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Perpetual Wealth | Quarterly Market Update

# “Strait jacket”

Navigating markets in a time of conflict

March 2026

fordham

Perpetual 

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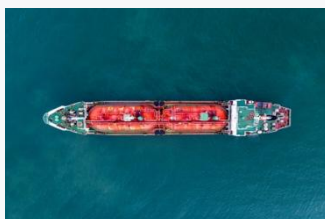
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# Executive summary

2026 had started with an air of relative calm. Despite a backdrop of a rambunctious US president intent on breaking global norms and ensuring his name is writ large in history, capital markets continued to steadily march onwards and upwards.

With the global economy and indeed much of the global population becoming adept at muddling through crises, share markets pushed ahead, shrugging off all but the worst of shocks.

Indeed, ignoring currency effects, most major indices had enjoyed meaningful gains into the end of February before (initially) taking fright at the US and Israel attacking Iran, taking out Supreme Leader Ali Khameni, along with multiple levels of the regime's command structure.

In spite of the gargantuan level of destruction being meted out by the superior technology and firepower harnessed by the US and Israel, Iran has managed to retain some degree of leverage, mostly via its Shahed drones (the very same it supplied to Russia for its invasion of Ukraine) and its geographical chokehold over the Strait of Hormuz.

This pinch-point, along with Iran's attacks on energy infrastructure across the gulf has driven oil prices above \$100 for the first time since Russia's "Special Military Operation" into Ukraine, and only the second time since 2014.

With the implicit inflation caused by an oil shock, governments, businesses and central banks have all had to rapidly adjust, to soften its worst impacts.

At the time of writing, this has been largely successful, with financial markets increasingly pricing a relatively fast resolution to the conflict and, by extension, a relatively quick return to the conditions that were in place prior to February 28<sup>th</sup>.

We are not sure that the path ahead will be quite so simple, retaining hearty helpings of both concern and optimism. Whilst the current turmoil in the Middle East is far from welcome, the potential of a productivity boom borne out of the AI revolution, provides an almost perfect risk barbell to the disruption that is currently impacting the critical commodities which flow through the Strait.

# Asset class snapshot



## Australian equities

Australian equities fell over the March quarter, with the S&P/ASX 300 falling 2.0%<sup>1</sup>. Performance was volatile across the period, with a strong February rally (+3.9%) ultimately unwinding into quarter-end as higher interest rates and elevated geopolitical risk weighed on sentiment. From a size perspective, large companies outperformed their smaller peers meaningfully. The ASX 100 declined 0.9%<sup>2</sup>, while the Small Ordinaries fell by 10.9%<sup>3</sup>, as rising rates, weaker risk appetite and higher input costs disproportionately impacted smaller companies. Sector performance reflected a clear defensive rotation. Energy was the standout, surging 36.1%<sup>4</sup> on higher oil prices and supportive earnings. Utilities (+10.3%<sup>5</sup>) and Consumer Staples (+8.4%<sup>6</sup>) also outperformed, while Materials (+3.4%<sup>7</sup>) and Financials ex-REITs (+0.4%<sup>8</sup>) recorded modest gains following a weak March. In contrast, Consumer Discretionary fell 14.9%<sup>9</sup>, Industrials dropped 5.9%<sup>10</sup>, and Communication Services eased 1.3%<sup>11</sup>. Information Technology (-27.2%<sup>12</sup>) and Health Care (-16.8%<sup>13</sup>) were the weakest performers. From a style perspective, Value (+6.8%<sup>14</sup>) stocks continued to outperform Growth (-6.2%<sup>15</sup>), supported by stronger cash-flow generation and exposure to energy and commodity-linked businesses.



## International equities

International equities finished down for Q1 2026, with the MSCI All Country World Index falling 5.8%<sup>16</sup> amid heightened geopolitical risk and rising energy prices, driving increased market volatility. In terms of style, Value (-1.5%<sup>17</sup>) stocks outperformed Growth (-10.9%<sup>18</sup>) as elevated valuations left Growth more exposed to rising volatility and tighter financial conditions. Small caps declined 1.6%<sup>19</sup>, outperforming their larger peers early in the quarter before pressure re-emerged into March. Sector performance was highly dispersed. Energy was the standout, surging 30.1%<sup>20</sup> on supply disruptions and higher oil prices. Defensive sectors proved more resilient, with Utilities gaining 5.5%<sup>21</sup>, Materials rising 3.8%<sup>22</sup>, and Consumer Staples finishing modestly higher at 0.6%<sup>23</sup>. In contrast,

Consumer Discretionary underperformed (-13.2%<sup>24</sup>), while Information Technology (-9.2%<sup>25</sup>) and Communication Services (-10.3%<sup>26</sup>) were weighed down by concerns around AI-driven disruption to software business models. Financials declined 9.1%<sup>27</sup> amid macro uncertainty and credit concerns. Regionally, the S&P 500 fell 6.9%<sup>28</sup> and the Nasdaq declined 9.4%<sup>29</sup>. The UK's FTSE 100 closed down 1.3%<sup>30</sup>, Japan's Nikkei fell 2.1%<sup>31</sup>, while Europe lagged with Germany's DAX down 11.5%<sup>32</sup> and France's CAC 40 down 8.3%<sup>33</sup>. Emerging markets declined 2.8%<sup>34</sup>, outperforming Developed markets overall.



## Real estate

Listed real estate declined over the March quarter as higher interest rates and valuation pressure weighed on rate-sensitive assets. Australian REITs (A-REITs) fell sharply, with the S&P/ASX 300 A-REIT Index down 16.4%<sup>35</sup> for the period, erasing prior strong gains and leaving the 12-month returns at -1.9%. Performance was amplified by index concentration, with Goodman Group, representing over 40% of the benchmark, declining 17.6%.

Globally, REITs proved more resilient, with the FTSE EPRA Nareit Global Index declining 2.1%<sup>36</sup> in AUD terms. Regional outcomes were highly dispersed: Hong Kong was the standout, rising 11.3%<sup>37</sup> amid improving economic sentiment, while the US gained 1.8%<sup>38</sup>, supported by strength in data centres, retail and senior housing. Japan declined 5.4%<sup>39</sup>, while Europe underperformed, with the broader Europe index down 9.0%<sup>40</sup>. Office and residential assets continued to lag, while data centres and retail remained relatively resilient.

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## Fixed income

Fixed income markets drifted lower over the March quarter as inflation concerns and higher energy prices pushed yields higher. In Australia, bonds came under pressure as the Reserve Bank of Australia (RBA) shifted decisively back into tightening mode, delivering two consecutive rate hikes that lifted the cash rate to 4.10%. As a result, the Bloomberg AusBond Composite returned -0.3%<sup>41</sup> for the quarter, with annual returns of 1.5% reflecting the offset between higher income and capital drawdowns. Credit was more resilient, with Australian credit returning -0.2%<sup>42</sup> for the quarter and 2.6% over twelve months, while floating-rate credit outperformed, gaining 1.0%<sup>43</sup> for the quarter and 4.7% over the year.

Globally, bonds also weakened as expectations for rate cuts in 2026 faded. The Bloomberg Global Aggregate fell -0.3%<sup>44</sup> for the quarter as US 10-year Treasury yields rose to around 4.32%, and European yields drifted higher. Credit underperformed, with global Investment-Grade credit (AUD hedged) down -0.6%<sup>45</sup>, while global High Yield declined a modest -0.1%<sup>46</sup>.



## Australian cash rate

The RBA began a new tightening cycle over the March quarter, lifting the official cash rate by a cumulative 50 basis points from 3.60% to 4.10%. A 25-basis point increase in February marked the first rate hike in over two years, followed by a second consecutive rise in March as inflation proved more persistent than previously expected. February CPI printed at 3.7% year-on-year, well above the RBA's 2–3% target band, while the unemployment rate remained steady at 4.3%, reinforcing concerns around domestic capacity pressures. The February decision was unanimous, while the March hike passed narrowly by a 5:4 vote. Rising oil prices and elevated short-term inflation expectations linked to the Middle East conflict were cited as key risks. Throughout the quarter, market pricing adjusted materially, reinforcing expectations of a higher-for-longer interest-rate environment and increasing the probability of further tightening later in 2026.

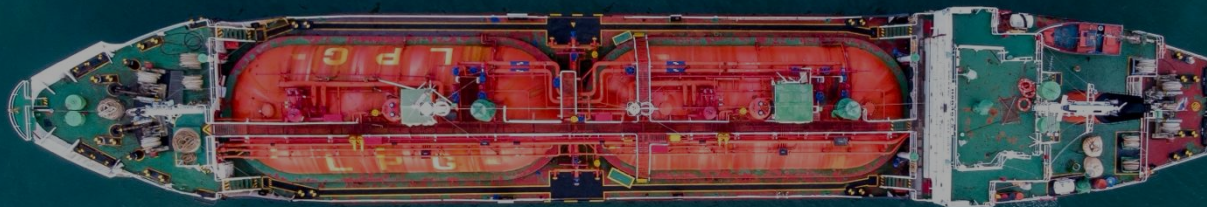


## Australian dollar

The Australian dollar (AUD) appreciated 2.7% against the US dollar (USD) over the March quarter, finishing near US\$0.69. AUD/USD traded in a wide range, lifting from around US\$0.67 in early January to a mid-March peak above US\$0.71 before giving back some gains into quarter-end. The advance extended the broader recovery in the currency that began during 2025. Interest-rate differentials were the primary driver through much of the quarter with the RBA in hiking mode, while the US Federal Reserve remained comparatively dovish. This divergence supported AUD strength through January and February. In March, escalating geopolitical tensions in the Middle East triggered a partial US dollar rebound as risk sentiment deteriorated, capping further AUD upside. Commodity prices provided some offset, with iron ore holding up and elevated energy and precious-metal prices supporting Australia's terms of trade.

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# Oil's biggest shock, priced like a mild inconvenience



We remain in uncertain times. A ceasefire was announced, then violated. Talks collapsed. As we write, the US has announced a naval blockade of Iranian port traffic. Amid a constantly shifting landscape, this article does not attempt to predict a single outcome, but rather to establish a framework for thinking about oil: where prices are, why the market has responded the way it has, and what the range of outcomes looks like from here.

## The current state of play

This is, by the International Energy Agency's (IEA) own assessment, the largest supply disruption in the history of the global oil market.<sup>47</sup> Approximately 9.1 million barrels per day have been removed from accessible global supply since Iran effectively closed the Strait of Hormuz in early March.

The Strait, a waterway just 33 kilometres wide at its narrowest point between Iran and Oman, is the passage through which approximately 20% of the world's seaborne oil and 15% of its Liquefied Natural Gas (LNG) normally flows. That is roughly double the 1973 Arab Oil Embargo, which was enough to trigger a global recession, fuel rationing across the developed world, and a fundamental restructuring of Western energy policy. Yet during this supply disruption, Brent crude prices have risen ~50%. In 1973, prices rose ~300%. That gap between the scale of the supply loss and the size of the price response is an important feature of this oil supply shock for investors to understand.

**Table 1: Major oil supply disruptions since WWII**

Crisis	Year	Supply lost (bpd)	Share of global supply	Price spike
Arab Oil Embargo	1973	4.5 million	~7%	+300%
Iranian Revolution	1979	~4.8 million	~7%	+150%
Iraq invades Kuwait	1990	4.3 million	~6%	+90%
Libyan civil war	2011	1.5 million	~1.7%	+25%
Russia invades Ukraine	2022	~1.5-2 million*	~2%	~65%
Iran war / Hormuz closure	2026	9.1 million+	~9%	+50% (so far)

Source: IEA, Perpetual Private

\* Russian barrels were largely rerouted to China and India rather than fully removed from global supply. Figure reflects volumes effectively withdrawn from Western markets at peak sanctions impact. Unlike other events in this table, the Hormuz closure physically strands supply rather than redirecting it, which is a material distinction.

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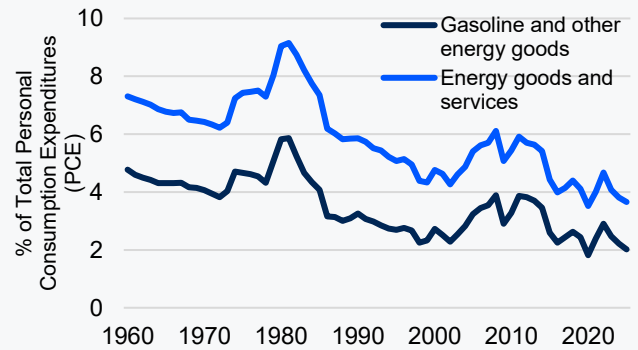
## Why oil prices aren't higher

The first reason why oil prices aren't higher now is strategic petroleum reserves. The IEA authorised its largest-ever coordinated release of crude oil in mid-March, totalling 400 million barrels across member nations.<sup>48</sup> This is functioning as a bridge, but it is not sustainable in the long-term. Once drawn down, reserves must be replenished, which will itself support prices staying elevated long after the immediate crisis passes.

Australia entered March with approximately 30 days of diesel reserves and 39 days of petrol, among the lowest buffers in the developed world relative to the IEA's 90-day benchmark.<sup>49</sup> Over 90% of our refined fuel is imported, primarily from Asian refineries that are themselves dependent on Middle Eastern crude. The consequences have been direct in Australia. Petrol reached above \$2.50 per litre in many parts of the country during March, diesel sits above \$3.00 in large parts of Australia, and at its peak, over 550 service stations nationally reported outages of at least one fuel type.<sup>50</sup> In response, the government has halved the fuel excise, relaxed fuel quality standards, and secured spot-market shipments to keep supply moving into May.

The second factor is that energy accounts for a smaller share of consumer spending than it once did. In the United States, energy goods and services represented roughly 9% of personal consumption in the late 1970s. Today it is closer to 4%.<sup>51</sup> The pattern holds across most developed economies. Critically, this means households can absorb higher fuel prices for longer before cutting back on other spending, which helps explain why the economic damage from this reduction in supply, despite its scale, has so far been more contained than the historical precedents suggest it should be. The shock is real and unevenly distributed, with regional Australian farming communities reliant on diesel, and logistics operators carry a disproportionate share. As a result, demand destruction as a broad economic force is expected to arrive later and more slowly than it did fifty years ago. There is still a limit where demand destruction will be inevitable, but we have not yet found it.

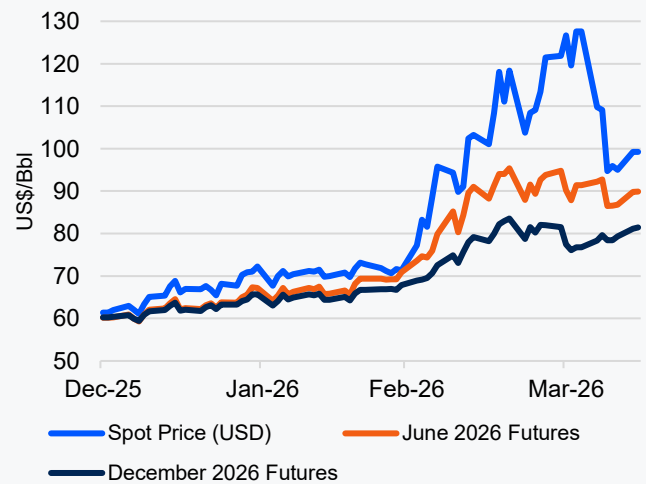
Chart 1: Energy as a share of consumer spending, 1970s vs today



Source: Bureau of Economic Analysis (BEA) – US Department of Commerce. Perpetual Private.

The third reason is that markets are pricing in an eventual resolution. Brent for immediate delivery is trading around US\$100, depending on the day. The December 2026 contract is near US\$83 at the time of writing; a contract that opened the year at US\$60 and averaged US\$65 through all of 2025. The shape of that curve highlights that the market views this as a temporary shock, not a structural repricing of energy, or else the December 2026 contract would be much higher. That confidence in an eventual resolution is suppressing the current spot price response relative to historical episodes of comparable scale.

Chart 2: Brent crude oil futures curve (USD)

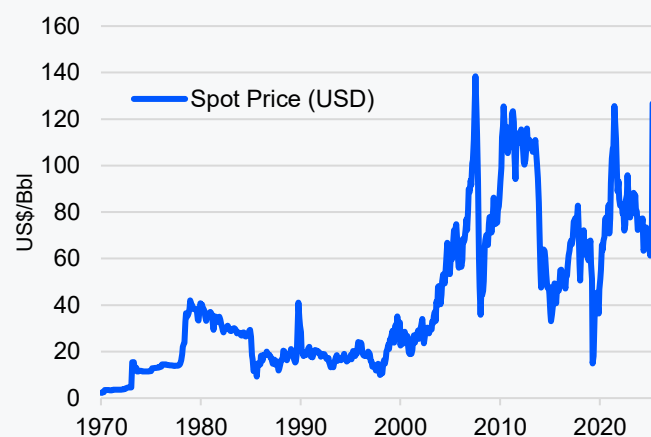


Source: FactSet. Data as of 14 April 2026. Perpetual Private.

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On supply measures alone, it is clear that this event is structurally worse than 1973, in a way the current price does not fully reflect. In 1973, the Organisation of the Petroleum Exporting Countries (OPEC) had spare capacity and eventually turned the taps back on when the embargo ended. Today, that cushion does not exist in the same way. Saudi Arabia has had production knocked offline by Iranian strikes and cannot fully utilise its Petrolina (a 1,200 km pipeline running across the Arabian Peninsula to the Red Sea, designed specifically to bypass the Strait) due to pumping station damage. The usual ability to dial supply up and down is not currently present.

**Chart 3: Brent crude oil spot prices**



Source: FactSet. Data as of 14 April 2026. Perpetual Private.

### The market's blind spot

The absence of a supply cushion makes the market's confident pricing of a resolution more consequential than it might otherwise be. The current oil price contains an assumption that this ends soon, and cleanly. That assumption is doing real work in suppressing prices, but it may also be undermining the conditions required for it to come true.

On the one hand, the expectation that prices will fall has discouraged supply investment. US oil rig counts have not budged since the start of the war.<sup>52</sup> A Dallas Fed survey in mid-March found that 50% of energy executives expected no change to drilling activity, with only 21% planning a significant increase.<sup>53</sup> Wall Street capex forecasts for listed US energy companies remain subdued. Unless long-dated futures prices rise meaningfully, the supply response will be limited, which means any delay in a resolution to opening the Strait could produce a sharper price move in oil markets than current pricing suggests.

On the other hand, reduced market pressure creates its own negotiating risk. If oil prices are expected to normalise regardless, the urgency for all parties to hold a ceasefire together is diminished. Negotiations remain fragile. There is speculation that Iran may consider suspending nuclear enrichment for a period in exchange for sanctions relief, which would be

consistent with its material constraints. Tehran's ability to threaten the Strait in the future may be as valuable a deterrent, as a functioning nuclear programme. But, talks are proceeding under deep mutual distrust, and a ceasefire that has already been broken once is not a ceasefire that inspires confidence.

In an adverse scenario where the Strait remains effectively closed through year-end, the December 2026 Brent contract could move from US\$83 toward US\$150. The spread between major bank forecasts currently running from US\$85 to US\$150 is itself informative. Anyone presenting a single confident oil price projection at this point is either a fortune teller or has direct access to what President Trump will do over the medium term, something we do not believe is possible to know with any meaningful certainty.

### Beyond crude

Past oil shocks were primarily limited to being a crude oil story. However, this supply shock reaches further.

The most significant extension is LNG. Qatar's Ras Laffan complex, producer of 93% of the Gulf's LNG with around 80% destined for the Asia-Pacific region, has been largely offline since 2 March when the Strait closed to shipping, and took direct hits on 19 March that could delay restoration of full capacity by three to five years.<sup>54</sup> Asian LNG spot prices rose 140% following the strikes. European gas storage, already at just 30% capacity after a cold winter, faces a second supply crisis in four years. For Australia, as one of the world's largest LNG exporters, this has been a direct and material benefit to producers and to our trade balance. It is one of the genuine offsets to an otherwise uncomfortable scenario.

The ripple effects do not stop at energy. Urea, the most widely used nitrogen-based fertiliser in the world and a critical input for crop production, has risen roughly 50% in price since the conflict began, with nitrogen on track to double from 2024 levels.<sup>55</sup> For Australian farmers already navigating diesel shortages and record input costs, this is a compounding problem. Gulf producers also account for around 9% of global primary aluminium production, and with smelters unable to export through the Strait, prices have reached four-year highs. Helium, roughly a third of which is produced in Qatar as a byproduct of LNG processing, has doubled in price, threatening semiconductor manufacturing supply chains for which no commercial substitute exists. Sulfur, a feedstock for sulfuric acid used in battery production and metal processing, is facing similar strains, with the Gulf accounting for nearly half of global seaborne supply. Our commodity export profile provides a degree of natural hedging at the aggregate level. It does not however protect every sector or every household from the transmission of higher input costs.

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## Where does oil go from here?

In the near term, the trajectory depends on whether the Strait reopens and at what pace. Even after a durable ceasefire, restoration of normal flows takes time. Mines need clearing, with reports that Iran has itself lost track of some it planted. Insurers must lift war-zone exclusions before commercial shipping resumes at scale. Over 70 energy facilities across the region have sustained damage. The 1990 Kuwait disruption ended with a ground war that lasted days; the supply disruption that followed took months to unwind.

Over the medium term, a lasting structural premium above pre-conflict levels appears likely. Gulf infrastructure will take months to repair under optimistic assumptions, strategic reserves drawn down globally must be replenished, and the geopolitical risk premium on Gulf supply routes has been permanently re-rated. Insurers, shippers, and refiners will price Hormuz risk differently from now on regardless of how this conflict ends.

What is more certain is the structural direction of travel. Every major oil shock since 1973 has ultimately accelerated the transition away from the energy source at its centre. The 1970s shocks produced fuel efficiency standards and seeded the research that eventually yielded modern battery technology. Russia's invasion of Ukraine accelerated Europe's pivot to domestic renewables. This closure of the Strait will do the same, and likely faster, for a reason that has less to do with climate policy and more to do with national security. Domestic energy cannot be blockaded. With clean energy already the lowest-cost source of new power generation in most markets, the economic case was already compelling. The security case, sharpened by weeks of disruption to 20% of global oil supply, has now made the political case unavoidable. The irony is that sustained high oil prices may prove to be the most effective long-term cure for bringing prices down by reducing aggregate demand.

For Australian investors and households, our dependence on imported refined fuel and our thin reserve position relative to peers means we feel the price of global oil disruptions more quickly and more acutely than our resource wealth might suggest. Markets are currently pricing a relatively swift resolution to the crisis, and if they are right, much of the pressure on oil prices and on Australian households at the bowser should ease in the months ahead. If they are wrong, the downside from here is material. Both outcomes carry investment implications worth watching carefully as this situation develops.

# Strait jacket

## Charting a path through the economic and investment implications of the Iranian conflict

### Quiet before

It can't be said that 2026 started with a whimper. Whilst 2025 had begun with the naive hope that the transition from a Biden administration to a Trump one would be less dramatic than campaign promises suggested; there were no such disillusionings as we stepped into the opening days of January.

Even so, the January 3<sup>rd</sup> capture of Nicolas Maduro from his residence in Caracas in a swift and highly successful operation by US forces, was astounding. President Trump was visibly delighted by the outcome of the mission, which had impressively avoided any loss of life or equipment. Whilst many around the world decried this as a breach of international norms, if not law, for Trump and his supporters this was more evidence of the President's wisdom and ability to do something 'no other President could'.

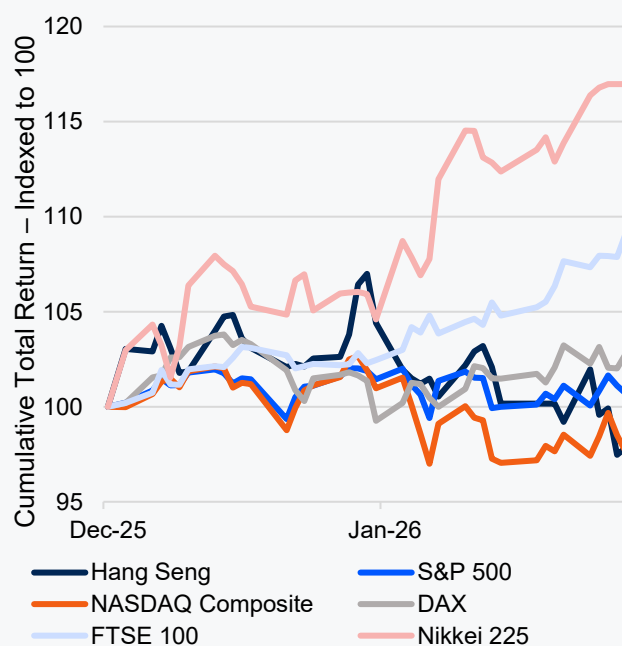
Indeed, with Maduro having been secreted away in a detention centre in New York City, markets barely broke their stride. They had little reason to, particularly as the International Monetary Fund (IMF) announced upwardly revised global economic growth forecasts. Australian shares gained a healthy 1.7%<sup>1</sup> in the month, whilst smaller companies shone, returning 2.7%<sup>3</sup>. The same was true for major markets around the world, with US indexes up between 1.0% and 1.4%, and Germany, the UK, Japan and Hong Kong, up 0.2%<sup>36</sup>, 3.0%<sup>34</sup>, 5.9%<sup>35</sup> and 6.9%<sup>56</sup> respectively.

February had very much the same feel, with markets generally erring on the side of optimism. Our local corporate reporting season worked its way through, and whilst investors took strong action against those companies with poor execution, lacklustre forward outlooks or no plan to embrace or mitigate the impact

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of AI, on the whole the tone in markets remained positive. As a matter of fact, our local stock markets accelerated through the month, gaining 3.9%<sup>1</sup>, driven by buoyant Financial and Materials sectors (+8.9%<sup>8</sup> and +9.1%<sup>7</sup>). International bourses behaved similarly, with most major indices also accelerating (Chart 4 below). US markets experienced some rare weakness in what has been colloquially referred to as the SaaS-pocalypse. Here, highly valued US technology companies which have attracted lofty valuations due to their perceived competitive moats, are facing significant disruption from AI, as coding tools increasingly reduce the complexity of software development.

Chart 4 – January/February global markets chart – cumulative total return (local currency)



Source: FactSet. Data as of 27 February 2026. Perpetual Private.

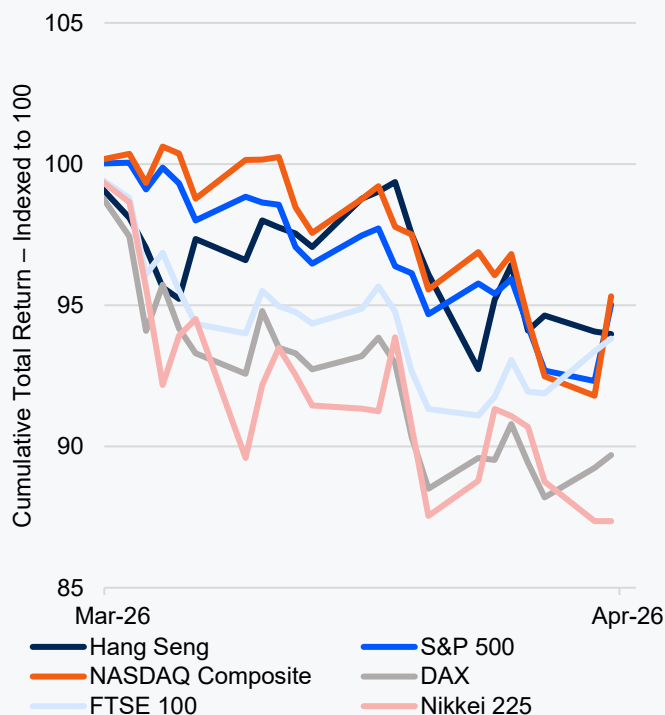
## Quiet before

This sense of calm however, was shattered in the dying hours of 28 February, as the US and Israel launched Operation Epic Fury, a coordinated military campaign against Iran. Across just the first 40 days, based on reports out of the Pentagon, we estimate that some 13,000 flights have been undertaken by US and Israeli forces, striking approximately 12,300 targets across Iran's military and infrastructure assets. Most notably, in the earliest strikes of the campaign, Supreme Leader Ayatollah Ali Khamenei's home residence was struck, reportedly killing him, his wife and two of his daughters. In response, Iran retaliated, firing waves of drones and ballistic missiles at Israel, ships in and around the Strait of Hormuz, as well as at Gulf countries such as Bahrain, Kuwait, UAE and Saudi Arabia.

Unsurprisingly, Markets took fright at this development, factoring an elevated degree of political risk, whilst also reflecting the likely impact on global growth, of constrained global supply chains, particularly in relation to oil, natural gas, aluminium, helium and fertiliser (urea).

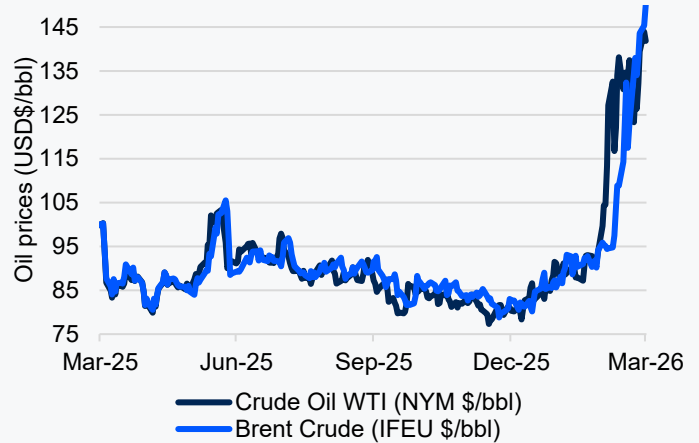
As energy and commodity prices surged, equity markets wilted, broadly returning meaningfully negative returns through March.

Chart 5 – 27 February to-date global markets chart – cumulative total return (local currency)



Source: FactSet. Data as of 14 April 2026. Perpetual Private.

Chart 6 – Oil price (USD)



Source: FactSet. Data as of 14 April 2026. Perpetual Private.

## Epic fury

That Iran was attacked was both surprising and unsurprising at the same time. The regime had been in negotiations with the US, discussing various details as to how Iran's nuclear program might be restrained and monitored; however, it was readily apparent that these discussions lacked progress. Whether Trump's decision to move two aircraft carrier strike groups into the region in an attempt to put pressure on the discussions, helped or hindered, is now academic. With the President's increasingly bellicose proclamations failing to have the intended effect (Trump himself even commented that he was surprised that Iran wasn't bending to the threats), it was not unthinkable for kinetic action to be taken.

There are though, numerous aspect to the situation that make the ultimate escalation surprising. Firstly, whilst negotiations were likely not having the progress that the US had expected, they were ongoing. Indeed, as with the bombing raid on Iran's nuclear facilities, it was not clear that diplomacy had been exhausted. Certainly, some intractable points between the two sides existed, as well as a generalised lack of trust, but cooler heads may have exhausted a few more avenues. Additionally, the bombing raid on 22<sup>nd</sup> June 2025 had, in Trumps own words, 'completely obliterated' Iran's nuclear programme; a stark contrast to the assertions that Iran were now just weeks away from having a nuclear weapon.

Our understanding of the situation from reports in and around the White House, is that President Trump, buoyed by successes of his attack on Iran last year, and the Venezuelan operation that resulted in the arrest of Nicolas Maduro, was convinced by an Israeli delegation led by Benjamin Netanyahu, that attacking Iran was immediately necessary. The pitch made, was that the Iranian people would rise up and overthrow the regime once the top level of leadership was removed, that the operation would be quick and relatively easy, and it would further build an image of someone who could do things that no other president could.

Whilst we have no first-hand confirmation of these as facts, having studied Trump for over a decade now, it is entirely consistent with his decision-making process and his usual motivations.

Of course, as is now clear, the Iranian people cowed by brutal repression of protests in January (reports of up to 30,000 people gunned down in the street by government backed militia), did not rise up following the death of the Ayatollah. Nor was the operation quick; as it stands we are now more than 40 days into the conflict with no clear end in sight. That this president has done something 'no other could' has now taken a new light. Having embarked on this campaign without the usual/required backing of congress, nor popular support from US voters, it is now looking as though what he has done that no other president 'could', is to stumble into a strategic blunder through sheer impetuosity.

Whilst the Iranian leadership, military and navy have been decimated, they are very much still 'in the fight'. As we are all now well aware, Iran has been able to effectively close the Strait of Hormuz, delivering a global supply shock of similar severity to that of the 2020 COVID pandemic. Though we were surprised by Iran's attacks on its gulf neighbours, their ability to close the Strait is one that military planners have concerned themselves with for decades. That neither the US nor Israel planned for this (for instance in an interview with the ABC on the 11 April, Israel's ambassador to Australia conceded "his country did not expect Iran to close the Strait"), is odd and may well demonstrate a lack of cohesive preparation. Our read is that Israel saw an opportunity to hobble a long-term existential threat, following its already ostensibly successful campaigns against Hamas in Gaza and Hezbollah in Lebanon. Given the impulsive and unitary decision-making Donald Trump is known for, they likely felt that this was a chance that may never return. Of course, what is good for Israel, is not necessarily good for the global economy (in the short term at least), nor the US, but most importantly to the US president's political prospects; the American people.

### **That's what it's all about**

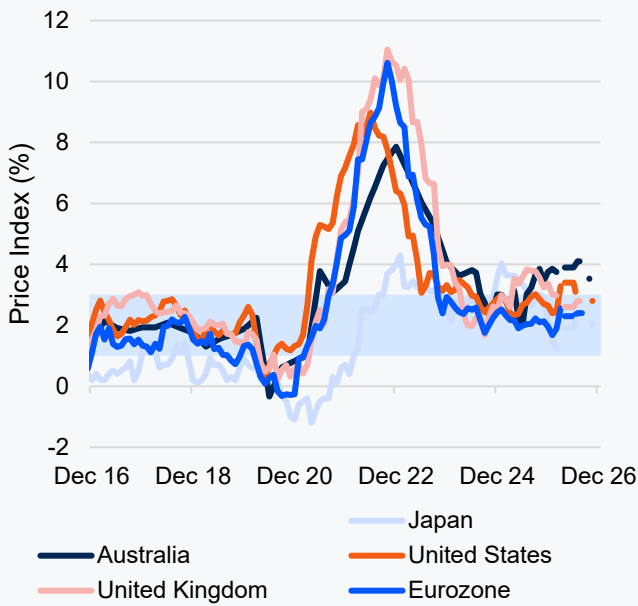
At the time of writing, it remains firmly unclear how and when this situation might be resolved. Indeed, with Trump's bombastic 'maximum pressure' negotiating style, the whole situation reminds us of the hokey pokey, with the to-and-fro of a deal, then no deal, then escalate, then TACO ("Trump always chickens out"), then start again. As investors however, that doesn't entirely matter. When deploying capital, knowing "what you know" is important and useful, but so is knowing what you don't know.

So, whether there is peace in the Middle East or not, there are some useful touch stones to help us chart the way ahead. One framework that we find particularly useful is to consider the situation as a supply shock; something the pandemic somewhat prepared us for.

Through this lens, it quickly becomes clear that the key commodities that transit via the Strait, aluminium (Aerospace), oil (everything), natural gas (heating and industrial production – particularly in Europe) and helium (memory chips), will be the subject to acute bouts of scarcity and as a result higher prices.

As we've already seen with the dispersion across the responses from major central banks, there are two primary ways in which this can be viewed. In the one sense, such bouts of inflation, particularly when they are supply driven can be seen as "transitory" (perish the thought). Of course, we all have scars of the so-called transitory inflation of 2022, which turned out to be persistent; particularly once it was compounded by Russia's invasion of Ukraine. This was clearly on the minds of the RBA's Monetary Policy Committee (MPC) when they increased rates at their March meeting, albeit inflation was already above target and proving stubborn prior to Operation Epic Fury. However, we would argue that the situation the bank now faces, is meaningfully different than what they faced in 2022, when the world was coming out of the COVID shutdowns, interest rates were near zero and record fiscal spending was in place. Other central banks, less pressed with a pre-existing inflation conundrum, were comfortable to hold fire (no pun intended) and essentially 'look through' near-term inflation. We have a lot of sympathy for this approach. Whilst we are inherently inflation hawks who have been proponents that inflation would be 'higher for longer' (than markets expected), which would therefore necessitate 'higher for longer' interest rates, we see nuance in this current situation. Oil, whilst less important than it once was, remains pervasive through the global and domestic economy. As it effectively acts as a tax on consumer spending, it has much the same effect as higher interest rates in destroying demand. So whilst it is inflationary in the short term, it is disinflationary at all points after that.

Chart 7 – Headline CPI Australia, UK, US, JPN



Source: FactSet. Data as of 14 April 2026. Perpetual Private.

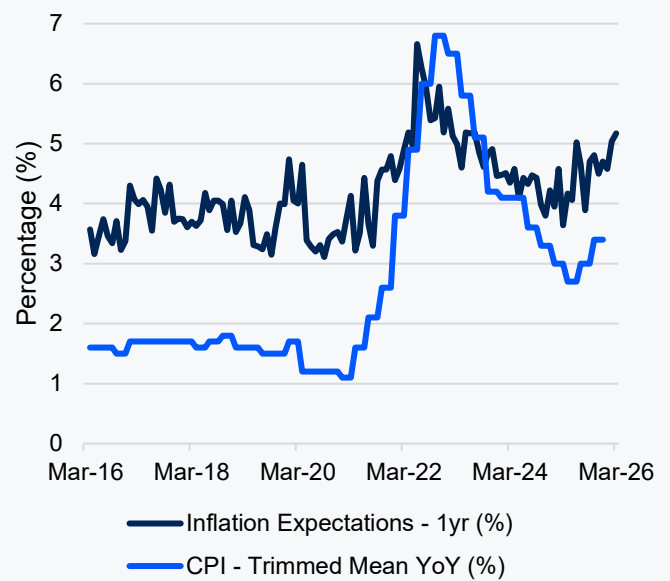
While we would see wisdom in the RBA looking past the current shock and holding rates at current levels, we suspect any dovishness that they might exhibit will be guided by the second part of their mandate, and that is a strong labour market. Here, we're watching for two crucial developments: does the labour market weaken from here and give the RBA some food for thought (and room for manoeuvre), or do higher prices push consumers to bake-in higher inflation expectations, thereby pushing the MPC in the direction of further rate hikes.

Chart 8 – Australian unemployment



Source: FactSet. Data as of 31 March 2026. Perpetual Private.

Chart 9 – Inflation expectations vs CPI



Source: FactSet. Data as of 31 March 2026. Perpetual Private.

Additionally, and aligned with the 'higher for longer' comments above, these developments further raise the floor on inflation going forward. Not only does it further reverse globalisation, thereby increasing the cost of goods, it also reduces the efficiency at which supply chains can be managed, driving companies and governments further away from 'just in time' inventory management and towards 'just in case' supply hoarding. Very similar to some of the labour hoarding that occurred out of the pandemic.

Equally important is the impact of this conflict on economic growth. Not only do these inflationary pressures crowd out spending, forcing consumers and companies to dedicate resources to these crucial commodities. They also dent confidence and reduce forward visibility, lowering potential growth. To this point, the International Monetary Fund (IMF) who upgraded global growth expectations in January, now expect lower growth, stating in advance of their Global Economic Outlook "had it not been for this shock, we would have been upgrading global growth. But now, even our most hopeful scenario involves a growth downgrade. Why? Because of significant infrastructure damage, supply disruptions, losses of confidence, and other scarring effects. Take Qatar's Ras Laffan complex—a tremendously important example of strategic investment done right; producer of 93 percent of the Gulf's LNG, some 80 percent of it going to Asia-Pacific, a region that now endures serious fuel shortages. Ras Laffan has essentially been shut since March 2<sup>nd</sup>, took direct hits on March 19<sup>th</sup>, and could take 3–5 years to restore to full capacity."

## When the tide goes out

As we look forward, the path ahead is far from clear. Actually, the potential paths ahead are varied and span a wide array of outcomes. As investors, this is not a time to be bold. This is a time for patience.

What we know, is that US midterm elections are 6 months away and campaigning will begin much earlier than that. Republicans face a potential wipeout in both houses of government, which would likely see impeachment proceedings against the President. This diminishes his future power, and therefore his ability to further disrupt the status quo. Rightly or wrongly, the status quo is good for investing as there are well established norms and a depth of data from which to make investment decisions.

Unfortunately, Trump can be compared to a wounded animal. With his polling numbers at all-time lows, there are also signs of his base fracturing. Notably, some of the key podcasters who emphatically supported his campaign, helping him win the 2025 election, such as Candice Owens, Joe Rogan, Alex Jones and Megyn Kelly, have all notably turned on him. Joe Rogan for instance, has now publicly described himself as being “politically homeless”. This reflects a significant challenge to the President's hold over his base. Should he become unmoored from his connection to the MAGA faithful, he may lose one of the final limiting factors on his behaviour.

With that said, the path of least resistance, appears to be one in which some form of ceasefire or truce with Iran is agreed. Both sides clearly want to de-escalate, in spite of their protestations. Iran is demonstrating defiance but is suffering. Its economy was already bad before the conflict, before much of its critical infrastructure and productive assets were destroyed.

The US is also demonstrating defiance, but is well past their pain point, particularly given how unpopular the war is with voters. Whilst the first attempt at negotiations ended unsuccessfully after 21 hours, it was never likely to achieve more than that.

A resolution may not necessarily include a cessation of hostilities between all sides. From an economic point of view, an opening of the Strait of Hormuz and a substantially more limited conflict, would be sufficient to reengage the global economy.

Looking ahead, there are many positive drivers that are likely to support capital markets. Fiscal spending around the world remains high, unemployment low, and central banks have dry powder and can cut rates if economies start to stutter. Whilst we do not expect the environment to turn rosy overnight, indeed we expect volatility to remain high into the tail-end of the year, we see an investment landscape that is gradually positioning to deliver attractive risk-adjusted returns. That time is not now, but we stand ready to act as soon as it arrives.



# Australian equities

Australian equities ended the March quarter in the red, with the S&P/ASX300 falling -2.0%<sup>1</sup> over the period. While the calendar year began with relatively muted gains, waning investor sentiment was further quelled by hotter-than-expected inflation through the December quarter, paving the way for the Reserve Bank of Australia's (RBA) first rate hike in over two years. Against this increasingly hawkish backdrop, Australian companies entered the half-year reporting season facing minimal tolerance for earnings disappointment. In spite of this, results broadly reinforced a return to fundamentals rather than a collapse in confidence, with companies rewarded for business strategy execution and effective capital resource management. Such resilience was evident in February performance, with the S&P/ASX 300 rising 3.9%<sup>1</sup>. However, these gains were quickly unwound as escalating geopolitical tensions across the Middle East culminated in coordinated strikes by the United States and Israel on key Iranian targets, prompting a series of retaliatory measures including the restriction of transit through the Strait of Hormuz, a critical chokepoint for Middle Eastern exports. Mounting concerns around sustained supply chain disruptions, fuel security, and additional inflationary pressures drove a de-risking correction into quarter-end, compounded by the RBA's decision to lift the cash rate again at its March meeting, a stark departure from policy expectations just six months earlier.

From a size perspective, large caps meaningfully outperformed their smaller counterparts during the quarter. The S&P/ASX 100 fell -0.9%<sup>2</sup>, while the ASX Small Ordinaries declined a sharper -10.9%<sup>3</sup>. Rising interest rates, deteriorating risk appetite, and higher

input costs weighed disproportionately on smaller companies. This marks a notable reversal from recent quarters, where small caps had benefited from the cumulative tailwind of the RBA's 2025 easing cycle and strong flows into resource and gold names.

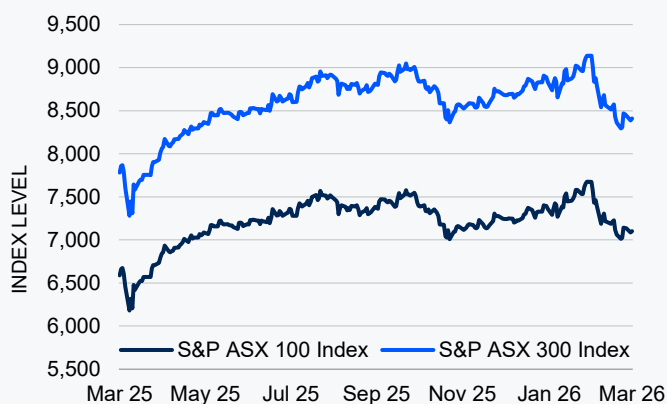
The implications of this conflict were inherently evident in sector-level performance, with investors rotating toward traditional defensives as volatility rose. Consumer Staples (8.4%<sup>6</sup>) and Utilities (10.3%<sup>5</sup>) were the primary beneficiaries, while Consumer Discretionary extended its year of underperformance, falling -14.9%<sup>9</sup> over the quarter. Energy (+36.1%<sup>4</sup>) was the clear standout, as solid earnings and supportive valuations coalesced with rising oil prices to fuel positive returns in each month. Initial strength in Materials and Financials ex-REITs eroded to only modest gains of 3.4%<sup>7</sup> and 0.4%<sup>8</sup>, factoring in a decline of -13.2% and -6.6% in March alone. A-REITs (-16.4%<sup>39</sup>) suffered under the deteriorating policy rate outlook, while Information Technology (-27.2%<sup>13</sup>) and Health Care (-16.8%<sup>14</sup>) again closed out the weakest performers as sector-specific headwinds persisted. Industrials slid -5.9% as rising uncertainty and higher input costs weighed on activity expectations, while Communication Services (-1.3%<sup>12</sup>) escaped relatively unscathed by the conflict given the non-discretionary and recurring nature of its core earnings.

From a style perspective, Value stocks (6.8%<sup>15</sup>) continued to outpace Growth (-6.2%<sup>14</sup>), now outperforming by a significant margin on an annualised three-year basis. Persistently sticky inflation entrenched a 'higher-for-longer' rate environment, with investors increasingly seeking earnings durability and tangible cash-flow generation.

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Value's outperformance was further bolstered by its heavier exposure to commodities and energy-linked businesses, while Growth lagged as multiples continued to compress across high-valuation technology and healthcare names.

Chart 10: Australian Shares



Source: FactSet, Perpetual Private

## Australian Equities – Manager Insights and Outlook

As we entered the March quarter, our approach to the Australian equities market was shaped by a measured and cautious outlook. While we remained constructive overall, we anticipated more modest returns through 2026 and recognised we were facing into a more complex investment landscape. Resilient economic growth and labour markets, coupled with a steady inflow of capital from domestic, offshore and retail investors, had provided underlying tailwinds for local equities. However, this was tempered by concerns around elevated valuations, persistent inflationary pressures and the prospect of a more hawkish RBA, alongside ongoing macroeconomic uncertainty and geopolitical tensions offshore. With investor sentiment already softening following the absence of a December rate cut and broader market uncertainty, we maintained a portfolio positioned for balance across styles, with a deliberate bias toward mid and small-cap companies where we believe skilled stock selection continues to offer attractive potential and better relative valuation opportunities.

The March quarter ultimately unfolded as a tale of two very different halves. The period began on a strong footing, with corporate resilience on display through a robust February reporting season that broadly exceeded expectations. The S&P/ASX300 was up 3.9%<sup>1</sup> that month alone with broad-based indications that corporate fundamentals remained intact for Australian Equities. Earnings beats outweighed earnings misses, with beats largely driven by improved margins (i.e. cost out) as opposed to top line revenue sales growth. Looking over the past 25 years, it was also the 2nd best reporting period from an EPS

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upgrade perspective, with the ASX200 EPS upgrades of +1.9% only being bested by the post COVID February 2021 reporting season rally. That said, headline strength masked a far more volatile and fragmented market beneath the surface. Dispersion of returns across stocks, sectors and styles was exceptionally high, with very large share price reactions from companies on the day of reporting (-5% for a miss and +3.4% for a beat, on average). Major banks demonstrated notable resilience, benefiting from a more supportive macro environment characterised by positive volume growth, strong credit quality and solid net interest margins. The Materials sector also stood out, delivering strong results on the back of commodity prices that materially exceeded consensus expectations.

However, this earlier optimism post reporting season proved short lived. From late February, market dynamics changed decisively as geopolitical risk moved to the forefront. The US Israeli air strikes on Iran on 28 February marked a clear inflection point, triggering a rapid escalation in tensions that culminated in Iran closing the Strait of Hormuz from 2 March. As a critical global energy chokepoint, through which around 20% of the world's oil and LNG flows, the closure immediately reignited supply side fears, driving a sharp spike in oil prices. This energy shock added a fresh inflationary impulse at an already sensitive point in the cycle, reinforcing concerns around higher interest rates and materially dampening risk appetite. Equity markets responded swiftly. March was characterised by a broad based sell off as investors de risked. Locally, the Energy sector was the clear and standout beneficiary, rising 19.2% in March as higher oil prices flowed directly through to earnings expectations. Defensive sectors such as Utilities and Consumer Staples also proved relatively resilient, while those more cyclical, interest rate sensitive and globally exposed segments of the market, particularly Technology, REITs and Materials, bore the brunt of the sell off.

Looking ahead, the near term outlook remains highly uncertain, with geopolitical developments now a dominant driver of market volatility, often eclipsing underlying corporate and economic fundamentals. While equity valuations remain elevated - even after the recent sell off - the dislocation has created compelling opportunities to selectively deploy capital into high quality businesses that have been sold down indiscriminately, particularly across cyclical and growth oriented segments of the market. In an environment defined by heightened volatility and rapidly shifting market dynamics, we have remained disciplined in maintaining a well balanced portfolio across styles, while retaining a bias toward mid and small cap companies, where we believe the scope for active management and alpha generation remains attractive.

# International equities



International equities pulled back over the March quarter, with the MSCI All Country World Index declining -5.8%<sup>18</sup> as escalating conflict across the Middle East weighed heavily on investor sentiment. The quarter began constructively - one of the best Q4 earnings seasons in recent memory provided a strong foundation, a broadening in market participation away from concentrated AI names was underway, and solid economic fundamentals continued to support risk appetite. However, the outbreak of hostilities between the US, Israel and Iran in late February, and the subsequent disruption to oil flows through the Strait of Hormuz, injected a new and destabilising variable into global markets. Mounting concerns around energy security, inflation and the potential for a broader growth slowdown drove a sharp de-risking into quarter-end. An early quarter 'debasement' narrative also unwound as investors sought refuge in the US dollar, which strengthened 4.1% against the Australian dollar in March. However, this reversal only partially offset earlier moves with the Aussie dollar still ending the quarter 2.7% stronger, materially dampening unhedged returns for Australian investors.

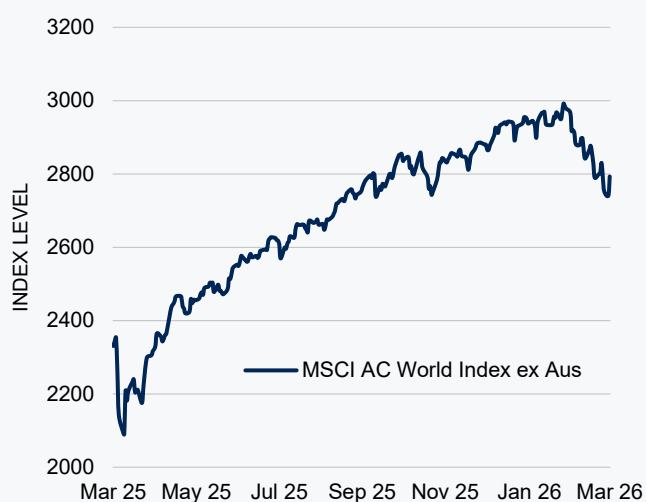
From a style perspective, Value (-1.5%<sup>19</sup>) meaningfully outperformed Growth (-10.9%<sup>22</sup>), reversing the prior twelve-month trend. Growth stocks entered the period with elevated valuations following a sustained period of outperformance, leaving them vulnerable as volatility rose and investors tolerance for long-duration earnings diminished. Value benefited from stronger near-term earnings visibility and greater exposure to energy and commodity-linked sectors. Small caps (-1.6%<sup>23</sup>) led their larger counterparts for the quarter, having led early in the period, before a higher-for-longer rate environment reasserted pressure on smaller companies through March.

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Energy (+30.1%<sup>24</sup>) was the standout sector by a wide margin, with supply-chain disruptions and surging oil prices fuelling returns across producers, refiners and energy infrastructure companies. Utilities (+5.5%<sup>25</sup>), Consumer Staples (+0.6%<sup>27</sup>) and Materials (+3.8%<sup>26</sup>) were the only other sectors to finish positive as investors rotated into defensives. Consumer Discretionary (-13.2%<sup>28</sup>) was the weakest performer. Information Technology (-9.2%<sup>29</sup>) and Communication Services (-10.3%<sup>30</sup>) were also hit hard and not solely due to geopolitics. Advancements in agentic AI technologies triggered a sharp sell-off across enterprise software platforms, an event colloquially termed the 'SaaSocalypse', as investors grew fearful that generative AI would undermine the software-as-a-service subscription model the sector has relied on for years. Financials (-9.1%<sup>31</sup>) also faced a difficult quarter, contending with both the deteriorating macroeconomic backdrop and sector-specific concerns around private credit quality.

Regionally, the 'ex-US' dominance that defined much of 2025 began to unravel toward quarter-end, as a flight to quality and defensives translated to relative US strength. The UK's FTSE 100 was the standout, limiting losses to just -1.3%<sup>33</sup> on the back of its defensive composition and energy sector weighting, while Japan's Nikkei 225 fell a modest -2.1%<sup>34</sup>. European markets fared worse, with German DAX declining -11.5%<sup>35</sup>, and France's CAC 40 (-8.3%<sup>36</sup>), reflecting their cyclical and export-heavy compositions. The S&P 500 fell -6.9%<sup>32</sup> and the Nasdaq dropped -9.4%<sup>33</sup>. Emerging markets declined -2.8%<sup>38</sup> for the quarter, outperforming developed markets overall, though a sharp late-quarter reversal illustrated how quickly sentiment deteriorated as higher energy costs and risk-off flows weighed on energy-importing nations, most notably India and Korea.

Chart 11: International shares (local currency terms)



Source: FactSet, Perpetual Private

## International equities – Manager insights and outlook

Markets entered 2026 with a degree of optimism that equity leadership would broaden and that a gradual easing cycle would support risk assets. That early confidence faded as the quarter progressed, with geopolitical developments and commodity shocks re-introducing more macro driven equity markets worldwide.

In late February US-Israeli strikes in Iran led to the outbreak of war across the Middle East, causing severe disruption to key global energy supply routes via the Strait of Hormuz. As supply fears intensified, oil prices surged, and the shock propagated through markets via higher near-term inflation expectations and a “higher-for-longer” rates repricing. In turn, global equities sold off in a broad risk-off move with large dispersion across sectors. The energy sector was the clear standout along with more defensive and valuation-supported parts of the market whilst consumer discretionary and high-beta growth exposures struggled as higher inflation risk compressed the valuation support for long-duration assets.

Another headwind for growth stocks during the quarter was the so-called “SaaS apocalypse”, which saw a sharp and sudden sell-off across global software stocks. The initial catalyst was a series of high-profile product releases in February that showcased agentic AI systems capable of executing end-to-end workflows, triggering a rapid de-rating as investors questioned pricing power and the durability of recurring revenues. Opinions on AI's impact on the economy have shifted from broadly positive to one of increased scepticism, with concerns now centred on

whether massive infrastructure spending by large technology companies will generate adequate returns, and whether AI-driven disruption could hollow out entire sectors and weigh on broader economic growth. In response, investment managers have been forced to reassess their technology and AI exposure, with many instead favouring the “picks and shovels” such as companies focused on IT infrastructure and hardware. For those managers maintaining software and AI-exposed holdings greater emphasis is being put on durable competitive moats, demonstrable customer ROI, data and distribution advantages, deep ‘system-of-record’ integration, and credible paths to monetisation that move beyond per-seat pricing.

From a valuation perspective, whilst global equity markets remain expensive, pockets of value remain, such as in emerging markets, small caps, as well as select sectors. Recent events such as geopolitical turmoil and AI disruption have added notable repricing across previously crowded areas (e.g. the Magnificent 7, software stocks, etc.). Looking ahead, we believe earnings growth will be the critical differentiator, as energy supply disruptions and renewed inflationary pressures risk hurting both consumer strength and corporate margins. In this environment, companies with pricing power, balance-sheet strength and credible earnings delivery are likely to be rewarded, and as recent weeks have demonstrated, the geopolitical and economic landscape can shift very quickly indeed.

# Real estate



The first quarter of 2026 proved challenging for listed real estate, as heightened macro uncertainty, persistent interest rate pressures, and sector-specific headwinds weighed on returns across most regions. In Australia, A-REITs endured a particularly difficult period, with the S&P/ASX 300 A-REIT index declining 16.4%<sup>39</sup> for the three months to 31 March 2026. This sharp pullback eroded what had been a strong prior year, bringing the 12-month return to -1.9%. The RBA's hawkish pivot was a key driver of domestic underperformance. Having been one of the first major central banks to move from rate cuts back to rate hikes following the post-COVID inflation spike, the RBA raised the cash rate unanimously in February from 3.60% to 3.85% in response to a pick-up in underlying inflation in the second half of 2025. A second increase followed in March, this time via a narrow 5:4 decision, lifting the cash rate to 4.10%. The Board flagged that the Middle East conflict and rising fuel prices posed additional near-term inflationary risks, prompting futures markets to price in a further two to three rate increases by year end and creating a materially more restrictive backdrop for rate-sensitive property valuations. Index performance was further amplified by the outsized weight of Goodman Group, which represents over 40% of the benchmark and declined 17.6% over the quarter.

Globally, listed real estate fared better in relative terms, with the FTSE EPRA Nareit Global Index declining 2.1%<sup>40</sup> in AUD terms over the quarter, though performance varied sharply by region. Hong Kong was the standout, rising 11.3%<sup>41</sup> over the quarter as improving economic sentiment across both Hong Kong and mainland China drove a meaningful re-rating. Japan declined 5.4%<sup>43</sup> over the period, a modest pullback given supportive domestic policy setting, contained inflation, and a recovering consumer backdrop that continues to underpin Japanese real estate fundamentals. Germany extended its difficult run, falling 14.3%<sup>57</sup> for the quarter as elevated geopolitical uncertainty compounded existing pressures from trade disruption, higher energy costs, and subdued industrial activity. The broader European region was not spared, with the Europe index declining 9.0%<sup>45</sup> over the period as weaker growth expectations and inflation uncertainty weighed on sentiment. In contrast, the US REIT market was a relative bright spot, increasing 1.8%<sup>43</sup> in AUD terms for the quarter. Performance leadership was concentrated in sectors where fundamentals remain resilient or improving, including data centres, senior housing, self-storage, and retail shopping centres. These gains offset continued weakness in apartments, single-family rentals, and office REITs, where investors remained cautious amid supply overhangs, slower rent growth, and longer-term demand uncertainty.

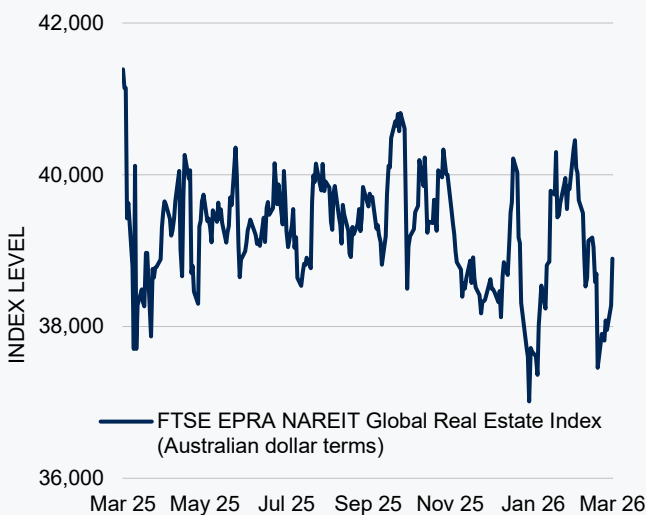
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Chart 12: Australian real estate trusts (A-REITs)



Source: FactSet, Perpetual Private

Chart 13: Global real estate investment trusts (G-REITs)



Source: FactSet, Perpetual Private

## Real estate – Manager insights and outlook

Heading into the March quarter, we were already conscious that REIT markets had become increasingly volatile, driven by unstable and generally higher interest rate expectations. While underlying real estate fundamentals remained broadly supportive, our positioning was deliberately risk-aware, reflecting concerns around further monetary tightening, potential slowing in economic momentum, and a fragile geopolitical backdrop. Over the quarter, events unfolded largely as anticipated but were materially amplified by the US-Israeli strikes on Iran and the subsequent closure of the Strait of Hormuz.

Developments that reignited inflation concerns and placed renewed upward pressure on global interest rate expectations. This broadly validated our more cautious stance entering the period.

Locally, the sharp tightening in domestic monetary policy weighed heavily on A-REIT valuations and sentiment, with the RBA's cumulative 50 basis points of hikes across February and March - and markets pricing further increases - creating a materially more restrictive backdrop for rate-sensitive property assets. Performance was further dragged by weakness in Goodman Group, which despite solid underlying fundamentals de-rated as sentiment toward AI-exposed and data centre-related earnings softened. Against this backdrop, our A-REITs manager took a disciplined approach to capitalising on market dislocations, selectively adding to higher-quality exposures at improved valuations, including reducing an underweight in Goodman as multiples compressed versus historical levels, and initiating a position in DigiCo Infrastructure REIT following what was assessed as an indiscriminate sell-off rather than a fundamental deterioration. Within global REITs, our G-REITs manager faced a headwind from being underweight the stronger-performing US region, where discounted starting valuations and demand for stable, cash-generative assets drove resilience amid broader equity volatility. Despite this drag, strong stock selection more than offset the regional positioning. Combined with a modestly higher allocation to G-REITs and residual cash holdings, G-REITs contributed the majority of alpha and were the primary driver of overall portfolio outperformance for the quarter.

Looking ahead, the outlook for both A REITs and G REITs appears more balanced. While elevated interest rates and geopolitical uncertainty remain near term headwinds, fundamentals are increasingly supportive of medium term return potential. For A REITs, key themes will centre on the peak in domestic rate expectations, the timing of an RBA policy pivot and ongoing valuation recovery as borrowing costs stabilise, alongside continued divergence between structurally supported sectors, such as industrial, infrastructure and selected retail, and more cyclical exposures like office. Globally, G REITs appear better positioned, underpinned by attractive starting valuations, constrained supply pipelines and ongoing rental growth across data centres, logistics, senior housing and residential assets. Across both markets, returns are likely to be increasingly selective, with balance sheet strength, cashflow durability and exposure to structural demand drivers shaping outcomes as volatility gives way to a more earnings driven phase for listed real estate.



# Growth alternatives

Despite our optimism for 2026, the macroeconomic environment has changed dramatically, with the Iran conflict materially influencing markets and decision-making. While some immediate impacts are already being experienced by consumers and businesses, the full economic consequences remain uncertain and will take time to fully materialise.

During the quarter, much of the news flow in Private Equity was dominated by the so-called 'SaaSpocalypse', with many GPs having acquired SaaS companies operating in the B2B segment during the private equity peak of 2020–2022. While it is too early to determine whether these companies are likely to be disrupted by AI-based products, it is not unreasonable to assume some marks (valuations) remain too high, particularly given listed SaaS businesses traded down ~30% during the quarter. Fortunately, our portfolio has relatively limited exposure to these vintage years, and even less exposure to dedicated technology GPs. That said, we are seeing many GPs seek to better understand the AI ecosystem and incorporate the related risks and opportunities into their due diligence processes as market dynamics shift.

One of the key trends we have observed over the past few years is a greater focus by GPs on operational capability within their firms. While many have developed this capability over multiple vintages, others have done so more recently, driven by the need to find additional ways to grow businesses in a higher interest rate environment. This focus is evolving into a more deliberate approach to sector selection, with some managers concentrating on areas where they believe they have a stronger edge, while reducing exposure to sectors where they have less experience or a weaker track record. We view this more nuanced approach as positive. LPs have taken this a step further, with broader adoption of sector-specialist managers in certain areas such as Health Care and Information Technology. This trend is

supported by capital-raising data, which shows sector specialists growing AUM while generalists face greater headwinds.

In real estate, transaction volumes have picked up but remain below prior peaks. In the US and Europe, we believe cap rate expansion has peaked in most sectors, creating more stable conditions that should boost investor confidence. However, in Australia, market dynamics may drive modest further cap rate expansion in coming quarters. Globally, we are seeing increasing interest in select niche sectors where relative value looks attractive versus the major sectors. Recent market events are also likely to have at least a near-term impact on construction costs, supporting our view that buying below replacement cost will be key to asset selection going forward. Allocator demand for real estate remains weak, particularly for commingled fund structures.

Infrastructure saw an uptick in demand during the quarter after a lull in recent periods, with pricing remaining sensible. The asset class remains a core portfolio holding, and the current environment has only reinforced its appeal, elevated energy prices and supply chain disruption provide a natural tailwind for inflation-linked revenues, while the longer-term case for investment in energy security and diversification has strengthened considerably in the wake of recent geopolitical events.

Across traded markets, dispersion in equity and credit pricing continues to reflect divergent macroeconomic and political conditions, as well as narrower market trends such as the SaaSpocalypse. In response, we are reallocating towards hedge fund strategies with asymmetric return profiles and relative value approaches, as well as strategies that benefit from increased dispersion. Anecdotally, we understand many hedge fund strategies struggled through March as volatility picked up following the Iran conflict. Pleasingly, performance from our preferred hedge fund exposures remained accretive over the period.



# Income alternatives

Private debt has been in the news for all the wrong reasons of late. The negative narrative began last year with the First Brands and Tricolor defaults - idiosyncratic situations involving fraud, opacity and excessive leverage that, while attention-grabbing, were not representative of the broader market. This was followed by growing concerns around loans made to software companies, with markets increasingly questioning whether AI-driven disruption would impair the creditworthiness of borrowers operating in the B2B software space. In 2026, the news flow showed little sign of abating, with the default of MFS UK, a specialist mortgage lender, raising broader questions around governance standards in founder-led specialty lenders.

Adding to the noise, a number of highly rated non-traded business development companies in the US, a type of private debt product predominantly distributed through the wealth management channel, experienced redemption requests in excess of their quarterly 5% gate, prompting inevitable comparisons to the GFC among some market participants. Gates and redemption limits are features of these products, not failures, and the response from major managers to maintain pro-rata redemption discipline and avoiding forced asset sales has been broadly appropriate.

Credit spreads across both private and tradeable markets remain tight, and despite the volume of press coverage, default rates at the asset class level have remained within historical norms. Notably, distressed borrowers have increasingly pursued Liability Management Exercises (LME) ahead of formal default proceedings, a flexibility that allows both borrower and lender to preserve value.

The AI-driven concern around software lending warrants closer attention and ongoing monitoring. The key mitigants are disciplined asset selection and thoughtful portfolio construction, with a focus on lending to businesses exhibiting mission-critical characteristics, deep system integration, proprietary data advantages and high customer switching costs. Manager selection is therefore paramount.

We remain comfortable with the portfolio's current private debt exposure. Approximately 30% of the fund is invested in corporate private debt, encompassing CLO equity, special situations and direct lending, with a further 11% allocated to asset-based lending across real estate debt, infrastructure debt and specialty finance. Software exposure within the portfolio is limited, arising primarily through US corporate direct lending, broadly syndicated loans and CLO equity, and where it does exist, it is predominantly senior secured, at the top of the capital structure. Our corporate direct lending exposure is held through closed-end, locked-up vehicles, which are structurally insulated from the redemption dynamics affecting non-traded BDCs.

Broadly syndicated loans underperformed expectations through the March quarter. The Fund had reduced its exposure to this segment earlier in the year, in favour of catastrophe bonds and insurance premium funding, two strategies that have demonstrated consistently low correlation to broader credit markets. The portfolio has maintained an overweight to liquid assets and remains well positioned to deploy capital opportunistically should credit spreads widen materially from current levels.

# Fixed income



The first quarter of 2026 saw fixed income markets contend with a deteriorating inflation outlook, as the outbreak of conflict in the Middle East in late February transformed what had been a modestly constructive start to the year. The onset of the war led to surging oil prices and rapidly shifted the focus from growth and central bank easing to inflation and supply shocks.

In Australia, the Reserve Bank of Australia (RBA) had already moved to address persistent inflationary pressures before the conflict emerged. The rate hike in February 2026, the first increase since November 2023, reflected the Board's view that inflationary pressures had picked up materially in the second half of 2025. A second consecutive 25 basis point increase followed at the March meeting, taking the cash rate to 4.10%. The data underpinning that decision was difficult to ignore. Inflation printed at 3.7%<sup>58</sup> year-on-year in February, well above the RBA's 2–3% target band, while the unemployment rate of 4.3% signalled that the labour market remained tight by historical standards. Notably, the March decision was a closely contested 5:4 vote in favour of a hike, with the Board citing a combination of concerns: that higher oil prices from the Middle East conflict would feed into longer-term inflation expectations, and that ongoing capacity constraints in the domestic economy left limited confidence that inflation would return to target without more restrictive monetary policy. As was the case in prior periods of RBA tightening, bond prices fell to absorb the higher rate environment, with the Bloomberg AusBond Composite (0+Y) returning -0.3%<sup>48</sup> for the quarter. Annual returns of just 1.5% reflect how income has only partially offset capital

losses from the tightening cycle. The Bloomberg AusBond Credit (0+Y) returned -0.2%<sup>47</sup> for the quarter and 2.6% over the year, while the Bloomberg AusBond Credit FRN (0+Y) returned a positive 1.0%<sup>48</sup> for the quarter and 4.7% over the year, with its floating rate structure providing investors with a natural buffer against the RBA's moves.

Turning to global markets, even before the war-driven jump in oil prices, inflation was on the high side, raising doubts about how quickly the US Federal Reserve would deliver expected rate cuts. By quarter's end, the war had ended expectations for any rate cuts in 2026, driving yields upward. The 10-year US Treasury yield ended March near 4.32%, having briefly touched 4.45% in late March. European government bonds also came under pressure, as the ECB left rates unchanged at its March meeting but strongly signalled the possibility of rate hikes. The Bloomberg Global Aggregate returned -0.3%<sup>49</sup> for the quarter. Global credit markets weakened alongside rates, with the ICE BofA Global Corporate (AUD Hedged) returning -0.6%<sup>50</sup> and Bloomberg Global High Yield (AUD Hedged) falling -0.1%<sup>51</sup> for the quarter.

Refer to footnotes description on page 30

Chart 14: Australian government bond yields



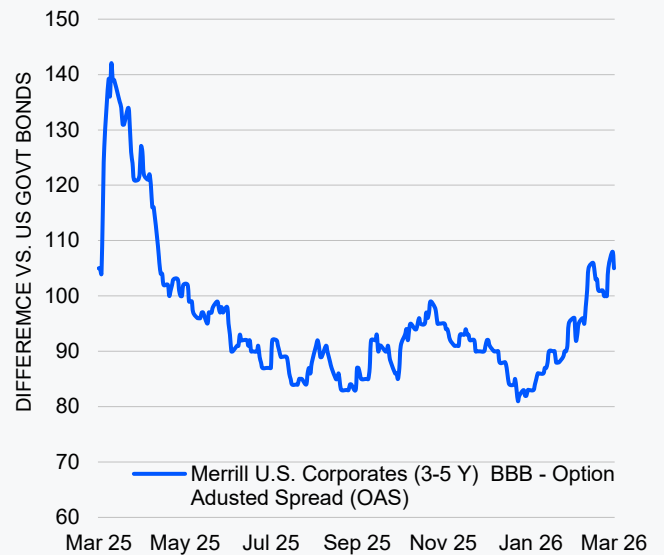
Source: FactSet, Perpetual Private. Note: Bond prices are inversely correlated with bond yields.

Chart 15: Global government bond yields



Source: FactSet, Perpetual Private.

Chart 16: Global credit markets



Source: FactSet, Perpetual Private.

### Fixed income – Manager insights and outlook

The energy price shock stemming from the Middle East conflict has been the dominant theme shaping our fixed income views entering the second quarter of 2026. The inflationary consequences of high oil prices are, in practice, neither straightforward nor uniform. They are both inflationary and disinflationary, depending on the time horizon and the starting conditions of the economy in question. In the near term, higher energy prices feed directly into headline inflation through transport costs, utilities and broader input costs across the economy. But sustained elevated oil prices also act as a tax on households and businesses, suppressing demand and ultimately weighing on growth, a disinflationary force over the medium term. The size of each effect, and which dominates, depends heavily on how long the supply shock persists and how stretched the economy already is when it arrives. With Australian inflation already running at 3.7% year-on-year, well above the RBA's 2–3% target band, and the labour market still tight, the near-term inflationary impulse is the more pressing concern for policymakers here.

This creates the difficult balancing act now facing both central banks and governments. We are watching closely for any fiscal policy responses to slowing growth. Government spending deployed to cushion a slowdown could entrench inflation expectations further, putting upward pressure on long-end yields. Conversely, insufficient support risks tipping economies into contraction, an outcome that, while supportive of duration positions, would likely prove damaging for credit markets, particularly in the sub-investment grade space. Markets are currently pricing approximately a 60% probability of a further 25 basis point RBA hike in May, with rates expected to peak around 4.6% later in 2026. While the near-term policy path appears skewed toward further tightening, we note that the long end of the Australian curve is increasingly anchored by longer-term growth expectations. The narrowing gap between short and long-dated Australian yields has put traders on watch for a potential yield curve inversion, a dynamic historically associated with recessionary conditions, though our base case remains for a slowdown rather than outright recession. Absolute yield levels remain elevated relative to historical norms, and we continue to see value in selectively positioning across the curve. And as recent weeks have demonstrated, the geopolitical and economic landscape can shift with remarkable speed in either direction.

In credit, spreads have widened modestly from their recent tightness but default rates remain low and corporate balance sheets are generally in good shape. Within portfolios, we have maintained a duration posture similar to the benchmark, while remaining constructive on credit selection, with a continued preference for investment grade over high yield given the current environment. We remain vigilant for opportunities that may emerge should volatility create more attractive entry points further out the curve.

# Australian cash rate



The Reserve Bank of Australia (RBA) increased the official cash rate by a cumulative 50 basis points over the March quarter, lifting the policy rate from 3.60% to 4.10%. The tightening cycle resumed in February with a 25 basis point increase to 3.85%, the first hike in over two years, followed by a second consecutive increase in March, reflecting growing concern that inflation has proven more persistent than previously expected and that policy settings were no longer sufficiently restrictive.

The February decision was unanimous. The Board highlighted stronger than expected private demand, resilient household spending, solid business investment and renewed momentum in the housing market. Labour market conditions remained firm, with the unemployment rate printing at 4.3% in February, below expectations, and measures of underutilisation remaining suppressed. While some inflation pressures were assessed as temporary, the RBA judged that domestic capacity pressures had increased and that a modest tightening was warranted to ensure policy remained appropriately restrictive.

The March decision was more finely balanced, passed on a narrow 5:4 vote. The Board cited a “material risk” that inflation could remain above target for longer than previously anticipated, particularly given rising short-term inflation expectations and higher oil prices. Headline CPI had printed at 3.7% year-on-year in February, well above the RBA’s 2-3% target band, providing clear justification for the move.

The Middle East conflict was flagged as a two-sided

risk, while a prolonged disruption could dampen demand and act as a brake on inflation, the more immediate concern was that sustained energy price rises would lift near-term inflation and risk embedding longer-term pressures via second-round effects. The Board judged that delaying action risked entrenching materially higher inflation expectations.

Chart 17: Long-term cash rate

Long term cash rate



Source: FactSet, Perpetual Private.

## Australian Cash Rate – Outlook

The RBA enters the second quarter with inflation risks skewed firmly to the upside. Price pressures have picked up materially since the second half of 2025, domestic demand conditions remain firmer than expected, and the labour market continues to operate with limited spare capacity. The RBA has been explicit that monetary policy will need to remain sufficiently restrictive for some time, and markets are currently pricing the cash rate peaking at around 4.6%, though the precise path will depend on future CPI prints, and critically, the duration and severity of the Middle East conflict and how long the Strait of Hormuz remains effectively closed to normal shipping traffic.

It is worth noting that Australia's inflation challenge has structural roots that predate the current geopolitical shock. The economy has been grappling with stagnant productivity growth for over a decade, meaning the wage growth consistent with returning inflation to target is lower than history would suggest. Strong population growth continues to place persistent upward pressure on housing construction costs and rents, the two largest components of the CPI. These are slow-moving forces that monetary policy alone cannot easily offset, and they will remain relevant to the inflation outlook long after the current energy shock subsides.

Against this backdrop, the RBA faces a genuinely difficult balancing act. Tightening too aggressively risks tipping an already rate-sensitive household sector into a sharper slowdown, particularly given that Australian mortgage holders carry one of the highest debt burdens relative to income in the developed world. But moving too slowly risks allowing inflation expectations to drift higher, making the eventual task of disinflation considerably more painful. The March quarter CPI, due in late April, will be the single most important input into the May Board decision and will go a long way toward determining whether the current tightening cycle has further to run.

# Australian dollar



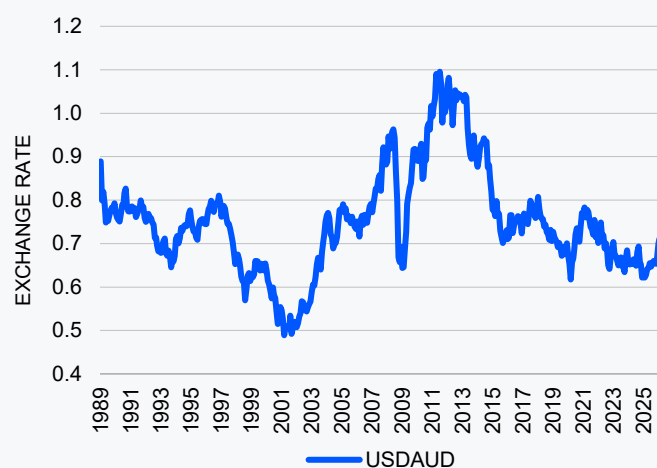
The Australian dollar (AUD) recorded a solid advance over the March quarter, rising 2.7% against the US dollar to finish the period near US\$0.69. The bulk of the gains were front-loaded, with AUD/USD lifting from lows around US\$0.67 in early January to a peak above US\$0.71 in mid-March before paring some of that strength toward quarter-end. Despite the late pullback, the quarter marked a continued rally for the AUD, extending the broader recovery that has been underway during 2025.

The primary driver of AUD strength through January and February was the widening in Australia-US interest rate differentials. Markets increasingly priced a more restrictive policy stance from the RBA in response to persistent domestic inflation pressures and a relatively tight labour market. In contrast, the US Federal Reserve, despite reassessing its own easing timeline, remained comparatively dovish. This divergence provided meaningful support for the currency through the first two months of the quarter.

March told a different story. Escalating geopolitical tensions in the Middle East pushed energy prices sharply higher, lifted global bond yields and prompted a partial recovery in the US dollar as a resurgence of a 'flight to safety' occurred. This capped further AUD upside and triggered a modest retracement from the quarter's highs. Commodity prices offered some offset, with iron ore holding up better than feared, and elevated energy and precious metals prices supported Australia's terms of trade but were not enough to fully counteract the greenback's late-quarter resurgence.

Chart 18: Australian dollar US dollar (daily) long term

USD per AUD long-term exchange rate



Source: FactSet, Perpetual Private.

## Australian Dollar – Outlook

The AUD enters the second quarter with two forces pulling in opposite directions. On one hand, interest rate differentials remain firmly supportive. The RBA is now one of the most restrictive central banks in the developed world, and with domestic inflation still well above target, a near-term policy pivot is off the table. This stands in contrast to the US Fed, which, despite pushing out its easing timeline, is still expected to cut rates before the RBA does. That differential argues against a sustained sell-off in the AUD.

On the other hand, geopolitical risk has become a material headwind. Middle East tensions have reinvigorated demand for the US dollar as a safe-haven currency, and any escalation could quickly overwhelm the support provided by rate differentials. The AUD's positive correlation with global risk sentiment means it remains vulnerable during periods of heightened uncertainty, and there is no shortage of that at present.

Valuation models suggest the AUD remains cheap, with purchasing power parity estimates placing fair value closer to US\$0.73. A decisive break above current levels will require a combination of de-escalation in the Middle East, renewed US dollar weakness, and greater clarity on the global growth outlook. Until those conditions are met, the AUD is likely to remain range-bound, with the direction of the next move determined more by geopolitics than domestic fundamentals.

1. As measured by the S&P/ASX 300 – Total Return index
2. As measured by the S&P/ASX 100 – Total Return index
3. As measured by the S&P/ASX Small Ordinaries – Total Return index
4. As measured by the S&P/ASX 300 Energy (Sector) – Total Return index
5. As measured by the S&P/ASX 300 Utilities (Sector) – Total Return index
6. As measured by the S&P/ASX 300 Consumer Staples (Sector) – Total Return index
7. As measured by the S&P/ASX 300 Materials (Sector) – Total Return index
8. As measured by the S&P/ASX 300 Financials ex-REITs (Sector) – Total Return index
9. As measured by the S&P/ASX 300 Consumer Discretionary (Sector) – Total Return index
10. As measured by the S&P/ASX 300 Industrials (Sector) – Total Return index
11. As measured by the S&P/ASX 300 Communication Services (Sector) – Total Return index
12. As measured by the S&P/ASX 300 Information Technology (Sector) – Total Return index
13. As measured by the S&P/ASX 300 Health Care (Sector) – Total Return index
14. As measured by the MSCI Australia Value – Net Return index
15. As measured by the MSCI Australia Growth – Net Return index
16. As measured by the MSCI All Country World index in AUD (unhedged) terms
17. As measured by the MSCI World Value index in AUD (unhedged) terms
18. As measured by the MSCI World Growth index in AUD (unhedged) terms
19. As measured by the MSCI AC World Small Cap index in AUD (unhedged) terms
20. As measured by the MSCI AC World – Energy index in AUD (unhedged) terms
21. As measured by the MSCI AC World – Utilities index in AUD (unhedged) terms
22. As measured by the MSCI AC World – Materials index in AUD (unhedged) terms
23. As measured by the MSCI AC World – Consumer Staples index in AUD (unhedged) terms
24. As measured by the MSCI AC World – Consumer Discretionary index in AUD (unhedged) terms
25. As measured by the MSCI AC World – Information Technology index in AUD (unhedged) terms
26. As measured by the MSCI AC World – Communication Services index in AUD (unhedged) terms
27. As measured by the MSCI AC World – Financials index in AUD (unhedged) terms
28. As measured by the S&P 500 in AUD (unhedged) terms
29. As measured by the Nasdaq Composite index in AUD (unhedged) terms
30. As measured by the FTSE 100 in AUD (unhedged) terms
31. As measured by the Nikkei 225 in AUD (unhedged) terms
32. As measured by the Germany DAX in AUD (unhedged) terms
33. As measured by the France CAC 40 in AUD (unhedged) terms
34. As measured by MSCI Emerging Markets index in AUD (unhedged) terms
35. As measured by the S&P/ASX 300 A-REIT index
36. As measured by the FTSE EPRA Nareit Global index in AUD hedged terms
37. As measured by the FTSE EPRA Nareit Hong Kong index in AUD unhedged terms
38. As measured by the FTSE EPRA Nareit USA index in AUD unhedged terms
39. As measured by the FTSE EPRA Nareit Japan index in AUD unhedged terms
40. As measured by the FTSE EPRA Nareit Europe index in AUD unhedged terms
41. As measured by the Bloomberg AusBond Composite (0+Y) index
42. As measured by the Bloomberg AusBond Credit (0+Y) index
43. As measured by the Bloomberg AusBond Credit FRN (0+Y) index
44. As measured by the Bloomberg Global Aggregate (AUD hedged)
45. As measured by the ICE BofA Global Corporate (AUD hedged) index
46. As measured by the Bloomberg Global High Yield (AUD Hedged) index
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56. As measured by the Hang Seng index in AUD (unhedged) terms
57. As measured by the FTSE EPRA Nareit Germany index in AUD unheeded terms
58. Australian Bureau of Labour Statistics (ABS)

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## Authors



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National Investment Director, Perpetual Wealth

Andrew provides investment research, portfolio construction and bespoke investment advice for Perpetual Private's clients.

Andrew works closely with advisers by providing specialist investment knowledge on Perpetual's investment process and strategy implementation, focusing on delivering optimal solutions to our stakeholders and partners. This is further augmented by his provision of transparent and accessible knowledge of financial markets and asset classes both globally and locally.

Having spent 15 years in London, Andrew returned to Melbourne with a wealth of international experience to benefit Perpetual's clients and partners. Having started his career working on private equity transactions and stock market listings, he then spent time working on equity trading desks, before moving into investment management. In his role as a Portfolio Manager for Barclays Investment Solutions, Andrew managed money across multiple asset-classes on behalf of various client groups, before focusing on the charity and not-for-profit segment. With responsibility for as much as £3bn in assets, he developed a strong reputation for delivering robust investment performance linked to his comprehensive understanding of global investment markets.

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**Hugo Goode, CFA**  
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Hugo is an Investment Specialist at Perpetual Private, where he joined the Investment Research Team in 2023. He supports the Head of Managed Accounts and Perpetual Private Investment Directors by developing and maintaining investment content and collateral. He also helps communicate Perpetual Private's investment offerings to advisors and intermediary sales teams, representing the Multi-Manager and Direct Equities teams.

Before joining Perpetual, Hugo gained valuable international experience working as a Research Analyst for a wealth management firm in Vancouver, Canada. During his four years there, he focused on strategic and tactical asset allocation of multi-asset portfolios for the firm's high-net-worth clientelle. Prior to his time in Canada, he held roles in Sydney at BT Financial Group as a Customer Relations Consultant and TP ICAP as a Trainee Broker.

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