Economic & Investment Update - April 2026

Global economic growth remains positive but uneven across regions. Inflation data from early Q1 2026 indicate a moderating trend; however, March readings suggest that higher energy prices are beginning to feed through to headline inflation. The recent escalation of conflict between US, Israel and Iran in the Middle East has negatively affected most global equity markets.

US economic growth has slowed, with Q1 2026 GDP tracking to an estimated 1.2%. Deceleration largely reflects downward revisions to business investment and continued weakness in consumer spending. Inflation averaged 2.7% over the quarter, though month-on-month data point to a reacceleration in March, driven primarily by higher energy costs. Since the Federal Reserve's last policy rate cut in December, the policy rate has been held steady in the 3.5%–3.75% range. Given uncertainty around energy-related inflation pressures, the Fed, along with most major central banks, has adopted a wait-and-see approach.

Euro area GDP growth remained positive but subdued at 0.9%. Weak economic outcomes in Germany and France were offset by stronger growth across peripheral economies, including Portugal, Italy, Spain, and Greece. Export growth remains modest, constrained by slower demand from the US and supply-chain realignment with China increasingly importing from smaller regional Asian suppliers.

In Asia, Japan's GDP has slowed materially while inflation remains close to 3%. Despite weaker economic growth, Japanese equities have outperformed other regions, supported by earnings upgrades, yen depreciation, and a stable policy backdrop. China's economy continues to expand, with full-year growth tracking toward the government's 5% target. Monetary policy remains accommodative, and despite ongoing US tariffs, China has sustained growth by diversifying its export base toward Europe and broader Asia, more than offsetting reduced exports to the US.

In Australia, GDP growth has improved to 2.6%. However, inflation, which was already trending higher prior to the Middle East conflict, rose sharply to 4.6% in March. In response, the Reserve Bank of Australia has raised the cash rate twice this year, at its February and March 2026 meetings. Given persistent inflationary pressures, a further rate increase is likely at the May 2026 meeting. Energy supply disruptions disproportionately affect Asia, which is heavily reliant on oil imports transiting the Strait of Hormuz.

MARKETS

Australian equities, as measured by the S&P/ASX 300, declined 2.0% over the quarter. The pullback was driven primarily by sharp corrections in the technology sector (-27.4%) and healthcare (-17.6%). Energy was the standout performer, rising 33.4% over the period. Financials, particularly the major banks, remained a key driver of overall index performance, with the Big Four accounting for approximately 29% of the index.

Australian small-caps underperformed their large-cap counterparts, returning -10.9% over the quarter. Higher oil prices provided a tailwind to energy-related companies, which recorded positive returns across the board. However, broader risk-off sentiment weighed on the remainder of the small-cap market, with all other sectors posting negative returns.

Global equity markets also ended the quarter lower. The MSCI ACWI ex-Australia Index (AUD hedged) declined 2.7%, led by weakness in the US (-4.6%) and Europe (-1.5%). Japan was a notable outperformer, generating a positive return of 1.4% despite broader market volatility. Chinese equities continued to underperform, with the MSCI China Index falling 8.3% over the quarter.

Weak equity market performance reflects two key developments. In February 2026, global markets experienced a sharp sell-off in technology stocks (referred to as the "SaaSpocalypse") as investors reassessed the long-term earnings outlook for Software-as-a-Service (SaaS) companies. The launch of new, industry-specific AI models intensified concerns around pricing power, competitive pressure, and margin sustainability. In our view, broader AI adoption is likely to drive increased price competition and margin compression across incumbent SaaS providers. As seen in past technology cycles, not all companies are expected to successfully navigate this transition.

Market sentiment deteriorated further in March following the escalation of conflict involving the US, Iran, and Israel. This triggered a broad risk-off response across global equities. The closure of the Strait of Hormuz represents a significant risk, given the waterway accounts for approximately 20% of global oil transit. Oil-importing economies, including China and Australia, are disproportionately affected. Elevated energy prices are expected to flow through to broader inflationary pressures globally, but the magnitude remains too early to tell.

Australian listed property underperformed materially during the quarter. The S&P/ASX 200 A-REIT Index declined 16.6%, in contrast to global property markets. The FTSE EPRA NAREIT Developed Market Index (AUD hedged) was broadly flat, down just 0.3% over the same period. Global listed infrastructure performed strongly, with the S&P Global Infrastructure Index (AUD hedged) rising 6.1%.

Within commodities, geopolitical uncertainty continued to support higher prices. Gold rose 4.5% in AUD terms over the quarter and is up 35.3% over the past year. Oil prices surged sharply, with WTI crude futures rising 76.6% over the quarter, driven by supply shortage.

Sector	Index	3 mths (%)	1 year (%)	5 years (% p.a.)
Equities				
Australia	S&P/ASX 300 TR	-2.0	11.6	8.5
	S&P/ASX Small Ordinaries TR AUD	-10.9	13.7	4.0
International	MSCI ACWI Ex Australia NR AUD	-5.8	9.2	11.9
	MSCI ACWI ex Australia 100%Hedged NR AUD	-2.7	19.1	9.3
Emerging Markets	MSCI Emerging Markets NR Index	-0.5	26.9	1.2
Listed Property				
Australian	S&P/ASX 200 A-REIT TR	-16.6	-2.3	5.0
International	FTSE EPRA Nareit Developed NR Hdg AUD	0.2	4.6	-1.1
Infrastructure				
Global	S&P Global Infrastructure TR Hdg AUD	7.9	19.1	8.1
Currencies				
AUD vs USD		3.4	10.5	-1.9
Fixed Interest				
Australian	Bloomberg AusBond Composite 0+Y TR AUD	-0.3	1.5	0.2
	Bloomberg AusBond Credit 0+Y TR AUD	-0.2	2.6	1.8
International	Bloomberg Global Aggregate TR Hdg AUD	-0.3	3.0	-0.1
Commodities				
Gold	Gold Spot Price - AUD	4.5	35.3	24.7
Oil	WTI Oil Futures USD/barrel	76.6	41.8	11.4

OUTLOOK

Coming into Q1 2026, economic growth remained positive while inflation conditions globally (excl. Australia) moderated. These relatively benign conditions were subsequently overtaken by a sharp energy price shock and supply-side disruptions stemming from the escalation of conflict in the Middle East.

Since February 2026, investor sentiment toward technology and AI-related sectors has become more cautious, reflecting increased scrutiny of long-term earnings growth assumptions. We view the return of valuation discipline as constructive for the sector. At the same time, evidence of enterprise-level AI adoption is emerging, alongside the development of real-world use cases at the software layer. This trend is corroborated by material revenue growth noted among leading AI model providers, including Anthropic.

Our assessment of this thematic suggests that, over the long term, corporations are likely to be the primary beneficiaries of AI adoption, with gains coming at the expense of

consumers and segments of the workforce. Early data indicate that margin expansion is being driven by a combination of productivity gains and labour force rationalisation. While we do not expect immediate disruption to employment, we anticipate that the impact will emerge through structurally lower junior-level hiring, with potential implications for youth unemployment. In contrast, elevated capital expenditure on data centres and energy infrastructure is expected to provide ongoing support to economic growth.

In the Middle East, more than 50 days have passed since the conflict began. Although, at the time of writing, an open-ended ceasefire is now in place, conditions remain unsettled. The Strait of Hormuz and associated shipping routes continue to be closed due to actions by Iran's Revolutionary Guard and a US naval blockade, maintaining significant uncertainty in global energy supply.

Despite persistent tensions, we believe there are compelling incentives for all parties to pursue a negotiated resolution. For Iran, such an outcome would enable the continuation of oil exports and may facilitate broader economic benefits through potential sanctions relief. For the US, prolonged conflict and elevated energy prices carry growing political costs, particularly ahead of the mid-term elections scheduled for November 2026. While the balance of incentives favours de-escalation, the timing remains uncertain. Until greater clarity emerges, energy markets are likely to remain highly sensitive to regional developments.

Against this backdrop, we believe conditions support a selective shift toward a risk-on portfolio position. Recent volatility has improved equity market valuations offering attractive entry points. Despite some near-term geopolitical risks, medium to long-term economic outlook remains positive.

Improvements in corporate profitability driven by AI adoption are likely to occur alongside increased pressure on consumers and employees. This dynamic has important implications for the inflation outlook and the trajectory of interest rates, reinforcing the need for active risk management and valuation discipline in portfolio construction.

Australian Equities

Within Australian equities, we recommend investors hold a neutral position in large and small cap stocks. While the recent equity market drawdown has improved the valuation outlook for the asset class, Australia remains disproportionately exposed (relative to the US and Europe) to elevated oil prices and supply constraints. Australian inflation was already reaccelerating before the emergence of the US-Iran conflict which has further exacerbated this issue.
As a result, we expect the Reserve Bank of Australia is likely to continue rebalancing demand through additional interest-rate increases, an outcome that would weigh on both consumer activity and corporate earnings. These macroeconomic headwinds are expected to impact large- and small-cap companies alike.

International Equities – Including Emerging Markets

Within international equities, we recommend an overweight allocation to both developed and emerging markets. Following the equity market drawdowns in February and March, valuation multiples have reset to more attractive levels, particularly when considered alongside material earnings improvements delivered during Q1 2026.

Rapid enterprise-level adoption of AI, combined with step-changes in the capabilities of underlying models, is expected to be net positive for corporate profitability over time, albeit at the expense of labour. We view this as a long-duration structural theme that will unfold over multiple years. In the near term, however, market sentiment continues to be dominated by geopolitical risks.

Emerging market equities remain attractively valued on a relative basis. That said, regional exposures warrant caution, as many emerging market economies are more vulnerable to energy price volatility and supply-side disruptions compared to their developed market counterparts.

Property

We recommend maintaining a neutral allocation to both Australian and international listed property. Australian property markets have been particularly sensitive to shifts in interest-rate expectations. At the sector level, office property remains structurally challenged, notwithstanding modest improvements in leasing activity over the most recent quarter. By contrast, industrial and retail property segments are comparatively better positioned, supported by stronger demand fundamentals and more resilient income profiles.

Comparatively, the global listed property universe offers significantly greater diversification by geography, sector, and asset type compared with the Australian REIT market. In contrast, the Australian index remains highly concentrated, with Goodman Group alone representing a dominant share of index exposure.

Fixed Interest

We recommend investors move to an underweight position in fixed interest, including domestic sovereign exposure. While Australian and global bond markets continue to offer attractive yields and strong counterparty quality, the asset class has experienced material mark-to-market volatility during the quarter. Volatility has been driven primarily by sharp shifts in inflation expectations as markets reassess the likely path of monetary policy.

Corporate bond yields remain reasonable, but credit spreads have widened modestly over the period. Within investment grade credit we continue to favour Australian corporate issuers relative to global peers, reflecting stronger balance sheets and a more stable credit environment. Given ongoing uncertainty around inflation and monetary policy settings,

floating-rate instruments are more attractive compared to fixed-rate bonds at this stage of the cycle.

From a credit risk perspective, there has been no material increase in default activity, despite a modest uptick over the quarter. Primary issuance markets remain open across most sectors, although underwriting standards have tightened in the technology sector, reflecting more cautious investor sentiment.

Alternatives

We recommend maintaining a neutral allocation to infrastructure and private equity investments. Private equity continues to face challenging conditions, with weak merger and acquisition activity constraining distributions and limiting exit opportunities. A persistent valuation gap between buyers and sellers is further delaying capital realisation, contributing to subdued liquidity across the asset class.

Despite recent price adjustments in precious metals, gold and silver continue to play a role as portfolio diversifiers. However, over the shorter term, gold in particular has at times exhibited more pro-cyclical and risk-sensitive behaviour, reducing its effectiveness as a pure defensive hedge in periods of heightened market volatility

Sources: Bloomberg and Morningstar. Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to Kevin Smith of The Professional Super Advisers on (02) 9955 5800 prior to acting upon this information.