

Market Update

Tuesday 3 March 2026

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The FTSE 100 fell 2.75 per cent to 10,484.13 on Tuesday, 3 March, its biggest one-day decline in almost a year, as the US-Israeli conflict with Iran drove oil and gas prices higher and revived fears of persistent inflation.

The FTSE 250 dropped 3.11 per cent to 22,694.21. Its steeper decline reflected pressure on domestically focused, rate-sensitive companies, including housebuilders and retailers, which are more exposed to UK borrowing costs and consumer demand.

The conflict disrupted shipping through the Strait of Hormuz, a route for about a fifth of global oil and liquefied natural gas flows, raising fears of further supply constraints. Brent crude rose 4.7 per cent to settle at \$81.40 a barrel.

QatarEnergy also ceased production of LNG and associated products after military attacks on its facilities at Ras Laffan and Mesaieed, intensifying concerns about global gas supplies.

The energy shock prompted investors to reassess the outlook for UK interest rates. Money markets cut the implied probability of the Bank of England reducing Bank Rate from 3.75 per cent to 3.5 per cent in March to 22 per cent, from 75 per cent before the conflict. Traders assigned roughly an 85 per cent chance of a single quarter-point cut by December.

UK government bonds also sold off, with the 10-year gilt yield rising 10 basis points to 4.477 per cent. Sterling fell 0.39 per cent against the dollar to \$1.3357. A weaker pound could increase the sterling cost of imported oil and gas, adding to inflationary pressure.

Dan Coatsworth, head of markets at AJ Bell, warned of a “meaningful impact on inflation” if oil and natural gas prices remained elevated, which could delay rate cuts and weigh on equities.

BP gained 1.06 per cent as crude prices rose. In contrast, British Airways owner IAG fell 5.44 per cent as investors worried about higher fuel costs, while HSBC dropped 5.20 per cent amid a broader sell-off in financial stocks.

Russ Mould, investment director at AJ Bell, said “fear was the watchword on Tuesday” as the FTSE 100 recorded its biggest one-day fall since President Donald Trump’s “Liberation Day” tariff announcement in April 2025.

Looking ahead, Coatsworth said persistently high energy prices could hurt housebuilders by keeping borrowing costs elevated, while retailers could face weaker spending as higher household bills squeeze disposable incomes.