MITCHELL INTERNATIONAL WEALTH

MARKET COMMENTARY

10 April 2026

MIDDLE EAST CONFLICT PRODUCES OIL PRICE SPIKE AND REVERSES EQUITY MARKET RALLY

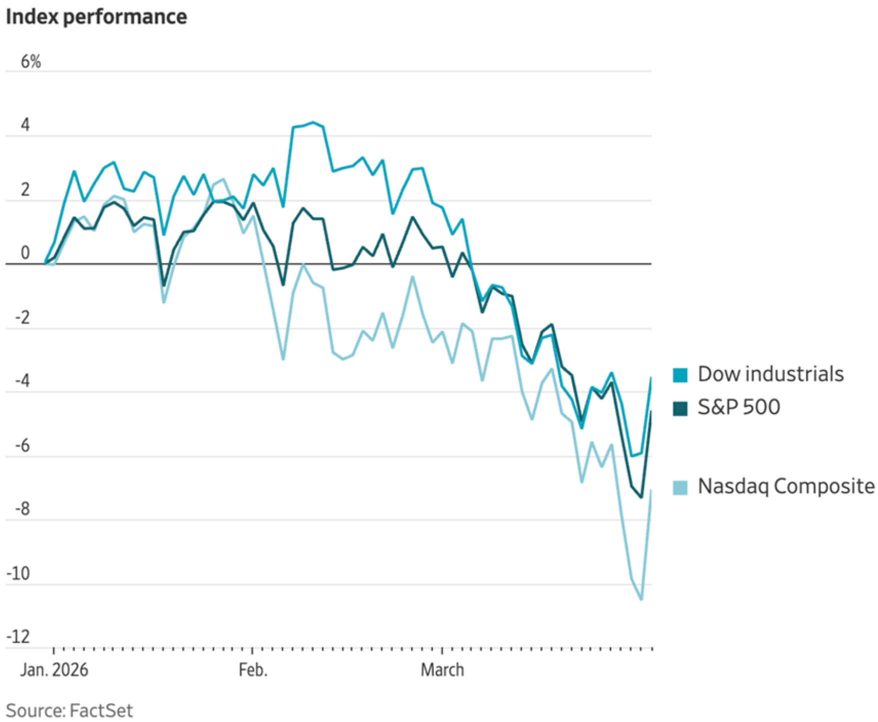
BOND YIELDS INITIALLY ROSE ON INFLATION CONCERNS BEFORE RETREATING ON ECONOMIC SLOWDOWN SIGNALS

The US-led strikes on Iran in late February 2026 precipitated the largest one-month surge in oil prices on record, with Brent crude exceeding $100 per barrel following the partial closure of the Strait of Hormuz, through which approximately one fifth of global oil and gas transits. This development disrupted prior expectations for monetary policy easing and drove major equity indices into correction territory amid heightened recession risks. In the US, the S&P 500 declined 4.6% over the quarter, while the Nasdaq fell 7.1%, marking the most significant quarterly losses in nearly four years.

European markets experienced even sharper declines, with the STOXX 600 falling 8% in March alone, its steepest monthly drop since 2022, and Japan's Nikkei declining over 13% amid yen volatility and broader risk aversion. The FTSE 100 shed nearly 7% over the month but retained a 2.5% year-to-date gain, supported by its exposure to energy and internationally focused constituents.

Sector performance within the S&P 500 reflected the turmoil, as ten of eleven sectors declined by an average of 6.2% in March, with energy the sole exception, rising 37% for the quarter, its strongest quarterly performance on record. The Bloomberg Commodity Index advanced 11.5% in March and is nearly 25% higher year-to-date. Bond yields initially rose on inflation concerns before retreating on economic slowdown signals, with the US 10-year Treasury yield settling at 4.28% by quarter end.

TECHNICAL INDICATORS SUGGEST POTENTIAL FOR FURTHER NEAR-TERM DOWNSIDE IN BITCOIN AMID QUANTUM COMPUTING CONCERNS



Gold prices fell nearly 12% in March, the worst monthly performance since 2008, amid forced liquidations. In contrast, Bitcoin ended a five-month losing streak, gaining 2.2% to trade just above $68,000, supported by $1.2 billion in net inflows to US exchange-traded funds, though it remains approximately 45% below its all-time high and remains correlated to other volatile, risky assets. Technical indicators suggest potential for further near-term downside in Bitcoin amid quantum computing concerns.

A late-month rally, fuelled by de-escalation signals, saw US markets post their best daily gain since May. However, vulnerabilities persisted. The Strait of Hormuz remained largely closed, expectations for Federal Reserve rate cuts have fallen from an 80% probability of two moves by year-end to none, and analysts describe the environment as a 'single-variable market,' where sustained high oil prices preclude meaningful equity upside.

ONGOING CONSEQUENCES OF THE CONFLICT

DIRE ESCALATION (AROUND A 15% PROBABILITY) HURLS OIL BEYOND $150 PER BARREL

Negotiations between the US and Iran seem to have advanced indirectly via mediators such as Pakistan, with US points including full Hormuz reopening without tolls alongside threats of ground troops targeting sites like Kharg Island, Iran's principal sea terminal, and bombing non-military infrastructure such as power plants and oil facilities to compel compliance. The closure of the Strait of Hormuz has been described as the largest supply disruption in history, potentially affecting up to 30% of global oil and LNG flows. The repercussions have been widespread, including Eurozone inflation exceeding the ECB's 2% target, EU warnings of prolonged energy disruptions, and IMF assessments of risks to global economic recovery.

Financial markets are not fully pricing a spectrum of geopolitical outcomes, with consensus emphasising conflict duration as the key variable transmitted through oil prices, where stagflation represents the principal threat. The base case (generally viewed as having a probability of roughly 60%) assumes containment and de-escalation: a temporary inflation increase is absorbed, economic growth proves resilient, and central banks delay but eventually resume easing cycles, supporting US equity breadth. Unwelcome runner-up (with around a 25% probability) drags into 'stagflation light' with oil glued high, inflation sticking past 4%, and the Fed/BoE pinned between price fires and growth chills. Dire escalation (around a 15% probability) hurls oil beyond $150 per barrel, slamming real incomes through energy and grocery hikes with a high risk of recession.

US MIDTERM ELECTIONS LOOM

VOTER PRIORITIES CENTRE ON COST-OF-LIVING ISSUES, INCLUDING ELEVATED ENERGY, FUEL, AND FOOD PRICES

The US midterm elections on 3 November 2026 are poised to serve as a referendum on economic affordability amid the conflict-driven inflationary pressures, challenging Republicans' narrow House majority, where historically there is an average loss of 27 seats, and also their Senate position. Prediction markets such as Polymarket reflect Democratic advantages (85% probability of gain of the House of Representatives and 47% of Senate control), potentially amplified if the conflict drags into May, pressuring President Trump's approval amid stalled negotiations. Voter priorities centre on cost-of-living issues, including elevated energy, fuel and food prices, rather than foreign policy, and this is contributing to Democratic leads in generic ballots. Protracted conflict exacerbates Republican vulnerabilities through deferred Federal Reserve easing and recessionary pressures.

Three primary outcomes emerge:

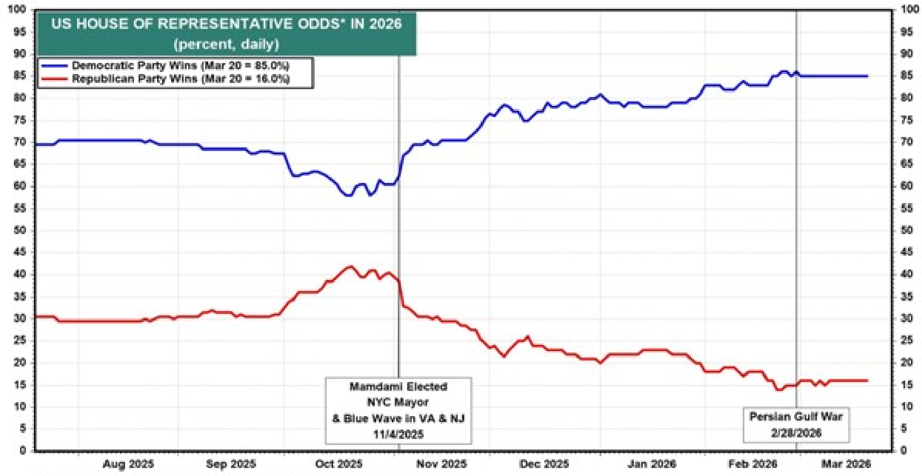
(1) Republican retention of Congress would maintain policy continuity, including tariffs, deregulation, and fiscal expansion, though at the risk of persistent inflation and rising bond yields.

(2) a divided Congress – the most common midterm result and base case – would foster legislative gridlock, providing a stable environment for equities by limiting major policy shifts.

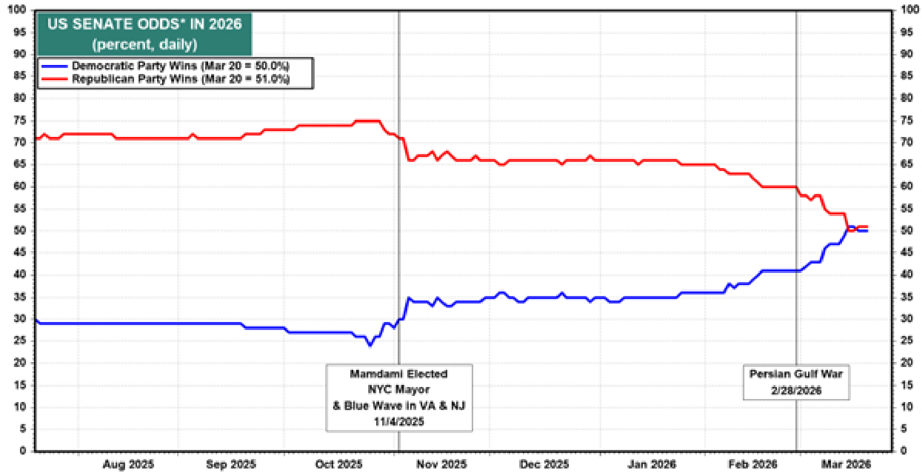
(3) a Democratic sweep could introduce heightened regulatory scrutiny, potential tariff reductions, and increased emphasis on green energy and infrastructure, prompting sector rotations away from energy and financials.

The longer the conflict, the more prolonged the inflationary strain and the greater the chance undermined consumer confidence will elevate Democratic prospects. The baseline expectation is a closely contested election favouring gridlock, but an extended elevated oil price is likely to increase political and sector-specific volatility.

LONGER WAR RAISES THE ODDS OF THE REPUBLICANS LOSING THE SENATE TOO



Source: LSEG Datastream and © Yardeni Research. Polymarket.com.
* Updated at 8 p.m. on business days



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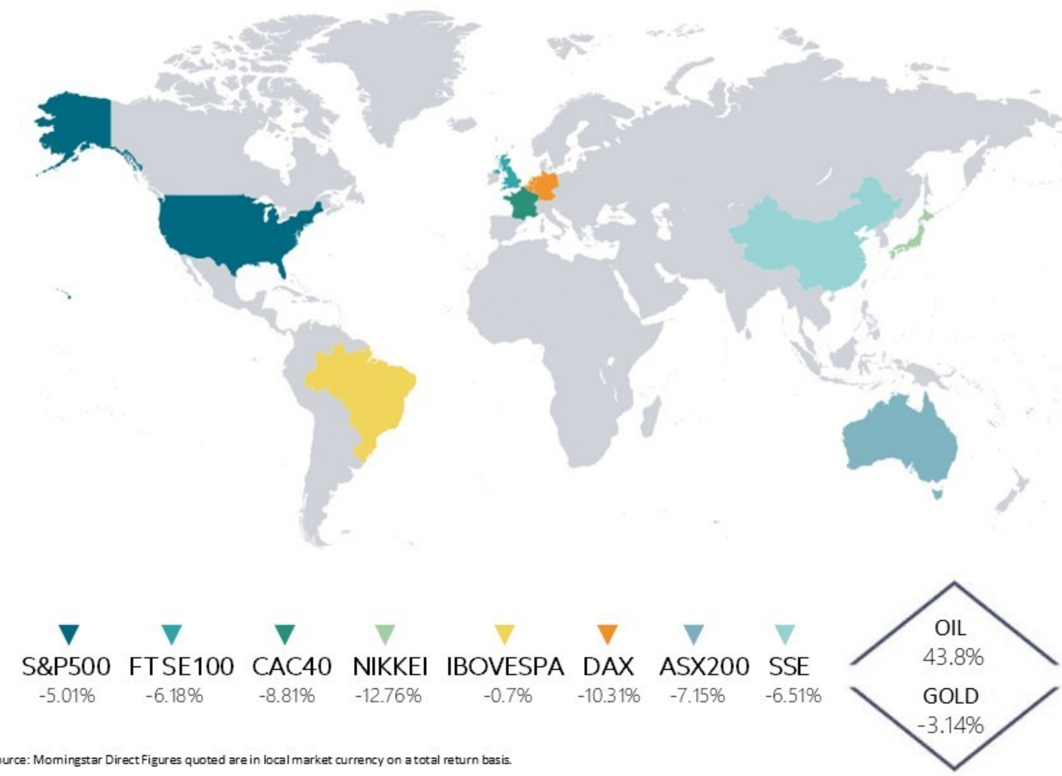
GLOBAL MARKET RETURNS - MARCH 2026



Source: Morningstar Direct Figures quoted are in local market currency on a total return basis.

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