

## Executive Summary

- Volatile quarter with surprising resilience: Markets saw both a bear and bull market in the same quarter; S&P 500 finished H1 up 6.2%, ASX 200 up 6.4%, despite geopolitical and economic uncertainty.
- Key shifts: The US dollar fell 12%, gold rose 26% (on central bank buying and risk hedging), and oil declined 13%—defying expectations amid Middle East turmoil.
- Earnings outlook diverges: US earnings growth is expected to accelerate into 2026, driven by AI investment and rate cuts. Australia's market, while economically stable, lacks broad earnings growth—especially in Financials and Materials.
- Valuations stretched: Foreign capital inflows have pushed Australian large-cap valuations to extremes—CBA now trades near 30x earnings despite modest growth.
- AI accelerating structural change: Massive AI-driven capex by US tech giants is boosting EPS growth, with Australia emerging as a key data centre hub thanks to land, energy, and proximity to Asia.
- Positioning for growth: We favour sectors with sustainable long-term tailwinds, including AI, cloud computing, data infrastructure, healthcare innovation, and high-quality financials.

Without doubt, the June quarter was one of the most tumultuous in decades. To have witnessed both a bear market (a decline of 20% or more) and a bull market (a rise of over 20%) within the same period is virtually unprecedented. The S&P 500 fell more than 20% from its peak on 19 February to a low of 4,835 on 7 April. From that low, the benchmark then surged over 28% to close the quarter at 6,226.

Despite all this, markets delivered positive returns. For the half-year to 30 June:

- The S&P 500 rose 6.2%
- The ASX 200 gained 6.4%
- The US 30-year bond yield was virtually unchanged at 4.77%

GDP growth slowed across most major economies but remained positive—except in the US, which recorded a -0.5% contraction in Q1. Labour markets across developed economies remained near full employment, and wages growth was generally strong. Inflation continued to trend lower, including only a minimal increase in the US.

## So What Has Changed?

Unsurprisingly, there have been three major market shifts during the first half of 2025:

### 1. US Dollar Weakness

The US Dollar Index (DXY) fell by 12% between 1 January and 30 June. Key drivers of this decline included:

- Capital outflows by international investors reducing exposure to US assets
- Concerns around the deteriorating US fiscal position
- A potential decline in perceived "US exceptionalism"
- Rising volatility and uncertainty under the Trump administration

### 2. Gold Prices Surge

A weaker USD naturally benefited gold. Over the first half of 2025, gold rose more than 26% (in USD terms). Several factors supported this rally:

- Strong central bank buying
- Geopolitical tensions
- Fiscal deterioration in the US
- Investor demand for a hedge against rising financial and political risk

3. Oil Prices Declined

Brent crude prices surprisingly declined 13% in the 6 months to June 30. To many, ourselves included, this is not what we would have expected given Middle East turmoil. It epitomised the events of the first half 2025.

Where to From Here?

Financial markets have shown remarkable resilience. It now appears we are approaching the end of the Trump tariff saga. The Big Beautiful Bill has been signed, sealed, and delivered. We expect geopolitical tensions to ease further in the second half of the year. Deregulation is also likely to become a greater focus under the Trump administration, which—on balance—should be supportive for markets.

Elsewhere, labour markets remain tight, and most major economies continue to grow, albeit modestly. Banking systems remain in good health, and both corporate and household balance sheets are generally strong. There are few signs of any imminent structural crisis. Central banks are increasingly biased towards cutting short-term interest rates. Market volatility has also begun to normalise as uncertainty eases.

That said, the US budget deficit remains a growing concern. Even with the Big Beautiful Bill now enacted, the size and trajectory of the deficit are likely to trigger further bouts of market volatility. Continued USD weakness appears likely, which in turn should continue to support uncorrelated assets like gold.

The AI Revolution Has Arrived

Over the past quarter, Team Peak attended several investment conferences in Australia and China. The common theme? Artificial Intelligence is here—and it’s real.

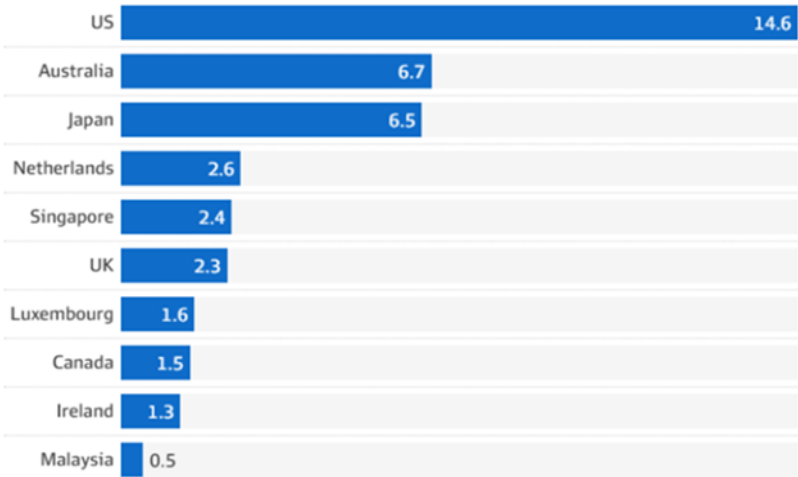
The scale of investment in AI infrastructure is staggering. Global tech leaders—Amazon, Microsoft, and Google—are investing hundreds of billions of dollars in data centres. Australian companies such as NextDC and Goodman Group are also playing a significant role.

Beyond the facilities themselves, vast energy infrastructure is required to power and cool these data centres. Interestingly, Australia is emerging as a key global player in this ecosystem, thanks to its:

- Proximity to the Asia-Pacific region
- Abundant land
- Access to low-cost renewable energy

As shown in the chart below, Australia currently ranks #2 globally for data centre development—second only to the United States.

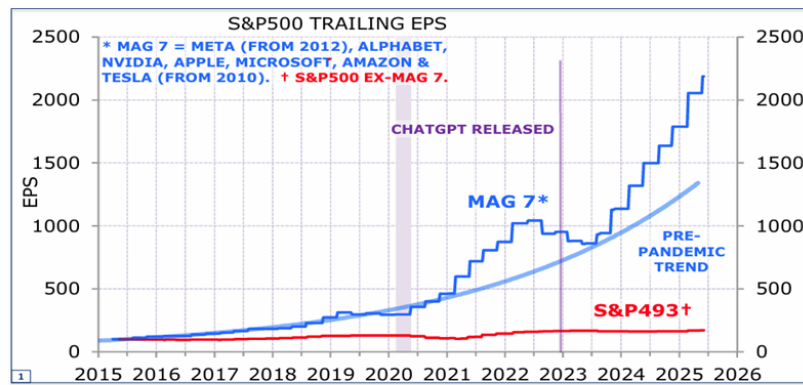
Figure 1: Top Data Investment Locations, 2024 (\$USb)



Source: AFR

From an investment perspective, we are seeing the substantial AI-related investment by leading technology companies translate into broad-based growth in earnings per share. The release of ChatGPT in 2023 appears closely correlated with an acceleration in EPS growth among the so-called "Magnificent Seven"—or more precisely, the core five: NVIDIA, Microsoft, Google, Amazon, and Meta.

**Figure 2: AI is Now Driving US EPS and Outperformance**

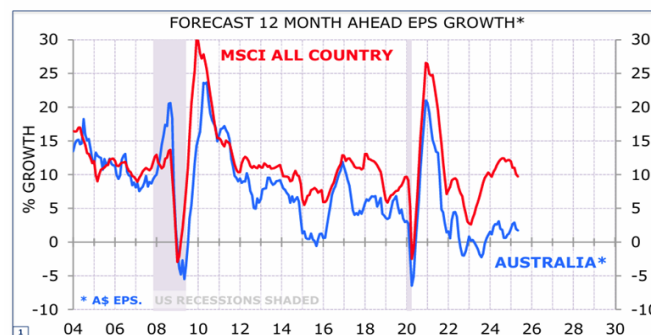


### Australian Economy Looks OK, but Market Lacks Earnings Growth

The Australian economy continues to hold up reasonably well. However, equity market valuations have been pushed to extreme levels—largely driven by foreign investors reallocating funds out of the US and into international markets, including Australia, Europe, and Asia.

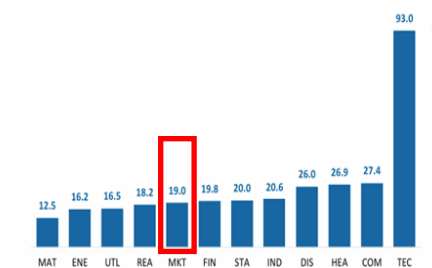
In Australia, much of this inflow has been concentrated in the Top 20 large-cap, liquid stocks, resulting in stretched valuations. A clear example is Commonwealth Bank (CBA), which is now reportedly the most expensive major bank in the world, trading at close to 30 times earnings, despite single-digit earnings growth.

**Figure 3: Australia vs World 12m EPS Growth**

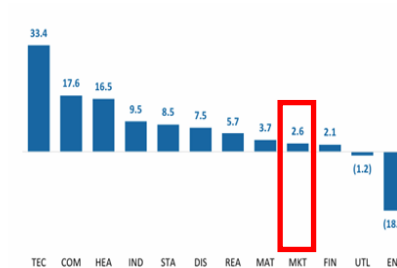


Despite rising valuations driven by capital inflows, earnings growth across the two sectors that comprise roughly 50% of Australia's market capitalisation—Financials and Materials—remains subdued. Instead, growth is increasingly concentrated in Technology, Communications, and Healthcare.

**Figure 4: Australian Market Forward PER (x)**

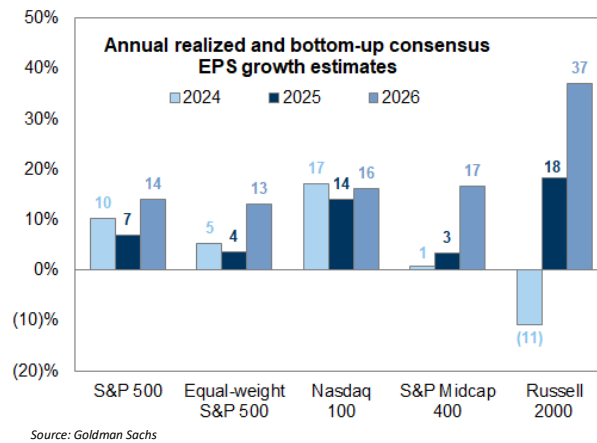


**Figure 5: Australian Market Forward EPSg (%)**



By contrast, US earnings growth is expected to accelerate as we approach 2026. A combination of a cyclical recovery—driven by anticipated interest rate cuts—and ongoing momentum from AI investment and data centre expansion is expected to support double-digit earnings growth in 2026.

**Figure 6: US Indices EPSg forecast (%)**



## Investment Strategy — Market Prospects

Investor sentiment has improved, with growing expectations that the ongoing trade tensions will not significantly damage the global earnings outlook. In the US, optimism is building around the prospect of Fed rate cuts, fiscal stimulus, deregulation, and lower oil prices over the next six months.

Many of the market's leading companies continue to demonstrate strong earnings momentum, underpinned by long-term secular growth trends. In the US, dominant names such as Microsoft, Apple, Google, NVIDIA, Amazon, and Mastercard operate global platforms with transactional or fee-based revenues, widespread customer bases, and exposure to structural growth markets. In Australia, while the geographic diversification is more limited, companies such as Goodman Group, ResMed, CSL, REA Group, Brambles, Aristocrat, Carsales, and Wesfarmers share similar characteristics.

We continue to maintain a bias toward businesses and sectors that offer sustainable growth at a reasonable price.

Key investment themes and representative stocks include:

- Electrification – BHP, Lynas, BYD, Freeport-McMoRan
- Logistics —Wisetech Global, Brambles
- Software Services – Xero, ServiceNow
- Healthcare Innovation – ResMed, CSL, Intuitive Surgical, Sonic Healthcare
- Data Centres & AI Infrastructure – Goodman Group, NVIDIA, ASML
- Data Owners – Carsales, REA Group, Visa, Mastercard, Wesfarmers
- Artificial Intelligence– Microsoft, Google, Amazon
- Financial Services – Macquarie Group, CBA
- Gold— Northern Star, Evolution Mining

Please let us know if we can be of any assistance, or if you would like to discuss.

### Ian Wenham

Director

(02) 8274 5808

ianw@peakinvest.com.au

### Andrew Martin

Director

(02) 8274 5801

andrewm@peakinvest.com.au

### Paul Israel

Portfolio Manager

(02) 8274 5804

paul.israel@peakinvest.com.au

### Stuart Dear

Director

(02) 8274 5870

stuartd@peakinvest.com.au