



WILSONS
ADVISORY

An ASX Road Map for the RBA's Path Ahead

Our weekly view on Australian equities.

10 December 2025

Exploring RBA Policy Sensitivities

The domestic monetary policy backdrop has shifted materially, with markets now fully pricing an RBA rate hike in 2026 – a stark reversal from the expectation of two cuts as recently as six weeks ago – following hotter-than-expected domestic inflation data.

Yesterday's RBA monetary policy meeting reaffirmed that the central bank has well and truly moved from an easing bias to incrementally hawkish on-hold stance, with increasing risks of a 2026 interest rate hike. Despite this, the outlook for domestic equities remains constructive. Household spending remains resilient, the RBA's three rate cuts this year have arguably yet to fully flow through to consumer activity, and loose domestic fiscal policy continues to support economic growth. And, somewhat uniquely, the US Fed's ongoing rate cutting cycle provides an external offset to tighter domestic policy – particularly for offshore earners.

While every cycle is unique and there is no 'standard experience', the past five cycles demonstrate that the market typically grinds higher ahead of the RBA hiking rates. In fact, the median return of the ASX 200 in the 12-months prior to RBA's first-rate hike has been 8.4%, which is shown in Figure 2. Australian equities also typically trend higher in periods where the Fed is easing and the RBA is on hold or hiking rates – as we explored in this week's Asset Allocation report.

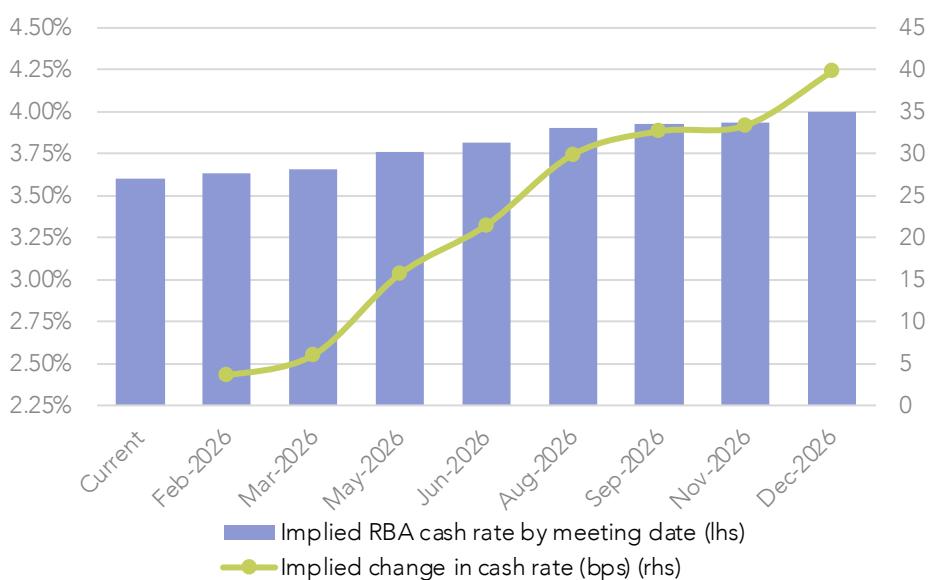
Read All Eyes on the Fed

With all that in mind, we acknowledge the increasing risk of rate hikes (and the diminishing likelihood of cuts) next year – as reflected in market pricing shown in Figure 1 – which could materially impact forward ASX sector returns over the near to medium-term.

Against this backdrop, the remainder of this report assesses the interest rate sensitivities of key ASX sectors.

We analyse how different notable sectors have historically performed in the lead-up to RBA hiking periods and overlay this with our current views on valuations and fundamentals. We also outline how those views may evolve under alternative policy paths, should the RBA's stance turn more hawkish over the year ahead.

Figure 1: The market is now fully priced for a rate hike in August



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 2: The ASX 200 typically trends higher ahead of RBA rate hikes



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 3: ASX sector return correlations to short-term interest rates

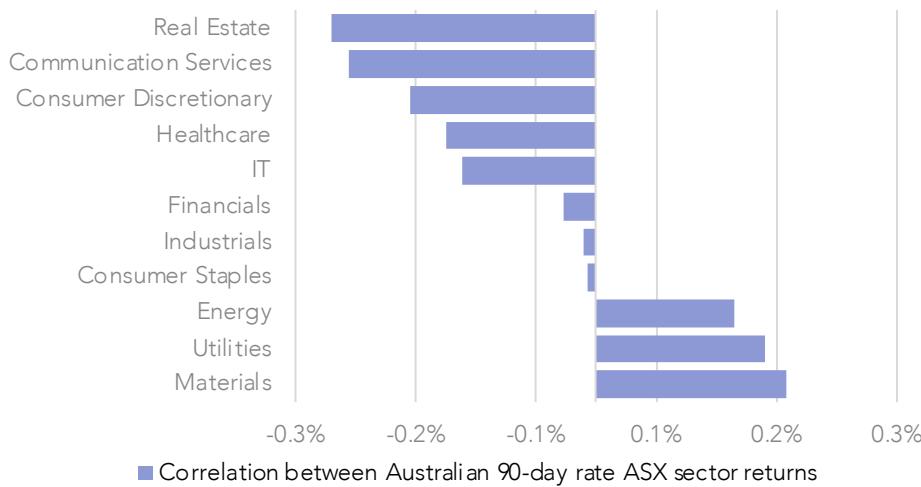
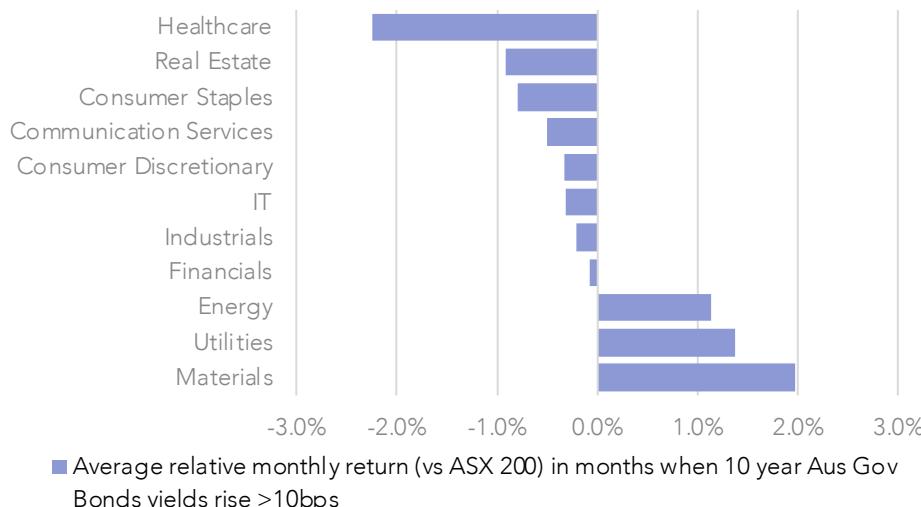


Figure 3 is based on data from the past three years. Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Key Takeaways

- Positive Resources.** A more hawkish RBA combined with a dovish Fed supports AUD strength, historically a key driver of mining sector outperformance. Ultimately, resources are more sensitive to global growth than domestic demand.
- Cautious Banks.** Although banks often outperform ahead of RBA hikes, sector valuations are elevated relative to prior cycles, and earnings momentum is mixed, which tempers our outlook.
- Positive Consumer Staples.** Staples typically outperform into RBA hiking periods, and valuations look attractive relative to Cyclical Retail, creating scope for a rotation, particularly if the RBA turns more hawkish.
- Negative Domestic Cyclicals.** Retailers typically underperform prior to RBA hikes and are vulnerable to higher rates, particularly as valuations are demanding. We prefer global earners.
- Monitoring Real Estate.** The pivot to a more hawkish on-hold RBA removes a key tailwind, and higher yields are a negative for NTA values. Still, if bond yields steady, as we expect, sector valuations should stabilise.
- Positive Healthcare.** Despite historical underperformance pre-RBA hikes, relative valuations are already at 20-year lows, supporting a more constructive sector view.

Figure 4: ASX sector relative performance in periods of rising long-term bond yields



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Figure 5: Relative ASX sector returns (vs ASX 200) in the 12 months prior to previous RBA hiking cycles

	1994 cycle	1999 cycle	2002 cycle	2009 cycle	2022 cycle	Median	% outperform
Consumer Staples			12%	2%	9%	9%	100%
Materials	20%	5%	10%	4%	0%	6%	100%
Banks	-12%	6%	21%	14%	1%	11%	80%
Energy	13%	-15%	2%	9%	23%	6%	80%
Financial Services			-2%	25%	4%	4%	67%
IT	53%	329%	-59%	23%	-26%	20%	60%
REITs	-20%	-20%	12%	-31%	1%	-14%	40%
Utilities	15%	-20%	-16%	-14%	31%	-14%	40%
Cyclical Retail			-3%	39%	-10%	-3%	33%
Consumer Services			9%	-6%	-11%	-6%	33%
Industrials	-5%	1%	-3%	-3%	-3%	-3%	20%
Media	-7%	1%	-32%	-2%	-14%	-5%	20%
Healthcare			-16%	-8%	-6%	-11%	0%

* The dates of the first RBA cash rate hikes of previous hiking cycles displayed are 17/08/1994, 03/11/1999, 08/05/2002, 01/10/2009, 03/05/2022. Figure is not all-inclusive and only displays select notable GICS sectors. Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Resources – More Leveraged to Positive Global Factors than RBA Policy

Resources – driven primarily by Mining and Materials – have been a consistent outperformer in the lead-up to RBA rate hikes and during periods where long-term bond yields are rising. The case for the sector is particularly strong in environments like today, where the RBA is on hold or hiking, while the Fed is cutting.

There are several key reasons for this:

1. Resources are primarily leveraged to global, not domestic, growth, making the sector far more exposed to the Fed's policy stance than the RBA.
2. Commodity prices (and resource stocks) tend to move positively with a rising AUD (and falling USD), which is our base case given a more hawkish RBA than Fed. The last time US and monetary Australian policy diverged, in 2002, the AUD surged by ~30% and resources significantly outperformed.
3. Resources provide a natural hedge against the risk of rising inflation.
4. As a 'value' sector, resources are less vulnerable to a valuation de-rate if bond yields rise.

Figure 6: Resources – led by Materials – are by far the most correlated sector to the Australian Dollar

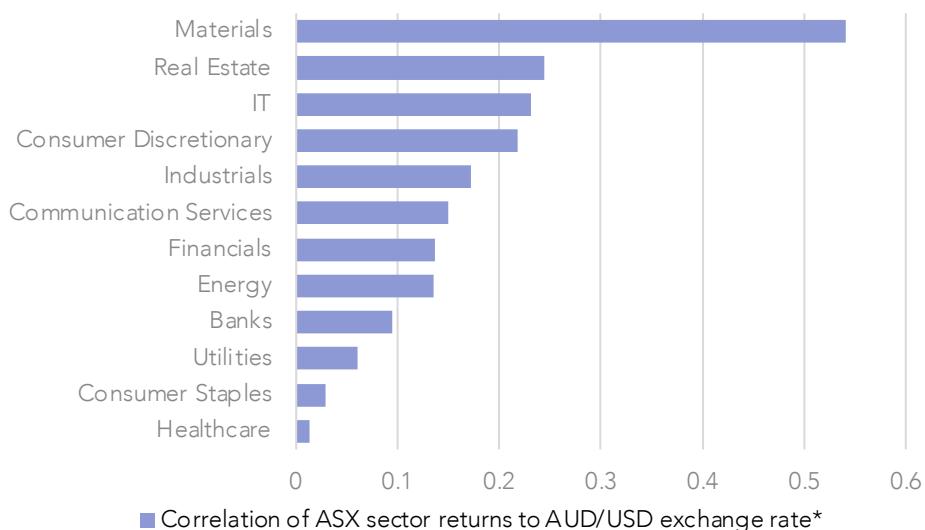


Figure 6 is based on data from the past three years. Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Moreover, as outlined in last week's report, the current commodity upgrade cycle is increasingly being driven by structural demand tailwinds – including re-armament, the AI capex boom, and the energy transition.

Overall, given the sector's higher sensitivity to the global growth pulse than to domestic demand, we remain positive on resources irrespective of the RBA's policy stance. Our preferred large-cap exposures are copper (SFR), aluminium (AAI) and gold (EVN, NST).

Read Resources Revival

Banks – Valuations Remain a Key Concern

Banks have outperformed in the lead up to four of the past five RBA hiking cycles, typically supported by a strong economic backdrop, solid credit growth, benign bad debts, and expectations of expanding net interest margins. This cycle, however, is somewhat different: sector valuations are unusually elevated, which may limit potential headline returns over the medium-term.

With valuations still full, and earnings momentum being mixed across the majors, we remain cautious towards the sector and continue to advocate for an underweight portfolio exposure. Our preference remains for ANZ and WBC, which offer attractive relative value alongside strong capital positions and positive earnings momentum compared to peers.

Read Big 4 Banks – Remaining Underweight and Selective

Consumer Staples – Consistent Outperformer Prior to RBA Hiking Cycles

Consumer Staples have outperformed in the lead up to the past three RBA hiking cycles.

While the sector is exposed to the broader consumer environment, household spending on essentials – particularly food and groceries – is typically highly resilient through the economic cycle. This has historically driven rotations out of Cyclical Retailers and into the more defensive Consumer Staples sector, as the market anticipates tougher times ahead for consumers.

Given the attractive relative valuation of the Supermarket sector (20x forward P/E) versus the Retail sector (28x forward P/E), despite similar medium-term growth outlooks, we see meaningful scope for a rotation into supermarkets over the next year and remain positive towards the sector more broadly. Our preferred sector exposure is Woolworths (WOW).

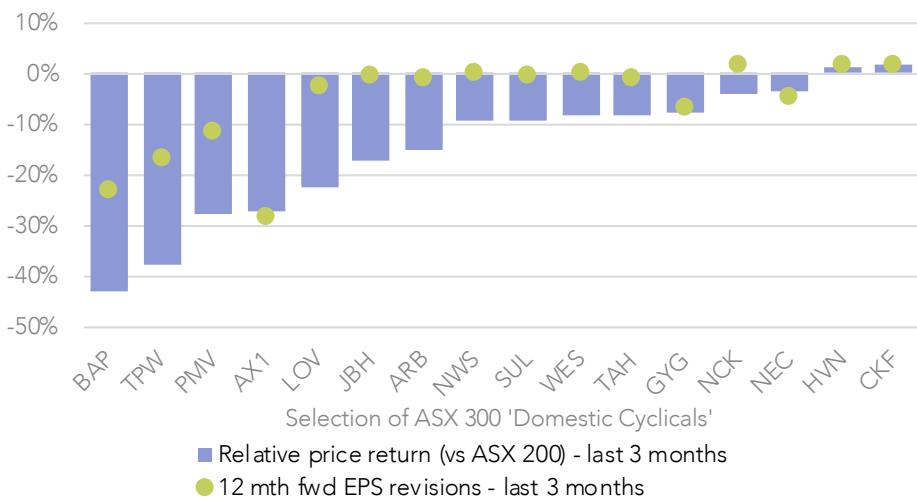
Steer Clear of Domestic Cyclical

Domestic Cyclical – including Media, Retail and other parts of the broader Consumer Discretionary sector – are particularly vulnerable to higher short-term interest rates and typically underperform in the lead up to RBA rate hikes, as investors anticipate a weaker environment for household spending.

The recent pivot from a dovish RBA to a more hawkish on-hold RBA removes a key tailwind for domestic cyclical – a dynamic beginning to show in the sector's recent share price underperformance. This trend started to play out through AGM season and recent trading updates, where management teams broadly cautioned that the consumer backdrop remains uncertain, with limited visibility on the rate outlook and ongoing cost-of-living pressures for Australian households.

In this environment, not only have earnings misses and consensus downgrades been punished (e.g. TPW, PMV, BAP, AX1), but even 'in line' results (e.g. WES, JBH) and guidance upgrades (e.g. CKF) have resulted in share price underperformance. The lack of meaningful EPS upgrades across the sector also suggests consensus is largely 'full'.

Figure 7: Investors have rotated out of Domestic Cyclical in recent months as expectations of further rate cuts have disappeared



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

With valuations still demanding – and well above historical averages – across the large caps (WES forward P/E 31x, JBH forward P/E 20x), we remain cautious on the domestic retail sector and domestic cyclical more broadly.

Within the wider cyclical bucket, our preference is towards US/global earners, which are more leveraged to the Fed's supportive policy stance than RBA policy (ALL, CAR, BXB).

Property and Real Assets – Rising Yields Pose a Tail Risk to Valuations

Long-duration assets – including A-REITs, Utilities, and Infrastructure – tend to underperform when long-term bond yields rise.

This reflects the inverse relationship between yields and net tangible asset (NTA) values, as well as the high leverage across these sectors, which increases the sensitivity of earnings to higher interest costs. This, however, is often partially offset by inflation pass-throughs embedded in lease and concession agreements.

Similar to domestic cyclical, the RBA's pivot to a more hawkish on-hold stance removes a key tailwind for A-REITs and other long-duration assets. However, policy is yet to become an outright headwind with the RBA remaining on-hold.

Plus, in the A-REIT sector specifically, valuations are trading at a ~6% discount to FY26e NAV (net asset values), suggesting some valuation headroom after a period of underperformance.

Looking ahead, our base case is that long-term domestic bond yields will remain relatively contained following their recent significant rise, which should allow sector valuations to stabilise in our view. Accordingly, we are not bearish on A-REITs or real assets more broadly at this stage.

However, the trajectory of yields will be an important factor to monitor closely over the coming months. If the RBA were to adopt a more hawkish bias, we would likely turn more cautious towards A-REITs and other long duration real assets.

Within A-REITs, our preferred exposures are those with healthy earnings growth outlooks underpinned by attractive fundamentals, including data centres and logistical warehouses (GMG), residential housing (SGP), and tier-1 shopping malls (SCG). Each of these sub-sectors is characterised by persistent structural undersupply – reflecting a combination of solid demand trends and insufficient development pipelines to meet that demand – which should provide a degree of resilience in earnings and NTAs even in a higher yield environment, in our view.

Healthcare – Sound Prognosis Despite Prior Cyclical Experiences

Healthcare tends to underperform in the lead up to RBA rate hikes, and the sector's performance has historically shown a meaningful inverse relationship with long-term bond yields.

However, we believe the sector is in a fundamentally different position today compared to previous cycles, primarily due to the significant de-rate in healthcare valuations that has occurred over the past five years. In prior cycles, the sector traded at a substantial premium to the broader market, leaving valuations highly vulnerable to rising yields.

Today, healthcare trades at its cheapest relative valuation in more than two decades – effectively in line with the ASX All Industrials – which may help moderate the valuation impact of higher rates relative to prior cycles.

Figure 8: Healthcare relative valuations are already at 20 year lows



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

Our preferred exposures are global MedTech leaders with positive earnings momentum (RMD) and Radiopharma leaders with significant pipeline upside (TLX) and near-term catalysts.

■ [Read Health Check](#)

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