Market Watch

July 2026

Navigating Volatility and Opportunity

Global share markets delivered a slightly negative return in July, as escalating tensions in Iran and higher oil prices weighed on investor sentiment. AI remained a major market theme, with investors questioning whether large AI companies can generate sufficient returns from their significant investments. While strong earnings from some US hyperscalers (several large US technology companies) helped ease these concerns in the short term, sentiment remains mixed. At the same time, chipmakers have benefited from strong AI-driven demand, boosting earnings and share prices, although this has also contributed to increased volatility in AI-exposed stocks and equity markets. Asian markets produced mixed results. Chinese equities rebounded on improved technology sentiment following the launch of the lower-cost Kimi K3 AI model. Japanese shares were broadly flat as investors anticipated further interest rate increases, while South Korean equities declined amid concerns over future semiconductor demand.

Australian equities extended their upward momentum in July led by the Energy sector, which surged 12.1% as renewed conflict in the Middle East pushed oil and gas prices higher. Financials also performed strongly, rising 5.8% on expectations that the Reserve Bank of Australia may not need to increase interest rates further. The Health Care sector advanced 2.2%, supported by a rebound in CSL. In contrast, the Information Technology and Industrials sectors underperformed, declining 4.8% and 1.4%, respectively. Despite a favourable backdrop, investors remained mindful of slowing domestic economic growth, geopolitical risks and the potential for renewed volatility in global markets, suggesting that future gains would likely depend more on earnings growth than further expansion in market valuations.

Global REITs and infrastructure markets have a cautiously positive outlook for the second half of 2026, supported by improving rate expectations, attractive income yields and long-term themes such as AI, digital infrastructure, electrification and energy transition. Investors are favouring high-quality assets with stable cash flows, including data centres, logistics, healthcare and essential infrastructure, while remaining cautious on weaker property sectors such as traditional offices. Overall, opportunities remain attractive but selective, with asset quality and valuation discipline being key drivers of future returns.

The Global Bond market has transitioned from a prolonged period of low yields to an environment where fixed income once again offered compelling income growth. Global bond yields increased as inflation and energy prices pushed long-term yields higher than short-term rates, particularly in Europe and the United States. The resulting steepening of yield curves reflected investor concerns that central banks may need to keep interest rates higher for longer, as well as increased demand for compensation for risks associated with geopolitical uncertainty and rising government debt.

The Australian bond market remained positive, supported by relatively high yields and expectations that monetary policy was nearing its peak. While the RBA maintained a restrictive stance amid persistent underlying inflation, Australian 10-year bond yields rose 21 basis points, with gains moderated by weaker inflation data.

The AUD traded around USD $0.70 in July, underpinned by expectations that RBA would maintain a restrictive monetary policy stance though weaker inflation data tempered expectations of further rate increases. Movements in the currency were also influenced by shifts in global risk sentiment, commodity prices, and evolving expectations for U.S. Federal Reserve policy.

Economics:

U.S.

- The U.S. unemployment rate fell to 4.1% in July, offering reassurance that the labour market remained resilient and allowing the Federal Reserve to maintain its focus on inflation.
- Interest rates remained unchanged at a target range of 3.50% to 3.75% following the July U.S. Federal Research meeting. It is the fifth consecutive meeting the Fed rate remains unchanged.

Domestic

- Australia's inflationary pressures eased down to 3.8% over the year to June. The Reserve Bank of Australia (RBA) did not hold meeting in July and maintained the cash rate at 4.35%.
- In June, Australia's seasonally adjusted unemployment rate held steady at 4.4%.

Major Asset Class Performance

Asset classes	1 Mth %	1 Yr %	3 Yrs (p.a.) %	5 Yrs (p.a.) %
Australian Shares	2.3%	6.0%	10.4%	8.0%
Australian Small Companies	-3.2%	1.8%	7.5%	2.2%
Global Shares (unhedged)	-1.4%	12.0%	16.8%	11.9%
Global Shares (hedged)	-0.3%	22.3%	18.0%	10.7%
Global Small Companies (unhedged)	-4.3%	13.8%	13.3%	8.4%
Global Emerging Markets (unhedged)	-4.4%	25.1%	17.7%	9.0%
Global Listed Property (hedged)	2.5%	19.0%	9.1%	1.5%
Listed Infrastructure (hedged)	0.2%	15.5%	11.3%	7.1%
Australian Fixed Income	-0.4%	1.1%	3.7%	-0.1%
International Fixed Income	-0.9%	2.1%	3.4%	-0.5%
Cash	0.4%	3.9%	4.2%	3.2%

Source: Lonsec iRate, Rhombus Advisory, 31 July 2026.

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (unhedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (hedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Listed Infrastructure (hedged): FTSE Global Core Infrastructure 50/50 NR Index (AUD Hedged) Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Hedged AUD

Please note: Past performance is not indicative of future performance.

Currency markets

Exchange rates	At close on 31/7	1 Mth change %	1 Yr change %	3 Yrs change %
AUD/USD	0.7030	2.34%	8.67%	5.21%
AUD/GBP	0.5229	0.69%	7.22%	0.60%
AUD/Euro	0.6110	1.26%	8.03%	0.73%
AUD/Yen	112.90	1.27%	17.30%	19.16%

Source: Reserve Bank of Australia, Lonsec iRate, Rhombus Advisory, 31 July 2026.
Please note: Past performance is not indicative of future performance.