

Economic and market update

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Key events in December 2025

- Global shares made mild gains of 0.8% in hedged terms. However, a rising Australian Dollar reduced global share returns to a mildly negative -0.6% return on an unhedged basis.
- US share prices briefly made new historic highs in December. Even with the support of the US central bank cutting interest rates by 0.25%, expensive share valuations then served to caution investors. US economic data is a mix of positives and negatives with solid consumer spending and modest employment gains tempered by the unemployment rate rising to a 4 year high of 4.6%. There was more encouraging news with US consumer annual inflation moderating from 3% in September to 2.7% in November.
- European shares made strong gains with business surveys showing solid economic growth prospects and inflation proving stable at around 2%.
- Chinese shares edged lower as subdued retail spending and the weak residential property market remaining key concerns.
- Australian Shares made mild gains. The Resources sector delivered a strong 5.8% return on the back of rising gold and metal prices. Financial sector shares including the banks also performed strongly with a 3.4% gain. However, sharp declines in Information Technology (-8.1%) and Health Care (-7.0%) proved to be major headwinds to the broader Australian share market. The Consumer Discretionary sector was also disappointing with a negative 2.7% return as hopes for lower interest rates evaporated.
- Australia's economic data also provided mixed results with stronger consumer spending but weaker employment in November. Given headline annual inflation was higher than expected at 3.8% in October, financial markets are contemplating that the Reserve Bank could raise interest rates next year.

Asset class summary

Asset class returns in Australian dollars – periods to 31 December 2025

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	10.7	1.4	-0.9	10.7	11.4	9.8	9.3
Global shares (hedged)	19.7	0.8	3.6	19.7	19.7	11.2	11.2
Global shares (unhedged)	13.6	-0.6	2.7	13.6	21.3	14.5	12.7
Emerging markets (unhedged)	24.0	1.3	4.1	24.0	17.1	7.3	9.4
Australian property securities	9.7	2.0	-1.2	9.7	14.7	8.9	8.1
Global property securities (hedged)	7.5	-1.4	-0.2	7.5	6.0	3.1	3.0
Global listed infrastructure (hedged)	11.4	-2.1	0.8	11.4	7.4	6.7	7.3
Australian bonds	3.2	-0.6	-1.1	3.2	3.7	-0.4	2.0
Global bonds (hedged)	4.4	-0.2	0.7	4.4	4.0	-0.6	2.0
Global high yield bonds (hedged)	8.1	0.6	1.4	8.1	8.0	3.0	5.4
Australian inflation-linked bonds	3.4	-1.1	-1.1	3.4	4.4	2.1	2.7
Cash	4.0	0.3	0.9	4.0	4.1	2.7	2.1
AUD/USD	7.7	1.7	0.6	7.7	-0.6	-2.9	-0.9

Past performance is not a reliable indicator of future performance.

Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A\$ (Net); Emerging markets – MSCI Emerging Markets in A\$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) – Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to December 2025

Global shares (hedged) delivered a solid 3.6% return for the quarter. The Australian dollar's rise against the US dollar, euro and Japanese yen reduced global shares (unhedged) to a 2.7% gain.

Optimism on Artificial Intelligence (AI) prospects and lower US interest rates have been key drivers of rising share prices this year. Notably, Wall Street's benchmark S&P 500 Index made historic highs with a quarterly gain of 2.6% in local currency terms. Investors have also taken the view that President Trump's tariffs are just a temporary threat in terms of higher US inflation and penalising US economic growth.

Asian share markets also delivered some impressive performance. Korea (30.7% return) and Taiwan (13.8%) posted very strong returns over the past three months in local currency terms. Japan's share market delivered a 9.6% return even with the central bank raising interest rates in December. However, Chinese shares disappointed with a -7.6% return after a strong rally in the previous six months.

Global bonds (hedged) delivered a modest 0.7% quarterly return. Concerns over persistent government budget deficits and rising Japanese interest rates countered the benefit of the US central bank lowering interest rates in December. Australian bonds delivered a weak -1.1% quarterly return. Recent high inflation results have seen bond markets begin to contemplate that the Reserve Bank (RBA) could raise interest rates in 2026.

Key events in Australia over the last three months to December 2025

Australian shares delivered a disappointing setback with a mildly negative -0.9% return for the quarter. The Information Technology sector was the primary source of weakness with a -23.7% quarterly return given Wisetech and Xero's poor performances. The Health Care sector also proved frail with a -9.5% return given the continued weakness in CSL. In a welcome contrast, the Materials sector was one of the few bright spots with a very strong 13.0% return on the back of rising gold and metal prices.

Australia's economy is experiencing improved consumer spending, modest jobs growth and a stable unemployment rate around 4.3%. However, consumer inflation is proving persistent at 3.8% in the year to October. The prospect of further RBA interest rate cuts has evaporated with this pickup in inflation pressures.

Global prospects

Enthusiasm for AI and technology are the key factors supporting rising global share prices in the past year. Lower global inflation has also allowed central banks to selectively cut interest rates which has also been favourable. Typically, a lower interest rate environment can boost corporate profits and thereby share prices.

Investors have also taken the view that US President Trump's agenda for tariffs is 'more bark than bite'. Both Europe and Japan have agreed to a 15% tariff with President Trump. However, China and the USA are still negotiating on tariffs. Until a formal agreement is signed, investors should be cautious.

Global share markets are also challenged by considerable global political risks. The Russian-Ukraine war remains an ominous cloud over Europe's security. The precarious Middle East political climate is also a major potential threat to global oil supplies.

Australia's economic prospects are vulnerable to political tensions between China and the US. Given China is the key export destination for circa 30% of Australian exports, the relationship between Beijing and Washington is critical to Australia's national income and security. Tensions over tariffs or Taiwan would be a major challenge to Australia's economy and share market prospects.

Australian consumers are also still challenged by persistent inflation. The Federal Government's recent announcement that electricity rebates have ended as well as persistent price pressures in food, health and housing indicate the 'Cost of Living crisis' is continuing. There is a chance that Australia's central bank may feel compelled to raise interest rates in 2026 to reduce inflation.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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