

INVESTMENT MARKET OVERVIEW



Calm prevails amid the chaos

The world entered 2025 with a sense of trepidation about what it may bring. Would the change in leadership in the US and the turbulent geopolitical landscape result in a seismic shift in the world order? If so, how will this impact the global economy and our everyday finances? While we certainly did see our share of political developments and ‘noise’, this did not translate into any extended economic disruption. While investment markets experienced periods of heightened volatility, they remained relatively resilient throughout.

Trade-related developments in the US frequently attracted front-page attention, but despite all the bluster surrounding their imposition, retraction and revision, the countries affected by them were largely successful in adjusting quickly enough to limit any negative impact. This was achieved through various means, such as accelerating imports before tariffs took effect, pursuing alternative markets, or negotiating deals to have tariffs minimised.

Beyond trade policy, the Trump administration implemented a range of changes to domestic institutions and took a confrontational stance with global institutions, such as NATO and the United Nations. These moves continue to create some uncertainty, but they have not yet resulted in any worst-case economic outcomes.

While the year passed without major disruption, there were modest downward adjustments in economic yardsticks. The IMF had originally projected 3.3% global GDP growth for 2025, but this has now been revised down to 3.2% and their expectation for 2026 is a further trimming down to 3.1%.

At a regional level, the US underperformed in 2025 with original expectations of 2.7% GDP now predicted to come in at 2.0% and this is anticipated to only improve slightly to 2.1% for 2026. It was brighter news for the Euro region where GDP reached 1.2% for 2025. This was marginally higher than what had been forecast at the year’s outset, but the International Monetary Fund (IMF) expect that it will edge down to 1.1% in 2026. In China, growth in 2025



is now expected to come in at 5%, above earlier projections. This may slip to an estimated 4.5% for 2026, but this would still represent a healthy outcome relative to other countries.

Taking a closer look at the dynamics underlying these 2025 results, interest rate cuts and fiscal stimulus measures across many regions played a positive role in underpinning growth, and continued investment in Artificial Intelligence (AI) has helped underpin business investment and demand. At the same time, these developments are not without risks. The rapid expansion in AI-related investment has drawn comparisons with the technology boom of the late 1990s, when strong investment growth and optimistic expectations ultimately gave way to a sharp reassessment of technology company valuations.

In China, strong headline growth outcomes also potentially mask some underlying and unresolved issues, such as the lingering effects of the property bubble that burst there a few years ago and questions over the sustainability of subsidies to parts of the manufacturing sector.

In relation to fiscal stimulus more broadly around the world, while this has supported growth in many countries it also puts a strain on public finances, which in turn creates vulnerabilities to any external shocks.

Developments on the home front

The main headline economically in Australia has been the uptick in inflation during the second half of 2025. After three successive rate cuts in 2025, the Reserve Bank of Australia (RBA) deemed it necessary to take decisive action to prevent another inflationary breakout and an interest rate increase was imposed in early 2026. Looking forward, they expect that it may take some time for inflation to drop back to the target 2-3% range and some further rate increases may be on the cards during 2026.

On the plus side, the relatively stronger performance of our major trading partners, such as China, has supported our GDP growth and has helped it bounce back after the disappointing growth results of 2024. The RBA expects our GDP growth will come in at around 2% for 2025 and further projects GDP growth to be 2.1% in 2026.

The outlook for investment markets

2025 was generally another pleasing year for investors, albeit not quite as strong for share markets as the previous two years. The S&P 500 delivered a total return of 17.9% over the year, despite a short-lived, tariff-driven correction in

April. Tech stocks were particularly buoyant, spurred on by the market's appetite for AI. This was reflected in the NASDAQ 100 index registering growth of nearly 21% in 2025.

Across the Atlantic, the FTSE 100 index outperformed the S&P 500 with growth of almost 22% for the year. The Hang Seng index in China recorded a bumper year with growth of over 27%, while back on home shores the ASX 200 underperformed other major indices around the globe returning just over 10% for the year.

Given the political and economic backdrop, many investors would wonder how the share markets are expected to perform in 2026. Although many of the political disruptions of 2025 were shrugged off by markets, there is still potential for them to drive markets in the year ahead. Geopolitical uncertainty and the new tariff era may yet throw some curve balls, as the effects gradually play out. Overall, it may be optimistic to expect markets to repeat the strong returns of the past three years, but a continuation of modest positive growth remains plausible.

As seen over the past months, geopolitical conflicts, oil supply shocks and concerns over a perceived AI bubble have all contributed to market volatility and sharp market movements over the short term. Although uncertainty can contribute to short-term market dislocations, the impact on global markets has thus far been relatively contained.

In times of heightened volatility, prudent and responsible investment management becomes increasingly important. Investment portfolios should be managed to control for risk, while retaining some flexibility to capture opportunities that may arise in changing market environments and support long-term growth. As the steward of your retirement savings, we are committed to holding true to these principles for the benefit of all members.

