

June 2026

Investment Markets Report

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Chief Investment Officer



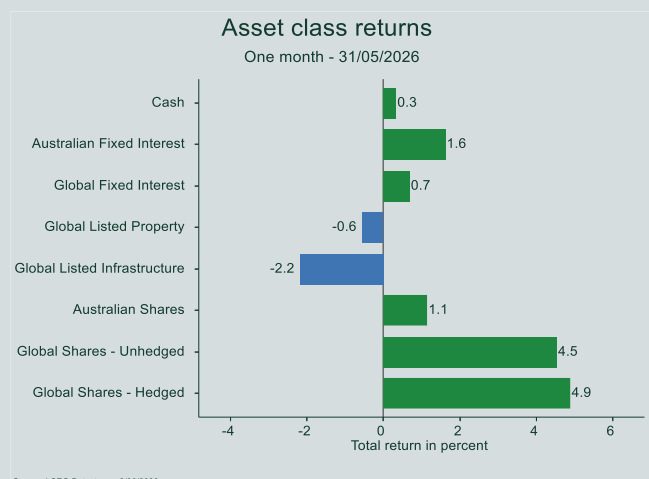
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in May?

Global equities rose further in May helped by ongoing enthusiasm for all things to do with artificial intelligence (AI) and fading investor concerns associated with the closure of the Strait of Hormuz. Global equity gains were led by semiconductor stocks which helped push the US S&P 500 index 16% higher over April and May, the fifth strongest two-month period since 1950. Negotiations between Iran and the US to reopen the Strait of Hormuz have showed little progress despite frequent headlines suggesting a deal may be close. Oil prices have oscillated with the news headlines but finished lower in May. Bond yields mostly declined, except in the US where inflation pressures suggest near term interest rate cuts are unlikely.

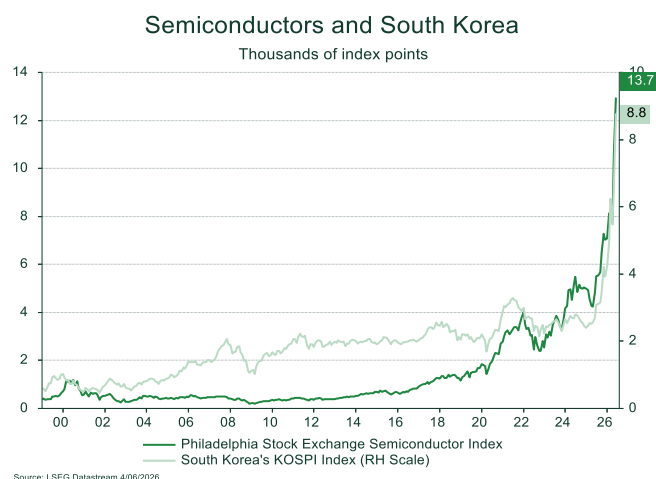
EXECUTIVE SUMMARY

- ▶ In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 4.9% in May. The US equity market (S&P 500) gained 5.3% and the tech-heavy NASDAQ Composite was up 8.4%. Australian shares (S&P/ASX 200) returned 1.2%, European shares (STOXX 600) rose 3.2% and Emerging Market shares (MSCI Emerging Markets) gained 9.7% in local currency terms.
- ▶ 10-year government bond yields rose 4 basis points (bps) in the US and 13bps in Japan. They fell 24bps in Australia, 20bps in the UK and 10bps in Germany.
- ▶ Investment-grade corporate bond spreads in the US fell 7bps to 74bps over US treasuries, while US high yield bond spreads fell 9bps to 274bps.
- ▶ The Australian Dollar was steady at around US\$0.7195.
- ▶ Oil prices dropped 16.1% to US\$91.16 per barrel (WTI). Gold declined 0.6% to US\$4,591.10 per troy ounce. Iron ore prices fell 3.0% to US\$104.52 per tonne.



Tactical Positioning

Despite slow progress on reopening of the Strait of Hormuz to shipping, and occasional drone and missile strikes that test the US-Iran ceasefire, investor fear in March morphed into fear of missing out in April and May. Helping drive the rebound in risk sentiment has been strong earnings growth from AI related stocks, particularly US, Taiwanese and South Korean semiconductor companies. Upcoming initial public offerings (IPOs) of trillion-dollar AI companies including Elon Musk's SpaceX - a blend of rockets, satellites and AI - as well as AI large language model companies Anthropic and OpenAI, has also got investors excited.

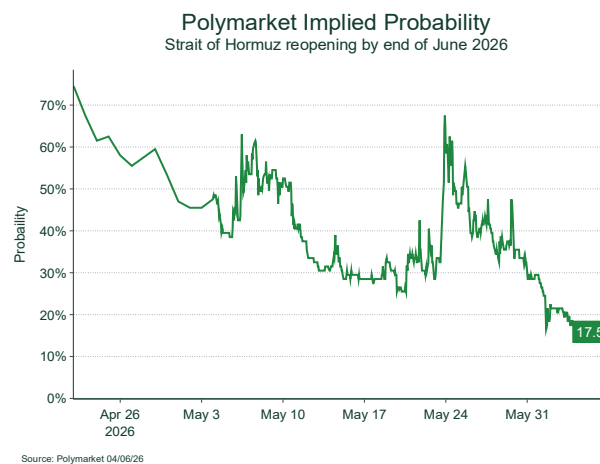


Global oil inventories have so far been larger than energy analysts expected, which has kept oil prices from rising above US\$130 per barrel. However, energy executives are now warning that supplies are likely to run critically low in coming weeks. Markets are downplaying risks of fuel shortages that would push oil prices to levels needed to reduce global oil demand by around 13% to meet supply. This would likely lead to a global economic slowdown. Even if the Strait of Hormuz gradually reopens, should the US and Iran come to an agreement soon, it could take up to 12 months for oil flows to return to pre-conflict levels.

It remains unclear when the Strait of Hormuz will reopen with betting markets placing an 18% chance of reopening by the end of June, down from 68% in late May when President Trump posted on Truth Social that a peace agreement had largely been negotiated. Incentives on both sides suggests that there will be a US-Iran agreement at some point. Iran's economy is struggling with hyperinflation, dwindling oil export income and high unemployment. In the US, the Republicans are facing likely losses in November's mid-term elections if gasoline prices keep rising, even though President Trump has downplayed concerns.

With the Middle East tensions providing background noise, economic data has generally been positive, and the global economy has remained resilient up to now. AI investment is helping offset a slowdown in consumer spending as strength in the semiconductor powered digital economy helps offset softness in the hydrocarbon powered old economy.

We continue to hold a neutral position in both growth assets, such as equities, and a neutral position in defensive assets, such as cash and bonds. Although there are risks of an oil shock and economic slowdown, these are being offset by the likelihood of a multi-year industrial revolution powered by AI investment as AI tools continue to improve at a rapid pace. While there are ongoing worries of an investment 'bubble' and speculative 'froth' in parts of the equity market, for now most of the market gains are being driven by earnings acceleration rather than a rise in overall valuations that is not based on underlying fundamentals.

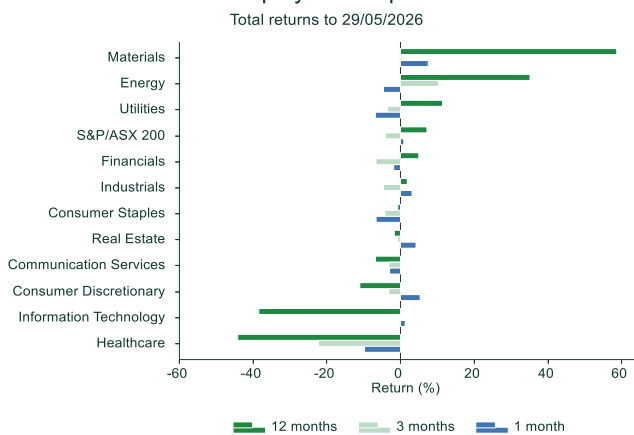


EQUITIES:

Global earnings growth accelerated strongly from 15.3% annual growth in the December quarter of 2025 to 22.6% in the March quarter of 2025, the highest in over four years. The growth was driven by technology, due to AI-related demand, as well as materials and energy stocks, helped by higher oil and commodity prices from the Iran conflict as well as demand for industrial and precious metals. Bank stocks also benefited from increased capital markets activity and credit growth helped by lower interest rates. Across regions, high concentrations of tech companies with exposure to AI saw very strong headline growth in the US and in emerging markets, while the lack of tech held back earnings growth in Europe.

The upcoming IPOs of SpaceX, Anthropic and OpenAI will be a test for markets given these businesses are reportedly collectively aiming for valuations of around US\$4 trillion and the largest ever IPOs, and yet they are all currently loss-making. This has raised fears that this marks the top of the equity market, with echoes of the dot-com bubble in the early 2000s. In addition, AI hyperscalers such as Google's parent Alphabet are aiming to issue new shares (reportedly US\$80 billion) to fund new data centre construction whereas previously these tech companies had been returning capital to shareholders through regular share buybacks. While the massive net issuance of shares to fund AI and potential sale of shares from existing owners of SpaceX, Anthropic and OpenAI in coming months bears monitoring, we are not concerned as rising equity supply is likely to be absorbed by equity inflows and passive demand.

Australian equity sector performance



Source: LSEG Datastream 4/06/2026

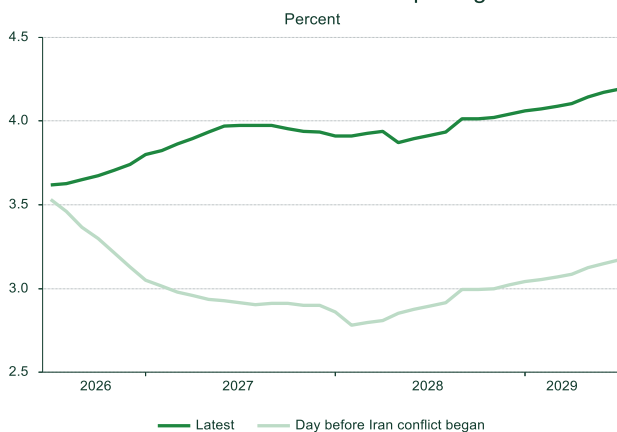
In Australia, May performance was mixed with large falls in Commonwealth Bank shares after a disappointing third quarter update and the broader banking sector under pressure from changes to capital gains tax and negative gearing in May's Federal Budget. Healthcare stocks remained under pressure in May with CSL and Resmed falling further. Materials stocks, including BHP, were up strongly helped by rising copper and industrial metal prices. Earnings for the ASX 200 are forecast to grow around 12% in 2026 and 2027, largely due to rising commodity prices, which has helped lower the valuation multiple from 20.0 in August 2025 to 17.4 currently.

FIXED INCOME:

Bond yields have tended to track oil prices in recent months, which in turn have tracked progress on the reopening of the Strait of Hormuz. Recent data has shown price pressures have been building in many regions even if food and energy prices are stripped out. There is also evidence that the AI and data centre investment boom is impacting prices for a range of products with most economists agreeing that AI is inflationary in the short term even if longer term it leads to lower prices, higher productivity and possibly lower wages if it results in widespread job losses.

Bond markets are now pricing in a 50% chance of a 25bps rate rise in the US, and 100% chance in Europe, Japan and UK by year end. In Australia there is also close to a 100% chance of another single rate rise by December, down from around 1.5-2.0 rate rises before April's unemployment rate rose from 4.3% to 4.5%.

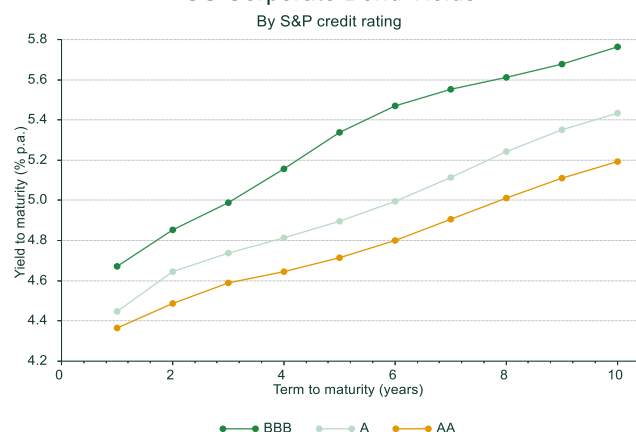
US fed funds rate market pricing



Source: LSEG Datastream 4/06/2026

Credit spreads have tightened further in line with rising equity prices and demand for investment grade and high yield credit remains robust as fears of software company disruption abate.

US Corporate Bond Yields



Source: LSEG Datastream 4/06/2026

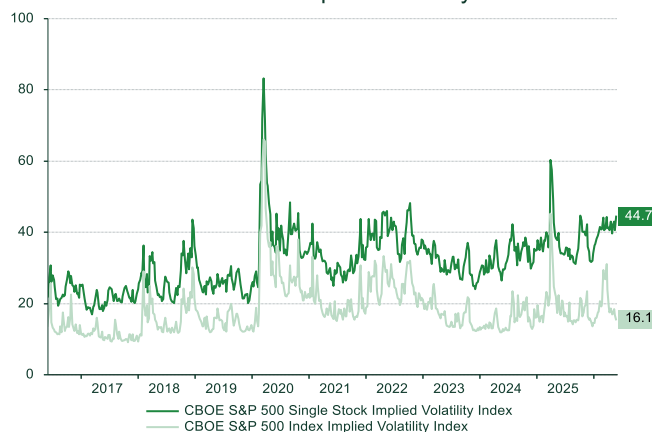
PROPERTY AND REAL ASSETS:

Listed property and infrastructure slumped in May following strong gains in April as investors rotated out of HALO (hard assets, low obsolescence) stocks. Energy infrastructure stocks were also impacted by lower oil prices in May and falling oil supplies. We continue to have a positive view of property and infrastructure as a source of defensive growth with inflation protection.

ALTERNATIVE ASSETS:

Alternative assets returned 1.7% in May, with positive performance from all the four major sub-strategies. Macro strategies generated 2.1%, event driven and relative value strategies both gained 0.9% and equity long/short funds returned 2.9% in May. While equity index volatility has halved since March, single stock volatility has continued to rise providing a better backdrop for stock pickers as stocks increasingly move independently of each other.

S&P 500 Implied Volatility



Source: LSEG Datastream 4/06/2026

CURRENCY:

The Australian Dollar was flat in May, as stronger global investor risk sentiment and higher commodity prices were offset by a dialing back in expected Australian rate rises this year. We remain currency unhedged in global shares.

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	There is a prospect of one or two more rate hikes in 2026 as inflation remains too high for the RBA's comfort.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Following the sell off in bonds over the past few months, longer term bond yields allow investors to lock in attractive real yields and term premium relative to expected cash rates.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around six years. Steeper yield curves provide attractive term premium and real yields. Credit is relatively expensive but can provide attractive income and total returns in a non-recessionary environment.
Alternative Defensive	Neutral	Alternative strategies should help to diversify portfolios. These strategies have traditionally held up relatively well when more traditional defensive strategies, tied to bond yields and the credit outlook, have suffered.
Alternative Growth	Neutral	Alternative growth strategies benefit from higher price volatility and dispersion with returns less correlated to broader risk sentiment. Trend-following strategies can provide portfolio insurance-like characteristics by capturing price trends in financial, currency and commodity (including precious and industrial metals, oil and gas) markets.
Property & Real Assets	Neutral	Property and infrastructure should provide inflation protection and a more defensive exposure in a global downturn, relative to equities. The demand and supply dynamics for property and infrastructure assets (particularly in energy and digital infrastructure) are improving.
Australian Shares	Neutral	The earnings growth outlook has improved while equity valuation multiples have declined. Australian resources companies are benefiting from higher energy and metals prices. Any sell off in growth/tech sectors favours Australian Shares given the higher weight to banks and miners. As a market with high exposure to commodity prices Australian Shares can outperform if there is a supply-driven energy shock.
Global Shares	Neutral	Hold a neutral allocation, as although investor sentiment and valuations, particularly for US tech companies, are high, economic and corporate fundamentals, such as solid earnings growth, remain supportive. US tech companies are relatively more insulated from higher oil prices and tariffs and a slowdown in consumer spending.
Currency hedging	Fully unhedged	Although the US Dollar has lost some of its shine due to higher policy uncertainty, in a risk-off scenario, it is again likely to regain some of its safe-haven status as there are few alternatives. Most analysis suggests the Australian Dollar is close to fair value against the US Dollar. Stay currency unhedged in Global Shares given the Australian Dollar tends to move in line with global investor sentiment.

Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) weights

PORTFOLIO ASSET CLASS	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Defensive Assets	70.0	70.0	50.0	50.0	35.0	35.0	20.0	20.0	5.0	5.0
Cash	15.0	15.0	10.0	10.0	5.0	5.0	2.5	2.5	2.5	2.5
Australian Debt	20.0	20.0	10.0	10.0	5.0	5.0	0	0	0	0
Global Debt	30.0	30.0	25.0	25.0	20.0	20.0	15.0	15.0	0	0
Alternative Defensive	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5	2.5	2.5
Growth Assets	30.0	30.0	50.0	50.0	65.0	65.0	80.0	80.0	95.0	95.0
Property & Real Assets	5.0	5.0	7.5	7.5	10.0	10.0	10.0	10.0	10.0	10.0
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
Australian Shares	5.0	5.0	15.0	15.0	20.0	20.0	25.0	25.0	25.0	25.0
Global Shares	15.0	15.0	20.0	20.0	25.0	25.0	37.5	37.5	52.5	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Major Financial Markets

To 31 May 2026	Latest	1 month	3 month	Year-to-date	1 year	3 year	5 year
Equities	Local currency returns including dividends in percentage, not annualised						
Australia - S&P/ ASX 200	8732	1.2	-4.0	1.7	6.9	36.8	47.6
Japan - Nikkei 225	66330	11.9	13.5	32.7	77.8	127.0	153.4
US - S&P 500	7580	5.3	10.5	11.3	29.8	88.9	93.8
US - NASDAQ Composite	26973	8.4	19.2	16.3	42.0	112.9	103.5
UK - FTSE 100	10409	0.7	-3.3	6.6	22.5	55.9	78.2
Europe - STOXX 600	626	3.2	0.7	8.0	17.6	52.7	64.5
Developed Markets - MSCI World	3769	4.8	7.7	10.7	27.9	81.3	86.3
Emerging Markets - MSCI EM	110007	9.7	11.2	27.0	58.5	105.8	66.7
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	4.53	-0.26	0.34	0.47	1.22	0.97	4.46
Australia -10 year	4.84	-0.24	0.19	0.08	0.56	1.24	3.19
US - 2 year	4.00	0.11	0.61	0.52	0.10	-0.40	3.85
US - 10 year	4.44	0.04	0.47	0.27	0.05	0.80	2.84
UK - 10 year	4.82	-0.20	0.52	0.34	0.17	0.64	4.02
Germany -10 year	2.93	-0.10	0.28	0.08	0.42	0.66	3.12
Currencies and Commodities	Change in price						
Australian Dollar (US\$)	0.7195	0.0006	0.007	0.053	0.076	0.072	-0.055
US Dollar Index	98.91	0.85	1.30	0.59	-0.42	-5.42	8.88
Gold (US\$/ounce)	4591.10	-28.58	-662.96	266.43	1305.76	2619.65	2685.11
Iron Ore (US\$/tonne)	104.52	-3.18	5.83	-1.47	8.54	3.15	-80.11
Crude oil (WTI, US\$/barrel)	91.16	-17.48	24.20	33.90	29.70	23.05	24.85

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