

Ausbil Equity Market Outlook for 2026

Research & Insights

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An eventful period of unprecedented trade wars and geopolitical tensions made 2025 a complicated year for navigating both the macro and market environment. Fortunately, Ausbil was able to position well for the changes, but nothing stays the same, so how are we seeing 2026 from the macro and market perspective? In this paper, Jim Chronis (JC), Chief Economist at Ausbil, shares why he sees the macro environment improving into 2026. Paul Xiradis (PX), Executive Chairman, Chief Investment Officer and Head of Equities, shares his thoughts on markets and opportunities for earnings growth in the year ahead. Our global investment teams in infrastructure (GLI) and small caps (GSC) also share where they see global markets in the year ahead.

10 minute read

Key points

- **Economic history.** 2025 will be remembered in economic history as the year President Trump ignited a trade war with the world. Despite significant 'fear and loathing' across markets, the impact of Trump's 'shock and awe' locked in lower tariffs than first threatened, avoiding the worst-case scenario assumed by investors and central bankers. From the outset, Ausbil assessed the signal in the noise, which pointed to negotiated outcomes as the US sought to rebalance world trade, which has largely played out.
- **The unknown China path.** China remains an unknown outcome, with the US twice placing significant tariff increases on 90-day hold periods, which have turned to a year of truce from October 2025 to allow for negotiation. Two outcomes are likely: a trade agreement of sorts with the US, or an ongoing discord where the US decouples from China, similarly to when the USSR and the US existed in a Cold War détente. We believe the world economy is adjusting to either outcome.
- **The Australian economy.** Australia is insulated to a high degree from tariffs given that we are a net importer of US goods. That position is further reinforced by Australia's favourable standing with the recent bilateral framework on critical minerals and rare earths entered into with the US. We expect economic growth to improve heading into 2026. Monetary policy currently remains on hold at 3.60% for most of next year, however, buoyant activity levels and persistently higher inflation may lead to a hike in Q4 2026.



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- **The US economy.** The outlook for the US economy is much stronger for 2026 than 2025, based on the policy tailwinds announced since April 2nd, in particular, US tax cuts, investment incentives and the US Federal Reserve joining the growing chorus of global central banks lowering interest rates. We highlight that the Federal Reserve may be tempering the downside risks to employment whilst remaining vigilant on elevated inflation.
- **Europe remains resilient,** underpinned by the European Central Bank taking rates from 4% to 2%, fiscal expansion, infrastructure spending and increased defence spending approaching 5% of GDP.
- **China faces the dual challenges of the great wall of tariffs and persistent deflationary pressures.** The excess capacity from over investment in leading sectors and industries needs to be curtailed by reducing supply (anti-involution), with the authorities maintaining their social contract with the domestic population.
- **The global economy.** We see global economic growth strengthening into 2026, driven by lower effective tariff rates, tax cuts, coordinated rate reductions by major central banks, and expansionary fiscal policies implemented in the key economies.
- **Sectors we like in 2026.** Ausbil is seeing opportunities in health care; information technology (software and services) from AI; housing, steel and construction materials; and commodities in specific areas like green metals, iron ore and copper.
- **Opportunity.** Looking ahead to 2026, with Australian, US and global economic growth expected to improve, and with a return to more steady trade relations, we see more opportunity in equities, and strong earnings growth ahead of consensus.
- **Key structural drivers are creating long-term growth opportunities** in new value supply chains across sectors. To reiterate, these themes include global defence spending, AI-related infrastructure investment, and the transition to carbon-free energy.

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 November 2025, Ausbil manage \$20.1 billion in funds under management.

Q: How do you see the global economy performing into 2026?

JC: Following the onslaught of President Trump's tariffs, Ausbil went into the 'war room' on April 2nd and implemented a risk management framework based on scenario analysis. We did the same during the pandemic with successful results. At a time of extreme global uncertainty, Ausbil settled on a 'base case' scenario with a 65% probability. Our key assumption was that the Trump administration would negotiate on a bilateral basis with willing countries to adjust their respective tariff levels lower, towards the minimum 10% level, with the Federal Reserve cutting rates by 50 to 75 basis points in 2025.

Since April, the data flow has validated our macro conclusions. We have seen the July 4th passing of President Trump's "one, big, beautiful bill act" and the lifting of the fog of tariff uncertainty on the final level of country-specific reciprocal rates in August. Trade deals have locked in lower tariffs than first threatened, avoiding the worst-case scenario assumed by investors and central bankers over the past few months. Importantly, the US Federal Reserve has upgraded its macro projections to our higher forecast levels.

As illustrated in Table 1, the outlook for 2026 is much stronger based on the policy tailwinds announced since April 2nd, namely US tax cuts, industrial policy investment incentives and the Federal Reserve joining the chorus of global central banks lowering interest rates. In addition, significant deregulation is making business easier in the US, with lower oil prices, lower core inflation (adjusted for the one-off increase to the price level from tariffs), tariff exemptions for key industries and the Fed tempering the downside risks to employment whilst remaining vigilant on "somewhat elevated" inflation.

Table 1: Global growth – accelerating into 2026. Strong policy tailwinds unleashed since April 2nd

Real GDP year average % (data as at 18 th Sep 2025)	Long run average 2010 to 2019 (pa)	2025 Ausbil (f)	2026 Ausbil (f)
United States	2.3	1.7	2.1
Japan	1.2	1.1	0.8
Europe/Area	1.4	1.3	1.4
China	7.7	4.6	4.5
India	7.0	6.5	6.7
Australia	2.6	2.0	2.8
Global GDP	3.7	3.0 to 3.3	3.2 to 3.5

Source: FactSet, Ausbil, as at 18 September 2025, (f) denotes forecast.

Our view of the US economy saw tariffs initially acting as a downward drag on activity before rebuilding momentum by year end 2025. Under our base case scenario, the average activity run rate masks the volatility in quarterly annualised growth rates, prior to setting up a higher exit rate into calendar year 2026.

Looking ahead, we see a supportive macroeconomic environment for the Australian economy, driving earnings growth and favouring investment in equities. Ausbil's view is that for 2026, both the global and US economies are on a growth trajectory driven by policy tailwinds announced since April, lower core inflation and further cuts in the real rate. In summary, US growth is expected to accelerate from 1.7% in 2025 to a trend pace of 2.1% in 2026. Europe continues at a steady 1.4%, China at a sustained 4.5% and Australia accelerates towards a robust 2.8% pace.

We are forecasting another rate cut from the US Federal Reserve into the range of 3.50%-3.75% by December 2025, and thereafter on a pause and data dependency. With US and Australian cash rates converging, this should lead to reduced volatility in the AUD/USD exchange rate, hence maintaining the exchange rate anchoring at 65 cents in a small range with an upward bias through 2026. The Australian trade weighted basket of currencies should continue to be range bound as commodity prices remain elevated and resilient.

We should keep in mind that in the background, there are several longer-term structural drivers that are offering growth opportunities that may help drive new value supply chains across sectors. These include an increased commitment to military spending globally (as the US withdrawal of support for Ukraine and others has sparked an upward shift in defence spending in Europe, Scandinavia and other countries); increased investment in infrastructure to accommodate the growth in artificial intelligence; ongoing investment to secure 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.

“Following the onslaught of President Trump’s tariffs, Ausbil went into the ‘war room’ on April 2nd and implemented a risk management framework based on scenario analysis. We did the same during the pandemic with successful results

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Q: How is the Australian economy expected to perform in 2026?

JC: Australia is insulated somewhat from tariffs, and that view is reinforced by its favourable standing with the bilateral framework on critical minerals and rare earths with the US. We see year average growth accelerating from 2% in 2025 to a robust pace in 2026. The June quarter national accounts confirmed the ongoing gradual transition in the drivers of activity from the public to the private sector. We note that the trough in private demand was set in the September quarter of 2024.

The September quarter's core measures of underlying inflation saw the 6-month annualised rate accelerate to 3.3%, well and truly exceeding the Reserve Bank of Australia's upper target band of 3%. Consequently, in November's updated Statement on Monetary Policy the RBA revised materially higher their projections for inflation from their optimistic steady 2.5% profile prepared in August. We find it difficult to reconcile unit labour costs running at 5% and low productivity levels with the RBA's belief that "some of the increase in underlying inflation in the September quarter was due to temporary factors" and that inflation will return to the midpoint in 2027. We see inflation above 3% for the entire horizon period out to 2027. Keeping in mind the likelihood of some degree of inflation, offset as Australia benefits from a modestly appreciating currency and China's deflationary wave of finished export goods seeking alternative markets to the US tariff wall.

More importantly, for the first time, Governor Bullock and the Board are openly questioning their assessment of the output gap and whether policy "remains a little restrictive." Ausbil sees the neutral nominal cash rate at 3.85%, meaning that current monetary policy settings are actually neutral to accommodative. Monetary policy remains on hold at 3.60% for most of next year, however, buoyant activity levels and persistently higher inflation should lead to a hike in Q4 2026.

The unemployment rate is projected to remain in the low 4% range as labour supply and demand move into balance. This will be a remarkable achievement in holding on to a 50-year broad-based gain in employment conditions. Putting this in context, we have experienced close to a sustained 2% fall in the unemployment rate from the pre-pandemic 5-year average of 5.7%. Importantly, nominal wages are projected to stabilise at 3.5%, consistent with the core inflation target provided there is higher productivity growth.

We export A\$560 billion worth of goods and services and, based on past experience, Australia is expected to be insulated from tariffs. The material risk of A\$214 billion in direct exports to China is in resource raw material commodities which will be required as an input in additional Chinese stimulus measures. Fortunately, we continue to benefit from our growing export exposure of A\$258 billion to the Indo-Pacific region of fourteen countries (which excludes China). This region is experiencing robust real growth rates in the range of 5% to 6%.

Given ongoing structural underlying demand for resources and converging Australian and United States cash rates, we expect reduced volatility in the AUD/USD exchange rate, maintaining the exchange rate at around 65 cents with an upward bias through 2026. The Australian trade weighted basket of currencies should continue to be range bound as commodity prices remain elevated and resilient.

Based on our scenario analysis, we will be cross-checking the latest information against our checklist of macro and financial variables, and we will make any necessary adjustments as events unfold. As always, we will share any changes in our macro view in our subsequent economic reports, particularly given the fluidity in world and economic events.

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We should keep in mind that in the background, there are several longer-term structural drivers that are offering growth opportunities that may help drive new value supply chains across sectors

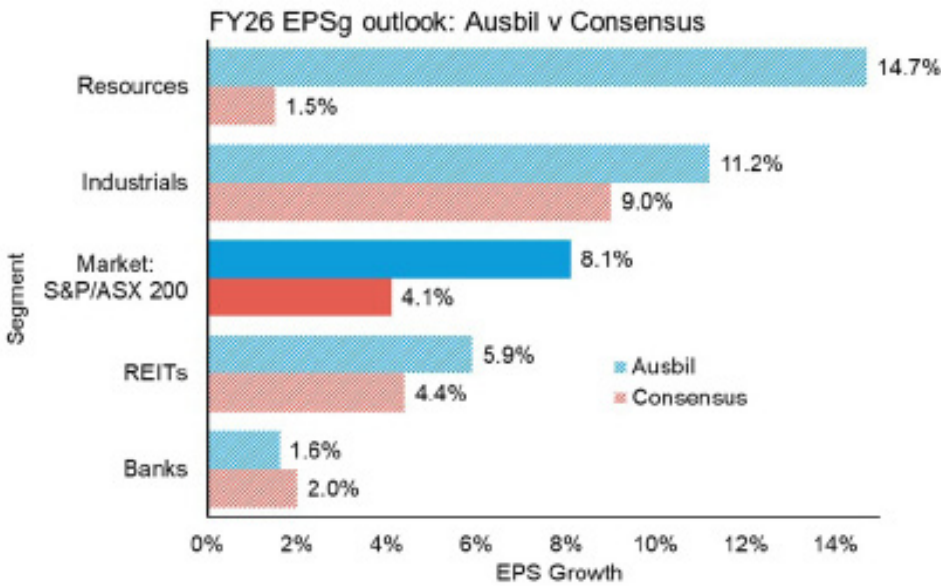
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Q: How are you seeing earnings growth in calendar 2026?

PX: FY25 reporting season was the first reporting season to follow the tariff uncertainty that began in April 2025. Given this, FY25 was considerably better than could have been expected back when Trump first announced a swathe of tariffs globally on April 2. Overall, given the policy arc that tariffs have taken, we saw a relatively positive reporting season.

However, uncertainty on the Australian economy by the market and consensus (in contrast to Ausbil’s more positive view), together with slowing rate cuts and concerns around global trade politics, has been capping the outlook for near-term earnings in 2026. Ausbil has been more constructive on the macro for calendar 2026 than consensus (though across 2025, consensus has been crawling back towards our position), and hence we are more positive about earnings growth opportunities for FY26 (Figure 1). By way of example, a number of areas where Ausbil is more constructive on earnings growth than consensus include diversified metals and mining, other metals and mining, some diversified financial services, technology and software, some pharmaceutical and biotechnology companies, and select construction materials.

Figure 1: Ausbil v consensus earnings growth outlook



Source: Ausbil, FactSet, September 2025.

Overall, we have held a more positive view for some time than consensus on the outcome of the tariff shock (a position consensus has increasingly brought back towards our thinking), on the path of economic growth (again, we are more positive on the outlook for more growth in 2026), and the risk of recession in 2025 (we saw this as a low to negligible probability, which turned out to be correct). Overall, this difference in outlook, one where Ausbil has been more optimistic on the economy and earnings growth than consensus, based on our reading of the data, is the main reason we think that there is more on offer than consensus data suggests on earnings growth potential in FY26.

“Based on our scenario analysis, we will be cross-checking the latest information against our checklist of macro and financial variables, and we will make any necessary adjustments as events unfold”

The current Ausbil versus consensus outlook for ASX EPS growth following the FY25 reporting season, across major segments, is summarised in Figure 1. Overall, following FY25 reporting season, Ausbil is ahead of consensus on earnings growth for FY26 in resources (+14.7% EPSg for Ausbil v. +1.5%), Industrials (+11.2% v. +9.0%) and REITs (+5.9% v. +4.4% for consensus). Ausbil's outlook for bank EPSg in FY26 is +1.6%, below consensus at +2.0%. For the S&P/ASX 200, Ausbil is well ahead of consensus for FY26 following reporting season, with EPSg of +8.1% (Ausbil) against +4.1% (consensus). Ausbil is more constructive on earnings growth for FY26, but this is because we are generally more positive on our growth outlook.

Q: What sectors do you see with growing earnings in 2026?

PX: With more cyclical upside to the economy expected in 2026, and interest rate settings easy and stabilised, we think that conditions are relatively friendly for businesses to finance future plans, and we are seeing a stronger path for earnings growth. While 2025 has been volatile with the unprecedented change in the landscape for global trade and tariffs, as countries have lined up to close new trade deals with the US, and with China and the US in a one-year pause to allow for more negotiation, markets are more positive on the year ahead where businesses can move beyond risk management towards active expansion, both organically and through acquisition.

In this environment, we see a number of sectors offering strong earnings growth, including health care; information technology (software and services) from AI; housing, steel and construction materials; and commodities in specific areas like green metals, iron ore and copper.

Beneficiaries of a stronger consumer with more to spend from rate cuts and a strong economy. Improvement in sentiment and spending during a cyclical upswing typically translates (though not always) in improved earnings for the facilitators of commerce, banks, lenders, BNPL (buy-now-pay-later) and digital transaction providers. One such company listed on the ASX but with major and growing businesses in the US is Block.

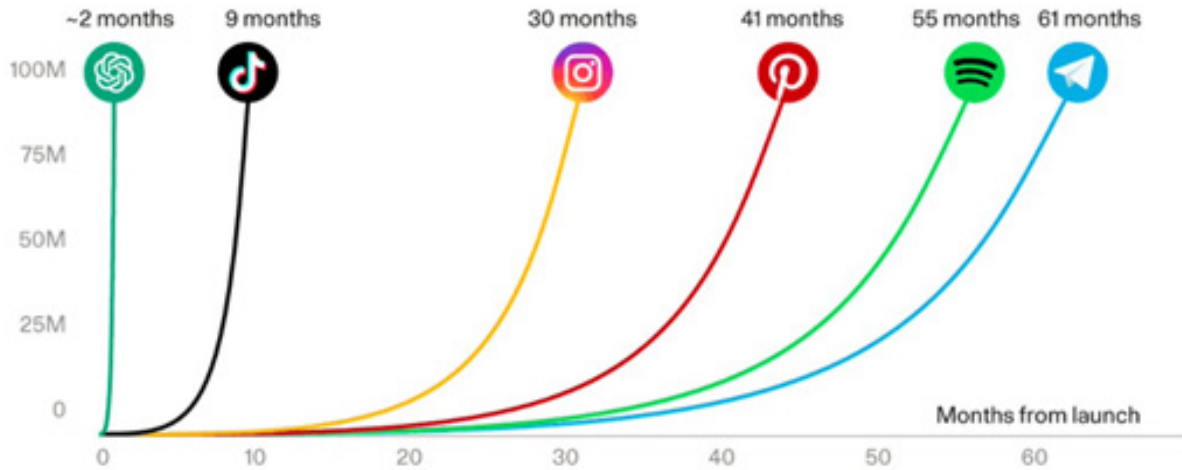
Block (XYZ) provides innovative payment hardware and software solutions to merchants as a payment aggregator and merchant acquirer. It also provides financial services to consumers through its Cash App, including P2P, bitcoin and stock trading, and Cash Card, a Visa debit card. Following the acquisition of Afterpay, Block emerged as a larger, faster growing, and more diversified consumer lending, payments and financial services company. Block now transacts approximately US\$220 billion annually in point-of-sale transactions (Square), US\$12.5 billion in annual BNPL transactions (Afterpay), and has ~57 million active users in their digital finance offering (Cash App). While POS and BNPL are profitable and growing businesses leveraged to the growth in the economy, Cash App is the underlying earnings growth engine, providing significant utility for consumers that are underserved by established banks and card companies, and generating significant margin on revenue.

Another company with exposure to this theme of improving economic growth is News Corp. The highly evolved News Corporation, home to a suite of carefully curated and proven media, publishing and real estate assets, may not seem like an obvious beneficiary of a resurging US. However, looking closely at their mix of businesses, News Corp (NWS) has what we believe to be a diverse portfolio of high-quality businesses that provide strong recurring cash flow across the cycle, and exposure to significant potential upside from cyclical businesses.

Beneficiaries of artificial intelligence. While it is hard to predict how the world will evolve in the age of AI, towards sentience, and beyond, as investors, there are a number of key trends that are emerging, as both disruptive and additive themes. Apart from the incessantly improving capability of AI, what drives its power as a business tool is the unprecedented reach it has into the lives of almost every consumer on the planet, and how rapidly billions of people adopt new technologies (Figure 2). For example, it took 55 months for Spotify to reach 100 million users, but less than 2 months for ChatGPT to achieve the same adoption.

“With more cyclical upside to the economy expected in 2026, and interest rate settings easy and stabilised, we think that conditions are relatively friendly for businesses to finance future plans, and we are seeing a stronger path for earnings growth”

Figure 2: The ever-faster growth to 100 million users

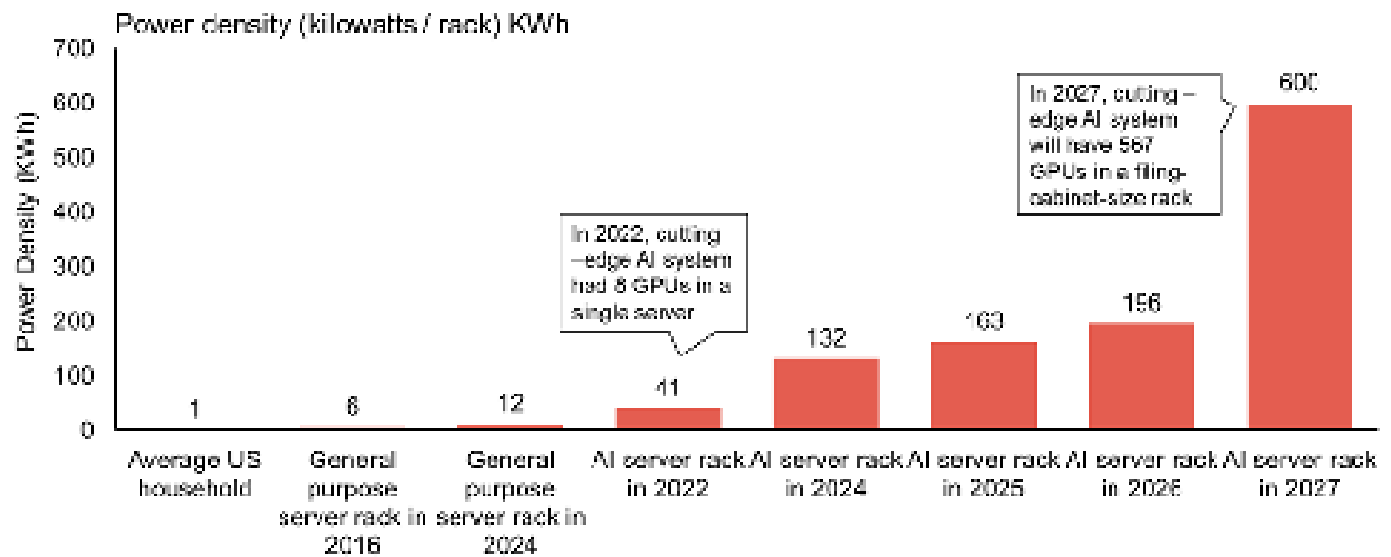


Source: Huang, S., & Grady, P. (2023, September 20). Generative AI's Act Two. Sequoia.

AI is not just being deployed for improvement, optimisation or cost reduction, it also has the potential to create new revenue lines for companies. Xero, TechnologyOne and WiseTech are each launching and driving monetisation using AI agents in the next 12 months. Block has also launched its Goose AI agent and is embedding AI across both its Square (Seller) and Cash App businesses in the next 12 months, helping to drive revenue, not just reduce costs.

Processing demand from rising AI applications is set to become so intense that by 2027, a server rack that had 8 GPUs using 41 KWh in electricity only five years earlier will have 567 GPUs using 600 KWh of energy and will be the size of a filing cabinet (Figure 3). The intensity of processing in data centres, including cooling the heat generated by information processing, is becoming a major piece in the energy and electricity grid complex. According to Goldman Sachs, AI processing will account for ~28% of data centre energy demand by 2027, from negligible demand levels prior to 2020. This growth necessitates both the enlargement of the grid and the expansion of renewable energy generation and storage.

Figure 3: The emergence of 'massive' data environments and its power density



Source: Goldman Sachs (2025, August 29). How AI Is Transforming Data Centres and Ramping Up Power Demand.

The Australian listed market does not have an investable semiconductor sector other than some very small micro-cap companies that fit the description. The ASX does, however, have a range of technology companies that are engaged in AI and related businesses, as well as companies that are beneficiaries of the advances in AI technology. In terms of AI and machine learning, which place heavy demands on data, ASX listed companies like Macquarie Telecoms, NextDC and Telstra through InfraCo all provide data centre connectivity and cloud storage. Moreover, real estate giants in Goodman Group have built major global businesses in data centres and smart / robotic warehouses, driven largely by the explosive demand from AI and machine learning, and the benefits this brings to the operational efficiency of their tenants.

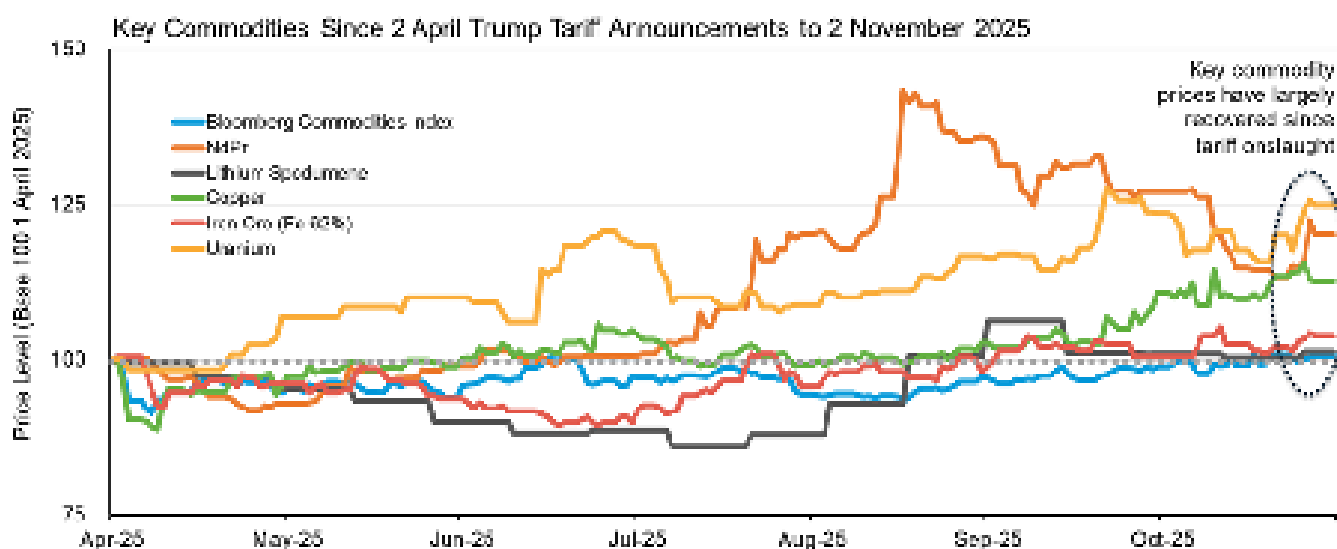
In terms of non-AI companies, there is a rapidly growing list of companies that are investing in and profitably deploying artificial intelligence in ways that directly improve earnings and earnings growth. It is interesting to address these changes by way of example and sector. In the software and services sector, companies like Life360 which develops and operates a mobile application focused on family safety and communication, are using AI across their platform to enhance advertising with AI-driven customer insights, path-to-purchase effectiveness data, and personalisation for optimised advertising campaigns to raise ad revenue, directly benefitting earnings and earnings growth. Online services are another sector with exposure to AI. Companies like REA Group in online real estate classifieds are achieving significant product and efficiency enhancement from the application of AI. The online digital environment lends itself well to the application of AI, particularly given the data driven consumer interactivity that helps drive models for optimisation, decision support, targeted advertising and intelligent content customisation.

Beneficiaries of AI here can purchase AI as a tool for achieving direct improvement in operational efficiency, decision support and earnings, effectively providing exposure to the AI thematic without having to pick the winning technologies of the AI game.

Key commodities stand to benefit from stronger growth and geopolitical uncertainty.

Commodity prices have risen over the past few months on more positive economic growth data, increased optimism about the outcome of tariff negotiations, and in a monetary easing environment, as illustrated in Figure 4. While the tariff shock of 2 April and the subsequent chaos around new deals and no deals had a detrimental effect on commodities, as new trade deals have now been signed with the US by most key countries, and the icy US/China relationship has begun to thaw somewhat with another delay in changes to allow for further negotiations across the coming year, commodities have been in an upward positive path. Key commodities and the general commodities index (Bloomberg Commodities Index) are now all back in positive territory, setting a base for a promising 2026.

Figure 4: Now in a positive up cycle supported by tariff outcomes, stimulus and economic growth



Source: Ausbil, Bloomberg, November 2025.

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Fundamentally, in our view, the outlook for commodity prices remains positive, driven by structural demand drivers and underinvestment in capacity. Overall, we believe the outlook for economic growth for the US and globally will be positive for commodities heading into 2026, where we see further expected improvement in US and world economic growth, supportive of the outlook for prices.

The announcement of a critical minerals agreement between the US and Australia in October, and an agreement between China and the US to hold tariff changes for a year have added a hopeful edge to the outlook for markets. The agreement between the US and Australia will see billions invested in critical minerals like rare earths, investing in the extraction and processing needed for weapons, medical equipment, renewable energy, computing and electronics applications, amongst many other applications.

On a fundamental basis, we believe decarbonisation and the energy transition remain significant themes that may drive underlying value across resources, energy, utilities and the mining services sector with respect to critical commodities. With the cyclical upswing we have been seeing in the economy, we believe that these themes will be rewarded as will the critical commodities that underpin them, such as copper, rare earths, iron ore and lithium.

Regardless of whether you agree with the new US policy directions or not, Trump has set a path for the next three years on security and trade. Beneficiaries of this new 'zero tolerance' approach to defence and energy security, and independence from China, we believe are companies in rare earths (like Lynas Rare Earths), green metals (like copper with Sandfire Resources and BHP), and lithium (in names like Pilbara Minerals).

Construction materials and steel are benefitting from US internal demand growth.

For some time, Ausbil has been ahead of consensus on US growth, and we have been more constructive on the impact of US fiscal and policy stimulus. In addition to improving growth, significant deregulation is making business easier in the US, with lower oil prices, lower core inflation (adjusted for the one-off increase to the price level from tariffs), tariff exemptions for key industries and Fed tempering the downside risks to employment whilst remaining vigilant on inflation.

A number of Australian construction materials and steel companies we believe are particularly well positioned to capture the benefits of this US policy landscape as they have built significant and growing US-domiciled earnings. A good example is BlueScope Steel.

BlueScope Steel (BSL) is a flat steel producer for the domestic Australian, New Zealand and US markets. The company is also a leading international supplier of steel products and solutions, principally focused on the global building and construction industry. BSL is structured into five businesses: Australian Steel Products, North Star BlueScope Steel, Buildings North America, Building Products Asia and North America, and New Zealand & Pacific Islands. North Star generates some 70% of BHP's earnings and, as a US-domiciled steel producer and employer, is benefitting from US protectionism, the internalisation of demand with onshoring, lower interest rates and fiscal stimulus.

Australia's housing supply shortage and affordability problems support quality residential housing exposure.

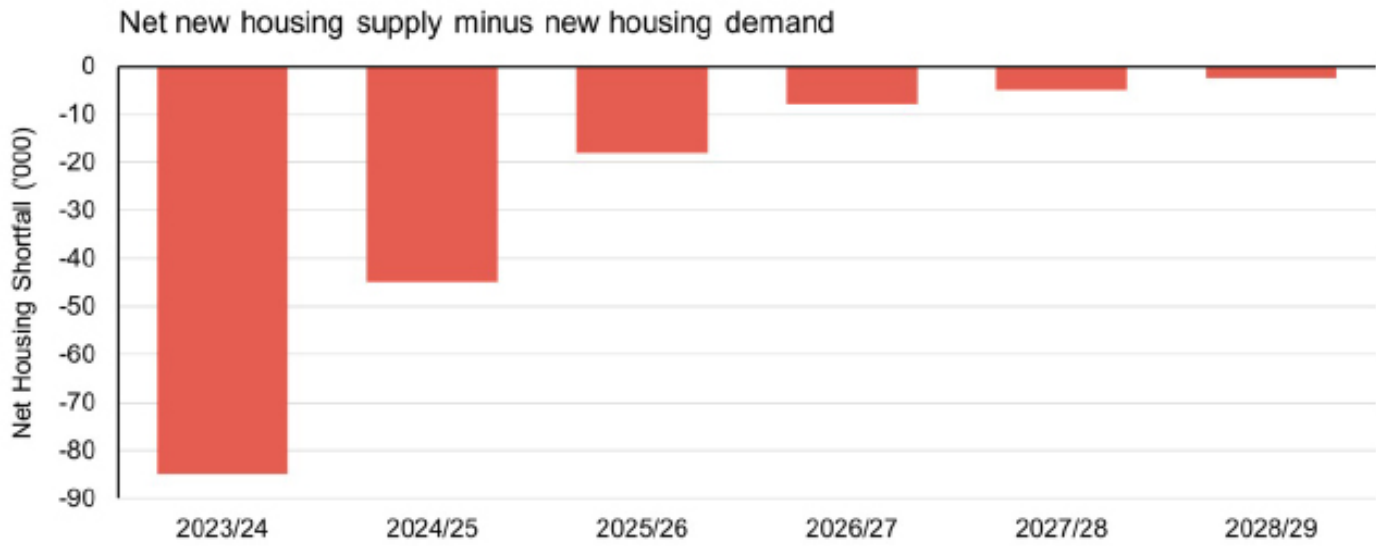
While low interest rates for the long period between the GFC and 2022 helped to stimulate Australian real estate investment, it did little to alleviate the housing affordability and supply crisis which has emerged over the decades (Figure 5). In their report on the State of the Housing System, the Australian government's National Housing Supply and Affordability Council (2025) highlight that the supply of new housing in Australia is at its lowest in a decade (this is despite 10-years of very low interest rates), with just 177,000 dwellings completed in 2024, falling well short of the estimated annual demand of some 223,000 new dwellings.

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Figure 5: Net housing supply remains significantly in deficit



Note: Demand is measured as the number of new households that demographic trends imply would form. Supply is measured as the net number of dwelling completions. Source: NHSAC (National Housing Supply and Affordability Council) 2025; Centre for Population 2024.

Australia’s population has been growing with new housing stock lagging significantly in meeting the needs of newly forming households. This worsened for young people in particular with the rapid normalisation of interest rates in 2022 and 2023, though monetary easing in 2025 marginally improved affordability.

While Australia’s housing affordability issues remain a challenge for policymakers, the recent easing in monetary policy combined with near full employment and an economy that is growing into 2026 has set conditions that are advantageous for residential property development and activity.

Why we like health care with strong earnings growth relative to capital spend. While some areas of health care are incredibly capital intensive, like hospitals, aged care and pathology, areas like pharmaceuticals, biotechnology and life sciences (CSL in particular), and health care and equipment services (mainly Cochlear), offer proven growth paths and compound organic growth opportunities. CSL and Cochlear are quality leaders operating in sectors which have been able to lay a long track record of earnings growth and expansion. The nature of their leadership and markets means that we see this leadership continuing into the foreseeable future.

CSL is a world leader in the development and manufacture of vaccines and plasma protein biotherapies. It is well positioned for ongoing strong growth through rising global demand for plasma therapies, diversified product portfolios, capacity expansion to meet future demand, the development of innovative new and improved products, and ongoing integration of global manufacturing and supply chain capabilities.

Cochlear is the global leader in implantable hearing solutions with a dominant share in cochlear implants and bone conduction and acoustic implants. The market penetration for implantable hearing solutions remains very low across all markets and as a result, there is a significant unmet clinical need that should underpin the long-term earnings growth of the business.

“Australia’s population has been growing with new housing stock lagging significantly in meeting the needs of newly forming households”

Q: What are the risks to earnings in 2026?

PX: The prevailing risks at the time of writing are concentrated around the policy action of the Trump administration, and especially tariffs. While new tariffs are starting to resolve in new trade deals, China remains an open issue that could be a material and unpredictable threat. China remains an unknown outcome, with the US twice placing significant tariff increases on 90-day hold periods which have turned to a year of truce from October 2025 to allow for negotiation. Two outcomes are likely: a trade agreement of sorts with the US, or an ongoing discord where the US decouples from China, similarly to when the USSR and the US existed in a Cold War détente. We believe the world economy is adjusting to either outcome.

As a mitigant to China risk, Australia is expected to benefit from its growing export exposure to the Indo Pacific (ex-China) region with growth rates currently running in the range of 5% to high 6% for India, Indonesia, the Philippines and Vietnam. By way of background information, in September 2022, Australia joined the Indo-Pacific Economic Framework (IPEF) alongside 13 members from across the Indo-Pacific region, including Brunei Darussalam, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Republic of Korea, Singapore, Thailand, the United States and Vietnam. The region accounts for around 40 per cent of global GDP and includes eight of Australia's top ten merchandise trading partners.

Other risks to earnings in 2026 could include inflation and the potential for rate responses, though we believe this is low. To put this into context, we believe that the adjustment from emergency rate settings post-GFC and COVID to the relatively normal settings in 2025 has been completed, and the risks of major shocks on inflation and rates are low for the coming period, potentially creating an environment of affordable capital for expanding balance sheets in an improving environment of positive economic growth.

Ausbil Global Listed Infrastructure Team



Tim Humphreys
Head of Global Listed Infrastructure



Jonathan Reyes
Co-Head of Global Listed Infrastructure

Q: What is the outlook for global listed infrastructure?

GLI: As we enter the final quarter of 2025, Essential Infrastructure continues to offer an attractive combination of defensiveness, value and growth. While major equity indexes trade near all-time highs, the cyclically adjusted PE for the asset class sits near historic lows—both in absolute terms and relative to the MSCI World. Supported by lower real yields and stronger-than-expected earnings, we believe the sector is well positioned to deliver outperformance in 2026, especially if investors look to increase defensive allocations.

The worldwide push for electrification, enhanced data connectivity, and energy security is fueling sustained, long-term demand for the essential physical assets that support these trends. Our focus as we head into 2026 remains on high-quality assets with regulated or contracted cash flows, inflation linkage, and long useful lives.



Natasha Thomas
Portfolio Manager -
Energy and Communications

Q: What global listed infrastructure sectors do you like and how are you positioning your portfolio for 2026?

GLI: We see 2026 as a year of strong opportunity across the utilities and energy infrastructure complex. The global 'electrification of everything' trend, combined with surging power demand from data centres, is driving a structural step-up in investment across the electricity value chain. This includes not only incremental generation capacity — spanning gas, renewables and nuclear — but also sustained capital deployment in transmission and distribution networks to ensure grid reliability.

Natural gas infrastructure remains well positioned, particularly in the United States where low-cost supply supports both domestic power generation and rising LNG exports. Growing LNG trade volumes to Europe and Asia are reinforcing the sector's strategic importance and its role in global energy security.

As of December 2025, the portfolio is positioned with approximately 53% in utilities and 16% in energy infrastructure, reflecting these core convictions. Transportation assets — airports, toll roads and rail — account for 27%, communications infrastructure for 3%, and the balance is held in cash. This allocation provides a blend of stable, inflation-linked cash flows and exposure to the long-term structural growth themes shaping global infrastructure.



Paul Johnston
Portfolio Manager - Utilities

Q: What is the outlook for global small caps?

GSC: Global markets performed well in 2025, supported by US interest rate cuts. The potential promise of further US cuts is likely to provide a tailwind for the ongoing broadening of markets and should support the performance of global small caps.

Global manufacturing surveys continue to suggest that growth is returning and broadening out both into the wider economy and geographically. The manufacturing surveys continue to show an improving trend for the European region. Continuing this year's trend, Europe and specifically Germany continued with their ongoing recovery.

Looking ahead, much still depends on the evolution of trade policy, how tariff costs are passed on to the end consumer and the resilience of corporate earnings in the face of ongoing uncertainty. However, several trade deals have been finalised, which have provided some stability for markets. The European Union has also proposed the idea of tariffs and quotas to protect its steel industry, which should further support the earnings of global small caps. In global small caps, we continue to see opportunities for companies that are niche leaders within their industry that we believe can deliver unrecognised earnings growth.

Q: What global small-cap sectors do you like and how are you positioning your portfolio for 2026?

GSC: Industrials and the European region look like potential opportunities for us as we move into 2026. Ongoing fiscal spending focused on the upgrade and expansion of global electricity grids, and large increases in defence and security commitments as the European NATO members move towards the agreed 5% of GDP spending targets may create many opportunities for niche leaders within our undervalued global small cap market.

Q: Paul, overall, how would you summarise your outlook for 2026?

PX: From our perspective, we are excited about the potential for earnings growth in 2026, in Australia, and globally, because like 2025, the market has been too bearish on the economy, and too negative on the potential for trade issues to resolve. Our more positive view played out in 2025, and we believe that it will continue to strengthen into 2026. Despite a lot of noise around an AI bubble, we are looking more at the potential for earnings growth in a lower rate environment, with tailwinds from US stimulus, the commercialisation of AI across all types of business that is cutting costs and increasing efficiency with real upside in earnings growth, and a new trade environment, all in the context of a steadily rising GDP. We think that in this environment, earnings growth may outperform the lower expectations of consensus.

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