



The RBA won't ring the bell at the top

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Every interest rate cycle produces its own consensus, and this one is no different. The cash rate is at its highest since 2011 and some of the major banks expect it to go higher, while households are gloomier than at any time since the early 1990s, including the global financial crisis and pandemic.

The Firmus initial public offering spectacularly crashed and burned despite artificial intelligence powering ahead, and yet even with all the pessimism, the sell side is resolute that it's too early to buy the "RBA pivot". The disconnect between market pricing and earnings fundamentals in quality property stocks is compelling.

I'm not so sure that the Reserve Bank of Australia will tell us when it is time. It never has, and it won't now, which means that investors who are waiting for the permission to turn will likely find the opportunity has passed by.

The share market's playbook around rate cycles is where most get it wrong because there is no consistent playbook for an RBA pivot. There is an average, and averages hide a great deal of variation.

According to Macquarie, across the seven easing cycles since the early 1990s in Australia, the S&P/ASX 300 Index has done everything from falling 13 per cent to gaining 31 per cent in the first year after the first-rate cut. It climbed in fewer than half of those 12-month periods.

Consumer stocks have been no more predictable. Cyclical retail stocks have generally outperformed, but by margins ranging from deeply negative to better than 25 per cent. That is not noise around a rule, it is because every cycle has its own unique characteristics. This one has an energy shock, an AI capex boom, heavily asset-rich households and a global rate hike cycle that comes against robust economic growth.

Anyone who tells you how consumer stocks will behave by pointing to the median of past cycles is describing history, not necessarily this cycle, which means the playbook is a guide, not something to follow blindly. The second problem is timing. The RBA will be the last to call the turn, and while that is not by design, it will make sure it doesn't declare victory until the data proves it can.

The language will soften only once the evidence is overwhelming. By then, the market will have done the work. In 2024, the RBA held the cash rate at 4.35 per cent, refused to rule out another increase, and it did not cut until February 2025. Yet investors who waited for that signal watched equities and house prices move well before it. The data shows that early-cycle sectors such as retail tend to bottom near the end of a hiking cycle, not after the first-rate cut.



Source: The Australian – Jake Nowakowski

The third issue, and I say this with some sympathy for the forecasters, is that expectations around the RBA have been wrong more often than right over the past 12 to 18 months. In September 2024, the case for a rate pivot was being made with conviction; the first cut came five months later. By mid-2025 the market had the cash rate falling towards 3.1 per cent, and six months later it was pricing in rate increases.

As recently as August, almost every economist expected the central bank to hold in September and leave the cash rate at 4.35 per cent. A month later, 33 of 34 were calling for a rate rise. Forecasting is difficult, but that means less reliance should be placed on making the right call on the RBA and more on whether stocks are pricing in a worst-case outcome on either rates and/or earnings.

So, where does that put us? There is no expectation that we are on the cusp of a turn in housing or consumer activity but without a macro catalyst, scaling into cyclical and rate-sensitive exposure is how we believe the cycle will play out. Especially when the return differential between consumer cyclical and consumer staples is more than 30 per cent over the past 12 months or when real estate has underperformed the broader S&P/ASX 200 Index by more than 25 per cent over the same period.



The earnings downgrade cycle has further to run, but investor tilts are either built slowly, as the balance of risk and reward shifts, or in a hurry, after a catalyst forces everyone's hand. While the second approach is "safer", in my experience it is usually more expensive because you are buying certainty and the market charges a premium for it. That may mean accepting some mark-to-market pain for being early, but this is in exchange for owning the asymmetry before the crowd wants it.

Which brings me to the key question: what's in the price? Harvey Norman trades on about 12 times forward earnings, while JB Hi-Fi is below 15 times. Earnings estimates have been cut across the board, and short interest remains elevated. The de-rating has already been aggressive, but is there more bad news to come? Almost certainly.

But that isn't the question. The question is whether what comes is worse than what is already priced? For a growing number of businesses, the answer is no. Specifically, we are gradually starting positions in some domestic consumer names where earnings have been resilient.

Wesfarmers, which derated from 34 times to 26 times, will grow sales through category additions, while margins expand through direct procurement. Universal Store Holdings also has internal levers that will help weather the storm and the use of private label gives them greater control over cost and price due to less reliance on larger brands. They are also undertaking an aggressive store rollout that will drive sales growth.

Property is another area. We are avoiding pure duration trades, but with rates nearing a peak, the disconnect between market pricing and earnings fundamentals in quality property stocks such as Charter Hall is compelling. Despite growing funds under management and delivering double-digit earnings growth, Charter Hall is trading on a 15-times. Having derated about 40 per cent from its late-2025 high multiple, it creates an attractive entry point with significant valuation support.

There is always a risk of being too early, but experience has taught me that peak pessimism is when you start moving against the crowd. The RBA won't give permission, and by the time it does, the price will have moved.

Let's Keep Talking

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