QUARTERLY INVESTMENT REPORT

JULY 2026

Mackay Private Wealth

OVERVIEW

LOOK AHEAD, NOT AROUND

Financial markets delivered a strong June quarter, with investors looking beyond near-term uncertainty and focusing on improving fundamentals. Global equities rose around 12% as geopolitical tensions eased and corporate earnings remained resilient, while bonds delivered more modest returns as interest rates remained elevated. Oil prices, which had surged during the Middle East conflict, subsequently retreated towards pre-conflict levels as concerns over supply disruptions eased.

The recovery highlighted a key feature of investing: markets price the future, not the present. Despite ongoing geopolitical risks, elevated interest rates and subdued consumer confidence, investors increasingly looked beyond today's challenges and focused on tomorrow's opportunities.

While this can appear disconnected from economic headlines, it is a normal feature of financial markets. Share prices reflect expectations for future profits, and those expectations remain well supported:

- **Earnings growth remains strong**: First-quarter earnings across US companies grew more than 25%. With similar trends across other developed and emerging markets, ex. Australia.
- **Investment remains resilient**: Businesses continue to invest, with artificial intelligence increasingly being adopted to improve productivity and efficiency.
- **Market leadership is broadening**: The benefits of this investment cycle are extending beyond technology, with financials, industrials, healthcare and utilities increasingly participating.

Not all markets are experiencing the same conditions. Bond markets continue to reflect a more cautious outlook, with persistent inflation and rising government debt issuance keeping longer-term interest rates elevated. This reinforces the importance of maintaining balance within portfolios and ensuring growth exposure is supported by diversification.

Closer to home, the Australian market remains more subdued. Slower productivity growth, policy uncertainty and weaker business confidence have weighed on earnings growth. Recent returns have been heavily influenced by the resources sector, benefiting from ongoing global demand and elevated commodity prices. While this has supported Australian shares, earnings growth has been less broad-based than in global markets. Australian equities remain an important portfolio allocation, providing diversification and exposure to different earnings drivers than those underpinning global markets.

Risks remain. Market concentration is still elevated, large new listings are testing investor appetite, and the significant investment flowing into artificial intelligence will ultimately need to translate into sustainable earnings growth.

Our current investment view continues to favour global equities and infrastructure over global property and bonds. We believe infrastructure is positioned to benefit from powerful forces reshaping the global economy, including artificial intelligence investment, electrification, energy security and ongoing capital expenditure. Combined with global equities, this approach provides exposure to a broader range of growth opportunities while maintaining diversification across sectors, regions and investment themes.

HOUSE VIEW

AI, not rate cuts, is now driving markets

We remain overweight Global Equities at the expense of Global Bonds and Listed Property. We favour domestic credit for income and Alternatives to improve portfolio resilience. Our positioning as at July 2026.

○ Underweight ● Neutral ● Overweight

ASSET CLASS	UW	N	OW	COMMENT
Cash		●		Liquidity for future opportunities.
Fixed Interest	○			Prefer domestic investment-grade credit over government bonds, which remain volatile on fiscal concerns.
Australian Equities		●		Remains an important portfolio stabiliser but is unlikely to be the primary source of growth.
Global Equities			●	AI investment has replaced rate cuts as the primary market catalyst, broadening opportunities beyond technology, even as rolling shocks test investor confidence.
Property	○			Fundamentals are stabilising, but property offers less exposure to the structural growth drivers shaping the global economy.
Alternatives (inc. Infrastructure)		●		Important hedge to the outlook; opportunities across private market strategies and infrastructure (AI & defence capex).

Neutral (N): within 2.0% of target weight · Overweight (OW): 2.0% or more above target weight · Underweight (UW): 2.0% or more below target weight

THIS QUARTER

WE EXPLORE CURRENT ECONOMIC AND MARKET DYNAMICS, AND WHAT THEY MEAN FOR INVESTORS

1. **A capital expenditure cycle led by AI**. Structural, AI-driven investment is now a primary driver of global growth and earnings, and is broadening beyond technology into infrastructure, power, defence and manufacturing.

2. **Global markets supported by earnings, not enthusiasm**. A more diversified rally is emerging, with returns driven by earnings across a broader range of sectors and regions rather than a handful of US technology names.

3. **A challenging setting for the Australian economy.** Three RBA rate hikes have slowed the domestic economy, while stubborn core inflation keeps the RBA cautious even as business surveys point to a softer outlook.

4. **Australian house prices are losing momentum.** Higher rates, combined with Federal Budget changes to negative gearing and the capital gains tax discount, are cooling buyer demand, led lower by Sydney and Melbourne.

AI SUPER CYCLE

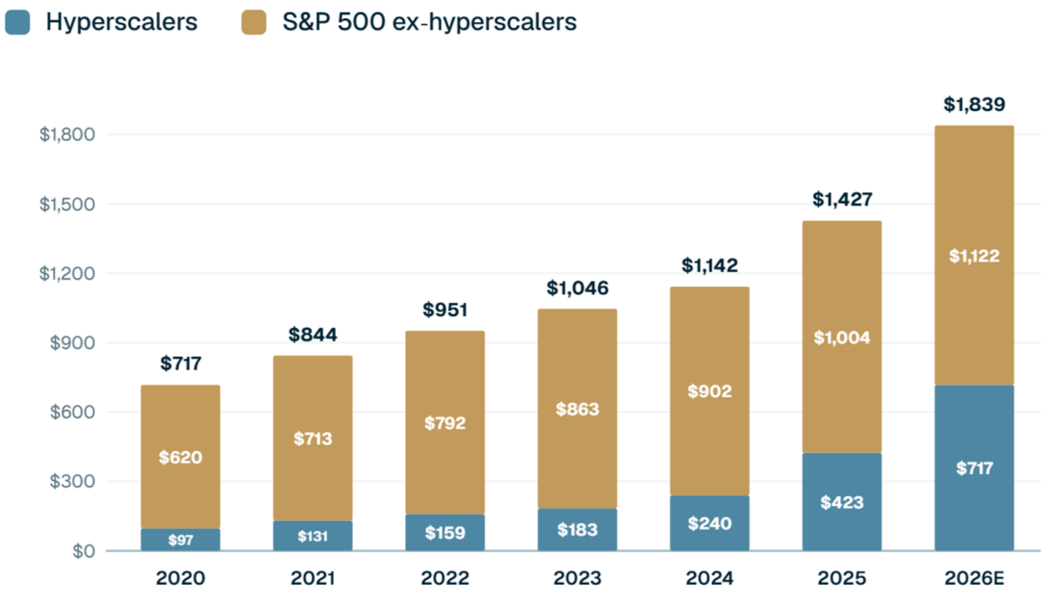
The engine for economic growth

The capital expenditure needed to build and run artificial intelligence (AI) infrastructure has risen dramatically in both scale and pace, becoming a primary driver of global economic growth and corporate earnings.

In the US, technology investment has grown around 20% over the past year and now accounts for a record 5% of GDP, offsetting weakness elsewhere in business investment. Australia is seeing the same trend, with data-centre equipment the largest single contributor to March-quarter GDP growth.

Capex growth for US companies

Capital expenditure, US$ billions, 2020 – 2026 estimate



Source: J.P. Morgan, FactSet. May 2026. Hyperscalers: MSFT, AMZN, GOOGL, META, ORCL.

AI spending has been led by the hyperscalers (Microsoft, Amazon, Alphabet, Meta and Oracle), whose capex is forecast to surge 69% in 2026 to US$717 billion.

Importantly, this spending is broadening beyond technology. Companies outside the hyperscalers are lifting investment by around 12%, spanning power, construction, defence and advanced manufacturing.

We see this as a structural, multi-year demand cycle spanning the physical AI build-out, electrification, higher defence budgets and supply-chain reshoring.

We expect AI-led investment to keep driving growth and to broaden across industries and regions, reinforcing the case for a diversified global equity strategy.

MARKETS SUPPORTED BY EARNINGS, NOT ENTHUSIASM

A broader, healthier rally

While global equities remain near record highs, the drivers of returns are becoming broader and healthier.

The market leadership has also evolved. After late 2025 rewarded speculation over quality, 2026 has seen profitable businesses regain favour. Strong corporate earnings, resilient economic growth and continued investment in artificial intelligence (AI) are supporting returns across a wider range of sectors and regions, reducing reliance on a handful of US technology companies.

This broadening is showing up in two ways:

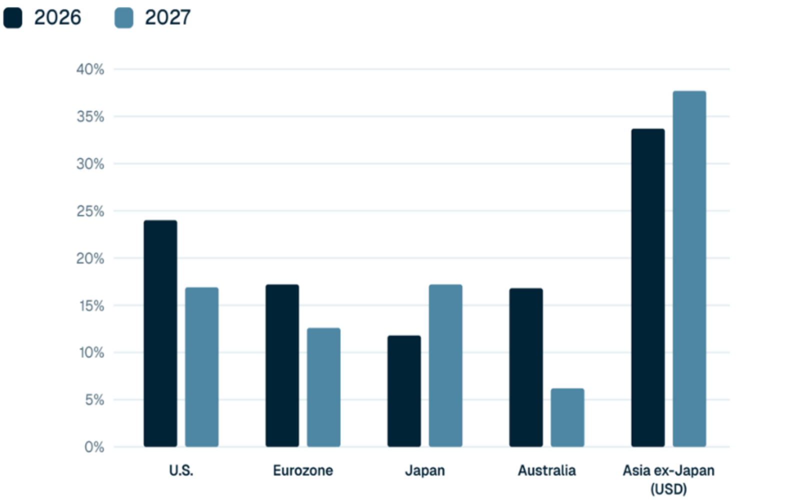
- **Across sectors**: earnings growth is expanding beyond semiconductors into software, energy, infrastructure, healthcare and financials.
- **Across regions**: markets outside the United States, including Europe, Japan and parts of emerging Asia, are contributing more to global returns.

As AI adoption spreads, we expect it to continue driving earnings growth across a broader range of sectors and regions. Improving market breadth is easing valuation pressures, with profits increasingly catching up to share prices and many international markets now trading at more attractive valuations than a year ago.

We believe diversified portfolios remain best placed to capture long-term opportunities while managing concentration risk.

Earnings growth

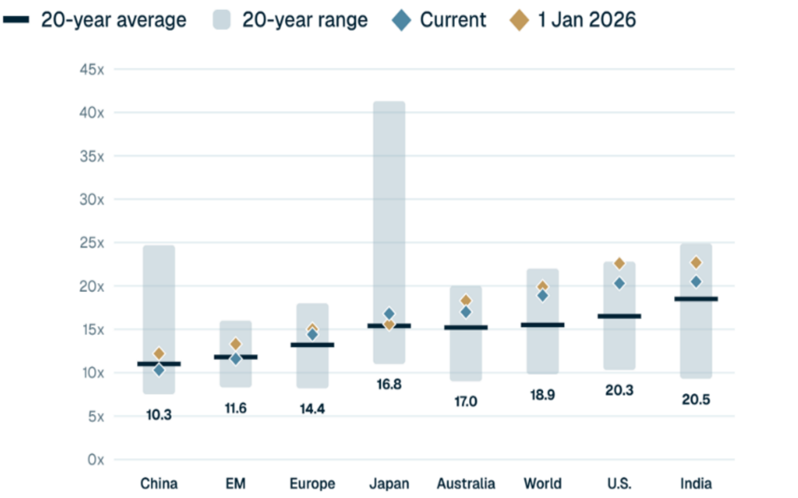
Earnings per share, year-over-year



Source: FactSet, MSCI indices, J.P. Morgan Asset Management. July 2026.

Global valuations

Current and 20-year historical price-to-earnings valuations



Source: FactSet, MSCI indices, J.P. Morgan Asset Management. July 2026.

DOMESTIC HEADWINDS

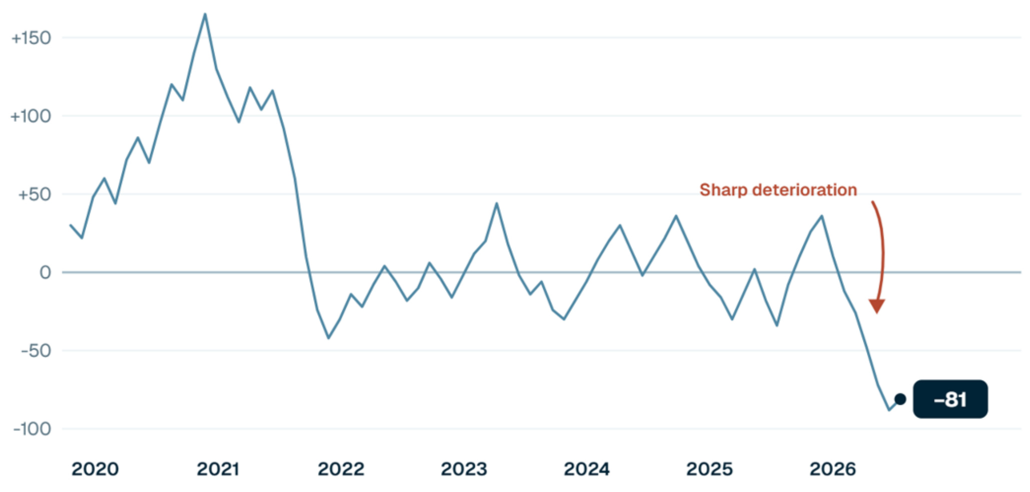
Australia's Economy Loses Momentum

Following three 0.25% interest rate hikes by the RBA this year, Australia's economy is showing clear signs of slowing. The CITI Australia Economic Surprise Index has fallen sharply below zero (Chart 1), meaning economic data is now coming in worse than markets expected.

Forward indicators point the same way. The latest NAB Quarterly Business Survey shows business conditions deteriorating, with firms pulling back on forward orders and capital expenditure for the year ahead.

Australian economic data is coming in worse than expected

Citi Australia Economic Surprise Index, 2020 – 2026



Source: LSEG Datastream, Quilla Consulting. July 2026.

Headline inflation has eased to 4.0%, but core (trimmed mean) inflation remains stubborn at 3.6%, above the RBA's 2–3% target. A more meaningful slowdown is not expected until early 2027.

We expect the Australian economy to slow but avoid recession, and continue to favour global shares over Australian shares.

The RBA held rates steady in June and is likely near the peak for this cycle, though a final 0.25% rise remains possible. Rates are expected to stay higher for longe.

HOUSING COOLS

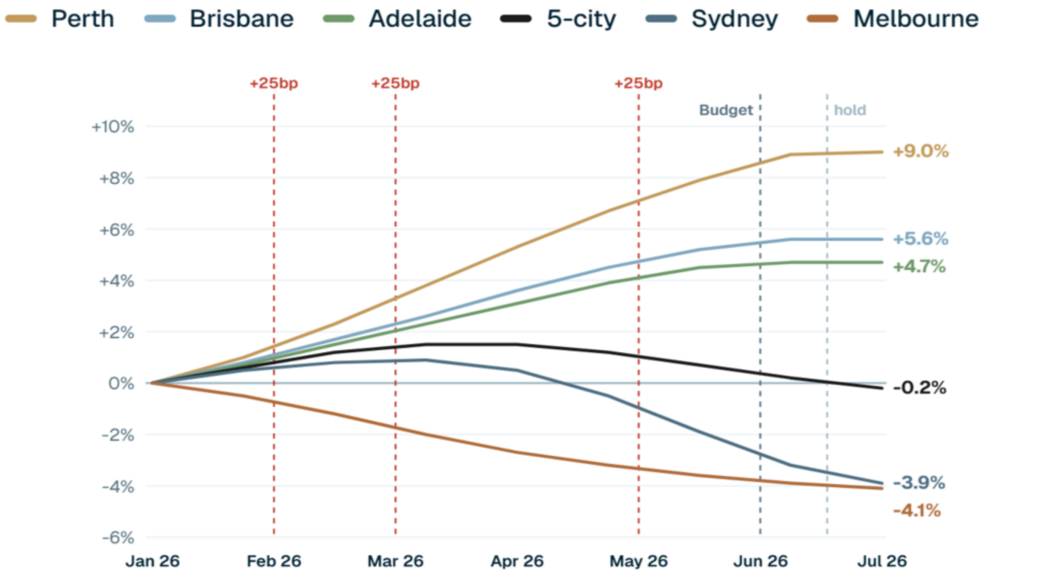
Higher rates and policy weigh on demand

The Australian housing market is losing momentum as rate hikes, weak confidence and stretched affordability weigh on demand, with prices led lower by Sydney and Melbourne.

Auction clearance rates have fallen below 50% for the first time since 2020, historically a signal of further price falls ahead. The May 2026 Federal Budget added to the pressure, restricting negative gearing to new builds and reforming the capital gains tax discount.

Australian capital city house price changes, year to date 2026

Change vs 1 Jan 2026 — three 25bp rate hikes and the Federal Budget



Source: Quilla Consulting, Cotality. July 2026.

Although the Federal Budget changes are grandfathered and start in July 2027, major banks have already removed negative gearing from their serviceability models, reducing borrowing capacity and investor demand for established homes.

The impact will fall hardest on renters, squeezing a market with vacancies near a record-low 1.5%.

Consensus estimates point to a peak-to-trough correction of 8–10%, though a disorderly fall remains unlikely given strong population growth and a structural undersupply of housing.

We expect modest price declines. A large correction is unlikely given population growth and undersupply of housing.

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