

EVIDENTIA
GROUP

LIS

LONSEC
INVESTMENT
SOLUTIONS

EVIDENTIA
PRIVATE



Implemented
Portfolios

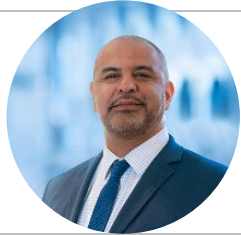
Portfolio Perspectives

October 2025

Author

Danial Moradi

Portfolio Manager – Listed Products



Evidentia Group Investment Team

Troy Swann, Executive Director, Investment Management

Darren Beesley

Chief Investment Officer

Nathan Lim CFA

Chief Investment Strategist

Anthony Corr

Head of Strategy Research

Deanne Baker

Deputy CIS, Portfolio Manager

Pierre-Hedzer Marchi

Head of Quantitative Investing

Danial Moradi

Portfolio Manager

Chris Robertson

Head of Portfolio and Risk Management

Nick Field CFA

Portfolio Manager

Jo Cornwell CFA

Head of Manager Research

David Matesic CFA

Portfolio Manager

Leigh Cronin

Head of Direct Equities

Eleanor Menniti

Portfolio Manager

Samantha Feeley CFA

Senior Analyst

Reuel Kee CFA

Associate Portfolio Manager

Carrick Xue

Senior Performance Analyst

Jacob Simonsen

Equity Analyst

Waylen Ramsey

Performance Analyst

Luke Conca CFA

Equity Analyst

Key Messages for Investors

- At the headline level, ASX100 corporate earnings grew 2.5% in FY25, dragged lower by low growth from the Banks and Resources.
- EPS revisions in Australia have been negative year to date (YTD), on the back of lower commodity prices.
- Valuations for Australian equities remain elevated, while growth expectations remain subdued.
- Looking ahead to FY26, earnings are currently expected to grow by 5.8%, however, this is largely dependent on commodity prices.
- After years of weak relative performance, Emerging Market (EM) equities have outperformed Developed Market (DM) equities for three consecutive quarters this year, by a combined 11.1%.
- This has been driven by the 'New Economy' sectors in China, supported by Artificial Intelligence (AI) and favourable government policy.
- Looking ahead, consensus earnings estimates for EM have remained stable YTD, with current forecasts for EPS growth of 13.6% in 2025 and 14.4% in 2026.
- The optimistic investment outlook for EM is still evolving. However, to build confidence, more evidence is needed to show that China's recovery can extend beyond specific sectors.
- Overall, risks remain broadly balanced from here, with risks to both the upside and downside. Remaining close to our Strategic Asset Allocation.

Growth remains elusive on the Australian Stock Exchange (ASX)

The dust has settled on yet another lacklustre reporting period for Australian Equities, with FY25 marking the third consecutive year of sluggish earnings growth across the market.

At the index level, profits grew by 2.5% over FY25, impacted once again by flat to negative growth from the ASX's two largest sectors, banks and resources, while earnings for the rest of the market grew by 7.3%.

Volatility was the central theme during the reporting period, with many blue-chip companies experiencing significant share price reactions after their results. Another key trend was the outperformance of domestically focused businesses, while solid updates from banks, retailers, and REITs, combined with hopes of additional interest

rate cuts by the Reserve Bank of Australia (RBA), pushed the ASX 200 benchmark to record highs over the month.

This mix of sluggish growth and ongoing market strength, fuelled by a few large-cap names, has created a clear valuation headwind for Australian equities. If history is anything to go by, we know that market multiples can stay high in the short term, as investors anticipate that earnings growth will soon follow. So, is FY26 the year when growth finally exceeds expectations on the ASX?

Currently, profits across the ASX100 are forecast to rise by around 5.8% in FY26, driven by strong growth expectations in the Healthcare, Communication Services, and Consumer sectors. This uplift is expected to offset weaker growth in the Banks and Resources sectors.

While bank earnings have steadily grown over the past three years, the Resources sector's underperformance has been a significant obstacle to growth for the ASX over the same period. Sector earnings peaked in June 2022 and have been declining since, primarily due to lower commodity prices (iron ore, crude oil, and lithium).

While we have seen a few 'bursts of optimism' towards the sector, driving a rotation away from the banks into resources over the past two years, these have proven to be short-lived and not supported by sustained earnings upgrades.

Looking ahead to 2026, some green shoots may be emerging to support sector earnings. Recent stimulus announcements in China, together with expectations of further interest rate cuts by global central banks, create a positive environment for increased demand for commodities.

From a bottom-up perspective, FY26 earnings expectations for the resources sector have stabilised over the September quarter. Based on current spot commodity prices, earnings risk remains skewed to the upside for the major miners, should spot pricing persist (or increase) over the remainder of FY26.

The growth outlook for the industrial universe on the ASX (excluding banks and resources) appears more appealing in FY26. Profits are expected to grow by 8.5%, driven by double-digit growth in higher-growth sectors, including Healthcare and Information Technology. This seems appealing at face value; however, a forward PE multiple of 32x for this cohort more than captures the forward growth trajectory. In our view, this leaves a narrow path to outperformance for the ASX over FY26.

Green shoots in Emerging Markets?

In April 2025, we upgraded our Emerging Markets (EM) allocation from a Slight Underweight position to Neutral, citing the policy shift in China aimed at supporting domestic consumption and the economy's adjustment to reduce its dependence on the United States. Favourable valuations and promising growth expectations underpinned this decision.

Over the ensuing six-month period, EM equities have performed exceptionally well, gaining 18.6%, outperforming DM equities by 4.5%. Accordingly, we take this opportunity to revisit the outlook for China and EM equities.

From a bottom-up perspective, aggregate earnings in EM reached their peak in 2021, followed by a 21.6% decline over the subsequent two years before bottoming out in 2024. This was driven by ongoing weakness in the Chinese economy, particularly in the Real Estate and Consumer sectors, as well as tighter global financial conditions.

Despite underwhelming macro data from China, earnings across EM have staged a comeback over the past 18 months (+11% over 2024 and 13% over 2025), driven by stimulatory government policy and a resurgence from the 'New Economy' in China.

'New Economy' driving growth in China

A closer examination of China's first-half reporting period confirms this bifurcation between the new and old economies in the region.

New Economy sectors, including Information Technology, Healthcare, and the Consumer sectors, experienced robust revenue and profit growth over the half. In fact, the Information Technology, Healthcare, and Communication Services sectors have seen

impressive double-digit earnings upgrades YTD. In contrast, old economy industries – such as Real Estate, Industrials, and Energy – have continued to struggle.

The IT sector has also benefited significantly from the AI trend, with increased AI spending and product launches driving higher AI adoption across the region. Policy support for chipmakers, localisation of technology (especially around cloud/AI stacks and semiconductor manufacturing), and government subsidies for consumer electronics have also bolstered confidence in the sector and are likely to provide a positive boost to earnings in 2026.

Looking ahead to the second half, while the momentum remains positive for 'new economy' corporates, we will closely monitor whether China's emerging recovery can expand beyond the Technology, Healthcare and Consumer sectors, amid potential stimulus and ongoing structural challenges.

It is essential to note that there is a notable distinction between the health of the Chinese economy and the returns of the region's equity market. Looking at the MSCI China index, the 'New Economy' sectors represent c.70% of the benchmark. Within this subset, the top 8 names (Tencent, Alibaba, Xiaomi, PDD, Meituan, Netsease, BYD and Trip.com) form c.45% of the benchmark.

The earnings trajectory for this cohort has been quite robust and remains significantly ahead of the overall market. Sales growth for this cohort averaged 22% in 2024 and is forecast to rise by 15.8% in 2025.

Emerging Markets ex-China

Looking beyond China, the earnings trajectory has followed a similar pattern in Taiwan and South Korea, which constitute 20% and 11% of the MSCI Emerging Markets benchmark, respectively. This again reflects the prominence of the IT sector in these

Countries (68% and 41%, respectively), with tech companies benefiting from similar tailwinds, driving expectations of double-digit profit growth over 2025 and 2026.

Earnings momentum in EM's other major market, India, has remained stagnant over the past year, following a strong rebound in 2023 (+23%). Unlike China, Taiwan and South Korea, India's equity market is not dominated by the Technology sector and has a higher weighting towards Financials and Industrials. Uncertainties regarding US-India trade relations, sluggish domestic consumption, and a weakening currency have contributed to the stagnant growth since 2024. The Indian Government responded to this slowdown by implementing the largest Goods & Services Tax (GST) overhaul in eight years, effective from 22 September 2025. This, along with income tax cuts and a more dovish Reserve Bank of India, is expected to lead to a significant boost in consumption during 2026, which should positively impact earnings.

Outlook & Valuation

Overall, we have clearly seen evidence of earnings stability returning to EM over the past 12 months, supported by China's 'New Economy' sectors, the insatiable rise of China's AI industry and supportive Government policies.

Looking ahead, consensus earnings estimates for EM have remained stable YTD, with current forecasts for profit growth of 13.6% in 2025 and 14.4% in 2026 (21.5% and 14.3% for EM ex-China).

From a valuation lens, despite rallying 50% since October 2023, the forward PE ratio for EM equities currently stands at 15.5x – certainly not in the expensive category should the expected earnings growth materialise over 2025-26.

From an asset allocation perspective, we have maintained our Neutral stance on the region, for now. While acknowledging the favourable tailwinds heading into 2026, we remain cognisant that these bursts of optimism have occurred many times over the past decade, only to fade away, due to the lack of a sustainable earnings upturn, especially in China.

Outlook and Positioning

Broadly, macroeconomic indicators that we follow paint a picture of modest growth and growing headwinds from lacklustre labour markets. However, further weakness here will likely kickstart a more aggressive rate-cutting cycle from the Fed.

Looking ahead, the full impact of tariffs on the broader US economy has yet to be seen; however, we expect tariffs to remain a headwind to growth as we approach 2026. Additionally, it is likely that the burden of those costs will shift from US corporations to US consumers.

We remain close to benchmark as we see risks as finely balanced. We see potential for both upside and downside surprises against a backdrop of extended valuations and still elevated policy uncertainty.

Growth Assets	Underweight			N	Overweight		
Australian Equities - Large Cap				●			
Australia Equities - Small Caps			●				
Developed Market Equities - Large Caps				●			
Developed Market Equities - Small Caps				●			
Emerging Market Equities				●			
Global Listed Property					●		
Global Listed Infrastructure				●			
Growth Alternatives				●			

Defensive Assets	Underweight			N	Overweight		
Australian Bonds					●		
Global Bonds			●				
Diversified Income				●			
Defensive Alternatives				●			
Cash				●			

Current Position ●

Growth Assets

Asset Class	Position	Rationale
Australian Equities - Large Caps	Neutral	Australian equity valuations remain stretched and require a re-rating in bank and resource earnings. Earnings season was mixed at best. Inflation is receding, paving the way for Reserve Bank of Australia (RBA) cuts.
Australian Equities - Small Caps	Slight Underweight	China continues to underwhelm economically as hopes for a rapid, stimulus led recovery have faded. This should disproportionately impact junior miners who make up a large portion of the Small Caps sector vs Large Caps.
Developed Market Equities - Large Caps	Neutral	The Trump Administration's tariff policies are a headwind for growth, but the impacts will be manageable. Economic indicators have moderated year to date, but fears of a severe growth have diminished.
Developed Market Equities - Small Caps	Neutral	Valuations remain somewhat attractive. With US companies forming 63% of the small cap index, tariff policy uncertainty should fade as a headwind.
Emerging Market Equities	Neutral	Emerging market equities are dominated by China, where a policy shift to support consumption and an economy that has recalibrated to be less dependent on the US since 2018 are supported by compelling valuations.
Global Listed Property	Slight Overweight	Attractive subsector valuations warrant an active approach to this sector. Office sector remaining structurally challenged but rental growth and healthy fundamentals are appearing in other areas of the sector (age care, data management, supply chains).
Global Listed Infrastructure	Neutral	With key policy rates lower than this time last year, a key headwind to the sector is gone. Valuations are attractive versus long term averages.
Growth Alternatives	Neutral	Some improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions and sentiment.

Defensive Assets

Asset Class	Position	Rationale
Australian Bonds	Slight Overweight	Australian bond yields offer good value and provide safety from overseas volatility. Positive supply/demand dynamics further supported by a budget deficit likely to be less than government forecasts.
Global Bonds	Slight Underweight	US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
Diversified Income	Neutral	Floating rate public credit still offers relatively attractive yields.
Conservative Alternatives	Neutral	Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash	Neutral	Cash provides optionality during this volatile period.

Important Information: This information is published by Lonsec Investment Solutions Pty Ltd (LIS) ABN 95 608 837 583, a Corporate Authorised Representative of Evidentia Financial Services Pty Ltd ABN 97 664 546 525 AFSL 546217 (EFS). Generation Development Group Limited ABN 90 087 334 370 (GDG) is the ultimate parent company of LIS and EFS. LIS creates the model portfolios it distributes using the investment research provided by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445 (Lonsec Research), also a GDG company, but is not involved in Lonsec Research's investment research process.

Warnings: Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this publication is limited to "general advice" (as defined in the Corporations Act 2001 (Cth)) and does not take into account investors' objectives, financial situation or needs. Investors should consider the appropriateness of the information and relevant Product Disclosure Statement (PDS) or offer document (and where relevant, applicable target market determination) before deciding whether to acquire, or to continue to hold a financial product. If you require financial advice that takes into account your personal objectives, financial situation and needs, you should consult your licensed or authorised financial adviser.

Disclaimer: This information is based on sources considered to be reliable. It is based on our judgement at the time of issue and is subject to change. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this publication. To the extent permitted by law, none of GDG and its related entities, their directors, officers, employees and agents accepts any liability for any loss or damage as a result of any reliance on this information.

Copyright © 2025 Lonsec Investment Solutions Pty Ltd ABN 95 608 837 583. This document is subject to copyright of LIS. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this document may, in any form or by any means (electronic, mechanical, micro-copying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of LIS. This document may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to LIS copyrighted material, applies to such third party content.