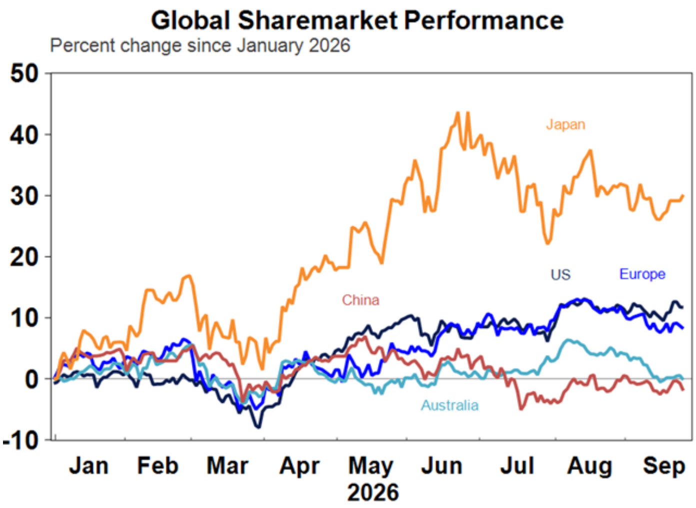
WEEKLY MARKET UPDATE

25 SEPTEMBER 2026

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

Investment markets and key developments

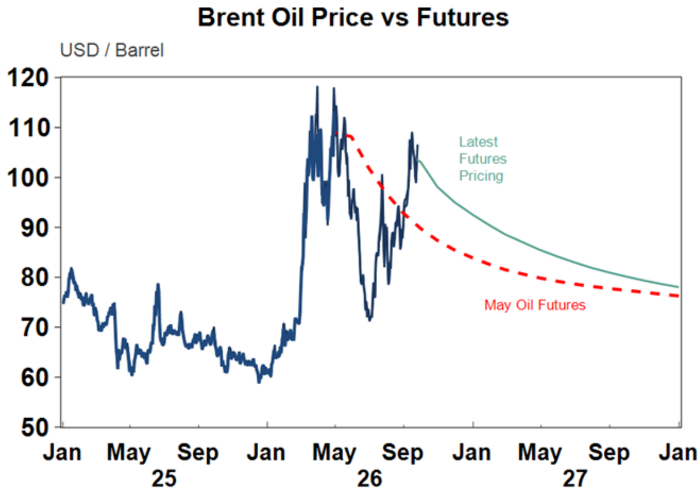
Global share markets mostly rose over the last week helped by strong US economic data, a return of AI optimism and renewed hopes for a diplomatic solution to the Strait of Hormuz blockage. US, European and Japanese shares all rose but Chinese shares fell. The Australian share market remained under pressure falling around another 0.8% not helped by ongoing expectations for RBA rate hikes on top of worries about the impact of rising oil prices, rising bond yields which act as a drag on share market valuations and falling property prices. The falls in the ASX 200 were led by utility, telco, energy and bank shares.



Source: Macrobond, AMP

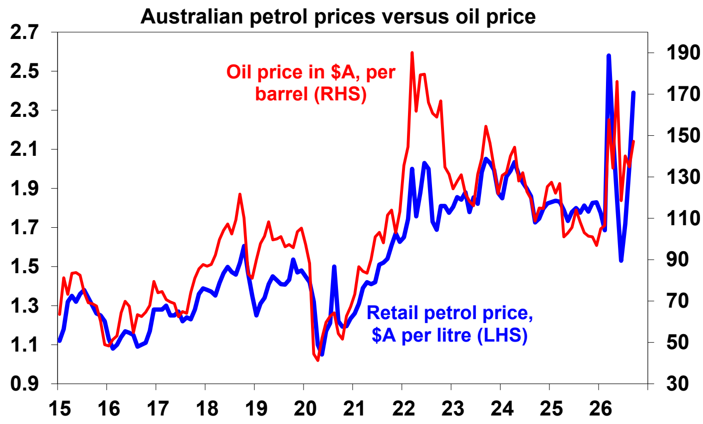
Gold fell on the back of increased expectations for Fed rate hikes and rising bond yields which raise the opportunity cost to holding gold, but Bitcoin broke decisively above $US80,000. Metal prices rose but iron ore prices fell as did the $A with the $US up.

Despite a fall early in the week on hopes for a diplomatic solution flowing from US/Iran talks during the UN General Assembly, Saudi Arabia moving to reopen its east-west pipeline and signs of more ships getting through Hormuz, oil prices rebounded as the talks didn't appear to make much progress. Trump's comments threatening to "annihilate" Iran again before then saying the talks were "very good" didn't add much clarity. Trump is likely to try and do what he can to cap energy prices given the increasing probality of a Republican wipe out in the midterm, but the risks are high with the now more hardline Iranian leadership likely wanting to keep it bubbling along to inflict more damage on Trump politically.



Source: Macrobond, AMP

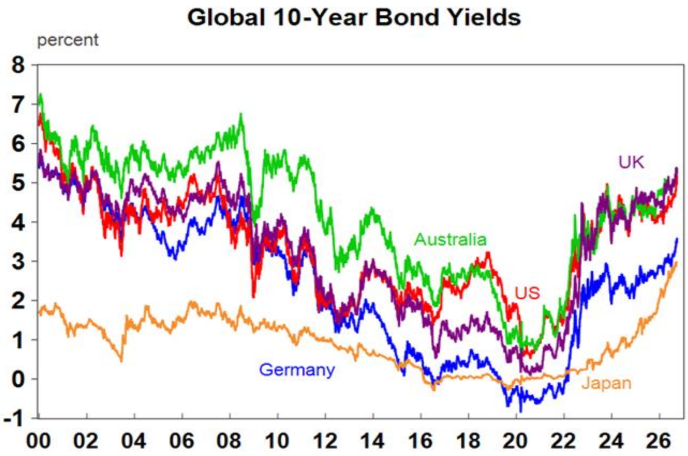
Petrol prices in Australia at around $2.39/litre have now caught up with and overshot the rise in oil prices. This is partly due to a blow out in oil product prices relative to crude oil prices due to Ukranian attacks on Russian oil refineries which have curtailed Russian fuel exports. A failure to resolve the crisis could see oil head to $US150/barrel and petrol prices head above $2.70/litre.



Source: Bloomberg, Motormouth, AMP

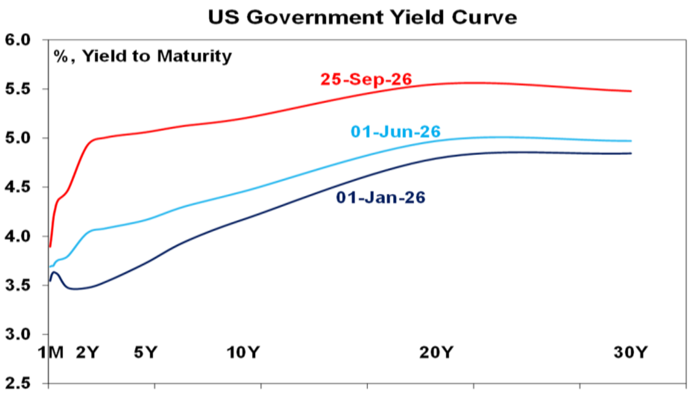
The past week saw another surge higher in bond yields reflecting ongoing concerns about high energy prices adding to inflation, rising expectations for central bank rate hikes, worries about big budget deficits in the US and elsewhere, increased corporate borrowing to fund data centre investment, erratic US policy marking and a rising trend in

Japanese bond yields leading to a reversal of the so-called carry trade. The US 10-year bond yield rose to its highest since 2007. As US bond yields are the base for global yields their rise has continued to flow through to Australia with the local 10-year bond yield rising to its highest since 2011. Bonds are oversold and due a tactical rally but their continued sell off despite being oversold is a sign of the strength of the bear market in bonds.



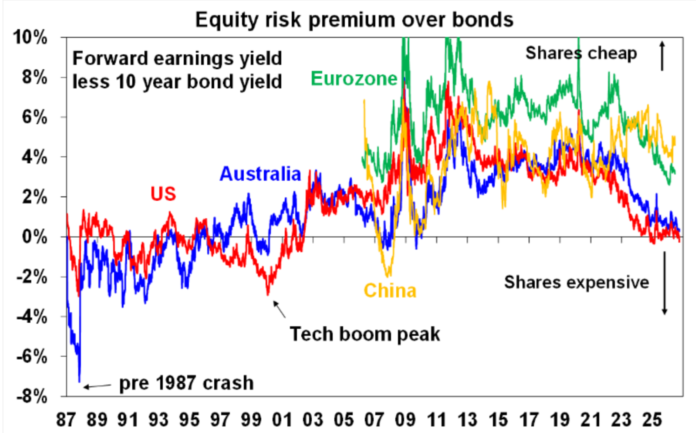
Source: Macrobond, AMP

Rising expectations for Fed rate hikes are progressively flattening the US yield curve, which if it inverts (shorter term rates above long-term rates) will start to drive renewed talk of recession, even though an inverted yield curve gave a false signal in 2022-24. Rising bond yields present big problems for governments as they mean more revenue has to be devoted to paying interest on past debt. This in turn is likely to drive pressure for spending cuts or if not then even higher budget deficits. Australia is less at risk than most but is not immune.



Source: Bloomberg, AMP

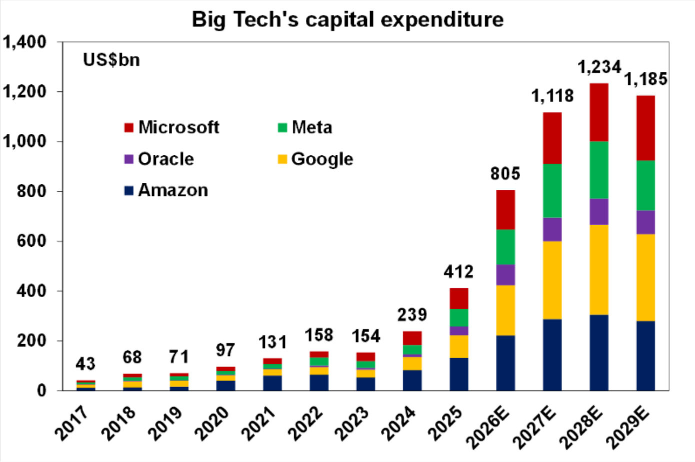
Australian shares are down around 4.6% so far this month, consistent with the historical track record of September being a weak month. Eurozone shares are also down 2.3% but US shares are up slightly. However, the risk of a deeper correction in shares remains high. Along with the back up in bond yields 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.



Source: Bloomberg, AMP

The extension of the US/China trade truce for another two months into January is good news but the Trump/Xi summit didn't really resolve the economic and geopolitical tensions between the two countries, including around AI or the Iran War. But at least they are still talking with more summits likely. Investment market implications are minimal. US tariffs on China are currently around 20-25% - comprising tariffs from Trump's first term and the forced labour tariff of 12.5% - which is below where they were when the truce was first agreed but are still likely to ramp up again with "excess capacity" tariffs probably after the midterms and maybe even more next year if the truce expires.

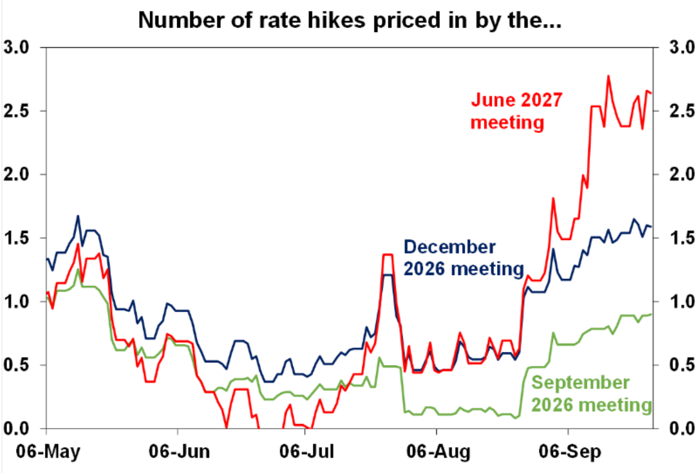
AI-nnihilation. Talk of AI ranges from super optimism based on a huge boost to productivity to extreme pessimism with worries about a jobs wipeout (even though it seems to be generating more jobs than its destroying so far) to panic over the last few weeks that it will wipe out humanity by the end of the decade. The latter emanated from Anthropic and was then backed by Sam Altman at Open AI and Elon Musk but it looks more like a virtue signalling publicity stunt to support lofty valuations ahead of capital raisings and protect US AI from cheaper Chinese models combined with a bit of nervousness about being locked in an unsustainable AI arms race and a desire to find an off ramp to slow the AI capex boom. There are lots of risks with AI and some guardrails are wise. But the threat of harm applies to all new technologies – whether it be fire, steam engines, electricity, cars, nuclear energy, etc. Humanity has long had a fascination with things that could wipe it out – whether it's the bomb in films like Fail Safe, nuclear energy in The China Syndrome, Hal the computer in A Space Odyssey, population growth in Paul Ehrlich's The Population Bomb, global cooling and more recently global warming. AI is just the latest of a long list of things the handwringers can worry about.



Source: Bloomberg, AMP

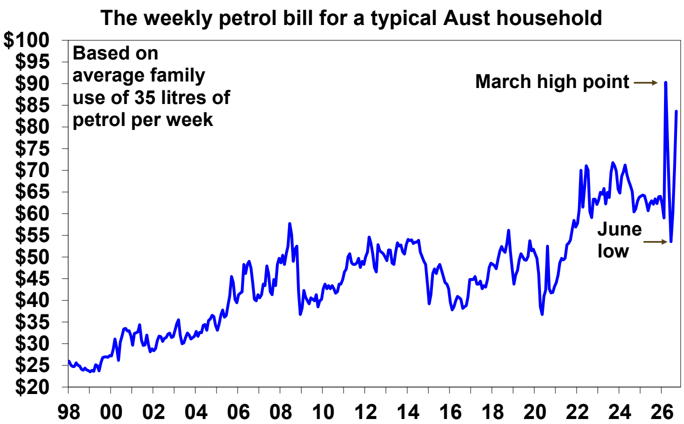
In Australia, the RBA (Tuesday) is expected to hike the cash rate by 0.25% for the fourth time this year, taking it to 4.6%, its highest level since October 2011. While unemployment surprised on the upside in August the data was messy, and the RBA will likely still see the jobs market as a "bit tight" and consistent with meeting its full employment objective. But this is not the case for its inflation objective with underlying inflation at 3.6% running well above target and July inflation data along with the latest surge in energy prices, the AI spending boom and extreme weather indicating it will take longer to get back to target than the RBA was forecasting just last month. While cooling economic growth, the rising trend in unemployment and the downturn in home prices should start to take pressure off inflation, **after more than five years of inflation being above target threatening RBA credibility it does not have the luxury of continuing to "wait and assess"**. Recent commentary from the RBA has been pretty clear in indicating that unemployment needs to rise, that its not too concerned about the fall so far in home prices and that inflation is its top priority right now. Of course, RBA commentary has left a bit of wiggle room but it's August post meeting statement referred to "increasing the cash rate target further if upside risks [to inflation] materialise" and Governor Bullock told the House Economics Committee a week ago that "some of these upside risks to inflation appear to be materialising". So, with the upside risks to inflation now materialising it's likely to tighten in the week ahead as it has suggested it would.

We also expect it to be a hawkish hike with RBA commentary continuing to warn that it may have to raise interest rates further, albeit the move may not be unanimous. But by the time it gets to the November meeting there is likely to be more evidence of a cooling economy, falling home prices, a softer jobs market and rising recession risks so we don't think a second hike let alone a third will be necessary. So, while a second hike is a high risk it's not our base case and we should see an extended hold out to around mid-next year at 4.6%. The rising trend in unemployment evident in the August jobs data is consistent with this. The money market has priced in a 90% probability of a hike on Tuesday which we agree with but its expectation for another one or two hikes beyond that looks too hawkish.



Source: Bloomberg, AMP

Another double whammy hit for households. For mortgage holders another 0.25% rate hike would mean roughly an extra $110 a month in mortgage interest payments. This would bring the increase since January to around $440 a month or $5400 a year. For the property market it will reduce the capacity to pay for a home for a buyer on average earnings with a 20% deposit by another $10,000 bringing the total reduction after four rate hikes to around $40,000. At a time when petrol prices are nearing their March record high again the cost to the average household to fill up the car is pushing around $84 a week, up nearly $22 from where it was back in January. So around a $530 a month extra impost since January for those with a mortgage and petrol car which is quite a hit.

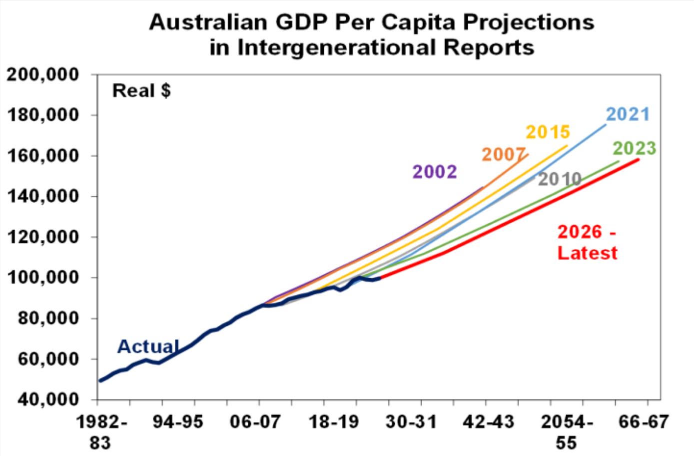


Source: Bloomberg, MotorMouth, AMP

The Australian Government's latest Intergenerational Report painted a somewhat bleak picture for the next 40. The key takeaways are:

- **Treasury sees a further slowing in economic growth to just 2% pa for the next 40 years**. This is depressing as 3% pa used to be the norm for Australia. The slowing is mainly due to slower workforce growth as a result of falling fertility and rising old age dependency.
- **Lower projections for per capita GDP than in any of the IGRs so far**. This means lower material living standards and partly reflects the low starting point – where real per capita GDP today is 13% or $15000 below what was projected for now in the 2002 IGR. But it would be even

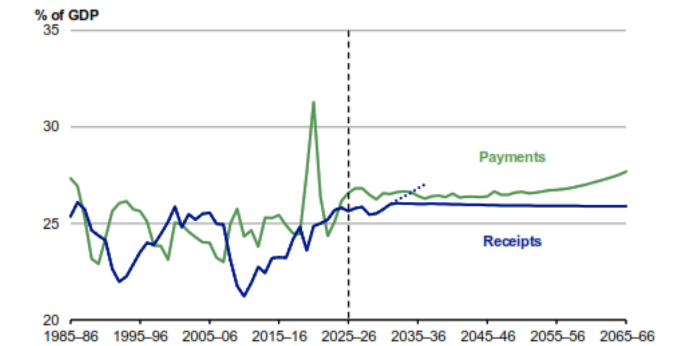
lower were it not for an optimistic assumption that productivity will grow 1.2% pa over the next 40 years, which is the same its been over the last 40 years. The trouble is that over the last decade its just been 0.2% pa and even if the Productivity Commission's expectation that AI will boost productivity by 2.3% over 10 years is correct that maybe only gets us to 0.5% pa.



Source: Australian Government IGRs, AMP

- **Ongoing high levels of government spending and a budget deficit forever**. The latter partly reflects the capping of tax revenues as a share of GDP at past highs on the realistic assumption that future governments will give back future bracket creep – in contrast to the May Budget that assumed an ever-rising trend in the revenue share to bring the budget back to surplus. But the bigger issue is that the IGR projects a permanently higher share of government spending in the economy due to the cost pressures flowing from an aging population and more spending on defence, NDIS and debt interest.

Chart 11.3 Payments and receipts



Note: The dotted line indicates receipts at the 2026–27 Budget, where a tax-to-GDP technical assumption was not applied. The payment projections are the same as the 2026–27 Budget except for interest payments that results in a difference in total payments of 0.1 percentage points of GDP in 2036–37.

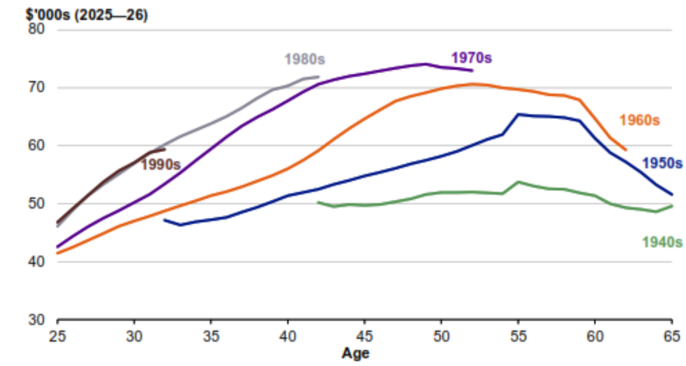
Source: Australian Government 2026 IGR, Federal Treasury

The good news is that the cap on revenue implies tax cuts ahead, but the problem is that IGR is not really fulfilling its original purpose which was to highlight the fiscal impact of an aging population and support spending cuts or restraint as an offset. More broadly to turn the budget back into a surplus and provide confidence that productivity will be at least as good as the 1.2% pa assumption and so improve the outlook for material living standards the IGR highlights the need for more serious economic reform:

- to get government spending back down to more in line with levels prevailing prior to the pandemic – the IGR estimates that the growth in the non-market or mainly public sector of the economy has cut 0.3% pa off productivity growth since 2017-18;
- substantially reduce the regulatory burden on business – Productivity Chair Danielle Wood's pointing out that a doubling in company board time spent on compliance issues and the cost of this in becoming too risk averse is an example of the problem here; and
- tax reform to reverse the rising reliance on income tax, boost reliance on the GST & move to a road user charge.

While other factors including starting working life later are impacting, weak productivity is likely a key driver of those born in the 1990s not seeing the lift in real incomes relative to those born in the 1980s early in their careers, like previous generations had seen. So weaker productivity is likely a driver of angst about intergenerational equity.

Chart 6.2 Average real disposable income by age and birth decade



Note: Includes total disposable income, not adjusted for hours worked. Top and bottom percentiles are winsorised.

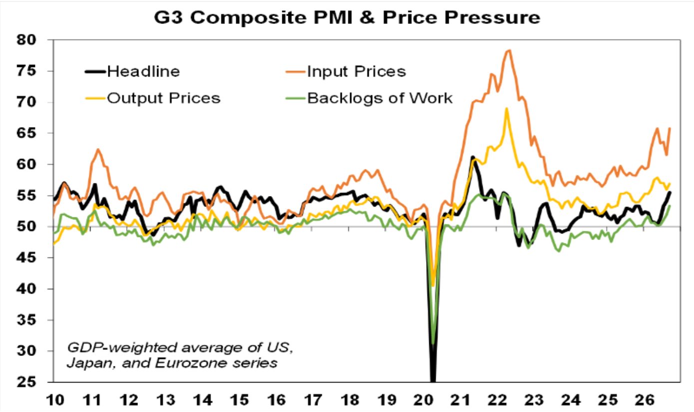
Source: Australian Taxation Office (ATO) Alife and Treasury.

In the 1970s Sydney based Alberts Productions ruled the rock and pop charts with what became known as the Alberts sound. This became synonymous with Australian pub rock and was characterised by a driving relentless drum beat, memorable razor sharp guitar riffs, heavy low end bass and a high energy delivery. A bit like a V8! It got its start with The Easybeats but is perhaps most well-known with AC/DC. Central to this sound was the songwriting and production team of former Easybeats' Harry Vanda and George Young. After The Easybeats split they spent four years writing and producing songs in London but returned to Australia and Alberts in 1973. Their song Evie, Parts 1, 2 & 3 performed by fellow former Easybeats Stevie Wright is emblematic of the Alberts sound. Running 11 minutes it's the longest Australian single to hit the charts, reaching number 1 and staying on the charts for 26 weeks. Apparently, disc jockeys loved it as they could go off for a cup of tea. The performance of Evie, Parts 1, 2 & 3 in June 1974 on the Sydney Opera House forecourt is an absolute classic with Stevie Wright, George Young and Harry Vanda performing together for the first time since The Easybeats.

Major global economic events and implications

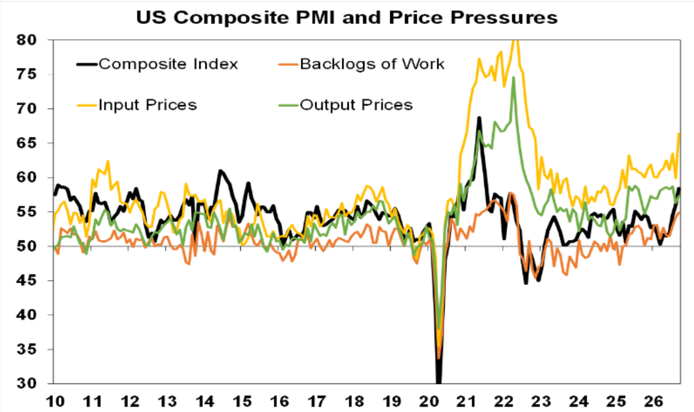
Developed country business conditions PMIs for September were strong on average but with strength in the US and to a less degree Europe offsetting falls in the

UK, Japan and Australia. Input and output price pressures rose and remain elevated with delivery times depressed.



Source: Bloomberg, AMP

It's a similar story in the US but with conditions being much stronger, particularly in manufacturing. And US price indicators rose, particularly for input prices.



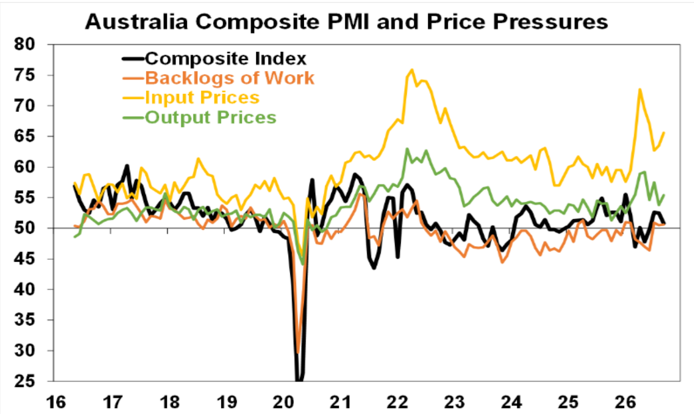
Source: Bloomberg, AMP

In other data US new home sales rose but remain weak and are likely to fall further as mortgage rates continue to rise on the back of rising bond yields. Jobless claims remain low pointing to ongoing labour market strength.

In Europe the Swiss and Swedish central banks left their policy rates on hold, but the Norwegian central bank hiked. Both the Swedish and Norwegian banks leaned hawkish.

Australian economic events and implications

Australian business conditions PMIs fell to a soft 50.8, with falls in employment and orders. Both cost and output price pressures rose consistent with ongoing high inflation.

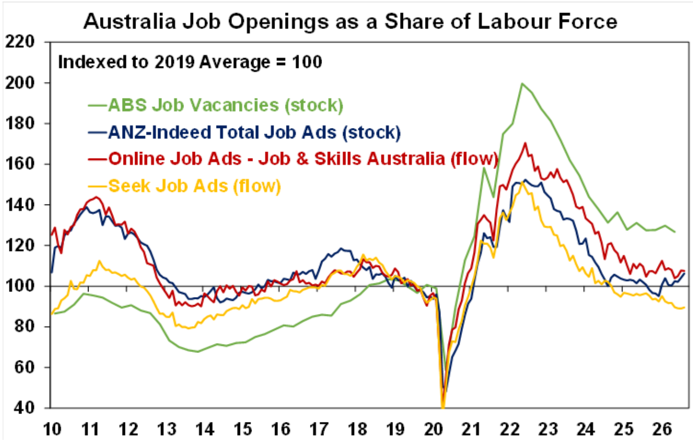


Source: Bloomberg, AMP

Jobs data for August was messy. On the one hand unemployment rose to 4.6% - 4.646% to be precise! – and full-time employment fell but on the other hand total employment rose by 39,500, hours worked rose solidly, both are up 1.6-1.7%yoy, underemployment fell to 6.2%, the ratio of employment to the population remains near a record and participation rose to 67.1%. There was also some statistical issues that may have distorted the data. The overall picture though is that jobs growth is still solid but unemployment is continuing to trend up gradually.

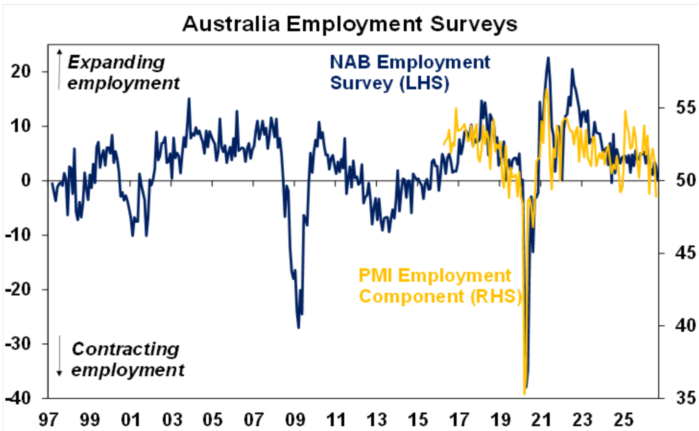
Source: ABS, AMP

Forward looking labour market indicators are now mixed. Job ads are either stable or rising...



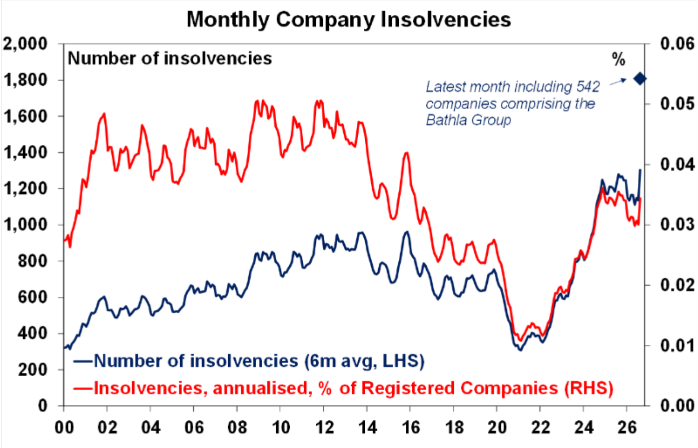
Source: ABS, AMP

...whereas business surveys point to a slowing trend in employment. While the RBA is boxed in by too high inflation necessitating a rate hike in the week ahead the rising trend in unemployment and the mixed outlook for jobs growth suggest it shouldn't have to hike again.



Source: Bloomberg, AMP

New company insolvencies spiked in August reflecting the insolvency of the 542 companies in the Bathla Group. It's not so bad if Bathla is excluded running in the same range as over the last two years. While the Bathla spike will reverse this month the trend may remain up given rising interest rates, slowing demand and tough conditions for home builders with rising costs but falling home prices.



Source: ASIC, AMP

What to watch over the next week?

In the US, the focus will be on core private final consumption inflation data for August (Wednesday) which is expected to rise 0.3%mom or 3.3%yoy validating the Fed's decision to hike. Jobs data for September (Friday) are expected to show a solid 100,000 rise in payrolls with unemployment remaining at 4.1% but with wages growth remaining benign at 3.2%yoy. Other data is expected to show still soft growth in consumer confidence (Tuesday), solid growth in personal income and spending (Wednesday) and the manufacturing ISM (Thursday) remaining strong at around 55.

Eurozone inflation for September (Friday) is expected to rise to around 3.4%yoy with core inflation rising to 2.6%yoy.

Chinese business conditions PMIs for September (Wednesday) are likely to remain soft at around 50.

In Australia, as noted earlier the RBA (Tuesday) is expected to hike for the fourth time this year raising its cash rate by another 0.25% taking it to 4.6%, its highest since October 2011. August CPI data to be released on Wednesday is likely to confirm that inflation remains a problem with a 0.5%mom rise taking annual inflation back to 4.1%yoy, not helped by a 17% rise in fuel prices, and trimmed mean inflation rising 0.3%mom leaving it at 3.6%yoy. Elsewhere on the data front, expect increased fuel costs to drive a 0.6%mom/7.6%yoy rise in household spending (Tuesday), a 6% fall in building approvals but a further slowing in housing credit growth particularly for investors (both Wednesday), a 1%qoq rise in job vacancies for August and the trade surplus to rise to around $2.2bn. Cotality home price data for September is expected to show a further 1% or so fall in property prices with prior months falls revised even lower as the combination of rate hikes, the tax hikes on investors and poor confidence continue to impact. Sydney is likely to lead the fall but with Adelaide, Brisbane and Perth catching down but falls slowing in Melbourne.

Outlook for investment markets

Global and Australian share markets are at risk of a correction given the lack of any resolution to the Iran War and rising oil prices, rising bond yields and stretched valuations, sticky inflation and central bank rate hikes, political uncertainty associated with Trump & 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 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% top to bottom, of which they have already done 3.6%, 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.

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.