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Fiducian Monthly Economic Commentary Report

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Conrad Burge, Investment Manager, Fiducian Investment Management Services Limited

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is forecast to slow marginally this year. However, in its latest report, the IMF sees the global economy as having 'weathered the shock from the war in the Middle East better than feared', noting that the effects of the war have been 'partly offset by accelerated momentum in the global technology cycle thanks to advances in artificial intelligence (AI)'.

The global economy is forecast to slow marginally this year, partly due to a lift in inflation and a consequent small increase in interest rates in some economies in recent months. As the International Monetary Fund (IMF) noted in its latest report (July), 'the global economy as a whole has, so far, weathered the shock from the war in the Middle East better than feared', with 'global growth in the first quarter of 2026 stronger than expected'. A key reason for this solid outcome has been that the effects of this war with Iran have been 'partly offset by accelerated momentum in the global technology cycle thanks to advances in artificial intelligence (AI) and its adoption', adding that 'core inflation has remained relatively stable to date in most countries'. However, the Bank for International Settlements in its June report noted that 'the current surge in capital expenditure (in AI) could prove unsustainable if supply bottlenecks restrain production'.

The IMF is anticipating US growth of 2.3% this year and 2.2% in 2027, although the US administration is expecting higher growth on the back of fiscal stimulus and new incentives for investment. Growth across Europe and in Japan is forecast to remain subdued, with most major central banks likely to keep interest rates low.

In the case of the US, the economy grew by a moderate 1.5% at an annualised rate in the June quarter, with the IMF forecasting growth of 2.3% for the whole of 2026 and 2.2% for 2027, although the US administration is aiming for a higher rate of growth than this, with fiscal stimulus, reduced regulation and incentives for investment aimed at lifting economic activity over time. While the annual inflation rate reached its highest level in three years in May (4.2%), mainly due to rising oil prices, the rate fell back to 3.5% in June, reducing the likelihood of a near-term interest rate hike. Growth for the euro zone is forecast to remain weak (0.9% this year and 1.2% in 2027), while Japan is forecast to grow by only 0.6% this year and 0.7% in 2027.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with tepid growth sustained by high government spending. After raising rates three times this year, the RBA could be on hold for a while after inflation fell in June.

The Australian economy grew by 0.3% in the March quarter and by 2.5% over the year. On a per capita basis, growth contracted by 0.1% over the quarter and has now contracted for 10 of the last 15 quarters. Growth could slip lower over coming months due to the Reserve Bank (RBA) having tightened monetary policy by raising its 'cash rate' three times this year in response to rising inflation. However, the annual headline rate declined to 3.7% in June (with a 'trimmed mean' rate of 3.6%), reducing the likelihood of a further near-term increase in rates, especially given the weak state of the domestic economy.

MARKETS

Major share markets have mostly been rising since early April after experiencing heavy falls in March due to war with the Iranian regime. Prior to the outbreak of war, markets had been trending upwards for two years mainly due to a declining interest rate environment.

Most share markets were on a broadly upwards trend from April last year until the end of February this year, largely due to declining interest rates in most of the major economies. However, with the outbreak of the Iran war, most markets went negative in March before beginning to rise again in April. This year, up to 30 July, overall market movements have included rises of 9% for the broad US market (S&P500), 8% for the technology-focused Nasdaq, 10% for the UK and a hefty 23% for Japan. European markets were mostly less robust (Germany up 5% and France up 4%), while India fell 9% and the Australian market rose 3%.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' ('QE') in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances, although rising inflation has seen yields rise more recently.

Major sovereign bond markets have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield was pushed to a record low of 0.54% on 9 March 2020 (by 'QE') during the pandemic but touched 5.0% in October 2023 before sliding back and then rising again. It was 4.62% on 29 July this year. The Australian 10-year bond yield was 0.57% on 8 March 2020 but reached 5.12% on 18 May before dropping to 4.95% on 30 July this year. Bond yields could move lower (and prices rise) over coming months if inflation declines.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for international shares and close to benchmark for other assets.

Fiducian's diversified funds are currently above benchmark for international shares and slightly under benchmark for domestic shares and listed property. Exposure to bond markets is close to benchmark, while cash holdings remain below benchmark.