QUARTERLY MARKET UPDATE

The Point

Q1 2026 — Quarter to March

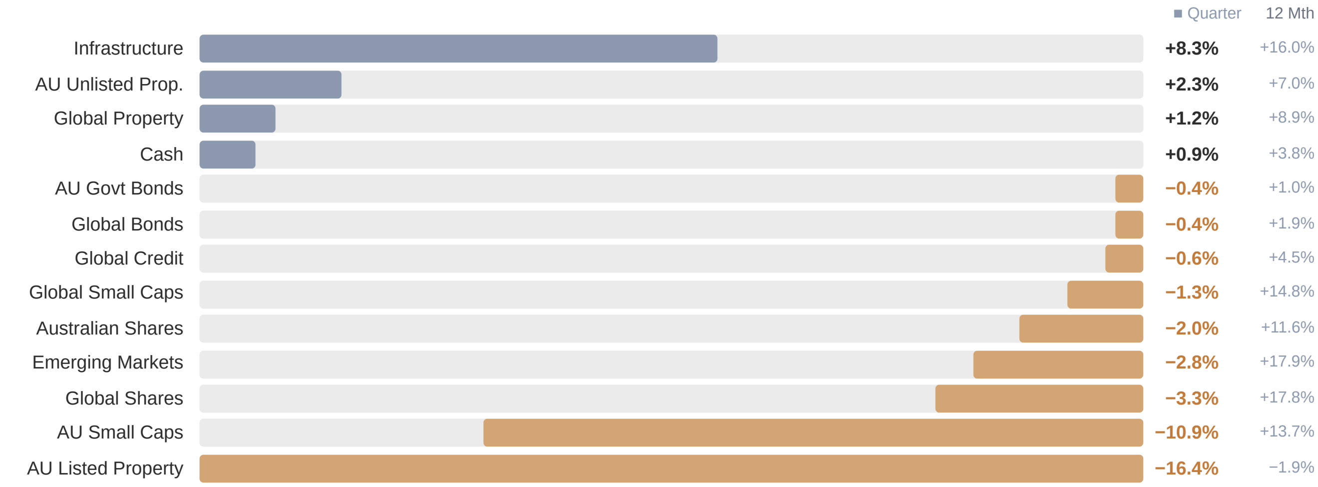
Prepared for clients of

To discuss how these developments may affect your portfolio, please contact your adviser.

An energy shock redefined the quarter. The US/Israel strike on Iran disrupted the Strait of Hormuz, oil nearly doubled, and the RBA hiked twice to 4.1%. Markets rotated sharply: energy surged, tech collapsed, and defensive positioning was rewarded.

RBA CASH RATE	BRENT CRUDE	AU CPI (ANNUAL)	S&P GSCI
4.10%	**+94.4%**	**3.7%**	**+34.8%**
+50bps over the quarter	US$118/bbl at quarter end	Energy pass-through ahead	Commodities surged on conflict

How Asset Classes Performed



Source: Bloomberg, Mercer, LSEG Datastream. Quarter ending 31 March 2026. Global shares and bonds hedged to AUD. Past performance is not a reliable indicator of future performance.

What Happened

Australia

The quarter was dominated by the RBA's hawkish pivot. Two rate hikes took the cash rate from 3.6% to 4.1%, the first increases since 2023, driven by above-target inflation, a tight labour market and the inflationary impulse from surging oil prices. Annual CPI printed at 3.7%, though energy pass-through means the worst is likely ahead.

Australian shares fell 2.0%, with the damage concentrated in March as geopolitical tensions escalated. The sector divergence was extreme: energy surged 38.7% on the oil spike while information technology collapsed 27.9%. Defensive sectors, utilities and consumer staples, held up well. Australian listed property was the hardest hit asset class, falling 16.4% as rising yields forced a reassessment of valuations.

Global

The US and Israel launched military strikes on Iran in February, effectively closing the Strait of Hormuz and removing approximately 20% of global seaborne oil from the market. Brent crude nearly doubled to US$118/bbl. Markets sold off sharply in March as the scale of the disruption became clear.

International shares (hedged) fell 3.3%, with energy the sole bright spot, rising 37.7%. Consumer discretionary was the largest drag. Emerging markets fell 2.8%, hit by their status as net energy importers. Credit spreads widened as risk-off sentiment took hold. The US Supreme Court struck down reciprocal tariffs, but the Administration raised the base rate to 15% through alternative mechanisms, keeping trade policy uncertainty firmly in play.

How We See It

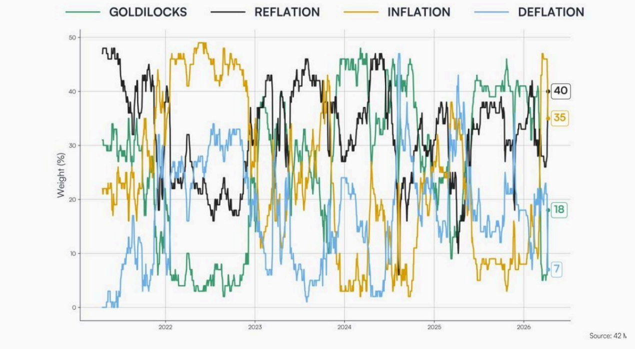
The long-term drivers of markets have not been broken by the Middle East conflict, but they are being tested. The US economy remains strong, company earnings are healthy, and investment in artificial intelligence continues to grow. These foundations are intact, and every piece of good news still triggers a sharp market bounce, a sign that investors are ready to look forward once the uncertainty clears.

In the near term, markets are being pulled in two directions. How quickly the Hormuz situation is resolved will determine what happens next. A swift resolution would likely spark a broad recovery. Drawn-out negotiations, which is what we expect, would keep energy and commodity-linked investments in favour. A longer conflict would weigh on growth as higher costs eventually slow economic activity. Meanwhile, global financial conditions have tightened and central banks are less willing to step in than investors may be used to.

We moved portfolios to a more defensive position in early March and are now selectively putting capital back to work. The themes we have been investing in have not changed and several have strengthened: the spread of AI across industries, rising defence spending, shifting supply chains, and the maturing of digital asset infrastructure. We continue to favour infrastructure for its income and inflation protection, secured private lending over broader credit, and gold and commodities as core holdings.

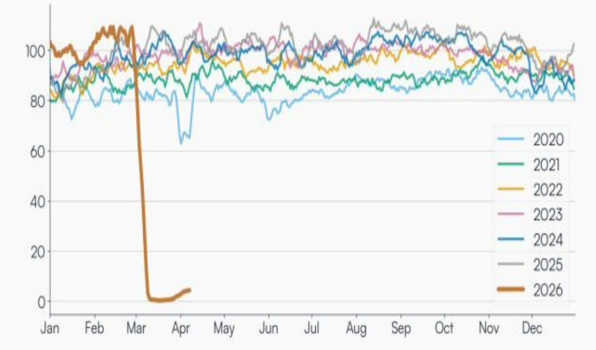
Charts of the Quarter

Regime Probabilities: Inflation Dominant at 46%



Source: 42 Macro, **arcpoint**

Strait of Hormuz: Vessel Crossings Collapsed



Source: Bloomberg, **arcpoint**

What We Are Watching

- **The energy shock and its duration.** Disruption to 20% of global oil supply through Hormuz is unprecedented in modern peacetime. Our base case is fitful negotiations with episodic disruptions; a swift resolution would likely trigger a broad-based rally, while prolonged conflict tips the outlook toward recession.
- **The RBA's path from here.** With the cash rate at 4.1% and inflation expected to peak at 5.4% by mid-year, we expect at least one more hike. The path back to target is narrow and the tolerance for rate cut optimism, at this stage, is limited.
- **Earnings resilience under pressure.** Forward US EPS growth expectations remain at 21%, barely revised despite the conflict. Tariff costs, energy pass-through and softening confidence could weigh on margins.
- **Private credit stress signals.** Several large managers have imposed withdrawal restrictions. This is a liquidity management issue within semi-liquid vehicles, not a systemic crisis, but the refinancing wall in 2027-28 demands careful monitoring.