

CIO Office House View

17 October 2025

Putting Wealth To Work For Generations



Glen Bertram

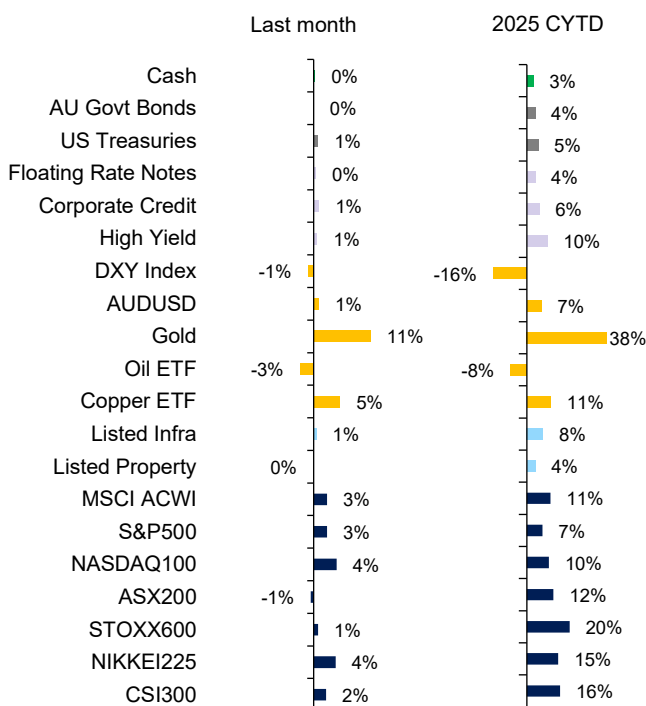
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Market update

Although the ASX200 lagged broader markets in September, US Equities remain the year-to-date laggard across global markets. Gold turned in another strong monthly performance. It is unusual to see investors simultaneously bidding up the gold price alongside peak equity valuations. See **Chart 1**.

Longer term asset returns can be found in **Appendix 2**.

Chart 1: Asset class returns (AUD) – to 30 September

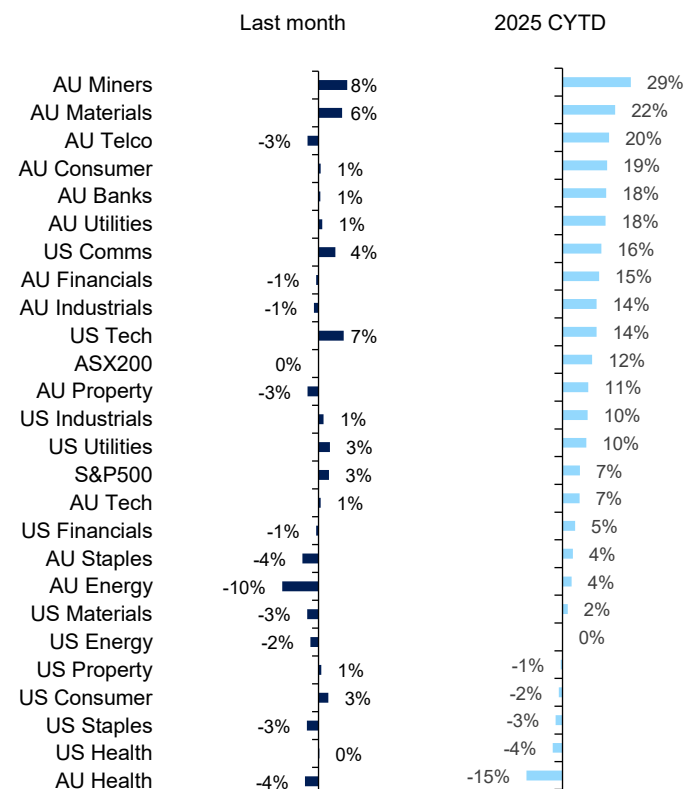


Source: JBWere, Bloomberg. Australian franking credits included. Past performance is not a reliable predictor of future performance.

Australian and US sector performance

September was again soft for domestic Healthcare stocks, but offshore the same sector started to see improvement later in the month. This trend has continued into October. Domestic Energy was weak, largely off the back of the ADNOC-Santos failed M&A bid. On the flipside, ASX miners had a strong month driven largely by gold stocks. US Tech also performed well. The local mining sector is now the strongest sector performer year-to-date. Australian miners outperforming US Tech stocks in 2025 is probably not a fact that is well known by too many investors. See **Chart 2**.

Chart 2: Sector returns (AUD) – to 30 September



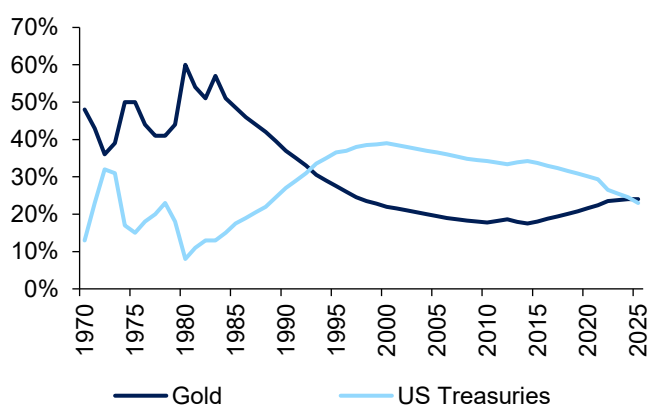
Source: JBWere, Bloomberg. Australian franking credits included. Past performance is not a reliable predictor of future performance.

Gold market developments

Strikingly, September will be recorded in the history books as the month when the value of gold held as official global reserve assets overtook US Treasuries. The main difference between the two, of course, is that gold is nobody's liability. There are no shortages of US Treasuries being created by ongoing 6% of GDP US fiscal deficits, but they are increasingly having to be financed by domestic US savings as the official sector in the rest of the world holds more of its capital elsewhere. This is a big change. It is currently difficult for us to envisage what might cause the trend to reverse.

Chart 3.

Chart 3: Percentage held as official global reserve assets



Source: JBWere, Bloomberg, IMF. Past performance is not a reliable predictor of future performance.

Unsurprisingly, it has been a strong year for gold stocks and there are plenty of them listed on the ASX. **Chart 4** shows their growing weight within the local index.

Chart 4: ASX200 index weight of local gold stocks



Source: JBWere, Bloomberg. Past performance is not a reliable predictor of future performance.

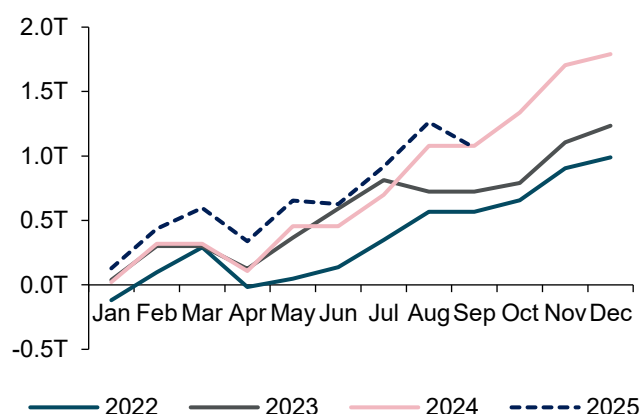
Flying blind on data

As we move through the second week of the latest US government shutdown, a relatively sanguine market reaction rests on the assumption it will be resolved in short order. As it always has, through another extension of the debt limit.

Even if the shutdown continues for a while yet, the Bureau of Labor Statistics has committed to shortly produce delayed September US monthly CPI data, despite the shutdown. This is an important number, as the US government runs to a September year-end. Annual *cost-of-living-adjustments* (COLAs) across several important industries such as defence rest on the availability of this number. Appetite to shut down parts of the defence force is presumably limited.

For all the efforts of Musk's *DOGE* experiment, and during the current showdown over the debt ceiling, it is worth pointing out that 2025 government spending remains largely unchecked. **Chart 5.**

Chart 5: Cumulative annual US Federal deficit, US\$ trillions



Source: JBWere, US Treasury. Past performance is not a reliable predictor of future performance.

In an economy running still close enough to full employment, the question remains: "what is the outlook for the US deficit in the next downturn?" It roughly doubled in each of the last three.

News flow in private markets

There is a slowly evolving story building in relation to private credit that is worth paying attention to. Concerns are growing around a range of issues from valuations to underwriting standards in this lightly regulated part of the market.

From a public policy perspective, the IMF got the ball rolling early last year when it highlighted building risks as part of its April 2024 *Global Financial Stability Review*. More recently, ASIC weighed in locally calling for higher standards in Australia's private credit sector, highlighting widespread deficiencies in areas like transparency and fee disclosure,

and valuation practices—see its September 2025 report *REP 814 Private Credit in Australia*. ASIC has also taken recent enforcement action, issuing stop orders against certain private credit products.

In a fluid area, the biggest local casualty so far appears to have been the Adgemis publican group that has collapsed with a reported \$1.8 billion in debt outstanding. While details are scant as the group moves through insolvency proceedings, it appears that quite a few local private credit operators have been caught. We expect recoveries to be low.

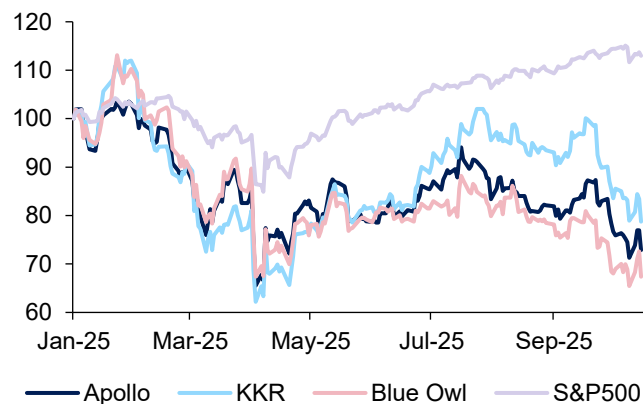
Even more recently, an auto-parts roll-up First Brands in the US has collapsed and entered Chapter 11, with reportedly at least US\$12 billion and possibly up to US\$50 billion in (off balance sheet) outstanding liabilities. The majority is owed to the leveraged loan and CLO markets, rather than direct private credit lending. US auto-loan provider Tricolor is another similar story. It is early days, but again from what we understand about the state of these companies' balance sheets, it appears that recoveries will be challenging.

While we still view these recent examples as somewhat idiosyncratic events, it highlights the potential weakening of credit underwriting standards as credit markets continue to see strong inflows. As has always been our practice, we continue to focus on well capitalised managers, operating at scale with significant experience, a disciplined approach to underwriting and with proven workout capabilities.

The big macro question for investors will be whether these growing problems are canaries in the proverbial coal mine. Or are just par for the course in what is now a very large lending industry where, inevitably, some loans will need to be written off. The RBA has quoted the global market for private credit at more than US\$2 trillion, but other estimates are significantly larger, and much of it is effectively 'dark' to regulators. We are of the view that while private credit markets have grown substantially over the past decade, an inevitable pickup in private credit defaults is still unlikely to cause a broader systemic risk for public capital markets ('contagion risk'). Additionally, we expect more stress to be felt in the less experienced and lower quality private credit offerings.

Related listed market pricing has also been notable—some of the largest operators in the world in this area are listed on global exchanges, and their once favoured parent entity share prices have not been performing well. Investors seem to sense a problem. **Chart 6.**

Chart 6: YTD large listed private operator share prices vs index (Y axis 1 Jan 2025 = 100)



Source: JBWere, Bloomberg. Past performance is not a reliable predictor of future performance.

In our view, the softness in these listed parent stocks as well as the listed US private credit 'BDCs' (listed wrappers for diversified pools of private credit) is still largely sentiment driven rather than associated with a clear or sudden deterioration in credit fundamentals. Our approach remains that we see private credit as valuable and complementary as a sleeve of modest size in an overall diversified portfolio, where it is particularly important to focus on the quality of manager selection.

Recent market jitters based on renewed US-China tensions

On Friday 10th October, US markets fell -3% (from all time highs) on renewed concerns around the US-China relationship, as Trump threatened re-escalation of punitive tariffs in response to more China rare earth export controls. In our view, these events should not come as a particularly significant surprise to anyone. Arguably the bigger anomaly was the market pricing a truce for the last several months between these two great power rivals when arguably relatively little agreement on anything of substance has been reached all year.

What is now increasingly clear, in our view, is that China was the one large bloc that was both willing and able to meet the US head-on in any fight over tariffs, global supply chains and any remaking of the global order. While the US military ultimately backs the strength and role of the US Dollar, we now know that China's stronghold over rare earth refining exerts significant influence over the US military. At least in the short term. We never believed this fight was even remotely close to being resolved and remain of that view.

Relative value opportunities and the quest for diversity

It is well known and well established that markets are expensive on any historical measure. The gains for the past 3 years have been increasingly narrow and have been

concentrated in stocks linked to AI. By JP Morgan calculations, stocks linked to AI in the US market have been responsible for more than 75% of the gains over the past 3 years.

For most investors, going to cash is not really an option and is in our view not necessary. Cash is risky too—it exposes investors to significant inflation risk. Across generally very expensive markets, we continue to see a few pockets that we would highlight as remaining quite reasonable value for investors. Within a balanced portfolio, it might make sense to have some exposure to some or all of them.

- Healthcare
- Property
- Infrastructure
- Energy
- Small caps
- Oil futures
- Inflation protected bonds

Each is deserving of a paper on its own, but the key point is that none can be labelled as particularly expensive. We think it is worth balanced investors maintaining some exposure.

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