

Just for the Record

Information contained in this report current as at 16 March 2026.

Although share markets were stronger in February, conflict in the middle east since the end of the month resulted in sharp downward moves in early March. Financial markets remain extremely headline-driven, with the safety of shipping through the crucial Strait of Hormuz the primary barometer for risk sentiment. Brent crude oil prices are back above USD 100 a barrel as Iran's new supreme leader, Ayatollah Mojtaba Khamenei, warned that "the lever of the Strait of Hormuz must certainly continue to be used."

It is now more important to focus on how higher oil and gas prices will feed inflation expectations in the near future and more for the record that I write about financial market performance for the month of February. The Australian share market as represented by the S&P/ASX 300 Accumulation Index returned 3.9% in February. Global shares as represented by the MSCI World Index increased a more modest 0.8%. The Australian 10-year bond yield fell from 4.80% to 4.64%, however once again this changed suddenly in early March as the conflict in the middle east erupted. At the time of writing, the interest rate moved sharply higher to 5% in turn sending property trust and infrastructure company share prices lower due to the sensitivity to interest rates. Bonds yields in the US and the rest of the world have also moved sharply higher. In the US, bond yields were heading lower in February as interest rate markets were forecasting an easing of monetary policy in the US with lower inflation likely because of a somewhat weak labour market.

In February, America's inflation reading was in line with market analyst expectations, recording 2.4% over the year. Core inflation recorded 2.5%. As mentioned, that was before the spike in **oil and gas prices** which **has increased the risk of a global slowdown**. Higher energy costs lift inflation, erode real income growth and will likely reduce central banks' willingness to cut interest rates. The relationship between oil prices and growth is non-linear as an economy can absorb modest increases. However, large shocks can trigger recessions. In 2022, a similar shock did not cause a downturn because labour markets in countries like the US and Australia were extremely tight. Today they are closer to balance, meaning an oil-driven blow to labour demand could lift unemployment and reinforce weakness.

Whilst inflation is a lagging economic indicator, commodity shocks flow through to prices faster than shifts in the broader business cycle.

Commodities reprice quickly, while services inflation is driven by slower-moving forces such as housing and labour costs. Although goods have a smaller weight in CPI baskets, they contribute a disproportionate share of volatility. In the US, lower oil prices partly offset tariff-related inflation last year keeping inflation in check.



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However, that buffer has now disappeared. Higher energy prices are likely to push inflation higher in the months ahead unless there is a quick resolve to the conflict. On this point, it would appear that President Trump expected that the toppling of the old regime in Iran would see them roll over as was the case in Venezuela. The situation could not have turned out more different to that expectation.

In China, the government's "quality over quantity" agenda announced in the 15th Five-Year Plan, confirmed a slower growth target in the region of 4.5% - 5% and scaled back fiscal support. **China's slowdown now coincides with a global oil shock, raising stagflationary risks.** If oil prices remain elevated, China will likely face slow growth alongside rising prices, prompting tighter financial conditions and greater social instability. The government continues to promote advanced manufacturing and technology suggesting no meaningful macroeconomic rebalancing from investment to consumption. Stimulus could emerge in the second half of the year if growth slows sharply, however the near-term policy stance disappointed investors expecting stronger support. With odds of a lingering energy shock, we are likely to see intensifying economic, social and foreign policy strains.

More at risk of an inflation shock is Europe. To wean itself off Russian gas delivered by pipeline, Europe relies heavily on LNG. The IEA projected that it would need to import a quarter of global shipments. That leaves **Europe exposed to soaring LNG prices.** According to The Economist, "a bidding war for LNG has ignited on the spot market, with shipments redirected in response to higher offers. Clean Mistral, a tanker, had been sailing to Spain from America when it abruptly turned and headed for Asia instead. Europe's benchmark gas price climbed above €56 (USD 65) a megawatt-hour on March 9th, more than 75% higher than before the war began, though it has since eased slightly."

In Australia, the NAB business survey showed stable conditions but weakening expectations

ahead of the energy shock. Current business conditions were unchanged at +7, while expectations fell to -1 from +3, turning negative for the first time in almost a year. Sales strengthened, however profit and employment growth slowed. Capacity utilisation was flat although it remains above its long-term average and forward orders and capital expenditure improved. Cost pressures reaccelerated, with both price measures and labor costs rebounding from recent cyclical lows. The survey was conducted between February 23 and March 2, prior to the rise in energy prices.

Australia is a net energy exporter and would benefit on net from higher commodity prices, with mining companies typically supported by such dynamics. **However, we rely on refined petroleum imports, leaving us exposed to higher global energy prices that has the high probability of lifting domestic inflation.** If the Hormuz crisis persists, Australia would see upward pressure on both growth and inflation. Inflation had already been elevated, prompting the recent RBA hike and potentially setting up for another one next week.

The Westpac-MI Consumer Sentiment Index lifted modestly in March, up 1.2% to 91.6, still an outright pessimistic reading. The latest survey occurred over the week to March 7 and only captured part of the conflict in the Middle East. Responses over the last three days of the sample were closer to an index read of 84 – a deeply pessimistic result which emphasises just how dynamic sentiment is to the situation offshore. Prior to the eruption of the war in the middle east, markets were pricing one additional 0.25% interest rate hike in 2026, however they have shifted abruptly and now pricing more than three. **While pricing out cuts is reasonable, the rapid shift to three pricing hikes appears premature for now but cannot be assigned a 0% probability as growth will likely slow whilst inflation triggered by oil will increase.**

For the record, in February, software companies were put on alert when Anthropic updated Claude AI with plug-ins targeting real enterprise tasks.

AI disruption is a significant theme, triggering a global sell-off in software companies like Sales Force, ServiceNow, Wisetech, Atlassian and Technology One just to name a few. The sell off signalled that investors continue to closely monitor the threat of AI. The US profit reporting season also pointed to a global industrial recovery with companies whose share prices are more cyclical, surprising to the upside. Companies posted a median year-on-year growth in profits of 14%, with the Technology sector leading the gains at 33%. The US dollar strengthened over the month, yet most commodity prices continued to rise. Gold extended its strong performance from January, rising 8% in February, copper climbed 1.3% and Brent oil rose 2.6%, with the oil rally occurring prior to the onset of Middle East tensions.

Australian Shares delivered a strong performance in February, supported by the second-strongest profit reporting period in the last 25 years. The S&P / ASX 200 upgraded profits by 1.9%, second only to February 2021 post the pandemic rebound. Profit growth forecasts are around 10% for June 2026 and June 2027, with analysts leaning towards further upgrades. Consistent with previous months, commodity producers outperformed in February, benefiting from the largest profit and dividend upgrades. This outperformance was supported by strengthening commodity prices and stronger operating leverage as producers emerge from a period of cost and capital expenditure inflation. Commodity producers saw a 3.8% profit forecast increase and a 6% increase in their free cash flow. Australian companies guided to a 2.8% increase in dividends and announced 22 new buybacks, a seasonal record.

Financials ex REITs (+9.0%) was the best-performing sector over the month, led by Commonwealth Bank (+18.4%) and National Aust. Bank (+13.0%), while HealthCare (-13.0%), dragged down by Pro Medicus (-29.2%) and Cochlear (-26.0%), underperformed the broader market. At a stock level, the best performers included Lynas Rare Earths (+27.3%), lithium producer PLS Group (+20.9%) and Commonwealth Bank (+18.4%), while AMP (-22.1%) joined Pro Medicus and Cochlear amongst the biggest laggards.

If the Strait of Hormuz remains closed just until the end of the month, some analysts reckon crude could surge to \$150 or even \$200 a barrel. That would be a recipe for global recession and a surge in inflation—a repeat of the “stagflation” of the 1970s. Even in a middling scenario, in which some oil trickles through the strait but most shipping remains disrupted, the damage to the world economy would be severe.

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

Australian Shares
S&P/ASX 200 TR

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

International Shares
MSCI World Ex Australia NR AUD

Australian Listed Property
BarCap Global Aggregate TR Hdg AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 28TH FEBRUARY 2026

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Australian Cash	0.30	0.92	1.82	3.76	4.09	2.88	2.32	2.13
Australian Bonds	0.88	0.46	0.03	3.15	3.61	0.60	0.31	1.91
International Bonds Hedged	1.39	1.39	3.02	4.46	4.44	0.16	0.45	1.84
Australian Listed Property	-3.54	-4.27	-10.29	4.70	9.85	8.95	4.84	6.82
International Property Hedged	6.14	6.91	8.61	10.92	7.58	5.04	2.07	4.84
Australian Shares	4.11	7.34	4.07	16.19	12.22	10.78	8.96	10.76
Emerging Market Shares	3.70	8.83	18.35	30.85	19.31	8.09	9.27	10.71
International Shares	-1.09	-4.68	0.61	5.74	18.52	14.41	12.97	13.36



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