

Markets in September: saw renewed market optimism as the artificial intelligence (AI) narrative regained momentum and the Federal Reserve (Fed) resumed its rate cut cycle, ultimately outweighing persistent headwinds from U.S. labour market weakness, elevated inflation, and new sectoral tariff announcements. Global equities posted robust gains, led by technology and growth sectors, while Australian equities lagged due to stronger domestic data and stickier inflation reducing the chance of further rate cuts. Materials and Resources outperformed locally, while small cap resources delivered standout returns.

Gold – Continues to Break Records: Gold emerged as a top performing asset in September, rallying to USD 3,800 amid persistent macro and geopolitical uncertainty, robust physical demand, and renewed investor conviction. Strategic buyers; central banks, ETFs, and speculators, drove prices higher, with ETF inflows resuming as real rates fell and policy uncertainty increased. Seasonal demand from India and China added further support. Consensus remains bullish, with forecasts for gold to continue rising through US\$4,000/oz.

AI-Led Market Optimism: The artificial intelligence narrative is expected to remain a powerful driver of global equity markets, with mega-cap technology firms investing heavily in infrastructure and strategic partnerships. North Asian markets are likely to remain in focus as regional tech leadership becomes increasingly contested – this is not just a U.S. story in our view. The main risks centre, we believe, on whether massive capital expenditure in tech delivers the expected profitability and margin expansion.

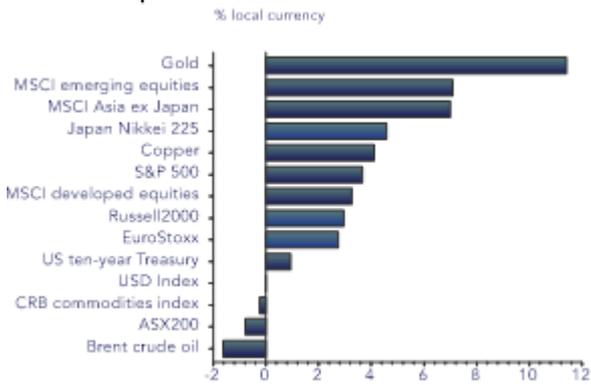
Central Bank Policy Divergence: The Federal Reserve’s split FOMC and ongoing debate over future easing will keep US monetary policy in flux. Added to that political interference from the Trump administration and the likelihood of volatility and repricing remains high. In Australia, the Reserve Bank’s hawkish stance and diminishing prospects for further rate cuts point to a more restrictive environment for local fixed income and equities. While both central banks may end this part of the interest rate cycle with much the same cash rate, the path to getting there looks quite different.

How to Position: Small and mid-cap Australian equities, growth alternatives, and infrastructure linked to AI expansion remain attractive, while hedging against a rising AUD is prudent given currency dynamics. Private credit warrants caution, and listed property and infrastructure strategies should benefit from ongoing investment in data centres and technology infrastructure. Conditions for private equity remain solid, especially for new capital, with valuations less demanding than public markets.

Markets in September

September saw renewed market optimism as the artificial intelligence (AI) narrative regained momentum and the Federal Reserve (Fed) resumed its rate cut cycle, ultimately outweighing persistent headwinds from U.S. labour market weakness, elevated inflation, and fresh sectoral tariff announcements.

Chart 1: September Asset Class Performance

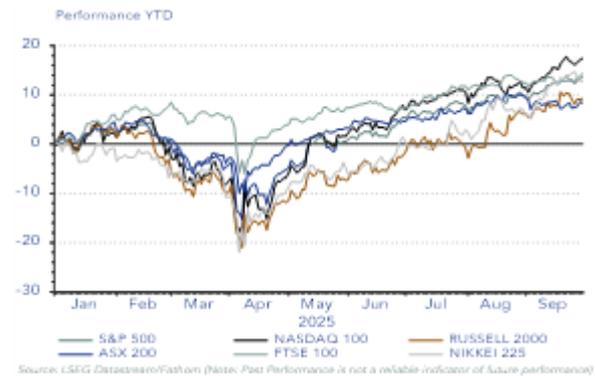


Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Global equities posted robust gains, with the MSCI World index up 3.3% and the MSCI Emerging Market index surging 7.1%. In contrast, Australian equities lagged, as stronger domestic economic data and stickier inflation led to a paring back of rate cut expectations.

Globally, technology continued to lead, with the MSCI World IT index up 7.5%, supported by robust gains in the NASDAQ (+5.7%). Growth sectors such as S&P 500 Growth (+5.3%) and S&P 500 Information Technology (+7.3%) outperformed, while defensive sectors like Consumer Staples (-1.6%) and Energy (-0.4%) lagged. The Hang Seng index (+7.7%) and Nikkei 225 (+5.9%) also posted strong returns, reflecting renewed optimism in Asian equities, particularly those exposed to the AI and technology themes.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2025)



In Australia, performance was more muted, with the S&P/ASX 200 falling -0.8%. Materials (+6.1%) and Resources (+4.1%) were the standout performers, buoyed by resilient commodity prices. Utilities (+0.7%) also managed modest gains. In contrast, Energy (-9.8%), Consumer Staples (-4.4%), and Consumer Durables & Appliances (-10.6%) were among the weakest sectors. Financials (-1.4%) and Health Care (-4.2%) also underperformed, with the latter impacted by regulatory uncertainty and weaker offshore earnings.

Small caps in Australia delivered a mixed result. ASX Small Resources soared (+13.9%), significantly outperforming both large caps and other small cap segments.

The 10-year yields on Australian government bonds ticked up by 2 bps in September to 4.30%. The 10-year UST yield was down 8 bps in September, while the 2-year yield was flat, even though it fell by as much as 15 bps intra-month.

Gold continues to gather investor interest, rising to USD 3,800. The U.S. dollar DXY index was flat in September, given the prospects of rate cuts were already factored in.

Key Themes

Gold – Continues to break records

Gold emerged as the top performing asset in September, extending its rally to fresh highs on the back of persistent macro and geopolitical uncertainty, robust physical demand, and renewed investor conviction.

Unlike other commodities, gold’s unique status as an accumulated asset means price direction is set by strategic buyers; central banks, ETFs, and speculators, rather than traditional supply-demand dynamics. September saw conviction buyers accelerate purchases in response to inflation, higher tariffs, and concerns over US growth and central bank credibility, while opportunistic demand from emerging market households provided a resilient floor for prices.

Chart 3: Physical Gold v Global Gold Miners



ETF inflows resumed as real rates fell and policy uncertainty increased, while technical momentum and seasonal demand from India and China ahead of key festivals added fuel to the rally.

Consensus expectations remain bullish, with forecasts for gold to continue rising through US\$4,000/oz, underpinned by strategic allocation growth, official sector buying, and fundamental support from Asia. Structurally, higher production costs, constrained mine supply, and fiscal sustainability concerns continue to reinforce gold’s appeal as a hedge against systemic risk and fiat currency debasement.

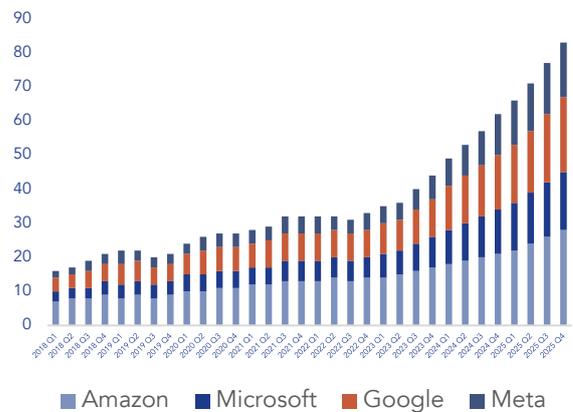
Outlook

The artificial intelligence narrative is poised to remain a powerful driver of global equity markets. With mega-cap technology firms continuing to announce expanded investments in AI infrastructure and strategic partnerships, the sector’s structural growth story is far from exhausted.

While we believe there is room for other cyclical sectors and small caps to play “catch-up” to megacap tech, markets are likely to remain focused on AI, particularly as innovation accelerates and adoption broadens across industries.

The momentum in North Asian markets, fuelled by upstream manufacturing demand and China’s push for chip self-reliance, suggests that regional tech leadership will become increasingly contested and this isn’t just a US story.

Chart 4: Big Tech Capital Expenditure



Source: Companies reports

The biggest risk here, as we see it, is that the massive capital expenditure (i) doesn’t deliver profitability as quickly as expected and expenditure is wound back (ii) this expenditure doesn’t deliver the same margin expansion to tech hardware firms as expected given the rising competition across the globe.

How to Position

Defensive

Central bank policy divergence is set to remain one of the defining features of the global macro landscape. The Federal Reserve's split FOMC and ongoing debate over the pace of future easing will likely keep US monetary policy in flux, heightening volatility and the risk of abrupt market repricing. Any shift in consensus or evidence of further political interference could have outsized effects on risk assets and currency markets.

In Australia, the Reserve Bank's hawkish stance and diminishing prospects for further rate cuts point to a more restrictive policy environment ahead. This has important implications for local fixed income and equity markets, particularly in rate-sensitive sectors.

While credit spreads remain tight versus historical levels, there are some signs of weakness and distress in US leveraged loan markets and a slight rise in European defaults albeit still at benign levels. We encourage selectivity in credit allocations, particularly in direct investments, where pricing is increasingly full.

Private credit is now in the focus of the regulator; we would welcome further scrutiny in this space where a lack of transparency from some issuers is likely to result in capital losses and/or gated redemptions.

Growth

Developed **equity markets** continue to grind higher as AI associated earnings and solid economic data support valuations. The US labour market is likely to become the focus for markets as the year comes to an end, with data volatile but overall showing weakness.

Emerging markets remain attractive despite a recent, strong rise. Tailwinds of lower interest rates and a weaker USD continues to help. While in **Australia**, we continue to favour small and mid-cap strategies versus expensive large caps with lower earnings growth.

In **growth alternatives** hedge funds are starting to find conditions more supportive as trends continue and single stock volatility allows long/short funds to outperform.

Listed property and infrastructure strategies are also of interest to us, in particular data centres and the infrastructure that supports the massive expansion of AI and compute power – namely US utilities and associated technologies.

We see any USD strength as fleeting and see few reasons to get more positive at this stage. We therefore continue to hedge against a rising AUD.

Conditions for **private equity** across the spectrum from venture, growth to buyout remain solid, especially for new capital. Valuations are less demanding than public markets.

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Linara Investment Team

10 October 2025

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