

Markets in November: Global equity and bond markets were largely unchanged in November, with the MSCI All Country World Equity Index and Bloomberg Global Aggregate Bond Index returning 0.1% and 0.0% respectively. Volatility persisted beneath the surface as investors weighed shifting central bank rhetoric and evolving sentiment around artificial intelligence (AI). Developed markets edged higher, while emerging markets declined. In Australia, the ASX 200 fell 2.7%, pressured by weak financials, AI valuation concerns, and a hawkish RBA. Bond yields diverged globally, with Australian 10-year yields rising sharply. Commodities were mixed: oil prices dropped on increased OPEC+ output, while gold edged higher.

AI Sentiment Evolves: Investor enthusiasm for AI is maturing. The focus has shifted from broad optimism to a more critical assessment of spending plans, financing, and the sustainability of returns. While robust Q3 earnings have justified ongoing investment, market reactions are now more muted, with positive surprises no longer guaranteeing price gains. The term “irrational exuberance” has resurfaced, as the IMF and Bank of England warn of correction risks amid elevated tech valuations. Unlike the dot-com era, today’s rally is underpinned by strong earnings from leading tech firms, keeping valuations more contained. Ultimately, the rationality of current exuberance will depend on whether AI investments deliver real productivity gains.

Outlook: Australia’s economy remains resilient, with steady growth, robust employment, and persistent inflation shaping RBA policy. Wage growth is firm, unemployment is low, and consumer sentiment has rebounded. However, inflation remains a challenge, and the RBA has signalled a willingness to keep policy restrictive for longer. Equity markets face headwinds from weak financials, AI valuation concerns, and shifting rate expectations. The ASX 200 declined, and bond yields rose as markets priced out near-term rate cuts. Looking ahead, sector dispersion is likely to persist, and the interplay between resilient data and vigilant policy will be key for local markets.

Our Portfolios: the balanced, growth and high growth portfolios all outperformed their neutral benchmarks and industry peers during the month. In a month where equity markets did very little, our alternatives exposures, currency hedging and gold holding, plus manager outperformance served us well. On a 12-month basis both the Growth and High Growth portfolios remain ahead of their benchmarks.

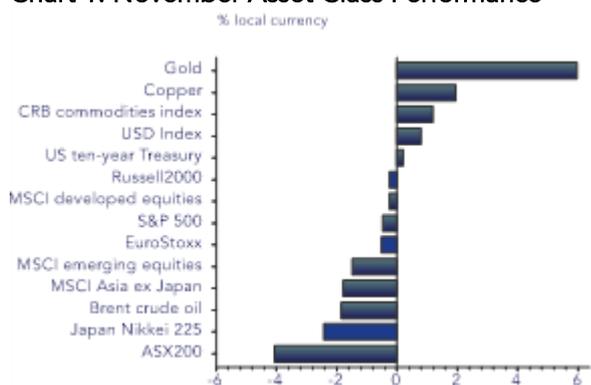
How to Position: In the current environment, active management and selectivity are essential. Bond yields and fixed income returns are diverging globally, making it critical to focus on higher quality holdings and strategies that can benefit from shifting interest rates and inflation. Gains for Australian equities will be harder to achieve, with no support from rate cuts and large caps appearing expensive; sector positioning is key. Global property now looks more attractive than ASX-listed property due to rate divergence, and emerging markets, including China, continue to offer alternative sources of earnings growth. The Australian dollar may trend higher, supported by capital flows, potential China stimulus, and higher commodity prices, so maintaining prudent currency hedging remains important.

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Markets in November

November saw global equity and bond markets largely unchanged, with the MSCI All Country World Equity Index and Bloomberg Global Aggregate Bond Index returning 0.1% and 0.0% respectively (in local currency terms). However, beneath the surface, volatility persisted as investors digested shifting central bank rhetoric and evolving sentiment around artificial intelligence (AI).

Chart 1: November Asset Class Performance



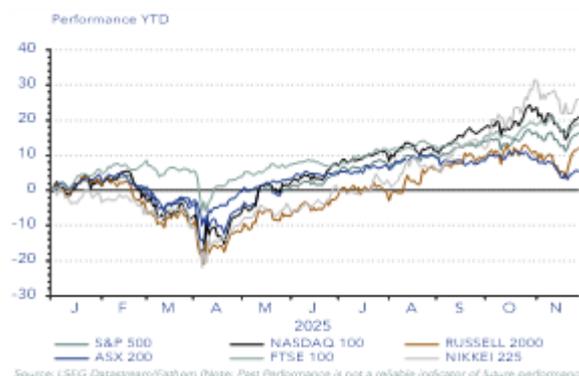
Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The month was marked by a transition in AI-related sentiment from optimism to a more critical focus on capital expenditure, return on investment, and balance sheet strength. Third-quarter U.S. earnings remained resilient, with 13% year-on-year earnings growth and an 81% beat rate versus consensus, helping to allay. Nevertheless, market reactions to earnings releases revealed a growing disconnect between analyst forecasts and investor expectations, with positive earnings surprises no longer guaranteeing upward price moves. This has raised the bar for corporate performance and further narrowed market leadership.

Macroeconomic developments also played a key role. In the U.S., the end of the government shutdown shifted attention to economic data, with the delayed October inflation report leaving investors focused on September's non-farm payrolls. While job gains were stronger than expected a rise in the unemployment rate and dovish commentary from Federal Reserve officials prompted markets to price in a high probability of a December rate cut. U.S. Treasury yields were lower over the month, the 2-year fell by 10 bps, the 10-year was down 8 bps.

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



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

Developed equity markets gained slightly, with the MSCI World Index up 0.3%, while the MSCI Emerging Markets Index was down 1.6% for November. In the U.S., the S&P 500 was flat, the ASX 200 dropped 2.7% in November, as weak earnings in financials, growing concerns over AI valuations, a hawkish-leaning RBA, and a repricing for fewer rate cuts on firmer macro data all pressured equity markets. Only four sectors rose, with healthcare (+2.0%) leading and technology being the worst performing sector (-11.6%). The 10-year yield on Australian government bonds rose sharply by 22 bps in November to 4.52%, as markets priced out any near-term cuts.

Oil prices dropped, as OPEC+ increased output. Gold continued to creep upwards, as falling U.S. yields and central bank demand continued. The U.S. dollar DXY Index edged down 0.3%. The Yen was again the weakest G10 currency.

Key Themes

AI Sentiment Evolves

Investor enthusiasm for artificial intelligence is entering a more mature phase. Where once there was broad-based optimism, the focus has now shifted to a more discerning assessment of spending plans, financing, and the sustainability of returns. Robust third-quarter earnings have helped justify ongoing investment, but market reactions have become more muted, reflecting a higher bar for positive surprises and a further narrowing of market leadership.

The term "irrational exuberance", famously coined by Federal Reserve Chairman Alan Greenspan in 1996, has resurfaced in recent commentary. Both the IMF and the Bank of England have warned of

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the risk of a sharp correction, as the recent AI-driven rally has pushed technology valuations sharply higher. Since the launch of ChatGPT in November 2022, the Nasdaq has delivered an average annual return of 26%, echoing the trajectory seen in the years following Greenspan's speech and the subsequent dot-com bubble.

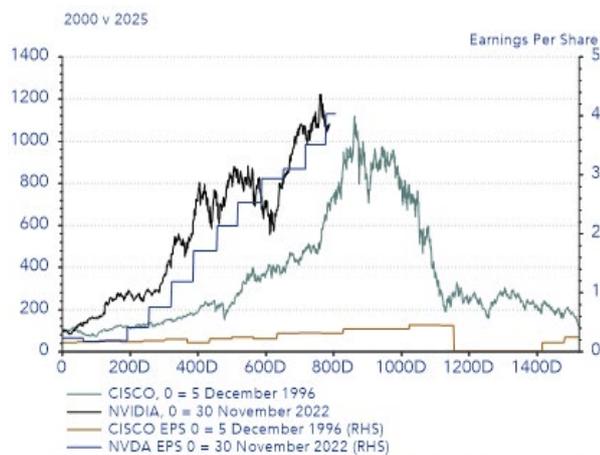
Chart 4: Nasdaq 2001 vs 2025



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

However, today's environment is distinct from the late 1990s. The current rally is underpinned by the substantial earnings power of leading technology firms, which has kept valuations (price-to-earnings ratios) relatively contained. For instance, the Nasdaq's current P/E ratio is around 29, some 26% lower than its level in November 1999. Unlike the dot-com era, where companies like Cisco saw share prices soar without matching earnings growth, today's leaders such as Nvidia have delivered earnings per share that keep pace with their price rises, helping to justify their extraordinary performance.

Chart 5: Tech Market Darlings - Cisco in 2000 v Nvidia in 2025



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

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Ultimately, whether today's exuberance proves rational will depend on whether the significant investments in AI infrastructure deliver real productivity gains. For now, the market's attention has shifted to evidence of sustainable returns and prudent capital allocation.

Outlook

Australia's economy continues to show resilience amid ongoing global uncertainty. Recent data highlights steady growth, robust employment, and persistent inflation, factors that are shaping Reserve Bank of Australia (RBA) policy and influencing local markets.

Wage growth remains firm, and the unemployment rate has edged lower, supported by strong job creation and stable participation. Consumer sentiment has rebounded sharply, despite concerns about inflation and the cost of living. Household spending, especially on essentials, has held up well, reflecting underlying confidence in the economic outlook.

Inflation, however, remains a central challenge. The RBA kept the cash rate at 3.60% in November but adopted a notably hawkish tone, citing "evidence of more persistent inflation" and revising macroeconomic forecasts higher. The central bank signalled a willingness to keep policy restrictive for longer, with the possibility of further tightening if inflation proves stubborn.

Equity markets have faced headwinds from weak financials earnings, concerns over AI valuations, and shifting interest rate expectations. The ASX 200 declined in November, with only a few sectors gaining. Bond yields have risen as markets price out near-term rate cuts. Looking ahead, the interplay between resilient data and vigilant policy will remain key for local markets, with sector dispersion likely to persist.

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How to Position

Defensive

Bond yields and **fixed income** returns are diverging globally, reflecting different paths for interest rates and inflation across regions. Active management will be critical to capture opportunities and manage risks as central banks move at varying speeds in different direction, in very different inflation environments.

Corporate bond spreads remain resilient in investment grade but are more vulnerable in high yield as the cycle matures further and growth gradually slows. We prefer strategies focused on higher quality holdings, while in **alternatives** in this space we advocate for strategies that can take advantage of a flight to quality and benefit from defaults.

Growth

Gains for **Australian equities** are likely to be harder won from here, with no "free kick" from rate cuts on the horizon. Large cap equities and in particular the banks still look expensive, in our view. Sector positioning will be crucial, as the RBA's hawkish stance and persistent inflation mean rate-sensitive areas, such as property and consumer discretionary, may remain under pressure. Active management and selectivity across sectors will be key to navigating this environment.

The outlook for **global equity market** gains, led by the US are more muted heading into 2026. Investors are increasingly focused on the return from substantial AI capital investment, raising the bar for future earnings growth. Market leadership remains narrow, and further upside will require

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clear evidence of productivity gains and sustainable profitability.

Global property now appears more attractive than ASX-listed property, largely due to rate divergence and more favourable valuation dynamics abroad.

Emerging markets, including China and beyond, continue to offer an alternative source of earnings growth.

The **Australian dollar** may trend higher, so we have retained our currency hedging where possible. The higher AUD may be supported by capital flows, potential China stimulus, and higher commodity prices.

Luke Hansen, James Wright, and James Marchetti

Linara Investment Team
9 December 2025

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