Monthly Market Commentary
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Market Review

2025 proved to be a rare and exceptionally positive year for investors. Regardless of whether they were bullish or bearish on the US economy, financial markets delivered strong returns rewarding both risk-seeking and defensive positioning. The S&P 500 recorded its third consecutive year of double-digits gains, up +16.39% in USD terms, as corporates continued to deliver solid earnings expansion. The Bloomberg Commodity Index (+11.07%) saw a resurgence in 2025, breaking out of a three-year trading range. Completing the "risk-on" narrative, the US Dollar Index (DXY) declined 9.37%, easing financial conditions and supporting growth assets. At the same time, long-duration bonds staged a powerful rally, with the Bloomberg US Treasury Index rising +6.32% amid expectations that sluggish labour conditions would prompt a more accommodative monetary policy stance. To put the uniqueness of 2025 in perspective, it is the only year in the past 50 in which equities, commodities and fixed income all posted substantial gains, defined as over +10%, +10% and +5% respectively, while the greenback also fell sharply, losing more than 5%. In this highly favourable backdrop, the biggest surprise was arguably the performance of cryptocurrencies, which historically have tended to move in tandem with the leveraged returns of the Nasdaq 100. This time, however, the pattern did not hold. While the leading tech-stock index posted gains exceeding 20%, Bitcoin and Ethereum dropped -6.89% and -11.52% respectively. The divergence is particularly striking considering that Trump has taken an unusually proactive stance toward virtual currencies for a US president. Several analysts have posited that the decoupling could be cultural in nature, that is, cryptocurrencies may have become "uncool". Unlike the early days when they were widely seen as a rebellious and speculative tech, today they are increasingly perceived as an institutional asset. The young demographic that initially fuelled crypto's popularity appears to have shifted its focus to equities and prediction markets. As a result, Bitcoin's volatility has "normalised", reducing from roughly 80% five years ago to a still elevated, but more manageable, 30%.

The other major underperformer in 2025 was oil. WTI crude futures fell for the fifth consecutive month in December, extending losses since the beginning of the year to 19.94%. While the Bloomberg Commodity Index and oil prices do not always move in lockstep, once again 2025 stands out as unprecedented. In fact, it is the only year in the past four decades in which the former advanced by more than +10%, while the latter weakened by more than -10%. Typically, strong commodity years tend to coincide with oil price strength given crude's heavy weighting in the broader index. Conversely, years in which crude prices are deeply negative usually drag overall commodity performance lower, unless offset by exceptional gains in other sectors such as precious metals, base metals or agriculture. That was indeed the case in 2025, as gold and silver posted their strongest annual performances since 1979 and 1978 respectively. The yellow metal shot up 64.69% on increased demand by central banks and private investors prompted by heightened geopolitical tensions, fiscal concerns and elevated government debt levels. To put the magnitude of that performance into perspective, bullion took 13 calendar years, from 2012 to 2024, to appreciate by a similar percentage. However, even the astonishing ascent of gold pales in comparison to the performance of silver. The white metal more than doubled in 2025, ending the year up +147.24%, a surge roughly equivalent in percentage terms to its cumulative return over the preceding 16 years, from 2009 to 2024.

Silver is not only scarce but also highly functional, making it a critical industrial metal in electric vehicles, batteries, solar panels and medical devices. The market remains structurally tight, with global demand exceeding supply by approximately 4,600 tonnes in

2024, the fourth consecutive year of deficit. Early in 2025, speculation of potential US tariffs drained London's spot stocks and ignited over 100 million ounces of inflows into physically backed ETFs. Since then, the white metal has been on a tear, rising for eight consecutive months. In December alone, it spiked by 26.20%, its ninth best month ever. The silver-to-oil ratio also surpassed 1 during the month, representing only the second time in modern history that silver has been more expensive than oil on a per-unit basis outside of April 2020, when crude prices briefly turned negative on the back of a technical distortion. The first occurrence came during the infamous Hunt brothers' silver squeeze, when the white metal peaked at around US$50 per troy ounce in January 1980, while oil traded in the low 30s USD per barrel. However, a change in margin requirements announced on "Silver Thursday" (March 27th, 1980) triggered a collapse in prices. Fast-forward to December 2025, silver broke above US$70 per ounce with oil remaining below US$60 per barrel. This time the move has occurred under normal market conditions, representing the first instance that silver has genuinely surpassed oil in value per unit, another extraordinarily rare event.

International Equities

The much-awaited Santa Claus rally failed to materialise for the second consecutive year, with US equities ending 2025 on a mixed note. The S&P 500 (-0.05% in USD terms) broke to new all-time highs on Boxing Day, but failed to sustain its momentum, ending the month slightly down. The Russell 2000 (-0.74%), the popular benchmark for smaller companies, followed a similar trajectory, underperforming the Russell 1000 for the ninth time in 2025. The Nasdaq 100 remained below its peak recorded on October 29th, and after forming a secondary high at the start of December, slipped 0.73%. Conversely, the Dow Jones Industrial (+0.73%) climbed for the eighth consecutive month, a feat last achieved in 2017. The "Magnificent Seven" rose while the rest of US large caps ended the month marginally lower. Returns within the group were top-heavy, with Nvidia, Tesla and Meta soaring and Apple, Alphabet, Microsoft and Amazon declining. The same trend held over the full calendar year, with only two of the seven stocks outperforming the S&P 500 in 2025, while the remainder lagged. In aggregate, the "Magnificent Seven" accounted for around 40% of the S&P 500's total return in 2025, down from the exceptionally high contribution seen in 2023 and in 2024. However, they outperformed as a group due to the outsized gains in Alphabet and Nvidia, which lifted the average return of the entire cohort. OpenAI continued to dominate the headlines in December after "The Information" reported that the world's largest startup had held funding talks with investors to raise tens of billions of dollars at a valuation of around 750 billion USD. The ChatGPT creator was also in initial discussions with Amazon to secure at least 10 billion USD and potentially adopt the company's Tranium chip. On December 31st, Warren Buffett, the legendary value investor and longtime leader of Berkshire Hathaway, officially stepped down as CEO after a nearly 60-year tenure at the helm. He is succeeded by Greg Abel, the company's vice-chairman.

The move away from mega cap growth names continued in December, although leadership rotated anew and breadth declined. Healthcare, consumer staples, energy, utilities and real estate suffered losses after gains in November, while consumer discretionary, technology and industrials bounced back following declines the previous month. Financials, materials and communication services were the only sectors to end both months in the black.

US equities trailed the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) by the most since Liberation Day in December. Europe topped the list owing to its greater exposure to cyclicals and the value factor, with the Stoxx 600 ending the month at record levels. Emerging markets stood out as a weaker greenback and renewed impetus in the AI beneficiaries Taiwan and South Korea offset the lacklustre results from the heavyweights China and India. Japan lagged its international peers despite the TOPIX index notching its first nine-month winning streak in two decades. All in all, the MSCI AC World Daily TR was up +1.04% in USD terms and down 0.77% in AUD terms.

Australian Equities

Australian equities rose in December, with the MSCI Australia Net TR beating the MSCI AC World Daily TR by more than 200 basis points, snapping a three-month losing streak. The S&P/ASX 300 was up +1.37% on the back of the solid gains posted by the two largest groups, financials and materials. Miners continued to benefit from the strong momentum in lithium and copper, with the price of the red metal closing at its highest level in history, and from a resurgence in iron ore. Real estate was the only other GICS sector to end the month in positive territory. Technology and healthcare suffered the steepest losses, while telecom, consumer staples and consumer discretionary also declined sharply. Energy, industrials and utilities were down more than 1%. In short, the broader market struggled in December, with gains concentrated in a handful of heavyweight segments and stocks. As a result, the Top 20 index recorded its best monthly relative performance vis-à-vis the Ex-20 since May 2021. Finally, mid-caps were not immune to the general malaise while smaller companies tracked the general index higher on the back of sustained gains in the resources space.

International Fixed Income

Four of the seven major global central banks that met during the month kept interest rates steady. Those include the Bank of Canada (BOC), the Riksbank, Sweden's central bank, the Norges Bank, Norway's central bank, and the European Central Bank (ECB), which held their policy rates at 2.25%, 1.75%, 4% and 2% respectively. On December 10th, the FED decreased its target rate by 25 basis points, bringing it to a range of 3.50%-3.75%. The vote was 9-3. The three dissents were the newly appointed (and potentially politicised) Stephen Miran, who advocated for a larger 50 basis points cut, while Jeffrey Schmid, President of the Federal Reserve Bank of Kansas, and Austan Goolsbee, President of the Federal Reserve Bank of Chicago, both favoured no change. The Dot Plot revealed a far wider fault line within the Committee than the formal vote alone would suggest. In fact, in an unprecedented development in the history of the institution, six policymakers pencilled in year-end 2025 rate projections of roughly 3.9%, signalling that they would not have supported the 25-basis point cut delivered at the meeting. Moreover, while the median forecast pointed to one additional reduction over the coming year, four members kept their year-end 2026 rate projections around 3.6%, implying a preference for an unchanged stance, and three members anticipated a hike to 3.9%. The Monetary Policy Committee (MPC) of the Bank of England (BOE) was even more divided when it trimmed its official bank rate by 25 basis points to 3.75% on December 17th. The decision passed by a narrow 5-4 majority, as four members preferred to keep the rate at 4%. Finally, the Bank of Japan (BOJ) remained an outlier, raising its benchmark rate by 25 basis points to 0.75% on December 19th, its highest level since September 1995, as it continued its gradual policy normalisation. Governor Ueda left the door open for additional hikes in 2026 but refrained from providing an explicit guidance on their timing. Following the announcement, the Japanese yield curve transposed higher, with the 10- year yield breaking above 2% for the first time since January 1999. All in all, the Bloomberg Barclays Global Aggregate Index hedged back to AUD shed 0.23% for the month, as rates were generally higher across developed markets, particularly at the long-end, while credit spreads tightened further, with the most pronounced compression occurring in the high-yield sector.

Australian Fixed Income

At its final policy meeting of the year on December 9th, the RBA unanimously decided to keep the cash rate unchanged at 3.60%, the third consecutive meeting without a cut and the fourth hold in 2025. During her press conference, Governor Bullock made clear that she does not see interest rate reductions on the horizon “for the foreseeable future”. While the central bank neither considered a rate cut nor explicitly contemplated a hike at the meeting, it did engage in substantive discussion about the conditions under which policy tightening could become necessary in 2026 should inflation pressures persist. As a result, at the end of December the cash futures had completely abandoned expectations of additional easing and were instead pricing in one hike in H2 2026. The yield curve continued to reprice aggressively, with the Bloomberg AusBond Composite 0+ Yr sliding 0.63%. The 2-, 5- and 10- year yields jumped another 25, 23 and 22 basis points to 4.06%, 4.29% and 4.74% respectively, with all three outpacing their American equivalents by almost 60 basis points at the end of the month. The Australian Dollar strengthened across the board, closing at its highest level vis-à-vis the USD since September 2024.

Real Assets

Global property was down 2.82% in USD terms and down 1.02% in AUD terms for the month. Australia topped the list, followed by Europe and Asia. The US was the only region to underperform the general index after initial estimates showed an acceleration in economic growth in Q3 2025, with GDP increasing +2.3% YoY, up from +2.1% the previous quarter.

Global infrastructure gave back part of the gains generated in the previous month, falling 0.58% in USD terms and declining 2.38% in AUD terms in December. Transportation stocks bucked the trend, while electric and gas utilities and energy infrastructure were the worst performing groups, with the latter resuming its underperformance after a brief respite.

Alternatives

Alternatives (+0.92%) ended the year on a high note. Returns were mostly positive across strategic mandates, with Long/Short equities, trend following and discretionary macro driving returns. Overall, hedge funds posted their strongest calendar-year performance since 2009.

Market Outlook

The cold war on the FED went hot on January 11th, when Jerome Powell released a written and video statement disclosing that the central bank had been served with grand jury subpoenas from the Justice Department (DOJ) two days earlier. This time the exiting Chairman, whose term at the top is set to expire on May 15th, did not stick to his customary script of defending the institution without calling out Trump directly. Instead, he described the threat of a criminal indictment tied to his testimony concerning the (costly) renovation of the FED headquarters as a “pretext”. He argued that it was the payback for “setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the President”. “This” he cautioned “is about whether […] monetary policy will be directed by political pressure or intimidation”. Following the unprecedented confrontation, Thom Tillis, a Republican Senator and a member of the Senate Banking Committee which has jurisdiction over FED nominations, immediately stated that he will block or oppose any candidates, including the next Chairman, until the DOJ investigation is resolved. Crucially, his remarks do not represent just a symbolic opposition but carry procedural weight. Several other Republican Senators either publicly backed his stance, criticised the probe or defended Powell's reputation. The heads of eleven major global central banks, including RBA's Governor Bullock, took the unusual step of signing a joint public letter in support of Powell, stressing the importance of independent monetary policy for price, financial and economic stability. According to undisclosed sources, Treasury Secretary Scott Bessent was "unhappy" with the investigation, warning that it had "made a mess" and risked unsettling financial markets. While distancing himself from it, he stopped short of opposing it outright. Just a few weeks earlier, Bessent had called the central bank "the engine of inequality" during an interview on a popular podcast, maintaining that its policies had disproportionately boosted asset prices far more than wages, exacerbating the wealth gap by benefiting well-off investors and large corporations.

Investors have remained largely calm in front of the spat, and rightly so in our view. In the short term there is little reason to panic. This is not to say that the politicisation of the FED chairmanship is irrelevant. On the contrary, it reveals the lengths to which the administration is willing to go to influence monetary policy. It also casts doubt about the credibility of anyone prepared to accept the job under such circumstances. The real challenge may emerge later, sometime in the second half of 2026. If the global economy re-accelerates, which is our base case, and inflation begins to move in the wrong direction, the policy environment could become far more treacherous. Under normal circumstances, stronger growth and rising price pressures would prompt central banks to pause easing or even pivot back toward tightening. However, a FED whose leadership is perceived as politically aligned or insufficiently independent may hesitate to respond appropriately to overheating. If the upcoming nomination of the next Chairman follows historical practice, it should come three to five months before the incumbent's term ends. As such, the "early 2026" official timeline aligns with precedent. At present, "the two Kevins" are touted as the frontrunners and neither is viewed as impartial. Warsh is generally considered more market savvy, institutional and authoritative. Conversely, Hasset has no FED governance experience, coming primarily from academia, and he is widely perceived as closer to the White House. Should the latter be appointed, it could serve as a catalyst for a renewed bout of volatility, but not for regime change. Not yet, at least. Indeed, corrections driven by Trump's antics remain opportunities to add risk selectively. With optimism elevated and positioning relatively crowded, politically induced pullbacks act as an effective mechanism to reset sentiment without undermining the broader growth narrative. Ultimately, the risk is not that of an immediate market collapse on nomination headlines, but rather the gradual erosion of confidence over time.

Against this backdrop, the "Goldilocks" environment is likely to persist through the first half of 2026. Disinflation is ongoing, labour market conditions are softening without collapsing and financial conditions are easing for the (significant) segments of the economy that had been previously left behind, namely small businesses and consumers seeking to purchase or refinance homes and cars. On January 8th, Trump announced a directive ordering Fannie Mae and Freddie Mac to buy 200 billion USD of mortgage bonds to bolster housing affordability. According to analyst estimates, those purchases could lower home financing costs by as much as 25 basis points. In addition, the tax reliefs embedded in the "One Big Beautiful Bill Act" (OBBBA) are set to provide a positive fiscal impulse starting from Q1 2026. This comes after several years in which the federal government ran exceptionally large budget deficits, effectively injecting significant stimulus into the economy. However, during the calendar year 2025, while remaining generous by historical standards, the fiscal policy narrowed at the margin. Although outlays increased by +1.9%, receipts surged by +9.9%, resulting in a -17.4% reduction in the budget deficit, from 2 trillion USD to 1.67 trillion USD.

That retrenchment is unlikely to persist. We expect the budget deficit to widen again in 2026 as the 264 billion USD in custom duties raised during the calendar year 2025 are recycled back into the economy rather than being used to improve the fiscal balance. Trump has already floated the idea of distributing tariff revenues in the form of direct payments to lower income households. While these so-called “tariff dividend checks” have yet to be formally adopted, the partisan calculus behind them may prove to be irresistible. With midterm elections approaching and affordability emerging as a dominant issue for voters, the incentive to deliver visible, direct financial support is strong. Finally, capital investment continues to play a crucial role in sustaining growth. Although concerns about AI valuations have risen in Q4 2025, corporate spending on data centres, computing infrastructure and related technology has continued unabated. Capex has emerged as a key contributor to GDP growth and, even as economic momentum is expected to broaden in 2026, it is poised to remain a significant driver of activity.

At the same time, the labour market is weakening in a highly atypical fashion. Rather than the sharp spike in unemployment historically associated with late-cycle slowdowns, firms have opted for labour hoarding. The scars of the 2020 COVID-19 recession loom large. Companies that fired aggressively during the pandemic were later forced to rehire at significantly higher wages amid acute worker shortages. That experience has reshaped corporate behaviour. Faced with slowing demand today, firms are far more inclined to retain workers than to risk being understaffed in the next expansion. As a result, employment growth is softening, hiring is subdued, but layoffs remain limited. This dynamic has two important implications. First, it suppresses wage growth and labour market overheating without triggering a collapse in consumer demand. Second, it sets the stage for a potential “jobless re-acceleration” in which growth rebounds without a corresponding surge in hiring. That outcome is further reinforced by technological adoption. Advances in AI and automation are encouraging firms to extract productivity gains from the existing workforce rather than by expanding headcount. The result is a labour market that weakens just enough to provide policy cover for rate cuts, but not enough to derail growth. For the FED this combination is close to ideal in the near term as it provides it with sufficient cover to remain accommodative. A January rate cut is effectively off the table following the DOJ escalation, but March remains a live meeting and the central bank may find itself cutting rates even as the broader economy begins to accelerate. To sum up, the combination of expansionary fiscal policy, accommodative monetary conditions, sustained capital investment and rising productivity creates a powerful foundation for economic growth and earnings. Importantly, this is not just a US story. A pickup in global growth is likely, with Europe, emerging markets, Japan and even Australia demonstrating greater resilience than expected.

In such an environment, equities remain the preferred asset class and an internationally diversified portfolio appears to be the most appropriate choice. Small caps and cyclical sectors and regions should perform well during the upswing. Over the past year, global investors have oscillated between rotating out of and back into the US, caught between geopolitical tensions and the outperformance of AI related sectors. However, the re-concentration phase appears to have lost momentum, and large overseas investors, particularly in Europe and in North Asia, may re-start to repatriate and redeploy funds. A synchronized global growth recovery and greater diversification of capital flows point to a lower greenback over time. While it is too early to declare the start of a multi-year dollar bear market, the directional bias for 2026 leans toward further depreciation. Finally, fixed income remains attractive in the near term, but it is also the area that requires the closest monitoring as bond markets may ultimately be forced to reassess both the economic outlook and the credibility of monetary policy. The longer-term risks around central banks' independence are real, but they will only become decisive when economic conditions force a genuine policy conflict.