MARKET AND ECONOMIC UPDATE

March Quarter 2025

KEY POINTS

- **Equity Markets Start the Year Off Poorly:** In the US, the S&P 500 and NASDAQ experienced significant declines as investors shifted to less risky stocks. This impacted the AI sector significantly, following China's DeepSeek disrupting the sector. The 'Magnificent Seven' companies' decline greatly affected market performance, with Tesla falling by over 31%. European equities outperformed the US, while emerging markets benefited from a weaker US dollar and falling US Treasury yields.

- **Trump 2.0 Effect:** In Q1, Donald Trump's threat of widespread tariffs created market uncertainty. Fears that these policies would induce re-inflation or economic recession weighed heavily on investor sentiment. Trump's sporadic and unpredictable policy announcements further compounded investor confusion.

- **Bond Prices Increased:** Global fixed income markets rose due to heightened uncertainty. Investors moved from riskier assets, such as equities, to defensive assets like bonds. The increased risk of economic downturn or recession has led markets to price in more interest rate cuts than previously anticipated, further suppressing bond yields.

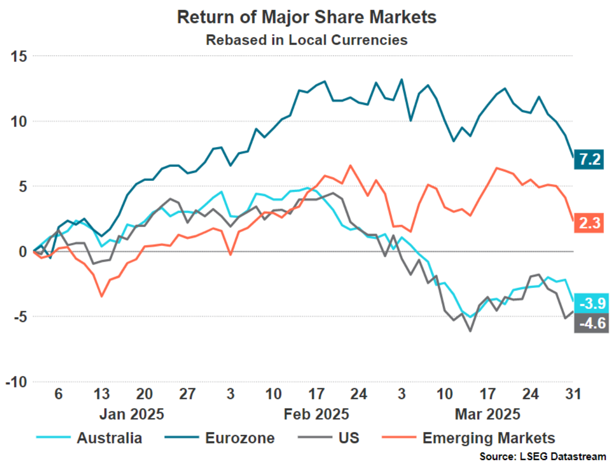
- **US Dollar Weakness:** After strengthening in Q4 202854, the US dollar weakened in Q1 2025 due to concerns about the US economy. Reduced economic prospects made the US less attractive compared to economies with higher growth potential.

1. MARKETS IN REVIEW

The first quarter of 2025 was characterised by significant uncertainty as investors grappled with rapid macroeconomic shifts. President Donald Trump once again attracted considerable market attention due to geopolitical risks and tariff threats. Uncertainty surrounding tariff impacts significantly pressured US equities.

On the positive side, US market confusion prompted investors to reconsider previously overlooked markets. Thanks to this, Europe and the UK outperformed significantly in early 2025.

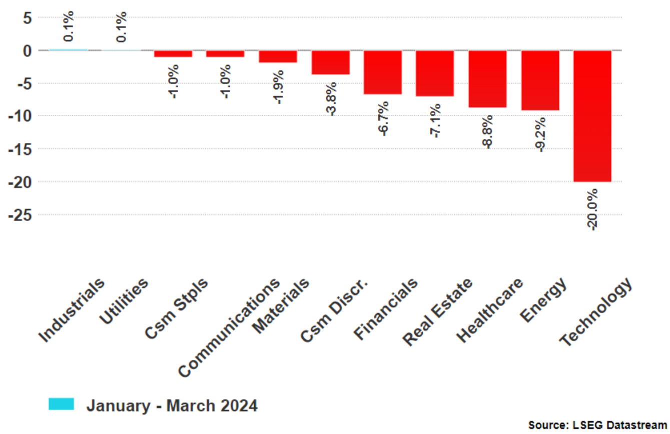
Previously, Jerome Powell and the US Federal Reserve heavily influenced bond markets. Recently, however, market attention shifted towards Trump, with investors speculating about the potential recessionary impact of his policies. US Treasury yields consequently declined over the quarter.



Gold, a traditional safe-haven asset, experienced its best quarterly performance since 1986, rising over 17%, highlighting current market uncertainty.

2. EQUITIES

Quarterly Australian Sector Returns



In the US, the S&P 500 fell by 4.59%, while the NASDAQ dropped even more significantly by 9.80%. Investors shifted from high-growth stocks, dominant over recent years, towards undervalued companies with lower risk. AI stocks were particularly impacted following China's DeepSeek showcasing that it was possible to develop an AI model with comparative capabilities to ChatGPT at a fraction of the cost, causing substantial valuation pressures. The 'Magnificent Seven,' comprising over 30% of the S&P 500, fell by over 15%, significantly impacting overall market performance. The equal-weighted S&P 500 fell just 1.08%, significantly less than Tesla, the worst-performing member, which dropped by over 31% due to Elon Musk's political engagements.

European equities benefited from a market rotation, outperforming the US by 18.40% in USD terms, the largest margin in over 30 years. Emerging markets also gained, benefiting from a weaker US dollar and falling US Treasury yields. Japan declined by 3.4%, impacted by large technology stocks and ongoing tariff concerns affecting its export-driven economy.

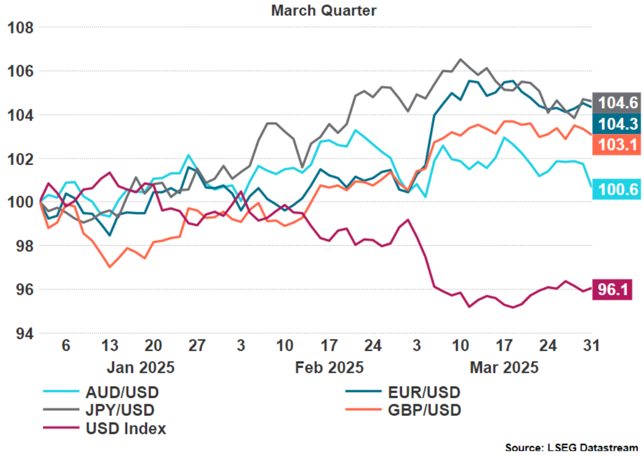
Australian equities fell by 2.85% in Q1. The financial sector, the largest index component, declined by 6.70%. However, the technology sector saw a substantial decline of 20%. The gold sector performed exceptionally, with the All-Ordinaries Gold index climbing over 30%, offsetting some broader market losses.

3. FOREIGN EXCHANGE MARKETS

The US dollar, which was strong at the end of 2024 due to Trump's pro-business stance, significantly weakened in Q1 2025 amid concerns over tariffs and potential trade wars, leading to fears of recession. This caused a shift towards safer assets.

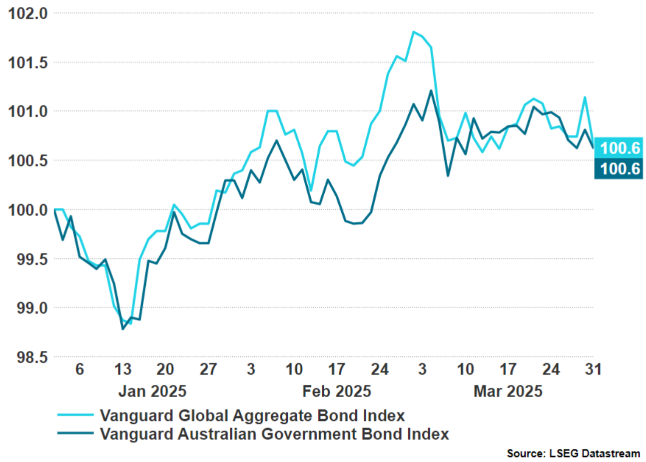
Although the Australian dollar appreciated against the US dollar, gains were moderate, impacted by a Reserve Bank of Australia (RBA) rate cut in February. Markets anticipate another 25-basis point cut in May, awaiting confirmation from upcoming RBA decisions.

Global Currencies
March Quarter



4. FIXED INCOME MARKETS

Global and Australian Bond Indexes



Given market uncertainty, investors favoured defensive assets. The US 10-year Treasury yield declined from 4.57% to 4.22%, increasing bond prices. The Australian bond market similarly benefited from economic uncertainty and a rate cut in February.

In Europe, Germany announced a major $500 billion infrastructure fund aimed at modernisation, defence improvements, and climate advancements, causing bond market selloffs and pushing yields higher towards the quarter's end.

5. OUTLOOK

Although this report reviews the first quarter, at the time of writing, we have observed significant market volatility that cannot be ignored. Our outlook therefore considers the early market movements observed in the second quarter of 2025.

As we progress further into President Trump's second term, market volatility has become more pronounced. Trump's aggressive tariff threats, unpredictable policy changes, and sporadic social media activity are key catalysts contributing to fluctuations in equity and fixed income markets. At times, it has seemed as though Trump exercises substantial control over markets, capable of causing double-digit drawdowns one day and double-digit growth the next.

Unlike several of Trump's other policies, markets have not shrugged off the implementation of tariffs. Although the initial sell-off at the beginning of the second quarter was driven by fear and panic, the potential global impact of these tariffs should not be underestimated. Tariffs can lead to numerous direct and indirect economic issues globally, including inflation and possible recessions. Investors are urgently attempting to assess the full implications of these tariffs on the economy, but daily changes in tariff details make this a challenging task. As markets dislike uncertainty, caution remains necessary moving forward.

Interest Rates / Fixed Income:

Given the current environment, interest rates have become increasingly difficult to predict. Rate cut expectations previously depended on forecasts of how the Federal Reserve would interpret economic data regarding economic strength and inflation levels. While this remains true, recent economic policies and extreme market volatility have complicated accurate forecasting. At present, the US market is pricing in 75 basis points of rate cuts by year's end, considerably more than earlier predicted. This expectation reflects market concerns that Trump's policies may trigger an economic downturn, prompting the Fed to lower interest rates to stimulate growth.

In Australia, interest rates are likely to fall again in May, with 29 out of 40 economists forecasting a 25-basis point cut, although a 50-basis point cut remains possible. The Reserve Bank of Australia (RBA) has consistently stated that its decision will be data-driven. With over a month remaining until their decision, accurate predictions remain difficult.

Investors typically seek defensive assets during uncertain periods. Fixed income markets consequently benefited from falling yields and rising bond prices in the first quarter of 2025. Looking forward, further volatility in fixed income markets is anticipated, driven by comments from President Trump, signs of economic weakness, and re-emerging inflation. In this context, a diversified exposure to short and long-duration defensive assets is recommended. Attractive income from short-duration investments with limited risk remains appealing, alongside a simultaneous allocation to longer-duration fixed income. Long-duration bonds offer higher income and potential capital appreciation if yields decline. Diversifying across different regions and markets is also advisable.

Equities:

Equities experienced considerable volatility in early 2025, a trend expected to persist through the remainder of the year. Equity market movements will likely continue to reflect analyst revisions of forecasts related to recession risk, re-inflation possibilities, and company earnings impacts. Amid this volatility, a diversified portfolio across sectors, asset classes, and countries is essential to minimise drawdowns and enhance long-term returns.

Although sharp market downturns may be unsettling, these often-present attractive buying opportunities for fund managers, improving long-term outcomes.

Australia was not exempt from Trump's tariff measures, receiving a 10% tariff on all exports to the US. Given Australia's limited trading relationship with the US, the direct economic impact of this tariff is likely minimal. However, China, Australia's largest export market, will be significantly affected by the increased tariffs, currently at 125% on exports to the US. In response, China may stimulate its economy, indirectly benefiting Australia through increased demand for commodities and infrastructure-related products. Falling interest rates and potential demand from China currently make the Australian market relatively attractive; however, widespread supply-chain disruptions and global volatility may temper potential returns.

General Advice Warning

This update is issued by Ventura Investment Management Limited (AFSL 253045), which is a related body corporate of Centrepoint Alliance Limited.

The information provided is general advice only and does not take into account your financial circumstances, needs or objectives. Where you are considering the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure Statement for the relevant product before you make any decision to invest. Past performance does not necessarily indicate a financial product's future performance. It is imperative that you seek advice from a registered professional financial adviser before making any investment decisions.

For more information, refer to the Financial Services Guide (FSG) for Ventura Investment Management Limited (available at).

Disclaimer

While Centrepoint Alliance Limited and its related bodies corporate try to ensure that the content of this update is accurate, adequate, and complete, it does not represent or warrant its accuracy, adequacy or completeness. Centrepoint Alliance Limited is not responsible for any loss suffered as a result of or in relation of the use of this update. To the extent permitted by law, Centrepoint Alliance Limited excludes any liability, including negligence, for any loss, including indirect or consequential damages arising from or in relation to the use of this update.