MACQUARIE

Private Bank

2026 Mid-Year Outlook

Staying invested, staying selective

June 2026

Mid-year reviews provide an opportunity to reflect on the path taken by markets after gazing into the crystal ball at the end of last year. In particular, we look at how factors we identified back then are evolving and what surprises have come along that reshape our outlook for the rest of the year. At the end of last year, we noted:

- Artificial Intelligence (AI) has given but it can also take away
- A more growth-friendly White House
- Inflation is a threat that still lingers
- US risk assets are priced for perfection.

The outlook for risk assets more broadly depends on the AI evolution. We were right in acknowledging that it would remain positive. But we probably underestimated how big it would become by mid-year. The US reporting season in February was exceptionally strong and the catalyst for another leg up in confidence in the AI outlook. This increase in confidence has manifested into the expectation that 2026 will see the largest initial public offerings (IPOs) in equity market history.

EM, Europe and Japan were our preferred equity markets over Australia and the US at the start of the year. EM has been the star, and has exceeded even our own bullish expectations, while the performance of Japan and Europe has reinforced our positive view on these markets. Australia has underperformed in line with our expectations and, if anything, the outlook has deteriorated further. On the other hand, lofty valuations haven't stopped the US juggernaut, with earnings expectations driving returns.

We expected the White House to be growth friendly leading into midterm elections, with last year's tax cuts providing a clear support for US consumers still struggling under cost-of-living pressures. But the conflict with Iran and the oil global price shock was an unexpected development. Recent events in Venezuela offered a reminder that geopolitical conflict and resource politics remain closely linked. The focus on reopening Venezuela's oil sector after Maduro's removal highlighted that countries with large hydrocarbon reserves have strong incentives to restore market access, particularly when sanctions, conflict or disrupted exports are weighing on revenues.

A memorandum of understanding between the US and Iran has improved the near-term risk backdrop, with details pointing to a reopening of the Strait of Hormuz and a staged easing of the US naval blockade.

We have held the view at the start of the war that the pain from higher oil prices should be relatively temporary for two key reasons: i) the war is voluntary, and ii) both sides need oil to be flowing through the Strait. As such, we haven't wavered from our positive view on risk assets, despite the volatility in both oil and equity markets.

The economic data is showing the stagflationary consequences of the sharp rise in oil prices, prompting the RBA, ECB and BoJ to raise rates. Meanwhile, governments around the world have bought their economies time during the conflict by releasing supply of oil reserves and realigning supply chains. But these measures are only temporary, and a tipping point is fast approaching where tight supply will cause prices to rise sharply once again. It is vital that the deal is signed off and oil flows freely once again.

We don't know under what conditions the Strait will reopen and how long it will take for production and delivery of oil to normalise. These unknowns mean the price of oil is likely to be volatile.

Equity market valuations, particularly in the US and Australia, remain stretched. This is an added layer of complexity for portfolio construction given overvalued markets generally perform the worst during selloffs.

The list of uncertainties investors must navigate for the remainder of the year is long. Volatility is likely to remain high, and investors should be prepared to pivot if the fundamentals change. It's important then that fundamentals have not deteriorated markedly over the past five months, despite the rise in the price of oil.

At end of last year, we thought central banks would continue to support growth after defeating the worst of the post-pandemic inflation shock. Inflation was set to ease slowly even though it was likely to linger above most central bank targets. This was derailed by the largest oil shock in history. Provided the deal is sealed and oil flows freely, most central banks still have policy settings that are broadly supportive of growth and there will be less pressure to tighten policy.

Still, even if a deal to end the war is elusive, if it takes longer than the market expects, or if it doesn't meet market expectations, we do not think this warrants a wholesale shift to a defensive portfolio stance. The best approach is to ensure portfolios are constructed to reflect an investor's risk tolerance and drift within portfolios is managed pragmatically. Portfolios should be diversified and big concentrated bets should be avoided.

Global equity market performance

Source: LSEG, MWM Research, June 2026

There are two key positive factors that mean a good portion of portfolios should be in risk assets. Firstly, the US consumer does not look to be buckling under the current level of the price of oil. Risk assets would be hurt if this were to occur. Secondly, the AI boom likely has further to go.

Overall, we are cautiously optimistic about the outlook for risk assets for the remainder of the year but acknowledge that volatility is likely to persist and a lot depends on the details in the agreement to end the US-Iran conflict. Interest rate support has slipped a little as inflation broadens, and growth is likely to slow a little near-term. But equities normally rally through slowdowns.

Macquarie Wealth Management Investment Strategy Team

Key insights

The AI juggernaut

February reporting season in the US added to the positive momentum of the AI trade. We warned in our outlook at the end of last year that we thought that the hype around AI was becoming mature and it would need to show it was transitioning into an engine of economic growth. There are signs this is occurring but following the reporting season it became clear that the boom has further to go. AI capex continues to snowball, and it will make 2026 the year of the largest IPOs in history.

Even with strong earnings and easily funded capex, the AI boom could still prove unsustainable. We see some of these characteristics, but we also don't see it coming to an end in the near-term. The boom would likely come to an end if the US consumer were to stop spending, but normally this would take tight financial conditions. Inflation has not met the Fed's 2% target for 5 years now and it's possible at some point the calculus changes and the Fed needs the economy to grow below trend.

It's also possible that the boom ends because its own lofty expectations are not met, but that would take a trigger or some event. For now, labour productivity is picking up. It may not be possible to attribute it directly to AI, but it's sufficient to recognise that this is what the data is showing. Rising productivity growth raises living standards, by helping lift corporate earnings and keeping a lid on inflation. For now, the near-term looks very positive.

The AI trade is broadening, but its foundation has been built by a relatively small number of US mega stocks that are driving the entire market. Broadening use of the technology creates competition amongst its suppliers and users and that can undermine earnings if companies do not adapt. We have always said there will be winners and losers out of the evolution, and the challenge for investors is to identify them early. Investors should ride the boom either directly or indirectly but have signposts that indicate when to use the offramp.

Growth looks positive beyond the oil speed bump

We expected economic growth to pick up a little in 2026 without much more support from interest rates. But this was scuttled by the Trump administration's conflict with Iran. The price of oil has moved up and down in parallel with the direction of noise coming out of the White House. The stagflationary consequences of the sharp rise in oil prices are embedded in the data, although the rise in inflation is larger in magnitude to the hit to growth.

Equities have mostly moved in the opposite direction to oil but have assumed that the fallout will be temporary. Importantly, AI earnings are not affected directly by movements in the oil price. In sectors such as transport, agriculture, construction and manufacturing the impact is significantly larger. But these sectors are not driving global equity markets.

Economies such as Australia, Europe and Japan will take a larger hit to growth because they have limited spare capacity and their central banks have been forced to raise rates in response to the inflation threat. For example, in Australia the RBA's three interest rate rises and change in tax policy are causing housing prices to fall in the Sydney and Melbourne housing markets.

In the economies where rates have risen, the economic impact is not only larger, but it will also have a longer duration. In contrast, in the US where rates have not risen, the oil shock has been absorbed much more easily. Provided the price of oil continues to retreat then the second half of the year could see growth pick up again, but this seems to be mostly priced by markets.

Time to dress up for midterms

The economic damage caused by last year's lift in tariffs and the sharp rise in the oil price appears to have been absorbed without too much collateral damage. But pain is still being felt. US tariffs are still at their highest level since the 1940s, despite decisions by several courts making them illegal. The price of gasoline is $US3.9/gallon after peaking at $US4.35/gallon in early May. But it is still 44% above the price just before the US-Iran conflict began ($US2.7/gallon).

More positively tax cuts from the One Big Beautiful Bill Act are helping to ease pressure on household budgets. But the President can use Executive Orders to help household budgets such as changing tax rules, lowering tariffs and increasing energy production to lower costs. The US fiscal position doesn't have room to provide further support, and the legislative process takes time to navigate. Recent polling indicates Republicans will likely lose the House, with the Senate and State Governor races a coin toss. The approval rating for the President has fallen sharply since the beginning of the conflict with Iran. The incumbent party usually faces losses in midterm elections. On average since WWII, the president's party has lost 26 seats in the House, and 4 seats in the Senate. If this was repeated in November both chambers would become Democrat.

No clear path to lower inflation and rates

The global oil price shock has put central banks on edge, so a clean end to hostilities and the resumption of unobstructed free passage through the Strait of Hormuz is important. Global central banks remain on edge, with inflation above most of their targets and unlikely to ease significantly in the short-term.

Lower inflation and policy rates will take time and probably not emerge until 2027. Bond yields are therefore likely to remain relatively high, with structural support from global government spending, and investment in areas such as defence, clean energy increasingly absorbing global savings.

Even if productivity growth continues to increase in the US and assist in keeping a lid on inflation, we doubt it will ease upward pressure on bond yields. Historically, it tends to do the opposite because growth becomes more resilient to higher rates.

Risk assets are optimistic

US and Australian equity valuations are high, leaving them more exposed to bouts of volatility. Forward price-to-earnings (PE) ratios are well above average in both markets. But more concerning, PE ratios are high assuming very strong earnings growth over the next 12 months. If the AI capex fails to deliver a cash return, then the US market and global markets could see a sharp downturn. This doesn't look likely in the short-term, but it is a longer-term concern. Earnings in Australia are expected to rise solidly (9% over the next 12 months), but interest rate rises and property tax changes are both working to slow the domestic economy making 9% earnings growth potentially difficult to achieve.

Investment implications

Asset class	Asset class comment	Preference
Cash (Australia)	It is likely that the RBA has finished tightening and the cash rates will remain high until the inflation battle has been won. Australian cash offers a solid risk-free return.	Maintain levels sufficient for transaction and liquidity purposes.
Equities	Equities normally rally through slowdowns, and provided the oil shock is soon over, the outlook for risk assets is positive for the remainder of the year. The AI boom is growing and even though it is maturing we believe it still has further to go. EM has benefitted from the broadening of the AI boom and a weaker US dollar. Earnings in Japan and Europe are being upgraded. We are also relatively positive on the US, but performance depends on further upgrades to the earnings not a lift in valuation. The domestic economic outlook is problematic for Australian equities due to the three RBA cash rate increases this year and the tax changes to investment properties. It will take time for the RBA to be satisfied that it has inflation under control. The market is also expensive.	**Markets:** We favour overweight positions in Europe, Japan and emerging markets, neutral position in US and a large underweight to Australia. **Size:** Bias toward small cap over large cap stocks but acknowledge that a more attractive entry point is needed to have strong conviction. **Style:** We prefer 'value' over 'growth', given the slowdown in global economic activity appears to be temporary. Bond yields are likely to remain structurally relatively high making it more difficult for 'growth' to outperform. Expectations for IT earnings growth are already high and valuations stretched.
Fixed income	Higher all-in yields make fixed income an attractive longer-term allocation, offering both downside protection and a ballast to an overall portfolio. A barbell strategy that balances fixed rate, higher quality (mid-curve) assets against floating rate, senior secured, non-cyclical private credit remains a prudent approach. To navigate 2H26, investors should focus on three defining parameters: maintaining an up-in-quality credit bias, actively managing duration (progressively adding back Australia), and tiering of managers.	**Sovereign:** Our tilts have underweighted global sovereigns and maintained lower overall portfolio duration. There is a preference for mid-curve maturities versus the long end (particularly in the 20 to 30-year segment), which will be less sensitive to tariffs, fiscal issues, and term premia. Developed market government bonds will be shaped by central bank hawkish pivots, the pressure of massive issuance, and potential fiscal mismanagement. **Investment Grade:** Credit spreads remain at historically tight levels, making security selection critical but supported by healthy fundamentals. We remain constructive on investment grade all-in yields and positive demand/supply imbalances. Record issuance and the significant forecasted pipeline in AI-related high-grade issuance are currently not impacting market pricing as there is support through existing low balance-sheet debt. Market pricing will ultimately depend heavily on future supply dynamics and benchmark concentrations. We have a bias towards Australian credit, where yields are near 15-year highs. **High yield** is supported by higher carry, lower breakevens, and a pro-growth backdrop, but it is much more susceptible to risk-off events. We note that fundamentals are starting to show some erosion from Q1 earnings reports. We prefer senior secured, non-cyclical private credit for its illiquidity premium and superior protections through covenants and documentation. **Leveraged loan** positioning should remain cautious relative to high yield bonds, as loans remain vulnerable to documentation risks, PIK toggles, and tech-adjacent revaluation shocks. Expect more dispersion between sectors.

Asset class	Asset class comment	Preference
Private credit	Dynamics are becoming more differentiated, with slower fundraising tightening liquidity at the margin. While headline fundamentals remain stable, dispersion is increasing across sectors and borrowers, with early signs of stress concentrated in more levered and cyclical exposures. Pricing is firming modestly, although competition persists in larger, sponsor-backed deals.	Focus on managers with strong origination, structuring and workout capabilities; avoid commoditised, large-cap direct lending where competition persists. Prioritise US middle-market and European direct lending, alongside asset-backed finance (ABF) for diversification and collateral-backed downside protection.
Alternatives	**Private equity:** The recovery in activity remains gradual, with constrained liquidity continuing to delay distributions and compress realised return dispersion. This is increasingly testing asset quality and execution, with outcomes likely to re-diverge as exits recover. Return drivers are shifting toward operational value creation, with manager selection, underwriting and deployment discipline critical. **Hedge funds:** A more volatile macro backdrop and elevated cross-asset dispersion are supportive of alpha generation. However, increasing crowding, leverage and positioning concentration, particularly in thematic exposures, point to a more nuanced balance between opportunity and vulnerability.	**Private equity:** Focus on managers with operational expertise and the ability to control outcomes, favouring small-to-mid market buyouts, secondaries and recent vintages with clearer pathways to realisation and more attractive entry points. **Hedge funds:** Prefer diversified multi-strategy and relative value approaches with disciplined risk frameworks, prioritising managers able to navigate crowding, adapt to shifting market regimes and dynamically allocate across opportunity sets.
Real assets	Real asset returns have historically displayed lower correlation with traditional asset classes, making them a useful addition to a portfolio, providing some downside protection and improving the consistency of returns over time. Infrastructure's defensive characteristics and historically lower correlation with traditional asset classes can help reduce overall portfolio volatility Property continues to be in an upswing, with office recovering strongly, driven by a constrained supply backdrop given rising construction costs.	**Infrastructure:** Prefer core, unlisted, infrastructure due to less correlation to listed markets. **Property:** Prefer core unlisted diversified exposures.

Global economics: Higher oil prices bite

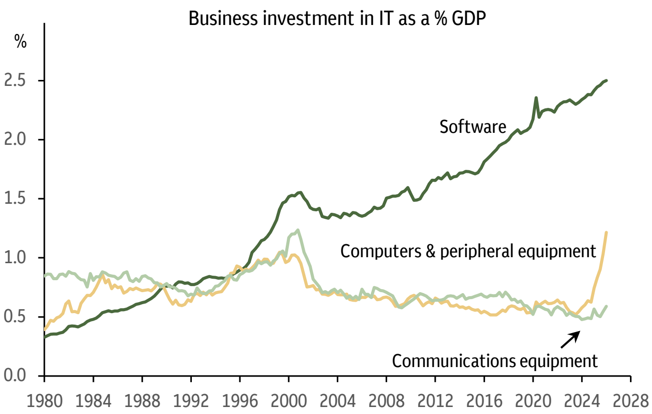
- Global economic growth is likely to slow on the back of the oil price shock, however growth is likely to pick up in 2027. Inflation is broadening and increasingly forcing more central banks to raise rates. Whether other central banks join the RBA, ECB and the BoJ will depend on the direction of the price of oil.
- The AI capex boom is gearing up and providing a timely offset to the loss of growth from the oil shock. It is unlikely to be derailed directly by even higher oil prices. But it probably wouldn't survive a major downturn in consumer spending. This could easily occur if the Strait of Hormuz is not fully opened soon.
- Australia's housing market is weakening, which gives the RBA a good reason to keep policy steady. However, inflation remains too high and policy needs to remain slightly restrictive for some time.

US

The US is at the pointy end of the AI boom, with investment in IT accounting for around 4% of GDP. The big, listed IT firms have indicated they will invest around $US580bn in 2026, and $US900bn in 2027 and 2028. Provided the US consumer can weather the oil price shock then the growth prospects for the economy remain solid.

Importantly for the Fed, the US labour market is balanced with the number of job openings broadly consistent with the number of job seekers and average weekly earnings around 3.6%. However, inflation is still a threat. It has not reached the Fed's 2% target for 5 years and inflationary pressures are broadening due to the rise in the price of oil. Newly appointed Fed Chair Kevin Warsh takes over at a time when there is political pressure to lower rates, but also an inflation problem that may need to be addressed with interest rates potentially moving in the opposite direction at some point.

The AI capex boom looks set to continue

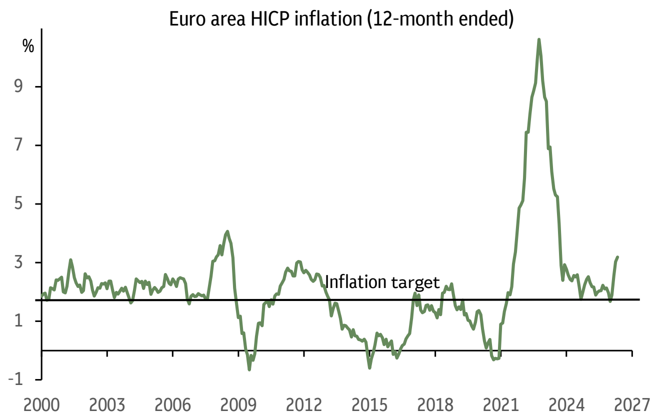


Source: LSEG, MWM Research, June 2026

Europe

The ECB was the second major central bank to raise rates behind the RBA in response to the oil price shock. The Governing Council also raised its near-term inflation forecasts and marginally lowered its GDP growth forecasts. GDP growth for the four quarters to Q4 2026 was revised down to 0.9% from 1%, while growth for the year to Q4 2027 was still expected to be 1.4%. The forecast for core inflation was revised up to 2.6% from 2.2% for the year to Q4 2026 and to 2.3% from 2.2% for the year ending Q4 2027. Core inflation was expected to remain a little above the 2% target in the year to Q4 2028 at 2.2%. We note, that oil prices are now below ECB forecasts and as such, inflation is likely to be revised down.

European inflation has been increasing

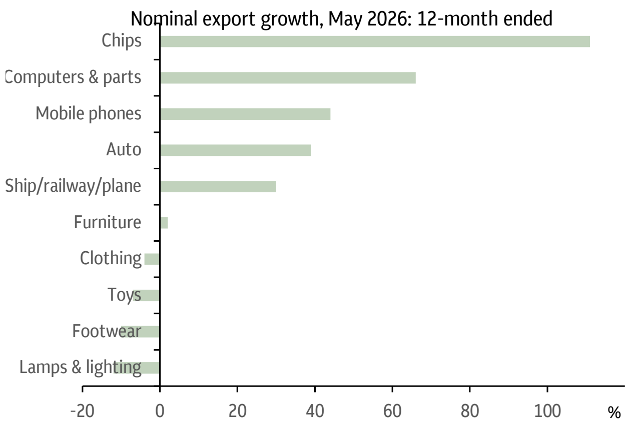


Source: LSEG, MWM Research, June 2026

China

China has successfully absorbed the increase in US tariffs by redirecting exports to other markets, particularly in ASEAN. Exports of computers and parts, phones and EVs have surged, while residential investment and consumer spending have remained weak. Macquarie's economics team think the authorities' GDP growth target of 4.5%- 5% is likely to be achieved this year. China has coped with the large fall in oil supply from the Middle East this year by importing it from other markets such as Russia, Brazil, and Indonesia. It also has drawn down its large strategic reserves.

China's exports are riding the AI boom



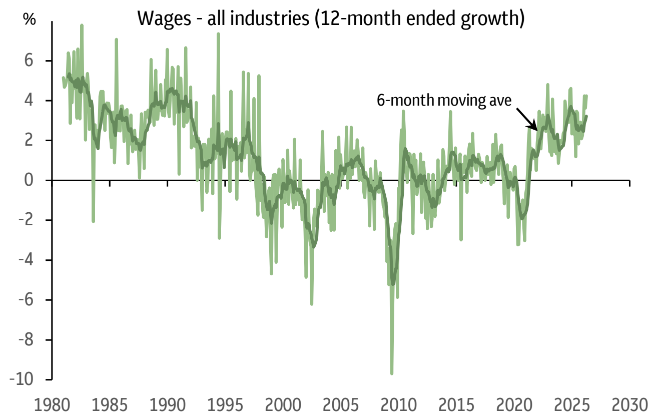
Source: LSEG, MWM Research, June 2026

Japan

The BoJ joined the RBA and the ECB as the only global central banks to raise interest rates during the oil price shock. The latest BoJ forecasts show GDP growth of 0.5% in FY26 (prior 1%) and 0.7% in FY27 (prior 0.8%). The bank expects core inflation to average 2.6% in FY26 (prior 2.2%) and 2.6% (prior 2.1%). These inflation forecasts are a significant uplift that keeps alive prospects of tightening in policy beyond the 25 bps increase in rates this month. Markets are currently pricing the BoJ to raise rates once again in January 2027.

The increase in inflation forecasts is not just due to the impact of higher oil prices. Broad measures of wages growth are the strongest in around 30 years as cost pressures from oil feed into goods and wage negotiations.

Wages growth is the strongest in 30 years



Source: LSEG, MWM Research, June 2026

Australia

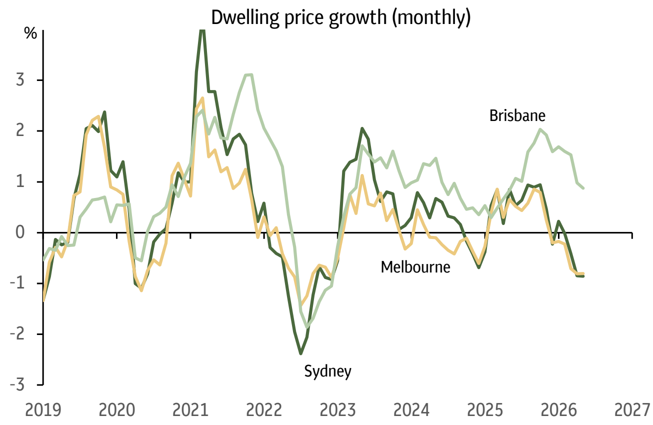
The RBA was the first major central bank to raise rates during the oil price shock after growth began picking up late last year and spilling over into higher inflation. After tightening policy three times this year, Macquarie's economics team thinks the RBA can afford to see how the housing market responds to both the interest rate rises and the changes in capital gains tax and negative gearing policy. Financial markets are not pricing in a further tightening over the next 12 months but the risk is that the next move is up and not down.

The tax changes have passed the lower house, but are yet to pass the Senate, with an inquiry underway. There is some chance that there may be small carve outs, given the government needs the support of the Greens in the Senate to see the legislation passed. The legislation creates a disincentive to invest in established property, which has been on average around 80% of new investor lending.

Investment in new or newly constructed property makes up the remaining 20% of investor lending and it will retain the benefit of negative gearing.

It's still too early to properly estimate the full impact of the tax changes given they have not yet become legislation. However, the uncertainty created by the announcement coupled with this year's three interest rate rises have contributed to moderate price falls in both the Sydney and Melbourne markets. Price growth has slowed in the smaller capital city markets of Brisbane, Adelaide and Perth.

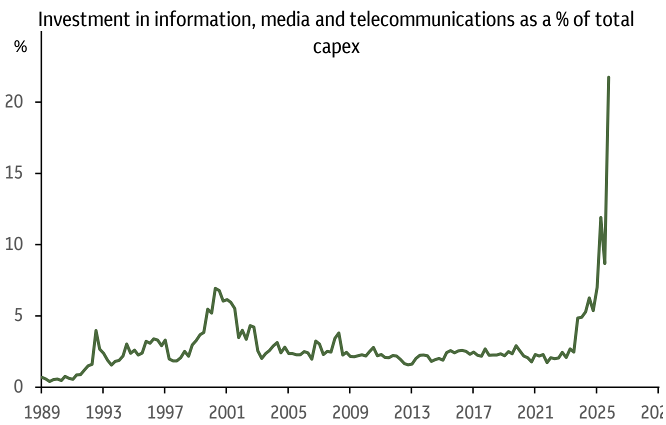
Housing is slowing quickly



Source: LSEG, MWM Research, June 2026

Housing and consumer spending may be under significant pressure, although there are other areas of growth. The big US tech firms dominate the capex spending in AI, but Australia has also been the recipient of some of this investment. Capex in IT has risen sharply over the past couple of years and is now around 20% of economy-side capex.

Australia has not missed the AI boom



Source: LSEG, MWM Research, June 2026.

The labour market is where the rubber hits the road for the RBA and recent developments are positive, given their intention of gradually bringing down inflation without sacrificing unnecessary job losses.

The unemployment rate has been between 4.2% and 4.5% since last July. The RBA expects it to be 4.3% by year-end before slowly drifting up to 4.6% by the end of next year. Wages growth is set to remain around 3.2% over the next 18 months. The employment: population ratio has declined a little over the past year, suggesting some spare capacity is slowly emerging, and the latest data shows trend employment growth is around 22k per month.

International equities: Earnings to the rescue

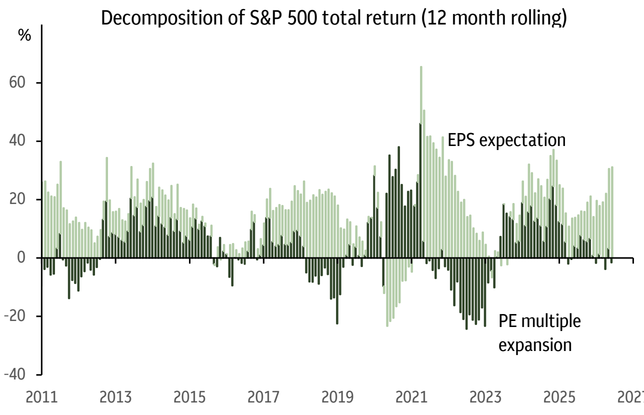
- US reporting season was once again better than expectations. Despite the sharp rise in the price of oil in the first few months of the year, US equities have performed solidly and are providing a positive tone for global risk assets. We don't think this will change as we head into year-end.
- In hindsight, we were probably too worried about the AI trade not continuing at the start of the year. Strong earnings and the boom in capex mean 2026 will see the largest IPOs in history. EM had a strong start to the year due to the AI trade and the weaker US dollar.
- 'Value' can continue to outperform 'growth' and small cap stocks can outperform large caps provided the economic downturn from the rise in the price of oil is short-lived.

Tech is a sector with little sensitivity to the price of oil. But the sector is not just a good place to hide from higher oil prices. US reporting season in February was strong and delivered not only better-than-expected results but also a strong outlook. Around 25% of the market cap of the S&P 500 is accounted for by just seven tech names, and it's the strong earnings outlook of these stocks that is driving the market's performance.

The low cost of equity and the need for capital to fund capex have created conditions for what will be the biggest year of IPOs in history.

According to KPMG, global IPO activity raised $US42.6bn in 251 transactions in Q1. But this is just a small entrée compared with what is to follow. SpaceX ($US2tn), Anthropic ($US350bn), Open AI ($US850bn-$US1tn), and Stripe ($US160bn) are all expected to list later this year.

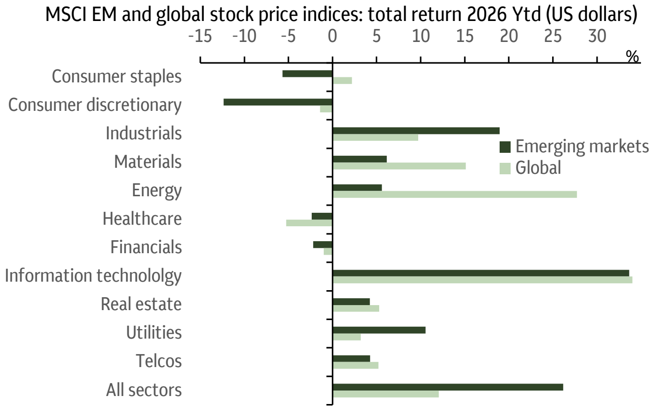
Earnings are driving returns



Source: LSEG, MWM Research, June 2026

The Tech boom is not just purely a US phenomenon. EM has been the lead global equity market this year, supported by the weaker US dollar. EM's Tech sector has matched the performance of global peers thus far this year. But performance has been broader than just technology, Industrials, healthcare, and utilities have also outperformed global peers.

EM tech, utilities and industrials have led the rally



Source: LSEG, MWM Research, June 2026

Regional tilts

We began the year positive on EM, Japan and Europe and preferred these regions over the US and Australia. The performance of EM thus far this year has probably exceeded even our optimistic expectations, while Japan and Europe have performed well and in line.

The US has once again been a standout performer on the back of the AI boom. Capex intentions continue to increase and there is no shortage of capital willing to invest. Australia has performed in line with our expectations. We still think there are risks to global stocks, given earnings expectations are very optimistic and valuations on these expectations are stretched. Nonetheless, it's clear that the AI boom still has further to run.

Style

We were positive on 'value' outperforming 'growth' at the start of the year, and we've been encouraged by the 2%pt outperformance since the start of the year. The risk of higher bond yields also means we are less convinced about the outlook for 'growth' stocks, given the volatility in the price of oil. But while earnings remain strong 'growth' seems unlikely to underperform 'value' by a meaningful margin. We retain our preference for 'value' over 'growth'.

Size

At the start of the year, we preferred small cap stocks over large cap stocks because of the likelihood of a pick in earnings growth next year.

Earnings growth expectations for next year are picking up, as we thought, even though the oil prices shock creates some near-term downside risk. Interest rates are less supportive than they were at the end of 2025, but only three central banks have raised rates since the US-Iran conflict began.

Global small caps have outperformed large cap stocks in the past 3 months after underperforming during the 2 months of the US-Iran conflict.

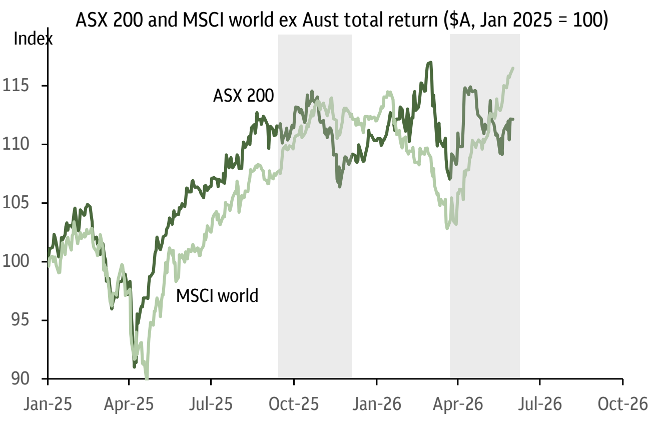
Australian equities: Rate rises and tax changes create problems

- Reporting season was positive for Australian equity investors, with a surprisingly high number of earnings beats. However, the domestic economy is now slowing leaving banks facing weaker credit growth and other cyclical stocks facing weaker economic growth.
- The three consecutive interest rate rises by the RBA, reemerging cost of living pressures and the increase in tax on property investment is putting pressure on stocks with cyclical domestically generated earnings.
- But Australia remains a good defensive market and even though we think it will continue to underperform other markets, it will still likely provide valuable protection in periods of global volatility.

Global investors look to Australia's concentrated industry structure and its dividend imputation as a safe haven during periods of volatility and rising bond yields. This seems to be the main reason for holding Australian equities. Reporting season in February showed that before the oil price shock, earnings growth was picking up. A net 12% of stocks beat EPS estimates for H1FY26, with Industrials showing an even larger positive surprise (+23%). Reporting season also saw 32% of stocks reporting providing net upgrades for full year FY26 earnings.

Despite the strong reporting season, Australia still underperformed global markets since the start of the year. The local economy and the housing market is under pressure from the three RBA interest rate increases this year. The housing market is also under pressure from the changes to capital gains tax and negative gearing that were announced in the Federal Budget, and this will weigh on the banks' credit growth and earnings for some time until the RBA is comfortable that the war against inflation has been won and it can ease policy.

Australia has underperformed

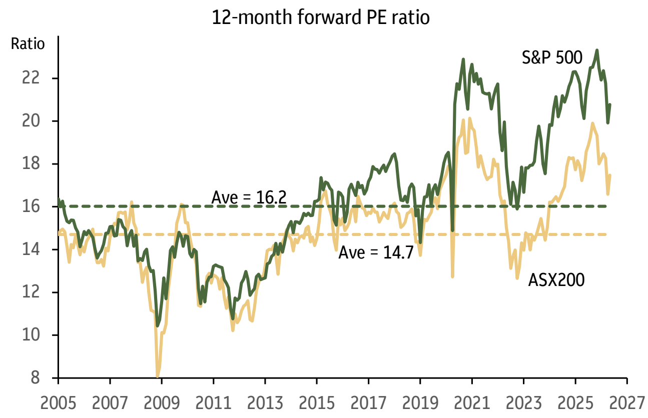


Source: LSEG, MWM Research, June 2026. Shaded areas represent periods of ASX underperformance.

China's property market remains weak, and a drag on global steel demand that Macquarie's commodities team thinks will lead to lower iron prices over the medium-term. Coking coal supply looks tight, with prices expected to rise over the medium-term. Materials generally benefit when there is a rotation away from the banks. They also benefit from capex booms. The construction of data centres and investment in IT hardware and equipment tends to use commodities that are a major input into the manufacturing process. This should keep upward pressure on key commodities such as copper, and aluminium.

We think investors should be overweight risk assets, but exposure should be diversified to manage the volatility we expect for the rest of the year. Like the US, the Australian market is not diversified. banks, materials, healthcare and consumer discretionary account for around 70% of the market cap of the ASX 200. The Australian market is also expensive, trading on a forward PE ratio that is 21% above its longer-term historical average. By comparison, the S&P 500 is trading 31% above its long-term average.

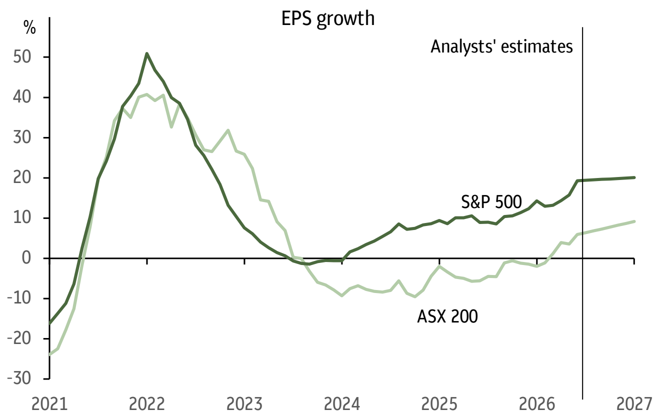
Australia is expensive even without a large tech sector



Source: FactSet, MWM Research, June 2026

US earnings growth has outperformed Australia for the last two years and that looks set to continue over the next 12 months according to analyst's estimates. By year end this should show the US once again outperforming Australia.

US earnings outperformance looks set to continue



Source: FactSet, MWM Research, June 2026

The number of risks investors are likely to confront during the remainder of the year remains high and the ASX has a proven track record of adding a defensive buffer to portfolios that is useful in periods of global market volatility. Even though we are tactically positioned underweight Australian equities, the asset class should be used as a key part of the diversification strategy in portfolio construction.

Fixed income: It's not the destination, but the journey

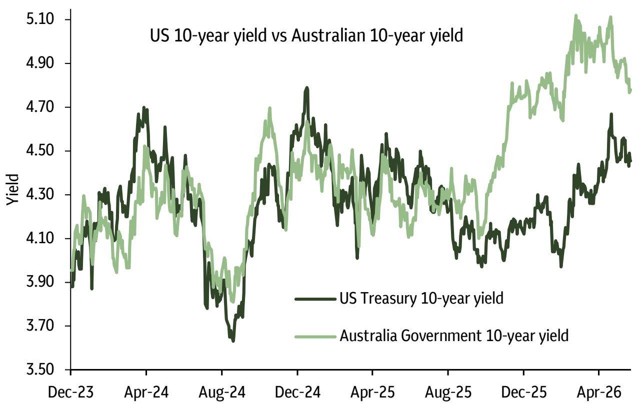
- Entering 2026, rising inflation fears broke traditional stock-bond correlations and diverted central banks from easing, while resilient corporate credit faced risks from high profile idiosyncratic credit events.
- Low duration, high grade Australian credit was the standout performer, leveraged loans were volatile, experiencing an intra-period drawdown, whilst Treasuries and sovereigns finished weak.
- A barbell strategy that balances fixed rate, higher quality (mid-curve) assets against floating rate, senior secured, non-cyclical private credit remains a prudent approach. To navigate 2H26, investors should focus on three defining parameters: maintaining an up-in-quality credit bias, actively managing duration (progressively adding back Australia), and tiering of managers.

Entering 2026, global fixed income markets became increasingly data dependent, pivoting away from the previously anticipated monetary easing cycle. The US–Iran conflict exerted a material influence on central bank rhetoric and, ultimately, market pricing. The deviation between Australian and US interest rates was notable, serving as a key differentiator in performance drivers between the two regions, particularly for portfolios with rate sensitivity managed via duration. This divergence also flowed through to the currency, which experienced another period of heightened volatility.

This **policy paradox for central banks** driven by supply side energy shocks reignited inflation fears and broke traditional stock-bond correlations. The positive rolling two-month correlation reached levels not seen since the late 1990s.

Meanwhile, the RBA embarked on a tightening cycle, raising the cash rate three times to a peak of 4.35% before pausing. In the US, a transition in Federal Reserve leadership saw Kevin Warsh take over as Chair, shifting the FOMC toward a hawkish hold at 3.50%–3.75% with a growing bias toward hikes. Ultimately, shifts in market implied pricing for future interest rate differentials and central bank sentiment led to the consensus that the RBA was closer to completing its cycle, whereas the Fed had entirely removed its easing bias and was instead pricing in a few hikes over the coming year.

The spread between US and Australian 10-year yields are tightening

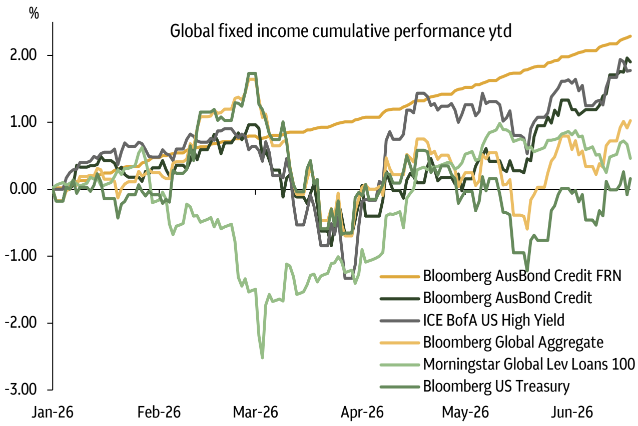


Source: Bloomberg, MWM Research, June 2026

Credit resilience vs. rate volatility: While government bond yields moved sharply higher and experienced elevated volatility, corporate credit spreads (IG and HY) remained remarkably resilient, trading near multi-year tights. Much of this can be attributed to corporate health, strong earnings, an ongoing 'risk-on' theme, favourable technical demand and supply dynamics, and a reach for yield. However, during the first few months of the year, high yield bonds, leveraged loans, and private credit were impacted by concerns surrounding idiosyncratic, high profile credit events, software sector disruption, and fears of systemic private credit contagion stemming from increased fund redemptions and gating.

An important theme to monitor closely is the record year to date issuance of AI-related capex financed in the high-grade bond market. According to J.P. Morgan, hyperscalers, data centers, and semiconductor firms have already raised $US165 billion this year, compared to $US139 billion for the entirety of 2025. Consequently, AI-related investment grade debt now constitutes approximately 15.5% of the market, making it the largest sector. Investors will increasingly assess the market's capacity to absorb this continuous, massive supply alongside the associated rise in concentration risks.

Fixed interest and credit market performance year to date



Source: Bloomberg, MWM Research, June 2026

Our strategy going into 2026 was to focus on higher-grade credit and all-in yields, while keeping overall duration low by targeting the intermediate part of the yield curve and avoiding the very long end. We also preferred a barbell approach against floating rate, senior secured private credit to further lower overall portfolio duration and provide a preferred hedge against high yield and leveraged loans. Additionally, we tilted toward underweights in global sovereigns, which were much more susceptible to monetary policy drivers and ongoing fiscal sustainability concerns as the central bank pivot was already starting even before the US-Iran energy supply shock. This positioning has played out relatively well. Our bias toward floating rate, high grade Australian credit (acting as a proxy for low duration credit) was the standout performer, while US Treasuries were among the worst.

We suggest continuing with these themes, but with a progressive shift back toward adding Australian duration. This recommendation is supported by the fact that we are near the end of the tightening cycle, alongside emerging risks that may require downside protection in the future. Additionally, Australian corporate bond yields remain close to fifteen-year highs. Moving into the second half of 2026 and beyond, the defining parameters for portfolios will be selectivity, with a distinct up-in-quality credit bias, active duration management, and manager tiering.

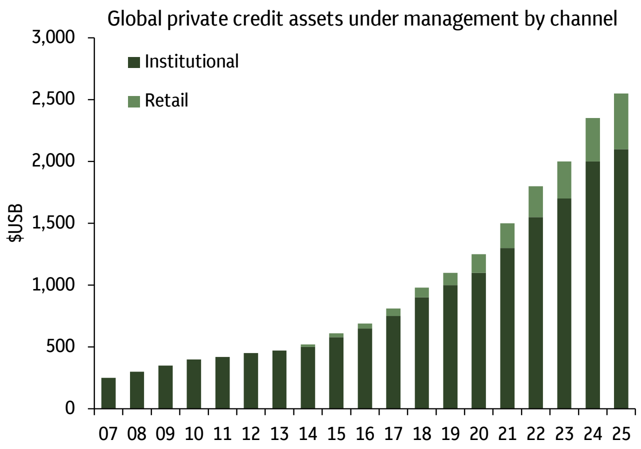
Private credit: Fundamentals over flows

- Private credit is moving out of a liquidity-abundant phase, with tightening capital supply and shifting flows beginning to reshape pricing, terms and competitive dynamics.
- Headline fundamentals remain stable, but signs of strain are emerging in weaker credits, with dispersion increasing across sectors, borrowers and managers (and their vehicles).
- Opportunity is becoming more targeted, favouring segments where capital is less crowded and structural protections are intact, including middle-market lending and collateral-backed strategies.

Since our December outlook, private credit markets have shifted into a more nuanced late-cycle phase, characterised by diverging capital flows, growing credit dispersion and a gradual rebalancing of lender-borrower dynamics.

A major development has been the sharp divergence between retail and institutional flows, which is reshaping marginal pricing and competitive dynamics. The retail wealth channel has moved from a structural tailwind to a cyclical headwind, with gross inflows into evergreen private credit funds down ~60% versus Q1 levels and May subscriptions declining ~50%, according to Goldman Sachs. These redemption dynamics now imply ~8–10% annualised net outflows across the segment.

Institutional investors remain dominant in private credit funds



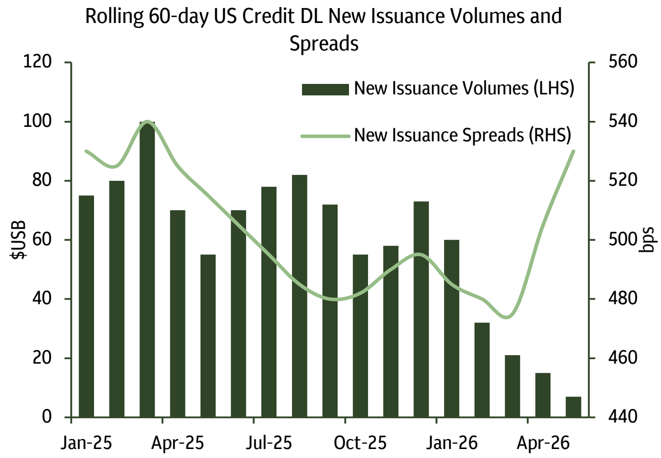
Source: Pitchbook, J.P. Morgan Asset Management, data as of 8 June 2026.

In contrast, institutional demand rebounded, with fundraising into direct lending, ABF and private investment grade strategies growing. Supported by improving spreads and lender terms, this capital is increasingly replacing retail as the marginal price setter, enabling larger, well-capitalised managers to be more selective and negotiate stronger structures. The result is a growing bifurcation in capital availability, reinforcing dispersion across managers.

With retail capital retrenching and deployment slowing (credit deployment was down ~29% q/q in 1Q26), bargaining power is shifting incrementally towards lenders. This is now seen in pricing. Direct lending spreads have widened ~50bps through 2Q26, with new issuance typically priced at SOFR+475-500bps, based on PitchBook data, implying a spread premium over broadly syndicated loans back toward longer-term levels of ~200bps.

However, conditions are increasingly bifurcated beneath headline averages, with resilient competition in upper-middle-market sponsor deals contrasted by more aggressive repricing in weaker segments. This divergence is most visible in technology/software exposures, where secondary prices have fallen to ~88 (a four-year low), according to PitchBook data, underperforming broader markets and highlighting rising sector-specific risks.

Early read saw direct lending spreads widen in April and May



Source: Kroll StepStone Private Credit Benchmarks, Goldman Sachs Global Investment Research, May 2026

More broadly, the key shift in 1H26 is not a systemic deterioration in credit quality, but a growing dispersion beneath still-stable fundamentals. The asset class is transitioning from cyclical lows toward a more typical late-cycle environment, with stresses remaining contained and largely idiosyncratic.

This is evident in fundamentals. Non-accruals have risen to ~1.87% (+53bps q/q), near long-term averages, but deterioration is concentrated in weaker issuers and public vehicles. Public BDCs have seen non-accruals increase to ~3.2%, versus ~1.3% for private vehicles, underscoring divergence in underwriting quality (KBRA).

Leading indicators suggest a gradual build-up of pressure, with loans performing below expectations rising to ~5.4% of portfolios (from ~4.8%), and secondary pricing pointing to further migration risk (PitchBook). Encouragingly, borrower cash flow resilience remains intact, with PIK usage stable at ~13% of loans and contributing ~5.4% of income, indicating limited incremental reliance on payment deferral (PitchBook, KBRA).

Looking ahead, credit outcomes are set to diverge more meaningfully, with sector selection, leverage and structuring decisions increasingly driving performance. As refinancing pressures build into 2027/28, we expect a clearer separation between resilient borrowers and those reliant on amendments, PIK or liability management.

We favour US middle-market and European direct lending, where reduced competition, tighter documentation and regional fragmentation are supporting pricing and lender protections. We also see ABF as an attractive allocation, offering both yield and diversification through collateral-driven cash flows.

Overall, while all-in yields remain compelling, returns will be driven less by access to the market and more by underwriting discipline, structuring and manager capability, with dispersion rather than spread compression defining the next phase of the cycle.

Alternative assets: Diversification beyond beta

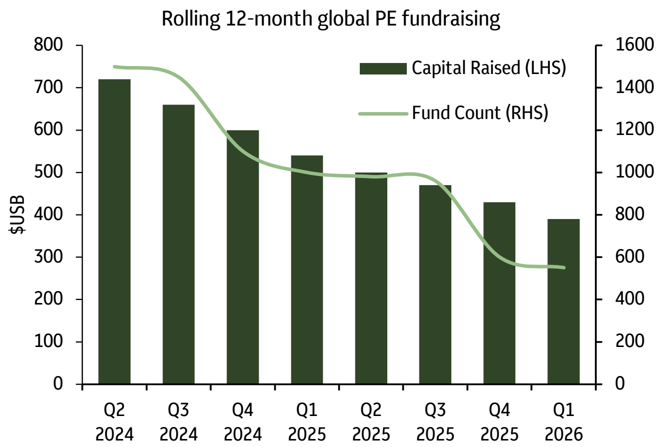
- Private markets are stabilising, but still-constrained liquidity is testing asset quality and previous execution, placing greater emphasis on manager selection, underwriting and deployment discipline.
- Return drivers have shifted towards asset-level value creation, supporting allocations to managers with proven operational expertise and the ability to influence outcomes, rather than relying on financial engineering or market tailwinds.
- Elevated volatility and dispersion are supportive of hedge fund alpha, but rising crowding and leverage increase downside risks, underscoring the need for diversification in portfolio construction and risk management.

Private equity: Gradual recovery but a different return equation

Private equity activity has continued to recover in 1H26, albeit with less momentum than anticipated. Deal activity softened early in the year amid renewed geopolitical shocks and higher bond yields but remains supported by large transactions and add-on M&A as sponsors focus on platform consolidation rather than full exits.

Fundamentally, the key constraint remains liquidity. Distributions are still below historical levels and the backlog of sponsor assets has yet to meaningfully clear, reflecting extended holding periods and challenges exiting investments made at peak 2021-22 valuations. This continues to weigh on fundraising, where 2026 YTD flows have disappointed and remain well below prior cycle highs.

PE fundraising declined for the eighth consecutive quarter



Source: PitchBook, data as of 31 March 2026.

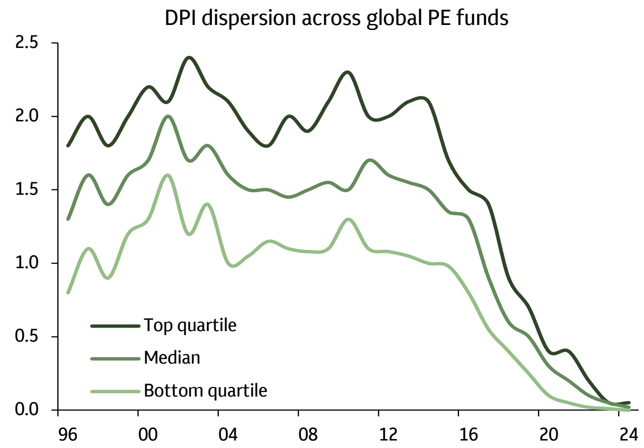
That said, there are signs of improvement. Exit activity has rebounded from 2023 lows and secondaries continue to provide an important release valve for liquidity. Deal multiples remain structurally elevated, however, limiting the scope for multiple expansion and reinforcing the need for earnings-driven returns.

In this environment, M&A dynamics are increasingly being driven by strategic repositioning, such as carve-outs, add-ons and sector consolidation, than broad-based risk appetite. Financing markets are open but selective, and while credit availability has improved, the cost of capital remains a headwind relative to the pre-2022 regime.

We expect a gradual improvement in deal and exit activity into year end, driven by the need to deploy dry powder and crystallise value in ageing portfolios, provided that rate and financing stability hold and volatility remains moderate. Conversely, significant macro shocks (e.g. energy disruption, policy error or sharp growth slowdown) would likely stall activity and delay exits.

Regardless, looking ahead, returns are likely to be less multiple-driven and more dependent on manager skill and operational value creation. In this context, recent vintages, secondaries and small-to-mid market buyouts remain best positioned to take advantage of more attractive entry valuations and less competitive dynamics.

Stalled exits are delaying PE performance differentiation



Source: PitchBook, data as of 30 September 2025.

Hedge funds: Beneficiary of volatility and dispersion

Hedge funds have been a relative beneficiary of the 2026 macro backdrop, with AUM reached record highs following the highest two-quarter inflow since 2007, although capital has been disproportionately allocated to the largest managers.

The opportunity set has been underpinned by elevated dispersion, policy divergence and episodic volatility, which have expanded alpha opportunities across relative value, macro and multi-strategy strategies. However, there is more nuance beneath the surface.

Hedge fund portfolios have become increasingly concentrated and crowded, with a large share of capital allocated to top positions and thematic exposures, most notably the AI-related tech complex. This concentration is occurring alongside elevated gross leverage and rising net exposures, increasing sensitivity to sharp reversals.

At the same time, short positioning has risen to its highest level in over a decade, reflecting active hedging and risk management, even as funds lean into long exposures. Combined, this is a dynamic that is both opportunistic and fragile.

Looking ahead, we expect the current macro regime of uneven growth, policy uncertainty and persistent geopolitical risks to remain broadly supportive for hedge funds. However, alpha will be increasingly concentrated among managers capable of navigating crowding, sourcing differentiated data and adapting to faster signal decay, particularly in quant and AI-driven strategies. Conversely, a return to synchronised growth, low volatility and compressed dispersion would reduce the opportunity set, while excessive crowding increases downside risks in concentrated trades.

Real assets: Unlisted assets an uncorrelated source of low volatility returns

- Real assets can play a strategic role within diversified portfolios, offering exposure to assets with predictable cashflows and diversification characteristics, as well as structural growth trends.
- Infrastructure's defensive characteristics and historically lower correlation with traditional asset classes can help reduce overall portfolio volatility.
- Unlisted property continues to be in an upswing, with office recovering strongly, driven by a constrained supply backdrop given rising construction costs.

Real estate and infrastructure are a hedge against inflation: Real estate and infrastructure have the ability to pass through higher inflation to customers. Real estate rental contracts often have explicit contractual rent increases linked with inflation and indirectly real estate prices benefit from constrained supply when construction costs rise.

Many infrastructure assets have a contractual link to inflation through regulation or concession agreements. Even those assets lacking an explicit link will have an implicit link thorough pricing power, reflecting the monopoly-like characteristics of the assets.

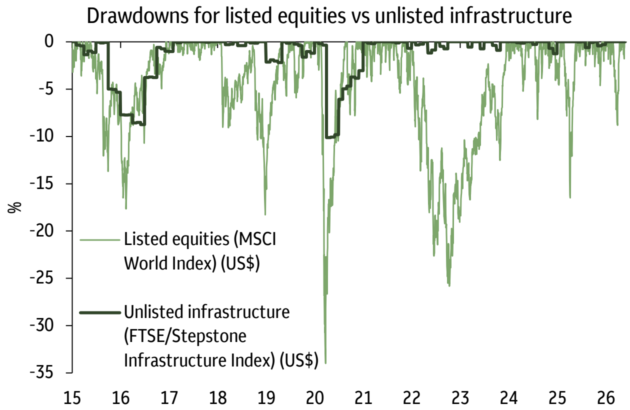
Real asset returns have historically displayed lower correlation with traditional asset classes, making them a useful addition to a portfolio by providing some downside protection
and improving the consistency of returns over time.

The cashflows of real estate and infrastructure have historically been relatively defensive (compared to broader equities) given the contracted nature of such cashflows. Additionally, direct real estate and infrastructure in particular display very low return volatility relative to other asset classes, making them a useful addition to a portfolio.

Infrastructure

The long-term case for infrastructure remains strong. Structural tailwinds including deglobalisation, digitalisation, urbanisation and the energy transition are fuelling demand for both new infrastructure and the modernisation of existing assets. Current investment levels still fall short of what is needed to meet global demand. We believe core/core plus segments offer the most appealing risk/reward profile in the current environment. Investors should prioritise a diversified approach across sectors with a focus on assets that are less GDP-sensitive, which benefit from predictable cashflows and employ moderate leverage.

Infrastructure has displayed lower volatility than equities

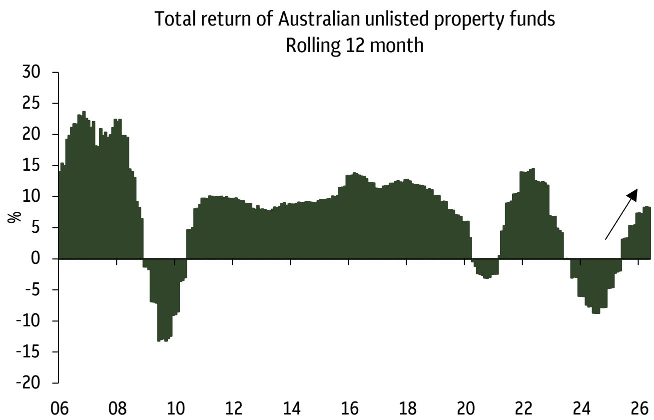


Source: FTSE, MSCI, MWM Research, June 2026

Property

Commercial property prices in the US and Australia appear to have bottomed and are in an upswing, which is bullish for both unlisted and listed real estate. All three major sectors (office, retail and industrial) appear to be in an upswing, with cap rates having stabilised.

Australian unlisted property in an upswing



Source: ANREV, June 2026

Macquarie macroeconomic forecasts

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
GDP, QoQ									
US	0.1	0.4	0.6	0.7	0.7	0.7	0.7	0.6	0.6
China	1.2	1.3	0.7	1.3	1.3	1.2	1.0	1.0	1.1
Eurozone	0.2	(0.2)	0.2	0.2	0.3	0.4	0.4	0.4	0.4
Japan	0.2	0.5	0.2	0.0	0.2	0.2	0.3	0.1	0.2
UK	0.2	0.6	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Canada	(0.2)	(0.0)	0.5	0.6	0.6	0.6	0.6	0.5	0.5
Australia	0.9	0.3	0.4	0.3	0.3	0.3	0.4	0.5	0.5
New Zealand	0.5	0.8	0.2	0.4	0.6	0.6	0.7	0.8	0.8
Global (MER)	0.6	0.6	0.5	0.7	0.8	0.8	0.7	0.7	0.7
Global (PPP)	0.8	0.8	0.6	0.8	0.9	0.9	0.8	0.8	0.9
GDP, YoY									
US	2.0	2.6	2.2	1.8	2.5	2.8	2.8	2.8	2.6
China	4.5	5.0	4.4	4.7	4.8	4.7	4.8	4.4	4.2
Eurozone	1.2	0.3	0.4	0.3	0.5	1.1	1.3	1.5	1.6
Japan	0.4	0.3	0.2	0.8	0.8	0.6	0.7	0.8	0.8
UK	1.0	1.1	1.1	1.1	1.1	0.8	0.9	1.1	1.2
Canada	0.7	(0.1)	0.7	0.8	1.7	2.4	2.5	2.4	2.3
Australia	2.5	2.5	2.0	2.0	1.3	1.4	1.3	1.5	1.7
New Zealand	1.5	1.5	2.3	1.9	2.2	1.8	2.3	2.7	2.9
Global (MER)	2.7	2.8	2.5	2.4	2.6	2.8	3.0	3.1	3.0
Global (PPP)	3.4	3.4	3.1	2.9	3.1	3.2	3.5	3.5	3.5
CPI, YoY									
US (PCE)	2.8	3.1	3.8	3.3	2.7	2.2	1.6	2.0	2.4
China	0.4	0.7	1.2	1.1	0.9	0.9	0.7	0.8	0.8
Eurozone	2.1	2.0	3.1	3.0	3.1	2.8	2.0	2.0	2.0
Japan	2.7	1.4	1.4	1.6	1.3	1.9	1.8	1.8	1.9
UK	3.4	3.1	3.1	3.5	3.7	3.3	2.8	2.1	1.9
Canada	2.2	2.1	2.8	2.3	1.7	1.6	1.4	1.8	2.3
Australia	3.7	4.0	4.6	4.1	4.1	3.3	2.8	2.6	2.7
New Zealand	3.1	3.1	4.1	3.8	3.6	3.3	2.2	2.3	2.4
Policy Rate									
US (Fed funds rate)	3.63	3.63	3.63	3.63	3.88	4.13	4.13	4.13	4.13
China (1-yr MLF rate)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Eurozone (deposit rate)	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.25	2.00
Japan (policy rate)	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
UK (base rate)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.50
Canada (overnight cash rate)	3.50	3.50	2.25	2.25	2.50	2.75	3.00	3.00	3.00
Australia (cash rate)	3.60	4.10	4.35	4.35	4.35	4.35	4.35	4.35	4.35
New Zealand (overnight cash rate)	2.25	2.25	2.25	2.50	2.75	2.75	3.00	3.00	3.00
10-year yield									
US	4.18	4.30	4.50	4.75	5.00	5.00	4.75	4.50	4.50
China	1.85	1.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Germany	2.85	3.01	2.90	3.00	3.15	3.15	3.00	2.85	2.85
Japan	2.06	2.36	2.60	2.70	2.85	2.90	2.85	2.75	2.75
UK	4.54	4.94	4.75	4.90	4.90	4.90	4.90	4.90	4.75
Canada	4.18	5.18	3.50	3.75	4.00	4.00	3.75	3.50	3.50
Australia	4.76	4.97	4.85	4.95	5.05	5.00	4.90	4.80	4.80
New Zealand	4.50	4.73	4.45	4.60	4.70	4.75	4.60	4.50	4.50

Source: Macquarie Macro Strategy, June 2026

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