DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

December 2025

Month In Review

Global Equities
0.8%

Aus Equities
1.3%

Aus REITs
2.0%

AUD/USD
2.4%

US Bonds
-0.5%

Commodities
-0.3%

Global equities edged higher in December, with the MSCI ACWI up 0.8%. The Federal Reserve cut interest rates by 25bps in a divided vote, reiterating that the extent and timing of further policy adjustments depend on the direction of the job market and inflation, which it continues to view as 'somewhat elevated'. The S&P 500 rose marginally by 0.1%. However, volatility surfaced during the month when Oracle announced delays to data centre completions, while market heavyweight Broadcom reported disappointing earnings, both triggering share price declines and prompting investors to assess the potential implications for the broader market.

Australian equities outperformed global markets, rising 1.3% for the month, despite local rates markets bringing forward expectations of interest rate hikes and pricing a 25-basis point increase by November 2026. Basic resources and financials were the strongest contributors, up 6.5% and 3.3% respectively, with major resource companies and banks driving gains. Technology continued to lag, declining 7.7% over the month. Australian REITs recovered 2.0% following November's sharp sell-off, supported by a more certain local rates outlook. Emerging markets rose 3.0% for the month, capping a strong year, up 34.4% versus 20.2% for the MSCI ACWI and 10.3% for the S&P/ASX 200.

U.S Treasury yields edged lower by 0.5% over the month, as investors questioned the durability of the Federal Reserve's policy-easing trajectory. Australian bonds fell 0.9%, yet markets more broadly continue to signal policy divergence, with Australian rates anchored by domestic inflation risks while U.S yields reflect growing confidence in future easing. High-yield credit rose 0.5%, reinforcing the bullish market tone, whilst investment-grade credit fell 0.7% with average spreads remaining low.

Commodities were mixed, with oil declining 2.3% on wide-ranging geopolitical risks and steadily rising supplies, whilst gold rose 3.0% on safe-haven demand. The Australian dollar rose 2.4% to a 14-month high against the U.S Dollar, buoyed by higher commodity prices and a widening interest rate differential between the regions.

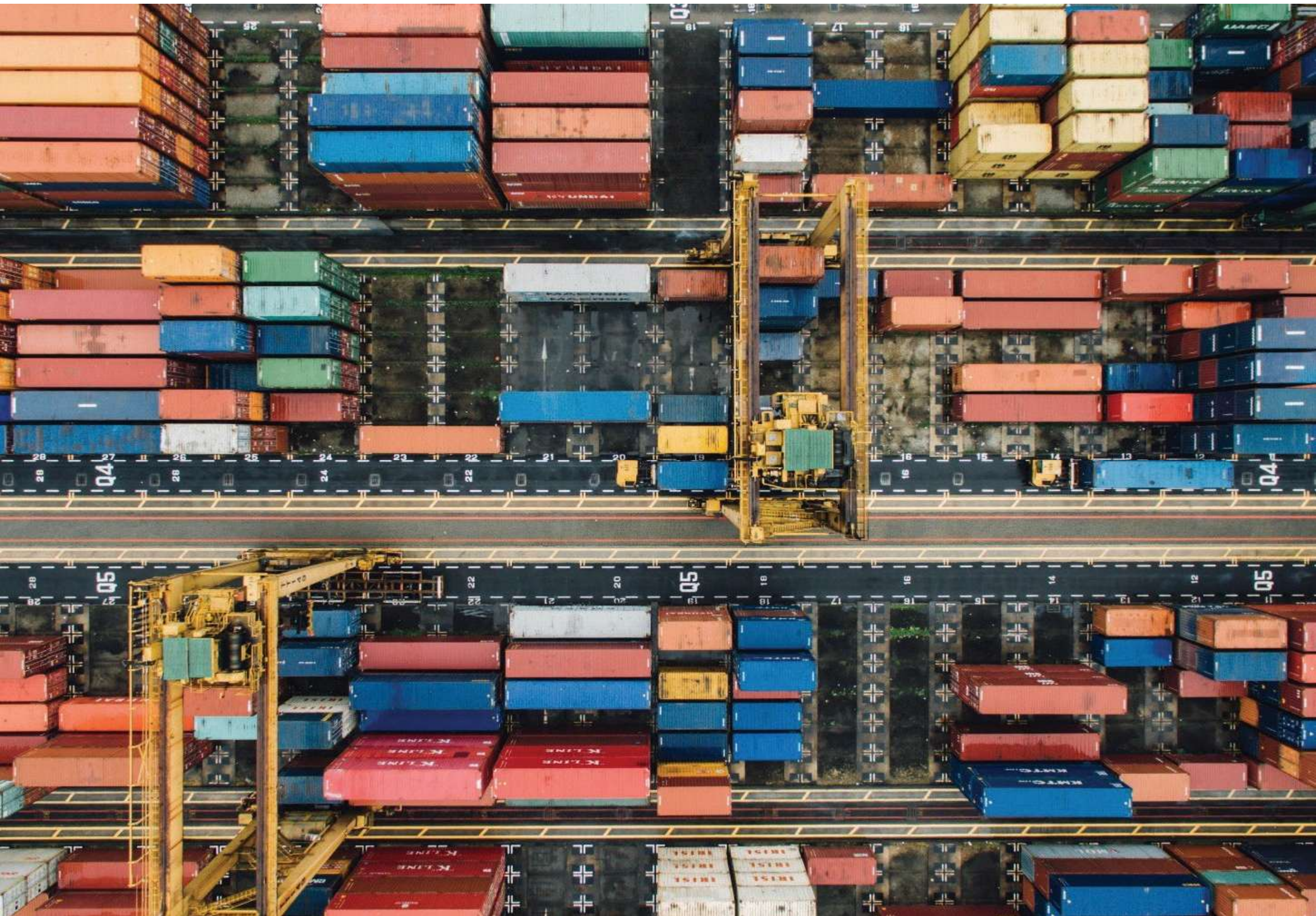
Things That Matter

1.	As inflation shifts closer to target in key economies, central banks are nearing the end of the rate cutting cycle.
2.	Trade policy uncertainty is receding and is poised to support global markets if it continues this path.
3.	A divided Fed heightens global uncertainty, keeping volatility elevated across bonds, equities, commodities and currencies.
4.	AI adoption is in its infancy and is set to transform the competitive landscape across businesses, industries and geographies.
5.	Fiscal stimulus is currently boosting liquidity with mounting government debt presenting longer-term risks.

Asset Class Positioning

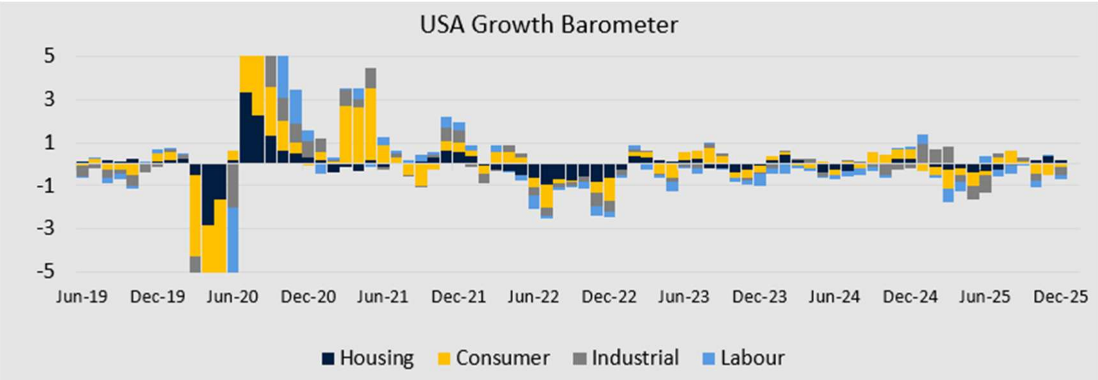
	Change MoM	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	■	○	●	○	○	○
Global Equities	■	○	○	○	●	○
Property	■	○	○	●	○	○
Infrastructure	■	○	○	○	●	○
Global Alpha	■	●	○	○	○	○
Government Bonds	■	●	○	○	○	○
Corporate Debt	■	○	○	○	○	●
Cash	■	○	○	●	○	○
Total Growth vs Defensive	■	○	○	○	●	○

Macroeconomic Overview



North America

The U.S dollar has depreciated sharply since March 2025 amid concerns that tariffs will weigh on economic growth, compounded by rising fiscal deficit risks associated with the One Big Beautiful Bill (OBBB) Act. Following the Fed's 25bps rate cut in December, mixed signals persist from the FOMC regarding the timing and extent of further easing, with policy outcomes heavily influenced by labour-market conditions and inflation. The long-delayed November CPI release, postponed by the longest U.S government shutdown on record, showed signs of moderation, with housing costs rising at their slowest pace in four years and food inflation easing to it its lowest level since February. Against this backdrop, the latest earnings season delivered positive EPS growth from nine out of eleven U.S sectors, highlighting a broadening beyond AI and technology. When combined with the potential for additional monetary stimulus, the current environment remains supportive of a risk-on stance.



Asia

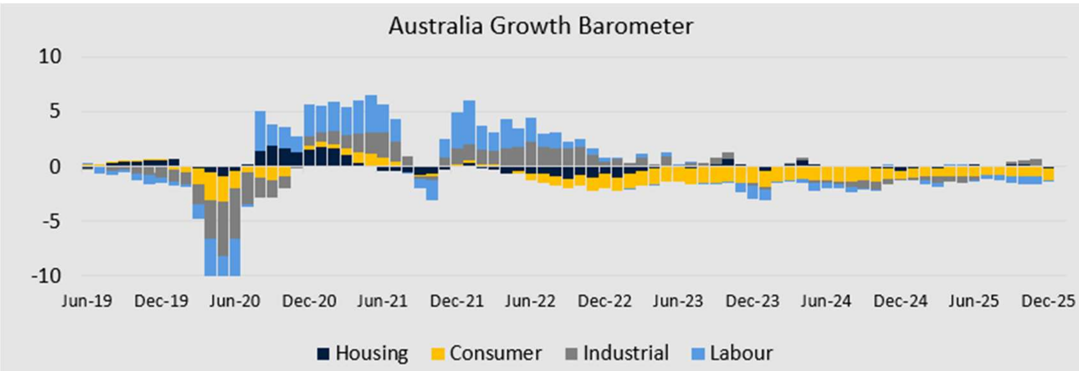
China's structural challenges persist, including a declining working age population, a weak property sector and slowing productivity. These dynamics weigh on household consumption and industrial investment, heightening deflation risks and prompting policymakers to lean on exports to support growth. However, further structural reform is required, particularly in the property sector, with 70% of household wealth tied to real estate. Retail sales growth of 1.3%, the weakest since December 2022, reinforces this view. Policymakers acknowledge the need to rebalance growth towards consumption, and we expect further fiscal support measures ahead. Despite elevated U.S tariffs, China has demonstrated resilience, redirecting exports towards Europe and Southeast Asia, lifting its trade surplus above US$1 trillion in November despite exports to the U.S declining.

Europe

Europe continues to face structural headwinds including weak productivity, demographic pressures and rising demands on public finances tied to defence spending and the transition to a decarbonised and digital economy. Strengthening competitiveness and fiscal discipline remain critical for long-term stability and prosperity. Europe's leading economies closed a turbulent year with weak momentum, however, the 21-nation euro zone economy has recently held up better than feared, absorbing some of the slack as exports were hit by rising U.S tariffs and with growing expectations that the European Central Bank has finished cutting interest rates. Growth remains barely above 1%, with household spending cautious and elevated levels of government debt constraining fiscal flexibility. Meanwhile, China's dominance in critical minerals and rare earths, alongside recent export controls, raises risks for strategic EU sectors including defence and AI infrastructure.

Australia

Although Australian economic growth has been anaemic in recent years, GDP recently rose to a two-year high of 2.1%, slightly above the Reserve Bank's (RBA) long-term trend estimate of 2.0%. The expansion has been driven by private demand, which has previously lagged public sector growth, signalling improved confidence among businesses and households. While this provides the RBA reassurance that the economy is not slipping backwards, the recent acceleration in trimmed mean inflation, up 10bps to 3.3% year-on-year, has shifted market expectations from rate cuts to potential hikes in 2026, which could dampen both business investment and household consumption. To support sustainable growth, Australia must implement measures to lift labour productivity and reduce excessive regulation to foster a more dynamic investment environment.



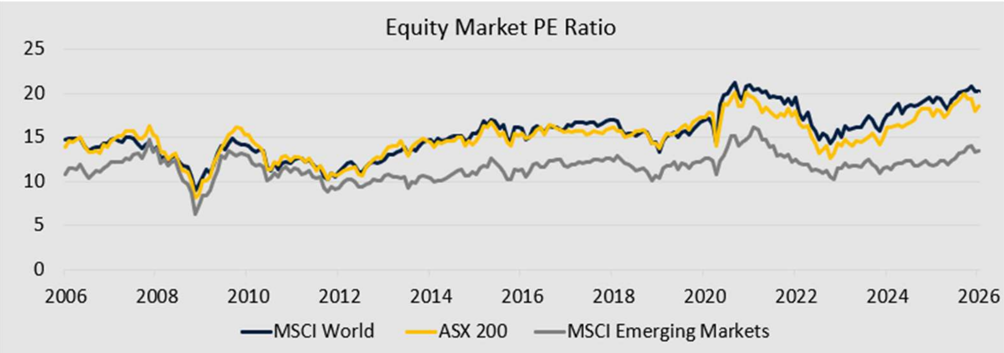
Asset Class Overview

Equities	Overweight
Bonds	Underweight
Credit	Overweight
Infrastructure	Overweight
Property	Neutral
Global Alpha	Underweight

Equities

Overweight

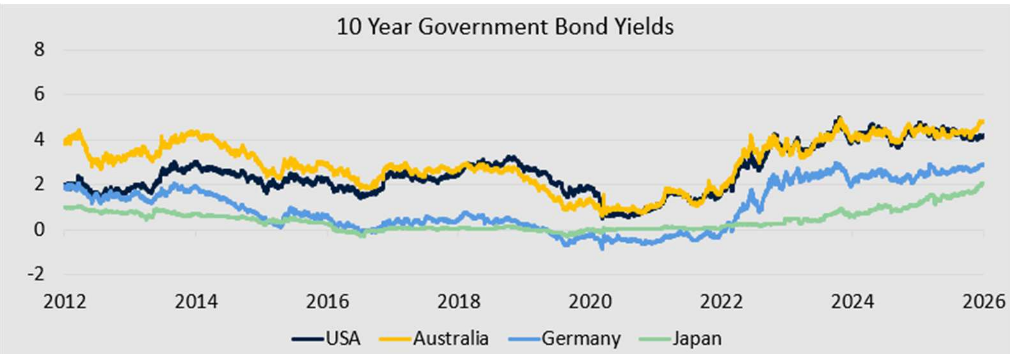
Valuations remain elevated to historical averages. The forward 12-month price-earnings ratio for the S&P500 is ~21.8, above its 5-year average of 20.0 and 10-year average of 18.7. However, markets are not overly expensive when considering the prospect of further monetary policy stimulus, as evidenced by the U.S easing in December, alongside the latest corporate earnings season delivering robust results, reinforcing the view that markets remain earnings driven. A broadening in earnings growth beyond the Magnificent 7 is underway and expected to continue, with forecasts for the remaining 493 companies projecting 12.5% growth in CY2026, led by technology, materials, industrials, communication services and consumer discretionary sectors. While any deterioration in the macroeconomic backdrop could unsettle markets and lift volatility, such reactions are likely to be short-lived, with central banks retaining ample capacity to provide additional policy support. We continue to remain supportive of risk assets.



Bonds

Underweight

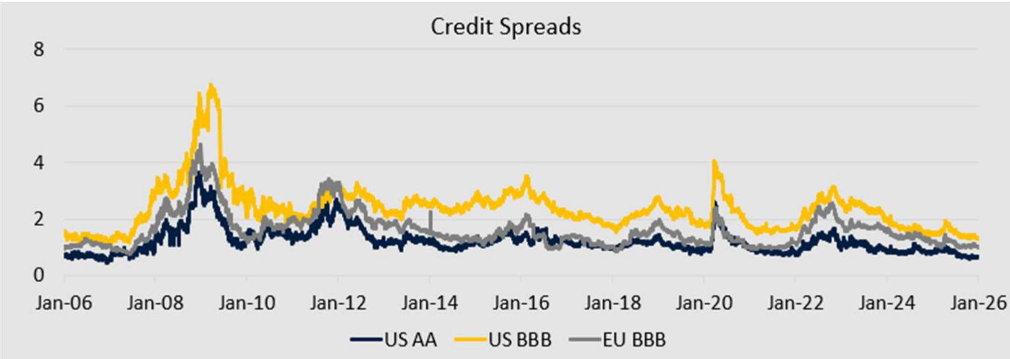
The portfolios remain underweight bonds as central banks, particularly the U.S Fed, continue to assess the magnitude and timing of future rate cuts. Trump's potential policy shifts and rising fiscal deficit concerns from the OBBB Act, set to provide a US$4.1 trillion fiscal boost to FY2034, have reshaped market expectations for longer dated Treasury yields. This uncertainty points to government bond markets remaining volatile until the rate path is clearer, with the evolving fiscal narrative emerging as an increasingly key driver of duration risk. The ECB, by contrast, may be nearing the end of its easing cycle after eight rate cuts over 2024-5. Nonetheless, bonds continue to provide diversification benefits and portfolio ballast in times of true economic crisis.



Credit

Our preference for floating rate Australian credit is underpinned by solid corporate earnings and resilient business models. The Australian market remains compelling on a relative value basis offering yield premium to offshore credit markets. Importantly, present yields in Australian investment grade corporate debt are attractive versus alternatives in cash and government bonds. Portfolio sizing reflects this view, and we remain cautiously positioned with an emphasis on quality and liquidity.

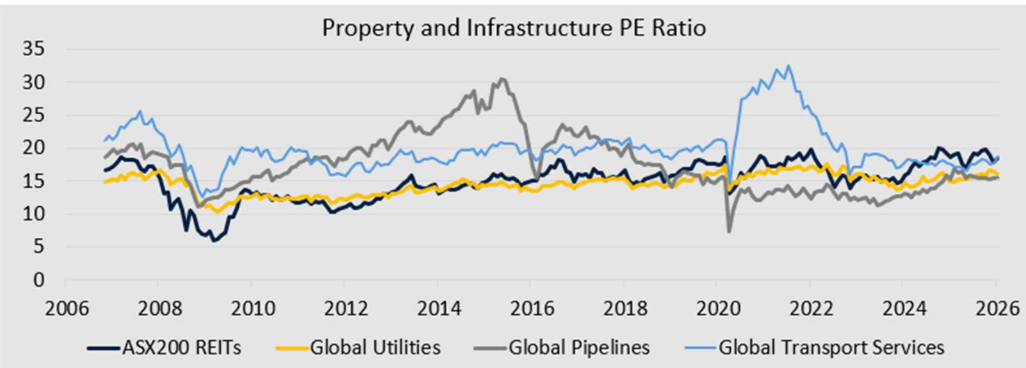
Overweight



Property / Infrastructure

These assets are typically more defensive than global equities. Over the long-term both have robust inflation hedging characteristics. Current valuations remain compelling relative to global equities, offering valuable portfolio diversification. The portfolios remain neutral on property and overweight infrastructure.

Overweight



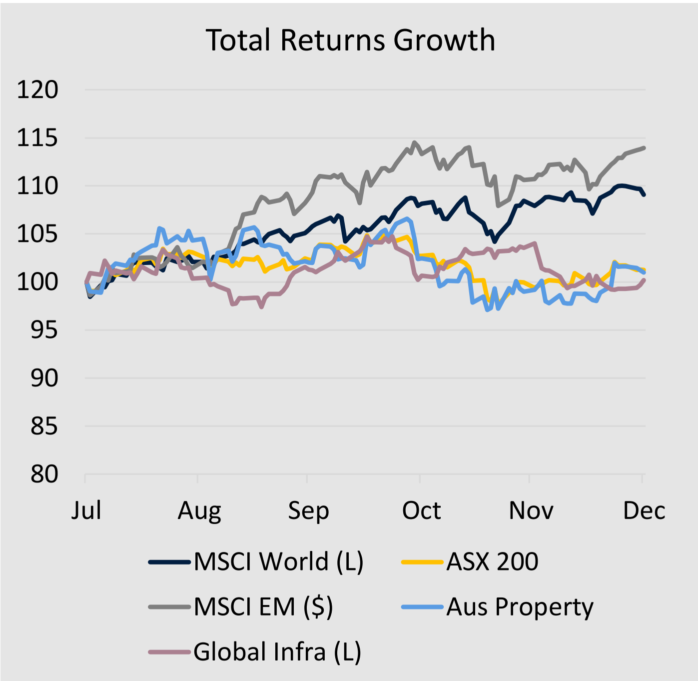
Global Alpha

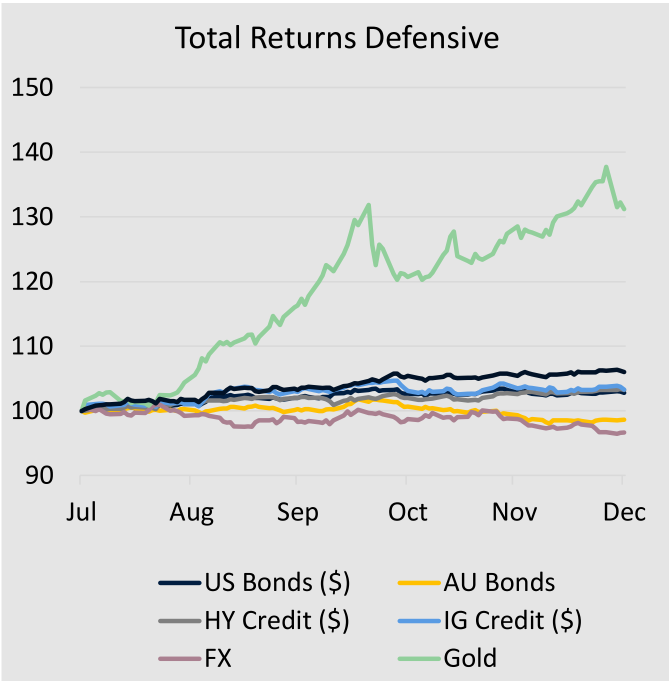
An allocation to this asset class can be very manager and strategy specific. In periods of elevated market volatility, global alpha strategies offer prudent diversification in multi-asset portfolios. Under the most recent SAA changes, growth assets were positioned to sit modestly above neutral, reflecting our overweight allocations to infrastructure and global equities. This was offset by an underweight to global alpha and Australian equities.

Underweight

Asset Class Returns

	Latest Value 31/12/25	Monthly Performance	Quarterly Performance	Half Year Performance	Yearly Performance
MSCI World All Countries	1,214	0.8%	3.7%	12.3%	20.2%
S&P/ASX 200	8,714	1.3%	-1.0%	3.1%	10.3%
MSCI Emerging Markets	1,404	3.0%	4.8%	17.5%	34.4%
Nasdaq Composite	23,242	-0.5%	2.7%	14.3%	21.1%
Euro Stoxx	612	2.5%	5.3%	10.6%	25.2%
Australian Property	101	2.0%	-1.1%	1.7%	8.0%
Global Infrastructure	73	-3.0%	-0.3%	1.4%	5.0%
Australian Bonds	4.76%	-0.9%	-1.6%	-2.1%	2.4%
US Bonds	4.16%	-0.5%	0.8%	2.6%	6.3%
High Yield Credit (spread/return)	1.3%	0.5%	1.2%	3.4%	8.6%
Investment Grade Credit (spread/return)	0.7%	-0.7%	0.3%	3.1%	7.9%
US $ / Australian $	0.67	2.4%	1.4%	1.9%	7.7%
Crude Oil-WTI	57.3	-2.3%	-9.4%	-16.7%	-21.0%
Gold Bullion $/T Oz	4,325	3.0%	12.8%	29.3%	64.7%





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