Atchison

July 2026

Monthly Market Update

Illuminating
the way forward

Key Events in July 2026

July – Middle East conflict remains fast-moving and highly uncertain

- Australian shares rose +2.2%, the fourth consecutive month. One of the strongest July on record, as copper miners rallied on renewed optimism around artificial intelligence following record surge in technology shares.

- Major global share markets were negatively impacted by a sharp rotation out of AI/semiconductor stocks and into value/cyclicals, against a backdrop of the Middle East conflict flaring back up.

- Australia's labour market stayed resilient but no longer tight: unemployment sat around 4.4%, above the Reserve Bank of Australia (RBA's) earlier 4.2% forecast, with labour demand near long-run averages and "little sign yet of a major weakening."

- Australia's June quarter/monthly CPI data (released late July) showed annual inflation easing to 3.8% (from 4.0% in May), with prices flat-to-slightly-down month-on-month (-0.1%). Housing remained the biggest single driver (+6.8% annually), dominated by a 22.4% jump in electricity prices as government rebates rolled off, alongside new dwelling costs (+5.8%) and rents (+3.6%). Food (+3.3%) and recreation/travel (+3.3%, with northern-hemisphere holiday travel pushing a 4.6% monthly jump) also contributed.

- The dominant story was policy divergence amid a stalled disinflation trend. The IMF's July 8 World Economic Outlook update kept global growth forecasts broadly steady at 3.0% for 2026 and 3.4% for 2027, but flagged that "global disinflation has stalled" and described the world economy as caught in "crosscurrents of war and technology"

- The Middle East conflict and its oil-market fallout ran through the month. Despite the ongoing war, oil prices kept sliding, Brent was around US$72/barrel in early July, down sharply from roughly $95 a month earlier.

- Trade policy stayed turbulent: the Trump administration rolled out fresh tariffs of 10%–12.5% covering roughly 60 countries and ~99% of US trade (replacing tariffs struck down by the Supreme Court, now re-justified under forced-labour provisions), alongside an escalating tariff fight with Canada. Litigation risk and business uncertainty were recurring themes in coverage.

- The US Federal Reserve (Fed) held its target range at 3.5%–3.75% at the July 28–29 FOMC meeting but the vote (9–3) was notably hawkish.

- The US bond market was marked by a sharp surge in Treasury yields to new highs for the year, Short-term yields rose in anticipation of a potential rate hike, while long term yields trended higher.

- The ECB left all three key rates unchanged on July 23 (deposit rate 2.25%, refi rate 2.40%, marginal lending 2.65%), citing energy-price uncertainty tied to the Middle East conflict and stating "the full inflationary impact of the energy shock has yet to play out."

- The Bank of Japan held its policy rate at 1.0% (the highest since 1995) on July 31. Despite current core CPI running below target, the BOJ's updated outlook flagged inflation moving "well above 2%", driven by wage-cost pass-through, elevated crude prices, and yen weakness.

- China's slowdown continued as a structural theme, H1 2026 GDP growth of 4.7%, with the World Bank projecting a full-year 4.4% (4.3% in 2027) with policy focus shifting to consumption rebalancing and social-safety-net expansion, against a backdrop of a still-soft property sector. The July Politburo meeting was watched for signals on further stimulus.

- The US Dollar Index fell 1.3% versus a basket of global currencies, while gold rose 1.0% after dropping more than 10% during the prior month.

- Middle East de-escalation or escalation remains the dominant swing factor for global growth, inflation and every central bank's reaction function, watch oil and Strait of Hormuz shipping data as the leading indicator.

- In Australia specifically, the near-term question is simply whether the RBA hikes or holds in August, while medium-term the path to rate cuts has been pulled forward into 2027 by most forecasters, contingent on the oil/energy shock fading as assumed.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 31 July 2026

	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	2.2	4.1	6.0	10.3	7.9	9.0
Australian Small Companies	-3.9	-4.2	1.5	6.4	1.5	5.2
International Shares (unhedged)	0.9	6.7	19.3	17.8	11.0	12.5
International Shares (Hedged)	-0.9	6.8	10.5	16.7	12.3	13.8
Emerging Markets (Unhedged)	-5.5	6.0	24.6	16.6	8.2	8.9
Australian Property Securities	3.2	6.9	0.2	9.6	5.6	5.7
Global Property Securities (Hedged)	2.6	4.9	18.7	8.7	0.9	
Global Listed Infrastructure (Hedged)	-0.4	4.0	17.0	12.1		
Australian Bonds	-0.5	2.1	0.9	3.6	-0.2	1.5
Global Bonds (hedged)	-1.0	0.6	1.9	3.1	-1.2	
Cash	0.4	1.1	4.0	4.3	3.3	
Change over the month						
AUD/USD	2.34%	0.7030				

Past performance is not a reliable indicator of future performance.
Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian Markets

The S&P/ASX 200 returned +2.2% for July 2026, one of the strongest Julys on record, aided by softer inflation data, resilient corporate earnings and a firmer Australian dollar.

Over the quarter, the Australian share market returned +4.1% and +6% for the 12 months to the end of July 2026.

Energy +12.2% and financials +5.8% were the key drivers of July's gain, with materials, technology and utilities also firm. Major banks up around +7.6%, largely attributed to position-unwinding and rotation into value rather than any fundamental improvement in bank earnings. Healthcare rose a more modest +2.3%, helped by CSL.

On the other side, information technology was the worst performer, down about -2.8%, as the global unwind of AI-momentum trades hit local tech names before a partial recovery late in the month. Industrials slipped around -1.4%, and materials fell about -0.9% as iron ore prices dropped roughly -4.4%.

Within July itself, the standout winner was Viva Energy +38%, which rallied hard after a July 28 trading update showed first-half EBITDA of roughly A$770–780m, about 9% above consensus and more than double the prior year, driven overwhelmingly by a sharp improvement in refining margins at its Geelong refinery as global refining capacity tightened. A disclosed +5% stake build by State Street added further momentum, and the stock hit a 52-week high. REA Group +15.5% and WiseTech Global +10% also had strong months, both clawing back-ground lost in the earlier AI-related tech selloff.

At the other end, Liontown Resources was the standout loser, down roughly -43%. The drop was driven by a combination of a sharp fall in spodumene (lithium) prices, down ~12% in June after a huge prior run-up, with Chinese lithium prices off 18%–20%, rising cost pressures at its Kathleen Valley operation, a disclosed ~A$40m non-cash impairment on its Lucky Bay asset, and heavy technical/momentum selling that pushed the stock into deeply oversold territory.

The market heads into August's reporting season, described by analysts as one of the more consequential in recent years, trading at a fairly full valuation of around 17.4x forward earnings, with consensus earnings estimates having been trimmed through July.

Global Markets

Global equities delivered mixed performance, with a modest gain masking broad dispersion beneath the surface. The global index rose +0.5% in US dollar terms, as strength in the UK, Australia, and parts of Europe offset weakness in technology-heavy US and Asian benchmarks. Trading was marked by volatility, with chipmakers and AI-linked industrials selling off sharply before recovering some ground late in the month. The move was widely seen as a case of “flows dominating fundamentals”, with declines exacerbated by crowded positioning, deleveraging, and other technical factors. Importantly, the broader equity market proved resilient, supported by rotation into cyclical and defensive sectors as equal-weight benchmarks outperformed their market-cap weighted counterparts.

US equities delivered mixed results, as sector rotation continued amid a pullback in semiconductors and other AI-related companies. The S&P 500 Index was little changed, declining -0.1%, while the tech-heavy Nasdaq Composite fell -3.2%. Equal-weight benchmarks notably outperformed their cap-weighted counterparts and value outperformed growth, reflecting the dispersion and market broadening that was evident through much of the month.

Eurozone equities advanced, supported by improving activity data, strong corporate earnings and rotation toward value-oriented and cyclical sectors. The STOXX Europe 600 Index gained +1.3% in euros. Germany’s DAX and France’s CAC returned +2.5% and +1.3% in local currency terms, respectively.

UK equities outperformed in July, helped by the market's higher weightings to energy, financials and its lower exposure to tech. The UK share market rose +3.9%, while the FTSE All-Share Index hit a new all-time high, gaining +3.7% in sterling. Energy and financials benefited from higher oil prices and rising rate expectations, while political developments kept longer-dated gilt yields in focus.

Japanese equity performance was split, with the broader TOPIX advancing while the Nikkei 225 declined sharply amid weakness in technology-oriented stocks. The TOPIX rose +0.2% in yen terms, while the Nikkei 225 fell -8.1% in yen terms.

Emerging market equities declined as sharp weakness in tech-heavy markets outweighed gains across China, Latin America, and parts of Southeast Asia. Emerging markets fell 3.0% in US dollar terms, though it remained up +20.3% year to date. July saw heightened dispersion across regions, with volatility in the AI trade, higher oil prices, currency moves, and country-specific policy developments driving returns.

Interest Rates and Bonds

Major central banks were largely on hold, though policymakers maintained a cautious stance toward upside inflation risks, with renewed hostilities between the US and Iran adding to concerns about a prolonged period of higher energy prices. The US Fed's second meeting under Chair Kevin Warsh drew the most attention, as the committee held rates steady in the 3.50%-3.75% range, while facing pointed scrutiny over its inflation-fighting framework.

The ECB left its deposit rate unchanged at 2.25% after raising rates in June for the first time since 2023. Whilst the BoE maintained its bank rate at 3.75% in a 6-3 vote, with three MPC members favouring a rate hike. Policymakers cited easing domestic price pressures but warned that higher energy costs tied to Middle East tensions could create upside inflation risks.

While the RBA will meet on August 11, the month's calendar beyond that is relatively sparse, with major G7 central banks back in September. Investor attention will turn to the US Fed's Jackson Hole Policy Symposium at month end, where Chair Kevin Warsh may have an opportunity to provide greater clarity on the Fed's policy framework.

Global government bonds declined as yields rose across developed markets, reflecting higher oil prices, shifting central bank expectations, and ongoing fiscal concerns. Sovereign yield curves generally shifted higher, though the US was also marked by notable steepening.

The Bloomberg Global Treasury Index fell 0.9% in US dollar-hedged terms.

The Bloomberg Global Aggregate Corporate Index fell -1.3% in US dollar-hedged terms, while the Bloomberg Global High Yield Index declined -0.4% on a hedged basis.

Spread sectors were mixed, with global corporate bonds posting monthly declines. Investment-grade corporates trailed high yield at the index level, with AI-related issuance among the factors weighing on performance. That said, while corporate spreads saw modest widening during the month, they remained relatively tight by historical standards.

Global investment-grade spreads widened by approximately 2 bps, while high-yield spreads widened by roughly 7 bps.

Currencies and Commodity Markets AUD/USD:

The Aussie dollar rose roughly +1.7%–2% against the US dollar, moving from around US$0.690 at the end of June to about US$0.702–0.703 by month-end (touching its highest level since mid-June along the way). The move was mostly a US dollar story: soft US Q2 GDP (1.5% annualised, well below the 2.1% forecast) and cooling US PCE inflation raised doubts the Fed needed to tighten further, weakening the greenback broadly. That outweighed a dovish domestic signal, Australian CPI slowed to 3.8% y/y in June, which cut market pricing for an RBA hike from ~21% to ~3%–4%. Worth noting the AUD is still well down from its 2026 high near US$0.73 reached earlier in the year, after a sharp pullback into June.

By far the biggest mover was oil, a sharp, geopolitically-driven rally (tied to renewed Middle East/shipping-route tension after a brief June ceasefire) took Brent from around US$74 to roughly US$92/barrel, up about 20%–27% for the month, with WTI up a similar ~22%. That's a significant swing for a market that had fallen ~16% in June on the earlier US-Iran de-escalation.

Gold was roughly flat (~+0.6%) from about US$4,015 to US$4,038/oz, though still up over 20% year-on-year), copper edged up around 3.4%, and palladium/platinum both gained close to 6%. Iron ore was broadly flat, hovering near US$98/tonne after June's sharper 7% fall that took it below the US$100 psychological level.

On the downside, silver slipped about 3.6% and natural gas was the standout loser, down close to 14%, the only commodity with a double-digit decline for July. Agricultural commodities were mostly firmer (coffee +12%, wheat +8.5%, corn +6.4%).

While inflation remains a defining feature of the global economy, commodities remain one of the few asset classes with direct earnings linked to inflation. Basically, commodities are the thing inflation is measured on. For example, a miner with a largely fixed cost base (sunk capex, existing labour agreements) sees almost the entire move in the underlying commodity price flow straight through to earnings, which is a big part of why the materials sector's ~47% FY26 return so closely tracked the lithium/copper/gold price moves themselves, rather than needing any story about volume growth or market share.

Outlook for Investment Markets

Our view is that we do not believe a significant rally across fixed income markets is likely to take hold near term. Central bankers seem no longer have an easing bias, and it is unlikely that there will be a cycle of aggressive rate hikes either.

Ther outlook for interest rates is mixed across the world. US Fed rate cuts are likely on hold through year-end but could resume in the first quarter of 2027 on inflation resurgence. The new Fed Chair, Kevin Warsh looks more hawkish than President Trump would wish. Early indications are that Warsh might abandon the kind of forward guidance favoured by his recent predecessors and perhaps revert to limited and confusing rhetoric, frustrating economists around the world.

Australia is sitting in an unfamiliar environment when it comes to inflation. Ever since the RBA adopted an inflation target in 1993, it has sat comfortably within the 2-3% range. There were periods of variance on either side of the range but, since 2022 inflation being less predictable means interest rate expectations also swing more sharply, which flows through into higher volatility rate sensitive ASX listed stocks.

Real yields are looking attractive in the UK. The UK offers the highest real yield under this measure, at 2.7%, partly because we have a new prime minister's (Mr Burnham) policies are far from clear. However, the risk premium attached to gilts is generous and therefore offers a potential value opportunity. The budget deficit in the UK is nothing like as high as it is in the US, and the level of government debt is not out of line with other developed market debt ratios. Moreover, the currency markets do not indicate any loss of confidence in sterling.

Given the continued health of the global economy, widespread political risk and persistent government deficits, we remain underweight the fixed-interest asset class. However, we do find some value in government bonds, particularly at the shorter end of the curve, where yields often are only marginally lower than corporate bonds which carry additional credit risk. We are also of the view that index-linked securities (which were to be avoided for long period of time when real yields were far too low) look attractive.

Corporate credit benchmarks offer impressive income opportunities at present. It is expected that the asset class to deliver mid-single-digit total returns even if credit spreads do not tighten.

Strong fundamentals should propel the global equity rally through year-end and into 2027. Most indices are on pace to deliver double-digit earnings growth this year. AI-related capital expenditures are driving company earnings with far-reaching multi-sector implications, a trend that remains intact.

The information technology and communication services sectors of the S&P 500 Index are leading the pack in terms of growth. However, several other sectors delivered double-digit growth. Healthcare was the only sector that showed a modest earnings contraction year over year. Analysts expect the S&P 500 should see a 20%-or-better increase, while small-cap Russell 2000 earnings could rise more than 30%.

Most markets have been consolidating rapid gains since March. Investors should expect more upside ahead, particularly if war in the Middle East winds down.

Potential risks remain namely around military tensions in the Middle East, that inevitably send oil prices higher and propel inflation higher for longer. Which could put renewed pressure on central banks to act.

Optimism surrounding the massive AI-driven capital expenditure cycle is running hot. Major setbacks would likely disappoint markets and slow future economic and earnings growth.

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