

# Ausbil Balanced Fund

Quarterly Investment Report

December 2025

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# Economic Review

## Economic Review

The month of December saw asset markets set intra-day record highs as the US Federal Reserve cut rates by 25 basis points to the range of 3.50% to 3.75% for a third consecutive meeting. Propelling sentiment higher, was Chair Powell signaling out the macro-economic significance of a sustained structural rise in US labour productivity, stating that, "I never thought I would see a time when we had, you know, five, six years of 2 per cent productivity growth." This led to a material upgrade in the Fed's real GDP growth projection from 1.8% to 2.3% for the year ahead, "allowing the economy to grow faster without generating as much inflationary pressure." Meanwhile, Reserve Bank of Australia Governor Bullock's hawkish pivot on persistent inflation saw market expectations for the cash rate switch from pricing in two cuts to two hikes for 2026.

On geopolitics, US President Trump ordered a "complete blockade" on the entry and exit of Venezuelan oil tankers under new sanctions. The European Union (EU) approved an interest free loan to Ukraine of €90 billion (US \$106bn) for the next two years, funded through EU borrowing and backed by the EU budget. Mexico approved a package of new tariffs of up to 50% on China and other countries that do not have a free trade agreement with Mexico. Japanese automakers chose to lower export prices to maintain sales volume without passing the tariff impost onto US consumers.

The Global MSCI equity index capital returns rebounded from the declines in November with the developed markets up 0.7% and the emerging markets up 2.7%. The US S&P 500 closed down 0.1%, Europe's STOXX up 2.7%, Japan's Nikkei up 0.2%, Australia's S&P/ASX 200 up 1.2% and China down by 1.5%. Brent crude oil declined 1.8% to US\$60.9 per barrel and spot gold was higher by 1.9%. The US 10-year bond yield rose 15 basis points to 4.17%, the 2/10-year curve steepened, and corporate credit for both investment grade and high yield spreads narrowed. US 10-year inflation-protected real yields rose 14bps to 1.90%, with the US dollar index depreciating 1.1%. The Japanese 10-year bond increased by 25bps to 2.06% and German yields rose 17bps to 2.85%. In Australia, the 10-year bond yield spiked 23bps to 4.74%, the 2/10-year yield curve flattened, and the 10-year bond spread to the US widened to 57bps. The Australian/US dollar appreciated to 0.667 cents and the trade-weighted index appreciated 1.6%.

The Fed's policy statement opened the door to a near term pause in policy settings. Their response being data dependent throughout calendar year 2026 as the Fed considers the "extent and timing of additional adjustments." England cut rates by 25bps to 3.75%. The European Central Bank left rates unchanged at 2%. Other central banks leaving policy settings unchanged were Norway at 4%, Canada at 2.25%, Sweden at 1.75% and Switzerland at 0%. Japan hiked by 25bps to 0.75%, taking the cash rate to a 30-year high with the 10-year yield climbing above 2%.

The Reserve Bank of Australia left the cash rate unchanged at 3.60% with the minutes stating that should the inflation upside trends persist then "an increase in the cash rate might need to be considered at some point in the coming year". In the post meeting press conference, Governor Bullock stated that the Board were questioning whether "financial conditions were still slightly restrictive but that it was also possible this was no longer the case."

On the data front, US real GDP grew at an annualised rate of 4.3% in Q3 2025, following 3.8% in Q2 and negative 0.6% in Q1. Adjusted for the swings in net exports and inventories, final domestic private demand is confirming the resiliency of the economy through calendar year 2025. Despite the government shutdown, non-farm payrolls for the two months of October and November were favourable as the delayed release avoided the fear of ongoing weakness. Private sector payrolls increased by 69,000 persons and DOGE redundancies taking effect in October saw 157,000 federal government sector losses.

November's lower than expected CPI release proved to be unreliable as it was biased downward by the federal government shutdown. The Bureau of Labor Statistics (BLS) employed a methodology to fill in missing price data across most CPI components. Where October prices were unavailable, the BLS carried forward the same September prices resulting in a month-on-month change of zero percentage points. Nominal retail sales in the GDP relevant "control group measure" surged 0.8% in the month of October following average increases of 0.6% per month over the prior quarter. There was a large decline in car sales following the expiration of electric vehicle tax credits in the prior month.

# Economic Outlook

In Europe, the German Ifo business climate index and the ZEW indicator of economic sentiment surveys saw a pullback with the reports cautious on the outlook given trade tensions, geopolitics and weak investment risks persisting, particularly for the export-heavy sectors facing Chinese competition.

In Australia, the Federal government terminated electricity rebates to households and announced a domestic east coast natural gas reservation scheme starting in 2027. Only applying to new contracts, the three largest LNG exporters will be required to set aside 15% to 25% of annual production. Current domestic and international agreements will not be affected under the new scheme. The September quarter national accounts confirmed increasing domestic demand where the economy is undergoing a cyclical upswing driven by private household consumption, non-mining business investment, housing and public demand. The Mid-Year Economic and Fiscal Outlook (MYEFO) of the Federal Budget revealed a AUD 5.3 billion improvement in the 2025/26 deficit and an AUD 8.4 billion improvement in public finances over the four-year forecast horizon. According to Treasurer Chalmers, this is “achieved by identifying an additional \$20 billion in savings and reprioritisations, ensuring net policy decisions are positive and returning every dollar of tax receipt upgrades to the budget.”

## Economic Outlook

We see a supportive macroeconomic environment for the Australian economy driving earnings growth and favouring investment in equities.

Ausbil's view is for accelerating synchronised global growth for calendar year 2026. Both the global and US economies are on a growth trajectory driven by policy tailwinds announced since April 2nd, lower core inflation and further cuts in cash real rates. US growth is forecast to accelerate from 1.7% in 2025 to an above trend pace of 2.4% in 2026. Europe continues at a steady 1.4% pace, China at a sustained 4.5% pace and Australia accelerates toward a robust 2.8% pace. For Australia, the driver of activity is shifting from the public to the private sector, where the trough in private demand was set back in Q3 2024.

As the year closed, our April 2nd forecast of 75 basis points in US rate cuts for calendar year 2025 was confirmed. Looking ahead, we see the US Federal Reserve being on pause and data dependent throughout calendar year 2026 as the Committee considers “the extent and timing of additional adjustments to the target range for the federal funds rate.”

The Reserve Bank of Australia is forecast to hike rates in 2026 in response to buoyant activity levels and persistently higher inflation. With Australian and US cash rates converging this should lead to reduced volatility in the AUD/USD exchange rate, hence maintaining the exchange rate anchored at around 65 cents with a strong upward bias throughout the year. The Australian trade weighted basket of currencies is expected to trend higher on elevated commodity prices.

# Global Economic Outlook

## Global Economic Outlook

Following the onslaught of President Trump's tariffs, Ausbil went into the 'war room' on April 2nd and implemented a risk management framework based on scenario analysis. We did the same during the pandemic with successful results. At the time of extreme global uncertainty, Ausbil settled on a 'base case' scenario with a 65% probability. Our key assumption was that the Trump administration would negotiate on a bilateral basis with willing countries to adjust their respective tariff levels lower, towards the minimum 10% level, with the Federal Reserve cutting rates by 75 basis points in 2025.

Since April, the data flow has validated our macro conclusions. We have seen the July 4th passing of President Trump's "one, big, beautiful bill act" and the lifting of the fog of tariff uncertainty on the final level of country specific reciprocal rates in August. Trade deals have locked in lower tariffs than first threatened, avoiding the worst-case scenario assumed by investors and central bankers. Importantly, the US Federal Reserve have upgraded their macro projections to Ausbil's forecasts.

As illustrated in Table 1, Ausbil's view is for accelerating synchronised global growth for calendar year 2026. The outlook is materially stronger based on the policy tailwinds announced since April 2nd, namely lower tariff levels than first feared, US tax cuts, industrial policy investment incentives and the Federal Reserve joining the chorus of global central banks lowering interest rates. In addition, significant deregulation is making business easier in the US, with lower oil prices, lower core inflation (adjusted for the one-off increase to the price level from tariffs), tariff exemptions for key industries, and the Fed tempering the downside risks to employment whilst remaining vigilant on "somewhat elevated" inflation.

**Table 1: Global growth – accelerating synchronised global growth for 2026.  
Strong policy tailwinds unleashed since April 2nd**

Real GDP year average % (data as at 19 <sup>th</sup> Dec 2025)	Long run average 2010 to 2019 (pa)	2025 Ausbil (f)	2026 Ausbil (f)
United States	2.3	1.7	2.4
Japan	1.2	1.1	1.0
Europe/Area	1.4	1.3	1.4
China	7.7	4.6	4.5
India	7.0	6.5	6.5
Australia	2.6	2.0	2.8
<b>Global GDP</b>	<b>3.7</b>	<b>3.3</b>	<b>3.6</b>

Source: FactSet, Ausbil, as at 19 December 2025, (f) denotes forecast.

Our view of the US economy saw tariffs initially acting as a downward drag on activity before rebuilding stronger momentum by year-end 2025. Under our base case scenario, we forecast US growth at a below trend 1.7% pace in 2025 before accelerating to an above trend pace of 2.4% in 2026 on labour productivity gains. Federal Reserve Chair Powell singled out the macro-economic significance of rising US productivity, allowing the economy to grow faster without generating as much inflationary pressure. His statement confirming a sustained structural rise in labour productivity the likes of which, "I never thought I would see a time when we had, you know, five, six years of 2 per cent productivity growth."

More importantly, Chair Powell sees the tariff impact on the core private consumption expenditure measure of inflation as "a one-time shift in the price level," pointing out that the inflation in goods is entirely concentrated in sectors related to the tariffs and when adjusted "away from tariffs, inflation is in the low 2s." Powell has reiterated for a second consecutive meeting, that current policy settings are "now within a broad range of estimates of its neutral value" and that "we are in the high end of the range." Based on the December release of the Federal Reserve's Summary of Economic Projections, the neutral rate central tendency

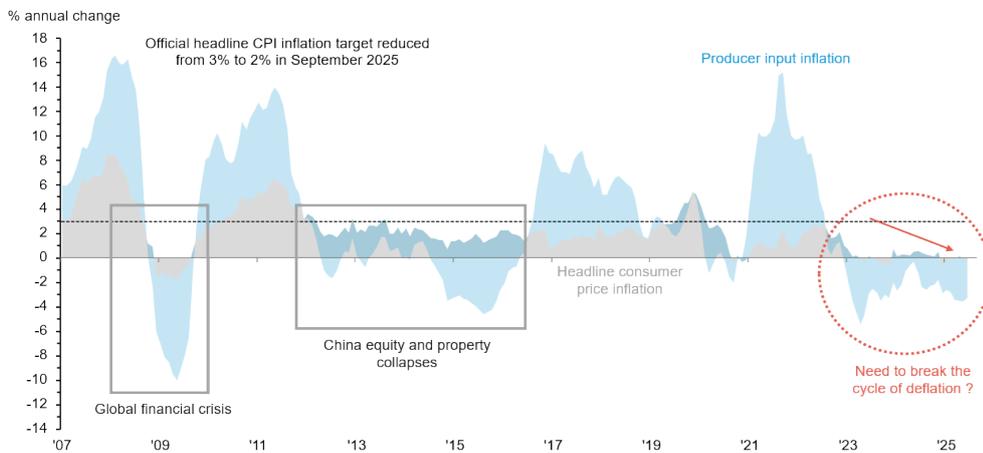
# Global Economic Outlook

estimate is in the range of “3.0% to 3.5%.” For 2026, the table of projections are showing slightly lower by a tenth of a percentage point in headline inflation at 2.4% and core inflation at 2.5%, materially higher real GDP growth at 2.3% and a stable unemployment rate at 4.4%. The median expectation for the Fed funds rate was kept at one rate cut respectively in 2026 to 3.4% and in 2027 to 3.1%.

The European economy to date has been resilient due to two factors – first, the export-oriented economy has benefited from global frontloading, and second, there is stronger private consumption and investment. Going forward, Europe is on a stronger growth path, supported by rate cuts, sustained defence spending approaching 5% of GDP, infrastructure investment and expanding fiscal deficits. The European Central Bank staff revised higher their December projections with 2026 growth and inflation forecasts to 1.2% (up from 1.0%) and 1.9% (up from 1.7%) respectively. President Lagarde noted the ECB is in a meeting-by-meeting policy response mode. The European Union has set out details of a trade deal – even ECB President Lagarde has stated that the effective average tariff is “between 12% and 16%, an outcome well below the severe scenario of over 20% envisaged in the June projections.”

The wall of tariffs confronting China has seen the authorities ‘forcibly’ deploy additional expansionary policy measures to alleviate the drag to export facing industries and in meeting their resolute 5% growth target. We see the growth rate at a sustained 4.5% following outcomes in the Fourth Plenary session. The Chinese economy is facing structural and persistent deflation in input and consumer prices, as illustrated in Chart 1.

**Chart 1: China – 3 years of structural deflation**  
**Excess capacity and facing the great wall of global tariffs – what to do?**



Source: Ausbil, FactSet, September 2025.

The excess capacity from over investment in leading sectors and industries needs to be curtailed somehow. Ausbil believes that the concept of “anti-involution” measures flagged at July’s Politburo meeting is a first order economic priority. The Chinese Communist Party’s Fourth Plenary communique of macro-objectives emphasised the goal to “greatly increase” self-reliance whilst maintaining “long-term social stability.” Authorities are aiming to raise GDP per capita to the level of “moderately developed” economies (according to World Bank data, in the range of US\$15,000 to US\$20,000), requiring a real GDP growth rate of 4.4% annually. The subsequent December meeting of the Politburo at the Central Economic Work Conference pledged to address the headwinds to growth and persistent deflationary pressures stemming from excess supply capacity. President Xi is calling for additional fiscal policy tailored to domestic demand. Recently, the Ministry of Finance identified that the key fiscal measures will involve stimulating consumption, increasing the social safety net and promoting household income growth, and accelerating new growth drivers with investments in technology and high-quality manufacturing. This will be formalised in March 2026 in the final version of the next 5-year plan, covering the period from 2026 to 2032, reflecting the policy objectives of stimulating the consumer and honouring the social contract between the Chinese communist party and their population of 1.4 billion people. According to Professor Zhang Jun, Dean of Fudan University’s School of Economics in Shanghai, in the

# Global Economic Outlook

4th plenum communique, “it is evident that the leadership is placing its hope entirely on the domestic market.”

The Bank of Japan forward guidance reiterated that policy normalisation would continue if their outlook for activity and prices is realised. Meanwhile, the Policy Board noted that “real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity.” Balance sheet exchange traded funds and real-estate investment trust assets will be divested in a controlled manner “to avoid inducing destabilising effects on financial markets.” Assuming annual ETF sales (representing around 0.05% of total market turnover), it would take an estimated 112 years to complete the divestment.

We should keep in mind that in the background there are several longer-term structural drivers that are offering growth opportunities that will help drive new value supply chains across sectors. These include an increased commitment to military spending globally as the US withdrawal of support for Ukraine and others has sparked an upward shift in defence spending in Europe, Scandinavia and other countries; increased investment in infrastructure to accommodate the growth in artificial intelligence; ongoing investment to secure independent energy security; and the increase in demand for electricity over carbon-based energy. Carbon free energy sources, primarily from renewables, are expected to become the dominant force in global energy systems, reducing reliance on fossil fuels.

# Australian Economic Outlook

## Australian Economic Outlook

Australia is insulated to a high degree from tariffs given that we are a net importer of US goods. That position is further reinforced by Australia's favourable standing with the recent bilateral framework on minerals and rare earths entered with the US. Economic growth is set to accelerate to a robust 2.8% pace in 2026. The national accounts are confirming the ongoing transition in the drivers of activity from the public to the private sector. We note that the trough in private demand was set back in the September quarter of 2024.

The new monthly CPI release for October revealed an acceleration and persistence in inflation. Price pressures are broadening across goods and services, with housing related costs for new dwellings continuing to accelerate. The important policy measure of trimmed mean inflation is well and truly exceeding the Reserve Bank of Australia's upper target band of 3%. The RBA's updated forecasts in the November Statement on Monetary Policy are stale and require to be revised materially higher. We find it difficult to reconcile unit labour costs running at 5% and low productivity levels with the RBA's belief that "some of the increase in underlying inflation in the September quarter was due to temporary factors" and that inflation will return to midpoint in 2027. We see inflation above 3% for the entire horizon period out to 2027. More importantly, for the first time, Governor Bullock is openly questioning their assessment of the output gap and whether policy "remains a little restrictive."

The Reserve Bank of Australia is forecast to hike rates in 2026 in response to buoyant activity levels and persistently higher inflation. For reference, Ausbil sees the long run neutral nominal cash rate at 3.85%, meaning that current monetary policy settings are accommodative. We are keeping in mind the favourable dynamics of some limited inflation offset as Australia benefits from an appreciating currency and China's deflationary wave of finished export goods seeking alternative markets to the US tariff wall.

The unemployment rate is projected to remain in the low 4% range as labour supply and demand move into balance. This will be a remarkable achievement in holding on to a 50-year broad-based gain in employment conditions. Putting this in context, we have experienced close to a sustained 2% fall in the unemployment rate from the pre-pandemic 5-year average of 5.7%. Importantly, nominal wages are projected to stabilise at 3.5%, consistent with the core inflation target provided there is higher productivity growth.

We export A\$560 billion worth of goods and services. Based on experience, Australia is expected to be insulated from tariffs. The material risk of A\$214 billion in direct exports to China is in resource raw material commodities which will be required as an input in additional Chinese stimulus measures. Fortunately, we continue to benefit from our growing export exposure of A\$258 billion to the Indo-Pacific region of fourteen countries (which excludes China). This region is experiencing robust real growth rates in the range of 5% to 6%.

Given ongoing structural underlying demand for resources, and converging Australian and United States cash rates, we expect reduced volatility in the AUD/USD exchange rate, maintaining the exchange rate at around 65 cents with a strong upward bias through 2026. The Australian trade weighted basket of currencies is expected to trend higher on elevated commodity prices.

Based on our scenario analysis we will be cross-checking the latest information against our checklist of macro and financial variables, and we will make any necessary adjustments as events unfold. As always, we will share any changes in our macro view in our subsequent economic reports, particularly given the fluidity in world and economic events.

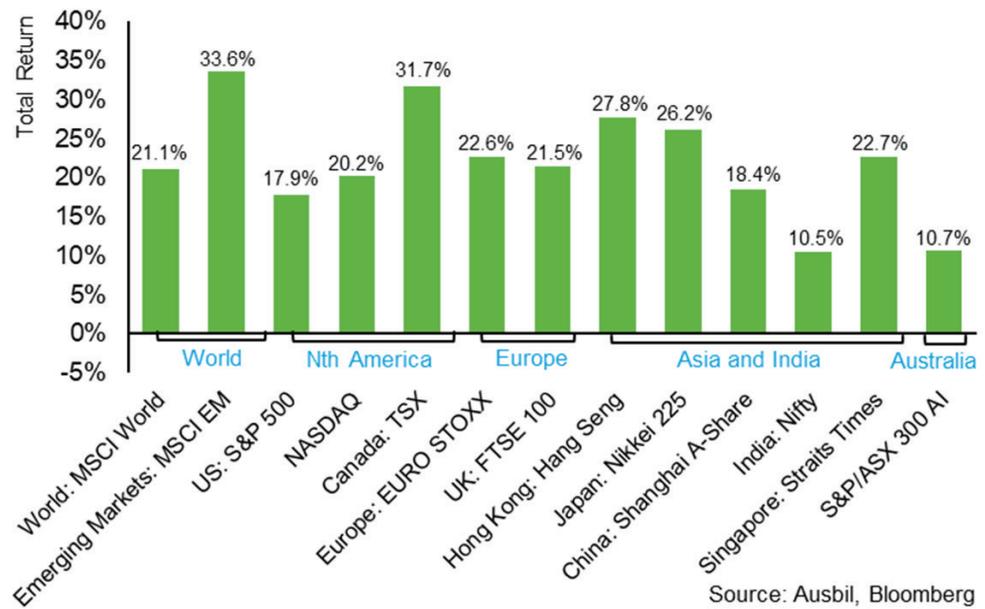
# Equity Market Review

## Equity Market Review

The market (the S&P/ASX 300 Accumulation Index) closed December with a one month return of +1.4%, and a quarterly return of -0.9%. Despite a year that saw some of the most remarkable changes to trade relations since the Smoot-Hawley Tariff Act of 1930, the ASX 300 still delivered a positive return for the calendar year, achieving a trailing market 1-year return to +10.7%. This is a remarkable achievement considering the panic that came with the April 2025 announcement by Donald Trump of global tariff increases though changes have largely come in well below expectations as the US has rewritten its global trade relations, country by country.

Developed Markets (MSCI World) delivered an amazing year, achieving returns of +21.1%, but were trumped by Emerging Markets (MSCI EM) which achieved +33.6%, as shown in Chart 2. Every major developed and emerging market returned positive results for calendar 2025, underscoring the benefits for those who patiently and carefully remained invested in equities in the face of the tariff crisis as Ausbil did.

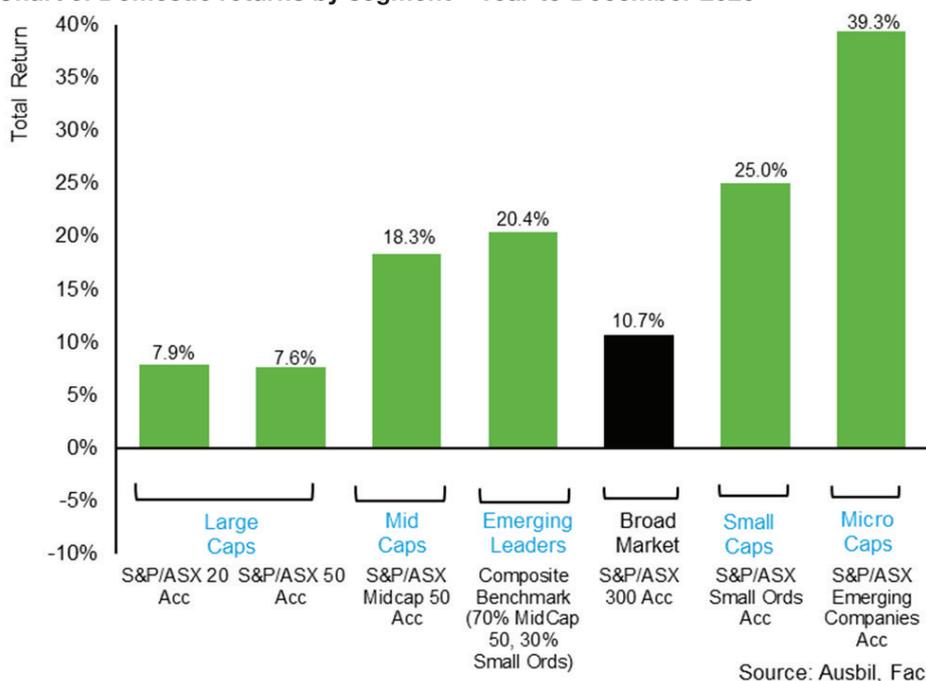
**Chart 2: World equity market returns – Year to December 2025**



# Equity Market Review

Strength in the equities market was experienced across the market-cap spectrum in 2025, with micro-cap and small-cap equities making a good broad market return look ordinary, as illustrated in Chart 3. Small and micro-cap companies had been significant value underperformers during the interest rate normalisation from 2022 into 2024, but they made up for this in 2025, particularly as the year closed with resurgent economic growth and stabilised interest rates.

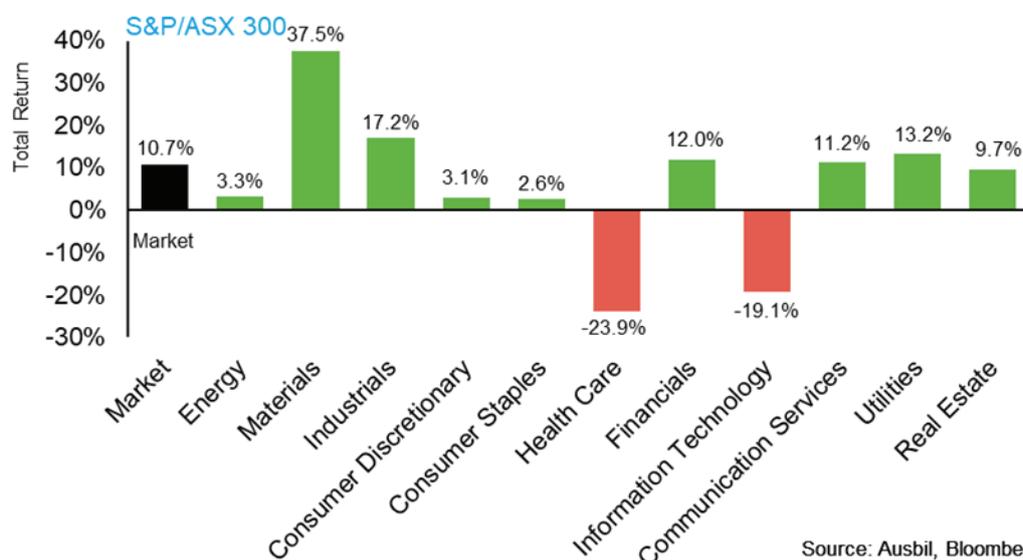
**Chart 3: Domestic returns by segment – Year to December 2025**



Source: Ausbil, FactSet

The rebound in resources across 2025, coupled with surging copper and gold prices, drove the Materials sector to outperform all others, as shown in Chart 4. On the flip side, Health Care significantly underperformed the market on a mix of company-specific issues in sector leaders and an overall higher cost of capital. Information Technology was also off this year, though following a significant period of strong performance in the previous years.

**Chart 4: Sector returns – Year to December 2025**

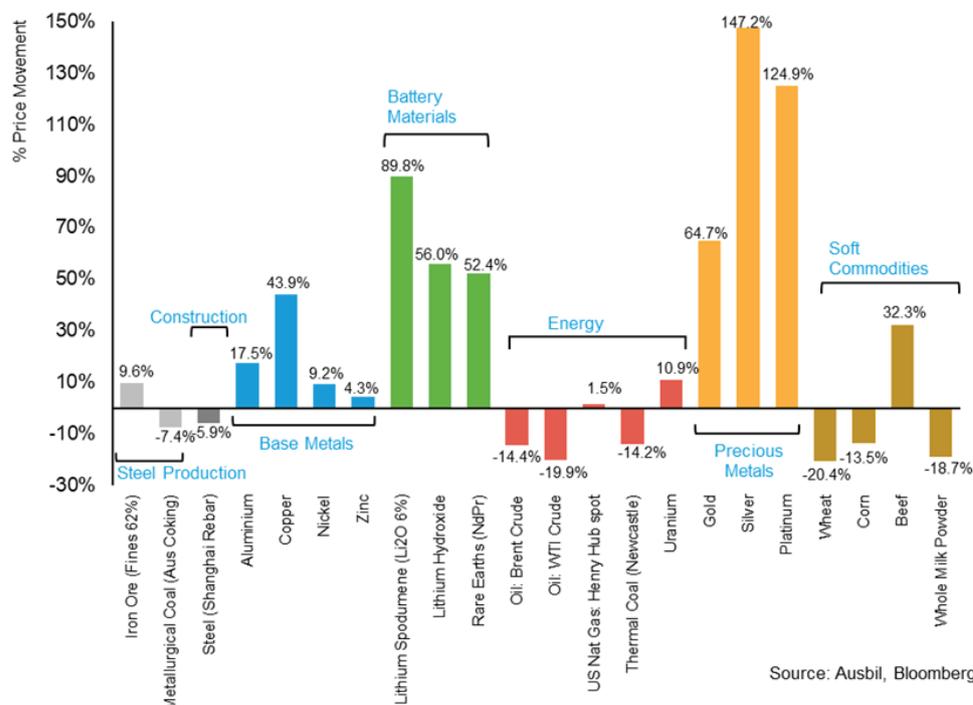


Source: Ausbil, Bloomberg

# Equity Market Review

Having struggled through the 2022/2023 interest rate normalisation, commodities were starting to benefit from a shift to monetary easing when tariffs struck in April 2025. While the initial impact and uncertainty hit commodities hard again, as the year evolved, and the world began to rework positive unilateral trade relations with the US, new hope appeared. With US policy stimulus, lower taxes, and a resurgence in US internal investment, commodities began to shine again. Renewed optimism and positive economic growth in the US, Australia and globally saw 2025 close with strong commodity returns in precious metals, base metals and battery materials, as illustrated in Chart 5.

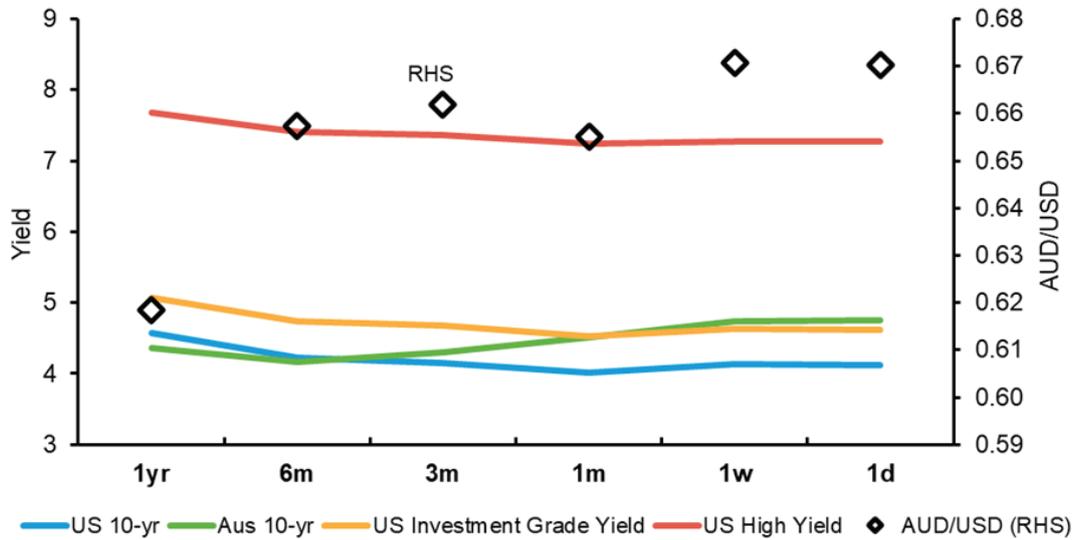
**Chart 5: Commodity markets – Year to December 2025**



Overall, the outlook on economic growth for the US and globally is good and should remain positive for commodities heading into 2026 where we see further improvement in US and world economic growth, supportive of the outlook for prices. The announcement of critical minerals agreements between the US and Australia, Malaysia, Thailand and Japan, and an agreement between China and the US to hold tariff changes for a year has added a hopeful edge to the outlook for markets. On a fundamental basis, we believe decarbonisation and the energy transition remain significant themes that will drive underlying value across resources, energy, utilities and the mining services sector with respect to critical commodities.

# Equity Market Review

Chart 6: Key fixed income, credit and FX levels since last year



Source: Bloomberg as at 31 December 2025. The chart shows yield expectations (real rates plus inflation) looking forward (LHS) and the AUD/USD currency pair (RHS).

At the end of December, the AUD/USD was up +7.9% for the year, closing at US\$0.6672. In fixed income markets, US 10-year Treasury yields closed at 4.2% and Australian 10-year Government Bond yields closed the month at 4.7%. In credit markets, investment grade credit spreads closed at 50 bps and high yield spreads at 317 bps.

# Fixed Interest and Cash Rates

## Fixed Interest and Cash Rates

The December quarter saw resilient global growth, lower cash rates, the Japan 10-year bond yield climb through 2% and the longest US federal government shutdown. Initially, US private credit market cracks emerged with the bankruptcy of three subprime car lenders and auto parts suppliers, fanning fears within the US\$3 trillion shadow banking system. The regional bank sector equity sell down and money market liquidity issues triggered the tapping of the Federal Reserve's standing repo facility by the largest amount since the pandemic, sparking a prophetic warning from banking titan, Jamie Dimon, that "when you see one cockroach, there's probably more." Meanwhile, Reserve Bank of Australia Governor Bullock's hawkish pivot on persistent inflation saw market expectations for the cash rate switch from pricing in two cuts to two hikes for 2026.

For quarter end, the Japanese 10-year bond surged by 42bps climbing to close at 2.06%. The US 10-year yield rose 2bps to 4.17%, the 2/10-year curve steepened by 15 bps to close at 69bps, corporate investment and high yield credit spreads narrowed a few basis points at respective margins over treasuries of 50bps and 317bps, 10-year inflation-protected real yields rose 12bps to 1.90% and the US dollar index appreciated 0.6%. In Australia, the 10-year bond yield spiked 44bps to 4.74%, the 2/10-year yield curve flattened by 13bps to close at 67bps, and the 10-year bond spread to the US blew out by 43bps to close above at 57bps. The Australian/US dollar appreciated by 0.8% to 0.667 cents and the trade-weighted index appreciated by 1.5%.

Central banks cutting rates were the US Federal Reserve by 50 basis points to the range 3.50%-3.75%, New Zealand by 75bps to 2.25%, Canada by 25bps to 2.25% and England by 25bps to 3.75%. Leaving policy settings unchanged were the European Central Bank at 2.0%, Norway at 4.0%, Sweden at 1.75%, Switzerland at 0% and Australia at 3.60%. Japan hiked by 25bps to 0.75% taking the cash rate to a 30-year high with the 10-year yield climbing above 2%.

On geopolitics, the US and Australia signed a landmark bilateral framework on critical minerals and rare earths. JPMorganChase announced the Security and Resiliency Initiative, a US\$1.5 trillion, 10-year plan to facilitate, finance and invest in industries critical to US national economic security and resiliency. US President Trump ordered a "complete blockade" of Venezuelan oil tankers under sanctions that enter or leave the country. The European Union (EU) approve an interest free loan to Ukraine €90 billion (US \$106bn) for the next two years funded through EU borrowing and backed by the EU budget.

On tariffs, the US and Switzerland reached a deal with the tariff rate on its exports lowered from 39% to 15%. In exchange Swiss companies promised to invest around \$200 billion in America over the next three years. Mexico approved a package of new tariffs of up to 50% on China and other countries that do not have a free trade agreement with Mexico. Japanese automakers chose to lower export prices to maintain sales volume without passing the tariff impost onto US consumers. The US Congressional Budget office updated their 10-year projections of tariffs and the budget out to 2035, concluding that "the tariff changes will reduce deficits by \$3.0 trillion." Following the New York mayoral surprise outcome, Trump pivoted to addressing cost of living pressures, in lowering tariffs on two hundred food products including beef, coffee, other agricultural and food goods. The exemptions would apply to commodities that cannot be produced in the US in sufficient quantity to meet domestic demand. Meanwhile, Separately, the US Supreme Court began hearing arguments on the legality of the Trump administration's use of emergency powers to implement tariffs. A decision is not expected to come for several months.

# Fund Review

## Fund Review

The Balanced Fund underperformed its benchmark index for the December quarter 2025, returning negative -0.24% (gross of fees) versus the benchmark of +0.63%. Over the past 12-months, the Balanced Fund outperformed returning +11.15% (gross of fees) versus the benchmark of 10.74%.

The month of **October** witnessed significant events resulting in global uncertainties being dialled back. Geopolitics, tariffs, global rate cuts, alternative sourcing of critical minerals supplies and improving company earnings drove equity markets higher, despite the US government shutdown. President Trump brokered a ceasefire in the war between Israel and Hamas. Billion-dollar US investments were pledged by Japan and Korea, including a reduced tariff rate to 15% for Korea. Sentiment peaked with the de-escalation and the reopening of diplomatic channels with Presidents Trump and China's Xi agreeing to mutual understandings to extend a tariff truce for up to one year in exchange for China postponing the new rare earth export control rules and restricting supply of fentanyl.

**November** was a rollercoaster ride with equity markets initially declining on valuation concerns regarding the material investments in artificial intelligence. This was subsequently followed by a sharp rebound in the final week on renewed expectations of a December Federal Reserve rate cut. The US government shutdown ended after a record setting 43-days. President Trump signed a stopgap funding bill following the House passing a continuing resolution to extend fiscal 2025 funding through to January 30th, 2026. The issue of the expiring Affordable Care Act subsidies was not resolved, and this may set the stage for renewed fiscal battles. In Australia, monetary policy expectations moved abruptly from cuts to being on hold, with a minority calling for a hike in 2026 as trimmed mean inflation moved above the RBA's 2-3% target band.

**December** saw asset markets set new record highs as the US Federal Reserve cut rates by 25 basis points to the range of 3.50% to 3.75% for a third consecutive meeting. Propelling sentiment higher, was Chair Powell signaling out the macro-economic significance of a sustained structural rise in US labour productivity the likes of which, "I never thought I would see a time when we had, you know, five, six years of 2 per cent productivity growth." This led to a material upgrade in the Fed's real GDP growth projection from 1.8% to 2.3% for the year ahead and "allowing the economy to grow faster without generating as much inflationary pressure."

## Investment Market Review

**Table 2: Key benchmark returns by asset class - total return**

Asset Classes	3 months %	12 months %
Australian Equities (Benchmark)	-0.16	13.23
Australian Bonds (UBSA Composite Bond Index)	-1.15	3.17
Australian Property - Direct Property	2.27	8.66
Australian Property - REITS	-1.40	9.24
Global Equities (Benchmark)	2.67	13.49
Cash	0.90	3.97

# Strategy and Outlook

## Strategy and Outlook

The Balanced Fund strategy will maintain its current asset class positioning favouring growth as we see a supportive macroeconomic environment for the Australian economy, driving earnings growth and favouring investment in equities. Australian companies are forecast to generate earnings growth of 8.1%, Ausbil is well ahead of the consensus expectation of 4.1% in FY26.

Ausbil's view is for accelerating synchronised global growth for calendar year 2026. Both the global and US economies are on a growth trajectory driven by policy tailwinds announced since April 2nd, lower core inflation and further cuts in cash real rates. US growth is forecast to accelerate from 1.7% in 2025 to an above trend pace of 2.4% in 2026. Europe continues at a steady 1.4% pace, China at a sustained 4.5% pace and Australia accelerates toward a robust 2.8% pace.

We see the US Federal Reserve being on pause and data dependent throughout calendar year 2026 as the Committee considers "the extent and timing of additional adjustments to the target range for the federal funds rate."

The Reserve Bank of Australia is forecast to hike rates in 2026 in response to buoyant activity levels and persistently higher inflation. With Australian and US cash rates converging this should lead to reduced volatility in the AUD/USD exchange rate, hence maintaining the exchange rate anchoring at 65 cents with a strong upward bias throughout the year. The Australian trade weighted basket of currencies is expected to trend higher on elevated commodity prices.

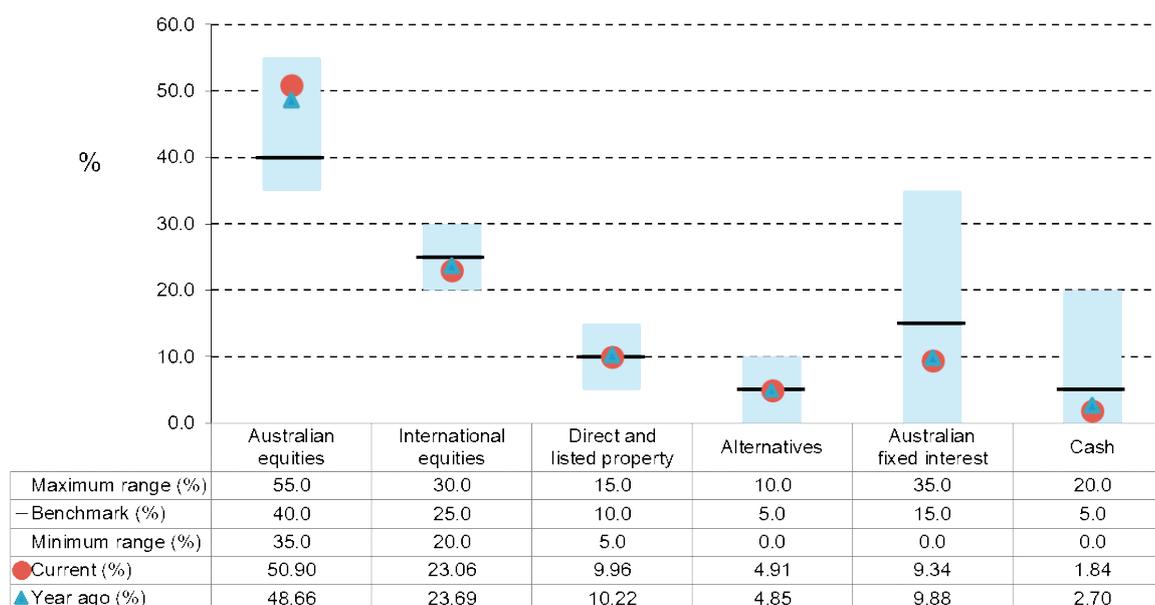
# Fund Overview

## Fund Return

Period	Fund Return %	Fund Return %	Bench- mark* %	Out/Under performance %	Out/ Under performance %
	Gross	Net		Gross	Net
1 month	0.49	0.42	0.69	-0.20	-0.28
3 months	-0.24	-0.46	0.63	-0.88	-1.09
6 months	5.90	5.43	5.68	0.21	-0.25
1 year	11.15	10.17	10.74	0.41	-0.57
2 years pa	12.48	11.49	12.33	0.15	-0.84
3 years pa	12.40	11.42	12.45	-0.04	-1.03
5 years pa	10.09	9.12	9.10	0.99	0.02
7 years pa	11.32	10.34	9.87	1.45	0.47
10 years pa	9.87	8.90	8.79	1.08	0.11
15 years pa	10.28	9.31	8.63	1.65	0.68
20 years pa	8.76	7.90	7.24	1.53	0.66
25 years pa	8.85	7.95	7.27	1.58	0.69
Since inception pa Date: July 1997	9.21	8.30	7.52	1.70	0.79

\* The benchmark returns represent the neutral strategic asset allocation return.

## Asset Allocation



### Notes:

- 1) As at 31 December 2025, hedged currency exposure amounts to 18.6%. This is made up of International shares 13.7% and Global Infrastructure 4.9%.
- 2) As at 31 December 2025, the Australian Fixed Interest portfolio modified duration is 4.83 years compared to the benchmark index of 4.94 years.

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## Contact Us

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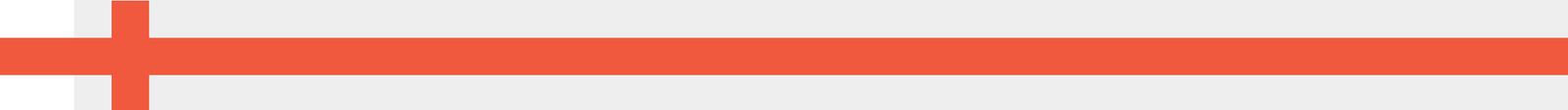
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