War, Oil Shocks and Economic Turmoil

Impacts on the Economic Outlook and Australian Private Credit

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The escalation of the Iran conflict has materially altered the global and Australian macroeconomic outlook through its impact on energy prices, inflation expectations and interest rate settings. While it remains very unclear how long the conflict and oil price shock will last, the risk of tipping into recession is as high as it has been since COVID-19 and there are clear downside risks to household demand, construction activity and business investment. For private credit, the turmoil will require some tight and active loan management, like that executed through COVID-19 when construction costs and business revenues were disrupted. However, the turmoil is likely to highlight Australia's economic stability and certain structural characteristics of the private credit market, as capital allocation decisions increasingly reflect this resilience.

Oil and gas prices have surged since the Iran conflict began on 28 February. Brent crude, which was sitting near $US65 a barrel at the end of February, climbed above $118 in early April and exceeded its COVID-era peak.

The surge in prices reflects both the disruption to shipping through the Strait of Hormuz, through which around one-fifth of global oil supply passes, and the damage and shutdown of key regional oil and gas production facilities.

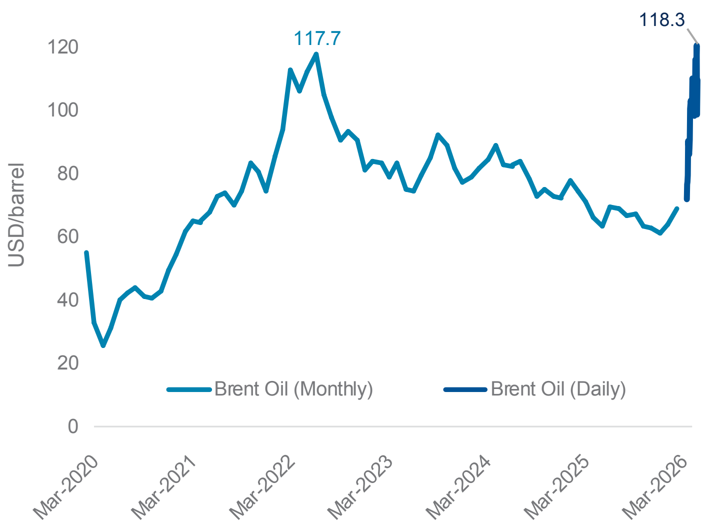
A two-week ceasefire has recently been agreed in April between the US and Iran and traffic through the Strait is meant to resume during this period. Nevertheless, considerable uncertainty still exists about whether the ceasefire will hold, what happens after and about how long the oil price shock will last. Even if the conflict does end quickly, it will still take some time for oil and gas production to normalise and for the price shock to completely dissipate.

A significant shift in interest rate expectations

The main impact of the Iran conflict on Australia's economic outlook is that the inflationary pressure from higher oil prices has driven a material rise in interest rate expectations.

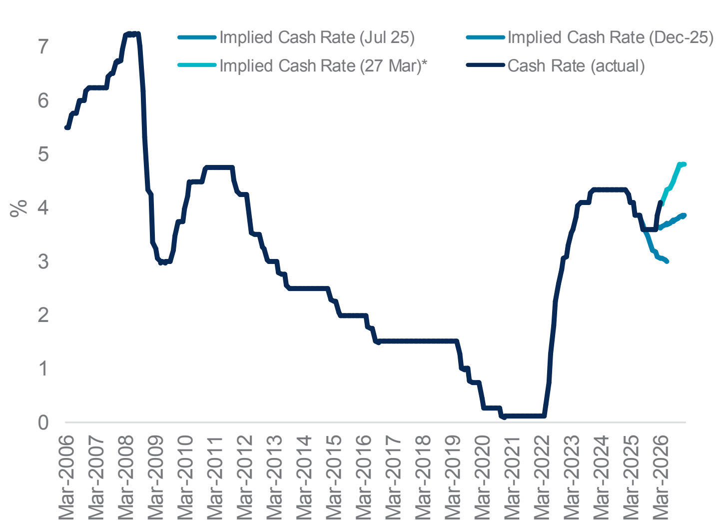
This shock has hit Australia at a vulnerable moment. Inflation had already pushed above the RBA's 2–3% target band in late 2025, prompting a cash rate increase in February even before the conflict erupted. The additional pressure from surging oil prices then forced a further 25-basis-point rise on 17 March, taking the rate to 4.10%. Markets and several economists now expect further tightening, with projections for up to three additional increases in 2026, lifting the cash rate toward 4.85%.

Brent Oil Price



Sources: St Louis Fed, Business Insider, Metrics Credit Partners

Cash Rate Market Expectation*



*Based on ASX 30 Day Interbank Cash Rate Futures. Source: RBA, ASX as at 27 Mar 26, Metrics Credit Partners

The shift in the interest rate outlook will have a significant impact on consumer behaviour. Many households were still recovering from the hit to disposable incomes caused by COVID-era inflation, and the latest oil-price spike effectively acts like another two to three rate rises on household budgets. Consumer sentiment has already fallen sharply.

If the RBA is forced to keep lifting rates to contain broader inflationary pressures – especially as higher oil prices feed into transport and input costs across the economy – the risk of a harder landing in consumption rises materially. Should oil prices remain elevated, the likelihood of tipping the economy into recession becomes more pronounced. While far from a foregone conclusion, recession risks are now higher than at any point since COVID-19. Emerging AI-related job losses could further weaken labour demand and accelerate the downturn.

For businesses, the current uncertainty is likely to curtail new investment plans. For the corporate lending sector that was showing signs of recovery, this might postpone major M&A activity, larger investments and see loan demand soften once more.

For property, perhaps the largest impact has been an immediate lift in construction costs, affecting project feasibility and potentially delaying new starts. These cost pressures stem not only from higher transport and energy prices but also from oil's role as a key input in materials such as PVC piping and most plastics.

For the housing market specifically, resilience remains the dominant theme. While higher interest rates and pressure on household budgets could soften activity, Australia's substantial housing shortfall continues to provide a strong buffer against any meaningful downturn. Provided Australia avoids a severe recession with a sharp rise in unemployment, any 2026 price declines are likely to be modest before solid fundamentals reassert themselves. In fact, if new construction is delayed due to current uncertainty, the medium-term supply gap could widen further, reinforcing underlying demand.

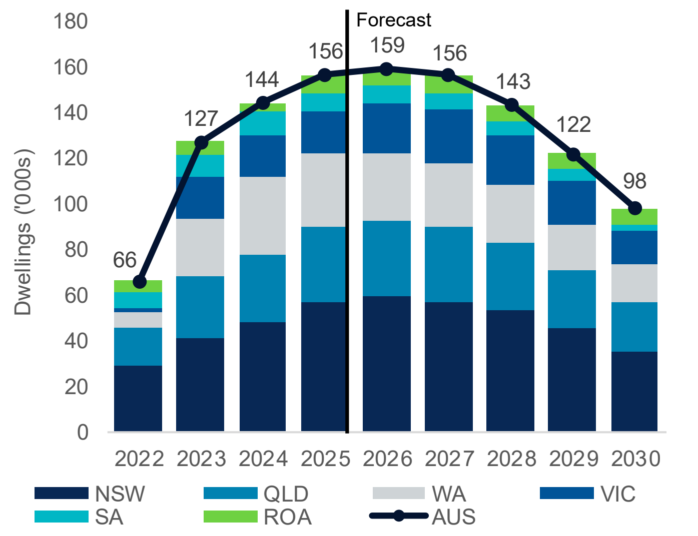
Impacts on Australian Private Credit

While the current environment presents clear short-term challenges for private credit, it also creates conditions that highlight the sector's resilience and long-term appeal. Elevated uncertainty may slow business investment and development decisions, reducing near-term deal flow. At the same time, pricing this uncertainty will require closer scrutiny, and some sponsors may resist the higher risk premiums now warranted, further moderating activity.

For CRE lending, rising construction costs need to be managed closely. The industry has recent experience navigating similar pressures during the COVID-19 period, and well-underwritten loans should already include contingencies that allow lenders and developers to work through cost challenges collaboratively.

A recessionary outcome would naturally have a deeper and more prolonged impact on loan demand. However, the probability of such a scenario remains relatively low at around 25–35%. The more plausible path is a temporary loss of momentum followed by a return to the solid growth trajectory Australia was on prior to the recent disruption.

Estimated Australian Housing Shortfall



Source: Oxford Economics, Metrics Credit Partners

Current uncertainty is also reinforcing the appeal of Australian private credit, with multiple factors working in investors' favour:

- **Inflation protection** – Australian private credit loans are almost entirely floating rate loans as opposed to fixed interest loans that are more prevalent in other markets. This means that as inflation rises and pushes up interest rates, the interest rate on the loan will also move up by the change in the base rate, maintaining stable margin over the base rate and giving investors an inflation hedge.

- **Return stability** – Beyond moving in line with interest rates, Australian private credit has delivered stable, predictable returns across market cycles. As broader risk sentiment evolves, private credit's role as a contractual lending strategy with defined cashflow features is likely to remain relevant.

- **Australia's economic resilience** – Over the past four decades, Australia has demonstrated economic resilience, avoiding recession during both the Tech Wreck and the GFC, and sustaining nearly 30 years of uninterrupted growth prior to COVID-19. Even the COVID downturn proved comparatively mild, with a rapid and robust recovery. This resilience is underpinned by strong long-term drivers, most notably population growth that outpaces other advanced economies, providing a solid foundation for the continued expansion of private credit over the long term.

- **Lender/Investor protections** – Australia is a very lender-friendly market, and a strong rule of law exists that is very favourable for lenders to enforce contractual obligations or access loan securities put up by borrowers. This environment comes partly from the traditional concentration of the corporate lending market towards the Big 4 banks, but it is one private credit operators now benefit from. Relative to other jurisdictions, this provides a well-established framework for loan obligations to be upheld and enforced appropriately if issues arise.

Metrics' Approach to Managing Risk Through Economic Cycles

Metrics Credit Partners is actively monitoring the evolving macroeconomic environment and its implications for portfolio exposures. Our approach is anchored in disciplined loan origination, ongoing portfolio oversight and regular stress testing, ensuring clear visibility over borrower performance and overall portfolio resilience.

Metrics firmly believes that direct loan origination is fundamental to effective credit selection and risk management. By originating all loans internally, we retain full oversight of each investment and maintain control over structures, terms and protections from the outset. This keeps us closely connected to borrowers and well positioned to respond decisively as conditions evolve. Supported by a large and experienced investment team, we monitor developments in real time and adjust where appropriate.

This approach has been tested across economic cycles, most notably during COVID-19. By working closely with borrowers and actively managing loans through that period, these processes were successfully tested under challenging conditions. The same principles continue to guide portfolio monitoring and risk management in the current environment, with a focus on disciplined oversight and resilience through the cycle.

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