rocket science

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Market Update

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Market observations & outlook

Market sentiment improved through the June quarter as global share markets rebounded strongly from the March sell-off. Resilient economic data, solid corporate earnings and continued investment in artificial intelligence underpinned the recovery, while investors increasingly looked through the conflict in the Middle East. A tentative US-Iran peace agreement late in the quarter reinforced this trend by easing concerns around energy supply disruptions, contributing to a sharp fall in oil prices and providing a more supportive backdrop for financial markets.

Global share markets outperformed Australian shares over the quarter. The US, Europe and Japan all delivered strong gains as resilient earnings and continued investment in artificial intelligence supported technology and other growth-oriented sectors, while emerging markets outperformed on the back of exceptional returns in Korea and Taiwan as demand linked to semiconductor manufacturing remained robust. Australian shares also delivered solid returns, supported by broad gains across most sectors, particularly information technology, consumer discretionary and materials, while weakness in energy reflected the sharp decline in oil prices.

Australian and global fixed interest markets also delivered positive returns. Australian bonds outperformed as domestic bond yields declined, while global bonds produced more modest gains despite US yields edging higher late in the quarter. Credit markets remained resilient, supported by confidence in corporate fundamentals, although historically tight credit spreads continue to limit prospective returns.

Looking ahead, the broader macroeconomic backdrop remains supportive, particularly in the US, where resilient earnings, healthy profit margins, solid employment and consumer spending continue to underpin growth. Investment in artificial intelligence also remains a powerful structural driver, supporting technology companies directly while increasingly benefiting communications, infrastructure and semiconductor supply chains. However, elevated valuations leave less room for disappointment, reinforcing the importance of disciplined portfolio construction.

Central banks are also likely to remain an important influence on markets. In Australia, the softer-than-expected June quarter inflation outcome has reduced the likelihood of another near-term increase in the cash rate, although inflation remains above target and monetary policy is expected to remain restrictive for some time. In the US, inflation also remains a key focus, suggesting interest rates are likely to stay higher for longer than markets had previously expected. Together, these developments reinforce the importance of earnings quality, sensible valuations and maintaining diversified portfolios.

Geopolitical risks have also returned to the forefront. The improvement in market sentiment following the US-Iran peace agreement proved temporary, with renewed conflict highlighting the fragility of the situation and the potential for further disruption to regional shipping routes and energy infrastructure. The recent rebound in oil prices serves as a reminder that energy markets remain vulnerable to geopolitical developments, which could add to inflation pressures, increase the odds that central banks need to tighten monetary policy and contribute to further periods of market volatility.

Overall, the current environment continues to reward selectivity. Investors do not need to abandon risk, but the combination of resilient earnings, sensible valuations and a clear understanding of central bank policy remains critical when identifying opportunities. Maintaining diversification, discipline and a focus on quality should help portfolios navigate periods of uncertainty while remaining well positioned for long-term growth.

Major asset class outlook

Australian shares

Australian shares recovered over the June quarter, with the S&P/ASX 200 Index rising +4.0% to finish within sight of its all-time high. Investor confidence improved as oil prices retraced, bond markets stabilised, and concerns around a prolonged Middle East energy shock eased. Gains were broad but uneven, led by consumer discretionary, information technology, listed property, industrials and materials. Energy was the clear laggard as oil prices fell sharply, while financials delivered only modest gains. Smaller companies also participated in the recovery, with the S&P/ASX Small Ordinaries Index rising +3.3%, modestly underperforming the broader market. Despite the recovery, Australian shares have continued to lag major global markets, reflecting a weaker earnings backdrop, limited exposure to beneficiaries of artificial intelligence, and the domestic economy's more restrictive monetary policy environment.

International shares

Global share markets rebounded strongly over the June quarter as easing geopolitical tensions, resilient economic data and solid corporate earnings restored investor confidence. A tentative US-Iran peace agreement late in the quarter helped alleviate concerns around energy supply disruptions, driving oil prices sharply lower and reducing immediate inflation fears. The MSCI All Country World Index returned +13.6% unhedged and +14.9% hedged over the period. The recovery was broad-based, led by the US, Europe and Japan, withtechnology and other growth-oriented sectors outperforming. Emerging markets outperformed significantly,with the MSCI Emerging Markets Index rising +22.6%, driven by exceptional returns in Taiwan and South Koreaas demand linked to semiconductor manufacturing remained strong. Global small companies also participatedstrongly in the rally, with the MSCI World ex Australia Small Cap Index returning +14.0%.

Property and infrastructure

Property and infrastructure delivered positive returns over the June quarter. Global listed property performed well, with the FTSE EPRA/NAREIT Developed Index (hedged) returning +8.8%, supported by improving sentiment towards interest rate-sensitive assets and lower bond yield volatility. Infrastructure also advanced, with the FTSE Global Core Infrastructure 50/50 Index (hedged) rising +2.6%, underpinned by its defensive earnings profile and continued demand for essential infrastructure assets.

Global listed property valuations remain attractive relative to international shares. Although the recent rally has reduced twelve-month forward yields to around 3.9%, valuations remain attractive relative to international shares.

The long-term outlook for infrastructure also remains favourable. Structural tailwinds from electrification, decarbonisation, digital infrastructure and artificial intelligence continue to support increased capital expenditure, supporting an expansion in regulated and contracted asset bases.

Fixed interest

Fixed interest markets rebounded over the June quarter as inflation concerns eased, geopolitical tensions stabilised, and bond market volatility moderated. The Reserve Bank of Australia increased the cash rate in May before leaving policy unchanged in June, while the US Federal Reserve also kept interest rates on hold even though inflation remained above target. The easing in Middle East tensions late in the quarter also helped reduce concerns around energy prices and inflation, providing a more supportive backdrop for bond markets.

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