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# Portfolio Perspectives

February 2026

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## 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 earnings 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.
- We remain slightly underweight Australian Equities (for now).

### **The Macro: From Stagnation to Re-acceleration**

The Australian macroeconomic landscape has undergone a meaningful shift over the past six months. After an extended period of below-trend growth and elevated inflation, the economy has entered a new phase of re-acceleration, albeit one accompanied by renewed complexity rather than outright clarity.

This transition marks a departure from the stagflation-like conditions that defined much of 2023 and early 2024. At that time, growth was narrow, confidence was subdued, and inflation constrained both household behaviour and policy flexibility. Today, the narrative has evolved. Domestic demand has broadened, the private sector has re-engaged, and leading indicators point to a more sustainable expansion.

However, this recovery is not without tension. Inflation has re-accelerated to levels that are uncomfortable for policymakers, complicating the Reserve Bank of Australia's

(RBA) path forward. Just this week the RBA has lifted the cash rate by 25 basis points (to 3.85%) in the first upward move for rates in more than two years. Meanwhile, the earnings recovery in Australian equities remains uneven, heavily reliant on the resources sector and vulnerable to shifts in commodity prices rather than volume-driven demand.

### **GDP Growth Moving Back to Trend**

Australian GDP growth is now running close to trend (currently 2.1%), marking a clear improvement from six months ago when activity was firmly entrenched in below-trend territory. Recent data indicate the economy is steadily converging towards the economy's long-run growth speed limit of around 2.3%.

This improvement is more than a simple cyclical rebound. It reflects a meaningful broadening in the sources of growth, reducing dependence on a narrow set of sectors and increasing the economy's resilience to external shocks.

The recovery is being driven primarily by domestic demand, supported by three reinforcing factors. First, population growth continues to provide a strong underlying floor for consumption. Even amid ongoing real income pressures, demographic momentum sustains baseline demand for housing, essential goods, and services. Second, real income pressures have begun to ease. While cost-of-living challenges remain elevated, the moderation in inflation through much of 2024 and early 2025 has helped stabilise real incomes. Together with three RBA rate cuts in 2025, this has improved household cash flow and bolstered consumer confidence. Third, services activity has remained resilient, underpinning employment and wage stability. This strength has played a critical role in preventing a more pronounced pull-back in demand during the slowdown that commenced in late 2022.

As a result, the current expansion is less concentrated in a handful of sectors and is instead more evenly distributed across household consumption, business investment, and services activity.

Leading indicators support the view that the economy is transitioning into a more durable phase of expansion. Business sentiment has improved, both Manufacturing and Services PMIs have remained above the 50 threshold since late 2024, and non-mining investment indicators point to rising capital expenditure intentions. Taken together, these signals suggest the economy is moving beyond the slowdown phase and into a period of steadier, domestically driven growth.

## The Private Sector Steps Up

A defining characteristic of the current expansion is the clear re-engagement of the private sector as the primary engine of growth. Earlier stages of the recovery relied heavily on public spending and policy

support, but that reliance has now diminished as momentum has shifted decisively toward households and businesses.

Household consumption has been particularly resilient, rising 6.3% year-on-year despite ongoing cost-of-living pressures. Given that private consumption accounts for more than half of GDP, this represents a critical pillar for the broader growth outlook. The resilience of the consumer reflects a lift in household sentiment following three RBA rate cuts in 2025, continued employment security, and an improving willingness to bring forward discretionary and non-essential spending that had previously been deferred.

Business activity is reinforcing this momentum. Private investment, which represents roughly 12-14% of GDP, has strengthened materially. Expected near-term capital expenditure on buildings, structures, equipment and machinery has increased sharply, with total planned spending now approaching \$70 billion.

The most notable development is the pronounced upswing in non-mining investment intentions, with planned short-term capex nearing \$50 billion. This reflects multi-year, policy-supported investment across renewables, electricity grids and storage, data centres, and defence. These sectors are not only capital-intensive but also deeply embedded in the domestic economy.

This distinction between mining and non-mining capex matters. GDP is estimated to be 1.5 to 2 times more sensitive to non-mining capex than mining investment, reflecting the labour-intensive nature of these projects and their stronger transmission into domestic services activity, wages, and consumption. With economy-wide productivity gains typically taking around four years to fully materialise, much of the

capex deployed from 2021 onward is now approaching the phase where its economic impact should begin to emerge.

## From Macro to Micro: An Earnings Inflection?

Australian corporate earnings materially lagged global peers through 2024 and 2025, a key factor behind the relative underperformance of local equities. While global markets rebounded strongly from the 2022 earnings downturn, Australian earnings failed to gain traction, remaining largely flat and reinforcing investor scepticism toward the domestic market.

More recently, there has been a tentative improvement. Over the quarter, forward earnings expectations for the ASX have begun to lift materially and, importantly, are once again tracking in line with global earnings trends.

The improving outlook is increasingly consistent with where Australia sits in the capital expenditure cycle. While capex does not translate into earnings immediately, non-mining investment in particular has a relatively short and reliable transmission lag—typically 12 to 18 months—before flowing through to revenues and profitability. Much of the capex deployed in recent years is now approaching this window, suggesting that earnings tailwinds should become more visible through 2026 and into 2027, provided domestic demand remains resilient.

This dynamic is beginning to show up in consensus forecasts. After three consecutive years of negative EPS growth, Bloomberg estimates have turned positive for Australian equities. Markets are now pricing in a V-shaped recovery in earnings across FY26 and FY27. This represents a meaningful shift in sentiment and warrants a reassessment of Australia's relative equity appeal, particularly

given improved valuation support following prolonged underperformance.

## Earnings revisions have been narrowly focused

However, the composition of this earnings recovery remains a key concern. Higher commodity prices have driven a sharp upgrade cycle in the Resources sector, lifting aggregate market earnings expectations for FY26 and FY27 and triggering a pronounced rotation into resource stocks, largely at the expense of Industrials.

Beneath the headline improvement, the recovery is narrow. Excluding Resources, seven of the eleven GICS sectors have experienced net earnings downgrades since mid-2025. This concentration has also been reflected in performance outcomes: the ASX300 Resources sector delivered a total return of around 35% in the first half of FY26, while the broader Industrials index fell by more than 3%. Such divergence underscores the fragility of the current earnings upswing and highlights the market's reliance on a single sector for growth.

Crucially, today's strength in commodities does not yet resemble a broad-based or demand-driven supercycle. Volume and production growth remain subdued, China-led stimulus has yet to materialise in a meaningful way, and price gains are concentrated in select commodities such as gold and lithium. In this environment, earnings upgrades driven predominantly by price sentiment rather than underlying demand are inherently more volatile and vulnerable to reversal.

For the Australian earnings recovery to become durable, it must broaden beyond Resources. Industrials and domestically oriented sectors need clearer evidence that improving household demand and rising

non-mining capex are translating into sustained revenue growth and margin expansion. Until that occurs, confidence in the earnings cycle will remain conditional.

In the near term, several headwinds continue to delay confirmation of a broader upswing. Rising bond yields are weighing on equity valuations, bank earnings face structural and valuation pressures, and parts of the technology sector are contending with investor concerns around the returns on elevated AI-related capital expenditure. Together, these factors help explain why, despite improving macro conditions, the earnings recovery outside Resources remains tentative.

## Outlook & Positioning

Australia has moved from a fragile recovery to a more sustained expansion in growth. The macro backdrop is improving, private sector momentum is building, and earnings expectations are turning.

However, the recovery remains uneven and sensitive to inflation dynamics, the future path of interest rates and sector concentration. While the case for extreme pessimism has faded, a fully constructive stance requires confirmation that non-resources earnings growth is materialising.

The outlook for Australian earnings is improving—but the next phase will determine whether this inflection becomes a more durable trend.

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### Growth Assets Outlook

Asset Class	Outlook Negative ← → Positive			Comments
<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.
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.

## Defensive Assets Outlook

Asset Class	Outlook Negative ← → Positive	Comments
Defensive Assets		We are 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 are neutral in recognition of more modest forward looking return expectations.
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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