INVESTMENT ENVIRONMENT UPDATE

MARCH
2025

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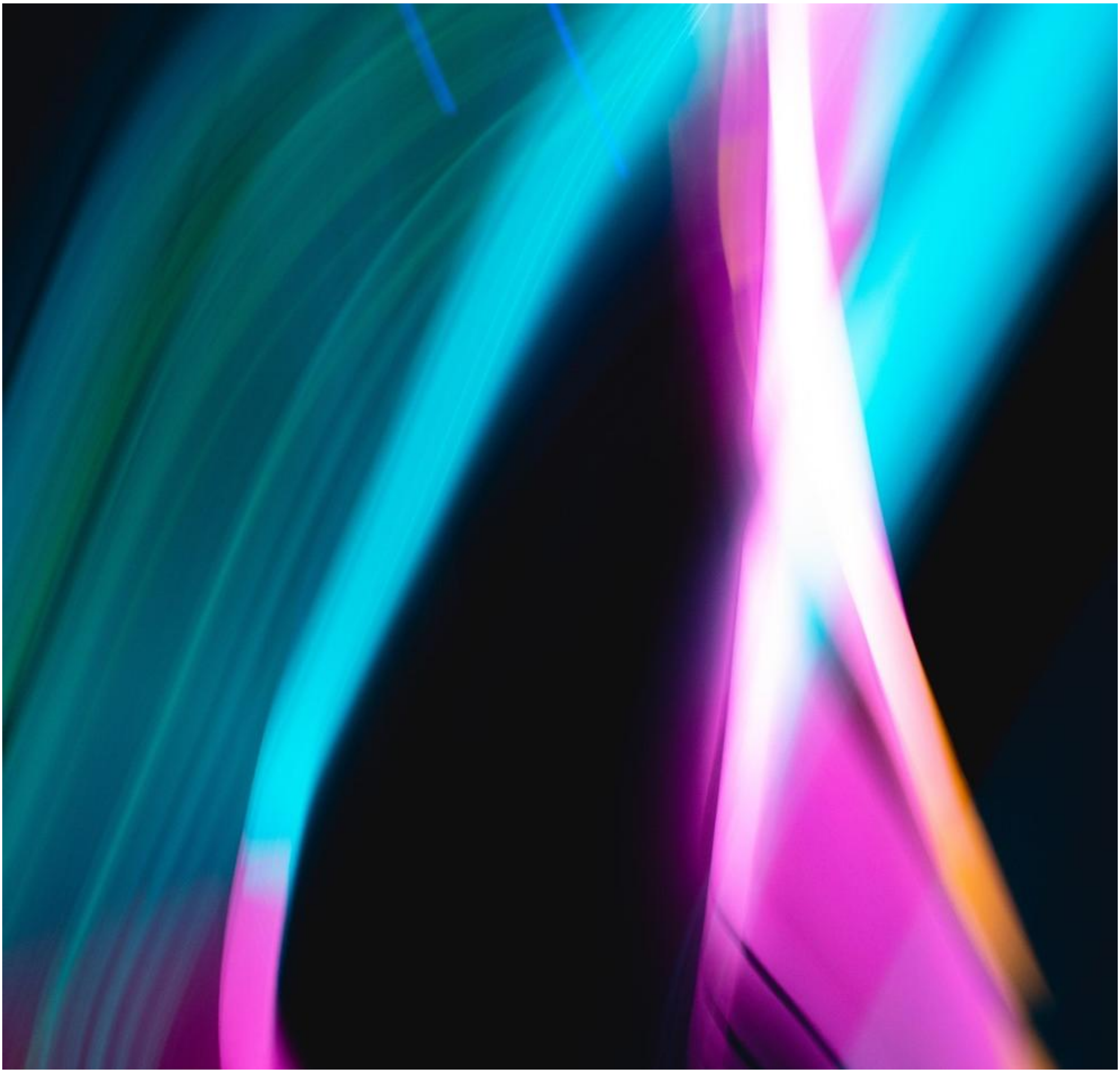
ADVISERS



PATRIZIA

Prime Super

Investment Environment Update

Global share markets fell sharply in March and continued into early April as markets digested President Trump's Liberation Day tariffs. While these tariffs were announced on the 2nd of April, markets were becoming progressively more concerned through the later part of March as to their size and which countries would be impacted. These new tariffs followed those announced first in February of 25% tariffs enforced by the US on Canada and Mexico, as well as a 20% tariff on Chinese goods along with 25% on steel and aluminium imported into the US.

The tariffs President Trump announced on the 2nd of April were larger and broader in scope than what most market participants anticipated. With a minimum tariff of 10% on all countries that import into the US, dozens of other countries were charged with higher tariffs. The rationale behind the tariffs is to level the playing field so that American companies can compete fairly against the rest of the world, plus bringing in additional much needed revenue for the US government which has a considerable debt and deficit problem. The reciprocal tariffs were typically set at half the calculated tariff charged by the other (non-US) country. The calculations that the US administration have used to determine the size of the tariffs charged to the US were equal to the net trade balance (exports minus imports) divided by imports. Whilst China was hit very hard with a 34% tariff, US allies were hit hard as well, with Japan tariffs set at 24%, European Union tariffs at 20%, and Australia was hit with the minimum 10% tariff. China immediately responded with a tariff of 34% on all US goods imported to the country, with Europe and other countries planning to announce reciprocal tariffs in coming days and weeks. While the situation is unfolding rapidly, the size of the tariffs that have been announced to date are larger than markets expected, and tariffs of this size have not been seen since the 1930s. If these tariffs remain and escalate higher, the likelihood of a US and global recession increases considerably. JP Morgan recently increased its odds of a global recession to 90%. However, the situation remains highly uncertain, with Trump announcing a 90-day pause on higher tariffs on 9th April.

Asset Class Returns	March (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.35	1.07	4.46	3.56
Australian Fixed Income	0.17	1.29	3.20	1.67
International Fixed Income	-0.44	1.14	3.72	0.17
Australian Equity *	-3.34	-2.85	2.64	5.30
International Equity - Developed (unhedged) *	-4.67	-2.41	12.25	14.65
International Equity - Developed (hedged) *	-5.04	-2.62	6.72	7.24
International Equity - Emerging (unhedged) *	0.42	2.27	13.17	7.95

** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

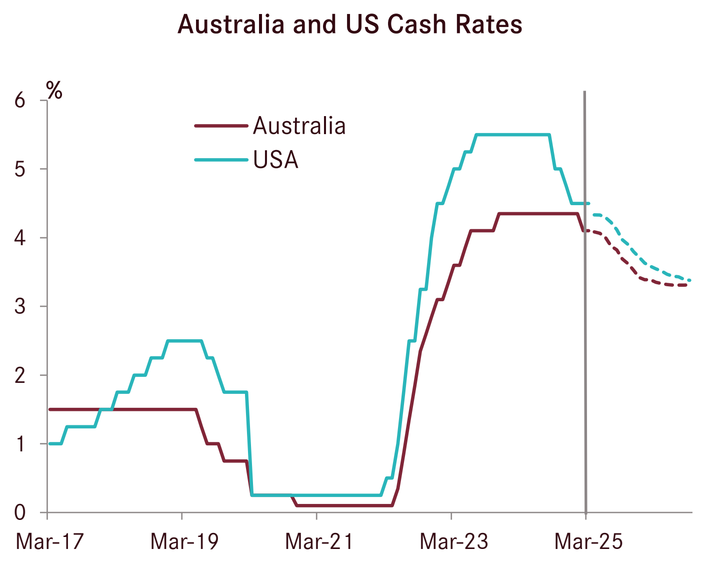
With this rapidly changing global trade and economic landscape with considerable negative consequences, equities fell hard. The US S&P 500 was down by -5.8% in March and was the worst performing major share market. All developed market markets were lower over March with the S&P/ASX 200 off -4.0%, Japanese Nikkei down by -4.1%, the German DAX -1.7% lower, the French CAC slid -4.0% and UK FTSE off -2.6%. Emerging markets were a relatively strong performer with MSCI Emerging Markets Index flat for the month of March. Global bonds performed reasonably well with a modest gain of 0.2% for March while Australian bonds fell, losing -0.4% of their value. Given the concerns and size of the falls in equity markets, it is a surprise that global government bonds have not performed better, though this will likely come if equities continue to underperform and fears of recession increase.

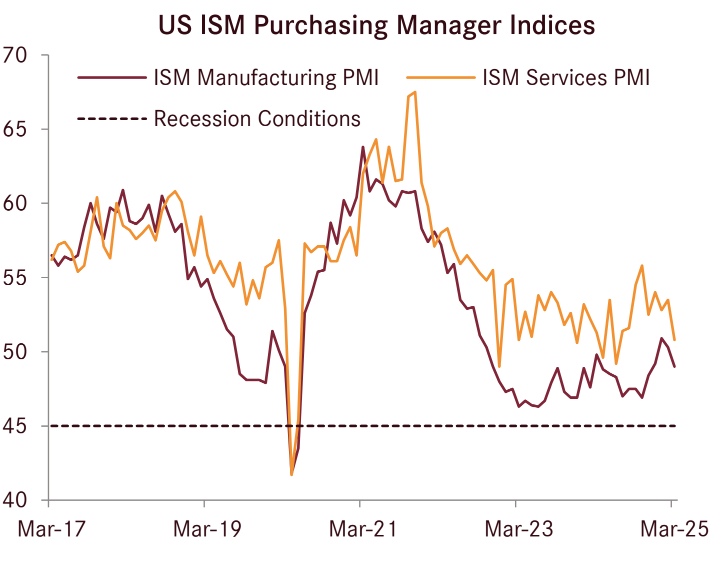
US economic data slowed in March as tariff headlines and declining business and consumer sentiment took their toll. The US Atlanta Fed real time measure of Q1 GDP (GDP Now) fell to -0.8% on a gold adjusted basis – a level consistent with a recession. Consumer sentiment has been hit hard with the University of Michigan's consumer sentiment index falling to 57 in March from 64.7 in February, and its lowest level since 2022. Consumers' concerns around inflation increased substantially with the onset of Trump's tariff polices, with inflation expectations over the next 12 months increasing to 5.0%, the highest reading since late 2022.

Non-farm payrolls increased by 228,000 in March, up from a revised 117,000 in February, and average hourly earnings increased by 0.3% over the same period. The impacts of the Federal government employment restructurings from the Department of Government Efficiency (DoGE) layoffs will be felt over coming months. While the total number of Federal Government jobs is small, the general view is that there will be two additional jobs lost (one government contractor and one unrelated worker) for every government employee. Like the tariff wars that are currently underway, there remains much uncertainty as to the extent of the savings that the DoGE will uncover, as well as the impact on the overall labour market. The annual headline inflation rate fell from 3.0% in January to 2.8% in February. The annual core inflation rate fell by 0.2% to 3.1% in February but remains well above the US Federal Reserve's (Fed) 2.0% target level.

The Fed did not cut interest rates at its March meeting, as it noted slower progress on bringing inflation down and considerable uncertainty with the unfolding tariffs. The Fed increased its forecast of inflation for the end of the year and brought down its expectations of real growth. Should the Trump tariffs remain in place then it is likely the US economy will suffer a considerable hit to GDP, possibly a recession. Should this materialise, it is likely that the Fed will cut interest rates a number of times later this year.

While some market commentators thought the RBA may cut at its March meeting, most correctly anticipated its hold decision. With the official cash rate holding at 4.10%, markets are now anticipating up to three interest rate cuts over the course of 2025. In its post-meeting statement, the RBA stated that "The continued decline in underlying inflation is welcome, but there are nevertheless risks on both sides and the board is cautious about the outlook." The path of interest rates from here will be driven in part by the implications of the tariff war that is currently underway and its direct implications on growth and inflation. US tariffs set on Australia imports are to increase by 10%, but most economists expect Australia to be able to avoid recession from the tariff war.





Source: Bloomberg

The ECB continued cutting rates in response to slowing inflation and soft growth, with a cut in the cash rate to 2.5% in early March. With the European Union exporting approximately 10% of its goods to the US, it is considerably exposed to the proposed 20% tariff threatened by President Trump. Many expect negotiations to lead to lower US/EU tariffs over coming months. The European Union was already facing a softer economic outlook with lower growth being driven by weak exports and investment, however there is now further uncertainty and more downgrades are likely as the tariff war unfolds. Headline inflation fell to 2.2% in March, its lowest level since 2022 and below market expectations of a fall to 2.3%. This move further supports the ECB's easing bias and rate cuts it has delivered to date. The annual core inflation rate came in at 2.4% in March, the lowest reading since 2022. The Flash HCOB Eurozone Manufacturing Index rose in March to 48.6 from 47.6 in February and the Flash HCOB Eurozone Services Index also rose in March, increasing to 51.0 which was 0.4 higher than February. While growth remains under pressure amid the unfolding tariff war, recent announcements by several European governments, but in particular Germany, to significantly increase government spending on defence as well as infrastructure will at least partially offset any economic slumps within the region.

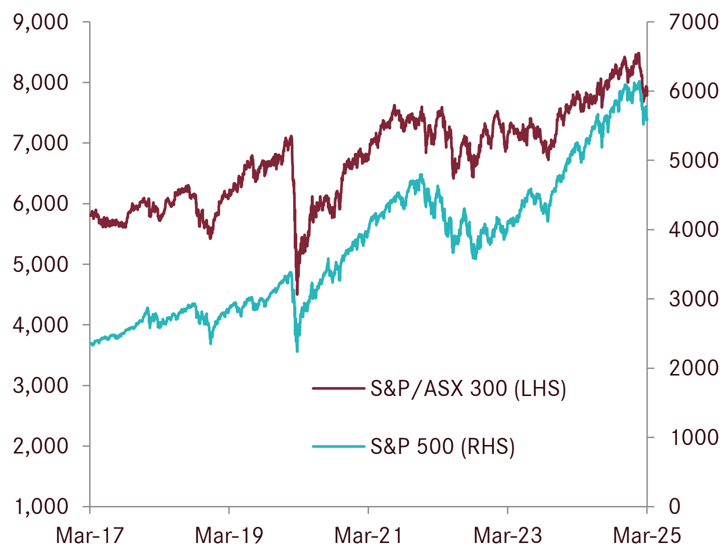
The Bank of England (BoE) cut the cash rate by 0.25% to 4.5% in its meeting in early February and kept them at that level in March. The BoE retained a cautious outlook, noting stubborn inflation and in particular services inflation, while the growth outlook was weakening. Over the last few weeks with the unfolding tariff war the outlook has darkened considerably. Interest rate markets are entirely pricing a rate cut in May (the BoE's next meeting date) with a small chance they could make an out of meeting schedule emergency cut. The inflation data released in March showed the annual inflation rate in the UK fell to 2.8% in February, down from 3.0% the previous month. Similarly, annual core inflation fell from 3.7% to 3.5% and below market expectations of 3.6%. The S&P Global UK Services PMI Survey increased by 1.5 to 52.5 in March while the S&P Global UK Manufacturing PMI Survey decreased to 44.9 in March, below expectations, showing the manufacturing sector is struggling considerably. It is anticipated that most manufacturing surveys, including the UK surveys, will deteriorate meaningfully as tariff uncertainty persists. The UK GfK Consumer Confidence Index improved by 1 points to -19 in February, an improvement from the month prior, however, at levels that are well below long term average readings.

China is clearly in President Trump's sights when it comes to the trade war and setting of tariffs. Following the initial 20% tariff set in February by President Trump, the Liberation Day tariff of an additional 34% was set by the US. China immediately matched these tariffs on US imports. President Trump has subsequently announced that if China matches the 34% tariff, as they have stated, President Trump will apply an additional 50% tariff on China, bringing the total tariffs applied against Chinese imports to 104%. In terms of Chinese economic data, headline CPI fell by -0.1% (deflation) in the year to end March, while NBS Manufacturing PMI rose to 50.5 in March, and NBS Non-Manufacturing PMI increased to 50.8 in March. Weakening economic conditions are expected in China over coming months, however, authorities are likely to initiate further considerable stimulus packages to try and offset the hits coming from the tariff war.

US Yield Spread

Source: Bloomberg

S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Index Returns to 31 March 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	-3.3	-2.9	3.9	2.6
S&P/ASX Small Ordinaries Accumulation Index	-3.6	-2.0	3.3	-1.3
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	-5.0	-2.6	3.7	6.7
MSCI World (ex Australia) Index (unhedged AUD)	-4.7	-2.4	11.9	12.2
MSCI Emerging Markets Index (unhedged AUD)	0.4	2.3	10.3	13.2
Property				
S&P/ASX 200 A-REIT Accumulation Index	-4.9	-6.8	0.2	-5.4
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-3.2	0.8	6.2	4.8
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-2.9	0.9	15.1	10.7
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	1.3	5.8	15.7	15.5
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.2	1.3	4.1	3.2
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	-0.4	1.1	3.9	3.7
FTSE WGBI ex-Aust (hedged AUD)	-0.5	0.9	3.3	2.8
Cash				
Bloomberg AusBond Bank Bill Index	0.3	1.1	3.3	4.5
Commodities				
Gold (USD per ounce)	9.9	19.4	33.6	40.7
Copper (USD per metric tonne)	3.8	10.7	1.2	9.5
WTI Crude Oil (USD per barrel)	2.5	-0.3	-12.3	-14.1
RBA Index of Commodity Prices (AUD)	-1.7	-2.1	2.1	-2.8

Australian Dollar versus Foreign Currencies to 31 March 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 MARCH 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.62	0.2	0.6	-6.7	-4.5
British Pound Sterling	0.48	-2.2	-2.3	-8.6	-6.5
Euro	0.58	-3.5	-3.5	-7.4	-4.5
Japanese Yen	93.19	-0.6	-4.2	-13.3	-5.6

Source: Bloomberg

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