

A photograph of a white lighthouse with a black top, situated on a small rocky island in the middle of the ocean. The sun is setting on the right side of the frame, creating a bright orange and yellow glow that reflects on the water. The sky is a mix of blue and orange. The lighthouse is illuminated from within, and its light is visible. The water is calm with gentle ripples.

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The selective path

October 2025

“Inside every cynical person, there is a disappointed idealist.” – George Carlin

It has not been difficult this quarter to peruse the financial press and read about lofty valuations, the AI boom and market distortions caused by the rise of select mega-caps.

At the same time, many market participants preached that the market is always right; many, it seems, now cynically wonder – is it still right?

Patience, we think, rather than cynicism, is the answer, and this year’s markets provide an example of that. For many years, we have reinforced that gold miners, relative to the price of gold, represented a value opportunity. For the last few years, as the gold price rose, its miners barely moved. At the same time, if the gold price did fall, its miners exhibited their leverage. 2025 has been different; miners are exhibiting operating leverage as the gold price rises. Gold mining equities were the best-performing sector over the past quarter, as they have been for this calendar year. The market gets there in the end. Idealists need not be disappointed.

The US Federal Reserve (Fed) cut rates this past quarter, as it tries to kickstart a faltering labour market. Cuts in response to economic weakness typically have markets on edge about the threat of recession. That does not appear to be the case this time, even bond markets seem to be anticipating a muddle through.

Elsewhere in markets, optimists seeking the youthful exuberance of small companies have been rewarded over the past quarter. Globally, communication services and IT were the standout sector performers.

Naturally, there are concerns about echoes of the AI rally and the late 1990s dotcom boom. But there are a few key differences, the current AI rally has given the market a second kickstart (US equities had been falling in 2022 until ChatGPT’s release in November of that year, and it’s been on an upward trend since then). The AI boom is more concentrated to the US.

What’s the same? No one knows the peak. Cynics are watching from the sidelines; smart idealists are being selective. In every market, there is an opportunity.

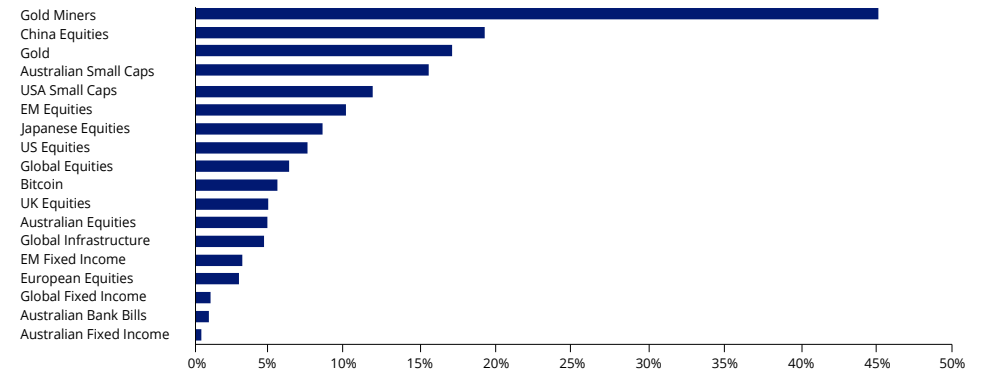
Locally, the materials sector performed best last quarter, as companies benefited from the rise in the gold price and a rise in lithium’s price (on the back of supply-side disruptions in China). Healthcare is a notable laggard, highlighting the danger of concentration (one company accounts for the fall, while the rest of the sector is mostly flat). It was an extraordinary August reporting period, 20% of S&P/ASX 200 companies experienced price moves of greater than 10% on the day they reported.

We remain idealistic, cautioning patience and selectivity. Long-term opportunities exist, but taking benchmark or herd-like investment approaches could be problematic. A pure MSCI World approach may have too much AI, a growth sector in which we think selectivity will be key. Concentration risk remains a feature of the Australian bourse. Opportunities within these markets may be accessed by diversifying elsewhere. Smaller companies take time to grow.

“The stock market is designed to transfer money from the active to the patient.”

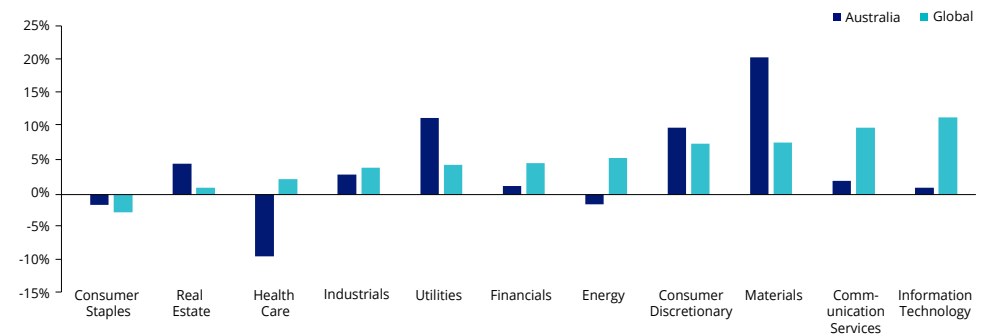
– Warren Buffett

Chart 1: Mainstream asset class returns for the quarter



Source: 1 July 2025 to 30 September 2025, returns in Australian dollars. Gold Equities is NYSE Arca Gold Miners Index, US Equities is S&P 500 Index, International Equities is MSCI World ex Australia Index, European Equities is MSCI Europe Index, UK Equities is FTSE 100 Index, Australian Equities is S&P/ASX 200 Accumulation Index, Australian Small Caps is S&P/ASX Small Ordinaries Index, Gold is Gold Spot US\$/oz, US Small Caps is Russell 2000 Index, China Equities is CSI 300 Index, Global Fixed Income is Bloomberg Global Aggregate Bond Hedged AUD Index, Australian Bank Bills is Bloomberg AusBond Bank Bill Index, Australian Fixed Income is Bloomberg AusBond Composite 0+ yrs Index, EM Fixed Income is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified, EM Equities is MSCI Emerging Markets Index, Japanese Equities is Nikkei 225 Index, Global Listed Infrastructure is FTSE Developed Core Infrastructure 50/50 Hedged into Australian Dollars Index, Bitcoin is The MarketVector™ Bitcoin Benchmark Rate. Past performance is not a reliable indicator of future performance.

Chart 2: Global and Australian equity sectors quarterly performance



Source: 1 July 2025 to 30 September 2025, returns in Australian dollars. Utilities is MSCI World Utilities Index / S&P/ASX 200 Utilities Index, Industrials is MSCI World Industrials Index / S&P/ASX 200 Industrials Index, Materials is MSCI World Materials Index / S&P/ASX 200 Materials Index, Consumer Staples is MSCI World Consumer Staples Index / S&P/ASX 200 Consumer Staples Index, Consumer Discretionary is MSCI World Consumer Discretionary Index / S&P/ASX 200 Consumer Discretionary Index, Financials is MSCI World Financials Index / S&P/ASX 200 Financials Index, Energy is MSCI World Energy Index / S&P/ASX 200 Energy Index, Healthcare is MSCI World Health care Index / S&P/ASX 200 Health care Index, Telecommunications is MSCI World Telecommunications Index / S&P/ASX 200 Telecommunications Index, Information Technology is MSCI World Information Technology Index / S&P/ASX 200 Information Technology Index, Real Estate is MSCI World REIT Index / S&P/ASX 200 AREIT Index. Past performance is not a reliable indicator of future performance.

No room for error

Interest rate cuts don't occur without a reason.

Sometimes, there's a cheerful reason, like falling inflation allowing a central bank to stimulate economic growth and drive asset valuations further.

And sometimes there's a grim reason, like a stalling job market requiring a central bank to start supporting the economy.

The Fed's Personal Consumption Expenditure (PCE) deflator target is 2%. The actual PCE is 2.6% and it is rising. Core inflation is even higher. Yet the Fed is cutting.

This should indicate the type of reason for the Fed's September cut. The current Fed easing is an exercise in backstopping a sputtering labour market, rather than (to paraphrase former Fed Chair Alan Greenspan) spiking the punch to get the party really going.

The combination of government sackings, tariffs, uncertainty and supply-side woes has led to a slide in employment growth to around a meagre 25,000 jobs a month.

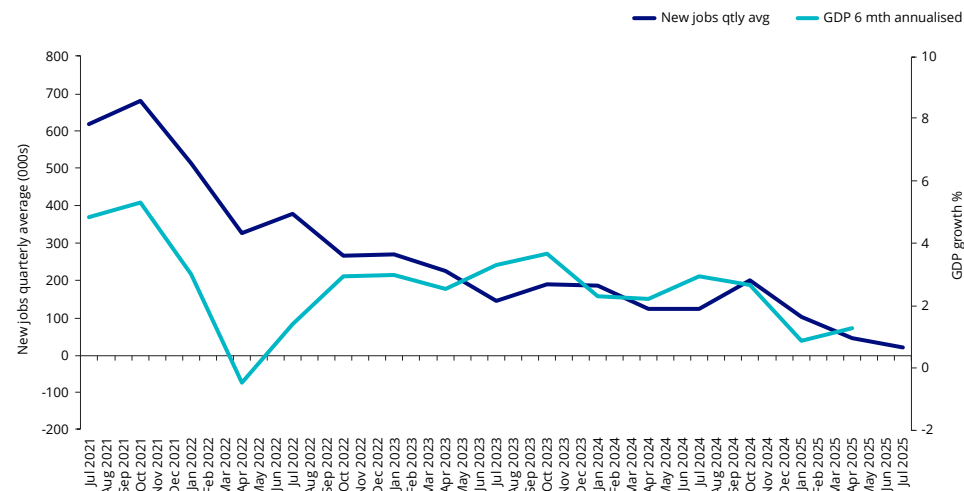
Why is the jobs news worse than the growth news? Because jobs aren't just linked to production, they also feed household income, in turn fuelling future spending. No job growth leads to no income growth, which leads to no spending growth.

Employment is weak for two reasons, with only the first being the usual: softer demand. This time, softer demand is bumping into weaker supply, as immigration constraints soften population growth and the supply of labour.

So, it's worth pondering, can the Fed simply stimulate the economy until growth heads back to its highs and employment growth pushes back up into the 100,000 to 150,000 band again? Not likely.

Chart 3: GDP and jobs are sagging

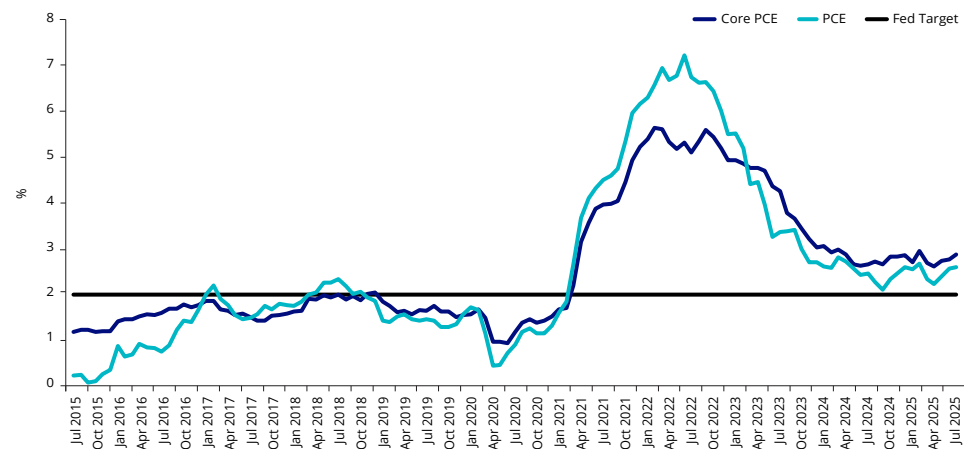
GDP and total non-farm new jobs



Source: Federal Reserve Bank of St. Louis.

Chart 4: Inflation above the Fed's target, and heading the wrong way

US PCE



Source: Federal Reserve Bank of St. Louis.

The Fed's challenge

The Fed is in a corner because labour force growth has been so shrunken that the economy can probably only sustain a maximum of around 50,000 jobs a month while holding unemployment and wage growth steady. Unless, of course, the US Government abandons its immigration policy. And wage growth is already likely too high for a 2% inflation target.

So, the Fed has a tightrope to walk. It must sustain sufficient demand in a faltering labour market and therefore economic growth, with tariff-induced price gains leading to, uncomfortably, above-target inflation and further undermining real household incomes, all without triggering more inflation.

This tightrope act is embodied in the latest Federal Open Market Committee (FOMC) forecasts, which show the unemployment rate as roughly stable but GDP growth consistently less than 2%.

And while tariff-induced price rises should be a one-off, the Fed will still be bruised from its recent “transitory” fright and will avoid reference to, or put too much emphasis on, that term.

It might be time to pull out the dreaded “s” word: stagflation. That is, subpar growth that the Fed can't combat due to stubbornly above-target inflation. In this scenario, the Fed will cut slowly and grudgingly. Not very far, though, because without labour force growth, the economy can only sustain 1% or so growth.

Of course, the outcome could be worse.

So far, softer employment growth has been due to stagnant hiring. If things get worse, firms may need to start laying off employees. At that point, it's probably too late for the Fed to avoid, at least, a slowdown or a mild recession.

But we are not there yet.

Chart 5: The Fed on a tightrope

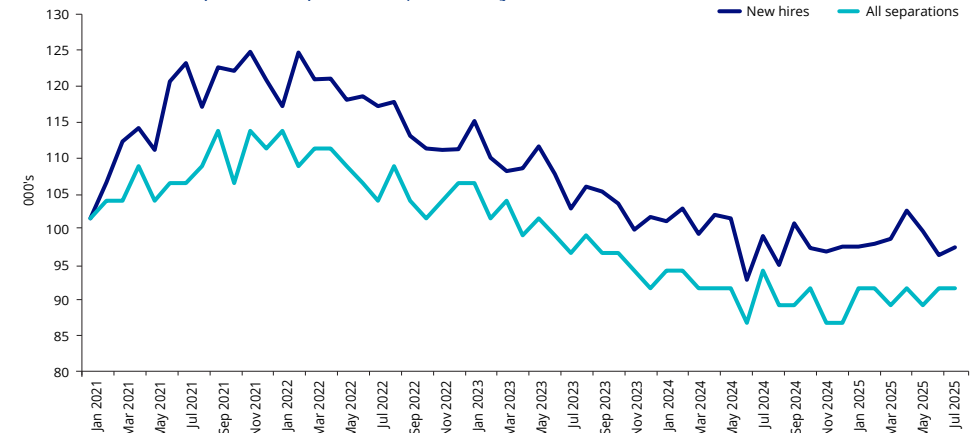
Fed economic projections, June 2024

Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation ²	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

Source: US Federal Reserve. Note: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the second quarter of the previous year to the second quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the second quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The projections were made in conjunction with the meeting of the Federal Open Market Committee on June 11–12, 2024. 1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections. 2. Longer-run projections for core PCE inflation are not collected.

Chart 6: New hires are flatlining, but no pick-up in firings yet

Private hires and private separations, Index 1 Jan 2021=100



Source: Federal Reserve Bank of St. Louis.

Muddling through

The economy is like an aircraft: get too close to stall speed and it becomes more difficult to manoeuvre, and, at the same time, the cost of an error steadily rises. We think muddling through to a soft landing is the base case. However, a recession remains a possibility and the Fed will react accordingly, as it has in the past, with deep cuts.

On the bright side, an economic crash will give markets and President Trump the deep rate cuts they're craving.

Unfortunately, in that instance, the market will also experience a deep cut in corporate earnings. Corporate earnings usually fall by between 20% and 40% during a recession. This is not priced into equities, which are at all-time highs, or credit spreads, which are at all-time lows.

Equities often rally at the start of a Fed rate-cutting cycle, but from where they are, there is not much room to move up. These rallies, in the past, have occurred because equities sold off in response to the gathering economic risks. Again, this had not occurred coming into this most recent rate cut.

And equity price recovery is conditioned on soft landings. Equity markets tend to not do well during recessions. US equities are at cycle peak price-to-earnings (P/E)s, and some have predicted that they could fall 30% to 50% in a full-blown recession. And that's before worrying about a credit event, for which the Bank for International Settlements has warned.

Bond markets, usually the first to predict a recession, haven't done so now. The yield curve, which was inverted from the end of 2022 to 2024 for that soft landing, has flattened recently but not inverted. Bond markets, perhaps, hold hope that the Fed can muddle through another soft landing.

There are three growth outcomes: A return to robust growth, a muddle-through, or recession.

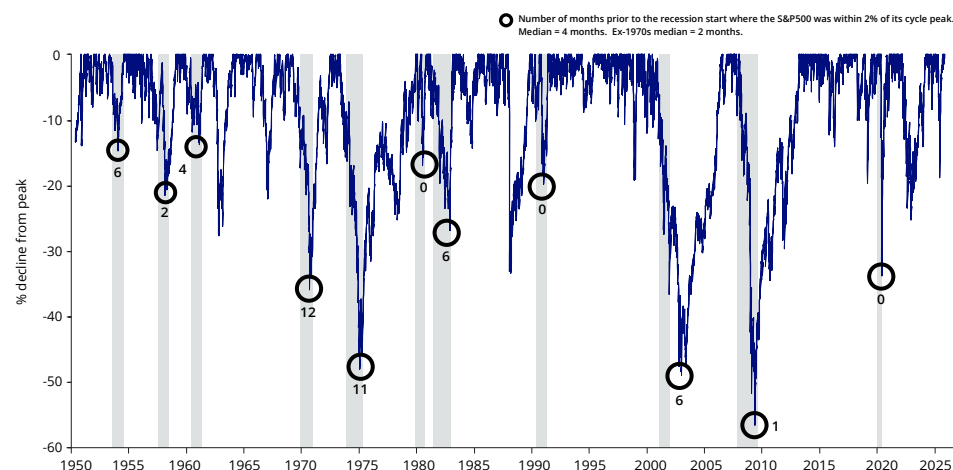
The best-case scenario of the robust economy, on the back of the spending US consumer (never count them out), is the least prospective outcome. Though its odds improved in the last week of September with strong GDP numbers. This scenario is also likely to be accompanied by stubbornly high inflation. A recession is perhaps a more probable outcome. The most likely outcome, we think, is that the US economy will muddle through a stagflationary environment.

A recession will rapidly become our central case if companies start widespread sacking.

Of course, there is always the "this time it's different" (TTID) argument. It is difficult to be persuaded, especially with tariffs, AI and monetary policy weighing on markets.

Chart 7: Avoiding a recession will be key

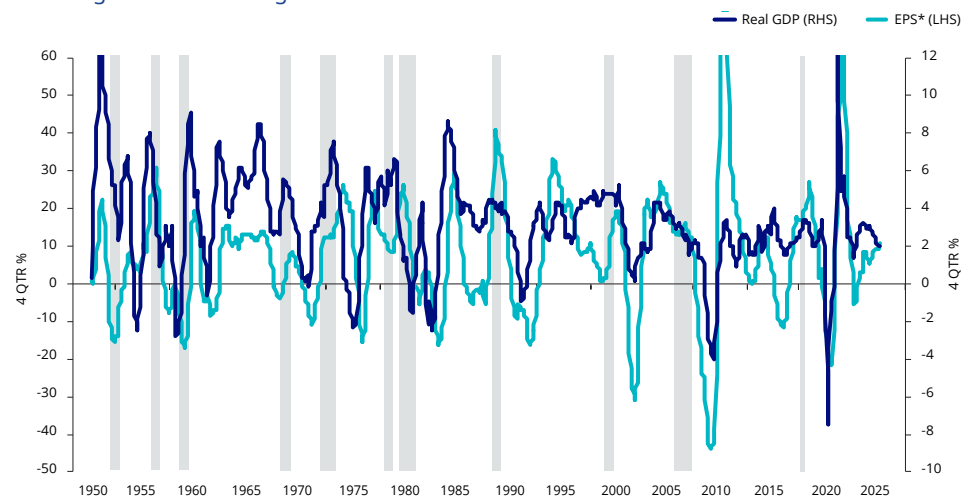
S&P 500 declines from 5-year peak



Source: Standard & Poor's, National Bureau of Economic Research. Shaded areas indicate a US recession.

Chart 8: Going in opposite directions

US EPS growth and GDP growth



* 4qtr % change in rolling 4qtr sum. Headline EPS pre-1988, then operating EPS.

Source: Standard & Poor's, National Bureau of Economic Research, US Bureau of Economic Analysis. Shaded areas indicate a US recession. Data as of August 2025.

Tariffs

The easiest to dismiss, yet strangely pervasive, version of TTID is that the joy of tariffs has been ignored, either by overstating the inflation costs or by ignoring their potential to fix US fiscal problems.

The first argument is due to the so-far modest passthrough of tariffs to final prices. The reality is that companies stuffed their inventories in Q1 before tariffs hit. You could see this in the sawtooth in imports and GDP earlier this year. Price rises are coming, with lags; no doubt the lags will also lengthen because of the on-again/off-again implementation of the tariff hikes.

The second is triggered by the sharp boost in tariff revenues flowing into the US Federal Government coffers. Arithmetically, current numbers and even optimistic projections show tariff revenue barely offsetting the budget blow-out caused by the One Big Beautiful Bill Act (OBBBA).

Budget deficits are still 6% to 7% of GDP as far as the eye can see. And those sorts of numbers are unsustainable, with US public debt-to-GDP on a path to never-before-seen heights.

Any possibility that these arguments could be true implicitly relies on the premise that foreigners will pay the costs of tariffs. And that isn't true.

The evidence is that the costs of the anti-China tariffs in the trade war during Trump's first Presidency were borne by US companies and US consumers (over 90%). And so far, at least, with the latest round of tariffs, the evidence is no different. If foreigners were absorbing the cost, import prices (which are measured pre-tariffs) would be falling sharply. Instead, there has been no change in their trajectory of modest increases for ex-fuel imports.

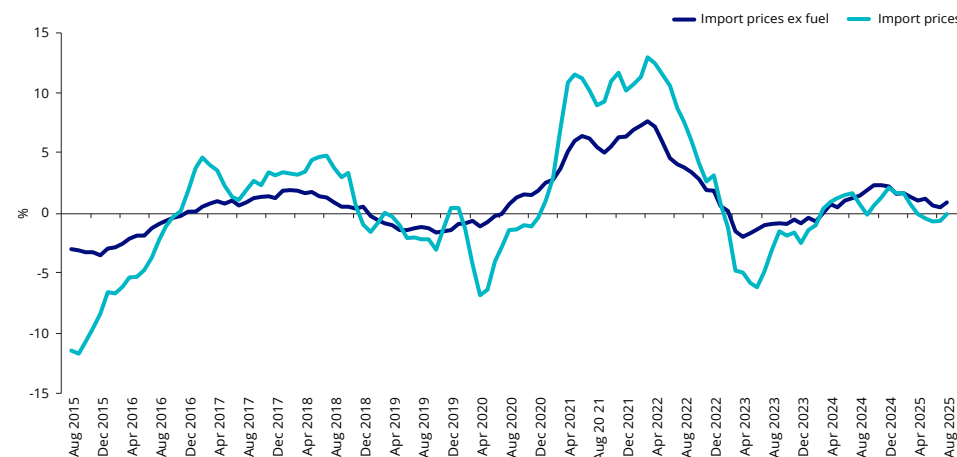
If foreigners aren't absorbing the cost, then eventually tariffs will lead to inflation or a corporate profit crunch. Neither is supportive of equity valuation.

On the second point, US households or businesses cannot absorb a large enough hit to their incomes for tariffs to fix the budget problem. A 10% hit to disposable incomes, disproportionately affecting lower-income groups, may put the US into a deep recession.

Finally, tariffs are unlikely to boost US competitiveness meaningfully, given interlinked global production chains. It's worth noting that China's exports to the US may have dropped, but they have risen overall. Either they are finding backdoor paths to the US market, or the US is being dealt out of global trade.

Chart 9: Import prices (pre-tariffs) are not falling, so foreigners are not paying

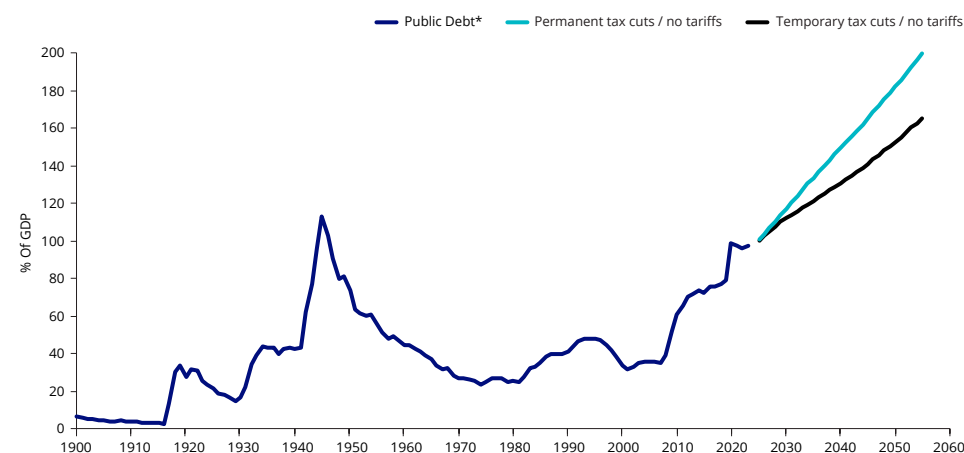
Import Price Index excluding fuels, percent change from year ago



Source: Federal Reserve Bank of St. Louis.

Chart 10: Tariff revenue is not enough

Federal government public debt, % of GDP



*Public debt held by the private sector.

Source: Congressional Budget Office, Federal Reserve, US Bureau of Economic Analysis, Yale Budget Lab, National Bureau of Economic Research. Data as of September 2025.

Artificial intelligence

The AI boom is being presented as a TTID. AI has taken over from the closely related 'Magnificent 7' as the driver of US equity gains.

But even if AI lived up to half the claims about its future and its uses, two related valuation mysteries remain: unlike other parts of the IT revolution, AI is capital heavy, not capital light, and we wonder if enough AI providers can manage to extract sufficient revenue from the broader economy to pay for that capital investment? Already, AI investments are undermining the free cash flow of big tech.

In the first phase of a capex-heavy investment boom, things look great, companies like Nvidia reap mind-blowing amounts of revenue, which in turn, fuels hope of industry-wide success. In a (potential) re-run of the 1990s boom, we have Nvidia funding AI companies, which use the money to buy Nvidia chips. And so on, and around again.

Chips and data centres depreciate fast. How much revenue will AI firms need, at even generous gross margins, to pay the depreciation bill (at say, 30% annual depreciation) on US\$400 billion of chips this year alone?

And that's all assuming AI is as valuable near-term as the hype.

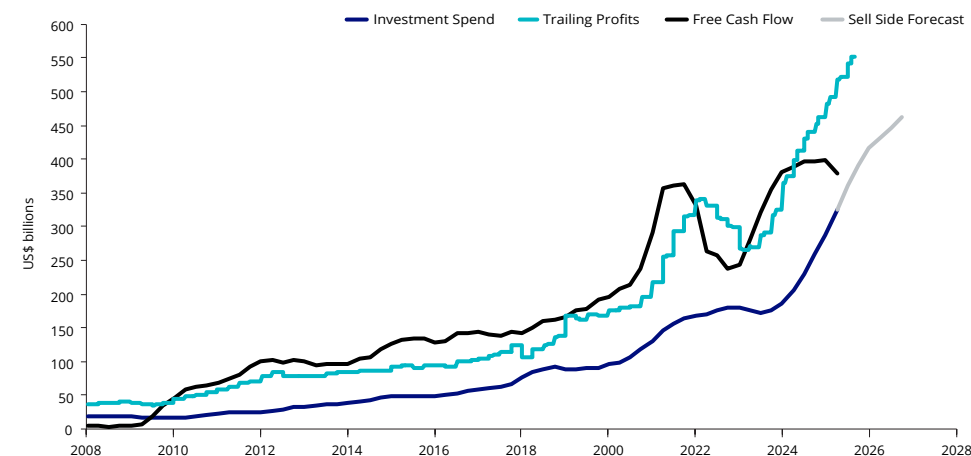
Some recent studies have been casting a sceptical light. A recent one from MIT found 95% of businesses are getting no benefit from their use of AI; another, by the respected thinktank METR (Model Evaluation & Threat Research), found coding teams, supposedly one of the businesses most able to benefit rapidly from AI, to be 20% less productive when using AI tools. Alarmingly, participants in that study falsely believed themselves to be more efficient. But it's easy to be a sceptic.

Again, the broader feedback matters too. In the real economy, AI capex has papered over broader capex stagnation; in the financial world, AI valuation effects have cast a halo over a broader US market, which otherwise hasn't shown an exceptional return on investment or earnings per share growth.

Of course, like the dotcom boom, it's all but impossible to time when/if "the dream" sours, absent an economy-wide slowdown. Scepticism and nimble hands are wise. Be selective.

Chart 11: The first phase of a capex-heavy investment boom

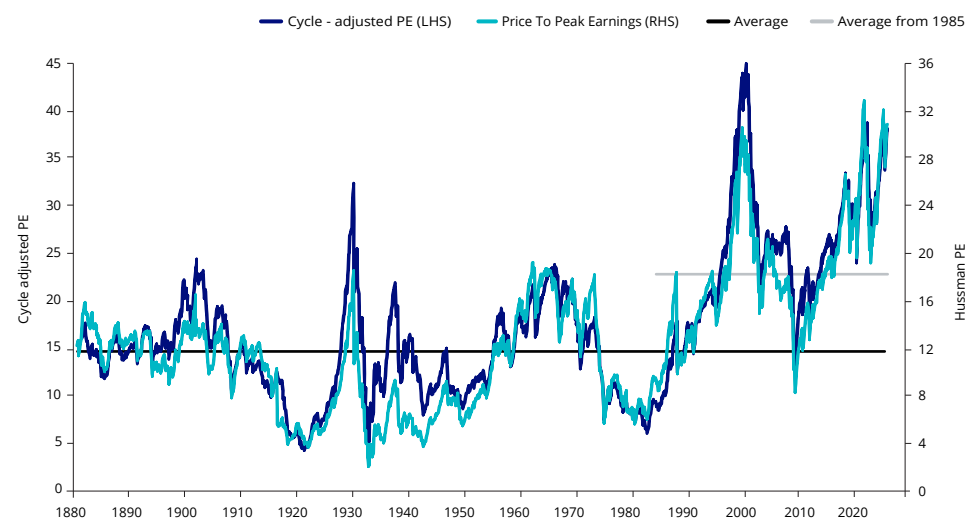
The Magnificent 7's profits, cash flow and capex



Source: Bloomberg, DataStream, IBES, National Bureau of Economic Research. Data as of September 2025.

Chart 12: Second all-time valuation peaks

S&P 500 through-the-cycle valuation ratios



Source: Standard & Poor's, Shiller, Bureau of Labor Statistics, National Bureau of Economic Research. Data as of September 2025.

US monetary policy

The least persuasive TTID argument is that the Fed will lose its independence and that President Trump will somehow take over monetary policy. That is, they're assuming he will get his way on stacking the Board and hence force the Fed to slash rates. Perhaps all the way to his preferred 1% level.

We think this theory is problematic. Firstly, President Trump has already shown that he will respond to bond markets if policy has a detrimental effect. Recall, after Liberation Day, the bond market sent a loud and clear message, yields skyrocketed, and it was one of the reasons that prompted the initial 90-day pause.

Considering this, we think a theoretical Fed takeover is exactly that: theoretical. The outcome may also not be equity price nirvana.

Sure, the economy would experience the rising growth President Trump aspires to, but unfortunately, it would be accompanied by soaring inflation and bond yields. In turn, the latter would undermine valuations and accelerate fiscal collapse via non-sustainable public debt interest payments (hence that 90-day pause in April).

At the same time, credit spreads have never been more compressed. There is a risk of a default cascade. It would make no sense.

But that does not stop Pollyannas from suggesting that the Fed would implement yield curve control (YCC). In this scenario, the Fed buys back endless quantities of bonds, in effect monetising unsustainable budget deficits by exploding its own balance sheet. The result, a collapse in the US dollar. As the world's biggest debtor, the US can't force people to absorb endless dollars.

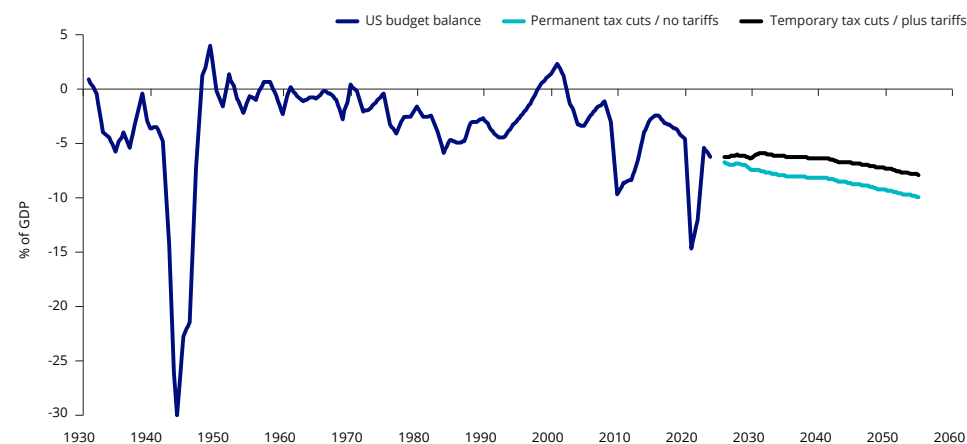
This is not a scenario we think the US or the Fed is headed toward.

There is no doubt that there is uncertainty surrounding the Fed's board, its make-up and its next Chair. It's worth remembering that the current Chair Powell is a Trump nominee from his first Presidency. The keyword is uncertainty. Markets do not like it.

There's a reason that investors are buying gold and crypto.

Chart 13: The balance sheets cannot take on more

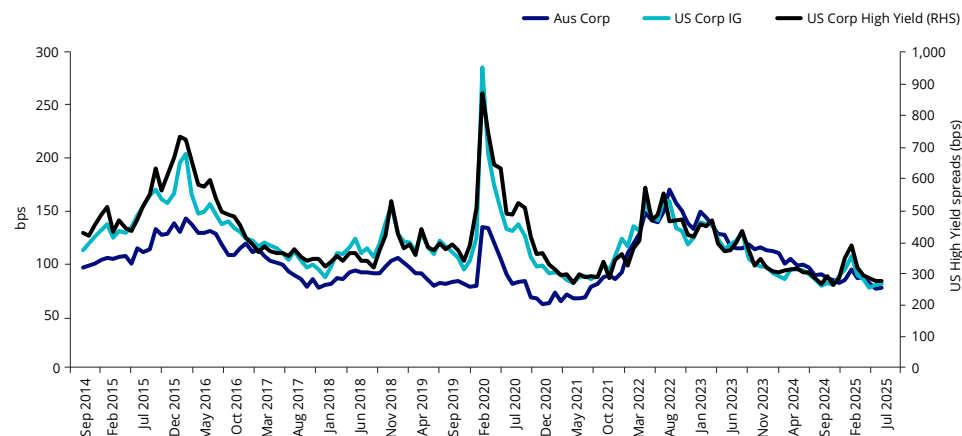
US budget balance/GDP



Source: Congressional Budget Office, Federal Reserve, US Bureau of Economic Analysis, Yale Budget Lab, National Bureau of Economic Research. Data as of September 2025.

Chart 14: As tight as ever

US and Australian credit spreads



Source: Bloomberg.

The currency of last resort

The price of gold continues to be supported by heightened uncertainty and volatility, stemming from persistent global geopolitical and trade tensions and mixed economic signals.

In August, gold became entangled in the trade-tariff chaos when news reports suggested that the US had imposed tariffs on 1- kilogram and 100-ounce bars of gold. The White House and President Trump later reassured markets that gold would not be subject to tariffs.

The gold tariff fiasco exemplifies the uncertain policy environment in the US, with markets trying to re-interpret and price in rapidly changing and conflicting information. We have also experienced this uncertainty in August, regarding the Fed, when President Trump called for Fed Governor Lisa Cook's resignation and, days later, announced he had fired her.

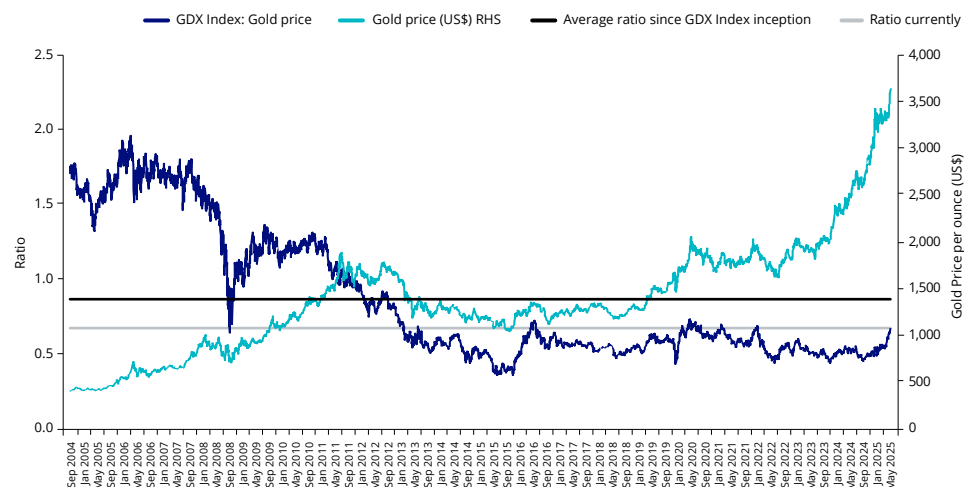
These apparent assaults on the Fed by the current administration has raised fears that the Fed could lose its independence, threatening the stability and credibility of the world's most important central bank. Gold rallied in response. Its price was also supported by increased probabilities of a Fed cut in September and a weaker US dollar.

During the last quarter, for the first time in a long time, the gold price increase led to an amplified gain for gold equities, reflecting their leverage to the metal price. However, the substantial outperformance suggests other factors, beyond the gold price, supported gold mining shares in August. We believe a key driver was a strong Q2 2025 earnings season with many companies reporting record revenues and free cash flow.

Equity valuation concerns around the growth of mega-cap stocks may be fading and high concentration in AI/tech stocks may also be driving portfolio diversification and rotation of capital that is benefiting gold companies. We still think, despite their impressive 2025, gold miners remain undervalued.

Chart 15: The gold price has rallied, and so have its miners (and they could go higher)

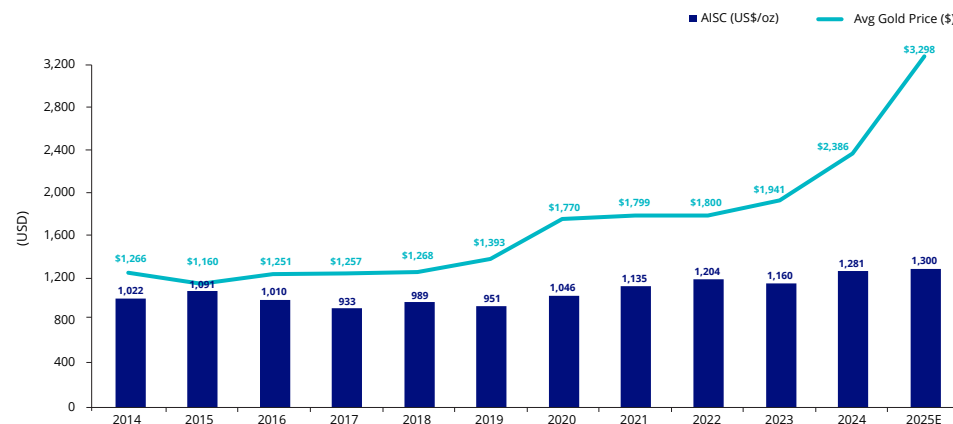
Ratio of gold miners to gold bullion price



Source: VanEck Research, Bloomberg as of the end of 24 September 2025. GDX Index is NYSE Arca Gold Miners Index. All returns are in US dollars. Past performance not a reliable indicator of future performance. Inception date of GDX Index is 1 October 2004.

Chart 16: Valuation concerns elsewhere and record free cash flow could result in a rotation to gold miners

Free cash flow example, gold price vs. Alamos Gold all-in sustaining costs



Source: Bloomberg, DataStream, ICE Benchmark Administration, World Gold Council, and Alamos Gold (2025E value is based on guidance for 2025, which is between US\$1,250 and US\$1,300/oz). Average Gold Price is represented by LBMA Gold Price PM and priced per troy ounce. Total consolidated all-in sustaining costs include corporate and administrative and share-based compensation expenses. Not a recommendation to act. Data as of September 2025.

Emerging markets keep winning

One of the beneficiaries of a falling US dollar is emerging markets.

2025 was supposed to be horrible for emerging markets with tariffs and geopolitical uncertainty rising.

The uncertainty persists with ongoing challenges or are they more walls of worry? Such as tariff legality, Fed independence and the direction of the US economy. Developed market debt and geopolitics are now arguably worse than the start of the year. And through it all emerging markets equities and their bond markets have rallied, particularly local-currency bonds.

It all makes sense if you consider the “fiscal dominance” theme driving many developed markets, while emerging markets are relatively immune. Emerging markets tend to have low debt burdens and the independent central banks paying consistently high policy rates that come with them. Developed markets do not, and many have been forced into monetary experiments that erode trust. This is not new and is why emerging market bonds have consistently outperformed developed market bonds for over two decades.

In 2025 emerging markets are now getting onto investor radars, perhaps due to the US dollar's perceived vulnerability, particularly bonds.

There are two key asset prices to watch, US Treasuries (particularly the long-end) and the USD/CNY exchange rate.

Treasuries contain a lot of information about US fiscal and monetary policy (as well as sanctions policies, which undermine trust in treasuries among reserve managers). That it's hovering near 5% during a rate-cutting cycle is noteworthy. It also speaks to developed market problems and developed market duration. A US perhaps heading into stagflation should see elevated rates plus high inflation. And what does economics say about two trading partners, one with higher inflation (the US) and the other with low inflation or deflation? It says that the currency of the country with lower-inflation (CNY) should strengthen and that's exactly what's happened all year. It is also probably crucial that tariff negotiations involve secret pledges not to devalue one's currency after trade agreements (obviously so, in our view). Couple this with the fact that China and many emerging markets have positive net international investment positions (“they” own more of “us” than “we” of “them”) means they are net long US dollars and know it is going down. The dollar's ‘demise’ is overdone, barring TTID #3, we should hasten to note, but we're describing everyday depreciation for now. The proper framing seems that CNY (and other emerging market currencies) will gradually increase in status and trade use.

Charts 17 and 18: EMs doing well in Trade War 2

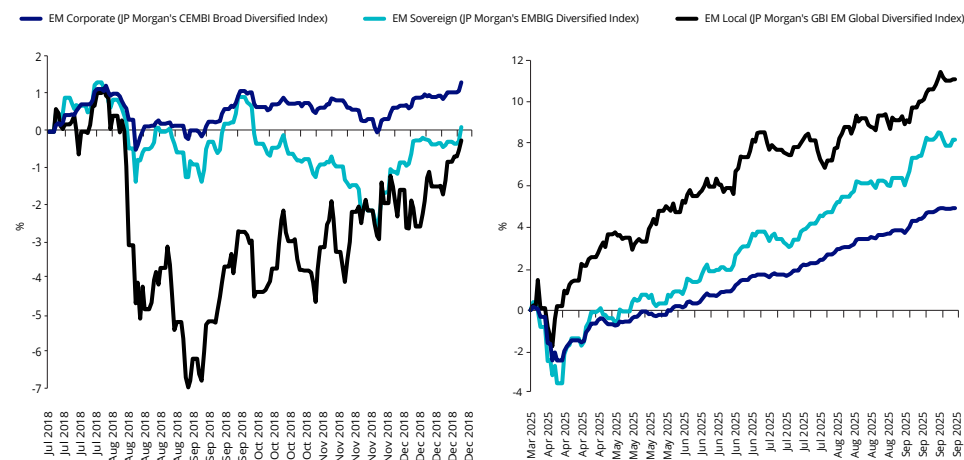
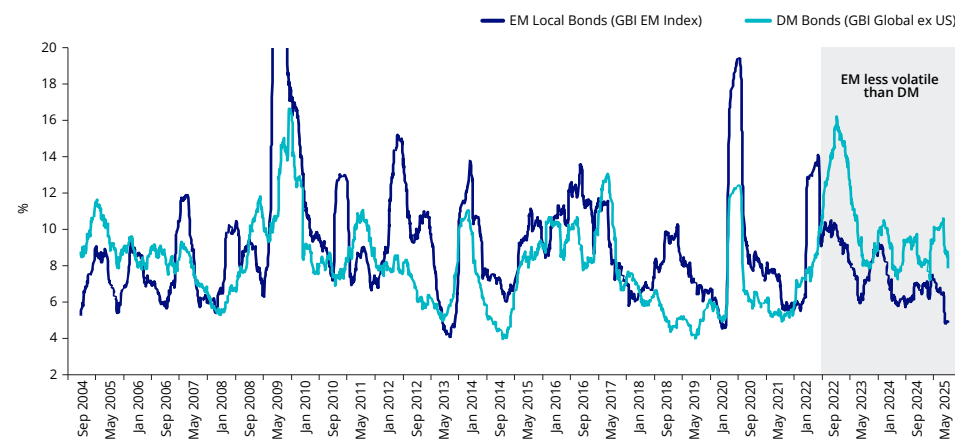


Chart 19: Why investors are starting to take notice

EM Local Bonds vs DM Sovereigns – 90-day Total Return Volatility (%)



China's position of strength

China is weathering Trade War 2.0 quite well. China's trade re-orientation towards emerging markets and away from the US, coupled with lower negative domestic tail risks (including local governments' "hidden" debt) mean that the authorities can be patient and restrained in their domestic and external policy responses.

Perhaps the best example of such restraint is keeping the exchange rate stable versus the US Dollar, a stark contrast with Trade War 1.0 when China devalued the currency early in the process in order to compensate for a loss of competitiveness.

Far from being pressured into a large-scale policy stimulus, the Chinese authorities have embarked on a major structural reform which aims to re-shape the domestic industrial landscape, most likely at the expense of short-term growth, and reflate the economy, strengthening the fundamental case for the renminbi's appreciation. We are talking about the push against involution or vicious competition in several key sectors including the automotive industry.

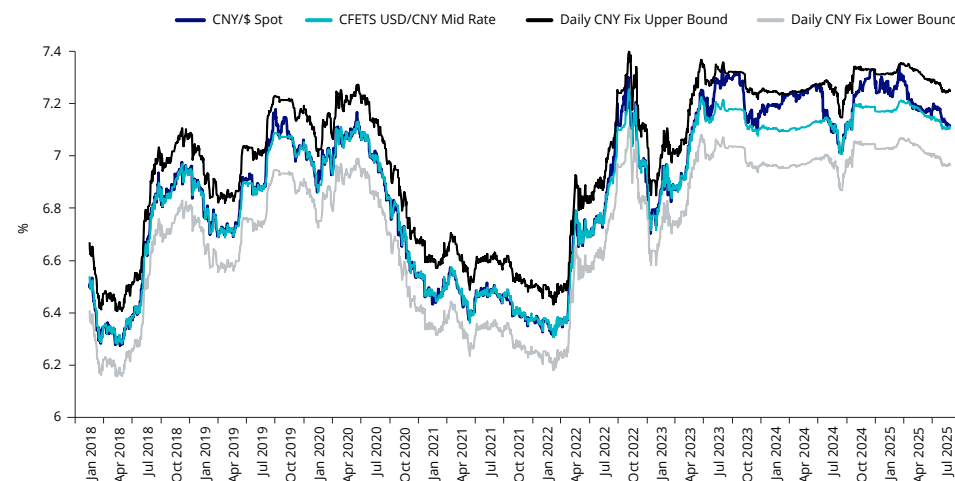
This is an intentional policy move to reduce "idle" capacity, and China's domestic activity indicators, especially industrial production, should be evaluated through this lens. The previous anti-involution push of 2015 shows that the objectives are achievable, though specifics are different this time around. In the meantime, China's capacity utilisation can be used as a gauge for the anti-involution campaign's success.

Another notable pivot in China's domestic policy is the emphasis on consumption, especially consumption of services, which is another indication that China is targeting domestic policy priorities first and foremost. One can argue that a cheaper real effective exchange rate helps to "take care" of China's exports. This is one area where we expect more activity, including fiscal support, as consumer confidence and willingness to consume remains frozen well below the pre-pandemic levels. Incidentally, giving a boost to household consumption is also consistent with FX stability or appreciation.

China's equity markets have been encouraged by Beijing's efforts. Chinese equities have been among the best performing this quarter. Bloomberg data show that the turnover of shares traded on the Shanghai and Shenzhen stock exchanges surged to 134 trillion yuan (US\$18.4 trillion) in the year to 30 September 2025, up from around 43 trillion yuan for the same period last year. The shares of more than 500 companies listed in Shanghai or Shenzhen have doubled in value over the same period this year.

Chart 20: The renminbi has strengthened

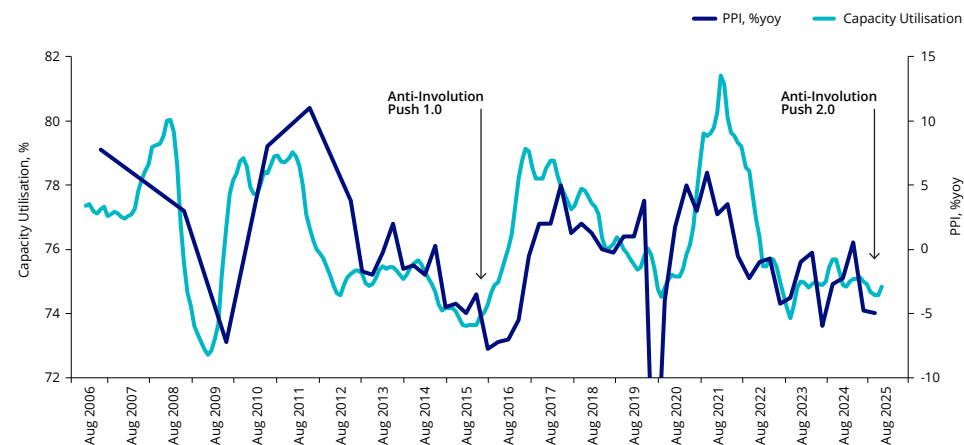
CNY – Spot and Daily Fix with Bands



Source: Bloomberg.

Chart 21: A measure of the success of China's anti-involution campaign

China's PPI and capacity utilisation



Source: VanEck Research; Bloomberg.

Meanwhile, Down Under

Australia looks like a haven of calm by comparison to the rest of the world.

The Reserve Bank of Australia (RBA) finally decided to deliver a salami cut on rates, as backward-looking indicators indicated it could do so. Now though, its members will be praying that the moderate uptick in private sector growth holds, to ensure inflation doesn't drop out of the bottom end of its band.

There's no (domestic) reason to expect a continuing sharp lowering of rates, and three reasons to expect any declines will be grudging.

First, the panic over low productivity continues unabated. Never mind that its main cause is the falling capital to labour ratio, which would be more likely to be rectified by a combination of higher wages, lower interest rates and most importantly, higher growth. A cynic might suggest it's better to hold talkfests and mumble about red tape.

Second, the RBA, seemingly, continues its fascination with its natural rate modelling. This modelling is telling the RBA the labour market is too tight, and inflation should be rising (looking out the window to observe reality is not as accurate, apparently). It's a shame they're not as taken with the other unobservable variable they model, the neutral interest rate, which is well below the current rate, even though inflation is back to well within its target band.

Finally, as soon as a rate cut arrived, the housing market commenced ticking up. Despite claims to the contrary, the RBA will be watching housing nervously. The most recent inflation print pushed out the next rate cut, from late 2025 into 2026. Many market participants think that this may have been the last cut this cycle.

Rather than being entirely cynical, there does remain a small chance something could emerge from the recent talkfest. Rumours are circulating that Labor wants to complete Federal pre-selections for the next election this year. Perhaps to provide scope to propose tax changes and sprint to an early election and thus gain a mandate, while the current opposition remains in disarray. This could be something to keep an eye on.

While domestic conditions are relatively calm, Australia would not be insulated from the overseas outlook. It's a truism that a global slowdown will have an impact on Australian growth. A financial retrenchment will be rapidly transmitted, not least to the equity market. Adjusted for differing sector weights (i.e. Australia has a larger exposure to low P/E sectors), the Australian market makes the US look more expensive.

And, as a fellow debtor, Australia can expect to pay more for funding (notably the big 4 banks, which rely on overseas debt markets for a good slice of their funding). Finally, if the US dollar falls out of bed, the Australian dollar could go the other way, impacting competitiveness and the value of foreign investments to domestic investors.

Chart 22: It's popped back up again

Capital city prices and auction clearance rate

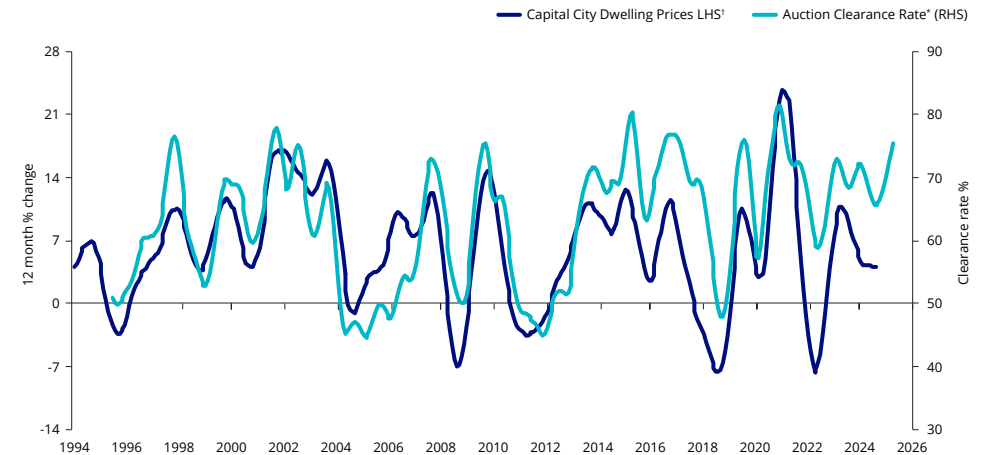


Chart 23: Australia makes the US look cheap

Comparative price to earnings, S&P 500 and S&P/ASX 200

	S&P 500		S&P/ASX 200		Premium/Discount
	Market Weight	Forecast P/E	Market Weight	Forecast P/E	
Financials	14.1%	16.7	37.9%	19.6	17.5%
Information technology	34.4%	29.2	2.2%	98.5	237.0%
Health care	9.2%	16.6	8.9%	25.1	51.3%
Consumer discretionary	10.8%	29.0	8.4%	28.8	-0.8%
Industrials	8.7%	24.4	7.8%	21.8	-10.6%
Consumer staples	5.3%	21.6	4.0%	21.1	-2.2%
Energy	3.0%	15.4	4.2%	16.8	8.8%
Communications	10.1%	20.2	4.5%	29.3	44.9%
Utilities	2.4%	18.4	1.7%	19.4	5.5%
Materials	1.9%	20.4	20.4%	14.6	-28.2%
Overall market	100.0%	22.5	100.0%	19.9	-11.6%
PE (US Weights)		22.5		30.8	37.0%

Source: IBES, DataStream, MSCI, S&P. Data as of September 2025

VanEck's range of Exchange Traded Funds on ASX

	VanEck Fund	ASX code	Index	Management fees (p.a.)*
Australian Equity	Australian Equal Weight ETF	MVW	MVIS Australia Equal Weight Index	0.35%
	Geared Australian Equal Weight Complex ETF	GMVW	Geared exposure to MVW	0.35%^
Australian Equity Income	Morningstar Australian Moat Income ETF	DVDY	Morningstar® Australia Dividend Yield Focus Equal Weighted Index™	0.35%
Australian Small and Mid Companies	Small Companies Masters ETF	MVS	MarketGrader Australia Small Cap 60 Index	0.49%
	S&P/ASX MidCap ETF	MVE	S&P/ASX MidCap 50 Index	0.45%
Australian Sector	Australian Property ETF	MVA	MVIS Australia A-REITs Index	0.35%
	Australian Resources ETF	MVR	MVIS Australia Resources Index	0.35%
	Australian Banks ETF	MVB	MVIS Australia Banks Index	0.28%
Sustainable Investing	MSCI International Sustainable Equity ETF	ESGI	MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index	0.55%
	MSCI Australian Sustainable Equity ETF	GRNV	MSCI Australia IMI Select SRI Screened Index	0.35%
Global Sector	Gold Miners ETF	GDX	NYSE Arca Gold Miners Index® (AUD)	0.53%
	FTSE Global Infrastructure (AUD Hedged) ETF	IFRA	FTSE Developed Core Infrastructure 50/50 Index Hedged into AUD	0.20%
	FTSE International Property (AUD Hedged) ETF	REIT	FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged	0.20%
	Global Healthcare Leaders ETF	HLTH	MarketGrader Developed Markets (ex-Australia) Health Care AUD Index	0.45%
	Global Defence ETF	DFND	MarketVector Global Defence Industry (AUD) Index	0.65%
Commodity	Gold Bullion ETF	NUGG	Tracks the price of gold	0.25%
International	MSCI International Quality ETF	QUAL	MSCI World ex Australia Quality Index	0.40%
	MSCI International Quality (AUD Hedged) ETF	QHAI	MSCI World ex Australia Quality 100% Hedged to AUD Index	0.43%
	MSCI Multifactor Emerging Markets Equity ETF	EMKT	MSCI Emerging Markets Multi-Factor Select Index	0.69%
	Morningstar International Wide Moat ETF	GOAT	Morningstar® Developed Markets ex Australia Wide Moat Focus Select Index™	0.55%
	Morningstar Wide Moat ETF	MOAT	Morningstar® Wide Moat Focus NR AUD Index™	0.49%
	Morningstar Wide Moat (AUD Hedged) ETF	MHOT	Morningstar® Wide Moat Focus NR AUD Hedged Index™	0.52%
	China New Economy ETF	CNEW	MarketGrader China New Economy Index	0.95%
	India Growth Leaders ETF	GRIN	MarketGrader India Growth Leaders 50 Index	0.75%
	FTSE China A50 ETF	CETF	FTSE China A50 Index	0.60%
	MSCI International Small Companies Quality ETF	QSML	MSCI World ex Australia Small Cap Quality 150 Index	0.59%
	MSCI International Small Companies Quality (AUD Hedged) ETF	QHSM	MSCI World ex Australia Small Cap Quality 150 100% Hedged to AUD Index	0.62%
	MSCI International Value ETF	VLUE	MSCI World ex Australia Enhanced Value Top 250 Select Index	0.40%
	MSCI International Value (AUD Hedged) ETF	HVLU	MSCI World ex Australia Enhanced Value Top 250 Select 100% Hedged to AUD Index	0.43%
	MSCI International Growth ETF	GWTH	MSCI World ex Australia Growth Select Index	0.40%

*Other fees and costs apply. Please see the respective PDS.

^The Fund charges a nil management fee. This is the indirect cost represented as a percentage of the gross asset value. If the average gearing level is 50%, the indirect cost will be 0.70% of the net asset value.

VanEck's range of Exchange Traded Funds on ASX

	VanEck Fund	ASX code	Index	Management fees (p.a.)*
Fixed Income	Australian Corporate Bond Plus ETF	PLUS	iBoxx AUD Corporates Yield Plus Mid Price Index	0.32%
	Australian Floating Rate ETF	FLOT	Bloomberg AusBond Credit FRN 0+Yr Index	0.22%
	Australian RMBS ETF	RMBS	ICE 0.5-3 Year AAA Large Cap Australian RMBS Index	0.29%
	Australian Subordinated Debt ETF	SUBD	iBoxx AUD Investment Grade Subordinated Debt Mid Price Index	0.29%
	1-3 Month US Treasury Bond ETF	TBIL	Bloomberg U.S. Treasury Bills: 1-3 Months Unhedged AUD Index	0.22%
	1-5 Year Australian Government Bond ETF	1GOV	S&P/ASX iBoxx Australian & State Governments 1-5 Index	0.22%
	5-10 Year Australian Government Bond ETF	5GOV	S&P/ASX iBoxx Australian & State Governments 5-10 Index	0.22%
	10+ Year Australian Government Bond ETF	XGOV	S&P/ASX iBoxx Australian & State Governments 10-20 Index	0.22%
Thematic	Video Gaming and Esports ETF	ESPO	MVIS® Global Video Gaming and eSports Index (AUD)	0.55%
	Global Clean Energy ETF	CLNE	S&P Global Clean Energy Select Index	0.65%
Alternatives	Global Listed Private Equity ETF	GPEQ	LPX50 Index	0.65%
	Global Listed Private Credit (AUD Hedged) ETF	LEND	LPX Listed Private Credit AUD Hedged Index	0.65%
Digital Assets	Bitcoin ETF	VBTC	Tracks the price of bitcoin	0.45%
	VanEck Active Fund	ASX code	Benchmark	
Emerging Market Bonds	Emerging Income Opportunities Active ETF	EBND	50% JPM EMBI Global Diversified Hedged AUD and 50% JPM GBI-EM Global Diversified	0.95%
Global Capital Securities	Global Capital Securities Active ETF	GCAP	RBA Cash Rate + 3% per annum	0.59%
Australian Equity	Australian Long Short Complex ETF	ALFA	S&P/ASX 200 Accumulation Index	0.39%


*Other fees and costs apply. Please see the respective PDS.

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