

# MONTHLY SUMMARY

## MARKET SUMMARY

- **The ASX200 rose for the fifth consecutive month** – In \$A terms, Australian (ASX200+3.1%) and International share markets (MSCI World ex-Aust Index +0.92%) rallied over the month. In local currency terms, the ASX200 outperformed the US S&P500 (+1.9%) and the UK FTSE 100 (+0.6%) but underperformed the Japanese Nikkei 225 (+4.0%) and China's Shanghai Composite index (+8%). Small cap indices outperformed strongly in the US and Australia. Year-to-date the ASX200 has risen 12.3%.
- **ASX sector performance** – The best performing ASX sectors for the month were Materials (+9.2%), Consumer Discretionary (+7.6%) and Utilities (+5.3%). Small Resources rose 13.5% with the gold sector jumping 20%. Consumer Discretionary (Retail) was buoyed by a resilient consumer and improving trends supported by RBA rate cuts. Conversely, the worst performing sector was Healthcare falling 13.2% impacted by falls in CSL, Sonic Healthcare, Telix Pharmaceuticals and Ramsay Healthcare. Momentum and growth styles outperformed, while Value and Quality factors underperformed.
- **ASX Index drivers** - The top five contributors to the ASX200 were BHP, the major banks (ex CBA) and Wesfarmers. The bottom five contributors were CSL, Commonwealth Bank, James Hardie, Woolworths and WiseTech Global.
- **Property (AREITs) supported by lower rates** - AREITs rose 4.5% supported by the RBA's easing of monetary policy along with improving operational trends. Globally, REITs rose 4.3%. Locally, Residential (+13%), Diversified (+11.4%), Retail (+8.4%) and Office (+6.2%) exposures performed strongly. Management commentary during reporting season was increasingly optimistic on the outlook.
- **Bonds were steady** - Australian bonds (Bloomberg AusBond Comp 0+Y index) gained 0.33%. Australian 10-year bond yields were broadly unchanged at 4.27%, while US 10-year Bond yields fell 15bps to 4.23%. The value of bonds rise as yields fall. Yield curves continued to steepen with the US curve 19bps steeper and Aust curve +3bps.
- **Australian credit markets rose** – Credit (ex MBS) rallied 0.6% outperforming the composite bond index supported by continued strong investor interest. A solid domestic reporting season underpinned Australian credit markets. Spreads continued to compress as domestic companies pointed to an improved consumer environment.
- **Global economy focus shifted from tariffs to the Fed** – Over the month focus shifted from implementation of US tariffs and a weaker US labour market to a likely US rate cut in September. While the global economy has been quite resilient, the average US tariff rate is now ~16% and could start to weigh on US and global economic growth. In the US there are signs of a weaker labour market and consumer sentiment, while inflation pressures are re-emerging. This creates a headache for the US Federal Reserve; however, most expect a rate cut in September (and another by year-end). Changes to the composition (and independence) of the US Fed have also garnered greater attention. The US Dollar fell 2.2% and is now down 10% year-to-date. The Chinese housing market remains soft while other economic indicators were broadly stable.
- **Australian economy improving as rate cuts support the outlook** – The RBA cut interest rates 25bps to 3.6% in-line with expectations. Monthly CPI (inflation) for July rose above expectations to 2.8% year-on-year. Wages growth stabilised at 3.4% year-on-year growth. The unemployment rate dropped to 4.2%. The market expects one to two more rate cuts. Consumer and business confidence measures increased. House prices rose (+0.8% month-on-month) to a new record in August. The AUD/USD rose 1.8% to 65.4c.
- **Commodities were mixed** – Precious Metals (+6%), Iron ore (+5%) and base metals (+2.9%) rose, while oil (-7.6%) and natural gas (-3.4%) fell. Gold (+5%) prices rallied on a lower USD and likely Fed rate cuts. Lithium prices (+23%) rallied strongly over the month due to speculation around supply curtailments on the back of permitting overhangs at several lithium mines in China



- **High equity market valuations remain a risk** – Consensus earnings revisions for the ASX200 fell another 0.9% driven by Materials, Communication Services and Healthcare downgrades. Over the last two years, earnings revisions have been persistently negative for Australia. While the outlook for the domestic economy is improving the valuation of the ASX200 (at 20.2x Price-Earnings multiple) remains well above longer term norms and is already pricing in a better environment. The ASX200 is arguably being driven by liquidity and global rate cuts rather than earnings. Valuations globally are also stretched, but at least global equity earnings revisions have been improving and are forecast to rise ~10% in FY26 (vs ASX200 +~3% in FY26F).

## AUSTRALIAN REPORTING SEASON – DOMESTIC VS GLOBAL EXPOSURES STOOD OUT

Key takeaways from the August reporting season included:

- Despite a slightly softer top line, earnings results were broadly sound relative to expectations. Company guidance was slightly softer, however.
  - FY25 earnings growth ended down ~5% (vs FY24), the third straight year of falling earnings.
- Dividends announced were better than expected suggesting higher payout ratios.
  - However Resource company dividend payout ratios may be capped given higher sustaining capex levels.
  - Dividends are likely to have fallen 5% in FY25 and are forecast to remain broadly flat in FY26.
- The August reporting season was the most volatile on record, with the standard deviation of result day relative returns of 8.3%. Higher passive ownership and quant driven trading strategies are key reasons.
- Domestic cyclical positively surprised supported by strong cashflows, a resilient consumer and improving domestic economy trends.
  - Small cap industrials were a key driver of the positive surprise, while better margins suggest a cost cutting focus by management teams.
- Cost inflation appears to be peaking.
  - Wage inflation is persistent, but an increasing number of corporates are focused on AI driven productivity enhancements.
- Insurers produced strong results, but the insurance cycle has now peaked.
- Global Cyclical negatively surprised impacted by tariffs, regulatory uncertainty and a weak US housing market.
  - Resources had the most negative earnings surprises.
- FY26 earnings forecasts were cut across most sectors.
  - Banks produced solid results showcasing strong asset quality and FY26 earnings were upgraded.
  - AREIT's were also a rare beneficiary of FY26 earnings upgrades with improving residential and retail conditions, a stronger outlook for consumer spending and rising leasing spreads.
  - IT, Healthcare and Communication Services received the largest downgrades for FY26.

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