

# MONTHLY SUMMARY

## MARKET SUMMARY

### Equities – Australian equities outperformed global equities as US equities relatively underperform

- The theme toward increased diversification continued as market leadership broadened supported by robust economic conditions and strong profit growth. At the same time, investors have more deeply scrutinised the winners and losers from AI within the tech sector and beyond. Physical assets and some old economy value sectors have witnessed renewed interest.
- In local currency terms, the ASX200 rose 4.1% outperformed global equities-ex Aust (+1%). The UK (+6.7%), Asia-Pacific (+6.8%) and Japanese (+10.4%) equities also outperformed. Emerging markets (+6.2%) outperformed Developed Markets by 476bp. In AUD terms, global equities fell 1.1%.
- Notably, the 'Magnificent 7' fell 7.2%. Investors continued to rotate from IT into other sectors and jurisdictions. Conversely, Materials (Resources / Hard assets) continued to attract flows, benefiting from relative insulation, geopolitical risks, M&A, de-dollarisation and broad-based commodity strength.

### Sector performance trends – While index gains were solid, there was large diversion under the surface.

- Banks and Resources led the way in Australia. Within the ASX200, Materials (+9.1%), Financials ex property (+9.2%), and Consumer Staples (+6.1%) were the best performing sectors.
- Large caps in Australia outperformed small caps by 7.4%. The two largest stocks on the ASX, BHP and Commonwealth Bank, both reported strong results and rose ~17-18% driving gains in their respective sectors and the overall index.
- Healthcare (-13.3%), IT (-9.1%), and Consumer Discretionary (-5.8%) were laggards. Within Healthcare, Pro-Medicus (-31%), Cochlear (-28%) and CSL (-19%) all weighed on the sectors performance after posting disappointing results relative to expectations.
- IT stocks suffered as investors continued to price in risks of disruption from AI. Technology is now down nearly 38% in the last 6 months.
- Factors that performed included Size, Value and Momentum, while Growth and Quality factors continued to struggle. Value gains relative to Growth has been a recent global trend.

### Australian Bonds – Bond yields fell around the globe supporting Fixed income returns

- The Australian Fixed Interest index (Bloomberg Ausbond Comp 0+Y) rose 0.88% over the month. Australia's 10-year bond yield fell 16 bps to 4.65%. Bond yields fell around the globe as investors sought the safety of Bonds. US 10-year bond yields fell 30bps to 3.94%.
- While still tight, corporate credit spreads rose 30bps in Australia and 23bps in the US.

### Global economy - Geopolitical issues dominated.

- The Supreme Court's ruled against the IEEPA tariffs, however a new broad-based US tariff rate of 15% took effect, with sectoral tariffs on steel and aluminum remaining. The net effect on total tariff revenue is expected to be limited. At the end of the month, US strikes on Iran and subsequent retaliation increased uncertainty in the region.
- The US Federal Reserve held rates steady at 3.75%. Inflation remained behaved affirming the chances of future rate cuts, while employment measures were solid (unemployment rate fell to 4.3%).

### Australian economy – Inflation remains the issue

- The RBA raised rates 0.25% to 3.85% and signalled to more hikes amid inflation pressures.



- Inflation remains broad-based: January headline CPI rose 3.8% YoY, driven by electricity prices +18.5%.
- Economic growth strengthened, although confidence measures faltered as RBA rate hike expectations weighed. Unemployment was stable at 4.1%. Wage growth is stable and elevated. House prices rose 0.7% in February (month-on-month).
- The Australian dollar (AUD) appreciated 2.2% to 0.7118 USD

#### Commodities - Oil and precious metals saw notable gains

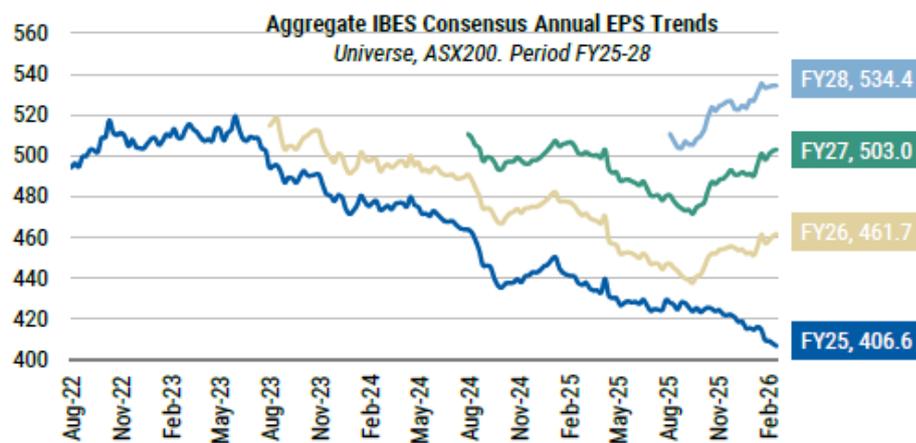
- Geopolitical tensions and tariffs impacted global markets, with oil and energy prices rising sharply.
- The CRB Index fell 2.3%, LME Base Metals +1.5%, Gold +7.9%, Oil +3.3%, Lithium rose 23% and Natural gas down 34.3%. Iron ore declined 3% to US\$100/t.

#### Reporting Season delivered amongst extreme levels of volatility

- Despite extreme levels of single stock volatility, overall, the Dec 2025 Australian reporting season was broadly solid registering more earnings & dividend beats than misses and more earnings upgrades than downgrades. Guidance was a key positive.
- Bank updates were strong displaying solid revenue growth, low bad debts and strong capital positions. The banks benefited from earnings upgrades driven by RBA rate hikes and solid results / trading updates.
- The US and European reporting seasons also delivered positive earnings surprises. Cyclical sectors delivered stronger growth than defensives, while IT and Financials were key drivers of earnings growth.

#### ASX200 -- Earnings revisions remain supportive

- Aggregate consensus earnings continue to move higher driven predominantly by Resources and Banks. ASX200 consensus earnings recorded upgrades (+3.7%) with Materials earnings +10.3%. Aggregate consensus earnings growth expectations for FY26 now sitting at +13.6% and +9.0% in FY27.



Source: RIMES, IBES, Morgan Stanley Research.

- The ASX200 is trading at 18.7x forward earnings (a +0.6 PE point rerate over the month) which is 14% above 10-year average.
- Global equities recorded earnings upgrades (1.6%) driven by Emerging Markets (+4.8%). Global equities are forecast to deliver 16.6% earnings growth in FY26F and 14.6% in FY27F with both Developed and Emerging markets contributing strongly.

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