

INVESTMENT ENVIRONMENT UPDATE

MARCH
2026

PATRIZIA
ADVISERS



Investment Environment Update

The US and Israel military conflict against Iran escalated throughout March, causing widespread disruption and destruction throughout the Middle East and drove markets sharply lower. Following the commencement of strikes from the US and Israel, Iran not only retaliated against those countries, but also neighbouring countries including Iraq, Syria, Oman, Jordan, Kuwait, Bahrain, Qatar, Saudi Arabia, and the UAE. This tactic is designed to disrupt energy flow and to hurt global financial markets and to this extent, their strategy is working. WTI crude oil prices surged 50% higher over the month of March as the tankers stopped transiting the Strait of Hormuz – a critical chokepoint through which roughly one-fifth of global oil and gas flows travel daily. Israel has also opened up its attack on Hezbollah inside Lebanon which is creating fears that this could end up similar to the widespread destruction seen in Gaza.

While equity markets held in reasonably well through the initial stages of the conflict, they subsequently fell sharply in March as a lack of clear objectives alongside Iran’s apparent success in weathering the worst of the attacks had markets questioning how long this conflict may go on. Australian equities fell 7.3% over the month while fully hedged developed international equities fell 5.8% and emerging markets (unhedged) fell 9.5%. Given Iran’s use of deep underground missile sites that are very difficult for the US and Israel to strike, there is growing concern that President Trump may need to put troops on the ground to both neutralise these sites alongside attempting to seize Iran’s enriched uranium. If this was to eventuate, US and Israel casualties would increase sharply, and the length of the conflict would likely increase, which would in turn lead to even higher oil prices and greater losses in financial markets. The war is deeply unpopular with the United States’ ally countries with most calling upon America to articulate its objectives and to extract itself as quickly as possible. Inside the US, opinion polls show the American public is very unsupportive of the President’s ongoing military actions against Iran.

At the time of writing this report, negotiations between the countries have commenced, however, the gap between them is very large so there is considerable uncertainty as to whether agreement can be found. The US is demanding nuclear program disarmament, enriched uranium handover, regional military activity cessation, missile program limits and the reopening of the Strait of Hormuz. Iran on the other hand is demanding removal of all sanctions against its country, guarantees of non intervention, war reparations, regional withdrawal of US troops and formal control of the straight of Hormuz. While President Trump is promising an end to the war within a few weeks, how he will achieve this, what the outcome will be and when will this will occur are all questions that are front of mind for financial markets currently.

Asset Class Returns	March (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.32	0.91	3.80	4.15
Australian Fixed Income	-1.42	-0.34	1.51	2.06
International Fixed Income	-1.85	-0.25	2.98	3.08
Australian Equity *	-7.30	-2.04	11.59	9.43
International Equity - Developed (unhedged) *	-2.51	-6.22	8.14	16.04
International Equity - Developed (hedged) *	-5.78	-3.31	17.81	16.27
International Equity - Emerging (unhedged) *	-9.54	-2.80	17.87	13.99

* Returns reflect the relevant accumulation indices.

Source: Bloomberg, Datastream, PATRIZIA.

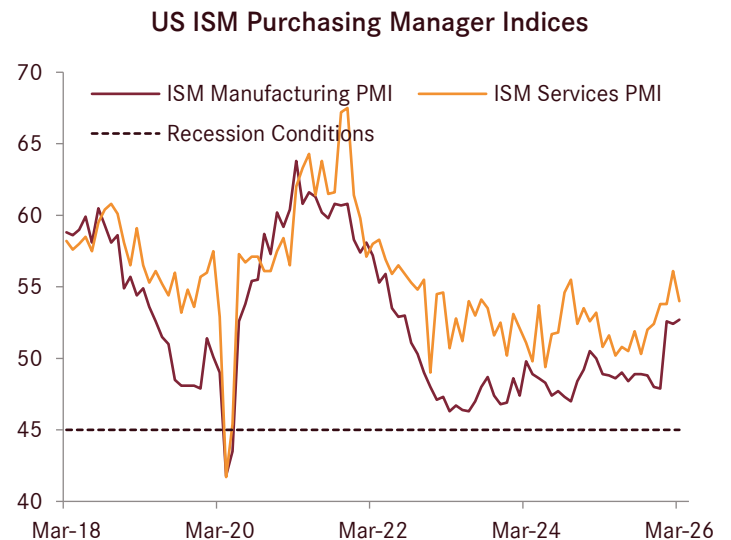
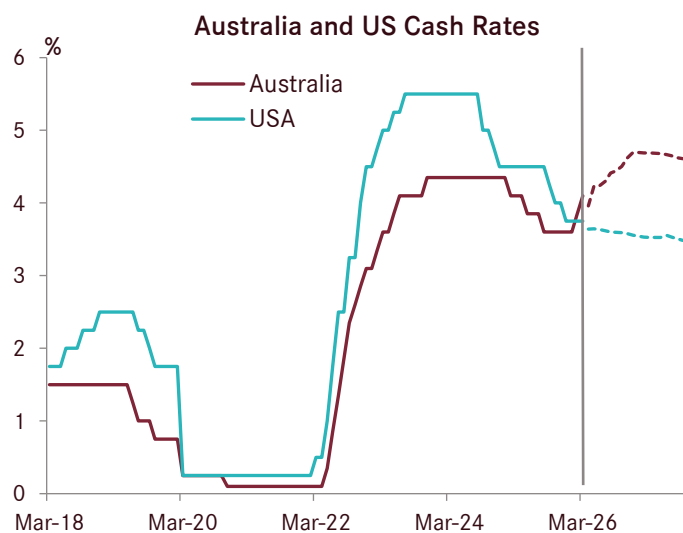
Fixed income markets also fell during March as concerns around rising inflation resulting from the sharp increase in energy prices pushed yields higher and bond prices lower. Australian fixed income fell 1.4% over the course of March while international fixed income fell by 1.9%. Not only did fixed income fall, but the gold price fell sharply as well, declining by 11.8% over the month. There was broad based deleveraging and raising of cash that occurred throughout the month as investors dialled back risk and sought a more defensive position. Commodities were the only strong performing asset class, driven by the huge spike in oil. Consistent with risk off positioning, the Australian dollar sold off across major currencies in March, decreasing by 3.9% against the US dollar, 2% against the British Pound, 1.5% against the euro, and 2.1% against the yen.

The primary concern for markets regarding the war is energy prices which flows through eventually to prices on essentially all goods, even if this is indirect. Sustained energy price spikes have historically generated stagflation, a situation where inflation increases and growth stalls or declines. The translation of this is evident as seen in Australia with sharply higher fuel prices hitting confidence, retail sales and consumption. The other key consideration with inflation spiking is the limited ability for central banks to provide monetary support through lower interest rates as doing so would risk adding to inflationary pressures.

In terms of economic data flows, there is early evidence that the conflict is hitting leading indicators such as confidence and sentiment though coincident and trailing indicators are expected to fall in the months ahead. The US Michigan's Consumer Sentiment Index fell sharply in March, down to 53.3 from 56.6 in February. The ISM Manufacturing PMI increased to 52.7 in March from 52.4 in February while the non-manufacturing sector fell to 54.0 from 56.1, showing trends for softer employment and higher prices ahead. Inflation is a lagging indicator and in February it was unchanged at 2.4% in the US. The US economy added 178,000 jobs in March well above expectations of +60,000, following a fall of -133,000 in February. The unemployment rate fell to 4.3% in March from 4.4% in February. Labour markets are expected to continue to face challenges as AI led productivity enhancements are rolled out by firms and governments, resulting in job losses. The Fed Reserve chose to keep interest rates steady at its March 2026 meeting, deferring what prior to the war and associated energy shock was expected to be a clear interest rate cutting bias.

The Reserve Bank of Australia (RBA) raised the cash rate by 0.25% to 4.1% at its March meeting following a similar increase in February. The decision was made with a narrow 5 to 4 split vote. In the RBA meeting minutes, reasons cited for those voting against higher interest rates were concerns around the Middle East conflict and the associated impacts on growth and jobs. Furthermore, there was already some softness coming through on the consumption data with weaker household spending and subdued consumer confidence. The split vote wasn't driven by some board members arguing for an interest rate cut, more so that some wanted to see how the economy unfolded before moving rates higher. Markets are pricing two to three further interest rate hikes over the course of this year. The likelihood of this will depend upon how long the war continues and critically, how soon fuel volumes and prices can be restored. Australia is particularly vulnerable with very limited refinery capability alongside having some of the lowest fuel reserves in the world and therefore vulnerable to global fuel shortages.

Australian consumer confidence plummeted to record lows in March. The ANZ-Roy Morgan index fell below 60 for the first time since records began in 1973, driven by increased cost of living pressures related to sky rocketing fuel prices and higher interest rates. Consumers flagged planned cutbacks to consumption, expectations of surging inflation and considerable deterioration in the Australian economy looking out over the next year.



Source: Bloomberg

Given the rise in fuel prices, risk of fuel rationing and broader uncertainty regarding the war in the Middle East, the April readings (covering March data) are expected to show a sharp deterioration in leading economic indicators for Australia.

The gloomy outlook is being felt broadly throughout Europe as well, with deterioration in leading economic indicators expected to flow through to reduced economic activity and higher inflation over coming months. The S&P Global UK Manufacturing PMI dropped to 51.0 in March, down from 51.7 in February as the material increase in energy prices resulted in the highest average input costs since 2022, created uncertainty and reduced production volumes. UK consumer confidence fell further to -21 in March as measured by the GfK Confidence Index, the lowest level in nearly a year, as the outlook deteriorated with concerns around the war in the Middle East.

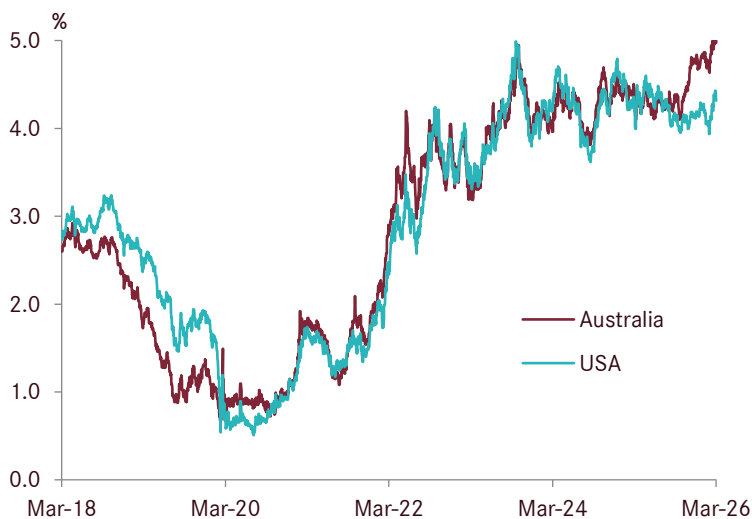
The UK's annual consumer price inflation index remained at 3.0% in February, the same number as that seen in January. In the months ahead, inflation is expected to increase considerably as the higher energy prices flow through the economy. The Bank of England (BoE) kept its cash rate unchanged at 3.75% in March as widely expected. In the minutes of their March meeting the BoE cited higher expected inflation and global volatility coming from the conflict in the Middle East. Markets are now pricing for the UK's cash rate to remain at 3.75% throughout the 2026 calendar year, a material change from expecting two interest rate cuts over the course of 2026 prior to the war commencing.

The European Central Bank (ECB) left its deposit rate unchanged at 2.0% at its March 2026 meeting, the sixth consecutive meeting of no change despite confirmation that Eurozone annual inflation increased to 2.5% in March from 1.9% in February. The ECB warned the conflict in Iran has generated "upside risks for inflation and downside risks for economic growth". As seen elsewhere in the world, European Consumer Confidence decreased sharply, falling to -16.3 points in March, down from -12.3 points in February. Survey participants cited concerns around the war in the Middle East alongside the implications for energy prices and inflation more broadly.

Japan's retail sales fell 0.2% in the year to February, well below expectations of a 0.8% gain. The March data, once released, will likely show further deterioration as concerns around the Middle East conflict are reflected in consumers' consumption. The annual inflation rate eased to 1.3% in February, the lowest reading since March 2022, though this is expected to bounce higher in coming months with the higher fuel prices. The S&P Global Japan Manufacturing PMI fell to 51.6 in March, down from 53.0 in February. Falls in both new orders and output drove the softer result. Employment levels in manufacturing increased as previous strong demand and a robust outlook has encouraged Japanese manufacturers to increase output capacity. Exports increased by 4.2% year-on-year in February, slowing from the sharp surge in January, with stronger shipments to Hong Kong, Taiwan, ASEAN countries, Europe and Australia while shipments fell to China and South Korea.

Chinese retail sales rose 2.8% year on year in February, boosted by the Lunar New Year Holiday in mid February. Manufacturing was sharply higher in March with the NBS Manufacturing PMI increasing to 50.4 from 49.0 in February. The NBS Non-manufacturing Index also moved higher in March, rising to 50.1 from 49.5 and was ahead of expectations. Inflation in China jumped sharply higher, increasing to 1.3% in February (year on year) and up from 0.2% in January. This is expected to move higher in the March data as the higher energy prices filter through the economy.

10 Year Government Bond Yields



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



Source: Bloomberg

Index Returns to 31 March 2026

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	-7.3	-2.0	1.9	11.6
S&P/ASX Small Ordinaries Accumulation Index	-11.0	-10.9	4.6	13.7
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	-5.8	-3.3	7.6	17.8
MSCI World (ex Australia) Index (unhedged AUD)	-2.5	-6.2	2.1	8.1
MSCI Emerging Markets Index (unhedged AUD)	-9.5	-2.8	10.7	17.9
Property				
S&P/ASX 200 A-REIT Accumulation Index	-11.2	-16.6	-14.1	-2.3
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-7.4	1.7	4.4	6.0
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-4.1	-1.1	-0.7	-2.7
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	-2.5	10.8	16.1	16.9
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-1.4	-0.3	-1.1	1.5
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	-1.9	-0.3	1.5	3.0
FTSE WGBI ex-Aust (hedged AUD)	-2.0	-0.2	0.9	2.2
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	2.8	3.8
Commodities				
Gold (USD per ounce)	-11.8	5.5	40.2	47.9
Copper (USD per metric tonne)	-7.6	-0.7	25.0	27.0
WTI Crude Oil (USD per barrel)	50.4	76.6	55.7	41.8

Australian Dollar versus Foreign Currencies to 31 March 2026

AUSTRALIAN DOLLAR VERSUS	AS AT 31 MARCH 2026	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.68	-3.9	2.7	4.5	9.9
British Pound Sterling	0.52	-2.0	4.8	8.6	7.6
Euro	0.59	-1.5	4.7	6.5	3.0
Japanese Yen	108.96	-2.1	4.2	15.1	16.9



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