Market Commentary & Outlook August 2026

Summary

- **Australian small caps** had their best August in well over a decade **outperforming** large caps as market breadth improved.
- **Global** and **emerging market** equities posted solid US-dollar gains, but a stronger Australian dollar pared back unhedged local-currency returns.
- **Global bond** yields pushed higher across Europe, the UK and Japan on fiscal sustainability and inflation concerns, even as US Treasuries were little changed.
- The **RBA** held rates at 4.35% but stayed hawkish.
- **Australian listed real estate** was the weakest major asset class, falling sharply as rising long-term bond yields weighed on valuations. **Global infrastructure** also lagged.
- **Oil** prices firmed on an uneasy US–Iran standoff, keeping energy markets and inflation expectations on edge.
- **Gold** was the standout asset class, surging as the "dollar debasement" trade returned to the fore following a surprise US Treasury buyback announcement.

Market Overview

August was a constructive month for growth assets, even as bond markets remained on edge. The ASX 200 pushed to fresh record highs mid-month as reporting season delivered better-than-feared earnings, before easing slightly into month-end, while small caps staged their best August rally since 2009 as the market's focus broadened out beyond the large-cap miners and banks. Offshore, global and emerging market equities extended their year-to-date advance, led once again by the AI trade, though this time with software and select cyclicals doing more of the work than semiconductors alone.

The standout theme of the month, however, was the renewed "debasement trade". Midway through August, the US Treasury surprised markets with an announcement to expand its long-bond buyback program, essentially stepping in to buy back longer-dated government debt. Markets read this as a signal that fiscal authorities were growing uneasy about the sheer volume of long-duration issuance needed to fund the deficit, and it reignited concerns about currency debasement and US fiscal sustainability that had simmered earlier in the year. The reaction was dramatic: gold surged almost 10% in USD terms over the month (silver rose by more than 15%), as investors rotated into hard assets as a hedge against currency and fiscal risk.

A sharply stronger Australian dollar, up roughly 2% against the greenback, meant that unhedged offshore returns were pared back materially for local investors, even as the underlying markets performed strongly in their own currencies. Bond markets stayed under pressure, with long-term yields in Europe, the UK and Japan pushing to multi-year highs on fiscal and inflation concerns, while the RBA held the cash rate at 4.35% for a second straight meeting but maintained a hawkish bias, with Governor Bullock flagging it was "quite possible" rates may need to rise again.

Australian Equities

Australian equities delivered modest, but positive returns.

- **S&P/ASX 200, up 1.5%.** Miners and healthcare led the gains, offsetting choppiness in the banks during a busy earnings season. Softer July labour market data raised questions about the pace of economic growth, while a hotter-than-expected inflation print late in the month reinforced the case for a longer pause or even further tightening from the RBA.
- **Australian small caps, up 5.2%** A standout month. The S&P/ASX Small Ordinaries had its best August performance in well over a decade, comfortably outpacing the large-cap benchmark. Improved earnings outcomes, dividend surprises and a rotation away from crowded large-cap positions all supported the move.

Global Equities

Overall, global equities had a positive month, but the appreciation of the AUD kept unhedged returns muted.

- **US equities** recovered during August as investors looked through the July technology correction and refocused on resilient economic growth and solid corporate earnings. The Nasdaq led gains as technology stocks rebounded, while broader participation across sectors supported positive returns from both the S&P 500 and Russell 2000. The month's performance reinforced the view that the recent weakness in AI-related companies reflected a valuation adjustment rather than a material deterioration in earnings prospects.
- **European equity** markets in local currencies were generally positive during August, supported by attractive valuations, resilient corporate earnings and improving investor sentiment towards non-US markets. Financials, industrials and energy companies performed particularly well, benefiting from stable economic conditions and ongoing demand for cyclical sectors. European markets also attracted flows from investors seeking greater diversification away from US technology stocks.
- **Japanese equities** were among the stronger developed markets, led by a rebound in industrials, healthcare and select technology names.
- **Emerging markets** delivered their strongest August since 2004, up 3.4% in US dollar terms led by a sharp rebound in South Korea and Taiwan as AI-linked chipmakers stabilised, alongside strength in South Africa and Turkey. In AUD terms, after adjusting for the stronger Aussie dollar, the unhedged return was 1.3%.

Fixed Income & Commodities

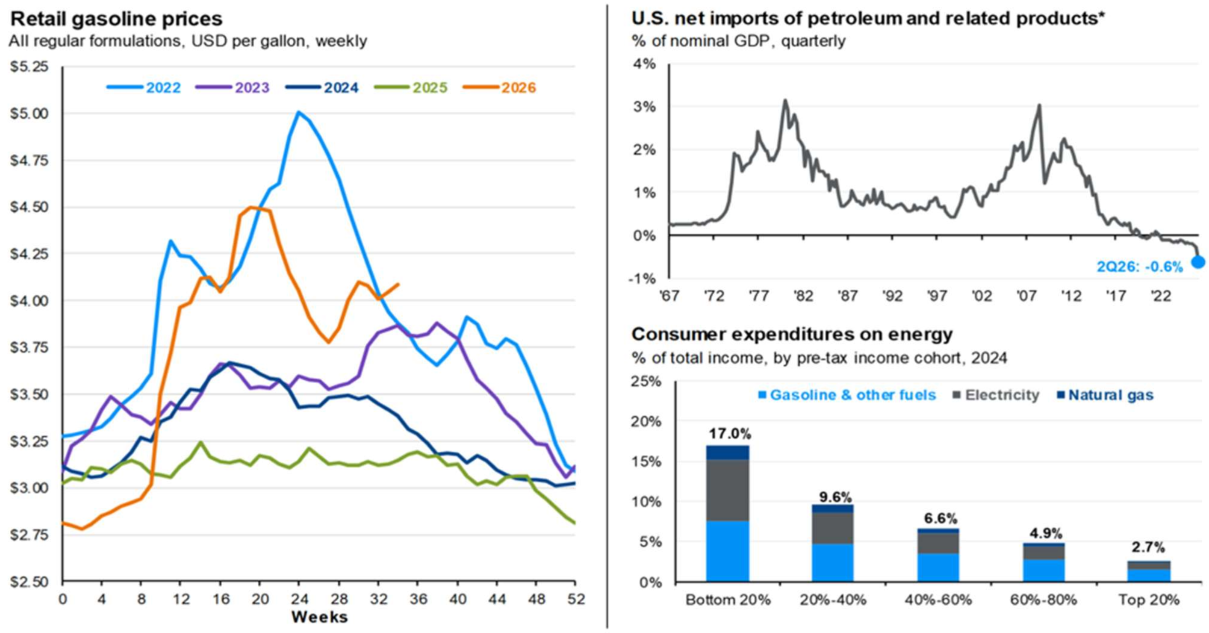
August was a flat to negative month for most fixed income indices:

- **Australia**: Australian bonds were modestly negative, as the RBA's hawkish hold and a hotter-than-expected inflation print pushed local yields marginally higher into month-end.
- **Global**: Government bonds were mixed globally. The Bloomberg Global Aggregate Index was roughly flat in hedged terms, as modest gains in US Treasuries were offset by rising long-term yields in Germany, the UK and Japan (all touching multi-year highs on fiscal and inflation concerns). Corporate and high-yield credit outperformed government bonds as spreads tightened.
- **Oil** prices firmed modestly amid an ongoing US–Iran standoff, with Brent crude rising roughly 5% in USD terms, or low-single-digits in AUD terms after the currency adjustment.
- **Gold** surged almost 10% in US dollar terms (silver rose more than 15%) on the back of the resurgent "dollar debasement" narrative following the US Treasury's buyback announcement focused on long-dated US government bonds and a hawkish-but-uncertain Fed outlook post Jackson Hole; in AUD terms, gold's gain was still an exceptional +7.5% even after the stronger local dollar.

Property and Infrastructure

- **Global listed infrastructure.** A relatively subdued month for the sector, which lagged the broader equity rally as rate-sensitive, defensive assets found less favour amid rising global bond yields. Performance was uneven across sub-sectors with data centres/towers and utilities more exposed to the higher-yield backdrop than transport-linked infrastructure.
- **Global listed real estate.** A weak month for global REITs as rising long-term bond yields weighed on valuations. Both US and European markets fell during the month.
- **Australian listed property trusts c**ontinued to **be impacted by** the headwinds of persistently higher official rates and the threat of further increases by the RBA. Australian listed property trusts underperformed their global counterparts.

Oil and the US Economy



Source: J.P. Morgan Guide to the Markets. Data is of 31 August 2026.

The chart above explains how oil and changes in oil prices affect the U.S. economy. On the left, it shows weekly gasoline prices by year. In the upper right, it shows U.S. net oil imports as a share of nominal GDP, highlighting that the U.S. is now a net exporter of oil following the shale revolution. On the bottom right, the chart breaks down the share of total income, by income cohort, that consumers spend on energy products. The key takeaway is that higher energy prices have a disproportionately negative impact on lower-income consumers, while middle- and upper-income consumers are relatively well insulated.

Outlook and Positioning

Looking ahead, markets face a considerably busier central bank calendar in September, with meetings scheduled for the Bank of Canada, European Central Bank, Federal Reserve, Bank of England, Bank of Japan and the RBA. The key swing factor for global markets remains the tension between resilient corporate earnings and an AI investment cycle that continues to broaden in its beneficiaries, against a backdrop of persistently elevated government bond yields, expanding fiscal deficits and sticky inflation. For Australian investors, the RBA's hawkish hold leaves the door open to further tightening if the recent hot inflation print proves more than a blip, which would be a headwind for local duration-sensitive assets such as A-REITs and small caps even as it could continue to support the Australian dollar. The unresolved US–Iran standoff also remains a key source of tail risk for energy prices and, by extension, the global inflation outlook. A resolution or further escalation could each meaningfully reshape the macro narrative into year-end.

From a portfolio construction perspective, we continue to favour a balanced approach, maintaining exposure to the broadening equity rally while holding meaningful ballast through high-quality fixed income.

Benchmark Returns

Period Ended: 31 August 2026	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % (pa)	5 Years % (pa)	10 Years % (pa)
Australian Shares							
S&P/ASX 100	1.22	4.96	1.00	4.92	11.31	8.29	9.66
S&P/ASX 200	1.54	4.54	0.32	4.40	11.24	7.81	9.36
S&P/ASX Small Ordinaries	5.18	-0.19	-6.31	-1.22	9.77	2.22	6.52
International Shares							
MSCI ACWI ex-Australia AUD	0.62	2.20	9.12	11.85	16.57	11.37	13.18
MSCI ACWI ex-Australia AUD (Hedged)	2.41	2.09	10.00	22.84	19.80	10.64	
MSCI Emerging Markets AUD	1.30	-0.83	7.45	27.17	19.15	8.61	9.81
Australian Cash and Bonds							
Bloomberg AusBond Bank	0.38	1.15	2.16	3.99	4.21	3.26	2.24
Bloomberg AusBond Composite Index	-0.22	0.30	0.53	0.57	3.32	-0.13	1.58
International Bonds							
Bloomberg Global Aggregate AUD (Hedged)	0.16	-0.35	-1.19	1.79	3.52	-0.39	1.26
Global Listed Infrastructure							
FTSE Developed Core Listed Infrastructure 50/50 AUD (Hedged)	-1.95	0.43	-2.23	11.93	12.56	6.63	7.16
Property							
S&P/ASX 200 A-REIT	-6.67	-5.12	-5.81	-15.50	6.85	2.89	4.74
FTSE EPRA Nareit Developed AUD (Hedged)	-3.13	1.00	-1.12	9.63	8.59	0.53	2.86

Source: Morningstar Direct

Important Information

This report has been prepared for general information purposes only and does not take into account the specific objectives, financial situation, legal circumstances, or needs of any individual or organisation. The information contained in this report is not intended to constitute legal, financial, or other professional advice and should not be relied upon as such. Before making any decision or taking any action based on the contents of this report, you should consider its appropriateness to your circumstances and seek independent professional advice. Any references to past performance are provided for illustrative purposes only and are not a reliable indicator of future performance. No representation is made that any outcomes or results will be achieved in the future. To the maximum extent permitted by law, Entireti Limited and the Licensee disclaim all liability for any loss or damage (including indirect or consequential loss) arising from reliance on the information contained in this report or from any error or omission.