

## Executive Summary

Australia's market outlook is being shaped by a higher-for-longer rate environment, narrow but resilient earnings leadership, and a cluster of near-term catalysts—from RBA policy risks to commodity volatility and geopolitical tensions—that together keep portfolio positioning highly sensitive to shifts in macro data and sector momentum.

### Structural forces shaping medium-term positioning

- A tight labour market, persistent wage growth, and ongoing fiscal expansion are locking in a **higher-for-longer interest-rate environment**, keeping yields elevated and compressing equity valuations.
- This backdrop structurally favours **banks, insurers, resources, and pricing-power defensives**, while long-duration growth sectors and REITs remain disadvantaged.
- Market leadership remains **large-cap anchored**, with breadth improving but still secondary to the dominance of banks and miners.

### Cyclical drivers influencing earnings and sentiment

- Strong labour data and sticky inflation reinforce expectations of further RBA tightening, supporting the AUD and front-end yields while pressuring rate-sensitive sectors.
- Commodity-linked earnings remain pivotal: BHP benefits from strong profit growth and a copper pivot, while Rio faces cost pressure and softer sentiment.
- Growth sectors are still digesting a weak reporting season, keeping the broader market **range-bound and dependent on narrow leadership**.

### Near-term catalysts that could shift positioning quickly

- The upcoming RBA decision and rising probability of a May hike remain key triggers for sector rotation.
- Copper and iron ore price volatility will continue to drive sentiment toward BHP and Rio.
- Bank earnings momentum (NAB +15%, ANZ +17%) is a live catalyst for financials.
- Geopolitical tensions around the Strait of Hormuz pose a risk of rapid repricing in energy, inflation expectations, and defensives.

Together, these structural pressures, cyclical earnings dynamics, and fast-moving catalysts create a market that remains anchored by large-cap strength but highly sensitive to shifts in macro data, commodity trends, and policy signals.

## Technical Outlook – ASX 200 and All Ordinaries

The way the ASX 200 and All Ordinaries are trading shows a market still led by large caps but gradually supported by a wider set of mid- and small-cap names. The ASX 200 continues to reflect the strength of major banks, miners, and other liquid heavyweights, while the All Ordinaries captures a broader group of companies that react more directly to shifts in risk appetite. The All-Ords' slight outperformance suggests investors are beginning to extend exposure beyond the top tier, selectively adding to smaller and more cyclical stocks.

This widening participation points to a measured increase in risk appetite rather than a speculative rotation. Investors are willing to move down the market-cap spectrum, but the modest scale of the shift shows that large caps remain the core anchor for liquidity, earnings visibility, and defensive stability. Leadership is broadening, but the major banks and resource names continue to set the overall tone.

A market supported by both large-cap strength and a growing contribution from mid- and small-cap stocks tends to be more durable. Broader participation reduces reliance on a narrow group of leaders and generally strengthens the underlying market structure. The current pattern—incremental breadth improvement alongside continued large-cap leadership—signals cautious optimism and suggests the uptrend is building on a more resilient foundation.

## Monetary Policy and Macro Economic Outlook

Australia's current macro mix points to persistently higher interest rates, firmer bond yields, and a more defensive tilt in equities. A tight labour market—with unemployment holding at 4.1%, rising employment, and more hours worked—keeps recession risk low but strengthens expectations that the RBA will need to tighten further. Those dynamic pushes front-end yields higher, supports the AUD, and weighs most heavily on long-duration growth stocks. By contrast, banks and insurers benefit from stronger credit conditions and higher rates, while labour-intensive sectors face margin pressure.

Stronger wage growth and the RBA's upward revision to core inflation reinforce this tightening bias. Persistent price pressure is lifting both nominal and real yields, compressing equity valuations and favouring defensives with pricing power such as supermarkets, telcos, and insurers. Rate-sensitive sectors—REITs, utilities, and high-growth tech—remain the most exposed as discount rates rise. The AUD gains near-term support from the prospect of another rate increase.

Fiscal policy amplifies these forces. Record government spending and long-run deficits support demand and benefit infrastructure, defence, and public-services contractors, but heavier debt issuance pushes long-end yields and term premia higher. This adds valuation pressure across rate-sensitive sectors. While fiscal expansion

initially supports the currency, deteriorating debt dynamics could limit AUD upside over time.

Taken together, the environment points to elevated yields, compressed equity multiples, and leadership concentrated in banks, insurers, resources, and pricing-power defensives, while REITs, utilities, and long-duration growth names face the strongest headwinds.

The RBA's stance—underpinned by tight labour conditions, strong wage growth, and stickier inflation—has pushed markets toward firmer expectations of additional tightening. With unemployment steady and hours worked rising, the economy appears able to absorb restrictive policy without major job losses. Markets now price a higher probability of a May rate hike and a prolonged period of elevated rates, lifting front-end yields and flattening the curve.

Banks are clear beneficiaries: higher expected policy rates support margins, and strong employment helps maintain credit quality. Rate-sensitive sectors experience the opposite effect as rising discount rates and higher funding costs compress valuations.

Credit markets show a split. Strong labour data tightens spreads for high-quality issuers in the near term, but a higher-for-longer rate path raises refinancing risk for leveraged borrowers, favouring investment-grade credit over high yield.

The AUD benefits from the RBA's hawkish trajectory and firm domestic demand, though long-run fiscal deterioration may cap gains if it begins to erode investor confidence.

Rising public spending and persistent deficits push investors to demand higher compensation across Australian assets. Larger debt issuance raises the term premium, steepens the long end of the curve, and increases macro uncertainty. Higher yields and weaker fiscal credibility also lift the equity risk premium, weighing on valuations. For global investors, Australia becomes a more mixed proposition: bonds attract demand due to higher yields, but equities look less appealing as valuations compress and the AUD becomes more sensitive to global risk sentiment.

## Noticeable Stock Moves

**BHP's** outlook has improved after a strong half-year result, a 28% jump in attributable profit, and a clearer pivot toward copper, which now makes up more than half of group EBITDA. The market welcomed the stronger earnings base, the shift toward higher-growth commodities, and the US\$4.3 billion Wheaton streaming deal, all of which reinforced confidence in BHP's long-term project pipeline. From here, investors will be watching copper and iron ore price trends, the delivery of major copper projects, progress on the streaming agreement, and any updates to cost or production guidance that could support or challenge the current valuation.

**Rio Tinto's** latest earnings update generated a more cautious response. Revenue rose and earnings held steady, but the result fell short of expectations, triggering a 5% pullback and pushing the stock into the \$163–\$165 range. Concerns centre on the quality and durability of earnings, rising cost pressures, and the lack of a clear near-term catalyst relative to peers. Key indicators ahead include iron ore price resilience, Pilbara production guidance, operational consistency, cost inflation, and progress on major developments such as Oyu Tolgoi.

**National Australia Bank** has climbed to record highs after a strong first-quarter update, with cash earnings up 15% on the prior half-year quarterly average. Better asset quality and stronger underlying profit supported the market's positive reaction and reinforced confidence in NAB's earnings momentum and balance-sheet strength. Investors will focus on net interest margin trends, credit quality, cost control, and loan growth relative to other major banks to gauge whether the valuation remains well supported.

**ANZ** has also gained traction, reaching a 52-week high after reporting a first-quarter result that delivered meaningful cost reductions, improved efficiency, and a 17% lift in cash profit. The market responded well because the update showed tangible progress on the bank's long-term "ANZ 2030" strategy, which centres on simplification and digital transformation. Forward-looking markers include execution milestones for the strategy, margin stability, credit quality trends, and digital adoption metrics that demonstrate sustained operational gains.

## Geopolitics

Geopolitical tensions between the United States and Iran are feeding into higher commodity prices, firmer inflation expectations, greater supply-chain vulnerability, and shifting sector exposures, all of which have direct implications for portfolio positioning. The combination of a hard U.S. deadline, a significant military buildup, and the possibility of disruption through the Strait of Hormuz has pushed oil prices higher as markets assign a greater probability to supply interruptions. Any credible threat to crude flows lifts the global energy risk premium and can spill over into LNG, refined products, freight costs, and other energy-intensive commodities. For Australia, this

raises energy import costs but can also support export-linked commodities that benefit from a higher global price floor.

Rising oil prices also push inflation expectations higher by increasing fuel, transport, and logistics costs. Because Australia depends heavily on imported refined fuels, the pass-through to headline inflation tends to be relatively quick, and core inflation can rise as businesses absorb higher input costs. This complicates the policy backdrop by forcing central banks to weigh the inflation impulse from energy against the growth risks that typically accompany geopolitical shocks.

Supply-chain fragility increases as well. Even without a full blockade of the Strait of Hormuz, heightened military activity raises shipping insurance costs, rerouting risks, and delivery delays. These pressures fall most heavily on sectors reliant on energy inputs, petrochemicals, and long-haul shipping, tightening margins for Australian retailers, manufacturers, and logistics-heavy industries.

Sector exposures shift in ways that matter for asset allocation. Energy producers and LNG exporters stand to benefit from higher prices, while materials face a mixed outlook depending on global growth conditions. Industrials, transport, and consumer discretionary sectors face headwinds from rising fuel costs and weaker real household incomes. Financials become more sensitive to the inflation–policy mix, and utilities experience varied effects depending on their ability to pass through higher input costs.

The scenarios that matter most for portfolio construction range from a contained standoff that keeps an elevated energy risk premium in place, to a short, sharp strike that produces a temporary oil spike, to a prolonged conflict that disrupts Hormuz and forces a structural repricing of global energy markets.

## Market Milestone – Week Ending 20th February 2026

The ASX 200 ended 20 February 2026 with a slight decline, closing at 9,081.40, down 4.80 points (–0.05%). Trading stayed within a relatively tight range, with the index moving between 9,086.20 and 9,046.90. The small pullback followed a strong multi-session rally in which the index had reached fresh intraday highs earlier in the week. Market commentary at the time highlighted that the ASX 200 had been experiencing its longest winning streak in more than a month, supported by broad participation across sectors and solid earnings momentum.

The All Ordinaries also eased on the day, closing at 9,303.20, a fall of 13.40 points (–0.14%). Its trading range spanned from 9,316.60 to 9,273.20, indicating a similarly modest consolidation. Given its broader composition of around 500 companies, the decline suggested a mild softening across both large-cap and mid-cap names, though still within a strong upward trend that had characterised the month.

Together, the two indices reflected a market taking a breather rather than signalling a shift in sentiment. The ASX 200's smaller decline relative to the All Ordinaries pointed to slightly firmer support among large caps, consistent with earlier strength in financials and other heavyweight sectors. Overall, the tone remained constructive, with the day's moves appearing more like routine profit-taking after a strong run than any sign of risk aversion.

Earnings strength at the top of the market, a gradual improvement in breadth, and lingering global volatility together point toward a positioning approach that keeps large caps as the portfolio anchor while taking a more selective stance in mid-caps and cyclicals. Large caps continue to offer the clearest earnings visibility and have held their ground even as the broader market paused, making them the most dependable source of stability in an environment that has rallied quickly and is now consolidating. Their liquidity and stronger balance sheets also leave them better equipped to absorb any external shocks.

Mid-caps have benefited from the recent broadening in participation, but the slightly larger pullback in the All Ordinaries shows they remain more exposed to profit-taking and swings in sentiment. This argues for a targeted approach—focusing on names with identifiable catalysts or structural earnings support rather than broad exposure across the segment. Cyclicals still enjoy solid earnings momentum and favourable commodity trends, but they carry the highest sensitivity to global volatility. Position sizing matters here: they can add upside in stable conditions, but they should not dominate risk budgets while external uncertainty remains elevated.

Defensives continue to play an important stabilising role. With the market consolidating and breadth still uneven, defensives help smooth returns and offset the higher beta inherent in mid-caps and cyclicals. In the current structure, a balanced allocation—anchored in large caps, selective in mid-caps, measured in cyclicals, and supported by defensives—aligns best with the way the market is trading.

## Market Outlook – Week Starting 23rd February 2026

The week ahead is being shaped by a tight cluster of drivers: earnings momentum in banks and miners, firm commodity prices, solid labour data, and narrow market leadership. Together they support a steady, mildly positive backdrop, but they also limit the market's ability to push decisively higher. With the ASX 200 expected to hold within the high-8,800s to low-9,100s range, sentiment should stay constructive, though still constrained by weak breadth and ongoing softness in tech and healthcare.

Trading is likely to remain range-bound, with investors continuing to favour large-cap financials, resources, and defensives—sectors that benefit most from strong earnings and a supportive macro environment. Growth sectors are still digesting a disappointing

reporting season, which keeps them on the back foot and reinforces the market's reliance on heavyweight names. With few domestic catalysts and a stable global backdrop, volatility should stay low and market moves incremental rather than directional.

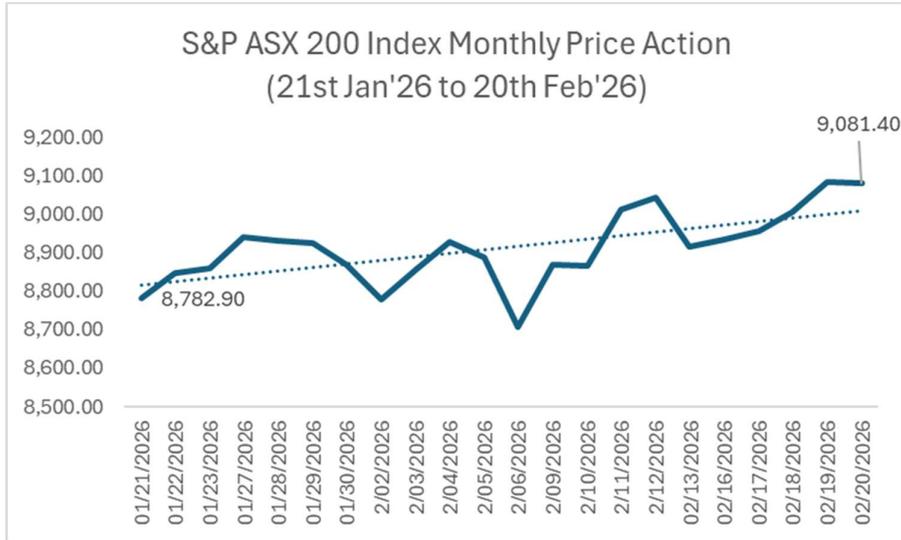
The sectors most exposed to these catalysts are financials and resources, which respond directly to earnings trends and commodity prices. Tech and healthcare remain vulnerable to further derating, while consumer-linked sectors will track labour-market conditions and household income dynamics. Defensives may continue to attract flows as investors look for stability in a market where leadership remains narrow.

The main risks to this outlook include a sharp drop in commodity prices, any deterioration in labour data, or a broader earnings disappointment that spreads beyond tech and healthcare. A global risk-off shift could also break the low-volatility environment and push the index outside its expected range.

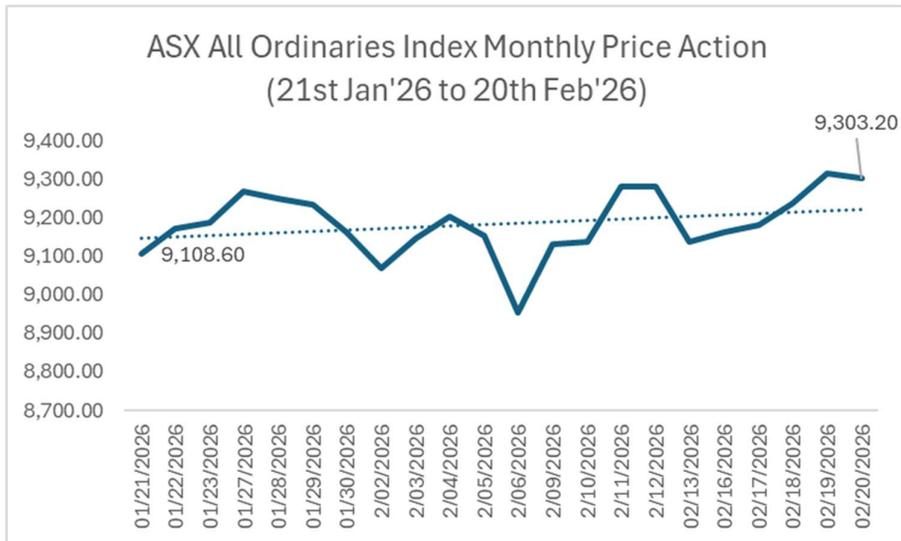
## Synthesis

Australia's market outlook is defined by a higher-for-longer interest-rate environment driven by tight labour conditions, persistent wage growth, and expansionary fiscal policy, all of which keep yields elevated and compress equity valuations. This backdrop reinforces sector leadership in banks, insurers, resources, and pricing-power defensives, while long-duration growth sectors, REITs, and utilities remain under pressure. Market breadth is improving modestly, but large caps continue to anchor performance, supported by strong earnings momentum from NAB and ANZ and a favourable commodity-linked outlook for BHP, even as Rio Tinto faces cost pressures and softer sentiment. Geopolitical tensions around the Strait of Hormuz add an external inflation and energy-price risk that could tighten supply chains and shift sector exposures toward energy producers and away from transport, industrials, and consumer-facing names. With the ASX 200 trading in a stable but rangebound pattern and leadership remaining narrow, the most resilient portfolio positioning centres on large-cap financials, resources, and defensives, complemented by selective mid-cap and cyclical exposure where catalysts are clear, while maintaining caution toward rate-sensitive and long-duration growth sectors.

## Market Movement 21st<sup>h</sup> Jan 2026 to 20<sup>th</sup> Feb 2026

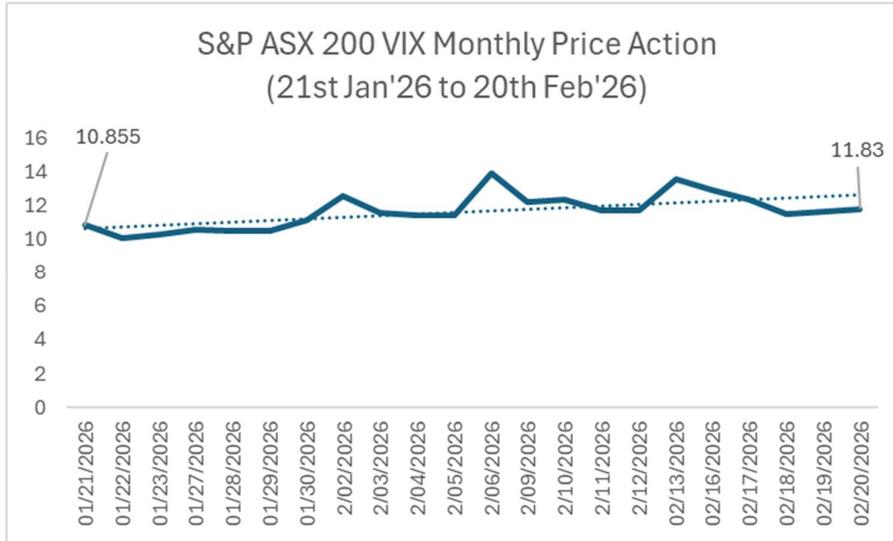


Day's Range: 9,046.90----9,086.20  
52 wk. Range: 7,169.20---9,118.30



Day's Range: 9,273.20-----9,316.60  
52 wk. Range: 7,343.70----9,414.60

# Australian Macro and Market Outlook Overview 23/02/2026



Day's Range: 11.246-----12.122

52 wk. Range: 7.209-----27.154