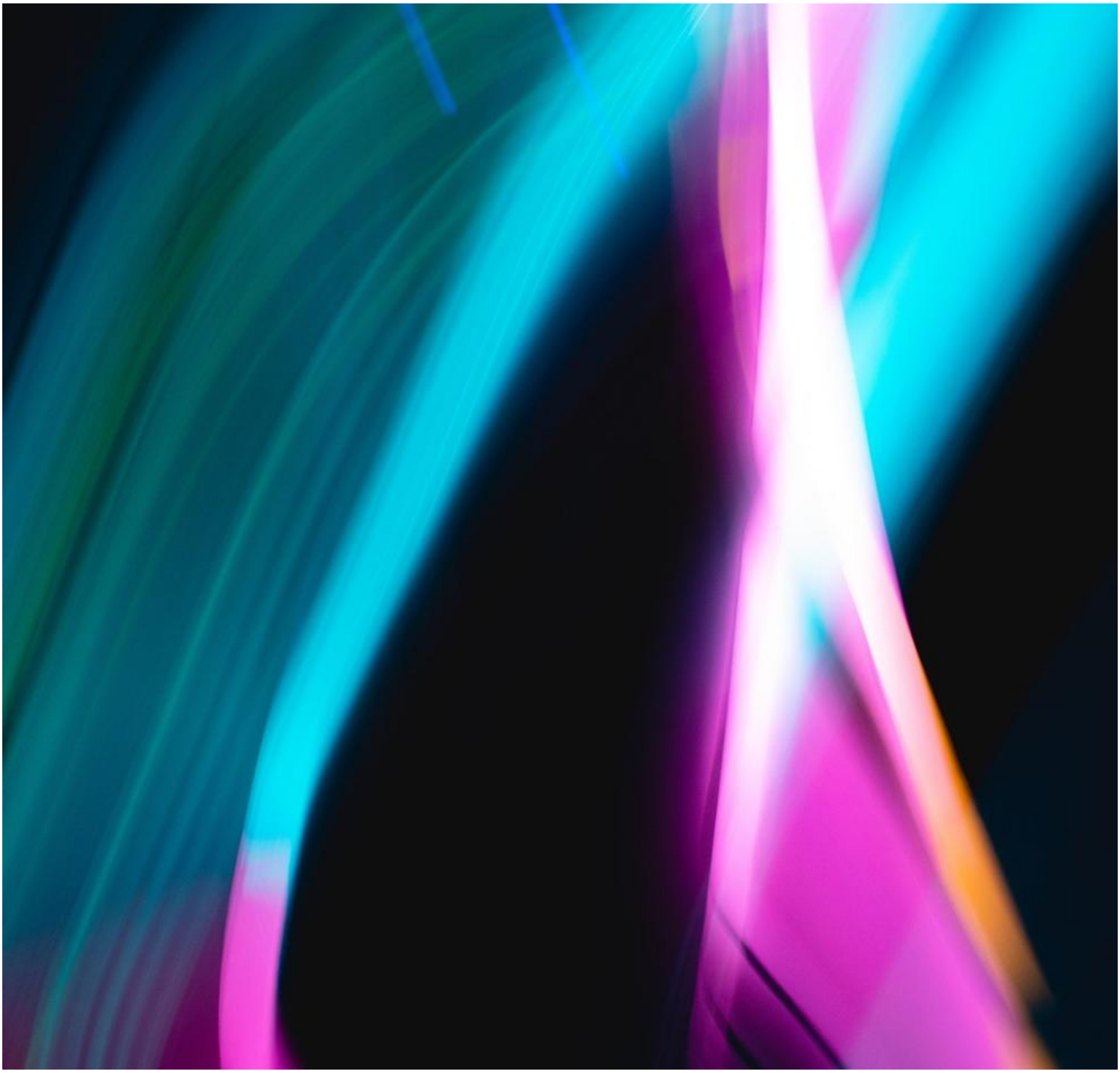
INVESTMENT ENVIRONMENT UPDATE

JANUARY

2026

PATRIZIA ADVISERS



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Prime Super

Investment Environment Update

Volatility in markets from geopolitical tensions in the Middle East, with the threat of military strikes on Iran from the US, alongside President Trump's nomination of Kevin Warsh for the next chair of the US Federal Reserve consumed markets towards the end of January. The US has moved considerable military assets across to the Middle East over the last four to six weeks with President Trump threatening military action against the Iranian regime unless they halt their nuclear weapons programs, cease funding the various regional proxy groups and stop the killing of protestors. Iran has responded firmly with a willingness to drag the entire region into war with their extensive missile capability and have replied with the will to attack all US military bases across numerous countries within the region.

While the Iranian situation has been unfolding for a matter of weeks, markets were quick to try and digest the implications of Kevin Warsh's nomination to replace Jerome Powell as the next Chair of the Federal Reserve. This nomination triggered a very large sell off in precious metals and bitcoin along with heightened volatility and weakness in equities. The reason for this is the uncertainty as to which way Warsh would steer monetary policy if he was confirmed as the next Chair. In the past, Warsh has been very critical of the Fed Reserve for continuously expanding the balance sheet, providing excessive liquidity and support to markets, along with being weak on inflation.

In recent speeches, Warsh has commented that he considers that the AI boom will drive disinflation that will in turn allow the Fed to cut interest rates even though the long-term neutral cash rate (know as R-Star) will likely be higher than that seen in recent times. Warsh also wants to materially reduce the size of the US Federal Reserve balance sheet, which would reduce liquidity and likely create a risk-off environment for asset markets, although a silver lining here is that he also wants considerable banking deregulation, including changing the asset mix that banks need to hold, which would provide a natural buyer of the US treasuries and mortgage backed securities that the Fed is currently holding. Markets are waiting and watching closely to see what Warsh says next to try and interpret whether Warsh is likely to lead the Fed in a different direction on monetary policy, or whether he will largely continue with the current approach of a very large Federal Reserve that has considerable impact on financial markets.

Asset Class Returns	January (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.30	0.91	3.89	4.12
Australian Fixed Income	0.21	-1.29	3.20	2.85
International Fixed Income	0.23	0.17	4.26	3.34
Australian Equity *	1.72	0.39	7.76	9.77
International Equity - Developed (unhedged) *	-2.75	-3.47	6.53	19.77
International Equity - Developed (hedged) *	1.71	2.56	16.64	18.58
International Equity - Emerging (unhedged) *	3.62	2.26	27.18	16.97

** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

Equity markets were generally strong over the course of January as the tailwinds of ongoing fiscal stimulus and easing monetary policy drove markets higher. The Australian dollar increased against the US dollar by 5.1% in the month of January on the back of higher inflation and higher expected cash rates in Australia, alongside the ongoing selling pressure on US assets, a trend which is likely to continue. The MSCI World (ex-Australia) index hedged to Australian dollars increased by 1.7% for the month while the MSCI World (ex-Australia) unhedged index fell by 2.7%. The S&P/ASX 200 increased by 1.7%, while Japan's Nikkei was 5.9% higher and Emerging Markets up considerably, with a gain of 3.6% for the month. Both Australian and Global Fixed Income increased by 0.2% over the month of January.

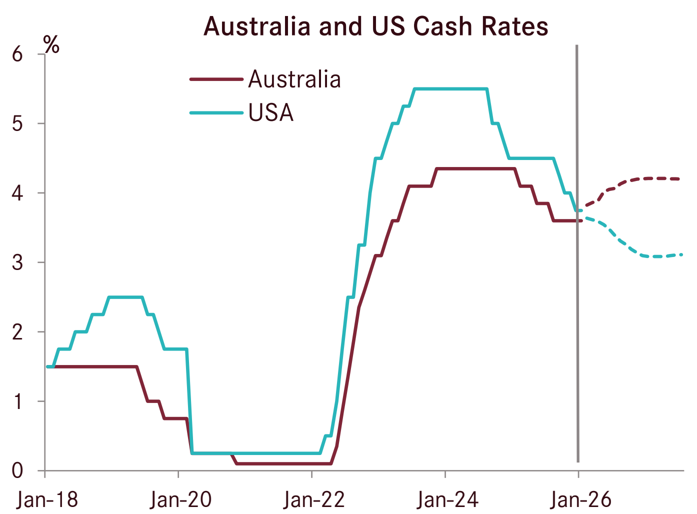
Commodity prices continued to surge with copper prices up 5.9% in January, Gold up 14.1% for the month (and up 77% over the year) while oil was 13.6% higher for the month. There were different drivers behind these gains, though ongoing geopolitical tensions, risk of war in the Middle East, strong demand for industrial commodities linked with AI and datacentre rollouts, and a number of market participants increasing their allocation to precious metals as a hedge against the fiat currencies of overly indebted countries were all contributing factors.

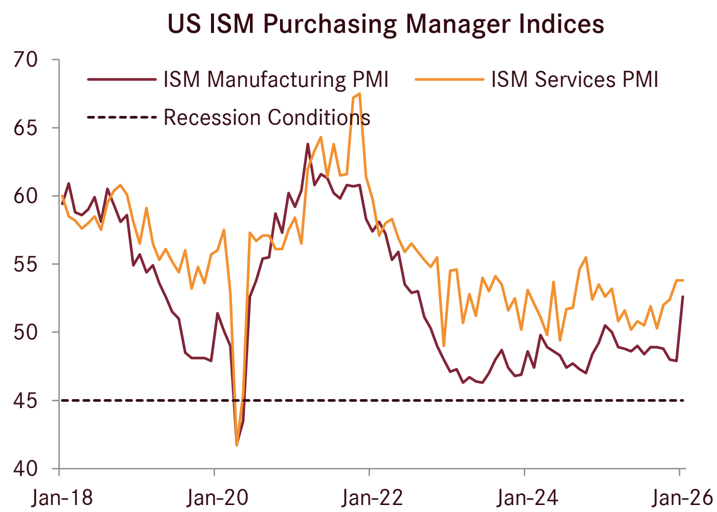
Following the US Federal Reserve reduction in the cash rate at their December meeting, there was no change at the January meeting. Markets are now pricing a very low probability of a rate cut at their March meeting, though they are expecting two interest rate cuts over the course of 2026. Markets will closely watch any shift in approach from the US Federal Reserve as the change of Chair takes place over the coming months. This could have material implications for asset price performance going forward.

In Australia, broad based strength in economic and inflation data had markets pricing in a high likelihood of an interest rate increase from the RBA at its early February meeting (which subsequently occurred with cash rates increasing by 0.25% to 3.85%). Considerable government spending (both state and Federal) along with a robust underlying economy is driving more inflation than the RBA is comfortable with, and this will likely result in the RBA continuing to put the brakes on the Australian economy until inflation gets back towards target levels. The broader strength in the economy is driving higher inflation expectations going forward and markets are now pricing in at least one further interest rate increase in 2026 from the RBA, likely to be around the middle of the year.

The US economy was mixed but generally positive in January, with clear weakness coming through the labour market as initial jobless claims surged to 231,000 in the last week of January, which was well ahead of market expectations, though poor winter weather had a very disruptive impact on many businesses and will be at least partially a key driver of this increase. The University of Michigan Consumer sentiment survey increased by 0.9 points to 57.3 points in February and marks the third consecutive increase; it was ahead of expectations and well above the recent low of 51.0 points in November. The University of Michigan one year forward consumer inflation expectations decreased by 0.5% to 3.5% in February compared to January, though the long term (5 to 10 years) inflation expectations increased to 3.4% in February, up from 3.3% the previous month.

The US ISM Manufacturing Index surged to 52.6 in January, up from 47.9 In December and materially ahead of forecasts of 48.5. New orders, production, employment, supplier deliveries and inventories all moved higher, showing a broad-based improvement. The US ISM Non-Manufacturing Index was also stronger than expectations, holding at 53.8, the same as was recorded in December and ahead of expectations of a decline to 53.5.





Source: Bloomberg

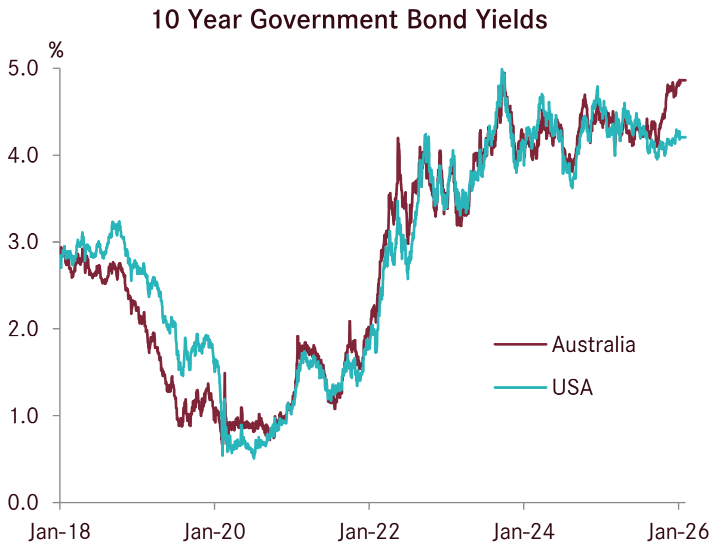
In Australia, consumer sentiment has been on a rollercoaster ride in recent months. A progressive climb in sentiment peaked in November and has since fallen sharply as stronger economic and inflation data has increased fears of higher interest rates, which were warranted as the RBA increased interest rates at its February meeting. With the RBA updating its outlook for growth and inflation in Australia, expectations of another interest rate hike have grown, this will dampen consumer sentiment and confidence. The Westpac-Melbourne Institute Consumer Sentiment Index fell back in January, with a reading of 92.9, this index is firmly in negative territory. Home buyer sentiment has unsurprisingly cooled as higher interest rates occupy the minds of those considering purchasing a property. The 'Time to buy a dwelling' Index fell by 7.1% over the three months to end January and at 89.6 is in pessimistic territory.

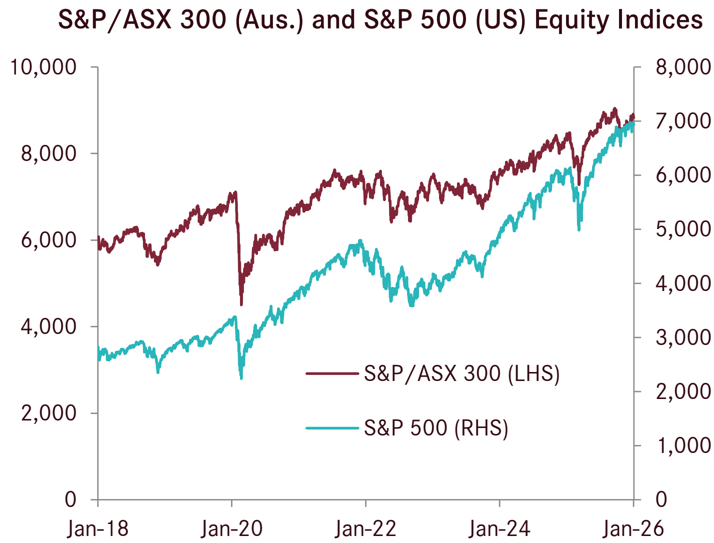
The Eurozone economy showed some modest signs of improving as the HCOB Manufacturing PMI increased to 49.5 in January and was slightly ahead of expectations of 49.4. Manufacturing lifted in Greece, France, and the Netherlands, however fell for Germany, Italy, Spain, and Austria. Input costs accelerated to a three-year high, which could push inflation higher, although output prices were flat which suggests that margins are being compressed. Business confidence improved, with expectations lifting to their highest level since February 2022. The HCOB Services PMI eased to 51.6 in January, down from 52.4 in December. The ECB left the deposit rate unchanged at 2.0% in January and is expected to be on hold for 2026. In its minutes, the ECB noted that "the economy remains resilient in a challenging global environment. Low unemployment, solid private sector balance sheets, the gradual rollout of public spending on defence and infrastructure and the supportive effects of the past interest rate cuts are underpinning growth."

The S&P Global UK Manufacturing PMI rose to 51.8 in January 2026 up from 50.6 in December, the best reading since August 2024. Driving manufacturing growth was solid export demand, stable domestic conditions, and a boost from customers restocking. The S&P Global UK Services PMI also improved with a reading to 54.0 in January from 51.4 in December. New business orders grew quickly, driven by increased client spending in areas such as digital marketing, and investment in new technologies such as AI, while household demand remained soft and construction activity generally weak. Employment continued to be weak, with staffing levels declining again, the fourth straight month in a row. Inflation rose by 0.2% to 3.4% in December and is likely to see the Bank of England on hold for the next few meetings.

Japan's economy continues to experience robust growth as seen by the manufacturing PMI increasing to 51.5 in January from 50.0 in December, the highest reading since 2022. Japan's services PMI also moved higher in January, increasing to 53.7, its tenth consecutive month of expansion. A lift in new orders, new client wins and increasing foreign demand were notable improvements. While input cost inflation eased, selling price inflation climbed to a seven-month high as firms passed on costs, driving improving margins. Business confidence fell to its lowest since July, reflecting concerns over geopolitical tensions, softer tourism demand, and persistent labor shortages. Japan's Prime Minister, Sanae Takaichi, called a snap election on January 20, keen to go to the polls with strong momentum and successfully ran a campaign on increased spending, tax cuts, lower immigration and a new security strategy.

China's official NBS Manufacturing PMI fell to 49.3 in January 2026 from 50.1 in December and was weaker than market expectations. Subdued demand conditions and cautious business sentiment continued to weigh amid ongoing structural headwinds. The NBS Services PMI fell to 49.4 in January 2024 from 50.2 in the previous month. The fall was driven by weak post-holiday demand, cautious consumer spending, and ongoing problems in the property sector.





Source: Bloomberg

Index Returns to 31 January 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	1.7	0.4	5.8	7.8
S&P/ASX Small Ordinaries Accumulation Index	2.7	2.7	20.6	22.8
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	1.7	2.6	13.2	16.6
MSCI World (ex Australia) Index (unhedged AUD)	-2.7	-3.5	5.9	6.5
MSCI Emerging Markets Index (unhedged AUD)	3.6	2.3	18.0	27.2
Property				
S&P/ASX 200 A-REIT Accumulation Index	-2.7	-4.6	0.4	1.6
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	2.7	2.8	5.4	6.4
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-1.7	-3.2	-1.3	-3.0
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	3.6	4.4	8.6	14.0
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.2	-1.3	-0.5	3.2
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.2	0.2	2.0	4.3
FTSE WGBI ex-Aust (hedged AUD)	0.1	-0.1	1.3	3.2
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	2.1	3.9
Commodities				
Gold (USD per ounce)	14.1	24.2	51.5	77.2
Copper (USD per metric tonne)	5.9	20.8	33.3	45.4
WTI Crude Oil (USD per barrel)	13.6	6.9	0.2	-10.1

Australian Dollar versus Foreign Currencies to 31 January 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JANUARY 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.70	5.1	7.0	6.9	12.3
British Pound Sterling	0.51	3.0	2.5	6.7	1.7
Euro	0.59	3.7	3.8	5.5	-1.9
Japanese Yen	108.07	3.4	7.2	14.2	11.9

Source: Bloomberg

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