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FY25 Wrap-Up: Markets, Super & What Lies Ahead

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Economic Update
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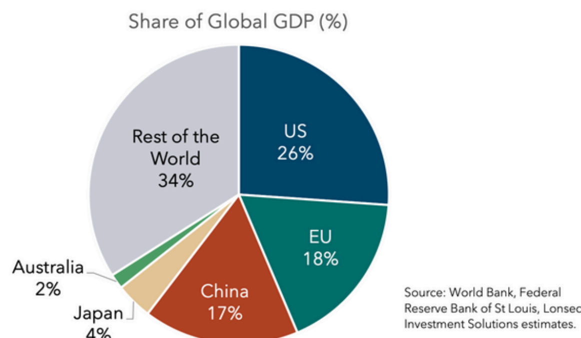
As FY25 closes, we're pleased to share highlights from the latest Quarterly Economic & Market Update (June 2025), prepared by Evidentia — the new brand formed through the merger of Lonsec and Evidentia.

Through our ongoing partnership with Evidentia, we have access to independent, high-quality investment research to help guide your portfolio decisions.

Key macroeconomic themes for investors:

- **Geopolitical tensions remain contained:** Conflicts in Ukraine, Israel, and Iran have not escalated beyond current levels, helping to limit broader market disruption.
- **Economic data shows slower, but stable growth**: Recent "hard" data points to a softening in activity, though not to a degree that signals significant macroeconomic deterioration.
- **Share markets rally despite stretched valuations:** Shares have returned to previous highs, even as valuations remain elevated.
- **Credit markets suggest lower recession risk**: Default risk, often a leading indicator of recession, has eased according to high yield bond pricing.
- **Tariff risks persist, but outlook improves:** While trade uncertainty remains, the removal of worst-case tariff scenarios brings greater clarity to the baseline outlook.
- **Inflation trends remain supportive:** Inflation continues to moderate, reinforcing central banks' easing bias. We view the recent uptick in US inflation as temporary and linked to tariffs, which are still low in absolute terms.
- **Watching for turning points:** We continue to monitor hard data closely for signs of either renewed deterioration or an improving economic backdrop.

The global economy is dominated by four countries/regions and the Services sector. The US, European Union, China, and Japan (the Big 4) account for 64% of the global Gross Domestic Product (GDP), with Australia and the rest of the world making up the balance. What happens in these four countries/regions will have a disproportionate impact on the global economy.



Services now dominate economic activity across major global economies, including the "Big 4". In the US, services account for approximately 72% of GDP — underscoring the sector's central role in driving growth. This trend is echoed in other developed markets, where services have outpaced manufacturing as the primary economic engine. Even in China, long considered the manufacturing hub of the world, services now make up the majority of economic output, highlighting the structural evolution of the global economy.

The services sector remains a critical driver of economic activity across major economies, and current indicators suggest it is still expanding—albeit modestly. According to the Services Purchasing Managers Index (PMI), the average reading across the US, Eurozone, Japan, and China remains slightly above the 50 threshold, indicating continued (though soft) expansion. Australia's PMI also hovers just above this level. Despite the subdued pace, even mild growth in the services sector can help support global economic momentum. However, it's worth noting that both the US and Eurozone PMIs have recently dipped below 50, raising concerns about potential slowdowns in these regions.

Retail sales trends, which underpin the strength of the services sector through household consumption, show a stabilising picture. While growth in consumer spending has levelled off heading into 2025, the overall trajectory remains positive. This suggests that although consumers are exhibiting some caution, demand is still holding up well enough to support services activity in the near term.

Why are households still spending? Household spending has remained resilient thanks to the continued strength in the labour market. Unemployment rates across major economies remain at or near multi-decade lows, supporting consumer confidence and limiting the risk of a sharp pullback in consumption. While unemployment is a lagging indicator, the current low levels suggest that any meaningful deterioration would need to be either unusually rapid or prolonged to pose a threat to household spending.

At the same time, global industrial production — which serves as a proxy for manufacturing activity — has moved past the recessionary concerns of 2023. After a period of contraction, the data now show a clear upward trend, reinforcing the broader picture of a gradually stabilising global economy.

Tariffs are dampening global growth expectations, with the United States bearing the brunt of the downgrades. OECD forecasts show that US GDP growth for 2025 has been revised down significantly — from 2.4% in December 2024 to just 1.6% by June 2025. While global growth forecasts have also edged lower, the scale of the revision is notably more modest compared to the sharp adjustments seen for the US.

The economic impact of tariffs is beginning to show up in "hard" data, with clear signs of a slowdown — but not to an alarming degree.

Australian household spending has been a weak contributor to GDP growth over the past year, accounting for only about 25% of its typical historical impact. This subdued contribution is evident in the breakdown of GDP components, where government spending — particularly on services and infrastructure — has played a disproportionately large role in sustaining economic activity.

There are tentative signs of easing pressure for Australian mortgage holders. After a sharp rise, interest payments as a share of employee compensation appear to have peaked at 9.7% (September 2024), suggesting the worst of the financial squeeze may be behind us. At the same time, variable mortgage rates have eased, and housing debt has moderated from its highs. These developments could help improve household sentiment and spending capacity, reinforcing the early signs of recovery seen in retail sales data. As financial conditions stabilise, households may gradually return as a more meaningful driver of Australian economic growth.

EOFY Superannuation & Regulatory Updates – FY26

- Superannuation Guarantee (SG) increased to 12% Employers are now required to contribute 12% of your ordinary time earnings to superannuation (up from 11.5%).
- Contribution caps remain unchanged:
  - Concessional cap (pre-tax): $30,000.
  - Non-concessional cap (after-tax): $120,000, or up to $360,000 using the bring-forward rule.
  - Transfer balance cap: $2 million (up from 1.9 million).
- Tax and threshold changes: While no major changes to personal income tax were legislated this year, we continue to monitor proposed adjustments in future budgets. If you'd like to review how these changes affect your super, retirement plans, or broader strategy, we're here to help.

Contact us on 1300 852 862 or emailus@rocketfinancial.com.au to set up an appointment today.

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If you require assistance with any of the above matters, please reach out and our team will be happy to assist.

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