

Executive Summary

- **ASX underperforms global markets:** The ASX lagged major indices like the S&P 500, NASDAQ, FTSE, Nikkei 225 and Asia Pacific peers over the quarter and year, with wide gaps between top and bottom sectors such as Health care and Materials.
- **International exposure lifts returns:** Greater holdings in global leaders — Microsoft, Meta, Alphabet, Amazon, Apple and Nvidia — boosted results through their strength in technology and AI.
- **AI demand remains strong:** Capacity is tight while growth accelerates across semiconductors, cloud and enterprise software. Adoption in both business and consumer products is lifting productivity and digital advertising.
- **AI not a bubble:** Unlike the dot-com era, current AI leaders generate substantial revenue with rapid uptake. Data centre capex from major firms underpins growth, though power and funding constraints remain risks.
- **Gold and critical minerals outperform:** Gold and silver surged on geopolitical and inflation concerns, with Northern Star and Evolution performing strongly. Rare earths rallied amid US–China tensions — Lynas gained 100% in the quarter.
- **Health care weakens:** The ASX health care index had its worst quarter in 20+ years, driven by CSL and Sonic, while medical device firms like ResMed and Intuitive Surgical showed resilience.
- **Electrification opportunities:** Rising electricity demand from data centres benefits firms such as ABB, Schneider Electric and Quanta, which enable grid upgrades and decarbonisation.
- **Valuations and earnings:** US markets show higher earnings growth and returns on capital than Australia, led by double-digit gains in tech, while local banks and resources remain sluggish.
- **Investment focus:** The strategy targets sectors with durable growth drivers — AI, electrification and tech-enabled financial services — emphasising companies with strong earnings momentum in technology, infrastructure and payments.

ASX Underperforms International Benchmarks

Over both the September quarter and the 12 months, the ASX has lagged most global benchmarks. Using the All Ordinaries Accumulation index, the total return for the quarter was 5.3%, lagging the S&P 500 index 8.1%, the NASDAQ 11.4%, the FTSE up 7.5%, the Nikkei 225 up 11.8% and Asia Pacific x Japan up 9.9%. It was a similar pattern for the 12 months with Australia up 10.5%, S&P 500 up 17.6%, NASDAQ up 25.4%, FTSE up 17.5%, Nikkei 225 up 20.8% and AsiaPac x Jap up 15.6%.

At a stock and sector level, the contrast in performance between the top and bottom performers was elevated. As an example, in the health care sector, the top three performers all generated returns of more than 30%, while the bottom performers had negative returns of more than 15% (including CSL and Sonic). Similarly in the Materials sector, the top three stocks generated returns of more than 80% (including Lynas and Mineral Resources) while the bottom three had negative returns of more than 10% (including James Hardie, down almost 40%).

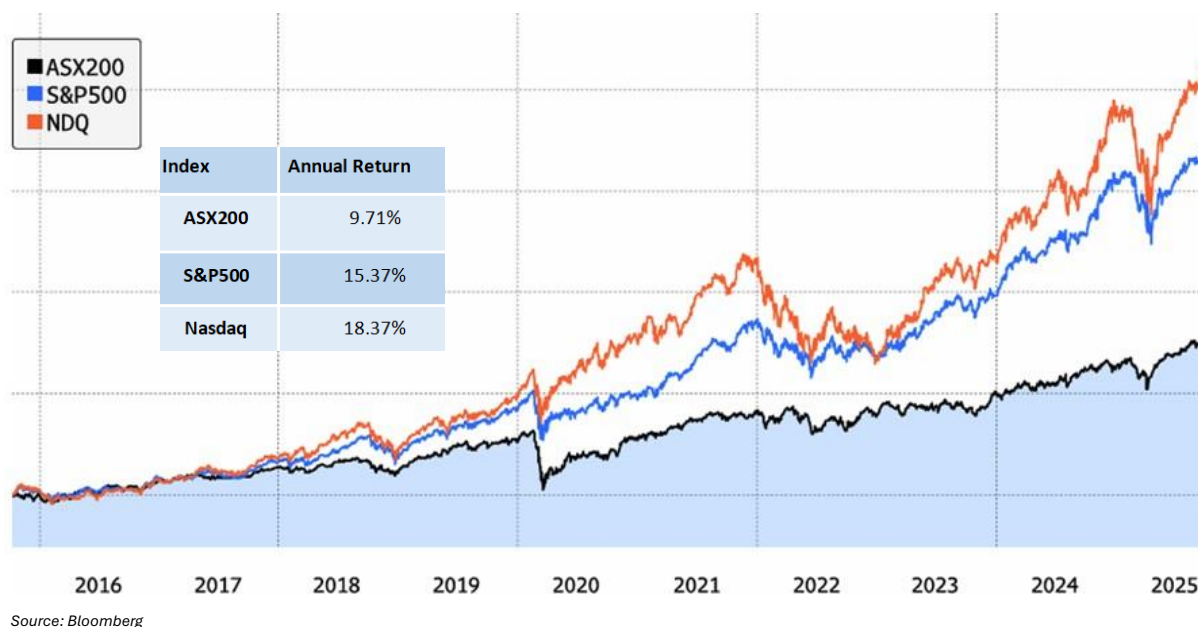
Factors contributing to this elevated level of volatility we suspect relate to larger than normal share price reactions to company earnings announcements, investor re-weighting between large caps towards small caps, fund flows towards Gold and Critical Minerals, and the ever-growing influence of exchange-traded funds. Some of the volatility is normal, while some is structural and therefore likely to be persistent.

International Investment Drives Portfolio Returns

The decision to increase international investment exposure some years ago has enhanced portfolio returns and provided exposure to world-class businesses in sectors offering much higher growth than some of the more

mature sectors in Australia. Holding stocks such as Microsoft, Meta, Alphabet, Amazon, Apple, Nvidia and others has made a significant contribution to overall portfolio performance in recent years. America's dominance in Technology, and more recently in the rapidly evolving AI space, suggests this outperformance is likely to continue. As the chart below highlights, returns from the US have been superior to those in Australia from an index level perspective and in \$A terms.

Figure 1: 10-Year Total Returns of Global Indices (Constant Currency)



Takeaways from Goldman Sachs Technology Conference in San Francisco

We attended the annual Goldman Sachs Communacopia + Technology Conference in San Francisco, which brought together over 3,000 attendees and 800 companies across four days.

Key takeaways from the conference include:

- AI demand remains robust, with industry capacity still constrained.
- Growth is evident across semiconductors, cloud and enterprise software sectors.
- Enterprise adoption of AI is increasing as companies embed AI to enhance productivity.
- AI is improving digital advertising conversion rates and lowering operational costs.
- Platforms with access to proprietary data are gaining competitive advantages.
- Payments platforms such as Visa and Mastercard continue to benefit from the global shift to digital transactions, driven by tokenisation and potential future AI-enabled payments.

Is AI a Bubble?

We don't view the current wave of AI investment as a bubble. Unlike the dot-com era, today's leaders are already generating meaningful revenue & cash, and adoption is happening at scale. With the world already connected, the distribution of AI capabilities is immediate — embedded across search, social, cloud and productivity platforms used by billions.

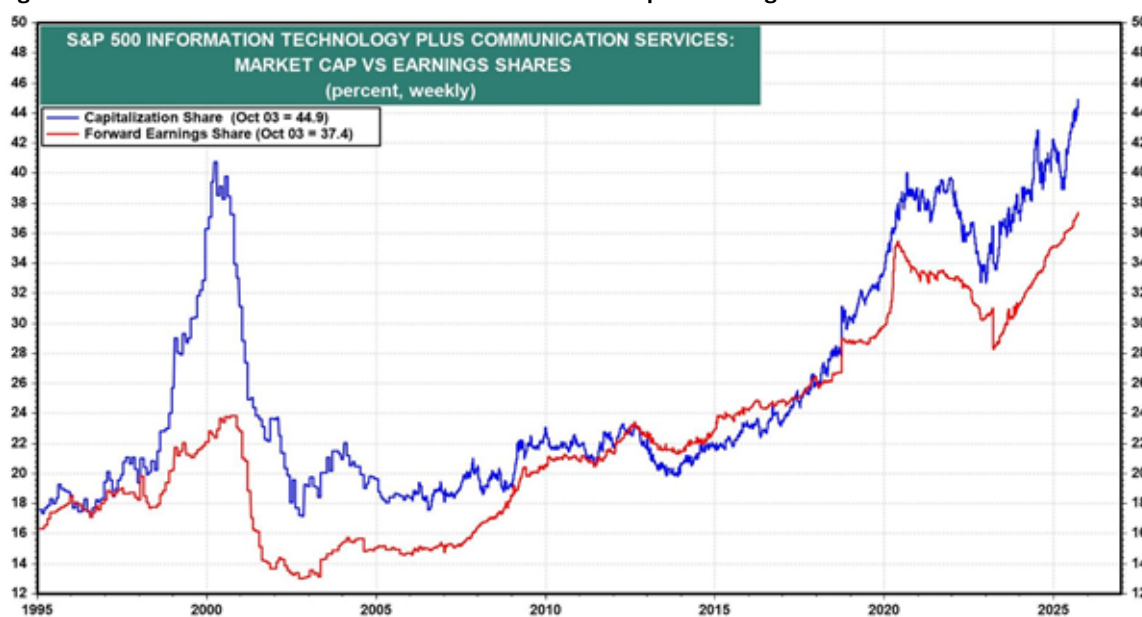
Microsoft, Google, Meta and Amazon are driving a powerful surge in data centre capital expenditure. Meta has guided to US\$66–\$72 billion in 2025 capex, Alphabet expects around US\$85 billion, and Amazon's spending is running at more than US\$100 billion, with AI infrastructure a growing share. Industry forecasts still point to double-digit annual growth in global data centre investment through to the end of the decade. While early phases

were largely funded from free cash flow, the build-out is now drawing in private equity, infrastructure funds and sovereign wealth investors, often through long-term leases and structured debt — reflecting both scale and confidence — but also raising the bar for future returns.

Crucially, these investments are underpinned by real and growing demand: enterprise AI adoption is accelerating (with tens of thousands of Copilot seats being rolled out across global corporations) and AI-driven features are already embedded across consumer products such as Google Search’s and Meta’s platforms.

That said, the cycle is not without risk. Power and grid constraints, permitting delays and potential over-build in certain regions could moderate spending momentum around 2026. A higher-rate environment also increases the importance of capital efficiency and return on investment discipline, particularly as external funding becomes more common.

Figure 2: US Info Tech & Communication Services Market Cap vs Earnings



Source: Yardeni

Gold and Critical Minerals Support Investment Returns

Over the last quarter, uncorrelated assets have significantly outperformed traditional (traditional assets include equities, bonds and cash). Over the September quarter, Gold has risen more than 15.6% and Silver is up almost 30%. Peak believes the gold price strength has been driven by elevated geopolitical issues, concerns over inflation and strong central bank purchases. Northern Star and Evolution delivered respective returns of 23% and 40% for the quarter.

Peak visited the Lynas processing facility in Kuantan, Malaysia, one of the largest rare earths operations outside China. Rare earths, essential for magnets used in electrification, are largely produced in China, which supplies 94% of global magnets and has been a major source for the US Department of Defence. Amid US–China trade uncertainty, this sector is very active; Lynas reported a 100% return for the September quarter, highlighting the strategic value of rare earths.

Health Care — The Other Extreme

The ASX health care index posted a -17% return last quarter, its worst in over two decades. Historically, the sector has delivered steady growth for our portfolios. This decline was driven by CSL and Sonic; CSL faced setbacks due to underperforming acquisitions and recent restructuring costs, while Sonic struggled with post-COVID-19 adjustments and challenges in its US business. Looking ahead, our focus is on medical devices. ResMed remains

a strong performer, and we have added Intuitive Surgical, with plans to include Boston Scientific which specialises in pacemakers and similar devices.

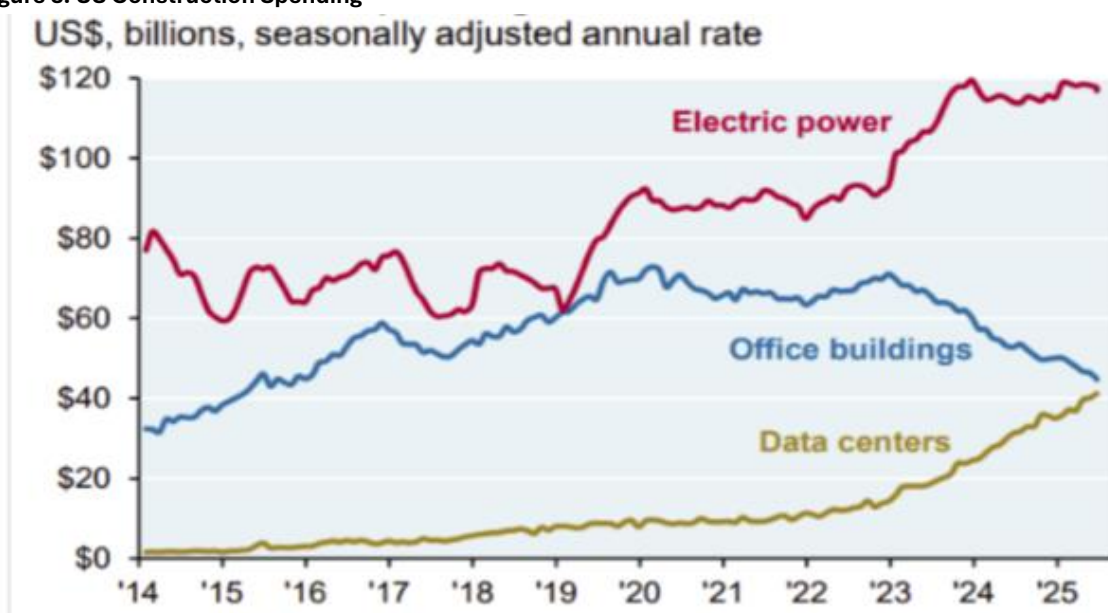
Area of Future Opportunity: Electrification

Investment in data centres has driven up electricity demand, prompting us to seek opportunities in energy efficiency. Many portfolios have benefited from Swiss firm ABB, but with existing exposure to major data centre players, we're considering another electrification-focused company.

Recently in London, Peak met with Schneider Electric's management. The firm is globally active in electrification, collaborates with Nvidia on energy-efficient chips and holds a strong position in Asia, especially India.

Quanta, a US-based company, is also of interest due to its role in upgrading the US grid to support data centre expansion.

Figure 3: US Construction Spending



Source: JP Morgan

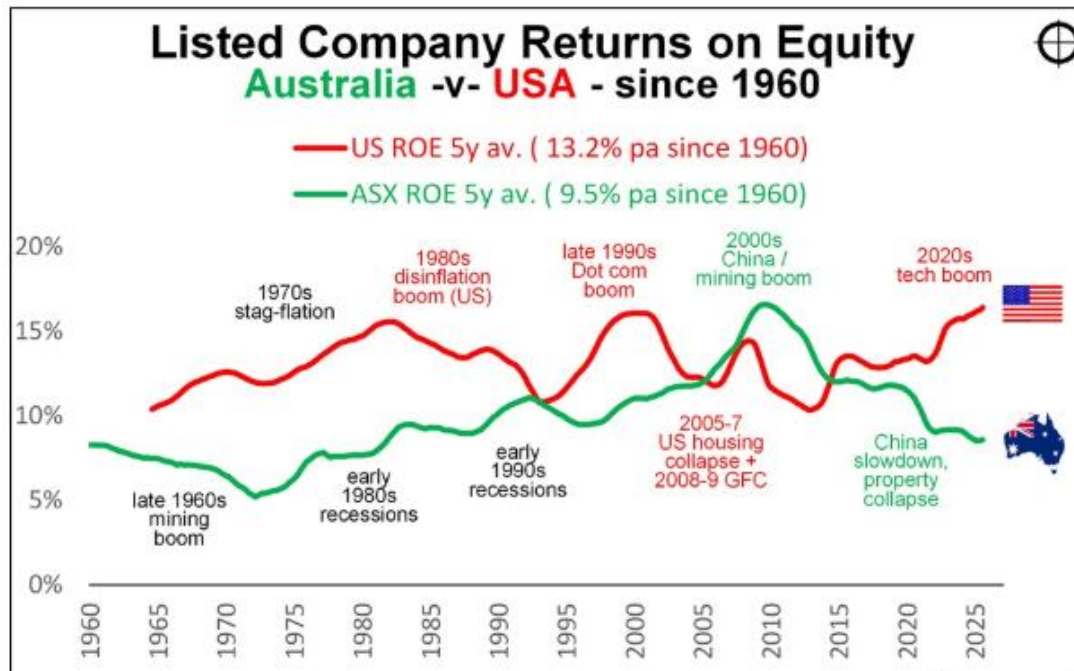
Valuations and Earnings Growth Prospects

One of the key differentiators of the performance between the Australian and US markets has been the level of earnings growth over the longer term, which has seen higher return on capital invested in the US than in Australia — as illustrated in the chart below. The last time Australia outperformed the US in terms of corporate performance was during the China urbanisation and industrialisation period in the late 1990s and 2000s.

With few exceptions, valuations in most markets are elevated, including Australia and the US, less so in Europe. In Australia, outside a limited number of Industrials where earnings are growing at the high single digits, the major sectors of Resources and Banks have minimal earnings growth. In contrast, the US Technology and Communications sectors (40% of the S&P 500) are experiencing low to mid double-digit growth.

Forward PE ratios though don't reflect this. The S&P/ASX 200 is trading at historically high levels with a lack of earnings growth. The US is expensive relative to history at a forward PE of 24x, but is much better supported by corporate earnings growth of 12% for the S&P 500 and 16% for the NASDAQ.

Figure 4: US vs Australia RoE



Source: Owen Analytics

Investment Strategy

With equity markets in Australia and the US at record highs, finding value is increasingly difficult. The rapid recovery since April has led to overbought conditions, making short-term consolidation likely, though historical trends show economic growth and falling interest rates typically support equities. October, November and December have generally been, seasonally, the most positive months in the equity market calendar.

Current strategy focuses on sectors with long-term growth drivers and steady earnings momentum. AI leads, with companies like Microsoft, Google, Apple and Amazon posting strong results. Semiconductors and data centre infrastructure providers, such as ASML, ARM, Nvidia and Goodman Group, also benefit from AI-driven demand.

Electrification is another major theme, fuelled by rising power needs for data centres and ongoing decarbonisation. This creates opportunities for infrastructure firms like ABB, Quanta and Schneider Electric, and supports raw material sectors like copper and uranium.

Financial services are set to gain from cloud computing and AI, highlighted by CBA's migration of core banking to the cloud. Mastercard and Visa continue to dominate payments through technological leadership, while Macquarie advances in data centre and renewable energy projects.

As always, we are deeply appreciative of your long-term support. If your circumstances have or are about to change, or you have any queries, we welcome your call/communication.

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