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Fiducian Monthly Economic Commentary Report

1 June 2026 Conrad Burge, Investment Manager, Fiducian Investment Management Services Limited

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is forecast to slow marginally this year and next. The IMF sees the global economy as being affected by both positive influences (high levels of investment in technology, particularly in the US, as well as fiscal and monetary policy support) and negative influences (higher trade barriers and the Iran war). Global growth is forecast to be 3.1% this year and 3.2% in 2027.

The global economy is forecast to slow marginally this year, although it is still expected to expand at close to its long-term trend rate. In its latest report (April), the International Monetary Fund (IMF) is forecasting global growth to be 3.1% this year and 3.2% in 2027. In the IMF's words, 'headwinds from higher trade barriers and elevated uncertainty have been offset by tailwinds from technology-related investment; accommodative financial conditions and fiscal and monetary policy support'. It adds that 'it may very well be that current tailwinds, including those from continued fiscal policy support, will last long enough to carry the global economy through the disruptions from the (Iran) war and to a higher growth path paved by productivity gains from artificial intelligence (AI)'. Growth in the advanced economies is forecast to be 1.8% this year and 1.7% in 2027 but with risks still 'tilted to the downside'.

The IMF is anticipating US growth of 2.3% this year and 2.1% in 2027, although the US administration is expecting higher growth on the back of fiscal stimulus and new incentives for investment. Growth across Europe and in Japan is forecast to remain subdued, with most major central banks likely to keep interest rates low.

In the case of the US, the economy grew by a modest 1.6% at an annualised rate in the March quarter, with the IMF forecasting growth of 2.3% for the whole of 2026 and 2.1% for 2027, although the US administration is aiming for a higher rate of growth than this, with fiscal stimulus, reduced regulation and incentives for investment aimed at lifting economic activity over time. Despite inflation rising to its highest level in three years (3.8% in April), mainly reflecting higher energy prices due to the Iran war, the US central bank held interest rates steady at its 29 April meeting. Growth for the euro zone is forecast to remain weak (1.1% this year and 1.2% in 2027), while Japan is forecast to grow by only 0.7% this year and 0.6% next year.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with tepid growth sustained by high government spending. After raising rates three times this year, the RBA could be on hold for a while.

The Australian economy grew by 0.8% in the December quarter and by 2.6% over the year. On a per capita basis, growth was 0.4% over the quarter and 0.9% over the year, this being only the fourth quarter of per capita growth over the past 14 quarters. Growth could slip lower over coming months due to the Reserve Bank (RBA) raising interest rates in response to indications that the annual inflation rate was once again rising (a headline rate of 4.2% and a 'trimmed mean' rate of 3.4% in April). The RBA has raised its 'cash rate' three times this year (to 4.35%) but could pause for a time due to a sharp rise in unemployment in April (to 4.5%).

MARKETS

Major share markets mostly rose in the first two months of this year after trending upwards in the previous two years, mainly due to a declining interest rate environment. The outbreak of the Iran war saw markets decline in March before rising solidly in April and May.

Most share markets were on a broadly upwards trend from April last year until the end of February this year, mostly due to declining interest rates in most of the major economies. However, with the outbreak of the Iran war, most markets went negative in March before beginning to rise again in April. This year, up to 31 May, overall market movements have included rises of 11% for the broad US market (S&P500), 16% for the technology-focused Nasdaq, 5% for the UK and 33% for Japan. European markets were mostly weaker (Germany up 3% and France up 1), while India fell 12% and the Australian market rose1%.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' ('QE') in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances, although rising inflation has seen yields rise more recently.

Major sovereign bond markets have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield was pushed to a record low of 0.54% on 9 March 2020 (by 'QE') during the pandemic but touched 5.0% in October 2023 before sliding back and then rising again. It was 4.45% on 29 May this year. The Australian 10-year bond yield was 0.57% on 8 March 2020 but reached 5.12% on 18 May before dropping to 4.84% on 29 May this year. Bond yields could move higher (and prices decline) over coming months if inflation rises further due to high energy prices.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for international shares and close to benchmark for other assets.

Fiducian's diversified funds are currently above benchmark for international shares and around benchmark for domestic shares and listed property. Exposure to bond markets is close to benchmark, while cash holdings remain below benchmark.