

# Dividends up as ASX companies navigate higher costs and cautious consumers

Commonwealth Bank · 2026-09-23 · English original

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## Key points

- Dividends came in ahead of expectations as balance sheets remained relatively strong.
- Inflation and weaker household spending are putting pressure on company margins.
- AI investment and data centre construction are emerging as themes across several parts of the economy.

Australia's FY26 reporting season revealed a corporate sector that remains relatively resilient, even as higher costs and softer consumer spending create a more challenging operating environment.

Around 200 companies reported results during the August full-year reporting season, giving investors a clearer picture of how Australian businesses are navigating inflation, higher interest rates and changing demand.

Solaris Investment Management portfolio manager Charles Casey told CommSec Market Analyst Steven Daghljan the season broadly lived up to expectations, with dividends among the stronger features.

"Dividends came in a touch ahead for the year. Payout ratios were lifted," Casey said.

A payout ratio is the proportion of a company's profit that it returns to shareholders as dividends.

"Balance sheets were a little bit stronger and boards felt comfortable giving back larger dividends to shareholders."

Solaris is forecasting dividend growth of about 4% across the ASX 200 in FY27.

## Stronger balance sheets support dividends

Casey said net debt, broadly the amount a company owes after taking its cash into account, generally came in below market expectations. Interest coverage ratios, which indicate how comfortably a company's earnings can cover its interest payments, were also stronger.

"Company balance sheets emerged with lower levels of debt than expected," he said during the discussion, which was recorded as part of CommSec's Executive Series of conversations with Australian business leaders.

That gave boards greater confidence to return cash to shareholders, with companies that announced stronger-than-expected dividends generally receiving a positive response from investors.

But the reporting season also showed that a high dividend alone isn't necessarily a sign of a strong business. Casey said investors were paying close attention to debt levels and companies' ability to sustain their payouts, particularly as borrowing costs remain elevated.

## **Cost pressures remain**

Inflation was one of the clearest challenges running through company results, Casey said.

Higher wages, energy costs and other inputs are putting pressure on margins, or how much money companies retain from their revenue after costs, making cost management increasingly important.

“Otherwise the wage inflation, the input cost inflation can pressure their margin,” Casey said.

“So it's quite a dynamic environment for management teams to operate.”

The pressure was particularly visible among businesses exposed to higher fuel and energy costs, while parts of the resources sector also had to contend with rising operating expenses.

Commodity conditions remained mixed. Copper and lithium benefited from strong demand and supply constraints, while elevated gold prices continued to provide support for producers. Iron ore was more subdued, with relatively flat prices leaving miners more exposed to rising input costs.

## **Consumers tighten their belts**

The reporting season also provided further evidence of pressure on household budgets.

Consumer discretionary businesses, which sell goods and services people can more easily cut back on, faced a tougher backdrop as higher interest rates, fuel costs and weaker housing conditions weighed on spending.

Casey said consumers were starting to become more cautious. “The consumer is starting to feel it,” he said.

“And the retail sector in particular, that consumer discretionary area of the market is where the pinch is being felt.”

Within the retail sector, results were not uniform. Retailers exposed to technology spending and device upgrades showed greater resilience, while areas such as household furnishings and whitegoods appeared more vulnerable to softer discretionary spending.

Consumer staples, which include everyday essentials such as groceries, proved more defensive, with supermarkets generally better able to manage input costs and maintain sales growth.

## **AI investment spreads across the economy**

Artificial intelligence and the rapid build-out of data centres emerged as another broad theme.

Casey said the impact was appearing across commodities, construction, industrial property and technology-related spending.

“We can see it across the whole economy,” he said.

Copper demand is being supported by investment in data centres and digital infrastructure, while construction contractors and owners of industrial land are also benefiting from new infrastructure development.

Beyond the construction boom itself, Casey said embedding AI within businesses could eventually help Australian companies improve productivity and manage costs.

## Higher yields put debt in focus

The reporting season also reinforced the importance of balance sheet strength as global bond yields remain elevated.

Bond yields influence borrowing costs across the economy, so higher yields can make it more expensive for companies to take on new debt or refinance existing loans.

Companies that rely heavily on cheap debt are therefore more exposed when borrowing costs rise, making debt levels an increasingly important dividing line between companies as investors assess the outlook beyond FY26, Casey said.

## Volatility remains part of the picture

Reporting season also produced large swings in individual share prices.

Casey said more than a third of ASX companies moved by at least 5% on the day they reported results.

"I think the lesson is volatility is here to stay," he said.

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