# relianceScience

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## Month in Review
## Market Insights

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# Economic Update
## December 2025

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## Market Key Points:

- The macroeconomic environment muddles on.
- Gold's meteoric rise has been predominantly supported by central bank buying, and more
- recently retail investors in the form of physical gold and ETF investments
- Despite exponential price gains, structural drivers such as US fiscal concerns, dollar status, and geopolitical risk remain, warranting a cautiously positive long-term view.
- It seems bad news is good news once again, with US markets rallying for the final week of November as odds for a December rate cut recover to 86% (having briefly dropped below 30% the week prior). This comes after several US Federal Reserve representatives turned more dovish amidst some softer US economic data.
- Whilst this strong lead from the US dragged Australian shares higher (led by small caps and resources), gains were held back by a further rise in local inflation not only putting a final nail in hopes for additional RBA rate cuts, but seeing several economists pencil in the next move in rates as higher by later next year. A fall in the US dollar and widening expected interest rate differential to the US saw the AUD rise +1.9% for the week.
- This final week gain saw the S&P 500 close out the month +0.2%, having drawn down almost 5% at one point on a prolonged US government shutdown, hawkish intra-month sentiment from the Fed, and further scrutiny around the strong AI thematic. A more bullish narrative returned in time for Thanksgiving, with a sharp shift in odds of further likely rate cuts buoying a market already anticipating double-digit earnings growth.
- Continued mixed US economic data included a sharp drop in November consumer confidence, a September core Producer Price Index (PPI) reading which showed a 2.6% yearly rise (the least in more than 12 months), whilst initial jobless claims fell for the third successive week to 216,000, the lowest level since February
- Local economic news was dominated by the surprise rise in trimmed-mean inflation for the month of October to 3.3% year-on-year. This was above market expectations, broad-based across both goods and services, and clearly above the upper bound of the RBA's 2-3% target band.

## Macro and labour conditions continue to plod along

The delayed release of the September US employment data held a positive surprise, silencing critics that labour conditions are crumbling. Granted the official data is stale, alternative data sets like the US Federal Reserve Bank of San Francisco weekly labour market stress indicator and ADP National Employment Report paint a more benign picture of US labour conditions that are subdued at worst. Labour market stress remains low and according to ADP, the US added 42,000 workers in October 2025.

Our focus on the Big 4 (US, China, Europe and Japan) show that the services sector (the dominant portion of their respective economies) remains healthy as seen through the Services Purchasing Manager's Index (PMI) which remains well above 50. Similarly, retail sales remain broadly positive as a sign that household consumption continues to hold up. Even the recent "weak" US retail sales figure still represented 4.3% YoY nominal growth or 1.3% in real terms which is hardly alarming. Overall, our broad set of indicators paints a benign macro picture with the potential for upside surprise as we move into the new year.

## A special look at Gold

Gold has delivered extraordinary returns since the start of 2020, rising over 170% at the time of writing and more than doubling since February 2024. This is in stark contrast to the modest 28% rise in the preceding five years. This surge has outpaced major asset classes and reflects a mix of cyclical and structural forces. While inflation, monetary policy expectations, and shifts in investor sentiment continue to shape short-term dynamics, deeper factors – such as persistent geopolitical uncertainty, the strategic accumulation of gold by central banks, and questions surrounding US fiscal sustainability have increasingly underpinned demand.

Since its mid- October peak, gold is down approximately 5%. From a technical perspective, gold appears overextended on some measures and suggest heightened market fragility, making corrections or consolidation both healthy and expected, with the potential for sharp and deep reversals remaining elevated.

ETF inflows, largely from US and Europe but more recently China and India, have been the dominant driver of gold prices in recent months, primarily reflecting momentum- driven investor demand. Recent volatility has been influenced by profit-taking and derisking, alongside buyers stepping in on dips, which could limit the depth of reversals. Citi Research estimates that gold stockholders are holding 26,000 tonnes at present, up from 15,000 tonnes at the end of 2023, meaning even a modest 1% reduction in holdings could flood the market and overwhelm supply.

Although gold stockholders tend to be relatively sticky, large ETF sell-offs have occurred before, notably in 2013, in response to improved US growth sentiment. Structural drivers of gold demand remain robust. Central bank demand is unlikely to be exhausted, and broader concerns including US debt levels and fiscal deficits, the status of the US dollar, elevated geopolitical risk, and Fed independence are unlikely to subside, providing support to prices. Cyclically, gold continues to offer a hedge against downside risk amid a finely balanced US growth outlook. From a portfolio management perspective, gold maintains a structural role in providing diversification and protection against inflation, geopolitical shocks, and economic slowdowns. In the near term, however, volatility is expected to remain high, with sharp pullbacks likely, suggesting that disciplined rebalancing through both reversals and extensions is prudent.

## Christmas Office Closure

As the year comes to an end, we'd like to extend our sincere gratitude for your trust, your support, and the referrals you've shared with us throughout 2025. It has been a privilege to guide you and your loved ones through another year of planning, progress, and financial clarity.

Our team has worked incredibly hard this year, and they will be taking a well-deserved break over the Christmas period. Our office will be closed from 24 December and will reopen on Monday 12 January. During this time, if anything urgent arises, please send an email to emailus@reliancewm.com.au with the word "Urgent" in the subject line.

Although we'll be on break, we will check these messages and be in contact where needed. Thank you again for your continued support. We hope you have a safe, relaxing, and joyful Christmas season, and we look forward to working with you in the new year.

**Contact us on 03 9589 8888 or emailus@reliancewm.com.au to set up an appointment today.**

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