Weekly economics podcast: Market drivers September 2025

By Perpetual Corporate Trust

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Risk assets mostly rose strongly again in September assisted by the US Federal Reserve's first rate cut this year. Economic data showing that the global economy is continuing to muddle through President Trump's chaotic economic policy program also helped. US economic growth on final revision was surprisingly strong in Q2, close to 4% annualised, and appears to have stayed almost as strong in Q3. Countering the good news from mostly stronger-than-expected economic growth, inflation appears stickier and in some countries such as the United Kingdom and Australia, is rising. Central banks are coming to the end of their rate-cutting cycles, even the US Federal Reserve, that has only just started to cut rates again.

Share markets rose for the most part in September. US share markets made repeated record highs in the month driven by the AI thematic but assisted by the Federal Reserve's 25bps rate cut at its September policy meeting to 4.25% with the seeming promise of more to come. The Fed cut rates for an economy that grew at 3.8% annualised pace in Q2! The US S&P 500 rose by 3.6% in September after lifting a similar amount in August. It was not the fastest rising share market in September. That accolade goes to Hong Kong's Hang Seng, up 7.1% with Japan's Nikkei not far behind, up 5.2%. On the weaker side in the share market growth league were Germany's DAX, down 0.1%, and Australia's ASX 200, down by 1.4%. Australia's bottom

rung performance in September was driven by inflation kicking up more strongly than expected in both July and August causing the RBA to hold the cash rate at 3.60% and destroy expectations of future rate cuts.

Credit markets remained strong in September with spreads continuing to close in on the lowest margins over government securities on record. The Australian credit market, even on low spreads, continues to looks attractive and relatively safer than the US market. Australian households remain in a strong position to meet their debt servicing, even though debt levels are high. Rising household disposable income, helped by rising real wages, falling mortgage interest rates and lower income tax through 2024-25 are enabling households to meet their high debt servicing requirements.

Australia's comparatively strong economy and rising inflation took a toll on the Australian bond market in September. The 2-year government bond yield rose by 15 basis points (bps) to 3.48% and is the clearest marker of how market views about the prospect for RBA rate cuts has changed, and sharply, over the past month from penciling in at least two more rate cuts, to now none in the wake of the RBA's latest policy meeting. The 10-year bond yield rose by 2bps in September to 4.29%. The lift in yield was less than for shorter-dated bonds, but is remarkable in a month where US bonds rallied.

What changed for the Australian bond market in September was the release of the July and August CPI readings showing annual inflation lifting from 1.9% y-o-y in June to 2.8% in July and 3.0% in August. Some lift in inflation was expected after June with the ending of State Government energy rebates and a turn from sharply falling annual change in electricity prices to sharply rising. Relatively high change in some other CPI components, such as insurance premiums, was not expected. As a result, the upward blip in Australian inflation in 2025-26 is likely to be bigger than the RBA forecast back in August and stronger than forecast household spending means that the inflation blip may not come down as much as previously forecast in 2026-27. The leeway the RBA thought it had to cut the cash rate slowly through 2025-26 has disappeared.

The US was in a different position to Australia in September starting the month with a much higher official interest rate than in Australia, 4.50% against 3.60% in Australia, and with recent inflation readings holding steady in high 2% territory. The Federal Reserve was not only in a position to cut the Funds Rate at its September policy meeting, but could also point to a cautious round of further cuts ahead. US bond markets rallied in September, even in the face of high US government debt, and the Administration's attacks on the policy independence of the Federal Reserve. The US 2-year bond yield fell by 1bp to 3.61% in September while the US 10-year bond yield fell by 8bps to 4.23%.

In the next few months, we see inflation lifting in both the US and in Australia. The leeway the US Fed has to cut the Funds rate further is likely to diminish. For the RBA the last two monthly

CPI readings destroyed what leeway it thought it had back when it produced the August Monetary Policy Statement to continue cutting the cash rate. A long phase with the cash rate stuck on 3.60% lies ahead in our view and with the growing possibility that when the next cash rate change comes, it will be a hike, not a cut.

Bond yields in both the US and Australia look set to lift at times closer to 4.00% yield for shorter-dated bonds and above 4.50% for 10-year bonds over the next few months. Higher bond yields are likely to provide a headwind and perhaps much worse to the enthusiasm pervading investment in risk assets in our view.

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