

NAVIGATING MARKET VOLATILITY AMID MIDDLE EAST CONFLICT

March 2026

1. WHAT IS GOING ON?

Escalating military conflict involving Iran and the United States has sent fresh shockwaves through global financial markets. Tensions that had been building across the Middle East have now intensified significantly, raising fears about regional stability, oil supply disruptions, and the potential for a broader geopolitical realignment. For investors watching their portfolios move, it can feel deeply unsettling. It is important, however, to separate the short-term noise from the long-term signal.

2. WHAT WE HAVE SEEN SO FAR

Interestingly equity markets have remained resilient and to some extent brushed off much of the negativity associated with the conflict. One possible reason is investors may have become less sensitive to major news headlines after recent years' events. As a result, they are choosing to remain calm and not react hastily, hoping to avoid the short-term losses which they may have experienced during previous brief market selloffs (due to the rapid recovery in markets). Another factor adding to investor confidence is that the US now boasts a substantially higher oil supply than in prior years. This elevated production strengthens the nation's position against potential supply shocks.

US Treasury bond yields have spiked as bond investors begin to price in higher rates as a result of higher oil prices feeding into inflation. Currency volatility has also picked up, particularly in emerging markets with exposure to the region. These are the types of short, sharp reactions that financial markets have historically demonstrated in the face of geopolitical shocks and history tells us they are almost always temporary.

Oil prices have increased significantly, particularly Brent Crude which is the often cited as the global benchmark for oil as the potential for supply side shocks emerge. Gold initially rose to \$5,419 USD on Monday following the strikes over the weekend, behaving as expected given the metal's safe haven qualities. After reaching a peak on 2nd March, gold has since retraced to the \$5,000 USD level. This correction was largely driven by the strengthening of the US Dollar, which has pushed global gold prices higher for international buyers.

3. OIL DISRUPTION

The Middle East is home to a significant portion of the world's oil production and critical maritime shipping lanes. The Strait of Hormuz - through which roughly 20% of global oil flows - is the chokepoint most immediately associated with Iranian conflict risk. When tensions threaten supply routes of this magnitude, energy markets react immediately. Higher oil prices feed through to inflation expectations, which in turn affects interest rate outlooks and corporate earnings. The uncertainty itself is what financial markets find most difficult to price.

It is worth providing some important context for Australian investors specifically. Research by Allan Gray (2024) into Australia's direct trade exposure to maritime chokepoints found that only a relatively small proportion of Australian seaborne trade passes through the Strait of Hormuz and that most Australian trade transiting the Middle East does so via the Suez Canal, Red Sea, and Bab-el-Mandeb Strait corridor rather than through

Hormuz directly. This does not eliminate the risk, oil is a globally priced commodity, and any supply disruption pushes prices higher for all consumers, but it does mean Australia’s direct supply chain disruption risk from a Hormuz closure is more limited than headlines might suggest.

The broader impact on global growth expectations, commodity prices, and investor sentiment nonetheless affects all markets. Australian investors are not immune, and the oil price channel in particular has real consequences for inflation and central bank policy both locally and globally.

4. WHAT IS AUSTRALIA’S ACTUAL TRADE EXPOSURE?

Understanding exactly where Australia’s trade is exposed helps cut through the noise. Research analysing Australia’s top 25 imports and exports against actual shipping routes provides a clear picture:

Chokepoint Region	Import Exposure	Export Exposure
Middle East (all chokepoints)	~12.9% of imports	~6.2% of exports
Strait of Hormuz (direct)	Very limited	Very limited
Red Sea / Suez Canal corridor	Medicaments (~70%), Pharmaceuticals (~30%), Chemicals (~29%)	Oil seeds (~54%), Gold (~15%)
Asian chokepoints (combined)	~77% of imports	~66% of exports
East China Sea (largest single)	~46% of top 20 imports	~45% of top 19 exports

The data makes clear that while Middle Eastern chokepoint disruption has real implications, particularly for pharmaceutical supply chains, Australia’s largest structural trade vulnerability actually sits in Asia, where the East China Sea, Malacca Strait, South China Sea, and Ombai Strait collectively account for the vast majority of our seaborne trade. The current Iran conflict poses genuine but bounded direct trade risks to Australia, with the more significant impact coming through global oil prices and financial market contagion rather than direct supply chain disruption.

Where direct supply chain risk is most real is in pharmaceutical and medical imports, approximately 70% of which transit the Red Sea corridor. We are monitoring this carefully, though the financial market impact of a supply disruption in these categories would likely be sector-specific rather than portfolio-wide.

5. POSSIBLE OUTCOMES

As with any evolving geopolitical situation, a range of plausible scenarios exists. The table below outlines the key possibilities and their likely implications for investment markets:

Scenario	Potential Market Impact
Rapid De-escalation	Diplomatic intervention leads to a swift resolution. Oil prices retreat, equity markets settle, inflation concerns fade and safe-haven assets give back recent gains. History shows geopolitical-driven selloffs that resolve quickly are followed by sharp recoveries - investors who stay invested capture these fully.
Prolonged Conflict, Hormuz Intact	Ongoing hostilities without closure of key shipping lanes. Oil prices remain elevated, adding to global inflationary pressure. Central banks face a more complex policy environment. Equity markets experience sustained volatility, particularly in energy-sensitive sectors, but broader economic disruption remains contained.
Hormuz Disruption	The more severe scenario - direct interference with the Strait of Hormuz causes significant oil supply disruption. Global energy prices surge, inflation expectations spike, and risk assets come under sustained pressure. Note: Australia's direct trade exposure to Hormuz is limited; the primary impact channel for Australian investors is the global oil price and financial market contagion.
Negotiated Settlement	A longer-term diplomatic process produces a durable agreement. Initially uncertain, but ultimately constructive - a gradual easing of energy prices and recovery in risk appetite as visibility improves. Portfolios positioned for the long term are well placed to benefit from this outcome.

Based on historical precedent, the most likely outcome is that markets stabilise once the immediate uncertainty clears, even where underlying tensions persist. The track record of geopolitical crises causing permanent investment losses, for investors who stayed the course, is remarkably poor.

6. THE CASE FOR STAYING INVESTED

In moments like these, the temptation to act, to sell down and wait for the dust to settle, is entirely understandable. It feels rational. But the evidence tells a very different story. Investors who exit markets during periods of volatility almost always miss the recovery, and recoveries from geopolitical events tend to be among the sharpest moves markets make.

“Be fearful when others are greedy, and greedy when others are fearful.” — Warren Buffett

Market timing is extraordinarily difficult. The cost of being out of the market on just a handful of its best-performing days — which tend to cluster around periods of peak fear and uncertainty — can dramatically reduce long-term returns. Staying invested, maintaining your asset allocation, and trusting in the disciplined construction of your portfolio is, for most investors, the most effective strategy available.

Well-diversified portfolios are built precisely for environments like this one. Exposure across asset classes - equities, bonds, alternatives, and cash, means that while some parts of a portfolio will be under pressure, others will be providing ballast. Gold, in particular, has historically performed strongly during Middle Eastern conflict events, benefiting investors with real asset exposure. This is diversification working exactly as intended.

7. WHAT ARE WE WATCHING?

We are closely monitoring several key indicators as the situation evolves:

- Oil price movements and the status of the Strait of Hormuz and Red Sea shipping lanes, specifically whether conflict is disrupting physical flows or remaining a threat premium only.
- Pharmaceutical and medical supply chains, which have the most direct Australian import exposure to Middle Eastern chokepoints (approximately 70% of medicaments and 30% of pharmaceuticals transit the Red Sea corridor).
- Central bank responses, particularly whether elevated energy prices shift interest rate expectations in the US, Europe, or Australia.
- Diplomatic developments and signals from key regional and global powers regarding the trajectory of the conflict.
- Safe-haven asset performance - gold, government bonds, and cash - and whether these are providing the expected ballast within portfolios.
- Whether the equity market can hold its nerve and ride out the (hopefully) short term disruption.

As always, if you have questions or concerns, please speak with your financial adviser. They are best placed to discuss how these events relate specifically to your personal financial situation and goals.

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Trade exposure data referenced in this paper is sourced from Allan Gray Australia, "The Risk of Maritime Chokepoint Disruption to Australian Trade" (May 2024), which utilised DFAT, UN Comtrade, and Fluent Cargo routing data.

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