

# Investment Strategy Insights

Looking beyond the  
fast start

February 2026



Someone forgot to tell the US President that the holiday period is for rest. In the past month he doubled down on his threat to annex Greenland by once again weaponising tariffs to kick-start a deal-making process, this time on NATO member countries not willing to toe the line. He then launched criminal proceedings against Fed Chair Jay Powell over renovation costs on historical Fed buildings. The attack on Chair Powell was viewed as an attempt to undermine Fed independence, prompting 15 central bank governors to come to his defence.

However, market moving political announcements are not just confined to the US. Japanese PM, Sanae Takaichi, has only been in office for around three months, but is looking to capitalise on her electoral popularity by calling a snap election. Her platform is one of tax cuts and increasing spending which has riled bond markets. Nonetheless, the market appears to have weathered the attack by bond market vigilantes better than the UK Gilt crisis in 2022.

US government funding is also a lingering issue even though both parties are firm on no repeat of last year's record long shutdown. On Tuesday, the House passed five full year Senate appropriation bills to fund agencies such as Defence, Healthcare, and Labour. It also passed a two-week joint resolution to fund the Department of Homeland Security, which is designed to give Congress time to agree on how ICE operations can be tempered.

The main beneficiary from all the global geopolitical instability has been the price of gold, which rallied 64% last year and is already up by around 22% this year. Despite last year's strong rally, we think it is unlikely to reverse any time soon and could easily continue well into this year. We laid out our reasoning in a note last October (see our [Investment Strategy Insight here](#)).

In our [2026 Outlook](#) we highlighted how important continuity in the AI boom is for risk assets. Full-year reporting season in the US is in full swing and markets will once again scrutinise the outlook for the Mega cap IT stocks, which are so richly valued.

Many tech stocks are already coming under pressure as investors question the benefits from their tremendous AI capex commitments. On the other hand, there are those showing investors that investment in AI is paying off.

US economic data has been broadly positive, with signs the pick-up in productivity growth that began in 2023 is accelerating. The impact of tariffs on the US seems to have been much less than many economists predicted.

Our outlook also highlighted the potential for inflation to prevent further interest rate cuts and at the January FOMC the Fed gave a clear message that further rate cuts are off the table for now. At this stage, markets expect two more rate cuts this year, probably in anticipation of new Fed Chair willing to toe the line with President Trump rather than a deterioration in growth or a softening in inflation.

Despite the fiscal constraints in Japan, the economy is in reasonable shape, and the era of weak growth and deflation looks well and truly over. Concerns about the rise in Japanese yields are tempered somewhat by the improvement in nominal GDP growth. In Europe, markets are pricing some chance of a rate cut from the ECB in September.

The RBA became the first major central bank to raise rates this year reflecting the low-speed limit of Australian economic growth. The pickup in consumer spending that began at the end of 2024 quickly manifested into unwanted inflationary pressures that have forced the RBA's hand.

### Markets expect the RBA to raise rates by a further 41bps this year



Source: LSEG, MWM Research, February 2026

Despite all the geopolitical noise and risks around AI capex, the US economy is in good shape even though inflation is a little high. Historically, solid US economic performance aided by accelerating productivity growth has been a key green light signal for investors to be positive on risk assets.

This year investors may not beat last year's 18% return on US equities, but it is still the right time to be invested in risk assets. Bond markets are challenging, with yields relatively more resilient to central bank easing, some leverage entering the system and inflation alive and kicking.

In equities, we like Europe, Japan and EM over the US and Australia. We also like small cap equity over large, and prefer value stocks over growth. The geopolitical uncertainties we highlighted mean that volatility protection should be an important part of investors' toolkit, and we think the best way to achieve this is with a meaningful exposure to Alternative and Real assets.

### Macquarie WM Investment Strategy Team

## Global Economics: The Fed is done for now

- The latest Fed statement suggests no appetite to cut rates further at this stage, although this hasn't stopped markets from pricing in two more cuts by year-end.
- Kevin Warsh has been nominated as Jay Powell's replacement as Fed Chair. Political pressure to cut rates will likely remain, but the President has recently softened his tone about interfering in the Fed's decision-making process on rates.
- Japan has a snap election on 8 February, with PM Takaichi calling it on a platform of lower taxes and more spending. The bond market has already shown it will provide guard rails for poor fiscal discipline.

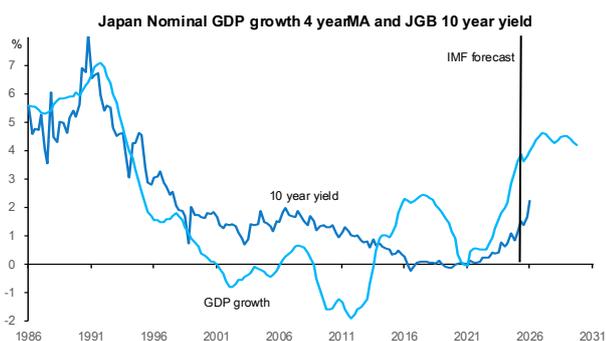
The Fed has no room to cut rates further, according to the latest FOMC statement. Growth has been resilient to the President's tariffs in his global trade war and inflation remains "somewhat elevated". The main fallout seems to be slower employment growth and stronger productivity growth.

Despite the positive messaging on growth, markets expect the Fed to cut rates in July and December, but this probably reflects the perception that incoming Chair Kevin Warsh has a bias towards lower rates more than any concerns over the economy. Still, stronger productivity growth means the economy has a faster speed limit than it would have if productivity growth was slower.

Japanese PM Takaichi unnerved JGB markets after announcing a snap election to be held on 8 February, built on a platform of lowering taxes and lifting spending. Long duration JGBs sold off aggressively, reflecting concerns about the high level of government debt and more spending. But the upward pressure on yields also reflects positives such as stronger economic growth and the end of deflation.

The US-initiated global trade war has taken a twist, with the UK, Canada and Europe seeking better trade relations with China now that trade with the US has become problematic.

### Japan's GDP growth has been picking up



Source: IMF, MWM Research, February 2026

## Australian Economics: Here come the rate rises

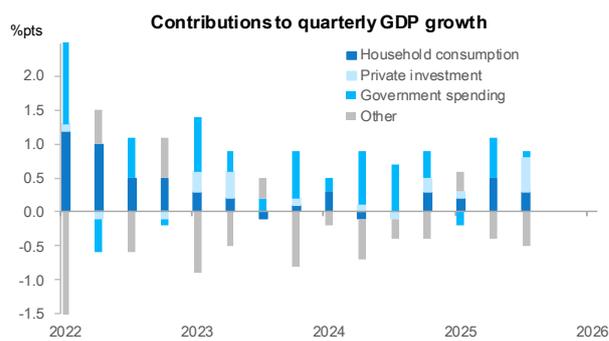
- The RBA became the first major central bank to raise rates this year after cutting rates last year. The Bank expects inflation to be persistent, and markets now expect another two interest rate rises this year.
- The disappointing part of the story is that GDP growth is only 2.1% in the four quarters to September, but even this relatively slow pace of growth was enough to push the economy up against capacity constraints and lead to a pickup in inflation. The Bank judged this would be persistent enough to warrant action.
- In particular, the Bank mentioned the unemployment rate has been a little lower than expected and growth in unit labour costs "remains high".

The RBA became the first major global central bank to raise rates this year when it lifted the target cash rate by 25bps to 3.85% at the February board meeting. The Bank began easing just 12 months ago, with the last rate cut in August. However, inflationary pressures developed in H2 last year and have remained persistent enough to draw a response from the Bank. Markets now expect the RBA to also raise rates in August and November.

In the statement issued after the meeting, the Bank emphasised that "growth in private demand has strengthened substantially more than expected, driven by both household spending and investment". However, the pickup in GDP wasn't numerically that large – only 2.1% over the four quarters ending in September 2025. The inflationary pressures seem to be due to limited spare capacity and "as a result the Board considers that inflation is likely to remain above target for some time". This has raised the likelihood of more interest rate rises.

Financial markets responded to the statement by pulling forward expectations of a rate rise in June to now have one pencilled in for May, with a further 25bps rate rise nearly fully priced for December.

### The consumer & business investment have picked up



Source: ABS, MWM Research, February 2026

## Total returns (AUD) – as of 31<sup>st</sup> January 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
<b>Australian equity indices</b>						
S&P/ASX 200	1.8	0.4	1.8	7.4	9.8	10.2
S&P/ASX Small Ordinaries	2.7	2.7	2.7	22.8	12.1	7.5
S&P/ASX 200 Industrials	-1.0	-4.9	-1.0	-1.8	9.9	9.0
S&P/ASX 200 Resources	9.9	17.7	9.9	43.3	9.8	13.9
<b>Regional equity indices (AUD unhedged)</b>						
S&P 500	-3.4	-4.9	-3.4	3.6	21.3	17.1
NASDAQ Composite	-3.9	-7.5	-3.9	7.1	27.7	15.3
Euro STOXX 50	-0.6	1.8	-0.6	18.4	20.2	16.4
FTSE 100	0.2	3.4	0.2	20.1	18.3	16.0
Japan TOPIX	1.5	0.3	1.5	17.2	18.3	10.6
<b>Australian sector indices</b>						
Energy	10.6	7.9	10.6	10.8	0.3	8.6
Materials	9.5	18.6	9.5	43.4	11.1	14.2
Industrials	-0.3	-1.6	-0.3	9.9	12.4	11.1
Consumer Discretionary	-0.6	-5.8	-0.6	-3.4	12.6	8.2
Consumer Staples	1.6	0.4	1.6	3.0	-0.7	1.3
Health Care	2.2	-3.2	2.2	-24.4	-5.7	-2.1
Financials	-1.4	-4.7	-1.4	4.1	15.9	15.4
Information Technology	-9.4	-26.9	-9.4	-31.1	10.2	-1.8
Communication Services	-1.8	-7.0	-1.8	6.0	8.4	9.2
Utilities	0.6	-2.5	0.6	16.7	12.5	14.6
Real Estate	-2.7	-4.8	-2.7	0.8	9.6	7.8

Note: All returns are in AUD, and unhedged unless otherwise stated

Source: FactSet, MWM Research, February 2026

## Total returns (AUD) – as of 31<sup>st</sup> January 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
<b>Real estate/infrastructure equity indices (AUD hedged)</b>						
S&P/ASX A-REIT	-2.7	-4.6	-2.7	1.6	11.1	9.2
FTSE EPRA Nareit Global Developed (hedged)	2.9	3.7	2.9	9.9	5.4	4.8
S&P Global Infrastructure (hedged)	3.8	5.9	3.8	20.0	13.5	12.6
<b>Global fixed income indices (AUD hedged)</b>						
Bloomberg Global Aggregate (hedged)	0.2	0.2	0.2	4.3	3.3	-0.4
Bloomberg Global Treasury (hedged)	0.0	-0.3	0.0	2.8	2.7	-0.8
Bloomberg Global Corporates (hedged)	0.4	0.7	0.4	6.4	4.4	-0.2
Bloomberg Global High Yield (hedged)	0.7	1.9	0.7	8.9	9.2	3.8
Morningstar LSTA US Leveraged Loan 100 (hedged)	-0.6	0.8	-0.6	5.9	8.4	6.0
Bloomberg Emerging Markets USD Aggregate (unhedged)	-4.5	-5.6	-4.5	-1.8	8.1	3.6
Bloomberg EM Local Currency Government Universal (unhedged)	-4.1	-4.8	-4.1	-3.7	5.0	3.3
<b>Australian fixed income indices</b>						
Bloomberg AusBond Bank Bill	0.3	0.9	0.3	3.9	4.1	2.8
Bloomberg AusBond Composite (0+Y)	0.2	-1.3	0.2	3.2	2.9	-0.3
Bloomberg AusBond Credit (0+Y)	0.3	-0.4	0.3	4.2	4.9	1.6
<b>Commodities (in AUD)</b>						
Crude oil (Brent)	7.6	-1.0	7.6	-20.0	-5.8	6.6
Gold	8.6	16.1	8.6	57.7	37.6	24.0
Iron ore (62% fe cfr China cash)	-6.2	-6.7	-6.2	-7.4	-4.9	-7.2
Coal (Newcastle - Near Term IFEU)	-3.6	-2.3	-3.6	-16.1	-24.2	6.7
Copper (Cash Official LME)	1.8	14.6	1.8	33.0	14.0	13.2
Nickel (Cash Official LME)	1.3	8.9	1.3	3.8	-15.7	1.6
S&P GSCI Index	3.8	0.4	3.8	-5.2	-0.2	8.7
<b>FX</b>						
AUD/USD	4.3	6.4	4.3	12.1	-0.4	-1.8
AUD/EUR	3.4	3.6	3.4	-2.0	-3.3	-1.4
AUD/GBP	2.7	2.3	2.7	1.6	-3.9	-1.8
AUD/JPY	3.1	6.9	3.1	11.8	5.5	6.1
USD/EUR	-0.9	-2.7	-0.9	-12.6	-2.8	0.5

Note: All returns are in AUD, and unhedged unless otherwise stated

Source: FactSet, MWM Research, February 2026

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This Report was finalised on 5 February 2026.

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