

Investment Matters

Beyond the barrel

March 2026



Prudent investment strategies are built on a platform of optimising risk adjusted returns and sometimes that means looking through periods of market volatility and/or disappointing returns. In this sense, volatility should not be feared but considered a normal part of the investment cycle. We are only two months into 2026, but already markets are testing investor commitment and resilience.

The conflict in the Middle East that began last weekend was not wholly unexpected; President Trump set a deadline to achieve satisfactory negotiations under the threat of military strikes, with significant US military build-up in the region and a briefing to Congressional leaders last week. The attack was well forewarned. However, even though expectations may have been managed it has added an extra layer of complexity to an already complex outlook for financial markets.

It is difficult to predict the duration and fallout of the conflict, and this situation is unlikely to change in the foreseeable future. The Iranian leadership may have been removed, but the path towards a functioning government that meets US and Israeli expectations is not clear and seemingly a long way off. However, reports indicate the Iranian military is capable of retaliation and has an active terrorism network.

The by-product of conflict in the Middle East is always upward pressure on the oil price. This time is no different; the Brent crude oil price has risen by 9% since 27 February. But a sharp rise in the oil price doesn't necessarily threaten global economic expansion or inflation as it did in the 1970s and 1980s. The global economy is now driven much more by services output than by heavy industry and manufacturing, and so oil consumption is a smaller share of global economic output. Nonetheless, there is still oil dependency in industries such as transport, mining and manufacturing. The fallout in global tourism is also likely to be large the longer the conflict continues.

Financial markets typically go through a process of jumping on the initial shock before landing back at the fundamentals. The good news is that fundamentals were positive at the start of the conflict. Global growth is around trend and inflation is generally a little higher than most central bank targets, but policymakers are comfortable that inflation will ease in the months ahead at current policy settings. Central bankers will likely acknowledge the uncertainty created by the conflict and not progress with plans to adjust policy until there is more clarity.

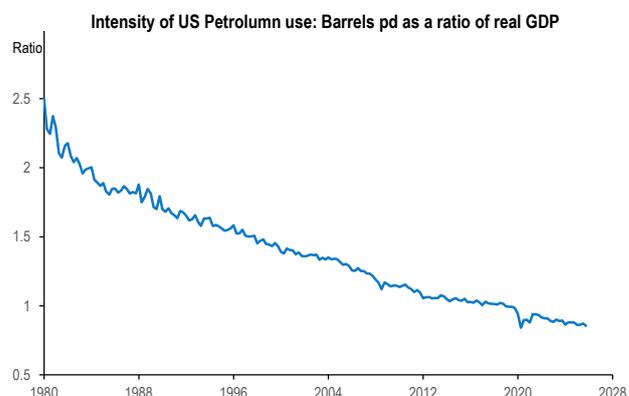
The conflict in the Middle East is occurring against a backdrop where AI capex plans for this year are \$US650bn, and the AI hyperscalers doing the investment account for around 30% of the US stock market. In our view, a lack of return on this investment leading to a disorderly unwind of capex plans next year, remains a key threat to markets. This threat is amplified by the stretched valuations pricing this return on investment.

Along with this return on capex, the market is trying to work out how AI will disrupt existing businesses. Software as a

service (SaaS), banking, wealth management and real estate services are all in the firing line. This is not a macro issue for markets, but more a stock specific issue that will ultimately deliver a redistribution of earnings and growth in aggregate earnings over time. History shows when a new technology emerges there are always winners and losers. The market decided about two months ago to act now, and ask questions later, with the software industry index in the US already 20% lower than its peak last October.

The supreme court's ruling on President Trump's Liberation Day tariffs creates another layer of uncertainty. In response to the decision, the President used the Trade Act to put in place a 15% tariff across the board on trading partners for 150 days. Tariffs put in place earlier on commodities such as steel and aluminium remain in place. It's also unclear whether the tariff settings negotiated in bilateral trade deals will remain unaffected and what will happen to tariff settings after 150 days. However, last year showed that the US economy absorbed the tariff increase more easily than most expected. Firms responded to lost US market share by growing share in other markets and investing in supply chain realignment. It's unlikely firms would respond to another change in the magnitude of tariff settings by undoing the work done last year.

The world has become less dependent on oil



Source: LSEG, MWM Research, March 2026

Despite all this uncertainty, investors need to continue with managing their capital. It has been proven that a portfolio accounting for investor risk tolerance will ride out the bumps in market volatility over the longer-term.

Looking through, the economic fundamentals are positive, so we remain positive on risk assets. We prefer Europe, Japan and EM over the US and Australia in equities. We continue to like small caps over large caps and by style we prefer 'value' over 'growth'. Alternatives and real assets are a proven way to manage volatility. Sovereign bonds have shown time again an ability to protect returns during a flight to quality, although we expect persistent fiscal deficits to exert upward pressure on long-term yields.

Macquarie WM Investment Strategy Team

Global Economics: Rising oil revives inflation risks

- Rising oil prices are bad news for the global economy, particularly when inflation is lingering above central bank targets. Central banks will look through temporary shocks but will be sensitive to rising inflation expectations.
- Consumers are much less sensitive to oil price movements than they were in past decades. But the longer the conflict continues, the larger the risk that the price increase reaches a threshold that impacts the consumer.
- Recently oil price movements have been more closely related to goods inflation because it is still an important input into the transportation costs of final consumer goods.

The economic fallout from any major conflict in the Middle East has nearly always been calculated from the rise in the price of oil. The price of oil has risen sharply since the start of the year from \$US57pb to around \$US90pb.

Fluctuations in the price of oil have both direct and indirect effects on economic growth. Around 67% of US petroleum consumption is used for transportation, with another 27% used directly in industry. In the past price increases have been relatively temporary. A price increase will have the following effects, all else being equal:

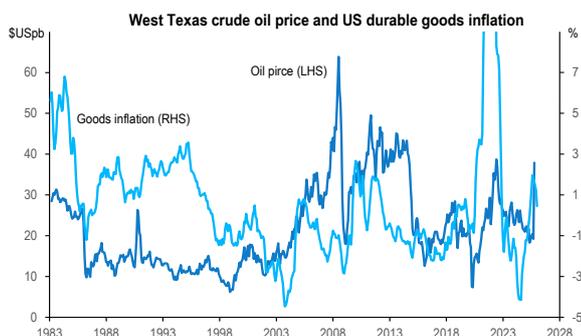
Direct effects:

- Reduce real consumer spending because of its use in motor vehicles and public transport.
- Increase the profitability of the energy sector even though in most economies oil is a small share of GDP.

Indirect effects:

- Reduce profitability in goods producing sectors because transport is an input into the cost of goods sold.
- Lead to price increases of other energy products such as gas even though they are not direct substitutes.

Oil price rises get passed on



Source: LSEG, MWM Research, March 2026

Australian Economics: Confidently adjusting policy is getting more difficult

- The RBA is one of just 3 major central banks expected to raise rates this year, alongside the RBNZ and the BoJ. The conflict in the Middle East carries uncertainty not just for investors, but also policymakers. If it were to ratchet up significantly then confidently adjusting policy would be difficult.
- The latest piece to the inflation puzzle showed little reprieve in January, with the trimmed mean measure of inflation rising by 0.3% in the month and 3.4% over the past year.
- The latest Wage Price Index data showed a solid 0.8% increase in Q4 leaving the 4 quarter-ended growth rate at 3.4%. This suggests labour market conditions remain tight.

The conflict in the Middle East will not only raise uncertainty for investors, but also central banks. Just prior to the beginning of the conflict most central banks were comfortable in current policy settings and that inflation would ease a little in the year ahead. Australia was one of the exceptions, with the RBA raising the cash rate at its February meeting and markets are still pricing 25bp increases in the cash rate at both the May and November board meetings.

The inflation data for January showed the increase in the breadth and magnitude of price increases last year has spilt over into 2026. The trimmed mean rose by 0.3% during the month and in line with market expectations, with the inflation rate now 3.4%. However, for policy a balancing act seems to be playing out.

Recent data shows labour market conditions may be tightening again, but this needs to be balanced against data showing that some of the one-off factors that drove inflation higher in H2 2025 are starting to ease. The RBA is assuming no slowdown in Q1, but if it were to slow policy would probably be on hold at last until the second half of the year. The global backdrop is also another consideration for policy and the outbreak of hostilities in the Middle East places a bias on policy to remain on hold.

Wages growth remains stubbornly high



Source: LSEG, MWM Research, March 2026

Total returns (AUD) – as of 28th February 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Australian equity indices						
S&P/ASX 200	4.1	7.3	6.0	16.2	12.2	10.8
S&P/ASX Small Ordinaries	-2.6	1.5	0.1	23.0	12.5	6.6
S&P/ASX 200 Industrials	2.4	1.2	1.4	4.7	11.1	9.5
S&P/ASX 200 Resources	8.7	26.4	19.5	60.9	15.3	14.2
Regional equity indices (AUD unhedged)						
S&P 500	-2.4	-7.3	-5.8	2.1	19.6	16.1
NASDAQ Composite	-5.0	-10.6	-8.7	5.6	24.1	14.1
Euro STOXX 50	0.8	1.9	0.2	15.1	19.0	15.9
FTSE 100	3.2	5.7	3.5	19.8	17.9	16.2
Japan TOPIX	7.2	7.6	8.8	26.7	20.6	12.0
Australian sector indices						
Energy	3.4	12.2	14.4	20.8	1.7	8.8
Materials	9.1	27.4	19.4	61.0	17.0	14.6
Industrials	3.0	1.2	2.7	11.6	13.0	12.2
Consumer Discretionary	-5.8	-8.9	-6.4	-6.1	10.5	7.5
Consumer Staples	6.1	4.9	7.9	7.7	1.0	3.5
Health Care	-13.3	-17.7	-11.4	-29.0	-10.0	-4.3
Financials	9.2	11.3	7.7	18.9	20.6	16.2
Information Technology	-9.1	-24.8	-17.7	-28.6	5.8	-1.9
Communication Services	1.5	-3.4	-0.3	4.8	8.8	9.6
Utilities	4.5	4.1	5.2	18.3	12.9	17.5
Real Estate	-3.6	-4.4	-6.2	3.8	8.7	7.4

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

Source: FactSet, MWM Research, March 2026

Total returns (AUD) – as of 28th February 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	-3.5	-4.3	-6.1	4.7	9.8	9.0
FTSE EPRA Nareit Global Developed (hedged)	7.2	8.8	10.2	15.5	9.2	5.4
S&P Global Infrastructure (hedged)	7.5	10.3	11.6	28.9	17.1	14.1
Global fixed income indices (AUD hedged)						
Bloomberg Global Aggregate (hedged)	1.4	1.4	1.6	4.5	4.4	0.2
Bloomberg Global Treasury (hedged)	1.5	1.2	1.6	3.4	3.7	-0.1
Bloomberg Global Corporates (hedged)	1.1	1.4	1.5	5.9	5.7	0.3
Bloomberg Global High Yield (hedged)	0.4	1.9	1.1	8.5	9.9	3.8
Morningstar LSTA US Leveraged Loan 100 (hedged)	-1.4	-1.1	4.8	3.9	6.9	4.7
Bloomberg Emerging Markets USD Aggregate (unhedged)	-0.5	-6.1	-4.9	-4.1	7.2	4.0
Bloomberg EM Local Currency Government Universal (unhedged)	-0.2	-4.9	-4.3	-4.0	4.4	3.8
Australian fixed income indices						
Bloomberg AusBond Bank Bill	0.3	0.9	0.6	3.8	4.1	2.8
Bloomberg AusBond Composite (0+Y)	0.9	0.5	1.1	3.1	3.6	0.6
Bloomberg AusBond Credit (0+Y)	0.6	0.7	1.0	4.1	5.3	2.0
Commodities (in AUD)						
Crude oil (Brent)	-0.8	4.8	11.3	-14.9	-6.0	3.8
Gold	3.0	14.7	11.9	60.8	39.4	26.6
Iron ore (62% fe cfr China cash)	-7.8	-13.1	-13.5	-19.1	-9.3	-8.3
Coal (Newcastle - Near Term IFEU)	4.5	-4.1	0.8	-1.0	-17.2	8.1
Copper (Cash Official LME)	-1.2	12.4	0.6	25.2	12.9	9.7
Nickel (Cash Official LME)	-0.9	11.0	0.4	-0.2	-12.3	0.6
S&P GSCI Index	0.4	1.3	4.2	-3.7	-0.2	6.8
FX						
AUD/USD	2.2	8.6	6.6	14.6	1.9	-1.6
AUD/EUR	2.5	6.6	6.0	0.7	-1.8	-1.2
AUD/GBP	3.7	6.6	6.5	6.9	-2.0	-1.0
AUD/JPY	3.1	8.6	6.2	18.8	6.6	6.2
USD/EUR	0.3	-1.8	-0.6	-12.2	-3.6	0.4

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

Source: FactSet, Bloomberg, MWM Research, March 2026

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This Report was finalised on 6 March 2026.

Recommendation definitions (Macquarie Australia/New Zealand): Outperform – return >10% in excess of benchmark return Neutral – return within 10% of benchmark return Underperform – return >10% below benchmark return.

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