

Chris Burrell's Market View Blog

**Happy New Year and best wishes for
a splendid 2026**

At this time of year, the Burrell Team spend a deal of time reviewing portfolios for the previous 6-12 month periods.

The table below shows returns for two client portfolios, one for 12 months to 30 June 2025 and the other for 12 months to 31 December 2025.

	Total Return 12 months to 30 June 2025	Total Return 12 months to 31 December 2025
Domestic Shares	10.37%	13.21%
International Shares	20.82%	22.60%
Domestic listed property	16.60%	14.25%
Domestic Direct Property	13.08%	5.21%
Domestic Fixed Interest	6.11%	5.46%
Total	10.67%	12.32%

Observations:

International

- The international portfolios performed at about twice the return for domestic Australian in the 12 months to 30 June and this continued to 31 December.
- Medium term US and Australian markets have performed about the same, so this divergence is unusual, but explained by the “AI bubble”. A somewhat similar phenomenon occurred during the technology bubble in 1999/2000.

- The range i.e. standard deviation of international returns is wide due to different investment mixes, two of the more popular ETFs/managed fund under performing the direct international portfolios and some domestic stocks being classified by the software as international.

Domestic

- The Australian performance in the second half to December 2025 was affected by the ASX 200 decline from its peak on 21 October 2025 of ~7%, but reversed some of its losses towards year end. The World MSCI did not suffer this decline to 31 December.
- The Australian banks had strong gains over the two years to June 2025, but have started to revert to more sustainable valuations, particularly since Sep 2025.
- Australia has few world class technology companies at reasonable prices.

Value / GARP Stocks

- The focus on AI and technology has pushed the value and growth at reasonable prices (GARP) stocks in most portfolios onto the back burner during this period. This is true in both Australia and for the 493 non-Magnificent 7 (Mag7) stocks in the US S&P 500 index. If you strip out tech from the US P/E of 23x, the P/E is 16x, historically about right. This trend will reverse over time and is not a reason to sell the value and GARP stocks for sound businesses. Rather, this is likely a buying opportunity.

AI updates

- There is a growing concern about the “AI Bubble” particularly in the monetisation of AI searches. Consumers and businesses are used to free searches on Google, funded by advertising. This model will not fund the \$B of capital expenditure for AI data centres. AI service providers will be forced to implement a software as a service (SaaS) model i.e. businesses and consumers paying monthly fees to access Microsoft’s co-pilot, Google Gemini IV and Anthropic-Claude in addition to other LLMs (Large language models).
- Nvidia has announced a new chip, Rubin in addition to its existing flagship Blackwell chip.
- The Chinese are rethinking AI with the creation of chip based neural networks, which harnesses the processing power of thousands of smaller chips, instead of one big powerful chip. Called “SuperPoDs” this system mimics the human brain which comprises ~1T neurons linked together.

The above will lead to a more balanced approach by US investors in particular with more focus on the non-Mag7 stocks in 2026.

The Resource sector

- China slowing growth impacted the Australian resources sector in 2025, with gold and critical minerals being the main exceptions.
- Copper has been strong recently. Iron-ore has a negative outlook due to weaker China and new Simandou production from West Guinea, Africa.
- BYD and CATL, the Chinese battery innovators appear to have invented the paradigm shift in EV batteries, powering vehicles to charge twice as quickly and discharge twice as slowly, resulting in greater EV mileage. These breakthroughs in battery technology are a likely catalyst for a golden age of EVs over the next 15 years. Lithium prices are recovering from multi-years lows in anticipation.

Earnings

- The US earnings have grown at double the rate of Australian earnings for listed companies. This earnings growth differential continued in the September quarter, with US earning growth 14.6% annualized. Mag-7 earnings, particularly for companies like Microsoft and Google with cloud-based applications, have been stellar. 2026 will raise the strategy issue around the next phase – the SAAS revenue models for AI access.

Dogs of the Dow

- The Dogs of the Dow theory says the underperformers of last year may be this year's stars. In Australia, several commentators have mused as to whether this may apply in 2026 to the healthcare sector, which performed poorly in 2025. Rather than a swing trade, is the sector set for a structural re-rating?
- Elsewhere, Lithium and battery minerals have already turned.

Macro

- If the kryptonite for equities markets is recessions, then Superman was safe in 2025 and this continues for 2026. Despite Trump's best efforts with tariffs, neither Australia nor the US have recession on the horizon. The UK remains the weakest of the major economies with parts of the EU, including Germany, not far behind.
- The tension between inflation and unemployment dominated most of the macro discussion for 2025 and remains the focus going into 2026. Unemployment is a lagged indicator, so if an economy slows, unemployment ticks up well into a slow down. There was little concern in Australia of an economic slowdown, but the US tariff impact initially had many economists reducing US GDP by 1% whereas to date only ~ - 0.25% is the consensus effect. Inflation in both Australia and the US remains the key impediment to lower interest rates. In Australia commentary concerning lower interest rates switched too quickly to some seeing increased Aussie

rates in 2026. Central banks don't work that quickly and so a 'no change' scenario may be more likely. The caveat is that in November, The Australian Bureau of Statistics (ABS) began publishing inflation each month, previously inflation was only published quarterly. The problem is that including the November data in the quarterly trimmed inflation printed a 1% number. Dr Johanathan Kearns, Chief Economist at Challenger says "Quarterly trimmed mean inflation has only exceeded 1% in two episodes in the RBA's 32-year inflation targeting history: the pre-Global Financial Crisis inflation breakout and the post-pandemic inflation surge. With the three-month trimmed mean inflation, which mimics the well-understood quarterly measure, over 1% in October the RBA will be moving from a state of being alert to being (moderately) alarmed." (Macro Musings 09 December 2025). The US has delayed tariff inflation flowing through, so Trump's push for 1% rates has a probability of zero.

- Markets largely ignored geopolitical factors in 2025 and did not see a bogeyman in the macro.

The next blog will focus in more detail on Themes for 2026.

Happy Investing.
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Chris Burrell

CHRIS BURRELL

MANAGING DIRECTOR

MFM, BCOM(HONS), LLB(HONS), FCA, SF FIN, MSAFAA

CONTACT US

To find out more about us and the ways in which we can help you, contact us

P 1300 4 2877 355

W www.burrell.com.au

E clientcare@burrell.com.au

B [www.burrell.com.au/
news-and-events/the-burrell-blog](http://www.burrell.com.au/news-and-events/the-burrell-blog)

OUR OFFICES

Brisbane

P 07 3006 7200

Bundaberg

P 07 4153 4499

Gold Coast

P 07 5583 7800

Ipswich

P 07 3884 5700

Sunshine Coast

P 07 5353 5224

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Participant of ASX Group and NSX
ABN 82 088 958 481
AFSL No 247431