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MAGAZINE



Investment Insights



OCTOBER 2025

ARE SMALL-CAP
STOCKS POISED FOR A
COMEBACK?

By Roger Montgomery

THE POWER OF
PRIVATE CREDIT

By Roger Montgomery

GOLD IS KING BUT
ARE YOU PAYING TOO
MUCH?

By Roger Montgomery

INSIGHTS FROM
REPORTING SEASON

By Roger Montgomery



MINIMUM INVESTMENT \$25,000

The Aura Core Income Fund aims to preserve capital and provide a stable monthly income through exposure to a diversified pool of Australian private debt assets, predominantly made up of small to medium enterprise (SME) loans.

The Fund aims to achieve a target return of 3.5%–5.5% per annum above the Reserve Bank of Australia (RBA) Cash Rate, net of fees and costs, through the economic cycle. The RBA Cash Rate is 3.60%, equating to a current target return of 7.10%-9.10%^[1] per annum net of fees and costs.

FUND BENEFITS:

- Aims to deliver **stable monthly income**.
- Aims to **perform through the economic cycle**. The Aura Private Credit team's track record has demonstrated that the SME loan asset class can deliver reliable income to investors through disruptive market conditions. Returns are earned from interest generally charged at a floating rate above the RBA Cash Rate.
- **Low volatility** and little correlation to public markets.
- **Exposure to the private debt asset class** that individual retail investors cannot easily access on their own.
- **Access to the investment expertise** behind the highly successful Aura Private Credit Income Fund (available to wholesale clients only).
- A **diversified portfolio** of credit exposures across industries and geographies.

To learn more about the Aura Core Income Fund, please visit www.montinvest.com or call Rhodri Taylor directly on 02 8046 5000 to discuss the strategy.

[1] The Target Return is not guaranteed. The Fund's total return may rise, or fall based on, amongst other things, performance in the underlying loan assets and on movements in the RBA Cash Rate.

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BEST *of the* BEST

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FROM THE EDITOR



Dear readers,

Reporting season revealed a mixed picture this year: while many firms beat expectations, their guidance remains cautious, and that was reflected in their capital-management and capital expenditure plans. What stood out in the post-season washup, especially amid an uncertain global geopolitical backdrop, is that transparency, resilience and clear execution are desired, while disappointment is punished. Consequently, the 2025 reporting season was one of the most volatile I can remember. Individual share prices recorded some of their largest single-day ranges during a reporting season on record.

Speaking of volatility, with markets expected to be buffeted in the next year by geopolitical and liquidity instability and shocks, as well as questions about the sustainability of the artificial intelligence (AI) boom, I believe carefully selected private credit funds can offer a relatively calm alternative. Unlike their frothy public market counterparts, the right private credit fund proposes steady, contractual returns with capital preservation front of mind.

Another opportunity is the contrarian potential emerging in the under-loved small-caps. Even though they have recently begun outperforming their large-cap brethren, smaller companies still trade at comparatively compelling relative valuations. Weak liquidity trends and shallow sentiment are current conditions that often precede turnarounds.

Finally, be careful about gold and other “safe haven” assets. Fear is not an investment strategy and the near vertical recent rise in the gold price, combined with long queues of mums and dads buying bullion hints at a bubble. Past gold bubbles in the late 1970s and in 2010/11 didn’t end with a whimper.

While the bullion price has soared, the fact remains gold produces no income, and surging demand may reflect emotion more than economic logic. My suggestion is the safest havens aren’t always safe, especially for those paying record prices.

These broad themes point to the beginnings of a framework for navigating 2025 and 2026.

- 1. Seek defensive alternatives to crowded equity themes.** Private credit offers a less visible but increasingly mainstream way to access return and diversification when public markets feel stretched.
- 2. We have recently partnered with Digital Asset Funds Management (DAFM) to introduce investors to a fund that profits from Bitcoin’s volatility rather than its direction.** It doesn’t matter whether Bitcoin goes up or down, what matters is that volatility exists. These are the types of funds that we believe investors will increasingly turn to as markets begin to reflect the simmering and potentially boiling geopolitical and liquidity backdrop.
- 3. Lean where the market has forgotten to lean.** Reporting season tells us that fundamentals matter – especially in smaller, nimble companies where execution still drives re-rating potential. This potentially supports the relative outperformance of small-caps.
- 4. Differentiate between safe-sounding and truly safe.** The lure of gold is understandable, but the price matters, and its utility is limited. If you don’t know what you are going to do with your gold bullion, don’t buy it. And if you must own gold, it’s cheaper to buy an exchange traded fund (ETF).

I hope you enjoy reading the latest issue of **Best of the Best**.

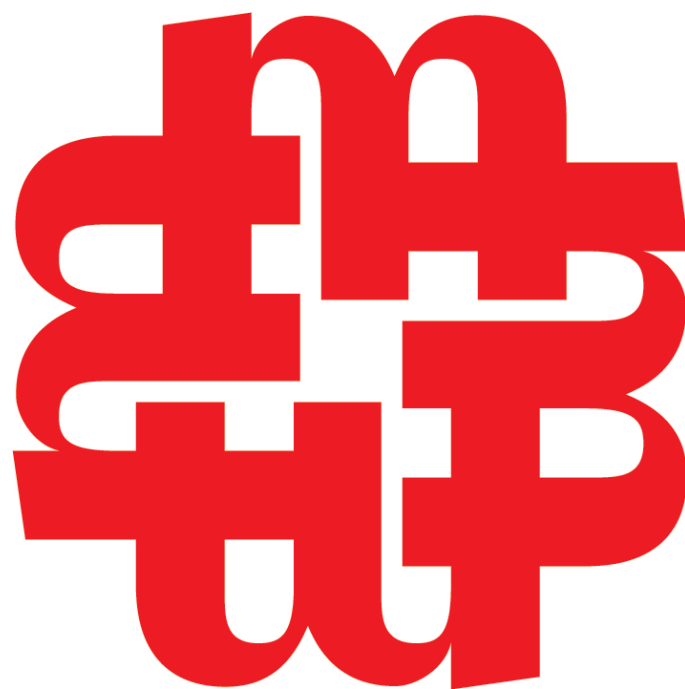
Roger Montgomery, Founder and Chairman of Montgomery Investment Management.





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Are small-cap stocks poised for a comeback?

Roger Montgomery, Founder and Chairman



Small caps are often overshadowed by their larger counterparts but now smaller companies look as though they are undervalued, underappreciated, and ready for potential outperformance. In this article Roger explores the potential benefits of investing in these companies.

The equity bull market has been tough for small company stocks and their investors. The current decade started out with promise. After the short, sharp pandemic bear market in 2020, small cap stocks significantly outpaced the tech-fueled S&P 500 Index during the post-pandemic bull market ending in December 2021. This was partly because the artificial intelligence (AI)-technology darlings hadn't garnered the momentum and euphoria required to concentrate flows of capital and drive the media narratives that produced their immense popularity and stock-market leadership.

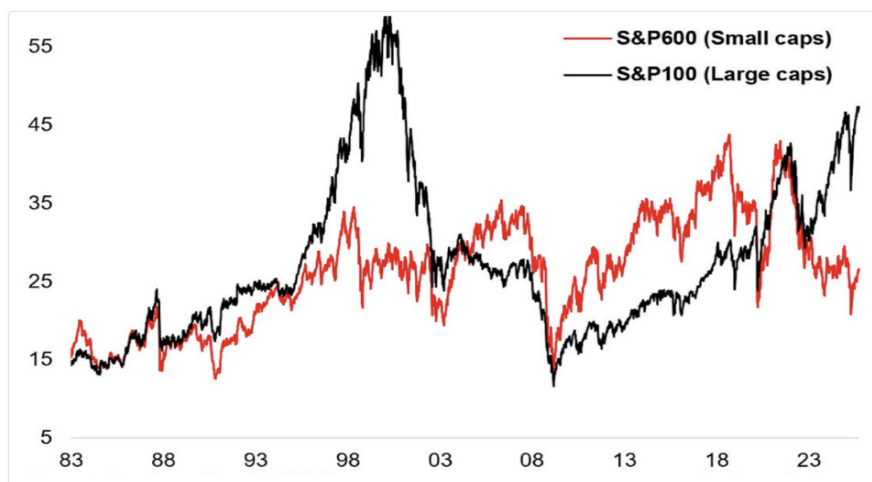
But that was the last time small-cap stocks beat large caps in terms of capital appreciation.

Small-cap stocks in the U.S., however, now appear to be one of the more intriguing opportunities in today's market. Small caps are often overshadowed by their larger counterparts – particularly in this AI-driven boom – but smaller companies look as though they are undervalued, underappreciated, and ready for potential outperformance.

I list compelling valuations and improving market dynamics as just two of the reasons for small caps to outperform at least relatively.

A valuation sweet spot?

Figure 1. P/E Small caps versus large caps (price/10 year average earnings)



Source: London Stock Exchange Group, Topdowncharts

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Compared to large caps, small companies have been trading at a significant discount for some time, with price to earnings (P/E) ratios reminiscent of the lows seen during the 2020 Covid market trough. Small caps also look relatively cheap compared to their historic long-term averages. And when compared to bonds, U.S. small caps still offer a healthy equity risk premium, making them a relatively compelling choice for value-conscious investors.

Sentiment: A contrarian’s dream

Investor sentiment toward small caps has been cold, but that’s exactly why they’re worth investigating.

This year, small-cap equity funds have seen massive outflows, with allocations hitting historic lows. Meanwhile, futures markets show near-record short positioning, setting the stage for a potential short squeeze if sentiment shifts.

Remembering the adage to ‘be greedy when others are fearful’, it could be that there is sufficient relative negative sentiment (or just too much enthusiasm for mega caps) that the stage is set for small caps to outperform.

Figure 2. ETF market share: U.S. small caps



Source: London Stock Exchange Group, Investment Company Institute, Topdowncharts

Figure 2., shows assets under management in small-cap exchange traded funds (ETFs) as a percentage of all U.S. domestic equity ETFs. While the low level is a function not only of flows into large-cap ETFs but also of the price performance of large caps – led by Nvidia and its peers – Figure 2., reveals small caps are nevertheless relatively ignored.

One reason could be that in a world of winner-take-all monopolistic mega-caps, small companies are unlikely to win in business. However, this thinking overlooks the potential pace of earnings growth for individual small companies that are expanding from a small base. And when it comes to big caps, let’s not forget the law of large numbers; Mega caps cannot keep growing at double-digit rates indefinitely, lest they become...well...earth.

And here’s another observation: sentiment is starting to thaw. Recent data shows a slight uptick in small-cap ETF allocations. When an asset class falls out of favour for an extended period of time, and then begins to see renewed interest, it can portend a change of trend, and in this case, a shift in sentiment towards small companies (and maybe away from Mega caps).

Macro tailwinds on the horizon

The macroeconomic environment also appears to be aligning in favour of small caps. With the Federal Reserve poised to launch a new round of interest rate cuts, small caps – often more sensitive to borrowing costs – could be ideally positioned to benefit. Lower interest rates could ease financial pressures on some of these companies, many of which rely on debt to fuel growth.

Interestingly, small caps could also thrive in a scenario where global growth picks up. Unlike large-cap indices, which are heavily weighted toward tech, small-cap indices are also packed with traditional cyclical sectors like industrials and consumer goods. These sectors tend to outperform when economic growth accelerates.

Risks

Risk inheres in all investment cases, and small caps are no exception. A U.S. recession remains a threat. A deep downturn could drag absolute returns lower across the board, including small caps. However, even in a bearish scenario, small caps might hold up better than large caps. Why? Large caps, particularly in tech and AI-driven sectors, are grappling with stretched valuations, speculative froth and even possible irrational exuberance. In a market correction, the AI high-flyers could fall harder, potentially resulting in small caps outperforming on a relative basis.

On the flip side, a short and shallow recession with aggressive rate cuts and fiscal stimulus could actually be a net positive for small caps, further boosting their appeal.

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Small cap stocks are at an intriguing inflection point. They're cheap compared to history, large caps, and bonds. They're under-owned, with investor sentiment just beginning to shift. Macroeconomic factors are aligning, and earnings revisions appear to be turning up.

For investors willing to look beyond the hype of large-cap tech and AI, small caps offer a compelling mix of value and contrarian appeal.

This article was written on 15 September 2025. All prices and movements are on this date.



The power of private credit

Roger Montgomery, Founder and Chairman



In today's volatile markets, investors are looking for opportunities that offer both strong returns and diversification. Roger explores why private credit is emerging as a powerful way to potentially achieve that balance.

In today's dynamic financial landscape, and with public market volatility constantly rising, investors are increasingly seeking opportunities that strike a balance between solid returns and stability and diversification.

Enter **private credit**, a rapidly and predictably growing asset class that's reshaping how investors approach lending and portfolio construction. Unlike traditional bank loans or public bond markets, private credit involves credit funds, providing loans directly to corporate borrowers.

This innovative strategy enables investors to access lending opportunities and returns where banks may be less effective capital providers due to regulatory hurdles, structural challenges, or shifting market conditions.

Why private credit is gaining traction?

Private credit is carving out a significant share of the investment market as shrewd investors seek defensive allocations to shield their portfolios from the volatility of public markets.

By demonstrating a track record of outstanding risk-adjusted returns, private credit investments are also often secured, collateralised, and equipped with robust downside protection features. This includes not only security at the loan level, such as personal guarantees, security over property, or General Security Agreements, but also within the structure of the relationship between the manager and the loan originators, such that the latter must contribute a proportion of their equity as a first loss piece.

This defensive positioning in the capital structure provides a critical margin of safety, while the floating rate nature of returns acts as a hedge against inflation – a key advantage in today's uncertain economic environment.

The benefits of including private credit in your portfolio

Adding private credit to a diversified portfolio unlocks a host of benefits that make it an attractive option for investors seeking both stability and income:

- **Attractive yields:** Private credit offers the potential for **strong, enhanced yields**, providing a compelling income stream compared to traditional fixed-income investments. Our wholesale offering has generated a compounded annual return of 9.52 per cent per annum, with no negative months and no capital loss.* Our retail offering has returned 7.36 per cent per annum, also with no negative months and no capital loss.**

* Aura Private Credit Income Fund returns since its inception on 1 August 2017 to 30 September 2025. Net returns after fees and expenses as at 30 June 2025 and assumes reinvestment of distributions.

** Aura Core Income Fund returns since inception on 4 October 2022 to 30 September 2025. Net returns after fees and expenses as at 30 September 2025 and assumes reinvestment of distributions.

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Past performance is not a reliable indicator of future performance.

- **Low correlation, resilient returns:** Historical data shows private credit returns have low to negative correlation with other asset classes, making it a powerful tool for diversification and resilience in turbulent markets. Our private credit offerings have generated positive returns in all months, including those when the S&P 500 and other stock markets declined.
- **Regular income:** Through **contractual borrower agreements**, private credit delivers **consistent income**, offering investors peace of mind.
- **High quality:** Not all private credit funds are the same. The retail private credit fund holds an externally assessed S&P Equivalent Portfolio Credit Rating of AA. The wholesale private credit fund holds an externally assessed S&P Equivalent Portfolio Credit Rating of BBB.***

*** Portfolio Credit Quality includes cash and is provided by a third-party risk consultant and subject to change. The Fund's assets are not rated by S&P. Data to 30 September 2025.

- **Low volatility:** Because returns are contractually agreed upon, private credit investments are generally **less volatile** than equities.
- **Diversification:** Private credit portfolios are highly granular, with **exposure to a wide variety of borrowers, assets, industries, and geographies**, reducing concentration risk. Each of our funds holds over 10,000 loans across 19 sectors of the economy.
- **Robust fundamentals:** Unlike public markets, which can be influenced by sentiment-driven momentum, private credit prioritises **borrower quality, collateral strength, and repayment likelihood**, ensuring a capital preservation-first approach.

Expertise in private credit

With deep expertise in credit, non-bank lending, and specialty finance, the investment philosophy centres on first, aiming to **protect investor capital** while secondly, generating **regular income**. The proven track record speaks for itself: with an **unbroken history of positive monthly returns**.

Why private credit matters now

As market volatility increases amid geopolitical frictions, trade wars and debate about the sustainability of the AI boom in equities, and as traditional investment options face challenges, private credit stands out as a **resilient, income-generating, and diversified asset class**.

Its ability to deliver attractive yields, alongside low volatility and strong downside protection, makes it a cornerstone for portfolios and a must-consider option. Whether you're looking to hedge against inflation, diversify your investments, or aiming for monthly income, private credit offers a compelling solution.

Ready to explore the potential of private credit? Contact us today on 02 8046 5000 to learn how this dynamic asset class can enhance your portfolio and deliver long-term value.

Retail Private Credit Fund: [Download the Monthly Report](#)

Wholesale Private Credit Fund: [Download the Monthly Report](#)

Disclaimer

You should read the relevant Product Disclosure Statement (PDS) or Information Memorandum (IM) before deciding to acquire any investment products.

Past performance is not a reliable indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

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This article was written on 12 September 2025. All prices and movements are on this date.



Gold is king but are you paying too much?

Roger Montgomery, Founder and Chairman

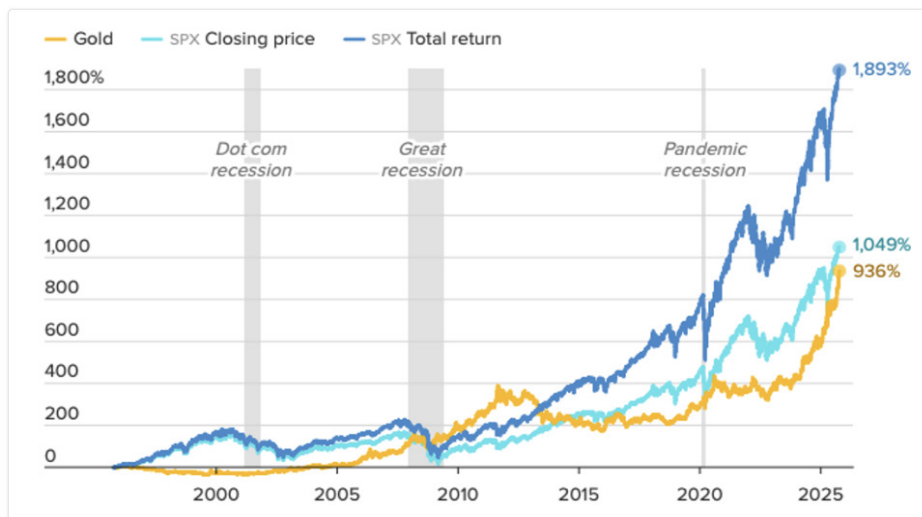


Gold has surged to repeated record highs as investors seek protection from inflation, currency debasement, economic uncertainty, geopolitical tension, and central bank accumulation. In this article Roger asks the question: are investors paying too much?

In recessions, it is said, 'cash is king'. We mustn't be in a recession because the price of gold has trounced cash.

In the last 10 U.S. trading sessions, six all-time highs have been registered in the gold price. And gold isn't the only precious metal receiving a bid. Seven all-time highs have been registered in silver, six all-time highs in palladium, and three in platinum. As an aside, there have also been five new all-time highs in the S&P 500 and one in Bitcoin. All have been on significant volume.

Figure 1. Gold price. September 29, 1995 – October 7, 2025



Source: Factset, CNBC

What's the logic investors and consumers are applying to justify buying gold today? The top five reasons are:

- 1. A hedge against inflation:** Gold tends to retain or increase in value during periods of rising prices, as it can't be printed the way fiat currencies can. For example, during the 1970s inflation spike, gold prices rose by over 2,000 per cent while the U.S. dollar lost purchasing power.

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2. **A safe haven in economic uncertainty:** In times of crisis, such as stock market crashes, recessions, or financial crises (e.g., the 2008 Global Financial Crisis or the 2020 COVID-19 pandemic), investors turn to gold's promise of stability. In 2008, for example, gold gained five per cent, while the S&P 500 fell 37 per cent.
3. **Protection from currency devaluation:** With fiat currencies, for example, the U.S. dollar, prone to weakening due to money printing to finance exploding levels of debt, gold is seen as a store of value.
4. **Geopolitical risk buffer:** Amid wars, trade tensions, or political instability (e.g., Russia-Ukraine conflict driving gold to \$2,000+ per ounce in 2022), demand surges. Gold's track record has helped, with the yellow metal helping to preserve wealth during, for example, the 1973 oil crisis and Brexit.
5. **Central Bank and institutional buying:** Over 20 per cent of global gold reserves are held by central banks, with net purchases of 1,000+ tonnes annually in recent years. China's central bank officially purchased 44 tonnes in 2024 and 39 tonnes, so far, in 2025, bringing its official reserves to more than 2,300 tonnes. Meanwhile, Russia, for example, have been net buyers, holding over 35,000 tonnes collectively as of 2023 (IMF data). This institutional validation signals confidence.

Here's the thing: these arguments were also promoted as reasons to buy gold in 2024, 2023 and even 2022.

A crowd draws a crowd, and new highs beget more buying, especially from those who hesitated in the past. Trends exist because information is distributed unevenly and because investors respond to the information at different speeds.

When prices move sharply upwards, as gold is doing now, it's important to understand that this can be due to those previously hesitant buyers – who might have been waiting for a pullback – finally giving in (throwing in the towel) and buying out of a fear of missing out on further gains.

Given the logic behind today's buying isn't different from what it was three years ago, it's more than likely we're seeing the gold price react to this Fear Of Missing Out (FOMO) buying – an indication that the run might be nearing at least a short-term peak.

Figure 2. The queue at ABC Bullion Company, Sydney, 15 October 2025



Source: Montgomery Investment Management

Figure 2 shows a large queue forming at the ABC Bullion store in Sydney's Martin Place, where people, reacting to news of all-time highs in the gold price, are waiting to purchase physical gold (and possibly silver) with Australian dollars. How can I tell they're buyers rather than sellers? I asked.

This blog, however, is not a prediction of where the gold price will go. It is, instead, an alert about the frictional costs of buying physical gold from stores like ABC Bullion.

(Continued on next page...)



Figure 3. ABC Bullion Buy/Sell price physical gold, 9 am, October 15, 2025

ABC BULLION GOLD		
	BUY	SELL
1oz Gold Bullion Pool Allocated	\$6,543.70	\$6,230.30
1oz ABC Gold Cast Bar 9999	\$6,599.70	\$6,230.30
1kg ABC Gold Cast Bar 9999	\$210,045.40	\$200,302.90

Source: ABC Bullion daily email

If anyone in that queue buys an ounce of physical gold, they will need to pay A\$6,599.70 at the time of writing. That is higher than the spot price of physical gold, which on the same day is A\$6,423.30.

And if they walk out of the store, change their mind merely a second later, and re-enter the store, to sell the same ounce of gold, they will receive just A\$6,230.30.

The difference represents an immediate loss of \$369.40 or 5.5 per cent. That 5.5 per cent is risk-free revenue to ABC Bullion, and it is the 'frictional' cost of trading physical gold.

As an aside, ABC Bullion is a vertically integrated precious metals group founded in 1972 and half owned by Andrew, Paul and Phillip Cochineas. Other shareholders include CEO Janie Simpson, her father Francis Gregg, and presumably others. It retails through ABC Bullion, refines through ABC Refinery, sells into Hong Kong through Goldenage International, offers storage facilities through Custodian Vaults and manufactures the Melbourne Cup trophy through W.J. Sanders. The company reportedly generated A\$18.5 billion in revenue in 2024 – more than Gina Reinhradt's Hancock Prospecting.

Those revenues are at least partly thanks to the massive brokerage the company earns when people trade physical gold. For a buyer of a kilogram of gold bullion, the frictional cost is just under A\$10,000.00.

My question is, why would you pay this if you can gain precisely the same gold exposure through an exchange-traded fund? Buying shares on the ASX-listed ETF GOLD would result in materially lower costs.

The ASX-listed GOLD ETF is managed by Global X, and the Australian administrator is Global X Management (AUS) Limited. The fund's vault is based in London.

Each unit of the GOLD ETF represents a fraction of a fine troy ounce of gold. Buying 107.4 GOLD ETF units would provide equivalent exposure to an ounce of gold, requiring an outlay of A\$6,331.

Importantly, however, a round-trip transaction on the ASX would incur brokerage costs of between \$20 and \$40 through Nabtrade or Commsec – a far cry from the \$370 associated with buying and selling an ounce of physical gold at ABC Bullion.

A kilogram of gold is equivalent to 32.15 Troy ounces. Therefore, buying 32 Troy ounces through the GOLD ETF would incur an outlay of about A\$203,000 and brokerage of just \$220 to \$240 through Commsec and Nabtrade. Double that for a round trip and it is still miles away from the \$10,000 spread you're handing over to ABC Bullion for the same transaction.

So why does anyone buy physical gold?

One reason explained to me is the belief that if anarchy were to break out in Australia, or the nation were invaded, our paper currency would be worthless and having a few ounces of gold would help keep the lights on and food on the table.

The issue with this idea is that in a lawless society, a gold hoard is likely to be stolen or violently appropriated from its holder. Indeed, having stores of physical gold is likely to be a liability rather than an asset in the scenarios contemplated by many who buy physical gold.

And so, buying physical gold is irrational on several fronts. Perhaps leave its accumulation to central banks and those commanding armies. And if your only reason for buying gold, is the belief its price is going to continue surging, buy the ETF rather than physical gold.

This article was written on 16 October 2025. All prices and movements are on this date.



Insights from reporting season

Roger Montgomery, Founder and Chairman



Roger discusses Australia's August reporting season, noting early signs of domestic recovery in consumer and housing sectors amid mixed earnings results and subdued corporate growth.

As August 2025 has now wrapped up, Australia's reporting season has again delivered a snapshot of the economy's trajectory. For years, we've heard the refrain of a "resilient" domestic market weathering global headwinds, interest rate hikes, and inflationary pressures. But this time around, the narrative has evolved. Companies across the ASX are signalling that resilience is giving way to tentative recovery, particularly in consumer spending and the housing sectors.

A domestic economy on the mend

One of the standout themes from this reporting season is the budding recovery in Australia's homegrown economy. Corporate leaders have moved beyond describing the market as "just resilient" – a phrase that's dominated earnings calls for the past three years – and are now pointing to tangible signs of improvement. Over the last two months, for example, consumers appear to be responding positively to easier financial conditions, including lower interest rates and stabilising inflation.

This optimism was vividly illustrated in the post-June 30 trading updates from companies such as Harvey Norman, Nick Scali, JB Hi-Fi, and Super Retail Group.

Sectors tied to consumers and housing are leading the charge, suggesting households are starting to loosen their purse strings after a period of caution. For instance, easier access to credit and reduced mortgage stress seemed to be fuelling demand in retail and property-related businesses. While it's early days, this shift could mark the beginning of a broader economic upswing, providing a much-needed boost to gross domestic product (GDP) growth in the coming quarters.

Of course, in reality, much will depend on what happens overseas, especially in the United States.

Beats and misses

The profit picture wasn't uniformly rosy. There was a roughly even split between companies that beat earnings expectations and those that missed – a departure from the positive momentum we've seen in recent reporting seasons.

It's fair to say, the mixed scorecard highlights a loss of steam in corporate profitability, potentially reflecting lingering cost pressures and an uneven recovery in demand.

Consumer Discretionary stocks, buoyed by rebounding spending on non-essentials like apparel and leisure, demonstrated the most consistent beats against consensus forecasts. Similarly, Health Care companies shone, likely benefiting from steady demand for medical services and innovations. On the flip side, Consumer Staples – think everyday groceries and household items – tended to underperform, possibly due to price sensitivities and competition.



This sectoral divergence highlights the uneven nature of the recovery: while discretionary spending is picking up, staples and heavy industry, which follow the corporate capital expenditure (capex) cycle, are still grappling with the aftermath of economic tightness.

Earnings revisions

According to most observers, analyst revisions to forward earnings estimates have leaned modestly negative, with roughly five upgrades for every six downgrades. When upgrades did occur, they were relatively modest at about +2.5 per cent for next year's earnings per share (EPS), compared to a steeper -4.2 per cent median cut for downgraded stocks.

Sector-wise, Real Estate and Financials bucked the trend with broader upward revisions, perhaps riding the wave of improving housing sentiment and lower borrowing costs.

Overall, the adjustments have shaved about a per cent off the S&P/ASX 200's earnings outlook for both FY25 and FY26. Consensus now predicts FY25 growth at -3.1 per cent (down from -1.8 per cent a month ago) and FY26 at +4.5 per cent (down from +5.4 per cent). While not disastrous, this tempered forecast suggests investors should brace for subdued growth in the near term, remembering if the economy starts picking up, forecasts will be upgraded again.

Offshore influences

Amid the domestic green shoots, companies with international exposures painted a less encouraging picture – with the exception of a few companies like Brambles, ARB and Nick Scali.

Some Industrials reported ripple effects from troubles in the U.S. housing market, where slowdowns in construction and sales are dampening demand for Australian exports. Tariff concerns continue to loom large, adding uncertainty to global trade dynamics and potentially weighing on future earnings.

Artificial Intelligence (AI) emerged once again as a hot topic in boardrooms, with companies touting investments in AI technologies. Yet, as in previous seasons, there's a notable absence of concrete productivity gains or revenue boosts from these initiatives. The MIT report-prompted "AI investment without returns" narrative raises questions about whether the hype is outpacing practical applications, at least for now.

Investors might want to scrutinise any claims closely, separating genuine innovation from buzzword bingo.

Market reaction

Despite the mixed bag, the market's response has been largely positive. For reporting companies, three stocks saw a price-to-earnings (P/E) re-rating for every two that de-rated, with the strongest lifts in Consumer Discretionary, Tech, and Communication Services. This skew aligns with a broader global equity bull market narratives.

So, there's probably little need to credit Australia's market gains to the results. The bullish international backdrop has played a significant role in lifting sentiment.

It's also worth calling out the record share price volatility among reporting firms. Is this an anomaly – related to outdated earnings estimates, or is it structural – driven by rising passive investing and High Frequency Trading? For long-term investors, it probably creates opportunities, especially where the market treats as permanent, that which is temporary.

Disclaimer

The Montgomery Small Companies Fund owns shares in Harvey Norman, Nick Scali and ARB. This article was prepared 4 September with the information we have today, and our view may change. It does not constitute formal advice or professional investment advice. If you wish to trade these companies you should seek financial advice.

This article was written on 4 September 2025. All prices and movements are on this date.



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