

Economic News November 2025

The last three months has been marked by an unusual mix of optimism and uncertainty. As investors celebrate record breaking share market highs, they are also grappling with shifting political dynamics and evolving economic forces. Artificial Intelligence (AI) continues to redefine the investment landscape, while interest rate adjustments and tariff tensions are shaping the global financial mood. The story of this quarter is not just one of growth — but of resilience, recalibration, and the fine balance between risk and reward in a rapidly changing world.

Key events in global markets over the quarter

Optimism surrounding AI innovation and expectations of lower U.S. interest rates have powered global equity markets higher. Wall Street's benchmark S&P 500 Index ended the quarter near historic highs, posting impressive gains. Investors appear to be brushing off President Trump's tariff measures as temporary disruptions rather than long-term threats to inflation or economic growth — a sign of confidence that economic fundamentals remain strong.

Across Asia, share markets delivered standout performances. China recorded a robust 9.7% return, buoyed by government stimulus aimed at offsetting the impact of U.S. tariffs and stabilising a weakened property market. Korea (36.6%) and Taiwan (22.7%) surged, underscoring the dominance of Asia's semiconductor and technology sectors in the global AI supply chain. Japan's 16% return reflects investor relief that the central bank remains cautious on rate rises despite persistent inflation — a balancing act that has supported market sentiment.

In fixed income markets, global bonds (hedged) gained 1.9% amid optimism that the U.S. Federal Reserve will maintain a path of rate reductions in response to softer jobs data. In contrast, Australian bonds underperformed with a 0.8% return, as higher domestic inflation tempered expectations for further Reserve Bank of Australia (RBA) easing.

Key events in Australia over the last quarter

Australia's share market posted a 2.9% quarterly return, driven by strength in the Resources sector (19.3%) on the back of surging gold and base metal prices. The Utilities (6.6%) and Financial (3.8%) sectors also benefited from August's RBA rate cut. Property securities followed suit with a solid 1.9% return, aided by lower financing costs.

Despite these gains, Australia's economy is facing mixed signals. Consumer spending remains modest and job creation has slowed, while inflation — at 3.2% over the year to September 2025 — remains sticky. The RBA's August rate cut offered temporary relief, but with inflation proving persistent, the likelihood of further cuts this year has diminished. Investors are now watching how the central bank navigates the delicate trade-off between growth support and inflation control.

Global prospects

The enthusiasm for AI and technology continues to serve as the engine of global market optimism, driving both corporate profits and investor sentiment. Meanwhile, lower global inflation has given central banks the flexibility to selectively reduce interest rates — an environment that traditionally supports asset prices.

However, political and geopolitical risks continue to cast long shadows. President Trump's tariff policies remain a wildcard, with potential inflationary effects that could disrupt both share and bond markets. Encouragingly, his recent meeting with China's President Xi Jinping produced a new trade and economic agreement — that markets have welcomed cautiously.

Elsewhere, the Russia–Ukraine conflict and instability in the Middle East continue to threaten global energy supplies and investor confidence. For Australia, tensions between China and the U.S. represent a critical economic risk. With around 30% of Australian exports bound for China, any escalation — particularly regarding tariffs or Taiwan — could reverberate through Australia’s trade, currency, and share market outlooks.

Looking Ahead

As 2025 draws to a close, investors are navigating an environment defined by technological transformation, shifting monetary policies, and geopolitical complexity. The strong market performance of recent months reflects optimism — but also an undercurrent of fragility should inflation or global tensions flare again.

Given these crosscurrents, maintaining a disciplined and diversified investment strategy remains essential. The opportunities are real, but so are the risks — and success in this new phase of the global cycle will depend on a diversified investment strategy and an eye on the long game.

If you have any questions or wish to discuss anything, please call us on 03 9544 1004.

All the best,

Andrew Shaw BBus, Grad Dip SIA, CFP
Principal Shaw Financial Planning Pty Ltd
ACN 603 130 963, ABN 80603130963
Authorised Representatives

Suite 30, 1 Ricketts Road Mount Waverley VIC 3149
T 03 9544 1004



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