StanfordBrown Private Wealth

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Investment Markets Report

Nick Ryder
Chief Investment Officer

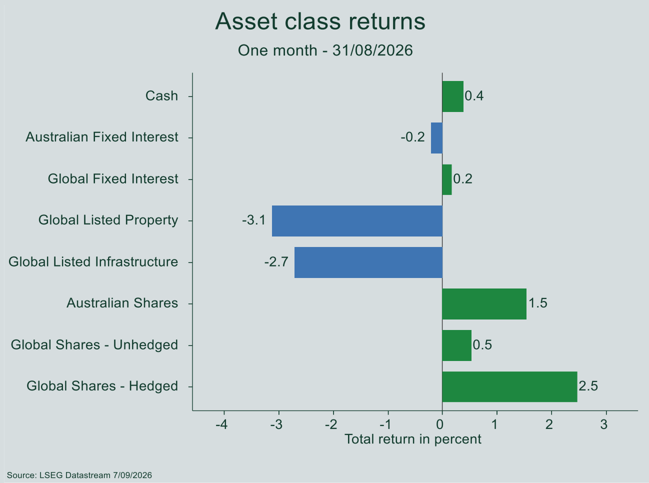
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in August?

Equity markets rose in August helped by resilient economic growth and solid corporate earnings. Long term bond yields continued to rise with the US 30-year Treasury bond rising to its highest level since 2007 as US government debt climbed above US$40 trillion. This prompted the US Treasury to step up buybacks of longer dated Treasury bonds to try to stabilise yields. Fed Chair Kevin Warsh spoke at the Jackson Hole Economic Policy Symposium, where he committed to the 2% inflation target and expressed the view that recent inflation data was not trending in the right direction. Australian inflation data for July came in stronger than expected increasing chances of further rate hikes and lifting the Australian Dollar.

EXECUTIVE SUMMARY

- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 2.5% in August. The US equity market (S&P 500) returned 2.7% and the tech-heavy NASDAQ Composite was up 4.0%. Australian shares (S&P/ASX 200) returned 1.5%, European shares (STOXX 600) rose 0.5% while Emerging Market shares (MSCI Emerging Markets) returned 1.9% in local currency terms.
- 10-year government bond yields rose a further four basis points (bps) in the US, 10bps in the UK, 12bps in Germany, 14bps in Australia, and 15bps in Japan.
- Investment-grade corporate bond spreads in the US rose one bp to 80bps over US treasuries, while US high yield bond spreads fell 22bps to 263bps.
- The Australian Dollar rose 1.4 US cents to US$0.7167.
- Oil prices gained 1.0% to US$87.03 per barrel (WTI). Gold climbed 9.6% to US$4,437 per troy ounce. Iron ore prices rose 4.1% to US$101.71 per tonne.



Tactical Positioning

Equity market gains in August have reflected the underlying economic momentum and fundamental strength of corporate earnings. Speculative hype in semiconductor stocks has deflated in recent months, and momentum strategies, buying stocks that had previously risen and selling stocks that had fallen, which had a strong run earlier in the year and over the last three years, have underperformed materially since June. This consolidation and rotation in markets is healthy in our view as investors focus more on fundamentals than speculating on past winners without regard to earnings or valuations.

S&P 500 Momentum vs S&P 500 Composite

Source: LSEG Datastream 8/09/2026

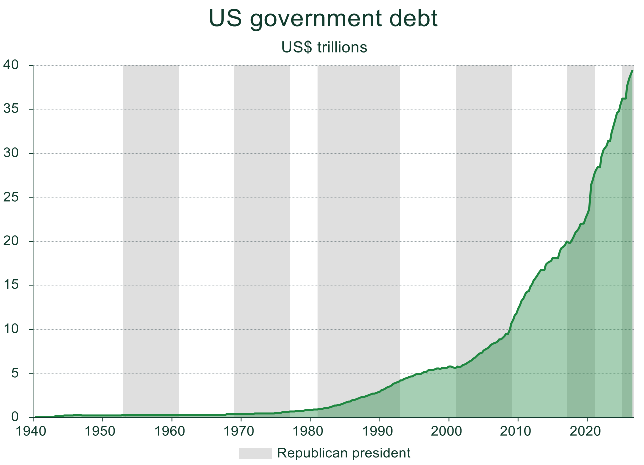
Equities have so far ignored the global rise in bond yields, seemingly complacent about the inflationary shock that's increasingly being priced into bond markets. The rise in bond yields hasn't just been due to the Iran conflict's impact on inflation, there are also renewed concerns about US government debt sustainability, fewer foreign central bank buyers of US Treasury bonds and investors have been demanding higher yields to absorb the increasing supply of bonds. Additionally, rising corporate bond issuance from AI hyperscalers to build data centres, is competing with government bonds driving overall yields higher.

The rise in longer term bond yields, triggered another unorthodox intervention in markets from the US Treasury with a decision to increase buybacks of long end bonds funded by shorter term debt issuance. Although the amount of the buyback increase was small, Treasury's activist approach has costs to its credibility. Historically, markets have pushed back when they believe fundamentals, such as record debt levels and massive budget deficits, support higher yields so the Treasury's intervention in markets could become too costly to continue. Both gold and bitcoin jumped in price as investors sought other 'safe' assets free from perceptions of government price intervention.

While the global growth backdrop is positive, the pressure on equities from higher bond yields and rate rises means obvious near-term catalysts for another leg higher in equities appears limited. September has historically also been the weakest month of the year for US equities, particularly in US mid-term election years.

In our view there are reasons for both caution due to seasonality and higher bond yields as well as optimism due to strong fundamentals and earnings growth.

Rising equity prices can co-exist with rising bond yields and interest rates if due to better economic growth, earnings and productivity which seems to describe the current environment. Overall, we retain a neutral allocation to risk assets such as equities and defensive assets such as bonds, although, we see bonds becoming incrementally more attractive on a relative basis given rising real yields.



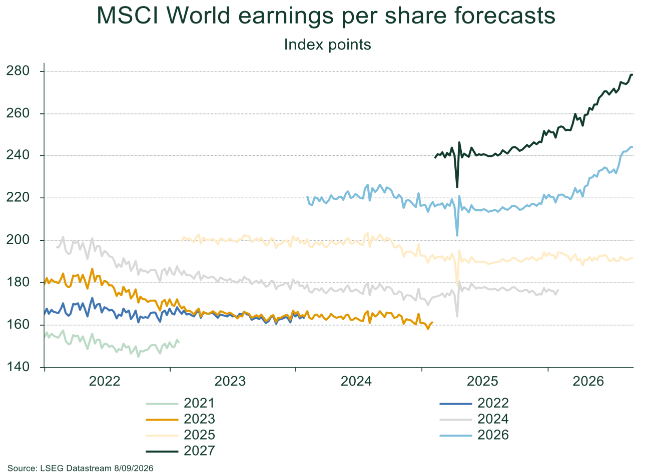
Source: LSEG Datastream 8/09/2026

EQUITIES:

As we previewed last month, second quarter profit results in the US were extremely strong with 53% year-on-year growth in earnings. AI related sectors, information technology and communication services, as well energy, materials and consumer discretionary showed very strong earnings relative to the same quarter in 2025. At the other end of the spectrum, the healthcare sector posted lower earnings than a year ago, led by declines in the biotechnology and pharmaceuticals sub-sectors. For the full 2026 calendar year US earnings are projected to be 33% higher than in 2025.

In Europe, second quarter earnings also grew strongly in the June quarter, with almost 24% year-over-year earnings growth or 13% excluding the energy sector. Energy and materials drove a large part of the earnings growth, but other cyclical sectors such as financials and industrials also benefited from the stronger European economy. Contrary to what many investors would have realised, European banks have considerably outperformed the Magnificent Seven group of US mega-cap stocks since 2022.

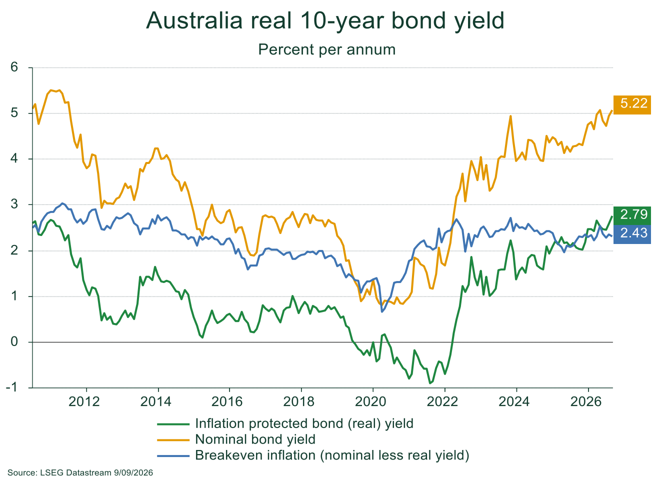
The strong second quarter earnings growth in the US and Europe raises the bar for upcoming quarters making it more challenging for companies to continue to beat rising earnings forecasts. Some commentators have suggested that while there may not be a price bubble in stocks, we could be in an earnings bubble. The AI infrastructure boom appears to be spreading into other sectors such as materials, industrials and financials. As we have discussed previously, equity valuations are flat or falling and share price gains are largely being driven by higher earnings.



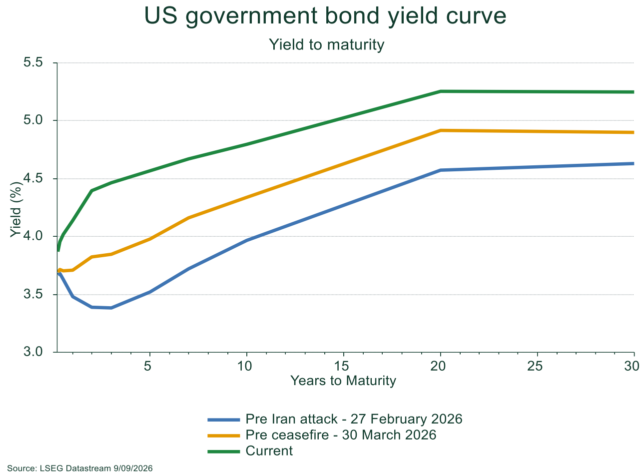
In Australia, August reporting season again brought high levels of price volatility following profit announcements. According to Goldman Sachs, almost half of companies in the S&P/ASX 200 index rose or fell by more than 5% following their results release, compared with the long-term average of 28%. Many companies that rose strongly following the release of better-than-expected earnings subsequently surrendered those gains. While there were more earnings beats than misses overall, constrained profit outlooks and weak sentiment about the future weighed on management guidance for growth and earnings levels, particularly for domestically-exposed sectors.

FIXED INCOME:

The rise in government bond yields globally means they are back to pre-Global Financial Crisis levels. In the case of Japan, 10-year yields are back to 1996 levels. Real yields, which remove expected inflation, are also at the highest levels for many years. For example, Australian government 10-year inflation linked bond yields are 2.8% per annum, plus the rate of inflation.



Recent Australian economic data suggests the RBA has more work to do to return inflation to its 2-3% target range. Underlying inflation has been around 3.6% for the past three months and notwithstanding falling home prices and weak consumer sentiment, markets have an 85% chance of another rate rise by year end. The RBA also remains concerned about inflation risks from the Iran conflict, low productivity growth and the AI investment boom.

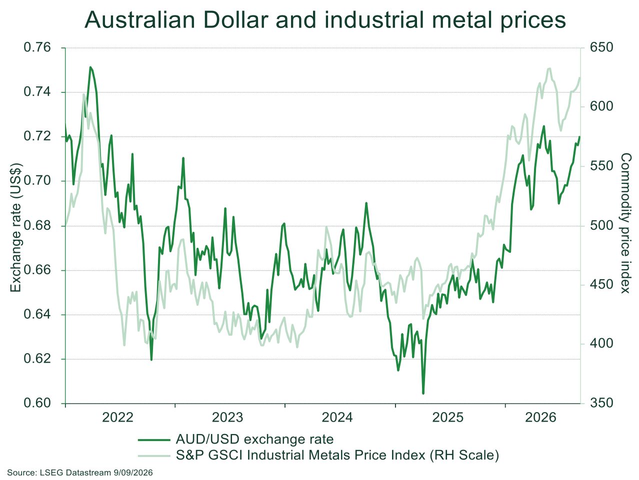


PROPERTY AND REAL ASSETS:

Global listed property and listed infrastructure underperformed in August due to the rise in longer term government bond yields over the month. We continue to have a positive view of property and infrastructure as a source of defensive growth with inflation protection, particularly given the favourable demand-supply imbalance.

ALTERNATIVE ASSETS:

Alternative assets returned 0.8% in August according to the HFRX Global Hedge Fund index, with positive performance from all the four major sub-strategies. Macro strategies returned 1.6% in August helped by commodities with strong performance gains in oil, agricultural commodities, and energy. Equity long/short funds returned 1.4%, event driven returned 0.1%, and relative value funds gained 0.3%.



CURRENCY:

The Australian Dollar rose in August helped by rising expectations that the RBA may need to lift interest rates further in coming months as well as stronger commodity prices. We remain currency unhedged in global shares.

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	There is a moderate prospect of further rate hikes in 2026 or 2027 if the RBA judges that inflation will take too long to trend back to its 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 is weakening for domestic focussed companies. 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 August 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	9076	1.5	4.5	6.3	4.4	37.7	45.6
Japan - Nikkei 225	66312	3.1	0.1	32.9	57.9	114.7	160.1
US - S&P 500	7686	2.7	1.7	13.1	20.4	77.4	82.5
US - NASDAQ Composite	26371	4.0	-2.1	13.9	23.6	91.7	79.2
UK - FTSE 100	10824	0.2	4.9	11.8	21.6	61.5	82.2
Europe - STOXX 600	651	0.5	4.5	12.8	22.0	56.4	62.4
Developed Markets - MSCI World	3856	2.4	2.6	13.6	21.3	74.0	78.8
Emerging Markets - MSCI EM	106434	1.9	-2.5	23.8	40.1	93.0	67.7
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	4.70	0.17	0.17	0.64	1.36	0.89	4.68
Australia -10 year	5.08	0.14	0.23	0.32	0.78	1.03	3.91
US - 2 year	4.34	0.07	0.34	0.86	0.73	-0.51	4.13
US - 10 year	4.75	0.04	0.31	0.58	0.52	0.65	3.44
UK - 10 year	5.15	0.10	0.33	0.68	0.43	0.79	4.53
Germany -10 year	3.32	0.12	0.39	0.47	0.60	0.85	3.70
Currencies and Commodities	Change in price						
Australian Dollar (US$)	0.7167	0.0143	-0.003	0.050	0.062	0.069	-0.014
US Dollar Index	99.43	-0.49	0.52	1.11	1.66	-4.19	6.80
Gold (US$/ounce)	4436.84	389.88	-154.26	112.17	995.40	2494.39	2630.54
Iron Ore (US$/tonne)	99.98	4.92	-4.54	-6.01	-4.28	-15.87	-48.98
Crude oil (WTI, US$/barrel)	87.03	0.87	-4.13	29.77	22.67	3.48	18.60

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