



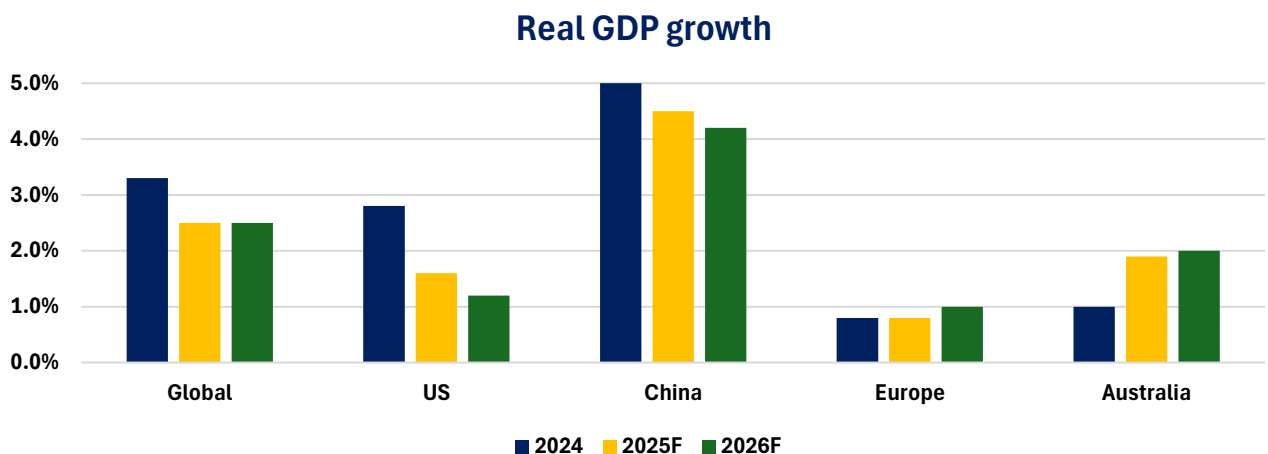
# MARKET OUTLOOK

FY25 investment market returns were strong across a wide range of asset classes. In the first half of FY25 returns were assisted by lower inflation, expectations of interest rate cuts, resilient economic data and global technology sector earnings growth and investment. The second half of FY25 was more volatile impacted by slowing economic growth, US tariff concerns and geopolitical conflicts. Despite these events, the June half still finished strongly, as trade tensions diminished, global economic growth remained resilient, central banks moved to lower interest rates and US tech companies reinforced their strong growth outlook. Notably, the equity market rebound from the post “Liberation Day” lows was swift and powerful.

## MACRO ECONOMIC OUTLOOK

Our key points with respect to current conditions are:

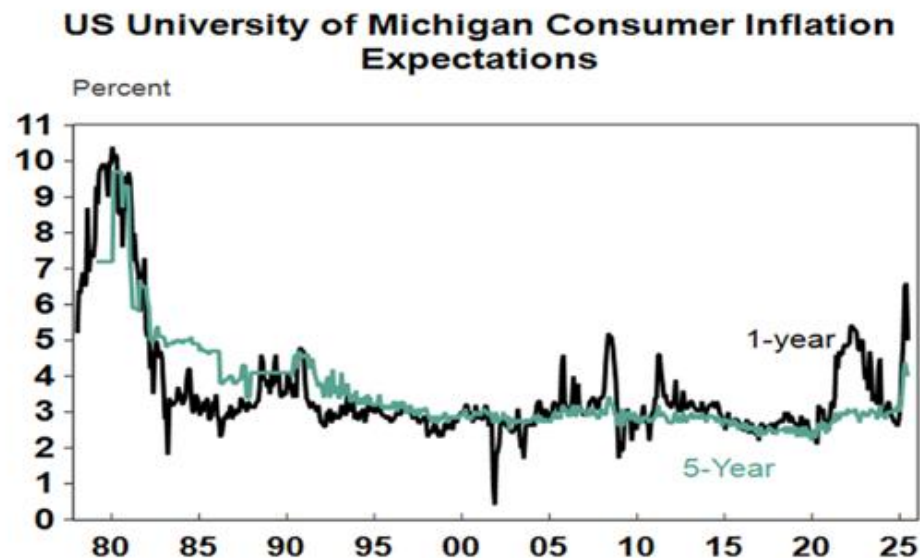
- **Global economic growth is likely to slow in the 2H of CY25**
  - Global economic growth has benefited from a pull forward in demand prior to the enactment of US tariffs. This likely means the second half of 2025 will likely see economic growth slow.
  - Despite pauses put in place, the US Tariff environment remains uncertain and inevitably we think there will be tariffs enacted that will act as a drag on global economic growth.
  - While deals will ultimately be negotiated, we think markets are already pricing in an environment where global growth is not disrupted in any major way.
- **Global economic growth remains below trend but is unlikely to fall into recession.**
  - Global growth is likely to slow to ~2.5% in FY26. Offsets to the tariff drag include lower interest rates and fiscal spending. At the time of writing, markets were pricing in ~85bps of US Fed easing for FY26 and another 25bp rate cut by the European Central Bank. Broadly global inflation is back within targeted bands, and the services sector has become an increasing driver of economic growth in the US with lower volatility than the goods sector.



Source: Morgan Stanley, UBS, Citigroup



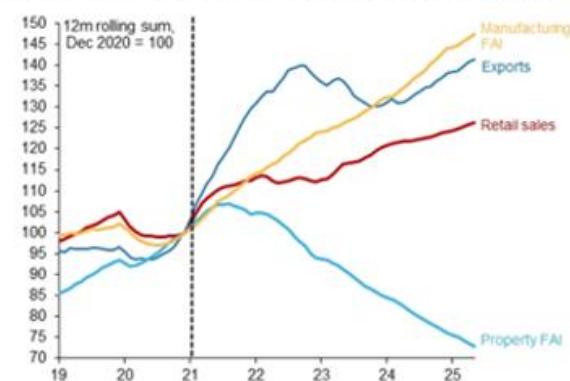
- Major US banks have recently stated that the US consumer health remains broadly sound, buoyant equity markets are supporting household wealth, but higher interest rates and mortgage rates are slowing activity.
- The question for the US will be to what degree that higher inflation from tariffs limits the Federal Reserve from cutting interest rates and impacts US disposable income. The data relating to this will become increasingly clear in the second half of the year. This should not be an issue for many other parts of the world.



Source: Macrobond, AMP

- Further questions may emerge about the sustainability of the US fiscal position which could see international investors continue to diversify assets away from the US putting further pressure on the USD and treasury market.
- Geopolitical flare-ups also remain an ongoing risk, but the market has seemingly looked through these issues if the oil market is not majorly disrupted.
- Chinese growth to be managed
  - The Chinese economy has been resilient due to strong export and manufacturing markets. The Chinese have been swift to redirect export flows from the US to other markets. The Real estate market, however, remains soft.

#### China 2-speed growth continued in 1H25 ....



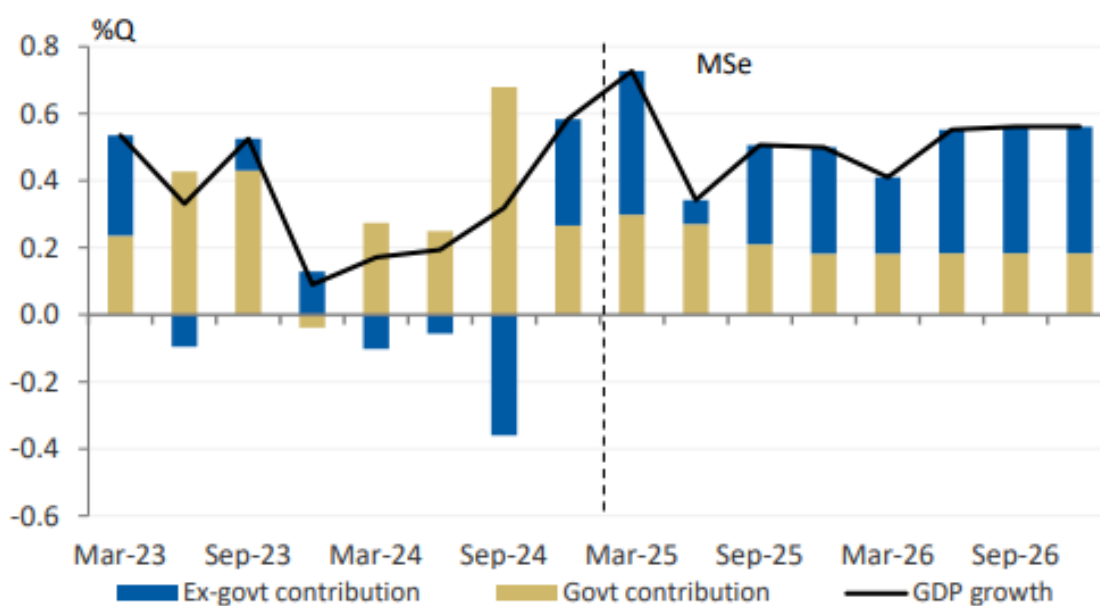
Source: NBS, WIND, Macquarie Macro Strategy



Source: NBS, GACC, Macrobond, Macquarie Macro Strategy



- Policy makers will be focused on hitting the 5% GDP growth target. We don't expect any major stimulus out of China but think there will be increased focus on the domestic market, industrial reform / development and high-end sectors such as Technology.
- **Australian GDP growth looking to gradually improve**
  - Australia's direct exposure to US tariff's is low, however our ongoing reliance on commodity earnings will be impacted by deterioration in Chinese and global economic growth.
  - Inflation remains relatively contained. Consumers have become more discerning with their spending. However, RBA rate cuts would likely support real wages growth with economists (at the time of writing) expecting another 75bps of easing this financial year. The labour market is solid albeit weakening, household wealth has continued to rise, and the housing market should be supported by future rate cuts.
  - While government spending should continue, private investment is expected to take the lead as public spending tapers and RBA rate cuts progress. The concern would be any deterioration in consumer sentiment, particularly if private sector investment doesn't adequately pick up the slack from public spending.



Source: ABS, Morgan Stanley Research

## MARKET OUTLOOK

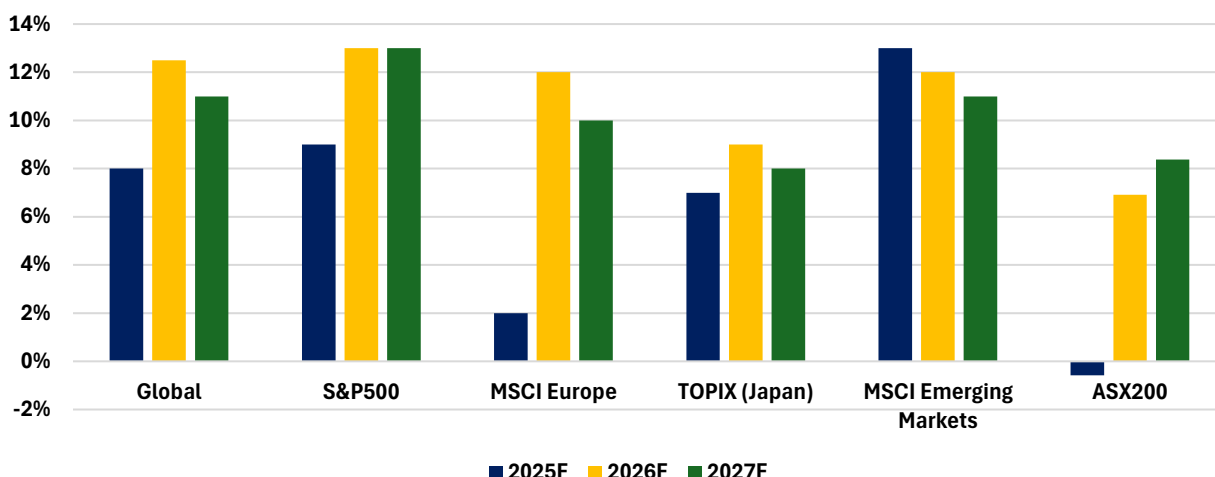
### EQUITIES

Earnings per share forecasts for the year ahead is ~10% for US and International equities and ~3-5% for Australian equities. Earnings revisions have been more stable for international markets recently while Australian equity earnings have continued to encounter downgrades. In Australia, consumer and energy/materials sectors have accounted for most of the recent downgrades.

International equity market earnings are likely to be supported by strong growth from US Tech companies, continued AI capex spend, central bank rate cuts and increased fiscal spending in Europe. A broadening of geographic and industry growth drivers should help underpin markets also. A lower USD may assist EM and Asian markets.



### Earnings per Share growth (Calendar years)



Source: Morgan Stanley, Factset

A weakening US Dollar (USD) also opens the question about increasing hedging for international equity portfolios. Typically, we have employed unhedged exposures as a lower AUD/USD has been correlated to lower economic growth and (often) lower equity markets. A lower AUD/USD rate has therefore acted to buffet losses. Conversely, a higher AUD/USD rate lessens gains in international equity portfolios (in AUD terms). There are increasing risks that the USD may continue to decline (thereby placing upward pressure on the AUD/USD exchange rate) and potentially capping gains in international equity portfolios.

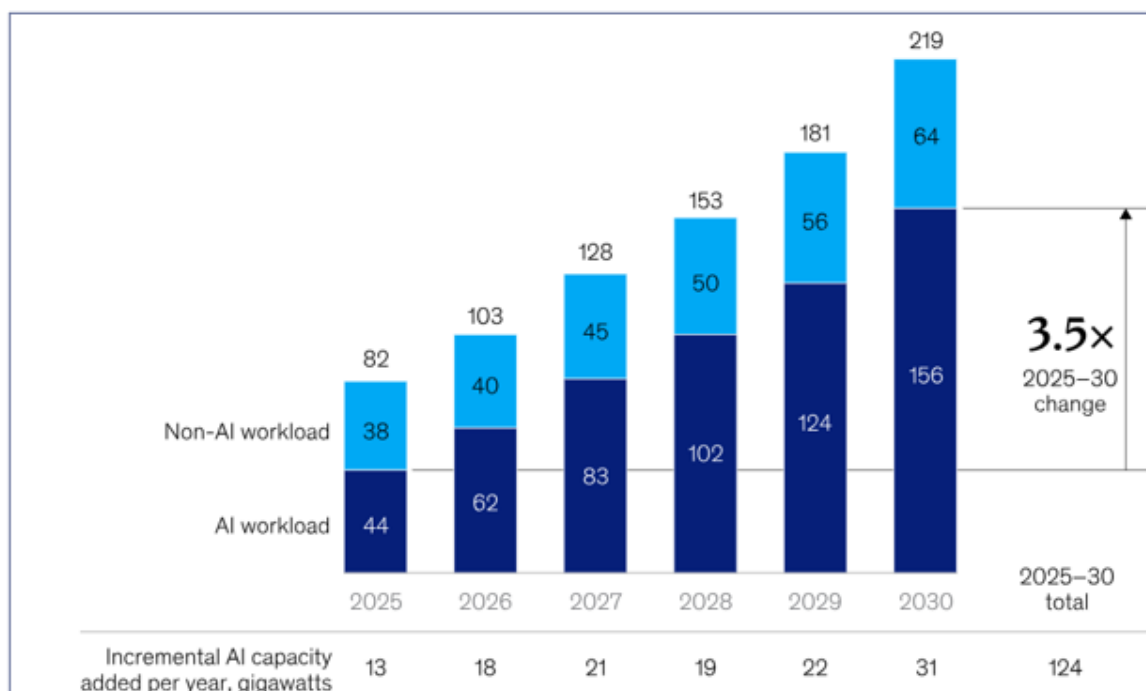
The USD remains the global reserve currency but faces headwinds including international investors diversifying away from US assets given increasing policy uncertainty, loss of safe haven status, fiscal deficit concerns, deglobalisation, relatively lower GDP growth versus other G10 economies and already overweight positions in US assets. A lower USD could also be another inflationary headwind for the US economy and see bond yields remain elevated.

There are several attractive industries within the global equity landscape by which investors can get exposure to. The EQT Eight Bays Global Fund invests in global growth industries with attractive structural characteristics. Industries that look attractive over the medium to long term include:

- The healthcare sector includes industries such as medical devices, pharmaceuticals, biotechnology, healthcare services, and genomics. Its recent underperformance is due to structural challenges, including US government spending reviews of Medicare and Medicaid because of budget deficits. Healthcare accounts for nearly a third of US government expenditure, at almost \$2 trillion. Despite these challenges, we see opportunities in pharmaceuticals with the global anti-obesity drugs market is forecast to grow rapidly. Additionally, generative AI is expected to accelerate drug development in the sector.
- The Communication Services sector includes exposures to telecommunications, social and traditional media, film/television, on-line gaming, cloud services and video streaming. With online media companies such as Meta and Alphabet embracing generative AI services the capex demands have grown sharply. Meta and Alphabet are expected to outlay approximately \$70b and \$85bn respectively. Demand for generative AI services appears to be growing exponentially. Google is increasingly integrating Large Language Model (LLM) capabilities into its search engine and its AI Overviews feature, powered by Gemini, is now used by 1.5 billion users.
- The technology sector covers industries like semiconductors, cloud services, AI and robotics, software, and cybersecurity. Cybersecurity is positioned well given higher IT investment and more nation-state cyber activity. Rising capital expenditures on AI and smart data centres continues given insatiable demand for their services.



## Estimated Global Data Centre Capacity Demand (Gigawatts)



Source: McKinsey & Co

ASX200 earnings are expected to grow ~3-5% in FY26. Industrials are expected to rebound strongly; major bank earnings growth remains anaemic and resource company earnings growth may be at risk given below trend global economic growth.

After the recent rally, International and Australian equity market Price-Earnings (PE) multiples are back at elevated levels. Investors appear complacent toward risks around US tariffs and geopolitical conflicts.

Elevated PE multiples make it challenging for the market to move strongly higher in the near term unless earnings growth is delivered well above current expectations (which appears hard to see in the current economic climate).



The market appears to be ignoring tariff related news instead expecting the TACO (Trump Always Chickens Out) or "Trump put" will play out. The risk is that the equity markets surge emboldens the US President to double down on his tariff plans.

In our Australian equity portfolios, we see pockets of opportunity in undervalued or underperforming sectors. For example, the Healthcare sector has derated to attractive levels and offers strong growth. Stocks have been impacted by noise around regulatory changes in the US. Conversely, the Banks (primarily Commonwealth Bank) appear expensive relative to historic levels and the growth outlook.



## REAL ASSETS (PROPERTY AND INFRASTRUCTURE)

Real Assets such as property securities and infrastructure should remain supported as interest rate cuts support valuations, cashflows are stable and income generation sound.

The defensive characteristics offered by infrastructure remain appealing at times of uncertainty and their (often) inflation-linked revenues should provide for reasonable top line growth also. Relative value appeal of the asset class is emerging while there remains a widening scope of infrastructure investment opportunities.

Within Australian Real Estate Trusts (AREITs), asset valuations have generally troughed, rental growth remains solid, data centre demand remains strong and lower interest rates should support the retail and residential sectors. Absolute valuations aren't cheap, but the relative appeal against the All Industrials is fair.

## FIXED INCOME, CREDIT & CASH

### Australian Fixed Income – EQT Diversified Fixed Income Fund

Australian Fixed Interest assets have delivered solid returns over the last year supported by a decline in short-dated bond yields (prices rise when yields fall), defensive buying and corporate bond spread compression. Softer economic data, falling inflation and the prospect of central bank policy easing has supported lower front-end yields, however US trade and government fiscal policy uncertainty has resulted in an increase in the term premium for longer-dated treasuries. The result has seen a steepening in several sovereign yield curves.

Inflation remains a key concern for bonds, but there are some technical factors that could influence bonds in the U.S. A potential change to banking capital rule by lowering the Supplementary Leverage Ratio (SLR) for banks from 5% to 3.5% could allow the banks to purchase an additional \$225b of treasuries helping liquidity, increasing demand and lowering the cost of debt.

Locally, we expect the RBA to continue to ease monetary policy further due to declining inflation and subdued consumer spending. This easing profile has largely been priced in bond markets. Australian Fixed Interest returns are expected to be lower in FY26 than the prior 12 months given the recent decline in yields and tighter corporate spreads.

Our preferred portfolio construction is:

- Duration: Neutral/Long
- Yield curve: We look to maintain a slightly heavier allocation to bonds out to 5 years
- Sector/credit mix: We will maintain a broadly diversified portfolio consisting of short-dated highly rated corporate bonds and longer-dated semi-government and government securities.

While Fixed Income returns are not expected to be as strong as FY25, equity risk premiums still highlight that equities screen as expensive relative to bonds. We therefore still see a place in diversified portfolios for bonds.

### Australian listed Credit – Spectrum Strategic Income Fund

Markets will remain on edge as we await Trump's announcement regarding the imposition of tariffs. With central bankers likely to remain alert to a possible increase in inflation, rate cuts may not necessarily follow slowing economic conditions.

Credit markets remain bound to both economic conditions and company results. In Australia, solid growth in household incomes is a fundamental credit positive. Against that a tight labour market and sluggish productivity could contribute to inflation.

With reporting season looming, the markets will have the opportunity to review performance and will be looking for signals. Those signals could include re-ratings of earnings, profits and outlook. The reports will be watched keenly.





Credit spreads are fairly priced, but conditions remain sound with private credit growing, money supply slowly expanding and interest rates falling. A shortage of paper could drive spreads tighter.

Assets in the near term will react according to what is being said and geopolitical interventions. The next few months look set to be volatile, however if the system does not break then there should be good opportunities for credit and equity, and especially so with upward revisions of earnings and stable or falling interest rates.

The Spectrum Strategic Income Fund portfolio has an average coupon of 5.89% and a running yield of 5.72%. The yield to maturity is currently 5.54%.

### Mortgages – EQT Mortgage Income Fund

Further RBA monetary easing is likely to generate positive momentum for the EQT Mortgage Income Fund, as lower interest rates are expected to stimulate borrowing activity and increase demand for high-quality loans. These developments align with the Fund's core strategy of delivering registered first mortgages across key sectors, including commercial office, retail, industrial, and residential investment properties.

Inquiry levels have remained robust, with new loans being secured at favourable terms across the market. The Fund's weighted average loan-to-valuation ratio continues to be conservatively managed at 56%.

The Fund remains committed to its conservative management approach and continues to demonstrate strong credit performance. This underscores the Fund's low-risk investment strategy and adherence to strict investment policies, ensuring the achievement of high-quality loans over the long term.

The Fund has consistently outperformed its benchmark underscoring disciplined credit selection, conservative loan-to-value positioning, and active portfolio oversight. We expect continued outperformance of the EQT Mortgage Income Fund relative to its benchmark over FY26 as new loans are written at more attractive levels relative to 4-5 years ago when rates were at low levels.

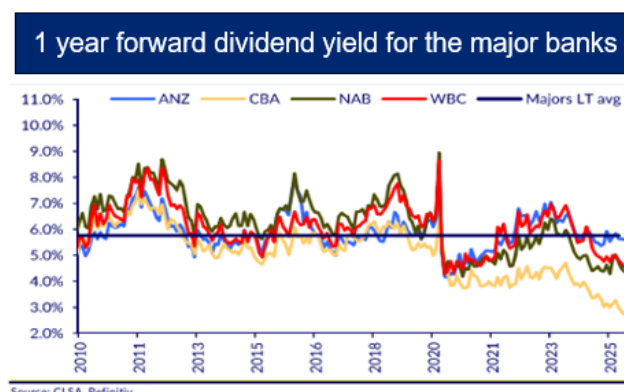
### Cash – EQT Cash Management Fund

Cash returns are likely to be less than FY25 following recent and expected RBA cash rate cuts.

## INCOME OUTLOOK

Income returns are likely to be subdued over FY26 relative to FY25.

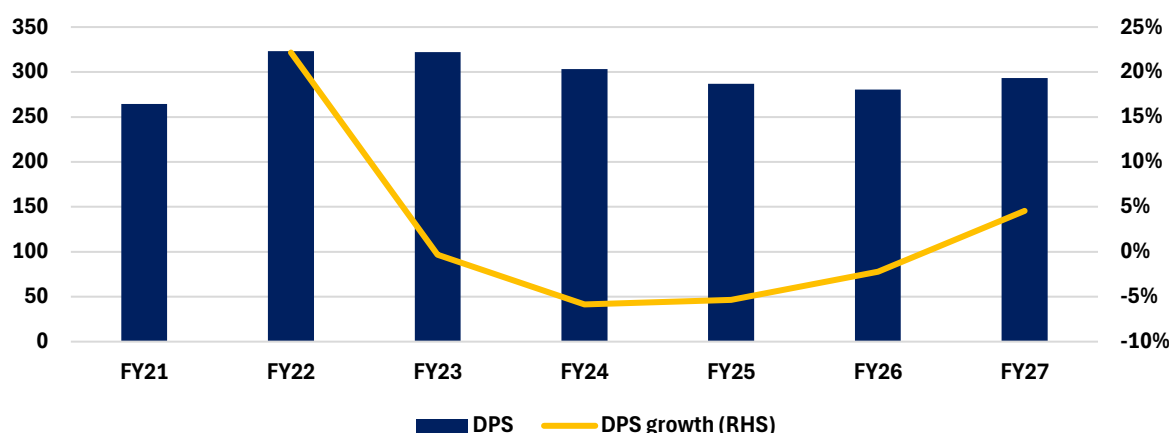
- FY26 forecast ASX dividend yields (pre-Franking credits) are ~3.3% which is below historic levels of ~4.4%. The Dividend yield has fallen to lower than historic levels due to ongoing falls in dividends (mainly via the Resources sector) and a higher index.



- Dividends are forecast to be slightly down (-2%) in FY26 (on FY25). Dividends from the Energy and Materials sector are expected to fall again in FY26 which is weighing on dividend growth for the market. There remains a risk of earnings and dividend downgrades given the uncertain macro environment.



### ASX200 - Dividends per Share (DPS) and DPS growth rates



Source: Factset

- AREIT dividend yields (~3.3%) are lower than historic levels due to the dominance of companies such as Goodman Group (GMG) and Charter Hall (CHC) which have substantial active earnings and offer lower distribution yields.
- The International equity market dividend yield is ~1.9%. Dividends are expected to grow ~7% on FY25.
- Lower interest rates and tighter corporate spreads mean fixed income and credit products should deliver lower income than the prior year. Income from Cash will also be lower given RBA rate cuts.
- The EQT Mortgage Fund is one product bucking the trend. The expectation is that the EQT Mortgage Income Fund will deliver a stronger income return in FY26 relative to FY25.

## RESPONSIBLE INVESTMENT THEMES

### Funding the Energy Transition

- Australia needs to triple investment in climate solutions to meet its net zero target and decarbonise in line with the Paris Agreement.
- Equity Trustees see the energy transition as attractive investment thematic and has exposure through companies contributing positively to the transition across our portfolio's through holdings in Pilbara Minerals (PLS), Origin Energy (ORG), and Within the Eight Bays Global Fund we have exposure to thematic through position in GRID, a global exchange traded fund (ETF) providing exposure to the transition through investment in companies developing smart grid infrastructure which support cleaner, and more efficient energy use.

### Trump's Anti ESG Agenda

- Trump's anti ESG agenda has been making news headlines around the world, resulting in several large companies and financial institutions in the US pulling back their ESG and diversity, equity and inclusion (DEI) commitments. There has been speculation on whether there could be contagion of this sentiment to Australia.
- Although we have seen some Australian companies with US operations become more cautious on the language used when it comes to ESG, we have not seen evidence of companies winding back their commitments.
- We expect these issues are front of mind for Australian boards and it will be a key area of focus through reporting season next month.





## Corporate Cyber Resilience

- Industry experts note that there has been a significant increase in cyber-attacks globally, highlighting that attacks are becoming more frequent and sophisticated, while the cost of a breach and time to repair are also on the rise.
- Cybersecurity is a material governance related ESG theme and core business risk which can result in privacy breaches, regulatory penalties, financial loss, reputational damage and operational disruption.
- We have seen the impact of cybercrime play out on companies like Medibank Private (MPL), where a data breach in 2022 resulted in significant financial (estimated at \$150mn) and reputational damage, while there still are ongoing legal and regulatory proceedings. MPL did not have cyber insurance.
- These valuable expert insights will be used to support our engagements with companies where our objective is to better understand how they are managing and mitigating cyber risk to inform ESG analysis.

## SUMMARY

Given strong market gains over the last two years, fair to expensive valuations across most asset classes, below trend economic growth and continued tariff uncertainty, we expect lower overall returns for diversified portfolios in FY26 to what was received in FY25.

Tactically we remain slightly cautious on equity markets due to their higher valuations.

- Our positioning is to preserve the capital of our clients and invest in assets where on a risk-adjusted basis we see more value.
- Volatility is likely to remain elevated in the short term given US policy uncertainty and continued brash statements from the US President.
- We noted last quarter that while we are always eager to protect and grow capital through correctly assessing the short term, most value is obtained through accurately assessing an asset's value over time.
- Given a more subdued overall return environment we think this offers opportunities for fundamentally, active stock / security pickers to generate returns above the index. We would argue that passive exposures in US, global and Australian are vulnerable to concentration and valuation risks. Further, falling stock correlations offer a better landscape for stock pickers.
- We continue to note that while macro factors are important, in more challenging economic conditions it is beneficial to focus on basic micro factors as to what makes a good business and investment. We believe that active management in the right areas can contribute to strong overall returns.

*For inquiries about the information contained in this briefing, please contact:*



**Darren Thompson**  
Chief Investment Officer  
[dthompson@eqt.com.au](mailto:dthompson@eqt.com.au)



**Grant Mundell**  
Investment Specialist  
[GMundell@eqt.com.au](mailto:GMundell@eqt.com.au)



Australian Executor Trustees Limited ("AETL") (ABN 84 007 869 794), AFSL 240 023, is the Responsible Entity for the EQT's various Australian equity Funds (EQT Flagship Fund and Tax-Aware Fund), EQT Eight Bays Global Fund, Spectrum Strategic Income Fund, EQT Diversified Fixed Income Fund, EQT Mortgage Income Fund and EQT Cash Management Fund.

The investment manager applies ESG principles as part of its broader investment philosophy. However, the extent to which ESG factors are integrated may vary depending on the fund, its investment strategy, objectives, and regulatory classification. For detailed information on how ESG is applied to a specific fund, please refer to Product Disclosure Statement (PDS). The Equity Trustees [Responsible Investment Policy](#) demonstrates our approach and consideration of RI in the investment management process.

Equity Trustees and AETL is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). The Investment Manager for the Fund is Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975. This publication has been prepared by Equity Trustees, to provide you with general information only. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither AETL, Equity Trustees nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. The Fund's Target Market Determination is available here <https://www.eqt.com.au>. A Target Market Determination is a document which describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed. Copyright © 2025 Equity Trustees, All rights reserved.