INSTITUTIONAL PERSPECTIVES
September 2026

Australian Equity Reporting Season Wrap

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Through our research lenses: results, reactions and what comes next

Twice a year, Australian company reporting season provides one of the clearest tests of the ClearBridge Australian Equity investment team's views. Company results allow us to compare expectations with reality, assess where earnings are moving and hear directly from management teams about the opportunities and challenges ahead. But just as importantly, they allow us to observe how the market responds when new fundamental information arrives.

The Australian equity market is changing. Passive flows are reshaping liquidity, systematic strategies are amplifying factor cycles, and a long period of momentum dominance is beginning to show signs of strain. At the same time, higher interest rates and a rising cost of capital are forcing investors to think more carefully about the price they are willing to pay for future earnings.

Against this backdrop, the August reporting season offered a useful window into both company fundamentals and market behaviour. Earnings alone did not explain the magnitude of many share-price moves, and in many cases, positioning, valuation and market structure proved just as important as the change in fundamentals.

When prices move further than the underlying information warrants, the opportunity for active fundamental investors to identify genuine mispricing becomes great. Our reporting season wrap provides several examples of that dynamic at work.

Key takeaways

- **Results were better than feared, but the outlook was softer.** Headline earnings generally held up, but forward guidance and broker revisions weakened as inflation, higher funding costs and softer demand made it harder for companies to convert cost initiatives into genuine earnings growth.
- **Quality of earnings mattered more than headline beats.** Companies that demonstrated recurring cash flow, pricing discipline and measurable productivity were rewarded, while one-offs and promises of future benefits without clear evidence were treated more sceptically.
- **Price moves are becoming less tied to earnings revisions alone.** Passive flows, crowded factor positioning and the breakdown in momentum are contributing to larger re-ratings and de-ratings, even where changes in earnings expectations are relatively modest.
- **The changing market structure is creating more opportunity for fundamental stock selection.** As prices move further from underlying value, our consistent focus on intrinsic value, business quality and disciplined portfolio construction is providing more opportunities to act on genuine mispricing.

What the results told us

Results better than feared, but softer guidance and weaker revisions

At an aggregate level, the August reporting season was better than it might have been. Across our S&P/ASX 200 stock universe, actual company results were generally ahead of pre-reporting broker consensus forecasts for earnings per share (EPS), dividends (DPS) and sales/revenue (Exhibit 1). In part, this reflected the fact that expectations had already been reset lower ahead of reporting season, while the inflationary impact of the Iran conflict and higher oil prices proved less severe than initially feared.

However, headline results told only part of the story. When we looked at the guidance provided by companies for the period ahead, the picture was softer. Many businesses had benefited from relatively favourable operating conditions at their February results, before the latest rise in energy costs and inflationary pressure. By August, those conditions were becoming more challenging for management to talk up.

Companies were still finding ways to offset pressure through pricing, procurement and cost-saving initiatives, but in many cases those actions were being used simply to defend existing earnings rather than create a higher underlying earnings base. Wage and input inflation, investment spending, weaker volumes and higher funding costs were increasingly absorbing those benefits.

The result was a clear downgrade skew to broker forecasts following company results (Exhibit 2). For us, this distinction between current delivery and the durability of that delivery was one of the most important themes of the season. The strongest results were not simply those where reported earnings beat consensus. They were businesses where the beat was supported by recurring cash flow, pricing discipline, productivity improvements or evidence that stronger earnings could continue into future periods. By contrast, results that relied on favourable commodity or weather conditions, accounting items, cost savings already embedded in expectations or assumptions of a future recovery generally received a more cautious response.

Exhibit 1: Surprise (Percent of Companies)

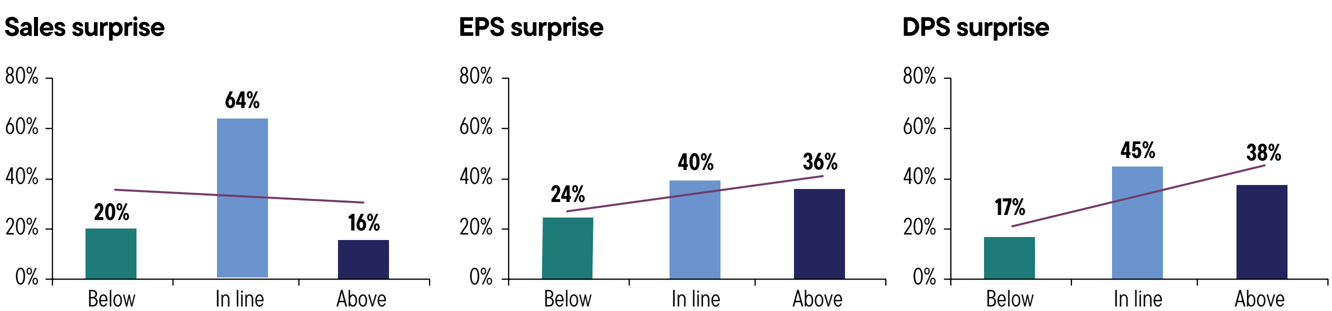
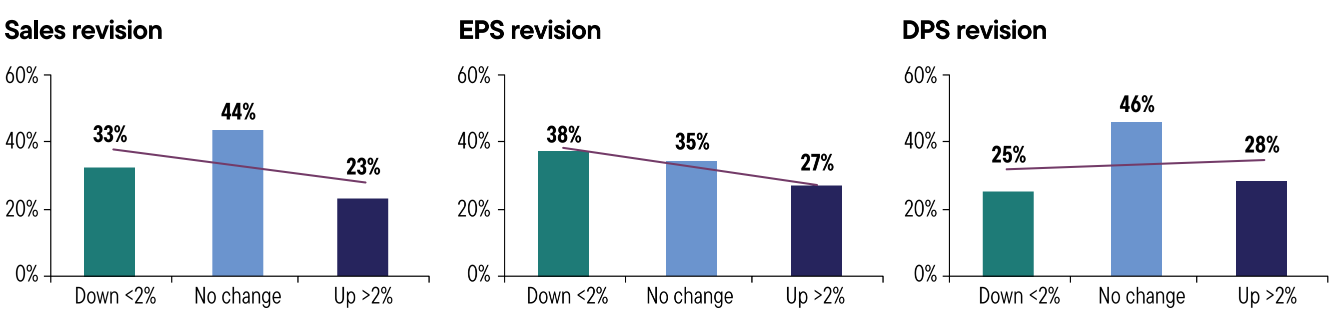


Exhibit 2: Revisions (Percent of Companies)



Looking beyond the headline: the quality of new information

Reporting season generates an enormous amount of information, from financial statements and guidance to management presentations, analyst briefings and company transcripts. Fundamental analysis remains at the centre of our process, but we are increasingly using Artificial Intelligence (AI) tools to help synthesise that information.

We have begun using AI-assisted qualitative scorecards to compare management commentary across reporting periods, assess changes in tone and confidence, and identify whether the new information being presented appears durable or transitory (Exhibit 3). This does not replace our fundamental research, rather, it helps us process a much larger quantity of qualitative information and focus our analysts on the areas where something meaningful may have changed.

One interesting finding this season related to AI itself. A growing number of companies referred to AI as a source of revenue growth or productivity improvement. But simply mentioning AI was not enough to generate a favourable market reaction. In fact, many companies promoting AI-related benefits performed poorly when investors could not see evidence of those benefits flowing through to revenue, margins or cash flow.

We see a meaningful difference between direct AI revenue, demand for AI-related infrastructure such as data centres, and the use of AI as an internal productivity tool. The latter may ultimately prove particularly valuable for established businesses that can reduce their cost base while retaining their customer relationships and existing distribution advantages. At the same time, AI can lower barriers to entry and make it easier for customers to discover competing products. This is forcing a broader reassessment of what investors are prepared to regard — and pay for — as "quality".

For much of the last decade, quality was often associated with capital-light business models, large addressable markets and persistent pricing power. In a lower-rate environment, investors were prepared to pay increasingly high multiples for businesses that appeared capable of compounding growth over long periods.

That definition is now being tested.

- **Seek** is one example. The business still trades on a relatively high multiple, but some of the characteristics that historically supported that valuation are under greater pressure. Earnings growth over the past decade has been limited, barriers to entry have weakened, and the business continues to rely heavily on pricing to support its growth algorithm.
- By contrast, businesses with physical assets that were previously viewed as less attractive can possess forms of quality that are harder to replicate. **Ampol**, for example, owns scarce infrastructure with high replacement costs and significant barriers to entry. In that context, capital intensity is not necessarily a weakness if the assets generate durable returns and competitors cannot easily recreate them.

Higher discount rates are reinforcing this reassessment. As the cost of capital rises, investors are being forced to think more carefully about the price they are willing to pay for long-duration growth, while scarcity value, replacement cost and tangible cash generation are becoming more important.

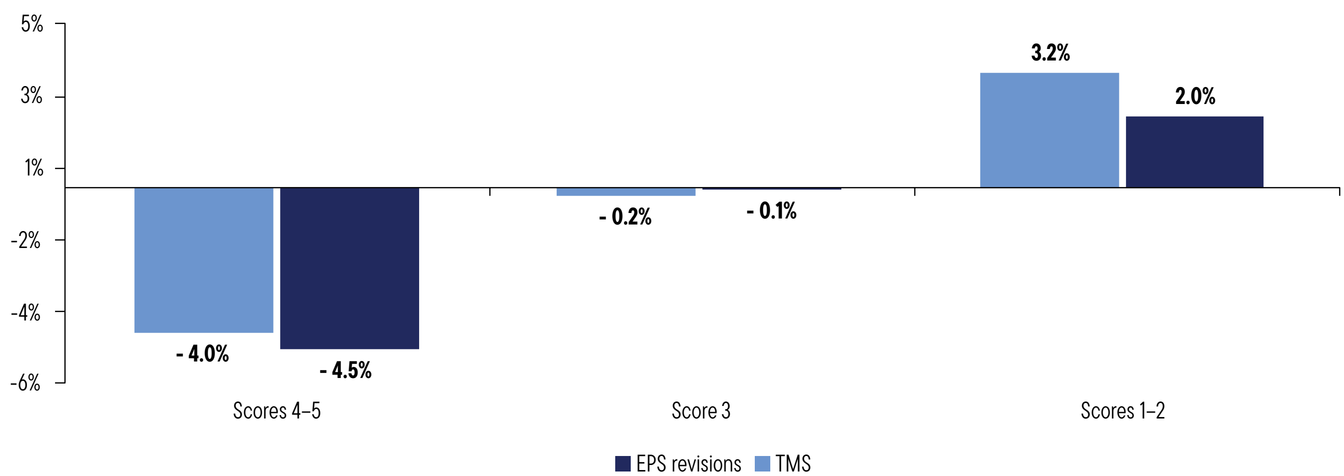
The broader lesson is that quality cannot be reduced to a single factor or business model. What is important is whether a company has durable competitive advantages, can convert them into cash flow, and can do so at a valuation that offers an attractive return.

That same principle came through clearly in our qualitative analysis this reporting season. Companies that demonstrated better pricing, genuine productivity gains and stronger cash conversion tended to produce better earnings revisions and stronger share-price reactions. Companies where the apparent improvement was driven by one-offs, or where management relied heavily on future benefits yet to be demonstrated, generally fared less well.

There were several useful stock examples:

- **Insurance Australia Group** showed the value of recurring cash generation, with stronger underlying profitability supporting acquired growth and higher dividends rather than relying solely on the return of excess capital.
- In resources, **South32's** agreement to divest its aluminium business to Alcoa was received positively. The transaction reduces exposure to a relatively low-margin, capital-intensive business with significant future rehabilitation requirements, allowing South32 to focus more heavily on assets with stronger cash-generation potential, including copper.
- M&A also highlighted how market reactions can diverge sharply depending on the quality of the underlying transaction. **Reliance Worldwide** benefited from takeover optionality following the Brookfield approach despite a difficult standalone operating environment. By contrast, the market reacted negatively to **Ingenia Communities Group's** proposed acquisition of Peet, reflecting concerns about greater exposure to development earnings, integration and dilution risk at a difficult time in the development cycle.

Exhibit 3: Qualitative Score: Average change in metric (%)



What company results told us about the economy

Reporting season also provides one of our most useful bottom-up views of economic conditions. This season, the picture was not one of uniformly weak demand. Instead, we saw a widening distinction between different parts of the economy.

Consumer demand was increasingly bifurcated.

- Value-oriented and essential categories remained comparatively resilient. Transaction growth held up reasonably well for businesses such as **Coles Group** and **Woolworths Group**, reflecting the defensive nature of everyday spending.
- By contrast, larger-ticket and housing-sensitive expenditure was noticeably weaker. **JB Hi-Fi** and **Harvey Norman** reported softer underlying demand, while promotional activity became more important in generating sales. Meanwhile, **Endeavour Group** made significant investments in lower prices as part of its strategy as it sought to improve the competitive position of Dan Murphy's.

The key distinction was therefore not simply between a strong and weak consumer. It was between areas where spending is necessary or frequent and categories where purchases can be delayed.

Business demand remained firmer.

- Infrastructure, mining services and other areas of investment continued to see solid activity. **APA Group** benefited from new contracted infrastructure demand, while **Monadelphous Group** continued to see strength across mining and infrastructure, with defence and data-centre investment also contributing.
- Data centres were one of the clearest examples of strong underlying demand this season, but here too we think investors need to distinguish between demand growth and shareholder value creation. Building data-centre capacity requires significant capital, reliable access to power and appropriate funding. Strong demand therefore does not automatically translate into attractive returns. The relevant question is whether companies can deploy capital at returns comfortably above their cost of capital.

Higher rates are becoming more visible

Higher interest rates were also becoming increasingly visible in company results. The initial impact has been felt more through demand and funding costs than through a broad deterioration in credit quality.

- Housing turnover and housing-sensitive expenditure have slowed, while higher marginal borrowing costs are reducing the economics of new development projects. This has been particularly relevant for **REITs** and infrastructure businesses with significant capital expenditure requirements, where higher financing costs can absorb a meaningful portion of operating growth.
- Within the banking sector, asset quality remained broadly manageable, but lending growth was slowing from the unusually strong levels seen earlier in the year. Management teams also presented somewhat different views of the mortgage market, with **National Australia Bank** taking a relatively cautious outlook while **Commonwealth Bank of Australia (CBA)** remained more constructive.

As overall credit growth slows, competition for the marginal borrower is becoming more intense, putting pressure on margins. At the same time, emerging corporate failures such as Bathla are reminders that credit risks are beginning to rise at the edges of the economy.

A two-speed earnings outlook

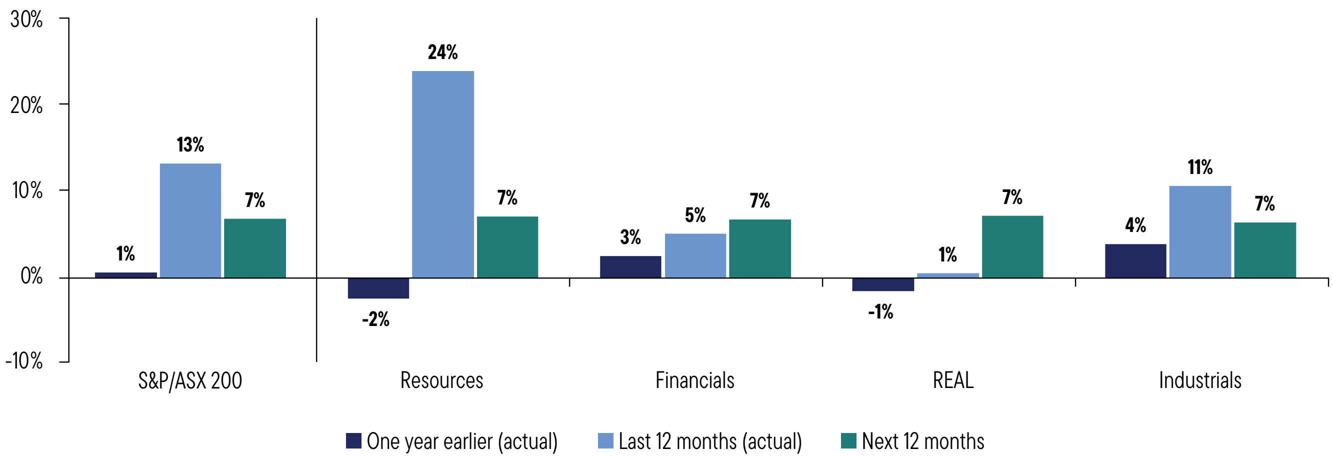
Despite these domestic pressures, aggregate profit expectations across the Australian market remain relatively strong over the next 12 months, particularly within resources (Exhibit 4). Strong commodity prices continue to support cash flows and balance sheets across much of the sector.

- Where resource companies disappointed this season, the problems were generally company-specific — production reliability, unit costs or project execution — rather than a deterioration in the broader commodity backdrop. **Northern Star Resources** and **Fortescue**, for example, demonstrated that strong commodity prices do not protect shareholders from poor operational delivery.

This creates a relatively unusual backdrop for the Australian market. Domestic conditions are becoming more challenging at the margin as higher rates weigh on consumers, housing and financing costs. At the same time, strong global commodity conditions continue to provide a powerful source of earnings and cash flow for the resources sector.

For investors, that divergence reinforces the importance of looking beneath the headline economic narrative. Even within supportive industries, company-specific execution, capital discipline and valuation remain critical. And increasingly, there is another question we need to ask: does the share-price reaction actually reflect the change in those fundamentals?

Exhibit 4: S&P/ASX 200: Profit growth forecasts vs. prior year results



From results to reactions

The answer was increasingly: not always.

While earnings-revision dispersion remained relatively modest this reporting season, the dispersion in share-price returns expanded dramatically. Companies were not necessarily becoming vastly more different in terms of their earnings outlooks, yet investors were valuing them very differently.

For us, this is where reporting season becomes particularly revealing. The arrival of new fundamental information can expose positioning that has built up through passive flows, momentum strategies and systematic factor allocations during the months between results.

Our analysis of these changing market dynamics continues to support our view that the gap between share prices and company fundamentals is creating a richer opportunity set for active fundamental investors.

Our reporting-season analysis therefore increasingly involves two related questions: what has changed in the fundamental value of the business, and has the share price moved by more — or less — than that change justifies?

It is in the gap between those two answers that we are currently finding some of the most interesting opportunities.

What is driving the price reactions

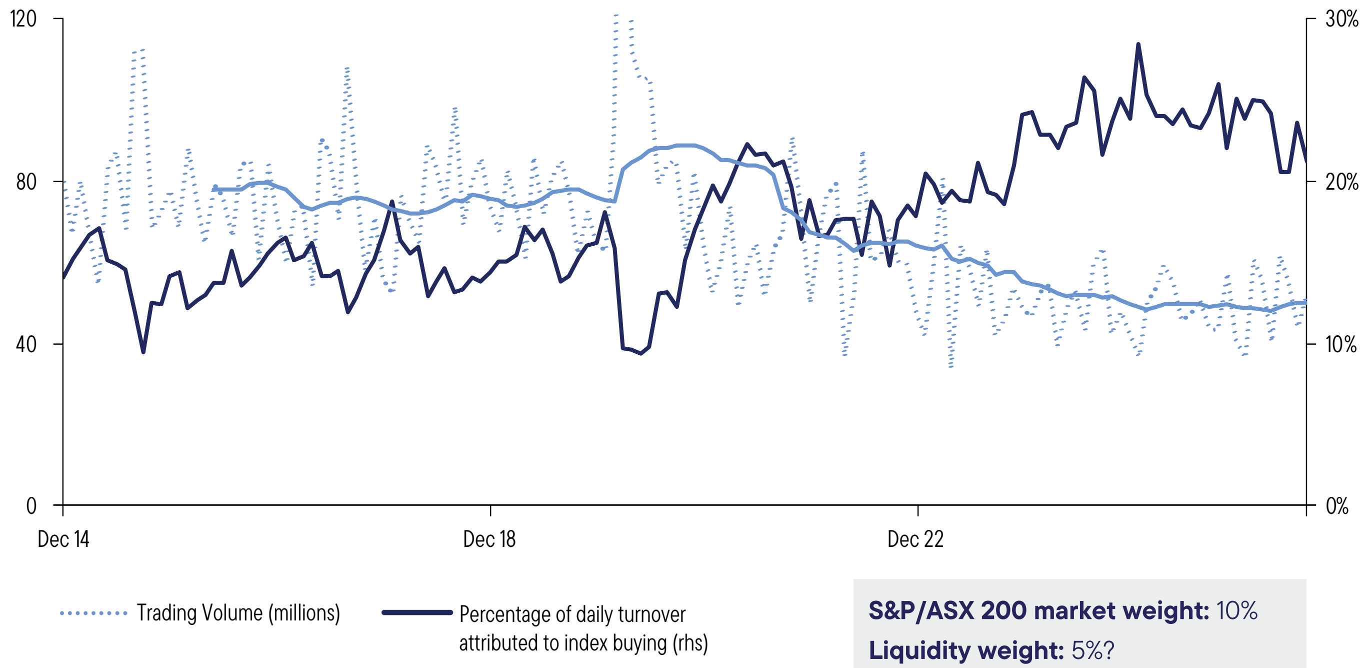
Passive flows are reshaping liquidity and price discovery

Passive flows are continuing to change the relationship between index weight, trading liquidity and price discovery in some of Australia's largest companies.

- **CBA** provides a useful example (Exhibit 5). Its number of shares traded each day has fallen materially over the past five years. CBA represents around 10% of the S&P/ASX 200 by index weight, but on a liquidity-weighted basis its share would be closer to 5%. This creates an imbalance between the amount of index-related demand for the stock and the liquidity available to absorb it.

Exhibit 5: Turnover and Volume:

Commonwealth Bank



S&P/ASX 200 market weight: 10%
Liquidity weight: 5%?

We believe these dynamics can amplify price movements and contribute to valuation distortions, particularly around periods when new fundamental information brings liquidity back into individual stocks.

Importantly, passive flows do not determine the direction of every share price. Rather, our analysis suggests they can magnify moves that might otherwise have been smaller — creating periods in which prices become increasingly disconnected from changes in underlying earnings.

For fundamental investors, we believe this is expanding rather than diminishing the opportunity for stock selection. As passive and systematic flows play a greater role in determining short-term prices, there are more occasions where the price of a company can move independently of our assessment of its underlying value.

We can see evidence of this changing opportunity set in our own portfolio activity.

- Over the past 20 years, turnover in our flagship Australian Select Opportunities portfolio has typically been around 20%. Historically, the periods when turnover increased most significantly were major market dislocations such as the Global Financial Crisis and Covid-19, when unusually wide valuation gaps created more opportunities to trade between expensive and undervalued stocks.
- Today, we are seeing something unusual. Despite not being in a conventional market crisis, portfolio turnover has risen to around 50%. That remains relatively low by broader industry standards, but for our long-term investment approach it is consistent with the level of activity we have historically seen during periods of significant market dislocation.

In that sense, the combination of passive flows, systematic investing and reduced liquidity can make the market feel like a perpetual series of smaller dislocations. Mispricing is appearing more frequently, giving us more opportunities to recycle capital from stocks approaching fair value into those where the gap between price and fundamental value has widened.

Investors currently have low exposure to Value

Passive flows are only one part of the changing market structure. The growth of systematic and factor-based investing has also concentrated a significant weight of money in similar styles and signals.

Factor investors are generally less concerned with the individual investment case for a company than with the characteristics of the basket in which it sits. Today, a substantial amount of capital is exposed, directly or indirectly, to momentum — whether through passive strategies that increase exposure as index weights rise, systematic factor portfolios, pod shops or growth-oriented strategies.

For much of the past 15 years, that positioning was rewarded, encouraging more capital to move towards the same side of the trade.

We think about this imbalance as a barbell. The weight of capital has shifted heavily towards momentum and away from strategies that typically provide a counterweight through valuation and mean reversion. Based on our analysis of Morningstar data, only around 6% of Australian equity fund and ETF assets are currently invested in Value-oriented strategies[1].

That leaves comparatively little capital on the other side of the barbell when prevailing trends begin to reverse. It also means that when a large weight of money is positioned in the same direction, the reward for taking a differentiated fundamental view can be significantly greater than simply following the crowd.

When momentum starts eating itself

For the first time outside a major market crisis in around 15 years, the momentum factor is failing as an investment strategy (Exhibit 6). Effectively, we are seeing the momentum style is eating itself.

As crowded positions unwind, prices are increasingly mean reverting. Stocks and factors can be pushed too far in one direction and then reverse sharply when positioning changes or new fundamental information challenges the prevailing view.

That was particularly visible during August. Factor exposures that had worked in the months leading into reporting season reversed sharply over the month, while stock-specific dispersion increased.

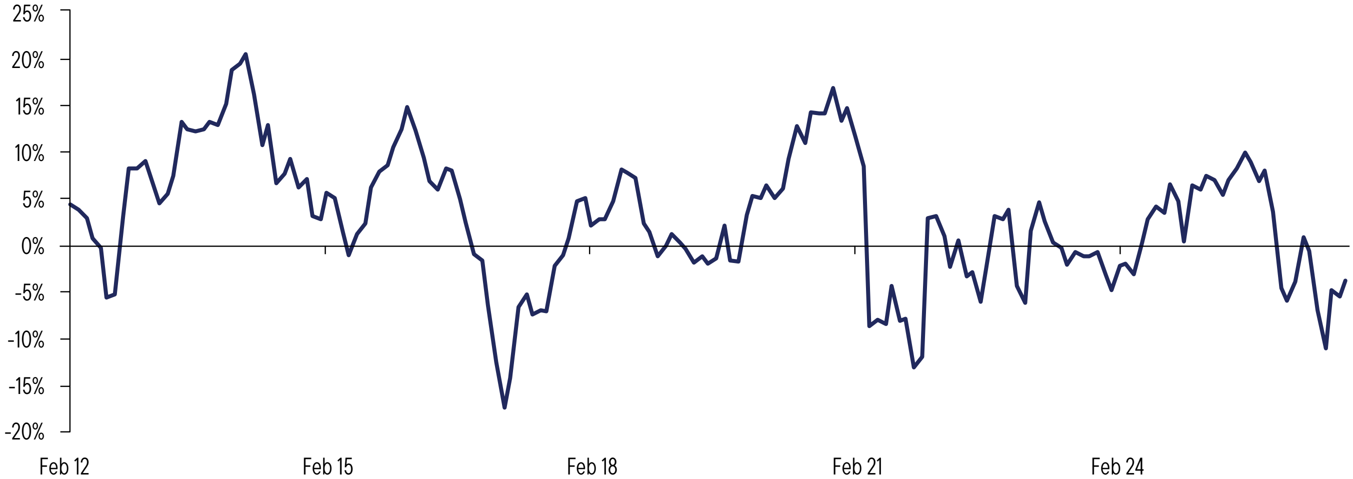
In our view, this is an important change in market behaviour. Factor returns are becoming less persistent. Put another way, the factor momentum that was a lucrative opportunity for quantitative managers over the last decade has become susceptible to frequent disruption. This has created a larger reward opportunity for getting individual stock decisions right.

For fundamental investors, this can create opportunity. Rather than following the prevailing price trend, periods of forced or momentum-driven selling give us the opportunity to reassess whether anything has actually changed in the underlying value of the business — or whether the price has simply moved too far.

[1]Based on AUM of Morningstar Australia OE Funds & ETFs Australia Fund Equity category. Value: Australia Large Value & Mid/Small Value; Growth: Australia Large Growth & Mid/Small Growth; Blend: Australia Large Blend & Mid/Small Blend. Through 30 June 2026.

Exhibit 6: 12-month Price Momentum Factor:

Rolling 12-month alpha vs. S&P/ASX 200 Accumulation Index*

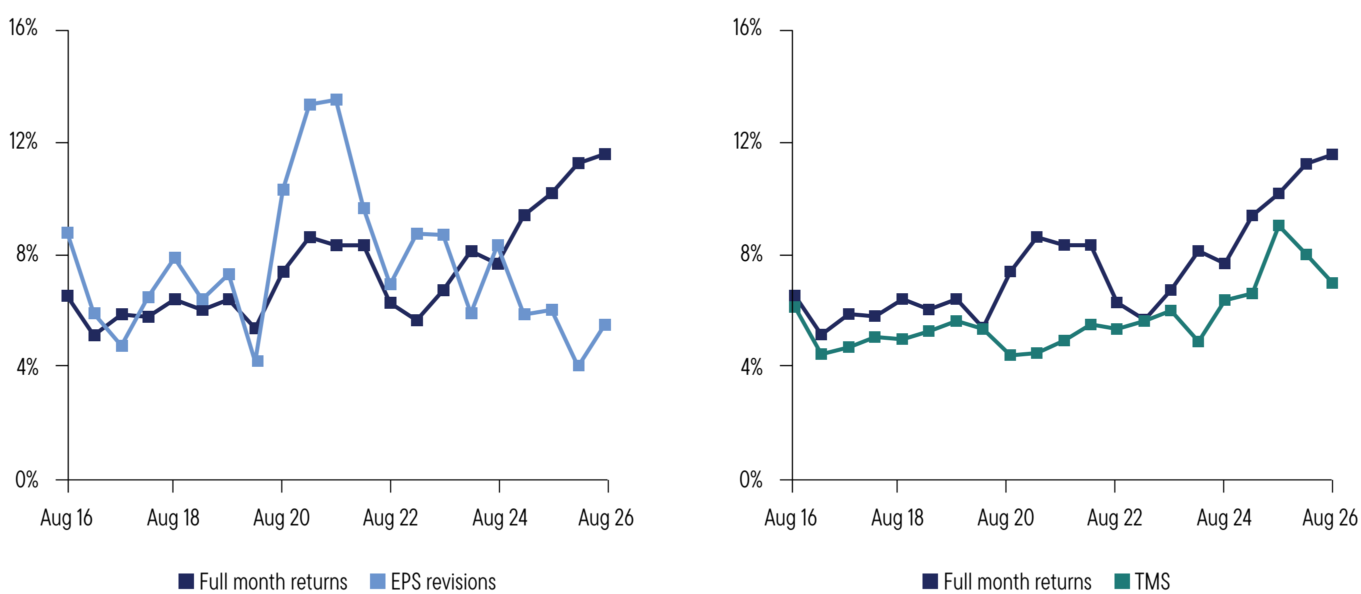


Stock performance: increasingly about the re-rating, not just the earnings revision

The growing influence of momentum and mean reversion is also changing the way share prices respond to company results.

As in the February 2026 reporting season, dispersion across EPS revisions remained relatively low. The immediate share-price response — what we refer to as the "true market surprise" (TMS) over the two days following a result — was also more subdued for the S&P/ASX 50 large caps. Yet over the full month, dispersion in stock returns reached a new high (Exhibit 7).

Exhibit 7: Cross Sectional Variance: S&P/ASX 50



Whether we look across investment styles, super sectors or economic sectors, the differences in earnings revisions were relatively modest. The differences in share-price performance were not.

In many cases, the larger driver of returns was therefore not the change in earnings expectations itself, but the extent to which a stock re-rated or de-rated around those expectations. Starting valuation and investor positioning are becoming increasingly important in determining the magnitude of the price response.

The sharp reversal in factor performance during August reinforced this point. Strategies and factor exposures that had performed strongly over the preceding 12 months reversed significantly through the reporting-season period, contributing to greater stock-specific dispersion.

For fundamental investors, this creates opportunities where the share-price move appears disproportionate to the change in the underlying business.

- **ResMed** was a good example. Its gross margin came in just 0.1 percentage point below consensus, while most other elements of the result were strong. Nevertheless, the stock fell around 9% on the day as investors focused heavily on the margin miss. Our fundamental assessment of the business had not changed to the same extent, giving us an opportunity to increase our position at a more attractive valuation. By the end of the month, the stock was around 15% above where it had started.
- **CSL** provided an example at the other end of the spectrum. The result was not particularly strong, but it was better than the market had feared. After a prolonged period of weakness, the share price had fallen to a level where expectations had become extremely low. The result was enough to trigger a significant P/E re-rating, despite only a modest improvement in the fundamental outlook.

Both examples reinforce the same point: in the current market, the size of the share-price move can be driven as much by starting valuation and positioning as by the earnings revision itself.

We are not seeking to chase those price moves. Our focus is on identifying when the market reaction creates a gap between price and our assessment of fundamental value — and using that dislocation as an opportunity to act.

Turning dislocation into opportunity

The paradox of the current market is that active managers can struggle collectively at the same time that the opportunity set for fundamental stock selection is improving.

The S&P Dow Jones Indices SPIVA report showed that 78% of active Australian equity managers lagged the index in the first half of the year. But poor aggregate active-manager performance does not necessarily mean that the opportunity set for fundamental investing is poor. The strong returns for our active fundamental strategies over the same period tells a different story.

From our perspective, the current environment is increasingly rewarding the disciplines that have always underpinned our investment process: independent fundamental research, a clear assessment of intrinsic value, an understanding of factor exposures, and the willingness to take differentiated positions when market prices move too far from fundamentals.

Our process has not changed to suit the current market. Rather, the increase in valuation dispersion, factor reversals and stock-specific mispricing is creating more opportunities for that process to work.

Two examples are **BHP Group** and **Suncorp Group** in our Australian Select Opportunities portfolio (Exhibit 8).

- With **BHP**, we liked the strategic direction of the business, particularly its exposure to copper, but in 2023 and 2024 we remained at our maximum underweight because the valuation did not offer sufficient upside. By late 2025, the share price had moved to a level that was much more attractive relative to our assessment of fair value, and we moved to our maximum overweight position.

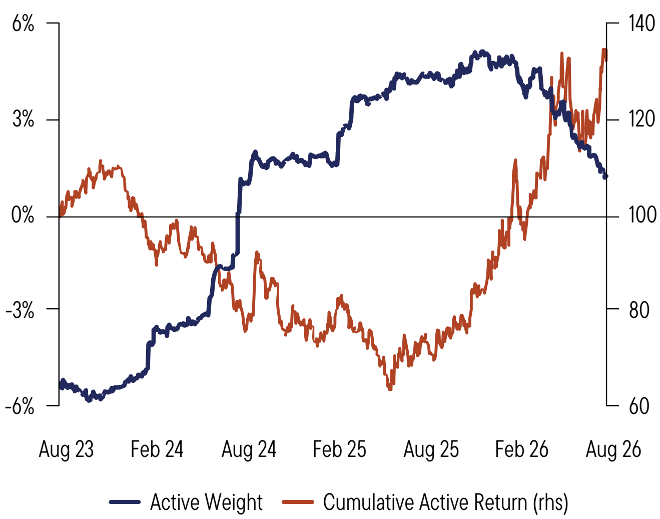
  BHP subsequently performed strongly, but as the stock moved back towards fair value, we began reducing the position. We are not permanently bullish or bearish on BHP; the opportunity changes as the relationship between price and fundamental value changes.

- **Suncorp** provides a different example. The stock sold off sharply in February 2026 as investors focused on the potential for AI to increase price transparency and disrupt insurance economics. While that may be a credible risk in some overseas markets, we believed the Australian industry structure was different, with an oligopolistic market and manufacturers retaining much greater control over distribution.

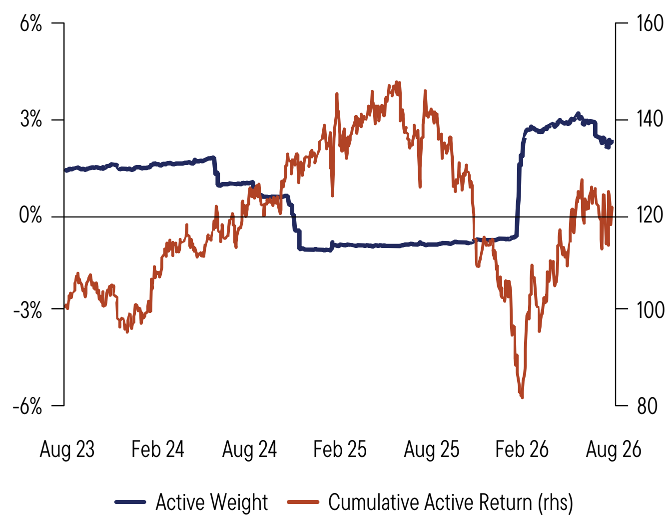
  In our view, the market had applied a global AI-disruption narrative to a business operating in a very different local market structure. We took a significant position during that sell-off, and the stock subsequently re-rated as the feared impact failed to materialise.

Exhibit 8: Active Weight vs. Active Return

BHP Group



Suncorp

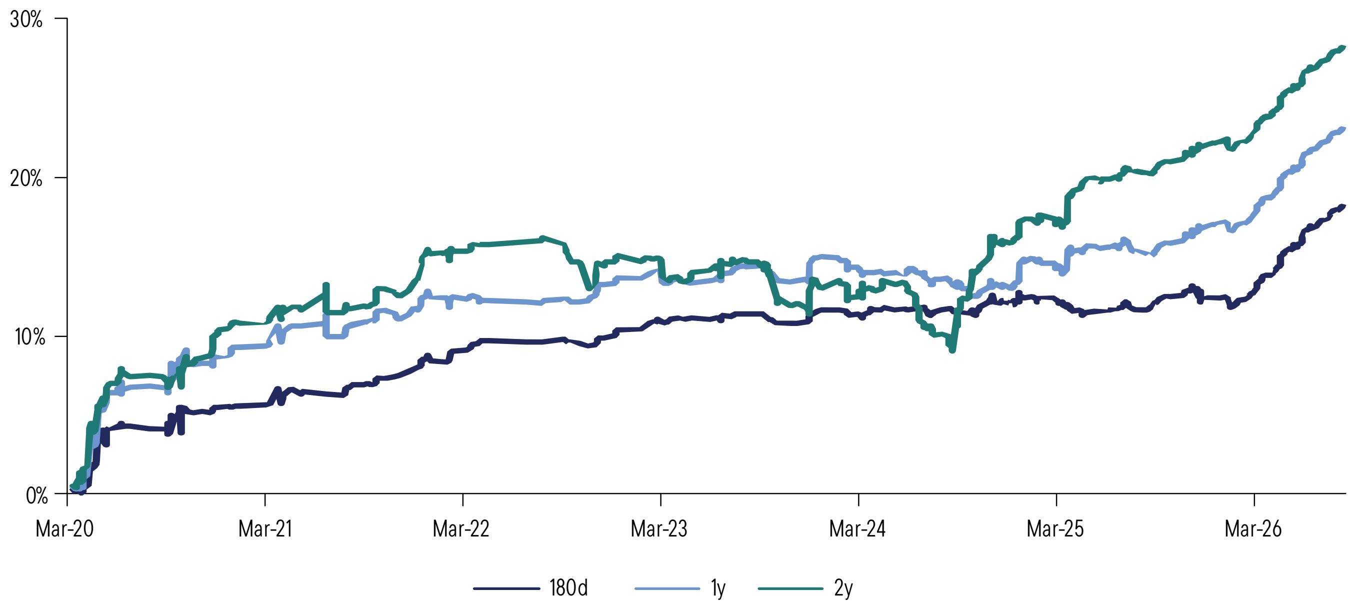


Data shown for a ClearBridge Australian Select Opportunities representative account. In A$ gross of management fee. Index: S&P/ASX 200 Accumulation.
Past performance is not a guide to future returns.

These examples illustrate how our process is working in the current environment. We are not trying to predict the next factor rotation or chase short-term momentum. We are assessing the fundamental value of each business, understanding the risks and opportunities that sit behind the market narrative, and acting when the price available gives us a sufficiently attractive return.

Our typical investment horizon is 12 to 18 months, we are not short-term momentum traders. What matters is whether the decisions we make at the point of greatest mispricing can add value over that period, and that is what we are seeing for our portfolio (Exhibit 9). As passive flows, systematic positioning and factor reversals create larger and more frequent dislocations between price and fundamentals, we believe the opportunity to apply that discipline is increasing further.

Exhibit 9: Cumulative Alpha that can be Attributed to each Trade Decision from March 2020



Data shown for a ClearBridge Australian Select Opportunities representative account. In A$ gross of management fee. Index: S&P/ASX 200 Accumulation.

Past performance is not a guide to future returns. These numbers do not represent the performance of an actual portfolio and should not be considered as an indication of future returns.

When price matters again

The August reporting season reinforced several of the trends we have been observing for some time.

Fundamentally, conditions are becoming more demanding. Consumer demand is increasingly bifurcated, higher rates are affecting both activity and financing costs, and companies are finding it harder to rely on pricing or cost programs alone to produce earnings growth. At the same time, strong commodity markets and pockets of business investment continue to provide support.

What stood out most, however, was the relationship between fundamentals and price. Relatively modest differences in earnings revisions produced much larger differences in share-price performance. Passive flows, crowded positioning and rapidly reversing factor exposures are increasing the distance that prices can move from underlying value. Higher bond yields and a higher cost of capital are adding another discipline: investors are once again being forced to consider not simply the quality or growth of a company, but the price they are paying for it.

For fundamental investors prepared to take a differentiated view, we believe that is creating a broader opportunity set. Our investment decisions continue to come from the same process we apply through every reporting season: understanding the economics and quality of the business, assessing its future cash flows and comparing that fundamental value with the price available in the market. Reporting season gives us the evidence to test those views. Increasingly, it is also giving us the volatility to put them to work.

About the author

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- 33 years of investment industry experience
- Joined the firm in 1995
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Definitions

Key Definitions for analytical review and charts

Surprise: companies where there is a difference between company reported results and broker consensus forecasts on a specific measure. Below: <-2%, Inline: between -2% and +2%, Above: >+2%.

Revisions: change in broker consensus next 12-month forecasts after companies have reported their results on a specific measure. Down: <-2%, Inline: between -2% and +2%, Up: >+2%.

True Market Surprise (TMS): the active returns of a stock from the result announcement date (T+0) to two working days post result announcement (T+2)

Disclaimers for data and content throughout

Source: ClearBridge, Quartr, various Brokers, FactSet, MorningStar Direct.

Past performance is not a guide to future returns.

Unless otherwise noted, all data is through to 31 August 2026. Data is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties.

Broker consensus data: The number of brokers included for each individual stock will depend on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days.

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The analysis of Environmental, Social and Governance (ESG) factors forms an important part of the investment process and helps inform investment decisions. The strategy/ies do not necessarily target particular sustainability outcomes.

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- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- The strategies mentioned may invest in derivatives (index futures) to obtain, increase or reduce exposure to underlying assets. The use of derivatives may restrict potential gains and may result in greater fluctuations of returns for the portfolio. Certain types of derivatives may become difficult to purchase or sell in such market conditions.
- Income strategy charges are deducted from capital. Because of this, the level of income may be higher but the growth potential of the capital value of the investment may be reduced.