

Investment Matters

Artificial intelligence vs.
actual inflation

June 2026



Equities continue to shrug off the oil price shock even though oil inventories are still falling and a deal to end the conflict in the Middle East hasn't been reached. Bond market pricing has shifted significantly over the past month as the threat to inflation from the oil price shock is increasingly likely to prompt a response from central banks.

The RBA is, thus far, the only major global central bank to tighten policy since the war began. But the monetary policy outlook for other central banks is moving in the same direction. The ECB looks set to tighten policy this month according to market pricing. Furthermore, the RBNZ, BoE, BoJ, BoC, and central banks in Korea and Denmark are now all expected to tighten before year end.

The inflation data is showing both the direct and indirect impact of the rise in oil prices, with households seeing high fuel prices, as well as price increases in other goods and services. The breadth and magnitude of the price increases vary across countries but if there wasn't a central bank response to this then inflation expectations could easily lift. If this occurred, it would create a problem that could take years to clean up.

Data on economic activity generally remains positive, particularly in the US, and this is essential for global equities to push higher. The capex plans attached to the AI boom are unlikely to be derailed by the oil price surge, but the feedback of higher inflation and rates into US consumer spending will be closely watched by both markets and policymakers.

Consumer spending is around 70% of US GDP, so the entire global economy and outlook for risk assets is susceptible to the 'tax' that higher oil prices place on US consumer spending and the tightening in financial conditions brought by any potential Fed response. But this doesn't seem likely for now. The consumer is continuing to spend and labour market conditions remain solid but not tight.

Closer to home, the picture is not so rosy. Three interest rate rises since the end of last year and the sharp rise in the price of fuel are placing financial pressure on households. The strain intensified after the government released its planned changes to property tax in the May budget. The reaction has been focused on the changes to capital gains tax, which as proposed by the government affects not only property investors but investors in listed, real assets, and business enterprise.

The rational response is not to invest until the changes are legislated and this seems to be exactly what's occurring, with auction clearance rates in both Sydney and Melbourne taking a leg down. The most likely outcome for these markets is an acceleration in price falls that were kicked off by the rate rises. The other capital city markets were weathering the interest rate rises better than Sydney and Melbourne with rapid price growth slowing. Prices are not falling in these markets, but this is possible.

Policymakers expect that as a result of the tax changes, first home buyers will step in where investors withdraw from the housing market. However, many people in this cohort could face higher capital gains tax on the investments they have to raise a deposit for their first home.

The reaction to the proposed tax changes has taken attention away from some of the positives in the budget, particularly at the top line. Small deficits are now expected over the forecast horizon, with cuts to NDIS spending making room for more spending on

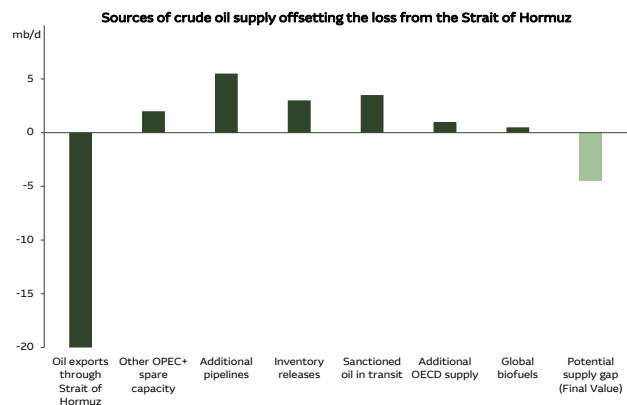
defence, aged care, health and energy security. Furthermore, the budget doesn't attempt to work against the RBA by cutting personal income tax or providing handouts to households struggling under cost-of-living pressures.

It's difficult to assess the underlying pulse of the Australian consumer, although it is likely weaker than it was at the end of last year. Spending appeared to have been pulled forward into March in response to the sharp rise in fuel prices, with payback in April. The March household spending indicator posted its strongest rise (1.6%) since January 2024, but this preceded its sharpest monthly fall (1.4% in April) since October 2023.

The latest capex data show that Australia is also leaning into the AI boom, with capex in IT increasing by 96% (real) during Q1. Business capex across the entire economy rose by 6.5% (nominal) in Q1. The latest estimate for FY26 is \$A207bn, with plans already underway for \$A175bn in FY27 even though the year has not begun.

A quick end to the US-Iran war is still possible but each day the impasse goes by, emergency oil supplies are draining and if this continues the price will eventually start to rise.

The oil price is being held down by temporary intervention



Source: OECD, MWM Research, June 2026

Investors need to appreciate that central banks are prepared to act if the most optimistic scenario doesn't eventuate and oil surges once again. Sentiment surrounding an end to the conflict continues to swing from positive to negative as both sides negotiate an end to the conflict and at the same time trade small scale missile and drone strikes. This has left no end to the volatility in the price of oil, bond yields, currencies and equities.

Equities are not priced for a surge in the oil price or higher rates, with pricing continuing to assume that the war will all be over soon and the flow of oil will resume unrestricted. In contrast, short-term rates and government bond markets are taking some of this into account and if policy does tighten, then the fallout will be weaker growth and earnings that is not priced by equities.

The AI boom and the good health of the US consumer are two key factors that keep us cautiously positive on risk assets. But it's not time for big bets; more a time to stay diversified and ensure that portfolios are reflective of risk tolerance.

Macquarie Wealth Management Investment Strategy Team

Global Economics: Markets expect central banks to step up to fight inflation

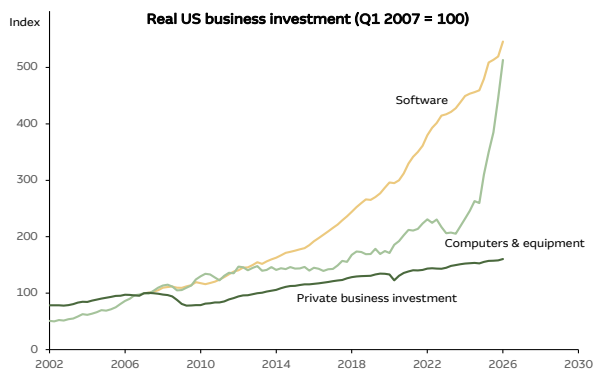
- Markets are expecting global central banks to respond to the inflation threat from higher oil prices. The rise in fuel costs is spreading across a broad range of prices, that if left unchecked inflation expectations could rise.
- The global AI boom has strong momentum and is unlikely to be derailed directly by the oil price shock. But it's important that the US consumer stays on a growth path, given it's a prerequisite for the global expansion to continue.
- Markets expect an increase in the Fed funds rate by mid next year, but there are signs that household income is weakening and the pace of hiring is slowing.

Inflation data released over the past month shows that price pressures are broadening in many countries. Markets expect the ECB to tighten policy later this month. Furthermore, the RBNZ, BoE, BoJ, BoC, and central banks in Korea and Denmark are now all expected to tighten policy before year end. It's important that central banks respond to the inflation threat to prevent inflation expectations from rising. Rising inflation expectations make it much easier for cost pressures to be passed on consumers causing inflation to spiral out of control.

Investment in AI, particularly data centres, remains one of the key engines of global growth and importantly it is not sensitive to oil prices. Macquarie's economics team estimates that global semiconductor sales are already round 1% of global GDP compared to 0.6% of GDP during the dot com boom in the late 1990s. The global nature of the boom is further highlighted by the extraordinary growth in Chinese computer chip exports (100% in the 12 months to April) and Taiwanese computer chips and parts exports (47% over the same period).

Despite increasing inflationary pressures, US rate rises are not a threat to global growth or the AI boom. However, it important for the US consumer to remain on a growth path underpinned by job creation and income growth. The latest data shows real personal disposable income falling in each of the past 3 months for the first time since 2021 which, along with declining household savings, suggests there is no immediate need for the Fed to begin raising rates.

Financial conditions are supporting growth



Source: LSEG, MWM Research, June 2026

Australian Economics: The brake is being applied to growth

- Business surveys indicate that this year's three interest rate rises along with the oil price shock are slowing economic growth. The proposed capital gains tax changes announced in the budget are adding to the headwinds.
- Australia has not been left behind in the global AI capex boom. IT investment as a share of total capex is more than double its peak during the dot com boom of the late 1990s to early 2000s.
- The housing and consumer slowdown will likely outweigh the boom in AI capex, with the RBA forecasting only 1.3% growth in GDP over the next 12 months.

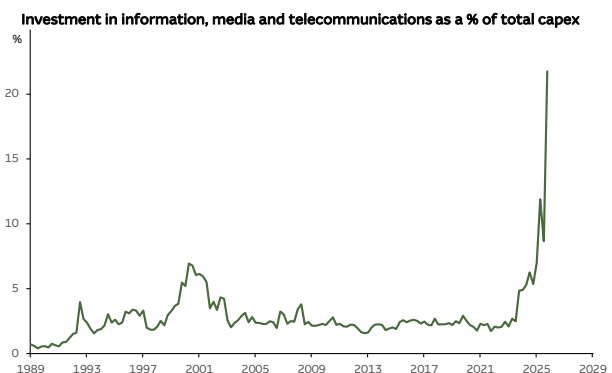
Inflation data for April showed that price pressures remain too strong, but they are not increasing. Business surveys suggest that the three rate rises this year along with the oil price shock is slowing growth. Macquarie's economics team expects the RBA will keep policy unchanged for the foreseeable future as the economic slowdown eventually eases inflationary pressures.

Housing markets around the country have been sent into a spin by the proposed changes to negative gearing and capital gains tax. In Sydney and Melbourne, auction clearance rates have declined sharply since the changes were announced. Weaker sentiment will add momentum to the price falls already occurring in these two cities and to the slowdown in price growth in the smaller capital city markets.

Australia is not immune from the AI boom. The latest capex data showed an 18% increase real plant and equipment capex in Q1 26 led by investment in Information, media and telcos. Investment in the industry doubled during the quarter and since 2021 it has risen from 2.1% of total capex to an average of 14% in the past 3 quarters. This is well above the peak during the dot com boom of the early 2000s where it peaked at 6.2% of total capex.

The RBA is forecasting just 1.3% growth over the next 12 months compared to the current pace of around 2.4%. The good news is that the bank expects this to drive underlying inflation back within its target band by the end of next year.

AI capex is also booming in Australia



Source: ABS, MWM Research, June 2026

Total returns (AUD) – as of 31st May 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Australian equity indices						
S&P/ASX 200	1.1	-4.0	1.7	6.9	11.0	8.1
S&P/ASX Small Ordinaries	2.0	-6.1	-6.0	11.2	10.6	4.0
S&P/ASX 200 Industrials	-1.5	-6.5	-5.2	-6.5	8.9	6.0
S&P/ASX 200 Resources	7.8	2.1	22.0	59.6	16.6	14.1
International equity indices (AUD unhedged)						
MSCI AC World ex Australia	5.1	6.7	3.9	16.7	18.2	13.1
MSCI Developed World ex Australia	4.5	6.4	2.4	14.2	17.8	13.6
MSCI Emerging Markets	9.6	8.3	16.4	38.0	20.8	9.3
Regional equity indices (AUD unhedged)						
S&P 500	5.2	9.5	3.1	16.1	19.3	15.7
NASDAQ Composite	8.4	18.1	7.8	27.0	24.2	16.9
Euro STOXX 50	3.6	-1.8	-1.6	6.7	15.8	12.5
FTSE 100	-0.1	-4.5	-1.1	9.6	15.1	12.7
Japan TOPIX	4.7	-1.5	7.2	17.1	16.4	11.5
MSCI China	-3.1	-8.1	-15.2	-5.1	8.0	-3.6
International equity thematic indices (AUD unhedged)						
MSCI World Growth	6.9	11.1	2.0	15.2	20.0	14.7
MSCI World Value	2.2	1.9	2.8	12.4	15.1	11.8
MSCI World Cyclical	6.1	9.9	3.8	17.3	21.7	15.0
MSCI World Defensives	-1.6	-6.2	-2.9	2.5	5.7	8.6
Australian sector indices						
Energy	-5.9	10.3	26.2	37.0	4.9	12.5
Materials	10.5	0.3	19.7	58.0	17.7	13.5
Industrials	2.1	-4.6	-2.1	1.8	9.8	9.6
Consumer Discretionary	4.7	-3.2	-9.4	-10.6	10.0	4.1
Consumer Staples	-1.8	-4.3	3.3	-1.6	0.3	2.0
Health Care	-9.2	-22.2	-31.1	-44.2	-18.3	-10.6
Financials	-2.9	-6.6	0.6	4.2	19.9	11.8
Information Technology	0.6	-0.3	-17.9	-38.2	0.4	-1.1
Communication Services	-4.2	-3.1	-3.5	-6.4	5.6	6.6
Utilities	-7.6	-3.5	1.5	10.0	10.1	17.0
Real Estate	2.5	-1.7	-7.7	-3.5	9.3	5.0

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

Source: FactSet, MWM Research, June 2026

Total returns (AUD) – as of 31st May 2026

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Real estate/infrastructure equity indices (AUD hedged)						
S&P/ASX A-REIT	3.0	-0.7	-6.8	-2.2	10.9	6.4
FTSE EPRA Nareit Global Developed (hedged)	-0.5	-1.8	8.2	13.8	10.5	2.8
S&P Global Infrastructure (hedged)	-2.1	-3.3	8.0	16.1	16.0	11.6
Global fixed income indices (AUD hedged)						
Bloomberg Global Aggregate (hedged)	0.7	-0.8	0.8	3.4	3.5	0.0
Bloomberg Global Treasury (hedged)	0.6	-1.2	0.4	2.1	2.6	-0.4
Bloomberg Global Corporates (hedged)	0.9	-0.5	0.9	5.2	4.9	0.2
Bloomberg Global High Yield (hedged)	0.9	1.0	2.1	8.8	10.3	3.7
Morningstar LSTA US Leveraged Loan 100 (hedged)	0.5	2.9	0.9	5.5	8.7	6.0
Bloomberg Emerging Markets USD Aggregate (unhedged)	0.6	-1.1	-6.0	-2.1	5.0	3.5
Bloomberg EM Local Currency Government Universal (unhedged)	0.7	-1.9	-6.1	-6.7	1.8	2.9
Australian fixed income indices						
Bloomberg AusBond Bank Bill	0.3	1.0	1.6	3.8	4.2	3.0
Bloomberg AusBond Composite (0+Y)	1.6	0.2	1.3	1.3	3.0	0.3
Bloomberg AusBond Credit (0+Y)	1.4	0.4	1.4	2.5	4.8	1.9
Commodities (in AUD)						
Crude oil (Brent)	-26.7	26.6	37.7	26.8	4.4	7.1
Gold	-1.5	-13.8	-3.5	24.1	27.7	20.7
Iron ore (62% fe cfr China cash)	1.5	8.8	-5.9	-1.8	-2.3	-10.7
Coal (Newcastle - Near Term IFEU)	-2.1	12.3	13.2	16.5	-4.4	5.8
Copper (Cash Official LME)	4.5	0.3	0.9	26.5	15.2	7.5
Nickel (Cash Official LME)	-2.4	5.7	6.1	11.4	-6.0	2.6
S&P GSCI Index	-9.7	12.6	17.4	18.4	5.8	7.5
FX						
AUD/USD	-0.2	0.9	7.6	11.7	3.4	-1.4
AUD/EUR	0.4	2.3	8.5	8.7	0.4	-0.5
AUD/GBP	0.9	1.2	7.8	11.7	0.7	-0.4
AUD/JPY	1.5	3.0	9.5	23.5	8.1	6.2
USD/EUR	0.6	1.3	0.7	-2.7	-2.9	0.9

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

Source: FactSet, MWM Research, June 2026

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This Report was finalised on 5 June 2026.

Recommendation definitions (Macquarie Australia/New Zealand): Outperform – return >10% in excess of benchmark return Neutral – return within 10% of benchmark return Underperform – return >10% below benchmark return.

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