COOLABAH CAPITAL INVESTMENTS™

THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Fund: **Coolabah Active Composite Bond Complex ETF**

Strategy: **Composite Bond**

Return (since Mar. 2017): **4.25% pa gross (3.56% pa net)**

Net return volatility (since Mar. 2017): **4.35% pa**

October 2025

Objective: The Fund targets returns in excess of the Bloomberg AusBond Composite 0+ Yr Index, after management costs, by 1.0% to 2.0% per annum over rolling 12 month periods.

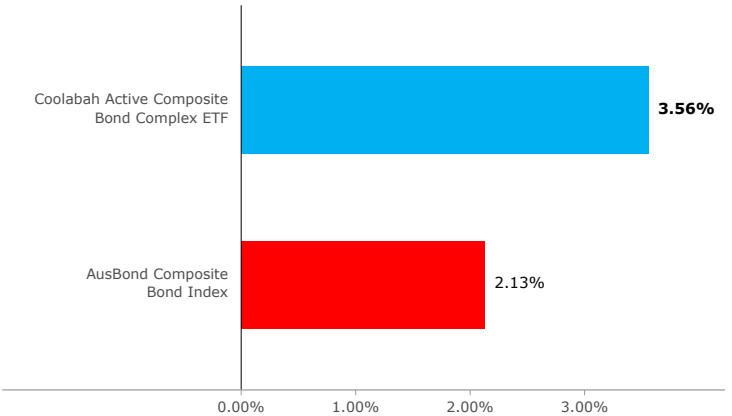
Strategy: The Fund offers exposure to an active fixed-income strategy focused on mispricing in government and corporate bond markets with the aim of delivering superior risk-adjusted returns over the Bloomberg AusBond Composite 0+ Yr Index, after management costs. The Fund is permitted to invest in bonds, such as government and semi-government bonds, bank and corporate bonds, and asset-backed securities, including residential-mortgage-backed securities, issued in Australian Dollars or in G10 currencies hedged to Australian Dollars, as well as cash, cash equivalents and related derivatives.

The Fund can borrow, use derivatives and short-sell, meaning it may be geared (or leveraged). Leverage can amplify gains and also amplify losses.

Period Ending 2025-10-31	Gross Return	Net Return†	Bloomberg AusBond Composite 0+Yr Index	Gross Excess Return‡	Net Excess Return†‡
1 month	0.44%	0.41%	0.36%	0.07%	0.05%
3 months	1.32%	1.18%	0.80%	0.52%	0.38%
6 months	3.59%	3.20%	1.68%	1.91%	1.52%
1 year	**8.33%**	**7.76%**	**6.47%**	**1.86%**	**1.29%**
3 years pa	8.53%	7.72%	4.05%	4.48%	3.68%
5 years pa	1.99%	1.34%	-0.21%	2.20%	1.55%
Inception pa Mar. 2017	**4.25%**	**3.56%**	**2.13%**	**2.12%**	**1.43%**

FIXD Complex ETF Returns (Net) vs Comparisons

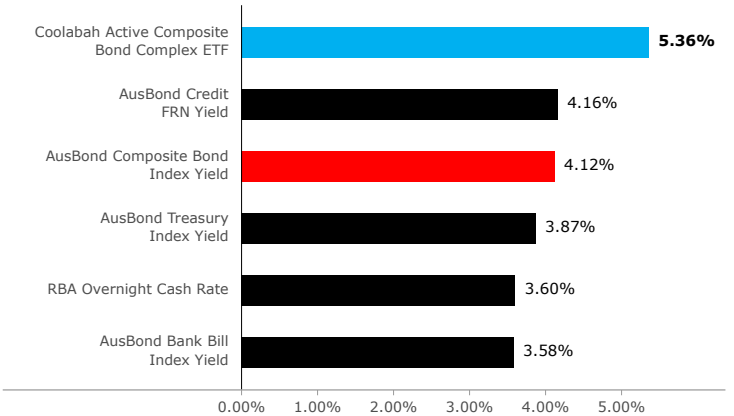
Annualized Total Returns Since Inception in March 2017 to October 2025



Data Source: RBA, Bloomberg, Apex Fund Services, Coolabah Capital Investments

Annual Running Yield

31 October 2025



Data Source: RBA, Bloomberg, Coolabah Capital Investments

† Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. ‡ The Excess Return column represents the gross and net return above the Bloomberg AusBond Composite 0+ Yr Index

Note: all portfolio statistics other than yields and duration are reported on gross asset value

Net Monthly Returns > AusBond Composite Bond 0+Y Index	71%	Modified Interest Rate Duration	5.15 years
Av. Portfolio Credit Rating	A+	Gearing Permitted?	Yes
Portfolio MSCI ESG Rating	AA	1 Year Av. Gross Portfolio Weight to Cash	3.7%
No. Cash Accounts	23	Gross Cash Accounts + RBA Repo-Eligible Debt	69.8%
No. Notes and Bonds	196	Net Annual Volatility (since incep.)	4.35%
Av. Interest Rate (Gross Running Yield)	5.36%	**Strategy Ratings:** Superior - More Complex (Foresight); Recommended (Lonsec); Recommended (Zenith)	

Signatory of: PRI Principles for Responsible Investment

Recommended Lonsec Research

Zenith RECOMMENDED

SUPERIOR MORE COMPLEX Foresight Analytics

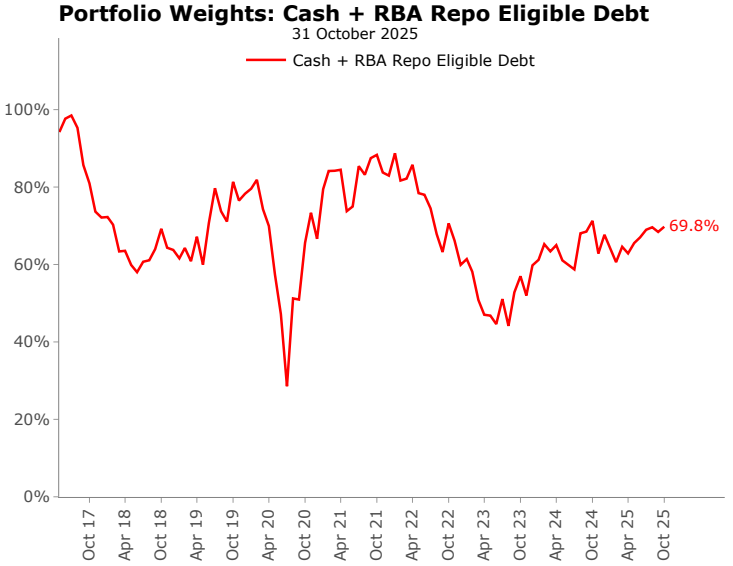
MSCI ESG RATINGS AA

CCC B BB BBB A AA AAA

Asset weighted average rating

Portfolio Weights: Cash + RBA Repo Eligible Debt

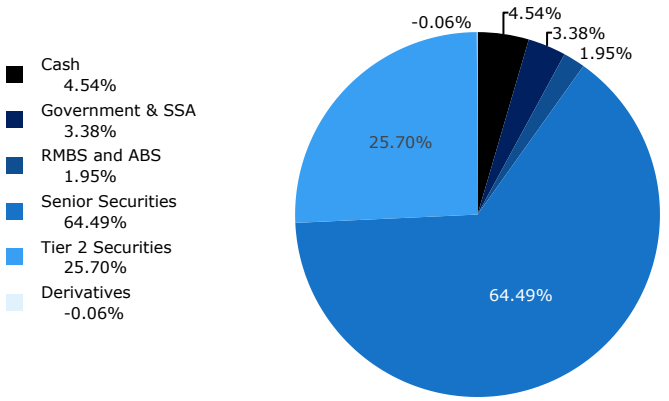
31 October 2025



Data Source: Coolabah Capital Investments

FIXD Complex ETF Portfolio Composition (GAV)

31 October 2025



Data Source: Coolabah Capital Investments

The since inception gross (net) return of 4.25% pa gross (3.56% pa net) is the total annual return earned by the fund since Mar. 2017, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Coolabah Active Composite Bond Complex ETF, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 4.35% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Active Composite Bond Complex ETF.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary (Coolabah Capital Investments)		
Asset-Class	Composite Bond	Strategy Inception	07-Mar-2017
APIR Code	ETL2716AU	Ticker	FIXD
Benchmark	Bloomberg AusBond Composite 0+ Yr Index	Unit Pricing	Daily (earnings accrue daily)
Target Return	Composite Bond 0+ Yr Index + 1%-2% pa	Distributions	Half yearly
Target Tracking Error	1%-2%	Mgt. & Admin Fee	0.30% pa
Investment Manager	Coolabah Capital Investments (Retail)	Perf. Fee	20.5% of outperformance of benchmark after fees

Portfolio commentary: In October, the long duration daily liquidity Coolabah Active Composite Bond Complex ETF (FIXD) returned 0.44% gross (0.41% net), outperforming the AusBond Composite Bond Index (0.36%) by 0.07% (0.05% net). Over the previous 12 months, FIXD returned 8.33% gross (7.76% net), outperforming the AusBond Composite Bond Index (6.47%) by 1.86% (1.29% net). FIXD ended October with a running yield of 5.36% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of AA.

Since the inception of FIXD 8.7 years ago in March 2017, it has returned 4.25% pa gross (3.56% pa net), outperforming the AusBond Composite Bond Index (2.13% pa) by 2.12% pa (1.43% pa net). While FIXD's return volatility since inception has been low at around 4.35% pa (measured using daily returns), as a daily liquidity product with assets that are marked-to-market using executable prices, volatility does exist. This contrasts with illiquid credit (eg, loans and high yield bonds) wherein assets that have very high risk can appear to have remarkably low volatility, which is, in fact, just a mirage explained by the inability to properly value these assets using executable prices.

Strategy commentary: October was an interesting month characterised by cross-currents: a possible escalation of the US-China trade war supplanted by apparent détente; fears about the economic impacts of the US government shutdown superseded by a hawkish Fed; decent equity and bond market performance juxtaposed against declining cryptocurrencies; and, in Australia, unemployment spiking followed by a very hot third-quarter inflation print that ruled out near-term cuts.

One silver lining was a lot of bond issuance, or supply, which delivered opportunities. During the month, long-term fixed-rate bonds, or duration, were the best-performing asset class, with the Bloomberg Global Aggregate Corporate Index returning 0.61% (USD-hedged) relative to its duration-hedged equivalent, which returned 0.30%.

In Australia, the fixed-rate AusBond Composite Bond Index (+0.36%) only modestly outperformed the AusBond Floating-Rate Index (+0.33%) due to the shock of RBA rate cuts being shelved after the surprisingly high September-quarter inflation data (+1.0%), which printed in line with Coolabah's forecast (consensus was 0.8%). This meant that Aussie 10-year government bond yields were unchanged over the month, in striking contrast to the rest of the world where yields generally declined quite sharply.

For some time, our key macro ideas have been as follows:

- **Interest rate duration**, or long-term risk-free rates, are cheap relative to most other assets as term premia have widened (reflecting elevated government bond issuance and concerns around fiscal policy integrity).
- There has been a **shift of risk premia** from the private sector, where many credit spreads have tightened, to the public sector, where term premia have widened, leaving overall yields at historically attractive levels.
- We are **bullish on the potential for the US economy** to deliver an upside economic surprise, courtesy of AI-related capex and additional investments associated with the reshoring of US supply chains, amplified by a very business-friendly administration.
- Markets have been too insensitive to the possibility of **shallow easing cycles** and the prospect of interest rate hikes coming back onto the table in 2026-28.
- The main concern is **globally sticky services inflation**, in concert with a rebound in goods prices that makes it difficult for central banks to hit their inflation targets.
- The main **mitigant to renewed rate hikes** is the deflationary influence of AI reshaping workplaces (e.g., Tesla robots disintermediating labour).

October saw strong equity market performance globally, accompanied by a rally in global risk-free rates. The S&P 500 gained 2.3%, while the Nasdaq rose 4.8%. In Europe, major indices also finished higher, with the Eurostoxx 50 up 2.5% and the FTSE 100 advancing 4.1%. Gold ended the month up 3.7% at $4,000, though this remained about 10% below intra-month highs of $4,400. Equity gains were led by technology stocks, with the tech component of the S&P 500 up 6.2% for the month.

Strategy commentary cont'd: Fixed income markets ended the month on a softer tone after a strong rally in the first three weeks. Concerns over a weakening US labour market, coupled with the ongoing shutdown of the US Federal Government, were to the fore early in the month. On 22 October, the US 10-year yield reached a low of 3.94%, subsequently closing the month at 4.08%, still 7bps richer than 30 September levels. Credit markets were mixed, with European IG credit spreads 2bps tighter at 75bps, whereas US IG credit spreads finished the month 5bps wider at 78bps.

The US saw $161bn of USD investment-grade issuance in October — the busiest October in over a decade — bringing YTD supply to $1.51trn, according to Bank of America. Financials represented 36% of total supply, below the YTD average of 47%. Following mid-month earnings, Goldman Sachs, JPMorgan, and Morgan Stanley each issued new USD benchmark deals.

The standout transaction came from Meta, which launched a $30bn multi-tranche deal. According to Bloomberg, "Meta's ~$125bn peak order book was the largest on record, surpassing CVS's $120bn for its $40bn Aetna acquisition in 2018." This was also the largest corporate bond issue since Pfizer's $31bn Seagen acquisition financing in May 2023. Demand was strong, with each tranche around 4x oversubscribed.

We participated in the 5-year, 10-year, 30-year, and 40-year tranches. The bonds were volatile on the break, moving up to 4bps intraday, and ended slightly tighter: the 5Y, 30Y, and 40Y closed around RO-0.5bps, and the 10Y around RO-2bps.

In contrast, European primary issuance was subdued, totalling just €53.9bn, including €24.3bn from financials. The slowdown reflected front-loaded issuance in September and blackout periods ahead of earnings for many banks.

After results, reverse Yankee issuance resumed as Citi, Bank of America, and JPMorgan took advantage of the favourable cross-currency basis. Among European banks, Barclays issued €1.25bn of 11NC10 HoldCo debt late in the month, attracting 4.2x covered books.

European corporate supply was minimal, with Procter & Gamble's dual-tranche 8-year and 20-year issue being the only notable deal.

In the sovereign, supranational, and agency (SSA) sector, the European Union tapped an existing 7-year bond and issued a new 15-year line, together raising €11bn.

In Australia, spreads were volatile across the capital stack. While the major banks' 5-year senior spreads were very marginally wider, their Tier 2 bond spreads at the 5-year maturity point moved materially tighter by some 10bps. One notch down, the majors' 5-year AT1 hybrid spreads drifted 3bps higher.

We saw A$9.2bn of public IG primary credit issuance in AUD from domestic and global issuers. Deals of note included: CBA issued A$350m of an unusual 10-year SNR in a club deal, which we participated in. The deal priced at ASW+100bps. This was an unusual deal, as 10-year SNR is historically not a common format for domestic financial issuers outside of the occasional private deal.

NAB followed up with their own SNR deal after the success of CBA's experiment, and issued their own 10-year along with a more traditional 3-year FXD and FRN. They printed A$1bn of the 10-year SNR at ASW+103bps, A$350m of the 3-year FXD at ASW+60bps, and A$1.65bn of the 3-year FRN at BBSW+60bps. We participated in all tranches.

We also saw other smaller deals from Victorian Power Networks (A$850m dual FXD/FRN), Patrick Terminals (A$600m dual FXD/FRN), Credit Union Australia (A$500m), Ampol (A$500m), Lendlease (A$450m), Dominion (A$425m), Weir Group (A$400m), and Stockland (A$400m), which we did not participate in.

Amongst the mortgage-backed securities, there were primary deals totalling A$11.752bn, with notable issuances from: HARVEY printing A$736m of 2.7-year WAL at BBSW+85bps; MEDALLION printing A$1.38bn of 3.4-year WAL at BBSW+77bps; and PROGRESS printing A$920m of 3.0-year WAL at BBSW+85bps.

Strategy commentary cont'd: The challenge of high and rising public debt

High public debt is common to many economies, with the US, the UK and France in the worst position, running large budget deficits, and where Europe is beset by structural economic problems (Australian and NZ debt is rising, but remains relatively low). Debt is likely to rise further as countries spend significantly more on defence and with history suggesting a recession is always around the corner. There is no short-term solution because there is no political appetite for meaningful budget repair and higher debt has already added to bond yields over recent years.

Public debt is necessary because it is unfair for taxpayers to pay the upfront cost of services/facilities that will be used by future generations. Moreover, too little debt can signify underinvestment by government, which limits the public's access to education, health and housing.

Across the advanced economies, public debt - spanning national, state and local governments - is high as a share of GDP in most countries, bar Australia and New Zealand, and is rising once domestic central bank holdings are excluded. Japan is a notable exception, with debt falling as a share of GDP, while there are marked differences across the member countries of the euro area.

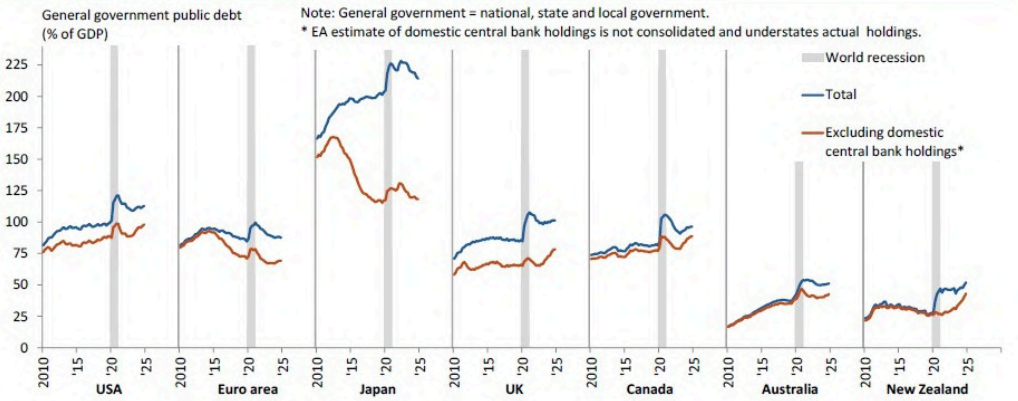
High public debt matters because:

- High public debt is likely a drag on economic growth. The effect could be non-linear, with very high debt an even larger constraint on activity, although there is lingering controversy over the Rogoff-Reinhart debt threshold of 90% of GDP.
- High interest payments reduce the scope for spending on social services and infrastructure. High debt could also limit a government's ability to respond to the next economic downturn.
- High public debt raises interest rates, boosting the short-term neutral policy rate and adding to the term premium on government bond yields.
- Some policies aimed at dealing with high public debt - such as engineering high inflation and/or financial repression - can have undesirable side-effects on the economy and financial markets.

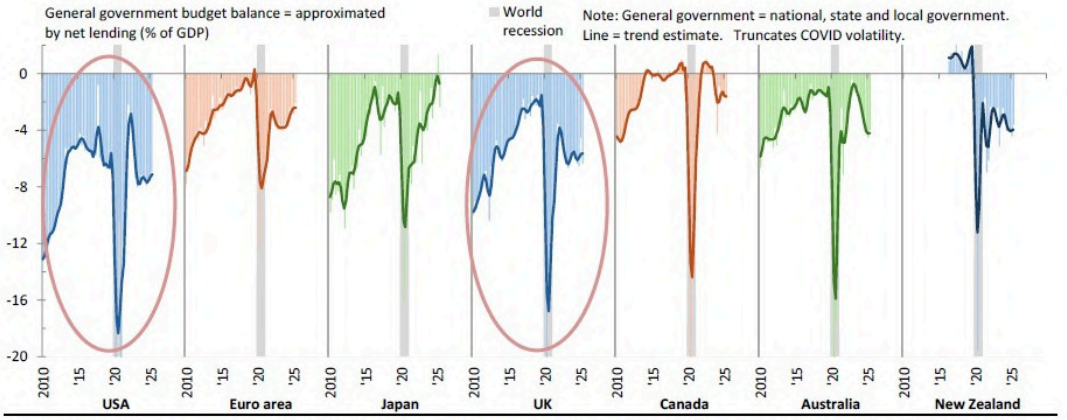
Moreover, public debt is likely to rise further given most budget deficits are historically large, stuck well above pre-COVID levels, with the US and the UK in the worst position.

The situation is more variable across the euro area. Most euro area countries - even those with high levels of debt - have either small or modest deficits as a share of GDP. France stands out with a large US/UK-style budget deficit, although Belgium is in a similar position.

Figure 1: Public debt, excluding domestic central bank holdings, is rising in most countries and could rise further given most budget deficits are historically large, especially in the US and the UK

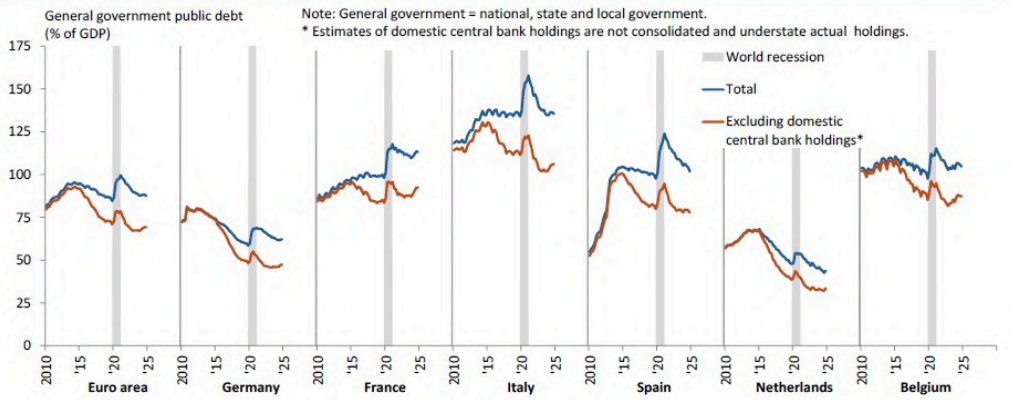


Strategy commentary cont'd:



Source: Australian Bureau of Economic Statistics, Bureau of Economic Analysis, Cabinet Office, Eurostat, International Monetary Fund, Office for National Statistics, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

Figure 2: Public debt is high in most large euro area countries, but budget positions vary considerably, with France running a large US/UK-style deficit and Belgium in a similar position



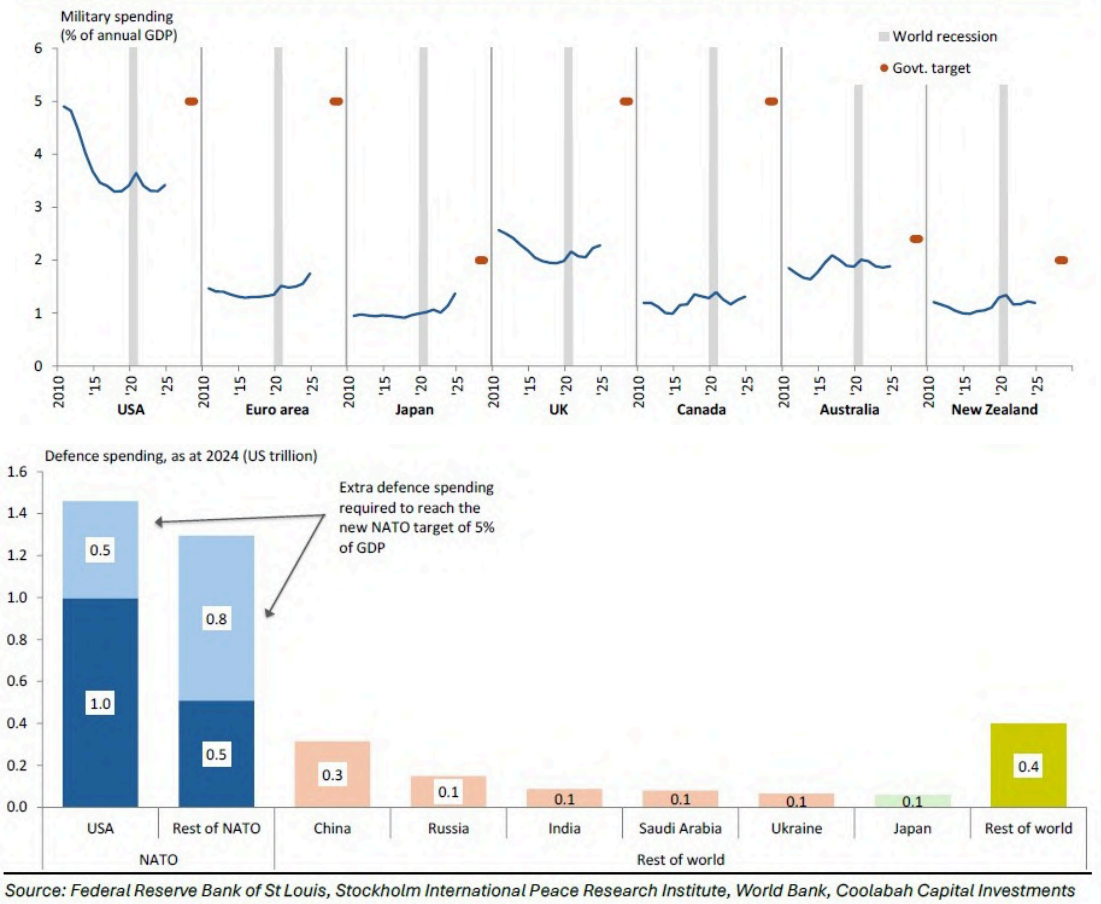
Source: Eurostat, Coolabah Capital Investments

Importantly, all countries face two significant challenges to the budget outlook, one being the commitment to a very large increase in defence spending, and the other that history shows a recession is always around the corner.

At the insistence of the US, NATO members have committed to raising military spending to an ambitious target of 5% of GDP by 2035, where Europe faces a belligerent Russia. Other countries - including Australia - also plan to spend more on defence, although not by as much as NATO.

Strategy commentary cont'd:

Figure 3: Russia provides good cause for NATO to reach its ambitious target for higher military spending



Source: Federal Reserve Bank of St Louis, Stockholm International Peace Research Institute, World Bank, Coolabah Capital Investments

As for downturns, recessions occur more often than people think and inevitably add to public debt.

In the post-WW2 period, advanced economies have generally been in recession once or twice a decade and the last common recession of 2020 differed from past downturns in that it was driven by a health crisis rather than private-sector excesses and/or central bank/government policy.

Not only do recessions increase public debt, debt is usually higher for a long time. For example, US public debt typically increased by 2-3% of GDP in the wake of post-WW2 recessions.

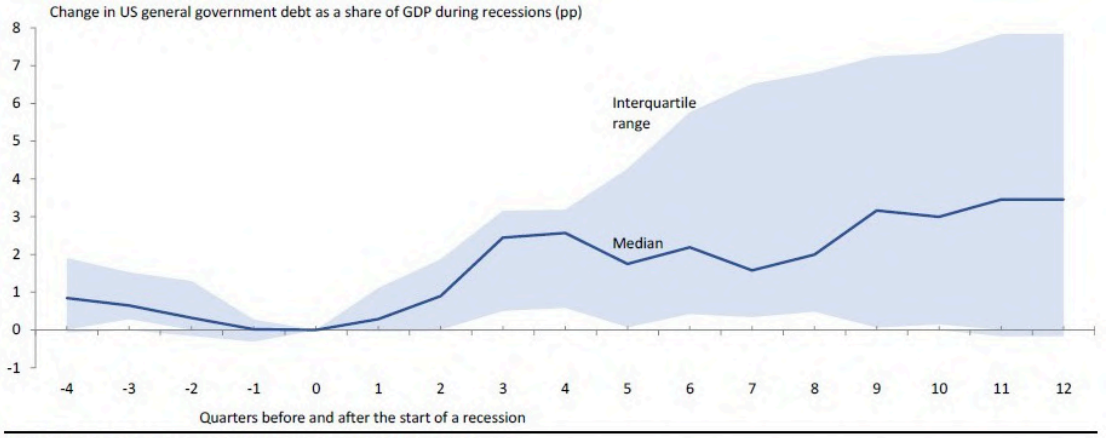
Figure 4: Most economies have been in recession once or twice a decade and the US experience shows how recessions often lead to lasting increases in public debt

Number of recessions per decade*

	USA	EA	JPN	GBR	CAN	AUS	NZL
1940s	2	na	na	1	1	1	1
1950s	2		2	1	3	2	1
1960s	2	1		1	1	1	1
1970s	1	1	1	2	1	2	1
1980s	2	1		1	1	1	2
1990s	1	1	2	1	1	1	2
2000s	2	1	2	1	1		1
2010s		1					
2020s	1	1	1	1	1	1	2

* some recessions span the end of one decade and the start of the next decade

Strategy commentary cont'd:



Note: US general government debt covers the post-WW2 period.
Source: Bank of England, Cabinet Office, C.D. Howe, EABCN, Federal Reserve Bank of St Louis, London School of Economics, Melbourne Institute, National Bureau of Economic Research, National Institute of Economic and Social Research, Reserve Bank of New Zealand, Coolabah Capital Investments

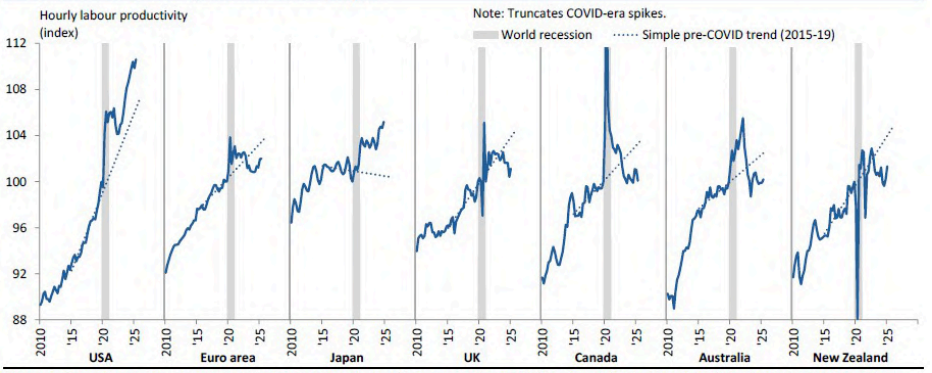
Given these two clear risks to high levels of public debt in many countries, it is unfortunate that the most obvious way of bringing debt under control - namely, raising taxes and cutting spending - is politically unpalatable.

This leaves fallback approaches involving economic and financial means.

Of these, the best option is stronger economic growth driven by productivity. This is because population-led growth has an ambiguous impact on public debt, in that a larger tax take is countered by an increased demand for government services and infrastructure.

Unfortunately, the news here is not good for the highly-indebted economies of the UK and France because productivity is languishing outside the US and Japan.

Figure 5: Sustained economic growth to reduce public debt hinges on strong productivity, which is languishing in most countries except for the US and Japan

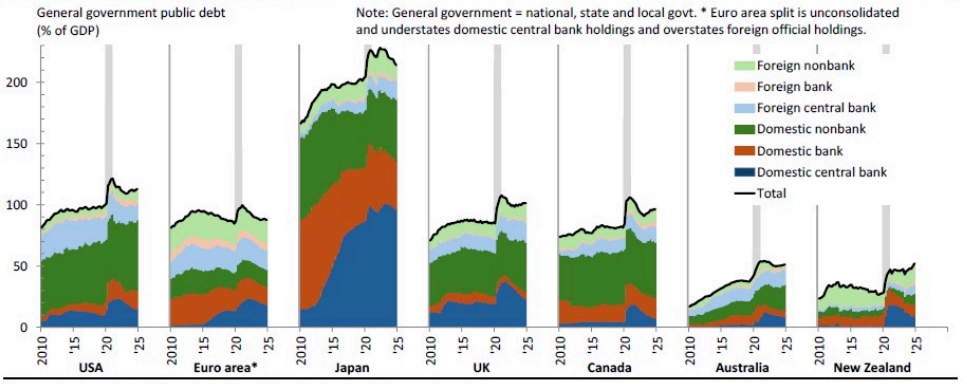


Source: Australian Bureau of Economic Statistics, Bureau of Economic Analysis, Cabinet Office, Eurostat, Office for National Statistics, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

Another strategy for dealing with high public debt is financial repression, which involves forcing the domestic central bank, banks, and/or pension funds to buy government debt. Japan has effectively taken this approach in recent years, with the Bank of Japan and Japanese banks owning more than 60% of Japan's public debt.

Strategy commentary cont'd:

Figure 6: Japan is a recent example of financial repression, with the Bank of Japan and domestic banks owning more than 60% of government debt



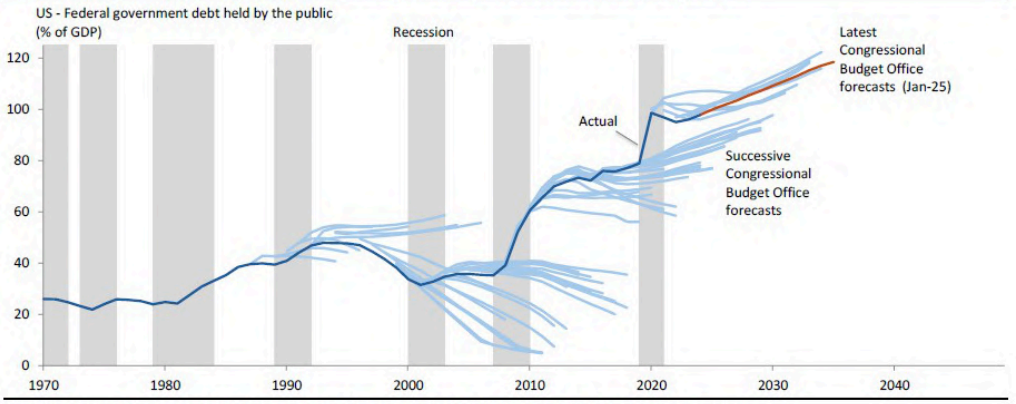
Source: International Monetary Fund, Coolabah Capital Investments

Finally, a riskier strategy typically seen in emerging markets is to hold interest rates too low to generate high inflation to reduce the real burden of public debt. The US could go down this path if the government successfully takes control of the Federal Reserve next year and forces it to adopt artificially low interest rates.

As for the impact of higher public debt on financial markets, markets attempt to be forward looking, but in practice it is hard to forecast budget deficits and public debt because governments change their mind, policy costings can be wide of the mark, and the economy regularly turns out differently.

This is clearly seen in the difficulty the Congressional Budget Office - which is the gold standard in budget forecasting - has in forecasting US government debt, where the forecasts are often wrong and often wrong by a lot.

Figure 7: As the US shows, forecasting budgets and public debt is extremely hard

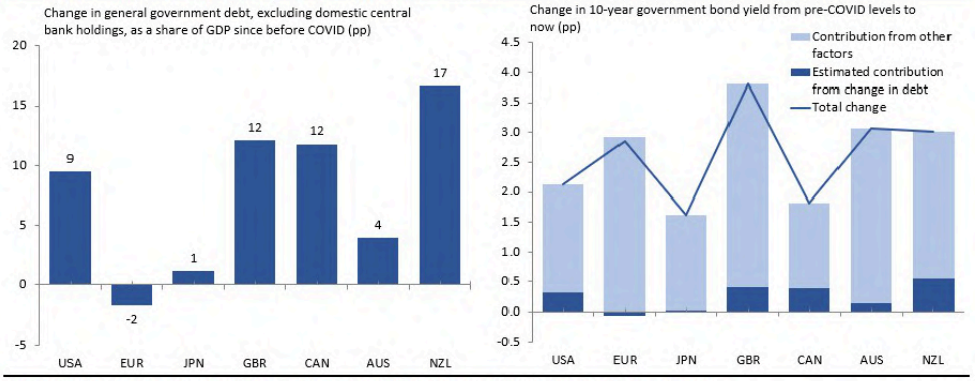


Source: Congressional Budget Office, Federal Reserve Bank of St Louis, Coolabah Capital Investments

Notwithstanding the difficulty in forecasting debt, the rise in debt over recent years has already contributed to higher government bond yields. Averaging across the results from a range of academic and official studies and surveys of investors, a 10% increase in public debt as a share of GDP increases long-term government bond yields by about 30bp. The largest increases in debt since prior to the pandemic have occurred in the US, the UK, Canada and New Zealand, suggesting that higher debt has already added about 30-60bp to bond yields in those countries, with the risk of more to come for the reasons outlined above.

Strategy commentary cont'd:

Figure 8: Analysis suggests that higher public debt has increased government bond yields by about 30-60bp over recent years in the US, the UK, Canada and New Zealand



Source: Federal Reserve Bank of St Louis, International Monetary Fund, Coolabah Capital Investments

US tariffs, global trade & disinflation in the rest of the world

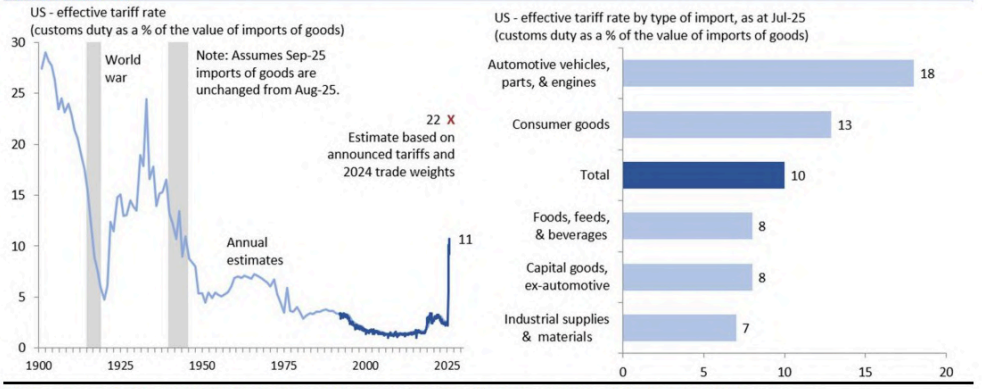
The biggest change in US trade policy in about a century has cooled world trade and upended trade flows, but there is no evidence yet that US tariffs have been mildly disinflationary for the rest of the world, where goods prices are rising again in most countries.

The US effective tariff rate - which is tariff revenue as a share of the value of imports - has spiked to about 10-11% over the past few months, up from 2.5% at the end of last year.

This is the highest rate since WW2, but falls well short of a range of estimated tariff rates in the high teens/low twenties based on government announcements and historic trade shares.

The Supreme Court will rule on the legality of new tariffs in November, where it is not clear that the government has better-legislated tariffs in reserve, but in the meantime the government continues to announce more tariffs.

Figure 1: The US effective tariff rate has spiked to its highest level in decades, but not by as much as had been widely expected



Source: Bureau of Economic Analysis, Peterson Institute for International Economics, Coolabah Capital Investments

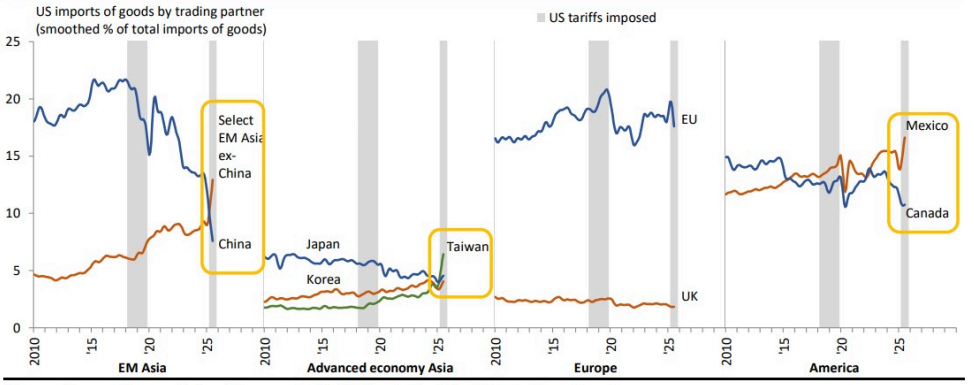
There are several possible reasons for why the effective tariff rate has fallen short of earlier estimates, including;

- A short lag between announced tariffs showing up in higher revenue, where the government is still announcing new tariffs;
- US government exemptions and deals with corporates limiting gains in revenue;
- US firms substituting away from higher-priced imports to less expensive alternatives; and
- China - which is subject to very high US tariffs - potentially rerouting sales of goods to the US through lower-tariff countries in Asia, even though the US warned it will impose punitive 40% tariffs on redirected trade.

Strategy commentary cont'd: The split of US imports by trading partner shows that Americans have substituted away from higher-priced Chinese goods and bought cheaper alternatives from other countries.

China also looks to have rerouted US trade through lower-tariff countries in Asia and there also appears to be some rerouting of trade via Mexico.

Figure 2: The US effective tariff rate has fallen short of estimated tariff rates as US consumers and firms have substituted towards cheaper goods and China looks to have rerouted trade to the US via lower-tariff countries



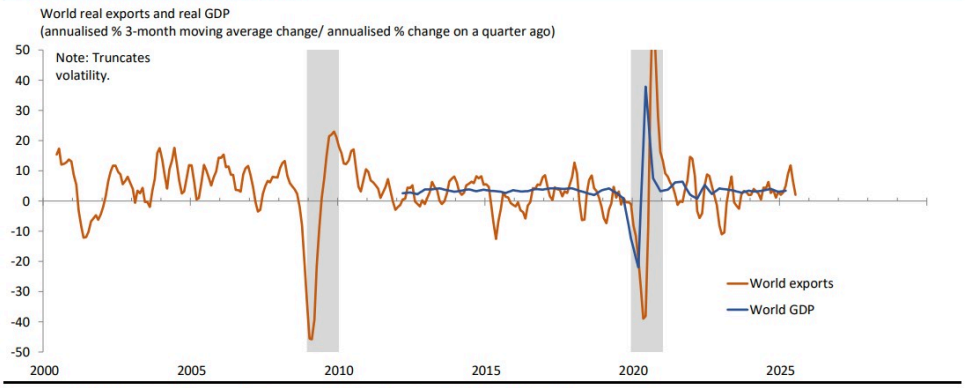
Source: Census Bureau, Federal Reserve Bank of St Louis, Coolabah Capital Investments

In terms of the impact of US tariffs on global trade, growth in world exports - which is a (volatile) proxy for world output - has slowed recently, but remains positive.

The saving grace for world growth has been that most other countries have chosen not to retaliate to US tariffs, with the understandable exception of China.

This is unlike the depression of the 1930s, when widespread retaliation to the disastrous Smoot-Hawley tariffs led to even weaker world output.

Figure 3: World trade has slowed because of US tariffs, but the impact to date has been limited by most other countries choosing not to retaliate



Source: CPB Netherlands Bureau for Economic Policy Analysis, Coolabah Capital Investments

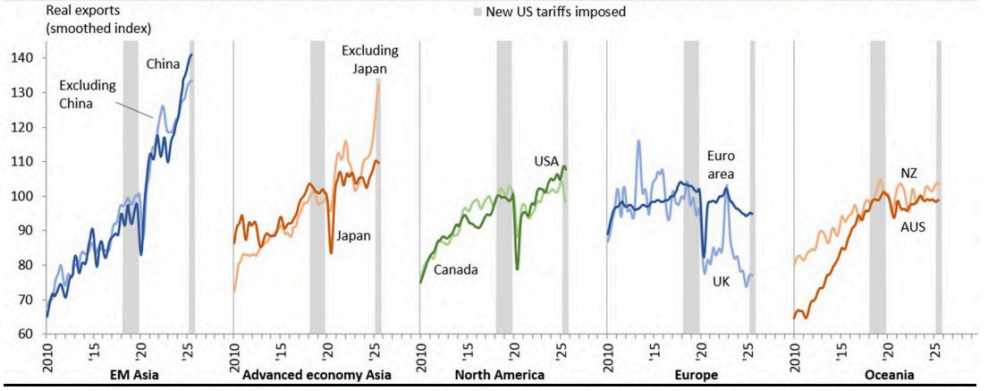
Instead, US tariffs have had a more pronounced near-term effect on world trade flows.

Chinese export volumes have started to flatten at an extremely high level, Japanese exports have slipped from a high level in real terms and other Asian exports are still booming.

Canada - America's longstanding ally - has seen its export volumes slump. European exports remain very weak in real terms, especially UK exports, which are structurally depressed.

Strategy commentary cont'd: Australian and New Zealand trends have been unaffected; Australian exports remain in the doldrums and NZ exports continue to slowly pick up.

Figure 4: US trade policy has had a greater impact on global trade flows, mainly in Asia and the Americas



Source: Australian Bureau of Statistics, CPB Netherlands Bureau for Economic Policy Analysis, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

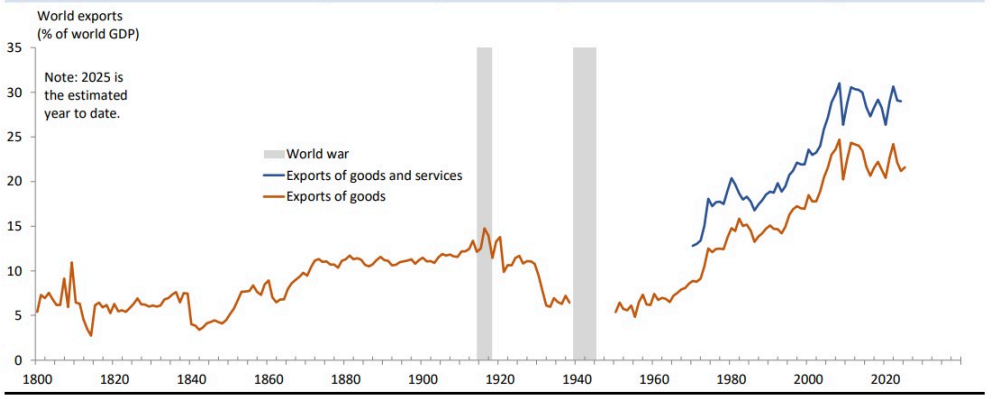
Longer term, the profound shift in US trade policy should see an unwinding of globalisation.

Globalisation - as approximated by the ratio of world exports to world output - has already broadly peaked over the past twenty years or so.

The most insular US trade policy in decades should trigger deglobalisation, leading to less efficient production, higher costs and higher prices.

The UK experience with Brexit suggests this structural deterioration should take place over several years.

Figure 5: A more insular US economy should see globalisation go into reverse over the coming years



Source: CPB Netherlands Bureau for Economic Policy Analysis, Federico-Tena World Trade Historical Database, International Monetary Fund, World Bank, Coolabah Capital Investments

The dramatic change in US trade policy has also seen many central banks, including the RBA, think that the net effect of US tariffs could be mildly disinflationary for the rest of the world,

This view rests on disinflationary forces - such as weaker world growth placing downward pressure on world prices and China selling goods meant for the US market to other countries at a discount - outweighing inflationary factors - such as disruptions to supply chains and multinational corporations raising prices globally to partly compensate for the cost of US tariffs.

Weighing these opposing forces, there does not seem to be evidence of a disinflationary impulse to the rest of the world, at least not at the aggregate level.

Strategy commentary cont'd: Although growth in world trade has slowed, world export prices have actually risen over recent months and Chinese export prices are little changed from pre-tariff levels in both US dollars and renminbi (the invoicing of Chinese exports is split roughly 50:50 between the USD and RMB).

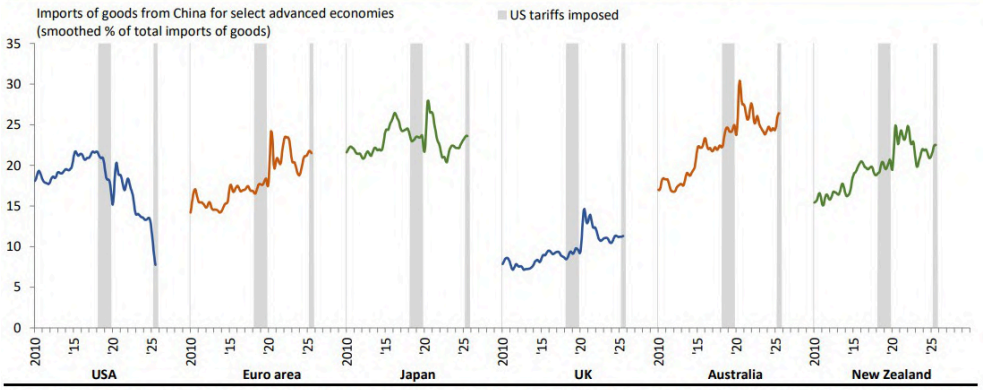
Figure 6: World export prices have risen recently, while Chinese export prices in expressed in both USD and RMB are little changed from pre-tariff levels

Source: CPB Netherlands Bureau for Economic Policy Analysis, Federal Reserve Bank of St Louis, Coolabah Capital Investments

That said, the US dollar has fallen in value against most currencies, making USD-denominated Chinese exports more competitive in many countries.

This means that while China's share of the US market has slumped, its market share could continue to trend higher in other advanced economies, where it was rising in the euro area, Japan, Australia and New Zealand prior to the US tariffs.

Figure 7: The weaker USD has made China more competitive in markets outside the US



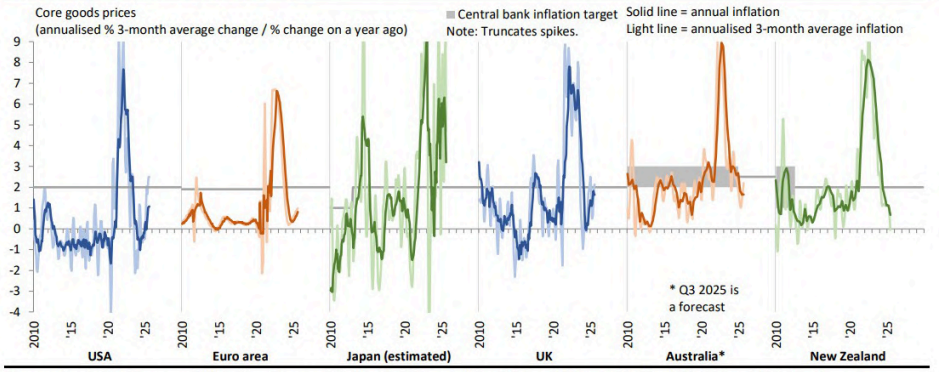
Source: Australian Bureau of Statistics, CPB Netherlands Bureau for Economic Policy Analysis, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

More pointedly, there is no clear sign of a disinflationary impulse from US tariffs in retail prices, where goods prices are actually rising again in many countries.

Goods prices, excluding food and energy, have picked up in the US on tariffs, but have also risen in the UK and the euro area. Prices have tentatively risen in Australia and have been growing strongly in Japan for some time. The outlier is New Zealand, where prices are weak.

Strategy commentary cont'd:

Figure 8: Rising retail prices for goods in most countries counters the view that US tariffs will be mildly disinflationary in the rest of the world



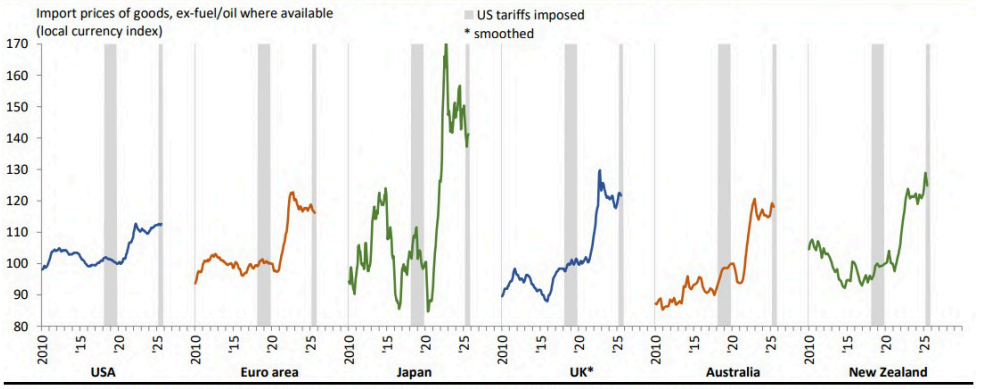
Source: Australian Bureau of Statistics, Bureau of Labor Statistics, Cabinet Office, Office for National Statistics, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

Some of the increase in goods prices reflects recent rises in import prices in several countries.

There are no broad-based supply disruptions to date, although China has successfully leveraged its near-monopoly in the control of critical rare earths in its trade negotiations with the US.

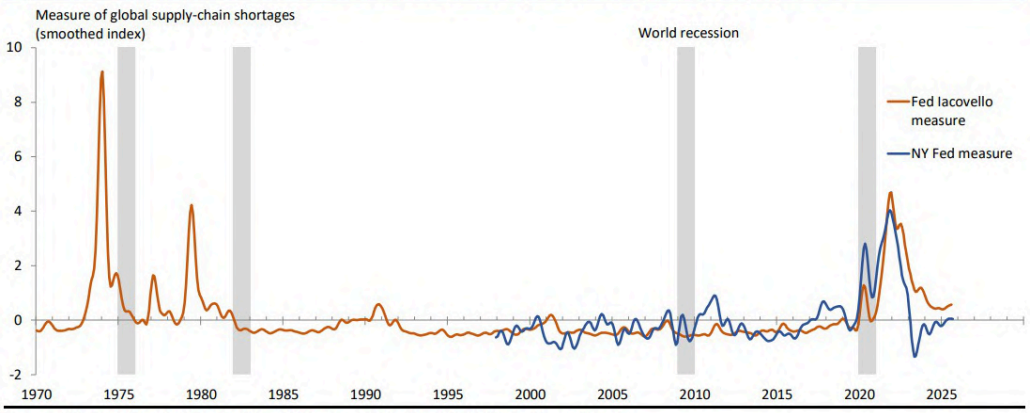
Finally and more speculatively, some multinational corporations could be evening out the cost of US tariffs by globally raising prices, even though such companies are usually thought to discriminate between different markets when setting prices.

Figure 9: Import prices were rising in many economies in the lead-up to the US tariffs



Source: Australian Bureau of Statistics, Bureau of Labor Statistics, Cabinet Office, Office for National Statistics, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

Figure 10: Tariffs make production less efficient, but are yet to broadly disrupt supply chains



Source: Federal Reserve Bank of New York, Iacoviello, Coolabah Capital Investments

Strategy commentary cont'd: The big RBA forecast miss on Q3 inflation

After a few encouraging readings on quarterly inflation that allowed the RBA to cut rates, consumer prices spiked in Q3, rising by an annualised rate of 4% in underlying terms, as foreshadowed by the monthly CPI. Outside of COVID, this was one of the highest readings on inflation since the RBA began targeting inflation in 1993.

With quarterly inflation revised up from 0.6% to 0.7% in Q2, this meant that the RBA staff's forecast miss for annual underlying inflation in Q3 was 0.5pp. Excluding a couple of extremes in inflation during COVID, this was the largest upside surprise for a current-quarter forecast since late 1992. It was also one of the RBA's largest forecast misses in absolute terms on record.

It is also a relatively large forecast error compared with the track records of the Fed and the ECB, where inflation is similarly volatile across the three economies. The Fed and the ECB's forecast errors are a little smaller than the RBA's errors, although to be fair the comparison is not like-for-like and flatters the forecasting ability of the Fed and the ECB. The RBA publishes its estimates early in the middle month of the quarter, while the FOMC and ECB estimates are published in the final month of the quarter, such that the Fed and ECB have access to more actual monthly inflation and labour market data when preparing their forecasts.[1]

The RBA staff will publish the updated economic forecasts that the board has considered at its policy meeting in tomorrow's Statement on Monetary Policy. Given the much higher starting point for inflation in Q3, our analysis suggests that the end-2026 forecast could be revised up from 2.6% to around 3%, with the risk that the end-2027 forecast is revised up from 2.5% to either 2.6% or 2.7%.

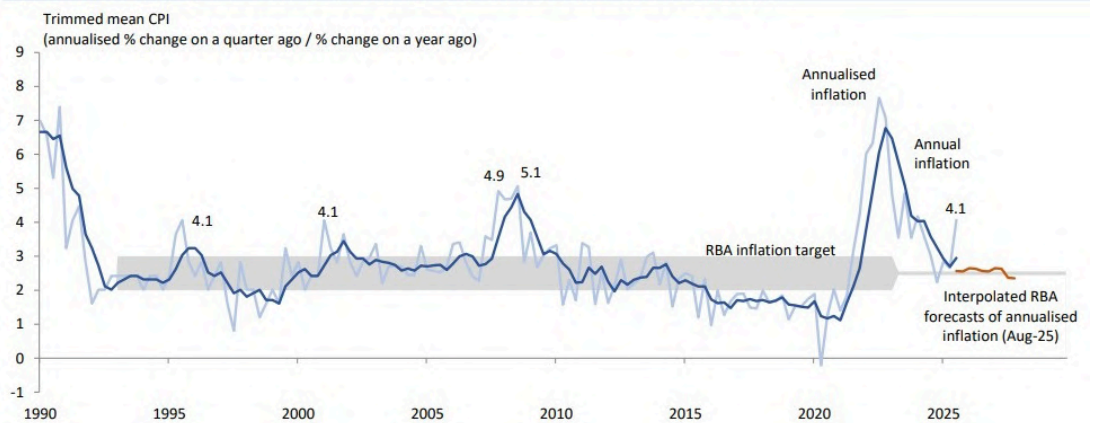
The longer-term forecasts for inflation should be helped by a higher forecast profile for the cash rate, assuming that the RBA still thinks the neutral cash rate is about 3.25%. The forecast cash rate is based on market pricing from the week before the forecasts are finalised, which in this case is about 20-40bp higher over the next couple of years than assumed for the August Statement on Monetary Policy.

If much higher inflation in Q3 is only partly unwound in Q4, this would completely derail the RBA staff's outlook for inflation and force the RBA board to rethink whether it was overly optimistic in believing that the NAIRU had fallen to 4.25% - versus the staff model estimate of 4.75% - and that monetary policy was still tight given the neutral cash rate was judged to be 3.25%.

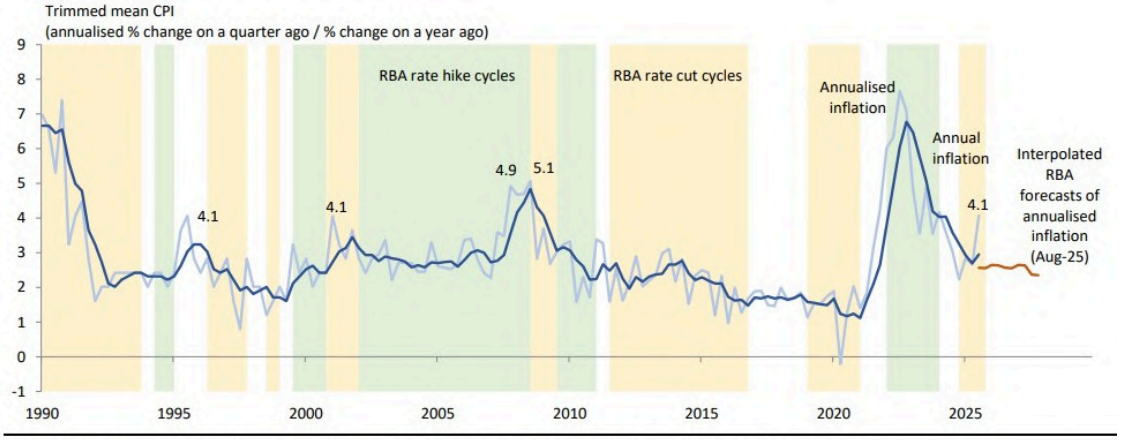
Note:

[1] That said, the Fed estimates are at a disadvantage in that they are simple interpolations of median FOMC end-year forecasts. The ECB forecasts are at a disadvantage because the short history of forecasts for underlying inflation was spliced with forecasts for more volatile headline inflation. Also note that the RBA forecast errors were calculated using inflation as first published, while the Fed and ECB errors rely on the latest available estimates of inflation.

Figure 1: Underlying inflation was much higher than the RBA had forecast in Q3

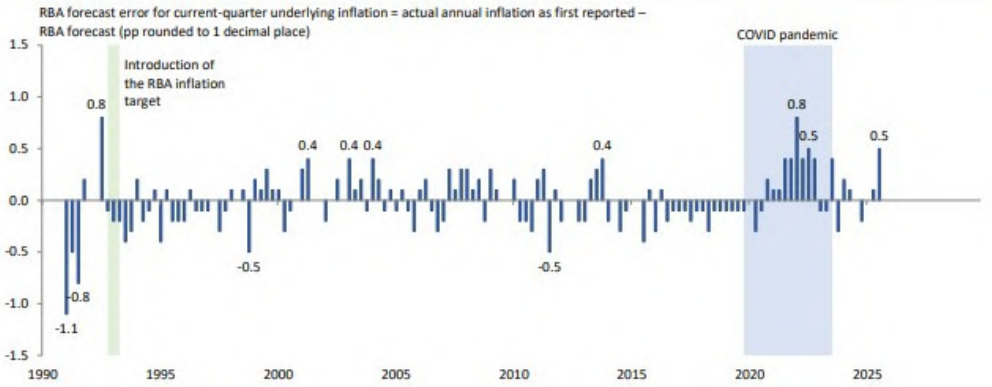


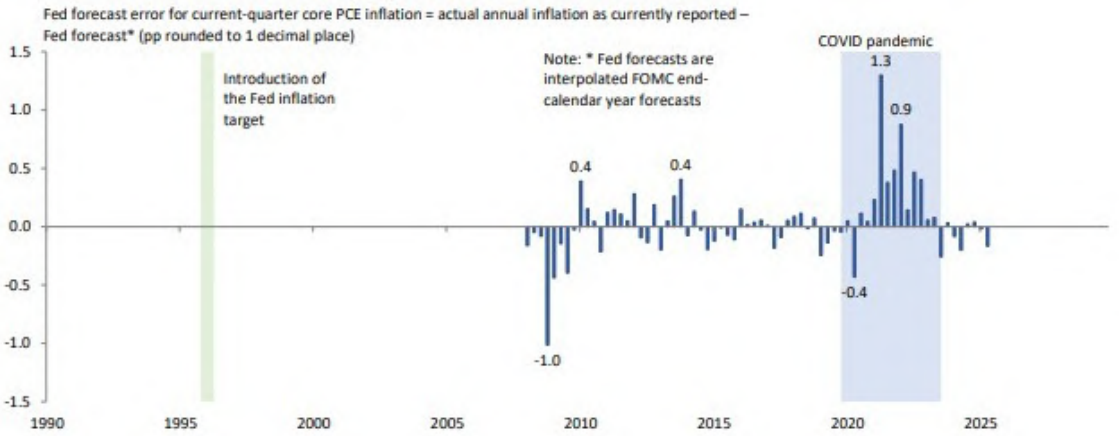
Strategy commentary cont'd:



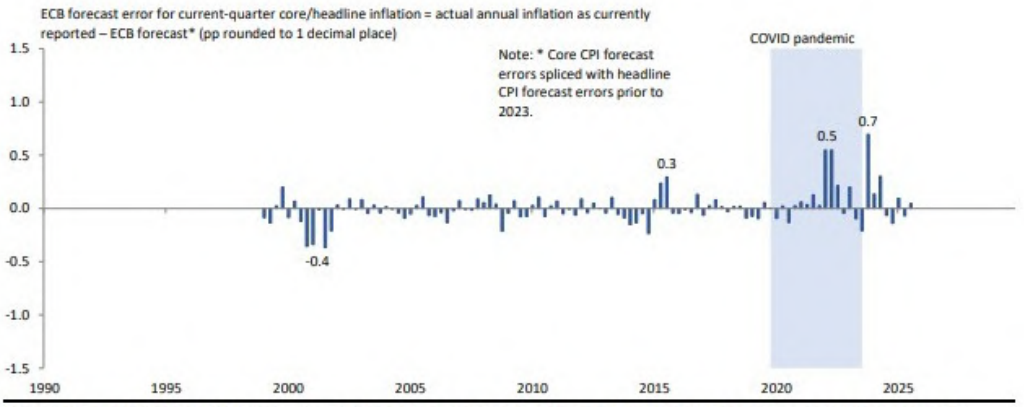
Source: Australian Bureau of Statistics, Reserve Bank of Australia, Eurostat, Coolabah Capital Investments

Figure 2: RBA current-quarter forecast errors for inflation versus the Fed and the ECB, where the Fed and ECB forecasts are flattered by being published later in the quarter



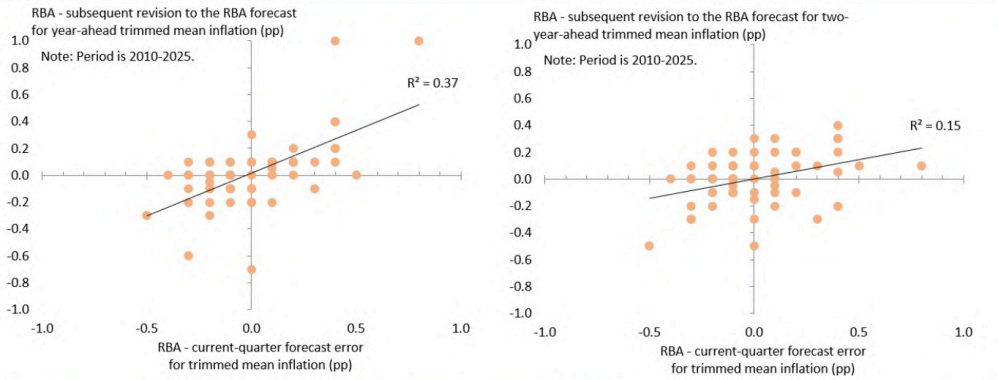


Strategy commentary cont'd:



Source: Australian Bureau of Statistics, Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, European Central Bank, Reserve Bank of Australia, Eurostat, Coolabah Capital Investments

Figure 3: History suggests that the RBA will revise up its forecast for inflation in 2026 by about 0.4-0.5pp and probably in 2027 by 0.1-0.2pp



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Eurostat, Coolabah Capital Investments

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