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Market Overview

Bond yields surged higher over July following the resumption of military action in the Persian Gulf, renewing the now-familiar upward pressure on commodities exported from the region, including oil, LNG and petrochemicals. At the same time, markets were unsettled by an odd speech from the relatively new Federal Reserve Chair, Kevin Warsh, which left investors uncertain about the Fed's reaction function - that is, how the central bank is likely to respond to changes in inflation, unemployment and economic growth through its interest rate policy.

The market's conclusion was straightforward: rates are likely to move higher, either because the Fed raises them in September or because inflation ultimately forces them higher later. Together, these developments weighed on longer-duration global bonds while producing a very strong month for commodities.

Multi-asset returns

As at 2026-08-02

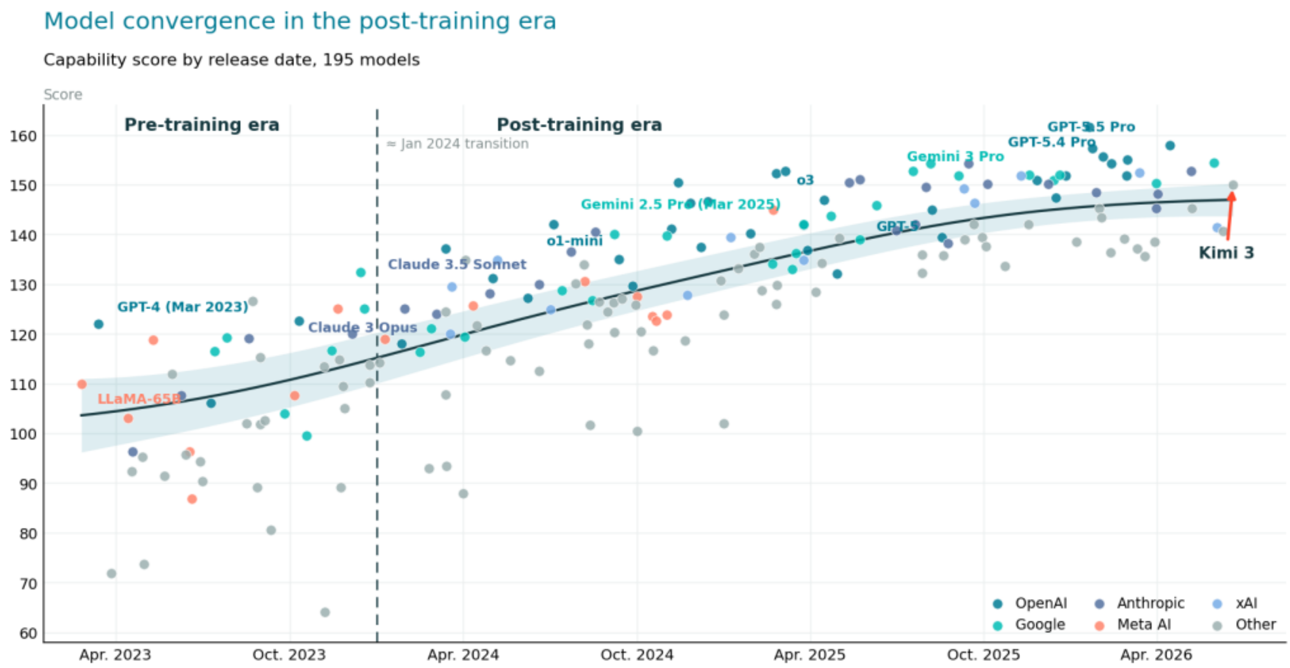
LONG_COMP_NAME	1W	1M	3M	6M	YTD	1YR	3YR	5YR
iShares 20+ Year Treasury Bond ETF	−1.20	−4.47	−2.84	−3.46	−3.49	−1.05	−2.34	−8.17
MSCI Emerging Markets EM Net Total Return AUD Index	1.85	−4.39	7.30	9.99	13.97	25.07	17.67	9.00
Vanguard MSCI International Small Companies Index ETF	0.25	−3.32	7.90	8.00	9.01	16.11	13.62	8.49
S&P/ASX Small Ordinaries Index	1.10	−3.14	−3.14	−13.01	−10.62	2.32	8.05	2.79
MSCI World Growth Index	1.03	−2.46	3.26	6.58	6.28	16.26	19.47	10.94
iShares iBoxx USD Investment Grade Corporate Bond ETF	0.02	−2.24	−1.29	−1.73	−1.39	1.86	4.01	−1.03
Vanguard International Shares Index Fund	0.34	−1.20	6.53	7.31	4.36	10.02	16.18	12.25
Vanguard International Shares Index Fund Hedged	0.45	−0.27	4.62	8.00	9.83	19.37	17.52	10.85
S&P 500 INDEX	1.06	−0.06	4.19	8.56	10.12	19.53	19.28	12.82
Vanguard Australian Property Securities Index Fund	3.16	−0.05	4.60	−2.56	−5.24	−5.23	9.71	5.33
FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index	−2.35	0.22	0.96	8.36	12.09	15.64	11.50	7.46
Vanguard FTSE Europe Shares ETF	2.88	0.82	9.65	4.48	4.42	11.37	13.64	9.65
SPDR Gold Shares	−0.10	0.86	−12.30	−16.50	−6.25	22.64	26.75	16.93
MSCI Australia Growth Index	2.27	1.62	2.90	−0.35	−0.78	−11.26	6.94	5.29
S&P/ASX 200	2.33	2.26	4.27	3.37	5.21	7.07	11.61	9.36
Vanguard International Property Securities Index Fund Hedged	0.35	3.24	5.53	12.33	15.36	17.82	8.84	1.01
MSCI World Value Index	1.45	3.64	5.77	9.72	14.92	25.47	17.60	12.01
MSCI Australia Value Index	2.36	4.87	7.09	13.04	16.76	28.35	16.62	14.67
Bloomberg Commodity Index Australian Dollar Total Return	−2.55	6.04	−2.89	11.16	16.77	24.23	10.59	11.57

Real assets like property and infrastructure continue to prove useful additions to diversified portfolios given they can pass inflation on. For property, rental income can be repriced through lease renewals and releasing spreads, while many leases include explicit CPI-linked rent increases. Regulated infrastructure assets, such as electricity and gas networks, often earn returns based on a regulated asset base with revenues linked to a "WACC-plus"

(Weighted Average Cost of Capital) framework that adjusts over time as costs and inflation change. User-pays assets, such as toll roads and airports, can also reprice relatively quickly through indexed tolls or pricing mechanisms, helping to preserve real cash flows.

Global shares

Korea’s equity market was once again extraordinarily volatile. The reason has its roots in the below.



Source: Epoch.ai, author's calculations 2026-07-24, last value as at 2026-06-20

Kimi 3, from Chinese company Moonshot, is the latest example of the “very good, cheap and cheerful” class of Large Language Models / Artificial Intelligence models released out of China. The fear is commodification of returns that will weigh on the US hyperscalers, whose capex plans out to 2030 cumulatively total in the trillions.

Last month we also noted the wildly implausible and unachievable earnings growth implied by the SpaceX IPO; this month the market seemed to agree, with the stock trading weakly.

Equity region returns

As at 2026-08-02

LONG_COMP_NAME	ISO	1W	1M	3M	6M	YTD	1YR	3YR	5YR
Korea Stock Exchange KOSPI	KR	−1.40	−22.18	0.05	27.08	57.55	105.83	38.28	17.78
Shenzhen Stock Exchange Composite	CN	0.38	−14.38	−11.95	−8.79	−3.25	12.96	7.04	1.75
Shanghai Shenzhen CSI 300	CN	−1.24	−7.41	−3.42	−1.16	0.59	15.12	7.29	1.55
Nasdaq-100	US	0.53	−6.59	3.17	11.01	12.38	22.58	22.41	14.45
iShares MSCI Emerging Markets ETF	US	1.20	−6.31	0.66	8.99	17.73	34.56	17.94	6.92
Shanghai Stock Exchange Composite	CN	0.56	−5.88	−5.56	−5.63	−2.00	9.67	7.93	5.13
iShares MSCI Emerging Markets ETF/AU	AU	2.02	−5.49	6.00	8.55	14.43	24.61	16.54	8.18
MSCI Emerging Net Total Return Local	MULT	1.47	−4.31	4.87	11.51	21.29	39.03	21.18	10.47
MSCI Emerging Markets	MULT	2.36	−3.03	4.93	10.46	20.25	37.04	19.84	8.47
S&P 500 INDEX	US	1.06	−0.06	4.19	8.56	10.12	19.53	19.28	12.82
S&P/BMV IPC	MX	0.83	0.17	−0.07	0.69	5.91	20.48	10.57	9.25
Tokyo Stock Exchange Tokyo Stock Price TOPIX	JP	−0.19	0.22	7.53	13.60	18.85	39.21	22.74	18.90
EURO STOXX 50 Price EUR	EU	1.24	0.59	9.43	9.30	12.35	22.97	15.96	12.81
iShares MSCI India ETF	US	3.71	0.83	0.77	−3.75	−7.86	−5.40	3.87	3.67
Swiss Market	CH	0.13	1.07	9.52	11.97	11.30	24.95	11.68	6.63
S&P/TSX Composite	CA	−0.32	1.22	4.29	11.62	12.56	32.31	22.94	14.99
FTSE MIB	IT	0.71	1.22	10.31	17.73	19.63	32.81	26.63	21.11
CAC 40	FR	1.64	1.33	6.82	7.43	7.14	12.96	7.62	8.48
OMX Stockholm 30	SE	1.48	1.38	6.37	10.27	15.76	29.89	17.01	10.37
IBEX 35	ES	1.04	2.16	12.25	12.95	17.12	42.23	32.19	22.58
S&P/ASX 200	AU	2.33	2.26	4.27	3.37	5.21	7.07	11.61	9.36
NSE Nifty 50	IN	2.65	2.41	2.48	−2.72	−5.66	−0.10	8.80	10.66
Deutsche Boerse AG German Stock DAX	DE	2.11	2.53	5.50	4.44	4.65	6.50	15.92	10.51
Ibovespa Brasil Sao Paulo Stock Exchange	BR	2.27	3.47	−4.97	−1.86	10.47	33.76	13.42	7.87
FTSE 100	GB	1.23	3.62	5.37	8.25	11.48	22.77	16.15	13.03
iShares China Large-Cap ETF	US	5.55	15.54	−0.04	−7.16	−3.96	−0.70	8.98	0.27

Australian shares

Given resumption of military action in the Persian Gulf the energy stocks performed strongly, led by Santos and Woodside. Both companies released production updates highlighting major projects that are either ramping up or nearing completion, positioning them for higher production, sales and cash flow over the coming months. While the conflict is a humanitarian tragedy, the resulting strength in energy markets has coincided with an important inflection point for both companies. For several years, large development projects have absorbed significant capital, with elevated capital expenditure weighing on free cash flow and balance sheets. As these projects transition from construction to production, stronger oil and LNG prices have helped offset those financing pressures and should accelerate the improvement in cash generation.

We remain concerned about the growing structural shortage of hydrocarbons globally, a backdrop that we believe continues to support well-positioned energy producers.

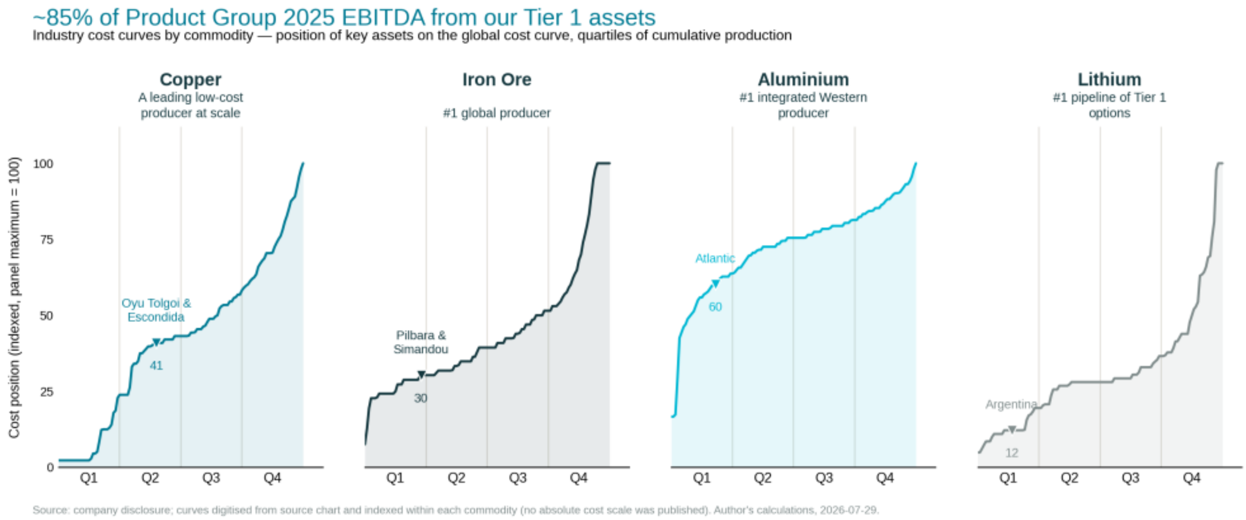
Sectoral returns

As at 2026-08-02

LONG_COMP_NAME	1W	1M	3M	6M	YTD	1YR	3YR	5YR
Materials	−0.44	−3.62	0.11	3.39	11.35	46.99	14.53	12.44
Industrials	0.03	−1.48	3.71	1.45	1.05	2.84	10.93	9.10
Healthcare	4.20	−1.43	5.05	−20.57	−20.04	−38.82	−11.35	−8.68
Information Technology	3.81	−0.92	−0.26	−10.09	−17.96	−40.15	−1.80	−4.15
Real Estate ()	1.61	0.23	2.96	−4.36	−6.32	−5.48	9.17	4.30
Consumer Staples	1.37	1.72	9.95	15.23	17.63	15.75	5.24	4.15
Communication	2.75	2.30	−5.53	−2.34	−3.57	−8.29	6.16	6.54
Utilities	−0.13	2.81	−7.69	3.29	2.80	6.33	10.25	16.75
Consumer Discretionary	3.39	2.95	17.60	2.82	3.02	−1.95	13.77	6.69
Financials	0.36	5.25	5.28	9.53	9.00	11.32	22.22	15.26
Energy	3.24	12.57	−3.80	19.23	29.91	23.79	4.38	14.93

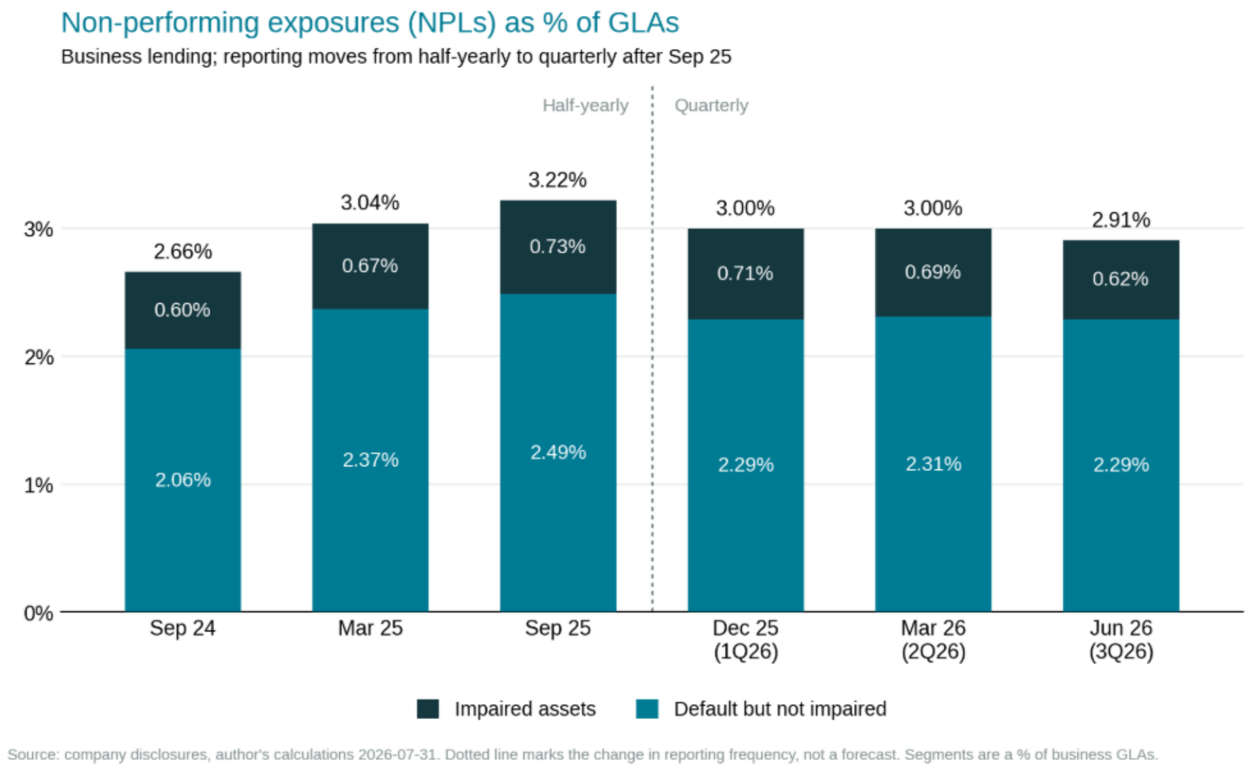
Total-return windows (price + dividends): 1W/1M/3M/6M = trailing weeks/months, YTD = year-to-date, 1YR/3YR/5YR = trailing years.

During the month, diversified Australian miner Rio Tinto reminded the market that the majors are very well positioned on the cost curve in long lived assets, that are structurally favoured in the transition to renewables, and in the efforts to achieve energy independence.



The month also saw another very strong employment (+72K jobs) report, and indeed most macroeconomic data released over the month was fairly constructive.

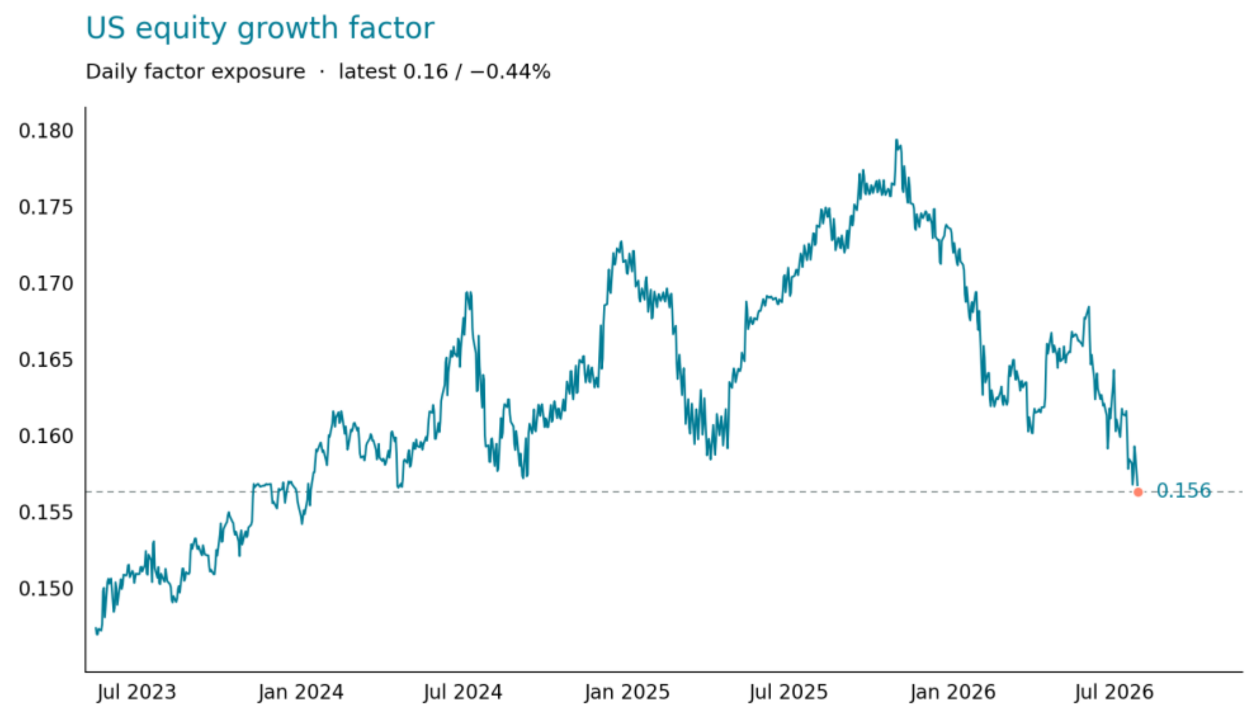
National Australia Bank also updated the market and showed that the ratio of non-performing loans (those that are no longer servicing their debt obligations) relative to the overall loan book improved over the quarter. Given rate hikes, a weaker consumer, and the energy shock, this is no small thing. So, the economy isn’t falling over just yet on these metrics.



Adairs (homewares) and City Chic (women's apparel) also posted "okay" trading updates, which again suggests the consumer is holding up relatively well, all things considered.

Investment Outlook

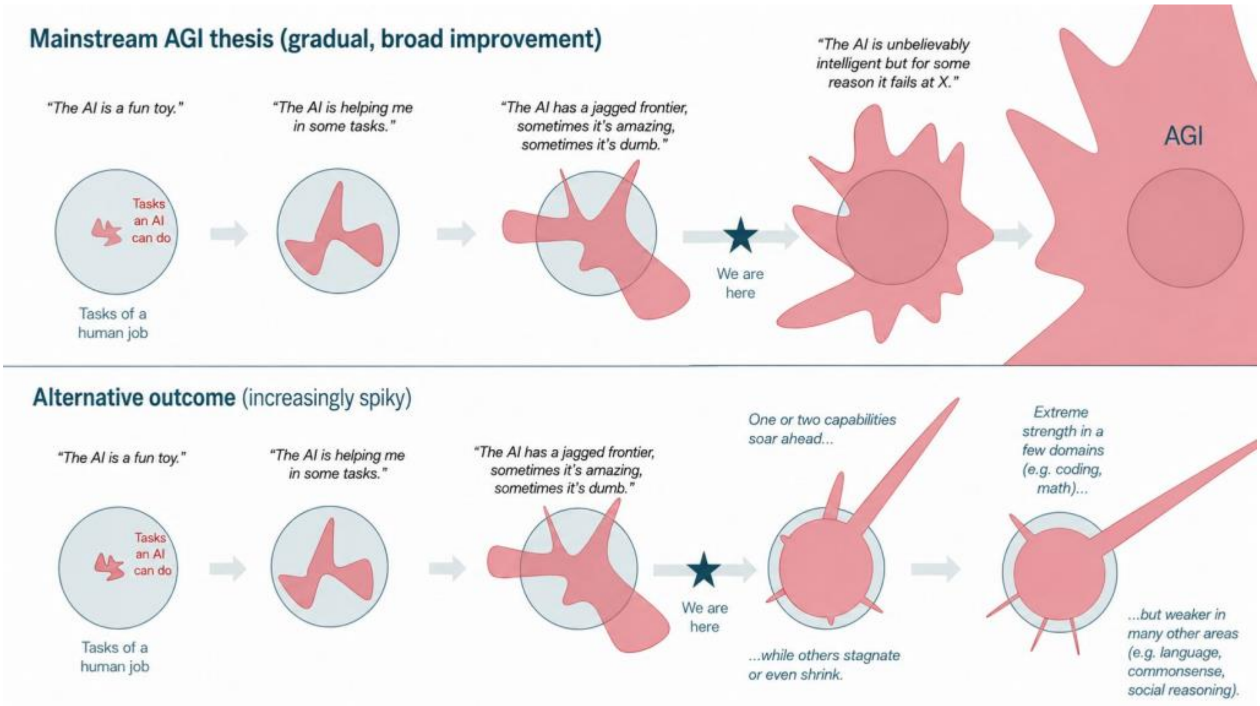
Growth stocks have had a torrid time, whilst Value is having its time in the sun. Partly this is a "bucket determination" outcome. For many years, the Growth stocks were asset light fast growing software or communication services stocks (think Atlassian, Accenture, Salesforce, Workday, Hemnet, Xero, WiseTech, REA, CarSales). Those are companies now deemed at "existential risk" from AI, whilst some of the *previously capital-heavy, cyclical, low-margin* semiconductor and memory stocks were not in those Growth buckets. Well, all that has changed, the roles are (presently) reversed, and Growth has given up 3 years of material outperformance.



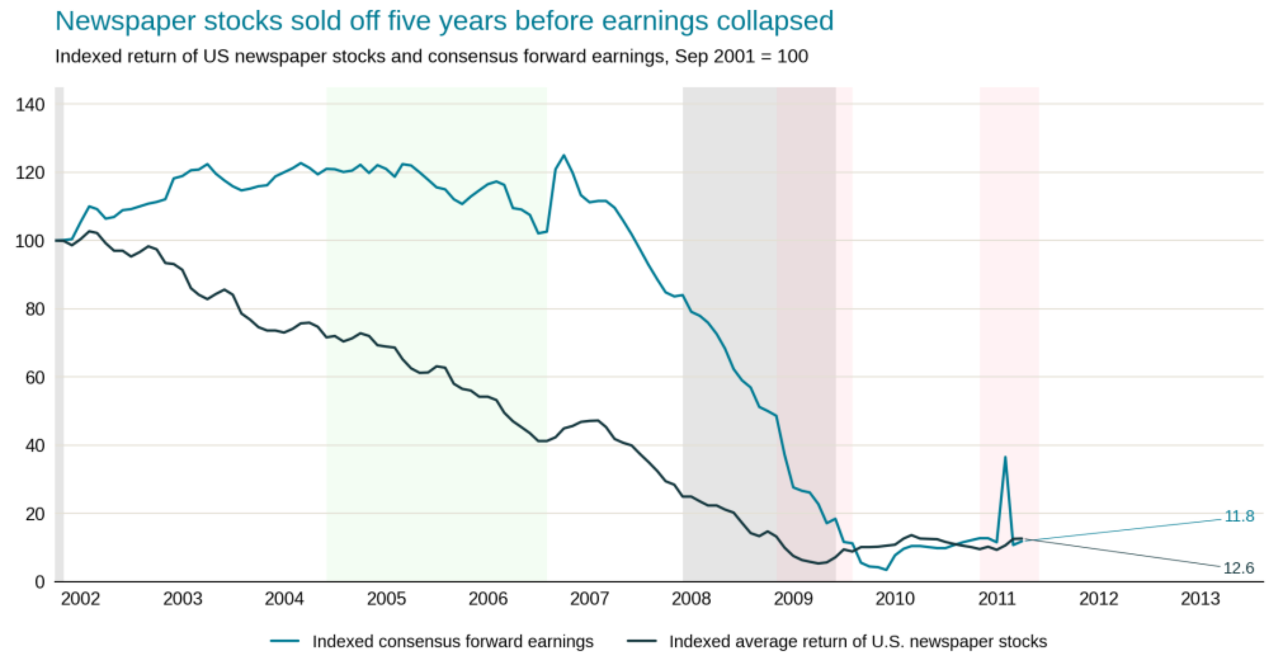
Source: Augur Infinity, author's calculations 2026-07-27, last value as at 2026-07-27

Which leads us to discuss the image shown overleaf, which comes via Adam Hunt (researcher at Cambridge University, UK). The top half of the image shows the consensus market narrative (our interpretation of Adam's work), in which people find that AI is very useful, they play around with it some more and find it's really good at some things, not so good at others, but as they gain experience and comfort with it, it goes on to blow their minds, quickly outstripping them (the user) at just about anything they could do. This is where the "AI will take all our jobs" fears are coming from. Labour and capital as *substitutes,* rather than as *complements*, which is how they are canonically seen.

However, we see it (at least, as it currently stands) as more akin to the bottom graph. There are fundamental limits to "guessing the next word" and it is difficult to be smarter than the people/corpus you were trained on by simply (being trained on) interpolating their thoughts in order to extrapolate them. It lends itself very well to coding, and to natural language imitation, but it seems unlikely to push the technological frontier on its own.



Still, we are mindful that they are very good, and very useful, and it took a while before technological change began putting a dent in newspaper earnings (to pick a product that was clearly displaced), however the market moved half a decade or more in advance of this gradual, *then sudden*, decline in profitability.



Source: FactSet, Goldman Sachs Global Investment Research, author's calculations 2026-07-27, last value as at 2011-03-31. Shading: US recessions (grey), QE episodes (pink), US rate-rising envir

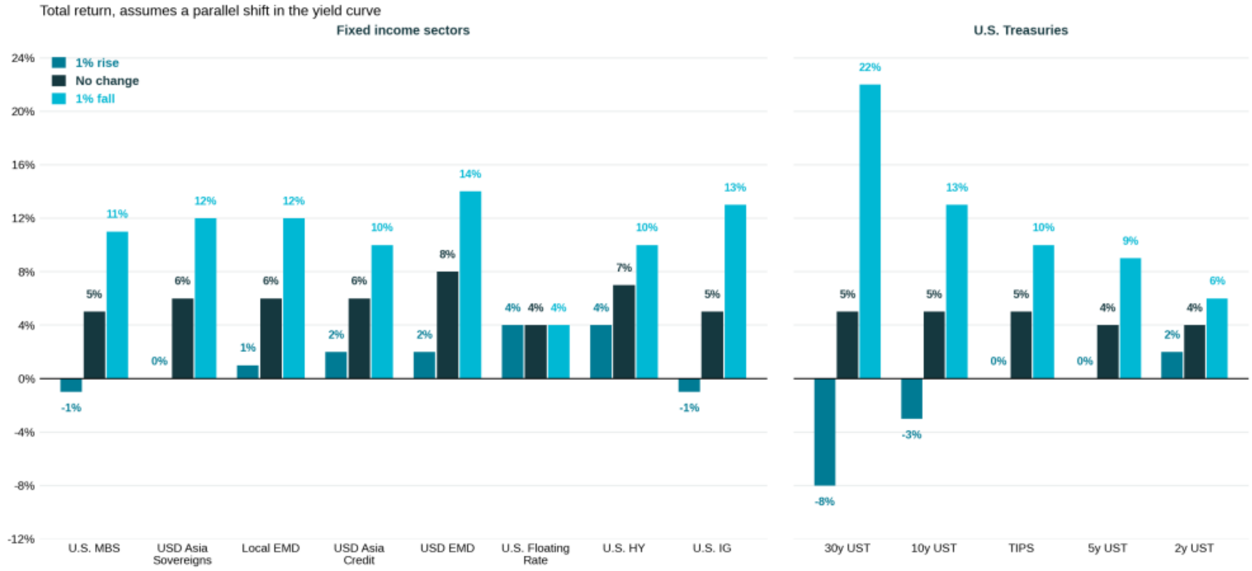
We finish our market outlook by returning to bonds. Bond yields have risen sharply as investors grapple with an uncertain Federal Reserve, while tariffs, AI-driven investment and higher energy prices continue to put upward pressure on inflation and interest rates.

Despite this, we think bonds now offer an attractive risk-reward trade-off. If yields were to rise another 1%, the downside is relatively limited. With bond yields already much higher than they were a few years ago, the income investors receive helps offset most of the price decline. On the other hand, if yields were to fall by 1% (perhaps because inflation eases or economic growth slows) investors would benefit from both the regular income and a meaningful rise in bond prices, making double-digit returns a realistic possibility.

In other words, we believe there is now considerably more upside than downside in high-quality bonds.

Impact of a 1% rise or fall in interest rates based on duration

Total return, assumes a parallel shift in the yield curve



Source: Bloomberg, FactSet, J.P. Morgan Asset Management, author's calculations. Total return based on duration and convexity of the underlying index to movements in interest rates. Past performance is not indicative of current or future results. Data as at 23/07/2026.

Whilst it is currently difficult to envision yields dropping, if they remain unchanged, the level of return will be ~5%, which isn't bad for an asset with 4-5% volatility. And it remains possible that growth scares return, if the AI trade falls over, or the hyperscalers pull back on capex, or if the higher interest rates cause problems in private credit or commercial real estate.

While recession risks are currently low on *most* metrics, energy remains a powerful wildcard. If inventories deplete, and prices move much higher, a good old-fashioned recession from high input costs (which act like a tax on everything else) would be a reasonable forecast. In which case we will be glad for our fixed income exposures, of which government bonds continue to make up a reasonably material share.

Important Information

Past performance is not a reliable indicator of future performance.

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