

What we liked



- **The RBA held the cash rate at 4.35% on 11 August:** after June-quarter trimmed mean inflation printed 3.6% against the 3.8% the RBA had forecast, prompting all four major banks to shift from a hike call to a hold; a second consecutive hold after three increases earlier this year, removing the immediate tightening risk from rate-sensitive assets.
- **Australian wage growth stayed contained at 3.2% in the June quarter:** in line with expectations and down from 3.3%, with no evidence of second-round wage effects from the energy shock; this is the single indicator the RBA has identified as its key upside-risk test, and it is not flashing.
- **US July CPI eased to 3.4% from 3.5%, with core down to 2.5%:** and headline prices up just 0.1% for the month as the passthrough from higher crude continued to fade; markets read the print as confirmation that the energy shock is working through the index rather than embedding in underlying inflation.
- **The US Treasury more than doubled the size of its long-dated debt buybacks on 19 August:** targeting the 10-year to 30-year sector that had seen a buyers' strike since late June; the 30-year yield fell from above 5.33% toward 5.20%, the dollar weakened and risk assets rallied, giving the first real evidence of a policy circuit-breaker for the long end.
- **Euro-area second-quarter GDP grew 0.4% on the quarter, two-tenths above consensus:** following an upwardly revised flat first quarter; the beat suggested Europe is absorbing higher energy costs considerably better than the ECB's March and June scenario analysis had assumed.
- **UK services inflation fell to 3.4% from 3.6% and food inflation to 1.3%, the lowest since September 2021:** in the July data released on 19 August; the measures the Bank of England watches most closely for domestically generated inflation are still cooling, even as the headline rate rose on utility bills.

What we didn't liked



- **Australian unemployment rose to 4.5% in July, the highest of the post-COVID era:** with employment down 15,800, the participation rate down two-tenths to 66.9% and hours worked down 0.6%; the fall in participation flatters the headline rate, so the underlying loosening in the labour market is running faster than the number alone suggests.
- **Jackson Hole tilted the Fed toward a September hike:** following Chair Warsh's speech – where he said better summer inflation readings did not signal a genuine improvement in the trend – markets repriced the odds of a September rate hike to roughly 57%, from about 40% a week earlier, and now imply meaningfully more tightening by year-end; a rare case of a central bank surprising hawkish, not dovish.
- **US July payrolls fell 23,000 against consensus of an 80,000 gain, with May and June revised down a combined 103,000:** a result below every forecast surveyed by Bloomberg; while the unemployment rate ticked down to 4.1%, that reflected a shrinking labour force rather than genuine strength, and the economy is now shedding jobs at the margin.
- **Euro-area July inflation ticked up to 2.9% from 2.8%, with energy inflation accelerating to 10.0% year-on-year from 8.5%:** keeping the ECB pinned at a 2.25% deposit rate rather than easing into a growth baseline it has already downgraded to 0.8% for 2026; the central bank is now managing a supply shock it cannot offset with rate policy.
- **China's July activity data missed across the board:** with retail sales up just 0.6% against 1.5% expected, industrial production slowing to 4.5%, fixed-asset investment down 6.7% year-to-date and urban unemployment rising to 5.2%, alongside a record contraction in new yuan lending; Chinese large-cap equities fell 2.3% over the month to date, the only major market to decline.
- **Japan's second-quarter GDP grew just 1.1% annualised against the 2.0% expected:** with private consumption contracting and domestic demand subtracting from growth, leaving the entire expansion attributable to net exports flattered by a weak currency; a third consecutive quarter of growth is welcome, but the composition is poor.

BASE CASE

Our view of the most likely scenario for markets over the coming months.



75% Probability

The conflict around Iran pushed energy prices sharply higher and continues to disrupt the supply of essential goods such as fertiliser and sulphuric acid. The picture remains volatile: on-again/off-again ceasefires, the deal not yet final, parts of the strait still hazardous, and governing arrangements unresolved. We have tilted portfolios toward companies with strong structural growth that are less exposed to any renewed supply disruption.

While risks abound, the global economy, credit markets and corporate profits remain on a solid footing. Earnings are resilient, government spending supportive, and borrowing conditions relatively easy, giving the economy a solid base from which to grow. That said, the next two months carry their own seasonal weather: September and October are historically the year's most volatile for shares, and in a US mid-term election year the uncertainty is sharper still. We would not be surprised by choppy markets, and we do not read short-term swings as a change in the underlying picture.

Inflation had been slowing before the conflict, but rising energy prices have pushed expectations higher. Higher inflation is a near-term headwind for growth and returns; if it persists, the greater risk is a slowdown in consumer spending and the demand destruction that sustained high prices can cause. The recent downward surprises in Australia and the US are encouraging, but we are increasingly alert to the harder combination of a global economy showing early signs of cooling while inflation stays elevated. That mix is tougher for policymakers than either problem alone, because the usual remedy for one worsens the other, and it is the persistent risk we watch most closely.

Central banks face a difficult balancing act. Cutting rates stimulates growth but risks inflation; raising them contains inflation but slows the economy. Most cut last year and those benefits are still flowing through, but some have shifted back toward raising rates as inflation has picked up, creating fresh headwinds. Until the US Federal Reserve, European Central Bank and Reserve Bank of Australia signal a greater focus on supporting growth over controlling inflation, we remain cautious on rates.

The change of Fed leadership sharpens this caution. New chair Kevin Warsh has signalled a more hawkish stance: a greater willingness to keep rates higher and to reduce the Fed's balance sheet. Drawing that pool down withdraws money from the system and leans against both inflation and asset prices. Our base case is that this keeps policy tighter for longer than markets had hoped, without derailing the recovery.

Liquidity, the flow of money that keeps markets functioning, remains important to watch. Rising oil prices reduce it; conditions remain benign, though a recent slowing in liquidity growth concerns us. With government and corporate debt so elevated, an excessive slowing could trigger credit-market dysfunction. This is on watch, not a live concern for now.

Looking further ahead, structural growth themes remain intact. Investment in artificial intelligence, manufacturing and energy infrastructure should broaden profit growth across industries over the medium term. Within that theme, we are watching the rising cost of building AI: the specialised chips, power and data centres needed to train and run these systems have climbed sharply, partly on the same energy and supply pressures noted above.

Our base case is that this lifts the bill for the AI rollout without breaking it: the companies leading the investment have the cash flows to fund it, albeit with more debt, and the expected productivity gains still justify the spend. Better still, competition and engineering may bring costs down quickly, widening the profits available to the broader set of companies that use AI rather than just those that build it. The worse outcome is that costs stay high and investors question whether the spend will earn an adequate return, weighing most on the highly valued technology names that have led the market. This matters because so much capital, both equity and credit, has been committed to the buildout that it has become systemically important.

In summary, resilient earnings, government spending and broad credit availability provide a reasonable foundation for markets, though in a more volatile environment than recent years, with higher dispersion in returns. With a seasonally weaker patch ahead and the tension between softening growth and sticky inflation unresolved, we remain constructive on risk assets but continue to hold slightly higher cash for now, ready to act should that volatility create opportunities.

BEAR CASE

Our worst-case scenario for the coming months.



13% Probability

The key risk in this scenario is a meaningful pullback in consumer and business spending, particularly in the United States, which has been the primary engine of global economic growth and corporate profitability. If households tighten their belts, company revenues come under pressure at a time when share market valuations are already relatively elevated. Were that to coincide with a pullback in the heavy corporate investment now flowing into artificial intelligence, the slowdown could be marked. Combine that with persistent inflation and elevated interest rates, and both profit margins and market prices could fall at the same time.

Large and sustained oil price rises would make this scenario more likely. Central banks may find themselves unable to cut rates to support the economy due to elevated inflation, while high government debt levels limit how much fiscal stimulus (government spending) can cushion the impact. A breakdown of the ceasefire or collapse of the 60-day deal would sharpen the risk further. Rising AI build-out costs sharpen the danger from the other side: the market's gains have leaned on a small number of expensive technology companies, and if AI spending keeps climbing while the payoff is delayed, investors may conclude the returns will not justify the outlay. A sharp repricing of those leaders could drag the broader market down, made worse by a Fed unwilling to step in.

China adds a further layer of risk. If its property sector weakens further and government stimulus fails to restore confidence, Chinese growth could slow materially. Given Australia's reliance on Chinese demand for its resource exports, this would directly affect Australian national income and corporate earnings. In this scenario, a more defensive investment approach would be warranted, with higher cash holdings, reduced share market exposure, and a tilt toward more stable sectors such as healthcare, consumer staples, and utilities.

BULL CASE

**Our most optimistic view
for markets over the
coming months.**



12% Probability

The bull case is one in which de-escalation with Iran gathers pace and the cross-currents weighing on markets turn supportive. Falling energy prices, easing supply pressures, and improving diplomatic relations would support stronger global economic growth while keeping inflation in check. If trade disputes are also resolved, company profits could grow strongly as lower input costs and solid consumer spending support healthy margins. The continued adoption of artificial intelligence and other productivity-enhancing technologies would further lift output and profitability across a wide range of industries, without the widespread job losses that many fear. In the most positive scenario, a ceasefire holds, and the Strait of Hormuz reopens fully, with a period of recovery following.

In this setting, the two pressures we are watching could resolve in investors' favour. A Warsh Fed seen as genuinely committed to low inflation can help rather than hinder: if markets trust inflation will stay contained, longer-term borrowing costs can fall even as the Fed holds firm, and lower long-term rates tend to support share prices. At the same time, falling energy prices and rapid technological improvement could bring the cost of building AI down faster than expected, shifting its benefits from the handful of companies building it to the much larger group that use it, broadening profit growth rather than concentrating it. A cheaper, more widely shared AI rollout alongside a credible Fed would be a powerful combination for markets.

Government spending would provide an additional boost. While some fiscal stimulus may create mild inflationary pressure, economic expansion is expected to outpace it. Strong household and business balance sheets mean both consumers and companies are well positioned to respond to improving conditions. For Australia specifically, government spending and the end of the current interest-rate hiking cycle would support stronger domestic growth, with relatively low levels of public debt giving policy makers room to act further if needed.

If interest rates remain below the rate of inflation, meaning money remains relatively cheap to borrow in real terms, investment conditions stay supportive for asset prices. In this scenario, a growth-oriented portfolio with relatively low cash holdings and increasing exposure to economically sensitive sectors such as industrials, materials, and financials would be well positioned. The combination of policy support, technological advancement, and strong balance sheets provides a favourable setting for investment markets over the medium term.

Stock in Focus



Thermo Fisher Scientific Inc. provides life sciences solutions, analytical instruments, specialty diagnostics, and laboratory products and biopharma services internationally. It operates through four segments: Life Sciences Solutions, Analytical Instruments, Specialty Diagnostics, and Laboratory Products and Biopharma Services. Thermo Fisher Scientific Inc. was founded in 1956 and is headquartered in Waltham, Massachusetts. Today, it has a market capitalisation of ~USD\$230 billion.

The Life Sciences Solutions segment includes reagents, instruments, and consumables for biological and medical research; discovery and production of drugs and vaccines; and diagnosis of infections and diseases.

Its Analytical Instruments segment provides instruments, consumables, software, and services for pharmaceutical, biotechnology, academic, government, environmental, and other research and industrial markets, as well as clinical laboratories.

The Specialty Diagnostics segment offers clinical diagnostics products, such as liquid ready-to-use and lyophilized immunodiagnostic reagent kits, calibrators, controls, protein detection assays, and instruments; immunodiagnostic offerings comprising developing, manufacturing, and marketing of complete blood-test systems for the clinical diagnosis and monitoring of allergy, asthma and autoimmune diseases; microbiology offerings, such as dehydrated and prepared culture media, collection and transport systems, instrumentation and consumables to detect pathogens in blood, diagnostic and rapid direct specimen tests, quality-control products, and associated products; transplant diagnostics products, including human leukocyte antigen typing and testing for the organ transplant market; and healthcare market channel offerings.

Its Laboratory Products and Biopharma Services segment provides laboratory products, research and safety market channel, and pharma services and clinical research.

Source: Iress



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