Investment Matters

Straight and narrow

April 2026

MACQUARIE

The cloud of uncertainty hanging over markets from the US-Iran war has lifted after a two-week ceasefire was announced by both sides. This is clearly a positive development, although only time will tell whether the ceasefire evolves into a sustained end to hostilities.

It's unclear how global oil supply chains will respond to a ceasefire given the military threat from both sides has withdrawn but has not disappeared.

The price of oil fell by around 15% immediately following the announcement, so traders are expecting supply to improve beyond the two-week ceasefire period. However, a risk premium is likely to remain in the price, with the magnitude of this reflecting the terms and conditions of how the Strait of Hormuz is opened more permanently. This means the price of oil will probably not settle back at pre-war levels for at least several months ahead but nonetheless it should continue to fall provided the oil flows.

If the ceasefire turns into a more permanent end to hostilities then the economic damage from the conflict looks to be minimal and financial markets will quickly move on. There are good reasons to remain positive.

- Both sides need to keep the oil flowing out of the Strait of Hormuz.
- History shows oil price shocks tend to be short-lived and this seems to be the view of financial markets.
- Stock analysts have upgraded and not downgraded earnings since the war began.
- Most of the world's major central banks, apart from the RBA, have room to absorb a little inflation.
- Governments are already responding by providing fuel tax relief and releasing fuel stockpiles.

But the war has exposed how vulnerable the global economy is to a politically volatile region and a relatively small waterway remaining open to oil trade.

The Strait of Hormuz might quickly resume supplying the world with the region's oil, but global oil markets will likely be changed forever. The rules governing the use and protection of international water ways have clearly been thrown out the window. This applies not only to the Strait of Hormuz but also other trade routes.

Another lesson learnt from the war is that energy independence is vital in a world where there is no "rules- based" order and where longstanding geopolitical, economic and military relationships have been upended. Governments globally will likely raise oil stockpiles and consider onshoring oil refining where feasible.

There are already signs of other longer-term consequences from the war. EV and solar battery sales have surged since hostilities began. The rate of growth may slow in the future, but the trend seems likely to be given a permanent step up. The surge in interest in EVs has also accelerated the debate about inadequate charging station infrastructure and EV road user charges.

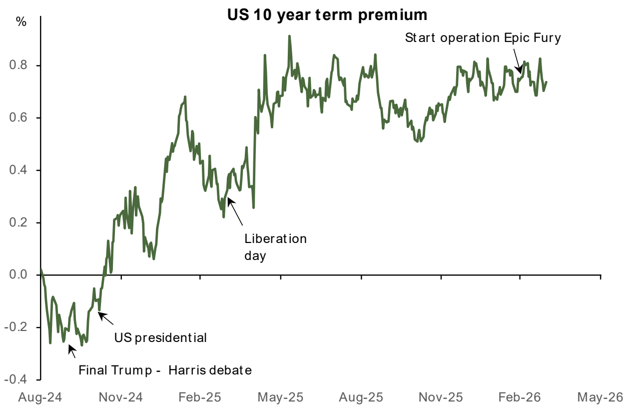
Global events test investors' commitment to their strategic asset allocation, and they should ensure that their portfolio construction reflects their risk tolerance. Those with a higher risk tolerance should be prepared to absorb more downside in risk assets knowing that they will come out the other side in good shape.

In contrast, investors with little risk tolerance should have a wall of defence they are already leaning on. This may produce underperformance during boom times, but it should provide strong protection during periods when markets are down.

Following the ceasefire announcement, US equities have retraced back to be only around 2% lower than they were at the start of the conflict. However, government bond markets tend to have a better track record at correctly pricing macro events. It's worth pointing out that the US 10-year yield has risen by about 25bps since the war began but most of the rise has been due to higher long-term policy expectations and not inflation compensation.

The compensation investors receive for holding the security to duration (term premium) has remained around 70bps throughout the war. This implies that the market expects that inflation will remain contained, but policy rates will need to rise and slow growth for this to happen.

Higher policy expectations push bond yields higher



Source: LSEG, MWM Research, April 2026

Regardless of whether you look at equities or bonds, neither market was priced for a recession during hostilities and even less so now following the ceasefire. But investors need to understand that risks are now very asymmetric. In the very short-term there is not too much more upside to risk assets, but there is plenty of downside if hostilities resume.

Overall, we remain positive on risk assets as we did at the start of the conflict. But acknowledge that we are not out of the woods yet and there is plenty of downside to risk assets should hostilities resume. The terms and conditions of how the Strait of Hormuz remains open more permanently is unresolved.

Investors should also look further ahead than the conflict and consider many of the permanent changes that are likely in oil markets and the flow on effects of that into alternative sources of fuel. International rules-based order has been torn up following the US initiated wars on global trade and Iran, and its removal of the Venezuelan President from office . This backdrop carries with it high geopolitical and economic risk becasue there are no longer any guardrails.

Macquarie WM Investment Strategy Team

Global Economics: Finally, some price relief

- The global economy was in good shape going into the war and should resume on a positive path provided the ceasefire evolves into more enduring peace. Central banks may choose to reassess the path of their economies as more data becomes available.
- Data on consumer sentiment shows that the oil price rise is likely to mean a slowdown in spending will occur in March and April and possibly into May.
- A risk premium on the oil price will likely remain for some time until the terms and conditions of a more permanent opening of the Strait of Hormuz are provided.

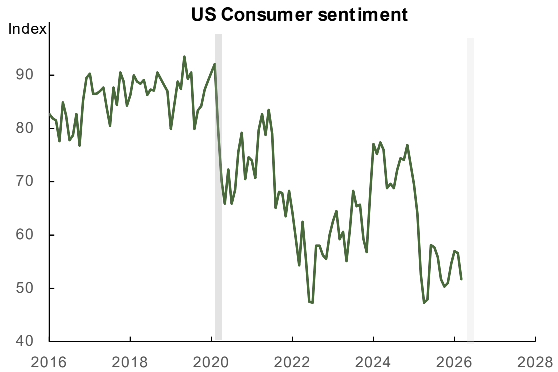
There is not a lot of data available yet to assess how the sharp rise in oil prices is affecting consumer spending. The March University of Michigan consumer sentiment index fell during the month but is still well above the level in April last year when the Liberation Day tariffs were announced.

High frequency data on the labour market such as initial jobless claims shows little impact from the oil price shock. Central banks not under direct pressure from inflation may choose to wait and count the cost.

Diesel prices in the US peaked at around $5.38/Gallon, which is about 45% higher than at the start of the conflict. But the fall in the price of crude oil following the ceasefire announcement will provide some relief. Pain at the pump is being felt by the consumer globally. But the 2nd round effects from rising transport costs can affect the price of many goods depending on the ability of firms to pass-through the cost increase.

The ceasefire announcement led to a sharp fall in the global oil price, although it seems unlikely that it will return to the price at the start of the conflict for at least a few months. A risk premium is likely to be attached to the oil price reflecting the terms and conditions of how the Strait of Hormuz is opened more permanently. International rules-based order has been thrown out the window, so there is plenty of uncertainty about how this works in practice.

Consumer sentiment is low, but could be worse



Source: MWM Research, LSEG, April 2026

Australian Economics: The oil shock hits home

- The oil shock is hitting Australia hard. The RBA has no option but to deal with the inflationary consequences of the rise in oil price, given it had no room to absorb any more inflationary pressures prior to the start of the war.
- The magnitude and breadth of second round effects will be closely watched. The Bank will be hoping they will be reasonably well contained, but the risks are tilted in the opposite direction.
- Generally rising fuel prices don't cripple fuel demand because motorists view it as a necessity. Rising fuel prices and 2nd round effects reduce spending on other goods and services because income is relatively fixed in the short term.

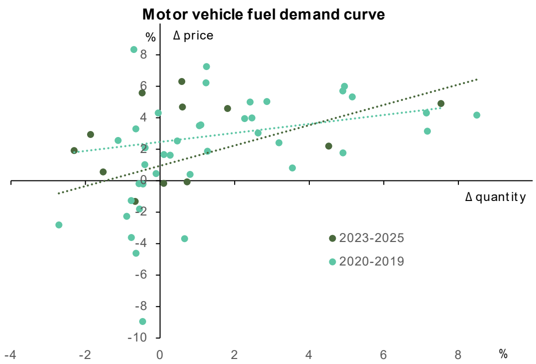
The RBA was the only major central bank to change policy during the war. Markets now expect the Bank to tighten policy twice more this year, despite the large fall in the price of crude oil immediately after the ceasefire was announced.

The Hormuz Strait closure led to the Federal government responding by lowering the fuel excise by 50% for 3 months and reducing the heavy vehicle road user charge to zero for the same period. It also deferred the next scheduled increase in the same charge by 6 months. It also ignited a flurry of negotiations between the government and Australia’s suppliers of refined product, particularly in Singapore and South Korea. The result was that normal supply would be guaranteed at least until May.

The main problems with the surge in fuel prices in Australia are twofold: Firstly, the economy has no room for a price shock. The RBA was struggling to pull inflation back to target prior to the war. Secondly, there will be 2nd round effects that it has on the price of other goods and services because of higher transport costs and the rising global cost of products such as gas and fertilizer inputs.

But the balance of risks in these two factors combining to create a broad, more sustainable lift in prices is clearly tilted higher leaving the RBA with no option but to tighten policy. The direct impact of the rise in fuel prices is easy to calculate and most likely a one-off, so by itself doesn’t alter the equation for the RBA.

Motorists need to buy fuel regardless of the cost



Source: MWM Research, LSEG, April 2026

Total returns (AUD) – as of 31st March 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Australian equity indices						
S&P/ASX 200	-7.1	-1.6	-1.6	11.7	9.5	8.6
S&P/ASX Small Ordinaries	-11.0	-10.9	-10.9	13.7	8.5	4.0
S&P/ASX 200 Industrials	-6.7	-5.5	-5.5	2.1	9.3	7.1
S&P/ASX 200 Resources	-8.2	9.7	9.7	47.1	10.2	13.2
International equity indices (AUD unhedged)						
MSCI AC World ex Australia	-3.4	-5.8	-5.8	9.2	15.8	11.9
MSCI Developed World ex Australia	-2.5	-6.2	-6.2	8.1	16.0	12.7
MSCI Emerging Markets	-9.5	-2.8	-2.8	17.9	14.0	5.9
Regional equity indices (AUD unhedged)						
S&P 500	-1.1	-6.9	-6.9	7.2	17.4	14.5
NASDAQ Composite	-0.8	-9.4	-9.4	14.3	20.8	13.5
Euro STOXX 50	-8.3	-8.2	-8.2	5.9	13.6	12.5
FTSE 100	-5.1	-1.8	-1.8	13.7	15.6	14.0
Japan TOPIX	-9.1	-1.1	-1.1	15.2	15.0	9.2
MSCI China	-4.0	-11.3	-11.3	-5.5	5.8	-2.9
International equity thematic indices (AUD unhedged)						
MSCI World Growth	-2.9	-10.9	-10.9	9.4	17.6	12.7
MSCI World Value	-2.3	-1.5	-1.5	6.1	13.8	11.9
MSCI World Cyclicals	-3.2	-8.5	-8.5	9.8	18.8	13.3
MSCI World Defensives	-0.5	3.0	3.0	3.2	8.1	10.8
Australian sector indices						
Energy	20.4	37.7	37.7	49.9	8.7	12.9
Materials	-13.0	3.9	3.9	40.6	9.6	12.1
Industrials	-8.0	-5.5	-5.5	4.9	9.8	9.5
Consumer Discretionary	-8.7	-14.6	-14.6	-8.6	6.6	4.2
Consumer Staples	1.7	9.7	9.7	11.1	1.4	3.2
Health Care	-6.3	-16.9	-16.9	-30.3	-12.0	-6.0
Financials	-6.5	0.6	0.6	15.7	19.9	13.7
Information Technology	-12.5	-27.9	-27.9	-30.9	1.3	-3.9
Communication Services	-0.7	-1.0	-1.0	7.8	7.3	8.1
Utilities	4.9	10.3	10.3	22.2	14.1	17.1
Real Estate	-11.2	-16.7	-16.7	-3.1	6.8	3.7

Note: All returns are in AUD, and unhedged unless otherwise stated

Source: FactSet, MWM Research, April 2026

Total returns (AUD) – as of 31st March 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Real estate/infrastructure equity indices (AUD hedged)						
S&P/ASX A-REIT	-11.2	-16.6	-16.6	-2.3	8.1	5.0
FTSE EPRA Nareit Global Developed (hedged)	-8.2	1.2	1.2	8.9	7.5	2.8
S&P Global Infrastructure (hedged)	-2.7	8.6	8.6	23.8	15.4	12.3
Global fixed income indices (AUD hedged)						
Bloomberg Global Aggregate (hedged)	-1.9	-0.3	-0.3	3.0	3.1	-0.1
Bloomberg Global Treasury (hedged)	-2.0	-0.4	-0.4	1.9	2.3	-0.5
Bloomberg Global Corporates (hedged)	-2.1	-0.6	-0.6	4.1	4.3	0.1
Bloomberg Global High Yield (hedged)	-2.1	-1.0	-1.0	7.3	9.0	3.5
Morningstar LSTA US Leveraged Loan 100 (hedged)	1.2	-0.8	-0.8	5.9	8.4	5.9
Bloomberg Emerging Markets USD Aggregate (unhedged)	1.0	-3.9	-3.9	-2.5	6.9	4.1
Bloomberg EM Local Currency Government Universal (unhedged)	0.1	-4.2	-4.2	-4.5	3.4	3.8
Australian fixed income indices						
Bloomberg AusBond Bank Bill	0.3	0.9	0.9	3.8	4.1	2.9
Bloomberg AusBond Composite (0+Y)	-1.4	-0.3	-0.3	1.5	2.1	0.2
Bloomberg AusBond Credit (0+Y)	-1.2	-0.2	-0.2	2.6	4.3	1.8
Commodities (in AUD)						
Crude oil (Brent)	51.5	64.8	64.8	22.4	8.7	12.7
Gold	-8.2	2.7	2.7	34.6	31.5	24.8
Iron ore (62% fe cfr China cash)	11.7	-3.3	-3.3	-5.6	-6.4	-6.7
Coal (Newcastle - Near Term IFEU)	28.0	29.0	29.0	25.8	-7.7	10.5
Copper (Cash Official LME)	-5.9	-5.3	-5.3	14.8	10.0	8.8
Nickel (Cash Official LME)	-0.8	-0.4	-0.4	-2.4	-10.6	3.1
S&P GSCI Index	26.9	32.3	32.3	19.3	8.3	12.1
FX						
AUD/USD	-3.0	3.4	3.4	10.5	1.0	-1.9
AUD/EUR	-0.9	5.1	5.1	3.4	-1.1	-1.6
AUD/GBP	-1.2	5.3	5.3	7.9	-1.3	-1.1
AUD/JPY	-1.4	4.8	4.8	16.9	7.2	5.4
USD/EUR	2.3	1.7	1.7	-6.4	-2.1	0.3

Note: All returns are in AUD, and unhedged unless otherwise stated

Source: FactSet, MWM Research, April 2026

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