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Implemented Portfolios

# Portfolio Perspectives

August 2026

# Key Messages for Investors

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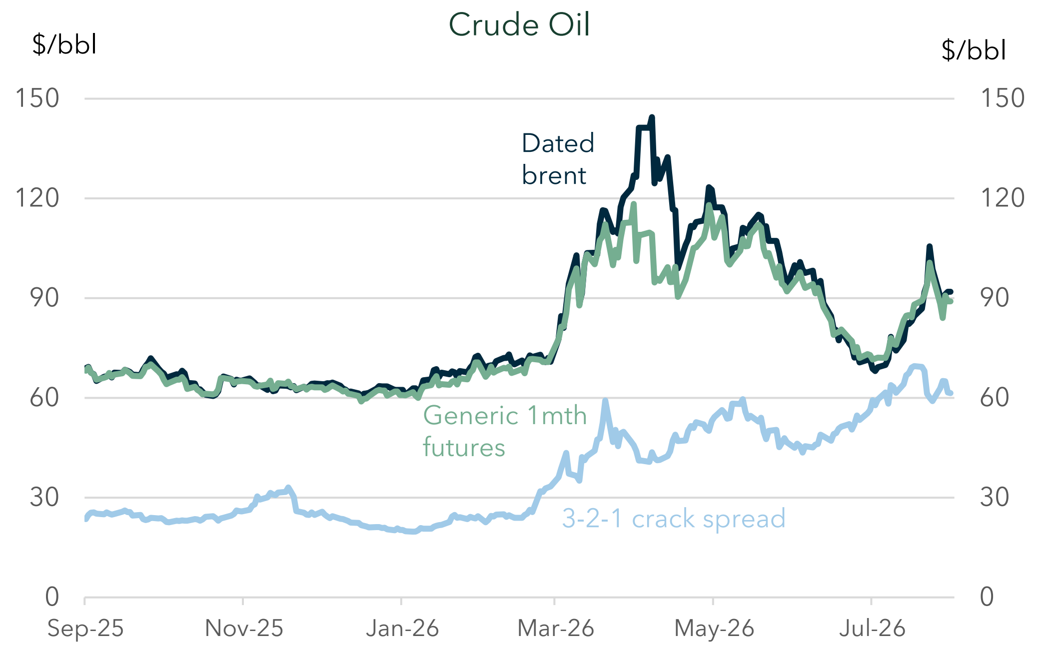
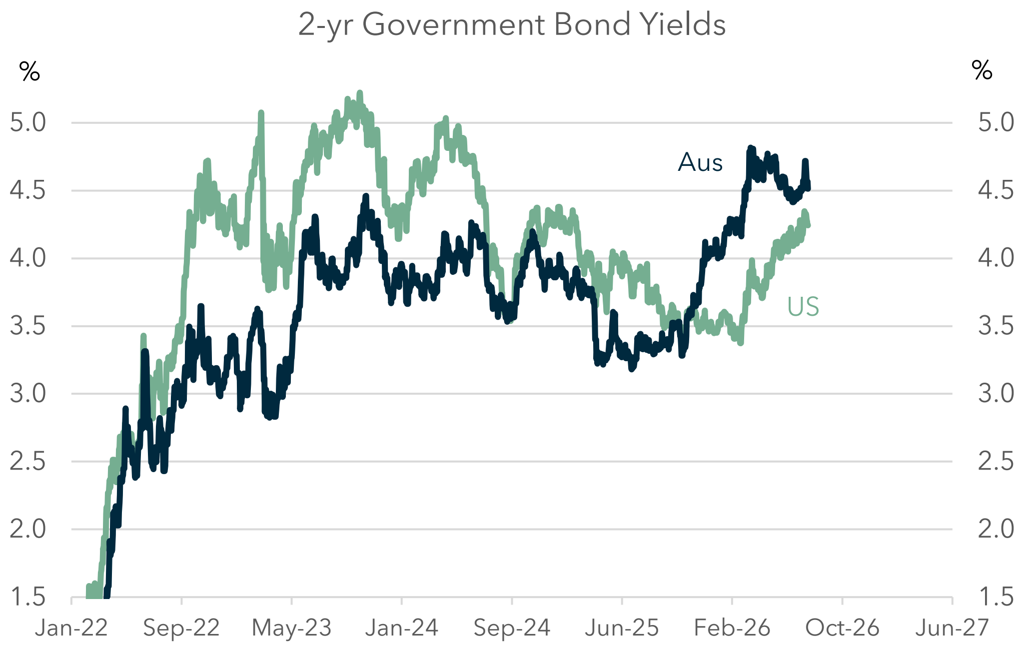
- The fluid geopolitical backdrop due to the ongoing US-Iran conflict is complicating the outlook for inflation, growth and monetary policy.
- Global equity investors are largely looking through the events in the Middle East, given the much bigger medium term thematic of AI capex. We maintain a balanced exposure to US equities.
- US earnings are growing a lot faster than nominal GDP growth would normally imply due to AI capex. Expect larger swings in EPS than the macro backdrop would normally produce. But a sharp slowdown in earnings growth would not, on its own, signal a softening economy.
- Headwinds remain domestically and we retain our cautious stance on Australian equities. That is a view based primarily on the outlook for the macro economy.
- The sharp rally in emerging market equities over an extended period removed the valuation case for an overweight without creating one for an underweight. We move back to neutral.

# Geopolitical risks remain elevated and bond yields have risen



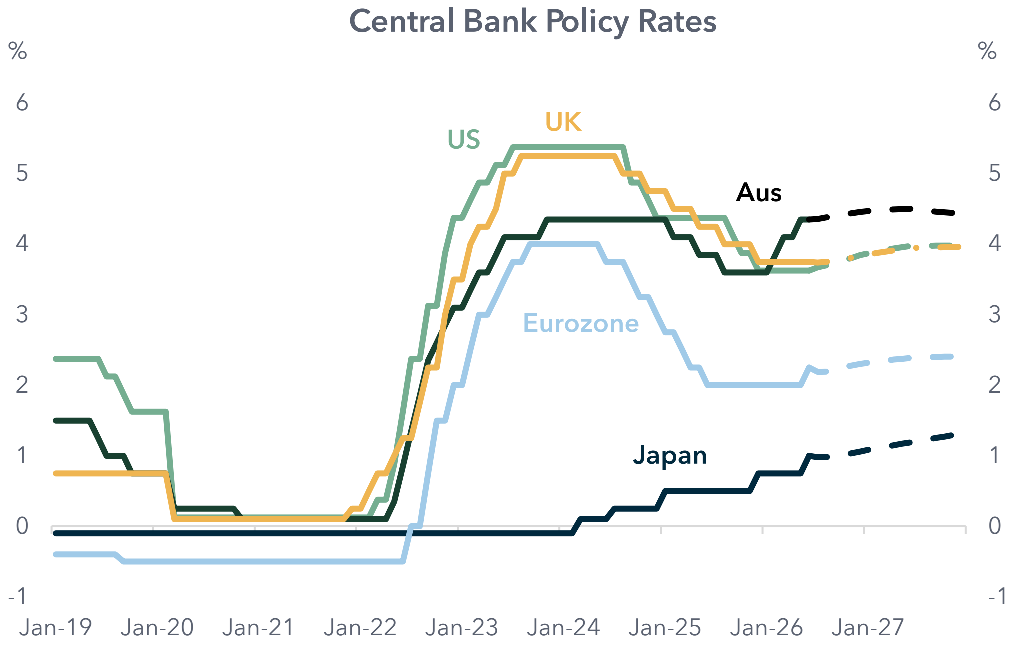



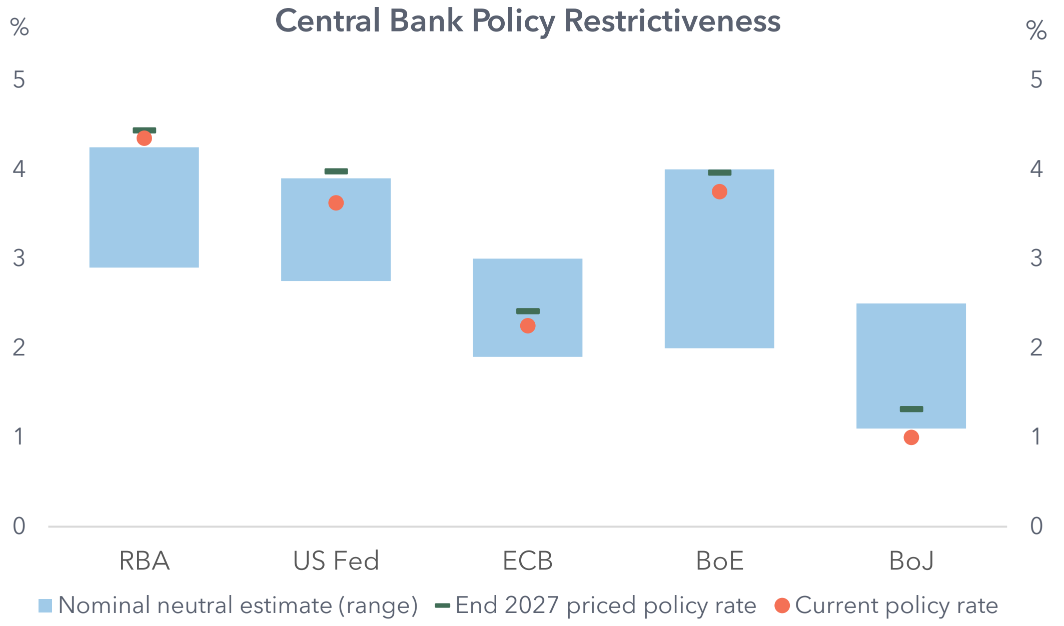

- Oil prices continue to be volatile. Brent was trading in the low US$70s/bbl in early July but is significantly higher at ~US$90/bbl currently.
- Higher refiner margins, proxied by the crack spread, will put further upward pressure on fuel prices for consumers and businesses.

- US bonds yields have risen on both higher oil prices and firmer domestic inflation.
- The spread between short term bond yields in Australia and the US has narrowed as market expectations for the policy rates of the RBA and US Federal Reserve evolve.
- Higher bond yields are a headwind for equities.

Source: Bloomberg

# Markets price a small amount of tightening



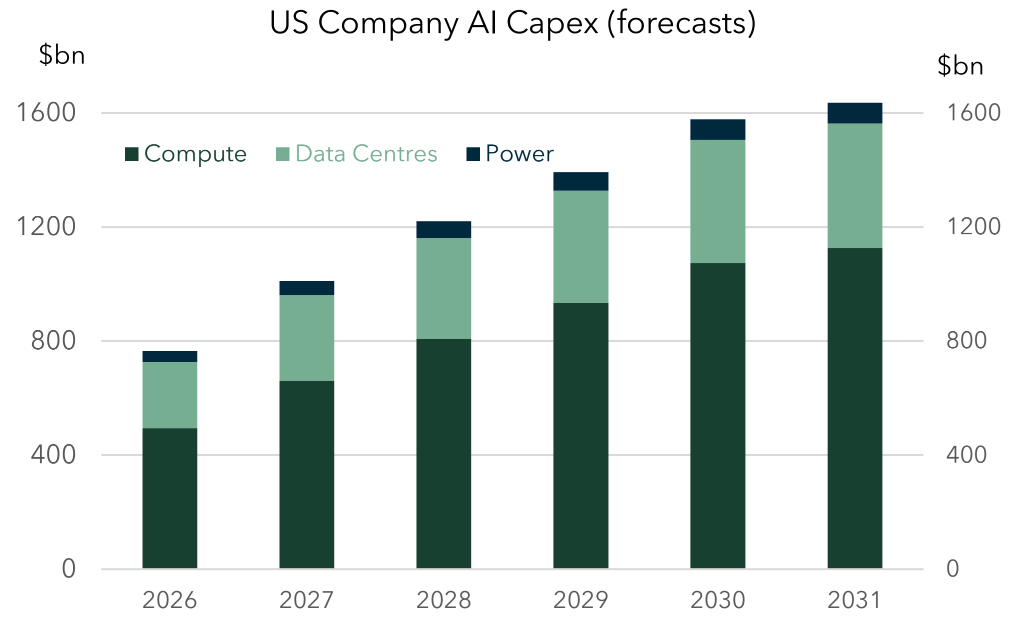



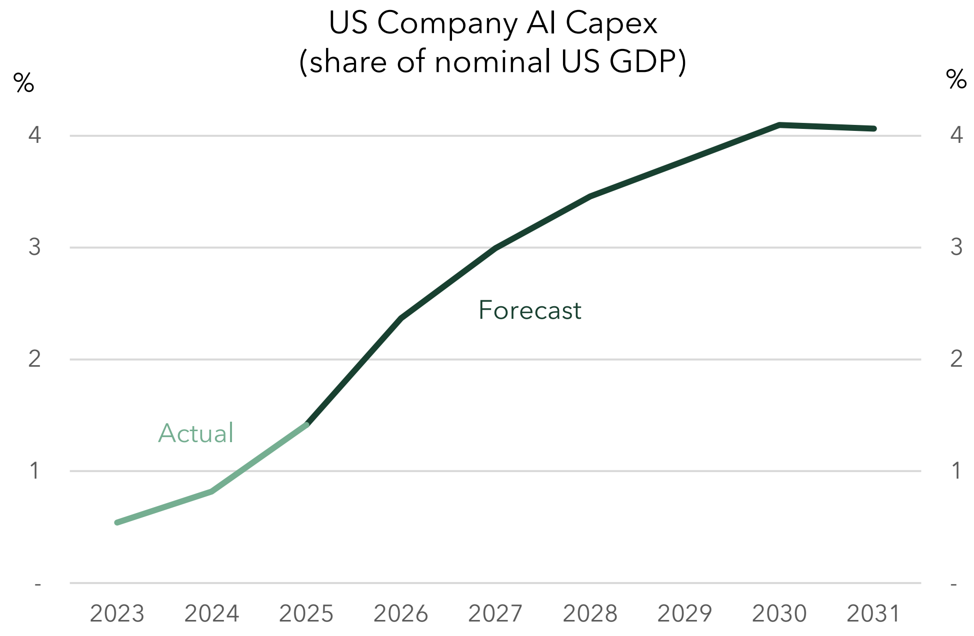

- A small amount of monetary policy tightening is priced for most major central banks.
- Recent central bank communication continues to emphasise upside inflation risks.

- Monetary policy is priced by the markets to be the most restrictive in Australia.
- The RBA needs a period of restrictive policy to get inflation down. The risk is that the RBA may need to further tighten monetary policy to achieve its inflation objective.

Source: Bloomberg, RBA

# Big pipeline of AI capex to come



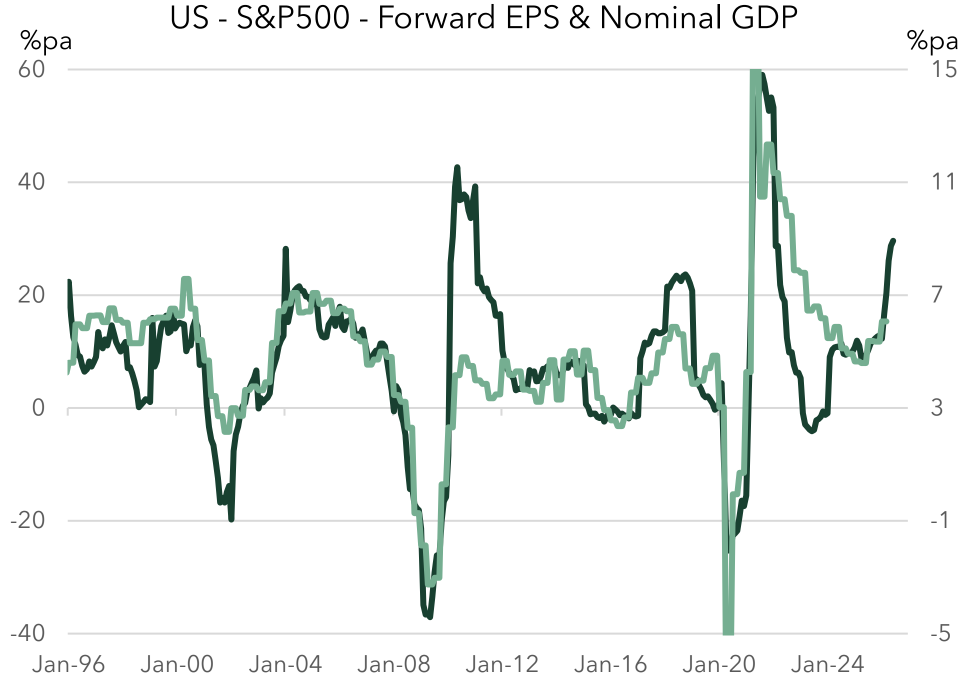




- The amount of AI capex to come is very significant and will generate several positive spillovers (commodity and labour demand near term, productivity longer term).
- But from an earnings perspective the impulse fades as the growth in capex slows.

- AI-related capex is forecast to grow to ~4% of GDP in the US over coming years.
- AI-related capex is likely to be inflationary in the short run but disinflationary in the long run.

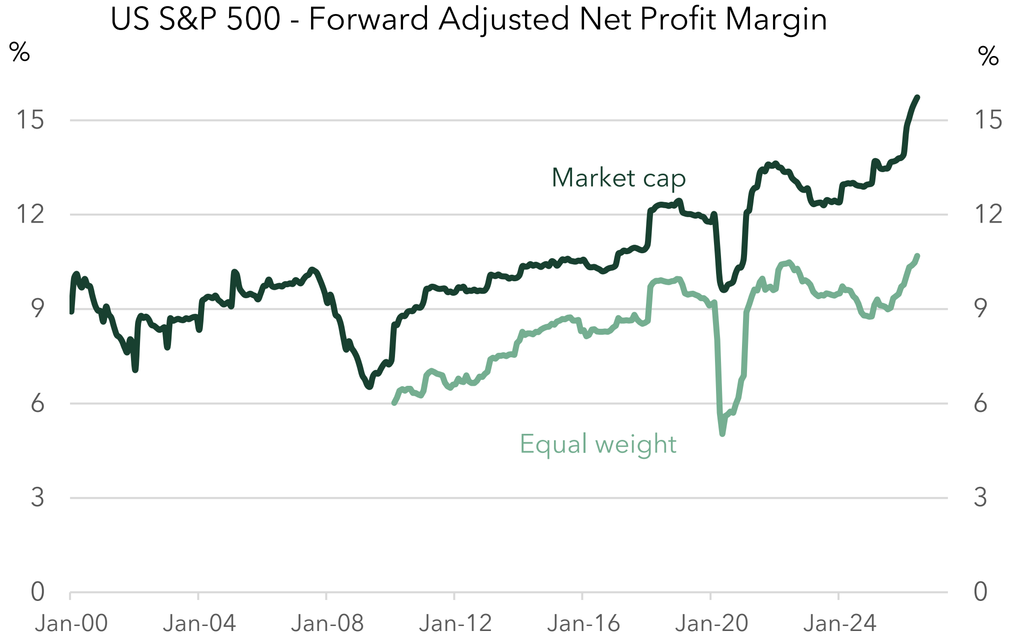
Source: Bloomberg, Goldman Sachs, Evidentia

# US earnings growth has been pushed higher by AI capex




- US earnings are growing a lot faster than nominal GDP growth would normally imply.
- The strength in earnings growth is real, but an unusual dynamic around AI capex has propelled earnings growth to a rate we expect to slow before the capex cycle peaks.

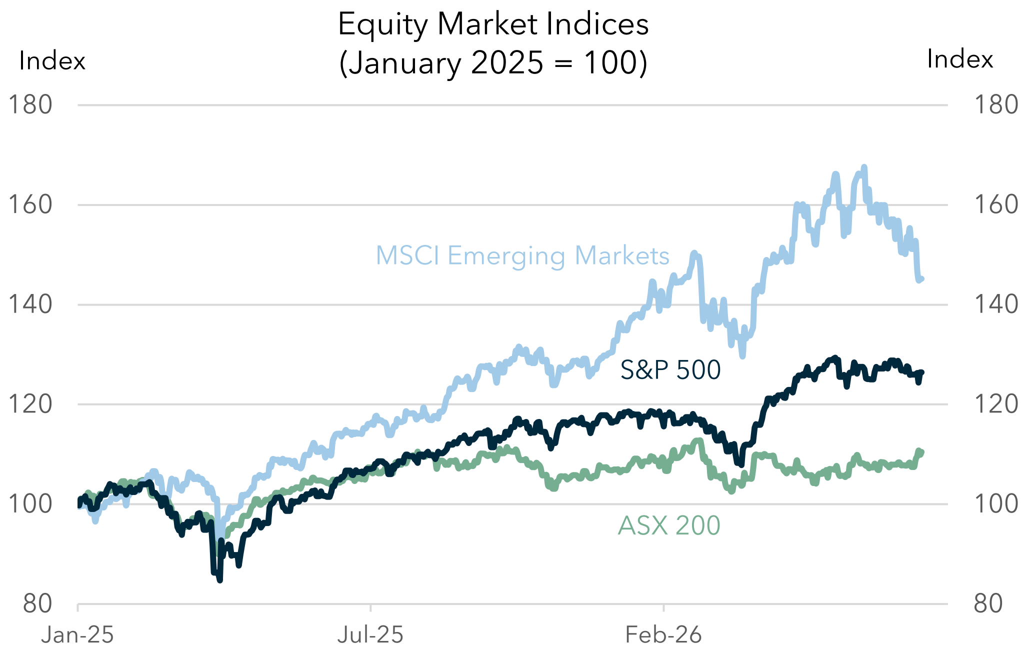
Source: Bloomberg



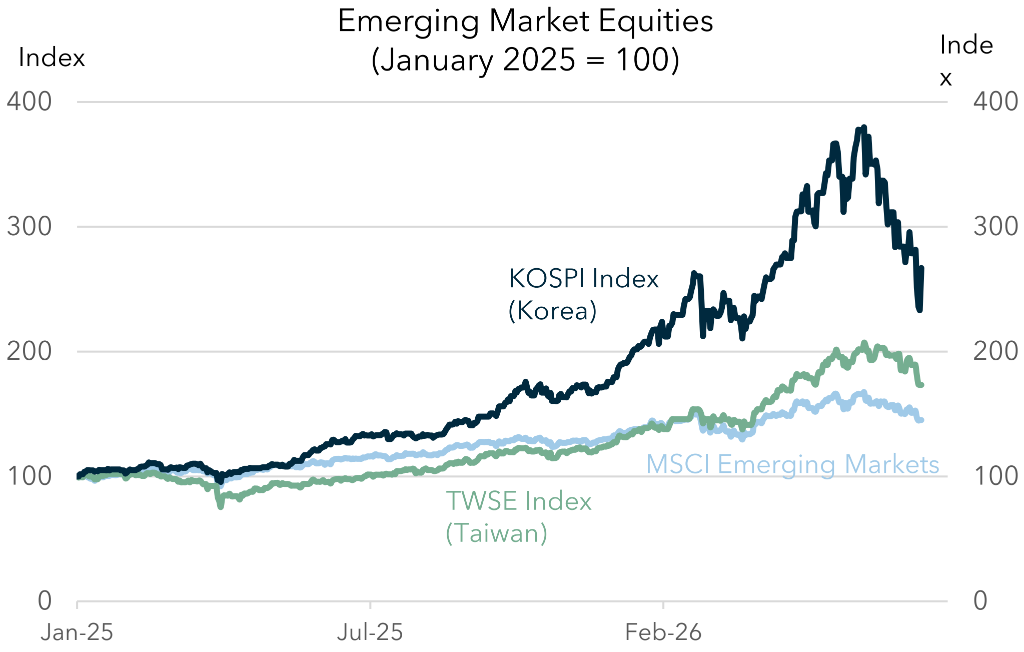

- Margin expansion has been propelled to record highs due to AI capex.
- A widening spread between the profit margin of the S&P500 market cap vs the equal weight index captures the faster rate of margin expansion in big tech companies.

Source: Bloomberg

# Emerging market equities now heavily exposed to AI




- Emerging market equities have significantly outperformed over an extended period due to a huge lift in tech-related stocks. But July was a poor month in large part due to a big sell-off in Korean tech-related stocks.
- We no longer see the valuation case for overweight without creating one for an underweight.

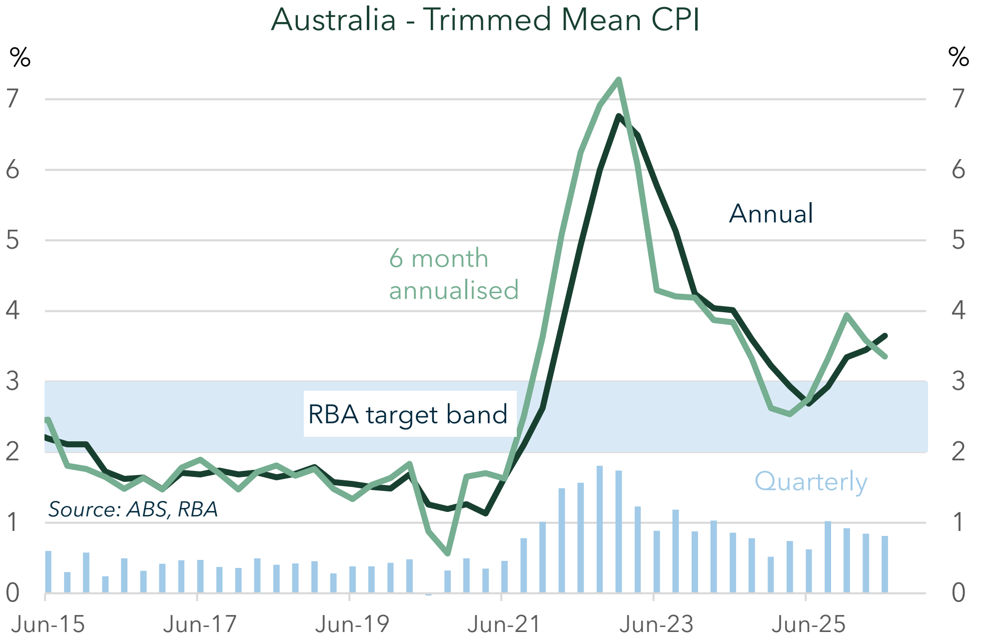


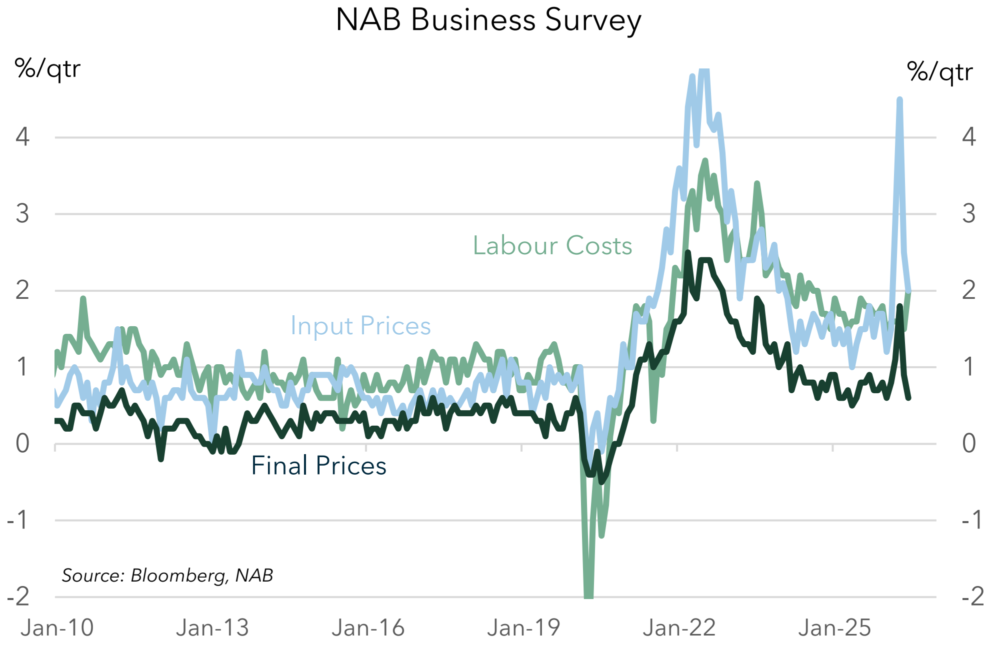

- The rally in emerging market equities has overwhelmingly been an AI semiconductor story.
- Taiwan and Korea have both overtaken China to become the two largest markets in the index and together account for just over half of it.
- Korean equities have recently come under pressure.

Source: Bloomberg

Source: Bloomberg

# Inflation is still firm in Australia



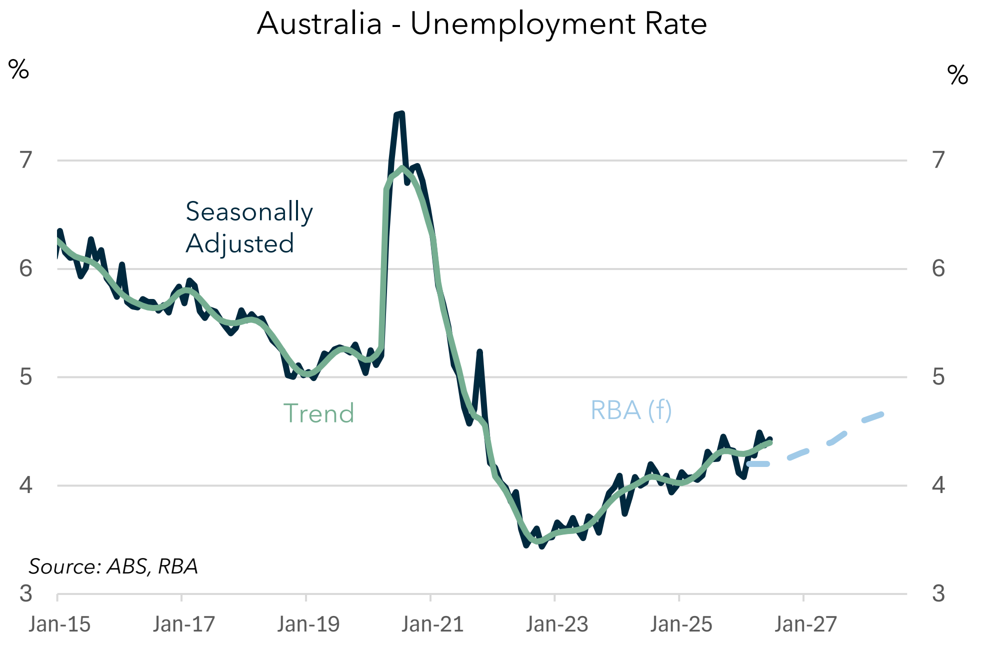



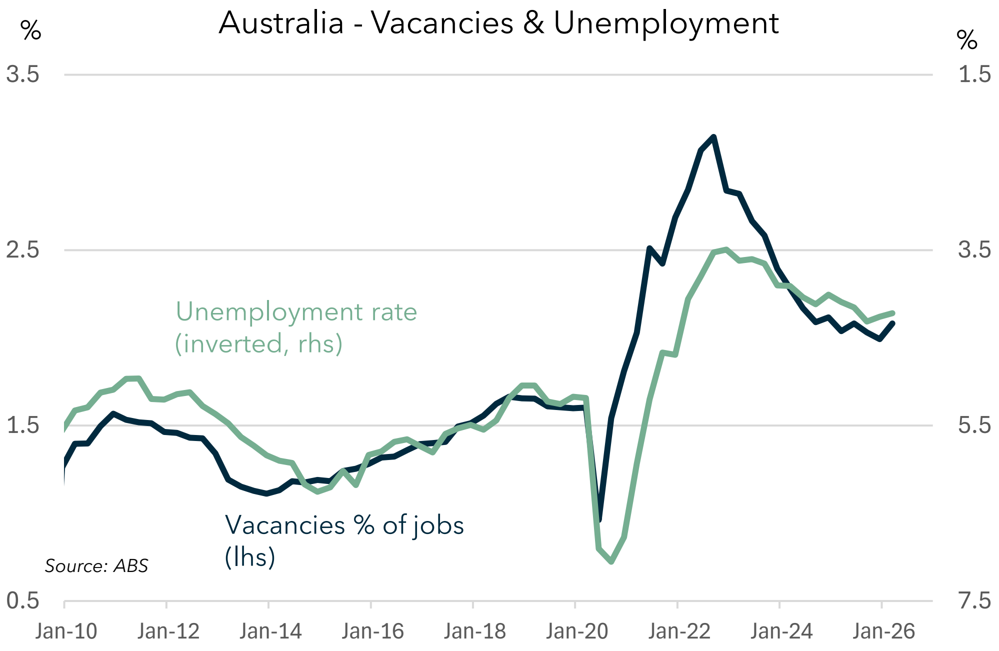

- Recent inflation data in Australia came in a little below market expectations and means the RBA is likely to leave the cash rate unchanged in August.
- But the rate of underlying inflation is still firm and inconsistent with the RBA's target.

- Upstream price pressures remain firm and growth in labour costs will be impacted by the FWC decision to lift the minimum and award wage by 4.75% from 1 July 2026.

Source: ABS, RBA, NAB

# RBA trying to loosen the labour market



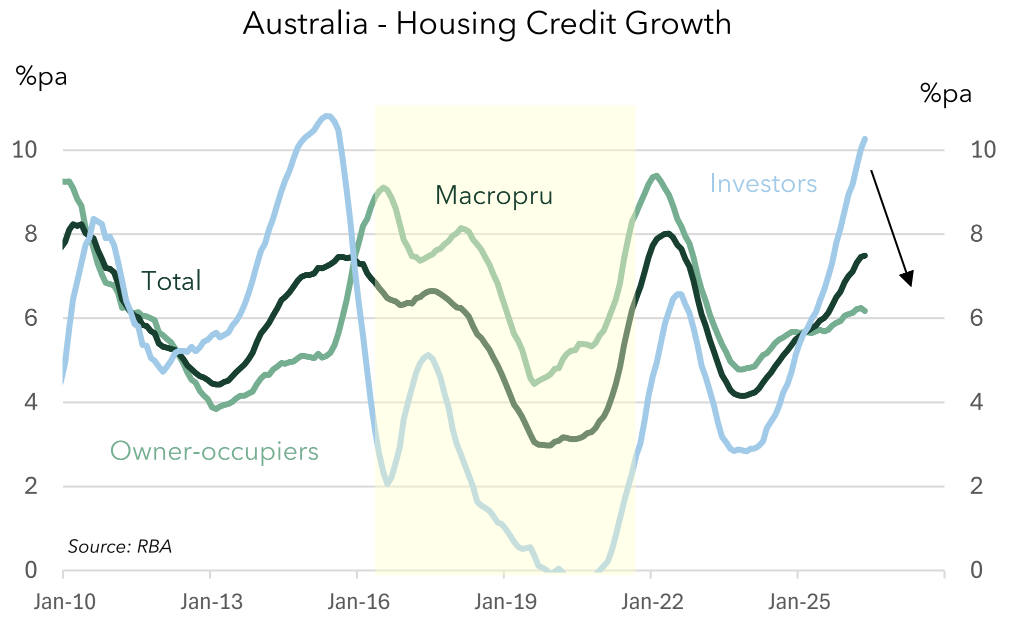



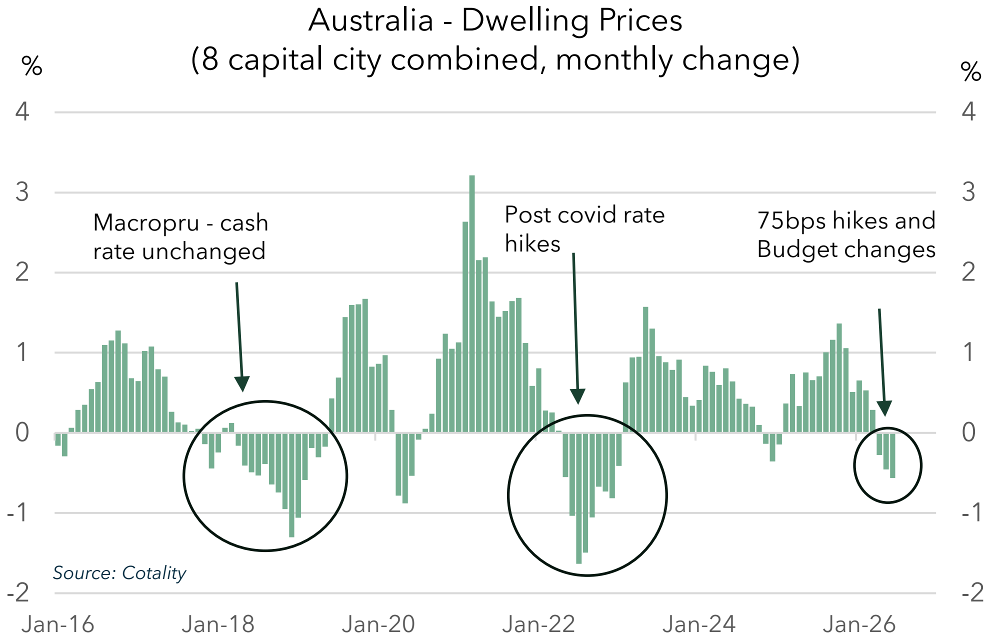

- The RBA expects unemployment to rise to around 4.7%, which it currently views as consistent with underlying inflation returning to target.
- In other words, some labour market loosening is both expected and necessary.

- The labour market remains tight across a range of indicators.
- Job vacancies as a share of employment are still elevated.

Source: ABS, RBA

# Credit growth to soften and home prices lower




- The reforms announced in the Budget around negative gearing and capital gains tax are expected to materially reduce investor demand for housing credit.
- Lower credit growth weighs on bank earnings.

- Home prices are falling and further declines are expected in H2 26.
- Periods of declining dwelling prices are not uncommon. The RBA is unlikely to be concerned about an orderly correction in dwelling prices.

Source: RBA, Cotality

# Dynamic Asset Allocation Summary – Growth

| Asset Class | Outlook<br>Negative ← → Positive | | | | | Comments |
|---|---|---|---|---|---|---|
| **Growth Assets** | | | | | | The strength of earnings growth and the increasing demand created by the AI CAPEX boom are supportive of growth assets. We recommend remaining invested in growth assets in line with long term strategy. |
| 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 | | | | | | We moved overweight in October 2025 acknowledging the AI capex boom as an opportunity for technology-focused emerging markets, particularly those integrated into the global semiconductor supply chain. This has now played out and take profits as memory and chip prices hit extremes. |
| 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. Driving value vs growth is the AI trade, with CapEx being spent by the hyper-scalers, and being received by the memory and chip producers, datacentre construction, critical minerals, and many other industries. Also remain neutral to Evidentia's AI Risk Measure. |
| 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 | | | | | | 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. We recommend a modest exposure – depending on your SAA this may involve a modest overweight or neutral position. |
| FX Hedging (AUD view) | | | | | | At 70c 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. We expect medium term cash rate differentials to continue to fall based on our view of a weaker Australian economy, which would put further downward pressure on the AUD/USD. We remain neutral but with increasing caution. |

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# Dynamic Asset Allocation Summary – Defensive

| Asset Class | Outlook<br>Negative ← → Positive | | | | | Comments |
|---|---|---|---|---|---|---|
| **Defensive Assets** | | | | | | |
| Australian Duration (incl ILBs) | | | | | | We recommend an overweight in Australian duration as it provides portfolio protection if our view of weaker growth plays out. |
| 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 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. |

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