Market and Economic Update

September Quarter 2026

How different asset classes have fared:

(As of 30 September 2026)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %
Cash[1]		3.40	4.31	4.15	3.18	2.26	1.13
Australian Bonds[2]	1.32	-0.16	3.40	-0.61	0.63	1.04	-1.53
International Bonds[3]		-1.28	3.20	-1.41	-2.01	-1.57	-2.94
Australian Shares[4]	9.01	7.20	11.04	1.43	2.25	5.05	1.01
Int. Shares Unhedged[5]	14.05	12.86	18.56	9.87	7.11	14.25	1.45
Int. Shares Hedged[6]	12.56	11.62	20.63	16.26	12.30	16.16	2.01
Emerging Markets Unhedged[7]	9.59	9.27	20.66	22.70	18.15	21.39	-0.86
Listed Infrastructure Unhedged[8]	7.41	6.72	9.88	-2.04	-1.49	-7.02	-7.82
Australian Listed Property[9]	5.26	2.91	9.34	-14.09	-13.03	4.06	-8.36
Int. Listed Property Hedged[10]	3.57	1.99	6.94	-1.07	0.61	2.45	-6.36
Gold Bullion Unhedged[11]	12.17	19.33	30.80	10.04	-2.77	-8.02	4.28
Oil Unhedged[12]	7.03	21.62	19.66	87.72	99.53	8.82	38.71

1 iShares Core Cash ETF, 2 Vanguard Australian Fixed Interest Index, 3 Vanguard Global Aggregate Bd Hdg ETF, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD, 11 LBMA Gold Price AM USD, 12 S&P GSCI Crude Oil TR

Past performance is not a reliable indicator of future performance. Returns are shown to 30 September 2026. Returns for periods of one year or more are annualised. References to particular funds and indices are used as representative measures of asset class performance only and do not constitute a recommendation to invest in those products.

Source: Centrepoint Research Team, Morningstar Direct

Key points

The Iran conflict reignited and oil surged: The ceasefire between the United States and Iran collapsed early in the quarter, with the US resuming strikes and reimposing a naval blockade that left the Strait of Hormuz largely closed once again. Renewed attacks on Gulf shipping and the sabotage of a major Saudi pipeline pushed Brent crude above US$100 a barrel by September.

The US Federal Reserve ended its pause and hiked rates: Chair Kevin Warsh and the Federal Open Market Committee (FOMC) lifted the federal funds rate by 25 basis points to 3.75%–4.00% in September, the first increase since 2023, with policymakers leaving the door open to at least one more hike before year end.

Headline gains masked a narrow, volatile market: Technology and AI-related shares fell sharply in July as the conflict reignited, before rebounding through August and September; the major indices touched fresh highs even as the majority of individual stocks remained subdued.

Bond yields surged as the RBA joined the tightening cycle: Treasury yields recorded one of their largest quarterly increases in years, while the Reserve Bank of Australia delivered its fourth hike of 2026, taking the cash rate to 4.60%, its highest level since 2011, and weighing heavily on yield-sensitive sectors such as listed property and infrastructure.

Markets in Review

The third quarter of 2026 was defined by two developments: a sharp re-escalation of the Middle East conflict that reignited the energy shock markets had hoped was behind them, and a pivotal shift in US monetary policy as the Federal Reserve delivered its first rate hike since 2023. Early in the quarter, the ceasefire between the United States and Iran collapsed, with the US resuming strikes and reimposing a naval blockade that left the Strait of Hormuz largely closed once again. Oil and gas prices spiked sharply, reviving inflation fears that had only recently begun to fade, and the Federal Reserve signalled it was no longer willing to look through above-target inflation. The result was a quarter of renewed volatility, with sharp divergence between sectors and styles beneath an initially resilient index-level picture.

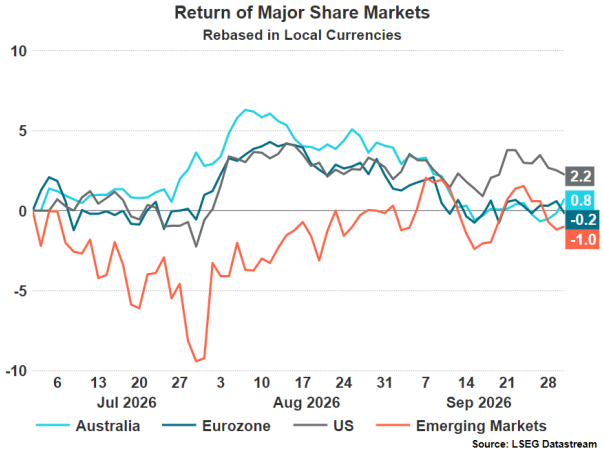
Leadership narrowed further over the quarter, and dispersion beneath the surface widened to extremes rarely seen outside major corrections. Energy and materials were the standout performers, buoyed by the surge in oil prices and firm commodity demand, while real estate, infrastructure and smaller companies lagged as rising bond yields increased the cost of capital. The biggest divergence was once again within technology. The renewed conflict and an abrupt unwinding of the AI trade drove a sharp sell-off in chipmakers and large cloud companies in July, before investors returned to the theme through August and September as earnings held up and the sector regained its footing. The Australian market, with its natural tilt towards energy and resources, was relatively well placed for much of the quarter, although a hot inflation print and the Reserve Bank's fourth

hike of the year triggered a sell-off into quarter end.

Bonds again offered little shelter, and in fact detracted meaningfully from balanced portfolios. The reignited conflict pushed energy prices and inflation expectations higher just as the Federal Reserve signalled it was prepared to tighten further rather than ease, and the result was one of the sharpest quarterly increases in bond yields in years. The Reserve Bank added to the pressure domestically, taking the cash rate to its highest level since 2011.

Equities

The US equity market ended the quarter higher, but that modest headline obscured a dramatic amount of movement underneath. Technology and AI-related shares fell sharply in July as the renewed Middle East conflict and a bout of risk aversion triggered an abrupt unwind of crowded positioning, before chipmakers and large-cap AI names staged a strong recovery through August and September on resilient earnings. Energy was the standout sector given the surge in oil prices, while utilities, real estate and smaller companies lagged as Treasury yields rose sharply. Market breadth deteriorated noticeably, with a large majority of individual stocks sitting well below their own highs even as the major indices touched fresh records, underlining just how narrow and concentrated this rally has become.



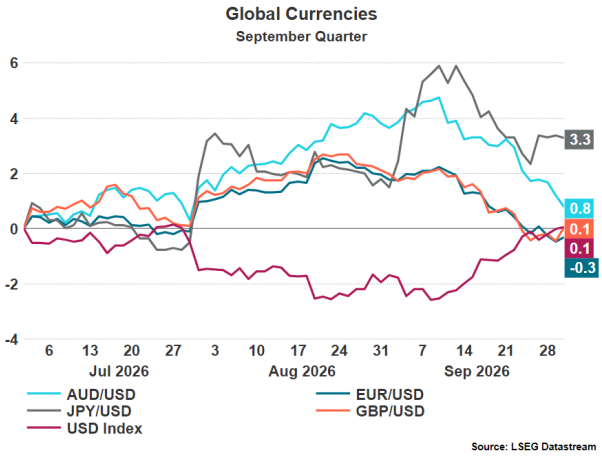
In Australia, the market's tilt towards energy and resources again worked in its favour, with materials and energy among the few sectors to finish the quarter in positive territory. Beneath that, the picture was highly dispersed and increasingly volatile into quarter end: a hot inflation print and the Reserve Bank's fourth rate hike of the year triggered a September sell-off that erased many of the gains built up over July and August, with banks and most other sectors ending the month lower. The net result left the benchmark only modestly higher for the quarter as a whole.

Emerging markets were mixed and, on balance, essentially flat for the quarter. North Asian markets, particularly Korea and Taiwan, gave back some of their stellar first-half gains as memory and chipmaker stocks corrected sharply in July on concerns the AI capital expenditure boom had run ahead of itself, before partially recovering later in the quarter. A firmer US dollar through parts of the period and the broader rise in global interest rates also weighed on returns, which remain very strong for the year to date despite the softer third quarter.

Foreign Exchange Markets

Currency markets were dominated by extreme moves in the Japanese yen. Having already fallen to its weakest level since 1986 earlier in the year, the yen slid further in July as the widening gap between US and Japanese interest rates and the renewed spike in oil prices continued to weigh on the currency. The move prompted the first coordinated US-Japan intervention to support the yen since 1998, which drove a sharp but short-lived

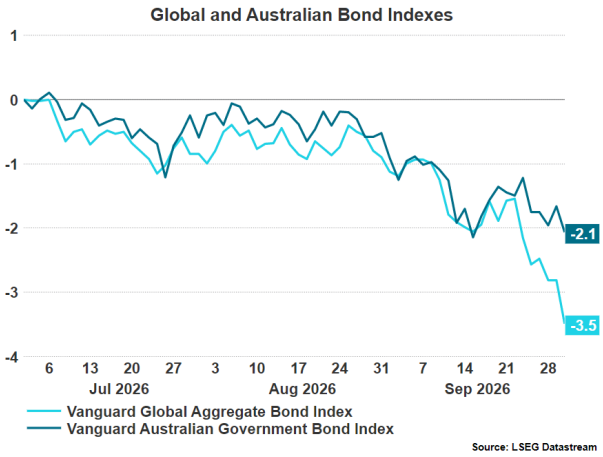
rebound before the currency resumed its broader downtrend. The US dollar's broader performance was more mixed: strength against the yen contrasted with a softer tone against several other major currencies later in the quarter, as growing political pressure on Federal Reserve independence unsettled some dollar holders even as the Fed itself was raising rates.



The Australian dollar was well supported over the quarter, helped by the Reserve Bank's increasingly hawkish stance and firm commodity prices. The RBA lifted the cash rate for a fourth time in 2026, to 4.60%, its highest level since late 2011, after a run of hotter-than-expected inflation and resilient growth data left the Board little choice but to act. That widening gap between Australian and offshore interest rates, together with strong energy and resources export prices, kept the Australian dollar firm against most major peers through the quarter.

Fixed Income Markets

Global fixed income markets endured a difficult quarter, with yields recording one of their sharpest increases in years as markets abandoned expectations for rate cuts altogether. The reignited Middle East conflict pushed energy prices higher just as the US Federal Reserve signalled it was prepared to tighten policy further rather than ease it, sending yields sharply higher. The US 10-year Treasury yield rose by roughly 85 basis points over the quarter, one of the largest quarterly increases in years, while yields at the very long end pushed towards two-decade highs.



In the United States, the Federal Reserve delivered its first rate hike since 2023 at its September meeting, lifting the federal funds rate by 25 basis points to a range of 3.75% to 4.00% in a unanimous decision under Chair Kevin Warsh. Policymakers' updated projections left the door open to at least one further increase before year end, with persistent above-target inflation and a resilient economy cited as the key drivers behind the shift from a prolonged pause to outright tightening.

In Australia, the Reserve Bank raised the cash rate by 25 basis points to 4.60% at its September meeting, a unanimous decision and the fourth hike of 2026, taking the cash rate to its highest level since late 2011. A run of stronger-than-expected inflation and activity data left the Board little room to hold, and officials signalled a willingness to tighten further should price pressures prove more persistent than expected. Australian government bond yields rose in line with the global repricing, weighing on fixed income returns for the quarter.

Elsewhere, most major central banks remained cautious, with several still weighing further tightening against slowing growth. The sharp repricing in bond yields flowed through directly to yield-sensitive parts of equity markets, with listed property and infrastructure among the weakest performers of the quarter as higher discount

rates weighed on valuations. Overall, fixed income investors now face a genuinely higher-for-longer environment, in which persistent inflation, a reignited energy shock and a less predictable path for Federal Reserve policy leave the near-term outlook for yields unusually uncertain.

Outlook

Looking ahead to the final quarter of 2026, the focus has shifted from whether central banks would cut or hold to how much further they may need to tighten. The reignited conflict in the Middle East remains the single biggest source of uncertainty, with the path from here far from certain. A further escalation could push oil prices higher still and entrench inflation expectations, while a durable resolution would remove a major source of pressure on both growth and prices. We would not want to make confident predictions on either the conflict or the path of rates from here; the environment remains unsettled, and that uncertainty is itself the dominant theme for markets heading into the new year.

For fixed income, the sharp rise in yields over the quarter is, perversely, a positive for investors going forward: income on offer is now higher than it has been for some years, even though the repricing delivered negative capital returns in the short term. We would not necessarily say bonds are more attractive than other asset classes, but the income is real and worth having in a balanced portfolio. Given the divergence in central bank paths and the risk that inflation proves stickier than currently priced, we would favour a cautious, medium-duration approach blending government bonds with corporate credit, rather than taking an aggressive view on the direction of rates.

In equities, we continue to believe the artificial intelligence theme is structural, and July's sharp but short-lived sell-off was a reminder of how quickly sentiment can turn around a crowded trade rather than evidence the theme itself is broken. That said, the extreme narrowness of market leadership this year, with a handful of companies responsible for the bulk of index returns while the majority of stocks sit well below their highs, is a risk that investors should not ignore. This reinforces the value of a diversified, selective approach over simply chasing whichever part of the market has been performing best.

Bringing this together, we find confident predictions about the final quarter difficult, precisely because so much depends on factors that are inherently unpredictable: the trajectory of the Middle East conflict, the path of oil prices, and how much further central banks are prepared to tighten. As we often highlight, this is exactly why diversification matters. Importantly, diversification today cannot rely on equities and bonds alone, given how sensitive both have been to the same inflation and interest rate drivers this year. Maintaining a portfolio that is diversified across all asset classes, and that can hold up under a range of conditions, remains the most dependable way to pursue strong long-term returns while helping investors stay the course through short-term uncertainty.

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