a new ruler

The UK stock market has just hit a striking milestone – and income investors should take note. Mid-cap stocks are now paying more generous dividends than the blue chip giants, marking the longest stretch since 2001 where the FTSE 250 offers a bigger yield than the FTSE 100.

On average over the past 25 years, the FTSE 100 has yielded 3.6% and the FTSE 250 has yielded 2.9%. Those numbers have now swapped positions.

Historically, the FTSE 100 index of large-cap stocks was the place to find the most generous dividends, reflecting the fact it contains more mature companies than mid-caps.

FTSE 100 companies typically generate rich cash flows that help to fund generous dividends, and they are less likely to make large-scale acquisitions. In contrast, mid-caps are often growing their earnings faster and have more pressing needs for surplus cash such as expanding operations or making acquisitions, hence they typically pay lower dividends.

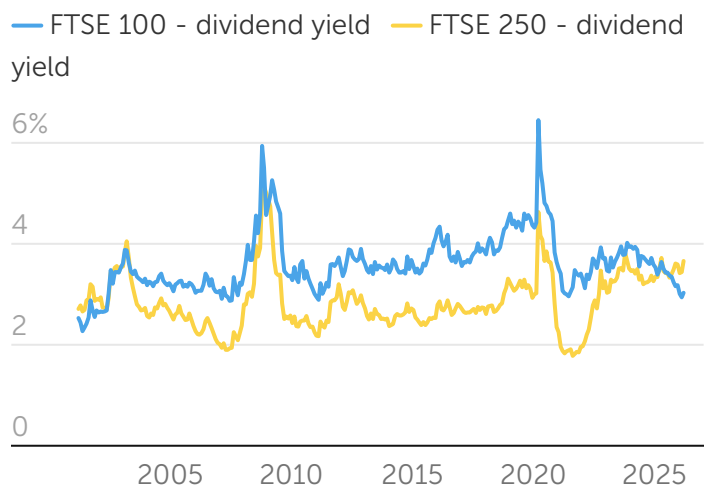
The old rule of thumb was simple: look to the FTSE 100 for solid income and to the FTSE 250 for lower yields but faster dividend growth.

Major reversal six months ago

The rulebook has changed since October 2025 when the FTSE 250's yield eclipsed the FTSE 100. We have seen that happen from time to time, but it tends to be a blip. What is interesting is how the trend has stayed intact.

The FTSE 250 dividend yield hasn't eclipsed the FTSE 100's yield for more than a month since 2001

Yield (%)



Source: LSEG, 17 March 2026



The yield trend is down to the success of the FTSE 100 which has grown at a faster pace than its mid-cap peer. Yields move in opposite directions to prices – so the more the FTSE 100 goes up, the lower its yield unless analysts upgrade dividend forecasts. The FTSE 250 has still enjoyed a good run; it has just lagged its sister index.



The FTSE 100 yield recently dropped below 3% for the first time since 2021

Yield (%)

— FTSE 100 - Dividend Yield — FTSE 250 - Dividend Yield



Source: LSEG, 17 March 2026



The global market selloff in April 2025 following Donald Trump’s tariff-laden Liberation Day saw the FTSE 100 yield spike to 3.9%, before gradually falling to 2.8% in February 2026 as the index recovered and then moved higher. As of 17 March 2026, the FTSE 100 yielded 3% versus 3.7% from the FTSE 250.

The FTSE 100 and FTSE 250 are market cap weighted indices, which means the biggest companies by market valuation have the greatest influence on the direction of the index and its headline yield. For example, half of the top 10 names by market value in the FTSE 250 currently offer a prospective yield above 6%.

Anyone considering the FTSE 250 as a potential source of income should study the make up of the index. Half of the index (46%) contains financial companies, specifically investment trusts, asset managers, and a couple of banks – and these can be useful sources of income. Industrials account for approximately 15% of the index and it is common to see 2% to 3%

dividend yields from this part of the market.

The other big FTSE 250 sector is consumer discretionary which spans a variety of industries. Dividends are more variable in this broad space, with certain names like housebuilder [Taylor Wimpey](#) and broadcaster [ITV](#) yielding between 6% and 8%, publisher Future and rail-to-bus operator [FirstGroup](#) in the 4% range, and retailers [Currys](#) and [Moonpig](#) yielding 2% or less.

While the FTSE 250 has lagged the FTSE 100 in recent years, it has better long-term returns. Over the past 30 years, it has generated an 8.7% compound average annual return versus 7.2% from the FTSE 100. These figures factor in reinvested dividends.

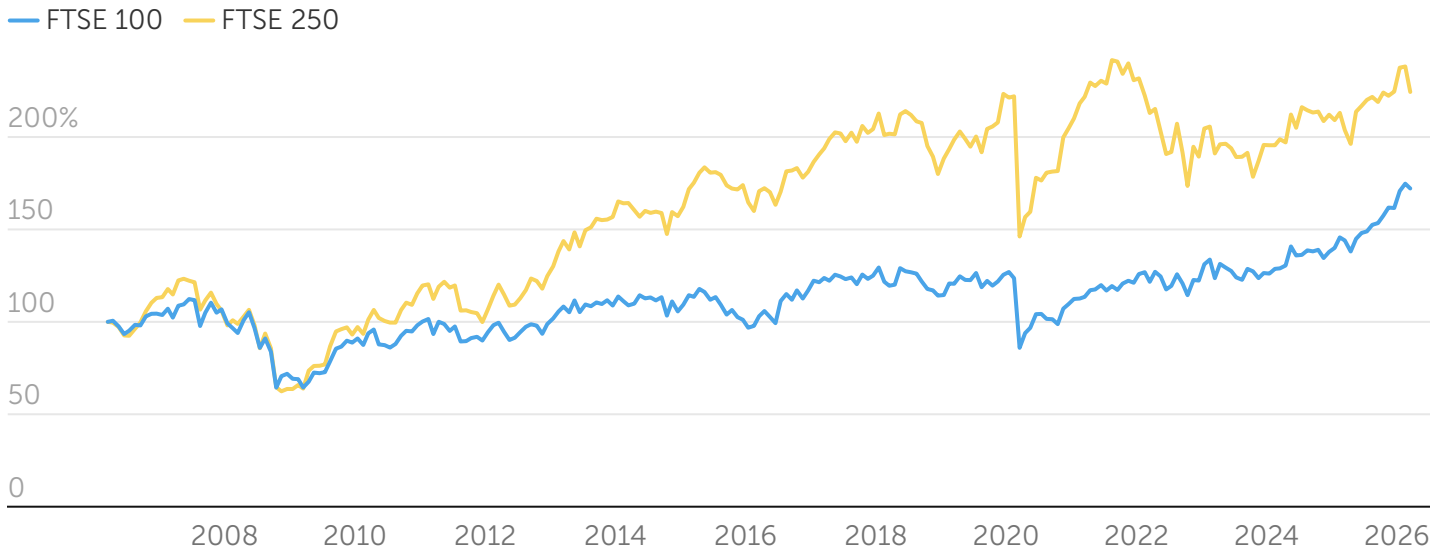
While the headline yield is currently higher for the FTSE 250 versus the FTSE 100, income investors should note capital growth has historically been a bigger component of the mid cap index’s overall returns than dividends. Excluding dividends, the FTSE 250 has generated a 5.7% average annual return over 30 years compared to 3.5% from the FTSE 100.





The FTSE 250 has outperformed the FTSE 100 over the longer term

Price performance, rebased to 100



Source: LSEG, 17 March 2026



Ways to invest in the FTSE 250

There are three core ways to get broad exposure to the FTSE 250 index. First, you can choose from a range of tracker funds or exchange-traded funds designed to mirror the performance of the FTSE 250.

The UK mid cap ETF with the lowest fees is [HSBC FTSE 250 ETF](#) which has an in-built charge of 0.09% a year. Cheaper at 0.05% is [Amundi Prime UK Mid and Small Cap ETF](#) (0.05%) if you are happy having a blend of medium and smaller companies.

There are various mid cap-focused investment trusts including [Mercantile](#) and [Schroder UK Mid Cap Fund](#). Alternatively, mid cap-related open-ended funds include [FTF ClearBridge UK Mid Cap Fund](#) and [Jupiter UK Mid Cap Fund](#).

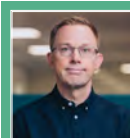
Anyone looking at the FTSE 250 should remember it is more exposed to the UK economy than the FTSE 100. With GDP trends still underwhelming, confidence in the government's growth plan remains a waiting game. But that

does not mean FTSE 250 earnings are stuck in the mud – far from it. Certain companies in the index continue to make steady progress, creating the right environment for the dependable, rising income streams investors want.

One note of caution: if you buy an actively managed UK mid-cap fund without an income mandate, the managers may not prioritise dividend sustainability – they focus on earnings growth, with income just a nice-to-have.

A dedicated equity income fund would look closely at a company's ability to keep paying dividends, yet UK funds in this space are likely to focus more on larger companies that mid-cap ones. One exception is [Man](#)

[Income](#), which is on AJ Bell's Favourite Funds list and has a blend of mid- and large-cap names.



By Dan Coatsworth
Head of Markets



High-yield bonds: are they safer or riskier than stocks for someone nearing retirement?

Ask the experts

Paul Angell is on hand to answer your questions about investments.

If you'd like a question considered for a future edition [send it in now](#).

I'm approaching retirement and want to take some of my money out of equities. I was looking at high-yield bonds, but are they safer?

Neil



Paul Angell, AJ Bell Head of Investment Research, says:

It can be tricky to determine when you should start shifting assets as you near retirement and where to move them to.

Many people start to de-risk their investments around five years before retirement, but as you imply in your question, that doesn't necessarily mean sticking all that money in cash or low-risk bonds like gilts.

Keeping some of your money in investments that grow more quickly means a better chance your pot will last through retirement. Balancing these factors

of safety while still looking for some growth may lead investors like yourself to high-yield bonds.

How bonds work:

Bonds are a form of debt issued by companies and governments. When an investor purchases a bond, they will receive income periodically through a coupon payment which is set when the bond is issued. This is established as a percentage of the bond's worth. At the end of the bond's lifespan, if the bond issuer is able, the starting value of the bond will be paid back to the investor.

Understanding how high-yield bonds function, and why they are classified that way, is key to knowing if they are the right fit for you. As it says in the name, high-yield bonds are investments that offer a larger rate of interest for the money the issuer is borrowing, meaning a bigger payout for the investor if all goes well.

The reason these bonds pay a larger interest rate is because ratings agencies, like Moody's and Fitch, have decided they are less likely to pay back this money at maturity than a top-rated company.



This is called defaulting on the payment. The bond issuers have to offer a bigger reward to entice investors to take the risk.

High-yield bonds can come in the form of government bonds from emerging markets, or from companies that are rated lower by ratings agencies. Here's a few examples of bonds featured in the [Invesco High Yield Fund](#), which is on AJ Bell's Favourite Funds list. You may recognise quite a few of the company names. Many of us use Virgin Media for our phones, and Stonegate Pub Financing is the owner of Be At One bars, as well as many other pubs that might be near you. The coupon you see on these funds means that if you were to hold this bond from issuance, this would be the yearly yield paid out.

Top high yield bonds in the Invesco High Yield Fund

Bond Holding	Coupon Rate
Virgin Media O2 Vendor Financing Notes V DAC	7.9%
Peoplescert Wisdom Issuer	5.5%
Kapla Holding SAS	5.0%
Kane Bidco	7.8%
Stonegate Pub Financing 2019	10.8%

Source: Morningstar, as of 13 March 2026



Because bonds can be complicated to access for individual investors, many use a bond fund for this purpose. Investing through a fund also creates diversification, as the fund will hold a variety of bonds, meaning you aren't reliant on a single company paying you back. A manager will hold a portfolio of bonds that they buy and sell at different points rather than always hold to maturity, which can mean a bit of extra return on top of what the bonds offer, if they can make a capital gain.



What kind of returns can you expect?

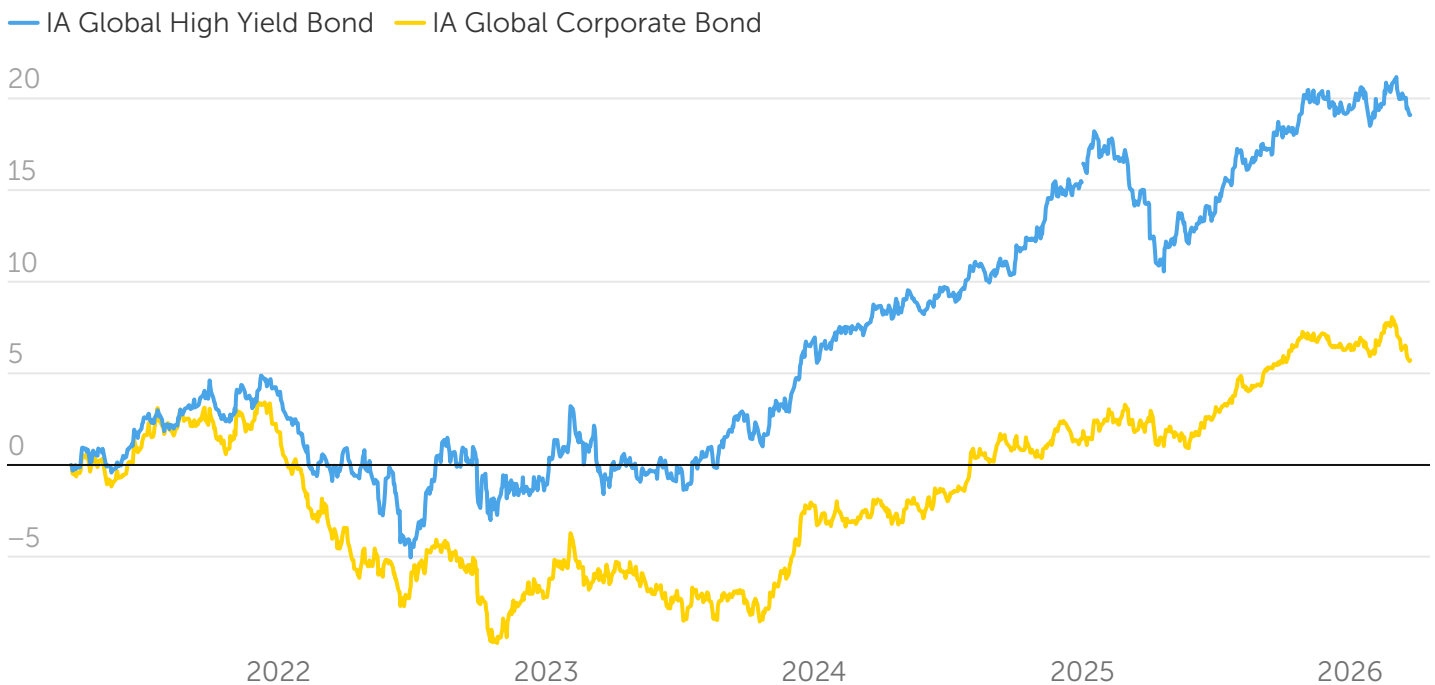
The returns for high-yield bonds are determined by two main factors: the rate that a benchmark such as US government bonds are yielding, and what we call 'credit spread' which is the additional return for the risks associated with holding a lower-quality bond.

High-yield bonds have performed well on the surface in recent years. Over the past five years to 24 March, the Investment Association's global high-yield bond sector has returned 19%. Last year, it returned 5%. In comparison, the Investment Association's global corporate bond sector has returned 4.4% in the past one year, and 5.7% over the past five years. While the past year's returns haven't looked so different for the two sectors, high yield has been the much better performer over five years.

What's changed? Five years ago, the interest investors were getting from lower-risk bonds was low, but the premium they were receiving from taking on risk for high yield was high, so that's where most of the return came from. Now, the interest investors are getting on benchmark bonds like US treasuries is quite high, but there is not much premium for taking on more risk.



Performance of global high yield and corporate bond sectors



Source: FE Fundinfo in terms of pound sterling to 24 March 2026, total return



When considering these returns, it's important to factor in inflation, which at its latest reading, was 3% on a yearly basis in the UK. So, even though we are seeing returns from high yield bonds of 5% in the past year, it's vital to consider that most of that is being eaten up by inflation.

What's to come?

This environment could be changing in the coming years. Recently, we've seen a low rate of defaults among high-yield bonds, meaning companies have paid the loans back. But during Covid, many companies in the high-yield bond space converted short-term debt, which is often paid back in a year, to longer-term ones, which could range from five to 10 years. These longer-term loans are nearing their end now, so we aren't sure yet if companies will be able to pay them back. The majority should be able to, but it's an important factor to keep an eye on.

As we've seen in the last year, there currently isn't as much compensation for taking on high-yield bonds as opposed to lower-risk corporate or government bonds. While we do hold high-yield bonds in some of our AJ Bell funds, we limit this

exposure to less than 10% of any fund, due to our focus on diversifying across asset classes and regions. Our current allocations are between 5% and 7% of each fund, as without the benefit of a much larger return, taking on high yield's extra risk doesn't always make sense.

There's been significant change in interest rate and inflation predictions since the beginning of the Iran conflict. This can harm bonds in the short term and results in the expected returns of bonds fluctuating. The IA £ corporate bond sector has a negative return so far this year of 0.8% while the IA £ high yield bond sector has fallen 0.5%, as of 24 March.

In practice, high-yield debt can be used as a diversifier, particularly in – or near – retirement, and generally presents less risk than equities. However, it's better suited as a slice of a portfolio than completely shifting assets to high-yield debt. While the past few years have been a good time to be invested in the sector, there's no guarantee that will continue. Investors should keep their eyes peeled for factors, both external and internal to the high yield market, that could impact returns.

Mounting geopolitical tensions have changed the game for BAE Systems



Rising geopolitical tensions and expanding UK and European defence budgets following the Russia’s invasion of Ukraine have created a substantial tailwind for [BAE Systems](#), with the shares delivering nearly 400% in total shareholder returns over the last five years data.

The shares have comfortably outperformed the FTSE 100 and the global defence sector. Before the invasion of Ukraine BAE shares traded on forecast PE (price to earnings) ratio of 12 times, less than half its current rating.

This implies that structural industry drivers have been increasingly recognised by the stock market.

BAE

Key stats

Share price: £20.73

Market value: £62.7 billion

2026 PE: 25.2

Dividend yield: 1.9%

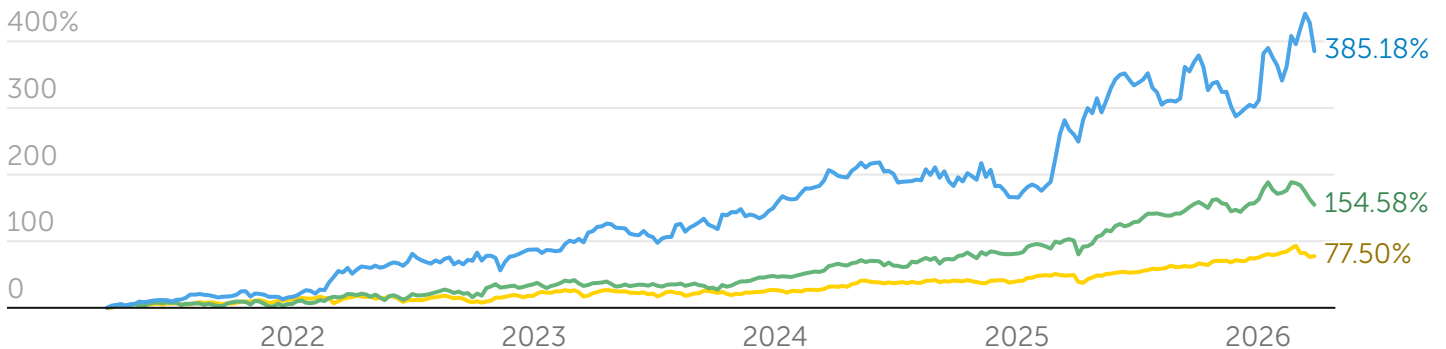
PE = price to earnings
Source: Stockopedia, LSEG



BAE Systems outperforms UK stocks and global defence companies

Total return (%)

— BAE Systems — FTSE 100 — MSCI World Aerospace & Defence



Source: LSEG



Steepest increase in military spending since the Cold War

After the invasion of Ukraine global military spending increased almost 7% in 2023 to reach a record \$2.44 trillion, followed by a further 11% increase to \$2.72 trillion in 2024.

Adjusted for inflation the increase in 2024 was the largest annual increase since the Cold War. After struggling to meet the 2% of GDP target for years, NATO (North Atlantic Treaty Organisation) members have upped their game.

In Europe spending increased by 17% in 2024 and Germany’s budget leapt to \$107 billion. A NATO summit in June 2025 saw allies commit to spending a minimum 3.5% of GDP on core military requirements by 2035.

An additional 1.5% of GDP is expected to be allocated to adjacent spending on cyber defence to protect critical infrastructure. In total, the new ‘gold standard’ for the NATO alliance could reach 5% of GDP over the next decade.

The UK’s Strategic Defence Review set a target to reach 3.5% of GDP by 2035.

The Trump administration has proposed an historic leap in defence spending to \$1.5 trillion for 2027, an uplift of 50% on prior levels.

How is BAE Systems expected to benefit?

In February 2026 the company revealed record breaking sales of £30.7 billion and an order backlog which ballooned to £84.6 billion.

BAE is uniquely positioned due to its role as a key supplier to the AUKUS (Australia, UK, US) security pact.

The company is the world leader in electronic warfare suites for the F-35 Lightning II fighter, with allies expected to accelerate procurements in 2026.

A recent £4.6 billion deal to supply Turkey with 20 Eurofighter Typhoons which BAE co-produces has extended the life of the programme into the 2030s.

BAE supplies artillery and munitions to Europe and has seen an eightfold increase in productions to meet Ukraine and NATO replenishment needs since 2023.

The company makes the CV90 combat vehicle which saw a big increase in orders in late 2025 from Czech Republic, Sweden and Norway.

How does BAE’s generate sales and profits?

Roughly 90% of sales come from long-term government contracts with profits driven by high-margin aftermarket support and technology integration.

The US remains the dominant market for BAE which was bolstered in 2025 by the full integration of the Ball Aerospace acquisition.

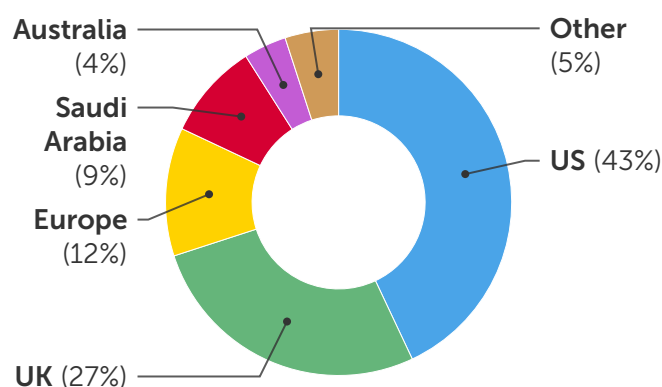
BAE Systems 2025 sales and profit by division

Division	Sales (£bn)	Underlying operating profit (£bn)
Air	9.3	1.11
Electronic Systems	7.5	1.16
Martime	6.8	0.45
Platform & Services	5.0	0.57
Cyber and Intelligence	2.4	0.22

Source: BAE Systems



BAE Systems sales by geography



Source: BAE Systems



Peer group comparison

Company	2026 Price to earnings ratio	2026 dividend yield
Cohort*	18.6	1.6%
Lockheed Martin	21.0	2.2%
Thales	22.5	1.8%
Northrop Gorman	24.7	1.4%
BAE Systems	25.2	1.9%
Leonardo	25.9	1.2%
Rheinmetall	36.0	1.2%

* 2027 due to March year end

Source: Stockopedia, LSEG, S&P Global, data as at 27 March 2026



Despite only representing 12% of group sales, Europe was the standout performer in 2025, growing 26% driven by NATO members rebuilding defence readiness.

The Air division is the largest contributor to sales supported by the Typhoon programme and ongoing production of the F-35 fighter.

The Platforms and Services division continued to benefit from global stocking of munitions and heavy vehicle orders including a \$1.7 billion funding boost for US combat vehicle production.

It is worth noting that the Maritime division, while not the largest by sales, represents a big proportion (over £30 billion) of the order backlog due to the multi-decade nature of building submarines and frigates.

Electronic Systems remain BAE's most profitable area of business with the division achieving mid double-digit operating margins.

What should investors expect for 2026 and beyond?

Following record breaking 2025 results the company said it expects a deceleration in growth compared with the post-Ukraine surge, although overall sales growth is still expected to be in a range of 7% to 9%.

BAE guided for growth in underlying earnings before interest and tax of between 9% to 11% and more than £1.3 billion of free cash flow, which is a lower than the £2.2 billion generated in 2025 due to timing of advances.

Looking further out BAE expects the conversion of its order backlog to drive steady revenue growth of between 8% and 12% a year through the rest of the decade.

Operating margins are anticipated to climb towards 12% as higher-margin segments like Space and Mission Systems become a larger percentage of the sales mix.

BAE expects to continue its policy of 10% annual dividend increases supported by a robust free cash flow target of more than £2.5 billion by 2028.

Peer group comparison

BAE trades at a premium to big US defence contractors which reflects rising European defence budgets as a percentage of GDP. European peer [Rheinmetall](#) trades at significant premium because it is the primary beneficiary of the rearmament of Europe.

While BAE's focus is on long-cycle assets like nuclear submarines Rheinmetall makes ammunition and Leopard tanks which have seen significant demand since the invasion of Ukraine.

As a case in point, Rheinmetall has more than doubled revenues since 2022 to \$14.7 billion while profits are up nearly four-fold.



By **Martin Gamble**
Shares and Markets Writer



I've got some spare cash: should I overpay my mortgage or invest?

Ask the experts

Laura Suter is on hand to answer your personal finance questions.

If you'd like a question considered for a future edition [send it in now](#).

I've read a lot in the news about interest rates being on the up again, which means mortgage rates will rise. I've got some money to spare and I'm not sure whether it's better to invest the money or use it to overpay my mortgage. What should I be thinking about while I weigh this up?

Susan



Laura Suter,
AJ Bell Director of Personal Finance, says:

It's a question that many people will ask themselves now. With mortgage rates climbing again, the idea of throwing any spare cash you have at your mortgage, and so cutting down the debt is understandably appealing. But at the same time, investing that money could leave you better off

over the long run. Ultimately, the decision is partly a financial one and partly personal preference.

But let's start with the basic comparison and some of the maths. Overpaying your mortgage gives you a guaranteed return equivalent to your mortgage rate. If you're paying 4% on your loan, then every pound you overpay is effectively saving you that 4% in future interest. When mortgage rates were rock bottom, the economics of overpaying didn't make much sense, as you'd only be locking in a 1% return, for example. But now rates are higher, the balance may feel like it's tipped.

How investing compares

Alternatively, investing the money offers the potential for better returns, but comes with some risk of the investment markets as there's always the chance your investments could fall in value. Over a longer timeframe, investing has historically delivered stronger returns, but you need to ride out the bumps along the way.

Let's look at the sums – [MoneySavingExpert has a very handy calculator](#) that helps you work it out. We'll take the example of someone with a £200,000 mortgage, with 25 years left on the loan,



and a 4% interest rate. If they had a £5,000 lump sum and used it to overpay the mortgage, they'd save £8,250 in interest alone and clear the debt a year earlier – after 24 years. However, if that money was invested and earned 6% interest a year after charges, they'd have a pot worth £21,030 after 24 years – meaning they could pay off the remaining £12,980 of the mortgage and have £8,050 extra left over. In this case, investing makes more sense.

However, the calculations rely on the person investing the money, rather than sticking it in cash and earning a lower rate. In the above scenario, if it was in cash and earning a 3% return a year, they'd end up £2,720 worse off at the end of the mortgage compared to overpaying. Equally, a higher mortgage rate changes the equation. If you're paying 5% interest on the loan and earning 6% returns on your investments, based on the same scenario as above you'd still be better off by investing but only by £4,450.

Clearly these figures differ depending on how big the mortgage is and how much you have to overpay. Let's take the example of someone who has a £400,000 mortgage over 25 years on a 4% interest rate, but who can overpay by £500 a month. In that situation you'd save £73,130 by overpaying on your mortgage, meaning you'd pay it off just over 11 years earlier – a huge change. However, if that money was invested earning 6% returns a year after charges, you'd have a pot worth £130,650 in savings after 14 years, at which point you could use £120,330 to pay off the remaining mortgage and still be left with £10,320.

Some practical considerations

Now we've covered the numbers; there are also some practical considerations when it comes to overpaying. Most mortgage lenders will only let you overpay up to 10% of your outstanding balance each year without charging a penalty. If you go beyond that, you could be hit with early repayment charges, which can quickly cancel out the benefit.

However, there are some mortgages that let you overpay by more each year, or even without limits, so it's worth checking your own terms. If you're

planning to remortgage in future, flexibility on overpayments is something to keep an eye on.

One often overlooked downside of overpaying your mortgage is that the money is effectively locked away once it's gone. Unlike savings or investments, you can't simply dip back into it if you need cash in a hurry. The only way to access that money is usually by borrowing again, either through a remortgage or additional lending, and there's no guarantee that option will be available or will come with good rates.

That lack of flexibility is where investing has the upper hand. While investments can go up and down in value, they are generally accessible if you need them. Keeping money in an ISA or investment account also means you're not putting all your eggs in one basket. For many people, their home already represents a large chunk of their wealth, so investing elsewhere can help spread risk.

But this isn't just a financial decision. There's a strong emotional element too. For some, the idea of being mortgage-free sooner is hugely reassuring or their main financial goal. Lots of people might be laser focused on clearing that mortgage debt, and so that could take priority – even if financially it might not be the most astute move.

Others are more comfortable holding a mortgage for longer if it means their money has the chance to grow. They're willing to accept the ups and downs of investing in exchange for the prospect of higher returns over time.

All about your personal preferences

That's why the decision to overpay your mortgage often comes down to personal preference. If clearing your mortgage faster will help you sleep better at night, that has real value. Equally, if you'd be frustrated watching markets rise while your spare cash is tied up in your property, that's worth considering too.

For many households, a middle ground works well. Splitting spare cash between overpayments and investments means you can make steady progress on your mortgage while still building up an investment pot.



Hunting for stocks with less valuation risk



As Fundsmith founder Terry Smith is fond of reminding investors, in the long run earnings drive share prices rather than the other way around.

Investing in stocks successfully is often about subtly shifting the odds in your favour. This can mean owning stocks which have lower valuation risk, or in other words aren't being overvalued by the market, while still offering the prospect for good earnings growth.

The impact of valuation on share price performance is not always immediate but typically it does eventually influence investment returns through the PE (piece to earnings) ratio, as well as other valuation metrics.

Ebbs and flows in the PE mirror rising and falling investor sentiment, which enhance investment returns during up cycles and detract during down cycles.

As a reminder, total investment return can be broken down into three parts: growth in earnings per share, dividend yield, and the change in valuation.

Current forward PE valuations are close to multi-year highs

UK valuations are sitting close to their highest levels in five years, based on forward PE (price to

earnings) ratios. This is based on consensus analyst earnings expectations of UK companies in the FTSE 100 over the next year.

Valuations are relatively elevated

— FTSE 100 index forward PE



Source: LSEG



Other major markets are also trading at historically high valuations with the US probably the most 'stretched' based on long-term averages.

It is important to remember that while there isn't a crystal ball telling investors when PE ratios have gone too far, they can move back down without any warning.

Where have share prices lagged earnings?

One way of thinking about where the value might be is to look at how share prices have performed against earnings.

We have crunched the numbers on the UK's largest companies to find those where share price growth has lagged earnings growth over the last five years.

Largest UK companies which have de-rated over last five years

Company	Five-year CAGR in earnings per share (%)	Forward PE
JD Sports Fashion	12.3%	6.4
Atalaya Mining Copper SA	25.0%	7.9
Gamma Communications	12.2%	9.2
ME International	24.6%	9.2
Cairn Homes	65.8%	9.6
GlobalData	19.1%	10.2
Breedon	130.0%	10.3
Telecom Plus	17.0%	10.8
Associated British Foods	17.3%	11.7
Sigmaroc	28.2%	11.7
GSK	16.4%	12.0
Hiscox	107.9%	12.7
Bytes Technology	16.8%	13.1
Bloomsbury Publishing	17.6%	13.8
XPS Pensions	26.2%	13.9
Greencore	44.7%	14.5
ConvaTec	17.4%	15.4
4imprint	105.5%	15.5
Hill & Smith	18.8%	16.2
Compass	31.7%	19.3
AstraZeneca	26.6%	20.1
Intercontinental Hotels	85.3%	24.5
Wise	106.6%	26.3

CAGR=Compound annual growth rate. Forward PE= Price to earnings ratio based on one-year forecasts
 Source: Stockopedia, LSEG, AJ Bell. Data to 10 April 2026



To make sure we were not simply identifying 'value traps' where earnings are falling because of an established structural trend, we narrowed the search to companies which have grown earnings at least 10% a year on average over the last five years.

To reduce the risk of identifying companies which may be undergoing a de-rating (falling PE) from a high level, we eliminated companies with a forward PE above the five-year historical growth rate.

The companies in the table have grown earnings at a compound annual rate of at least 10% a year and trade at a discount to their five-year growth rate.

Back to the future

Global sports retailer [JD Sports Fashion](#) has seen its PE sink into single digits from more than 20 times before the pandemic. This puts the company in the deep-value category suggesting investors anticipate low growth.

This belies the company's ambitious five-year plan to become a global sports fashion 'powerhouse' targeting 1,700 to 2,000 net new stores by 2029.

Signalling their confidence, management completed a £200 million share buyback in early 2026 and analysts believe the company is on track to generate £400 million in free cash flow, representing a double-digit free cash flow yield at the current share price.

After a reset year, JD Sports is expected to return to growth with pre-tax profit increasing by mid-single digits with consensus forecast earnings of between £880 million and £910 million. However, a difficult consumer backdrop could be an obstacle to achieving these numbers.

Emerging growth potential

Wound management specialist [Convatec](#) has evolved from a long-running restructuring story into a company with sustainable revenue growth and margin expansion.

Management has consistently upgraded organic revenue growth to a range of 6% to 8% and is targeting a medium term adjusted operating margin of 24% to 26%, up from 23% in 2025.

This is expected to be achieved by a combination of operating leverage and continued streamlining of the firm's manufacturing footprint.

Around 80% of Convatec's revenues are



generated by selling consumables like wound dressings and insulin infusion sets used to treat chronic conditions.

Increased outsourcing in global food services

Catering group [Compass](#) is seeing a structural shift in the global \$400 billion food services market, buoyed by increasing regulation and rising food costs are pushing more inhouse operators to outsource.

Nearly half of new business wins in the last financial year came from first-time outsourcers, while client retention remained high at over 96%. With around 70% of profits coming from the US, Compass recently changed its trading currency to US dollars.

The company is guiding for 10% underlying operating profit growth in 2026 driven by operating margins moving back towards pre-pandemic levels of at least 7%, helped by pricing discipline.



By **Martin Gamble**
Shares and Markets Writer



Vodafone is finally dialling up growth after years in the doldrums

After more than a decade in the doldrums [Vodafone](#) shares have shown a remarkable recovery, delivering more than 70% in total shareholder returns in just the last 12 months, making them one of the top 10 performing shares in the FTSE 100 index.

Vodafone

Share price (p)



Source: LSEG



What has driven the strong performance?

The UK's biggest telecommunications group has cleaned up its once sprawling empire by selling

Vodafone

Key stats

Share price: 110.9p

Market value: £25.7 billion

Forward PE (Mar 2027): 13.3

Dividend yield: 3.8%

PE = price to earnings

Source: Stockopedia, LSEG



underperforming European assets, returning proceeds to shareholders, and reducing net debt by around €10 billion.

This strengthening of the balance sheet has removed a prior 'overhang' holding back the shares. Reducing debt also increases the proportion of profits available to shareholders as opposed to creditors.

This is often referred to as 'equity transfer' which can be a powerful driver of shareholder returns.

Vodafone has repurchased €3.5 billion of its shares since May 2024 with an additional €500 million programme launched in February 2026, part funded by disposal proceeds.

Management have proactively redeemed long-

dated debt and issued new lower-cost debt.

Against these shareholder friendly moves Vodafone rebased dividends by 50% to €0.045 per shares in 2025 to create a more sustainable payout. This followed a 40% reduction in 2019 to €0.09.

Alongside this, Vodafone has committed to a progressive dividend policy and announced a 2.5% increase in the current 2026 financial year, the first increase in eight years.



Why did Vodafone merge with Three UK?

The Vodafone-Three UK merger completed in May 2025 with the combined operating company branded VodafoneThree. Vodafone holds 51% of the new entity with Three's parent company, Hongkong-based CK Hutchison owning the rest.

The merger promises to improve operating efficiencies, leading to wider national coverage and faster speeds. It will position VodafoneThree as a leading European 5G provider, enabling advanced services for consumers and enterprises.

Vodafone plans to invest £11 billion in the UK network over the next decade, including £1.3 billion in the first year to accelerate 5G deployment.

It anticipates cost and investment synergies of around £700 million a year by 2030, which it believes are worth more than £7 billion excluding any revenue synergies.

The transaction is expected to be boost free cash flow from the 2029 financial year onwards, once integration costs roll off.

How does Vodafone make money?

Vodafone generates most of its revenues from selling connectivity and digital services to consumers and businesses on a recurring subscription basis across Europe and Africa.

It sells monthly and prepaid contracts for voice, messages and data, which is the core revenue engine. The company increasingly sells bundles (mobile, fibre, TV) which supports higher revenues per subscriber with lower churn.

Vodafone provides similar services for businesses plus integrated technology solutions like cloud computing, cybersecurity, and data centres.

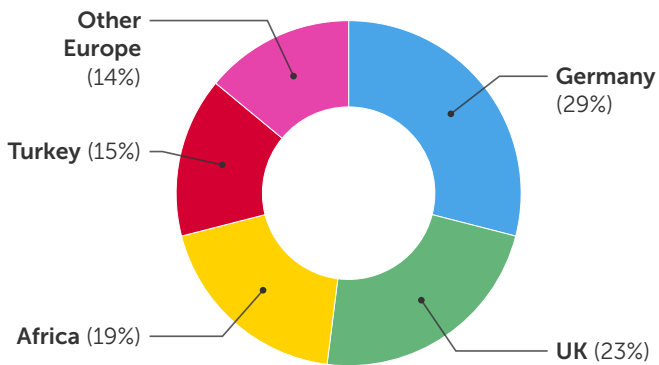
Increasingly everyday items like cars and smart meters are connected and run on Vodafone's IoT (Internet of things) platform, which is managed by Vodafone and generates usage-based and subscription revenues.



In several African markets Vodafone runs a mobile money platform called M-Pesa which earns fees on transactions, transfers and related financial services.

Vodafone earns roaming fees from other operators using its network and generates income from infrastructure assets like masts and rooftops. The bulk of this income is from tenants on long-term, inflation-linked contracts.

Vodafone revenue split Q3 2025



Source: Vodafone



What is Vodafone's strategy?

The company wants to continue its current path of simplifying the business and improving customer experience which is expected to lead to sustainable growth.

The plan is to exit sub-scale, low-return regions like Italy and Spain and concentrate on markets where Vodafone holds leading market positions like the UK, Germany, Africa and Turkey.

More mature markets like the UK and Germany are seen as stable, cash generative businesses with stronger growth expected to come from Africa and business-to-business digital services.

Are there specific financial targets?

Vodafone recently guided for mid-single digit revenue growth and multi-year growth in free cash flow from an anticipated 2026 base level of between €2.4 billion and €2.6 billion.

Within the modest sales growth number Africa is expected to continue growing at double digits driven by rapid expansion in mobile data and financial services.

The company is also aiming to increase the share of group sales from enterprises to around a third.

Looking at the balance sheet Vodafone wants to maintain an investment grade rating, which means it is seen as a stable, low risk borrower with adequate cash flows to service its debts.

Capital expenditure as a proportion of revenue is expected to remain stable while still funding the modernisation of its network and IT systems.



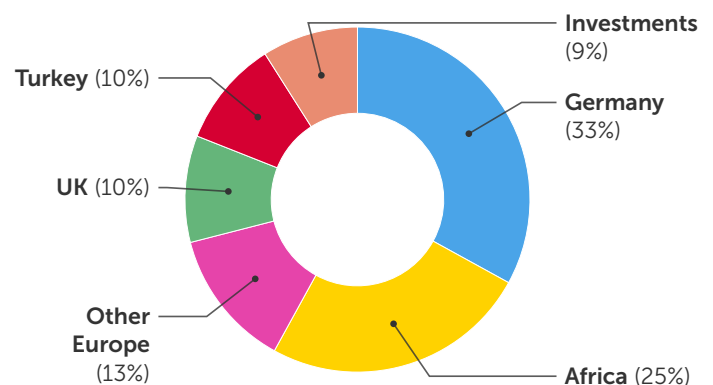
What does the competitive landscape look like?

Competition is intense from incumbent national telecom providers as well as MVNOs (mobile virtual network operators) across the UK and Europe. In the UK Three is known for fast data speeds while EE leads on 5G coverage.

Virgin Media O2 and BT/EE are strong rivals in fixed-mobile bundles and broadband while there are many MVNOs including Asda and Tesco Mobile, Lebara, Sky Mobile, Giffgaff, and Smarty among others.

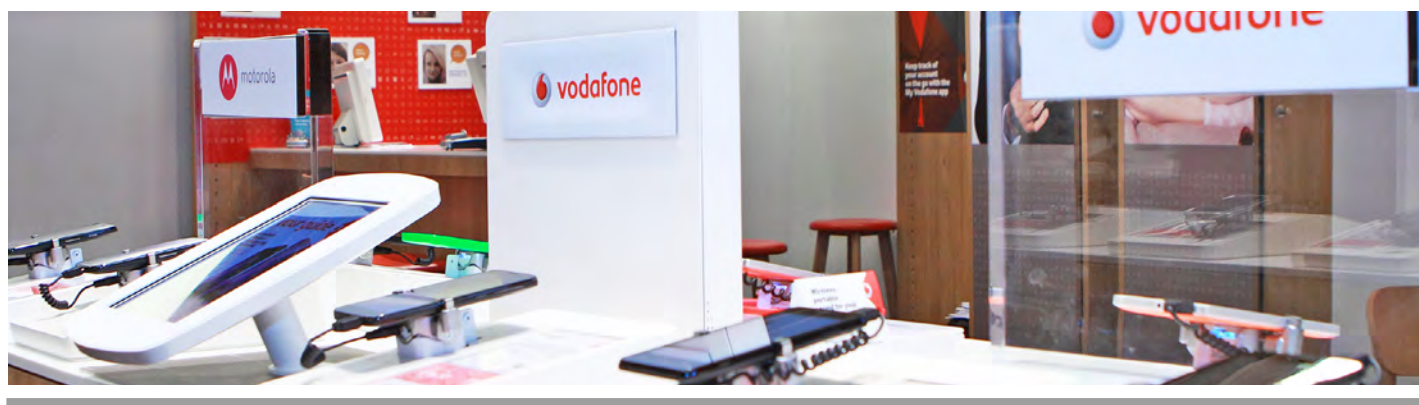
European incumbents also operate outside their home territories with [Deutsche Telekom](#) active in Central and Eastern Europe, plus it has a majority stake in T-Mobile US, while [Orange](#) operates in Spain and [Telefonica](#) also operates in Germany.

Vodafone adjusted free cash flow split 1H 2025



Source: Vodafone





Peer valuation comparison

Company	Forecast price to earnings ratio	Dividend yield	EV/EBITDA
Verizon	10.3	5.5	7.6
Telefonica	10.9	5.1	6.5
BT*	11.7	4.1	5.8
AT&T	12.6	3.8	7.5
Vodafone	13.3	3.8	6.2
Deutsche Telekom	14.9	3.5	6.4
Orange	15.9	4.6	6.6

* 2027 estimates, EV/EBITDA = enterprise value to earnings before interest, tax, depreciation and amortisation
 Source: Stockopedia, LSEG, S&P Global, data as at 27 March 2026



There is global competition in the enterprise space from US companies like [Verizon](#) and [AT&T](#) for connectivity and security and end-to-end managed services.

Despite these constant pressures Vodafone seems well positioned to defend its leading market positions in mature markets and exploiting growth in faster growing regions.

How do sector valuations stack-up?

While Vodafone's PE (price-to-earnings) ratio has expanded over the last year, it trades at a discount to European peers Deutsche Telekom and Orange.

This reflects the German carrier's better growth profile backed by a dominant 5G lead in the US and Germany, while Vodafone has

only recently returned its German business to growth.

French operator Orange has fully integrated its Spanish unit MasOrange and finished its French fibre roll-out, allowing it to generate reliable cash flows. The company also benefits from double-digit growth in its African operations.

Closest UK rival [BT](#) trades at a price to earnings discount to Vodafone which reflects the slow erosion of its wholesale monopoly as customers switch to alternative networks.



By **Martin Gamble**
 Shares and Markets Writer



What next for oil and gas companies after the big energy price shock?

At the end of 2025 oil and gas companies were staring down the barrel of declining energy prices and resulting pressure on profits and returns to shareholders.

Despite the fragile ceasefire deal recently brokered by Pakistan, the conflict in Iran has shifted the calculus significantly since the end of February and helped global energy firms to reach all-time highs in share price terms.

What's next for the sector and what can we learn from the most recent energy shock – resulting from the Russian invasion of Ukraine in 2022?

What the oil price increase means?

Oil prices have certainly enjoyed a surge comparable with the one we saw four years ago. Predicting the exact trajectory of oil prices is usually a fool's errand but, the benefit to oil companies from the increase we have already seen is likely to be substantial. In 2025 BP indicated that a movement of \$1 per barrel up or down in Brent crude would have a \$340 million impact on annual

profit (measured as pre-tax replacement cost profit). Since US-Israeli strikes on Iran commenced, Brent crude has traded as much as \$50 per barrel higher than its pre-war levels.

In the UK the big integrated oil and gas firms are [BP](#) and [Shell](#). Counterparts in the US include [Chevron](#), [ConocoPhillips](#) and [ExxonMobil](#) while the European contingent takes in France's [TotalEnergies](#), Italy's [ENI](#) and Norway's [Equinor](#).

Integrated oil and gas companies participate in every aspect of the oil and gas business – across the three core areas of upstream, midstream and downstream. Upstream refers to exploration for and production of oil and gas; midstream refers to the pipelines and other infrastructure which transport these hydrocarbons and downstream refers to the refining of crude oil and the marketing and distribution of refined products such as petrol and jet fuel. In addition to its oil interests Shell is notable for being a leader in liquefied natural gas or LNG for short.

Small and medium-sized names in the sector typically focus on upstream activities or in other words exploration and production. Unlike their larger counterparts their fortunes are often tied to just one or two projects rather than a large, diversified portfolio of developments.

Brent crude oil and European natural gas prices

— Brent crude (\$ per barrel) — European natural gas (€ per megawatt hour)



European natural gas = Dutch TTF Natural Gas

Source: LSEG



What happened to energy prices and stocks in 2022?

As the chart shows, Brent crude oil and European natural gas prices surged in 2022 in response to Russia’s invasion of Ukraine in a similar manner to that which we have seen in the wake of the Iran war. Albeit European gas prices saw even larger moves and greater volatility four years ago than they have today.

Gas is predominately utilised in power generation; oil is instead largely refined into transportation fuel.

Gas is also literally a less liquid market than oil and, as a result, is also more localised. Much natural gas is still transported through pipelines and although technologies like LNG, gas-to-liquids and compressed natural gas have made a difference, it is still more expensive and complicated to transport gas than oil.

How the big global oil & gas firms performed after Russia's invasion of Ukraine

	Share price performance in three months after the invasion (%)	Share price performance in five months after the invasion (%)
BP	12.0%	0.1%
Shell	22.9%	5.0%
Chevron	26.7%	6.4%
ExxonMobil	22.3%	13.4%
ConocoPhillips	23.6%	-0.1%
ENI	2.1%	-18.3%
Equinor	21.6%	23.4%
TotalEnergies	7.6%	-2.0%

Source: LSEG, data from close on 23 February 2022



Oil and gas companies' exposure to Middle East

Most large global oil and gas companies have operations in the Middle East which are affected by the attacks and disruption on regional infrastructure and shipping. Shell's Pearl plant and Saudi Arabia's SAMREF refinery were reported damaged, while TotalEnergies said 15% of production is offline.

Based on information from *Reuters* here are the details of who produces what from the Middle East:

BP

BP's oil and gas production in the Middle East in 2025 totalled around 503,000 barrels of oil equivalent per day (boepd), accounting for 22% of BP's overall output. The company does not operate any refineries in the Middle East.

Chevron

Chevron, with minimal Middle Eastern production, generated 165,000 barrels of oil equivalent per day in 2025 from Israel and the Saudi Arabia-Kuwait partitioned zone, out of a total group output of 3.7 million boepd. It has no refineries in the Middle East.

ConocoPhillips

ConocoPhillips produced 147,000 barrels of oil equivalent per day from its non-operated projects in Qatar and Libya last year, accounting for 6% of global output.

Eni

Eni's produced about 379,000 boepd in the Middle East, accounting for 22% of its total output in 2024, based on Reuters analysis of company data. Eni also owns a minority share in ADNOC Refining, which runs the Ruwais refinery in the UAE.

Exxon

Exxon's partnership in the Upper Zakum oilfield,

located offshore in the United Arab Emirates, involves a capacity of one million barrels per day. Following an agreement with QatarEnergy in 2022 for further development of the North Field East, Exxon increased its share of Qatar's liquefied natural gas volumes to 60 million tons per year.

While Exxon does not disclose production figures by country, analysts estimate that approximately 20% of the company's total oil and gas output originates from the Middle East. The region also accounts for about 5% of Exxon's global refining capacity, including a 50% stake in a joint venture operating Saudi Arabia's 400,000 barrels per day SAMREF refinery.

Shell

Shell's oil and gas production in the Middle East – excluding Qatar but including Egypt – was approximately 307,000 boepd in 2025. This represented about 11% of its total output, according to *Reuters* calculations based on Shell's latest annual report.

In Qatar, Shell owns a 30% stake in an LNG facility with an annual capacity of 7.8 million metric tons. Additionally, Shell holds full ownership of Pearl GTL in Qatar, which can process up to 1.6 billion cubic feet of wellhead gas per day and convert it into 140,000 barrels per day of gas-to-liquids.

In Oman, Shell has a 30% interest in an LNG plant with a yearly capacity of 7.1 million metric tons, as well as an 11% stake in another LNG facility with a capacity of 3.7 million metric tons per year.

Shell does not operate any refineries in the Middle East.

TotalEnergies

TotalEnergies' oil and gas output in the Middle East, including Egypt, was around 348,000 boepd, or around 34% of its global output, according to calculations based on its 2024 annual report. TotalEnergies also holds stakes in refineries and petrochemicals plants in Saudi Arabia and Qatar.

After three months of the Ukrainian conflict, most big oil and gas firms were trading materially higher. However, two months later some of those gains had been wiped out as investors reacted to a decline in oil prices. This slump in oil came as investors weighed the risks to demand from a global recession.

How big global oil & gas companies have performed since the beginning of the Iran conflict

Company	Share price performance since beginning of Iran conflict (%)
BP	23.2%
Shell	14.6%
Chevron	10.8%
ExxonMobil	11.3%
ConocoPhillips	16.3%
ENI	21.9%
Equinor	41.7%
TotalEnergies	17.1%

Source: LSEG, data from 27 February 2026 to 1 April 2026



Since late February 2026, that same collection of stocks has enjoyed strong gains. Norway's Equinor, a significant supplier of natural gas to Europe, has been the best performer. Unlike a lot of its counterparts the company has no footprint in the Middle East so has not been affected by the disruption to energy infrastructure and reserves in the region.

BP and Shell are scheduled to report their first-quarter results on 28 April and 7 May respectively and will be expected to give some indication of the effect higher commodity prices will have on their financial performance.

With the improved commodity price backdrop and continued progress on reshaping and streamlining the business the stars are aligning for incoming BP CEO Meg O'Neill as she prepares to start next month. Shareholders will be looking for guidance on how she plans to build on this improvement in its prospects. The table shows the extent to which BP and Shell's consensus earnings estimates for 2026 have been upgraded since the beginning of March.

Forecasts for 2026 have been upgraded at BP and Shell

Company	Increase in consensus 2026 earnings forecast since beginning of March 2026
BP	21.9%
Shell	14.9%

Source: Stockopedia, data to 1 April 2026



How global energy company funds and trackers have performed

Fund/investment trust/ETF	Five-year annualised total return (%)	Ongoing charges (%)
CQS Natural Resources Growth & Income (also invests in miners)	31.0%	2.0%
iShares S&P 500 Energy Sector UCITS ETF	23.6%	0.2%
SPDR S&P US Energy Select UCITS ETF	23.5%	0.2%
Xtrackers MSCI World Energy UCITS ETF	21.5%	0.3%
BlackRock Energy & Resources Income Trust (also invests in miners)	20.4%	1.2%
Riverstone Energy	20.2%	2.1%
Guinness Global Energy	19.2%	0.8%
SPDR MSCI Europe Energy UCITS ETF	18.2%	0.2%
BlackRock Natural Resources (also invests in miners)	16.1%	0.8%

Source: Morningstar, data to 1 April 2026



Companies may be reluctant to increase their ordinary dividends and instead may look to use special one-off dividends and share buybacks to pass on the benefit of higher prices in the knowledge that a subsequent move lower in oil and gas may make sustaining higher dividends on an ongoing business problematic.

Other risks for investors in the sector to consider in the current environment include the potential for extra regulation, windfall taxes and potentially resource nationalism (states clawing back interests in their reserves of oil and gas) in a world where countries need to prioritise energy security and seek to shield their populations from the impact of higher energy prices.

How to get diversified exposure to the oil and gas sector

It is possible to buy [trackers and actively managed funds](#) which hold a basket of oil and gas companies. The table shows the performance of the largest trackers in this category and the small list of UK

funds which pick their own stocks in the energy sector.

The heavy weighting of BP and Shell in the [FTSE 100 index](#) means anyone with a standard UK tracker has meaningful exposure to the energy sector already. In the FTSE 100 the weighting is around 10% compared with roughly 4% for the MSCI World, for example.



By Tom Sieber Editor





How does your retirement income stack up?

Ever wonder how your income compares to other people in retirement, or what you need to be aiming for? The [Family Resources Survey data](#) from the Department for Work and Pensions lets us take a deep dive into how much income pensioners get each week and where they get that income from.

As you approach retirement age, the data can still help you work out what you'll need from your pensions and savings when the time comes and help you see if you're on track.

The average post tax pensioner weekly income was £455 a week across all pensioners in the last tax year, equivalent to £23,660 per annum. Average incomes have also remained steady since 2022, rising from £443 per week to the £455 figure, when adjusted for 2024/25 prices.

This is a median income after housing costs, so tells us how much people might have available to spend each week on average. The housing picture could change over time, but currently there are very few people in this cohort who are paying private rent or contributing to a mortgage, so this gives us the best picture of disposable incomes.

What makes up this income?

Nearly half of pensioner couples receive more than half of their gross income from private sources, compared to 26% of single pensioners, showing a greater reliance on the state pension for single Brits.

The state pension, together with other benefits now make up over half (58%) of the income of the average single pensioner. For the poorest fifth of pensioners, this surges to 88%, or 79% in a couple. For the wealthiest tranche, it makes up 29% for single pensioners and 17% for couples, where unsurprisingly, the vast majority of their income comes from workplace and private pensions, plus their own savings and investments.

Although current pensioners will have built up most of their record under the old system, since 2016 the state pension has moved away from a basic rate pension and earnings-related top ups to a flat rate state pension. It's clear from the data above that it provides a vital underpinning to secure incomes in retirement. Estimates vary, but to replicate the full, flat rate state pension together with inflation protection would require a pension pot of around £250,000.

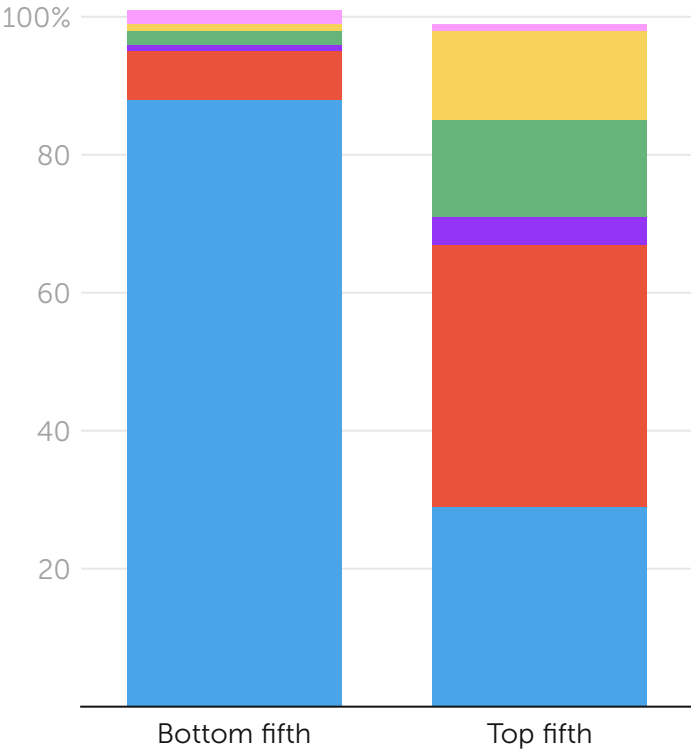


Percentage of income from different sources for pensioners with the top and bottom incomes



Single pensioners

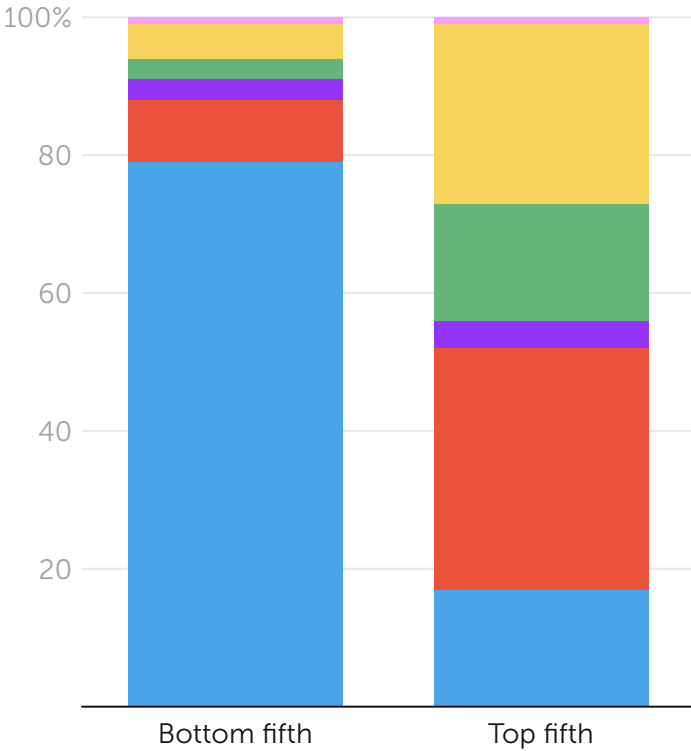
Benefit income Occupational pension income Personal pension income Investment income Earnings income Other income



Source: DWP Pensioners' Incomes statistics

Pensioner couples

Benefit income Occupational pension income Personal pension income Investment income Earnings income Other income



Source: DWP Pensioners' Incomes statistics



Charlene Young: Retirement in focus

Retirement living standard	Income required	
	One person	Two people (together)
Comfortable	£43,900	£60,600
Moderate	£31,700	£43,900
Basic (minimum)	£13,400	£21,600

Source: Pensions UK Retirement Living Standards 2025/26. Figures in today's money



What standard of living could I get in retirement?

The net income figures in this data set are worked out after housing costs, just like the figures produced by Pensions UK on the cost of typical living standards in retirement.

According to estimates from the industry body, [Pensions UK](#), a single retiree is expected to need an income of £31,700 each year for a moderate lifestyle, and £43,900 each year for a comfortable lifestyle. Those in couples who can club together might need £60,600 between them at the top end, falling to £43,900 for a more 'moderate' lifestyle.

Although a basic minimum lifestyle is easily covered by the current average pension income figure, it's striking to see how far it is from the moderate and comfortable standards.

When it comes to your own plans, it's important to remember that the standards are just a rough guide to how much different retirement lifestyles might cost. If you're approaching retirement, it's worth delving into the figures to see if they paint a realistic picture of your needs, or if you can build your own estimate.

Take holiday spending for example; the comfortable living standard budgets for a fortnight four-star holiday in the Mediterranean with spending money and three long weekend breaks in the UK. This might look more like what you have in mind compared to the moderate living standard, which assumes a fortnight three-star all-inclusive holiday in the Mediterranean and a long weekend break in the UK.

Once you've got an income figure in mind, it's useful to turn this into a pot value to see if your current savings are on track. If we go back to the 'moderate' lifestyle income of £31,700. After deducting the current full new state pension and allowing for tax, you'd need between £350,000 and £500,000 saved into a pension at state pension age, depending on how you decide to withdraw from your pension. The higher end would help you to retire earlier, or a lower figure could work if you intend to rely on other investments such as ISAs to support you in retirement.

A reminder – the state pension age is going up

The [state pension age](#) is now 67 for anyone born on or after 6 March 1961, and people born between 6 April 1960 and this date, are currently part of a phased increase from 66 to 67.

A further rise to 68 for those born from April 1977 onwards was also due from 6 April 2044, but this is currently included as part of a wider report into what the state pension age should be. Once the government has assessed the research its commissioned, it should be able to begin the formal review. However, that doesn't necessarily mean we will get a quick decision on what might happen, and the timetable.



By **Charlene Young**
Senior Pensions and Savings Expert



What do events in the Middle East mean for the commodities market as a whole?

Ask the experts

Russ Mould is on hand to answer your queries about the financial markets.

If you'd like a question considered for a future edition [send it in now](#).

There's been plenty of news about rising oil and gas prices recently but I'm interested in what current events might mean for commodity markets more broadly. Can you help?

Samantha



Russ Mould,
AJ Bell Investment Director, says:

Wild swings in the price of oil and gas continue to transfix financial markets as they continue to assess the potential implications of the war in the Middle East from their very narrow perspective. Investors continue to ponder where hydrocarbon prices may settle and what the impact could

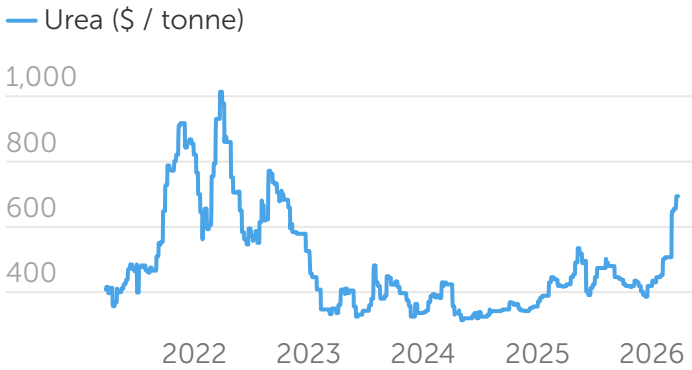
be upon inflation, central bank interest rates and even global economic growth, especially if they stay elevated; oil is some 40% higher than when the war began and Europe's Dutch TTF gas benchmark is up by 75%, at the time of writing.

But there are other good reasons for hoping that oil and gas prices recede in the wake of a peace deal, beyond the obvious humanitarian ones. Modern production techniques for fertiliser are energy- and hydrocarbon-intensive and natural gas is an important feedstock for nitrogen fertilisers for good measure, where a key end-product is urea. To further complicate matters, a third of the world's urea travels through the Straits of Hormuz, thanks to major production facilities in Saudi Arabia and Qatar.

Under these circumstances it is no surprise to see the price of urea shooting higher. It now trades above \$600 a tonne for only the fifth time across a dataset that dates to 2009 and the potential impact upon food prices, the wider commodities asset class and inflation are potentially substantial.



Urea prices are surging thanks to the war in the Middle East



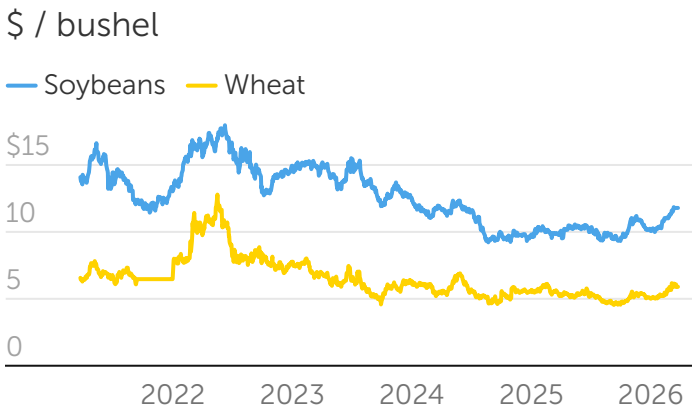
Source: LSEG



Sprouting wings

In some ways the spike in urea and fertiliser prices, and possible disruptions to supply, could hardly come at a worse time for farmers in the northern hemisphere, as they prepare for spring planting season. Agricultural crop prices are already responding as wheat and soybeans are both up by a sixth year, while corn prices are up by almost a quarter from the multi-year lows reached last summer.

Agricultural crop prices are moving up sharply from multi-year lows



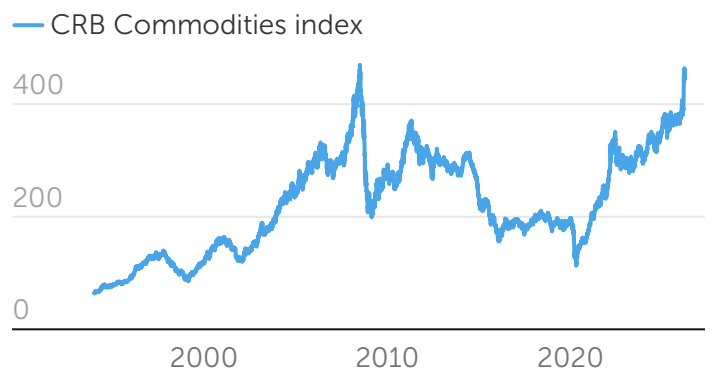
Source: LSEG



Soybeans, corn, and wheat are three of the ten agricultural – or ‘soft’ – commodities that comprise the CRB Commodities Index. The others are live cattle, sugar, cotton, cocoa, coffee, lean hogs, and orange juice and the 10 between them make up 41% of the benchmark.

Given the price gains just mentioned, and the strength in energy prices (a further 37% of the index) and last year’s ripping runs in gold and silver (7%) it is easy to see why the CRB Commodities index is moving back toward its all-time high, reached all the way back in 2008.

The CRB Commodities index is nearing its 2008 all-time high



Source: LSEG



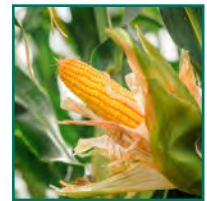


The CRB Commodities index is beating equities so far in the 2020s

— CRB Commodities index relative to FTSE All-World index



Source: LSEG



Raw deals

But this is not an overnight development, even if precious metals wrote a lot of headlines last year and oil and gas have done the same so far in 2026.

The CRB Commodities index is up by 131% this decade, a gain that outpaces the FTSE All-World's capital return of 74% and its total return, including dividend reinvestment, of 98%.

This is suggestive of a wider change in the macroeconomic and wider market environment. The post-Financial Crisis era of 2009-2021 was characterised by low growth, low inflation and low (if not zero) interest rates, and as a result, long duration assets and those capable of generating secular growth, notably technology stocks, or reliable yield became highly prized and accordingly performed well.

The picture looks different now, given how inflation, interest rates and nominal growth are higher, or are at least more volatile. In this respect, it makes little sense to expect what did well and has become expensive in the past decade to do well in this one, unless we quickly return to the low growth, low interest rate, low inflation murk of the 2010s.

Daily crust

Dollar weakness, the lack of capital expenditure on new supply and the importance placed upon supply chains and sourcing of raw materials as a matter of national security by both Covid-19 and wars in Eastern Europe and the Middle East are also factors that may raise the profile of commodities.

Only time will tell, but in this context, it may be worth considering the words of former Merrill Lynch (now Bank of America) strategist Bob Farrell, quoted in a recent edition of Marc Faber's *Gloom, Boom, Doom* monthly market commentary:

"Change of a long-term trend is usually gradual enough that it is obscured by the noise caused by short-term volatility. By the time secular trends are even acknowledged by the majority they are generally obvious and mature," wrote Farrell. "In the early stages of a new secular paradigm, therefore, most are conditioned to hear only the short-term noise they have been conditioned to respond to by the prior existing condition. Moreover, in a shift of long-term significance, the markets will be adapting to a new set of rules while most market participants will be still playing by the old rules."

How I invest: The NHS doctor giving their Lifetime ISA a second life after buying a house

Saving for your first home is often the first major financial goal a person sets and for Aaron, getting over his anxiety that investing wasn't for someone like him was a key part of achieving that dream.

Back in 2016 when Aaron was 26 and studying to become an NHS doctor, he opened a Lifetime ISA with the explicit goal of saving up to buy his first home with his now wife, who was also studying to join the NHS.

A decade later, Aaron still describes himself as a "novice" despite routinely going down YouTube "rabbit holes" and debating the latest market movements around the dinner table with his wife in the house they bought in Rotherham.

Back when he started out, Aaron recalls that he definitely wasn't spurred by a boundless level of confidence in his investment abilities, rather he realised that doing nothing and leaving his nest egg purely in cash would not get them the keys to the castle.

"Saving alone gave me comfort in the short term, but it didn't feel like a long-term plan for the future I wanted," he says.

"I saw that I had this pot of money we'd saved up already to buy the house, and I thought 'I'm probably going to earn more on it being in the market versus just being in a Cash ISA'."

Aaron grew his pot from £2,000 to more than £10,000 over four years and after combining his 'half' with his wife, who had set up her own LISA "mirroring" his - the pair bought their home just before the pandemic hit in 2020.

Buying a house was just the beginning

But this turned out to be just the start of his investment journey. "I kept the Lifetime ISA open after we bought the house because I thought 'my investment experience doesn't have to end here really; it can start all over again'".

A Lifetime ISA is primarily used to help save up for and buy your first home; in just the way Aaron



initially used it.

There are some specific requirements to remember. Number one being that the house must be purchased for less than £450,000, but it's an extremely handy tool as the government will top up your Lifetime ISA contributions by 25%, up to a maximum of £1,000 each year (achieved when you hit the maximum Lifetime ISA allowance of £4,000 per tax year).

But what do you do with a Lifetime ISA once you've bought the house can be a conundrum. Aaron opted to turn his into a savings vehicle for retirement, the main alternative purpose for a Lifetime ISA.

This is a useful option, not least because it can allow you to avoid dipping into your pension too early. You benefit from a lengthy time horizon, since you must be aged 18 to 39 to qualify for a Lifetime ISA (though you can keep making payments up to the age of 50, and penalty-free withdrawals will only happen once you turn 60).

Now, aged 36 and working in the NHS as a trainee clinical endoscopist Aaron and his wife – a psychiatric nurse – realised that that state pension their parents had retired on "probably won't be there when we come to retirement". Enter repurposing his LISA to "hopefully replace that".

The end of the Lifetime ISA

The route available to Aaron and existing Lifetime ISA holders of switching focus from building up a pot to get on the property ladder to augmenting a retirement pot will not be on offer to future savers and investors from April 2028 when a new 'first-time buyer ISA' will launch. This won't come with the option of using it as a retirement savings vehicle. Though existing Lifetime ISA holders will retain the current benefits of the vehicle.

Ready to start the next investment mission

Ready to start on his next investment mission and with several decades ahead of him Aaron felt comfortable taking on more risk this time around, investing in the [AJ Bell Adventurous fund](#) and the [Vanguard FTSE All World](#) ETF.

This is secondary to his 'fun pot', where Aaron takes more speculative trades on assets such as Bitcoin.

Since starting from zero again, Aaron has successfully rebuilt his portfolio back to around £5,500 today. Aaron's approach has shifted from the 'stock picker' mentality he had when he first opened the Lifetime ISA.

"When I look back at what I was buying when I first opened these accounts, I was thinking I was a stock picker. And some did OK, but I'm not pretending that I'm the next Warren Buffett or anything like that," Aaron explains.

One big change over the past year Aaron says, is that all the big market events, namely 'Liberation Day' but also the recent US-Iran-oil crisis selloffs, "has taught me to diversify," he says, not just on his holdings but the types of ISAs he has as well.

In his initial investment venture, Aaron just had the Lifetime ISA, "but then I decided I needed a Stocks and shares ISA to get a little bit more of an edge that way", he explains.

Cost is a big factor for Aaron when it comes to picking his investments, leading him towards index trackers primarily. He says he's looking forward to May when AJ Bell's fees change and the £1.50 charge for customers' regular investment service will be removed entirely, which for Aaron will open up some more "flexibility" to purchase some more options on his buy list.

Investing has changed his relationship with money, for the better

One unexpected impact from investing was how Aaron's relationship with money changed for the better.

He said that it was subtle at first, but it made him more disciplined and focused on consistency rather than a short-term wins to that point that now, investing has become a bit of a hobby for him.

"I started making small contributions each month and that just starts to lead you down a rabbit hole when you start seeing more returns, nothing huge, but a little bit more than what I saw the first couple of years," Aaron said.

"And you start looking at adding a few spreadsheets here and there, and you're looking at the forecast and actually thinking, 'All right, so if I just change my day-to-day habits and be a bit more conservative, and then push a little bit of money to a side every month one day, this is going to grow into something quite nice'," he says.

It wasn't just his relationship with money that changed, also the one he had with his wife and father once they began investing as well.

"It's a team effort and we're very transparent with money," he says. "We have that relationship now where we talk about what we've read or seen, news about share buybacks and things like that. But that definitely wasn't what it had always been like."

It was especially striking with his dad as Aaron didn't come from a family of investors but "now when we do meet up and have a chat we get really excited for these conversations, because we're building up", says Aaron.

Being able to have these chats with his family is one of Aaron's few opportunities to talk about the markets, as none of his friends are actively investing.

"I try to encourage conversation around it, but I think everybody thinks it's a bit boring," he says. He hopes that that changes and says he'll continue to try and get them engaged "because it's only going to get cheaper and better, isn't it, which is brilliant".



By **Eve Maddock-Jones**
Funds and Investment Trust Writer

Why US small-caps have seen an uptick in fortunes

US large-caps have been the unparalleled leader in equity market returns and investor inflows to the detriment of its small cap peers. But as the global market order shifts US small caps are showing signs of a revival.

Globally, small caps have struggled over the past five years, with higher interest rates and inflation creating a headwind to this more economically sensitive part of the market.

The MSCI World index tracks the biggest global companies and made almost 70% total returns since 2021, meanwhile MSCI World Small Cap made 37%.

This disparity is even greater when you focus just on the US, with the S&P 500 chalking up gains of almost 80%, which the Russell 2000 managed a return of just 21%.

Bill Hench, manager of the [First Eagle US Small Cap Opportunity](#) fund, says since he started out in the sector 25 years ago the past four to five have been “very very difficult”, made even more painful



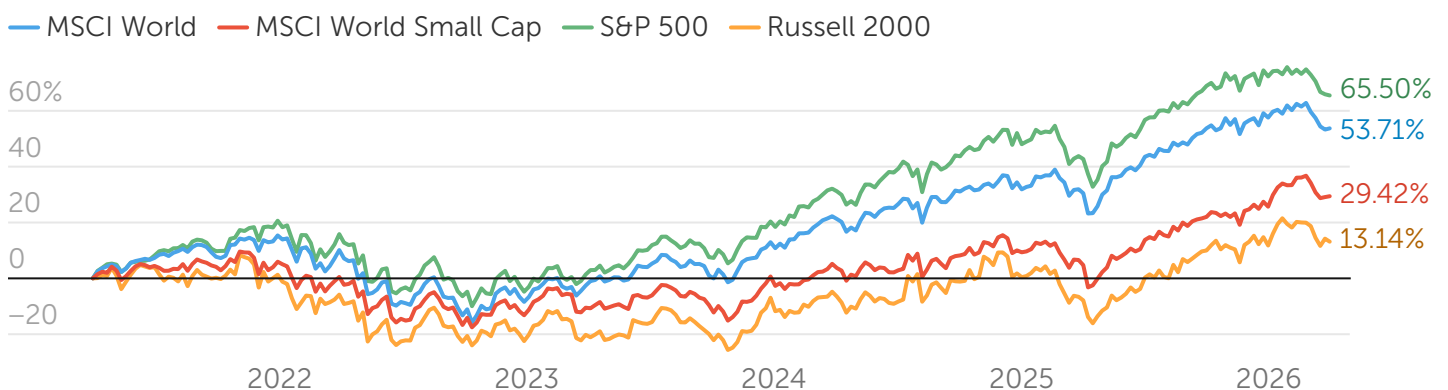
with a drought of initial public offerings (IPOs) due to the extremely volatility in equity markets.

Over five years, IA North American Smaller Companies funds have averaged a return just under 20% ranking 27th out of 55 sectors. By contrast, IA North America came in fourth with a 43% average.

But now the tide may have begun turn.

Globally and in the US small-caps have underperformed until recently

Performance (%)



Source: LSEG



Average total returns of US large and small-cap fund sectors

Sector	March '26	Q1 '26	6 months	1 year	3 years	5 years	10 years
IA North American Smaller Companies	-5.29%	1.44%	4.36%	17.33%	26.64%	18.80%	178.45%
IA North America	-4.36%	-3.06%	-0.93%	11.77%	42.95%	59.22%	235.32%

Source: FE Analytics. Data to 31 March 2026



The performance of small-cap funds has been improving.

In Q1 2026, the IA North American Smaller Companies sector bested its large-cap counterpart and this hasn't just been a flash in the pan, with the trend holding up over a volatile 12 months.

While past performance is not a guarantee of future returns, examining which parts of the market are exhibiting a change in investment performance is worth diving into, especially when it shows early signs of some sustained positive momentum.

Some US rate cuts may still be on the table

As mentioned, small-caps are more sensitive to the economic health of the country they're based in and the cost of borrowing is a major factor since these companies usually take on a higher level of debt than large-caps.

And while the outlook for US rate cuts has dampened since the start of the year following the outbreak of war between the US and Israel and Iran, Kirsty Desson, [Aberdeen Global Small Companies](#) manager, said there was still scope of some rate cuts albeit, not as many as initially forecast. "But [even] say two cuts would still be a positive dynamic," she says.

While other developed economies might even increase rates this year if inflation becomes stickier this would make the US, including its small cap contingent, more attractive on that front too.

What matters more though is the forecast rate of economic growth and the US has been incredibly

bullish on getting its domestic growth engine going, an ideal dynamic for small caps.

This doesn't mean they're not vulnerable to the threat of inflation due to the Iran conflict, but Olivia Micklem, co-manager of [Artemis US Smaller Companies](#) fund, explained that today this subset of the market is in better shape than it was back in 2020 and 2022 when similar macro headaches helped shake out unprofitable names which had been propped up by the previously low borrowing costs.

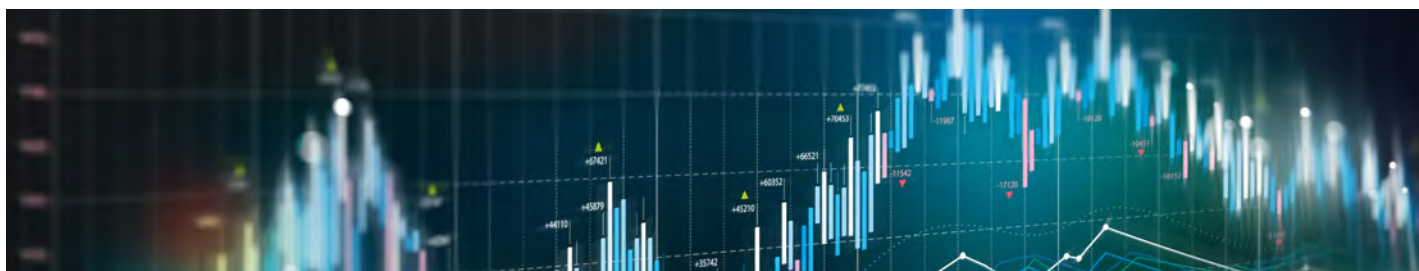
She explained that the market reached an IPO fever pitch in 2021 after a backlog was created by the pandemic and companies delayed their listings, but many which were unable to scale, leading to 40% of the Russell 2000 being unprofitable.

"But of that 60%, you can get some really brilliant companies," she says. Noting they have healthier balance sheets and diversified supply chains.

Why a pro-business policy agenda is good for small caps

Underpinning all of this, the sector has benefited from a wave of pro-business policies enacted by the White House, which could feed into more domestic corporate activity, changes which have flown somewhat under the radar amid the headline grabbing international agenda of President Donald Trump.

This has sparked a business migration trend, with companies moving from more corporate tax heavy States such as California to more accommodative areas such as Texas, colloquially referred to as 'Y'all Street'.



IPOs and M&A

IPOs and M&A are a big part of the small-cap space and all the managers we spoke to for this article note that the post-2020 drought had begun to end.

While small caps carry a connotation of being lesser-known names, many in the US are globally known brands. In fact, the average size of a Russell 2000 company is around \$5 billion. For comparison, the average size of a companies within the MSCI UK Small Cap Index is approximately £1.5 billion.

This also means US small caps can often aim higher than their global peers when it comes to M&A, seen recently with Victory Capital putting in a challenger bid against private equity manager [Blackstone](#) for asset manager [Janus Henderson](#).

Nathan Moser, whose Impax Small Cap fund invests in Victory Capital, says that when he started out a US small cap was typically a \$2 billion company, now he's looking for \$10 billion firms most of the time.

Domestic firms with international recognition in this category include office supply chain Staples and beauty brand [e.l.f.](#), which recently bought rival Hailey Bieber's skincare firm Rhode in a deal valued up to \$1 billion.

While Victory Capital's bid wasn't taken forward, all the managers said that the general quality of the M&A deals they're seeing is strong, although it varies sector by sector.

The 'Big Beautiful Bill' also brought in a lot of fiscal stimulus for domestic firms and "that really kicked in at the beginning of 2026", Nathan Moser, manager of the Impax Small Cap fund says.

This policy support from the government is feeding into the market Aberdeen's Desson says, "and that is providing pockets of investment in certain areas, particularly around infrastructure".

Can you still get a slice of the AI-American pie?

Taking a stake in small caps doesn't mean investors have to sacrifice exposure to the AI trend dominating investors' attention.

The big US tech firms are putting billions of capex into building out their AI infrastructure and capabilities.

"US smaller companies offer investors access to parts of the economy that large-cap indices often overlook," including this AI build out says Jon Brachle, co-manager of the JPMorgan US Smaller Companies investment trust.

These names operate in "specialist niches,

serve domestic growth markets or supply critical components and services to larger industries" he says that in many ways the AI boom was being built by companies "we rarely hear about".

"While attention tends to focus on chipmakers or cloud providers, many smaller US companies are quietly supplying the critical infrastructure that allows AI to scale," and the breadth of opportunity at the low cap end means investors can gain AI exposure through businesses that are earlier in their growth journey.

"It's therefore not surprising that investors looking to broaden their US exposure and diversify beyond the largest technology names are looking further down the market-cap spectrum," something they can do at discount to the record high valuations of the Mag 7 and any 'AI winner' in the S&P 500 he adds.



By **Eve Maddock-Jones**
Funds and Investment Trust Writer

Managing your money in retirement



We spend years thinking about accumulating the pot we need to sustain us in our retirement but sometimes less thought is given to how we plan to manage our money once we retire.

Every month in *Shares*, AJ Bell's senior pensions and savings expert Charlene Young covers a range of topics relevant to those approaching or already in retirement. There's plenty to discuss as retirement marks a significant financial and lifestyle transition and making sure you have enough to live on throughout your life is really important.

The picture has become more complicated at the end of our lives too. Upcoming changes to inheritance tax rules mean that unspent pensions will soon be included within your estate for inheritance tax purposes. This shift is expected to draw many more people into the inheritance tax net, particularly those who have accumulated substantial pension savings alongside other assets.

Keeping on top of your finances after retirement

Today, individuals have the option to access their pensions from age 55 (rising to age 57 in 2028) and can tailor withdrawal strategies to suit their circumstances. This flexibility can support a gradual transition into retirement, blending part-time work with pension withdrawals, or adapting income as needs change. However, it places the responsibility for careful financial management firmly in the hands of retirees, who must also consider tax implications, investment performance, and their own longevity.

One of the most important considerations in retirement is ensuring that your pension pot will last as long as you do. With life expectancy higher than it was in the past, you could need your

retirement savings to sustain you for as much as several decades. Careful planning is required to avoid outliving your savings, especially given the risks posed by market fluctuations and unexpected expenses.

Annuities versus drawdown

There are two main approaches for generating retirement income for someone with a defined contribution pension – whether that's a SIPP or workplace pension. These are purchasing an annuity or entering drawdown. Annuities provide a guaranteed income for life, historically popular for their simplicity and security.

Drawdown, meanwhile, allows retirees to keep their pension invested and withdraw income flexibly. The latter approach has gained popularity in recent years, offering greater control but also exposing individuals to investment risk and the challenge of managing withdrawals for sustainability.

Drawdown offers considerable freedom: you can start taking money from your pension as early as age 55, select the timing and number of withdrawals, and combine income from part-time work or other sources. However, this requires regular reviews of your pension pot, investment choices, and spending habits. Retirees must contend with the possibility of living longer than expected and weathering periods of poor investment returns, both of which can threaten the sustainability of their income.

Retirement income is now a fluid and ongoing decision, not a one-off event. You can blend annuity and drawdown, phase withdrawals, and adapt your strategy as circumstances evolve. Planning is essential and you need consider not only when and how much to withdraw but also the

tax implications and the need to preserve capital for later years.

What happens when you first access your pension through drawdown?

Bear in mind that withdrawing taxable income from your pension can affect future pension contributions, triggering the money purchase annual allowance (MPAA) and limiting the amount you can contribute with tax relief each year. The MPAA is triggered if you start taking income from a flexi-access drawdown plan or you take what is known as an ‘uncrystallised funds pension lump sum’ directly from your pension pot.

One thing that people could consider if they’re looking to take taxable income and want to pay in more than MPAA limit of £10,000 a year, is to just access the tax-free cash and leave the drawdown bit untouched, thereby retaining the overall maximum £60,000 annual pensions allowance.

You may also face emergency income tax on your first withdrawal. This is more likely if you’ve taken a single taxable withdrawal during the tax year. If you’re taking a regular income through drawdown, then HMRC should sort out your tax position over the course of the year.

If you have overpaid tax, you can usually reclaim it from HMRC. If you’re taking a regular pension income, HMRC will give you another tax code that puts you in the correct position over the rest of the tax year.

For one-off or ad hoc payments, HMRC should calculate any tax you’ve overpaid and refund you after the end of the tax year.

But it’s usually quicker to make a claim for overpaid tax within the tax year, using one of the following HMRC forms:

P50Z – if the withdrawal used up your whole pension pot and you have no other income in the tax year

P53Z – if the withdrawal used up your whole pension pot and you have other taxable income

P55 – if you withdrew only part of your pot, and you’re not taking regular payments

What are key risks to consider if you’ve gone down the drawdown route?

There are lots of things to think about when it comes to your money in retirement, assuming you’ve entered drawdown, but there are two fairly broad risks which are worth keeping in mind.

Longevity Risk: Will your pension last as long as you do? Many underestimate their own life expectancy – at age 66, average life expectancy is 85 for men and 88 for women, with many living into their 90s.

Sequencing Risk: Poor investment returns early in retirement, combined with withdrawals, can harm the sustainability of your pension. The table shows a hypothetical example of the impact this can have.

Strategies to mitigate this include withdrawing less during market downturns and taking a ‘laddered’ approach, with cash and low-risk assets for short-term spending, leaving higher-growth investments for later years.



RUNG 1: Short-Term (Years 1–2): Cash or cash equivalents (bank accounts, money market funds) to cover immediate expenses. This provides liquidity and avoids selling investments during a market downturn.

RUNG 2: Medium-Term (Years 3–5): Low-risk, income-producing assets such as bonds or conservative “balanced” funds to replenish the cash buffer.

RUNG 3: Long-Term (Years 6+): Growth-oriented investments (equities, property) to fight inflation and grow capital, allowing for higher volatility since the money isn’t needed immediately

You could also rely on so-called ‘natural income’ from your investments, for example in the form of regular dividends.

A hypothetical example of how sequencing risk can work

Year	John's portfolio value and annual returns	Sandra's portfolio value and annual returns	Withdrawals	Difference
1	£425,000 (-10%)	£505,000 (6%)	£25,000	£80,000
2	£378,750 (-5%)	£581,000 (20%)	£25,000	£202,250
3	£391,625 (10%)	£596,670 (7%)	£25,000	£205,045
4	£354,876 (-3%)	£661,171 (15%)	£25,000	£306,294
5	£383,108 (15%)	£616,335 (-3%)	£25,000	£233,228
6	£384,925 (7%)	£652,969 (10%)	£25,000	£268,044
7	£436,910 (20%)	£595,320 (-5%)	£25,000	£158,410
8	£438,125 (6%)	£533,288 (-10%)	£25,000	£95,164

Source: Baillie Gifford



Key dates and ages in retirement planning

New Tax Year (6th April): Brings new pension and income tax allowances, along with increases in the state pension.

Normal Minimum Pension Age: Currently 55, rising to 57 from 2028.

State Pension Age: Currently 66, increasing to 67 between now and 2028 and likely to rise again in future years.

Age 75: This is the cut-off for receiving tax relief on pension contributions. Contributions are allowed after 75, but without up-front tax relief. Some providers will not take contributions after this age.

Changes to inheritance tax

Under current rules, pensions can be passed on tax-free to beneficiaries if you die before age 75. If death occurs after 75, beneficiaries pay income tax on withdrawals from inherited pension pots.

However, from April 2027, unspent pensions will be added to the estate for inheritance tax purposes. This change is likely to impact

many families, prompting the need for more sophisticated financial planning to mitigate tax liabilities and ensure the efficient transfer of wealth to loved ones.

The landscape of managing your retirement income is evolving rapidly. While flexibility has increased, so too have the risks and responsibilities facing retirees. It is essential to devise a strategy, understand the available options, and regularly review your plans to make sure your pension pot lasts the distance.



By Tom Sieber Editor

Listen for more

You can access the free [AJ Bell Money & Markets Deep Dive podcast](#) in the usual podcast places. It looks at a range of investment topics in detail including pensions.





I live overseas: how can I access my UK pension?

Ask the experts

Rachel Vahey is here to answer questions on pensions.

If you'd like a question considered for a future edition send it in now.

I have a stakeholder defined contributions pension with a big provider built up when I was employed in the UK by my previous employer. I have not yet draw down any income from it.

I now live and work and pay tax in Ireland. The pension provider offers various options, but it won't pay a drawdown income to my Irish bank account. I am 57 and have no plans on moving back to the UK.

Would an Investment SIPP help?

Richard



Rachel Vahey,
AJ Bell Head of Public Policy, says:

In a global environment it's easy to see how some people can build up pension benefits in one country but take retirement income when they

are living in another country. But as pensions are often backed by government tax advantages to encourage citizens to save, and pay an income that is subject to tax, it can be difficult for these savings plans to straddle international borders.

Most UK pension scheme generally find it difficult to deal with non-UK residents because of practical challenges of paying money overseas. This is particularly pertinent when considering how the pension can pay benefits.

Ideally, you would like the pension scheme to pay drawdown income into an overseas bank account, but it sounds as if you have already asked your provider and they have declined. One solution would be for the pension scheme to pay in UK sterling into a UK bank account if you still have one. However, you would have to bear the risk and cost of converting the sterling into euros.

What are the alternatives?

If paying into a UK bank account is not possible, or if you want to explore alternatives that, importantly, remove this currency risk, then you could transfer your pension to a Qualifying Recognised Overseas Pension Scheme (QROPS). This is an overseas pension scheme that operates in



a similar way to UK schemes and is registered with HMRC. Transfers to a QROPS could be subject to an 'Overseas Tax Charge' of 25% of the transfer value. However, you might be able to avoid this if the QROPS is based in the same country as you are.

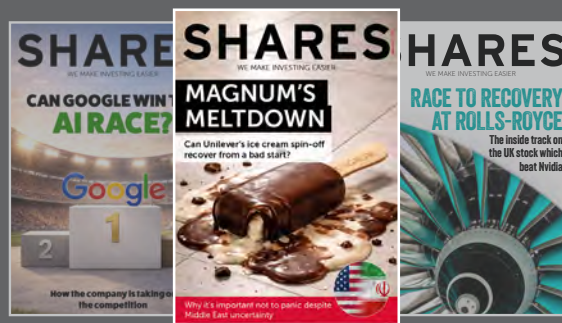
When checking HMRC's recognised overseas pension schemes notification list there are over 25 QROPS based in Ireland. However, any individual thinking about transferring to a QROPS should, before they transfer, check how the QROPS works to understand the tax implications, investment potential, and the charges involved.

Speak to the QROPS providers to gather more information on the scheme to make sure it aligns with your goals and financial plans. Generally, individuals should also check whether their current pension provider will allow a transfer to an Irish QROPS (AJ Bell will).

Is an international SIPP another potential solution?

Another option is to transfer to an international SIPP. This is a UK-registered pension scheme designed specifically for non-UK residents or those planning to move abroad. It offers more options to overseas residents; whether that is regarding payment or managing funds whilst you are not in the UK. The key advantage of an international SIPP is that it will pay an income in, say, euros directly into an overseas bank account, but there is still currency risk to manage.

If you remain in an UK based pension scheme then, usually, the pension scheme deducts any UK income tax before paying out the pension income. However, if you are resident overseas for tax purposes, the taxation of the payment will be determined by the double taxation agreement in force between the two countries. You would have to complete a DT-Individual form to arrange the correct taxation.



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