Economic and market update

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ASSET MANAGEMENT

Key events in March 2026

- Global shares recorded sharp falls in March due to the Iran War. Investors became alarmed that the conflict between the United States, Israel and Iran will generate rising inflation and a slowdown in global economic activity. The dramatic surge in prices for crude oil, natural gas and fertiliser in March escalated with Iran attacking transport ships travelling through the Strait of Hormuz.
- US share prices went into a tailspin with the Iran War. President Trump's threat to destroy Iran's oil and power supplies and Iran's attack on Gulf States such as Saudi Arabia and Qatar generated fears that this will be a prolonged conflict. There were some calming signs at the end of March with President Trump suggesting that the US was *"finishing the job... within maybe two weeks, maybe a couple of days longer"* for the Iran War. This helped Wall Street to regain some composure at the end of a tough month.
- European shares proved acutely sensitive to the Iran War given Europe's dependence on energy imports.
- Chinese shares also disappointed with investors worried about China's energy sufficiency as Iran is a key supplier of oil and Qatar is for natural gas.
- Australian shares also dramatically declined given the Middle East conflict as well as the Reserve Bank of Australia (RBA) raising interest rates in March. The sharpest negative return of -12.9% was seen in the Information Technology sector. There were also significant negative returns for Consumer Discretionary and Real Estate sectors given their sensitivity to higher interest rates. Only a few sectors provided sanctuary against losses. The Energy sector made strong gains as a beneficiary of rising commodity prices. The defensive sectors of Consumer Staples and Utilities also showed resilience with mild gains.
- Australia's economic data has been mixed with solid job gains, softer household spending but higher inflation. Headline consumer inflation came in at 3.7% in the year to February. The central bank has continued to raise interest rates with another 0.25% interest rate hike taking Australia's cash rate to 4.1%.

Asset class summary

Asset class returns in Australian dollars – periods to 31 March 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	-2.0	-7.3	-2.0	11.6	9.4	8.5	9.4
Global shares (hedged)	-2.7	-6.4	-2.7	19.0	16.1	9.3	11.1
Global shares (unhedged)	-5.8	-3.4	-5.8	9.2	15.7	11.8	12.6
Emerging markets (unhedged)	-2.8	-9.5	-2.8	17.9	14.0	5.9	9.1
Australian property securities	-16.4	-11.2	-16.4	-1.9	7.9	5.2	5.6
Global property securities (hedged)	1.0	-8.3	1.0	7.8	6.3	1.8	2.7
Global listed infrastructure (hedged)	8.3	-3.1	8.3	16.0	10.4	7.3	7.5
Australian bonds	-0.3	-1.4	-0.3	1.5	2.1	0.2	1.8
Global bonds (hedged)	-0.3	-1.9	-0.3	3.0	3.1	-0.1	1.6
Global high yield bonds (hedged)	-0.3	-1.2	-0.3	6.7	6.8	2.8	5.0
Australian inflation-linked bonds	0.9	-0.4	0.9	3.4	3.0	2.5	2.7
Cash	0.9	0.3	0.9	3.8	4.1	2.9	2.1
AUD/USD	2.7	-3.9	2.7	9.9	0.7	-2.1	-1.2

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 March 2026

Global shares (unhedged) have disappointed with a very weak -5.8% return for the quarter. Falling global share prices with the Iran War combined with a solid rise in the Australian dollar accounted for this setback. Global shares (hedged) delivered a weak -2.7% return in local currency terms.

Optimism on Artificial Intelligence (AI) prospects and lower US interest rates were key drivers of US share prices making historic highs in January. However, this proved to be only the brief sunshine before the storm on 28 February. The surprise attack by the US and Israel on Iran generated alarm that energy supplies from the Middle East would be threatened. The global price surge in crude oil and natural gas forced Wall Street's benchmark S&P 500 Index to record a very weak -4.4% return for the past three months.

While Asian share markets also suffered sharp reversals in March, they ended the quarter in positive territory. Korea (23.9%), Taiwan (11.0%) and Japan (2.9%) in local currency terms. Chinese shares returned -8.5% (local currency terms) after a strong rally in the previous six months.

Global bonds (hedged) delivered a slightly negative -0.3% 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 -0.3% quarterly return.

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

Australian shares delivered a weak -2.0% return. There were some sectors that positively surprised with the Energy sector being a clear outperformer with a 36.1% quarterly gain. The defensive sectors of Consumer Staples (8.4%) and Utilities (10.3%) also made strong gains. However, a 'sea of red ink' overwhelmed for other industry sectors. The largest underperformance was in Information Technology (-27.2%) followed by Health Care (-16.8%). The interest rate sensitive sectors of Real Estate (-16.4%) and Consumer Discretionary (-14.6%) also felt the pain of the 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.

Global prospects

Global financial markets are being challenged by extreme political risks that are both chaotic and dangerous. The Middle East is now engulfed in a devastating conflict that is destroying lives. The economic impact that follows could prove to be as dramatic as the '1970s Oil Shocks' with sharp rises in global oil and natural gas prices due to limited supply availability. 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 Urea fertiliser and feed supplement.

Yet this ominous tide of events and adverse consequences could be suddenly reversed if negotiations occur. 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 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.

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