StanfordBrown Private Wealth

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Investment Markets Report

Nick Ryder
Chief Investment Officer

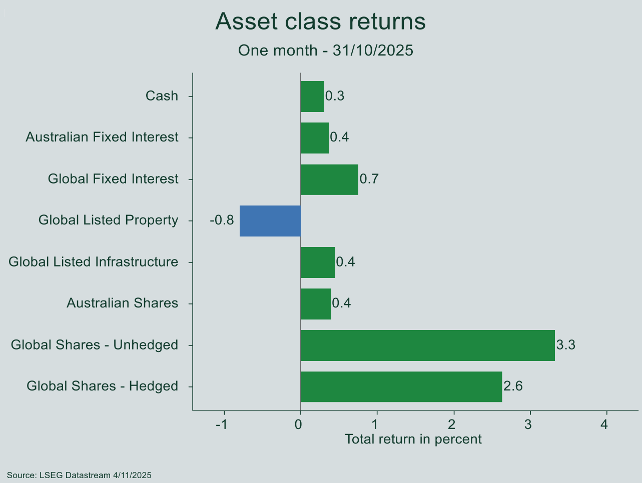
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in October?

Global equities made new record highs in October, helped by better-than-expected US earnings, a rate cut from the US Federal Reserve, US-China trade de-escalation and several AI-related investment deals that pushed Nvidia's market value to US$5 trillion. US bond yields fell during the month on concerns about slowing employment but rose into month end after the US Federal Reserve indicated that a December rate cut is not a foregone conclusion. Australia's bond yields also declined intra month, following a rise in the unemployment rate, but rebounded after stronger-than expected third quarter inflation data. Gold prices hit a fresh record high above US$4,300 per troy ounce mid-month before declining below US$4,000.

EXECUTIVE SUMMARY

- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 2.6% in October. The US equity market (S&P 500) was up 2.3% while Australian shares (S&P/ASX 200) rose 0.4%. European shares (STOXX 600) returned 2.6% and Emerging Market shares (MSCI Emerging Markets) rose 4.6%.
- 10-year government bond yields fell 5 basis points (bps) in the US, 3bps in Australia, 29bps in the UK, 7bps in Germany and rose 1bps in Japan.
- Investment-grade corporate bond spreads in the US rose 4bps to 80bps over US treasuries, while US high yield bond spreads rose 14bps to 294bps.
- The Australian Dollar fell 0.8 US cents to US$0.6547.
- Oil prices fell 2.3% to US$61.75 per barrel (WTI). Gold rose 3.8% to US$3,979 per troy ounce. Iron ore prices rose 3.5% to US$107.27 per tonne.



Tactical Positioning

October was another solid month for global equities with 60% of the world's stock markets making a new all-time high, up from about 30% of markets six weeks prior. Investor enthusiasm for growth assets has been helped by a resilient global economic backdrop, rate cuts in the US and the declaration of a one-year trade truce between the US and China. Enthusiasm for all things to do with Artificial Intelligence (AI) has also helped large US tech heavyweights drive further gains with companies like Nvidia and OpenAI announcing a flurry of deals with other companies and governments.

Global manufacturing activity

JPMorgan Global Purchasing Managers Index

Source: LSEG Datastream 4/11/2025

Despite the lack of data from US governmental agencies, due to the prolonged government shutdown, macroeconomic data from other major economies and from private US data providers points to improving global growth with few signs that trade tensions and tariffs have had much impact yet. Manufacturing business surveys in 29 countries show that 69% of countries have purchasing manager indices above their six-month average, which is the second-best level in 18 months. This points to a mild uptick in global growth which has likely been helped by lower interest rates, stronger consumer spending power and reduced fears of a trade war.

Given the strong run of equity markets over the past six months, there have been more warnings of a 'dot com' like equity market bubble. While there are some 'bubble like' indicators such as recent returns of unprofitable tech companies and 'meme' stocks, we are not especially concerned. Firstly, the overall strength of global equity markets has, in large part, been driven by earnings growth and the improving economic outlook rather than speculation. Secondly valuation multiples for the major tech companies are in line with their five-year averages. And thirdly, unlike the dot-com bubble and pre-GFC housing booms, much of the capital spending on AI has so far largely been financed by operating cashflow rather than debt.

That said, we are keeping an eye out for bubble indicators but acknowledge it is extremely hard to perfectly time when bubbles pop. Former US Fed Chair Alan Greenspan spoke about 'irrational exuberance' in December 1996, which was interpreted as a warning that the stock market might be overvalued, and yet the US equity market kept rising for another three years before the dot-com bubble deflated. For now,, we are retaining a neutral weighting to growth assets but are monitoring for signs that asset prices are becoming wildly overvalued and disconnected from earnings.

Nasdaq composite equity index

Index, start date = 100

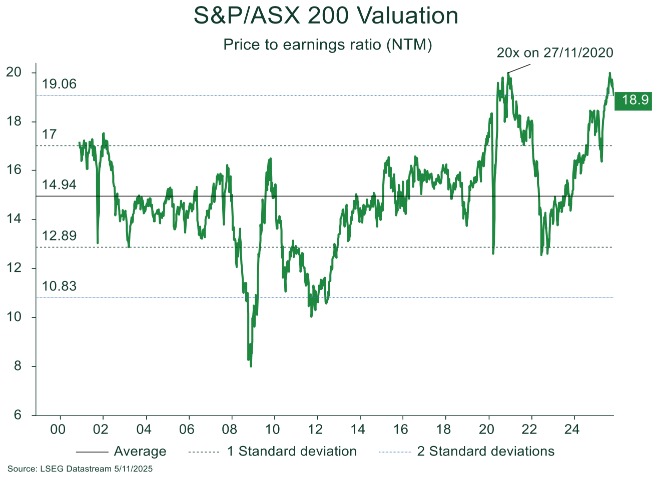
Source: LSEG Datastream 4/11/2025

EQUITIES:

With 71% of companies in the S&P 500 US equity index having reported third quarter earnings, the results so far are strong. 84% have reported beating analyst estimates, well above the long-run average of 67%. Excluding the energy sector, revenue and earnings are tracking to be up 8.2% and 14.7% respectively on year-ago levels. However, in a possible sign of investor fatigue, during this earnings season the market has only rewarded companies that beat their earnings estimates with 32 basis points of share price outperformance on the day following their reports, compared with a historical outperformance of 98 basis points and the weakest reward rate since COVID.

Five of the Magnificent Seven companies reported recently, and the results were generally strong relative to last year's earnings and compared with analyst expectations. Profit margins continue to expand at the Mag 7 whereas margins for the other 493 stocks in the S&P 500 are expected to contract modestly, and there are signs that companies are becoming more willing to undertake layoffs, after a period of post COVID labour hoarding, to preserve profit margins.

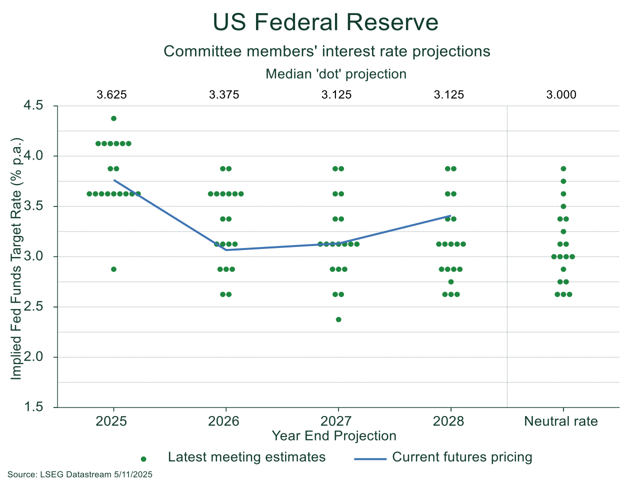
In Europe, of the companies that have reported September quarter earnings, 55% have beaten analyst forecasts which is in line with the long-term average. Excluding the energy sector, revenues and earnings have grown 0.1% and 4.4% respectively year-on-year, which is slower than in the US, but part of the difference likely reflects the stronger Euro. Financial companies produced the strongest growth rate over the past year with 10.3% earnings growth likely helped by lower loss provisions at European banks.



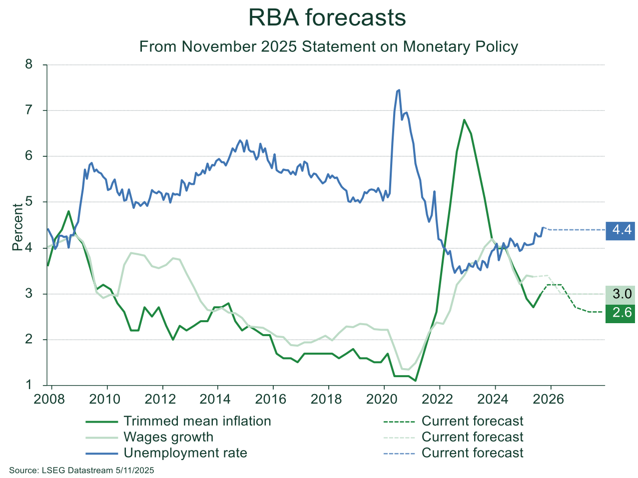
In Australia, the equity market has underperformed, due in part to sell offs of heavyweight growth stocks CSL and WiseTech Global, which were down 10% and 24% respectively in October. CSL was impacted by lower US vaccination rates and increased blood plasma competition while WiseTech continues to be weighed down by ongoing governance concerns. ANZ shares were up 10% in October helped by the news that the new CEO is undertaking a major restructure.

FIXED INCOME:

The US Fed cut rates in October, as widely expected. The post-meeting press conference was more hawkish than markets had expected with Chair Powell suggesting that a follow-up rate cut in December is not a "foregone conclusion". He also discussed the lack of incoming economic data, due to the US government shutdown, and compared it to needing to slow down when driving in the fog. This saw a modest repricing of rate cut expectations with a rise in US bond yields. The Fed's rate setting committee continues to be somewhat divided about the path of interest rates with some members more concerned about inflation pressures and others focussed on slowing job growth.



In Australia, as expected the RBA left rates unchanged in November. They appear a little worried about core inflation rising to 1.0% (3.0% annual rate) in the last quarter, which has raised the bar for further rate cuts in the near term, and increases the chance that there may not be another rate cut this cycle. Markets are now only pricing in a single rate cut in mid-to-late 2026.



PROPERTY AND REAL ASSETS:

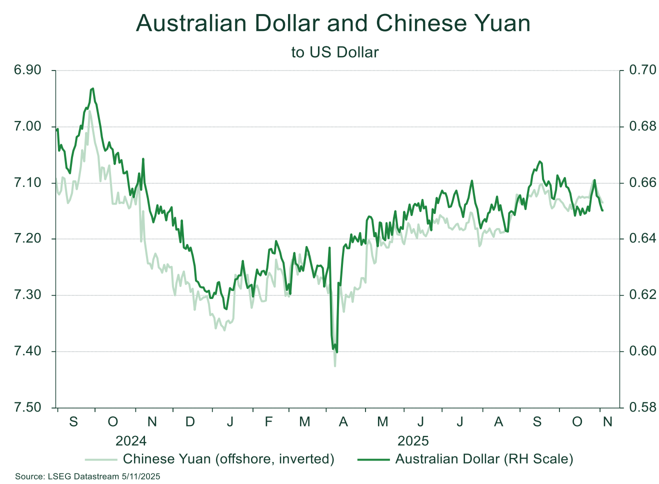
Real assets such as property and infrastructure are relatively immune to tariffs, should benefit from lower interest rates and have some exposure to the data centre and associated energy infrastructure build out. Higher construction costs and lower vacancies are supporting rent growth and values of existing property and real assets by reducing new supply.

ALTERNATIVE ASSETS:

Alternative assets returned 0.7% in October with positive performance from all the major sub-strategies. Macro/trend-following funds generated the largest returns due to rises in precious metal prices as well as gains in natural gas, aluminum, soybeans, and coffee.

CURRENCY:

The Australian Dollar softened in October after the US Dollar recovered against major currencies, driven by a reassessment of US rate cut chances. We remain currency unhedged in global shares.



Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are likely to remain steady at around current levels. There may be one more RBA rate cut to 3.35% in 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 term premium relative to expected cash rates.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around seven years. Higher US inflation from tariffs is likely to be temporary, and the softening of the labour market should lead to a few more US cuts this cycle. Credit is relatively expensive but can provide attractive income and total returns in a non-recessionary environment.
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 were hurt in April, by sharp reversals in market direction, but can provide portfolio insurance-like characteristics by capturing price trends in financial, currency and commodity markets.
Property & Real Assets	Neutral	Property and infrastructure should provide a more defensive exposure in a global downturn relative to equities. The demand and supply dynamics for property and infrastructure assets (particularly in energy and digital infrastructure) are improving.
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 face pressures from lower ore grades and Chinese efforts to reduce prices by increasing use of scrap, sourcing from Guinea and collective bargaining.
Global Shares	Neutral	Hold a neutral allocation as although investor sentiment and valuations, particularly for US tech companies, are high, economic and corporate fundamentals, such as solid earnings growth, remain supportive. We are alert to risks of an AI asset bubble developing but accurately timing when bubbles form and when they burst remains a challenge and we don't believe we are in a bubble yet.
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 October 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	8882	0.4	2.7	11.9	12.5	44.6	81.3
Japan - Nikkei 225	52411	16.7	28.6	33.8	36.7	101.4	151.3
US - S&P 500	6840	2.3	8.2	17.5	21.5	84.6	125.3
US - NASDAQ Composite	23725	4.7	12.5	23.5	32.0	120.9	125.7
UK - FTSE 100	9717	4.1	7.3	22.6	24.1	53.1	109.4
Europe - STOXX 600	572	2.6	5.2	16.1	17.0	53.1	95.2
Developed Markets - MSCI World	3413	2.6	8.2	17.9	21.4	78.1	116.5
Emerging Markets - MSCI EM	8882	0.4	2.7	11.9	12.5	44.6	81.3
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.58	0.06	0.22	-0.35	-0.48	0.33	3.46
Australia -10 year	4.32	-0.03	0.04	-0.16	-0.20	0.56	3.48
US - 2 year	3.60	-0.01	-0.34	-0.64	-0.57	-0.90	3.45
US - 10 year	4.10	-0.05	-0.27	-0.48	-0.19	0.02	3.24
UK - 10 year	4.41	-0.29	-0.16	-0.16	-0.04	0.88	4.15
Germany -10 year	2.64	-0.07	-0.05	0.28	0.25	0.48	3.26
Currencies and Commodities	Change in price						
Australian Dollar (US$)	0.6547	-0.008	0.011	0.036	0.000	0.015	-0.048
US Dollar Index	99.80	2.03	-0.16	-8.68	-4.17	-11.72	5.76
Gold (US$/ounce)	3978.95	145.02	682.92	1353.60	1238.20	2340.92	2098.18
Iron Ore (US$/tonne)	107.27	3.65	7.41	6.16	3.49	29.49	-8.98
Crude oil (WTI, US$/barrel)	61.75	-1.42	-8.61	-10.69	-7.83	-24.78	26.14

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