MACQUARIE

Private Bank

Inner Circle

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.

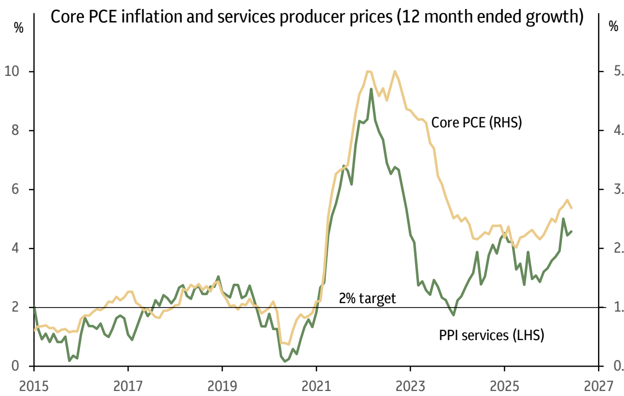
White House policy aimed at the Middle East and global trade continues to shift inflationary pressures at a rapid cadence. The global economy has thus far been able to absorb most of it without significant central bank intervention, but pressures are building. Short-term rates markets expect the Fed 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

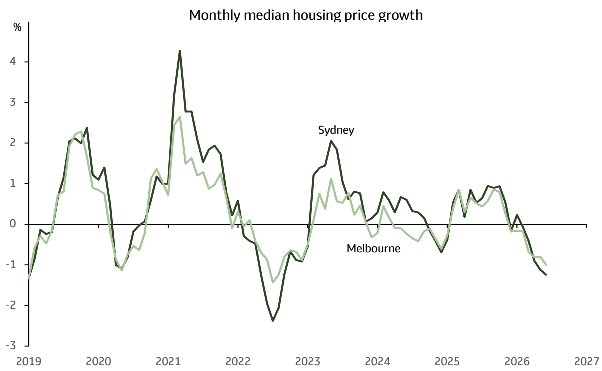
- Inflation is still too high and growth needs to remain subpar for an extended period to bring it down. The Q2 inflation data was better than both market expectations and the latest RBA forecasts, so it will take an inflation surprise to draw the bank into tightening again this cycle.
- Governor Bullock 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

Equities: US earnings remain solid, despite AI capex concerns

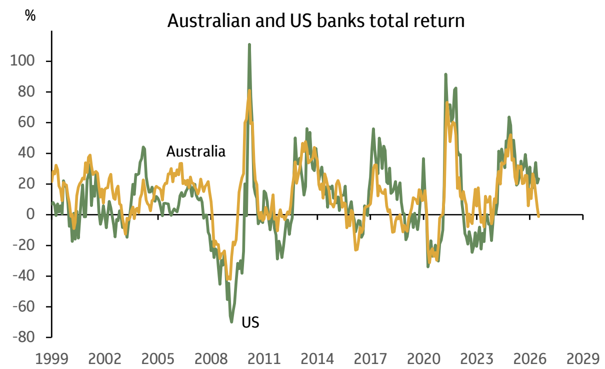
- US reporting season has once again been strong, with around 86% of stocks beating expectations during the 3rd week of reporting. The tech sector once again led the way even though the expanding capex pipeline is a concern.
- Trading conditions for US banks probably don't get much better, with solid US consumer spending, booming corporate activity and a good run of volatility in securities markets underpinning strong performance. In contrast, Aussie banks are underperforming.
- EM has felt the ground shake from the AI capex pipeline concerns, but so too have developed markets such as Japan.

US reporting season has sent a similar message to the economic data. The US economy is in good shape, and the AI boom still has further to go. Of course, the market being forward-looking, is not only concerned about how earnings are tracking in the quarter just gone, but also about the outlook. This has been on show in the tech sector, with 92% of these stocks beating EPS expectations during the 2nd week of reporting as the NASDAQ sits around 10% below its 2nd June peak. Magnificent Seven stocks Alphabet, Tesla and Meta all missed analysts' EPS estimates. Microsoft beat revenue and EPS estimates and maintained the capex outlook.

The concerns about future earnings have also affected Emerging Markets and some developed markets such as Japan, which has seen significant volatility since the NASDAQ peak.

The big banks kicked off reporting season showing strong operating conditions. Consumer lending growth was solid, and corporate activity is booming on the back of investor demand for AI exposure. Market volatility provided strong securities trading conditions. It's no surprise that the US banks have outperformed their ASX counterparts, given the large component of earnings that comes from investment banking and the strong productivity backdrop to the US economy. By comparison, Australian commercial banks are leveraged to lending to the soft domestic economy. But cycles in returns are remarkably similar, reflecting similar short rate cycles that are intertwined by global trade and financial architecture.

Aussie banks underperform in local currency terms



Source: LSEG, MWM Research, August 2026

Fixed Interest: "When the Fed starts panicking, I can stop panicking"

- Under new Fed Chair Kevin Warsh, the market is experiencing a new era of volatility and reduced Fed guidance, pushing 30-year Treasury yields to their highest levels since 2007 during July.
- Credit markets are focused on debt for AI infrastructure, with investors penalising companies for heavy AI capital expenditure that is diluting company earnings and cashflow.
- A barbell strategy, balancing fixed-rate, higher quality (mid-curve) bonds against floating-rate, senior-secured, non-cyclical private credit, remains prudent further into 2026. 'All-in yields' remain attractive over the medium term. We have a bias towards Australian credit.

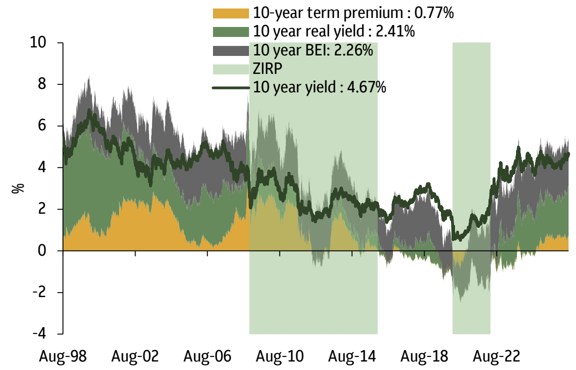
It was an eventful month for global fixed income, with several key themes emerging including heightened geopolitical risk and oil price volatility, a heavy US reporting season with solid banking results and mixed themes from big tech companies, and a new regime under Fed Chair Kevin Warsh.

New Fed Chair Kevin Warsh's move away from his predecessor's detailed forward guidance signals a new era of increased volatility and event risk for market participants. Consequently, this could lead to higher risk premia and a renewed diversification away from US rates.

Warsh has made it clear that the market must form its own judgment, while also noting that the Fed considers market movements when setting policy, a confusing and conflicting "tail wagging the dog" scenario. The market's powerful reaction to this new dynamic was immediate, as 30-year Treasury yields hit their highest point since 2007, and long-term inflation expectations surged. With real yields now back at levels unseen since before the era of zero interest-rate policy, the market is bracing for further adjustments.

Credit markets remain focused on the dispersion of elevated hyperscaler credit spreads on the back of concentrated debt issuance for financing AI infrastructure. Reporting season has also highlighted the divergent paths in AI spending with companies penalised for heavy AI capex that is diluting earnings or impacting free cash flow.

US real yields have risen further due to the new Fed Chair



Source: MWM Research, Bloomberg, August 2026

Private Credit: Fundamentals holding but dispersion rising

- Fundraising and deployment activity softened through Q2, but elevated redemptions and reduced competition are restoring lender discipline and supporting wider spreads.
- Headline fundamentals remain stable, but dispersion is rising across sectors and vintages. Sentiment toward software credits has cooled, leading to greater selectivity and softer secondary market pricing despite generally stable underlying loan performance.
- Manager selection is crucial. We favour US middle-market and European direct lending alongside ABF, where lender protections, pricing and risk-adjusted return opportunities remain most attractive.

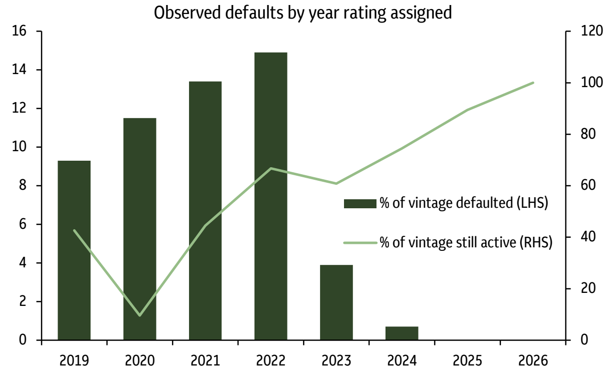
Private credit activity softened through Q2 as geopolitical uncertainty, weaker M&A volumes and slower sponsor activity weighed on deal flow. US direct lending volume fell to approximately US$33bn across 149 transactions in Q2, down from US$74bn across 217 transactions in Q1.

Retail sentiment also remains challenged, with elevated redemption requests across US BDCs and evergreen vehicles, although institutional capital continues to support the sector. As a result, pricing power has shifted modestly back to lenders, with direct lending spreads widening by around 25-50bps and new deals typically pricing at SOFR +475-500bps.

Despite softer sentiment, fundamentals remain broadly stable. Proskauer's Q2 index saw a slight decline in the overall private credit default rate, with defaults concentrated in older vintages, particularly loans originated in 2021-2022. Software has shifted from a market favourite to an area of scrutiny. Although existing loans are broadly performing, softer secondary valuations, upcoming refinancing needs and AI-related disruption have led lenders to become more selective, with stronger structures and greater differentiation between high- and low-quality issuers.

We remain constructive but selective, favouring senior secured US middle-market and European direct lending, alongside ABF for diversification and collateral-backed downside protection. Improving lender terms, wider spreads and contained defaults continue to support attractive risk-adjusted return opportunities.

Pre-2023 vintages have seen higher defaults



Source: Morningstar DBRS, data through 9 July 2026.

Alternative Assets: Liquidity is still the missing ingredient

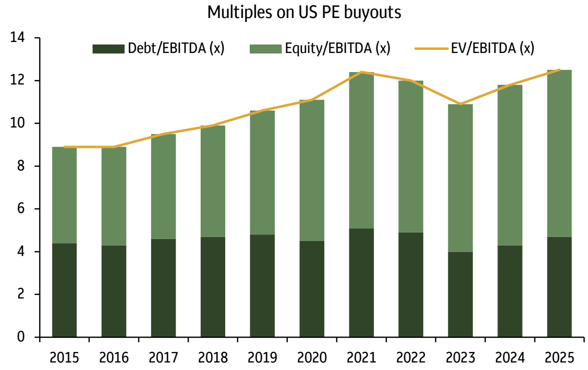
- PE distributions remain below historical norms and exits are reliant on a narrow group of premium assets, reinforcing the need for manager selection and disciplined deployment.
- Performance differentiation is being delayed, not eliminated, as compressed DPI dispersion reflects a lack of realisations rather than convergence in underlying asset quality. We expect dispersion to widen as exit markets normalise.
- We continue to favour recent vintages, secondaries and small-to-mid market buyouts, where entry valuations are more attractive, operational value creation is paramount and liquidity-driven dislocations are creating opportunities for patient capital.

Private equity conditions softened further through Q2, with US deal value falling 38% QoQ as higher financing costs, a more hawkish rate backdrop and the ongoing repricing of software assets weighed on larger transactions. While overall deal counts remained resilient, activity increasingly shifted toward smaller add-on acquisitions, growth investments and carve-outs, rather than leverage-dependent buyouts and take-privates.

Liquidity remains the bottleneck for the industry. Exit value fell 46% QoQ to US$103bn, with over 60% of proceeds from a small number of mega-exits. Although the IPO market has partially reopened, it remains narrow and largely reserved for premium assets. As a result, distributions remain well below historical norms, with buyout distribution rates of ~15% versus a long-run average of ~23%, while inventories of PE-backed companies and holding periods continue to rise. Fundraising remains challenging despite US$1.1tn of dry powder, with capital increasingly concentrated in large, established managers.

This backdrop tests asset quality, underwriting standards and operational execution. Current compressed DPI dispersion reflects a lack of exits rather than convergence in underlying performance. As realisations recover, we expect manager and vintage dispersion to widen further. We continue to favour recent vintages, secondaries and small-to-mid market buyouts. Secondaries remain a beneficiary of the liquidity shortfall, offering access to more seasoned portfolios, a reduced J-curve risk and potentially attractive pricing as LPs seek liquidity.

Buyout leverage has remained disciplined post-2022



Source: SPI by StepStone, as of 31 December 2025.

Real Assets: Unlisted assets are an uncorrelated source of lower 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 all sectors including office recovering strongly, driven by a constrained supply backdrop given rising construction costs.

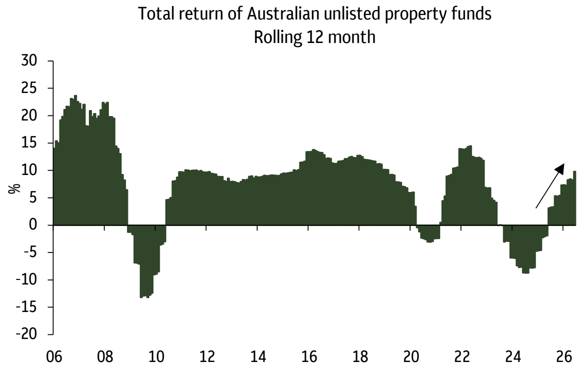
Real estate and infrastructure are a hedge against inflation: Real estate and infrastructure have the ability to pass through higher inflation to customers. Real estate rental contracts often have explicit contractual rent increases linked to inflation and indirectly real estate prices benefit from constrained 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 through pricing power, which reflects the monopoly-like characteristics of the assets.

The cashflows of real estate and infrastructure have historically been relatively defensive (compared to broader equities) given their contracted nature. 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.

Note that while the returns of private infrastructure and real estate are less volatile than their listed counterparts, it is crucial not to mistake reported smoothness for lower economic risk. Ultimately, while a private investment may look more stable on paper, the underlying investments remain exposed to the same macroeconomic cycles as their publicly traded counterparts.

Unlisted property is recovering



Source: ANREV, 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 Cyclicals	-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

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

Source: FactSet, MWM Research, August 2026

The Wealth Investment Strategy Team

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