

INVESTMENT ENVIRONMENT UPDATE

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2026

PATRIZIA
ADVISERS



Investment Environment Update

The regional conflict in the Middle East has escalated from a localised geopolitical crisis into a systemic supply-side shock driven primarily by the sustained closure of the Strait of Hormuz. With tanker transit through the strait down significantly compared to the pre-war period, the resulting blockade has forced a massive redirection of maritime logistics and significantly reduced shipments of oil and other important commodities. Consequently, oil prices as well as container freight rates have risen sharply, threatening to reignite inflationary pressures globally. The war has revived stagflation concerns and renewed comparisons with the 1970s. However, the bigger story is that inflation has entered a new post-COVID regime: more volatile, more vulnerable to supply shocks, and likely to settle at a slightly higher average than the pre-pandemic era. For markets, this shift is likely to matter most for government bonds, whose diversification benefits have weakened as inflation shocks increasingly coincide with growth risks.

This strategic landscape is further complicated by a growing diplomatic schism between the US and its traditional European allies. Some European countries have formally distanced themselves from the US naval blockade. They have denied the use of their domestic bases for offensive sorties against Iranian territory, driven in part by a need to preserve Europe's fragile energy security given the ongoing conflict in the Ukraine. European leaders warned that joining the blockade would be "economic suicide", effectively cutting off the last trickles of non-Russian gas and oil flowing through Mediterranean hubs. This has not been well received by US President Trump.

The implications for Asia are potentially even more severe. Because China, India, and South Korea were reportedly importing Iranian crude via "shadow fleets" to stabilise their domestic energy markets, the US interdiction of Iranian ports functions as a secondary sanction, triggering a systemic supply shock across much of the Asia Pacific region. Compounding this market volatility, the UAE's announcement in late April that it would formally exit OPEC and the OPEC+ alliance marks the most significant defection in the cartel's history; the move was driven by a strategic imperative to monetise the country's massive investments in production capacity, which had been consistently stifled by Saudi-led production quotas. Against this backdrop, crude prices remained highly volatile through April, rising 3.6% over the month and 61.1% over the past three months. Nevertheless, despite these global energy and geopolitical headwinds, global equity markets performed strongly in April, rebounding from the falls in the previous month. In particular, emerging markets equities have performed strongly, increasing by 9.3% in April and by 30.6% over the past year.

Asset Class Returns	April (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.34	0.95	3.79	4.16
Australian Fixed Income	0.05	-0.50	-0.14	2.01
International Fixed Income	0.34	-0.14	2.36	3.05
Australian Equity *	2.25	-1.52	10.14	9.57
International Equity - Developed (unhedged) *	4.44	0.71	15.06	16.52
International Equity - Developed (hedged) *	8.61	3.25	28.52	18.88
International Equity - Emerging (unhedged) *	9.28	2.52	30.55	17.33

* Returns reflect the relevant accumulation indices.
Source: Bloomberg, Datastream, PATRIZIA.

Looking at other asset classes, risk appetite returned in April, with the MSCI World (ex Australia) Index rising 4.4% in unhedged terms. Fixed income markets also delivered modest positive returns, with Australian and global fixed income gaining 0.1% and 0.3%, respectively. However, sovereign bonds remained under pressure in many markets as yields climbed to multi-year highs. Germany’s 10-year bond yield reached a closing peak of 3.1% on 29 April, the highest level since the Eurozone debt crisis in 2011. At the same time, the US dollar weakened against other G10 currencies. Commodities were mixed over the month. Gold was broadly flat, increasing by just 0.1%, while copper rose 5.3%, taking its one-year gain to 42.3%, supported by strong demand expectations and ongoing supply constraints.

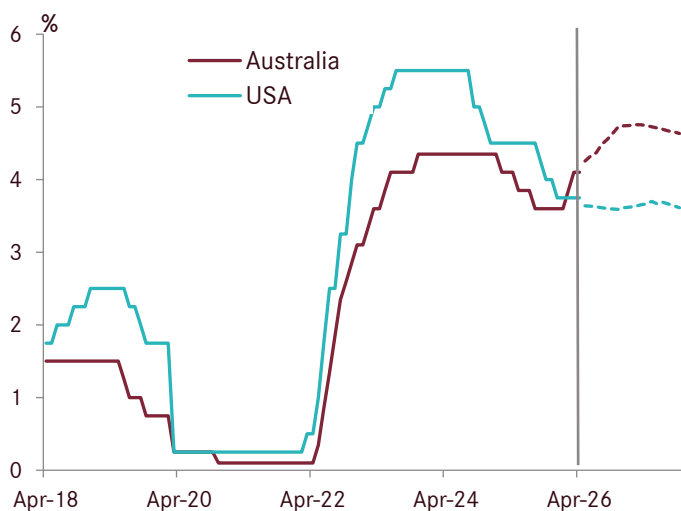
The US inflation reaccelerated sharply, with the annual rate rising to 3.3% in March – the highest reading since May 2024 and a notable jump from 2.4% in both January and February. In response, the Fed left the US federal funds rate unchanged at a 3.5%–3.75% target range for a third consecutive meeting in April. However, the decision exposed growing divisions within the FOMC. Governor Miran dissented in favour of a 0.25% rate cut, while three additional members opposed the statement’s forward guidance, objecting to language implying that rate cuts would resume in due course. The resulting 8–4 vote marked the first instance since October 1992 in which four policymakers formally dissented from an FOMC decision, underscoring rising uncertainty around the monetary policy outlook.

The transition at the Federal Reserve has taken on added significance after Kevin Warsh’s nomination to succeed Jerome Powell as Fed Chair advanced through the Senate Banking Committee, clearing the way for a change in leadership as Powell’s chair term ends on 15 May. However, the leadership handover may not be straightforward. Although the Justice Department has dropped its criminal investigation into the Fed’s headquarters renovation project, Powell has indicated that he will remain on the Board of Governors “for a period of time to be determined,” arguing that he wants to ensure the matter is fully resolved with transparency and finality. His decision to stay on as a governor, potentially until his term expires in 2028, preserves an important voice for policy continuity at a time when markets are increasingly focused on the Fed’s independence, possible internal divisions, and the future path of rate cuts under a new Chair.

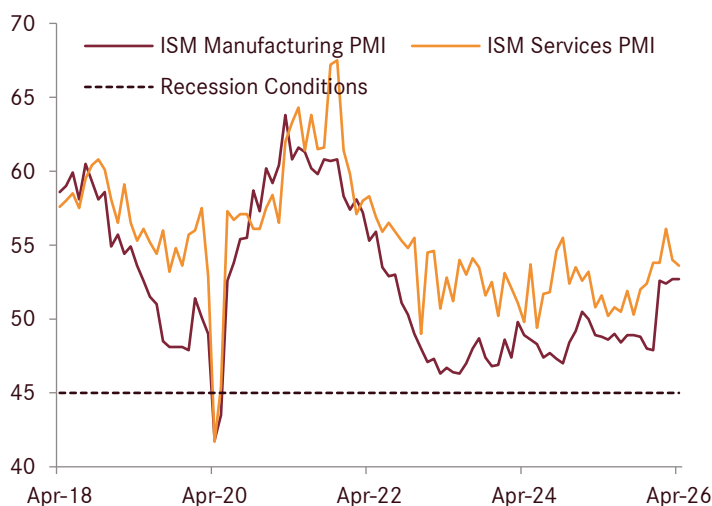
Australia’s seasonally adjusted unemployment rate stood at 4.3% in March, unchanged from February. The annual inflation jumped to 4.6% in April from 3.7% in the prior month, marking the highest reading since September 2023, and staying above the central bank’s 2–3% target, driven by increased goods prices and transportation costs due to the volatility of fuel prices linked to the Middle East conflict. On the back of increased inflation, the Reserve Bank of Australia (RBA) raised its cash rate by 0.25% to 4.35% at its May 2026 meeting, following the hike in March in an 8-1 vote with one member voting to keep the rate unchanged at 4.1%.

The Australian dollar strengthened by 5.0% against the US dollar in April, supported by a combination of broader US dollar weakness, improving global risk appetite, firmer commodity prices, and widening interest-rate differentials as markets priced a more hawkish RBA outlook relative to the Fed. The currency’s gains were also helped by Australia’s commodity-linked exposure, with stronger prices for key exports such as iron ore, copper and gold providing an additional tailwind. Against this more supportive backdrop, domestic equities also advanced, with the S&P/ASX 300 rising 2.2% over the month, though lagged global equity markets.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

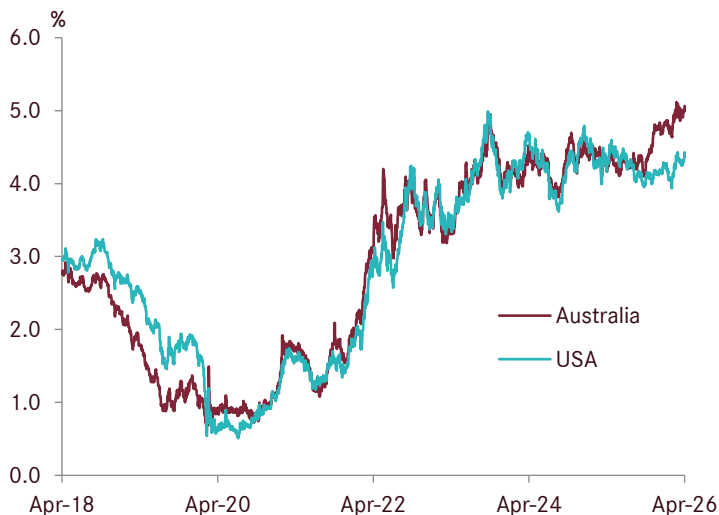
The S&P Global UK Manufacturing PMI climbed to 53.7 in April from 51.0 in the prior month, which marked the highest reading since May 2022, as output expanded for the sixth time in seven months, supported by stronger new orders, backlog clearing, and a modest build-up in finished goods inventories. The UK unemployment rate fell to 4.9% in the three months to February, defying expectations of it remaining at the previous period's 5.2%. The Bank of England (BoE) voted 8-1 to keep interest rate unchanged at 3.75% in April, with one member preferring an increase to 4.0% and several policymakers indicating they could consider additional rate increases in the future. Policymakers highlighted that the conflict in the Middle East has created significant uncertainty for global energy prices. The annual inflation rate rose to 3.3% in March, up from 3.0% in each of the previous two months and is expected to move higher later in the year as energy costs pass through the economy, raising the risk of second round effects in wages and pricing. However, a loosening labour market and weaker growth may help contain inflation pressures, as tighter financial conditions since the conflict began are also expected to dampen demand.

The Euro Area GDP expanded by 0.8% from the previous year in the first quarter of 2026 dropping from the 1.3% last quarter to mark the softest pace of expansion since the second quarter of 2024. The annual inflation rate climbed to 3.0% in April, the highest since September 2023, up from 2.6% in March according to the preliminary estimate. The European Central Bank (ECB) left its deposit rate unchanged at 2.0% at its April meeting, as policymakers adopted a cautious stance, assessing the impact of the Iran war on inflation and growth.

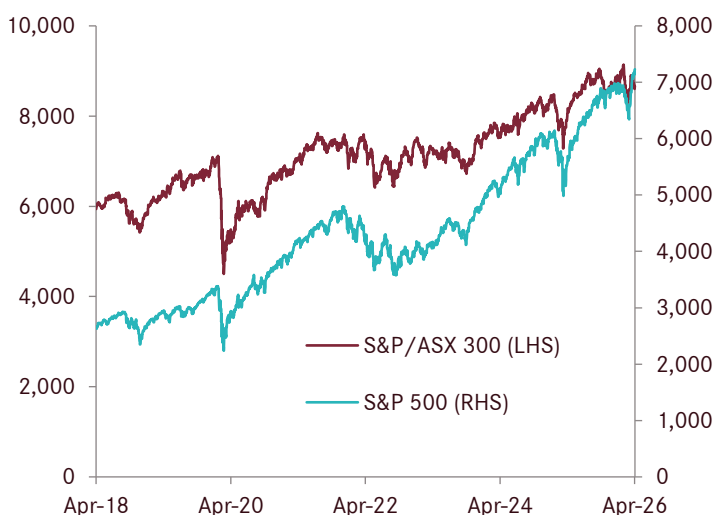
Japan's annual inflation rose to 1.5% in March from February's near four-year low of 1.3%, with transport costs posting the fastest increase in four months, amid the effects of the Middle East conflict. The unemployment rate rose to 2.7% in March, up from 2.6% in the previous month. With this backdrop, the Bank of Japan (BoJ) kept its interest rate unchanged at 0.75% at its April meeting, leaving borrowing costs at their highest level since September 1995. The widely expected decision passed by a 6-3 vote, amid uncertainty over the Iran conflict and surging energy prices. Three board members dissented, calling for a hike to 1.0%. The S&P Global Japan Manufacturing PMI rose to 55.1 in April, accelerating from 51.6 in March. This was the highest reading since January 2022, with output growing the most since February 2014 as the war in the Middle East has prompted customers to frontload purchases to avoid potential supply disruptions and rising costs. With this background, the Nikkei increased by 16.1% in April showing strong investor sentiment despite the geopolitical instability and impact on energy prices.

China's annual inflation eased to 1.0% in March from February's three-year high of 1.3%. The surveyed urban unemployment rate rose to 5.4% in March from 5.3% in the previous month. The economy expanded 5.0% year-on-year in Q1 2026, accelerating from 4.5% in the last quarter of 2025. It marked the fastest annual growth in three quarters, supported largely by resilient export performance, and its equity market shrugged off geopolitical events with the CSI 300 index gaining 8.0%.

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Index Returns to 30 April 2026

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	2.2	-1.5	4.2	10.1
S&P/ASX Small Ordinaries Accumulation Index	3.3	-10.4	8.1	15.3
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	8.6	3.2	16.9	28.5
MSCI World (ex Australia) Index (unhedged AUD)	4.4	0.7	6.6	15.1
MSCI Emerging Markets Index (unhedged AUD)	9.3	2.5	21.0	30.5
Property				
S&P/ASX 200 A-REIT Accumulation Index	8.6	-7.0	-6.7	-0.2
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	7.5	6.5	12.3	15.0
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	3.2	3.9	2.5	3.0
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	2.7	9.8	19.2	21.0
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.1	-0.5	-1.0	-0.1
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.3	-0.1	1.8	2.4
FTSE WGBI ex-Aust (hedged AUD)	0.2	-0.2	1.1	1.2
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	3.1	3.8
Commodities				
Gold (USD per ounce)	0.1	-7.4	40.3	39.7
Copper (USD per metric tonne)	5.3	-1.3	31.6	42.3
WTI Crude Oil (USD per barrel)	3.6	61.1	61.4	80.5

Australian Dollar versus Foreign Currencies to 30 April 2026

AUSTRALIAN DOLLAR VERSUS	AS AT 30 APRIL 2026	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.72	5.0	2.6	9.7	12.4
British Pound Sterling	0.53	1.9	3.6	10.6	10.4
Euro	0.61	3.1	4.1	9.8	8.9
Japanese Yen	112.66	3.4	4.3	19.0	23.4



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