



QUARTERLY INVESTMENT REPORT

OCTOBER 2026

Mackay Private Wealth

OVERVIEW

STRONG EARNINGS MEET A RISING COST OF CAPITAL

Share markets around the world finished the September quarter only slightly higher, after giving back earlier gains in the final weeks. The global economy kept growing and companies, particularly in the US, continued to report strong profits, up around 27% over the year. However, rising interest rates, higher energy prices and global tensions held returns back, leaving diversified portfolios broadly unchanged for the quarter.

Looking ahead, history is on investors' side. Over the past 70 years, the final quarter of the calendar year has typically been the strongest of the year for global shares, rising nearly 80% of the time. Past patterns are no guarantee, however, and this year brings its own tests.

The main challenge for investors is simple. Global companies are doing well, but the cost of borrowing money to fund future growth is going up. Prices are still rising faster than central banks would like, so some have started lifting interest rates again. This includes the Reserve Bank of Australia (RBA), which has raised rates four times this year. Conflict in the Middle East and Europe, and the upcoming US midterm elections, add further uncertainty.

Behind both trends is a wave of large-scale investment. Major US technology companies are expected to spend close to US\$1.2 trillion a year on artificial intelligence (AI) by 2028, building data centres, chips and power supply. At the same time, governments spent a record US\$2.9 trillion on defence last year, and billions more are going into energy. This spending is driven by long-term priorities, which is why the economy has held up despite higher interest rates. But it all needs funding, and the extra government borrowing is pushing interest rates higher.

Like the railways in the 1800s, AI could change how almost every industry works. The real question is whether the money being spent will pay off. Demand for AI is strong, but not every company investing in it will succeed. We think it is healthy that investors are now asking harder questions, and some pullbacks in markets are likely as they work through the answers. Importantly, these short-term setbacks do not necessarily change the longer-term outlook. What matters is whether the underlying investment case remains intact. With borrowing more expensive, we expect a bigger gap between strong, profitable companies and those that rely on cheap debt.

Closer to home, Australia's economy is slowing, but not stalling. Higher interest rates are putting pressure on housing and household budgets, although most borrowers are still keeping up with their repayments. Australian shares, particularly banks and miners, are driven by different factors from overseas markets, which helps spread risk in portfolios.

Our approach remains focused on long-term growth, reliable income and diversification. We continue to hold slightly more in international shares, favouring companies and regions set to benefit from AI and this investment wave. We also see opportunities in infrastructure, such as energy networks, which benefit from rising demand for power and government spending on energy and defence. Because bonds now pay higher income, we have increased our bond holdings to a neutral position, with a preference for high-quality Australian bonds.

HOUSE VIEW

Positioned for growth, built for balance

The global investment cycle is lifting earnings and the cost of capital. We remain overweight global equities, have upgraded fixed interest to neutral as yields improve, and remain underweight listed property.

Underweight

Neutral

Overweight

ASSET CLASS	UW	N	OW	COMMENT
Cash				Provides flexibility to act on opportunities if markets turn volatile around the US midterms or geopolitical events.
Fixed Interest				Upgraded as higher yields improve income. Prefer high-quality Australian bonds, where the RBA may cut first, over global bonds exposed to heavy AI-related borrowing.
Australian Equities				Banks and resources offer diversification from the AI theme, but a slowing domestic economy limits the growth outlook.
Global Equities				Earnings growth continues to outweigh lower valuations. Conviction has moderated as borrowing and energy costs rise, making quality selection more important.
Listed Property				Fundamentals are stabilising, but listed property offers less exposure to the investment trends driving global growth.
Alternatives (inc. Infrastructure)				Infrastructure benefits from AI, energy and defence spending. Gold is becoming more attractive as a diversifier.

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 · Positioning as at October 2026

THIS QUARTER

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

1. **The world is building, Australia is waiting.** Business and government investment is powering global growth, while Australia sits outside the boom and is losing momentum.
2. **Earnings did the heavy lifting.** Higher rates and energy costs have pulled valuations lower this year, but strong earnings growth has carried global markets to positive returns.
3. **AI's debt test.** The AI buildout is increasingly funded by debt, and lenders are favouring stronger companies, making quality and diversification more important for investors.
4. **US midterms: what matters for investors.** A divided Congress looks likely, limiting major policy change. Earnings, growth and interest rates will matter more for returns than the result.

GLOBAL ECONOMY

The world is building, Australia is waiting

The latest business surveys show the global economy is in good health, led by the US.

The Purchasing Managers' Index (PMI) surveys businesses each month and gives an early read on the economy. A reading above 50 means activity is growing.

Much of today's strength is coming from business and government investment rather than household spending. Companies are building data centres and expanding factories to support AI, while governments are lifting spending on defence, energy security and power networks. This is creating orders well beyond the technology sector.

This strength is showing up in two ways:

Across sectors: in developed markets, both manufacturing (54.3) and the larger services sector (55.6) are growing. Services, which range from banking to healthcare, make up the largest part of most economies.

Across regions: manufacturing is growing at the same time in the US, Europe and emerging markets, including India, China and Korea, a major supplier of AI chips. This is relatively uncommon and has historically signalled a lasting upswing.

Because this global investment wave is driven by strategic and national security priorities, it is less likely to be scaled back as rates rise.

Australia is the exception. Manufacturing has slipped into contraction at 49.6 and services growth is slowing, as we sit outside the main beneficiaries of the global investment wave. Higher interest rates and government policy are also weighing on Australian households and businesses.

Global activity is accelerating, but Australia is lagging

S&P Global PMI, January 2025 – October 2026

— United States — Developed Markets — Australia

Manufacturing



Services



Source: LSEG Datastream, Quilla Consulting, October 2026.

Strong global activity supports earnings and our global equities overweight, but Australia's slower growth may see the RBA cut rates first, favouring Australian over global bonds.

SOURCE OF RETURNS

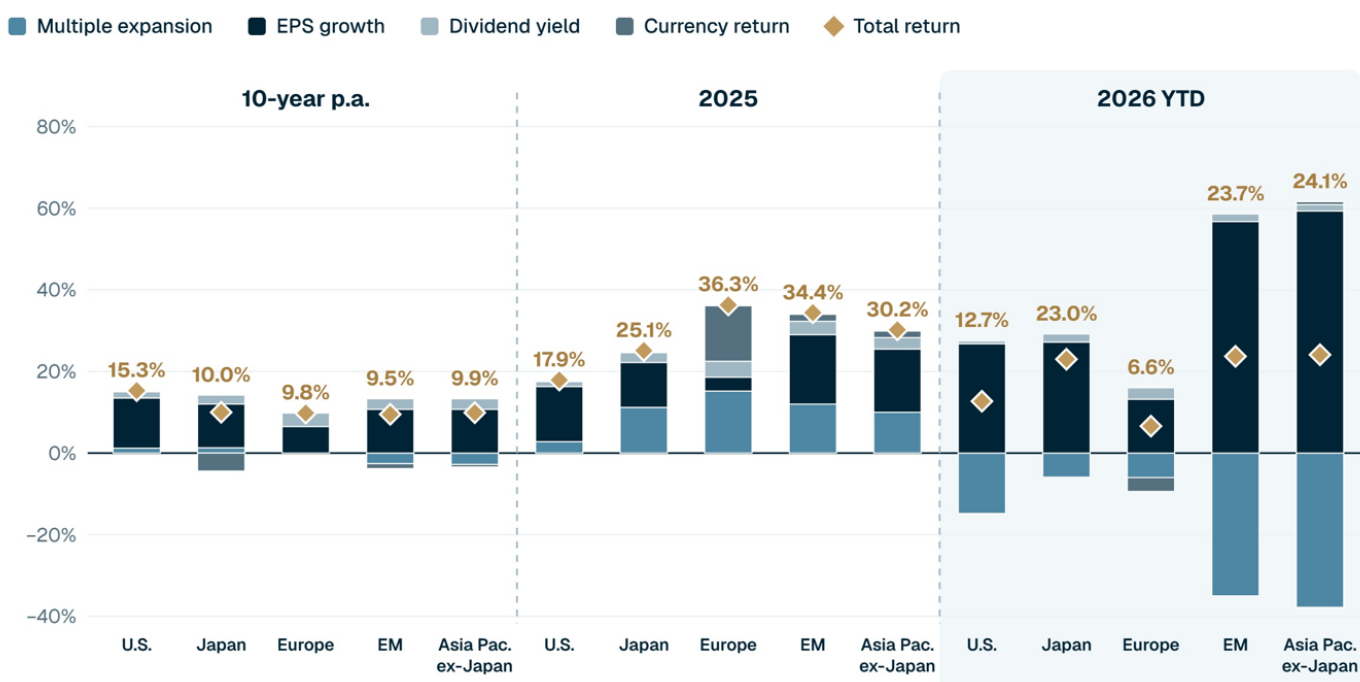
Earnings did the heavy lifting

This year's gains have come from profits, not optimism, making them healthier. In 2025, much of the rise came from investors paying more for each dollar of earnings. This year, the reverse happened. Higher interest rates and energy costs have pulled valuations lower in every major region, yet strong earnings growth has more than made up the difference.

AI is part of the story, but defence, energy and infrastructure spending are also lifting profits as part of the global investment cycle.

Earnings, not multiples, are driving 2026 returns

Sources of global equity returns, total return in USD



Source: FactSet, MSCI, S&P, J.P. Morgan Asset Management. MSCI Gross indices (U.S.: S&P 500). Data as of 29/09/26.

US earnings have risen by about 27% this year, delivering a 12.7% return. In emerging markets, earnings have grown by more than 50%, lifting returns to almost 24% despite a sharp fall in valuations.

Looking ahead, business surveys (PMI data) point to another strong year in 2027. But borrowing costs are rising alongside growth, so being selective about quality matters more than ever.

We maintain a modest overweight to international equities, with diversified exposure to markets and industries best placed to benefit from the global investment cycle.

AI'S DEBT TEST

Why do credit markets matter more now than earlier in the cycle?

The AI buildout is entering a new phase. Until recently, the largest technology companies paid for AI from their own profits. As spending has grown, more of it is being funded with debt (see chart), giving lenders a bigger say in how quickly and profitably the buildout continues.

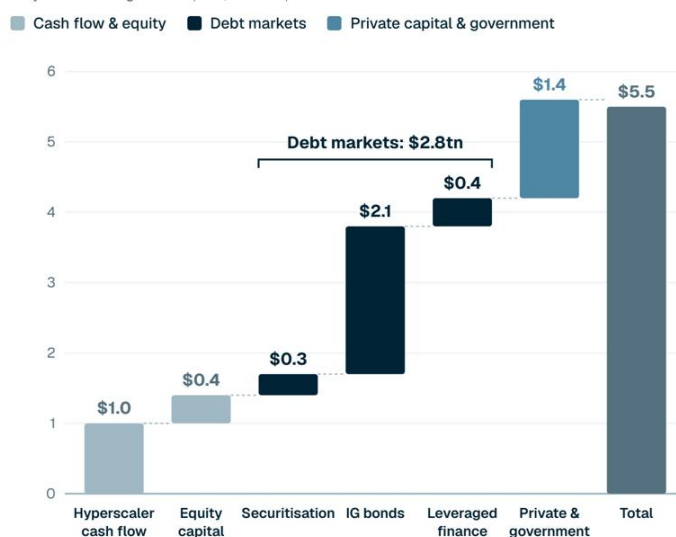
Lenders are already becoming more selective. Over the past month, the extra interest charged to technology borrowers has risen much faster than for other high-quality companies. The gap between the two is now wider than during the 2022 tech sell-off.

AI's next phase will lean on credit markets

Around half of the US\$5.5tn AI build-out is expected to be debt-funded, and tech credit is already pricing more risk

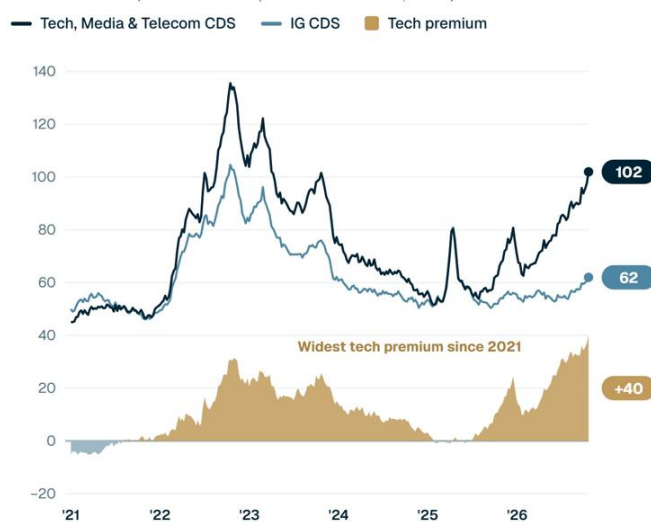
Who funds the build-out

Projected funding sources, US\$ trillions, 2026–2030 cumulative



Tech credit is pricing more risk

Credit default swap levels and the spread between them, basis points



Source: J.P. Morgan Global Research, J.P. Morgan Asset Management, Bloomberg Finance L.P. Data as of 21 October 2026. CDS: Markit CDX North America TMT and IG indices, 5-year.

The bar has risen. An AI label is no longer enough; companies must show they can service their debt and turn investment into profit. With returns potentially years away, the most indebted will feel the strain first.

Importantly, borrowing costs for the strongest companies remain stable. As long as that holds, stress among riskier borrowers is unlikely to derail the broader buildout.

As more global corporate bonds become tied to the same AI theme driving share markets, the two may increasingly move together. That weakens the protection bonds have traditionally provided when shares fall.

We are cautious on global corporate bonds and favour high-quality Australian bonds with less AI exposure.

US MIDTERMS

Why the midterms matter, and why they don't

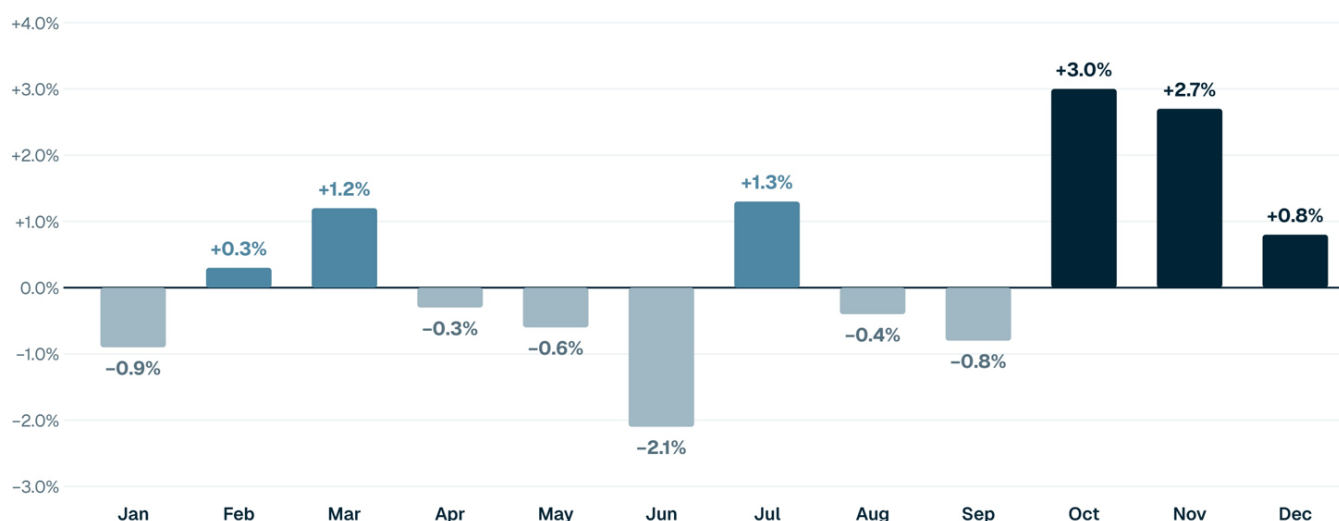
The US midterm elections on 3 November will decide which party controls Congress for the final two years of President Trump's term. This matters because Congress controls government spending, taxes and borrowing, and how much of the president's agenda becomes law.

Rising energy costs and weaker consumer confidence have shifted momentum towards the Democrats. UBS estimates a 90% chance of a divided government, with Democrats winning at least one chamber. Even if they win both, the president's veto means gridlock is the likely result. Markets have historically favoured this outcome, as it limits the scope for sweeping changes and gives greater certainty.

Midterm years have historically finished strongly

S&P 500 average monthly return in midterm years, 1950 – 2022

■ Positive month ■ Negative month ■ Final quarter (Oct – Dec)



Source: Carson Investment Research, FactSet, Quilla Consulting. Past performance is not a reliable indicator of future performance.

Markets dislike uncertainty, and volatility tends to peak before an election and ease once the result is known. Since 1950, November has been one of the strongest months for US shares in midterm years, rising 79% of the time.

The election should not be viewed in isolation. It may shift the policy backdrop, but growth, inflation, earnings and interest rates will matter more for returns over time.

Both outcomes, and strong seasonal trends, support our overweight to global equities, while neutral cash gives us flexibility if markets turn volatile.



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