

What we liked



- **Australia Trimmed Mean Steady:** Trimmed mean inflation held at 3.3% in the 12 months to March, unchanged from February, with the quarterly trimmed mean rising 0.8%. The absence of re-acceleration, while positive, does not take away the risk of short-term increases in the official cash rate.
- **US GDP Rebounds Sharply in Q1:** Real GDP grew at a 2.0% annualised rate in Q1 2026, rebounding sharply from 0.5% in Q4 2025, driven by investment, exports, consumer spending, and government outlays. Core GDP accelerated to 2.5% from 1.8%, confirming private sector momentum was genuine rather than inventory driven.
- **US Business Investment Surges:** Business investment rose 8.7% annualised in Q1, driven by the AI boom and data centre buildout. The four hyperscalers collectively committed to \$650 billion in AI infrastructure spending in 2026, the largest capital commitment in corporate history, with Q1 earnings confirming those plans are on track.
- **US Labour Market Remains Structurally Robust:** March payrolls rose 178,000, rebounding from a weather and strike affected February, with unemployment at 4.3%.
- **ECB Holds, Preserving Optionality Over Tightening:** The ECB held its deposit facility rate at 2% in April despite eurozone headline inflation jumping to 3%, with core holding at 2.2%, preserving financial conditions support for a slowing economy. The hold reduced near term risk of a policy error compounding the growth slowdown.
- **China Q1 GDP Beats Forecasts:** China grew 5.0% year on year in Q1, accelerating from 4.5% in Q4 2025 and beating the Reuters consensus of 4.8%, with industrial value added up 6.1% and full quarter exports rising 14.7%, the fastest pace since early 2022. A constructive signal for global demand and Australian commodity exporters.

What we didn't like



- **Brent Crude Surges to Wartime Highs Above USD\$126:** Price pressures increased on consumers and industry in April, with Brent Crude topping \$126 per barrel. Sustained triple digit oil is compressing real household incomes globally and placing central banks in a stagflationary bind.
- **Australia CPI Surges to 4.6% – Highest Since September 2023:** Annual CPI jumped to 4.6% in March from 3.7% in February, driven by a 32.8% monthly surge in fuel prices, housing costs up 6.5% annually, and electricity costs 25.4% higher year on year as government rebates rolled off. With the cash rate at 4.10% following two consecutive hikes and all four major banks forecasting a further move in May, Australian households face the steepest cumulative tightening cycle since the 1990s.
- **US Inflation Reaccelerates with Core PCE Highest Since Late 2023:** March CPI rose 0.9% for the month, lifting the annual rate to 3.3%, the highest since April 2024 and up sharply from 2.4% in February. Core PCE accelerated to 3.2% year on year, its highest since November 2023, with headline PCE reaching 3.5%, both well above the Fed's 2% target and effectively closing the door on near term easing.
- **Eurozone Stagflation Deepens with Inflation at 3% and Growth at 0.8%:** Eurozone headline inflation surged to 3% in April while Q1 GDP slowed to just 0.8% year on year, presenting the ECB with a textbook stagflation dilemma. ECB staff revised 2026 growth down to 0.9% and raised the inflation projection to 2.6%, with Germany and Italy both cutting national forecasts.
- **UK Inflation Rises to 3.3% as Rate Cut Cycle Abandoned:** UK CPI rose to 3.3% in March, with the BOE now expecting inflation to peak between 3% and 3.5% in Q2 and Q3 2026, reversing expectations of a series of rate cuts priced entering the year. The pivot to a tightening bias compounds an already anaemic domestic growth outlook.
- **China Exports Collapse to 2.5% in March as Consumption Disappoints:** Exports plunged from 21.8% year on year growth in January and February to just 2.5% in March as the Iran war raised energy and logistics costs, while retail sales decelerated to 1.7% year on year as subsidy impacts faded and auto demand softened. Deteriorating external demand and structurally weak consumption reinforce China's growth imbalance heading into Q2.

BASE CASE

Our view of the most likely scenario for markets over the coming months, for which our portfolios are currently positioned.



75% Probability

The closure of the Strait of Hormuz has pushed energy prices higher and disrupted the supply of essential goods. If the blockade continues, these pressures are likely to intensify. We have responded by tilting our portfolios toward companies with strong structural growth that are less exposed to potential supply disruptions.

It is worth noting that we entered this period from a position of strength. Corporate profits were healthy, government spending was supportive, borrowing conditions were relatively easy, and oil supply was plentiful before the conflict began. These foundations give the global economy a solid base from which to recover.

Inflation had been slowing before the conflict, but rising energy prices have pushed expectations higher. In the short term, higher inflation is a headwind for both economic growth and investment returns. If it proves persistent, the greater risk becomes a slowdown in consumer spending and the kind of demand destruction that sustained high prices can cause.

Central banks (the institutions that set interest rates) face a difficult balancing act. Cutting rates can stimulate growth but risks pushing inflation higher. Raising rates can contain inflation but slows the economy. Most central banks cut rates last year and those benefits are still flowing through. However, until we see the US Federal Reserve and the Reserve Bank of Australia signal a greater focus on supporting growth over controlling inflation, we remain cautious on the outlook for interest rates.

Liquidity levels, the flow of money that keeps financial markets functioning, remains important to watch. Higher oil prices effectively pull money out of the financial system, as more household and business income is directed toward energy costs. Encouragingly, both China and the US Treasury continue to provide support to financial markets, which underpins economic activity and commodity demand.

Looking further ahead, structural growth themes remain intact. Investment in artificial intelligence, domestic manufacturing, and energy infrastructure is expected to broaden profit growth across industries over the medium term. In summary, resilient corporate earnings, government spending support, and the lagged effects of last year's rate cuts provide a reasonable foundation for investment markets, though within a more volatile environment than we have seen in recent years.

BEAR CASE

Our worst-case scenario for the coming months, which we are prepared to position for should conditions deteriorate.



13% Probability

The key risk in this scenario is a meaningful pullback in consumer spending, particularly in the United States, which has been the primary engine of global economic growth. If households tighten their belts, company revenues come under pressure at a time when share market valuations are already elevated. Combine that with persistent inflation or reduced support from the US Federal Reserve, and both profit margins and market prices could fall at the same time.

The longer the Iran conflict continues, the more likely this scenario becomes. A sustained oil price spike of 50 to 100% above recent levels would flow directly into consumer prices, squeeze company profit margins, and soften demand simultaneously. This combination of weak growth alongside stubbornly high inflation, known as stagflation, is historically one of the most difficult environments for both shares and bonds. Central banks may find themselves unable to cut rates to support the economy, while high government debt levels limit how much fiscal stimulus (government spending) can cushion the impact.

China adds a further layer of risk. If its property sector weakens further and government stimulus fails to restore confidence, Chinese growth could slow materially. Given Australia's reliance on Chinese demand for our resource exports, this would directly impact Australian national income and corporate earnings. In this scenario, a more defensive investment approach would be warranted, with higher cash holdings, reduced share market exposure, and a tilt toward more stable sectors such as healthcare, consumer staples, and utilities.

BULL CASE

Our most optimistic view for markets over the coming months.



12% Probability

In the most positive scenario, the Iran conflict ends relatively quickly, and a period of recovery follows. Falling energy prices, easing supply pressures, and improving diplomatic relations would support stronger growth while keeping inflation in check. If trade disputes are also resolved, company profits could grow strongly as lower input costs and solid consumer spending support healthy margins. The continued adoption of artificial intelligence and other productivity-enhancing technologies would further lift output and profitability across a wide range of industries, without the widespread job losses that many fear.

Government spending would provide an additional boost. While some fiscal stimulus may create mild inflationary pressure, economic expansion is expected to outpace it. Strong household and business balance sheets mean both consumers and companies are well positioned to respond to improving conditions. For Australia specifically, government spending and the interest rate cuts that began in 2025 would support stronger domestic growth, with relatively low levels of public debt giving policy makers room to act further if needed.

If interest rates remain below the rate of inflation, meaning money remains relatively cheap to borrow in real terms, investment conditions stay supportive for asset prices. In this scenario, a growth-oriented portfolio with relatively low cash holdings and increasing exposure to economically sensitive sectors such as industrials, materials, and financials would be well positioned. The combination of policy support, technological advancement, and strong balance sheets provides a favourable setting for investment markets over the medium term.



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