

Market Review

Monthly

December 2025

Key takeaways

- Australian shares rose 1.4% in December, with the materials sector performing strongly. International shares (hedged) also rose 0.5%.
- Australian government bonds were down -0.8% in December. Significant repricing of interest rates expectations saw yields climb for a second consecutive month.
- Geopolitical risks remain elevated heading into 2026, with the United States staging a military operation in Venezuela on the 3rd January 2026 to capture and arrest Venezuelan President Nicolás Maduro. Japan-China relations have also deteriorated.
- China has introduced an import quota on beef, with tariffs applied to volumes above the quota, which is expected to negatively impact Australian beef exports.
- The Reserve Bank of Australia (RBA) held rates steady at 3.6% at their December meeting, in line with market expectations. Although market expectations have recently shifted toward rate hikes in 2026, our view is that the RBA is unlikely to pivot that quickly. It is more likely that the RBA will remain on hold into 2026.

Upcoming

1. **US-Venezuela developments (January)** – How will the two countries navigate the transition of power?

2. **US labour market data (10th January)** – Will the US labour market continue weaken?

3. **Australian Q4'25 CPI (28th January)** – With monthly inflation having picked up recently, will this acceleration also be reflected in the quarterly figures?



Market review

A positive month for Australian shares in December

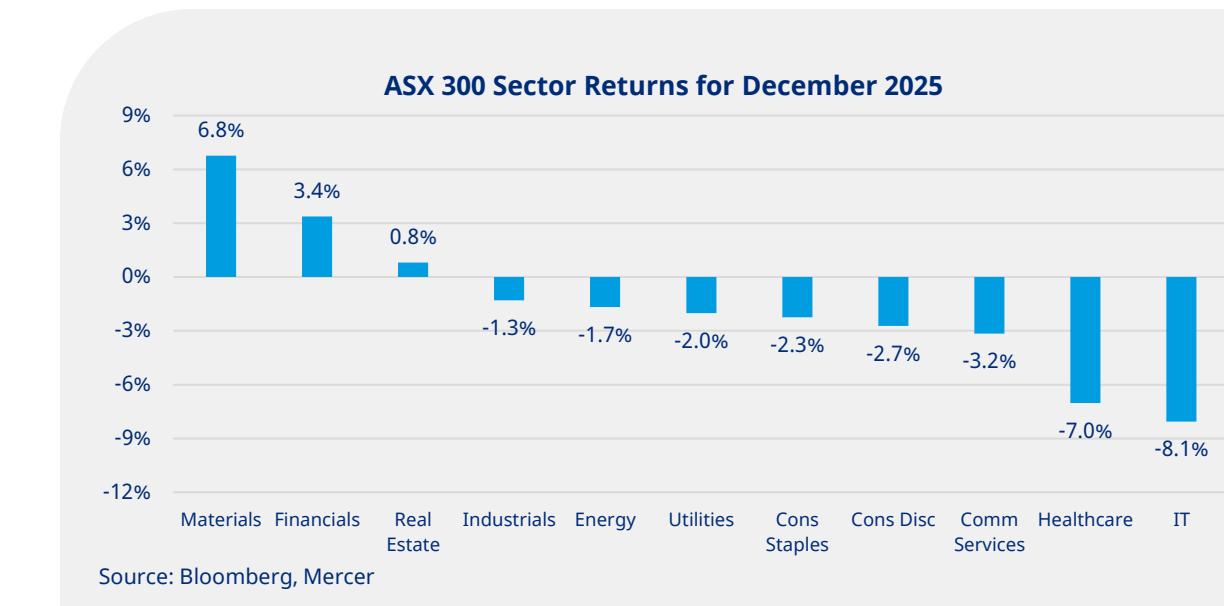
- Australian shares rose 1.4% in December, outperforming international shares.
- The materials sector was the strongest performer in December, up 6.8%, on the back of higher commodity prices, followed by financials, which increased by 3.4%.
- The larger weighting of materials and financials in the Australian share market contributed to its outperformance versus international shares in December.
- Information technology was the largest detractor for the third consecutive month, down -8.1%, continuing to reflect the higher valuations.

International share markets continue higher in December

- International shares (hedged) rose 0.5% in December, supported by the US Federal Reserve (Fed) rate cut.
- In line with the Australian share market, financials and materials were the two best performing sectors in December. Financials rose 4.1%, while the materials sector gained 3.2%, as metal prices continued higher in December.
- The utilities sector was the worst performing for the month, down -3.3%.
- Emerging market shares rose 1.3%.

Commodities higher, precious metals continued to appreciate in December

- Precious metals had another strong month; silver saw large gains, up 25.1%, while gold climbed 2.9%.



Australian government bonds fell in December due to rising yields

- Australian government bonds were down -0.8% in December. Significant repricing of interest rate expectations saw yields climb for a second month.
- Australian 10-year government bond yields rose by 23bps over the month, as markets priced in interest rate hikes in 2026 following the strong inflation data released last month.

The Australian Dollar (AUD) saw gains against most currencies

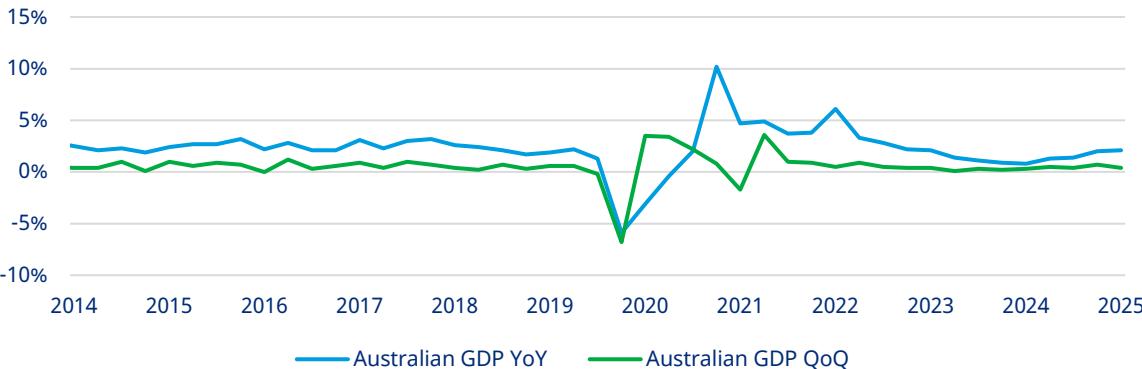
- Higher bond yields in Australia relative to the US have made the AUD more attractive to investors. In December, the AUD appreciated 1.9% against the US dollar, rose 0.6% against the euro, and gained 2.2% against the Japanese Yen, while remaining unchanged against the British Pound.

Economic review

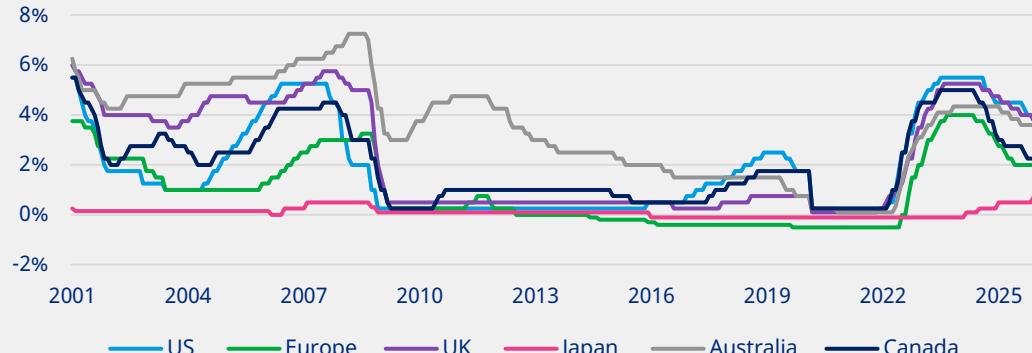
Australia: Chinese beef import quotas may slow beef exports

- China has introduced an import quota on beef, with tariffs applied to volumes above the quota. Imports of Australian beef to China will be capped at 205,000 tonnes, below the volume imported in 2025.
- The RBA held rates steady at 3.6% at their December meeting, in line with market expectations. The RBA noted that the stronger-than-expected October monthly inflation data was a key concern.
- Australian GDP grew by 0.4% quarter-on-quarter in Q3'25, below the expected 0.7%, bringing annual growth to 2.1% year-on-year, just under the forecast 2.2%. Growth was supported by private investment and stronger household spending but was held back by firms running down inventories and imports rising faster than exports.
- The unemployment rate stayed at 4.3% in November, even as employment fell by 21,300, against expectations for a 20,000 increase. Full-time jobs dropped by 56,500, while part-time roles rose by 35,200, partly unwinding October's strong gains. The participation rate also dropped. This recent volatility in the labour data is making it harder for the RBA to assess the outlook.

Australia GDP



Global Cash Rates



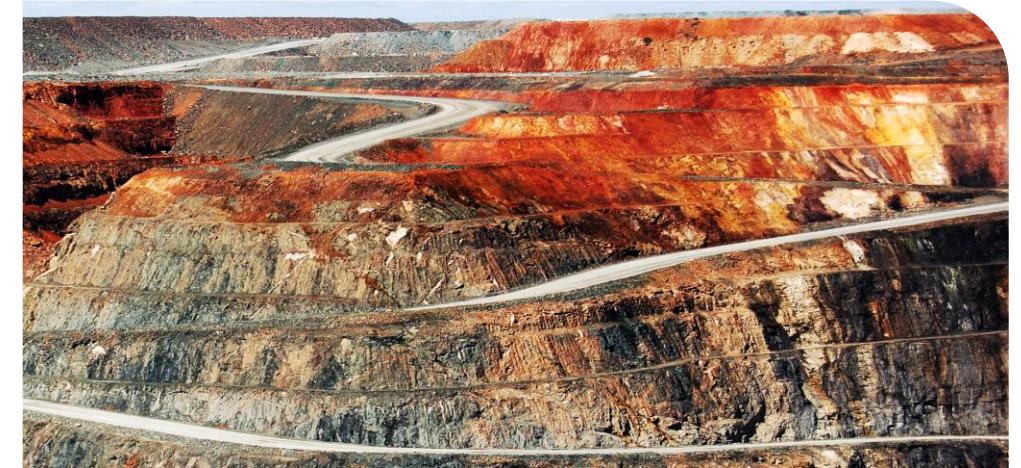
International: Geopolitical risks remain high into the end of the year

- Geopolitical risks remain elevated heading into 2026, with the US staging a military operation in Venezuela on the 3rd January, to capture and arrest Venezuelan President Maduro. Tensions between Japan and China also intensified after Japanese Prime Minister Takaichi stated that Japan would deploy its military in the event of an attack on Taiwan, prompting angry reactions from China and threats of economic retaliation.
- Several central banks met in December to determine monetary policy with all acting in line with market expectations. The Bank of England (BoE) reduced interest rates by 0.25%, the Bank of Japan (BoJ) increased interest rates by 0.25% to 0.75%, and the Fed lowered the federal funds target range by 25bps to 3.5-3.75%.
- US labour market data for October and November, released in December, showed conditions were weaker than expected, with a sharp drop in October payrolls and unemployment rising to 4.6%.
- In the UK, real GDP fell by 0.1% in October, a second consecutive month of contraction. The economy has now shrunk in three of the last four months and stagnated in the fourth. The October decline was broad-based with weakness in the construction and services sectors.

Outlook

Australian economic growth is expected to pick up in 2026

- Australian economic growth is likely to pick up in 2026, driven by recent RBA interest rate cuts, improving consumer confidence, and solid income growth.
- Although market expectations have recently shifted toward rate hikes in 2026, our view is that the RBA is unlikely to pivot that quickly. It is more likely that the RBA will remain on hold into 2026, taking a data dependent approach and assessing each new inflation and employment release. Nonetheless, mounting evidence suggests that most of the easing cycle is already behind us.
- Headline inflation will continue to rise in 2026 as government energy rebates expired in December, although this should be a short-term impact that the RBA should not be concerned about.



The international economy remains resilient

- The situation in Venezuela is not expected to impact international markets significantly. Typically, heightened geopolitical risks increase investor concerns and push oil prices higher. However, Venezuela's oil output has declined as its infrastructure has deteriorated, despite the country holding the world's largest oil reserves. If output is restored and increased, higher supply could instead put downward pressure on oil prices.
- We expect the global economy to stay fairly strong into 2026. US consumer spending should remain solid, helped by steady income growth, strong share markets, and generally healthy household finances. Outside the US, we see a small pickup in growth. Emerging Markets and Japan are also expected to keep performing well. China's growth will likely stay below its potential because of ongoing weakness in the property sector.
- The Fed is likely to cut rates further, but probably not as much as markets expect. The BoJ is expected to keep raising rates, while the BoE will likely start easing policy as inflation moves closer to its target.

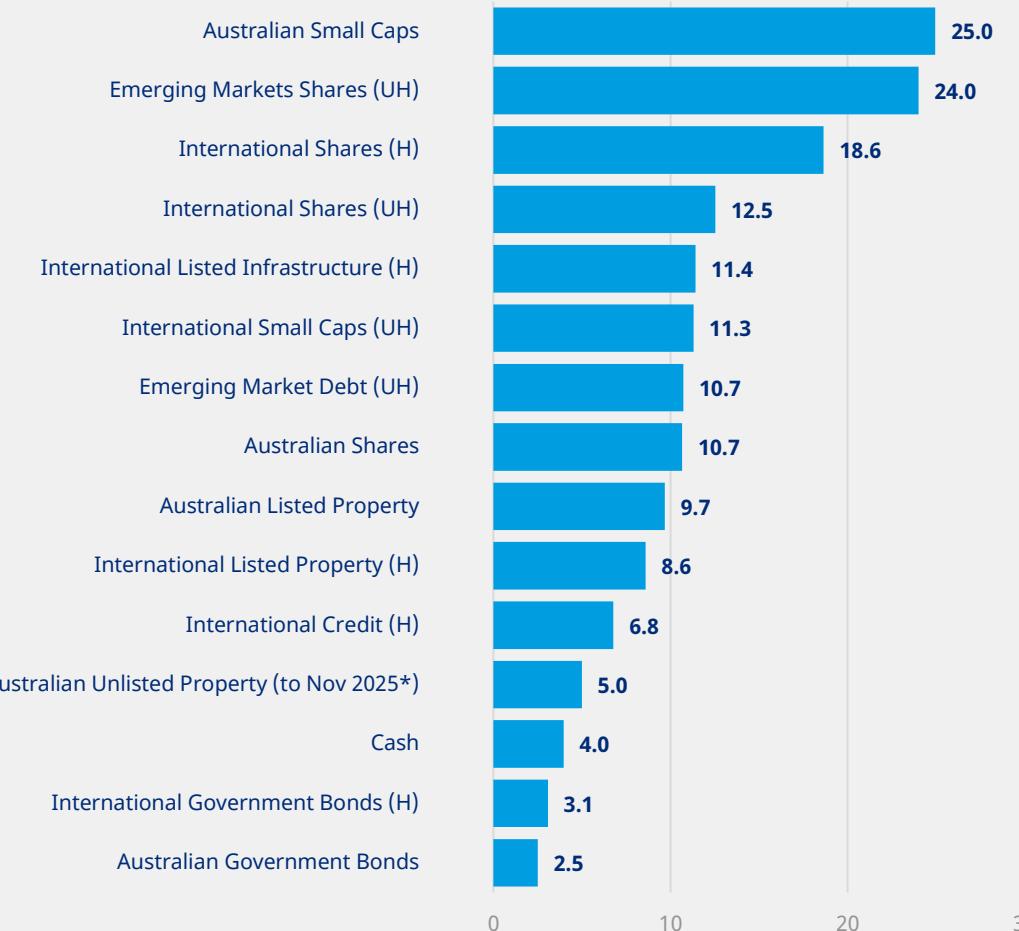
Performance

Market performance December 2025



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Market performance 12 Months to December 2025



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- Currency: AUD.
- UH: Unhedged.
- H: Hedged.
- Where a lag exists, the performance start and end dates shift accordingly.
- Total Return: Total Return Index with Gross Dividends.
- Net Index: Total Return (Net Dividends Reinvested).

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