

Chris Burrell's Market View Blog

Budget Night, Banks and the Big Picture 15 May 2026

Just when investors thought they were making better investment decisions than ever — and the December 2025 calendar year performance numbers were good across the board — along came a Black Swan event in the form of the 2026 US/Israel/Iran war. A Black Swan event comes out of left field. It is unpredictable, at least in terms of timing, and can have a dramatic effect on markets and economies.

The 14-point memorandum of understanding signed between the US and Iran has raised hopes that tensions may finally be easing. Israel is not a party to the agreement, and there have been false dawns along the way. But your diarist's view is that this is a significant event — if not the end, then the beginning of the end.

The reason lies in two pinch points

The first pinch point was Iran's. The Iranians ran out of places to store oil and began shutting in production, as was happening right across the Gulf. Many of these wells are old. Once shut in and the pressure lost, a field does not simply come back when reopened — some say three years to bring fields back online, quite apart from the damage to infrastructure. The US understood this pinch point, which is why missiles were finding the engine rooms of ships trying to reach Iran.

The second pinch point was the West's: the Strait of Hormuz. Provided those pinch points remain, the agreement should hold, subject to some toing and froing.

Market reactions were positive, although more relief than exuberance. The US market had not reacted particularly adversely for most of the conflict, supported by strong earnings: S&P 500 earnings growth of 22% this year, with technology at 40-odd percent, and

over 15% and 26% respectively next year. Add the onshoring of production and AI capital expenditure that is currently trumping almost all other capex in the US.

The bad news is threefold:

1. The risk of the Strait being open, closed and subject to Iranian control is now much higher than it was.
2. It takes some two months for a ship to travel from the Strait to, say, the Korean refineries, and further time from the refineries to markets. Expect a two to three month period before flows normalise.
3. Asia, including Australia, will now finally build the oil storage it should have built years ago. Demand will not just catch up the supply that was missed — it will build stockpiles. It's not just in time anymore. It's just in case.

Some suggest surplus production may emerge quite quickly once the Strait opens, given all the extra production that has come online, bringing oil back to somewhere between US\$70 and US\$80.

History doesn't repeat, but it rhymes. In the 1970s oil shocks, fuel prices drove inflation, central banks raised interest rates, and 15-month recessions followed both times. Yet in the 1973–74 oil shock the US market fell 47%, and in the second shock 1978–79 it didn't fall at all. There was always a fair risk of dramatic outcomes by looking at history.

The lesson is the flow through of higher oil prices — in Australia, that's diesel, fuel and jet fuel — feed through to inflation reasonably quickly, because few in the supply chain can bear those costs. In Australia, the institutional parameters around wages and prices are stronger than in the US, so inflation is more likely to flow through to prices, the central bank is more likely to react, and the impact on the economy is more likely to be real. Governor Bullock held rates last week — wait and see, hoping the Strait opens and oil prices come off.

Australia dodged a bullet on supply. People have written for 30 years about the need to shore up our tenuous oil storage. We were lucky that BP's large refinery near Seattle, connected to pipelines in the US and Canada, could effectively dial, blend and send what we needed, along with some Asian production.

But we have been left with the inflation, and the risk of recession in Australia is considerably higher than in the US — we don't have the AI spending to the same extent, and post-Budget there is a fair bit of weakness, particularly in consumer confidence. Consumer confidence numbers here and in the US haven't been this bad since 1973–74. That's over 50 years. If that pessimism flows through to actual spending — and there are early indications that in some sectors the consumer has stopped spending — there is real cause for concern. The June quarter numbers in the second week of August will tell us more.

Turning to sectors

Resources have been a beneficiary. Demand for processed metals has been strong, copper is a winner from the AI infrastructure boom along with critical minerals, iron ore has held up remarkably well, and gold, though off its highs, remains above US\$4,000.

The banks were overpriced for quite some time. CBA is still on a multiple of 24 times earnings even after coming back; normally you'd say 13 or 14 times for a bank. NAB has come back from \$50 to \$37, and Westpac and ANZ from around \$42 to the mid-\$30s. Were it not for the Budget — more on that in the next blog — you'd say the banks have basically corrected. With auction clearance rates in Brisbane at 30% last weekend, we'll keep a close watch.

Consumer discretionary is on watch with those confidence numbers, and caution has so far been the right strategy. There is a point at which these stocks become attractive — Harvey Norman has fallen from over \$6 to \$4.50, with over \$3.50 of land and buildings in the company, so you are effectively paying a dollar for the whole Harvey Norman business — but we want more comfort that people are actually spending first.

In AI and software, a dichotomy has emerged. The hyperscalers remain strong: Google's cloud computing sales were up 62% in the March quarter, Microsoft over 40%, and Amazon's AWS over 20%. Meanwhile the market seems to have decided that no one will pay for software as a service anymore. Salesforce in the US, and Seek and Carsales here, are trading at near half their previous levels — some of the press call it a "SaaS apocalypse", which is emotive. We think it's overdone. Changing your Client Relationship Management (CRM), with all your client data in it, is an enormous exercise for any business. Far more likely is that AI enhances these businesses and their proprietary data rather than damages them. To the extent the software stocks have come off, those prices look attractive.

Healthcare has had a tough period, but the falls largely occurred in the 18 months prior and the sector was not overly impacted by the war. The demand story — baby boomers, growing pathology volumes, new diagnostic breakthroughs — is strong and ongoing. The issue is turning demand into price and then into bottom line, and these are complex businesses to run. There have been some green shoots lately. Hold your positions in healthcare; if you don't have any, it's probably an interesting entry.

On portfolio behaviour, there have been three investor groups. A small number panicked and sold out — they tend not to come back in, so they miss the recovery. Those who held their positions — a reasonable strategy, given how hard this has been to predict. And those who, mindful of the 1970s, took some money off the table. Since the end of May, our view has been to nibble away where cash is available from earlier sales, because there is certainly some good buying. As one of my mentors said, the best periods to buy are when everyone else is fearful. That's where you set yourself up for the next cycle.

Diversification has done its job. Fixed interest, property, and domestic and international equities don't all move together — the R-squared or correlation coefficient between Australian and international equities is only 0.44. And with 5.5% on offer on some term deposits, that's not a bad arrow to have in your quiver across a balanced or moderate growth portfolio.

You can't have a Black Swan event and not expect it to impact returns. The returns to June 2026 will be down — not negative, but not what they were to December 2025 — so investors should lower their expectations accordingly. Hopefully, with the Strait open, some bounce back from June

year end depressed prices delivers a better calendar year than it currently looks.

If there is one message: keep engaged and don't get caught up in the sentiment, either positive or negative. Fundamentally, we are looking at businesses. We have research that tells us what they are worth. You are really looking for better businesses with good returns that you can add to portfolios, without taking high levels of risk.

Happy Investing
Chris

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