

# State of Play in Markets

September 2025



In recent discussions with clients, we are regularly asked why are markets doing what they are doing? Especially at a time where the overall outlook remains so uncertain.

To summarise the current environment:

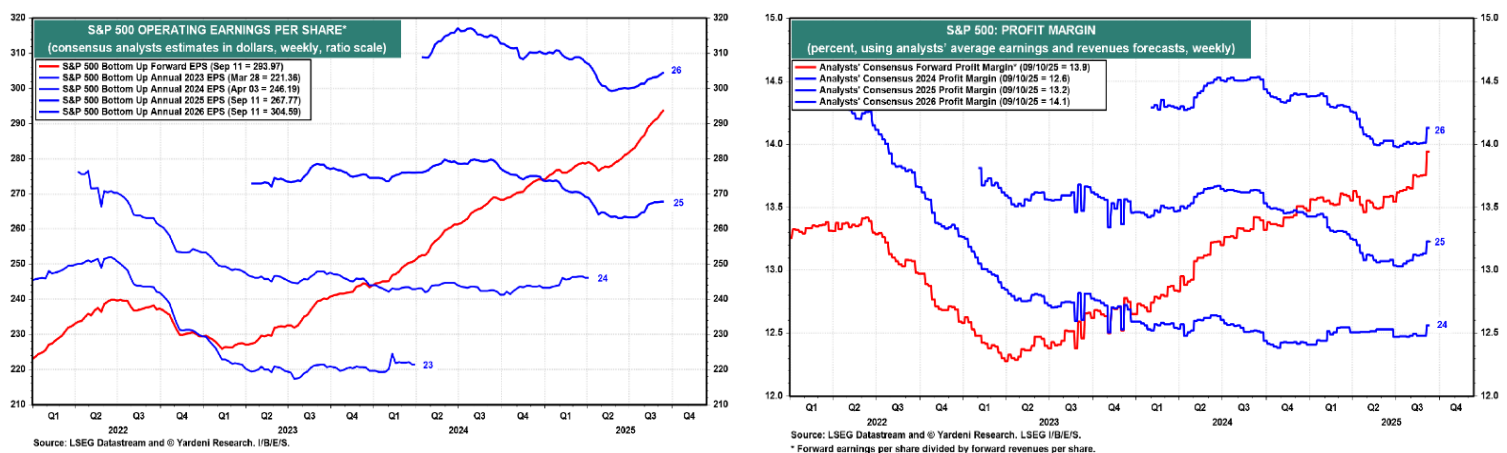
- Equity markets are setting all-time highs - suggesting times are good
- Bond markets are seeing yields falling - suggesting times are bad
- Central Banks including in the US, Euro, and UK are cutting cash rates
- Gold & other non-correlated assets are at all-time highs
- Market volatility (a measure of risk) is at historical lows
- US inflation remains elevated, as the impact of tariffs remains uncertain
- US Budget deficit trends remain unsustainable
- Not to mention the most volatile geo-political landscape in decades

## So Why Have Equity Markets Recovered So Rapidly from April Lows?

First, the earnings reporting seasons in both the US & Australia have been supportive. In the US, overall earnings have come in stronger than expected with forecasts being revised higher. It is important to note however that it has been only five very large companies that have underwritten this trend - Nvidia, Microsoft, Google, Meta & Amazon. Courtesy of their scale within the S&P500, they have been able to more than offset the remaining 495. As a reference point, Nvidia has a larger market value than the entire ASX200!

The chart below highlights the strength in market earnings being generated, the Technology sector in particular. One of the key drivers of earnings growth in recent history has been an increase in corporate margins (see Chart 1 below). Confirmation of improved productivity within the mega-cap stocks, in our view, is an indication of effective AI use. Margins in the US look set to continue to rise.

Chart 1 – US Company earnings growing as a result of improved profitability



Second, the US is being driven by being at the forefront of the AI revolution. This clearly is the next major wave of technological development akin to the computer, the internet, smartphone & cloud. AI is potentially shaping up to be more impactful, given its sharp penetration across business and consumers compared to its predecessors. Time will tell.

Third, the FOMC has made their first cut to official rates in the US since December 2024. Off a strong base, the US labour market looks to be weakening, with surveys on business/consumer sentiment turning soft. Current expectations are for another 2 rate cuts in the US in 2025. A lower rate environment will be supportive for growth and employment in the US.

## We look to be partly through a goldilocks scenario last experienced in the 1990's

The current financial market environment shares striking similarities with the 1990s, suggesting we could be in a "Goldilocks" scenario where robust returns are sustainable. Both eras are defined by a combination of falling inflation, strong corporate earnings growth, and a focus on transformative technology. In the 1990s, this was driven by the early stages of the internet and personal computing revolution; today, it is fuelled by the AI boom and increased productivity from digital transformation.

This dynamic allows central banks to maintain a more accommodative stance, providing a favourable backdrop for equities.

As long as inflation remains contained and corporate profits continue to expand, a steady, balanced, and potentially high-return environment could persist over the next three to four years, rewarding investors who remain focused on growth and innovation.

Chart 2 – Current financial set up mirrors that of the last 5 years of the dark blue line



## Conclusion

Despite a very mixed set of economic markers, the US economy seems destined to “run hot” into the US mid-term elections in late 2026 following the decision by US Federal Reserve Board to reduce rates. The risk of a major recession remains low in either the US or Australia. Although seeing a growth slowdown, the US corporate and household sectors remain robust, interest rates seem destined to be reduced further, the economy continues to expand at a slower pace, and inflation appears to be contained.

An investment boom associated with AI and data-centre developments continue to be growth supportive in the medium term. We anticipate the next phase of the AI journey will be focused on a new wave of productivity growth, business transformation through changed work practices and digitalised industrial processes through robotics and automation.

Prospects for continued corporate earnings growth, improved margins and lower interest rates remain supportive of equity markets, despite elevated valuations. On balance, we remain in the relatively early phase of the current market cycle, as the chart above highlights.

Please let us know if you have any questions or would like to discuss.

Kind regards,

**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

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