
# Market Commentary & Outlook July 2026


### Summary

- **Australian equities** outperformed most developed markets, led by energy and financials.
- **Australian small caps** significantly **underperformed** large caps as investors favoured more defensive exposures.
- The **AI driven** market leadership that dominated much of the last year came **under pressure** during July leading to poor global equity returns.
- **Emerging markets** significantly **lagged** due to weakness in the Asian technology sector.
- Rising government bond yields resulted in **negative** returns across a number of **fixed income** markets.
- **Oil** was the best performing major commodity as Middle East tensions escalated.


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### Market Overview

July was a month of significant market rotation rather than broad market weakness. Australian equities outperformed most developed markets, supported by strong gains in energy and financial stocks, while global markets experienced heightened volatility as investors reassessed the sustainability of the AI-driven investment theme with some profit taking occurring after sharp price rises. Rising bond yields weighed on fixed income markets, geopolitical tensions in the Middle East drove a sharp rebound in oil prices, and gold held largely steady as investors balanced inflation concerns against ongoing economic resilience.

The month of July also saw some extraordinary events:

- In the last four days of the month, Situational Awareness, a hedge fund run by former OpenAI researcher Leopold Aschenbrenner imploded. The fund had built highly leveraged long positions in AI and technology stocks and suffered heavy losses as AI stocks sold off. This resulted in margin calls from lenders across Wall Street and news broke that Citadel had stepped in to buy the bulk of the fund's public AI stock positions. During this period fund assets fell to USD$10 billion, from a peak of circa USD$45 billion. It was reported in the Wall Street Journal that the fund was down 67% in July. Undeterred, by early August, Aschenbrenner had already made a return to investing, committing $400 million to chip manufacturing startup Source Foundry.

- During the month of July the Japanese yen was hovering near four decade lows against the U.S. dollar, primarily due to a wide gap in interest rates, loose fiscal and monetary policies in Japan, and high costs for imported energy. In the last two days of July the Japanese Ministry of Finance spent an estimated USD$58-$87 billion of foreign reserves to buy the yen. What was unusual was that the US Treasury, in a coordinated manner, purchased yen alongside the Japanese authorities. The degree of US-Japan coordination was described as unprecedented in decades. . The joint move aimed to curb regional financial volatility, reduce pressures on Asian markets, counter unfair trade imbalances from an ultra-weak currency, and protect U.S. Treasury bond markets.

## Australian Equities

Australian equities delivered modest, but positive returns.

- **S&P/ASX 200, up 2.3%.** Australian equities were among the strongest performing developed equity markets in July. Performance was driven primarily by energy stocks, which benefited from higher oil prices, and financials, with major banks continuing to attract investor support. The Australian market was also relatively insulated from the global sell-off in AI-related technology stocks due to its lower exposure to the sector.
- **Australian small caps** lagged their large-cap counterparts during the month, with the S&P/ASX Small Ordinaries Index declining around 3.2%. Higher bond yields, a more defensive market backdrop and reduced investor appetite for growth-oriented companies weighed on performance. The sharp market rotation away from technology and higher-risk segments was particularly challenging for smaller companies

## Global Equities

Overall, global equities had a negative month. Both hedged and unhedged global equities were negative but a slight strengthening of the AUD during the month assisted hedged returns on a relative basis.

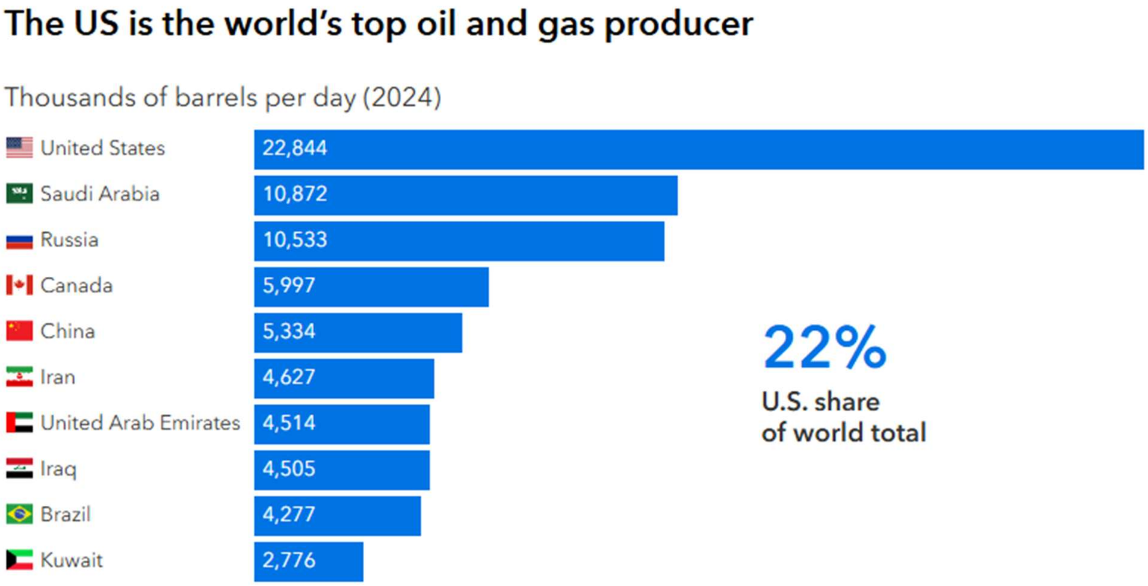
- **US equity** market performance was characterised by a significant rotation beneath the surface. While the S&P 500 finished broadly unchanged, the Nasdaq declined as investors reassessed stretched valuations and the long-term return potential of AI-related capital investment. Energy and financial shares outperformed, benefiting from higher oil prices and rising bond yields, while small-cap stocks demonstrated relative resilience as market leadership broadened beyond the mega-cap technology sector. Importantly, the weakness reflected a re-pricing of expectations rather than a deterioration in economic fundamentals, with corporate earnings generally remaining robust and economic activity continuing to expand.
- **European equity** markets generated solid returns during July as investors rotated away from expensive US technology stocks and towards more attractively valued cyclical sectors. Strong performance from financials, energy and industrial companies, combined with resilient earnings growth, supported gains across the region despite ongoing concerns around inflation and higher interest rates.
- **Japanese equities** experienced a sharp pullback during July, with the decline driven largely by weakness in technology and semiconductor stocks as the global AI trade unwound. Given Japan's significant exposure to semiconductor equipment manufacturers and technology-related exporters, the market was particularly vulnerable to the broad-based reassessment of AI-related growth expectations. Rising global bond yields and a stronger Japanese yen also weighed on investor sentiment during the month
- **Emerging markets** underperformed developed markets during July. Technology-heavy Asian markets were particularly affected by the sell-off in semiconductor and AI-related stocks. Nevertheless, returns across emerging markets were highly varied, with Hong Kong and Indonesia delivering strong gains despite weakness elsewhere in the asset class.

## America’s 250$^{th}$ Birthday

The 4$^{th}$ of July marked the 250$^{th}$ birthday of the United States of America. During the month Capital Group produced an article that highlighted why the American economy remains the envy of the world, despite dramatic changes to the global system. The article highlighted several points that have contributed to American dominance including:

- 4% of the world’s population but accounting for 27% of world GDP and 83% of the world’s top 100 companies by market capitalisation.
- Early adopters on new technologies such as railroads, telephones, and personal computers.
- The US dollar as a reserve currency sustaining decades of economic growth, military might, and global influence.
- Leading the world in research and development spending with strong ties to academia and easy access to capital.
- Markets that have shown resilience throughout history.

One newer phenomenon has been energy abundance with the commercialisation of hydraulic fracking in the early 2000s allowing a dramatic increase in oil and gas production.




Sources: Capital Group, U.S. Energy Information Administration. Data includes petroleum and other liquids such as biodiesel, ethanol, liquids produced from coal, gas, and oil shale, Orimulsion, blending components, and other hydrocarbons. Latest data available is 2024 as of 28 February 2026.

## Fixed Income & Commodities

**June** was a negative month for most fixed income indices:

- **Australia**: Australian fixed income generated negative returns as bond yields moved higher. The Australian 10-year government bond yield rose approximately 21 basis points to around 4.93% amid ongoing concerns that inflation remains above central bank targets and that monetary policy may need to stay restrictive for longer. Higher yields translated into capital losses across government and investment-grade bond portfolios.
- **Global**: Global fixed income markets also struggled during the month. Rising sovereign bond yields across major developed economies weighed on both government and corporate bond returns. Investors became increasingly concerned that inflation pressures, including higher energy prices, could delay policy easing and keep interest rates elevated.
- **Oil** was the standout commodity, with Brent and WTI crude rising more than 20% during the month as renewed US-Iran hostilities heightened concerns about potential supply disruptions and shipping risks through key Middle Eastern trade routes. Energy markets experienced considerable volatility, with Brent crude briefly approaching US$100 per barrel before retracing some gains.
- **Gold** was largely flat during the month following a significant decline in June. Investor demand was supported by geopolitical uncertainty and lingering inflation concerns, although higher real yields limited stronger gains.

## Property and Infrastructure

- **Global listed infrastructure** delivered positive returns as energy infrastructure assets benefited from the sharp rise in oil prices and investors sought exposure to businesses with stable cash flows and inflation-linked revenues. The sector also benefited from its defensive characteristics during a period of elevated market volatility.
- **Global listed real estate** continued the broad-based recovery. While property securities continued to contend with rising bond yields, relatively resilient economic conditions and stable fundamentals in several regions supported returns. Nonetheless, higher discount rates remained a headwind for valuations.

- **Australian listed property trusts** faced a challenging backdrop as higher domestic bond yields placed pressure on property valuations and financing costs. While operational performance remained generally stable, yield-sensitive sectors continued to lag broader equity market performance.

## Outlook and Positioning

Looking ahead, the investment environment remains characterised by a tension between slowing inflation, resilient economic activity and still-restrictive monetary policy. Markets are increasingly debating whether current levels of AI-related investment will generate sufficient long-term returns to justify elevated valuations across parts of the technology sector. While recent market volatility has highlighted these concerns, corporate earnings remain broadly supportive and economic growth in most developed markets continues to avoid a significant slowdown. Consequently, we expect equity market leadership to broaden beyond a narrow group of growth stocks and become more diversified across sectors and regions.

For Australian investors, exposure to resources, energy and financials continues to provide a different return profile to many global markets, while improving inflation dynamics should gradually reduce pressure on households and businesses. However, elevated bond yields, ongoing geopolitical risks and uncertainty surrounding future central bank policy suggest periods of volatility are likely to persist.

Maintaining diversified portfolios across different asset classes and geographies remains prudent as markets transition from a liquidity-driven environment to one increasingly focused on earnings, cash flow and valuation discipline.

## Benchmark Returns

| Period Ended: 31 July 2026 | 1 Month % | 3 Months % | 6 Months % | 1 Year % | 3 Years % (pa) | 5 Years % (pa) | 10 Years % (pa) |
|---|---|---|---|---|---|---|---|
| **Australian Shares** | | | | | | | |
| S&P/ASX 100 | 2.75 | 4.89 | 4.53 | 6.29 | 10.60 | 8.51 | 9.36 |
| S&P/ASX 200 | 2.26 | 4.13 | 2.86 | 6.01 | 10.40 | 8.01 | 9.02 |
| S&P/ASX Small Ordinaries | -3.17 | -3.18 | -13.20 | 1.81 | 7.46 | 2.18 | 5.81 |
| **International Shares** | | | | | | | |
| MSCI ACWI ex-Australia AUD | -1.35 | 6.89 | 7.88 | 12.02 | 16.78 | 11.91 | 13.28 |
| MSCI ACWI ex-Australia AUD (Hedged) | -0.34 | 5.14 | 8.89 | 22.32 | 17.99 | 10.69 | |
| MSCI Emerging Markets AUD | -4.39 | 7.30 | 9.99 | 25.07 | 17.69 | 9.01 | 10.06 |
| **Australian Cash and Bonds** | | | | | | | |
| Bloomberg AusBond Bank | 0.38 | 1.11 | 2.06 | 3.94 | 4.21 | 3.19 | 2.22 |
| Bloomberg AusBond Composite Index | -0.43 | 2.15 | 1.64 | 1.12 | 3.65 | -0.07 | 1.65 |
| **International Bonds** | | | | | | | |
| Bloomberg Global Aggregate AUD (Hedged) | -0.94 | 0.16 | 0.02 | 2.13 | 3.27 | -0.46 | 1.25 |
| **Global Listed Infrastructure** | | | | | | | |
| FTSE Developed Core Listed Infrastructure 50/50 AUD (Hedged) | 0.22 | 0.96 | 8.36 | 15.64 | 11.52 | 7.47 | 7.08 |
| **Property** | | | | | | | |
| S&P/ASX 200 A-REIT | -0.07 | 4.67 | -2.65 | -5.41 | 10.15 | 5.59 | 5.17 |
| FTSE EPRA Nareit Developed AUD (Hedged) | 2.35 | 3.67 | 9.34 | 17.27 | 8.74 | 1.47 | 2.96 |

*Source: Morningstar Direct*

**Important Information**