

WEEKLY MARKET UPDATE



13 FEBRUARY 2026



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Investment markets and key developments

US shares fell over the last week on the back of ongoing concerns about AI disruption, excessive related capital spending and tech sector valuations. However, Eurozone, Japanese and Chinese shares rose partly reflecting a rotation away from the AI/tech heavy US share market. Australian shares also rose buoyed by the return of profit growth after three years of falls with the local share market almost surpassing last year's high before giving up some of its gains on Friday. It still rose around 2.4% for the week with gains led by utility, financial, material and consumer staple shares. Bond yields fell led by the US on the back of safe haven demand. This included in Australia.

Global Sharemarkets

Index, Jan 2025 = 100, local currency

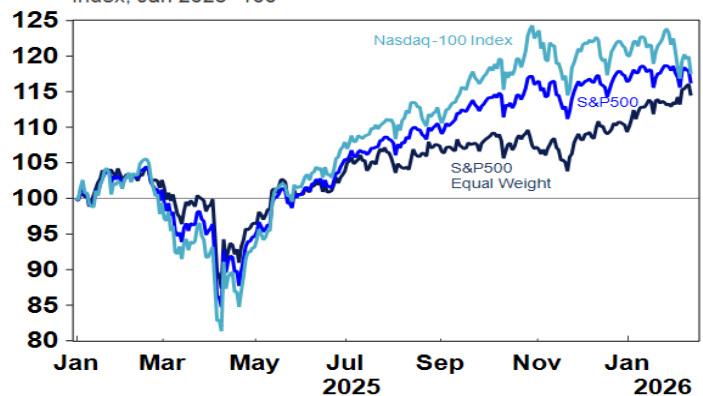


Source: Macrobond, AMP

Rotation from tech to non-tech. The rotation away from US tech shares and the Magnificent Seven is also evident in the outperformance of the equal weighted S&P 500 which is up 4.7% year to date compared to the tech dominated market cap weighted S&P 500 which is down 0.2%, Nasdaq which is down 2.8% and the Magnificent Seven which are down 6.2%. This rotation is likely to continue and should help the overall share market end with gains, providing of course tech doesn't come under too much pressure.

US Sharemarkets

Index, Jan 2025=100

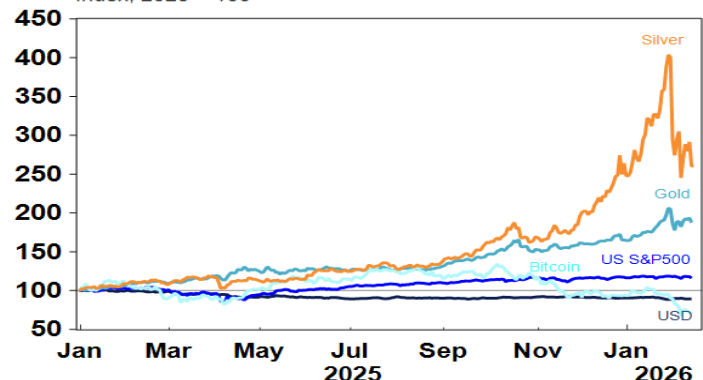


Source: Macrobond, AMP

Gold and silver remained under some pressure, but gold looks to have bottomed and is likely to be supported by ongoing erratic US policy making and high levels of geopolitical risk. Bitcoin also fell further and may see a retest of its low from early this month. Oil and copper prices fell but iron ore prices were little changed. The \$A rose even making it briefly above \$US0.71 for the first time since 2022 as the \$US fell.

Major Asset Class Performance

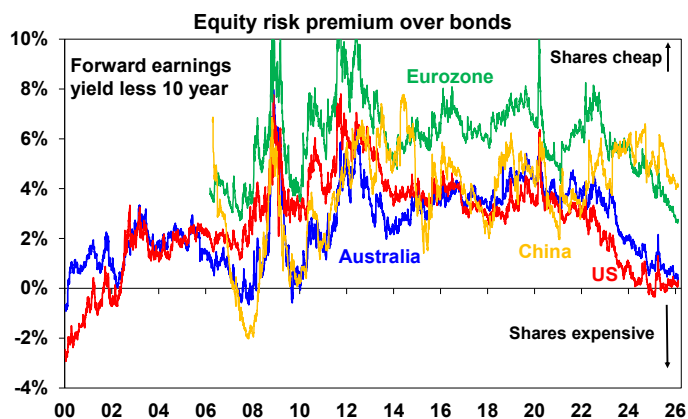
Index, 2025 = 100



Source: Macrobond, AMP

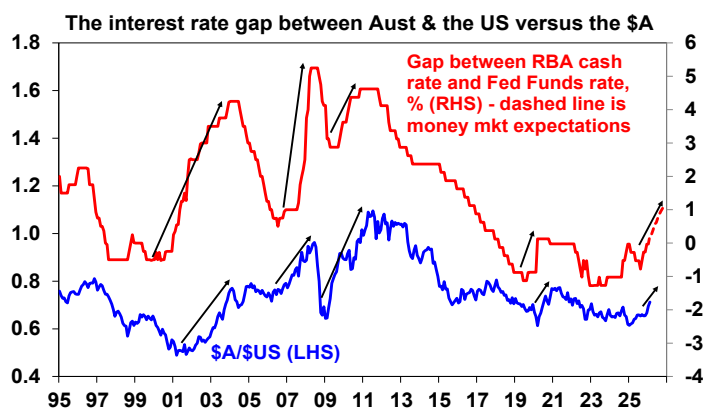
The Australian share market made it back to its record high only to fall back – what's the outlook? Despite lots of volatility the Australian share market has had a good start to the year (up 2.4%) and is outperforming the US (which is down 0.2%). It's been boosted by company earnings starting to rise again after three years of falls led by the miners and banks with earnings results over the last week while mixed supporting this and a global investor rotation away from the tech heavy US. This should support positive gains this year, particularly if we are right and the RBA is able to avoid further rate hikes this year with latest NAB survey providing some support with businesses saying final

product price increases are running around levels consistent with the inflation target. Against this: valuations are rich with the forward PE of around 19.7 times running well above average which is around 15 times and Australian shares offering virtually no risk premium over bonds just like the US share market; the RBA having raised rates is continuing to warn of more hikes to come if higher “inflation is entrenched”; and global uncertainty around US policies and geopolitics remains high which will impact our market if it flares up. So while we see more upside for the Australian share market it may have run ahead of itself in the near term and its likely to be a volatile ride.



Source: Bloomberg, AMP

The Australian dollar likely has more upside. The key drivers are a downtrend in the overvalued US dollar as Trump’s policies are seen as threatening “US exceptionalism”, strong commodity prices and market expectations for a widening in the interest rate differential. See the next chart. Our assessment remains that these three forces will remain in play for a while yet so there is likely to be more upside for the \$A at least to around \$US0.73 which is our rough estimate of fair value.



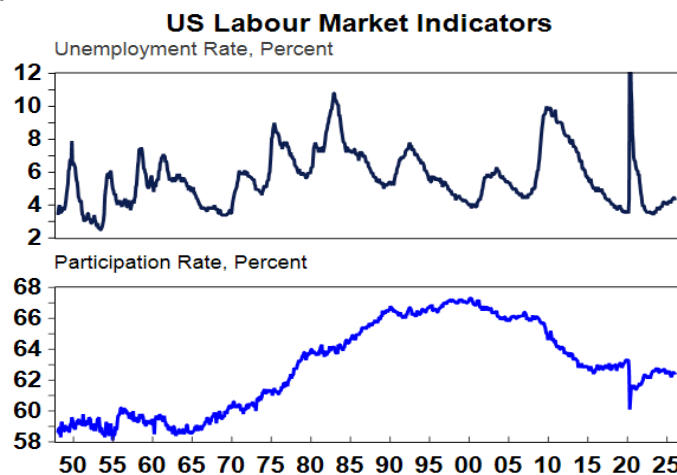
Source: Bloomberg, AMP

Overall, our view remains that this year will see a volatile ride for investors on the back of geopolitical threats including the risk of an imminent US strike on Iran, Trump bluster, the US midterm elections, interest rate uncertainty and worries around an AI bubble and wider tech valuation issues. So, the risk of a 15% or so correction sometime in the next six months is high. **But ultimately, we see it turning out okay for shares this year with reasonable returns on the back of good global economic and profit growth, Trump focussing on policies to help US households**

ahead of the midterms, the Fed cutting rates once or twice more, and profit growth turning positive in Australia.

Major global economic events and implications

US economics data was mixed over the last week. January jobs data showed the level of payrolls last year revised down by 862,000 in the regular annual revision but this was largely expected and January data showed a stronger than expected rise in payrolls of 130,000 and a rising trend. This along with a slight fall in unemployment, a fall in underemployment and increased hours worked helped allay worries about a weakening jobs market. Meanwhile jobless claims remain low.



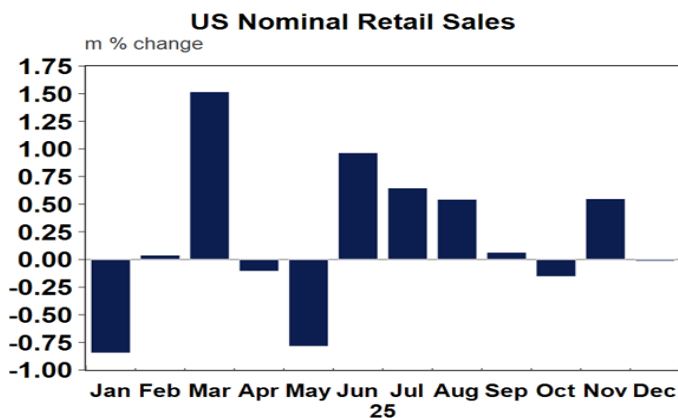
Source: Macrobond, AMP

The still rising trend in unemployment and permanent job losers and weak trends in other indicators like job openings along with expectations for inflation to fall as the tariff impact drops out still leave open prospects for Fed rate cuts in the second half.



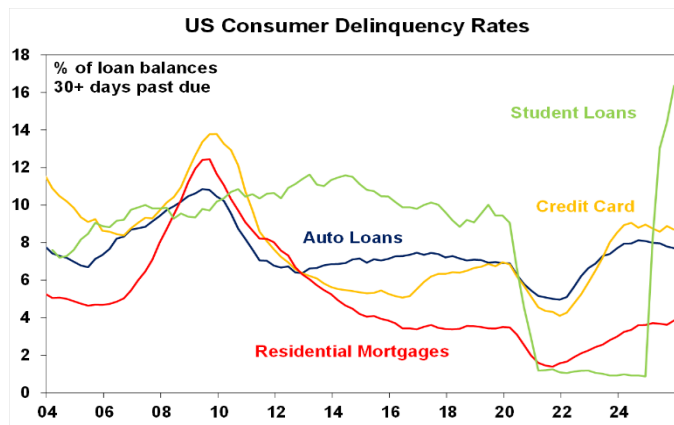
Source: Macrobond, AMP

Although US consumer spending is on track for a solid real increase in the December quarter, retail sales were soft in December, although this may be due to severe weather. Existing home sales fell 8.4% in January and are yet to show any sustained rise on the back of lower mortgage rates



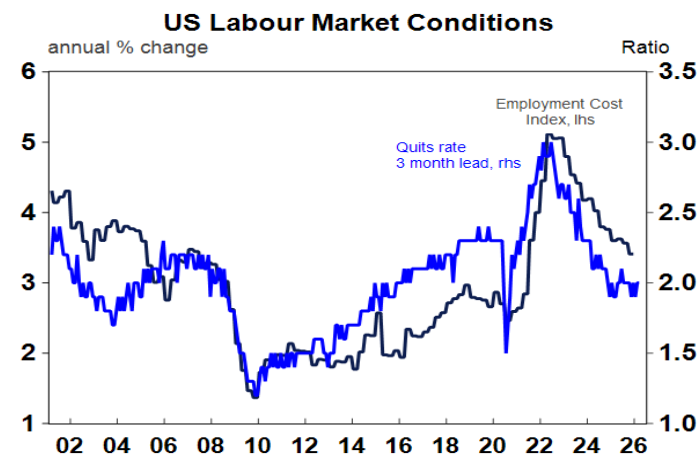
Source: Macrobond, AMP

US consumer delinquencies are up but not dangerously so – except for maybe student loans but this likely reflects a bounce back after a debt waiver for several years.



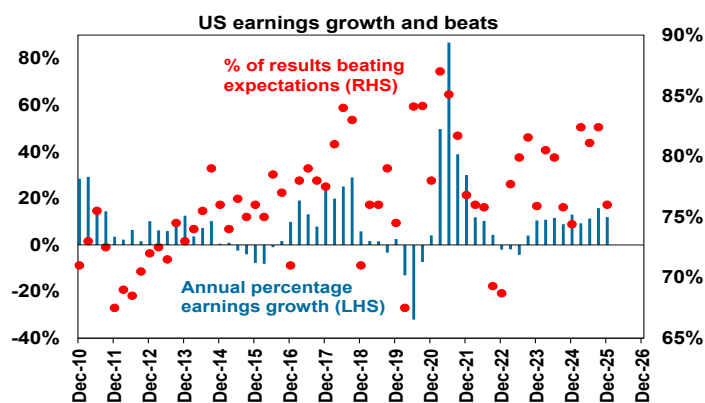
Source: Bloomberg, AMP

December quarter employment costs slowed to 3.4%yoy, with weak quits pointing to a further slowing.



Source: Macrobond, AMP

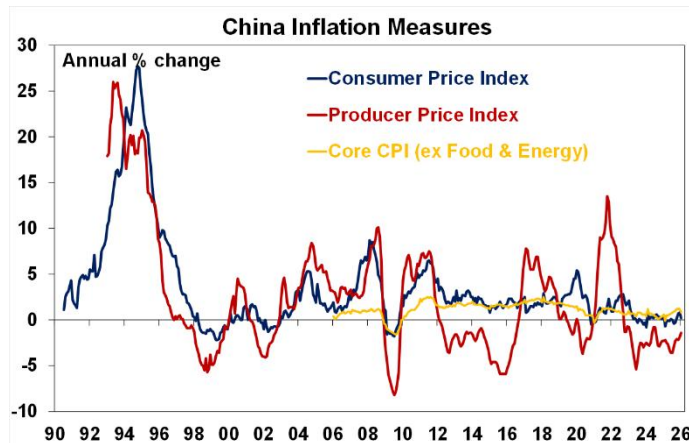
Around 75% of S&P 500 companies have reported December quarter earnings, with 76% beating expectations, which is slightly below the norm of 76.6%. Consensus earnings expectations have increased to 11.9%yoy. Tech is leading the charge again with earnings up 26%yoy, financials up 13%yoy and materials up 9%yoy.



Source: UBS, Bloomberg, AMP

In Japan, the governing LDP saw a landslide victory in lower house elections leading to around a two thirds majority. This will enable it to override bills that are rejected by the upper house. On the policy front expect more fiscal stimulus with a focus on defence spending. The landslide LDP victory continues the trend towards nationalism and more intervention in economies being seen globally. It points to ongoing relative strength in the Japanese share market, a higher Yen and higher Japanese bond yields. The latter risks an unwind of the “carry trade” but it’s likely to be gradual.

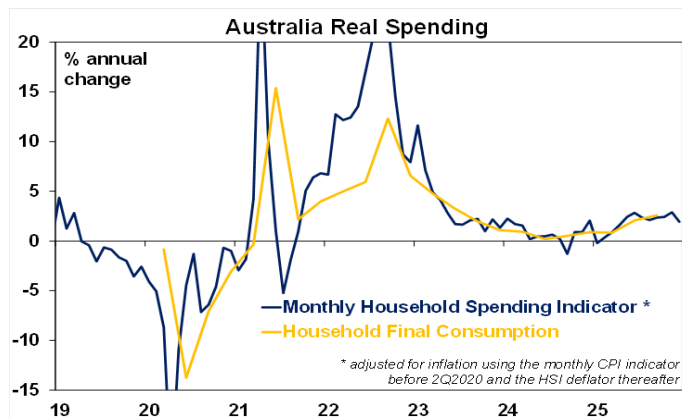
Chinese consumer price inflation for January dropped more than expected to 0.2%yoy, with core inflation also dropping to 0.8%yoy. This likely reflects the later timing of the Chinese New Year being February this year and January last year along with still weak demand. Produce price deflation eased to -1.4%yoy from -1.9%yoy. Chinese home prices continued to slide in January.



Source: Bloomberg, AMP

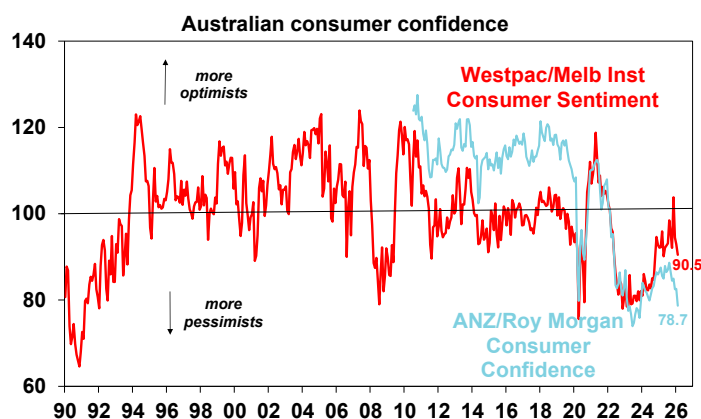
Australian economic events and implications

Household spending rose a solid 0.9% in real terms in the December quarter pointing to strong growth in consumer spending on the back of events and discounting activity but fell 0.4% in December after the boosts faded.



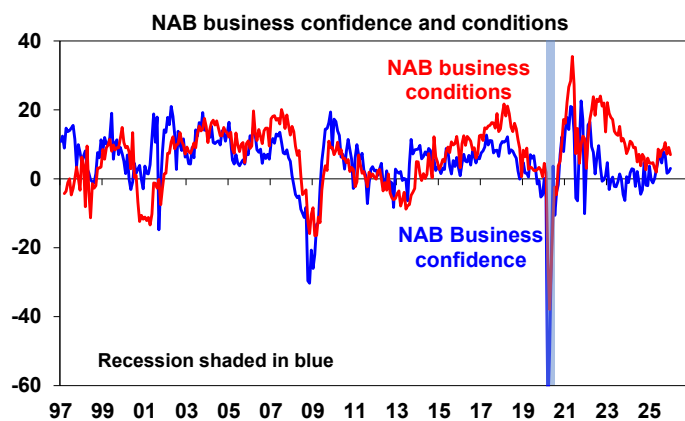
Source: ABS, AMP

A sharp fall back in consumer confidence suggests that the slowdown in spending could continue into the current quarter.



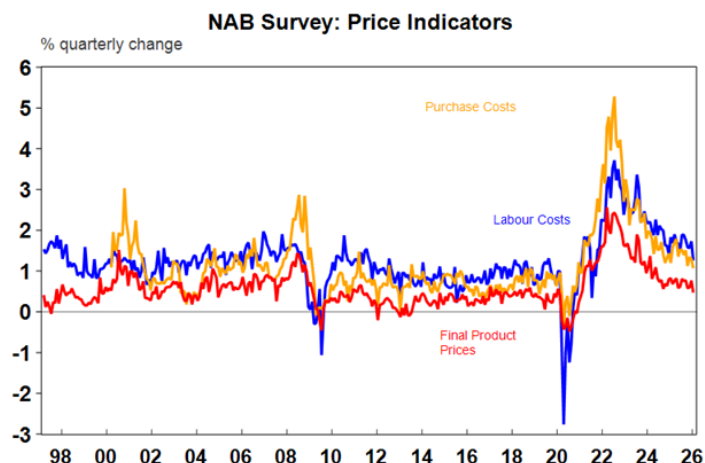
Source: Westpac/Melbourne Institute, ANZ/Roy Morgan, AMP

Australian business conditions remained around okay levels in January according to the NAB business survey.



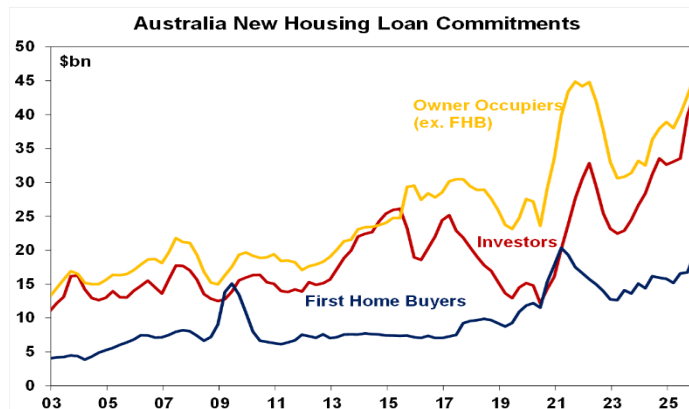
Source: NAB, AMP

Interestingly, the NAB survey continues to show little sign of the spike in inflation evident in the CPI or at least suggests that underlying inflation will resume falling. Cost and prices pressures fell in January, with final product prices remaining around levels consistent with the inflation target. This adds to confidence that the spike in inflation seen in the last half of last year could prove to be an aberration.



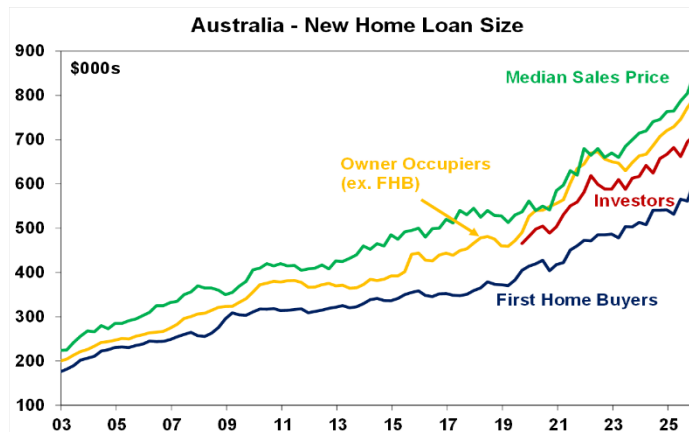
Source: NAB, AMP

Housing finance commitments surged another 9.5%qoq in the December quarter reflecting strong home prices.



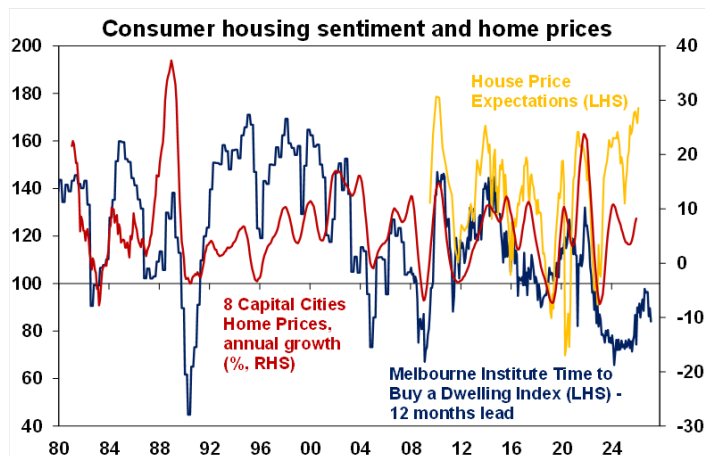
Source: ABS, AMP

Housing finance for first home buyers surged 15.5%qoq in value partly reflecting the start of the expanded 5% low deposit scheme and a sharp increase in average loan sizes for first home buyers. This may help FHBs get in earlier but just means higher than otherwise house prices and higher debt levels. So, it's no solution to poor housing affordability.



Source: ABS, AMP

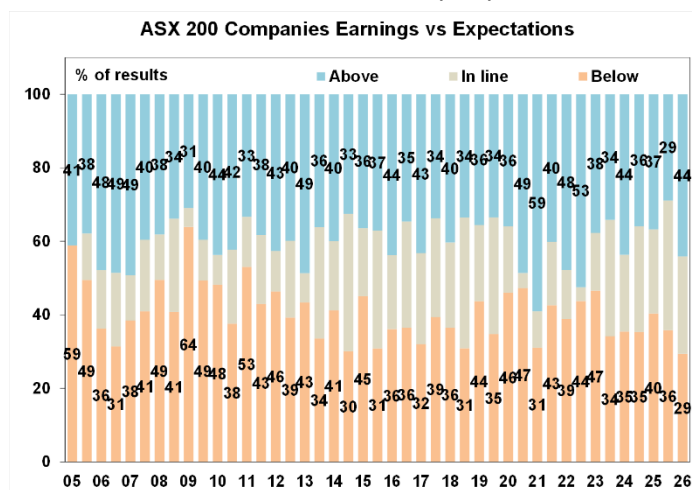
The Westpac/MI consumer survey showed home price growth expectations remain very strong and in fact rose further, but perceptions as to whether now is a good time to buy a dwelling weakened further.



Source: Cotality, Westpac/MI, AMP

Its early days in the Australian December half earnings reporting season with only about 20% of major companies having reported. The consensus expectation is for earnings growth of 11.7% this financial year mainly driven by a 30% surge in mining sector profits, with banks seeing around 9% growth, energy seeing a 19% fall and the rest of the market seeing profit growth around 6%. So far results have been consistent with this with more than normal upside surprises and more companies reporting profits or dividends up on a year ago compared to what was occurring in 2023 and 2024. This helped the share market rise over the last week, but it was a messy ride with more companies actually seeing their share price fall on announcement day than rise whereas in the June half reporting season it was the other way around. The outsized negative share price reactions even to strong results highlights just how much good news has been factored into share prices. Just bear in mind too that there is a tendency for companies with good results to report early so results may soften over the next couple of weeks.

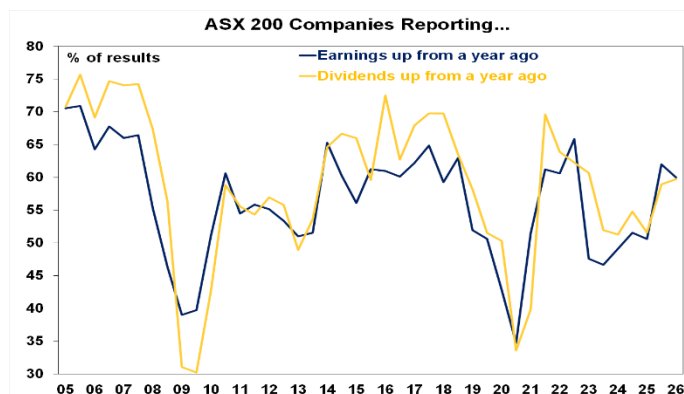
- So far beats are running well above misses with 44% of results surprising consensus earnings expectations on the upside, which is more than the norm of 40%, and just 29% have surprised on the downside which is less than the norm of 41%. But its early days.



The horizontal axis data relate to reporting season. Source: Bloomberg, AMP

- 60% of companies have seen earnings rise on a year ago, and while down from the June half reporting season this is better than the norm of 56%.

- 60% of companies have increased their dividends on a year ago which is above the norm of 59%.



The horizontal axis data relate to reporting season. Source: Bloomberg, AMP

What to watch over the next week?

Developed country business conditions PMIs (Friday) for February will be released in the week ahead and will likely remain consistent with global growth around 3%.

In the US, December quarter GDP data (Friday) is likely to show annualised growth of 2.8% with solid consumer spending and investment. Data for housing starts, industrial production and underlying durable goods orders (Wednesday) will likely show gains, business conditions indicators for the New York and Philadelphia regions will likely come in around okay levels and core private final consumption deflator inflation for December (Friday) will likely come in around 3%yoy. The minutes from the last Fed meeting (Wednesday) will likely indicate the Fed is set to remain on hold for a while.

Canadian inflation data for January (Monday) will likely show the core measures around 2.5-2.6%yoy.

UK inflation data for January (Wednesday) is likely to show a further fall in core inflation to 3.1%yoy.

Japanese December quarter GDP (Monday) is likely to show a return to growth with a 0.4%qoq gain with January inflation data (Friday) showing a fall to 1.4%yoy for core inflation.

The Reserve Bank of New Zealand (Wednesday) is expected to leave rates on hold at 2.25%.

Australian wages growth for the December quarter (Wednesday) is likely to show it unchanged at 0.8%qoq or 3.4%yoy. Jobs data for January (Thursday) is likely to show a 5000 fall in employment after the surprise 65,000 surge in December with unemployment rising to 4.2%. The minutes from the last RBA meeting (Tuesday) will likely reinforce the RBA's hawkish stance with more warnings that it will raise rates again if inflation data does not improve enough. The Australian December half earnings reporting season will ramp up with 80 major companies due to report including Bendigo Bank, JB HiFi, BHP, RIO, Wesfarmers and QBE.

Outlook for investment markets

Global and Australian share returns are expected to slow to around 8% this year. Stretched valuations, political uncertainty associated with Trump & the midterm

elections, AI bubble & tech valuation worries, and geopolitical risks are the main drags. But returns should still be positive thanks to Fed rate cuts, Trump's consumer friendly pivot and solid profit growth. A return to profit growth should also support gains in Australian shares even though the RBA has increased rates. Another 15% or so correction in share markets is likely along the way though.

Bonds are likely to provide returns around running yield.

Unlisted commercial property returns are likely to be solid helped by strong demand for industrial property associated with data centres.

Australian home price growth is likely to slow to 5% or less due to poor affordability, the RBA raising rates with talk of more to come and APRA's move to ramp up macro prudential controls.

Cash and bank deposits are expected to provide returns around 3.85%.

The \$A is likely to rise as the interest rate differential in favour of Australia widens as the Fed cuts and the RBA holds or hikes. Fair value for the \$A is around \$US0.73.