The Linara Lens

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Our perspective and insight

Markets in April: delivered a sharp reversal versus the March lows. Equities rallied strongly as an extended ceasefire in the Middle East reduced immediate escalation fears and reignited enthusiasm for the secular technology theme. Developed market equities gained 9.4% and emerging markets surged 13.3%, as hyperscaler earnings confirmed the AI infrastructure cycle is accelerating. The ASX 200 gained 2.2%, now flat for the year, dramatically underperforming. Bond markets told a different story, with yields rising on what we read as renewed inflation concern. Brent crude settled at USD 118/bbl with the Strait of Hormuz still only partially functional. The Australian dollar rose strongly.

Key Themes

The AI Capex Cycle: Proof of Concept or Point of No Return? Microsoft, Alphabet, Meta and Amazon collectively raised their 2026 AI infrastructure budgets to USD 700–725 billion, more than triple the group's combined spend in 2024, with analyst consensus now projecting over USD 1 trillion in 2027. Critically, the results distinguished between businesses demonstrating revenue conversion and those writing large cheques without clear timelines. Google Cloud grew 63% year-on-year; AWS at 28% recorded its fastest growth in 15 quarters; Microsoft's AI run rate crossed USD 37 billion annualised. The market rewarded proof of conversion. In our view, the clearest beneficiaries remain the picks-and-shovels layer of the AI value chain – memory, advanced semiconductors, data centre power and enabling infrastructure – where supply constraints are tightest and pricing power is clearest.

The RBA: Back to the Peak. With no April meeting, markets spent the month awaiting the May decision. The March quarter CPI print of 4.6% headline confirmed the RBA's hand, and the Board delivered a third consecutive 25bp hike to 4.35% on 5 May, fully unwinding the 2025 cuts and returning the cash rate to the peak of the prior cycle. The Board's language left scope for further hikes.

Our Portfolios: delivered strong absolute and relative returns in April, continuing a period of outperformance across all strategies. The **Linara Balanced** portfolio returned +1.6%, the **Growth** portfolio +3.0%, and the **High Growth** portfolio +3.8%, outperforming their respective benchmarks by +0.1%, +0.8% and +1.0% for the month. Over one year, the Growth portfolio has outperformed its benchmark by +5.5% and High Growth by +7.2%.

The Linara equity strategies delivered strong absolute and benchmark-relative returns over the month. The **Global Equities portfolio** returned +9.18% in April, outperforming the MSCI World ex Australia benchmark by +4.74%, driven by concentrated semiconductor and technology hardware positions. Over one year the portfolio has returned +23.17%, outperforming its benchmark by +8.11%. The **Global Infrastructure portfolio** returned +1.94% in April against a benchmark of -0.68%, an active return of +2.62% for the month, and over one year has returned +18.72% against a benchmark of +5.34%. The **Australian Equities portfolio** returned +4.51% for the month, outperforming its benchmark by +2.33%.

How to Position: In our view, the AI infrastructure cycle is well-supported by current earnings data and appears to be accelerating, but selectivity matters, capex-heavy narratives without clear payback timelines should be avoided. Infrastructure sits at a compelling intersection: defensive assets offer inflation-linked income; AI-linked power, digital networks and grid infrastructure offer structural growth. We favour this combination of infrastructure alongside selective global equity exposure, emerging markets, and actively managed domestic equities. On the defensive side, we prefer investment grade credit and active alternatives over duration. Currency hedging is retained given AUD strength. Commodity exposure is maintained as a stagflation hedge. The RBA's tightening cycle is a headwind for rate-sensitive domestic assets and we position accordingly.

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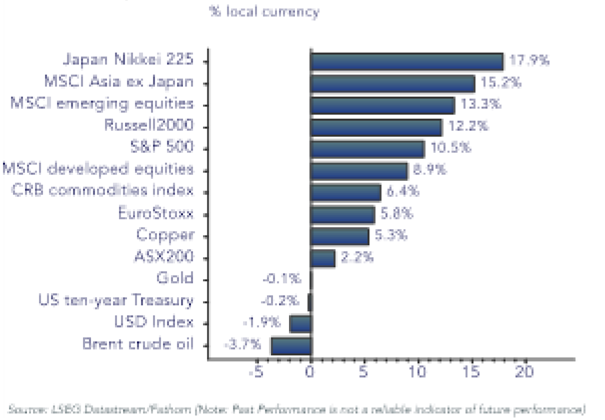
Markets in April

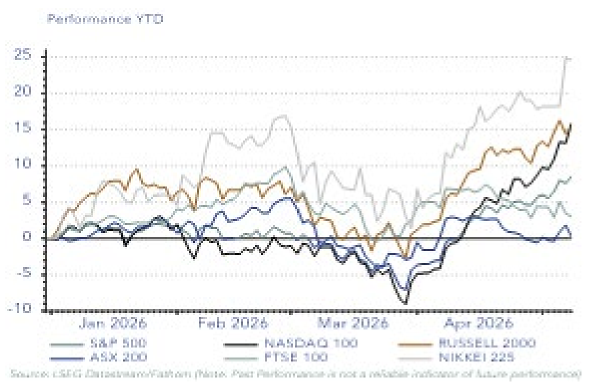
April delivered a sharp turnaround from the lows of late March. Equities rallied strongly as an extended ceasefire in the Middle East reduced immediate escalation fears and the release of new AI models reignited enthusiasm for the secular technology theme. Bond markets told a different story, with yields rising across major economies as investors repriced inflation and rate expectations in the wake of persistent energy supply disruption.

Chart 1: April Asset Class Performance



Developed market equities gained 9.4% over the month, led by the United States and AI-adjacent Asian markets. Emerging markets surged 13.3%, with Asia ex-Japan the standout, up 15.2%. Korea and Taiwan leapt 33.9% and 22.7% respectively, driven by the direct read-through from hyperscaler earnings to semiconductor demand. The MSCI World Index is now up 10.5% in local currency terms for the year to date. The S&P 500 gained 10.5% for the month as earnings season delivered strong top-line results across technology.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2026)



In Australia, the ASX 200 gained 2.2% in April and is now flat for the year, materially underperforming global markets. IT (13.2%), real estate (8.1%) and materials (4.3%) led sector returns. Healthcare (-8.7%), consumer staples (-4.1%) and energy (-2.7%) lagged, as falling oil prices from ceasefire relief weighed on energy names. In the small cap space, the Small Ordinaries rose 3.3%, with IT (14.6%) and materials (6.4%) the key contributors. European equities gained a more modest 4.9%, with ongoing energy import concerns keeping returns in check.

Fixed income continued to struggle. The Australian 10-year government bond yield rose 9bps over the month to 5.07%, reflecting a higher inflation starting point relative to other markets and a more hawkish RBA. The US 10-year Treasury yield rose 7bps to 4.39%, while shorter-dated yields moved more, with US 2-year Treasuries up 9bps as markets priced out rate cuts further. In credit, investment grade spreads retraced earlier widening and are back near record tights, with global investment grade returning 1.3% and global high yield 1.9% over the month. The resilience in credit spreads reflects healthy corporate balance sheets and strong earnings, offsetting macro headwinds.

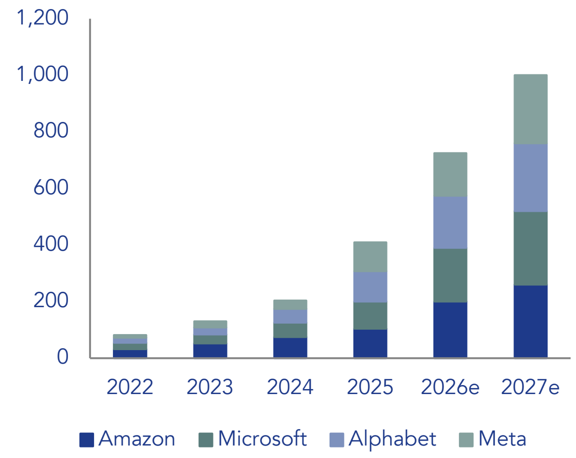
Commodities were volatile; Brent crude fluctuated sharply through the month from 90 to an intra-day high of USD 126 per barrel, before settling at USD 118 at month-end as the Strait of Hormuz remains only partially functional. The Australian dollar was a major beneficiary of the month, rising 5.0% against the greenback as risk-sensitive currencies recovered, widening interest rate differentials supported carry flows, and the market priced in the May RBA hike. The AUD is now one of the top-performing currencies year to date.

Key Themes

The AI Capex Cycle – Proof of Concept or Point of No Return?

The most significant event of April did not occur in geopolitics or central banks – it occurred late in the month when Microsoft, Alphabet, Meta and Amazon reported Q1 2026 results. In our view, this provided a clear signal that this AI cycle build out is not slowing in the near term. Combined 2026 capital expenditure guidance from the four hyperscalers rose to approximately USD 700–725 billion, up nearly 77% on the prior year and more than triple what the same group spent in 2024. Consensus estimates we have reviewed now project the four-company total could exceed USD 1 trillion by 2027.

Chart 3: Hyperscaler AI Capex Spend



Amazon has guided to approximately USD 200 billion of capex for the year. Alphabet raised its 2026 guidance to USD 180–190 billion and flagged a significant further increase planned for 2027. Meta lifted its range to USD 125–145 billion, and Microsoft is running at an annualised pace approaching USD 190 billion. Approximately 75% of this aggregate spend is directed toward AI infrastructure: data centres, GPUs, high-bandwidth networking and advanced packaging.

But the market reaction separated two types of results. Alphabet's shares rose sharply on the print because Google Cloud revenue grew 63% year-on-year to roughly USD 20 billion, direct evidence that capital is converting into customer demand. Microsoft's AI business is now running at a USD 37 billion annualised revenue rate, up 123% year-on-year. Amazon Web Services revenue grew 28% to USD 37.6 billion, its fastest pace in 15 quarters, and Amazon's cloud backlog reached USD 364 billion. In these cases, the investment cycle is clearly working.

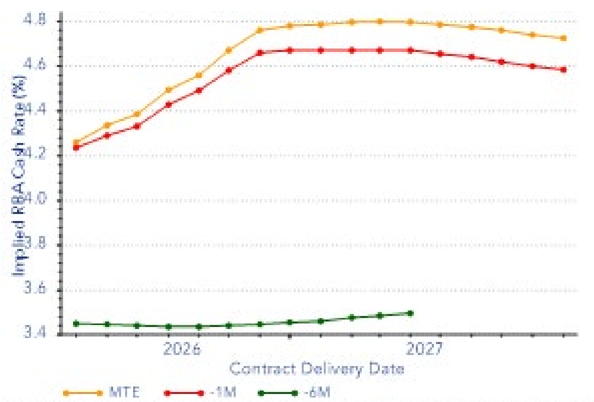
However, Meta's capex raise came without a sufficiently clear roadmap for how the spending converts into earnings. This distinction between businesses demonstrating revenue conversion and those writing large cheques without clear timelines is the new fault line in AI investing. Markets are no longer willing to apply uniform enthusiasm to AI exposure. The question being asked in every analyst call is the same: when does the depreciation catch up?

The risk to monitor is the payback timeline, not the capex number. The cycle appears self-reinforcing: hyperscalers are competing for capacity, which is driving up component prices, which is itself pushing the aggregate number higher. If cloud revenue growth remains at current rates, the return on capital case strengthens. If growth disappoints, the depreciation load becomes significant. For now, a roughly USD 2 trillion aggregate backlog of data centre rental contracts across the major hyperscalers suggests demand is not the constraint — supply is.

The RBA: Back to the Peak

While global equity markets rallied in April, Australian domestic conditions grew more complicated. There was no RBA meeting in April, but markets spent the month pricing the May decision following the release of March quarter CPI data on 29 April. Headline CPI rose to 4.6% year-on-year in March, well above the RBA's 2–3% target band, driven by fuel costs, energy subsidy expiry and persistent non-tradeable inflation at 4.6%.

Chart 4: RBA Rate Outlook Repriced Significantly



The RBA hiked 25bps on 5 May, taking the cash rate to 4.35%, the third consecutive increase this year and a full unwind of the 2025 easing cycle. Governor Bullock acknowledged that the geopolitical backdrop has materially complicated the inflation-growth trade-off. The Board's language left the door open to further tightening.

Consumer confidence has fallen sharply, business confidence collapsed 29 points in March to its lowest outside of the COVID period, and auction clearance rates are dropping. The RBA is tightening into a slowing domestic economy while global equity markets rally on AI earnings. That tension creates a real risk for domestically exposed assets in our view.

How to Position

April's equity rally was genuine, driven by real earnings and accelerating AI investment. In our view, the April rally was earnings led rather than a multiple expansion alone. However, the rally is concentrated, and that brings some risk, as does the lack of equity risk premium.

In Australia, the recovery sits alongside rising bond yields, a hawkish RBA, stubbornly elevated energy prices and a domestic economy showing early signs of stress. Portfolios need to participate in the recovery while remaining robust to the scenarios where disruption or inflation persist.

Defensive

Bond markets remain a complex environment. Despite some risk-off periods, bonds have not behaved as a traditional safe-haven hedge. Government bond yields rose further in April as markets priced out near-term rate cuts and reassessed inflation risk. We retain a cautious stance on duration, preferring shorter-dated and higher-quality exposures where income generation is now even more attractive.

Investment grade **corporate bonds** have remained resilient and balance sheets are generally healthy, though spreads near record-tight levels leave limited cushion against a deterioration in fundamentals. We continue to prefer investment grade over high yield, where rising funding costs and energy input pressures create default risk for lower-quality issuers, especially in Europe. Within **defensive alternatives**, we favour strategies positioned to benefit from dispersion, capital structure seniority and rising defaults, rather than strategies requiring sustained spread compression.

Growth

Australian equities have recovered modestly but gains are narrow, and stock dispersion remains high. The IT sector's outperformance in April reflects the AI read-through, which is real but limited. A hawkish RBA and softening consumer sentiment create headwinds for domestically exposed stocks – property, consumer discretionary and rate-sensitive businesses. We favour active management and selectivity over index exposure.

In our view, **global equities** currently offer the most attractive opportunity set for growth-oriented investors. The AI infrastructure theme is delivering in earnings, and the beneficiaries are spread across geographies. We continue to favour exposures that we advocated buying on a pullback in March; the hardware and enabling infrastructure layer of the AI value chain: memory, advanced semiconductors, data centre buildout and high-bandwidth networking. This argues for continued weighting toward the US, Japan, and selected emerging markets. Despite lagging, we think European markets are looking at a higher inflation, lower growth scenario like Australia.

The fundamental case for **emerging markets** remains intact. Near-term risks, a stronger USD, higher energy import costs, and global growth uncertainty, have partially reversed in April, providing support.

The traditional case for **infrastructure**, stable cash flows, inflation linkage, long-duration earnings, regulatory protection, remains intact and is well-supported in a world of elevated yields and geopolitical uncertainty.

What has changed is the emergence of a second, higher-growth layer within the infrastructure universe: the physical backbone of the AI economy. Data centres, power generation and transmission, fibre networks and cooling infrastructure are at the intersection of two of the most powerful structural forces in the market – the AI capex cycle and the energy transition. This creates a rare combination within a single asset class: assets that provide defensive, inflation-linked income on one side, and assets with genuine structural growth tailwinds on the other.

Rising yields are a near-term headwind to valuations, but the earnings and cash flow outlook for well-selected infrastructure assets is improving, not deteriorating.

Property continues to face headwinds from rising yields in the short term. Domestically, the RBA's tightening cycle is weighing on valuations and transaction volumes. We prefer value-add strategies domestically and listed markets globally, where rate divergence and more favourable valuation dynamics provide a better risk-reward profile.

Commodity exposure remains a useful hedge in a potentially stagflationary environment, and we encourage clients to add or maintain it.

The **Australian dollar** continued to strengthen in April and is now one of the best-performing currencies year to date. Australia's commodity export status provides structural support, and RBA hawkishness adds a carry advantage. We have retained currency hedging on international equity positions for now, anticipating that AUD strength may have further to run before the picture becomes clearer on global growth and energy supply normalisation. We are actively examining our hedging.

Luke Hansen

Linara Investment Team

13 May 2026

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