2025 YEAR IN REVIEW & MARKET OUTLOOK

2025 YEAR IN REVIEW

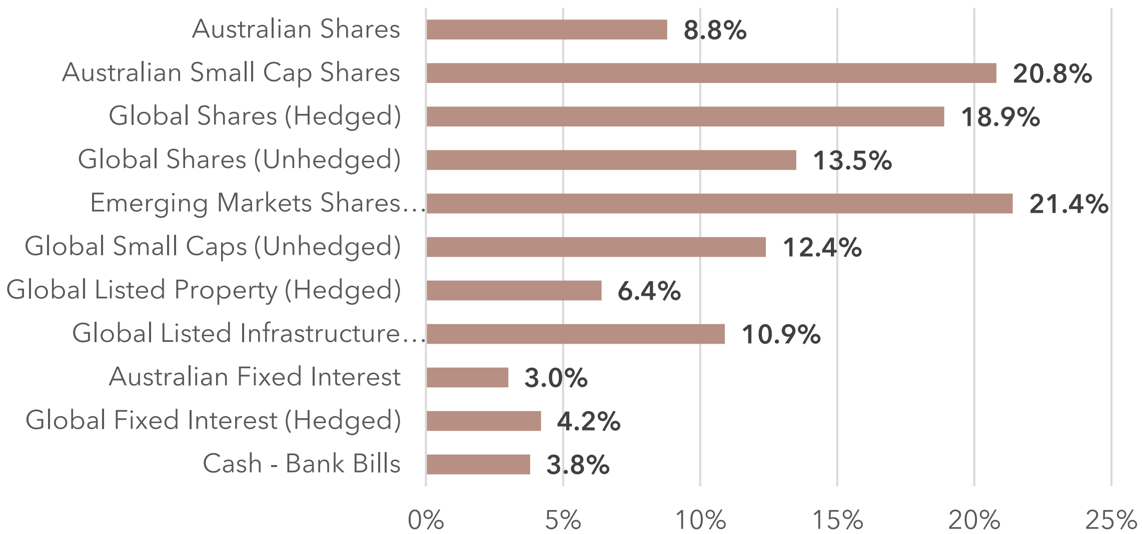
2025 unfolded against a backdrop of heightened geopolitical tensions, shifting central bank policy and uneven global growth. Markets began the year cautiously, with Donald Trump's return to the US presidency renewing tariff uncertainty and contributing to early volatility as investors assessed potential impacts on trade, inflation and corporate earnings. Confidence gradually improved as inflation moderated across major economies and expectations for steadier policy settings emerged. A powerful theme in markets was the accelerated investment in artificial intelligence, which became a central driver of global market leadership as the year progressed.

US mega-cap technology companies dominated global returns, contributing to strong performance for the US market. Europe and Japan also delivered solid gains, supported in Europe by easing inflation pressures and resilient corporate earnings, and in Japan by continued structural reforms and improving profitability. Emerging markets outperformed developed markets over the year, driven largely by strong gains in China, where supportive policy measures and stabilising economic data helped lift investor confidence.

Australian shares delivered strong results but lagged global peers, reflecting a narrower set of market drivers and domestic headwinds. Materials supported the local index, aided by strong commodity prices, with a notable share of small-cap gains coming from resource companies, particularly gold miners, benefiting from the rally in gold. However, weakness in health care due to tariff-related policy uncertainty and softer performance from the banks weighed on returns. The market also remained more sensitive to shifting inflation expectations and uncertainty around the RBA's policy path, which tempered valuation expansion compared with overseas markets.

Fixed interest markets provided stability through 2025, with bond yields reflecting the balance among moderating inflation, slower global growth and central bank policy. US Treasury yields declined over the year, helping global bond markets deliver positive returns, while Australian government bond yields rose as local inflation proved more persistent. Australian fixed interest delivered solid outcomes, supported by the higher-yield environment. Credit markets performed well across regions, with Australian and global credit generating steady gains, and global high yield recording strong results.

Asset Class Returns – 2025 year to date (11 December 2025)



MARKET OUTLOOK

As we look ahead to 2026, the macro environment remains supportive. Inflation is moderating, financial conditions are easing across many major economies and corporate earnings remain resilient. Central banks are unlikely to move in unison, with the US Federal Reserve expected to ease gradually, while Australia still faces the possibility of further rate rises due to persistent inflation and a tight labour market. These differences in policy direction are likely to influence global market sentiment throughout the year.

Several opportunities stand out. Falling interest rates in major economies should support activity and benefit sectors that are sensitive to financing costs. Corporate earnings have held up well despite softer patches in economic data, and credit markets continue to offer attractive yields, particularly in higher-quality segments. Investment linked to artificial intelligence remains one of the defining forces shaping markets. AI is becoming increasingly capital-intensive, driving demand for infrastructure, hardware, software and energy systems. While financial benefits may emerge unevenly, the growing breadth of the AI ecosystem presents opportunities across a range of industries, not just among the largest US technology companies.

At the same time, a number of risks warrant attention. Valuations across major sharemarkets remain elevated, leaving limited room for disappointment if earnings growth slows. Policy uncertainty, especially around US tariffs and fiscal settings, may continue to affect global trade flows, inflation dynamics and currency markets. Bond markets may again respond sensitively to shifts in inflation expectations and fiscal pressures, even if yield movements were more orderly through 2025. Labour markets in some regions appear to be softening slightly, raising questions about the durability of household spending and broader economic growth.

In this environment, diversification remains essential, although it may need to be applied more deliberately as traditional relationships between asset classes become less predictable. Structural forces such as artificial intelligence, geopolitical realignment and evolving fiscal priorities are likely to shape investment outcomes for many years. A disciplined, fundamentals-driven approach, supported by thoughtful portfolio construction, remains the most effective way to navigate uncertainty. Although periods of market fluctuation are likely, moderating inflation, resilient earnings and continued innovation provide a constructive foundation for long-term investors as 2026 unfolds.

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