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## Market Review

During a December 2015 press conference, Janet Yellen famously remarked that “it’s a myth that expansions die of old age”. Speaking as the Chairman of the FED, she emphasised that economic growth phases are not cut short by the mere passage of time, rather they end when something goes wrong, that is, when financial excesses build, policy missteps occur or when the global economy is hit by an unexpected external shock. Few forces have played the latter role as consistently and as powerfully as oil price spikes, defined as a rapid and sustained increase of +40% or more over a period of six months. With the WTI crude futures having just soared +51.27% in March, marking their 2<sup>nd</sup> best month in history on the back of the Iran conflict, investors are increasingly questioning whether the economic fallout could tip the global economy into recession. The current oil shock is centred around the disruption of flows through the Strait of Hormuz, a critical energy chokepoint through which nearly 30% of global seaborne oil trade, or about 20% of total global consumption, passes. This narrow 167-kilometer corridor serves as the primary export route for Gulf producers, including Iraq, Kuwait and the United Arab Emirates (UAE), with two shipping lanes transporting roughly 20-21 million barrels per day of crude oil and petroleum products.

At its narrowest point, the strait is approximately 33 kilometres wide, a distance that places the entire waterway within overlapping territorial seas claimed by Iran to the north and Oman to the south. Despite this, the Strait of Hormuz is governed by the United Nations Convention on the Law of the Sea (UNCLOS), which guarantees transit passage rights for commercial shipping and aircraft. This allows continuous and expeditious movement with limited scope for interference. The inbound and outbound lanes, each approximately three kilometres wide and separated by a buffer zone, are positioned predominantly on the southern side of the strait. Consequently, most commercial traffic, including crude oil tankers and liquefied natural gas (LNG) carriers, operates primarily within Omani territorial waters. However, this routing does not materially reduce systemic exposure, as vessels remain in immediate proximity to the territorial waters of Iran along the northern boundary. Daily traffic through the strait typically ranges from over 80 to more than 130 vessels, or roughly 30,000 ships annually. Of these, around 55 to 62 are tankers, each commonly carrying over 1 million barrels of oil and refined products. By early March, traffic had fallen sharply to an average of just six ships per day on the back of heightened security risks and mounting insurance costs. By late March, the situation had shifted from a functioning shipping lane to a de facto controlled or contested maritime zone, with only occasional escorted transits and opportunistic movements by sanctioned or non-Western-linked operators.

Beyond oil, the strait is also a key artery for global gas supply chains. Approximately 20% of global LNG trade transits Hormuz, mainly originating from Qatar, one of the world’s largest LNG exporters. These cargoes are primarily destined for Asia and Europe. On March 18<sup>th</sup>, Iranian ballistic missiles hit the Ras Laffan Industrial City in Qatar, causing “extensive damage” at the world’s largest LNG export complex. The attack followed Israeli strikes on facilities linked to South Pars, the Iranian side of the world’s largest offshore natural gas field, which constitutes the backbone of Iran’s domestic energy infrastructure. According to the Minister of Energy and CEO of QatarEnergy Saad al-Kaabi, the raids have knocked out around 17% of Qatar’s LNG export capacity, shelving an estimated 12.8 million tons per year of LNG capacity for three to five years. The damage has forced QatarEnergy to declare force majeure on long-term contracts, potentially affecting key importers across two continents, including Italy, Belgium, South Korea and China. Spillover risks may extend to the exports of helium, essential to manufacture semiconductors, naphtha, one of the key feedstocks used to produce plastics, and sulphur, indispensable for phosphate fertiliser output. In addition, while crude oil has

some limited alternative export routes via pipelines and Red Sea or Gulf of Oman terminals, LNG exports remain almost entirely dependent on maritime passage through the Strait of Hormuz.

These events raise the risk of persistent hydrocarbon supply dislocations, akin to the oil crises of the 1970s, which remain the benchmark for modern energy-driven macroeconomic disruption. The 1973-74 OPEC embargo and the 1979-80 Iranian Revolution represented direct, politically driven constraints on global supply, resulting in stagflation, that is, a combination of high inflation with weak growth. However, at that time advanced economies were significantly more energy-intensive and monetary policy frameworks lacked credibility. In 1990, oil prices doubled following Iraq's invasion of Kuwait, but the increase proved short-lived and reversed quickly once military intervention restored confidence in supply flows, limiting macroeconomic damage and highlighting the importance of shock duration as well as magnitude. Conversely, the 2008 oil price surge was driven by demand, reflecting strong global growth and financial speculation rather than physical shortages. Prices subsequently collapsed as the global financial crisis took hold. In 2022, the market was forced to adjust swiftly to a new geopolitical reality, as sanctions reshaped trade flows while alternative suppliers and rerouting mechanisms partially offset lost Russian barrels. Ultimately, the output contraction was limited, but it added to the already elevated inflationary pressures present in the global system.

### **International Equities**

US equities recorded their steepest decline since "Liberation Day" in March. The S&P 500 declined 5.09% in USD terms, as the VIX index, the measure of expected market volatility, surged the most since December 2024. The Nasdaq 100 (-4.89%) fared marginally better despite the "Magnificent Seven" underperforming the rest of US large caps. Amazon, Nvidia and Apple curbed losses, while Meta, Google and Tesla ended the month deeply in the red. Microsoft tracked broadly in line with the index but remained the weakest performer within the group. The rest of the software companies stabilised after having plummeted more than 30% from their peak in September 2025. The Dow Jones Industrial tumbled 5.38%, breaking a ten-month winning streak. The Russell 2000 (-5.17%), the popular benchmark for smaller companies, held on to its relative gains vis-à-vis the Russell 1000 since the beginning of the year.

All sectors ended March in negative territory except for energy, which rallied double-digit for the third consecutive month. A combination of cyclicals and defensives outperformed the general index, with utilities, financials and technology cushioning the downside. Conversely, industrials, consumer staples and healthcare sold off the most.

US equities outperformed the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) by the widest margin since Election Night in November 2024, fully reversing the record relative lag suffered the previous month. All other regions underperformed the general index, led lower by emerging markets. The MSCI AC Asia ex Japan Net TR Index logged its 5<sup>th</sup> worst month in history, as investors took profit in Taiwan and South Korea. Conversely, Latin America held up, supported by gains in Brazil (in AUD terms). In Japan, the Nikkei 225 experienced its worst month since October 2008, although it remained in positive territory since the beginning of the year (in JPY terms). Luxury names weighed on Europe as concerns over a global slowdown in discretionary spending were amplified by the adverse developments affecting Dubai. All in all, the MSCI AC World Daily TR was down 7.18% in USD terms and 4.08% in AUD terms.

### **Australian Equities**

Australian equities fell the most since June 2022, with the MSCI Australia Net TR snapping a three-month winning streak against the MSCI AC World Daily TR. The S&P/ASX 300 dropped 7.30% on the back of the outsized losses posted by materials and banks. Miners gave back a substantial portion of the gains accumulated in the previous two months as gold and copper fell 11.39% and 6.50% respectively. Silver crashed 20.36%, its 8<sup>th</sup> worst month in history, bringing an unprecedented ten-month dominant run to an end. Within financials, A-REITs took a dive despite continued increases in residential property prices, while insurers bucked the trend, with Suncorp Group and Insurance Australia Group rebounding strongly after a sharp sell-off in February. Energy was the standout performer, soaring more than 20%. Defensives shone with utilities and consumer staples finishing the month in the black, telecoms holding up and healthcare modestly outperforming the general index. Conversely, technology declined for the 8<sup>th</sup> month in a row while the liquidation of consumer discretionary accelerated. Finally, the Top 20 trounced mid-caps and smaller companies as domestic and global growth concerns intensified.

### **International Fixed Income**

All the major global central banks that met during the month held interest rates steady, while most hardened their monetary stance. On March 18<sup>th</sup>, the FED paused for the second meeting in a row, leaving its target rate at 3.50%-3.75%. The newly appointed (and potentially politicised) Stephen Miran continued to dissent, arguing in favour of an immediate rate cut on the view that artificial intelligence is boosting productivity growth. His assessment was not shared by Chairman Powell, who cautioned that near-term investment effects could be inflationary and that it was too early to assume meaningful disinflation driven by the diffusion of the new technology. He also made clear that without progress in reducing inflation policy easing is unlikely. The central bank projected faster GDP growth, revised up from +2.3% to +2.4% this year, higher inflation from +2.4% to +2.7% and stable unemployment at 4.4%. It still anticipated a single 25 basis points rate cut by the end of 2026, though Powell noted growing dispersion among officials, with a “meaningful” number now pencilling in less easing than previously expected. He also acknowledged that a policy hike had been discussed, though it was not the base case for most participants, stressing that the outlook remained subject to “unusually high uncertainty” as “nobody knows” the full economic impact of the Iran war and surging oil prices. On the same day, the Bank of Canada (BOC) kept its benchmark overnight rate unchanged at 2.25%. One day later, the European Central Bank (ECB), the Bank of England (BOE), the Riksbank, Sweden’s central bank, the Swiss National Bank (SNB) and the Bank of Japan (BOJ) opted to maintain their policy rates at 2%, 3.75%, 2.25%, 0% and 0.75% respectively, while adopting a wait-and-see stance and signalling reduced tolerance for further inflation overshoots driven by the energy shock. The ECB and BOE in particular opened the door to potential future hikes. Both signalled their readiness to act if inflation risks intensify, shifting toward a data-dependent tightening, rather than easing, bias. On March 25<sup>th</sup>, the Norges Bank, Norway’s central bank, followed the same script but delivered a more explicit hawkish signal, announcing that “the policy rate will likely be raised at one of the forthcoming meetings” from its current level of 4%.

Yield curves around the world transposed higher and bear flattened, with short-term interest rates rising faster than long-term rates. Market participants repriced the policy risk, unwinding prior easing expectations. The movement was particularly acute in Europe given the region’s reliance on energy imports. As a result, the 2- year yields in the UK, Germany and France jumped 88, 62 and 70 basis points respectively, the most since June 2023, December 2022 and August 2022. The long-end

of the curve also came under pressure, with the 10- and 30- year in Japan climbing to fresh multi-year highs. At the end of March, the US was the only major market where cuts continued to be priced in for the remainder of the year. All in all, the Bloomberg Barclays Global Aggregate Index hedged back to AUD recorded its 5<sup>th</sup> worst month in history, falling -1.85%.

### **Australian Fixed Income**

On March 2<sup>nd</sup>, the RBA raised the cash rate by 25 basis points to 4.10%. The nine-member policy committee delivered a narrow 5-4 vote in favour of the hike, which was the first back-to-back increase since mid-2023 and effectively reversed two of the three cuts delivered last year. In the accompanying statement, the central bank flagged a “material risk” that inflation will remain above its 2-3% target band for longer than previously expected, “with risks tilted further to the upside, including to inflation expectations”. As a result, by month end, the cash futures were pricing in two additional hikes in 2026, with the probability of a third consecutive hawkish decision coming at the May meeting approaching 70%. Later in the month, the Australian Bureau of Statistics (ABS) monthly indicator of consumer prices (CPI) moderated to +3.7% YoY in February 2026 (from +3.8%). The largest contributors were housing (+7.2%), food and non-alcoholic beverages (+3.1%) and recreation and culture (+4.1%). The CPI Trimmed Mean, the measure preferred by the central bank, remained sticky at +3.3%, indicating persistent price pressures. The Bloomberg AusBond Composite 0+ Yr fell -1.42%, its weakest monthly performance since October 2024, though it outperformed global fixed income for the first time in eight months. The yield curve bear-flattened, with the 2-, 5- and 10- year yields adding 47, 39 and 32 basis points to 4.66%, 4.70% and 4.97% respectively. The Australian Dollar softened across the board, ending the month below 70 cents vis-à-vis the greenback.

### **Real Assets**

Global property crashed 8.39% in USD terms and 5.32% in AUD terms for the month. The US topped the list on the back of its perceived insulation from near-term macro volatility and its relatively higher exposure to data centres, the only segment that remained marginally positive in March. Europe was the worst performing region, weighed down by rising stagflation risks. Australia posted a second consecutive month of record underperformance as the 10- year real yield climbed to 2.62%, its highest level since December 2010.

Global infrastructure was down 3.48% in USD terms and 0.24% in AUD terms in March. Energy infrastructure was the only segment to deliver positive returns, while communication infrastructure and transportation stocks trailed the general index. The S&P Global Infrastructure TR index further accelerated its outperformance vis-à-vis the FTSE EPRA Nareit Developed TR index, recording its 11<sup>th</sup> best month on record in terms of relative strength.

### **Alternatives**

Alternatives (-2.24%) posted their largest decline in more than 5 years, dragged lower by Long/Short equities and discretionary macro. Multi-strategy behemoths, including Millennium, Balyasny, Citadel and LMR, commonly referred to as “pod shops”, also lost money in March.

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## Market Outlook

The S&P 500 and the Nasdaq 100 broke to new all-time highs on April 15<sup>th</sup>, completely erasing the drawdown suffered in the previous 2 and 4 months respectively in just 11 sessions. The magnitude of the recovery in such a compressed time frame is extraordinary. As pointed out by an astute commentator, not only are this type of bullish “momentum thrusts” rare, but they normally occur after a much deeper correction or a prolonged, full-blown bear market. After all, at the (thus far) low on March 30<sup>th</sup>, the two indices were down “only” 12.36% and 12.76% in USD terms from their peaks. The advent of the “TACO” era seems to have altered the structure of return distribution as markets now take the “stairs down and the elevator up”, the exact opposite of their historical pattern. Prior to the escalation, markets outside the US, including emerging markets, global small cap equities and cyclicals, had been delivering meaningful relative returns versus the US. This trend abruptly unwound following the onset of the conflict, with prior winners experiencing the most pronounced drawdowns. The price action appears to reflect less a structural reassessment of fundamentals and more an exposure-driven adjustment, as investors sitting on substantial gains chose to de-risk by trimming winners. This dynamic was evident across asset classes, including commodities such as gold and silver, stock markets like South Korea, Taiwan and Japan, which had previously benefited from AI-related optimism, and foreign exchanges. Conversely, US equities demonstrated relatively better resilience during the sell-off, supported by a sharp rebound in the US dollar, which had been materially oversold earlier in the year. The greenback’s weakness through January and February reversed as investors reduced crowded short positions and locked in gains. Currency pairs such as the EUR/USD reached consensus year-end targets within the first two months of 2026, prompting a revision of the strategic stance amid heightened uncertainty. We view the subsequent strength in the greenback as primarily a positioning “washout” rather than a classic “safe haven” move. Consistent with this thesis, the Australian Dollar is currently trading above its level on February 27<sup>th</sup> at the time of writing this note (April 17<sup>th</sup>).

While the sell-off was sharp and uncomfortable, we have maintained our asset allocation unchanged through the chaos and have since observed a meaningful rebound across several of the affected segments. However, it is important to distinguish between market behaviour and underlying fundamentals, as the two can diverge, sometimes for extended periods. In other words, we do not subscribe to the idea that “nothing ever happens” as there has been a notable shift between the pre-war and the current situation even if the S&P 500 seems to suggest otherwise. The most immediate and visible change has occurred in energy markets. While equities have largely retraced to levels at or above those prevailing on February 27<sup>th</sup>, oil prices remain significantly elevated, up roughly 30% over the same period. This divergence points to a real and persistent increase in input costs, which is likely to cause demand destruction, weighing on growth, and to reignite price pressures in the months ahead. The inflationary squeeze is already evident. US gasoline prices were at 2.98 USD a gallon on average in the days before the start of the Iran war and climbed to 3.98 USD in late March, stabilising at more than 4 USD in April. Recent US data showed a +0.9% MoM increase in headline CPI in March, the highest monthly reading since June 2022, indicating that the higher energy bill is feeding through into broader price dynamics. As such, even if growth remains resilient in the near term, the outlook in the medium term is likely to reflect tighter conditions as the US never fully cured its inflation problem. Rather, it experienced a period of disinflation driven by easing goods prices, normalising supply chains and favourable base effects, while more persistent components remained elevated. The recent inflation shock is therefore not starting from a clean slate but instead layering onto an already incomplete correction process. Whereas the pre-pandemic world was characterised by an inflation range of 0% to 2%, with 2% serving as a ceiling, we appear to have entered a new regime where, in our opinion, 3% is the baseline and the range is more likely to be between 2% and 4%. In this environment, barring AI coming to the rescue and prolonging the current productivity boom, the 2% target becomes a floor rather than a ceiling, attainable only under recessionary conditions.

The reality is that a recession has effectively become an unacceptable outcome, both politically, on the back of a highly polarised electorate, and financially, given the scale of US funding needs. In fact, in the next 12 months, the US government will have to absorb approximately 40% of global savings to refinance itself, while the FED is expected to conduct “reserve management” purchases to the tune of about 300 billion USD. As a result, markets appear to have decided to focus more on the shortages of computing power than the shortages of oil and gas, once again buying aggressively into areas linked to semiconductor capacity and data centre expansion. Their logic is sound, as this is the direction in which the current administration seems to be steering the economy. Apart from being the only game in town when it comes to future disinflation, the adoption of AI-driven efficiency tools may accelerate on the back of the margin compression caused by sustained energy costs. Not surprisingly, capital expenditure trends in AI-related infrastructure remain robust, with the hyperscalers and large technology companies continuing to invest heavily. In addition, a pipeline of high-profile IPOs is reinforcing the positive sentiment around the AI ecosystem. SpaceX, Anthropic and OpenAI are all expected to list in the second half of this year, and their valuations in the private space are skyrocketing. Anthropic, in particular, is now expected to offer its shares to public investors at a valuation exceeding 800 billion USD, more than double the 350 billion USD pre-money valuation it commanded at its last funding round in February of this year. The market’s willingness to look through the stagflationary risks is further supported by other factors. First, market sentiment has (correctly) reacted to a reduction in “tail-risk” pricing, as the probability of extreme scenarios (“boots on the ground”) have decreased. Second, the ongoing earnings season, particularly in the US, is expected to deliver strong Q1 results, reflecting momentum prior to the recent shock. Third, fiscal support remains a meaningful tailwind, with government spending, particularly in the US and in Germany, providing a buffer against elevated energy costs. Finally, retail participation in equities has reached a tipping point, representing more than 20% of the S&P 500. This cohort tends to be less sensitive to macro risks and to “buy the dip” consistently, contributing to the overall market resilience.

In summary, the current phase is characterised by a tension between improving risk sentiment and a deteriorating medium term macro-outlook. Markets are, for now, prioritising the “visible” positives, that is, liquidity, earnings momentum and structural growth narratives over the “lagged” negatives associated with energy-driven inflation and the potential for tighter monetary policy. Ultimately, though, the most important shift is not necessarily in growth fundamentals at this stage, but in the reaction function of central banks, which in our opinion have become the dominant source of regime risk. In fact, they are widely expected to respond to the dislocation by hiking rates, less out of macro necessity and more to defend their institutional credibility following the disastrous “transitory” blunder of 2021-22. Policy errors are a real and present danger, as central banks may face pressure to respond even if timing is suboptimal, reflecting historical patterns where policy normalisation has often misjudged cyclical conditions. The European Central Bank (ECB) in particular has repeatedly tightened into adverse macro shocks (notably in 2008 and 2011), reinforcing market conviction that policy will remain reactive rather than steady. Accordingly, investors have repriced the policy path, leading to an increase in real yields across the globe. Another concern is that the traditional relationship between growth and inflation is becoming less supportive of fixed income. Also, the negative correlation between government bonds and equities that characterised the “Great moderation” era seems to be gone for good. Simply put, bonds were hedging equities in a world of demand shocks, while commodities seem to offer more reliable protection in a world of supply shocks. Finally, a sustained wave of sovereign and corporate issuance continues to absorb duration demand, keeping term premia elevated and limiting the scope for meaningful rallies in rates. In short, loading up on duration seems to be unwise at the current juncture, even if ill-timed hikes may eventually kill the economic expansion. In this context, the US remains a clear outlier with its yield curve remaining anchored in expectation of cuts, with limited to no pricing of hikes. This creates an asymmetry, and

an opportunity for us, as policy direction has shifted toward tighter conditions globally, while the US remains positioned as if easing is the base case. For that reason, we are reducing our overweight in global duration and rebalancing into Australian duration. The RBA has already administered two hikes and it is estimated to deliver two more in the remainder of the year. We are skeptical of these projections and we view the current tightening cycle difficult to justify. That said, it provides a comparatively clearer policy path and a more balanced risk-reward profile versus global duration, where repricing risk remains higher.

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**Important information**

*The Morningstar Historical Corporate Sustainability Score is a weighted average of the trailing 12 months of Morningstar Portfolio Corporate Sustainability Scores. Historical portfolio scores are not equal-weighted; rather, more-recent portfolios are weighted more heavily than older portfolios. Combining the trailing 12 months of portfolio scores adds consistency while still reflecting portfolio managers' current decisions by weighting the most recent portfolio scores more heavily.*

*ESG pillar scores are displayed as a number between 0 and 100 with most scores range between 0 and 25. It is the asset-weighted average of the company environmental, social, governance risk scores for the covered corporate holdings in a portfolio. The scores measure the degree to which a company's economic value may be at risk driven by environmental, social, and governance factors. The risk represents the unmanaged risk exposure after taking into account a company's management of such risks.*

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