

Chris Burrell's Market View Blog

Stay the course?

6 November 2025

AI rally keeps on trucking in spite of the Fed

The Capital Economics report dated 3rd November 2025, opines as follows: 'We think continued robust US growth underpinned by ongoing AI-boom means that while the Fed will not ease policy by as much as is currently discounted, the equity market rally has further to run'.

Capital Economics are based in London & New York and have a US centric focus, but their perceptions have been prescient. Their view parallels that of some Burrell advisors that we are more in a 2004 stock market than a 2007 stock market.

Some other observations from capital economics:

- 'We share Powell's view that fears around the US labour market are overblown and that the US economy is doing just fine.'
- 'Surveys signal continued solid economic momentum in the US. This underpins our view that Treasury yields and the (US) dollar will continue to rebound over coming months.'
- US-China. More a pause, not a peace. The much-anticipated Trump XI meeting culminated in a much-anticipated easing of recent tension. But beyond near-term concessions on tariffs, export controls, port fees, and the entity list, the deeper message was clear: the US and China are still decoupling - a shift that's accelerating global economic fracturing and reinforcing China's push for industrial self-sufficiency.
- 'We think commodities, in general, will underperform most other asset classes over the next year as weak demand and ample supply weigh on the returns from energy products and industrial metals, and the correction in precious metals prices has further to run.'
- Gold's unsustainable FOMO rally, 'our downgrade to the gold price forecast has drawn plenty of media attention and client interests. We now expect gold to end next year at \$3,500 USD, reflecting our view that prices have become detached from fundamentals, such as Central Bank demand and are instead being driven by FOMO (fear of missing out)'.

- The Capital Economics view does not preclude a 10-20% correction in the US over the next 12-18 months. Key protection is to avoid growth companies on high valuations.

The Banks

When your diarist was at university, we were taught to pay 10x earnings for a stock that wasn't growing, 12-13x for a bank, because every six to seven years, they did something silly (refer to BOQ currently, which is doing anything but looking after the interests of Queenslanders) and then 15x for Wesfarmers growing at 15% with a 5% dividend and if pushed, up to 20x for a growth stock producing 20% growth. The US market has shown earnings growth in the recent quarterly earnings of 13%, more than double the Australian earnings growth.

In this benign Australian earnings environment, it is right to query some of the valuations. The biggest conundrum lies with the banks. Consider the Westpac report on 4th November 2025. Westpac is currently trading on a P/E of 19x, disconnected from value. Earnings were flat. Expenses were up more than revenue growth. What to do? Is the market pricing in AI gains for banks and looking through the Westpac Project Unite to lower its cost to income, currently at 53% towards the benchmark CBA cost to income of 46%? Westpac was cum dividend 77 cents or \$1.10 including franking credits. The ex-dividend date was 6 November 2025. Many clients are overweight Westpac and at \$40 it may be that the excess above the Burrell 35 weighting should be rotated into some of the more attractive stocks in the categories below. Several analysts have valuations around \$32 for Westpac and these numbers seem more appropriate than the current market price nudging \$40.

Another valuation indicator is price/book value historically, 1.3-1.5x would be an appropriate multiple, whereas the current price/book value for Westpac is 1.89 and for CBA an astonishing 3.8.

Value stocks

Post the August/September reporting season, there are a number of value stocks that have fallen to attractive levels. These include the likes of Sonic Healthcare (SHL) down from \$30 to around \$21. Sonic has as its core business pathology, which has growth drivers from increasing pathology tests for all conditions, baby boomers, science driven search for blood detection of disease and genome testing. With only about a quarter of its income in Australia and being number one in Germany, Switzerland, and number three in the USA, the current price for Sonic Healthcare looks attractive. There are several other stocks in this category, where your advisor(s) may be of assistance.

Growth at reasonable price (GARP)

Within the Australian context, there are a number of stocks showing growth characteristics, which are not on demanding valuation multiples. For example, Resmed (RMD) continues to grow its sleep apnoea business, with several analysts, having targets \$10 above the current market price. Again, there are several GARP stocks, which would be useful additions to a portfolio.

Fixed interest

The Australian regulator for banks (APRA), has issued an edict that banks will no longer be allowed to issue hybrids, which mature beyond 2030. In your diarist opinion, this edict is ill advised. Australia has

followed the international criteria whereby some hybrid lenders in the Credit Suisse case were extinguished before shareholders. A recent case indicates that all involved in this matter were wrong. Rather than outlaw a useful asset class, which, on a risk/return basis, has been useful to many investors, the simple solution would be to not follow Europe in allowing wide legal clauses under which an extreme event can cause some of the new hybrids to lose all their value. This was never the intention of hybrids and the announcement by banking regulators to change the rules has muddled the markets. Bank hybrids in Australia are akin to fixed interest securities, and the banks have regarded them as such. They've been a relatively low risk form of enhanced yield, as the banks cannot pay any ordinary dividends, unless they've first paid the distribution on the bank hybrids. This dividend stopper has ensured good behaviour by the banks and excellent returns for investors.

The question becomes what to do in place of bank hybrids. There will still be new hybrids from some of the non-banking holding companies such as Suncorp, Macquarie, and Challenger. For wholesale investors, there will be an increased eye on the wholesale debt markets, and the Burrell fixed interest desk has performed handsomely in securing such issues for clients. There are also other forms of fixed interest that are relatively low risk, e.g. Retail Mortgage-Backed Securities (RMBS). These have not defaulted in Australia and are simply the securitisation of some of the banks' mortgages at attractive lending rates.

Burrell are inclined to now move some of the fixed interest book to 3–5-year maturities. Shorter maturities have falling interest rates, although not at the rate that the Treasurer may prefer. The long rates (10 years) are a little unclear, given the inflation outlook. Adding some 3–5-year duration is useful, and the Burrell fixed interest team can assist in this regard. There are several exchange traded funds (ETF), which are useful in this regard.

International

In previous blogs over the past year, we've recommended clients consider increasing their international weighting to a minimum of 10%. For those portfolios which did so, the 15-20% returns in the 2025 FY eclipsed domestic Australian returns by a handsome margin. Based on the Capital Economics view above, it seems that we should hold the course on international equities. Clients can achieve this through ETFs, managed funds, the Burrell World Equities Trust (BWET) and by direct international shares including those from the BWET 28 Model portfolio.

A recent purchase was Salesforce. Salesforce is the leading global CRM (Client Relationship Management) sales software. For some reason, the market was concerned that Artificial Intelligence (AI) might detract from their offering, whereas in fact, AI helps businesses with large client bases look for attributes, e.g. clients who haven't been in the office for 12 months, or those who may not have traded or engaged for 12 months, etc. AI is an enabling tool for client databases and Salesforce has led the way with Agentforce as one of its software offerings.

Artificial Intelligence

The AI theme has dominated the magnificent-7 (Mag7) stocks and the recent reporting season saw handsome gains as these stocks reported increased cloud, data centre and usage statistics. An interesting interview on Bloomberg, which your diarist saw in recent days answered the question as to how these companies will make money from AI. After all, we are used to a Google search or even a chatGPT search that

costs nothing. The lead Bloomberg AI analyst commented that AI will be paid for, not by advertisements such as the current Google search, rather one will pay for ChatGPT (other than the basic level) and for other AI products, such as Google's Gemini or Anthropic. These are simply different LLM's (Large language models) from different suppliers. Microsoft is moving to offer all of these on its platform, but it will be on a subscription model. Burrell is reluctant to chase chip stocks such as Nvidia on a US\$5 trillion valuation. Rather we see value in adding, say,

Salesforce on a reasonable earnings multiple, which will benefit from AI.

In other news

- China makes an error in refusing to export rare earth magnets to the rest of the world. Australian listed rare earth producers, including Linus and Brazilian rare Earths are likely beneficiaries of this era by China.
- Queensland Government makes a major error in not reducing coal royalties, making Queensland coal mines uncompetitive, and causing a freeze on investment in coal in Queensland.
- The Australian Government continues to head towards the cliff, dragging many over the renewable energy mirage. Balanced energy policy based on cost and sustainability remains elusive. In the absence of a bipartisan energy policy, companies won't invest.
- Macquarie's share of the home loan market continues to grow above system +22% to in excess of \$150B or 6.37% of the Australian market. In contrast, BOQ at \$55B has been in reverse for 14 consecutive months. Oh, for a Queensland director! ANZ is at 13.5%, Westpac 20.7% and CBA at 25.3%. Having extolled the virtues of home lending for the last five years, all the banks seem to have miraculously discovered that maybe they should be looking at business banking.
- 'Private credit' is a much-maligned term to cover many lending arrangements outside the banks. There are some very solid private credit offerings, but this is not the case across the board. Jamie Dimon, CEO J.P. Morgan Chase made the comment, 'There are more cockroaches to come from private credit'. Of course, he has a vested interest, but we do need to be careful in this regard.
- Battery minerals and healthcare have underperformed over the last 18 months. The view is that both these sectors are showing green shoots. The Chinese battery makers, including BYD (a BWET28 stock) appear to have made the breakthrough with lithium batteries which means cars will go twice as far and charge twice as quickly. This should lead to increased demand for lithium over the next few years and increased prices. In healthcare, this has been a swing trade over the last few years, but it now looks set for a structural re-rating.
- AUB, the Australian insurance broker has received an attractive bid from EQT. EQT are a Swedish private equity firm, have walked away from several deals previously. However, they have three insurance businesses, and it may be that the AUB ownership of TYSER, a member of Lloyd's of London would be the glue to cement their insurance businesses. AUB is a Burrell 35 Stock. One to two M&A deals per annum helps portfolio returns, so let's hope this one goes the full course. The golden rule is wait until the end, but EQT, as do all private equity firms, require careful watching. STOP PRESS: The large US private equity firm, CVC Capital have joined EQT in the bid for AUB.

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Summary

There is much are going on in financial markets. While some valuations are stretched, capital economics continue with a view that we should stay the course. But we should be careful of momentum and sentiment and remain more anchored in valuations and research. Overweight bank positions in Australia look susceptible to correction. Other areas in the Australian markets seem more attractive. There remain many value and GARP stocks where satisfactory returns are on offer.

Fixed interest is challenging as term deposit rates fall, and hybrids are phased out by APRA. Talk to the Burrell fixed interest desk as to how to add some other arrows to the fixed interest quiver.

Happy investing



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