Economic & Investment Update - January 2026

Economic growth, although uneven, has come in stronger this quarter. US trade tariffs so far have had limited impact on inflation, while falling interest rates provided support to risk assets. Optimism around the AI theme and its permutations continues to drive equity markets higher although the rally has been narrow. It is important to note that capital expenditure by hyperscalars (Amazon, Google, Meta, Microsoft, and Oracle) in 2025 exceeded US$350 Billion; and the build-out of AI infrastructure such as data centres and energy networks is having some real economic impact at the grass roots level.

US GDP continues to accelerate with the annualised Q3 GDP coming in at 4.3%. The US remains the largest developer of data centres and at last count is expected to finish developing 5000 locations over the next 4 years. Following interest rate cuts in Q4 2025, the federal funds rate is currently at the range of 3.5% to 3.75%. Cuts are consistent with US inflation data which have come in at 2.7% over the year – within the targeted US Federal Reserve band of 2% to 3%.

Euro area GDP growth was modest at 0.9%, although this number was better than the market anticipated. Growth was supported by a resilient labour market, decreasing inflation and favourable financing conditions. Within Europe, we saw the periphery economies (Portugal, Italy, Spain and Greece) continue to do better compared to core European countries such as Germany. Export growth was modest, driven by reduced US demand as well as increasing export competition from China. Reductions in financing costs as well as increased fiscal spending have continued to be tailwind for the economy.

In Asia, recent economic indicators point to a contraction in the Japanese economy; with the recent GDP growth at -0.6% vs 0.5% recorded in the previous quarter. This compares with the latest reading of Japanese inflation at 2.9%. Despite weaker growth, markets have reacted positively to the appointment of Sanae Takaichi as prime minister in October 2025.

China's economy expanded by 4.5% on an annualized basis in the December quarter, although growth over the year is reported at 5% in-line with the annual growth target set by the government. Despite the US tariffs, China has announced a record trade surplus for 2025, increasing 20% to 1.9 trillion. Underlying numbers suggest that reduction in exports to the US have been more than offset by increased exports to other parts of the world including Asia and Europe. The economy continues to be supported by low interest rates maintained by the People's Bank of China.

In Australia, GDP growth has improved coming in at 1.7%. However, we have seen an uptick in unemployment as well as some moderation in wage growth. Despite these conditions, the RBA has been hesitant to cut policy rates as we have seen their preferred measure of inflation (trimmed mean CPI) rising by 3.2% over the year; above the 3% upper band. Consumer spending and business confidence has continued to hold up.

MARKETS

The Australian equity markets represented by the S&P/ASX 300 fell -0.9% over the quarter primarily driven by a pull-back in tech (-23.7%) and banks (-1.9%). Positive contributors from a sector perspective was materials (13%) and energy (0.9%). Banks was a significant driver of index performance with the Big 4 representing circa 23% of the total index. Strong performance over the first three quarters of 2025 has given in to a softer December quarter end.

Australian small caps returned 1.8% over the quarter outperforming its large-cap counterpart. Thematically, positive performance in small caps was largely driven by resources and gold as rising commodity prices benefited both established miners and explorers.

Global equities finished the quarter positive with the MSCI ACWI ex-Australia (AUD Hedged) up 3.7%. Primary driver of the positive performance was Europe (STOXX 600) and Japan (Nikkei 225) which generated a return of 6.5% and 12.2% respectively. This compares with the US (S&P 500) which generated a return of 2.7% over the quarter. Despite strong performance from Europe and Japan, the lower index weighting resulted in a smaller positive contribution to index level return.

Japanese equities rallied on the back of their election which saw Sanae Takaichi elected as prime minister. Markets reacted positively to her expansionist policies which is expected to provide additional fiscal support to the economy. In Europe, expectations of more government spending particularly in defence have seen a change in the economic outlook for the bloc which continues to struggle from weaker growth. Chinese equity markets (MSCI China) ended the quarter marginally higher at 0.4%, bringing the total return for the year to 24.7%.

Australian property represented by the S&P/ASX 200 A-REIT Index was marginally down at -1.4% over the quarter. This is consistent with global property securities as measured by the FTSE EPRA Nareit Developed Market Index (Hedged in AUD) which down -0.2% over the quarter. Global listed infrastructure as measured by the S&P Global Infrastructure Index (Hedged in AUD) generated positive performance over the quarter at 2.4%.

Within the commodity sector, geopolitical tensions have continued to drive gold prices higher. Gold ended the quarter up 11.4% in AUD terms; and 54.1% over the year. This compares with oil (as measured by WTI Futures) which was down -7.9% over the quarter.

Sector	Index	3 mths (%)	1 year (%)	5 years (% p.a.)
Equities				
Australia	S&P/ASX 300 TR	-0.9	10.7	9.8
	S&P/ASX Small Ordinaries TR AUD	1.8	25.0	6.9
International	MSCI ACWI Ex Australia NR AUD	2.7	13.7	14.6
	MSCI ACWI ex Australia 100%Hedged NR AUD	3.7	19.9	11.2
Emerging Markets	MSCI Emerging Markets NR Index	4.1	24.7	7.8
Listed Property				
Australian	S&P/ASX 200 A-REIT TR	-1.4	9.2	8.8
International	FTSE EPRA Nareit Developed NR Hdg AUD	-0.2	7.5	3.1
Infrastructure				
Global	S&P Global Infrastructure TR Hdg AUD	2.4	18.2	11.3
Currencies				
AUD vs USD	USD Per 1 AUD	0.6	7.7	-2.9
Fixed Interest				
Australian	Bloomberg AusBond Composite 0+Y TR AUD	-1.1	3.2	-0.4
	Bloomberg AusBond Credit 0+Y TR AUD	-0.5	4.3	1.5
International	Bloomberg Global Aggregate TR Hdg AUD	0.7	4.4	-0.6
Commodities				
Gold	Gold Spot Price - AUD	11.4	54.1	21.4
Oil	WTI Oil Futures USD/barrel	-7.9	-19.9	3.4

OUTLOOK

To date, the impact of US trade policy on global growth has been minimal, but we have seen extensive rerouting of trade flows as well as countries moving away from the US as a key trading partner. Moderation in economic growth is expected to be largely offset by accommodative monetary policy particularly in US and Europe. Inflationary pressures to date have stayed benign even in the US. Interestingly, we have seen the majority of Chinese manufacturers shouldering the burden of the tariffs (estimated at approx. 65% of the total tariff costs) with the remainder shouldered by US importers. Meanwhile there has also been a concerted push from Chinese manufacturers to find new consumer markets outside the US.

Stock level concentration in the US and global equity indices means an exposure to the AI thematic is unavoidable. Over the longer-term we remain sceptical of the projected revenue and profit growth expectations from AI. Despite the longer-term uncertainty on use-cases and pace of adoption, we see the current build-out of AI infrastructure (data centres and energy infrastructure) as a net positive for the global economy. This capex cycle may last multiple years and is providing real world benefits to the economy.

In Australia we expect the improvements in economic growth supported by commodity prices and a resilient consumer. Given the uptick in inflation, we understand the reticence of the RBA board to reduce interest rates further. Thus, we expect rates to stabilise at these levels, at least until progress in inflation moderation is made.

Australian Equities

Within Australian equities, we recommend investors hold a neutral to underweight position in large cap stocks; but are more constructive on smaller companies.
In aggregate, valuations of Australian equities remain elevated while earning growth expectations remain subdued. At the time of writing, Australian equities is trading at 20.6x price-to-earnings multiple compared to the historical 20-year average of 16.1x. While there has been a recent pullback in large cap equities, yield levels remain close to record low.

Smaller companies, particularly in mining, have benefited from geopolitical tensions as US manufacturers look for import alternatives to Chinese minerals and rare earths. However, we are still cautious of small caps as a sector as there remains a number of companies which are unprofitable.

International Equities – Including Emerging Markets

Within International equities, we recommend that investors retain a neutral to underweight position in both developed and emerging markets. Like Australian equities valuation multiples are stretched. As noted in the outlook section we remain sceptical of the projected revenue and profit growth expectations from AI.

Given these thematics alongside a ramp up in geopolitical tensions (abduction of President Maduro and threatened annexation of Greenland) we continue to maintain a cautious approach to developed market equities.

Emerging markets index are primarily dominated by Indian and Chinese equities. Valuations which were attractive at the start of the year now look rich, with fundamentals reflected in the price.

Property

We recommend investors hold a neutral position to Australian property and a neutral to underweight position in international property. Both asset classes have been volatile, and sensitive to economic growth and interest rate expectations.

As a sector, office continues to be structurally challenged; leasing incentives for new office space remains elevated. However, we are seeing nascent signs of recovery, but it remains too early to tell if this is sustainable. Other sectors such as industrial and retail are much better positioned. While we remain more cautious on international property, the asset class still provides a materially larger depth of exposures and asset types compared to Australian REITs, where as an index is dominated by Goodman Group.

Fixed Interest

We recommend investors retain a Neutral position to Fixed Interest including domestic sovereign exposure. Australian bonds continue to offer good yields and strong counterparty risk despite marked-to-market volatility observed over the quarter.
Internationally, expected rate cuts have been priced into the short end of the yield curve, while the longer-end of the yield curve remains elevated.

Yields on corporate bonds look reasonable, however credit spreads are tight relative to history.

We continue to favour Australian issuers relative to global issuers. Floating rate debt may look attractive but falling interest rates are more beneficial for fixed rate bonds.
We continue to be positive on bank hybrids and bank subordinated notes. Strength of the Australian banking sector means these bonds continue to provide good returns per unit of counterparty credit risk.

Alternatives

We recommend investors hold a neutral position to Infrastructure and Private Equity investments. Private equity continues to suffer from poor distributions given weak M&A activity and limited number of exits.

While we support an allocation to gold and silver, we note post the rally in gold and silver prices most investor portfolios are likely to be overweight. We suggest consideration be given to taking some profits off the table as part of the rebalancing discipline.

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.