Australian Ethical

The outlook for inflation, rates & asset prices over the longer term

Chris Dickman, Senior Portfolio Manager

27 October 2026



Disclaimer

AG1

This presentation is prepared by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) (**Australian Ethical**) the Responsible Entity of the Australian Ethical managed funds. Interests in the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743, USI AET0100AU) are offered by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) and issued by the Trustee, Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733, RSE L0001441, AFSL 526 055).

This presentation provides general information only and does not take account of your individual investment objectives, financial situation or needs. Before acting on the information visit australianethical.com.au for our Financial Services Guide, Product Disclosure Statements. Information Memorandum and Target Market Determination to consider its appropriateness to your circumstances. Past performance is not a reliable indicator of future performance.

Certain statements in this presentation relate to the future. Such statements involve known and unknown risks and uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from expected future results. Australian Ethical does not give any representation, assurance or guarantee that the events expressed or implied in any forward-looking statements in this update will actually occur and you are cautioned not to place undue reliance on such statements.

The content of this presentation is intended to provide a summary and general overview concerning matters of interest and is correct as at the date of publication. It has not been subject to auditor review. Australian Ethical does not accept any liability, either directly or indirectly, arising from any person relying, either wholly or partially, upon any information shown in, or omitted from, this update. Under no circumstances will Australian Ethical be liable for any loss or damage caused by your reliance on information obtained from this update. You should consider seeking independent advice from a legal or other professional adviser before acting in response to the content of this presentation.

The content of this presentation is intended to provide a summary and general overview concerning matters of interest and is correct as at the date of publication. It has not been subject to auditor review. Australian Ethical does not accept any liability, either directly or indirectly, arising from any person relying, either wholly or partially, upon any information shown in, or omitted from, this update. Under no circumstances will Australian Ethical be liable for any loss or damage caused by your reliance on information obtained from this update. You should consider seeking independent advice from a legal or other professional adviser before acting in response to the content of this presentation.

This presentation may contain material provided by third parties derived from sources believed to be accurate at its issue date. While such material is published with necessary permission, Australian Ethical accepts no responsibility for the accuracy or completeness of, nor does it endorse any such third party material. To the maximum extent permitted by law, we intend by this notice to exclude liability for this third party material.

Investing ethically and sustainably means that the investment universe will generally be more limited than non-ethical, non-sustainable portfolios in similar asset classes. This means that the portfolio(s) may not have exposure to specific assets which over or underperform over the investment cycle, and so the returns and volatility of the portfolio(s) may be higher or lower than non-ethical, non-sustainable portfolios over all investment time frames.

This presentation is for adviser use only and must not be used, copied or distributed without Australian Ethical prior written consent.

Slide 2

AG1 I have deleted this disclaimer and inserted a new one. As there doesn't appear to be the ability to mark up the document I have put a strike through to show changes. If any trouble with inserting the new disclaimer let me know and I can sent via email if easier.

Andrew Gallant, 2026-10-23T01:08:45.038

CN1

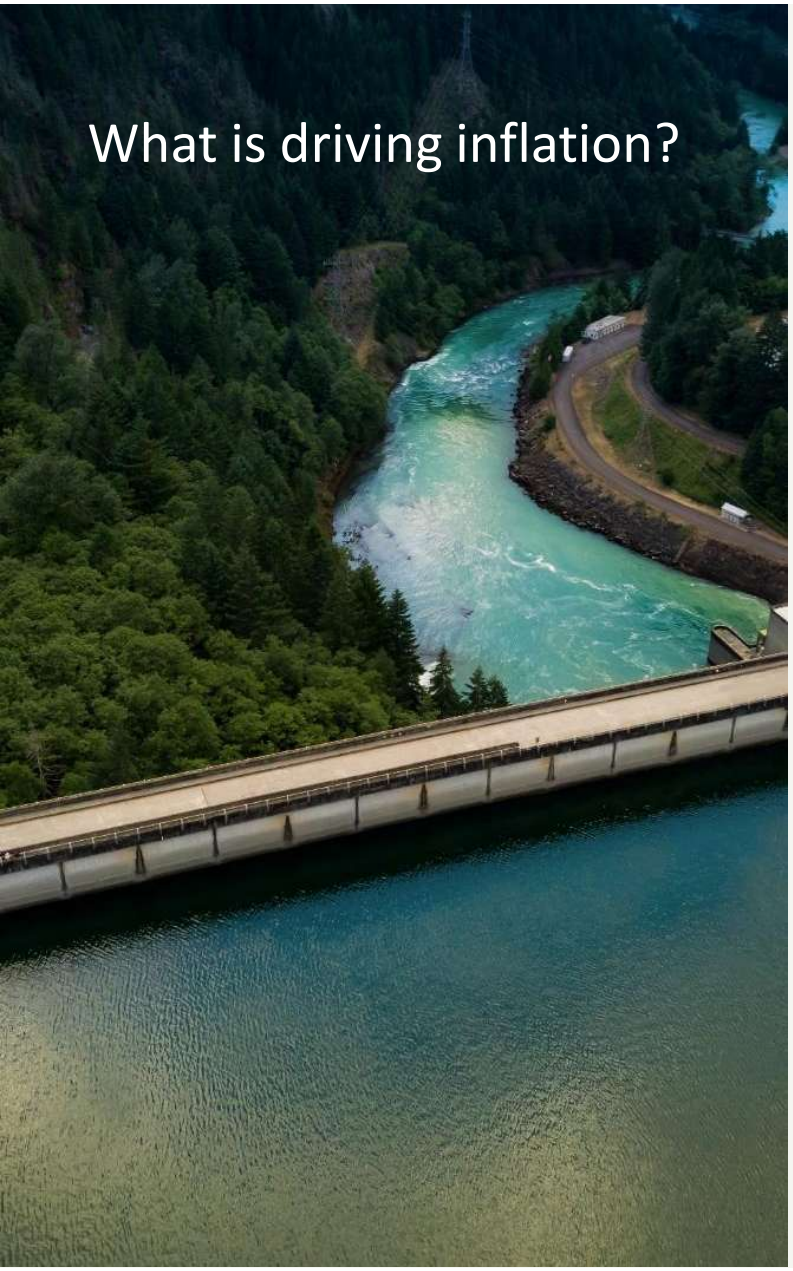
What we'll explore today

- What is driving inflation?
- What is driving bond markets?
- Why things aren't the same?
- What does this mean for investors?



Slide 3

CN1 I’ve reviewed the sub-heading as unnecessary
Corey Nicholls, 2026-10-21T02:57:43.193



What is driving inflation?

Key observations

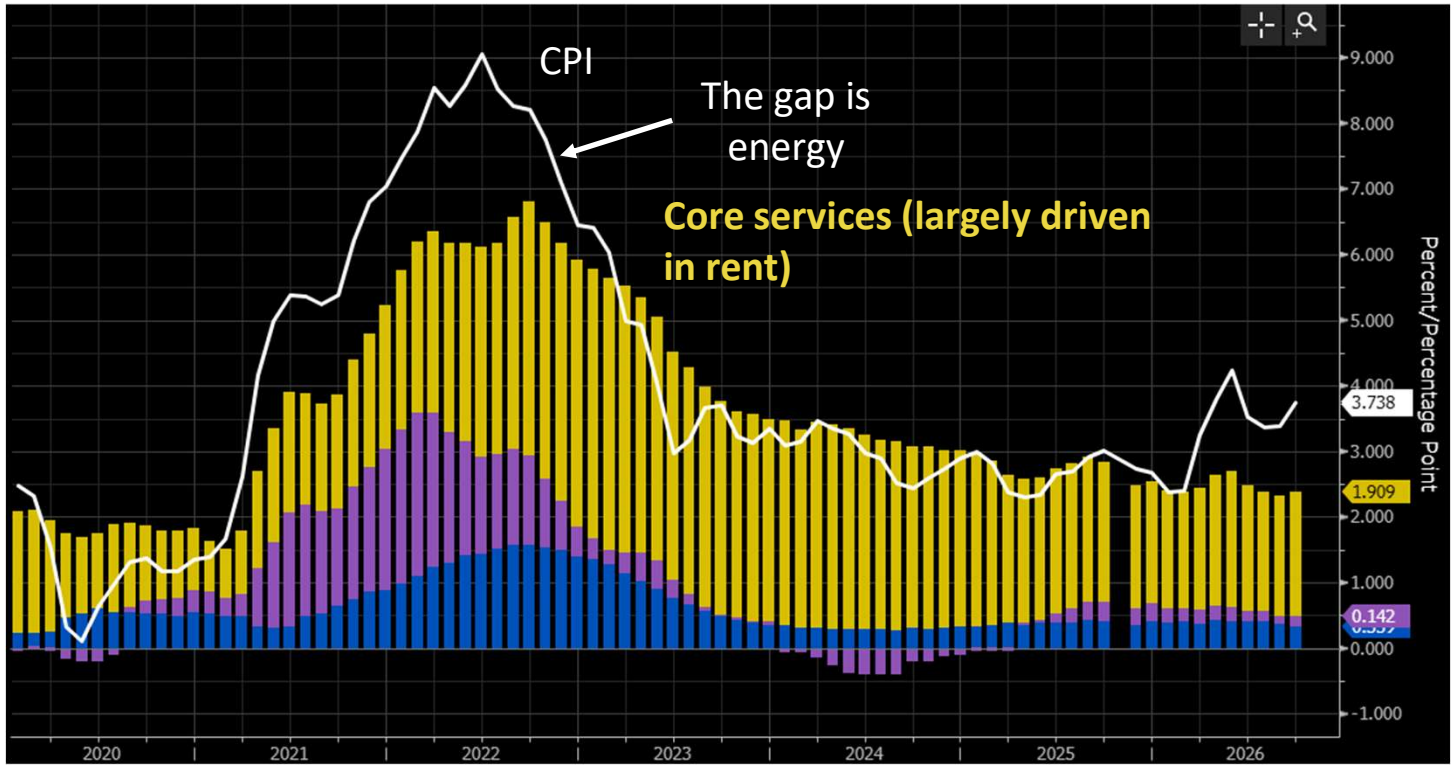
- Globally and locally, services inflation is persistent and largely driven by “rents”. Locally, housing includes construction costs. Some construction cost pressures stem from AI infrastructure.
- The surge in energy prices has direct effects via transport and indirect, delayed effects via food and housing.
- Goods inflation seen during Covid has abated.

US inflation driver snapshot

Two main drivers of inflation for both Australia and US. Rents (housing) and Energy (oil).

- Rental inflation has been persistent but is easing
- Goods inflation has subsided
- Energy (oil) is the latest driver of inflation

US monthly contribution to inflation (2020 – 2026)



Source: Bloomberg & Australian Ethical

Petrol and diesel prices respond quickly to changes in international oil prices

- The more recent oil price surge is still to appear in upcoming inflation data.
- It is additional to sharp increase from July to August.

Petrol and oil prices (daily)

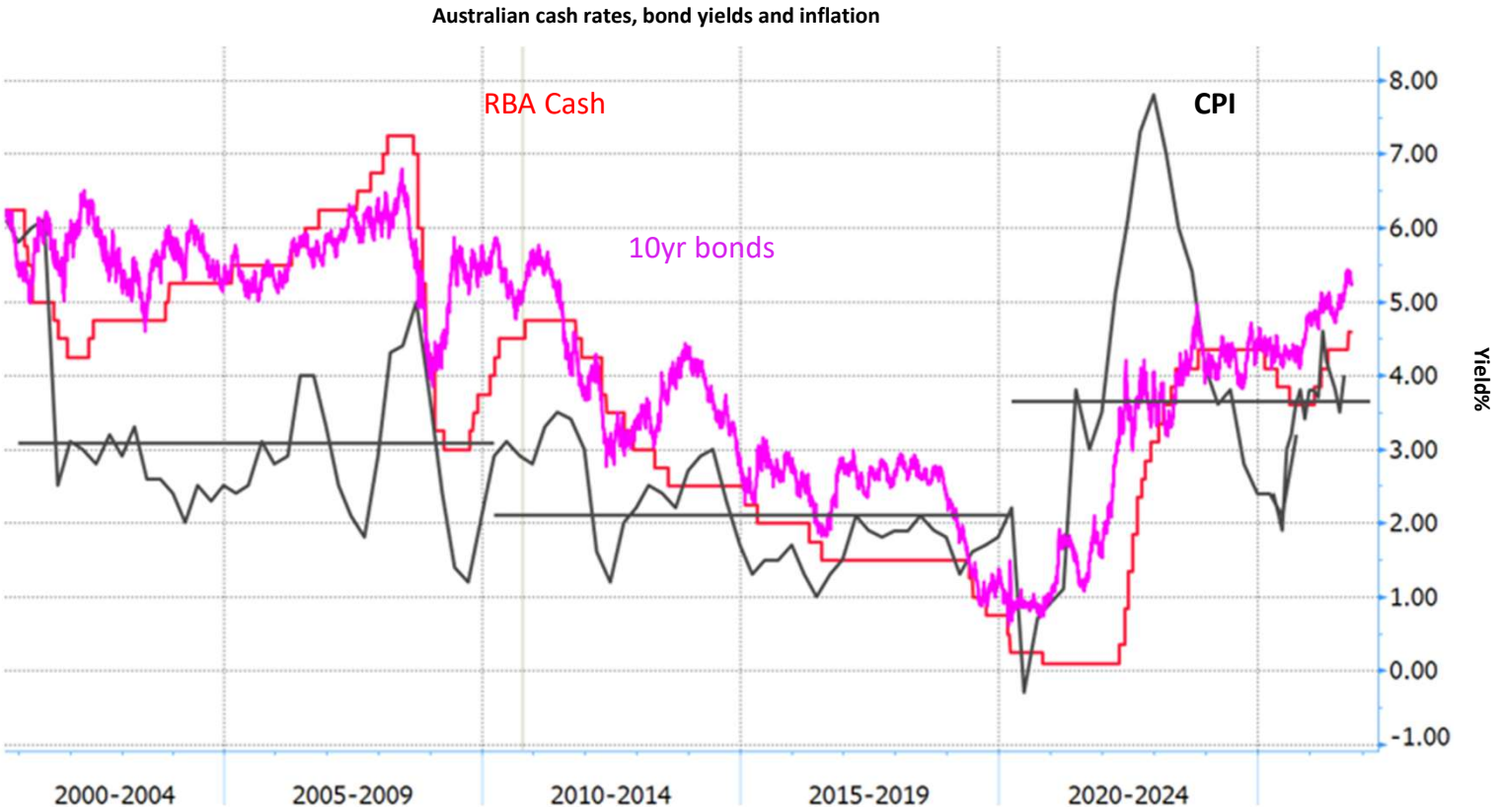


Source: Bloomberg Finance as at 30 Sept 2026

CN1

Rates are higher than we were used to in the previous decade, but more normal by historical standards.

- Cash and bond yields are back to early-2000s levels.
- Inflation is less entrenched despite the upward shock.
- Was the period from 2010 to 2020 the outlier?
- Everyone is solvent at near zero interest rates.



Source: Bloomberg & Australian Ethical

Slide 7

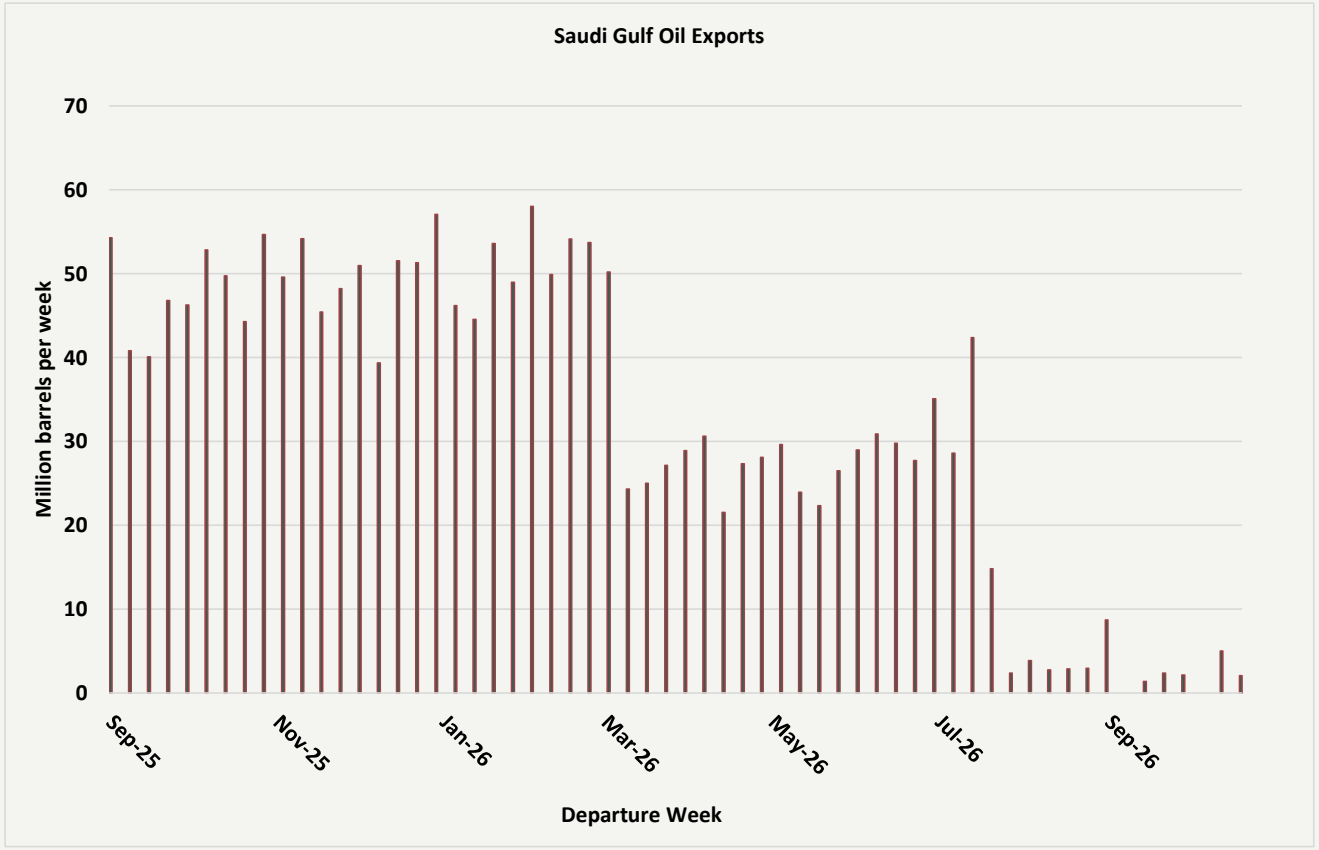
CN1 Add title to charts (all charts should have a simple, clear title)
Corey Nicholls, 2026-10-21T03:21:01.392

1 0 yeah the chart title became the slide title.
Lets take the slide title and put that back on the chart.
Rates are higher is the slide title
Chris Dickman, 2026-10-21T23:39:06.450

Saudi oil exports by sea



A snapshot of the supply that is not getting out from the gulf

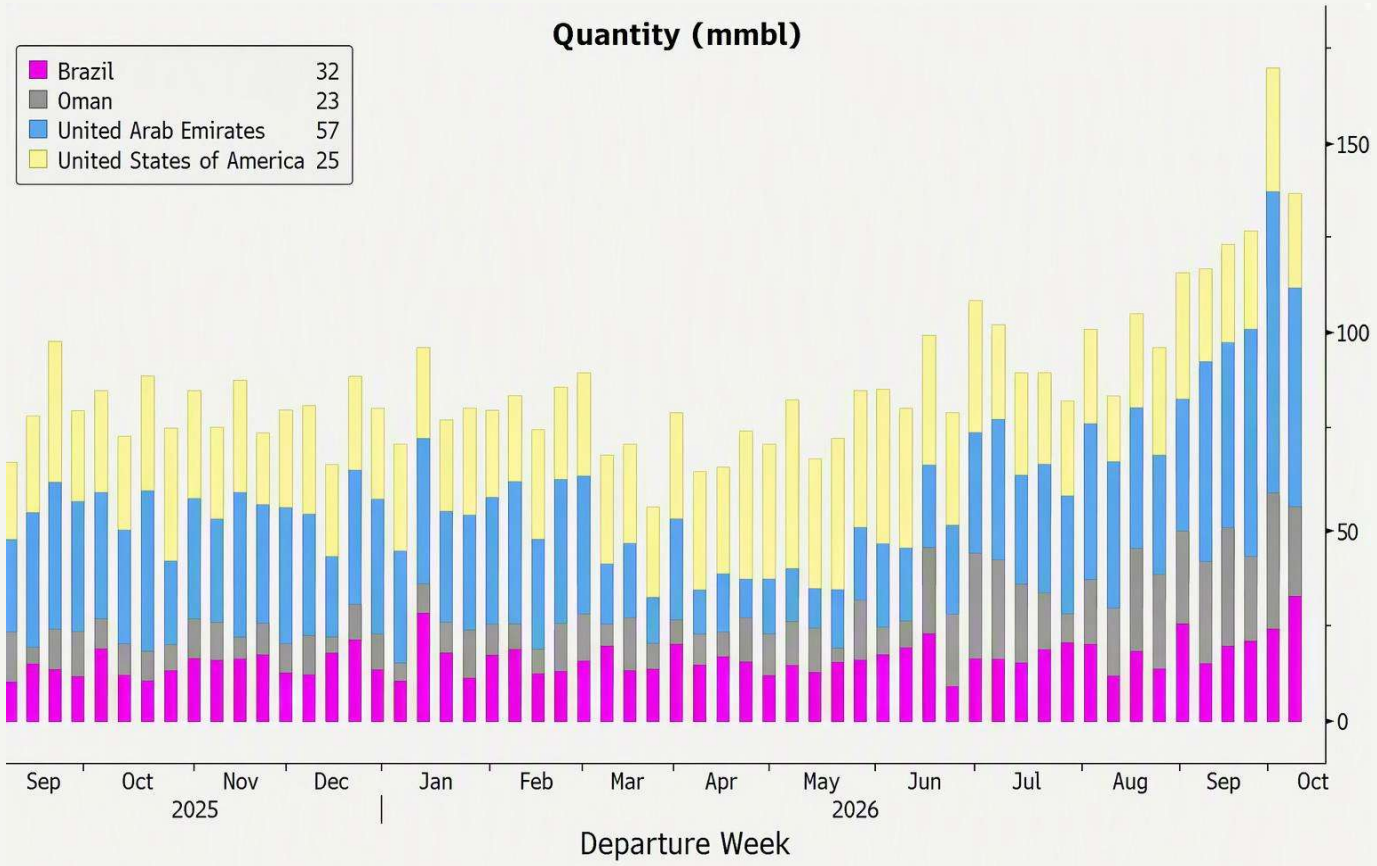


Source: Bloomberg & Australian Ethical as at 22 Oct 2026

Adaptive behaviour

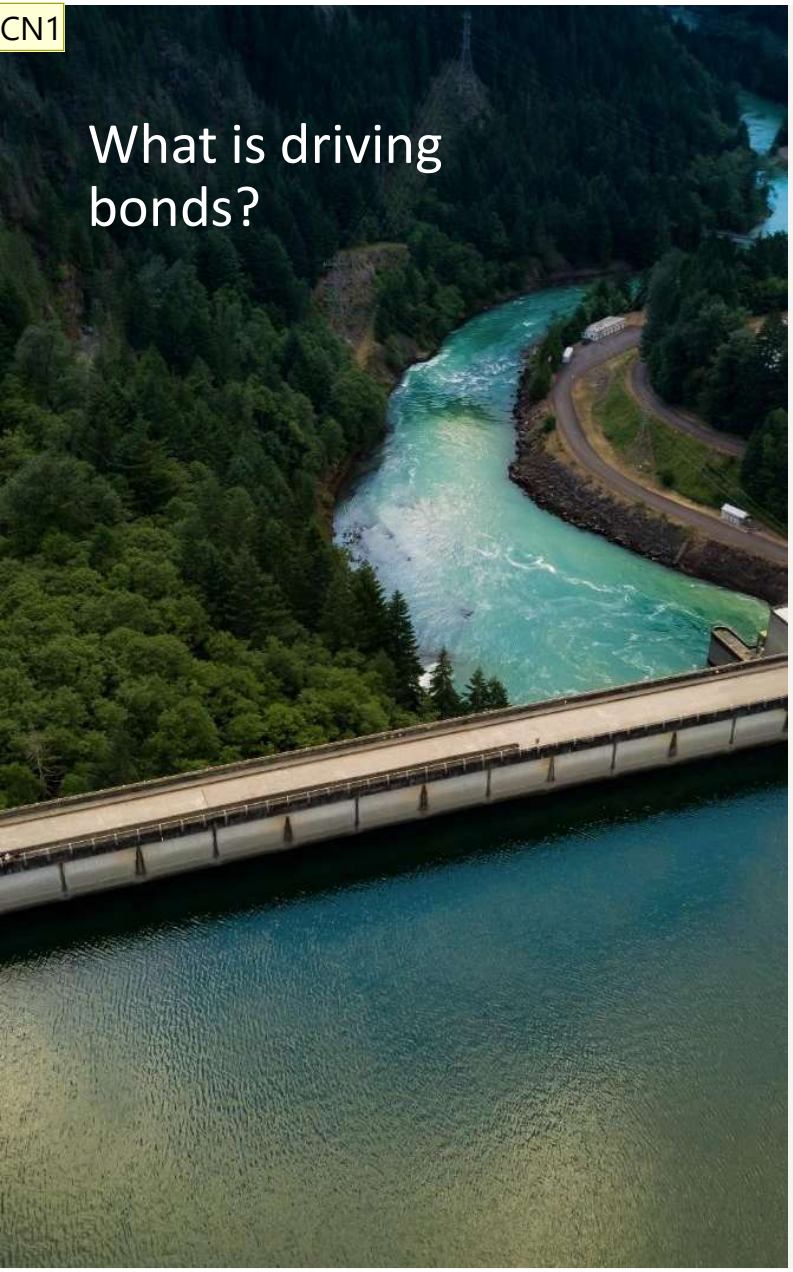
Alternative oil supplies. Extra 75mmbl per week

- Large incentive for producers with high break even extraction
- Big incentive for Saudis and other major producers to repair budgets with supply (when can)



Source: Bloomberg Finance as at 1 Oct 2026

CN1



What is driving bonds?

Key observations

- Central Banks QE unwind – shift from price insensitive to private sector
- Higher neutral rates including long term cash rate expectation
- Competition for capital

Slide 10

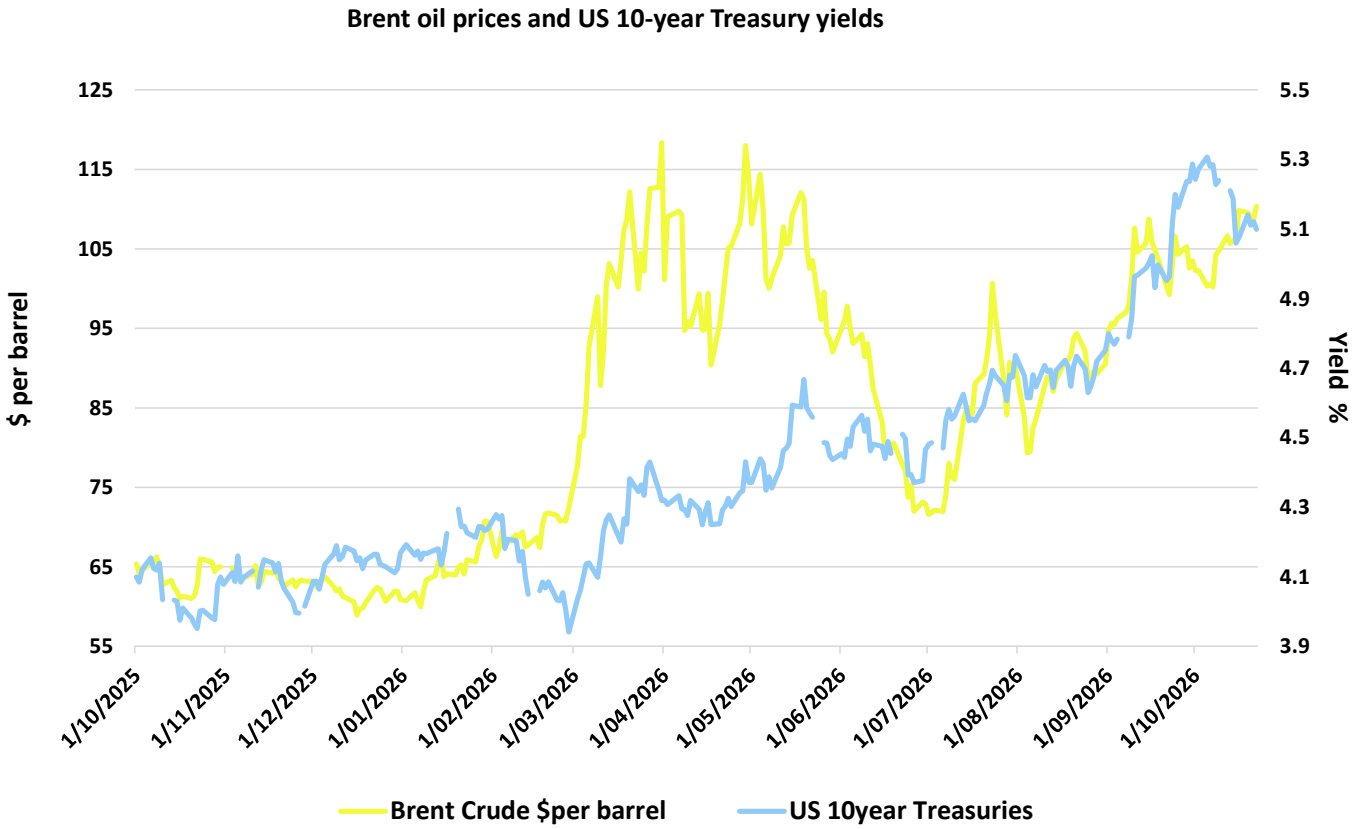
CN1 Lower base ‘b’ for bonds
Corey Nicholls, 2026-10-21T03:22:51.979

CN1 0 And capital
Corey Nicholls, 2026-10-21T03:23:04.015

The key driver of US Treasuries has been oil prices

Here's the link between oil induced inflation and Treasury bond markets.

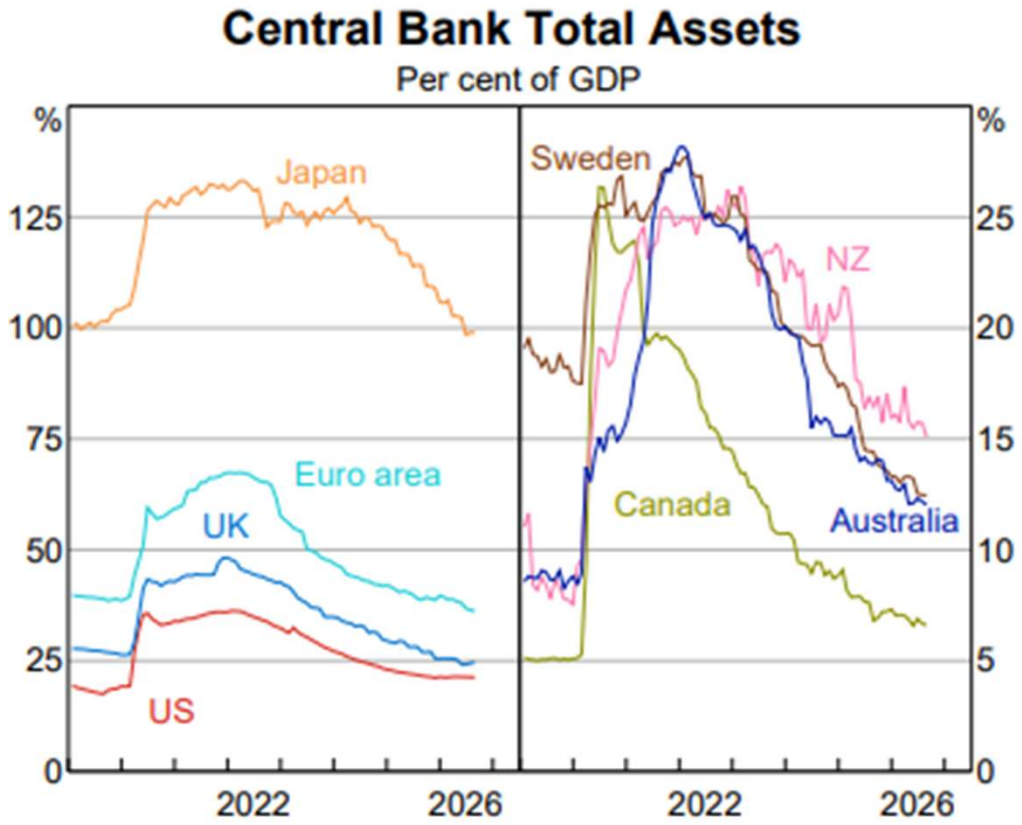
- Treasury yields moved higher particularly when market resigned itself to protracted war
- Start of year, Fed was expected to cut rate by 50bp. Now its 5 x 25 rate hikes.
- A 175bp lift in cash rate expectations.



Source: Bloomberg Finance as at 1 Oct 2026

Price insensitive buyers of bonds gone. Yield suppression unwind

Central Banks reducing their substantial bond holdings - creating greater reliance on private sector.

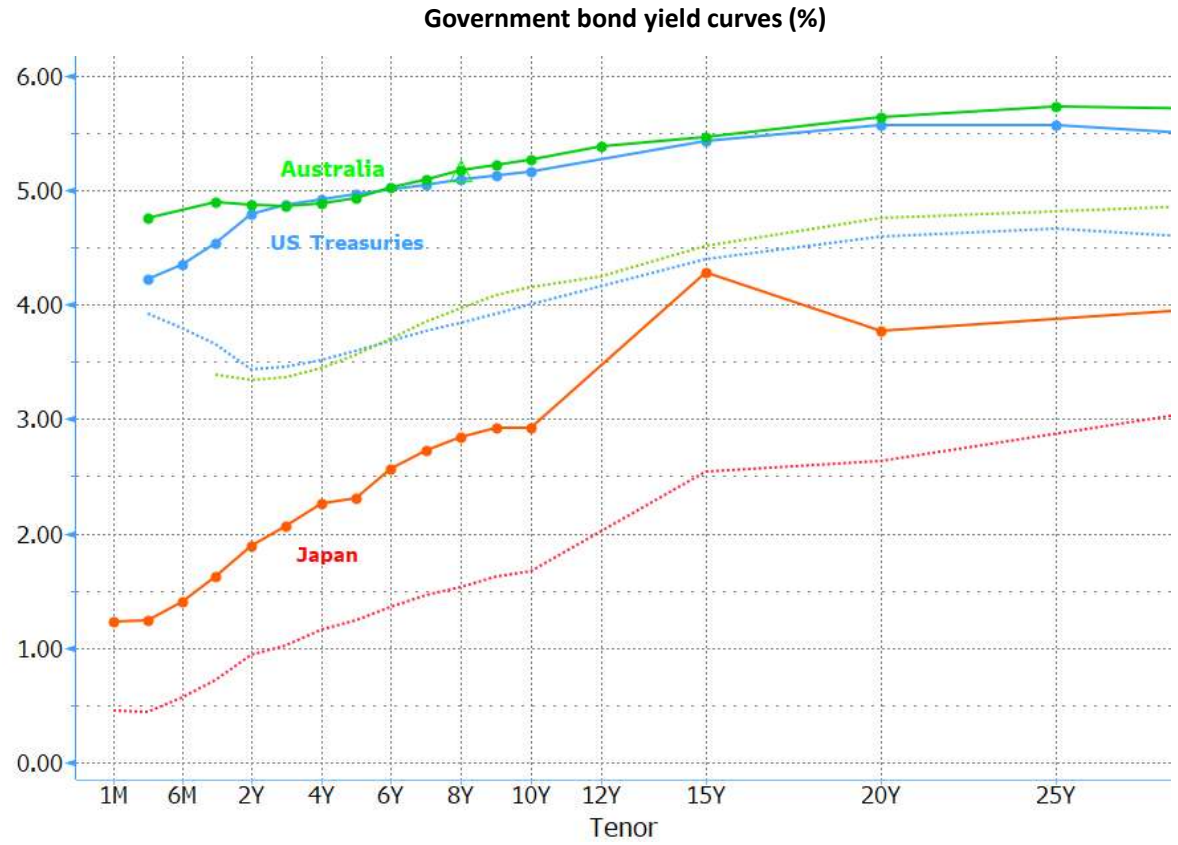


Source: Reserve Bank of Australia Chart Pack September 2026

Surge in Bond yields over the year

- Japan has been the magnetic floor on global interest rates.
- Effectively exporting their monetary policy via substitution.
- Huge BoJ bond holdings being unwound.
- The global floor in bond yields is rising - up from emergency levels.

Major bond yield curves



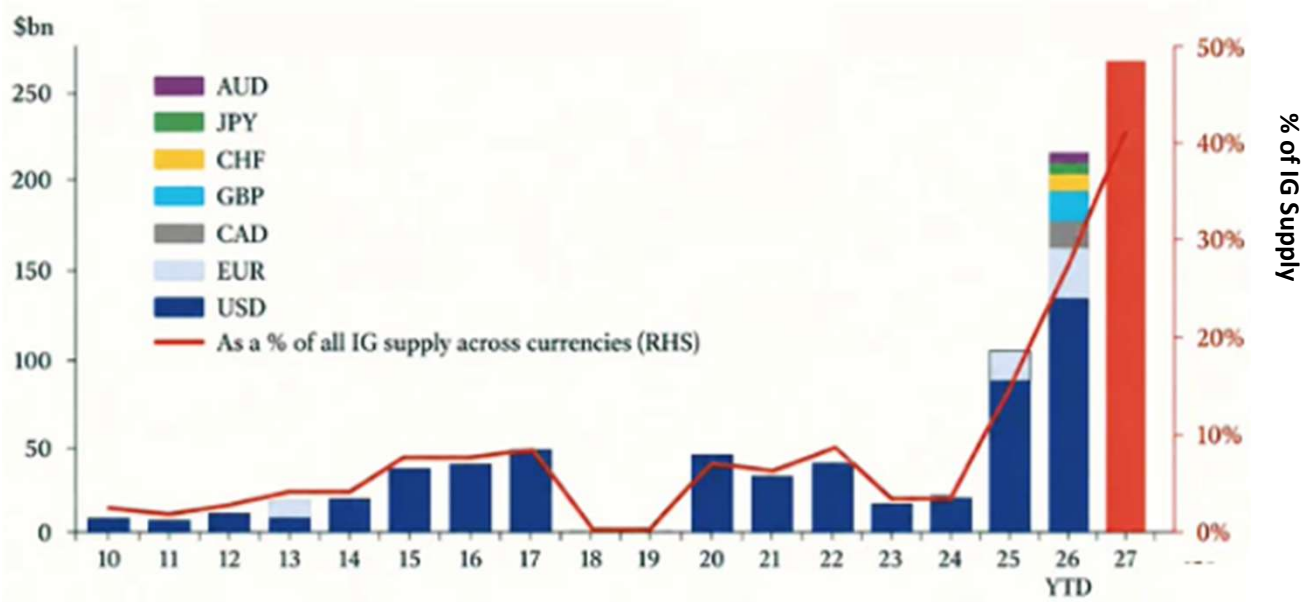
Source: Bloomberg Finance as at 1 Oct 2026

Competition for capital

- Rapidly increasing high grade (and higher yielding) bond issuance by hyperscalers.
- This competes with sovereign bonds for the investible dollar of the private sector.
- Issuance is expected to peak in late 2027, however.

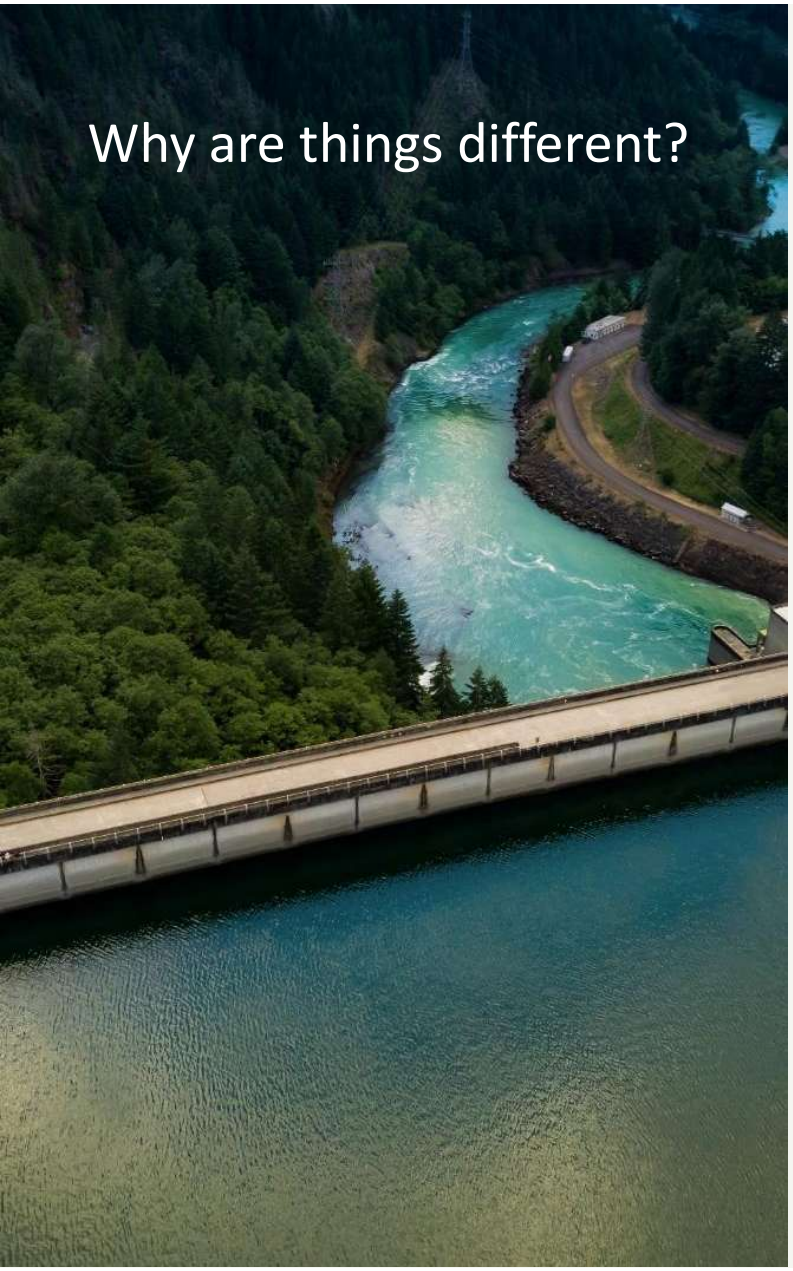
US, investment-grade issuance

Hyperscaler debt issuance



Debt issued by Alphabet Amazon Meta Microsoft Oracle

Source: Goldman Sachs, ZeroHedge & Australian Ethical
https://www.reddit.com/user/RobertBartus/



Why are things different?

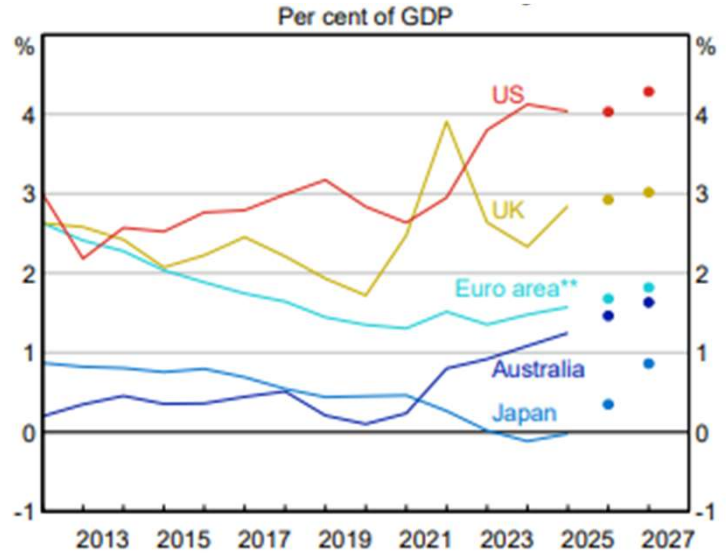
Key observations

- Indebtedness and interest rate sensitivity
  Higher rates don’t need to go as high
- Adaptability of businesses and consumers especially when technology provides superior substitute
  Two examples. Transport and Power
- Technological wave underway. The result is disinflationary.
  Productivity gains and substitution effect

What's different? Sensitivity to interest rates

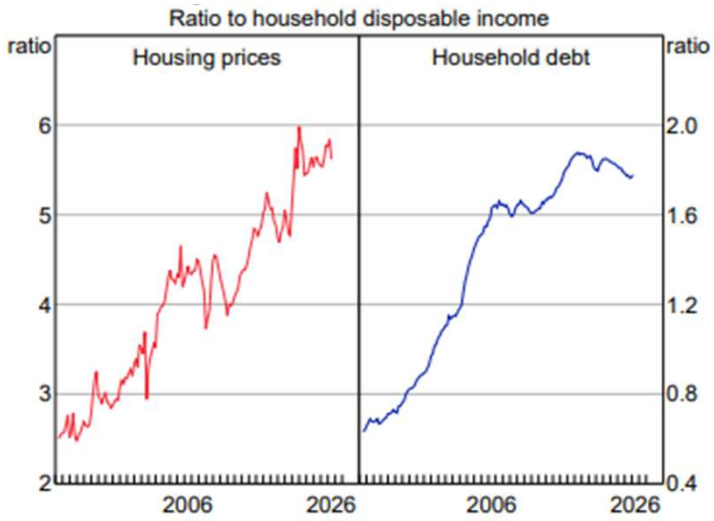
A tertiary consideration: Where Government Debt has surged, pressure will come to increase taxes.

Government Net Interest Payments



Following the GFC and pandemic, government debt rose sharply. Higher borrowing costs now put pressure on budgets.

Housing Prices and Household Debt



Household debt in Australia exceeds twice its 2000 level.

Source: Reserve Bank of Australia chart pack September 2026

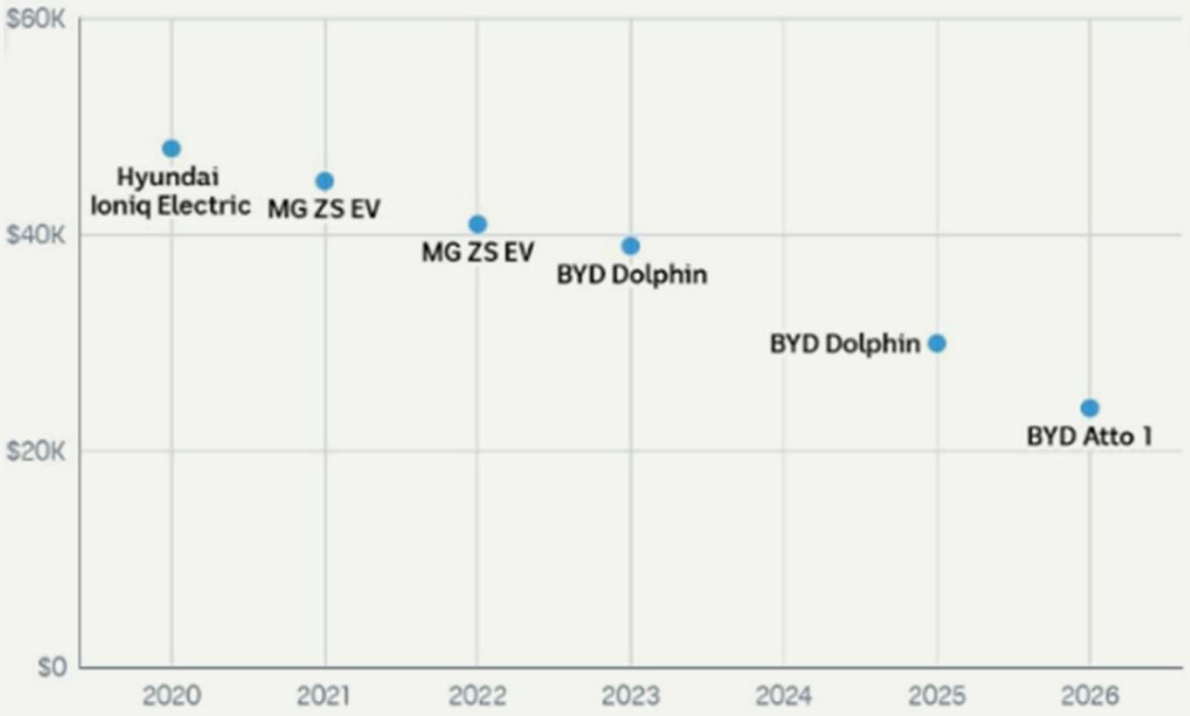
Price of cheapest electric car in Australia is now about half of that in 2020

CN1



- Cheaper to buy – cheaper to run
- Technology and battery density improving rapidly.
- EV's from luxury to masses. Disinflationary forces at work

Least expensive EV by year



Source: Image ABC news
https://www.instagram.com/p/DVDiNCij5i1/?img_index=6

CN1 Chart title

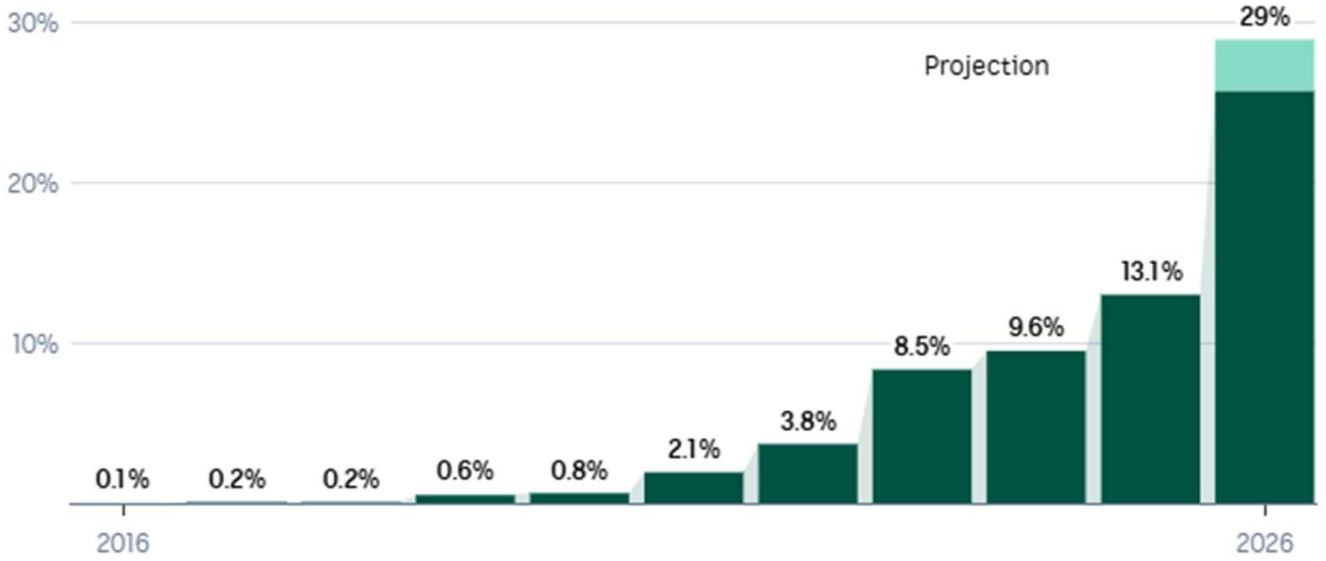
Corey Nicholls, 2026-10-21T03:29:04.995

CN1

Competition for capital

- From a luxury purchase to a staple: **a tipping point.**
- Cheaper cars, though not necessarily lower in quality, have led to a surge in demand for EVs.
- Battery density improvements will make travelling from Sydney to Melbourne in one trip possible.

Australian Share of New Cars that are EVs



Source: EVC - State of EVs 2026 via ABC News: 'EV sales double in Australia as one in four new cars now electric'

CN1 capital

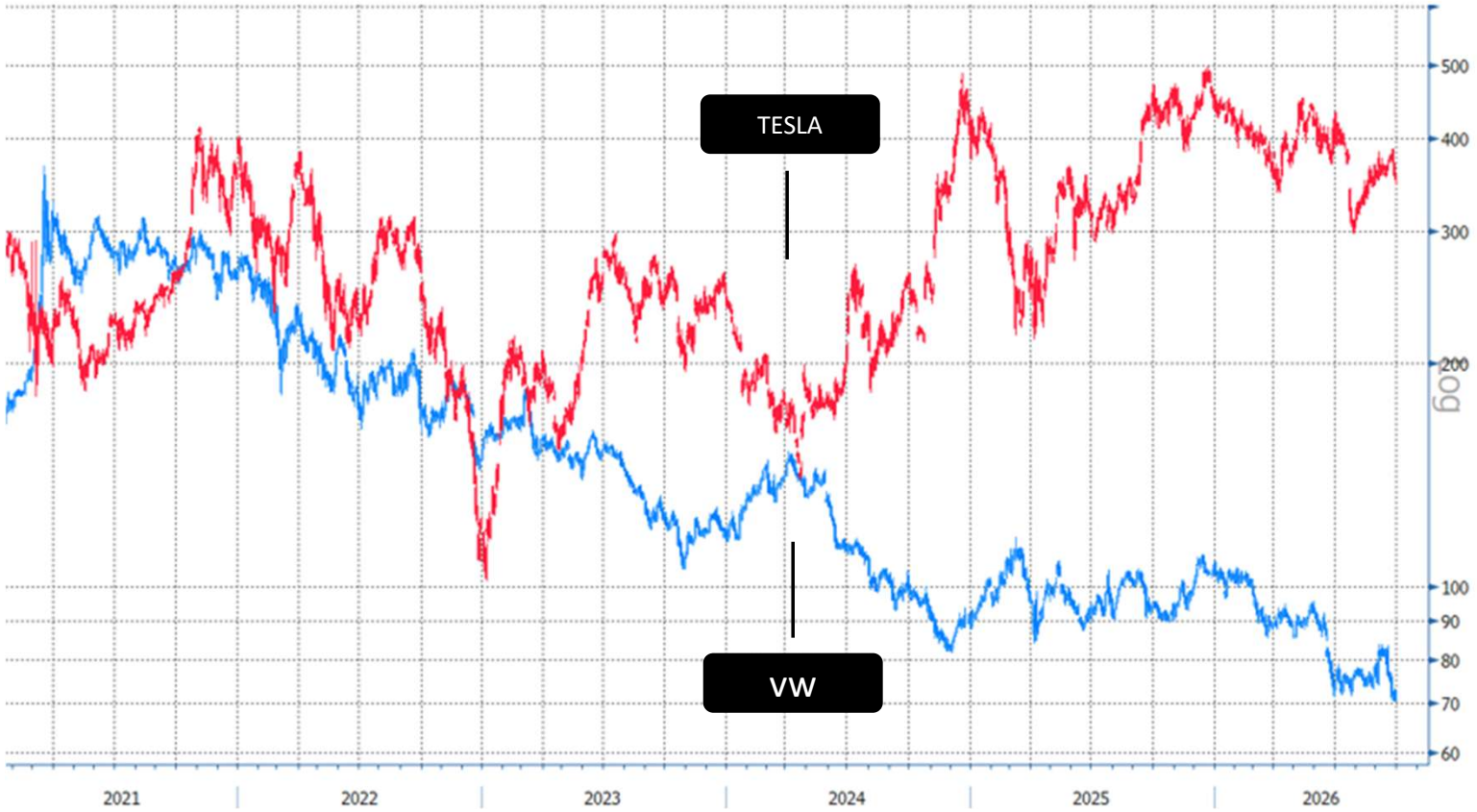
Corey Nicholls, 2026-10-21T03:29:12.378

CN1

Implication for companies and regions

Ramifications for investment portfolios

Tesla and Volkswagen share prices



Share prices reflective of company's expertise in new technologies as it collides with consumer appetite.

Source: Bloomberg, Australian Ethical

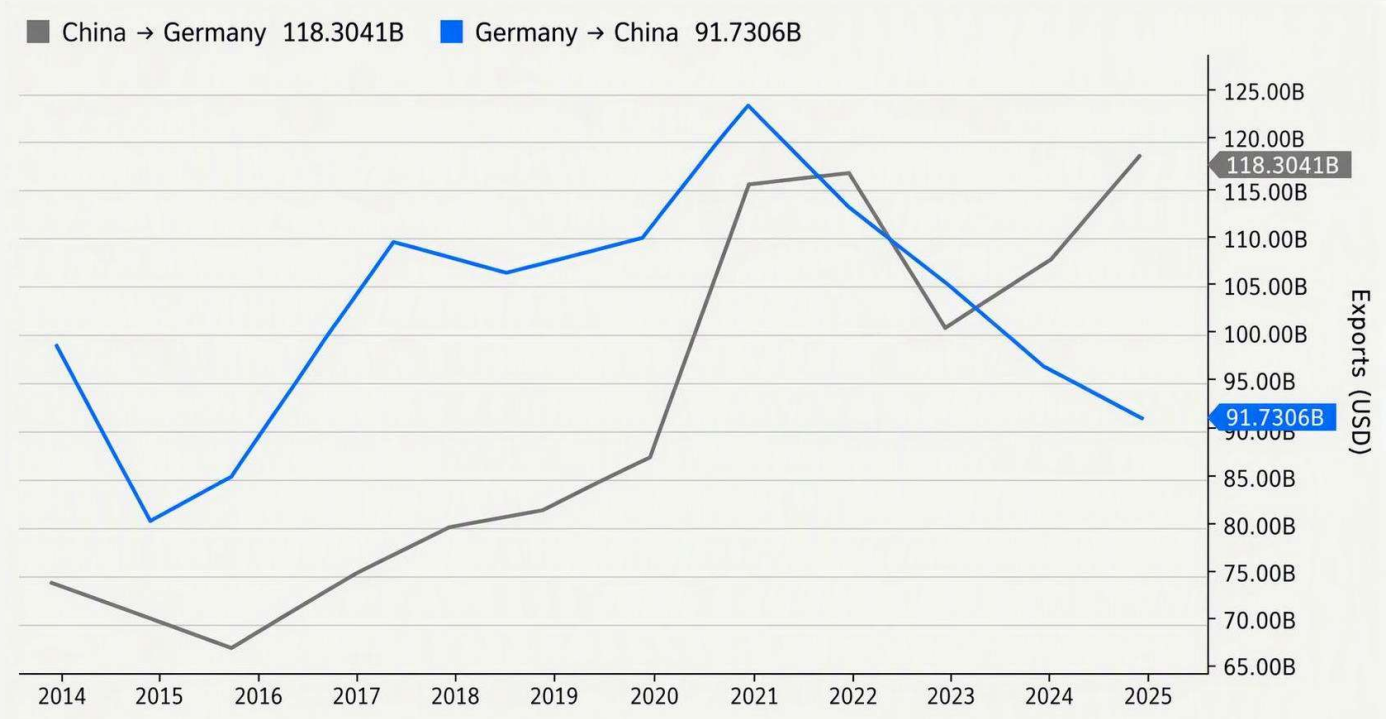
Slide 19

CN1 Chart title

Bullet point prob doesn’t need a bullet if there is just one
Corey Nicholls, 2026-10-21T03:29:45.007

Transition effect: Globally evident in a huge swing in the German-Chinese trade balance

China Germany Total Goods Exports 2014-2025



- German fossil fueled auto sector not competing with Chinese EV's
- Detroit-ification of German industry?
- European spill over

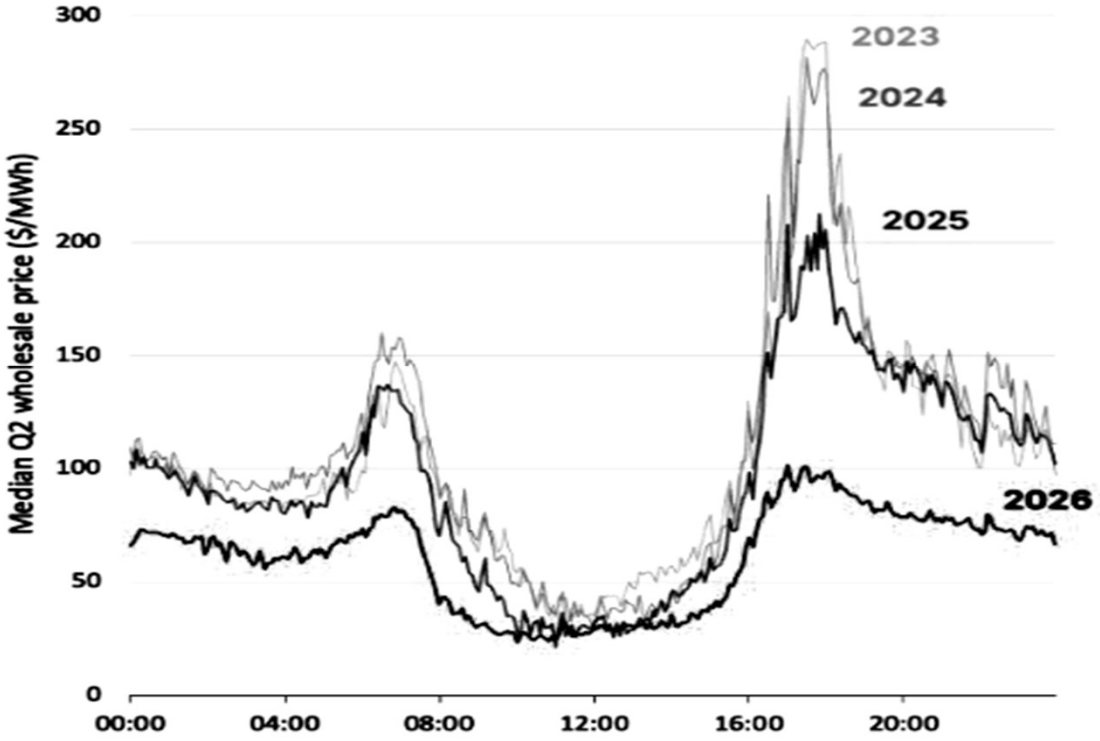
Source: Bloomberg Finance as at 1 Oct 2026

CN1

Domestic median wholesale electricity prices

Australian solar created the duck curve, batteries are now flattening it, with gas producers becoming more marginal

- Electricity in Australia a key source of inflation.
- Solar uptake and back into the grid is reducing cost of electricity – for everyone.
- With EVs increasingly putting energy back into the grid, peak electricity prices can fall further.



Q2 median 5-minute wholesale prices by time of day, demand-weighted across NSW, QLD, VIC and SA.

Source: Australian Ethical. Australian Energy Market Operator 2026

Slide 21

CN1 solar
Corey Nicholls, 2026-10-21T03:45:22.342

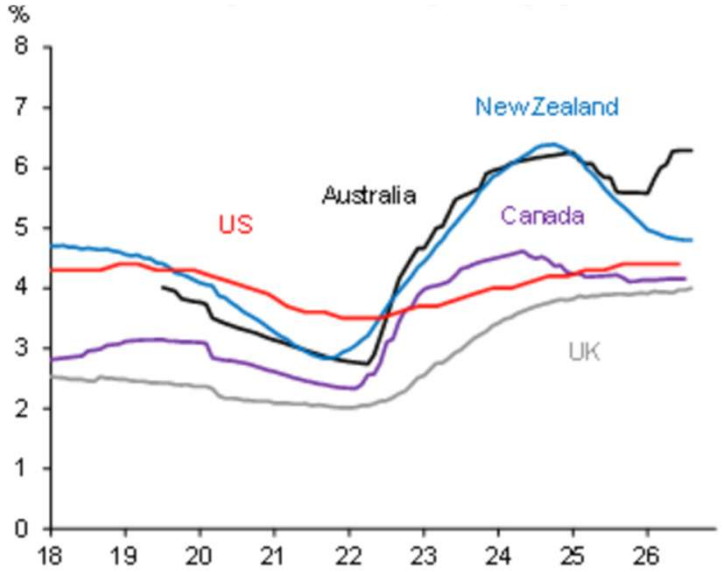
CN1 0 Do we have a better version of this chart [@Chris Dickman] or the data?
Corey Nicholls, 2026-10-21T03:46:09.420

1 1 thats all I could get, given the source. It had a terrible background (that Charlotte turned into passable
Chris Dickman, 2026-10-21T04:25:16.209

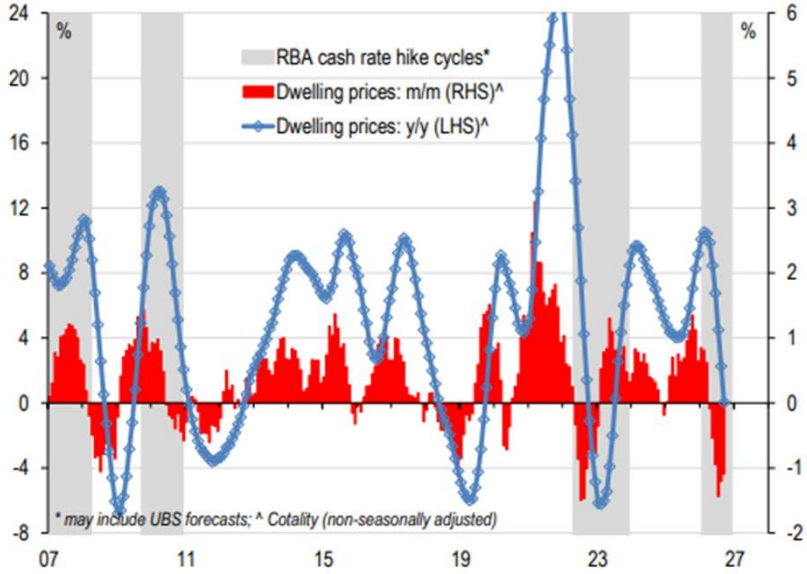
Australian mortgage rate sensitivity to higher cash rates

Squeezes interest rate sensitive sectors.

Average outstanding mortgage rate



Dwelling Prices MoM and YoY % Change

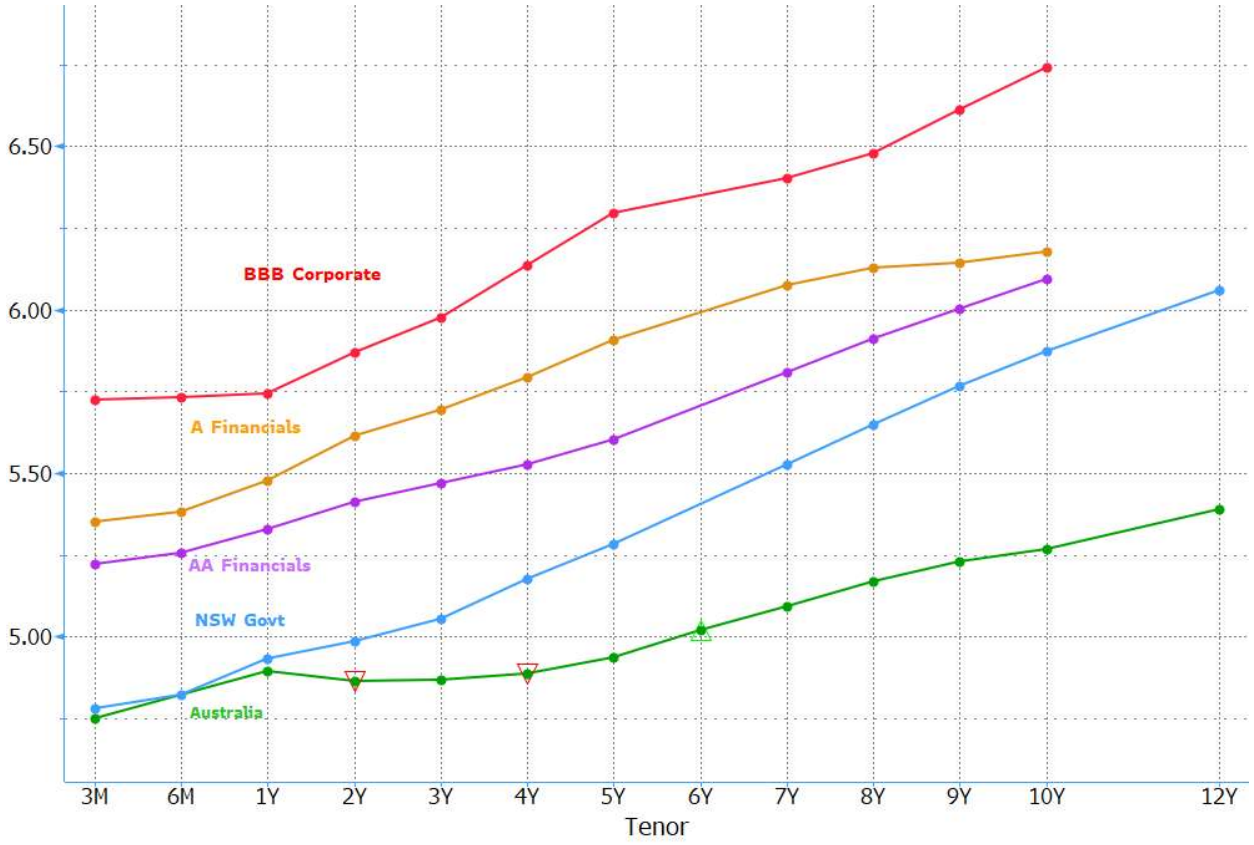


Source: Macquarie Bank, email 12 Oct 2026; UBS Australian Economic Comment UBS Research 1 October 2026

Australian interest rate landscape

- Australian sovereign has high (by world standards) yield AND defensive properties – especially considering lower debt levels.
- High Grade Australian Bonds much better accrual roll down

Key Australian bond yields by credit



Source: Bloomberg Finance as at 20 Oct 2026

Key takeaways

Don’t underestimate adaptability of economies

Substitution is inherently disinflationary over time

Bonds have re-established a role as a defensive asset class supported by higher yields

Key risk over shorter term continues to be inflation



Australian Ethical

Thank you.

