



Commonwealth
Private



March 2026

Market Outlook.

Broadening markets, sharpening discernment.

CIO Foreword

This year began much as the last one ended – with a great sense of optimism. Resilient corporate earnings and a supportive growth backdrop underpinned constructive market sentiment. Yet the relative calm across major equity indices shown to the end of February masked a meaningful shift beneath the surface. The narrow global equity leadership that characterised the past three years (dominated by a small group of mega-cap technology companies) gave way to a broadening. This saw returns in large markets like the US become more evenly distributed across sectors and market capitalisations, with small- and mid-cap equities outperforming along with energy, materials and consumer staples.

This broadening also coincided with elevated stock price movement. While index-level volatility remained relatively contained, dispersion at the company level has been high. Earnings reactions have been more pronounced than average, with larger share price moves on reporting days. Sectoral divergence has also been high, with software becoming the latest focal point of market anxiety. Recent software selling has been sharp and, in many cases, indiscriminate. The issues confronting software are not new. Agentic Artificial Intelligence (AI) and the broader disruptive potential of AI have lingered as question marks for much of the past year. The difference between now and early-2025 is that the market complacency toward software has been replaced with fear and uncertainty. Instead of most businesses being priced for uninterrupted growth, the market is now “shooting first and asking questions later” and reacting indiscriminately to each new AI development despite the reality that impacts will vary significantly across companies.

The latest software meltdown bears some similarities to the anxiety witnessed early last year following the release of DeepSeek, which triggered concerns about the near-term outlook for NVIDIA and the broader AI ecosystem. This uncertainty, led to compressed valuations and sharp de-ratings as the market started pricing in less need for compute. A similar scenario happened with Alphabet where the market became anxious about it lagging the competition and the possibility that advertising revenue could be disrupted by AI. In both cases, the market has since become more optimistic, and their shares have seen a recovery. Experience teaches us that such price dislocations, while uncomfortable, can create the foundation for stronger future returns for investors with a long-term perspective. The assets matter though.

Right now, the key fundamental question for software is whether it’s shifting from its traditionally capital-light, high-margin, high-growth model toward one requiring sustained and significant incremental investment merely to defend competitive positioning. Software has always been intensely competitive. Historically, some incumbents have attempted to neutralise emerging threats through acquisition. This time, the threat’s more pervasive. Going forward, only those businesses with durable moats – for example, deep workflow integration, high switching costs, or proprietary datasets – that AI cannot easily replicate are likely to sustain attractive returns on capital. Those firms with entrenched positions, high levels of trust and operating in business-critical areas will be better insulated and may ultimately emerge as beneficiaries of AI diffusion.

This also reinforces a broader principle: fear-based investing is rarely a successful strategy. Reacting to volatility often means buying after gains have already been realised and selling after losses have occurred. Markets are driven in the short term by narratives, positioning and sentiment – the “voting machine” dynamic evident in sharp rotations and indiscriminate selling. As the saying goes, “it’s markets like these when money flows from weak hands to strong hands.” Over time, however, returns converge toward fundamentals, earnings growth, cash-flow durability and balance sheet strength. Navigating uncertainty requires understanding what risks are genuinely new versus what’s already priced in. It also requires sufficient portfolio resilience to endure the inevitable tougher periods that accompany equity investing.

Our focus remains on maintaining that resilience and staying close to our managers and underlying companies through periods of dislocation. Investment timeframes matter. Risk assets such as equities should be assessed over years, not months. While volatility can create a strong temptation to “do something,” patience, selectivity and discipline remain the more reliable path to long-term returns.



James Foot,
Chief Investment Officer
Commonwealth Private

Should fixed income investors be more discerning in this late cycle?

Key insights:

- In short, yes as the vacuum created from the removal of domestic bank hybrids has led to a greater risk tolerance by some fixed income investors seeking continued 6%-plus yields.
 - Given mature credit cycle conditions, we believe traditional fixed income investors should maintain their discipline and risk parameters to avoid unexpected and suboptimal investment outcomes.
 - This is especially when portfolio yields of ~6%-plus (with higher total return potential) are still available from liquid/investment-grade (IG)-based fixed income credit funds (aided by the notable back-up in domestic interest rates recently).
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The phasing out of Australian bank hybrids by APRA has created a vacuum for enhanced yielding AUD fixed income investments and compelled some investors to up their risk tolerance. That is, in seeking to replace hybrids that have been redeemed and not re-issued, to meet their 6%-plus yield target, some fixed income investors have responded by adding risk - be it from moving down the credit curve (i.e. into high-yield credit), moving along the credit curve (i.e. extending interest and/or credit spread duration), introducing leverage and/or giving up liquidity (i.e. reducing exposure to liquid securities).

From the issuance side, a number of alternative enhanced yielding investments have sought to fill the gap from bank hybrids. With over \$4bn of ASX-listed bank hybrids set to be redeemed this year (and ~\$40bn over the next six years), this trend looks set to continue.

With historically low credit spreads (for example, USD IG indexed credit spreads are now in the second percentile) and with re-emerging bond market volatility, we believe clients should maintain their discipline and existing risk parameters to avoid suboptimal outcomes. Put another way, with these late cycle credit conditions, now isn't the time for fixed income investors that hold more defensive risk/return objectives to over-reach. This is particularly true given that portfolio yields of ~6%-plus (with higher total return potential) are still available from liquid/IG-based fixed income credit funds, as we note below.

To demonstrate these risks, we start with long-duration bonds. In 2025, several AUD financial and corporate issuers sought to tap the strong investor demand for coupons/yields above 6%, by issuing fixed rate bonds with long-dated (i.e. 10 and 20-year) call or maturity dates. With the sharp rise in AUD market interest rates since October 2025, these long-duration bonds have fallen by around \$1 to \$1.50 in capital price and are trading materially below par as of late-February 2026. This isn't a concern for investors who plan to hold these bonds to their 10 and 20-year maturity or call dates. However, for those investors that may unexpectedly need liquidity much earlier, a less favourable outcome may ensue, depending on the prevailing market conditions.

Meanwhile, some fixed income investors who've previously limited their investments to the more liquid, higher grade credit space, have shifted into the higher yielding private debt markets, with a commensurate "give up" in liquidity. Non-liquid investments have higher return targets but commensurately higher risks which may not be fully appreciated by traditional fixed income investors. While there remains a clear place for private debt investments from experienced managers who give proper consideration to individual and portfolio risks, it's crucial for any clients investing to be fully aware of the associated portfolio and liquidity risks and have a genuine long-term investment horizon.

Our arguments for retaining risk discipline in 2026 also stems from the ability of fixed income investors to still access diversified, mainly IG/liquid portfolios that are actively managed, exhibit measured interest rate and credit exposures, while still offering ~6% yields. We'd add that this dynamic has and will continue to improve with the spike in AUD interest rates. That is, if AUD credit spreads remain broadly unchanged, those funds with exposure to floating rate bonds (whose coupons reset every 90 days) will see their portfolio yields re-rise given the 90-day bank bill swap rate is higher by ~0.5% since October.

Moreover, with the portfolio yield only the starting point, those active fixed income managers have additional alpha and return sources and strategies to drive total returns that are risk-adjusted. These include increasing the turnover in the portfolio, deriving additional alpha from careful credit and issue selection (looking 'under a rock for every basis point') and recouping roll-down.

It is these managers/funds that we continue to strongly favour and make available to our fixed income clients.

Has the private market baby been thrown out?

Key insights:

- The fundamental credit outlook appears reasonable; however, investors are more wary of the potential for AI to disrupt, particularly in software businesses.
 - The mismatch of investment fund liquidity terms with underlying asset liquidity can be problematic.
 - Investors need to be risk aware, have a long-term investment horizon, and invest with experienced managers who give proper consideration to individual and portfolio risks.
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In Q4 2025, JP Morgan CEO, Jamie Dimon, compared the failure of a couple of US companies to cockroaches, with the suggestion that there were probably more that we hadn't seen. While the broader implication that this was indicative of the commencement of a broad credit downgrade cycle has been largely refuted by private debt market participants, it's coincided with more widespread caution regarding private investments, in particular direct private debt.

At the pointy end of recent concerns are loans to IT-sector companies, and in particular software developers that could potentially be disrupted by AI-generated program coding. This has been seen in the significant credit spread widening in the IT-sector of the US high-yield market, with option adjusted spreads widening by ~155 basis points (bps) from its mid-January low-point to end-February 2026. For comparison, the US Corporate All-sectors High-Yield Index widened by 55 bps to 364 bps over the same period.

February 2026 saw another headline, that major US direct lender, Blue Owl, suspended redemptions from one of its US funds, and that it would sell ~34%, or \$600m USD, of the fund's loan assets to institutional investors. The primary driver behind this transaction was the scale of redemption requests, with the fund not having sufficient liquid assets to satisfy those requests. Therefore, to treat all investors fairly, and to satisfy those redemption requests, Blue Owl moved to progressively wind-up the fund, selling some assets, and then planning to progressively return remaining investor capital using proceeds of further asset sales or loan repayments.

Interestingly, the loans were sold at their book value, nearly 100% of loan face value, and Blue Owl only sold around 60% of each loan, retaining the balance in the fund. The key point being that these weren't distressed sales. So, as it appears, the trigger of this situation was that multiple investors wanted their money back, due to concerns about relative returns and potential future losses – not current default levels. For further context, there are multiple other direct lending funds listed in the US, which allow investors to sell their holdings at market prices. These funds have experienced selloffs over the past six months and are trading at discounts to their last-published net asset values of 15% to 25%, thereby offering yields on new investments in the low-to-mid-teens.

And so here we have the lesson: the mismatch of investment fund liquidity terms with underlying asset liquidity can be problematic, particularly when funds are leveraged and retail investors who don't have true long-term investment horizons are involved. When investors want to withdraw their money, non-listed funds can be subject to long redemption timeframes or lockups, and while listed funds can provide daily liquidity it could potentially come at a significant cost. This is one of the key considerations we give when reviewing alternative and real assets funds with underlying private market assets.

It's too early to call whether we've entered a real credit downgrade cycle as, from a fundamental perspective, S&P's 2026 credit outlook base case indicates a relatively stable environment. However, no doubt, some businesses will fail, and the IT and software sectors are like to have their fair share of those. Venture, early-stage, and growth Private Equity (PE) companies which haven't yet built their competitive moats are the most vulnerable.

From both PE and Private Credit (PC) perspectives, proper financial and credit analysis is crucial when making investment decisions, and candidate companies should be able to demonstrate resilient cash flows. The potential for disruption from AI, as well as the potential AI use cases that can facilitate above-system growth, have been part of the core assessment considerations of quality PE and PC managers. In this regard we favour managers who can demonstrate such skills over multiple investment cycles.

In periods of indiscriminate market volatility, skilled managers can apply fundamental analysis to deploy capital selectively, seeking to generate excess returns from mispriced opportunities.

Australian Reporting Season – Solid earnings momentum, yet mixed outcome by sectors

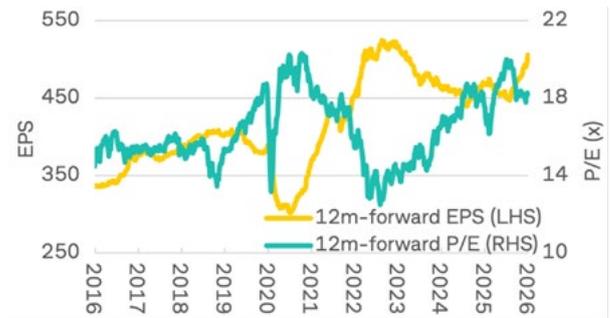
Key insights:

- Index-level earnings upgrades have continued throughout the reporting season, but with concentrated drivers and varied sectoral outcomes.
- Capital management initiatives continue to be a central focus, with share buy-back programs supplementing the moderate growth in dividends.
- Elevated dispersion provides a constructive environment for stock picking.

The February equity reporting season coincided with a robust market upswing. The ASX 200 Index ("the Index") rallied 3.7% in February on price index basis eclipsing its previous peak seen in October 2025. Aggregate earnings growth for the top 200 companies is forecast to return to positive in 2026 after three years of declines. In February 12-month forward Earnings Per Share (EPS) expectations of the Index rose another 3%, continuing an upward trend since October, mainly due to upgrades in the Materials and Financials sectors, which make up approximately 60% of the ASX 200 Index. Earnings sentiment has improved from recent reporting seasons marred by downgrades.

However, valuations remain elevated compared to the long-term average, remaining relatively steady since last November, with the 12-month forward Price to Earnings (P/E) ratio hovering around 18 times (x), implying earnings upgrades have been the primary driver of equity market gains in recent months.

ASX 200 Index 12-m Forward EPS and P/E



Source: Bloomberg Finance L.P., Commonwealth Private Investment Research Team

The Reserve Bank of Australia (RBA) raised the cash rate in February 2026 after three 25bps cuts in 2025. This shift affects rate-sensitive sectors, as Consumer Discretionary retailers warn of potentially weaker household spending, while highly leveraged companies in particular Real Estate face rising financing costs. Banks, on the other hand, tend to benefit from rate hikes through wider net interest margins. Despite some concerns about higher costs, Corporate Australia appears generally untroubled at this stage, likely due to a resilient macroeconomic environment with robust demand from consumers and businesses as well as solid employment growth.

Dispersions across and within sectors

Markets have exhibited substantial share price dispersion, evident both at the sector level and within individual sectors. Throughout the month, banking and mining stocks demonstrated strong performance, whereas the Information Technology (IT) and Healthcare sectors had a challenging period.

Top/Bottom Performers by and within GICS Sectors (ASX 200 stocks)

Top/Bottom GICS Sector	Total Return (%)	Top/Bottom within a Sector	Share Price Move (%)
Financials	9%	CBA-AU/ ZIP-AU	+17%/ -28%
Materials	9%	LYC-AU/ PRN-AU	+27%/ -16%
Consumer Staples	6%	WOW-AU/ TWE-AU	+16%/ -15%
Consumer Discretionary	-6%	TAH-AU/ TPW-AU	+21%/ -32%
IT	-9%	NXT-AU/ SDR-AU	+4%/ -29%
Healthcare	-13%	RHC-AU/ PME-AU	+18%/ -29%

Source: Bloomberg Finance L.P., Commonwealth Private Investment Research Team

In our view, this reporting season has underscored the true value of diversification within the major mining companies. BHP Group (BHP) generated more earnings from copper than that from iron ore in the December half-year. BHP is not only the world's largest copper producer, but also a global top-20 gold producer and the third largest uranium producer. Rio Tinto (RIO) achieved 9% underlying earnings before interest, tax, depreciation and amortisation (EBITDA) growth year-on-year despite 6% lower iron ore prices in 2025, as the EBITDA from copper and aluminium jumped 114% and 20% respectively.

Healthcare – Sector performance has been heavily influenced by CSL Ltd (CSL). Triggered by a weak first-half result, leadership changes and ongoing pressures from US pricing and margin headwinds, CSL's sharp swings in the share price and weighed on broader healthcare sentiment. Near-term uncertainty remains elevated for CSL given regulatory risk, execution risk from the new management team and the potential for further earnings resets, while further valuation de-rating reflects investor demand for clearer evidence of earnings stability before confidence can be rebuilt.

Despite a broadly cautious backdrop, reporting season also revealed clear pockets of improvement within Australian healthcare, particularly among diagnostics and hospital operators where sentiment has begun to stabilise.

IT – This reporting season has been dominated by heightened uncertainty around AI disruption, triggering sharp valuation resets and heightened volatility across software names. WiseTech Global (WTC) sits at the centre of this debate, with its results and guidance scrutinised through the lens of whether AI will ultimately enhance CargoWise's competitive moat or compress pricing power and margins. The share price sell-off has been less about near-term earnings but more about uncertainty around business model durability. AI-driven cost structure and workforce changes, as well as integration risk from the E2Open acquisition have amplified risk aversion.

While we believe that AI remains a long-term opportunity for productivity and economic benefit, the reporting season made it clear that the near-term path is volatile and outcome for different players could vary substantially. Therefore, we expect sentiment to remain fragile until impacted companies can clearly

Banks – The Banking sector was a clear outperformer this reporting season, delivering a set of results characterised by strong earnings and resilient asset quality. The major banks reported record or near-record profits, with Commonwealth Bank (CBA) exceeding expectations on first-half cash earnings and lifting its interim dividend, while other major banks also posted profit growth supported by higher net interest income and solid lending volumes. Commentary suggests capital positions remain strong and balance sheets sound, enabling continued capital management and/or dividend support, even as management teams acknowledged risks from competition in both lending deposit market, regulatory scrutiny and the potential for credit quality to normalise if economic conditions soften.

Driven by the better-than-expected earnings delivery and the more favourable interest rate environment, the banking sector's 12-month forward EPS has been revised up by nearly 4% in February.

Mining – Strong commodity prices have boosted the earnings of miners for the reported period, and the mark-to-market exercise has continued to pull the forecast earnings higher. Materials finished the month with 9% total return, bringing this GICS sector's gain to 61% over the last 12 months.

articulate and/or prove how AI translates into a strengthened moat and sustainable earnings growth rather than structural disruption.

Modest dividends increase supplemented by share buybacks

On the back of generally solid earnings results, many listed companies raised dividends or kept them unchanged. Overall, the aggregate Dividend Per Share (DPS) on the ASX 200 Index level has gone up slightly. However, it's worth noting that the Index currently offers an aggregate 12-month forward dividend yield of 3.4%, well below the 10-year average of 4.2%.

On top of the dividends, share buy-backs continue to be a popular way for companies to return to shareholders, reflecting healthy balance sheets and cash flow. By our estimate, there are over AU\$3bn of newly announced buy-back programs, including AU\$250m extra from Telstra, US\$250m from CSL Ltd., and up to 10% of securities on issue from Dexu.

Some buy-back programs are not only driven by balance sheet strength, but also managements' belief that the share prices are undervalued, which makes buy-back an effective use of capital. Dexu has explicitly expressed such a view. While it's positive to see confidence from the companies themselves, we keep in mind that there were occasions that companies wouldn't complete their full share buy-back programs in the past. Treasury Wine Estate and ANZ Group are among the recent examples.

Outsized share price movements – signal or noise?

Large share price moves remained a defining feature of reporting season with double-digit moves occurring regularly. Rather than focusing on the sheer number of companies experiencing these swings, it's worth stepping back to recognise that a half-yearly update, in isolation, rarely overturns a company's long-term investment thesis.

The scale of recent market reactions appears less about incremental changes in fundamentals and more about positioning and sentiment. In some cases, the moves reflect capitulation by fatigued shareholders after prolonged underperformance; in others, they are amplified by passive, systematic and algorithmic trading flows that exacerbate short-term momentum. More broadly,

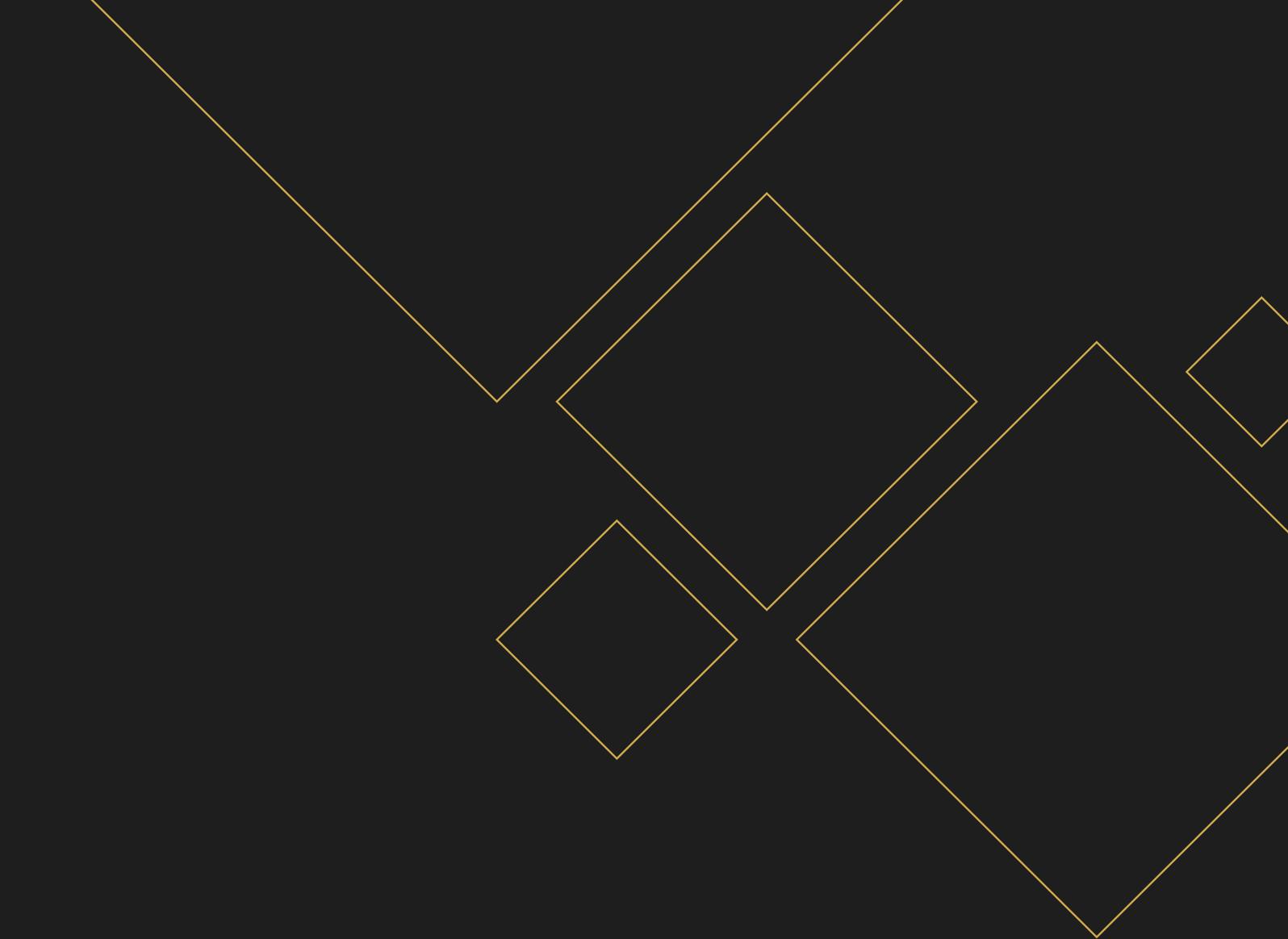
they signal an environment where tolerance for near-term disappointment is low, and where even modest deviations from expectations can trigger outsized price responses.

Key takeaways and implications to our investment approach

The February 2026 reporting season reinforces several key themes: earnings growth is on the way but with concentrated drivers, dispersion across sectors and stocks remains high, and companies in general have sound balance sheet and are willing to return to shareholders.

While this earnings season seems encouraging, sustained performance of the domestic share market through 2026 will ultimately require tangible delivery of earnings growth.

In navigating this environment, we remain focused on diversification, valuation discipline and companies with resilient cash flows and clear strategic direction. A disciplined, fundamentals-driven approach remains central to capturing long-term value in Australian equities.



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