

QUARTERLY MARKET REPORT

SEPTEMBER 30, 2026



The September quarter has been defined by rising bond yields. The 10-year U.S. Treasury note – perhaps the world’s most important asset – is at its highest level since 2007. Similarly, the 10-year yield on Australian government bonds is now above 5.4%, which will continue to weigh on household spending, as many borrowing rates are influenced by these yields, from home and car loans to corporate borrowing.

The principal cause of global inflation and the rise in bond yields is soaring energy prices, a consequence of the continuing conflict in Iran. But other factors – particularly for the US - include rising government debt, competition for high grade bonds from AI companies (hyperscalers), and an economy driven by the data centre investment boom.

High inflation leaves central banks no choice but to raise interest rates in order to bring inflation back into their target bands, but this also has the effect of pushing bond yields higher as traders start pricing in the risk of further interest rate increases in both Australia and the US.

In Australia, the RBA raised interest rates by 25bps at their September meeting and have left open the possibility of an additional rate rise by the end of this year. Further rate hikes are expected from the US Federal Reserve, with markets pricing in two more before the end of the year and another one in early 2027.

The Australian stock market had a strong start to the quarter but was knocked down by the larger than expected July inflation print and has finished flat for the quarter. Consumer Discretionary stocks are down by 20% over the previous 12 months reflecting the cost of living pressures affecting retail spending. Offsetting that, the Resources sector has enjoyed a strong year riding the global commodities boom.

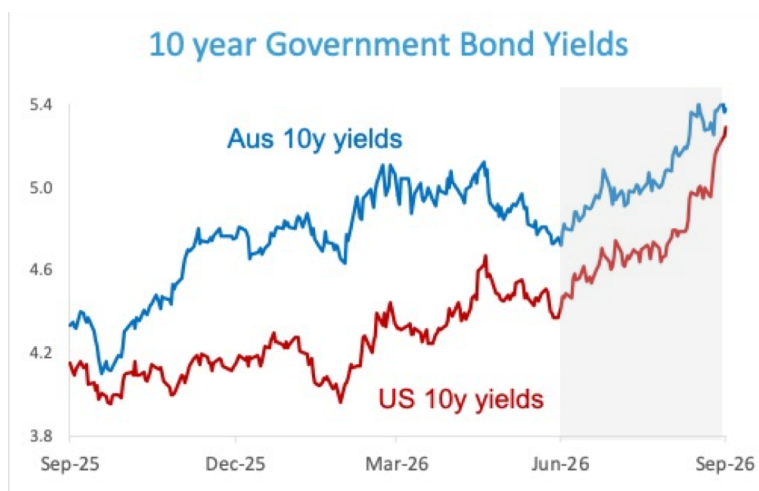
Global markets were considerably stronger. The United States and most major international share markets delivered impressive gains, supported by resilient corporate earnings and continued enthusiasm surrounding artificial intelligence. The AI hardware stocks, particularly semiconductor manufacturers, have continued to surge despite higher inflation expectations and the possibility of additional interest rate increases.

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

BOND YIELDS RISE TO MULTI-DECADE HIGHS.

High energy prices continue to be the major driver of higher bond yields, reflecting inflation expectations. However, Australia may be better placed than other markets, as we have relatively low government debt and a slowing economy. The US economy remains strong but high government debt and competition for US Treasuries are pushing up yields.



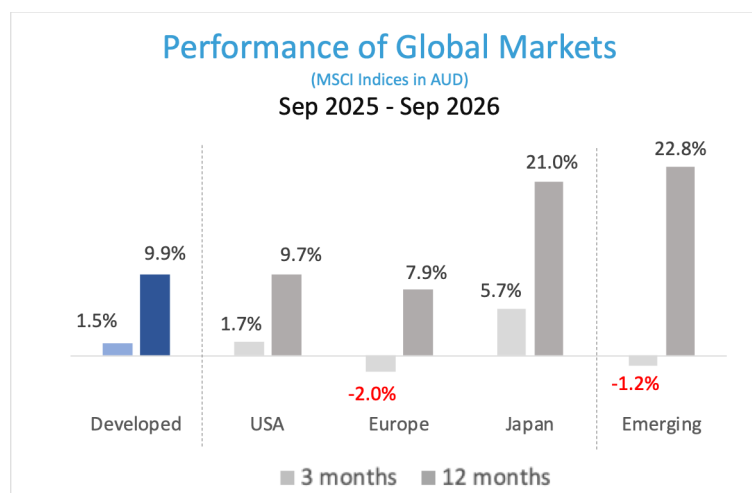
INTEREST RATES WEIGH ON AUSTRALIAN STOCK MARKET.

Market sentiment has been swayed by global inflation data, domestic employment figures, commodity price swings, and central bank rate expectations. While the quarter began strongly, the July inflation print was much higher than economists were expecting, with markets then pricing in further rate hikes by the end of the year.



THE AI TRADE CONTINUES TO POWER GLOBAL MARKETS.

The US and most major global share markets have delivered a powerful rally over the quarter, driven by resilient corporate earnings and continued investment in AI, fuelled by the data centre boom and semiconductor stocks. Investors have largely ignored geopolitical concerns and elevated valuations, pushing many indices to new record highs over the quarter.

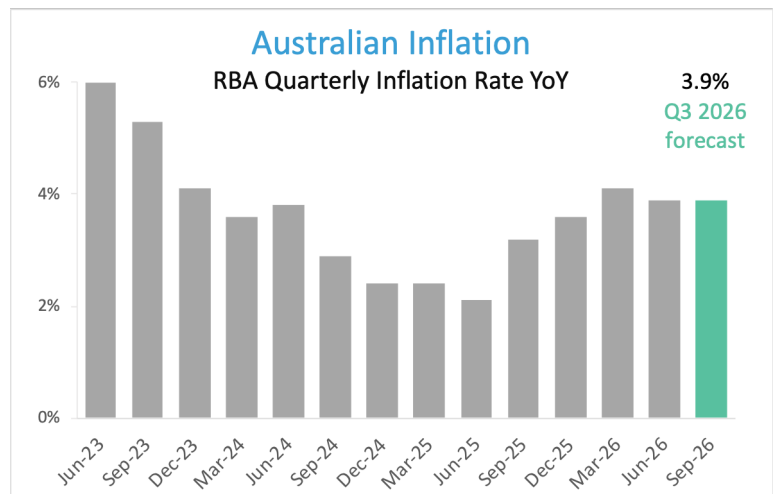


Source: investing.com, FE Analytics

Economic Review and Forecasts

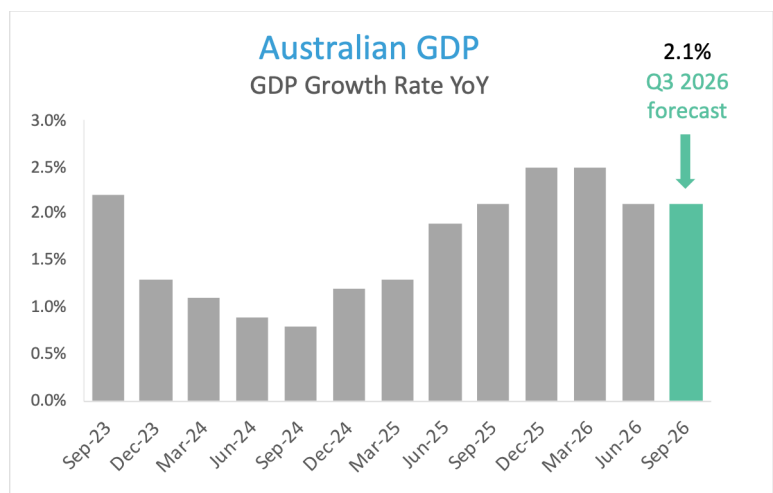
INFLATION MAY BE PEAKING.

The consensus September forecast of 3.9% y/y is lower than the forecasts made in the RBA's August Statement on Monetary Policy. However, economists still think that another rate hike at the November meeting is more likely than not, given that RBA officials have made it clear that they are determined to get inflation back to the 2% - 3% target band.



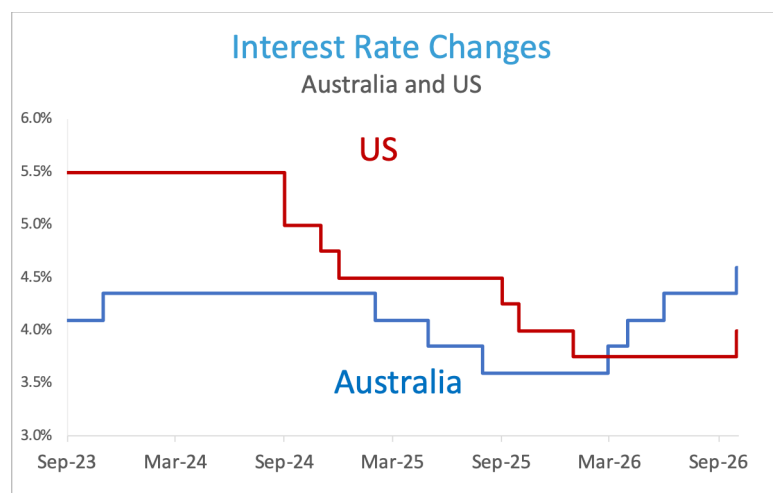
HIGH INTEREST RATES AND FUEL COSTS SLOW GROWTH.

The Gross Domestic Product (GDP) in Australia expanded 2.1% in the second quarter of 2026, slowing from 2.5% in Q1, the softest pace in three quarters, but still above the 1.8% consensus. Economic growth is expected to remain at 2.1% in the September quarter as high borrowing costs and fuel prices weigh on household consumption.



INTEREST RATES RISE, LIKELY WITH MORE TO COME.

In Australia, the RBA raised interest rates by 25bps at their September meeting and have left open the possibility of an additional rate rise by the end of this year. August inflation figures showed trimmed mean at 3.6% over the year – unchanged from the July reading, but still well above the top of the RBA's 2–3% target band.



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

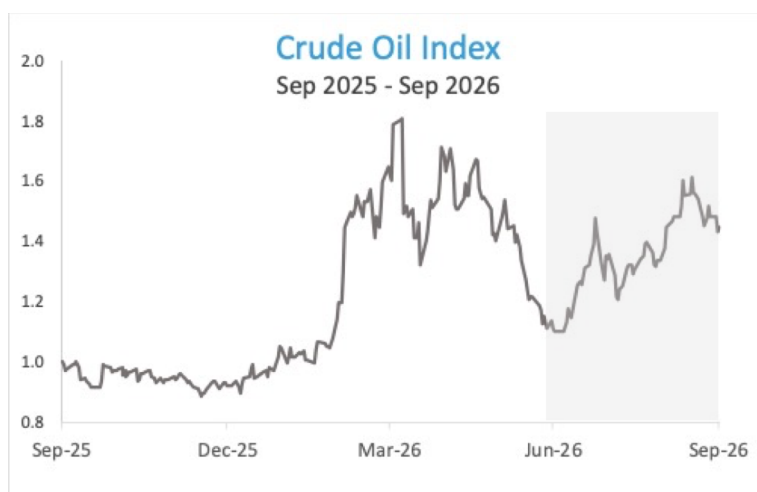
Asset Class	3 Months	1 Year	3 Year	5 Year	10 Year
Cash	1.1%	4.1%	4.2%	3.3%	2.3%
Australian Bonds	-1.5%	-0.4%	3.6%	0.0%	1.5%
Global Bonds	-2.4%	-0.6%	3.6%	-0.5%	1.1%
Australian Equity	1.3%	2.7%	11.4%	7.7%	9.0%
Developed Markets	1.5%	9.9%	18.5%	12.8%	14.0%
Developed (hedged)	2.0%	16.3%	20.7%	11.6%	12.5%
Emerging Markets	-0.8%	23.1%	21.0%	9.8%	10.1%
Australian REITS	-8.4%	-14.3%	9.4%	3.0%	5.0%
Global REITs	-5.5%	-6.1%	6.0%	0.8%	

Source: MSCI, Bloomberg, S&P Global

- Inflationary pressures and the resulting rise in bond yields, both in Australia and in the US, have caused negative returns for domestic and global bond indices.
- The consequent actions of the RBA in raising rates mean that the Australian overnight cash rate is now at its highest level since 2011, with the Bank Bill Index (the proxy for cash in the Australian market) returning 1.1% for the last quarter.
- The Australian stock market has been sluggish, weighed down by a slow economy, weak productivity, and cost-of-living pressures brought on by higher interest rates.
- The Developed Market Index, on the other hand, appears unconcerned by the macro backdrop and has been primarily driven by a capital spending boom in AI.
- Emerging Markets have also soared over the previous 12 months, driven by Asian semiconductor chip manufacturers, even though China returned -23%.
- The Australian dollar has appreciated against the USD and other currencies, resulting in hedged international equities outperforming their unhedged counterparts.
- REITs in general have not performed well in a rising interest rate environment. The Australian REITs have underperformed due to the concentrated nature of the sector.

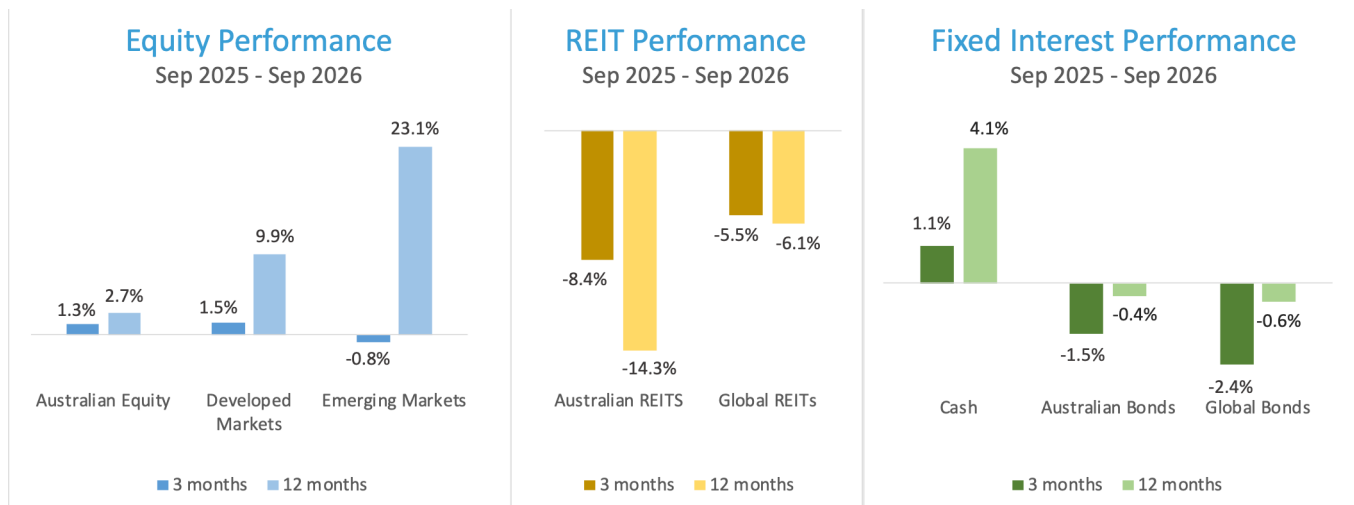
CRUDE OIL PRICE SURGES, DRIVING GLOBAL INFLATION

The price of crude oil has been volatile since the start of the conflict in Iran earlier in the year but in the September quarter oil prices surged again to be above \$US100 a barrel. The main factors behind this renewed oil price rise have been falling inventories, lasting supply constraints and ongoing concern about an escalation of the war.



Source: investing.com

Market Returns (Chart)

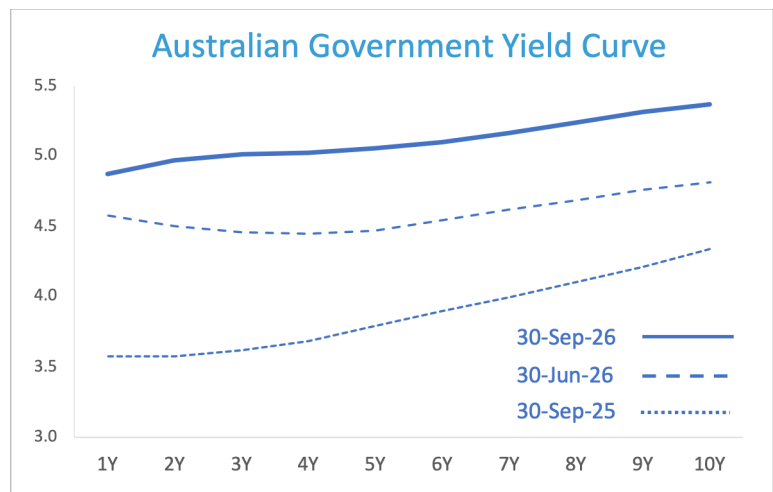


Source: investing.com, FE Analytics

Yield Curves

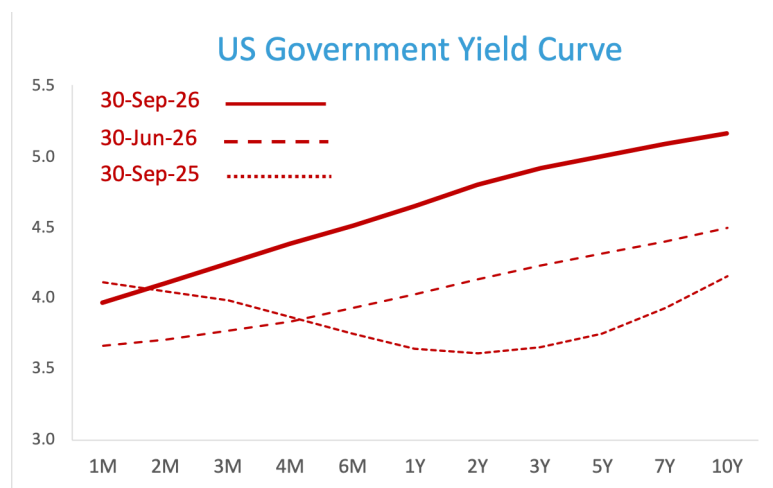
AUSTRALIA

Changes in the yield curve, which dictate the performance of bonds, have been dominated by the conflict in Iran, which has driven energy prices higher leading to global inflation and the risks of tighter monetary policy pushing longer bond yields higher. However, the yield curve is flat for maturities between 2- and 5- years, reflecting the market's view that interest rates are near their peak.



UNITED STATES

The US yield curve has significantly shifted upwards and steepened over the quarter. This reflects not only the impact higher energy prices are having on inflation, but yields are also higher on the back of a surging economy, driven largely by the data centre investment boom, competition for high-grade (investment grade) debt from the AI "hyperscalers", and soaring US government debt levels.



Source: investing.com

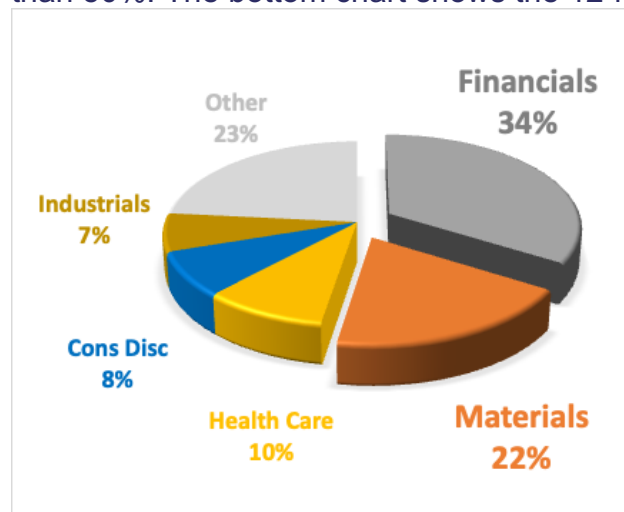
Sector Performance

AUSTRALIA

In Australia, a few large stocks dominate performance. The Materials sector – particularly the big miners BHP and RIO – surged on the back of strong commodity prices which are being driven by demand for oil and the critical minerals that are essential for the high-performance hardware and data centres that drive artificial intelligence. However, Consumer Discretionary stocks – particularly retail – fell by 10% over the quarter as cost of living pressures weighed on the sector.

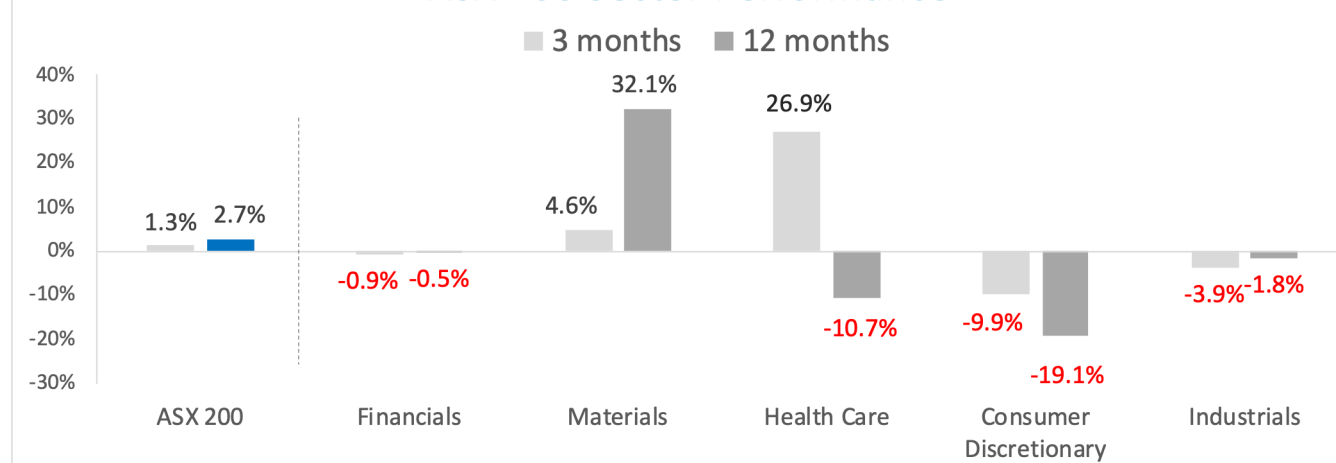
Sector	3 months	12 months
ASX 200	1.3%	2.7%
Communication Services	-3.4%	-14.2%
Consumer Discretionary	-9.9%	-19.1%
Consumer Staple	-0.4%	15.0%
Energy	17.4%	36.4%
Financials	-0.9%	-0.5%
Health Care	26.9%	-10.7%
Industrials	-3.9%	-1.8%
Information Technology	-7.6%	-42.4%
Materials	4.6%	32.1%
Real Estate	-8.7%	-15.6%
Utilities	3.1%	3.5%

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%

ASX 200 Sector Performance



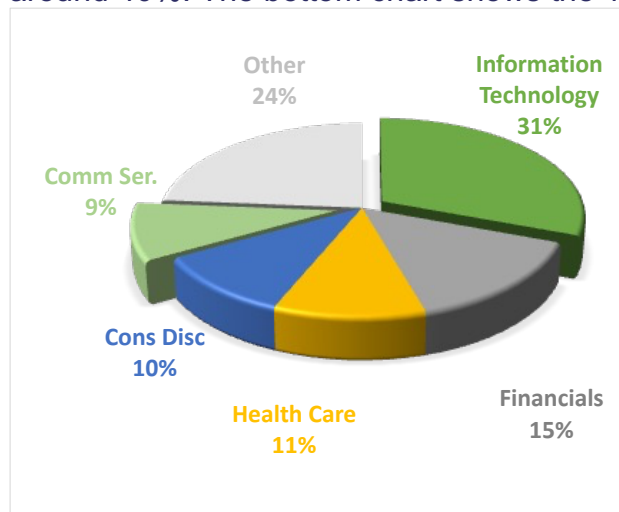
Sector Performance

UNITED STATES

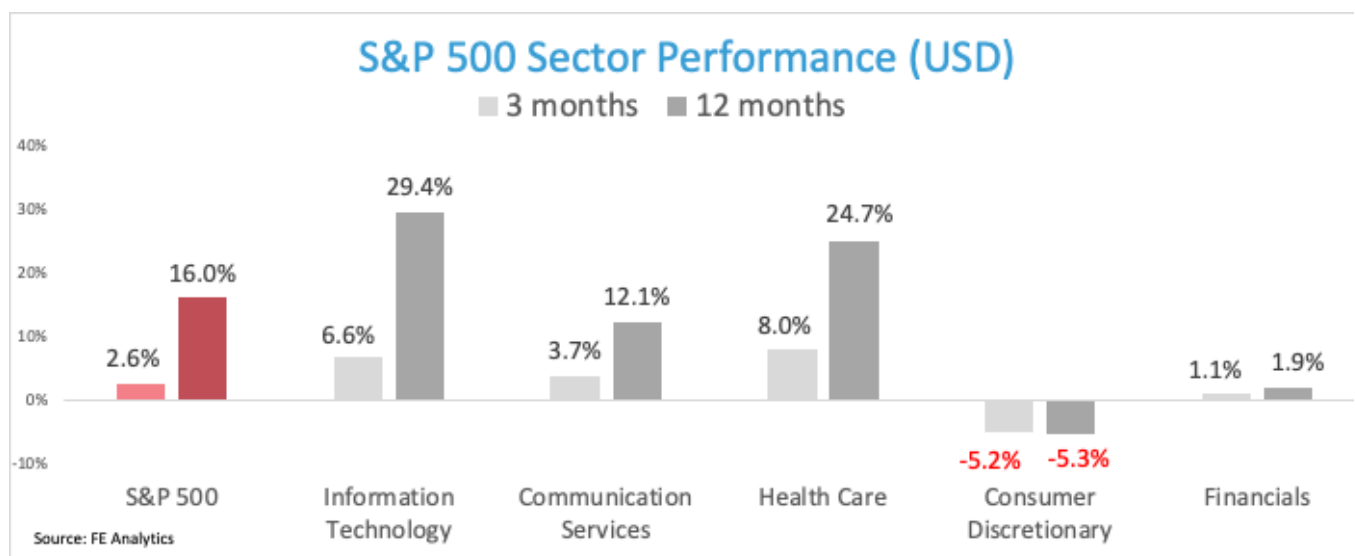
The US Tech sector (Communication and IT stocks) is once again the main driver of the US market over the last quarter and the last 12 months, driven by mega-cap companies, AI hardware suppliers, and chipmakers. The US healthcare sector has achieved strong returns over the past 12 months—gaining roughly 25%—driven by surging demand for blockbuster weight-loss drugs, easing regulatory uncertainties, and a rotation into defensive stocks.

Sector	3 months	12 months
S&P 500	2.6%	16.0%
Communication Services	3.7%	12.1%
Consumer Discretionary	-5.2%	-5.3%
Consumer Staple	-0.3%	7.8%
Energy	17.3%	42.5%
Financials	1.1%	1.9%
Health Care	8.0%	24.7%
Industrials	-8.5%	10.9%
Information Technology	6.6%	29.4%
Materials	-2.0%	10.9%
Real Estate	-4.5%	3.4%
Utilities	-11.8%	-6.3%

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.



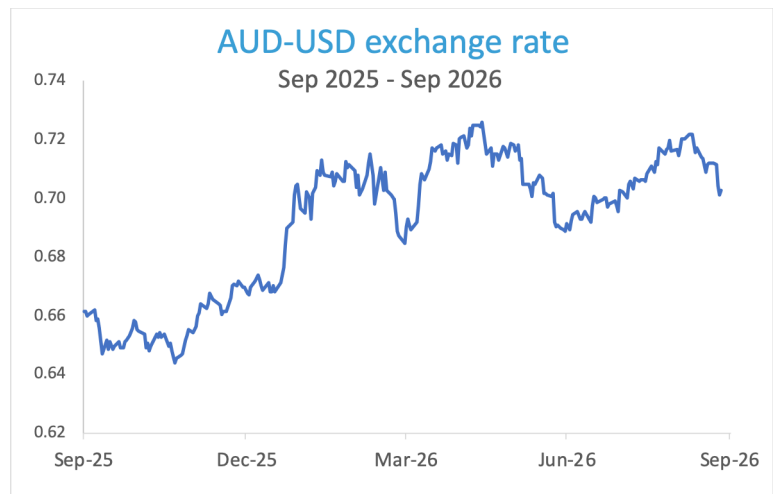
Sector	Weight	Cummulative
Information Technology	30.7%	30.7%
Financials	14.8%	45.5%
Health Care	10.8%	56.3%
Consumer Discretionary	10.5%	66.8%
Communication Services	9.5%	76.3%
Industrials	8.3%	84.6%
Consumer Staples	5.8%	90.4%
Energy	3.2%	93.6%
Materials	2.3%	95.9%
Real Estate	2.1%	98.0%
Utilities	1.9%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



Currency and Commodities

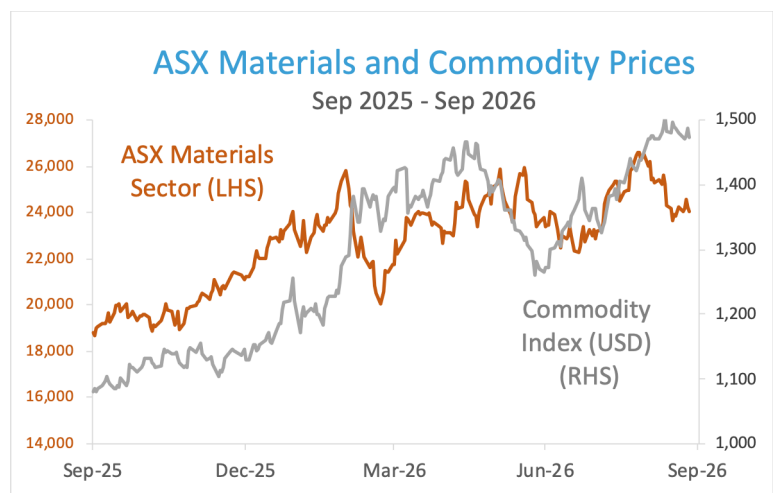
AUD HAS A VOLATILE QUARTER.

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, 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 September 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, has boosted earnings expectations, while constrained supply and renewed optimism about infrastructure spending have all contributed to performance.



Source: investing.com

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October 2026

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