

QUARTERLY MARKET REPORT JUNE 30, 2026



The second quarter of 2026 can be characterized by sharp swings in energy prices, shifting geopolitical developments, mixed inflation data, volatile commodity markets and constantly changing expectations for central bank interest rates. Yet despite these headwinds, equity markets have demonstrated remarkable resilience.

When hostilities between the US and Iran intensified in late February, oil prices surged by almost 80 per cent as markets rapidly priced in the risk of major disruptions to Middle Eastern energy supplies and fuelled expectations of a prolonged supply shock.

Such a scenario would normally be expected to trigger a fresh wave of global inflation and increase the risk of a worldwide economic slowdown. However, as the quarter progressed, financial markets largely looked through these geopolitical risks.

The Australian share market delivered modest gains over the quarter. After rallying strongly into May, bouts of market volatility trimmed returns as investors weighed softer domestic inflation against ongoing uncertainty overseas. Nevertheless, Australian equities remained relatively resilient despite the challenging backdrop.

Global markets were considerably stronger. The United States and most major international share markets delivered impressive gains, supported by resilient corporate earnings and continued enthusiasm surrounding artificial intelligence.

Technology stocks, particularly semiconductor manufacturers, have continued to surge despite higher inflation expectations and the possibility of additional interest rate increases. The Nasdaq Index has climbed to fresh record highs, demonstrating investors' confidence that the long-term opportunities created by artificial intelligence outweigh near-term macroeconomic risks.

Bond markets have highlighted the differing economic outlooks across regions. Australian government bond yields have declined as domestic inflation has moderated, while US bond yields have moved higher as investors increasingly expect inflation to remain stubbornly elevated and the Federal Reserve to keep monetary policy tighter for longer.

If there is one lesson from the past quarter, it is that predicting short-term market movements remains extremely difficult. Few investors would have expected global share markets to reach new highs while oil prices experienced extreme volatility, inflation concerns resurfaced, and geopolitical tensions remained elevated.

Equity and Bond Market Overview

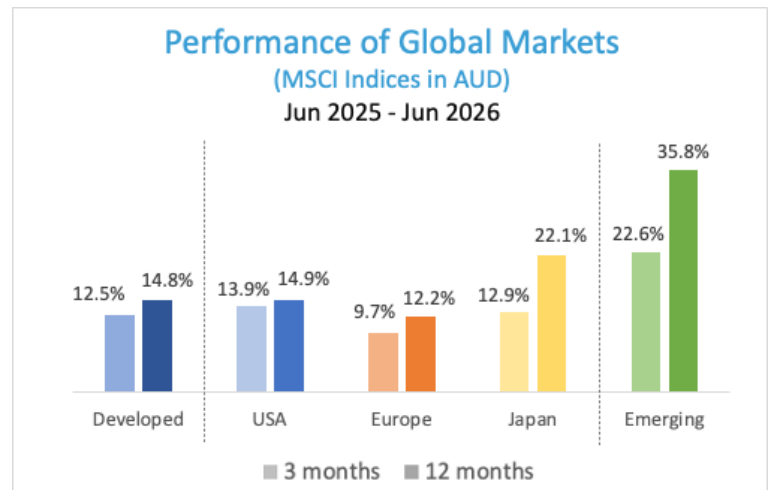
ASX HAS MODEST GROWTH

The Australian share market has experienced modest growth overall, up 4.6% for the quarter and 6.7% for the financial year. The market rallied strongly into May before seeing bouts of volatility dampen returns. Market sentiment has been swayed by global inflation data, domestic employment figures, commodity price swings, and central bank rate expectations.



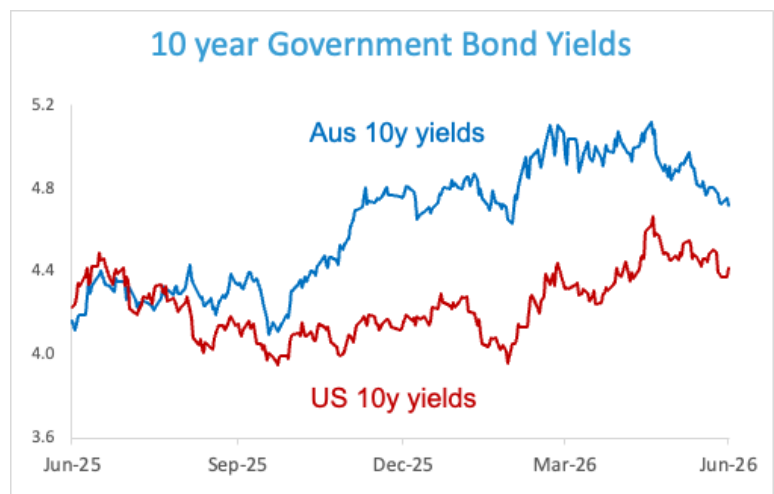
TECH IS BOOMING IN THE US, BUT THE ROW KEEPS PACE.

The US and most major global share markets have delivered a powerful rally over the quarter, driven by resilient corporate earnings and optimism around artificial intelligence. Investors largely ignored geopolitical concerns and elevated valuations, pushing many indices to record highs before a recent bout of market volatility prompted a pause.



BOND YIELDS REFLECT A “HAWKISH HOLD’ ON RATES.

Global bond yields have surged since March 31, 2026, driven primarily by persistent inflation, climbing energy prices caused by ongoing Middle East conflicts, and the resulting hawkish repricing of central bank interest rate expectation. However, Australian yields have been coming down on softer inflation readings and expectations of steady interest rates.

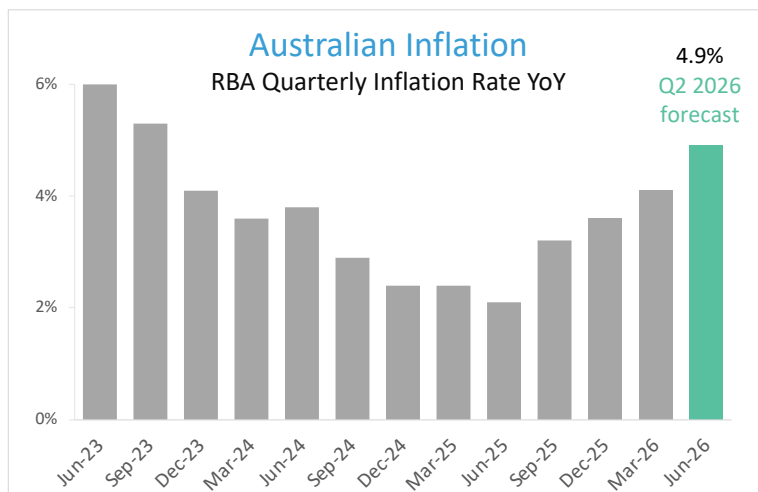


Source: investing.com, FE Analytics

Economic Review and Forecasts

INFLATION FORECAST TO PEAK.

Australia's headline Consumer Price Index is forecast to peak at 4.8% in the June quarter of 2026 before steadily easing over the following year. Underlying inflation (Trimmed Mean) is projected to track around 3.8% for the June quarter. The recent jump in inflation is primarily driven by sharp increases in commodity and energy prices.



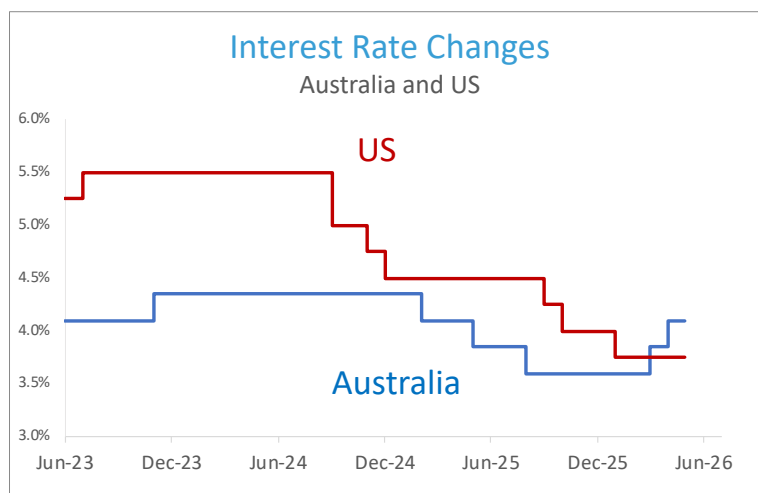
HIGH INTEREST RATES AND FUEL COSTS SLOW GROWTH

Economic growth is expected to slow to around 2% quarter ended as high borrowing costs and fuel prices weigh on household consumption. Furthermore, a contraction in public infrastructure investment has removed a key driver of growth. The unemployment rate is projected to edge up slightly to around 4.2%.



INTEREST RATES ON PAUSE.

The RBA left interest rates on hold at 4.35% in a unanimous decision, maintaining a cautious bias as it assesses whether policy is sufficiently restrictive. Governor Michelle Bullock reiterated that inflation remains above target. Similarly, the Federal Reserve left rates on hold at 3.75% under new Governor Kevin Warsch, but Fed policymakers were split over whether they expect to raise them this year.



Market Returns to 30 June 2026 (net returns, AUD)

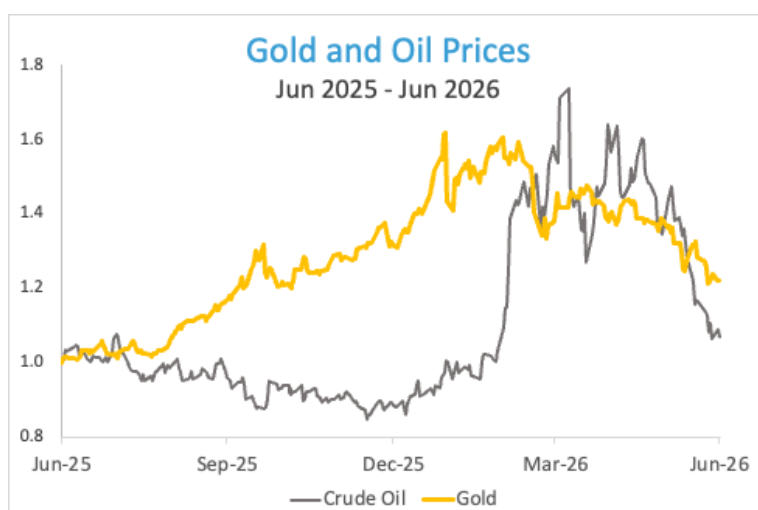
Asset Class	3 Months	1 Year	3 Year	5 Year	10 Year
Cash	1.1%	3.9%	4.2%	3.1%	2.2%
Australian Bonds	2.6%	1.5%	4.0%	0.4%	1.8%
Global Bonds	1.7%	3.2%	3.8%	0.0%	1.4%
Australian Equity	4.0%	6.1%	10.6%	7.8%	9.4%
Developed Markets	12.6%	15.0%	17.8%	13.4%	14.1%
Developed (hedged)	13.9%	22.6%	18.7%	11.3%	12.9%
Emerging Markets	22.6%	35.8%	21.4%	8.9%	10.9%
Australian REITS	13.7%	-2.2%	11.6%	5.7%	5.7%
Global REITs	4.4%	1.0%	6.6%	2.6%	

Source: MSCI, Bloomberg, S&P Global

- Much of the fear of uncontrolled higher inflation after the initial spike in oil prices has not come to pass, and while inflation remains elevated bond yields have remained steady, delivering positive returns for Australian and global bond indices.
- The Australian stock market recovered from the oil shock of the first quarter, and despite a sluggish economy the market is up 3.7% year to date.
- The US market, the largest component of the Developed Market Index, has been primarily driven by a capital spending boom in AI, driving the mega cap tech stocks.
- Emerging Markets have also soared over the quarter, driven by Asian semiconductor chip manufacturers. The Korean market is up nearly 200% over the last 12 months.
- The Australian dollar relative to the USD has been flat over the quarter, as the interest rate differential between the countries remains stable. As such, hedged international equities have performed in line with their unhedged counterpart.
- Australian REITs have underperformed their Global REIT counterparts in the last quarter primarily due to the concentrated nature of the A-REIT sector.

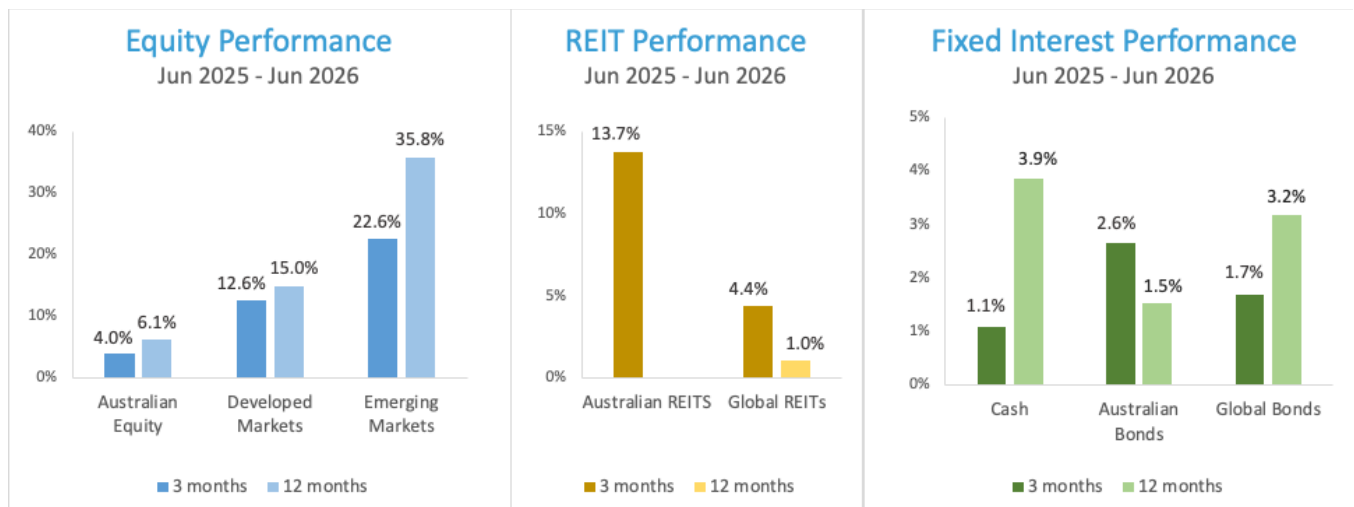
CRUDE OIL AND GOLD PRICES DECLINE FROM HIGHS

Gold has been coming off its highs since the start of the year, weighed down by the stronger US Dollar and higher bond yields. Since the initial spike in oil in late February the oil price has been volatile over the June quarter as diplomatic efforts between the US and Iran progressed, albeit unevenly. Markets are optimistic on news of a peace deal in late June.



Source: investing.com

Market Returns (Chart)

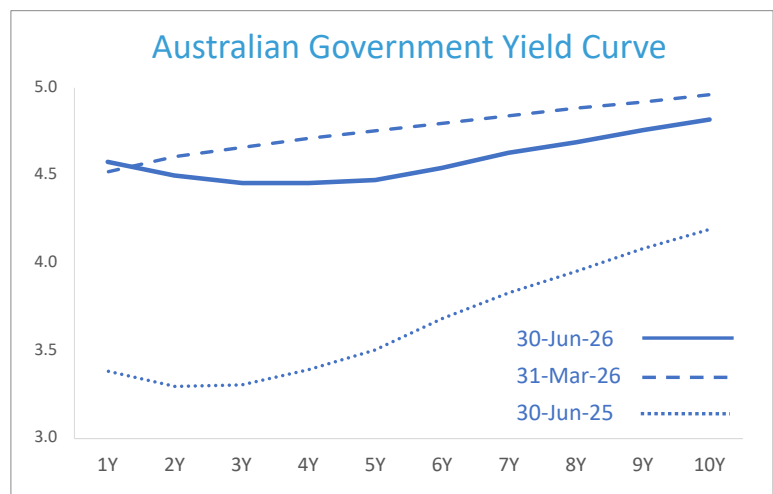


Source: investing.com, FE Analytics

Yield Curves

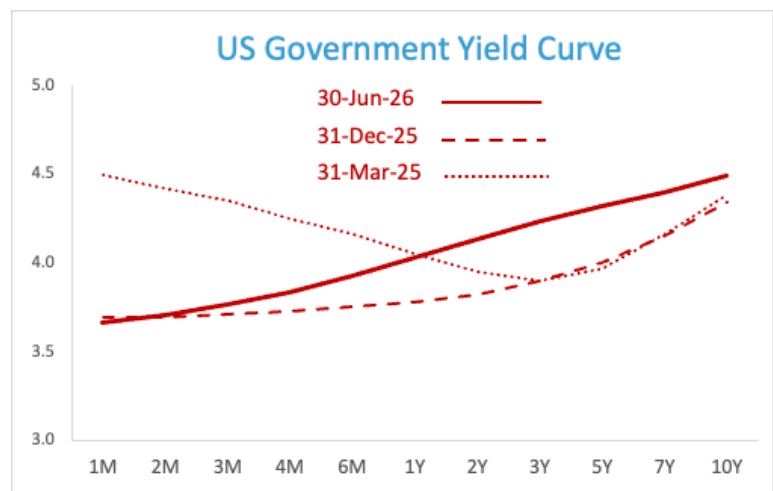
AUSTRALIA

Changes in the yield curve, which dictate the performance of bonds, has been dominated by the conflict in Iran, which has pushed energy prices higher leading to risks of tighter monetary policy and higher bond yields. Nonetheless, over the quarter longer yields have come down, reflecting the markets view that interest rates are near their peak and will start coming down next year.



UNITED STATES

The US yield curve has un-inverted (or "disinverted") after experiencing its longest inversion in history with the curve now "normal". The normal yield curve is an indication that the Federal Reserve is likely to raise rates again this year, reflecting Fed policymaker's projections in an environment of continuing high inflation and a cooling labour market.



Source: investing.com

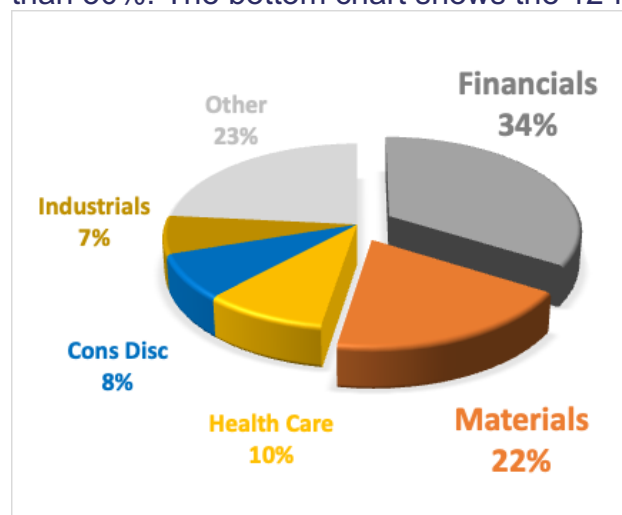
Sector Performance

AUSTRALIA

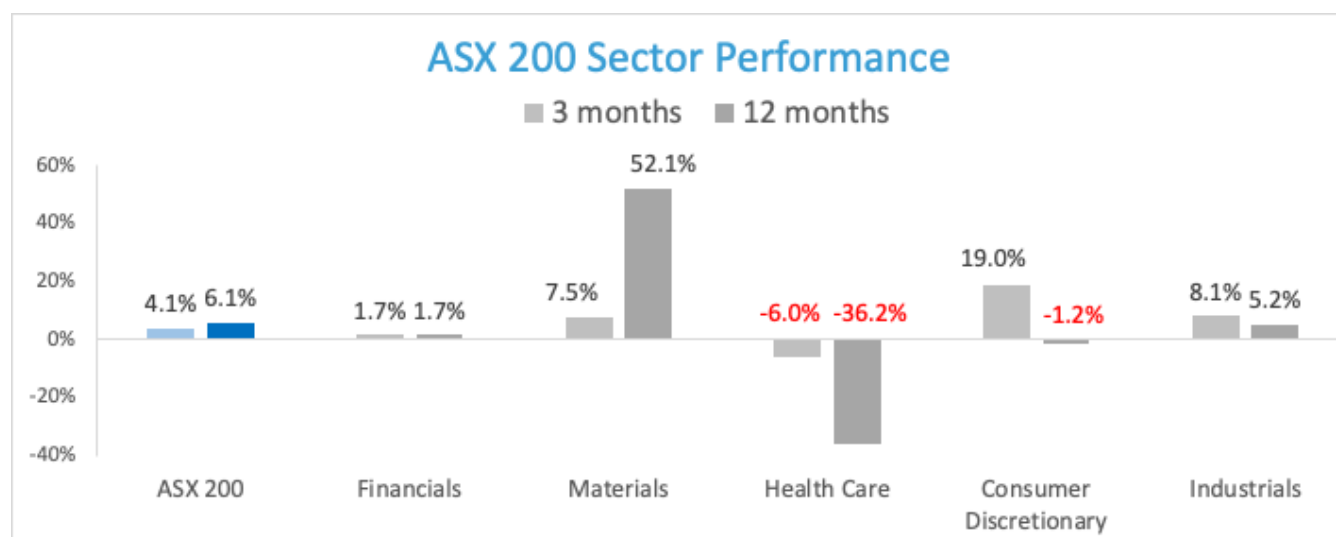
Australia is a concentrated market where a few large stocks dominate sector performance. IT bounced back in the quarter, while Energy fell on falling oil prices, but together those two sectors only represent 7% of the market. Of the large sectors, Consumer Discretionary stocks surged on retail and travel stocks, as investors capitalized on historically cheap valuations, aided by easing inflation and strong corporate earnings upgrades.

Sector	3 months	12 months
ASX 200	4.1%	6.1%
Communication Services	-4.1%	-9.4%
Consumer Discretionary	19.0%	-1.2%
Consumer Staple	6.4%	13.7%
Energy	-16.5%	14.5%
Financials	1.7%	1.7%
Health Care	-6.0%	-36.2%
Industrials	8.1%	5.2%
Information Technology	17.0%	-37.0%
Materials	7.5%	52.1%
Real Estate	12.9%	-3.3%
Utilities	-6.6%	11.9%

Five sectors make up approximately 75% of the market, with the two largest constituting more than 50%. The bottom chart shows the 12-month performance of the five largest sectors.



Sector	Weight	Cummulative
Financials	33.8%	33.8%
Materials	18.8%	52.6%
Health Care	9.3%	61.9%
Consumer Disc	7.9%	69.8%
Industrials	7.5%	77.3%
Real Estate	6.7%	84.0%
Energy	3.9%	87.9%
Consumer Staples	3.8%	91.7%
Communication Services	3.8%	95.5%
Information Technology	3.0%	98.5%
Utilities	1.4%	99.9%



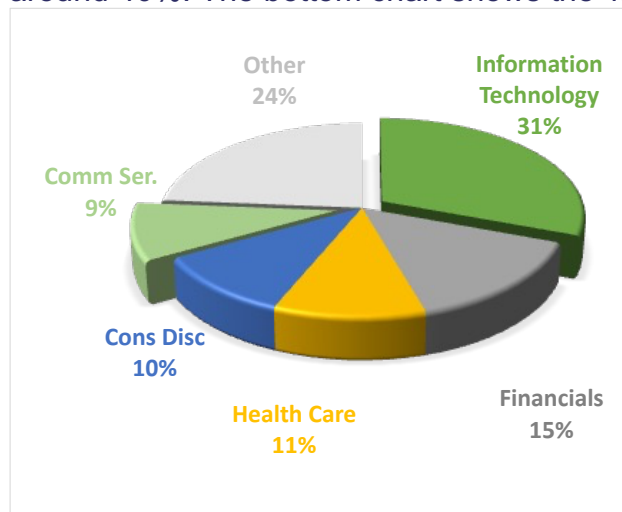
Sector Performance

UNITED STATES

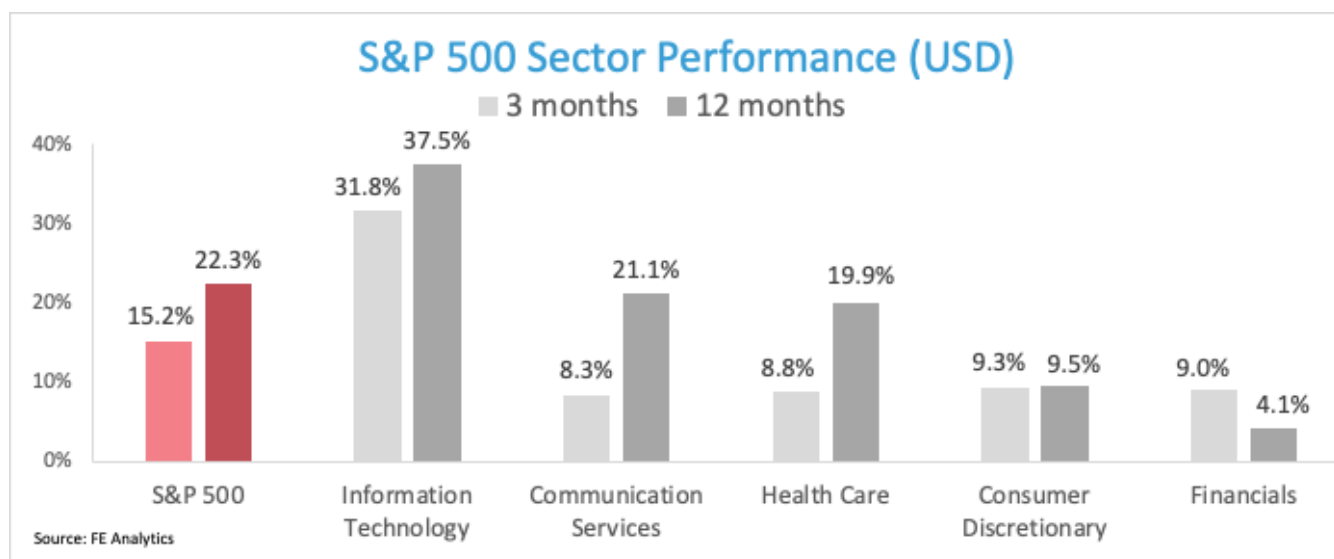
The US Tech sector (Communication and IT stocks) are once again the main drivers of the US market over the last quarter and the last 12 months, driven by mega-cap companies, hardware suppliers, and chipmakers. Strong returns have been led by Nvidia, Apple, Amazon, Meta, and Alphabet. But the US rally is quite broad, with Health Care, Financials and Consumer Discretionary all doing well over the quarter and over the previous 12 months.

Sector	3 months	12 months
S&P 500	15.2%	22.3%
Communication Services	8.3%	21.1%
Consumer Discretionary	9.3%	9.5%
Consumer Staple	0.3%	5.5%
Energy	-13.5%	29.0%
Financials	9.0%	4.1%
Health Care	8.8%	19.9%
Industrials	14.9%	27.3%
Information Technology	31.8%	37.5%
Materials	2.0%	16.7%
Real Estate	8.5%	11.1%
Utilities	-0.5%	14.2%

Five sectors make up approximately 75% of the US market, with Tech companies constituting around 40%. The bottom chart shows the 12-month performance of the five largest sectors.



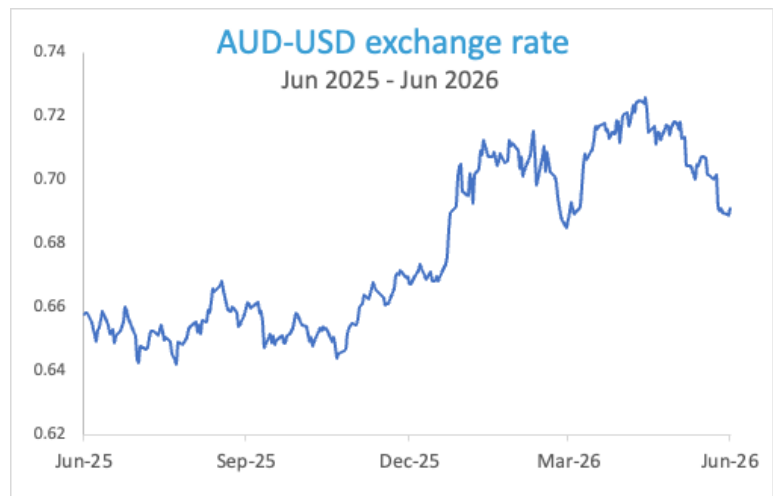
Sector	Weight	Cummulative
Information Technology	30.7%	30.7%
Financials	14.8%	45.5%
Health Care	10.8%	56.3%
Consumer Discretionary	10.5%	66.8%
Communication Services	9.5%	76.3%
Industrials	8.3%	84.6%
Consumer Staples	5.8%	90.4%
Energy	3.2%	93.6%
Materials	2.3%	95.9%
Real Estate	2.1%	98.0%
Utilities	1.9%	99.9%



Currency and Commodities

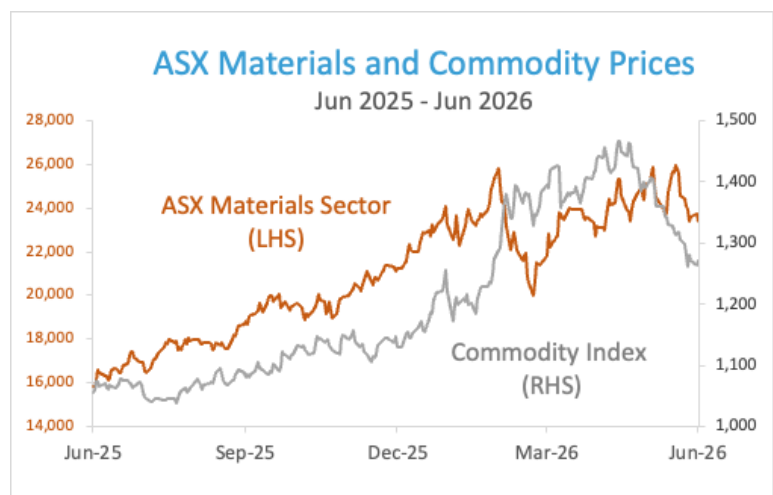
AUD HAS A VOLATILE QUARTER.

The Australian dollar has been highly volatile against the US dollar in the last quarter as investors have weighed shifting expectations for US interest rates, a stronger US dollar during periods of uncertainty, global trade tensions, commodity price swings and changing risk sentiment. The AUD is up 5% for the previous 12 months, but is flat for the quarter, ending June at around 69 cents.



ASX MATERIALS SURGES ON COMMODITY DEMAND

The ASX Materials sector has delivered strong gains over the past year, supported by rising commodity prices. Strong global demand for key resources, including copper, gold and iron ore, have boosted earnings expectations, while constrained supply and renewed optimism about infrastructure spending have all contributed to performance.



Source: investing.com

Dr Steve Garth
Principia Investment Consultants
July 2026

Disclaimer

Although information is derived from sources considered and believed to be reliable and accurate, Principia and its employees are not liable for any opinion expressed or for any error or omission that may have occurred in this presentation. This presentation is of a general nature only and has been prepared without considering any person's particular investment objectives, financial situation, or particular needs.