StanfordBrown Private Wealth

September 2025

Investment Markets Report

Nick Ryder
Chief Investment Officer

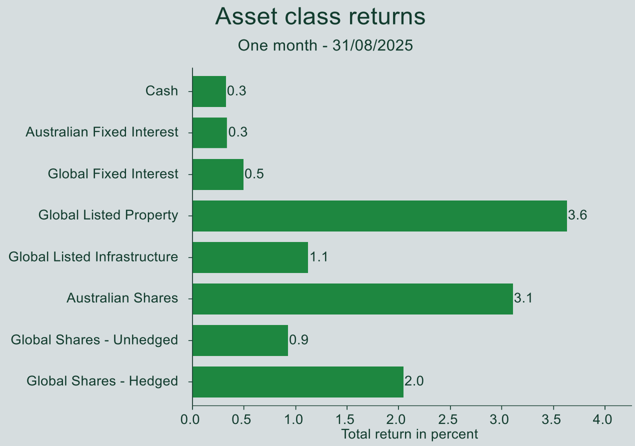
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in August?

Equities climbed higher in August making new record highs helped by better-than-expected earnings in the US, greater tariff clarity and rising optimism that the US Federal Reserve may cut interest rates when it meets in mid-September. Despite rising concerns about US Federal Reserve independence, and risks of tariff-induced stagflation, US bond yields declined in August with larger falls for shorter term yields. This was in response to weak US employment data which increased expectations of faster rate cuts. Prospects of rate cuts saw the US Dollar weaken against a range of currencies including the Australian Dollar.

EXECUTIVE SUMMARY

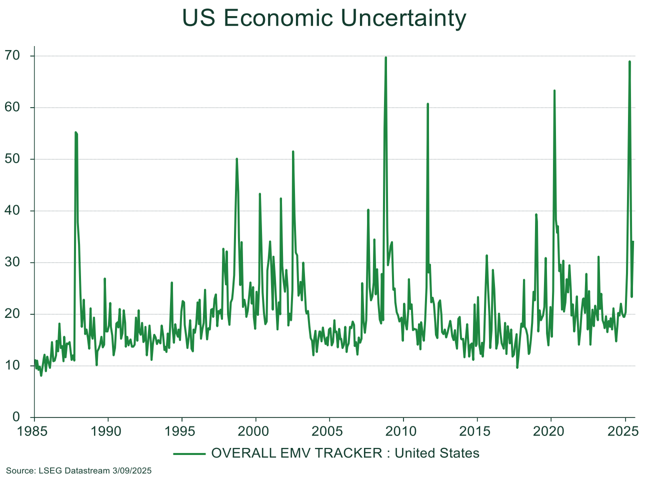
- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 2.0% in August. The US equity market (S&P 500) was also up 2.0% while Australian shares (S&P/ASX 200) rose 3.1%. European shares (STOXX 600) returned 1.0% and Emerging Market shares (MSCI Emerging Markets) rose 1.6%.
- 10-year government bond yields fell 14 basis points (bps) in the US, but rose 2bps in Australia, 15bps in the UK, 3bps in Germany and 5bps in Japan.
- Investment-grade corporate bond spreads in the US rose 2bps to 81bps over US treasuries, while US high yield bond spreads fell 2bps to 284bps.
- The Australian Dollar rose 1.1 US cents to US$0.6545.
- Oil prices fell 8.5% to US$64.36 per barrel (WTI). Gold rose 4.4% to US$3,441 per troy ounce. Iron ore prices rose 4.4% to US$104.26 per tonne.



Source: LSEG Datastream 1/09/2025

Tactical Positioning

Despite significant uncertainty about the timing, impact and legality of the higher US tariffs, equities continued to grind higher as investors focussed more on backward-looking data, which has been strong, rather than trying to predict economic outcomes in a world of elevated policy uncertainty. This is despite emerging signs that tariffs are starting to feed into consumer prices and squeezing corporate profit margins in certain industries. The weak jobs report released in early August, and Fed Chair Powell's recent Jackson Hole speech, acknowledging downside risks to the labour market, have opened the door for a September rate cut and this has also helped support equities.



Bond investors, who are generally more sensitive to forward-looking macroeconomic data than their equity counterparts, have been pulled in opposite directions recently. Shorter-dated US bonds are being influenced by stagflation fears with signs of slowing economic growth, softer hiring and rising inflation due to tariffs. Longer term bonds are starting to price in higher long-term inflation that could result from reduced Fed independence, where the Fed prioritizes higher growth over reducing inflation, leading to inflation remaining higher for longer. Investors have also been concerned about 'fiscal dominance' where rising budget deficits have a bigger influence than monetary policy.

Given the US economy is more sensitive to longer term bond yields, as most mortgages have a fixed interest rate for 30 years, there are concerns that a politicized Fed could use quantitative easing to try to lower long term yields and lower the US government's interest bill. These fears have seen the US yield curve steepen with investors demanding a higher yield and 'term premium' for owning longer dated US government bonds.

Elevated economic uncertainty and high equity valuations are not necessarily a good combination. However, as we have discussed previously, valuations can remain expensive for a long time and on their own they are not a particularly good signal to guide market timing. For now, corporate fundamentals and underlying earnings growth remains solid and risks of recession, which typically coincide with equity bear markets (>20% decline), are low in our view, despite the elevated uncertainty.

We remain neutrally positioned across growth and defensive assets. Key risks we are monitoring include rising long term bond yields and the resulting impact on growth stocks, a potential US government shutdown, legal cases surrounding tariffs and efforts to fire a Fed official and seasonal weakness for equities, given that over the past 35 years September has ranked as the worst-performing month for US equities.

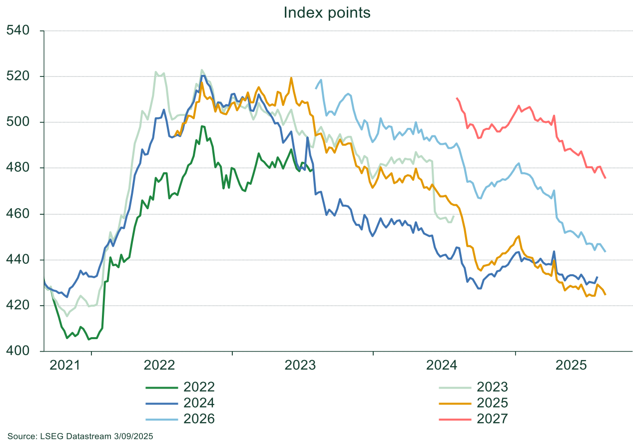
EQUITIES:

Second quarter earnings for companies in the S&P 500 US equity index were very strong with 80% of companies beating analyst estimates, which is well above the long-run average of 67%. Excluding the energy sector, revenue and earnings were up 7.5% and 15.2% respectively on year-ago levels. The fastest growth was in the communication services and IT sectors, which reported annual earnings growth of 49% and 24%, respectively. Within IT, the electronic components and semiconductor sub-sectors grew earnings 61% and 39% respectively, helped by strong AI spending.

In Europe, of the companies that have reported June quarter earnings, 51% have beaten analyst forecasts which is in marginally below the long-term average of 54%. Excluding the energy sector, revenues and earnings have grown 0.6% and 8.1% respectively, which is slower than the in the US, but part of the difference likely reflects the stronger Euro against the US Dollar. Financial companies produced the biggest positive surprise with 70% of companies beating estimates and the average earnings surprise was 12%.

In Australia, around 85% of companies in the S&P/ASX 200 index have reported earnings and 47% have beaten analyst earnings forecasts. This is higher than the long run average of 39%, although aggregate earnings only came in 0.2% ahead of expectations, while revenues were 2.5% below expectations. The results suggest the earnings beats were being driven by cost-cutting with 44% of firms discussing cost efficiency during their earnings calls.

S&P/ASX 200 earnings per share forecasts

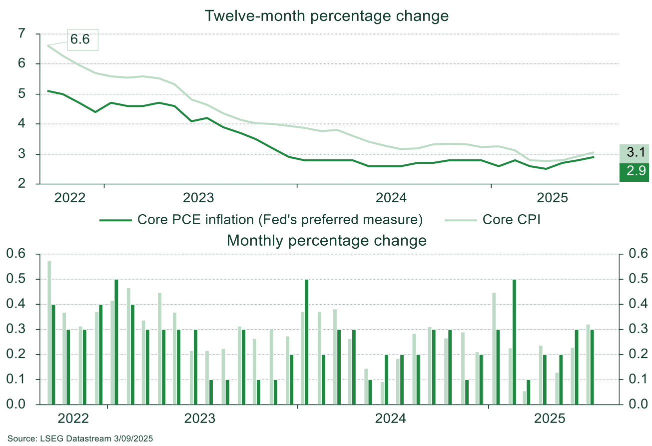


This year's Australian reporting season was one of the weakest outside the Global Financial Crisis and COVID-19 and profits have now gone backwards for three straight years at the aggregate index level. Share price reactions to earnings reports were very volatile in August with large price moves from CSL, James Hardie and Woolworths amongst others. Around 43% of stocks moved up or down by more than 5% following the release of their earnings, which has been attributed to lower levels of liquidity/price discovery. Analysts have now downgraded next year's earnings by 2.5% for firms outside the mining and energy sectors.

FIXED INCOME:

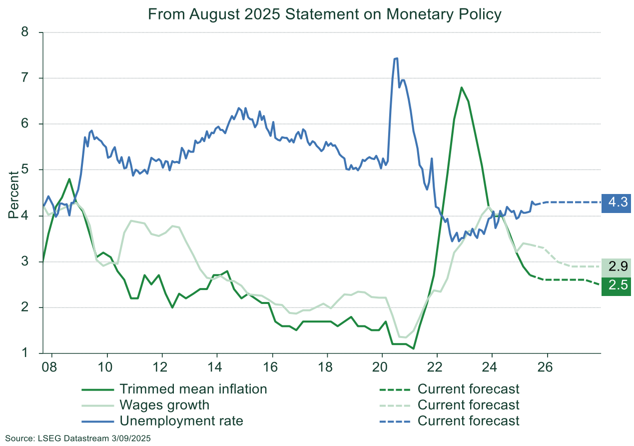
The US Fed faces a dilemma as core inflation is materially above the Fed's 2% target and is trending higher. Meanwhile the US labour market has been described as 'low hiring and low firing' with weak demand for workers offset by weak labour supply due to low immigration. Although Fed Chair Powell had recently focussed on the risks to the labour market, other members of the rate setting committee remain more concerned about inflation. Markets are pricing around five rate cuts in the US over the next 12 months with a September cut 90% priced in, which seems a little too high given the inflation challenges.

US core inflation excluding food & energy



In Australia, as expected the RBA cut rates in August and the takeaway from the meeting was that they are more comfortable that core inflation can return to around 2.5% even with a few more rate cuts over the next year. Markets are now 90% pricing in a November rate cut and then a long pause before another cut in mid-2026.

RBA forecasts



PROPERTY AND REAL ASSETS:

Real assets such as property and infrastructure should be more immune to tariffs and should benefit from lower interest rates. Higher construction costs and lower vacancies are supporting rent growth and values of existing property assets by reducing new supply. Infrastructure continues to benefit from growth in renewable energy, data centres and waste recycling.

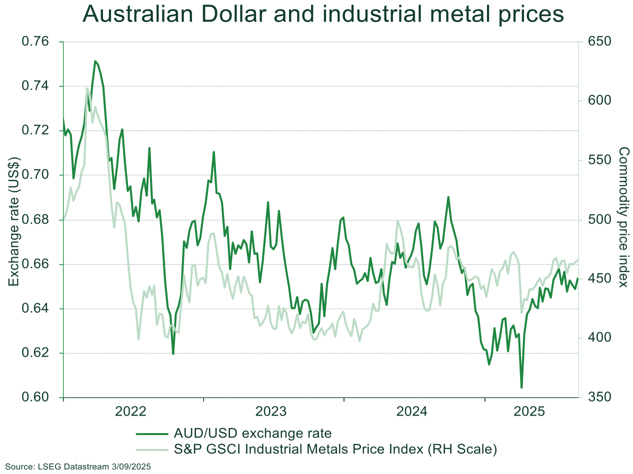
ALTERNATIVE ASSETS:

Alternative assets returned 1.1% in August with positive performance from all the major sub-strategies. Macro/trend-following funds generated the strongest returns in August as markets avoided the sharp risk-on, risk-off moves seen earlier in the year.

CURRENCY:

The Australian Dollar rose in August after the US Dollar lost ground against major currencies, driven by the weak jobs report which increased chances of rate cuts. We remain currency unhedged in global shares.

Australian Dollar and industrial metal prices



Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are heading lower. Expect two more RBA rate cuts to 3.10% by early-mid 2026.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Longer term bond yields allow investors to lock in attractive real yields and premium relative to expected cash rates.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around seven years. If higher inflation from tariffs is temporary, then central banks have scope to cut rates, particularly outside the US. Longer dated US treasury yields are at risk of further increases in yield if there are renewed concerns around high government debt levels.
Alternative Defensive	Neutral	Alternative strategies should help to diversify portfolios. These strategies have traditionally held up relatively well when more traditional defensive strategies, tied to bond yields and the credit outlook, have suffered.
Alternative Growth	Neutral	Alternative growth strategies benefit from higher price volatility and dispersion with returns less correlated to broader risk sentiment. Trend-following strategies have been hurt by sharp reversals in market direction from tariff news but can provide insurance-like characteristics by capturing medium-longer term price trends in financial markets.
Property & Real Assets	Neutral	Property and infrastructure should provide a more defensive exposure in a global downturn relative to equities. Some US real estate and infrastructure may be impacted by tariffs (e.g. ports and airports , higher building costs etc) but the overall impact is not likely to be large.
Australian Shares	Neutral	The earnings growth outlook is relatively muted while equity valuation multiples, particularly for the major banks, are high relative to history and compared with international peers. Australian iron ore miners could benefit if China stimulates its economy given around 90% of Chinese steel is consumed internally.
Global Shares	Neutral	Hold a neutral allocation given peak uncertainty from tariffs appears to now be behind us and the impact on growth and inflation is likely to be short lived. Earnings growth, particularly for AI related companies, continues to grow at attractive rates.
Currency hedging	Fully unhedged	Although the US Dollar has lost some of its shine with the end of US economic exceptionalism and higher policy uncertainty, in a risk-off scenario, it is again likely to regain some of its safe-haven status as there are few alternatives. Prefer to remain currency unhedged in Global Shares given the Australian Dollar tends to move in line with global investor sentiment.

Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) weights

PORTFOLIO	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
ASSET CLASS	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Defensive Assets	70.0	70.0	50.0	50.0	35.0	35.0	20.0	20.0	5.0	5.0
Cash	15.0	15.0	10.0	10.0	5.0	5.0	2.5	2.5	2.5	2.5
Australian Debt	20.0	20.0	10.0	10.0	5.0	5.0	0	0	0	0
Global Debt	30.0	30.0	25.0	25.0	20.0	20.0	15.0	15.0	0	0
Alternative Defensive	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5	2.5	2.5
Growth Assets	30.0	30.0	50.0	50.0	65.0	65.0	80.0	80.0	95.0	95.0
Property & Real Assets	5.0	5.0	7.5	7.5	10.0	10.0	10.0	10.0	10.0	10.0
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
Australian Shares	5.0	5.0	15.0	15.0	20.0	20.0	25.0	25.0	25.0	25.0
Global Shares	15.0	15.0	20.0	20.0	25.0	25.0	37.5	37.5	52.5	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Major Financial Markets

To 31 August 2025	Latest	1 month	3 month	Year-to-date	1 year	3 year	5 year
Equities	Local currency returns including dividends in percentage, not annualised						
Australia - S&P/ ASX 200	8973	3.1	7.0	12.3	14.7	44.5	78.8
Japan - Nikkei 225	42718	4.1	12.8	8.3	12.7	61.5	103.2
US - S&P 500	6460	2.0	9.6	10.8	15.9	70.8	98.9
US - NASDAQ Composite	21456	1.7	12.4	11.6	22.0	85.8	89.2
UK - FTSE 100	9187	1.2	5.7	15.6	13.6	41.1	85.3
Europe - STOXX 600	550	1.0	0.7	11.5	8.3	46.2	75.4
Developed Markets - MSCI World	3229	2.1	8.1	11.3	15.3	65.3	92.6
Emerging Markets - MSCI EM	77654	1.6	10.3	16.7	18.0	41.5	42.0
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.35	-0.02	0.04	-0.58	-0.28	0.21	3.08
Australia -10 year	4.30	0.02	0.01	-0.18	0.32	0.68	3.32
US - 2 year	3.62	-0.33	-0.28	-0.63	-0.31	0.17	3.48
US - 10 year	4.22	-0.14	-0.16	-0.35	0.30	1.09	3.53
UK - 10 year	4.72	0.15	0.07	0.15	0.71	1.92	4.41
Germany -10 year	2.72	0.03	0.22	0.36	0.43	1.19	3.12
Currencies and Commodities	Change in price						
Australian Dollar (US$)	0.6545	0.011	0.011	0.035	-0.024	-0.031	-0.085
US Dollar Index	97.77	-2.20	-1.56	-10.72	-3.93	-10.93	5.63
Gold (US$/ounce)	3441.44	145.41	156.10	816.09	936.16	1721.88	1473.51
Iron Ore (US$/tonne)	104.26	4.40	8.28	3.15	3.71	3.44	-17.93
Crude oil (WTI, US$/barrel)	64.36	-6.00	2.90	-8.08	-10.16	-25.69	21.75

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