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Portfolios

Portfolio Perspectives

March 2026

Key Messages for Investors

- The February 2026 reporting season demonstrated the resilience of the domestic economy, supported by RBA rate cuts and rising commodity prices over the half.
- 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, overall EPS growth for FY26 and FY27 was revised higher over the month, to 14.0% and 7.8%, 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.
- The war in the Middle East and the duration of the energy price shock represent the main risk to growth over 2026.
- We remain slightly underweight in Australian equities, mindful of the tail risks the Middle East conflict poses to risk assets.

Australian Equities: Forward Earnings Recovery?

Earnings momentum has turned positive, and valuations are getting closer to fair value

ASX200 earnings revisions - 12 months forward



- After three years of stagnant growth, earnings revisions have turned positive on the ASX.
- A solid February reporting period has seen bank earnings upgraded.
- However, the energy price shock and persistent high inflation are likely to lead to higher domestic interest rates and a more subdued consumer environment.
- Higher energy costs are also likely to hurt margins in the resources sector.

ASX P/E ratios - 12 months forward



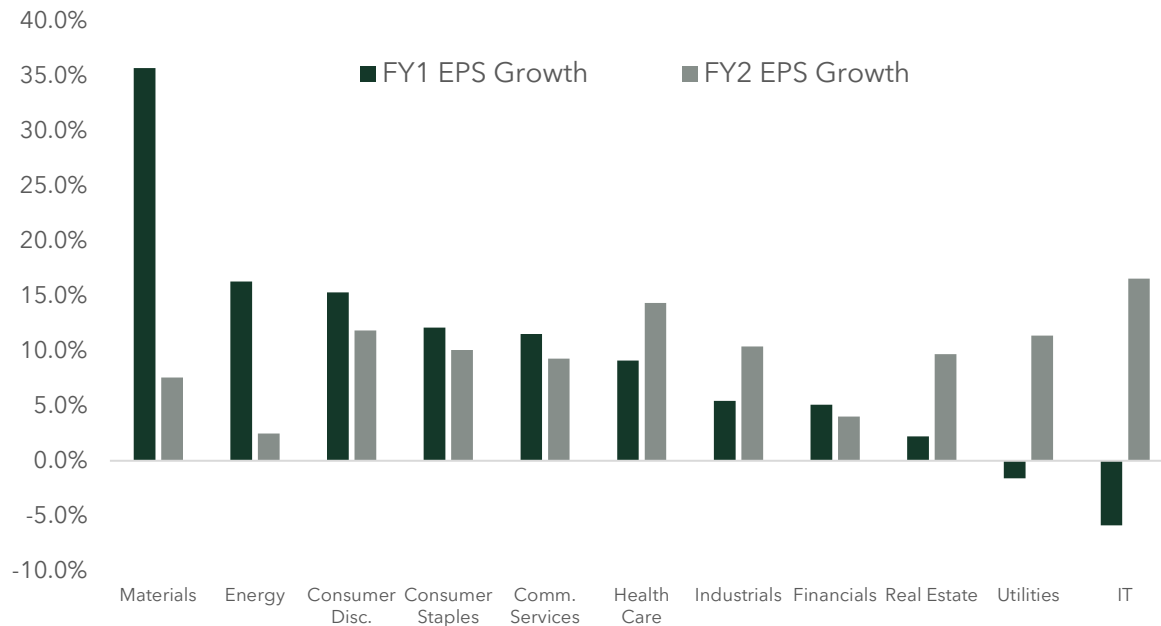
- Prior to the recent correction, valuations had grown significantly, with the market trading on a forward price-to-earnings multiple of 20x over the second half of 2025, well above its long-term average of 16x.
- The recent decline has reduced the forward P/E ratio to 17x, closer to fair value, while resilient earnings expectations for FY26 and FY27 may limit the extent of further de-rating from current levels - subject to the duration of the conflict in the Middle East.

Source: FactSet, Evidentia Group estimates

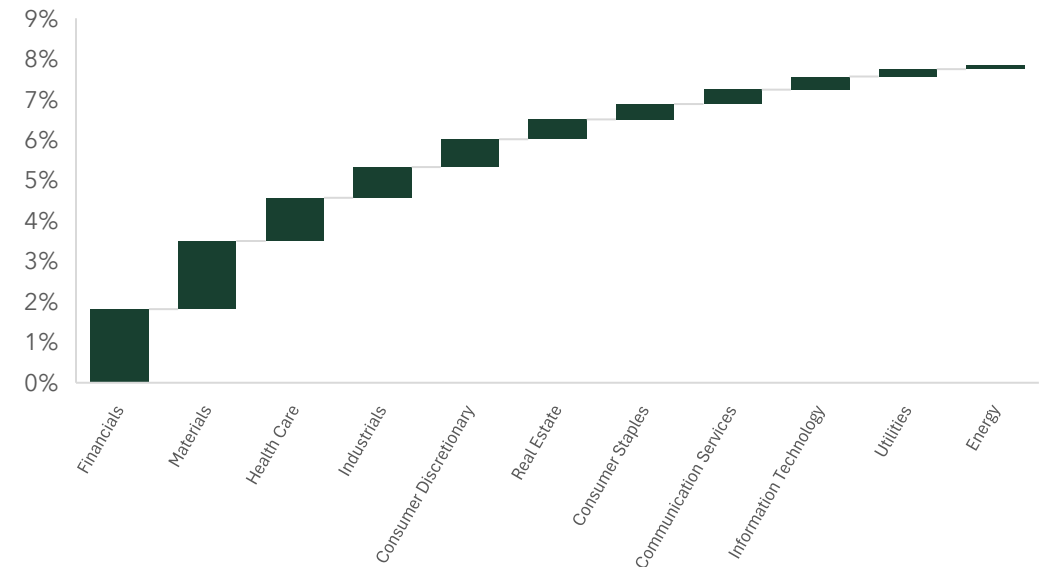
Earnings growth is broadening

Financials and Resources are expected to be the key drivers of earnings growth in FY27

Sector consensus EPS growth forecasts



Sector contribution to overall market growth FY27



- All sectors are expected to generate positive earnings growth in FY27.
- Earnings growth in the Resources sector is expected to remain volatile and driven by commodity prices over the next 12 months.
- The Energy sector is a relatively small part of the ASX market cap, so we don't expect a material uplift in market earnings based on higher energy prices due to the conflict in the Middle East.

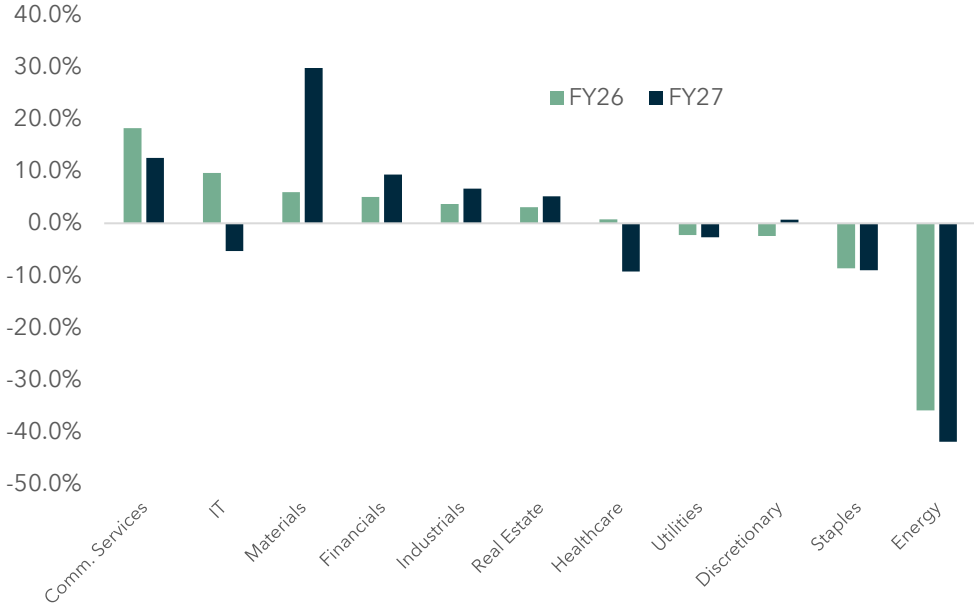
- Financials and Resources are expected to be the key drivers of earnings growth in FY27.
- Higher inflation and interest rates pose a downside risk to market earnings in FY27.
- The sectors most exposed to higher inflation and rising interest rates tend to be those reliant on discretionary spending, leverage, or long-duration earnings.

Source: FactSet, iRate

Resources have dominated

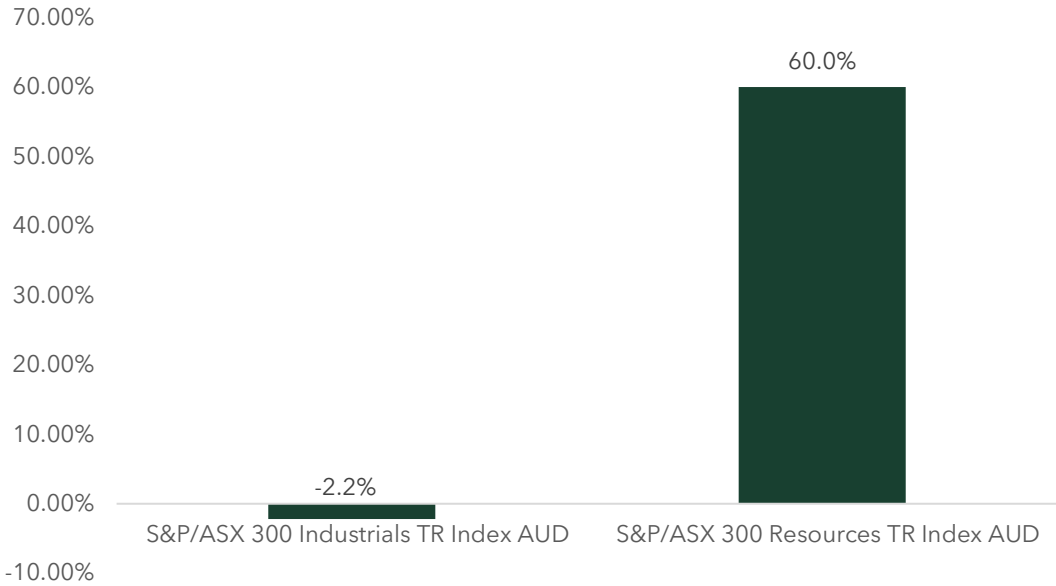
Returns and earnings revisions have been narrow and dominated by the Resources sector

GICS Sector EPS revisions since 30 September 2025



- 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.
- A solid February reporting period has seen bank earnings upgraded.

ASX300 sector returns since 30 June 2025

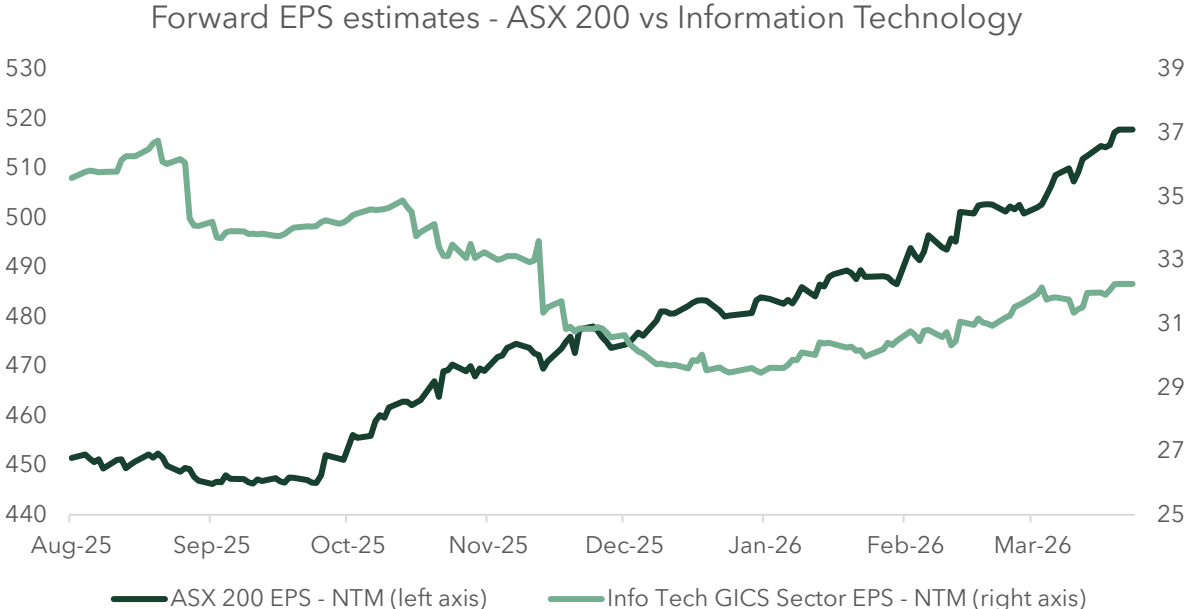
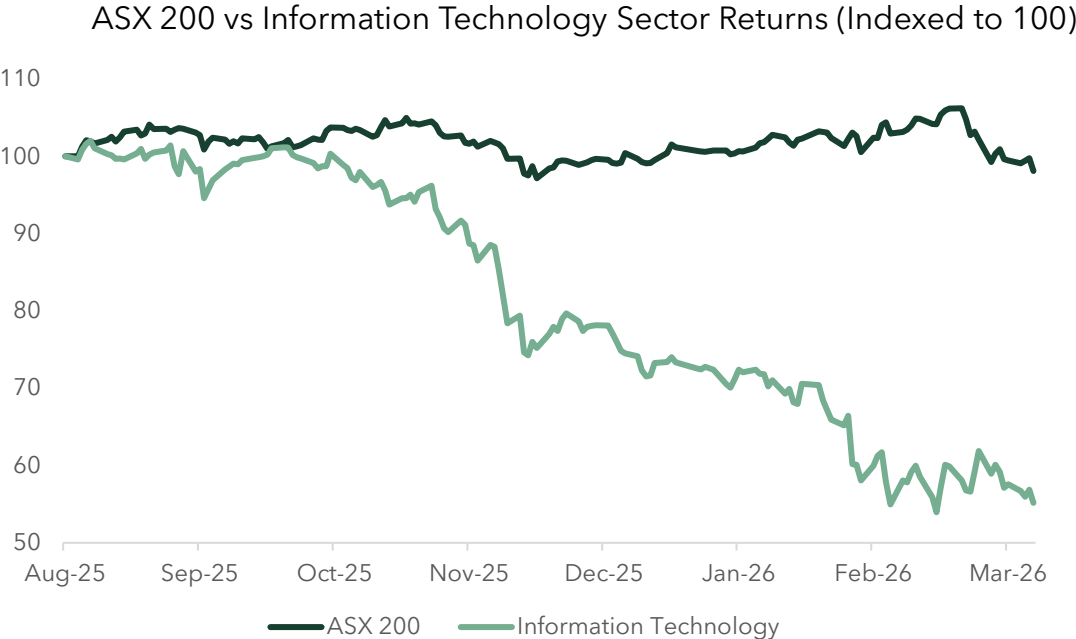


- The ASX Resources sector dominated returns so far in FY26 delivering a total return of 60.0%, while the broader ASX300 Industrials benchmark returned -2.2%.
- The significant divergence in sector returns over the half highlights the lack of earnings visibility in the broader market and the volatile nature of earnings upgrades purely driven by higher commodity prices.

Source: FactSet, iRate

Impact of AI on the Technology sector

The Technology sector on the ASX has declined c.45% from its peak



- Artificial intelligence (AI) emerged as the dominant thematic driver during the reporting season, particularly within the Technology and Digital Media sectors.
- 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.

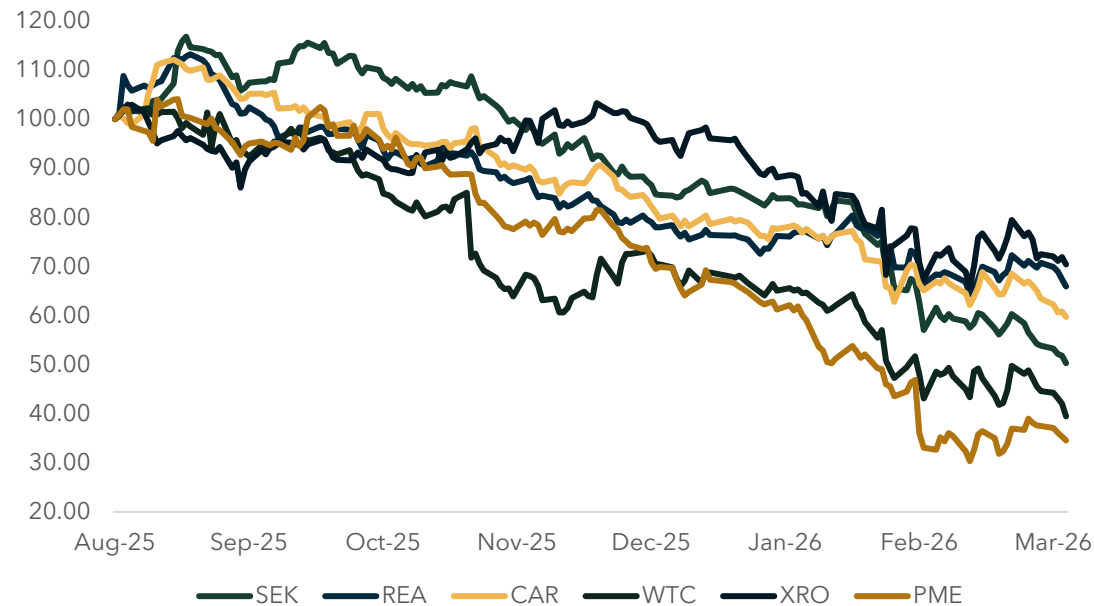
- This sharp correction suggests that investors are pricing in significant medium-term earnings risks associated with AI disruption. However, short-term earnings expectations for many technology companies remain relatively stable, and in some cases, AI-related initiatives may even support near-term growth.

Source: FactSet, iRate

Impact of AI on the Technology sector

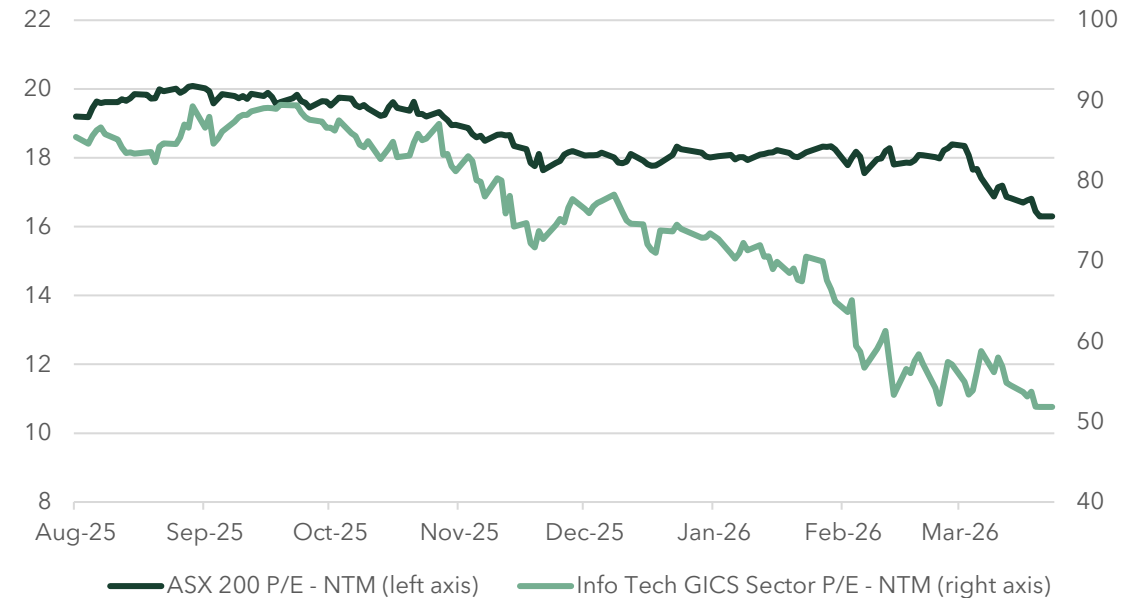
The correction has impacted many growth companies on the ASX

Forward PE ratio (Indexed to 100)



- 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.
- Growth companies within the Technology, Digital Media and Healthcare sectors have experienced a material P/E de-rating over the last six months

Forward PE ratio - ASX 200 vs Information Technology



- The Technology sector has experienced a material P/E derating, albeit absolute valuation levels still remain elevated.
- 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.

Source: FactSet, iRate

Dynamic Asset Allocation Summary – Growth

Asset Class	Outlook				Comments
	Negative	←	→	Positive	
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.

Dynamic Asset Allocation Summary – Defensive

Asset Class	Outlook Negative ← → Positive				Comments
Defensive Assets			■		We move to 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 see more risk off-shore. 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 downgrade to neutral in recognition of more modest forward looking return expectations. (Comfortable to hold but not inclined to add).
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.

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