QUARTERLY INVESTMENT REPORT

OCTOBER 2025

Mackay Private Wealth

OVERVIEW

VOLATILE HEADLINES HAVE SHAKEN SENTIMENT, YET THE ECONOMY AND MARKETS REMAIN RESILIENT

As we enter the final quarter of 2025, the global outlook is finely balanced. Corporate and household fundamentals remain solid, but several headwinds are emerging. Labour markets in the US and Australia are softening, inflation may prove sticky, and trade policy uncertainty persists. Following a strong run, markets appear due for a period of consolidation, consistent with historical patterns.

At the same time, there are important tailwinds. Governments continue to provide substantial fiscal support, lifting growth across key regions. Central banks have begun a coordinated easing cycle, with lower interest rates designed to stimulate activity and rebuild confidence. The main risk is that inflation remains higher for longer, which could slow or interrupt policy easing.

Looking ahead, structural themes such as artificial intelligence adoption and the energy transition continue to create compelling long-term opportunities. In this environment, investors should remain disciplined, diversified, and flexible.

Reflecting these dynamics, the Advisory Board made no changes to headline asset allocation this quarter, maintaining balance across growth and defensive assets. However, with supportive policy settings and elevated valuations, the Board discussed introducing a long/short strategy within Global Equities. This approach aims to capture pockets of market complacency while maintaining exposure to long-term growth opportunities. Implementation is scheduled for next week.

While momentum may persist, history shows that equity markets typically experience a 10 per cent pullback each year on average over the past two decades. It is reasonable to expect something similar in the year ahead. A key lesson from 2025 is that markets often recover before the headlines, earlier than most anticipate. The real advantage lies in preparation and patience, not prediction.

As of October 2025	Positioning (DAA)			
Asset Class	**Underweight**	**Neutral**	**Overweight**	**Positioning (0-12 months)**
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** - Fundamentals stabilising coupled with renewed foreign interest; we see more value across Global REITs.
Australian Property				
Global Property				
Alternatives (Inc. Infrastructure)				**Neutral** - Important hedge to the outlook. Opportunities across private market strategies and infrastructure.
Infrastructure				
Other Strategies (Private Equity, Hedge Fund etc)				

THIS QUARTER

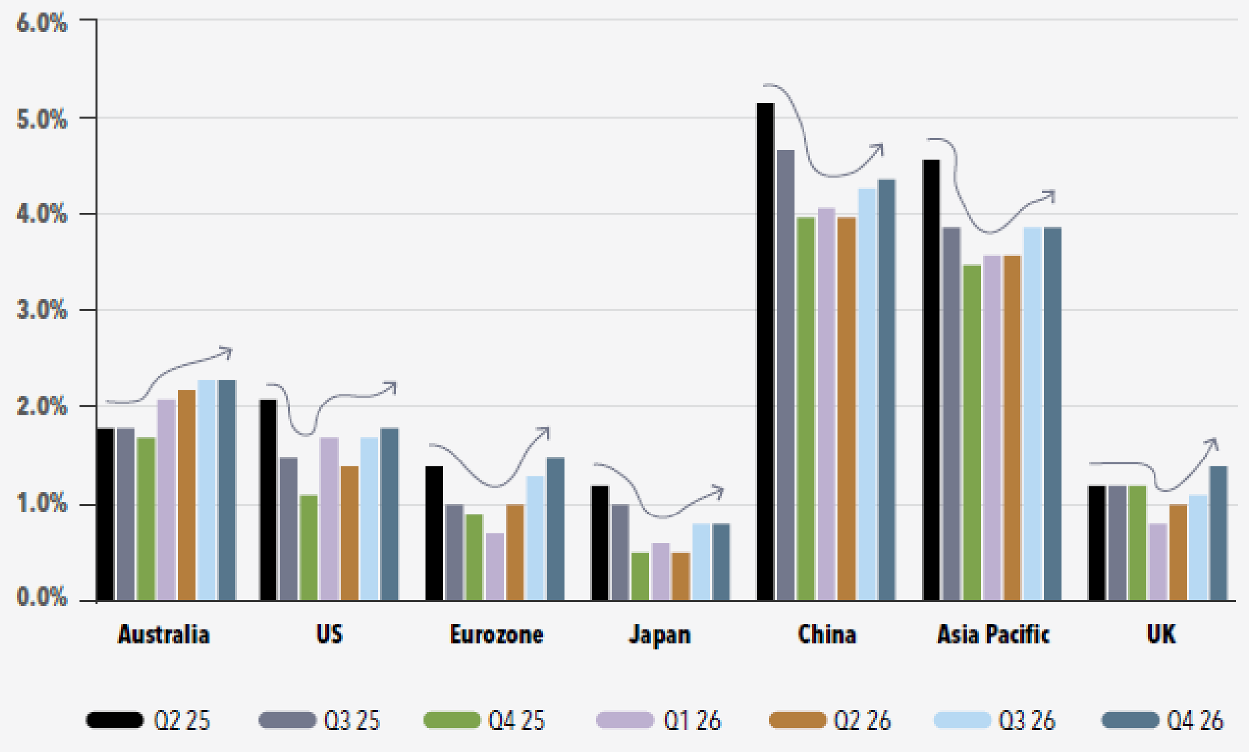
WE EXPLORE CURRENT ECONOMIC AND FINANCIAL MARKET DYNAMICS AND WHAT THEY MEAN FOR INVESTORS GOING FORWARD

- Global economic growth is anticipated to slow in the coming quarters, but **growth expectations are set to improve in 2026**, supported by fiscal and monetary policy.
- **Unprofitable companies** have driven **recent gains** but fading enthusiasm and stretched valuations highlight the need for selectivity. **Active strategies** are well placed to capture opportunity while managing risk.
- **The bull case** for the global economy and financial markets rests on resilient corporate fundamentals, strong structural growth themes, and accommodative policy settings.
- **The bear case** centres on rising trade tensions, unsustainable government deficits, and stubborn inflation, alongside market vulnerability to elevated growth expectations.
- **Gold prices** have surged amid geopolitical tension, central bank buying, and **investor fear** of inflation, but sentiment has become **excessive**, leaving gold vulnerable to a pullback once panic subsides.

ECONOMY: SLOWING BUT GROWING

Forecasts suggest global growth will slow over the coming quarters amid ongoing economic and trade uncertainty. However, momentum is expected to improve in 2026 as interest rate cuts and fiscal stimulus, including tax reductions and higher government spending, take effect.

Chart 1: Quarterly real GDP growth and forecasts (year-on-year)



Source: Quilla Consulting, Bloomberg Financial LP

The Australian economy continues to show greater resilience than many global peers. GDP grew by 1.8 per cent year-on-year in the June quarter of 2025, exceeding expectations, and growth is projected to accelerate to 2.2 per cent by the end of 2026.

This improvement is being driven by strong public sector demand, particularly infrastructure investment, together with a rebound in private activity as lower interest rates and rising consumer confidence lift household spending. While the outlook is brightening, it follows several years of subdued growth.

A key tailwind is Australia's high sensitivity to interest rate cuts, which should help the economy return to trend growth more quickly as the RBA continues to ease policy.

COMPLACENCY OR OPPORTUNITY?

Unprofitable US companies have been standout performers this year, rising 34 percent, fuelled by excitement around artificial intelligence and a short-term boost from rate cuts.

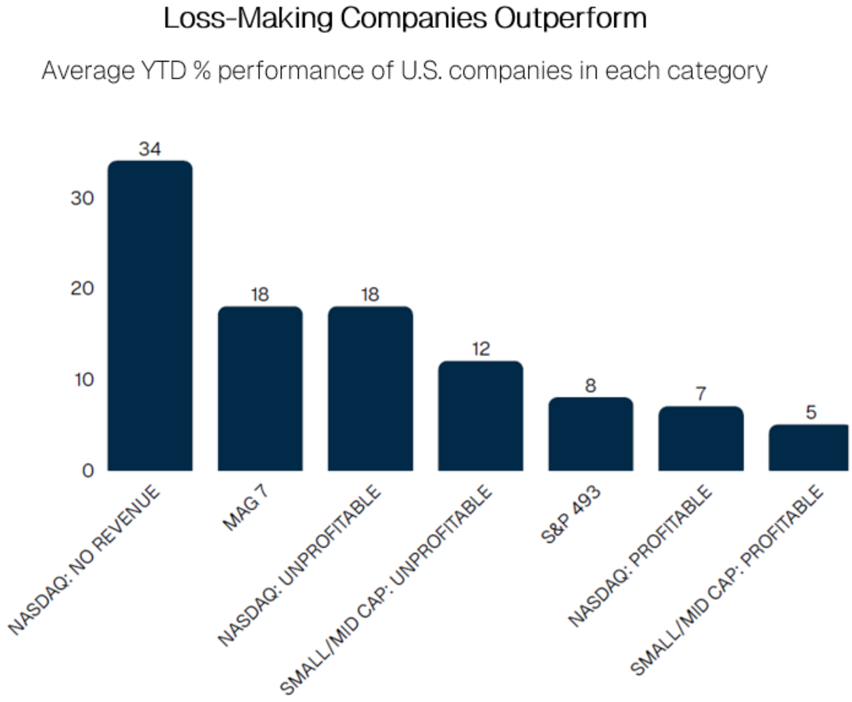
These businesses typically benefit most from cheaper borrowing and a renewed appetite for risk. While this has driven strong gains, enthusiasm is starting to fade, and the risk-reward balance is shifting.

Parts of global equity markets look stretched, yet the longer-term trend remains intact. Historically, equities have delivered solid returns in the two years following the start of a non-recessionary easing cycle. In contrast, rate cuts during recessions tend to produce weaker outcomes. Recent labour data has softened, but broader indicators remain resilient.

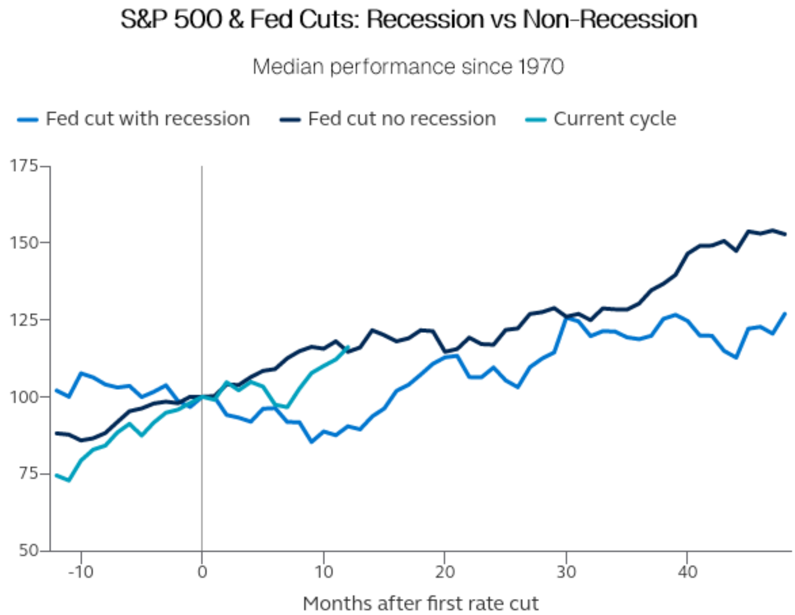
For now, the trend is your friend.

The ongoing tension between valuation pressures and policy support highlights the importance of active management at this stage of the cycle.

Long/short equity strategies are well positioned to take advantage of mispriced, lower-quality stocks while maintaining exposure to high-quality companies with durable earnings and strong cash flow.



Source: LSEG Datastream, MSCI, Schroders, October 2025



Source: Principal Asset Management, October 2025

THE BULL CASE

Resilient Earnings & Supportive Policy

Corporate earnings across global markets remain strong, pushing equity prices to record highs.

US companies, which dominate global portfolios, continue to lead earnings growth and fuel investor optimism. Revenue growth for the S&P 500 has been steady, and earnings are projected to accelerate into late 2026. This strength is reinforced by record shareholder returns, with buybacks expected to surpass $1 trillion in 2025.

Opportunities extend beyond mega-caps. The S&P 500 Equal Weight Index is trading about 12 percent below its historical average, signalling value in broader market segments.

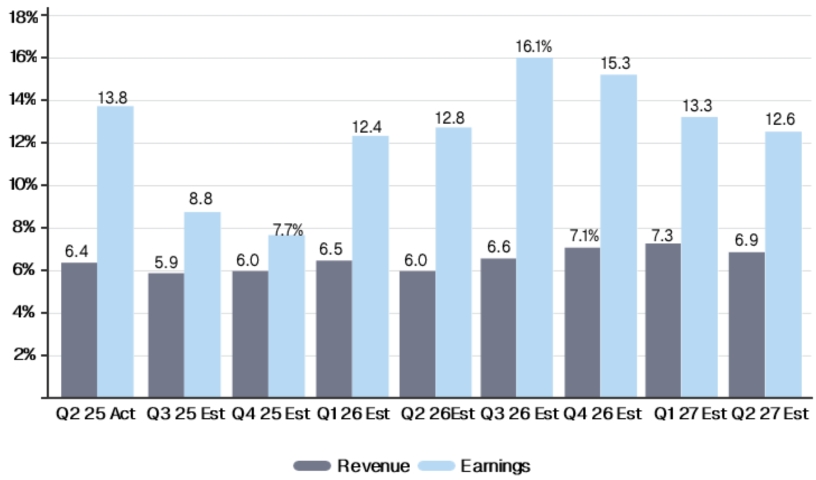
Monetary policy has become a major tailwind. With inflation under control, central banks have started cutting rates to support growth. The US Federal Reserve lowered rates in September and is expected to make several more moves over the next year. In Australia, the RBA has already delivered three cuts in 2025, with further easing likely.

Improved dialogue among the EU, UK, Japan, and China, along with easing tensions in the Middle East, has reduced the risk of major disruptions.

While short-term corrections are inevitable, the broader outlook remains constructive.

Positive Earnings Expectations

S&P500 year-on-year revenue and earnings growth



Source: LSEG Datastream, Quilla, October 2025

Don’t mistake noise for risk. Political noise can shake sentiment, but fundamentals drive returns.

THE BEAR CASE

Trade Tensions & Stagflation Concerns

The cautious view is that persistent trade tensions, widening government deficits, and stubborn inflation could combine to create stagflation, an environment of slower growth and rising prices.

Equity markets may also face pressure. With profit expectations already high, valuations could be vulnerable if earnings fall short.

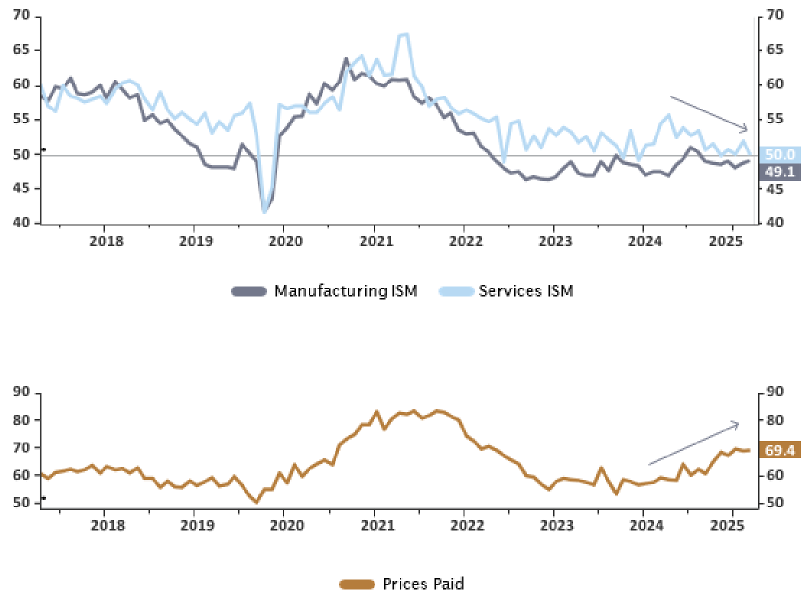
Trade policy uncertainty remains a key risk. Global protectionism is on the rise, with the effective US tariff rate climbing from around 3 percent to 18 percent, the highest level in decades. This shift has disrupted supply chains, weakened business confidence, and increased costs for both companies and consumers.

Taken together, these factors point to a potentially stagflationary backdrop.

Recent data reinforces this concern. US manufacturing and services activity, measured by the ISM survey, has slowed. Manufacturing is now contracting, while higher input prices continue to squeeze margins and profitability.

U.S. Business Activity & Prices

Higher prices as activity slows



Source: LSEG Datastream, Quilla, October 2025

Stay disciplined, diversified, and flexible.

Real assets like infrastructure, real estate, and commodities often outperform in this environment because their revenues and values tend to rise with inflation.

GOLD: FEAR, FUNDAMENTALS OR FOMO?

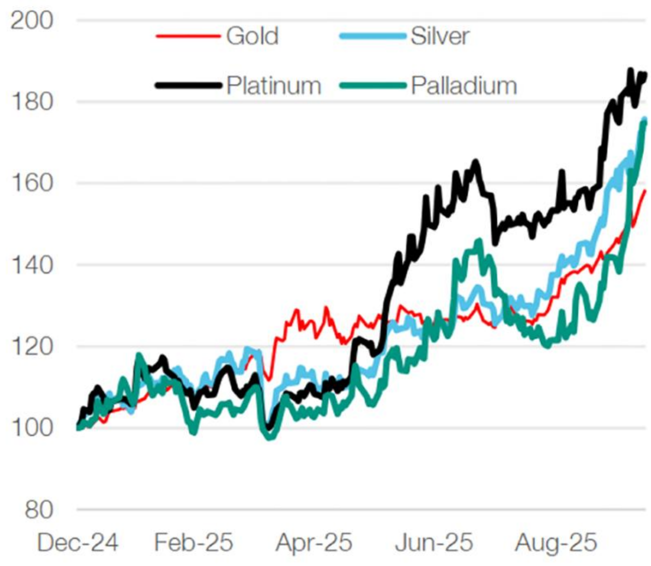
Gold has surged in 2025, reaching record highs as investors seek safety from volatile headlines about inflation, policy uncertainty, and geopolitical risks.

Part of this rally reflects genuine diversification demand and strong central bank buying. However, much of the recent strength has been driven by emotion and fear of missing out (FOMO) rather than fundamentals.

It is important to remember that gold does not generate earnings or cash flow. Its value depends on perception, trust, and sentiment. History shows that major rallies are often followed by long periods of stagnation. After peaking in 1980, gold fell for nearly two decades, and it traded sideways for much of the 2010s after its 2011 high. These “lost decades” highlight that gold tends to perform best during times of fear and underperform when confidence returns.

Gold often acts as a mirror of investor psychology. It shines brightest when anxiety peaks and confidence fades. Given the wave of negative headlines this year, it is understandable that many investors have sought shelter in the metal.

We added a gold producer to MPW portfolios in July to take advantage of attractive valuations supported by fundamentals. After strong performance over the quarter, we are now looking to take profits. While gold remains a valuable hedge and portfolio diversifier, its recent gains have been driven more by FOMO than by sustainable drivers.



Source: COMEX, NYMEX, Bloomberg

Although gold has dominated headlines, other commodities are quietly outperforming.

Australian resource companies are well positioned to benefit from rising demand for materials tied to electrification, infrastructure investment, and advanced defence technologies.

Unlike gold, these commodities are supported by long-term structural growth rather than sentiment, creating durable opportunities for patient investors.

Mackay Private Wealth