

Battery Boom, REIT Revival & Consumer Confidence - August 2025 in Review

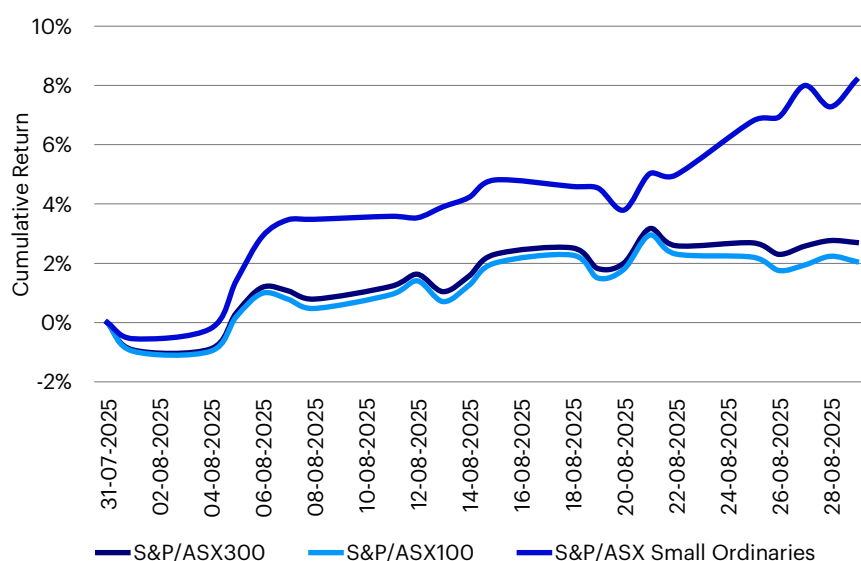
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Market overview

In August, the majority of Australian listed companies reported their full year preliminary financial results. This year we saw on average strong market returns, albeit with high cross-sectional volatility, there was a 50% return spread between the best and worst performing industries over the month.

The S&P/ASX 300 returned 3.3%, with strong outperformance by S&P/ASX Small Ordinaries Small Caps (8.5%) over S&P/ASX 100 Large Caps (2.7%). The Resources super-sector (8.5%) outperformed Industrials (1.9%), with Small Caps dominating across both.

Figure 1: Performance summary (August 2025)



Source: Bloomberg. Cumulative total returns to S&P/ASX capitalisation indices over August 2025

Figure 2 below plots Total Returns over August 2025, showing S&P/ASX 300 index returns in the light blue bars, including all GICS Industry Groups and Industrials/Resources super-sectors.

The Technology Hardware & Equipment industry led the way, driven by Codan's 47.4% return. In Australia, the only S&P/ASX 300 company in the Semiconductor industry is Weebit Nano, whose 16.9% return is responsible for the industry group's second place. The Autos industry is almost as thin, but both ARB Corp (21.0%) and Amotiv (14.5%) were strong over the month.

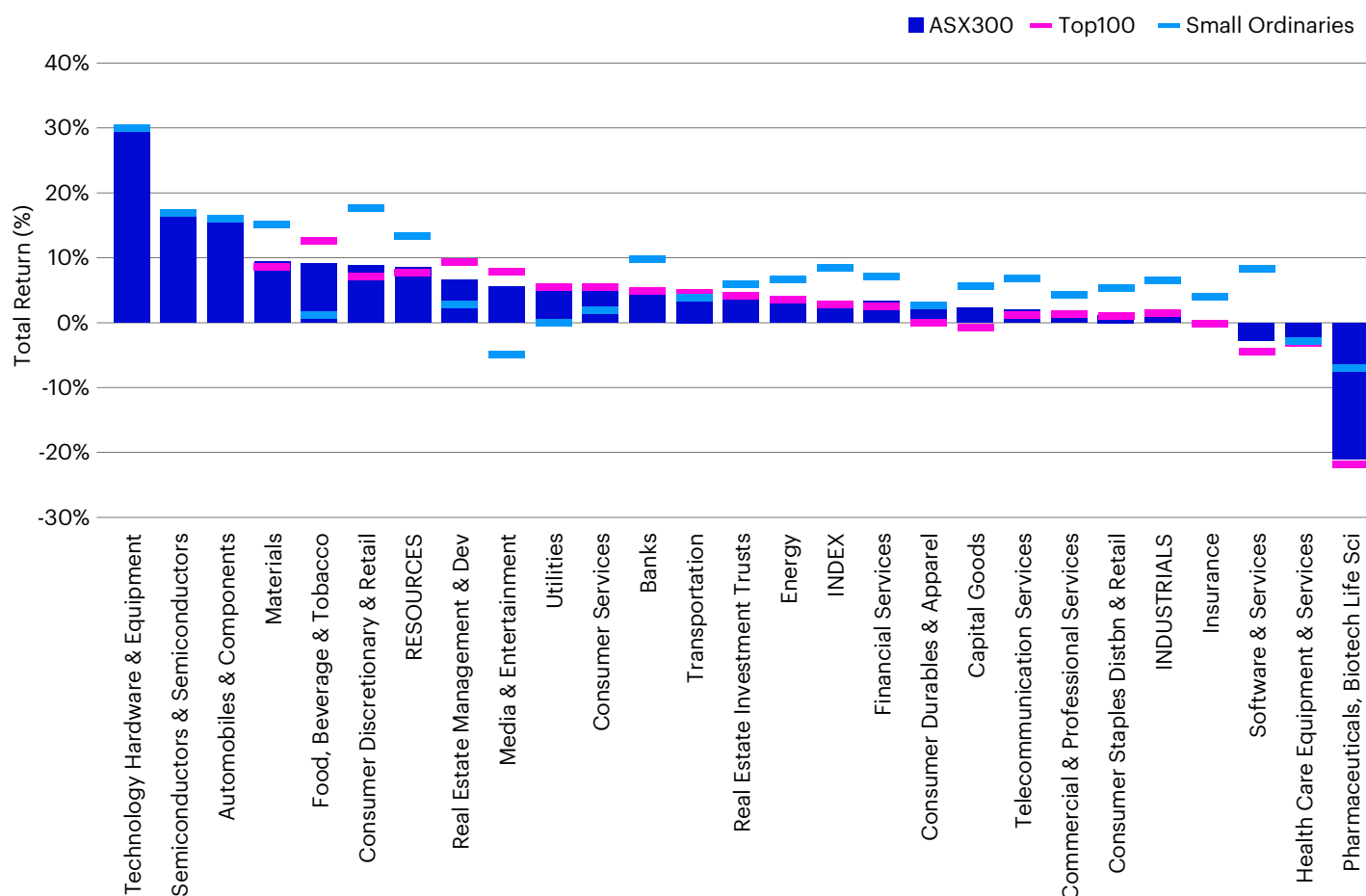
The Pharmaceuticals industry was the worst performing industry down -20% for the month, with CSL's disappointing result (-21.4%) the biggest drag on the sector. Telix (-30.6%), Clarity Pharma (-31.8) and Clinuvel (-17.8) didn't escape what was a distinctively negative industry performance. Somewhat related, and almost as poor, was the performance of the Healthcare Equipment and Services industry group, with Sonic Healthcare (-12.9%) and Ramsay Healthcare (-12.6%) returning poor performance over August.

Past returns are not a reliable indicator of future returns.

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Figure 2: GICS Industry Group performance, by capitalisation index (August 2025)



Source: Bloomberg, Invesco. Total returns over August 2025
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Themes emerging from reporting season

Aussie consumer has some spring in its step

We saw positive sentiment from companies exposed to domestic consumption. Trading updates were generally positive – more so than the market expected. Some noted the easing of interest-rates earlier this year may be providing the Australian consumer some confidence.

Table 1 shows a dozen such companies, most of whom delivered surprisingly strong trading updates, and were rewarded with strong share price returns over August.

- Nick Scali reported early in the season with better than expect trading, rallying 26%.
- JB Hi-Fi also produced a strong operating result, despite an initially negative response to the CEO retirement plans, recovered well to perform solidly for the month.
- Adairs, Lovisa and Harvey Norman all reported at the end of the month, and the industry enthusiasm which had somewhat spilled over to good performance ahead of their reports continued, with all three rewarded by the market post reporting.
- Online retailers Kogan.com and Temple & Webster found the market's response to be more muted. Kogan.com's growth was moderate as was the market's response. Temple & Webster had run hard into the result, and their price retraced modestly.
- Those retailers producing underwhelming results were punished. Woolworths trading performance was compared less favourably to Coles, its close peer. Accent Group (urban footwear brands) and Endeavour Groups (Hotels) had soft performance as a response to modest trading updates, and Domino's Pizza plumbed new depths, it being more an international growth disappointment.

Expanding into global markets isn't easy

This theme speaks to a few things: 1. Companies who have been at their global expansion for a while now are finding it tough to maintain the exuberance of their early years; 2. Tariffs were considered a source of uncertainty, and 3. Those exposed to the U.S. consumer found trading tough.

Table 2 shows a selection of companies facing global markets. Performance over August ranges from poor to mediocre at best.

- James Hardie and Reece who both face the US housing sector which is a softening market where sales growth retraced over the past year. Investors punished both stocks through August. James Hardie was out of favour with Australian investors due to bypassing shareholder approval to pay A\$14bn for Azec, a U.S.-based manufacturer of outdoor decking and pergolas. Reece also suffered due to weak profits, largely at the behest of the American housing sector, in which activity has been dampened due to high mortgage rates, especially in the context of high volumes of borrowers needing to refinance after cheap honeymoon rates.
- While Computershare's profits were not a disaster, the quality of the result was low which pointed to difficult competitive global environment calling for restructuring costs. A supposedly abnormal event that the market questioned was happening repeatedly, but which the company took below the line.
- Breville is generating respectable sales growth but found their progress in expanding in the U.S markets tough going, citing tariffs as a headwind. It is reasonably early days for their global expansion, and the market expects meaningful growth with quite a lot priced into the stock price already.
- After decades of defying gravity and performing consistently through reporting seasons, CSL finally had to admit conditions were tough. Margins in their key plasma business (Behring) have been under their lofty targets and the market's concerns were expressed in a 21% retracement in the share price. Investors questioned the rationale for spinning off Seqirus as a standalone ASX-listed entity, particularly given Vifor's recent struggles and uncertainty around valuation metrics for the new entity.

Table 1:
Domestic consumer facing companies

Company	FY25 Sales Growth	1M Total Return
Adairs	4.0	33.2
Harvey Norman	4.1	18.8
Nick Scali	5.8	26.3
Lovisa	14.2	26.4
JB Hi-Fi	10.0	7.5
Super Retail Group	4.5	22.8
Temple & Webster	20.7	-2.3
Kogan.Com	6.2	4.1
Woolworths	1.7	-8.6
Accent Group	1.5	-3.2
Domino's Pizza	-3.1	-17.5
Endeavour Group	-2.0	-6.6

Source: Bloomberg, Invesco. Total returns as at 29 August 2025

Table 2:
Global expansion companies

Company	FY25 Sales Growth	1M Total Return
James Hardie	-1.5	-24.5
Reece Ltd	-1.4	-17.9
Computershare	6.7	-8.3
Breville Group	10.9	2.6
CSL Ltd	5.1	-21.4

Source: Bloomberg, Invesco. Total returns as at 29 August 2025

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Table 3:
Defence companies looking attractive

Company	FY25 Sales Growth	1M Total Return
Codan Ltd	22.5	47.4
Austal Ltd	24.1	18.4
Droneshield Ltd	4.4	-12.0

Source: Bloomberg, Invesco. Total returns as at 29 August 2025

Table 4:
REITs seem to have found a bid

Company	FY25 Profit Growth	1M Total Return
Lendlease Group	61.9	9.4
Mirvac Group	N/A	4.9
Stockland	10.5	11.7

Source: Bloomberg, Invesco. Total returns as at 29 August 2025

Table 5:
Battery theme bounces

Company	FY25 Profit Growth	1M Total Return
Lynas Rare Earths	-72.8	32.5
Pilbara Minerals	Loss	52.6
Mineral Resources	Loss	30.8

Source: Bloomberg, Invesco. Total returns as at 29 August 2025

Defence related companies are looking awkwardly attractive

This theme has been running for most of this year with continued conflict globally, a growing belief that the U.S. will reduce its role as global defender, and pressure from the U.S. government for allies to significantly boost their defence spending.

While there aren't too many S&P/ASX 300 companies with business related to Defence, Table 3 shows the largest three, which lead a tail of minnows who are also catching a bid.

- Codan was among the top performers over the August reporting period, delivering a result well ahead of the market's expectations. The group revenue was up +22% for the year vs the market consensus expectation of +5%. A key driver of the strong result was its unmanned systems (drones) segment, supported by demand for metal detectors.
- Austal builds warship and defence vessels. Its share price surged +18.4% over August amid a record order pipeline and strategic shipbuilding agreement with the federal government.
- Droneshield specialises in anti-drone products and technology. It ran particularly hard earlier this year, rallying almost +300% before retracing. Its share price fell -12% in August after the company released its results, despite their hugely positive statements. Presumably this is another case of a promising business where the stock price had run ahead of itself.

REITs seem to have found a bid

After a generally difficult decade for property, other than in specialty pockets like data centres, the August reporting season saw results being generally well received. Table 4 shows a few trusts exposed to domestic housing amongst the prospects of interest rates easing further.

- Lend Lease: large upgrades related to project realisations
- Mirvac Group: uplift in development segment EBIT
- Stockland: stronger pick up in residential settlements

Battery theme rediscovers good performance

Battery materials commodity prices have been retracing in recent years, due to the supply response to the battery theme. Recently, however, suggestions that China may tap the brakes on battery materials supply has fuelled renewed interest in Australian producers, and Table 5 shows significant stock returns over August even in the presence of negative profit growth and loss-making ventures.

- Pilbara rallied by over +50% in August, while posting a -A\$196m net income loss.
- Mineral Resources – although it performs a diverse range of mining activities, having some exposure through lithium processing facilities saw its price rally over +30% also despite printing a loss of over A\$700m.
- Lynas Rare Earths eked out a profit, albeit 73% lower than 2024, but rallied +32.5%

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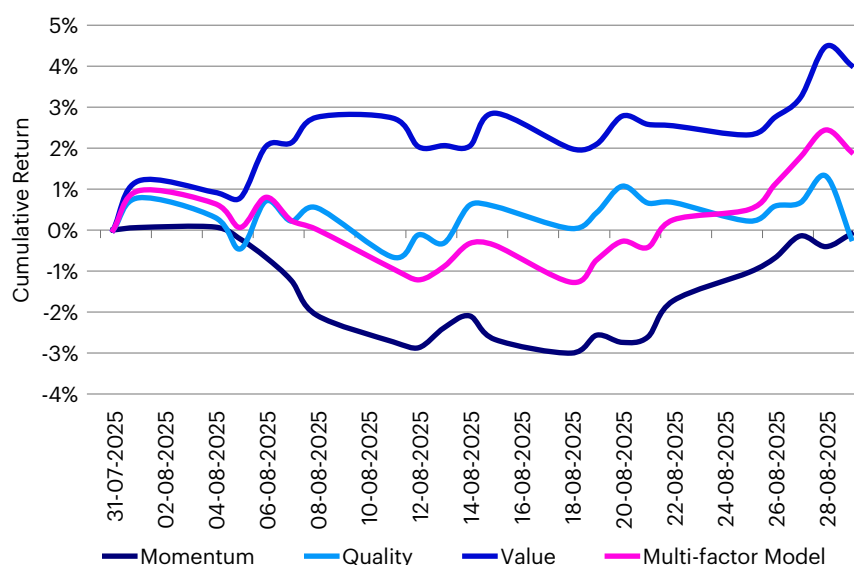
Factor performance during reporting season

Amongst all the heightened cross-sectional volatility over August 2025, factors were relatively muted in general.

- As seen in Figure 3, the **Value** factor was the best performer, as investors became more sensitive to valuations given a more uncertain global growth outlook. The de-rating of US linked growth companies at the beginning of the quarter saw strong returns to Value.
- **Momentum** started the month poorly as growth expectations in the US were downgraded, however stabilised and improved into the end of the month.
- The **Quality** factor is historically the most reliable during reporting season as it when it pays to have good management delivering reliable and sustainable financials. This August, however, it was largely muted across the month as investors were focussed on future growth and earnings.
- Overall, the **multi-factor model** portfolio was positive over the month. The model benefited from the consideration of valuations which was a key driver of returns in a market facing uncertainty in relation to future growth.

We note a coordinated rollover of all factor performance right at the end of the month. This was a market-wide downturn following a dampening of enthusiasm with Big-tech in the U.S., with Nvidia falling on 29th August.

Figure 3: IQS Model and Factor portfolio Cumulative Returns over Aug 2025



Source: Invesco. IQS Model Factor Portfolios are Long-short market neutral portfolios weighted to represent factor exposures

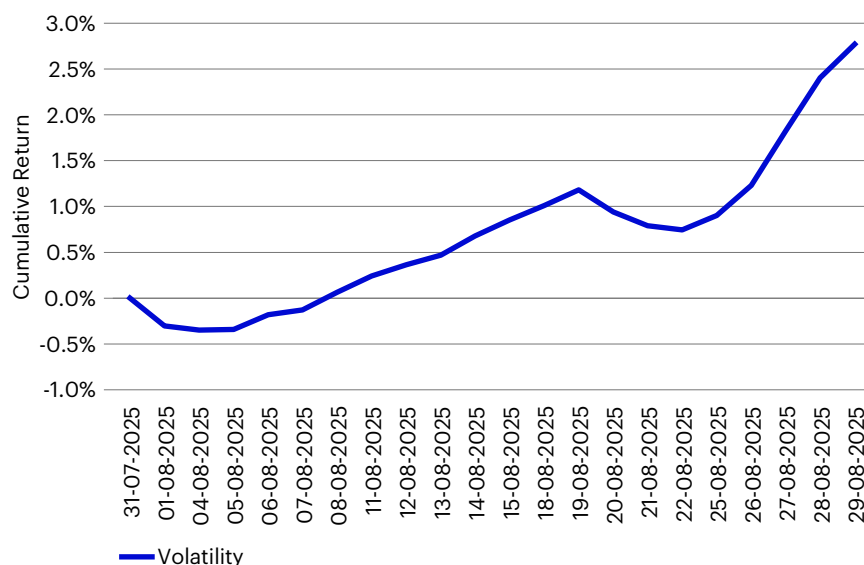
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Figure 4 displays a selection of style risk factor returns over August 2025. Most notably, the Volatility factor had a strong month, which helps understand the style of companies rallying through this reporting season. Smaller cap companies with higher volatility outperformed, which correlates with the strength in the Value factor mentioned above.

Figure 4: Volatility risk factor cumulative returns over August 2025



Source: Invesco, Axioma. The Volatility factor is from Axioma's Australian Risk Model as used in IQS custom risk model.

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Important Information

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