

Above the fray: the structural themes driving commodity demand

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

2026 commenced with concerns about tariffs, Ukraine and shifting global alliances offset by resilient economic growth, easing monetary policy, accelerating AI capex and a productivity boom described as unprecedented by Federal Reserve Chair Powell. However, the US/Israeli action in Iran added an oil supply shock, roiling markets. Despite this glut of risks, Ausbil is looking through the noise at the structural forces that are driving global growth, and the resources that will benefit.

10 minute read

Key points

- 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
- Federal Reserve Chair Powell has singled out the macro-economic significance of rising US productivity, allowing the economy to grow faster without generating as much inflationary pressure. Of this sustained structural rise in labour productivity, Powell says; "I never thought I would see a time when we had, you know, five, six years of 2 per cent productivity growth."
- We see these structural themes as positive for key commodities, including iron ore, copper and critical minerals – lithium and rare earths especially.



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



Jim Chronis
Chief Economist, Associate
Director – Debt and
Diversifieds

The shift away from globalisation

President Trump's goading of China on trade and intellectual property during his first presidency represented a fundamental change in economic and geopolitical relationships. While it was problematic, it was not a disaster as first feared by most commentators. Instead, 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 need for energy independence and spending on security

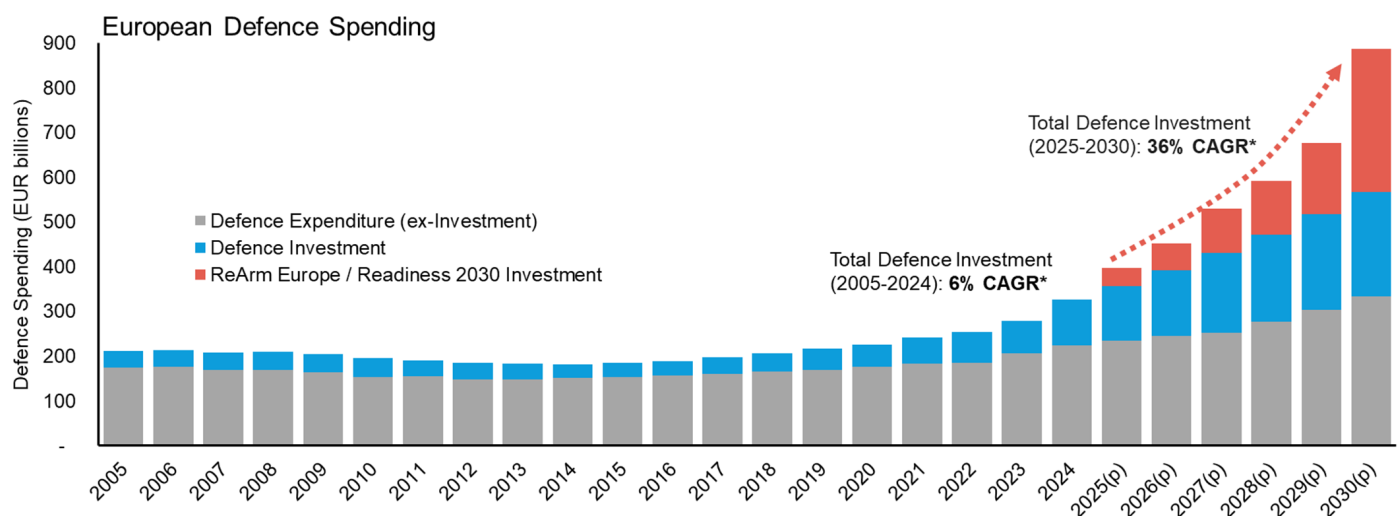
Since 2022, the global economy entered a 'materially different' investment environment where industrial policy is paramount, with national sovereignty and self-sufficiency the driving forces. This is where governments are making sure their economies have sufficient redundancy and independence built into them in order to withstand external shocks.

The invasion of Ukraine by Russia in 2022, and now the US/Israeli war in Iran in 2026, with the closure of the Strait of Hormuz blocking 20% of the world's crude oil supply, underscores the prioritisation of the themes of energy and defence security.

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 31 May 2026, Ausbil manage over \$21.8 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.

These changing economic and geopolitical relationships underscore the need for a new framework to understand these emerging structural trends and the opportunities it presents for investment.

In 2022, Ausbil identified five guiding structural trends which collectively continue to support commodities, and are expected to lead to sustained higher national income for Australia, extensive investment, continuing long term growth above global peers and an appreciating currency.

These structural drivers include an increased commitment to military spending globally as the US withdrawal of support for Ukraine and others, and war in the Middle East, has sparked an upward shift in defence spending in Europe, Scandinavia and other countries (Figure 1); increased investment in infrastructure to accommodate the growth in artificial intelligence; ongoing investment for independent energy security; and the increase in demand for electricity over carbon-based energy. Carbon free energy sources, primarily from renewables, are expected to become the dominant force in global energy systems, reducing reliance on fossil fuels.

In this 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.

China and Japan to drive structural growth

From a global growth perspective, expectations have eased modestly but remain positive. The world continues to benefit from China as an above-average growth engine as it transitions to high quality growth, maintaining their structural global lead in new fields of technology like AI, EVs and robotics, advanced manufacturing and clean energy. 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.

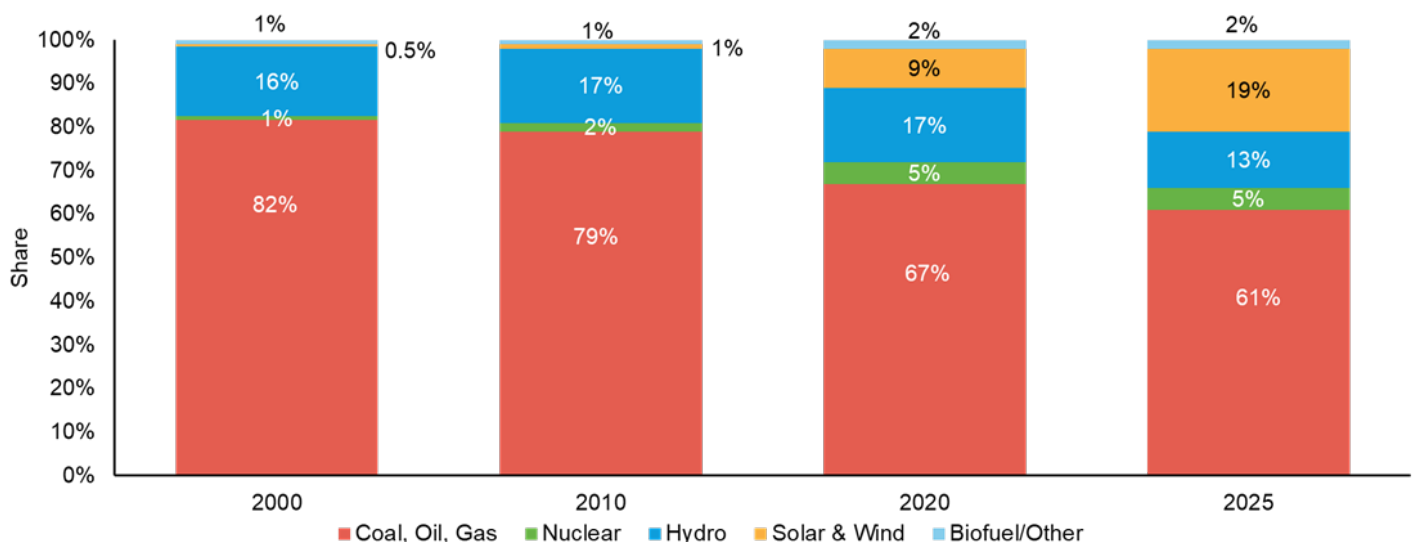
China's 15th Five-Year Plan (2026–2030) prioritises technological self-reliance, innovation in advanced manufacturing and green technologies, and domestic consumption over traditional infrastructure stimulus. This framework supports demand for electrification-linked metals like copper, aluminium and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

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 2).

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Figure 2: China leads the world in the adoption of renewables

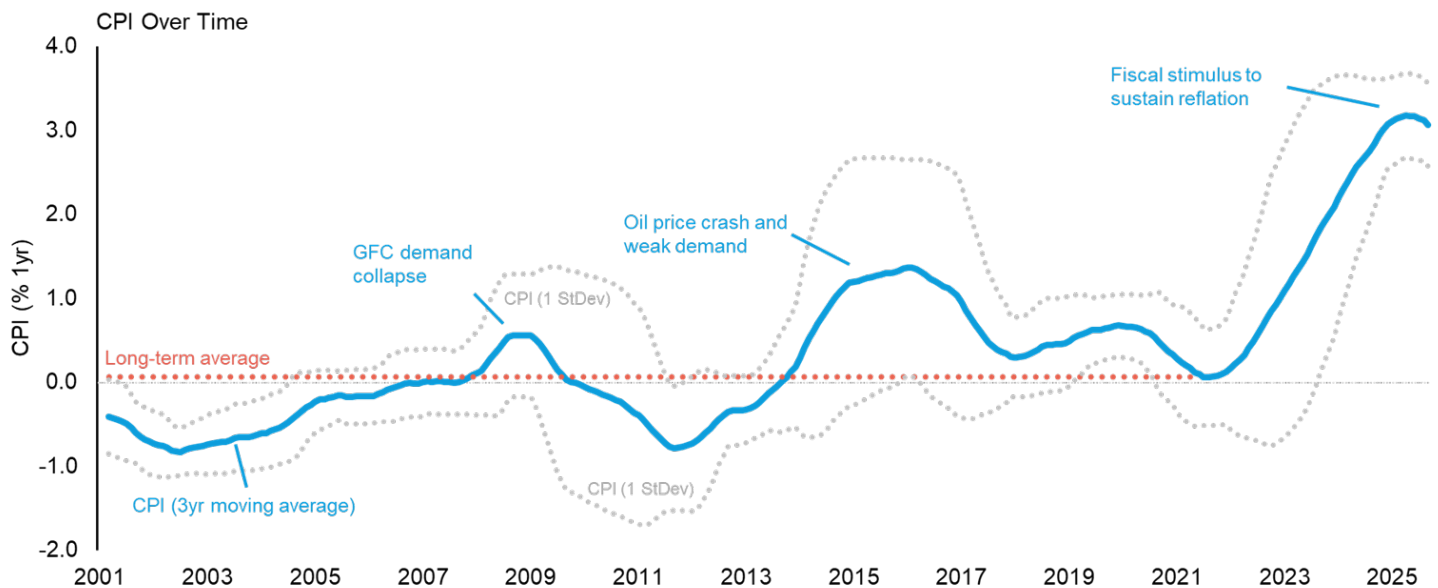
China Electricity Generation (GWH %)



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 3). Japan has shifted to a pro-growth policy setting that is setting up the economy to grow, improve productivity and add weight to global demand as a key export customer of Australian resources.

Figure 3: Japanese reflation: FY26 fiscal expansion, largest in history to sustain growth



Source: Ausbil, FactSet as at March 2026.

The re-industrialisation of the US

It has been shown, based on long time periods of multiple decades, that smaller companies outperform larger companies consistently, an assertion supported by the empirical evidence from researchers such as Siegel (2015), Banz (1981) and Fama and French (1992), and in the basic comparison of market data.

Figure 6 compares Ausbil's long active mid-cap strategy against relevant market measures to illustrate how an active approach has performed over the period shown (the example shows the Ausbil Australian Emerging Leaders Fund – gross of fees – since its inception date on 1 May 2002 for the purpose of pure comparison).

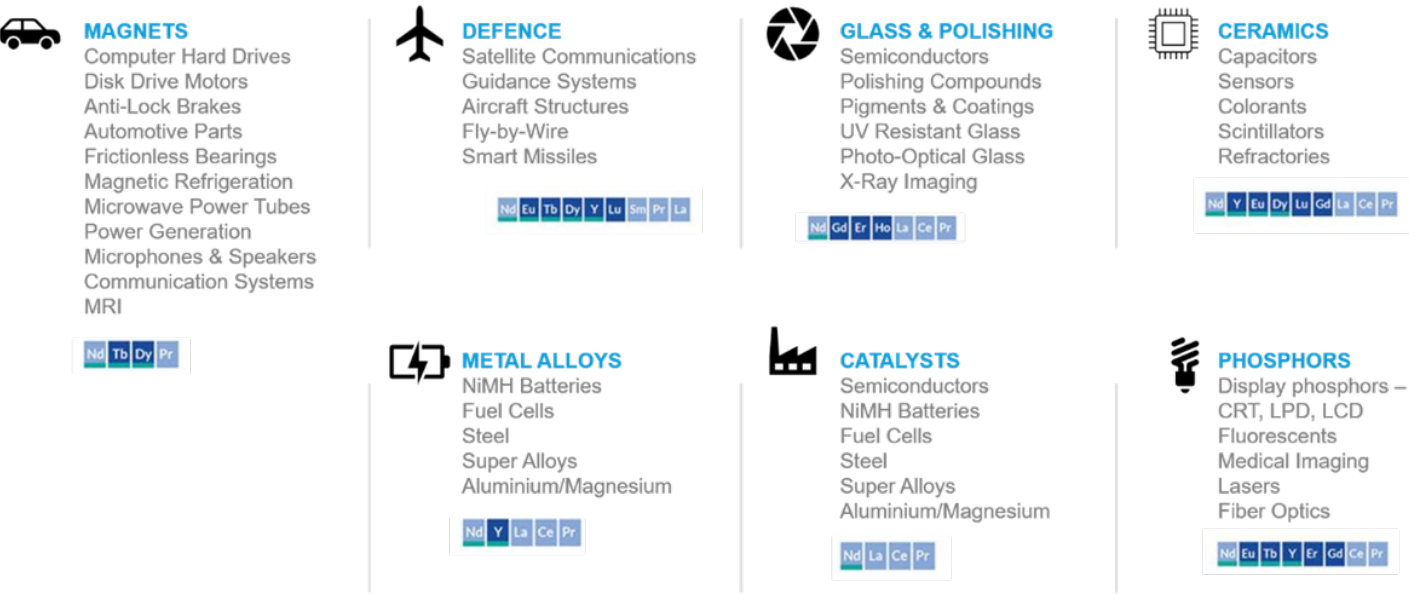
One of the most significant policy changes for world growth has been the shift to America first policies in terms of re-shoring, securing intellectual property rights and adding new sources beyond China for key resources essential for industrial and defence applications. A clear example of this is the 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 (Figure 4). 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.

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Figure 4: The universal applications of critical minerals

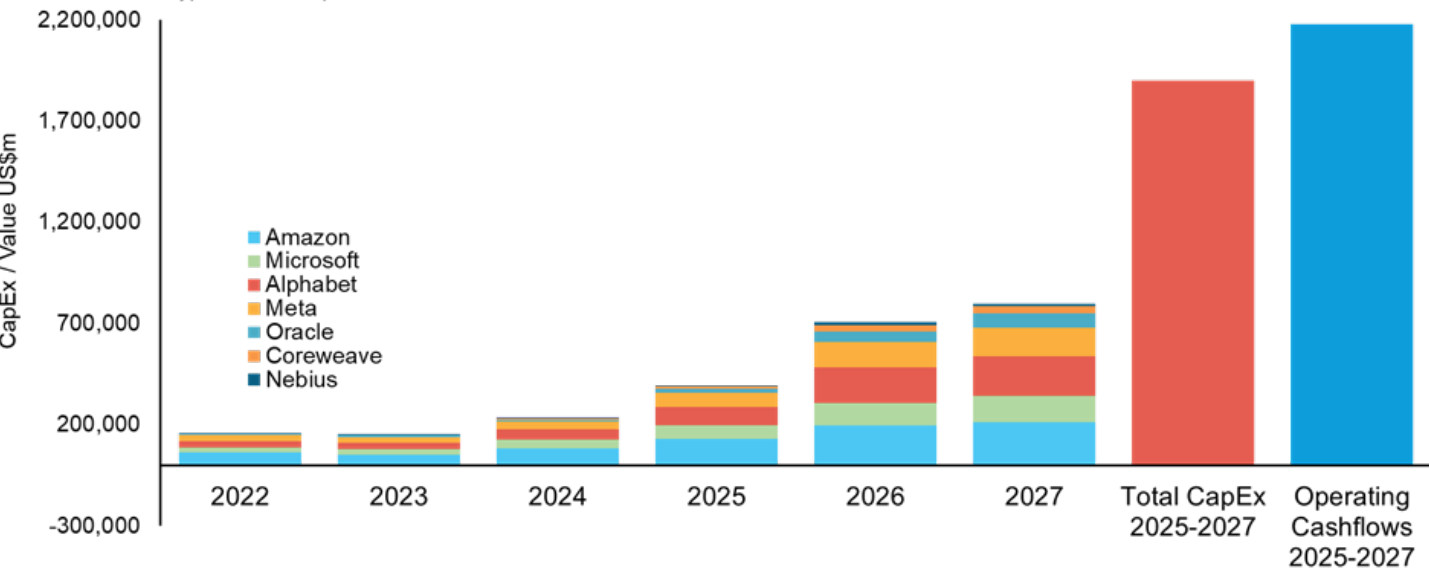


Source: Infographic from National Energy Technology Laboratory (NETL) / US Department of Energy <https://netl.doe.gov/> with minor amendments from Ausbil as at 9 April 2026.

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.

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.

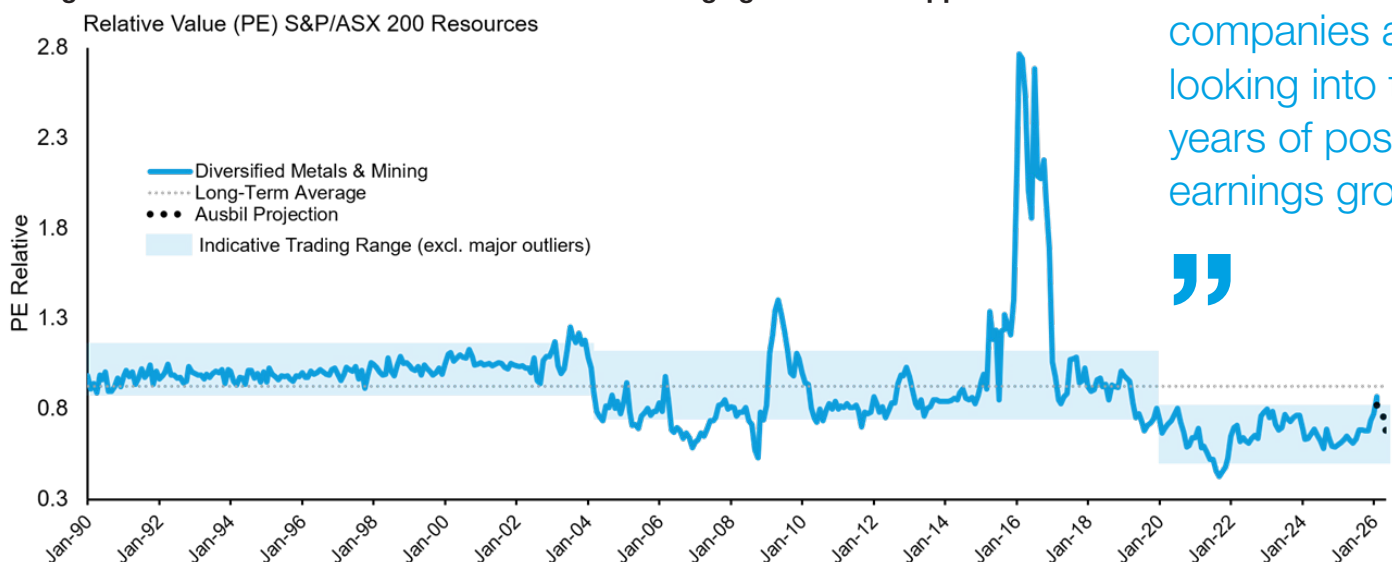
This investment in AI may provide a major structural tailwind in universal productivity for companies and sets a base for significant future resources demand in the form of energy, copper and critical minerals for the generation, transmission and storage needed by AI infrastructure.

Where are we seeing opportunity?

Despite significant tariff noise from market bears in 2025 and with the oil shock of 2026, global growth remains steady rather than derailed. Calendar year 2026 is expected see global economic growth of around 3.3%, broadly unchanged from 2025, though our earlier expectation of synchronised acceleration have only been delayed to 2027.

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 as valuations are attractive and earnings growth is underappreciated (Figure 6).

Figure 6: Resources valuations attractive and earnings growth underappreciated



Source: FactSet, Ausbil, April, May and June of 2026 are projections by Ausbil as at 20 April 2026.

Underpinning our outlook for earnings are major secular growth themes, including the ongoing strength of key metals (iron ore and copper) and critical minerals (particularly copper, lithium and rare earths), 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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