Economic News July 2026

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

There has once again been significant volatility in investment markets. The start of the Iran War in February 2026 and the worry that the closure of the Strait of Hormuz would cause a spike in petrol prices which would lead to higher inflation and in turn higher interest rates, saw global shares initially fall sharply in March 2026. The subsequent announcement of a ceasefire between Iran and the US in April 2026 saw global share markets make an encouraging recovery. Global shares then subsequently made a strong rebound after their earlier slump as initial concerns that inflation would spike due to higher petrol prices gradually abated.

The two key factors influencing global shares has been interest rates and optimism about AI. Whilst the US share market has gone up substantially in the last three months, the gains in the US in particular have been due to technology stocks and the promise that AI advancements will bring further gains to come. This been the key driver of US share prices achieving historic highs in early June 2026. 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 and starting to flow through to other smaller companies as the US technology giants continue to spend billions in building what they see as necessary infrastructure in areas such as data centres.

While Asian share markets suffered sharp falls in March 2026, they ended the quarter in positive territory. Korea recorded a huge 89.7% increase and Taiwan another large gain of 48.3% 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 consumer 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 coming to an end.

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.

Australia’s economy is experiencing weaker business and consumer confidence, softer jobs growth and rising inflation. The sharp rise in inflation has seen the Reserve Bank of Australia raise interest rates three times this year in February, March and May 2026.

The Federal Budget's announcement of major changes to capital gains tax and negative gearing in May 2026 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 2026, the price benefit has been reduced from thirty-two cents to sixteen cents per litre. 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.

This "cost of living" squeeze is also making the gap in equality bigger in Australia as those with assets see their asset base largely increase and those Australians with large mortgages or who are renting, are falling further behind. Lower house prices will also caution some consumers on their future spending.

Fortunately, Australia's labour market has been stable with mild jobs growth and a steady unemployment rate around 4.3%. Wages growth at 3.3% has also been solid although this has been below the current 4% inflation rate. There is a good chance that the Australian economy can still muddle through this tough patch of slower economic growth and high inflation without further interest rate rises. However, our resilience is likely to be further tested by the precarious climate of global politics.

Global prospects

While financial markets are hopeful that the Iran and the US will eventually end the war, the military and political situation in the Middle East 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 causing misery for those directly affected and big swings in oil prices. Until a formal agreement is signed and the fighting stops, 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. In Australia, interest have been going up but elsewhere around the world, interest rates have largely been dropping. Central banks must carefully balance interest rates to restrain inflation pressures now and try to assist economic activity and mitigate rising unemployment potentially from AI advancements.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy. If you have any questions or wish to discuss anything at any time, please contact me on 03 9544 1004.

All the best,

Andrew Shaw BBus, Grad Dip SIA, CFP
Principal Shaw Financial Planning Pty Ltd
ACN 603 130 963, ABN 80603130963
Authorised Representative No. 471981
Corporate Authorised Reprenenative No. 471980

Suite 30, 1 Ricketts Road Mount Waverley VIC 3149
T 03 9544 1004

Please note this overview contains excerpts which are reproduced with approval from Bob Cunneen, Portfolio specialist. All performance figures have been sourced from an email sent on 6th July 2026 from Bob Cunneen, MLC Asset Management.

Licensee Details
Alliance Wealth Pty Ltd ABN 93 161 647 007 | **AFSL** 449221 **W:** www.centrepointalliance.com.au