StanfordBrown Private Wealth

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Investment Markets Report

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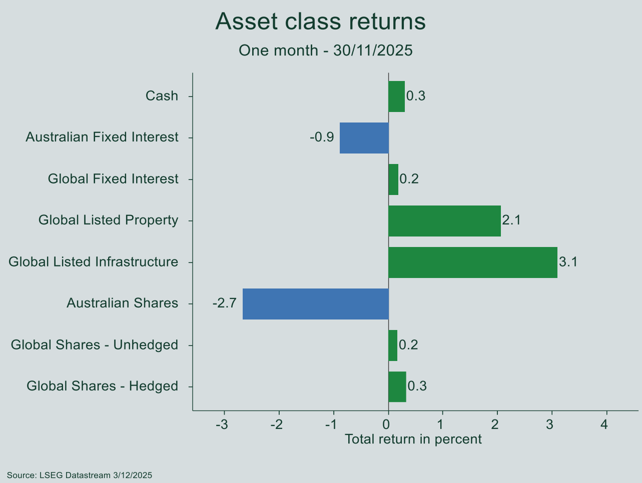
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in November?

Global equities finished the month up slightly, after mid-month US tech-driven losses were triggered by renewed fears of a bubble in artificial intelligence stocks. Australia's equity market was lower over the month after major bank stocks declined on concerns that home lending competition is intensifying. The rebound in global equities at the end of the month was helped by some US Federal Reserve officials discussing the need for a December rate cut. In Australia, the hotter than expected October inflation print saw bond yields rise. Despite divergence in the expected path of US and Australian interest rates, the Australian Dollar was essentially flat against the US Dollar over the month.

EXECUTIVE SUMMARY

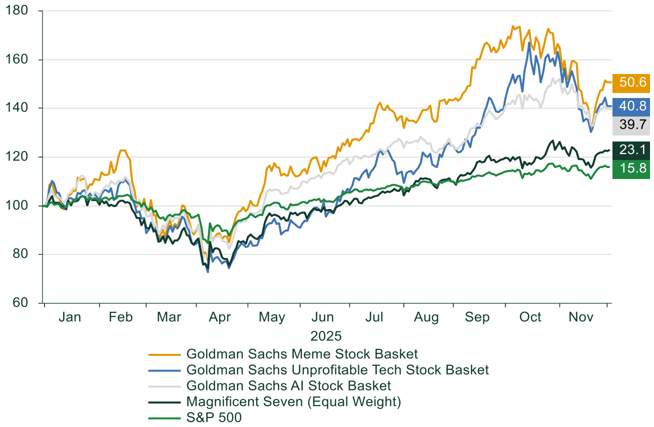
- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 0.3% in November. The US equity market (S&P 500) also rose 0.3% while Australian shares (S&P/ASX 200) dropped 2.7%. European shares (STOXX 600) returned 1.0% and Emerging Market shares (MSCI Emerging Markets) fell 1.6%.
- 10-year government bond yields fell 8 basis points (bps) in the US but rose 22bps in Australia, 3bps in the UK, 5bps in Germany and 14bps in Japan.
- Investment-grade corporate bond spreads in the US rose 2bps to 82bps over US treasuries, while US high yield bond spreads rose 1bps to 295bps.
- The Australian Dollar rose 0.1 US cents to US$0.6558.
- Oil prices fell 5.1% to US$58.58 per barrel (WTI). Gold rose 5.6% to US$4,200 per troy ounce. Iron ore prices fell 1.1% to US$106.09 per tonne.



Tactical Positioning

Momentum in some of the more speculative and expensive parts of the equity market ran out of steam in November as investors increasingly debate whether the current enthusiasm for artificial intelligence and other overvalued sectors is a re-run of the late 1990s dot-com bubble. The shallow equity sell off was also aided by debate among US Federal Reserve officials about whether inflation or employment risks are larger and whether there is a need to continue cutting interest rates for risk management purposes.

Frothy Stocks vs Magnificent Seven



Source: LSEG Datastream 3/12/2025

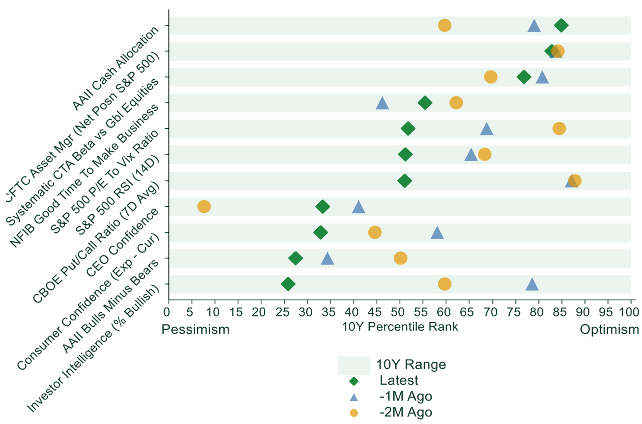
Minutes from October's Fed meeting showed "many" Federal Reserve officials said it would likely be appropriate to keep interest rates steady for the remainder of 2025. This saw chances of a December rate cut fall to around 30% in mid November. However, later in the month Fed Vice Chair John Williams stated that upside risks to inflation have "lessened somewhat" leading markets to price in a 90% chance of a December cut, helping lift equities from their mid month slump.

With markets heavily focused on short term rate cuts in the US, and ongoing debate about the likely returns from trillions of dollars of investment in data centers, underlying economic momentum remains mostly positive and supportive of risk assets. Leading indicators of economic activity are generally healthy, retail spending is growing, despite weak consumer sentiment due to cost-of-living pressures, and unemployment is still relatively low even though the pace of hiring has slowed and there are worries of AI-related job losses.

Corporate revenues and profits continue to grow strongly and forward guidance from CEO's has been relatively upbeat, particularly for the tech sector. Equity valuations are high, reflecting underlying economic growth and corporate profit momentum. The recent drop in some measures of investor sentiment, which are now in more cautious territory, is healthy in our view, as are the price declines in the more speculative and leveraged parts of equity and cryptocurrency markets.

We continue to adopt a cautiously optimistic approach to asset allocation and remain neutrally positioned across growth and defensive asset classes. We are monitoring a range of key risks, which in our view include the potential for a second wave of inflation that may require central banks to lift rates in 2026, emerging cracks in labour markets (particularly the US due to delayed tariff impacts), slower uptake of AI tools by corporates and paying subscribers and signs of systematic problems in public or private credit markets.

Sentiment And Positioning



Source: LSEG Datastream 3/12/2025

EQUITIES:

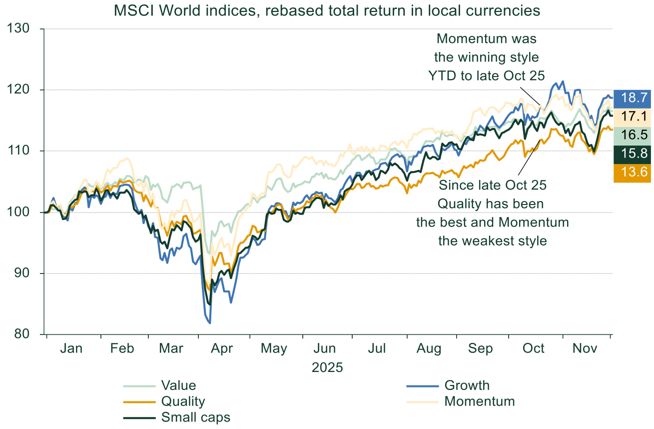
In November, the primary beneficiary of the AI investment boom, Nvidia, reported record quarterly revenue of US$57.0 billion, up 62% year-over-year. It also provided guidance that it expects revenue of around US$65 billion in the next quarter, representing an acceleration in revenue growth to 65% year-over-year. Notwithstanding the stronger than expect results and guidance, Nvidia shares are currently trading around 12% below their late October highs.

Australia's largest stock, Commonwealth Bank, also retreated, by about 15%, over the past month despite analysts saying the bank's first-quarter trading update, announced in November, was broadly in line with market expectations. CBA reported a slight decline in net interest margins due to intense competition in the mortgage market. Its very high valuation made its share price vulnerable when the results did not prompt an upgrade to analyst earnings forecasts.

The recent underperformance of the largest US and Australian stocks signals that perhaps investors are starting to become more sensitive to valuations and less willing to blindly chase recent winners. In both cases, investors are also focusing on the medium-term competitive environment. In the case of Nvidia, major customers and vertically integrated tech giants such as Amazon and Alphabet have been developing their own custom silicon chips, which are cheaper than Nvidia's chips. In Australia, competition in the mortgage and deposit markets are intensifying as groups such as Macquarie attempt to pick off more affluent and larger customers.

Global investment style performance

MSCI World indices, rebased total return in local currencies



Source: LSEG Datastream 3/12/2025

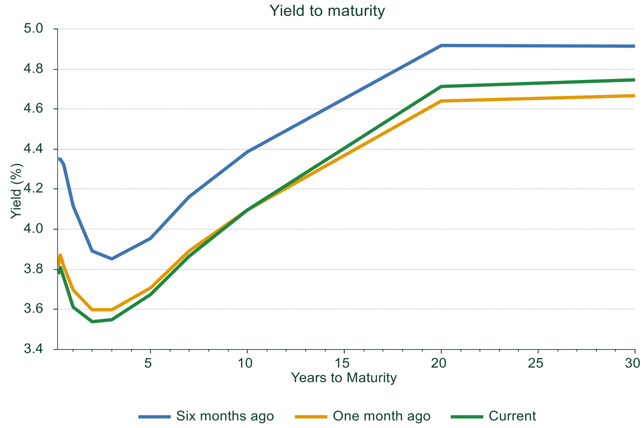
It is still too early to conclude that investors are definitively rotating away from lower quality, overvalued price momentum stocks into higher quality, cheaper stocks that were left behind in the rally from April's lows. However, it is a reminder that diversification by region, sector and style remains important and that active stock picking can outperform passive, market capitalisation weighted strategies at certain points in the investment cycle, particularly when large capitalisation market indices are biased towards including stocks with positive price momentum .

FIXED INCOME:

Although the US government shutdown has now ended, after a record 43 days, much of the economic data that the US Federal Reserve would ordinarily use in its deliberations at the upcoming 9-10 December meeting will be missing or delayed. This will leave policymakers with fairly fixed and deeply divided positions over whether further rate cuts are needed to help the job market or too risky given the still-elevated level of inflation. Nearly half of the voters on the rate setting committee have said they are sceptical or opposed to cutting rates further, while a quarter said they want lower rates, and the rest are either keeping quiet or undecided. This is likely to keep short term US bond yields volatile until more timely economic data and a clearer consensus emerges.

US government bond yield curve

Yield to maturity

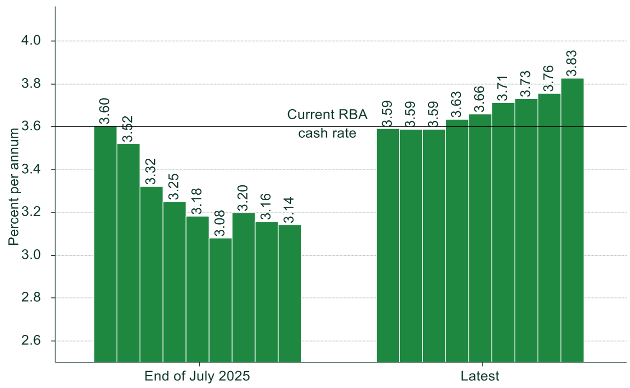


Source: LSEG Datastream 3/12/2025

In Australia, the October CPI print saw inflation rise to 3.8% year-on-year, which has likely killed off any chances of a move from the RBA at upcoming meetings. Some economists are suggesting no further rate cuts this cycle, with a small prospect that the RBA's next move is a rate hike. Markets are now pricing in a 50% chance of rate hike by late 2026.

Implied RBA cash rate

For each subsequent RBA meeting

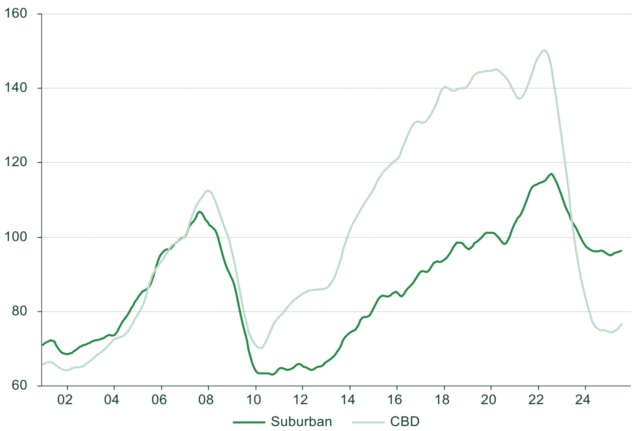


Source: LSEG Datastream 3/12/2025

PROPERTY AND REAL ASSETS:

Listed property and infrastructure performed relatively well in November helped by the equity market rotation into cheaper sectors and increased prospects of US rate cuts. Higher construction costs, lower vacancies and lower interest rates are supporting both rent growth and property prices by reducing new supply.

RCA US unlisted office property index



Source: LSEG Datastream 3/12/2025

ALTERNATIVE ASSETS:

Alternative assets returned 0.1% in November with positive performance from all the major sub-strategies. Systematic trend-followers generated a monthly return of 1.1% with currencies and precious metals, the main contributors to performance.

CURRENCY:

The Australian Dollar finished broadly flat in November after losses earlier in the month were offset as the US Dollar weakened 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 is a small chance of a rate hike in 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 have recovered after being impacted by sharp reversals in market direction in April. These strategies can provide portfolio insurance-like characteristics by capturing price trends in financial, currency and commodity (including precious metal) 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 still 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 30 November 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	8614	-2.7	-3.1	8.9	5.5	32.1	60.1
Japan - Nikkei 225	50254	-4.1	18.5	28.3	34.1	90.5	109.4
US - S&P 500	6849	0.3	6.3	17.8	15.0	75.3	103.6
US - NASDAQ Composite	23366	-1.5	9.1	21.7	22.4	108.3	98.8
UK - FTSE 100	9721	0.4	6.4	23.0	21.5	43.5	86.5
Europe - STOXX 600	576	1.0	5.2	17.3	16.8	44.6	73.1
Developed Markets - MSCI World	3418	0.3	6.2	18.3	16.0	69.0	93.9
Emerging Markets - MSCI EM	85303	-1.6	10.2	28.7	30.2	58.2	45.4
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.82	0.25	0.48	-0.10	-0.16	0.70	3.72
Australia -10 year	4.54	0.22	0.24	0.06	0.17	0.99	3.63
US - 2 year	3.49	-0.11	-0.12	-0.75	-0.68	-0.88	3.34
US - 10 year	4.02	-0.08	-0.20	-0.55	-0.18	0.32	3.18
UK - 10 year	4.44	0.03	-0.28	-0.13	0.20	1.28	4.14
Germany -10 year	2.69	0.05	-0.03	0.33	0.60	0.75	3.26
Currencies and Commodities	Change in price						
Australian Dollar (US$)	0.6558	0.001	0.001	0.037	0.004	-0.014	-0.081
US Dollar Index	99.46	-0.35	1.69	-9.03	-6.28	-6.49	7.59
Gold (US$/ounce)	4200.10	221.15	758.66	1574.75	1540.65	2448.16	2425.71
Iron Ore (US$/tonne)	106.09	-1.18	1.83	4.98	0.78	4.26	-23.22
Crude oil (WTI, US$/barrel)	58.58	-3.17	-5.78	-13.86	-9.68	-21.87	13.24

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