

ECONOMIC AND MARKET UPDATE

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**ASSET
MANAGEMENT**

Key events in August 2026

- Global shares delivered a solid 2.4% gain in August in local currency terms. However, a rising Australian dollar constrained the performance for unhedged global shares portfolios to only a 0.6% gain.
- US share prices achieved historic highs given optimism on Artificial Intelligence (AI) prospects and encouraging US corporate profit results. US corporates are set to deliver astonishing annual profit gains exceeding +52% in the June quarter according to FactSet. Large technology companies such as Alphabet, Amazon, Microsoft and Nvidia are rapidly increasing their AI capital investment which is also supporting US economic activity. However, the US central bank has warned that interest rates may need to be raised as *"inflation remains elevated"*.
- Asian share markets delivered a mixed performance. Share prices in Japan, Korea and Taiwan delivered strong gains, driven by optimism around AI. Chinese shares drifted lower with continued subdued results for consumer spending and the housing market.
- Australian shares made a solid 1.6% return in August. The Health Care sector made very strong returns with the recovery in CSL and Cochlear share prices. The Resources Sector also surged with strong rises in commodity prices. For the Energy sector, the renewal of the Middle East conflict driving higher oil and gas prices also supported higher share prices. There were setbacks with weak returns from the Financial and Real Estate sectors given renewed concerns that the Reserve Bank of Australia (RBA) is set to raise interest rates again.
- Australia's inflation data was disappointing. The RBA's preferred measure in the Trimmed Mean saw annual inflation climb to 3.6% in July. As inflation remains well above the RBA's 2% to 3% target range, markets are now bracing for another interest rate rise. Notably July's household spending data was strong in July which also reinforced the case for another interest rate rise.

Asset class summary

Asset class returns in Australian dollars – periods to 31 August 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	5.9	1.6	4.4	4.3	11.2	7.6	9.3
Global shares (hedged)	14.2	2.4	2.1	22.6	19.7	10.6	12.1
Global shares (unhedged)	6.4	0.6	2.3	11.7	16.5	11.3	13.1
Emerging markets (unhedged)	15.5	1.3	-0.8	27.2	19.1	8.6	9.8
Global property securities (hedged)	8.9	-3.1	1.0	9.6	8.6	0.5	2.9
Global listed infrastructure (hedged)	9.2	-2.0	0.3	12.2	12.3	6.2	7.0
Australian bonds	1.6	-0.2	0.3	0.6	3.3	-0.1	1.6
Global bonds (hedged)	0.4	0.2	-0.3	1.8	3.5	-0.4	1.3
Global high yield bonds (hedged)	3.0	1.1	1.2	5.3	7.3	2.8	4.4
Australian inflation-linked bonds	2.6	-0.3	0.1	2.0	3.6	2.2	2.7
Cash	2.8	0.4	1.1	4.0	4.2	3.3	2.2
AUD/USD	7.5	2.0	-0.4	9.5	3.4	-0.4	-0.5

Past performance is not a reliable indicator of future performance.

Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A\$ (Net); Emerging markets – MSCI Emerging Markets in A\$ (Net); Global property securities – FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) – Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to August 2026

Global shares (unhedged) have made a solid quarterly return of 2.3%. Optimism on AI has been the key driver of rising share prices in the US and select Asian markets. However, the Iran War has generated sharp swings in bond yields and commodity markets over recent months. The brief ceasefire between Iran and the US has now collapsed with the resumption of military strikes and the effective closure of the Strait of Hormuz in August. While global shares have shown remarkable resilience to events in the Middle East this year, this strength may be tested should the Iran War intensify once again.

European and Japanese share markets have been the strongest performers with quarterly gains of between 4% to 6%. By comparison, Wall Street's gains have been more modest at around 2% but US share prices have made historic highs. Chinese shares have delivered a subdued 0.8% quarterly return as weak consumer spending and a struggling property sector weighed on sentiment.

Global bonds (hedged) posted a disappointing -0.3% quarterly return. Concerns over the inflation risk with rising energy prices and persistent government deficits have generated sharp rises in global bond yields this year. Australian bonds have also struggled but managed to post a small positive 0.3% quarterly return.

Key events in Australia over the last three months to August 2026

Australian shares delivered a strong 4.4% quarterly return, but this was a mixed performance across industry sectors and stocks. Some of the sectors that were beaten down earlier this year have made a recovery over recent months. The Health Care sector made a remarkable revival with a 35.8% quarterly return as investors considered that Cochlear and CSL had become cheap. There were also strong gains for the Consumer Staples sector (12.6%) given some encouraging household spending results. However, Australian property securities disappointed with a -5% return for the quarter.

Australia's economy has displayed some encouraging signs with solid consumer spending and jobs growth. This has been a positive surprise given that the RBA has aggressively raised interest rates three times this year in February, March and May. The Federal Budget's announcement of major changes to capital gains tax and negative gearing in May had also cast a shadow over prospects for the residential property market.

However, Australia's inflation remains high and troubling. Persistent price pressures are evident in a range of goods and services. Housing costs increased by 5% over the year to July through a combination of higher electricity prices (6.1% annual inflation), new dwelling construction costs (5.7% annual) and rents (3.6%). Healthcare costs have risen by 3.8% and food has increased by 3.2% in the past year. This persistent inflation has seen financial markets expecting further RBA interest rate rises in coming months.

Global prospects

Financial markets remain precariously placed between hopes that AI will generate strong economic growth with milder inflation and the reality that the Middle East is in turmoil. Global energy prices have recorded sharp swings given the Iran War's shifting tides of conflict and then ceasefire. Until a convincing peace agreement is signed and the drones and missiles stop flying, financial markets and commodity prices remain vulnerable.

If the Iran War intensifies again, this would be a severe challenge for the global economy. Both inflation and unemployment could dramatically rise. For central banks around the world this creates a major policy dilemma – should central banks raise interest rates to restrain inflation pressures or lower interest rates to assist economic activity and mitigate rising unemployment.

Regrettably, Australia's central bank has been a pioneer in raising interest rates three times this year. The European and Japanese central banks also raised interest rates in June. If other major central banks such as the US Federal Reserve follow suit with interest rate rises, this could challenge the recent strong performance of global share prices.

Australian consumers are still being challenged by persistent inflation. Price pressures in food, health and housing are squeezing budgets. This continuing "cost of living" squeeze is likely to weigh heavily on consumer spending over coming months. Lower house prices will also caution some consumers on their spending.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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