

Monthly Market Commentary

Global equity markets delivered mixed returns in the first quarter of 2026. The period was defined by a sharp market shift. A supportive backdrop in January and February, characterised by falling yields and improving leading indicators, gave way to a more uncertain environment as geopolitical tensions escalated with the onset of war in Iran.

The market narrative flipped quickly. Early in the quarter, easing financial conditions and improving growth data supported a rotation away from the most crowded areas of the market, with signs of cyclical broadening. The AI complex began to face greater scrutiny, weighing on large cap technology stocks. This dynamic shifted in March as oil prices surged, at one point nearly doubling year to date, and appeared to dictate market direction. Equities traded increasingly with a negative correlation with crude, while inflation concerns resurfaced and expectations for monetary easing gave way to a more uncertain policy outlook.

By region, the US lagged in both relative and absolute terms, with the S&P 500 down 2.4% and the NASDAQ falling 4.7%, reflecting weakness in large-cap technology and software as the AI trade came under scrutiny. In Asia, Japan outperformed, rising 13.6%, while China was largely unchanged, with the Shanghai Composite up just 0.2%. Europe gained 4.5% overall despite a sharp drawdown in March. Within the region, the UK was the standout, with the FTSE 100 up 8.8%, while Germany lagged. The DAX fell 5%, as its more energy intensive industrial base proved particularly exposed to the rise in oil prices.

Within sectors, leadership reversed. The best performers of the past three years lagged, while prior laggards outperformed. Energy was the clear standout, rising 37.6% as the blockage of the Strait of Hormuz tightened supply and lifted oil prices. Materials followed, up 12.8%, supported by strength in gold and silver. By contrast, Consumer Discretionary and Technology were the weakest sectors, down 10.4% and 8.0% respectively. Software stocks in particular came under pressure as concerns grew around AI disruption to existing business models, alongside broader scrutiny of the sector.

The price of oil surged 76%, closing the quarter at over \$100 a barrel for the first time since 2022 on the back of the conflict in the Middle East. The Bloomberg Commodity basket was also up strongly at +23.3% for the quarter. Fears of an inflation shock pushed bond yields higher, the US 10

year closed the quarter at 4.32%, up 15 bps since the start of January and up as much as 40bps from the lows in late February. The VIX was up by over 10 points, closing the quarter at 25.3, the highest since April of last year.

Looking at the portfolio, the biggest contributor to performance was EOG, an oil and gas producer in the US that benefits from rising oil prices. We have used this strength to sell call options on a portion of the position. CF Industries, a US based maker of fertiliser, was another strong contributor to performance. Gas supply disruption from the Middle East directly impacts its main competitors in Europe and Asia. We have exited the shares after they exceeded our assessment of fair value.

The main detractors from portfolio performance were Essity and HP. Essity underperformed in AUD terms both because of a weak Swedish Kroner and because of negative implications for profit margins from the spike in energy costs. HP's underperformance was driven by a big increase in the price of memory chips, a key input for their computer business. We continue to hold both shares.

During the quarter, the Fund initiated new positions in Exor (see Stock in Focus) and a very modest position in Adobe. Exor, a holding company for the Agnelli family, currently trades at over a 50% discount to Net Asset Value (NAV), despite per share compounding at ~18% per annum since 2009.

The Fund exited Johnson & Johnson, CF Industries and Canadian Utilities on valuation grounds following strong prior performance for all three.