



Commentary | Quarter 3 2026

The September 2026 quarter was characterised by a renewed rise in inflation concerns, a resurgence of geopolitical risk and a significant sell-off in global bond markets. After the optimism of the June quarter, markets were forced to reassess the outlook for inflation and interest rates as the ceasefire between the United States, Israel and Iran deteriorated, oil prices moved back above US\$100 per barrel, and central banks resumed tightening policy.

Despite these headwinds, global equity markets remained surprisingly resilient. Strong corporate earnings, healthy labour markets and continued investment in artificial intelligence (AI) infrastructure helped support risk assets. This created a notable divergence between equities and bonds, with most developed market equity indices posting positive returns while fixed income markets experienced one of their most challenging quarters in recent years.

Macroeconomic and Geopolitical Backdrop

The defining macro theme of the quarter was the return of inflation risk.

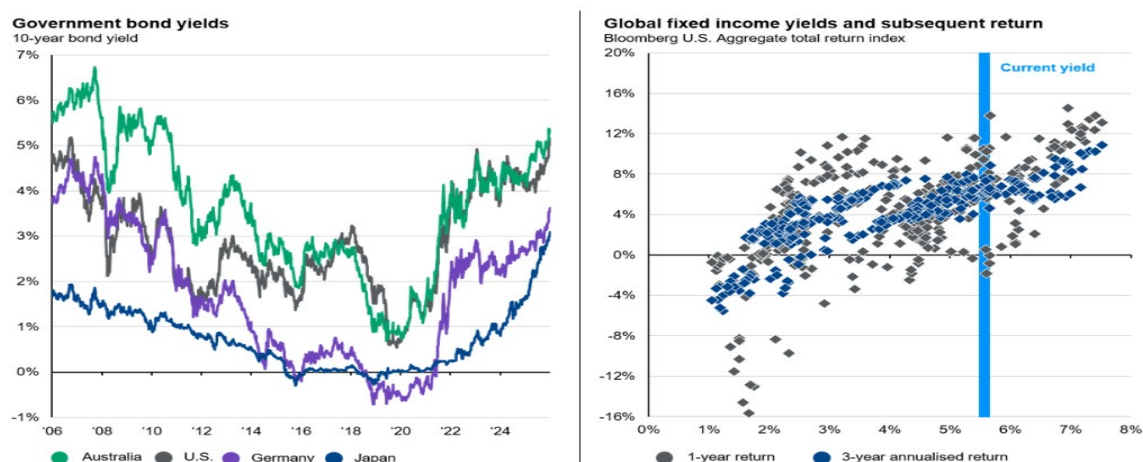
Following progress towards a ceasefire during the June quarter, geopolitical tensions escalated again as negotiations between the US and Iran stalled and attacks on shipping and energy infrastructure resumed. The resulting increase in energy prices saw Brent crude rise back above US\$100 per barrel and reintroduced concerns about persistent inflation globally.

At the same time, economic growth remained resilient, particularly in the United States, where strong business investment, robust labour markets and ongoing AI-related capital expenditure offset the impact of higher energy prices and rising interest rates. The combination of stronger-than-expected growth and persistent inflation led investors to price a higher-for-longer interest rate environment.

- **Global Equities** generated positive returns during the quarter despite a challenging backdrop. Investors looked through rising bond yields and geopolitical uncertainty, instead focusing on strong corporate earnings; continued AI investment; resilient economic activity; and reduced recession risk. The MSCI World Index continued to move higher, supported largely by the United States and large-cap growth stocks. Energy was one of the strongest-performing sectors globally. Small-cap stocks generally underperformed as higher interest rates increased financing costs. Technology remained a key driver of market returns but experienced a more volatile quarter than earlier in the year.

- **Emerging Markets** performance was mixed during the quarter. While earnings growth remained robust in several Asian markets, rising global bond yields, a stronger US dollar and higher energy prices created headwinds. Emerging market equities slightly underperformed developed markets overall.
- **Australian Equities** underperformed global equities during the quarter. The Australian market proved more sensitive to rising bond yields and domestic interest rate expectations than US equity markets. Higher mortgage rates, softer housing activity and renewed inflation concerns weighed on sentiment. Energy companies benefited from higher oil prices, while banks continued to demonstrate earnings resilience despite a slowing economy.
- **Global Fixed Income** markets experienced substantial weakness. Rising oil prices renewed inflation concerns and heightened investor concerns about higher fiscal deficits, increased sovereign issuance and further central bank tightening. Government bond yields rose significantly across major markets, resulting in negative returns for most duration-sensitive, fixed income sectors. Key points to note:
 - US 10-year Treasury yields rose from approximately 4.5% to above 5%.
 - Long-dated global government bond yields reached multi-decade highs.
 - Real yields and term premiums were major contributors to higher yields.
 - Investment grade spreads widened modestly.
 - High yield spreads increased as default risk increased for sub-investment grade debt.
 - Income remained an important contributor to returns.
- **Australian bond markets** mirrored global developments. The RBA raised the cash rate again during the quarter, taking it to 4.60%, while leaving the door open for further tightening if inflation remained elevated. Australian government bond yields moved sharply higher as 10-year yields pushed towards multi-year highs. While total returns were negative, the increase in yields further improved the prospective income available to investors.

Government bond yields and subsequent returns



Source: Bloomberg, FactSet, Tullett Prebon, J.P. Morgan Asset Management. Guide to the Markets – Australia. Data as of 30 September 2026.

The left-hand chart shows the yield on core government bonds. The recent rise in 10-year bond yields reflects not only the long-term view on growth and inflation, but also the underlying policy rate. The right-hand chart shows the one-year return and the three-year annualised return from the starting yield. Simply put, the higher the starting yield, the higher the longer-term return.

Global Listed Infrastructure had a poor quarter as higher bond yields weighed on valuations. Energy infrastructure, utilities, pipeline operators, and transmission assets held up but transport and communications infrastructure lagged.

Australian REITs were among the weakest-performing domestic sectors. The primary headwind was the significant rise in bond yields and interest rate expectations. Industrial and logistics assets continued to outperform, while office and discretionary retail assets lagged. Rising financing costs remained a key concern.

Global REITs also struggled. The rise in real yields and government bond yields created valuation pressure across most listed property sectors. Data centres, logistics, and specialised digital infrastructure were strong performers. Office property remained the weakest segment globally.

Oil was once again the dominant market driver. Following the ceasefire optimism of the June quarter, concerns about Middle East supply disruptions resurfaced. Brent crude moved back above US\$100 per barrel for much of September, reintroducing inflation pressures across global markets.

Gold had a positive quarter as geopolitical tensions and inflation concerns assisted returns.

Returns to 30 September 2026 (sorted by highest to lowest for the quarter)

Index	1mo	3mo	6mo	1yr	3yr	5yr	10yr
	%	%	%	%	%pa	%pa	%pa
iShares Bitcoin Trust ETF	9.07	42.18	21.36	-30.27			
MSCI Japan NR AUD	4.54	5.51	19.14	20.64	18.44	10.61	10.62
MSCI Taiwan NR USD	7.25	4.39	53.61	79.02	51.31	26.82	24.34
Global X Gold Bullion ETF	-2.67	3.23	-10.96	3.88			
MSCI China NR USD	-1.70	3.22	-4.72	-22.23	7.05	-1.37	4.35
S&P 500 TR AUD	2.66	1.88	16.02	10.26	19.85	14.65	16.44
S&P/ASX 100 TR	-2.43	1.48	5.78	3.56	11.44	8.16	9.35
MSCI World Ex Australia NR AUD	1.85	1.45	14.25	9.87	18.54	12.82	13.99
MSCI ACWI ex Australia 100%Hedged NR AUD	-0.66	1.39	16.70	17.72	21.00	11.32	
S&P/ASX 200 TR AUD	-2.42	1.33	5.43	2.68	11.40	7.68	9.04
S&P/ASX 300 TR	-2.43	1.26	5.46	2.39	11.33	7.47	8.98
MSCI ACWI Ex Australia NR AUD	1.92	1.18	15.11	11.33	18.85	12.48	13.54
RBA Cash Rate Target	0.36	1.12	2.21	4.14	4.28	3.41	2.20
Bloomberg AusBond Bank 0+Y TR AUD	0.36	1.11	2.20	4.06	4.22	3.34	2.26
S&P/ASX Small Ordinaries TR AUD	-2.34	-0.53	2.77	-6.74	10.41	2.18	6.10
MSCI EM NR AUD	2.43	-0.79	21.67	23.10	21.03	9.76	10.13
Bloomberg AusBond Composite 0+Y TR AUD	-0.86	-1.51	1.10	-0.40	3.56	0.00	1.52
MSCI Europe NR AUD	-1.69	-2.06	7.41	7.28	14.61	10.30	10.21
Bloomberg Global Aggregate TR Hdg AUD	-1.66	-2.42	-1.00	-0.57	3.58	-0.52	1.08
MSCI India NR USD	-4.09	-6.00	2.29	-15.09	0.26	2.26	8.23
FTSE EPRA Nareit Developed NR Hdg AUD	-5.32	-6.12	2.13	2.90	8.68	0.53	2.43
FTSE Dvlp Core Infra 50/50 NR Hdg AUD	-5.66	-7.29	-4.87	3.91	12.07	5.94	6.37
S&P/ASX 200 A-REIT TR	-1.76	-8.38	4.21	-14.34	9.44	2.98	5.02
MSCI Korea NR USD	6.12	-9.95	66.98	139.74	47.91	22.06	16.85

Source: Morningstar Direct

Views across the asset classes

Equities

We continue to maintain our bias to international equities over Australian equities. Our neutral position on Australian equities reflects concern around headwinds such as higher domestic rates and slowing economic growth. Our view on emerging markets is mixed. On one hand it is a constructive way to provide access to a more global AI semiconductor, memory, and infrastructure play. On the other hand, the traditional role of a diversifier from developed market equities is currently not the case.

We continue to hold a neutral stance on Australian small caps, maintaining a small allocation in higher growth portfolios.

Fixed Interest

Higher bond yields mean investors are being paid meaningfully more income than at any point over the past decade. While near-term volatility remains possible given inflation uncertainty, current yields provide a substantial cushion against future market volatility.

We continue to favour short-to-intermediate duration, high-quality investment grade credit and floating-rate securities.

Whilst we are mindful of the diversification benefits of international fixed income, our bias towards Australian fixed income continues in the face of elevated government issuance, persistent inflation, and fiscal deficits.

Property and Infrastructure

Infrastructure remains one of the most attractive ways to gain exposure to long-term structural growth. Infrastructure continues to provide inflation-linked revenue streams and defensive cashflows.

The sharp rise in bond yields throughout 2026 has created ongoing headwinds for listed property. However, much of the valuation adjustment has already occurred and income yields are becoming increasingly attractive.

Alternatives

From a sentiment perspective private asset, most notably private credit, continue to come under pressure. Selectively, parts of the broader alternative universe are attractive, but we remain on the sidelines.

Outlook and Portfolio Implications

Our base case remains constructive. We continue to believe the global economy can sustain moderate growth despite higher interest rates, and that the AI investment cycle will remain a powerful driver of corporate earnings and market returns. While volatility is likely to remain elevated and geopolitical risks persist, we believe diversified portfolios with a bias towards global equities, quality fixed income, and infrastructure remain well positioned for the period ahead.

Summary of current asset class views

Asset Class	Current View
Australian Equities	Neutral
Australian Small Caps	Neutral
International Equities	Positive
International Equity Small Caps	Slightly Negative
Australian Listed Property (AREIT)	Slightly Negative
Global Listed Property (GREIT)	Neutral
Infrastructure	Positive
Alternatives	Selectively Positive
Australian Fixed Interest	Positive
International Fixed Interest	Neutral

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