



QUARTERLY INVESTMENT REPORT

July
2025

Summary

As we head into the second half of 2025, we remain constructive on the outlook for global growth and equity markets. The economic backdrop has improved since April, though policy tensions persist, with President Trump's blend of protectionism and fiscal stimulus continuing to unsettle investors.

US earnings forecasts have stabilised, with low expectations leaving room for upside. However, elevated valuations make equities vulnerable to pullbacks. Europe may benefit from rising fiscal support, while Australian equities face headwinds from soft earnings and high valuations.

Global rate cuts are progressing. Australia is expected to ease further in response to weak demand and slowing inflation, which should support activity and sentiment. While risks remain, structural trends and policy support are likely to help anchor markets over the coming year. Navigating this phase will call for discipline, diversification, and tactical flexibility.

In response, the Board has moved to a neutral stance across growth and defensive assets, maintaining flexibility and monitoring momentum. If markets experience a sharp pullback, we'll look to increase exposure. Conversely, we'll trim allocations where valuations appear stretched

Within fixed interest, we've reduced global government bonds and added to global property, which is supported by limited supply and high replacement costs. Rising fiscal spending is expected to keep longer-term bond yields elevated, limiting potential returns for bond holders.

As of July 2025	Positioning (DAA)			Positioning (0-12 months)
Asset Class	Underweight	Neutral	Overweight	
Allocation				Comments
Cash				Neutral - Liquidity for future opportunities.
Fixed Interest			←	Neutral - Rising fiscal deficits expected to weigh on returns. Favour domestic credit over broader fixed income.
Australian Fixed Interest				
Global Fixed Interest				
Australian Equities				Neutral - Valuations are rich, but mid-small caps and select sectors (resources & healthcare) still offer value.
Global Equities				Neutral - AI and rate cuts driving gains, led by U.S. mega caps, but lofty valuations heighten downside risk.
Developed Market Equities				
Emerging Market Equities				
Property	→			Neutral - Global property offers value, helped by high replacement costs and easing rates.
Australian Property				
Global Property				
Alternatives (Inc. Infrastructure)				Neutral - Important hedge to the outlook. Increasing opportunities across private market strategies.
Infrastructure				
Other Strategies (Private Equity, Hedge Fund etc)				



This Quarter

WE EXPLORE KEY DEVELOPMENTS ACROSS GLOBAL MARKETS AND WHAT THEY MIGHT MEAN FOR INVESTORS GOING FORWARD.

- Currently, **there are significantly more global central banks cutting interest rates than hiking**. This broad-based monetary policy easing should provide substantial support to the global economy. Equity and bond markets, particularly in regions where interest rate cuts are on a more aggressive path, also stand to benefit.
- Investors often hesitate to invest in equity markets at all-time highs, but historical data shows that **returns following market highs are frequently stronger than average**.
- **The Commonwealth Bank (CBA) share price has experienced a strong run**; however, a comparison to global peers highlights why analysts remain bearish on the share price.
- Gold has decoupled from its historical interest rate relationship since Russian central bank assets were confiscated in 2022. **Global central banks have subsequently increased their gold holdings**, which has helped push the price of the yellow metal higher in a trend that is likely to continue.
- **Equity markets have recouped the “Liberation Day” selloff and reached new highs**. While several factors support the equity market outlook, downside risks remain due to ongoing economic and trade uncertainty.



Synchronised global monetary policy easing

Currently, there are more global central banks cutting interest rates than hiking rates globally.

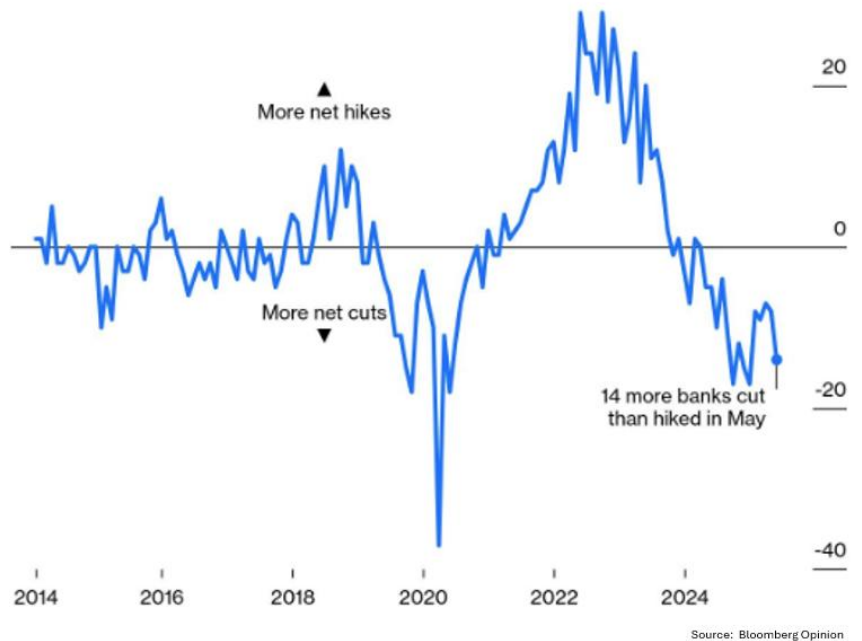
The difference between the number of central banks cutting versus hiking rates is currently near the highest level seen in the past decade, excluding the Covid-19 period (Chart 2).

This broad-based monetary policy easing is expected to provide a boost to the global economy through the supportive effects that lower interest rates should have on both consumers and businesses.

Lower policy rates also reduce the discount rates used in investment decision making, which will be supportive of equity market valuations.

As the world's largest economy, the US has already provided economic support through interest rate cuts. However, these cuts have been slower than anticipated due to the uncertain impact of tariffs on both inflation and growth.

Chart 1: The balance of rate hikes and cuts from 52 global central banks



The US Federal Funds Rate is projected to decline by 100 basis points over the next 12 months, reaching a target range of 3.25% to 3.5%.

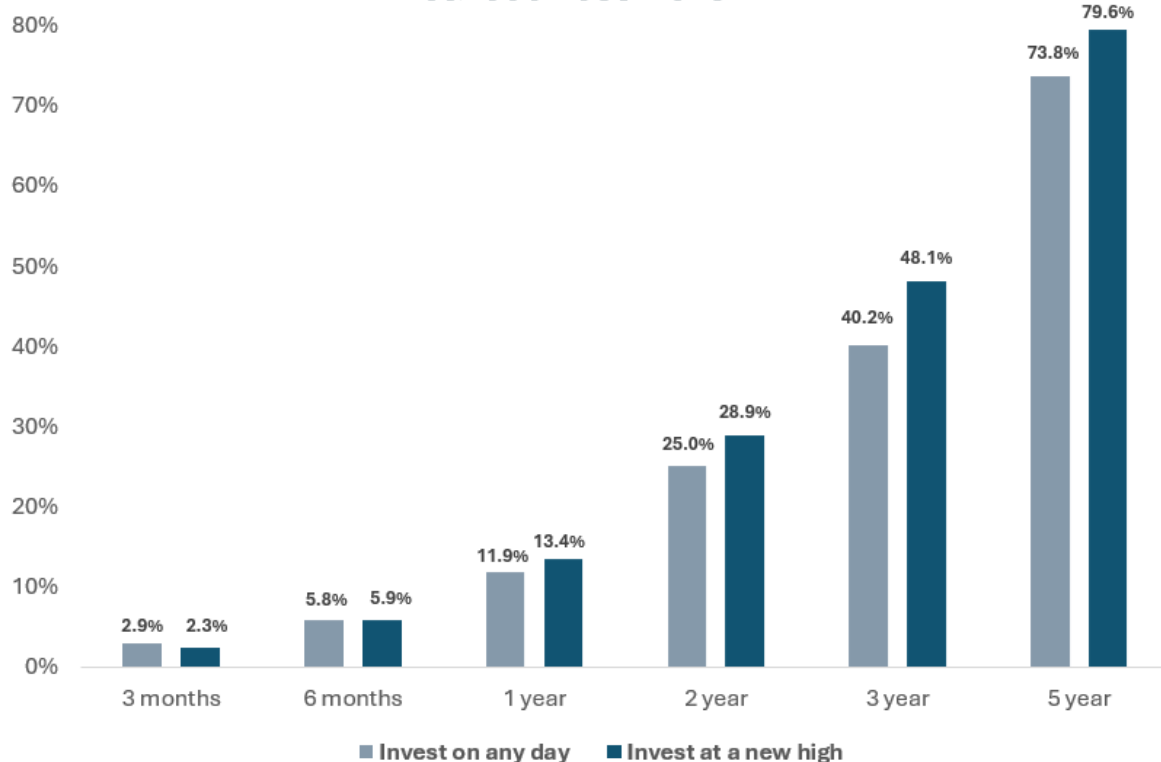
This supportive monetary policy environment is likely to benefit financial markets, especially economically and interest rate-sensitive sectors.



Investing at all-time highs

As global equity markets, including Australia's, reach new all-time highs, investors often question the outlook for returns, especially amid economic uncertainty and recent volatility.

Chart 2: Average cumulative returns when investing on any day vs at new highs.
S&P500: 1988-2023



Source: JP Morgan Asset Management. "Invest on any day" represents the average of forward returns for the entire time period, whereas "Invest at a new high" represents the average of rolling forward returns calculated from each new S&P 500 high for the subsequent intervals.

Chart 2 shows how the US equity market (S&P 500 Index) has performed after investments made at all-time highs, compared to average returns over the same periods.

The results suggest investing at record highs is not typically a risk and has often delivered above-average returns.

Historically, they have not signalled reversals or poor outcomes. Instead, they tend to coincide with continued momentum, as strong price trends often persist.

New highs usually reflect strong underlying market drivers, even if not immediately visible.



Commonwealth Bank: comparative insights to global giants

Commonwealth Bank's (CBA) rally over the last year has lifted its market cap above \$300 billion, now making up around 11.5% of the ASX 200. Its size and strength have been key drivers of the Australian share market index.

While investor appetite for banks is a global theme (Chart 3), most active managers remain underweight, which has hurt returns as CBA continues to rise. Analysts are cautious as well, with none rating it a buy.

This view is less about the quality of the business and more about stretched valuations given the modest outlook for earnings and revenue growth.

Compared with JP Morgan and Nvidia:

- Share price: CBA has tracked global banks and even outperformed Nvidia over the past year.
- Growth: Forward growth is modest, in line with JP Morgan but well behind Nvidia.
- Valuation: CBA trades on 29x forward earnings, nearly double JP Morgan's and close to Nvidia's, despite lower returns on equity.

Chart 3: Commonwealth Bank's relative performance versus US and European banking indexes

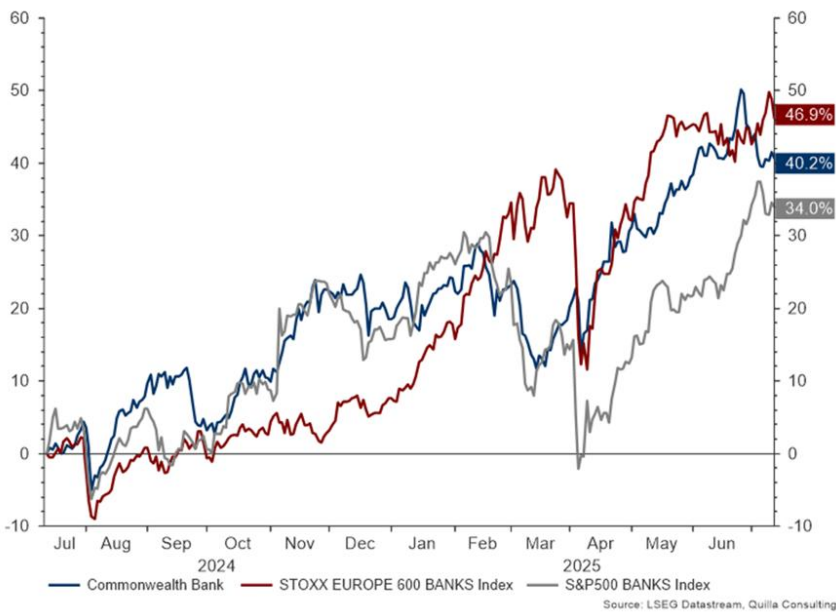


Table 1: Commonwealth Bank vs Nvidia vs JP Morgan

	Forward Price to Earnings	Forward Revenue Growth (%)	Forward Earnings Per Share Growth (%)	Forward Return on Equity (%)	YTD Performance (%)	1Y Performance (%)
NVIDIA (largest company by market cap)	36.7	53.7	44.9	79.4	14.2	22.6
JP Morgan (largest global bank)	16.0	-1.8	1.5	15.6	22.6	43.2
Commonwealth Bank	28.7	2.5	2.6	13.5	20.8	51.2

* Performance data at as 1 July 2025 | Source: LSEG; Bloomberg LP

High valuations can last for some time and are not always a red flag. But with so much good news already reflected in the price, future returns may be more modest, even for a strong company like CBA.



Gold decouples from real interest rates

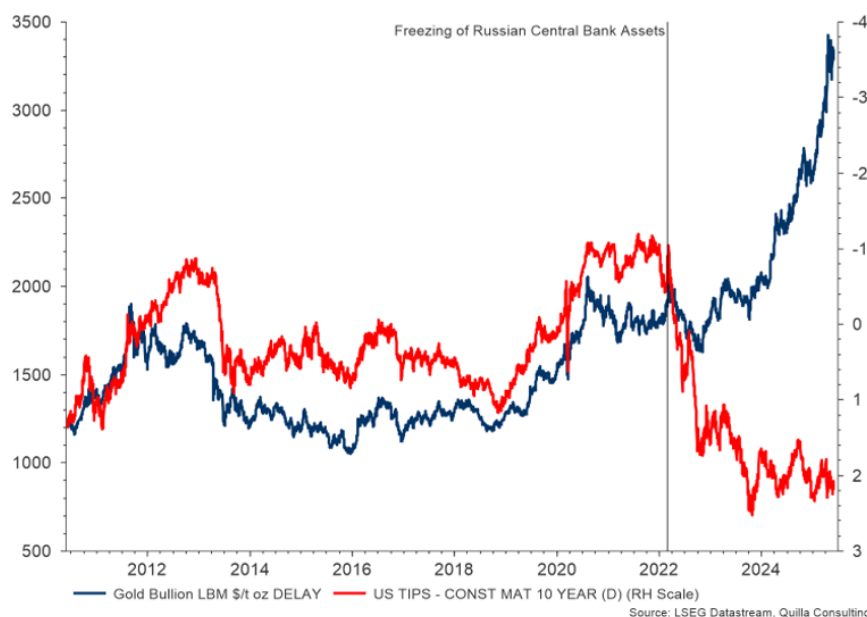
Gold has been a standout performer in recent years, though its behaviour has diverged from traditional drivers like real interest rates.

Since 2022, following the G7's freeze of over \$280 billion in Russian reserves, central banks have increased gold purchases to safeguard reserves from potential confiscation (see Chart 5).

Goldman Sachs notes a fivefold rise in central bank buying on the London OTC market. Emerging market central banks, in particular, are lifting gold holdings. China and India now hold 6.5% and 13.5% of reserves in gold, compared to over 70% in the US and major European economies, reflecting gold standard legacies.

Investor interest has also grown, with strong ETF inflows. However, central banks remain more stable buyers, less reactive to fundamentals or price. This buying trend looks set to continue, though we remain mindful of short-term volatility despite a constructive long-term outlook.

Chart 4: Gold versus real US interest rates (inverse scale) – decoupling since Russian assets were frozen



The trend of central bank buying is likely to continue, and while we have a constructive outlook for gold, we remain mindful of near-term volatility and see more compelling opportunities among gold producers.



Liberation day sell-off recouped and new highs – what now?

Global equity markets experienced a sharp selloff in early April after Trump announced unexpectedly high reciprocal tariffs.

Markets quickly recovered, ending the quarter well above pre-announcement levels as the administration signalled a softer stance, with reduced tariffs and delayed implementation.

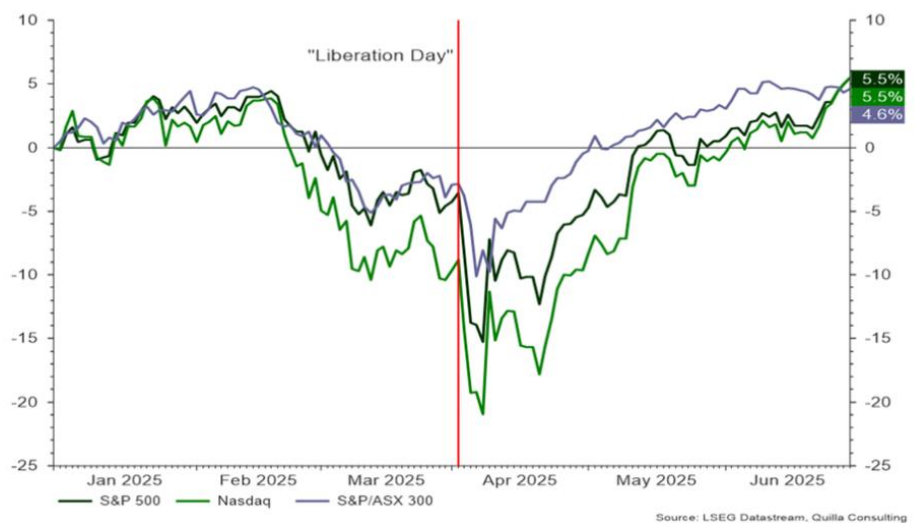
As Chart 5 shows, the ASX fell 13% from February highs. The S&P 500 dropped 19%, and the Nasdaq slid 24%.

Markets have since recovered and are now in positive territory for the year, trading near record highs.

Where things go from here depends on several evolving factors that collectively need to be improving, not deteriorating:

- Trade deals
- Economic data (CPI, GDP, jobs)
- Corporate earnings
- Fiscal spending
- Monetary policy settings

Chart 5: Australian and US equity market performance
1 January – 30 June 2025



Markets are forward looking. What matters most isn't how good or bad things are, but whether they're improving or deteriorating.





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Advisory Board

The Mackay Private Wealth Advisory Board is responsible for setting and reviewing the House View and for upholding the core values and investment philosophy of Mackay Private Wealth.

The Board believes that a strong governance framework is essential to developing a robust House View and making effective asset allocation decisions. Its operations are guided by a formal charter and include experienced investment professionals with diverse expertise, reflecting industry best practice in governance and decision-making.

The members meet quarterly, with additional meetings convened as required. All dynamic asset allocation decisions are made by the five voting members of the Board.

For more information, please visit www.mackayprivate.com or contact us directly at info@mackayprivate.com or 1300 388 568.

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