

MONTHLY SUMMARY

MARKET SUMMARY

March marked a decisive regime shift back toward inflation and rates sensitivity. The US-Israeli strikes of 28 February impacted a wide range of asset classes. The closure of the Straits of Hormuz has had particular significance. Equity weakness was driven more by valuation compression than earnings deterioration, with Energy acting as a macro hedge. Markets are likely to remain volatile as investors balance resilient growth against restrictive monetary policy and geopolitical risk.

Equities – Equity markets experienced a sharp risk-off move in March, driven by renewed inflation concerns, rising bond yields and heightened geopolitical risk in the Middle East.

- The March sell-off was explicitly driven by the Iran conflict and temporary closure of the Strait of Hormuz, which pushed oil, LNG prices, bond yields and the USD higher, tightening financial conditions.
- The S&P/ASX 200 fell 7.1%, underperforming global peers (MSCI World ex Aust -5.7%) on a local currency basis and reversing much of the early-year rally. A second RBA hike was a compounding headwind for the local market alongside global rates moving higher.
- Globally, most major equity markets declined. The US S&P 500 'relatively outperformed' falling ~5.0%, while European equities experienced deeper drawdowns (-7.7%), particularly Germany and France. Asian markets were also weak (-10.7%). Japan was the weakest among major markets, with the Nikkei falling over 12% in local currency terms.
- In AUD terms, however, the MSCI World ex Aust *only* fell 2.5% (the AUD fell 3% vs the USD)

ASX200 Sector performance trends – Sector dispersion was extreme, reflecting inflation sensitivity and commodity price movements.

- Large caps outperformed small caps (which were disproportionately hurt by their higher Materials exposure).
- Energy strength was driven by surging oil prices, while defensives outperformed amid rising rate expectations. Index (ASX200) weakness was heavily concentrated in Financials and Materials. Growth-linked sectors bore the brunt of multiple compression. Investors switched into defensive sectors.
- Within the ASX200, the best performers were Energy (+20.4%), Utilities (+4.9%) and Consumer Staples.
 - Despite Energy stocks rising ~20%, oil (+50%+) and LNG (+80%+) moves may suggest equities did not price a prolonged conflict. Refiners were the standout within Energy (e.g., Viva Energy +47%), highlighting downstream leverage rather than pure E&P exposure.
- The largest underperformers included: Materials (-13.0%), IT (-12.5%) and Property / A-REITs (-11.2%).
 - Gold stocks (-23%) fell much more than gold bullion (-11%), reflecting USD strength, yield pressure, and de-grossing of crowded winners.
 - IT suffered from a valuation de-rating as rising real yields compressed valuation multiples along with ongoing concerns about AI-disruption impacts. AREITs also suffered from higher bond yields.
 - US Dollar strength was a headwind hurting gold, Emerging market assets and Australian listed offshore earners.
- Globally, value and cyclical exposures (particularly Energy) outperformed growth.



Australian Bonds – Bonds fell 1.4% as inflation concerns lifted bond yields.

- Bond yields rose sharply across developed markets (Bonds markets fall as yield rise), reflecting higher-for-longer policy expectations. Listed credit markets also fell.
- The Australia 10-year yield rose ~32bp to ~4.97% while the US 10-year bond yield increased ~38bp to ~4.32%. Yield curves remain modestly upward sloping, but restrictive in real terms.

Global economy – Closure of the Straits of Hormuz lifted inflation concerns

- The Middle East conflict pushed oil prices above US\$100/bbl, raising concerns about a renewed global inflation impulse which may lessen central banks' ability to cut rates or keep rates low.
- PMIs remained expansionary but fragile. Global composite PMI sat around 53, signalling ongoing growth but reduced margin for policy easing.
- Central banks signalled patience. The Fed held rates steady but emphasised inflation risks, pushing back market expectations for near-term cuts

Australian economy – The economy is set to cool later in the year.

- The RBA delivered a second consecutive rate hike, taking the cash rate to 4.10%, with guidance pointing to further hikes. Inflation remains sticky, with oil prices adding another upside risk.
- Growth momentum remains reasonable for now, supported by strong labour markets and investment, but forecasters expect the economy to start to slow from the 2H of 2026 and into 2027 as higher rates bite.

Commodities - Commodity markets were volatile and highly bifurcated

- Oil (WTI) rose 51% driven by geopolitical supply risk, Thermal coal jumped 23% and Iron ore gained 8% to ~US\$108/t. Soft commodity prices rose also.
- Gold fell 12% and base metals were weaker, with copper (-8%) and nickel (-4%) reflecting growth concerns. Aluminium bucked the trend rising 13.5% as Middle East supply was impacted by the conflict.

ASX200 Earnings revisions - Energy-linked earnings upgrades flowed through Australian equities

- Despite the equity market sell-off, earnings expectations improved modestly: ASX200 forward Earnings per Share (EPS): +1% over the month, +5.4% over three months. Global earnings expectations also rose.
- Stock-level upgrades were dominated by oil & gas producers (Energy +26.8%), while growth stocks continued to see earnings and valuation pressure.
- While FY26 and FY27 consensus EPS growth remains solid (mid-teens and low-double digits respectively), earnings expectations appear stale. The longer the conflict lasts the higher the risk of earnings downgrades in several sectors.
- Valuation compression was a key market feature in March. IT and Growth stocks were hit hardest. The ASX200 forward Price / Earnings (PE) ratio ended at 16.7x, down ~2 PE points on the month, now close to its long-term average (~16.5x).
- While the valuation of the ASX200 now looks more reasonable, the focus turns to the duration of the conflict, destruction to energy infrastructure in the Middle east and earnings downgrade risk.
- Small caps trade at a meaningful discount to history, while Industrials remain relatively expensive versus Resources.

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