Global Outlook

April 2026

A geopolitical shock with broader implications

The macro backdrop is shifting to a more structural regime, with lower growth, higher inflation, higher rates, and more volatile cycles.

The Iran conflict highlights a more complex world where shocks are inflationary near-term, growth-negative over time, and harder for policy to manage.

In New Zealand, these forces are amplified as low productivity and external exposure mean a more volatile cycle and more complex policy mix.

BEVAN GRAHAM

Implications For Investors

"Old economy" investments like real assets led returns in Q1, as the market outlook darkened.

Upcoming corporate earnings season – and US electoral cycle influences – may test the Bulls' confidence.

While valuations look better, investors need to price in harsher Energy cost risk cases.

GREG FLEMING

SALT
Funds Management

A Geopolitical Shock with Broader Implications

The escalation of conflict in Iran into full-blown war is a timely reminder that geopolitics has reasserted itself as a central driver of the global economic and market outlook.

In the near term, the transmission mechanism is relatively clear. Higher oil prices act as a tax on both households and businesses, lifting inflation while eroding real incomes and weighing on demand. The immediate impact is therefore stagflationary - an uncomfortable combination at a time when confidence in the global disinflation process was already fragile. Central banks, some of whom who had still been inching towards further easing such as the US Federal Reserve, are now faced with a renewed dilemma: respond to higher inflation that monetary policy can do little to control, or risk allowing inflation expectations to drift.

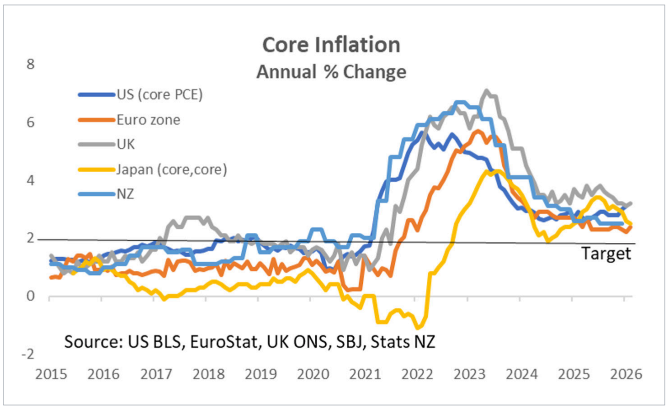
Source: Trading Economics

But the more important question for investors, markets and central banks is not the initial shock - it is what follows. If history is any guide, sustained increases in energy prices tend to dampen demand over time. What begins as an inflationary impulse can ultimately become disinflationary, as weaker consumption, tighter financial conditions and reduced investment take hold. At the same time, geopolitical instability reinforces a broader structural trend: the gradual fragmentation of the global economy.

In that sense, the events in Iran are not an isolated shock, but part of a wider pattern shaping the macroeconomic landscape.

The last mile of disinflation was already proving difficult

At first glance, the macroeconomic environment still looks familiar. Inflation has come down from its peaks, but remains above target in many economies, while growth is uneven and increasingly uncertain. Central banks are attempting to navigate a narrow path between easing too soon and tightening too late.



But even before recent geopolitical developments, the last mile of inflation was proving challenging. Services inflation has remained sticky, reflecting ongoing wage pressures and still-tight labour markets, while progress back to target has been slower and more uneven than many had expected. The disinflation process was already showing signs of losing momentum.

The escalation of conflict in Iran adds a further layer of complexity. Higher energy prices are feeding directly into headline inflation and, more importantly, are beginning to influence inflation expectations. That is a critical channel for central banks. While energy shocks are often treated as temporary, sustained increases in oil prices raise the risk that businesses and households begin to adjust their pricing and wage-setting behaviour accordingly.

There are early signs of this dynamic emerging. Measures of inflation expectations, which had been gradually easing, are showing signs of stabilising or drifting higher as energy prices move up. That shift matters far more for policy than the initial move in headline inflation.

This is the key challenge. The last mile of inflation was already proving difficult and now policymakers must contend with a fresh supply-side shock that risks slowing, or even reversing, progress.

For central banks, the distinction between temporary and persistent inflation becomes critical. Tightening policy in response to a short-lived energy shock risks unnecessarily weakening growth. But failing to respond to a shock that feeds into expectations risks embedding inflation at levels above target.

For markets, the implication is clear. The path back to target inflation has become more uncertain and more vulnerable to disruption. Central banks are no longer fine-tuning the cycle: they are managing the risk that inflation expectations become unsettled.

Growth Uncertainty Returns

Higher energy prices, tighter financial conditions and ongoing geopolitical uncertainty are weighing on global demand. Household balance sheets have been eroded by the cumulative impact of inflation, even as wage growth has picked up. Business investment remains cautious, reflecting both cyclical uncertainty and deeper structural concerns.

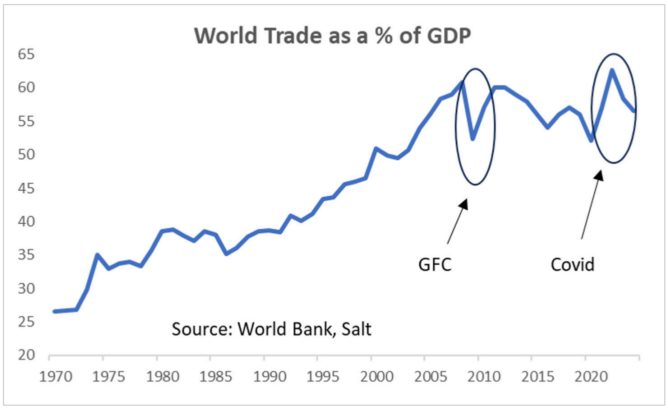
The Iran conflict sharpens this tension. The same shock that lifts inflation in the short term can weaken growth over the medium term. What begins as an inflation problem can quickly become a demand problem.

The result is a more complex macroeconomic environment, one in which both inflation and growth risks can coexist. For investors, this challenges traditional relationships between asset classes. Bonds may not provide the same protection in downturns if inflation remains elevated, while equities must contend with both margin pressure and demand uncertainty.

We are no longer in a world where inflation and growth risks neatly offset - both can be problems at the same time.

Globalisation: Fragmentation, Not Collapse

Nowhere is the shift in the global environment more debated than in the discussion around globalisation. The aggregate data suggests that globalisation remains intact. Trade as a share of global GDP has held up, and cross-border capital flows remain significant.

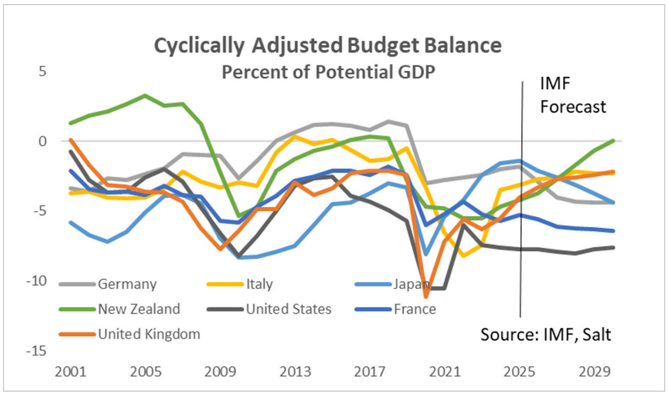


But focusing on these measures' risks missing the more important change underway. The global economy is not deglobalising in a sudden or absolute sense, but it is fragmenting. The level of integration remains high, but the direction of travel is changing. Economic relationships are increasingly being shaped by considerations of resilience, security and strategic alignment rather than pure efficiency. Supply chains are being reconfigured rather than abandoned. Governments are playing a more active role through industrial policy and trade intervention, and capital is becoming more selective.

These changes take time to show up in the data. But the underlying shift in incentives is already clear. And a less efficient global economy is, almost by definition, a more inflationary one.

Fiscal Pressures and Policy Leadership

Overlaying these dynamics is a fiscal backdrop that is becoming increasingly important. High debt levels, persistent deficits and rising structural spending demands, particularly those associated with ageing populations, defence and infrastructure, are no longer cyclical features of the macro landscape. They are structural.



This is leading to a more fundamental shift in the balance between monetary and fiscal policy. For much of the post-global financial crisis period, monetary policy was the dominant tool of macroeconomic stabilisation. That is no longer the case. Fiscal policy is playing a larger, more persistent and more structural role in shaping economic outcomes.

Central banks are increasingly operating in an environment where fiscal settings are expansionary or constrained by long-term commitments. This reduces the effectiveness of monetary policy and complicates the task of managing inflation.

Markets are already reflecting this shift. Bond yields, particularly at the long end, are becoming more sensitive to fiscal dynamics - issuance, deficits and questions of sustainability - rather than being anchored solely by expectations of policy rates. The re-emergence of term premia is consistent with this change.

Productivity: The Missing Piece

Without a sustained improvement in productivity, economies will likely struggle to generate the growth needed to support rising living standards, stabilise fiscal positions and absorb structural shocks. This makes inflation harder to control and policy trade-offs more acute.

There is considerable optimism that new technologies, particularly artificial intelligence, will provide a boost. Markets have been quick to embrace this narrative, with strong performance in sectors most closely associated with AI reflecting an expectation that productivity gains will follow.

But history suggests a more cautious interpretation is warranted. The translation from technological innovation to broad-based productivity gains is neither immediate nor guaranteed. It requires complementary investment, organisational change, and time. The experience of previous technological waves suggests that while the long-term benefits can be significant, the near-term impact is often more muted and uneven.

There is also a risk that expectations are running ahead of reality. Much of the current optimism rests on the assumption that AI will deliver rapid and widespread efficiency gains across the economy. That may ultimately prove correct, but it remains, at this stage, more prospective than proven.

In the near term, the transition itself may prove inflationary rather than disinflationary. The build-out of AI infrastructure is capital intensive, energy intensive, and concentrated in a relatively narrow set of sectors. This can drive increased demand for both physical capital and labour, particularly in areas where supply is already constrained. At the same time, firms may face higher upfront costs as they invest in new technologies and reconfigure business models.

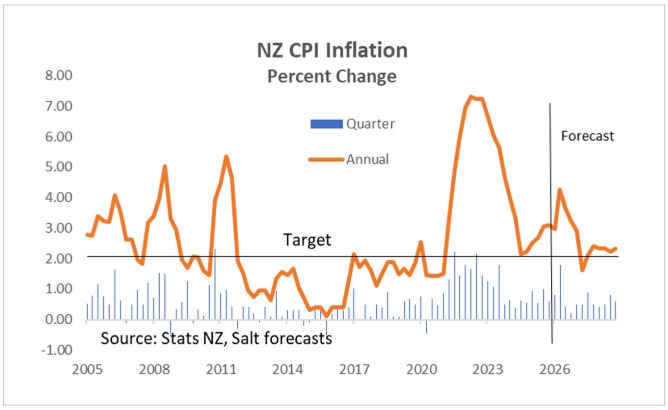
There is also a broader question around distribution. Even if AI delivers meaningful productivity gains at the aggregate level, those gains may not be evenly spread across the economy, diluting the overall macro impact.

For policymakers, this uncertainty complicates the outlook. Betting on future productivity gains to offset current inflationary pressures is inherently risky. For investors, it introduces an additional layer of uncertainty around both growth expectations and valuation.

New Zealand: A More Exposed Version of the Same Story

The New Zealand economy is emerging from a period of weakness, but the recovery remains uneven. Growth has improved at the margin, but the underlying drivers are not especially strong. Population growth is no longer providing the same tailwind, and there are increasing signs that capacity pressures may re-emerge more quickly than expected.

The escalation of conflict in Iran adds a further layer of complexity to that outlook. As a net importer of energy, New Zealand is directly exposed to higher global oil prices. Increases in fuel costs are already beginning to flow through to households and businesses, lifting transport and production costs across the economy. The impact is broad-based, feeding into freight, food prices and a wide range of goods and services, and adding to already elevated non-tradeable inflation.



There are also second-round effects to consider. Higher global energy prices are pushing up the cost of key inputs such as fertiliser, which ultimately feeds into the agricultural sector. For an economy with a large exposure to agriculture, this is an important channel through which global shocks can translate into domestic cost pressures.

At the same time, the growth impulse is likely to soften. Higher fuel costs act as a direct drag on household disposable income, while increased global uncertainty weighs on demand in key export markets. As a small, open economy, New Zealand is particularly sensitive to these external developments.

Inflation therefore remains a central challenge. While headline inflation has eased, underlying pressures, particularly in the non-tradeable sector, remain persistent. The Iran shock risks slowing the disinflation process and, more importantly, increases the likelihood that inflation expectations remain elevated.

For the Reserve Bank of New Zealand, the period ahead requires a careful balance between not overreacting to a supply-driven inflation shock, while remaining alert to the risk it becomes embedded. In our view, while the near-term impulse is stagflationary, there is a plausible medium-term scenario where persistently high energy prices weigh on demand and become disinflationary, leaving the policy outlook finely balanced and highly data dependent. It's just too early to know.

Overlaying this is a fiscal backdrop that is becoming more important. New Zealand faces rising demands for infrastructure investment, healthcare spending and broader public services. While public debt remains relatively moderate by international standards, the direction of travel is clear. Fiscal policy is likely to remain an active and persistent influence on the economy, reflecting structural pressures rather than cyclical choices.

This creates a similar dynamic to the global environment. Monetary policy is left to manage the cycle, but fiscal policy is shaping the backdrop, at times working in tension with it.

More fundamentally, New Zealand's long-standing challenge remains low productivity growth. Without addressing this, the economy's potential growth rate will remain constrained, making it more difficult to manage inflation, improve living standards and maintain fiscal sustainability.

Large swings in activity and interest rates ultimately undermine investment and long-term economic performance, reinforcing the very dynamics policymakers are trying to address.

A More Complex Market Regime

Stepping back, a defining feature of the current environment is increasing divergence across economies. The United States has remained relatively resilient, supported by stronger productivity dynamics and more expansionary fiscal policy. Europe continues to face structural headwinds, while China is navigating a transition to a slower, more domestically driven growth model.

These differences are likely to persist, contributing to greater dispersion in economic and market outcomes. Taken together, these developments point to a clear conclusion. The macroeconomic environment is no longer simply cyclical. It reflects a deeper shift in the policy regime—one characterised by weaker productivity, higher fiscal pressures and greater geopolitical fragmentation.

For investors, this translates into a different set of conditions than those that prevailed in the decade prior to the pandemic. Neutral interest rates are higher, the cost of capital is higher, inflation is more persistent, and policy cycles are more volatile.

The bottom line

The global economy is not entering a period of crisis, but it is moving into a more complex and less forgiving environment.

Geopolitics is more relevant, policy is more constrained, and the interaction between fiscal, monetary and structural forces is more important than at any point in the recent past. The escalation of conflict in Iran reinforces this shift. What might once have been viewed as a contained shock is now transmitting more broadly: through energy markets, inflation expectations and global growth. Higher oil prices are lifting inflation in the near term, while at the same time weighing on demand and confidence.

That combination of near-term inflation pressure alongside weaker growth over time is increasingly characteristic of the environment policymakers are dealing with. It also highlights that the path back to stable inflation is not only uneven, but vulnerable to disruption from forces largely outside the control of central banks.

More broadly, the forces shaping the macro landscape are no longer purely cyclical. They are structural, policy-driven and interconnected. Globalisation is not disappearing, but it is becoming less efficient. Fiscal policy is playing a larger and more persistent role. Productivity remains uncertain. And geopolitical developments are feeding more directly into economic outcomes.

The easy macro environment of the past is behind us and what replaces it will be more complex, more fragile and less predictable.

Bevan Graham

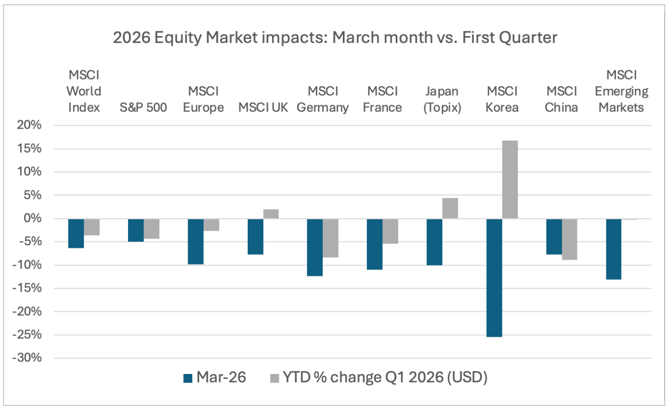
Implications for Investors

Revenge of the "Old Economy?"

The fraught March Quarter of 2026 is a reminder that although the US and global economy have demonstrated remarkable resilience over the last three years, market participants are well aware that in a climate of elevated valuations and heroic profit assumptions, much needs to go persistently right to keep investors content. Superficially, little has changed in the First Quarter when compared to the end of 2025, with Q1 US corporate profit growth still forecast at around 13% - the sixth consecutive quarter of double-digit gains in earnings per share for the S&P 500.

However, as we approach mid-April, there remains an elevated sense of caution amongst investors. The impact of the Iran / US & Israeli conflict and its unresolved consequences for global energy prices dominated March month, overshadowing otherwise benign news for equities, and hitting many markets hard. In several cases, the March month value-loss erased what had been a period of consistent gains for major non-US markets. Emerging markets' year-to-date return was reduced to zero, interrupting a period of prior strong outperformance of developed markets.

Even in the US, the comparative resilience owes much to the wide dispersion of sector returns in the S&P 500 there, as strength in Energy, Materials and Utilities mitigated the sharp weakening of Consumer Discretionary, Financials and Information Technology share prices. Thus, within a multi-year investment regime which has been powered mainly by "New Economy" investment narratives surrounding AI, social media, data centres and microprocessor speeds, the First Quarter erupted as a reminder of the continuing power of the Old Economy factors of power, pipelines, shipping routes and security. How long this chilly intrusion of steel into the digital utopia will persist is not yet known, but we expect that it will endure longer than a single quarter.

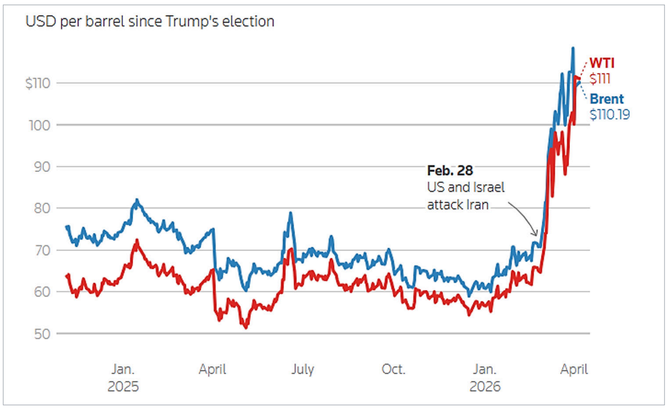


Source: Bloomberg, Morgan Stanley Research

Oil disruption remains top-of-mind for investors

At the time of writing, West Texas Intermediate Crude oil (WTI) sits above USD 110/bbl having virtually doubled (+97%) in the last three months. Heating oil and Gasoil as well as Natural Gas have experienced even larger price surges. The upward momentum in fossil-fuel energy prices is not because of a single, individual event within the US & Israeli campaign against Iran, but because of the growing plausibility of a multi-month period where higher prices persist. Communications from Washington have drawn attention to the possibility of a scenario in which tensions around the Strait of Hormuz de-escalate, but without any meaningful resolution. In that version, tanker flow through the Strait remains partially restricted, and because of this, oil prices carry a sustained geopolitical risk premium indefinitely. This possible future was underlined by Iranian authorities over the Easter period, as they announced, "the Strait of Hormuz will never return to its previous state, especially for the United States and Israel." The best case, if this promise holds, would be a ship-by-ship transit fee system becoming embedded, with differentiated rates.

Based on present statements, such an outcome would not be acceptable to the US, could incentivise the US & Israeli intervention to intensify toward attempted regime change. However, the episode is proving a stark reminder to markets how much depends on oil.



Source: LSEG, Reuters, data to 6 April

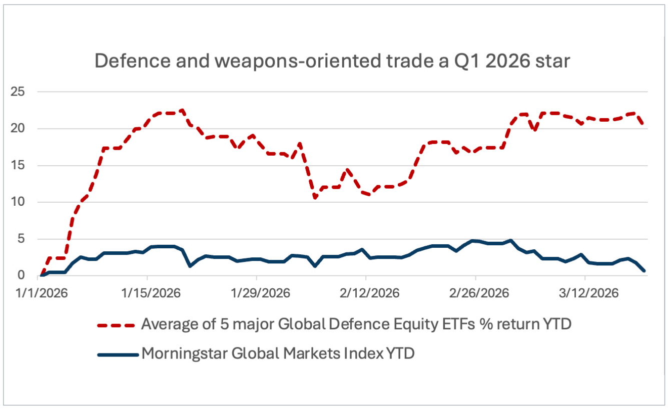
Investing in an Era of US Interventionism

From the middle of last year, markets swung from showing initial disapproval for the radical and irrational parts of the Trump agenda, to an appreciation that for the next three years, the US government is becoming a market-changing active player in key industries, which can be anticipated to advantage. However, "trading Trumpisms" does necessitate an investment philosophy dependent on contingencies – not one based on established metrics and processes. One key consequence of that shift is that much attention is being given to trades which function over the short-term, and which can be very profitable for those with simultaneous (or, unfortunately with prior) knowledge of a Trump announcement. However, these positions are also prone to rapid reversal if the foundation of such a policy is abandoned, or is blocked or delayed.

The initial example of such a large-scale Trump trade was connected to the "Liberation Day Tariffs," adjusting exposures to their surmised beneficiaries and victims. That ran into difficulties at the Supreme Court level, and has now mutated into a less country-specific ("universal") tariff system, which equally may not last.

In the most recent example, the announcements surrounding extraordinary military spending (an additional USD 200 billion appropriation is underway to cover cost contingencies in the Iran imbroglio) has allowed those investors who are unconstrained by legal or ethical restraint to buy into armaments companies that could potentially benefit. However, the degree of implied budgetary irresponsibility, in the context of an already dreadful US deficit, has triggered a rising aversion to US government debt, leading to several weak auctions despite the purported "risk-free" status of Treasury bills.

As appreciation grows of the inflationary ramifications of sustained higher energy prices, other major global bonds markets have also weakened. Nevertheless, in a very fraught quarter for global share markets, the war trade, triggered by political moves either originating in or related to White House policies, has been a strong performer, so far. Defence stocks have outperformed global equity markets in 2026, after having gained 37% in 2025 (USD.)



Source: Morningstar (shown in USD terms)

Of course, this is somewhat academic from the NZ investor's standpoint, as few domestic asset holders would be ethically or legally comfortable chasing returns from armaments companies.

However, a less extreme example is Carbon-based energy. Until the second Trump administration got underway, many groups of environmentally-aware investors had formed a consensus on Climate Change, its dominant causes, and the best ways of backing its mitigation. This meant that clean technology, sustainable energy, and transition / low-carbon assets had no difficulty attracting investment and were seen as a mutually advantageous way of achieving investment returns whilst improving outcomes for Planet Earth and its climate-threatened populations.

This enlightened perspective ran into a wall, with the rapid-fire renunciations by the US administration of a wide range of environmental and social investment priorities. It was not simply a matter of indifference – in key jurisdictions, the Trump administration and its congressional allies swiftly outlawed seeking positive environmental outcomes through investment , and launched legal action against fund managers who were prominent in doing so.

Partly as a result of this 180-degree swerve by the US government, which was supplemented by revivified "Drill, Baby, Drill" fossil fuel energy policy and strong military aggression aimed at securing additional fossil fuel capacity, the Energy and Mining / Materials sectors in the US equity market have bounded upwards, their 2025-26 returns leading those available from Technology and certainly, from the low carbon footprint sectors of the listed market such as Financials.

This all means that the current US administration is sorely testing the strength of belief on the part of Sustainability- or ESG-focussed investors. It is crucial for such investors to re-visit why they are committed to achieving investment returns subject to a "first, do no harm" ethical principle set. It is comparatively easy to support such ideals and superior practices when there is no significant short-term performance cost to doing so (as for instance was true in the Covid period.) It requires more conviction to retain low-carbon, ethical labour & anti-slavery, and scheduled combat armaments investment screens or principles, when due to the policy swings currently underway in the US, portfolio performance can be negatively impacted for considerable periods of time.

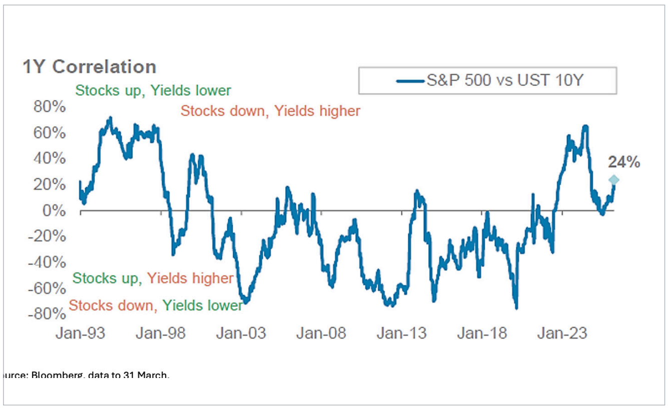
In the final analysis, New Zealand investors should examine the kinds of industries they are genuinely comfortable with in their portfolios, and check their planned investment horizons - because in the present global upheaval, the initial spoils have run largely to the "sinful sectors." Passive and indexed investment funds (which in many cases have less pervasive screening in place) will therefore most likely be outperforming active managers, simply by not discriminating against those more harmful industries which are receiving investment (if not reputational) resurrection under the current US leadership.

Easier to Get In than to Get Out?

The taste for power-based interventionism, once acquired, can be addictive and take many forms. In the last year, President Trump has imposed multiple ad hoc decisions in his own unique form of "problem-solving," ranging from buying into strategic companies to decapitating the leaderships of significant countries which are deemed hostile to U.S. interests.

The current Iran engagement is young in terms of weeks, but already is showing hallmarks of an Administration intent on taking actions on the wing, and trying to tie up loose ends as it goes along. However, this may prove difficult in a combat situation, as events do not always pause for long enough to allow a tidying-up, and the US government risks losing credibility and cohesion. To a degree, the -2.5% return from benchmark 10 Year US Treasuries in March alongside the -5% drop in the S&P 500 reveals growing investor disquiet about whether all the disparate strands of the Trump policy pizza actually fit together.

A positive correlation between asset classes that are losing value is a rather negative signal, and that is what March presented. Were this to continue, the market's tolerance of President Trump's programme may well run out of road.

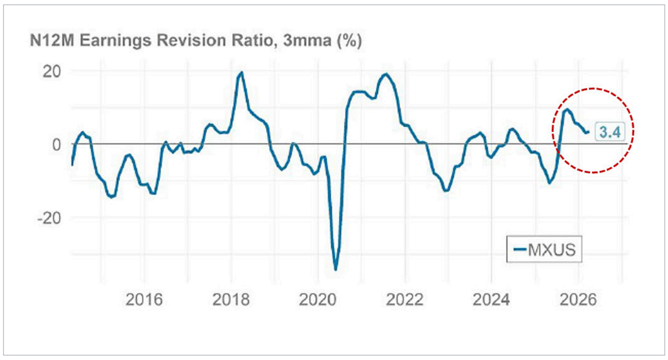


Source: Bloomberg, data to 31 March.

US equity fundamentals are slightly softer

A positive reversal in the expected tendency of US companies' earnings revisions set in later last year, after the dilution of the so-called "Liberation Day" tariffs. Upward revisions to profit forecasts, as analysts diluted their prior trade war-based assumptions, carried market sentiment higher and the net balance of positive revisions only turned downwards again as 2025 ended. The relief in markets as companies adapted and profit hits proved "less bad" than anticipated arguably led to a positive overshooting and worrying US complacency. As the First Quarter concluded, the balance of corporate earnings revisions, though still positive, has diminished, and that can presage an adjustment in overall equity market bullish sentiment.

US corporate earnings surprise now topped out



Source: MSCI, IBES as at 31 March 2026

"Chaotic melt toward stagflation"

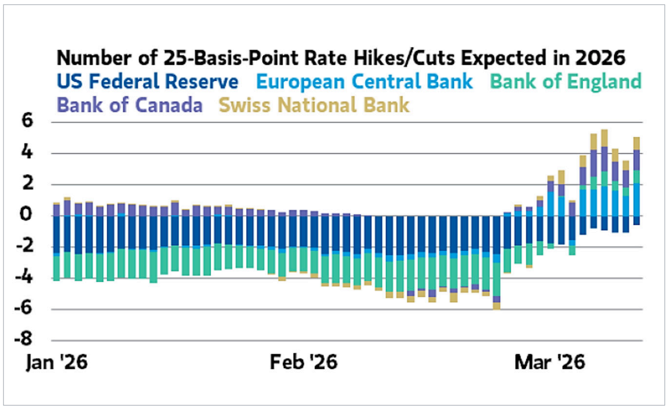
This characterisation of the US trajectory (without even the benefit of a question mark) is the title of a prominent recent thought piece on the US economy from a major investment house. Is it too harsh? If it is accurate, why are equities still only flirting with a correction, rather than a full bear market inversion? These are the key questions that we think 2026 will answer.

Although many of US government's waves of erratic, arbitrary, and certainty-sapping policies and geopolitical actions continue to hit the headlines, so far, market participants appear to be willing to take America's direction under Trump in their stride. January saw piecemeal announcements from the Trump administration, proposing for instance massive defence spending increases (fiscally fraught,) intervention in the listed market for rental homes (populist and ineffective,) and proposals to carve up the natural resource assets of Venezuela amongst US companies according to the President's personal judgment of their deserts. February saw a renewed administration attack on the Federal Reserve Governor and threats being made to broadcast networks which did not sufficiently praise the government, and March, of course, witnessed the unleashing of the dogs of war. Apologists for Trump's way of doing things dismiss these as transient and largely matters of his style, but with a war now underway, markets must face the fact that institutional disruption is a matter of considerable substance, and may not have been thought through by the Disruptor-in-Chief. Real incomes are being eroded further, which hurts profits as well as sentiment, and which may not prove as temporary as Trump has indicated.

More seasoned observers are left wondering if all this high-handedness may signal dark times ahead for free markets and for rational investment price discovery. On the other hand, optimists on US assets tend to ignore the bizarre policy mix sampled above, and stress instead the snowballing scope for Artificial Intelligence, interest rate and tax cuts, and a newly-unleashed natural resource bonanza, now unconstrained due to the US' weakening of the global consensus on mitigating climate change. Thus, there was a market consensus on expecting another good year for equities in 2026, which held until the energy crisis began last month. We remain more cautious, and even wonder about the sustainability of 2025's rally. However, there are still reasonably-valued sectors and regions that active managers can prefer, which we are leaning substantially towards: infrastructure and real assets, defensives, and liquid mid- and shorter-duration bonds.

The essay cited in the "chaotic melt" went on to note that "the oil shock could destroy demand and dent global growth, with potential stagflation implications. Not only does stagflation produce equity and fixed-income headwinds, but it also tends to suppress earnings growth, which isn't yet reflected in S&P 500 profit revisions. The 2026 bull case is slowly being undermined, and we may be grinding toward an inflection point where macro again overwhelms the idiosyncratic. Vigilance is required, as violent rotation is apt to continue." Those are all sentiments we would agree with.

Note how the prior market expectation of interest rate reductions (which are often equity-supportive) has reversed in the course of March to growing pricing of the risk of rate increases due to the energy cost impact on expected inflation. This removes one plank of the scaffolding that has recently supported the best-case scenario implied in global equity market pricing.



Source: Bloomberg, Morgan Stanley research

Concentration is still a concern

Due to recent years' exceptional valuation performance of the Information Technology and associated US communications sectors, the American multinational Mega Caps are now dominant in terms of driving asset returns for typical global equity fund investors. For instance, there are now no non-US stocks within the top ten constituents of the MSCI World Index, and only one amongst the MSCI AC World Index (which includes Emerging Markets) – and that is Taiwan Semiconductor Manufacturing, which occupied 8th position as of 31 March.

These concentration issues are well-known, and have been canvassed throughout the last year. It really now remains only to note that a great deal now depends on an actualisation of projected profitability and productivity gains arising from the massive scaling-up of Artificial Intelligence and associated product distribution channels. As we concluded in our last edition of "Global Outlook" in early January, "the primary present risk to the golden outlook is geo-political: in a period of ever-darkening international relations, smooth sailing is a bold assumption given the complex global interdependencies of the microchip manufacturing industry."

So far, microchip manufacturing and onward supply chain costs have only just begun to reflect the new global strains, but we can expect that to become more of a theme and a concern for over-concentrated investors. Helium supplies for instance are tight and with Qatari shipping hemmed in, this is already impacting the microprocessor supply chain, with bottlenecks and price jumps.

Traditional valuation metrics imply widespread price risk

Since our January edition, the Forward Price / Earnings metric of equity market valuation for the MSCI All Country World index has remained constant, at 21.8 on a 12-month forward earnings basis. This reflects the lag in compiling global forecast information. However, for the S&P 500, the same metric has declined from 25.7 to 20.2, as share prices have dropped without a commensurate lowering (yet) of the associated earnings forecasts. We therefore do not believe this yet presents good value in the northern hemisphere Developed equity markets, and our Capital Growth Fund retained its underweighting to International Equities throughout the First Quarter. The caution was rewarded, as the fund declined by just -2.7% in Q1, having gained until early March. Key to the comparative resilience was representation of global infrastructure and property as prominent components in the Capital Growth asset mix. We retain confidence in real assets.

Region	Trailing PB	Trailing PE	Forward PE
MSCI ACWI	3.5	22.2	21.8
S&P 500	5.1	25.5	20.2
MSCI Europe	2.3	16.9	15.0
FTSE 100	2.3	16.3	13.3
Germany DAX	1.9	16.2	14.9
France CAC 40	2.0	17.0	14.7
Japan Topix	1.7	17.9	16.6
Korea KOSPI	1.6	19.0	7.8
Hang Seng	1.3	12.8	11.0
Brazil Bovespa	1.8	12.7	9.6
Mexico BMV	2.5	16.7	13.4
S. Africa Top40	2.3	15.8	14.9
MSCI China	1.5	14.0	11.4
MSCI India	3.3	22.3	18.8

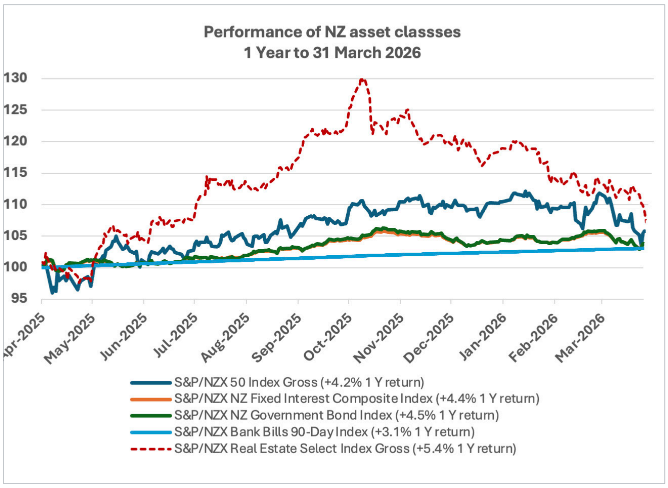
Source: Morgan Stanley Research (redder shading shows more historically-extreme)

Retaining a patient view of NZ equities

Whilst the New Zealand economy is still in the throes of the difficult domestic trading environment, we believe that the easing path now completed by the Reserve Bank of New Zealand and the defensive nature of the industries that are heavily represented on the NZ exchange means that NZ equities should prove comparatively resilient. Into 2026, we anticipate incremental domestic demand improvements, alongside some election year targeted subsidy assistance, potentially allowing the local market to build upon its moderate 2025 gains.

However, as the influence of US markets never leaves New Zealand unaffected, equity exposures should be carefully managed. NZ equity valuation multiples are rather more palatable than either Australian or US shares' - especially if one looks at the NZ market on a median stock basis. Whilst not obviously cheap, the NZ market is therefore at acceptable valuation levels and has scope to retain or recover some recent selective strength, assuming the negative turn in risk appetite does not deepen into quasi-recession. There is still a preponderance of pessimism implied in many domestic equity prices, and longer-term NZ investors or international acquirers (after rigorous due diligence and comparative value analysis) will continue accumulating NZ equities in 2026.

As shown below, the NZX 50 Gross return over the last year is still slightly below that of the return from domestic bonds, though it is ahead of the NZ cash return. That situation – while understandable when the economy was still in borderline recession with RBNZ easings and global bond yields moving lower – now seems to undervalue the NZ equity market 's future returns potential as the economy incrementally improves this year. We would look to add exposure on geo-political weakness, but very selectively given vulnerability of some domestic companies to travel disruption, fuel cost, and export capacity or economics challenges.



Source: S&P Global Indices, Salt


SALT
Funds Management