



MUTUAL TRUST

Quarterly Outlook

Equities: the tug of war

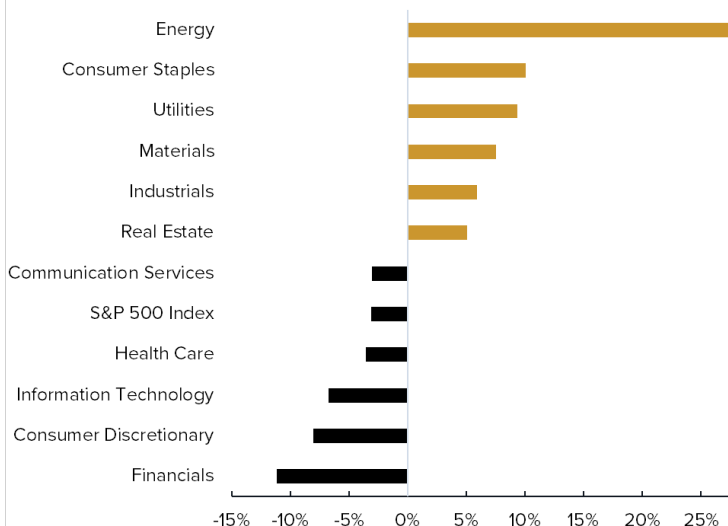
Meaningful shifts are occurring in equity markets. Layers of crosscurrents are at play – amplified by the conflict in Iran. Oil prices have risen sharply, lifting near-term inflationary expectations and prompting more hawkish tones from central banks.

At the same time, concerns around AI – both monetisation of capex and the potential for industry disruption – triggered a sharp pullback in related sectors in early 2026, most notably software. In contrast, traditional “old economy” industries have re-emerged, benefiting from reaccelerating growth and a perception of lower disruption risk. A sharp rotation across sectors has occurred – with the U.S. industrials sector now trading at a higher valuation than information technology. Where to from here?

In this Quarterly Outlook, we focus on equities, addressing four questions:

- What are the economic implications if the Iran conflict drags on?
- Is the economic backdrop still supportive for equities?
- Are company earnings holding up?
- How are Mutual Trust equity portfolios positioned?

S&P 500 Index Sector Performance 2026 CYTD*



*2026 calendar year performance to March 13, 2026. Source: Bloomberg, Mutual Trust

The tug of war between the market’s vulnerabilities and resilience underscores the importance of thoughtful portfolio construction, diversification and avoiding concentrated bets on any single outcome. Uncertainty is high and the range of plausible paths continues to widen.

Periods of market turbulence are a normal feature of investing and, while unsettling, often create opportunity. Our portfolios maintain exposure to risk assets while being positioned to be resilient and flexible in a more volatile investment environment with multiple risks.

Whilst our base case remains that equities will benefit from reaccelerating global growth, stimulatory policy tailwinds and robust earnings expansion, we are closely monitoring developments in the Middle East. A prolonged escalation remains the key risk to our otherwise positive outlook.

The economic implications of a drawn-out conflict – higher inflation, higher rates, slower growth

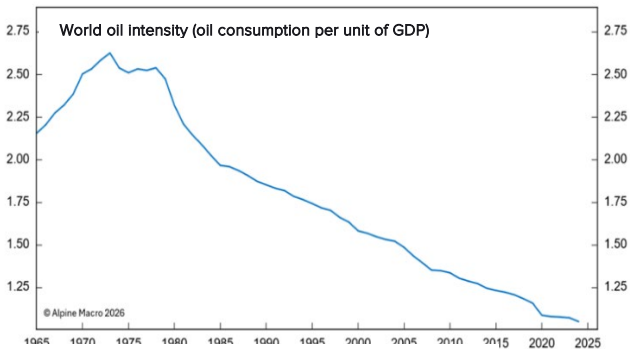
A prolonged conflict in Iran that results in sustained oil supply constraints materially increases the risk of a higher-inflation, higher-rates and a lower-growth global environment. Prolonged disruption is particularly challenging for oil-import dependent economies such as China, India, Japan and Europe. For investors, the unknown variable is duration.

The impact to growth depends upon both the duration and scope of the conflict. Instability around the Strait of Hormuz, which carries roughly 20% of global oil supply, has already driven sharp - though volatile - increases in oil and gas prices. Iran’s new supreme leader, Mojtaba Khamenei, has vowed to keep the Strait closed, signifying prolonged supply disruption. Brent crude oil prices almost doubled in the second week of the conflict, reaching nearly US\$120 a barrel before retreating to around \$100 a barrel currently. While policy measures - such as strategic reserve releases - may offer short-term relief, physical supply constraints still mean that duration remains critical.

If elevated energy prices persist for months rather than weeks, the macro-economic effects become more pronounced. Higher oil prices feed directly into inflation and indirectly into weaker growth, with the impact varying significantly across countries.

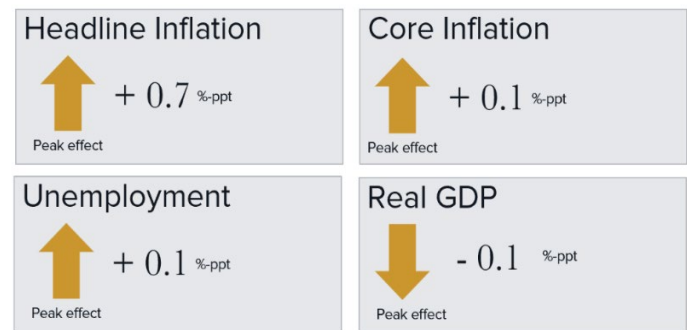
The U.S. economy is far less vulnerable to oil price shocks than in previous decades. According to Alpine Macro, crude oil consumption relative to real U.S. GDP is around 60% lower than in the 1970s. This reflects improved energy efficiency and the growing dominance of the services sector. Importantly, since 2019, the U.S. has been a net exporter of oil and refined products, partially decoupling oil prices from GDP and providing greater insulation compared to many European and Asian economies that remain reliant on energy imports.

The world is much less dependent on oil



Source: Alpine Macro. BP. World Bank

Est. Impact of US\$100/bbl oil price on the U.S. economy



Source: Bloomberg, SHOK Model, Apollo Global

Nonetheless, oil remains a critical input across the supply chain. Higher prices are inflationary and will be reflected in higher costs for petrol, transportation, utilities, fertilisers, airfares and other energy-linked inputs costs.

Estimates of the macro-economic impact vary. Apollo Global Management estimates that if oil prices were sustained at US\$100 through 2026, it would lift U.S. headline inflation by 0.7 percentage points at its peak, while reducing real GDP by approximately 0.1 percentage point. This would reverse recent progress in paring back inflation (CPI 2.4% in February) and complicate the Federal Reserve Board’s (Fed) dual mandate of balancing inflation against any labour market softness. Reflecting these risks, markets have pushed expectations for the next Fed rate cut back to December (from June).

Australia is not immune – importing about 90% of its liquid fuel including petrol, diesel and aviation fuel, according to research by The Australia Institute. Inflation expectations jumped to a three-year high in the second week of the Iran conflict, with the ANZ-Roy Morgan consumer confidence survey showing weekly inflation expectations increased 0.8 percentage point to 6.1%, the largest weekly rise since the survey began in 2010. With headline inflation still elevated (3.8% in January), additional energy-driven pressures increase the likelihood of further tightening by the Reserve Bank of Australia (RBA). Markets are now pricing around 69 basis points of tightening during 2026, with a 68% probability of a rate increase at the RBA meeting on 16-17 March.

Elsewhere, a prolonged oil supply disruption poses greater challenges for energy-import-dependant economies including China, India, Japan and Europe. If fiscal support is delayed, the environment could rapidly shift from reflationary to stagflationary.

A supportive economic backdrop, for now

The global economic backdrop remains broadly constructive, with the core drivers of growth still intact. If geopolitical tensions stabilise, there is scope for further upside in the U.S., supported by upgraded AI-related investment and potential tailwinds from easing tariffs.

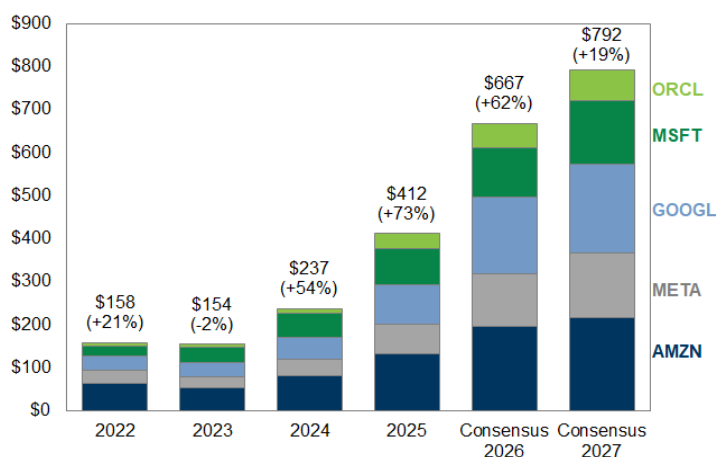
The IMF forecasts 3.3% global growth for 2026 and 3.2% for 2027, both revised slightly higher since October 2025. Growth is supported by accommodative financial conditions, fiscal measures and continued AI-related investment (refer [A glass half full](#)). In the U.S:

- **Fiscal policy remains a tailwind.** The Trump administration’s industrial and tax policies, fiscal spending and deregulation agenda support growth in 2026. The One Big, Beautiful Bill Act (OBBBA) delivers front-loaded stimulus, concentrated in the first half of 2026 before tapering. Deutsche Bank estimates the OBBBA will generate US\$60 to \$100 billion in additional tax refunds in the first half of 2026, alongside approximately \$125 billion in consumer tax cuts over the full year. If the Brent crude oil price remains at US\$100 a barrel, this stimulus would more than offset the impact drag from higher petrol prices. However, oil at \$150 a barrel would likely overwhelm these OBBBA benefits and pose a more serious threat to the outlook.

- **AI related- capital expenditure continues to accelerate.** Mega-cap technology companies upgraded capex guidance again at their recent results. The top five U.S. hyper-scalers (Microsoft, Meta, Amazon, Oracle, Alphabet) are now projected to spend approximately US\$667 billion in capex in 2026, a 62% increase from 2025.

This investment cycle is a powerful driver of economic growth, with spill-over benefits across construction, energy, commodities and industrial sectors. Recent Regional Fed surveys also point towards rising capex intentions among manufacturers as expectations for orders and production to improve into 2026.

Consensus expectations for hyper-scaler capex (B)



Source: FactSet, Goldman Sachs Global Investment Research

- **Trade policy may shift from headwind to tailwind.** While uncertainty remains, tariff effects could prove supportive in 2026. The temporary 10% Section 122 tariffs are scheduled to expire after 150 days (in July 2026), absent of alternative policy action. The Trump administration announced on 13 March that under Section 301 of the Trade Act they are undertaking trade investigations into China, Mexico, the EU and more than a dozen other economies in an effort to replace reciprocal tariffs, if those nations are found to have engaged in unfair trade practices. However, even if successful, it is unlikely the total tariffs will reach the aggregate level of those in 2025.

In Australia, momentum continues to build as the economy moves through the early stages of a cyclical upswing, led by fiscal stimulus and a recovery in private sector spending. This has led to a labour market that is more resilient and inflation more persistent than the RBA’s forecasts. As such, unless productivity improves, further rate hikes by the RBA are expected in 2026.

Company earnings resilient, with continued growth in 2026

The earnings backdrop remains fundamentally supportive for equities, underpinned by reaccelerating global growth. In both the U.S. and Australia, earnings breadth is improving whilst revenue trends remain healthy despite policy and geopolitical uncertainty. Sustained higher oil prices remain the key risk to this momentum.

U.S. corporate earnings continue to demonstrate resilience and are well positioned for growth in 2026. Companies have adapted effectively to geopolitical and tariff related uncertainties in 2025, with circa 77% of companies beating EPS estimates over the four quarters in the year – above the 10-year average of 75%.

Mega-cap technology companies continue to report strong earnings and healthy margins. However, concerns around AI – particularly capex monetisation and industry disruption – triggered a sharp pullback in related sectors in early 2026. All Magnificent 7 companies are trading lower year-to-date (to varying degrees), while the U.S. software sector is down around 30% from its 2025 highs. Notably, the sector’s 12 month-forward PE ratio has fallen below its 30-year average.

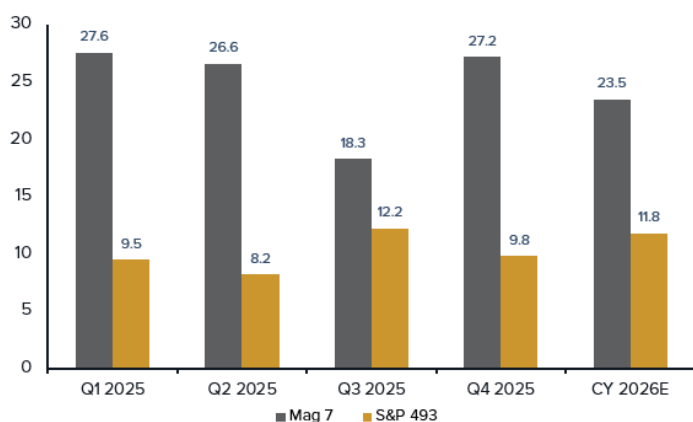
Fiscal tailwinds are supporting a broader set of industries, driving renewed earnings growth in previously subdued parts of the market. “Old-economy” sectors are resurging. Capital intensive “heavy asset, low obsolescence” (HALO) exposures have benefited from a renewed focus on structural necessity. These businesses – reliant on physical infrastructure such as pipelines, power grids, railroads, machinery and factories – typically offer long asset lives, pricing power and more resilience to AI-disruption than asset-light sectors such as software.

Looking ahead, markets are forecasting double-digit earnings growth for the S&P500 Index in 2026: 23.5% growth for the Magnificent 7 and 11.8% for the remaining 493 companies, according to FactSet. Global manufacturing indicators have improved over the last three months, with U.S. new orders growth strengthening and inventories rising modestly. If sustained, this should support positive earnings revision momentum.

In Australia, the recent reporting season exceeded expectations, delivering the strongest earnings season in three years, led by banks and resources (around half of the ASX200 Index). Earnings beats outnumbered misses by roughly 2.4 to 1, with the skew more pronounced across large caps. However, share prices were volatile and unforgiving for disappointments.

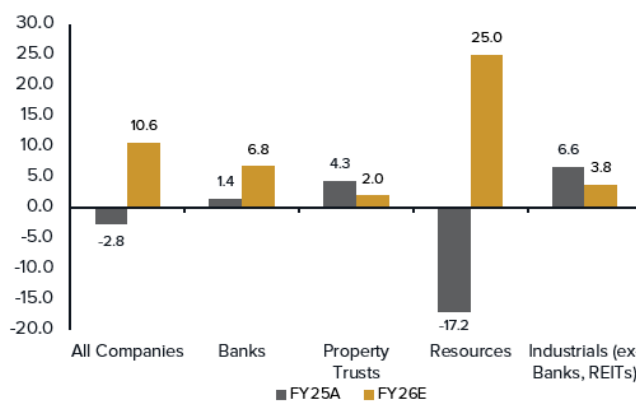
Earnings expectations have strengthened as corporates benefit from Australia’s cyclical upswing. ASX 200 earnings are forecast to grow around 10.6% in FY26 (from -2.8% in FY25 and -4.8% in FY24), marking the strongest expansion since FY22. Growth is expected to broaden across sectors, led by resources (+25.0%), followed by banks (+6.8%), and then industrials (+3.8%). While less pronounced than earlier cycles, the trajectory signals a clear return to healthier earnings momentum.

S&P500 EPS Growth forecasts Annualised (%)



Source: Factset

ASX200 EPS Growth forecasts (pro-rated to June) (%)



Source: Macquarie Bank

Equity positioning favours broader parts of the economy

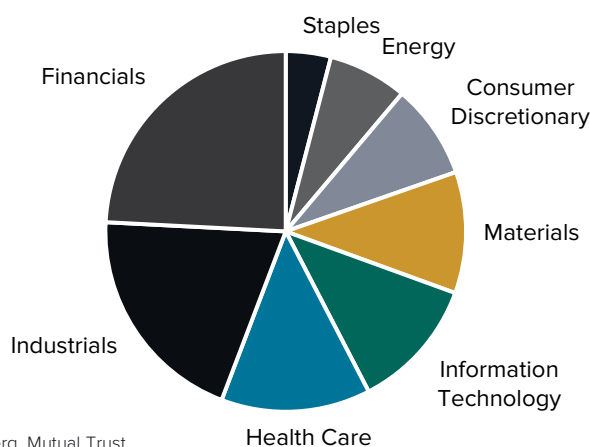
Improving market breadth and higher volatility are creating select opportunities for long-term investors. Whilst our base case remains for equities to benefit from reaccelerating global growth, stimulatory policy tailwinds and robust earnings expansion, we are closely monitoring developments in the Middle East – the key risk to our otherwise sanguine outlook. Mutual Trust equity portfolios are leveraged to the broader economy, with positions in materials, energy, consumer staples and industrials.

At the headline level, equity markets have held up well. The S&P500 Index is down just 2.3% calendar year-to-date (to 16 March), while the ASX200 Index is 1.7% lower. However, these aggregate figures mask significant dispersion beneath the surface. Early 2026 has been characterised by a clear rotation across sectors.

After several years of narrow leadership driven by U.S. meg-cap technology companies, market leadership has broadened. Energy, materials and industrials have been among the strongest performers year-to-date, benefiting from a rotation away from information technology and communication services. *Old-world over new-world*. The rotation has been pronounced, with the U.S. industrials sector now trading at a higher PE valuation than the Information Technology sector.

Our Australian and international equity portfolios are well diversified and have benefited from this rotation through exposure to capital intensive, economically essential sectors. Based on valuation and earnings support, our preferred equity exposures include materials (notably copper, steel), energy (refer [The world needs energy](#)), consumer staples and industrials. Examples include international companies Nucor Corp, Freeport-McMoRan, Exxon Mobil, Occidental Petroleum, Colgate-Palmolive, UPS, and Australian companies BHP Group, SGH Ltd, Woodside Energy Group, Woolworths Group, and Rio Tinto.

Mutual Trust International Equities Model Portfolio – by Sector



Source: Bloomberg, Mutual Trust

In the U.S., the valuation gap between the Magnificent 7 and the remaining 493 companies of the S&P 500 Index has narrowed materially, with the group now trading at its lowest premium on a 12-month forward P/E basis in 10 years. Our approach to technology and AI remains deliberately selective, focusing on adjacent beneficiaries (across all asset classes beyond only equities) including industrial equipment, data centres, quantum computing, critical minerals and energy security. Within hyper-scalers, Microsoft remains our preferred exposure, supported by a strong balance sheet, leverage to AI infrastructure and forecast double-digit earnings growth, while trading at a more reasonable valuation than the broader market.

Equities remain a core portfolio allocation, and we maintain a bias towards U.S. and Australian companies, while including select exposures to Japan and Europe. Nonetheless, we are mindful of the potential Australian dollar upside from higher rates by the RBA which may be a temporary headwind for unhedged international exposures. The elevated dispersion of returns across sectors and companies reinforces the importance of active positioning and diversification. We remain focused on high-quality businesses with strong balance sheets, prudent leverage, pricing power and attractive valuations – characteristics that provide resilience across a range of market conditions.

Positioning portfolios for the decade ahead

“This environment is prime for selectivity and active positioning rather than broad, indiscriminate de-risking.

BLACKROCK, MARCH 2026

The ongoing tension between market vulnerabilities and underlying resilience reinforces the importance of thoughtful portfolio construction, diversification and avoiding concentrated bets on any single outcome. Uncertainty is high and the range of plausible market paths is widening. In this environment, we reaffirm our recommendation to remain predominantly invested in risk assets as part of a long-term strategy, while strategically incorporating defensive assets into portfolios.

While destabilising in the short-term, markets have historically rebounded relatively quickly from conflict-related shocks unless global demand, energy supply or corporate earnings are materially impaired for a sustained period. That said, the geopolitical landscape is clearly evolving, with intensifying rivalry and increased strain on critical supply chains. We explore the “*security of everything*” in our recent [Wealth matters](#), including investment opportunities across asset classes in areas such as dual-use technologies, cybersecurity and digital infrastructure, energy security and critical minerals.

Medium-term risks remain, with geopolitical and policy (fiscal, monetary, trade, immigration) shifts persisting globally. Diverging monetary policies will influence currency volatility, bond yields and capital flows. The potential for higher-for-longer rates may put pressure on leveraged balance sheets and credit markets. Therefore, our portfolios are constructed to balance growth and resilience. We blend higher-risk, higher-returning investments (such as equities, venture capital, direct property), with those offering more defensive qualities and/or consistent, stable income (such as core infrastructure, fixed interest, private credit). Defensive assets are increasingly demonstrating their value not only as buffers during volatility, but as meaningful contributors to portfolio returns --- often rivalling or exceeding listed equities, with lower volatility and greater predictability (refer [Strategic Defence](#)).

Our approach is anchored in diversification (with allocations to alternative assets as high as 30% to 40%), disciplined risk management, quality investment selection and flexibility. Portfolios are designed with a long-term focus, where each investment has a clear role, rather than forming a collection of disconnected ideas. Our objective is to deliver strong risk-adjusted returns with lower volatility than equity markets – providing confidence and reassurance during market cycles and volatility.

Please reach out to your Mutual Trust Advisor with any questions.



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