

StanfordBrown

Private
Wealth

8th October 2025

Quarterly Investment Markets Report

01

Executive Summary

The September quarter was positive for financial assets with solid gains in equities helped by tailwinds from falling trade and economic uncertainty, better than expected economic growth in most regions, solid corporate earnings growth and interest rate cuts in major markets. Global equities continued to post fresh record highs and are up around 32% from their April lows.

Tariff fears subsided over the quarter after major US trading partners including Japan, Vietnam, the European Union and South Korea signed trade pacts with the US. The current 90-day trade truce between China and the US, which has resulted in 55% tariffs on Chinese imports into the US, appears likely to remain in place when it expires in November, rather than reverting to tariffs of 145%.

Worries about the trajectory of US government debt growth and a weakening of US Federal Reserve independence have also eased. This was aided by the signing into law of the One Big Beautiful Bill in July and US courts preventing the firing of Fed Governor Lisa Cook for now. This has seen declines in longer-dated US bond yields, while shorter-dated yields also declined due to weaker US employment growth which triggered a Fed rate cut in September.

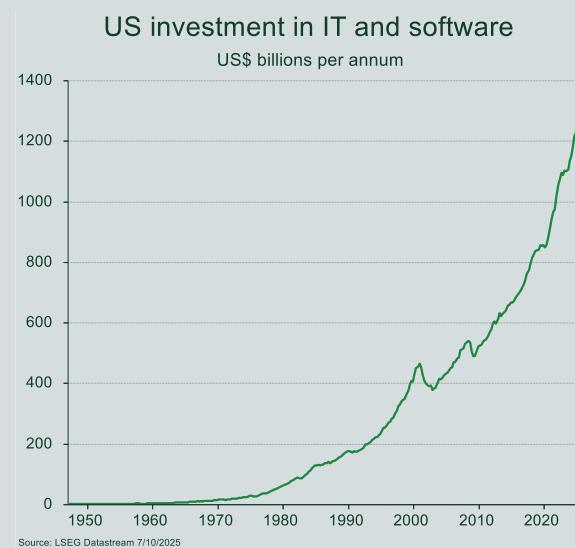
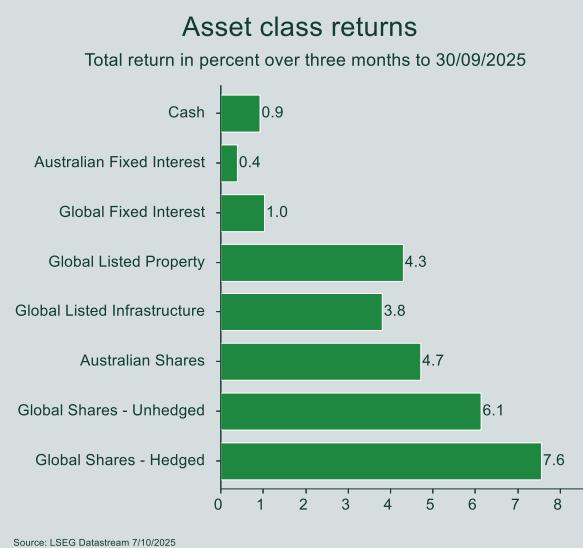
Longer-dated bonds struggled in Europe amidst mounting concern over the deteriorating fiscal outlook in some countries. In France, Prime Minister Bayrou lost a confidence vote in an attempt to break a political deadlock over a spiralling debt crisis and Fitch Ratings downgraded the country's sovereign

credit rating from AA- to A+. In Australia, bond yields were higher over the quarter after data suggested services inflation is rising again.

Artificial Intelligence (AI) continues to be a strong investment theme supporting equities and economic growth. According to Harvard economist Jason Furman, US investment in information processing equipment and software was responsible for 92% of GDP growth in the first half of this year and excluding these categories US GDP only grew at a 0.1% annual rate in the first half of 2025.

Against this backdrop of a strong market for risky assets - global equities at record highs and credit spreads at the lowest levels in decades - gold prices in nominal and real terms are also at record highs. Whilst the gold price has many drivers, one is the perception that it is a 'safe haven' asset that investors buy in times of fear, given it doesn't pay a dividend or interest, and over the very long term, it's struggled to compete with other asset returns.

This paradox of strong risky asset prices and high gold prices, along with markets pricing in further US rate cuts over the next year, typically a sign of economic weakness, points to cautious optimism. It suggests that there is still a high degree of uncertainty about inflation, the path of policy rates, the health of labour markets and the resilience of the AI boom.



Across the G10 economies, core inflation has been gradually trending higher this year from an average of 2.6% at the end of 2024 to 3% currently. Only New Zealand and the Eurozone have seen inflation fall since the start of the year, although some indicators in the Eurozone are pointing to renewed price pressures. In the US, core PCE inflation is higher, at 2.9% in August, than at the start of the year and this is before the full impact of tariffs and this year's 10% decline in the US Dollar has fed through into consumer prices.

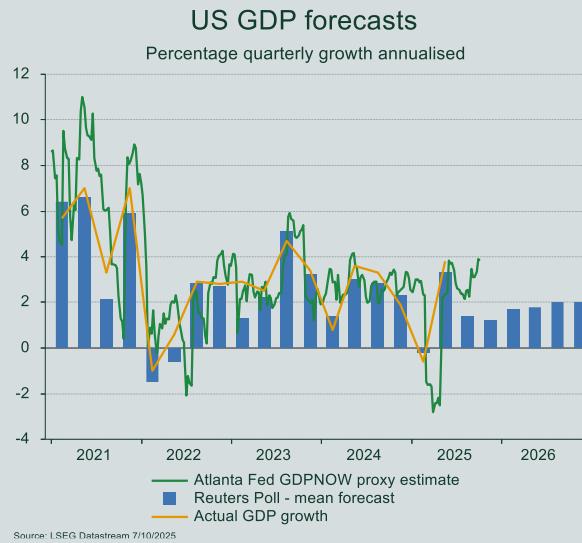
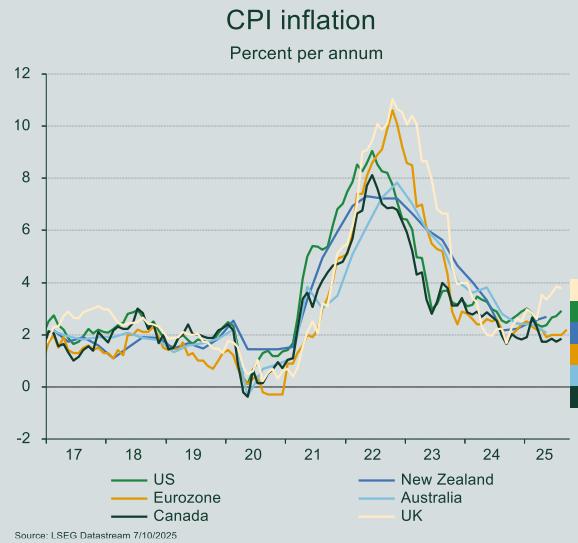
Against the backdrop of rising inflation, global growth has been very resilient, despite higher tariffs, and this is leading to growth estimates being revised higher. Recent US data releases have brought several positive surprises. June quarter GDP saw strong upward revisions recently, with GDP growth now running at an annualised 3.8% pace. And the Atlanta Fed's GDPNow estimate is currently pointing to annualised growth of 3.9% in the September quarter.

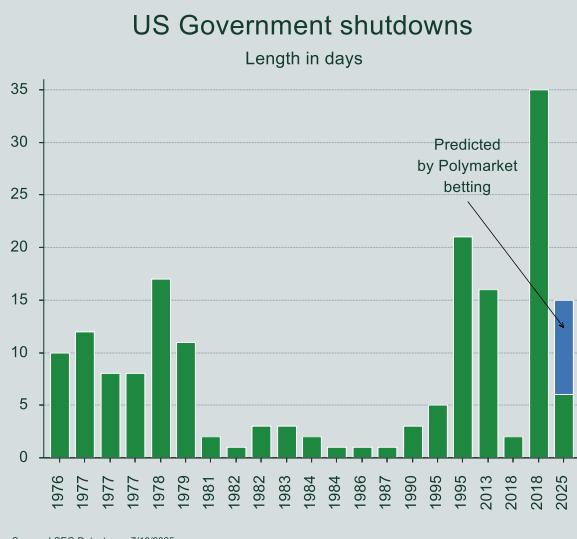
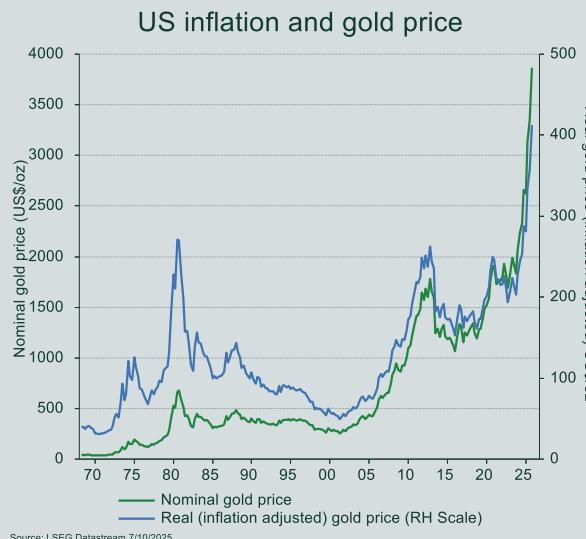
In Australia, GDP growth was stronger than expected in the June quarter. The RBA upgraded its outlook for the economy, noting that private sector demand is recovering "a little more rapidly than expected", taking over from government spending as the driver of growth. Household spending is being assisted by growing real household disposable incomes, lower interest rates and an acceleration in house price growth.

Stronger economic activity with inflation moving away from inflation targets would ordinarily require central banks to lift interest rates, or at the very least keep them steady at restrictive levels. In the US, the collapse in employment growth this year has some Fed officials pushing for further rate cuts while others are more concerned about evolving inflation pressures. The US unemployment rate has mostly remained steady despite the slowdown in hiring as layoffs stay subdued and net immigration has fallen 60% this year, limiting the supply of new workers.

Based on current market pricing, investors still think the direction of travel is towards further rate cuts from major central banks. That's most obvious in the US, where markets are pricing four quarter point rate cuts by the end of 2026. In Australia, UK and Eurozone, markets are also pricing in some chance of another cut over the next six months. If investors move to price in fewer rate cuts, this need not be bad for risk assets, if driven by better economic growth, as we saw in early 2024.

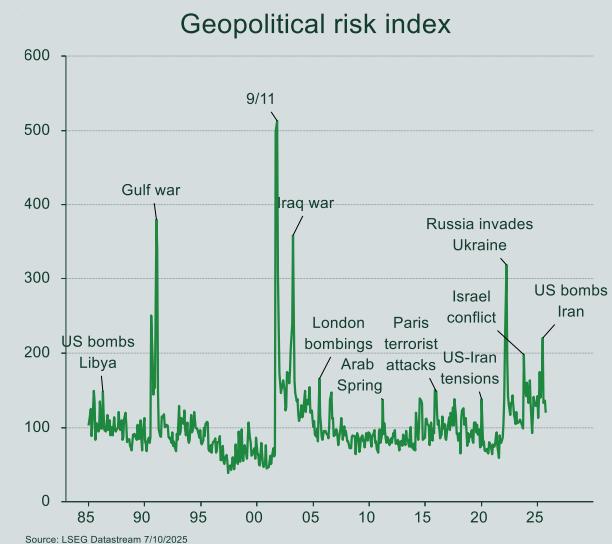
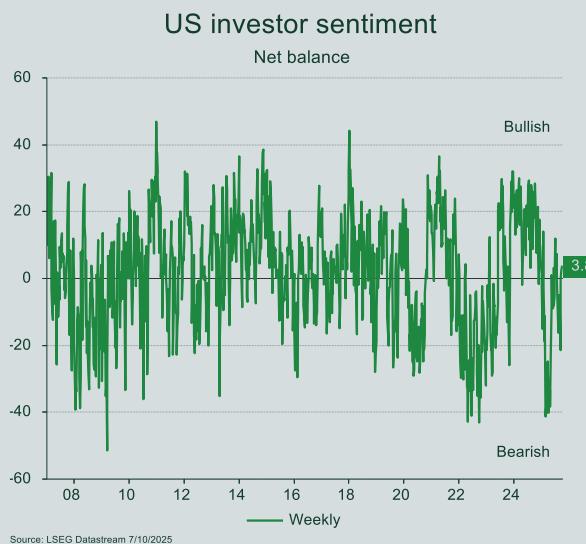
We continue to take a glass half full approach to risk assets, taking comfort in the improving underlying economic backdrop, and solid growth in earnings, particularly for international equities. Although much of the earnings growth in the US equity market is being driven by AI investment, we feel that the AI investment boom is likely to continue in the short to medium term. This is despite reports about the limited number of paying ChatGPT users and high failure rate of corporate AI pilot projects.





Our asset allocation framework, which balances economic and corporate fundamentals, valuations, sentiment and risks currently points to neutral positioning between growth and defensive assets. While there are commentators saying equity markets are "priced for perfection", in our view that isn't the case. We agree there's been a remarkable strength and resilience to risky assets since 2022, but investors are also aware of the downside risks, as suggested by gold prices at record highs and rapid US rate cuts priced in. If anything, investors have been consistently too fearful, on multiple occasions over the past three years predicting recessions that never eventuated.

In terms of key risks that we are monitoring, there are some risks that the current US government shutdown, which markets are ignoring, could last longer than generally expected, resulting in more material and lasting damage to US economic activity. We are also tracking the pass through of tariffs into US consumer price inflation and corporate profit margins given there is evidence tariffs are not being paid by exporters in the form of lower prices. Geopolitical risks that we are monitoring include Russian 'grey zone' hybrid warfare tactics in NATO countries which could escalate into a wider conflict.



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Asset Class Views

Current Balanced Portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are likely to remain steady until early 2026 as hotter than expected inflation reduces the need for further rate cuts.
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 real yields and term premium relative to the path of the cash rate, implied in shorter term bond yields.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around six to seven years.. Longer dated government bonds provide a more attractive real yield and buffer for risk assets in a downturn. Credit spreads are historically low reflecting low default expectations.
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 price dispersion with returns less correlated to broader risk sentiment. Trend-following strategies were hurt by short term sharp reversals in market direction in April but have recovered recently. These strategies can provide insurance-like characteristics over longer periods capturing medium-longer term downtrends and uptrends in financial markets.
Property & Real Assets	Neutral	Property and infrastructure should provide more defensive exposure in a global downturn relative to traditional equities. The outlook for commercial real estate is improving after several years of price declines as the lack of new supply supports future price and rent growth.
Australian Shares	Neutral	The earnings growth outlook is relatively muted while equity valuation multiples, particularly for the major banks, are very high relative to history and compared with international peers.
Global Shares	Neutral	Hold a neutral allocation based on valuations, economic and corporate fundamentals and investor sentiment. Global equity markets are being supported by solid earnings growth, AI enthusiasm, lower interest rates and improving economic growth in major economies.
Currency hedging	Fully unhedged	Although the US Dollar has lost some of its shine this year with higher policy uncertainty, in a risk-off scenario, it is again likely to retain its safe-haven status as there are few alternatives. Remain currency unhedged in global shares, given the diversification from having the Australian Dollar move in line with global investor sentiment.

Fixed Income

Fixed income generated positive returns over the three months to the end of September, with returns driven by coupon income while prices were slightly negative over the quarter. Central banks continued to cut rates over the quarter, however, the pace of cuts has slowed as inflation has ticked up again while unemployment has generally remained steady in many countries.

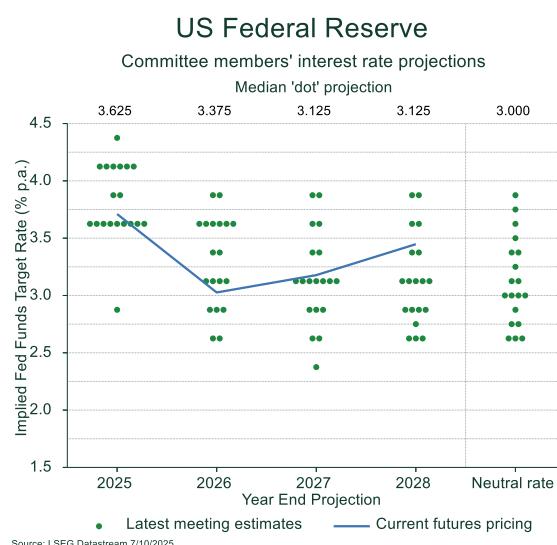
Tariffs pose a 'stagflationary' challenge in the US with a short to medium term inflationary impact and the potential to also increase unemployment. The US Federal Reserve cut rates again in September in a move which it described as 'risk management' after data showed that the pace of job creation has slowed dramatically this year. Future cuts look less certain with inflation remaining above target, economic growth improving and labour market weakness partially attributed to lower net immigration.

Both the median dot from the Fed's September forecasts, and market pricing, suggest that we may see another two US rate cuts this year, in October and December. Despite the median dot plot, there are several Fed officials who see no further cuts this year and are more concerned about

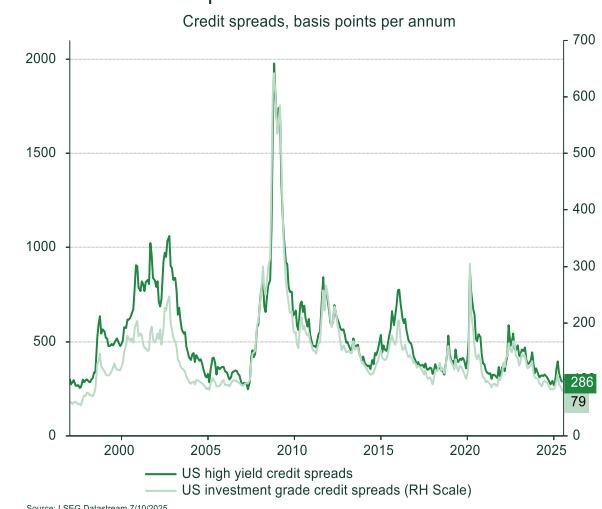
inflation than employment. Trump's attacks on Fed independence also complicate the outlook for short term interest rates over the next year.

The Bloomberg Barclays Global Aggregate Bond Index Hedged AUD returned 1.0% over the three months to the end of September, as bond yields fell in the US but rose in the UK, Eurozone and Japan. The two-year US Treasury bond yield fell from 3.72% to 3.61% over the quarter, while the 10-year US Treasury bond yield fell from 4.23% to 4.15% over the same period. In Europe, the 10-year German Bund yield rose from 2.60% to 2.71% while French 10-year yields rose from 3.29% to 3.54% on fiscal concerns and a credit rating downgrade.

Australian fixed interest underperformed global bonds with the Bloomberg AusBond Composite Index gaining 0.4% over the three months as local yields rose and the RBA cut cash rates to 3.60% in August. The two-year Australian government bond yield rose from 3.22% to 3.52% over the quarter and the 10-year government bond yield rose from 4.17% to 4.34%. Markets are currently pricing in a cash rate of 3.44% by the end of 2025, suggesting a 60% rate chance of another quarter point cut.



US credit spreads relative to US treasuries



Credit markets continued to perform well over the quarter, helped by high income and tighter credit spreads. Investment grade corporate bonds returned 2.0% over the three months according to the Bloomberg Global Aggregate - Corporate Hedged AUD Index. Investment grade credit

spreads contracted from 86 basis points over government bond yields, to 75 basis points, which is the lowest since 1998 and reflects solid demand for higher income securities, low supply of new corporate bonds as well as strong corporate fundamentals and low credit default risks.

High yield bonds, as measured by the Bloomberg Global High Yield Hedged AUD Index, returned 2.5% over the three months. As with investment grade, high yield credit spreads tightened over the quarter as recession risks faded, and equity markets reached new highs. Spreads fell from 296 basis points at the end of June to 274 basis points over treasury bond yields at the end of September.

Concerns about government debt sustainability and weak demand at bond auctions for longer-dated government bonds faded in the US and Japan but rose in France and the UK. The spread between 10-year and two-year US treasury bonds, and alternative measures of the US term premium, or the extra yield needed to attract investors into longer term bonds to compensate for extra risk, were broadly stable over the quarter.

For credit markets, recession risks have eased, and credit spreads have moved in line with equities to reflect the lower risk of an economic slowdown and higher rates of credit default. In the current economic environment, both investment grade and high yield corporate bonds should be supported by their high levels of income, which reduce the probability of negative total returns, even if credit spreads widen marginally.

Alternative Assets

Hedge fund strategies generated positive returns over the quarter, according to the HFRX Global Hedge Fund Index, which returned 3.2% in the three months to the end of September. Macro funds returned 5.8% over the quarter with trend-following strategies the best-performing sub-strategy, up 7.6% over the quarter, helped by price uptrends in equity indices and gold.

Event-driven strategies showed quarterly gains of 2.1%, with merger arbitrage funds returning 2.2% over the quarter. Equity long/short strategies posted gains of 3.8% over the quarter, with equity market-neutral funds generating returns of 0.8% from mean-reverting, factor-based strategies. Relative value arbitrage funds returned 2.1% over the quarter with convertible arbitrage funds generating returns of 5.3%.

Many equity market neutral and equity long short funds were negatively impacted in July, due to what was described as a “garbage rally” blamed on retail day traders. Short-term speculators pushed up the prices of low-quality “meme” stocks which many hedge funds, particularly quantitative funds that use a quality filter, had shorted.

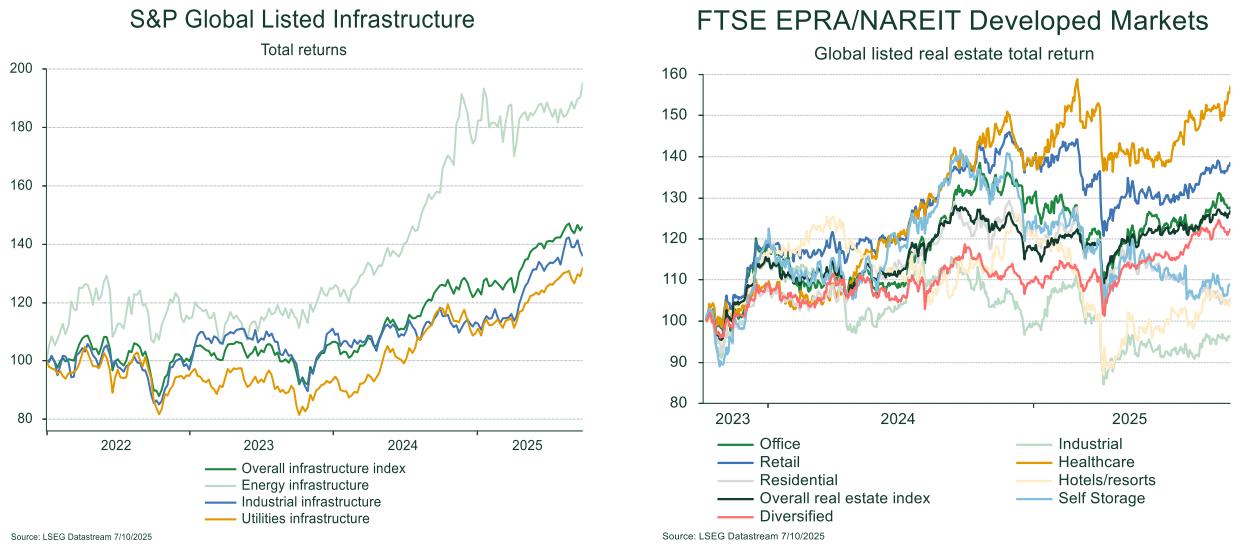
High individual stock, sector and style dispersion creates opportunities for active stock selection using fundamental and quantitative strategies. The opportunity set for event-driven strategies has been more difficult with a decrease in capital raising and merger activity due to elevated economic uncertainty. Within the hedge fund universe, manager selection remains more important than strategy selection and the return dispersion between the best and worst-performing hedge funds remains very wide.

Property and Real Assets

Global listed real estate produced positive returns over the September quarter as investor sentiment towards real estate continues to improve after several years of weakness. Real estate fundamentals have seen further improvement with a pick-up in transaction volumes, helped by better lending conditions and lower interest rates.

There is evidence that commercial property valuations have troughed recently with forward returns more likely to be driven by income and income growth rather than capital appreciation. Some sectors, such as healthcare, single and multi-family residential and data centres continue to see price appreciation driven by strong demand exceeding subdued new supply.

Higher construction costs, particularly in the US, where tariffs could impact prices of steel and other building materials, should help support valuations of existing property assets, as will lower interest rates. Construction costs could also be impacted by a crackdown on undocumented US construction workers. Higher property construction costs should lead to fewer new properties being built and should also support higher rental and price growth in certain sub-markets.



Global listed property, as tracked by the FTSE EPRA/NAREIT Developed Market Index Hedged AUD, returned 4.3% over the three months to the end of September. The healthcare sector was the best performing real estate sector, up 13.3% over the quarter while the residential sector was the weakest, down 5.2% as weaker immigration and employment weighed on rental demand.

Australian listed property securities, or A-REITs, as measured by the S&P/ASX 200 A-REIT index, did slightly better than global peers with a return of 4.6% over the three months to September. A small 4% decline in index heavyweight, Goodman Group which accounts for around 40% of the index, was offset by strong returns from Scentre Group, Stockland, GPT and Charter Hall which returned 11-19% over the quarter.

Global listed infrastructure, as measured by the S&P Global Infrastructure Hedged AUD Index, returned 3.8% over the three months to the end of June. The utilities sector was the best-performing sector over the quarter while the industrial sector was the weakest, albeit it still produced positive returns. Utilities stocks in the US continue to benefit from higher long-term demand for electricity to power data centres.

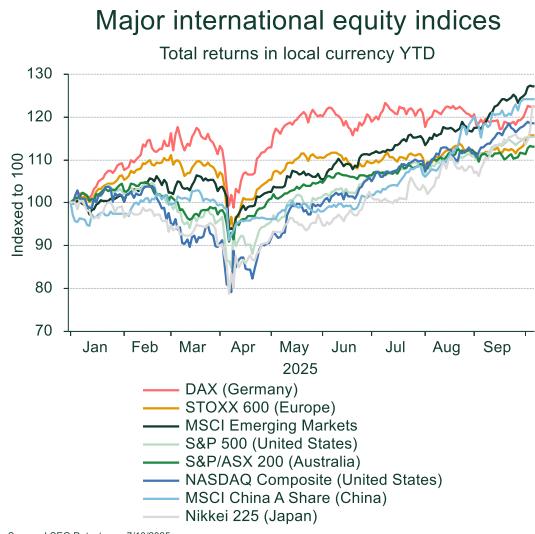
Global Shares

The September quarter was another strong quarter for global equities with share indices making regular fresh record highs. September marked the fifth consecutive month when the US equity market, as measured by the S&P 500 Index, recorded its monthly low on the first day of the month, and kept climbing from there. That's the first such five-month run of straight-line price growth since 1928..

Equity markets have been driven higher by resilient economic data, stronger corporate earnings, the AI boom and improving investor sentiment following the shock of the April's Liberation Day tariffs. AI enthusiasm also helped Chinese stocks stage a strong recovery after years of being seen as uninvestable by investors outside China.

In currency-hedged terms, global shares returned 7.6% over the three months to the end of September, according to the MSCI World ex-Australia Hedged AUD Index including dividends. The currency-unhedged index returned 6.1% over the quarter after the Australian Dollar rose 1.1% to US\$0.6628.

Global growth stocks (companies with above-average earnings growth) outperformed value stocks (companies with shares that are cheaper than average) over the past three months, due to AI momentum which pushed technology and growth stocks higher. There was also a rotation back into US and Asian shares and a movement away from European stocks which had performed strongly in the first quarter of this year.



Performance over the quarter was driven by the AI related information technology and communication services sectors, which returned 12.5% and 11.0%, respectively over the quarter. All other sectors were positive over the three months, except consumer staples, which declined by 1.6%. This was due to a rotation away from more economically defensive sectors with performance of healthcare and utilities stocks, also regarded as defensive, lagging returns of the broader index.

In the United States, the S&P 500 Index returned 8.1% for the three months, while the more technology-heavy NASDAQ Composite Index gained 11.4%. June quarter earnings from US companies were viewed as being strong, with 80% of companies reporting better-than-expected earnings and quarterly earnings were roughly 8% above expectations. Excluding the energy sector, earnings were 13.8% higher than the same quarter a year before. Communication services stocks again provided the largest earnings surprise relative to expectations.

In Europe, the STOXX 600 Index returned 3.5% over the quarter, with German stocks posting losses of 0.1% while Spanish stocks rose 11.5% over the three months. Of those companies in Europe that report quarterly earnings, around 51% beat analyst forecasts for earnings and aggregate earnings per share were 5.4% ahead of analyst forecasts. Companies in the financials sector again provided the largest earnings surprises relative to expectations. Excluding the energy sector, earnings were 7.6% higher than the same quarter in the prior year.

In Asia, Japanese equities returned 11.8% over the three months, as measured by the Nikkei 225 Index. Shares in Hong Kong gained 12.5% over the quarter, based on the Hang Seng Index. Mainland Chinese shares, as tracked by the Shanghai Composite Index, generated a three-month return of 12.7% while Indian shares lost 3.7% over the quarter. Emerging markets shares returned 12.5% in local currency terms, helped by the weaker US Dollar, and AI stocks in China.

The recovery in global equity prices has increased the price to earnings ratio for the MSCI World Equity Index from 19.2 in January to around 20.4 at the end of September. Earnings estimates for the year ahead have been marginally increased to reflect the stronger than expected June quarter earnings. CEO earnings guidance was also lifted, particularly in the Magnificent Seven stocks which have an outsized contribution to overall earnings growth.

Australian Shares

Australian equities, as measured by the S&P/ASX 200 Index, returned 4.7% over the three months to the end of September. Materials sector stocks gained 20.5% over the quarter, with strong returns from the major iron ore miners, BHP, Rio Tinto and Fortescue, helped by a 10% increase in the iron ore price to US\$103.62 per tonne. Healthcare was the weakest sector with a negative 9.3% return over the quarter due, in large part, to a sharp sell off in CSL shares after it announced a major restructuring and lower profit guidance for 2026.

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 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.

S&P/ASX 200 earnings per share forecasts



S&P/ASX 200 Valuation



The Australian equity market remains expensively valued based on valuation multiples compared against history and international markets. Australian shares have benefited from local investors having a strong home country bias and rising contributions into the superannuation system. This tends to be most acutely seen in ASX stocks with perceived earnings growth which trade on very high valuation multiples but are very vulnerable to sharp price declines if their earnings fall short of expectations.

At a price-to-earnings ratio of 19.9 times, Australian shares are trading at their highest valuations since late 2020, when interest rates were near zero and the market's valuation multiple peaked at 20 times earnings. These high valuations do not reflect strong expected earnings growth given earnings are expected to rise less than 4% in the 2026 financial year. The dividend yield for the S&P/ASX 200 index over the next year is projected to be 3.7%, which is below the 10-year Australian government bond yield of 4.37%.



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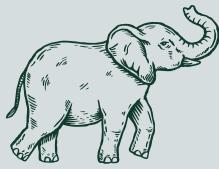
Market and Portfolio Snapshot

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

PORTFOLIO ASSET CLASS	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
	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 30 September 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	8849	-0.8	4.7	11.5	10.6	52.8	84.1
Japan - Nikkei 225	44933	5.9	11.8	14.7	20.8	83.7	113.5
US-S&P 500	6688	3.7	8.1	14.8	17.6	95.0	114.3
US - NASDAQ Composite	22591	5.4	11.1	17.6	25.0	118.6	110.0
UK – FTSE 100	9350	1.8	7.5	17.7	17.5	51.5	91.6
Europe – STOXX 600	558	1.5	3.5	13.2	10.3	58.7	80.6
Developed Markets – MSCI World	3330	3.3	7.6	15.0	17.3	86.0	104.7
Emerging Markets – MSCI EM	82980	7.1	12.5	25.0	19.7	67.1	54.5
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.52	0.17	0.30	-0.40	-0.06	0.01	3.34
Australia -10 year	4.34	0.05	0.17	-0.14	0.38	0.39	3.49
US - 2 year	3.61	-0.01	-0.11	-0.63	-0.04	-0.60	3.48
US - 10 year	4.15	-0.08	-0.08	-0.43	0.36	0.34	3.47
UK - 10 year	4.70	-0.02	0.21	0.13	0.69	0.61	4.47
Germany -10 year	2.71	-0.01	0.12	0.35	0.58	0.60	3.23
Currencies and Commodities	Change in price						
Australian Dollar (US\$)	0.6628	0.008	0.007	0.044	-0.031	0.020	-0.054
US Dollar Index	97.78	0.00	0.90	-10.71	-3.00	-14.34	3.89
Gold	3833.93	392.49	549.45	1208.58	1199.97	2159.87	1934.09
Iron Ore	103.62	-0.64	9.10	2.51	-3.84	8.32	-17.53
Crude oil	63.17	-1.19	-3.13	-9.27	-5.58	-16.77	23.10



Nick Ryder

Chief Investment Officer

Nick Ryder is an investment professional with deep and broad experience built over 30+ years in the investment management and financial services industries. Before joining Stanford Brown, Nick was a senior investment strategist at Commonwealth Bank, JBWere and NAB providing investment strategies to wealthy individuals, families and not-for-profit-clients.

He is passionate about helping clients grow and preserve their wealth, ensuring they also have a strong understanding of how their money is being invested.

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