

Current as of 1 July 2025



# Economic and Market Outlook

*July 2025*



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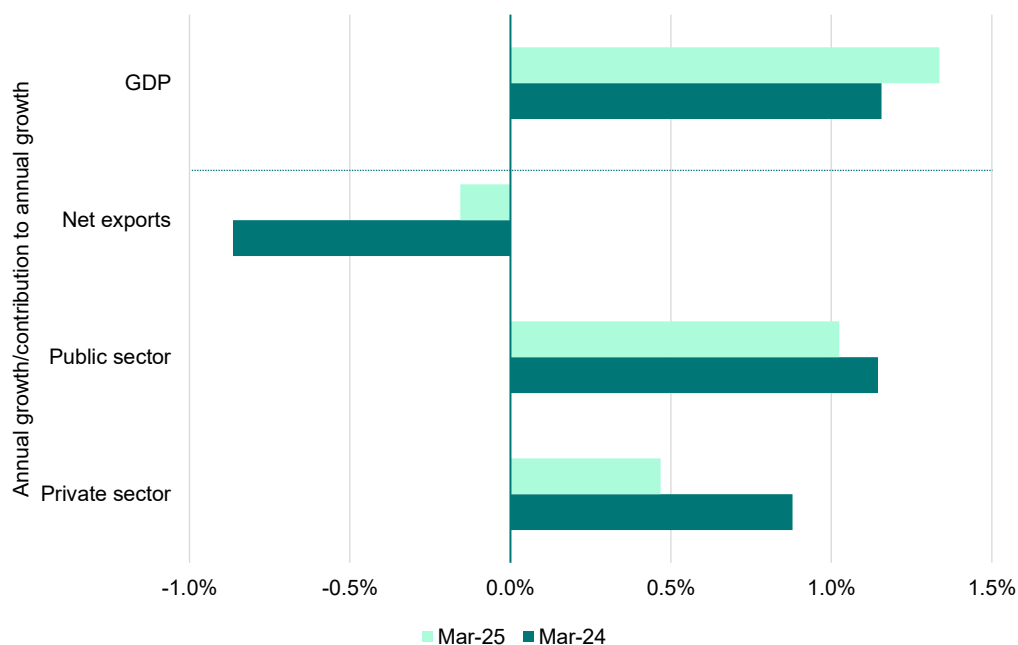
# Australian economy

## Part 1: Overview

Prior to the pandemic, the Australian economy was in a rut of mediocrity characterised by positive but below-trend growth with limited inflationary pressures. The current trajectory of the economy is eerily similar to that time. The main exception being the state of the labour market with unemployment remaining stubbornly low thanks to government support for aged care and health care spending that is driving hiring activity. Interestingly, though this is not permanently driving higher wages with private sector weakness contributing to a deceleration in wage growth.

Economic growth for the March quarter highlighted our ongoing dependence on public sector spending to drive activity. Public sector consumption and investment spending was the dominant driver of growth for the year to March 2024 and to March 2025 respectively, a marked change from the pre-pandemic era.

**Economic growth and its contributors (March 2024 vs March 2025)**



Source: ABS, PPSPW calculations

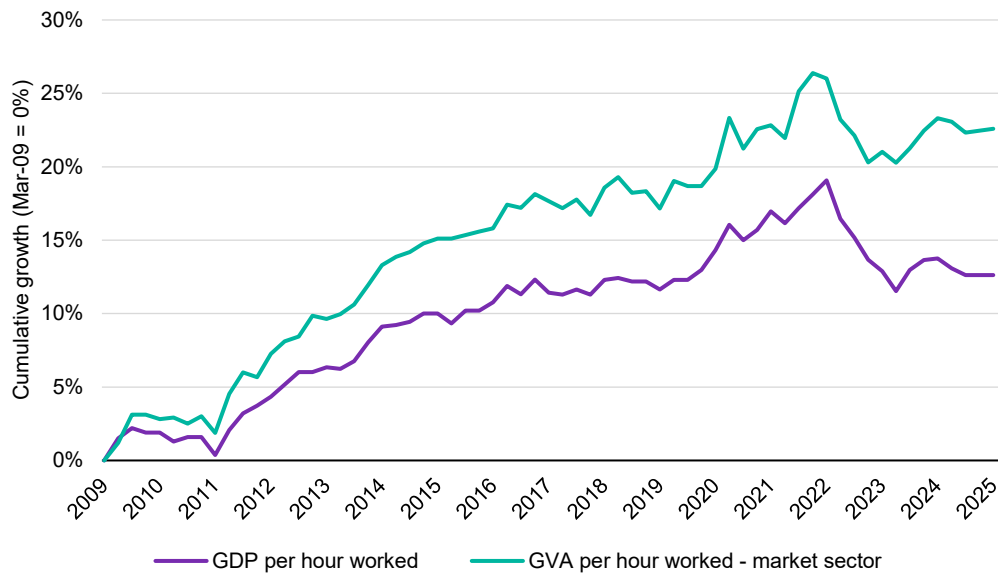
A growing concern has been how that spending has shaped our labour market and economy more broadly. Much of this public sector expansion has been geared towards building out services in aged care and health care through programs such as the National Disability Insurance Scheme (NDIS). This comes at a cost however of seeing the economy become less dynamic and less productive in aggregate with output per hour of labour slumping in recent years.

This is highlighted in the below chart which shows the flatlining in GDP per hour worked in recent years. This is largely attributable to non-market sectors such as health care with the private sector (in blue) still seeing signs of expansion. The challenge for the Albanese government will be to stimulate economic activity without a reliance on expanding our population through migration. Interest rate cuts should help at the margins by supporting a recovery in household spending. Consensus forecasts anticipate an uptick in growth as inflationary pressures ease. A meaningful acceleration in growth however will likely require significant productivity improvements, with the government flagging a new Productivity and Growth Summit<sup>1</sup> for August.

<sup>1</sup> P. Coorey, 'PM seeks approval for new economic agenda', *Australian Financial Review* (10 June 2025), <https://www.afr.com/politics/federal/pm-sets-the-scene-for-new-policy-agenda-20250610-p5m64x>, (accessed 25 June 2025).



## Productivity growth in the post-global financial crisis environment (Mar-09 to Mar-25)



Source: ABS, PPSPW calculations

On a more positive note, inflationary pressures continue to ease, with the latest monthly print showing annual growth of only 2.1% for the year to May. Although government subsidies including electricity have artificially helped ease price pressures, (according to the ABS<sup>2</sup> we would have seen electricity prices ~18% higher since June 2023 if not these programs), the current disinflationary trend does appear to be more intact. This will help pave the way for the Reserve Bank (RBA) to ease interest rates further in the coming months.

The RBA may be given pause on a few fronts however. Core inflation measures for instance are still tracking towards the higher end of the RBA target band with current headline inflation flattered by weaker energy prices. In addition, cost-of-living support programs are being tightened considerably going forward with State programs in the latest NSW<sup>3</sup> and Queensland<sup>4</sup> budgets decidedly less generous. These could pose meaningful shocks to households and provide an inflationary surprise for the economy.

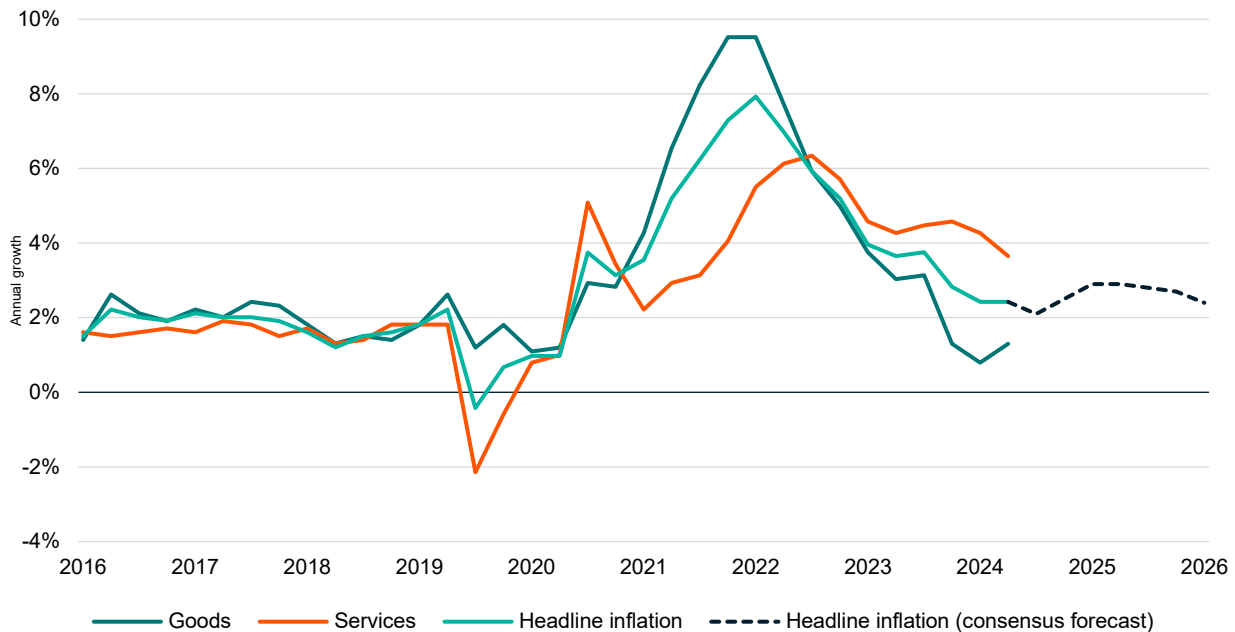
<sup>2</sup> 'Monthly Consumer Price Index Indicator', *Australian Bureau of Statistics* (May 2025), <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/monthly-consumer-price-index-indicator/may-2025#detailed-monthly-data>, (accessed 10 June 2025).

<sup>3</sup> P. Karp, 'NSW budget winners and losers', *Australian Financial Review* (23 June 2025), <https://www.afr.com/politics/nsw-budget-winners-and-losers-20250623-p5m9km>, (accessed 25 June 2025).

<sup>4</sup> T. Bennett, 'Queensland budget winners and losers', *Australian Financial Review* (23 June 2025), <https://www.afr.com/politics/federal/queensland-budget-winners-and-losers-20250623-p5m9iq>, (accessed 25 June 2025).



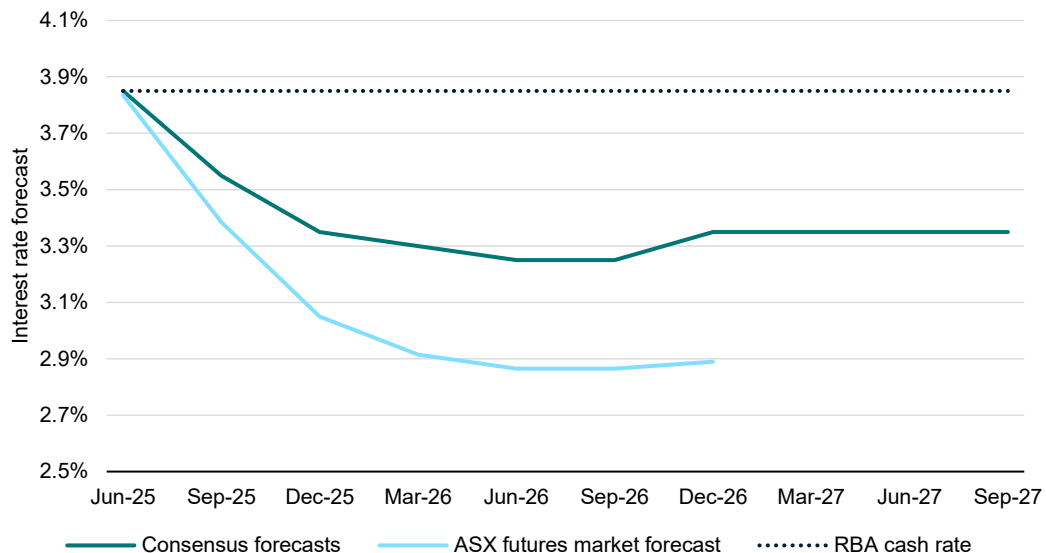
## Overall inflation trends and outlook (Dec-16 to Dec-26)



Source: ABS, PPSPW calculations, Bloomberg

These mixed drivers could help explain the current outlook for interest rates. The RBA is expected to provide further easing (two to three cuts) over the second half of this year. Beyond this, however, economists expect the cash rate to plateau at a higher level than the pre-pandemic setting. Market pricing is more aggressive with recent data disappointments outside of the labour market suggesting the RBA may be moved to cut further.

## Australian interest rate forecasts as at 27 June 2025



Source: ABS, PPSPW calculations, Bloomberg

One clear missing link has been the slow bounce back in private sector spending which averaged 2.1% p.a. from March 2009 to December 2019 versus the sub-1% p.a. in recent quarters. Household willingness (and ability) to spend will be clear to support the RBA's outlook otherwise more aggressive rate cuts might be anticipated.



## Conclusion

In summary, economic activity in Australia is expected to modestly improve over the near term but remain below trend. Easing inflationary pressures will allow the RBA to lower interest rates. In turn this will improve disposable incomes of indebted households and support consumption. Consumer spending will be reinforced by a resilient labour market, bolstered by sizeable public sector expansion thanks to the NDIS and aged care services. Productivity growth however continues to pose a challenge with the rise of government-supported care economy jobs being far less productive than market facing positions. For the economy to return to trend rates of growth, an improvement in productivity is clearly needed. Although the government is flagging productivity reforms as a priority, it is difficult to be overly optimistic on this front given the challenges.

## Part 2: Key economic indicators

Economic snapshot	Last reported result	Date
Growth (GDP)	1.30%	Mar 25
Inflation	2.40%	Mar-25
Interest rates	3.85%	May-25
Unemployment rate	4.1%	May-25
Composite PMI	51.2	May-25

Economic snapshot	2025e	2026e
Growth (GDP)	1.7%	2.3%
Inflation	2.5%	2.7%
Interest rates	3.35%	3.35%
Unemployment rate	4.2%	4.3%
US Dollars per 1 Australian Dollar (\$)	0.67	0.69

Source: Bloomberg

## By Cameron Curko

Chief Investment Officer,  
Private Wealth

p +61 2 9228 2415

e [cameron.curko@pitcher.com.au](mailto:cameron.curko@pitcher.com.au)



# International economy

## Part 1: Overview

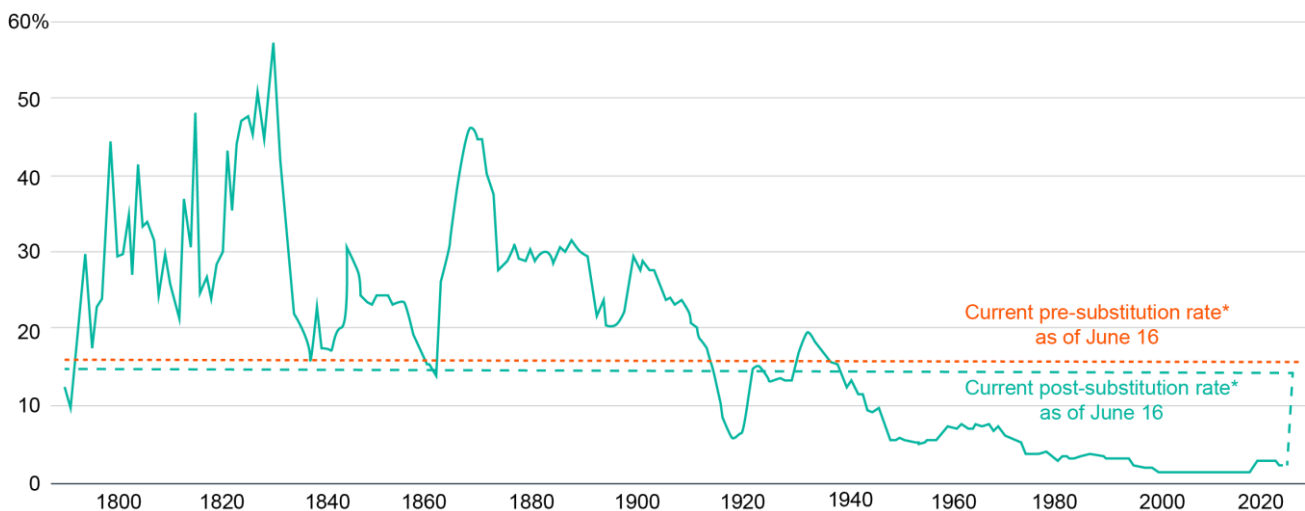
### Global backdrop

The global economic outlook worsened in the June quarter. Not only have signs of economic damage from the US tariff war begun to emerge but tensions in the Middle East remain at boiling point. The Iranian airstrikes have exposed a new dimension in US foreign policy by adding unpredictability as they represented a marked escalation on prior Administrations' stance to the region.

The Trump Administration has continued to escalate its trade agenda with new tariffs issued against scores of countries on April 2<sup>nd</sup> followed by a suspension until early July. The Administration had, to date, only accomplished one "deal" with the United Kingdom, a close ally with limited concessions and several tariffs still in place<sup>5</sup>. More recently a new deal with Vietnam that sees 20% tariffs on their exports to US has also been agreed<sup>6</sup>.

The UK and Vietnam deals appear to be a precursor of what is to come. We anticipate some level of permanently higher tariffs following the July 9 deadline, coupled with varying degrees of concessions and exemptions by the US and its trade partners. This view of higher tariffs is only reinforced by the reality that multiple investigations are underway by US authorities into semiconductors, copper and other imports that could lead to further tariffs in the coming months. The effective tariff rate shown below could potentially double<sup>7</sup> depending on the final decisions by the US and its trading partners.

US effective tariff rate – actual and estimated (1790 to June 2025)



Source: The Budget Lab<sup>8</sup>

Negotiations with major trading partners appear in mixed stages of progress. Agitation over a digital services tax in Canada (passed a year ago) appear to have derailed talks with the US announcing its withdrawal<sup>9</sup>. This

<sup>5</sup> J. Meierhans, 'What is in the UK-US tariff deal?', *BBC* (17 June 2025), <https://www.bbc.com/news/articles/c15ng4g5q0eo>, (accessed 20 June 2025).

<sup>6</sup> E. Moreau, 'Trump announces trade deal with Vietnam', *BBC* (3 July 2025), <https://www.bbc.com/news/articles/c4qd66q0q7go>, (accessed 4 July 2025).

<sup>7</sup> 'Third Quarter Strategy Outlook: Waiting For the Whites of the Recession's Eyes', *BCA Research* (26 June 2025).

<sup>8</sup> 'State of U.S. Tariffs: June 17, 2025', *The Budget Lab at Yale* (17 June 2025), <https://budgetlab.yale.edu/research/state-us-tariffs-june-17-2025>, (accessed 20 June 2025).

<sup>9</sup> N. Sherman, 'We have all the cards – Trump says he is ending Canada trade talks', *BBC* (28 June 2025), <https://www.bbc.com/news/articles/ckg629n7wzvo>, (accessed 29 June 2025).

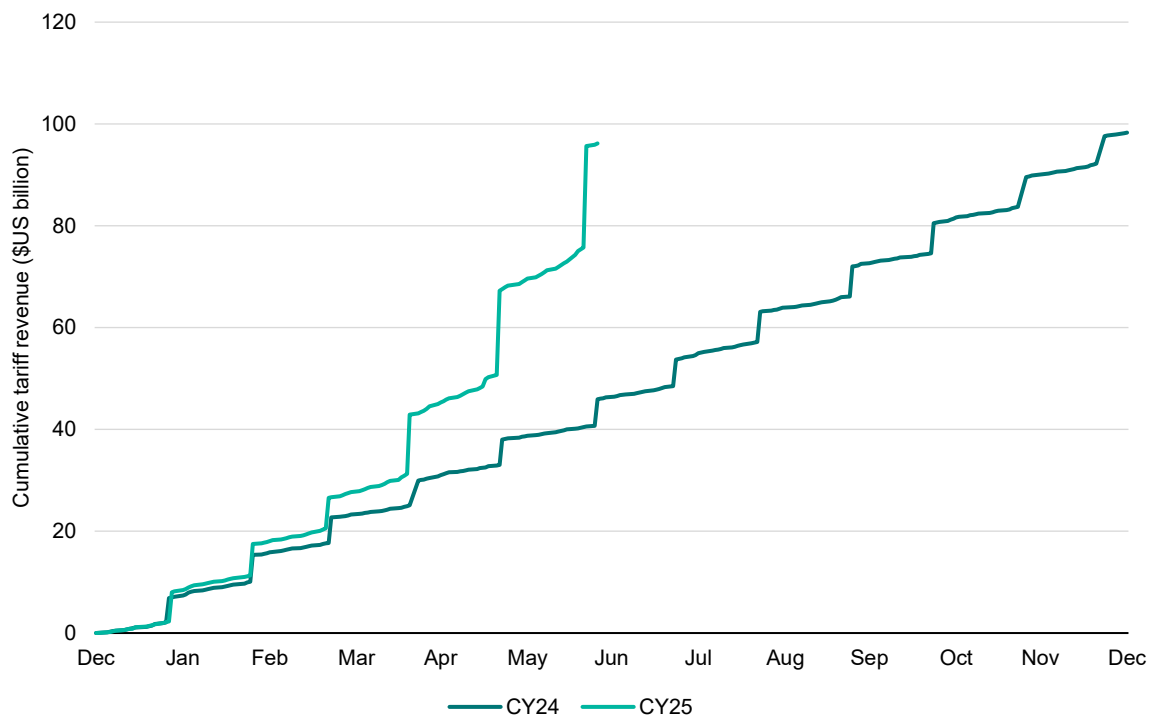




may be further posturing, a trend with this Presidency, but only time will tell as given the longstanding trade and other ties (security and electricity transmission for example) between the two, we would expect some compromise to eventually be reached. The US and EU reportedly are close to some form of trade deal prior to July 9 when the US is set to impose 50% tariff on EU imports<sup>10</sup>. Meanwhile, China and the US appear to be making some progress with Chinese authorities committing to accelerate shipments of rare earth metals (critical to high end technology) to the US<sup>11</sup>. There is also increased speculation that July 9 is no longer a “hard deadline” as such with comments from Trump Administration officials suggesting 1 September is instead preferred<sup>12</sup>, suggesting that the tariff suspension will be extended further to give time for deals to be finalised.

The cost of the tariff escalation is starting to become clear. Tariff revenues are over \$50bn higher for the year to 26 June than was the case in 2024. These are being paid by a mix of US retailers, US households and exporters. Tariffs paid by importers will gradually be passed on to consumers, reducing disposable incomes and impacting future consumption and investment intentions. Similarly, exporters to the US must either choose to reduce the price of goods to maintain volumes (cushion the impact of the end tariff) or maintain the selling price margin and risk materially lower volumes. Either way, profitability is likely to fall and tariffs overall will detract from global growth outcomes.

#### US cumulative tariff revenue (2024 versus 2025 year-to-date)



Source: US Treasury, Bloomberg

Meanwhile, Israel has materially altered the Middle East with its pre-emptive strikes against Iran. These appear to have crippled the country's military leadership as well as its uranium enrichment capabilities. The decision by the Trump Administration to launch its own airstrikes and ostensibly hinder Iran's nuclear capabilities even further is a material escalation on past US policy. It adds to geopolitical uncertainty as military intervention of this type could have dire consequences. For now, tensions appear to have eased and

<sup>10</sup> A. Nardelli & J. Valero, 'EU and US Confident They Will Reach Tariff Deal by July Deadline', *Bloomberg News* (28 June 2025), <https://www.bloomberg.com/news/articles/2025-06-27/eu-and-us-confident-they-will-reach-tariff-deal-by-july-deadline>, (accessed 28 June 2025).

<sup>11</sup> A. Hawkins & D. Rushe, 'US reaches deal with China to speed up rare-earth shipments, White House says', *The Guardian* (28 June 2025), <https://www.theguardian.com/business/2025/jun/27/us-china-rare-earth-shipments-deal>, (accessed 28 June 2025).

<sup>12</sup> As above.



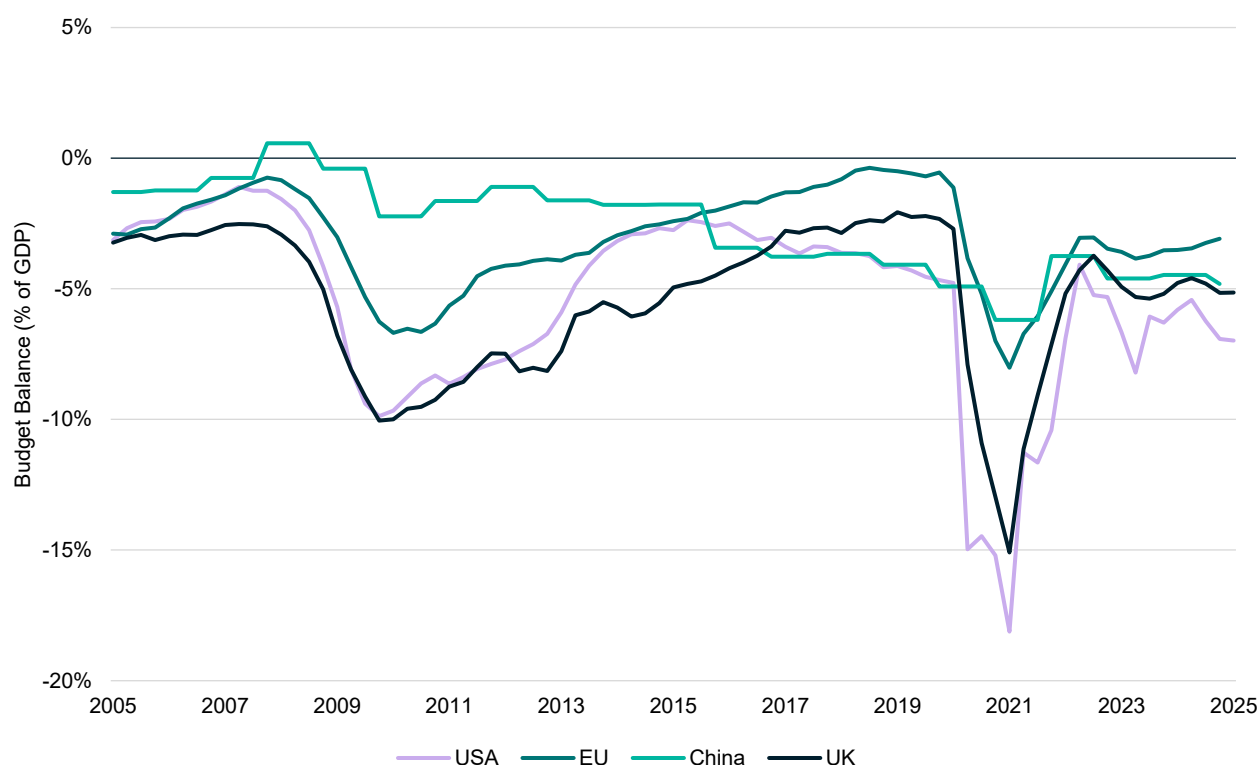


fears of crippling oil flows from the Middle East appears to have passed. The fact remains, however, that the Trump Administration is building a reputation for unpredictability. This could weigh on household spending by impacting confidence negatively or drag on corporate investment spending.

## Global policy settings

To counter these risks, policymakers are acting. In most countries, government spending has already increased with expanded budget deficits being used to support growth. Until now, Europe has been the laggard, however there are signs that is changing. Germany, the region's largest economy, has unveiled a range of reforms including cutting the corporate tax rate to 10% in 2028 (from 15% currently) as well as a €500bn infrastructure package and raising defence spending from 1.5% of GDP to as high as 5%<sup>13</sup>.

Fiscal policy settings (Mar-05 to Mar-25)



Source: Bloomberg

Elsewhere in the US, negotiations remain underway for President Trump's "Big Beautiful Bill" initiative. The current form includes a range of new tax deductions as well as extending the 2017 tax cuts legislated by the previous Trump Administration. These measures should be supportive for growth although their net impact may be mixed given tighter controls over government healthcare and food assistance that form part of the bill<sup>14</sup>. On the whole, fiscal policy should act as an important growth ballast over the near term.

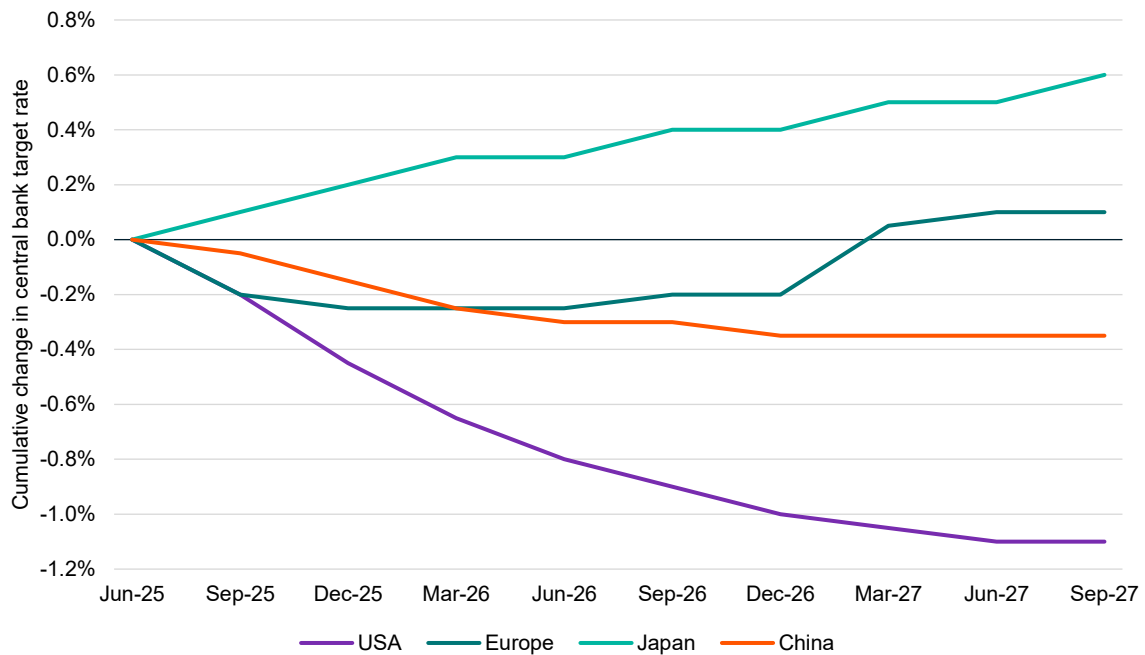
Globally, an easing in price pressures have allowed central banks to respond to growth concerns by easing monetary policy. The European Central Bank (ECB) for example is expected to deliver an additional cut after already reducing rates by 2% since May 2024. The US Federal Reserve will, according to consensus forecasts, intervene even more forcefully with almost 1.2%-worth of cuts in addition to the 1% already cut from its September 2024 peak.

<sup>13</sup> S. Parekh, 'New catalysts drive Global Equities', *Capital Group* (3 June 2025), <https://rankiapro.com/en/insights/catalysts-drive-global-equities/>, (accessed 10 June 2025).

<sup>14</sup> D. Morgan & N. Johnson, 'US Senate Republicans push ahead on Trump's sweeping tax-cut, spending bill', *Reuters* (29 June 2025), <https://www.reuters.com/world/us/us-senate-republicans-aim-push-ahead-trumps-sweeping-tax-cut-spending-bill-2025-06-28/>, (accessed 29 June 2025).



### Expected change in central bank interest rate targets (Jun-25 to Sep-27)



Source: Bloomberg as at 25 June 2025

The rate cuts will reduce financing costs across these regions and should be supportive of financial markets by boosting the attractiveness of these assets versus holding cash for example. The key development here is that governments and central banks should be acting in concert over the next few years. This is a powerful policy combination that should limit the ultimate damage of current trade conflicts or any other emerging economic weakness.

## Conclusion

The Trump Administration has shaken up the global economic landscape with its wide-ranging use of tariffs. Prolonged trade wars and related uncertainty pose meaningful headwinds to growth. US growth forecasts for 2025 have slipped from a peak of 2.3% in March to 1.5% currently<sup>15</sup>, a marked slowdown. Heightened geopolitical uncertainty could also detract from growth as businesses defer investment spending. A few factors should be supportive, however. Some form of trade deal may limit the impact of tariffs on headline growth. In addition, governments and central banks are working together to support growth, which should be a net positive and head off recession concerns. We concur with current consensus forecasts for weaker global growth in 2025 but anticipate a gradual recovery to occur as policy support allows the private sector to adjust and regain confidence to increase spending going forward.

<sup>15</sup> Bloomberg consensus economist forecasts



## Part 2: Key economic indicators

### United States

Economic snapshot	2025e	2026e
Growth (GDP)	1.5%	1.6%
Inflation	2.9%	2.8%
Interest rates	4.05%	3.50%
Unemployment rate	4.3%	4.3%

### Eurozone

Economic snapshot	2025e	2026e
Growth (GDP)	1.0%	1.1%
Inflation	2.0%	1.9%
Interest rates	1.9%	1.9%
Unemployment rate	6.3%	6.3%

### China

Economic snapshot	2025e	2026e
Growth (GDP)	4.5%	4.2%
Inflation	0.2%	1.0%
Interest rates	1.44%	1.38%
Unemployment rate	5.1%	5.1%

### By Cameron Curko

Chief Investment Officer,  
Private Wealth

p +61 2 9228 2415

e [cameron.curko@pitcher.com.au](mailto:cameron.curko@pitcher.com.au)



# Australian equities

## Overview

The Australian market ended FY25 on a strong note rising 9.5% for the three months and 13.8% for the year to 30 June. The strength has been driven largely by more expensive valuations (share prices have risen at a faster rate than earnings). The benchmark index, the S&P/ASX 200, forward price-to-earnings (P/E) ratio has expanded 10% over the year. The Financials sector, led by our major banks, continued to perform strongly with share prices climbing 24.4% whilst the second largest sector, Materials, has comparably languished with share prices slipping 6% over FY25.

**S&P/ASX 200 Total Return Index (Jun-24 to Jun-25)**



Source: Bloomberg

## Outlook

**Recommendation:** *Remain underweight.*

Australian equities have become more expensive over the course of FY25 with the increase in valuations not being matched by a corresponding improvement in fundamentals. This is most obvious when we look at individual sector performance. The growth in major bank share prices, well above underlying earnings growth, continue to pose a concern. A reversion anywhere near long-term valuations would amount to material downside risk for the overall market. This trend also extends to most other sectors, with the exception of resources and health care.

Excessive valuations are not necessarily a catalyst for performance to disappoint however they do increase the probability of such outcomes. If earnings are revised higher on the expectation of stronger growth then elevated shares prices can be justified. On a stock specific basis, such outcomes are not uncommon, particularly when a growing business is taking market share. In a broader sense however such outcomes will be dependent on an economy wide resurgence. In this regard, the shift in RBA policy to cut interest rates to support growth may underpin increased discretionary spending. Meanwhile resilient public sector spending could act as a tailwind with utility rebates as an example helping counteract higher electricity prices. Yet private sector investment and spending remains weak and is still failing to take the lead in generating economic activity. Household savings too have been increasing, even with measures such as the Stage 3 tax cuts, with the savings rate climbing from a low of 1.5% in September 2023 to 5.2% in March. This suggests a level of caution by households consistent with concerns about global uncertainty and the fragility of the



economic outlook. Valuations remain difficult to reconcile when we take stock of these drivers. Absent a more robust growth outlook, we believe risks are skewed to the downside and retain our underweight positioning.

## Sector view

The major sectors in the Australian market have seen a marked appreciation in valuations, well-above long-term averages. The banking sector's sizeable expansion has been attributed to a range of factors including increased passive investment by domestic and offshore institutions<sup>16</sup>. The outlook here remains a concern. Whilst rate cuts should ensure bad debts do not become a meaningful problem, they will also drag on profits by reducing net interest margins (the spread between a bank's cost of borrowing and the rate it charges its borrowers). Additionally, current share prices simply reflect an excessively rosy future with our banks trading at valuations far above global peers. Commonwealth Bank (CBA) is the leading culprit, trading at pricing more consistent with a high-growth technology stock. JP Morgan Chase, a leading global bank offers both superior returns on equity and earnings growth but trades at half the valuation of CBA.

The only way to rationalise a positive outlook for the major banks is that they will trade permanently on a higher multiple of earnings than the historical average going forward. This would only be possible if long term future earnings growth expectations are materially higher than average. Such a view goes against both history and rationality as, in time, the relative attractiveness of other investments for either growth or income should eventually drag against share prices. If government bonds for instance continue to offer higher income generation than CBA as an example, we should not see this situation persist over the long term.

**Table 1: Commonwealth Bank versus JP Morgan consensus metrics as at 27 June 2025**

Company	Forward PE ratio	Expected earnings growth over next 3 years	Average return on equity over next 3 years
<b>Commonwealth Bank of Australia</b>	29.4x	10.9%	13.7%
<b>JP Morgan Chase &amp; Co</b>	14.7x	15.5%	16.0%

The outlook for the resources sector remains problematic. The emergence of centralised buying activity within China could cap iron ore prices going forward. The China Mineral Resources Group Co. (CMRG) first established in 2022 is now the world's largest trader of iron ore and represents over half of China's steelmakers in talks with major miners such as BHP. It also, as a state-run body, has a tolerance for loss-making activity such as wearing the cost of stockpiling iron ore for times of shortage with Goldman Sachs analysts speculating that over 20 million tonnes are held in port storage under CMRG's auspices<sup>17</sup>.

In addition, we also have the reality of a still languishing Chinese property sector. This has pushed the steel industry to pursue offshore customers but that also appears to be facing limitations. Other countries such as Vietnam and the EU in addition to the US are pushing back with heightened steel tariffs to protect their domestic industries in the face of Chinese dumping<sup>18</sup>.

More forceful intervention by Chinese authorities to bolster the property sector could change this dynamic. To date however, there has been a marked reluctance to intervene with the sector instead forced to incrementally tackle the problems of oversupply and weak household demand with only limited assistance. While valuations have become more attractive we think a marked step change in share prices will need a more optimistic outlook to emerge, particularly from within China.

<sup>16</sup> A. Gluyas, J. Shapiro & L. Baird, 'Big investors count the cost of sitting out CBA's year-long bull run', *Australian Financial Review* (25 June 2025), <https://www.afr.com/markets/equity-markets/big-investors-count-the-cost-of-sitting-out-cba-s-year-long-bull-run-20250625-p5ma3f>, (accessed 28 June 2025).

<sup>17</sup> 'Xi's Giant Iron Ore Trader is Shaking up a \$130bn market', *Bloomberg News* (20 June 2025).

<sup>18</sup> 'China's Metal Anti-Dumping is Back. What You Need to Know', *MetalMiner* (27 May 2025), <https://agmetalmminer.com/2025/05/27/steel-industry-china-anti-dumping/>, (accessed 10 June 2025).



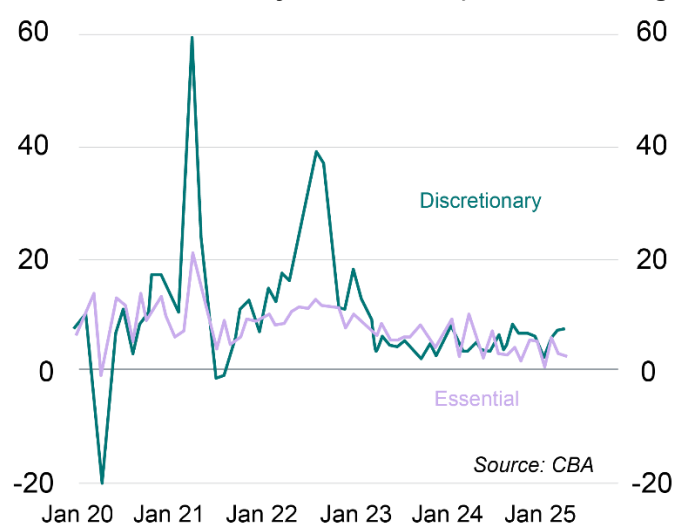
**Table 2: S&P/ASX 200 Sector Forward Price-Earnings ratios as at 30 June 2025**

Sector/Australian market	Forward PE ratio	Long-term average	Price move to revert to long-term average
<b>Australian market</b>	18.2x	14.4x	<b>-20.6%</b>
<b>Banks</b>	20.0x	12.8x	<b>-36.2%</b>
<b>Resources</b>	11.8x	12.5x	<b>+5.5%</b>
<b>Health care</b>	24.3x	23.7x	<b>-2.7%</b>
<b>Retail</b>	24.7x	17.2x	<b>-30.4%</b>
<b>A-REITs</b>	17.7x	13.9x	<b>-21.4%</b>

Source: Bloomberg.

The retail sector has seen a marked valuation expansion led by heavyweight Wesfarmers. While some divisions such as Kmart have benefitted from their discount pricing strategy we anticipate share prices have already adjusted to lofty expectations for growth in this space. Interest rate cuts are potentially supportive with the May HSI results from CBA highlighting a pickup in discretionary spending in recent months<sup>19</sup>.

**CBA HSI: Discretionary vs essential (annual % change)**



Source: CommBank Household Spending Insights, June 2025

Whilst promising, this pickup in the economic data is insufficient to justify current record-high multiples. Wesfarmers, even more so than CBA, trades akin to a growth stock with heightened risk to the downside in the case of disappointing earnings and/or divisional results. The retail sector remains difficult to justify at current pricing in our view.

Lastly, turning to the listed property sector the outlook remains mixed. Industrial demand has remained resilient with landlords continuing to pass through rent hikes as incoming supply remains slow to come online. Retail demand has also remained resilient with even discretionary operators such as Scentre Group (the company behind the Westfield shopping centres) benefitting from its holistic offerings with ongoing foot traffic growth translating into higher cashflow generation in recent years. Meanwhile the languishing office sector, the biggest victim of the pandemic, is starting to show signs of life. Stabilising valuations have been driven by a slowdown in new office supply as well as the orphaning of outdated office buildings that lack the environmental or energy efficiency standards expected by tenants. In addition “return to office” mandates have seen vacancies subside in recent months. Altogether, this offers a promising backdrop for the sector

<sup>19</sup> ‘CommBank Household Spending Insights, June 2025’, *CommBank* (June 2025), <https://www.commbank.com.au/business/latest/spending-intentions.html>, (accessed 15 June 2025).



although given the sizeable ownership by retail investors,<sup>20</sup> it may take time for this to eventuate in current share prices. The sector remains highly influenced by the fortunes of Goodman Group (GMG) given its large size by market value. There the optimism around data centre development has supercharged its share price. While this narrative is being maintained by increased investment from global technology companies we would expect it to support the GMG share price in the near term. Taken together we think a minimum neutral positioning is advisable for A-REITs.

## Conclusion

**Recommendation:** *Remain underweight.*

There are undoubted positives to be drawn for the macroeconomic backdrop. Rate cuts are supportive of share market performance with signs of an uptick in discretionary spending also emerging. The worst of pandemic headwinds appear to be passing even for the office sector within listed property names. Against all this however we must acknowledge the valuation excesses that have only worsened over the past year. The Australian market appears “priced for perfection”. When we consider the potential headwinds in the form of reliance on public sector spending as well as trade fears internationally, we think that pricing is unwarranted and prudence dictates remaining underweight.

### By Cameron Curko

Chief Investment Officer,  
Private Wealth

p +61 2 9228 2415

e [cameron.curko@pitcher.com.au](mailto:cameron.curko@pitcher.com.au)

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<sup>20</sup> Companies with higher retail registers can be slower to react to changing fundamentals absent a clear catalyst.



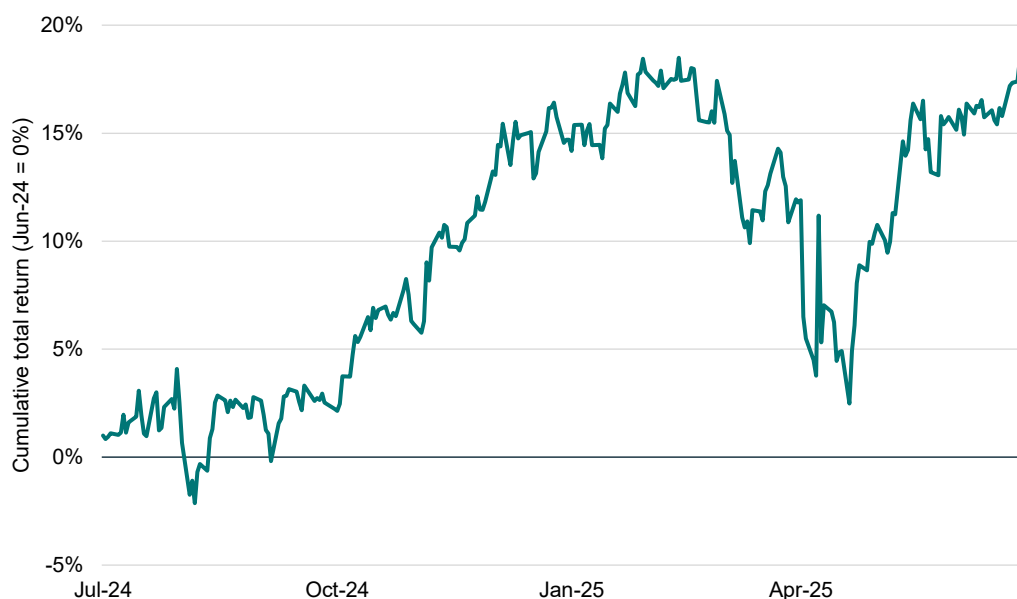


## International equities

### Overview

International markets ultimately enjoyed another strong period of performance, rising 5.9% and 18.6% for the three months and year to 30 June 2025. The full-year performance was bolstered by a weaker Australian dollar with the hedged benchmark only rising 13.5% for the full year, a difference of 5.1%.

**MSCI World ex Australia Net Total Return Index (Jun-24 to Jun-25)**



Source: Bloomberg.

### Outlook

When we take stock of international equity markets there are two factors we focus on. First, the outlook for earnings. Current consensus forecasts point towards earnings growth and profitability above the long-term median. In addition, share price performance has been strong but not to alarming levels suggesting positive momentum (the tendency for prices to continue rising) may persist further. This remains the case for global equities as well the listed property and infrastructure sectors. The latter benefit from more reasonable valuations, particularly in infrastructure, setting the stage for stronger future performance potentially in the wake of expected cuts to interest rates globally.

**Table 3: International equity and select sector expectations**

Asset class	Prem/Disct vs 10Y median forward P/E	EPS growth (next 2Y) vs 10Y median	Forward profit margin vs 10Y median	Momentum	Momentum percentile
International equities	15.2%	1.5%	2.1%	Positive	72.0%
Global listed property	0.2%	1.6%	-0.3%	Positive	56.3%
Global infrastructure	-6.3%	0.6%	1.8%	Positive	52.2%

Source: Bloomberg, PPSPW calculations



Whilst the consensus outlook is positive we should also pay heed to the macroeconomic backdrop. Consensus forecasts can be excessively optimistic and focus too narrowly on individual companies instead of broader economic challenges.

The economic context is decidedly mixed. Growth forecasts globally are still positive but have revised downwards with US growth almost 1% less than expected in 2025 in the wake of the Trump Administration's trade policies and other initiatives. The tariff measures already in place coupled with more in the future could act as a sizeable drag on household spending. If we see escalation by trade partners targeting US service businesses such as the tech sector then this could be further exacerbated. We believe, however, that the worst-case scenario of outright trade conflicts is not the base case. Instead, a level of compromise will be achieved over the coming months but likely with some level of permanently higher tariffs in place. Policymakers are aware of these challenges. They have already been moving to offset some of the expected damage with central banks moving to cut interest rates. In addition government spending programs are expected to provide material growth support over the near term across both the US and, more notably, Europe where the bloc has rediscovered fiscal spending for defence and public investment. This supportive fiscal and monetary policy consensus should ensure growth remains positive, albeit weaker, in the near term.

Valuation expansion has been a feature of recent months with markets recovering sharply from their April lows. While markets trade at slight premiums to history, valuation is not, in our view, a potential concern outside of the US context internationally. Even there we can mount a case for US stocks warranting a higher premium based on several factors. First, the strong growth expectations for major technology companies driven by burgeoning demand for artificial intelligence products and services. Second, the higher average business quality in the US with its greater exposure to the tech sector as well as positive culture of shareholder returns also warrants a premium versus other global markets. The US market has become less cyclical over time and more concentrated in higher growth and higher quality names, particularly in the tech sector. In summary valuation is not, in our view, a material warning as we can rationalise current pricing.

**Table 4: Major regional Forward Price-Earnings ratios versus long-term history as at 30 June 2025**

Region	Forward P/E ratio	15-year Average Forward P/E ratio	Potential upside/downside
USA	20.8x	16.5x	-20.9%
All Country World (ex-US)	13.7x	12.7x	-7.7%
Australia	18.2x	14.9x	-18.0%
Europe	13.6x	13.1x	-3.8%
Emerging markets	12.0x	10.9x	-9.1%
Japan	15.2x	13.9x	-8.4%
UK	12.3x	12.0x	-2.5%
China	10.6x	10.2x	-4.0%

Source: Bloomberg.

## Conclusion

**Recommendation:** *Upgrade to neutral.*

Global equities enjoy a burgeoning consensus for higher growth and margins over the near term. Investor sentiment (momentum) is positive but also importantly, not over-extended in our view. Valuations, it is true, have shifted above long-term average valuations. In most regions outside the US however these markets trade at only modest premiums with valuations of limited guidance at these levels. The US case is distinct however and deserves acknowledgement. A positive policy environment with anticipated Fed cuts as well as larger fiscal deficits should underpin the US growth premium. Business quality has also expanded over recent years as US tech giants take market share and find new avenues for expansion, most recently cloud computing and artificial intelligence (AI). This is a structural shift in the US market that makes comparisons to



long-term averages when more cyclical sectors such as energy and manufacturing accounted for a much larger proportion of the US market. It is somewhat uniquely an American trend that has not been repeated elsewhere and warrants some flexibility in our view. Accordingly valuation is not sufficiently excessive to dictate our outlook.

If we take stock then, expectations and investor sentiment are constructive for future returns. Valuations are elevated, mainly in the US, but can be rationalised by its growth premium and structural shift towards higher quality companies. The economic climate is problematic but expansionary actions by governments and central banks should keep conditions stable in the near term. A deterioration in economic conditions or a marked escalation on trade, are key risk factors that we continue to monitor. In conclusion, however, we believe there is a sufficient case to maintain a neutral stance on global equities.

## **By Cameron Curko and Martin Fowler**

### **Cameron Curko**

Chief Investment Officer, Private Wealth

p +61 2 9228 2415

e [cameron.curko@pitcher.com.au](mailto:cameron.curko@pitcher.com.au)

### **Martin Fowler**

Partner, Private Wealth

p +61 2 8236 7776

e [martin.fowler@pitcher.com.au](mailto:martin.fowler@pitcher.com.au)



Jordan Kennedy  
Partner, Private Wealth

p +61 2 9228 2423  
e [jordan.kennedy@pitcher.com.au](mailto:jordan.kennedy@pitcher.com.au)



#### Authors

Martin Fowler  
Partner, Private Wealth

p +61 2 8236 7776  
e [martin.fowler@pitcher.com.au](mailto:martin.fowler@pitcher.com.au)



Andrew Wilson  
Partner, Private Wealth

p +61 2 9228 2455  
e [a.wilson@pitcher.com.au](mailto:a.wilson@pitcher.com.au)



Cameron Curko  
Chief Investment Officer,  
Private Wealth

p +61 2 9228 9173  
e [cameron.curko@pitcher.com.au](mailto:cameron.curko@pitcher.com.au)