ECONOMIC AND MARKET UPDATE

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MLC ASSET MANAGEMENT

Key events in June 2026

- Global shares experienced a flat return in June in hedged terms with a mixed performance across countries. There was a touch of caution on Artificial Intelligence (AI) prospects as well as tougher comments from the US central bank on inflation risks and possibly raising interest rates. Yet hopes for the end of the Iran War given an extended ceasefire were constructive in supporting share prices. A lower Australian dollar helped boost global shares (unhedged) to a strong monthly return of 3.0%.
- US share prices briefly made new historic highs in early June given AI enthusiasm and encouraging corporate profit prospects. US corporates are expected to deliver robust annual profit gains exceeding +20% in the June quarter according to Factset. However, US consumer annual inflation surged to 4.2% in May which prompted a warning by the US central bank of potentially higher US interest rates.
- Asian share markets delivered a mixed performance. Japanese and Taiwan shares delivered modest gains on the back of AI optimism. Korean share prices finally delivered a mild gain but there was turbulence given shifting sentiment on future semi-conductor demand. However Chinese shares disappointed with sharp falls given weaker industrial production and retail spending.
- Australian shares made modest gains in June. The Health Care sector made a very strong recovery with a 12.5% return largely on the back of CSL's rebound. Consumer Staples (+12.5%) also achieved exceptionally strong gains with improved consumer spending and lower petrol prices. Yet there was a disappointing performance from the Energy (-9%) sector given lower energy prices with the possible ending of the Iran War. Resources (-7.8%) also retreated given lower gold and iron ore prices.
- Australia's economic data provided a mixed tone. May's employment and household spending improved compared to April but inflation remains high. Headline consumer inflation came in at 4% for the year to May. While the Reserve Bank of Australia (RBA) held interest rates steady in June, the central bank did warn that it is prepared to raise the *"cash rate target further if required".*

Asset class summary

Asset class returns in Australian dollars – periods to 30 June 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	2.0%	0.6%	4.1%	6.2%	10.6%	7.6%	9.4%
Global shares (hedged)	11.8%	0.0%	14.9%	25.1%	19.2%	10.9%	12.5%
Global shares (unhedged)	7.1%	3.0%	13.6%	17.0%	18.1%	12.8%	13.6%
Emerging markets (unhedged)	19.2%	2.4%	22.6%	35.7%	21.4%	8.9%	10.9%
Global property securities (hedged)	9.8%	1.9%	8.8%	14.3%	9.0%	1.8%	3.2%
Global listed infrastructure (hedged)	11.2%	2.2%	2.6%	16.6%	11.8%	7.4%	7.2%
Australian bonds	2.3%	1.0%	2.6%	1.5%	4.0%	0.4%	1.8%
Global bonds (hedged)	1.2%	0.4%	1.5%	2.9%	3.7%	0.0%	1.4%
Global high yield bonds (hedged)	2.2%	0.3%	2.5%	5.8%	7.4%	2.8%	4.8%
Australian inflation-linked bonds	2.9%	0.4%	2.0%	3.3%	4.3%	2.6%	2.9%
Cash	2.0%	0.4%	1.1%	3.9%	4.2%	3.1%	2.2%
AUD/USD	3.9%	-3.7%	1.2%	5.7%	1.3%	-1.6%	-0.7%

Past performance is not a reliable indicator of future performance.
Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A$ (Net); Emerging markets – MSCI Emerging Markets in A$ (Net); Global property securities – FTSE EPRA/NAREIT Developed (A$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged $A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A$ hedged) – Barclays Global Aggregate (A$ hedged, Gross); Global high yield bonds (A$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to June 2026

Global shares (hedged) made an exceptionally strong quarterly return of 14.9%. The start of the Iran War in late February saw global shares fall sharply in March. April's announcement of a ceasefire between Iran and the US has allowed global share markets to make an encouraging recovery. For global shares (unhedged), the rise in the Australian dollar has served to restrain the quarterly return to 13.6%.

Optimism on AI has been the key driver of US share prices achieving historic highs in early June. The largest technology companies such as Alphabet, Amazon, Microsoft and Nvidia are rapidly raising their AI capital investment which is also supporting US economic activity.

While Asian share markets also suffered sharp falls in March, they ended the quarter in positive territory. Korea (89.7%) and Taiwan (48.3%) recorded astonishing quarterly gains in local currency terms as investors were optimistic that AI would lead to robust demand for Asian computer chips. However Chinese shares disappointed with a -6.9% return as weak consumer spending and a struggling property sector weighed on sentiment.

Global bonds (hedged) posted a solid 1.5% quarterly return. Concerns over the inflation risk with the Iran War initially generated sharp rises in global bond yields but this moderated in the quarter. Australian bonds posted a strong 2.6% quarterly return with hopes that the Iran War and high petrol prices are ending.

Key events in Australia over the last three months to June 2026

Australian shares delivered a strong 4.1% quarterly return, but this was a mixed performance across industry sectors and stocks. Some of the sectors that were beaten down in March have made a recovery over the past quarter. Notably there were exceptionally strong gains for the Information Technology (17.4% return) and Australian property securities (13.5%) sectors after a tough start to the year. However, there were some disappointing performances. The Energy sector sharply retreated with a -16.7% quarterly return as oil and natural gas prices fell with the Iran – US ceasefire. Health Care also recorded a sharp loss of -6.1% with weak profit guidance from major companies in Cochlear and CSL.

Australia's economy is experiencing weaker business and consumer confidence, softer jobs growth and rising inflation. The sharp rise in inflation has seen the central bank raise interest rates three times this year in February, March and May. The Federal Budget's announcement of major changes to capital gains tax and negative gearing in May have also cast a shadow over prospects for the residential property market. While the Federal Government extended the fuel excise tax cut until the end of July, the price benefit has been reduced from thirty-two cents to sixteen cents per litre. Hence for many Australian consumers, the "cost of living" squeeze continues.

Global prospects

While financial markets are now hopeful that the ceasefire between Iran and the US will eventually end the war, the military and political situation remains precarious. Leaders in the US, Israel and Iran still need to compromise to ensure that the current 'Memorandum of Understanding' becomes a formal peace agreement. Regrettably, there is still a chasm in trust between the warring parties. Until a formal agreement is signed and the drones and missiles stop flying, financial markets and commodity prices remain vulnerable.

If the Iran War intensifies again, this would be a severe challenge for the global economy. Both inflation and unemployment could dramatically rise. For central banks around the world this creates a major policy dilemma – should central banks raise interest rates to restrain inflation pressures or lower interest rates to assist economic activity and mitigate rising unemployment.

Regrettably, Australia's central bank has been a pioneer in raising interest rates three times this year. The European and Japanese central banks also raised interest rates in June. If other major central banks such as the US Federal Reserve follow suit with interest rate rises, this could challenge the recent strong performance of global share prices.

Australian consumers are still being challenged by persistent inflation. Price pressures in food, health and housing are squeezing budgets. This continuing "cost of living" squeeze is likely to weigh heavily on consumer spending over coming months. Lower house prices will also caution some consumers on their spending.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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