Economic and Market Commentary December Quarter 2025

Equities rose while bonds and property lagged, as global inflation eased and central banks began winding down tightening cycles.

Markets delivered a more nuanced performance in the December 2025 quarter following the strength seen in September. Most equity markets posted solid gains, while interest rate-sensitive assets such as bonds and listed property struggled as yields edged higher. The NZ dollar continued to weaken, albeit less dramatically than before, which boosted unhedged overseas equity returns. Emerging markets extended their rally and outpaced developed markets, while New Zealand's share market rose modestly amid a sluggish economic recovery. Diverging macroeconomic conditions were a key driver of these outcomes. The U.S. economy remained resilient, prompting only cautious easing by the Federal Reserve, whereas New Zealand, Europe, and China continued to require low interest rates due to persistent economic softness. Notably, the Reserve Bank of New Zealand signalled that its rate-cutting cycle may be nearing completion, with the Official Cash Rate currently at 2.25%—a level that underscores how far rates have already fallen.

Currency effects narrowed the gap between hedged and unhedged returns, with emerging markets leading and New Zealand equities lagging.

Global equity returns in NZD terms were higher on an unhedged basis (around 4.1%) than hedged (around 3.1%) for the quarter. Over the year, returns converged at approximately 18% for both currency positions, a reversal from the year to September when unhedged returns significantly outperformed. This shift highlights the difficulty of forecasting currency movements and reinforces the value of maintaining a mix of hedged and unhedged exposures to reduce portfolio risk. Emerging market equities returned approximately 5.7% in the quarter and ended the year up around 30%, outperforming developed markets. In contrast, New Zealand equities rose by about 2% in the quarter and 4.1% over the year. Australian shares were nearly flat for the quarter but gained around 15% for the year in NZD terms. Style factors had limited impact, with value stocks performing broadly in line with the market and small-cap stocks underperforming slightly over the year.

Fixed income and real assets faced headwinds from rising yields, while alternatives like gold and trend strategies added diversification value.

Bond market returns were subdued to negative. New Zealand investment-grade bonds declined by approximately 0.2% in the quarter but gained 5.1% over the year. Global bonds posted a modest 0.4% return for the quarter and around 3.7% for the year. Rising longer-term interest rates, particularly in the U.S., weighed on fixed income performance. Listed property and infrastructure also faced headwinds, with global infrastructure rising 1.9% and global property falling 0.5% in NZD hedged terms during the quarter. Over the full year, listed infrastructure delivered strong returns of around 16%, while listed property returned approximately 7% Alternative assets such as gold and trend-following strategies continued to perform well, offering valuable diversification and outperforming global bonds over the year.

Broad-based equity gains across regions

Unlike 2024, when U.S. mega-cap tech stocks dominated returns, equity gains in 2025 were more broad-based. Non-U.S. markets and emerging economies highlighted the importance of global diversification as market leadership rotated.

contributed meaningfully, and portfolios with global diversification benefited from this shift. Market leadership rotated across regions and sectors, reinforcing the importance of maintaining broad exposure. Diversification remains essential to capturing a wide range of opportunities while mitigating the risk of underperformance in any single segment. Our feature this quarter discusses the role of equity factor investing in this regard.

Figure 1 – Asset class performance over the December quarter and 2025 calendar year