Inflation remains Stubborn

Information contained in this report current as at 19 November 2026.



Financial markets were dominated by three major forces in October: energy-driven inflation, hawkish central banks and a growing doubt about how AI spending will be paid for. The Iran conflict kept supply risks high and Brent crude finished the month about 13.6% higher at roughly US$117 a barrel. That pushed headline inflation up in Australia, the United States and the United Kingdom and it left policymakers leaning towards further tightening.

US equity markets split sharply. The Dow Jones increased 1.7% and the S&P 500 slipped 0.9%, however the tech-heavy Nasdaq lost 5.3%, its worst month since March 2025.

US Technology shares went from market leaders to the centre of a funding scare.

The common theme was not weak demand for AI, but doubt about whether the enormous spending on it can be financed and earn a satisfactory return. Chipmakers, AI hardware suppliers and heavily indebted data-centre operators took the brunt, while profitable software and defensive sectors held up. Government bond yields fell as investors looked for safety. The US 10-year yield ended near 4.93%, more than 40 basis points below its multi-year high of 7 October. In Australia, a hot September CPI, a soft labour market and a sharp slide in consumer and business sentiment left the Reserve Bank of Australia (RBA) with a difficult trade-off. By month-end analysts were forecasting a 0.25% increase to 4.85% as occurred on Melbourne Cup Day. The Australian dollar firmed by about 1% against the US dollar, which trimmed the returns on unhedged offshore shares. The S&P/ASX 200 closed the month at 8,908. Banks led, with financials up more than 8% over three weeks as investors treated higher rates as a margin tailwind. Materials were weak on soft lithium, uranium and iron ore prices and AI-infrastructure names were hit hard; NextDC fell about 39% in a week after cutting earnings guidance and delaying a Melbourne site. The Australian 10-year yield finished the month at 5.10%.

In Australia, employment data for September was weaker than forecast. Employment fell by about 39,000 against an expected gain of around 20,000. Importantly, the losses were concentrated in part-time work which is less bad than if it was mostly full-time workers. A fall in participation to 66.8% meant the unemployment rate increased to 4.7% (4.6% in trend terms), while underemployment, which counts people who have a job but want more hours than they get, stood at

6.3%. Wages growth held at 0.8% for the quarter and 3.3% for the year on CommBank's timely wage series.

Survey data, which tends to be more forward looking about the direction of the economy, deteriorated through the month. The Westpac-Melbourne Institute consumer sentiment index fell 4.7% to 80.4 and responses taken after the RBA's late-September hike averaged just 67.2. This was a reading below what was recorded during the pandemic. The NAB business confidence survey slipped to -13, its third consecutive decline and the flash composite Purchasing Managers Index (PMI) dropped to 47.7, the first contraction in private-sector output in five months. Household spending was flat in August and excluding fuel it would have fallen. Survey data overall suggests that

Australia's economic growth will remain sub-par for the next 6-9 months.

Housing continued to soften. National home values fell 1.1% in September, the sixth monthly decline. Turnover remains low which suggests that prices maybe weaker than reported. Building approvals dropped 6.1% in August as multi-unit approvals fell sharply. Offsetting this, residential completions reached their highest level since early 2020 and the data-centre construction pipeline is now almost four times its size of a year ago. Private-sector credit grew 8.4% over the year, with business credit up 11.3%, while investor housing credit slowed to about 0.2% a month.

Australia's September-quarter CPI was the pivotal event over the month. Monthly CPI rose 0.8%, ahead of the 0.7% consensus, taking annual inflation from 4.0% to 4.3% driven by fuel and holiday travel. The RBA's preferred trimmed mean measure of inflation rose 1.0% for the quarter and 3.7% for the year, above the Bank's own forecast of about 0.8% for the quarter. There were small encouraging signs underneath: monthly market-services inflation eased from 0.7% in July to 0.4% in August and 0.2% in September and new dwelling prices were flat. RBA communication swung the market through the month. The cash rate was increased by 0.25% to 4.85%.

The US economy entered the fourth quarter growing strongly, but inflation is still well above target and the Federal Reserve is leaning towards another rate rise. Third-quarter GDP grew at a 3.4% annual rate. Investment, consumer spending and government spending all contributed, partly offset by a fall in exports and a larger rise in imports. Real final sales to private domestic purchasers, which strip out an increase inventories, trade and government, grew 4.9%. This means that underlying private demand was stronger than the headline. A reason for this could be the strong employment market.

The October jobs report beat forecasts by a wide margin and the ISM manufacturing index is in clear expansion, with its production gauge at the highest level since November 2021. The risks sit on the price side. Consumer prices rose 0.4% in October, producer prices are up 6.5% on a year earlier and September's Personal Consumption Expenditure inflation (3.6%) was the fastest in four months. Real disposable income fell 0.3% in September and the saving rate dropped to 3.8%, so consumer spending is being propped up by dissaving rather than income growth. The Federal Reserve held the Fed Funds rate at 3.75% to 4.00% with two dissents in favour of a hike. The statement described activity as expanding at a strong pace and inflation as elevated.

After the strong jobs report, one market-based estimate put the odds of a December increase at about 80%.

The euro area surprised on growth but not on prices. September CPI readings for Germany,France, Italy and Spain all printed above expectations, reinforcing worries that inflation is sticky across the region. The October flash composite PMI (Purchasing Managers' Index) which measures the month-to-month change in private-sector business activity, fell to a four-month low and France moved into contraction. Even so, third-quarter GDP in the 21-nation bloc grew 0.4%, double the 0.2% that economists had forecast. The European Central Bank left policy rates unchanged at its late-October meeting, though markets were pricing a good chance of a December increase.

China's growth was resilient but lopsided. Exports have been a source of strength for Chinese industry, however much of that nominal strength reflects elevated prices for AI-related components and is not translating into higher domestic investment and consumption. Exports surged 36.3% from a year earlier, far above the 25.7% expected, which lifted the monthly trade surplus to a 20-month high of USD133.5 billion. As has been the case for many months, domestic demand remains the weak spot. Retail sales growth lifted to 1.1% in September but is running at about a quarter of last year's pace. Fixed asset investment contracted 7.2% over the first nine months, property investment is down about 20% for the year and new and existing home prices kept falling five years into the downturn. Producer prices accelerated in September while consumer inflation stayed soft. Third-quarter GDP grew 4.5% from a year earlier (1.2% for the quarter), a touch above the 4.4% forecast, which keeps the economy on track for the 4.5–5.0% target range for 2026. Further stimulus will be needed once the boost from net exports fades. Chinese shares reflected the caution with the Shanghai Composite down 6% over the month to circa. 3,600.

October showed that the market has stopped rewarding AI spending for its own sake and now

Australia can not rely on China like it used to.

wants evidence of a return. Microsoft reported revenue up 19% and Azure growth of 48%, while Alphabet and Amazon were marked down because heavy investment is pushing free cash flow negative. The share market is now on edge and investor strategy is to prefer technology companies that can fund their capital spending from operating cash flow and can link it to revenue growth. Investors have turned cautious on those that depend on borrowing or keep lifting their spending plans. Meta, which raised its 2026 capital spending floor to US$135 billion, is the clearest example.

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+Y TR AUD

International Bonds Hedged
Bloomberg Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/Nareit Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR AUD

Emerging Market Shares
MSCI EM NR AUD

International Shares
MSCI World Ex Australia NR AUD

RETURNS TO THE 30TH SEPTEMBER 2026

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Australian Cash	0.38	1.13	2.22	4.14	4.18	3.41	2.66	2.27
Australian Bonds	-0.86	-1.51	1.10	-0.40	3.56	0.00	0.01	1.52
International Bonds Hedged	-1.66	-2.42	-1.00	-0.57	3.58	-0.52	-0.31	1.08
Australian Listed Property	-1.76	-8.38	4.21	-14.34	9.44	2.98	8.58	5.02
International Property Hedged	-5.17	-5.90	4.65	4.88	9.72	1.59	6.41	3.23
Australian Shares	-2.42	1.33	5.43	2.68	11.40	7.68	11.54	9.04
Emerging Market Shares	2.43	-0.79	21.67	23.10	21.03	9.76	11.61	10.13
International Shares	1.85	1.45	14.25	9.87	18.54	12.82	15.19	13.99

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