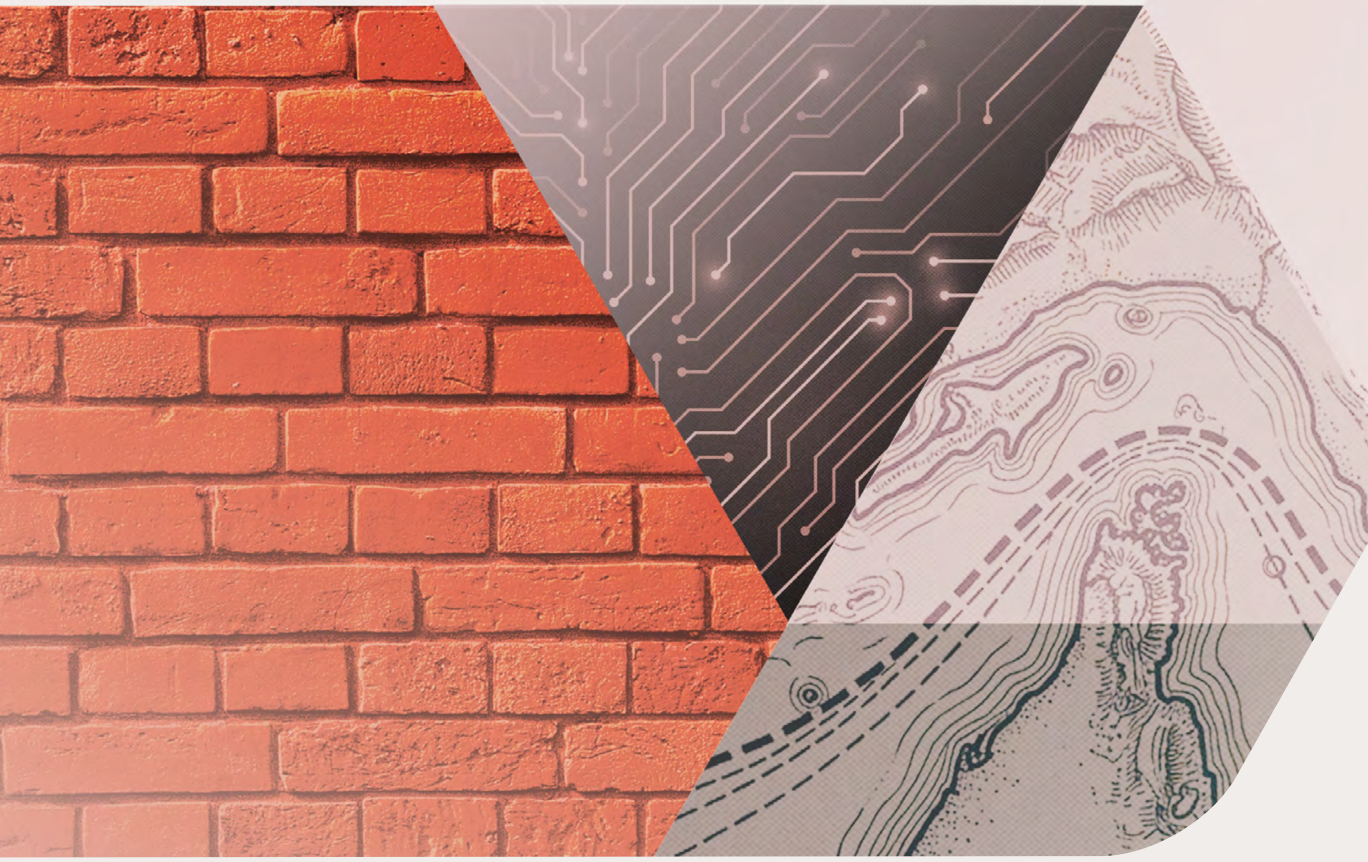
Ships, Chips and Red Bricks

Betashares Investment Outlook



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Executive summary

In our 2026 outlook "Shock and Ore", published in January, we argued that the interplay between geopolitical shocks, commodities and the AI capex cycle would shape returns for Australian investors. Six months on, that framing has largely held, if not consistently in the ways we anticipated. We had expected local inflation to moderate, aided by a single RBA rate hike. Instead, inflation proved stubborn, and the RBA hiked the cash rate in February, March and May, lifting unemployment to 4.4%. A key driver was the war in Iran and its impact on energy prices. In the US, sticky inflation and shifting views on new Fed Chair Kevin Warsh saw markets swing from pricing cuts to potential hikes. AI-related investment kept growth firm despite higher energy prices.

The title of this outlook paper, "Ships, Chips and Red Bricks", captures the three forces we see defining the second half of 2026:

- the Iran war and its consequences for global oil supply;
- the evolving AI, technology and semiconductor trade
- the domestic picture, where higher rates, a softer Federal Budget and cooling house prices weigh on the Australian economy.

Our base case is for inflation to ease only gradually in the US, keeping policy restrictive, with one further Fed hike likely by year-end. However, in Australia we expect growth to slow and the RBA to remain on hold with monetary policy already applying the handbrake.

In equity markets we expect valuations to hold broadly steady, leaving earnings to drive share market returns. On balance, we find global earnings growth more attractive than in the Australian equity market and expect AI to remain a positive driver for US and global equities.

In fixed income, we continue to prefer Australian exposures over global.

Readers will find our detailed views on the key issues and risks for H2, along with our asset class positioning and preferred exposures, in the "Investment implications" section.

Economic backdrop

Half year in review

Heading into 2026, the central macro-economic forecast was that local inflation would moderate. This would be aided by a single Reserve Bank of Australia rate hike in response to the disappointing rebound in inflation over the second half of 2025. The rate hike would also help slow economic growth and modestly push up unemployment.

Only modest monetary tightening and moderating inflation were expected to let bond yields ease, while the Australian dollar would appreciate on the RBA hike, a US easing policy bias and broader global diversification away from US assets.

Equity markets were expected to grind higher, with easing yields holding valuations near end-2025 levels so price returns broadly tracked earnings growth. Stronger global earnings would see global equities modestly outperform Australia.

Our previous forecasts for key June 2026 economic and market data are included in the table below.

Betashares Economic & Market Forecasts versus Actuals for June 2026

	Actual Dec-25	*Jun-26* Forecasts	Actual
GDP Growth YoY%*	2.5	2.0	1.8
Unemployment rate	4.1	4.3	4.4
Trimmed mean inflation YoY%	3.3	3.0	3.6
Rates			
RBA cash rate	3.60	3.85	4.35
10-yr bond yield	4.76	4.50	4.77
Australian Dollar			
$A vs. US	0.667	0.74	0.693
Shares			
S&P 500	6,845	7,300	7,499
S&P/ASX 200	8,714	9,050	8,778

Source: *Betashares, forecasts were made as at 15 January 2026.*

** GDP Growth actuals figure as at Q1 2026.*

As it turned out, Australian inflation again proved stubborn in H1'26, with annual trimmed mean inflation rising to 3.6% in the June quarter from 3.3% in the December quarter of 2025. Higher energy prices from the "X-factor" – the war in Iran - contributed, as did firm housing costs and market services prices. The RBA responded with not one, but three rate rises in H1'26, which did keep economic growth subdued and lifted the unemployment rate to 4.4% by June. Persistent domestic inflation confirmed the economy was still operating at a high level of capacity, allowing businesses to pass labour and material cost pressures onto final consumer prices.

By mid-year, however, fears of further hikes had eased amid more signs of slowing growth and – following increased property taxes in the May Federal Budget – falling house prices. June-quarter underlying inflation, though still uncomfortably high, came in a touch softer than the RBA had expected.

In the United States, sticky inflation, also aggravated by higher energy costs from the Iran war, saw markets swing from expecting further rate cuts this year to potential rises by year-end.

"In the United States, sticky inflation, also aggravated by higher energy costs from the Iran war, saw markets swing from expecting further rate cuts this year to potential rises by year-end."

Despite earlier sympathy for lower rates, new Fed chair Kevin Warsh has talked tough on inflation, albeit with no rate rises at the June or July meetings. While the war lifted global inflation, global growth stayed resilient, helped by strong AI-related business investment. A rundown in oil inventories and sporadic peace hopes limited the rise in oil prices despite the disruption through the Strait of Hormuz.

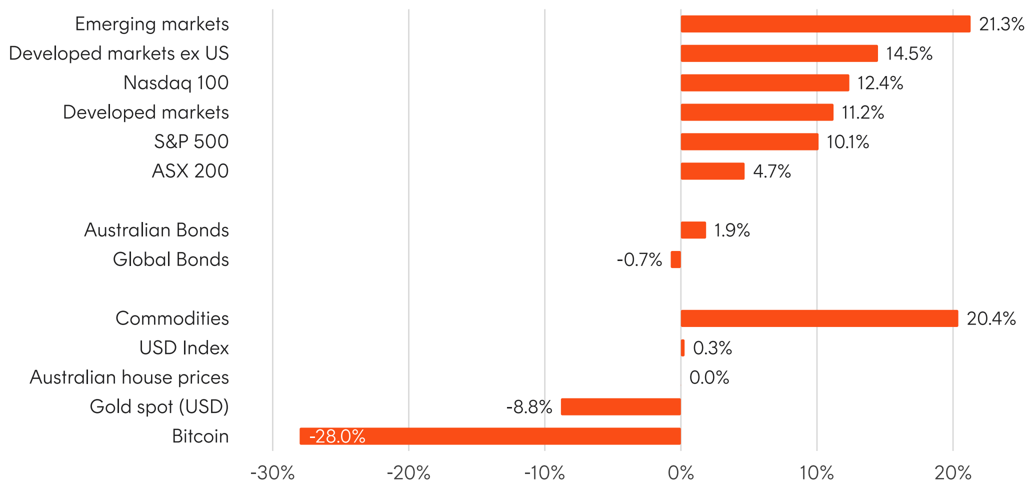
Asset class performance

Global equities markets have delivered solid absolute returns for the year through to end July 2026, led by AI-linked countries in both developed and emerging markets.

We've also seen a broadening out of sector performance beyond technology with developed markets ex-US a standout.

Major asset class returns 2026 (local currencies)

Returns from 31 December 2025 to 31 July 2026



Source: Bloomberg, Betashares. 31 December 2025 to 31 July 2026. Total returns in local currencies. Index proxies: MSDLWI, SPX, NDX, AS51, MSDLWXUS, NDLEEGF, BBDXY, BCOM, BCOMGC, LEGATRUU, BACM0, Cotality Home Value and Bitcoin Indices. You cannot invest directly in an index. Past performance is not an indicator of future performance.

One important consideration for Australian investors who hold unhedged global equities is the strength of the Australian dollar over this period. At first glance the chart above shows Australian equities as the laggard, but when these developed market index returns are all converted to Australian dollar returns, the outcomes are more muted, between 4.6-6.7%. We discuss the AUD currency outlook in a later section.

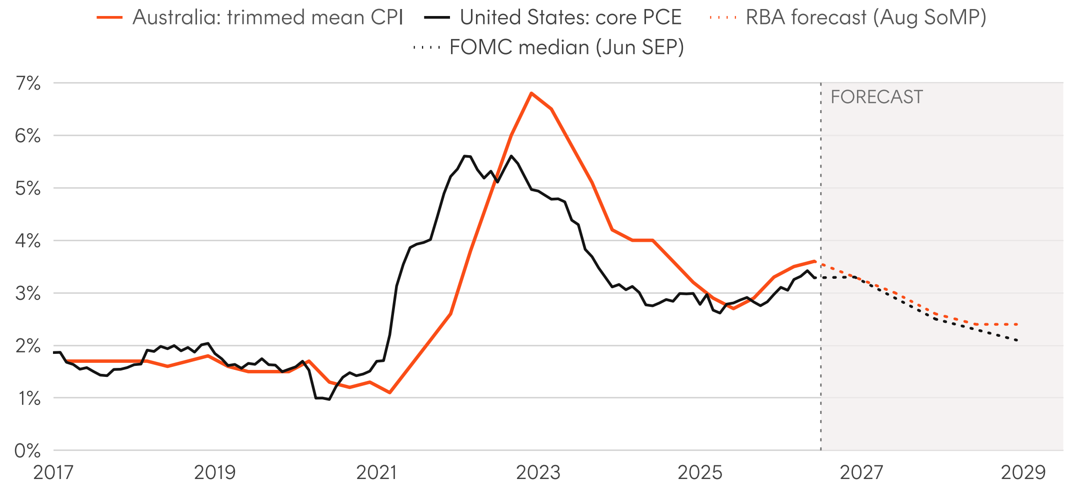
Australian bond returns were relatively muted, although they gained 1.9%, with yields rangebound throughout the year. Bloomberg's Commodities Index was up 20% with the Middle East crisis increasing energy prices, as well as strong demand for copper and agricultural commodities. And while gold has lost some momentum due to leverage unwinding and strength in the US dollar earlier in the year, the precious metal remains supported by continued central bank buying and the rise of de-dollarisation.

Economic and market outlook

As has been the case in our recent outlook papers, the key to the economic and financial outlook is the degree to which inflationary pressures both domestically and in critical countries such as the United States begin to ease. As at the June quarter, trimmed mean annual inflation of 3.6% remained uncomfortably above the RBA's 2 to 3% target band.

"the key to the economic and financial outlook is the degree to which inflationary pressures both domestically and in critical countries such as the United States begin to ease."

Underlying inflation: Australia vs the US
Year-ended change (%)



Source: ABS, BEA, Betashares. As at June 2026. ABS trimmed mean CPI (quarterly) and US core PCE (monthly), year-ended % change. Dashed paths are official forecasts: RBA August 2026 Statement on Monetary Policy and FOMC June 2026 Summary of Economic Projections.

Without an easing in inflation, monetary policy is likely to remain restrictive, and policy rates could move even higher – placing downward pressure on economic growth, corporate earnings and equity valuations.

Critical to the outlook – both in terms of its impact on inflation and broader economic sentiment – is the longevity of the Iran war and how disruptive this ongoing conflict will be to oil markets.

Tech-related investment (software and information processing) is now at 5% of US GDP – an all-time high. Hence, whether or not the massive investment in AI capacity continues and the question of AI profitability has weighted on financial markets this year.

With regards to inflation and monetary policy, our base case view is that the lagged impact of energy price rises will result in US inflation remaining sufficiently sticky in the near-term to produce one US rate rise by year-end, although there is clearly a risk of more. Newly installed Fed chair Kevin Warsh has talked tough on bringing down inflation and will be under pressure to soon follow these words with action.

In Australia, however, slowing economic growth and a further gradual easing in underlying inflation should be enough to keep the RBA on hold. Annual GDP growth is expected to slow to 1.5% by the December quarter of this year, resulting in a rise in the unemployment rate to 4.75%. The growth slowdown, however, should help annual trimmed mean inflation ease to 3.25%. With inflation expected to ease and unemployment rise further next year, we are pencilling in one RBA rate cut in the first half of 2027.

That said, global conditions could remain challenging. Despite likely on again/off again peace talks, we suspect an enduring US-Iran ceasefire deal will remain elusive, which could keep oil prices uncomfortably high and volatile - though not ultimately disruptive enough to cause a serious global economic downturn (see below for more details).

Economic and market latest values and forecasts to June 2027

	Latest values*	Dec-26	Forecasts Jun-27
GDP growth YoY%*	1.8**	1.5	1.25
Unemployment rate	4.4	4.75	5.0
Trimmed mean inflation YoY%	3.6	3.25	3.0
Rates			
RBA cash rate	4.35	4.35	4.10
10-yr bond yield	5.02	5.00	4.75
Australian Dollar			
$A vs. US	0.70	0.70	0.70
Shares			
S&P 500	7,737	7,950	8,500
S&P/ASX 200	9,146	9,280	9,560

**As at 5 August 2026*
**Estimated based on forecast 0.3% quarterly growth in the June quarter 2027*

Helping support global growth should be continued strong investment in the AI infrastructure build out, notwithstanding intermittent investor concerns over technology valuations and the profitability pay-off.

Although AI is expected to lead to significant productivity benefits down the track, the short-run impact on inflation appears to be upward – due to strong demand for energy, computer equipment, labour and construction materials.

With the Fed expected to hike rates once and inflation expected to ease only gradually, bond yields are expected to hold around current levels for the remainder of this year before easing modestly in H1’27. The Australian dollar is also now expected to remain range bound, reflecting the cross current of tighter US monetary policy but firm global energy and commodity prices.

> “In equity markets we once again expect equity valuations to remain broadly unchanged, at what are now better values (albeit not cheap) than earlier this year.”

In equity markets we once again expect equity valuations to remain broadly unchanged, at what are now better values (albeit not cheap) than earlier this year. As was the case in H1’26, the earnings outlook remains solid with forward earnings growth driving index returns, especially in global markets, which continues to outpace Australia in terms of earnings growth. Given soft economic growth, there is likely greater risk of local earnings downgrades over the coming year.

Monetary policy and global currencies

The Kevin Warsh era begins, but will markets take the wheel?

The defining US macro questions for the remainder of the year are whether the Fed raises rates and how the Fed's reaction function might look under new Chair Kevin Warsh. On the first, AI sits on both sides of the decision. Investment in data centres, semiconductors and power is a positive demand shock adding to capacity pressures, while the promised productivity dividend is not yet visible in the data. Hawks can point to robust activity and above-target inflation. More patient members – including the new Chair – argue that tightening into a productivity-enhancing investment cycle risks suppressing the capacity creation that could ultimately lower inflation. Our base case sits close to market pricing, which implies possibly one hike by year-end.

The second question turns on Warsh himself and his broader aims to restructure the Fed. Sworn in as Jerome Powell's successor in May, Warsh is a former Fed Governor who spent much of his post-Fed career as a critic, taking aim at quantitative easing and excessive forward guidance. His debut meeting in June marked an immediate change of style, with the post-meeting statement cut to a third of its previous length.

In addition, he did not submit his own "dot plot" estimate in June, has generally avoided providing any policy signals, and has advocated for a greater role for markets in influencing financial conditions and policy expectations.

As part of the reforms, Warsh has launched five task forces, staffed by Fed officials and outside experts, covering communications, balance-sheet policy, data sources, productivity and the inflation framework, with fewer FOMC meetings and press conferences also under discussion. If the task forces conform to Warsh's known views, the changes would be far-reaching. An end of forward guidance and a smaller Fed balance sheet, with fewer bank reserves, raises overall policy uncertainty, interest rate volatility and the odds of periodic US dollar funding stress.

Warsh may initially let the bond market tighten financial conditions for him, but if the front end keeps pricing hikes while the Fed holds, he must eventually validate that signal or explain why it is wrong. There are already signs of the bond market testing the new Fed Chair's credibility, both in terms of inflation targeting, and his influence over the FOMC, as evidenced from aggressive steepening in the curve following the July meeting, which saw three dissenters arguing for a hike.

For Australian investors, the implications of greater policy uncertainty and higher interest rate volatility in the world's most important bond market is profound. Higher rate volatility will spill over to not only global bond markets, but other asset classes, while currency markets will likely also become more volatile.

"For Australian investors, the implications of greater policy uncertainty and higher interest rate volatility in the world's most important bond market is profound."

The Greenback to make a comeback and the yen's slow fuse

The US dollar staged a strong rebound through the first half of the year as Fed expectations turned more hawkish. The Fed was late to the global hawkish pivot, but it is now moving in that direction just as the RBA appears to be guiding towards an extended pause. Layer on a US economy that continues to outgrow the rest of the world on the back of the investment boom, and the two classic supports for the currency, being growth differentials and rate differentials, spent much of the first half pointing the same way.

The rally has stalled since late July, however, and the reversal is instructive. The dovish July FOMC press conference saw the dollar fall as the Treasury curve bear steepened and coordinated yen intervention in early August compounded the move. US dollar strength alongside higher front-end yields would confirm that policy divergence and relative US growth remain dominant. US dollar weakness alongside rising inflation compensation and a steeper curve signals a credibility problem, particularly if gold also rallies.

For the Australian dollar, we believe the cyclical peak is in, with the currency topping out around 72 US cents. The real trade-weighted AUD recently hit its strongest levels in over a decade, meaning much of the good news on commodities and relative growth is arguably already reflected in the currency's valuation. From here, we expect a rangebound AUD into year-end, caught between competing forces of narrowing rate expectations between the RBA and the Fed, and a strong backdrop for risk assets and commodities, with the historic capital investment boom showing little sign of slowing.

The yen remains a wildcard for FX markets. Real policy rates in Japan are still negative, the yen remains the market's favoured funding currency, and intervention has slowed the depreciation without fundamentally changing the backdrop. The tail risk is a faster BOJ hiking cycle forcing a disorderly carry unwind, with August 2024 the template, with downside risks for not only the AUD, but potentially global equities also.

Navigating the evolving AI trade

Beyond geopolitics, the AI trade remains a key driving force of global economic growth. Investment into AI-related infrastructure is driving strong corporate earnings growth across the IT sector which remains a key contributor to US and AI-linked Asian equity markets. However, beneath the surface there has been considerable rotation between industry groups driven by shifting narratives as the AI trade evolves.

> "Semiconductor companies within the US Information Technology sector are reporting earnings growth of 135%."

Semiconductor companies, for example, have been the standout performer within the US Information Technology sector, reporting earnings growth of 135%[1]. Leading GPU, memory and custom ASIC chip makers continue to reap the rewards from massive hyperscaler capital investments being made to build out data centre compute capacity.

Software on the other hand has lagged its hardware peers this year despite signs of revival throughout the Q2 2026 US reporting season.

The brief but eventful 'SaaSpocalypse' episode injected fears around the future of legacy software business models given the threat that new agentic AI tools presented at the time. Terminal valuations compressed significantly across the sector; however, markets have since moved beyond pricing in this worst-case scenario and have instead become more discerning around potential winners and losers.

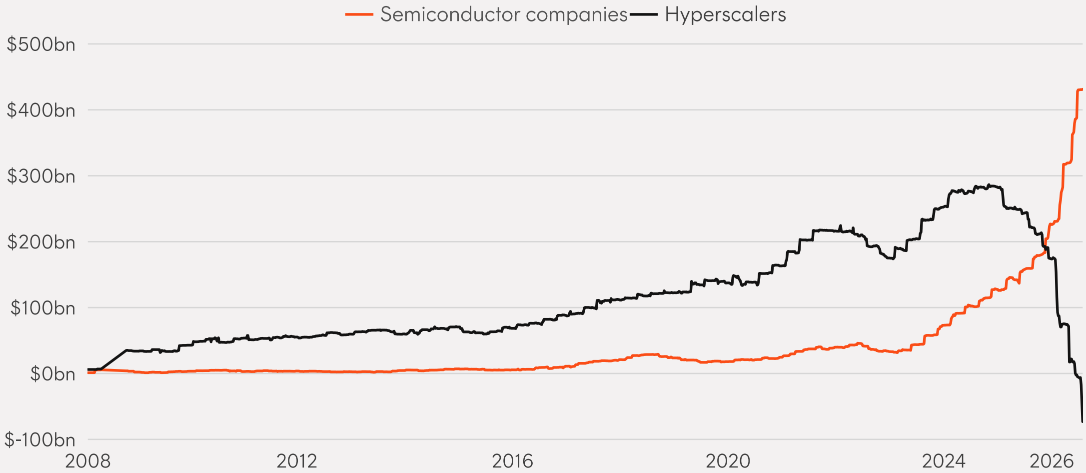
Cybersecurity, for example, initially sold off in sympathy alongside the broader software industry but has staged a remarkable recovery since their March/April lows with investors recognising opportunities in oversold platform leaders such as CrowdStrike and Palo Alto Networks.

Between the semiconductor and software layer of the AI supply chain are the US hyperscalers which face growing investor scrutiny over the returns they can generate on capex spending, expected to total ~US$800 billion this year. That's created some stress in the credit markets where widening credit spreads are reflecting concern around the ability for these companies to finance their data centre commitments as free cash flows have fallen sharply from their 2024 highs.

[1] **Source:** *FactSet. As at 7 August 2026. Blended earnings growth rate.*

AI cash flow is shifting from Big Tech to chipmakers

Free cash flow (12-month forward, US$bn)



Source: Bloomberg. 15 February 2008 to 30 July 2026. 12-month forward free cash flow. Hyperscalers = Amazon, Google, Meta, Microsoft and Oracle. Semiconductor companies = Nvidia, Micron, Broadcom and Applied Materials. Actual results may differ materially from forecasts.

> "Enterprise AI adoption continues to accelerate as increasingly multi-step agentic AI workloads drive sustained growth in inference demand."

Equity markets on the other hand care more about whether capex spending will increase the pace of AI monetisation, margins and earnings.

Despite Amazon reporting negative free cash flows for Q2 2026, its share price rose 15% the following day on the strength of its cloud business unit, Amazon Web Services, which grew revenues by 37%. AWS margins have also increased from 33% to 39% from Q2 2025 to Q2 2026 and now account for around 60% of Amazon's group operating profit.

In addition to Google Cloud Platform and Microsoft Azure, revenues across the three main cloud service providers grew by 43% on a US$364 billion trailing twelve-month revenue base in Q2. This is an extraordinary rate of growth on an already substantial revenue base, with growth likely to remain elevated.

Enterprise AI adoption continues to accelerate as increasingly multi-step agentic AI workloads drive sustained growth in inference demand. Demand for AI compute continues to exceed available supply across, while rapidly growing contracted backlogs provide high visibility into future revenues. Together, persistent demand and capacity constraints suggest that much of the incremental infrastructure being deployed can be absorbed and monetised quickly as it comes online, supporting continued elevated cloud growth.

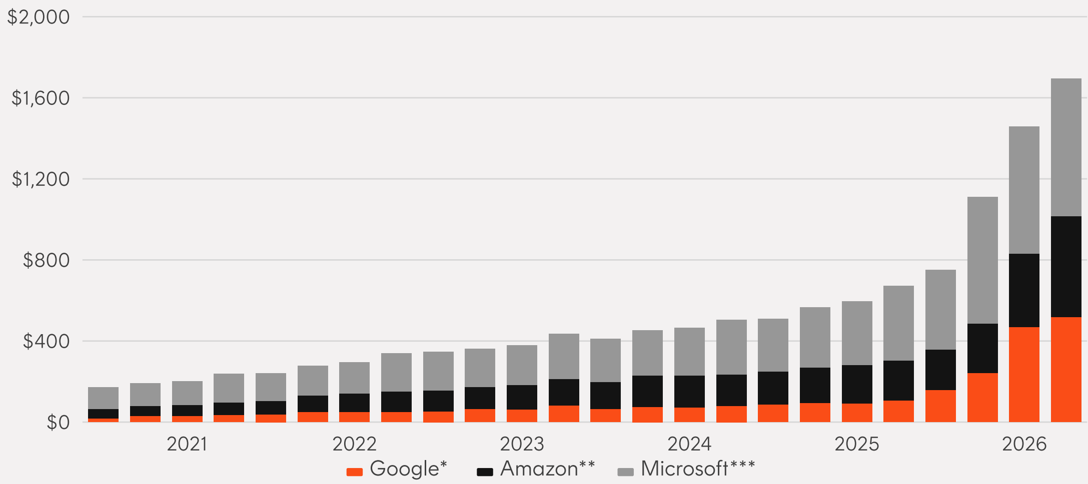
From an end user demand perspective, we expect overall AI adoption and usage to continue intensifying as inference costs decline and AI becomes more economically viable across an expanding range of platforms. This is consistent with a form of Jevon's paradox whereby the falling cost of intelligence increases aggregate demand for compute, rather than less. This should support continued demand for US frontier models (e.g., Claude and GPT), but increasing competition from lower cost, Chinese open models (e.g., DeepSeek and Moonshot AI's Kimi K3) could erode the pricing power and pressure margins of the frontier AI labs over time. However, some of this margin compression could be offset by lower training costs, and we see a growing case for profit pools to accrue elsewhere in the AI supply chain given compute remains the constraint.

The AI theme should continue to support equity markets, although we expect the path to remain non-linear as leadership rotates across the AI value chain. Rapid technological change makes it increasingly difficult to identify the ultimate winners at an individual stock-level. A diversified, index-based approach may therefore offer a more robust way to capture the broader theme.

> "The AI theme should continue to support equity markets, although we expect the path to remain non-linear as leadership rotates across the AI value chain."

Cloud backlog (US$bn)

Contracted demand has accelerated sharply



Source: BCA Research, Fiscal.AI. As at Q2 2026. * Revenue backlog. ** Remaining performance obligations (Q2 2026 values not available). *** Commercial remaining performance obligations.

The intersection of geopolitics and commodities

Open-weight soft power

In our H1 2026 outlook paper, "Shock and Ore", we discussed the great power competition between China and the US, with a particular focus on AI, and divergent energy policy. The threat of Chinese open-weight models to the leadership (and profitability) of frontier AI labs became more apparent with the release of Moonshot's Kimi K3 model. Xi Jinping's World AI Conference speech in July signalled China's intent to use open-weight AI as an instrument of soft power, targeting the Global South.

The bullish sentiment for Chinese AI was reflected in CXMT's spectacular IPO, with the memory chip maker now vying with Tencent for the mantle of China's most valuable mainland-listed company. Despite emerging competition, we consider the overwhelming demand for AI compute to remain a tailwind for US AI companies for the intermediate period.

Longer term we see an increasing probability of both US and Chinese AI policy intervention, which could lead to a greater bifurcation of the global market. Under this scenario US users may be permitted to use Chinese open-weight models, but only when they are hosted in a US data centre, removing dependency on China and ensuring data security. As mentioned in the previous section, we expect open-weight competition to put pressure on the margins of US frontier AI labs. However, a government imposed onshoring/friendshoring requirement for model hosting and inference could provide a competitive moat for the US hyperscalers, chip companies and related supply chain.

> "Despite emerging competition, we consider the overwhelming demand for AI compute to remain a tailwind for US AI companies for the intermediate period."

Ukraine and Middle East convergence

In our first half outlook we also flagged four possible geopolitical risks for 2026, including Iran choking off the world's oil supply in a retaliation to US strikes, and a shift in Ukraine with the possibility of a peace agreement or end of hostilities with Russia. Global oil markets are now heavily susceptible to both of these conflicts.

Despite campaigning on no more "forever wars" Trump finds himself in a bind, with Iran so far unwilling to offer him an offramp. The Houthis are now threatening passage through the Bab al-Mandeb Strait. Fortunately, oil from Saudi Arabia's Red Sea ports can still make it to key customers in Asia, by instead taking the longer route via the Suez Canal. This increases cost at the margin, but does not stop supply outright.

On the other hand, there is no alternative shipping route for the Strait of Hormuz. But we believe the crisis has reached something of an equilibrium for now, with Brent crude volatile but range bound between US$70 and $100 a barrel. If the price goes too low Iran has an incentive to escalate, to put pressure on Trump and boost potential export income, and US$100 appears to be the pain threshold for the stock market-obsessed President, creating an incentive for the US to deescalate beyond that point.

Thus far the West and the larger emerging market countries have been able to absorb higher oil prices and draw on strategic reserves. Demand destruction has been more acute in smaller Asian economies like the Philippines, Vietnam, and Bangladesh. If the world can muddle through, further relief may be in sight through the construction of pipelines that circumvent the Strait of Hormuz, reducing Iran's leverage. Goldman Sachs estimates that by end of 2027, existing plus new pipeline capacity could insulate more than 45% of pre-war Persian Gulf export volumes from future Hormuz shocks, rising to over 60% by end of 2028.[2]

Until that time the key risk is that strategic reserves are substantially depleted. In which case, one scenario is that Iran may then have enough leverage to implement some form of toll on the Strait, that some but maybe not all ships will pay, restoring enough supply to avoid a global recession. Trump may either deny anyone is paying the toll or periodically threaten Iran, but we suggest any US military action would be measured as we approach the November midterm elections.

Beyond crude getting through the Strait, an emerging risk to watch is the tightening supply of refined petroleum products such as petrol, diesel, jet fuel, due to another conflict. Ukraine has adopted a new military strategy against Russia, and it may be working. Using long-range drones to strike up to 2,500kms from Ukraine's border, it has hit at least 24 of Russia's 34 major oil refineries[3]. This has led to petrol shortages across Russia and bans on diesel exports. While this development is a negative for global energy markets, on a more positive note, it also increases pressure on Putin and potentially curtails Russia's ability to sustain the conflict. A peace deal in Ukraine remains a possibility.

Energy security and AI tailwinds for commodity prices

As strategic policies increasingly dominate market forces in global trade, issues like energy security and critical mineral supply chains have come into focus.

China's infrastructure and property construction boom may have faded, but a confluence of structural themes is set to underwrite commodity demand for the foreseeable future:

> "For example, since April EVs and hybrids have surged to nearly one of every two new cars sold in Australia."

[2] **Source:** *Goldman Sachs, CNBC, 16 July 2026.*

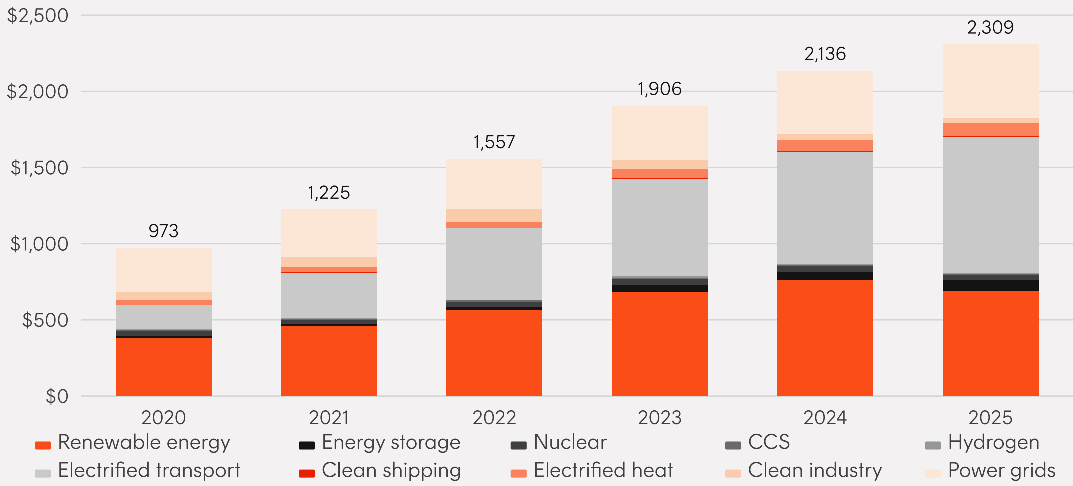
[3] **Source:** *Bloomberg, 13 July 2026.*

- The AI data centre build-out is driving demand across a wide commodity complex, for example structural steel and aluminium for physical buildings, silver in semiconductor manufacturing, and copper in power distribution, cabling, transformers and cooling systems.
- BloombergNEF data shows global energy transition investment has more than doubled over the past five years, reaching a record $2.3 trillion in 2025[4]. The Middle East energy crisis and power demand from AI are likely only to increase spending on energy systems. For example, since April EVs and hybrids have surged to nearly one of every two new cars sold in Australia.[5]
- The US administration has now established a multilateral agreement, Pax Silica, to strengthen the ex-China supply of critical minerals. Producers of these minerals from signatory and aligned countries, like Australia, Canada, Peru and Chile, are likely to benefit from strategic government support, including cheap financing, tax incentives, US market access and greater price certainty.
- Increases in defence spending and post-conflict reconstruction activity can fuel demand for specific commodities. NATO's rearmament, conflicts in Ukraine and the Middle East as well as AUKUS are all reliant on materials like rare earths, titanium, nickel, uranium and copper. The global aerospace and defence industry has now surpassed US$1 trillion in annual revenue for the first time,[6] and the ongoing conflicts continue to deplete munitions stockpiles and reinforce the case for sustained investment in defence.

For investors, the interrelationship between geopolitics and commodities represents both a risk and an opportunity. Politically-driven commodity cycles may be less predictable and more volatile than market-driven ones, as the oil price swings earlier this year have demonstrated. The opportunity is that structural, policy-mandated demand of this kind tends to be durable. And where access to commodities for energy security, electrification, AI infrastructure and defence spending is important for nation states, they are likely less price sensitive buyers.

Global energy-transition investment reached US$2.3 trillion in 2025

Investment by sector (US$bn), 2020–25



Source: BloombergNEF ETIT 2026, Betashares. 2020 to 2025.

[4] **Source:** *BloombergNEF, 26 January 2026.*
[5] **Source:** *VFACTS, June 2026.*
[6] **Source:** *PwC, 9 June 2026.*

Investment implications

Global equities:
Play on

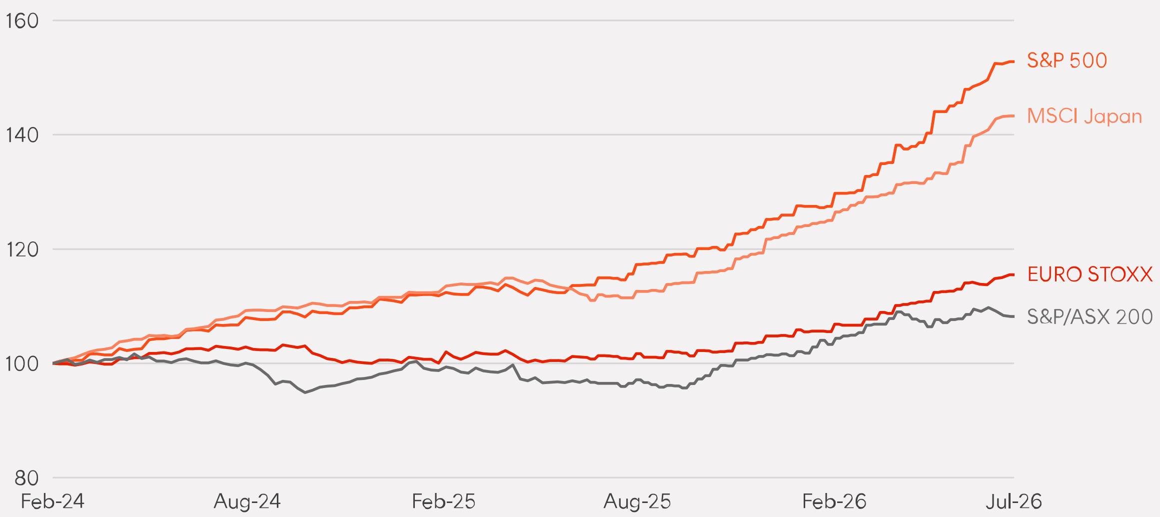
Overall, we are constructive on developed market global equities based on strong earnings growth that we believe to be resilient, and undemanding valuations.

As discussed earlier in this outlook, the US economy appears in good health, with the AI capex cycle providing strong stimulus but not the only force driving growth. Earnings have continued to surprise on the upside. The IT sector has contributed approximately two thirds of the aggregate index growth, but all sectors are expected to post positive earnings growth in calendar year 2026. Energy and Materials have seen strong upwards revisions this year, in particular.

While there has been significant single stock volatility for names associated with the AI value chain, we point to the accelerating cloud revenue and growing cloud backlog, together with early signs of favourable returns on invested capital as a reason to continue to believe.

Major developed markets diverging

Earnings growth over time (12-month forward EPS, rebased to 100)



Source: LSEG/Refinitiv, Betashares. 6 February 2024 to 24 July 2026. 12-month forward consensus EPS rebased to 100 at 6 February 2024 for the S&P 500, EURO STOXX, MSCI Japan and S&P/ASX 200 Indices. You cannot invest directly in an index. Past performance is not an indicator of future performance. Actual results may differ materially from forecasts.

Along with the US, Japan is the other developed market that stands out for earnings growth. There are a lot of positives for Japanese equities:

- Corporate Japan is becoming more focussed on shareholder returns, with a massive increase in share buybacks and cross-holding unwinds improving return on equity.
- Japanese households still hold ~50% of their assets in cash, and only 14% in equities. The revamped Nippon Individual Savings Account (NISA) program, together with inflation, is encouraging households to shift their wealth from cash to the sharemarket.
- Japanese companies like Tokyo Electron, Advantest, Shin-Etsu Chemical and Lasertec are key suppliers of advanced materials and chemicals, key components, and manufacturing and testing equipment used to produce AI semiconductors and memory chips.

There are also risks to the Japanese bull case:

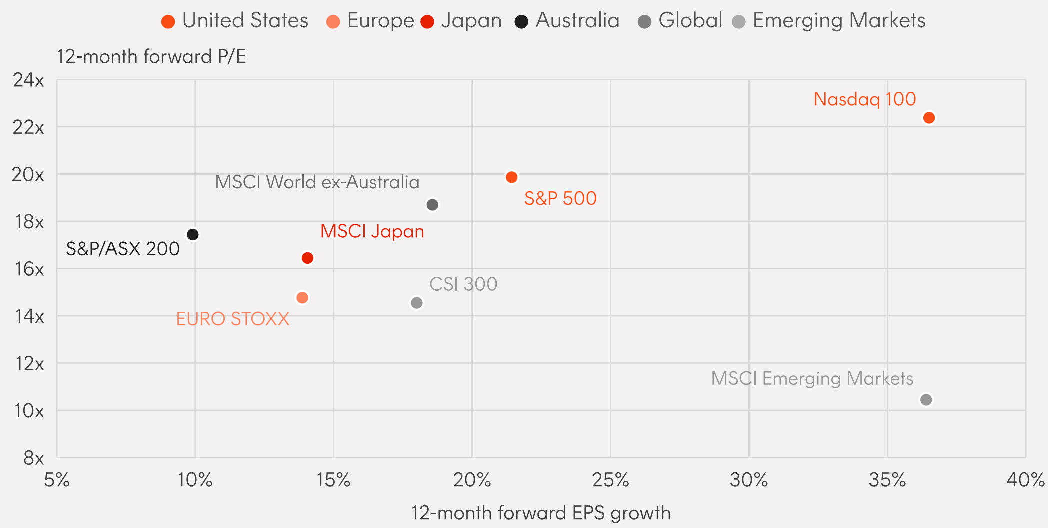
- Japan is far more exposed to higher and more volatile energy prices than the US.
- Some of Japan's earnings growth is down to a weakening Yen boosting export revenues. If the BOJ was to aggressively hike or impactfully intervene in currency markets, that tailwind could reverse.

Europe's earnings growth has been similar to that of Australia, with consistent downgrades to consensus earnings over the calendar years 2023 to 2025. But 2026 seems to have broken that pattern, with earnings growth grinding higher. The Q2 European earnings season was a strong one, with many companies announcing positive earnings surprises and upgrades to future guidance. Consensus 1 year forward EPS growth for the EURO STOXX is now 13.9%, still trailing the S&P 500 at an impressive 21.4%.

Europe's economy faces headwinds, for example higher energy import costs, but its equity market has large weights to energy and utilities that benefit from higher prices and European bank profitability is being helped by higher rates. European equity inflows have been strong this year, driven by foreign buyers, as investors have looked for diversification beyond the AI narrative.

Forward valuation vs earnings growth

Major equity indices, 12-month forward consensus measures



Source: LSEG/Refinitiv, Betashares. As at 24 July 2026. P/E is index price divided by 12-month forward blended consensus EPS; growth is year-on-year growth in 12-month forward EPS. You cannot invest directly in an index. Actual results may differ materially from forecasts.

Overweight global

It is difficult to ignore the difference in fundamentals between the other major developed markets and Australia. A preference for global equities can simply be expressed through an overweight to Betashares Global Shares ETF (ASX: BGBL), the lowest cost broad developed market ex-Australia equity ETF.

ASX: BGBL **Betashares Global Shares ETF**

Conviction in AI earnings power

A major topic of this paper is the sustainability and volatility of the AI trade. Our view is that, given strength of demand growth in AI compute and tentative signs of a return on investment for the hyperscalers, the trade still has legs. We note that volatility and dispersion in sectors or even single stocks associated with this theme are very high, hence seeking exposure through an index like the Nasdaq 100 is worth considering. Betashares Nasdaq 100 ETF (ASX: NDQ) provides diversification across the value chain, including semiconductor stocks, hyperscalers and software providers.

ASX: NDQ **Betashares Nasdaq 100 ETF**

Options for derisking AI concentration

For investors that have less conviction in the AI theme, or who simply wish to diversify portfolios that may have become captive to it, there are good alternatives in global equities.

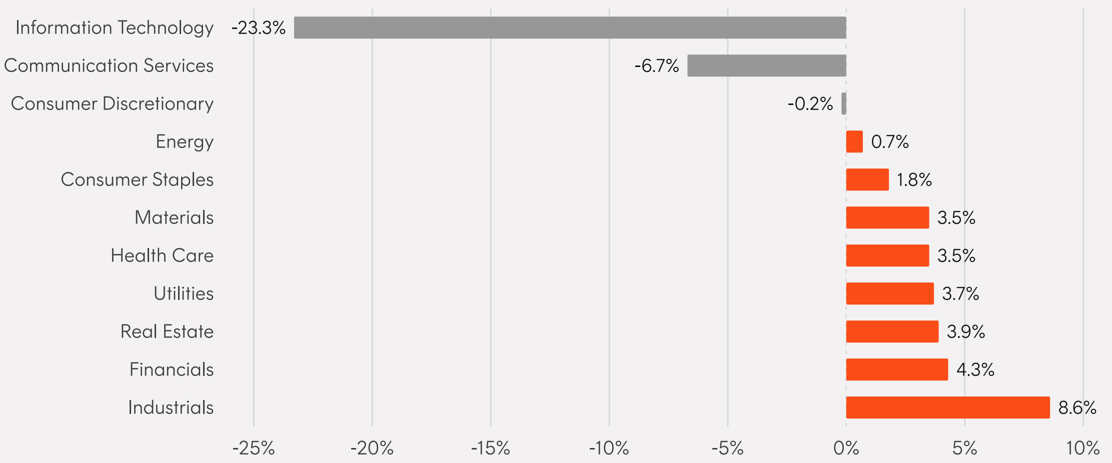
"Information Technology now represents an incredible 38% of the S&P 500 index."

Information Technology now represents an incredible 38% of the S&P 500 index. Betashares S&P 500 Equal Weight ETF (ASX: QUS) offers a way to participate in what appears to be a broadening out of US earnings growth, with less Tech and more meaningful exposure to Industrials, Financials and other sectors.

ASX: QUS **Betashares S&P 500 Equal Weight ETF**

QUS active sector weights vs S&P 500

Relative sector positions, as at 5 August 2026



Source: Betashares. As at 5 August 2026. Relative sector positions relative to the S&P 500 Index. You cannot invest directly in an index.

Betashares Global Shares Ex US ETF (ASX: EXUS) provides a global developed markets exposure that excludes the US and Australia. This ETF holds Japanese, European, Canadian and UK equities, again with a significantly lower weight to tech. EXUS can also be considered as a tactical allocation if US economic growth disappoints.

ASX: EXUS **Betashares Global Shares Ex US ETF**

Emerging markets: From cyclical to structural?

Emerging markets have been one of the best performing regions this year, vindicating our start of year call. However, the nature of investing in this region has changed from being less of a macro / US dollar driven story and more about the structural dominance of technology and AI globally.

Outperformance of the MSCI Emerging Markets Index has been narrow to say the least, with the top three stocks (Taiwan Semiconductor, Samsung and SK Hynix) growing to account for 30% of the overall index[7]. But their ascent hasn't occurred by chance, rather driven by strong fundamental earnings growth as more context heavy inference workloads create structural bottlenecks in the memory chip market.

One market that's become a direct beneficiary of this dynamic has been South Korea, driven in large part by Samsung and SK Hynix which together account for more than half of the KOSPI index and two thirds of high bandwidth memory production.

However, that's also created significant single stock and index level volatility which has been fuelled by the South Korean government's decision to approve the trading of single stock leveraged products in late May. After a 118% rally from the start of the year to 22 June, the KOSPI index then pulled back significantly by ~38% to local lows set on 30 July[8], in part driven by the unwinding of speculative, leveraged positioning rather than by a deterioration in company fundamentals. One high profile casualty was US hedge fund, Situational Awareness, that held a highly concentrated leveraged position in SK Hynix.

Across the East China Sea, Taiwan's stock market may also be prone to bouts of volatility given TSMC, the world's largest and most advanced chip manufacturing company, accounts for ~40% of the local index. At the national accounts level, broad tech-related exports including electronics, AI servers and integrated circuits accounted for more than three quarters of Taiwan's total exports.[9]

While a reflection of where the demand is within the AI supply chain, the narrowness and rotation we've seen in emerging markets may create challenges to how asset allocators invest in this region. Timing sector and company winners becomes even more difficult as illustrated in the chart below with many Australian domiciled active managers underperforming the MSCI EM Index despite the conventional wisdom that less efficient markets like EM provide a fertile hunting ground for alpha generation.

> "One market that's become a direct beneficiary of this dynamic has been South Korea, driven in large part by Samsung and SK Hynix which together account for more than half of the KOSPI index and two thirds of high bandwidth memory production."

[7] **Source:** *As at 30 June 2026.*
[8] **Source:** *Bloomberg.*
[9] **Source:** *As at 30 June 2026. Chinese Department of Statistics, Ministry of Finance. Monthly statistics of exports and imports Republic of China June 2026.*

Looking ahead, we still think emerging markets remain appealing even after its rally given attractive forward valuations and a strong earnings growth outlook led by the AI infrastructure build out. Beyond AI, other countries like India provide differentiated sources of growth supported by strong momentum in domestic private consumption and services activity. China also looks attractive given lower valuations and is home to a fast-growing local AI ecosystem spanning domestic chips, models and semiconductor equipment manufacturers.

One headwind worth considering is the strength in the US dollar index this year given heightened risk of capital flight as this marks a stark change from the 9.5%[10] fall the index experienced just last year. Concentration risk should also be considered, although this is not necessarily a bad thing and rather reflects the market leadership that TSMC, Samsung and SK Hynix will likely retain off the back of structural tightness in the memory chip market and continued upward revisions to hyperscaler capex.

Broad emerging markets: growth at a discount

We think difficulties faced by active managers in emerging markets strengthens the case for a passive exposure such as the Betashares MSCI Emerging Markets Complex ETF (ASX: BEMG), a simple, low-cost and tax-efficient solution.

ASX: BEMG **Betashares MSCI Emerging Markets Complex ETF**

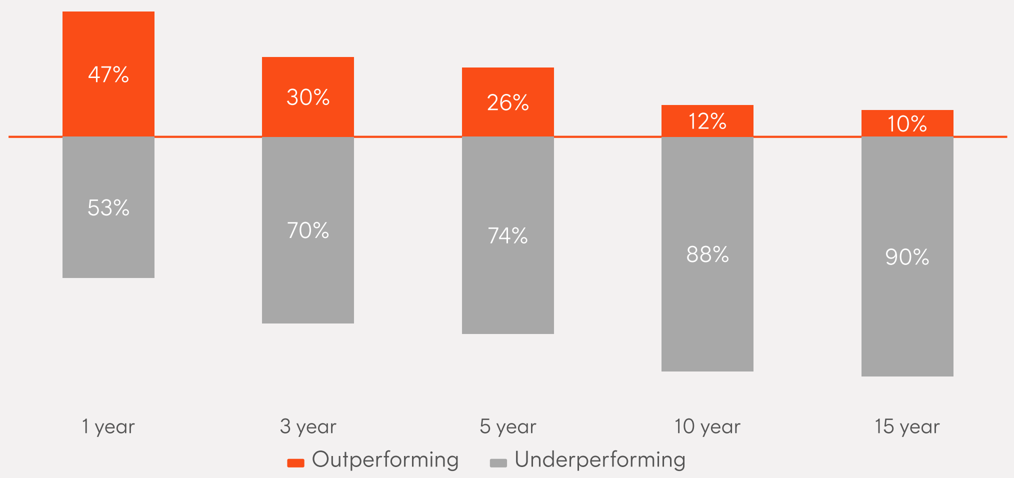
Emerging market opportunities beyond AI

Indian equities through the Betashares India Quality ETF (ASX: IIND) may also provide investors useful diversification benefits given the country's domestically oriented growth drivers from consumer demand and investments, and lower direct exposure to AI-related companies that have driven volatility across several developed and Asian markets.

ASX: IIND **Betashares India Quality ETF**

Share of active US emerging-market funds underperforming their benchmark

Percentage of funds by evaluation period



Source: SPIVA U.S. Year-End 2025. As at 31 December 2025. Past performance is not an indicator of future performance. You cannot invest directly in an index.

[10] **Source:** *Bloomberg.*

Australian equities:
Dr Copper and budget woes

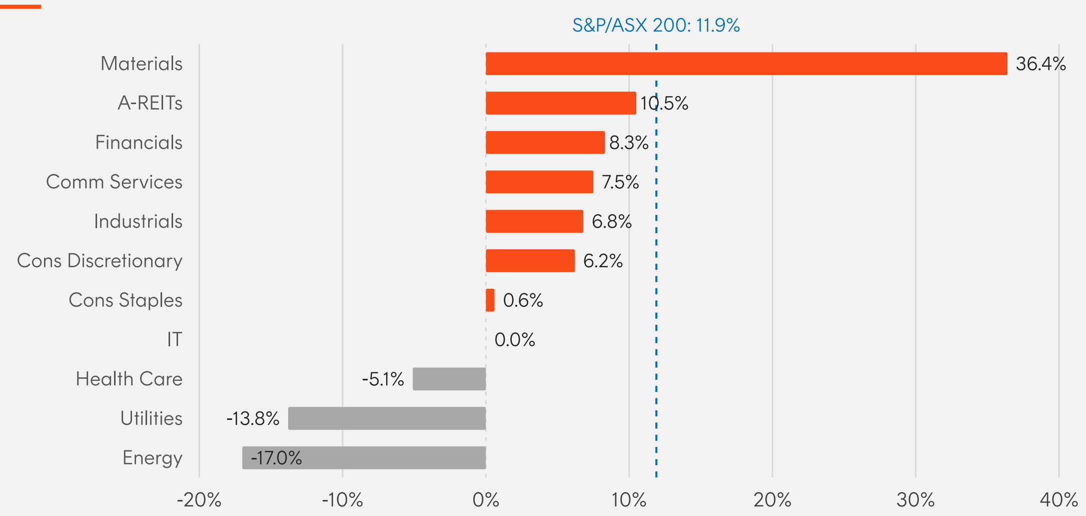
Australian equities have materially lagged global peers both year to date and over longer-term horizons. Australia's lack of direct AI beneficiaries, partly offset by the related resource rally, has left most of our domestic market looking limp in the face of supercharged earnings and returns overseas.

The Australian market entered 2026 on the back of three consecutive financial years of negative earnings growth[11]. So, an expected 11.9% growth rate for FY26 is something to rejoice in[11]. Materials are by far the biggest contributor to this turnaround; exclude the sector and the market would be tracking for just 3.4% growth.[11]

Led by BHP and Rio's strategic pivots, Australia's materials sector is much less reliant on iron ore than it once was. BHP's H1 FY26 report back in February saw the group's copper earnings overtake iron ore for the first time,[12] while Rio reported in late July revealing their copper earnings were up 84% year on year, making it the second biggest division behind only iron ore.[13]

One sector is carrying the market's earnings recovery

Expected FY26 earnings growth by sector



Source: LSEG I/B/E/S, Betashares. As at 24 July 2026. FY26 consensus estimates compared with FY25 reported earnings, aggregate US dollars. You cannot invest directly in an index. Actual results may differ materially from forecasts.

[11] **Source:** *LSEG I/B/E/S. As at 24 July 2026.*
[12] **Source:** *BHP H1 FY26 financial reports. 17 February 2026, based on EBITDA.*
[13] **Source:** *Rio Tinto H1 CY26 financial reports. 30 July 2026, based on EBITDA.*

The surging copper price, related to the energy transition and AI buildouts, has therefore been a significant positive contributor to the sector's performance, alongside the still elevated gold price, albeit down from early year record highs. This bodes well for the Australian market so long as demand for these commodities holds up, as we believe is likely.

Australia's other majors, the big banks, are not faring as well.

Since the GFC international banks have rebuilt their balance sheets, strengthened risk management and diversified into higher-growth businesses including payments, capital markets and wealth management. These global peers are seeing historic growth and profits.

Australia's Big Four took a different path. They simplified, exited adjacent businesses and doubled down on home lending, a mature market now facing fresh headwinds following the Federal Budget's tax changes.

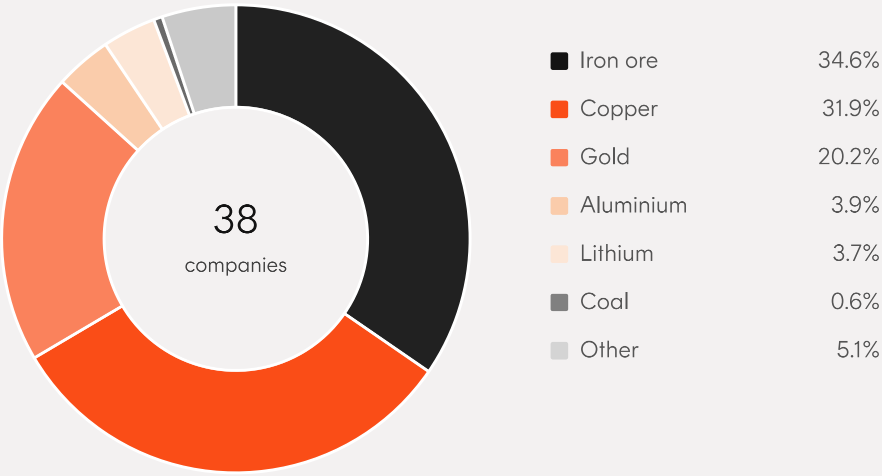
Australian financials sit at a twenty-three-year valuation extreme. It is however worth separating the cohort, as CBA stands out as expensive, at a forward P/E of 26.4x, while the valuations for non-bank financials are cheaper.

Turning to the remainder of the market, the earnings outlook has deteriorated since the Federal Budget. The FY27 earnings estimate for the Australian market has fallen by 1.3% in total[14]. Earnings forecasts for the majority of the consumer discretionary names in the index have been cut, spanning retail, car dealers and travel (FY27 estimates are 5.1% lower in aggregate).[14] Expected earnings for online classifieds, CAR Group and Seek also took a hit. This is consistent with the tougher macro backdrop of higher rates and fuel prices. Consumer sentiment sits in the bottom 10% of a fifty-year survey history.[15]

Cuts elsewhere cannot necessarily be attributed to domestic macro factors. Utilities downgrades reflect retailers absorbing lower power prices. Health Care's 7.8% cut is almost entirely CSL, a global earner. Since the Federal Budget the ASX 200 has risen 3.8%[15] on higher valuations, and in spite of a deteriorating earnings outlook. As we enter another Australian reporting season, we expect share price volatility again.

Copper has drawn almost level with iron ore in Australian mining

Materials-universe market value by commodity



Source: Betashares, LSEG, BHP and Rio Tinto. As at 24 July 2026. Market-value share of 38 companies with a positive forward earnings yield in the S&P/ASX 200 Materials universe. You cannot invest directly in an index.

[14] **Source:** *LSEG I/B/E/S. As at 24 July 2026. Analyst consensus earnings growth change for FY27 from 8 May 2026 to 24 July 2026. Actual results may differ materially from expectations.*
[15] **Source:** *Bloomberg. 12 May 2026 to 31 July 2026. Past performance is not an indicator of future performance.*

Anecdotally we have been hearing from clients that the Australian equities portion of their portfolios has become the most challenging to manage. The data on recent active manager performance supports this. Over the past 6 and 12-months the Australian equity active manager cohort, weighted by funds under management (FUM), has underperformed our broad market Australian equities index ETF, A200, by 3.8% and 2.3% respectively[16]. Including a very high dispersion of returns and high-profile underperformers.[16]

Value oriented, quality controlled

We believe a well-constructed passive factor approach has the potential to deliver long term outperformance and offers a lower-cost alternative to actively managed funds in Australian equities.

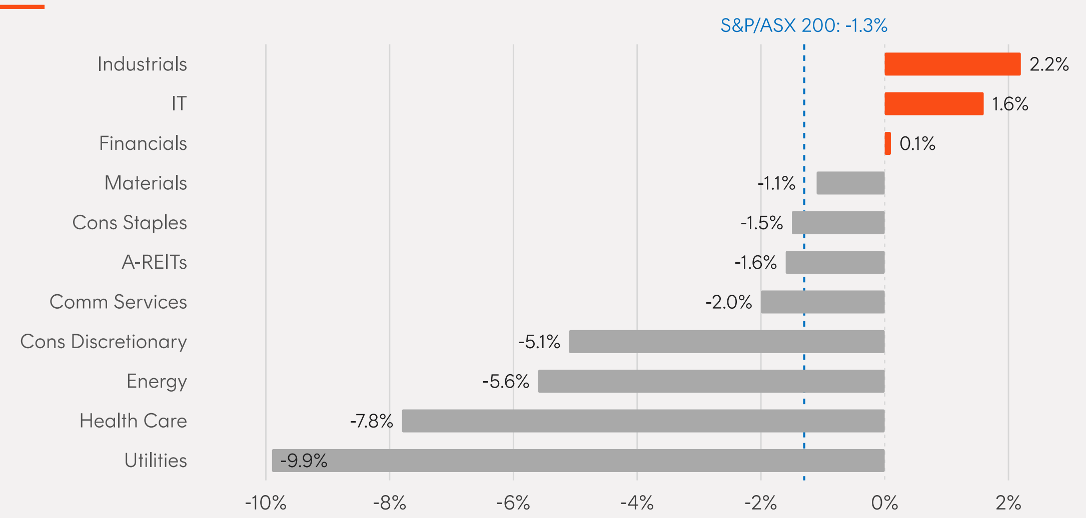
Betashares FTSE RAFI Australia 200 ETF (ASX: QOZ) is one such example.

ASX: QOZ **Betashares FTSE RAFI Australia 200 ETF**

QOZ's index methodology aims to overweight companies that are cheaper than their relative fundamental values and underweight companies that are more expensive i.e. buy low and sell high. Materials (BHP, Rio, Amcor, BlueScope), Consumer Staples (Woolworths, Coles) and Energy (Woodside, Ampol, Santos) are the largest current overweights, while QOZ has underweights to premium-valued large caps, including CBA and Goodman, as well as high-multiple growth names, like WiseTech and Technology One. These tilts align with our outlook for commodities and potentially reduce the severity of drawdown, should the broader market sell off.[17]

Downgrades have hit most sectors after the budget

Revision to FY27 consensus earnings estimates



Source: LSEG I/B/E/S, Betashares. 8 May 2026 to 24 July 2026. FY27 consensus EPS, fiscal-matched on reporting date; 8 May is the last weekly observation before the 12 May Federal Budget. You cannot invest directly in an index. Actual results may differ materially from forecasts.

[16] **Source:** *Morningstar Direct. 30 June 2025 and 31 December 2025 to 30 June 2026. Measures the funds under management weighted returns of all active Australian equity funds in Morningstar's Australia & New Zealand category as classified by Morningstar. Returns for active managers and Betashares Australia 200 ETF (ASX: A200) are net of fees. A200's management fee is 0.04% p.a. Past performance is not an indicator of future performance.*

[17] **Source:** *Betashares, as at 31 July 2026.*

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, expressed through Betashares Australian Quality Leaders ETF (ASX: AQLT).

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 ASX. Key overweights with AQLT portfolio relative the broad index are Health Care (CSL, Pro Medicus, Cochlear) and quality mid-caps (Netwealth, Helia, Breville) dominate the overweight positions, Key underweights include Materials and Banks, although non-Bank Financials feature as overweights (Netwealth, Pinnacle).[18]

Holding a blend of QOZ together with AQLT is likely to reduce tracking error, and aligns with our philosophy of combining complementary factors that have demonstrated long term outperformance relative to the broader Australian market.

[18] **Source:** *Betashares, as at 31 July 2026.*

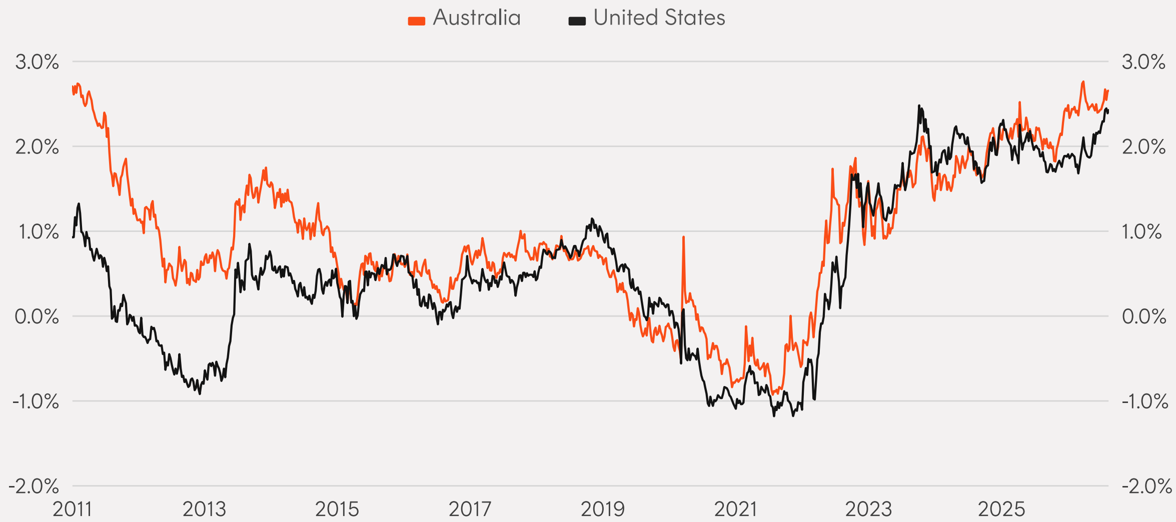
Fixed income: Seeking safe harbour

AI capex still has the bond market's attention

Global bond markets remain challenging to navigate, and three forces are driving volatility. The first is policy uncertainty, with the Fed's shifting reaction function under new Chair Kevin Warsh raising questions about the commitment to the 2% inflation target, in addition to a lack of clarity over central bank's broader communication strategy. The second is the AI investment boom, which is spurring demand for capital, pushing real yields higher, and creating a new source of bond supply. And the third is the Iran energy shock, which has added oil price volatility and a near-term inflation impulse, driving the hawkish repricing across central banks, with high government deficits also weighing at the margin.

While price pressures remain in focus, the rise in long-end yields has been led by real yields rising to post-GFC highs rather than long-term inflation expectations, which are largely anchored. Oil can still influence the policy path by lifting near-term inflation and narrowing central banks' room to ease, but markets are placing progressively less weight on the risk of sustained disruption to shipping through the Strait of Hormuz.

10-year real government bond yields (%)
Australia and United States, weekly



Source: Bloomberg, Betashares. Weekly to 12 August 2026. Australia is the 10-year generic inflation-linked yield, extended back to January 2011 as the nominal yield less the 10-year breakeven. The United States is the 10-year generic TIPS yield.

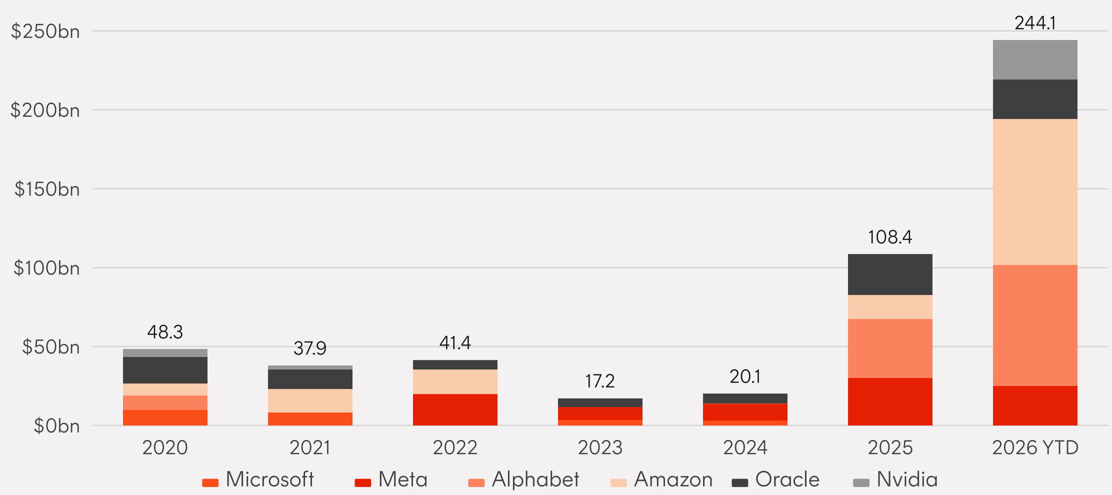
> "Issuance from Microsoft, Meta, Alphabet, Amazon, Oracle and Nvidia has reached US$244 billion this year."

Supply is now front-of-mind. In addition to elevated Treasury issuance as the US government maintains a deficit of around 6% of GDP, corporate issuance from the technology sector adds a second layer of supply to the US bond market. Issuance from Microsoft, Meta, Alphabet, Amazon, Oracle, and Nvidia has reached US$244 billion this year to 10 August, already double 2025's full-year record, and the figure for the broader capex build-out is larger once private loans, special purpose vehicles and neocloud issuance are counted. The Hyperscaler cohort is currently guiding US$800 billion in capex for 2026 against US$412 billion last year, an amount operating cash flow alone can no longer cover. Much of the resulting debt is long dated, so the build-out is supplying duration as well as volume to the market.

Credit markets are also starting to differentiate by sector and issuer. Investment grade technology spreads now trade wide of the broader market after years inside it, and the gap in high yield is wider still. The cost of credit protection has also surged for some names, most notably Oracle, although it is unclear how much of this reflects hedging activity amid record supply rather than genuine concerns over credit quality, a recent S&P downgrade to BBB-minus notwithstanding. In addition, the sheer scale of the capex cycle widens the distribution of possible outcomes, with credit investors naturally more concerned about downside risks rather than the upside potential.

Hyperscaler bond issuance, all currencies

Calendar-year issuance (US$bn)



Source: Bloomberg, Betashares. As at 10 August 2026. USD-equivalent bond issuance by calendar year at issue-date FX. 2026 is year to date.

Australia the shelter to global bond headwinds

RBA expectations have turned less hawkish amid softer employment and inflation data in recent months. In its August Statement on Monetary Policy, the Bank revised its unemployment forecasts higher, expecting a rise from 4.4% currently to 4.8% over the medium term. Such a softening in employment, combined with underlying inflation returning to the 2-3% target band, would bring the dual mandate back into focus and likely put a ceiling on the cash rate and bond yields.

Despite the tepid economic outlook, the 10-year government yield is still around 5%, with a real yield (adjusted for inflation expectations) of 2.6 per cent. This is the highest level in 15 years and is priced for an economy running far hotter over the coming years than most forecasts expect.

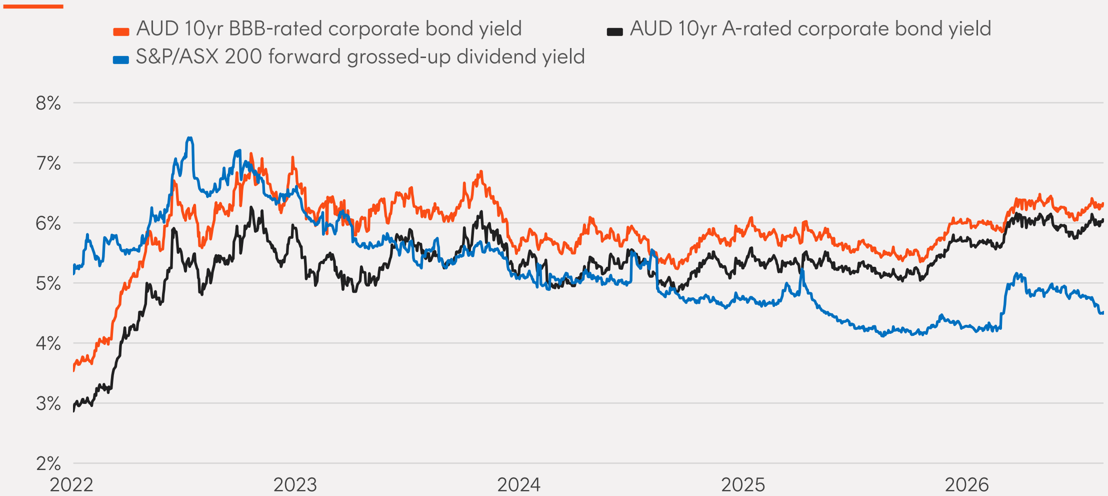
However, any domestic bond rally faces external challenges, as higher US real yields and continued pressure on the Japanese long end keep global term premia high and could limit how much Australian bond yields fall. That mix favours a gradual bull steepening of our yield curve and further compression in the Australian-US 10-year yield spread, supporting ongoing outperformance of Australian government bonds.

Australian credit also remains relatively attractive, with AUD spreads generally higher and less volatile than equivalent credit in US dollars or euros. Although local credit spreads are at the tighter end of the historical range, outright yields are still appealing to a broad range of investors. In addition, our credit market has very little technology exposure, insulating it from immediate AI infrastructure supply indigestion.

One risk to this benign outlook on spreads is that the AI build-out arrives here, and Alphabet's inaugural AUD bond sale could signal the start of a Hyperscaler issuance wave in our "Kangaroo" market. Australia is experiencing its own mini boom in domestic data centre issuance, with CDC and NextDC both issuing in size this year.

Although global headwinds remain, our view is not to be bearish on bonds, given the elevated real and nominal yields, alongside steeper curves providing compelling rolldown in high grade sectors. On a relative basis, we see more value in rates than credit, with Australian duration preferred over global. Fixed-rate AUD investment grade corporate bonds provide a nice balance of capital upside potential and compelling income, particularly at a time when dividend yields on Australian shares are challenged and the supply of bank hybrids continues to shrink, with many parts of the investment grade credit universe offering outright yields above 6%.

AUD corporate bond yields vs the ASX 200 grossed-up dividend yield



Source: Bloomberg, ASX, S&P, Betashares. As at 12 August 2026. Corporate bond yields are the 10-year points of the AUD Australian corporate A-rated and BBB-rated BVAL yield curves. Equity income is the S&P/ASX 200 forward (12-month estimated) cash dividend yield grossed up for franking credits, assuming 75% of dividends are franked at the 30% company tax rate. You cannot invest directly in an index.

The Betashares Australian Investment Grade Corporate Bond ETF (ASX: CRED) provides exposure to a portfolio of senior, investment grade Australian fixed-rate corporate bonds, with income paid monthly at a rate expected to be higher than term deposits, government bonds, and benchmark bond index exposures.

ASX: CRED **Betashares Australian Investment Grade Corporate Bond ETF**

CRED is designed to capture the relative value on offer in the Australian benchmark curve, with fixed-rate exposure positioned to benefit should softer domestic data pull yields lower, while adding a spread over already compelling government yields. With the domestic credit market having negligible exposure to the technology sector, CRED's portfolio and AUD credit more broadly should be relatively well insulated from the supply indigestion facing US credit as the Hyperscaler build-out is increasingly funded through debt markets. CRED’s current yield to worst is 6.18%.[19]

[19] **Source:** *Betashares. As at 12 August 2026.*

Private markets

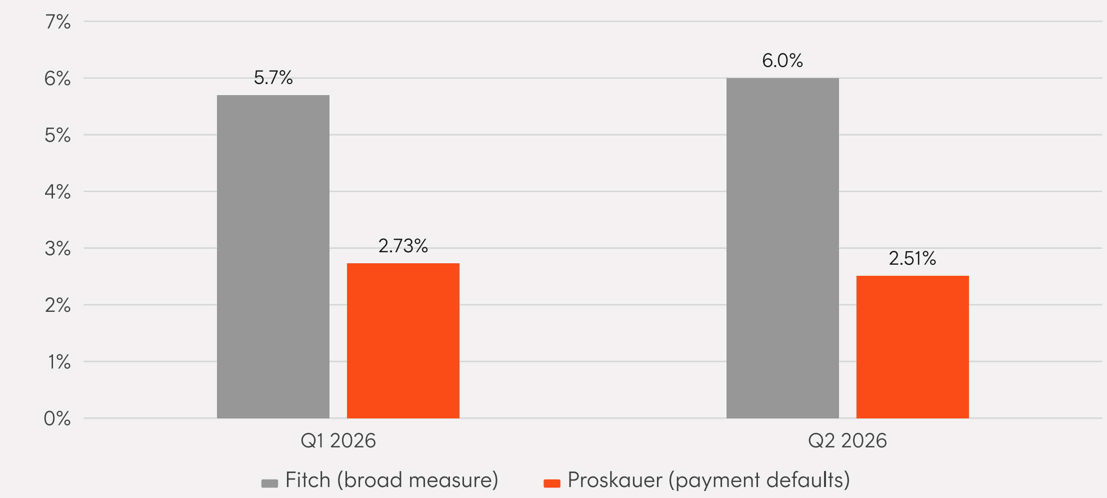
Private credit spent the first half of 2026 as the asset class the headlines loved to worry about. Redemption requests from wealth and retail vehicles hit records, questions mounted over software borrowers' exposure to AI disruption, and in late July Fitch reported that its broad measure of the US private credit default rate had risen to a record 6.0%[20]. Look past the noise and a more useful picture emerges: this is a market of dispersion, not distress, and for new capital the conditions entering the second half is the most attractive it has been in some time.

Start with that headline default number, because it rewards a closer look. Fitch's measure is deliberately broad, and more than half of the second-quarter default events it captured were maturity extensions rather than missed payments.

On the conventional measure of borrowers failing to pay, Proskauer's Private Credit Default Index, tracking US senior-secured and unitranche loans, actually eased to 2.51% in the second quarter from 2.73% in the first, and continues to track below the broadly syndicated loan market[21]. The gap between the two is the story: stress concentrated in refinancings and identifiable pockets – the 2021 vintage, a handful of sectors, and models most exposed to AI – rather than a broad breakdown in borrowers' ability to pay. The retail redemption wave belongs here too: a liquidity event at the wealth end of the market, not a signal about underlying credit.

The direct-lending data reinforces the point. The Cliffwater Direct Lending Index returned 1.12% in the first quarter and 8.19% over the trailing four quarters, with realised losses of just 0.58% over the year, well below the long-run average of 0.99%[22]. Recovery rates on defaulted first-lien loans are holding near their 10-year average. Borrower health has been steady even as sentiment turned.

Two measures, two stories: default rates
Q1 vs Q2 2026 (%)



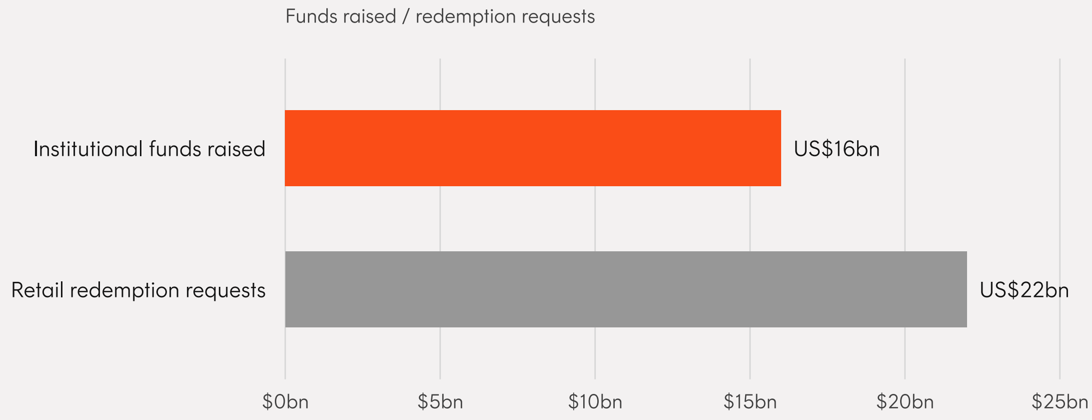
Source: Fitch Ratings and Proskauer Private Credit Default Index. Q2 2026. Fitch's broad measure includes maturity extensions; Proskauer measures payment defaults among US senior-secured and unitranche loans.

[20] **Source:** *Fitch Ratings, U.S. Private Credit Default Rate, Q2 2026.*
[21] **Source:** *Proskauer, Private Credit Default Index, Q2 2026.*
[22] **Source:** *Cliffwater Direct Lending Index (CDLI), Q1 2026.*

The AI and software fear deserves a more careful read than the headlines allow. Software loans, roughly a fifth of middle-market exposure, were marked down around 3% in the first quarter, yet sector default rates stayed stable through the second[23]. That markdown is unrealised, and over the index's 21-year history only about half of unrealised losses have ever become realised. Software also carries a second vulnerability: high leverage and thin interest coverage make it sensitive to rates as much as to AI, which is why disciplined managers have been actively trimming the exposure.

The clearest signal came from where the smart money moved. As retail capital headed for the exits, institutions leaned in. North American institutional direct-lending funds raised roughly US$16 billion in the second quarter, the second-strongest quarter in four years, even as retail-focused vehicles fielded more than US$22 billion in redemption requests over the same period[24]. The pattern is playing out locally too: in July, AustralianSuper outlined plans to roughly double its private credit exposure toward $20 billion over three to four years, lifting the target allocation in its main balanced option to between 3% and 5%, framed around the search for predictable income for an ageing membership.

Institutional raise vs retail redemptions
Q2 2026 (US$bn)



Source: Preqin and Financial Times. Q2 2026. North American institutional direct-lending funds raised compared with redemption requests from retail-focused private-credit vehicles.

Those terms are the forward story. The pullback in wealth-channel capital and the retreat from technology underwriting have widened spreads on newly originated loans, tightened documentation and lowered leverage relative to the 2021-22 vintages now generating headlines. New capital deployed today is paid more for risk than a year ago, into a market where the supply-demand balance has shifted in the lender's favour. We see the rate path as the key variable: with the Fed on hold and inflation sticky, a higher-for-longer setting supports floating-rate income directly, while faster cuts would compress new-money yields. The 2021-22 vintages still working through the system remain the genuine soft spot. But the weight of the evidence points to an asset class being repriced by sentiment, not fundamentals, and periods of investor caution have historically produced some of the strongest lending returns.

[23] **Source:** *Private Debt Reserves 3% for Future Software Losses, Cliffwater, May 19 2026.*
[24] **Source:** *Big investors commit billions to private credit despite turmoil, Financial Times, 5 July 2026, Preqin.*
[25] **Source:** *AustralianSuper defies private credit fear, plans fivefold asset lift, Australian Financial Review, July 21 2026.*

Where to for income?

The environment for income investing has become more challenged with dividend yields on the ASX 200 at just 3.2%, and the phase out of hybrid securities shrinking the availability of familiar high yielding assets. Investors can look elsewhere toward other equity and credit income focused exposures that offer consistent, enhanced levels of income and which have been attractive in a world defined by geopolitics and heightened levels of volatility.

Enhancing income down under

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 such as the Betashares S&P Australian Shares High Yield ETF (ASX: HYLD) is now sought by many investors to generate the income they require. HYLD's 12-month trailing cash distribution yield is 4.2%.[26]

ASX: HYLD **Betashares S&P Australian Shares High Yield ETF**

Going global for income

Generating income from global equities has historically been more challenging for Australian investors, given relatively lower dividend payout ratios in many overseas markets. The Betashares S&P Global High Dividend Aristocrats ETF (ASX: INCM) provides exposure to a high-yielding portfolio of global companies from a diverse range of regions and sectors, while seeking to capture global growth within developed markets outside of Australia. INCM's 12-month trailing cash distribution yield is 4.9%.[26]

ASX: INCM **Betashares S&P Global High Dividend Aristocrats ETF**

[26] **Source:** *As at 12 August 2026. All yields shown in this section are shown net of fund fees and costs. Yield will vary and may be lower at time of investment. Past performance is not an indicator of future performance.*

High quality credit income, with reduced interest rate risk

Australian investment grade bonds currently offer an attractive source of income, and the local market's relatively low technology exposure provides useful diversification from global credit at a time when hyperscaler issuance is testing US markets. For investors who want that credit income without the duration risk that comes with fixed-rate bonds, the Betashares Interest Rate Hedged Australian Investment Grade Corporate Bond ETF (ASX: HCRD) provides exposure to a portfolio of senior, investment grade Australian corporate bonds while substantially reducing interest rate risk. The result is a purer expression of Australian credit, with returns driven by spreads and income rather than moves in benchmark bond yields. HCRD's yield to worst is currently 6.09% p.a.[26].

ASX: HCRD **Betashares Interest Rate Hedged Australian Investment Grade Corporate Bond ETF**

Enhanced credit through two key building blocks

Bank hybrids have long played an important role in Australian income portfolios, however with APRA phasing out these securities, investors will increasingly need to look elsewhere to meet their income needs. The Betashares Australian Enhanced Credit Income Complex ETF (ASX: ECRD) can help fill this income gap, providing investors with a high level of income[26] through geared exposure to Tier 2 subordinated bonds and interest rate hedged Australian corporate bonds. ECRD's estimated yield to worst is 7.96% p.a.[26].

ASX: ECRD **Betashares Australian Enhanced Credit Income Complex ETF**

[26] **Source:** *As at 12 August 2026. All yields shown in this section are shown net of fund fees and costs. Yield will vary and may be lower at time of investment. Past performance is not an indicator of future performance.*

Beyond the core:
Leaning into commodities

In a time of heightened geopolitical tensions and energy security risk, exposure to key commodity producers may provide a return boost beyond the core for investor portfolios, as well as diversification away from Tech.

Record refining margins favour the integrated global oil giants

The volatility in energy markets is boosting the production, refining and trading revenues of supermajors like ExxonMobil, Chevron, BP and TotalEnergies. Betashares Global Energy Companies Currency Hedged ETF (ASX: FUEL) provides exposure to global energy companies that are larger and more vertically integrated than Australian-listed energy companies.

ASX: FUEL Betashares Global Energy Companies Currency Hedged ETF

Government support for ex-China critical minerals producers

Betashares Critical Minerals ETF (ASX: XMET) provides exposure to 40 of the leading global producers of critical minerals, including copper, lithium, nickel, cobalt, graphite, manganese, silver and rare earth elements. Producers from Pax Silica signatory and aligned countries, like Australia, Canada, Peru and Chile, are likely to benefit from strategic government support, including cheap financing, tax incentives, US market access and greater price certainty.

ASX: XMET Betashares Critical Minerals ETF

Uranium: Increasing long-term contract prices and structural demand

Uranium miners have sold off this year, on concerns about sulphur supply through the Strait of Hormuz, higher interest rates and bearish sentiment. But increasing long-term contract prices for uranium signal that the sell-off may be overdone. Investors can get exposure to the long-term growth in demand for uranium by investing in Betashares Global Uranium ETF (ASX: URNM).

ASX: URNM Betashares Global Uranium ETF

Three powerful forces are shaping the investment landscape: geopolitical change, the next phase of the AI investment cycle and Australia's evolving domestic economy.

Together, they will influence growth, inflation, earnings and investment opportunities across asset classes.

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