

Current as of 1 October 2025



Economic and Market Outlook

October 2025



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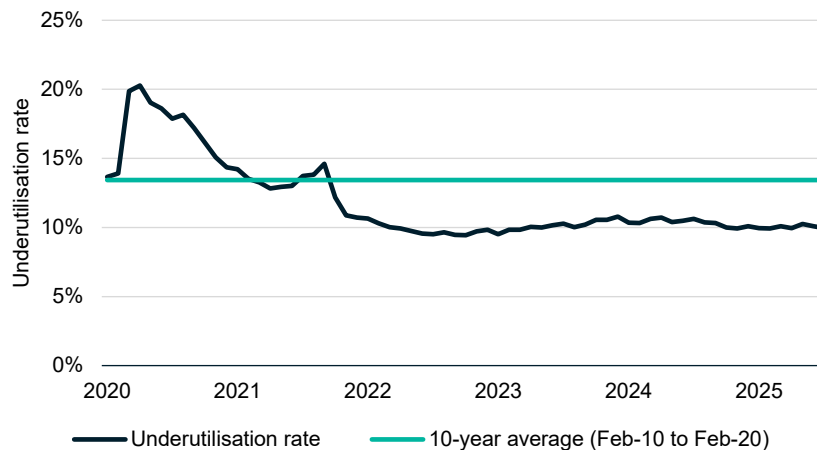
Australian economy

Part 1: Overview

The Australian economy is showing some promising signs of acceleration with economic growth climbing 1.8% for the year to June. Household spending has also been resilient with 5.1% growth for the year to July. A key question plaguing economists is how strong the economy will be if, as expected, public sector investment spending begins to pull back. We saw a partial answer in the June quarter. Private sector spending contributed almost 75% of the 0.6% increase in gross domestic product (GDP). By contrast the combined contribution of government consumption and capital spending was flat in real terms.

The sustainability of household spending will be key to the economic outlook. On this front we have a markedly resilient labour market. The underutilisation rate (the combination of unemployment and underemployment rates) is tracking near multi-decade lows, well below pre-pandemic levels. More people employed, all else being equal, means more income and spending across the broader economy.

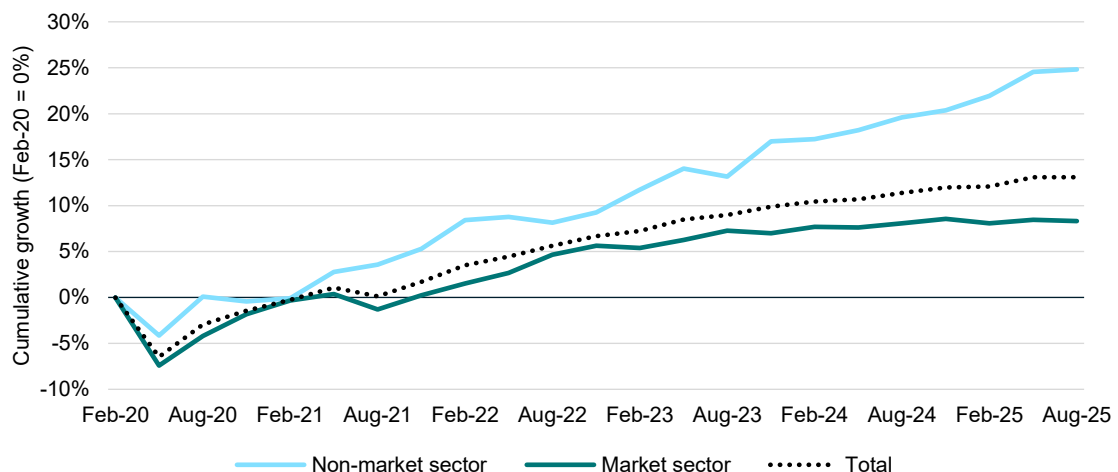
Australian underutilisation rate (Feb-20 to Aug-25)



Source: ABS, PPSPW calculations

The bulk of jobs created in the past 5 years have been in the non-market sectors reliant on government funding. These sectors include education, healthcare and other essential services. With the government under pressure to reduce the unsustainable trajectory of debt and deficits, there has been much speculation on spending cuts.

Cumulative jobs growth by sector (Feb-20 to Aug-25)



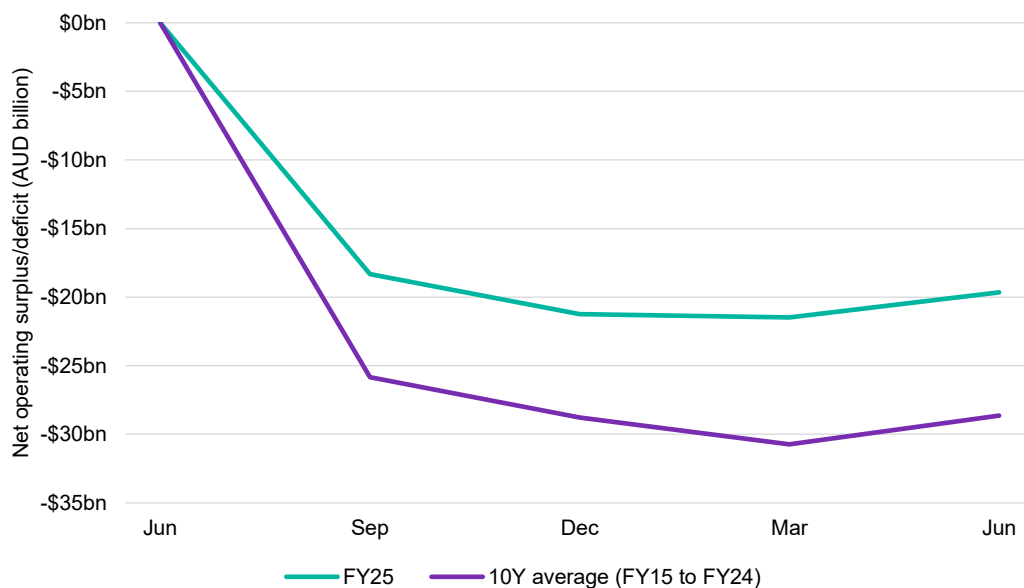
Source: ABS, PPSPW calculations



The National Disability Insurance Scheme (NDIS) and Aged Care have been recent targets of reform given the enormous cost of these schemes. From 1 November, recipient contributions to aged care services will broadly increase, especially for those self-funded retirees. The Health Minister Mark Butler has also recently flagged government intentions to cut annual growth in NDIS costs from the prior target of 8% to 5%-6%¹. With NDIS payments accounting for over 3% of GDP, further cuts are inevitable. Any meaningful pullback in government support could have material ramifications for the jobs market.

In the near term however fiscal policy has continued to be supportive of the overall economy with FY25 seeing a deficit of almost \$20bn, a marked contrast to the prior year surplus. Absent a commitment to politically unpopular spending cuts, we should expect that to continue. This is because much of the increase in government outlays is tied to non-discretionary uses such as health care and social spending which are notoriously difficult to wind back.

Australian general government net operating balance (FY25 vs 10-year average)



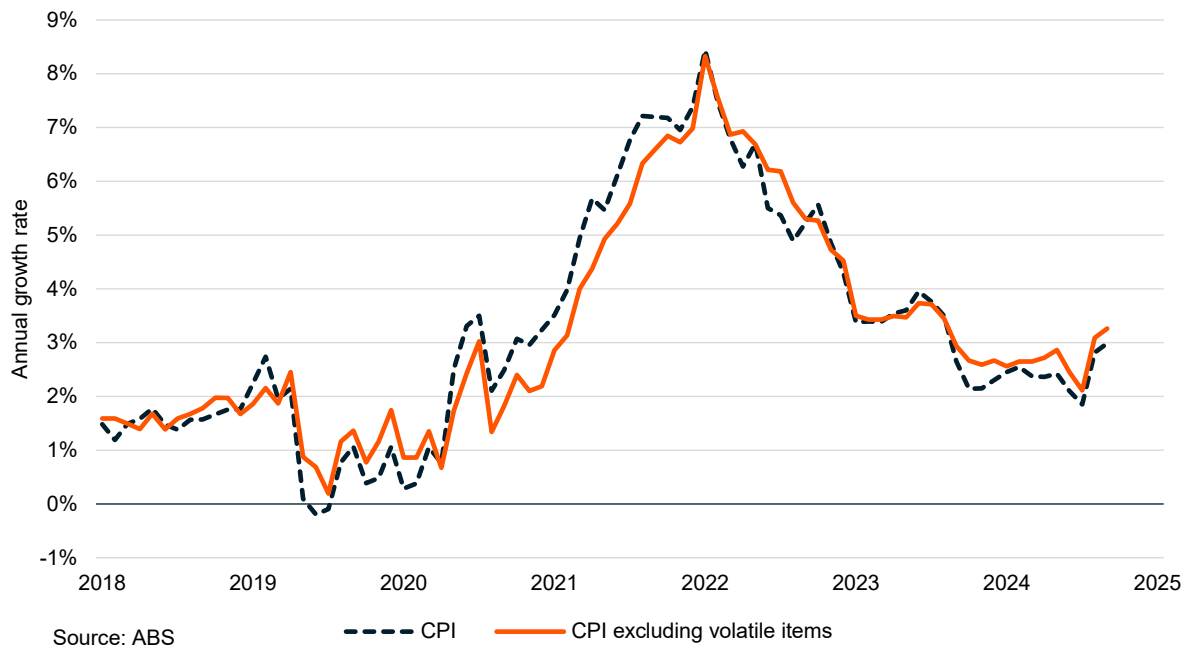
Source: ABS, PPSPW calculations

Monetary policy too has been broadly supportive. Over the year to date the RBA has cut the cash rate from a peak of 4.35% to 3.60% as inflationary pressures have eased. The most recent monthly inflation print however suggests that the easing trend, barring an anomaly, may be over. The fading impact of government subsidies on electricity together with higher construction costs saw inflation for the year to August rise 3% while core inflation excluding volatile items rose 3.3% over the same period. This result, together with the still tight labour market, has helped stay the RBA's hand in its September meeting.

¹ M. Smith, P. Coorey & P. Karp, 'Mental health conditions could also face cuts under NDIS overhaul', *Australian Financial Review* (21 August 2025), <https://www.afr.com/politics/mental-health-conditions-to-also-face-cuts-under-ndis-overhaul-20250821-p5mopj>, (accessed 22 August 2025).



Australian inflation trends (Dec-18 to Aug-25)



Source: ABS

Nevertheless, monthly data points alone can be unreliable indicators of the underlying trend. There is still potential for further rate cuts but the RBA will want the more comprehensive quarterly inflation data to confirm that inflationary pressures remain contained. Current consensus forecasts still expect a further two cuts which would reduce the cash rate to 3.1% in 2026. We believe that the RBA will remain constrained unless we see protracted weakness in the jobs market. The combination of a tight jobs market and low productivity limit the degree of weaker inflation we might expect domestically. Furthermore, current forecasts anticipate an acceleration in inflation from factors including higher electricity prices that would be enough to give the RBA pause in the meantime.

Conclusion

We anticipate a pickup in Australian economic growth into 2026 with rate cuts supporting an uptick in household spending. Resilient inflationary pressures remain a risk factor for the RBA that will limit further rate cuts. The resilient jobs market, bolstered by NDIS and aged care demand remains a key factor for the Australian economy and should see household spending underpin growth in the near term. While productivity reform has been the subject of much debate in recent months actual action remains limited. The path of least resistance, given the lack of reforms on the horizon, is one of below-trend growth in the near term.



Part 2: Key economic indicators

Economic snapshot	Last reported result	Date
Growth (GDP)	1.80%	Jun-25
Inflation	2.10%	Jun-25
Interest rates	3.60%	Sep-25
Unemployment rate	4.2%	Aug-25
Composite PMI	55.5	Aug-25

Economic snapshot	2025e	2026e
Growth (GDP)	1.7%	2.2%
Inflation	2.5%	2.7%
Interest rates	3.39%	3.15%
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



International economy

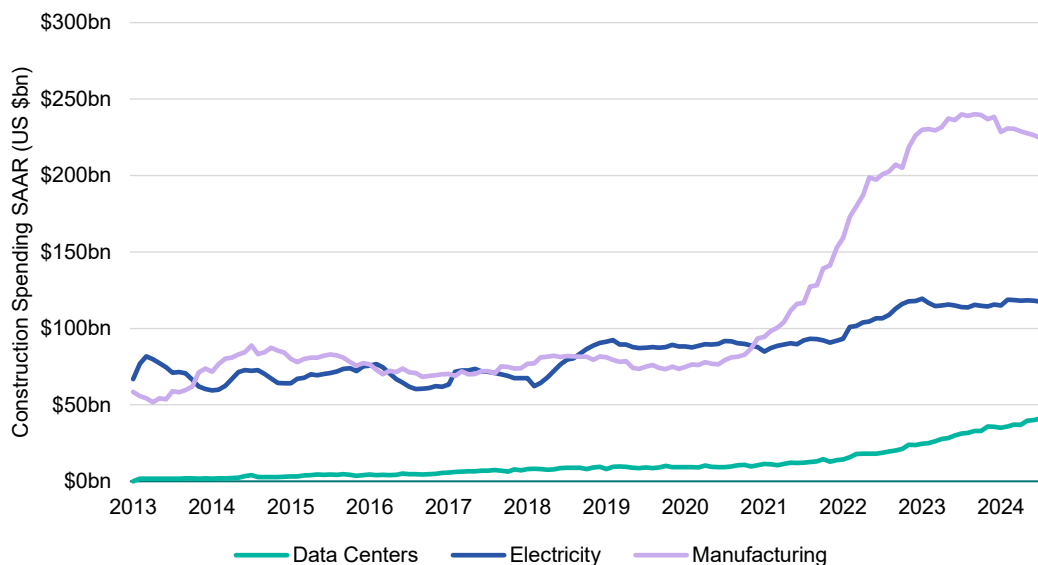
Overview

The global economic outlook has become more settled in recent months. Fears that tariffs would engineer a US growth shock have abated. A permanently higher state of tariffs for the US versus the rest of the world has become a reality, enshrined in a slew of recent trade deals. Thankfully these are at lower levels than contemplated in the Liberation Day announcement in early April. In our view, tariffs will primarily operate as a tax on US households, potentially crimping spending as the impact gradually filters into supply chains and final consumer goods. Tariff threats can and will likely reappear. Recent examples include a threat for 100% tariffs against pharmaceutical businesses without US production² as well as threats to levy tariffs against countries such as India that are perceived to be supporting Russia by purchasing its fossil fuel exports.

United States

The narrative of artificial intelligence (AI) innovation and associated capital spending continues to be a key driver for the US. Record amounts are being spent on not only microchips but the associated infrastructure required to power AI software, including electricity generation and data centres. In addition, spending on manufacturing remains at near record highs of over US\$200bn (on an annualised basis). Whilst this last point is largely a legacy of decisions made under the Biden Administration; the fact remains that substantial investment buildouts are occurring and providing a meaningful support for the broader economy. This is before accounting for the multitude of multinationals that have committed to building manufacturing facilities in the US to appease the Trump Administration over tariff threats.

Construction spending in the USA by sector (Dec-13 to Jul-25)



Source: Bloomberg, Census Bureau

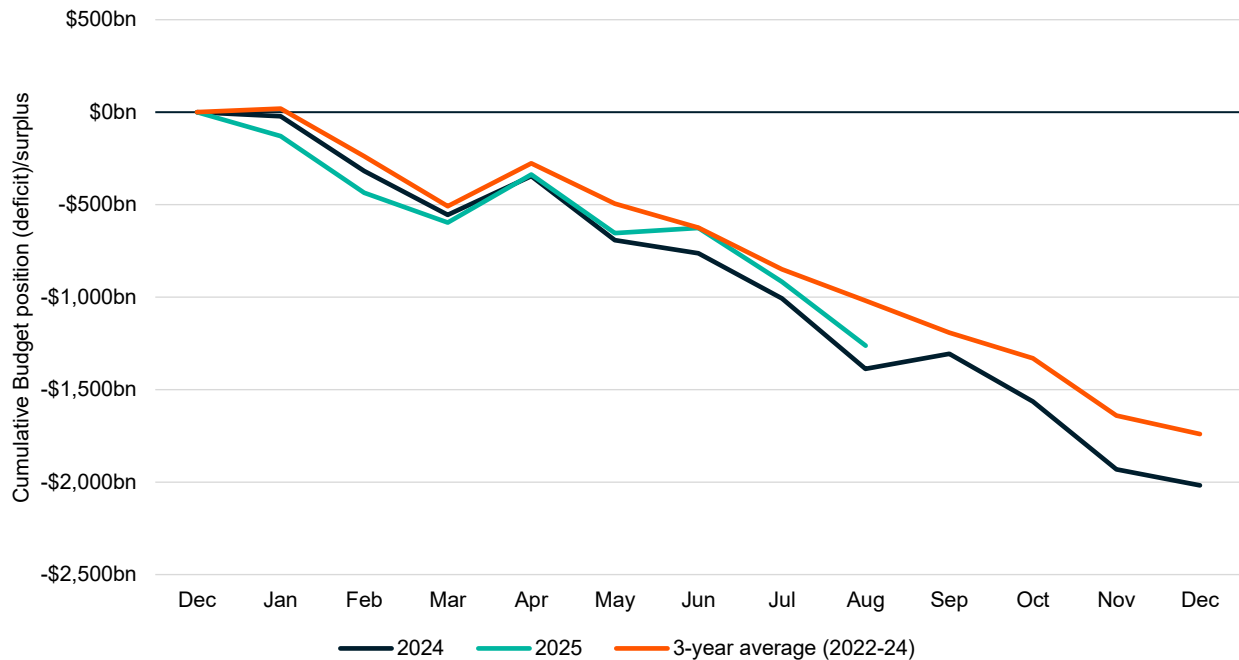
Although there have been concerns over an uptick in unemployment recently, we note that tax collections are still growing in line with longer-term averages suggesting limited economic impact in the near term. Inflation in the US however has continued to trend above target levels with the August headline rate of 2.9% well-above the long-term target of 2%. Labour market weakness is the US Federal Reserve's (the Fed) clear priority at present but there remains a lingering concern that inflation could re-accelerate given the fiscal stimulus underway.

² 'A 100% tariff on some imported drugs is coming October 1, Trump says', *ABC Radio National Breakfast* (29 September 2025), <https://www.abc.net.au/listen/programs/radionational-breakfast/trump-s-100-per-cent-tariff-on-pharmaceuticals/105828938>, (accessed 30 September 2025).



The Trump Administration's "Big Beautiful Bill" is now law with more stimulative measures underway. Moreover the funding cuts used to garner Congressional Support for the bill are not due to take effect until after the 2026 mid-term elections so the near-term effect will remain stimulative overall. A potential government shutdown is a threat in the coming weeks as US politicians negotiate a debt extension deal. We believe that a compromise will be reached given the damaging consequences and past history (much fanfare but ultimately resolved with negligible economic impact).

US budget position year-to-date



Source: Bloomberg, US Treasury

Another concern is the potential breakdown in governance of US institutions. Not only has the President been trying to influence the judiciary but now the sanctity of the Fed's independence is under threat. The Trump Administration has leveraged a range of attacks against Fed officials including public demands for further rate cuts as well as the targeting of Fed Board member Lisa Cook where allegations of mortgage fraud was used as a pretext for her firing by President Trump. With the incumbent Chairman's term ending in 2026, there is concern that the President may leverage his power to change the mix of Fed Board members and influence Fed policy accordingly. The President's wish to slash interest rates at all costs, even if inflation is rising, could collapse the dollar and erode the value of US assets.

China

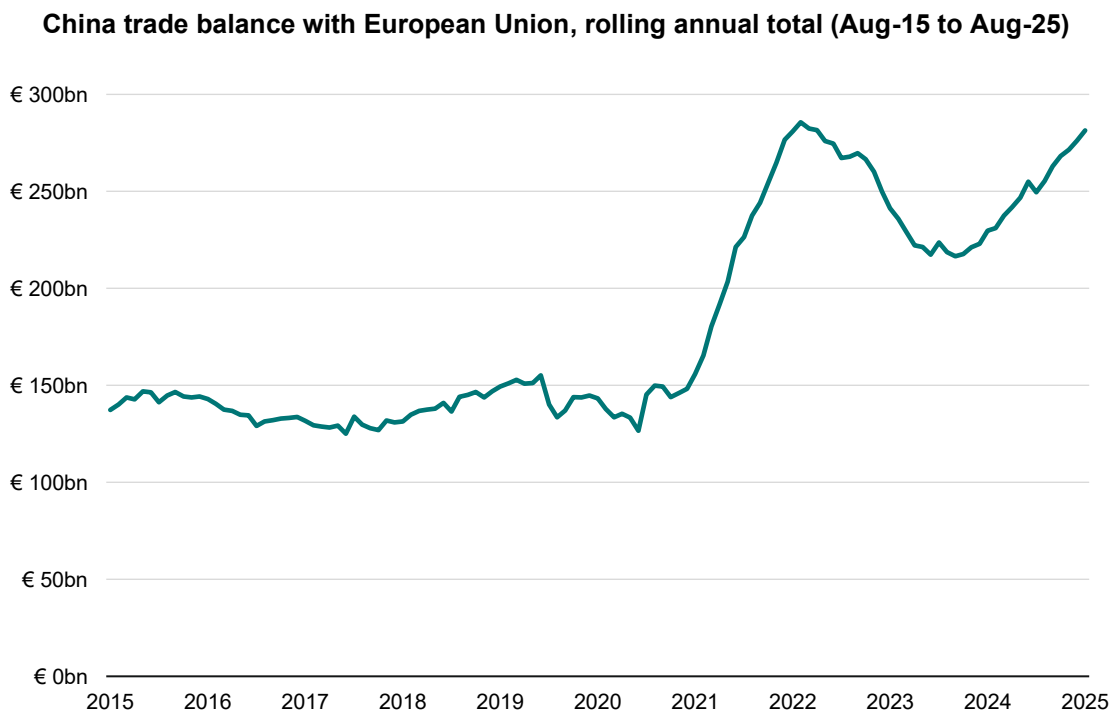
In China the malaise of domestic demand continues apace. Retail sales have been supported by government programs where consumers can take advantage of a subsidy to upgrade old goods for new, but outside of these partial impulses the picture is lacklustre. The clearest sign can be found in the country's inflation data. Consumer prices remain subdued if not in outright deflationary territory, a sharp contrast to the rest of the world. Producer prices are even more challenged, with outright deflation a reflection of heightened competition, overproduction and weak profitability in numerous Chinese industries, including electric vehicles. The Chinese government is aware of these challenges with public calls recently to curb excess production. The Authoritarian leadership faces some difficult choices as reducing production at the risk of increasing unemployment is a difficult and dangerous balancing act given the prospect of increased social unrest. It is therefore likely that China will attain its 5% growth target for 2025 through its manufacturing sector but the sustainability of growth remains a point of concern. A pause in tariffs with the US until 10 November whilst helpful, is not a panacea given that permanently higher tariffs remain likely unless a breakthrough in negotiations can be achieved.



As it stands we are unlikely to see a meaningful inflection in growth until Authorities move more forcefully to rectify weakness through fiscal stimulus to support households or the ailing real estate sector. An alternative approach could be the reduction of excess production and channelling economic activity more constructively. Steel “dumping” on global markets has long been a bone of contention and there might be signs that this is changing with Bloomberg reporting a potential ban in new steel capacity³. The stimulus path is the easier course of action in our view but barring any new developments we see the recent trend of decelerating Chinese growth persisting.

Europe

In Europe trade data has been substantially distorted by the volatility of US trade policy. The continental bloc is now seeing its largest economy, Germany, struggle in its flagship automotive sector. More broadly speaking the trade deficit with China has almost doubled to EUR 300bn from pre-pandemic levels as competition from Chinese manufacturers increases.



Source; Bloomberg

Notwithstanding, the approval of the 2025 German budget was a pivotal moment, promising almost €116bn in public investment spending as well as taking defence spending to 2.4% of GDP⁴ with scope for the latter to expand to at least 3.5% of GDP in line with US negotiations. More broadly, growth in defence spending across Europe is also likely to accelerate as European nations adjust to the demands of the Trump Administration with targets of over 3% of GDP on the defence sector. Recent Russian air incursions have only served to illustrate this need. Political turmoil in France with the ousting of another government coalition, together with the rise of far-right parties in the United Kingdom, adds an element of geopolitical risk to the region. Overall, however, there is enough cause to be positive that fiscal policy should have a stimulative impact especially given the scale of the mooted German intervention. On the monetary policy front, steady inflation at near-target levels coupled with a reasonably tight jobs market has seen the European Central Bank (ECB) remain on hold in recent months and flag limited prospect for further rate cuts. Growth conditions would need to meaningfully worsen before we see material cuts on this front.

³ H. Yermolenko, 'China will ban new capacity and reduce steel production', *GMK* (22 September 2025), <https://gmcenter/en/news/china-will-ban-new-capacity-and-reduce-steel-production/>, (accessed 25 September 2025).

⁴ H. Hansen, 'Germany approves 2025 budget, ushering in new era of spending', *Reuters* (19 September 2025), <https://www.reuters.com/world/europe/germany-approves-2025-budget-usher-new-era-spending-2025-09-18/>, (accessed 20 September 2025).



Conclusion

The US appears to have overcome the growth scares of tariffs and focus has shifted to labour market weakness. Both fiscal and monetary policy remain supportive of growth and consensus forecasts have already begun to improve as tariff fears fade. In Europe the nascent signs of a fiscal led recovery have emerged with the new German budget marking a notable inflection point for the continent towards embracing stimulative government spending. Meanwhile in China the pattern appears to be more of the same. The country's leaders are focused on building national champions in areas such as AI and semiconductors whilst content to rely on exports to drive growth even with a stagnant backdrop of domestic demand. China stands in good stead to persist as "the factory of the world" but one where growth via overproduction remains unsustainable. We have stronger confidence for an uptick in growth in 2026 globally though inflation remains a potential risk in the US.

Part 2: Key economic indicators

United States

Economic snapshot	2025e	2026e
Growth (GDP)	1.8%	1.8%
Inflation	2.8%	2.9%
Interest rates	3.75%	3.19%
Unemployment rate	4.3%	4.4%

Eurozone

Economic snapshot	2025e	2026e
Growth (GDP)	1.3%	1.1%
Inflation	2.1%	1.8%
Interest rates	2.15%	2.15%
Unemployment rate	6.3%	6.3%

China

Economic snapshot	2025e	2026e
Growth (GDP)	4.8%	4.2%
Inflation	0.1%	0.8%
Interest rates	1.47%	1.32%
Unemployment rate	5.2%	5.1%

By Cameron Curko

Chief Investment Officer,
Private Wealth

[p +61 2 9228 2415](tel:+61292282415)

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



Australian equities

Overview

The Australian market started FY26 on a strong note rising 4.7% for the three months and 10.6% for the year to 30 September. 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 ~4% over the year with earnings growth below inflation, rising only 1.4%. The Financials sector, led by our major banks, continued to perform strongly with share prices climbing 16.5% whilst the second largest sector, Materials, has comparably languished with share prices only up 2.7% over the same period.

S&P/ASX 200 Total return index (Sep-24 to Sep-25)



Source: Bloomberg

Outlook

Recommendation: *Remain underweight.*

Fiscal and monetary policy support remains constructive for asset prices but Australian equities remain stretched on valuation grounds. Income generation has also weakened materially with a forward dividend yield of only 3.2%, near record lows. We think that there is heightened downside risk at these levels particularly given limited prospects of a material acceleration in earnings growth.

The banking sector is the most glaring example of lofty valuations. Its sizeable index weighting of almost 27% suggest caution is advised when it trades near growth-stock multiples for low single-digit growth outcomes. Sector champion Commonwealth Bank (CBA) grew its dividend per share at 1.5% p.a. over the past decade, a below-inflation outcome with peers performing even worse over the same period. The major banks are unfortunately not the only example. The broader market also remains expensive relative to its fundamentals and outlook. Accordingly an underweight position remains prudent in the near term.



Sector view

The major sectors in the Australian market have seen a notable uplift in valuations over recent years with notable exceptions in Health Care and other, smaller sectors. Banking and Retail businesses remain amongst the clearest examples of rosy investor sentiment. This is also a reflection of perceived 'safe haven' status amidst heightened global geopolitical uncertainty. In this line of reasoning, our more domestically-focused sectors are seen as, places to hide for investors given their negligible exposure to direct harm from any Trump Administration tariff policies. By contrast market segments such as Health Care and Industrials are exposed given their reliance on export markets such as the US for revenue and growth opportunities.

Table 1: S&P/ASX 200 Sector Forward Price-Earnings ratios as at 30 September 2025

Sector/Australian market	Forward PE ratio	15-year Average Forward P/E Ratio	Price move to revert to 15-year average
Australian market	19.3x	15.0x	-22.3%
Banks	19.8x	13.1x	-34.2%
Resources	14.4x	12.8x	-11.3%
Health care	23.3x	25.1x	+7.4%
Retail	27.1x	18.3x	-32.5%
A-REITs	19.2x	15.0x	-21.9%

Source: Bloomberg.

At a fundamental level the outlook for the banking sector is mixed. A tight labour market minimises the incidence of bad debts with more households able to sustain repayments thanks to regular employment. The market has been less competitive for new customers although there are signs that this may be changing. Rate cuts and the reduction in net interest margins is seeing the likes of CBA use material incentives (e.g. thousands of dollars in Qantas points) to lure direct customers into its website channel⁵ and thereby circumvent paying commissions. The reversal of sourcing loans via brokers could improve profitability for the sector though the extent to which CBA can succeed is uncertain with online applications only accounting for 10-20% of home loan applications given complications in the process.

The major banks are expected to see some cost efficiencies ensue in the coming years but the uplift in terms of earnings is expected to be modest. Finally the process of cutting rates by the RBA could spur further competition for customers as the cuts reduce the relative upside of holding cash at the bank and instead tempt households to consider other options. Overall, while the outlook for banks is not unreasonable, share prices imply a much higher rate of earnings growth than forecasts suggest are likely. It remains prudent to be positioned underweight.

The materials sector ended the September quarter as the strongest performer with price growth in the double digits. The drivers here were nuanced. Investor fears over the Trump Administration policies coupled with a weaker US dollar saw gold prices rally with a rise of over 16% in AUD terms. Meanwhile in China there have been promising signs of more rational consumption of industrial metals. The shuttering of loss-making lithium mines within China triggered a surge in lithium prices⁶. Similarly, the mooted shutdown of inefficient steel mills is expected to yield a more balanced supply-demand dynamic for iron ore. An improvement in the global economic outlook, all else being equal, is also positive for industrial metal demand which has arisen in recent months as the Trump Administration reached trade deals that settled investor nerves.

⁵ A. Bharadwaj, 'Mortgage wars reignite as CBA offers up to 300k Qantas points on loans', *Australian Financial Review* (28 September 2025), <https://www.afr.com/companies/financial-services/mortgage-wars-reignite-as-cba-offers-qantas-points-for-home-loan-20250928-p5myga>, (accessed 30 September 2025).

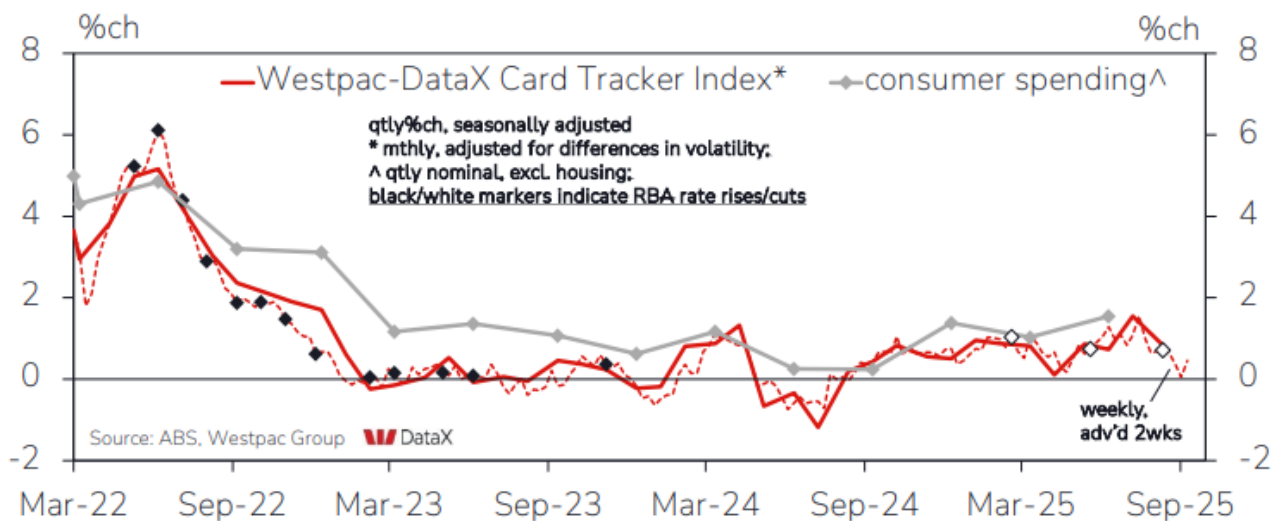
⁶ A. Gluyas, 'Lithium stocks rocket after major Chinese mine closes', *Australian Financial Review* (11 August 2025), <https://www.afr.com/markets/commodities/lithium-stocks-rocket-after-major-chinese-mine-closes-20250811-p5mlvr>, (accessed 15 August 2025).



The combination of these factors saw the sector re-rate to a premium against its long-term average valuation. Its sensitivity to volatile commodity prices however makes valuation benchmarks less reliable as a guide. We prefer to focus on the underlying economic backdrop. There are enough positives on the demand side to warrant neutral positioning in our view.

In the retail sector, the combination of a tight labour market, rate cuts and a pickup in consumer confidence is supporting household spending. The Westpac Card Track Index which monitors credit card transactions by Westpac customers is highlighting reasonable growth in nominal terms but importantly not at the level that would suggest a sharp pickup in activity. This is important as the sector is trading at record highs with multiple expansion driving the bulk of returns as the forward P/E ratio rose 13.2% with earnings up 5.6% comparably over the past year. While we believe Australian households will continue to drive a moderate level of spending we are not yet seeing sufficient signs of above-average profitability that support current market pricing. We believe it is prudent to remain underweight as downside risk of any earnings disappointment remains too high.

Australian Card activity and consumer spending (Mar-22 to Sep-25)



Source: Westpac Economics⁷

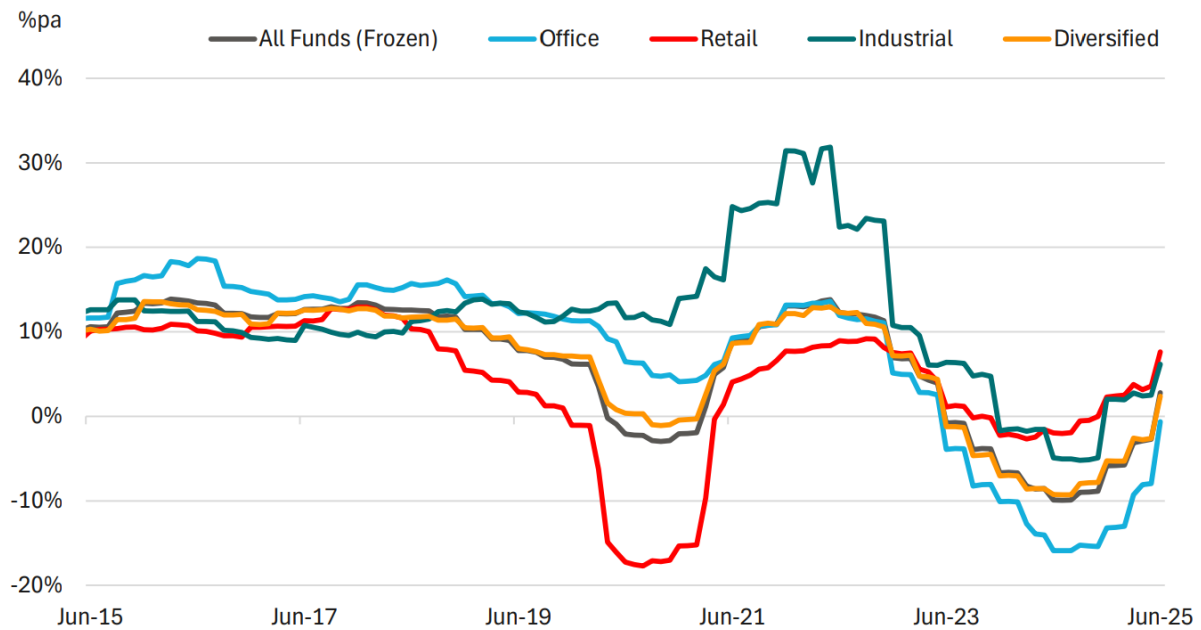
Lastly in real estate we have seen firmer signs of a market bottom in real estate valuations emerge in recent months. As highlighted below the annual returns for different sectors have inflected into positive territory. This is true even for comparable laggards such as office assets. In this case limited incoming supply should also be a support for further rental and price growth over the near term. The prospect of further interest rate cuts both domestically and internationally should continue to make this sector attractive for investors and support more transaction volumes and further recovery in valuations.

Whilst the sector now trades at a notable premium to its long-term average this is explicable by the almost 40% exposure to heavyweight Goodman Group (GMG). GMG's valuation can be rationalised by its above-market growth profile thanks to burgeoning demand for its data centre projects. When we exclude GMG the valuation premium is comparably modest and given the pickup underlying fundamentals we see sufficient cause to be constructive on the A-REIT sector with at least neutral positioning advised.

⁷ 'Westpac-DataX Card Tracker', *Westpac Economics* (22 September 2025), <https://library.westpaciq.com.au/content/dam/public/westpaciq/secure/economics/documents/aus/2025/09/Westpac-card-tracker-20250922.pdf>, (accessed 25 September 2025).



Annual returns for unlisted real estate funds by sector



Source: MSCI, Bloomberg, Dexus Research⁸

Conclusion

Recommendation: *Remain underweight.*

The Australian economy continues to display resilience which should underpin market performance in the near term. Cuts to interest rates should also bolster consumer confidence and spending. Against these positives we must weigh up the encroachment of ever higher valuations with an even more Goldilocks scenario seemingly being priced into the market. Economic data supports resilience but not the kind of growth or margin improvement that warrants current share prices particularly as we consider the risk of a pullback in public spending with calls for NDIS cuts only continuing to mount. Given the unwarranted pricing, most notably in the major banks but also other market niches, we continue to advocate underweight positioning.

By Cameron Curko

Chief Investment Officer,
Private Wealth

p +61 2 9228 2415

e cameron.curko@pitcher.com.au

⁸ 'Australian Real Asset Quarterly Review Q3 2025', Dexus Research (22 July 2025), <https://www.dexus.com/news-insights/research/australian-real-asset-review-q3-2025.html>, (accessed 28 July 2025).

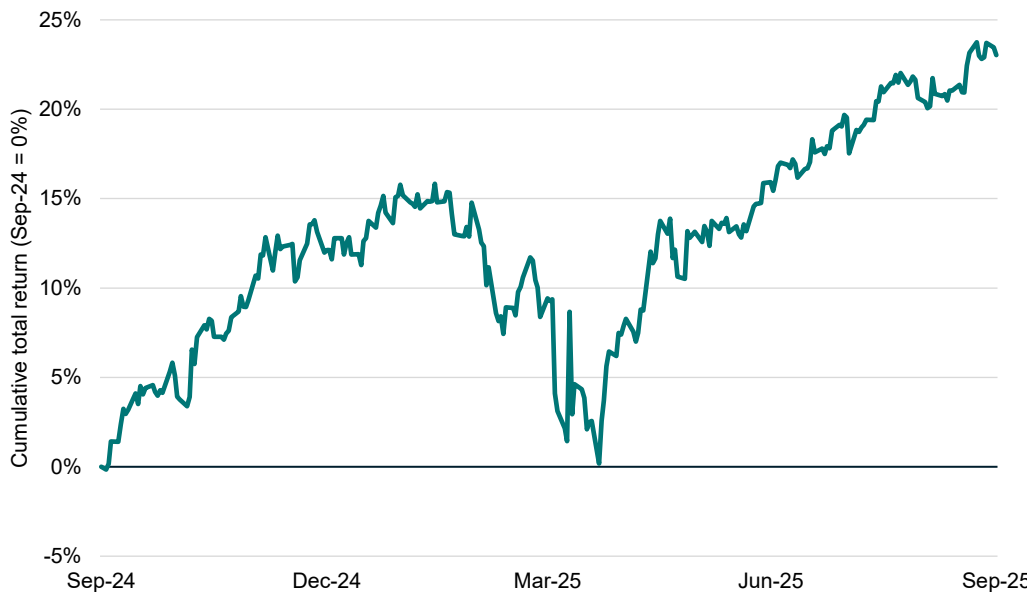


International equities

Overview

International markets continued to rally from their April lows, rising 6.1% and 23% for the three months and year to 30 September 2025. The full-year performance was bolstered by a weaker Australian dollar with the hedged benchmark only rising 16.9% for the full year, a difference of 6.1%.

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



Source: Bloomberg.

Outlook

International markets continue to be driven by positive sentiment towards AI. Nvidia to take one example has seen its market value grow by almost US\$500bn this quarter which has coincided with the tech-heavy IT and Communication Services sectors climbing almost 12% each over the same period. Tariff fears have moved from a general concern for investors to a more localised problem. Trade threats remain a live issue as we saw towards quarter-end with a 100% tariff threat from President Trump against pharmaceutical businesses not manufacturing within the US. The shock value has faded however.

The earnings outlook continues to track above the long-term median for global equities. The challenge for the near-term is the outlook for AI projects and related spending. The buildout related to AI has come to dominate international markets but especially the US where utilities and industrial stocks are vital parts of the physical infrastructure needed to bring AI models to life. Investors have collectively come to recognise this with the US market ex AI accounting for only 20% of earnings and 23% of price growth respectively since the launch of Chat GPT (an eponymous AI model) in 2022.



Table 2: AI sector performance and contributions to market performance since November 2022

Returns, earnings, capex/R&D growth and contributions of AI-related stocks in the S&P 500 since ChatGPT launch

	AI: Direct	AI: Utilities	AI: CapEquip	S&P 500 ex-AI
Performance since November 2022				
Price return	181%	65%	138%	25%
Earnings growth	124%	15%	58%	9%
EBIT growth	98%	11%	71%	16%
Capex + R&D growth	63%	21%	-14%	4%
Contributions to S&P 500 since November 2022				
Price return	75%	0.9%	0.9%	23%
Earnings growth	79%	0.5%	0.8%	20%
EBIT growth	62%	0.4%	0.9%	36%
Capex + R&D growth	90%	2%	-0.1%	8%

Source: JP Morgan⁹

As we frame the AI trade at present the outlook remains robust. Key players such as Nvidia and TSMC, the designer and manufacturer of the leading chips necessary to power AI software continue to see meaningful growth in customer demand with notable new deals being announced such as Nvidia's US\$100bn investment into Chat-GPT owner OpenAI. This dynamic should support AI-adjacent sectors such as industrial and utility companies in the near-term. US construction spending data suggests this remains the case with meaningful inflection in the buildout of both data centres and electrical sites.

There are risks that could prompt a slowdown in AI spending such as:

1. The acceleration of debt-funding for AI projects as debt financing is inherently more fragile and sensitive to underlying performance. The growth in Oracle's AI ambitions is a case in point with US\$100bn needed to fund the data centres required for its flagship OpenAI deal¹⁰.
2. The return on investment of AI projects remains uncertain. The leading AI models for instance do not yet work economically and it is uncertain whether they will find the right business model to succeed.

These risks have yet to eventuate but warrant close monitoring given the scale of funds already deployed in this space. In the meantime AI permeates consensus expectations. The outlook for earnings remains robust with international equities expected to maintain both higher profitability and faster earnings growth than the median of the past decade. They are priced at a premium but it is hard to argue, in the near-term, that this impressive performance of above-average growth cannot be maintained while companies chase AI solutions directly or seek to provide them to others.

⁹ M. Cembalest, 'The Blob: Capital, China, Chips, Chicago and Chilliwack', *Eye on the Market - J.P. Morgan* (24 September 2025), <https://assets.jpmprivatebank.com/content/dam/jpm-pb-aem/global/en/documents/eotm/the-blob.pdf>, (accessed 29 September 2025).

¹⁰ B. Vigliarolo, 'Oracle will have to borrow at least \$25B a year to fund AI fantasy, says analyst', *The Register* (29 September 2025), https://www.theregister.com/2025/09/29/oracle_ai_debt/#:~:text=As%20part%20of%20its%20%24300,required%2C%20according%20to%20KeyBanc's%20projections, (accessed 29 September 2025).



Table 3: International equity and select sector expectations at 30 September 2025

Asset class	Prem/Disct vs 10Y median forward P/E	EPS growth (next 2Y) vs 10Y median	Forward profit margin vs 10Y median
International equities	21.0%	2.7%	2.4%
Global listed infrastructure	-3.3%	1.9%	2.6%
Global listed property	1.6%	1.0%	0.1%

Source: Bloomberg, PPSPW calculations

We also continue to see pockets of value in other sectors including global listed property and infrastructure assets that share a stronger outlook but trade at comparable discounts to their long-term average valuation and offer attractive opportunities in our view.

The economic outlook has also improved. US growth expectations for 2025 and 2026 have inflected higher as trade concerns have abated. Absent a meaningful slowdown in the US jobs market, we could see further improvement in the growth outlook eventuate as well. We also know that policy is unlikely to be a headwind in the near-term amidst central bank rate cuts and larger fiscal deficits notably in Germany and still sizeable deficit spending in the US. Taken together, the economic outlook provides confirmation for the consensus optimism.

Optimism on US markets has cascaded across other regions, with valuations across the world generally more expensive than historical averages. As in the US, investor sentiment has largely been driven by expectations of an improvement in earnings more generally as the benefits of improved productivity from AI are expected to filter across almost all industries, improving both margins and profitability.

Table 4: Regional Forward Price-Earnings ratios versus long-term averages as at 30 September 2025

Region	Forward P/E ratio	15-year Average Forward P/E ratio	Potential upside/downside
USA	22.0x	16.5x	-25.2%
All Country World (ex-US)	14.6x	12.7x	-12.6%
Australia	19.2x	15.0x	-22.0%
Europe	14.3x	13.2x	-7.8%
Emerging markets	13.3x	11.0x	-16.9%
Japan	16.0x	13.9x	-13.1%
UK	12.8x	12.1x	-5.6%
China	12.8x	10.4x	-19.3%

Source: Bloomberg.



Conclusion

Recommendation: *Remain neutral.*

Global economic momentum is improving after the initial concerns of the Trump Administration tariff policies. Policy settings remain largely supportive, both in terms of government spending and interest rates. The unprecedented boom in AI infrastructure spending remains a strong tailwind for growth. We are arguably only in the formative stages of AI development and so any near-term slowdown appears unlikely. While valuations remain expensive relative to historical averages, the economic backdrop and business fundamentals remain attractive. Downside risks are certainly possible but any near-term slowdown is not currently evident. On balance, we believe the outlook for corporate profits and global equities remains broadly positive but retain some level of caution given elevated valuations. Accordingly, we recommend maintaining a neutral positioning.

By Cameron Curko and Martin Fowler

Cameron Curko

Chief Investment Officer, Private Wealth

p +61 2 9228 2415

e cameron.curko@pitcher.com.au

Martin Fowler

Partner, Private Wealth

p +61 2 8236 7776

e martin.fowler@pitcher.com.au



Jordan Kennedy
Partner, Private Wealth

p +61 2 9228 2423
e jordan.kennedy@pitcher.com.au



Andrew Wilson
Partner, Private Wealth

p +61 2 9228 2455
e a.wilson@pitcher.com.au



Authors

Martin Fowler
Partner, Private Wealth

p +61 2 8236 7776
e martin.fowler@pitcher.com.au



Cameron Curko
Chief Investment Officer,
Private Wealth

p +61 2 9228 9173
e cameron.curko@pitcher.com.au