



Market Outlook

FY2026

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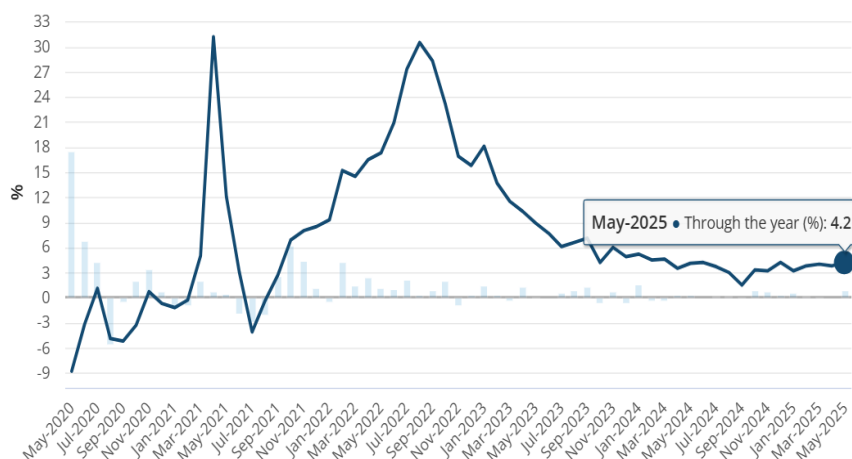
Economic Outlook

Can policy driven liquidity offset the turbulent economic environment?

Australia *The Lucky Country*

The Australian economy demonstrated the resilience we have all come to expect from the lucky country throughout FY25. While there has been dips along the way, with interest rates on the march lower, unemployment relatively stable and our GDP holding firm, our expectation is for continued buoyancy throughout FY26.

We have seen household spending continue to show resilience, with the latest ABS data (to the right) showing a 0.9% month-on-month rise in May and a 4.2% increase compared to May 2024. All categories saw positive readings excluding food and beverage.



Consumer confidence was fairly sluggish throughout the past 12 months and remains below historical averages. We have however seen initial signs of recovery which we attribute to the recent interest rate cuts providing cost of living relief for households. We expect this to be bumpy given the political environment we are currently in, but with further interest rate relief on the horizon, the continuation of the trend seems most likely in our view.

The labour market has outperformed expectations. Unemployment remains low (albeit did surprise to the upside in the July release). While some of this strength reflects robust hiring in public administration, the overall participation rate remains near record highs, and underemployment has also edged lower. While wage growth has slowed in recent periods, it remains well above the pre-covid range.

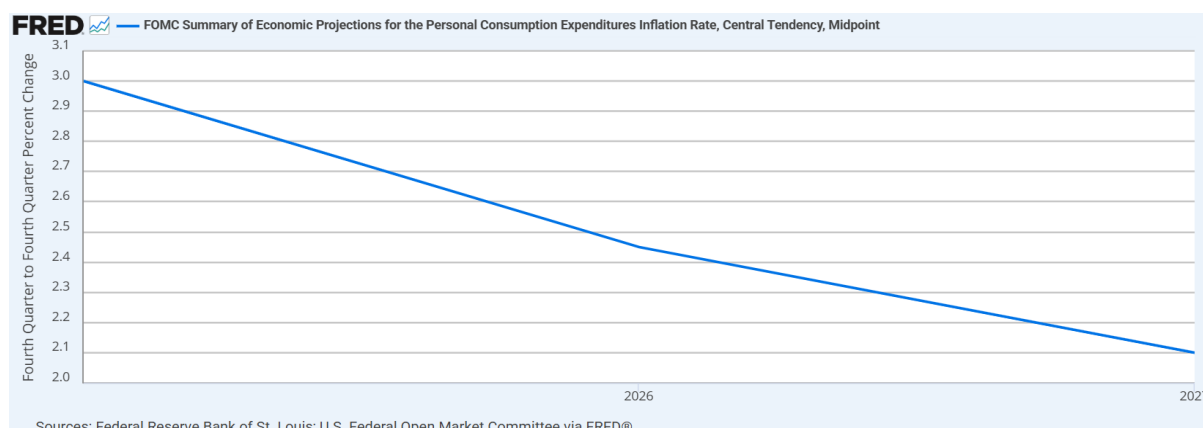
Monetary policy has shifted, with the RBA's recent cash rate cuts providing a tailwind to households and businesses. The Board has signalled caution, however, as concerns linger over a potential reacceleration in inflation. The RBA opted to hold rates steady at 3.85% in July, emphasising the need for further evidence that inflation is sustainably tracking toward its 2.5% target, and highlighting the risks posed by global and domestic uncertainties. While the market may have priced in more than three interest rate cuts we are a less sanguine than others in the market and expect two moving into year end.

Business conditions are showing tentative signs of recovery. The NAB Business Conditions Index jumped to +9 in June, the first trend increase this year, though it remains below historical averages. Confidence has lifted for three consecutive months, with forward orders and capacity utilisation improving. While the outlook is still uncertain, the recent spike in business conditions may signal the beginning of a trend reversal, supporting cautious optimism for the coming 12 months.

United States *Printing Press*

US trade policies are emerging as the dominant force shaping the economic outlook for FY2026 - introducing significant uncertainty and volatility.

The reacceleration in inflation, as forecasted by Bloomberg consensus, is expected to keep the Federal Reserve in a hawkish stance, despite anticipated political pressures from the trump administration. It is interesting to note the FOMC projections as at June of this year maintained an expectation for a declining Personal Consumption Expenditures (PCE) Inflation Rate. The effects on consumer goods we anticipate tariffs to play make these expectations unlikely in our opinion. This dislocation may prove to be a major source of volatility in the year ahead.



In an environment of higher inflation, we encourage ownership of real assets and cashflow generative business – or in short, things you can't print.

As real incomes are squeezed, demand for discretionary goods and services may weaken. The risk of demand erosion serves to add pressure to rising unemployment, raising the potential for engrained stagflation—a period of stagnant growth and persistent inflation.

Robust fiscal spending is expected to provide some offset to a tighter consumer spending environment, supporting liquidity and cushioning the downside for growth. Infrastructure, defence and border security initiatives remain key drivers of government outlays.

We see the administration's plans for significant fiscal spending to further bolster our inflation concerns and is likely to result in continued selling pressure of the USD. Softening of the USD will help Trump's plans of reigniting US industry – making purchasing from the US more cost effective.

Business investment is likely to remain subdued outside of the hyperscale technology sector, where data centre buildouts continue at pace. The ever-shifting trade dynamic has complicated supply chains and investment planning. The US Purchasing Managers Index (PMI) remains under the 50 mark, currently 49. This has been stabilising in recent periods, and we expect it will likely breach 50, signalling improving economic activity. An improving PMI is often a great indicator for investor sentiment.

Global *Austerity to Flexibility*

Years of relative fiscal austerity have positioned major European economies, particularly Germany, with significant room to manoeuvre. After a prolonged period of budget discipline, Germany is now shifting gears with a bold fiscal package, including a €500 billion infrastructure investment fund and exemptions for defence spending. This marks a decisive departure from its traditional “debt brake” policy, enabling targeted stimulus to modernise transport, housing, digital infrastructure, and energy transition. Such fiscal flexibility is expected to support growth and provide a buffer against external shocks – we believe there is potential upside to current growth projections for the region.

Global capital flows are undergoing a notable shift as investors reduce US exposure, in response to persistent trade tensions. This repatriation of capital is likely to drive increased allocations to infrastructure and industrial opportunities outside the US, particularly in Europe and emerging markets. European equities have already responded positively to the regions fiscal overhaul, while bond markets adjust to higher expected issuance.

China’s economic landscape remains challenging, with sluggish domestic demand, a persistent property downturn, and ongoing trade frictions. In response, authorities have unveiled a comprehensive stimulus package, including monetary easing, targeted lending facilities for consumption and technology, as well as broad capital market support measures. The Chinese government aims to maintain a growth target near 5% - as policy support intensifies and looks to stimulate domestic demand. Core risks remain - if export momentum fades as a result of turbulent tariff policy from the US or property sector weakness persists, we could see deflationary concerns become structurally engrained within China. In this scenario, we look to the Japan’s late 80s, early 90s economy as the case study and the 30+ years of deflation that followed.

Emerging markets are showing resilience. A key tailwind is the weakening US dollar (detailed below), which has reached multi-year lows. This shift is lowering debt servicing costs and attracting renewed capital flows into the local currencies. Monetary policy flexibility is increasing as inflation moderates and foreign exchange pressures ease. While global trade tensions and commodity price volatility remain risks, the combination of a softer dollar and enhanced monetary autonomy positions emerging markets for improved stability and selective growth opportunities throughout FY2026.



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Capital Markets Outlook

Where to look for purposeful capital allocation.

Fixed Interest

The Fixed Interest landscape is set for a dynamic year, with the US dollar's recent weakness amplifying volatility in global bond markets (trailing returns across the asset class detailed to the right – sourced from JP Morgans' Guide to the Markets). The US Treasury market, in particular, stands at the forefront of this volatility, and we expect its movements to be the defining theme for fixed income investors throughout FY2026.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD '25	2Q '25	Ten-yr Ann.
14.2% U.S. MBS 1.5%	15.3% Global HY 15.9%	8.1% Aus IG 5.1%	12.2% U.S. MBS 1.9%	14.8% EM Debt 14.4%	5.3% Aus IG 5.3%	12.6% U.S. TIPS 6.0%	-5.9% U.S. MBS -11.5%	12.7% Global HY 12.4%	16.5% Global HY 8.9%	3.8% Aus IG 3.9%	2.6% Aus Gov 2.6%	8.9% Global HY 6.2%
13.9% EM Debt 1.2%	10.7% EM Debt 10.2%	3.5% Aus Gov 3.8%	12.1% U.S. TIPS 0.9%	13.9% Global HY 14.0%	4.1% Aus Gov 4.1%	7.6% Global HY 2.9%	-6.2% U.S. Treas. -12.5%	9.8% EM Debt 10.8%	16.5% EM Debt 8.7%	3.8% Aus Gov 3.8%	2.3% Aus IG 2.3%	6.4% EM Debt 4.6%
13.4% U.S. Treas. 0.8%	5.8% Portfolio 5.4%	2.0% Global HY 7.6%	8.7% U.S. TIPS -1.3%	11.7% Global IG 11.5%	1.1% U.S. TIPS 11.0%	5.0% U.S. MBS -1.0%	-6.7% Aus IG -6.7%	8.9% Global IG 9.6%	12.2% U.S. TIPS 1.8%	1.5% Global IG 7.4%	-0.4% Global HY 3.0%	5.1% Global IG 2.9%
10.9% U.S. TIPS -1.4%	6.2% U.S. TIPS 4.7%	1.2% EM Debt 9.3%	7.4% Global HY -2.4%	9.5% Portfolio 9.2%	0.8% Portfolio 6.1%	4.5% EM Debt -1.6%	-7.0% Global HY -11.8%	6.8% Global IG 6.8%	11.5% U.S. MBS 1.2%	1.3% Portfolio 4.2%	-0.4% Portfolio 2.3%	4.0% Portfolio 3.2%
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7.7% Portfolio 0.5%	2.5% Aus Gov 2.5%	-4.6% U.S. TIPS 3.0%	-6.0% EM Debt -4.6%	7.1% Aus IG 7.1%	-1.6% U.S. Treas. 8.0%	2.3% Portfolio -1.1%	-10.7% Global IG -16.7%	4.3% Aus Gov 4.3%	9.8% Portfolio 3.6%	-1.1% U.S. TIPS 4.7%	-3.8% U.S. MBS 1.1%	3.2% U.S. Treas. 1.3%
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Persistent selling pressure on the USD has contributed to sharp swings in US bond yields, and we see further upside risk for the US 10-year yield, with a close watch on any breach of the 5% threshold—a level that could have far-reaching implications for global fixed income valuations. The core risk remains the US government balance sheet, and the administrations plans to continue fiscally inflating the economy. With US bonds not performing like the safe haven asset class they once were, we maintain an underweight allocation to the sector. If there was a significant concern around US solvency, the playbook has been written by the ECB through the European debt crisis. Our expectation is the federal reserve will be forced to enact yield compression and expand its balance sheet.

We believe high yield credit spreads, both domestically and internationally, are not adequately compensating investors for the current elevated risk environment (predicated on geopolitical and monetary policy turbulence). This mispricing leads us to maintain an underweight allocation to high yield, as the risk-return trade-off appears unattractive at present.

Domestically, we adopt a more hawkish stance than the broader market regarding the Reserve Bank of Australia's (RBA) rate cut trajectory. Market expectations for aggressive easing may prove optimistic, and we believe the pace and scale of cuts could underwhelm, supporting a cautious approach to duration allocations.

Within Australian credit, we continue to favour bank-issued securities. The sector is underpinned by robust balance sheets, a favourable lending mix, and resilient consumer fundamentals, all of which help mitigate the emergence of material default risk. This preference reflects our focus on quality and risk management in a period of heightened uncertainty. Bank issued bond are providing attractive risk adjusted returns and as such form the core of our fixed income allocations.

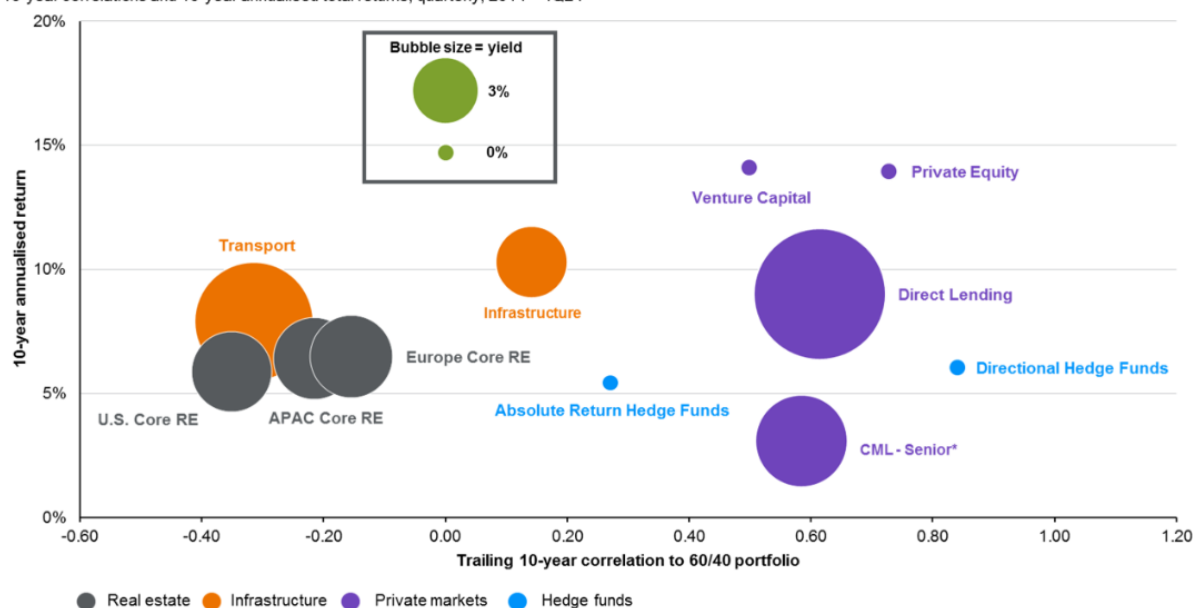
Real Assets

The global investment landscape is evolving rapidly, challenging the traditional role of defensive assets. For FY2026, we believe property, infrastructure, and commodities are increasingly central to portfolio construction for investors seeking diversification and volatility minimisation.

Traditional defensive assets, such as government bonds, have not been providing investors the diversification – specifically the downside protection, they once did. Heightened correlation to growth assets has reduced the risk management characteristics provided - forcing investors to reconsider their approach to asset allocation. Notably, bond proxies, such as listed infrastructure and real estate investment trusts (REITs) are behaving more like bonds themselves, offering a viable alternative to the traditional fixed income, defensive allocation. JP Morgans analysis (sourced from the JP Morgan – guide to the markets) on the relationship between alternative assets and the traditional 60/40 portfolio has been detailed below to help demonstrate the superior risk management Infrastructure and Real Estate allocations are providing portfolios.

Correlations, returns and yields

10-year correlations and 10-year annualised total returns, quarterly, 2014 – 4Q24

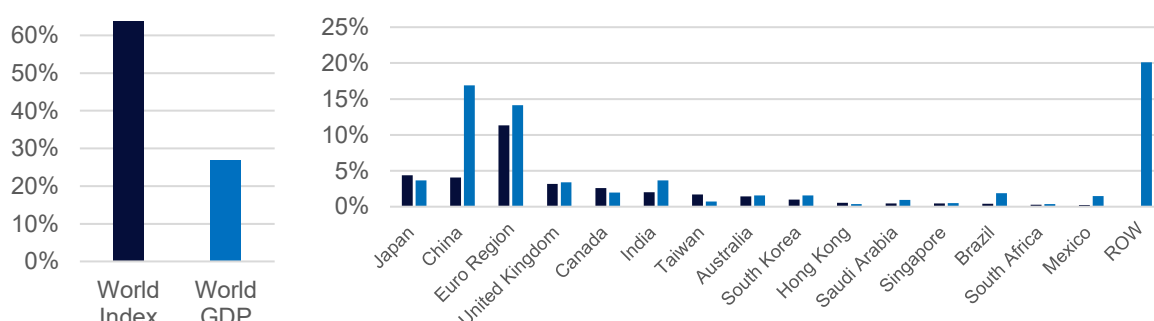


Elevated volatility across equities and fixed income has prompted a shift towards real assets, which can provide stable, inflation linked income streams, providing buoyancy during periods of heightened economic uncertainty. Real assets have historically provided a hedge against inflation. Their ability to pass through cost increases (e.g., via rent/fee escalations or regulated price changes) helps preserve real income streams irrespective of the economic backdrop. These contracted revenues are often not dependent of economic demand and the CPI linkage positions real assets as premium holdings through a stagflationary environment – a core risk in our economic outlook.

The expectation of lower global borrowing costs should provide a significant tailwind for real asset owners and operators. Falling interest rates improve the affordability of debt - enhancing cash flows and supporting asset values across the sector.

Global Equities

In the coming 12 months, we expect the core theme within Global Equities to be geographic allocation – specifically whether to retain a market weighted US x Rest of the World (ROW) positioning or whether it is viable to revert to a more GDP weighted geographic allocation within your global equity position. US equities continue to dominate global portfolios, with Bloomberg's All World (DM & EM) index seeing a ~64% allocation to the region – while US GDP only makes up ~27% of Global GDP (to the left below). As a result – most other countries are underrepresented in capital markets relative to their GDP contribution to Global GDP (to the right below).



Despite expectations for a softening US dollar—typically a tailwind for ex-US assets—US earnings remain robust and maintain a superior growth outlook in our view. Both monetary and fiscal policy are poised to inject significant liquidity into the US economy, supporting corporate profits and asset prices. We believe *US exceptionalism* is likely to persist, with mega-cap leaders in technology and AI continuing to deliver strong results and attract disproportionate investor attention.

Should earnings resilience broaden to US mid- and small-cap equities, we anticipate heightened interest in market breadth strategies. This would mark a shift from the current narrow leadership and could provide more balanced opportunities within US equities.

Outside the US, the prospect of capital repatriation is set to provide much-needed support for local indices. In Europe, fiscal expansion (particularly in Germany) is expected to boost liquidity, with infrastructure and industrial sectors emerging as key beneficiaries. While valuation multiples in Europe and Asia are unlikely to match those of the US, there remains scope for multiple expansion as global investors seek diversification and value opportunities. This expected multiple expansion coupled with favourable liquidity flows presents an attractive investment proposition for European equities.

China stands out as particularly compelling on a valuation basis. After years of underperformance and capital outflows, renewed government stimulus and spending are likely to act as catalysts for a return of global capital, especially if policy clarity and earnings momentum improve. Trade tension with the US will remain pivotal for the outlook among select export-oriented sectors – however we see opportunities in local facing corporations as the Chinese government looks to stimulate domestic demand and mitigate deflationary concerns.

Domestic Equities

The Australian equity market enters FY2026 at essentially record highs for the ASX200. The index is trading on a Price to Earnings (PE) of close to 23x (more than 30% premium to the long-term average) and a dividend yield off less than 3.4% (a level seldom seen outside of major exogenous events). With valuations stretched, index-level returns are likely to disappoint investors who rely solely on passive exposure. We believe active management will see a recovery in the coming period after 2 years of underperformance relative to passive counterparts. With market beta unlikely to generate trend returns – we see a growing need to have alpha exposure in your ASX listed portfolio.

These lofty, top line valuation metrics are underpinned by a heavy concentration to our banking cohort which (of the 5 majors) are each independently trading at record multiples – as a cohort they are more than 2 std deviations above their long term average earnings multiple. Despite resilient credit quality and robust consumer spending - buoyed by low unemployment - earnings growth for banks is expected to remain sluggish. While best in breed balance sheets and a preferred lending composition (when compared to global peers) will likely provide support to valuations in the sector, we see little to no room for further multiple expansion and as such maintain an underweight allocation to the sector which will provide capital returns to investors tracking the little to no earnings growth.

There is clear appetite for cyclical, particularly on positive news out of China. Should China, as Australia's major commodity consumer, sustain a meaningful recovery, domestic cyclical (especially miners) look compelling - we are however cautious on Iron Ore exposures. Iron ore faces idiosyncratic supply risks, namely new surplus supply coming online. Upside remains if China's demand surprises to the upside, or supply from new mining regions disappoints to the downside.

Copper stands out as an attractive exposure - supported by long term, global electrification trends, data centre build out demand and more immediate potential supply deficits. Gold will likely continue to play a key role in portfolios as an inflation hedge as the US money printer is put into overdrive. Energy remains volatile amid geopolitical turbulence, however current valuations are undemanding, offering upside should positive catalysts emerge.

While the Australian consumer continues to spend, supported by sticky employment and rising real wages, we maintain a cautious outlook with government administration doing a lot of the heavy lifting across the labour market. In this environment, defensive retailers are preferred over discretionary peers due to their resilience in uncertain conditions.

Select healthcare names also present value, however we encourage a cautious approach when allocating to the sector with the US department of health's policy initiatives a key risk for US exposed ASX listed healthcare providers.

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Investment View

*Optimising your positioning to capture risk
adjusted returns through the cycle*

Tactical Asset Allocation

BALANCED	BENCHMARK	TACTICAL	VARIANCE
Cash	5.0%	6.0%	1.0%
Australian Fixed Interest	19.0%	30.0%	11.0%
Global Fixed Interest	14.0%	0.0%	-14.0%
Total Defensive	38.0%	36.0%	-2.0%
Australian Equities	24.0%	24.0%	0.0%
Global Equities	24.0%	26.0%	2.0%
Australian Listed Property	4.0%	6.0%	2.0%
Global Listed Property	4.0%	4.0%	0.0%
Infrastructure	6.0%	4.0%	-2.0%
Total Growth	62.0%	64.0%	2.0%

Using the **Balanced Investor benchmark** as our neutral Beta, we are 2% tactically underweight defensives, which is offset by a 2% overweight to growth assets. This tilt is propagated across all risk profiles proportionate to the historic volatility of each portfolio composition, ensuring alignment with individual investor objectives.

We are allocating a 0% weight to global fixed income. Persistent turbulence in the US treasury market has eroded its reliability as a volatility-minimising, capital-protecting allocation. We expect continued volatility in the sector to transmit across the global fixed income landscape and as such are avoiding the asset class.

Conversely, we are confident in our overweight Australian fixed interest. The Australian sovereign debt profile demonstrates greater resilience, and yields remain attractive on a risk-adjusted basis relative to US counterparts. Bank balance sheets offer attractive downside protection to their respective credit issuances, and as such - they are our preferred exposure.

A slightly overweight allocation to cash provides enhanced liquidity. This positions us to opportunistically deploy capital during periods of market dislocation, enhancing tactical flexibility.

A 2% overweight allocation is applied to global equities, underpinned by robust US earnings and the attractive valuations in European and Asian markets. Geographic diversification is emphasized to capture broader international growth and mitigate idiosyncratic risk.

We are underweight infrastructure to fund an overweight position in the Australian listed property sector. Both sectors have historically yielded closely correlated returns and in turn we view the total *Real Asset* allocation as neutral. Our preference is for property due to its targeted exposure to domestic real assets, especially given the limited availability of high-quality, listed Australian infrastructure.

Portfolio Management

Effective portfolio management in the current investment landscape demands a holistic, disciplined, and forward-looking approach. As we allocate capital for the year ahead, investors should prioritise optimising returns while managing risks, using three core strategies to seek alpha: tax structuring, tactical asset allocation, investment selection.

Generating alpha isn't limited to picking market winners; significant enhancements to net returns can be achieved through optimal asset ownership structures. Ensuring each asset sits in the most tax-efficient entity maximises after-tax returns and aligns with the investor's broader financial objectives.

Dynamic asset allocation is crucial, as portfolio tilts should reflect individual liquidity requirements and adapt to prevailing market conditions. This disciplined, adaptive approach positions investors to capture opportunity and navigate evolving risks in the year ahead.

We believe our preferred asset allocation reflects this; in defensives, we've been methodically reducing floating rate hybrid exposure, both reacting to APRA's regulatory phase-out and to falling domestic rates. However, this is a deliberate, paced staging, as Australia's interest rate cuts may disappoint to the downside (as it did in July). Bank-issued fixed income remains our core holding, balancing yield and capital risk. High-quality private credit is included, but we strictly allocate to tier one domestic financials.

For Australian listed property, we diversify beyond the ASX REIT index to alleviate concentration risk. In global real estate and infrastructure, an active management approach is vital, given the evolving monetary and fiscal environment. Similarly, in ASX equities, we emphasise active management to overcome the index's concentration issues, which could constrain passive investor returns. Globally, we maintain a neutral geographic stance, yet seek nuanced exposures to complement core allocations - specifically, copper and gold producers are attractive, along with maintaining a quality factor tilt to broader positions. We also retain a positive, contrarian outlook on Asian equities, expecting them to outperform broader expectations - citing favourable valuations.

The below details a high-level example of a Balanced Investor portfolio. While in practise - each client's capital deployment is tailored through personal advice, striving for exposures that best serve their objectives and circumstances, the below aims to provides an insight into our investment approach and current view on markets. Please note that where possible, we look to take on direct exposures (as opposed to products).

Defensive	34%	Real Asset	14.0%	Growth	50.0%
<u>BANK</u>	16.50%	<u>MVA</u>	8.0%	<u>VCM Au Balanced</u>	21.6%
<u>Cash</u>	6.00%	<u>RCAP</u>	2.0%	<u>QHAL</u>	6.5%
<u>HBRD</u>	6.00%	<u>RIIF</u>	4.0%	<u>GCQF</u>	5.2%
<u>AGVT</u>	4.50%			<u>QHSM</u>	3.9%
<u>CRED</u>	1.50%			<u>ASIA</u>	3.9%
<u>MXT</u>	0.75%			<u>HNDQ</u>	2.6%
<u>MA1</u>	0.75%			<u>WIRE</u>	2.6%
				<u>FSML</u>	2.4%
				<u>GDX</u>	1.3%

Core Equity Exposures

Australian Equities

Cyclical



Defensive



Growth



Global Equities

United States



Rest of the World



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*Should you have any questions,
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