

Market Insight • Investment Outlook • July 2026

Markets have moved from an energy-shock scare to a mid-cycle recovery led by AI and resilient credit.

Inflation is still above target, but the worst of the spike has passed as energy supply normalises and the Iran–US "fragile peace" holds. We see a transition into a mid-cycle growth phase that is supportive of diversified equities and credit, with cash and government yields staying relatively elevated.

Executive summary

Why it matters for portfolios

Client portfolios need to stay invested during the recovery while retaining protection against renewed inflation risks, higher long rates and geopolitical surprises.

Our starting point remains a core allocation across public and private markets, supplemented by satellite and opportunistic themes tailored to each client's growth, income, liquidity and lifestyle objectives.

We continue to develop our product solutions to suit differing client needs. The latest developments are the Enhanced Income Separately Managed Account and the Alternative Private Income Fund. Ask your advisor for details.

Big call

We think the RBA will be cutting rates by year end, reversing a policy mistake by hiking too much before the Iran conflict. The oil shock drained household spending which combined with tax hikes killed consumer sentiment and the housing sector. One year forward interest rate expectations have started to fall supporting this view.

In this outlook (Click the links below)

- [The big picture](#)
- [Public markets — equities](#)
- [Public markets — bonds & credit](#)
- [Private markets — PE, VC & real assets](#)
- [Private real estate](#)
- [Private credit](#)
- [Longer term themes we're tracking](#)
- [Themes for the year ahead](#)
- [Tactical asset allocation scorecard](#)

The big picture

Markets have moved from an energy-shock scare to a mid-cycle recovery led by AI and resilient credit.

Inflation is still above target, but the worst of the spike has passed as energy supply normalises and the Iran–US "fragile peace" holds.

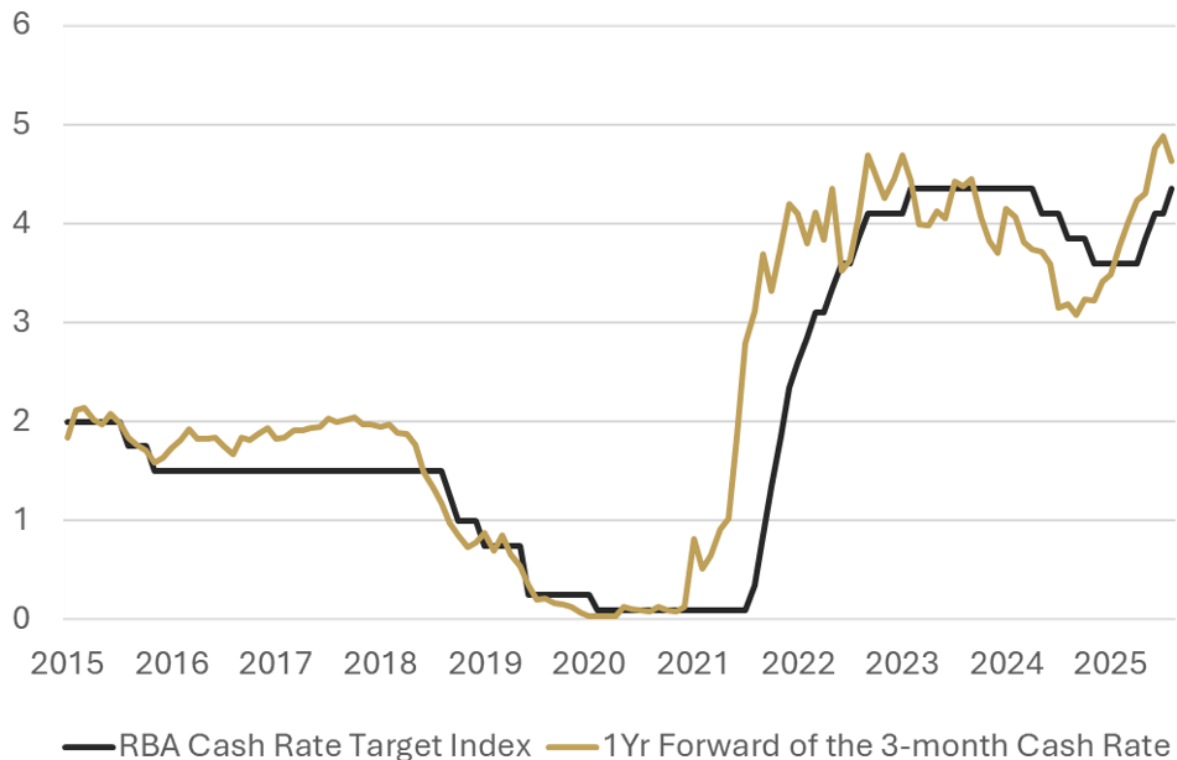
We see a transition into a mid-cycle growth phase that is supportive of diversified equities and credit, with cash and government yields staying relatively elevated.

The picture in Australia is more likely slowing growth versus the US accelerating, Europe and China recovering but dependent on policy shifts.

What it means

- **Global:** The US looks robust, Europe more fragile given energy sensitivity, and Australia has moved from early-year strength into a weaker phase.
- **Policy:** Government budgets, treasury management and central banks will decide whether growth slows or resumes, but recession risk remains low.
- **Cycle:** We see two main scenarios—slower growth or resumed growth—both with inflation elevated but trending back towards central-bank targets. The strongest cyclical signal is that higher inflation is the most probable outcome this year.
- **Big call:** We think the RBA will be cutting rates by year end, reversing a policy mistake by hiking too much before the Iran conflict. The oil shock drained household spending which combined with tax hikes killed consumer sentiment and the housing sector. One year forward interest rate expectations have started to fall supporting this view.

Australian Interest Rate Expectations



Interest rate expectations — Anseres Capital, July 2026

Public markets outlook — Equities (As at 30 June 2026)

We see a broadening of market leadership beyond AI stocks and semiconductors into small caps and other sectors.

Our preference remains for Global over Australia due to better economic momentum and earnings growth with more exposure to key market drivers such as AI.

Key points

- **Global equities:** Small caps have begun to outperform large-caps again, with leadership spreading across sectors and regions.
- **Australia:** ASX performance has been mixed, with resources, gold and energy lagging. Budget concerns are likely to drag on sentiment, partly offset by more balanced RBA expectations. The housing market is likely to be a key watchpoint for risk appetite and the wealth effect.
- **The AI trade:** The thematic has shifted from last year's "own the story" to this year's "own the economics", favouring higher-quality beneficiaries and picks-and-shovels exposures. We remain watchful of sentiment on hyperscaler capital expenditures (CapEx) while looking for productivity gains.

Public markets outlook — Bonds and credit (As at 30 June 2026)

Higher base rates have reset income in both public and private credit, with bond markets now acting as shock absorbers rather than shock transmitters.

Government bond yields have declined from their peaks as inflation anxiety eases, but rate settings remain tight and term premia still matter.

Our preference remains for high-quality credit over interest rate risk globally, but the domestic view is more neutral as the RBA moved early.

Key points:

- **Bonds:** Yields have fallen on a more measured outlook for short-term rates, yet central banks remain constrained by inflation and resilient activity.
- **Credit:** Public credit is calm; spreads and defaults do not yet signal late-cycle stress.
- **Portfolio role:** Bonds remain the "king-maker" markets, reflecting long-term inflation expectations, driving valuations and policy reaction, while providing diversification against equity volatility.

Private markets outlook — Private equity, venture capital, infrastructure, real assets (As at 30 June 2026)

Private markets have evolved after a decade of strong inflows, easier low interest rates and rising multiples. The hope of easier exit markets returning with recent improving Initial Public Offering (IPO) and Mergers and Acquisitions (M&A) markets may be temporary and not a permanent return to previously 'normal' levels.

The balance has shifted from easy capital at low rates to more selective capital at higher-for-longer rates, rewarding disciplined operationally driven value creation.

Highlights:

- **Private equity:** Globally and in Australia private equity is "stuck, not broken," so returns now depend on authentic operational value creation, smart use of AI, and selective capital deployment rather than hoping for a quick, market-driven rebound. Earlier vintages have higher valuations, although there have been some catch up in earnings.
- **Venture capital:** The global market is defined by companies that are either AI exposed or AI excluded, with the vast majority of total venture capital flows going into AI and deep tech. Australia still benefits from favourable tax treatment through early-stage venture capital limited partnerships and founder tax concessions being extended up to \$10m revenue. Earlier vintages have overly high valuations and software businesses disrupted by AI.
- **Infrastructure and real assets:** Structural demand from data centres, energy transition, transport and reshoring continues, while inflation-linked revenues support their role as

inflation hedges. We see more growth and value-added opportunities in infrastructure due to strong CapEx intentions for AI and energy security.

- **Natural capital and commodities:** Fertiliser shortages and an evolving "Super El-Niño" cycle are likely to create both winners and losers in agriculture and water-linked assets. The inflation linked nature and risk diversification to other assets provides additional attraction.

Private Real estate (As at 30 June 2026)

Private real estate sits at the intersection of higher-for-longer interest rates and persistent but moderating inflation, which together are reshaping valuations, yields and funding costs.

Since the 2022 interest rate driven transition in capitalisation rates and valuations, real estate and broader real-asset strategies have been supported as inflation-hedging exposures, but performance has become much more sector-specific.

Sector views in Australia:

- **Commercial office:** Yields and valuations remain under pressure from higher debt costs, evolving hybrid-work demand and elevated incentives, favouring prime, well-located assets over secondary stock. Selective niche opportunities will surface in sought after fringe locations that are easier to access with attractive services versus CBD areas. We see Office in early cycle recovery, hence selective niches and more discernment between opportunities is required.
- **Commercial retail:** Foot traffic and sales have stabilised, but spending is sensitive to real-income trends. Stronger centres with mixed-use, services and experiential offerings are better positioned than legacy strip shopping and older malls. Retail is mid-cycle and expected to continue a positive momentum in preferred retail formats. It has the most potential amongst the three commercial sectors.
- **Commercial industrial:** Logistics, warehousing and data-centre-linked industrial remain structural winners, backed by e-commerce, reshoring and AI infrastructure demand, with relatively tight vacancy supporting rents. While late cycle, there are still catch-up plays in core plus and value add opportunities.
- **Residential — houses, apartments, land lots:** Higher mortgage rates and tighter affordability weigh on turnover, yet ongoing population growth, constrained supply and construction-cost inflation underpin rental markets and well-located new developments. Recent interest rate hikes, inflation and government tax changes are a headwind.

Private credit (As at 30 June 2026)

Private credit is in a reset phase rather than a crisis. We are constructive on the asset class as there is plenty of demand for credit from quality borrowers, albeit there are some headwinds with selective mid cycle stresses and a high dispersion amongst private credit strategies.

US direct-lending strategies have expanded quickly into retail channels, now facing higher redemptions as some credit weaknesses emerge. However, we think the worst is past and pricing is discounted.

Australian real estate and corporate lending have pockets of concern; however good private credit managers have tilted their loan portfolios more conservatively in anticipation of slowing growth.

Key points:

- **Cycle:** Defaults and spreads do not yet indicate an end-of-cycle contraction.
- **Drivers of stress:** Sector-specific pressure (e.g. software) and low-conviction retail allocations are amplifying noise.
- **Selection is paramount:** Due to high dispersion of manager capability, quality and sub sector risks, selection within private credit is even more important amid higher interest rates and refinancing risk.
- **What to watch:** High-yield spreads, leveraged-loan pricing, private-credit redemptions and refinancing terms—stress is more likely to emerge via liquidity and valuation marks than broad fundamentals.

Longer term themes we're tracking

Structural shifts that guide and shape investment decisions for years

- Geopolitical and policy volatility is structural in a more multipolar world, with energy, trade and security used as active policy levers.
- Climate and energy-transition costs are rising just as AI and data-centre buildouts drive a step-change in electricity demand.
- ESG and sustainability are set to evolve, not disappear, as regulation and stakeholder pressure continue to push capital toward better-governed, lower-emission assets.
- High government debt and ongoing deficits increase rollover risk and constrain future fiscal flexibility, reinforcing the need to price sovereign and duration risk carefully.
- Technology adoption is accelerating, with AI, cloud, hyperscale data and specialised chips reshaping productivity and sector leadership.
- Popular themes, from AI to defence and energy transition, are prone to boom-bust cycles, creating both crowding risk and value opportunities for disciplined investors.

- Societal and demographic shifts, including polarisation and ageing, are reshaping politics, consumption and savings, influencing long-run asset returns and policy choices.

We intersect some of these themes and others with actionable recommendations

Themes for the year ahead

We see several enduring themes to be active in now, subject to pricing and underlying fundamentals

There are several other themes monitored which may have long term attractions but are cyclically out of favour in the short to medium term.

The following are active themes as at 30 June 2026. Please contact your advisor for our separate Thematic Tilts research.

Semi-conductors

- Still a powerful but late-cycle theme, with demand tied to memory, networking and data-centre capacity.
- The best opportunities are increasingly at the picks-and-shovels layer: components, power, cooling and grid infrastructure.

Energy security & electrification

- Benefit from an accelerated demand from ongoing digitalisation, reshoring, energy security initiatives, ageing grid infrastructure and growing electricity intensity.
- We see the most attractive opportunities in the infrastructure enabling the transition rather than power generation itself, where earnings visibility, pricing power and barriers to entry are stronger.

Global small companies

- Benefit from broadening market performance and mid-cycle growth, with many second-wave AI and industrial transformation beneficiaries sitting in small and mid-cap cohorts.

Tactical asset allocation scorecard

Our overall view for asset class positioning is neutral to moderately positive.

Fundamental factors

Current view - Moderately positive

NEGATIVE NEUTRAL POSITIVE

Our view of combined fundamental factors highlights that inflation is expected to be high but normalising over the next year, while economic growth is expected to remain solid but could be modestly accelerating or decelerating depending on regional policy differences. Economies around the world remain near full employment despite headlines of AI related job losses. A tailwind from money supply growth supports both the real economy and financial markets.

Valuation factors

Current view - Neutral

NEGATIVE NEUTRAL POSITIVE

Valuation indicators, such as price/earnings ratios, have fallen from the high end of the historical range, heading back towards long term averages. This has been driven by mega cap AI linked company earnings and connected downstream 'picks and shovels' companies that supply AI.

Technical factors

Current view -Neutral

NEGATIVE NEUTRAL POSITIVE

We have seen a broadening out of equity performance into more sectors and sizes of companies which supports the view of a mid-cycle economic and equity market recovery. Positioning has normalised where most investors are neutral to modestly overweight stocks.

Overall view for growth asset classes

Current view - Neutral to moderately positive

NEGATIVE NEUTRAL POSITIVE

As we see our scorecard neutral to moderately positive across the scorecard factors, our overall view for growth asset classes is neutral to moderately positive. This means that we see risks on both sides as mostly balanced with more of a bias to the upside versus our long-term strategic asset allocation to equities and other asset classes. There are nuances within each asset class and regionally which we take into account in our Separately Managed Account models.

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if you have any questions, reach out to your advisor.

Watch Quarterly outlook — video recap

A short video summary of this quarter's Investment Outlook.



Investment Outlook



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