Goldilocks and the Golden Bear

Investment Outlook

H2 2025

Financial adviser use only.
Not for distribution to retail clients.

Contributors

This report was prepared with the input and oversight of the Betashares Investment Strategy and Research Group.

Cameron Gleeson

Senior Investment Strategist

Cameron works alongside the portfolio management team and is responsible for leading research, commentary and insights for Betashares' client base. He also assists clients with portfolio construction across all asset classes.

Louis Crous, CFA

Chief Investment Officer

Louis is responsible for the Portfolio Management function at Betashares and has been involved in the launch of all of the firm's Exchange Traded Funds. He is a voting member of Betashares' Investment Committee and oversees the Investment Strategy and Research Group.

David Bassanese

Chief Economist

David is responsible for developing economic insights and portfolio construction strategies for adviser and retail clients. He is a voting member of the Investment Committee, and he shares responsibility for the strategic and dynamic asset allocation decisions for the Betashares model portfolios. He writes about macroeconomics and markets specialising in debt, derivatives and monetary policy.

Chamath De Silva, CFA

Head of Fixed Income

Chamath is responsible for managing Betashares' fixed income ETFs and leading the fixed income product development. He is a voting member of the Investment Committee, and he shares responsibility for the strategic and dynamic asset allocation decisions for the Betashares model portfolios.

Tom Wickenden, CFA

Investment Strategist

Tom is responsible for undertaking investment research, analysis and providing market-leading research to clients.

Hugh Lam, CFA

Investment Strategist

Hugh is responsible for supporting distribution channels and assisting clients with portfolio construction across all asset classes.

Contents

Introduction

Executive Summary

After a strong 2024, markets entered 2025 with elevated valuations, higher bond yields, and a very different mix of risks and opportunities. In our first-half outlook, we highlighted a Goldilocks backdrop of easing inflation and resilient growth, alongside themes of US exceptionalism, AI's monetisation moment, and rising political uncertainty.

Some of these calls held firm - equity earnings proved resilient and AI investment remains a powerful driver - while others, such as the path of disinflation and the durability of broad global growth outside the US, were challenged.

As we look to the second half, the drivers are evolving. In the US, government announcements continue to shape the near-term environment - tariffs, trade negotiations, and Trump's One Big Beautiful Bill have added volatility and slowed the Fed's cutting cycle. Over the longer term, corporate earnings are driving markets, with mega-cap US tech still leading but momentum broadening and the new economy outpacing the old. In Australia, stretched valuations and persistent earnings downgrades leave less room for error, while globally, rising geopolitical tensions, a push for national self-sufficiency in defence capabilities, cybersecurity, and critical technologies are reshaping the opportunity set.

> We maintain a Goldilocks outlook for the economy while flagging that the Golden Bear (Donald Trump) led US administration heightens uncertainty and the risk of volatility along the way.

.

Our Chief Economist's views

David Bassanese

Economic Review and Outlook

Weaker growth allows inflation and interest rate to fall

Australia's economy has experienced a marked slowdown in growth over recent years.

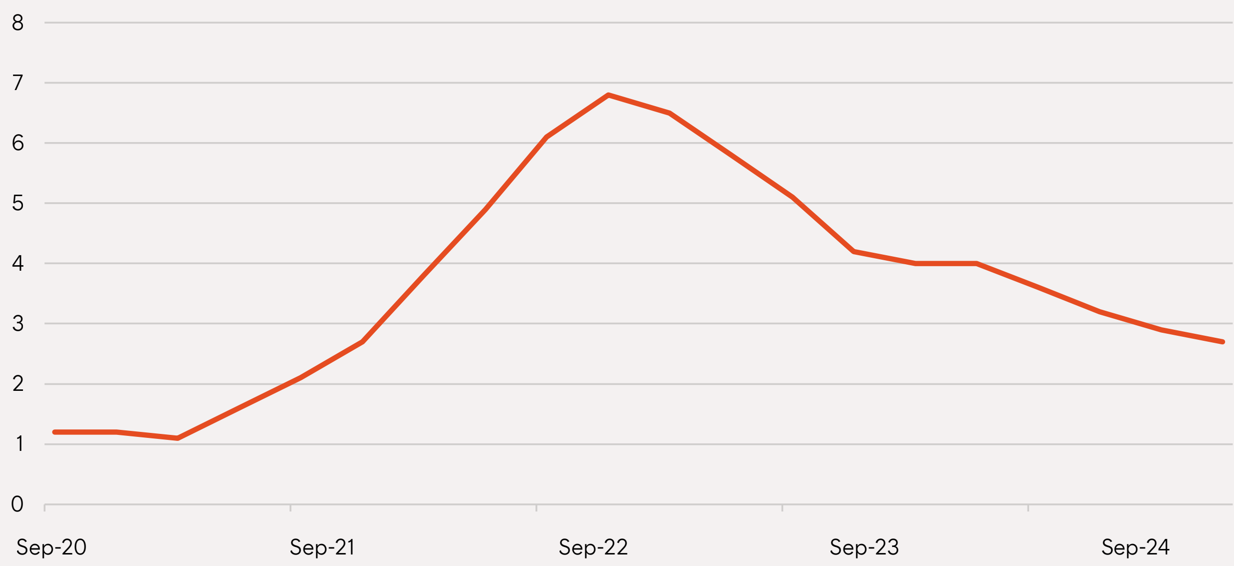
This primarily reflects a pullback in consumer spending, driven by a combination of higher interest rates, weak household income growth, and general consumer caution. After a strong post-COVID rebound where annual economic growth averaged between 4% and 6% from 2021 to mid-2022, growth has decelerated sharply. By the September quarter of 2024, annual growth had slowed to just 0.8%.

Source: *Betashares, Bloomberg.*

The silver lining to this slowdown is that inflation has gradually come down from its post-pandemic peaks. Underlying inflation, as measured by the trimmed mean, slowed to 2.7% annually in the June quarter of 2025. This easing in inflation has been broad-based, affecting goods, services, and housing costs alike. The Reserve Bank of Australia (RBA) has responded by reducing the official cash rate three times this year, bringing it down to still modestly restrictive 3.6%.

.

Australian trimmed mean Inflation (YoY%)



Source: *Betashares, Bloomberg.*

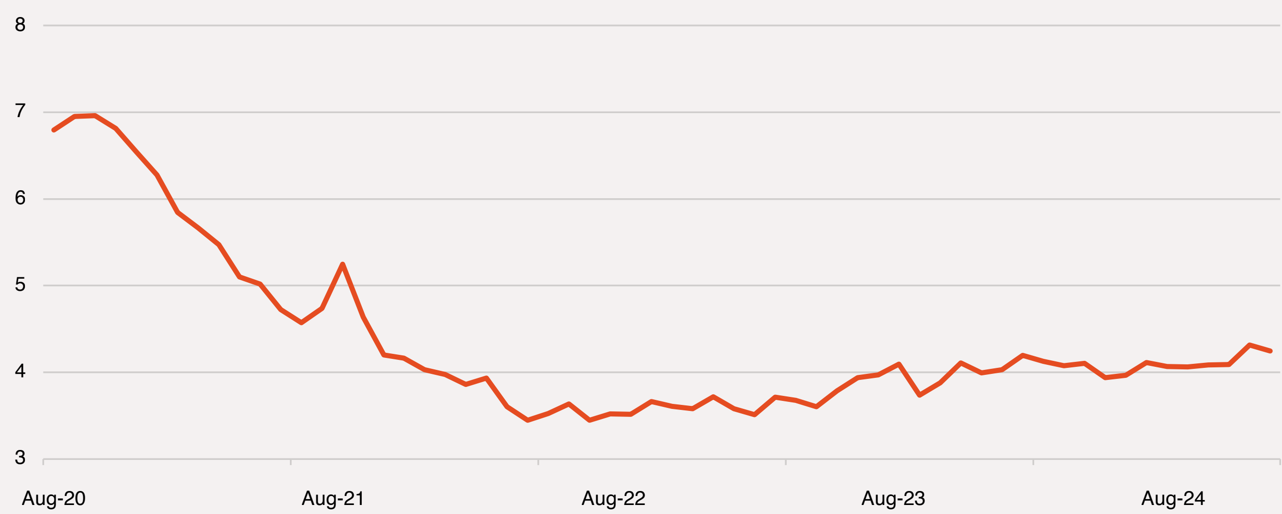
As inflation and interest rates have declined, and household incomes have seen modest gains, consumer spending has shown signs of gradual improvement since mid-2024.

The economy recorded a solid 0.6% growth in the December quarter of 2024. Although growth slowed to 0.2% in the March quarter of 2025, annual growth improved to 1.3%.

Employment has generally held up well despite sluggish overall growth. This is largely due to higher immigration supporting labour supply and strong demand for workers in health, education, and disability care. The unemployment rate has risen gradually from a record low of 3.5% in July 2022 to just above 4% by mid-2025, which remains a relatively low level historically.

> In the March quarter of 2025, annual ecconomic growth improved to 1.3%.

Australian unemployment rate %



Source: *Betashares, Bloomberg. Monthly data from August 2020 to July 2025.*

Strong public demand and business investment crowding out housing

Despite some recovery, cautious consumer behaviour continues to restrain economic momentum. Export growth has also moderated following a sharp post-pandemic surge, particularly in sectors like international education and tourism. Additionally, mining investment has slowed as several large liquefied natural gas (LNG) projects near completion.

On the other hand, public demand has remained robust, supported by infrastructure and household cost-of-living assistance programs along with ongoing funding of growth in the health, education, child and disability care sectors.

Non-mining investment remains solid, driven by projects in renewable energy, data centres, warehousing, and software development.

Australian public demand % of GDP

Source: *Betashares, Bloomberg. Quarterly data from September 1959 to March 2025.*

Strong capital investment in both public and private sectors has resulted in high capacity utilisation in the economy, squeezing out resources available for new housing developments despite evident shortages. However, as non-housing investment growth moderates, material and labour constraints in housing are easing. Combined with lower interest rates, this has supported a modest rebound in housing construction over the past year.

Combined with lower interest rates, this has supported a modest rebound in housing construction over the past year.

Consumer recovery should gather pace

Consumer spending remains a critical driver of Australia's economic outlook. After a brief strengthening in late 2024, spending growth has eased somewhat in early 2025, despite continued improvements in household incomes, lower interest rates, and easing inflation. However, if local inflation and interest rates continue to fall, consumer demand is likely to strengthen further in the year ahead.

The inflation outlook supports this view. Annual trimmed mean inflation is expected to decline further, potentially reaching around 2.5% or lower over coming quarters. The monthly CPI reports have remained volatile, however with annual trimmed mean inflation rising from 2.1% in June to 2.7% in July.

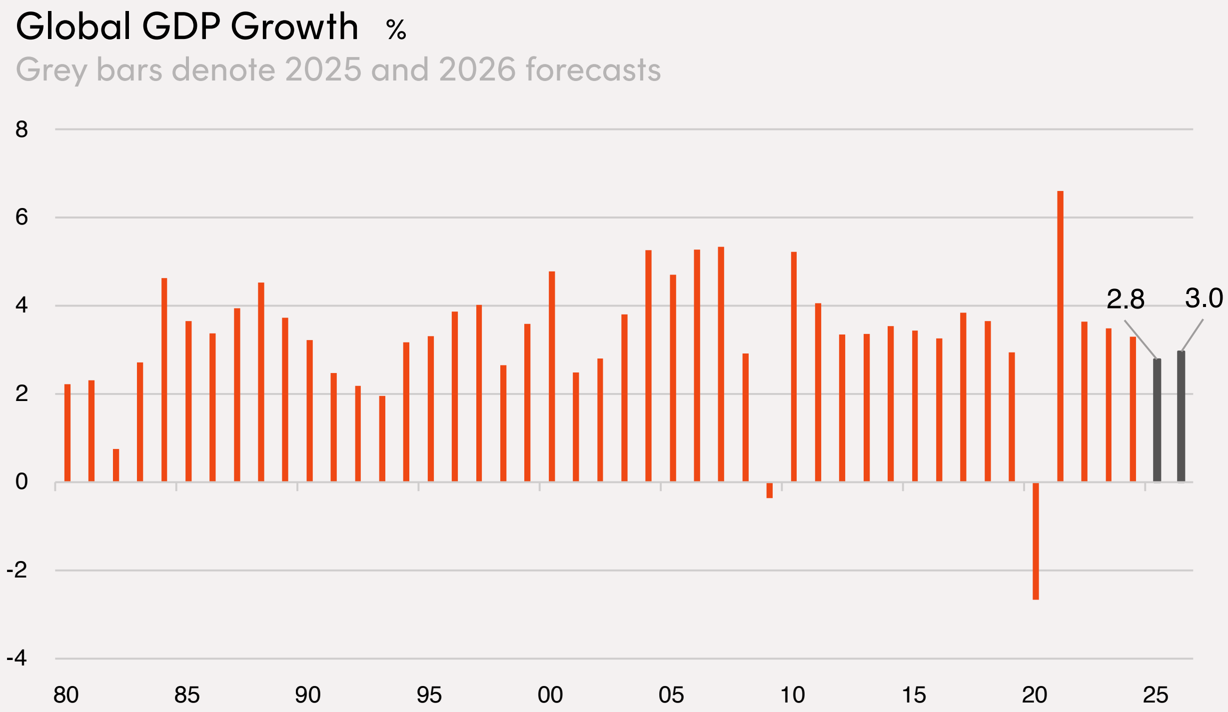
This easing inflation trajectory should allow the RBA to continue gradually lowering the official cash rate towards a more neutral or even mildly expansionary level. The current expectation is for three further rate cuts at the November 2025, February 2026 and May 2026 meetings, taking the cash rate down to 2.85%.

Economic recovery to strengthen

Overall, Australia's economy is expected to gradually strengthen over the coming year. Annual GDP growth is forecast to reach 2.1% by December 2025 and 2.2% by mid-2026. This pace, close to the country's long-term trend, should allow the unemployment rate to hold steady around 4.25% by mid-2026.

Global risks should remain contained

Globally, economic risks remain significant, largely due to ongoing conflicts in Europe and the Middle East and uncertainties surrounding US trade policies. After rebounding strongly from the 2020 COVID recession, global growth averaged around 3.5% annually through to the end of 2024. However, growth is forecast to slow to just under 3% in 2025, before a modest recovery in 2026.



Source: *Bloomberg, Betashares. Ast 15 August 2025. Actual results may differ materially from forecasts.*

A key factor in this outlook is the uncertainty surrounding US tariffs. A key judgement remains that US President Trump will avoid imposing tariffs at levels severe enough to trigger a recession. Instead, tariff increases are expected to lead to temporary upward pressure on inflation and downward pressure on growth.

This temporary inflation boost should also allow the US Federal Reserve to "look through" tariff-related price pressures and continue lowering interest rates later in 2025. While market volatility could re-emerge as tariff effects impact on the economy, to some extent these have long been anticipated by investors and already priced in.

Regarding geopolitical tensions, the conflicts in Europe and the Middle East are expected to remain contained. There is even some prospect that these disputes could de-escalate over the next year through ceasefires and peace negotiations.

Market Review and Outlook

Bond yields should ease despite public debt concerns

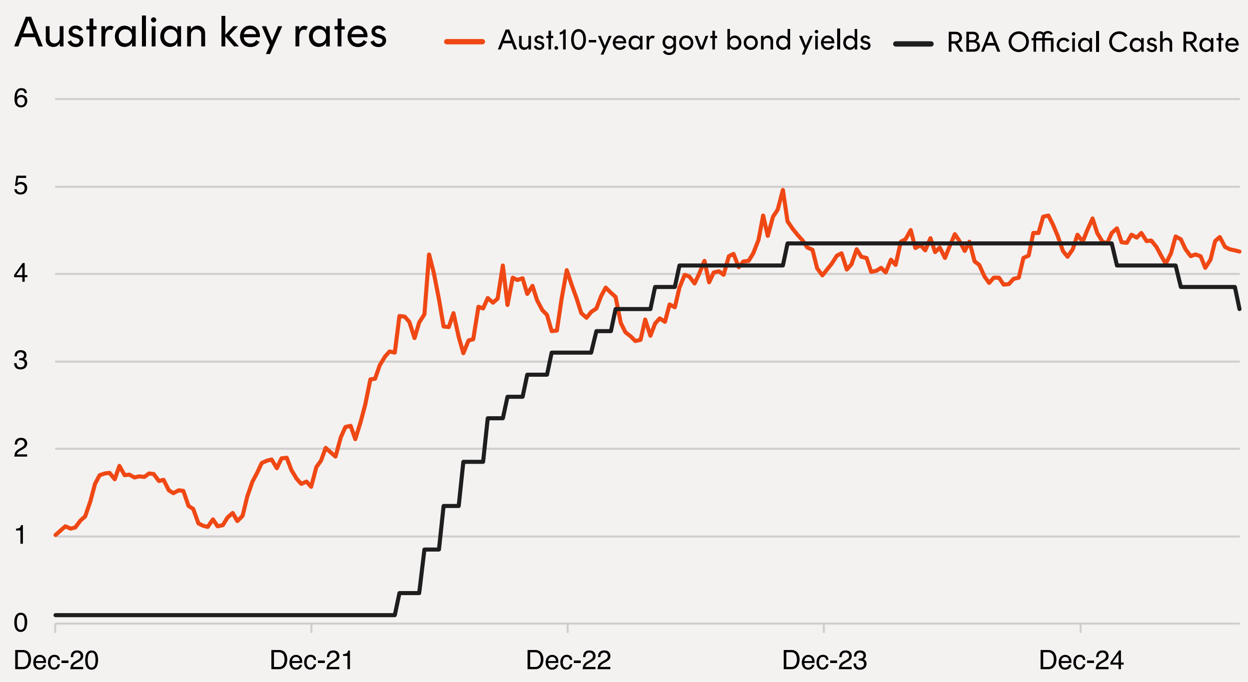
Despite easing inflation and central bank rate cuts, Australian longer-term bond yields have remained volatile within a broad sideways range over the past year.

This has reflected premature market expectations of rate cuts, intermittent sticky inflation readings, and concerns about rising government debt levels, especially in the United States.

Looking ahead, further reductions in both local and global underlying inflation, combined with additional central bank rate cuts, should help push long-term bond yields lower. This is expected despite ongoing risks related to rising US public debt especially.

As noted above, the RBA is likely to continue cutting rates as inflation eases. The US Federal Reserve is also expected to resume its rate-cutting cycle later this year, despite near-term uncertainties related to tariffs. Markets are expected to maintain a modest easing bias for short-term interest rates over this period.

Accordingly, Australian 10-year government bond yields are forecast to decline to around 4% by the end of 2025 and fall further to approximately 3.75% by mid-2026. This environment should favour fixed-rate bond returns, which are likely to outperform cash during this period.



Source: *Bloomberg, Betashares. As at 13 August 2025.*

However, a significant risk to bond markets is a potential sell-off triggered by the large US budget deficit and rising government debt, especially given recent US income tax cuts. While such a scenario could be disruptive, the failure of bond yields to fall much over the past year – despite easing inflation and central bank rate cuts - suggests some of these concerns may already be priced in.

Australian 10-year government bond yields are forecast to decline to around 4% by the end of 2025

A weaker $US favour a stronger $A

The Australian dollar's value against the US dollar is heavily influenced by the latter's performance against other major currencies. Typically, a stronger US dollar results in a weaker Australian dollar, and vice versa.

From a peak near US78 cents in mid-2021, the Australian dollar weakened steadily, hitting about US60 cents in early April 2025. This reflected earlier more aggressive interest rate hikes by the US Federal Reserve and investor preference for the stronger-performing US equity market.

$1US per 1A

Source: *Bloomberg, Betashares. As at 14 August 2025.*

However, in 2025 the Australian dollar has strengthened against the US dollar despite weaker iron ore prices. The main reason has been broad-based US dollar weakness driven by uncertainty in US economic policy.

Interestingly, the US dollar has remained weak even as US equity markets have rebounded since April and outperformed global peers. This points to structural factors, such as the historically high real value of the US dollar and ongoing US policy uncertainties, which may keep the US dollar weak despite a "risk-on" environment. It also points to global investors retaining US equity exposure but increasing their levels of currency hedging to mitigate the impacts of further USD weakness. The expected Federal Reserve rate cuts later this year should further support this trend.

As a result, the Australian dollar is projected to rise to around US68 cents by the end of 2025 and reach US70 cents by mid-2026.

The Australian dollar is projected to rise to around US68 cents by the end of 2025 and reach US70 cents by mid-2026.

Equities to grind higher on rising corporate earnings

Global equity markets have trended upward in recent years, supported by rising valuations and corporate earnings growth. Australian equities have also had positive returns but lagged offshore markets due to weaker earnings growth. This is linked to Australia's lower exposure to high-growth technology sectors and more subdued earnings in the financial and resource sectors, which are locally more prominent.

With forward price-to-earnings ratios close to 20 times, both global and Australian markets are trading at historically high valuations. In the US, these valuations are somewhat justified by consistent, strong earnings growth from large technology companies. In Australia, however, high valuations are less supported given slower earnings growth.

Nonetheless, with an improving economic outlook and steady or declining bond yields, a major valuation de-rating in either global or Australian equities appears unlikely in the near term. If current valuations hold, markets should continue to grind higher, driven by ongoing corporate earnings growth.

S&P/ASX 200

Source: *Bloomberg, Betashares. 31 December 2020 to 14 August 2025. You cannot invest directly in an index.* ***Past performance is not an indicator of future performance.***

Currrent market expectations suggest forward earnings growth of almost 10% by mid-2026 and nearly 20% by the end of that year. In turn, this reflects expected solid earnings growth across several sectors, including financials, technology and materials. Australia's earnings growth is expected to be more modest, at approximately 6% by mid-2026 and 9% by the end of that year. Australian earnings remain under some downward pressure but could see upward revisions as RBA rate cuts stimulate economic growth.

All up, assuming valuations remain stable and earnings growth improves, the S&P/ASX 200 index could reach about 9,100 by the end of 2025 and rise further to approximately 9,500 by mid-2026.

Betashares Economic & Market Forecasts: H2'25

Economy	Last	Dec-25	Jun-26	Dec-06
GDP Growth YoY%	1.34	2.10	2.20	2.20
Unemployment rate	4.24	4.25	4.25	4.25
Trimmed mean inflation YoY%	2.70	2.50	2.50	2.50
Rates				
RBA cash rate	3.60	3.35	2.85	2.85
10-yr bond yield	4.23	4.00	3.75	3.75
Australian Dollar				
$A vs.US	0.65	0.68	0.70	0.72
Shares				
S&P/ASX 200	8,939	9,050	9,500	9,750

Source: *Betashares. As at 15 August 2025. Future results are impossible to predict. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in any opinions, projections, assumptions or other forward-looking statements. Opinions and other forward-looking statements are subject to change without notice.*

Equities in focus

From Betashares Investment Strategy and Research team

Cameron Gleeson
Senior Investment Strategist

Tom Wickenden, CFA
Investment Strategist

Hugh Lam, CFA
Investment Strategist

Who's in the driver's seat: The US government or US corporates?

Reflecting on the past 12 months and thinking ahead we can break down key US equity drivers into two camps: those affecting the market's path and short-term volatility and those affecting the market's longer-term direction.

The market's path – reacting to the news flow

Uncertainty around tariff levels, the timing and form of trade deals, and substance of the One Big Beautiful Bill (OBBB) were the main near-term risks of Trump's first 8-months in office.

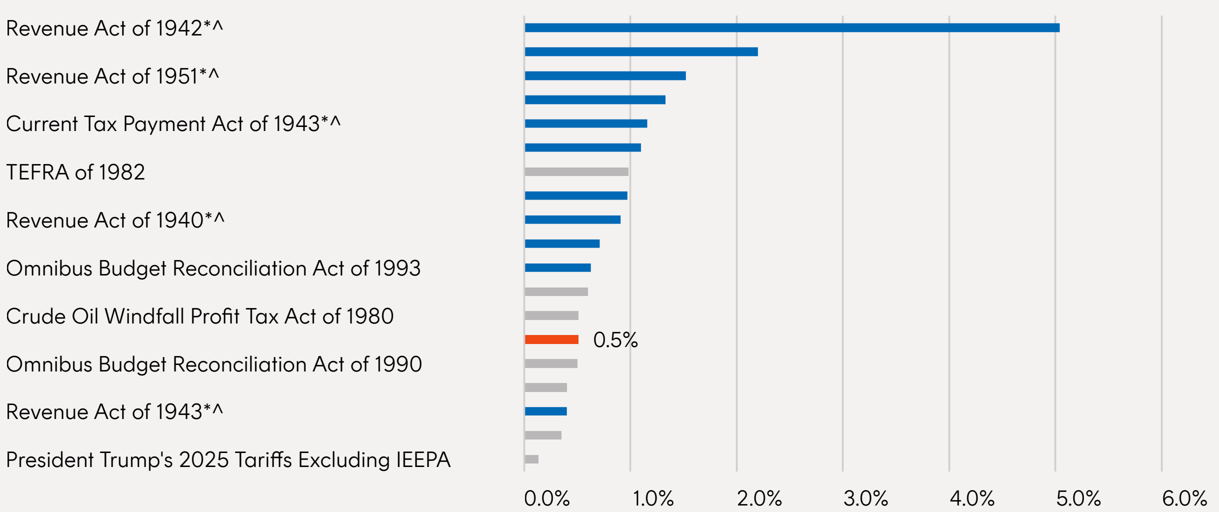
As these outcomes have become clearer, markets can shift focus to the longer-term risks: the expected impacts of implemented policies.

Trump's tariffs are a tax on consumers. As they stand, they will be the fourth largest non-war related US tax increase in history, and the largest overall tax increase since 1993.

As these outcomes have become clearer, markets can shift focus to the longer-term risks: the expected impacts of implemented policies.

Trump's 2025 Tariffs Are the Largest Tax Hike Since 1993

Average annual revenue change as a share of GDP. Blue bars indicate war-related tax laws



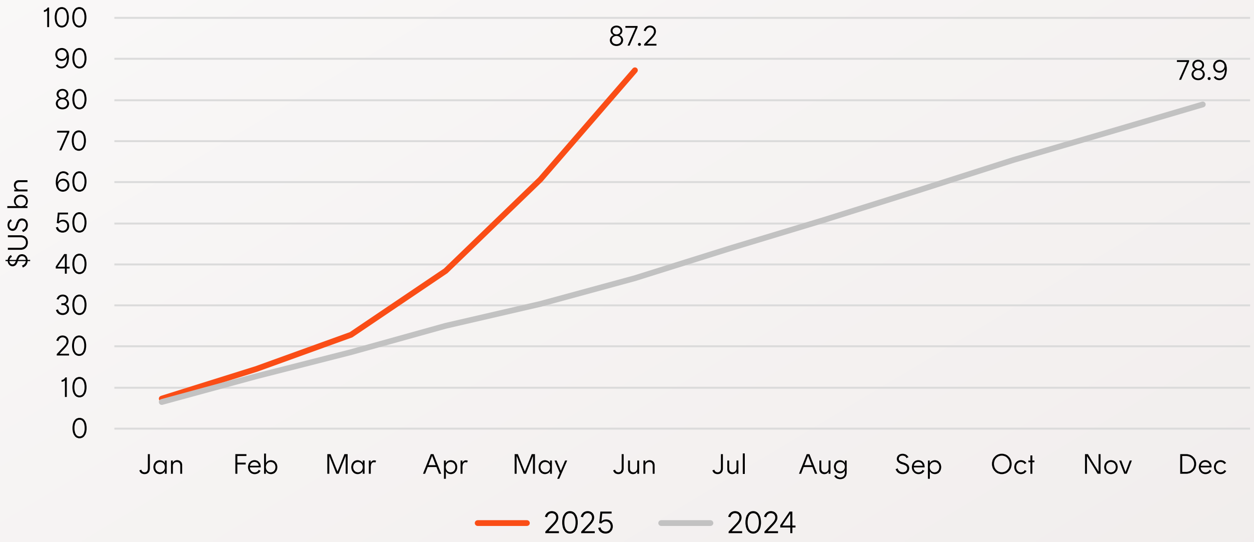
Source: *Jerry Tempalski, "Revenue Effects of Major Tax Bills"; Congressional Budget Office, "Revenue Projections, by Category"; Tax Foundation General Equilibrium Model; Author calculations. * Tax bills were fully or partially used to fund war efforts in World War II, the Korean War, or the Vietnam War. ^ The "full-year effect" for the first year of revenue was used, rather than the effect on the first fiscal year after enactment.*

They have also caused a short-term inflation risk that has forced the Fed to slow its cutting cycle, leaving rates at their highest levels since pre-GFC, at a time when the labour market has started to weaken. Each of these factors are potentially negative for consumers and confidence.

This consumer tax is offset by the additional government revenue raised which is to be put toward the US administration's goals of promoting growth, through the OBBB, while aiming to reduce the imposing US deficit.

Tariff Revenue Starts to Climb

Cumulative Monthly Customs Duties Collections, in Billions, Calendar Years 2024 and 2025



Source: *As at 15 July 2025. US Department of the Treasury, Monthly Treasury Statements.*

Taken together, according to the Tax Foundation's estimates, the US policy mix will result in a continuation of the past decade with the US government contributing to long term GDP growth, by around 0.2%, funded by a higher US deficit. With a lot of the tax cuts and spending benefitting the US corporate sector and disproportionately benefitting richer Americans.

While there are longer term implications for global trade and national industry mixes, we believe in the short-term these factors: policy uncertainty, trade deals, OBBB tax cut extensions and spending initiatives will continue to be key drivers of the path that the US market is taking. This may cause periods of higher volatility and potential market corrections.

However, without expectations of a US recession, we believe policy reaction from both the US government and Federal Reserve will be adequate in supporting markets through these short term volatility bouts.

For asset allocators and long-term investors, the direction of markets is more important than the path. And for the direction, we turn to the US corporate sector.

The direction

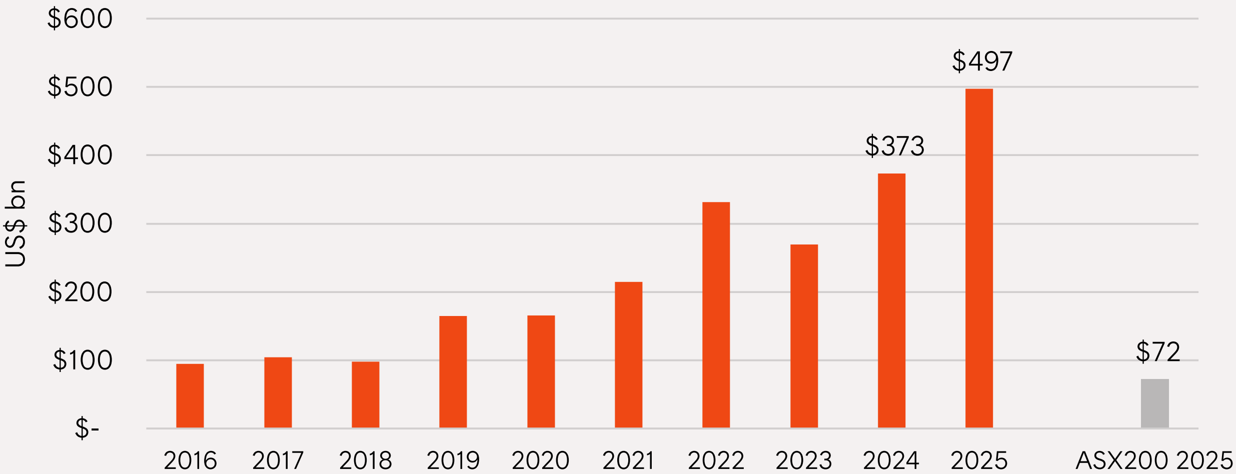
Downgrades heading into the Q2 corporate earnings season were misguided as the S&P 500 reported an impressive year-on-year (YoY) earnings growth rate of 14.8%, more than double the 4.9% expected at June 30.[I]

There was a continuation of the broadening out narrative with nine of eleven sectors reporting YoY growth in earnings and the largest earnings surprises coming from the financial and health care sectors. However, the continued influence of the big US technology companies and AI related growth cannot be overstated. Excluding the Magnificent 7 (Mag 7) would've more than halved the S&P 500's YoY earnings growth, to 4.1%.[II]

Investors now value these seven companies at 55% of US GDP, up from less than 10% a decade ago. Collectively, they increased their earnings by US$124 billion over the past 12 months – close to double the total earnings of the largest 200 companies in Australia.[III]

The earnings added by the Mag 7 last year were higher than ASX 200 companies in total

Magnificent 7 and ASX 200 company earnings



Source: *Bloomberg. Most recent reported annual earnings figures as at 8 August 2025. Mag 7 represents AAPL, MSFT, NVDA, GOOGL, AMZN, META, TSLA.*

It is important to acknowledge the growing divergence between these 7 companies that have been used as a signifier of US mega cap outperformance.

The large-scale cloud computing providers or 'hyperscalers', Amazon, Microsoft, Alphabet and Meta, are decoupling from Tesla and Apple, with Nvidia remaining a core beneficiary of the AI rollout.

Earnings growth has stemmed from core business momentum across advertising, search, e-commerce, and now AI monetisation. Meta's AI-powered algorithms are driving higher ad conversion and engagement, while Microsoft's rollout of CoPilot is boosting revenues. Data from Ramp Business Corporation shows US businesses are adopting AI with 43% now paying for one or more AI models or platforms, up from 23% at the end of last year.[IV] We believe that advancements in AI can continue to accelerate earnings from here as the hyperscalers have deep moats and AI products and services that can deliver productivity benefits to their customers.

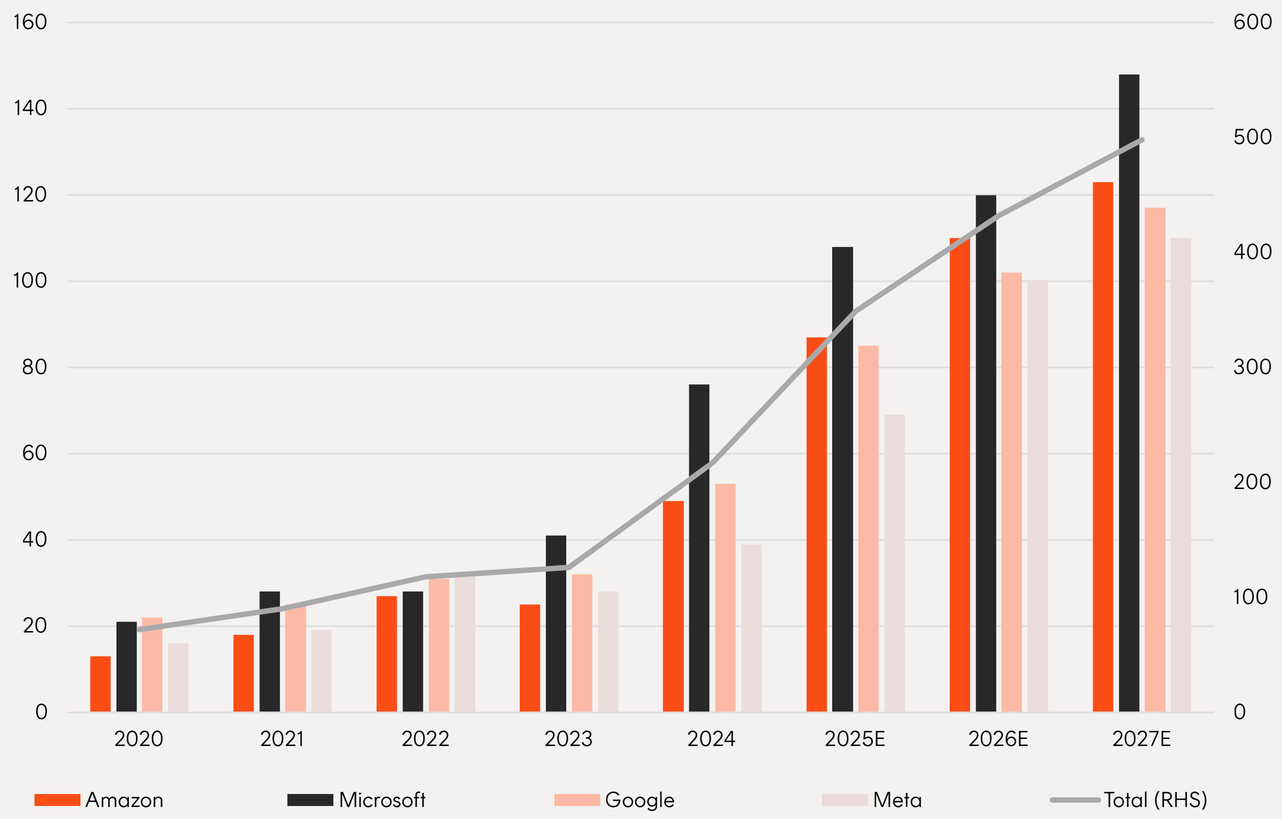
On the other hand, Tesla's business model is fundamentally different to the hyperscalers and Apple has also lost touch with the pack after facing delays in rolling out AI features that have generally underwhelmed users. The company is under increasing pressure to make a big AI acquisition to catchup to others like Meta and Microsoft.

[I] **Source:** *Factset. As at 8 August 2025*
[II] **Source:** *Bloomberg. As at 8 August 2025.*
[III] **Source:** *Bloomberg. As at 8 August 2025.*
[IV] **Source:** *Ramp Business Corporation. As at 14 August 2025.*

To expand AI's contribution further, the US hyperscalers are investing heavily, with over US$340 billion in capital expenditure planned this year alone - a scale that is already influencing US GDP growth.[V]

US hyperscalers are investing their earnings to capture future growth

Expected capex spending (US$bn)



Source: *Company data, Goldman Sachs Global Investment Research. As at 1 August 2025. Historical and projected capital investments for US cloud and hyperscale providers (post 2Q25).*

Crucially, the benefits of AI spending are also extending beyond mega cap tech.

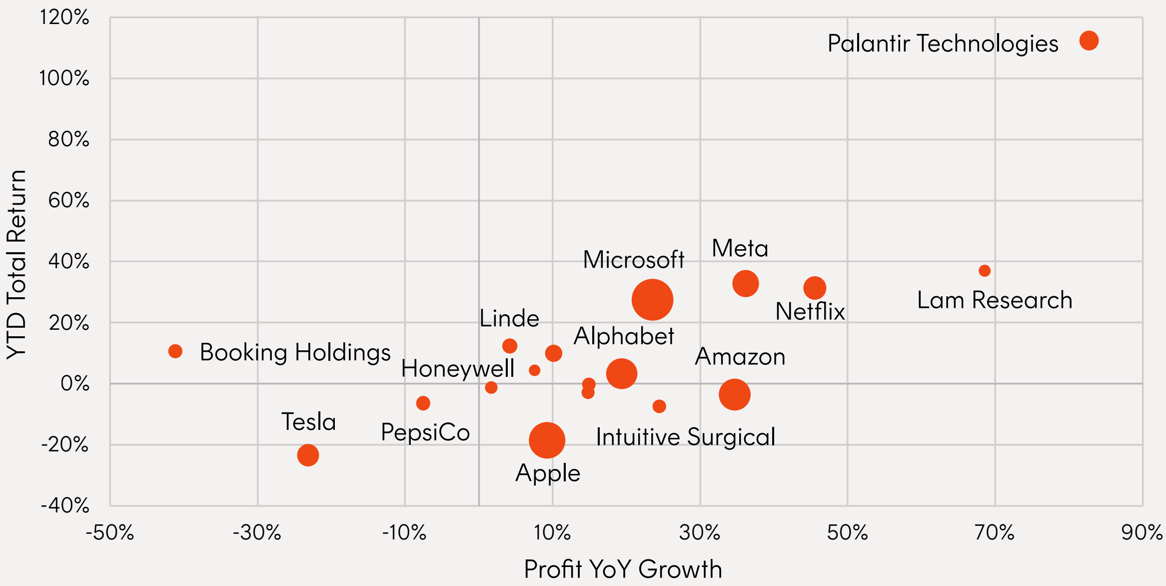
As compute capacity increases, other Nasdaq 100 technology companies are scaling rapidly, improving margins, and capturing new profit opportunities.

For example, Palantir's Foundry and Gotham platforms enable customers to expand data analytics workloads on Google Cloud, driving margin tailwinds, while Lam Research attributed strong demand for advanced semiconductor manufacturing, particularly in AI, to its growth. Both companies posted stronger Q2 earnings growth than their larger counterparts.

[V] **Source:** *Bloomberg, company reports. As at 8 August 2025.*

Strong earnings growth is broadening in the Nasdaq 100

Q2 2025 Profit Growth and YTD Return of Select Nasdaq -100 Companies



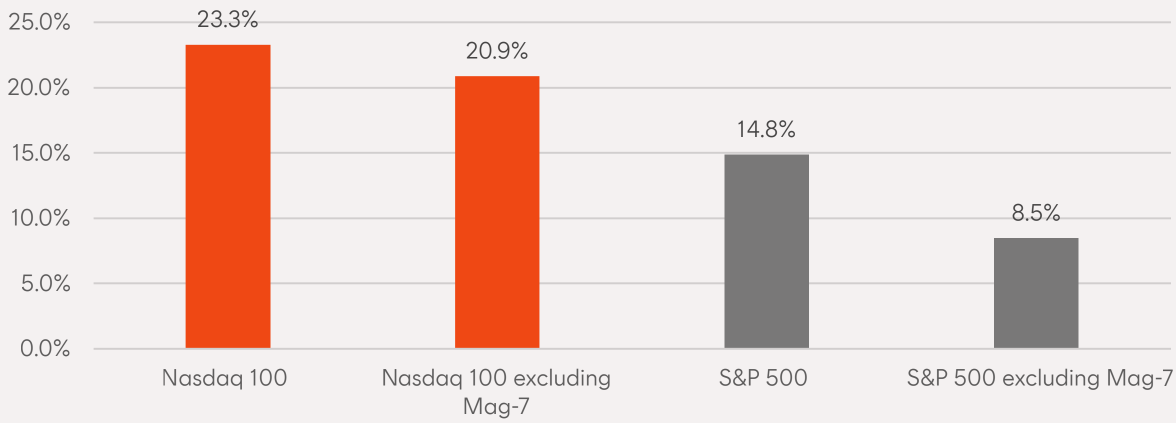
Source: *Nasdaq Global Indexes, Factset. As at 4 August 2025.*

Companies outside the mega caps within the Nasdaq 100 are on track to grow earnings by over 20%, compared with just the 4.1% for the S&P 500 excluding these same names.[VI]

This divergence underscores the expected broadening in earnings growth is accelerating in technology names much faster than traditional industries.

Nasdaq 100's broader earnings growth outpacing S&P 500

Blended (year-over-year) earnings growth rate



Source: *Nasdaq Global Indexes, FactSet. As of 25 August 2025.*

While the hyperscalers continue to lead the market in scale and innovation, a growing cohort of Nasdaq 100 companies are now leveraging AI to accelerate profits, creating a wider set of opportunities for exposure to future US equity growth.

[VI] **Source:** *Bloomberg, company reports. As at 8 August 2025.*

> Rather than the S&P's 493 it is the Nasdaq 100's 93 that represent the most exciting opportunity set for investors in the next phase of the market cycle alongside the evolving tech hyperscalers.

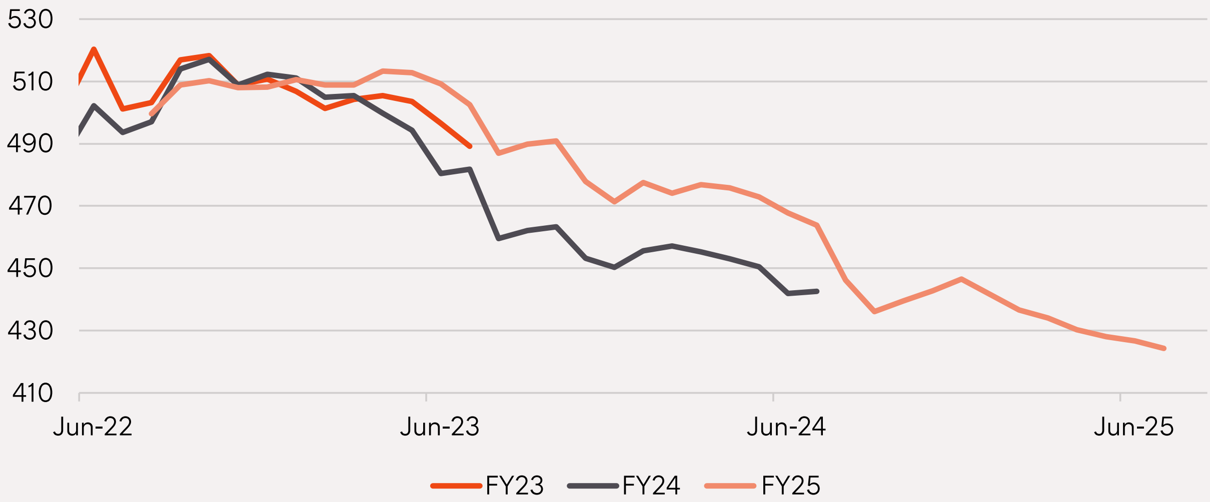
Where will the earnings come from in the Australian market

Australian investors can rejoice at the growth their share market has offered over the past year. But they may want to take a closer look at how it got there and the path ahead.

The strong price appreciation of the ASX 200 has not been supported by underlying earnings, with the Australian market on track for a second year of negative earnings growth in FY25.[VII] At times during the past two years analysts expected earnings to grow in both FY24 and FY25. However, downward revisions and reported results led to the overall negative outcomes, with FY25 earnings expected to come in 17% below their peak expectations.[VIII]

S&P/ASX 200 earnings expectations

FY23, 24, and 25 from June 2022 to Aug 2025



Source: *Bloomberg. June 2022 to August 2025 Actual results may differ materially from forecasts.*

The low earnings and downgrades for the ASX 200 have been a function of the market's makeup.

The banks have been able to maintain their guidance but macro constraints, along with competition and margin pressures, are keeping growth subdued.

Meanwhile the materials sector, which carries a 27.7% weighting in aggregate earnings, has seen FY25 earnings decline 20% from peak expectations due to falling commodity prices, weak demand, and rising costs.[IX]

This earnings environment coupled with the strong price appreciation has driven the ASX 200 to trade above a 20x forward price to earnings ratio.[X]

There have only been two other periods in the past 25 years that this valuation level has been breached – when economic conditions cratered after the GFC and Covid crash. In both cases significant upward revisions to forward earnings, as the economic environment improved, normalised valuations. Does this matter and can investors expect the same this time around?

[VII] **Source:** *Factset. As at 13 August 2025.*
[VIII] **Source:** *Factset. As at 13 August 2025.*
[IX] **Source:** *Bloomberg. Bloomberg analyst consensus forecast.* ***Actual results may differ materially from forecasts.***
[X] **Source:** *Bloomberg. As at 13 August 2025.*

Date	Fwd P/I	12-month Fwd EPS revision	Fwd P/E after 12 months
31/12/2009	21.2	38%	15.0
29/01/2021	26.7	66%	17.0
31/07/2024*	18.4	0%	20.0

Source: *Bloomberg. Dates selected as month end peak forward p/e ratio during periods it was greater than 20x. S&P/ASX 200 forward p/e breached 20x on 30 Sep 2024. * July 2024 used as most recent month end to allow for 12 months of forward data, forward P/E on the S&P/ASX 200 breached 20x on 30 September 2024.*

Without a normalisation of valuations there is likely little room left for further valuation driven growth in the ASX 200. Based on current expectations forward earnings are expected to grow by 7% by mid-26 . While a catalyst for major upward revisions, like a China growth surge or AI driven broad productivity boost, is unlikely in the short term we do expect the RBA's rate cuts will boost the economy and support these levels of earnings – ending the downgrade cycle.

This would leave Australia as a lower growth equity return destination compared to global markets, mainly due to the influence of strong expected growth in the US – particularly from Nasdaq 100 companies.

While the ASX 200 overall has seen poor earnings momentum, there are parts of the market that have been experiencing stronger earnings growth and have stronger outlooks - particularly communications, technology, and consumer sectors. These higher-growth industries are relatively small in Australia, however, and are crowded out at the index level by large weights to financials, energy, and materials.

The table on the next page compares analyst forecasts for sector earnings growth in Australia versus the global average. "Earnings growth" refers to expected growth over the next 12 months, while "world" represents the global sector average. The "industry mix" column shows how much of Australia's performance is explained by its sector make-up, and "industry competitiveness" indicates whether Australian companies within each sector are expected to grow faster or slower than their global peers.

In short, the weaker ASX 200 outlook reflects both an unfavourable sector mix and relative underperformance in some of its largest industries.

While the ASX 200 overall has seen poor earnings momentum, there are parts of the market that have been experiencing stronger earnings growth and have stronger outlooks

	Australia		World		Shift-share	
	Earnings growth	Industry weight	Earnings growth	Industry weight	Industry mix	Industry competitiveness
Financials	3.5%	35.9%	10.0%	26.0%	-0.2%	**-2.3%**
Comm & Tech	12.5%	3.0%	13.6%	23.7%	**-0.3%**	0.0%
Eng & Mat	3.6%	32.8%	14.0%	10.3%	**0.4%**	**-3.4%**
Other	13.8%	28.3%	12.4%	40.0%	0.0%	0.4%

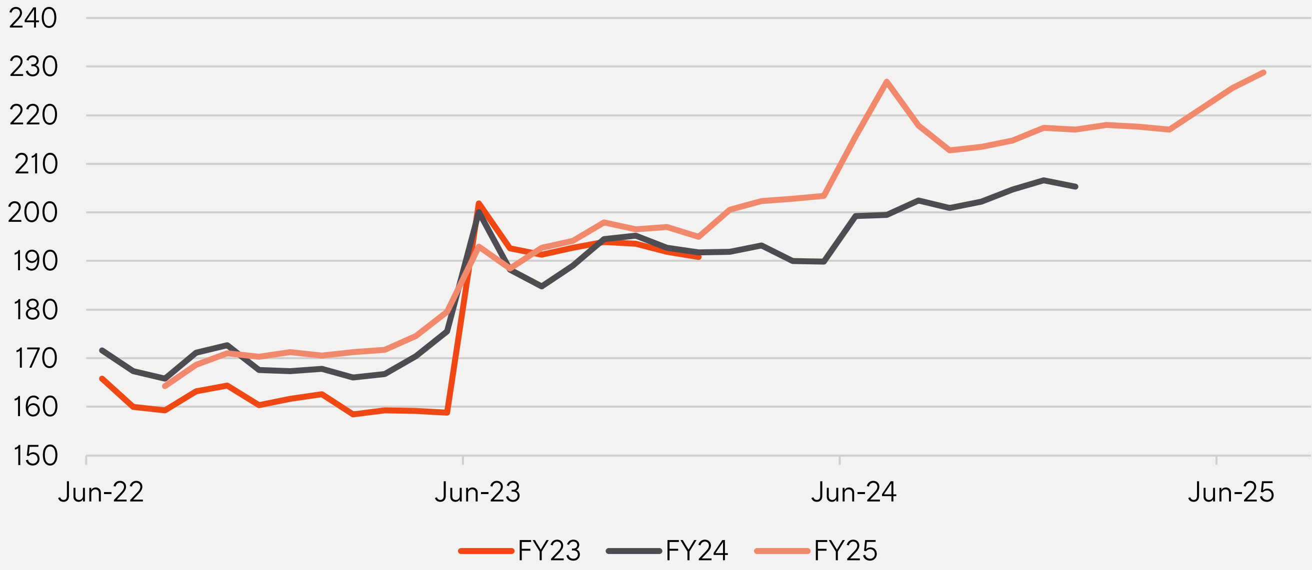
Source: *FactSet. 8 August 2025. FactSet analyst consensus forecast. Actual results may differ materially from forecasts*

Given this backdrop, investors could target areas of the Australian market with strong fundamentals to help maintain the elevated returns of recent years. Australia's highest quality mid-caps are one such area.

Rather than waiting for these future leaders to grow to higher weights in the ASX 200, forgoing their returns in the meantime, investors could look to increase their exposures now.

Australian quality index earnings expectations

FY23, 24, and 25 from June 2022 to Aug 2025



Source: *Bloomberg. June 2022 to August 2025. Bloomberg analyst consensus forecast. Australian quality index represented by the Solactive Australia Quality Select Index. Actual results may differ materially from forecasts.*

Geopolitical tensions and national self-sufficiency investment themes

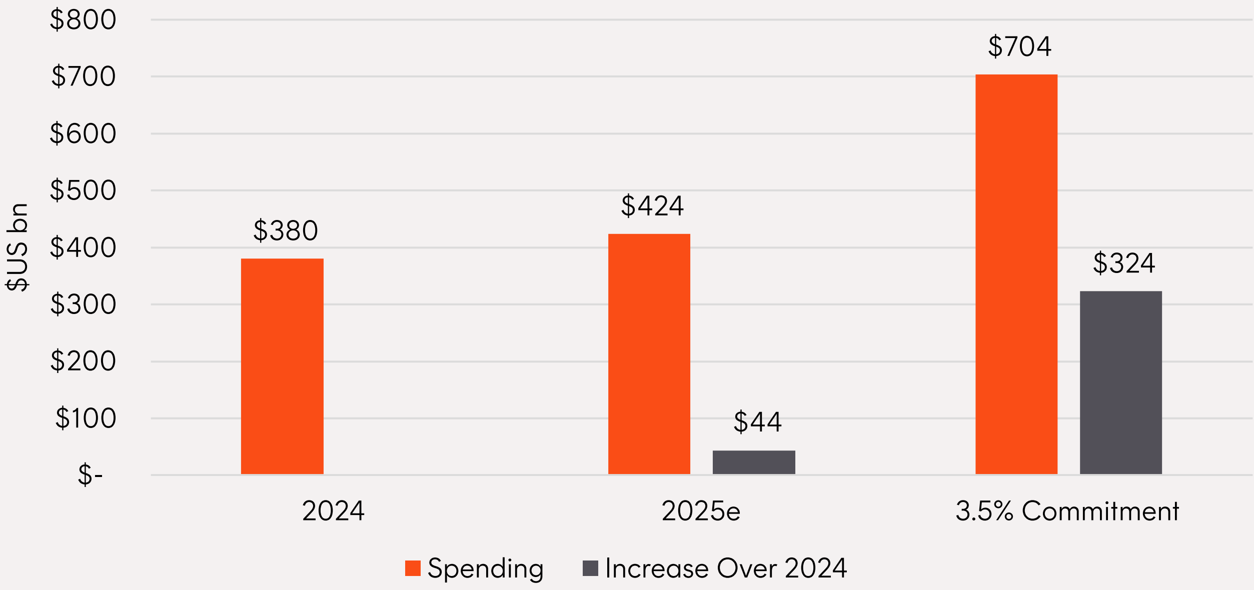
Globally we are increasingly seeing key investment themes driven by the shifting world order, geopolitical tensions, and increasing desire for national self-sufficiency.

The new US administration has accelerated this trend in seeking to re-nationalise strategic industries and by putting pressure on trade partners and economic competitors alike.

Within Europe and the UK the impact has been clear - a renewed push for defence self-sufficiency, with potential though not assured, spillover benefits for long term economic activity. Much of the increased spending will need to come from larger economies with the capacity to support domestic defence and related industries, notably Germany, France, and the UK.

Estimates have suggested the potential for EU GDP to rise by 0.9% to 1.5% a year if governments meet new 3.5% NATO spending targets and move to buying home grown defence assets.[XII]

Estimated annual increase in European defence spending under NATO's new 3.5% of GDP core defence commitment



Source: *Goldman Sachs Investment Research, Company Filings, European Council, ECB Data Portal. 2025e are estimates. Scenarios are based on percentage of GDP spending using 2024 EU GDP. Actual results may differ materially from estimates and scenarios.*

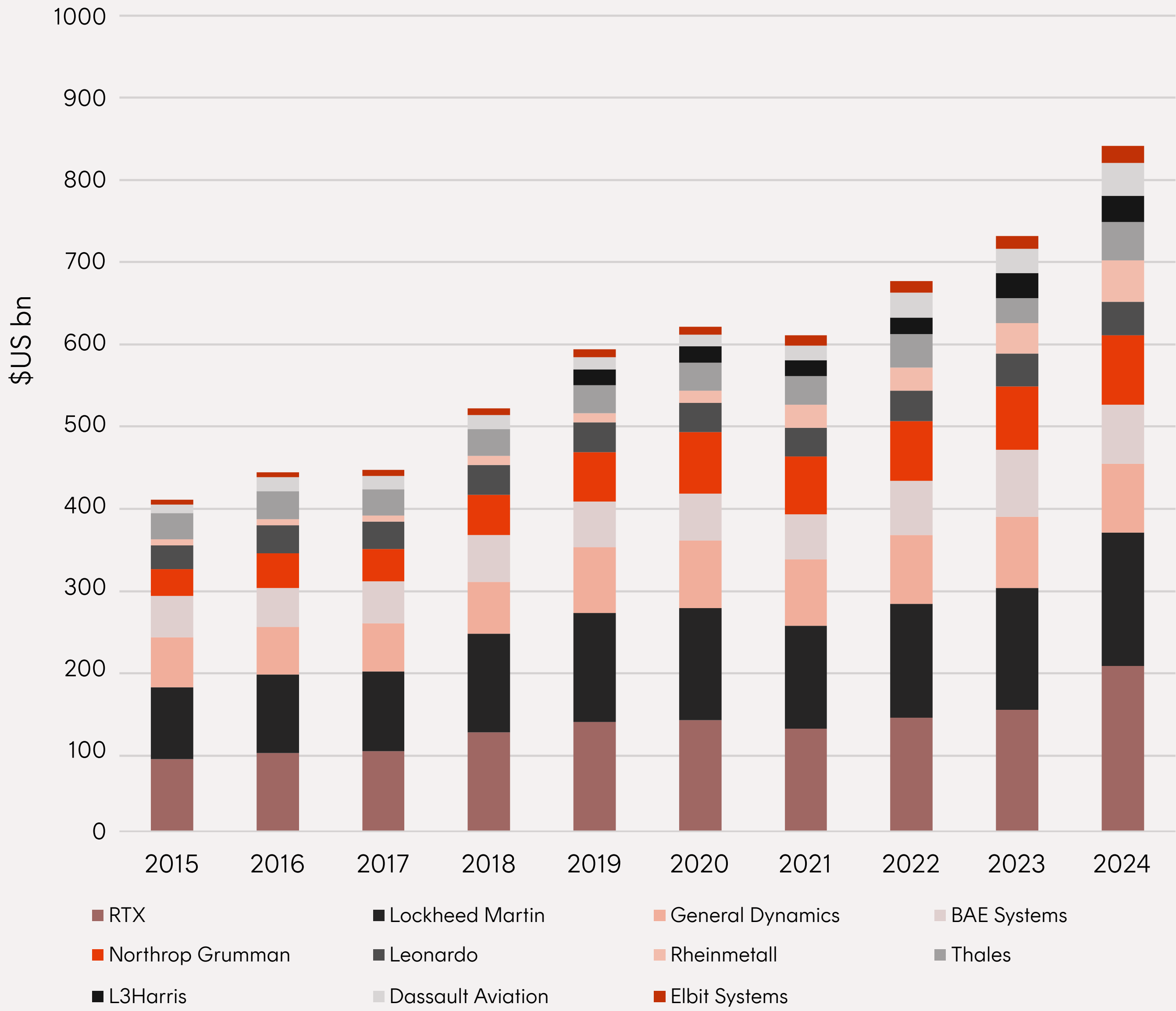
[XII] **Source:** *Kiel Institute for the World Economy.*

For investors, the key consideration in the short to medium term is whether to increase allocation to global defence contractors. We continue to monitor growth in order backlogs as a leading indicator of future earnings potential. This growth supports the ability of top defence companies to sustain strong shareholder returns. In 2024, our basket of selected global defence contractors collectively increased their order books by US$119 billion - a 17% rise compared to 2023 levels.

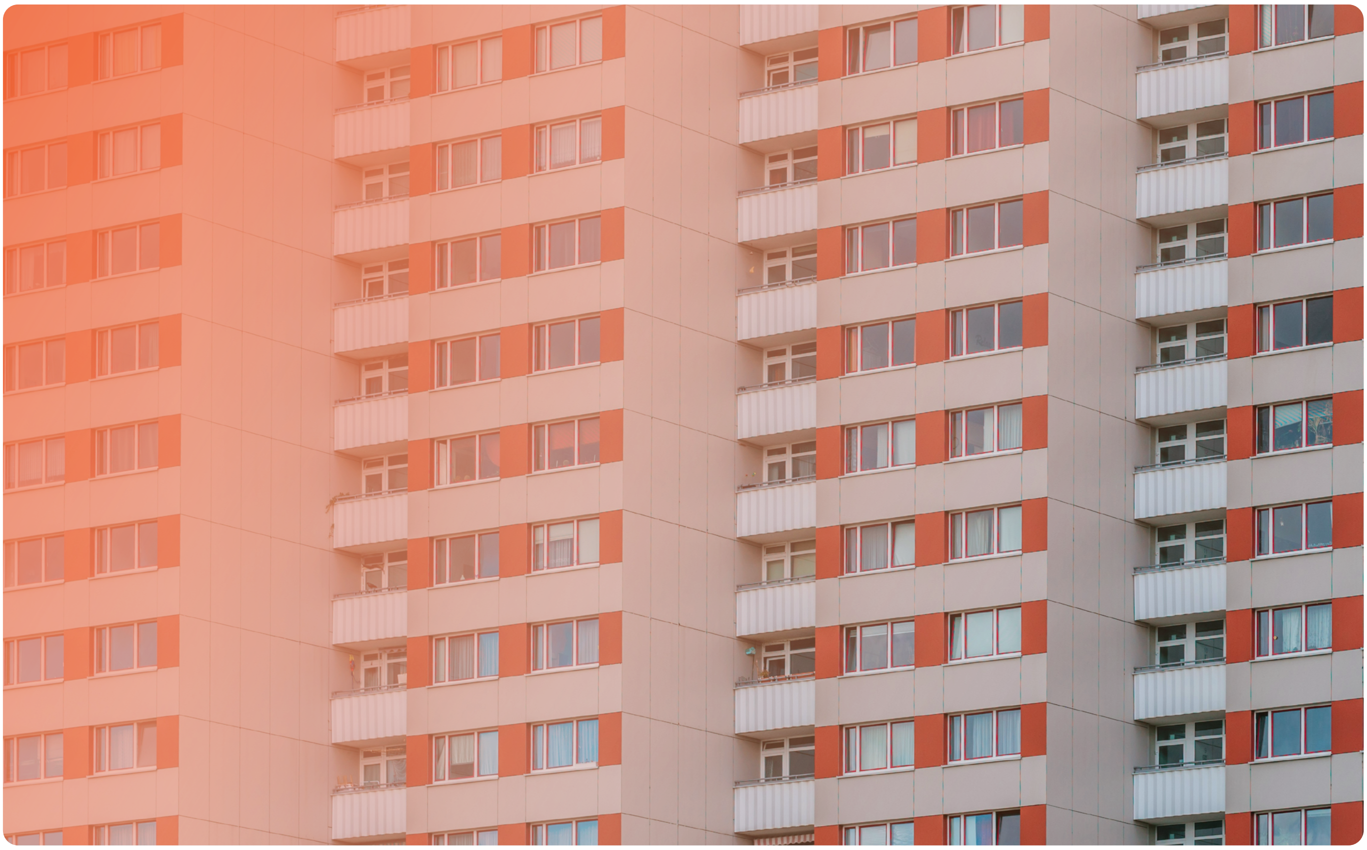
In 2024, our basket of selected global defence contractors collectively increased their order books by US$119 billion - a 17% rise compared to 2023 levels.

Order books of large defence contractors continue to grow

Select global defence contractor order book value ($US bn)



Source: *Bloomberg, Betashares. Backlog order book value of select global defence contractors 2015 to 2024.*

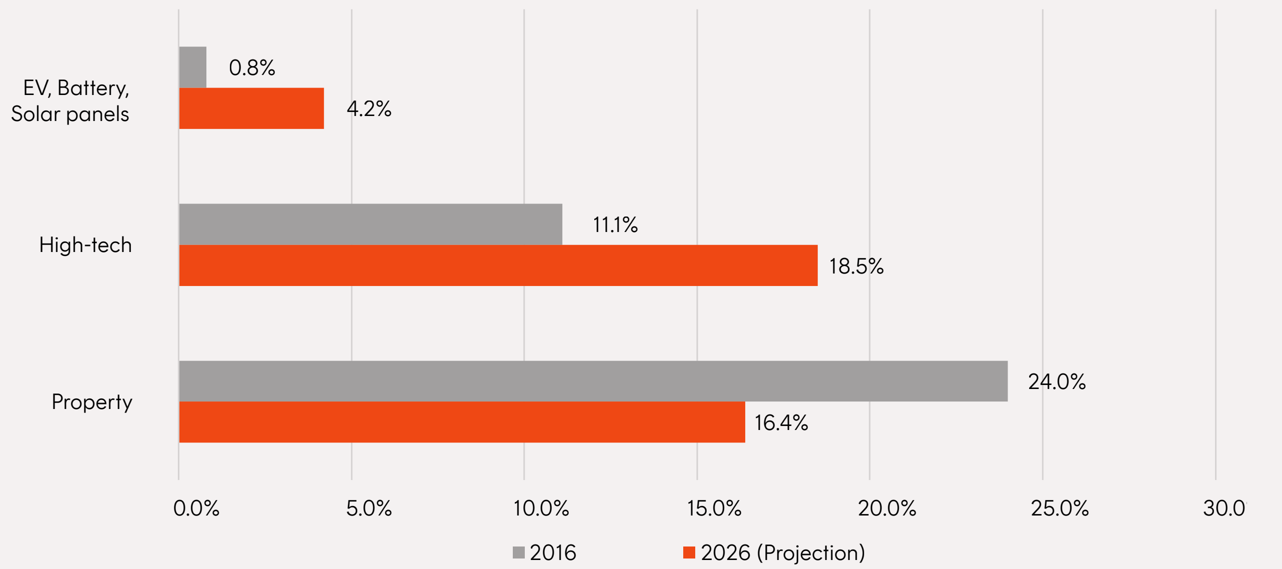


In China, technological leadership is increasingly being embraced as the country's key economic driver, as it transitions away from the traditional manufacturing and export model that fuelled growth over the past two decades.

This shift is critical as China faces structural headwinds including slowing population growth and high debt levels from excessive property investment, with property prices having fallen by 20% to 30% since 2021.[XIII] Beyond economic growth, technology has become the new battleground in the great power competition between the US and China.

China's GDP by sector is dramatically shifting

Actual and projected share of GDP for select sectors



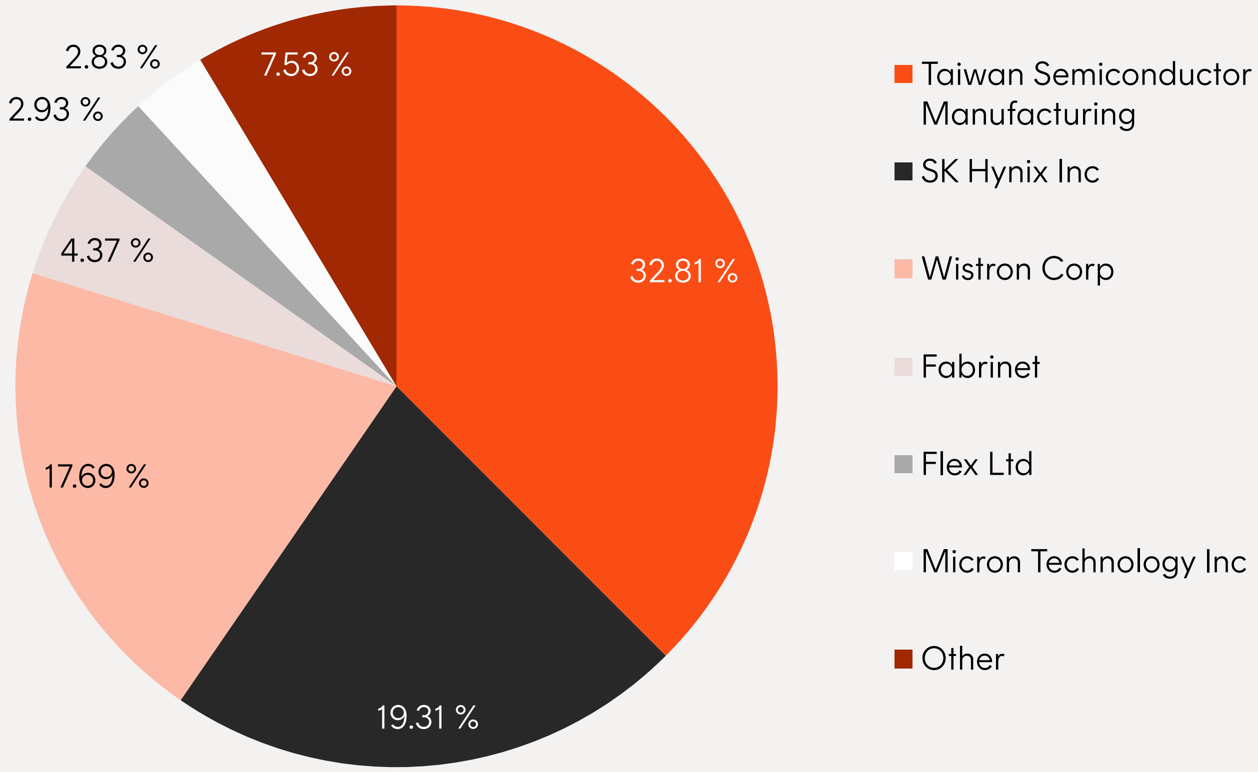
Source: *Bloomberg Economics. March 2025. Actual results may differ materially from estimates.*

[XII] **Source:** *Financial Times. May 2025.*

The Chinese government's approval of 39 data centre projects in Xinjiang and Qinghai, with plans estimated to use over 115,000 Nvidia processors, signals a major expansion in AI infrastructure.[XIV] Local giants such as Tencent and Alibaba are investing heavily to narrow the gap with US hyperscalers, while DeepSeek's January launch of the R1 model demonstrates the efficiency gains from China's advanced AI software.[XV]

Beyond China, key Asian technology companies embedded in the AI supply chain - including TSMC and SK Hynix - play a crucial role in GPU production, capturing more than half of Nvidia's cost of goods sold and benefiting directly from the huge AI spend – driven by US technology companies.

Nvidia's suppliers by cost of goods sold (%)



Source: *Bloomberg. As at 9 July 2025.*

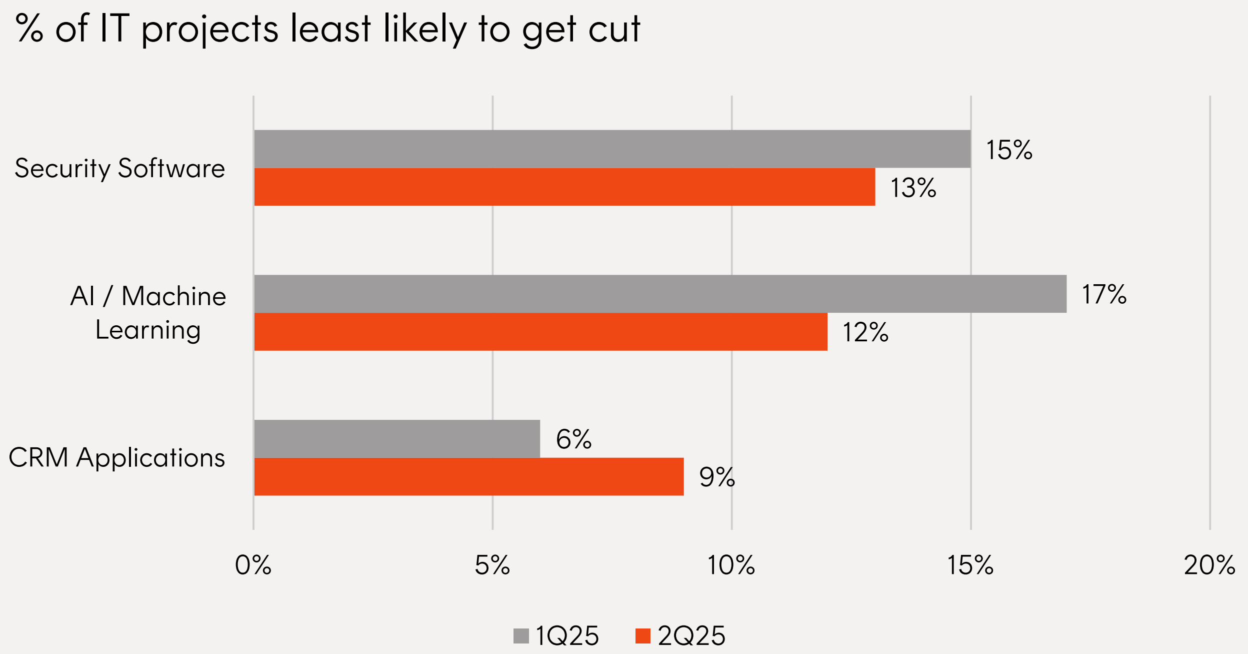
For investors, these developments, government-backed infrastructure, rapidly advancing AI software, and supply chain leaders, highlight a compelling opportunity to diversify US exposure with Asian technology to capture the global AI-driven expansion.

[XIV] **Source:** *Bloomberg. 9 July 2025.*
[XIV] **Source:** *Bloomberg. 9 July 2025.*

Outside of specific regions, there are broader investment themes that are benefitting from both the evolving geopolitical and technology landscapes.

The increasing complexity and frequency of cyber-attacks – accelerated by advancements in AI – are driving organisations globally to develop more robust and advanced defence measures. As a result, worldwide cybersecurity spending is expected to see sustained growth, reaching US$377 billion by 2028.[XVI]

This amount is not only large in magnitude but is highly defensible in nature with Chief Information Officers surveyed by Morgan Stanley viewing security as the category least likely to get cut in an economic downturn.



Source: *Morgan Stanley 2Q25 CIO Survey. Percentage of total responses.*

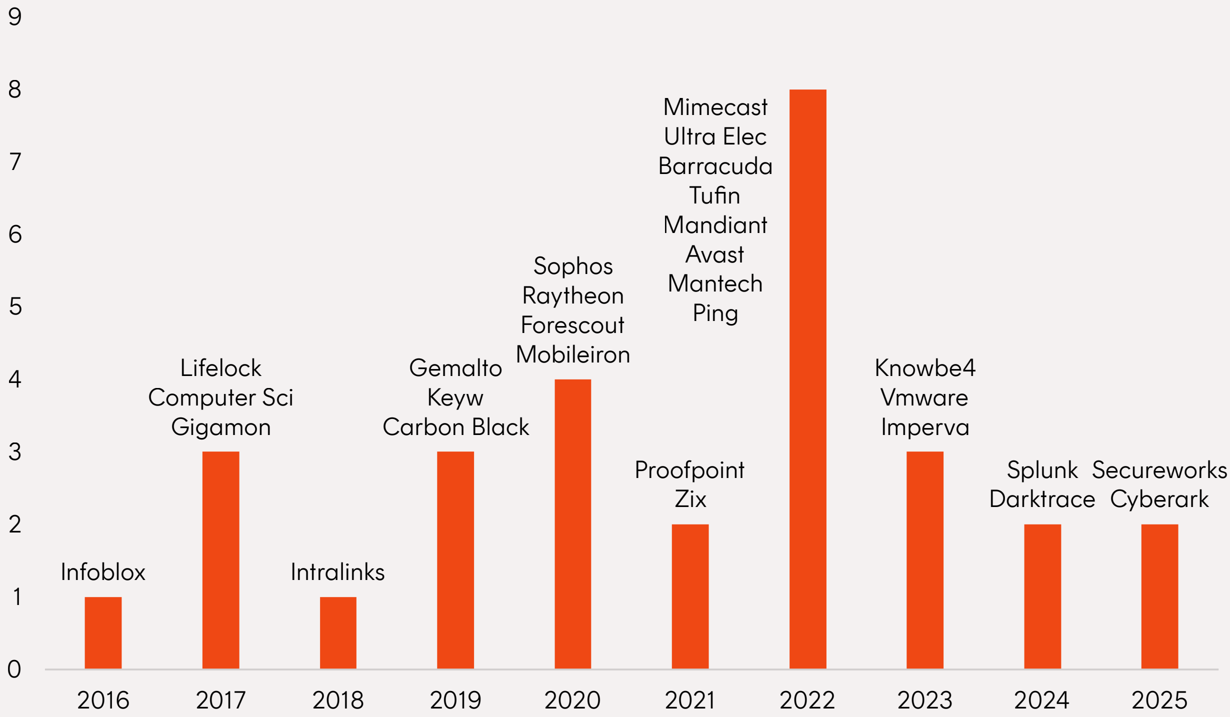
It is this supportive backdrop that has driven a pickup in dealmaking activity within the cybersecurity industry including Palo Alto's US$25 billion acquisition of CyberArk in late July, and Google's US$32 billion all-cash acquisition of Wiz in March earlier this year.

> Looking forward, we continue to monitor the evolving M&A environment, which has been a key driver of investor returns in the cybersecurity industry, particularly as enterprises look to streamline their operations and consolidate the number of security software licenses they have with various vendors.

[XVI] **Source:** *International Data Corporation*

Cybersecurity M&A activity

Major pure play cybersecurity companies merged or acquired over the past 10-years



Source: *Bloomberg and Tradar. As at 27 June 2025. Merger and acquisitions of companies in the Nasdaq Consumer Technology Association Cybersecurity Index.*

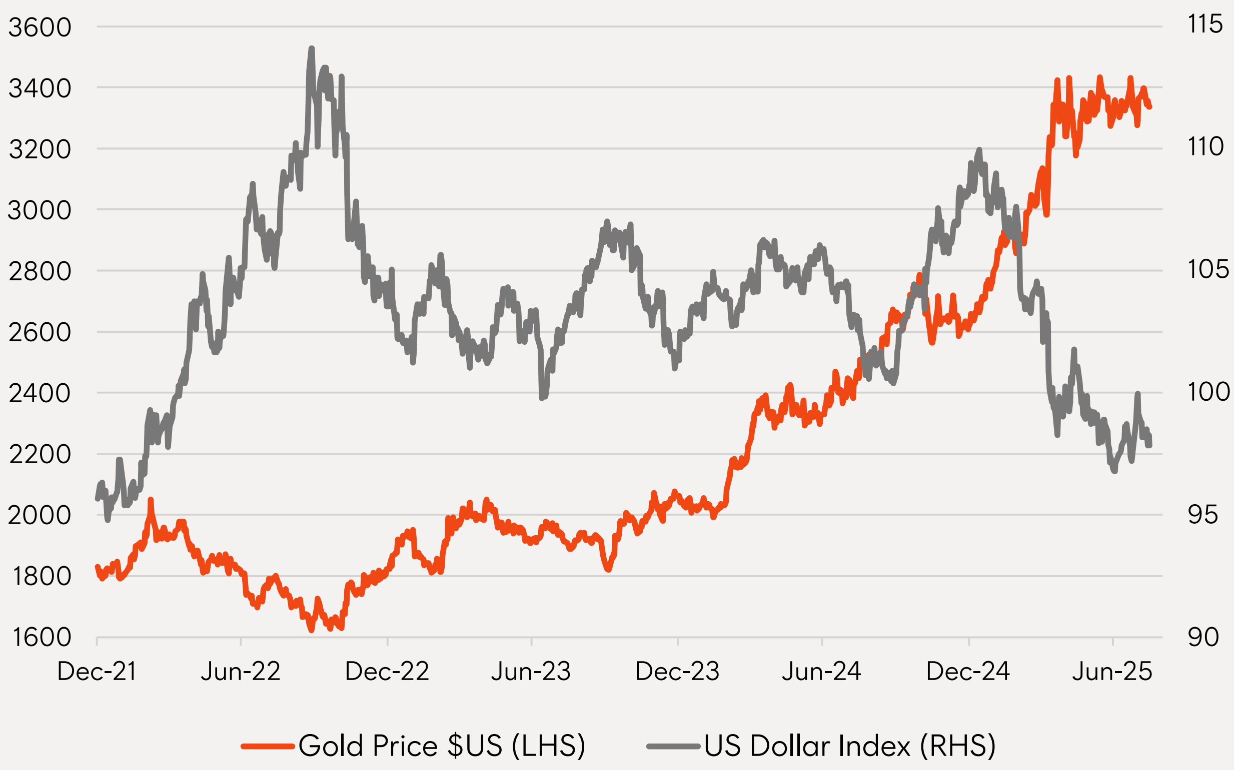
Finally, despite the recent consolidation, we see further upside in gold prices from here.

Despite early attempts to reduce the US deficit, the current Trump administration's policy mix is likely to add further to it. Rising budget deficits have historically driven investors toward the relative safety of "store of value" assets such as gold.

Additionally, ongoing geopolitical tensions and the heightened risk of US policy surprises and uncertainty are expected to act as catalysts for the gold price at various points.

These dynamics are also driving the USD lower, a trend that has historically supported higher gold prices.

Gold price ($US) v US Dollar Index



Source: *Bloomberg. Period from 31 December 2021 to 15 August 2025. The US Dollar Index measures the performance of the dollar against a basket of other currencies. You cannot invest directly in an index.* ***Past performance is not an indicator of future performance.***

> Central bank demand, while moderating from recent peaks, remains elevated compared with pre-Ukraine invasion levels, providing additional structural support for the market.

Fixed Income Outlook

Staying ahead of the curve

Chamath De Silva, CFA
Head of Fixed Income

What really matters for US rates?

As we enter the second half of 2025, bond markets find themselves at an interesting juncture. Central banks globally are well into their easing cycles, yet long-term yields remain elevated. For Australian investors, this creates opportunities, particularly with further rate cuts on the horizon and yield curves now quite steep. A good place to start is US rates and the US economy, which will largely set the broader tone for global and Australian bond markets. The coming months will no doubt bring its share of headlines – from the ongoing trade negotiations to the anticipation of a new Fed Chair when Powell's term expires next year.

But for bond investors, it's ultimately the US labour market that will dictate the overall direction.

Since the start of the year, fed funds futures have repriced in a more dovish direction, with around 100 basis points of further cuts priced over the next 12 months. The temptation is to connect this shift to political factors – Trump's public criticism of Powell and speculation about a more compliant successor when his term expires in May 2026. In reality, the dovish shift in market pricing can easily be explained by the weaker US labour data, such as declining job openings and a softer payroll report, including July's large downward revision. Notably, despite all the speculation about Powell's replacement and potential political pressure for aggressive easing, markets aren't pricing any "monster cut" for the June 2026 FOMC meeting (the first with the new Chair).

While it's possible that the next Chair might tilt the dual mandate's balance toward supporting employment over fighting inflation, the composition of the broader Committee won't change that much over the medium term, and we'd likely see a response if inflation were to sustainably re-accelerate. It's this persistence of two-sided inflation risks that suggest while the front end of the curve may be anchored be a softer labour market and a Fed that will look to get back towards a "neutral" policy setting fairly quickly, longer-term yields are unlikely to collapse unless the US enters a recession, putting a floor under 10-year Treasuries even as the Fed continues to ease.

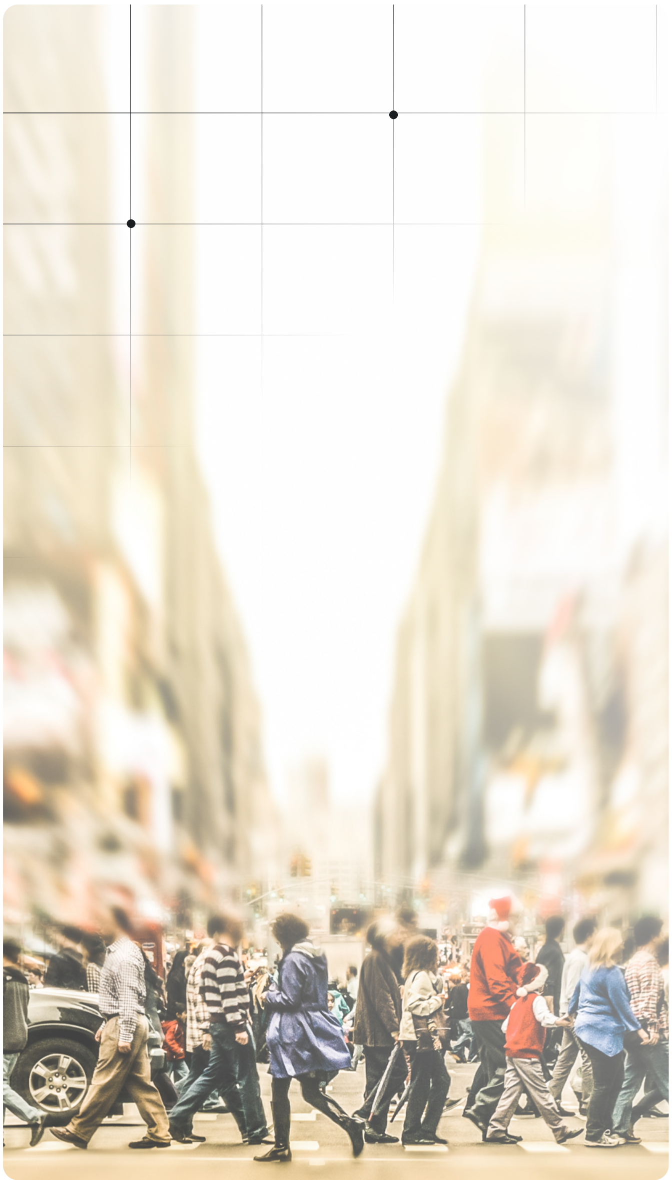
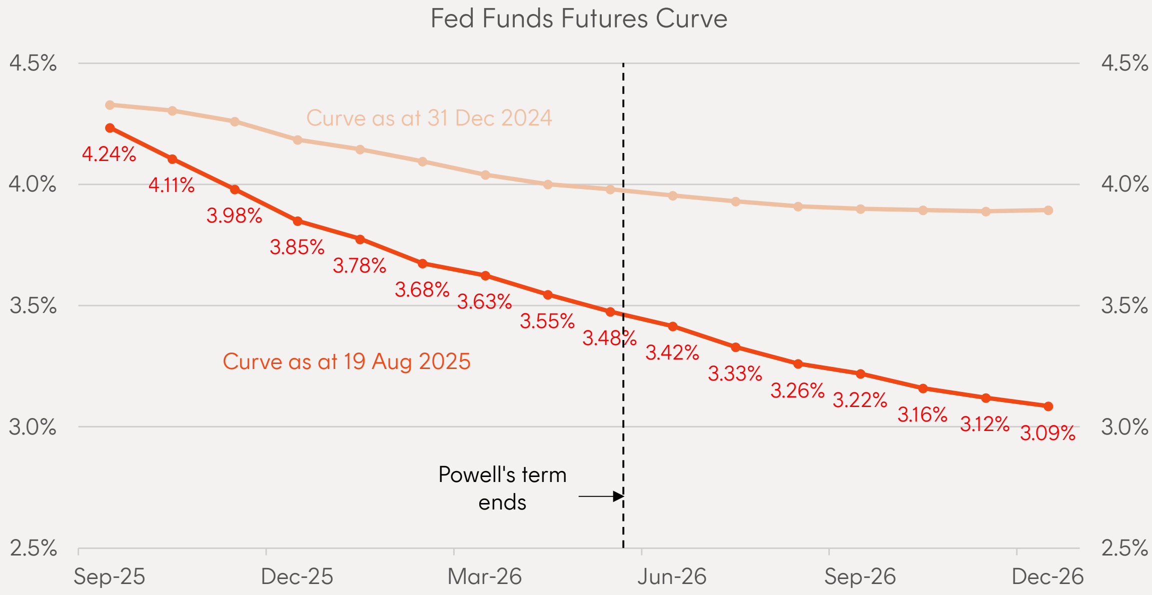


Chart 1:

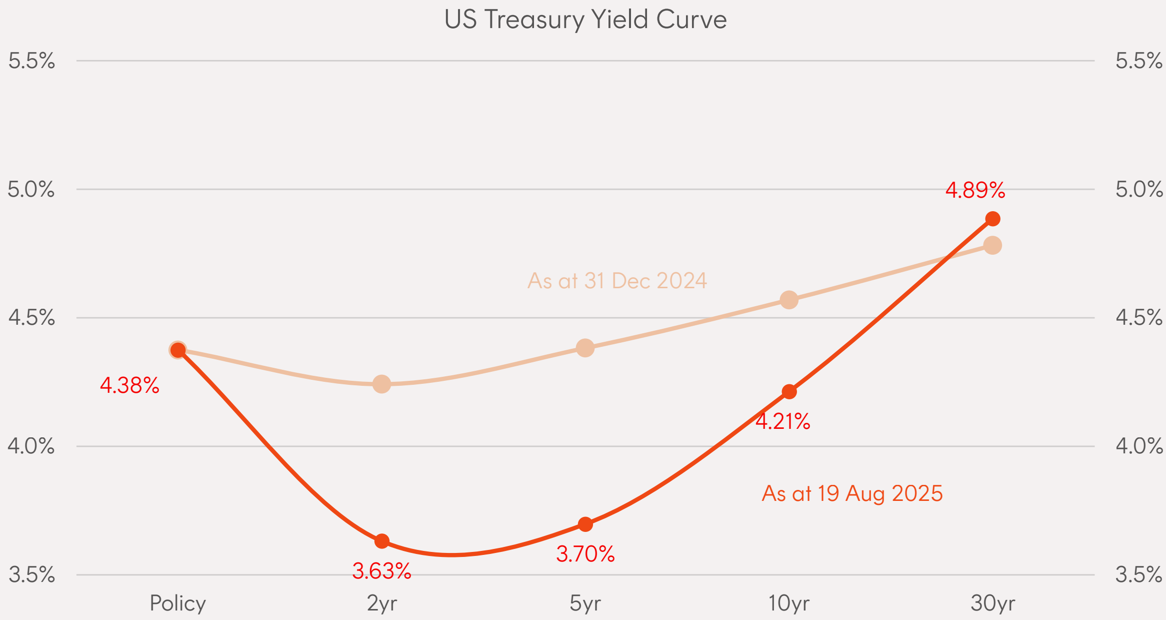
Fed Funds Futures curve and evolution of market pricing since 31-Dec-2024;



Sources: Bloomberg, CME; As at 19 August 2025

Chart 2:

US Treasury curve and year-to-date evolution;



Sources: Bloomberg; Fed; As at 19 August 2025

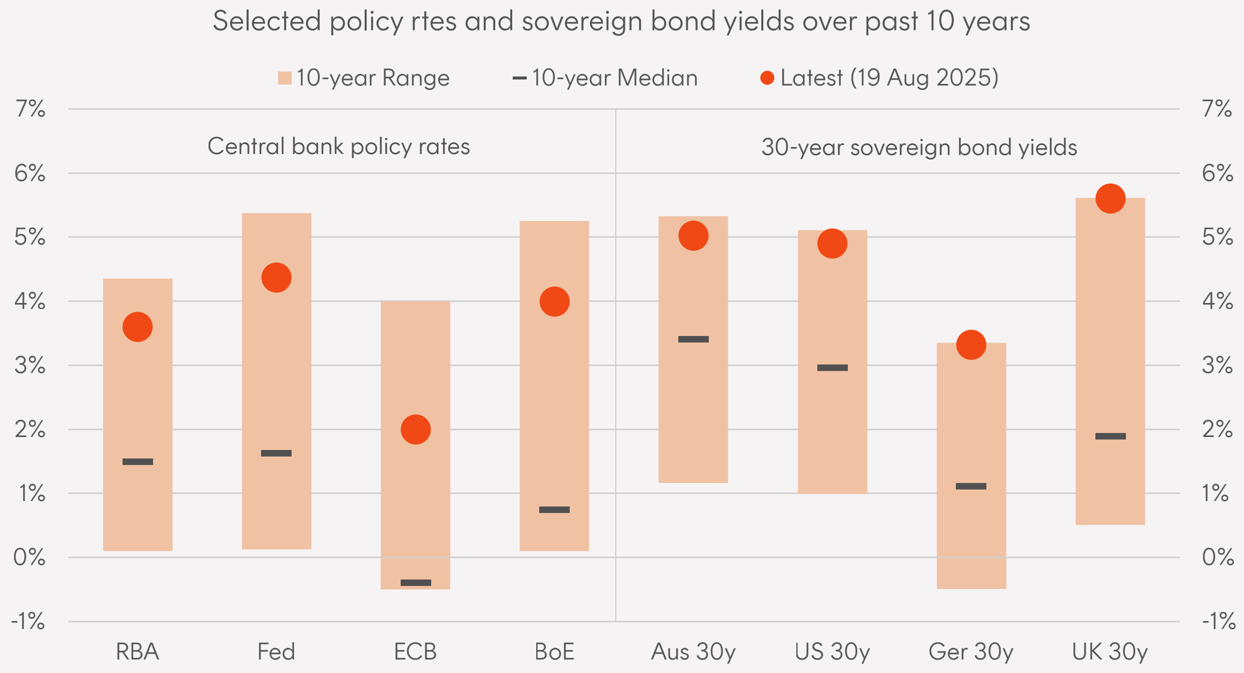
Lower policy rates, steeper curves, and what's priced in over the (very) long-term

With rate cutting cycles well progressed across much of the developed world, it's interesting to see long-term yields are still around decade highs.

The Fed, ECB and Bank of England have all cut rates between 100 and 200 basis points this cycle, yet 30-year yields have generally risen, with UK gilt yields around their highest levels in over 25 years. This steepening in global yield curves tells us something very important about what markets are pricing in. What's embedded in every yield curve is also a forward curve, meaning that not only do we know the interest rates for various maturities today, but also what markets are pricing in for rates in the future.

Chart 3:

Range of selected policy rates and 30-year sovereign yields over the past 10 years;



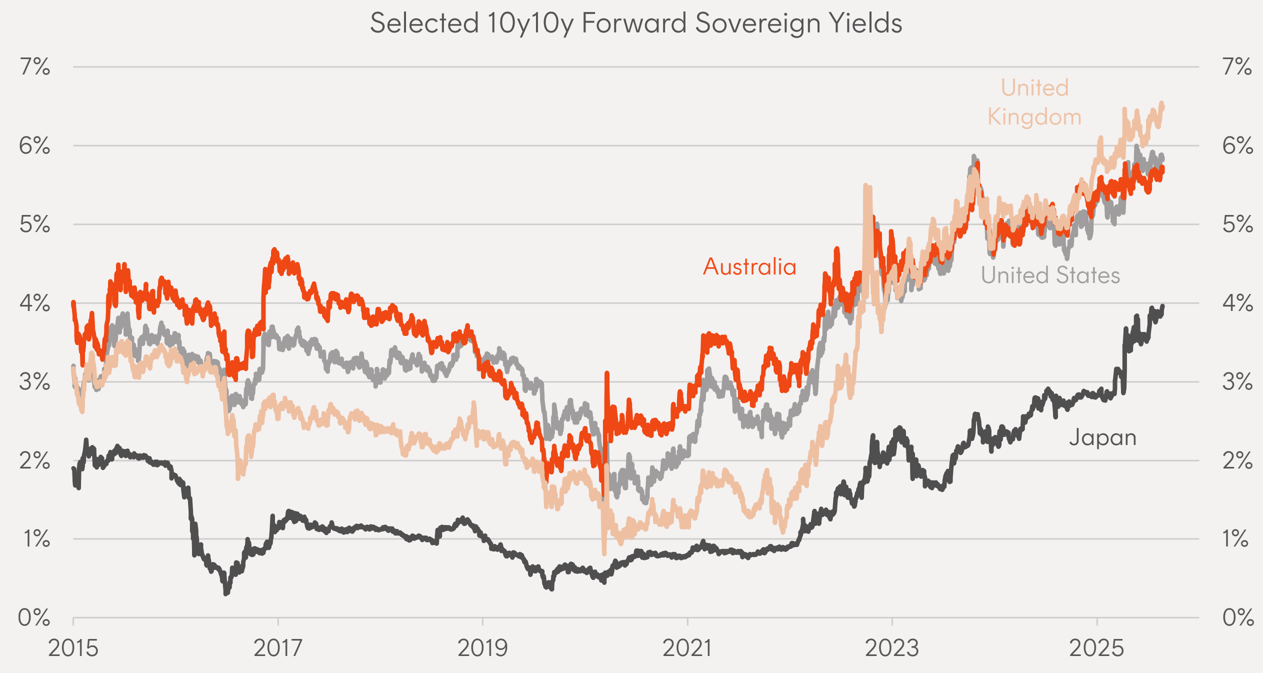
Sources: *Bloomberg, RBA, BoE, Fed, ECB; Between 19 August 2024 and 19 August 2025*

Looking at nominal curves for Australia, the US, and the UK, we see 10-year/10-year forward yields are arguably at extreme levels. This is the market's pricing of 10-year yields in 10 years' time, implied by the levels 10-year and 20-year yields. For Australia and the US, this measure is hovering between 5.5%-6.0%, while for the UK it's around 6.5%. By this metric, UK government bonds have experienced the most aggressive repricing anywhere in the global fixed income universe.

There are several factors potentially driving this, including fiscal concerns - especially for the US and UK, perceptions of greater inflation risks over the long-term, and perhaps a less favourable view of sovereign bonds as portfolio diversifiers. Another potential driver has been the normalisation of policy by the Bank of Japan (BoJ) as it adjusts to unusually high levels of inflation in Japan during post-pandemic period. While policy tightening so far has been gradual, the long-end of the Japanese Government Bond (JGB) market has been very quick to front-run what's expected to be a prolonged period of rising rates and a major scaling back of BoJ purchases, with the 10y10y JGB yield just below 4%. Given Japan's role as one of the world's largest savings pools and largest holder of foreign fixed income, more attractive domestic yields will naturally motivate some degree of repatriation flows back into the JGB market, and this dynamic likely contributing to the broader steepening pressure across global yield curves.

Chart 4:

Implied 10-year/10-year forward yields implied from 10-year and 20-year sovereign yields;



Source: *Bloomberg; as at 19 August 2025*

However, taking a step back, these adjustments arguably present significant value for long-term bonds. Most economists don't believe that policy rates will average anywhere near those levels over the long run, assuming inflation remains broadly within target bands, which implies a generous risk premium for taking on duration.

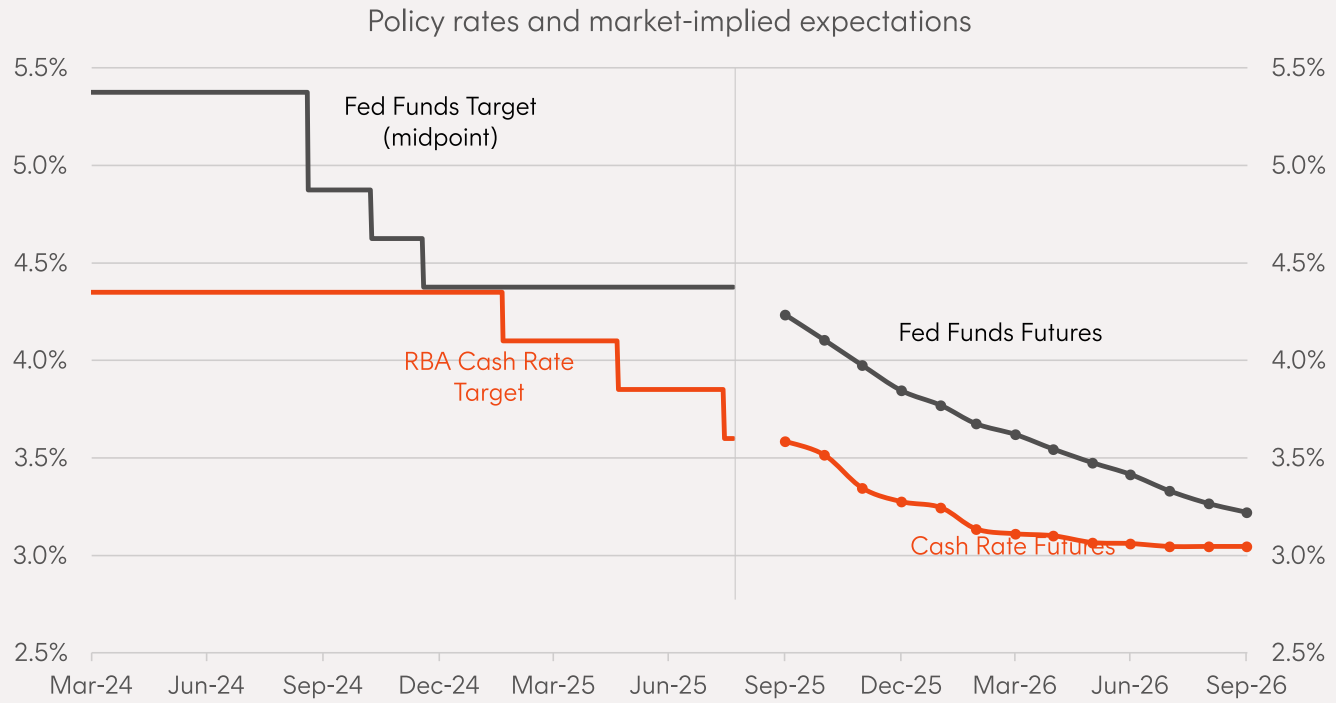
Taking stock of the RBA's easing cycle and where to find value in Australian bonds now?

After delivering 75 basis points of cuts this year, the RBA is guiding toward additional easing amid continued downward revisions to its forecasts, with market pricing suggesting the cash rate will reach 3% by early 2026.

The most striking aspect of the Bank's recent forecast revisions has been the significant downward adjustment to GDP and productivity growth estimates. While the RBA Governor has been careful to characterise the productivity downgrades as cyclical rather than structural in a recent press conference, the persistent weakness in productivity has become the dominant concern for policymakers. This will likely remain an ongoing challenge, given Australia's unfavourable demographics and the absence of political will or mandate for major structural reform, meaning the RBA may be forced to progressively revise down its estimate of the real neutral rate. In this scenario, a "neutral" nominal cash rate might settle well below 3%, assuming inflation remains contained.

Chart 5:

Policy rates and market-implied expectations



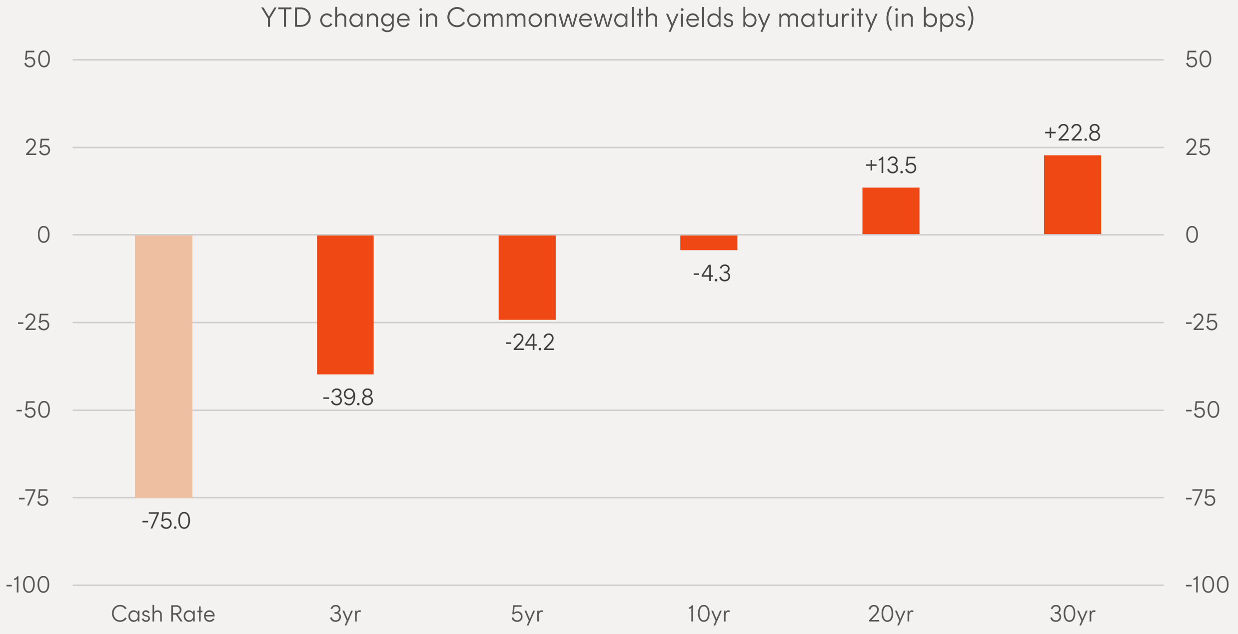
Sources: *Bloomberg, RBA, Fed, CME, ASX, As at 19 August 2025*

Yet despite front-end yields already reflecting this easing cycle, Australian fixed income markets are offering compelling value, especially further out the curve amid the global steepening impulse spillovers from weakness in long-term US Treasuries, UK Gilts, and JGBs.

While the cash rate has fallen 75 basis points, the curve has "pivot steepened" rather than shifted uniformly lower. Short-end yields have declined as expected, but long-end yields have risen.

Chart 6:

Year-to-date changes in Australian interest rates by maturity

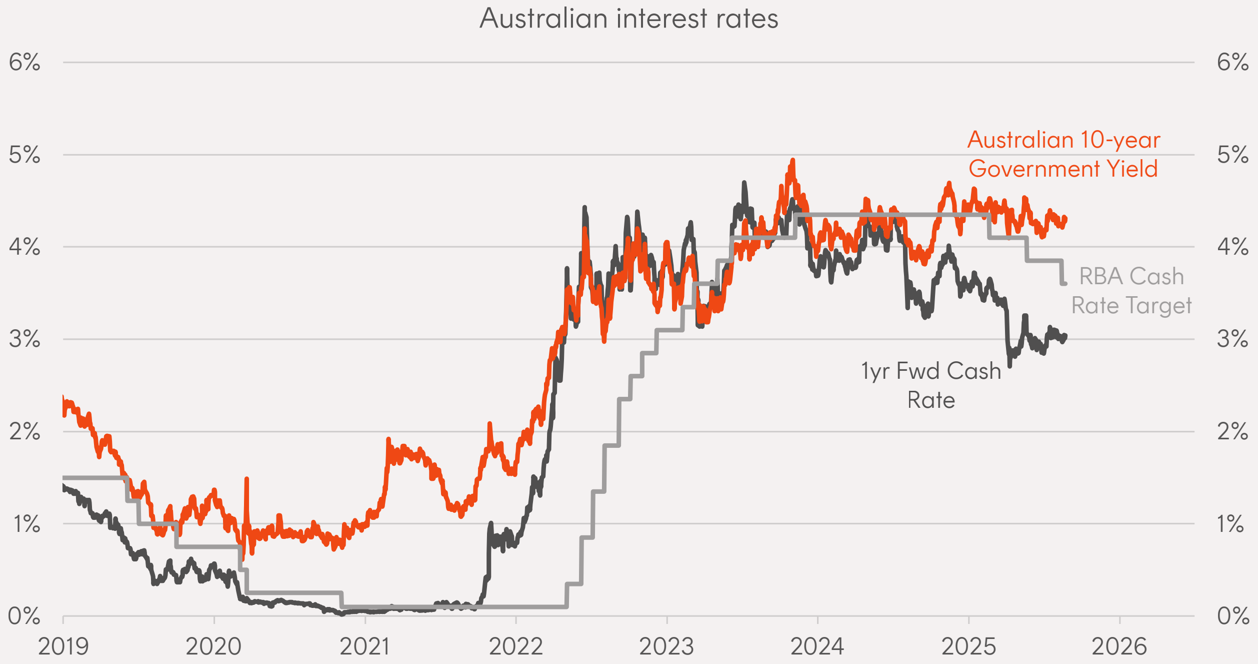


Source: *Bloomberg, RBA; As at 19 August 2025*

Because of this steepening, the 10-year Commonwealth government bond yield remains well above the current cash rate and sits significantly higher than where the cash rate is expected to be in twelve months' time. This steep curve means investors can capture meaningful yield pickup and curve rolldown by extending duration – a particularly attractive proposition as the easing cycle progresses. The value also extends beyond just the shape of the curve. When viewed through the lens of swap spreads – a good metric for comparing relative value over time for different sectors, investment grade Australian bonds are trading at attractive levels relative to their 10-year ranges. Commonwealth bonds, state government securities, and supranational and agency paper all offer spreads that sit comfortably above their decade medians. As for corporate credit, although spreads are at the tighter end of the historical range, if the US economy can avoid a recession, we're unlikely to see a catalyst for a major spread widening and corporate bonds keep outperforming.

Chart 7:

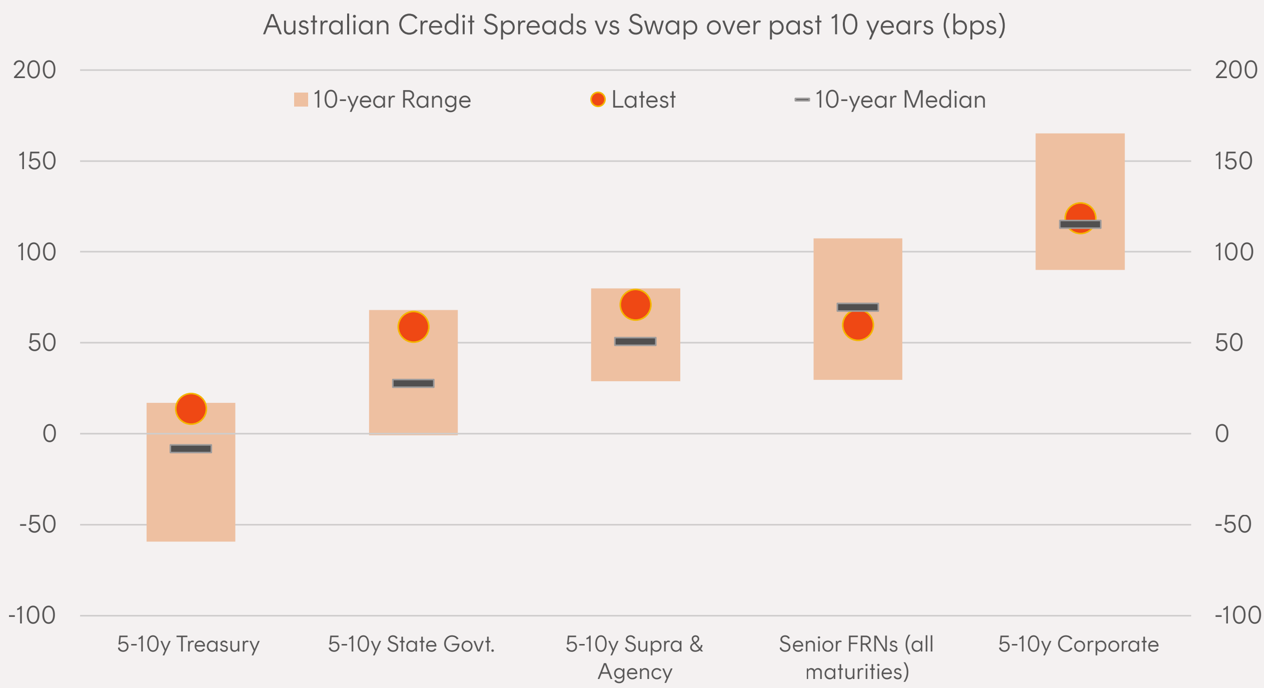
Evolution of selected Australian interest rates; 1-year forward cash rate implied from cash rate futures



Source: *Bloomberg, ASX; As at 19 August 2025*

Chart 8:

Australian credit spreads vs swap (asset swap spreads) for various sectors; 5-10-year maturities. Based on relevant Bloomberg AusBond sub-index



Source: *Bloomberg; As at 19 August 2025*

Key ETFs for the path ahead:

Global Equities

Many of the world's most innovative large-cap companies are in the Nasdaq 100, concentrated in "new economy" sectors such as Technology, Consumer Discretionary, and Healthcare.

While the hyperscalers continue to lead in scale and innovation, a growing number of Nasdaq 100 companies are now harnessing AI to accelerate profits, broadening the opportunities for exposure to future US equity growth. Companies like Palantir Technologies (data analytics), Advanced Micro Devices (AI chips), and CrowdStrike (cybersecurity) exemplify this new wave of growth leaders, offering some of the most compelling prospects for investors.

ASX: NDQ Betashares Nasdaq 100 ETF

- NDQ provides Australian investors with access to the Nasdaq 100 Index. NDQ has been one of the top performing Australian domiciled global equity funds since its inception returning, on average, 20.1% p.a.

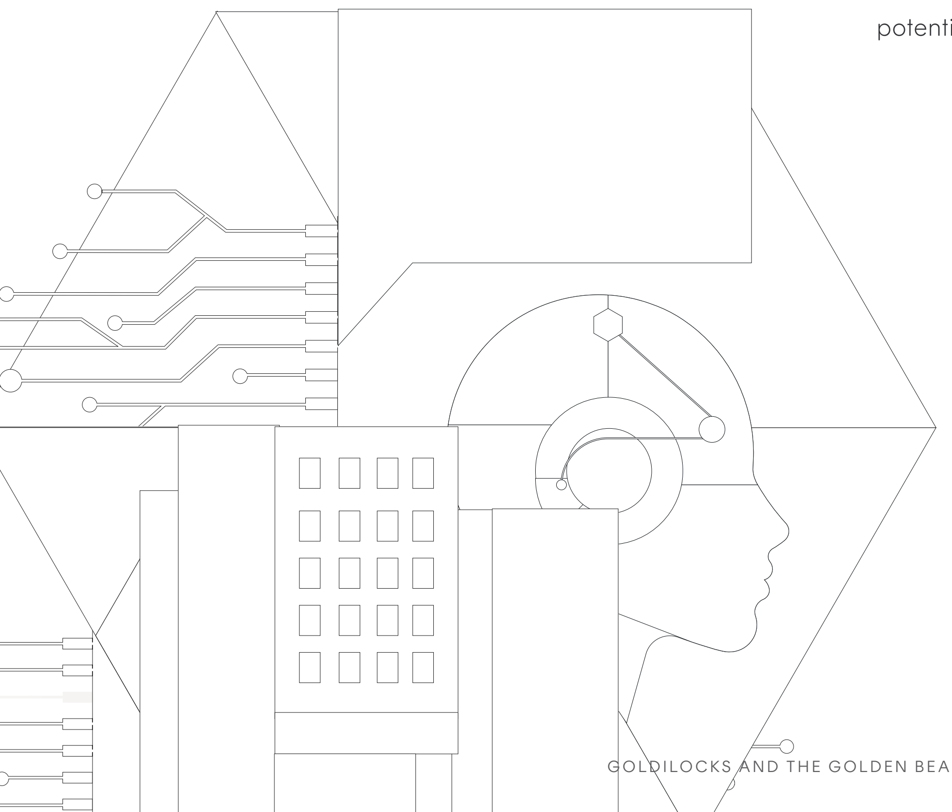
ASX: HNDQ Betashares Nasdaq 100 Currency Hedged ETF

- HNDQ seeks to minimise the effect of currency fluctuations on returns. Investors may wish to consider HNDQ if they believe the USD could continue to depreciate against the AUD.

For global exposure we remain very constructive on the growth of diversified ETFs. As whole of portfolio solutions for segments of adviser client bases or as a low-cost diversified core building block we believe well-constructed diversified ETFs will play a significant role in the use of ETFs going forward.

ASX: DHHF Betashares Diversified All Growth ETF

- DHHF is an all-in-one solution investing in a blend of large, mid, and small cap equities from Australia, global developed and emerging markets.
- DHHF has a management fee of 0.19% p.a. offering a low cost 'all-cap, all-world' share portfolio with the potential for high growth over the long term.



Australian Equities

While the headline earnings picture for the ASX 200 looks softer than global peers, there are pockets of strength within Australia's market.

Communications, technology and consumer companies are seeing positive revisions and robust earnings growth, yet these sectors remain underrepresented in the index, overshadowed by the larger financials, energy and materials names.

This creates an opportunity for investors to look beyond the benchmark and focus on the parts of the market where fundamentals are stronger. Australia's higher-quality mid-cap companies offer exposure to businesses with improving earnings profiles and long-term growth potential.

ASX: AQLT Betashares Australia Quality ETF

- AQLT aims to track an index (before fees and expenses) that holds 40 companies comprising Australia's large caps, re-weighted by their quality metrics rather than market capitalisation, and high quality mid- and small caps on the ASX.
- Despite AQLT's largest active underweight position being CBA since fund inception, 4 April 2022, the fund has outperformed the S&P/ASX 200 by, on average, 4.8% p.a., including 6.5% over the past 12 months.[XVIII]

Along with earnings, dividends have not kept up with the ASX 200's growth. Australia still boasts one of the highest yielding share markets in the world, but the dividend yield on the ASX200 has fallen significantly and is now below 3.5% p.a.

Aside from the Covid dip, we haven't had another time in the last 50 years where both the ASX dividend yield and RBA cash rate were below 4% at the same time. This has massive implications for Australian investors, particularly those that rely on investment income.

ASX: HYLD Betashares S&P Australian Shares High Yield ETF

- HYLD is an Australian equity-income ETF designed to provide higher dividend income than the broader Australian share market, with screens that aim to exclude companies with unsustainable dividend yields and reduce the risks associated with many existing income focused strategies.
- HYLD's Index has outperformed the S&P/ASX 200 Index by 1.69% p.a. (net of HYLD's management fee) from HYLD's Index inception date in July 2011 to 31 July 2025, at a slightly lower level of volatility.[XIX]

[XVIII] As at 31 July 2025. Past performance is not an indicator of future performance.
[XIX] Past performance is not an indicator of future performance.

Equity themes

NATO members' recent declaration committing to spend 5% of GDP on defence by 2035 reaffirms the structural tailwinds driving global defence stocks over the past 12 months.

We expect Europe's defence spending to reach 3% of GDP within the next five years, or an additional US$223bn per year in aggregate (based on 2024 GDP), a figure comparable to capital expenditure on AI infrastructure by the US technology giants.

ASX: ARMR [Betashares Global Defence ETF]

- ARMR's index currently holds all of the top 20 defence contractors in the world by defence revenue, headquartered in NATO-aligned countries, including Lockheed Martin, BAE Systems, Rheinmetall, RTX, and Thales.[XX]
- These companies are set to be some of the largest beneficiaries of governments implementing the 5% GDP defence spending commitment.
- ARMR has returned 63.2% as of 31 July 2025 since its inception on 2 October 2024.[XXI]

The AI narrative has undoubtedly driven much of the US share market's return over recent years. However, with strong manufacturing capabilities and top-down government support, technology companies in Asia are emerging as a competing force in the AI arms race.

These companies are critical to the broader semiconductor supply chain, including chip foundries and memory chip manufacturers, but are also pioneering the development of more efficient, leading-edge AI models.

ASX: ASIA [Betashares Asia Technology Tigers ETF]

- ASIA provides investors exposure to some of the largest technology and online retail companies in Asia (ex-Japan) including Alibaba, Tencent, TSMC and SK Hynix.
- ASIA offers exposure to a high-growth sector that is under-represented in the Australian sharemarket, and a complement to investors with US technology

---

Cybersecurity remains a critical need in today's society, as advanced technologies such as AI expand the attack surface area for adversaries to act upon.

As a result, organisations have increased their spending to develop robust security software systems in a geopolitically fragmented world that has only intensified the threat environment.

ASX: HACK [Betashares Global Cybersecurity ETF]

- HACK provides exposure to the leading companies in the global cybersecurity sector and has benefited from strong MnA activity occurring in the cybersecurity industry with 28 portfolio companies having been taken over since the fund's inception.
- HACK has returned, on average, 18.6% p.a. since its inception on 30 August 2016.[XXII]

[XX] **Source:** *Data for the Top 100 list comes from information Defense News solicited from companies, from companies' earnings reports, from analysts, and from researchby Defense News, the International Institute for Strategic Studies and SPADE Indexes.*
[XXI] **Past performance is not an indicator of future performance.**
[XXII] **Source:** *As at 31 July 2025. HACK's inception date was 30 August 2016. Past performance is not an indicator of future performance.*

Gold has been supported by both structural and cyclical demand, and while its recent pause has raised questions about the durability of the rally, the backdrop remains favorable. Rising US budget deficits, resilient central bank buying, and ongoing policy uncertainty all provide a solid support for prices. At the same time, in a world of elevated geopolitical risk, gold continues to offer valuable diversification benefits, making some exposure.

ASX: QAU [Betashares Gold Bullion Currency Hedged ETF]

- QAU is backed by physical gold bullion and aims to track the performance of gold, hedged for currency movements in the AUD/USD exchange rate (before fees and expenses).
- QAU offers a 'purer' exposure to the US dollar gold price rather than the AUD price of gold. If the USD gold price rallies at a time of US dollar weakness, Australian investors with unhedged gold exposure may find their investment returns partially or entirely eroded in AUD terms.
- Gold is often regarded as a 'safe haven' asset in times of volatility and economic uncertainty.

Fixed income

If the Goldilocks scenario plays out interest rates will continue to fall, benefitting duration exposure, and credit spreads can remain tight, supporting corporate bond returns.

The RBA recently guided towards further rate cuts on the back of some marginally dovish forecast revisions. Rate cuts generally provide a tailwind for duration, especially when the yield curve is at a steep starting point. The Australian long-end is well placed to perform well on the back of a combination of carry, rolldown, and increasingly, portfolio insurance amid extended equity valuations and a structural growth picture for the Australian economy that's looking increasingly suspect.

ASX: OZBD [Betashares Australian Composite Bond ETF]

- OZBD is designed to be a core portfolio allocation for fixed income. The portfolio is well diversified across Australian government and investment grade corporate fixed rate bonds benefitting from a constructive duration and credit outlook.
- OZBD provides investors the benefits of active management, but in a much more cost-effective package through rules-based, enhanced indexing (in partnership with Bloomberg), with a management fee of just 0.19%.

In corporate credit, while spreads remain towards the tighter end of their historical range, the absence of a US recession would limit the likelihood of a major widening. In that scenario, corporate bonds could continue to deliver relative outperformance.

ASX: HCRD [Betashares Interest Rate Hedged Investment Grade Corporate Bond ETF]

- HCRD's underlying portfolio focuses on Australian 5–10-year investment grade corporate bonds, where we see outsized excess return potential (spreads and curve rolldown) relative to credit risk, whilst hedging out the main source of volatility - being the interest rate risk.
- Since inception HCRD has been a top performer in its Australian investment grade credit income peer group returning, on average, 9.4% p.a.[XXIII]

[XXIII] As at 31 July 2025. HCRD's inception date was 14 November 2025. **Past performance is not an indicator of future performance.**

Conclusion

2025 has so far been defined by strong equity market growth despite heightened uncertainty. The next 12 months remain finely balanced, as rate cuts will need to weigh slowing economic growth against policy uncertainty and any US inflation pulse.

Equities are back at historically high valuations, leaving earnings to do the heavy lifting for returns, while fixed income markets offer opportunities if the narrative holds - any misstep could tip the balance.

Looking ahead, success will come from focusing on where fundamentals meet structural growth: AI-led US earnings, select Australian equities, and fixed income sectors that reward patient positioning. For investors, it's about navigating risks while capturing these targeted opportunities.

There are risks associated with an investment in each of the Funds. Investment value can go up and down. An investment in any Fund should only be made after considering your particular circumstances, including your tolerance for risk. For more information on the risks and other features of a Fund, please see the relevant Product Disclosure Statement and Target Market Determination, available at www.betashares.com.au.

Betashares Capital Limited (ACN 139 566 868 / AFS Licence 341181) ("Betashares") is the issuer of this information. It is general in nature, does not take into account the particular circumstances of any investor, and is not a recommendation or offer to make any investment or to adopt any particular investment strategy. Future results are impossible to predict. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in any opinions, projections, assumptions or other forward-looking statements. Opinions and other forward-looking statements are subject to change without notice. Investing involves risk.

To the extent permitted by law Betashares accepts no liability for any errors or omissions or loss from reliance on the information herein.

betashares

Contact us today

T: 1300 487 577 (within Australia)
T: +61 2 9290 6888 (outside Australia)
E: info@betashares.com.au

betashares.com.au

@betashares | /betashares