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Market Update to End-December 2025

Market Key Points:

- Global markets closed the year on a mixed but generally steady footing, with every major asset class delivering positive returns over the year for the first time since the COVID-19 pandemic.
- US equity markets were broadly flat, whilst international share markets were broadly positive in December.
- Fixed interest performance was generally negative into year end, largely driven by rising long-term yields.

Australian Equities

The S&P/ASX 200 Accumulation Index rose by 1.3% in December, with three of the 11 sectors closing higher for the month. The Materials sector (+6.7%) led the gains, while the Financials sector (+3.4%) and the Property sector (+2.0%) were the only other sectors to rise. The Information Technology sector (-8.7%) and Health Care sector (-7.1%) led the declines. The S&P/ASX Small Ordinaries Index rose 1.4% in December, taking the past twelve months gains to 25.0% compared to a 10.3% rise in the S&P/ASX 200 Accumulation, as smaller companies continue to outperform large caps.

At its December meeting, the RBA maintained interest rates at 3.6%, matching market expectations following the recent surge in inflation. The Board noted that whilst recent data suggested that inflation risks had tilted to the upside, it would take longer to fully assess the persistence of inflationary pressures.

The unemployment rate came in at 4.3% in November, in line with the previous months reading and slightly below expectations, whilst the number of employed dropped 21,300, missed on market expectations of a 20,000 increase and down on the 41,200 increase in the month prior.

Global Developed Equities

Global equities were mixed in December, with developed market equities down 0.9% (MSCI World NR Index (AUD)). US equities were broadly flat, with the S&P 500 Index edging down by 0.1%, up 16.4% over the past 12 months, shaking off mid-month volatility and drawing support from the US Federal Reserve's December rate cut.

Across developed markets, value (+1.4%) outperformed growth (-0.4%), whilst quality (+0.3%) and momentum (+0.7%) also outperformed. Global small caps underperformed in December, returning -0.8%.

European equity markets were mostly positive, with the UK's FTSE 100 Index up 2.2% and Germany's DAX Index up 2.7%. In Japan, the Nikkei 225 was up slightly by 0.2%, with the rolling year returns at an impressive 26.2%.

On the economic front, the Federal Reserve cut interest rates by 25 basis points early in the month, as widely expected, taking the overnight borrowing rate to 3.50-3.75%. The Committee continue to remain in disagreement on the path of interest rates moving forward with the 'dot plot' indicating just one more reduction in 2026 and another in 2027.

The annual inflation rate came in at 2.7% in November, below expectations, down on the 3.0% last reported in September and marking the lowest level since July. Core inflation also came in below expectations and prior readings at 2.6%. 3Q25 GDP was strong at an annualised rate of 4.3%, the highest reading in two years and up on the 3.8% growth rate in 2Q25. Growth was mostly the result of increased consumer spending, exports and government spending. Overall commodity prices fell in December, with the S&P Goldman Sachs Commodity Index (USD) falling 1.2%. Copper remains strong, rising 10.9% in December and now up 21.8% over the past three months, as did gold, which gained 1.9% during the month, bringing its three-month and twelve-month gains to 11.9% and 64.6%, respectively. Iron ore rose 2.6% in the month, while oil prices declined again, down 2.1% as concerns about oversupply persist.

A new year is often a good time to pause and reassess. If you, or a family member or friend, have set new goals, experienced changes, or want to ensure your strategy is still aligned, we're here to help.

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

Emerging Market Equities

Emerging market equities outperformed developed markets in December, rising 1.3% (MSCI Emerging Markets Index (AUD)). In China, the CSI 300 reversed last month's decline, gaining 2.3% in December, as chipmaker and technology stocks led the rally.

Economic data from China showed some life in December with the NBS Manufacturing PMI unexpectedly rising to 50.1, above expectations of 49.2 and marked the first expansion in factory activity since March. Industrial production rose 4.8% year-on-year in November, slightly down on the 4.9% in the month prior and below expectations of 5.0%, whilst retail sales fell sharply from 2.9% in October to 1.3% in November, the slowest yearly rise since December 2022.

Fixed Income

Fixed income performance was generally negative across much of the U.S. and global markets, largely driven by rising long-term yields. U.S. 10-year Treasury yields finished the month 15 basis points higher at 4.17%, whilst the short-end of the curve fell following the rate cut by the Federal Reserve during the month, as members remain in disagreement on the future path of rate cuts. Japanese government bonds rose sharply again as the Bank of Japan voted unanimously to raise interest rates to 0.75%, the highest level since 1995. The 10-year government bond rose 27 basis points in December, and mid-month reached the highest level seen in the last 17 years.

Domestically, Australian 10-year bond yields increased again, rising by 22 basis points in December, ending the month at 4.74%, as strong inflation data continues to extinguish any thoughts of interest rate cuts in 2026.

Emerging Market Equities

The S&P/ASX 200 A-REIT Accumulation Index rose by 2.0% in December, bringing its rolling annual return to 9.2%. Global real estate equities underperformed, falling by 1.4% during the month, as shown by the FTSE EPRA/NAREIT Developed NR Index (AUD Hedged). Global infrastructure also underperformed, down 1.2% in December, as measured by the S&P Global Infrastructure TR Index (AUD Hedged).



General transfer balance cap increasing to \$2.1 million on 1 July 2026, other caps/thresholds look set to

Following the release of the December quarter inflation data, the general transfer balance cap is expected to increase from \$2.0 million to \$2.1 million on 1 July 2026. This means clients commencing a retirement income stream in the 2026–27 financial year will be able to transfer up to \$2.1 million into tax-free retirement phase. Clients who already have a retirement income stream may see their personal cap increase by less than \$100,000, depending on how much of their cap has previously been used, due to proportional indexation rules. The higher cap also affects other superannuation thresholds, with a total super balance of less than \$2.1 million required to make non-concessional contributions, access the government co-contribution or claim a spouse contribution tax offset, while the defined benefit income cap is expected to rise to \$131,250. In addition, based on current wage data, the concessional contributions cap is also likely to increase from \$30,000 to \$32,500 from 1 July 2026, with final confirmation expected later this year.

Source: FirstTech Latest News – Colonial First State



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