The Linara Lens

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Our perspective and insight

Markets in February: February was shaped by a heavy flow of market-moving events, including US and Australian reporting seasons, rising geopolitical tensions, legal developments in the US and renewed focus on artificial intelligence. Equity markets rotated toward lower-valuation and cyclical stocks, benefiting resource-heavy markets such as Australia, while the technology-led US market lagged. Emerging markets performed strongly, gaining 5.0%. Bond yields fell as geopolitical risk supported safe-haven demand. The ASX 200 rose 4.1%, led by Financials and Materials, while Healthcare and IT underperformed. Oil and gold prices rose, and the Australian dollar continued to strengthen on expectations of further rate hikes.

Key Theme - Iranian Conflict and Oil Shock

Periods of heightened geopolitical risk and oil price shocks often trigger equity market sell-offs, driven by fears of higher inflation, tighter financial conditions and slower growth. While history suggests these episodes are typically transitory, the adjustment can be uncomfortable, particularly for sectors exposed to global capex and cyclical demand.

In the near term, oil shocks tend to raise two dominant fears: that higher energy prices feed inflation and that they act as a tax on growth. Energy-importing regions such as Europe, Japan, South Korea and parts of emerging markets have felt this most acutely. When these concerns dominate, markets often de-risk indiscriminately, compressing valuations across capital-intensive and growth-oriented sectors.

This has weighed on areas tied to global investment cycles, including AI-related hardware, infrastructure and emerging markets. While these sectors have some exposure to energy costs, their long-term demand drivers remain intact. Rising discount rates and a risk-off mindset tend to pressure valuations first, even when fundamentals are unchanged.

Similar dynamics apply to electrification-linked materials such as copper, where short-term price weakness can obscure tightening medium-term supply-demand balances.

Once immediate conflict risks fade, these sectors have historically reasserted leadership. Geopolitical shocks rarely alter long-term investment cycles, with capital ultimately rotating back toward areas with durable earnings visibility and strategic importance.

Our Portfolios: the Linara Balanced, Growth and High Growth portfolios all advanced in February. On a 12-month basis they have doubled the return of their neutral benchmarks. Strong performance from alternative assets, manager selection, currency hedging and a bias to small and mid-cap stocks globally have all made positive contributions.

How to Position: For investors, the challenge is separating short-term market reaction from long-term structural opportunity. Elevated sector and stock volatility is creating opportunities for investors who remain liquid and able to act decisively. We believe using any oil-driven market moves to selectively add exposure to enduring themes like those mentioned above; AI related hardware, infrastructure, resources and emerging markets while recognising that volatility may persist in the short term.

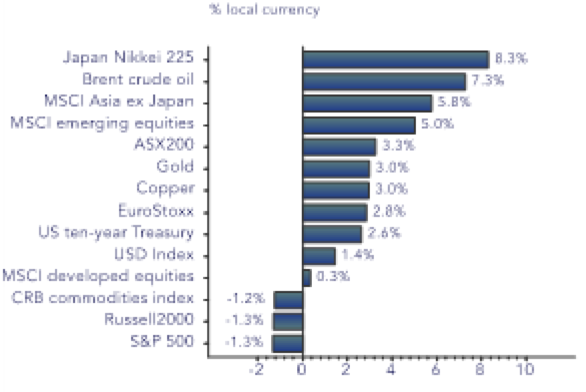
Maintaining balance through defensives and real assets can help manage drawdowns, but long-term returns are ultimately driven by staying aligned with the next phase of global investment, not the last geopolitical headline.

Date of Publication 10 March 2026
Linara Wealth Pty Ltd l ABN 61 642 217 007 l AFSL No. 525093

Markets in February

There was no shortage of market-moving catalysts in February as investors digested reporting seasons in the US and Australia, the US Supreme Court ruling some of the Trump administration, geopolitical tensions rose and AI was again a focus.

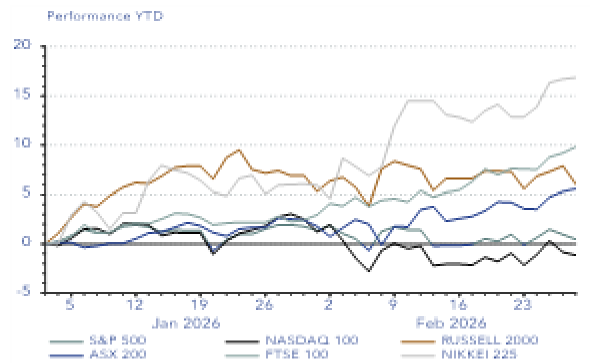
Chart 1: February Asset Class Performance



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Equity markets in February saw a clear rotation towards stocks with lower valuations and cyclicals exposed to commodity prices and economic activity. This benefitted markets like Australia, which has a high weighting in resources, while the technology focused U.S. lagged. Emerging markets also performed well, as the MSCI EM Index rose by 5.0%. Government bond yields fell despite ongoing inflation concerns, as rising geopolitical risk saw some safe-haven support. The Australian 10-year yield was 8 basis points (bps) lower at 4.65%, and the U.S. equivalent was 12 bps lower at 3.96%.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2026)



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The U.S. market fell by 0.8% and at 0.7% for the first two months of the year, is significantly lagging the rest of the world. Investors increasingly focused on the potential disruption to sectors from AI, triggering a broad de-rating across software-as-a-service (SaaS) stocks. The sell-off was largely indiscriminate, with markets punishing the sector rather than distinguishing between business models. We believe the outlook is more nuanced. SaaS companies able to embed AI into their platforms or leverage proprietary customer data are likely to strengthen their competitive position, while others may face genuine disruption.

Japanese elections during the month gave PM Takaichi a strong mandate, and Japanese equities rose by 10.5%. European equities gained 4.3%. The ASX 200 gained 4.1% for the month, as Financials (9.2%) and materials (9.1%) propelled the market higher on strong results and updates. Consumer staples (6.1%) and utilities (4.5%) also performed well. Healthcare (-13.3) and IT (-9.1%) were the worst performers. Consumer discretionary (-5.8%) also lagged as the RBA hiked the cash rate by 25bps to 3.85% as inflation data continues to prove too hot.

The threat of conflict in the Middle East saw the price of Brent crude rose late in February to USD 71 per barrel. The strike on Iran occurred after markets were closed for the month. It was another strong month for gold, which rose 4.8%. The U.S. dollar index rose 0.6% to snap a prolonged period of weakness, gaining against the euro, the British pound. The Australian Dollar rose another 1.7% as the market priced in a May rate hike, making it one of the top-performing currencies this year, gaining 6.9%.

Key Themes

Iranian Conflict and Oil Shock

Periods of geopolitical stress and oil price shocks often trigger sharp equity market sell-offs, driven by fears of higher inflation, tighter financial conditions and slower growth. History suggests these episodes are typically transitory, but the path through them can be uncomfortable, particularly for sectors exposed to global capex and cyclical demand.

For investors, the challenge is to separate short term market reaction from longer term structural opportunity. While we are yet to see large drawdowns in equity markets in the US and

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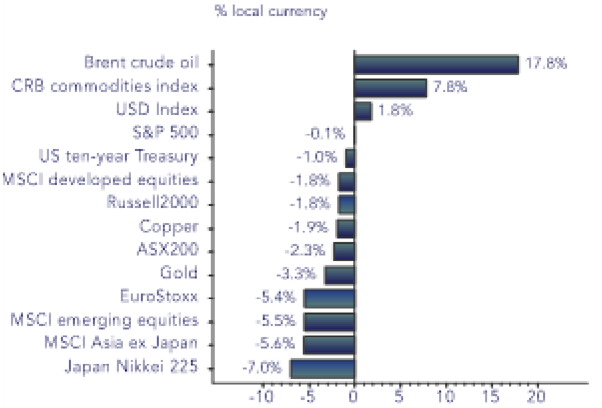
Linara Wealth Pty Ltd | ABN 61 642 217 007 | AFSL No. 525093

Australia at the index level, sector and stock dispersion and volatility is high. For investors who have remained liquid and can move quickly this environment can throw off opportunities.

Chart 3: Month-to-date Asset Class Moves



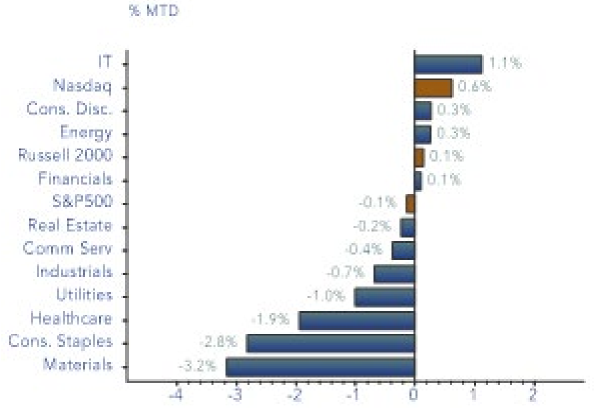
Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

In the near term, an oil shock tends to create two dominant fears: (i) that higher energy prices feed into inflation, (ii) and that they act as a tax on growth. Countries that are big importers of energy have felt this the most so far, e.g. South Korea, Japan, Emerging Markets and Europe. When those concerns dominate, markets often de-risk indiscriminately as we have seen in performance month to date.

Capital intensive sectors tied to global investment cycles; including **AI related hardware, infrastructure and emerging markets can suffer.** While there is exposure to energy prices in these sectors, the dominant and underlying supportive theme remains intact. Rising discount rates, tighter financial conditions and a risk-off mindset typically compress valuations first, even where fundamentals remain intact.

This is particularly relevant for AI capex beneficiaries, such as memory chips and enabling infrastructure. These businesses sit at the heart of one of the most powerful investment cycles of the decade, but they are not immune to macro volatility. If markets begin to price an extended oil-driven slowdown, investors may temporarily question the pace of capex deployment, delay expectations and reduce exposure, even though underlying demand drivers (data centre build outs, cloud capacity and compute intensity) remain largely unchanged.

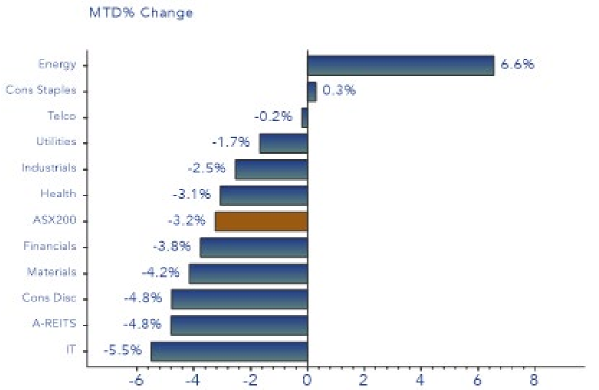
Chart 4: Month-to-date S&P500 Sector Moves



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

A similar dynamic applies to emerging markets. While many EM economies are structurally improving and benefit from diversification away from the US, they are often treated as a risk proxy during oil shocks. A stronger US dollar, higher energy import costs and global growth fears can weigh on sentiment in the short term, even where demographics and policy frameworks are far healthier than in past cycles.

Chart 5: Month-to-date ASX200 Sector Moves



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

For electrification and growth linked materials such as copper, short term price action can also be misleading. In an oil shock, markets may focus on cyclical demand risk rather than structural supply constraints and long dated demand from electrification, grid investment and decarbonisation. As a result, prices can weaken even as the medium-term supply demand balance continues to tighten.

Once the immediate conflict risk fades, however, these same sectors tend to reassert leadership. Geopolitical shocks rarely alter long-term investment cycles. Oil supply disruptions typically normalise; inflation pressures ease and capital rotates back toward areas with durable earnings visibility and strategic importance.

How to Position

We believe using any oil-driven market moves to selectively add exposure to enduring themes like those mentioned above; AI related hardware, infrastructure, resources and emerging markets while recognising that volatility may persist in the short term. We would not chase energy producers here and potentially use a further spike in the oil price to fade the rally in oil and gas stocks.

Maintaining balance through defensives and real assets can help manage drawdowns, but long-term returns are ultimately driven by staying aligned with the next phase of global investment, not the last geopolitical headline.

Defensive

Bond yields are rising and **fixed income** returns are falling. While bond yields typically fall in a risk-off scenario, markets have quickly moved to pricing out rate cuts in the US as energy driven inflation risk rises. Additionally, the US action is costly putting further pressure on a strained budget. If the conflict continues in the current manner, we can see yields rising further and putting pressure on risk assets.

Corporate bond spreads remain resilient in investment grade but are more vulnerable in high yield as higher yields and higher energy costs put pressure on corporates with thin margins. We prefer strategies focused on higher quality holdings, while in **alternatives** in this space we advocate for strategies that can take advantage of a flight to quality and benefit from de faults.

Growth

Australian equities have performed well year-to-date, better than we had expected. Reporting season was very solid across the board with the dominant forces of banks and resources driving gains, but stock dispersion was high, reinforcing our view that active management is key this year. We view a growth scare driven pull-back in resources as a potential buying opportunity.

In **global equities**, the flows away from the US may slow or reverse, favouring countries that are net energy exporters. The rotation to small caps may also pause. As we have written above, we favour adding to enduring themes such as AI related hardware and infrastructure which will require ongoing investment regardless of an oil shock.

Property and other real assets can provide protection where other growth assets are under threat. Higher yields are likely to hurt valuations in the short-term. We look to value-add strategies domestically and listed markets globally.

We remain favourable of selected emerging markets, including China. Many of the tailwinds that have driven EM returns recently have reversed, with yields rising, USD recovering, energy costs rising dramatically, and global growth under threat. The longer-term demographic forces, economic policy and favourable valuations remain in place.

It is a mixed environment for the **Australian dollar** with Australia being an energy exporter, a high oil price can be supportive. Additionally, the RBA remains hawkish, so we have retained our currency hedging for now.

Linara Investment Team

10 March 2026

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