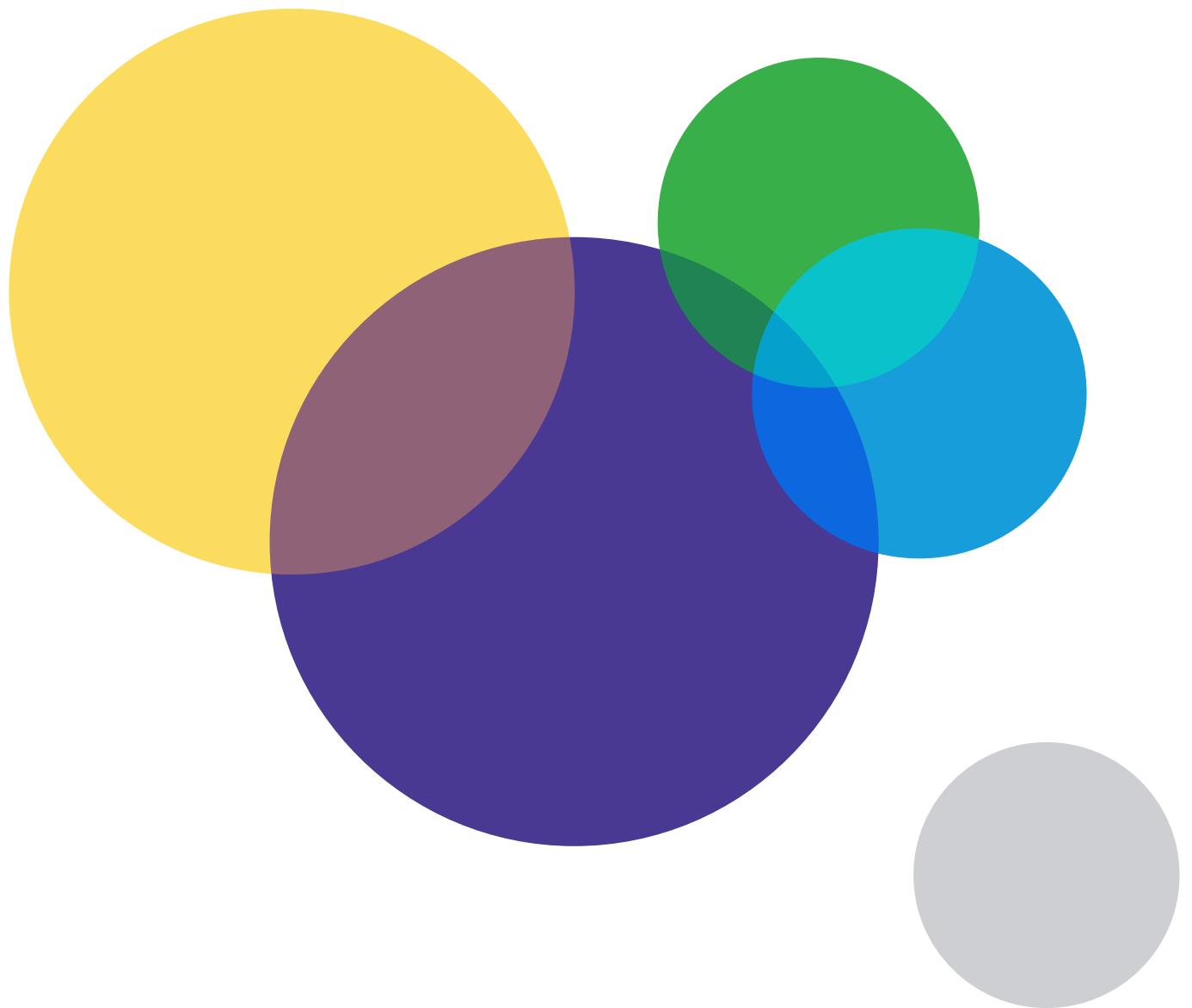


Synergy Investments

Newsletter

FOR QUARTER ENDING 31 DECEMBER 2025



Market Commentary

Following a volatile but generally profitable first three quarters of the year, the majority of markets delivered further gains over the final three months of 2025. International share markets provided the strongest gains, with the New Zealand and Australian share markets taking a back seat over the quarter.

Similarly, with global interest rates having receded from their post-Covid peaks, returns from fixed income assets delivered in line with expectations – moderately positive.

US politics and geopolitical events consistently dominated the daily news cycle, but investors can be, and should be, quite indifferent to much of what is broadcast in the mainstream news these days. While some news events can be genuinely confronting at a human level, more often than not they tend to have a minimal impact on corporate activity and long-term shareholder profits.

A quick note on Venezuela

It's not strictly related to the December quarter, but the recent news as we write this newsletter is that on January 3rd, US troops carried out a pre-dawn raid into Caracas to capture Venezuelan President Nicolás Maduro and his wife Cilia Flores.

This unanticipated military action raises a multitude of questions, most notably how Venezuela will be governed in the absence of Maduro, and what role the US will play both diplomatically and militarily in the period ahead.

Based on media coverage to date, it seems US involvement is motivated by exerting greater control over Venezuelan oil and minerals resources, and less about ensuring greater drug enforcement.

Global share markets continued to march higher during the third quarter of the year, contributing to strong returns for most diversified investors.

How this evolves is anyone's guess. The only thing we can say with any confidence is that, purely from an investment perspective, events in Venezuela are unlikely to have any material impact on investment markets.

The Venezuelan share market comprises a small collection of mainly banking, energy and agricultural companies, and the country is generally not a constituent in either the developed or emerging market funds that diversified investors are typically exposed to.

Watch for unintended concentration risks

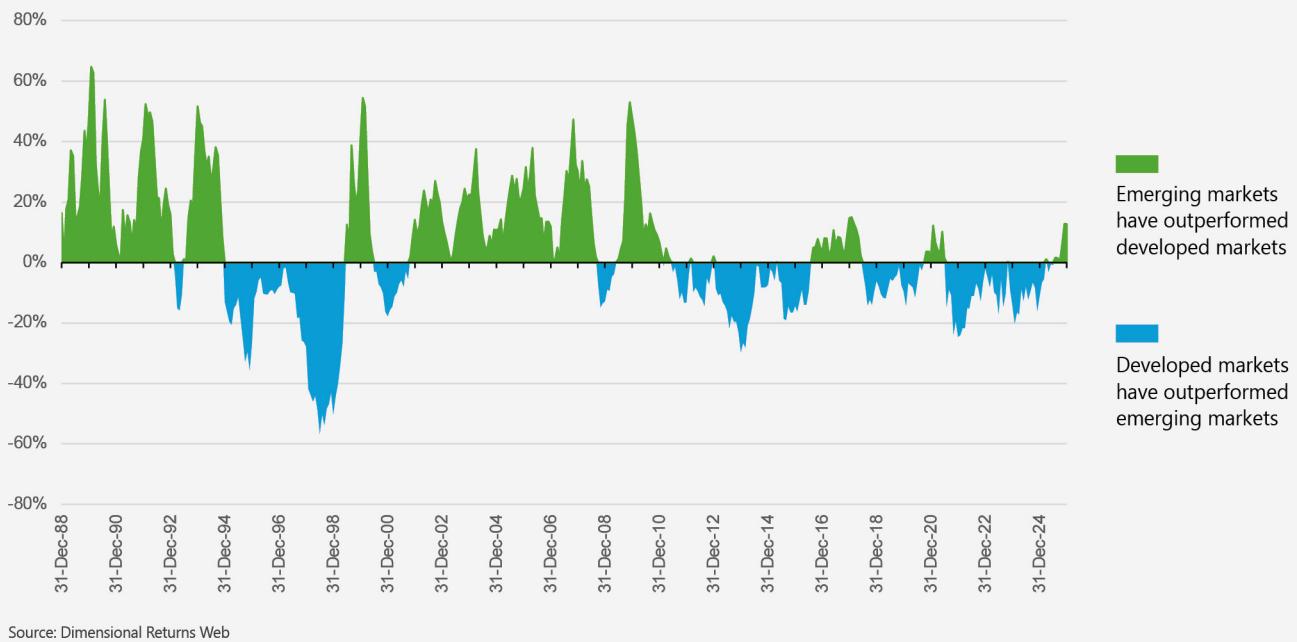
An investment theme getting plenty of attention in recent times has been the growth and development of applications related to artificial intelligence, or AI. Excitement about the potential for AI to drive the next technological revolution has contributed to strong returns from a group of US tech giants and these returns helped push the US share market to a succession of record highs in 2025.

AI might very well revolutionise the world, but basing an entire investment strategy on a single theme is always risky. For those of us who lived and invested through the last technological transformation (the rise of the internet), it wasn't much fun for investors who were heavily concentrated in technology stocks during the dot-com crash of 2001. Although all markets were impacted to some extent as the technology bubble unwound, our loyal friend – diversification – proved to be a wonderful ally.

Today, the seven most influential US tech giants (Nvidia, Apple, Microsoft, Alphabet, Amazon, Broadcom and Meta) comprise around 35% of the market cap of the S&P 500 Index. According to JP Morgan data, there is a wider group of 41 'AI-related' companies within the S&P 500 (i.e. companies either directly developing software, semiconductors, or considered integral to the AI ecosystem). These 41 companies together comprise more than 45% of the total market capitalisation of the S&P 500. That's a very significant proportion and something we all need to be aware of as they consider what a prudent asset allocation might look like.



Figure 1: Rolling twelve month returns to Dec 2025 (emerging vs developed markets)



Beyond developed markets

Developed share markets have performed extremely well over the last 15 years. In part that was due to a strong rebound from the lows of the Global Financial Crisis and, more recently, it has been helped by excellent returns from a few large US-based technology firms. With developed markets performing so well, it's been easy to forget that emerging markets, while lagging recently, have been a superior performer over longer timeframes.

The chart above shows the difference in rolling twelve month returns between the emerging markets (including countries like China, India, Korea and Brazil) and the traditional developed markets (including USA, UK, Japan, Australia and New Zealand).

Since 1988, the segments in green are when the emerging markets have outperformed developed markets. The segments in blue are when developed markets have outperformed.

There are at least two interesting aspects to this data:

1. Although developed markets have largely been winning over the last decade, the emerging markets were generally outperforming developed markets in 2025.
2. While it's not easily discernible from the chart, over the entire time period (since the beginning of 1988) emerging markets have actually outperformed developed markets by an average of 1.2% p.a.

It's intuitive that countries with faster economic growth may offer opportunities for larger investment returns and that has certainly been the case with emerging markets. Not all the time, but definitely over time.

Although the emerging markets often command fewer investment headlines, from a diversification perspective they have never lost their appeal.

The recovery that never quite arrived (but might in 2026)

For many households and businesses in New Zealand, 2025 was a trying year. Despite a much-anticipated economic recovery, the reality turned out to be sluggish growth, higher costs and persistent uncertainty.

Consumer spending stayed weak as households absorbed the cumulative impact of earlier interest rate hikes and uncomfortably high living costs. All of this contributed to concerns about job security and reducing consumer confidence.

With annual consumer price inflation remaining within the Reserve Bank of New Zealand's (RBNZ) 1-3% target range, the RBNZ continued to cut interest rates to stimulate domestic demand.

By late 2025, sales and hiring were picking up and consumer spending was rising, suggesting the economy was finally regaining some overdue momentum. We'll know for sure in March, when the official GDP numbers for the fourth quarter are released.

Looking ahead, the RBNZ is projecting a modest recovery taking hold in New Zealand and most independent forecasts are also pointing to a gradual acceleration in economic activity in 2026.

It is reasonable to be cautiously optimistic that many of the foundations for a slow and steady economic recovery in New Zealand are now in place

It won't all be plain sailing as many of the issues weighing on the economy in 2025 haven't magically vanished. This includes fragile business confidence and ongoing global trade uncertainty, in particular the US-driven move towards greater trade protectionism. However, it is reasonable to be cautiously optimistic that many of the foundations for a slow and steady economic recovery in New Zealand are now in place.

A return to relatively stable global interest rates

Globally, the response to Covid-19 saw aggressive monetary policy easing, including slashing interest rates, alongside a massive, coordinated increase in government spending.

While it's generally argued this response was necessary to prevent a deeper economic crisis, this 'cheap money' ultimately coalesced into a different problem - an explosive post-Covid spending spree. Coming out of Covid, and with many more dollars chasing a still-restricted supply of goods, we experienced an unwelcome inflationary surge. It was this 'cost-of-living crisis' that required central banks to sharply raise interest rates once more in an effort to contain price rises.

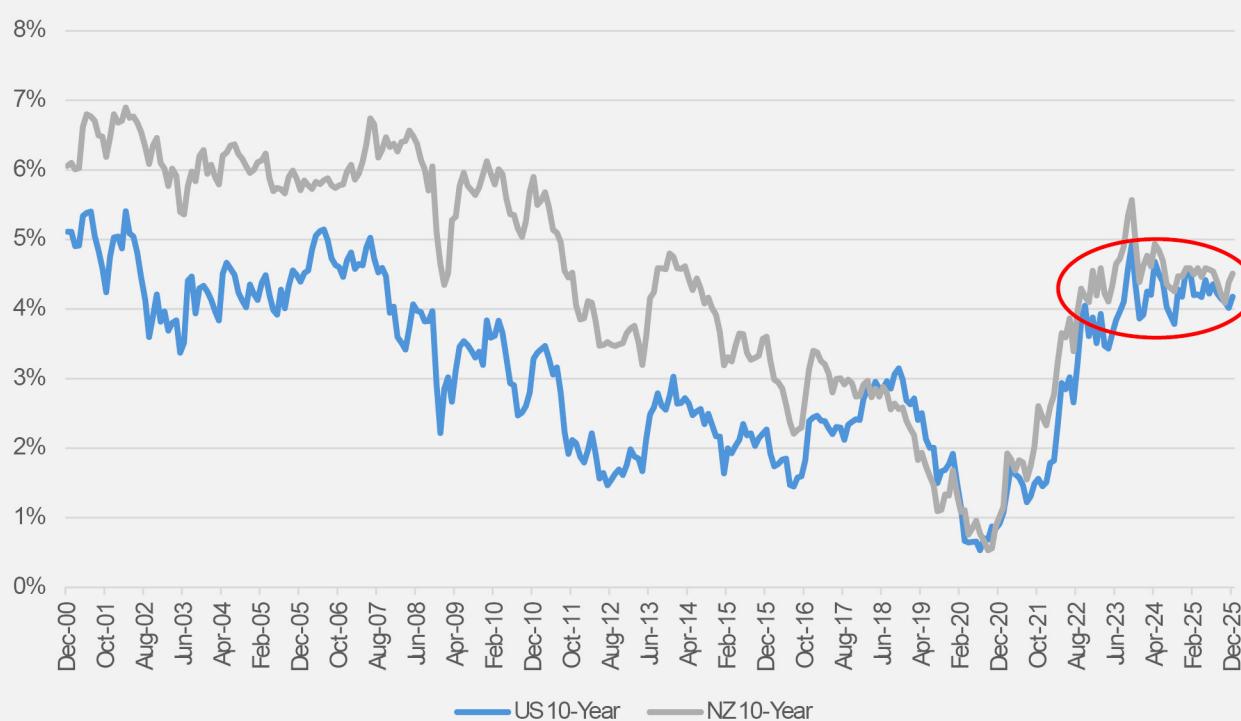
Now that inflation is largely under control again and GDP growth rates have slowed, central banks are mostly now cutting short term interest rates. This will provide welcome added relief for consumers and mortgage holders.

But bond investors are also better placed than before, particularly if they are willing to accept some additional duration risk.

As we can see in the chart below, US and New Zealand 10-year government bonds are currently trading at yields not seen in over a decade. In addition, these 10-year yields appear to be a little more stable than they have been for some time.

In the context of the last few years when interest rates and bond yields have (quite often) been unusually volatile, this is a much more favourable scenario for investors looking to include traditional lower risk fixed income assets in their portfolios.

Figure 2: US and New Zealand 10-year government bond yields



Source: www.investing.com

The road ahead

The recent unexpected incursion into Venezuela is a timely reminder of the futility of putting too much weight on forecasting. While this event is largely disconnected from investment markets, the next unpredictable event may not be. However, when, where or what that event might be, is something we simply cannot know.

So, we do what we always do, which is to invest as prudently as we can while we wait for the inevitable, unknowable future events to occur. Part of our protection, while we wait, is to ensure we only buy high quality, highly liquid assets that are less likely to become illiquid in times of market stress. The other critical element is to diversify widely. If parts of the markets are affected more than others in a future event, diversification ensures that we do not have too many of our assets exposed to the exact same (poor) outcome.



2026 will bring further intrigue internationally, in particular in the US where the scheduled mid-year replacement of Jerome Powell as Federal Reserve Chairman and the US mid-term elections in November both loom as headline-dominating events.

The one thing we have learned over many years is that no matter how hyped these events are in the lead-up, they will end up being fish and chip paper the next day.

In both cases there will be some change to the status quo. However, the extent to which these changes will impact either the independence of the Federal Reserve or the degree of Congressional oversight provided to the White House, only time will tell.

In any event, the one thing we have learned over many years is that no matter how hyped these events are in the lead-up, they will end up being fish and chip paper the next day. The markets will continue to absorb and respond to new information as it arises. And, as long-term strategic investors, we will continue to allocate sensibly, diversify widely, and go along for the ride.

Key Market Movements

The final quarter of 2025 delivered steady gains, with several share market indices finishing the year near record or multi-year highs. Throughout the middle of the year, performance leadership remained heavily concentrated in technology companies and other growth-oriented sectors, but there were signs late in the year of investor interest broadening, particularly towards value-tilted and international markets with cheaper valuations and improving fundamentals.

Expectations that the US Federal Reserve and other major central banks could deliver further, albeit moderate, interest rate reductions in 2026 helped sustain investor risk appetites and provided a supportive backdrop for share markets as the year drew to a close.

Bond markets delivered divergent returns during the final quarter. While UK and US interest rates reduced, European rates remained mainly on hold, and rates in Japan increased, resulting in Japanese Government Bond yields rising to multi-decade highs. Overall, total returns from bonds were positive for the quarter, rounding out a solid year.



INTERNATIONAL SHARES

+3.2%
(hedged
to NZD)

Developed markets posted good returns, underpinned by continued strength in the technology sector and further monetary policy easing in the US.

US shares gained in spite of the longest US government shutdown on record and weak employment data. With interest rate cuts and AI enthusiasm helping to maintain positive share market sentiment, questions about the high valuation of technology companies saw other sectors start to come to the fore by the end of the year.



+3.9%
(unhedged)

European shares had a positive quarter and major benchmark indices finished the period near multi-year highs. Economic conditions across the Eurozone remained mixed, with weak manufacturing activity being outweighed by strength in the services sector, leading to a small overall expansion in business activity. With regional inflation easing and the European Central Bank keeping interest rates unchanged, the growth outlook improved, boosting investor confidence.

The UK share market outpaced its European peers over the quarter, with performance being led by large internationally focused companies in financials, mining, defence and other commodity-linked sectors. These areas benefitted from strong global demand, increased commodity prices and a slightly weaker Great British pound.

The Japanese share market extended its rally, with the Nikkei 225 up +12.0% in local currency terms in the quarter. The election of Sanae Takaichi as Prime Minister in October and the formation of a coalition government between the Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP), were interpreted as signs of greater political stability and more proactive fiscal stimulus. The Bank of Japan raised interest rates in December (their second such hike in 2025) and signalled the possibility of further hikes in 2026. The confidence of the central bank added to optimism about Japan's economic growth and supported local share prices.

Despite another volatile year, investors were rewarded for their discipline with both NZD hedged and unhedged indices advancing around +18% for the year.

Source: MSCI World ex-Australia Index (net div.)



EMERGING MARKETS SHARES

+5.5%

Emerging markets (EM) shares had another strong quarter, outperforming the broad returns from developed markets. Significant impetus for this came from the technology-oriented markets of Korea and Taiwan.

Korea was the best performing share market in the EM Index for the quarter (the KOSPI Index up +23%), benefitting from strong demand for AI memory technology and industrial production, as well as a new trade agreement with the US that involved tariff reductions and major direct investment. Taiwan was similarly strong, driven by sustained investor appetite for technology companies throughout the quarter, particularly those related to the AI theme such as cornerstone Taiwan Semiconductor Manufacturing Company Limited (+19%).

Latin American share markets also generally performed well. The Chilean market was up strongly, supported by strength in commodity prices. Brazil also finished ahead of the broader EM Index, despite a mixed macro backdrop and political uncertainty ahead of the 2026 presidential election.

Having performed well for much of 2025, the final quarter saw the Chinese share market give back some gains. Softer macroeconomic data and heightened concerns about ongoing property market weakness in China, particularly following the near default in December of the country's largest property developers, weighed on market sentiment.

Despite this Chinese weakness the Emerging markets asset class advanced +5.5% for the quarter closing out an impressive +29.8% year.

Source: MSCI Emerging Markets Index (net div.)

Key Market Movements



NEW ZEALAND SHARES

+2.0%

New Zealand shares moved higher in the fourth quarter, with the S&P/NZX 50 Index (gross with imputation) setting 9 new all-time highs in October and November after achieving new marks only 8 other times in the last 5 years. The index closed the year near its all-time high, up +2.0% on the quarter, and +4.1% for the year.

The New Zealand market was up on the back of a still positive global outlook, but local economic indicators remained weak. Without the local index having the same level of AI-related exposures to help drive performance, returns from domestic shares generally lagged global peers.

Within the top 50 companies, the best returns were found outside the top 20 companies, with SkyCity Entertainment, Sanford and Oceana Healthcare producing quarterly returns of +36.4%, +34.7% and +33.3% respectively. For SkyCity, this represented a welcome lift after a difficult five-year performance with Covid, reduced visitor numbers and a weaker domestic economy all impacting discretionary spending. For Sanford, it reflected the continuation of a strong profit turnaround under CEO David Mair.

The quarter wasn't quite so rosy for software firms Vista Group and Gentrack. Vista continues to struggle to return to profitability while focusing on scaling its cloud-based platform to modernise cinema operations. Gentrack reported improving revenue across both its utilities and airports divisions, however this was not enough to arrest its share price decline, which has been trending downward since late 2024.

Source: S&P/NZX 50 Index (gross with imputation credits)



AUSTRALIAN SHARES

+0.5%

The Australian share market underperformed global counterparts, with the S&P/ASX 200 Index posting a -1.0% return in local currency terms.

Companies outside the top 100 generally fared best, with the S&P/ASX Small Ordinaries Index delivering a +1.8% return, while the Emerging Companies Index posted another strong quarter with a +8.3% gain. To put these returns in perspective, the S&P/ASX 100 Index, which comprises the largest 100 Australian companies, achieved a less flattering -1.2% result. This divergence in returns can, in part, be attributed to the higher weight of technology companies within the Australian small and mid-capitalisation indices.

Australia's economy continues to perform solidly. Although the Reserve Bank of Australia (RBA) cut interest rates three times earlier in the year, a tight labour market, rising wages and persistent but easing inflation pressures kept the RBA on the sidelines in the final quarter.

The materials sector was the standout sector over the quarter, delivering a +13.5% return. This was thanks in large part to an outstanding +20.3% return delivered by market heavyweight Rio Tinto. Reports surfaced in late December about preliminary buyout and merger discussions between Rio Tinto and Swiss multinational Glencore, which could create the world's largest mining company. Aside from small gains also delivered by the industrials and energy sectors, it was "red ink" everywhere else, as the broad market was slightly weaker over the quarter.

With the Australian dollar a little stronger against the New Zealand dollar over the quarter, reported returns to New Zealand investors were around +1.5% higher than the underlying Australian index returns for the quarter, completing a strong +15.6% year.

Source: S&P/ASX 200 Index (total return)



INTERNATIONAL FIXED INTEREST

+0.7%

There was a marked divergence across global government bond markets during the final quarter of 2025. Despite volatility, UK gilts were the notable outperformer. The November budget in the UK was well received, as the government announced a larger-than-expected fiscal headroom and reduced expectations of future borrowing needs. The Bank of England cut its base rate by -0.25% at its December meeting in what was a close (5-4) vote. This contributed to the UK 10-year bond yield declining from 4.70% to 4.47% over the quarter, delivering strong gains.

Returns were more muted in US Treasury bonds. The US yield curve steepened, with yields rising in very long maturities, but falling in the shorter date ranges. The US Federal Open Market Committee cut interest rates by -0.25% when it met in October and repeated the move in December, taking the Federal Funds rate to 3.50% - 3.75%. Following the reopening of the US government, delayed labour market data suggested a moderation - but not a collapse - in labour demand, with the low-hire, low-fire trend continuing. Despite yield volatility during the quarter, the yield on the US 10-year Treasury bond closed the quarter as it began, at 4.15%.

In contrast, Japanese government bonds experienced a significant selloff, with yields rising to multi-decade highs. After being elected Prime Minister, Sanae Takaichi announced a 21.3-trillion-yen fiscal stimulus package. The size of the package raised investor concerns over Japan's already substantial debt burden at a time when interest rates are rising. The Bank of Japan delivered a +0.25% rate hike in December, taking the policy rate to 0.75%. In this environment, the Japanese 10-year government bond yield lifted from 1.65% to 2.08% over the quarter, causing losses for investors in these bonds.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) was up +0.7% over the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) rose +0.4%. Both indices end the year up around +4%.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)



NEW ZEALAND FIXED INTEREST

+0.2%

The Reserve Bank of New Zealand (RBNZ) delivered a -0.50% interest rate cut in October, followed by an additional -0.25% cut in November, bringing the Official Cash Rate (OCR) down to 2.25% after it started the year at 4.25%.

Lower than expected growth, weakening business confidence and muted wage growth continued to weigh on the New Zealand economy through the year. However, after seemingly playing 'catch-up' with a total of -0.75% of interest rate cuts in the fourth quarter, the RBNZ now believes the risks to the inflation outlook are evenly balanced. This means, in its view, that the next rate change could either be up or down.

As it happens, decisions on the future direction of interest rates will fall under the leadership of new Reserve Bank Governor, Dr Anna Breman, who started her five-year term on 1 December. The new Governor's first act was to provide additional market clarification following the November release, stating that if economic conditions evolve as expected, the OCR is likely to remain at 2.25% for some time. This provided clear push-back to financial markets, which had begun pricing-in the prospect of renewed interest rate hikes to occur in New Zealand in 2026.

On the back of a mixed global bond market, the New Zealand 10-year bond yield rose over the quarter, moving from 4.21% to 4.53%.

The S&P/NZX A-Grade Corporate Bond Index gained +0.2% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index declined by -0.3%. Both indices closed the year up around +5%.

Source: S&P/NZX A-Grade Corporate Bond Index

Table I: Asset class returns to 31 December 2025

Asset class	Index Name	3 months	1 year	3 years	5 years	10 years
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	3.2%	18.1%	21.0%	12.5%	12.2%
	MSCI World ex Australia Index (net div.)	3.9%	17.8%	25.4%	17.4%	14.2%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	5.5%	29.8%	20.3%	8.9%	10.3%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	2.0%	4.1%	6.5%	1.5%	8.9%
Australian shares	S&P/ASX 200 Index (total return)	0.5%	15.6%	14.3%	11.6%	10.2%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	0.7%	4.0%	4.4%	1.5%	2.1%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	0.4%	3.7%	4.4%	-0.1%	2.3%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	0.2%	5.5%	6.6%	1.9%	3.4%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	0.6%	3.3%	4.7%	3.4%	2.5%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging markets shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

Why every long-term investor should study ancient architecture



The Pantheon in Rome, completed almost 2,000 years ago, stands as one of the greatest engineering marvels of the ancient world.

The structure is a testament to human ingenuity and careful planning. And its architecture, in particular, could hold a few key insights for any modern business leader or investor looking to build something enduring.

Consider, for instance, how the Pantheon's architects used a form of Roman concrete (opus caementicium), which combined volcanic ash (pozzolana), lime, and water. This mix made the concrete both durable and lighter, essential for supporting the massive dome. Coffer, or recessed panels, reduced the dome's weight and added structural support. The project took over a decade to complete, requiring a commitment to both craftsmanship and materials that would endure. It's safe to say Rome was quite literally not built overnight, and certainly the Pantheon's lasting power suggests that good things truly do take time.

In fact, the Pantheon's endurance is so remarkable that a team of investigative geologists from MIT, Harvard University, and laboratories across Italy and Switzerland, actually published a study on ancient Rome's concrete. "Because of this proven longevity on the order of millennia," the researchers wrote, "these ancient construction materials are attractive model systems for... modern engineering applications."

Perhaps modern leaders could learn something from the report. The Pantheon's enduring strength is a powerful reminder that true longevity is rooted in careful planning, innovation and a vision that extends beyond the immediate. But the Pantheon is not alone. Many ancient architectural masterpieces hold timeless insights for creating lasting structures, whether in architecture, business or investing.

Here, we explore a few more of those key principles.

The value of stability over constant growth

Any first-year architecture student understands the value of stability to any structure's survival. And rock-solid foundations, both literally and figuratively, are key to longevity. Consider a gothic cathedral like Notre-Dame in Paris, whose construction began in 1163 and spanned over 180 years. Generations of builders worked on these monumental projects, each phase completed to ensure the structure could endure. Notre-Dame has survived wars, fires and natural aging (most recently, the devastating 2019 fire) thanks to its stable foundations. Notre Dame's walls, constructed from Lutetian limestone (a durable material resistant to erosion) were reinforced by flying buttresses to bear heavy loads and to disperse stress, which preserves the structure through extensive damage.

Similarly, Hagia Sophia in Istanbul, built in 537 AD as a Byzantine cathedral, stands as another testament to stability. Its massive dome was made possible by using lighter materials like brick and mortar rather than heavy stone. Builders incorporated crushed brick and ash into the mortar, creating a more flexible structure that could absorb shocks from frequent earthquakes. Despite multiple regime changes, earthquakes, and structural repairs following early collapses, Hagia Sophia's foundational engineering has allowed it to stand resiliently for nearly 1,500 years.

For investors, stability over relentless growth offers a similar advantage. Investments grounded in long-term principles, a clear mission and enduring values, are often more resilient than those chasing rapid expansion or short-lived trends. And just as stability forms a crucial foundation, so too does craftsmanship, the attention to detail and commitment to quality that imbue an organisation with lasting strength.

Purpose and identity: foundations of longevity

Enduring structures like the Taj Mahal reveal how a clear purpose and mission can resonate across generations. The Taj Mahal, completed in 1653, is an architectural marvel and a symbol of love, with every detail designed to inspire awe.

The clarity of purpose behind the Taj Mahal's creation has resonated for centuries, attracting millions of visitors each year and cementing its place as one of the world's most celebrated works of architecture.

A defined purpose or mission is crucial for investors as well. A strong identity whether focused on environmental protection, innovation or community, can anchor an investor through economic downturns.

A few key takeaways

1. Prioritise stability over rapid growth. Just as ancient structures rely on solid foundations, investment strategies benefit from focusing on stability and long-term returns rather than quick expansion or the latest investment fad.
2. Embrace simplicity as a source of strength. Simple architectural forms, like the Parthenon's Doric columns, endure by resisting unnecessary complexity. When investing, streamlined investment strategies and clear investment goals are often more resilient.
3. Adapt without compromising core identity. The Great Wall evolved without losing its core purpose. Similarly, investment strategies that adapt to different life stages while maintaining core values can have real impact over the long-term.
4. Anchor success in purpose and identity. The Taj Mahal's timeless appeal is rooted in its clear purpose. Similarly, investment strategies with strong, purpose-driven identities can deliver enduring performance over time.

In a world often focused on the ephemeral, these architectural lessons remind us that true success lies in what endures.

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