Funds SA Quarterly Comment June 2026

What happened this quarter?

- All investment options delivered positive returns.
- Overseas share markets were the strongest contributor to performance.
- Companies linked to artificial intelligence (AI) continued to perform strongly.
- Investor confidence improved as concerns about conflict in the Middle East eased.
- Infrastructure, Property and Credit also contributed positively.
- Interest rates remained an important focus for investors in Australia and overseas.

What shaped markets?

Markets recovered as Middle East tensions eased

The quarter began with heightened uncertainty due to the conflict involving Iran & the US, which pushed oil prices higher and, in turn, raised concerns around inflation and global economic growth. Sentiment improved as the conflict appeared to move towards a diplomatic solution, with markets increasingly looking through the risk of further escalation. As oil prices retreated, inflation concerns eased and investor confidence improved, helping drive the strong recovery across global share markets.

AI continued to drive market returns

Investors continued to favour technology companies benefiting from the rapid adoption of artificial intelligence (AI). Demand for semiconductors, data centres and digital infrastructure remained strong, providing further support to many of the best-performing companies globally. In the United States, the Nasdaq gained more than 21% over the quarter, with AI continuing to be a key driver and the defining investment theme of the financial year.

Australia lagged the global rally

Australian shares delivered positive returns over the quarter, but gains were more modest than those recorded across many overseas markets. The ASX 200 rose 4.5%, compared with stronger gains from technology-heavy markets in the United States and parts of Asia. Returns were supported by a broad mix of sectors, including Financials, Materials and Health Care.

Interest rate expectations shifted throughout the quarter

Bond markets were volatile during the quarter as investors responded to geopolitical developments and inflation expectations. Markets entered the quarter expecting cuts to official interest rates. However, rising oil prices early in the period pushed bond yields higher and renewed concerns that inflation could remain elevated. As tensions in the Middle East eased and energy prices declined, fixed interest markets recovered. Despite this, the US Federal Reserve maintained a cautious stance, reinforcing a higher-for-longer interest rate outlook.

In Australia, markets entered the quarter expecting the Reserve Bank of Australia (RBA) may need to raise the official cash rate further. The RBA increased the cash rate by 0.25% in May, citing ongoing inflation risks, before leaving rates unchanged in June as economic conditions softened and inflation moderated. Australian bond yields rose earlier in the quarter before declining by quarter end, while elevated cash rates and higher bond yields continued to support returns from defensive assets.

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How investment options performed

All investment options delivered positive returns over the June quarter with gains recorded across all asset classes. Equity markets were the primary driver of performance, with International and Australian Equities contributing strongly to returns. Diversifying asset classes including Infrastructure, Credit and Property also made positive contributions while Government Bonds and Cash provided steady returns over the period

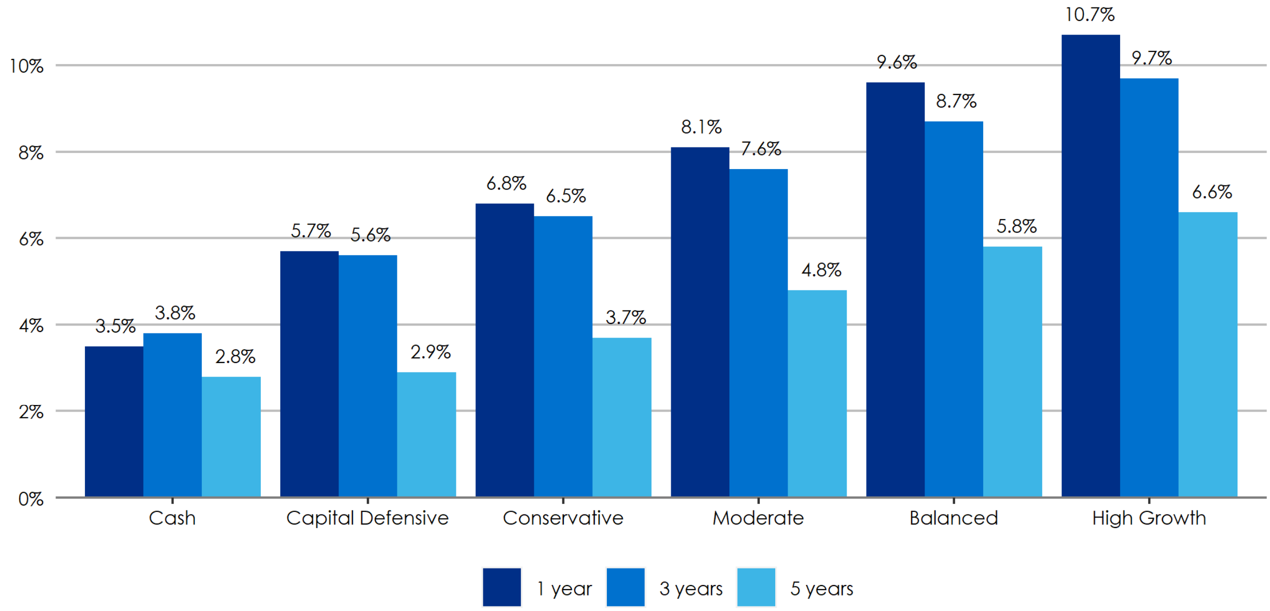
Table 1: Taxable investment option returns to 30 June 2026

Investment Option	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.
Cash	1.0	3.5	3.5	3.8	2.8	2.1	2.0
Capital Defensive	2.8	5.7	5.7	5.6	2.9	3.0	3.3
Conservative	3.5	6.8	6.8	6.5	3.7	4.0	4.5
Moderate	4.8	8.1	8.1	7.6	4.8	5.3	5.8
Balanced	6.0	9.6	9.6	8.7	5.8	6.7	7.2
High Growth	7.0	10.7	10.7	9.7	6.6	7.6	8.4

Notes: Returns are net of fees and tax, based on the post-tax unit pricing model detailed in the MOA

*Financial year to date

Chart 1: Taxable investment options annualised returns to 30 June 2026



Note: Returns are net of fees and tax, based on the post-tax unit pricing model detailed in the MOA

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What drove returns?

International Equities outperformed the benchmark over the quarter with performance supported by continued strength in AI-related sectors, particularly Information Technology and Communication Services. Benchmark relative returns were broad based, with positive stock selection by managers across Information Technology, Health Care, Financials and Industrials, while an underweight to Energy also contributed to performance.

Infrastructure was one of the strongest performing diversifying asset classes over the quarter. Returns were broad based across the asset class on the back of the continued growth in digital infrastructure investments, including data centres, and positive contributions from transport assets, airports, regulated utilities and fibre networks.

Australian Equities also outperformed the benchmark with performance supported by contributions from Health Care, Consumer Discretionary, Consumer Staples and the Materials sector. Benchmark relative returns benefited from manager stock selection, particularly within Health Care, while an underweight to Materials added value later in the quarter as weaker commodity prices weighed on the sector.

Credit delivered strong positive returns over the quarter. Performance was supported by high income, tightening credit spreads and falling government bond yields. Emerging market debt and high yield were key contributors as improving investor sentiment continued to support credit markets.

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