ECONOMIC AND MARKET UPDATE

With Bob Cunneen, Senior Economist

MLC ASSET MANAGEMENT

Key events in April 2026

- Global shares made a remarkable recovery in April after the sharp falls in March. Investors have taken solace in strong US corporate profits and a ceasefire between Iran and the US. However, the effective closure of the Strait of Hormuz and soaring prices for crude oil, natural gas and fertiliser suggests that the Middle East remains a threat to global economic activity and inflation.
- US share prices have made new historic highs with corporates recording their highest profit margins in the last 15 years according to Factset. The largest US technology companies including Alphabet, Amazon, Microsoft and Nvidia are rapidly increasing their Artificial Intelligence (AI) capital investment which is encouraging investors. US economic activity has been solid, but inflation pressures are building given higher commodity prices. The US central bank kept interest rates steady at their April meeting.
- Asian share markets achieved robust returns with the optimism on AI and broader technology particularly benefitting Korean (+34%) and Taiwanese (+25%) share markets. Chinese shares also had a brighter positive performance with the benefit of solid results for economic activity in the March quarter.
- Australian shares made more modest gains in April. Concerns that the Australian central bank is set to raise interest rates given high inflation and some disappointing profit guidance weighed on Australian shares. The Health Care sector posted a painful -8.4% return with Cochlear recording sharp falls. The Consumer Staples sector also disappointed with caution about higher interest rates squeezing future household spending. More encouraging performances were seen in the Information Technology sector posting a +12.3% return and the Real Estate sector an +8.5% return in April after a poor start to the year.
- Australia's economic data has been mixed with solid job gains, modest household spending but higher inflation. Headline consumer inflation came in at 4.6% in the year to March. Accordingly, markets are expecting that further interest rate rises are coming in the next few months to restrain price pressures.

Asset class summary

Asset class returns in Australian dollars – periods to 30 April 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	0.2	2.2	-1.5	10.1	9.6	8.2	9.3
Global shares (hedged)	6.1	9.0	3.5	30.2	19.0	10.4	11.9
Global shares (unhedged)	-1.1	5.0	0.9	16.6	16.5	12.3	12.9
Emerging markets (unhedged)	6.2	9.3	2.5	30.5	17.3	7.6	9.9
Australian property securities	-9.3	8.5	-6.8	0.1	9.0	6.3	6.1
Global property securities (hedged)	8.4	7.4	5.5	16.2	8.2	2.1	3.5
Global listed infrastructure (hedged)	11.0	2.5	7.6	18.6	10.6	7.3	7.7
Australian bonds	-0.3	0.1	-0.5	-0.1	2.0	0.0	1.8
Global bonds (hedged)	0.1	0.3	-0.1	2.4	3.1	-0.1	1.6
Global high yield bonds (hedged)	1.2	1.5	0.7	8.3	7.1	2.9	4.8
Australian inflation-linked bonds	1.7	0.8	1.3	3.3	3.1	2.4	2.9
Cash	1.3	0.3	0.9	3.8	4.2	3.0	2.2
AUD/USD	7.8	5.0	2.6	12.4	2.8	-1.4	-0.6

Past performance is not a reliable indicator of future performance.
Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A$ (Net); Emerging markets – MSCI Emerging Markets in A$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged $A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A$ hedged) – Barclays Global Aggregate (A$ hedged, Gross); Global high yield bonds (A$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to April 2026

Global shares (hedged) made a strong return of 3.5% - although this was a rollercoaster ride. The Iran War proved to be a dramatic setback in March but global shares made a sharp recovery in April. For global shares (unhedged), a strong rise in the Australian dollar served to restrain the quarterly return to a modest 0.9%.

Optimism on AI prospects are the key drivers of US share prices making historic highs in April. This optimism was challenged by the surprise attack by the US and Israel on Iran in February 2026. Soaring prices for crude oil, natural gas and fertiliser initially pushed US share prices lower. The ceasefire between the US and Iran on 7 April allowed US share prices to begin a sharp recovery.

While Asian share markets also suffered sharp reversals in March, they ended the quarter in positive territory. Korea (29.6%) and Taiwan (24.7%) recorded astonishing gains in local currency terms as investors viewed that AI will lead to robust demand for Asian computer chips. However Chinese shares disappointed with a -9.9% return in local currency terms as weak consumer spending and a struggling property sector weighed on sentiment.

Global bonds (hedged) posted a slightly negative -0.1% quarterly return. Concerns over the inflation risk from rising energy and fertiliser prices generated sharp rises in global bond yields. Australian bonds also posted a disappointing setback with a similar -0.5% quarterly return.

Key events in Australia over the last three months to April 2026

Australian shares delivered a weak -1.5% return. There were some sectors that positively surprised with the Energy sector being a clear outperformer with a 19.2% quarterly gain. The defensive sector of Utilities (9.3%) also made strong gains. However, a 'sea of red ink' overwhelmed most of the other sectors. The largest underperformance was in Health Care (-25.2%) with the surprising weak profit guidance from Cochlear. Information Technology (-10%) also disappointed. The interest rate sensitive sectors of Real Estate (-6.8%) felt the pain of the Reserve Bank of Australia (RBA) raising interest rates in both February and March.

Australia's economy opened the new year on a brighter note with improved consumer spending and solid jobs growth. Yet this promising start has soured with a sharp rise in inflation causing the central bank to rapidly raise interest rates in February and March. The Iran War has only added 'salt to the wound' for Australian consumers with a sharp rise in petrol prices in March. Given the sharp rise in annual headline inflation to 4.6% in March, expectations are for further interest rate rises by the RBA in coming months.

Global prospects

Global financial markets are being challenged by extreme political risks that have been chaotic and dangerous. While there is currently a precarious ceasefire between Iran and the US, any sustained surge in energy prices could prove to be as dramatic as the '1970s Oil Shocks' There is also the prospect that current events become a 'Food Shock' as the Gulf States of Qatar and Saudi Arabia are major suppliers of fertiliser. For further details, please read the article: <u>Will the Iran War generate a global energy & food crisis?</u>

Global share markets are pricing in that the Middle East conflict will end soon. But this depends on political leaders in the US and Israel realising that their agenda of neutralising Iran's supposed 'imminent nuclear threat' has been achieved and abandoning other objectives such as Iranian 'regime change'. This also depends on Iran's new leadership being willing to talk after the brutal surprise attack. Regrettably there is still a chasm between the warring parties in terms of trust.

The global economy immediately confronts the prospect of both rising inflation and unemployment because of this Iran War. This 'stagflation' combination has echoes of the 1970s experience. For central banks around the world this creates a major policy dilemma – should central banks raise interest rates to restrain inflation pressures or lower interest rates to assist economic activity and mitigate rising unemployment. The RBA has set a precedent in March by citing the inflation risk from "*sharply higher fuel prices*" as justification for raising interest rates. If major central banks across the Americas, Asia and Europe follow suit with interest rate rises, this could continue the recent run of falling global share prices and rising bond yields.

Australian consumers were already challenged by persistent inflation before this Middle East conflict began. The Federal Government's recent termination of electricity rebates as well as persistent price pressures in food, health and housing were already squeezing household budgets. This "cost of living" squeeze is likely to weigh heavily on consumer spending over coming months. A convincing resolution of the Middle East conflict is needed soon to alleviate this significant downside risk to Australia's economic growth

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

Important information