

Market Commentary & Outlook December 2025

Summary

- **Global risk assets** ended **December** mixed amidst the view that **policy easing in 2026** may be slower and more uneven.
- US Fed delivered a third **25 basis points** rate cut. Signalled **higher bar** for future easing.
- **Australian** headline **CPI 3.4% YoY**, still above target.
- **Australian equities modestly higher** led by Materials and Resources; Tech & Healthcare lagged.
- **Stronger AUD reduced unhedged global equity gains**; Europe and Emerging Markets stronger.
- **Bond yields**: Australian yields rose limiting December returns.
- **Gold** continues to hover at **record highs**.

Global Market Overview

Global risk assets ended December mixed, as investors weighed diverging central bank paths and the prospect that policy easing in 2026 may be slower and more uneven than previously hoped. The US Federal Reserve delivered a 25 basis point rate cut to take the target range to 3.50%-3.75% p.a. The European Central Bank held rates for a fourth meeting, with a modest growth outlook. The Bank of England mirrored the US Fed with a 25 basis point cut. Global ex-US equities generally outperformed.

Australia

As widely expected, The RBA kept the cash rate at 3.60% p.a. in December, noting that whilst inflation has fallen substantially from the 2022 peak, recent data showed a pickup and risks “tilted to the upside”. Data released in early January showed headline CPI at 3.4% year on year in November, down from 3.8% in October, suggesting some relief but the trimmed mean of 3.2% year on year still above the 2-3% target band.

- **S&P/ASX 200 rose 1.3%**, led by Materials (6.65%) and Resources (5.82%). Tech (-8.68%) and Healthcare (-7.14%) lagged.
- Small caps rose **1.42%**, modestly outperforming large caps for the month but finished the year much stronger with the S&P/ASX Small Ordinaries up 24.96% compared to the 10.32% of the S&P/ASX 200.

Global Equities

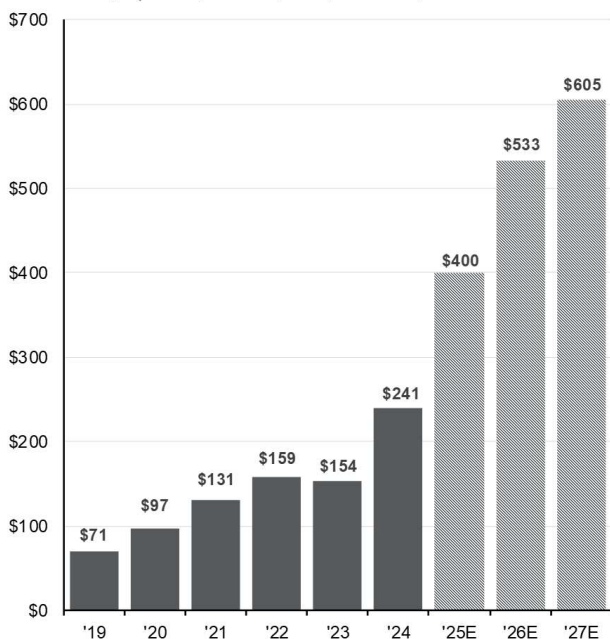
The S&P 500 was largely flat for December but had a strong year in USD terms (17.88%). In unhedged AUD terms this translated to a 9.45% return.

- On balance developed **ex-US and Emerging Markets outperformed** the US in December. The MSCI ACWI ex-US outpaced the US for 2025, aided by Europe’s policy stability and a softer US dollar late in the year.
- **NASDAQ** dipped for the month amid renewed scrutiny of AI-capex and stretched mega cap valuations.

Artificial Intelligence: Hyperscaler investment

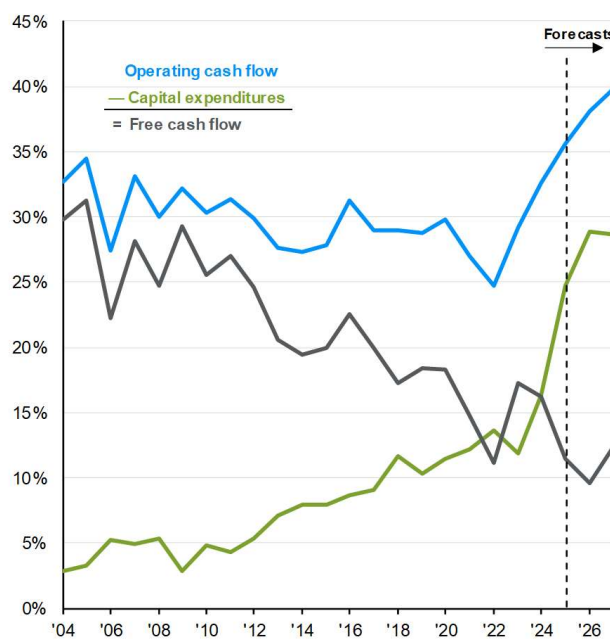
Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



Hyperscalers' cash flow and capex

% of sales



Source: J.P.Morgan Guide to the Markets, Bloomberg, J.P. Morgan Asset Management. Data are as of December 31, 2025.

The chart above looks at the capital investment driving AI infrastructure, and how it's being financed. On the left-hand side, we show capital spending by the major AI hyperscalers, which has surged in recent years and is expected to continue rising in the years ahead. Unlike historical infrastructure booms, the AI wave is primarily being financed via cash flows. On the right, the chart shows the breakdown of operating cash flows and capital expenditures for these businesses, netting out to free cash flow, all as a share of current sales. Despite significant capex upgrades, operating cash flows has risen a commensurate degree, as the hyperscalers have benefitted from rising cloud service revenue and AI-led productivity gains.

Fixed Income & Commodities

December saw a mild bear-steepening locally and modest firmness in U.S. yields:

- **Australia:** The 10-year Commonwealth yield finished near 4.76% p.a. (31 Dec), up on the month as markets priced a more cautious RBA. The Bloomberg AusBond Composite ended 2025 with a mid-single-digit total return, though December returns were constrained by the late-month rise in yields
- **United States:** The 10-year Treasury ended December at 4.18% p.a., slightly higher into the close after better-than-expected jobless claims, but below early-year levels after the US Fed's second half of the year cuts.
- **Gold** finished the year at US\$4,325/oz; **Bitcoin** (iShares Bitcoin ETF) finished the year with a return of **-7.08%** in USD.

Outlook and Positioning

Rate hikes in Australia are now widely predicted by economists with the big 4 bank economists evenly split on a hold or 25 basis point rise in February. In the US, Fed independence continues to be an issue as the administration presses for further cuts. We start 2026 continuing the debate over the AI led market. Geopolitical and policy issues are much more in the spotlight with markets cautious.

We continue to favour a diversified approach to global equities, with a dedicated emerging market exposure. With the potential for policy divergence we maintain our preference for active management in fixed interest with a bias towards

Australian fixed interest. There is cause for optimism in 2026 but staying diversified and cautious continues to be the order of the day.

Benchmark Returns

| Period Ended: 31 December 2025 | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|--|---------|----------|----------|--------|---------|---------|----------|
| | % | % | % | % | % (pa) | % (pa) | % (pa) |
| Australian Shares | | | | | | | |
| S&P/ASX 100 | 1.36 | -1.24 | 2.49 | 9.00 | 11.12 | 10.19 | 9.42 |
| S&P/ASX 200 | 1.30 | -1.01 | 3.65 | 10.32 | 11.39 | 9.89 | 9.31 |
| S&P/ASX Small Ordinaries | 1.42 | 1.80 | 17.39 | 24.96 | 13.44 | 6.85 | 8.64 |
| International Shares | | | | | | | |
| MSCI ACWI ex-Australia AUD | -0.67 | 2.27 | 9.38 | 13.70 | 21.52 | 14.56 | 12.77 |
| MSCI ACWI ex-Australia AUD (Hedged) | 0.74 | 3.73 | 12.07 | 19.90 | 19.87 | 11.17 | |
| Australian Cash and Bonds | | | | | | | |
| Bloomberg AusBond Bank | 0.31 | 0.90 | 1.83 | 3.97 | 4.11 | 2.71 | 2.11 |
| Bloomberg AusBond Composite Index | -0.63 | -1.15 | -0.75 | 3.17 | 3.72 | -0.43 | 2.03 |
| International Bonds | | | | | | | |
| Bloomberg Global Aggregate AUD (Hedged) | -0.23 | 0.69 | 1.72 | 4.42 | 3.98 | -0.59 | 1.95 |
| Global Listed Infrastructures | | | | | | | |
| FTSE Developed Core Listed Infrastructure 50/50 AUD (Hedged) | -2.42 | 0.21 | 4.76 | 11.57 | 7.67 | 6.97 | 7.35 |
| Property | | | | | | | |
| S&P/ASX 200 A-REIT | 1.95 | -1.40 | 3.09 | 9.24 | 15.03 | 8.84 | 7.91 |
| FTSE EPRA Nareit Developed AUD (Hedged) | -1.43 | -0.20 | 4.10 | 7.49 | 6.03 | 3.06 | 2.96 |

Source: Morningstar Direct

Important Information

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