Investment Matters

Higher yields test the AI expansion

September 2026

MACQUARIE

Central banks' patience in achieving their inflation target is starting to run thin, with several central bank officials setting expectations for higher rates over the past month or so. Global economic growth is around trend but probably needs to be slightly lower for inflation to take the final leg down to central bank targets.

The current backdrop is shaped by strong growth in AI investment and resilient consumer spending, so the goal of policy will be to squeeze out some consumer spending to make room for AI investment. Labour market conditions have not seen a material shift since the start of the year. In the US, the unemployment rate is 4.1% compared with 4.3% at the start of the year. In Australia, the unemployment rate has moved in the opposite direction and is now 4.5% compared to 4.1% at the start of the year.

The hyperscalers' plan to ramp up their capex next year from between US$720 billion and US$860 billion to at least US$1.3 trillion in 2027, so it's understandable that the time to act is fast approaching.

Financial markets have already moved in response to the prospect of tighter policy accompanied by more AI capex. The US 10-year yield has risen by around 27bps since early July, while over the same period 10-year yields in the UK (39bps), Germany (40bps) and Australia (29bps) have also risen significantly. Japanese 10-year yields are at their highest level since September 1996.

The rise in yields is being driven by several factors that are mostly positive and related to a structural pick up in global growth and US productivity. But there are also negative factors that are pushing yields higher, including stubbornly high inflation and expanding government balance sheets in many countries.

Furthermore, the hyperscalers are now increasingly going to the corporate bond market to fund their capex and there are signs this is attracting capital normally allocated for long duration treasuries.

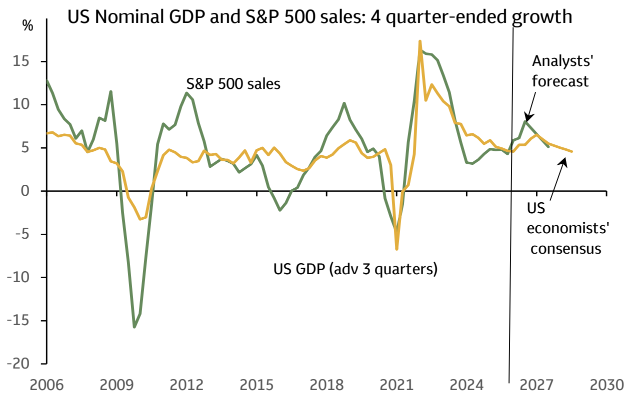
Even though most of the issuance was heavily oversubscribed, expectations are that the hyperscalers will lean more on investment grade markets in non-US dollar currencies, and high-yield credit markets. The demand for hyperscaler debt was seen large enough to convince the US Treasury to intervene and support the very long end of the US Treasury market.

A large upward movement in global yields over a short period of time has the potential to pull equities lower like in 2022. However, the equity market has a tailwind of AI earnings growth, which means most major global equity markets are close to record highs.

S&P 500 EPS has risen by 22% over the past 12 months and analysts expect a similar increase over the 12 months ahead. The strong earnings outlook is underpinned by the AI boom, but the broader economy is also a beneficiary of AI capex, so there is a strong correlation between US earnings growth and US GDP growth.

This also means that the positive outlook for US equities depends on the US consumer remaining resilient to whatever is being thrown at it. Tariffs and higher oil prices have thus far been digested, but the consumer may also have to soon absorb some tightening in monetary policy.

The US economy and the stock market are closely linked



Source: LSEG, MWM Research, September 2026

The US conflict with Iran continues to linger in the background and there is still only a trickle of supply entering the global economy via the Strait of Hormuz. Meanwhile, drawing down of strategic oil reserves and Chinese demand management are containing prices. These measures have always been only temporary, and tight supply could soon begin to push prices higher unless the Strait is reopened.

The weakness of the domestic economy became an issue in the most recent reporting season for ASX listed stocks. A run of downgrades prior to reporting meant that the net EPS beat was 12%pts, which is in line with the average of past reporting seasons.

Growth stocks and global cyclicals delivered most of the earnings beats, although defensives also did well. Stocks exposed to consumer spending and housing struggled, but those exposed to investment in infrastructure, defence, mining services and data centres did better than names with a domestic economic exposure. Earnings growth was around 10% for FY26, and the bar is already set lower for more modest growth in FY27 (4.3%) and FY28 (3.9%).

Australia's earnings growth is expected to underperform other markets over the next 12 months, with Japan (15%), Europe (12%) and Emerging Markets (36%) all expected to post stronger earnings growth.

AI hype may be at fever pitch, but we are mindful that booms don't last forever. The capex spending of the hyperscalers will need to generate strong earnings growth and if that doesn't occur then the boom could easily unwind and pull down global equity markets. But that testing point still seems to be some way off.

For now, we remain positive on risk assets and prefer global equities (large cap and small cap) over Australian equities because of the relatively better earnings outlook. We are positive on real assets because of their inflation protection qualities. Our view on inflation means we remain underweight sovereign bonds and high-yield corporate bonds, preferring floating rate private credit and Australian core fixed income in the defensive sleeve of portfolios.

Macquarie Wealth Management Investment Strategy Team

Global Economics: Global central banks are losing impatience with inflation

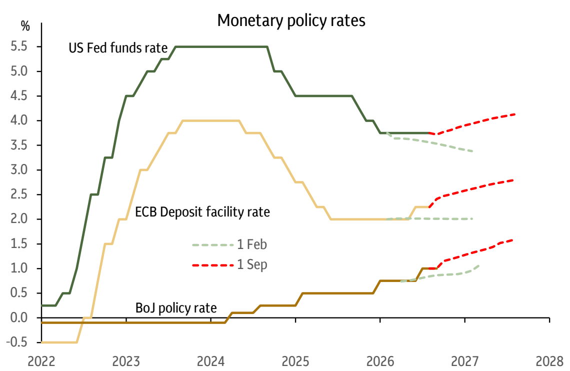
- Inflation remains stubbornly above central bank targets and policymakers are beginning to lose patience. It seems likely that the ECB, Fed, BoJ, BoE, BoC and several other smaller central banks will all be raising rates before year end.
- The US-Iran conflict lingers in the background as a key global economic risk. Global oil reserves are falling as the choke hold on the Strait of Hormuz continues, with seemingly no end.
- European GDP rose by 0.4% in Q2 and 1% over the past 4 quarters. European business surveys were also generally positive with the ZEW business survey and the Directorate General of Economic and Financial Affairs sentiment indices both continuing to bounce back from their April lows.

The conflict between the US and Iran has not escalated, but it also has not been resolved and the Strait of Hormuz remains blocked. Global reserves are being drawn down, although Chinese demand management has emerged to keep a lid on global prices. It's unclear how long this stalemate can continue without pushing up prices and this remains a key risk as we head into year end.

The lack of escalation in the war also means that central banks have become more confident about adjusting monetary policy. Inflation has remained above most of the major central banks' targets for several years now and policymakers' patience is beginning to run thin.

Provided the oil price doesn't once again threaten growth, policy's job is to make room for the AI boom so that inflation can return to target. Rising US productivity growth means that the real neutral rate is rising too, and the economy can absorb higher interest rates, so there is a risk that the Fed may need to do more than markets expect. Inflation is also a threat in countries without the productivity gains such as Japan and Europe, and policy will need to be calibrated so that the final leg down in inflation begins to materialise.

Markets are expecting central banks to raise rates



Source: LSEG, MWM Research, September 2026

Australian Economics: Brace for higher rates

- Another strong inflation print in July highlights the main problem facing the RBA. Inflation has been rising since mid-2025 and is now 3.6% and this momentum is becoming difficult to budge.
- But there are signs that policy is working, with house prices falling in all of the capital city markets and unemployment rising slowly. Nonetheless, financial markets think that the RBA will be raising rates by October.
- Real GDP rose by 0.4% in Q2, slightly better than both market expectations and RBA forecasts. Consumer spending was weak apart from motor vehicle purchases, which surged on the back of higher oil prices. Government spending and net exports provided small contributions to growth.

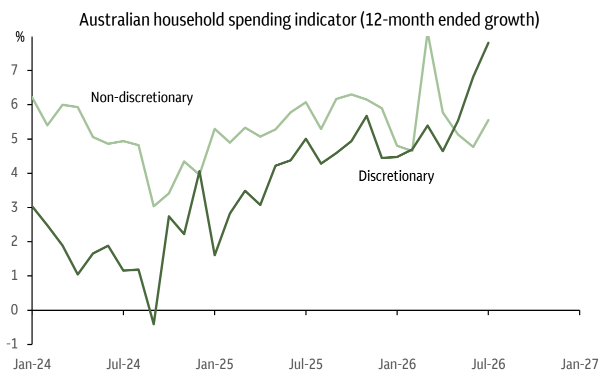
High inflation is a global problem and Australia is no different. In July the trimmed CPI rose by 0.5% in July and 3.6% over the past 12 months. The rise was larger than market expectations with evidence of solid underlying price pressure in services and some pass-through of higher fuel price earlier in the year.

The RBA's problem was also compounded by strong consumer spending in July. The household spending indicator rose by 1.1% in the month and 7% over the past 12 months. The strength in consumer spending has been mostly due to discretionary spending, particularly services.

But the strength of consumer spending also needs to be weighed up against the weakness in housing, which is also trying to absorb the increase in capital gains tax and the cut to negative gearing. Sydney dwelling prices fell by 1.4% in August, while the price falls in Melbourne (1.1%), Brisbane (1.0%) and Perth (0.8%) were more modest.

GDP in Q2 rose by 0.4% in the quarter, slightly better than market expectations. Four-quarter ended growth was 2.1%, slightly stronger than RBA forecasts published in the August Statement on Monetary Policy. Household spending rose by a solid 1.4%, with around half coming from spending on motor vehicles, particularly EVs and hybrid vehicles. Discretionary spending was weak otherwise. The Middle East conflict also drove lower fuel consumption and international travel.

Household spending was strong in July



Source: ABS, MWM Research, September 2026

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

	1 month	3 month	YTD	1 year	3 year p.a.	5 year p.a.
Australian equity indices						
S&P/ASX 200	1.5	4.5	6.3	4.4	11.2	7.8
S&P/ASX 300	1.6	4.4	5.9	4.3	11.2	7.6
S&P/ASX Small Ordinaries	5.2	-0.2	-6.2	-1.2	9.8	2.2
S&P/ASX 200 Industrials	-2.3	4.8	-0.6	-7.2	9.4	5.3
S&P/ASX 200 Resources	11.4	3.7	26.5	46.7	16.1	15.5
International equity indices (AUD unhedged)						
MSCI AC World ex Australia	0.6	2.3	6.3	11.8	16.6	11.4
MSCI Developed World ex Australia	0.5	2.7	5.2	10.0	16.2	11.7
MSCI Emerging Markets	1.3	-0.8	15.5	27.2	19.1	8.6
Regional equity indices (AUD unhedged)						
S&P 500	0.7	2.1	5.3	9.9	17.0	13.2
NASDAQ Composite	1.9	-1.7	6.0	12.9	20.1	12.8
Euro STOXX 50	-0.3	6.3	4.5	12.0	16.6	12.5
FTSE 100	-1.3	5.9	4.7	11.4	16.0	12.9
Japan TOPIX	0.2	5.1	12.7	16.2	16.4	11.0
MSCI China	-2.3	1.3	-14.1	-14.3	6.8	-1.8
International equity thematic indices (AUD unhedged)						
MSCI World Growth	0.6	-0.6	1.4	6.9	17.1	11.0
MSCI World Value	0.5	6.3	9.2	12.7	14.9	11.8
MSCI World Cyclicals	0.7	1.7	5.5	10.4	19.3	12.8
MSCI World Defensives	-0.2	7.2	4.1	8.3	6.6	7.9
Australian sector indices						
Energy	3.9	6.2	34.0	22.3	3.2	14.4
Materials	12.2	3.8	24.3	48.9	17.6	14.4
Industrials	-1.5	1.4	-0.7	-2.6	10.1	7.8
Consumer Discretionary	-7.9	4.2	-5.6	-17.4	7.6	3.5
Consumer Staples	0.4	13.6	17.3	11.0	5.2	1.9
Health Care	18.8	37.7	-5.1	-18.0	-6.2	-6.5
Financials	-5.4	1.9	2.5	-0.9	17.8	11.5
Information Technology	6.3	6.1	-12.9	-36.9	0.5	-4.1
Communication Services	-1.3	-2.0	-5.4	-13.9	4.6	4.2
Utilities	7.4	8.0	9.6	7.6	11.9	17.4
Real Estate	-6.6	-5.2	-12.5	-16.5	5.3	1.7

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

Source: FactSet, MWM Research, September 2026

Total returns (AUD) – as of 31st August 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	-6.7	-5.1	-11.6	-15.5	6.8	2.9
FTSE EPRA Nareit Global Developed (hedged)	-3.1	1.2	9.6	10.7	9.7	1.5
S&P Global Infrastructure (hedged)	-2.6	-0.1	7.9	12.1	16.2	10.9
Global fixed income indices (AUD hedged)						
Bloomberg Global Aggregate (hedged)	0.2	-0.3	0.4	1.8	3.5	-0.4
Bloomberg Global Treasury (hedged)	0.0	-0.4	0.0	1.0	2.7	-0.8
Bloomberg Global Corporates (hedged)	0.3	-0.5	0.4	2.4	4.7	-0.3
Bloomberg Global High Yield (hedged)	0.9	1.2	3.4	6.3	9.5	3.6
Morningstar LSTA US Leveraged Loan 100 (hedged)	1.2	1.9	2.8	5.3	7.6	6.4
Bloomberg Emerging Markets USD Aggregate (unhedged)	-1.3	0.4	-5.6	-4.1	4.7	2.1
Bloomberg EM Local Currency Government Universal (unhedged)	-1.0	2.2	-4.0	-4.1	2.5	2.2
Australian fixed income indices						
Bloomberg AusBond Bank Bill	0.4	1.1	2.8	4.0	4.2	3.3
Bloomberg AusBond Composite (0+Y)	-0.2	0.3	1.6	0.6	3.3	-0.1
Bloomberg AusBond Credit (0+Y)	-0.1	0.8	2.1	1.7	4.8	1.8
Commodities (in AUD)						
Crude oil (Brent)	-8.5	-2.1	37.3	21.9	-2.1	4.7
Gold	11.1	0.8	-2.8	21.5	28.5	20.7
Iron ore (62% fe cfr China cash)	-3.9	-11.4	-16.6	-13.8	-7.4	-9.3
Coal (Newcastle - Near Term IFEU)	6.7	8.4	22.7	16.1	-6.4	-3.7
Copper (Cash Official LME)	3.0	7.2	8.2	35.4	16.3	9.4
Nickel (Cash Official LME)	-3.4	-10.4	-4.9	1.3	-9.0	-2.5
S&P GSCI Index	2.4	3.6	21.6	19.1	3.1	6.7
FX						
AUD/USD	2.1	-0.2	7.4	9.6	3.4	-0.4
AUD/EUR	1.3	0.1	8.6	10.2	1.1	-0.1
AUD/GBP	1.5	-1.0	6.8	9.2	1.1	-0.1
AUD/JPY	3.6	0.1	9.5	19.0	6.7	7.3
USD/EUR	-0.8	0.4	1.1	0.6	-2.3	0.3

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

Source: FactSet, MWM Research, September 2026

The Wealth Investment Strategy Team

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