Economic & Investment Update - October 2025

Despite lingering inflationary pressures and ongoing trade tensions, the global economy grew at a steady but uneven pace during the third quarter of 2025.

Global growth projections were revised slightly upward to 3.0%, reflecting resilience in key sectors like technology and services, though downside risks from geopolitical uncertainty and weakening consumer demand persisted. Investment markets responded positively, with equities rallying on AI-driven optimism and anticipated interest rate cuts, leading to broad gains across major asset classes.

In the United States, economic growth remained robust, with data confirming an annualised increase of 3.8%, supported by resilient consumer spending and investment in infrastructure and technology. However, the US Federal Reserve cut interest rates by 25 basis points to 4.00-4.25% in September in response to a softening labour market, which boosted investor confidence. This was despite an acceleration in the US inflation rate to 3% (annualised) to September 2025, well above the central banks 2% annual target.

Europe's economy expanded modestly (1.2% annualised) amid persistent headwinds, including subdued global demand and trade uncertainties from potential tariffs. Growth was supported by European Central Bank (ECB) monetary policy easing and resilient labour markets. However, high levels of debt in southern Europe and uneven inflation led to the ECB maintaining a cautious stance. The UK economy followed a similar trend but was hampered by higher domestic inflation (3.8% annualised) and concerns that additional taxes would form part of the November budget.

In Asia, Japan's economy faced ongoing challenges in the September quarter amid high inflation (2.9% annualised in September) and a global slowdown, though domestic consumption held up due to wage gains and low unemployment. Reflation efforts also offered some support. The Bank of Japan maintained a cautious stance on interest rates and kept the short-term rate at 0.5%, with projections for just one additional increase in the second half of 2025, contributing to yen volatility.

China's economic growth slowed to 4.8% annualised in the September quarter, impacted by a protracted property sector downturn, subdued domestic consumption and escalating trade tensions with the United States. However, strong exports and Chinese government policy support kept growth aligned with the government's ~5% annual target.

Australia showed continued resilience through solid jobs growth and steady exports. High living costs curbed household spending, yet public investment and resource demand kept GDP growing at around 1.5% (annualised). The Reserve Bank of Australia (RBA) cut interest rates by 25 basis points in August, signalling that inflation was easing and within the RBA target range of 2-3%. However, a surge in inflation during the September quarter (3.2% annualised, up from 2.1% in June) dampened expectations of further rate cuts in the coming months.

MARKETS

The Australian S&P/ASX 200 Accumulation Index rose 4.7% over the September quarter. The Materials sector produced the strongest quarterly return (up 21.2%) fuelled by strong gains from gold miners while BHP Group, Rio Tinto and Fortescue benefitted from the iron ore price back above $100/tonne. Health Care was the weakest performing sector (down 9.7%) with CSL Limited shares down sharply following the release of its FY25 results. General uncertainty around the impact of US tariffs and pricing also acted as a headwind within the Health Care sector.

S&P/ASX 200 Acc Index (Source: Google Finance)

Smaller ASX-listed companies (top 100-300) returned 15.3% for the quarter, strongly outperforming the return of the S&P/ASX 200 Accumulation Index. Gains were driven by a mix of AI optimism, resilient corporate earnings, interest rate cuts, cautious prior positioning and easing tariff concerns.

Global equity markets also finished higher over the September quarter with the MSCI World (ex-Australia) Net Return Index (AUD hedged) up 7.6%. With the Australian Dollar marginally stronger against major global currencies, the unhedged investment return was +6.1% over the quarter.

In the US, the broad-based S&P 500 Index hit record highs throughout September and finished up 7.8% for the quarter. US performance was boosted by the 25-basis point interest rate cut in September and consistent AI and chip news from major US tech firms, which had already reported strong Q2 corporate earnings.

In Asia, the Chinese market produced strong returns over the quarter, up 17.9% (as measured by the Shanghai Shenzhen CSI 300 PR Index) off the back of improving domestic market sentiment and potential targeted policy support. Japanese stocks (as measured by the Nikkei 225 PR Index) also produced strong returns (+11.0%) driven by the weaker yen, easing inflation pressures, strong foreign inflows and optimistic sentiment towards technology companies.

In Europe, equity markets produced mixed returns with geopolitical and economic news driving individual markets. Germany's DAX index fell 0.1% for the quarter but the UK's FTSE 100 PR index rose 6.7% for the quarter.

The Australian property market, as measured by the S&P / ASX 200 A-REIT Accumulation Index, finished up 4.6% for the September quarter as domestic interest rate cuts continued to support the sector. Global property securities, as measured by the FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged) Index, rose 4.3% while global infrastructure finished up 4.0% over the quarter.

Australian and global bond markets generated small positive returns for the September quarter as bond yields were largely unchanged. During the quarter, domestic bonds returned 0.4% whilst global bonds returned 1.0%.

Within the commodity sector, most major indices produced positive returns. Gold was particularly strong over the quarter returning 15.5% whilst producing a 53.3% return for the year.

The table below (sourced from Lonsec) summarises the returns from a number of market sectors.

Sector	Index	3 mths (%)	1 year (%)	5 years (% p.a.)
Equities				
Australia	S&P/ASX 200 TR (Accumulation) Index	4.7	10.6	13.0
	S&P/ASX Small Ordinaries TR (Accum) Index	15.3	21.5	9.3
International	MSCI World ex Aust NR Index (AUD)	6.1	23.0	16.3
	MSCI World ex Aust NR Index (AUD Hedged)	7.6	16.9	13.8
Emerging Mkts	MSCI Emerging Mkts NR Index (AUD)	9.4	22.8	8.7
Listed Property				
Australian	S&P/ASX 200 A-REIT TR (Accumulation) Index	4.6	4.1	11.9
International	FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged)	4.3	-0.4	5.2
Infrastructure				
Global	S&P Global Infrastructure TR Index (AUD Hedged)	4.0	16.7	13.2
Currencies				
AUD v USD	Against US Dollar	0.5	-4.3	-1.6
Fixed Interest				
Australian	Bloomberg Ausbond Composite All Maturities	0.4	4.1	-0.2
	Bloomberg Ausbond Credit All Maturities	0.9	5.5	1.9
International	Bloomberg Global Agg TR Index (AUD Hedged)	1.0	2.4	-0.6
Commodities				
Gold	Gold Spot Price – AUD	15.5	53.3	17.2
Oil	WTI Oil Futures USD/barrel	0.5	-6.2	6.1

OUTLOOK

The global economy is currently in a state of flux, characterised by modest growth amid ongoing policy uncertainty and geopolitical tensions. According to the International Monetary Fund (IMF), global GDP growth is projected to decelerate slightly to 3.2% in 2025 (from 3.3% in 2024), before easing further to 3.1% in 2026.

Advanced economies are expected to expand at a subdued pace of 1.7%, weighed down by tighter monetary policies and trade frictions, while emerging markets and developing economies may see more resilient growth at around 4.2%, buoyed by commodity exports.

In the US, the narrative of AI innovation and associated capital spending continues to be a key driver. However, the US Federal Reserve continues to navigate a complex economic environment, with slowing economic growth and rising consumer prices. To support the US economy and prevent liquidity issues in financial markets, the Federal Reserve recently cut interest rates by a further 25 basis points and announced an end to quantitative tightening. However, the possibility of further interest cuts is less certain given the lack of new economic data, due to the ongoing Federal Government shutdown.

The Eurozone is likely to experience a gradual but slow recovery in GDP with household spending and increased public investment expected to underpin medium-term growth. However, US trade policy continues to have a major impact. The ECB has indicated that there are limited prospects of further rate cuts given steady inflation at near-target levels coupled with a reasonably tight jobs market.

The Chinese economy is likely to meet its ~5% growth target for 2025 driven by robust policy stimulus, frontloaded exports and high-tech industrial strength. However deflationary pressures, a sluggish property sector and ongoing trade tensions with the US remain key drags while the recovery in domestic consumption has slowed. Various structural reforms are expected to be required to sustain long-term momentum.

Australia's economy continues to rebound, aided by recent interest rate cuts, strong labour markets, resilient household spending and supportive fiscal policy. The sustainability of household spending will be key to the economic outlook and while recent cuts in interest rates have increased disposable incomes, further rate cuts are now unlikely in 2025 given elevated inflation.

Our views on the various asset classes are outlined below.

Australian Equities

Within Australian Equities, we recommend investors hold a neutral to underweight position in both large cap stocks and in smaller companies.

Valuations for Australian Equities remain elevated, while growth expectations remain subdued. The ASX 200 presently sits on a one-year forward Price to Earnings ratio of almost 20 times, versus a long run average of 15 times, while earnings growth for the next 12 months is expected to fall to low single digits. Income generation has also weakened materially with a forward dividend yield of only 3.2%, near record lows.

Following recent strong returns, we also suggest that a cautious approach be taken with respect to smaller companies given that a large proportion of recent gains have been generated from the junior mining sector.

International Equities

Within International Equities, we recommend that investors retain a neutral to underweight position in both developed and emerging markets.

While positive sentiment toward AI remains a dominant source of growth within International Equity markets, there are concerns that a bubble has emerged within this sector. Following the recent rally in global equities, valuations also appear stretched. In the US, the S&P 500 forward Price to Earnings ratio is at its highest level since 2002.

Given elevated valuations, continued global trade tensions and resurgent inflation, we recommend investors remain cautious in respect to developed markets.

Emerging markets are dominated by China, where a policy shift to support domestic consumption and be less dependent on the US are supported by attractive valuations. However, emerging markets will potentially be impacted by weaker global growth resulting from trade tensions.

Property

We recommend investors hold a neutral position to Australian property and a neutral to underweight position to International property.

Despite the recent returns in domestic property, recent interest rate cuts by the RBA should provide support to this sector via increased cash flows, greater liquidity and upward pressure on property valuations.

At a sector level, we remain cautious on office space (which remains structurally challenged) and more supportive of industrial property and the healthcare sector.

We suggest a more cautious approach to International property however, we note International Property continues to provide a greater breadth and depth of opportunities.

Fixed Interest

We recommend investors retain a neutral position to Fixed Interest, including a neutral to overweight position to domestic sovereigns (e.g. Government bonds).

Australian sovereign bond yields continue to offer good value and offer safety from overseas volatility. Furthermore, bond valuations could also benefit should interest rates be cut further.

Internationally, there continue to be risks of rising Government bond yields primarily on market concerns about the direction of monetary policy and fiscal deficits. In the US, bond yields may also be impacted by any imposition of tariffs which could lead to a notable drop in foreign buyers.

Yields on corporate bonds look reasonable but carry increased risk in the event of an economic downturn and credit contraction. As such, we favour Australian corporate debt over global debt. Floating rate corporate debt still looks attractive but as rates fall, fixed rate debt will come to the fore.

While not offering a similar hedge against share markets, higher but falling rates continue to be available from term deposits. Bank hybrids offer a strong return, albeit with some risk given their correlation to equity markets. Bank subordinated debt offers a good alternative.

Alternatives

We recommend investors hold a neutral position to Infrastructure and Private Equity investments with the latter benefitting from solid market conditions.

Despite recent strong gains, we continue to support an allocation to gold or silver in diversified portfolios. Whilst investors may now be overweight to this sector, we suggest that consideration be given to taking some profits on holdings.

Exposure to gold, either through gold producers or via an investment in physical gold, as well as physical silver, through ASX listed entities, continues to act as a risk-diversifier against prevailing global economic uncertainty or escalation in geopolitical tensions.

Sources: Lonsec, IMF, RBA. Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to Kevin Smith of The Professional Super Advisers on (02) 9955 5800 prior to acting upon this information.