

Atchison

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Tactical Asset Allocation Outlook Q2 2026

Illuminating
the way forward





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 – Q2 2026. The recommendations shown in the summary are Atchison's conviction

Introduction

The previous tactical asset allocation outlook (Q1 2026) concluded that the global economy was moderating but "barring any surprise shocks, we expect multi-asset portfolios to continue providing positive after-inflation returns for 2026." In the short to medium term, the path ahead for the global economy hinges on the duration of the Middle East conflict, and ultimately how long energy prices remain elevated.

The global economy entered 2026 on a moderate positive footing, with the US tariff-driven increase in inflation widely expected to peak by mid-year. However, the current energy price spike complicates the path towards further disinflation and implies a second inflation wave may be approaching. Therefore, markets have priced out additional interest rate cuts for the remainder of the year, and the impact of rising inflation will unlikely be felt equally across major economies.

The US status as a net energy exporter implies greater resilience to energy shocks. As a result, we expect US growth downgrades to be muted, in comparison to net energy importers such as Europe (and Australia). We note at least Europe is less vulnerable than during the 2022 Russian invasion of Ukraine, as the region has diversified its energy supply chains. China, while heavily exposed to the Middle East, benefits from sizable oil reserves, and the ability to shift toward coal, with declining energy intensity helping limit the impact on its growth outlook.

Broader Asia, however, is heavily exposed to the energy shock due to its reliance on energy imports through the Strait of Hormuz (Strait). The immediate risk is the physical availability of commodities. Taiwan is the most vulnerable, while Japan and Korea have more cushion. Asia's strength in tech innovation should provide an important buffer for growth, with fiscal stimulus also likely in several Asian economies.

Should energy prices remain very elevated for longer, it's very likely will push up global inflation, dampening global activity. More severe growth downgrades for key global regions - including the US should be expected.

Given these conclusions, we recommend logical defensive tilts in tactical asset allocation, not to drive overall alpha but to reduce downside and volatility, should the Middle East situation worsen. These shifts are recommended to be made incrementally given the situation is evolving in real time, and markets are struggling to price it with confidence.

What to watch out for?

- **Keep an eye on the futures curve for Brent oil:** The March spot contracts \$100-\$120/barrel reflected the immediate bottleneck, a 2–4-week closure of the Strait. Current June spot contracts are trading around \$98–\$103/barrel, taking into consideration time needed to clear mines. Should future prices drop to \$80–\$85/barrel suggests market is betting that by Q3 lanes open to escorted convoys. Q4 portion of the curve \$78–\$80/barrel assumes full clearance and a return to structural oversupply.
- **Inflation accelerating:** The energy shock has arrived in Australia on top of existing supply side constraints, namely housing (rents), strong population growth and a tight labour market. Resulting in interest rates staying higher for longer and cuts being pushed out.
- **Weakening consumption:** Currently Australian consumption is "ok" supported by population growth which supports GDP. However per capita (person) households are under pressure from current interest rates, and real income compression.
- **Labour market:** Conditions should provide confirmation in which direction an economy is trending and whether an economy can absorb an inflation shock.

Conclusion: Our middling scenario sees a continuing conflict in the short term, where US Navy enforces open seas lanes through the Strait. Despite ongoing tension, some Gulf Cooperation Council countries (e.g. Kuwait, Oman, Saudi Arabia) are incentivised to resume some shipping, and crude oil production partially resumes. This scenario will leave oil price oscillating until inventories and strategic reserves are brought up to acceptable levels. For this scenario to eventuate the initial expected price needs to be economically viable relative risk.

Summary of our Q2 2026 TAA:

- 01. Reduce allocation to Australian Shares** and move to an underweight position on the basis of current volatile market conditions. Alongside a potential for a prolonged slowing global economy is not conducive to a concentrated equity market that is influenced by global demand for commodities, and a relatively high (and potentially rising) interest environment to fight inflation concerns. We continue reducing exposure to small caps which may be at greater risk of a pullback amidst growth headwinds and higher interest rates.
- 02. Marginally reduce overweight to International Shares,** in this environment, the potential for growth is stronger especially from economies that are proving to be resilient e.g. US, (technology and AI), China (falling oil reliance, exports still strong), and economies that have growing populations, less demand for global trade, stable domestic demand, and a strong and cost efficient manufacturing base.
- 03. Opportunities remain to take advantage of tactical satellite allocations** via thematic strategies for example, Commodities, Security (aerospace, defence and cyber) and Artificial Intelligence (AI) and Innovation (hardware, inference, memory and second-order beneficiaries). Given potential for rising interest rates in major developed countries, we prefer to underweight allocation to small caps.
- 04. Increase allocation to Real Assets from underweight to overweight,** to counter the potential issue of equities and bonds moving in unison down. There is preference to maintain an overweight position to G-REITs over A-REITs due to concentrated Australian listed property index and current interest rate. In addition increase allocation to Listed Global Infrastructure due to cashflow attributes and some protection in an rising inflationary environment.
- 05. Maintain overweight to Alternatives** but consider increasing allocation to low beta long/short strategies and maintaining overweight position to gold (taking advantage of the recent pull-back from its recent peak).
- 06. Underweight duration exposure from neutral** to reduce the asset class sensitivity (price declines) to upward movement interest rates in response to inflation concerns from the Middle East conflict and AI-related growth uncertainty.
- 07. Move to overweight floating rate** given the macroeconomic outlook indicates there is a need to build in some protection from expected rising interest rates.
- 08. Reduce marginally overweight currency hedging stance but remain overweight.**





Australian Shares

We recommend moving to an underweight stance on Australian equities.

Entering Q1 2026 Australia was comfortably, if boringly, placed to provide another year of growth, subject to stickier inflation and potential to marginally ratchet up in interest rates. However, global financial markets have been turned on their head due to multiple macroeconomic forces simultaneously destabilised investor confidence and triggered widespread equity selloffs across diverse sectors.

There is a need to evaluate energy commodity shocks, US Federal Reserve policy uncertainty, and regional security concerns which has in Q2 lead to this perfect storm of risk-off sentiment.

The primary catalyst for the ASX market downturn March 2026 (-7.2%) emerged from escalating Middle Eastern conflicts that directly threatened critical energy infrastructure. Iranian military operations specifically targeted Qatari gas facilities, creating immediate supply chain disruptions that resonated throughout global commodity markets, highlighting that elevated recession risk has become a key factor in market volatility.

The interconnected nature of modern energy markets means that regional conflicts instantly affect global pricing mechanisms. As witnessed in March, Australian energy companies experience immediate impacts on their operational environments and profit margins. Energy companies delivered exceptional investment out-performance whilst rest of the sectors produced negative returns. For example, Viva Energy achieved +15%, while Ampol returned +14% for the month.

The Australian share market is structurally concentrated in banks and resources (which together account for roughly 58% of market capitalisation). The market's exposure to Energy sector is only around 4.5% of the index. Therefore should the Middle East conflict continue or even escalate further - potentially leading to acute global energy shortages - Australia's concentrated equity market is unlikely to keep pace with, or outperform, global peers. Realistically Australia's energy sector is too small to have a meaningful positive impact on returns. For example, the S&P500 has an allocation of around 40% to Technology and Communication Services sectors, that initially will struggle in an oil induced sell-off (due to duration sensitivity) but subsequently profitability can cushion the impact. In fact, the US index can rise even if the rest of the economy is weak.

Whilst we acknowledge that Australian small-cap equities outperformed large-cap stocks in 2025, we maintain a preference for large-cap value companies in the current environment. With domestic interest rates rising to deal with sticky inflation and macro conditions remaining volatile and uncertain, larger, more established companies are better positioned to deliver resilience and earnings stability.



International Shares

We have marginally reduced our overweight to international shares given there is no clear indication when the Middle East geopolitical disruption will finish. Maintaining overweight to international shares versus domestic is based upon the ability to reduce volatility in times of stress through investing in a greatly diversified portfolio by country, sector and industry bias.

Approximately 25% of global seaborne oil passes through the Straits of Hormuz (IEA, Feb 2026). A sustained disruption or closure could significantly impact energy markets. The most affected economies are those with high net energy imports: Europe, Japan, Korea, China & India. As a net energy exporter, US assets have attracted a safe-haven bid since the conflict began. Against this backdrop, as a precautionary measure, we recommend a reduction in allocation to the above listed countries and a slight increase in allocation to US shares. This positioning reflects the likelihood that, should tensions persist, both US equity and the US dollar may remain relatively well bid.

More broadly, the macro environment looks robust. Global real GDP growth expectations are trending higher, macro data has been beating expectations and analysts are revising up equity earnings expectations.

To date, global equity markets have been supported 2025 corporate results, with earnings growth expected to accelerate further in '2026. Fiscal policy in major economies such as the US, Germany and Japan remains supportive, with many key central banks past the peak of the interest-rate cycle. However, this may reverse should Middle East issues drag on.

We recommend increasing allocation to US (supported by AI) whilst marginally down weighting allocations to Europe, Japan, Asia and Emerging Markets (EM). The appeal of EM assets is being tested with a stronger US dollar amid geopolitical tensions. China equities rallied earlier this year but pared gains after regulators raised margin requirement ratio for leveraged stock purchases.

United States (US) Shares

We have moved from a neutral stance on US equities to overweight on the basis that the US economy will remain more resilient and less energy-sensitive than other countries. The rise in oil prices forced the US Federal Reserve to keep its benchmark interest rates unchanged. According to analysts, the US has seen the greatest improvement in resilience to rising oil prices. In the 1970s, a 10% spike in oil prices typically led to a 90-basis point (bp) increase in inflation. Today, that

same shock triggers only an estimated 25bp increase. Europe however remains roughly twice as sensitive to oil shocks as the US. Analysts estimate that a 10% oil price hike would add 40bp to Eurozone inflation and drag growth down by more than 10bp. The heightened sensitivity is attributed to a larger share of energy in European consumer spending (9-10% vs. 6-7% in the US) and the region's continued status as a net energy importer.

Latest global economic forecasts, account for a 40% rise in oil prices following the outbreak of war. While the US growth forecast was lowered by 30bp due to the conflict, the Eurozone saw a steeper 60bp cut to growth alongside a 160bp hike in inflation expectations, according to recent report from Bank of America.

It should also be noted that while the world economy is less dependent on oil, it has become much more sensitive to natural gas and fertilizers. This represents a greater major risk for Europe (and Australia) and developing economies than US.

US continues to exhibit the strongest earnings momentum across regions, higher short-term interest rates. In this environment, we have moved to a marginal overweight to US equities.

Consensus expectations still point to US Federal Reserve rate cuts of around 50bp; however, the timing is more likely in Q4 2026, rather than in the near term. This view is underpinned by a gradually a surprise rate hike given that US labour market is softening, wage growth is steady, strong company earnings outlook, and the ongoing dominance of the technology sector in driving US equity performance.

European Shares

We have reduced marginally overweight position to European equities. We do however remain slightly positive on European (and UK) equities and continue to view the region as an attractive diversification away from US equities. Valuations across the region remain materially less demanding than those in the US, offering a more attractive entry point on a relative basis. In addition, the euro continues to trade at a discount to the US dollar relative to estimates of the purchasing power parity conversion rate, suggesting it has scope to strengthen further over the longer-term.

The euro area economy showed modest growth in Q4 2025, expanding by 0.2% quarter-on-quarter (QoQ), with indicators suggesting similar growth in Q1 2026. However, the escalating

conflict with Iran has the potential to introduce stagflationary pressures, primarily through higher global energy prices. Consensus GDP growth forecasts for 2026 and 2027 have been revised downward to 0.9% and 1.2%, respectively, with risks tilted to the downside. Inflation is expected to rise to 3% year-on-year (YoY) by mid-2026, driven by energy price shocks and supply chain disruptions, and to remain above the European Central Bank's (ECB) 2% target into 2027. The ECB is likely to implement two 25bp rate hikes in 2026 to manage inflation expectations, with potential reversals in H2 2027.

Europe would also perform relatively well in a scenario where enthusiasm around the AI trade moderates, given its relatively low exposure to the sector. The relative performance of Europe ex-UK has stumbled following the attack on Iran given the region is a large net energy importer. This headwind should eventually fade once the crisis subsides and the oil price moves back closer in-line with long-term fair value.

UK relative performance is closely linked to global value vs growth style performance, given its relatively high weightings in value-oriented sectors such as financials and commodities, and low exposure to growth-oriented sectors such as tech. Although the domestic economic outlook is less important for UK equity relative performance given the high international exposure of the names that make up the UK large cap index it still matters. Indeed, there is a positive relationship between the performance of UK vs global GDP and UK vs global equity performance. On the domestic front, the UK economic growth outlook appears lacklustre. This is offset somewhat by the fact that the UK equity market trades on very undemanding valuation multiples compared to most markets.

Japan Shares

Moved to a marginal underweight position to Japanese equities entering Q2 2026. While headline CPI is expected to ease below 2% in H1 2026, it is likely to rise again in H2, keeping average CPI around 2% next year. It is expected two policy rate hikes by the end of 2026. The new government's dual mandate for the Bank of Japan (BoJ) (inflation targeting and growth prioritization) implies resistance to further BoJ hikes.

We remain slightly positive on Japanese equities and view Japan as an effective diversifier from US exposure. The recent election consolidated the Liberal Democratic Party control providing greater political clarity and clearer policy direction over the medium term, while the government's pro-nominal-growth stance and the BoJ's balanced approach create a constructive macro backdrop.

Year-to-date announced company buybacks already exceed last year's level, and momentum should persist as cross-shareholdings unwind. Revisions to the corporate-governance code in Q3 will increase scrutiny of excess cash holdings, which is bullish for capex and shareholder returns.

Fiscal spending and ongoing corporate reform should support rising ROE and stronger earnings. Nevertheless, heightened geopolitical risk — notably recent US – Iran strikes — may weigh on sentiment, as their full impact on global growth, inflation and the timing of the BoJ's next rate move remains unclear. The recent surge in oil prices, driven by Middle East tensions, may weigh on Japanese equities due to increased

inflation concerns. As a heavy energy importer, Japan may also face pressure on corporate earnings.

Emerging Market Shares

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.

Rather than treating EM as a single macro trade, we are of the opinion investors should consider allocating selectively across regions and countries and tilting tactically between emerging equity and debt. Also, should consider implementing multiple security selection techniques to focus on companies with resilient earnings, pricing power and strategic relevance.

Heading into the Middle East conflict, fundamentals, valuations and technicals were all aligning, moving us closer to an upgrade on AI exposure, strong earnings, attractive valuations, and supportive technicals. But given EM's dependency on Middle East oil and shipping routes, and the strong US dollar, patience is prudent.

In our view, conflict-driven deglobalisation need not reduce the opportunity for EM investors. But it will require more selectivity and intensive bottom-up research to identify the companies, sectors and regions. To Assess resilience to shocks, it is also important to assess countries' respective policy spaces and reserve buffers. Remittances, tourism and proximity to the conflict zone are all important considerations too, in our analysis.

Taking these factors into account, Egypt, Pakistan, Sri Lanka and Kenya appear among the most vulnerable countries, with Ecuador among the best-placed. The larger economies, such as Brazil, South Africa and Mexico, look more resilient. Latin American energy and commodity exporters are also ones to watch. Several Asian countries are central to AI supply chains, and many emerging nations globally provide AI-critical commodities, putting them in the lead in the global AI rally

Equity Thematics

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 have moved to an overweight position to real assets in this environment of interest rate uncertainty, geopolitical risk and volatile equities.

Inflationary pressures have returned, the correlation between equities and bonds has risen and real asset valuations seem to have reset from elevated to mixed but relatively attractive. Assets such as infrastructure are currently attractive but specifically assets that having pricing power, inflation linkage and reasonable debt levels.

Over the last quarter listed infrastructure was driven by strong risk-adjusted performance of regulated utilities, and AI electricity demand expectations. There is no reason to conclude that listed infrastructure will not continue to outperform both A-REITs and G-REITs in the short-term.

We have increased our overweight position to listed infrastructure and remain underweight Australian listed property (A-REITs), with a preference for global REIT exposure over domestic listed property. 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. Whilst G-REITs are preferred due to more attractive relative valuations and provision of greater diversification.



Alternatives

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.

Alternative investment strategy performance remains mixed year-to-date, however, all sub-strategies outperformed equity markets during March's sell-off. As measured by the HFRX Equity Hedge Index, long/short equity strategies were the main laggard with a decline of 4.4%, as existing single stock short exposure provided limited benefits.

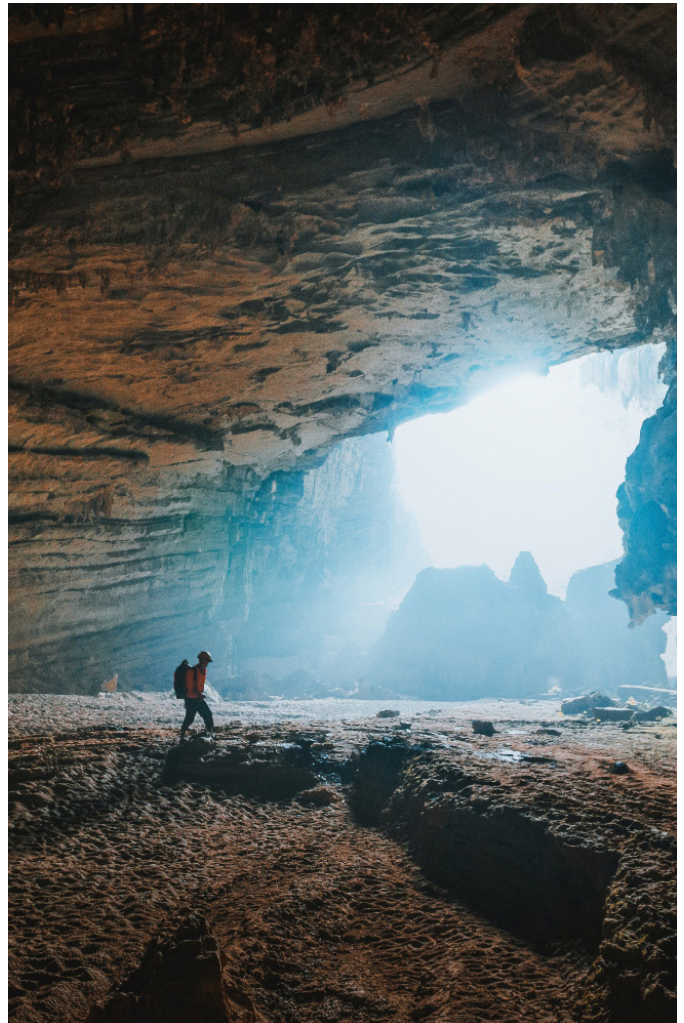
Agile discretionary macro managers should continue to capitalize on economic and policy shifts, along with intermittent spikes in market volatility. Tactical discretionary macro strategies are well-positioned to capitalise on opportunities emerging from shifting economic conditions, evolving policy landscapes, and elevated market volatility.

Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies.

Atchison continues to recommend exposure to alternative strategies, including absolute return funds, senior secured credit, currency-based strategies, private equity, and rare precious metals. We see value in opportunistically taking advantage of dispersions between different pairs.

Given the status of geopolitical events, the alternatives asset class is not facing eminent collapse, but rather a maturing and more fragile part of the cycle. Risks that require monitoring in this environment as they apply to private credit (and to an extent equity) are market pricing (discounts to NAV), liquidity (redemption gating), credit quality, sector concentration, and interest rate sensitivity and leverage.

In view of the above risks becoming a little more prominent, we prefer to lower the allocations to private credit and equity. At the same time, we see scope to enhance returns within alternatives through selective, thematic exposures. Targeted allocations to areas such as agriculture and fertilisers, commodities, and global macro strategies can provide differentiated growth drivers and improve portfolio resilience in a more uncertain macro environment.





Duration



Reduce duration to underweight position as we enter Q2 2026.

The combination of rising inflation expectations due to the Iran conflict and ongoing AI-related growth uncertainty argues for continued caution in interest-rate exposure. For now, we remain moderately underweight duration relative to benchmarks, waiting for more attractive entry points. We would look for the 10-year US Treasury yield to reach the 4.75–5.00% range before reconsidering duration positioning.

With the Iran conflict top of mind in March and the subsequent increase in inflation expectations, bond investors voted with their feet and sent US Treasury yields, across the curve, higher by 30 to 44 basis points. The move was highest in shorter maturity securities, which has caused the Treasury curve to flatten.

Domestically, the Reserve Bank of Australia (RBA) is expected to remain data dependent ahead, focused on job market weakness to balance recent inflation surprises. The potential for more upside surprises in inflation means investors should not be complacent. Australian government bond yields may continue to underperform global peers, given the RBA's more cautious stance.

Corporate credit spreads however have remained relatively well behaved. The move higher in yields has increased the income opportunities particularly in shorter parts of fixed income markets.

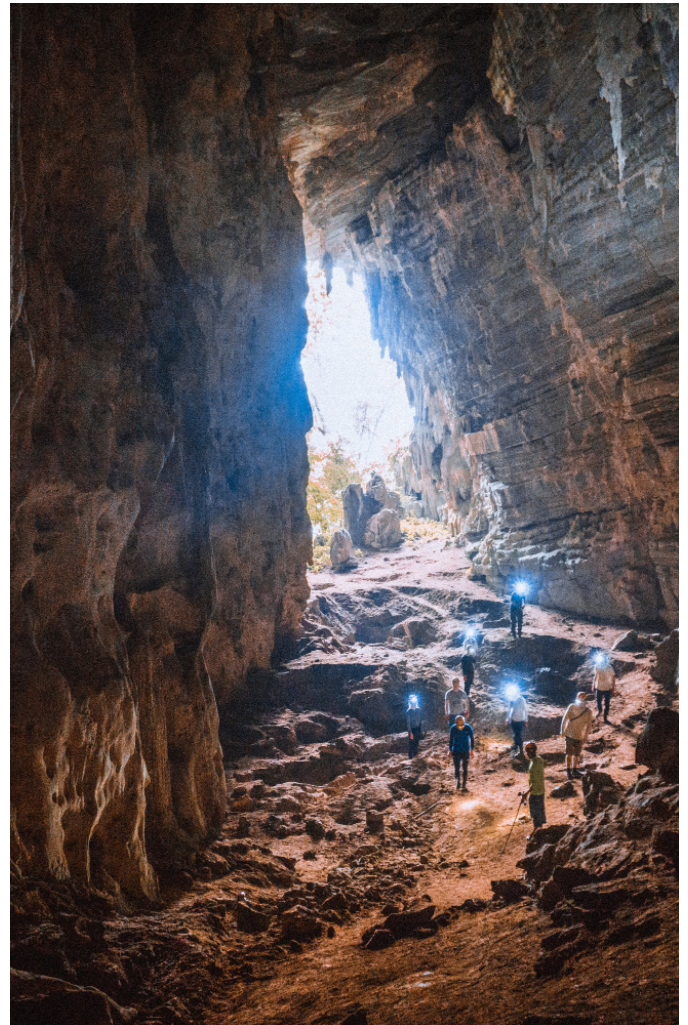


Floating Rate

Move from underweight to marginally overweight floating rate exposure for Q2 2026. The case for increasing allocation to floating rate securities such as floating rate notes, hybrids, and senior loans is dependent on the direction of interest rates, which is increasingly influenced by the duration and severity of the Middle East conflict.

Energy shocks (i.e. oil spikes from Middle East conflict) are pushing inflation risk higher. Markets are coming to the conclusion that interest rate cuts may need to be pushed out, possibly to late 2026, the timing of cuts is now uncertain. The probability of an oil induced recession has increased marginally. Atchison prefer to overweight to floating rate notes but at the shorter maturity end as a hedge against surprise rate hikes.

We continue to have a 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 as inflation looks to remain stubborn.





Currency



Reduce marginally overweight currency hedging stance.

As of April 2026, the Australian dollar (AUD) has experienced significant appreciation, trading near a three-year high of around 0.71–0.72 USD, driven by a hawkish Reserve Bank of Australia (RBA) and high commodity prices. The consensus is cautiously optimistic, with projections for the AUD to trade in the 0.70–0.75 USD range, supported by a narrowing interest rate gap with the US.

Andrew Hauser's (RBA Deputy Governor) hawkish remarks increased the probability of a monetary policy tightening in May from 69% to 72% and provided support for the AUD/USD pair. Futures markets do not anticipate any change in the federal funds rate, while Australia's key rate could rise by a further 50–75bp in 2026. The widening rate differential is expected to support the Australian dollar.

Table 1:

Table 1: Summary TAA Positions - Q2 2026



Refer to Table 1 for Summary TAA positions - Q2 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

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