



Economic and Market Commentary March Quarter 2026

Markets took a large hit when war broke out in Iran.

Most equity markets were relatively resilient over the quarter, reflecting a view that the war and its impact will be temporary.

Emerging markets, ex-US equities out-performed, as did smaller cap stocks, reflecting a rotation from US large caps.

Fixed income returns were soft while real assets and alternatives performed well.

Markets delivered mixed performances in the March 2026 quarter. January and most of February were strong, but this was completely up-ended on 27 February when the United States and Israel launched a war on Iran. Oil prices rose dramatically as energy facilities in the Gulf region were attacked by Iran and as traffic in the Straits of Hormuz, which accounts for around 20% of global oil trade, was left high and dry.

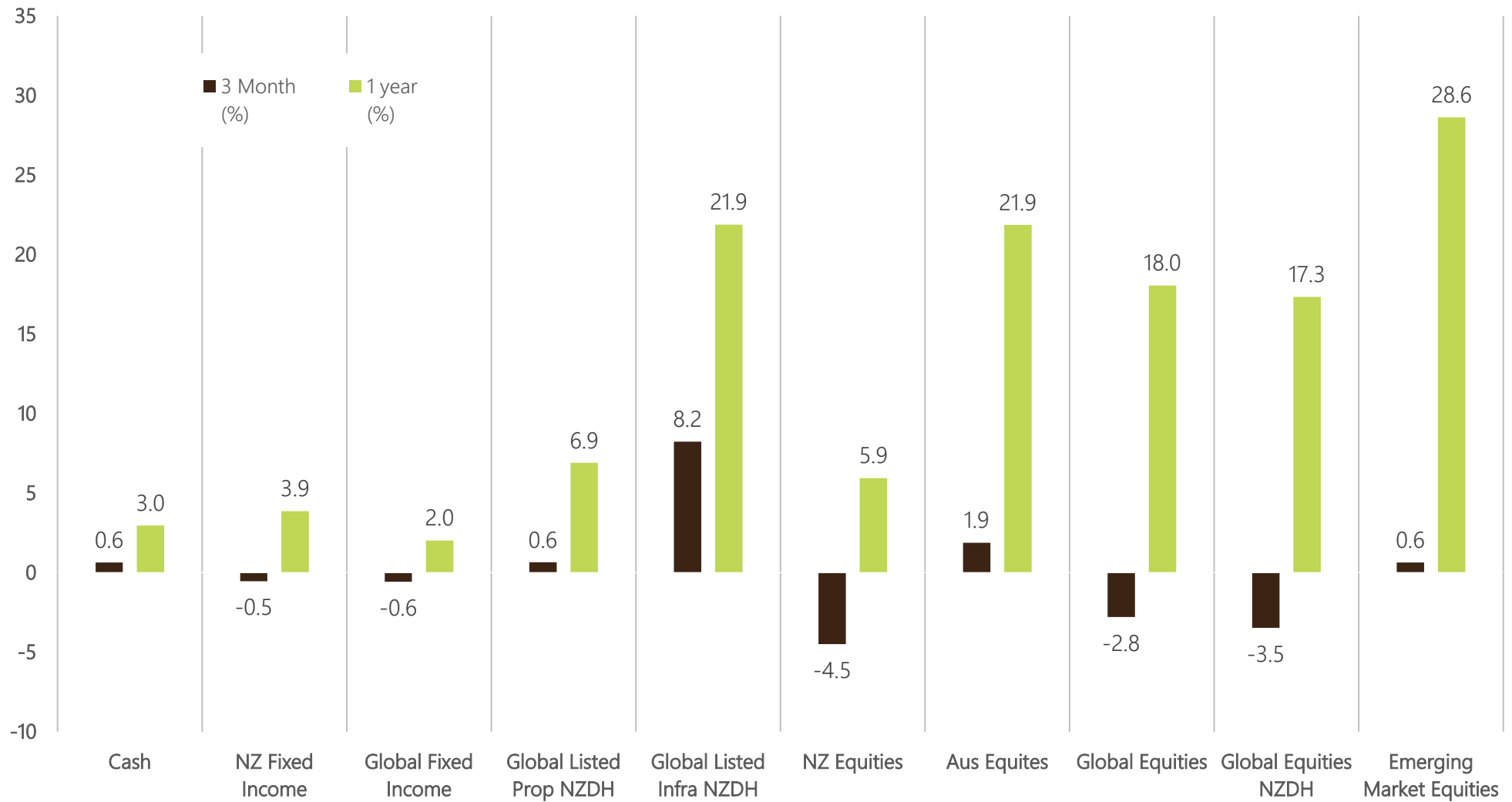
While most equity markets were down over the quarter, they have been fairly resilient to the 'shock'. This partly reflects an expectation that the war will be short-lived, with trade flows from the Gulf region resuming in time. That is, the market is betting that the negative impact on economic growth and inflation will be temporary. At the time of writing (April 8th) this expectation appears to be validated given the announcement of a two-week ceasefire to negotiate a more lasting resolution and the fact that damage to oil and gas facilities in the Gulf region have been relatively modest, whilst flows from other regions have increased. But that said, risks and uncertainties remain very high. Even with an end to the war, it will take weeks if not months for production and flows to return to previous levels.

In the event, global equities fell around 3% in NZD terms, and 3.5% on an NZD hedged basis as the Kiwi weakened. Over the year, returns have remained strong at around 18% on an unhedged basis and 17% hedged. Emerging market equities slightly rose in the quarter and returned around 29% in the March year, significantly outperforming developed markets. Australian equities and global ex-US equities also out-performed global over the past quarter and year. In contrast, NZ equities fell by about 4.5% in the quarter and have risen only 6% over the year. Style factors have been significant, with small-caps and more recently value outperforming, while quality stocks have significantly under-performed due the rapid growth of AI and concerns around company profitability. Overall, the performance differences reflect a rotation away from larger cap US tech stocks to other sectors and markets.

Fixed income returns were slightly negative over the quarter, reflecting a steepening in future interest rate expectations and associated marked-to-market losses on bond prices, on the back of the war on Iran. The silver-lining is that long-term bond yields are now back to decade-high levels, implying higher returns going forward. We discuss this further in our feature this quarter on global fixed income.

Listed property and infrastructure performed well in the quarter. Over the year infrastructure increased around 22%, while global property rose 7% on a NZD hedged basis. The out-performance of these asset classes in the quarter vs global equities is consistent with our view that they should be relatively resilient to rising inflation. Alternative assets such as insurance linked securities, gold and trend-following strategies also continued to perform well, offering valuable diversification and outperforming global bonds over the year.

Figure 1 – Asset class performance over the March 2026 quarter and year



S&P 500 Price Index from 1928 to March 2026

