

# Geo-Political risks increase but so too does US debt

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 13 JANUARY 2026

The Australian share market ended 2025 on a stronger note. The S&P/ASX 200 index increased by 1.30% outpacing the MSCI World, which declined 0.9% in AUD terms. The price of copper reached a record high of more than USD12,000 per tonne at the London Metals Exchange, with tight supply being the key driver. This benefit Australia's mining companies, particularly BHP which increased by 8.10% and RIO Tinto by 10.6% over the month. Gold also reached a record high in December following a 25-basis point interest rate cut by the US Federal Reserve, despite inflation remaining elevated. The higher gold price was a tailwind for the share price of Newmont Mining however, interestingly, Northern Star, was broadly flat for the month. Australian banks increased strongly over the month led by CBA which increased by almost 6%.

The Australian 10-year bond yield increased 0.30% to close the month at 4.80%, on the back of higher-than-expected inflation data, which took out the chances of any further reduction in interest rates. Market analysts are suggesting an increasingly likelihood that the next move in interest rates may be up. This may be a possibility, however, as early as February seems unlikely given monthly inflation data which suggests that inflation continues to cool.

In the US, third quarter growth beat estimates, accelerating to a 4.3% at an annualised pace from 3.8% in the second quarter. This was the fastest in two years. Consumption was the main driver, however continued resilience in consumer spending hinges on the labour market which

seems to have stalled. In December, US non-farm payrolls recorded an increase of 50 000 versus the 70 000 expected and there was a net 76 000 downward revisions to the past two months of data. Federal reserve Chair Powell has suggested that officials believe the Bureau of Labor Statistics has overestimated payrolls growth by around 60 000 per month, so this evidence the jobs market is stagnant. Looking over the past six months, non-farm payrolls growth has averaged just 14,500, so adjusting for Chair Powell's assessment on the measurement error, it implies the US is losing more than 45,000 jobs per month. The report reduced the odds of near-term easing, but the economy remains fragile. Labour demand and supply have both weakened, with demand (companies hiring) playing the dominant role. The Federal Reserve's December dots place unemployment at 4.4% in 2026, above the 4.2% NAIRU estimate, meaning further labour weakness could quickly revive expectations of further reductions in interest rates due to weaker consumption. Retail sales delivered a mixed signal in October while leading indicators point to slower spending ahead. Consumer confidence measures declined throughout the fourth quarter after recovering from trade uncertainty earlier in 2025. Headline and core



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inflation both came in below estimates, with headline inflation recording 2.7% over the year and core inflation recording 2.6% p.a. from 3.0% in September. Given collection distortions, however, this data series is of limited value. Inflation remains a lagging indicator and its leading components continue to point to further disinflation. One-year CPI swaps fell on the release and have traded near 2.3% after peaking near 3.6% in April, showing markets are past inflation concerns.

In Europe the central bank left rates unchanged at 2% and revised its growth and inflation forecasts upward. The ECB did not rule out moves in either direction, however growth momentum remains weak so the chances of a hike in interest rates is low. With goods inflation contained, services inflation will be closely monitored as it is tightly linked to wage growth, which has slowed markedly. This supports the market's view that that a few reflationary cuts are likely and not priced in.

In China an acceleration in inflation remains primarily attributable to rising food prices. Fresh vegetable and fresh fruit prices saw the largest month-on-month increases - up 18.2% and 4.4% over the year respectively. Non-food inflation, on the other hand, remained unchanged at 0.8% over the year. Household appliance prices rose 5.9% the impact from 2024's trade-in policy discounts feed through the economy. The transportation and communication category continued to weigh on inflation over the year, primarily due to declines in transportation (-1.9%), fuel (-8.2%), and communication appliances (-0.7%). Consumers are also feeling the continued impact of the property market deflation driven by a -0.3% per annum drop in rents. Producer price inflation (which tracks price changes from the seller's perspective) rose to -1.9% over the year to December from -2.2% in November. This level marked a 16-month high and the 39th consecutive month of producer price deflation. Despite expectations of a recovery, inflation remains relatively low and should not preclude further monetary easing in 2026.

As highlighted last month, we continue to expect the U.S. economy will show resilience, though momentum is softening. In Australia, interest rates seem to have stopped falling and this has weighed on interest rate sensitive companies. Bank share prices remain expensive with CBA at the helm of the group. If rates are indeed higher for longer it implies that valuation multiples should be lower particularly for technology stocks.

Geopolitical and political factors continue to increase and cause market volatility. It is unlikely to ease in the short term. President Trump's recent actions and rhetoric on Venezuela, Greenland and the Federal Reserve seem to be more focused on 2026 being a midterm election year, alongside initiatives on housing and the cost of living aimed at addressing voters' primary concerns. It is hard to know whether Trump is "going rogue" because the GOP may lose the House. His approval ratings remain below 50% but are not dire. Unorthodox measures are consistent with his political style rather than a loss of restraint. A shift toward more reckless behaviour would likely require approval ratings falling considerably or a major economic shock. If domestic avenues close or electoral defeat becomes inevitable, a pivot toward foreign policy actions becomes more likely, with Russia, Iran, Venezuela, and Cuba as potential escalation points and oil the main transmission channel for the first two. Outside of geopolitical factors, the Treasury continues to issue a large amounts of short-term debt to fund the government deficit. This balance sheet expansion at a time of elevated inflation has seen commodity prices increase which will continue to favour the Australian share market, gold and silver.

## ASSET CLASS RETURNS ARE BASED ON

### Australian Cash

RBA Bank accepted Bills 90 Days

### Australian Listed Property

S&P/ASX 200 A-REIT TR

### International Shares

MSCI World Ex Australia NR AUD

### Australian Bonds

Bloomberg AusBond Composite 0+ Yr TR  
AUD

### International Property Hedged

FTSE EPRA/NAREIT Dv REITS TR Hdg  
AUD

### Emerging Market Shares

MSCI EM GR AUD

### International Bonds Hedged

BarCap Global Aggregate TR Hdg AUD

### Australian Shares

S&P/ASX 200 TR

## RETURNS TO THE 31ST DECEMBER 2025

|                               | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|-------------------------------|---------|----------|----------|--------|---------|---------|---------|----------|
| Australian Cash               | 0.31    | 0.90     | 1.81     | 3.82   | 4.07    | 2.76    | 2.25    | 2.10     |
| Australian Bonds              | -0.63   | -1.15    | -0.75    | 3.17   | 3.72    | -0.43   | 0.29    | 2.03     |
| International Bonds Hedged    | -0.23   | 0.69     | 1.72     | 4.42   | 3.98    | -0.59   | 0.45    | 1.95     |
| Australian Listed Property    | 1.95    | -1.40    | 3.09     | 9.24   | 15.03   | 8.84    | 5.61    | 7.91     |
| International Property Hedged | -1.47   | -0.70    | 3.66     | 6.34   | 6.21    | 4.16    | 1.64    | 3.74     |
| Australian Shares             | 1.30    | -1.01    | 3.65     | 10.32  | 11.39   | 9.89    | 7.88    | 9.31     |
| Emerging Market Shares        | 1.28    | 4.09     | 13.88    | 24.01  | 17.05   | 7.28    | 7.89    | 9.37     |
| International Shares          | -0.90   | 2.55     | 8.85     | 12.53  | 22.08   | 15.57   | 14.05   | 13.23    |

### Prepared by DWA Managed Accounts Pty Ltd

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