September 2026

Market Outlook.

The best opportunities often lie where expectations are lowest and fundamentals are quietly improving.

CIO Foreword

Over the past few weeks, the attention of global markets has returned to the connected challenges of persistent inflation and rising long-term interest rates. Ordinarily, that combination would be expected to temper risk appetite and place pressure on risk-asset valuations, and yet, this hasn't happened. Global equity markets remain near the upper-end of historical valuation ranges, and index-level credit spreads remain tight across investment-grade and high-yield. Geopolitical risk remains elevated, while long-dated government bond yields have risen as investors demand greater compensation for inflation risk, duration, and fiscal uncertainty. The question confronting investors is simple: is it different this time?

Well, is it?

For now, the market says yes. The US remains at the centre of the global technology-fuelled capex cycle. Earnings from its leading technology companies suggest this investment can translate into stronger productivity, margins and profits. As this Outlook discusses, the US equity market may therefore continue to command a premium, even when traditional valuation measures appear stretched. The distinction is whether high valuation multiples are justified by future cash flows. So far, AI-related revenue and earnings growth are supportive, but elevated expectations leave less room for disappointment, and making stock selectivity increasingly important.

That optimism is being tested against a demanding funding backdrop. The US Government's appetite for debt capital shows little sign of abating, while hyperscalers are also tapping corporate bond markets to finance the next phase of AI infrastructure. The scale of AI investment is considerable, but it remains dwarfed by sovereign borrowing. Together, these demands are contributing to the return of the term premium and to higher long-dated bond yields, across major markets. Treasury buybacks may help market functioning at the margin, but they don't resolve the underlying fiscal challenge. Stabilising debt as a share of the economy relies heavily on growing the denominator.

Markets can remain expensive

This presents a conundrum. Traditional thinking would suggest reducing exposure to assets that appear expensive, particularly when inflation, interest rates and geopolitical uncertainty are elevated. History also shows the cost of stepping away from markets too early. Investors who de-risk solely because valuations look stretched may miss the outsized gains generated when earnings continue to exceed expectations. Conversely, staying invested creates the risk that any return towards long-term valuation norms produces near-term losses. The Australian reporting season reflects the same tension: aggregate earnings expectations softened, yet valuation expansion supported the market, while sharp company-level price moves created opportunities for active investors able to distinguish temporary noise from a change in long-term value.

Stay invested, stay diversified

There is no risk-free choice. Our response is not an all-or-nothing call on whether this time is different, or whether markets are over-valued. Instead, we believe that portfolios should remain aligned with investors' objectives and tolerance for volatility, as well as being diversified across asset classes, regions and return drivers. Higher bond yields can underpin portfolio returns and provide a larger buffer against adverse equity moves that aren't inflation led, while disciplined equity selection can align returns with productivity and earnings growth potential – including AI. Real assets, such as infrastructure, can add both diversification of return drivers as well as a measure of inflation protection. Such diversified portfolios may lag concentrated equity exposures when a narrow group of companies is leading the market, however that is a reasonable price for resilience. **We invest for the long run.**

Paul Stevenson,
Interim Chief Investment Officer
Commonwealth Private

Will the US equities market keep outpacing the rest of the world?

What's going on here:

- There's been a consistent rhetoric in the last few years: that the US equity market is expensive relative to the rest of the world and is thus likely to see capital exit for cheaper alternatives.
- It's highly probable that companies that dominate the US equity index will ensure the overall index continues to win the race for a while yet.

What does this mean?

Despite fears and concerns around record debt levels and US deficits, and "de-dollarisation" (i.e. the risk of the US dollar losing power in global trade), US equities keep hitting new highs. Is this justified?

Well, the US economy is by far the most innovative in the world. This is reflected in the country's large venture capital eco-system and private equity firms, world class universities and a culture that rewards entrepreneurial behaviour and risk taking.

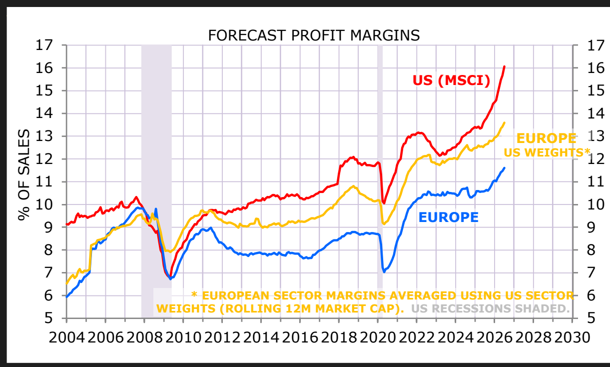
It's also a free market governed by the *rule of law* – providing institutional credibility and protection that capital markets require to thrive on a sustainable basis. This environment will likely remain more attractive for capital to be invested in the US than in countries that are over-regulated, have heightened sovereign risk, and/or are governed by *rule of party*.

Importantly, the US is the epicentre of technological innovation with some of the biggest technology companies domiciled there (from hyper-scalers to frontier AI labs which build large scale foundation models and memory). The US also still leads in AI compute, via Nvidia.

On a fundamental basis, these tech companies are winning. In the June quarter reporting season, hyper-scalers generated very strong incremental operating margins from AI-driven revenue and the core services emanating from AI workflows.

Forecast margins in the US are at a record high. Whilst forecast margins for Europe are also at all-time highs, the US market has a greater weight in high margin sectors.

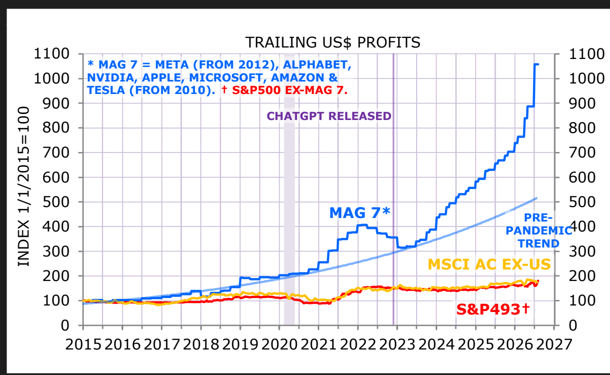
Margins expected to rise to record levels



Source: IBES/LSEG, MSCI, NBER; Minack Advisors

Rising margins are driving rising profits. Robust earnings growth was the key driver of US equity outperformance in the past 15 years, driven by big tech. And that cohort continues to deliver, as reflected by ~ 60% earnings growth in FY26.

Big tech drives US EPS outperformance



Source: Bloomberg, IBES/LSEG, MSCI, NBER; Minack Advisors

Can this continue? We think so albeit we believe the earnings growth will broaden to other segments of the market, with frontier AI labs and other companies investing heavily in tech enablement.

Why should I care?

Whilst it is difficult to forecast accurate earnings growth and predict which company ultimately wins, betting against the value creation and productivity gains likely to emerge from the technological revolution we are experiencing is flawed.

The characteristics outlined above will likely continue to drive the "exceptionalism" of the US as a place to invest capital. It's thus likely that US equities will continue to trade at a premium relative to the rest of the world, particularly as company fundamentals remain strong. We think this is warranted and therefore remain constructive on US equities.

Why have long-dated bond yields been rising?

What's going on here:

- The ascent in long-dated bond yields can be traced to both inflation and non-inflation-based factors including market unease over public debt levels.
- Absent a marked improvement in the US fiscal position and Iran conflict, long-dated US Treasury (UST) yields are likely to remain elevated.

What does this mean?

The march higher in global long-dated bond yields has been at the forefront of fixed income investors' minds recently. As the poster child of long bond underperformance, the 30-year UST nominal[1] yield peaked at 19-year highs in August, having climbed circa 70 basis points (bps) from early March. Several factors can be attributed to this move, across both inflation and non-inflation-based factors.

The impact on global oil/supply chains from the drawn-out Iran conflict is the most obvious factor driving higher inflation expectations. However, the surge in real yields (i.e. non-inflation-based drivers) are equally important – chief among these are concerns on the US fiscal position, coinciding with total public debt hitting the US$40tn mark in August. The new US Federal Reserve (Fed) Chair's use of more vague market communication has also created higher uncertainty for bond investors. To this end, in Friday's Jackson Hole symposium speech, Kevin Warsh maintained a generally hawkish tone on inflation, and restated the Fed's preference for limited forward guidance on potential Fed rate moves with a greater focus on real-time market signals.

Meanwhile, competition for capital from the hyperscalers tapping USD corporate bond markets to fund AI-related capex is a recent phenomenon. Solid US GDP growth and Japanese Yen weakness are other key factors for the rise in real yields. The US is not alone though, with 30-year bond yields in the UK and Japan at multi-decade highs.

[1]The nominal government bond yield is the headline yield quoted in the market, before allowing for inflation. The real yield is the inflation-adjusted yield. Real yield = nominal yield – expected inflation.

Overall, this highlights that long-dated bond investors are demanding greater compensation for taking on additional interest rate duration and fiscal risks, not just repricing for inflation. In essence, following an extended period of central banks supressing yields, and with interest rates normalising in recent years, this is a story about the return of the term premium.

Absent real US fiscal consolidation and a clear resolution of the Iran conflict and key shipping lanes, long-dated UST yields are likely to remain elevated, reflecting relatively high inflation expectations, GDP growth and net bond supply in the US. The Treasury Secretary's announced intention last month to double their buyback of longer-dated USTs to US$4 billion per operation, is a band-aid, not a structural solution, as shown by the immediate bond market reaction.

Short-dated UST yields will continue to be more influenced by the Fed monetary policy outlook. Reflecting this, the two-year UST yield has also moved higher by circa 50 bps since April, as market pricing pivoted from rate cut to rate hike expectations. Domestically, the two-year AUD government bond yield is higher by circa 1.4% since October 2025 given three rate rises from the RBA and as at late August, is largely pricing in a fourth rate hike, consistent with CBA's view[2].

Why should I care?

Elevated interest rates present both key risks and opportunities for fixed income investors.

As we have previously outlined, higher for longer portfolio yields are constructive for fixed income return potential, noting that the starting yield is not the whole story – it's total returns.

From a defensive viewpoint, higher for longer yields also provide a greater buffer for funds against adverse interest rate and credit spread moves, and thus negative returns, amid low credit spread levels, especially in the USD and EUR credit markets.

However, for standalone fixed income investments that aren't part of a diversified portfolio, these bond market conditions again supports investing via absolute return-based fixed income managers. These managers operate portfolios that maintain low-to-moderate interest rate and credit duration positioning that is actively managed within this tight range.

[2]CBA Economics note 27 August 2026: "The RBA to lose patience – rate hike now expected in November".

Should bank hybrid investors be concerned about an early regulatory call?

What's going on here:

- The upcoming regulatory capital change for domestic bank hybrids (bank hybrids) gives issuers the **option** to redeem these securities at par.
- With ASX-listed major bank hybrids trading \$2-\$6 above par, investors should be aware of this low, but non-zero, early call risk.

What does this mean?

As investors of Australian bank hybrids are acutely aware, the level of outstandings in this fixed income sector continue to diminish. This follows APRA's edict to remove hybrid or Additional Tier 1s (AT1) from domestic banks' capital stack. Indeed, a further A\$2.1bn of AT1s issued by Macquarie Group and CBA is due for call on 10 September and 20 October respectively, with these funds likely to be "looking for a home".

One "sleeper" issue that has been occupying our minds is the upcoming change in regulatory capital status for bank hybrids, a subject that has received some media attention recently. From 1 January 2027, bank hybrids will no longer count as AT1 regulatory capital in a domestic bank's capital structure. They will, instead, contribute to Tier 2 capital.

In the typical AT1 prospectus for ASX-listed bank hybrids, this change in regulatory status will allow the banks to declare a "regulatory event", giving them the ***option*** to redeem their hybrids at par, if certain conditions are met. Chief among these is the need to obtain redemption approval from APRA. To this end, we do note recent press reports[3] quoting the regulator on this topic: *"When APRA finalised transitional arrangements for AT1s in December 2025, we stated that we do not expect to approve regulatory calls of transitional AT1 instruments at an earlier date than the first call option date."*

For this reason, as well as the reputational consequences with wholesales investors that would ensue for banks that redeem early under a "reg call", we consider this to be a low probability scenario.

However, it would only take one bank issuer to initiate a regulatory call to reprice the ASX-listed hybrid market, and the economics for the issuing bank are notable – while the trading margins (being the market-implied credit spread based on the capital price) for listed major bank hybrids have compressed to 150-200 bps[4] over the bank bill swap rate (BBSW), the current issue margins on these securities are 260-350 bps over BBSW. This compares to the much lower margin of 120-130 bps over BBSW for a major bank Tier 2 bond with a circa five-year call date. The marked fall in trading margins has pushed the capital price of ASX-listed Australian major bank hybrids above par. As of late August, these ranged from circa \$102-106.

Why should I care?

For this reason, combined with the non-zero chance of an early regulatory call, investors should be aware and ask themselves am I receiving adequate compensation?

[3]Source: the AFR on 12 August 2026 entitled "The bank hybrid shock trade that is causing anger and anxiety"

[4]All market levels/data quoted in this section are as of 25 August. Source: MST.

Australian equity reporting season review

Key insights:

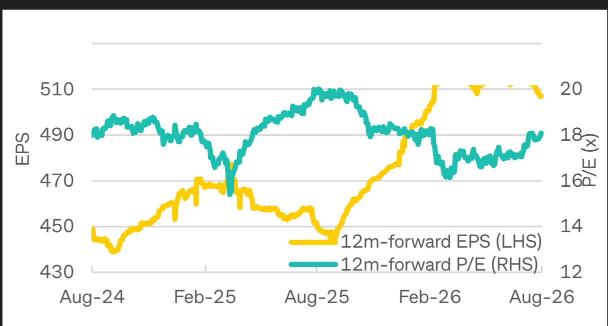
- Aggregate S&P/ASX 200 earnings expectations have been revised lower during the August reporting season, in contrast to the solid upgrades seen in February.
- Share price moves have far exceeded earnings revisions, creating opportunities for active managers to distinguish market noise from structural signals.
- M&A activity also picked up in August, underscoring the strategic value still evident in listed assets.

The August equity reporting season hasn't delivered the positive earnings revisions seen in February. As at market close on 25 August 2026, 12-month forward Earnings Per Share (EPS) for the ASX 200 had declined by approximately 1.3% from end-July. The earnings upgrade cycle has stalled since peaking in early-April, with downgrades appearing to gather pace during August.

Compared to six months ago, Australian corporates are contending with revenue and cost pressures from higher interest rates and inflation, tighter household budgets and slower housing activity.

Despite the softer earnings outlook, valuation multiple expansion lifted the domestic equity market in August by circa 2.4% through 25 August. The 12-month forward Price to Earnings (P/E) multiple increased to around 18 times (x), from the mid-17x range at the end of July.

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



Source: Bloomberg Finance L.P., Commonwealth Private Investment Research Team, as at market close of 25 August 2026

Key sector scorecard and takeaways

Sector	Result read-through	Market Reaction	Key theme
Healthcare	In line to modestly ahead	Positive	Better than feared; re-rating from low expectations
Banks	Mixed to soft	Weak	Mortgage applications slowed; credit quality remained resilient
Resources	Generally supportive	Positive	Commodity price support and diversified earnings drivers
Consumer	Mixed	Mixed to weak	Selective spending and a focus on trading update

Healthcare best illustrated how results were judged against expectations rather than headline earnings growth alone. Several large companies entered reporting season after sustained share-price weakness, earnings resets and low investor confidence. As a result, positive share-price reactions required less evidence of strong absolute growth than signs that downside risks were becoming more manageable.

CSL was the standout example. FY26 revenue declined 1% in constant currency, while underlying net profit after tax (NPAT) fell 3% and statutory earnings were further affected by restructuring and impairment charges. However, better-than-feared plasma indicators and guidance for circa 5% underlying NPAT growth in FY2027 drove a sharp relief rally. Healthcare has been the strongest GICS sector month to date, rising 20.6%.

Major banks reported broadly sound prior-period earnings, but each disclosed a sharp fall in mortgage applications during the June quarter, particularly after the May Federal Budget, when proposed tax changes weighed on housing market sentiment.

Because applications lead approvals, settlements and balance-sheet growth, the full impact has not yet appeared in reported loan balances. Existing mortgage books and deposit franchises should continue to support near-term revenue, while higher rates may provide some margin support. However, weaker application flow points to softer system housing credit growth and ongoing competition for new customers.

Credit quality remains the key offset. Across the major banks, non-performing and stressed exposures remain low, with capital and provisioning buffers still substantial. Some early indicators warrant monitoring, but broad-based credit deterioration is not yet evident.

Although the Banking sector's 12-month forward EPS edged up marginally in August, investors adopted a more cautious stance. The sector's P/E multiple contracted from nearly 20x at the end of July to below 18x, contributing to its underperformance.

Resources remained a key source of earnings and cash flow support for the Index. Unlike the valuation led relief seen in parts of Healthcare, support for the major miners was more closely tied to commodity prices, operating delivery and expected cash flows.

However, Resources should not be viewed as a one-way earnings story. Earnings forecasts remain sensitive to spot commodity prices, foreign exchange assumptions and production outcomes.

Consumer-facing companies reported mixed results, offering no clear sector-wide read on household spending. Some businesses showed resilient demand, pricing power and strong execution, while others reported softer volumes, more selective customers and pressure on near-term trading.

Overall, the sector points to a selective, rather than weak, consumer. Value oriented categories continue to perform reasonably well, while discretionary and big-ticket purchases remain more exposed to economic uncertainty.

The results also highlight that strong historical earnings growth may not be enough to support a share price when valuation already assumes continued strong execution. In this environment, even a modest miss or softer trading update can have a larger impact than the resulting change to next year's earnings forecast. Consumer exposure remains a stock-selection exercise, with business mix, competitive position, valuation and cost control more important than broad sector labels.

Sharp share price moves create opportunities

Large result-day moves again defined reporting season. Of the 140 S&P/ASX 200 companies reporting by 25 August, 23 moved more than 10%, yet only four recorded a comparable change in next year's EPS forecasts.

These reactions can reflect changes in long-term cash-flow expectations, but also starting valuations, crowded positioning, systematic flows and low tolerance for disappointment. This creates opportunities for active managers to distinguish short-term noise from genuine changes in long-term value. Negative reactions may be attractive where franchise quality, cash flows and competitive position remain intact; positive reactions may prove fragile when driven mainly by relief from low expectations.

M&A signals value in listed assets

Corporate activity also increased in August. EQT Infrastructure's indicative proposal for Cleanaway, takeover interest in Reliance Worldwide and other transactions suggest strategic buyers and private capital still see value in listed companies despite softer earnings.

Acquirers appear willing to look through near-term headwinds and focus on long-term cash flows, competitive positioning and strategic value. While it is too early to call a broad takeover cycle, recent activity may signal a gap between public-market pricing and private-market assessments.

Investment implications

The season points to three conclusions. First, aggregate earnings expectations have softened, increasing the importance of earnings delivery as valuations expand. Second, sector outcomes remain uneven: Healthcare benefited from low expectations, Resources from stronger cash flows, Consumer trends were mixed and Banks turned more cautious. Third, share price moves continue to outpace near-term earnings revisions, creating opportunities where market pricing diverges from long-term value.

We remain focused on diversification, valuation discipline and companies with resilient cash flows, sound balance sheets and clear strategic direction.