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QUARTERLY MARKET REVIEW

Geopolitics, Oil Shocks and Market Volatility

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Financial markets endured a markedly volatile first quarter in 2026, with risk sentiment repeatedly tested by the outbreak and escalation of hostilities between the US, Israel and Iran. What began as simmering regional tensions boiled over on 28 February, injecting a heavy dose of geopolitical uncertainty into an already finely balanced global economy. From energy prices to safe-haven assets and currency flows, the conflict's ripple effects dominated trading floors, reminding investors that geopolitics remains one of the most unpredictable drivers of market moves.



Oil: Supply Fears Ignite Triple-Digit Territory

The most immediate and dramatic impact came in the oil market. Crude prices surged as much as 25% in a single trading session when the conflict erupted, the sharpest one-day move in years. Brent briefly surged to around \$119 a barrel as traders priced in severe supply disruptions.



The Strait of Hormuz, through which roughly one-fifth of global seaborne oil passes became the focal point of anxiety after reports of partial closures and attacks on tanker traffic. Compounding the worry, US and allied strikes targeted Iranian energy infrastructure, while Qatar’s LNG fields faced attacks, raising fears of a broader energy shock across the Gulf.



For several weeks, the market priced in a worst-case scenario of sustained chokepoint closures and retaliatory damage to production facilities. Even after partial diplomatic progress and a short US pause in strikes, prices remained elevated. WTI settled the quarter around the mid-to-high \$80s after retreating from triple-digit peaks, yet the risk premium refuses to evaporate entirely. Every headline from the region still has the power to send crude lurching higher or lower, keeping volatility elevated and reminding traders that energy security and geopolitics are once again inextricably linked.

Gold and Silver: Record Highs Followed by an Unusual Retreat

Gold and silver both hit fresh all-time highs in January 2026. Spot gold topped out at around \$5589 per ounce, while spot Silver reached prices just above \$120. Gold climbed on the back of growing expectations for US interest-rate cuts and strong speculative buying momentum, while silver's advance was powered by robust industrial demand and fears of persistent supply shortfalls. The moves appeared set to extend the multi-year bull market in precious metals. Yet the rally proved short-lived. Overbought conditions and technical selling triggered a sharp slump in late January, with prices pulling back as traders took profits and reassessed near-term momentum.



When the US-Israel conflict with Iran erupted on 28 February, precious metals initially moved higher once again, as investors sought safety amid the geopolitical flare-up. However, the bounce quickly faded. Rising oil prices, a stronger US dollar and reduced expectations for Federal Reserve rate cuts combined to drive both metals lower. Gold, in particular, has bucked its long-standing reputation as a safe-haven asset. Instead of the sustained gains typically seen during periods of armed conflict, the metal fell sharply after its early post-conflict spike, retreating more than 15% from peaks above \$5,300 per ounce to trade near \$4,400 by quarter-end. This reaction stands in stark contrast to gold's performance during the early stages of the Covid-19 outbreak and Russia's 2022 invasion of Ukraine, when the metal rallied strongly as uncertainty drove safe-haven flows.

Two main factors explain the counterintuitive underperformance. First, a stronger US dollar and climbing Treasury yields increased the opportunity cost of holding a non-yielding asset. Second, gold's exceptional liquidity - usually a strength, worked against it: highly liquid positions were aggressively unwound to meet margin calls elsewhere as volatility spiked across equities, credit and commodities. Silver followed a similar path, posting an initial spike before giving back gains as the same dollar- and yield-driven dynamics weighed on prices.



Currencies: Dollar Strength and the AUD's Relative Resilience

The US dollar emerged as a clear beneficiary of the turmoil. Since the conflict began, the greenback has appreciated steadily against most major peers. Higher oil prices stoked inflation fears, forcing investors to reassess the pace and scale of Federal Reserve rate cuts. The Dollar Index climbed above 100.50 at its March peak before settling around 99.10–99.30, still comfortably higher than pre-conflict levels. Markets now price in a more hawkish Fed path, providing fresh support for the world's reserve currency.



Among G10 currencies, the Australian dollar stood out as one of the better performers during the first quarter. After the Reserve Bank of Australia delivered a 25 basis-point hike in March, citing rising petrol prices linked directly to Middle East tensions, the AUD has held firm near 0.7100. The central bank's 5-4 split decision and signals of possible further tightening have positioned the RBA as one of the most hawkish major central banks, helping the currency weather the global risk-off mood and post solid year-to-date gains. Despite a softer February inflation print in Australia than the market was expecting, which took the AUD down from its highs, the AUDUSD rate is still up around 4% for the year.



Outlook: Eyes Firmly on Oil and Central Bank Reactions

Q1 2026 will be remembered as a quarter defined by sharp reversals. Gold's rapid ascent to record highs followed by a pronounced slump, alongside oil's explosive spike and partial retreat, perfectly illustrate the market's sensitivity to Middle East developments. The interplay between energy prices, inflation expectations and monetary policy has been the dominant theme.



Looking ahead, global oil prices will likely remain the barometer for risk sentiment. Should supply disruptions ease and prices moderate further, the inflationary impulse may fade, allowing central banks more room to ease. Conversely, any renewed escalation that pushes crude back toward or beyond triple-digit territory could force a broader hawkish pivot among policymakers. Markets will be watching the data and the diplomacy closely. For now, the message from Q1 is clear: in an environment of elevated geopolitical risk, flexibility and vigilance remain the most valuable commodities of all.

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