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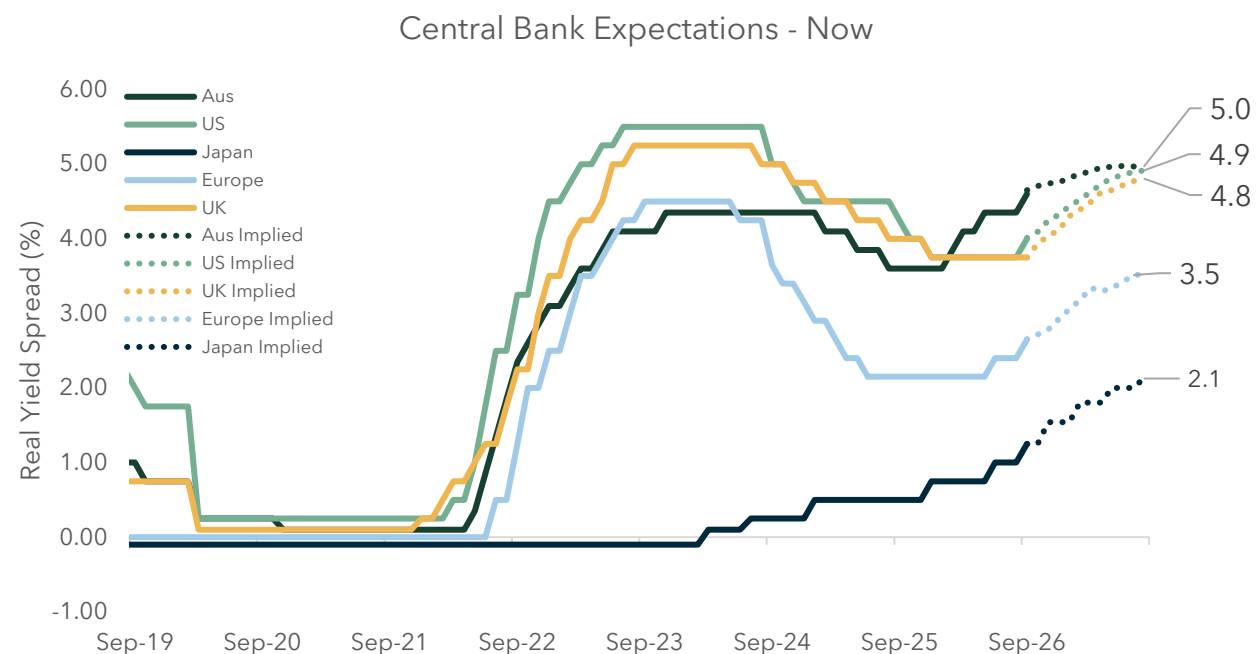
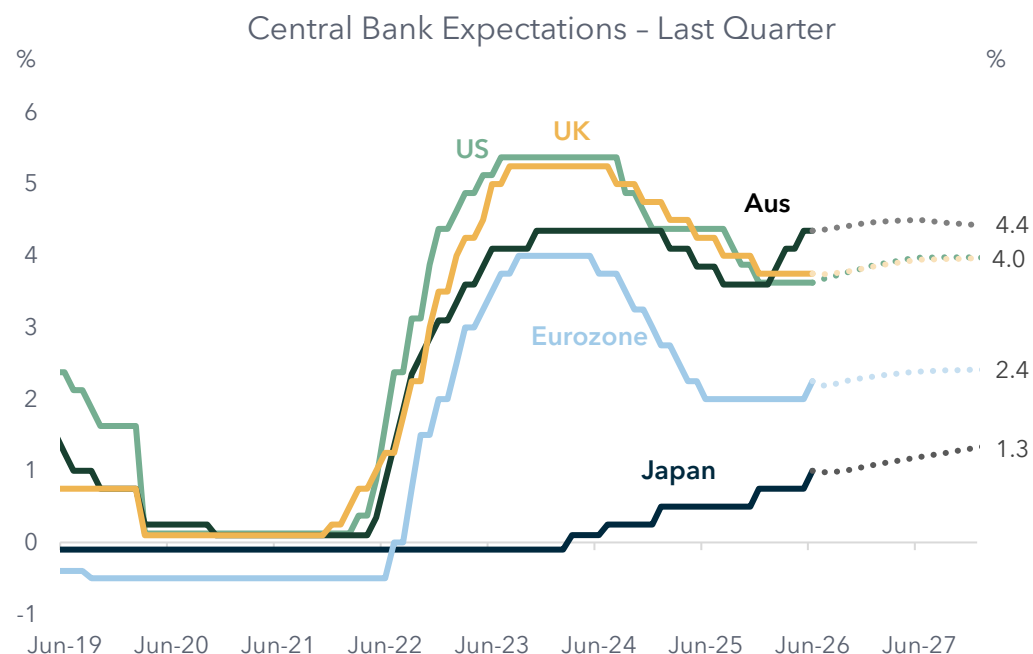
October 2026

Key Messages for Investors

- We remain fully invested, while rebalancing the sources of interest rate risk across portfolios.
- Global growth has proven resilient. Four major investment cycles are underway simultaneously: artificial intelligence, the energy transition, defence and onshoring. Collectively, they are underpinning global growth despite higher interest rates.
- Inflation and bond yields have risen. This investment boom is driving competition for constrained supplies of power, materials and labour. Global bond yields are now at their highest levels in well over a decade.
- Australia stands apart. Domestic monetary policy is now restrictive and economic activity is moderating. We expect these conditions to place downward pressure on Australian bond yields over 2027.
- Strong earnings continue to support global equities, however, we are reducing exposure to the most rate-sensitive parts of the market. Historically, global small companies and global listed property have underperformed following sharp rises in bond yields.
- We are increasing our allocation to Australian bonds and reducing global bonds. Overall fixed income exposure is unchanged; we have adjusted its composition.

Rate Expectations Spike Higher

Cash rate expectations have risen globally over the quarter



In three months, cash futures markets have moved quickly to price in rate hikes – with implications for every rate-sensitive asset class.

Real Yields are Driving Bond Yields Higher

Breakeven inflation expectations have barely moved, so what is driving bond yields higher?



Source: Bloomberg, RBA

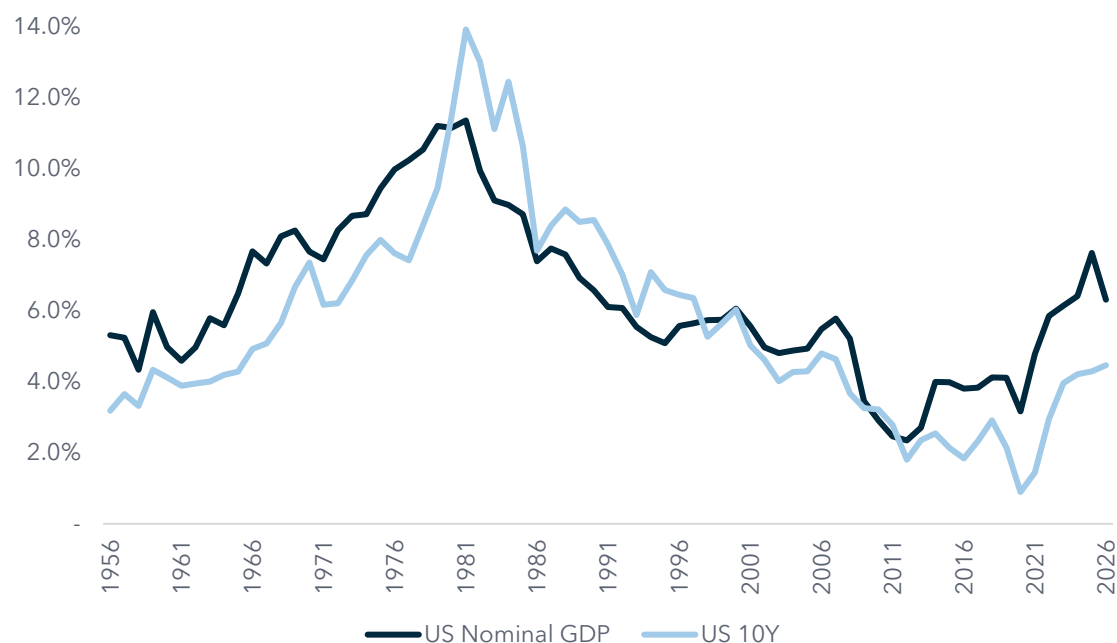
Potential Drivers	Evidentia View
Growth & capex boom <i>Higher r^*, competition for capital</i>	Most influential
Expected real policy rates <i>Hawkish central banks, higher real rates over the long term</i>	
Term premium: fiscal & supply <i>Deficits, issuance, QT, fewer price-insensitive buyers</i>	Moderate
Global spillovers <i>JGBs, gilts, Japanese repatriation</i>	Moderate
Inflation risk: oil & geopolitics <i>Iran conflict, sticky inflation</i>	Risk, potentially underpriced

Correlated

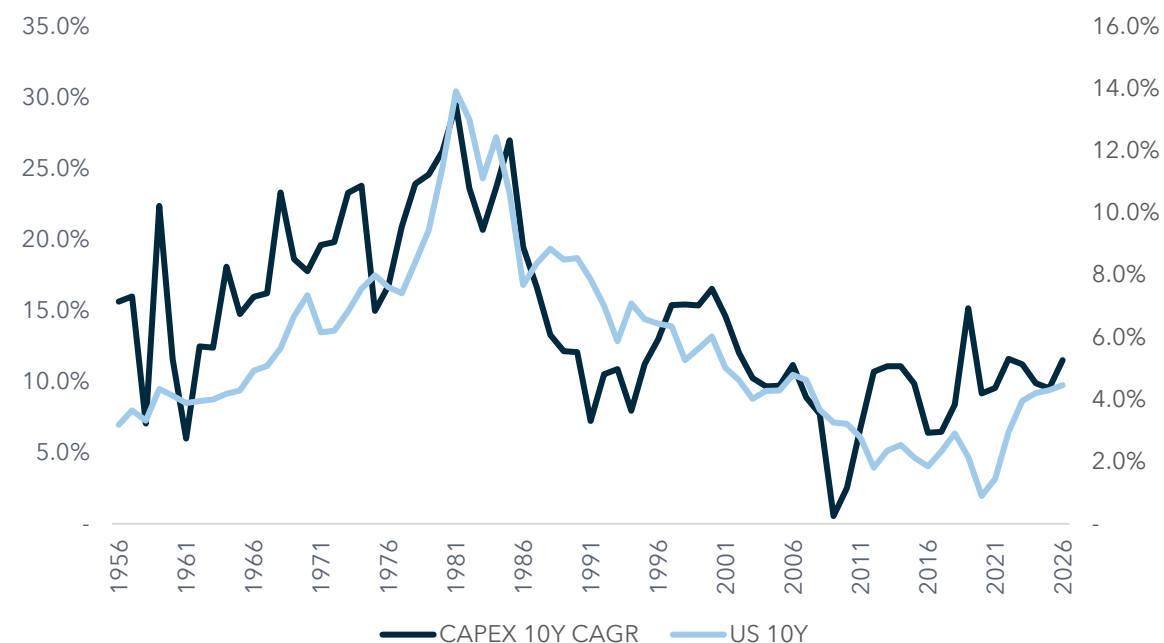
Drivers of Long End Yields

Long Term Trends: Over the long term there has been a relationship between nominal GDP and capex with the US 10 Year Yield. This supports the argument for a higher for longer cash rate and yield setting in the current environment.

Nominal GDP (5Y CAGR) vs US 10 Year



Corporate Capex (10Y CAGR) vs US 10 Year



Source: Bloomberg, Federal Reserve

The Capex Cycle Beyond AI

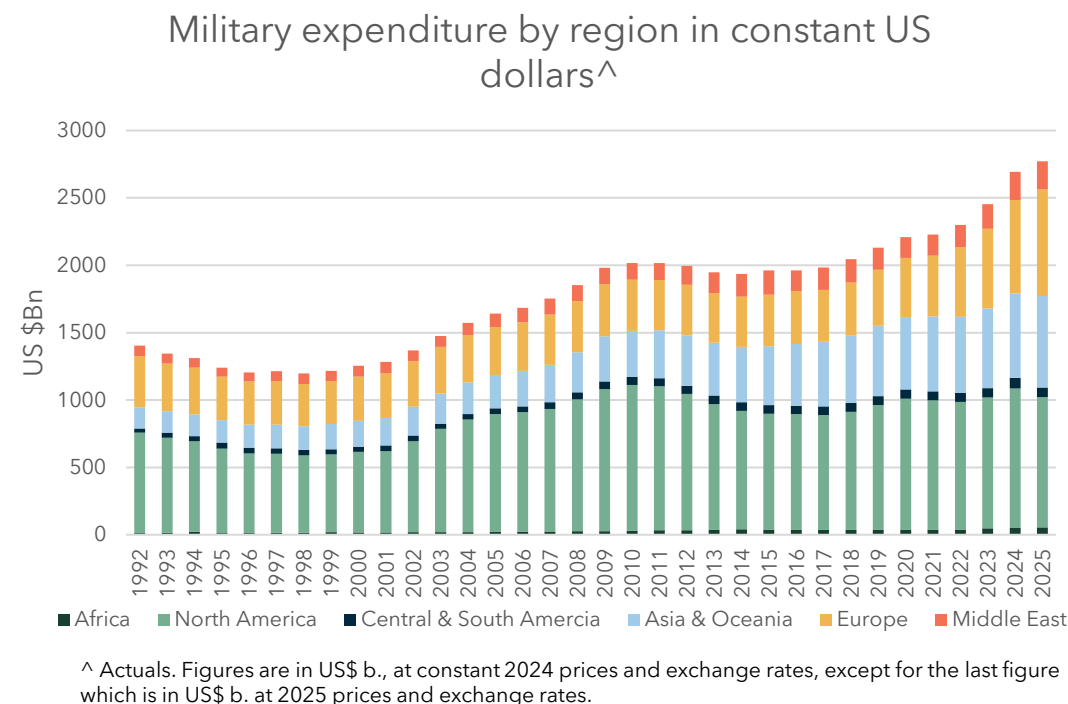
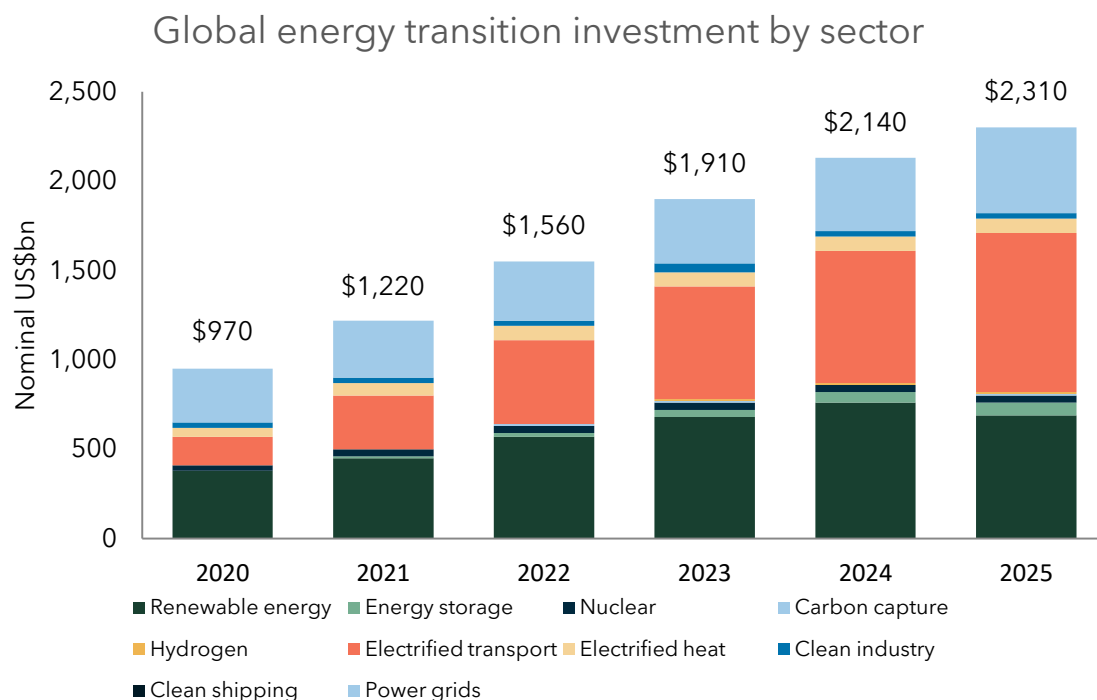
AI matters, but it's one engine among four. Together they're pushing toward a world of firmer growth, structurally higher inflation, and rates that stay 'higher for longer'.

Megatrend	Latest Annual Capital Expenditure Estimate	Primary Spending Horizon	Characteristics
Artificial Intelligence	\$1Tr*	Hyper-concentrated (2024 - 2030)	Extreme velocity driven by a handful of US hyperscalers and global semiconductor ecosystems; front-loaded compute, power and data centre buildouts
Energy Transition	\$2.3Tr	Secular multi-decade (scaling toward 2050)	Broad-based infrastructure; renewables, grid modernisation, storage and electrification. Represents the largest absolute capital commitment.
Global Defence Spending [^]	\$2.8Tr	Structural upward trajectory (2024 - 2035+)	Driven by geopolitical fragmentation, re-armament, ammunition stockpiling and next-gen hardware/software integration.
Onshoring & Reindustrialisation	\$0.22Tr	Medium-to-long term (5-15 years)	Driven by industrial policies (e.g. CHIPS Act, IRA equivalents), localised manufacturing hubs and supply chain redundancy.

Inflation risk: all four themes compete for power, commodities, grid and labour - keeping cost pressures elevated.

[^] Defence spending includes personnel and operations, not just capex. * Onshoring & Reindustrialisation is US only. 2025 & 2026F*

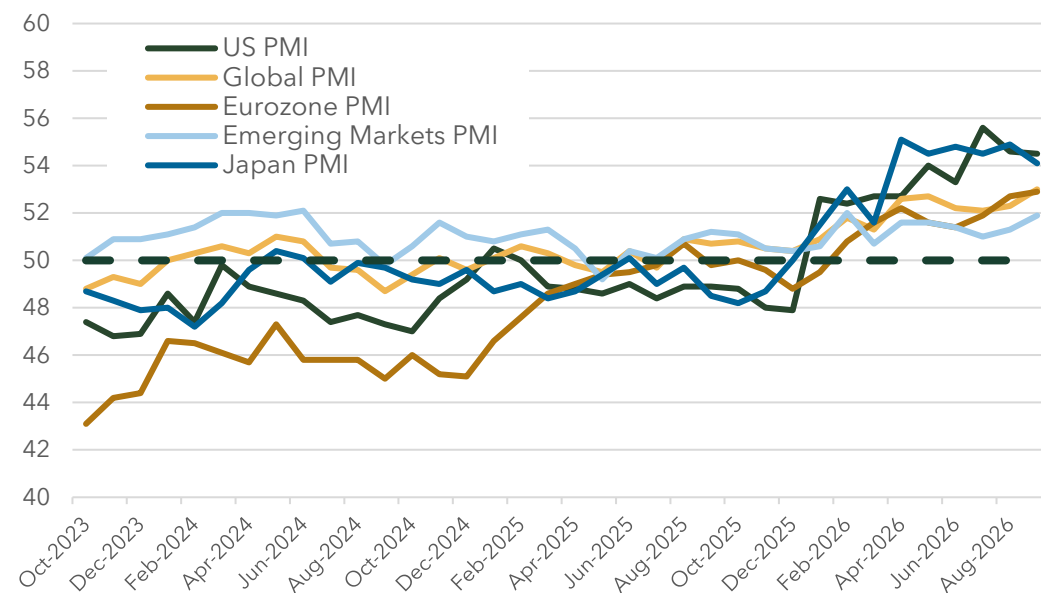
The Capex Cycle Beyond AI



- Global growth has proven resilient. Four major investment cycles are underway simultaneously: artificial intelligence, the energy transition, defence spending and onshoring of critical manufacturing.
- Together, these forces are providing substantial support to global activity and employment, despite higher interest rates.
- While AI capex is moving at the fastest velocity and highest concentration, these other structural megatrends also represent large aggregate pools of capital deployed over longer secular horizons.
- Much of this spending is shaped by government policy and national security priorities rather than the cost of borrowing, it is less likely to be scaled back as interest rates rise.

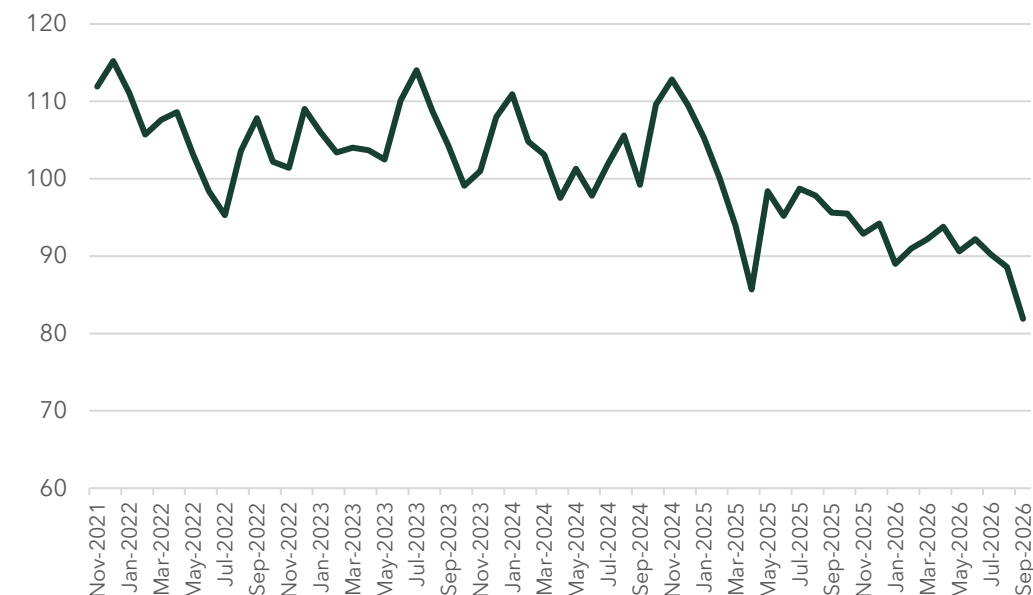
Factories are firing, consumers are divided

Purchasing Managers' Index - Manufacturing (PMI)



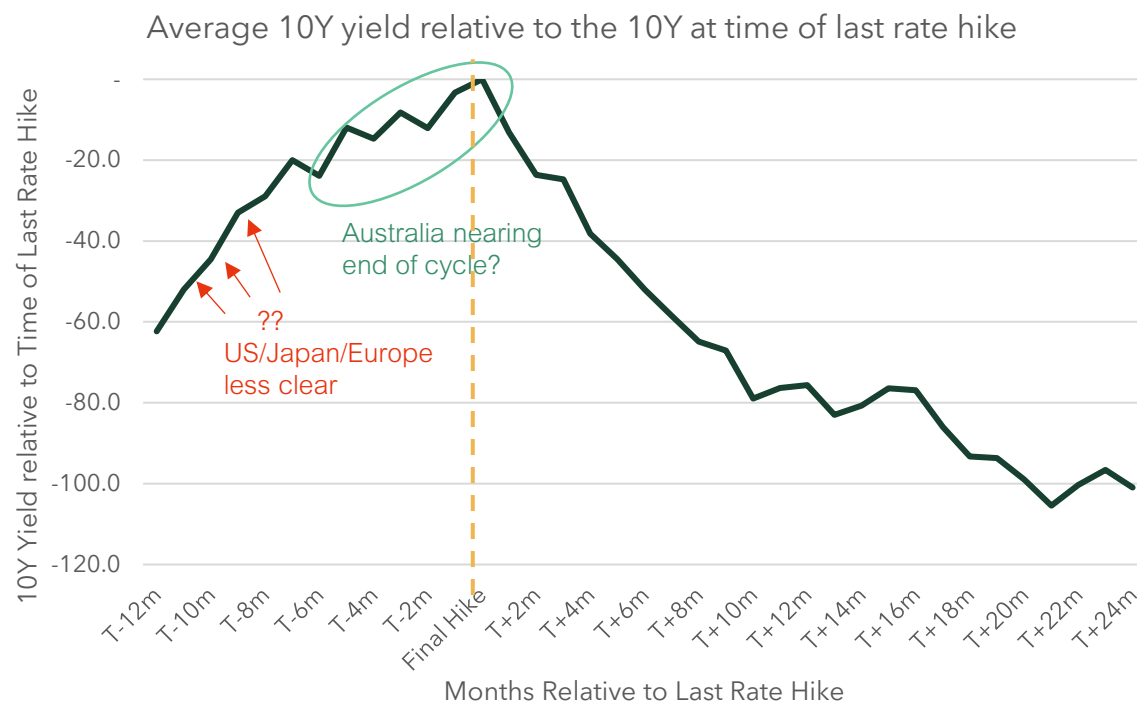
- Manufacturing is now expanding simultaneously in the US, Japan, Europe and emerging markets, a relatively uncommon alignment that has historically signalled a durable upswing.
- Consumer dynamics present a more mixed picture. U.S. consumer sentiment plummeted in September with the Conference Board index falling 6.7 points to 81.9, its lowest level since 2014.
- Headline spending has however, remained surprisingly robust.

US Conference Board Consumer Confidence



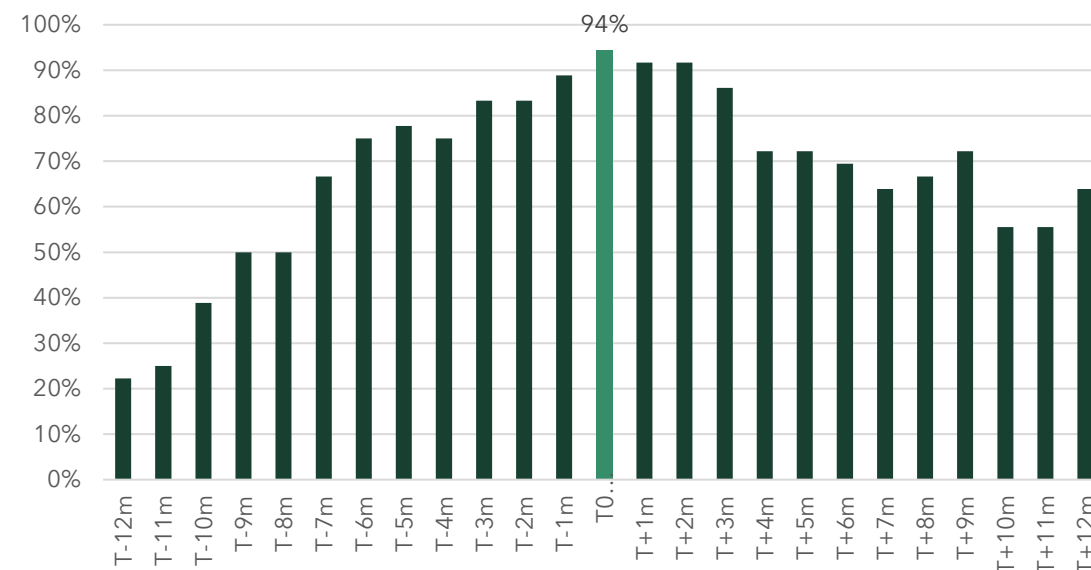
- This apparent disconnect is attributable to the K-shaped consumer; asset-rich households buffered by wealth effects, higher savings yields, and tax refunds are doing the heavy lifting to keep overall consumption resilient, while lower- and middle-income households face real strain under the weight of persistent inflation, elevated interest rates, and higher fuel costs with little financial buffer.
- Continued spending by asset-wealthy households, paired with ongoing corporate and government capex, are helping sustain economic growth.

Bonds Rally when Interest Rates Peak



- Historically, bonds have tended to rally once interest rates peak, as markets begin to price in the next easing cycle.
- Above left is the average 10Y bond yield relative to that at the date of the final rate hike occurs. Data is taken from 37 rate cycles across 6 countries/regions. It illustrates a strong tendency for bonds to rally (yields to fall) from date of last rate hike.
- Above right is the historical likelihood of yields falling relative to the date of the last rate hike.

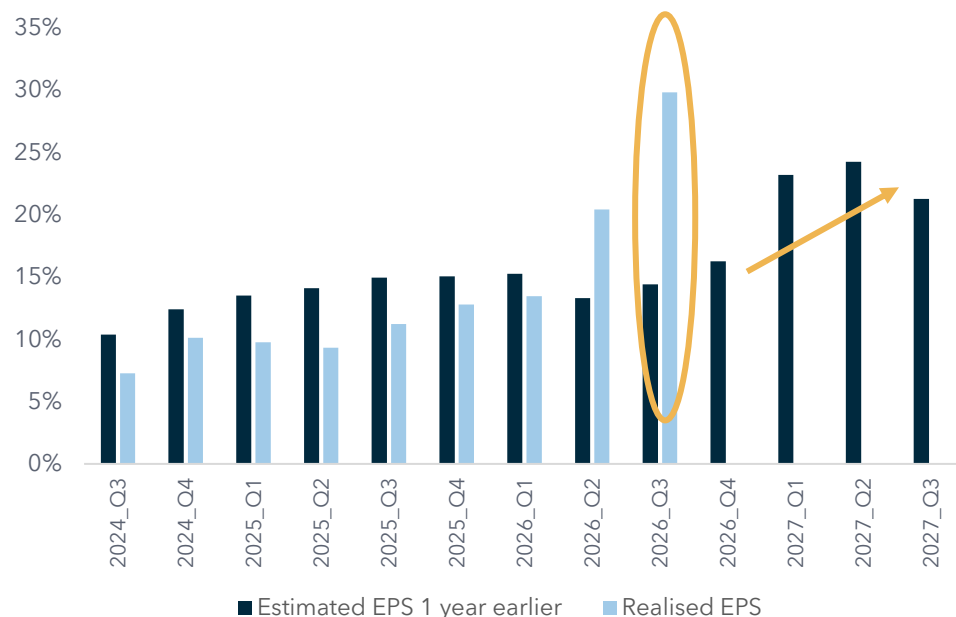
Probability of a decline in 10Y Yield over following 12 months, relative to date of last rate hike



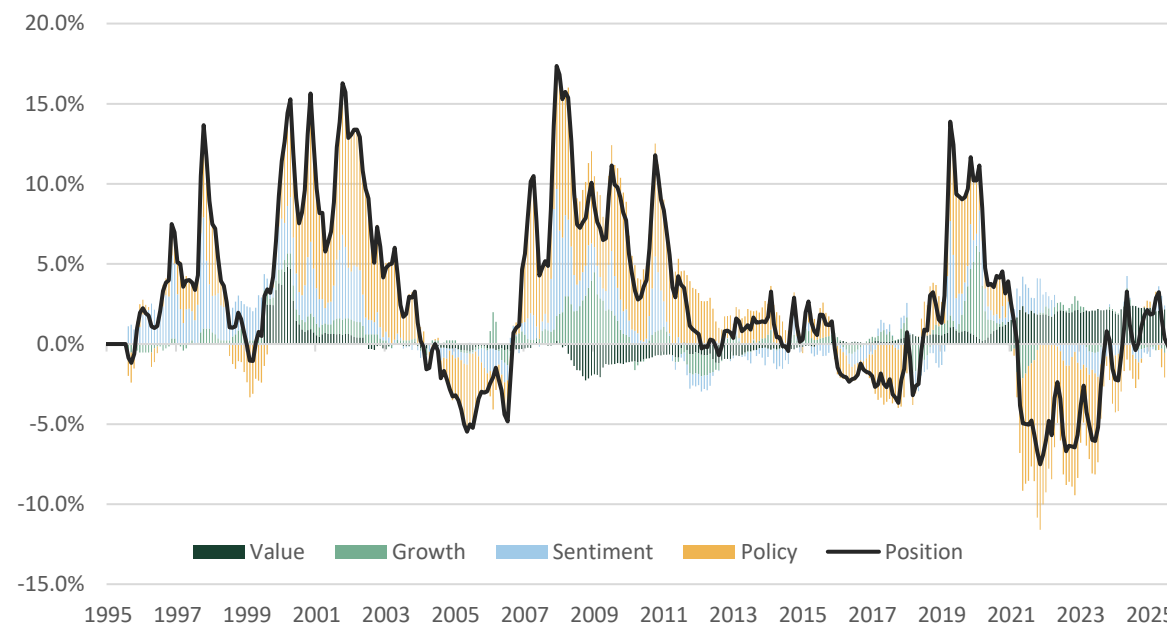
- We believe Australia is closer to that turning point than other major economies. Tighter policy is feeding through quickly to household budgets, consumer demand is softening, house prices are easing and growth is set to slow. This creates scope for Australian yields to fall over 2027.
- The outlook for global bonds is less clear-cut. Global yields carry greater risk of moving higher, reinforcing our preference for Australian bonds within an unchanged overall allocation to fixed income.

Higher yields calls for greater selectivity in equities

Consensus Earnings Growth (YoY) vs Realised Earnings SPX500



Evidentia Global Small vs Large Signal: Policy creates Headwind



- Strong earnings growth expectations and a capex cycle broadening beyond AI (energy transition, defence and fiscal spending) continue to support growth assets.
- Rising yields and inflation are the key risk, so rather than reducing growth exposure we are lowering interest rate sensitivity within it.
- Tilt toward large-cap, high-quality, cash-flow-rich companies that are less rate-sensitive.
- Higher bond yields can create a headwind for rate-sensitive and lower-margin businesses including global small caps and global listed property. These businesses face a tougher landscape as rising debt costs increasingly weigh on profitability.

Dynamic Asset Allocation Summary – Growth

Asset Class	Outlook Negative ← → Positive				Comments
Growth Assets					Strong earnings growth expectations and a capex cycle broadening beyond AI (energy transition, defence and fiscal spending) continue to support growth assets. Rising yields and inflation are the key risk, so rather than reducing growth exposure we are lowering interest rate sensitivity within it. We recommend remaining invested in growth assets in line with long-term strategy.
Australian Equities (incl. Australian Smalls)					Australia continues to lag global markets and sits outside the key capex beneficiaries, with manufacturing back in contraction. RBA tightening, softening house prices, highly leveraged households and policy changes on property investment weigh on domestic demand. Resources remain a neutral look-through exposure.
Global Equities			→		Neutral with a positive bias. Strong earnings growth gives the most cushion against higher rates. Tilt toward large-cap, high-quality, cash-flow-rich companies that are less rate-sensitive. More work required before an outright overweight.
Emerging Markets Equities					Maintain our neutral position. Earnings growth is strong, but higher US bond yields, elevated oil prices and geopolitical risk are headwinds, particularly for energy-importing economies.
Property				←	Move to neutral. The most rate-sensitive growth asset: the GREIT cash-flow yield spread over US 10Y is near its thinnest since 2007 and cash-flow growth (~1.5% p.a. post-COVID) lags equities.
Infrastructure					Increased capex sets the sector up for a lower dividend yield but higher growth outlook. We view infrastructure as slightly less interest rate sensitive and more defensive than global listed property in a rising yield environment.
Value vs Growth					Remain neutral. The AI trade drives value vs growth: hyperscaler capex flows to memory and chip producers, data centres, critical minerals and more. Also neutral on Evidentia's AI Risk Measure.
Quality vs Cyclical					Remain overweight quality. Quality has delivered superior long-term risk-adjusted returns and recent underperformance may offer an entry point; an Australian slowdown would favour quality.
Global Small vs Large				←	Move to neutral. Small caps are rate sensitive. History tells us that small cap underperformance can continue for some time after an initial yield spike. Valuations are relatively cheaper, however we do not believe the discount offsets the risk of higher rates.
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 remain neutral but with increasing caution.

Dynamic Asset Allocation Summary – Defensive

Asset Class	Outlook				Comments
	Negative	←	→	Positive	
Defensive Assets					Defensive assets offer the most attractive yields in over a decade. We favour duration over credit: Australian duration is our highest conviction position, funded from global duration so overall portfolio duration is unchanged, while tight spreads leave credit offering limited compensation for risk.
Australian Duration (incl ILBs)			→		Domestic monetary policy is now restrictive and economic activity is moderating. We expect these conditions to place downward pressure on Australian bond yields over 2027.
Global Duration (incl. TIPS)		←			The rate cycle has further to run offshore, with the US Federal Reserve still hiking and growth continuing to surprise on the upside. We prefer to hold our fixed income exposure in Australian bonds, where the rate cycle is closer to its peak.
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					Spreads remain near historical tights, but the all-in yield-to-worst on high yield has risen to 8.4% – most of it reflecting higher government yields rather than credit compensation. Widening CCC spreads and heavy issuance (including AI-related debt) point to stress at the weaker end of the market. We remain underweight – with a potential to upgrade if we see all-in yields continue to improve
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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