Market Update: March 2026

Market Insights By Ben Snedeker

Market Highlights

Markets pulled back in March as investors refocused on inflation and interest rates amid a sharp rise in geopolitical risk. The temporary closure of the Strait of Hormuz lifted oil and LNG prices, pushing bond yields and the US dollar higher and tightening financial conditions. Australian equities underperformed global peers, reflecting higher global yields and a second RBA rate hike.

The S&P/ASX 200 fell 7.1% in local currency. Globally, the MSCI World ex Australia declined 5.7% in local currency; in Australian dollar terms it fell 2.5% as the AUD weakened around 3% versus the USD. The US S&P 500 was a relative outperformer (down ~5.0%), while Europe (down ~7.7%), Asia (down ~10.7%) and Japan (Nikkei down >12% in local currency) saw larger drawdowns.

Sector performance

Sector dispersion was pronounced as energy and commodity price moves fed through to inflation expectations and bond yields. Energy was the clear standout (up 20.4%), supported by oil (up 50%+) and LNG (up 80%+) pricing during the disruption. Utilities (+4.9%) and Consumer Staples were also resilient as investors favoured more defensive exposures.

Large caps outperformed small caps, with smaller companies disproportionately affected by their higher Materials exposure. Lagging sectors included Materials (-13.0%), IT (-12.5%) and Property/A-REITs (-11.2%) as higher real yields weighed on valuations. Gold equities (-23%) fell more than gold bullion (-11%), reflecting USD strength, higher yields and a reversal in prior winners.

IT was hit by multiple compression as real yields rose, alongside ongoing debate about AI-related disruption. A stronger USD also weighed on emerging markets and Australian offshore earners. Within Energy, refiners were notable beneficiaries (e.g., Viva Energy +47%), reflecting downstream leverage during the price shock.

Iran conflict – oil, inflation and political dynamics

Market focus has remained firmly on energy supply risks. To date, disruption has been concentrated around transport routes—particularly the Strait of Hormuz—rather than direct damage to oil production facilities.

If this remains the case, oil flows could normalise relatively quickly should hostilities ease. The more material risk would be any escalation involving direct targeting of Middle Eastern production infrastructure, which would represent a far more persistent supply shock.

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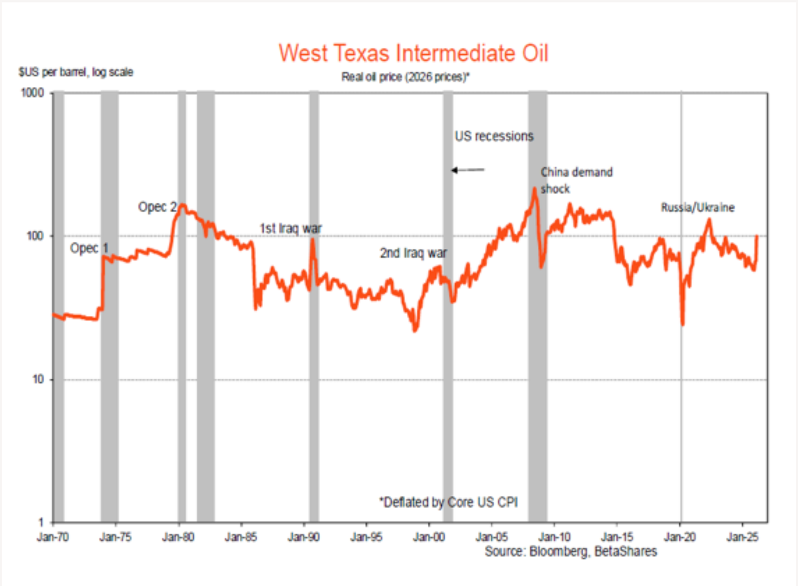
While oil and fuel prices have risen sharply, the current move remains modest in inflation-adjusted terms compared with previous major oil crises, and is still below the spike experienced at the outset of the Russia–Ukraine conflict. Market pricing to date reflects precautionary risk premia rather than a severe or prolonged supply disruption.

This is represented in the chart below, produced by Shares, which shows historical oil price movements alongside past oil crises and US recessions. The chart highlights how the current price increase, while notable, is less dramatic than previous spikes seen during major geopolitical events.



Political considerations have also become part of the market narrative. There appears to be a clear incentive for US policymakers to seek an off-ramp to the conflict, given the sensitivity of voters to fuel prices and inflation ahead of upcoming US mid-term elections. Against a backdrop of tightening political odds, stabilising energy prices would ease inflation pressures and remove an important headwind for financial markets.

As a result, while elevated oil prices remain a short-term inflation risk, markets are simultaneously weighing the growing probability of de-escalation. Portfolios remain positioned with diversification in mind, providing resilience should volatility persist, while recognising that a resolution could see risk premia unwind relatively quickly.

Monthly Quote

"The biggest investing errors come not from factors that are informational, but from those that are psychological."

— Howard Marks (Oaktree Capital)

Fixed interest

Bond yields rose sharply across developed markets as investors repriced the outlook for inflation and 'higher for longer' policy settings. The Australian 10-year yield increased around 32bp to ~4.97%, while the US 10-year rose ~38bp to ~4.32%. Listed credit also weakened as yields moved higher, even though spread moves were modest relative to the rates sell-off.

Global economy

The Middle East conflict and closure of the Strait of Hormuz pushed oil above US$100/bbl, raising concerns about a renewed global inflation impulse and reducing the scope for central banks to cut rates. Business surveys remained expansionary but fragile (global composite PMI ~53), suggesting ongoing growth but less margin for policy easing.

Central banks signalled patience. The US Federal Reserve held rates steady but emphasised inflation risks, pushing back market expectations for near-term cuts.

Australian economy

The RBA delivered a second consecutive 0.25% rate hike, taking the cash rate to 4.10%, with guidance pointing to further tightening. Inflation remains sticky and the rise in oil prices adds another upside risk.

Growth momentum has been reasonable to date, supported by a strong labour market and investment. However, forecasters expect activity to cool in the second half of 2026 and into 2027 as higher rates flow through to demand.

Commodities

Commodity markets were volatile and highly diverged. Oil (WTI) rose 51% on geopolitical supply risk, thermal coal jumped 23% and iron ore gained 8% to ~US$108/t, while some soft commodity prices also rose. In contrast, gold fell 12% and base metals were weaker (copper -8%, nickel -4%) amid growth concerns, although aluminium rose 13.5% as Middle East supply was disrupted.

ASX200 – Earnings outlook

Despite the equity market sell-off, earnings expectations improved modestly. ASX200 forward EPS rose around 1% over the month (up 5.4% over three months), and global earnings expectations also edged higher.

Upgrades were dominated by oil and gas producers (Energy earnings +26.8%), while growth stocks continued to face both earnings and valuation pressure as real yields rose.

While FY26 and FY27 consensus EPS growth remains solid (mid-teens and low-double digits respectively), expectations may prove stale if the conflict persists. The longer disruption continues, the higher the risk of earnings downgrades across several sectors.

Valuation compression was a defining feature of March. IT and Growth stocks were hit hardest. The ASX200 forward PE ratio ended the month at 16.7x (down around 2 PE points), now close to its long-term average (~16.5x).

With valuations now more reasonable, attention turns to the duration of the conflict, potential damage to energy infrastructure in the Middle East, and the flow-through to corporate margins and demand. Small caps trade at a meaningful discount to history, while Industrials remain relatively expensive versus Resources.

That's your March market wrap! If you've got questions or want to chat about your portfolio, feel free to reach out.

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