

Investment Matters

The bar keeps rising

August 2026



We believe the case for risk assets remains intact, supported by resilient US growth, easing inflation and another strong earnings season. However, investors are demanding evidence that earnings growth, AI investment and capital allocation can generate durable returns.

The latest data is broadly positive, with the economy evolving as the Fed expects. US GDP growth in Q2 slowed to 1.5% while core PCE inflation was 3.3% in June. But the Fed has a dual mandate, and the risks are clearly tilted towards more inflation, not less growth. It's no surprise that markets think the Fed has some more work to do, with a move up in rates pencilled in for October.

The positive economic foundation has been mirrored by stocks reporting Q2 earnings. US banks reported near perfect trading conditions underpinned by solid consumer lending, booming corporate activity and strong growth in trading revenue.

The two key issues for markets remain 1) the durability of the AI boom and 2) inflationary pressures.

Markets are rightly concerned about the bulging size of the AI capex pipeline. Even tech stocks beating earnings expectations have been dealt a heavy hand when increasing their capex. Capex doesn't impact earnings immediately; it lifts the cost base over the longer-term as it is recorded as depreciation in the P&L statement. AI financing is also under scrutiny, particularly debt funding. Credit and CDS spreads have widened in response to these emerging risks.

AI's reach is growing, but it also has an overlay of competitive threats all along the supply chain that markets should not ignore.

The foundation of the boom is the US research labs such as Anthropic, OpenAI, and Google DeepMind, but competition is building from low-cost Chinese labs including DeepSeek, Moonshot and Z.AI. Similarly, in AI infrastructure, Nvidia has competition from AMD, Intel, Qualcomm and Broadcom.

Hyperscalers such as Microsoft, Amazon and Meta may have more market share than competitors, but they are betting their capex will produce acceptable returns for shareholders. Probably the biggest show of confidence in AI thus far is the IPO of SpaceX. It was at the front of the queue ahead of other mega IPOs such as Anthropic, OpenAI but lost investor support shortly after coming to market.

Data centre construction is driving a boom in commodities such as copper, silver, aluminium, rare earths, uranium (power) and gas (power). This demand also extends to refined products such as steel and concrete. The boom also has geographical reach well beyond the US with emerging markets such as Korea, China, Taiwan and developed markets such as Japan all moving in unison with shifting AI sentiment.

White House policy aimed at the Middle East and global trade continues to shift inflationary pressures at a rapid cadence. The global economy has thus far been able to absorb most of it without significant central bank intervention, but pressures are building. Short-term rates markets expect the Fed and ECB will raise rates in October and the BoJ and RBA will do the same early next year.

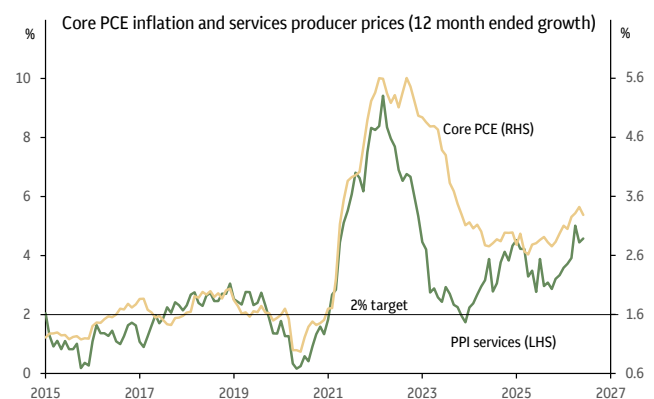
There seems to be complacency in equities about the prospect of more Fed tightening, with the S&P 500 trading only around 2% below its all-time high. Investors should note that no major central

bank has managed to contain inflation at target for any reasonable period since the pandemic.

But AI and inflation risks must still be weighed up against the prospects for the US economy. At this stage they remain positive. Growth is not too strong, and the labour market is firm, but not overly tight. Inflation may be too high, but over time slower growth will create more spare capacity and bring down inflation even if this can only be achieved by applying the brake on growth a little more.

The wildcard that seems intent on disrupting a soft landing for the US economy is the White House. Over the past couple of years, it has weaponised trade, immigration and the price of oil with little consequence for the economic costs. But in each instance, it backed away when there were signs these costs were ramping up.

Inflationary pressures remain



Source: LSEG, MWM Research, August 2026

Mid-term elections are due in four months, but a divided Congress probably won't change the Administration's modus operandi. It has demonstrated that significant change can be made by bypassing Congress with executive orders. Furthermore, most of the big-ticket election promises that require congressional approval such as tax cuts, defence and immigration funding, cuts to Medicaid funding and digital asset trading have already been made.

Changes to non-citizen voting laws seem to be the only outstanding item, although the platform for making these changes before mid-terms was set a few weeks ago.

It's difficult to tell how and when the AI boom will end. In the past, fixed income markets have correctly anticipated major turning points in cycles well before equities, so investors should closely monitor CDS and credit spreads at different points along the AI supply chain. Another rule of thumb is that the size of the bust is normally proportional with the size of the boom. This suggests that it's probably too early to call the end of the cycle, given the momentum in capex intentions of the hyperscalers.

We remain positive on risk assets and prefer global equities (large cap and small cap) over Australian equities. We are also positive on real assets. We remain underweight sovereign bonds and high-yield corporate bonds and overweight private credit and Australian core fixed income.

Macquarie Wealth Management Investment Strategy Team

Global Economics: Growth is slowing outside the US

- The path of the price of oil remains the biggest global economic threat. Already there are signs of slowing global GDP growth, mainly outside the US. The US consumer is propped up by a labour market that seems solid and reasonably well balanced.
- China's Q2 GDP growth disappointed by posting 4.3% growth over the past year vs consensus (4.5%). This likely represents the cyclical low point, with the authorities set to increase stimulus that will allow it to achieve its growth target of 4.5% to 5.0%.
- European GDP rose by 1.0% over the past year as the economy struggled with US tariff increases and the higher price of oil.

The path of the price of oil remains probably the biggest macroeconomic threat, with the conflict in the Middle East unresolved and global reserves of oil falling. Global growth is slowing, mostly outside the US due to the rise in the price of oil and tighter central bank policy.

Chinese GDP growth for Q2 was 4.3%, weaker than consensus expectations of 4.5%, as fiscal spending slowed more than expected during the quarter. Macquarie's China economist expects some additional stimulus from the authorities in H2, but only enough to bring the economy back on a 4.5%-5.0% growth path by year end.

Across the Euro area, GDP growth for Q2 was 0.4%, and barely positive over the past year after contracting in Q1. The ECB's June forecasts show it expects core inflation to drift up to 2.7% by early 2027, before gradually returning to 2% in 2028.

In the US, Q2 GDP growth slowed to 1.5% from 2.1% the previous quarter, and June PCE inflation was 3.3%. The rising cost of living is affecting consumer confidence, which has been declining since the Liberation Day tariffs were announced. But underpinning the consumer is the solid pace of job hiring, which is now broadly consistent with the increase in jobseekers. This indicates that labour market demand and supply are broadly balanced and means that at worst a tightening of policy lies ahead rather than a rapid-fire increase in rates.

The US labour market is in good shape



Source: LSEG, MWM Research, August 2026

Australian Economics: Higher rates are here for a while yet

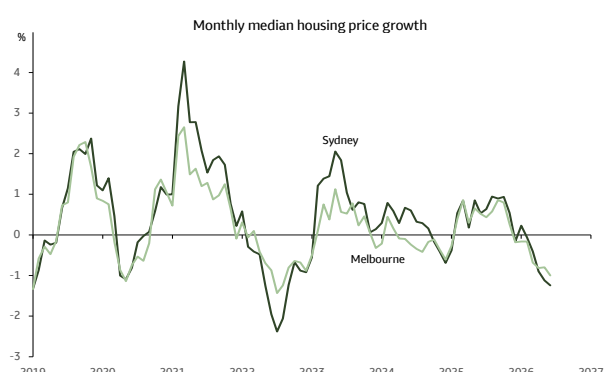
- Inflation is still too high and growth needs to remain subpar for an extended period to bring it down. The Q2 inflation data was better than both market expectations and the latest RBA forecasts, so it will take an inflation surprise to draw the bank into tightening again this cycle.
- Governor Bullock left the door open to further rate rises in a speech on 28 July before the inflation data was released.
- The lead Sydney and Melbourne housing markets remain the weakest with prices falling due to the RBA's tightening campaign and the changes to property tax policy. The same factors have caused a slowdown in growth in the smaller capital city markets, but prices are yet to fall.

Uncomfortably high inflation remains the main problem in Australia. Q2 data showed a 0.8% increase in the trimmed CPI during the quarter, taking the inflation rate to 3.6%. Data on the labour force for June showed the unemployment rate remained at 4.4%, which is well above the 4.1% figure in January, but probably not enough to bring inflation back to within the target band. The main issue is whether policy needs to be adjusted higher once more. In a speech on 28 July, Governor Bullock left the door open to another increase should the inflation backdrop not improve.

At this stage, financial markets don't expect the RBA to raise rates, but like other central banks, the calculus shaping the RBA's policy deliberations is changing rapidly. Arguments for no further increases in the cash rate are at least partially based on the impact of the work done thus far. The most visible sign is in the Sydney and Melbourne housing markets where prices continue to fall. The smaller capital city markets are seeing a slowdown in growth rather than price falls at this stage.

Weaker housing prices are a necessary byproduct of tighter policy, given the direct impact housing has on consumer spending via spending on household goods and services and wealth effects. State government budget revenue is also impacted by falling prices as housing turnover slows. New property construction also has significant multiplier effects throughout the economy.

Sydney and Melbourne housing prices are falling



Source: ABS, MWM Research, August 2026

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

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Australian equity indices						
S&P/ASX 200	2.3	4.1	4.7	6.0	10.4	8.0
S&P/ASX 300	2.1	4.0	4.2	5.8	10.3	7.8
S&P/ASX Small Ordinaries	-3.2	-3.2	-10.8	1.8	7.5	2.2
S&P/ASX 200 Industrials	2.7	5.7	1.7	-3.7	10.1	7.0
S&P/ASX 200 Resources	1.0	0.4	13.6	45.1	11.3	11.0
International equity indices (AUD unhedged)						
MSCI AC World ex Australia	-1.3	6.9	5.7	12.0	16.8	11.9
MSCI Developed World ex Australia	-0.9	6.8	4.6	10.4	16.6	12.3
MSCI Emerging Markets	-4.4	7.3	14.0	25.1	17.7	9.0
Regional equity indices (AUD unhedged)						
S&P 500	-1.4	6.7	4.6	9.6	17.7	13.9
NASDAQ Composite	-4.5	4.5	4.0	10.8	20.1	13.4
Euro STOXX 50	0.1	10.3	4.8	13.6	16.1	13.1
FTSE 100	3.8	7.1	6.0	14.7	16.4	13.5
Japan TOPIX	2.1	9.8	12.4	22.0	17.0	11.7
MSCI China	7.5	0.5	-12.0	-9.4	5.7	-1.2
International equity thematic indices (AUD unhedged)						
MSCI World Growth	-3.8	5.7	0.8	6.4	17.6	11.7
MSCI World Value	2.2	8.1	8.7	14.3	15.2	12.2
MSCI World Cyclical	-1.5	7.1	4.8	10.4	19.5	13.4
MSCI World Defensives	1.9	5.7	4.3	10.5	7.6	8.4
Australian sector indices						
Energy	12.2	-3.8	29.0	21.6	2.1	12.7
Materials	-0.9	2.2	10.7	44.9	12.4	10.1
Industrials	-1.4	5.0	0.8	1.8	9.9	8.7
Consumer Discretionary	0.9	18.5	2.6	-3.4	12.6	5.9
Consumer Staples	0.2	11.1	16.9	13.3	3.9	3.2
Health Care	2.3	5.3	-20.1	-40.1	-11.7	-8.5
Financials	5.8	4.6	8.3	8.7	19.7	13.8
Information Technology	-2.8	0.5	-18.0	-41.7	-2.2	-2.2
Communication Services	1.0	-4.8	-4.1	-10.4	4.8	5.6
Utilities	-1.0	-7.2	2.1	5.4	7.8	16.0
Real Estate	-0.4	4.0	-6.3	-6.6	8.3	4.2

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

Source: FactSet, MWM Research, August 2026

Total returns (AUD) – as of 31st July 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	-0.1	4.7	-5.2	-5.4	10.2	5.6
FTSE EPRA Nareit Global Developed (hedged)	2.4	4.0	13.1	18.5	9.9	2.5
S&P Global Infrastructure (hedged)	-0.3	0.4	10.8	16.5	15.8	12.0
Global fixed income indices (AUD hedged)						
Bloomberg Global Aggregate (hedged)	-0.9	0.2	0.3	2.1	3.4	-0.5
Bloomberg Global Treasury (hedged)	-0.8	0.2	0.0	1.2	2.6	-0.8
Bloomberg Global Corporates (hedged)	-1.2	0.1	0.1	2.7	4.4	-0.5
Bloomberg Global High Yield (hedged)	-0.3	1.2	2.4	6.5	9.1	3.6
Morningstar LSTA US Leveraged Loan 100 (hedged)	1.2	1.2	1.6	4.7	7.6	6.2
Bloomberg Emerging Markets USD Aggregate (unhedged)	-2.6	2.3	-4.4	-3.2	6.1	2.6
Bloomberg EM Local Currency Government Universal (unhedged)	-0.5	4.0	-3.0	-4.1	3.6	2.7
Australian fixed income indices						
Bloomberg AusBond Bank Bill	0.4	1.1	2.4	3.9	4.2	3.2
Bloomberg AusBond Composite (0+Y)	-0.4	2.1	1.9	1.1	3.7	-0.1
Bloomberg AusBond Credit (0+Y)	-0.1	2.2	2.2	2.4	5.2	1.8
Commodities (in AUD)						
Crude oil (Brent)	22.9	-27.7	35.9	9.6	-0.4	3.9
Gold	-1.3	-10.6	-12.5	11.9	25.2	18.2
Iron ore (62% fe cfr China cash)	-3.5	-6.4	-13.1	-9.4	-5.8	-13.5
Coal (Newcastle - Near Term IFEU)	1.9	2.4	18.4	6.7	-2.2	-1.3
Copper (Cash Official LME)	2.3	8.8	5.0	32.0	15.4	8.2
Nickel (Cash Official LME)	3.6	-9.4	-1.5	5.9	-8.8	-2.1
S&P GSCI Index	9.3	-8.6	18.8	13.5	3.5	5.8
FX						
AUD/USD	1.5	-2.5	5.2	9.3	1.5	-0.9
AUD/EUR	0.4	-0.8	7.2	8.2	-0.1	-0.3
AUD/GBP	-0.1	-1.6	5.2	7.1	-0.2	-0.3
AUD/JPY	-1.8	-2.0	5.7	14.0	5.0	6.5
USD/EUR	-0.9	1.8	1.9	-1.0	-1.6	0.6

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Source: FactSet, MWM Research, August 2026

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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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