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THE CIO PERSPECTIVE

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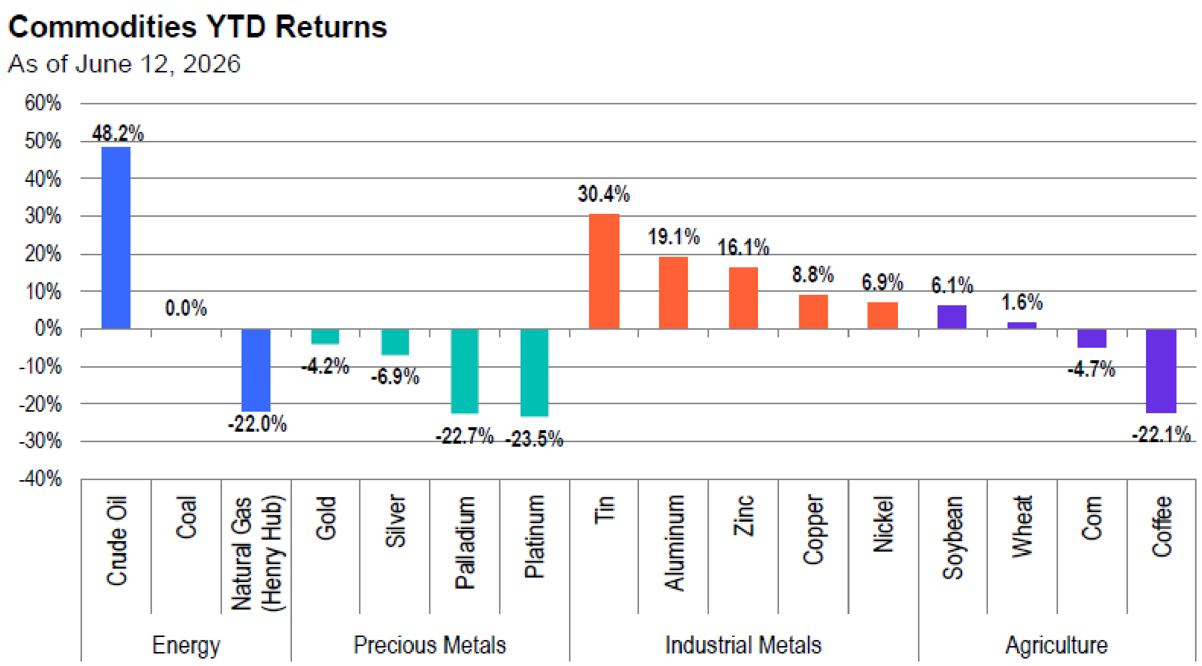
Commentary | Quarter 2 2026

The June 2026 quarter was characterised by a gradual recovery in investor sentiment following the sharp stagflation scare that dominated markets during the March quarter. While geopolitical tensions in the Middle East remained elevated, concerns around a prolonged disruption to global energy supplies eased as alternative shipping routes were established and production from non-OPEC producers increased. As a result, oil prices retraced a portion of their earlier gains, helping to stabilise inflation expectations and reduce fears of a sustained global growth shock.

Key observations:

- Brent crude oil, which had surged above US$115 per barrel in March, declined during the quarter as supply conditions improved and demand expectations softened.
- Commodity markets delivered mixed returns. Gold fell during the quarter, impacted by a stronger USD and higher yields. Industrial metals were mixed during the quarter. Copper, tin, and zinc were all up ~8% whilst aluminium, lead, and nickel were all decliners over the quarter. Year to date the story is still not positive for precious metals as the chart below highlights.



Source: Franklin Templeton Global Research Library. Data as of 12th June 2026.

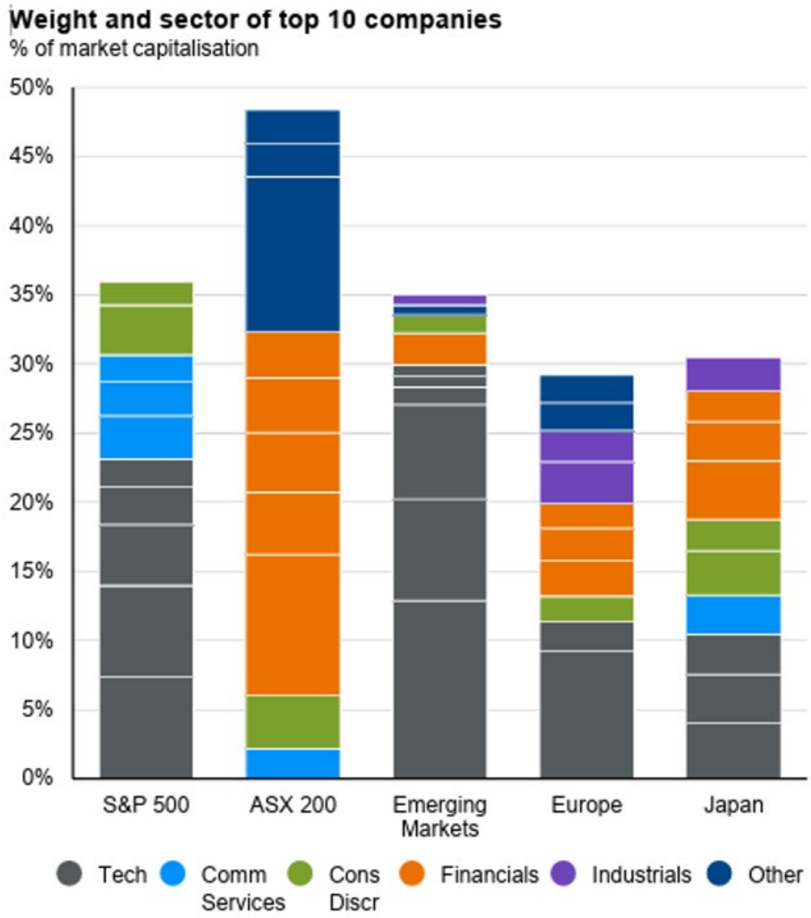
- Global central banks maintained a cautious stance. Policymakers continued to emphasise the need for greater confidence that inflation was returning sustainably to target before considering policy easing. Market expectations shifted towards a prolonged period of stable policy rates rather than further tightening.
- Global equity markets rebounded strongly during the quarter as investors reassessed the likelihood of a severe stagflationary outcome. Technology, communication services and consumer discretionary sectors led gains, while energy stocks lagged following the decline in oil prices.
- The S&P/ASX 200 also advanced, supported by strength in resources, financials and selected growth sectors.
- Bond markets generated modest positive returns as sovereign yields stabilised and volatility subsided. Falling energy prices and improving inflation expectations reduced upward pressure on yields, while higher starting income levels continued to support total returns.
- Within real assets, listed infrastructure continued to demonstrate defensive characteristics and delivered solid returns. Utilities, electricity transmission, energy networks, and toll roads were all strong performers.
- Global REITS had a strong quarter with data centres, industrial and logistic assets, and specialised infrastructure related property outperforming.
- A-REITs recovered from their weak March-quarter performance as bond yields stabilised and investors became more constructive on the outlook for interest rates.
- Overall, the June quarter saw markets transition from an environment dominated by inflation and energy-supply concerns to one increasingly focused on economic resilience, earnings growth and the timing of eventual monetary policy easing. While uncertainty remained elevated, investor confidence improved as the risk of a prolonged stagflationary shock appeared to recede.

Financial year 2026 Overview

Financial year 2026 was defined by two powerful and competing forces: the continued acceleration of the global artificial intelligence (AI) investment cycle and the largest geopolitical energy shock since Russia's invasion of Ukraine. The year began with markets focused on moderating inflation, resilient economic growth and strong technology earnings. However, the escalation of the Middle East conflict during the March 2026 quarter, including disruptions to shipping through the Strait of Hormuz, drove a sharp spike in oil prices, renewed inflation concerns and significant market volatility. By year-end, a ceasefire framework and stabilisation in energy markets had largely reversed these fears, allowing markets to refocus on earnings growth and the AI theme.

Key observations:

- AI replaced inflation as the dominant driver by year end. Technology, semiconductors and digital infrastructure remained the strongest drivers of global equity returns. The chart below shows the weight and sector of top 10 companies across a range of global indices. IT dominates the S&P500 and emerging markets. Worth noting that markets like Japan and Europe are more diversified.



Source: J.P. Morgan Asset Management Guide to Markets – Australia. Data as of 30 June 2026.

- The Middle East conflict created significant but ultimately temporary market disruption, with oil prices and inflation expectations proving highly sensitive to global developments.
- Bond yields remained structurally higher, restoring the attractiveness of income focussed strategies.
- Emerging markets reemerged as leaders, albeit selectively, as Korea and Taiwan led the acceleration of the physical buildout of AI infrastructure.
- Diversification remained critical, as leadership rotated dramatically between commodities, value, growth, and defensive assets throughout the year.

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

Index	1mo	3mo	6mo	1yr	3yr	5yr	10yr
	%	%	%	%	%pa	%pa	%pa
MSCI Korea NR USD	4.18	85.44	110.42	196.82	51.26	22.09	18.99
MSCI Taiwan NR USD	5.11	47.16	56.30	93.89	46.90	26.18	24.84
MSCI AC Asia Ex Japan NR USD	2.52	26.25	21.47	37.89	22.69	9.07	11.66
MSCI EM NR AUD	2.39	22.64	19.21	35.75	21.40	8.93	10.87
MSCI World Growth NR USD	2.72	17.53	4.76	14.89	19.80	13.73	16.51
MSCI ACWI ex Australia 100%Hedged NR AUD	0.02	15.10	11.94	25.44	19.32	10.92	
MSCI World Ex AUS Small Cap NR AUD	5.78	14.04	12.89	23.59	16.23	9.33	11.75
MSCI ACWI Ex Australia NR AUD	3.05	13.77	7.12	17.17	18.24	12.86	13.67
S&P/ASX 200 A-REIT TR	1.73	13.74	-5.17	-2.24	11.57	5.67	5.73
MSCI Japan NR AUD	3.52	12.91	11.44	22.13	16.92	11.26	10.63
MSCI World Ex Australia NR AUD	3.14	12.61	5.60	14.95	17.80	13.38	14.05
MSCI Europe NR AUD	4.83	9.67	3.77	12.22	14.65	11.27	10.72
MSCI India NR USD	5.36	8.82	-13.26	-17.47	4.33	6.84	9.23
FTSE EPRA Nareit Developed NR Hdg AUD	1.87	8.79	9.83	14.33	9.05	1.77	3.21
MSCI World Value NR USD	3.51	7.96	6.36	14.31	15.31	12.30	10.96
S&P/ASX 100 TR	0.91	4.24	3.34	5.91	10.63	8.18	9.71
S&P/ASX 300 TR	0.60	4.14	2.02	6.16	10.56	7.58	9.41
S&P/ASX 200 TR AUD	0.67	4.05	2.37	6.11	10.62	7.76	9.45
S&P/ASX Small Ordinaries TR AUD	-2.00	3.32	-7.91	8.11	9.89	2.98	7.03
Bloomberg AusBond Composite 0+Y TR AUD	0.96	2.65	2.30	1.53	3.98	0.37	1.77
FTSE Dvlp Core Infra 50/50 NR Hdg AUD	2.20	2.61	11.85	17.17	11.81	7.90	7.27
Bloomberg Gbl Agg Corp TR Hdg AUD	0.38	1.97	1.31	4.23	5.06	0.03	2.21
S&P Global Infrastructure NR Hdg AUD	2.72	1.96	10.56	17.32	15.36	11.34	8.02
Bloomberg Global Aggregate TR Hdg AUD	0.43	1.46	1.20	2.94	3.68	-0.03	1.41
RBA Cash Rate Target	0.36	1.08	2.04	3.97	4.26	3.18	2.13
Bloomberg AusBond Bank 0+Y TR AUD	0.39	1.07	1.99	3.86	4.21	3.11	2.20
MSCI China NR USD	-3.50	-7.69	-18.16	-10.08	6.33	-5.11	5.09
Global X Gold Bullion	-7.95	-13.75	-10.76	15.75			
iShares Bitcoin Trust ETF	-17.10	-14.64	-35.48	-48.56			

Views across the asset classes

Equities

On a relative basis we maintain our preference for international equities. We are seeing signs of broader dispersion in performance globally and rotation in the AI trade from software to hardware. Emerging markets are a watch given the extraordinary semiconductor led run of the Korean and Taiwanese markets.

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

Fixed Interest

Credit markets, like equities, continue to be bullish with credit spreads remaining tight. Credit quality across the portfolio is high reflecting tighter spreads to date with investment grade credit benefitting from improving risk sentiment. Overall, our duration position remains below benchmark, and we maintain our preference for active management.

Property and Infrastructure

Global infrastructure and global property continue to be our preference with a tilt towards infrastructure. Some green shoots are appearing in global REITS as we shift to a Neutral stance. The broader opportunity set and greater exposure to data centres, logistics facilities, and specialised property sectors have supported near term returns for GREITS.

Alternatives

We continue to observe the broader Alternative asset class from the sidelines. Private assets are not the most attractive asset class at this moment with some signs of stress in certain pockets.

Outlook and Portfolio Implications

Looking ahead, investor attention appears to be shifting back towards the balance between economic growth, inflation and monetary policy, as opposed to the Middle East conflict. The global economy is proving more resilient than many had expected. A decline in oil prices and gradual normalisation of global supply chains have reduced the risk of a sustained inflationary impulse from the conflict. At the same time, labour markets remain relatively strong and corporate earnings continue to surprise on the upside, particularly in sectors exposed to artificial intelligence, digital infrastructure and electrification. However, the debate on the return from AI-related capital expenditure may see the market become increasingly sensitive to earnings expectations and any change in the trajectory of AI-related growth

We maintain our current asset allocation which exhibits diversification across asset classes, regions, and sectors and continue to view this as the most appropriate course of action. We are mindful of the concentrated nature of emerging market returns and are also focussing on the duration positioning of our fixed income exposure.

Summary of current asset class view

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

Important Information

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