



INNOVA
ASSET MANAGEMENT

QUARTER ONE 2026
CFS FIRSTCHOICE

— MARKET OUTLOOK REPORT

Key Takeaways

- Global sharemarkets ended 2025 on a strong note, with returns coming from a wider range of countries rather than just large US technology companies. This helped reduce reliance on a small number of stocks driving overall market outcomes.
- Inflation has continued to ease across most major economies, although it remains uneven. As a result, central banks are moving cautiously, and interest rate cuts are expected to be gradual rather than immediate.
- Markets are now starting from higher levels than a year ago, which means future returns are likely to be more modest and rely more on company earnings and income rather than sharp rises in prices.
- Artificial intelligence remains an important long-term theme, but investors are becoming more selective about where they take exposure rather than chasing recent strong performers.
- Diversification remains important as markets adjust to slower growth, higher uncertainty and more varied outcomes across regions and asset types.

What's happened in markets

Global markets continued to rise through the December quarter, finishing the year strongly. One of the most notable developments in 2025 was that returns were no longer driven by a small group of large US technology companies alone. Instead, a broader range of markets contributed to performance, including Europe, Japan and parts of emerging Asia.

In the United States, sharemarkets remained resilient despite periods of volatility. While enthusiasm around artificial intelligence continued to support profits, investors became more cautious toward the end of the year, locking in gains after a strong run. This resulted in slower market momentum, but did not signal a downturn in economic activity.

Australian markets underperformed global peers over the quarter. Economic growth remained positive but slower than in other regions, and inflation stayed higher for longer. This led the Reserve Bank to remain cautious, delaying expectations for interest rate cuts. Bond markets in Australia and globally were more volatile as investors reacted to changing interest rate expectations and concerns around government spending and debt levels.

Despite this volatility, income-focused investments delivered reasonable outcomes over the year, supported by steady company balance sheets and ongoing demand for income. Commodity markets were mixed. Precious metals performed strongly, reflecting ongoing uncertainty, while energy prices eased toward year-end as global demand softened.

Innova house view

- **Global shares:** Opportunities are improving outside the US as economic conditions stabilise and a wider range of markets contribute to returns. This supports a diversified global approach rather than relying on one region.
- **United States:** The economy remains resilient, supported by government spending and consumer demand. However, recent strong market performance means returns are likely to be more measured from here.
- **Australia:** Growth remains steady but uneven. Inflation pressures have eased more slowly than elsewhere, making interest rate changes more uncertain and increasing market sensitivity to economic data.
- **Income assets:** Income levels are more attractive than in recent years, but price fluctuations are likely to continue. Focusing on quality and reliability of income remains important.
- **Innovation and AI:** Artificial intelligence continues to reshape parts of the global economy, but long-term outcomes will depend on how effectively companies turn investment into sustainable profits.

Potential scenarios

SOFT LANDING (BASE CASE)	SLOWER GROWTH	HIGHER INFLATION
<ul style="list-style-type: none"> The world economy slows but avoids a major downturn. Inflation continues to ease, though it won't go back to the very low levels we saw before COVID. Our portfolios stay balanced, with investments in undervalued global markets and quality smaller companies. 	<ul style="list-style-type: none"> If tariffs, higher borrowing costs, or political tensions cause people and businesses to cut back on spending, we'd expect safer investments like government bonds and more defensive shares to do better. 	<ul style="list-style-type: none"> If government spending, higher oil prices, or tariffs keep prices elevated, we want to own assets that can handle that — like value shares, hard assets (e.g., silver), and investments that don't move in sync with the share market.

Portfolio positioning

	STRONG UNDERWEIGHT	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	STRONG OVERWEIGHT
Australian Equity		●			
Developed Market Equity			●		
Emerging Market Equity				●	
Listed Property		●			
Infrastructure			●		
Government Bonds			●		
Credit				●	
Alternatives			●		
Cash		●			
Growth / Defensive Split			●		

- Portfolios remain well balanced between defensive positioning and exposure to economic growth, reflecting a positive but more cautious outlook for markets.
- Equity exposure emphasises diversification across regions, reducing reliance on a narrow group of large US companies – however, this has been reduced through profit taking from our base case is playing out, and the outlook for returns is less divergent.
- Income investments focus on stable and reliable income sources, helping manage market ups and downs.
- Currency exposure continues to have a reduced reliance on the US dollar and better reflects changing global conditions, as well as the underappreciation of the Aussie dollar.
- Overall, portfolios are positioned to remain resilient and flexible, recognising that future returns may be lower and less predictable than in recent years.

Performance

	1 MTH	3 MTH	6 MTH	1 YR	3YR
CONSERVATIVE					
Innova Active Conservative Portfolio - FirstChoice Wholesale Pension	-0.03	0.75	2.68	5.55	6.47
Innova Active Conservative Portfolio - FirstChoice Wholesale Super	-0.05	0.63	2.29	4.81	5.75
Australia Fund Multisector Conservative	-0.06	0.19	1.75	5.14	5.60
MODERATELY CONSERVATIVE					
Innova Active Moderately Conservative Portfolio - FirstChoice Wholesale Pen	-0.01	0.99	3.65	6.62	8.08
Innova Active Moderately Conservative Portfolio - FirstChoice Wholesale Sup	-0.03	0.80	3.17	5.78	7.24
Australia Fund Multisector Moderate	-0.02	0.49	2.77	6.26	6.75
BALANCED					
Innova Active Balanced Portfolio - FirstChoice Wholesale Pension	-0.10	0.98	4.35	7.43	9.42
Innova Active Balanced Portfolio - FirstChoice Wholesale Super	-0.12	0.74	3.76	6.48	8.47
Australia Fund Multisector Balanced	0.13	0.81	4.12	8.18	9.10
GROWTH					
Innova Active Growth Portfolio - FirstChoice Wholesale Pension	-0.12	1.06	5.13	7.96	10.43
Innova Active Growth Portfolio - FirstChoice Wholesale Super	-0.14	0.79	4.45	6.95	9.41
Australia Fund Multisector Growth	0.15	0.75	4.50	8.89	10.61
HIGH GROWTH					
Innova Active High Growth Portfolio - FirstChoice Wholesale Pension	-0.12	1.27	5.90	8.77	11.27
Innova Active High Growth Portfolio - FirstChoice Wholesale Super	-0.14	0.97	5.15	7.69	10.19
Australia Fund Multisector Aggressive	0.18	0.80	5.99	10.97	13.82

Overall Performance & Risk Management

Over the past year, you may have noticed that markets — especially in the US — delivered strong headline returns. At the same time, Innova portfolios did not rise quite as much as some of those broad market benchmarks. We want to explain why that happened, what it means, and why we remain confident in the way your money is positioned.

2025 Was a “Narrow” Year in Markets

In 2025, a very small number of very large US technology companies were responsible for a big portion of overall market returns. If you owned a lot of those few companies, your returns looked strong.

If you owned them more carefully, or avoided paying very high prices for them, your returns looked more modest in the short term. We made a conscious decision not to overload portfolios with those highly priced companies. Why?

Because when everyone crowds into the same trade and prices become stretched, the room for error becomes very small. When expectations are already extremely high, even slightly disappointing news can cause sharp falls. History is flush with examples of this occurring, and essentially no examples of future returns being great after reaching such lofty and concentrated highs.

Our job is not just to participate in rising markets. It is to manage the risk of large setbacks.

By focusing on risk-adjusted returns, we select investments that aim to deliver the best outcome for the level of risk investors are comfortable taking. This means investors experienced a smoother journey, with less exposure to sharp market swings, which is a core investment principal of Innova.

The Bottom Line

Markets move in cycles. Leadership changes. Popular trades rotate in and out of favour. We are not trying to guess the next headline.

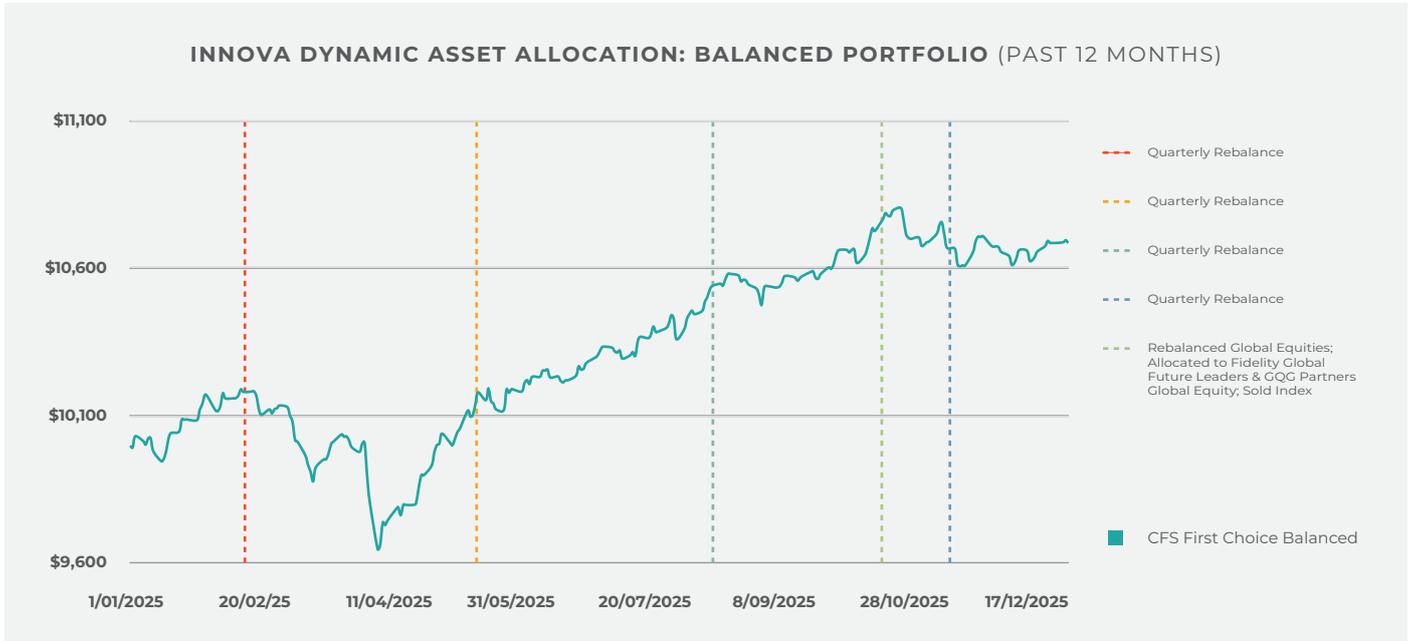
We are building portfolios designed to:

- Avoid overpaying for excitement.
- Manage downside risk.
- Participate in growth without relying on perfection.
- Deliver steady progress over time.

In investing, you can't get a different result doing the same thing as everyone else. We are comfortable being positioned differently when it improves the balance between risk and reward. And we remain confident in the long-term path ahead.

Portfolio changes PREVIOUS 12 MONTHS

The portfolio has deliberately focused on only the most compelling opportunities in markets, avoiding unnecessary trading. At present, it remains underweight growth, which provides significant scope to increase trading activity when attractive opportunities arise. As return expectations become more favourable, we will look to progressively increase the growth exposure over time.



TRADE	SUMMARY
22/10/2025 Buy global small mid-caps	Keeping in-line with our fundamental outlook for economic resilience and a stronger rebound in the US market, we increased our growth exposure to companies that are most exposed to American economics, earnings, and consumer strength. The global manager we selected provides an active management service that keeps us away from valuation rich parts of the market and into areas that more compelling for the long run.
14/08/2024 Global Quality (Sell) & Global Growth (Buy)	Our fundamental outlook for economic resilience and a stronger rebound in the US market remained unchanged, therefore we wanted to increase our growth equity exposure in these portfolios. This was executed through a manager switch, as our global quality manager had not delivered consistent outperformance relative to the quality factor. The global growth manager we selected provided an opportunity for more consistent outperformance while increasing our overall growth exposure.
08/07/2024 Australian Index (Buy) & Australian Alpha (Sell)	We had observed several cyclical headwinds in relation to the domestic equity market (services inflation remained sticky, real GDP per capita was signalling a recession and forward earnings had declined while prices were still high). For these reasons we preferred quality and defensive exposures domestically. We executed a manager switch to reduce exposure to the discretionary spending sector, though we wanted to maintain a hedge against our base case for domestic equities (underweight cyclicals and overweight defensives) and therefore allocated to the Australian Equity Index to retain exposure to cyclical sectors while bringing down the overall cost of the portfolio.

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