# THE AUSTRALIAN ECONOMY – A MACRO VIEW July 2026 Chris Watson, Head of Asset Allocation Commonwealth Private

Introduced by Geoff McWilliam, Chris Watson spoke to a series of slides and made the following key points:

Despite continuing volatility, we have enjoyed solid growth in equity markets over the long term. In recent times the spikes associated with significant geopolitical events are becoming smaller.

Global economic growth rates have been positive and, while there has been some slowing, the Australian growth rate has been close to 2.0%. Similarly, US GDP is expected to grow at around 2.0%, aided by large infrastructure spending.

Inflation globally is trending upwards with central banks raising rates. In both the US and Australia inflation is forecast to exceed 4.0% with one further interest rate rise anticipated this year in Australia and the US Fed first raising rates then cutting rates. In the medium term yields on fixed interest investments are expected to be more attractive. We are in a “higher for longer” interest rate environment.

Despite generally favourable conditions consumer confidence in the US is low, reflecting a divided nation.

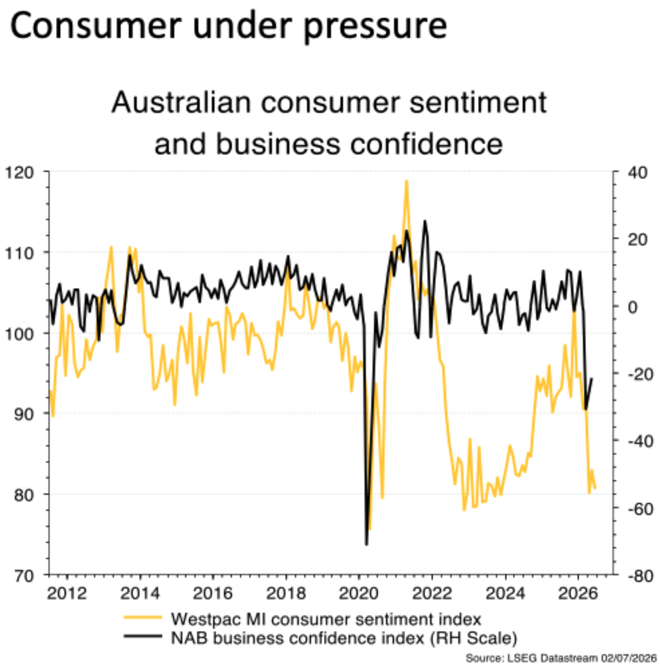
China GDP growth is forecast to be 5.0% this year. It is likely they will try to move themselves off heavy dependence on Australian iron ore.

Housing costs are a major component of Australia’s inflation rate and the budget has done nothing to ease that inflationary pressure. Our inflation rate continues well above target, so an interest rate cut this year is very unlikely.

Our economic growth rate this year is currently around 1.5% with unemployment at 4.4% and wages growth at 3.3% (with 4.0% in the public sector which has also seen a significant increase in workforce).

Australia’s housing debt to income ratio is the third highest in the world behind Norway and Switzerland, restricting expenditure on other goods and services. Following the recent budget, investor applications for home loans have dried up. A 5-10% decrease in house prices is forecast for this year and increases will then resume. Previous property investors may turn to equities.

There has been recent discussion about concentration of risk in the US and Australian markets with 45% of the ASX 200 made up 10 companies and 33% of the S&P 500 market made up of 7 companies (Microsoft, Meta, Nvidia, Google, Amazon, Apple and Tesla). Their forecast capex expenditures are huge (US$800 billion this year alone) and will impact the US GDP! These capex levels represent a strong tail wind for equities and can’t be ignored, but concentration concerns are encouraging more consideration of a broader allocation in equites and alternative asset classes like fixed income and infrastructure.




The Australian equities market has performed well, particularly in the energy, consumer and materials sectors. It doesn’t have the same exposure to AI as the US. The financials sector growth is limited as the housing sector slows. At 6.0%, Australia’s EPS growth rate lags its US (14.7%) and UK (8.2%) counterparts. The $A is expected to come under further pressure.

In Q&A Chris commented that

- He does not envision any sort of market crash,
- Australian banks are more exposed to the housing market than elsewhere. Investors should watch the banks' provisioning.
- If the current government's plans re CGT and negative gearing are enacted we may see retirees’ portfolios including a higher proportion of fixed interest investments.
- There is a great divergence of views about the impact of AI on jobs. Chris sees AI as a "force multiplier" ie enabler and that while there will certainly be job losses there will also be new jobs created.
- The fact that the US stock market is performing better than ours highlights the wisdom of including international equities in one’s investment portfolio.

Alec Brennan thanked Chris on behalf of members for his wide-ranging and informative presentation.

***Alan Locke***