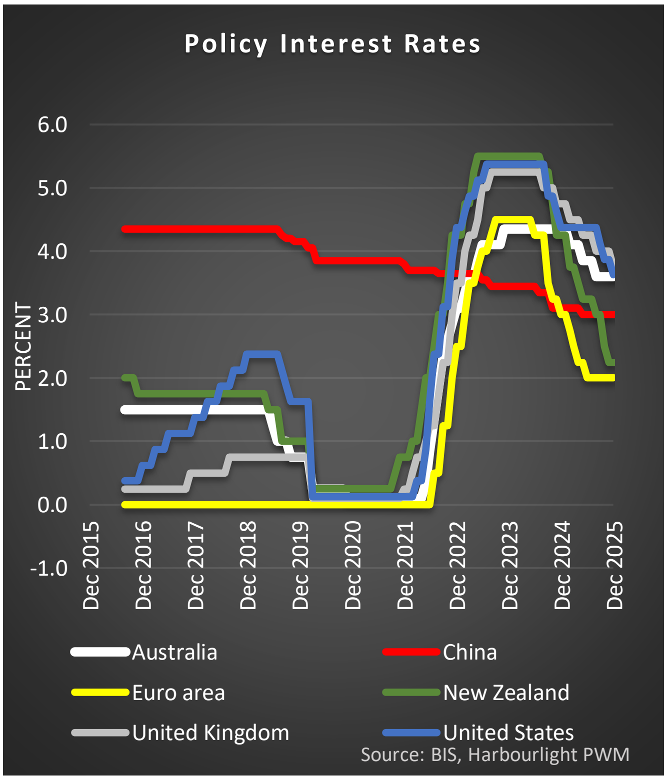
Harbourlight Private Wealth Management Investment Review and Outlook. January 2026

A brief review of investment markets and broader factors affecting clients.

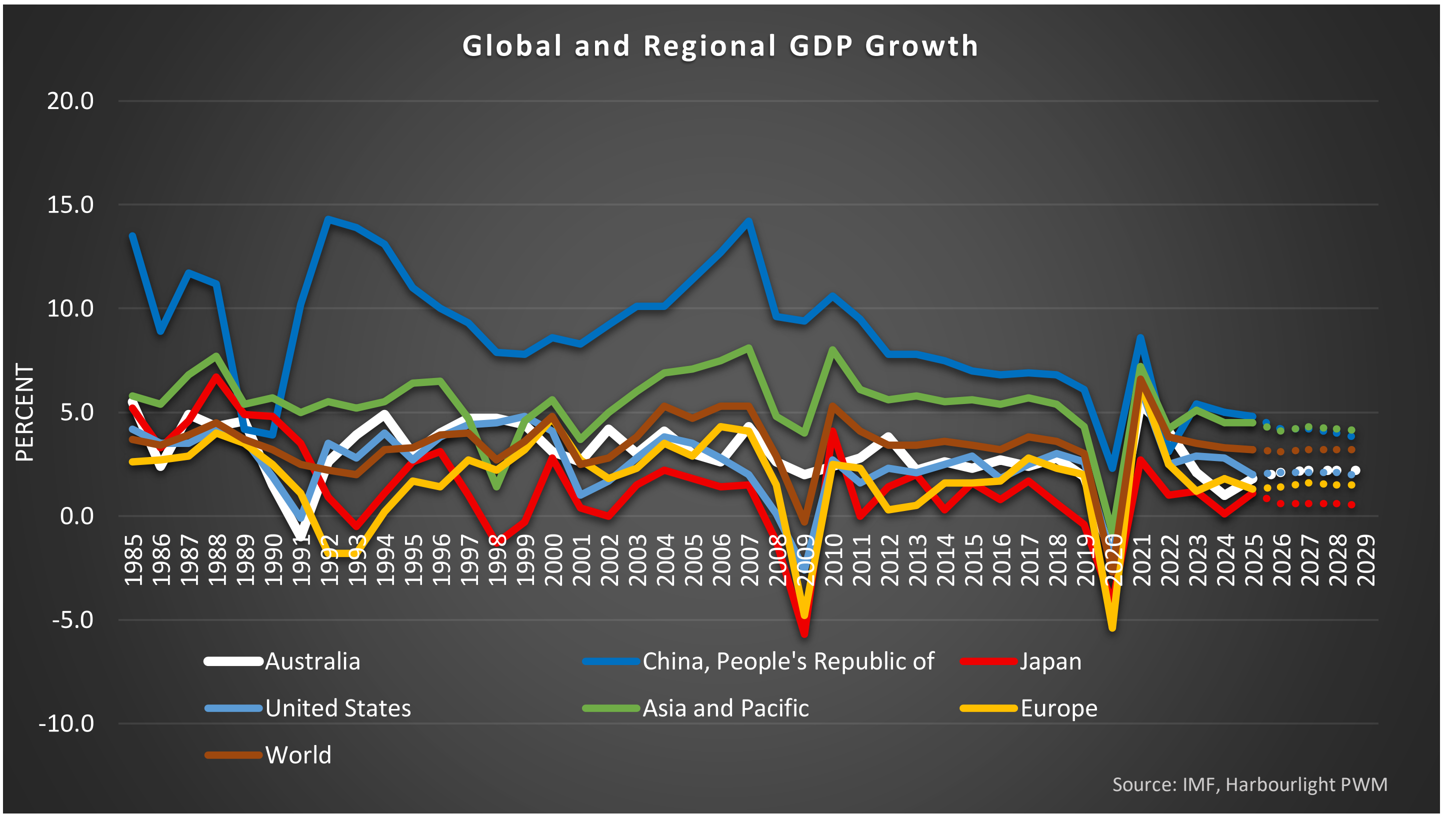
- Twelve months into the second Trump presidency, the effects of current US policy can be more clearly observed.
- An estimated **50-65% of the proposed 2025 tariffs have now been implemented.** Over the year US GDP growth weakened before recovering in the final quarters, inflation increased, though by less than initially feared allowing the Federal Reserve to reduce benchmark interest rates by 0.75% and the S&P 500 to rise 16.39%.
- Whilst December data is not available and trade statistics are slightly difficult to interpret, it appears **tariffs have largely re-routed global trade rather than reduce it and both a boost to US manufacturing and meaningful reduction in US spending remain absent.**
- **China has reported stronger exports**, though the economy continues to work through weak domestic demand, a contracting property sector **(Chinese property prices have now been falling for nearly 4 years)** and GDP continues to grow at a high but slightly slower pace.
- **Global inflation is easing**, though recent higher readings in Australia have **paused the RBA's easing cycle**. Whilst rates have not fallen by as much in Australia as other developed countries, they were not raised as aggressively due to a more moderate inflation spike post Covid and relatively prudent monetary policy from the Australian central bank. Low energy prices should help in further softening inflation and increase the odds of further interest rate cuts in major economies.
- **Global GDP growth forecasts** remain reasonably stable whilst Australian **GDP growth** recovered to above 2% for the year.
- **Global equities** proved to be fairly resilient, with developed markets rising approximately 19% and emerging markets up 24%. Investment in **artificial intelligence** remained a dominant theme, whilst shares in Asia and Europe outperformed the US. While AI is expected to deliver meaningful productivity gains over time, the pace at which it becomes efficient and reliably scalable may be slower than initially anticipated and some degree of capital misallocation is likely. Infrastructure valuations remain relatively more attractive.
- **Australian stock valuations** seem better in sectors, though remain expensive relative to global peers. Resource stocks performed well with rare earths leading, financials less so with mixed results and Australian technology and growth stocks worst.
- **Residential property prices** across Australian capital cities rose strongly at 8.3%. Cotality data shows stronger growth in WA and QLD whilst NSW and VIC were softer. Units underperformed detached housing by 4% for the year.
- We view broad asset valuations as fairly to fully priced depending on the region. These conditions may persist for an extended period though lower interest rates and continued earnings growth could provide further support for asset prices.
- Investor sentiment remains broadly positive and market shocks tend to emerge unexpectedly.
- We continue to support neutral to slightly conservative investment portfolios which should provide solid investment returns in stronger markets and options to rebalance if opportunities arise in weaker markets.

Global central banks continue to ease monetary policy though inflationary pressures have caused stalling in certain regions.

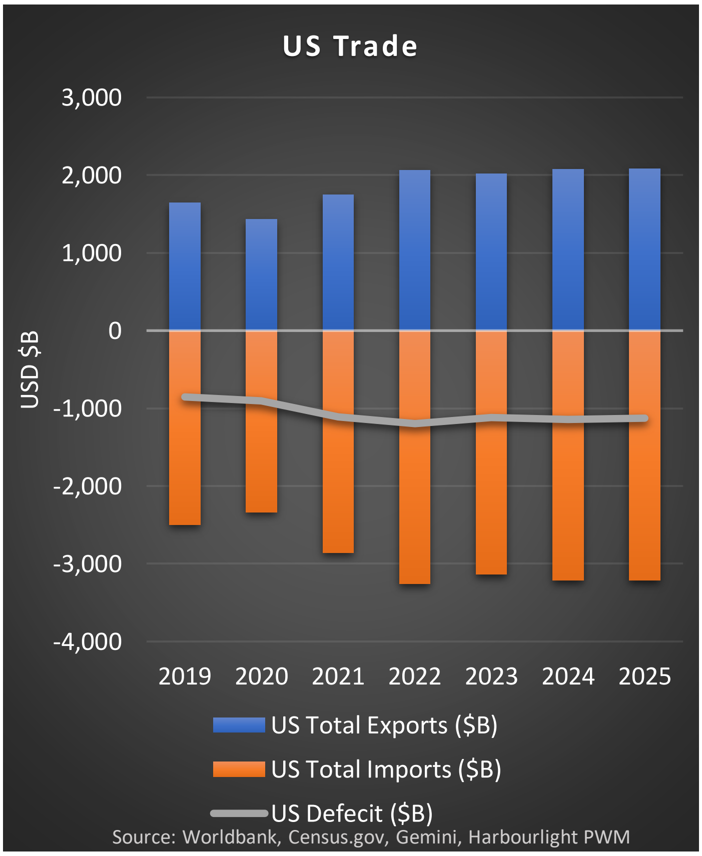


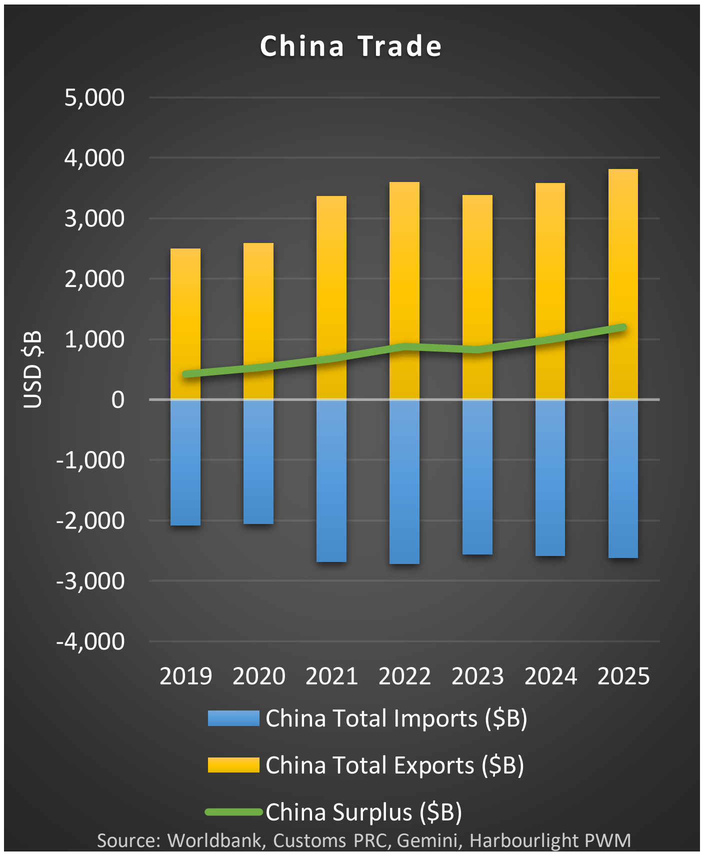
Economy and Financial Markets

Regional GDP growth forecasts remain very stable.

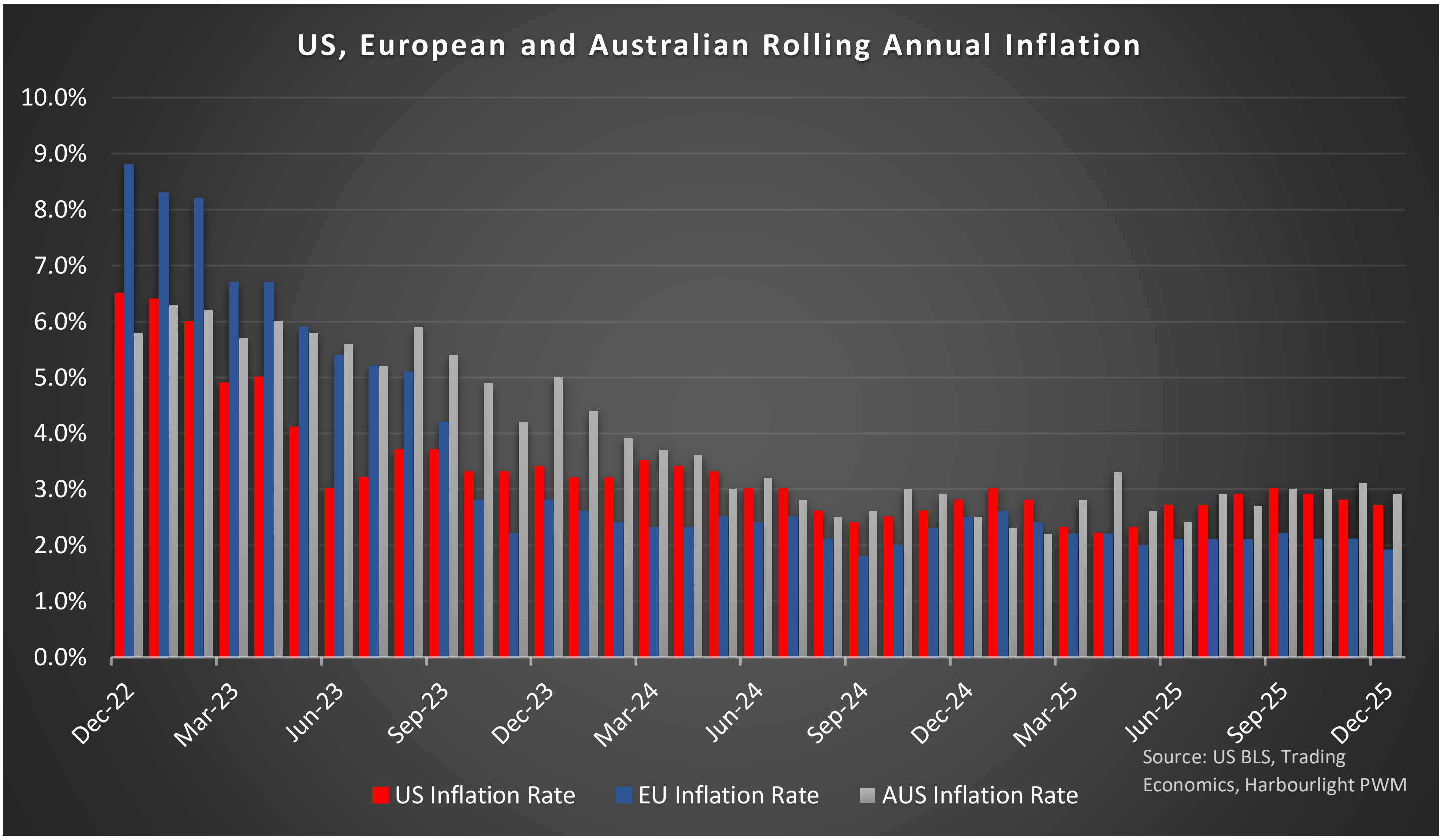


Tariffs appear to have continued the re-routing of global trade flows without materially disrupting overall trade activity.

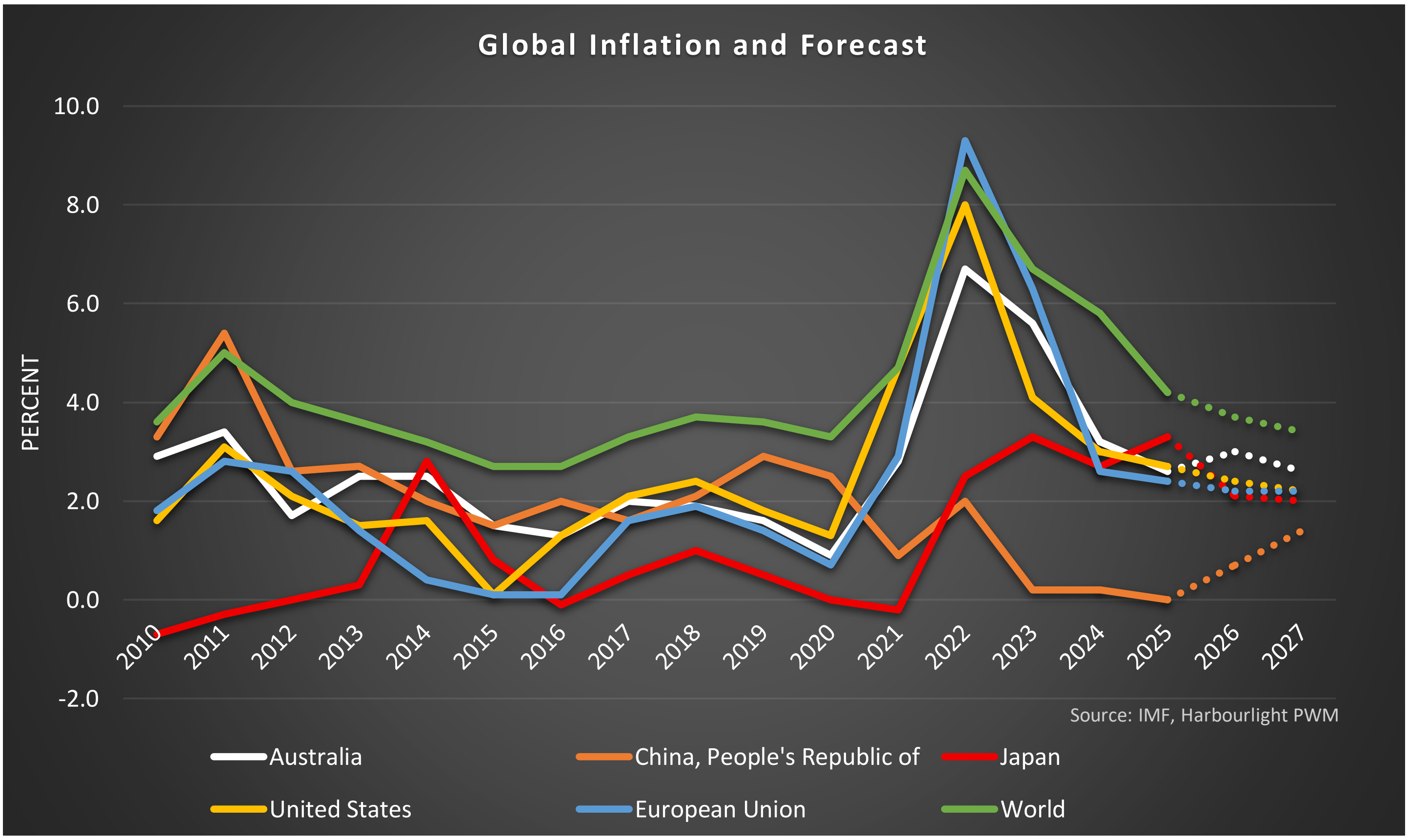




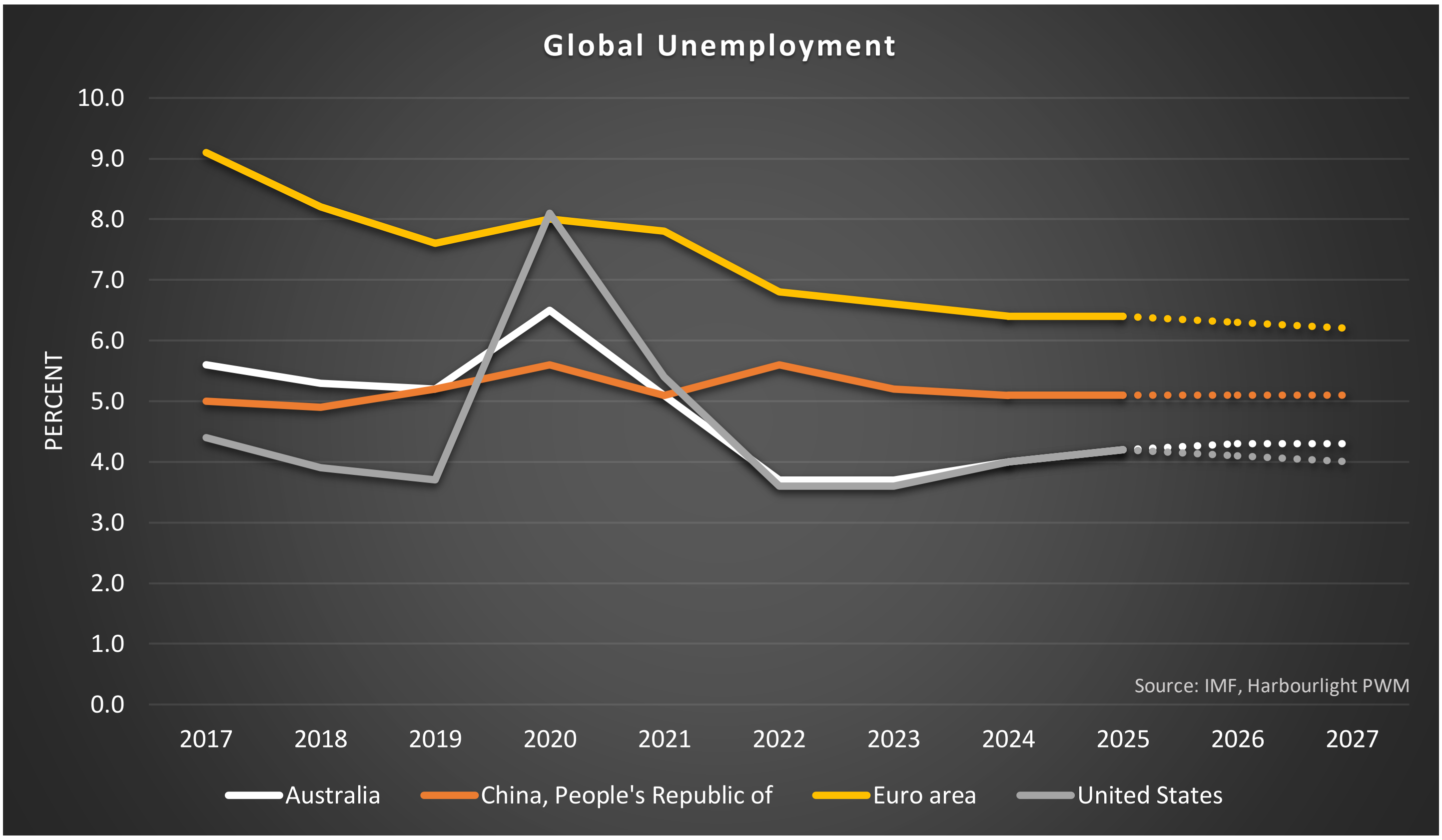
Inflation outside Australia continues to moderate, although recent readings are more difficult to interpret due to the US government shutdown and revisions to inflation methodology by the Australian Bureau of Statistics.



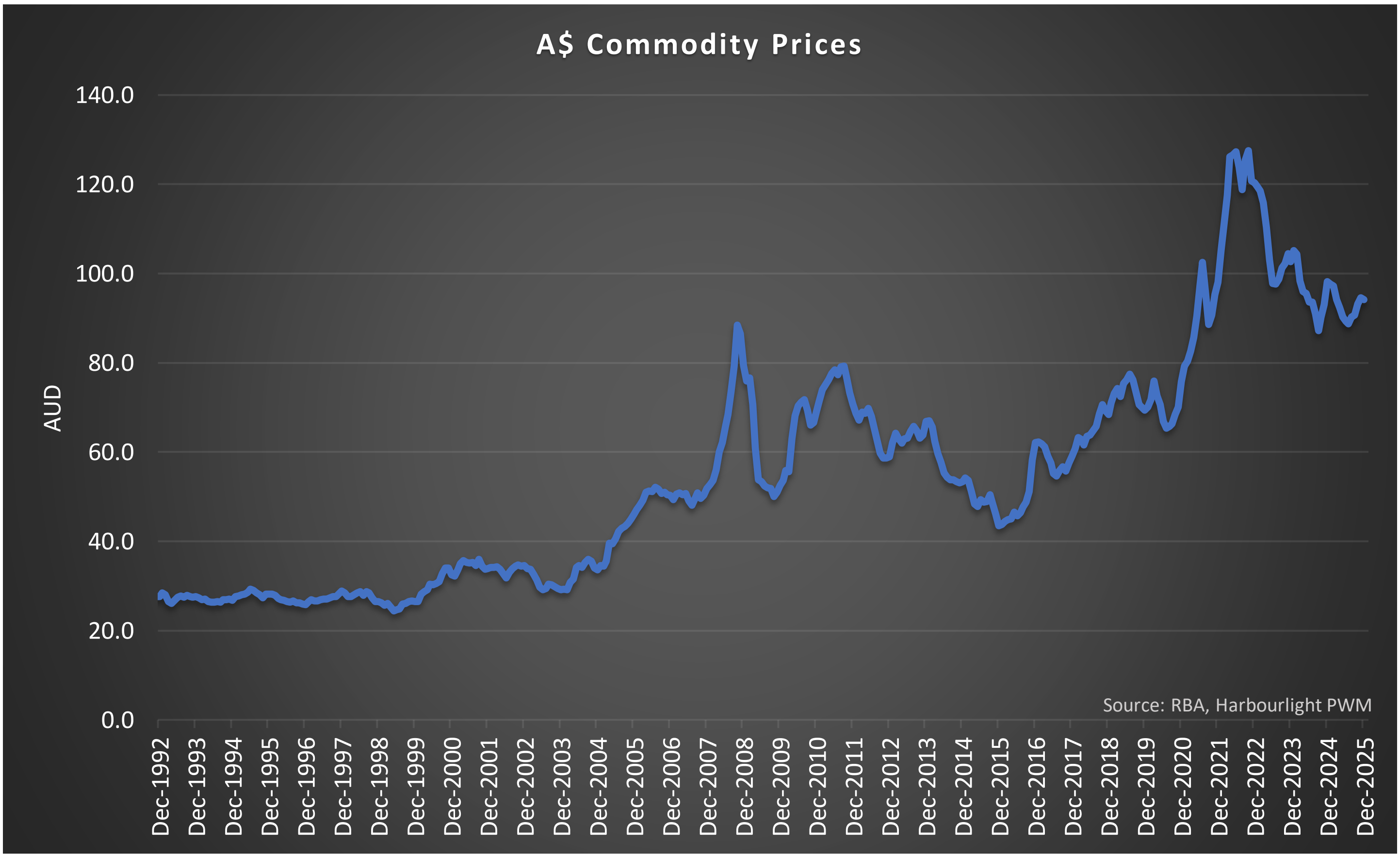
Inflation forecasts indicate a reduction in most major economies excluding Australia, where a spike is expected before easing. Softer energy and commodity prices should help this.



Unemployment rate forecasts also remain reasonably stable.

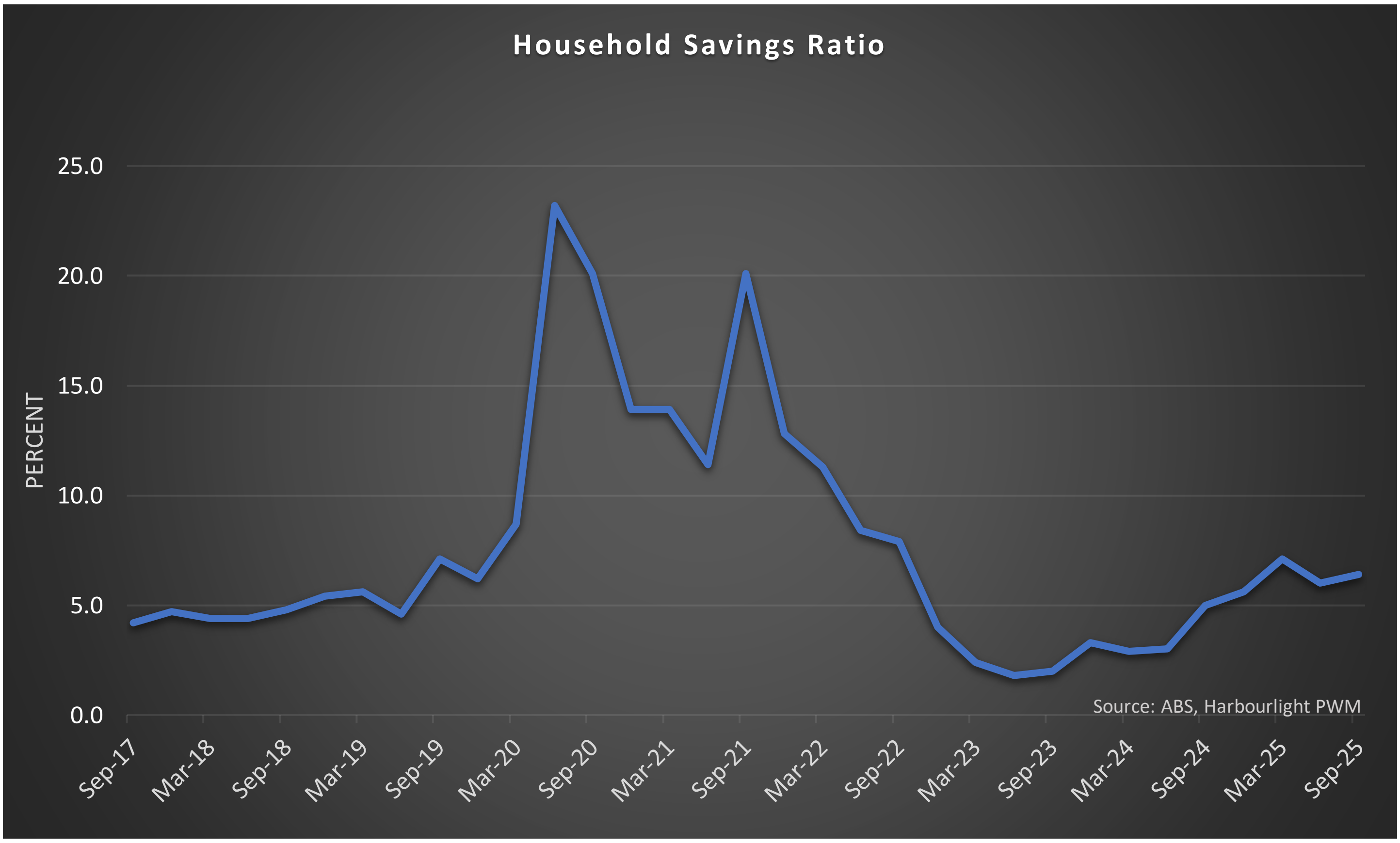


Commodity prices weakened slightly over the year.

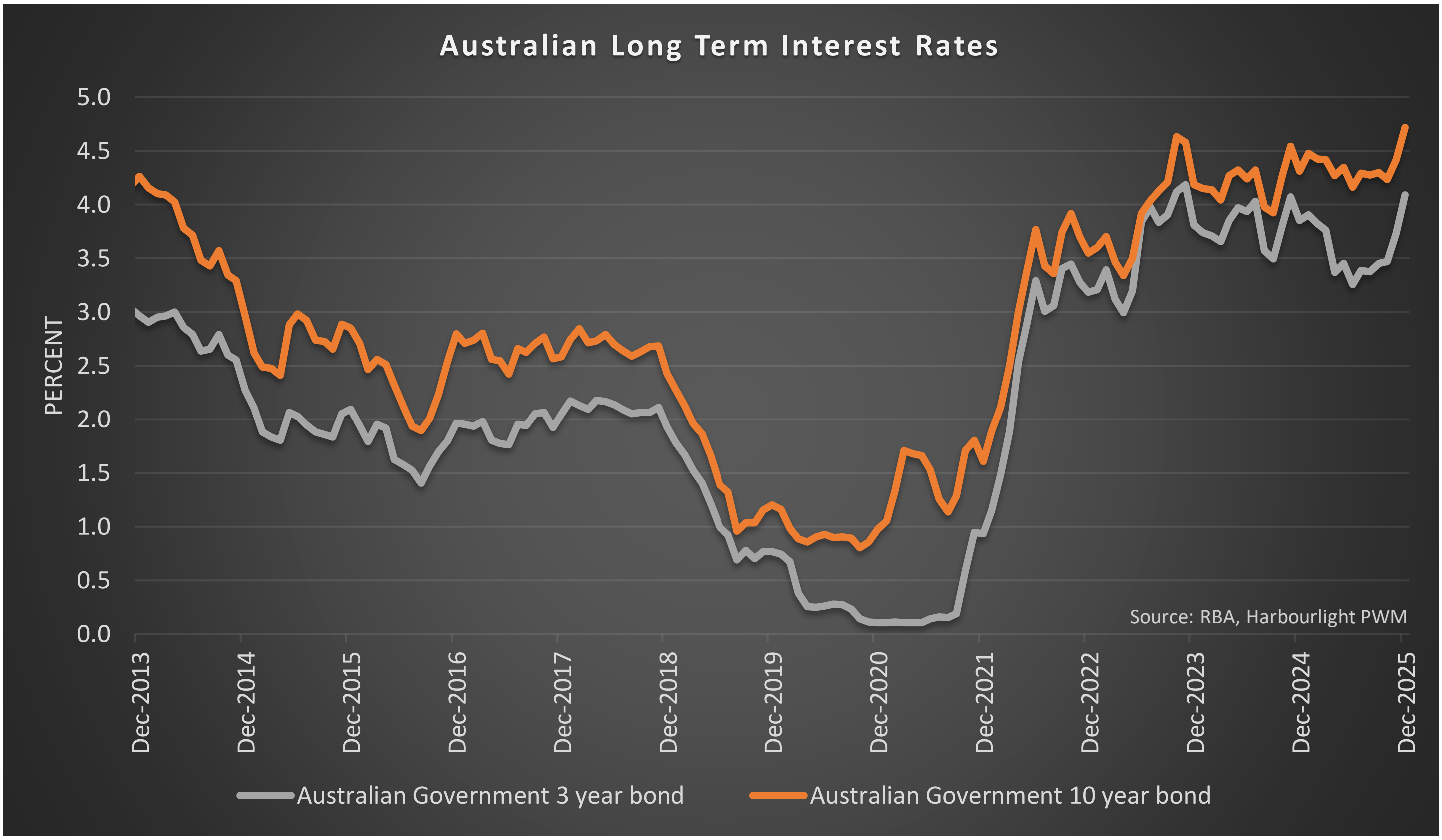


Wage growth remained steady throughout the year, broadly in line with or marginally above inflation.

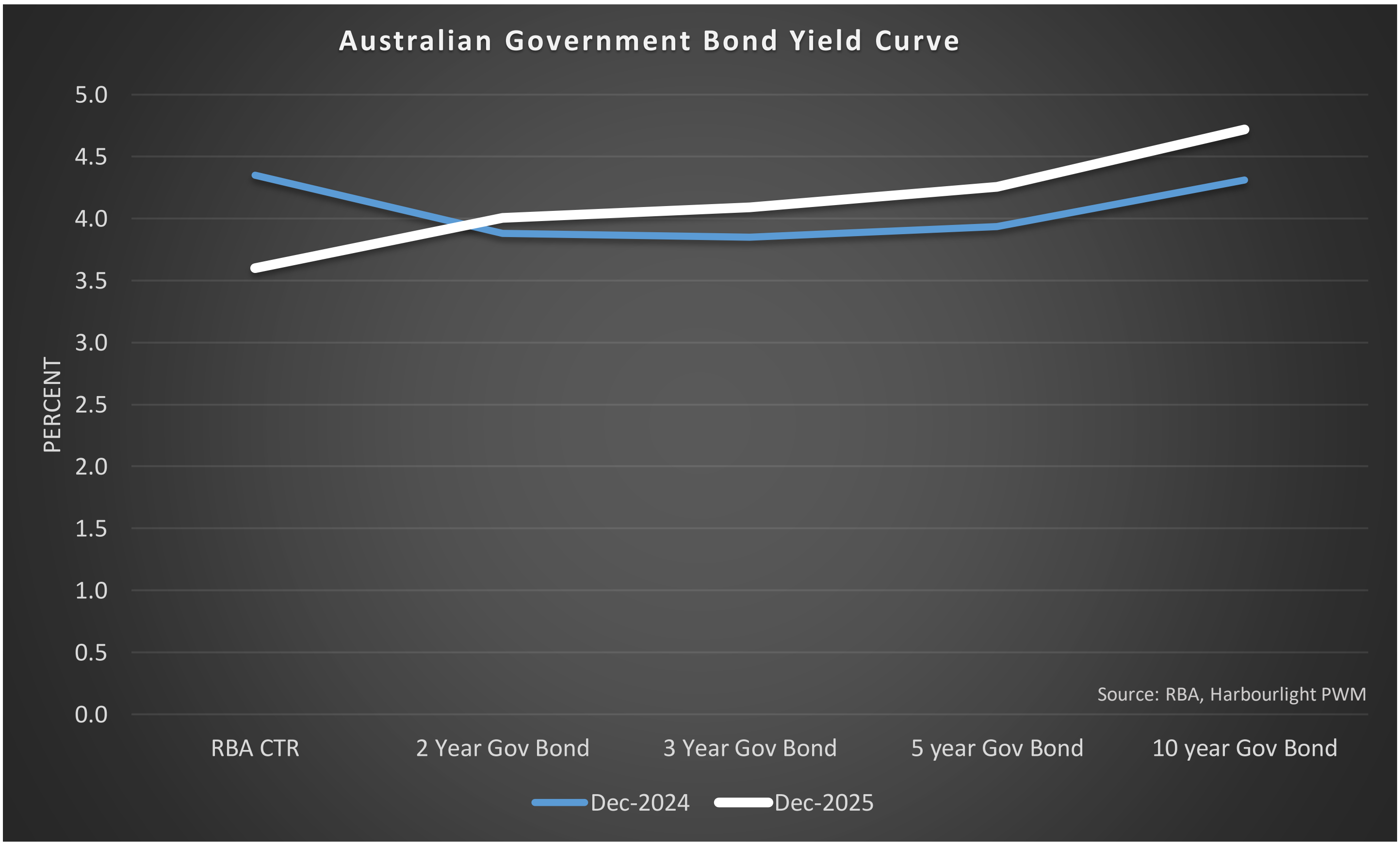
Australian household savings have stabilised at healthy levels.



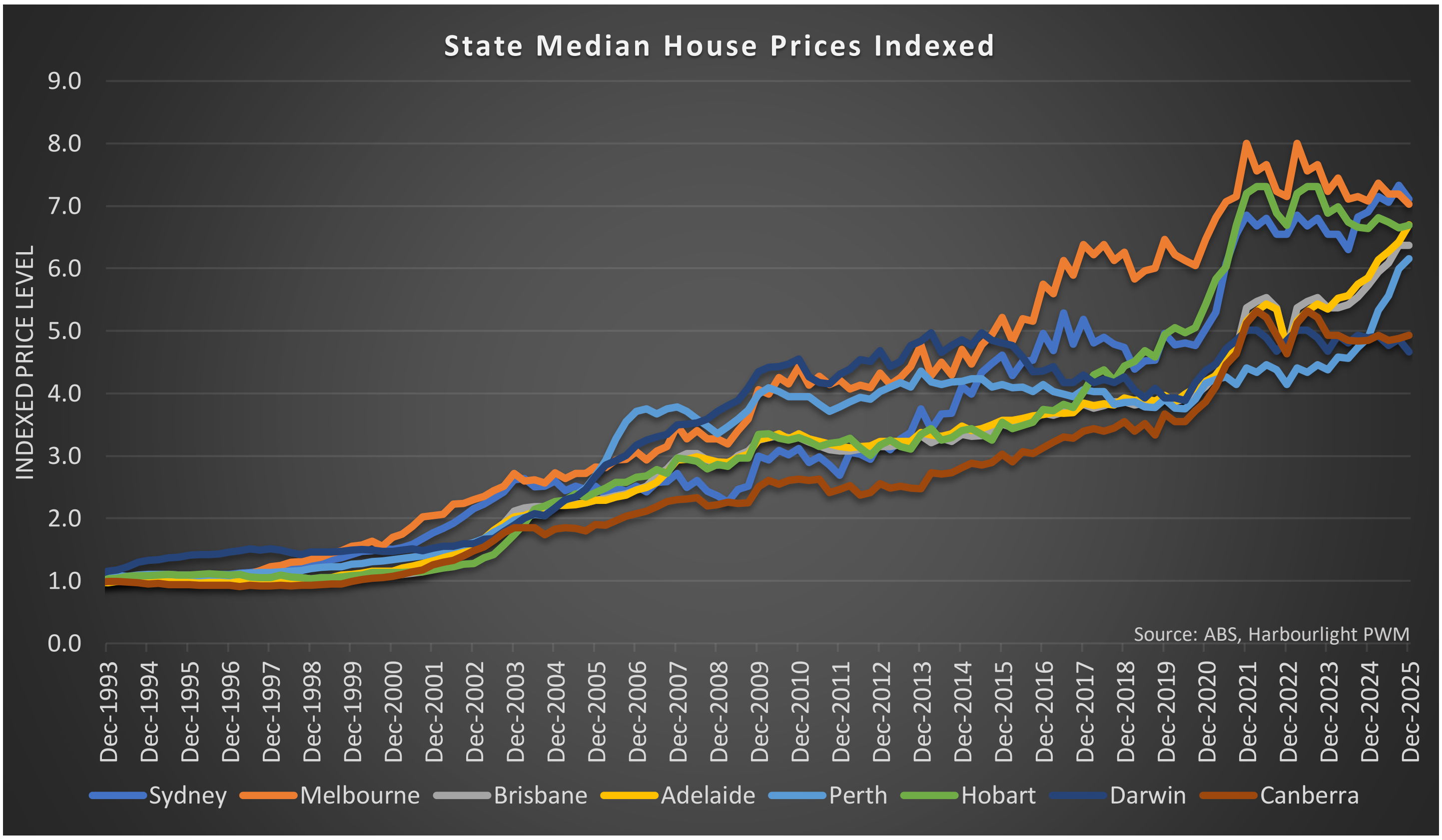
Short and medium term interest rates in Australia spiked post higher inflation numbers. Should inflation pressures continue to ease, we believe slowly adding government bonds may provide a valuable defensive asset during periods of volatility.



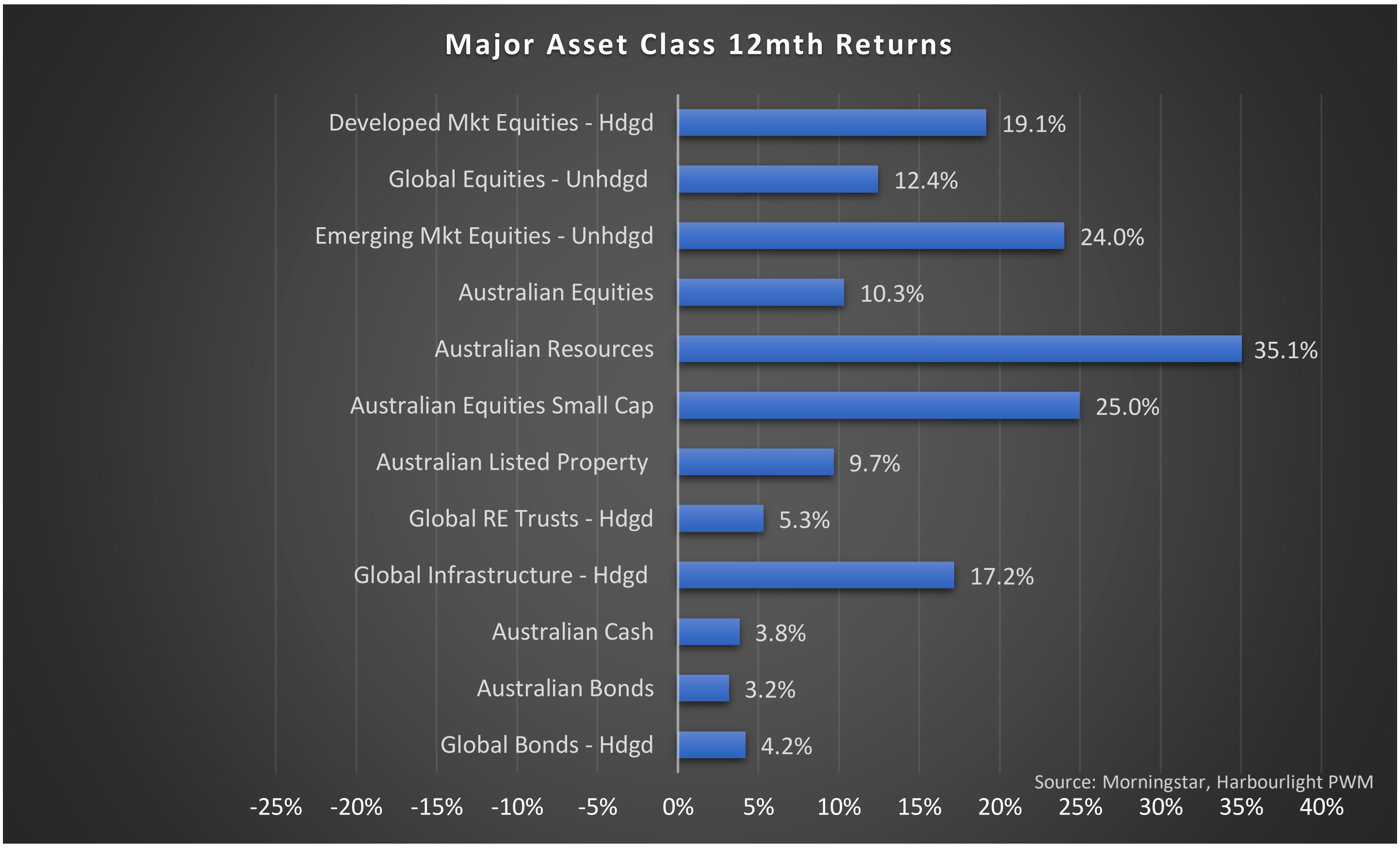
The yield curve has un-inverted over the year as short term rates dropped and long rates rose.



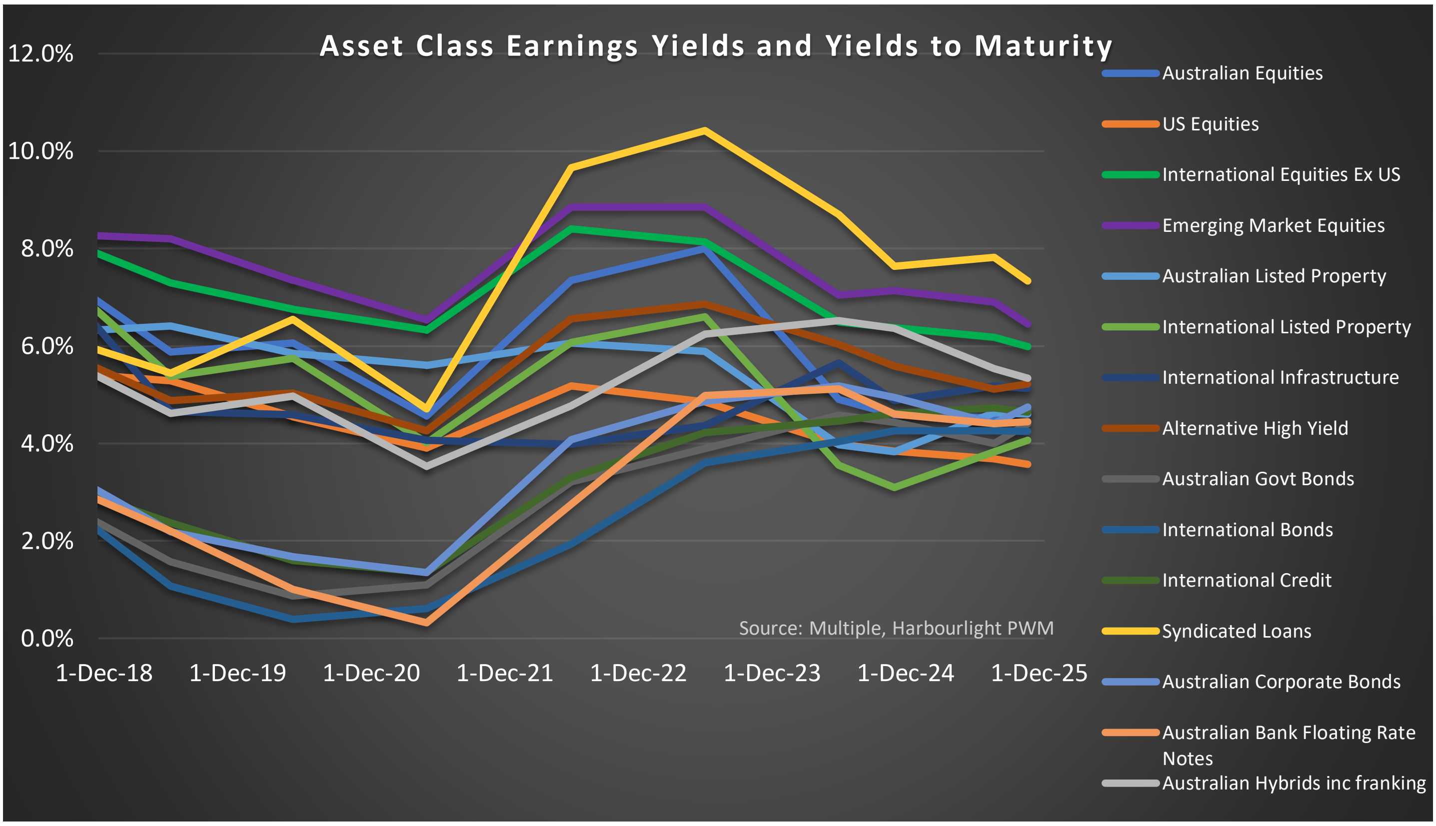
Australian house prices had a relatively strong year with South Australia, Queensland and Western Australia outperforming.



Asset class returns have been solid again with emerging markets and resource stocks outperforming.



Valuation indicators continue to skew favourably toward fixed income assets as earnings yields compress, reinforcing our neutral asset allocation stance across portfolios. Commercial property earnings yields are recovering post write-downs. Infrastructure looks relatively more attractive.



Our views for the next 12 months

In a relatively optimistic investment environment, we remain neutral in our asset allocation with a lean towards conservatism.

We continue to increase holdings in infrastructure as valuations look more attractive than broad equities and should be boosted by the artificial intelligence roll out. We also continue to add alternative debt and fixed income to portfolios making them safer whilst still accessing higher rates of return.

Well diversified and flexible portfolios should provide solid investment returns in stronger markets and options to rebalance if opportunities arise in weaker markets.

Other Regulative Matters

- Personal income tax rates will be reduced from 1 July 2026, with further reductions expected from 1 July 2027.

- Compulsory superannuation contributions increased to 12% from 1 July 2025 completing the phased increases that commenced in 2021.

- Superannuation contribution caps remain at $30,000 for concessional contributions and $120,000 for non-concessional contributions for the 25-26 financial year. The government has not yet confirmed whether this will change in the 26-27 financial year.

- The transfer balance cap applying to commencing retirement income streams has increased to $2m for the 25-26 financial year. The government has not yet confirmed whether this will change in the 26-27 financial year.

- The bill for Division 296 and additional income taxes imposed on superannuation balances greater than $3m is due to be re-introduced to parliament shortly. Key reforms to the original bill include the removal of taxation on unrealised capital gains and allowing for threshold indexation. If passed, the intended start date will be 1 July 2026, noting that clients affected will have until 30 June 2027 to make any recommended changes to their retirement strategy.

- New aged care rules came into effect on 1 November 2025 resulting in largely more expensive but sometimes mixed cost outcomes for those entering care facilities.

Please feel free to contact us if you wish to discuss any of these matters.

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