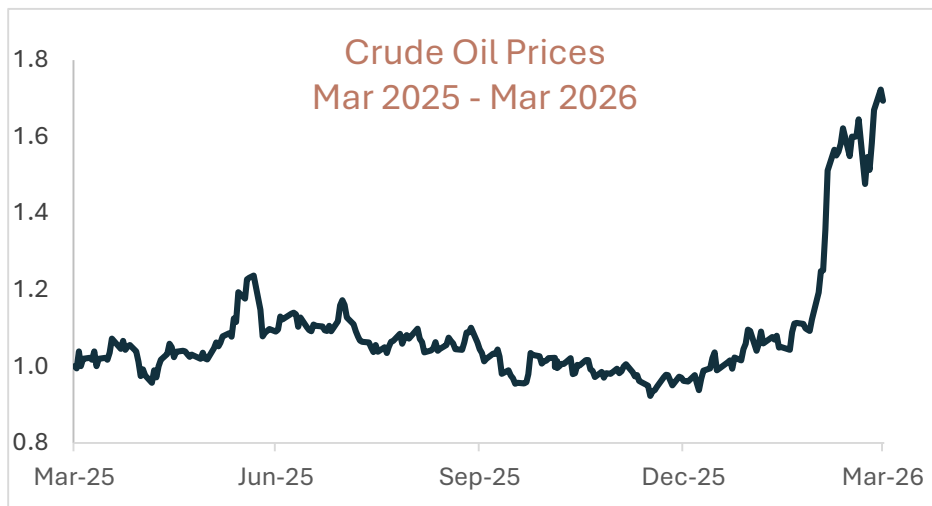


Iran Conflict and Inflation: What's Driving Market Volatility

Quarterly Market Update | 31 March 2026

The first quarter of 2026 has been dominated by an escalation of conflict in the Middle East. In late February, the United States and Israel launched coordinated strikes on Iran, which responded by targeting energy infrastructure across the Gulf region. The resulting surge in energy prices has heightened concerns about rising inflation and a slowdown in global growth.

Signs the conflict is expanding across the Middle East have intensified fears of a sustained disruption in the Strait of Hormuz, a crucial shipping lane for about a fifth of the world's crude, where missile and drone threats have brought tanker traffic to a standstill. The consequent sharp rise in energy prices – crude oil is up over 60% for the quarter – constitute a key component of the inflationary data analysed by central banks.



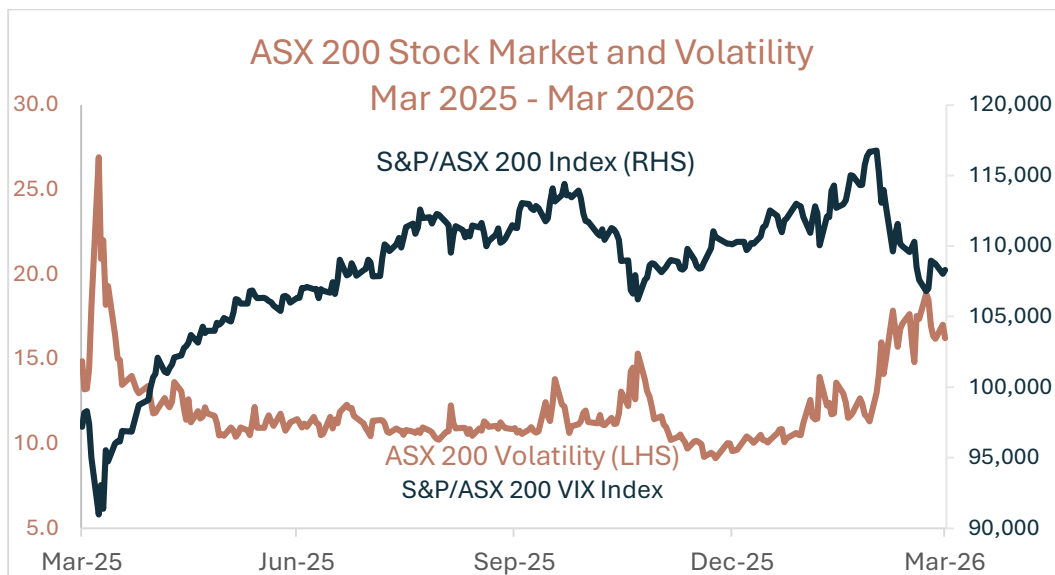
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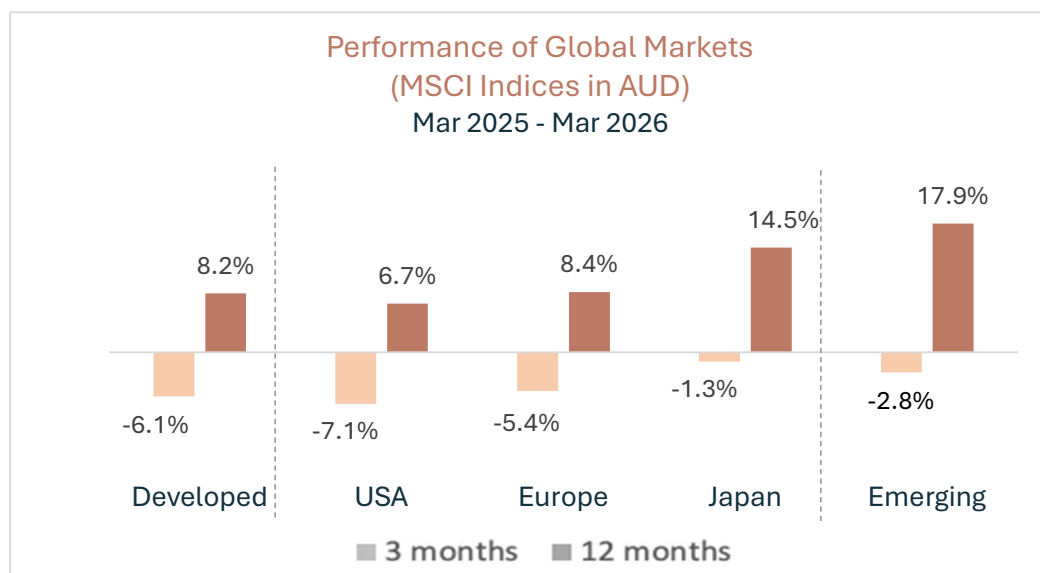
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The possibility of a prolonged war and higher for longer inflation is threatening to finally crack a multi-year bull run in global equity markets. The ASX hit an all-time high in early March before the inflationary consequences of the conflict became apparent. The index fell by more than 8%, and the volatility index reached its highest levels in 12 months. For the quarter, the ASX 200 index is down -3.2%, although the return for the full 12 months is a healthy 9.0%.

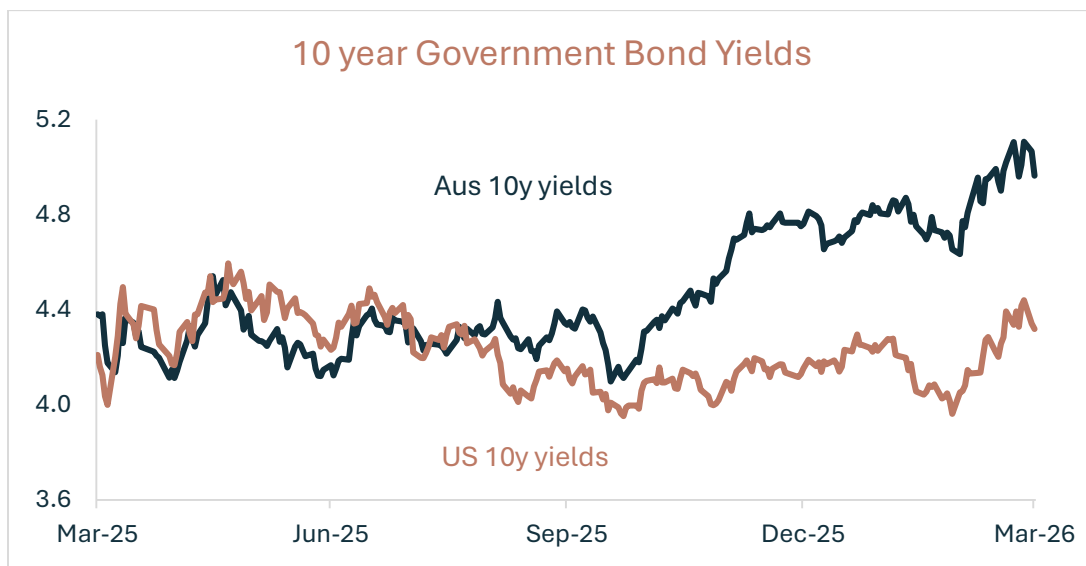


The rally of global share markets after the initial introduction of tariffs were paused in April 2025 continued up until the start of March when the conflict in the Middle East escalated. The resulting significant tightening in global energy markets – and the fear of a more prolonged disruption – is playing into inflation and global growth expectations.

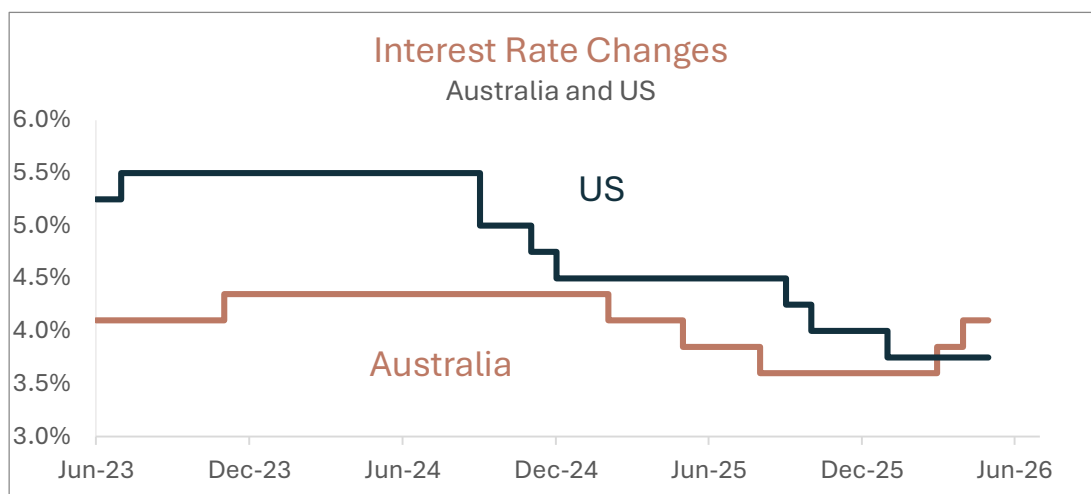


The US market, the largest component of the Developed Market Index, has also fallen on higher energy prices and a reassessment of Federal Reserve policy. This has particularly impacted the Nasdaq index, which is down more than 10% in Q1. Emerging markets have outperformed developed markets in recent market volatility due to more attractive valuations, a weakening US dollar, and structural shifts in global trade that favour EM exporters.

The rise in energy prices – crude oil is up over 60% for the quarter – has also created a volatile bond market as traders balance the trade-off between higher inflation expectations and slower global growth. By the end of March, the bond market was weighing more to the inflationary impact of higher energy prices rather than the need for a safe-haven asset, which is the typical role bonds play in times of geo-political conflict.



At their respective March meetings, the US Federal Reserve left rates on hold despite a slowing economy, while at home the RBA raised rates for a second consecutive month as inflation was already higher than the RBA’s target band of 2% – 3% even before the energy prices spiked.



The current volatility should be seen in context of a longer time frame. Equity Markets have been in a significant bull market since the end of 2022, with the MSCI World Index returning over 60% (in AUD) over the last 3 years. Long-term investors are encouraged to remain disciplined and diversified, as attempting to time the market often leads to locking in losses.

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