

Quarterly Market Review December 2025

Diverging Fortunes.

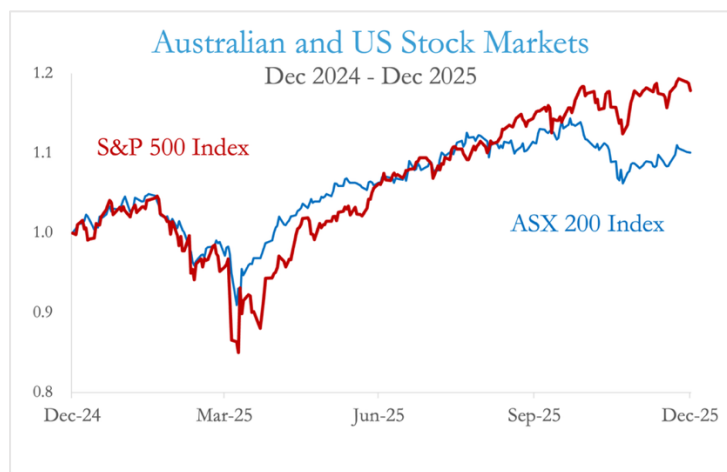
The quarter was defined by a notable divergence in performance between Australian and US financial markets. Global markets turned volatile in November as concerns grew around the US economic outlook, while Australian equities also faced headwinds from a higher-than-expected inflation print. Despite these challenges, 2025 as a whole proved to be another strong year for investor returns.

The final quarter of the year can be described as one of diverging fortunes. For much of the year, Australian and US equity markets moved closely together, including the sharp sell-off and rapid rebound in April when new tariffs were announced and then quickly paused.

Global markets experienced heightened volatility in November as sentiment in the US turned more cautious. Equity valuations were widely viewed as stretched, and investors increasingly questioned whether enthusiasm around artificial intelligence had pushed that sector into frothy territory. At the same time, signs of softening in the labour market emerged, while inflation remained stubbornly elevated.

November proved to be the turning point that marked the divergence between Australian and US equity markets. After a brief bout of nervousness, US equities regained their footing and resumed their upward trajectory, finishing the year at fresh highs. The S&P 500 delivered a return of 17.9% for 2025 and has produced a cumulative return of 86% over the past three years.

The Australian experience was notably different. The local market failed to recover from the November volatility and was effectively knocked out by the end of December. The quarterly return was a disappointing -1%, although the calendar-year return of 10.3% still exceeded Australia's long-term average equity return.



| | 3 months | 12 months |
|---------------------|----------|-----------|
| ASX 200 Index (AUD) | -1.0% | 10.3% |
| S&P 500 Index (USD) | 2.7% | 17.9% |

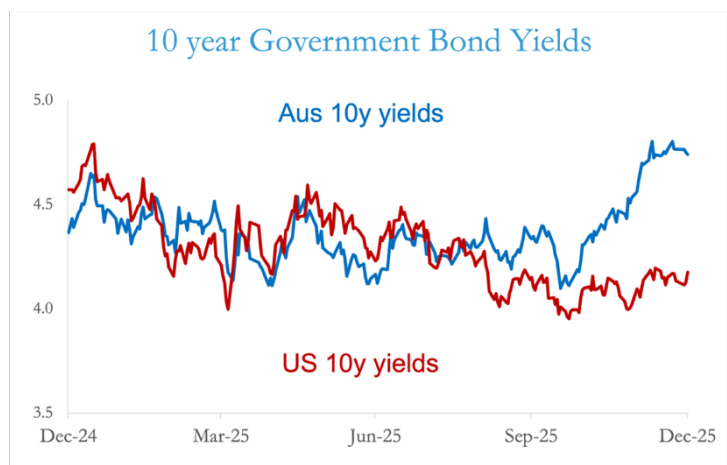
Source: www.investing.com

S&P/ASX 200 Index (total return)

S&P 500 Index (total return)

A similar pattern of divergence emerged in bond markets. For most of 2025, 10-year government bond yields in Australia and the US moved largely in tandem, consistent with their behaviour over the past five years. However, November marked a clear break, with Australian and US government yields moving in opposite directions and producing very different bond market outcomes.

As Australian 10-year yields rose over the quarter, the AusBond Composite Bond Index recorded a negative return. For the full year, Australian bonds returned 3.7%. In contrast, global bonds—represented by the Bloomberg Global Aggregate Bond Index (hedged to AUD), which is more heavily influenced by US yields—enjoyed a stronger quarter and delivered a return of 4.7% for the year.



| | 3 months | 12 months |
|--------------|----------|-----------|
| AUS Bonds | -1.2% | 3.2% |
| Global Bonds | 0.7% | 4.5% |

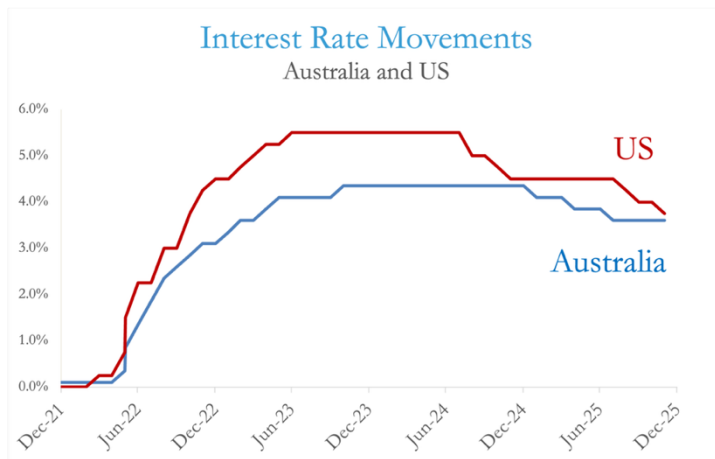
Source: www.investing.com

Bloomberg AusBond Composite 0+ Yr Index

Bloomberg Global Aggregate Bond Index (AUD Hedged)

These divergences across both equity and bond markets ultimately reflect differing interest-rate outlooks in Australia and the United States.

The chart below illustrates the diverging paths of interest rates since 2021. At the end of that year, interest rates globally were near zero. However, the Covid pandemic triggered severe global supply-chain disruptions, resulting in a sharp rise in inflation. The US responded more quickly and aggressively with rate increases, while Australia moved more gradually. It is therefore not surprising that the US is now easing policy sooner, while Australia is moving more slowly.



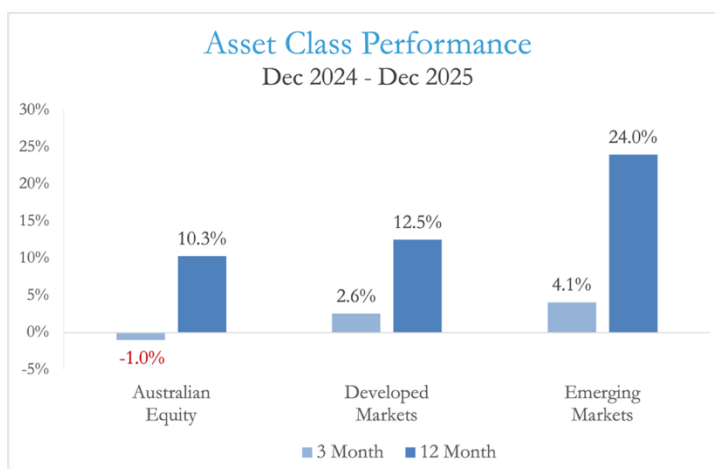
| | At 31-Dec-25 |
|-------------|--------------|
| RBA | 3.60% |
| Fed Reserve | 3.75% |

Source: www.tradingeconomics.com

Looking ahead, the interest-rate outlooks in the two countries are quite distinct. In Australia, the September quarterly inflation reading was significantly higher than expected. In response, bond markets quickly priced out the prospect of near-term rate cuts, pushing expectations for easing into 2026 and even assigning some probability to a rate hike later this year. In contrast, a slowing US labour market and other signs of economic weakness have increased pressure on the Federal Reserve to cut rates.

Central banks largely validated the market's expectations. On 9 December, the Reserve Bank of Australia left the cash rate unchanged at 3.6% and signaled that it expected policy to remain restrictive for some time. The following day, the US Federal Reserve cut the Fed Funds rate by 25 basis points to a range of 3.5%–3.75% and indicated that most governors expect further rate cuts across 2026 and 2027.

Despite the volatility in November and the diverging performance of Australian and US markets, 2025 has once again been an excellent year for investors with diversified portfolios. Australian equities rose by more than 10%, comfortably above their long-term average. International developed markets gained nearly 13%, while emerging markets delivered an impressive return of 24%.



| In AUD | 3 months | 12 months |
|------------|----------|-----------|
| Australian | -1.0% | 10.3% |
| Developed | 2.6% | 12.9% |
| Emerging | 4.1% | 24.8% |

Source: FE Analytics,
 ASX/S&P 300 Index (total return)
 MSCI World ex Australia Index (net, AUD)
 MSCI Emerging Markets Index (net, AUD)

For long-term investors who remained disciplined and stayed invested, the past few years have represented one of the strongest bull markets in history.

Given the near-continuous breaking of market records, there has been no shortage of predictions calling for an imminent correction. Yet those forecasts have so far failed to materialize. Looking ahead, many analysts now expect US equities to rally again in 2026. If realized, it would mark a fourth consecutive year of gains and the longest winning streak in almost two decades.

Rising unemployment, persistent inflation, trade tensions, affordability pressures, concerns around central-bank independence, government data reliability and the risk of an AI bubble all remain in the background. Yet Wall Street's prevailing narrative remains overwhelmingly optimistic. That optimism itself may be the clearest signal that 2026 is likely to deliver its fair share of surprises.

Dr Steve Garth
January 21, 2026