

## At a glance

The USA and Israel are at war with Iran, and the Strait of Hormuz has effectively been closed – creating a significant global energy supply shock

Despite the ongoing war, global markets remain relatively resilient, with Energy the strongest sector

The RBA continues to raise rates, being more concerned about inflation than a potential growth shock for the time being.

Geopolitics, the Iran war, inflation and interest rates are the drivers of sentiment and market direction

## Markets Update

2026 has been marked by the outbreak of war in the Middle East involving the USA, Israel and Iran, with the conflict also spilling into neighbouring countries. The war disrupted shipping through the Strait of Hormuz – a water way carrying roughly 20% of global oil supply – sending oil prices higher as markets priced in the risk of prolonged supply disruption.

The USA has also maintained an aggressive foreign policy stance, including military intervention in Venezuela at the start of the year targeting its oil sector. This has reinforced energy security as a key strategic theme for investors. At the same time, President Trump's hard-line bargaining style – aggressive threats followed by negotiation – has added to geopolitical volatility and kept markets on edge.

Despite these risks, global equity markets have remained relatively resilient. 2025 December quarter corporate earnings were positive broadly followed recent historical patterns, although results within the technology sector were mixed. Microsoft and Amazon both disappointed as the cost of building AI infrastructure continues to rise.

Australian shares have also been resilient, and our banks delivered strong earnings in the reporting season, although CSL again disappointed the market. Technology shares were volatile. Rapid advances in AI have raised questions about the long-term economics of traditional software companies. If software becomes significantly cheaper and faster to build, traditional software-as-a-service business models that dominated the past decade may face greater competitive pressure. This weighed on several previous local market darlings including WiseTech, Xero, REA and Pro Medicus.

Gold (and gold miners) were particularly volatile. Gold prices initially rose in anticipation of hostilities but then fell sharply during March despite the conflict escalating. The decline appeared largely positioning-driven, with leveraged traders forced to reduce exposure as volatility increased, while some countries sold reserves to fund rising energy import costs.

Bond markets also reacted to the energy shock, with yields rising as inflation expectations increased. Central bank policy divergence remained a key market theme. The US Federal Reserve has held interest rates steady despite solid economic growth. In Australia, persistent inflation saw the Reserve Bank raise interest rates in both February and March.



## Looking Ahead

Financial markets are finely balanced, with asset prices heavily dependent on developments in the Middle East and stability of global energy supply. The disruption to the Strait of Hormuz is a genuine external shock with the potential to influence inflation, growth and central bank policy simultaneously – often in conflicting directions.

If the conflict remains contained and shipping routes reopen in the coming months, oil prices could retreat and financial markets may stabilise. In that environment, the growth slowdown could avoid recession. However, the Federal Reserve would still face a stagflationary dilemma: energy-driven inflation argues against rate cuts, while weakening growth argues in favour of them.

The Reserve Bank of Australia faces a similarly complex backdrop. Inflation remains above target and economic growth has been running above trend, while rising energy costs and deteriorating global growth prospects add further uncertainty to the outlook.

A prolonged disruption to shipping through the Strait of Hormuz would change the calculus significantly. Sustained high oil prices would squeeze household spending, compress corporate margins and limit the ability of central banks to respond with lower interest rates – conditions consistent with a stagflationary environment.

### Portfolio Commentary

The Alpha CFS Moderate Managed Model delivered a return of -1.41% in Q1 2026, which was above/below the Morningstar Australia Moderate Target Allocation Index of -1.21%.

The key winners in the Portfolio for the quarter were the GQG Partners Global Equity Fund (+7.7%) and Magellan Infrastructure Fund (+6.3%). The main detractors were Pental Property Investment Fund (-17.2%), OC Premium Small Companies Fund and EGG Mid Cap Fund.

All holdings declined except for cash in March following the outbreak of war, with no places to hide. However, the drawdowns were relatively modest given the strong gains in global equity markets over the past three years and the potential disruption to global supply chains.

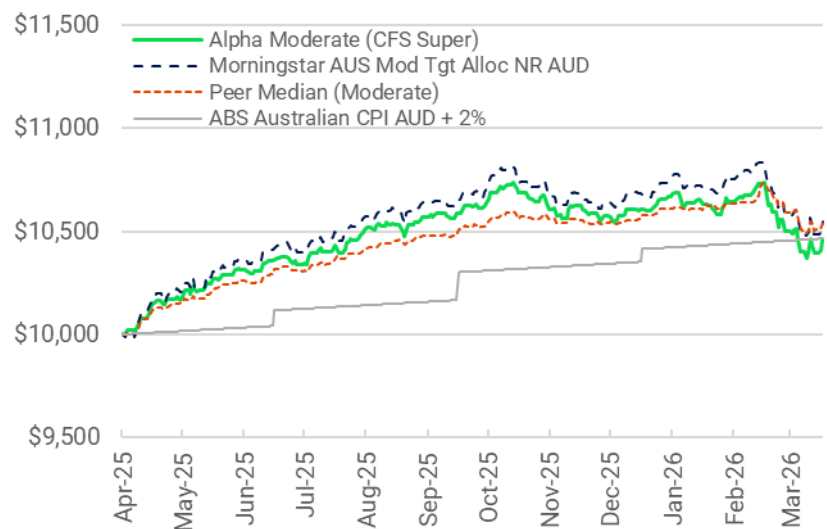
### Portfolio Changes

We made several adjustments to the **Alpha CFS Moderate Managed Account**. Recent platform changes now allow greater flexibility across both the mandate and the available fund menu, enabling more precise portfolio construction.

The key portfolio changes were:

- Reduced exposure to **US Technology Shares** and **Australian Large Cap Shares**
- Increased exposure to **Global Healthcare** and **Gold Bullion**
- Switched from the **OC Premium Small Companies Fund** to the **EGG Mid Cap Fund**
- Switched from the **Fidelity Asia Fund** to the **RQI Emerging Markets Value Fund**
- Reduced **cash** and increased exposure to **investment grade Australian credit**

### Performance over time



### Trailing returns

Portfolio Performance	1mth	3mth	6mth	1yr	2yr	Inception
Alpha Moderate	-2.59%	-1.41%	-1.24%	-	-	4.55%
Morningstar AUS Mod Target Allocation NR \$A	-2.66%	-1.21%	-0.98%	-	-	5.47%
Peer Median (Moderate)	-2.19%	-0.65%	-0.01%	-	-	5.37%
ABS Aus CPI + 2% p.a.	0.17%	0.49%	1.59%	-	-	4.65%

**Disclaimer:** Net performance figures are shown after all fees and expenses, assuming reinvestment of distributions. Past performance is not an indicator of future performance

### Your Portfolio

### Underlying Investments

Alpha Moderate Managed Account	Neutral Allocation	Current Allocation
<b>Australian Equity</b>	<b>11%</b>	<b>10%</b>
CFS Index Australian Share Fund		1.9%
Realindex Australian Share Value Fund (Class A)		3.0%
Ausbil Australian Active Equity Fund		2.8%
Eley Griffiths Mid Cap		1.9%
<b>International Equity</b>	<b>15%</b>	<b>12%</b>
CFS Index Global Share Fund (Hdg)		2.4%
GQG Partners Global Equity AUD (Hdg)		2.0%
Realindex Global Share Value Fund (Class A)		2.0%
CFS Wellington Global Health & Biotech		2.0%
CFS Wellington Global Tech & Comm		2.0%
RQI Emerging Markets Value		1.9%
<b>Property &amp; Infrastructure</b>	<b>4%</b>	<b>5%</b>
Pental Property Investment Fund		2.3%
Magellan Infrastructure Fund		3.0%
<b>Alternatives</b>	<b>0%</b>	<b>2%</b>
Global X Physical Gold Structured		1.9%
<b>Fixed Income</b>	<b>52%</b>	<b>66%</b>
Macquarie Australian Fixed Interest Fund		25.3%
Janus Henderson Tactical Income Fund		23.9%
PIMCO Diversified Fixed Interest Fund		13.0%
Bentham Global Income Fund		3.5%
<b>Cash</b>	<b>17%</b>	<b>5%</b>
FSI Strategic Cash Fund		5.1%