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QUARTERLY UPDATE – DECEMBER QUARTER 2025

Asset Class	3 Mth %	1 Yr % p.a.	3 Yr % p.a.	5 Yr % p.a.	10 Yr % p.a.
CASH					
Bloomberg AusBond Bank Bill	0.9	4.0	4.1	2.7	2.1
FIXED INTEREST					
Australian Bonds - Bloomberg AusBond Composite 0+Years	-1.1	3.2	3.7	-0.4	2.0
International - Bloomberg Barclays Global Aggregate Hdg	0.7	4.4	4.0	-0.6	2.0
EQUITIES					
Australian Shares - S&P/ASX 300	-0.9	10.7	11.4	9.8	9.3
Australian Shares - S&P/ASX Small Ordinaries	1.8	25.0	13.4	6.9	8.6
Int. Shares - MSCI World ex-Australia	2.6	12.5	22.1	15.6	13.2
Int. Shares Hedged - MSCI World ex-Australia Hedged	3.5	18.7	20.3	12.1	11.7
Emerging Markets Unhedged - MSCI Emerging Markets	4.1	24.0	17.1	7.3	9.4
INFRASTRUCTURE					
Listed Infrastructure - FTSE Developed Core Infrastructure Hdg	-0.1	11.7	7.2	6.8	8.4
PROPERTY					
Australian Listed Property - S&P/ASX 200 A-REIT	-1.4	9.2	15.0	8.8	7.9
Int. Listed Property - FTSE EPRA/NAREIT Global REITs Hdg	-0.2	7.5	6.0	3.1	3.0
Source: Activam Group					
FE Multi Asset Growth Index (Benchmark)	0.7	8.5	10.2	7.2	6.8
FE Multi Asset Balanced Index (Benchmark)	0.7	8.2	8.7	5.7	5.6
FE Multi Asset Moderate Index (Benchmark)	0.5	5.8	6.3	3.4	3.7

Source: FE Analytics

Investment markets recorded measured, positive performance over the December quarter, supported primarily by global equities despite continued uncertainty surrounding interest rates and economic conditions. International share markets outperformed domestic markets as corporate earnings resilience underpinned investor sentiment, while Australian equities delivered modest gains, led by financials and resources, with interest-rate-sensitive sectors such as property REITs and technology lagging.

Defensive assets produced mixed outcomes, with elevated bond yields limiting returns from government bonds, while credit markets remained stable and continued to provide income support. Cash maintained its role as a key defensive holding, contributing to portfolio stability and yield.

The USD weakened materially against the AUD and gold prices continued to move materially higher.

MARKET COMMENTARY & OUTLOOK

The global economy and markets have been fortunate in the past few years with large amounts of fiscal stimulus and the Artificial Intelligence (AI) bubble masking and overpowering some considerable headwinds.

Geopolitics concerns (regime change in Venezuela, troubles still simmering in the Middle East in Iran and Gaza, Greenland and ratcheting up pressure on Cuba and Columbia not to mention the ongoing Ukrainian War) are ever present but to date these have not significantly impacted global economies and corporate profit growth. They will continue to provide some volatility, but investors have been well rewarded by staying invested – we feel it likely to be the case in 2026.

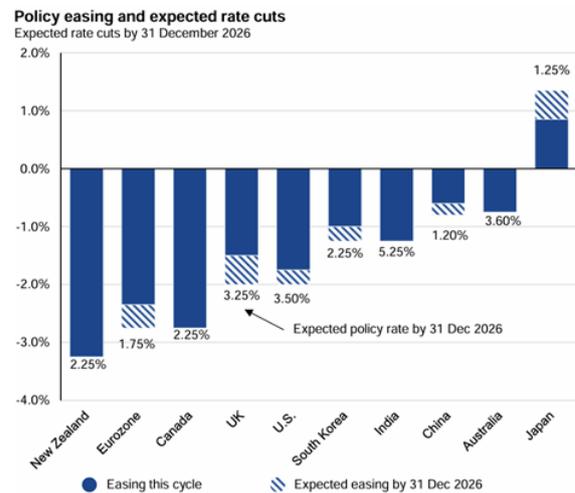
We have a constructive view of the global economy and corporate earnings backdrop and expect positive returns in 2026. Growth and the economy remain resilient. Investment markets remain “late cycle” and expensive but with monetary policy (interest rate cuts) still working their way through the system, we would expect solid equity returns this year. Interest rate cuts historically take up to 18 months to impact the economy, so we expect to see the stimulatory effects of cuts in US and Europe through the course of 2026. Further, fiscal stimulus in the form of President Trump’s One Big Beautiful Bill front end loaded tax cuts and European defence spending should also buoy markets. That said, we expect to see significant divergence across global economies. Inflation, interest rates, growth, and wealthy v poorer consumer activity are leading to diverging outlooks making diversification a critical element of portfolio construction in coming months.

USA

Tariffs impacts are still flowing through the system. Huge growth in technology and AI spending as well as the wealth effects from strong markets have offset some of the expected tariff related pain and migrant deportation issues.

Corporate profits have held up well - companies have been spending less on labour and have factored in lower margins leading to slower profit

growth in 2025, but we expect stronger earnings growth in 2026. It appears likely that there will be a continuation of the “no hire no fire” employment policies we’ve seen in the last few months resulting in a stable employment market and might also lead to faster AI adoption in corporate America.



Source: PIMCO

Further tariff related costs will be passed onto the consumers in coming months in segments where they have the capacity to pay. Hence inflation will remain volatile, but while still elevated, it appears to be trending down slowly in America. Annual core US CPI inflation edged down to 2.6% from 2.7% in December (significantly lower than Australian core inflation). Consumer spending was resilient even given the tariff-related cost impacts.

Markets still expect one or two interest rate cuts in the months ahead in 2026. President Trump’s nominated FED chair Kevin Warsh seems like a well credentialed, sensible choice. He has spent months saying he’d cut rates but his history of being a hawk on inflation and a desire to reduce the FED’s balance sheet has unsettled the markets sending the USD higher and gold lower.

Recent US economic data has remained robust. Third quarter GDP increased to 4.4% from 3.8% in the second quarter and the Atlanta Fed estimates 5.3% annualised growth for Q4! Market consensus now sits at 2.1% GDP growth in 2026 which we feel might prove to be quite conservative.

S&P Manufacturing & Services PMIs were little changed at 51.9 and 52.5 respectively, close to expectations and providing limited incremental insight.

December's US ISM services index rose 1.8 points to 54.4 the highest level since October 2024, while ISM Manufacturing PMI for the US unexpectedly rose to 52.6 in January 2026 from 47.9 in December showing strength in the economy (a reading over 50 is expansionary).

Concerns about weakness in the employment market seem to have stabilised. Reduced labour supply means that fewer new jobs are required to maintain employment, and we have seen the unemployment rate remain at around the 4.4 - 4.5% level for the past 12 months even though job openings have been weaker. The FED provided some positive language about the state of the employment markets noting that while "job gains have remained low," that the "the unemployment rate has shown some signs of stabilisation."

The S&P 500 US earnings outlook remains solid, with 8% estimated earnings growth in 2025 lifting to 15% expected growth in 2026 which should be supportive of share markets.

In recent months, we have been witnessing a rotation due to diverging outlooks – US and technology leadership is being replaced by miners, EM, small caps and Japan and to a lesser extent Europe.

Australia

Last week, the Reserve Bank raised interest rates by 0.25% to 3.85% as inflationary pressures picked up materially in the second half of 2025. Trimmed mean inflation (the RBA's preferred measure) came above expectations at 0.9% for the December quarter (3.4% year on year) and appears to be trending up from their preferred 2-3% target band so it was time for them to act. Inflation has been influenced by very strong government spending and private demand strengthened more than the RBA expected. While there may be some temporary inflationary factors in the figures (like elevated international travel costs over Christmas and rising electricity costs with the end of energy rebates), time will tell if

inflation eases or if there are more hikes around the corner. It seems likely there may be a follow up hike in May after the March quarter inflation figures are released) but it's important to remember that Australia was in a per capital recession a several months ago when rates were only 0.5% higher than the current level so we would expect only one or maximum two further hikes later this year. It would be prudent of the Treasurer to tighten fiscal spending in May's budget to help the RBA and a strong AUD will help push the price of imports down a little.

Employment remains volatile but well supported recently moving down from 4.3% to 4.1% in December. Real GDP growth has been recovering and improving for the past few months to close to trend levels. Household consumption has picked up. With a lot of household debt, we would expect the economy to be very sensitive to interest rates and have already seen some early weakness in consumption intention surveys. NAB Business conditions and confidence survey rebounded in December showing a robust economy but we would expect growth to slow a little in the months ahead from higher policy rates. Commodities look to be well supported by the strong global economy.

Europe & China

Europe remains resilient, underpinned by the European Central Bank taking rates from 4.5% to 2.15% and a large fiscal stimulus with increased spending on infrastructure and defence (targeting 5% of GDP in Germany). Manufacturing appears to have bottomed which will support the region.

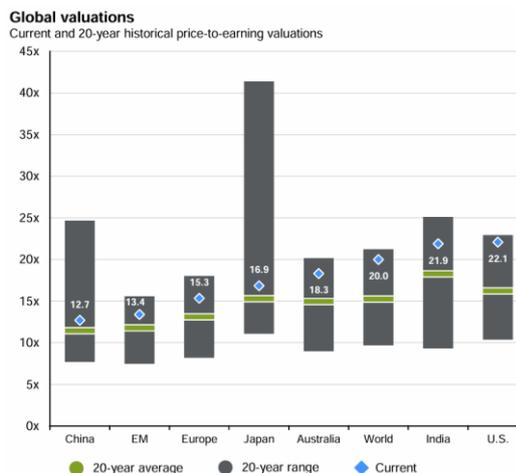
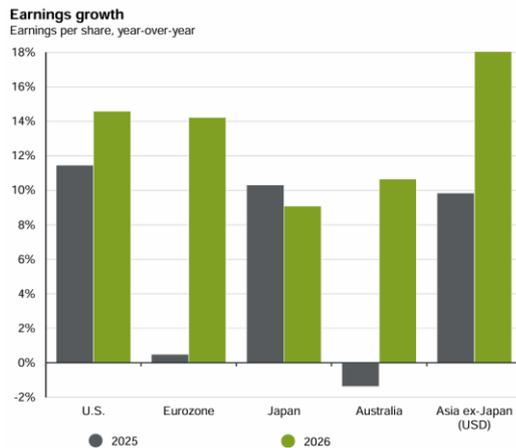
The outlook for China is mixed. China's property market remains structurally challenged; there is a great deal of tariff uncertainty and persistent deflationary pressures. Retail sales growth fell 1.3% year on year below expectations (2.9%) reflecting subdued consumer sentiment.

Exports grew by 5.5% in 2025 down from 5.8% growth the prior year. Many exports were re-routed from the US to other markets avoiding the tariffs. Overall, the economy grew at 5.0% last year (in line with targets) and is expected to grow by

4.5% in the year ahead powered by its manufacturing base.

PORTFOLIO POSITIONING

Expectations of strong above trend economic and earnings growth encourage an overweight stance to growth assets. Diversification will be key to reducing portfolio risks and to getting exposure to different market drivers of growth. We are reducing exposure to US & Tech a little while boosting Emerging Market, European and small cap exposures where we forecast stronger earnings growth and better valuations with lower interest rates and a weaker USD. We remain slightly underweight Australian shares given high valuations and a recent interest rate hike which will be a headwind to confidence and growth moving forward.



Source: JP Morgan Guide to the Markets Q4 2025

Our medium to longer term view that the world is in the early stages of a moving towards a new multipolar world where global co-operation, peace and security wanes, where trade deals and alliances are remapped. Ever higher debt levels will demand higher bond yields and it will be convenient to have higher inflation to help inflate the debt away. If this comes to pass we may be in the early stages of new secular trend in global economics and investment markets which will rewire markets in the years ahead. We encourage clients to be overweight alternative and private markets to help diversify and reduce risk in portfolios. Private credit and hard assets such as unlisted infrastructure and property will provide strong income streams and a different return profile to equity (and bond) markets. Private Equity and hedge funds provide alternate sources of growth that may not be correlated with share markets in more challenging times. We are building these positions over time in portfolios.

Infrastructure in particular looks likely to provide some protection from any renewed inflationary pressures (inflation linked cashflows from their assets).

Gold has been on a tear, but we remain a little cautious given current valuations and the ability to earn a strong income from other defensive assets such as fixed income.

Asset Class	Underweight	Neutral	Overweight
Cash	Underweight		
Fixed Income - Duration		Neutral	
Fixed Income - Credit		Neutral	
Equities Domestic	Underweight		
Equities International			Overweight
Australian Property	Underweight		
International Property & Infrastructure		Neutral	
Alternatives			Overweight
Currency - 50% Hedge		Neutral	

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