



QUARTERLY INVESTMENT REPORT

JANUARY 2026

Mackay Private Wealth

OVERVIEW

HEALTHY OPTIMISM OR SPECULATIVE EXCESS?

For much of 2025, markets were dominated by a narrow set of crowded trades, fuelled by speculative positioning, passive flows and powerful narratives. This was most evident in US stocks, where a *junk rally* saw unprofitable companies outperform profitable peers by more than 20% in the third quarter.



As the year ended, this dynamic began to shift. The final quarter, while volatile, delivered strong returns as global equities rallied and market participation broadened across (profitable) sectors and regions, including emerging markets. Bond markets, however, remained range-bound as investors weighed expanding fiscal deficits against the risk that inflation proves more persistent.

Looking ahead to 2026, our outlook remains constructive, although investors should expect bouts of irrational headlines and sharp drawdowns, much like those experienced in 2025. With geopolitics continuing to reshape global trade, market sentiment can shift quickly, flowing through currencies, commodities and equity leadership. The parabolic moves seen in gold and silver highlight this fragility.

At the same time, several supportive forces remain in place. Central banks are broadly accommodative, fiscal spending continues, and sustained investment in artificial intelligence is underpinning global growth. This backdrop presents both opportunity and risk, reminiscent of the 2020–21 period, when investors needed to distinguish healthy optimism about fundamentals from speculative excess.

The Advisory Board discussed the risks and opportunities arising from these evolving market dynamics. While pockets of speculation remain, equity leadership is broadening beyond US mega-cap growth stocks. A weaker US dollar, improving cyclical conditions and strong AI-related investment globally are supporting other regions, particularly emerging markets. For 2026, emerging market earnings estimates now exceed those of developed market peers, while valuations trade at a 25% discount.

This quarter, we have taken profits in developed market equities and reinvested into emerging markets, alongside a global long/short strategy designed to perform across different market environments.

HOUSE VIEW

As of January 2026		Positioning (DAA)			Positioning (0-12 months)
Asset Class		Underweight	Neutral	Overweight	
Allocation		Underweight	Neutral	Overweight	Comments
Cash			Neutral		Neutral - Liquidity for future opportunities.
Fixed Interest			Neutral		Neutral - Rising fiscal deficits expected to weigh on returns. Favour domestic credit over broader fixed income.
Australian Fixed Interest				Overweight	
Global Fixed Interest		Underweight			
Australian Equities			Neutral		Neutral - Valuations are rich, but mid-small caps and select sectors (resources & healthcare) still offer value.
Global Equities			Neutral		Neutral - AI & rate cuts supporting outlook, but lofty valuations heighten downside risk to developed relative to emerging markets.
Developed Market Equities		Underweight			
Emerging Market Equities				Overweight	
Property			Neutral		Neutral - Fundamentals stabilising coupled with renewed foreign interest; we see more value across Global REITs.
Australian Property			Neutral		
Global Property			Neutral		
Alternatives (Inc. Infrastructure)			Neutral		Neutral - Important hedge to the outlook. Opportunities across private market strategies and infrastructure.
Infrastructure			Neutral		
Other Strategies (Private Equity, Hedge Fund etc)			Neutral		

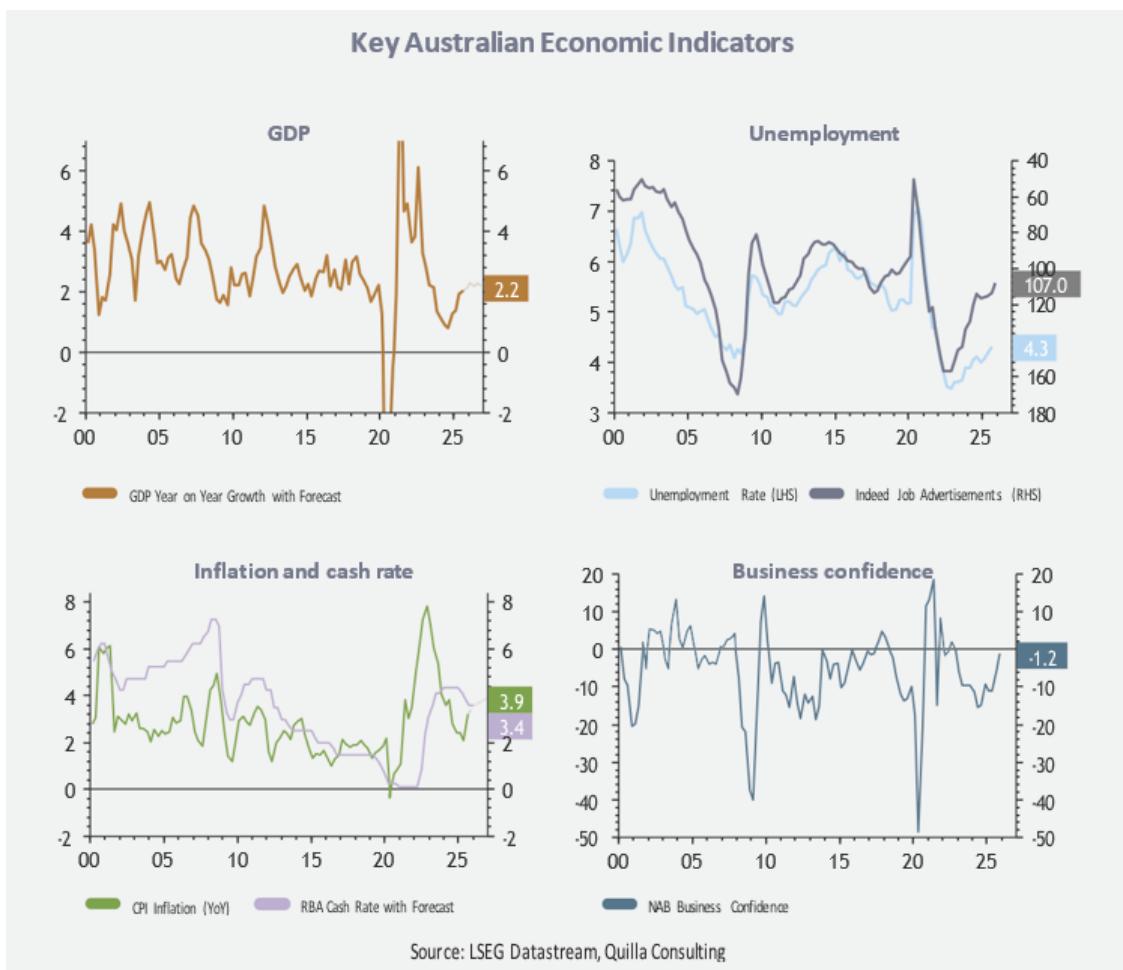
THIS QUARTER

WE EXPLORE CURRENT ECONOMIC AND FINANCIAL MARKET DYNAMICS AND WHAT THEY MEAN FOR INVESTORS GOING FORWARD

1. The Australian economy has been **slowly recovering**, but sticky inflation and an evolving interest rate environment pose potential risks to current economic momentum.
2. Global equity valuations may appear elevated, by some historical standards, but they are underpinned by **robust earnings expectations**.
3. The continued growth in the **adoption of artificial intelligence (AI)** across business sectors may provide **positive catalysts** for both economic growth and shareholder returns.
4. Australian residential property prices continue to rise as market **imbalances support prices** but add to economic and social risks, raising regulator concerns.

AUSTRALIAN ECONOMIC SNAPSHOT

The economic outlook for Australia in 2026 reflects a balance between improving GDP growth and persistent inflationary pressures, which have tempered expectations for RBA rate cuts. Overall, the economy is gradually strengthening, but investor caution remains warranted given the uncertain path of monetary policy.



GDP growth strengthened to 2.1% in late 2025 and is expected to remain steady through 2026, supported by government spending and a modest recovery in across the private sector.

The labour market has softened slightly, with unemployment at 4.3%, but forward indicators suggest job conditions remain broadly stable. Inflation remains the key challenge.

Price pressures are proving stubborn, particularly in housing and services, keeping inflation above the RBA's target range.

As a result, expectations for further rate cuts have faded, with markets now pricing in the possibility of rate hikes in early 2026. Overall momentum is improving, but risks remain.

EQUITY VALUATIONS & EXPECTED GROWTH

Global Equity Outlook for 2026

As we look toward 2026, global equity markets appear expensive by historical standards. The MSCI World Index is expected to deliver close to 14% growth, which may justify higher valuation multiples.

Historically, the strongest growth has been concentrated in the US and India, both trading at a premium supported by clear structural tailwinds.

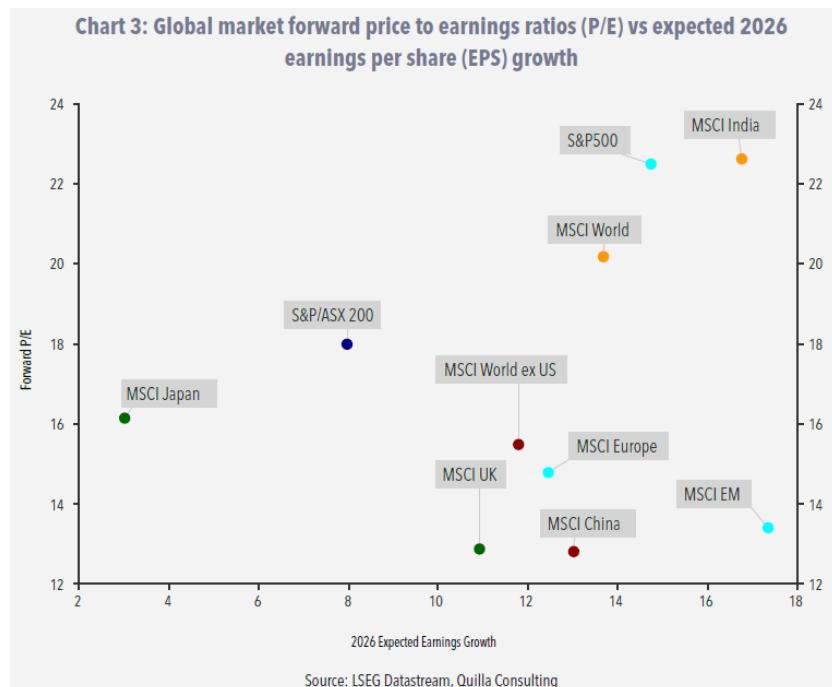
In the US, the ongoing technology and AI investment cycle underpins earnings visibility.

In India, demographic momentum and economic modernization are driving durable profit growth.

Emerging markets offer a broader opportunity. As key contributors to the global infrastructure build-out, emerging markets are expected to derive more than 20% of total revenues from AI-related activity by 2029.

Earnings expectations remain strong while valuations are discounted due to macro concerns rather than weak fundamentals, creating scope for upside as sentiment improves.

Australia faces a more challenging backdrop. Modest earnings growth and full valuations leave limited room for capital appreciation, reinforcing a preference for offshore equity exposure.



Markets outside the US (Emerging Markets & Europe) offer a middle ground of respectable growth at modest valuations.

Emerging Markets are expected to derive more than 20% of total revenues from AI-related activity by 2029.

ARTIFICIAL INTELLIGENCE (AI) ADOPTION

AI: Driving Productivity and Growth

Since ChatGPT's launch in 2022, Artificial Intelligence has emerged as a powerful driver of economic growth and investor returns.

Early gains were concentrated in the core layers of the AI stack, from cloud platforms and data centres to semiconductors and supporting energy systems.

That focus is now broadening. As AI becomes embedded in everyday business operations, adoption is accelerating beyond the technology sector. More firms are using AI as a standard tool, and this trend is expected to deepen across industries.

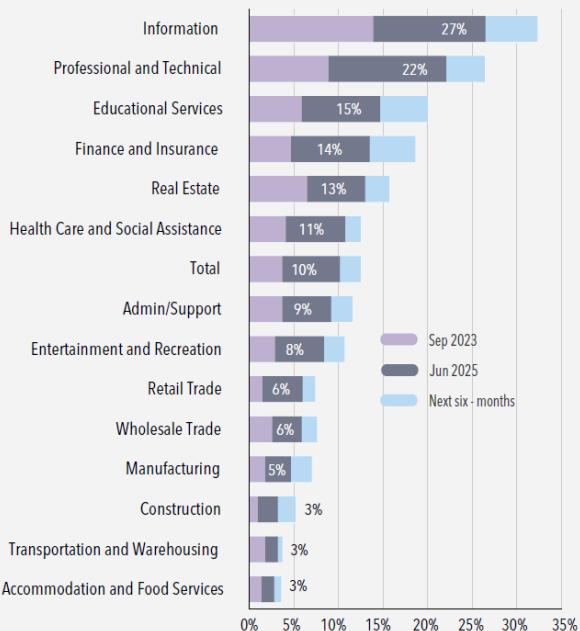
Ongoing investment in AI is boosting productivity and profitability, with effects flowing through global markets. Initially, AI improves efficiency by automating routine tasks, enhancing decision-making, and freeing employees for higher-value work.

Productivity rises, costs fall, and margins expand.

AI also opens new growth opportunities through faster innovation, smarter products, better pricing power, and the ability to serve more customers without sacrificing quality.

Not all businesses will benefit equally, but those that invest and adapt effectively are positioned to capture a long-term tailwind for earnings and economic growth.

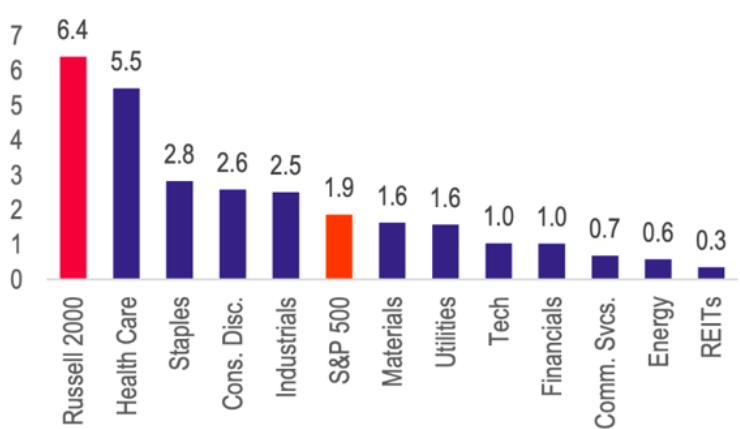
Chart 4: Businesses using AI to produce goods and services - % of all firms reporting use of AI in applications



Source: JP Morgan Asset Management

EPS Multiplier on Labour Cost Savings

Net income change % for every 1% in labour cost savings



Source: WellsFargo, FactSet - January 2026

1% drop in labour costs is expected to lift earnings by 6% across U.S. small companies.

AUSTRALIA'S PROPERTY DILEMMA

Prices, Affordability, and Risks

Australian residential property markets remain exceptionally resilient, with prices reaching record highs that far outpace wage growth.

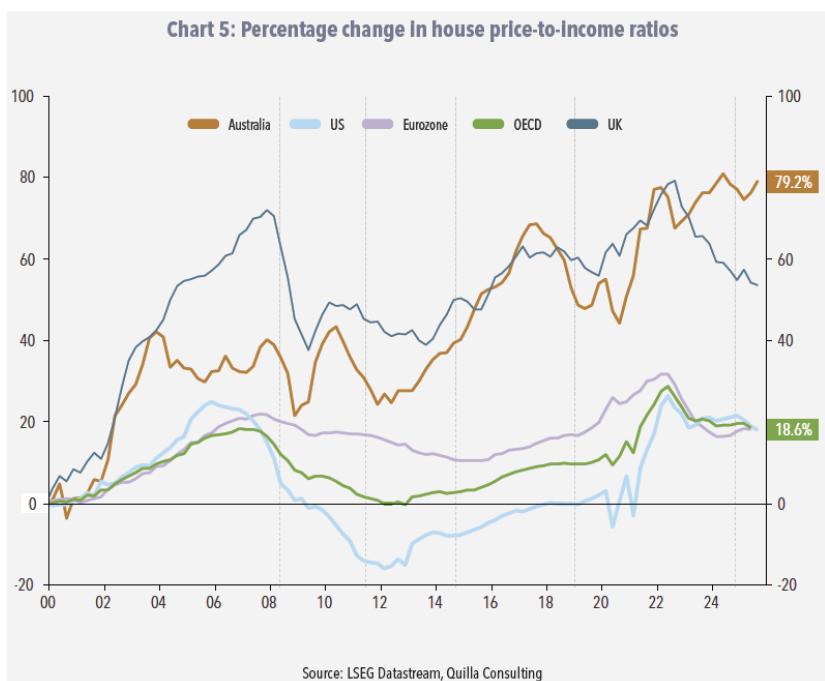
The house price-to-household income ratio has risen from 5x to around 9x over the past 25 years, marking the fastest decline in affordability among developed nations.

Strong demand continues to outstrip supply. Interest rate cuts, record net migration, and government stimulus have fuelled buying, while home construction has struggled to keep pace.

To address rising household debt, APRA will cap high Debt-to-Income lending from 1 February 2026. Mortgages exceeding a 6x DTI ratio will be limited to 20% of new lending, helping reduce systemic risk.

Rising prices support a wealth effect, bolstering consumer sentiment. But affordability pressures are intensifying. Households must devote more income to housing, limiting spending elsewhere and contributing to persistent inflation.

Structural imbalances suggest that near-term prices may remain high, reinforcing the RBA's likely continued restrictive monetary stance.



Rate cuts haven't changed the equation. Prices are still outpacing wages, leaving affordability stretched.



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