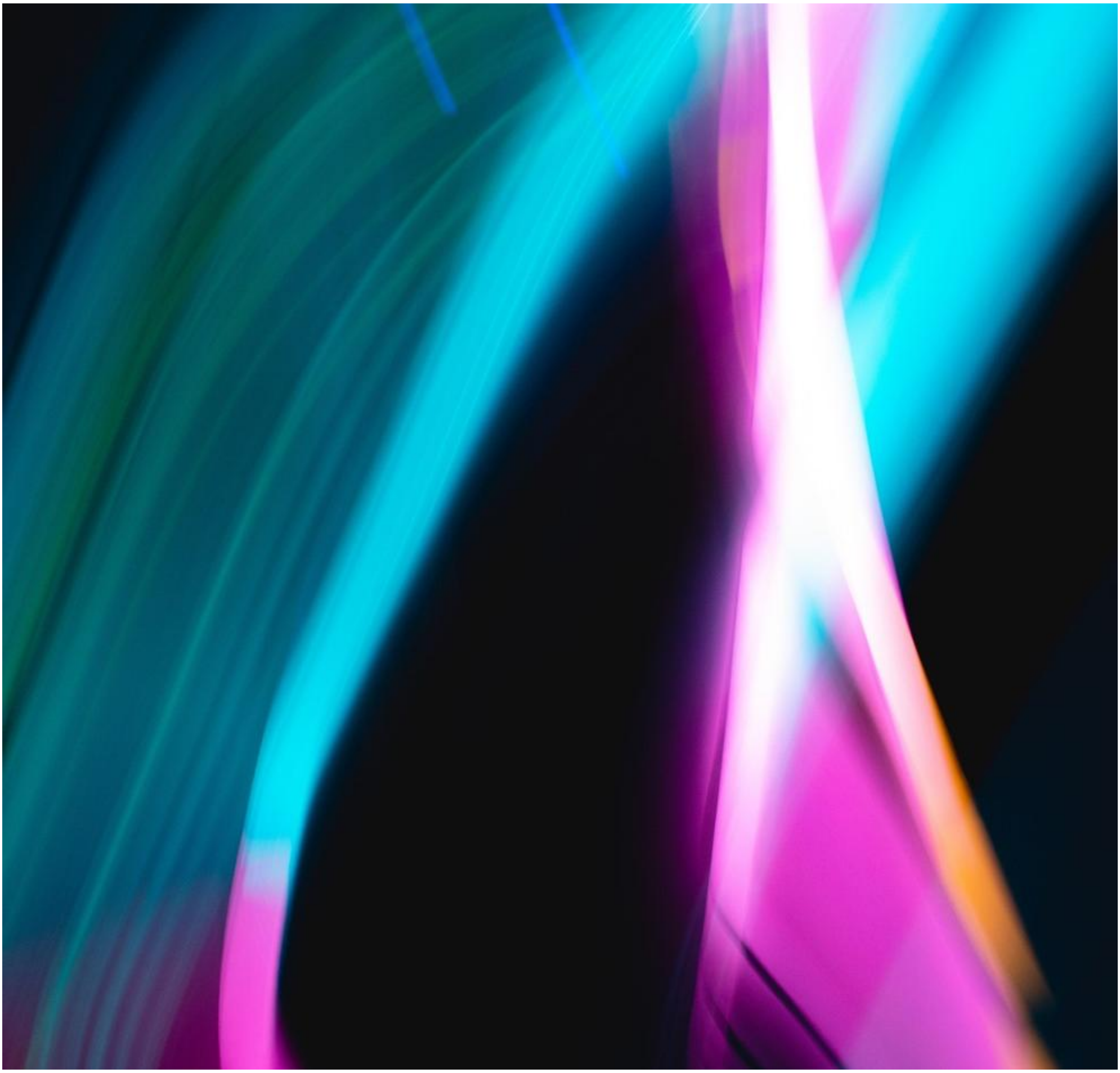
INVESTMENT ENVIRONMENT UPDATE

APRIL

2025

PATRIZIA ADVISERS



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Prime Super

Investment Environment Update

Global share markets continued to experience heightened levels of volatility in April as markets responded to President Trump's tariff announcements on 'Liberation Day' (April 2nd) and the subsequent responses from various countries. The ongoing uncertainty from the shakeup of the global trading framework will take some time to settle. Following a rapid increase in US Government bond yields and the fall in the US dollar, President Trump announced a 90-day pause on implementing newly announced tariffs, aiming to leverage the threat of tariffs into favourable deals with particular countries. The overwhelming response from markets of selling a plethora of US assets (equities, bonds and currency) has forced a pivot from the US Government administration. The landing point for US tariffs remains very uncertain, and thus the implications for economies and asset markets remains equally unclear. Markets did recover in the second half of April upon the announcement of the 90-day moratorium on tariffs, and by early May, the US S&P 500 index had erased all post 'Liberation Day' losses.

Pain in equity markets was felt particularly in US equities with the S&P 500 falling -0.8% for the month, while most other countries performed reasonably well as investors sold US equities and rebalanced away from America. For the month of April, the S&P/ASX 200 was 3.6% higher, Japan's Nikkei was 1.2% higher, the German DAX 1.5% higher, though the French CAC did fall, ending 2.5% lower for the month. In terms of currency movements, the Australian dollar increased in value, particularly against the US dollar, driving the unhedged returns lower and the hedged returns higher for Australian investors. Emerging markets had a soft month, delivering returns of -1.3% for the month of April on an unhedged basis as concerns around the ongoing trade war increased. Fixed Income performed well having sold off previously in March, with Australian Fixed Income generating a return of 1.7%, while International Fixed Income delivered 1.0% for the month of April. Fixed Income has generated solid 12 month returns with returns of 7.1% for Australian Fixed Income and 6.5% for International Fixed Income to the end of April. Both fixed income indices are comfortably ahead of cash, though behind returns from equities.

Asset Class Returns	April (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.35	1.04	4.46	3.68
Australian Fixed Income	1.70	2.82	7.08	2.75
International Fixed Income	0.95	1.71	6.52	1.47
Australian Equity *	3.60	-3.66	9.54	6.85
International Equity - Developed (unhedged) *	-1.84	-6.76	13.89	15.17
International Equity - Developed (hedged) *	-0.45	-6.30	9.83	9.88
International Equity - Emerging (unhedged) *	-1.33	-0.13	10.64	7.54

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

Consensus estimates for earnings of US companies were slow to adjust immediately after President Trump's tariffs were announced as uncertainty around the final tariff outcomes and subsequent implications for companies slowed the response from analysts. The extent of the implications for equities from the tariff war is highly uncertain, though directionally it will be negative. In the current reporting season for companies listed on the US stock exchanges we are seeing many companies guide sales and earnings targets lower as well as increasing the range of forward guidance as the uncertainty grows.

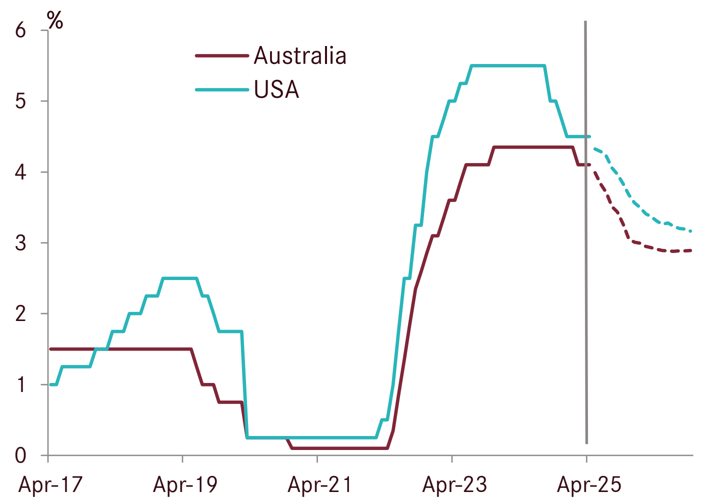
US GDP figures in April surprised to the downside, falling into contractionary territory during the March quarter at an annualised rate of -0.3%, which marks the first decline since Q1 2022 and was well below market expectations of 0.3% growth. In terms of the key driver, a 41.3% surge in imports contributed to the slowdown, as businesses and consumers pulled forward purchase decisions in anticipation of higher costs for goods following the commencement of tariff announcements from President Trump. Consumer spending growth slowed to 1.8%, the slowest pace since Q2 2023, as consumers became increasingly worried about the outlook for the economy and cost of living. With regards to other large swings in the Q1 2025 GDP print, federal government expenditures fell by 5.1%, the steepest drop since Q1 2022 while fixed investment surged +7.8%, the most since Q2 2023. The negative print on Q1 GDP increases the likelihood of a technical recession, which is defined as two consecutive quarters of negative GDP growth.

Non-farm payrolls increased by 177,000 in April, falling from March levels, though landing well above market expectations of 130,000. It is early days in terms of the tariff flow through into hard data, though we expect this to occur over the next few months. The timing of this could be a little slower than first expected due to the pull forward of new orders and purchases ahead of the tariffs coming into effect. The annual headline inflation rate fell from 2.8% in February to 2.4% in March and was below expectations of a decline to 2.6%. The annual core inflation rate fell by -0.4% to 2.6% in March. Whilst this was a welcome fall, expectations are growing of inflation pressures over coming months as price increases reflect the onset of the tariffs. US ISM Manufacturing PMIs fell to 48.7 in April and was slightly ahead of expectations, while the US ISM Services Index rose to 51.6, up from 50.8 in March.

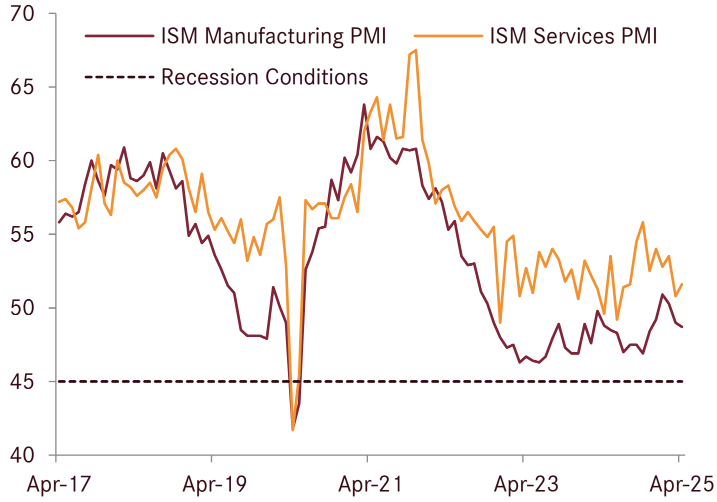
The Fed did not cut interest rates at its May meeting, even though inflation fell at a slightly quicker rate than was expected. The Fed remains concerned about the implications of tariffs on inflation and has noted the considerable increase in inflation expectations in recent months following the announcement of tariffs.

In Australia, the RBA has held the official cash rate at 4.1% since its February 2025 meeting as it has taken a cautious approach, wanting to see inflation moderate further to well within its target bands before resuming its easing cycle. Most recent inflation data was a little higher than expectations, with Q1 inflation coming in at 2.4% for the 12 months to end March and above expectations of 2.3% while the trimmed mean inflation came in in line with expectations at 2.9% over the last 12 months. Markets are fully pricing in a 25 basis point rate cut at the May meeting (and a small chance of a 50 basis point cut). Much of April was dominated by the federal election campaigning that culminated in a landslide result for Labour in early May, and a second term in office for the Prime Minister.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

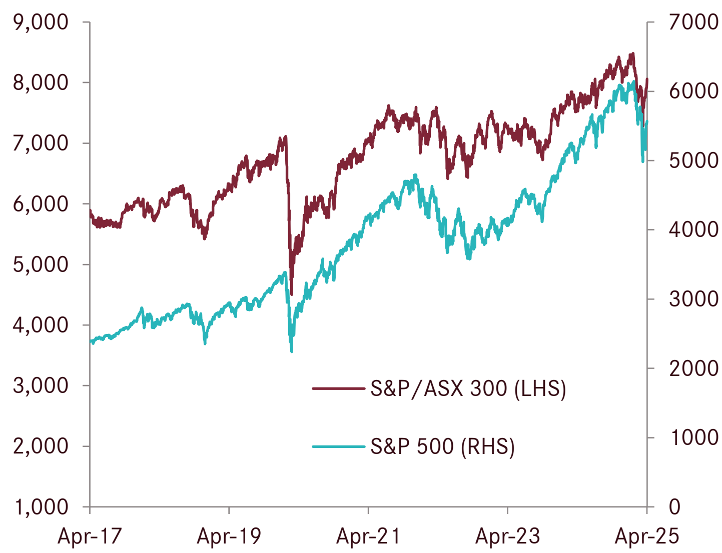
The ECB has continued cutting rates in response to slowing inflation and weak growth, further amplified by a cloudy outlook for economic activity as the tariff war with the US unfolds. At its April meeting, the ECB cut rates by 25 basis points, bringing them down to 2.25%. The rate cut reflects increased confidence that inflation is on track to return sustainably to the 2% target. ECB President Christine Lagarde recently commented that "while the disinflationary process is very much on track, there are shocks that would dampen economic growth". Headline inflation held at 2.2% in April, slightly higher than market expectations of an easing to 2.1% while the core inflation rate rose to 2.7% for the 12 months to end March, also above forecasts of 2.5%. The Euro Area Q1 GDP grew at an annualised rate of 1.2%, ahead of expectations of a 1% rise. While a better result than what was expected, it is a modest outcome amongst a backdrop of considerable uncertainty. The Flash HCOB Eurozone Manufacturing Index rose slightly in April to 48.7 from 48.6 in March, while the Flash HCOB Eurozone Services Index fell in April, declining to 49.7. Retail sales increased in the Eurozone, rising by 2.3% in the year to end April and well ahead of expectations of a 1.8% increase. Consumer confidence for the Euro Area declined noticeably in April and is now at its lowest level since November 2023. Confidence was dragged down in all key areas of the past and future household financial situation, their intentions to make major purchases, and expectations for their country's general economic outlook.

The Bank of England (BoE) cut the cash rate by 0.25% to 4.25% at its May meeting. Markets are expecting three more interest rate cuts over the course of 2025. The BoE cited considerable uncertainty around global developments and the British economy, and critically, the path of inflation going forward. Like most countries around the world, consumer confidence in the UK declined sharply over the course of April, with the GfK consumer confidence index falling -4 points to -23 and hitting its lowest level since November 2023. However, retail sales were stronger than expected, coming in at 2.6% year-on-year for March and above expectations of 1.8%, indicating that consumers are pulling forward purchases ahead of the new tariff regimes. The inflation data released in April showed the annual inflation rate in the UK fell to 2.6% in March, down from 2.8% the previous month. Similarly, annual core inflation fell from 3.5% to 3.4% and was in line with market expectations. The S&P Global UK Services PMI Survey fell to 48.9 in April, down from 52.5 in March and below expectations of 51.3. The S&P Global UK Manufacturing PMI Survey increased to 45.4 in April, slightly better than the reading in March, as output declined with manufacturers scaling back production in response to weaker domestic and foreign demand.

China is clearly in President Trump's sights when it comes to the trade war and setting of tariffs. After a tit for tat exchange of tariffs and counter tariffs, the end result was a tariff of 145% imposed by the US against China and a tariff of 125% imposed by China on US goods. In mid-May, negotiations between the US and China resulted in tariffs that were at least partly walked back to lower levels. In terms of Chinese economic data, headline CPI fell by -0.1% (deflation) in the year to end April, while the NBS Manufacturing PMI fell to 49 in April, and NBS Non-Manufacturing PMI slipped to 50.4 from 50.8. Softening economic conditions are expected in China over coming months, however, authorities are already responding with a range of stimulus measures to try and help cushion the economy through this transition period.

US Yield Spread

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



Source: Bloomberg

Index Returns to 30 April 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	3.6	-3.7	7.6	9.5
S&P/ASX Small Ordinaries Accumulation Index	1.8	-4.6	5.2	3.7
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	-0.4	-6.3	3.2	9.8
MSCI World (ex Australia) Index (unhedged AUD)	-1.8	-6.8	9.9	13.9
MSCI Emerging Markets Index (unhedged AUD)	-1.3	-0.1	8.9	10.6
Property				
S&P/ASX 200 A-REIT Accumulation Index	6.3	-5.3	6.6	9.1
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-0.9	-1.5	5.1	10.0
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-2.5	-2.2	12.2	14.4
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	-0.8	3.4	14.7	16.9
Australian Fixed Interest				
Bloomberg AusBond Composite Index	1.7	2.8	5.8	7.1
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.9	1.7	4.9	6.5
FTSE WGBI ex-Aust (hedged AUD)	1.1	1.7	4.5	5.8
Cash				
Bloomberg AusBond Bank Bill Index	0.4	1.0	3.7	4.5
Commodities				
Gold (USD per ounce)	6.0	17.4	41.7	43.1
Copper (USD per metric tonne)	-6.0	0.9	-4.9	-8.7
WTI Crude Oil (USD per barrel)	-18.6	-19.7	-28.6	-29.0
RBA Index of Commodity Prices (AUD)	0.4	-2.5	1.8	-0.7

Australian Dollar versus Foreign Currencies to 30 April 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 30 APRIL 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.64	2.7	2.6	-4.2	-1.5
British Pound Sterling	0.48	-0.8	-4.6	-9.3	-7.6
Euro	0.56	-2.4	-6.2	-9.7	-7.3
Japanese Yen	91.27	-2.1	-5.5	-15.0	-10.7

Source: Bloomberg

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