ACORN CAPITAL MARKET INSIGHTS

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MISSILES AND MARKETS: HOW MARKETS ARE FOLLOWING A FAMILIAR PLAYBOOK SINCE THE OUTBREAK OF WAR IN IRAN

Markets followed a familiar playbook after missiles began flying over Iran on 28 February 2026: initially, oil prices surged, equities dropped, and investors rushed into safe havens; then, a sudden U-turn occurred and investors scrambled for the exits. In 2022, when Russia invaded Ukraine, this playbook took about 3 months to unfold. However, in 2026, the playbook associated with the War in Iran was only a few days. Importantly for investors, the sell-down was rapid and the aftermath has created potential buying opportunities. At Acorn Capital, rather than trying to time the bottom of the market, we are pursuing quality stocks at what we believe are attractive valuations, before market conditions normalise.

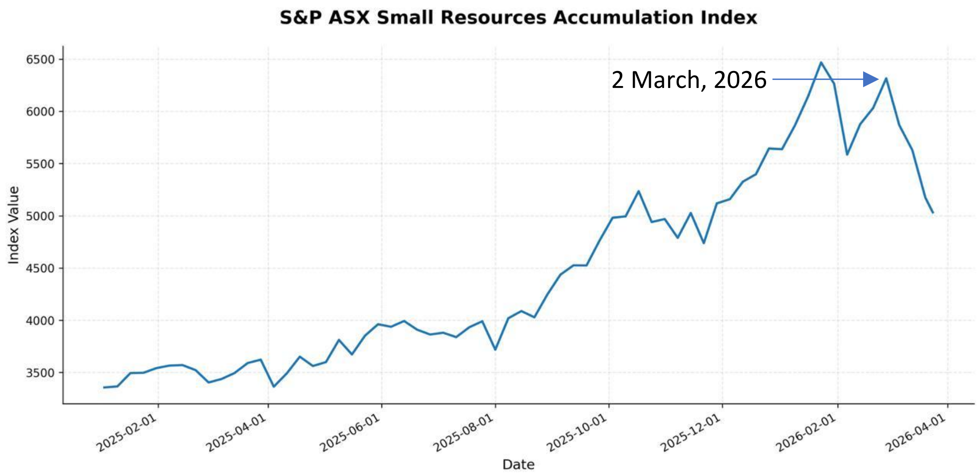

Figure 1: Performance of the S&P ASX Small Resources Accumulation Index from 1 January 2025 to 23 March 2026. War commenced on 28 February 2026 and the recent peak was 2 March 2026. Data obtained from FactSet 2026.

To understand what drove the speed and ferocity of the March 2026 sell-down of resources and energy stocks requires knowledge of the market conditions prior to the outbreak of war in Iran. From early 2025 to early 2026, the gold price surged from about US$2,600/oz to US$5,400/oz[1], with particularly strong gains from August 2025. Silver joined the uplift from August 2025, rising from about US$40/oz to US$120/oz[2]. Similarly, copper, rare earths and lithium rose strongly from mid-2025, and even nickel and uranium rebounded from recent lows. One measure of performance within the Australian resources and energy sector is the S&P ASX Small Resources Accumulation Index, which comprises resources and energy stocks. As illustrated in Figure 1, the index experienced a period of strong short-term growth over the past year, followed by a decline throughout March 2026.

The strong performance of metal prices leading into the War in Iran meant it is possible that many investors were sitting on healthy profits in their resources and energy stocks, even after the pullback in March. We also note that some investors may have been leveraged to the resources and energy sectors in early 2026, especially in the gold sector where fears that US government debt levels and monetary expansion were eroding the dollar's purchasing power (i.e., the US debasement trade). These two factors meant many investors were potentially motivated sellers in March of this year and thus wanted to lock in gains, or margin calls were forcing them to sell.

So, why did markets take a U-turn so much sooner in 2026, compared to 2022? Prior to the outbreak of war in Ukraine, Russia produced about 10% of global oil and was a major provider of gas into Europe. Although US-aligned countries quickly imposed sanctions on Russian oil and gas, it took several months to take effect, and countries including China and India were happy to receive some of the banned products at a modest discount. In marked contrast, closure of the Strait of Hormuz immediately restricted the flow of about 20% of global oil production, and the bombing of oil and gas facilities in Qatar, UAE and Iraq threatened the long-term output.

Predicting when the War in Iran will end is impossible, but we believe its sudden and pronounced impact on the global economy means all countries are highly motivated to achieve peace. Moreover, when peace is announced, much of the lost oil an production is likely to be re-started quickly, because OPEC was previously limiting production at many of the Middle East facilities. Therefore, assuming peace is announced reasonably soon, we believe the following commodities are likely to benefit:

Oil: While the Strait of Hormuz remains closed, we believe oil will be a beneficiary of the War in Iran. The focus should be on oil producers, because the war will hopefully be over before any of the developers or explorers get into production.

Gold: Although rising energy costs from the War in Iran could increase near-term inflation, most gold producers are very profitable at current spot prices of about US$4,500/oz. Furthermore, the factors driving the US debasement trade have not changed (i.e., government debt levels and monetary expansion). In the short term, the main risk is access to fuel, especially for companies with large open-pit operations and/or processing plants run on diesel.

Copper: Although rising inflation and energy costs could reduce demand for copper, there are potential risks to supply that, on balance, would be positive for price. For example, sulfuric acid is essential for many of the large low-grade copper mines that produce copper cathode. Large volumes of this acid come from refineries in the Middle East, so rising prices and dwindling supplies mean some large copper producers could unexpectedly shut or reduce production. Therefore, reagent supply could be as important as fuel supply for keeping operations going.

Uranium: Similar to copper, several large operations use large volumes of sulfuric acid and diesel. Therefore, fuel and reagent supply from the Middle East could positively influence prices in the near term. Separate to this, the War in Iran is highlighting the importance of energy security for all countries and the advantages of nuclear as a baseload source.

Rare earths and other strategic metals: The War in Iran has not changed the desire of Western countries to lower their reliance of China, and other totalitarian states, for strategic metals. Rare earths, antimony, titanium and tungsten are just a few of the commodities that continue to benefit from government grants and price floors to increase supply. For rare earths, the key is operations that can be brought into production quickly (ideally within the next few years) and those that contain a high proportion of the heavy rare earths needed in robotics and humanoids.

In conclusion, the outbreak of War in Iran has disrupted markets in the resources and energy sectors. Although we cannot predict when the war will end, it is now becoming increasingly clear where the potential future opportunities exist in the resources and energy sectors. In the near-term, we see oil will be the obvious beneficiary, but disruptions to supply chains for fuel and particular reagents (e.g., sulfuric acid) mean certain copper and uranium producers could benefit too. The fundamentals for gold and the strategic metals also remain positive, so our outlook for the sector remains strong. Having recognised these risks and opportunities, the NextGen Resources Fund is positioning itself to capitalise as the market evolves.

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