

Quarterly Market Report

June 30, 2025



The never-ending back and forth on tariffs, an escalating war in Ukraine and the Middle East, and growing concern about the US's mounting debt should indicate tumultuous times for financial markets, and yet Australian and global stocks appear to be largely unconcerned by the danger signs. By the end of the quarter equity markets were surging and reaching new highs.

Global shares had a sudden downturn at the start of April, falling as much as 10% in some markets, when the new US Administration announced larger than expected tariffs on friends and foes alike. However, the tariffs were paused for 90 days only a week later as bond market volatility forced the President to hold off the implementation of the tariffs.

Since that time there has been much to-and froing around trade, but markets now appear to be ignoring the potential inflationary impact of tariffs on the US economy. Similarly, the Big Beautiful Bill, which will add as much as 3 US trillion to the debt, does not appear to worry the equity markets, although bond markets remain more cautious even as longer yields decline.

At the end of the quarter financial markets grappled with the Israeli and American bombing of nuclear enrichment sights in Iran, which saw renewed market volatility and oil prices spiking by as much 10%. However, the rapid announcement of a ceasefire calmed markets and share indices quickly recovered short term losses while crude oil prices retreated to their pre-bombing levels.

The US Federal Reserve held interest rates steady at 4.25-4.50% at their May and June meetings, as widely expected. Accompanying commentary from Chair Jerome Powell emphasised there was no rush to ease monetary policy because the economy remains strong, but policymakers are waiting for clarity on the impact of the new tariffs.

In Australia, headline CPI inflation fell to a multi-year low of +2.1% for the year to May, well below expectations. The trimmed mean also fell to an annualised +2.4%, which has boosted investor confidence for more RBA rate cuts in the remainder of 2025.

Amid the geopolitical and economic maelstroms of 2025, diversified investors may end up remembering the first six months for something altogether less dangerous or dramatic. Rather than witnessing a slow-motion disaster, investors have been rewarded by maintain a strategic indifference to volatility across equities and fixed interest. So far, 2025 has managed to see the strongest stretch of synchronized market gains in years.

Equity and Bond Market Overview

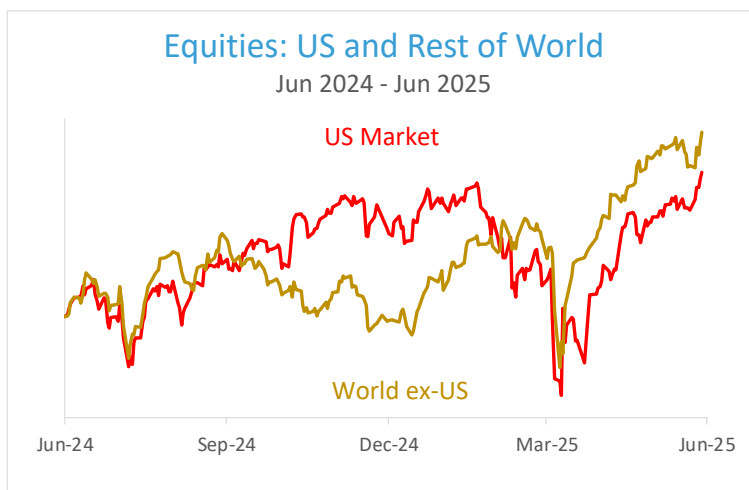
ASX HAS STRONG FY DESPITE WEAK DOMESTIC ECONOMY.

Despite the relatively weak domestic economy and the global market downturn caused by the announcement of US tariffs, the ASX has returned 10% over the June quarter. By the end of the quarter the ASX was hitting fresh highs, and over the 24-25 Financial Year has returned 13.8%. Much of this performance is attributable to CBA, which is up 50% for the previous 12 months.



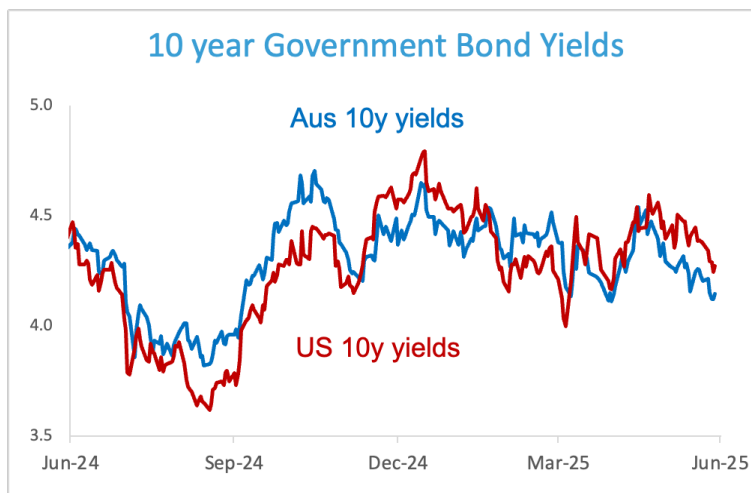
US AND GLOBAL MARKETS IGNORE GEOPOLITICAL RISKS.

Despite the combination of increasing risk from geopolitical conflicts in Ukraine and the Middle East, uncertainty around the timing and magnitude of US tariffs, and concerns around US debt levels, US and World (ex-USA) markets have had a strong quarter, both returning over 10% (in USD). Global markets have been buoyed by the falling USD against major currencies.



BOND YIELDS REACT TO DIVERGING ECONOMIC RISKS.

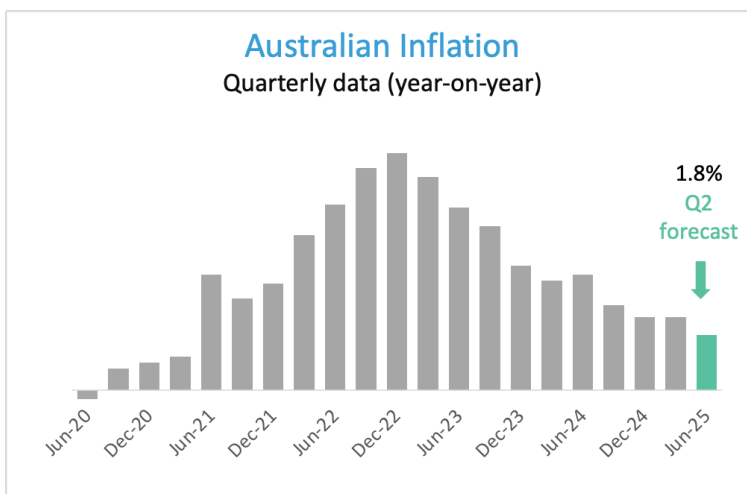
10-year government bond yields in Australia and the US have had a volatile quarter, initially rising on continued inflation fears, but recently edging downwards as geopolitical risks increase. In the US the bond market is weighing up higher inflation due to tariffs, while in Australia it is the strong labour market that the RBA are looking at when considering cuts.



Economic Review and Forecasts

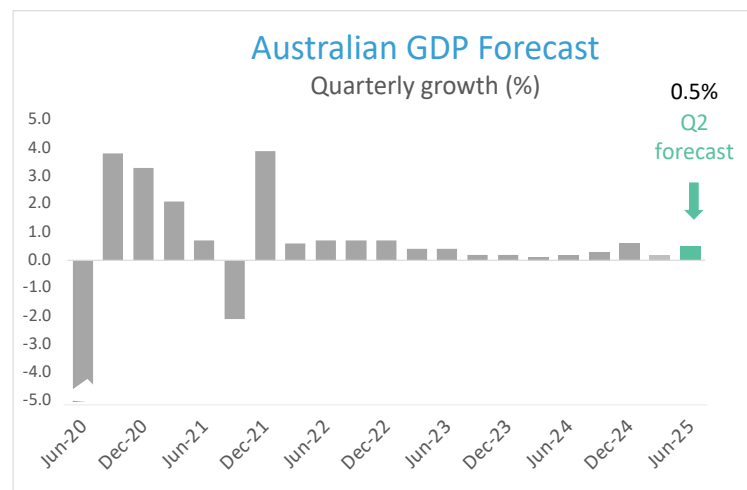
INFLATION CONTINUES TO FALL.

Australia's annual inflation rate held steady at 2.4% in Q1 2025, unchanged from the previous quarter. Nevertheless, it remains the lowest level since Q1 2021. Services inflation eased, driven by slower increases in rents and insurance costs. The inflation rate is expected to be 1.8% for this quarter when official results are released on July 30.



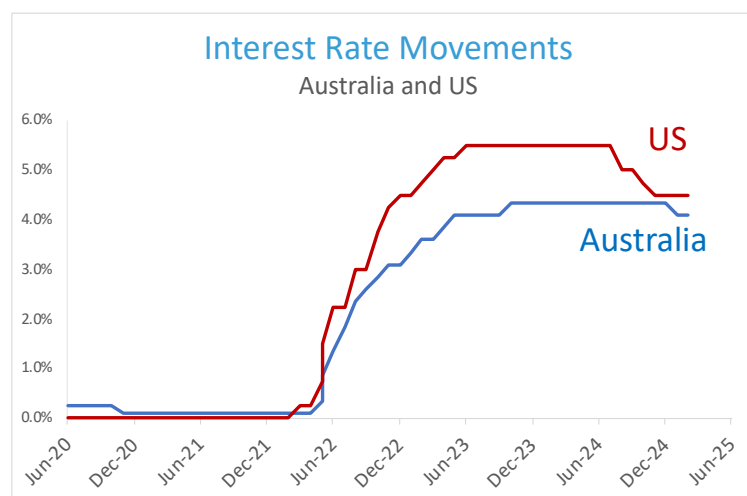
AUSTRALIAN GROWTH SLOW BUT CONTINUES TO IMPROVE.

The Australian economy grew by 0.2% QoQ in the first quarter of 2025, dragged down by public spending as severe weather disrupted mining, tourism, and shipping slowed over the previous quarter. However, the GDP Growth Rate in Australia is expected to be 0.5% by the end of this quarter, according to analysts' expectations.



CENTRAL BANKS REMAIN CAUTIOUS ABOUT RATE CUTS.

The Reserve Bank of Australia cut the cash rate by 25bps to 3.85% at its May meeting but left rates on hold at the subsequent June 20 meeting. The Fed Reserve kept the federal funds rate unchanged at 4.5% at their May and June meetings in line with expectations. Both Central Banks noted inflation risks are now more balanced, though the economic outlook remains uncertain.



Market Returns to 30 June 2025 (net returns, AUD)

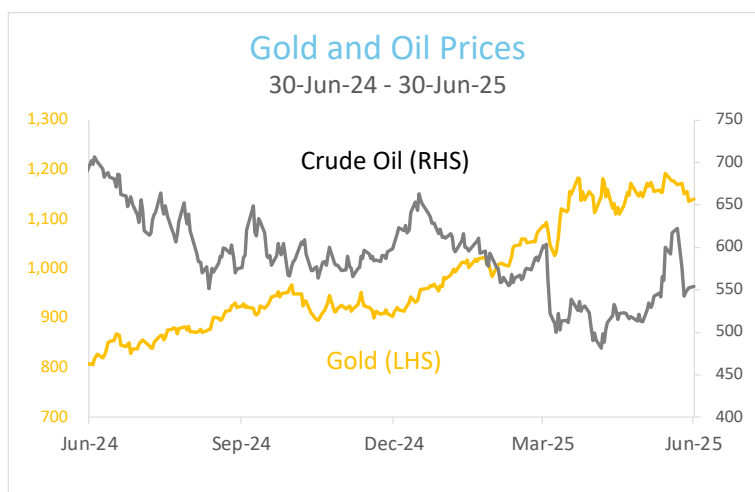
Asset Class	3 Months	1 Year	3 Year	5 Year	10 Year
Cash	1.0%	4.4%	3.9%	2.3%	2.0%
Australian Bonds	2.6%	6.8%	3.9%	-0.1%	2.3%
Global Bonds	1.5%	5.4%	2.3%	-0.6%	2.0%
Australian Equity	9.5%	13.8%	13.6%	11.8%	8.9%
Developed Markets	5.9%	18.6%	20.4%	15.8%	12.5%
Developed Markets (hedged)	9.0%	13.1%	16.6%	13.5%	10.4%
Emerging Markets	6.5%	17.5%	11.5%	7.9%	6.5%
Australian REITS	13.7%	14.0%	15.4%	12.4%	8.3%
Global REITs	-2.3%	12.1%	5.6%	7.3%	5.6%

Source: MSCI, Bloomberg, S&P Global

- In their most recent meetings, the Federal Reserve and the RBA have kept rates on hold as they assess the impact of tariffs and uncertain economic growth. Longer bond yields have fallen over the quarter, resulting in positive returns for bond indices.
- Despite the fall in the market early in April on the announcement from the US Administration on tariffs the Australian market has recorded a strong quarter.
- Similarly, the Developed Markets have recovered from the initial impact of tariffs, and to date have largely ignored geopolitical tensions to record a strong quarterly return.
- The Australian dollar has appreciated over the quarter, mainly due to the weakness in the US dollar against other currencies. Consequently, hedged international equities have outperformed their unhedged counterparts this quarter.
- Emerging Markets are performing in-line with Developed markets this quarter even though China - which accounts for 30% of the EM index – has returned -3% (in AUD).
- Global REITs underperformed global equities, but Australian REITs outperformed the local market due to Goodman Group, which is 40% of the A-REIT sector.

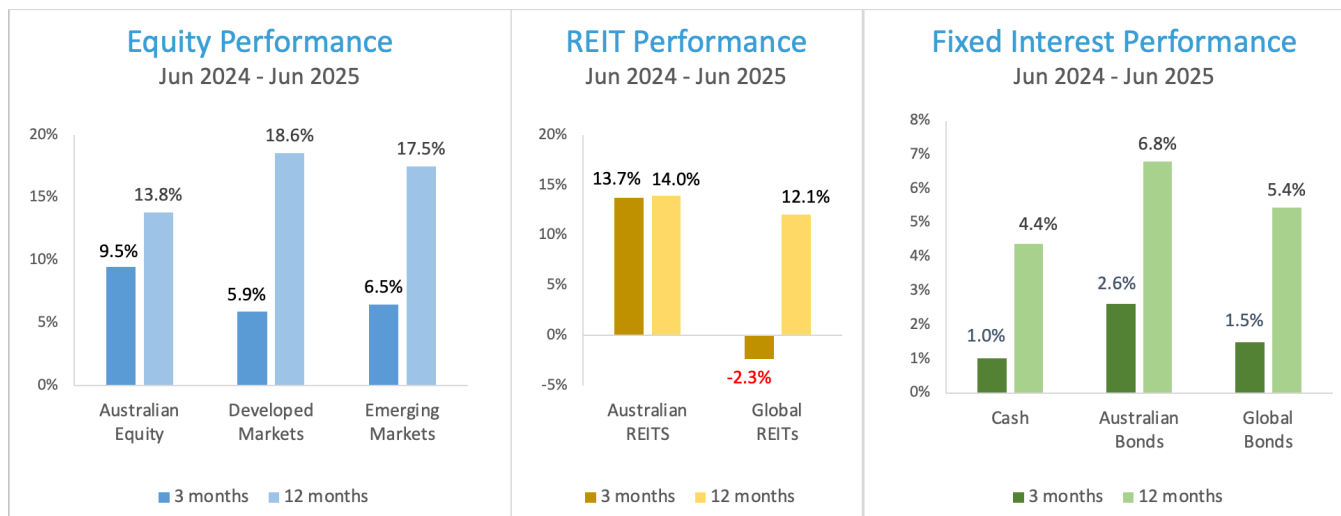
OIL AND GOLD RISE AS IRAN-ISRAEL CONFLICT INTENSIFIES

Gold is up over 40% for the previous 12 months, boosting commodity prices. Crude oil prices spiked 10% in the last weeks of the quarter as the conflict in the Middle East escalated with the Israeli and American bombing of Iran. However, the conflict was short-lived, and oil prices had returned to their pre-bombing levels by the end of the quarter.



Source: investing.com

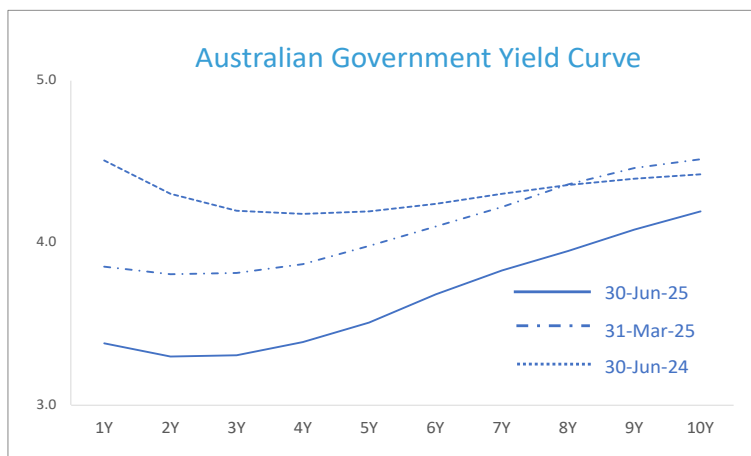
Market Returns (Chart)



Yield Curves

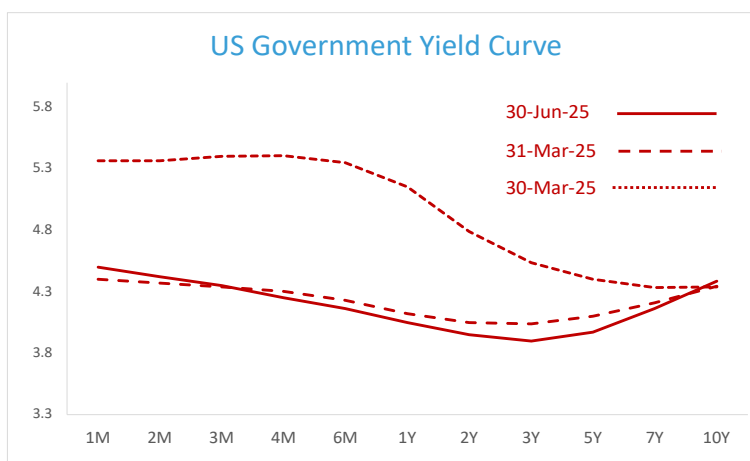
AUSTRALIA

The Australian yield curve has had a parallel shift downwards after the last rate reduction in May. The curve is reflecting an expectation that interest rates will have further cuts in the short term, before longer yields start rising in line with improving economic growth. Inflation has remained stubborn but has been gradually moving into the RBA's target band.



UNITED STATES

The US yield curve is little changed from where it was at the end of the March quarter. Short term yields are reflecting an expectation that the Federal Reserve will make further rate cuts, while longer term yields indicate the bond market is cautious but not overly concerned by the potential inflationary effects of the Administration's economic policies.



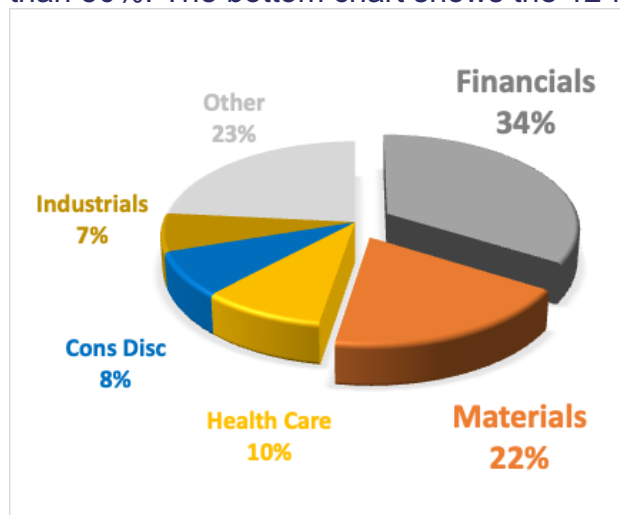
Sector Performance

AUSTRALIA

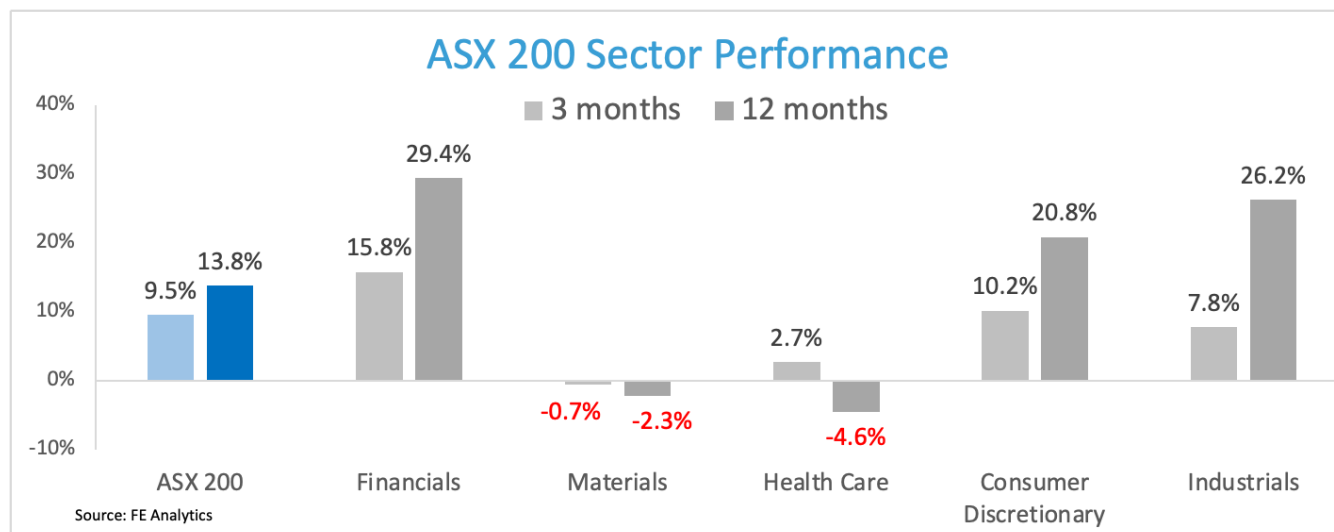
The concentrated nature of the Australian market is evident over the last 12 months as the best performing sectors have been Financials, led by CBA which is up over 50%, and Industrials led by Brambles, which is up over 65%. Similarly, Health Care is one of the worst sectors, as it is dominated by CSL which is down 20%. The Materials sector is also negative, as the biggest stocks BHP and RIO are tied to the price of Iron Ore.

Sector	3 months	12 months
ASX 200	9.5%	13.8%
Communication Services	14.1%	27.6%
Consumer Discretionary	10.2%	20.8%
Consumer Staple	4.0%	1.3%
Energy	9.3%	-8.1%
Financials	15.8%	29.4%
Health Care	2.7%	-4.6%
Industrials	7.8%	26.2%
Information Technology	28.4%	24.2%
Materials	-0.7%	-2.3%
Real Estate	12.8%	12.0%
Utilities	2.0%	4.6%

Five sectors make up approximately 75% of the market, with the two largest constituting more than 50%. The bottom chart shows the 12-month performance of the five largest sectors.



Sector	Weight	Cummulative
Financials	33.8%	33.8%
Materials	18.8%	52.6%
Health Care	9.3%	61.9%
Consumer Disc	7.9%	69.8%
Industrials	7.5%	77.3%
Real Estate	6.7%	84.0%
Energy	3.9%	87.9%
Consumer Staples	3.8%	91.7%
Communication Services	3.8%	95.5%
Information Technology	3.0%	98.5%
Utilities	1.4%	99.9%



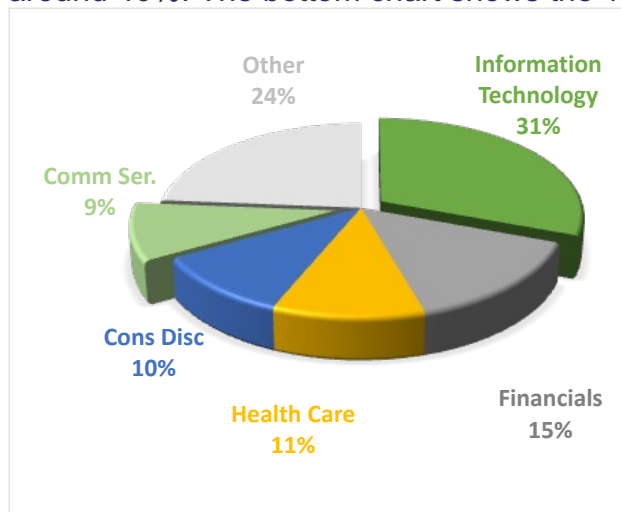
Sector Performance

UNITED STATES

The US Tech sector (Communication and IT stocks) have recovered from the uncertainty of the first quarter and are again the main drivers of the overall US market. Over the previous 12 months the Financials and Retail (Consumer Discretionary) sector have been among the best performing sectors, while Health Care stocks have been a detractor to the performance of the S&P 500 index.

Sector	3 months	12 months
S&P 500	10.4%	14.6%
Communication Services	18.1%	22.6%
Consumer Discretionary	12.5%	19.4%
Consumer Staple	0.6%	11.6%
Energy	-8.0%	-3.3%
Financials	4.6%	28.3%
Health Care	-7.8%	-6.5%
Industrials	12.4%	22.2%
Information Technology	22.5%	14.0%
Materials	3.0%	1.7%
Real Estate	-0.8%	10.8%
Utilities	3.9%	22.9%

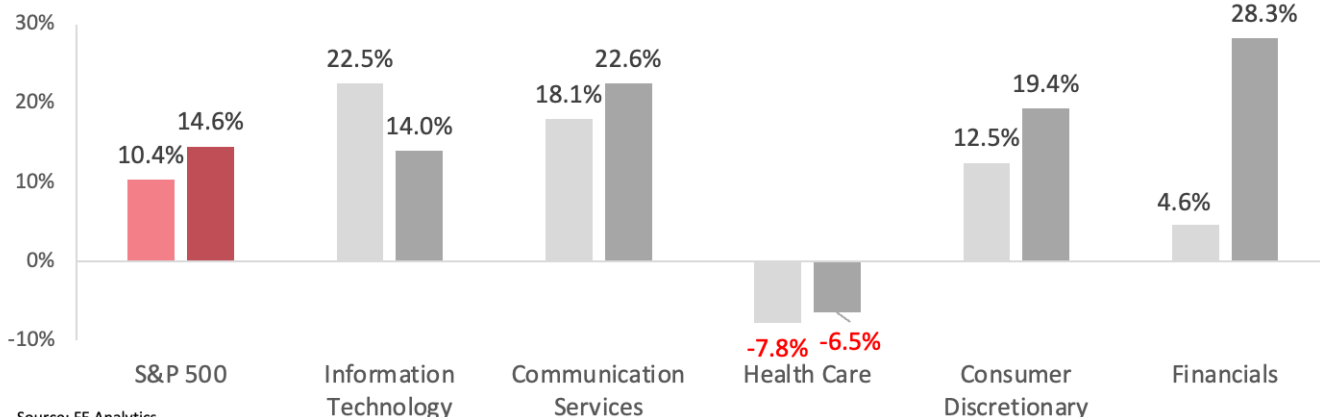
Five sectors make up approximately 75% of the US market, with Tech companies constituting around 40%. The bottom chart shows the 12-month performance of the five largest sectors.



Sector	Weight	Cummulative
Information Technology	30.7%	30.7%
Financials	14.8%	45.5%
Health Care	10.8%	56.3%
Consumer Discretionary	10.5%	66.8%
Communication Services	9.5%	76.3%
Industrials	8.3%	84.6%
Consumer Staples	5.8%	90.4%
Energy	3.2%	93.6%
Materials	2.3%	95.9%
Real Estate	2.1%	98.0%
Utilities	1.9%	99.9%

S&P 500 Sector Performance (USD)

■ 3 months ■ 12 months

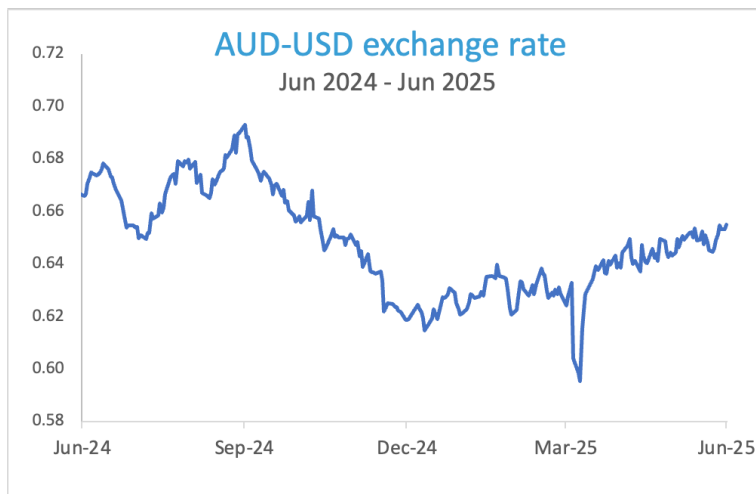


Source: FE Analytics

Currency and Commodities

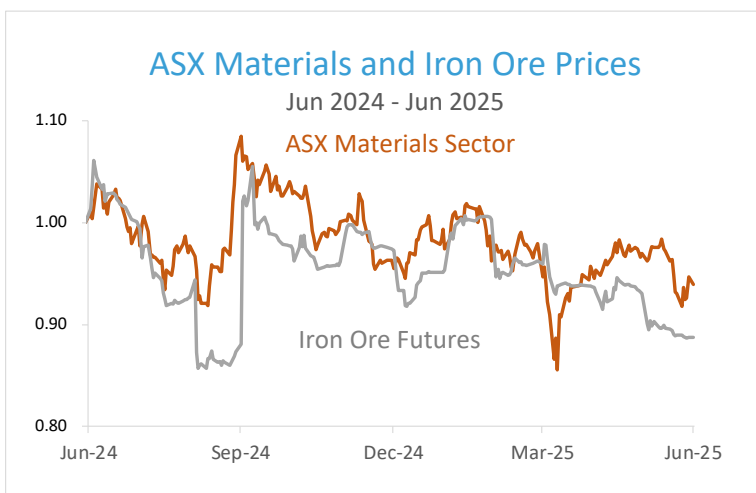
EXCHANGE RATE

The Australian dollar finished just under \$0.63 by the end of the quarter as the US dollar has weakened on several US-driven uncertainties, including economic policy, debt sustainability and potential tax changes for foreigners which make US assets look less attractive. The Aussie is slightly up over the quarter having gained nearly 5% but is down slightly from 12 months ago.



ASX MATERIALS INDEX AND THE IRON ORE PRICE

China's steel production – the largest buyer of Australia's iron ore – continues to decline along with the state of the once-mighty property market. China's new home starts – the biggest driver of steel demand – have also continued to fall. Closely correlated to the price of iron ore is the ASX Materials sector, which constitutes around 20% of the index.



Source: investing.com

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July 2025

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