



INNOVA
ASSET MANAGEMENT

QUARTER ONE 2026
RISK DEFINED

— 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.

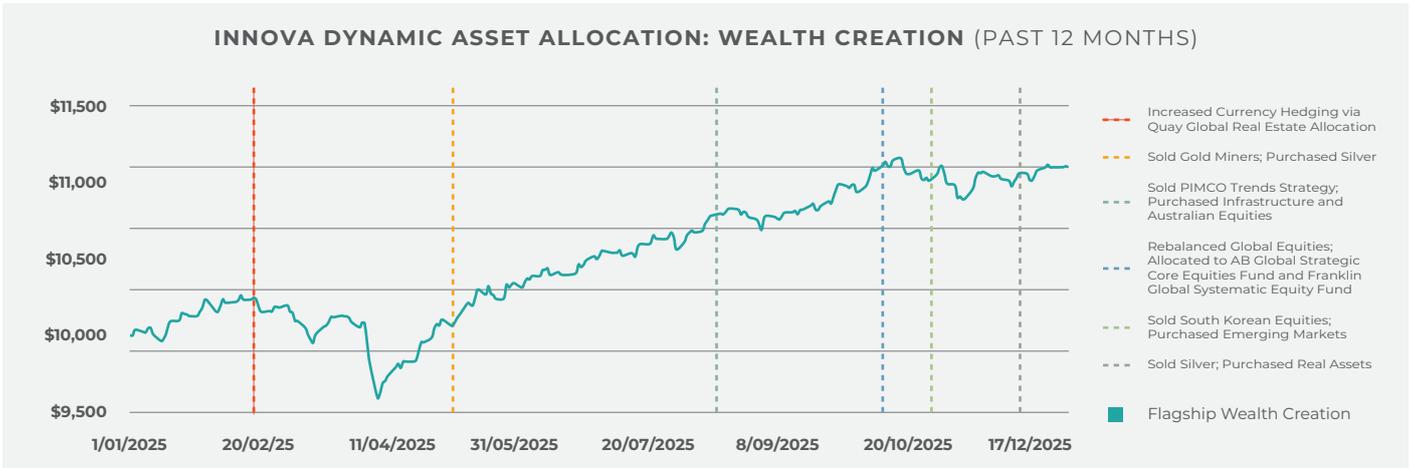
Recent portfolio changes

TRADE	SUMMARY
11/12/2025 Silver (Sell) & Infrastructure and REITs (Buy)	<p>After investing in the silver bullion ETF (ETPMAG) in May 2025, when silver was historically cheap relative to gold, the price of silver has since risen to an all-time high and the gold-to-silver ratio has returned to more normal levels. As this valuation opportunity has now largely played out, we are exiting the silver position.</p> <p>The proceeds are being reallocated evenly into two areas: global infrastructure, via the Macquarie True Index Global Infrastructure Securities Fund, and global listed property (REITs).</p> <p>The Innova portfolios are currently underweight infrastructure and neutral global REITs. With valuations close to long-term averages and real interest rates near 20-year highs, these assets are well placed to benefit as interest rates eventually ease. This shift allows us to remain invested in growth assets while improving diversification and positioning portfolios more defensively for the next phase of the market cycle.</p>

Performance

	1 MTH	3 MTH	6 MTH	1 YR	3YR	5YR	7YR
Conservative / Low Risk Bucket							
HUB24 Fundamental Preservation	0.51	1.60	4.54	9.64	7.22	4.23	4.00
Hub24 Flagship - Preservation	0.34	1.55	3.90	8.15	6.68	4.11	3.82
Target Cash Rate +1.5%	0.44	1.30	2.65	5.57	5.74	4.32	3.73
Balanced / Medium Risk Bucket							
HUB24 Fundamental Wealth Creation	0.66	2.23	6.67	13.23	10.73	7.47	7.56
Hub24 Flagship - Wealth Creation	0.25	1.93	5.36	10.62	9.67	6.97	7.26
Target Cash Rate +3%	0.56	1.68	3.42	7.13	7.31	5.86	5.26
Growth / High Risk Bucket							
HUB24 Fundamental Aspiration	0.82	2.79	8.30	15.86	12.70	9.24	9.67
Hub24 Flagship - Aspiration	0.32	2.42	6.59	12.45	11.08	8.30	9.05
Target Cash Rate +5%	0.73	2.17	4.42	9.21	9.39	7.91	7.30

Portfolio changes PREVIOUS 12 MONTHS



TRADE	SUMMARY
07/11/2025 South Korea (Sell) & Global Equities Factors & Emerging Markets (Buy)	<p>South Korean equities have delivered an exceptionally strong return this year, rising by around 83% and making a meaningful contribution to portfolio performance. Following such a sharp rally, valuations have become less attractive, so we are taking profits and reducing risk by exiting the position.</p> <p>Proceeds are being reallocated into areas with stronger long-term potential, with 70% going into Emerging Markets, and 30% into Global Equity Factor strategies. These changes are designed to preserve gains from the South Korean position while improving diversification and positioning the portfolio for long-term growth.</p>
20/10/2025 Global Equities (Sell) & Global Equities (Buy)	<p>We have recently completed a review of our global equity allocations and are making several adjustments to strengthen portfolio quality and resilience in a more uncertain economic environment. These changes reflect our ongoing focus on managing risk while positioning for long-term growth.</p> <p>We are modestly reducing exposure to areas of the market that are more sensitive to global economic swings and have performed strongly in recent months. The proceeds are being redirected to a strategy that blend quality, value, and momentum characteristics, offering a more balanced and diversified equity exposure.</p> <p>We are also introducing a new global equity strategy with a strong record of capturing most of the market's upside while limiting downside risk. Overall, these changes aim to enhance portfolio stability, maintain valuation discipline, and improve the potential for returns through shifting market conditions.</p>
15/08/2025 Managed Futures (Sell) Global Infrastructure & Australian Equities (Buy)	<p>Following our recent review of alternative investments, we have decided to remove the Managed Futures strategy PIMCO Trends from the relevant portfolios. While this strategy has played a role in improving diversification and balancing risk and return, it has lower levels of forecastability meaning our portfolio construction process can only allocate a very small position to it — too small to have a lasting impact.</p> <p>We are reallocating the proceeds to areas where we see better opportunities and more reliable forecasts, including global infrastructure (which we view as offering attractive long-term returns at reasonable valuations) and Australian equities via strategies that deliberately underweight CBA, helping reduce concentration risk and better position the portfolio. We are also rebalancing higher-than-normal cash holdings that have built up since the June distributions.</p>
06/05/2025 Precious Metals (Switch) & Global Equities (Buy)	<p>The gold-to-silver ratio has recently reached historically high levels, an indication that silver may be undervalued relative to gold. In past cycles, this has often led to stronger silver performance as the gap between the two narrows. This time, silver has lagged during gold's rally, which is unusual and suggests there may be room for it to catch up. Historical data also shows that when this ratio is at current extremes, gold returns often turn negative, while silver tends to hold up better and offer stronger upside potential.</p> <p>Given these signals, exposure to gold miners has been trimmed and switched into physical silver via the ETPMAG ETF. Silver remains supported by similar macro themes as gold—particularly its role as a store of value in uncertain environments—while offering more attractive return potential from current levels. A small portion of the proceeds has also been reallocated to global equities to maintain portfolio balance after the gold miners position had grown materially in size.</p>
18/02/2025 Increasing Currency Hedging	<p>The USD has rallied strongly and now appears overvalued. While overvalued currencies can stay elevated, further downside risk to the AUD seems limited. Accordingly, we've reduced unhedged exposure, bringing portfolios to a more balanced AUD/USD split.</p> <p>Near-term headwinds for the AUD include U.S. tariffs, weaker Chinese growth, lower local interest rates, and soft GDP — but much of this is likely priced in, with the AUD now near GFC and COVID lows. Over time, a reversion toward its long-term average is more likely than further decline. By switching to a hedged strategy, portfolios can benefit from any AUD strength and avoid underperformance from unhedged positions.</p>

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