EVIDENTIA GROUP

LIS | LONSEC INVESTMENT SOLUTIONS

EVIDENTIA PRIVATE

Implemented Portfolios

Portfolio Perspectives

July 2026

Key Messages for Investors

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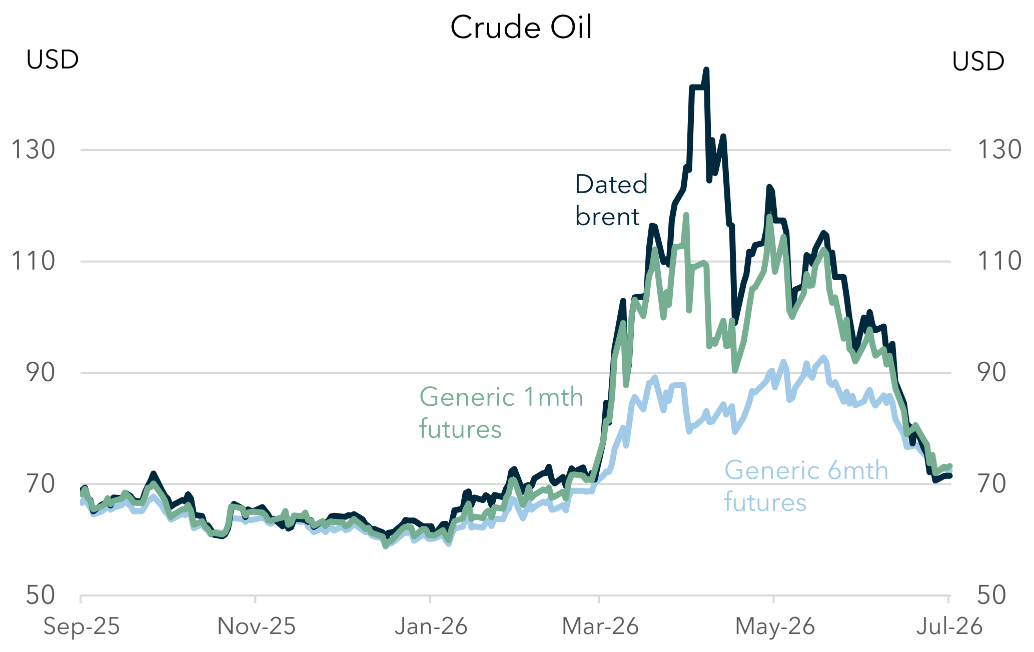
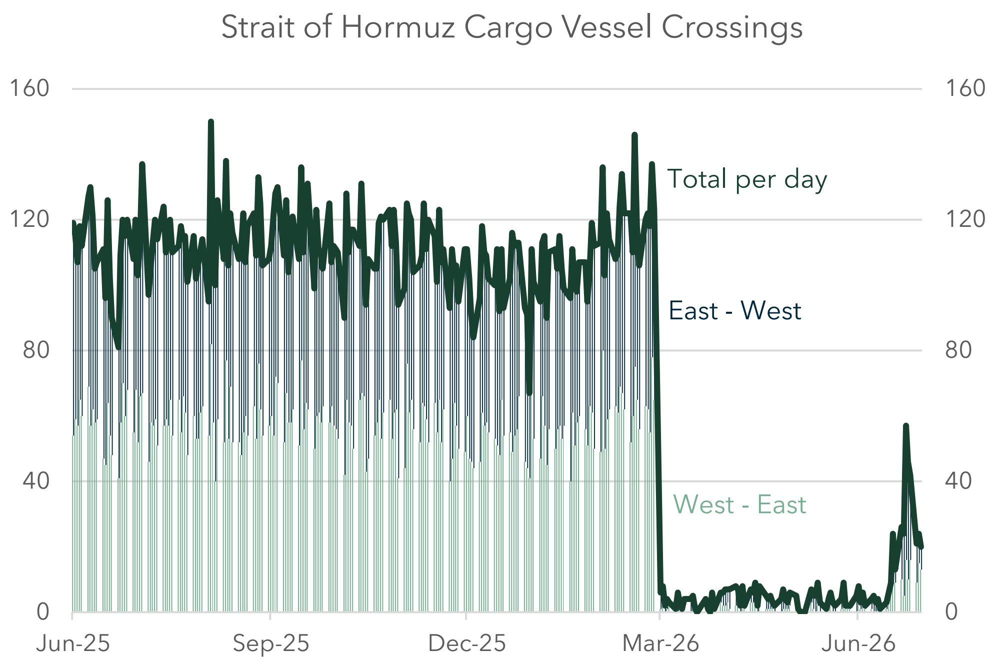
- The geopolitical backdrop has improved materially given the US and Iran have signed a peace agreement. But it is premature to conclude that energy market risks have fully dissipated.
- The US Federal Reserve has taken a hawkish tilt under new Chair Kevin Warsh and the hurdle for policy tightening in the US appears to have been lowered.
- We remain constructive on US equities while earnings momentum holds, but the margin for disappointment has narrowed.
- Australian equities continue to face a less favourable macro mix given expectations of slowing demand, a softening housing market and a still-hawkish RBA.
- We remain cautious on Australian stocks.
- Australian duration has performed well, but the valuation case has moderated and the spread to US treasuries has narrowed.

Global oil prices are lower but geopolitical risks remain



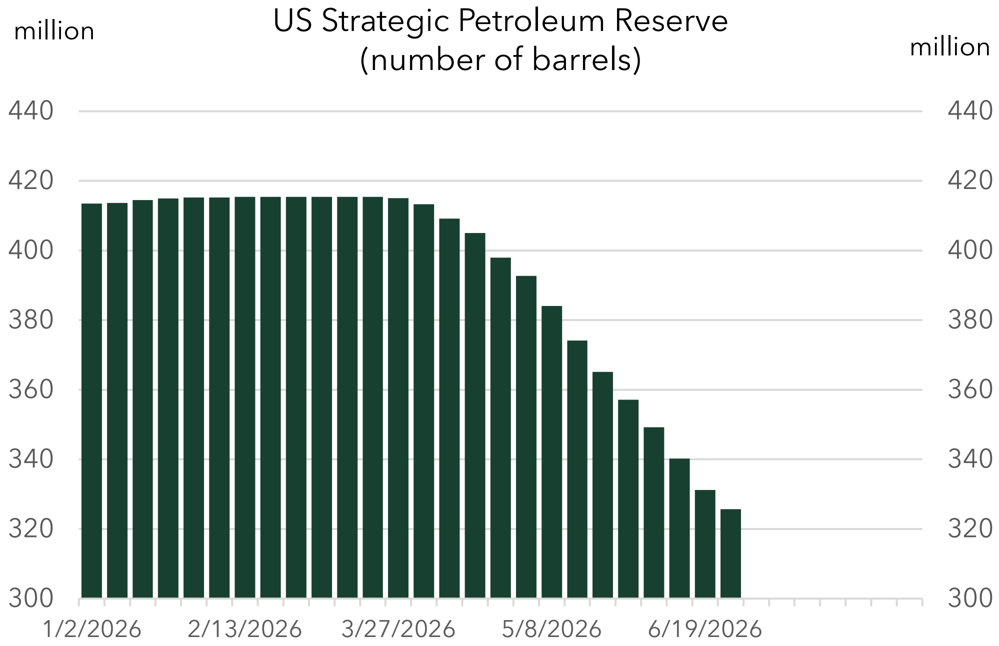


- The geopolitical backdrop has improved materially following the peace agreement signed by the US and Iran.
- Oil prices have declined considerably, reducing the risk that a sustained energy price shock feeds into global inflation.
- But it is premature to conclude that energy market risks have fully dissipated.

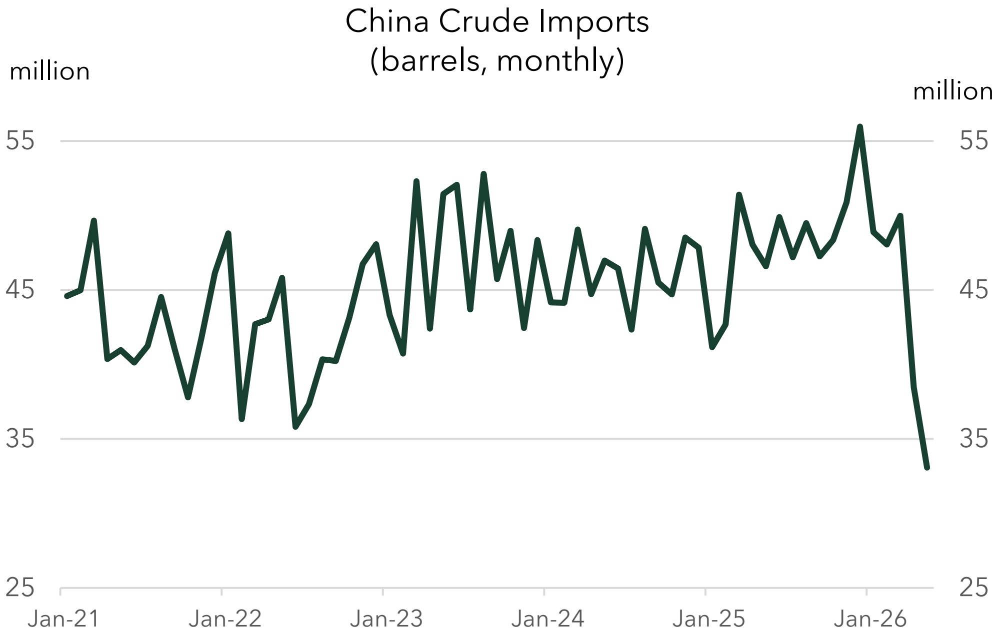
- Cargo vessels moving through the Strait of Hormuz remain well below their pre-conflict levels.
- There is significant uncertainty around shipping over the period ahead, demining operations and the extent of damage to regional energy infrastructure.

Source: Bloomberg

US strategic reserves and Chinese imports of oil both down



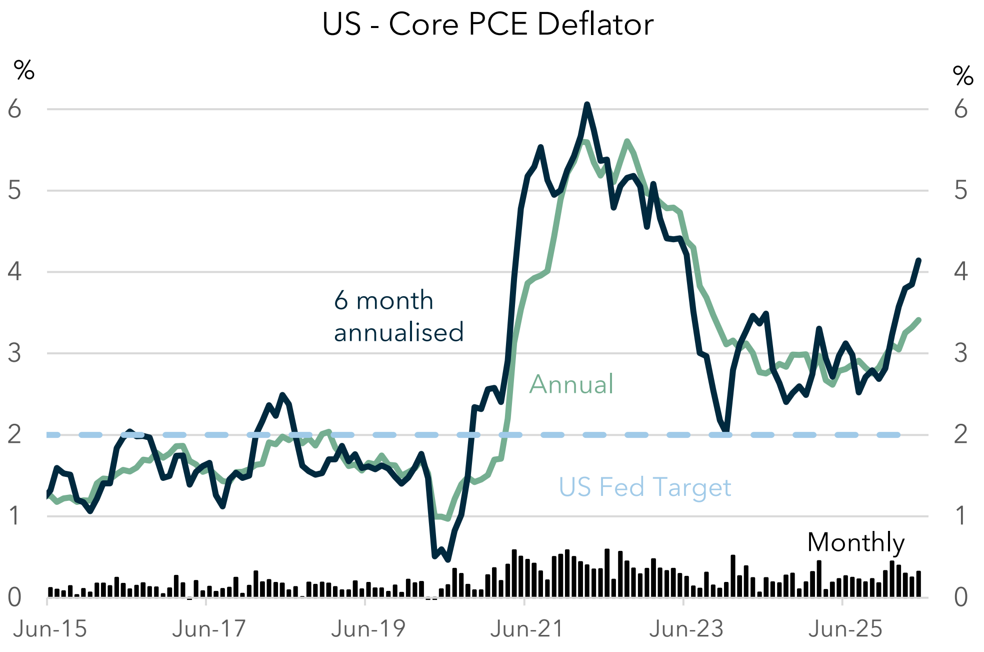
- The reduction in supply of global oil due to the conflict in the Middle East has been cushioned by a decline in the US Strategic Petroleum Reserve (SPR).
- The US SPR will need to rebuilt over time which puts upward pressure on the demand for oil.



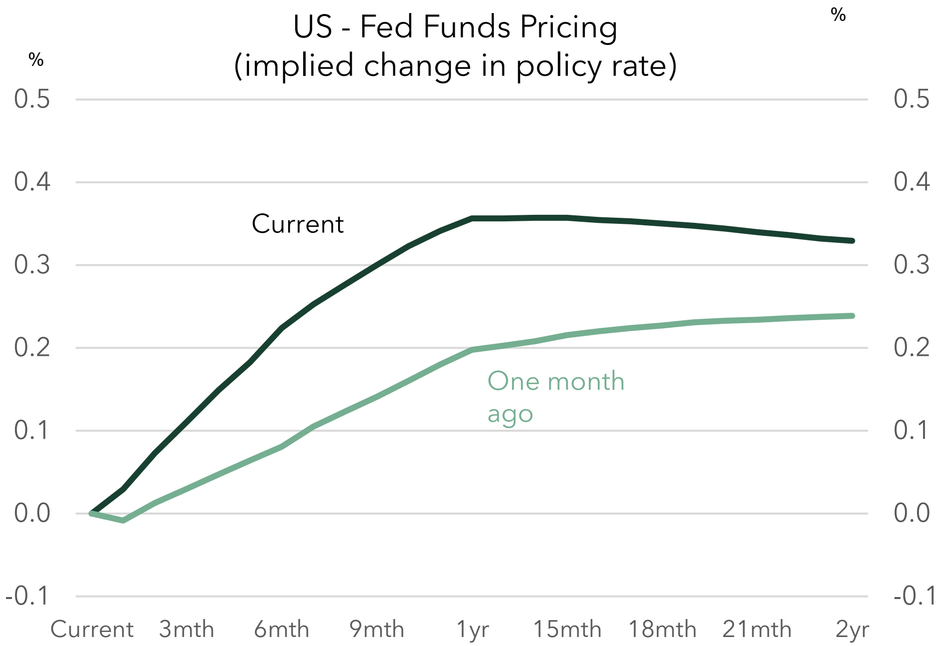
- A short term reduction in Chinese demand for oil has put downward pressure on the price of oil.
- But Chinese demand for oil will lift to more levels over the period ahead.

Source: Bloomberg

Core inflation in the US has further lifted



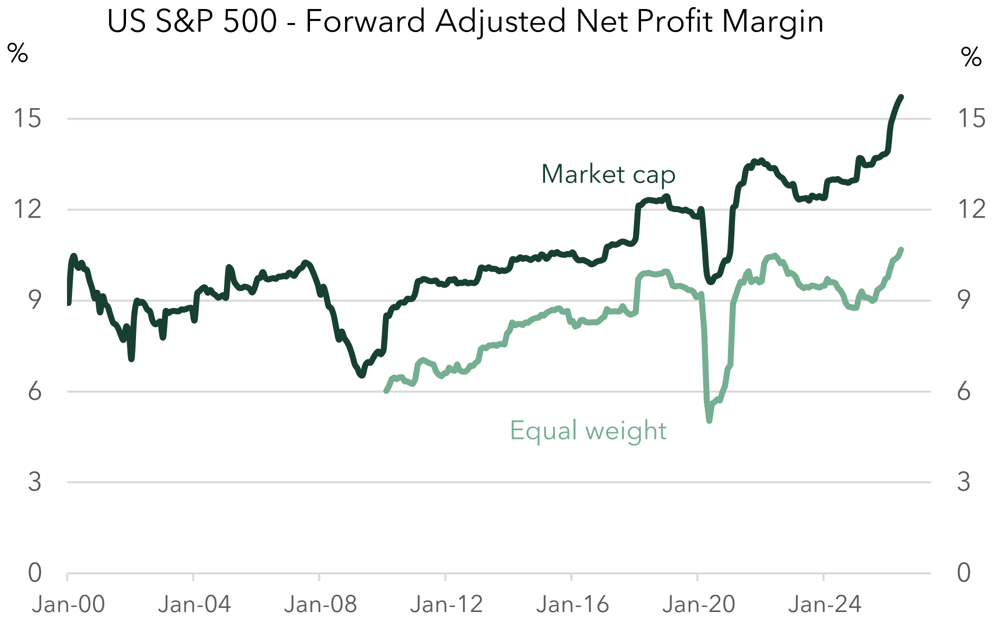
- US inflation has lifted into territory that historically concerns the Federal Reserve.
- The core PCE deflator, the Fed's preferred measure of inflation, increased to 3.4%/yr in May. And the six-month annualised pace has lifted to 4.1% (the spread between six-month annualised and the annual rate provides a useful guide on the strength of the inflation pulse).



- Market participants have assessed Warsh's resolute commitment to return inflation to the 2% target as hawkish.
- US money markets now fully price a 25bp increase in the Fed Funds rate by year-end and ~40bp of cumulative tightening over the next two years.
- US short-term interest rates have risen materially despite the decline in oil prices. And the yield curve has bear flattened.

Source: Bloomberg

US earnings momentum strong and profit margins high



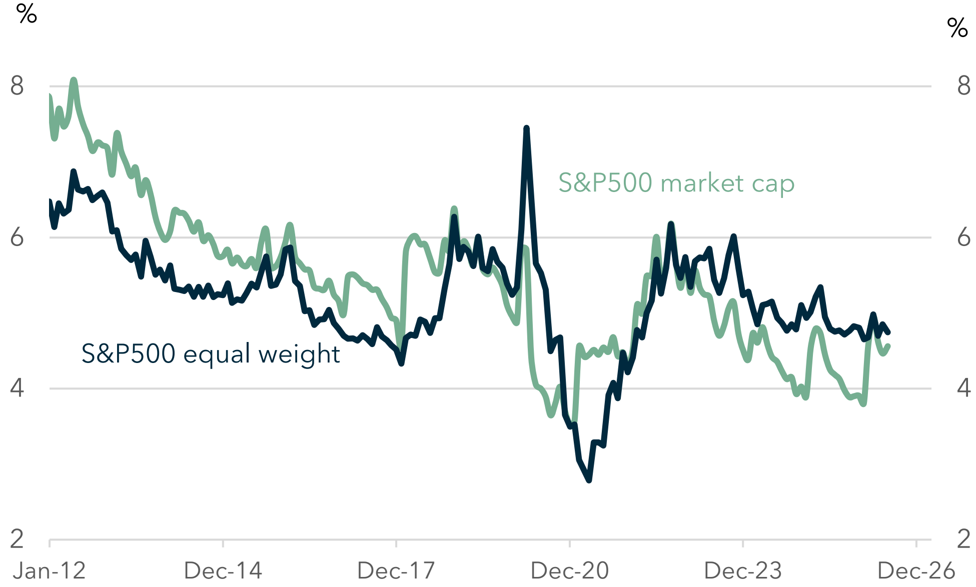
- Earnings momentum is strong in the US.
- Earnings expectations remain strongest in mega-cap technology. But AI capex spillover into utilities and industrials has supported earnings upgrades beyond IT.

- The US S&P500 net profit margin is at its highest level (Bloomberg data goes back to 2000).
- A widening spread between the profit margin of the S&P500 market cap vs the equal weight index indicates profitability has become increasingly concentrated in the largest companies.

Source: Bloomberg

Strong earnings growth offsetting higher bond yields

US Equities Forward Earnings Yield



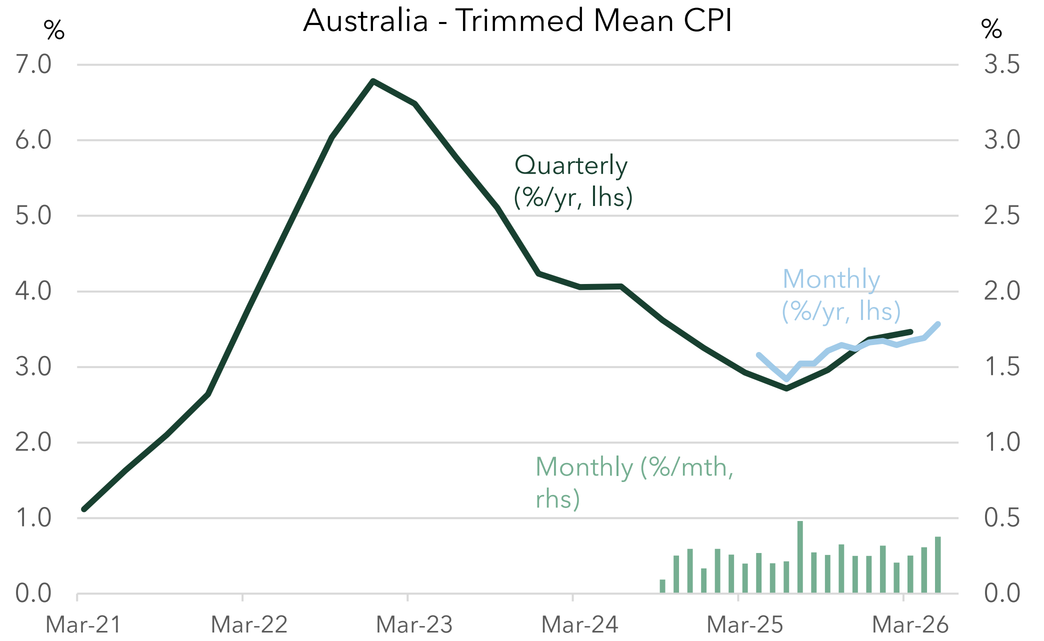
- Strong earnings expectations have offset the headwind from higher bond yields.
- Robust US economic data and a strong real economy has also supported equity valuations.

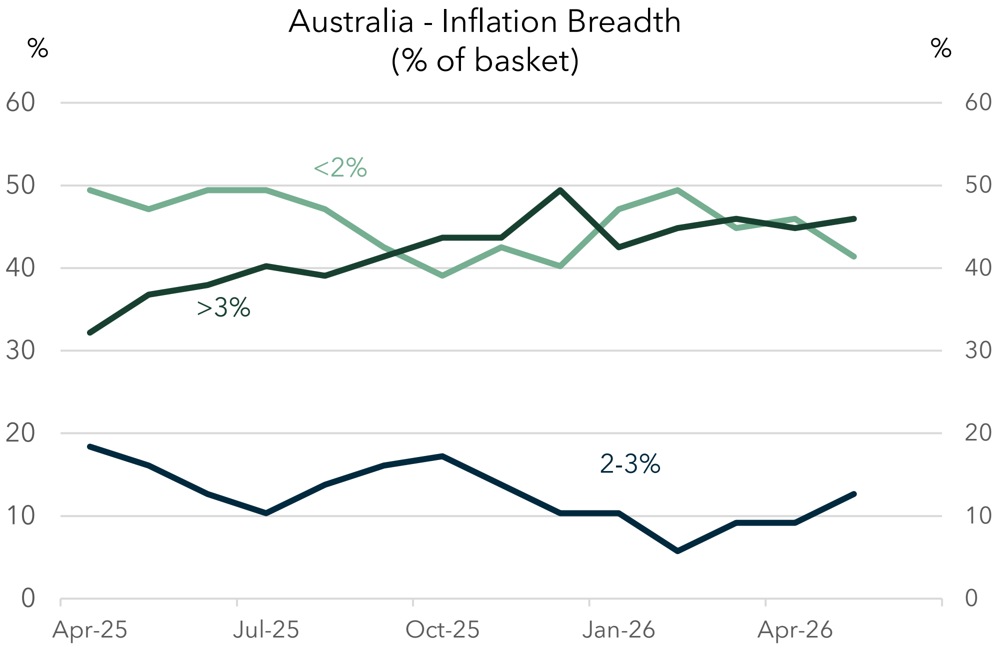
US Equity Risk Premium

- But equity risk risk premium, defined here by the 12-month S&P 500 forward earnings yield minus the 10yr Treasury yield, is at historically low levels.
- Valuation risk is elevated.

Source: Bloomberg

Underling inflation in Australia lifted in May



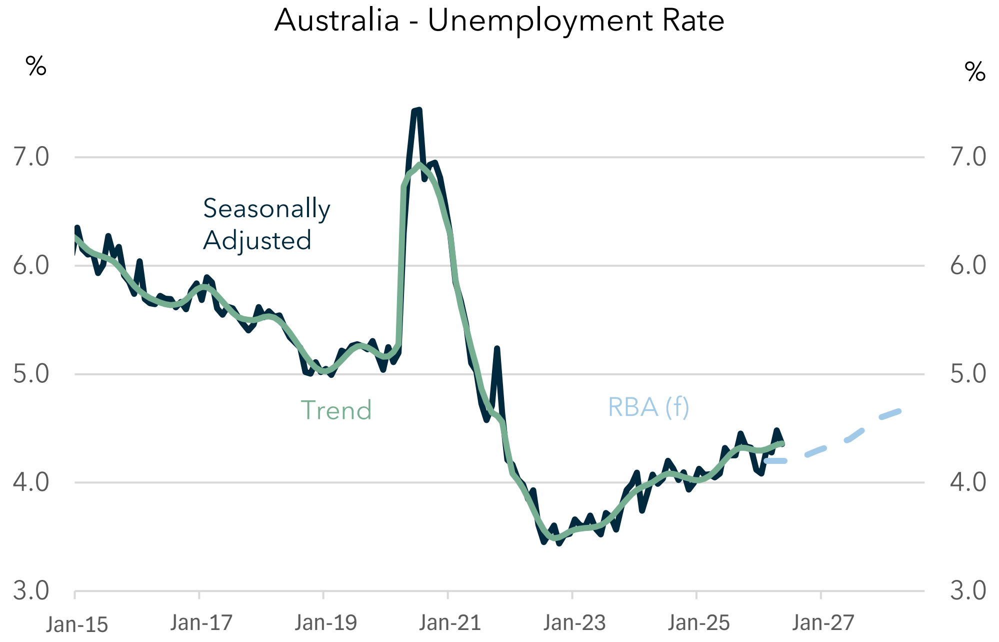


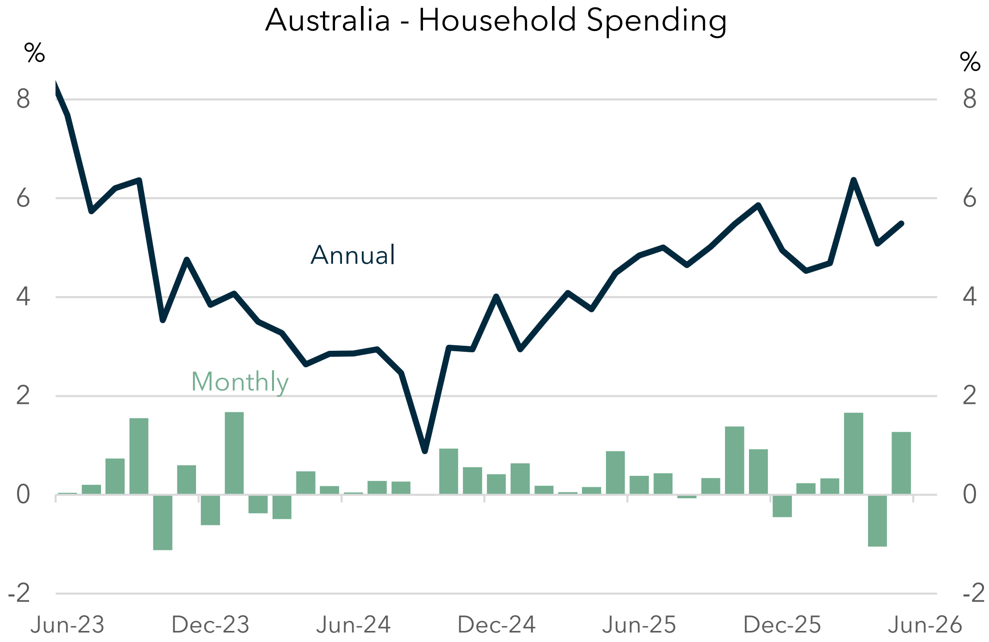
- The monthly pulse of underlying inflation accelerated in May and indicated that higher input price growth is being passed through to consumer prices.
- Trimmed mean inflation, the most important measure for the RBA, came in above analyst expectations (+0.4%/mth and 3.6%/yr).

- Inflation *breadth* has expanded.
- The share of the 87 expenditure items in the CPI basket growing at more than 3%pa has trended higher.
- The RBA will need to engineer a material slowdown in demand growth in the economy to return inflation to the target band in an acceptable timeframe

Source: ABS

Labour market and consumer spend both resilient





- The trend unemployment rate is 4.3% - it has hovered around this level since the beginning of the year.
- The RBA expects the unemployment rate to peak at 4.7%, which is the level it currently views as consistent with trimmed mean inflation returning to the midpoint of the target band.
- In other words, some labour market loosening is both expected and necessary.

- Household spending was much stronger than expected in May, rising 1.3%/mth versus consensus expectations for a 0.5% gain. The increase followed a 1.1% fall in April. This series has been particularly choppy of late. Annual growth is running at 5.5%, which is reasonably buoyant.
- Despite extremely weak consumer confidence and RBA rate hikes, spending is still running at a decent clip in nominal terms, up 1.7% on a 3m/3m basis.

Source: ABS, RBA

Dynamic Asset Allocation Summary – Growth

Asset Class	Outlook Negative ← → Positive	Comments
Growth Assets		Despite geopolitical risks, the broader macro backdrop remains supportive, particularly in the US. We recommend remaining invested in growth assets.
Australian Equities (incl. Australian Smalls)		Restrictive monetary policy is weighing on the outlook for Australian equities and earnings. Changes announced in the Budget around negative gearing and capital gains tax will slow credit growth. And elevated inflation is a key risk that could result in further RBA tightening.
Global Equities		We remain neutral global equities with strong earnings momentum offset by rich valuations. Sector opportunities within are nuanced by the risk of inflation and the question of AI disruption to business models over the medium to long term.
Emerging Markets Equities		The AI capex boom is increasingly providing a tailwind for technology-focused emerging markets, particularly those integrated into the global semiconductor supply chain.
Property		Global Listed Property valuations are attractive in comparison to global equities. The challenges on growth and supply are fading.
Infrastructure		Structural tailwinds exist leading to an expansion in the asset base. Increased capex sets the sector up for a lower dividend yield but higher growth outlook. We maintain our overweight with the view the sector has further outperformance potential.
Value vs Growth		Remain neutral, valuations on growth companies have become closer to fair, however higher rates and the AI disruption theme may provide further downside.
Quality vs Cyclical		We observe superior long-term risk adjusted returns from quality companies. The recent underperformance of quality style managers may offer an attractive entry point. An economic slowdown in Australia would see quality outperform. We remain positive Quality.
Global Small vs Large		Stay neutral. Small Caps have historically delivered strong trend EPS growth, and the recent broadening of earnings growth is supportive. A higher inflation and rates environment represents a risk, in an otherwise supportive setup for small caps.
FX Hedging (AUD view)		At 69c the AUD is near long term PPP. The AUD has fallen recently due to a relatively weaker growth outlook for Australia vs the US and narrowing in interest rate differentials. If the RBA tightens policy again it will put upward pressure on the AUD given it is not currently priced.

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Dynamic Asset Allocation Summary – Defensive

Asset Class	Outlook Negative ← → Positive					Comments
Defensive Assets						
Australian Duration (incl ILBs)						We retain a slight overweight in Australian duration as it provides portfolio protection if growth weakens, but the valuation case is less compelling than it was when the 10-year yield was near 5%.
Global Duration (incl. TIPS)						Once AUD hedging is included, the all in yield on global fixed income has become attractive at a YTM greater than 5.0%. While risks remain for global inflation volatility and lack of fiscal discipline a concern, current yields offer fair compensation for these risks. We are neutral.
Australian IG Credit						Credit spreads remain tight. Excess returns are at the lower end of historical ranges. We remain neutral in recognition of more modest forward looking return expectations.
Global IG Credit						Global spreads remain at extremely tight levels. We acknowledge less 'spread risk' in IG compared to High Yield and therefore are comfortable to remain at neutral.
Global High Yield Credit						High yield credit spreads are at near all time lows. Historically at spreads this tight, high yield bonds have underperformed cash in the following 1-2 year period.
Absolute Return (Fixed Income)						With cash rates and bond yields above multi-decade averages, we see less need to pursue returns via absolute return strategies.
Cash and Enhanced Cash						Cash can serve as a useful short term tactical defensive exposure while credit spreads are tight.