Fidelity Australian Equities Fund

Australian banks face renewed pressure - Why CBA remains the exception

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Australia's banks have returned to the centre of investor attention as renewed rate uncertainty and market volatility reopen the debate between valuation, earnings resilience and franchise quality. Against that backdrop, the Fidelity Australian Equities Fund remains underweight banks overall, reflecting our view that the sector continues to trade above medium-term fundamentals in aggregate. However, within that sector underweight, Commonwealth Bank of Australia (CBA) remains an overweight position, reflecting our preference for this high-quality franchise in a sector where we otherwise see limited medium-term upside.

Valuation versus quality

The recent negative market reaction to CBA's Q3 2026 trading update created a familiar debate around valuation versus quality. While headline valuation metrics remain elevated relative to both domestic and global peers, our investment case has never relied on the stock appearing statistically "cheap". The core thesis is that CBA continues to strengthen competitive advantages that have historically translated into superior returns, resilient earnings and sustained market-share gains across core banking segments.

The latest update reinforced that view in several important respects. Credit growth remained strong, with home lending and business lending continuing to outpace system growth. Deposit growth also remained robust, reflecting the strength of CBA's retail franchise and transaction banking ecosystem. We believe the durability of that deposit base is increasingly driven not just by pricing, but by customer engagement, digital integration and ecosystem depth. Importantly, asset quality metrics remained resilient despite ongoing pressure on household budgets, while arrears trends were better than feared.

Investing for long-term advantage

The market's concern centred on the combination of elevated valuation and rising investment expenditure, particularly around technology and AI capability. We view those investments differently. Australian banking is increasingly being shaped by scale, data and customer engagement rather than balance-sheet size alone. CBA's long-term investment in digital infrastructure, customer acquisition and workflow integration continues to reinforce advantages that have historically differentiated the bank from peers. Those advantages are increasingly evident in deposit growth, customer engagement and the bank's ability to generate operating leverage despite continued investment expenditure. The bank's transaction-account growth, customer retention and proprietary channel strength remain industry-leading.

CBA also remains comparatively well positioned in a higher-for-longer rate environment, reflecting the strength of its deposit franchise and the earnings resilience embedded within its funding structure. While investor focus remains centred on mortgage competition and margin pressure, we believe the market continues to underappreciate the resilience created by CBA's funding mix, scale and customer franchise.

The opportunity set beyond banks remains stronger

That said, owning CBA should not be confused with a constructive sector-wide view on Australian banks. The portfolio remains underweight banks because we continue to see better medium-term opportunities elsewhere in the market. Australian bank earnings remain heavily tied to a mature domestic credit cycle, elevated housing exposure and increasing regulatory and capital intensity. Sector valuations also appear demanding relative to the broader opportunity set available across Australian equities.

Instead, we continue to see stronger structural opportunities in areas benefiting from deglobalisation, supply-chain security, inflation persistence and technological disruption. Commodities remain a key portfolio theme. Rare earths particularly stand out as one of the clearest examples of strategic industrial realignment. Western governments and corporates are increasingly willing to underwrite alternative supply chains outside China, creating a structurally different demand environment for non-China strategic mineral producers.

The same framework applies more broadly across critical minerals, LNG and selected energy exposures. Australia's position as a reliable supplier of strategic resources is becoming more valuable in a fragmented geopolitical environment. Supply discipline, energy security concerns and long-duration infrastructure demand continue to support our constructive outlook across several commodity markets.

At the same time, recent indiscriminate selling across software and technology has begun creating future opportunities. The market has treated AI disruption as uniformly negative for SaaS businesses, but we think the reality is more nuanced. The critical distinction is not whether AI changes workflows - it will - but which companies own the customer relationship, proprietary data and embedded workflows that become more valuable as automation increases. That is leading us toward selective exposure to businesses with strong vertical integration, durable data advantages and evidence that AI strengthens rather than weakens competitive positioning.

Why CBA still stands out

In many respects, this also explains why CBA remains an overweight position within an underweight banking stance. The investment case is less about near-term rate cycles and more about identifying businesses that continue to strengthen competitive advantages through scale, technology and customer ownership. In our view, long-term equity returns are likely to be driven less by sector allocation alone and more by ownership of businesses capable of reinforcing competitive advantages through changing economic and technological cycles.

Important information

All information is current as at 20 May 2026 unless otherwise stated.

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