

January 2026

Tactical Asset Allocation Outlook

Q1 2026

Tactical Asset Allocation

Tactical asset allocation (TAA) is an investment style in which three primary asset classes (shares, bonds, and cash) are actively balanced and adjusted based on market performance to meet stated risk tolerance and investment objectives.

The focus is on asset classes rather than specific assets themselves. The strategy blends and augments passive buy-and-hold methods with medium term views on market dislocations and valuation opportunities.

This report should be read in conjunction with our most recent Investment Outlook, incorporating updated capital market assumptions (CMA) which project the returns of asset classes over a ten-year horizon. These serve as key inputs into our strategic asset allocation (SAA) model and can also be termed as neutral asset allocation positions.

Refer to Table 1 for Summary TAA positions - Q1 2026. The recommendations shown in the summary are Atchison's conviction away from an SAA, therefore should not be interpreted as a recommended percentage change.

Introduction

Entering Q1 2026, our tactical asset allocation is shaped by an environment of moderating economic momentum, easing inflation and increasingly divergent policy settings across major economies. As interest rates continue to influence valuations and capital allocation, market dispersion is rising across regions, sectors and asset classes, reducing the effectiveness of broad, index-driven exposure. In response, our positioning emphasises precision and conviction, with a preference for international equities, an increased allocation to alternatives to enhance diversification and downside protection, and a disciplined approach to interest rate and currency positioning. The portfolio is structured to capture opportunities where pricing and fundamentals are most compelling, while maintaining robustness against a more uneven and uncertain global backdrop.

Overall, we expect global GDP growth to be positive but moderate, consensus forecast estimated GDP growth between 2.7-2.8% (somewhat below pre-pandemic average of 3.2% between 2010 and 2019) compared to 2.8% in 2025, and increasing to 2.9% in 2027. The World Economic Situation and Prospects report concluded that while a sharp increase in U.S. tariffs in 2025 created new trade tensions, the absence of broader escalation has helped limit disruptions to international commerce. Barring any surprise shocks, we expect multi-asset portfolios to continue to provide positive after-inflation returns for 2026.

As part of our 2026 analysis, Atchison intend to publish a separate paper providing regular commentary on selected investment themes that are less reliant on cyclical demand and largely operate independently of traditional macroeconomic conditions. Thematic investments can enhance multi-asset portfolios by capturing long-

term structural developments that evolve outside the conventional economic cycle, such as commodities, cyber security, defence and space.

What to watch out for?

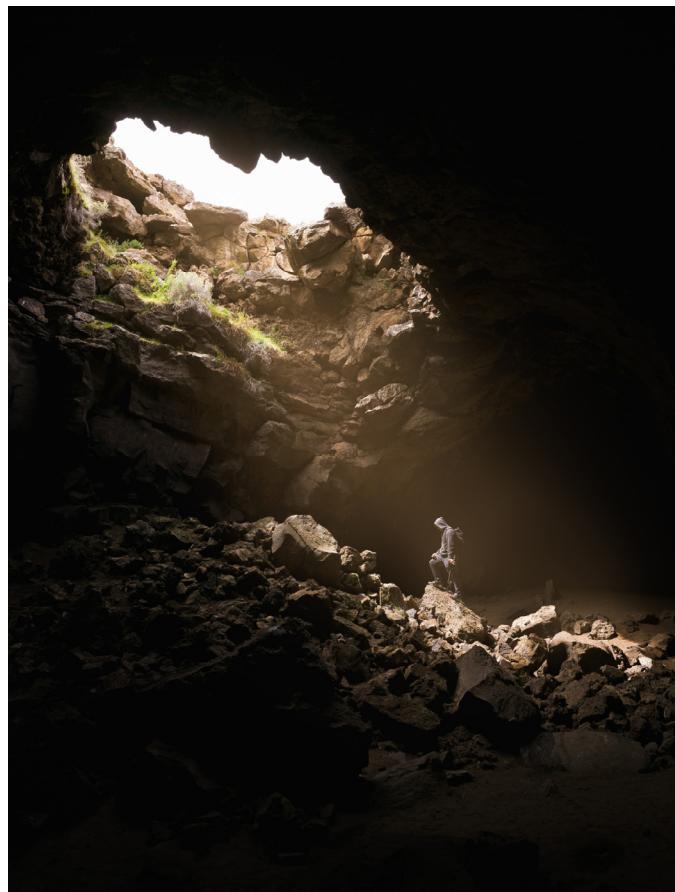
- **Delayed or uneven policy transmission:** While markets are increasingly pricing in global monetary easing, there is a risk that looser financial conditions take longer to translate into real economic activity.
- **Crowding in themes:** Strong conviction areas such as artificial intelligence, infrastructure, defence and security have attracted significant capital. If expectations continue to run ahead of near-term earnings delivery, these themes may experience periods of volatility or consolidation, even if long-term fundamentals remain intact.
- **Currency volatility and policy misalignment:** Diverging monetary policy paths between the US, Europe, Japan and Australia increase the risk of sharper currency moves. Unexpected strength or weakness in major currencies could impact company profitability, capital flows and relative equity performance, particularly given the portfolio's overweight international exposure and active currency hedging stance.
- **Liquidity and funding conditions:** As quantitative tightening persists in some regions and balance sheet support from central banks remains limited, liquidity conditions may tighten episodically. This could disproportionately affect higher-beta assets, private markets and parts of the alternative's universe, reinforcing the importance of quality, liquidity and risk management within the portfolio.

Summary of our Q1 2026 TAA:

- 01. Maintain neutral stance on Australian Shares** given the backdrop of anticipated rate hikes limiting the rebound in economic momentum, we favour a tilt to large-cap value and quality companies and hold less conviction on Australian small caps, especially after solid returns in 2025.
- 02. Maintain overweight to International Shares**, we expect a continuation of the recent past, where returns are solid, driven by rising earnings growth, and risk is skewed to the upside. There is a preference for Europe and Japan, and selective Asia exposure. We are neutral on U.S. equities given strong performance from the technology sector in 2025. Opportunity exists to take advantage of satellite allocations via thematic strategies for example, Security (aerospace, defence and cyber) and Artificial Intelligence and Innovation (hardware, inference, memory and second-order beneficiaries).
- 03. Maintain underweight to Real Assets**, particularly AREITs, given the potential for interest rate hikes in Australia in 2026, putting downward pressure on Australian real asset valuations.
- 04. Maintain overweight to Alternatives** but consider trimming allocation to Gold (given its strong appreciation over the last 12 months).
- 05. Reduce Duration exposure to neutral**, given the divergence of interest rate direction between Australia and the United States.
- 06. Underweight floating rate** as US and European easing erodes reset benefits, while Australian floating rate still offers attractive carry but less upside relative to defensive alternatives and duration.



Australian Shares



We maintain a neutral stance on Australian equities entering Q1 2026. Australia's economic growth is expected to hover around the trend in 2026. With the economy operating near full capacity and inflation proving persistent it is likely that the Reserve Bank of Australia (RBA) will either keep interest rate higher-for-longer or increase rates marginally.

The Australian share market is structurally concentrated in banks and resources (which together account for roughly half of market capitalisation). This concentration increases cyclicalities and reduces exposure to long term global themes. With a backdrop of potential interest rate hikes, higher interest rates are anticipated to continue to weigh on interest-sensitive sectors such as housing and consumer discretionary. Valuations are broadly aligned with underlying conditions, limiting scope for near-term re-rating. Resources remain highly dependent on Chinese demand and commodity price cycles. However, despite these structural limitations Australian shares continue to provide reliable income, enhanced by franking credits.

In this environment, a neutral allocation is appropriate, favouring companies with strong cash generation, pricing discipline and defensive characteristics, while recognising ongoing headwinds from policy uncertainty, inflation pressure and potentially higher funding costs.

While Australian small-cap equities outperformed large-cap stocks in 2025, we maintain a preference for large-cap value companies in an environment where domestic demand is expected to remain subdued, credit conditions are likely to tighten, and interest rates are either on hold or biased higher.

International Shares

We **remain overweight international shares** supported by superior structural growth, broader diversification and more attractive risk return profile relative to Australian equities. Specifically global structural themes expected to shape markets in 2026 support international equity exposure, for example:

- Technology and AI leadership - global tech giants remain concentrated in the US and contribute materially to earnings growth forecasts.
- Europe and emerging markets (specifically Asia) offer value and diversifying growth outside the dominant US market.
- Wider macro-opportunities, such as global small-cap equities and international debt markets, offer greater diversification advantages beyond the Australian market's concentration in finance and resources.

We recommend moving to a neutral stance on the US while overweighting Europe, Japan, and Asia. We remain neutral emerging markets at the aggregate level but with an Asian equity bias.

United States (US) shares

We **hold a neutral stance on US equities**, recognising that the earnings outlook remains supported by a broadly constructive macroeconomic environment. Corporate profitability has proven resilient, underpinned by solid domestic demand, and ongoing capital investment in artificial intelligence (AI). However, a small cohort of meg-cap technology and AI related firms has driven a disproportionate share of index returns in 2025. On the back of AI, the U.S. economy could eventually grow but in the short-term the U.S. Federal Reserve (U.S. Fed) has little room to lower interest rates to promote economic activity.

In the near term, growth and tech-heavy U.S. equities are expected to start to struggle to play an outsized role in contributing investment performance to the global and U.S. equity market. Encouragingly, the U.S. equity market is showing signs of broadening beyond the narrow leadership of the 'Magnificent Seven'. Earnings growth and share price performance are increasingly being driven by mid-cap stocks and a wider range of sectors, including industrials, healthcare, financials, semiconductors, aerospace, and selected consumer segments. While this broadening reduces concentration risk and improves overall market resilience, we believe these positives are currently fairly reflected in forward P/E and cyclically adjusted P/E ratios, supporting a neutral allocation, rather than a more assertive position.

European Shares

We **remain overweight European equities**. The euro area has experienced a soft landing. Annual inflation is expected to end 2025 close to 2%, after peaking above 10% in late 2022. Meanwhile, the economy is growing close to potential, and the unemployment rate is at its lowest level since the creation of the euro in 1999. The European Central Bank (ECB) halted its easing cycle in June 2025, leaving the deposit facility rate in neutral territory at 2% - down from a peak of 4% in 2024. There is also a tailwind led by Germany's infrastructure package along with greater defence spending across the European Union (E.U.).

From a macro perspective, the strengthening of the euro relative to the U.S. dollar over the past 12 months has also been a supportive factor for European equities. A firmer currency reflects improving confidence in the region's economic outlook and has helped moderate imported inflation, easing pressure on input costs for corporates.

From a P/E perspective European equities look attractive, The S&P 500's forward P/E sits around 22–22.3x based on MacroMicro data (22.34 as at 6 January 2026) and similar independent estimates. According to recent Reuters reporting, the STOXX 600's forward P/E is roughly 18.02x, notably lower than the S&P 500's.

Luxury goods remain attractive due to improved economic conditions long with defence and aerospace thanks to a sustained uplift in government spending, driven by heightened geopolitical risk and long-term commitments to NATO and regional security objectives. Multi-year defence budgets are increasingly being formalised across Europe, providing earnings visibility and order book strength for prime contractors and key suppliers, while reducing the historical cyclicalities associated with the sector.

At a country level, Spain, Italy and Germany, each offers differentiated return drivers. Spain continues to benefit from domestic demand and fiscal support, Italy is seeing improving corporate fundamentals, while Germany's industrial base is beginning to stabilise after a prolonged period of weakness. Collectively, these dynamics strengthen the case for selective exposure to European equities.

Japan shares

Maintain overweight position to Japanese equities entering Q1 2026, supported by favourable equity market conditions following strong corporate performance through 2025. The Topix closed the final session of 2025 at 3,408.97, up 23.7% since the start of January and marking the first time that the broadest index of Japanese stocks has ended a year above 3,000 points.

Pro-growth economic policy and fiscal stimulus are regarded as key tailwinds for Japanese equities. The current administration's pro-business stance and sizeable stimulus - among the largest since the pandemic - aim to expand domestic demand and support investment, which should continue to buoy equity performance in 2026.

Japanese large-cap equities (as represented by the TOPIX index) are reported to be trading on a forward P/E of around ~15.4x based on analysts' projected earnings for 2025. Earnings continue to improve, underpinned by domestic demand, sustained capital investment and disciplined pricing behaviour. A gradually strengthening yen, and broad-based sector participation provide further support to valuations and reinforce the attractiveness of Japanese equities. Although interest rates are expected to rise gradually as the Bank of Japan normalises policy, inflation remains contained and the pace of tightening is unlikely to materially disrupt the economic recovery.

Emerging market share

Remain neutral emerging markets (EM) at the aggregate level, reflecting ongoing macroeconomic and geopolitical uncertainties, as well as uneven growth and policy outcomes across the broader EM universe.

2025 was a stellar year for emerging and frontier markets, which shrugged off trade tensions and geopolitics to deliver returns of 30% and 41% in USD terms respectively over the first 11 months. We are of the view that 2026 will likely be another good year, thanks to a relatively benign macro backdrop characterised by falling rates globally and strong idiosyncratic stories across these markets, from reasonably priced AI enablers in Taiwan and Korea to underappreciated tech leaders in China, to fast growing structural growth stories in India and beyond. Consensus forecasts suggest emerging markets are expected to deliver faster earnings growth than developed markets through 2026, driven by:

- stronger nominal GDP growth,
- improving corporate profitability,
- and lower starting margin bases.

Tactically, Atchison are bullish on EM sub-regions, notably India, China, Mexico, Brazil, Taiwan and Vietnam, where nearshoring (relocation of manufacturing closer to end purchaser, rather than distant low-cost locations), supply-chain diversification, structural growth, manufacturing investment, and technology exposure are compelling.

Equity theapeutics

As part of our analysis in 2026, Atchison intend to also provide under separate paper, regular opinion on investment themes that are not dependent on cyclical demand and not governed, to an extent, by macro-economic conditions. Thematic investments can add value to multi-asset class portfolios due to taking advantage of specific structural developments that evolve independently of the traditional economic cycle e.g. Commodities, Cyber Security, Defence, Space etc.

Real Assets



We maintain an underweight to real assets entering Q1 2026.

While the long-term investment case remains intact, supported by resilient income streams and inflation-hedging characteristics, near-term conditions are less supportive.

Inflationary pressures have moderated, the correlation between equities and bonds has declined, and real asset valuations remain elevated following the 2021–2023 inflation shock. In this environment, higher-quality equities offer a more attractive risk-return profile relative to listed real assets.

We remain underweight Australian listed property (A-REITs), with a preference for global REIT exposure. Although selective opportunities exist, A-REITs continue to face headwinds that are less prevalent across other equity and real asset segments, particularly refinancing risk in office and discretionary retail assets.

Within real assets, we favour infrastructure, with a focus on digital infrastructure, power and grid assets, and data centres. These assets are increasingly foundational to the modern global economy and benefit from long-duration demand, regulated revenues and structural growth drivers.

Within property exposures, we prefer industrial and logistics assets, as well as multifamily and residential, over office and retail, where structural challenges persist.

Alternatives

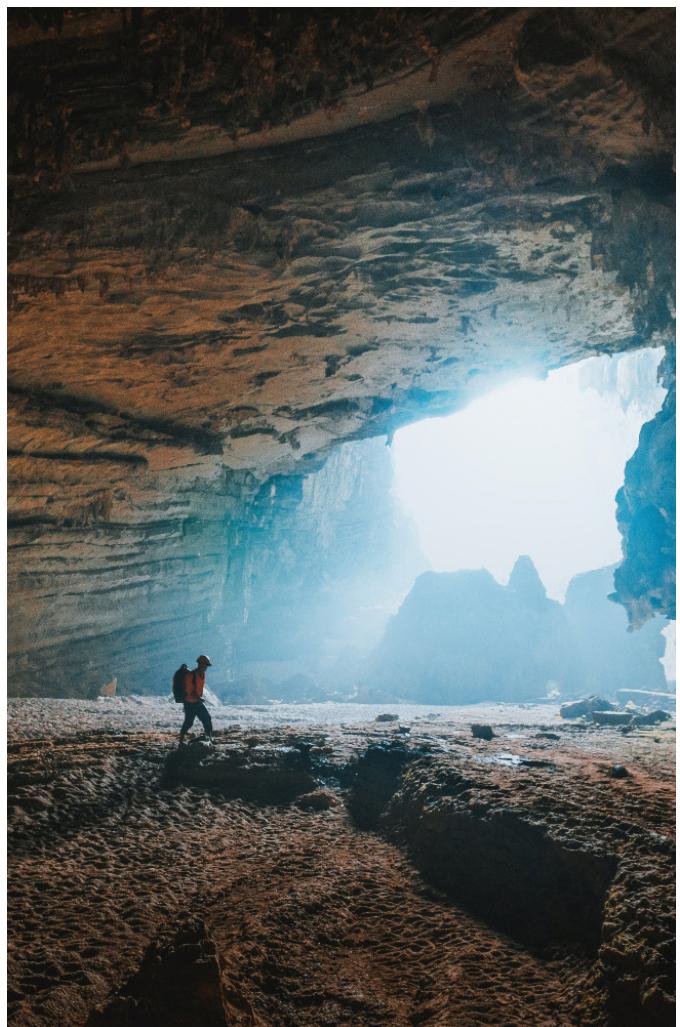
We maintain an overweight to alternatives, reflecting their ability to provide diversification, downside protection and differentiated sources of return in volatile markets and in periods when economic growth is hard to achieve. The most effective alternatives are those with independent return drivers, controlled leverage and realistic liquidity provisions.

Within alternatives, we continue to recommend diversification by underlying risk drivers and differing sensitivities to macro regimes and liquidity profiles.

Atchison continue to recommend exposure to absolute return strategies, senior secured credit, currency-based strategies, private equity, rare precious metals. These exposures are well positioned to benefit from falling global interest rates, increased market dispersion, and the continuation of macroeconomic uncertainty and geopolitical risk.

It is acknowledged in 2025 gold has been the major driver of returns in an alternative portfolio, returning up 64% finishing the year around US\$4,465-4,466 per ounce. Equally silver's price surged about 147% in 2025 closing around US\$71.47 per ounce, driven by industrial and investment demand.

Given gold and silver's strong performance we are of the view that there is an opportunity to reduce the tactical allocation marginally as interest rates bottom out and risk assets become more attractive and demand for safe-haven assets fades and re-allocating toward other strategies within alternatives asset class.



Duration



Reduce overweight bias on duration to neutral as we enter Q1 2026. During 2026 major bank (U.S. Fed, ECB, BoE) are expected to have completed the tightening cycle, with gradual cuts either underway or firmly priced in. In the US, further policy easing is anticipated, which supports duration through the potential for falling yields and capital appreciation. However, this is offset by the outlook in Australia, where interest rates are expected to remain restrictive or rise modestly, limiting the case for a more assertive duration position in the portfolio.

Risks to taking a marked long-duration stance are:

- Sticky services inflation leading to a delay or limit the depth of rate cuts
- Curve steepening risk, where the front-end may rally faster than the long end
- Fiscal deficits leading to heavy bond issuance can push term premia (extra cost for holding long dated bonds instead of rolling short-dated bonds) higher

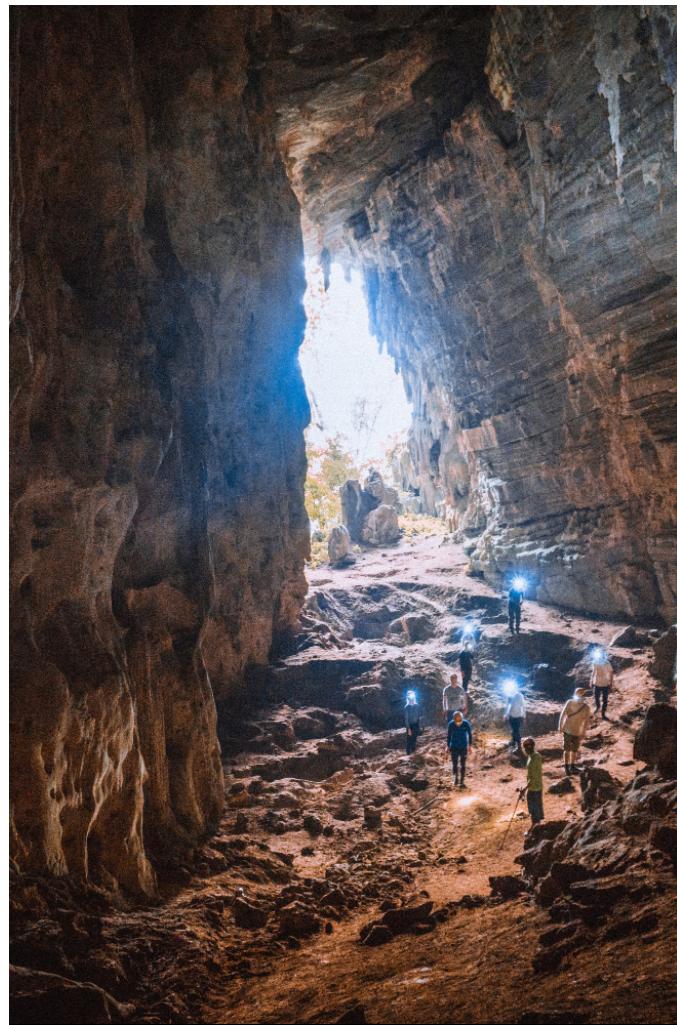
The neutral duration stance allows capital to be allocated to defensive alternative assets that respond to volatility rather than rate direction.

Floating Rate

Move to a marginal overweight floating rate exposure for Q1 2026. Floating rate assets perform best when policy rates are rising or remain persistently high. Consensus view is that we are entering normalising rate environment, even if cuts continue to be introduced gradually, rates will fall, and floating coupons will reset lower, making floating rate assets less attractive.

Within floating rate asset class, we have preference to be overweight domestic floating rate (versus international) as it is expected domestic rates will remain elevated (on a peer relative basis) or even rise in Australia should inflation remain stubborn. Recommended maintain exposure to Australian floating rate securities at the expense of international floating rate securities.

In addition, it should be noted that floating rate assets provide limited duration exposure and therefore offer less protection in risk-off scenarios or periods of slowing growth. Where downside risks remain present, we favour fixed-rate exposures that offer greater diversification and potential capital appreciation. As a result, an underweight allocation to floating rate is deemed appropriate within the broader portfolio construction framework.



Currency



We maintain an overweight currency hedging stance.

Australian cash rates are expected to remain structurally higher than developed market peers in Q1 2026, particularly U.S., Japan and parts of Europe. Therefore, when domestic interest rates exceed foreign rates, currency hedging has the potential to improve risk-adjusted returns for equity investors.

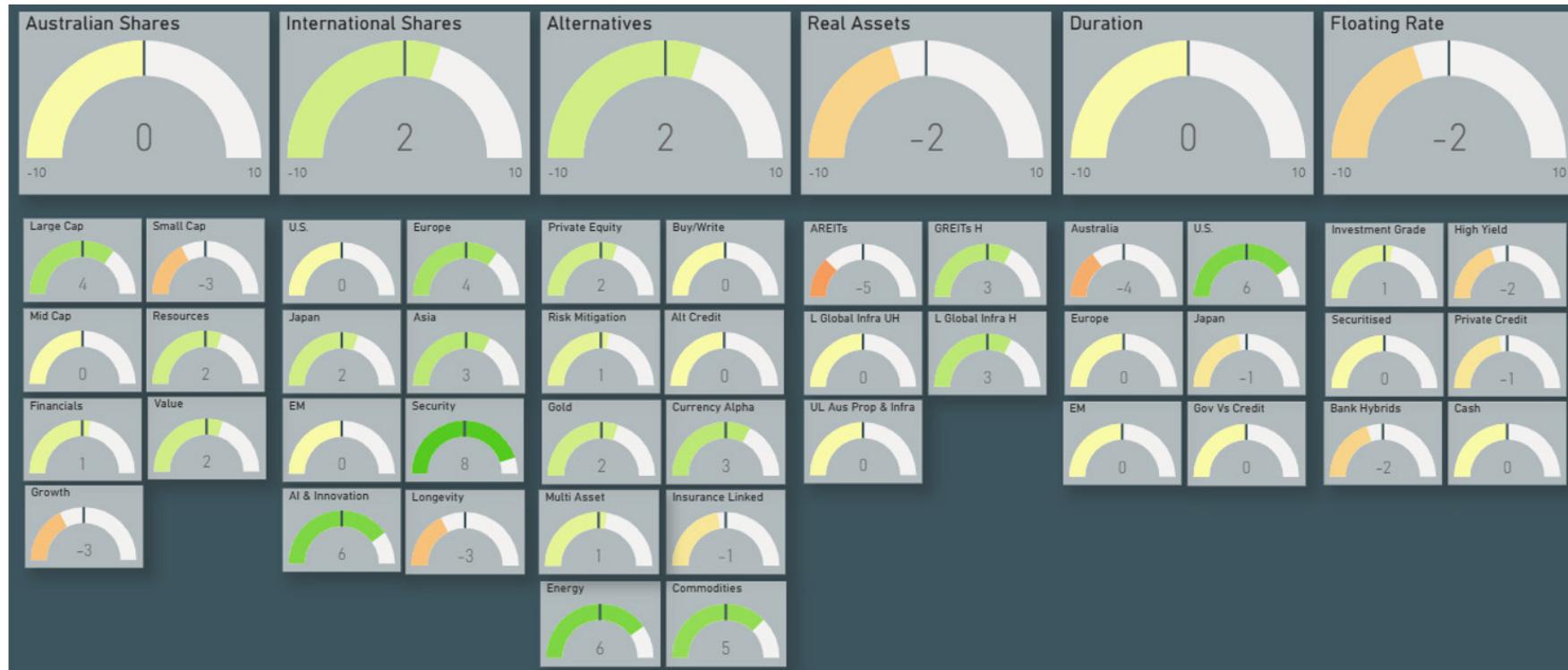
Our positioning reflects the continued weakness in the U.S. dollar as markets increasingly price in further U.S. Federal Reserve rate cuts, which are expected to compress interest rate differentials and erode the USD's yield advantage. As U.S. monetary policy shifts further towards easing, the return benefit of holding unhedged foreign currency exposure remains limited.

In contrast, the Australian dollar (AUD) is supported by a comparatively tighter domestic monetary policy outlook, with the RBA expected to maintain a more restrictive stance relative to global peers. This policy divergence underpins a constructive outlook for the AUD and increases the risk that unhedged offshore exposures detract from portfolio returns. Maintaining an overweight hedging position therefore remains appropriate, aligning currency exposure with prevailing macroeconomic conditions while helping to reduce volatility.

Table 1:

Summary TAA positions – Q1 2026

Table 1: Summary TAA Positions - Q1 2026



Refer to **Table 1 for Summary TAA positions - Q1 2026**. The recommendations shown in the summary are Atchison's conviction away from the SAA, therefore should not be interpreted as a recommended percentage change.

Important information

This document is issued by TAG Asset Consulting Group Pty Ltd Trading as Atchison Consultants (Atchison) ABN 58 097 703 047, AFSL 230 846.

This document is intended as general information only for “wholesale clients” in Australia. It must not be copied, in part or in whole, or distributed to any other person. If you are not the intended recipient, you must not use or disclose this information in any way. This research is not intended as an offer or solicitation for the purchase or sale of any financial instrument. In preparing this research, we did not consider the investment objectives, financial situation, and particular needs of the reader. Before making an investment decision based on this research, the investor or prospective investor should consider seeking independent legal, taxation, financial or other relevant professional advice. This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated about specific securities may change. Any reference to specific securities, options, projections or estimates in this document may be based on current market conditions, beliefs, expectations, assumptions, interpretations, circumstances and contingencies which can change without notice, and may not be correct. Any forward-looking statements are provided as a general guide only and there can be no assurance that actual results or outcomes will not be unfavourable, worse than or materially different to those indicated by these forward-looking statements. Any graphs, examples or case studies included are for illustrative purposes only and may be specific to the context and circumstances and based on specific factual and other assumptions. While the information contained in this document has been prepared with reasonable care, to the maximum extent, no responsibility or liability is accepted for any errors or omission or misstatements however caused. Past performance information provided in this document is not reliable indicator of future performance.

Atchison



Atchison

Level 4, 125 Flinders Lane,
Melbourne Vic 3000

Level 3, 63 York Street,
Sydney NSW 2000

P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information,
please contact:

Jake Jodlowski
Principal
Phone: +61 3 9642 3835
Email: jake@atchison.com.au

Kev Toohey
Principal
Phone: +61 413 770 710
Email: kev@atchison.com.au

Mishan Dahia
Investment Analyst
Phone: +61 3 9642 3835
Email: mishan@atchison.com.au