Australian Equities. An Overdue Correction

Our weekly view on asset allocation.

24 November 2025

12-Month Outlook Still Looks Reasonable

The Australian market has seen a ~7% pullback from its all-time October highs.

The index showed some tentative signs of finding a bottom late last week, as optimism toward US equities rebounded again post a strong Nvidia result. However, at the time of writing (21 November) volatility is ongoing.

Despite the pullback, the ASX200 is on track for a relatively "normal year" in performance terms, with the year-to-date total return sitting at ~9%.

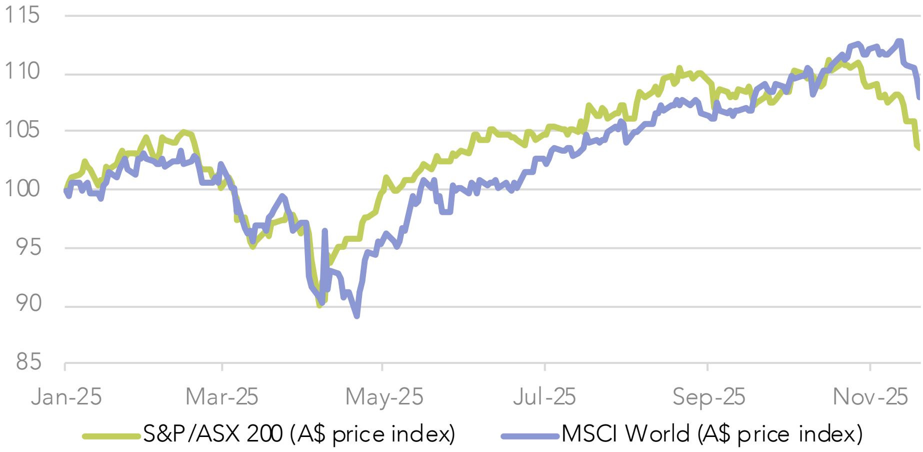
It is interesting that the Australian market's recent retracement (particularly the early stages) has been more driven by domestic rather than global factors. Against the market's 7% correction, the global MSCI has so far retraced only 4%, with the S&P500 down 5% from its late October peak.

Weighing Up the Correction Drivers

Outside of what was a stretched peak valuation (19.5x forward earnings in mid-October), the most obvious driver of the recent domestic pullback is the shift in market expectations for RBA rate cuts. Surprisingly strong inflation for the September quarter (released October 29), followed by a rebound in the labour market data for October, has seen expectations for rate cuts over the coming 12 months reduced from two more cuts to an "on hold" view.

This has seen bond yields lift across the curve. The less stimulatory outlook for monetary policy, alongside the valuation impact of higher bond yields, appears to be a key factor in the market's pullback.

Figure 1: Australia's correction has been larger than global equities



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 2: Shifting rate expectations have been a market correction driver

Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

In addition to the adverse shift in interest rate expectations, a run of somewhat disappointing AGMs and a quite mixed September year end reporting season have also weighed on the market. A number of formerly high-flying large caps have been sold off aggressively in recent weeks.

Finally, the recent ~5% pullback in the US market led by big tech has also weighed on the local market - in particular the higher PE end in areas like IT and market-linked financials.

Where to From Here?

As is often the case, the US market's performance will likely hold the key to the Australian market's direction of travel over the next few months.

Nervousness around the twin US bull market drivers

Strong earnings - driven by the tech sector - combined with a Fed in easing mode have supported the US bull market for much of this year.

Read US Earnings Season Comes in Strong

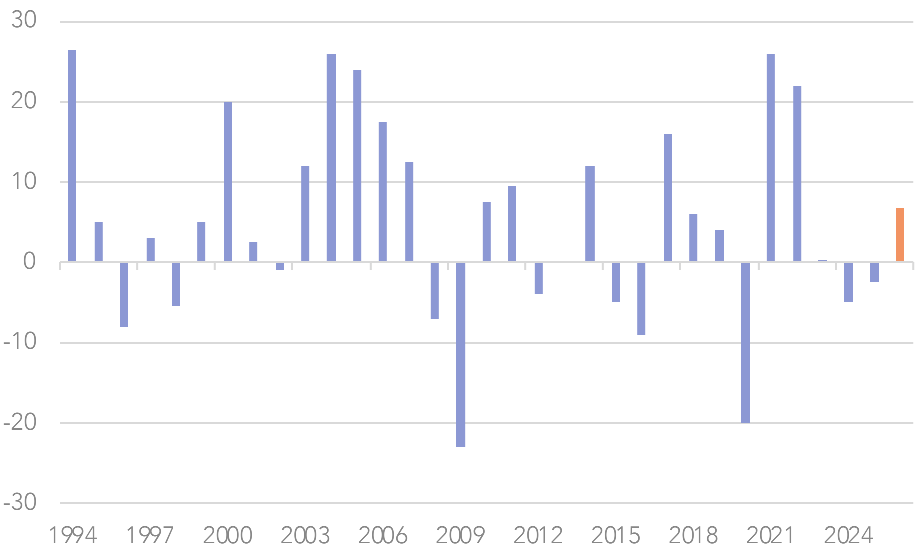
As we have written about in recent weeks, US earnings remain strong, with tech continuing to deliver. Yesterday's stellar Nvidia result seemed to calm market nerves around AI capex sustainability, only for the market to reverse course and once again end lower. Equities fell on a moderate September payrolls beat to take the US market correction to 5%, with tech leading the way lower.

US Equities have appeared nervous in recent weeks around the sustainability of the AI capex boom despite ongoing strong profit delivery, in addition to concerns that the Fed easing cycle may be less supportive than expected earlier in the year. A correction in US equities has been overdue. It is very difficult to say whether it has run its course in the short term. Medium term we continue to see the primary global trend as positive given strong profits, better economic growth in CY26 and a Fed that is still more likely to cut than raise rates over the coming year.

Figure 3: Australian market cheaper but not cheap

Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 4: Australian market EPS growth. FY26 looking better



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Domestic Backdrop Still Relatively Benign

From a domestic perspective, aggregate valuations have improved but remain above "average". While valuations are still suggesting some caution, the earnings cycle appears reasonable, with better growth expected for FY26 relative to recent years and market earnings revisions turning positive over the last few months. While the profit cycle is looking more supportive, tempering our market view somewhat is the fact that resources (we remain positive) appear to disproportionately driving the shift in earnings growth and earnings revision momentum. Outside of resources the earnings backdrop is reasonable but remains quite mixed.

An on-hold RBA is by no means a disaster for equities. The shift in rate expectations has removed some excessive bullishness from market valuations, which is healthy. The market shift to an "on hold" RBA view appears rational in our view, although a shift back to a cut or two over the coming year still appears more likely than the prospect of the RBA hiking. As it stands, the monetary backdrop is less favourable than it was, but not a significant negative for the market.

Figure 5: Market performance around RBA rate cut cycles is mixed. Better in soft landings!

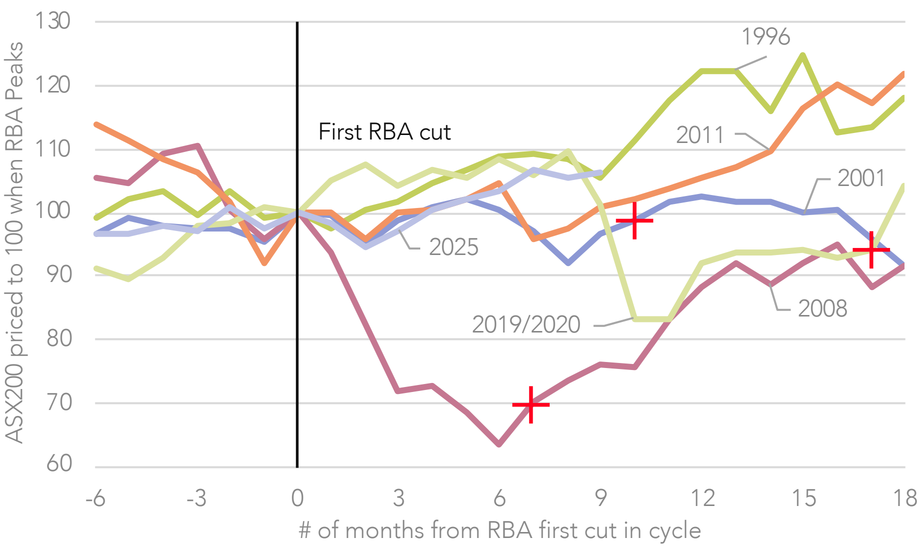
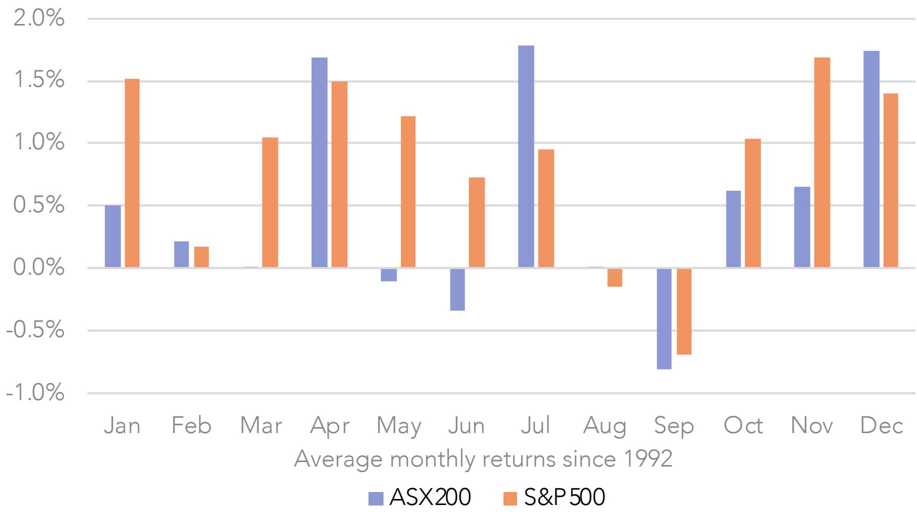
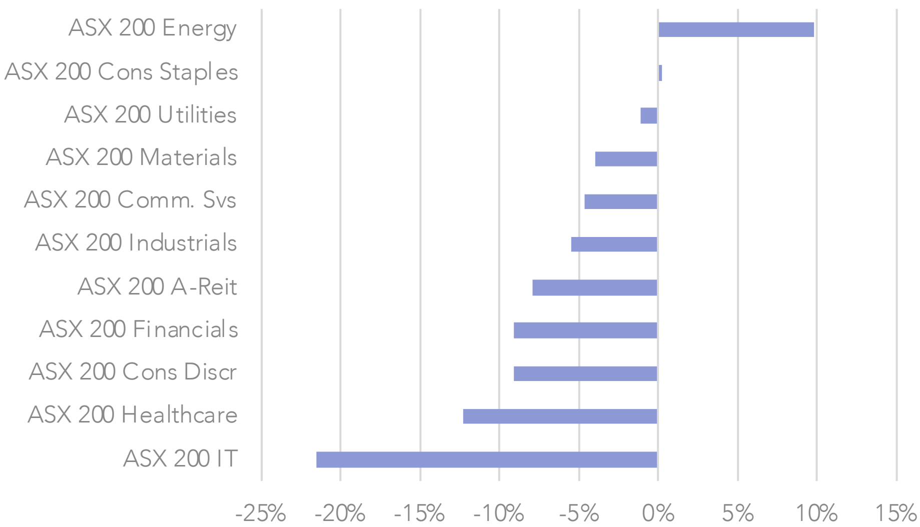


Figure 6: A period of seasonal strength historically



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 7: ASX sector corrections since October 21 market high



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

On a relatively short-term basis, the local market has typically tended to do well in December and reasonably well in the first few months of the year. However, uncertainty around the short-term US outlook is higher than average.

In summary, the cleansing of some excess valuation froth in both the local and US market is in line with our tactically cautious view.

12-Month Outlook Still Looks Reasonable

Our 12-month view remains constructive. Valuations are not cheap, but a benign economic environment and improving earnings cycle are supportive. The monetary policy cycle is looking less supportive, but has not turned into an outright headwind. The global trend, as always, will be important for absolute performance. Uncertainty is elevated, given the US shutdown has seen an absence of economic data over the last seven weeks. This suggests retaining some tactical caution, but we see the risk of a US and/or global recession in the next 12-months as quite low. This keeps us constructive on equities on a six- to 12-month view.

Whether Australia underperforms or outperforms global equities over the coming year may come down to exchange rate shifts. Australia's relatively full valuation and moderate growth outlook suggest underperformance in local currency terms, but potential for the A$ to appreciate gets us back to a more neutral view. The lack of follow through from the A$ in recent months is somewhat perplexing, but we will retain our view of at least some moderate growth for the A$ in coming six to 12-months. This leaves our positioning as relatively neutral for Australia versus the world for now.

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