Economic & Investment Update - July 2026

Global economic growth remains positive, albeit uneven across regions. Data released during the second quarter of 2026 point to an environment where inflation (despite being elevated) has started moderating. This has coincided with softer consumer sentiment and signs of emerging weakness in labour markets.

In the United States, economic growth has moderated, with second-quarter GDP tracking to approximately 2%, while inflation remains elevated at around 3.5%. Growth continues to be supported by robust investment in data centre infrastructure, although higher oil prices are increasingly feeding through to downstream goods prices. Rising living costs have weighed on household confidence and consumer spending intentions. During the quarter, the Federal Reserve maintained its policy rate unchanged but highlighted ongoing concerns regarding medium-term inflation risks.

The euro area continued to record positive, though subdued, economic growth, with GDP expanding by 0.2% over the quarter. Weak consumer demand remains a headwind for overall economic activity. At the country level, France detracted from regional growth, while Germany experienced a modest rebound. Export activity across Europe remained constrained by softer global demand and intensifying competition from Chinese manufacturers.

Across Asia, Japan's economic recovery gained further momentum, supported by positive inflation dynamics and improving domestic activity. Japanese equities outperformed other major markets during the quarter, driven by earnings upgrades and continued depreciation of the yen. In China, economic growth remained resilient but has moderated relative to earlier expectations, with full-year GDP growth now projected at approximately 4.5%, compared with the previous target of 5.0%. China continues to maintain an accommodative monetary policy stance, with the 1-Year Loan Prime Rate retained at 3.0%. Despite registering growth, the economy has been disproportionately affected by rising energy costs given its position as a net importer of crude oil.

In Australia, economic growth remained steady at around 2.5%. However, underlying inflation continued to prove persistent, reaching 3.6% in June 2026. In response, the Reserve Bank of Australia increased the cash rate by a further 25 basis points in May, taking the policy rate to 4.35% per annum. Corporate earnings growth has lagged that of global peers, which may contribute to a softer labour market outlook. While an additional rate increase cannot be ruled out before year-end, we believe the current tightening cycle is largely complete and that the cash rate is approaching its peak.

MARKETS

Australian equities delivered a positive return during the quarter, with the S&P/ASX 300 Index rising 4.1%. Performance dispersion across sectors was significant. Consumer Discretionary was the strongest-performing sector, advancing 17.7%, while Energy was the weakest, declining 16.7% as commodity prices moderated. Financials, which

represent the largest segment of the Australian market by capitalisation, were broadly unchanged, with the Banking sector returning 0.7% over the quarter.

Australian small-cap equities modestly underperformed their large-cap counterparts, with the S&P/ASX Small Ordinaries Index returning 3.3% during the period. While the small-cap segment has participated in the broader market recovery, year-to-date returns continue to lag large-capitalisation stocks.

Global equity markets rebounded strongly during the quarter. The MSCI ACWI ex Australia Index returned 13.5%, significantly outperforming domestic equities. Information Technology was the standout sector, rallying 39.2% as investors continued to favour companies exposed to artificial intelligence and related technology infrastructure. In contrast, the Energy sector detracted from returns, falling 13.4% over the quarter.

The recovery in equity markets over the June quarter followed the risk-off environment experienced over March when escalating tensions between the United States and Iran led to a temporary deterioration in investor sentiment. Global equities have materially outperformed Australian equities over the recent period, supported primarily by stronger earnings growth and greater exposure to technology-related sectors.

A key investment theme over the quarter was the share price rally in artificial intelligence-related hardware manufacturers. However, this theme has proven volatile post June 2026 as investors revised downwards their long-term earnings expectations. In the short-term we believe the hardware demand is well supported. However, recent advancements in AI models where less compute is needed for the same tasks has led investors to question the longer-term demand for hardware.

Although higher oil prices have contributed to inflationary pressures, the impact on corporate earnings and broader economic activity has to date, remained relatively contained. Consequently, investor risk appetite improved over the quarter, supporting a broad-based valuation recovery in equity markets.

Australian listed property was a notable performer. The S&P/ASX 200 A-REIT Index rebounded 13.7% during the quarter, materially outperforming global property markets. The FTSE EPRA NAREIT Developed Index (AUD hedged) posted an 8.7% return over the same period. Global listed infrastructure was broadly flat, with the S&P Global Infrastructure Index (AUD hedged) posting a return of 0.8% over the quarter.

Commodity markets have proven volatile over the recent quarter. Since March 2026, gold has fallen 14.4% while crude oil prices have declined by 31.4%. While it is hard to pin-point exactly the fundamental rationale, we would attribute the price movements to a mean-reversion within the supply-demand equation for gold. Oil continues to trade in sympathy to the geopolitical environment.

Sector	Index	3 mths (%)	1 year (%)	5 years (% p.a.)
Equities				
Australia	S&P/ASX 300 TR	4.1	6.2	7.6
	S&P/ASX Small Ordinaries TR AUD	3.3	8.1	3.0
International	MSCI ACWI Ex Australia NR AUD	13.8	17.2	12.9
	MSCI ACWI ex Australia 100%Hedged NR AUD	15.1	25.4	10.9
Emerging Markets	MSCI Emerging Markets NR Index	22.6	35.7	8.9
Listed Property				
Australian	S&P/ASX 200 A-REIT TR	13.7	-2.2	5.7
International	FTSE EPRA Nareit Developed NR Hdg AUD	8.7	8.8	4.3
Infrastructure				
Global	S&P Global Infrastructure TR Hdg AUD	0.8	14.0	8.1
Currencies				
AUD vs USD	USD Per 1 AUD	0.3	5.1	-1.6
Fixed Interest				
Australian	Bloomberg AusBond Composite 0+Y TR AUD	2.6	1.5	0.4
	Bloomberg AusBond Credit 0+Y TR AUD	2.2	4.7	0.4
International	Bloomberg Global Aggregate TR Hdg AUD	1.5	2.9	0.0
Commodities				
Gold	Gold Spot Price - AUD	-14.4	15.4	19.7
Oil	WTI Oil Futures USD/barrel	-31.4	6.7	-1.1

Source: Allied Wealth, Bloomberg, Morningstar

OUTLOOK

Coming into Q2 2026, we believe the conditions for long-term economic growth remains intact. While inflation expectations continue to represent the key macroeconomic uncertainty, we believe the risk of a sustained inflationary cycle has diminished. Softer labour market conditions across many developed economies should help moderate price pressures over time, reducing the likelihood that current inflationary pressures become entrenched.

Equities earning results in Q2 2026 have remained positive across most developed regions, with Australia the notable exception. Domestic earnings expectations continue to face downward pressure, reflecting a slower growth environment and some cost challenges. However, we believe much of this weaker outlook has already been reflected in valuations, which have lagged the recovery experienced by global markets.

The artificial intelligence theme remains one of the most dynamic areas of the market. Advances in AI model capability and compute capacity continue to evolve at a rapid pace, reshaping industry expectations. Our long-term view remains that corporations are likely to be the primary beneficiaries of AI adoption through productivity gains, cost efficiencies and improved profitability. Conversely, portions of the workforce and some consumer-facing segments may face increasing competitive and pricing pressures as automation and AI capabilities expand.

A particularly notable development during the quarter has been the rapid rise of Chinese AI models. These providers have captured meaningful share of inference workloads from established Western platforms, supported by significantly lower operating and energy costs. Industry data increasingly suggests that, while corporations are accelerating AI integration across everyday workflows, most companies are becoming highly cost focused. As model performance converges, price is emerging as a key determinant of adoption. This trend has the potential to reshape the competitive landscape over the coming years.

The strong rebound in markets during the quarter has been consistent with our constructive positioning toward risk assets. Looking ahead, we continue to favour growth-oriented assets over defensive exposures. While near-term geopolitical risks remain elevated, we believe the medium to long-term economic outlook remains favourable. Improvements in corporate profitability, particularly those driven by AI adoption and productivity gains, are likely to support earnings growth. At the same time, these benefits may be accompanied by increased pressure on consumers and certain segments of the labour market. In our view, this evolving dynamic will be an important driver of the inflation outlook and the future path of interest rates.

Australian Equities

Within Australian equities, we recommend investors hold a neutral position in large and small cap stocks. Despite the recent equity market drawdown and subsequent rebound, valuation of this asset class continues to look reasonable. Australia remains disproportionately exposed (relative to the US and Europe) to elevated oil prices and supply constraints.
Over the quarter, we saw the impact of the interest rate rise reflected in residential property prices with more muted auction clearance. Despite the negativity on the interest rate environment, we believe Australia is closer to the end of the hiking cycle. The impact of inflation in combination with cost of debt increases are weighing on consumer sentiment.

International Equities – incl emerging markets

Within international equities, we recommend maintaining an overweight allocation to both developed and emerging markets. Despite the rebound we saw in May and June, valuations still look attractive especially when considered alongside realised earnings growth. However there remains a risk that a rising rate environment may detract from this overall picture. For now, we remain comfortable to maintain the overweight position.

Emerging market equities continue to offer attractive relative valuations. However, the strong rally in semiconductor stocks has increased the concentration of the benchmark index, with TSMC, Samsung and SK Hynix now accounting for approximately 30% of the MSCI Emerging Markets Index.

Property

We recommend maintaining a neutral allocation to both Australian and global listed property. In Australia, listed property markets remain highly sensitive to changes in interest rate expectations, with valuation outcomes closely linked to movements in bond yields and financing costs.

At the sector level, office property continues to underperform both retail and industrial assets, reflecting ongoing uncertainty around occupancy demand and workplace utilisation trends. Construction cost inflation has also been a persistent challenge across the industry. While rising development costs have increased the replacement value of existing assets, this benefit has yet to be fully reflected in property valuations. A more meaningful re-rating is likely to depend on a period of constrained new supply and stronger evidence of improving market fundamentals.

The global listed property universe provides significantly greater diversification across regions, sectors and asset types than the Australian REIT market. By comparison, the Australian index remains highly concentrated, with Goodman Group accounting for a substantial share of benchmark exposure. As a result, performance of the domestic listed property sector is increasingly influenced by the outlook for logistics and industrial property, as well as investor expectations for data centre and infrastructure-related growth themes.

Fixed Interest

We recommend that investors maintain an underweight allocation to fixed income, including domestic sovereign bonds. While Australian and global bond markets continue to provide attractive yield opportunities and benefit from high-quality issuers, the asset class experienced significant mark-to-market volatility during the quarter.

Corporate bond yields remain at reasonable levels, although credit spreads widened modestly over the period. Within investment-grade credit, we continue to favour Australian corporate issuers over global peers, supported by stronger balance sheets despite some weakness in corporate fundamentals.

From a credit risk perspective, default activity increased modestly during the quarter but remains below long-term historical averages. Despite negative sentiment and heightened scrutiny of private credit market, investor demand for the asset class remains positive, with net inflows continuing to support the sector. Credit risk repricing has also become more evident, particularly within the global technology sector and the domestic construction industry. In our view, this adjustment is a constructive development,

resulting in more appropriate risk compensation and helping to reinforce market discipline across credit markets.

Alternatives

We recommend maintaining a neutral allocation to infrastructure and private equity investments. Exit conditions for private equity continues to be challenged with weak merger and acquisition activity constraining distributions to investors. This has also led to a more muted fund-raising environment.

Despite recent price adjustments in precious metals, gold and silver continue to play a role as portfolio diversifiers. However, over the shorter term, gold 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. This was particularly evident over the quarter as prices declined.

Sources: Allied Wealth Investment Committee, Bloomberg, JP Morgan, FOMC, RBA, Trading Economics, Invesco, Lazard, UBS, Morningstar, Yardeni Research, Westpac, University of Michigan, FactSet, FRED.

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