

# Quarterly Market Review September 2025

## Keep Calm and Carry On.

*Global equities extended their advance in the third quarter, with major indices — including the S&P 500, Nasdaq and our local ASX — reaching new record highs. As investors appear largely indifferent to ongoing geopolitical tensions, a slowing US economy, and warnings of irrational valuations, perhaps the best way to sum up the quarter is simply: stay calm and carry on.*

Despite ongoing geopolitical tensions — wars in Gaza and Ukraine, and China's increasing assertiveness around Taiwan — markets appear unfazed. In the United States, rising prices, slowing growth, and a weakening labour market haven't rattled investors either. Even the recent U.S. government shutdown — the first in seven years — has barely registered in market movements.

So, what could possibly go wrong?

During the quarter, the U.S. Federal Reserve cut interest rates by 25 basis points, a move widely anticipated by the market. However, the Fed also noted a renewed uptick in inflation, reviving concerns about the dreaded stagflation — that unpleasant mix of high inflation and low growth.

Despite these warning signs, markets remain buoyant. As John Maynard Keynes famously observed, "The market can stay irrational longer than you can stay solvent." In other words, financial markets can ignore rational behavior for extended periods — and that seems to be exactly what they're doing.

In Australia it's been a solid quarter and an even stronger year overall. As evident in the chart below, the sharp dip on April 2nd was triggered by the announcement and subsequent pause in the US Administrations roll out of tariffs. But since then, investors have simply ignored any announcement to do with tariffs. Even with that April correction the ASX 200 index has returned a better-than-average 10.6%, and the quarter has seen the momentum continuation with a 3-month return of 4.7%



	3 months	12 months
<b>ASX 200 Index</b>	<b>4.7%</b>	<b>10.6%</b>

Australia’s market is highly concentrated, and a few large companies have an outsized impact on overall performance. In the past quarter, CSL, CBA, and Woolworths all fell short of earnings expectations, which dragged down returns. This has prompted some concern about stretched valuations across the broader market. After rising 20% in the previous quarter, CBA fell about 10% this quarter — perhaps no real surprise given that earlier strength.

The big miners on the ASX – BHP, RIO and Fortescue - have struggled for much of the year. Iron ore prices have been under pressure due to subdued Chinese demand. Recently, though, signs of a rebound in China’s economy have boosted sentiment, helping resource stocks recover strongly this quarter. The Materials sector - which covers the mining industry — is up 20% in the quarter, even if performance over the full 12 months remains more muted at 6.2%

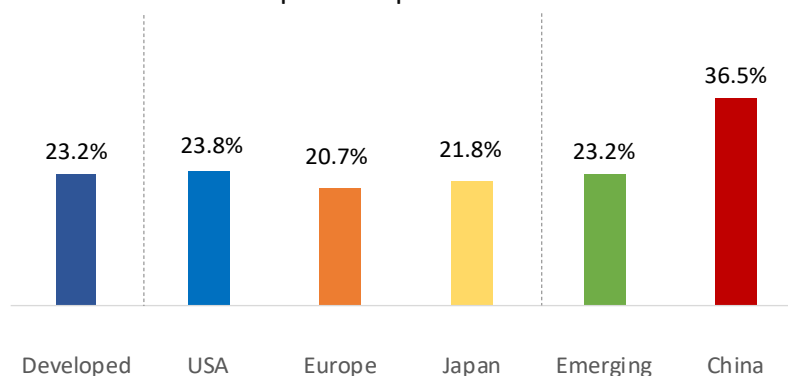
Globally, developed markets are up about 23% over the past year. Over the past few years, the US market – and in particular the big tech stocks on the Nasdaq exchange – have been the main driver of returns. While the US remains dominant, contributing around 70% of developed market performance, this quarter saw a more balanced picture. Europe and Japan both delivered comparable gains, producing an unusually even performance across major regions as shown in the chart below.

Emerging markets, which had lagged for several years, are also catching up. Much of this strength is driven by China, which makes up more than 30% of the emerging markets index. The Chinese market has surged 36% over the past 12 months — including an extraordinary 20% gain just in this quarter. That kind of rally has prompted concern among Chinese regulators, who see clear signs of irrational exuberance and are likely to take steps to cool the market.

## Performance of Major Markets

(MSCI indices in AUD)

Sep-24 - Sep-25



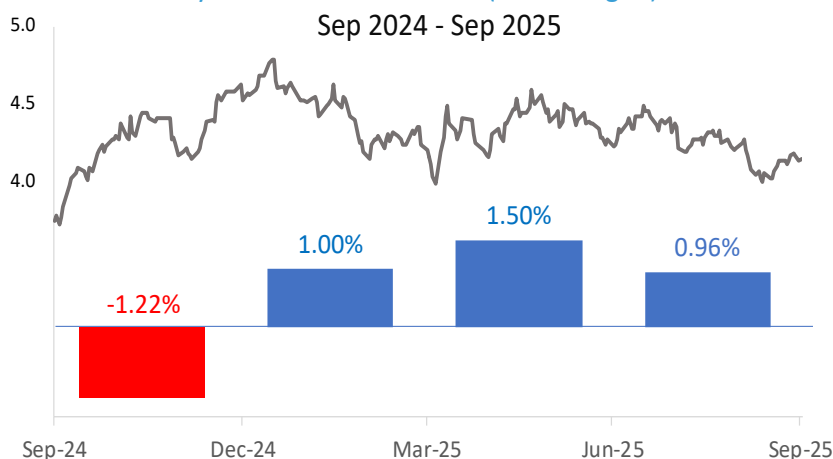
On the interest rate front, the Reserve Bank of Australia cut rates earlier in the quarter — welcome news for borrowers. However, at its September meeting, the RBA opted to hold rates steady following a hotter-than-expected inflation reading. The bond market quickly responded by pricing out expectations of further cuts.

Even so, yields in both Australia and the U.S. have been trending lower since the start of the year. And as yields fall, bond prices rise — meaning bonds are once again performing their traditional role of providing income and stability. The chart below shows the US 10 year Government bond yield — which, like international equities, plays the major role in the performance of international bonds — plotted against the quarterly returns of the global bond index.

## Yields and Bond Returns

US 10y Yield and Global Bond (AUD Hedged) returns

Sep 2024 - Sep 2025



After the bond market shocks of 2022, this normalization has been reassuring for investors. Bonds remain the key safe-haven asset within diversified portfolios, and there's still room for yields to move lower if equity markets stumble.

In summary it's been an outstanding quarter and (so far) an outstanding year for both equities and bonds. Diversified portfolios are seeing some of the best returns in decades. Markets seem to be ignoring some of the potential danger signals apparent in high valuations and mixed economic data, and are happy *to stay calm and carry on...*

But that's not such a bad philosophy when it comes to investing. Markets will inevitably fall at some point — we don't know when, why, or how — but they always have and bounced back again as they move through cycles. The best approach is to remain disciplined, stay invested, and take advantage of strong periods like the one we're seeing now. In short: ignore the noise, stick to your strategy, and stay the course.

Dr Steve Garth  
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