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Chris Burrell's
Market View Blog

Reporting Season - Australia

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Reporting season in Australia completed for most companies on 31 August 2026. The reporting season was a little better than expected, with around a third of companies exceeding expectations, a third meeting expectations and a third failing to meet, i.e. being recorded as a miss.

Australia now has the US phenomenon where a number of algorithms simply wait for others to opine on whether the earnings report is a miss and will then short-sell the stock to create a negative price reaction, in a number of cases over and above the intrinsic value of the miss.

Bruce McLeary, Head of Burrell Research, has written an insightful piece on the reporting season. This is being issued concurrently in the September Bourse. If you are on a service and are not receiving The Bourse, please contact Client Services to arrange it. If you are not on a service, I would recommend The Bourse to you as a useful input into investment decision-making.

ASX profits were up 12% for the year i.e. the companies listed on the ASX. If one deducts the resources sector, ASX profits were up 5.5%. If one then deducts financials, ASX profits increased only 2.5%. This does not mean there were no good reports or attractive companies in other sectors, but resources and financials provided most of the contribution in the 2026 financial year.

On the downside, consumer-facing stocks either reported poorly or for the most part, delivered poor outlook statements. The market has dealt with poor outlook statements harshly. Myer reported weak sales in June and July, confirming that consumer discretionary is weak. Nick Scali said in its outlook statement, "It is a terrible environment.". Culture Kings was the latest victim of brutal trading conditions. The British owner of Cue Clothing has put the brand on the chopping block.

While consumer discretionary stocks are looking cheap, the difficult question is the extent to which Australian consumers are reacting to adverse government decisions, interest rates and adverse news flow.

Bruce McCleary's piece notes the positive reporting from the resources sector, including BHP, which is benefiting from strong copper prices and from iron ore maintaining its price even in the face of new production from Guinea in Africa at Simandou.

Reporting Season - USA

The US reporting season continued to be a tale of two cities: the AI sector continues to go from strength to strength, with some extraordinary growth numbers. For most of the other sectors in the US, a more pedestrian profit season was reported, not unlike the reporting season in Australia.

Sectors of the US markets continue to look like good value based on their high earnings expectations. Again, any misses were dealt with harshly by the US market. The US market is now closer to valuation with some stocks trading on multiples that are difficult to justify. However, that is a selective issue rather than an issue across the board.

Geopolitics and Inflation

The on-again off-again peace negotiations between the US and Iran are currently taking another negative turn. The difference from February is that the world has adapted to the Middle East oil crisis much more successfully than may have been expected, particularly in Australia.

Nations, including the US, with excess production and refining capacity have stepped up to the plate to meet the shortfall. Australia has been a particular beneficiary of the large BP refinery in Seattle being connected to both Canadian and US oil pipelines.

The US blockade of Iranian ports must be pushing that economy towards a critical decision point. As oil wells are shut in, this will result in a permanent loss of Iranian production. We may be closer to some resolution than the posturing would suggest.

Whatever the outcome, the world already has material inflation to deal with. Readers will recall this was the outcome of both oil shocks in the 1970s, with inflation rising, interest rates rising and recessions lasting 15–18 months.

In both Australia and the US, there have been other factors impacting on the inflation and economic outlooks.

In Australia, the Federal Budget in May 2026 was greeted with the most vociferously negative response to an Australian budget that your diarist can remember. The combination of changes to negative gearing, capital gains tax and the taxation of trusts in breach of election promises by the Albanese government, have dumbfounded not just critics but a broad swathe of the population. It may well have done what the opposition could not: put the Albanese Labor government at risk at the next election.

The degree of dissatisfaction is clearly shown in the increasing vote for Pauline Hanson's One Nation party. A key issue here is the uncertainty caused by these three proposals, with there almost being a strike of capital and certainly a loss of consumer confidence.

Housing is a mainstay of the Australian economy. The dramatic fall in auction clearance rates across Australian capital cities may raise the spectre of a slowdown in 2027.

In both Australia and the US, there has been moral suasion from the central bankers. The result in both countries is that longer-term interest rates have moved up.

In the USA, the new Governor of the Federal Reserve, Kevin Warsh, has given hawkish speeches on inflation and the need to bring it back to the 2% government band. While the markets have taken these statements at face value in both Australia and the USA, your diarist and Wayne Matthews, Burrell's Head of Fixed Interest, are not convinced that the official interest rates will be raised either by the Fed in advance of the November election or in Australia, given the softening economic statistics, including rising unemployment.

However, the speeches by central bankers have resulted in increases in the long bond rates. Some say the markets are doing the work for the central bankers. Others (a minority) are more negative, saying credit leads equities. If credit unravels, equities unravel.

There are winners and losers in these perceptions, for example, our gold stocks may be sold off if an interest-rate rise is expected, only for that move to be reversed if the anticipated September interest rate increases do not eventuate.

US vs Australia

Both the US and Australia have had to endure the Iran war. It is indeed pleasing that the 47% fall during the first oil shock of the 1970s was not repeated in Australia and portfolio returns from January to June 2026 were positive. Moreover, July has also been strong, which is pleasing.

In the US, the combination of AI spending together with onshoring of manufacturing pursuant to Trump policies has resulted in an economy stronger than Australia and, indeed, stronger than most Western world economies.Australian banks have sold off in response to the Australian budget in May with Macquarie reporting loan volumes down 20–30%: new homeowners down 10–20%, with investor loans down as much as 50%. Macquarie warned that the banking sector may be facing a pricing war. Banks have already given up their highs of six months ago. It will be interesting to see whether there is some further softness between now and Christmas. Burrell portfolios are underweight banks now in a number of instances and would welcome some additions on any further weakening of Australian bank stock prices.

With Australian core inflation the second-highest among developed economies at 3.6%, it seems that the pressure on interest rates and thus the Australian property market will continue for the remainder of 2026 and into 2027.

Another phenomenon in both Australia and the US was the so-called SaaS (Software as a Service) apocalypse. This arose from the view that artificial intelligence (AI) would make the businesses that sell software as a service vulnerable to a new AI model.

We saw material falls in prices in US stocks such as Salesforce, Accenture and Adobe. In Australia, the same theme adversely impacted SEEK, Carsales and software companies generally.

Burrell's view was that AI was more likely to be an enabler. Salesforce, for example, provides the world's leading customer relationship management (CRM) software. It has been at the leading edge of AI, offering clients the ability to use AI to gain better insights into large client bases and to add agentic capabilities.

The recent reporting season saw companies such as Salesforce in the US and SEEK in Australia report good numbers, as a result of which the sell-off has been reversed, at least to some extent. We see further recovery from the SaaS apocalypse over coming months.

Private credit is a casualty of the current environment in both Australia and the US. We have seen collapses in Australia involving Bathla and other developers. In the US, several private credit funds have frozen redemptions, never a good sign. The banks in Australia have not participated in private credit to any material extent, so the Australian banking system seems somewhat immune. But not so the industry superannuation sector, which has pursued private credit as a key theme. There is commentary that private equity firms are refusing to mark down valuations.

Last week we saw Metrics, a major Australian private credit provider with some $30B in outstanding loans, announce that it had an unsold megasite in Western Sydney with a loan balance of $300M but was receiving bids in the low $200M.

Looking forward, Burrell Research and advisers have spent some hundreds of hours on the company reports over the past two months. The old adage of time in the market versus timing the market means that where there are stocks clearly trading below their Fair Value Estimate (FVE), they should be considered as additions to portfolios. They are likely to outperform cash, hopefully by a material margin.

We see the US AI theme continuing based on strong reports from the hyperscalers. Google, for example, reported a strong second quarter, with quarterly revenue of US$120B and a 82% surge in cloud revenue to US$25B on a record 36% operating margin. Internet search revenue was up 17% to US$63B, while YouTube ads contributed US$11B. These strong numbers were somewhat offset by the market's concern around increased capital expenditure, with capex estimated at US$205B, including US$45B in the quarter. Aitken commented: AI spending and revenue is real. But valuations are strong, so making money becomes harder from here.

We continue to see upside in both Australia and the US in selected sectors and selected stocks, whilst sectors and stocks trading at high valuations without strong expected growth remain vulnerable to correction.

Happy investing.

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