



Investment Insights

March 2026

Smarter Investment Solutions

Quilla.com.au

Key messages

- **Old economy results drive ASX earnings upgrades.** Record earnings and positive earnings revisions from banks and miners has pushed the ASX 200 to all-time highs.
- **Oil price spikes and economic implications.** While surging oil prices won't significantly hit US GDP, they will temporarily boost headline inflation, with pressures expected to fade within the year.
- **Broadening earning expectations.** Global earnings growth for 2026 is expected to accelerate and broaden across geographies and market segments.
- **AI productivity and the impact on jobs.** Corporate earnings and economic growth are clear beneficiaries of AI adoption, but the scale of labour displacement and reallocation is a key uncertainty for the global economy.
- **Rising credit risks in the technology sector.** Credit spreads in the technology sector have widened as markets weigh the costs of AI capital intensity and potential business model disruption.

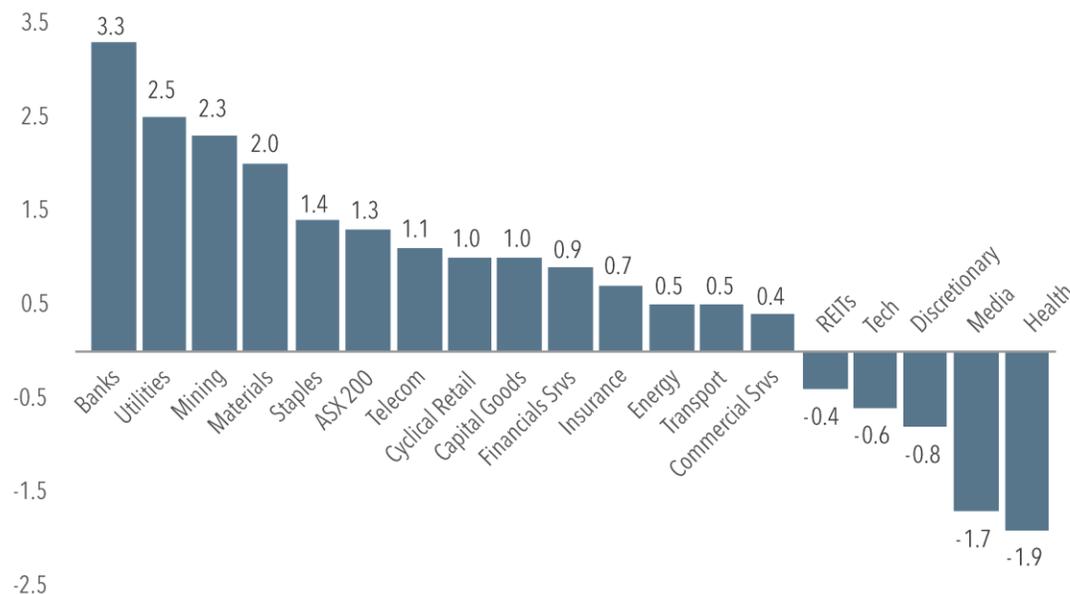


	Scenario 1: Tail Risks	Scenario 2: Below Trend Growth	Scenario 3: Growth Stabilisation/Acceleration
Probability	15% (Previously - 10%)	50% (Previously - 55%)	35% (Unchanged)
Detail	<ul style="list-style-type: none"> • Most major economies' growth slows meaningfully, leading to recession and corporate earnings contraction. • The US-Israel war with Iran continues for longer than current expectations, driving energy prices higher, leading to broader inflationary pressures and a consumer slowdown. • A broadening of the conflict in the Middle East destabilises relations across major economic powers. Eg: US and China. <p>Other key risk factors:</p> <ul style="list-style-type: none"> ○ Material slowdown in AI capex. ○ Expected AI earnings significantly disappoint. ○ Inflation unexpectedly resurges. ○ Substantial rise in bond yields leading to material revaluation of risk assets. • The US dollar strengthens in the risk-off environment, impacting both developed and emerging markets. 	<ul style="list-style-type: none"> • Global growth is uneven with Australia, the US and certain emerging markets remaining resilient while others stagnate. • Inflationary impacts of tariffs subside but inflation remains stubborn as oil supply disruption across the Middle East place upward temporary pressure on headline inflation. Core inflation remains contained. • The global policy landscape is increasingly desynchronized. While the Federal Reserve weighs 1 to 2 rate cuts in the second half of the year, contingent on whether oil supply shocks prove transitory or structural, the Reserve Bank of Australia (RBA) remains a hawkish outlier, signalling a further two more hikes to combat stubborn domestic price pressures. • Global bond yields balance lower growth with risks of rising inflation concerns. Higher fiscal spending leads to larger budget deficits and rising debt, leading to a steeper yield curve. • Labour markets remain steady, sustaining modest consumer spending growth. • Structural themes like AI, as well as pro-growth government policies, support the economy, equity markets and corporate earnings. Potential disappointment from the Technology sector may, however, drag on returns. • The US dollar trends weaker under structural pressures with bouts of strength, supporting emerging and developed markets outside of the US. 	<ul style="list-style-type: none"> • Global growth becomes more synchronised and improves as productivity gains support the global economy. • Inflation picks up marginally as aggregate demand lifts while productivity gains cap price rises. The inflationary impact of tariffs subsides. • Central banks hold rates steady. The RBA maintains a hawkish stance. • Global bond yields remain rangebound, while longer dated bond yields are pushed higher by larger deficit spending. • Pro-growth policies are implemented, such as fiscal spending and tax cuts, to support economic growth. • Earnings are materially revised higher as sentiment improves. • Structural themes like AI drive productivity, lifting economic growth and equity returns. • The US dollar remains rangebound.



Old economy results drive ASX earnings upgrades

Percentage change in 2026 earnings per share over the reporting season



Source: Factset, Macquarie Research

The February 2026 reporting season was defined by a rotation from high-growth technology into "old economy" sectors, as record earnings and positive earnings revisions from banks and miners pushed the ASX 200 to all-time highs.

BHP Group (BHP)

BHP's copper division helped drive an 11% rise in revenue, and officially overtaking iron ore as the company's largest earnings contributor, now providing 51% of group underlying EBITDA, as it ramps up production to meet global demand for AI data centres and renewable energy infrastructure.

Woolworths (WOW)

Woolworths shares rallied 13% after posting a 16% jump in underlying profit, even as its headline profit was halved by a Federal Court ruling on manager underpayments. The result showed that the supermarket giant is progressing in expanding its margins and stabilising its market share.

CSL Limited (CSL)

The biotech heavyweight stunned the market with an 81% collapse in profit, triggered by a \$1.1b asset impairment and high costs from major restructuring initiatives. Despite these setbacks CSL boosted its share buyback to \$750 million.

Commonwealth Bank (CBA)

CBA's cash net profit rose 6% to \$5.45b. Heavy investment in AI and digital leadership yielded clear results: AI reduced fraud by 20%, while automating 70% of direct home loans for same-day approval drove a 7% mortgage book increase despite stiff competition.

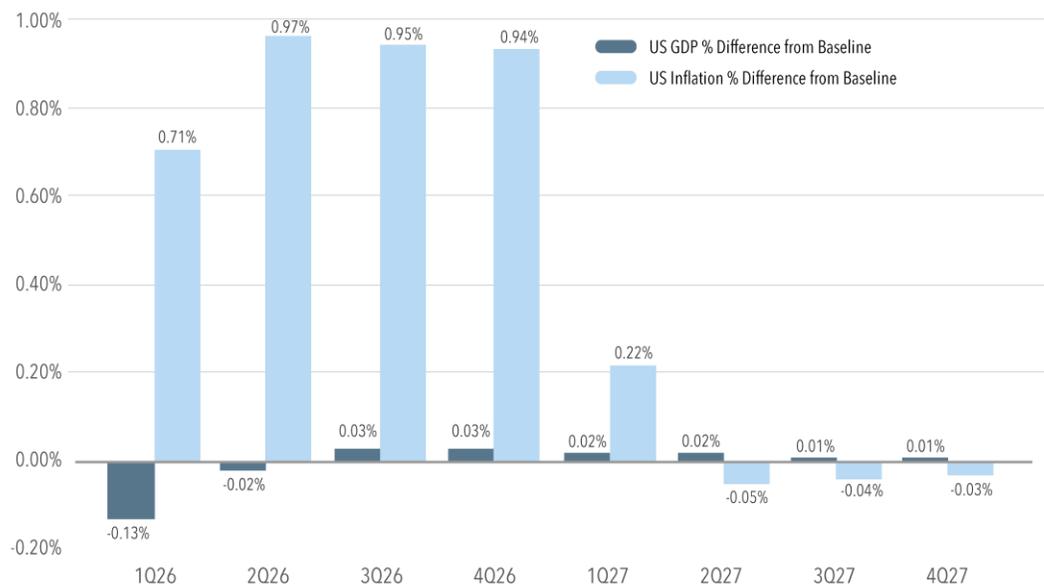
Our view

Positive net upgrades to guidance of 32%, the highest in years, suggest reasonable earnings momentum ahead of market consensus. While this is supportive of an improved picture of domestic corporate profitability, we are cognizant of the cyclicity of earnings within some sectors.



Oil price spikes and economic implications

Impact of a \$50 rise on US GDP and US inflation



Source: Apollo Chief Economist, Bloomberg, Quilla Consulting

The US-Israel conflict with Iran has led to a substantial rise in oil prices. The implications for the US economy are expected to be less pronounced, given that the US is currently the world's largest oil producer. This provides a structural buffer against energy shocks that previous generations lacked.

Economic outlook and inflation

- Apollo's analysis suggests a \$50/barrel spike would have a limited effect on US GDP. Headline inflation increases will be significant, but price pressures are likely to normalise by Q4 2026.
- The Federal Reserve is expected to treat headline inflation spikes as transitory, focusing on core inflation rather than supply-driven volatility. Rate cut expectations may however, be moderated as higher fuel prices begin to affect broader goods and services prices.
- Goldman Sachs notes that supply shocks often dampen growth expectations rather than triggering long-term inflation. This typically results in a flattening yield curve as front-end rates stay high while long-term growth risks pull future rates lower.

Global vulnerabilities

While the US is energy independent, Asia remains highly exposed to disruptions in the Strait of Hormuz with China receiving 38% of the oil transiting the Strait, India 15% and the remainder largely destined for the rest of Asia.

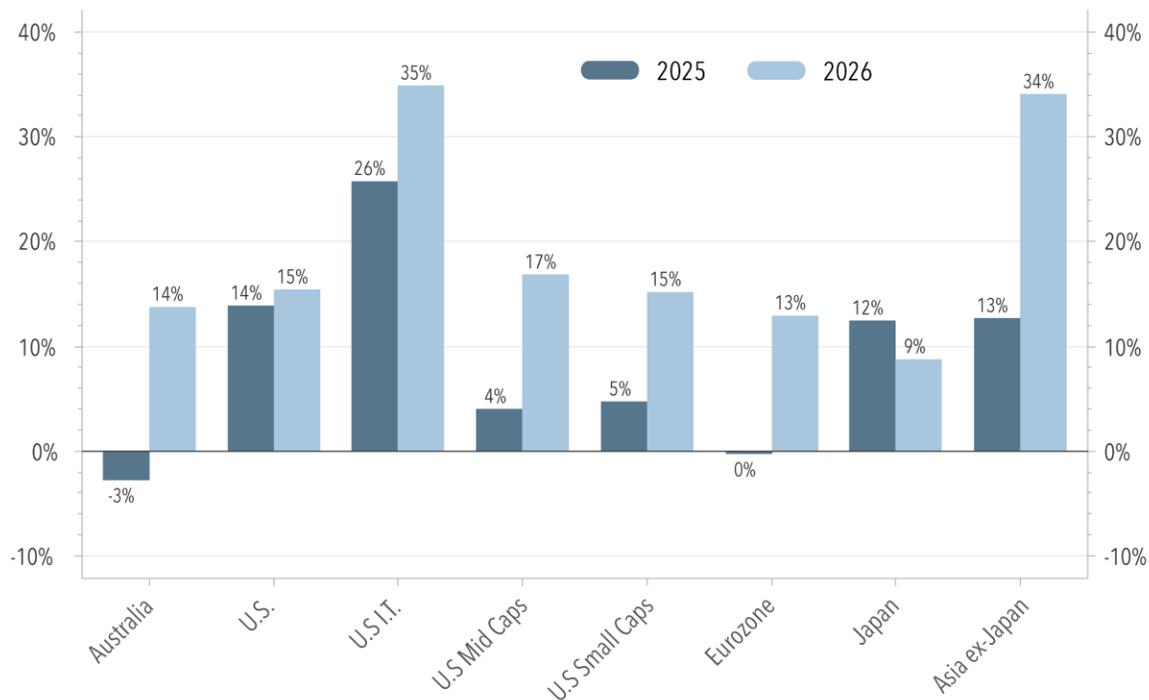
Our view

The duration of the Strait of Hormuz disruption remains the key risk to energy market stability. Historical precedents, however, indicate that markets often look through geopolitical conflict, offering select buying opportunities for equity investors.



Broadening earnings expectations

2025 and 2026 earnings growth expectations



Source: LSEG Datastream, Quilla Consulting

The global earnings outlook has shifted from 2025's US tech-heavy concentration towards a broad-based global acceleration across geographies and market segments at rates well above historical averages.

- Australia, which posted a -3% contraction in 2025, is expected to recover to +14%, lifted predominantly by materials (-2% to +28%) and industrial sectors (-3% to 16%).
- Asia ex-Japan is expected to deliver 13% earnings growth in 2025, accelerating to 34% in 2026, driven largely by a cyclical recovery with beaten-down sectors rebounding. Consumer Discretionary (-19% to +25%), Energy (-7% to +6%), and Industrials (-1% to +11%).
- The Eurozone swings from flat earnings growth in 2025 to expectations of +13% in 2026, led by Consumer Discretionary (-38% to +60%) and broad-based sector upgrades, including Materials and Comm. Services.
- Across US mid and small caps, left behind by the mega-cap earnings in 2025, growth is projected to jump from 4-5% to 15-17%.

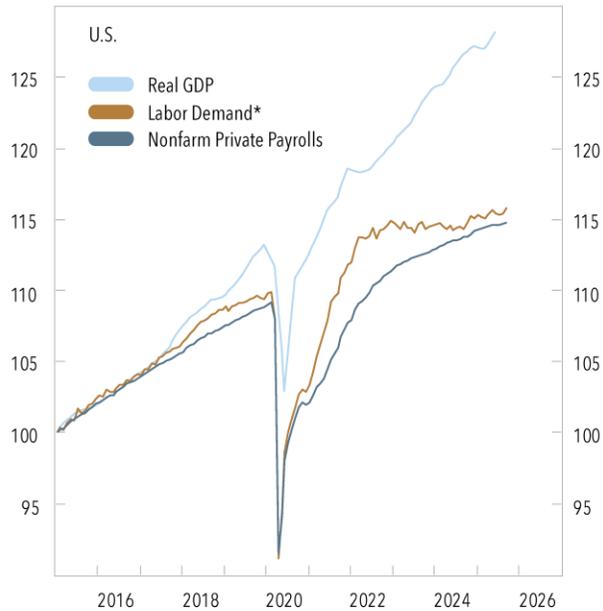
Our view

A broadening earnings base diversifies portfolio return potential, previously more reliant on US large-cap tech. Portfolio equity positioning should remain well diversified with exposure to regions outside the US, including emerging markets.



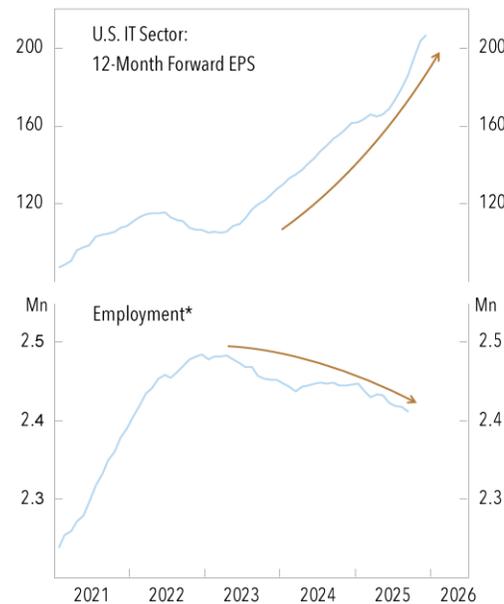
AI productivity and the impact on jobs

Expanding output but stagnant labour markets



*Nonfarm private payrolls plus job openings
Note: All series are rebased to Q1 2015 = 100

The tech sector: soaring profits with falling employment



*Computer systems design & related services

Source: Alpine Macro

January 2026 recorded the highest volume of tech layoffs since 2009. Rising US GDP and record IT earnings alongside declining employment suggest AI and automation is successfully decoupling growth from headcount.

This shift signals a reallocation of capital from payroll (Opex) to AI infrastructure (Capex). Organisations are restructuring around AI, utilising leaner, specialised teams to maintain or exceed traditional productivity levels:

Amazon (AMZN): Reducing 30,000 corporate roles (10%) by mid-2026; Flattening management hierarchies through the automation of routine administrative and middle-management functions.

Salesforce (CRM): Cutting support staff by 4,000 (44%) as autonomous agents now handle 50% of customer volume.

Block (XYZ): Terminating 4,000+ employees (40%) to pivot toward an AI-native operating model; markets rewarded the announcement with a >20% share price surge.

WiseTech (WTC): Slashing headcount by ~29%, led by product development and customer service teams through an AI expansion that requires fewer human software developers, helping to increase productivity and improve margins.

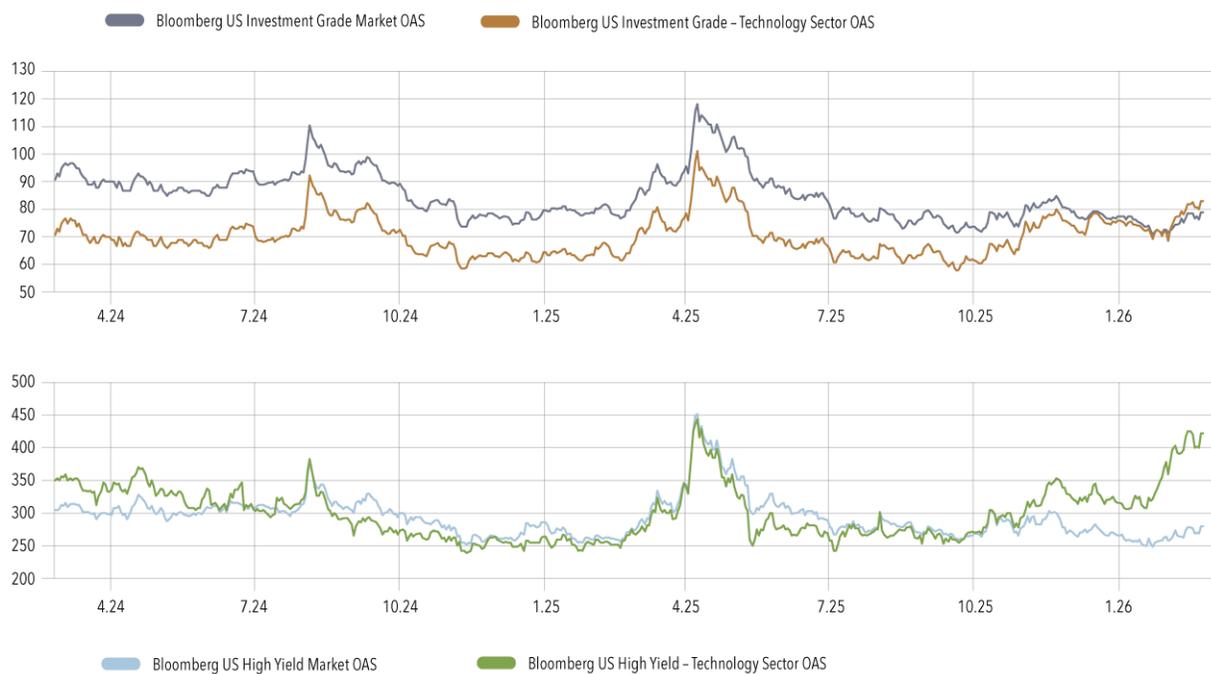
Our view

AI is set to fundamentally reshape the global economy. While corporate earnings and economic output are clear beneficiaries of this adoption, the ultimate scale of labour displacement and reallocation is a key uncertainty for the macro outlook.



Rising credit risks in the technology sector

Technology credit spreads widen: IG climbs while HY surges



Source: SYZ Group, Bloomberg

Widening credit spreads across the technology sector Investment Grade (IG) and High Yield (HY) bonds mirror the recent software sector sell-off, as markets weigh the costs of AI capital intensity and potential business model disruption.

Investment grade: The end of the safety premium

IG Technology spreads have widened above the market for the first time in years.

Capex intensity: To maintain AI competitiveness, tech firms are incurring larger debt, often absorbing internal cash flows to fund the AI infrastructure build-out.

Market impact: This aggressive borrowing has stripped the sector of its historical "safety premium" relative to the broader market.

High yield: Pricing the "AI threat"

While the broader HY market remains near historical lows, Tech spreads have surged as investors price in disruption risks to traditional software models.

Leveraged pivots: Legacy firms are forced to increase leverage to fund AI development and remain competitive.

Credit risk: Markets are repricing debt as cash flows come under threat, increasing the perceived risk of existing debt obligations.

Our view

Widening spreads are redefining the credit landscape. While IG tech exposure is less than 10% in major benchmarks, current volatility offers active managers a compelling opportunity set. However, bottom-up selectivity is vital as the AI revolution begins to structurally impair legacy credit profiles.



Key themes	Rationale
Modest exposure to government bonds	Retaining diversified exposure to government bonds but remaining underweight duration relative to index proxies given the risks on the longer end of the curve. While we maintain a bias towards Australian credit over government bonds, we are becoming more constructive on Australian government bonds given the shift in the yield curve driven by inflation fears following the spike in energy prices.
Preference for investment grade credit over high yield	Yield pickup in credit compared to government bonds and lower credit risk compared to high yield. Overweight Australian credit versus US credit where spreads are at historically tight levels. Monitoring global high yield bond spreads closely for potential opportunities.
Prefer global equities compared to Australian equities	A modest overweight to global equities where EPS growth has broadened out across regions. Australian EPS growth has improved but sustainability is uncertain given the cyclical nature of earnings in some sectors in the domestic equity market.
Maintain global small and mid cap exposure	Prior to the escalation of the US/Iran conflict, the macroeconomic backdrop was constructive and supportive for global small mid caps. Should the conflict be short lived, broader monetary and fiscal policy stimulus may continue to support the sector's performance.
Positive view on private equity / venture capital	A positive outlook due to the potential for higher long-term returns while reducing portfolio volatility and increasing diversification. Private equity/venture capital can provide exposure to the 'picks & shovel' of the AI Infrastructure build out and is less impacted by market sentiment.
Constructive view on gold	Gold remains a valuable hedge against geopolitical tail risks and concerns about government fiscal sustainability. Over the medium-long term we anticipate its price will be supported by continued central bank purchasing and strategic investor flows.
Positive outlook for emerging markets	We view the outlook for broader emerging markets more favourably, citing a constructive mix of cheaper valuations, strong economic growth, and supportive fiscal and monetary policy. A structurally weaker US dollar reinforces the case. We view this as complementary to Indian equities.





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