Equity Trustees

July 2026

MONTHLY SUMMARY

MARKET SUMMARY

Overall, July delivered strong Australian equity market returns, largely driven by energy and financials, but underneath the surface earnings expectations softened, and bond yields moved higher. Similarly, beneath the calm headline indices of global equity markets a violent style rotation occurred. Solid earnings, M&A activity and robust macro data (despite the continued conflict in the Middle East) supported a broadening into a wider number of stocks out of IT/AI.

Equity market performance

- Australian equities outperformed most major developed markets, with the ASX200 rising +2.3%. Large caps outperformed small caps, reflecting a more defensive market backdrop. Australian equities benefited from relatively low exposure to the global AI sell-off and strong performance from energy and banking stocks.
- Global equity returns (MSCI World ex Aust +0.4% in USD terms and -0.9% in $A terms) were mixed during July. The global AI-driven equity trade unwound sharply, particularly impacting technology-heavy markets such as Korea (-24%) and parts of the US technology sector. Emerging markets underperformed Developed Markets.
- The US S&P 500 was broadly flat (-0.1%), while the US Nasdaq (-3.2%) and Japan's Nikkei 225 fell sharply (-8.1%) amid weakness in AI-related sectors. The UK FTSE 100 was among the strongest developed markets, rising +3.5%. Hong Kong (+13.1%) and Indonesia (+10.5%) were standout performers across Asia.

ASX200 Sector performance

- Energy (+12.2%) was the clear standout, supported by a sharp rise in oil prices following renewed Middle East tensions.
- Financials (+5.8%) also performed strongly, led by the major banks. Australian banks rallied strongly despite concerns around softer housing market conditions and ongoing pressure on earnings growth.
- IT (2.8%) was the weakest sector as investors reduced exposure to AI-related growth stocks.
- Globally, Energy and Financials outperformed while IT and Industrials lagged.
- The dramatic sell-off in IT exposed stocks was due to extended positioning after a very strong rally in the June quarter, inflationary concerns from continued spend, higher bond yields, a switch to viable alternatives at less demanding valuations, continued questions regarding the sustainability of AI capex spend and return on investment from the hundreds of billions being spent by Hyperscalers, funding questions (increased use of debt) and higher credit spreads for hyperscalers, negative impact on free cashflow, circular financing and increasing Chinese competition.

Bond markets

- Government bond yields rose globally (meaning bond values fell) as inflation remained elevated and central banks maintained a cautious stance.
- Australian 10-year bond yields rose 21bps to 4.93%, while US 10-year bond yields rose 27bps to 4.73%. US 30-year bond yields hit their highest levels since 2007.
- The rise in yields reflected concerns that central banks may need to keep policy tighter for longer, particularly given elevated energy prices and persistent inflationary pressure

Global economic news

- Ongoing Middle East tensions and disruptions around the Strait of Hormuz continued to support energy prices and contribute to inflation concerns.
- The US Federal Reserve maintained a cautious policy stance, noting inflation remained above target, while markets increasingly debated the possibility of future rate hikes.
- Global growth expectations remained mixed, with resilient US activity offset by weaker conditions in Europe and slowing momentum in China. Manufacturing data has been improving.

Australian economic news

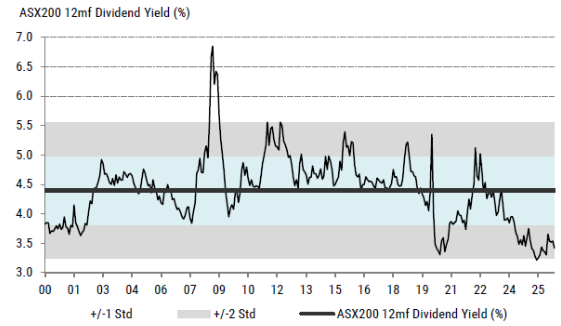
- Markets shifted toward expecting the RBA to remain on hold at its August meeting as inflation continued to moderate. Trimmed mean inflation was steady at 3.6% year-on-year (in June) slightly better than expected but still above the RBA target range of 2-3%.
- The labour market strengthened, adding 76,400 jobs in June. The unemployment rate was steady at 4.4%.
- Credit growth remained solid (June), however the housing market (house prices and sales) continued to soften. Business investment and capex remain solid.
- The Australian dollar strengthened 1.4% against the US dollar during the month, ending July near US$0.70.

Commodities mostly rallied

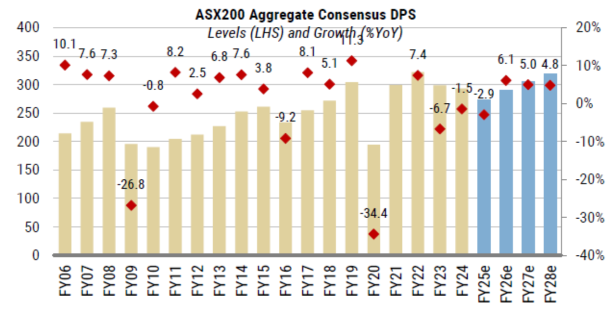
- The CRB Index rose 8.9% and LME (Base) metals index jumped 3.7%. Oil's sharp rally (+21.8%) was the key driver of market performance and contributed significantly to the outperformance of the Australian energy sector.
- Iron ore (-3.6%) prices weakened during the month, weighing on Materials stocks. Coking coal (-7.8%) and steel prices (HRC China -2.1%) also fell. Lithium fell 9% while precious metals declined slightly.

Earnings, dividends and valuations – ASX200 earnings momentum weakened

- Consensus FY27 earnings revisions for the S&P/ASX 200 fell 2.5%, reversing June's positive trend.
- The most significant sector downgrades occurred in: Energy (-11.1%), Materials (-5.7%), Utilities (-5.6%) and Information Technology (-4.0%).
- The ASX200 price-earnings ratio for the Australian market expanded to 17.5x (1 year forward). Earnings for the ASX200 in FY27F is forecast to grow by ~11.3%.
- The 12-month forward dividend yield of the ASX200 is ~3.4% which is below historic levels but still compares well to most global equity markets. ASX200 consensus dividend growth is forecast to be 6.1% in FY26 and 5% in FY27 – slightly below underlying earnings growth as the payout ratio of the market remains below historic levels. The recent budget announcements may incentivize Boards to favour income over capital returns and increase payout ratios (ie the percentage of earnings / after tax profits paid out as dividends).



Source: FactSet, IBES, Morgan Stanley Research.



Source: RIMES, IBES, Morgan Stanley Research.

- Globally, earnings revisions have risen. The 2Q US reporting season has started strongly with company results coming in above initial expectations of ~22.4% year-on-year growth.