

# Economic and market update

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## Key events in August 2025

- Global shares made positive gains in August given strong US corporate profits, hopes for lower US interest rates as well as more stimulus measures from the Chinese government. Concerns about US President Trump's large tariff increases have been calmed by agreements with Europe and Japan and continued negotiations with China.
- US shares made new historic highs with encouraging profit reports for the June quarter. Large technology companies including Amazon, Meta, Microsoft and Nvidia recorded very strong profit increases. Yet US economic activity has been mixed with solid business investment contrasting with a sharp slowdown in jobs growth. The immediate prospect of lower interest rates has been boosted by supportive commentary from the US central bank expressing concern about the "downside risks" to the US jobs market as well as continuing criticism by President Trump.
- Chinese shares delivered very strong returns given more supportive stimulus measures from the national government in terms of child-care and interest rate subsidies for consumers.
- Australian shares also made new historic highs in August. The Resources sector made exceptionally strong gains of 10.1% with more optimism on China's growth prospects. The Consumer Discretionary (7.6% gain) and real estate (4.4%) sectors also surged on the back of the Reserve Bank of Australia (RBA) lowering interest rates in August. By contrast, the Health Care sector fell sharply by 12.9% with CSL disappointing investors with a weaker profit report and job cuts.
- Australia's economic data remains modest. The labour market has improved with solid jobs growth in July after a flat performance in previous months. Business investment has delivered a flat performance in the June quarter. Australia's consumer inflation for July showed a sharp temporary spike in annual inflation to 2.8% given the temporary ending of electricity subsidies in NSW and the ACT. These electricity subsidies are expected to start again in August.

## Asset class summary

Asset class returns in Australian dollars – periods to 31 August 2025

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	12.4	3.2	7.2	14.9	12.8	12.2	9.9
Global shares (hedged)	9.3	0.0	6.1	12.7	15.2	11.1	10.5
Global shares (unhedged)	8.1	0.8	6.7	20.0	19.5	14.8	12.0
Emerging markets (unhedged)	12.6	-0.4	7.6	21.1	12.5	7.8	7.8
Australian property securities	14.4	4.4	9.7	14.3	14.9	12.3	9.2
Global property securities (hedged)	6.8	3.6	3.8	1.2	2.8	4.5	3.5
Global listed infrastructure (hedged)	8.4	0.9	2.3	6.9	4.6	7.2	7.0
Australian bonds	4.3	0.3	1.0	4.3	3.7	0.0	2.1
Global bonds (hedged)	3.0	0.5	1.3	2.8	2.5	-0.6	1.9
Global high yield bonds (hedged)	5.8	1.1	3.1	6.5	7.2	3.3	4.8
Australian inflation-linked bonds	3.9	0.7	1.5	4.1	4.8	2.6	2.7
Cash	2.7	0.3	0.9	4.3	4.0	2.5	2.1
AUD/USD	5.7	1.7	1.7	-3.5	-1.5	-2.4	-0.8

Past performance is not a reliable indicator of future performance.

**Sources:** Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A\$ (Net); Emerging markets – MSCI Emerging Markets in A\$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) – Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

## Key events in global markets over the last three months to August 2025

Global shares (unhedged) delivered a very strong 6.7% return for the quarter. After President Trump allowed a 90 day pause on US tariffs in early April, global shares have made a strong recovery. Optimism on Artificial Intelligence (AI) prospects and the potential for higher corporate profits have also been key drivers of rising share prices.

Wall Street's benchmark S&P 500 Index ended the quarter near an historic high. Investors are also confident that the US central bank will be cutting interest rates soon given slower job creation and despite the significant inflation risk from tariffs.

Asian share markets delivered impressive performances. Korea (20.9% return) and Taiwan (16.6%) posted exceptionally strong returns over the past three months, in local currency terms. China delivered a very strong 13.4% return, in local currency terms, given China's government is providing more support to counteract US tariffs and a weak residential property market. The Japanese share market delivered a 9.1% return, in local currency terms, with the central bank taking a more cautious stance on raising interest rates given President Trump's tariff agenda.

Global bonds (hedged) delivered a mild 1.3% quarterly return given concerns about the immediate upside inflation risks with tariffs. Australian bonds also delivered a modest 1.0% return as the recent sedate economic activity and lower inflation results has set expectations for the RBA lowering interest rates further this year.

## Key events in Australia over the last three months to August 2025

Australian shares delivered a very strong 7.2% return for the quarter. The Energy sector recorded the highest quarterly return of 18.6% on rising oil prices and geo-political risks. The Resources sector also benefitted from more encouraging China growth prospects with a 12.8% return. There were also notable positive returns for the property securities (9.7%) and Financial (7.2%) sectors which are seen as key beneficiaries of the RBA cutting the cash interest rate in May and August.

Australia's economy is experiencing modest consumer spending and job creation. However, lower mortgage interest rates and signs that wages growth is finally exceeding inflation suggests that consumer prospects may be brightening compared to the tough "cost of living" crisis of recent years.

## Global prospects

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

However, President Trump's tariff agenda remains a concern. Given that tariffs are a tax that increases consumer prices, the risk of higher US inflation is a threat to both global share prices as well as bond yields.

Hence President Trump's aggressive policy agenda - higher tariffs that impose more difficult trading conditions for the global economy, lower US immigration as well as higher US budget deficits with tax cuts - could ultimately prove to be a recipe for instability, higher inflation and lower economic growth.

Global share markets are also challenged by considerable global political risks. The Russian-Ukraine war is still casting a shadow over Europe which has generated insecurity and motivated large increases in defence spending. The precarious Middle East political climate is also a major threat to global oil supplies.

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

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