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# Portfolio Perspectives

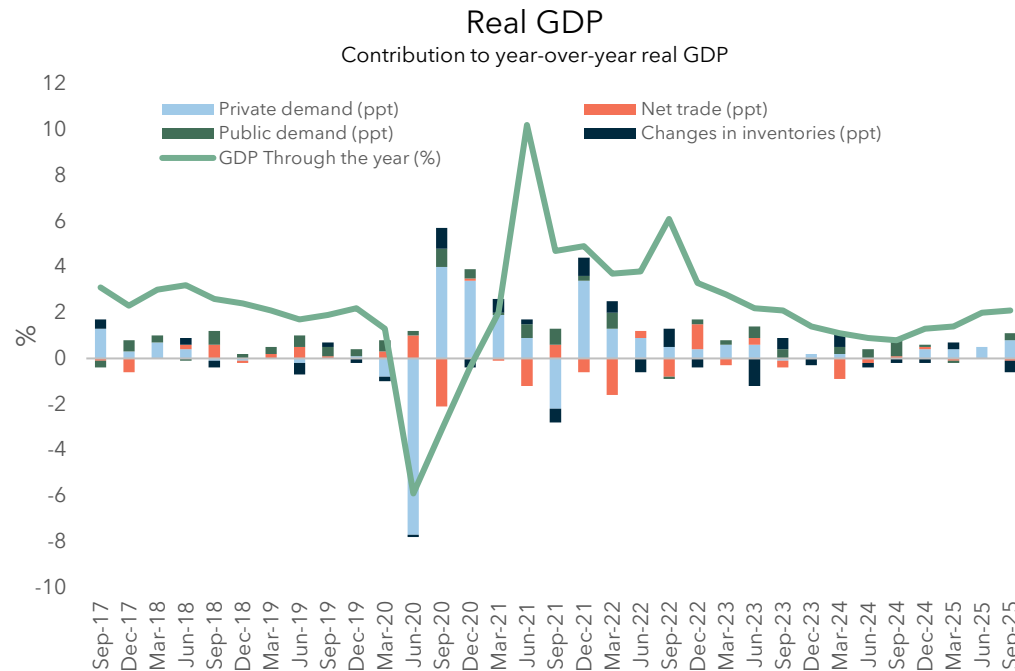
February 2026

# Key Messages for Investors

- The Australian economy has turned the corner, moving from below-trend GDP growth into a more sustainable expansion, supported by domestic factors including population growth, easing real income pressures, and resilient services activity.
- Private sector momentum is now the dominant growth driver, with household consumption and non-mining investment providing higher-quality, earnings-positive growth than prior public-led phases.
- The outlook for Australian earnings has improved with Forward EPS growth now positive after three years of declines.
- The recovery has however, been narrow and of low quality; heavily reliant on commodity price-driven upgrades in the Resources sector. Most sectors outside resources are undergoing downward revisions.
- For the earnings recovery to be durable, non-resources sectors need to translate domestic demand and investment into sustained revenue and margin gains. Headwinds from rising bond yields, bank pressures, and AI capex concerns may delay a broader upswing.

# Australian economy turns the corner

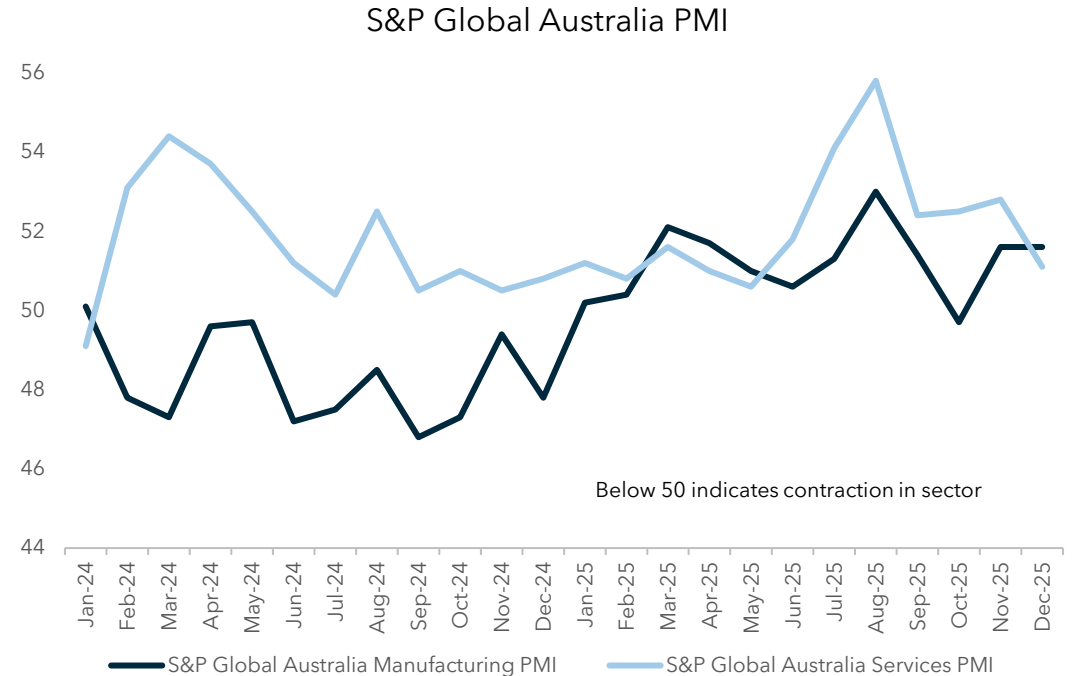
## Australian economy turns the corner



- After a period of below trend growth, the macro-outlook is improving. 3 rate cuts by the RBA in 2025 have reinvigorated domestic demand, driving the Australian economy back towards trend growth.
- Domestic demand is re-accelerating, employment growth remains solid and hiring intentions have strengthened.

Source: Australian Bureau Statistics, Bloomberg, Evidentia Group estimates

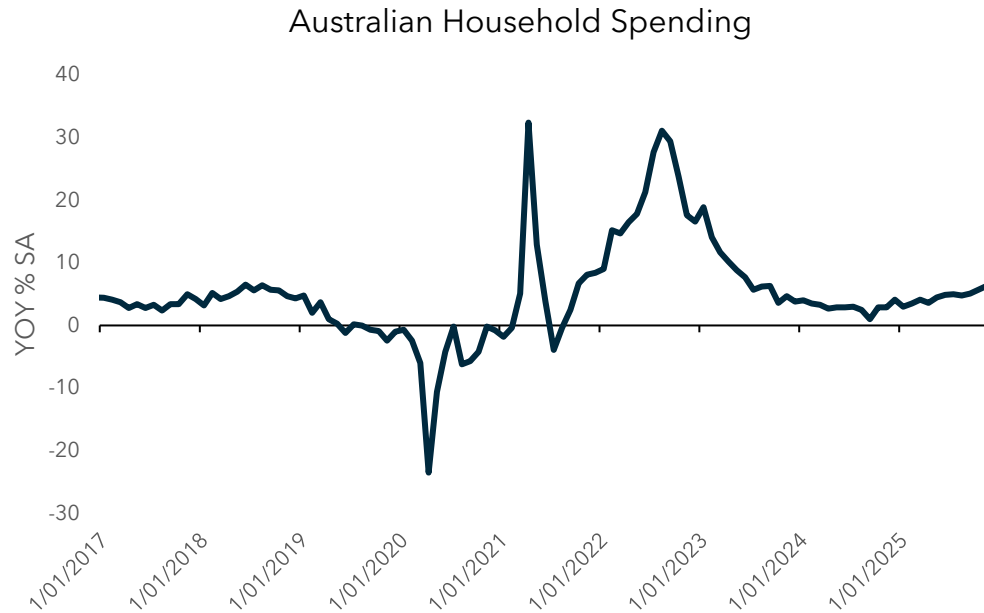
## Manufacturing and Services sectors expanding



- Both manufacturing and services PMIs have for the most part remained above the 50 threshold into since late 2024, indicating ongoing expansion.
- The expansion has been driven by domestic momentum (resilient household spending and population-driven demand) despite cost-of-living pressures and softer international demand.

# The Private Sector steps up

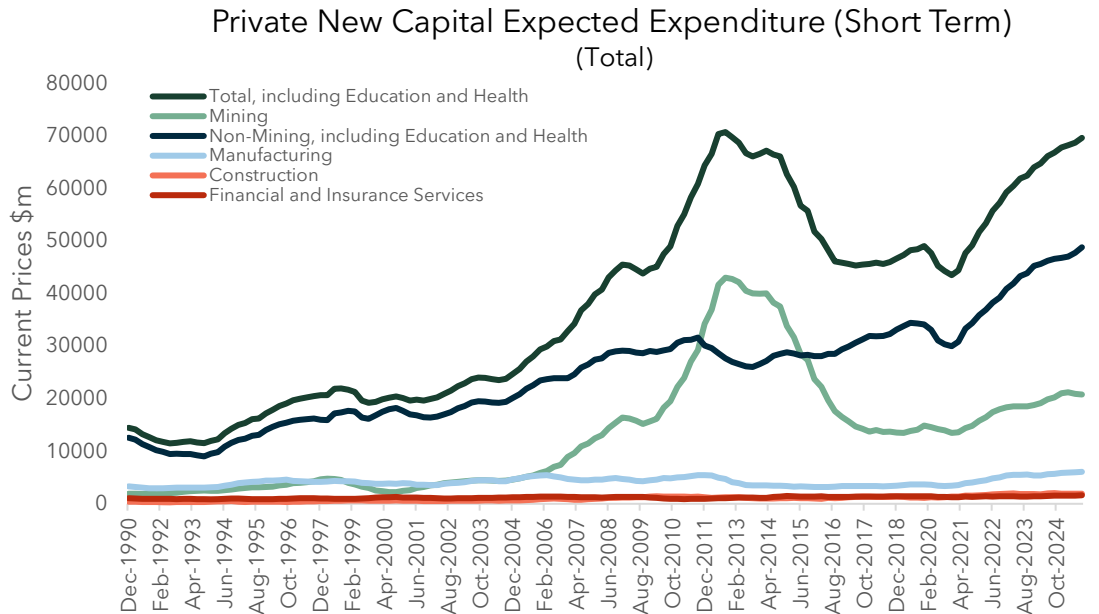
## The Australian Consumer is spending



- The private sector is leading the improved growth outlook. Australian household spending is up 6.3% for the year indicating consumers are feeling confident about their finances. Private consumption accounts for more than half of GDP.
- Household sentiment has improved due to steady economic growth, reduced inflation pressures, and expectations of continued job security, encouraging larger purchases and discretionary spending.

Source: Australian Bureau Statistics, Bloomberg, Evidentia Group estimates

## Businesses are planning new capital expenditures



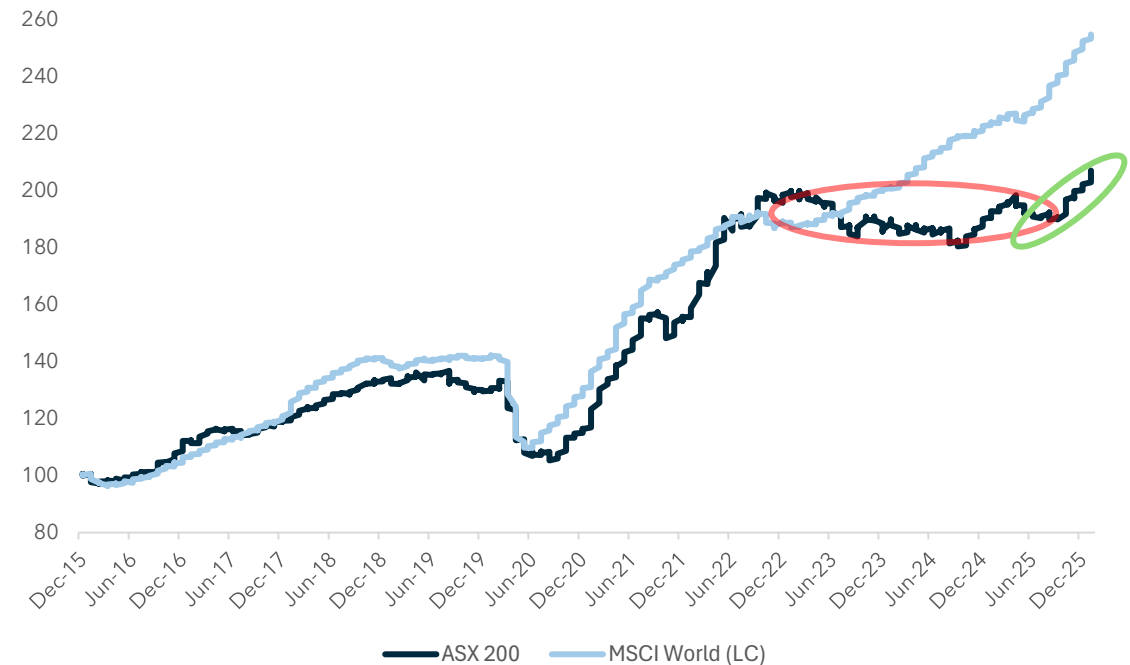
- Private Investment accounts for a further 12-14% of GDP. There has been a renewed upswing in expected short-term capital expenditure on both Building & Structures as well as Plant, Equipment & Machinery.
- The non-mining sector has led the way. Renewables, grids, storage, data centres, and defence are providing multi-year, policy-backed capex demand.
- GDP is circa 1.5 - 2X more sensitive to non-mining capex than mining capex due to labour-intensive, domestic services stronger wage & consumption links.

# Australian Equities: Forward Earnings Recovery?

A recovery in the growth trend of Australian Forward EPS may be in its initial stages

- Earnings have lagged in Australia vs World throughout '24 and '25' leading to underperformance in 2025.
- ASX200 forward earnings had grown in lockstep with MSCI World for most of the past 10 years until a divergence at the end of 2023. Following the 2022 earnings slump, global shares made a strong recovery in earnings growth, while ASX200 earnings has been flat.
- Over the past 6 months ASX forward earnings estimates have improved and once again in line with the growth of global share markets.
- However, it may be too early to conclude a consistent trend in earnings is forming. For example, earnings also looked to be improving in mid 2024 but did not persist.

Forward Consensus Earnings\*  
(Indexed to 100)

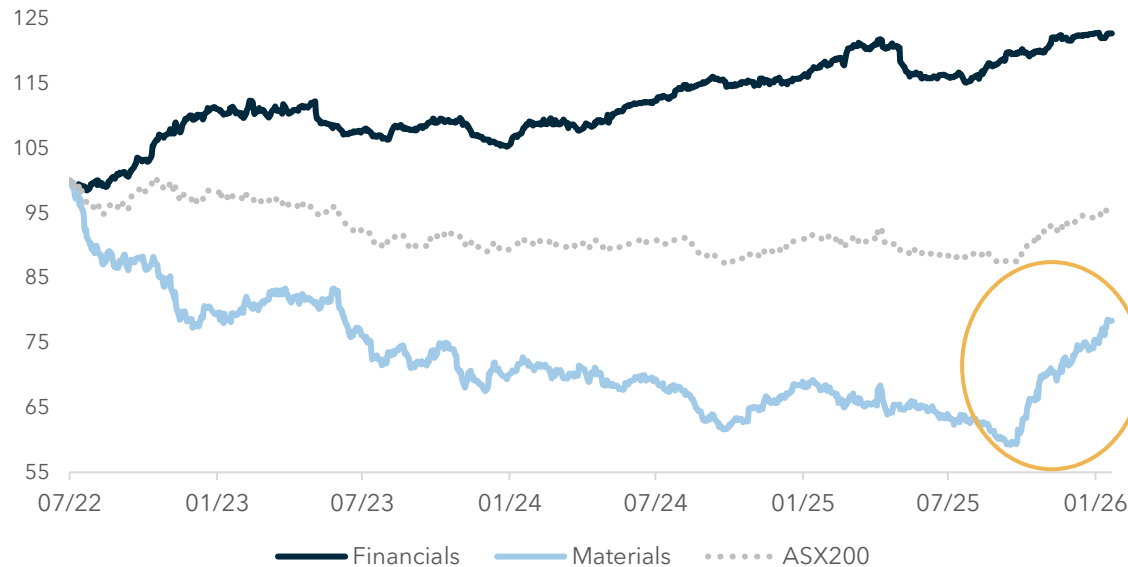


\* EPS is adjusted to accommodate differing dividend payout ratios by assuming all dividends are reinvested.

# A deeper look: Australian equities earnings

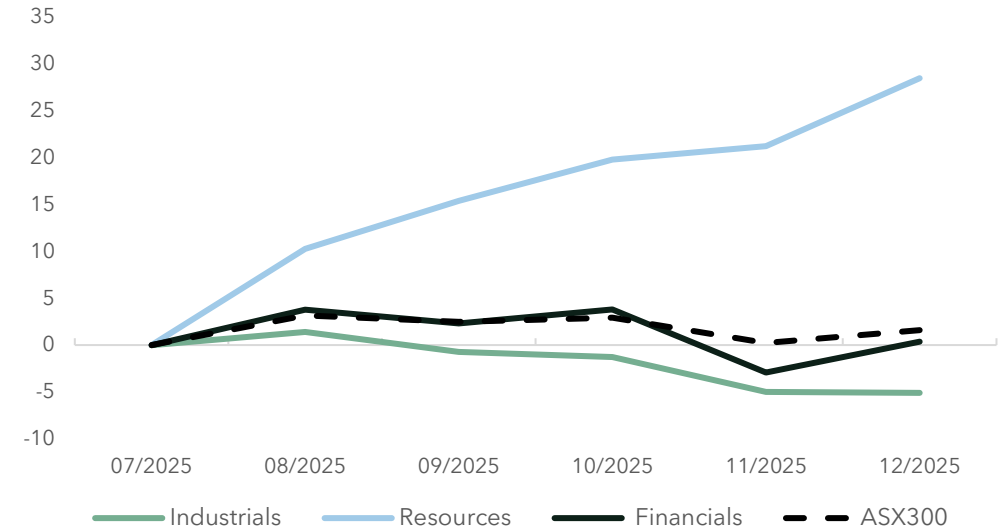
## Higher commodity prices are lifting market earnings growth expectations for 2026

ASX200 earnings revisions - 12 months forward



- Higher commodity prices have significantly increased forward earnings growth expectations in the Resources sector.
- This rise has, in turn, boosted the overall market growth expectations for fiscal years 2026 and 2027.
- However, despite this appealing headline, earnings growth expectations for the rest of the market have declined during the second half of 2025.

Sector returns indexed since 30 June 2025



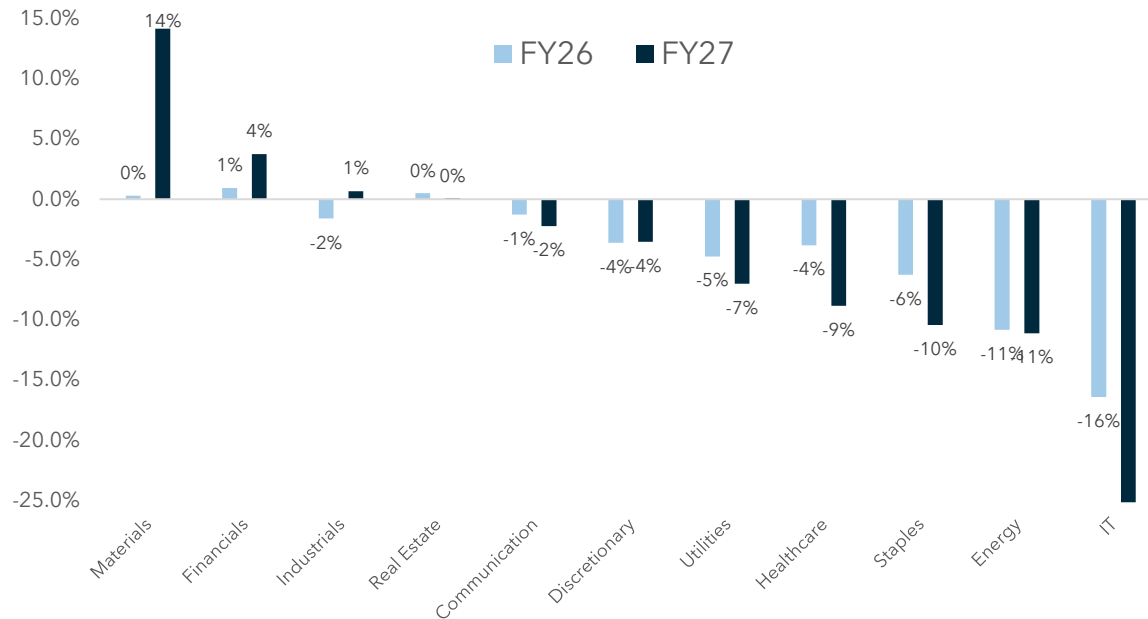
- Since June 30, 2025, there has been a significant shift in the market away from Industrials and toward the Resources sector.
- This change has mainly been driven by a lack of positive earnings revisions outside of the resources sector.
- Weak earnings momentum and historically high valuations for banks have contributed to the underperformance of Australian equities vs Global equities. This trend is expected to continue as a headwind in 2026.

Source: Factset, Evidentia Group estimates

# Resources have dominated

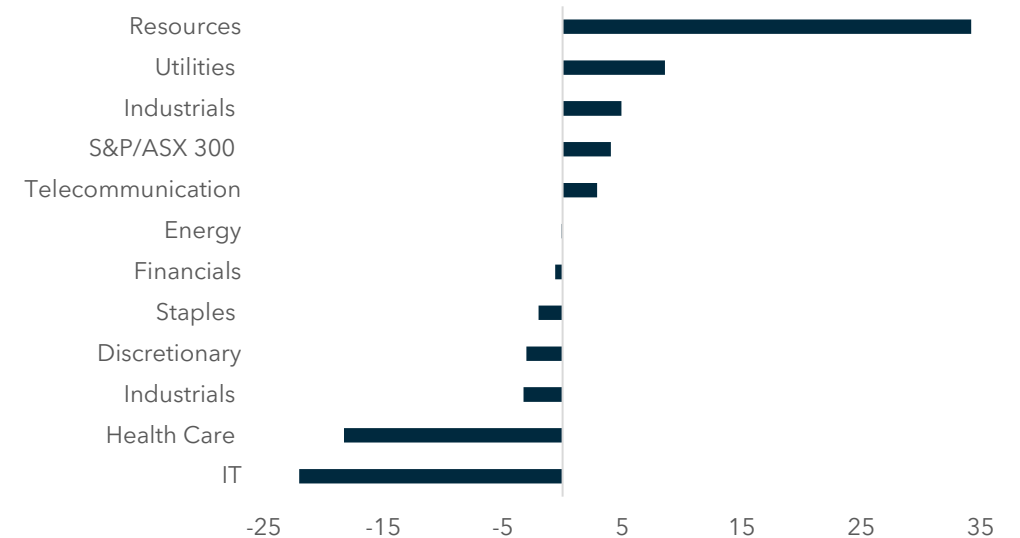
## Returns and earnings revisions have been narrow and dominated by the Resources sector

GICS Sector EPS revisions since 30 June 2025



- Upward revisions to earnings forecasts on the ASX have been predominantly driven by the Resources sector on the back of higher commodity prices.
- Excluding Resources, 7 out of 11 GICS sectors have experienced net earnings downgrades for FY26 & FY27 since 30 June 2025.
- A broadening of growth expectations among the Industrials universe is needed to gain confidence in the sustainability of the earnings recovery on the ASX.

ASX300 sector returns since 30 June 2025



- The ASX300 Resources sector dominated returns for the first half of FY26, delivering a total return of 35%, while the broader ASX300 Industrials benchmark returned -3.3%.
- The significant divergence in sector returns over the half highlights the lack of earnings visibility in the broader market and the volatile nature of earnings upgrades purely driven by higher commodity prices.

Source: Factset, iRate

# Dynamic Asset Allocation Summary – Growth

Asset Class	Outlook				Comments
	Negative	←	→	Positive	
<b>Growth Assets</b>					An improving macro-economic backdrop and strong earnings growth momentum provide a positive setting for growth assets. Valuations remain very stretched and the path of cash rates less clear. We remain cautiously optimistic and recommend a neutral position to growth.
Australian Equities		→			Macro conditions are improving and capex expansion is encouraging. We believe inflation will remain contained however there remains risk of RBA hikes which would create a headwind. While earnings growth is accelerating, we see this as narrow and of low quality based on commodity prices. Most sectors outside resources are undergoing downward revisions. We recommend remaining underweight.
Australian Small Caps					Unprofitable junior miners make up a large portion of the Small Caps sector vs Large Caps. There is also considerable froth in this portion of the market due to the strength in gold.
Global Equities					Earnings growth and sentiment is broadening for sectors outside US mega tech and AI, which if sustained should support a recovery in active manager alpha. We remain neutral.
Global Small Caps					Valuations remain somewhat attractive. With US companies forming 63% of the small cap index, tariff policy uncertainty should fade as a headwind.
Emerging Markets Equities					Earnings growth continues to accelerate across emerging markets. We remain neutral and look for a recovery in the Chinese consumer to build further conviction.
Property					Global Listed Property valuations are attractive in comparison to global equities. The challenges on growth and supply are fading. US rate cuts should give support. Remain mildly overweight, be conscious however of combined real asset position.
Infrastructure					Our forecast returns for global infrastructure are above global equities. This combined with the attractive defensive attributes of infrastructure and long-term result in a mild overweight recommendation. If further rate cuts materialise this should provide further tailwinds.
Alternatives - Growth					Notable improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions and sentiment are well positioned.



# Dynamic Asset Allocation Summary – Defensive

Asset Class	Outlook Negative ← → Positive					Comments
<b>Defensive Assets</b>						We move to neutral on defensive assets, as equity fundamentals improve.
Australian Bonds				→		We observe similar yields on offer for Australian Fixed Income vs Global Fixed Income (once currency hedging carry is accounted for), however see more risk off-shore. We retain a mild preference for Australian duration.
Global Bonds						Some lingering uncertainty for the US inflation outlook and loosening of fiscal discipline by developed market governments could see further volatility at the long end of global government bond yield curves. We recommend active management to navigate the current environment and/or a mild underweight.
Diversified Income						Credit spreads have tightened and expected excess returns are at the lower end of historical ranges. While we do not see significant downside risk in high quality credit, we downgrade to neutral in recognition of more modest forward looking return expectations. (Comfortable to hold but not inclined to add).
Alternatives - Conservative						Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash and Enhanced Cash						Cash can serve as a useful short term tactical defensive exposure while credit spreads are tight.

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