NORTHCAPE CAPITAL

Australian Equities

Reporting Season Review

This report provides readers with an overview of the recent Australian reporting season, where a macro-driven resources rally overshadowed company results, while signs of a softer domestic economy reinforced the value of durable margins and pricing power.

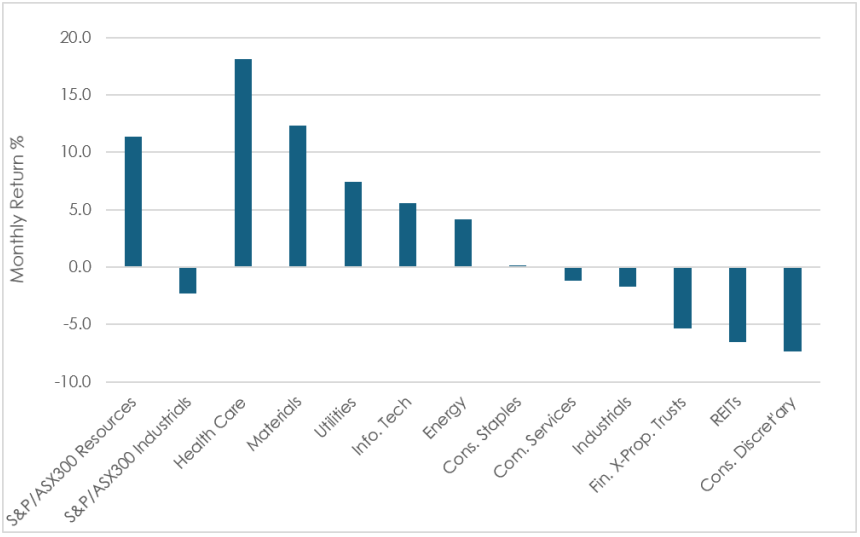
What happened in August?

Results were generally better than expected. However, market returns were dominated by global developments, particularly the aggressive rally in gold and smaller resources companies. Meanwhile, company commentary provided further evidence that the Australian consumer is slowing, albeit with limited signs of an accompanying increase in acute stress or loan losses for banks.

This combination reinforces the value of businesses capable of protecting margins in a low-productivity, inflationary environment. Companies such as Ventia, Transurban, ASX and Fisher & Paykel Healthcare have attracted less attention than resources and AI-related growth companies, but their essential assets, recurring revenue profiles and distinct earnings drivers provide valuable portfolio diversification and relative resilience.

The companies in Northcape's portfolio reported median revenue growth of 7% and EPS growth of 11%. Excluding resource company earnings, which are more volatile, these figures were revenue growth 6% and EPS growth 8%. Along with a dividend yield of 3.2%, these figures provide the basis for sustained value creation.

Chart 1: Performance through August 2026 of sectors.



Source: MSCI, FactSet

Key takeaways from Reporting Season

The market looked past reporting season

The ASX 200 rose 1.5% in August, but this modest headline return concealed extraordinary dispersion. Resources gained 11.4%, while Industrials declined 2.3%. At a sector level, Materials rose 12% and Healthcare 18%, while Consumer Discretionary fell 7%, Real Estate 6% and Financials 5%.

Aggregate results were respectable, with softer revenue offset by cost initiatives. This supported stronger than expected dividends across the market. Trading statements for the month of July and the early weeks of August were closely watched, with the equity market focusing heavily on any signs of change in trading momentum as opposed to issues of medium term or strategic significance.

However, reporting season was not the principal driver of aggregate market returns. The strongest performance came from resources companies responding to changes in commodity prices and global financial conditions, rather than material earnings surprises during August.

Gold was illustrative. Australian gold equities rose 29% during the month, compared with a 9% increase in the gold price. The commodity was supported by weaker US employment data, increased US Treasury bond buybacks and currency intervention to support the Japanese yen in late July. Many individual gold producers rose by more than 30%, especially smaller and more speculative miners.

The resources rally also explains much of the apparent strength in smaller companies. The ASX Emerging Companies index gained 14% in August, while the Small Ordinaries rose 5% and the Mid Cap 50 rose 6%, compared with a return of only 0.6% from the ASX 50. Gold and other smaller resources companies accounted for a substantial proportion of this divergence.

The performance of the Healthcare sector was driven by a 39% bounce in CSL. Earnings forecasts for FY27 were revised up by just 1% so the share price move reflects an increase in the PE ratio from 14 to 20. Investors reacted favorably to signs of stabilisation in IG sales, which account for 40% of CSL's revenue, but significant issues remain in the rest of the business.

A softer consumer, but not yet a credit event

The most consistent operating message from reporting season was that the domestic economy is slowing.

Property transactions, hiring activity, housing credit and parts of discretionary consumption have softened. Trading updates since 30 June indicated average sales growth of approximately 2%, compared with 3.5% during the February reporting season. NAB reported a 15% quarter-on-quarter decline in home-loan applications, while Westpac expects housing credit growth to moderate from 7% in FY26 to 5% in FY27.

Cyclical retail was the weakest industry group in August, declining 11%. Results confirmed that consumers are responding to higher interest rates and persistent inflation, while falling house prices have created an additional headwind for housing-related expenditure.

The response to individual results was similarly unforgiving. JB Hi-Fi fell 17% during August after a relatively modest earnings disappointment led to FY27 downgrades of 3.8%. Wesfarmers declined 11% despite producing a broadly clean result. In both cases, the market focused less on the earnings just reported and more on what weakening household demand could mean for the next financial year.

Importantly, the slowdown has not yet developed into a conventional credit downturn. Bank loan losses remain low

and measures of stress are benign. Post COVID, strong employment and accumulated housing equity provide some buffer against the pressure from interest rates and living costs. How long this persists will be a function of the severity of the current slowdown. The banks themselves produced broadly resilient results, but the sector fell 7% during August as investors responded to weaker credit growth, a more cautious housing outlook and the possibility of further interest-rate increases.

The emerging environment is one of weaker volumes and more cautious expenditure, rather than widespread financial distress. However, loan losses and insolvencies are lagging indicators, and equity markets are likely to anticipate any deterioration before it becomes visible in earnings. This reinforces the value of assessing earnings resilience before credit stress becomes material.

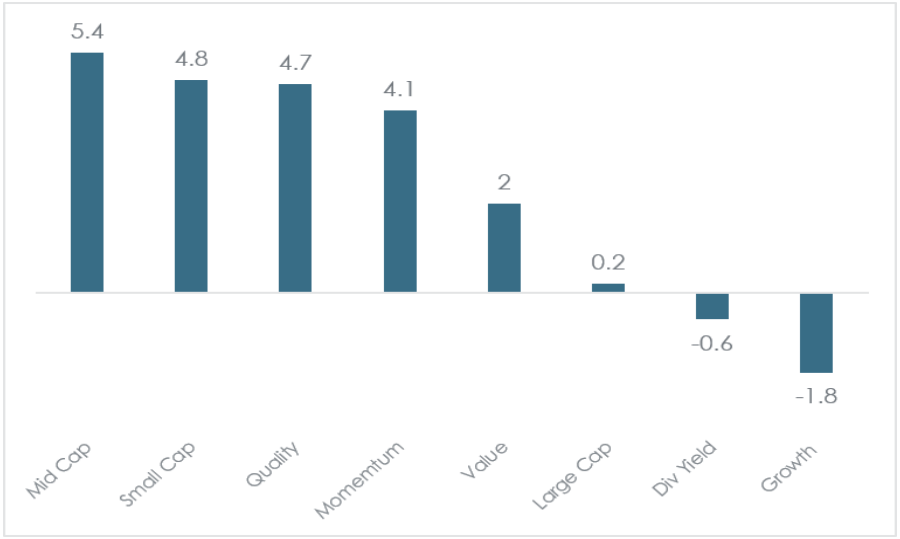
Persistent inflation increases the value of margin resilience

Australia's economic challenge is not simply that growth is slowing. Economy-wide productivity growth remains anaemic, while wages and other operating costs are proving persistent.

Weak productivity is contributing to persistent wage and input-cost pressure even as demand slows. The margin upside delivered during reporting season showed that individual companies can offset this through cost and productivity initiatives, but these gains are company-specific and are not necessarily repeatable. Pricing power and industry structure should therefore become increasingly important differentiators.

Notwithstanding the dominance of the resource sector, the Quality factor returned 5% for August, leading both Value and Growth:

Chart 2: Relative Factor Returns Last Month)



Source: MSCI, FactSet, Macquarie Research, September 2026

Diversification beyond the market's dominant themes

Global equity markets remain heavily focused on AI, data centres and the companies supplying the associated computing, power and infrastructure requirements. The long-term investment implications of this are hotly debated, but they have concentrated global market returns and investor expectations around a relatively narrow set of outcomes. Northcape's portfolio companies provide exposure to quite different earnings drivers.

- Ventia and Transurban – illustrate the value of contractual revenue and disciplined execution. Ventia increased EBITDA by 9% and achieved a record margin of 9.4% despite a decline in revenue, demonstrating the benefits of improved contract quality and project selection. Transurban's toll escalators provide inflation protection, while the essential nature of its road networks limits traffic sensitivity to a moderate economic downturn.

- ASX – recurring infrastructure revenues. ASX provides exposure to critical financial-market infrastructure. Revenue increased by 13%, supported by elevated activity. Even with increased operating investments, EBITDA margins remain above 60%. The business retains highly recurring revenues with a long track record of structural growth, whilst periodically benefitting from periods of market volatility.

- Fisher & Paykel Healthcare – structural rather than cyclical growth. Demand for Fisher & Paykel Healthcare's products is driven by increasing clinical adoption of its respiratory humidification products, supporting recurring consumables revenue and pricing power. Its guidance upgrade and positive earnings revisions during the season provided further evidence that the company's structural growth drivers remain intact.

None of these companies are entirely insulated from weaker economic conditions. However, they differ materially from each other in terms of earnings drivers and end markets, providing meaningful diversification at a time when global market returns are increasingly concentrated.

Quality becomes more valuable as conditions become harder

The August reporting season did not change our investment philosophy. It reinforced the importance of owning businesses that can perform if conditions deteriorate. In this environment, pricing power, resilient demand, consistent margins and disciplined capital allocation become increasingly valuable. These characteristics may not produce the most dramatic short-term share-price performance, particularly when resources or AI-related investments are leading the market. Over time, however, they remain central to protecting capital and compounding sustainable value.

Northcape overview:

Northcape is a boutique investment manager wholly owned by staff. We specialise in managing concentrated equity portfolios with a quality bias across Australian and Emerging Markets equities. Northcape manages over A$17 billion of investment capital on behalf of a range of global investors. We have a proud track record of achieving strong outperformance since our inception in 2004.

Australian Equity Fund:

The Core Australian Equity Fund is a high-conviction portfolio of quality Australian companies with a 22-year track record of outperformance. Fundamental investment research is focused on identifying businesses with sound balance sheets, strong management, above average growth prospects, high returns on equity and a meaningful competitive advantage. We are patient investors with a long-term investment horizon. The outcome is a low-turnover portfolio of carefully selected businesses that delivers resilient and sustained performance for clients.

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