

WEEKLY MARKET UPDATE



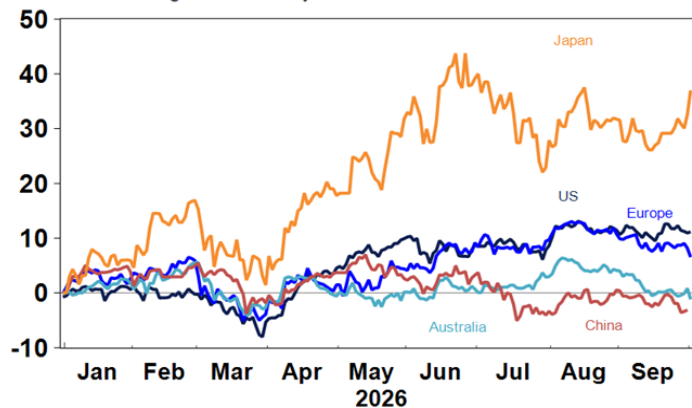
DR SHANE OLIVER
Head of Investment Strategy
and Chief Economist, AMP

Investment markets and key developments

Global share markets were mixed over the last week with US and Eurozone shares down as bond yields rose further, whereas Japanese shares surged helped by expectations that the BoJ won't speed up the pace of rate hikes. Chinese shares also fell. Australian shares had a volatile ride with a 2% plunge on Thursday but were little changed for the week with no real surprises from the RBA, but with falls in resources and bank stocks offsetting gains in IT, retail and telco shares.

Global Sharemarket Performance

Percent change since January 2026

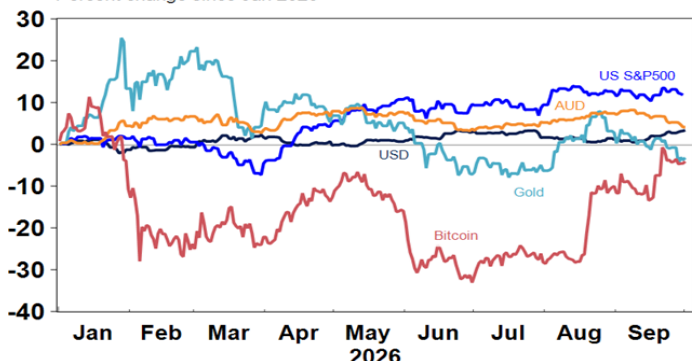


Source: Macrobond, AMP

Gold fell on the back of rising bond yields and a rise in the \$US, but Bitcoin managed to rise slightly. Metal and iron ore prices fell. The \$A fell below \$US0.70 as the \$US rose.

Major Asset Class Performance

Percent change since Jan 2026



Source: Macrobond, AMP

Oil prices bounced around above \$US100 with Saudi Arabia restoring half the flow through its East West pipeline and ongoing signs of tankers getting through the Strait of Hormuz keeping a lid on prices, but the lack of any deal to decisively reopen the Strait along with reports that the US is considering sending another aircraft carrier and more troops to the Middle East keeping them elevated. The risks on the upside remain high as Iran may be motivated to push oil prices up going in to the midterms to punish Trump and we can't keep running down global oil reserves indefinitely. Disrupted Russian oil product exports have added to upwards pressure on diesel prices.

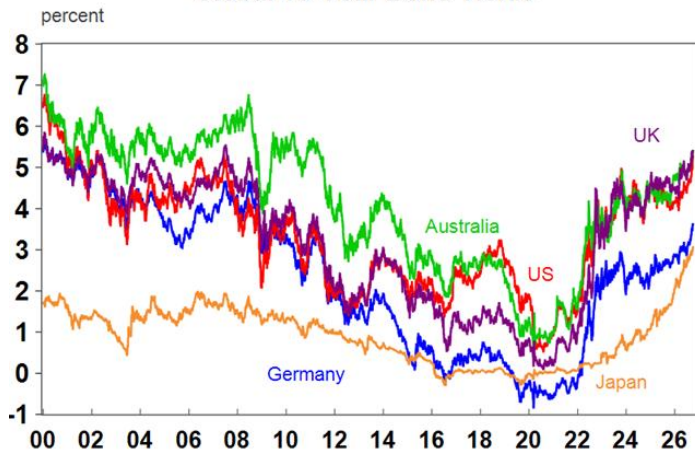
Brent Oil Price vs Futures



Source: Macrobond, AMP

The bond vigilantes are back. The past week saw another rise in bond yields. Bonds have been oversold for several weeks now but their continued sell off is a sign of the strength in the bear market that is now engulfing them. As with the Australian housing market they are getting hit by a perfect storm with: high energy prices adding to inflation worries; rising expectations for central bank rate hikes; stronger economic data adding to concerns that maybe the neutral short term rate has moved up; worries about big budget deficits in the US, UK, France and elsewhere; increased corporate borrowing to fund data centre investment; erratic US policy marking; and a rising trend in Japanese bond yields leading to a reversal of the so-called carry trade. And in Europe we are seeing a renewed widening in the bond yield spread between French, Italian, Spanish and Greek bonds on the one hand and German bonds on the other reminiscent of the Eurozone crisis. Put simply bond investors are starting to demand a higher risk premium in order to buy government bonds globally and also in Australia. The US 10-year bond yield briefly rose to its highest since 2002 and Australia's 10 year bond yield is around its highest since 2011.

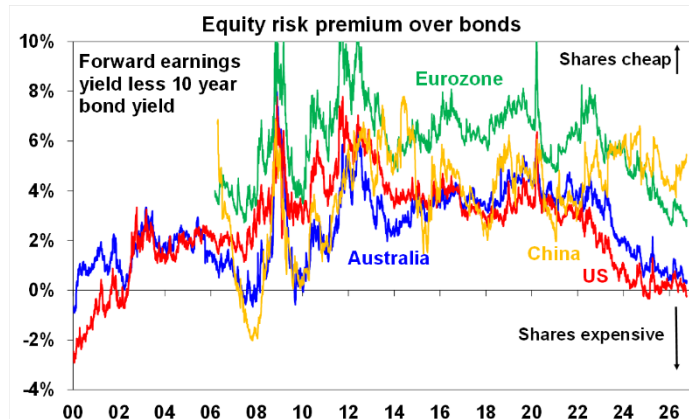
Global 10-Year Bond Yields



Source: Macrobond, AMP

From TINA to TARA. The ongoing back up in bond yields has significant consequences for other asset classes. The multi decade super cycle downswing in bond yields from the 1980s drove a “search for yield” that pushed investors out along the risk frontier into corporate debt, equities, commercial property, infrastructure, housing, private credit etc. It culminated in TINA or “There Is No Alternative” where investors put money into shares because bonds and cash paid such low returns. Its reversal this decade after 10-year bond yields bottomed out around 0.5% or sub zero in some cases in 2020 threatens to reverse this – with talk of TARA or “There Are Reasonable Alternatives” - putting downwards pressure on the valuations of other assets as investors demand higher yields from them too.

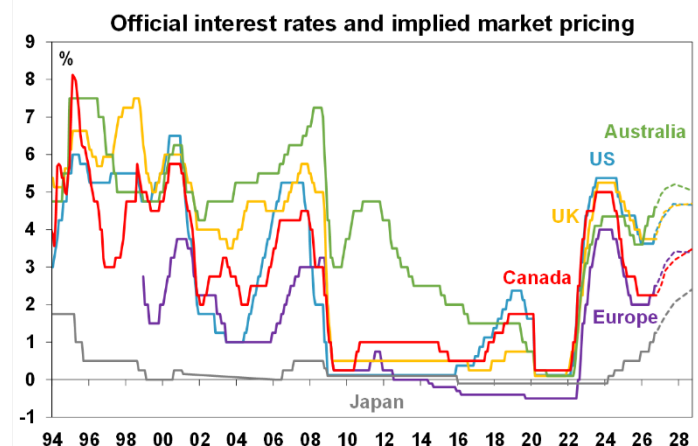
In the near term this leaves shares vulnerable to a further correction. US shares have held up well and moved through the seasonally weak months of August and September without a major problem. But Eurozone shares are down 5.7% from their August high and Australian shares which are down 6.7% from their August high. The risk of a deeper correction in shares remains high. Along with the back up in bond yields at a time when equity risk premiums are low (see the next chart) the worry list for shares remains high and includes: the likelihood of more central bank rate hikes; the ongoing oil supply shock; worries about an AI bubble; and political uncertainty ahead of the US midterms with a Democrat win potentially flagging the risk of US tax hikes and Trump possibly ramping up tariffs and the Iran War once the midterms are over as he becomes a lame duck president.



Source: Bloomberg, AMP

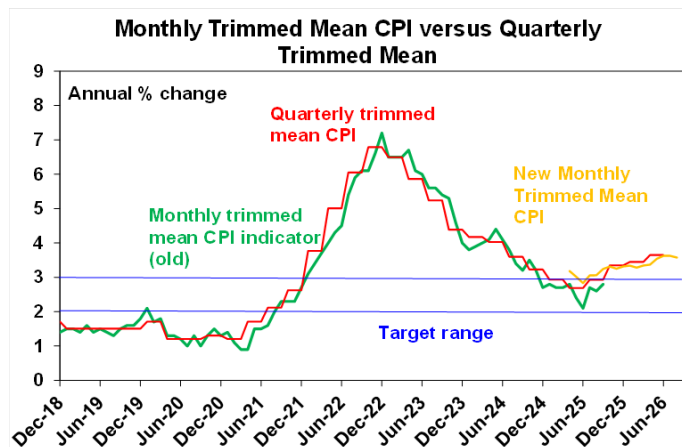
In Australia, the RBA provided no surprises with a hawkish hike taking the cash rate to a 15 year high of 4.6%. Put simply upside risks to its inflation forecasts – flowing from excess demand but made worse by higher energy prices and booming AI data centre investment - materialised so it hiked rates again as it indicated it would. Failure to have done so would have risked a further loss of confidence in its commitment to the 2-3% inflation target. As expected, and as necessary with underlying inflation well above target and having been so for five of the last six years, it remains hawkish warning that it will raise rates again if needed.

Our base case is that rates have probably peaked as the RBA has likely done enough to weaken demand sufficiently to push inflation back to target by the end of next year – but expect the RBA to remain hawkish for a while yet with no rate cut until late next year. Mortgage interest payments as a share of household income are now pushing back to around the highs reached in 2024 which when combined with higher petrol bills will act as a big constraint on consumer spending, falling home prices will drive an increasing negative wealth effect on consumer spending, household spending in August showed signs of starting to slow, unemployment is continuing to drift higher, the NAB survey shows business conditions at their weakest since the pandemic and home building approvals are now starting to trend down pointing to less home building. And while underlying or trimmed mean inflation remained at 3.6%yoy it was fractionally less bad than feared and didn’t add any further to the upside risks on inflation that the RBA responded to with its September hike. So, **while another hike is a very high risk for November, by the time we get to the next RBA meeting there is likely to be enough evidence of cooling demand in the economy to enable the RBA to leave rates on hold and return to “wait and assess” mode, albeit with an ongoing tightening bias and this to remain the case going into next year.** But while our base case is that rates have peaked, we don’t see the RBA being able to start cutting until late next year. So, expect a long hold at current high rates with constant concern that rates may still go higher. At present the money market sees a 28% chance of a November high (which is probably a bit too low), but still sees one or two more hikes ahead (which is probably a bit too pessimistic).



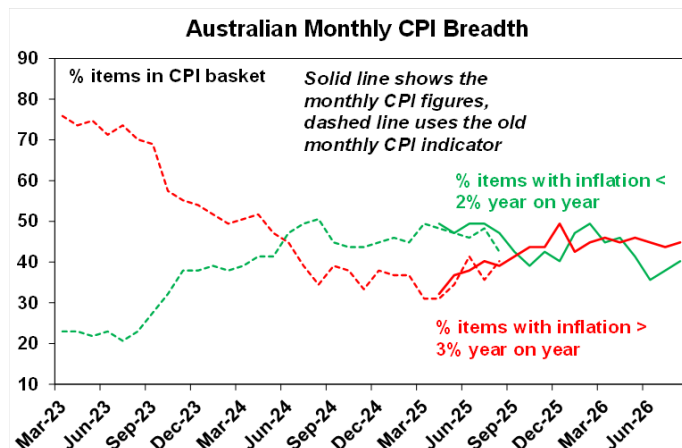
Source: Bloomberg, AMP

Australian inflation rose to 4%yoy in August with a 15% rise in auto fuel prices with trimmed mean inflation holding at 3.6%yoy – both were fractionally better than expected but don't really change the outlook. September quarter trimmed mean inflation looks on track to come in around 1%qoq or 3.6%yoy, which is above the RBA's August forecast for a 3.5%yoy rise but the RBA looks to have already adjusted to that with its September rate hike.



Source: ABS, AMP

As can be seen in the next chart the breadth of above target inflation rises as quite high with more CPI items still seeing inflation above 3% than below 2%. This tells us that it's not just the Iran War and surge in fuel prices that's driving inflation but more broadly reflects excess demand in the economy. The impact of the AI data centre boom was evident too in higher prices for computing equipment and games (X Box) via higher processing & memory chip prices.



Source: ABS, AMP

The RBA's latest Financial Stability Review characterised the Australian financial system as remaining resilient with most household and business borrowers likely to be able to manage through slower growth and falling home prices. In particular, the FSR notes that housing and business loan arrears are low, the proportion of home borrowers with a cash flow shortfall is likely to remain low based on RBA assumptions from August and even with a 20% fall in home prices only around 5% of mortgages would fall into negative equity, and it suggests banks should be able to absorb a 20% fall in home prices because of strong capital reserves. So, in short, the RBA does not see a major threat to financial stability from domestic risks. Rather it sees more risks from external factors like high levels of public debt in some

countries and low risk premia associated with optimism about AI. Of course, saying that financial stability risks are low from domestic sources does not mean that the economy is not vulnerable to rate hikes and falling home prices and while "most" households and businesses are in good shape the problems could still be significant for "some" and this can often have a significant impact on the wider economy. So, the RBA still needs to be cautious not to raise rates too far.

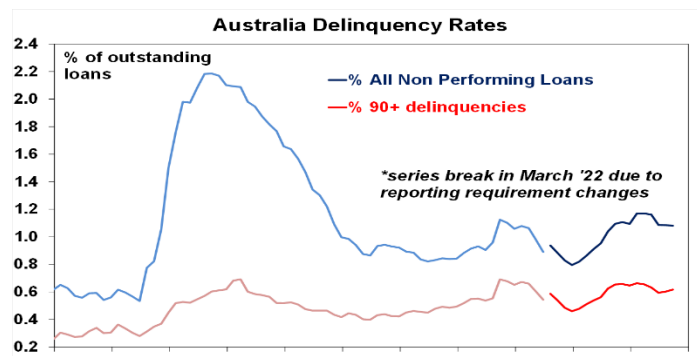
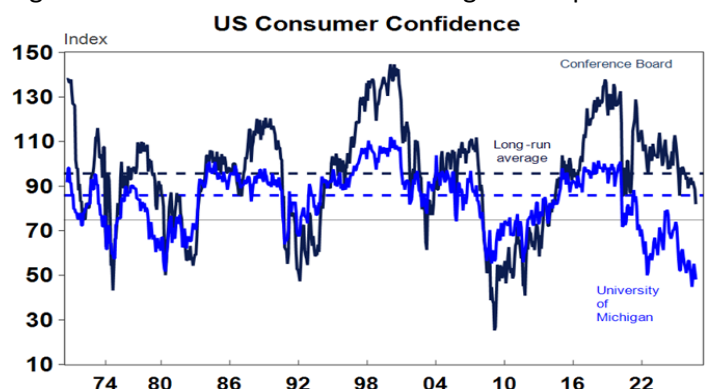


Chart relates to all bank loans. Source: APRA, RBA, AMP

Following on with Alberts Productions...one of the first hits Vanda and Young had in Australia with one of their songs after The Easybeats was with Ted Mulry and the ballad [Falling in Love Again](#). Of course, Ted quickly changed style to rock a few years later. One of the biggest Vanda and Young success stories though was John Paul Young starting in particular with their song [Yesterday's Hero](#) which was in part based on their Easybeats experience. The Alberts' sound was clearly evident on that song.

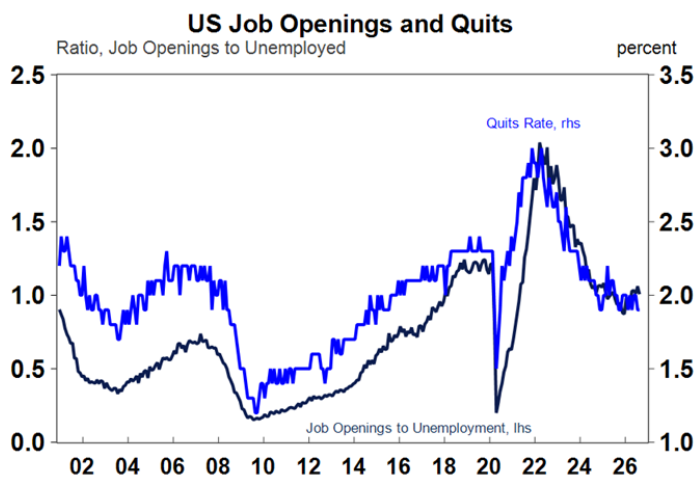
Major global economic events and implications

US economic data was a mostly solid. June quarter GDP growth was revised up to 2.2% annualised from 1.5% with strong 4.6% growth in domestic demand, the level of personal income was revised up and real consumer spending rose solidly in August. The September manufacturing conditions ISM fell but remains strong. Against this consumer confidence fell again in September.



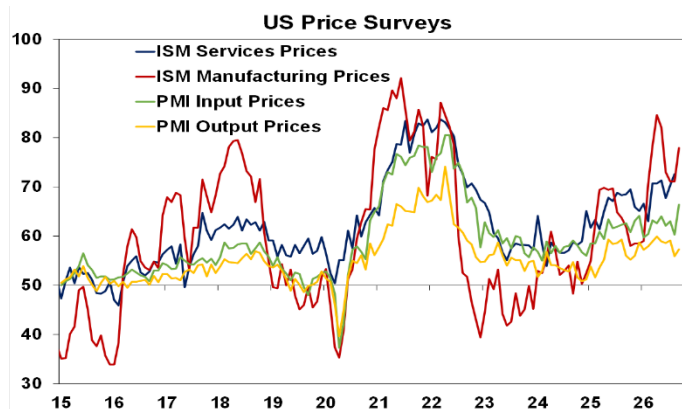
Source: Macrobond, AMP

Job openings and quits data suggests an okay but not booming US jobs market, while still low jobless claims and a fall in layoffs suggest it's strong. The Atlanta Fed GDP tracker for the September quarter has slowed from 5% annualised growth but to a still strong 3.7%.



Source: Macrobond, AMP

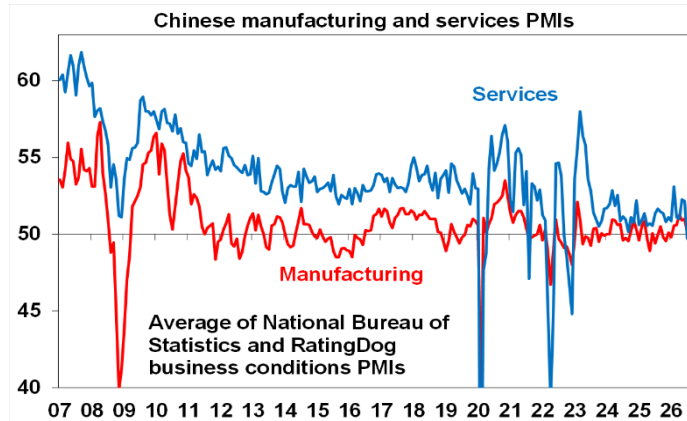
Meanwhile, downwards revisions to private final consumption expenditure (PCE) inflation give the Fed a bit of breathing space. Core PCE inflation for July was revised down to 3%yoy from 3.3% thanks to methodological changes that revised down inflation for portfolio management fees, software and legal services and August inflation held at 3%yoy. This should give the Fed a bit of breathing space to hold rates at its October meeting consistent with Fed Vice Chair Jefferson NY Fed President Williams assessments that the Fed can be patient. That said, inflation is still too high at 3%yoy, the monthly rise was a “high” 0.247%mom, the ISM showed a rise in price pressures and with mostly strong growth data the Fed is still likely to hike again at its December meeting. The US money market is still pricing in 3.3 more 0.25% Fed hikes – which looks a bit excessive.



Source: Bloomberg, AMP

Japanese economic data was mixed with falls in industrial production and retail sales, albeit annual growth in both is good, and strong readings for the September quarter Tankan business survey.

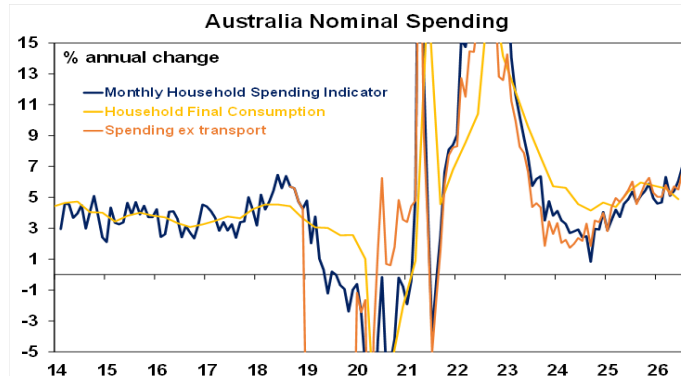
Chinese business conditions PMIs rose but remain in the same subdued range they have been in for the last few years. There also appears to be more targeted monetary and fiscal stimulus measures on the way following Premier Li’s call for more measures to help reach the growth target.



Source: Bloomberg, AMP

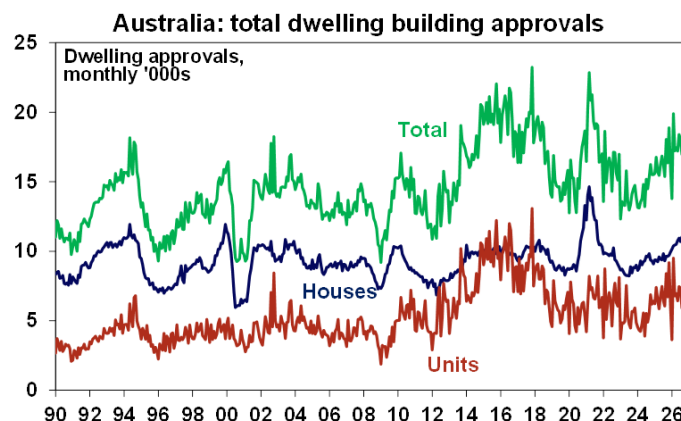
Australian economic events and implications

Household spending stalled in August and actually fell after excluding the impact of surging fuel prices. Annual growth is still strong at 6.8%yoy and it did follow three strong monthly gains, but weakness was also evident in falls in spending on discretionary items like clothing, footwear and recreation. This is consistent with the renewed weakness being seen in consumer confidence on the back of the rate hikes and rising costs. It’s too early to be definitive but it is a case of watch this space and consumer spending could be at a tipping point.



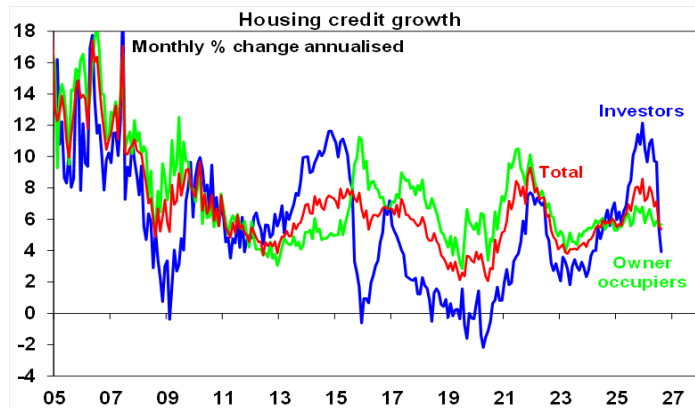
Source: ABS, AMP

Home building approvals fell another 6% in August and look to have peaked around an annualised rate of 210,000 homes reflecting the impact of rate hikes and tax hikes on investors consistent with falling new home sales. The fall was due to falling unit approvals with house approvals still trending up but we need more units if we are to boost housing supply to catch up to Housing Accord target for 240,000 homes a year.



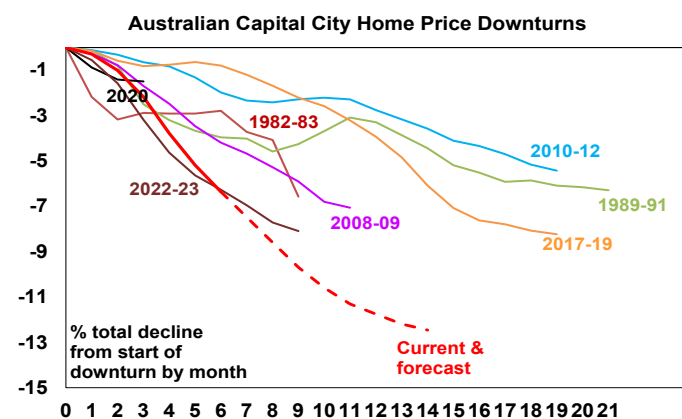
Source: ABS, AMP

Overall credit growth remained solid in August, but there was a further slowing in housing credit growth to investors reflecting the impact of the tax changes and rate hikes.



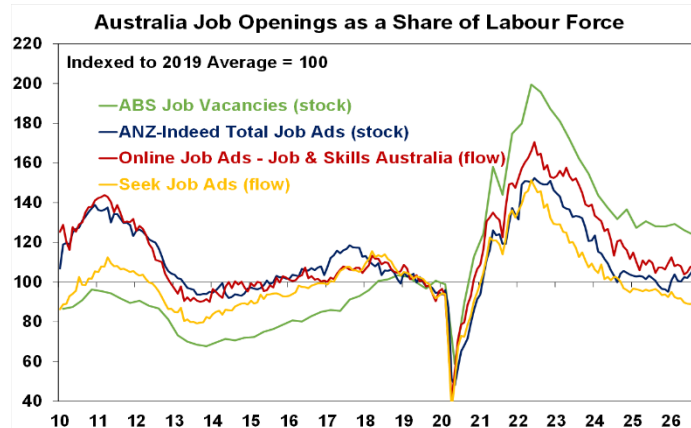
Source: RBA, AMP

The slump in home prices continued in September with another 1.2% fall in home prices and accelerating declines in Brisbane, Adelaide and Perth. We have been expecting a 10% top to bottom fall in prices but with national average prices already down 5.2% with no loss of negative momentum, the drags on demand from rate hikes, tax hikes and poor confidence set to continue for a while yet and a likely rise in distressed selling likely to add to listings particularly as unemployment increases, we are revising our expected fall to a range of 10-15%. This is deeper than the range of average capital city property price declines seen over the last 40 years or so but is consistent with the perfect storm now hitting the property market and in particular the structural shifts in terms of the taxation of investors and the rising trend in interest rates along with the rising risk of a sharp rise in distressed selling on the back of rising unemployment. The risk is for an even deeper fall, particularly if the RBA ends up over tightening and tipping the economy into recession resulting in much higher unemployment which in turn could drive a sharp rise in distressed selling. The negative wealth effect from the property slump is expected to knock around 1% to 2% off consumer spending.



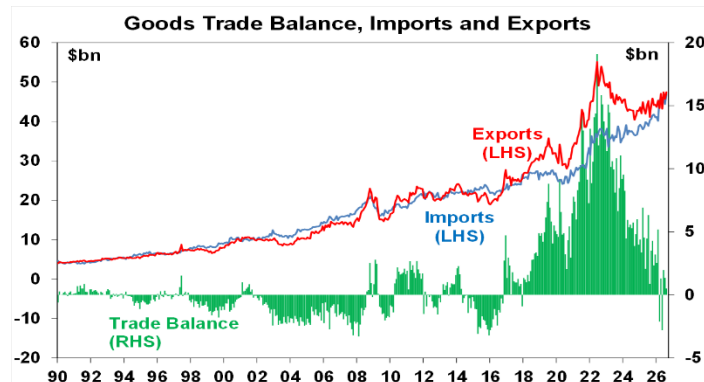
Source: Cotality, AMP

The ABS measure of job vacancies fell again in August reflecting falling private sector vacancies. They remain high relative to pre-pandemic levels, but the trend is down suggesting a gradual cooling in the labour market.



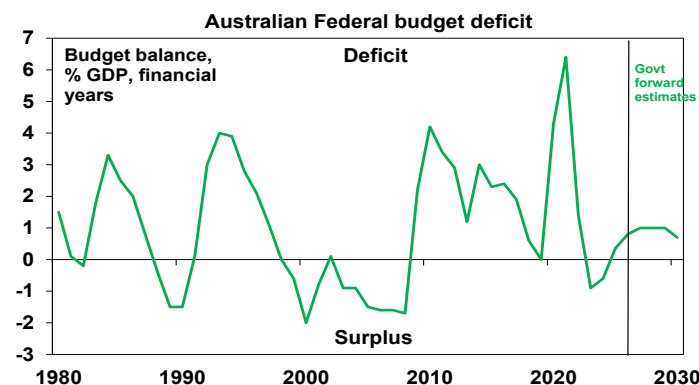
Source: ABS, AMP

The trade surplus shrunk in August. While exports rose 3.7%mom, imports surged 5.8%mom reflecting a further surge in IT imports in response to the data centre boom. The former suggests that data centre investment is surging again this quarter but its impact on GDP growth will be offset to some degree by surging imports.



Source: ABS, AMP

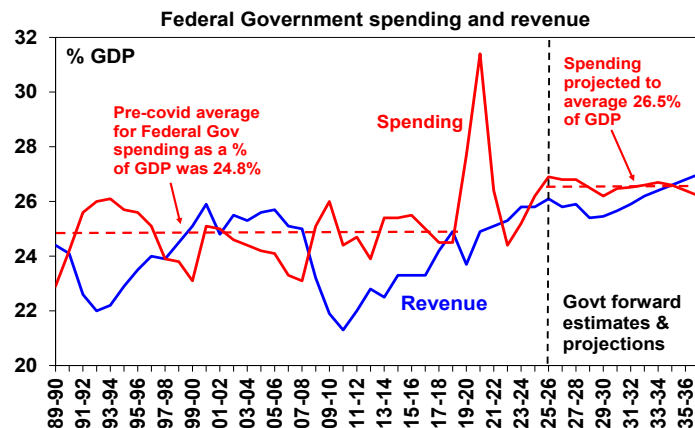
The final Federal Budget deficit for 2025-26 came in at \$22bn (or 0.8% of GDP), down from a forecast \$28bn in the May Budget and \$37bn in the December MYEFO. The improvement was mainly due to stronger than expected revenue. Monthly data up to May had already indicated an improvement so it was no surprise and the \$6bn difference is only 0.2% of GDP and so is not significant in terms of the economic outlook. And we are still creeping into deeper budget deficits. That said Australia's budget deficit at 0.8% of GDP is a fraction of those in the US, UK and France which average around 6-7% of GDP.



Source: Treasury, AMP

A broader concern is that Federal spending as a share of GDP rose to 26.9%, its highest level outside the pandemic since 1986-87. This is well above the pre-pandemic norm

and reflects real growth in spending in the last three years averaging 4.2% pa. The problem is that the high level of public spending is contributing to capacity constraints in the economy and lower than otherwise productivity driving contributing to high inflation and rate hikes. And revenue as a share of GDP rose to 26.1%, also its highest since 1986-87 and this comprised the highest level of tax revenue as a share of GDP since the mining boom in the mid-2000s. With the boom in revenue, we should have a decent surplus.



Source: Treasury, AMP

What to watch over the next week?

In the US, the minutes from the last Fed meeting (Wednesday) that saw rates hiked are likely to reiterate a hawkish tone. The ISM services conditions index for September (Monday) is likely to remain strong around 55.

In Australia, the Westpac/MI consumer confidence survey (Tuesday) is likely to show a further fall following the latest rate hike. The MI Inflation Gauge (Monday) and ANZ-Indeed job ads data (Tuesday) will also be released.

Outlook for investment markets

Global and Australian share markets are at risk of a further correction given the lack of any resolution to the Iran War and high oil prices, rising bond yields and stretched valuations, sticky inflation and central bank rate hikes, political uncertainty associated with the midterm elections and worries about the impact of AI and whether there is an AI bubble. However, returns should still be okay for the next 12 months as a whole thanks to continuing economic growth with recession likely to be avoided, albeit it's a rising risk in Australia, and strong global profit growth and likely rate cuts next year.

Bonds are likely to see subdued returns.

Unlisted commercial property returns are likely to be solid helped by strong demand for industrial property associated with data centres. Rising bond yields could become a constraint though.

Australian home prices are expected to fall around 10-15% top to bottom, of which they have already done 5.2%, out to the June quarter next year as a result of poor affordability, RBA rate hikes, reduced investor demand flowing from the winding back of negative gearing and the capital gains tax discount and poor confidence. Rising distressed sales risk also becoming a drag.

Cash and bank deposits are expected to provide returns around 4-5%.

The \$A is likely to rise reflecting the wider interest rate differential to the US, although Fed hikes may limit this. Fair value for the \$A is around \$US0.72.