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# Australian Market Earnings Outlook. A Top Down View

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Our weekly view on asset allocation.

28 July 2025

# Market Returns Outpacing Earnings

The Australian equity market is set to move into the full year FY25 reporting season next week. This will almost certainly mark the third consecutive year of flat to negative EPS growth at the index level.

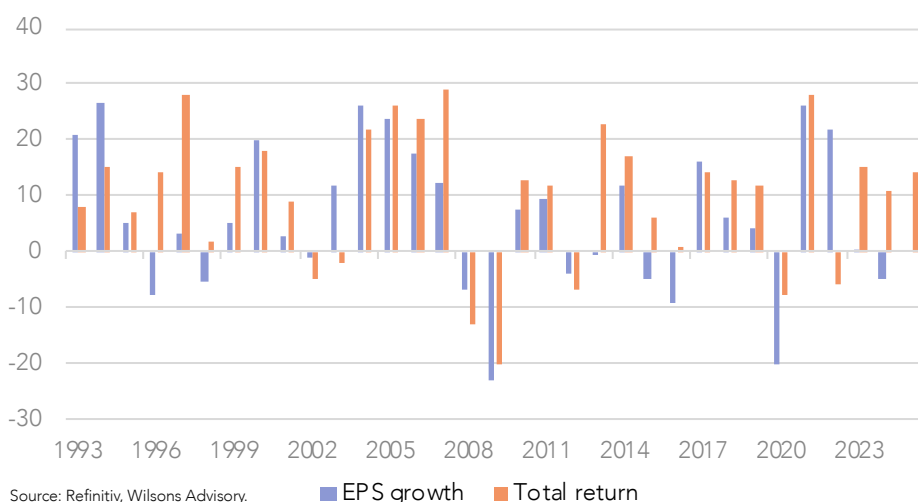
Over the same three-year period the market has delivered a total return of 13% pa, including a 15% total return over the last 12 months.

This disconnect between market earnings growth and market performance has seen the market P/E increase from 16.7x to 19.1x over the last year. With the 10-year average multiple of 16.2x, the current ~19x valuation suggests the market is fully priced to say the least.

Digging a layer deeper in terms of performance trends, we note a stark difference in performance between the resource sector and the "ex-resources" segment of the market (the All Industrials) in recent years.

Over the last three years or so earnings have been falling in resources, while the resource sector P/E has edged up a little. This has seen the sector deliver a lacklustre 3.5% pa total return over the last three years and 4% over the last 12 months, aided by a sharp rally over the past month.

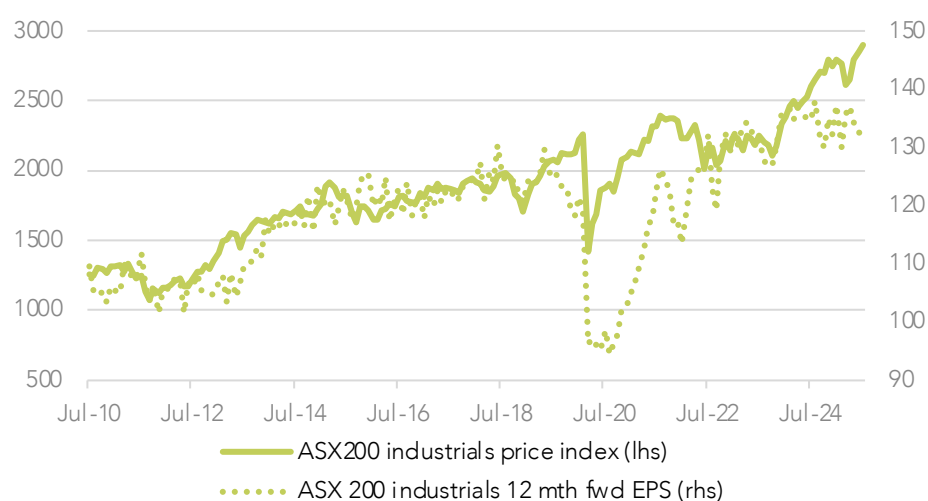
**Figure 1: Market returns have run ahead of earnings growth for the last 3 years**



**Figure 2: The Australian market has surged despite weak earnings momentum**



**Figure 3: All Industrials index has also run ahead of earnings**



## Resources drag on market earnings, but market still lifts

The poor earnings performance of the resources sector has dragged aggregate market earnings growth back to zero. However, it hasn't dampened overall market performance much, with the market still managing a double-digit total return on a one- and three-year basis. Investor flows have shifted to the "market ex-resources", where earnings momentum has been better (albeit far from spectacular) resulting in significant P/E expansion across many key "industrial" stocks and major sectors. The All Industrials sector has delivered a 16% total return over the last 12 months despite modest ~3% earnings growth. The market ex-resources now trades on 21.7x expected earnings, versus a 10-year average of 17x.

Looking at the sector drivers of the market's P/E expansion shows a disproportionate influence from the banks, with the bank sector P/E expanding from 14x to 20x over the past three years.

### Stock market or market of stocks?

While banks are not the only area of P/E expansion, the median stock P/E for the ASX200 is only a touch above five- and 10-year averages. Moreover, the median stock is expected to deliver ~6% growth in FY25 and 12% growth in FY26. This suggests opportunities for active stock pickers, despite a headline index that appears both expensive and growth constrained.

**Figure 4: Resource earnings have been particularly weak**



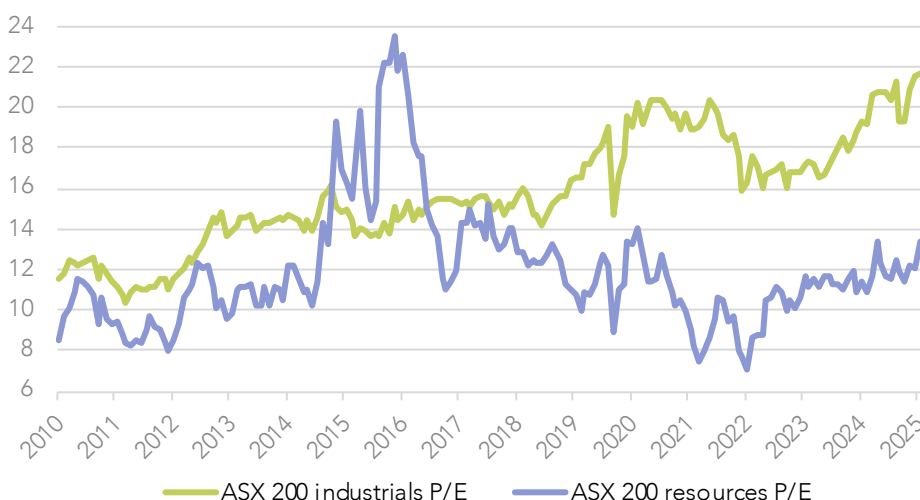
Source: Refinitiv, Wilsons Advisory.

**Figure 5: Banks a big driver of the market P/E lift**



Source: Refinitiv, Wilsons Advisory.

**Figure 6: ASX 200 Industrials P/E has consequently re-rated significantly**



Source: Refinitiv, Wilsons Advisory.



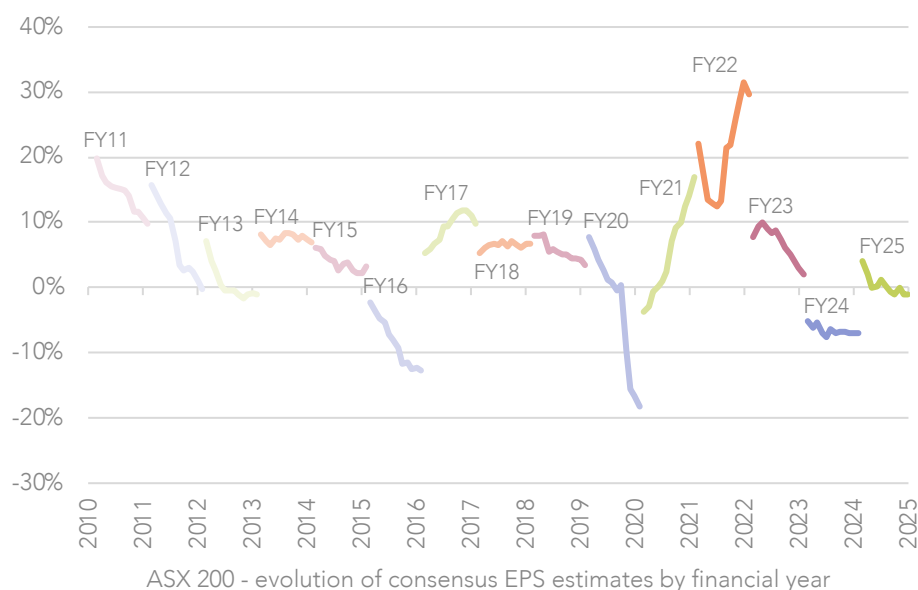
## Earnings Growth Is Expected to Pick Up in FY26

While FY25 will mark another lacklustre year for market aggregate earnings, growth consensus expectations for FY26 earnings are stronger at ~6%, although FY26 estimates have been edging lower in recent months. Indeed, the trend of most financial years is downgrades over the course of the year. Fig 7 shows FY25 estimates were for +4% growth 12 months ago compared to the current estimate of -1%.

It is interesting that similar to FY25, the consensus for FY26 is showing stronger earnings growth for the median stock (+12%) relative to the index at ~6%. While this suggests that there is more earnings growth on offer at the stock specific level than at the headline level, it does also caution that there is some stock specific risk heading into August, given elevated company specific FY26 estimates.

We expect to see some trimming of numbers in August, but are more comfortable with the earnings outlook as we move through FY26. For both stock specific and market levels estimates, the prospect of better domestic and ultimately global growth as we move through FY26 should lessen the risk of dramatic downgrades, despite near-term risk being to the downside. As always, commodity prices over the coming year will be important to where aggregate market estimates end up.

**Figure 7: Earnings estimates have been gradually downgraded over the last 3 financial years**



Source: Refinitiv, Wilsons Advisory.

## The Rubber Band Finally Snaps Back

While the All Industrials (particularly the banks) have led the market higher over the last couple of years, there has been quite a noteworthy performance shift in the past month.

The bank sector has eased 6% over the last month, while the resource sector is up 11%. Despite the loss of bank sector leadership (the largest sector in the market), the overall market has still been able to grind higher (+2%). This has been helped by improving performance from some rebounding large cap stocks such as CSL, alongside the resource sector rally. This may be the market sensing some shift in earnings momentum as we move into FY26. Stretched valuations and peaking momentum flows in the bank sector are also likely a factor in the recent sharp reversal.

### Market Outlook. The good, the bad and the stock specific

We retain a broadly neutral stance on the Australian market for the next 12 months. Valuations are full, but lower interest rates should be supportive. Prospects for aggregate earnings growth in FY26 are improving, but still likely constrained by index composition. Growth potential looks better at the stock level, suggesting active management should be able to return to form after a tough period. We will discuss our stock specific views ahead of reporting season this coming Wednesday.

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