2024-25 financial year in review

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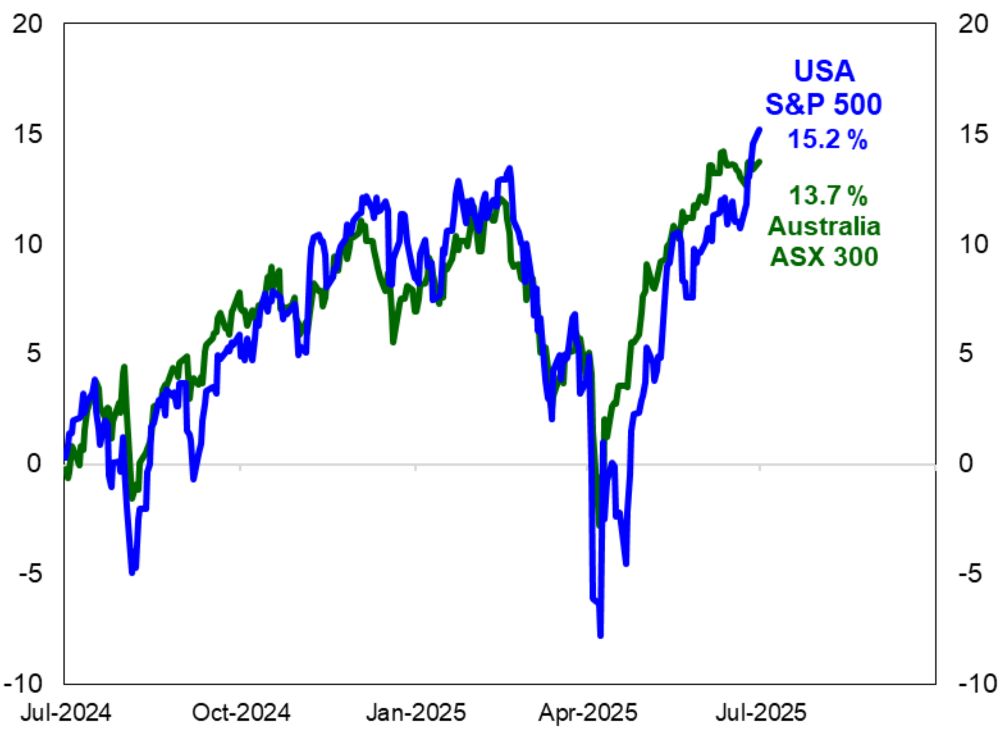
“Another remarkable year for global shares given investor optimism over Artificial Intelligence (AI) prospects and more encouraging signs for inflation and interest rates.”

A strong year for share returns

Global shares delivered very strong returns in the past financial year. Optimism on the promise of ‘Artificial Intelligence’ (AI) as well as progress towards lower global inflation and interest rates have been the key positive drivers for rising global share prices. These strong share gains come despite the tragic Russian-Ukraine War as well as the Hamas-Israel and the Israel-Iran conflicts which are all brutal and seemingly never-ending.

Global shares (hedged) recorded a 13.3% return for the year in local currency terms. The clear outperformer has been Wall Street. US shares as represented by the S&P 500 delivered a 15.2% return for the financial year (Chart 1). The returns from Australian shares at 13.7% (ASX 300) were very strong but trailed in Wall Street’s wake. There was one compensation in that the weakness in the Australian dollar over the past year allowed global shares (unhedged) to deliver an exceptionally strong 18.4% return.

Chart 1: Share returns for 2024-2025



Source: LSEG DataStream.

However, this was not an easy climb to historic highs for both the American and Australian share markets in the last year. The sharp share price falls recorded from March to April 2025 came in response to US President Donald Trump’s aggressive agenda on imposing tariffs. From his first day in the Oval Office on 20 January 2025 threatening Canada and Mexico to the impositions of a 145% tariff on China, 20% for Europe and 10% for

Australia in April, President Trump has been menacing America's trading partners as well as gambling with the US economy. Given that tariffs are a tax that increases consumer prices, the risk of a sharp rise in US inflation and corresponding increase in US interest rates sent Wall Street into a tailspin. Fortunately, sanity briefly returned with President Trump announcing a 90 day pause to allow tariff negotiations. However, if the tirades against America's trading partners resume on President Trump's "Truth Social" after the 9 July deadline, then investors will have to strap their seatbelts on for another rollercoaster ride.

Even with these political headwinds, enthusiasm for technology has been the key positive driver of Wall Street's strong returns. Tesla led the charge with a 60% price gain followed by Meta/Facebook (46%) and then the largest AI chipmaker Nvidia with 28%. These extraordinary gains allowed the US technology focused NASDAQ 100 Index to post a 15.7% annual return.

Notably in an Australian context, only Commonwealth Bank shares with a 45% price gain for the year could deliver a similar result to the American technology companies. There were also notable disappointments with large price falls for resource shares such as BHP (-14% decline) and Fortescue (-29%), as well as CSL (-19%).

Table 1: Asset class returns in Australian dollars – periods to 30 June 2025

Asset class	Returns			
	1 year	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	4.4%	3.9%	2.3%	2.0%
Australian bonds	6.8%	3.9%	-0.1%	2.3%
Global bonds (hedged)	5.4%	2.3%	-0.6%	2.0%
Global high yield bonds (hedged)	8.3%	7.8%	4.1%	4.5%
Global listed infrastructure (hedged)	14.7%	5.1%	7.0%	6.7%
Global property securities (hedged)	8.4%	2.2%	4.4%	3.0%
Australian shares	13.7%	13.3%	11.8%	8.8%
Global shares (unhedged)	18.4%	19.2%	14.8%	11.8%
Global shares (hedged)	13.3%	15.8%	12.6%	9.7%
Emerging markets (unhedged)	17.5%	11.5%	7.9%	6.5%

Past performance is not a reliable indicator of future performance.

Sources: FactSet, MLC Asset Management Services Limited. Benchmark data: Bloomberg AusBond Bank Bill Index (cash), Bloomberg AusBond Composite 0+ Yr Index (Aust bonds), Bloomberg Global Aggregate Bond Index Hedged to $A (global bonds), Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged) (global high yield bonds) FTSE Global Core Infrastructure 50/50 Index Hedged to $A, FTSE EPRA/NAREIT Developed Index (net) hedged to $A (global property securities), S&P/ASX300 Total Return Index (Aust shares), MSCI All Country World Indices hedged to $A and unhedged (net) (global shares), and MSCI Emerging Markets Index (net) unhedged to $A (emerging markets).

European shares made a solid 8.4% return for the year with the benefit of the European Central Bank cutting interest rates by 1.75% to 2%.

Asian share markets delivered a mixed performance across countries. Japan's share market made a muted 2.3% return for the year given the Japanese central bank has been assertively raising interest rates to combat inflation. Taiwan was similarly subdued at a 3% return given geo-political concerns.

Yet Chinese share prices made a robust recovery with a 34% annual gain (MSCI China in local currency). Lower interest rates and assurances from China's government of more support for economic activity have countered concerns over China's weak property market. This strength in Chinese shares was a key contributor to the strong 12.9% return for emerging markets in local currency terms.

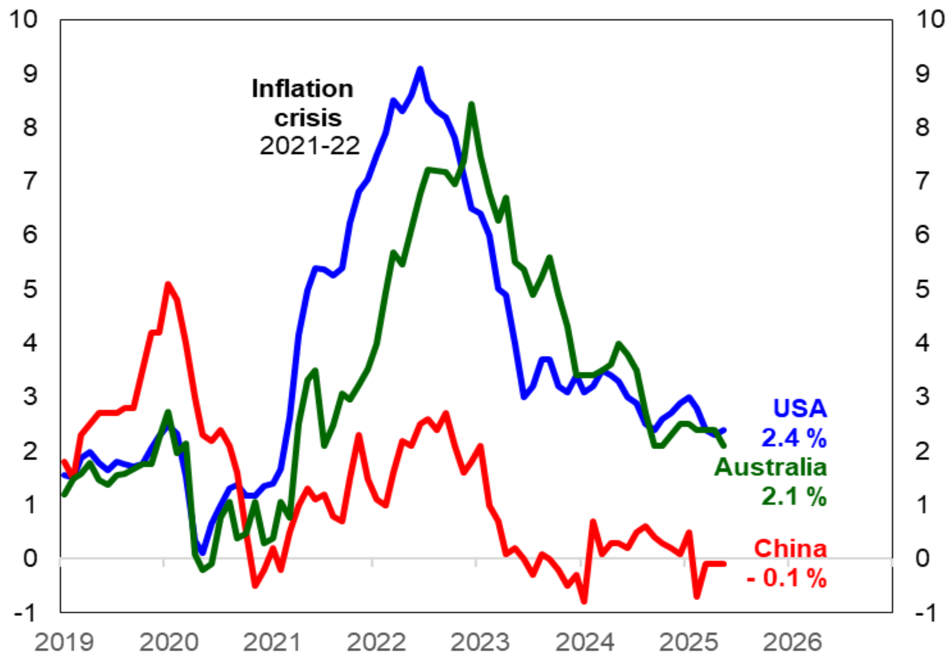
Australian bonds provided a strong 6.8% annual return with the support of lower inflation and the Reserve Bank of Australia (RBA) cutting the cash interest rates by 0.5% to 3.85% in 2025.

Global bonds (hedged) delivered a reasonable 5.4% return. Bond markets have experienced turbulence in the past year given the shifting sands on economic activity, inflation and political risks. Global high yield bonds (hedged) made a very strong 8.3% annual return as investors considered that the elevated yields available are attractive for income despite very narrow credit spreads.

The ‘cost of living’ is still challenging for consumers

Global inflation has gradually fallen in the past year (Chart 2). Milder price rises for consumer goods such as clothing and electrical equipment have kept inflation in check. Notably inflation in both Australia and the US has fallen from above 3% in mid-2024 towards the low 2% inflation levels in mid-2025. China as the ‘factory to the world’ in producing consumer goods has been a source of this lower global inflation as well as experiencing its own minimal inflation given modest economic growth.

Chart 2: Global consumer inflation



Sources: Australian Bureau of Statistics, National Bureau of Statistics of China and US Bureau of Labor Statistics.

Consumers around the world remain angry with the “cost of living.” This reflects the fact that consumer prices have not returned to the pre-pandemic era of 2019 but remain high given the inflation crisis of 2021-2022. There are also still persistent price pressures in the service sector such as health care, insurance and rents that continue to squeeze consumers’ budgets. Consumers have expressed this anger at the ballot box in the past year. Notably Donald Trump’s ‘second coming’ to the White House in November 2024 can be partly attributed to some American consumers being angry at their declining living standards with high inflation during Joe Biden’s Presidency.

While Australia’s inflation has declined to 2.1%, in the year to May 2025, this moderation in price rises is also due to government electricity rebates. According to the Australian Bureau of Statistics (ABS), rebates have seen electricity prices rise by only 1.1% since June 2023. Without these government rebates, electricity prices would have risen by 17.7%[1]. Even with these milder electricity price rises, the struggle to keep food on the table and a roof over our heads continues. Egg prices have increased by 19.3%, coffee and tea (8.3%) and rents by 4.5% in the past year.

The past year has also provided dramatic and terrible events. The Middle East remains cursed by brutal violence. The conflict between Hamas and Israel continues in Gaza while Israel and Iran exchanged missiles and threats in the brutal ‘12-day War’ in June 2025. Russia’s devastating invasion of Ukraine in 2022 is still casting a dark shadow over Europe and remains a threat to energy security and political stability. The economic importance of these conflicts is that these could intensify and potentially suddenly cut global oil supplies. Both Iran and Russia are large oil producers and even though most of their supply typically goes to China, any Eastern Europe or Middle East War could dramatically increase oil prices and thereby inflation for the rest of the world.

[1] ABS Monthly Consumer Price Index Indicator for May 2025, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/monthly-consumer-price-index-indicator/latest-release#key- (released 26/06/2025).

The global economy has provided both positive and negative surprises in the past year

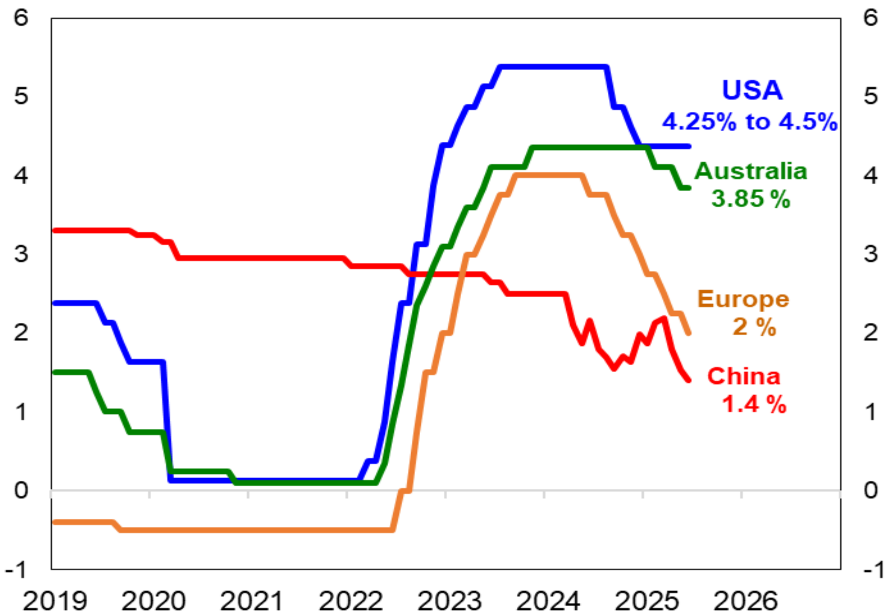
Global economic activity has been ‘multi-speed’ in the past year. The US economy has been the key source of strength. American businesses and consumers have kept spending despite the headwind of high interest rates. Strong jobs growth has allowed the unemployment rate to remain stable at around 4% and supported solid wages growth. Notably the US economy recorded annual gross domestic product (GDP) growth of 2% in the year to March 2025 compared to potential growth estimates of around 1.8%. Hence the US is still punching above its heavyweight status in the global economy. However, there are warning signs that a sharp US slowdown may be coming with more subdued business and consumer surveys given tariff concerns.

European economic growth has picked up speed to 1.6% for the past year to March. Germany has struggled given weaker global demand for their luxury cars. The United Kingdom modestly improved from their post 2016 Brexit malaise but is still characterised by low business investment.

China’s economic growth at 5.4% in the past year remains constrained by a cautious consumer and weak property market. Falling property construction and apartment prices have undermined confidence in China’s prospects. Korea has also disappointed with stagnant economic activity as real GDP has fallen by -0.3%. Amongst Australia’s other major trading partners, economic growth has also been more encouraging. India’s economic growth at 7.4% is the strongest amongst major nations and confirms India’s long-term potential.

Even with these mixed global economic activity results, share investors have taken encouragement from falling global interest rates (Chart 3). Most central banks are lowering their cash interest rates given that inflation is now near their circa 2% targets. The most prominent central banks lowering interest rates were the European Central Bank which has cut by 1.75% to 2% during the past year. China’s central bank has also been more ambitious with a total of 0.75% in interest rates cuts. The US Federal Reserve was initially assertive by cutting interest rates by 1% in 2024 but has since paused in 2025 given tariff concerns. The RBA has been a timid central bank with only 0.5% in interest rate cuts in the past year.

Chart 3: Global cash interest rates set by central banks



Source: LSEG DataStream.

Australia’s economic performance is a mix of the lacklustre and the laudable

Australian consumers are still being squeezed by inflation, high mortgage interest rates and rising rents. Australia’s lacklustre economy is confirmed by the subdued GDP result for the March quarter of 2025 that shows the economy expanded by barely 0.2% for the quarter and 1.3% for the past year. Essentially economic activity is only just registering a pulse. Notably Australia is in a ‘per capita’ recession where population growth of 1.7% exceeds economic growth of 1.3%. Yet there is a ‘silver lining in this dark cloud’ judging by the RBA’s willingness to cut interest rates. The RBA's February and May 2025 interest rate cuts and expectations for more later in 2025 is giving some solace to consumers amongst these difficult times.

More encouraging and remarkable is that Australia is recording strong jobs growth even with subdued economic activity. In the year to May 2025, circa 362,000 new jobs were generated in Australia. The key benefit of this strong jobs market is that Australia has a low unemployment rate of 4.1% and wages growth is solid. Notably wages growth was 3.4% in the year to March but is now significantly higher than consumer inflation at 2.1% in the year to May. Finally, Australian workers are starting to see wage increases are outpacing rising consumer prices.

Global prospects

Enthusiasm for AI and technology have been the key factors supporting rising share prices. Lower global inflation, which has allowed central banks to selectively cut interest rates, has also been supportive. Typically, a lower interest rate environment can boost corporate profits and thereby share prices.

However, President Trump's return to the White House has generated alarm over the prospect for large tariffs imposed on America's key trading partners. Given that tariffs are a tax that increases consumer prices, the risk of a sharp rise in US inflation is a major threat to both global share prices as well as bond yields. If the Trump Administration actually implements the proposed tariff increases after the current 90 day pause ends, then the risk of higher inflation and weaker economic activity magnifies across the world.

Hence President Trump's aggressive policy agenda - higher tariffs that impose more difficult trading conditions for the global economy, lower US immigration and population growth with "mass deportations", as well as higher US budget deficits - is a recipe for economic and financial instability.

Global share markets are also likely to be challenged by considerable global political risks. The continuing Russian-Ukraine war is casting a shadow over Europe which has generated insecurity and motivated large increases in defence spending. The brief and brutal conflict between Israel and Iran in June may prove to be a forewarning of a chaotic Middle East that could threaten global oil supplies.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.