TenCap

Letter from the CIO

November 2026



# What a mess

Jason Todd, CFA
Founder / CIO

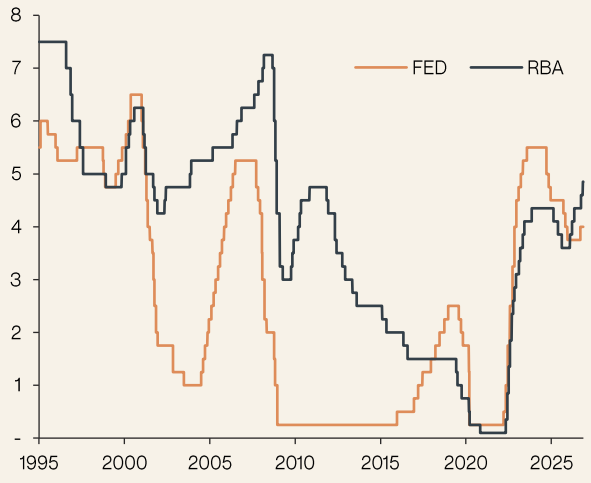
## What a mess

***Offshore, bond yields are close to multi-decade highs. Central banks that were cutting a year ago are raising rates again and oil prices are moving like a yo-yo. Credit spreads have widened meaningfully for junk debt, and good luck trying to raise capital at a reasonable rate if you're a data centre or neocloud. And that's just the global economy.***

For Australia, we are in the midst of what looks like the fastest housing correction on record. Consumer sentiment is bouncing around recession-like levels and borrowing costs are uncomfortably high. On top of household gloom, business failures (insolvencies) are surging and forward orders – a reasonable sign of where sales are headed – have collapsed.

### *RBA rate rises are now restrictive*

*Price Index*




*Source: Bloomberg*

Then there is policy. The RBA, which has been asleep at the wheel for the better part of the last five years, has now woken up with a vengeance, raising rates five times this year. What's more, Canberra has picked this moment to rediscover fiscal discipline, the right instinct but at the wrong time. And then there is immigration, one of the few things holding up growth, which is at a crossroads, with the two major parties promising to make cuts as they counter One Nation's poll surge.

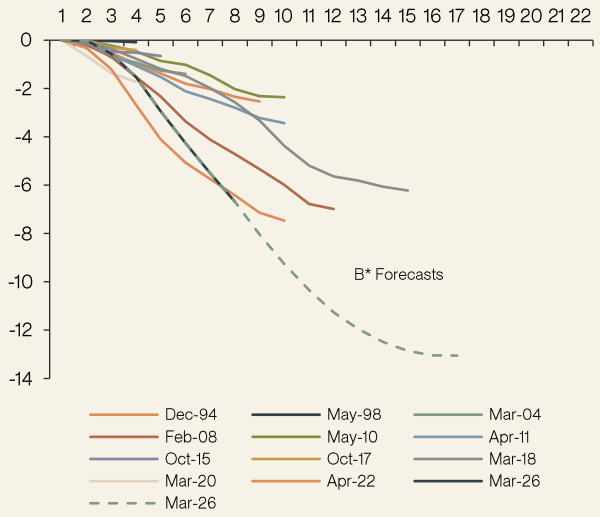
Then we get to the press. Newspaper columns are negative with sell-side analysts, economists and strategists falling over themselves to be more bearish than the last person because this is a backdrop where optimism is dismissed and pessimism applauded.

To state that this is a challenging backdrop might be obvious, but I have seen much worse. Markets are volatile are a lack of consistent leadership is making it hard for fundamental stock pickers, but they remain well loved.

Many of the major indices are close to highs including the ASX200 and other global benchmarks. Leading economic indicators are still inching higher and the economic growth outlook is solid heading into 2027 despite tightening financial conditions. Corporate profitability is strong – albeit supported by the AI ecosystem – and there remains a strong whiff of how to make money rather than how to protect it.

### House prices are falling fast

*Australian National Average House Price Change*




*Source: Barrenjoey Economics*

I think the backdrop for markets remains solid. It might not feel this way, and it might be hard to wade through the noise, but markets don't suffer from the normal ills which precede a prolonged period of weakness or a sharp correction. The economic outlook is neither a big drag nor a big tailwind. Bond yields have risen significantly but for the most part have been absorbed. Oil prices are off their war-driven peak and credit spreads, while higher, do not pose a systemic risk for corporate borrowers at this stage given the availability of credit is still high.

Importantly, investors have not capitulated on risk assets and there does appear to be reasonable buying when markets have put together a few down days. Perhaps the most encouraging development is that weakness across tech has not infected the broader economic or market outlook – something we were not entirely sure of a few months back. Certainly, we are not seeing

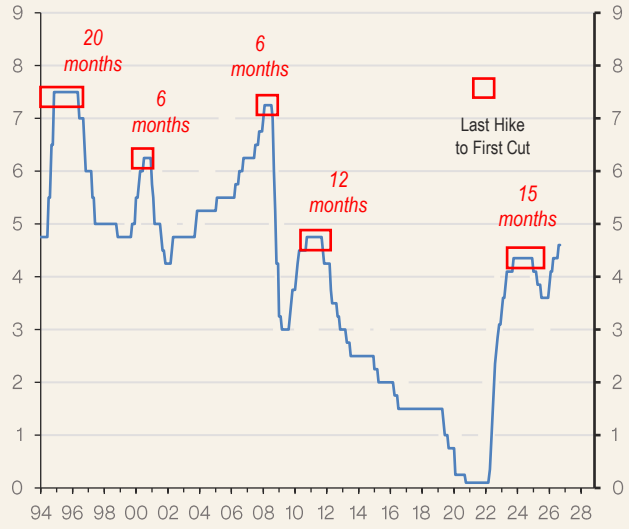
unbridled optimism, but equally we're trading a long way from the pessimism levels that headlines (or confidence measures) would suggest.

### Competitive Pessimism

Why so much bearishness then? I think it's a classic symptom of where we are in the cycle and I call it *"competitive pessimism"*. When the macro is this bad (or this uncertain), analysts and commentators don't get penalised for being bearish. In fact, they get rewarded. Everyone converges on a negative view and then goes one further. Morgan Housel put it best: "pessimism *just sounds smarter and more plausible than optimism"*. If you tell people everything will be fine, they shrug, but if you tell them they're in danger, you'll have their full attention.

## RBA – Last hike to first cut ~12 months

*RBA Cash Rate %*




*Source: UBS Economics*

I think we have fallen into a vicious circle where we're being consumed by a negative narrative that costs the people spreading it nothing. For investors, the question is when you want to step out of this and whether you'll get paid to do it. Perhaps we're already there for some areas of the Australian equity market.

My Ten Cap co-founder, Jun Bei Liu, recently summed this up in an AFR Market Minds column (*"I'm not waiting for the RBA pivot to dive back into the ASX"*) where she states that you must be prepared to accept some mark-to-market pain for being early, but this is in exchange for owning the asymmetry before the crowd wants it.

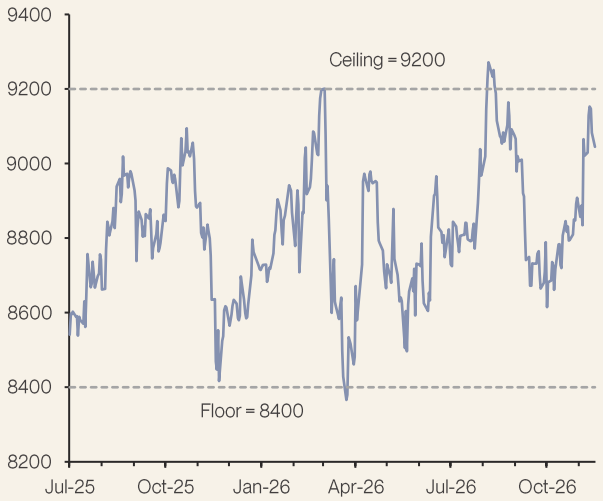
In other words, you're looking for when the downside risk becomes less than the upside potential and you're prepared to take a position regardless of whether you can time the bottom. If peak policy rates are the trigger for getting comfortable with the outlook, then it's hard to look towards economists for confirmation of this signal. Three months ago, they expected no more rate hikes. A month later, that had swung to multiple hikes, and just a few weeks ago it swung back to no more hikes. All courtesy of the RBA's yo-yoing communications. Did the data change that dramatically? I don't believe so, but the assessment of the RBA's resolve did.

Let's stand back from the noise and make some points about the outlook. The shift from hiking to cutting is rarely as drawn out as the consensus assumes. Historically, the gap between the RBA's last increase and its first cut has been a year, and sometimes much less (only 6 months). The board doesn't announce the turn. It edges towards it, first by dropping its tightening bias, then by describing policy as sufficiently restrictive, and only then by moving. November's decision was the first hint. The language will change before the decisions do, and markets will move on the language.

What about the data? Let's take housing as a starting point. Capital city values have fallen more than 8 per cent in seven months – the fastest decline in Cotality's four decades of data. The consensus reads the speed of decline as a sign of how far there is to go. But why should house prices keep falling if borrowing costs are no longer rising?

## *ASX200 rangebound despite risks*

*Price Index*




*Source: Bloomberg*

House prices are set at the margin by what buyers can borrow, and every rate rise cuts borrowing capacity, which, alongside policy changes to negative gearing, is why this correction has been so fast. But once rates stop rising, why should this downward pressure not begin to abate? Why should buyers not feel more confident? Why should prices keep falling – as many now forecast – until late 2027? If buying an investment property is about the economics, then why would the economics not swing back into favour of the investor at some stage?

In 2022, values fell 8.4 per cent in under nine months, then turned higher in early 2023 while the RBA was still hiking. Prices didn't wait for the first cut. They bottomed once the market could see the peak. If 4.85 per cent is the peak, the bear case needs a new driver. A sharp rise in unemployment would force sales, but the RBA has it drifting only towards 5 per cent.

Buyer hesitation feeds on rising rates and tends to reverse once they stabilise. Slower population growth argues for a slower recovery, not a longer fall. And a credit squeeze like 2017–19 would need APRA to act – unlikely. I don't forecast house prices, *but the speed of this fall isn't a warning that it will persist*. I see it as meaning the correction is front-loaded, and most of it is already behind us.

The slowdown has further to run, but we are not at the starting line, and the equity market will not wait until the data or the RBA turns. It needs to be confident that the driver (in this case policy rates) and financial conditions are not expected to worsen and that the trajectory of growth and earnings is already embedded in expectations. Trying to time the bottom – the bottoming process – is not the objective.

## Don't expect an obvious turning point catalyst

Our objective is to put the noise to the side and look at whether the downside risks are recognised and priced in. This does not happen all at once for cyclical and rate-sensitive stocks. It happens gradually, exactly like it does when the cycle is peaking and the most vulnerable stocks begin to weaken first and the most resilient hold up the longest.

At the bottom, the most heavily discounted stocks bottom first and the most resilient follow. It's hard to get right, but the pattern is consistent. It's all the noise around this process that detracts from it and the unwillingness to gradually take on the risk required because there will be bad news, earnings downgrades and doubts about rotation into riskier cyclically exposed areas on the horizon.

I think the RBA is done. Every piece of poor news and/or data strengthens this view. The slowdown was in train before the RBA lifted rates for the fifth time; the Bank simply chose not to wait. It appears to me that the "consensus" wants to wait for the February announcement to provide confirmation for what it currently "suspects" to be the case. The forward curve has just 8bps of further hikes priced in before it starts to price in cuts. Admittedly, a full 25bp cut isn't priced in at any point in 2027 based on current estimates, but given how fickle these forecasts have been, I'll bet on the direction rather than the timing or pace – and it's lower from here. Stocks will bottom with variable lags to policy tightening and that means its not time to get bearish. Quite the opposite.

Jason Todd & the Ten Cap Team

TenCap

# Let's Keep Talking


*Sydney*

Level 4, 151 Macquarie Street,
Sydney
NSW 2000, Australia
+61 2 7241 4388

*Investor Relations*

info@tencap.com.au
**tencap.com.au**


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