

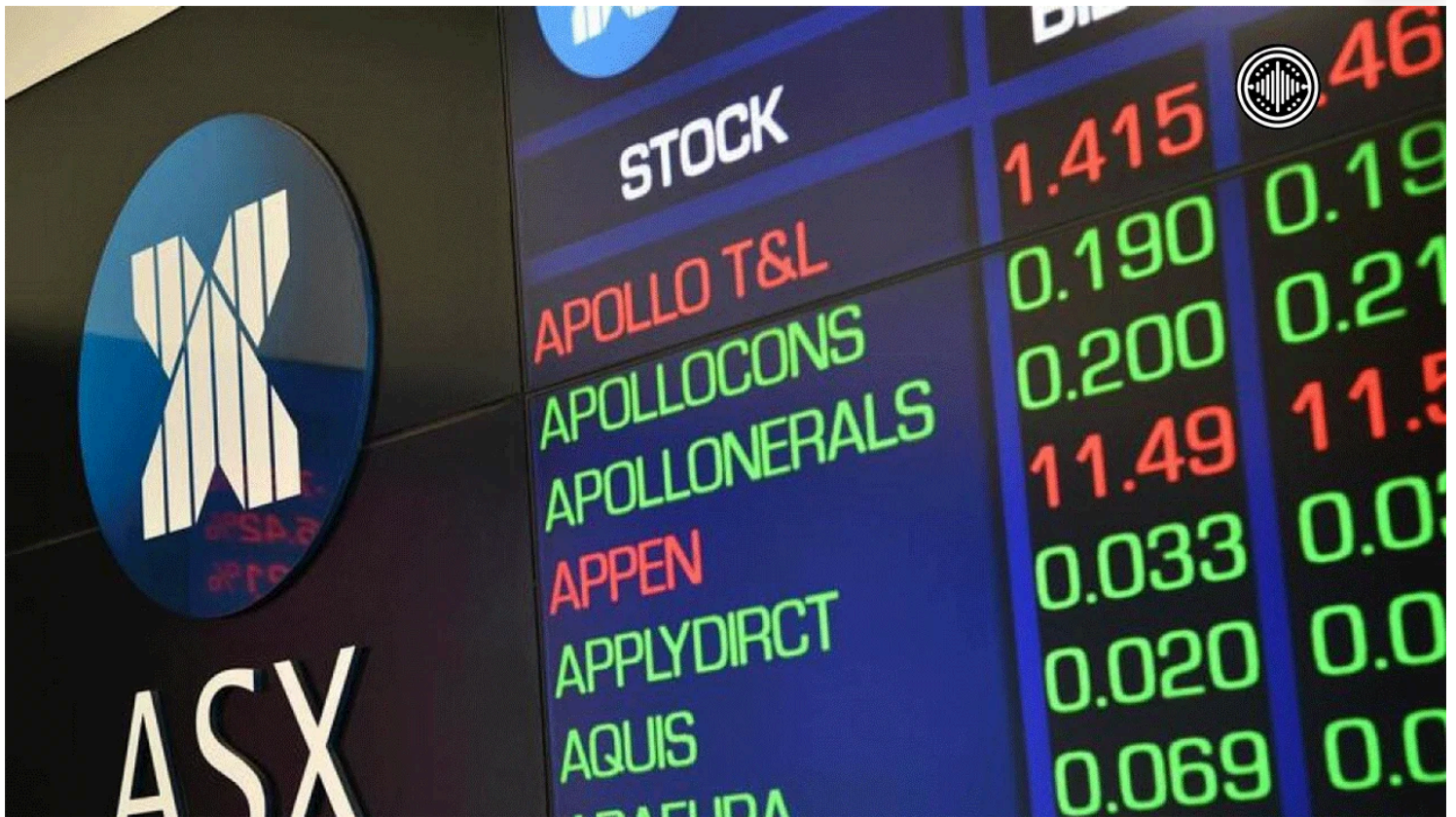
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Australian Blue-Chip Earnings in Prolonged Slump Despite Market Highs

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Australia's top companies are facing an unprecedented earnings recession, with Morningstar forecasting a third consecutive year of declining profits for ASX 200 firms. Earnings are expected to fall by 1% in FY2025 following declines of 10% and 4% in the previous two years. This troubling trend persists even as share prices defy economic gravity. The ASX 20 has collectively gained around 30% since 2022, despite earnings collapsing by approximately 15% over the same period. Market strategist Lochlan Hallaway warns of a dangerous 20% premium to fair value at the index's top end, creating unsustainable conditions where "something's got to give."

The mining sector remains the primary drag, with cooling commodity prices signalling an end to the post-pandemic resources boom. Financial services, Australia's largest market segment, offers limited relief, with mid-single-digit growth projections unable to offset the mining slump. This earnings paradox coincides with the ASX hitting record highs last week, gaining 2.2% amid investor bets on imminent RBA rate cuts following softening employment data. AMP economists note that unemployment reaching pandemic-era highs suggests the labour market can no longer be considered tight.

August's earnings season will test market optimism and may reveal the stark disconnect between corporate performance and investor expectations. Morningstar's analysis indicates the ASX 20's 20% valuation premium is a rare overextension not seen in a decade. Financial reality appears suspended as markets shrug off tariff uncertainties and weak domestic indicators, continuing to price equities as if the earnings downturn is temporary rather than structural.



This unsustainable equilibrium cannot last indefinitely. Either corporate profits must surge to justify current valuations, or a painful market correction awaits. With mining's golden age fading and financial services growth constrained, Australia's blue-chip index faces a reckoning. Investors riding the momentum wave should heed the warning: when earnings and share prices diverge this dramatically, history shows valuations usually capitulate. The coming months may reveal whether this earnings recession becomes a full-blown market crisis.