



SEPTEMBER QUARTER 2025 ECONOMIC COMMENTARY

CENTRAL BANK ACTIONS



Q3 2025 Quarterly Economic Update

Overall, Q3 2025 showcased a fragmented landscape: global growth was positive but uneven, held back by trade policies, inflation dynamics, and lagged effects of tight global financial conditions. Central banks are pivoting cautiously, while fiscal and structural vulnerabilities remain prominent in forecasts for the rest of the year.

Australia

- The Australian economy offered a relatively stable base, posting 0.6% GDP growth in Q2 and 1.8% year-on-year, supporting local assets and helping the AUD recover from earlier lows.
- Inflation has continued easing, with CPI at 2.9% in Q3, giving the RBA scope to cut rates further, which generally supported both equities and fixed interest.
- Domestic challenges persist, such as weak productivity, but fiscal support and recovering household confidence have offset some of these drags.
- Risks to the outlook include weak productivity and export vulnerabilities as global trade dynamics remain uncertain.

United States

- US growth moderated, with Q3 annualized GDP at 1.3% and persistent inflation, reflecting the impact of tariffs and a softer labour market.
- Inflationary pressures persist with companies facing higher input costs, though the Federal Reserve is expected to continue with a cautious approach to rate cuts.
- Labour markets have softened, with the 2025 unemployment rate projected at 4.2% and employment growth moderating.

Europe

- Eurozone growth slumped to around 0.9%, with sluggish local demand and the ongoing effects of global trade tensions.
- Inflation remains anchored around 2%, while the ECB's policy rate stands at 2.15% after a series of cuts. However, the strong euro and ongoing trade tensions deter further easing.
- Defence spending and a resilient labour market are providing some support, but business activity is under persistent pressure.

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United Kingdom

- The UK returned modest growth (0.3% Q2, 1.2–1.3% full-year forecast), but high inflation and fiscal constraints capped upside for UK allocations.
- The softer pound meant less currency conversion benefit on unhedged UK equity and bond exposures throughout Q3 for AUD investors.
- Market volatility, especially around monetary policy signals, kept short-term returns choppy.

Emerging Markets

- Emerging markets outperformed developed economies with 3.9% growth, led by Asia, but returns for AUD investors were highly sensitive to global risk cycles and USD/AUD swings.
- Trade risks and Chinese economic uncertainty kept volatility high, affecting both equity and bond flows.
- Risks include ongoing geopolitical tensions, variable commodity prices, and tighter global financial conditions.
- Inflation in emerging markets has remained relatively subdued, allowing more policy space for rate cuts in contrast to developed economies.

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SEPTEMBER QUARTER 2025 INVESTMENT COMMENTARY

The quarter's strong cross-asset returns demonstrate how global capital markets rapidly adjusted to renewed monetary easing, even as pockets of volatility persisted amid ongoing fiscal and trade policy uncertainty.

Global equities delivered positive returns in Q3 2025, with technology and AI themes continuing to drive market momentum and emerging markets outperforming their developed peers. Fixed interest markets were volatile but finished higher as central bank easing expectations took hold, even as global fiscal and trade policy uncertainties remained. Regional performance varied, with the US leading economic growth, China rebounding, and Europe lagging due to German weakness. Commodity returns were robust overall, and currencies saw distinctive movement driven by monetary policy shifts and FX tailwinds.

Global Equities

- Global equities posted strong returns, driven primarily by technology, AI, and broader participation across sectors as expectations of US Federal Reserve rate cuts improved sentiment.
- Growth stocks continued to outperform in Q3, as did emerging markets. China led gains due to renewed US-China trade truce optimism.
- Small-cap stocks and REITs also rallied on resilient activity data and policy optimism, while Europe ex-UK lagged due to soft German performance.

Global Fixed Interest

- Bond markets were volatile, but the Bloomberg Global Aggregate Bond Index decreased as US Treasuries rallied, and credit spreads tightened.
- Investors broadly anticipated central bank easing in the US, UK, and Europe, while Japan stayed on a gradual hiking path and emerging markets continued easing cycles.
- Australian fixed income was supported by a stabilising growth outlook and expectations of further RBA cuts, potentially late 2025 or more likely early 2026, though volatility persisted owing to global trade policy uncertainty.

Australia

- Australian equities rebounded sharply after a tariff-driven dip, finishing the quarter positively.
- Real assets (property and infrastructure) signalled a recovery with improved returns; valuations appear to have bottomed, and investor confidence is returning.
- The RBA maintained a dovish stance, holding rates steady while signalling further possible cuts as inflation moderated and economic risks persisted.
- Fixed interest delivered modest positive returns, with particular focus on local rates diverging from global trends.

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United States

- The US led developed markets in economic growth for Q3, supported by resilient consumer spending and robust earnings, especially in tech and communications.
- The S&P 500 reached new highs, driven by technology and communication services, and over half of the gains were attributed to profit growth rather than just higher multiples.
- Anticipation of Federal Reserve rate cuts further bolstered both equities and fixed income, particularly with strong demand for US large-cap and tech exposures.

Europe and UK

- The UK equity market rose strongly, helped by international revenue exposure and a weaker sterling, despite a challenging domestic economy.
- Continental Europe lagged, as German equities fell. This was offset by moderate strength in France following political changes and a minor rebound in financials.
- The ECB is expected to continue easing, though the pace may moderate due to German fiscal stimulus and lingering economic uncertainty.

Japan

- Japan maintained a gradual policy normalisation, with the Bank of Japan expected to resume further rate increases amid steady domestic price pressures.
- Japanese equities continued their solid performance, supported by export gains and global demand for technology and automation equipment.

China and Emerging Markets

- Emerging market equities outperformed as China drove gains on AI optimism and the extension of the US-China trade truce.
- Several Asian central banks continued easing, with EM debt benefiting from improved inflation outlooks and stable FX trends.

Commodities

- The broad Commodity Index was positive for the quarter.
- Oil prices fell as expectations of a market surplus weighed more than heightened geopolitical tensions.
- Gold rallied on safe-haven demand and a weaker US dollar, with its best annual gains in decades.

Currencies

- The US dollar weakened against most majors, providing a positive tailwind to global and non-US asset returns.
- The British pound and euro saw mixed trends, with sterling depreciating as UK international exposures benefited, while eurozone growth concerns limited strength.
- Emerging market currencies gained from renewed capital inflows as risk optimism and easing policy cycles took hold globally.

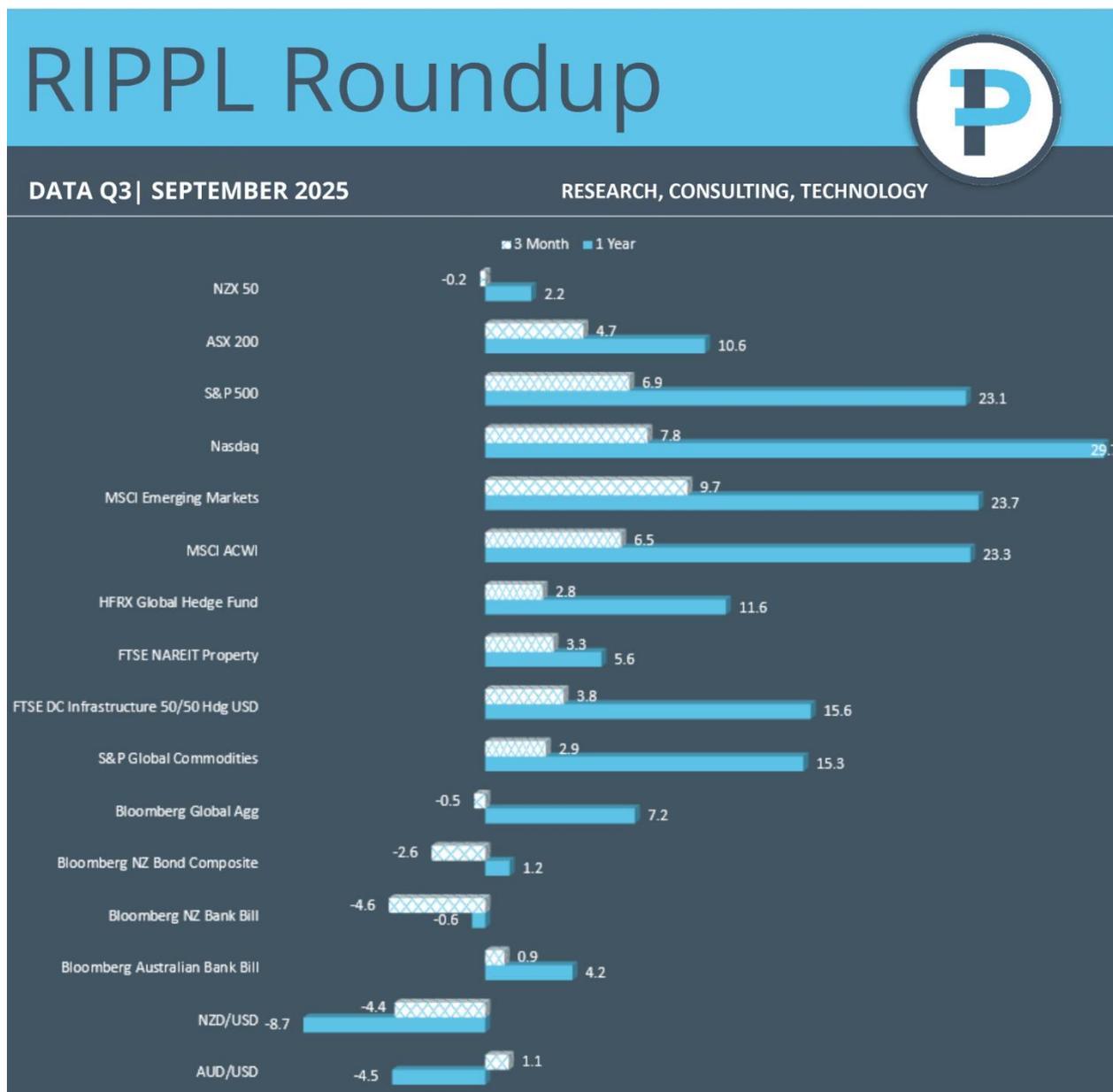
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Market Indices

The chart below shows the movement of markets over the quarter and for the year to 30 September 2025, in local currency terms.



Source: Research IP

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