Market Review Monthly

March 2026

Key takeaways March 2026

- International shares (hedged) and Australian shares fell -5.8% and -7.3% respectively in March; driven by geopolitical tensions, higher oil prices following of the effective closure of the Strait of Hormuz and expectations of further rate hikes to contain inflation. The energy sector was the best performer, as oil prices rose.
- The US–Israel conflict with Iran (Middle East conflict) is ongoing, with both sides having tabled proposals to end the fighting. The US has paused attacks on Iranian energy facilities pending Iran's acceptance of the 15-point plan but is also preparing options for a limited ground operation in Iran. Given the uncertainty around how events in the Middle East will unfold, we continue to maintain a neutral position in share markets.
- Although the economic backdrop has shifted since the start of the year, with slower growth and higher inflation, growth in most economies is still expected to remain around trend. However, higher inflation is likely to limit the scope for further monetary policy support.
- The Reserve Bank of Australia (RBA) increased the cash rate by 0.25% to 4.10% at its latest meeting, in line with market expectations. The US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of Japan (BoJ) all left rates unchanged.
- Australian Q4 2025 GDP figures rose 0.8% QoQ. Annual growth was 2.6%, above market expectations and the RBA's forecast for 2025.

Upcoming

1. Middle East conflict (April) –

US President Trump has given Iran an April deadline to agree to its 15-point plan. The situation continues to unfold.

2. Australian CPI (28 April) –

Higher petrol prices likely to impact inflation.

3. US Fed Meeting (28 and 29 April)

Will the US Fed continue to hold interest rates steady?

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Market review March 2026

Australian shares fell in March, despite a strong rally in the energy sector

- Australian shares fell by -7.3% in March, underperforming international shares. The information technology sector was the weakest performer, down -12.8% in March.
- The energy sector was the strongest performer, up 20%, as energy prices rose amid ongoing conflict in the Middle East. The utilities and consumer staples sectors also climbed due to their defensive nature.

International share markets down in March

- International shares (hedged) fell -5.8% in March; driven by geopolitical tensions, higher oil prices and expectations of interest rate rises to deal with higher inflation. The best performing and only positive sector was energy, up 12.5%, as oil prices rose 63.3%, finishing the month at US$118/bbl. The largest detractor was the industrials sector, which fell -6.8% in March.
- Emerging market shares (unhedged) fell -9.5% in March, as many emerging markets are net energy importers and were hit by higher oil prices. South Korean shares dropped -22.4% over the month, including a record -12.1% one-day fall after the conflict began.

Real assets saw disappointing returns in March

- Australian listed property saw big falls in March, down -11.2%. Higher bond yields and higher cash rate expectations made some investors question listed property valuations. All except one of the stocks in the sector fell in the month, with over half of the stocks seeing double digit falls.
- International listed property was lower, down -8.2%, and International listed infrastructure was also down -3.1%.

Fixed interest markets performed poorly

- Australian government bonds had a weak month, falling -1.4%, as yields rose 32 bps. Yields moved higher on increased expectations of interest rate hikes, driven by concerns that surging oil prices could add to future inflation.
- International credit spreads widened, with global investment-grade spreads increasing by 8bps in March, due to the risk-off sentiment.

Energy prices surge on Middle East conflict

- Commodity prices surged in March following the start of the Middle East conflict, with the S&P GSCI commodity index climbing 22%.
- Energy contributed most of the gains, with Brent oil rising 63.3%. Aluminium also gained, up 12.2%, as Iran attacked several large aluminium smelters in the Arab Gulf states.

Brent Crude Oil Price

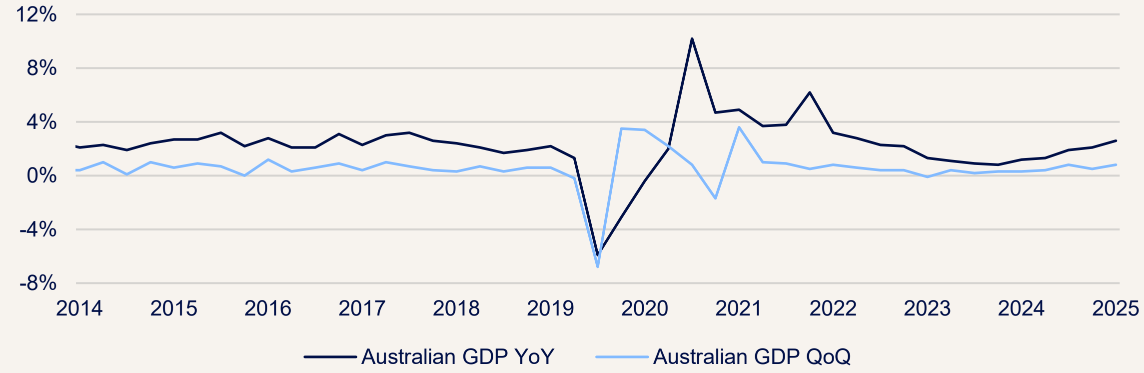
Source: Bloomberg, Mercer, 25/3/2026

Economic review March 2026

Australia: RBA going tough on inflation

- The RBA increased the cash rate by 0.25% to 4.10% at its last meeting. The Board voted 5-4 in favour of the increase. It cited risks from the Middle East conflict, a slightly tighter labour market, increased upside inflation risks, and softer consumer spending.
- Australian GDP rose 0.8% QoQ in Q4 2025, in line with expectations. Annual growth was 2.6%, above the 2.3% expected and slightly higher than the RBA's forecast. Household spending and inventories both increased, while net exports weighed on growth.
- Australian CPI softened in February, rising just 0.2% MoM, bringing the annual CPI to 3.7% YoY. Trimmed-mean CPI was also 0.2% MoM and 3.3% YoY. Housing made the largest contribution to inflation, while transport was the largest detractor. This weakness is unlikely to continue, as higher energy prices from the ongoing conflict are expected to lift inflation.
- Australia's unemployment rate rose from 4.1% to 4.3%, due to a small increase in the participation rate. An additional 48,900 jobs were created, mainly from part time roles.

Australia GDP (%)

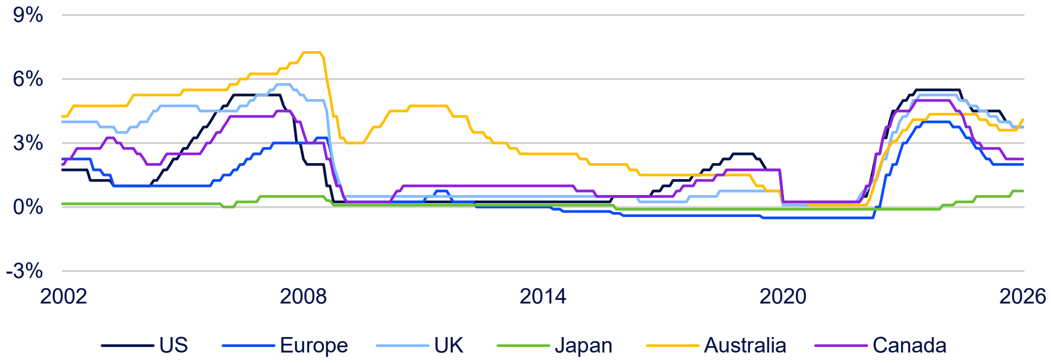


Source: Bloomberg, Mercer, 31/3/2026

International: The Middle East conflict continues

- The US-Israel conflict with Iran is ongoing, with both sides having tabled proposals to end the fighting. The US has paused attacks on Iranian energy facilities pending Iran's acceptance of the 15-point plan but is also preparing options for a limited ground operation in Iran, targeting strategic locations and nuclear material. Meanwhile, the Houthis in Yemen have joined the conflict by firing missiles towards Israel.
- Major central banks kept interest rates on hold, but with a hawkish tone. The Fed left the federal funds rate at 3.50-3.75%. The BoE also held at 3.75%; but shifted more hawkish, as the energy shock led policymakers to drop calls for cuts. The ECB kept its deposit rate at 2.00% and the BoJ also remained on hold.
- US unemployment rose from 4.3% to 4.4%, even as the participation rate increased. Labour market data came in weaker than expected, with nonfarm payrolls falling.

International Cash Rates (%)



Source: Bloomberg, Mercer, 31/3/2026

Outlook

Australian economic growth is expected to pick up in 2026

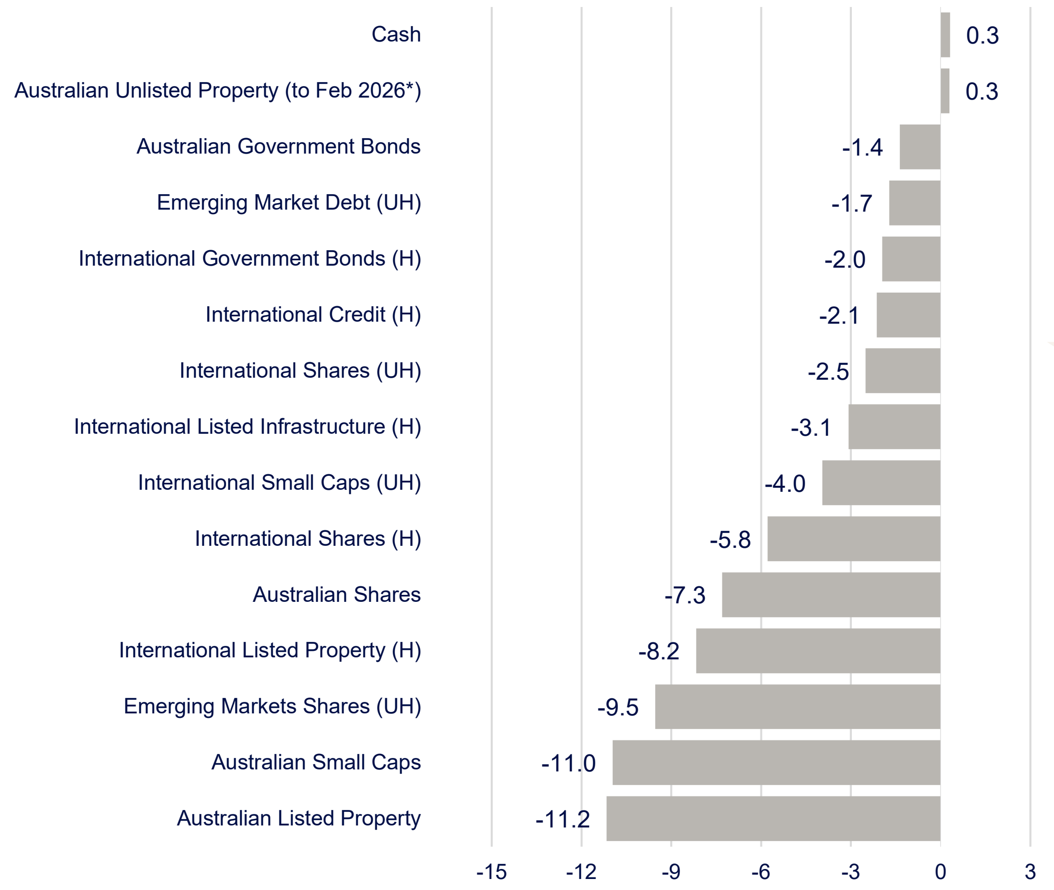
- Australian economic growth is expected to strengthen in 2026 but remains below Australia's long-term potential growth rate.
- Inflation is expected to stay above the RBA's 2-3% target band. We anticipate further RBA rate hikes this year, following its February pivot to tightening stance; driven by above-target inflation, a strong labour market and higher oil prices.
- The RBA has adopted a more hawkish stance amid rising inflation concerns, pushing Australian government bond yields higher. As this broadly aligns with market expectations, we are maintaining a neutral position in Australian government bonds.
- The AUD has marginally attractive valuations against the USD, but not versus other currencies. With Australian economic growth still below potential and valuations only mildly supportive, we think a neutral AUD position remains appropriate.

Oil prices remains a key risk, but the international economy is resilient

- The outlook for risk has deteriorated following the recent Middle East conflict. Rising oil prices have weakened the growth outlook and pushed inflation expectations higher. Some countries are relatively shielded from rising oil prices, while others are more vulnerable if they rely on oil imports. Given this, and the uncertainty around how events in the Middle East will unfold, we continue to maintain a neutral position in share markets.
- Although the economic backdrop has shifted since the start of the year, with slower growth and higher inflation, growth in most economies is still expected to remain around trend. However, higher inflation is likely to limit the scope for further monetary policy support.
- Artificial Intelligence (AI)-driven investment is expected to keep supporting growth, especially in the US and some emerging markets. Share markets are still supported by strong fundamentals, AI optimism, and fiscal stimulus; but valuations are high and Middle East conflict risks remain elevated.

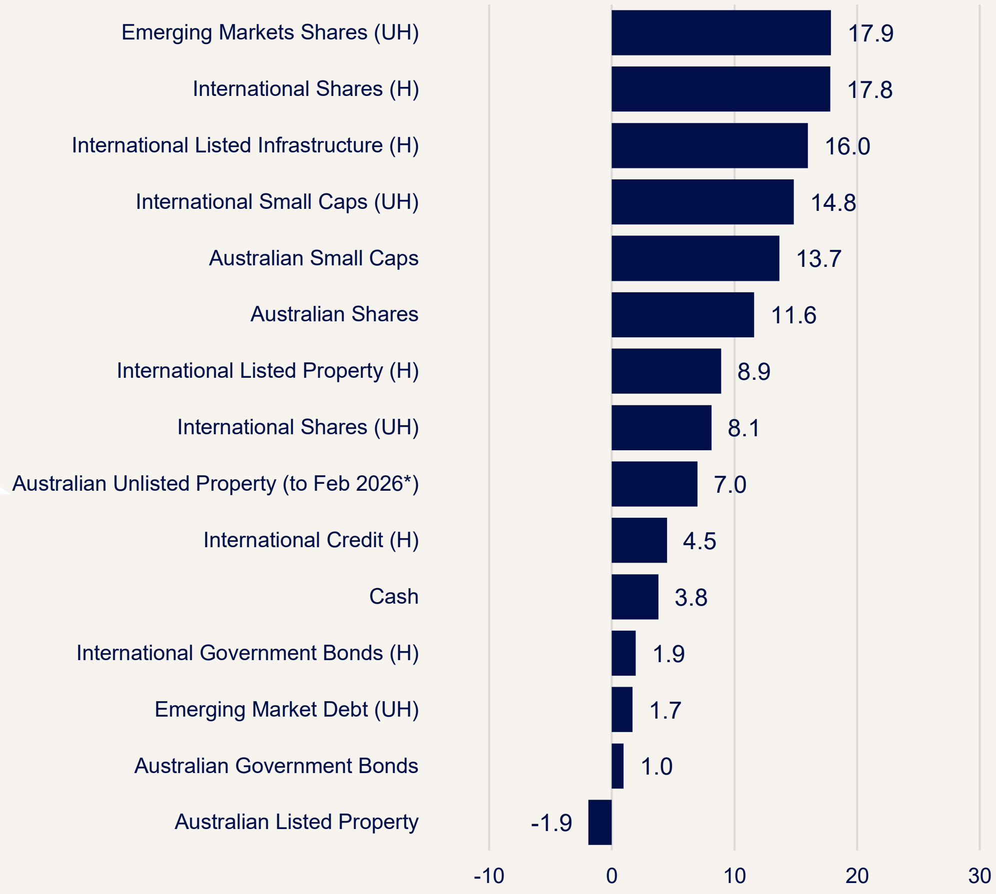
Performance

Market performance March 2026 (%)



Data source: LSEG Datastream. Data provided 'as is' . Details on chart constituents can be found on last page

Market performance 12 months March 2026 (%)



Data source: LSEG Datastream. Data provided 'as is' . Details on chart constituents can be found on last page

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Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- Currency: AUD.
- Where a lag exists, the performance start and end dates shift accordingly.
- UH: Unhedged.
- Total Return: Total Return Index with Gross Dividends.
- H: Hedged.
- Net Index: Total Return (Net Dividends Reinvested).

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