salita PORTFOLIO SERVICES

THE CIO PERSPECTIVE

Aman Ramrakha

Commentary | Quarter 4 2025

Welcome to 2026. In this quarter's edition we will summarise the year that was 2025 as well as the outlook for 2026.

2025 Market Overview

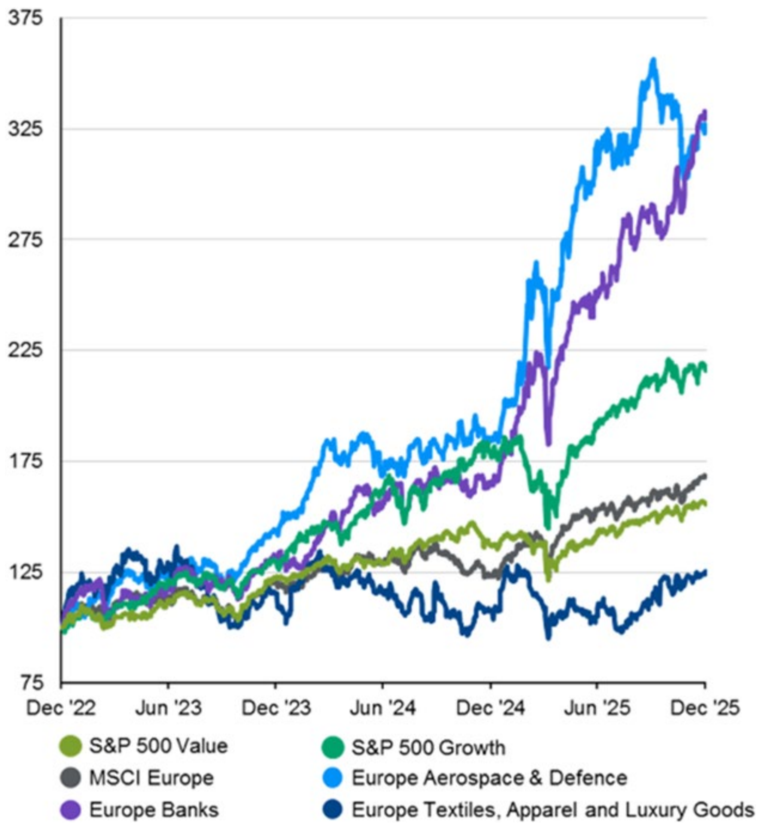
Markets delt with several issues over the course of 2025. The first half was dominated by trade concerns as the United Sates raised tariffs to levels not seen since the 1930s. Developed markets fell heavily in April but recovered as the focus on the second half of the year was the positive impacts of fiscal and monetary stimulus. 2025 was the first year since the pandemic to see all major asset classes delivering positive returns.

Key observations:

- Equity markets benefited from interest rate reductions, tempered by inflation stickiness. US fiscal stimulus also benefited markets, but concerns linger about government debt and deficits over the longer term. European defence spending assisted the industrial sector in the region and globally investors had to contend with working out who the winners are within the AI ecosystem.

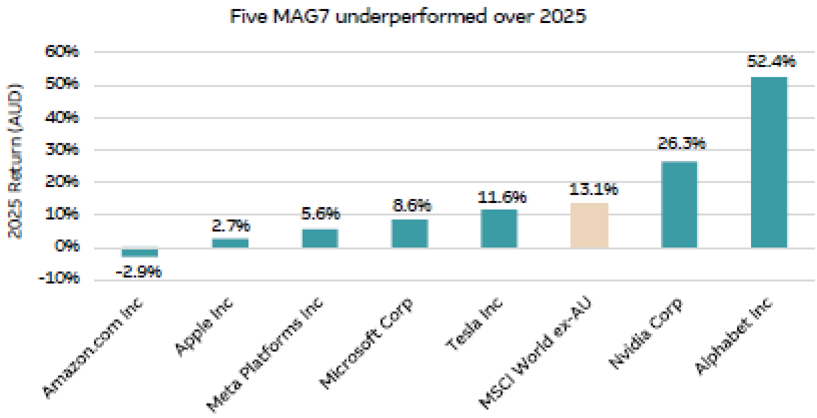
Performance of select equity sectors

Indexed, 100 = December 2022



Source: J.P. Morgan Asset Management Guide to Markets – Australia. Data as of 31 December 2025.

- European and Emerging Market (EM) equities were amongst the best performers. For the first time in 20 years the S&P 500 was the worst performing major equity market.
- Precious metals were the standout for 2025. Gold dominated headlines as central banks continue to diversify their reserves. Gold ETFs saw strong inflows but Silver significantly outperformed gold with a 130% return (ETPMAG). Bitcoin had a negative year.
- Artificial Intelligence (AI) continued to dominate markets although it is worth noting that only two of the 'Magnificent Seven' outperformed the broader global index.



- Asian markets outside of China rode the wave of AI enthusiasm, noting the crucial role the region plays in the IT supply chain.
- The S&P/ASX 200 finished the year in double digit territory but lagged most global indices. Healthcare and IT were the poorest performing sectors, down -23.66% and -20.80% respectively. Materials (36.21%), buoyed by strong metal prices, especially gold, silver, copper, and lithium, was the best performing sector. Industrials (13.98%) was the next best sector benefiting from stable earnings and supportive macro conditions.
- The positive outcome in risk assets extended to fixed interest as the key thematic was a compression in spreads. EM debt was the best performer as a combination of strong fundamentals, investor demand and currency tailwinds (i.e. a weaker USD) boosted returns.
- Global credit and US high yield also performed well. On a one year basis the Australian fixed income market lagged global indices with early gains impacted by shifting RBA policy as inflation ticked up in the second half of the year.
- Listed infrastructure had a strong year whilst Global REITS underperformed AREITS.

Index Returns to 31 December 2025 (sorted by year-to-date, highest to lowest)

Index	6mo	1yr	3yr	5yr	10yr
	%	%pa	%pa	%pa	%pa
Betashares Gold Bullion Currency H ETF	30.55	62.70	30.80	15.49	12.97
MSCI Europe NR AUD	8.15	25.72	18.89	13.56	9.47
S&P/ASX Small Ordinaries TR AUD	17.39	24.96	13.44	6.85	8.64
MSCI EM NR AUD	13.88	24.01	17.05	7.28	9.37
MSCI AC Asia Ex Japan NR USD	13.52	22.80	16.86	6.81	9.50
MSCI China NR USD	9.87	21.79	12.26	-0.33	6.46
MSCI ACWI ex Australia 100%Hedged NR AUD	12.07	19.90	19.87	11.17	
S&P Global Infrastructure NR Hdg AUD	6.12	17.15	12.50	10.39	8.22
S&P 500 Hedged NR AUD	10.50	16.85	20.85	12.21	12.82
MSCI Japan NR AUD	9.59	15.69	18.20	9.76	8.56
MSCI ACWI Ex Australia NR AUD	9.38	13.70	21.52	14.56	12.77
MSCI World Ex Australia NR AUD	8.85	12.53	22.08	15.57	13.23
MSCI World Ex AUS Small Cap NR AUD	9.48	10.87	15.22	10.36	10.38
S&P/ASX 200 TR AUD	3.65	10.32	11.39	9.89	9.31
S&P 500 TR USD	9.08	9.45	23.70	17.81	15.82
S&P 500 TR AUD	9.08	9.45	23.70	17.81	15.82
S&P/ASX 200 A-REIT TR	3.09	9.24	15.03	8.84	7.91
FTSE EPRA Nareit Developed NR Hdg AUD	4.10	7.49	6.03	3.06	2.96
Bloomberg Gbl Agg Corp TR Hdg AUD	2.88	6.62	5.35	-0.43	2.79
Bloomberg Global Aggregate TR Hdg AUD	1.72	4.42	3.98	-0.59	1.95
RBA Cash Rate Target	1.89	4.02	4.18	2.77	2.02
Bloomberg AusBond Bank 0+Y TR AUD	1.83	3.97	4.11	2.71	2.11
Bloomberg AusBond Composite 0+Y TR AUD	-0.75	3.17	3.72	-0.43	2.03
FTSE EPRA Nareit Developed NR AUD	1.52	1.74	7.25	5.80	4.15
Bloomberg Global Aggregate TR AUD	-0.90	0.43	4.56	0.75	2.15
MSCI India NR USD	-4.86	-4.72	11.92	13.14	10.66
iShares Bitcoin Trust ETF	-20.27	-13.72			

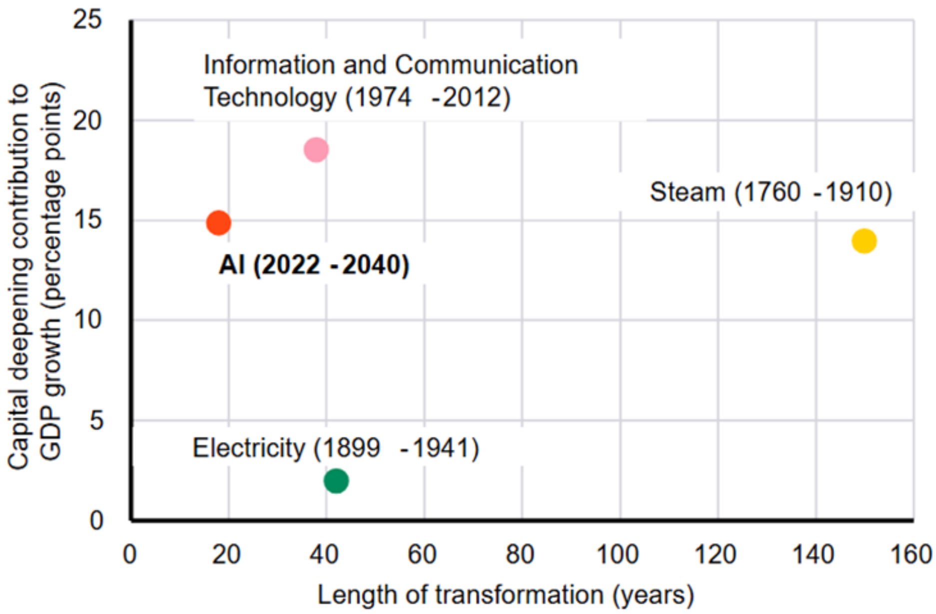
Outlook for 2026

The first few weeks of 2026 were dominated by geopolitical issues as the US administration continued and accelerated its ‘America First’ policies. Military action in Venezuela, talk of acquiring Greenland, potential for action against Iran made markets jittery. Notwithstanding short term or even intraday volatility, markets have largely continued a similar thematic from 2025. Some key themes for 2026 are:

- **AI.** No surprise that AI will continue to be a dominant theme in 2026 and for the foreseeable future. Valuations on standard measures, such a price-to-earnings show that broader US valuations are the highest since the dotcom and 1929 bubbles. Towards the later part of 2025 the focus also shifted to enormity of the capex spending and that debt was now being used to support overall spending. Our view is that active investment is required to sift through the AI maze to find winners and that staying on the sidelines of AI and therefore the US equity market would be unwise. Adoption of AI and the resultant productivity benefits will be key watch points. The chart below shows the average annual contribution of capital spending to GDP growth for previous technologies against the length of time the capital was spent. Projections show that AI spend could add to GDP growth over a much shorter time frame.

A rapid transformation

Length and capital deepening of notable innovations, 1760-2040

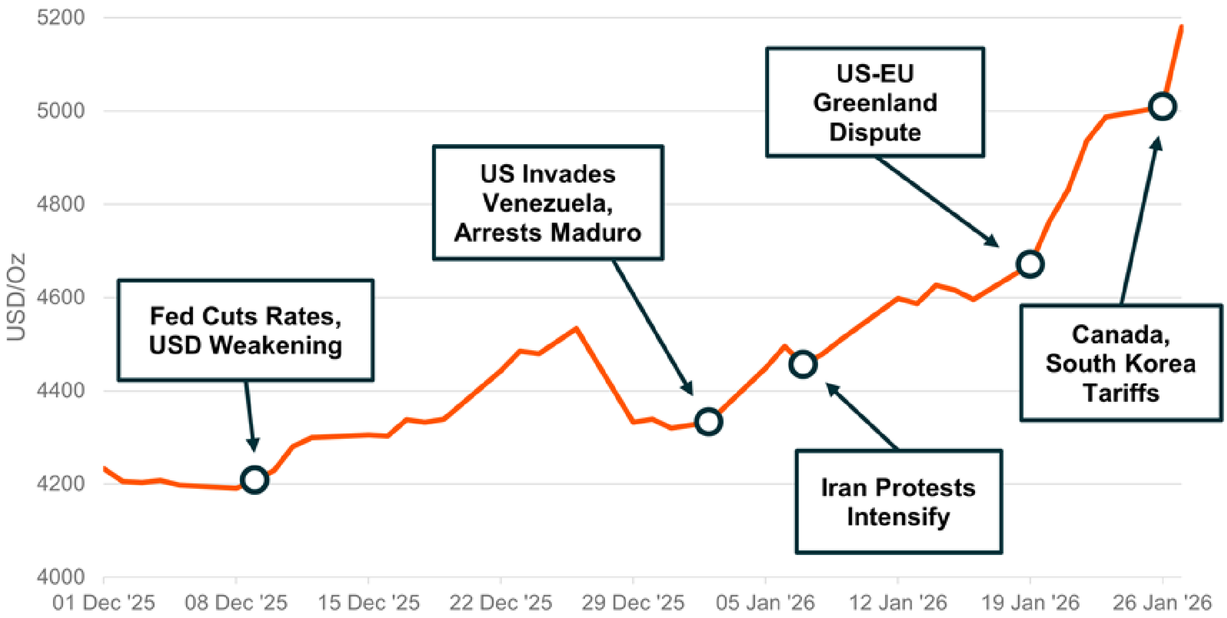


Source: Blackrock Investment Institute.

- **Global economy.** Early in 2025, shortly after Liberation Day, the IMF forecast global growth of 2.8% in 2025. By the end of the year that expectation was revised to 3.8%. The IMF projects that global growth of 3.3% for 2026 and 3.2% for 2027. According to the IMF, technology investment, fiscal and monetary support, accommodative financial conditions, and private sector adaptability offset trade policy shifts. Furthermore the IMF expects global inflation to fall, with the US gradually returning to target. The outlook for Australia is lower than global forecasts with 2.1% for 2026 and 2.2% for 2027. The inflation outlook and path for rates in Australia is a little more uncertain with expectations of a rate hike in the first half of 2026.
- **Inflation and rates.** Inflation is expected to be moderate, even if it is above some central bank targets. Australia aside, the interest rate easing cycle will has a bit further to go. This will be largely positive for investment markets.
- **Geopolitics and Tariffs.** Apart from short term volatility this was largely ignored by the markets in 2025, but it is still an area to watch. Most likely to play out via investor focus on related themes of supply chain resilience, autonomy, and security.
- **Commodities and currencies.** Both gold and silver have breached the psychological barrier of USD$5,000 and USD$100 respectively in early 2026. Forecasters are scrambling to update their targets in the face of the surge in pricing, predicting the peak is challenging given the wide range of forecasts for both metals. A weaker USD, central bank purchasing, supply/demand imbalance for silver, and haven status have all contributed to support the increase. The geopolitical upheaval that came out of the World Economic Forum at Davos in January is another factor. Policy uncertainty is also contributing to USD weakness, notwithstanding view that the dollar was overvalued in early 2025. Despite the weakness it is unlikely that the USD will lose its reserve currency status any time soon.

GOLD RETAINS SAFE HAVEN APPEAL DESPITE RECORD PRICE LEVELS

Source: Global X ETFs, Bloomberg. As of 28/01/2026.



- **Key risks.** The outlook for 2026 appears to be relatively benign but not without risks.
    - Inflation could reemerge and longer term real interest rates are at risk from high government deficits, the possibility of protectionist policies from Europe, Japan, and China, and increased defence spending.
    - AI buildout is constrained by financing issues, computing, and energy constraints. Projections suggest that AI demand could consume 15-20% of US electricity demand by 2030 with supply struggling to match demand.
    - Jobs growth in the US labour market has stalled. Year on year this is approaching zero which normally only occurs ahead of a recession. J.P. Morgan Global Research puts the probability of a US (and global) recession in 2026 at 35% with lower consumption and sticky inflation being a feature.

Views across the asset classes

Equities

As we start 2026, we maintain our preference for international equities. Whilst we expect that the US equity market will still be dominant, 2025 has shown us that opportunities exist outside the US, particularly in emerging markets where we have a dedicated allocation in portfolios.

We move to a neutral stance on Australian small caps, maintain a small allocation in higher growth portfolios.

Fixed Interest

Credit spreads remain tight, but we watch for a possible widening due to high demand and limited supply in high quality credit. A lower than benchmark duration position remains desirable.

Flexibility in fixed interest remains the key for 2026, underpinning our allocation to active management.

Property and Infrastructure

A tilt towards global infrastructure worked well in 2025 and continues to be our preference. Global listed real estate lagged Australian REITS in 2025, but we retain a preference for global, albeit at a small allocation. We will continue to evaluate our allocation to listed property during the year.

Alternatives

Gold and silver dominate the alternative space with prices reaching new highs, almost daily. We view the role of commodities primarily as a diversifier, providing risk-reduction benefits through low correlations to traditional asset classes rather than as a return-seeking allocation. New products in private assets, particularly, private credit continue to come to market despite some concerns about underlying stresses. Being selective with allocations is the key.

Portfolio Implications

As mentioned above the outlook for 2026 is relatively benign but not without risks. A good starting point is a diversified approach anchored to our longer term asset allocation view. Nevertheless, constant interrogation of our longer term asset allocation will be necessary to ensure that portfolios remain robust over the medium term.

Summary of current asset class view

Asset Class	Current View
Australian Equities	Neutral
Australian Small Caps	Neutral
International Equities	Slightly Positive
International Equity Small Caps	Slightly Negative
Australian Listed Property (AREIT)	Slightly Negative
Global Listed Property (GREIT)	Slightly Negative
Infrastructure	Positive
Alternatives	Selectively Positive
Australian Fixed Interest	Positive
International Fixed Interest	Neutral