The Linara Lens

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Our perspective and insight

Markets in March: were defined by rapidly evolving geopolitical developments, with the escalation of conflict in the Middle East driving a sharp rise in oil prices and a decisive shift in sentiment. Investors were forced to reprice inflation and interest-rate expectations, challenging the outlook for growth and triggering a broad move toward risk aversion. Equity markets fell sharply, while bond yields rose. The U.S. market weakened as higher yields, elevated energy prices and softer data weighed on growth stocks. Europe, Japan and emerging markets underperformed, reflecting their sensitivity to energy imports. Commodities were central, with oil surging and gold giving back earlier gains, while the U.S. dollar strengthened on safe-haven and petro-dollar flows.

Key Theme - paths from a fragile ceasefire

While a ceasefire has reduced immediate escalation risk, it has not resolved the underlying supply-side vulnerability at the heart of the conflict. The Strait of Hormuz remains only partially functional, energy flows have not normalised, and reports suggest more than 800 vessels remain delayed or trapped. As a result, supply-chain disruption is ongoing even as geopolitical risks appear to have eased.

Crucially, markets are pricing resolution rather than stabilisation. Even a short disruption can ripple through energy, freight, fertilisers and industrial inputs with a lag, meaning economic impacts may continue to build even without re-escalation. Against this backdrop, we see three broad paths forward, differentiated less by headlines and more by the duration of disruption.

Short disruption – orderly normalisation. Disruption proves temporary and contained. Energy markets remain volatile but gradually normalise, limiting second-round effects. Growth slows modestly and risk assets stabilise rather than trend lower. Equities regain footing, bond markets remain cautious, and gold consolidates as crisis hedging demand fades.

Medium-length disruption – repricing risk, not growth. Supply constraints persist long enough for higher costs to move through supply chains. Growth slows but does not break. Markets adopt a more defensive posture: equities remain volatile, credit spreads widen and diversification becomes increasingly important.

Extended disruption – recessionary risk. Prolonged disruption shifts the narrative from inflation shock to demand destruction. Equity markets display recessionary dynamics, credit conditions tighten, and duration and high-quality assets outperform while gold reasserts its role as a portfolio hedge.

Our Portfolios: the Linara Multi-Asset portfolios gave back some recent outperformance but remain well ahead of benchmark over longer timeframes. Recent tailwinds quickly became headwinds such as currency hedging and Gold. The Linara Global Equity and Global Infrastructure portfolios both outperformed their benchmarks further building on their outperformance.

How to Position: We believe that this is not a one-way market. De-escalation remains a viable path, but the lack of a full reopening of the Strait of Hormuz means the downside scenarios cannot be dismissed. Markets may be under-pricing how quickly even short disruptions can cascade through supply chains.

In this environment, resilience and flexibility matter more than precision. Portfolios should be positioned to participate in recovery assuming there is a sustained de-escalation, while remaining robust should disruption persist longer than markets currently assume.

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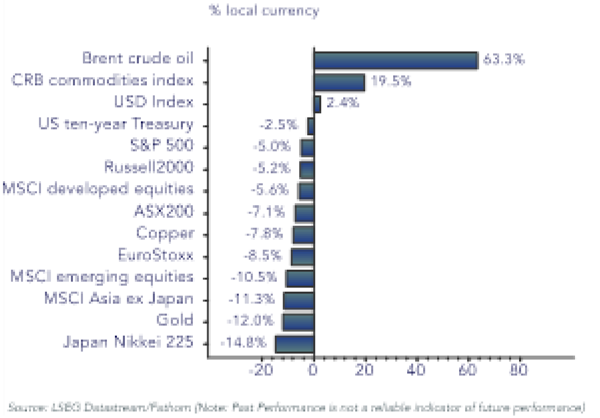
Markets in March

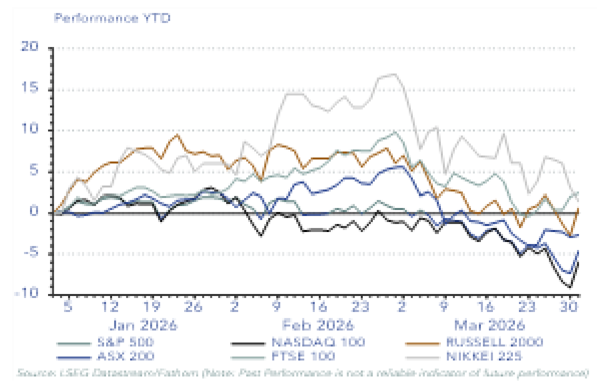
Markets were whipsawed by fast-moving geopolitical developments, while rising oil prices reignited inflation concerns and challenged the outlook for growth. Investors grappled with a sharp escalation in Middle East tensions, a surge in energy prices, and a rapid repricing of global interest rate expectations.

Chart 1: March Asset Class Performance



Equity markets fell sharply in March, with Europe and Asia leading the declines after strong gains earlier in the year. Energy was the clear standout as oil prices surged following supply disruptions, while most other sectors moved lower. The MSCI World Index declined 6.3% in U.S. dollar terms, its weakest monthly performance since 2022, while emerging markets were also hit hard amid currency pressures and energy import dependence. Government bond yields rose across major markets as investors reassessed the likelihood of rate cuts, with oil-driven inflation concerns triggering a broad sell-off in bonds.

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



The S&P500 declined 5.0% during the month, though losses were partially offset by a sharp rally on the final trading day. Higher bond yields, elevated energy prices, and softer economic data weighed on sentiment, with growth stocks continuing to lag. Energy was the only sector to post positive returns, while technology and consumer-oriented sectors were the weakest.

European equity markets fell sharply as higher energy costs compounded existing growth concerns. The MSCI Europe ex UK Index declined 8.2%, while UK equities were also 6.2% weaker as bond yields surged to levels not seen since 2008. Japanese equities retreated 12.7% after reaching record highs in February, as rising yields and external risks offset supportive domestic policy. The ASX 200 declined 6.9%, with higher energy prices, tighter financial conditions, and a second consecutive RBA rate hike weighing on domestic sentiment and business confidence.

Commodities were a key driver of market outcomes. Brent crude surged as concerns grew around supply disruptions through the Strait of Hormuz, while gold gave back earlier gains as rising real yields outweighed safe-haven demand. The U.S. dollar strengthened notably on safe-haven flows and petro-dollar dynamics, pressuring most major currencies. Overall, March marked a decisive shift toward risk aversion, with markets increasingly sensitive to the combined risks of higher inflation and slowing growth.

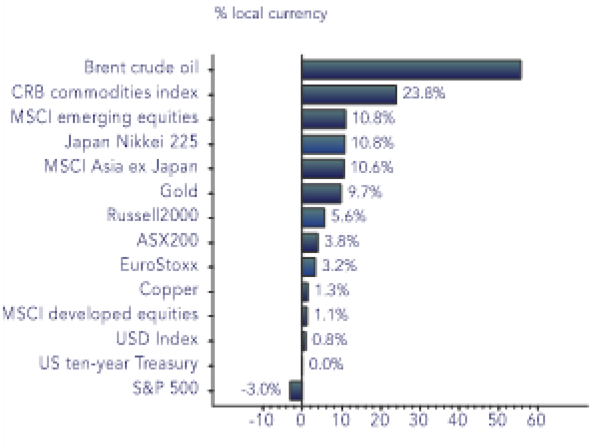
Key Themes

Iranian - Three paths from a fragile ceasefire

Markets are currently operating in an unusually binary environment. While the announcement of a ceasefire has reduced immediate escalation risk, it has not resolved the underlying supply-side vulnerability at the heart of the conflict. The Strait of Hormuz remains only partially functional, energy flows have not normalised, and more than 800 commercial vessels remain trapped or significantly delayed. As a result, supply-chain disruption is ongoing, even if the most visible geopolitical risks appear to have eased.

Importantly, markets are pricing a resolution, not a stabilisation. The distinction matters. Even a short disruption can propagate through energy, freight, fertilisers and industrial inputs with a lag, meaning the economic impact may continue to build even if the conflict does not re-escalate. Against this backdrop, we frame the outlook around three broad scenarios, differentiated less by what happens next than by how long disruption persists.

Chart 3: Year-to-date Asset Class Moves



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

Scenario 1: Short disruption

In this scenario, the disruption proves temporary and contained. While energy markets remain volatile in the near term, supply gradually normalises and follow-on effects remain manageable. Growth momentum slows only modestly, with the inflation impulse concentrated in energy and transport rather than cascading through wages or pricing behaviour.

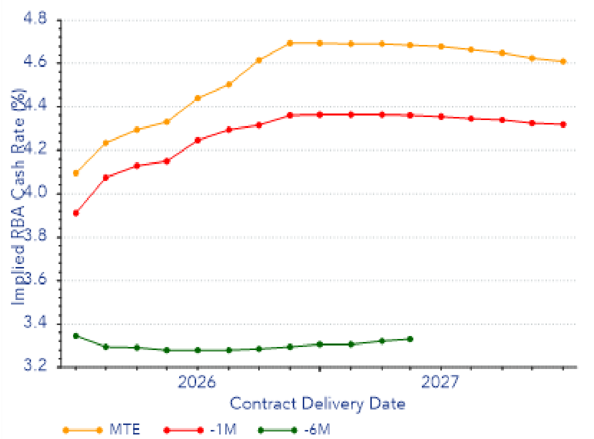
In this environment, risk assets stabilise rather than trend lower. Equities regain footing as earnings expectations remain broadly intact, while bond markets stay cautious. Gold consolidates as crisis hedging demand fades, though it retains support due to lingering geopolitical uncertainty. This outcome represents a bumpy adjustment rather than a regime change.

Scenario 2: Medium-length disruption (2+ more months)

A more prolonged disruption extending several months creates a different dynamic. Energy supply remains constrained long enough for higher costs to move through global supply chains, even without further escalation. The fact that hundreds of vessels are already delayed means freight, input availability and inventory management remain stressed well beyond the initial shock.

Here, growth slows more visibly but does not break. Markets shift into a more defensive posture: equities do not recover lost ground quickly and remain sensitive to headlines, credit spreads widen, and volatility stays elevated. Central banks remain constrained by inflation, delaying policy easing, but recession is avoided. In this scenario, diversification matters; defensives, selective duration, commodities and gold regain relevance as portfolio stabilisers rather than crisis assets.

Chart 4: RBA Rate Outlook Repriced Significantly



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

Scenario 3: Extended disruption (3+ months)

Prolonged supply disruption creates a shift from inflation shock to demand destruction. Higher prices undermine consumption and investment, forcing policymakers into reactive easing despite elevated inflation.

Under this outcome, equity markets display recessionary dynamics, credit conditions tighten materially, and liquidity becomes more fragile. Duration and high-quality assets outperform, while gold reasserts itself as a hedge against both policy uncertainty and systemic stress. The early phase would still favour the U.S. dollar, but aggressive policy easing would ultimately weaken it.

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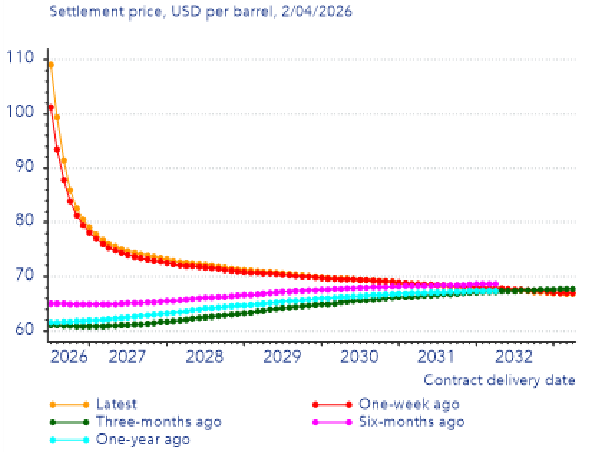
Chart 5: Oil Futures Pricing a Gradual Reversion



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

How to Position

We believe that this is not a one-way market. De-escalation remains a viable path, but the lack of a full reopening of the Strait of Hormuz means the downside scenarios cannot be dismissed. Markets may be under-pricing how quickly even short disruptions can cascade through supply chains.

In this environment, resilience and flexibility matter more than precision. Portfolios should be positioned to participate in recovery under benign outcomes, while remaining robust should disruption persist longer than markets currently assume.

Defensive

Bond markets have shifted from behaving as a traditional risk-off hedge to reflecting inflation and fiscal concerns. Despite heightened geopolitical risk, yields have moved higher as markets price out near-term policy easing and reassess the inflationary implications of elevated energy prices. The fragile ceasefire and continued disruption through the Strait of Hormuz mean that inflation risks remain skewed to the upside, particularly if supply bottlenecks persist. In this environment, higher yields have the potential to remain a headwind for risk assets, especially under medium or extended disruption scenarios where markets delay or abandon expectations for rate cuts.

Within **corporate bond** markets, resilience remains evident in higher-quality investment grade, where balance sheets and pricing power provide some insulation. High yield is more vulnerable. Rising funding costs, higher energy inputs and pressure on margins increase default risk, particularly for lower-quality issuers. As such, we continue to favour strategies biased toward quality and structural protection. Within **alternatives**, we see value in approaches that can benefit from dispersion, capital structure seniority, or rising default opportunities should conditions deteriorate.

Growth

Australian equities have delivered reasonable performance year-to-date, supported by a solid reporting season and earnings resilience across banks and resources. However, stock-level dispersion remains high, reinforcing our preference for active management. The stubborn inflation environment and hawkish RBA are creating a challenging environment, and we see gains from here as being more closely linked to geopolitical developments than domestic economic performance.

In **global equities**, capital flows away from the U.S. have moderated but remain sensitive to energy dynamics and relative growth outcomes. Should disruption prove short-lived, flows may stabilise or reverse, particularly toward markets that are net energy exporters. Conversely, prolonged uncertainty would favour defensives over cyclical or smaller-capitalisation exposures. Across scenarios, we continue to favour long-duration structural themes with strong investment backlogs. AI-related **hardware, infrastructure and enabling technologies** are less sensitive to short-term energy shocks and remain supported by multi-year capital expenditure commitments.

Property and real assets continue to play a role in portfolio diversification, though higher yields are likely to weigh on valuations in the near term. We encourage clients to add **commodity exposure** to mitigate the risks that we are entering a stagflationary environment of higher inflation, lower growth and higher rates.

Emerging markets present a more nuanced opportunity. Many of the tactical tailwinds that supported recent performance, lower yields, a weaker U.S. dollar, declining energy costs, have reversed. Near-term pressure is likely to persist if disruption extends and global growth slows. However, longer-term fundamentals, including demographics, domestic policy support and attractive valuations, remain intact in selected markets, including China. We view further indiscriminate sell-offs as potential entry points rather than a reason to reduce exposure.

Finally, the outlook for the Australian dollar remains mixed. Australia's status as an energy and commodity exporter can be supportive under higher commodity price scenarios, while a still-hawkish RBA provides additional underpinning. Given competing global forces, we have retained currency hedging for now, with the expectation that clarity around energy supply and global growth would allow the AUD to recover over time.

Luke Hansen

Linara Investment Team

9 April 2026

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