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DAY BREAK WEALTH

QUARTERLY UPDATE – SEPTEMBER 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	4.2	4.1	2.5	2.1
FIXED INTEREST					
Australian Bonds - Bloomberg AusBond Composite 0+Years	0.4	4.1	4.2	-0.2	2.1
International - Bloomberg Barclays Global Aggregate Hdg	1.0	2.4	4.0	-0.6	1.9
EQUITIES					
Australian Shares - S&P/ASX 300	5.0	10.8	15.0	12.9	10.1
Australian Shares - S&P/ASX Small Ordinaries	15.3	21.5	15.5	9.3	9.6
Int. Shares - MSCI World ex-Australia	6.1	23.0	22.6	16.3	13.1
Int. Shares Hedged - MSCI World ex-Australia Hedged	7.6	16.9	21.7	13.8	12.1
Emerging Markets Unhedged - MSCI Emerging Markets	9.4	22.8	17.0	8.7	8.6
INFRASTRUCTURE					
Listed Infrastructure - FTSE Developed Core Infrastructure Hdg	4.9	7.8	9.7	7.8	8.4
PROPERTY					
Australian Listed Property - S&P/ASX 200 A-REIT	4.6	4.1	19.8	11.9	8.7
Int. Listed Property - FTSE EPRA/NAREIT Global REITs Hdg	4.3	-0.4	7.5	5.2	3.5

Source: Activam Group

FE Multi Asset Growth Index (Benchmark)	3.5	9.3	11.6	8.7	7.1
FE Multi Asset Balanced Index (Benchmark)	3.4	8.7	9.7	6.8	5.8
FE Multi Asset Moderate Index (Benchmark)	2.0	5.7	7.0	4.1	3.8

Global markets continued their upward momentum in the third quarter, with investors largely unfazed by geopolitical and macroeconomic concerns. The MSCI World ex-Australia Index (hedged) rose 7.6%, driven by strong corporate earnings and ongoing enthusiasm around artificial intelligence. The "Magnificent Seven" tech giants led the rally, returning 18.73% and outperforming the broader S&P 500 year-to-date.

Australia's ASX 300 gained 5.0%, reaching record highs, supported by a strong performance in energy stocks amid rising commodity prices. Emerging markets also advanced, benefiting from a weaker US Dollar.

Fixed income markets posted positive returns as concerns over future growth led to falling yields, particularly at the short end of the curve. While government bond investors remained cautious, credit markets showed confidence, with spreads tightening further. The move down in yields and financing costs helped infrastructure and property assets.

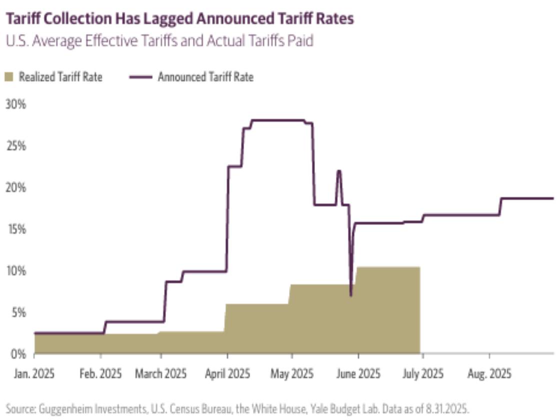
Gold continued its ascent, supported by rising geopolitical tensions, continuing central bank purchases, a softer US Dollar, and elevated US debt levels.

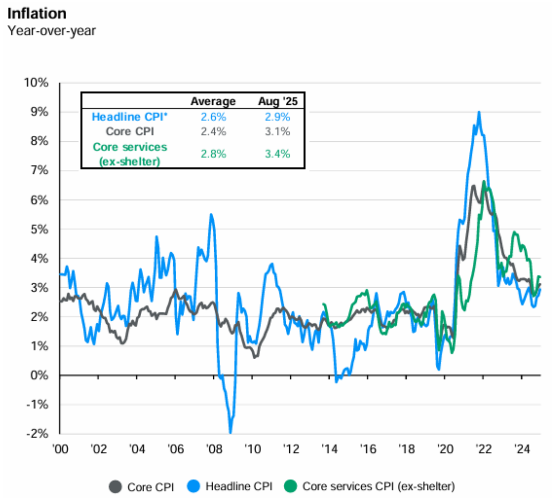
MARKET COMMENTARY & OUTLOOK

In September, the Federal Reserve resumed its rate-cutting cycle lowering rates by 25 basis points to a range of 4%–4.25%. The easing was attributed to mounting labour market weakness even with prevailing inflation rising slightly (they have a dual mandate of full employment as well as an inflation target of 2%). Most Federal Reserve committee members have maintained their dovish stance and markets are anticipating a further 0.25% cut next week with another to follow before year-end.

The interest rate cuts have been taken well by the markets and are expected to stimulate a slowing economy and result in a soft landing. Consumption which accounts for close to two-thirds of the economy is holding up well even though it can be argued that the rich are benefiting from strong asset prices while the poor are struggling a little to make ends meet.

Inflation is still slightly elevated (CPI inflation 3.0% y/y for September) but has not spiked to anywhere near the levels expected after President Trump's new tariff initiatives. Inventory build-up before the implementation of the tariffs helped to smooth inflation but there has also been a lag in tariff collection rates compared to the headline rate announcements. We expect inflation to remain elevated over the coming months but think it unlikely to see a spike higher which may encourage the Fed to halt rate cuts and to consider hikes.





Source: JP Morgan Guide to the Markets Q3 2025

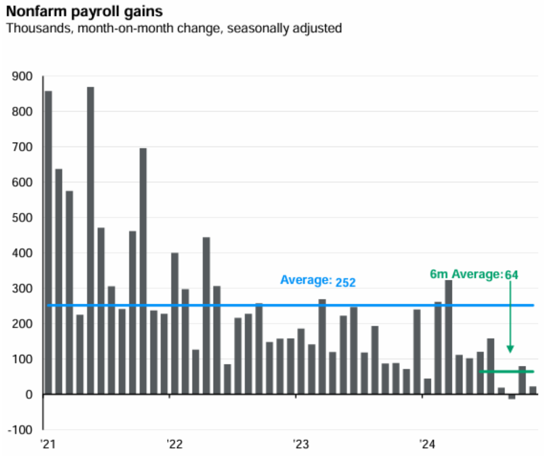
So far this quarter, US company earnings season has started well with 87% of companies' reports beating forecasts versus a ten-year average of 75% which around 12% of companies having reported.

The U.S. government shutdown continues and does not appear to be close to a near term resolution. It has now become the second longest ever. The shutdown has left markets with little to no official economic data, but the Federal Reserve has maintained a dovish stance and markets expect a further 0.25% cut next week. The shut down is estimated to reduce US GDP by 0.1-0.15% each week.

US GDP rebounded strongly in the second quarter of 2025 back to a strong 3.8% but this appears to have partially been caused by an unwind in inventory/export movements prior to the implementation of the tariff regime (unexpectedly, GDP trended down the prior quarter).

The US consumer expectations fell (to close to 50 and around the Independence Day April lows) and was impacted by their expectations of higher inflation moving forward and a weakening labour market.

The US labour market is cooling. Lay-offs remain contained, but hiring has slowed (a "no hire no fire" policy). There has been a step down in both the demand and supply of labour. As long as the workers are not let go, there won't be a material impact to current consumption, but this will lead to slower longer term potential economic growth.



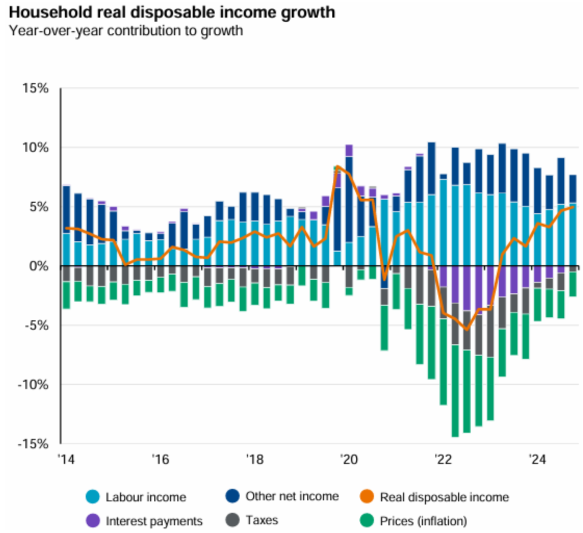
Source: JP Morgan Guide to the Markets Q3 2025

The US-China trade talks are likely to be held later this week after initial concerns that the US would place a 100% tariff on China which was countered by a restriction on rare earth exports to the US. Both sides have agreed to de-escalate some tensions as they both look for perceived "wins" for each of their countries.

Moving forward, it will be a complex landscape for the Fed. An expected boost in fiscal stimulus coming from the front-ended personal tax cuts included in the 'One Big Beautiful Bill', combined with AI related productivity gains may be enough to offset labour supply issues and to reaccelerate economic growth. Interest rate cuts will add further monetary stimulus to the mix to assist the economic soft-landing but may reignite inflation. The US president seems to be trying to grow the economy, to rebalance the budget and make the debt outlook more sustainable which, if successful will see markets well supported.

Australia

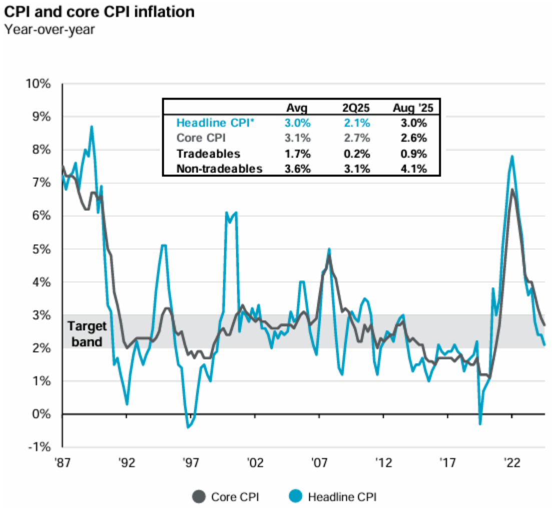
The case for further interest rate cuts here is falling, with household consumption remaining sticky, consumer sentiment recovering and inflation largely moderating (but ticking a little higher in August).



Source: JP Morgan Guide to the Markets Q3 2025

The Reserve Bank held fire in September following August's 0.25% cut to 3.60%. The RBA remains in 'wait and see' mode, watching the data, ready to act if growth slows or unemployment spikes higher. We expect the Q3 consumer price index (CPI) report on Wednesday, which will be critical to the RBA's decision on whether to cut interest rates next week. It seems like a line ball decision given the recent weak labour market report where unemployment jumped to 4.5% but with the economy still performing well and inflation elevated. If inflation surprises on the upside, a rate cut will be off the table. The market is pricing another 1-2 cuts in coming months, but our sense is that they are already nearly done.

With a robust economy (GDP growth expectations for 2%+ next year), the recent stimulatory interest rate cuts, full employment, we are expecting a strengthening economy and expanding company profits next year. But valuations are elevated so there's a lot priced into markets at current levels. Valuations are currently at 19.7 times earnings which is at the top of its 20-year range.



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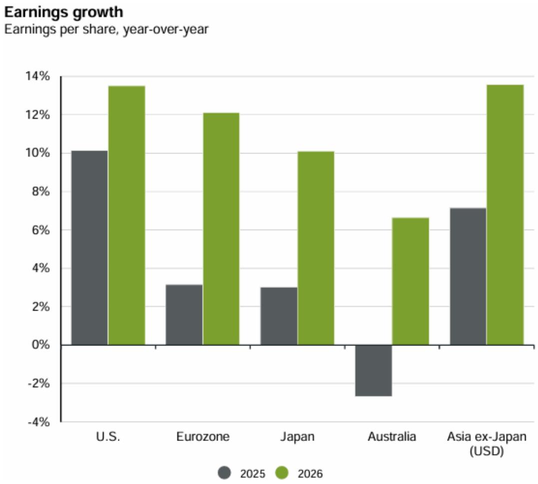


Source: JP Morgan Guide to the Markets Q3 2025

Europe

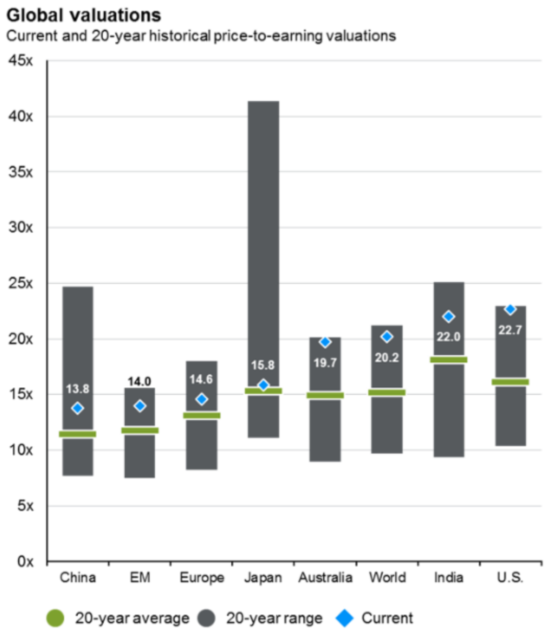
Europe remains attractive in the medium term given more structural support from fiscal policy and a far easier interest rate setting. However, shorter term indicators for growth remain mixed and the potential spillover effects from the US tariff settings keeps us neutral.

China's economy meanwhile is still holding up well with annual growth of 4.8% to Q3, down from 5.2% the prior quarter. Despite ongoing weakness in the property market and consumer spending to a degree, exports are filling the gap and keeping the government's 5% growth target for this year on track. Even though the Chinese market has rebounded strongly, we feel that it is going to take some time for them to move sustainably across to a consumption led domestic market especially given their weakening demographics.

In **Japan**, equities resumed their ascent with a newly formed coalition government early last week establishing the LDP's new leader, Takaichi Sanae, as the country's first female Prime Minister. Markets like her preference for stimulatory fiscal and monetary policies.

Portfolio Positioning

Easing inflation, a gentle drift lower in rates, and steady earnings point to a constructive near-term backdrop.



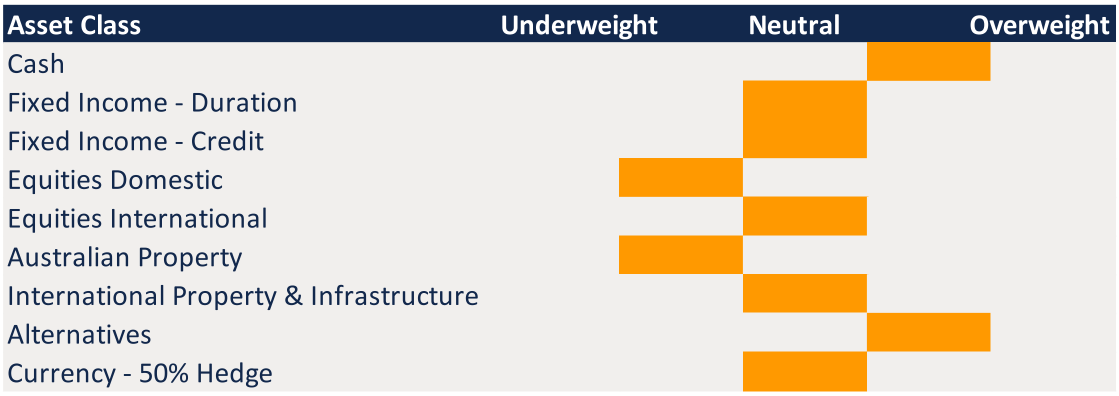
Source: JP Morgan Guide to the Markets Q3 2025

Market valuations are high, especially those in the AI sector. Many in the industry are becoming increasingly concerned about whether a "bubble" is building in the sector with high valuations, huge capital expenditure and not many companies in the industry making significant profits to get a return on that capex. Valuations can remain elevated for some time and there are no obvious catalysts to bring valuations sharply lower, but we are watching this closely. We believe much like the internet bubble from a couple of decades ago, that tomorrow's winners are likely to come from outside this sector and prefer to invest in areas exhibiting growth without extreme valuations.

Portfolios are being positioned with a focus on resilience and diversification. Within equities, we maintain a neutral overall stance—slightly underweight Australia on valuation grounds, but overweight international markets, particularly emerging markets and small to mid-cap companies both overseas and domestically. We retain an underweight position in the ASX top 20, which we view as fully valued with limited growth prospects.

Bond yields have been relatively stable in the developed world with no real signs of worry over the sustainability of government debt levels. We feel that duration is a little expensive at current levels (US Treasuries are trading below 4%) but offers investors protection if economic fears return. We retain a preference for domestic duration given Australia's debt levels but remain comfortable with Emerging Markets. We are overweight high-grade credit. Credit spreads are tight (expensive) but corporates have been performing well in a period of resilient growth and central bank easing. Finally, there have been a few areas of stress in private credit markets overseas, but we retain an overweight with a domestic bias in these sectors.

Given the elevated valuations and inflation, we are happy to retain a strong exposure to real assets such as infrastructure and unlisted property. Private Equity should also continue to perform in a robust business environment, especially with lower prevailing interest rates.



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