

The Encyclical

March Quarter 2026

To: Our Professional and Wholesale Investors - Not for Retail Distribution

Market Review & Strategy

Global stock indices ground higher through January and February only to concede these gains by March quarter end. Major benchmarks across developed markets notched up significant, if not historic, highs during the period. Emerging markets as a collective moved higher, continuing to enjoy their newfound investor support.

It would be geopolitical developments that would impact investor sentiment and dictate how stocks would finish March. A petulant war of words over Greenland and US threats to NATO allies in the early weeks of January would quickly dissipate, replaced by escalating tensions between the USA and the Republic of Iran. This would culminate in *Operation Epic Fury*, a ~ 30% intra-day rally in the price of crude oil, a retreat in stock prices and heightened probability of a complicated and drawn-out resolution to the conflict.

Post a multiyear rally, precious metals staged deep corrections as markets repriced the US interest rate trajectory- fewer cuts with timing delayed. Predictably the US dollar moved higher on the development. By March close, and from their late January highs, gold fell 20%, silver -38%, platinum -35% and Rhodium -18%, as dip-buyers stood back from the market rout. Only Ruthenium, used in hard disk drives, semiconductors and fuel cells, would hold its March quarter gains, closing 37% higher by the finish of trade.

US break-even inflation rates (the markets implied average inflation rate over differing periods) moved higher through the quarter, their momentum possibly muddying the waters around the Federal Reserve's ability to continue to ease interest rates. Traders were also cognizant of growing concerns relating to the health of private credit markets and the good working order of a number of BDC's (business development companies), in particular their pricing spreads and recently applied redemption restrictions¹.

The US tech sector, notably software and data service stocks, came under extended selling pressure from early February when Anthropic launched a new AI legal tool. This added legal publishers to the wave of disruption that had detonated tape-bombs across the market in segments as diverse as SaaS and accounting providers, CRM, commercial real estate, financial planners and insurance brokers.

Locally, the RBA commenced its hiking campaign with a 0.25% increase on 3 February (the first such move since November 2023) and 0.25% again in March in response to a persistent and broadening inflation impulse. Speculation of 2-3 additional hikes by September gained currency.

¹ Business development companies are like investment syndicates that lend investors monies, oftentimes with gearing, to a portfolio of borrowers at fulsome interest rates. They maybe listed or unlisted.

Interesting that the AFR reported 20 March as the biggest ever trading day for Australian government bond futures with over 4mn contracts changing hands. It was also the second largest ever ASX turnover day with \$28.4bn transacting, largely courtesy of a rebalance to several local and offshore stock indices (BHP unification day at \$41.6bn was the largest ever)².

The ASX reporting season dominated professional investors' time in February, with results from the major banks a season standout. Contractors and mining service companies generally reported ahead of expectations, whilst retail names broadly met guidance with many lamenting a fragile consumer environment. Affordability issues and the rising cost of doing business were recurring messages from companies.

As expected, the reporting season brought its usual share price volatility, although investor perceptions to one company's result deserve a mention. **Zip Co Limited**, a consumer credit/finance solutions provider for SME's posted a reasonable result, saw guidance modestly lowered but talked of a deterioration in US bad debt expectations. Zip shares closed -34% on result day with ~ 20% of the company's register changing hands. It likely said more about shareholder positioning than the posted result itself. The traded value of turnover (\$490m) equated to the third highest on the ASX that day behind BHP (\$750m) and CBA (\$652m). It is a long time since I can recall a small cap scaling such heights!

ASX corporate activity continued to underwhelm investors, extending the languor of the December quarter 2025. In the early days of January, **BlueScope Steel** revealed it had received an indicative bid from Steel Dynamics of the US and **Seven Group Holdings Ltd. Challenger Limited** and KKR jointly bid \$2.60 per share for **Pepper Money** in February, then revised their bid downwards to \$2.25 in early March before walking away from the transaction around quarter close. Zurich Insurance Group entered into a scheme of arrangement to acquire **Clearview Wealth. Genesis Minerals** moved on **Magnetic Resources** in February and US-based on-line safety platform company, Aura, bid for **Qoria Limited**.

Elsewhere, LG Energy exited the **Liontown** register, US land lease company Hometown bought 10% of **Lifestyle Communities** and the National Reconstruction Fund added to its miscellanea of curios with a \$200m hybrid investment in **Maquarie Technology Group**.

PYC Therapeutics raised \$653m during the quarter via an entitlement issue and strategic placement to a US-based life sciences fund, RA Capital Management. In one of the larger resource company transactions sighted in recent times, Vancouver-based, but dual listed miner **Marimaca Copper Corp** announced a \$423m raise and sell down transaction during the period.

It is sobering to observe the recent contraction in equity capital market activity, with Shaw & Partners tallying the value of ASX primary and secondary raisings in the March quarter at \$4.9bn versus \$6.6b in December quarter 2025 and \$7.2b in September 2025³.

² Australian Financial review, Markets Column, 23 March 2026

³ Corporate Finance, ASX ECM snapshot 7 April 2026

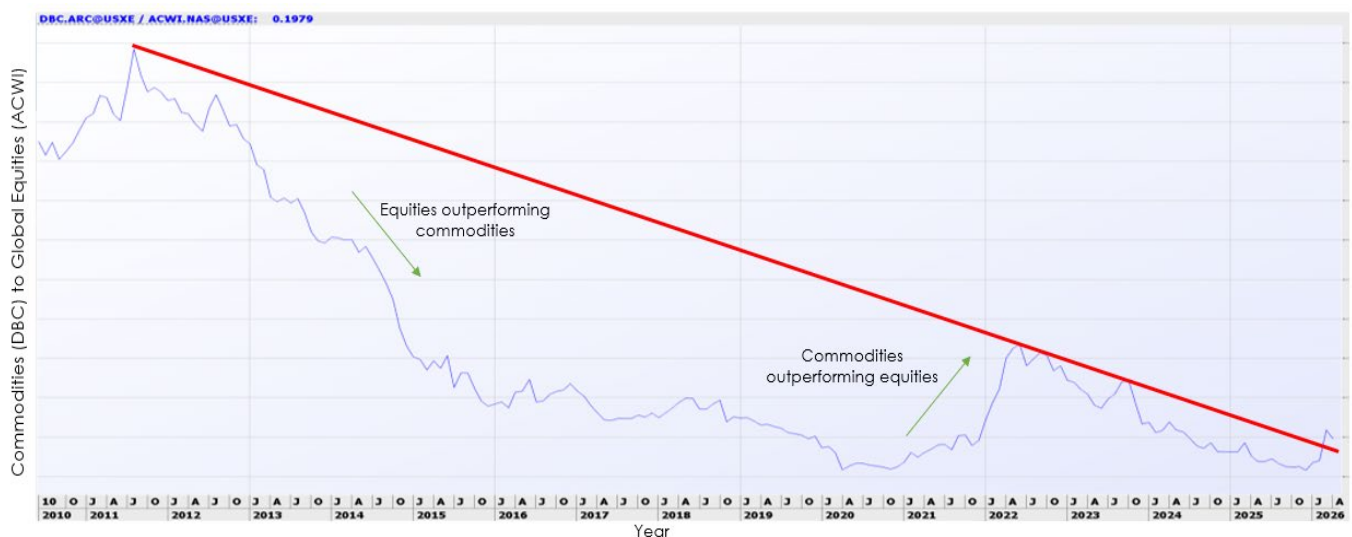
Technical Summary

Stocks

In the last edition of *The Encyclical* we cautioned that ‘...the S&P500 seems poised for a mild retracement to ~ 6520’ and that is more or less what happened, the final move pushing a little deeper to 6317 as it turned out.

The breakdown through 6538, support that has held the index aloft since early September 2025, confirmed the earlier retracements seen in both the S&P100 and the Bloomberg Mag 7 Index. Further, it validated a rectangle congestion/consolidation pattern, synonymous with price exhaustion at the mature stage of a prolonged trend. To us this all but sealed the markets short-term fate but surprisingly the price action of the past 2 weeks has been to the upside (rather than down) albeit with accompanying narrow breadth (up stocks v. down stocks) and less than convincing daily volumes. In essence, a rally on shaky footings! We continue to monitor this.

Investors should remain alert to the recent relative weakness of stocks versus commodities, as highlighted in the chart below of the MSCI All country World Equities Index versus the Invesco DB Commodity Index Tracking Fund. Downside momentum has abated, support has re-emerged much as it did in 2020 and the downtrend line is now coming under pressure.



Source: Bloomberg, as at 10 April 2026

Locally, the **All Ordinaries Index** traded to an historic high of 9436 on 27 February (essentially a retest and rejection of the October 2025 high) only to retrace spectacularly into quarter end. The S&P/ASX 20, aka ‘the leaders’, has been the market bulwark since 30 November and this relative performance is not diminishing in any way. On current form, it is on track to capture much of the alpha lost in 2025.

The S&P/ASX Small Ordinaries reached 4006 on 23 January, missing the December 2007 all-time high by ~4%. It was encouraging to see the Coppock indicator signaled a good buy set up immediately following the 23 March low. Small cap breadth (as measured by the number of stocks trading above the *investment line* (or 100 day moving average) was a lowly 16.5% at the Coppock indication, having bottomed at 12.4% in the days prior. These are troubling index health readings when contrast to 51.5% at December 2025 end and 70% when the September euphoria was becoming somewhat full-blown.

Small resource companies continue to lord it over small industrial names and this phenomenon gained traction in the summer of 2016 and shows little inclination of slowing up.

Commodities/Currencies

Crude oil prices captured the attention of commodity watchers in the March quarter. A valid downtrend line originating in March 2022 has dictated Brent’s run-of-play and enforced a spectacular failure into period end. US\$119.50/blue barrel checked the vigorous rally during 3 tests of the level in March before a downside probe commenced to test the durability of buyer support at lower prices. It was telling that traders lacked conviction to push the black-gold to the 2022 highs of US\$139.13/bbl. It looks like the oil run is done.

Gold snapped its winning streak in spectacular style dispensing with the ever reliable *investment line* in short order, if only for 8 trading sessions. This is significant because the line has provided a valuable guard rail and has proven to be influential on the metal’s price action. Failure to reclaim January’s high of US\$5595/oz in March was a setback for gold and for the buyers queuing out front of 38 Martin Place Sydney (the office of the ABC Bullion Co). It is encouraging to note the Coppock Indicator provided a clear buy signal immediately post the March swoon. Trader long positions have been increasing in recent weeks and currently sits at 4.7:1 long:short, down from 6.2:1 at the last *The Encyclical* and well shy of the 8:1 extended positioning of December 2024.

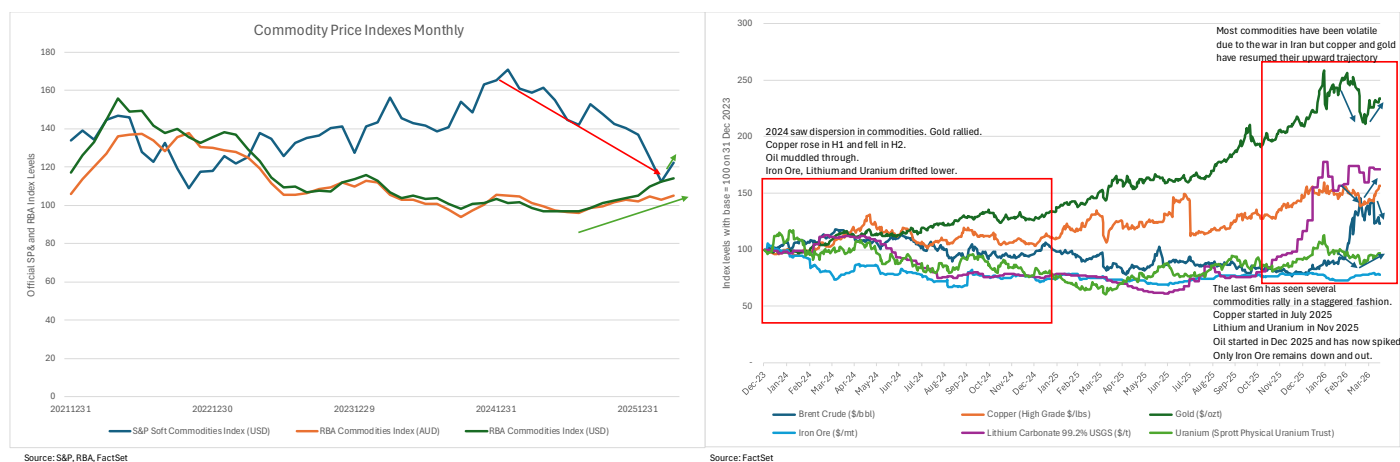
Silver is also behaving constructively, however given the over-reach in January it has more work to do to recover the recent highs. Intriguing that the Coppock Indicator’s very bullish bottom-and-turn signal aligns precisely with that of the Covid March 2020 nadir when the metal was trading at US\$11/oz.

Both silver and gold miner ETF’s trading in North America have retraced the requisite Fibonacci 50% of the March sell-off and look primed to move higher.

The long-term chart of the **AUDUSD** remains beguiling despite the short-term overshoot to \$0.7168 and recoil back to \$0.6834. At the time of writing the unit was in hot pursuit of the recent highs. It is worth noting the shift in investors positioning from traditional net short to net long in January this year which screams bullish to us.

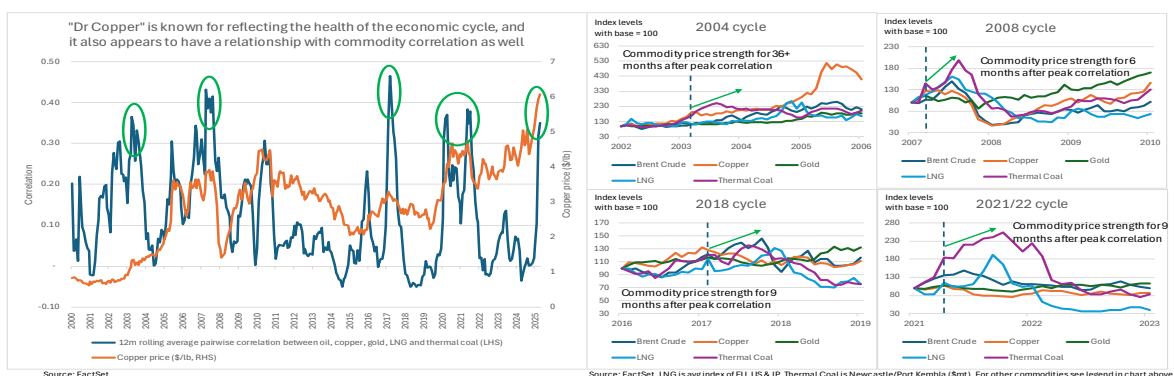
The Log – Is Commodity Price Action Broadening?

The RBA Commodities Index has been rising since June 2025 despite the headwind from soft commodities⁴. The second chart below answers the question in our heading: **commodity price action has been broadening since Nov 2025**, led by copper. Prior to Nov 2025, gold was the clear leader starting its rally in Feb 2024. Recently, commodities have been volatile due to the war in Iran but some, like gold and copper, have resumed their upward trajectory.



⁴ Soft commodities are about 10% of the index and they also bounced in the latest month of March 2026.

Here is the 12m rolling average pairwise correlation between monthly returns of commodities going back to 2000 overlaid with the copper price. Next to it are monthly commodity prices in the 2004, 2008, 2018 and 2021/22 periods where commodity correlation spiked above 0.35.



Importantly, peak correlation did not mean peak commodity prices. In all cases peak correlation saw further commodity price rises (but more dispersed) for 6 months or longer.

One interpretation is that rising correlations reflect an initial cyclical breakout – possibly due to economic expansion driven by global fiscal stimulus. Indeed, international reserves, which are the foreign exchange and gold held by central banks globally, have been a good statistical indicator for commodity price strength historically because they capture the boost to global trade from US stimulus and reflect strong Chinese trade and capital flows.

A depreciating USD, which we have been seeing recently, could also be considered stimulatory because commodities, which are priced in USD, become cheaper to other countries. Given commodities correlation has spiked, and international reserves are likely to increase on the back of US stimulus and China expanding its energy transmission network, history implies further commodity price strength in the months ahead.

Outlook

Decades of managing money have taught me many things and one of the most useful is to avoid overintellectualizing a crisis and allow the market to tell the story.

This is proving useful in the case of the current crisis in the Gulf. Crude's failure to break US\$120/bbl and the stalling and descent in European gas prices (despite media talk of US\$200/bbl oil and the Qatari's being out of the gas export business for 5 years) tells me the highs are in for energy. US stocks thought so too, commencing a rally on the third US\$120/bbl capitulation.

Despite my misgivings around the quality of the rally in US stocks, there can be little doubt as to the veracity of the S&P500 return move to its historic highs. Sellers haven't turned up, preferring to sit it out ahead of earnings season, thinking that it might be worth sticking around for.

A recent FactSet Insight posits the current US consensus Q1 earnings growth rate to be 12.6% and that 37/40 previous quarters have seen actuals exceed estimates with an average beat of ~ 7.0%, suggesting a number closer to 19% for the quarter⁵.

The S&P500 price action is increasingly looking like a vicious 8-week, V-shaped correction within the continuing uptrend. This has the look of liquidity that fled *US Exceptionalism* in late 2025 and is now relenting. It's now a game of how quickly and deeply the FOMC provides rate accommodation.

⁵ FactSet Insights John Butters 10 April 2026

Locally, our market has rallied in step with the sentiment uplift, however liquidity is finding a home among the banks and bulks, the ASX20, and not much wider than that.

Setting aside the not inconsiderable effect that trading pods (hedge funds) and the continuing stream of institutional transition activity is having on the ASX from day to day, our market will take its cue from the actions of the RBA and the increasingly fragile economic backdrop.

Fuel supplies and their pricing (including second and third order effects), the Australian property market and the much-anticipated Australian Federal budget, due May 12, are going to have an outsized bearing on consumer and business sentiment moving forward. Investors will need to be alert to this.

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