StanfordBrown Private Wealth

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Investment Markets Report

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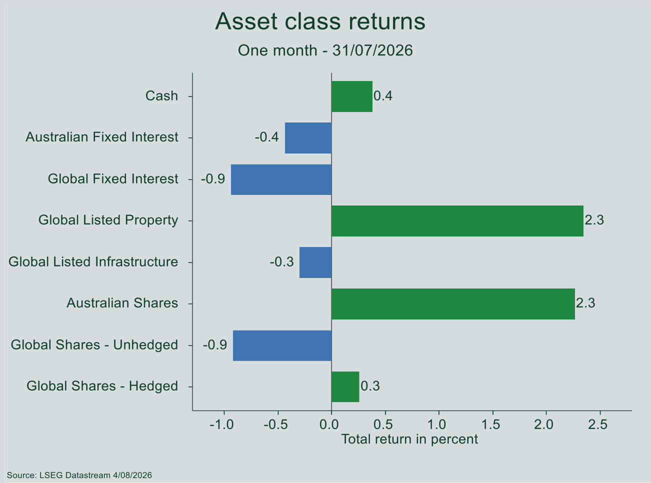
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in July?

Equity markets were mixed in July as higher bond yields, AI capital expenditure concerns and renewed Middle East tensions offset generally solid earnings. Government bonds weakened after central banks remained cautious on inflation despite holding rates steady and US Federal Reserve Chair s Kevin Warsh unsettled bond investors with mixed messages about the direction of interest rates. Oil prices rose following the collapse of the US-Iran ceasefire. The US Dollar was supported by higher US yields, the Japanese Yen briefly reached multi-decade lows before surging on Japanese and US government intervention and the Australian Dollar finished higher even though lower inflation reduced chances of an August rate hike.

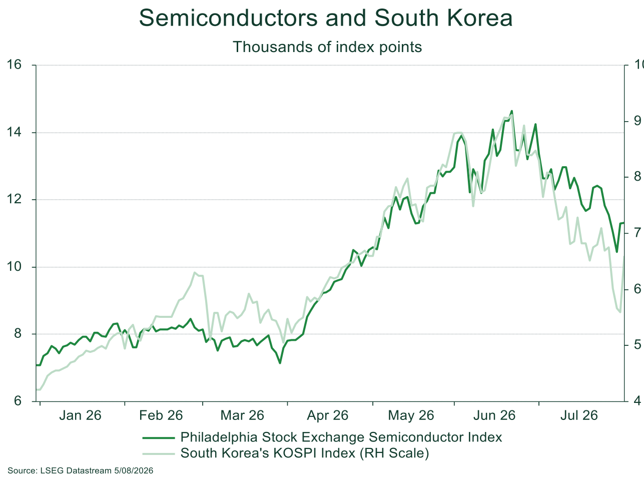
EXECUTIVE SUMMARY

- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 0.2% in July. The US equity market (S&P 500) fell 0.1% and the tech-heavy NASDAQ Composite was down 3.2%. Australian shares (S&P/ASX 200) returned 2.3%, European shares (STOXX 600) rose 1.3% while Emerging Market shares (MSCI Emerging Markets) declined 4.3% in local currency terms.
- 10-year government bond yields rose 27 basis points (bps) in the US, 29bps in the UK and Germany, 21bps in Australia, and 10bps in Japan.
- Investment-grade corporate bond spreads in the US rose 3bps to 79bps over US treasuries, while US high yield bond spreads rose 10bps to 285bps.
- The Australian Dollar rose almost one US cent to US$0.7024.
- Oil prices gained 22.1% to US$86.16 per barrel (WTI). Gold climbed 0.3% to US$4,047 per troy ounce. Iron ore prices fell 3.6% to US$97.75 per tonne.



Tactical Positioning

Even though flat returns for developed market equities suggested little happened in July, there was significant equity market repositioning beneath the calm surface implied by the index returns. After peaking on 22 June, semiconductor stocks extended their declines in July with the Philadelphia Semiconductor Index and the semiconductor heavy KOSPI South Korean equity index falling a further 20% over the month. The relatively violent unwind, of what had been this year's most crowded trades, was due to retail investors and hedge funds use of leverage to speculate that semiconductor stocks would keep rising.

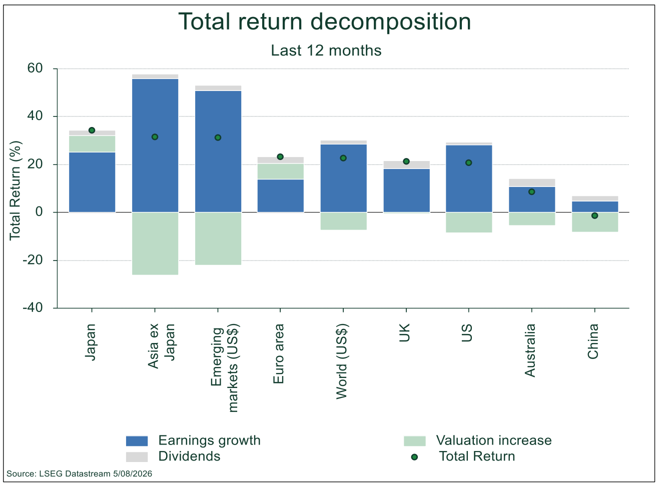


The sell off in semiconductor stocks and broader cooling of speculative enthusiasm, away from the AI and semiconductor theme towards other sectors and non-US markets, is healthy in our view. Beaten up software stocks, which had been caught up in the "SaaSpocalypse" sell off earlier in the year, on fears of AI disruption, have also partially recovered as investors shifted into cheaper, higher quality stocks and away from more speculative growth and momentum stocks.

Tensions in the Middle East resurfaced in July with oil flows slowing again after Iran and its regional proxies attacked ships and neighboring countries triggered by differing interpretations of the US-Iran ceasefire deal. This sent oil prices from around US$73 per barrel up to a peak of around US$100 before finishing July at US$90 when the US ended its 13 days of consecutive retaliatory strikes on Iran. The rise in oil prices pushed up bond yields as inflation fears rose, notwithstanding that June inflation data in the US, Australia and the Eurozone was mostly benign

With these market and geopolitical developments in the background, the global macroeconomic outlook remains constructive. For example, global business surveys showed activity expanding in 80% of countries in July with around two-thirds of countries experiencing stronger activity relative to the prior six-month average. Although inflation risks are tilted to the upside, and there is chance of rate hikes in the US, Eurozone and Australia, for now interest rates remain steady as central bankers look through oil price volatility.

The resilient economic and corporate earnings backdrop, and shift in equity market leadership away from leveraged speculative bets on AI themes, is positive for growth assets more broadly. Performance over coming months is more likely to be driven by strong earnings momentum and fundamentals rather than increasing valuations. We retain a neutral exposure across growth and defensive assets, which in our view balances the positive backdrop for equities with the risks to energy supplies and inflation from an extended closure of the Strait of Hormuz.



EQUITIES:

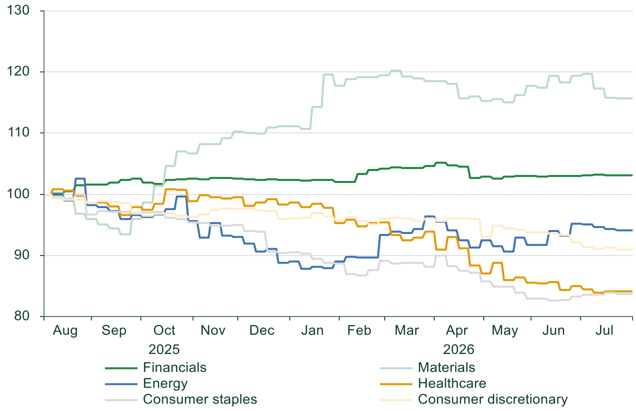
Global earnings growth has continued to remain strong in the June quarter. With 60% of companies in the S&P 500 US equity index having reported earnings, 85% reported better than expected earnings per share, which compares to the long run average where 68% beat analyst forecasts. Earnings are expected to be 48% higher than the same quarter in 2025 and revenue is on track to be 14% higher year over year.

In Europe, earnings are also on track to grow strongly in the June quarter, with forecasts of 17.3% year over year earnings growth. The strong growth in the US and Europe is due to a combination of revenues growing more quickly than the underlying global economy, stronger profit margins, higher oil and commodity prices which have benefited the energy and materials sectors, lower corporate taxes as well as strong performance of the major tech companies that are benefiting from the rollout of AI and data centres.

The takeaway from recent earnings reports from Amazon, Microsoft, Apple, Alphabet and Meta is that demand for cloud computing services, social media advertising and smartphones remains strong. However, supply constraints for chips and the slow build out of new data centres means operating and capital costs are rising just as quickly. This is creating concerns that escalating costs will eventually lead to demand destruction as companies realise that they are not getting a return on investment from their AI spend and consumers and businesses delay upgrading hardware as they become too costly to justify.

2026 Earnings per share forecasts

Rebased to 100



Source: LSEG Datastream 5/08/2026

In Australia, August reporting season has started with earnings forecast to grow 12% this financial year underpinned by materials with 36.4% annual earnings growth and financials at 8.3%. All eyes will be on CBA and CSL given they disappointed investors recently leading to sharp price falls, part of the trend in Australia which has seen high degrees of price volatility when companies miss or beat analyst expectations.

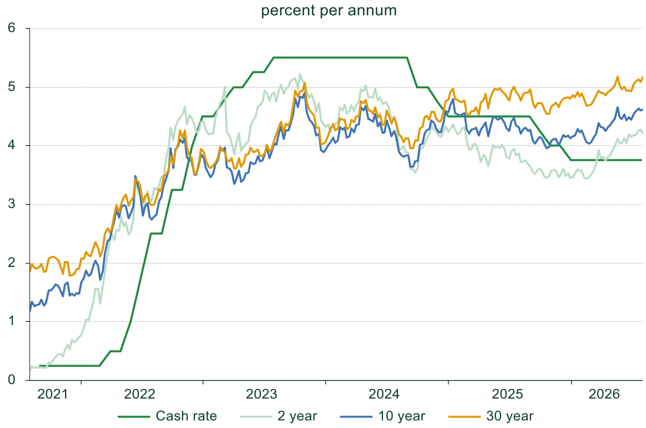
FIXED INCOME:

Bond yields have reconnected to track movements in oil prices in recent weeks, one of the reasons for higher yields in July. This came as reported inflation for June was relatively tame with US headline inflation falling 0.4% in the month of June, the largest decline since the pandemic. US core inflation, that strips out energy and food prices, was flat over the month. Australian trimmed mean inflation was 3.6% over the year against the RBA's 3.8% forecast, and the UK, Eurozone and Canada all produced soft inflation figures.

The rise in bond yields was partly energy related but also driven by Fed Chair Kevin Warsh's press conference after July's monetary policy meeting when rates were left unchanged. He seemed to indicate that although the Fed was committed to returning inflation to 2%, he was happy to let the bond market do the Fed's job by lifting or lowering bond yields in response to incoming data rather than the Fed having to react or provide guidance on how it may react to data. To some, this is damaging Fed credibility, which is why the 30-year US bond yield rose to the highest level since 2006.

US Treasury yields

percent per annum

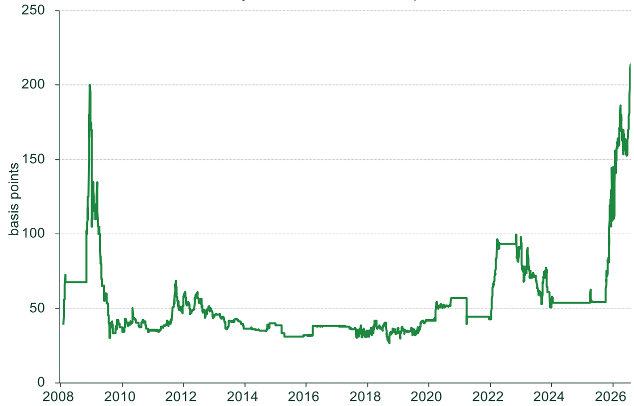


Source: LSEG Datastream 5/08/2026

Credit spreads remain low overall but concern about heavy hyperscaler debt issuance to fund data centres is causing credit spreads in that sector to widen.

Oracle Corporation

5 year Credit Default Swap



Source: LSEG Datastream 5/08/2026

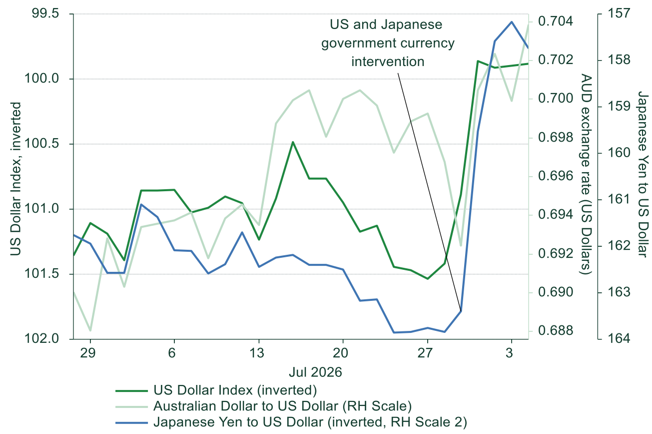
PROPERTY AND REAL ASSETS:

Global listed property outperformed global equities in July, helped by the rotation from tech and growth sectors back into HALO (hard assets, low obsolescence) stocks. Listed infrastructure underperformed as the rise in bond yields offset higher oil prices, given infrastructure has some correlation with both variables. We continue to have a positive view of property and infrastructure as a source of defensive growth with inflation protection.

ALTERNATIVE ASSETS:

Alternative assets lost -1.1% in July according to the HFRX Global Hedge Fund index, with negative performance from all the four major sub-strategies. Macro strategies returned -1.5% in July, event driven -0.4%, relative value strategies -0.5% and equity long/short funds returned -2.1%. Performance was likely impacted by the unwind of hedge fund leverage in crowded semiconductor trades and the change in direction of software stocks.

Australian Dollar



Source: LSEG Datastream 5/08/2026

CURRENCY:

The Australian Dollar rose in July helped by higher industrial metal and commodity prices as well as the coordinated Japanese and US government intervention to support the Yen and weaken the US Dollar. We remain currency unhedged in global shares.

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	There is a small prospect of another rate hike in 2026 or 2027 if the RBA judges that inflation will take too long to trend back to its 2-3% target.
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 better value now and are relatively more insulated from higher oil prices 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	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
ASSET CLASS	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 July 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	8977	2.3	4.1	4.7	6.0	34.6	47.0
Japan - Nikkei 225	64362	-8.1	8.7	28.9	59.4	105.0	159.9
US - S&P 500	7490	-0.1	4.2	10.1	19.6	69.9	83.1
US - NASDAQ Composite	25374	-3.2	2.1	9.5	20.9	80.6	79.4
UK - FTSE 100	10868	3.6	5.4	11.5	22.8	57.1	85.5
Europe - STOXX 600	649	1.3	7.3	12.3	22.6	51.7	65.1
Developed Markets - MSCI World	3770	0.2	5.0	10.9	21.0	66.9	79.3
Emerging Markets - MSCI EM	104657	-4.3	5.0	21.5	39.7	80.6	68.4
Government bond yields		Change in annual yield in percentage points					
Australia - 2 year	4.53	0.09	-0.27	0.46	1.17	0.47	4.50
Australia -10 year	4.94	0.21	-0.14	0.18	0.66	0.88	3.75
US - 2 year	4.27	0.12	0.39	0.80	0.33	-0.60	4.08
US - 10 year	4.71	0.27	0.32	0.55	0.35	0.76	3.47
UK - 10 year	5.05	0.29	0.03	0.58	0.48	0.74	4.49
Germany -10 year	3.20	0.29	0.17	0.35	0.51	0.74	3.66
Currencies and Commodities		Change in price					
Australian Dollar (US$)	0.7024	0.0096	-0.017	0.036	0.059	0.029	-0.033
US Dollar Index	99.91	-1.27	1.86	1.59	-0.05	-1.94	7.74
Gold (US$/ounce)	4046.96	10.91	-572.72	-277.71	750.93	2078.56	2223.72
Iron Ore (US$/tonne)	95.06	-3.90	-12.64	-10.93	-4.80	-13.90	-83.91
Crude oil (WTI, US$/barrel)	86.16	15.60	-22.48	28.90	15.80	4.36	12.23

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