

Shock and Ore

Betashares Investment Outlook

H1 2026

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Executive summary

The base case from our 2025 investment outlook, “A Brave New World”, was that solid earnings growth could drive equity markets higher at a headline level with elevated equity volatility from policy uncertainty. Central to this view was our expectation that Trump would roil but not break markets.

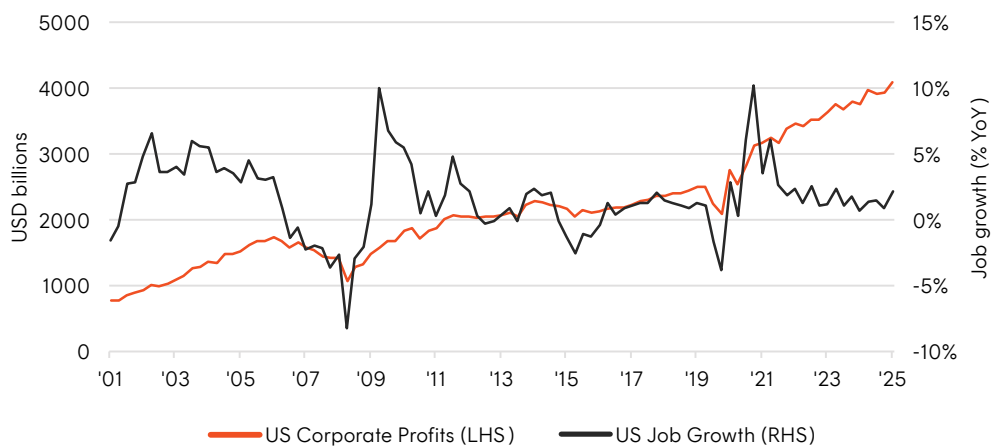
Ultimately this proved to be the case, but few could have predicted the initial severity of President Trump’s “reciprocal” tariffs, or the level of disruption both domestically and globally that Trump would inflict as he challenged the status quo.

Raising the average US tariff rate on imports from 2.5% to 15.8% might normally have been expected to either reignite inflation or curtail

demand, pushing the US into recession. In the end, neither of these outcomes eventuated. The pass-through effects on the US consumer remained muted, and the drag on growth was offset by US fiscal stimulus and a private sector AI capex boom. In addition, it’s important to acknowledge that the sailing may not have been so smooth in the wake of Liberation Day had other nations retaliated against the US with tariffs and trade restrictions of their own.

Another paradox of 2025 was that the stronger than expected economic environment and ever growing corporate profits occurred alongside weakening US jobs growth. A key question for 2026 is whether this lack of hiring is an indicator of impending recession or reflects structural changes within the labour market itself.

The K-shaped economy: US corporate profits and job growth



Source: Bloomberg. June 2000 to December 2025.

The Australian economy continued to recover through 2025 thanks to easing inflation, allowing the RBA to commence rate cuts. This improved household real incomes and consumer spending, resulting in a lift in housing construction and house prices.

However, by Q3, accelerating growth also came with a bounce back in inflation to the top end of the RBA's band. Aside from external shocks, the key risk for Australia is whether this rebound in inflation reflects an economy already hitting capacity constraints – in which case the RBA will be forced to hike, slowing growth once more.

Major asset class returns for 2025

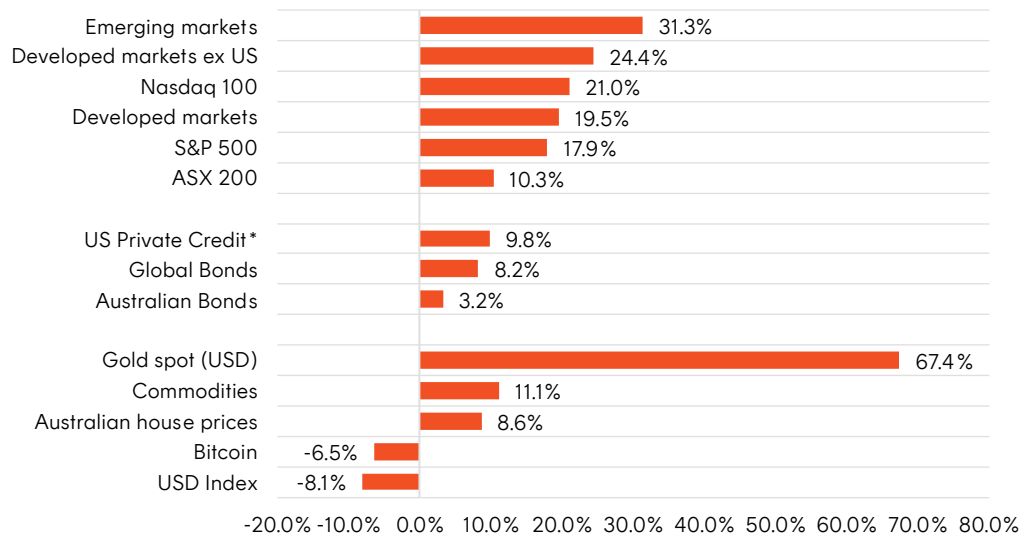
Seemingly the only enduring “Trump Trade” of 2025 was gold. With a calendar year return of 67.4% in US dollar (USD) terms, it was the stand-out performer.

At the other end of the spectrum, the USD experienced its worst first half of a year since the 1970s before stabilising in the second.

It's important to note that the asset class returns in the chart below are shown in local currency terms.

For Australians holding unhedged global assets, currency movements can have a significant bearing on investment outcomes in Australian dollar (AUD) terms. For example, the USD weakness meant the stated 17.9% S&P 500 index return for 2025, was a much more modest 9.3% when translated into AUD terms. In common currency terms the S&P/ASX 200 return was higher.

Major asset class returns 2025 (local currencies)



Source: Bloomberg. Returns from 31 December 2024 to 31 December 2025. Returns are in local currencies. Developed markets = MSDLWI Index, S&P 500 = SPX Index, Nasdaq 100 = NDX Index, ASX 200 = AS51 Index, Developed markets ex US = MSDLWXUS Index, Emerging markets = NDLEEGF Index, USD Index = BBDXY Index, Commodities = BCOM Index, Gold spot (USD) = GOLDLNPM Index, Global Bonds = LEGATRUU Index, Australian Bonds = BACMO Index, Australian house prices = Cotality Home Value Index, US Private Credit = Cliffwater Direct Lending Index, Bitcoin = Bitcoin Index. * US Private Credit returns from 30 September 2024 to 30 September 2025 representing the most recent data. You cannot invest directly in an index. Past performance is not an indicator of future performance.

Regional equity index performance for 2025 can also be dissected into pre- and post-President Trump's Liberation Day tariff announcements. Prior to the 2 April announcement, a rotation out of US equities was underway with developed ex-US and emerging market equities outperforming the S&P 500 by 7.2% and 6.9% respectively. Following Liberation Day, the Nasdaq 100 led an exceptional global recovery. Yet over the full year, European, Japanese and emerging market indices all outperformed the S&P 500 and Nasdaq 100 in both local and common currency terms.

In bonds, sovereign yield curves steepened throughout the year, as long-end rates remained elevated despite the disinflationary environment. With cash and short-term rates falling in most major economies, investors are now demanding greater term premium on elevated government issuance, fiscal deficit concerns and risks around Fed independence.

Broad commodity indices masked significant divergence in 2025. As mentioned above, gold and precious metals continued to make all-time highs, critical mineral prices broke out of a multi-year slump to finish strongly, whereas oil prices trended down over the year.

Key takeaways of our 2026 outlook

Our expectation is that global growth holds up in 2026 and that inflation in developed markets continues to moderate. We expect further cuts from the Fed, and the USD to depreciate against the trade-weighted index and the AUD. Whilst inflation is proving to be stickier in Australia, we do expect price pressures to ease over the year, underpinned by one rate hike.

This environment should be constructive for risk assets. However, within global equities we prefer ex-US developed markets and Emerging markets, as we believe the USD weakness will erode US equities returns in AUD terms.

Within US equities it is hard to look past the earnings power of the Nasdaq 100, which is showing breadth beyond the Mag 7 and would be more insulated from a falling USD due to its higher offshore revenue exposure.

We are more positive than we have been on Australian equities for a number of years, with a bullish outlook for commodities and earnings growth inflecting higher. We also like Australian tech sector and believe the recent sell-off makes for an attractive entry point.

For defensive allocations, sovereign bonds now offer a reasonable yield pick up over cash. There are two-sided risks for US Treasuries, whereas we believe Australian government and corporate bonds represent the best risk adjusted opportunity in investment grade fixed income. We continue to favour gold in USD terms and note it is increasingly receiving a dedicated allocation in professionally managed multi asset portfolios.

The table on the next page contains a summary of our key economic and market forecasts for 2026.

Betashares economic & market forecasts: 2026 Outlook

Australian Economy	Actuals	Forecasts	
	30-Dec-25	30-Jun-26	30-Dec-26
GDP growth YoY%	2.1%	2.0%	2.0%
Unemployment rate (%)	4.1%	4.3%	4.5%
Trimmed mean inflation YoY%	3.3	3.0	3.0
Australian Rates			
RBA cash rate	3.60%	3.85%	3.85%
10-year govt bond yield	4.74%	4.50%	4.25%
Australian Dollar			
AUD/USD exchange rate	0.67	0.74	0.75
Equity Markets			
S&P/ASX 200 Index	8714	9041	9368
S&P 500 Index	6845	7307	7769

Source: Betashares, forecasts were current as at 15 January 2025.
* GDP Growth actuals figure as at Q3 2025.

More detail to support these forecasts is contained in the following pages.

Structure of this paper

In this year's Betashares Investment Outlook, we unpack the key macro drivers for 2026, examining what will remain constant and what economic relationships are evolving or being influenced by new variables.

Specifically, we will examine the outlook for global growth, consider risks such as the AI capex boom, fiscal dominance over monetary policy, tariffs, and US-China competition, and provide our views on the Australian economy.

The final sections of the paper will provide greater context for our views across the major asset class, as well as investment implementation ideas.

Growth outlook: Twin tailwinds

The outlook for the global economy, and global markets for that matter, is very much driven by what happens in the US. Our base case is the US economy will enjoy solid growth in 2026 due to stimulus from two key sources: fiscal support and the AI capital expenditure boom.

Trump's voter sugar hit

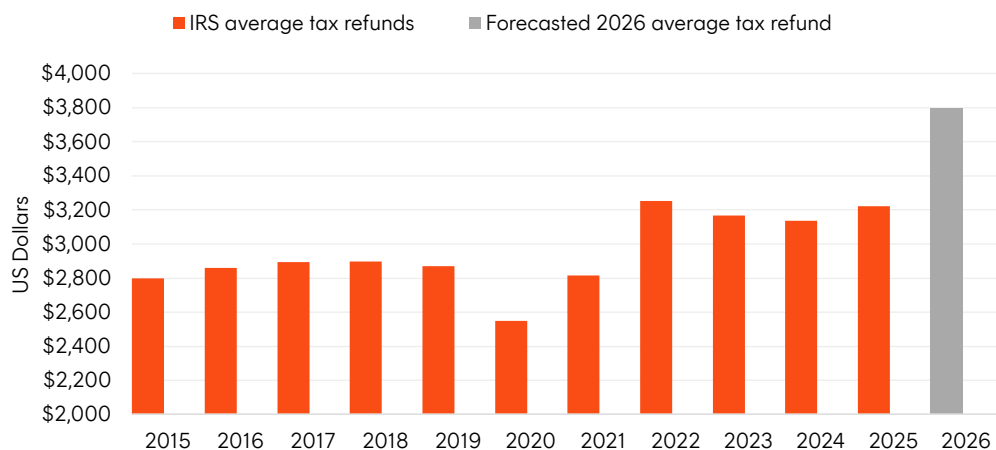
The tax cuts in the One Big Beautiful Bill Act (OBBBA) are expected to deliver a significant boost to both consumers and businesses in 2026.

US taxpayers are expected to receive an aggregate increase of US\$100bn in tax refunds in the first half of the year. That is ~0.4% of annual disposable income, disproportionately hitting the bank accounts of upper income households, providing a boost to consumer spending and the wealth effect.

On the corporate side, OBBBA introduced generous tax incentives, including 100% depreciation for capital expenditure and immediate expensing for R&D, which has already started to boost forward-looking capex indicators and spurred business activity.

While the OBBBA stimulus looks great on paper, some of this positive fiscal boost (and erosion of tax base) will be offset by the economic drag of tariffs.

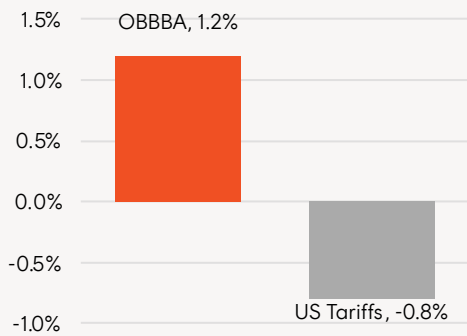
Annual tax refunds are likely to rise meaningfully in 2026



Source: New York Life Investments Global Market Strategy, IRS, JP Morgan, Macrobond, December 2025. JP Morgan estimate of average 2026 tax refund taking into account the One Big Beautiful Bill Act.

Tariffs will offset both the growth and fiscal impact of the OBBBA

Expected change in long run GDP



Source: Tax Foundation General Equilibrium Model, July 2025.

As at the time of writing, we are awaiting the US Supreme Court decision on Trump’s “reciprocal” tariffs. Lower courts have already ruled that Trump exceeded his authority by invoking the 1977 International Emergency Economic Powers Act (IEEPA) to announce tariff’s, and Supreme Court justices have expressed some scepticism.

In case the court rules against Trump, the White House is already preparing alternatives leaning on authority granted under other legislation. This includes other trade statutes, such as Section 122 of the Trade Act of 1974, which allows up to 15% tariffs for trade imbalances for limited periods, or Section 301 and Section 232 authorities to impose targeted duties while longer-term legal fixes are pursued. Such an outcome would be

messy, take longer to implement in parts but would also provide more certainty on tariff revenue moving forward.

The greater short-term risk is a court ruling that instructs the Administration to refund billions in tariffs already collected. Trump and his advisers warn that unwinding the system would be chaotic and disruptive to the economy.

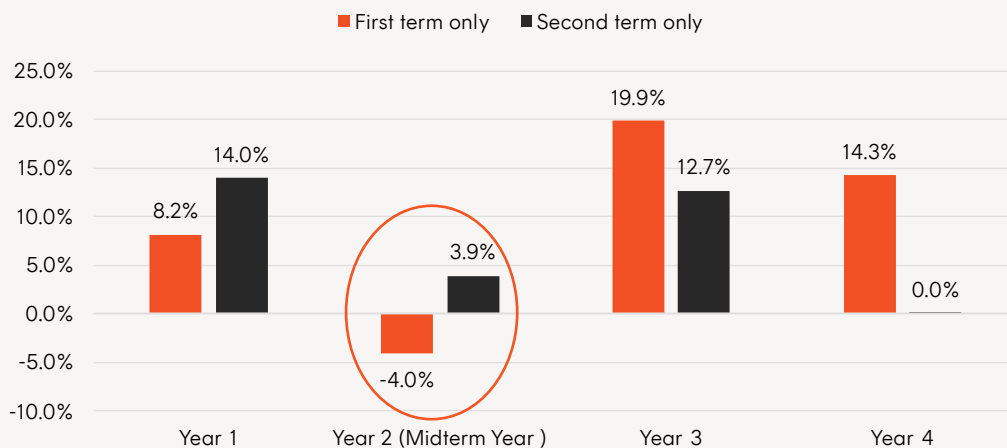
The tariffs, assuming they remain in place, are estimated to offset a little more than half of the OBBBA’s fiscal spending, leaving a net increase in US budget deficits of ~US\$1.4 trillion over the next decade¹. A deteriorating US deficit has already been a touchy subject for markets fearing a “Liz Truss” moment within the US.

Government debt will remain an increasing left tail risk in both 2026 and for years to come.

The midterms also provide an incentive for Trump to lessen the impact of tariffs on household budgets. In November 2025, Trump announced that he would lower tariffs on selected items such as coffee and bananas to mitigate household inflation and has also proposed \$2,000 tariff dividend sweetener for voters. Along with addressing affordability concerns, we would generally expect policy announcements to focus on growth, jobs and deregulation.

Historically, midterm elections in the US have created noisy headlines and short-term volatility. Post midterms, markets tend to perform strongly and refocus on fundamentals.

Average S&P 500 price returns during four-year presidential cycle (1961-2025)



Source: Strategas. Average S&P 500 price returns during four year presidential cycle (1961 to 2025)

Over the last 65 years, the party in control of the White House has lost seats in the House of Representatives in nearly every midterm election. This has typically resulted in legislative gridlock on domestic policy, reducing uncertainty for stocks. However, Trump is a president unafraid to test the limits of executive power.

“Historically, midterm elections in the US tend to create noisy headlines and short-term volatility. Post midterms, markets tend to perform strongly and refocus on fundamentals.”

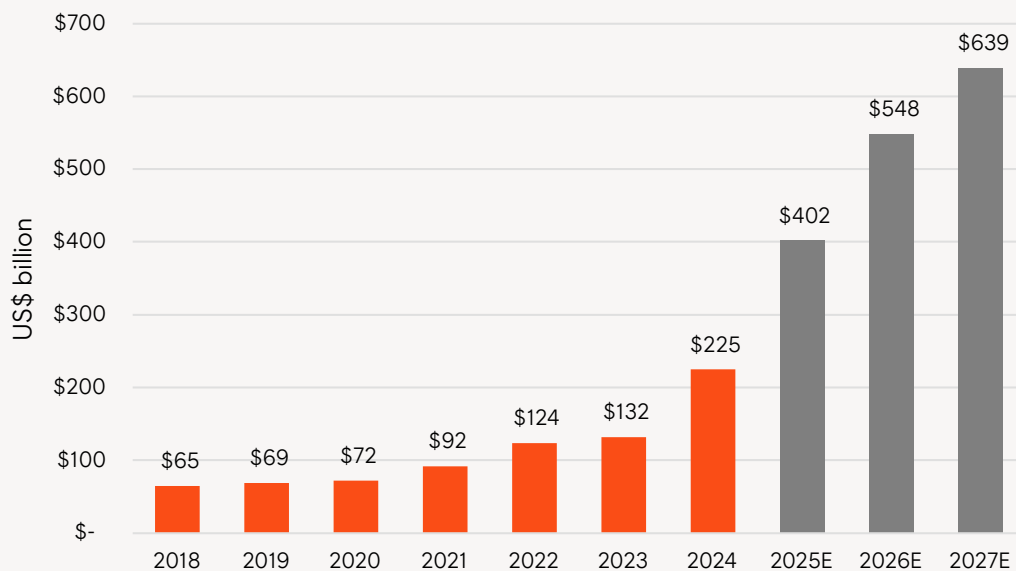
Rocket fuel: The AI capex boom

The AI theme has dominated equity markets for the last three years. The ensuing capital expenditure in a race for AI leadership has massive macro implications, insulating the US economy from any near-term recession risks.

AI investments contributed about one-third of US GDP growth through to Q3 2025, contributing more to growth than traditional drivers like consumer spending². While there is some debate that the impact on growth is overstated (the surge in imports of semiconductor and tech hardware technically reduce GDP), we believe the overall contribution to the US economy has been overwhelmingly stimulatory.

“AI investments contributed about one-third of US GDP growth through to Q3 2025, contributing more to growth than traditional drivers like consumer spending².”

US megacap hyperscalers to drive sustained capex growth



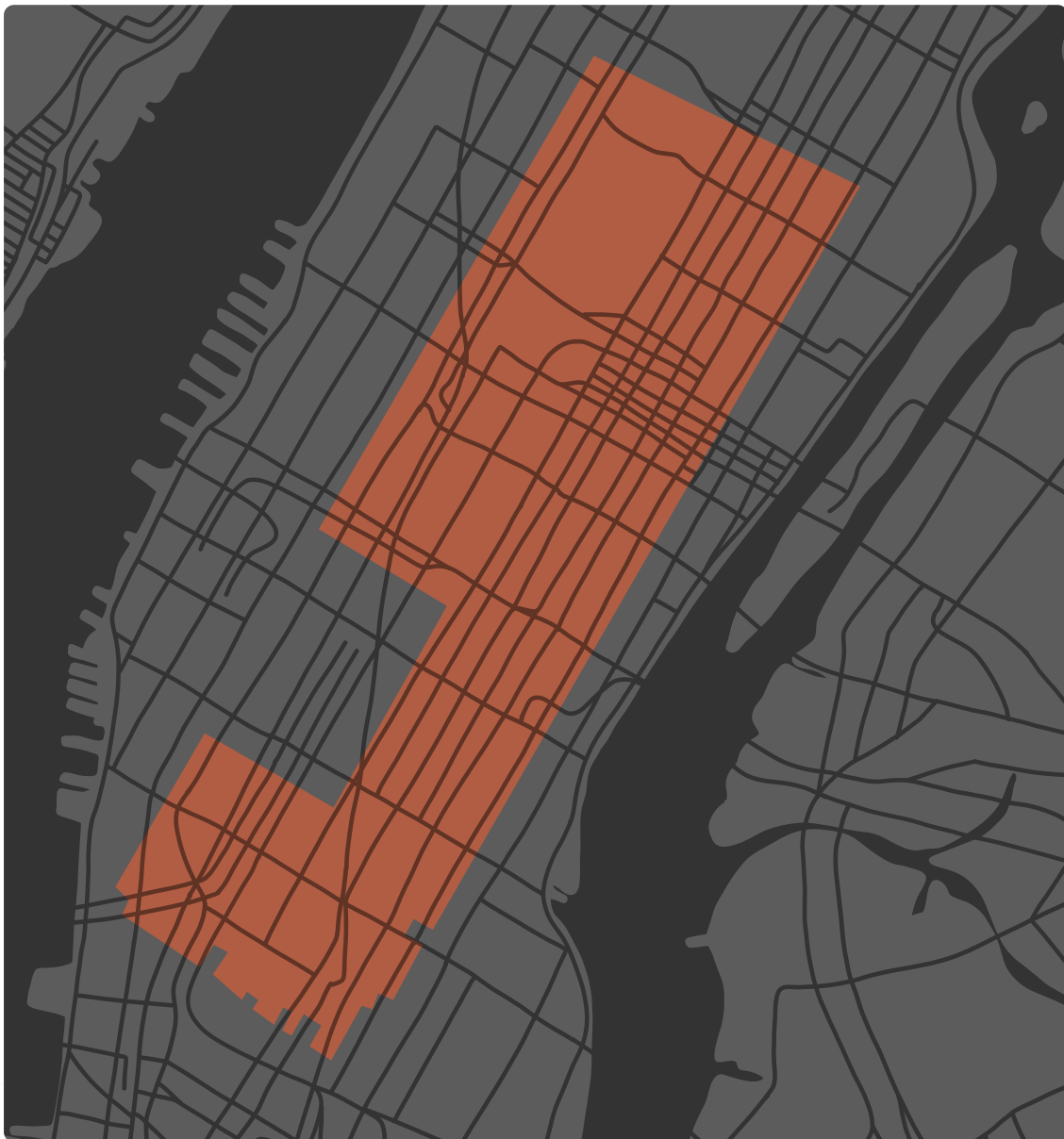
Source: Company data, Goldman Sachs Global Investment Research. Hyperscalers include Amazon, Google, Meta, Microsoft and Oracle. As at 15 December 2025. Estimates in grey.

The hyperscalers are expected to pour billions into building out data centres and AI infrastructure in 2026 and beyond.

To get a sense of the scale of these data centres, take Meta's Hyperion Richland Parish project in Louisiana as an example. At approximately 4 million square feet, it will have a footprint that could cover lower and midtown Manhattan, delivering ~2 gigawatts of compute capacity³ – using enough energy to power approximately 1.5 million households.

The contribution to US GDP growth from AI investments in 2026 will likely be lower than 2025 as the growth in capex spending decelerates, although we still expect a significant boost. Given the general positivity towards the AI boom and strong stock price returns of its participants, it is critical though to question how sustainable this capex is.

Richland Parish data center site footprint over Manhattan



Source: Meta

¹ Source: Tax Foundation, *How Does the OBBBA Impact Debt, Deficits, and Tax Revenue?*. 9 December 2025.

² Source: JP Morgan. 9 December 2025.

³ Source: Meta. *Richland Parish Data Center*.

Will the US\$1 trillion bet pay off?

The near consensus view from Wall Street investment firms on the AI complex is one of optimism for 2026. In this section we assess potential risks - namely funding the capex boom, the market's tolerance for this expenditure, evidence of productivity gains, and what risks may cause an adjustment to the heady capex projections.

Can they afford it?

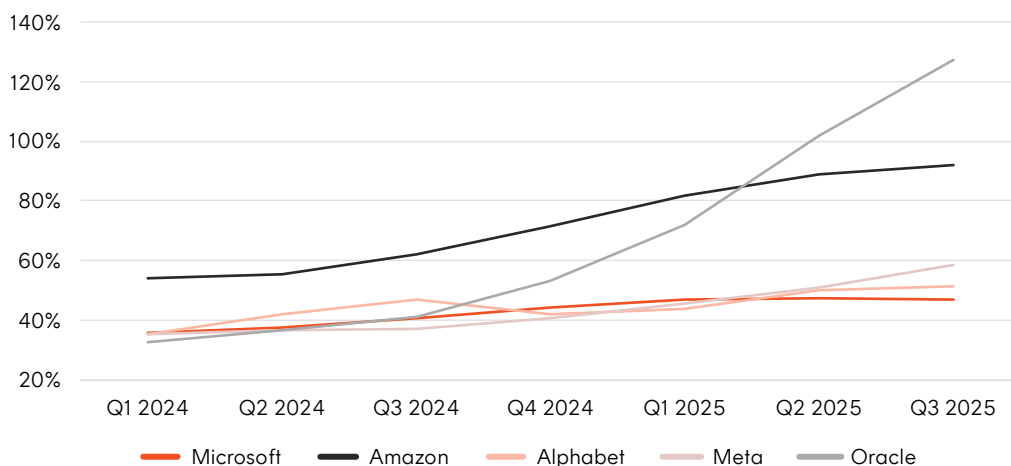
The AI infrastructure build out has been primarily funded by internally generated cash flows in contrast to the late 1990's dotcom bubble, where the use of debt funding was more prevalent.

Much of this cash generation has come from consistent earnings upgrades and long-term profit growth across the hyperscalers' core advertising and e-commerce business units

Historically, these companies have invested a significant amount of their cash flows into R&D initiative, cementing their position as industry leaders.

However, capex projections in 2026 and beyond would place pressure on the hyperscalers' consistently high levels of return on equity and risk a shareholder revolt.

Capex/operating cash flow of hyperscalers (%)



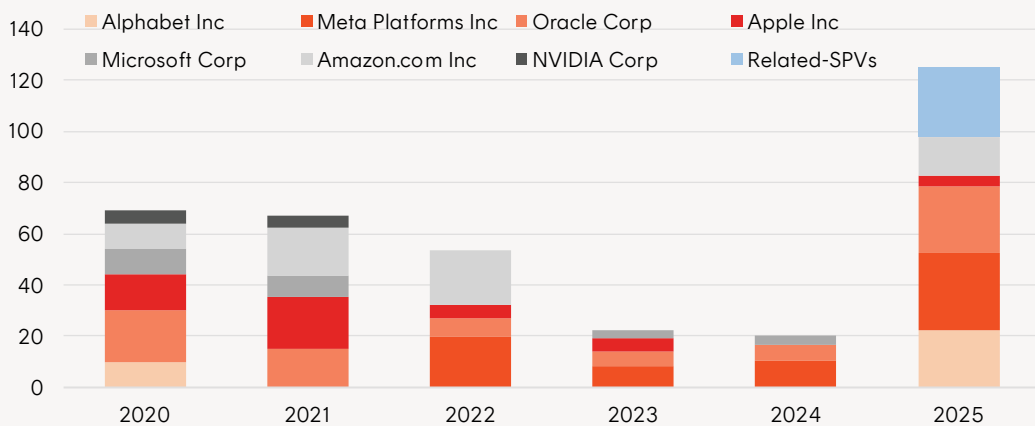
Source: Nasdaq Global Indexes, Bloomberg. As at 30 November 2025.

Rather than impacting shareholder returns, debt markets offer a cheaper source of capital for the hyperscalers. In Q4 2025, the AI capex boom became a meaningful part of US corporate debt issuance.

The most striking example was the record-breaking US\$27 billion bond deal that will

finance the previously mentioned Meta Hyperion data centre. These bonds were issued via a special purpose vehicle (SPV) and are secured against the data centres themselves, with Meta as the tenant. This “leaseback” structure enables Meta to preserve balance sheet flexibility while continuing to fund its AI ambitions, issuing around US\$30 billion in its own name in Q4.

Mag 7 + Oracle USD bond issuance by calendar year (US\$b)



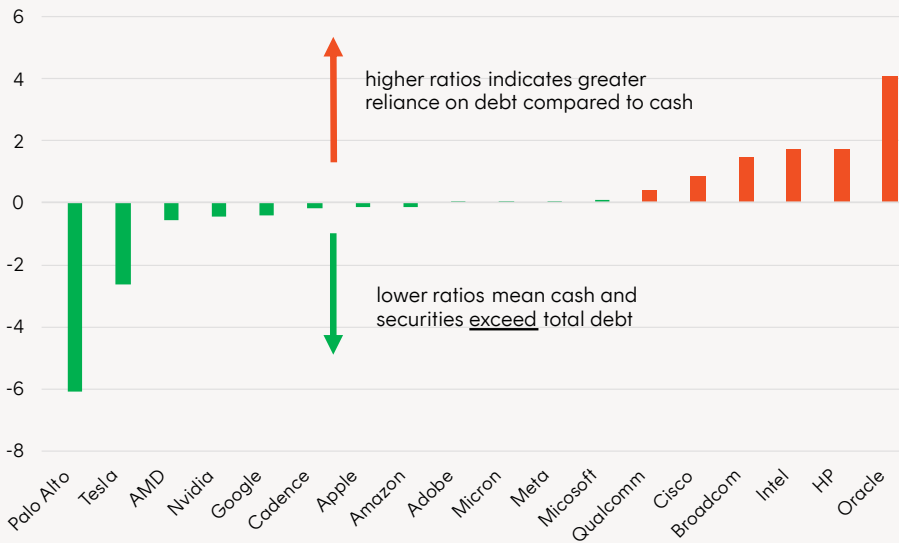
Source: Bloomberg, 2020 to 2025.

The major US technology companies raised over \$120 billion in debt last year, with Meta and Oracle significant contributors. Smaller AI infrastructure players such as Coreweave and Nebius were also active in the primary market. This is only the beginning as annual AI infrastructure spending is projected to climb from around US\$400 billion last year to over US\$1 trillion by 2029. As a result, debt markets are expected to shoulder much of the load as leading technology firms shift from capital-light to capital-intensive business models.

Perhaps the elephant in the room is OpenAI and how it plans to finance its extraordinary spending commitments (estimated at \$1.4 trillion over eight years) to the likes of Oracle, Microsoft and Broadcom. CEO Sam Altman has already hinted that entirely new financial instruments may be required, implying that much of the capex build-out will be financed via asset backed securities (ABS).

Notwithstanding these outliers (e.g. Oracle, Meta, OpenAI), the majority of AI-related companies still have net debt to EBITDA ratios less than zero, meaning the amount of cash and securities on their balance sheets exceed total debt. The amount financed by debt is still very low in contrast to the late 1990's.

Net debt to EBITDA ratios of direct AI stocks



Source: Bloomberg. As at 2 January 2026.

Show me the money

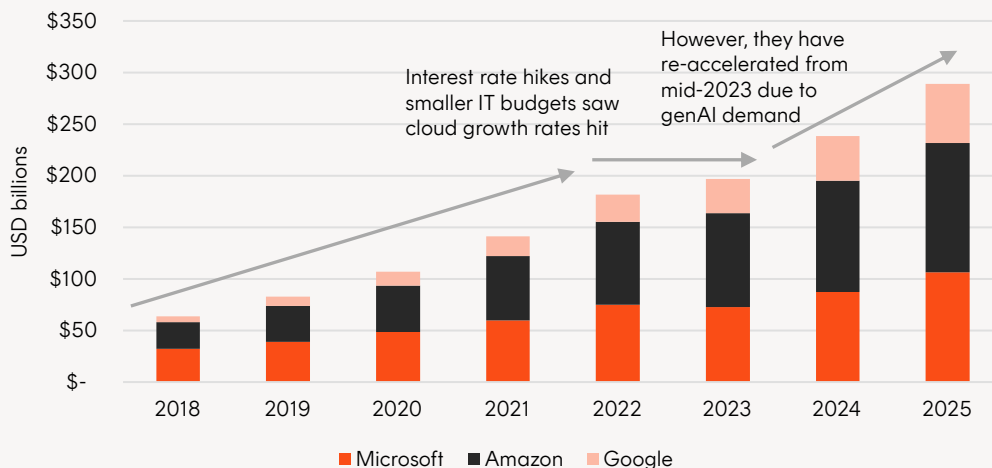
In 2026, we believe investors will increasingly prefer companies that can demonstrate a clear path to profitability from AI-related investments such that they can retain their historical return on invested capital (ROIC) and keep shareholders appeased.

Enterprise adoption is one key metric that investors are watching closely to monitor trends in AI monetisation, given companies have much larger spending budgets than direct consumers. While there remains a wide divergence in AI adoption across organisations, the good news

is that those that make more consistent use of advanced AI tools have reported larger productivity gains than those whose use remained limited⁴.

But perhaps a more direct example of AI monetisation is occurring at the infrastructure layer where hyperscale cloud providers (Microsoft Azure, Amazon Web Services, and Google Cloud Platform) have all seen earnings growth rates inflect higher from mid-2023 as the demand for generative AI services surged.

Hyperscaler cloud revenues accelerate



Source: Bloomberg. As at 13 January 2026. Years shown are fiscal reporting years. 2025 estimates shown for Amazon and Google.

Moreover, the contribution that AI is having on these growth rates is becoming substantial. AI services contributed approximately 16 percentage points to Microsoft Azure's year-over-year revenue growth of 33%⁵.

We are still in the early days of AI monetisation. Adoption rates vary across industries and quantifying productivity gains remain a challenge. However, the fact that megacap

tech companies laid off tens of thousands of employees last year may be a leading indicator that efficiency gains from AI are being realised⁶. In fact, productivity in the US grew to its fastest level in two years, by 4.9% p.a. for Q3 2025⁷, signalling that AI could also be the driver behind both a strong economy and lacklustre labour market that the US is experiencing.

Valuations and physical constraints

Overall with this position of strength, we think that valuations, although elevated, are justified and reflect a much different dynamic to what we saw during the Dot-com bubble.

Beyond investor appetite to fund the AI build out, execution remains a key risk. Data centres are voracious consumers of electricity, and their buildout is contingent on sizable, steady expansion of power generation and transmission capacity between now and 2030. US household electricity bills are already increasing in parts of the country. The cost of new generation capacity exceeds what hyperscalers are being charged by the utilities, and there is debate as to whether that generation can be built fast enough.

China's progress in building out its own local AI ecosystem presents another left-tail risk, as we will discuss in a later section. Will the upcoming release of DeepSeek v4 (slated for mid Fed 2026) again call into question the necessity of US hyperscaler capex?

Still, it is not clear when these roadblocks will be encountered. Our base case view is that AI-related capex will accelerate in 2026 even if total hyperscaler spending does not meet the \$548 billion projected. This private sector investment will continue to provide a growth tailwind for the US economy and the global AI supply chain this year.

Valuations remain elevated but not as extreme during the Dotcom bubble

Forward P/E ratio of the Nasdaq 100 Index from 2001



Source: Bloomberg. As at 13 January 2026.

⁴ Source: <https://openai.com/index/the-state-of-enterprise-ai-2025-report/>

⁵ Source: Microsoft Q3 2025 earnings call

⁶ Source: Salesforce cut around 4,000 customer service roles late last year as AI agents can now handle millions of customer conversations that humans once did.

⁷ Source: www.bloomberg.com/news/articles/2026-01-08/us-productivity-picked-up-in-third-quarter-labor-costs-declined

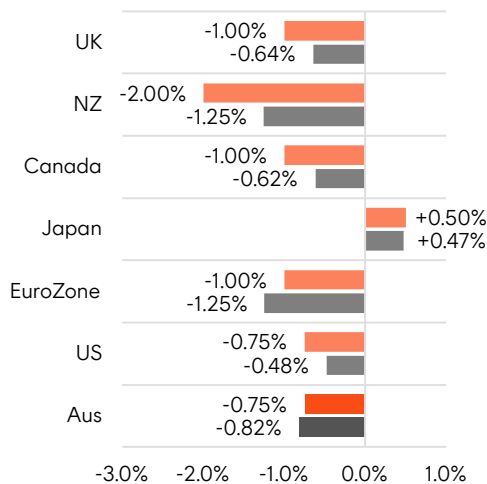
Global policy divergence

After a period of synchronised easing, markets are now pricing divergent rate paths ahead, creating varied growth and inflation dynamics across the US, Australia, Japan, and Europe.

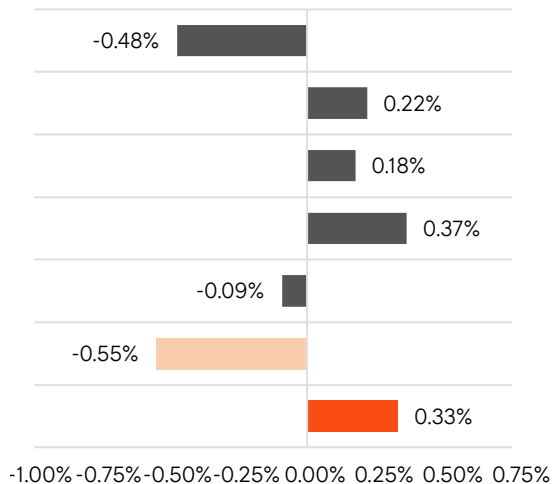
One of the key developments in fixed income markets has been the divergence in global policy rate expectations following a period of largely synchronised easing from major central banks. In 2025 most central banks delivered on the rate cuts that were expected of them. However, this year markets are expecting Australia, Canada, and New Zealand to join the Bank of Japan (BoJ) in adopting a tightening bias amid resurgent inflation pressures.

In contrast, the Fed has maintained dovish guidance and is now an outlier regarding the expected direction of rates. For much of the post-pandemic period, the US adopted higher rates than peers. Narrowing rate differentials and a more dovish reaction function, together with a greater focus on labour market weakness in the US could have significant implications for both global rates and the USD.

Change in policy rates in 2025 vs 12-month market pricing at 31-Dec-2024



12-month market pricing at 31-Dec-2025



■ Actual change in policy rate
■ 12mth change priced in at 31-Dec-2024

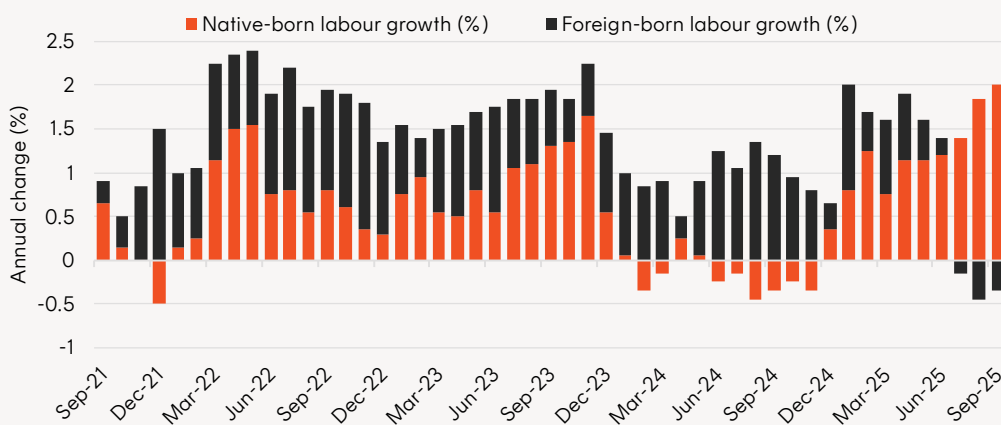
Source: Bloomberg. As at 31 December 2025.

US unemployment: The key risk

Despite factors such as fiscal support, the AI capex boom and strong corporate profitability, the US labour market deteriorated in 2025. With job creation stalling, the unemployment rate rose from 4.1% to as high as 4.5% (after revisions) in November. At the same time, a data blackout from the second half government shutdown also added to uncertainty.

Trump's restrictive immigration policy is resulting in a smaller workforce at the margin. The US economy can add fewer jobs without a spike in the unemployment rate, meaning higher job creation is no longer required to absorb the growth in labour supply. The breakeven job creation rate may have structurally reduced from ~150,000 a month to ~50,000 a month (as per the December payrolls figure).

Immigration - and the labour supply with it - was more restrained in 2025



Source: New York Life Investments, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025

On the other hand, if the unemployment rate continues to climb in 2026, that would create real recessionary risk. Consumer spending tends to fall only when people in an individual's social or professional circles begin to lose jobs. In this sense, a low hiring environment can be sustained with limited knock-on effects provided layoffs don't accelerate. Lower job creation could also be a function of higher productivity as corporates look for efficiency gains from AI.

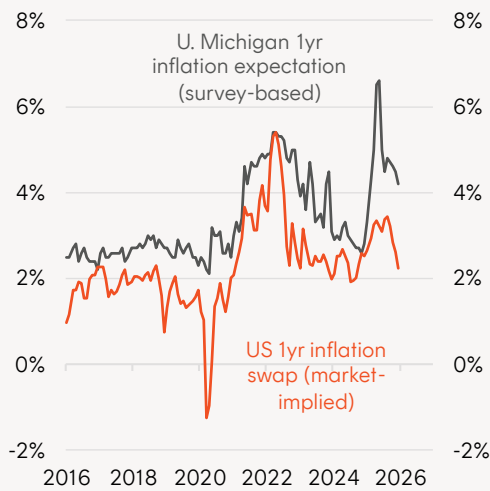
In any event, an accommodative Fed facing political pressure will cut rates if unemployment becomes a problem.

“In any event, an accommodative Fed facing political pressure will cut rates if unemployment becomes a problem.”

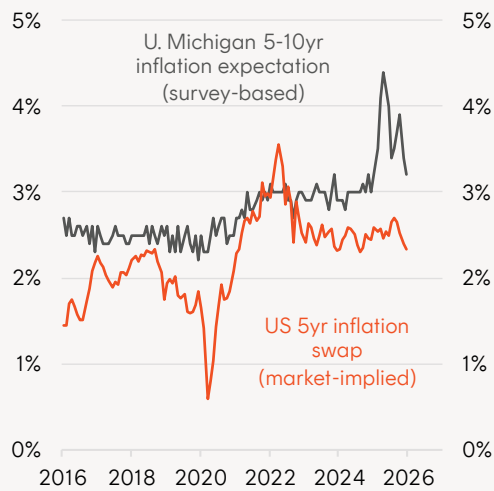
Aggregate data hides weakness in some parts of the US economy. The so called “K-shaped recovery” sees upper income households benefiting from the wealth effect with easy mortgage serviceability driving consumption. Whereas lower income workers have greater exposure to industries that are facing structural challenges and disruption, like manufacturing and home building.

Inflation is likely to remain above the Federal Reserve's 2% target but gradually trend lower over the year on waning tariff effects. Upside risks to inflation include delayed pass through from businesses, renewed tariff shocks, supply chain reshoring and energy price volatility either from increasing AI electricity demand or a geopolitical oil shock.

Short-term US inflation expectations



Longer-term US inflation expectations



Source: Bloomberg. As at 31 December 2025.

A captive Fed?

The Trump Administration has frequently attacked the FOMC and Chair Powell for not cutting rates aggressively enough. A big topic that emerged was who would succeed Powell when his term ends in May 2026 and prediction markets have not yet settled on a consensus. The current frontrunners include former Fed Governor Kevin Warsh, National Economic Council Director Kevin Hassett and Blackrock's Rick Rieder.

However, a more profound question is the Fed's commitment to the 2% inflation target over the longer term, especially if the new FOMC comprises several allies of the Administration. "Fiscal dominance" is the term that captures both the loss of monetary policy independence and a central bank working in service of fiscal policy by keeping rates lower than they should otherwise be, and this remains a risk for markets.

With the Administration appearing to favour expansionary fiscal policies to support nominal growth over austerity as a means of combatting the budget deficit, they will be more reliant on a structurally dovish Fed. A dovish Fed may also be needed to help get mortgage rates lower and kickstart the US housing market. Ultimately, there's a fine balance between keeping policy rates low enough so that long-term yields

remain contained in a curve steepening and high nominal growth environment, but not so accommodative that the bond market revolts.

The spectre of a "Liz Truss" moment hitting US Treasuries is often discussed among macro commentators, but at present, the Treasury and inflation swap markets aren't showing any major concerns around the loss of Fed independence or fiscal expansion. The curve steepening is consistent with a rate cutting cycle, while longer-term market implied inflation expectations remain anchored.

"With the Administration appearing to favour expansionary fiscal policies to support nominal growth over austerity as a means of combatting the budget deficit, they will be more reliant on a structurally dovish Fed."

Australia: Hitting inflationary constraints

As expected, the Australian economy continued to recover through 2025 thanks to easing inflation and improved household real incomes which helped spark a lift in long moribund consumer spending. From a high of 6.8% in late 2022, annual trimmed mean inflation slowed to 2.7% by the June quarter of 2025.

The welcome decline in inflation allowed the RBA to cut interest rates three times last year, taking the cash rate from 4.35% at the start of the year to 3.6% by August. Lower interest rates also helped boost economic growth, spurring house price growth⁸, housing construction and disposable income for mortgagees.

Other drivers of growth included private investment in AI related data centres and clean energy projects, along with public spending on infrastructure and key social programmes such as the National Disability Insurance Scheme (NDIS).

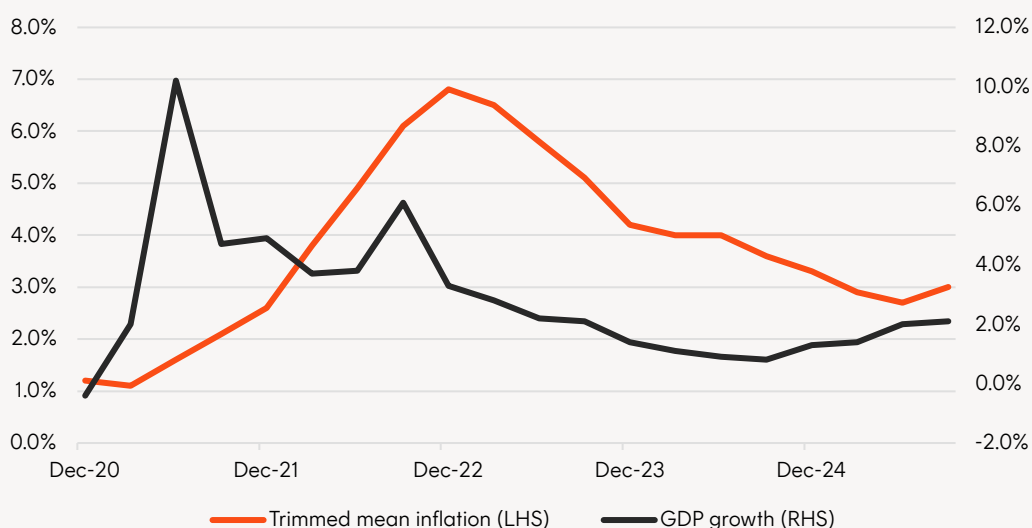
From a low of 0.8% in the September quarter of 2024, annual GDP growth lifted to 2.0% by the September quarter of 2025. Despite the lift

in economic growth, the lagged effects of the earlier economic slowdown, along with solid labour force growth, saw the unemployment rate edge higher over the year from 3.9% in December 2024 to 4.3% by November 2025.

That said, the economy faced a reality check of sorts late in the year. Disappointingly, the lift in economic growth was also associated with a bounce back in inflation. Trimmed mean quarterly inflation lifted by 1.0% in the September quarter and eased to only 0.9% in the December quarter. As a result, annual trimmed mean inflation ended 2025 at 3.3% - a notable rebound from the June quarter low.

What's more, demand factors appear to account for a good degree of the lift in inflation, with new home costs and rents rising notably. Pricing pressures were also evident in the travel and hospitality sector although, at least in the December quarter, and element of this likely reflected "one-off" added tourism demand related to the Ashes cricket series.

Australia's 5-year inflation and GDP growth



Source: Bloomberg. 30 September 2020 to September 30 2025.

Reflecting the rebound in inflation, it now appears likely the RBA will feel the need to withdraw some of the monetary stimulus provided in 2025. Our base case, however, is only one rate hike will be needed to help slow demand and moderate inflationary pressure – most likely in February, or May at the latest.

Indeed, we don't expect the magnitude of recent underlying price increases to be sustained, in part because some of the increase also likely reflect temporary factors, such as a lift in global food prices, a reduction in discounts that had been temporarily offered by home builders,

and Ashes related tourism spending. We also anticipate a degree of competitive pressure on profit margins and only modest consumer spending – especially given tighter monetary conditions - to limit underlying price pressure in 2026.

“Our base case is one rate hike will be needed to help slow demand and moderate inflationary pressure.”

Japan: A new dawn for the land of the rising sun?

In Japan, Prime Minister Sanae Takaichi is well placed to consolidate power should she call an early election, providing a clearer mandate to enact her pro-growth agenda. As a protégé of the late Shinzo Abe, Takaichi can be expected to carry forward Abenomics – with the least progressed of Abe's “three arrows” now working its way through Japanese boardrooms. Her broader policy agenda includes stimulating domestic demand, supporting strategic sectors like AI, semiconductors, and defence, and continuing corporate governance reforms.

Takaichi's hawkish stance on China aligns with US strategic priorities, but risks inflaming historical tensions rooted in Japan's militaristic past. Her posture, consistent with Abe's push to revise Japan's pacifist constitution, has seen defence spending rise from around 1% to 2% of GDP in recent years. While this strengthens Japan's role as a counterweight to Chinese ambitions, it also risks trade disruptions, with Beijing already restricting Japanese access to rare earths.

The combination of fiscal expansion and BoJ policy normalisation continues to drive Japanese government bond (JGB) yields higher, with the 10-year recently surpassing 2% for the first time since the 1990s. The BoJ hiked twice in 2025 while continuing quantitative tightening, amid the most persistent inflation in over 30 years, with CPI remaining above the 2% target for much of the post-pandemic period, driven by currency weakness and higher wages.

Japan's importance to both geopolitics and markets has grown in recent years. We expect the JGB market to exert a subtle influence over global sovereign yields, given Japan's position as the world's largest holder of foreign bonds, while the weak yen continues to support the global competitiveness of “Japan Inc”, at the expense of fuelling further inflationary pressures.

“We expect the JGB market to exert a subtle influence over global sovereign yields, given Japan's position as the world's largest holder of foreign bonds”

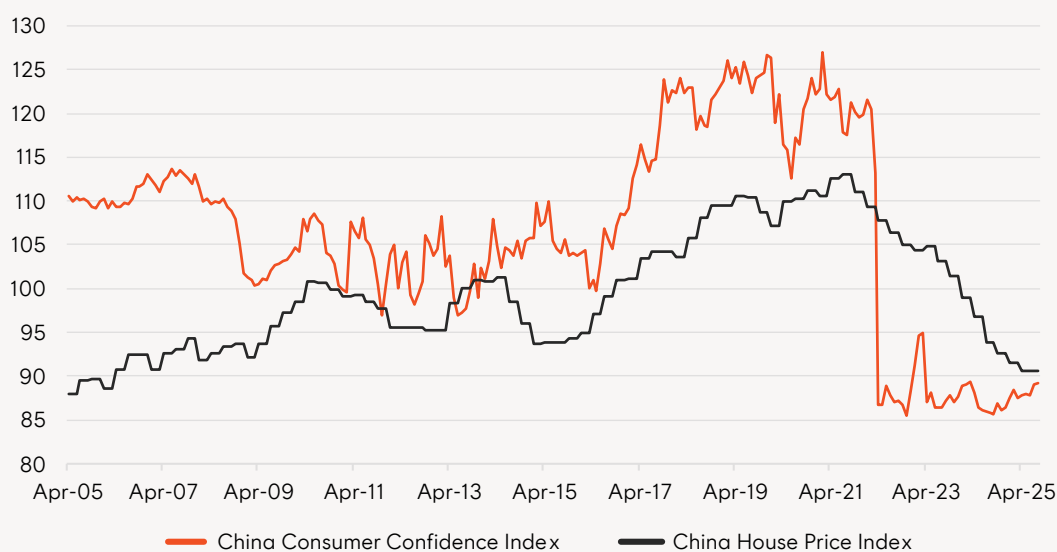
China and Europe: Strategic priorities and trade tensions

Chinese property prices have been falling for more than four years now. The wealth destruction is now equivalent to the 2008 US property crash, eroding consumer confidence and domestic demand.

Beijing bet big that high-tech manufacturing would fill the gap left by property. But Xi Jinping

has also prioritised technological supremacy and supply chain dominance over rebalancing the economy towards consumption. State-driven investment has created overcapacity and “involution” - too many Chinese firms chasing too little demand, forcing prices down. Margin pressure has forced even well-run firms to cut wages and jobs to stay afloat.

Low Chinese consumer confidence tied to property market crash



Source: Bloomberg, FRED. April 2005 to December 2025.

China has increased its reliance on exports to meet its 5% GDP growth target, in the face of a weak domestic consumer and deflation. China's trade surplus hit US\$1 trillion in 2025 and is likely to be even higher in 2026, in spite of Trump's tariffs. For example, electric vehicle exports rallied as Chinese firms muscled in on Japanese and German market share. Total car shipments jumped by more than a million to about 6.8 million units in 2025.⁹

The ramifications of China's export growth are two-fold for Europe. It has provided a disinflationary impulse, helping the ECB get inflation under control, but also now directly challenges Germany's traditional leadership in high value manufactured goods, such as autos, machine tools, industrial robots and chemicals.

Hence Germany's 2025 fiscal reset, to boost spending on infrastructure and defence, was critical for Germany and the Eurozone as a whole. 2026 should see increased government spending filtering through and improving corporate capex, with hopefully greater clarity over US tariffs and trade. The fiscal reset also includes measures that should support consumer spending, such as a permanently lower VAT rate on restaurant bills and subsidies on energy bills.

On balance we expect Eurozone inflation to remain benign in 2026, and the ECB to leave rates on hold.

⁸ Source: Cotality Home Value Index, as at 2 January 2026.

⁹ Source: Automobility

Great power competition

US-China rivalry is reshaping the global economic order, with strategic priorities now driving trade, technology, and energy policy in ways that could profoundly impact markets.

A key part of Trump's agenda is to dismantle the rules-based global order that the US created after World War II. He has shown disdain toward institutions, like the UN, and collective intergovernmental forums, such as the G7, that underpin multilateral cooperation between nation states. Trump believes the US's interests are best

served by bilateral negotiations of a transactional nature and unilateral actions that may ignore broadly accepted international norms.

The new world order will be defined by US-China competition across various spheres, from trade to technology, but the ramifications of this new dynamic will impact all corners of the world.

The defining characteristics of the new era are:



Trade driven by strategic priorities rather than market forces

Tariffs, sanctions and export controls will remain a feature beyond 2025 as governments prioritise resilience and security over lowest-cost sourcing. The current US-China trade deal is best characterised as a temporary truce, rather than a comprehensive resolution of underlying structural issues. In October 2025 China issued rare earth and lithium battery export controls that, for the first time, sought to restrict how those products were used downstream outside of China (copying the extraterritorial export controls the US implemented on semi-conductors). This demonstrates how China's supply chain dominance of critical industries gives it leverage in future tariff negotiations with Trump and other trade partners.



State based capitalism, with an American flavour

Rather than a liberalisation of the Chinese economy we are witnessing the reverse: increasing US intervention in the economy and markets. Firstly, Biden's Inflation Reduction Act tax and loan incentives for energy transition projects. Now under Trump, the US government has announced it will facilitate the \$500 billion Stargate project, help finance an \$80 billion project to build nuclear power plants, take at 15% equity stake in listed rare earths producer MP Materials, and demanded the CEO of Intel resign.

Investors need to monitor fiscal incentives, regulatory frameworks, and geopolitical developments, as these will shape sectoral performance and global capital flows. Other countries are being forced down a similar route of state support of private companies to maintain international competitiveness.



Self-sufficiency and new strategic relationships

Much of the state-based capitalism is aimed on building self-sufficiency in critical industries. China's focus on leadership in renewables, battery technology, semi-conductor and LLMs is driven by a goal of energy and technological independence. Europe's new defence spending program sets the goal of sourcing 50% of procurements within the EU by 2030, rising to 60% by 2035¹⁰. Meanwhile, Korean companies like Hanwha Aerospace have emerged as key suppliers for Europe's rearmament, helping to forge new ties between countries with shared values.

Spheres of influence

In late 2025, the White House released a new US National Security Strategy paper that signalled an important strategic pivot back towards the Western Hemisphere. Proving he is no chicken, Trump authorised a stunning military operation that resulted in the capture of Venezuelan President Nicolás Maduro and his wife.

While Washington remains deeply engaged in Europe and the Indo-Pacific and opposes Russian and Chinese influence in these regions, it increasingly expects allies to assume greater responsibility for their own military deterrence. As US support becomes less direct and unconditional, China and Russia are positioned to become increasingly influential over their regional spheres.



AI and energy: US vs China

With geopolitical competition now a feature of today's world, artificial intelligence and its commensurate energy requirements have become a key strategic priority for both the US and China. While they share similar goals in achieving dominance in the global sphere, their approaches differ significantly based on their respective comparative advantages.

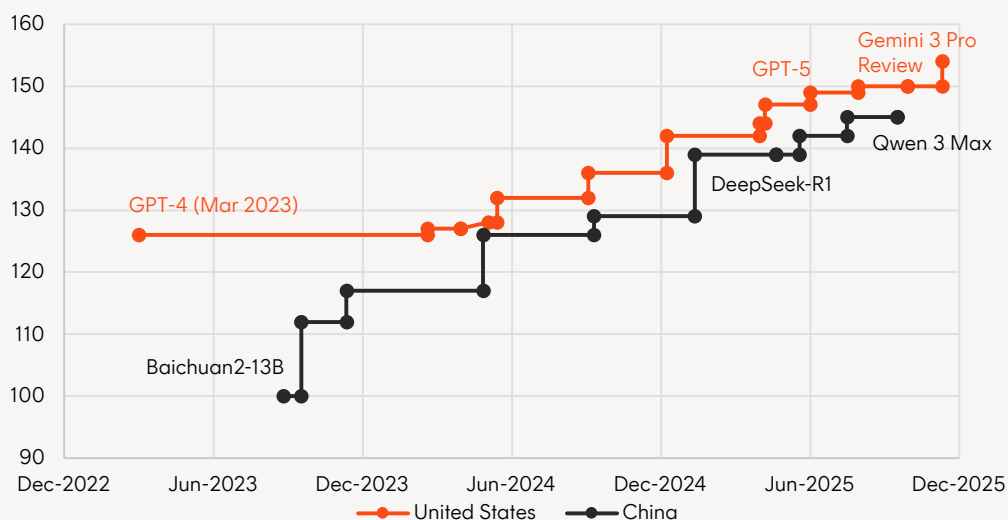
The US is focused on building out the best performing frontier models with the predominant goal of achieving AGI (artificial general intelligence). Given this approach requires a massive amount of data and computational power, many of the US hyperscalers have found themselves in a prisoner's dilemma situation whereby overinvesting in AI capex poses less of a risk than underinvesting.

On the other hand, China has largely remained compute constrained since 2022 due to US export controls on high-performance GPUs. This restriction has led to two work arounds, will developers either a) build computationally efficient, open-source models like DeepSeek's R1 model¹⁰, or b) take a brute force approach by building large GPU clusters using domestically produced chips from companies like Huawei, which require significantly more hardware and power to achieve comparable results.

Either way, Chinese model performance is beginning to challenge the leading US models.

AI model performance tracker

Artificial Analysis Intelligence Index v3.0*

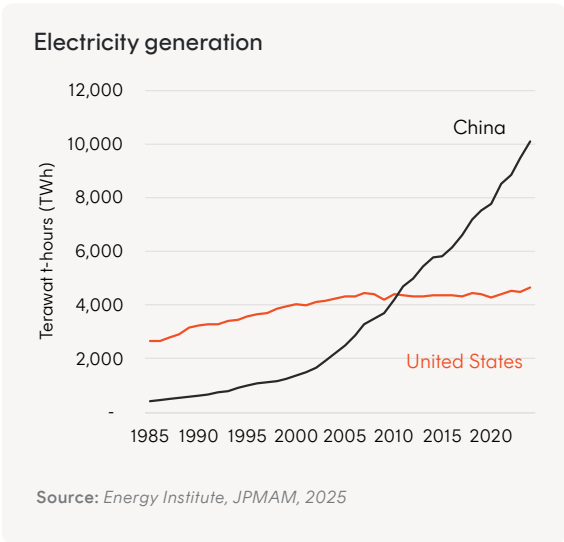


Source: Luke Emberson, Epoch AI. Published 2 January 2026.

A key ingredient to winning the AI arms race (and also ensuring broader industrial strength) is access to cheap energy. On this point China and the US have also taken very different paths.

US foreign policy is fixated on "energy dominance", which translates to producing enough oil and gas to keep domestic prices low and allow exports, thus increasing US leverage over countries buying that oil and gas. The US has cemented its status as the world's number one producer pumping 13.5 million oil barrels per day¹¹.

Meanwhile in China, most of the growth in generation capacity comes from zero-carbon sources. China currently has a global market share of ~75% in lithium-ion batteries, 90% in rare earth magnets; and Chinese firms lead in solar panels, wind turbines, grid equipment, as well as the EVs and drones built using these components¹². This is the result of decades of industrial policy, building manufacturing scale and lowering its cost curve. The median build time for a nuclear power plant in China is 5.7 years (versus 20.8 years for the US) and China already accounts for over 40% of global planned and in-construction nuclear capacity¹³.



US utilities had planned flat or declining demand, but AI has reversed that assumption almost overnight. Data centres currently only represent 4% - 8% of US power demand but are projected to account for two thirds of load growth¹⁴.

The US will struggle to add generation capacity and transmission grid infrastructure fast enough and in the right locations. Cheap oil is not enough to fuel the AI boom. China, with its centralised planning and stronger energy industrial base, can turn electricity generation into a competitive advantage in the AI arm's race.

Geopolitical risks for 2026

Predicting geopolitical shocks is hard, but they can come with significant investment implications. Below we highlight some considerations for geopolitical hotspots around the world in 2026:

Further US intervention in the Western Hemisphere
 Venezuela is not a significant enough oil producer for further instability to impact global oil markets. However, 2026 might bring implications for lithium, copper and other critical minerals, on increased cooperation between the US and new right-wing presidents in Chile, Argentina and Peru. A US invasion of Greenland appeared unlikely and is now off the table.

Russia continues to threaten Europe
 One possible positive outcome for 2026 is a peace agreement in Ukraine, accompanied by a substantial fiscal expansion in Europe to fund reconstruction. In any case, Russia is likely to continue testing Europe's resolve through sabotage and airspace incursions. As a result, European defence spending is likely to increase, although populist parties may push back against the cost of collective security.

Regime change in Iran risks global oil supply attack
 At the time of writing there are nationwide protests in Iran against the government. A regime change would disrupt Iran's oil supply. Any foreign strike on Iranian leadership would be viewed as an existential threat, provoking retaliation. Saudi and Iraqi oil production as well as Israel and the Strait of Hormuz would be the most likely targets.

China adopts the Beijing model for Taiwan
 China will likely use the US actions in Venezuela to diplomatically strengthen its alliances in Asia and the Global South. It will continue to conduct military exercises that demonstrate that it could blockade Taiwan and engage in psychological and political warfare, rather than initiating a full-scale war. Frictions over these actions could result in periodic re-escalations in the US China trade war.

¹⁰ Source: DeepSeek's latest model is expected to be released mid Feb 2026.
¹¹ Source: U.S. Energy Information Administration (EIA), January 2025.
¹² Source: 12 Source: Ember, "China Energy Transition Review 2025," September 2025.
¹³ Source: World Nuclear Industry Status Report 2025, November 26, 2025.
¹⁴ Source: 14 US Department of Energy, Report on U.S. Data Centre Energy Use, December 2024.

Asset class implications

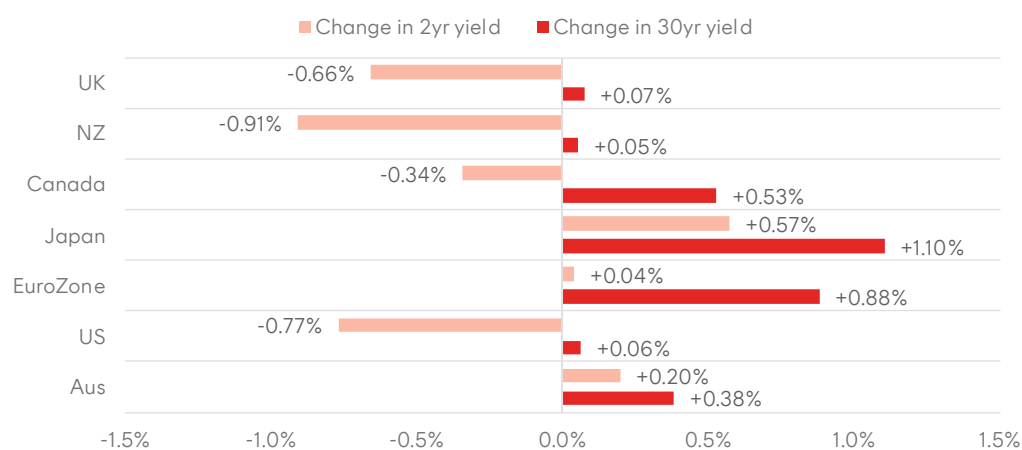
This year more so than others we see cross asset class relationships affecting Australian investor returns. From market policy rate expectations, to currency implications, fixed income considerations and relative equity performance. We view the US dollar, which we expect to weaken, as the biggest swing factor.

Rates and bonds outlook

Despite broad-based rate cuts in 2025, long-term sovereign bond yields in several markets ended the year higher amid steeper yield curves. Elevated government issuance and growing risks around fiscal dominance have seen measures of term premium, the excess yield for holding long-term bonds and incurring greater interest

rate risk compared to holding cash or rolling short-term bonds, remain elevated. Other measures of value in long-term government bonds, like real yields, are also elevated compared to 20-year averages and relative to estimates of neutral real rates.

Change in selected government bond yields in 2025



Source: Bloomberg. As at 31 December 2025.

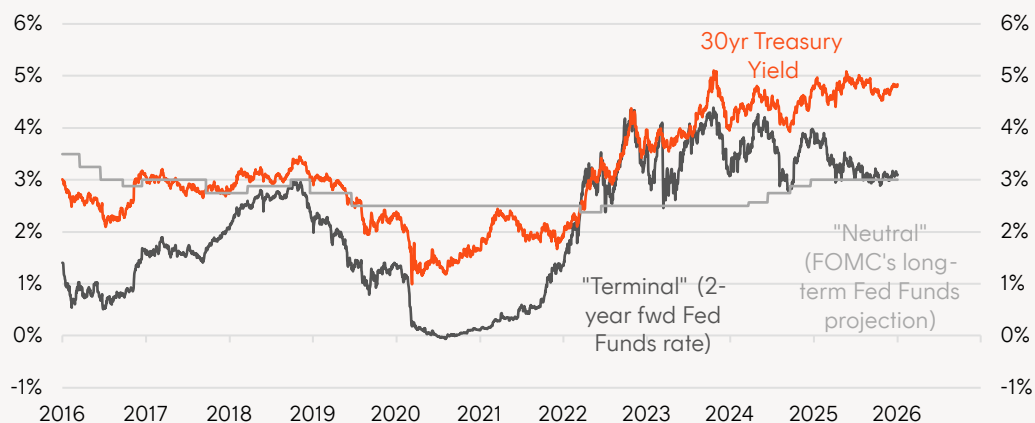
However, with financial conditions broadly supportive and US fiscal policy likely to remain expansionary in 2026, the case for duration is more about capturing generous income levels rather than positioning for elevated recession risk. Although the JGB sell-off has weighed on the global long end in recent months and contributed to curve steepening, the bigger risk for global bonds in 2026 arguably stems from the US.

“...with financial conditions broadly supportive and US fiscal policy likely to remain expansionary in 2026, the case for duration is more about capturing generous income levels rather than positioning for elevated recession risk.”

Against a backdrop of growing uncertainty over Fed independence and an increased likelihood of fiscal expansion, US yields and long-term inflation expectations remain well contained. However, any clear sign of a fundamental change to the Fed’s commitment to 2% would likely profoundly impact long-term inflation expectations and the back end of the Treasury curve.

On the other hand, the market is yet to price in any “jumbo” rate cut demanded by the Trump Administration’s allies on the FOMC, with “terminal” Fed funds pricing broadly around the FOMC’s most recent estimate of “neutral”. As a result, there are two-sided risks for Treasuries, with a reasonably high likelihood that short-term US yields drop much further once the new Chair is installed and committee’s broader composition is known.

“Terminal”, “Neutral”, and long-term US yields

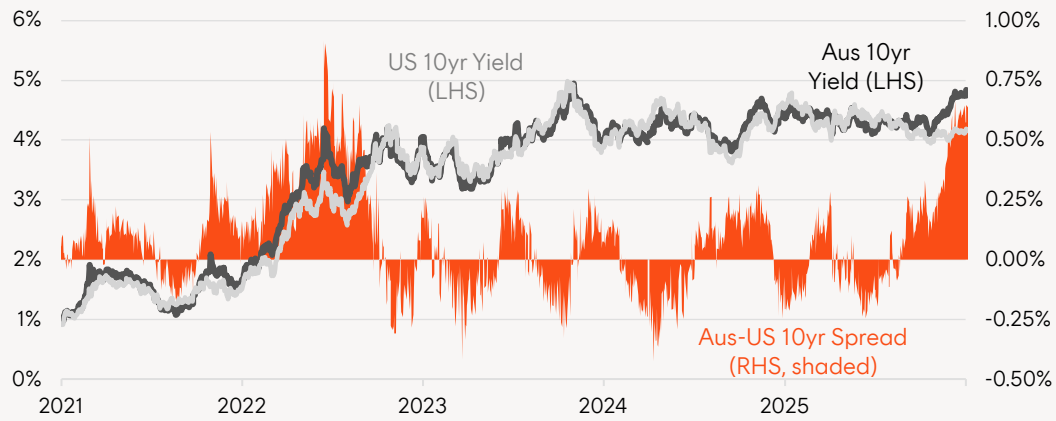


Source: Bloomberg. As at 31 December 2025.

Australia stands out for its relative value. The 10-year yield spread to the US recently hit +60 basis points – the widest levels in over 3 years – amid expectations of diverging policy. While multiple rate hikes are priced in, we expect a limited hiking cycle, presenting favourable risk-return asymmetry.

The domestic AUD market also offers ‘safe-haven’ appeal against fiscal and geopolitical risks emerging elsewhere. Australia stands out for its much lower public debt-to-GDP ratio, an absence of concerns over central bank independence, and its status as one of the few remaining deep sovereign bond markets with a AAA credit rating.

Australian and US 10-year yields



Source: Bloomberg. As at 31 December 2025.

What monetary policy divergence means for the US dollar

In our 2025 outlook, we highlighted the risks to the greenback amid the Trump Administration’s likely policies and fundamental overvaluation, and this largely played out, with the broad trade-weighted US dollar index ending the year down 8%. However, much of the decline occurred during the first half of the year, especially during the Liberation Day volatility, and spent the remainder of the year consolidating.

What potentially mitigated the USD’s decline and supported it during the second half of the year was that interest rate differentials remained positive against most other major currencies, and while investors reportedly did raise hedging levels, many incurred a cost to do so. A renewed

bout of weakness in the Japanese yen combined with US growth re-accelerating also supported the USD.

In 2026, the interest rate differential advantage is set to erode. At the time of writing, investors are already seeing positive carry when hedging USD exposures back to AUD over a 3-month term amid diverging rate expectations over the coming months. In addition, while the US dollar real effective exchange rate (REER) – an inverse measure of a currency’s competitiveness – depreciated 7% from the highs of early January 2025, the USD REER remains 10% above the 30-year average.

USD real effective exchange rates; 30-year average = 100

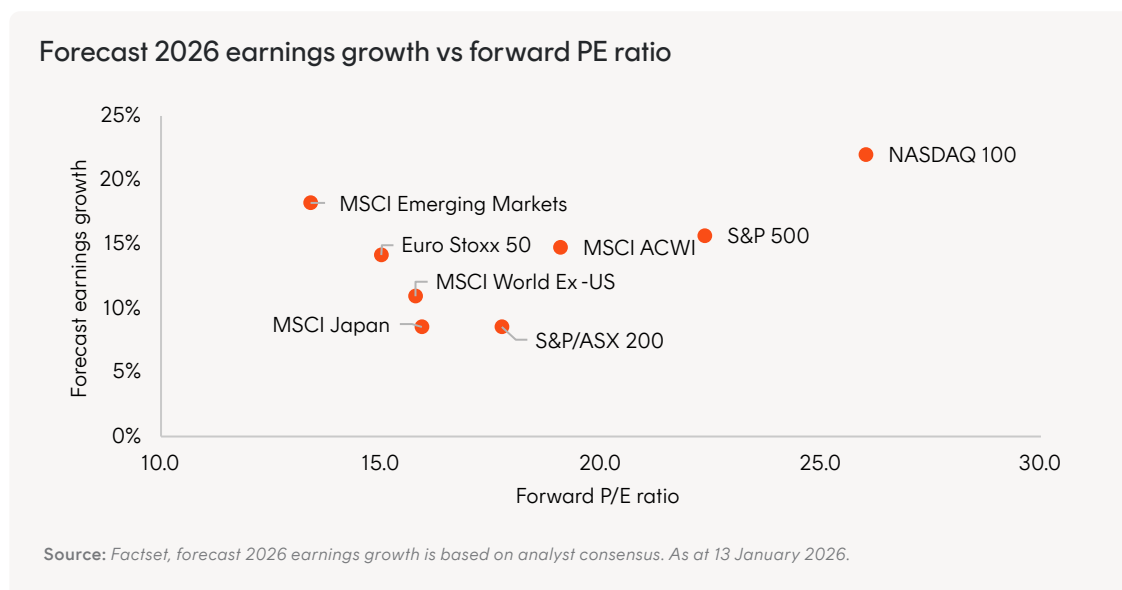


Source: Bloomberg. As at 31 December 2025.

Historical experience shows that currency cycles last years and overshoot in both directions, with the last major USD bear market (2002-2011) producing a 30% real depreciation. This was also a period that saw significant US fiscal expansion and a more aggressive geopolitical policy, drawing parallels with today.

In addition, an overly accommodative Fed and perceptions of a loss of Fed independence may continue to undermine the reserve appeal of the US dollar and divert capital and savings pools towards where real interest rates are more appealing.

Global equities outlook



Overall, a robust growth outlook and supportive Fed are positive for equities. The key questions for 2026 are: how much optimism is already in the price and whether ex-US global equities will outperform US equities, as they did in 2025.

For the US, we believe valuations can be maintained due to the strong earnings outlook and easing monetary policy. We forecast 2026 total returns for the S&P 500 and Nasdaq 100 to be driven by strong expected earnings growth, with valuation multiples unchanged. However, for Australians investing in the US on an unhedged basis, we caution that the returns in AUD terms will likely be partly eroded due to a weakening USD.

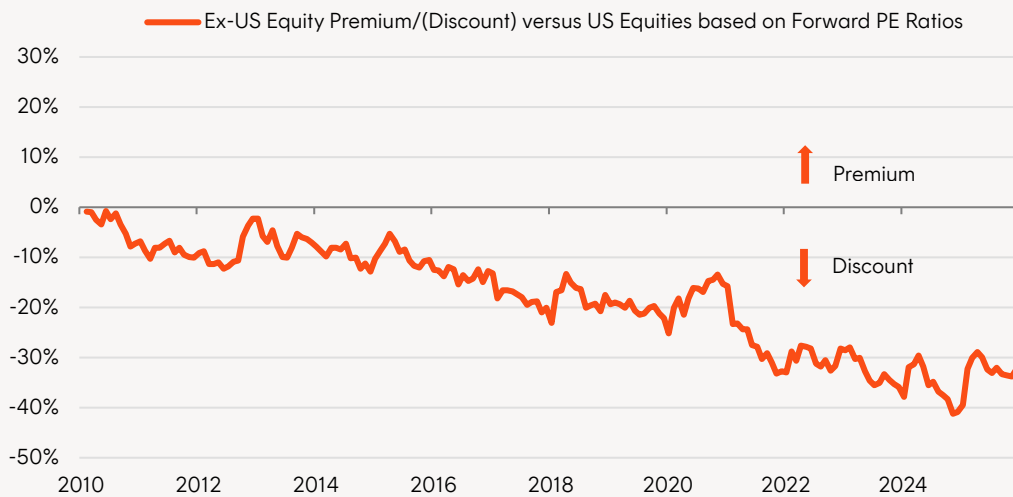
We expect the AI capex cycle to persist in 2026, backed by evidence of productivity gains, accelerating hyperscaler cloud revenue, and ample balance sheet capacity. Large cap tech profitability should remain the key driver of index

level earnings growth. We don't believe AI is in bubble territory, noting that the most levered companies, like Oracle, already suffered historic drawdowns in late 2025. We find it unlikely that there will be a major sell off among the megacap AI players while they are consistently delivering ~20% annual earnings growth. The higher share of foreign revenue of these tech companies should also provide an earnings tailwind if the USD falls.

Turning to ex-US equities, since the GFC, the rest of the world has underperformed the US due to both weaker earnings growth and less multiple expansion. Ex-US developed markets (Europe and Japan) currently trade at a 30% PE valuation discount to the US, which is a 10% improvement after outperformance in 2025.

Some of the US equity premium is justified by the higher profitability and greater earnings stability of the companies that dominate the US equity

Developed ex-US equity P/E ratio relative to US P/E ratio



Source: Bloomberg, 1 January 2010 to 31 December 2025.

market. The question for 2026 is whether this premium should be more or less than 30%.

Europe and Japan's longer term consensus earnings growth looks more modest than the US, and these regions remain more exposed to global sentiment. However, several factors could support outperformance. A ramp up of European fiscal stimulus should start to take effect in 2026, increasing the probability of earnings upgrades. Meanwhile, as discussed earlier, Japanese growth has upside under Takaichi's leadership. These catalysts, together with our expectation that the USD will continue to weaken, lead us to believe that ex-US developed markets will outperform US equities in 2026 in AUD terms (on an unhedged basis).

Australian equities outlook

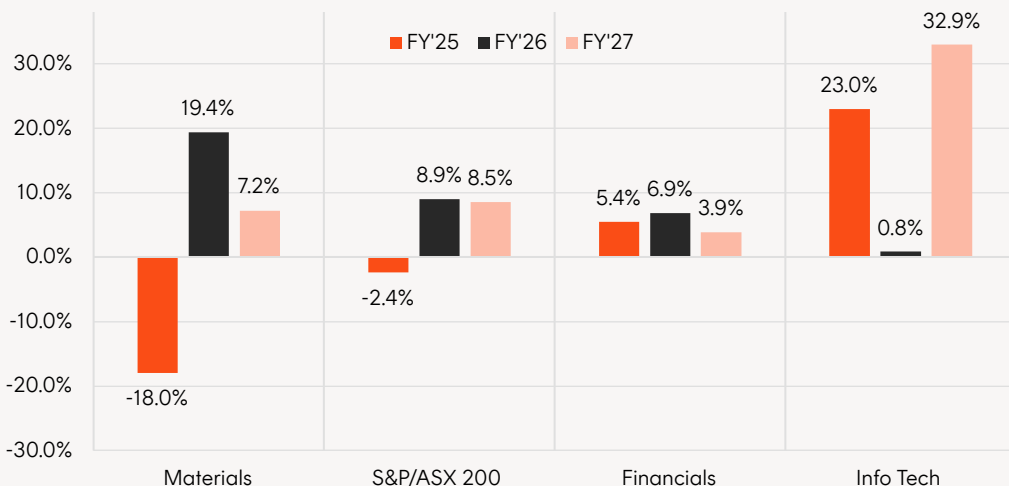
Our forecast for Australian equities at the index level is positive in 2026, predicated on earnings expectations being met whilst valuations remain unchanged. However, we expect performance to be differentiated, with a strengthening commodities cycle, mid and small-cap outperformance, and a focus on earnings growth creating areas of relative outperformance.

We expect 2026 to be another good year for emerging markets equities. The MSCI Emerging Market index currently offers similar earnings growth to the Nasdaq 100 at half the cost - in terms of PE multiples¹⁵. Indeed, emerging markets offer a cheaper way to play the AI trade. For example, TSMC and Korea's SK Hynix and Samsung are important suppliers for the US data centre build-out, and Ali Baba has re-emerged as a Chinese AI champion capable of challenging the US AI leaders.

Outside of AI, India's economy is set to rebound with structural reforms, improving infrastructure, tax cuts and lower interest rates, enhancing productivity and corporate earnings. Finally a weaker USD and easing Fed are tailwinds for emerging markets countries, lowering USD denominated debt servicing costs, encouraging foreign capital inflows, and allowing for easier monetary policy.

Strong momentum in resource prices underpin our positive outlook. Iron ore has rallied and is holding above US\$100 per tonne. While we expect limited further upside, current levels support strong profitability for Australia's large cap miners.

S&P/ASX 200 and select sector actual and expected earnings FY25 to FY27



Source: Refinitiv. As at 13 January 2026. FY'26 and FY'27 include analyst forecasts. Actual results may differ materially from forecasts.

Further, the strategic pivot of Australia's large cap miners toward copper should not be underestimated. BHP is now the world's largest copper producer, with the metal contributing 45% of its earnings, up from 29% a year ago¹⁶. Rio Tinto's copper assets currently only contribute ~15% of group earnings¹⁷, but production will grow significantly through to 2030 and may be boosted further by a possible acquisition of Glencore. Copper prices are at all-time highs, with supply constrained by multi-year project lead times, while demand is driven by the AI infrastructure buildout and energy transition.

For these reasons, we believe materials will drive large-cap returns in 2026, a notable shift from recent history. Over the last two years, financials accounted for 60% of the ASX 200's gains led by the 'Big 5'¹⁸. While financials earnings expectations remain solid at 6.9% (which we expect can be met), we see meaningfully greater upside in materials given their earnings inflection from -18.0% in FY25 to 19.4% in FY26¹⁹.

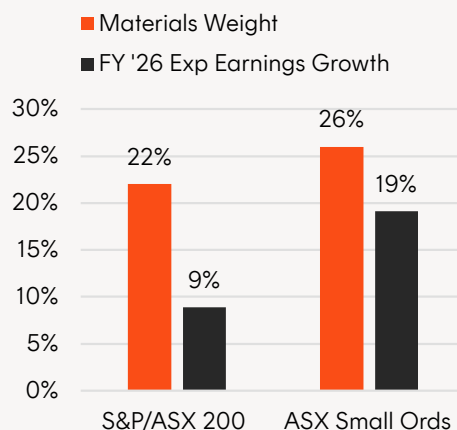
We expect the rally in gold and critical minerals to be a key driver of Australian mid and small-cap outperformance in 2026.

Australia's gold exports are expected to grow by ~47% in FY25/26, surpassing coal and natural gas to become our second-largest export behind iron ore²⁰. Meanwhile, the October 2025 US-Australia Critical Minerals Framework, an

US\$8.5 billion partnership focused on rare earths and critical minerals including lithium and graphite, positions Australia as a strategic partner in countering China's dominance in processing capacity. With escalating US-China trade tensions, we expect critical minerals to remain a focal point of geopolitical competition and national stockpiling.

Mid and small-cap indices exhibit higher materials exposure in Australia, with a higher portion of earnings derived from gold and critical minerals, than large caps, positioning them to benefit disproportionately from the commodity rally.

The ASX Small Ordinaries higher weighting to the materials sector is expected to help drive higher earnings growth



Source: Refinitiv. As at 13 January 2026. Actual results may differ materially from forecasts.

More broadly, we expect 2026 to favour companies demonstrating strong earnings momentum. With the ASX 200 trading at a forward P/E of 20.9x, significantly above the 20-year average of 15.9x, there is limited scope for further multiple expansion. This environment favours companies with strong earnings growth, whether in materials benefiting from the commodity cycle or other high-quality companies across the market.

Finally, in the face of the 22% decline through late 2025 we remain constructive on the long-term growth prospects of Australia's technology sector. In Q4, RBA policy expectations became restrictive, hurting high multiple growth stocks, while stock specific M&A activity²¹ compressed near-term earnings of the sector. However, we expect valuation concerns to subside, with lower long-term bond yields by year end,

Credit markets outlook

Credit spreads remain tight at the time of writing, and while the macro backdrop appears constructive for growth, helped by accommodative US fiscal and monetary policy, digesting the wave of issuance coming to market may prove challenging.

AI capex is set to remain a big theme in 2026 and the technology sector underperforming broader high yield and investment grade indices, suggests the surge in issuance is already having an impact. Some issuers have seen particularly sharp spread widening, such as Oracle and the smaller "neocloud" players among them, where leverage metrics are already elevated. However, at present there is no financial barrier to increasing leverage given the balance sheet capacity of the hyperscalers and the potential rewards of winning the AI capex race.

"This environment favours companies with strong earnings growth, whether in materials benefiting from the commodity cycle or other high-quality companies across the market."

and strengthening earnings momentum, with consensus FY27 and FY28 earnings expected to grow by greater than 30%. The sector now trades at a more attractive entry point for investors with upside catalysts.

The complication is that elevated Treasury issuance may crowd out some USD corporate supply, particularly as this technology capital cycle clashes with a refinancing wave from the 2020–21 issuance boom. We expect spreads to widen modestly but also anticipate the hyperscalers will look to diversify funding sources away from the USD credit market. There are suggestions both the AUD corporate bond and securitised markets will become a source for local data centre debt financing – benefiting diversification for both.

For Australian credit, the case for fixed rate exposures is compelling. With global yield curves steepening, more term premia for holding duration, and rate hikes now embedded in domestic yields, fixed rate credit offers an attractive combination of carry and potential capital upside should the RBA disappoint the hawks. Even with spreads tight, the additional carry earned on AUD corporate bonds should outpace any valuation drag from a modest spread widening.

Private credit outlook

Global private credit continues to deliver on its core value proposition. While high-profile defaults in the broadly syndicated market, including First Brands and Tricolor, grabbed headlines in 2025, the private debt market proved resilient. The Cliffwater Direct Lending Index, which captures roughly 40% of the US market, delivered a US dollar total return of 9.8%²², with realised losses running well below the long-term average. Crucially, unrealised losses, which serve as a leading indicator of stress, remain negligible

Closer to home, ASIC's scrutiny of Australia's \$200 billion private credit sector has exposed concerns around fee transparency, valuation methodologies, and governance. This regulatory scrutiny may tilt investor preferences towards global strategies, where operational infrastructure and governance frameworks are more established and tested through prior credit cycles.

Commodities outlook

We maintain a positive outlook for most metals, particularly gold, critical minerals (including copper, lithium and rare earths) and uranium. Iron ore is well supplied and probably has

limited upside at US\$100 per tonne, but there is a risk oil could spike higher given the current geopolitical climate.

The key considerations include:

- **A supportive broader macro backdrop**
As covered in previous sections, our base expectation is for robust US-led global growth, fiscal stimulus in most regions, Fed rate cuts while inflation is easing and potential USD weakness.
- **Structurally higher demand for key metals**
Increased critical mineral demand for data centres, grid, renewable energy generation and battery storage. China's increased dependence on export lead growth, including EVs underpins their demand, while domestic consumption looks weaker. Strategic stockpiling of rare earths, uranium and other critical minerals by the US, Australia and other nations provides further price support.

We expect demand for gold to continue as central bank buying continues and investors increasingly view it as a strategic asset class and portfolio hedge.

- **Supply constraints and State-based capitalism**
Copper and Uranium production look unlikely to keep up with long term structural demand. Tariffs and export controls also to provide price support for critical minerals.

The US administration is pushing for a multilateral agreement, Pax Silica, to strengthen the ex-China supply of critical minerals. Selected producers of these minerals from allied countries are likely to benefit from strategic government support, including cheap financing, tax incentives, guaranteed price floors and state-led equity injections.

Oil looks well supplied, with the US production at or near record levels, and is expected to run a material surplus in 2026, according to the IEA. However, geopolitical risks to supply, particularly from Iran, could lead to a temporary price shock.

¹⁵ Source: Bloomberg. As at 31 December 2025. Actual results may differ materially from forecasts.

¹⁶ Source: BHP FY25 Financial Results.

¹⁷ Source: Rio 2024 Full Year Results, 19 February 2025.

¹⁸ Source: Bloomberg. As at 31 December 2025.

¹⁹ Source: Refinitiv. As at 13 January 2026.

²⁰ Source: Minerals Council of Australia. 10 October 2025.

²¹ Source: WiseTech's US\$2.1bn e2open deal and Xero's US\$2.5bn Melio purchase

²² Source: For the 12 months ended Q3 2025.

Investment implementation

Core global equities

We expect a weaker USD to lead to stronger investment returns in non-US developed markets and emerging market equities in AUD terms. Currency may be a headwind for unhedged Australian investors in US markets, making diversification across regions and currencies a prudent strategy.

Nevertheless, the macro and earnings backdrop still justify allocation to select US equities. Leadership in US tech is broadening, with the Nasdaq 100 forecast to outstrip Mag 7 earnings growth this year.

A growing number of Nasdaq 100 companies are becoming integral to the AI infrastructure rollout and are harnessing AI to create end user applications, such as Advanced Micro Devices (AI chips), Palantir Technologies (data analytics) and AppLovin (gaming monetisation).

ASX: NDQ

Betashares Nasdaq 100 ETF

- NDQ provides Australian investors with access to the Nasdaq 100 Index. NDQ has been one of the top performing Australian domiciled global equity funds, returning 20% p.a. over the last ten years²³.

ASX: HNDQ

Betashares Nasdaq 100 Currency Hedged ETF

- Given the potential for USD weakness in 2026 to impact returns, investors may wish to consider HNDQ in order to participate in the Nasdaq 100's enviable earnings growth whilst minimising currency risk.

Ex-US developed markets in Europe and Japan should benefit from an increase in fiscal stimulus, structural reform and reducing trade uncertainty in 2026. Europe's increasing defence and infrastructure spending and the Takaichi government's strategic support for critical industries including AI, semiconductors, biotechnology and batteries, provide the catalyst for earnings upgrades. These potential upgrades, undemanding valuations, and our expectation of USD weakness, lead us to believe that ex-US developed markets will outperform US equities in 2026 in AUD terms (on an unhedged basis).

ASX: EXUS

Betashares Global Shares Ex US ETF

- EXUS offers low-cost global diversification beyond the US, providing exposure to 900+ companies from 22 developed markets, excluding the US and Australia.
- EXUS was built specifically for Australian investors, providing them access to any available foreign tax credits from dividends received, which may improve after-tax returns compared to investing in a non-Australian domiciled ETF.

Global investors have been underweight emerging markets over the past few years, but sentiment and flows appear to be at a turning point. We expect 2026 to be another good year for emerging markets equity returns, as valuations and earnings growth remain strong. Indeed, emerging markets companies like TSMC, SK Hynix, Samsung and Ali Baba offer a cheaper way to play the AI trade. Beyond AI, India's economy appears set to rebound and a weakening USD should be a tailwind for emerging market countries more broadly.

ASX: BEMG

Betashares MSCI Emerging Markets Complex ETF

- BEMG is the lowest cost core market capitalisation weighted emerging market ETF available on the ASX.
- BEMG holds units in a UCITS fund that uses a swap-based structure. This allows BEMG to more efficiently track the MSCI Emerging Markets Index and avoids the costs and performance impacts associated with trading in some emerging market countries.

Core Australian equities

The Australian market is on track to record solid earnings growth in FY26 after two financial years of declines. The materials sector is expected to be the key driver of this turnaround boding well for broad market returns in Australia. Beyond the broader market we see specific opportunities for relative outperformance in the Australian market in the current environment.

Following rate cuts last year smaller size companies in the Australian market had already begun outperforming. Furthermore, small cap exposures with higher allocations to profitable materials companies could benefit the most from high commodity prices, namely gold and relevant critical minerals producers, given their operating leverage to those prices. Finally, on a forward price to earnings basis small cap indices are trading at a discount to the broader market, offering compelling upside.

ASX: SMLL

Australian Small Companies Select ETF

- SMLL provides access to a tailored portfolio of high-quality, profitable small-cap Australian companies. SMLL currently holds a higher proportion of profitable small cap miners compared to the benchmark Small Ords Index²⁴.
- SMLL's approach has led to it outperforming the S&P/ASX Small Ords Index by 11.1% in 2025 and by 1.6% p.a. over the past 5-years²⁵.

Beyond materials we remain firmly constructive on a quality approach to investing across all cap spectrums in the Australian market. Given the market's cyclical nature, seeking out companies within each sector that display high, sustainable earnings for a long-term allocation can help drive returns through business cycles.

ASX: AQLT

Betashares Australian Quality Leaders ETF

- AQLT's index selects 40 Australian companies comprising Australia's large caps, re-weighted by their quality metrics rather than market capitalisation, and the highest quality mid- and small caps on the ASX²⁶.
- AQLT's approach has led it to outperform the S&P/ASX 200 by, on average, 3.9% p.a. since inception on 4 April 2022²⁷.

We have maintained a constructive view on the Australian technology sector since the 2022 valuation-led drawdowns. In Q4 2025 the sector experienced another pullback, driven by the RBA's hawkish tone (which we don't expect to translate to a material hiking cycle) and Xero and WiseTech's acquisition integration costs hurting overall sector earnings growth in the short term (2-year forward earnings are expected to rebound strongly). For long-term allocators, this could represent another compelling entry point.

ASX: ATEC

Betashares S&P/ASX Australian Technology ETF

- ATEC provides exposure to leading ASX-listed companies in a range of tech-related market segments such as information technology, consumer electronics, online retail and medical technology.
- While experiencing volatile returns and in the midst of a 22.4% decline ATEC has still returned, on average, 12.2% p.a. since inception.²⁸

Core fixed income

In fixed income markets, Australia stands out for its relative value compared to global peers. The 10-year yield spread on Commonwealth government bond to US Treasuries recently hit +60 basis points amid expectations of diverging policy. However, we believe the market has gotten ahead of itself on RBA hikes and is incorrectly assuming a much higher long-term neutral rate in Australia relative to the US. Australian government bonds provide a favourable risk-return trade-off, and the potential for outperformance against global bonds.

ASX: AGVT

Betashares Australian Government Bond ETF

- AGVT focuses on 7–12-year Commonwealth, state, and government-related securities, making it an ideal vehicle to express a view that the Australian 10-year yield will decline.
- With a starting yield of around 5%, AGVT not only offers capital gains potential if yields decline but also an attractive source of income from the highest-quality segment of the Australian bond market²⁹.

Australian duration offers compelling relative value, while carry available in Australian investment grade credit should help weather a modest spread widening. For investors looking for a benchmark-aware exposure to high quality duration without an outsized allocation to government bonds, a composite bond fund can provide a compelling duration solution without sacrificing the credit quality or liquidity needed in a defensive pillar.

ASX: OZBD

Betashares Australian Composite Bond ETF

- OZBD is designed as a core portfolio allocation for fixed income as it's well diversified across Australian government and investment grade corporate fixed rate bonds. It provides exposure to Australian duration in a benchmark-aware manner, while offering a yield pickup over the traditional benchmark index.
- Its enhanced-indexing methodology, developed in partnership with Bloomberg, overcomes the biggest pitfalls with traditional passive benchmark indices, while employing the most effective techniques of active management, but at a fraction of the cost, with a management fee of just 0.19%³⁰.

Income enhancement

Regardless of the macro environment, many Australian investors have an ongoing need for reliable sources of regular income – which are becoming increasingly difficult to find with dividend yields under pressure and bank hybrids being phased out.

Australian investment grade credit has historically delivered compelling risk-adjusted returns, offers attractive yields today, and is well placed to weather a modest global spread widening stemming from the current technology capex cycle.

ASX: ECRD

Betashares Australian Enhanced Credit Income Complex ETF

- ECRD uses institutional borrowing rates to enhance the income available from an underlying exposure of floating rate and duration-hedged investment grade credit. The gearing brings volatility to a similar level as hybrids, while remaining well below that of dividend-paying equities.
- With an estimated running yield of 7.70% (net of borrowing costs), ECRD delivers higher income than both hybrids and dividend-paying shares, even when accounting for franking credits³¹.

Australian companies remain essential in delivering high franked dividend income to domestic investors. However, with a challenged headline index yield, due to years of strong price growth outpacing dividend increases, a more targeted approach is now required by many investors to generate the income they require.

ASX: HYLD

Betashares S&P Australian Shares High Yield ETF

- HYLD's index provides exposure to a share portfolio of 50 high-yielding Australian companies, with distributions paid monthly to investors.
- Importantly, HYLD goes beyond simply relying on analyst dividend forecasts, with the underlying Index including design features aimed at screening out potential 'dividend traps,' based on excessively high yields and poor price momentum.

For investors who do not require daily liquidity, we believe institutional grade global private credit can enhance portfolio income and improve overall risk-adjusted returns. Direct lending, the core segment within US private credit, offers high single digit floating rate yields, supported by senior secured positioning, disciplined underwriting and strong structural protections for lenders.

Betashares Private Capital Cliffwater Private Credit Fund

- The fund provides access to a diversified portfolio of over 4000 first lien, floating rate loans to US middle market companies, sourced from over 30 lending partners overcoming the limitations faced by most single lender strategies.
- With a projected 12-month distribution yield of 8-9% (net of all fees and expenses), the Cliffwater Private Credit Fund is designed to deliver an attractive level of income with very low volatility across all market conditions.³²

Beyond the core:

Hedging geopolitical risks

In a period of escalating geopolitical tension, both technology and commodities are key exposures that may provide a return boost beyond the core for investor portfolios. Sitting at the intersection of national security, major economic powerhouses are scrambling to secure dominance in the bits and atoms shaping the modern world.

Gold has been back in the limelight since 2022, after the freezing of Russian assets by the US and its allies drove a renewed wave of structural demand for precious metals. We continue to believe gold is a worthy addition to traditional multi-asset portfolios. However, the currency in which investors get their exposure to gold matters, particularly as the USD faces continued headwinds from likely Fed rate cuts, broader policy uncertainty and a ballooning fiscal deficit.

In this context, we believe investors should seek exposure to the USD gold price, as opposed to the AUD gold price.

ASX: QAU

**Betashares Gold Bullion
Currency Hedged ETF**

- QAU provides investors with a return that tracks the performance of the price of gold bullion, while hedging against currency movements in the AUD/USD exchange rate, before fees and expenses.
- QAU was one of the best performing ETFs in 2025, returning 62.8%, with 5-year returns of 15.5% p.a.³³

Technology and the rise of AI have become a key driver of equity market returns for the last three years. Many mega-cap tech companies in the US are ploughing billions of dollars into AI-related infrastructure capex to build frontier models. This spending is supporting the broader semiconductor supply chain located in Asia, and includes companies such as Samsung, SK Hynix and Taiwan Semiconductor. But as China's AI capabilities continue to rise, we think investors should take a diversified exposure to the dynamic Asian technology theme.

ASX: ASIA

**Betashares Asia
Technology Tigers ETF**

- ASIA provides investors exposure to the 50 largest technology and online retail stocks in Asia (ex-Japan), including the companies mentioned above, Alibaba, Tencent and Baidu.
- As a theme, Asian technology has been a standout performer, returning 43.73% in 2025, and 14.3% p.a. since inception³⁴.

Cybersecurity remains an enduring investment thematic as the rise of AI and geopolitical fragmentation continues to expand the attack surface area across industries. This will likely provide structural high demand for security solutions and support earnings for leading cybersecurity companies such as CrowdStrike and Palo Alto. Alongside these drivers, capital market activity has also been supportive for continued deal flow into the sector.

ASX: HACK

Betashares Global Cybersecurity ETF

- HACK provides investors exposure to around 30 leading companies in the global cybersecurity sector, including CrowdStrike and Palo Alto but also Cisco and Broadcom which have both become major cybersecurity players through their acquisitions of Splunk, Symantec and VMware respectively.

We expect the US-led Pax Silica³⁴ initiative will provide import price floors for non-Chinese sourced critical minerals to incentivise supply chains in US allied countries. This would be a massive net positive for the producers of critical minerals in countries like Australia, Chile, Peru, Canada and the US.

ASX: XMET

Betashares Energy Transition Metals ETF

- Within XMET's portfolio includes 30 of the leading global producers of critical minerals, including copper, lithium, nickel, cobalt, graphite, manganese, silver and rare earth elements. This includes companies such as Southern Copper, Pilbara Minerals and MP Materials.³⁵
- After 3 years of going sideways, XMET returned 96.27% in 2025 and has carried that momentum into early 2026.³⁶

Momentum is also gathering for uranium, after it was added the US government list of critical mineral in late 2025 and the Secretary of Energy signalled the potential for a strategic reserve. China is leading the world in new nuclear power plant construction, with dozens more reactors under construction, and India's parliament has just passed a bill to end a strict state monopoly for nuclear in favour of a mixed, public-private model to accelerate capacity.

ASX: URNM

Betashares Global Uranium ETF

- URNM provides Australian investors access to access leading companies in the global uranium industry, including Australian-listed uranium miners and offshore companies like Cameco, Kazatomprom and Nextgen Energy.
- URNM has returned 18.18% p.a. since inception on 8 April 2022.³⁷

Following a stellar year of performance in 2025 investors have been asking whether the rally in global defence companies can persist. It is worth remembering that Trump's new world order, associated geopolitical tensions, and as a result, increased defence budgets tied to GDP are structural tailwinds. Already in 2026 Trump has demanded Congress increase defence spending by more than 50% to US\$1.5 trillion for 2027. These factors make the defence sector investible for the foreseeable future.

ASX: ARMR

Betashares Global Defence ETF

- ARMR's index currently holds the top 20 pure-play defence contractors in the world by defence revenue, headquartered in NATO-aligned countries, including Lockheed Martin, BAE Systems, Rheinmetall, RTX, and Thales³⁸.
- These companies are set to be some of the largest beneficiaries of governments implementing increased defence spending commitments.

²³ Source: Bloomberg. As at 31 December 2025. Subject to change.

²⁴ Source: As at 31 December 2025. Past performance is not an indicator of future performance.

²⁵ Source: Highest quality as determined by investment fundamentals calculated by the index provider on each annual rebalance date.

²⁶ Source: As at 31 December 2025. Past performance is not an indicator of future performance.

²⁷ Source: As at 31 December 2025. Past performance is not an indicator of future performance.

²⁸ Source: As at 15 January 2026. Yields subject to change.

²⁹ Source: Certain additional costs apply. Please refer to PDS.

³⁰ Source: As at 15 January 2026. Yields and borrowing costs subject to change.

³¹ Source: As at 15 January 2026. Yields and borrowing costs subject to change.

³² Source: As at 31 December 2025. Past performance is not an indicator of future performance.

³³ Source: As at 31 December 2025. ASIA was inceptioned on 18 September 2018. Past performance is not an indicator of future performance.

³⁴ Source: Latin for "Silicon Peace".

³⁵ Source: 35 As at 15 January 2026, no guarantees that these companies will continue to be held in XMET's portfolio.

³⁶ Source: 36 As at 15 January 2026. Past performance is not an indicator of future performance.

³⁷ Source: As at 31 December 2025. Past performance is not an indicator of future performance.

³⁸ Source: Data for the Top 100 list comes from information Defense News solicited from companies, from companies' earnings reports, from analysts, and from research by Defense News, the International Institute for Strategic Studies and SPADE Indexes.

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