

Monthly view as at 30 September 2025

Overview

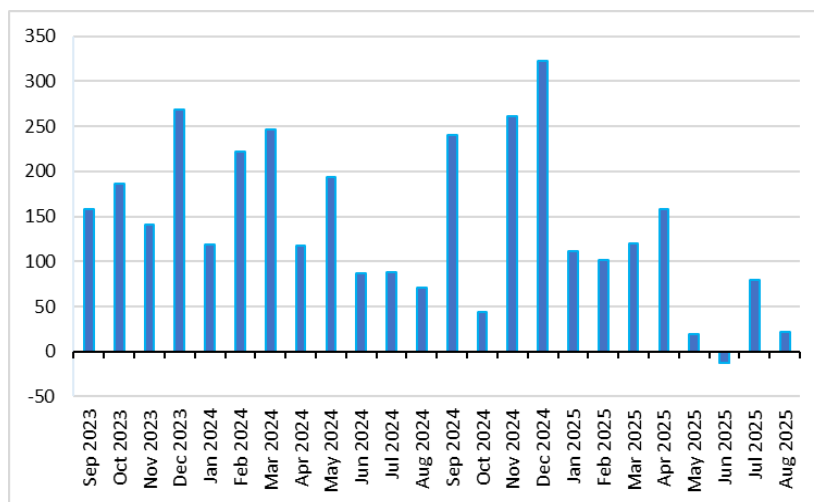
Investment portfolios delivered another month of solid returns in September with both global equity and fixed income markets recording positive gains. Global equity markets moved higher in September on better-than-expected US economic activity data, artificial intelligence (AI) optimism, and a reduction in the federal funds rate by the US Federal Reserve (Fed). Global bond markets benefited from a lower federal funds rate and longer-term interest rates fell on soft US employment data.

In a sign of the positive sentiment displayed in September, further tariff announcements, elevated US inflation data, and a US government shutdown failed to dent sharemarkets' enthusiasm.

US economic activity for the June quarter was revised up 0.5% to 3.8% (annualised), as measured by gross domestic product (GDP). The upward revision primarily reflected an upward adjustment to consumer spending. The US economy contracted in the first three months of 2025 due to a surge in imports, as suppliers built up inventories ahead of tariff hikes. The strong absolute GDP outcome in the second quarter reflects lower imports. Imports are a subtraction in the calculation of GDP. US retail sales rose 0.6% in August, beating expectations of 0.2%. A subset of the retail sales data that is used to estimate GDP rose 0.7% indicating consumer activity remains strong in the third quarter.

In contrast to the economic activity data, there is growing evidence of a softening in the US labour market. In August - just 22k new jobs were created in the US for the month, as measured by the US non-farm payrolls survey. The government also revised down their estimates for previous months and said the economy lost 13k jobs in June. It is the first monthly decline since December 2020.

US non-farm payrolls



Source: Bloomberg, Shaw and Partners

The Fed delivered a 25-basis point (0.25%) interest rate reduction at their September meeting, which was the first interest rate cut in 2025. As a result, the benchmark federal funds rate moved to a range between 4.0% and 4.25%, the lowest in almost three years.

International shares

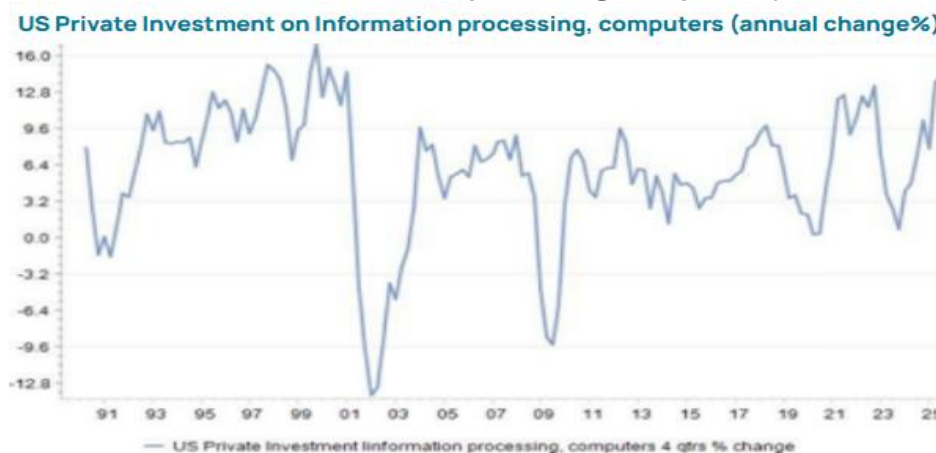
Global sharemarkets rose 3.6% in September. In New Zealand dollar terms global equities returned 5.4% due to weakness in the New Zealand dollar over the month. The New Zealand dollar fell against most major currencies over September due to the lower than forecasted second quarter GDP outcome (see comments below).

With there being little corporate news, third quarter US corporate earnings update will commence in the weeks ahead, the AI thematic was a key market driver. The technology heavy US Nasdaq index rose 5.5% over the month (7.3% in New Zealand dollar terms).

There were further large-scale AI investment announcements in September, including Open AI (creator of ChatGPT) signing a US\$300 billion contract with Oracle for data centres not yet built, and Nvidia investing US100 billion in Open AI.

AI-related capital expenditure in the US has become a key driver of economic growth, and the expected AI-related spend is a significant market driver. As highlighted in the graph below, based on some estimates, the last time we saw capex growth of this magnitude was in the late 1990s during the dot-com boom.

US Private Investment on Information processing, computers (annual change%)



Source: St Louis Fed, Zenith Investment Partners
 Source: SG Hiscock & Company

It is the productivity boom forecast to follow this investment spending that appears to be playing a significant role in driving US equity market prospects.

The Japanese and European markets also performed strongly in September and the MSCI Emerging Markets index rose 9.0% in New Zealand dollar terms.

Australasian shares

New Zealand's sharemarket rose 3.0% in September. Domestic listed property continued its outperformance of the broader market returning 6.0% over the month and 23.3% over the last six months.

The local sharemarket moved higher on improved investor sentiment as investors focused more on the earnings growth in the years ahead, rather than on the trough in earnings currently. In addition, company valuations look attractive, particularly relative to cash interest rates, which continue to decline.

Those companies more sensitive to a pickup in business activity, such as Freightways and Mainfreight, provided trading updates that supported business conditions are getting a little better.

Conversely, those companies tied to the retail sector, Kathmandu and Briscoe, reflected the continuation of a challenging trading environment.

The Australian sharemarket fell -0.8%. With very little corporate news, higher than expected inflation negatively impacted investor sentiment, as it shifted out the timing and possible quantum of interest rate reductions by the Reserve Bank of Australia.

Against the soft market environment commodity related companies shined. Over the month, in US dollar terms, the gold price rose 12.0%, Silver 17.5%, and Copper 7.8%. As a result, Capstone Copper (+20.5), gold miner Newmont Corporation (+15.8%), and large resource company Rio Tinto (+5.7%) were amongst the better performing Australian companies in September.

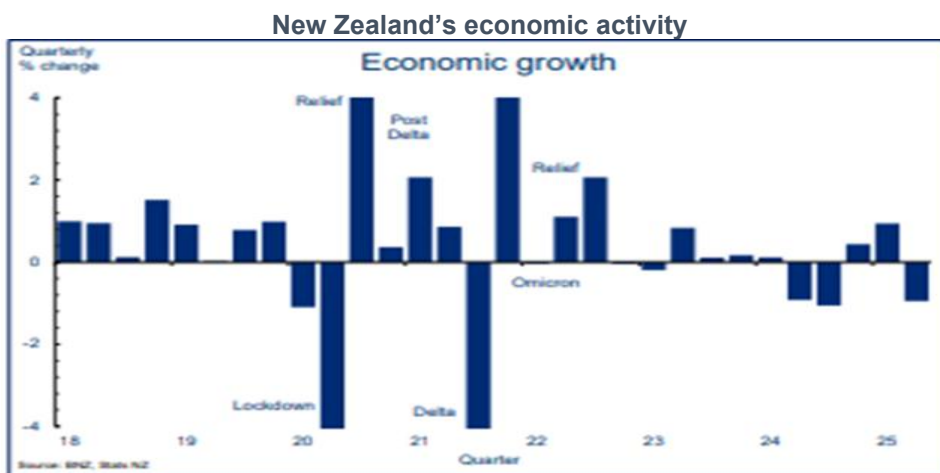
Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) rose 0.6% in September on the Fed interest rate reduction and softer US labour market data, as outlined above. The US 10-year treasury yield fell 8 basis points (0.08%) to 4.15% over the month. During the month the yield on the US 10-year treasury traded between 3.99% and 4.3%, an extraordinary level of volatility.

New Zealand's fixed income market rose 1.3% over the month on the weak second quarter economic growth data.

The New Zealand economy contracted 0.9% in the June quarter, compared to the RBNZ's estimate of -0.3%. There was widespread weakness across the New Zealand economy over the June quarter, particularly for the manufacturing and construction sectors.

As can be seen from the graph below, three of the last five quarters have experienced negative economic growth in the domestic economy. Annual economic growth has fallen to -0.6%, despite an upward revision to activity over the first quarter of this year.



Source: BNZ

The New Zealand economy is forecast to rebound in the third quarter. More recent data such as meat and milk production, strong export receipts, and electronic card receipts support this view. The Reserve Bank of New Zealand's (RBNZ) forecasting models currently estimate a 0.7% rebound in domestic economic activity over the third quarter. Considering the weak economic growth data the RBNZ reduced the Official Cash Rate (OCR) to 2.5% in early October. Further reductions in the OCR are likely.

Summary

Global shares have rallied strongly from their April lows and trade on high valuations, particularly the US technology sector. With lingering US policy uncertainty, such as sectorial tariffs on timber and pharmaceuticals, and the shutdown of the US government in early October, some caution is warranted.

Although slowing global economic growth and uncertainty over US inflation outcomes will remain, a more constructive investment environment characterised by low short-term interest rates, ongoing US corporate earnings growth, and continued AI optimism may develop as we approach 2026.

In this environment we prefer domestic assets. The New Zealand and Australian financial markets are well placed relative to the rest of the world in the current uncertain global economic environment and will benefit from further reductions in short-term interest rates.

However, returns from cash like investments are likely to trend lower given the interest rate reductions undertaken by the RBNZ. At times of market volatility, we encourage investors to continue to focus on their longer-term goals, look through the short-term volatility, and maintain a portfolio commensurate with their objective and risk profile.

Indices for Key Markets

As at 30 September 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	3.0%	5.8%	8.7%	7.7%	7.1%	3.3%
S&P/ASX 200 Index (AUD)	-0.8%	4.7%	14.7%	10.6%	15.2%	13.0%
MSCI ACWI Index (Local Currency)	3.6%	8.0%	18.1%	17.0%	21.9%	14.1%
MSCI ACWI Index (NZD)	5.4%	13.0%	17.3%	28.8%	21.9%	16.6%
S&P/NZX 90 Day bank bill Total Return	0.3%	0.9%	1.8%	4.1%	4.9%	3.3%

Additional information & disclaimer:

This report is for information purposes only. It does not consider your investment needs or personal circumstances, so it is not intended to be viewed as personalised investment or financial advice. If you require financial advice, you should always speak to your Thorner Investment Services Ltd financial adviser.

The price, value and income derived from investments may fluctuate because values can go down as well as up and investors may get back less than originally invested.

Past performance is not indicative of future results and no representation or warranty, express or implied, is made regarding future performance.

This report has been prepared from published information and other sources believed to be reliable and accurate. While every effort has been made to ensure accuracy Thorner Investment Services Ltd, Shaw & Partners nor any person involved in this publication accept any liability for any errors or omissions nor accepts any liability for loss or damage as a result of any reliance on the information presented.

Disclosure statements are available on request and free of charge.