MARKET COMMENTARY – December 2025

Quarter-End Commentary

Overview

- Australian shares ended Q4 2025 down 1.0%, despite a 10.3% gain for the year, with IT and Consumer Discretionary dragging while Materials rose strongly.
- Global equities delivered solid results, with the MSCI ACWI ex-Australia up 2.7% for Q4 and 13.7% for the year, led by strong performances in the U.K., Japan, and Korea.
- Bonds were mixed, with Australian bonds down 1.2% for the quarter but up 3.2% over the year, while global bonds outperformed delivering quarterly and annual gains.
- Property and infrastructure delivered steady returns globally, with Australian REITs slightly negative for Q4 but positive for the year, and global infrastructure delivering robust annual returns.
- The outlook for 2026 remains uncertain amid trade tensions, shifting central-bank policy, rising inflation risks, and potentially a continuation of the change in equity market leadership.

Asset class recap to end of December 2025

Australian shares

The final quarter of 2025 saw the S&P/ASX 200 fall 1.0%, however, across the year it was positive 10.3%. Quarterly numbers were dragged down by the Information Technology sector (-23.7%) as well as the Consumer Discretionary sector (-11.5%), whilst Materials was one of the few sectors posting a positive return for the quarter, up 13.0%.

Global shares

Global equities finished the year positively with the MSCI ACWI ex Australia NR AUD delivering +2.7% across the final quarter and +13.7% over the calendar year. Notable contributions came from Korea on the emerging markets front as well as the U.K and Japan in developed markets.

Several developed markets (Austria, Ireland, Finland & Spain) posted double digit returns over the final quarter of 2025. Of the largermarkets, the U.K and Japan were up +7.1% and +9.6% respectively across the final quarter. Sector-wise, Healthcare was the standout, returning +10.8% over 3 months. Communication Services was the best performer over the 2025 calendar year (+31.0%) with Consumer Discretionary (+6.4%) and Consumer Staples (+5.6%) the laggards but still delivering positive single digit returns across the year.

Emerging markets delivered a powerful performance over 2025, up 24.0% in Australian dollar terms and 31.3% in local currency. Korea was the clear standout for the quarter (+30.7%) and the year (+95.6%). China sold off in the final quarter of the year, down –7.6%, however, posted a solid +30.5% across 2025. Sector-wise, Information Technology and Materials again stood out for the quarter and the year, with EM IT up +19.3% over 3 months and +50.1% over the year, and EM Materials posting +11.0% for the quarter and +55.4% across the year.

Once again, the MSCI ACWI ex Australia's performance highlights the strength of global diversification.

Bonds

Over the past 3 months, the Bloomberg AusBond Composite 0+Y TR AUD sold-off slightly (-1.2%) for the quarter, as inflation spooked the markets and yields rose, while the 1-year performance stood at a stronger +3.2%. In comparison, the Bloomberg Global Aggregate TR Hedged AUD was stronger across the quarter and the year, delivering +0.7% over 3 months and +4.4% over the year.

Global property & infrastructure

The S&P/ASX 300 A-REIT TR, like the overall market, was down for the quarter (-1.2%), while performance over one year was a respectable +9.7%, concluding a solid but less than spectacular year for Australian real estate investment trusts. The S&P Global Infrastructure NR Hedged AUD was up again over the final quarter of 2025 (+2.2%), and delivered a robust +17.2% over the year, highlighting strong global infrastructure demand. Meanwhile, the FTSE EPRA Nareit Developed ex Australia NR Hedged AUD was flat for the quarter, with a modest 1-year return of 7.5%.

Currencies

By the end of 2025, the Australian dollar had strengthened against most major currencies across the year, up against the USD, EUR, and the JPY, while remaining broadly stable but slightly higher against the GBP. The year-over-year increases reflect the AUD's solid performance through the final quarter of 2025, supported by relatively high Australian yields and resilient domestic conditions.

Outlook

Markets can shift quickly, with geopolitics, economic data, and sentiment all capable of turning abruptly. As we move into 2026, many investors will naturally look for certainty, but placing too much confidence in precise predictions can be counterproductive. Trade tensions and tariff risks remain key swing factors, while diverging central bank policies - highlighted by the Federal Reserve restarting its rate cutting cycle amid labour market softness - will continue to influence market dynamics.

Outside the magnificent 7, the broader market has done well in 2025 on a relative basis. Within the magnificent 7 two stocks, Alphabet and Nvidia, have outperformed the others by some margin meaning the Technology 'bet' has narrowed even further. Such narrow leadership does not always lead to a downturn, but it does heighten risk and raise the bar to meet expectations. We believe investors should look to diversify beyond the dominant mega cap names, with opportunities emerging in consumer cyclicals, defensives, healthcare, Europe, and parts of the emerging markets universe.

Domestically, the Reserve Bank of Australia's policy outlook shifted sharply late in 2025. Markets moved from expecting further cuts to pricing in potential hikes after inflation surprised to the upside in September and October. With trimmed mean inflation now projected to remain above target until late 2026, the next policy move is uncertain and unlikely before the middle of the year.

Australian equities also retreated from their late October highs, but this correction has improved valuations. Entering 2026, the market now sits closer to fair value, positioning it to deliver returns more consistent with long run averages rather than the unusually strong gains of recent years.