



Commentary | Quarter 1 2026

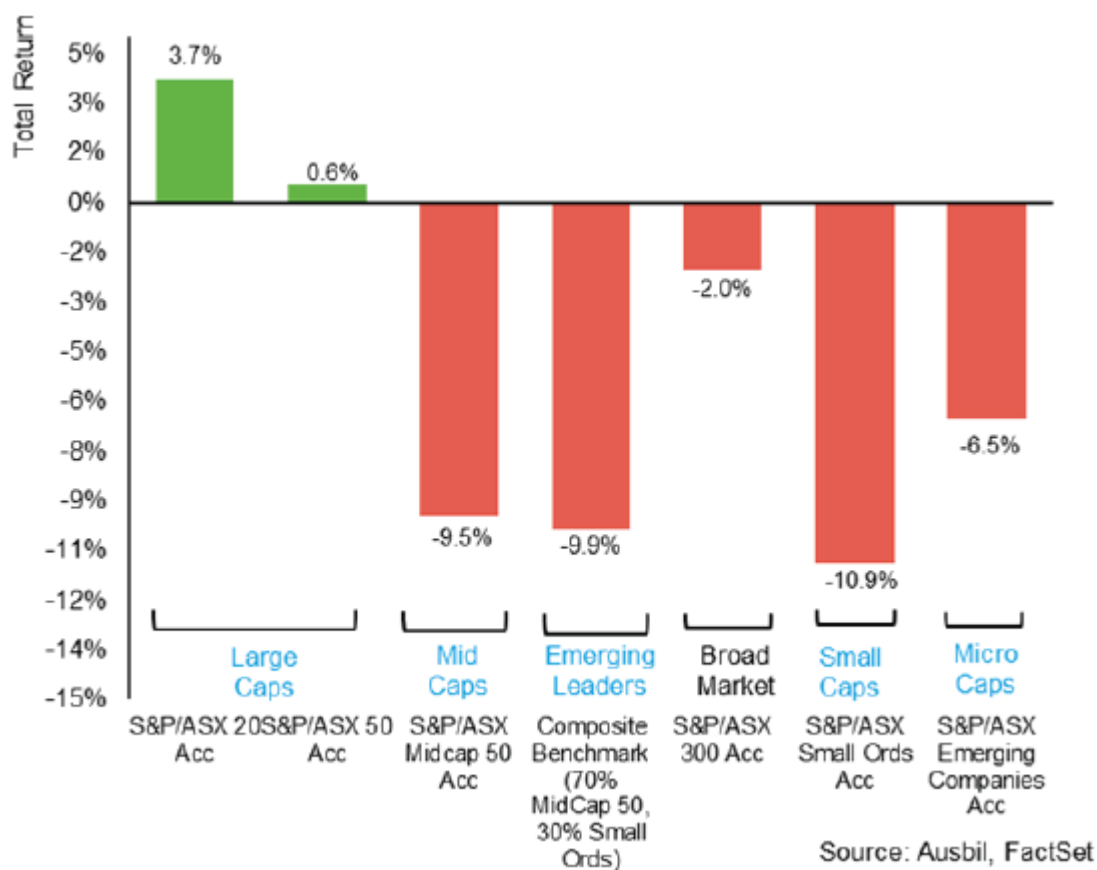
The March 2026 quarter marked a decisive shift in the market narrative. What began as a continuation of late-2025 optimism around easing inflation, rate cuts globally, and AI-led earnings growth quickly gave way to a geopolitically driven inflation shock.

The escalation of the Middle East conflict in late February, including severe disruption to shipping through the Strait of Hormuz, triggered a historic surge in oil prices, a sharp repricing of inflation expectations, delays to anticipated central bank rate cuts globally, and a broad rotation away from growth assets and toward value, energy and real assets. As a result, oil prices were the standout performer, while global equities and bonds both declined, with technology stocks and long-duration assets particularly affected.

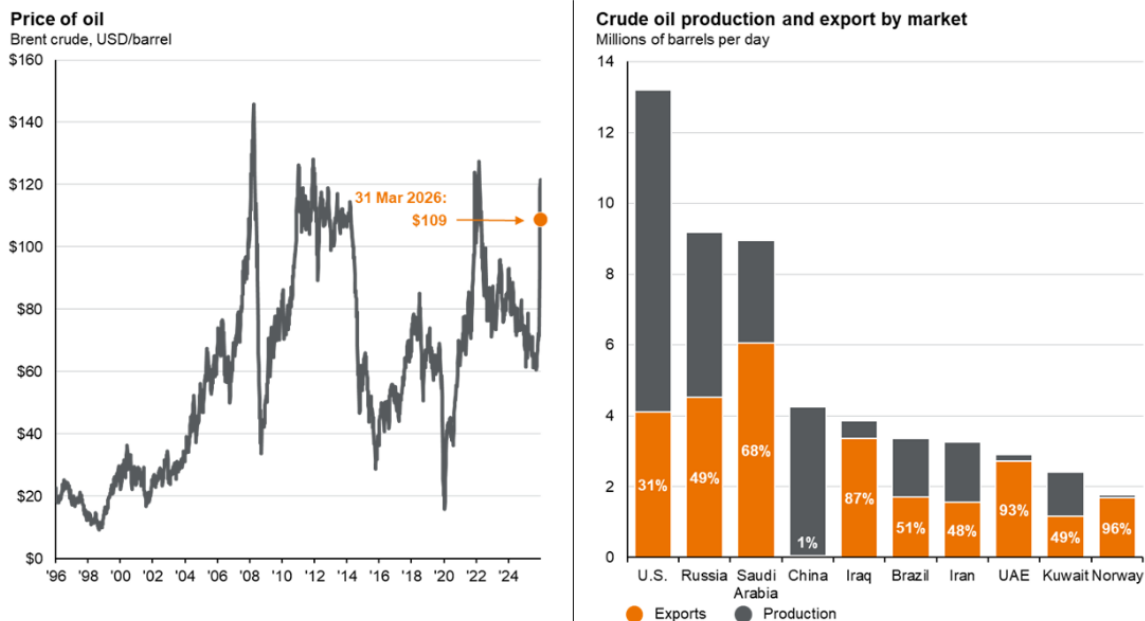
Key observations:

- The direct military confrontation involving Iran, Israel and the United States led to the effective closure of the Strait of Hormuz, which normally facilitates around 20% of global oil and LNG flows which has caused the largest oil supply disruption in modern history.
- Brent crude prices rose from approximately US\$60 per barrel at the start of the year to over US\$115 per barrel by late March, creating a classic stagflationary risk shock for energy importing economies.
- Global central banks responded by holding policy rates steady, with markets shifting from pricing rate cuts in 2026 to pricing either fewer cuts or renewed tightening risk. The RBA increased the cash rate twice during the quarter taking the cash rate target to 4.10% with markets pricing further rate hikes in 2026.
- Global equities declined over the quarter with markets falling circa 6% in AUD terms. Growth stocks materially underperformed value stocks. The valuation sensitivity of growth stocks increased sharply as bond yields rose and real rates repriced.
- Technology was the largest drag on global equity performance with mega cap US technology stocks such as Microsoft, Nvidia and Apple accounting for the majority of the index declines. Software and AI related stocks de-rated as investors questioned return on capital from the significant capex being undertaken. Software-as-a-service (SaaS) stocks also suffered as investors fear the impact on AI on their business model.
- The S&P/ASX 200 fared better than global markets but still ended in negative territory. Energy was the standout sector with Resources also contributing. Financials were relatively resilient with IT and Healthcare the most significant detractors.
- Of note during the quarter was the dispersion of returns across the market capitalisation segment of the ASX. The chart below, sourced from Ausbil, shows the flight to quality as the oil shock took hold and a risk off environment ensued.

Domestic Returns by segment – March 2026 Quarter



- Global bond markets were highly volatile and finished the quarter broadly flat to slightly negative. Rising oil prices pushed inflation expectations higher with yield curves shifting upwards, particularly at the front end. Despite the mark-to-market impact on prices, higher starting yields continue to provide income support.
- Australian government bonds sold off in line with global peers. The narrative that the RBA might hold or mildly tighten, that existed at the start of 2026, moved to a higher for longer, with more hikes likely by the end of the quarter. Outside of the energy shock, inflation has stayed sticky. Spreads remained relatively tight with some widening towards the end of the quarter as strong technical demand was offset by macro uncertainty.
- Global infrastructure was a strong performer over the quarter displaying some of the defensive (i.e. bond like) characteristics of the asset class although it was not immune to the risk-off environment in March. This is a reminder that the asset class is not immune to equity market selloffs. There was some variability in underlying sectors as utilities and toll roads did better than airports/transport and communication infrastructure sectors.
- Australian Listed Real Estate (AREITs) had a poor quarter. After a constructive start AREITs sold off in late February and March driven by interest rate repricing and risk sentiment. Global Listed Real Estate (GREITs) were not immune but fared better highlighting the more diverse opportunity set. Industrial and logistics were relative outperformers with most regions declining.
- No surprises that oil was the dominant market driver within commodities. The chart below shows sharp spike in oil prices during the quarter with Brent crude finishing the quarter at US\$109 per barrel. The Bloomberg Commodity Index rose around 24% for the quarter.



Source: J.P. Morgan Asset Management Guide to Markets – Australia. Data as of 31 March 2026.

- Gold, although positive, had a relatively subdued quarter. Geopolitical uncertainty, inflation fears, and ongoing central bank buying added to performance. However, gold gave some of the gains back in March as rising real yields and a stronger US dollar took effect.

Index Returns to 31 March 2026 (sorted by highest to lowest for the quarter)

Index	1mo	3mo	6mo	1yr	3yr	5yr	10yr
	%	%	%	%	%pa	%pa	%pa
FTSE Dvlp Core Infra 50/50 NR Hdg AUD	-3.04	9.00	9.23	15.78	10.53	7.86	7.56
S&P Global Infrastructure NR Hdg AUD	-2.76	8.43	10.85	22.80	14.36	11.30	8.46
FTSE Dvlp Core Infra 50/50 NR AUD	-0.18	5.95	5.36	7.11	10.34	10.13	8.82
Global X Gold Bullion ETF	-8.07	3.46	16.66	34.68			
FTSE EPRA Nareit Developed NR Hdg AUD	-8.33	0.95	0.76	7.81	6.33	1.82	2.72
RBA Cash Rate Target	0.34	0.95	1.89	3.90	4.22	2.96	2.07
Bloomberg AusBond Bank 0+Y TR AUD	0.32	0.91	1.82	3.80	4.15	2.89	2.14
Bloomberg Global Aggregate TR Hdg AUD	-1.85	-0.25	0.43	2.98	3.08	-0.13	1.55
Bloomberg AusBond Composite 0+Y TR AUD	-1.42	-0.34	-1.48	1.51	2.06	0.15	1.79
Bloomberg Gbl Agg Corp TR Hdg AUD	-2.08	-0.64	0.18	4.14	4.25	0.11	2.35
S&P/ASX 100 TR	-6.84	-0.87	-2.10	11.34	9.53	9.04	9.66
MSCI World Ex AUS Small Cap NR AUD	-3.72	-1.00	1.23	14.87	12.69	7.83	10.83
MSCI Japan NR AUD	-8.87	-1.30	1.26	14.53	14.87	8.85	9.76
S&P/ASX 200 TR AUD	-7.15	-1.61	-2.61	11.67	9.54	8.63	9.44
FTSE EPRA Nareit Developed NR AUD	-5.32	-1.63	-2.95	-0.85	5.95	4.00	4.03
MSCI ACWI ex Australia 100%Hedged NR AUD	-6.37	-2.75	0.87	19.11	16.24	9.31	
MSCI EM NR AUD	-9.54	-2.80	1.18	17.87	13.99	5.92	9.06
Bloomberg Global Aggregate TR AUD	0.85	-3.68	-4.04	-5.14	1.83	0.65	1.75
S&P 500 Hedged NR AUD	-5.21	-4.63	-2.27	16.59	16.42	9.86	12.18
MSCI Europe NR AUD	-6.25	-5.38	-0.13	8.37	12.41	11.13	9.76
MSCI ACWI Ex Australia NR AUD	-3.38	-5.84	-3.28	9.17	15.83	11.89	12.69
MSCI World Ex Australia NR AUD	-2.51	-6.22	-3.83	8.14	16.04	12.71	13.19
S&P 500 TR AUD	-1.13	-6.86	-4.97	7.18	17.44	14.47	15.49
MSCI China NR USD	-7.70	-8.94	-18.38	-5.51	5.76	-2.87	6.30
S&P/ASX Small Ordinaries TR AUD	-10.96	-10.87	-9.26	13.65	8.50	3.99	7.29
S&P/ASX 200 A-REIT TR	-11.21	-16.63	-17.80	-2.26	8.08	5.05	5.31
MSCI India NR USD	-14.93	-18.13	-16.99	-21.24	5.63	6.77	9.06
iShares Bitcoin Trust ETF	3.43	-22.37	-42.54	-25.82			

Views across the asset classes

Equities

On a relative basis we maintain our preference for international equities. Non-US opportunities continue to expand but the continued dominance of the AI thematic will mean the US equity market will still be the dominant force. Emerging markets continue to be attractive.

We continue to hold a neutral stance on Australian small caps, maintaining a small allocation in higher growth portfolios.

Fixed Interest

Credit spreads remain relatively tight, but our expectation is that they are more likely to widen to reflect higher energy costs and the resultant impact to corporate earnings and consumer spending. We have observed small increases in duration positioning from our more flexible managers as markets price in rate hikes. Overall, our duration position remains below benchmark duration. Credit quality across the portfolio is high reflecting tighter spreads to date.

Property and Infrastructure

A tilt towards global infrastructure continues to benefit portfolios. We retain a preference for global REITs over AREITs, albeit at a small allocation.

Alternatives

As previously mentioned, we view the role of commodities primarily as a diversifier, providing risk-reduction benefits through low correlations to traditional asset classes rather than as a return-seeking allocation. We are somewhat sanguine about private assets noting concerns about private credit globally. Manager selection within private assets is the key.

Outlook and Portfolio Implications

A lot rides on what happens in the Middle East and the length and breadth of the resultant energy shock. The longer the energy shock, the higher the probability of recession and stagflation. Nevertheless, investors are adopting a “glass half full” approach to the current situation and “buying the dip” with the belief that a resolution to the Middle East conflict will ensue shortly. Any escalation in the conflict is likely to result in a re-pricing of risk.

A high conviction short term call across asset classes is difficult to make. Instead, we continue to focus on some of the medium to long-term thematic that are likely to play out across markets. To that end we are comfortable that our current asset allocation which exhibits diversification across asset classes, regions and sectors is the most appropriate course of action.

Summary of current asset class view

Asset Class	Current View
Australian Equities	Neutral
Australian Small Caps	Neutral
International Equities	Slightly Positive
International Equity Small Caps	Slightly Negative
Australian Listed Property (AREIT)	Slightly Negative
Global Listed Property (GREIT)	Slightly Negative
Infrastructure	Positive
Alternatives	Selectively Positive
Australian Fixed Interest	Positive
International Fixed Interest	Neutral

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