



# Contact Asset Management

INSIGHTS

SEPTEMBER 2025



## Reflections on Reporting Season

*As the dust settles on what was dubbed the most volatile reporting season in ASX history, there's a story of optimism emerging from corporate Australia. The S&P/ASX 300 climbed 3.1% over August, driven by standout performances in Resources, Consumer Discretionary and small caps, signalling a market that's embracing recovery amid global uncertainties. While volatility spiked—with one in five companies swinging over 10% on results day—there is cause for optimism for Australian equities. This is supported by solid trading updates and strong long-term structural drivers.*

### Earnings Surprises Signal Strength

Corporate results delivered a wave of surprises, the most positive seen in dividends where beats outnumbered misses by a robust 3:1 ratio. This payout generosity, including specials from names such as Wesfarmers and ARB, underscores Boards' confidence in cash flows and future prospects, a far cry from cash-hoarding in tougher times. Revenue, profit before tax and EPS also leaned toward beats, with margins expanding thanks to disciplined cost management honed through years of inflation.

Sector highlights paint an encouraging picture. Consumer Discretionary shone brightest, exceeding expectations, while Growth stocks led with a +27% net EPS surprise. Small Industrials were the unsung heroes, delivering +21% beats and hinting at a rotation toward nimbler players as the domestic economy perks up. Even in Resources, firm commodity prices including iron ore and gold helped sentiment. The major Banks justified their strong run of late, with FY26 EPS growth upgraded by 100 basis points, buoyed by re-accelerating house prices following interest rate cuts.

This resilience stems from Australian companies' adept navigation of high rates, cost pressures and tariffs; posting another EPS beat overall. As one sell-side analyst noted, it's the positive dividend surprise (+15%) that best indicates corporate optimism—why return capital if storm clouds loomed?

### Domestic Economy on the Upswing

A standout theme of Reporting Season was the narrative of domestic recovery. Corporate commentary shifted from mere "resilience" to genuine improvement, with consumers responding to easier financial conditions stemming from rate cuts, tax relief and moderating inflation. Trading updates since June 30 revealed better-than-expected sales growth, particularly in retail. The strength in retail was most evident in value-focused strategies (e.g. Kmart for WES), technology spend often AI driven (noted by Harvey Norman and JB Hi-Fi) and furniture and homewares (noted by Bunnings, Harvey Norman and Nick Scali).

Property sectors echoed this positivity: REA Group expects stable residential listings in a healthy market, while Goodman Group noted ongoing resilience in Industrial citing a 2.8% national vacancy and e-commerce tailwinds. Even capex spend looks set to rise medium-term, supported by energy transition and infrastructure programs, as voiced by several of the Resource sector services companies.

Assuming that the RBA can pull off the anticipated soft landing, the outlook for the domestic economy is promising. That is, inflation back in band, low unemployment and expectations of a 3.1% cash rate by February 2026. Forecasts point to sustainable 2.5% inflation and gradual growth, creating a fertile ground for productivity gains and consumer spending.

### Companies with US exposure facing headwinds

Globally, markets are shrugging off US policy uncertainties, focusing instead on Fed rate cuts—another 100 basis points expected over the year—to fuel tech investment and liquidity. Australia's market mirrored this, with the AUD appreciating and equities re-rating positively. Despite some offshore softness, like US housing ripples, AI investments continue to spark hope for future productivity.

Nevertheless, one theme from Reporting Season was the challenging period being endured by Global Cyclical. These companies are most exposed to global headwinds including tariffs, FX volatility, commodity prices spikes and softness in the US housing market.

The high level of fixed mortgage rates in the US is a significant headwind. This is further explained in the chart below. There is little incentive for a lot of US homeowners to turnover housing given the favourable rates they locked-in several years ago.

### US - 30 Year Fixed Mortgage Rate



A huge amount of refinancing took place when 30 year rates were c.3% (and lower). With rates now in the high 6% range, there is no incentive for US households to sell as they will be forced to refinance at a much higher rate. This is having second order effects for both repair and remodelling as well as new construction in North America. This has hurt JHX, REH and RWC.

Source: Factset, Contact Asset Management

Key players in this sector such as James Hardie (JHX), Reece (REH) and Reliance Worldwide Corporation (RWC) provided detailed commentary underscoring the US housing slowdown's impact on their results. JHX, a major supplier of fibre cement products heavily reliant on North American repair, remodel and new construction, reported challenging demand as homeowners deferred large projects and builders slowed starts to match decelerating sales and traffic. The company cited persistent uncertainty as a "common thread" in partner discussions, contributing to its EPS miss. Similarly, REH anticipated US housing constraints persisting for 12-18 months due to high mortgage rates and affordability issues, despite some rate reductions; this led to weaker demand across key markets, an EPS miss and material downgrades. RWC echoed these concerns, noting insufficient interest rate cuts to stimulate remodel and construction activity, coupled with tariff uncertainties weighing on US sentiment—this translated to softer overall results despite domestic offsets. It feels like it could take some time for this to unwind.

### This is what they said

The following comments from CEO's during results briefings provides a useful summary of the key themes from August:

**On Domestic Resilience and Recovery:** *"The resilience of both households and businesses has been aided by the reduction in interest rates and the moderation of inflation. This is reflected in lower levels of customer stress. It should also underpin a recovery in private sector activity and support lending growth."* – Anthony Miller, CEO, Westpac Banking Corp.

**On Economic Fundamentals and Growth:** *"Despite global uncertainty, the Australian economy has remained resilient, with strong fundamentals including a healthy labour market, steady immigration and ongoing public sector investment. Even though sentiment remains subdued, we expect economic growth to improve modestly as the year progresses."* – Matt Comyn, Commonwealth Bank

**On Property Market Improvement:** *"Market conditions are expected to improve across all sectors over the next financial year, supported by lower inflation and a further easing of interest rates. We have multiple levers for future growth, supported by more favourable market conditions."* – Campbell Hanan, CEO, Mirvac Ltd

**On Healthy Residential Demand:** *"Market conditions remain healthy, with strong employment and expectations of further interest rate cuts likely to continue to support buyer demand and vendor confidence to list."* – Market Statement, REA Group Ltd

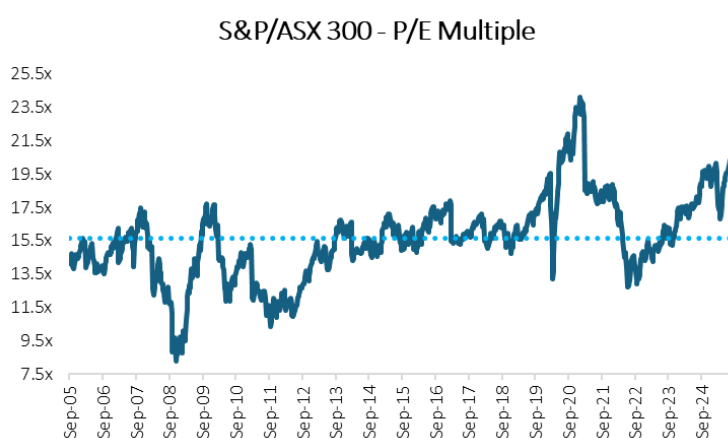
**On Strong Consumer Value Response in Retail:** *"Sales revenue was supported by solid volume growth with growth across both transactions and basket size, underpinned by our focus on value, quality, availability and the overall customer experience. Customers responded positively to our seasonal 'Great Value, Hands Down' value campaigns, our focus on fewer, deeper promotions and our expanded range of products on everyday low prices."* – Leah Wackett, Coles Ltd

## Long-term structural support for Australian equities is intact

Favourable demographic trends, most notably population growth, strong employment and expectations of further interest rate cuts are likely to support the domestic market in the near-term. In the long-term, we continue to point to the importance of the retirement system as another key driver. Total retirement assets - including superannuation and Self-Managed Superannuation Funds (SMSFs) in the second quarter of 2025 climbed 10% on the prior year, to a record high level of \$4.3 trillion. If this pool of savings continues to grow at this pace, the increase would be ~\$1 trillion every two years. As it stands, Australian retirement assets are expected to surpass \$10 trillion in the next fifteen years. If current conditions continue, we will hit that mark far sooner.

This is an important dynamic as a large proportion of retirement assets are invested in the Australian equities market. This tailwind of buying goes some way to justify why the Australian Equities market (as measured by the S&P/ASX 300) has re-rated from a P/E multiple of 14-15 times, to a P/E multiple >20 times (see chart below).

The other factor at play is that earnings expectations for FY26 are not heroic, which is making the P/E multiple appear even more elevated. Earnings growth, currently only estimated at +4.5% for FY26, could surprise higher, supporting optimism into year-end.



Source: Factset, Contact Asset Management

## Conclusion

Overall, at the individual company level, the recent round of results was quite mixed, with very high levels of dispersion in terms of share-price reactions. Volatility was a feature of the August 2025 reporting season. We think there are reasons for cautious optimism. Improvements in macro conditions are starting to take hold domestically. Unemployment is still low, mortgage stress is well contained, inflation has moderated and consumer confidence has improved. Across the board, management teams did a good job on cost control and we saw many companies report improved margins.

In all, while headline market valuation metrics look full, investors remain quite bullish. And we think with good reason. For now, it appears that the market is still supporting earnings and price momentum – a strategy that has worked well for the last couple of years. In time, we expect the Quality companies to outperform once again. We are seeking to position our portfolios in companies that provide resilience, pricing power, strong financials, attractive dividends and are managed by highly capable teams. We continue to believe this is the best recipe for long-term success.

The material contained within this Insights Report (The Report) has been prepared by Contact Asset Management (AFSL 494045)(Contact). Figures referred to in The Report are unaudited. The Report is not intended to provide advice to investors or take into account an individual's financial circumstances or investment objectives. This is general investment advice only and does not constitute advice to any person. Contact does not give any representation or warranty as to the reliability, completeness or accuracy of the information contained in this Report. To the maximum extent permitted by law, Contact disclaims all and any responsibility or liability for any loss or damage which may be suffered by any person relying upon any information contained in or omission from this communication. All opinions and estimates included in this communication constitute judgments of Contact as at the date of this communication and are subject to change without notice. Investors should consult their financial adviser in relation to any material within this document. Past performance is not a reliable indicator of future performance.