

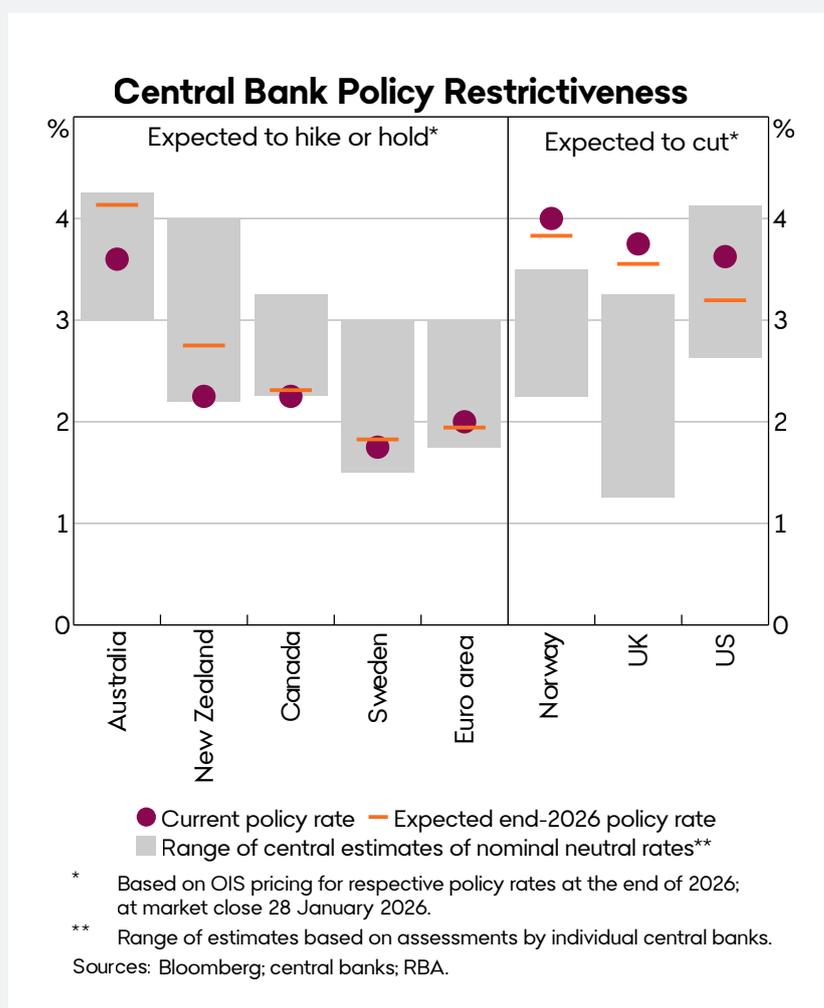
Economic and market update

Economic Overview – as at 19th February 2026

Global markets

Economic policy uncertainty amid ongoing geopolitical unease remains acute however most regions have experienced resilient growth, so easing cycles appear mature (if not complete). The notable exceptions to this are the US and UK where 'neutral' rates have taken longer to be reached. Inflation in advanced [economies](#) has been stubborn but has generally moved closer to target, while stock markets have continued to power [ahead](#) buoyed by business investment and earnings growth, albeit with uncertainty around which companies will benefit from AI and other technologies to justify elevated valuations. Risk premia remain low by historical comparisons.

The US Federal Reserve are still expected to cut the Fed funds rate two times this year despite recent stronger data (including the latest capex, industrial production, jobs and housing starts numbers all printing on the strong side). President Trump's nomination of Kevin Warsh to be next Fed Chair (seen as mildly dovish) - taking the reins in May - together with slightly lower than feared CPI data has markets [pricing](#) in around 60 basis points of cuts this year.



This combined with the growing theme of 'de-dollarisation' discussed here last month has seen further weakness in the US dollar and demand for non-US dollar denominated assets, but market volatility remains elevated. The price of gold spiked to a remarkable US\$5595 / oz as central banks continued to diversify their reserves and as speculators joined those seeking 'less risky' assets, while the price of oil rose overnight as tensions between Iran and the US resurfaced.

The Japanese Yen has also endured a volatile ride gyrating between 152 and 159 against the USD, and as high as 110.75 against the AUD (its highest level since 1990!) after new PM Sanae Takaichi won a landslide victory in the recent snap election and so has a mandate to deliver her pro-stimulus policies. These are expected to drive a weaker Yen and higher bond yields, with the BoJ expected to steadily increase official rates through the [year](#). Q4 GDP only rose 0.2% q/q as high inflation (especially food inflation) drove softness in domestic demand, but impending fiscal support (including a suspension on the 8% consumption tax) is hoped to drive stronger growth this year in Japan.

China's economy continues to appear weak with respect to household demand, manufacturing and construction, but strength in exports is offsetting these sectors along with associated industrial production. As the [IMF](#) noted in their latest report, there is still an expectation that fiscal support and other policy measures can maintain the growth rate trajectory of roughly 4-5% and that export markets will remain helpful, but there are structural challenges that still pose medium term risks.

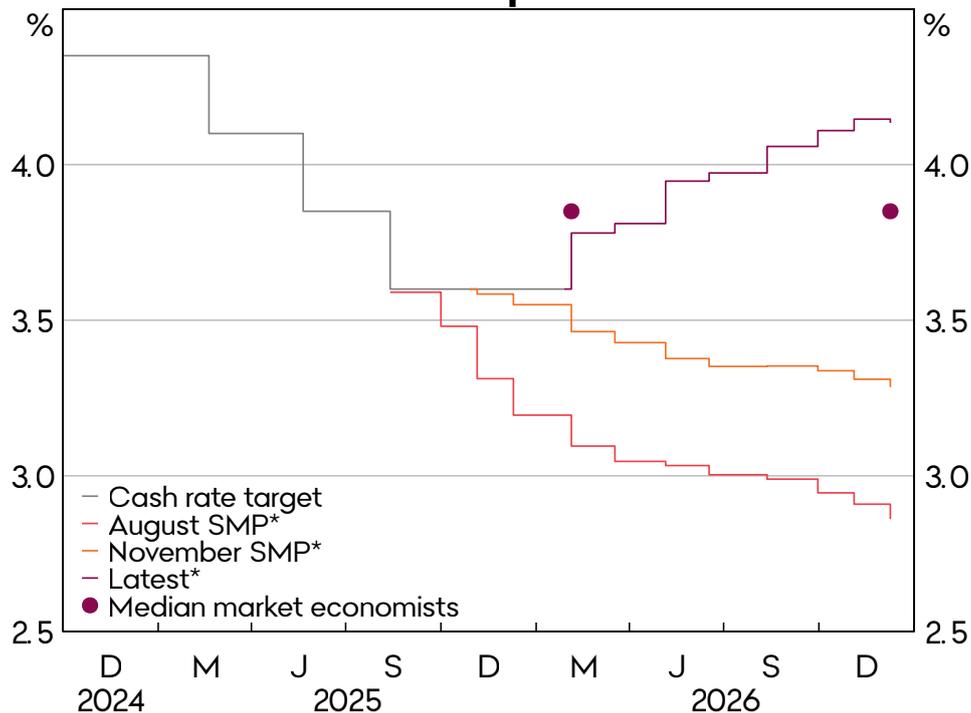
In summary, the resilience of global [trade](#) and activity to US tariffs is expected to continue, and as the RBA have noted, our major trading partners have benefited from the boom in US technology related investment. The geopolitical tensions in so many regions are unlikely to dissipate, and the fight against inflation in many countries is not over, but growth this year is expected to be resolute. As a result monetary policy support is likely to moderate, but fiscal stimulus remains a common theme - which adds to risks for bond markets in indebted economies. In the short to medium term we still favour the AI investment boom being followed by a productivity and output boom, and recent [data and research](#) suggests this is underway in the US; but its timing, magnitude and diffusion all remain a critical unknown ahead.

Domestic economy

The unanimous RBA decision to raise the cash rate to 3.85% was fully priced into markets by early February after the CPI and jobs data leading up to the policy meeting, but it marks an extraordinary change in direction with the shallowest easing cycle on record. It was less than 6 months between the 12 August '25 cut and the 3 February hike, so a surprise to most. The Statement on Monetary Policy clearly explained the sources of [inflation](#) being more broad-based and much stronger than had been expected just a few months ago, so the RBA's updated forecasts now have core inflation reaching 3.7% before steadily returning to [target](#), even with the updated assumptions of higher official rates and a much stronger Australian Dollar.

The SOMP and subsequent RBA press conferences and interviews have the somewhat conflicting themes of the urgent need to address this unexpected outbreak in inflation, but also the acknowledgement that the path ahead is most uncertain: the RBA don't appear to have any conviction as to how temporary these inflationary pressures will be, nor a skew to upside or downside risks to aggregate demand and the economy's potential output. This uncertainty about the path ahead makes sense given how quickly the outlook has changed and given 'risks to global activity remain tilted to the downside', but there didn't appear to be any consideration to keeping rates on hold (at what [had](#) been assessed to still be a restrictive cash rate) and to wait for more data. There must be a strong belief that the nominal neutral cash rate has risen, adding to the notion that our GDP growth rate is above our productive 'speed limit', maintaining an unwelcome [output gap](#). The media has been drawn to debate the role of government spending in the rebound of inflation but has potentially missed the point that the primary issue isn't too much demand, it is the lack of productive capacity due to lagging [productivity](#). Appetite to address structural reform to help with this may have risen a little with recent hints of reviewing CGT, but (as discussed in the global markets section above) AI may be the quicker, more realistic solution to lifting productivity in the absence of bipartisan policy reform.

Cash Rate Expectations



* Cash rate expectations implied by overnight index swap rates.
Sources: LSEG; RBA.

Since the RBA rate hike data has generally been on the strong side including the Wage Price Index lifting from 3.3% to 3.4% in Q4, and today's [jobs data for January](#) where trend unemployment fell again to 4.1%. Our long held view that labour markets would steadily weaken (as has been the case with our economic peers) especially as emerging technologies lowered [hiring intentions](#) has not transpired, hence the latest rate hike not being in our forecasts at all in December. Tight labour markets are yet to recede based on a range of [indicators](#) but this may be more a matter of timing than a false assumption - time will tell.

Residential property market also remain tight with a lack of supply continuing to feed into strong [house price growth](#) and as detailed in the appendix

into inflation. Prices appear likely to stabilise to an extent with supply improving and with the latest rate hike, together with the threat of more restrictive policy ahead, but housing affordability remains the problem.

The Aussie Dollar has reached our mid-year 71c target well ahead of schedule and appears well positioned to consolidate in the 67.5 to 75 cent band, given the rate hikes we had forecast in 2027 are already underway and with recent positive outcomes for global trade and key commodity prices. This in turn should be helpful with inflationary pressures from imports, so may assist core inflation in not exceeding 3.5%, but might not prevent another RBA hike in May.

Interest Rate Outlook

The RBA have quickly moved from an easing to a tightening cycle, although the quantum of this new cycle is very challenging to quantify in size and duration. The most likely outcome is another hike later this year with that timing most dependent on quarterly CPI data and trends in labour markets. May is currently a 65% chance. Beyond this we still expect that estimates of a neutral cash rate will continue to rise due to a range of factors (especially investment demand and an uplift in productivity) which would suggest mildly tighter policy settings in 27/28.

Economic Forecasts: basecase scenario

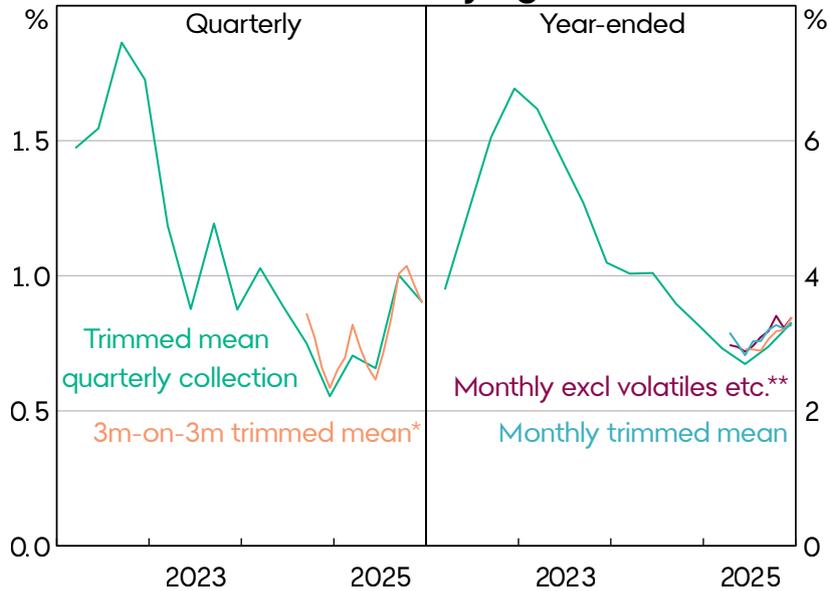
	2024		2025				2026		2027		
% (actual, forecast)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2
GDP q/q	0.3	0.5	0.4	0.7	0.4	0.6	0.5	0.6	0.5	0.7	0.7
GDP y/y	0.8	1.3	1.4	1.8	2.1	2.1	2.2	2.1	2.2	2.3	2.6
Unemployment	4.1	4.0	4.1	4.3	4.4	4.1	4.3	4.5	4.7	4.9	5.3
CPI (q/q)	0.2	0.2	0.9	0.7	1.3	0.6	0.9	0.6	1.0	0.8	0.7
CPI (y/y)	2.8	2.4	2.4	2.1	3.2	3.6	3.5	3.4	3.1	3.2	3.2
CPI (core y/y)	3.6	3.3	2.9	2.7	3.0	3.4	3.2	3.2	3.0	3.1	3.2
RBA cash rate	4.35	4.35	4.10	3.85	3.6	3.6	3.85	4.1	4.1	4.1	4.35
AUD / USD	.691	.619	.625	.658	.662	.668	.71	.73	.74	.75	.76

Benchmark rates

	31 / 12 / 24	31 / 12 / 2025	30 / 1 / 2026	19 / 2 / 2026
90-day bills	4.39%	3.74%	3.85%	3.97%
3-year swap	3.802%	4.10%	4.27%	4.31%
5-year swap	4.05%	4.49%	4.60%	4.62%
AUD/USD	.6190	.6675	.6965	.7055
ASX 200	8 159	8 714	8 869	9 086
Credit Index (iTraxx- 5 yr)	66.1	63.8	66.7	66.6

Appendix: The recent rebound in Australia's inflation rate

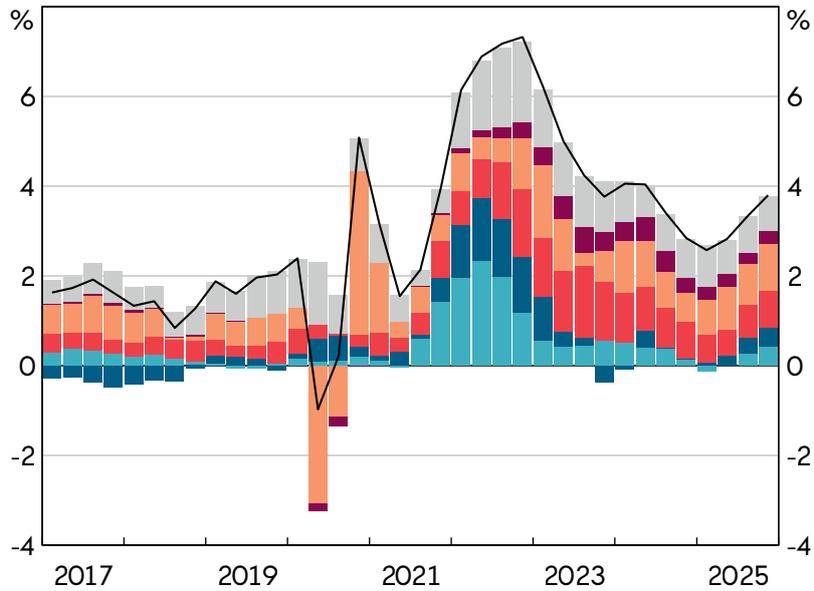
Measures of Underlying Inflation



* Calculated based on the distribution of three-month-on-three-month price changes.
 ** Monthly CPI excluding volatiles, holiday travel and electricity.

CPI Excluding Volatile Items*

Seasonally adjusted, two-quarter annualised growth with contributions

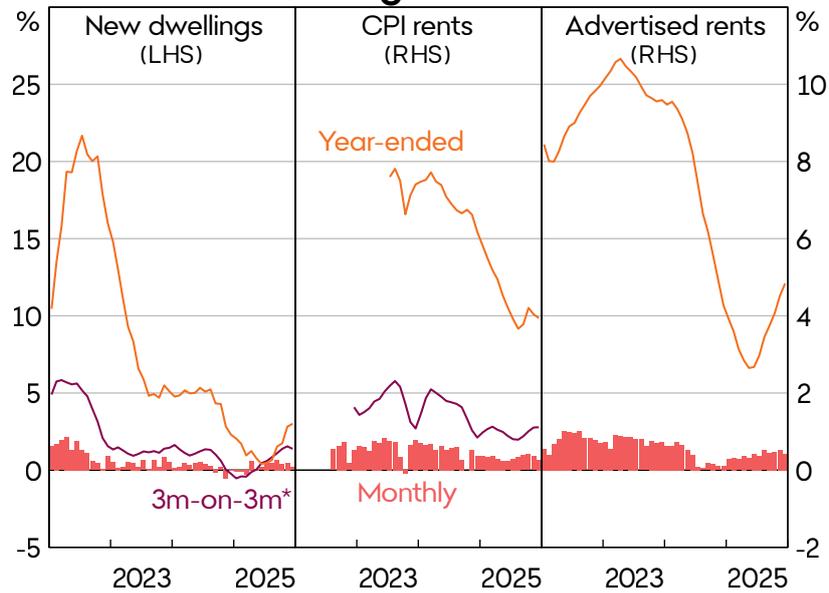


— Total
 ■ New dwellings ■ Administered prices excl electricity
 ■ Consumer durables ■ Rents
 ■ Market services** ■ Remainder

* Excluding volatiles, travel prices and electricity.
 ** Excludes domestic holiday travel & accommodation and telecommunications.

Sources: ABS; RBA.

Housing Inflation



* Three-month-on-three-month percentage change.

Sources: ABS; Cotality; RBA.

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