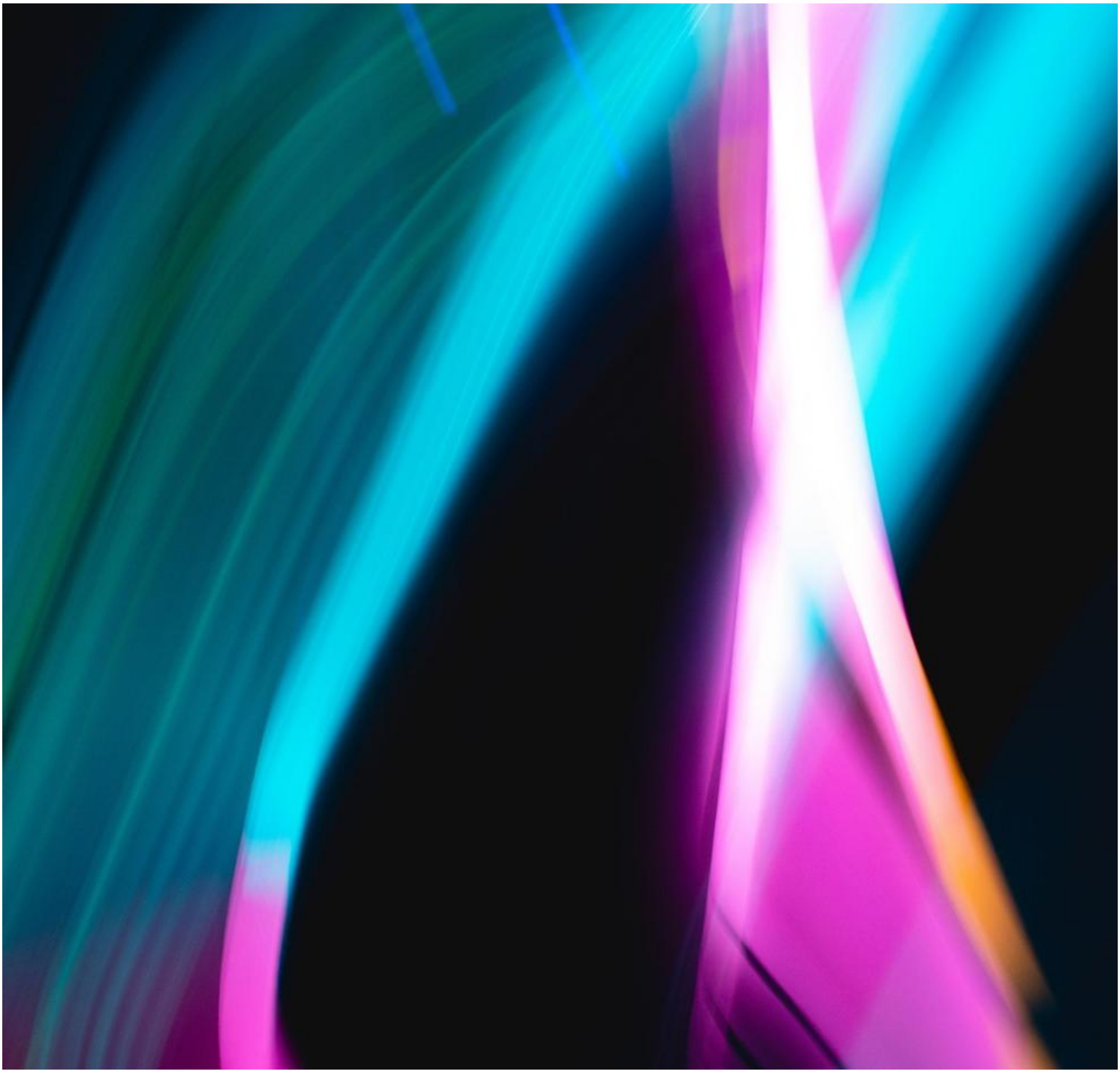
INVESTMENT ENVIRONMENT UPDATE

DECEMBER
2025

PATRIZIA ADVISERS



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Prime Super

Investment Environment Update

Venezuela's rapidly escalating political crisis has shifted from a regional issue to a global one, given its vast crude reserves and the potential implications for energy markets and geopolitical stability. Although Venezuela produces less than 1% of global oil – constrained by sanctions and limited export capacity – its 17% share of the world's proven reserves means any disruption to its governance carries global significance. Crude prices have already softened following OPEC+'s decision to increase production, with WTI down 2.1% in December and 19.9% in 2025, and the recent capture of the acting president Nicolás Maduro by the US has added further downward pressure as markets speculate about future Venezuelan output. However, a meaningful increase in production is unlikely in the near term, with political instability and the prospect of deeper US involvement limiting the speed at which additional supply can reach global markets.

The US dollar is heading for its steepest annual drop since 2017, with many market participants predicting further weakness as the US Federal Reserve presses ahead with interest rate cuts. The US dollar has depreciated against a basket of major currencies after US President Donald Trump's trade war sparked fears for the world's biggest economy and cast doubt over the US dollar's traditional status as a safe-haven for investors. In 2025, the euro has had the biggest gain of the major currencies against the faltering dollar, surging nearly 14% to above US$1.17, a level last reached in 2021. While the dollar's initial weakness was triggered by Trump's launch of aggressive tariffs against the US's trading partners in April – it was at one point down 15% against major currencies before regaining some ground – the US Fed's resumption of rate cuts in September has continued to keep the currency under pressure.

Equity markets delivered solid gains in 2025, but Australia lagged well behind global peers. In 2025, the S&P/ASX 300 returned 10.7%, supported by selective strength in resources and a modest rebound in rate-sensitive sectors, yet this performance was overshadowed by much stronger offshore markets. The MSCI World (ex-Australia) hedged to Australian dollars rose 18.6%, driven by the continued dominance of large-cap technology and the global AI investment cycle. Emerging Markets outperformed both, returning 24.0% over the same period, supported by improving sentiment in Asia, easing inflation pressures, and a softer US dollar. The divergence underscores how Australia's market, which is more exposed to banks and resources, has struggled to keep pace with the global rally.

Asset Class Returns	December (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.31	0.90	3.97	4.11
Australian Fixed Income	-0.63	-1.15	3.17	3.72
International Fixed Income	-0.23	0.69	4.42	3.98
Australian Equity *	1.37	-0.89	10.66	11.39
International Equity - Developed (unhedged) *	-0.90	2.55	12.53	22.08
International Equity - Developed (hedged) *	0.52	3.50	18.65	20.32
International Equity - Emerging (unhedged) *	1.28	4.09	24.01	17.05

** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

Meanwhile Fixed Income delivered modest returns in 2025, with Australian Fixed Income gaining 3.2% and Global Fixed Income performing slightly better at 4.4%. Notably, Australian Cash outpaced domestic fixed income over the same period, returning 4.0%.

Copper prices surged 11.0% in December and 41.7% in 2025, underscoring how critical industrial commodities have become in the global AI build-out. Data centres, high-performance computing, electrification, and grid upgrades all require enormous volumes of copper, and the market is increasingly pricing in a multi-year structural deficit as demand accelerates faster than supply can respond. Gold, meanwhile, rose 4.2% in December and 67.4% in 2025, reflecting its role as an increasingly preferred safe-haven asset in an environment marked by geopolitical uncertainty, shifting central-bank policy expectations, and persistent concerns about the sustainability of sovereign debt positions. Together, the moves in copper and gold highlight how both the AI investment cycle and global risk sentiment are reshaping commodity markets.

With AI dominating global equity market valuations, it is important to highlight current investor confidence in long-dated Big Tech corporate debt, which rests on two big assumptions: that AI will eventually deliver the productivity and revenue gains needed to justify today's enormous capital spending, and that the vast data-centre infrastructure being built will remain valuable for decades. Neither outcome is guaranteed. History reminds us that entire rooms of mainframe computers once delivered less power than a modern smartphone, and a similar leap in efficiency could render today's massive facilities far less essential. If that were to occur, companies that have borrowed heavily may be left with assets that don't generate the expected returns, putting pressure on profits, limiting future investment capacity, and raising the risk profile of their debt. For equity investors, it could also mean slower earnings growth and more volatility as markets reassess the potential of future AI-driven revenue.

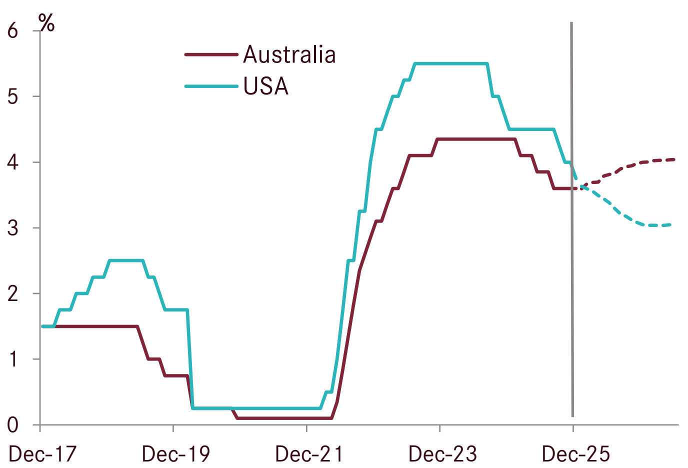
The US Fed cut rates in their December meeting by 25 basis points to a range of 3.50%-3.75% which was the third cut in 2025. The Fed consensus was that further rate cuts are likely to be appropriate next year if inflation eases over time, but this stance could dramatically change with the appointment of the new Chair by President Trump as the incumbent, Jerome Powell's, term ends in May 2026.

The US economy expanded at a surprisingly strong 4.3% annual rate in Q3 compared to 3.8% in Q2, primarily driven by consumer spending, exports and government spending. The annual inflation rate dropped to 2.7% in December, compared to 3.0% reported in September which indicates that inflation is currently moving towards the Fed target rate of 2.0%. The US unemployment rate increased to 4.6% in November 2025 from 4.4% in September, marking the highest level since September 2021, and the US Non-Farm Payrolls growth totalled 64,000 in November, following a 105,000 loss in October.

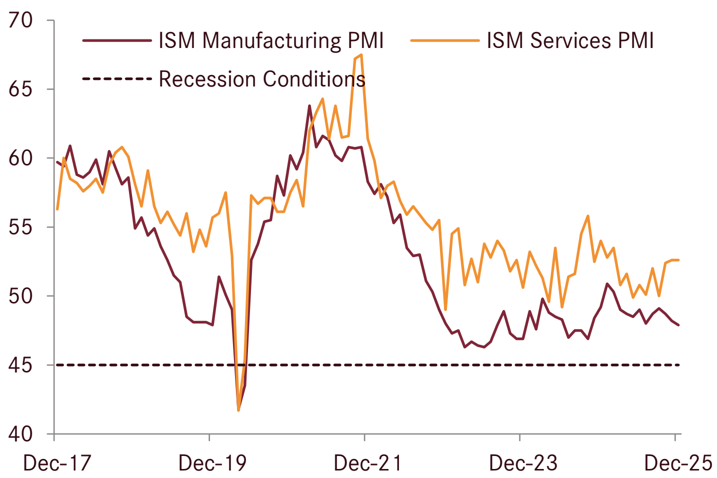
In Australia, according to Westpac's Coast-to-Coast report, elevated commodity prices and stronger-than-average population growth had previously helped the mining states outperform as the economy emerged from the pandemic. However, the 2025 FY State Accounts indicate that this dominance is beginning to fade as growth drivers shift toward private sector rather than public sector demand, and population growth normalises. The upswing in business investment is most evident in data centres, civil aviation, and renewable energy projects.

Australia's latest activity indicators painted a mixed picture heading into year-end. The S&P Global Australia Services PMI eased to 51.1 in December from 52.8 in November, pointing to a slower pace of expansion in the services sector. Manufacturing conditions were steadier, with the PMI holding at 51.6, its highest level in three months, suggesting modest but sustained improvement in industrial activity.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

The RBA left the cash rate unchanged at 3.6% in their December meeting and considered whether a rise in interest rates might be needed in 2026, given a recent pick-up in the monthly inflation data. The RBA board judged that inflation risks had increased following surprisingly high consumer price index readings. However, some of the lift in inflation was due to volatile factors, which was confirmed by the November monthly data as inflation eased to 3.4% from 3.8% in the previous month, and thus the members noted that it would be important to see the Q4 figures due in late January. Australia's unemployment rate stood at 4.3% in November 2025, unchanged from October.

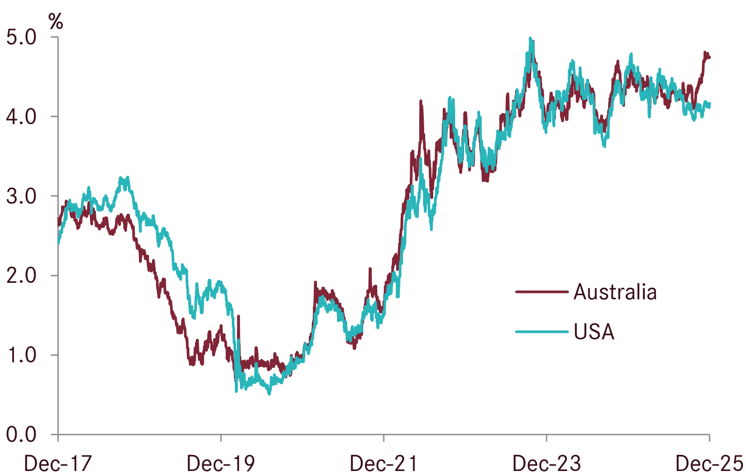
The Eurozone economy showed further signs of strain at the end of 2025, with the manufacturing sector slipping deeper into contraction. The HCOB Manufacturing PMI fell to 48.8 in December, down from 49.6 in November, marking the sharpest decline since March. Conditions in services were somewhat firmer, but also softened: the Services PMI eased to 52.4 from 53.6 in November, signalling the slowest pace of expansion in three months. Price pressures continued to cool, with annual inflation revised down to 2.1% in November — matching October's reading and hovering close to the European Central Bank's 2% target. While easing inflation offers some relief, the combination of weakening activity and subdued momentum underscores the delicate balance policymakers face as they assess the appropriate stance for monetary policy in the months ahead. The ECB left the deposit rate unchanged at 2.0% in December for the fourth consecutive meeting.

The UK economy continues to lose momentum, with annual growth easing to 1.3% in Q3 from 1.4% in Q2, marking the slowest pace in a year. Even so, activity is not uniformly weak: the manufacturing PMI edged up to 50.6 in November compared to 50.2 in the previous month, signalling a modest return to expansion. Inflation has continued to cool, falling to 3.2% in the year to November — an eight-month low — while the unemployment rate crept higher to 5.1% in October, pointing to softening labour-market conditions. Against this backdrop of easing price pressures and emerging economic strain, the Bank of England cut the cash rate by 25 basis points to 3.75% in December, its lowest level since 2022 and the fourth cut in 2025. The decision was finely balanced, with a narrow 5–4 vote, highlighting the Monetary Policy Committee's growing divide over how quickly policy should adjust as the economy slows.

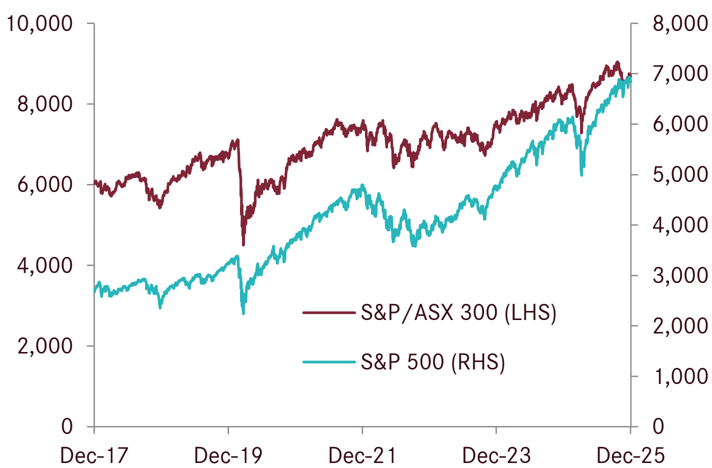
By contrast, Japan's economic data continued to firm through to the year-end, with the manufacturing PMI revised up to 50.0 in December — its highest level since June — signalling stabilising conditions after five months of contraction. Labour-market indicators remain steady, with unemployment holding at 2.6% in November for a fourth consecutive month, while inflation eased slightly to 2.9% in November from October's 3.0% peak. Against this backdrop of improving activity and still-elevated price pressures, the Bank of Japan raised its policy rate by 25 basis points to 0.75% in December, the highest level since 1995. Policymakers signalled that further gradual tightening is likely, noting that inflation is expected to remain above the 2% target into next year and that a slow withdrawal of monetary accommodation is necessary to anchor price stability.

China's latest data points to a modest stabilisation in activity, led by a rebound in external demand outside the US. Exports rose 5.9% year-on-year in November to an eleven-month high, reversing October's decline, with strong growth to Japan, Taiwan, Australia, ASEAN and the EU, offsetting a sharp 28.6% drop in shipments to the US. Domestic conditions were mixed in December: the services PMI eased slightly to 52.0 from 52.1 the previous month, while manufacturing edged back into expansion at 50.1 from 49.9 the previous month, supported by targeted policy measures aimed at lifting household and business spending. Inflation also firmed, rising to 0.7% in the year to November, its highest level since early 2024, suggesting that deflationary pressures are gradually receding as stimulus filters through the economy.

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Source: Bloomberg

Index Returns to 31 December 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	1.4	-0.9	4.1	10.7
S&P/ASX Small Ordinaries Accumulation Index	1.4	1.8	17.4	25.0
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	0.5	3.5	11.3	18.6
MSCI World (ex Australia) Index (unhedged AUD)	-0.9	2.6	8.8	12.5
MSCI Emerging Markets Index (unhedged AUD)	1.3	4.1	13.9	24.0
Property				
S&P/ASX 200 A-REIT Accumulation Index	2.0	-1.4	3.1	9.2
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-1.8	-0.8	2.7	5.0
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-3.2	-1.7	0.4	-0.8
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	-2.5	-0.1	4.8	11.7
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-0.6	-1.1	-0.8	3.2
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	-0.2	0.7	1.7	4.4
FTSE WGBI ex-Aust (hedged AUD)	-0.4	0.6	1.2	3.4
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	1.8	4.0
Commodities				
Gold (USD per ounce)	4.2	14.2	32.9	67.4
Copper (USD per metric tonne)	11.0	21.0	25.9	41.7
WTI Crude Oil (USD per barrel)	-2.1	-7.9	-11.8	-19.9

Australian Dollar versus Foreign Currencies to 31 December 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 DECEMBER 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.67	1.7	0.6	1.8	7.7
British Pound Sterling	0.50	0.2	0.7	3.7	0.3
Euro	0.57	0.5	0.7	1.7	-5.0
Japanese Yen	104.53	2.1	6.8	10.4	7.4

Source: Bloomberg

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