

The ASX 300 rose 1.6% in August on healthcare and materials, up 18.1% and 12.4%; consumer discretionary fell 7.3%. Hedged international shares gained 2.5% while unhedged shares were up only 0.5%. Listed property and infrastructure came under pressure owing to their rate sensitivity and the rise in bond yields over the period.

RBA CASH RATE
4.35%

Held again on 11 August

US 30YR YIELD
5.26%

Up from 4.91% in June

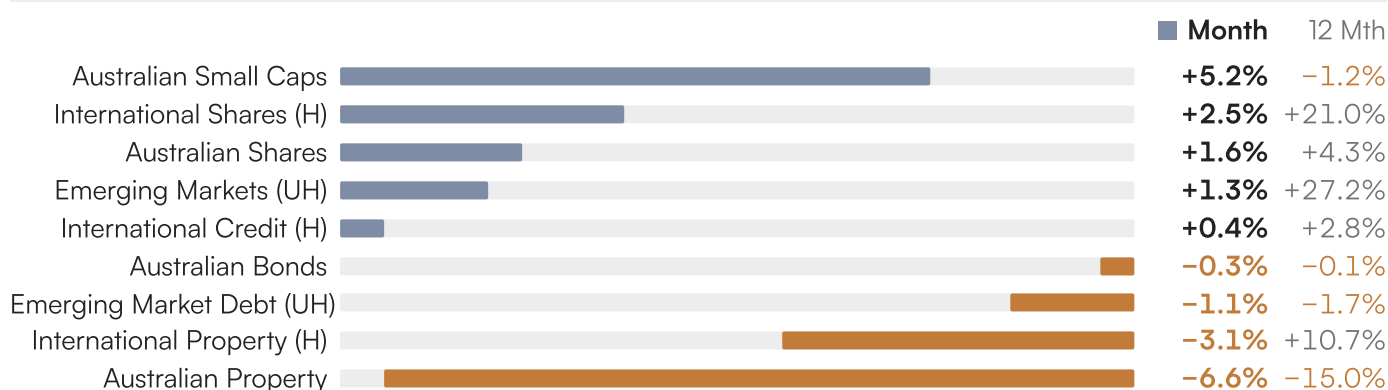
GOLD
A\$6,206

Up 7.6%; drove resources

AUD/USD
0.7167

Up 2.1%, cost 2pp

How asset classes performed



Source: LSEG Datastream, Bloomberg. Index returns in AUD; (H) hedged, (UH) unhedged. Past performance is not a reliable indicator of future performance.

What happened

Australia

Reporting season was mixed. Earnings growth improved as resources recovered, but revisions moved lower and guidance turned cautious. Power, grid, electrification, automation and data centre names reported full order books.

CSL led healthcare on evidence that its core plasma franchise had stabilised following a series of earnings downgrades.

CBA grew earnings per share 10.8%, helped by lower impairments, and still fell 2.2%; management pointed to softer household demand and a slowing economy. Household balance sheets are better placed than in 2019: ABS, Cotality and RBA securitisation data put under 4% of housing loans above 80% LVR against 13.5% then, with almost none in negative equity.

Unemployment rose to 4.5% and employment fell 15,800 in July. CPI rose 1.0%, above expectations, on transport as oil rose. The RBA held the cash rate at 4.35% and government bonds fell 0.3%.

Global

International shares rose 2.5% hedged and 0.5% unhedged, the Australian dollar taking the difference as it gained 2.1% on the US dollar. The S&P 500 rose 2.7% on reported US earnings up 52% y/y, led by technology. Materials and communication services led globally, up 9.1% and 6.3%, while utilities fell 3.5% as bond yields rose. Emerging markets rose 1.3% on Taiwanese and Korean technology.

At Jackson Hole, Fed Chair Kevin Warsh reaffirmed the 2% inflation target and warned more may be needed if underlying inflation does not improve. Hormuz remained unresolved and new US tariffs added to trade uncertainty. Higher yields reached real assets: international listed property fell 3.1% and listed infrastructure 2.0%.

How we see it

The global economy has remained resilient. US growth rests on AI investment, re-shoring, infrastructure and domestic demand, and debt-servicing burdens remain manageable. Against that, real wages are pressured by increasing prices at the pump.

That leaves the Fed with a hard decision. Kevin Warsh has so far shown himself a reluctant hiker, preferring to look through a temporary energy shock, but with oil elevated and borrowing costs rising, the cost of inaction climbs too.

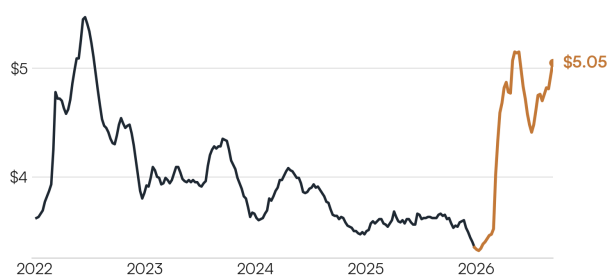
We do not read rising Treasury yields as a funding crisis. Heavy issuance, persistent inflation and a Fed allowing more price discovery have markets finding the clearing price for US government debt: volatile, but repricing rather than disorder.

For equities, earnings delivery matters more than further valuation expansion. We stay constructive on AI, infrastructure, electrification, automation and productivity investment: as the hurdle rate rises, companies converting capex into cash flow separate from those with only a narrative. What justifies the extraordinary AI build-out is falling compute costs, broadening adoption and a return on the spend. Company surveys show adoption still widening and the first corporate returns are appearing.

We remain underweight Australia. Weak productivity, subdued demand, and no US-style large-scale capex boom argue for caution; low unemployment, healthy household balance sheets and public debt near 55% of GDP argue the other way. We stay modestly underweight Australian equities against global, favouring healthcare, technology, resources and selected domestic cyclical over the index heavyweights.

Charts of the month

US pump prices are up 51% this year



Source: Bloomberg AUTMUSAG, to 11 Sep 2026.

AI token prices have halved since May



Source: Silicon Data LLM Token Index, Bloomberg.

What we are watching

- **The Fed's response function.** Whether it raises in September, and whether that holds inflation expectations and long-term yields without accelerating the slowdown in employment.
- **Hormuz, oil and inflation.** A resolution would relieve inflation, incomes and bond markets; further disruption raises the risk of stagflation and a firmer policy response.
- **Australian employment.** Jobs hold household resilience up. A sharper deterioration in employment, housing credit or spending would negatively impact company earnings.

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