Economic News October 2026

Global and domestic markets showed resilience over the three months to September 2026. While geopolitical shifts, interest rate rises and shifting sentiment surrounding Artificial Intelligence (AI) technology remain, we expect volatility in investment markets to continue.

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

Global shares made a mild quarterly return of 1.2% in the most recent quarter. Long-term optimism surrounding AI technology remained a key driver of rising share prices across the US and some Asian markets. However, ongoing geopolitical tensions in the Middle East generated sharp swings in bond yields and commodity markets over recent months. A brief ceasefire between Iran and the US collapsed in July 2026 with the resumption of military strikes and another closure of the Strait of Hormuz as a shipping route.

While global shares have shown remarkable resilience to events in the Middle East this year, this strength is now being tested as the Middle East conflict continues. Wall Street reached historic highs in August 2026 before drifting slightly lower. European share markets have displayed a similar pattern with strong gains in July and August 2026 followed by a more cautious tone in September 2026. Chinese shares delivered a subdued quarterly return as weak consumer spending and a struggling property sector weighed on domestic sentiment.

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

Australian shares made a modest 1.3% return over the last quarter, reflecting a varied performance across industry sectors. Several sectors that faced pressure earlier this year staged a solid recovery over recent months. Notably, the Health care sector made a remarkable revival with a 25.4% quarterly return as investors considered that Cochlear and CSL had become undervalued. There were also strong gains for the Energy sector given the surge in oil and gas prices with the Middle East conflict. The Resources sector also performed well given higher metal prices.

Conversely, there were share price declines in a range of sectors exposed to the threat of higher interest rates and quieter retail spending. The Consumer Discretionary sector eased by -10% while the Real Estate sector fell by -8.7%.

The Australian economy is currently navigating a period of persistent high inflation and rising interest rates. Consumer spending is slowing as cost-of-living pressures continue to affect household budgets. Housing prices are now falling given the Federal Government's announcement of major changes to capital gains tax and negative gearing in May 2026 as well as higher mortgage interest rates.

Managing inflation remains the primary focus for the Reserve Bank of Australia (RBA), which raised interest rates for the fourth time this year in September

2026. Persistent price pressures remain visible across everyday goods and services. Housing and utility costs have increased by 5.7% over the year to August 2026, driven by higher electricity prices (13.2%), new dwelling construction costs (5.4%) and rents (3.6%). Healthcare costs have risen by 3.9%, and education has increased by 4.7% in the past year. This persistent inflation has seen financial markets expecting another RBA interest rate rise in coming months.

Global prospects

Financial markets currently shift between the positive potential of technology-driven corporate profitability and the broader realities of ongoing international conflicts in Eastern Europe and the Middle East.

The recent escalation of the Iran War and the Russia-Ukraine War presents a severe challenge for the global economy. Shipping costs have surged while there is limited spare capacity in fuel refineries around the globe to produce sufficient diesel and petrol supplies. Should this energy shock intensify further, the pain will spread beyond the service station bowser as both inflation and unemployment dramatically rise. For central banks globally, this creates a careful balancing act between maintaining interest rates to temper inflation and supporting broader economic activity.

At present, major central banks are prioritising inflation management. The US Federal Reserve joined its fellow counterparts in Europe and Japan by raising interest rates in September 2026, and bond markets are now pricing in a sequence of further interest rate rises across the globe to address inflation risks. Share markets may experience periods of volatility if interest rates remain elevated for a prolonged period, which could impact corporate profit expectations.

Domestically, cost-of-living pressures across food, health, and housing will likely continue to encourage cautious consumer spending over the coming months, reinforced by the recent easing in house prices.

Given shifting inflation, interest rates, and geopolitical factors, a careful and measured approach to investing is essential. Navigating these conditions can be complex and because a range of economic outcomes remain possible over the next year, maintaining a disciplined, well-diversified strategy remains a priority for investment portfolios.

If you have any questions or wish to discuss anything, please call us on 03 9544 1004.

All the best,

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