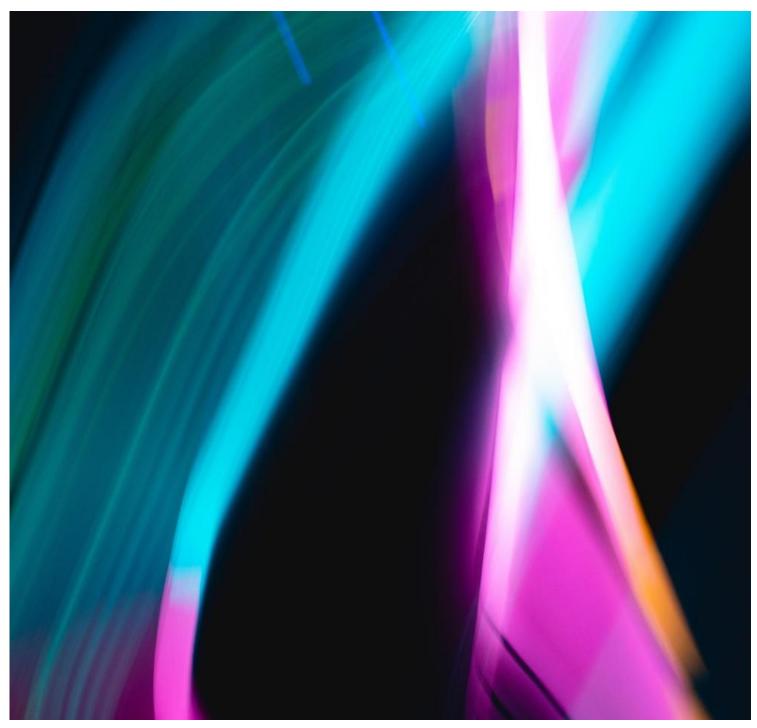
## INVESTMENT ENVIRONMENT UPDATE

OCTOBER 2025

PATRIZIA ADVISERS







## Investment Environment Update

Al spending has exploded to nearly US\$1.5 trillion in 2025, with tech giants like Google, Microsoft, Amazon, and Meta pouring hundreds of billions into data centres, chips, and cloud infrastructure. The standout story was NVIDIA hitting a US\$5 trillion market cap, becoming the world's most valuable company on the back of record Al chip demand. Governments are also stepping in: the U.S. announced a US\$1 billion partnership with AMD to build Al-powered supercomputers, while Europe and Asia are channelling funds into Al infrastructure to secure competitiveness. This wave of investment is reshaping the global economy—fuelling stock market rallies, creating new supply chain pressures for semiconductors, and raising questions about whether the boom is sustainable or edging toward a bubble.

Gold's record-breaking rally in October was swiftly followed by a sharp sell-off, with prices retreating approximately 12.9%. However, the metal still ended the month up 4.9%, as the initial surge—driven largely by a wave of retail investment into ETFs—was met by a rush to lock in profits. Despite this short-term correction, gold remains significantly higher year-to-date, supported by sustained central bank purchases and persistent geopolitical tensions.

The U.S. government shutdown is hitting hardest at the household level—federal workers missing pay checks, uncertainty over food assistance (SNAP) for millions of low-income households which has left people to rely on food banks, contractors are losing income, and key economic data like jobs and inflation reports are unavailable—while airports, small businesses, and local economies feel the squeeze. All of this slows down spending, impacts local communities, and chips away at confidence in the U.S. economy—the longer it lasts, the more the damage piles up.

After a fiery standoff over tariffs, rare earth exports, and semiconductor restrictions, President Donald Trump and President Xi Jinping met on the sidelines of the APEC summit in Busan, South Korea, and hammered out a deal that could be more like a pause button than a permanent fix. The agreement cuts U.S. tariffs on Chinese goods, secures continued Chinese exports of critical minerals, and reopens Beijing's market to American soybeans, while China pledges to curb fentanyl precursor shipments. It's a fragile handshake—more ceasefire than peace treaty—but for now, the world's two largest economies have chosen to dial down the volume on their rivalry, giving global markets a boost.

Asset Class Returns	October (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.30	0.91	4.11	4.07
Australian Fixed Income	0.36	0.80	6.47	4.05
International Fixed Income	0.75	1.93	4.78	4.35
Australian Equity *	0.42	2.92	12.68	12.98
International Equity - Developed (unhedged) *	3.32	6.34	22.32	20.90
International Equity - Developed (hedged) *	2.63	8.16	21.07	19.97
International Equity - Emerging (unhedged) *	5.47	11.20	27.98	20.16

<sup>\*</sup> Returns reflect the relevant accumulation indices. Source: Bloomberg, Datastream, PATRIZIA.



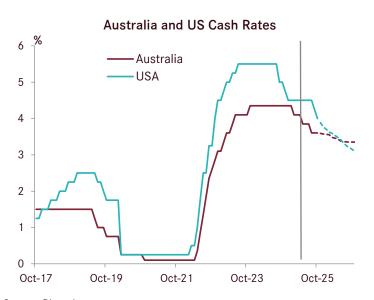
The Federal Reserve lowered the federal funds rate by 25 basis points to a target range of 3.75%–4.00% at its October 2025 meeting. The annual inflation rate in the US rose to 3.0% in September 2025, the highest since January, from 2.9% in August. Meanwhile, annual core inflation dropped to 3.0% in September from 3.1% previously. Fed Chair Jerome Powell, noted publicly that he was concerned with the lack of data for the labour market (given the government shut down) and given this the Fed would likely slow down the pace of rate cuts. The ISM Services PMI rose to 52.4 in October 2025 from 50.0 in September, beating forecasts of 50.8, pointing to the strongest expansion in the services sector since February. The ISM Manufacturing PMI fell to 48.7 in October 2025 from 49.1 in September, indicating an eighth consecutive month of contraction in the manufacturing sector.

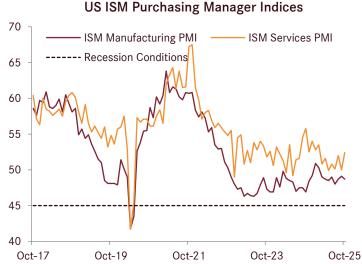
The Reserve Bank of Australia maintained its cash rate at 3.6% at its November 2025 meeting. The unemployment rate rose to 4.5% in September 2025, above both August's upwardly revised figure and the consensus of 4.3%. The annual inflation rate jumped to 3.2% in Q3 2025 from 2.1% in Q2, marking the highest figure since Q2 2024. The RBA noted the uncomfortably high inflation rate and has put future interest rate cuts into doubt if inflation doesn't turn around and resume its decline. The S&P Global Australian Manufacturing PMI dropped to 49.7 in October 2025 from 51.4 in September, confirming the first contraction in factory activity this year. The S&P Global Australian Services PMI Business Activity Index rose to 52.5 in October from 52.4 in September, signalling continued growth in services activity and extending the expansion streak to 21 months.

House prices have enjoyed a strong run in recent months with Darwin, Hobart, Brisbane, Adelaide and Sydney leading the way with strong quarterly increases all over 3% while Melbourne, Perth and Canberra were notably softer. House prices are strongly correlated with interest rates in Australia and investor sentiment had picked up over the last six to twelve months as expectations of rate cuts grew. The recent strength in inflation and associated concerns from the RBA will be a dampener on further strong growth if the RBA doesn't provide cheaper mortgages through interest rate cuts going forward. In addition to interest rates having a strong impact on house prices, there are ongoing persistent housing shortages alongside strong immigration which has been helping drive property prices higher.

Australia's twin-track diplomacy—inking a multibillion-dollar rare earths deal with the U.S. while deepening ties with Pacific Island nations—signals a bold economic play to provide these much-needed critical minerals. The rare earths pact, worth over US\$8.5 billion, positions Australia as Washington's go-to supplier of critical minerals for electric vehicles, defence tech, and renewable energy, reducing reliance on China and unlocking billions in mining investment and jobs at home. At the same time, Canberra's agreements with Pacific partners—from a \$500 million development deal with Vanuatu to broader green economy pacts across the region—are designed to shore up regional stability, expand markets for Australian businesses, and counter Beijing's influence. Economically, this strategy means new export revenue streams, stronger bargaining power in global supply chains, and a more resilient neighbourhood where Australia can be the anchor.

Japan's new Prime Minister, Sanae Takaichi, is expected to shake up the economy with big spending initiatives. She plans a huge stimulus to ease rising living costs and boost growth, which could help households and industries in the short term. At the same time, her resistance to immigration may worsen Japan's labour shortages, making it harder for businesses to find workers, resulting in higher costs.





Source: Bloomberg



The Nikkei 225 has surged 16.6% over the past month, marking one of its strongest rallies in decades as investor optimism around corporate earnings, a weaker yen, and global tech momentum fuelled buying. This sharp rise has pushed the index to fresh record highs, underscoring renewed confidence in Japan's equity market.

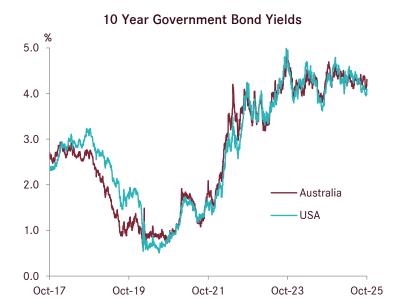
The Bank of Japan kept its benchmark short-term rate unchanged at 0.5% in October 2025, maintaining borrowing costs at their highest level since 2008 and extending a pause since the last hike in January. Japan's annual inflation rate rose to 2.9% in September 2025 from August's 10-month low of 2.7% and their unemployment rate held at 2.6% in September 2025, unchanged from the previous month.

The European Central Bank left interest rates unchanged for a third consecutive meeting in October, signalling confidence in a resilient Eurozone economy and easing inflation pressures. Their seasonally adjusted unemployment rate stood at 6.3% in September 2025, unchanged from August and July. The annual inflation rate eased to 2.1% in October 2025, down from 2.2% in September, edging closer to the ECB's 2% target. The HCOB Manufacturing PMI was confirmed at 50.0 in October 2025, up slightly from 49.8 in September, signalling a stabilisation in the sector following a modest deterioration the previous month and the Services PMI increased to 53.0 points in October from 51.3 points in September 2025.

The Dutch government's intervention in Nexperia—prompted by national security concerns over its Chinese ownership—has disrupted the flow of assembled semiconductor chips from China to Europe because the Chinese government responded by blocking Nexperia from re-exporting chips that had undergone final assembly and packaging in China. This disruption resulted in immediate shortages for European automakers. These chips, essential for basic vehicle functions, are now in critically low supply, with some manufacturers warning of imminent assembly line shutdowns.

The Bank of England's Monetary Policy Committee voted 5–4 to keep the Bank Rate at 4.0% at its 5 November meeting, in line with expectations. Four members preferred a 25 basis points cut to 3.75%, reflecting growing support for easing. The annual inflation rate in the UK remained steady at 3.8% in September 2025, unchanged from the previous two months. The S&P Global UK Manufacturing PMI rose to 49.7 in October 2025 from 46.2 in September. This marks the highest level in a year and signals near stabilisation, reflecting the first rise in production in 12 months. The S&P Global UK Services PMI rose to 52.3 in October 2025, marking a notable improvement from September's five-month low of 50.8.

The China General Services PMI declined to 52.6 in October 2025 from 52.9 in September and China's official NBS Manufacturing PMI fell to 49.0 in October 2025, down from 49.8 in September, marking the lowest level since April. China's surveyed unemployment rate fell to 5.2% in September 2025, compared to market expectations and August's six-month high of 5.3%. China's economy expanded 4.8% year-on-year in Q3 2025, down from 5.2% in Q2, marking its slowest pace since Q3 2024. While in line with market expectations, GDP growth has lost momentum after a strong start to the year, pressured by U.S. trade tensions, a prolonged property slump, and soft consumer demand. China's consumer prices rose 0.2% year-on-year in October 2025, defying expectations for no change and rebounding from a 0.3% decline in the prior month.



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



Source: Bloomberg



Index Returns to 31 October 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Aughustian Equities				
Australian Equities	0.4	2.9	5.4	12.7
S&P/ASX 300 Accumulation Index	1.9	14.3	17.5	22.8
S&P/ASX Small Ordinaries Accumulation Index	1.9	14.3	17.5	22.8
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	2.6	8.2	10.4	21.1
MSCI World (ex Australia) Index (unhedged AUD)	3.3	6.3	9.7	22.3
MSCI Emerging Markets Index (unhedged AUD)	5.5	11.2	15.4	28.0
Property				
S&P/ASX 200 A-REIT Accumulation Index	0.6	1.8	5.2	7.4
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-0.8	3.2	2.6	0.7
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-0.2	1.5	2.0	1.8
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	-0.9	2.5	4.0	7.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.4	0.8	0.8	6.5
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.7	1.9	1.8	4.8
FTSE WGBI ex-Aust (hedged AUD)	0.8	1.8	1.4	3.8
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	1.2	4.1
Commodities				
Gold (USD per ounce)	4.9	21.6	22.0	46.7
Copper (USD per metric tonne)	6.0	13.3	10.3	14.5
WTI Crude Oil (USD per barrel)	-2.2	-12.0	-6.3	-12.0

## Australian Dollar versus Foreign Currencies to 31 October 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 OCTOBER 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.65	-1.2	1.7	-0.1	-0.1
British Pound Sterling	0.50	1.2	2.4	4.2	-2.2
Euro	0.57	0.6	0.8	1.6	-6.0
Japanese Yen	100.85	3.0	4.1	6.5	1.1

Source: Bloomberg





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