

Signal in the noise: Structural tailwinds that are driving global growth

Research & Insights

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Ausbil Investment
Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

Just as we were moving beyond the tariff shock of 2025, the oil supply shock struck with the US and Israel intervention in Iran. Despite warnings of a bearish outcome from the broader market, Ausbil carefully assessed the situation and concluded that a quick resolution by June, even in the face of risks, was the most probable outcome. What underpins our more optimistic outlook, and how are we seeing equity markets now, and importantly, in FY27?

10 minute read

Key points

- A paradigm shift away from globalisation that began with Brexit and Trump's first presidency, and has been exacerbated by the 2019 COVID pandemic, Russia's invasion of Ukraine, the 2025 tariff shock and the Iran oil shock of 2026, is showing structural opportunities in equities.
- The US and China remain key drivers of global growth, with Japan set to increasingly add to world demand with the reflation of its economy after more than 30-years of deflation.
- The reindustrialisation of the US under President Trump, and the reinforcement of US supremacy in world trade is adding to global growth and equity opportunity.
- The productivity miracle, with the addition of AI, is driving major global capital expenditure into technology infrastructure and in productivity investment by businesses, creating a long growth pathway that is only in its infancy.
- Despite significant tariff noise from market bears in 2025 and with the oil shock of 2026, the world economy is forecast to grow in 2026 and 2027, albeit at a slower pace. Our initial forecast of accelerating synchronised global growth may not be realised due to the oil shock and a price level shift in Brent crude oil to around US\$90 per barrel. We see the pace of global growth similar to levels registered for 2025 at 3.3%.
- We see the major growth drivers of Australian equity market performance in 2026 and 2027 being:
 - The ongoing strength of metals and critical minerals.
 - Australia's leading technology companies generating outperformance as they monetise AI.
 - Domestic productivity and inflation challenges, favouring global earnings streams.



Paul Xiradis
Executive Chairman /
Chief Investment Officer /
Head of Equities



Jim Chronis
Chief Economist, Associate
Director – Debt and
Diversifieds

The shift away from globalisation: putting the multiple shocks into perspective

Never waste a crisis. One thing we learned from Brexit in 2016 was that fears of a major economic fallout from such a fundamental change in relationships – with the UK ceding from the European Union – were largely unfounded. The UK and the EU resumed ‘business as usual’ under a new set of rules. President Trump’s goading of China on trade and intellectual property during his first presidency, while problematic, was also not a disaster. Rather, the world was coming to terms with the idea that globalisation as we knew it (think blocs like the EU, World Health Organisation, United Nations, IMF and World Trade Organisation) was fading, in favour of an increasingly bilateral approach to international relations. The invasion of Ukraine by Russia in 2022, now a war that sadly persists today, underscored the risks around both energy ‘ransom’ and defence. With the US/Israeli action in Iran in 2026, and the closure of the Strait of Hormuz blocking some 20% of the world’s crude oil supply, the themes of energy and defence security have only been underscored, as has the continuing shift to deglobalisation.

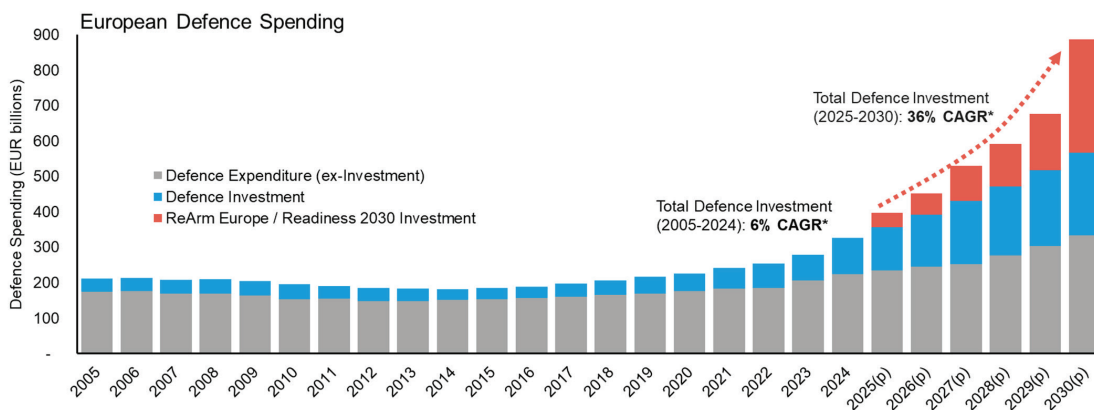
The rise in investment to reduce global vulnerability in energy and defence

In 2022, the invasion of Ukraine prompted Ausbil to review our overall outlook for equities considering the fundamental shifts that were occurring in globalisation. Ausbil noted at the time that we were entering a ‘materially different’ investment environment where industrial policy is paramount, and that the next 30 years would be materially different from the last 30 years. This deglobalisation has been a complete reversal of what began under George Bush Sr in 1990 with the fall of the Berlin Wall. To make sense of this new world, you needed to see it through the eyes of a defence analyst, making sure that the economy has sufficient redundancy and independence built into it, and that it can withstand shocks. In such an environment, industrial policy becomes paramount, leading to increased investment in energy infrastructure, defence and aerospace, technology and artificial intelligence, port infrastructure and shipbuilding, and securing supplies of critical minerals.

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil’s core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 30 April 2026, Ausbil manage over \$20.1 billion in funds under management.

Figure 1: Defence spending in Europe is rising dramatically



Source: European Council, as of 5 August 2025, Ausbil projections as at September 2025 based on assumed cashflow of existing stated commitments.

The secular growth themes we identified in 2022 continue to hold today and have only been reinforced by the 2025 tariff shock and 2026 oil supply shock. These themes included accelerating energy transition and energy independence; the importance of food and energy supply; a rising trend in defence spending, especially in Europe (Figure 1); increasing independence – especially in the US – with a shift to ‘made at home’ policy and re-shoring; and the emergence of new strategic alliances in the face of de-globalisation, such as AUKUS (the trilateral security partnership between Australia, the United Kingdom and the United States).

The structural growth drivers of China and Japan

From a growth perspective, the world continues to benefit from China as an above-average growth engine. In addition, we are now set to benefit from Japan as it moves from structural deflation to reflation, adding significant demand to the world economy, and for Australian resources.

Figure 2: China's economy is shifting up to a whole new level



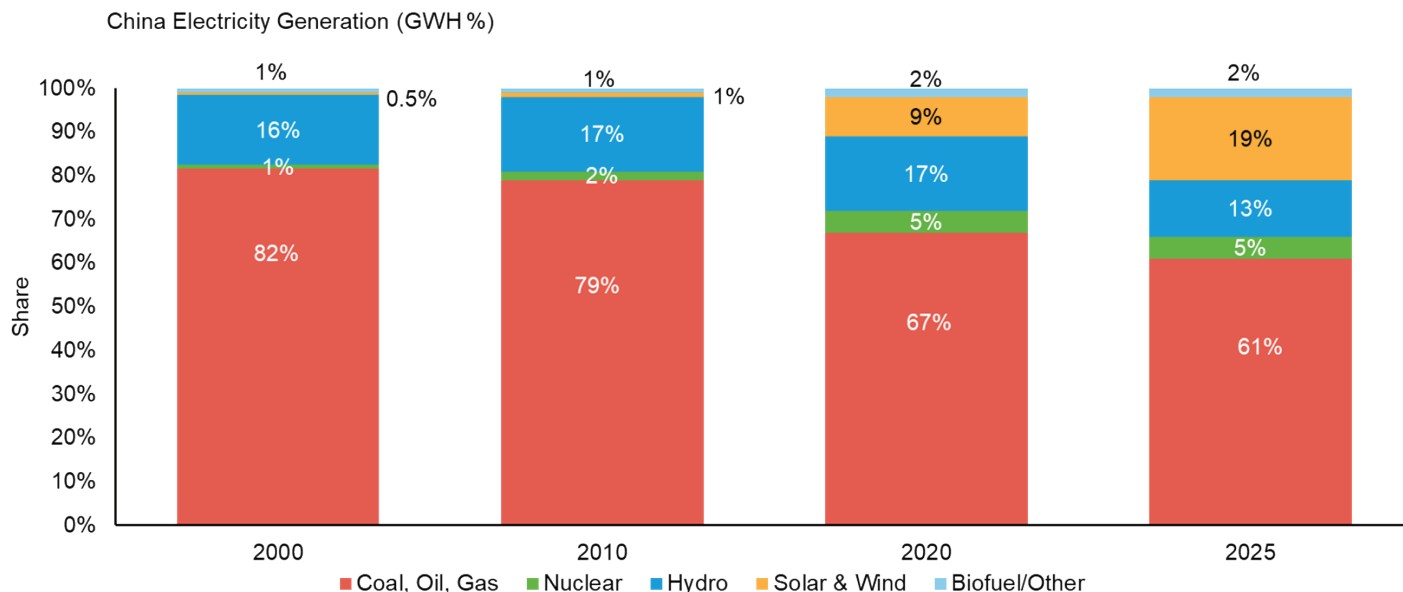
Source: Ausbil, as at March 2026.

China's 15th Five-Year Plan (2026–2030) prioritises technological self-reliance, innovation in advanced manufacturing and green technologies, and domestic consumption over traditional infrastructure stimulus. This framework supports demand for electrification-linked metals like copper, aluminium and battery materials, while constraining bulk commodities tied to construction (Figure 2).

Copper and aluminium benefit from grid modernisation, renewables and EV expansion. Battery metals gain from policy-backed energy storage and vehicle production, alongside advanced materials for semiconductors and high-tech sectors. Iron ore and coking coal also remain key inputs for steel demand from China but are becoming part of an even larger metals demand complex with China's move towards greater technological self-reliance and their scale adoption of renewable energies (Figure 3).

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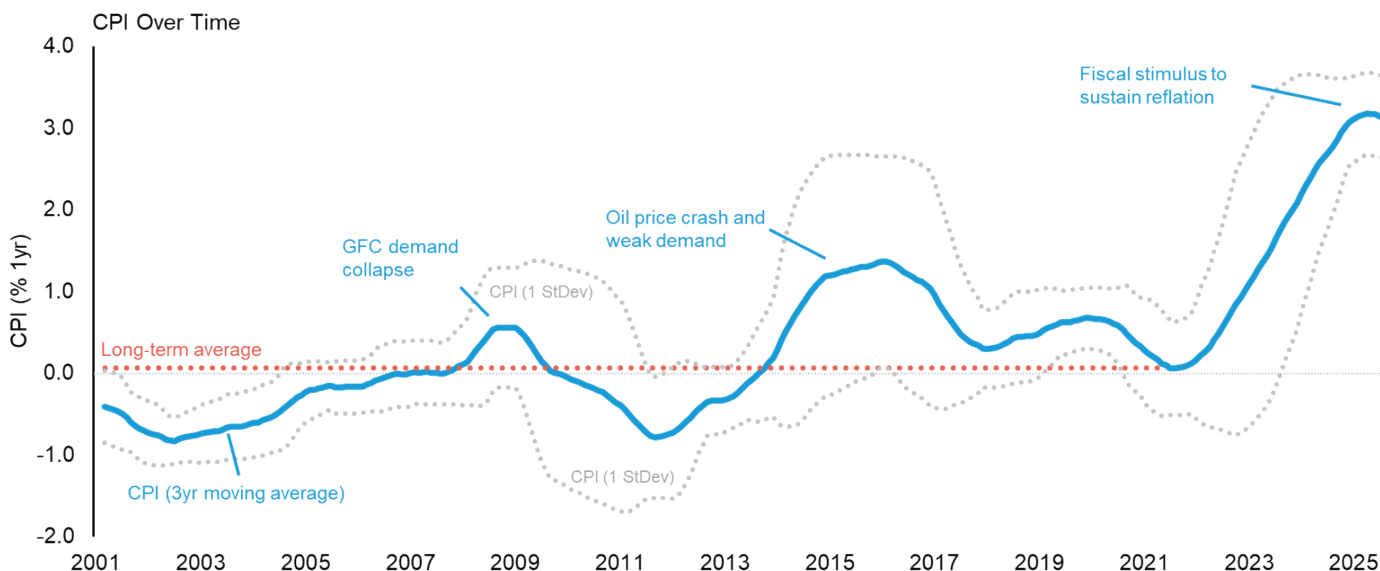
Figure 3: China leads the world in the adoption of renewables



Source: IEA, Macquarie Equities, April 2026.

In addition to China, it has become apparent to Ausbil that the secular reflation of Japan’s economy after over 30-years of deflation is increasing (Figure 4). Japan has shifted to a pro-growth policy setting that is positioning the economy to grow, improve productivity and add weight to global demand as a key export customer of Australian resources.

Figure 4: Japanese reflation: FY26 fiscal expansion, the largest in history, to sustain growth



Source: Ausbil, FactSet as at March 2026.

The Re-industrialisation of the US

Under both his first and second terms, policy under Trump has moved the US away from globalisation and towards an internalised investment policy as he seeks to shore up America’s position as the leading world economy. This has seen a fundamental change in world trade relations in 2025, and the exercise of the military power of the US in both Venezuela and Iran in 2026. US policies have sought to add to US economic activity with US tax cuts, industrial policy investment incentives, significant deregulation, and tariff exemptions for key industries.

However, most significantly has been the shift to America first policies in terms of re-shoring, securing intellectual property rights and adding new sources beyond China for key resources essential for industrial and defence applications. A clear example of this is the Rare Earths/Critical Minerals Executive Order to shift supply chains away from China. Rare earth elements are used in military applications, and hence realigning supply chains to the US and allied nations is seen as a national security issue. However, the western world's refining capacity has been limited given the poor economics created by China's dominance, but this has materially changed given the US government's intervention via a floor price mechanism, which is likely to be adopted by other allied nations.

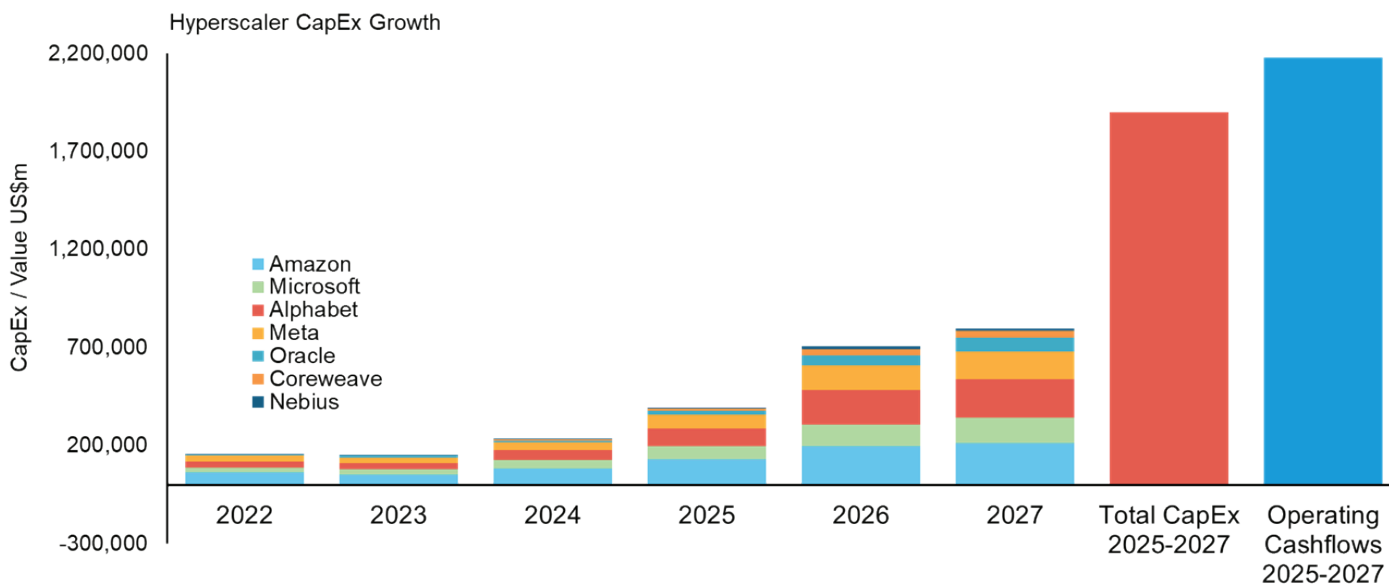
In the active reindustrialisation of the US, which represents major investment in US employment and productivity, Trump has implemented a range of policies, including: US\$500 billion AI infrastructure project, Stargate, with an immediate US\$100 billion allocation to data centres; tax cut extension in July 2025; pledge investments with Apple for another \$US100 billion in domestic manufacturing and converting grants to equity in Intel Corp; securing billion-dollar US investment pledges from Japan and Korea; and the launch of a US\$12 billion stockpile of critical minerals.

AI and the boom in technology-driven productivity and investment

The boom in AI and its potential to revolutionise the productivity of every industry is another key structural growth driver. One of the areas for AI investment is in the capacity to store and process data. Looking at US hyperscalers, the current committed capex for 2026 alone is around US\$1.9 trillion when you combine 2025-2027 estimates, nearly the entire market cap of the ASX 200 (Figure 5). However, this capex spending is more than covered by the US\$2.2 trillion in operating cashflows that US hyperscalers are projected to generate in the same period, highlighting the coverage these companies have for their AI investment spending.

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Figure 5: AI is driving a major capex boom well supported by future cashflows



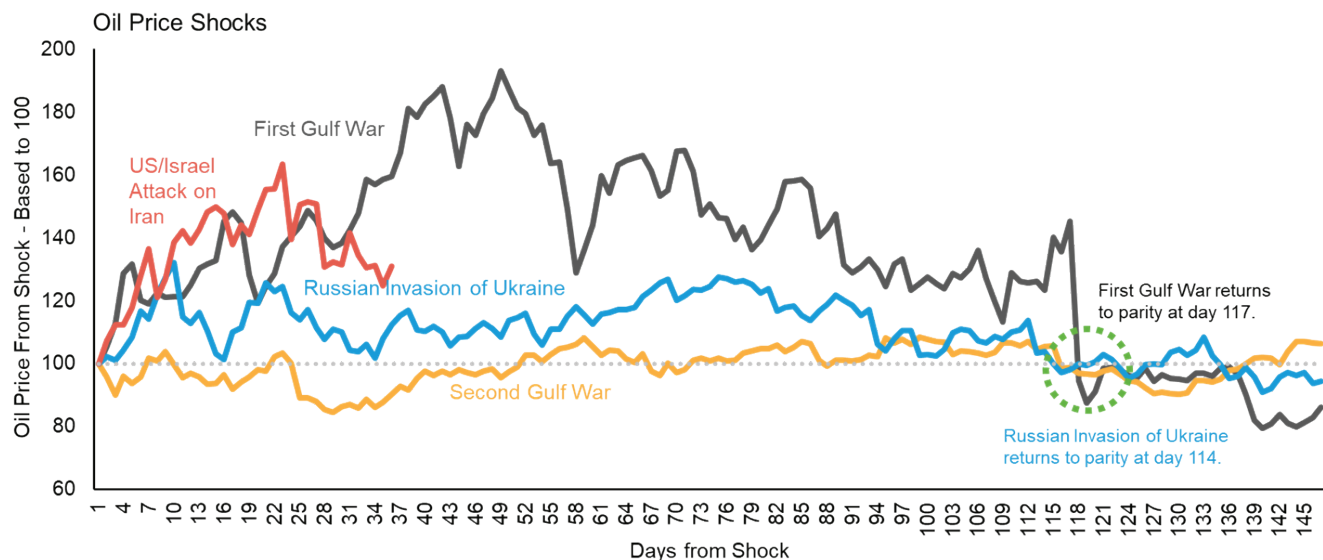
Source: Morgan Stanley equity analysts see hyperscaler capex approaching \$740 billion in 2026 and \$910 billion in 2027, as at Feb 2026.

This investment in AI may provide a major structural tailwind in universal productivity for companies and sets a base for significant future resources demand in the form of energy, copper and critical minerals for the generation, transmission and storage needed by AI infrastructure.

The recent oil shock and the outlook for economic growth

The US military action in Iran has destabilised some 20% of the world's oil production (though Iran only accounts for some 3-4%), primarily through disruption of supplies in the Strait of Hormuz. This has shocked oil prices (Figure 6).

Figure 6: Is history any guide? US/Israel attack on Iran



Source: Ausbil, Bloomberg as at 14 April 2026. Base oil price for WTI, not adjusted for inflation. Shows oil price over time against major events. Applies a geometric mean.

The oil price initially rose to US\$119/bbl with the strike, up almost double from levels of US\$67 just before the strike; however, the price fell back to around US\$90/bbl as the US shifted in April to shut down the military action and reopen the Strait of Hormuz. The oil price is likely to remain elevated and volatile until a resolution is agreed on the flow of Middle Eastern oil.

We believe that the US action in Iran, although extensive, is likely to be of a relatively short duration. At this stage, Ausbil is projecting that the current oil-driven energy shock will be relatively short, given the underwriting of the passage of oil by the US, and the geopolitics of self-interest for the US and surrounding Gulf States in stabilising the flow of oil. Having had its infrastructure severely damaged in the short war, it is also in Iran's interests to obtain a resolution in order to rebuild its national assets.

Mitigating the risks is the fact that the US action in Iran is intended to be short and sharp, focused on reducing its perceived nuclear risks. Public statements from the US administration have indicated that the conflict would be short in duration.

In the immediate term, first-round effects are being felt by consumers in higher energy prices through petrol prices at the bowser - lifting inflation and weighing on growth. Further pressure is felt indirectly through secondary inflation in goods, services, and food inflation from higher transport and production costs.

Despite the significant disruption in global energy, Ausbil's outlook for Australian and US economic growth remains positive for 2026, and with some exceptions in oil-exposed sectors, the outlook for Australian earnings growth remains in the mid double digits for FY26 and FY27.



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Table 1: Global growth – 2026(f) adjusted for base case scenario (65%), assumes \$90/bbl sustained for 12-months

Real GDP year average % (data as at 7 April 2026)	Long run average 2010 to 2019 (pa)	2026 Ausbil (f) Pre-Shock Acceleration Brent Oil ~\$60	2026 Scenario higher oil Brent at ~\$90 Base Case
United States	2.3	2.4	2.1
Japan	1.2	1.0	0.4
Euro Area	1.4	1.4	0.9
China	7.7	4.5	4.2
India	7.0	6.5	5.7
Australia	2.6	2.3*	1.8
Global GDP	3.7	3.6	3.3

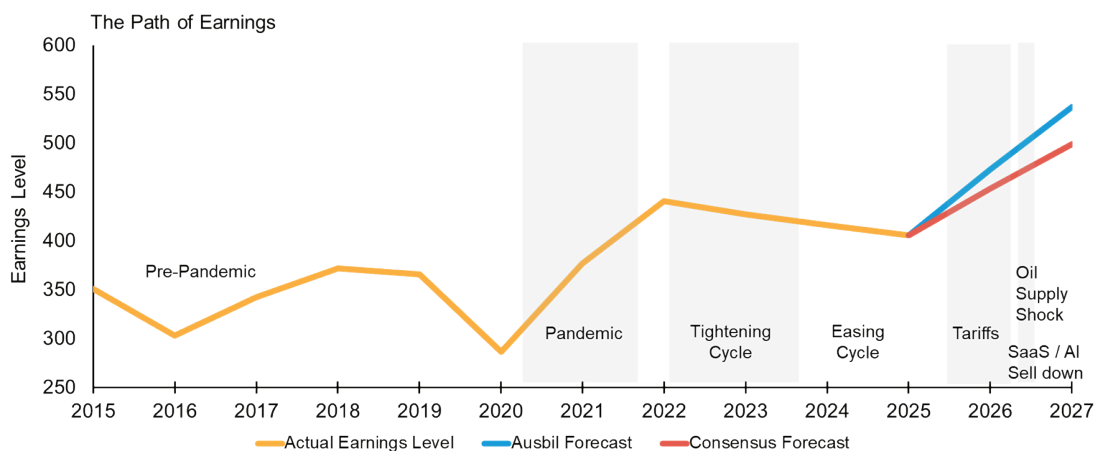
Source: Ausbil forecasts, as at 7 April 2026. (f) denotes forecast. Numbers are rounded to one decimal place. *Revised lower on front-loading of rate hikes, was 2.8% for 2026.

With the current oil supply shock, on Ausbil’s outlook, our ‘oil scenario’ GDP forecasts will see US growth lower at 2.1% (was 2.4%), Europe at 0.9% (was 1.4%), and China at 4.2% (was 4.5%). Australian growth slows with the front-loading of rate hikes to 2.3% (from our projection of 2.8%). Should oil remain elevated for 12 months, the Australian economy will slow further to 1.8% on our estimates. Ausbil sees global economic growth at +3.3% for 2026. This growth backdrop remains supportive of earnings growth. The oil scenario for slower growth in Table 1 simply illustrates the impact on growth should the oil price remain elevated for 12 months. It should be noted that in such a case, the supply shocks experienced during COVID are a multiple of the potential impact from the current shock, based on our current assessment of this concentrated military action in the Middle East.

The outlook for earnings growth

Earnings growth has been negative in the last three financial years due to a range of challenges. The outlook for FY26 and FY27 is for a return to positive growth (Figure 7).

Figure 7: The path of earnings is looking better



Sources: Canaccord Genuity, Ausbil forecast earnings, FactSet for consensus, and Bloomberg for EPS levels for the S&P/ASX 200 (AS51). Data as at 9 March 2026.

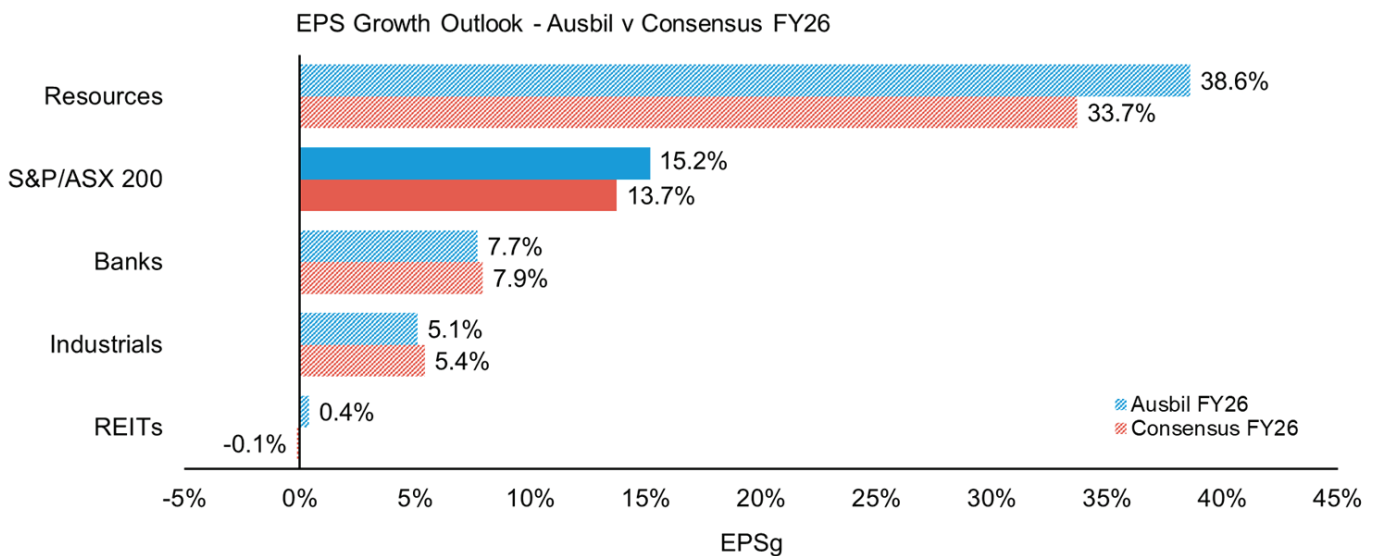
At a sector level, Ausbil is forecasting positive EPSg across all key segments, with resources a major driver in FY26 and FY27. Despite the current risks in the Middle East, and an elevated oil price, Ausbil believes the outlook for earnings growth is positive looking forward.

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While the economy is expected to slow with the impact of higher oil, Ausbil's outlook for +2.3% in growth for Australia remains supportive of equities, and most importantly, positive earnings growth. We see more opportunity in equities and strong, more broad-based earnings growth ahead of consensus. At the start of calendar 2026, on the back of a significant rerating in commodity prices in Q4 2025, and an even more promising outlook for growth, consensus has increased their FY26 EPSg to +13.7%, with Ausbil more positive again with an EPSg expectation of +15.2% for FY26 and +13.4% for FY27 (both for the S&P/ASX 200), largely on a better outlook for resources than the market (Figure 8).

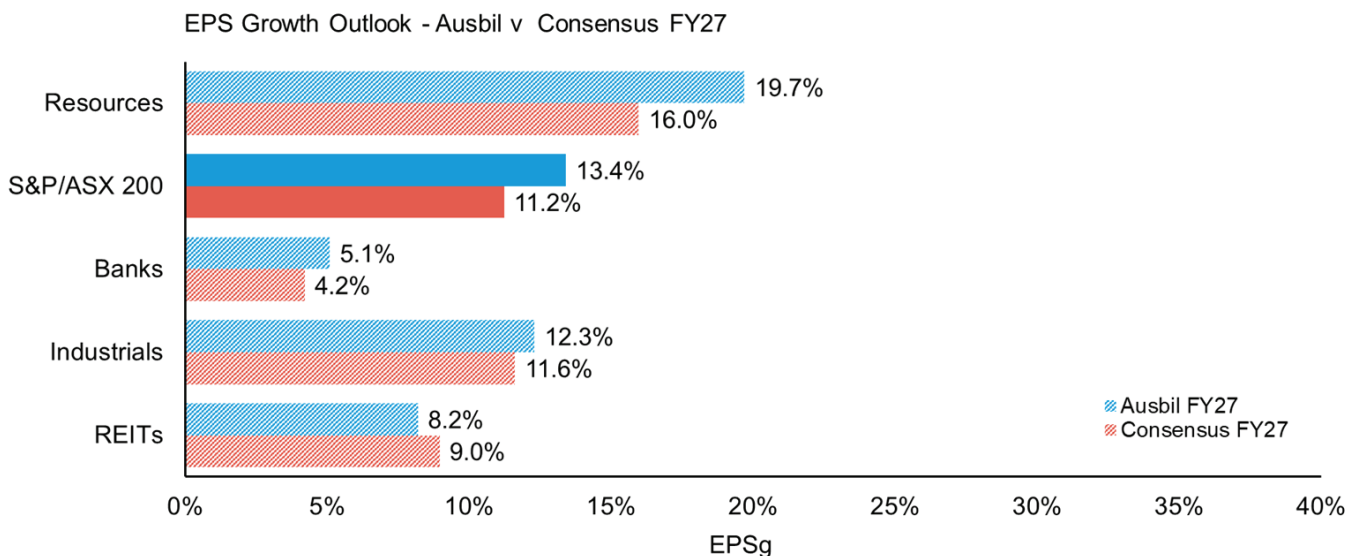
Figure 8: Ausbil v consensus earnings growth outlook FY26



Source: Ausbil, FactSet for consensus, 31 March 2026.

In FY27, we are again forecasting earnings to be ahead of the market, driven by resources, a recovery in financials and strong growth in the industrials sector (Figure 9).

Figure 9: Ausbil v consensus earnings growth outlook FY27



Source: Ausbil, FactSet for consensus, 31 March 2026.

Where are we seeing opportunity?

Despite significant tariff noise from market bears in 2025 and with the oil shock of 2026, we are forecasting the world economy to grow in 2026 and 2027, albeit at a slower pace. We see the pace of global growth for 2026 at 3.3%, similar to levels achieved in 2025.

Given that we expect a positive growth backdrop for 2026 and 2027, and with interest rates at manageable levels and unemployment at secular lows, companies are looking into two years of positive earnings growth. Consensus expects FY26 EPSg of +13.7%, with Ausbil more positive again with an EPSg expectation of +15.2% for FY26, and +13.4% for FY27 (both for the S&P/ASX 200), largely on a better outlook for resources than the market.

Underpinning our outlook for earnings are major secular growth themes, including the ongoing strength of metals and critical minerals, Australia's leading technology companies monetising AI, and domestic productivity and inflation challenges favouring global earnings streams over local. With the volatility and uncertainty in markets, an active approach to equities makes sense, particularly in seeking earnings and earnings growth, and avoiding surprises.

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