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LIS LONSEC INVESTMENT SOLUTIONS EVIDENTIA PRIVATE Implemented Portfolios

Portfolio Perspectives

September 2026

Key Messages for Investors

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- Aggregate FY26 earnings growth for the ASX came in at approximately 11%, ahead of both pre-season expectations and the low single-digit growth recorded over the prior three years.
- Resources contributed disproportionately to profit growth, aided by higher commodity prices; earnings growth across the rest of the market was considerably more modest.
- The earnings beat was driven by margins and cost-out rather than sales growth.
- Consumers are still spending but increasingly selective; June and July trading updates point to a slowdown in discretionary sales growth heading into FY27.
- Balance sheets remain a source of strength: capital management was well received by the market, and M&A activity picked up materially across the market.
- Consensus FY27 earnings growth has been downgraded around 3.6% since the start of the financial year to approximately 6.7%, and with the market trading on an 18x forward multiple against a 16x long run average, earnings delivery needs to do the work from here.
- 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.

Reporting Season Summary

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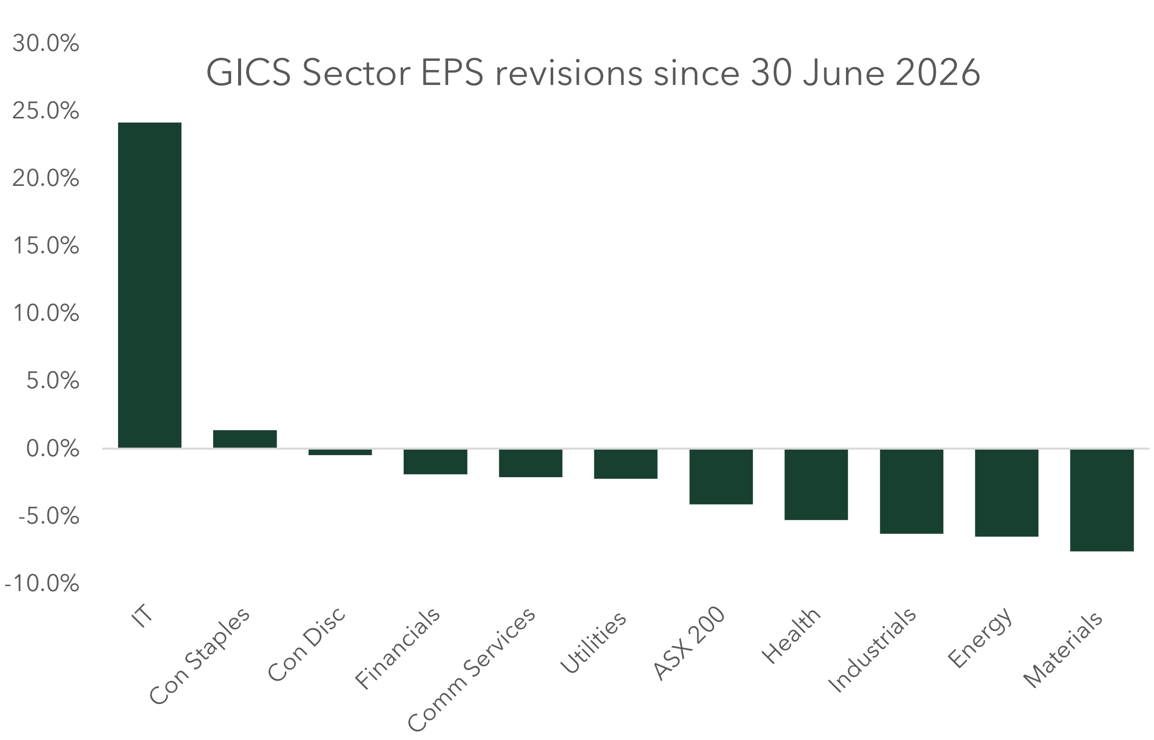
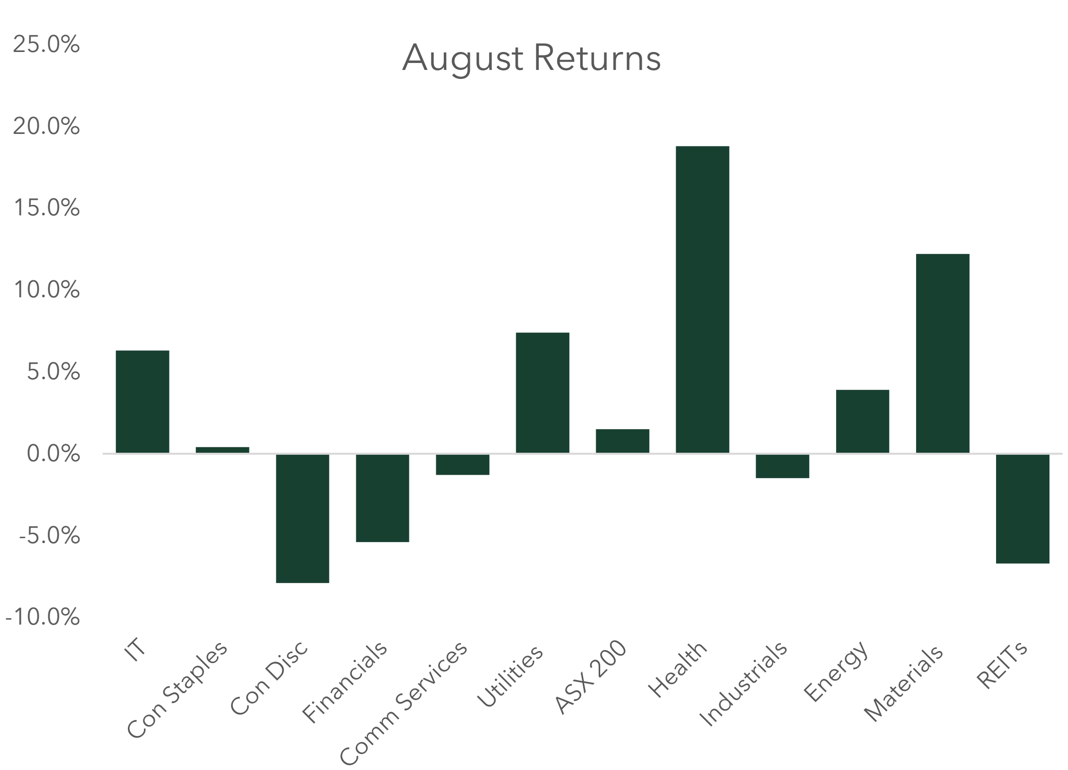


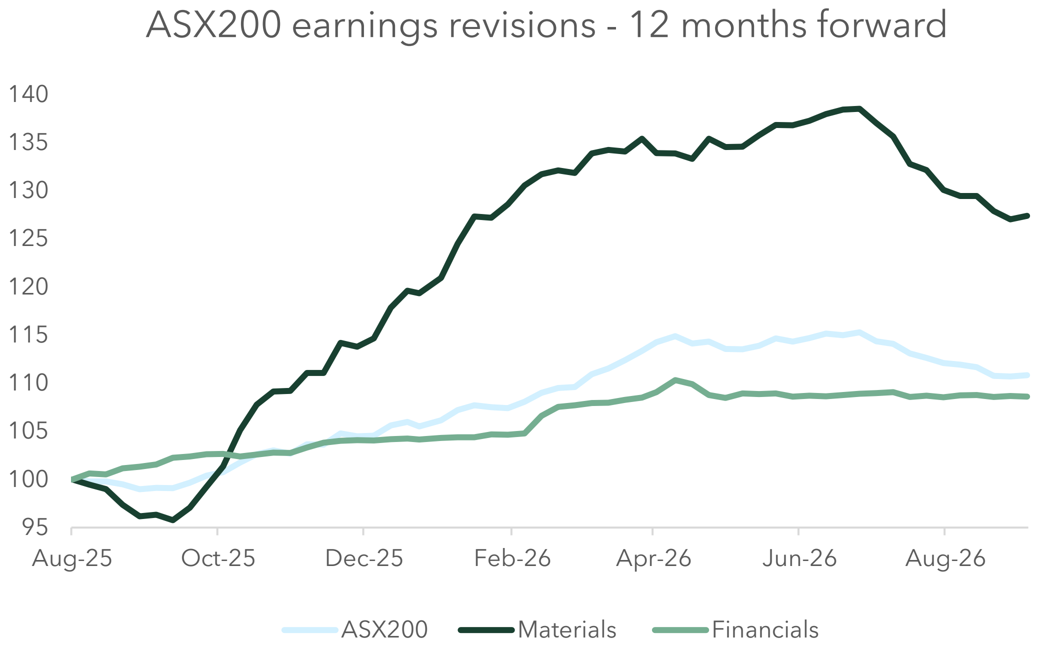


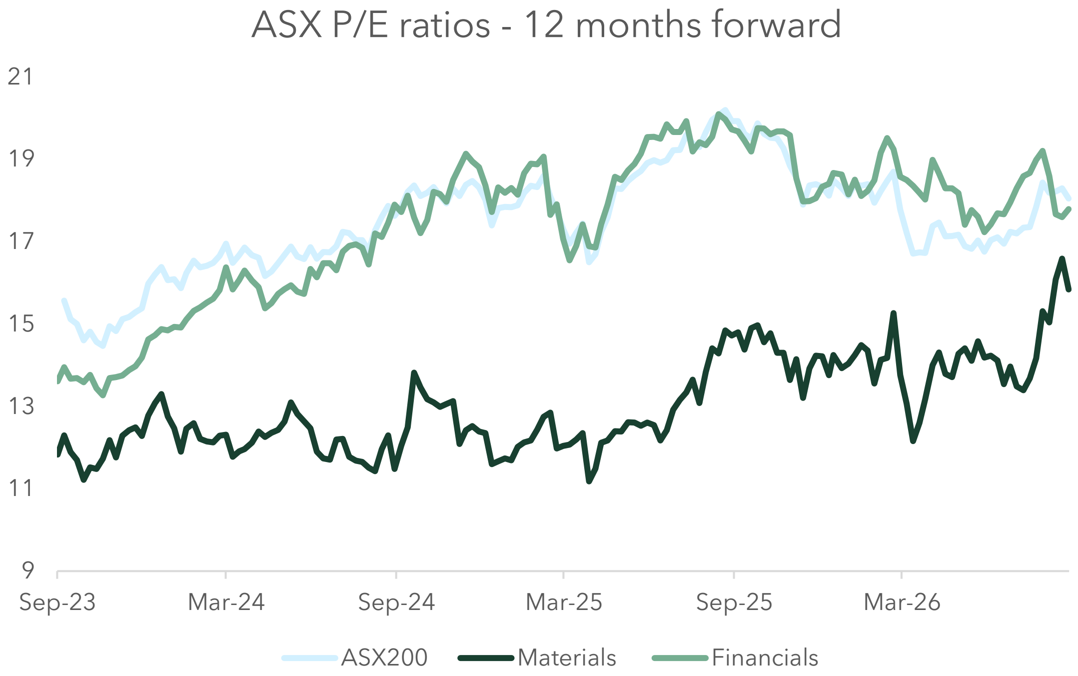
- FY27 consensus earnings for the ASX 200 have been cut ~3.6% since 30 June
- Materials and Energy led the downgrades on more conservative commodity price assumptions.
- IT is the exception, upgraded ~24% after the AI-linked cuts earlier in the year.

Source: Factset, iRate, Evidentia Group estimates

- The ASX 200 returned 1.5% in August, with sector performance widely dispersed.
- Health Care led at 18.8% on a strong CSL result; Materials advanced 12.2% on higher commodity prices (ex-iron ore).
- Consumer Discretionary, REITs and Financials lagged, consistent with a more selective consumer and softening housing outlook.

Australian Equities: Materials Driving EPS



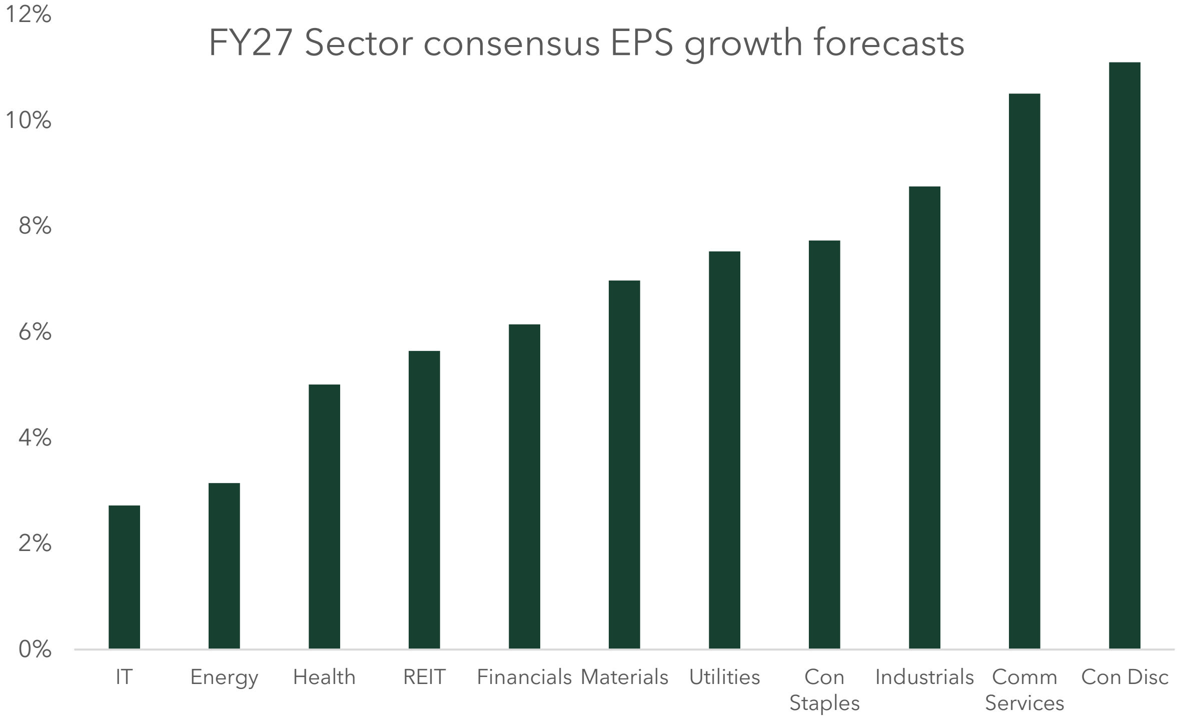


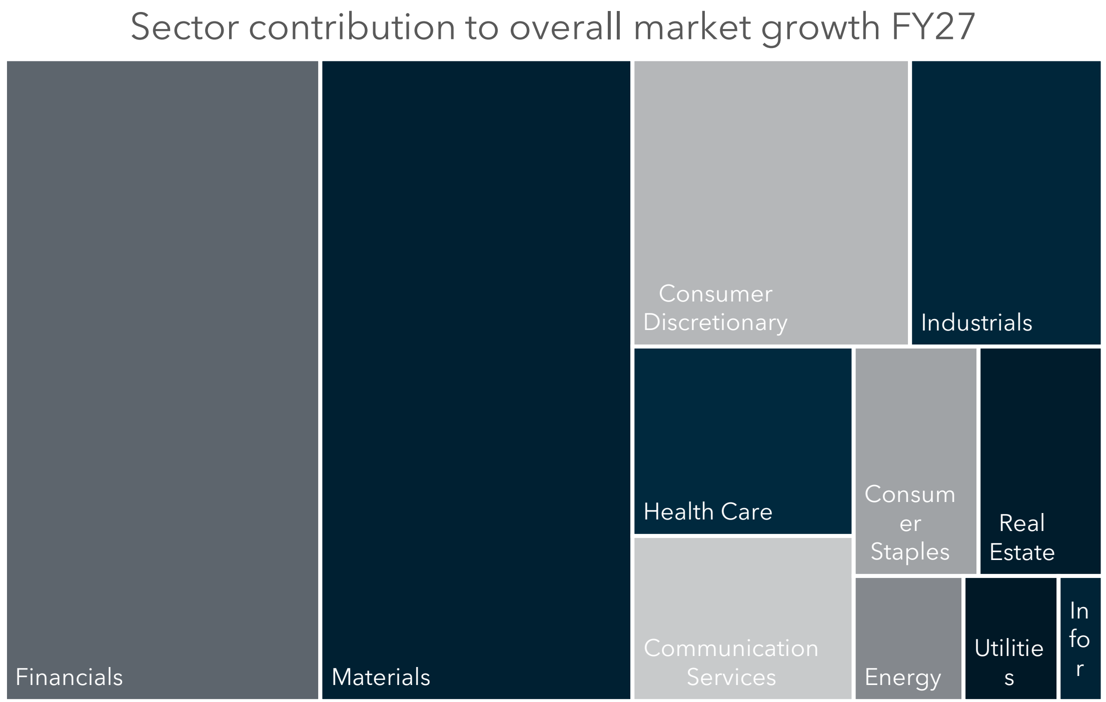
- Consensus FY27 earnings growth has been downgraded around 3.6% since the start of the financial year to approximately 6.7%,
- This has been led by downgrades within the Resources and Energy sectors.
- Bank earnings have held near their highs rather than following resources lower.

- Valuations remain elevated, with the market trading on a forward price-to-earnings multiple of 18x, above its long-term average of 16x.
- Financials have de-rated from their highs of late last year, giving back much of the re-rating that drove the market higher.
- Materials have gone the other way, re-rating towards the top of their three-year range even as forward earnings have started to be revised lower.

Source: FactSet, Evidentia Group estimates

Earnings Growth: Positive Across Sectors





- All sectors are expected to generate positive earnings growth in FY27.
- Earnings in Materials and Energy remain closely tied to commodity prices and are likely to stay volatile over the next 12 months.
- Higher inflation and rising interest rates pose a downside risk to market earnings, particularly the Consumer Discretionary sector.

Source: FactSet, Evidentia Group estimates

- Financials and Materials are expected to be the key drivers of earnings growth in FY27, together contributing ~4% of the ~6.8% forecast for the market, while making up 57% of the market.
- The sectors most exposed to higher inflation and rising interest rates tend to be those reliant on discretionary spending, leverage, or long-duration earnings.

Weak productivity lowers the economic speed limit

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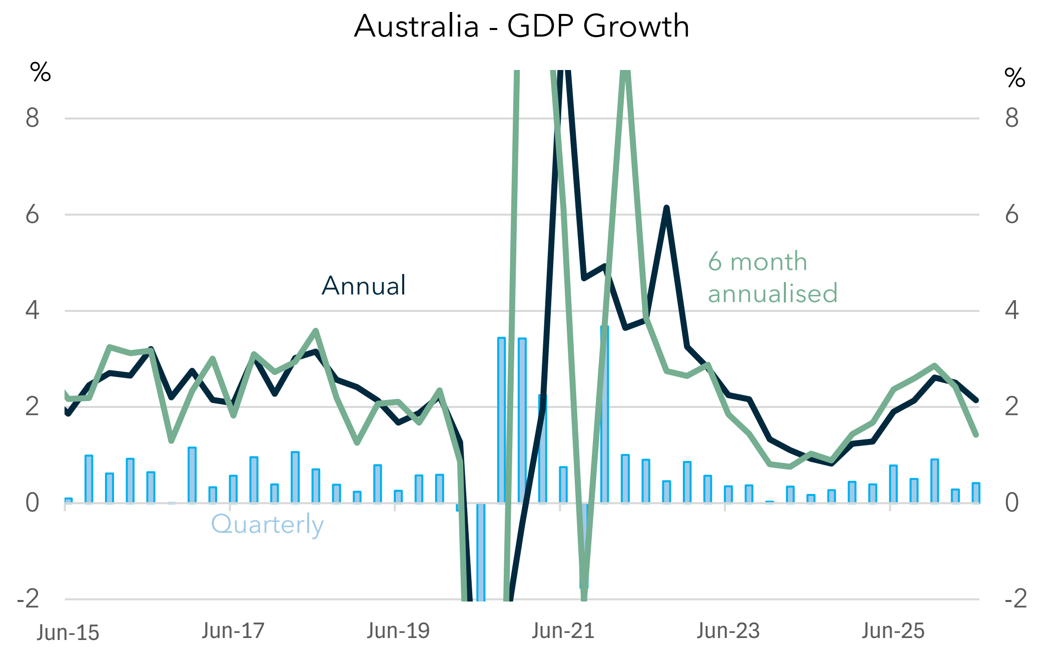

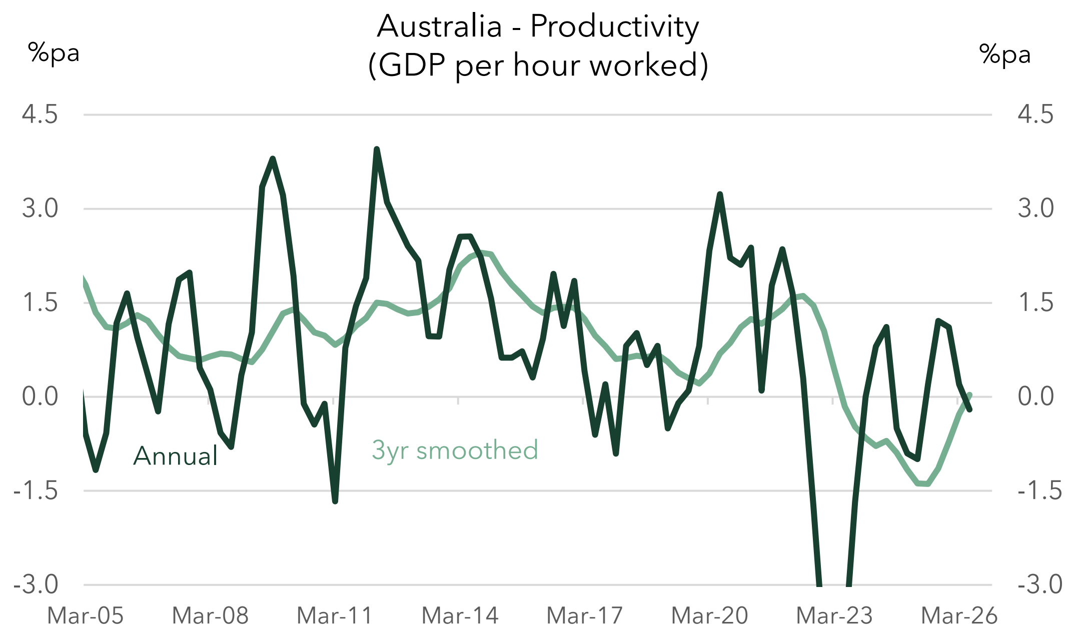

- The Australian economy grew by 0.4%/qtr in the June quarter and 2.1% over the year.
- But the six-month annualised pace has slowed to 1.4% as restrictive monetary policy is slowing demand growth in the economy.

- An economy's speed limit is ultimately determined by growth in the labour force and productivity.
- When productivity growth is close to zero, as it is currently domestically, even relatively modest rates of economic growth can be inconsistent with the inflation target.

Source: ABS

Inflation and unit labour costs are too high

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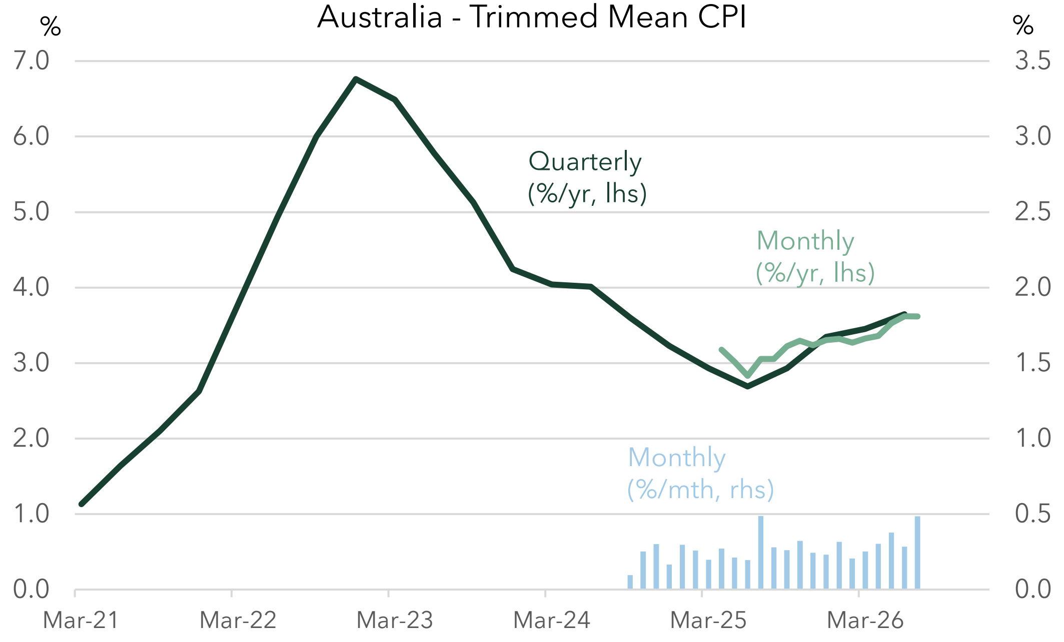
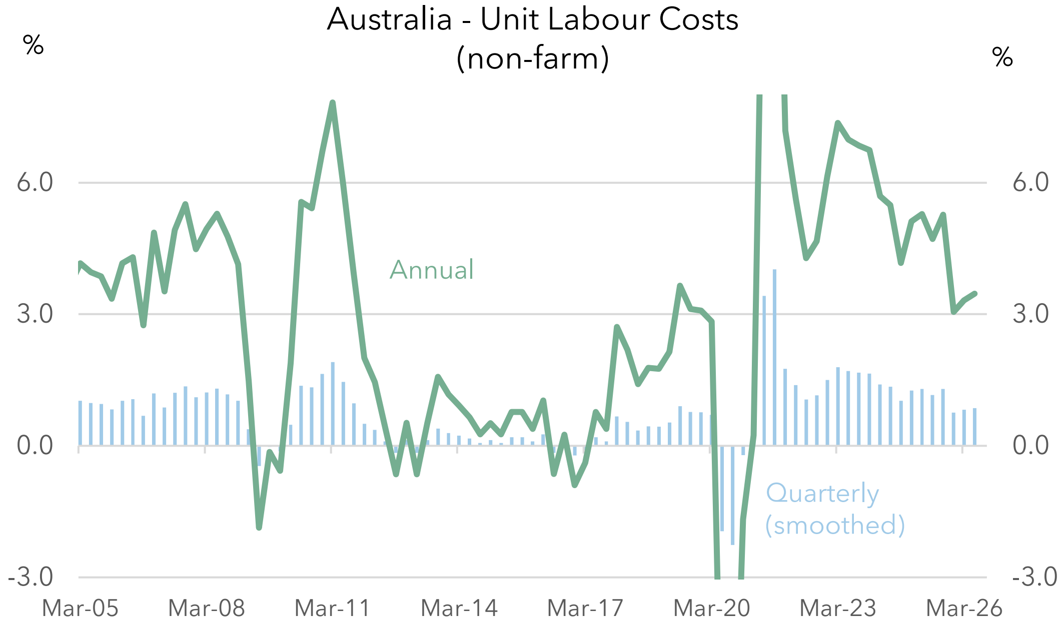


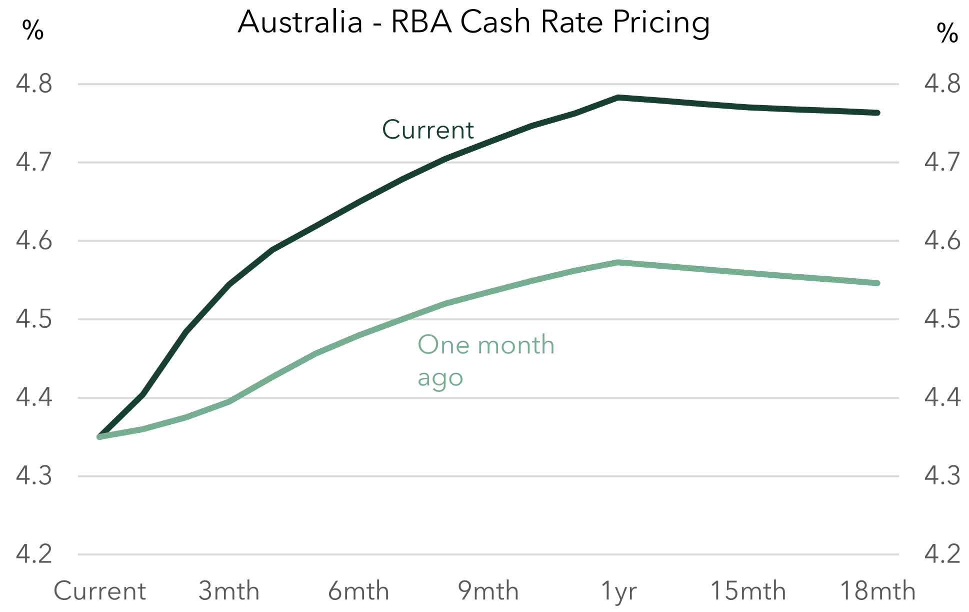


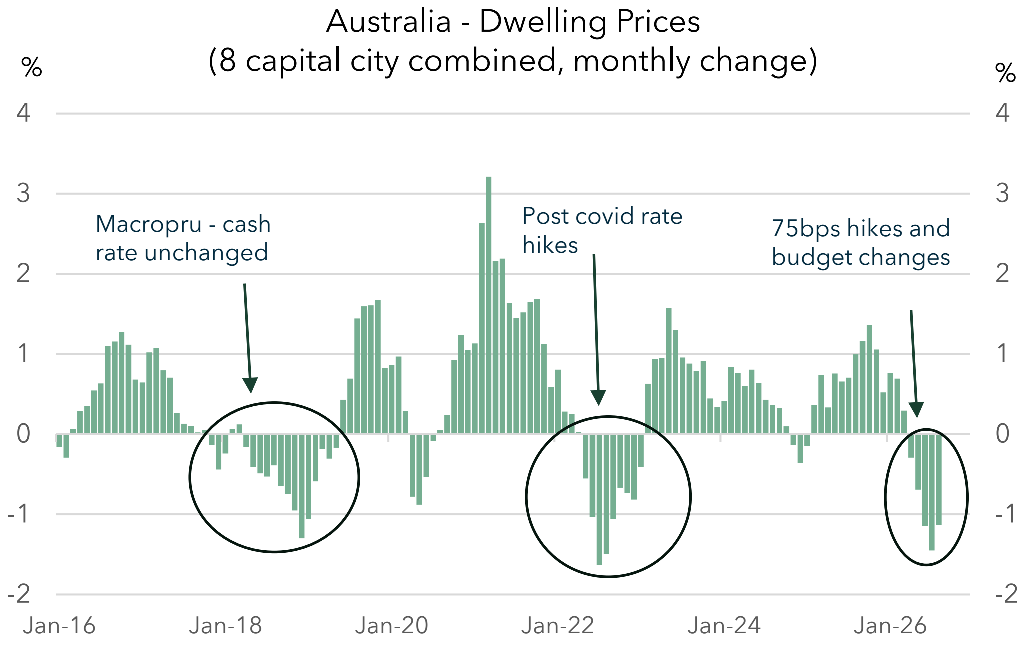
- Trimmed mean CPI increased by 0.5%/mth in July and the annual rate is 3.6%.
- Trimmed mean CPI is on track in Q3 26 to be stronger than the RBA's forecast, which means more policy tightening is expected.

- The lack of productivity growth domestically means the current rate of nominal wage growth is not consistent with the inflation target.
- Unit labour cost growth ultimately needs to converge towards ~2.5% for inflation to return sustainably to the midpoint of the RBA's target band.

Source: ABS

RBA expected to tighten again





- Market pricing for the RBA has shifted in the direction of more tightening over the last month as inflation pressures are too strong.
- The market currently has ~42bp of additional policy tightening priced.
- With government demand unlikely to materially assist the disinflation process, the adjustment will fall disproportionately on private demand.

- Home prices are now falling relatively swiftly. Falling home prices create a negative wealth effect that weighs on growth in consumer spending.
- Additional RBA policy tightening will further weigh on home prices.
- Credit growth is also being negatively impacted by falling home prices, rising interest rates and changes announced in the Budget around negative gearing and capital gains tax.

Source: Bloomberg, Cotality

Dynamic Asset Allocation Summary – Growth

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Asset Class	Outlook 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 means we expect 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 we moved back to neutral last month.
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 72c the AUD is near long term PPP. The AUD has risen a little recently as market pricing for further RBA tightening has firmed. We remain neutral but with increasing caution.

Dynamic Asset Allocation Summary – Defensive

Asset Class	Outlook Negative ← → Positive					Comments
Defensive Assets						
Australian Duration (incl ILBs)						We recommend an overweight in Australian duration despite the recent selloff in bonds 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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