

EVIDENTIA
GROUP

LIS

LONSEC
INVESTMENT
SOLUTIONS

EVIDENTIA
PRIVATE



Implemented
Portfolios

Portfolio Perspectives

March 2026

Author

Danial Moradi

Portfolio Manager, Listed Products



Evidentia Group Investment Team

Troy Swann, Executive Director, Investment Management

Darren Beesley

Chief Investment Officer

Deanne Baker

Head of Multi-Asset & Alternatives

Anthony Corr

Head of Strategy Research

Danial Moradi

Portfolio Manager

Pierre-Hedzer Marchi

Head of Quantitative Investing

Nick Field CFA

Portfolio Manager

Chris Robertson

Head of Portfolio and Risk Management

David Matesic CFA

Portfolio Manager

Jo Cornwell CFA

Head of Manager Research

Eleanor Menniti

Portfolio Manager

Leigh Cronin

Head of Direct Equities

Reuel Kee CFA

Associate Portfolio Manager

Samantha Feeley CFA

Senior Analyst

Jacob Simonsen

Equity Analyst

Carrick Xue CFA

Senior Performance Analyst

Luke Conca CFA

Equity Analyst

Waylen Ramsey

Performance Analyst



Key Messages for Investors

- The February 2026 reporting season demonstrated the resilience of the domestic economy, supported by lower interest rates and rising commodity prices.
- The earnings-momentum recovery that began in October 2025 was most pronounced in the Resources segment. We are now beginning to see this recovery extend to other sectors on the ASX.
- At the market level, the overall EPS growth for FY26 and FY27 was revised higher over the month, to 13.5% and 8.0%, respectively.
- At the sector level, this was mainly driven by upgrades within the Financials and Resources sectors, while the Healthcare and Consumer Discretionary sectors experienced the largest EPS downgrades.
- From a valuation perspective, the recent market correction has lowered the forward P/E ratio to 17x, bringing it closer to fair value, with resilient earnings growth expectations for FY26 and FY27 potentially limiting further de-rating from current levels.
- We maintain our slightly underweight exposure to Australian equities, cognisant of the tail risks to risk assets from the conflict in the Middle East.

1H26 reporting season - A return to growth

The February 2026 reporting season on the ASX signalled a clear turning point for corporate Australia, with results indicating a rebound in earnings growth after three years of subdued performance. Supported by lower interest rates and rising commodity prices, the season showcased the resilience of the domestic economy, even as global uncertainty and market volatility remained high.

At a headline level, the reporting season was stronger than expected. Earnings per share (EPS) forecasts were revised higher across the market, with consensus growth for FY26 and FY27 increasing to 13.5% and 8.0%, respectively. This upward revision is particularly notable, as reporting seasons often lead to earnings downgrades rather than upgrades. The improvement reflects strengthening corporate profitability and growing confidence in the economic outlook.

A key theme was the continuation, and expansion, of the earnings recovery that began in late 2025. Initially concentrated in the Resources sector, this recovery was driven by higher commodity prices and improved operating conditions for mining companies.

During the February reporting season, however, signs emerged that this momentum is beginning to broaden across the market. Financials were a major contributor to this trend, with banks benefiting from stable margins and resilient credit demand. Together, Financials and Resources accounted for the majority of sector-level earnings upgrades.

In contrast, other sectors faced more challenging conditions. Healthcare and Consumer Discretionary recorded the largest EPS downgrades, reflecting margin pressures, softer demand, and company-specific issues. Retailers, in particular, continued to navigate cautious consumer

spending and increased discounting, while some healthcare companies disappointed investors with weaker-than-expected earnings or guidance.

Another defining feature of the reporting season was the heightened dispersion in share price reactions. Investors were highly selective, rewarding companies that met or exceeded expectations while severely punishing those that disappointed. This asymmetry highlights the importance of earnings certainty in an environment where valuations, in some sectors, remain elevated.

The "SaaS apocalypse" comes down under

Artificial intelligence (AI) emerged as the dominant thematic driver during the reporting season, particularly within the Technology and Media sectors. Growing concerns about AI's ability to replicate and enhance traditional software and Software-as-a-Service business models triggered a broad-based sell-off across ASX-listed technology stocks. Notably, the decline has been indiscriminate, affecting both high- and low-quality companies.

The Technology sector has now fallen approximately 45% from its peak in September 2025, bringing valuations back to levels last seen during the COVID-19 market sell-off. This sharp correction suggests that investors are pricing in significant medium-term earnings risks associated with AI disruption. However, short-term earnings expectations for many technology companies remain relatively stable, and in some cases, AI-related initiatives may even support near-term growth. The key challenge for investors is to distinguish between companies that can successfully adapt to an AI-driven landscape and those whose business models may face structural decline.

From a valuation standpoint, the Australian equity market has entered a more contested

phase following the sharp sell-off in March, with the S&P/ASX 200 declining about 8% in recent weeks amid geopolitical shocks and rising oil prices, which have dampened risk appetite.

Prior to the correction, valuations had grown significantly, with the market trading on a forward price-to-earnings multiple of 20x over the second half of 2025, well above its long-term average of 16x.

The recent decline has reduced the forward P/E ratio to 17x, closer to fair value, while resilient earnings expectations for FY26 and FY27 may limit the extent of further derating from current levels.

In conclusion, the February 2026 ASX reporting season indicated a return to positive and broader earnings growth. While Resources continue to be a key driver, improving performance across other sectors suggests a more balanced outlook heading into FY27. However, increased volatility, geopolitical risks, and structural changes (especially those related to AI) mean that careful stock selection will remain vital for investors navigating the evolving market landscape.

The macro dilemma

Despite the positive backdrop from the February reporting season, we maintain our cautious stance towards Australian equities in the current environment, as the lingering effects of the energy shock continue to feed into persistently higher inflation. This dynamic has prompted the RBA to keep a tightening stance, with interest rates already elevated and likely to remain higher for longer than previously expected. Increased borrowing costs will impact both households and businesses, reducing consumer spending and squeezing margins, especially in sectors dependent on discretionary demand. Meanwhile, input cost pressures and wage growth are likely to challenge

corporate profitability, increasing the risk of earnings downgrades if the conflict in the Middle East prolongs. Therefore, we remain slightly underweight in Australian equities, mindful of the tail risks the Middle East conflict poses to risk assets.

Middle East conflict and global markets

The recent escalation in tensions involving the US, Israel and Iran has introduced a new source of uncertainty for global markets. While the situation remains fluid, investor attention has focused primarily on the potential impact on global energy supply.

A key concern is the Strait of Hormuz, a narrow 9.5km shipping corridor in the Middle East through which a significant share of the world's oil exports pass each day. Disruption to shipping through this route has raised concerns about the reliability of global energy supply and pushed oil prices 50% higher since the start of the conflict.

Energy markets are the main channel through which geopolitical events such as this affect the broader economy. Higher oil prices can feed through to transportation costs, manufacturing and food production, potentially placing upward pressure on inflation and slowing economic growth if sustained for an extended period.

Importantly, markets are also assessing whether the current disruption is likely to be temporary or more prolonged. Oil prices often react quickly to geopolitical shocks, but longer-term economic consequences typically depend on how long supply issues persist.

History provides some perspective. Financial markets have experienced numerous geopolitical events in the past several decades, from conflicts in the Middle East to the invasion of Ukraine. While these events can cause short-term volatility, they have

generally had limited long-term impact on investment returns unless they fundamentally change global economic conditions.

For investors, the key variables to watch in the coming weeks will be developments in the conflict itself, the extent of the disruption to energy supply, and the trajectory of inflation.

As always, continue to trust your well-diversified portfolio. In times of heightened market volatility and uncertainty, it is important to remember your long-term financial goals and stay true to your risk profile. Investors should always focus on their long-term financial objectives, especially during periods of financial anxiety.

Portfolio Perspectives

March 2026

Growth Assets Outlook

Asset Class	Outlook Negative ← → Positive			Comments
Growth Assets				An improving macro-economic backdrop and strong earnings growth momentum provide a positive setting for growth assets. Valuations remain very stretched, and the path of cash rates is less clear. We remain cautiously optimistic and recommend a neutral position to growth.
Australian Equities		→		Macro conditions are improving, and capex expansion is encouraging. Earnings growth is accelerating and broadening outside the resources sector. Persistently high inflation and the oil price shock imply more rate hikes from the RBA over the remainder of 2026, which will have a negative impact on current growth expectations. We are reviewing our UW exposure to the Australian Large sector.
Australian Small Caps				Unprofitable junior miners make up a large portion of the Small Caps sector vs Large Caps. There is also considerable froth in this portion of the market due to the strength in gold.
Global Equities				Earnings growth and sentiment are broadening for sectors outside US mega tech and AI, which, if sustained, should support a recovery in active manager alpha. We remain neutral.
Global Small Caps		←		Valuations remain somewhat attractive. With US companies forming 63% of the small-cap index, tariff policy uncertainty should fade as a headwind. However, higher inflation and interest rates will be a major headwind for the sector.
Emerging Markets Equities			←	Earnings growth continues to accelerate across emerging markets. EM equities face a range of interconnected risks from an escalation of conflict in the Middle East, with impacts transmitted through energy markets, capital flows, tighter financial conditions, and currency volatility.
Property				Global Listed Property valuations are attractive in comparison to global equities. The challenges of growth and supply are fading. Remain mildly overweight, be conscious, however, of the combined real asset position.
Infrastructure				Our forecast returns for global infrastructure are above global equities. This combined with the attractive defensive attributes of infrastructure and long-term result in a mild overweight recommendation.
Alternatives - Growth				Notable improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions and sentiment are well positioned.

Defensive Assets Outlook

Asset Class	Outlook Negative ← → Positive				Comments
Defensive Assets					We are neutral on defensive assets as equity fundamentals improve.
Australian Bonds					We observe similar yields on offer for Australian Fixed Income vs Global Fixed Income (once currency hedging carry is accounted for); however, we see more risk offshore. We retain a mild preference for Australian duration.
Global Bonds					Some lingering uncertainty for the US inflation outlook and loosening of fiscal discipline by developed market governments could see further volatility at the long end of global government bond yield curves. We recommend active management to navigate the current environment and/or a mild underweight.
Diversified Income					Credit spreads have tightened and expected excess returns are at the lower end of historical ranges. While we do not see significant downside risk in high quality credit, we are neutral in recognition of more modest forward looking return expectations.
Alternatives - Conservative					Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash and Enhanced Cash					Cash can serve as a useful short-term tactical defensive exposure while credit spreads are tight.

Important Information: This information is published by Lonsec Investment Solutions Pty Ltd (LIS) ABN 95 608 837 583, a Corporate Authorised Representative of Evidentia Financial Services Pty Ltd ABN 97 664 546 525 AFSL 546217 (EFS). Generation Development Group Limited ABN 90 087 334 370 (GDG) is the ultimate parent company of LIS and EFS. LIS creates the model portfolios it distributes using the investment research provided by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445 (Lonsec Research), also a GDG company, but is not involved in Lonsec Research's investment research process.

Warnings: Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this publication is limited to "general advice" (as defined in the Corporations Act 2001 (Cth)) and does not take into account investors' objectives, financial situation or needs. Investors should consider the appropriateness of the information and relevant Product Disclosure Statement (PDS) or offer document (and where relevant, applicable target market determination) before deciding whether to acquire, or to continue to hold a financial product. If you require financial advice that takes into account your personal objectives, financial situation and needs, you should consult your licensed or authorised financial adviser.

Disclaimer: This information is based on sources considered to be reliable. It is based on our judgement at the time of issue and is subject to change. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this publication. To the extent permitted by law, none of GDG and its related entities, their directors, officers, employees and agents accepts any liability for any loss or damage as a result of any reliance on this information.

Copyright © 2026 Lonsec Investment Solutions Pty Ltd ACN: 608 837 583. This document is subject to copyright of LIS. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this document may, in any form or by any means (electronic, mechanical, micro-copying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of LIS. This document may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to LIS copyrighted material, applies to such third-party content.