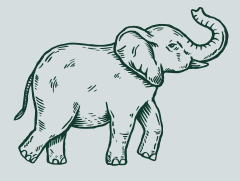


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March 2025

Investment Markets Report

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Chief Investment Officer



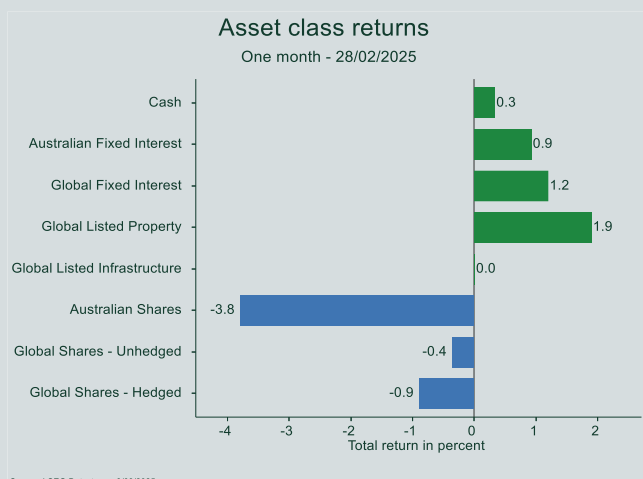
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in February?

After making a new record high in mid-February, global equities declined later in the month on fresh uncertainty around US tariffs and foreign policy, some softer US economic data and disappointment that some of the Magnificent Seven US tech companies were expecting growth to slow in coming quarters. The increase in investor uncertainty and questions around US economic exceptionalism saw US government bond yields fall significantly and investors rotate out of more expensive US stocks into cheaper equity markets such as Europe and Emerging Markets.

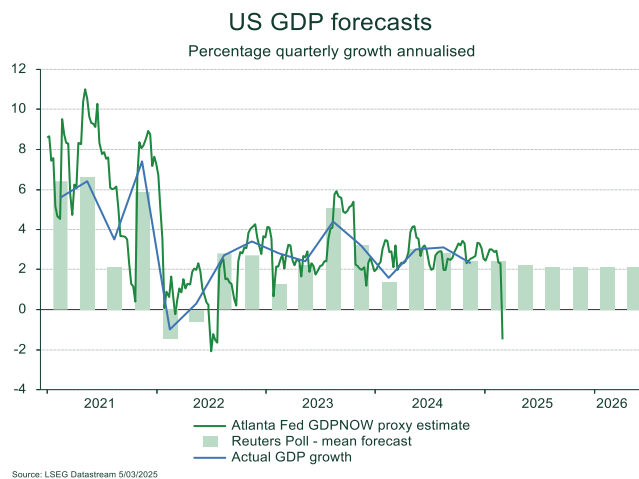
EXECUTIVE SUMMARY

- ▶ In currency-hedged terms, developed market equities (MSCI World ex-Australia) lost 0.9% in February. The US equity market (S&P 500) was down 1.3% and Australian shares (S&P/ASX 200) dropped 3.8%. European shares (STOXX 600) rose 3.4% and Emerging Market shares (MSCI Emerging Markets) rose 0.8%.
- ▶ 10-year government bond yields declined 35 basis points (bps) in the US, 13bps in Australia, 6bps in the UK, 7bps in Germany while yields rose 13bps in Japan.
- ▶ Investment-grade corporate bond spreads in the US rose from 82bps to 88bps over US treasuries, while US high yield bond spreads rose by 19bps to 287bps.
- ▶ The Australian Dollar fell 0.2 US cents to US\$0.6219.
- ▶ Oil prices fell 3.9% to US\$69.97 per barrel (WTI). Gold rose 0.8% to US\$2,834 per troy ounce. Iron ore prices fell 3.0% to US\$102.60 per tonne.



Tactical Positioning

Investor sentiment weakened in February after President Trump followed through with his election promises to introduce widespread tariffs. So far, he has announced a series of major tariffs that collectively could have a material impact on US trade, consumer prices and economic growth if all come into effect. To date, the market reaction has been relatively mild with many investors seeing these US tariffs, and potential retaliatory tariffs, as likely to be temporary or watered down through trade negotiations.

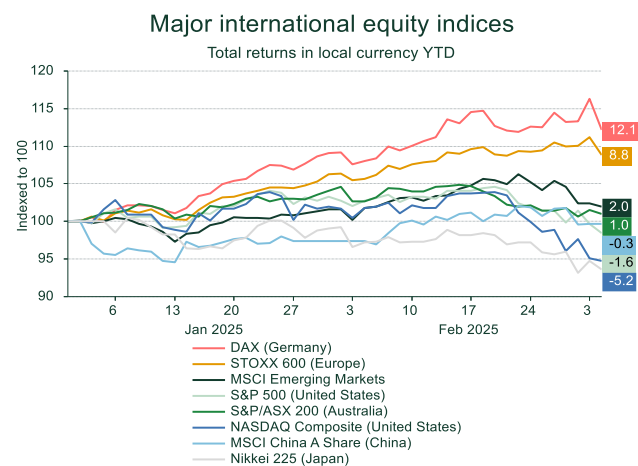


Heightened trade and economic policy uncertainty, which we have written about previously, has started to impact consumer and business sentiment and consumer inflation expectations have risen to the highest level since 1995. There has also been some softer US data on retail spending, employment and international trade. The Atlanta Fed's GDPNow measure of economic activity, which aggregates this economic data, suggests the US economy could contract in the first quarter of 2025, and some investors are now questioning whether Trump policies are a net positive or negative for US growth this year.

In Europe, the potential for a Ukraine-Russia ceasefire, or longer-term peace deal, is a potential positive given the potential boost to activity from assisting in the rebuild of Ukraine and lower potential energy prices if Russian gas imports increase. Europe also appears likely to lift defence spending and the German economy, which has been weak, looks likely to gain from increased government borrowing to fund infrastructure and defence spending.

We expect the heavy news flow around Trump, geopolitics, US government spending and trade to continue in the short to medium term and therefore it is important to look through the media noise to try to ascertain the likely direction for economies, interest rates and corporate earnings. At this stage, we do not expect a damaging global trade war or second inflation wave. However, these scenarios cannot be completely ruled out and we remain alert to the potential risks.

For now, we are retaining neutral allocations in both growth and defensive assets with a modest overweight to global shares offset by an underweight in infrastructure. To protect portfolios from equity volatility, we continue to like longer-dated government bonds, which have provided some offset to weaker equity returns in recent weeks. We also like uncorrelated alternative investments and unhedged currency exposures in global equities which helps buffer portfolios during periods of heightened trade uncertainty which tends to strengthen the US Dollar.

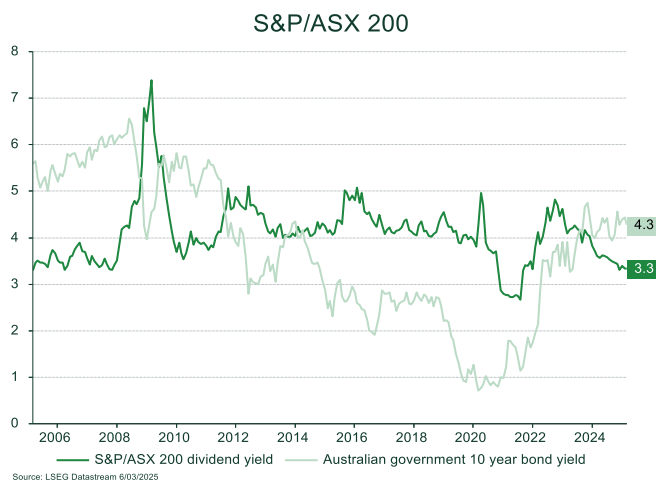


EQUITIES:

February saw further rotation away from US equities, particularly the Magnificent Seven (Mag7) technology stocks, into cheaper markets including Europe and Emerging Markets. While the fourth quarter results for the Mag7 were roughly in line with, or slightly better than expected, market sentiment towards these leading companies has cooled as the strong revenue growth and margins over the past couple of years has shown signs of normalising, and these companies are no longer beating analyst estimates by large margins.

Fourth quarter 2024 US earnings reporting season has now wrapped up and turned out to be a very strong quarter. This is one reason why we are maintaining our slight overweight exposure to global shares. Revenues and earnings grew by 5% and 17% respectively over the year to December with profit margins expanding as cost inflation eased back. More cyclical sectors such as financials, consumer discretionary and communication services (media) were major contributors to overall profit growth for the US market.

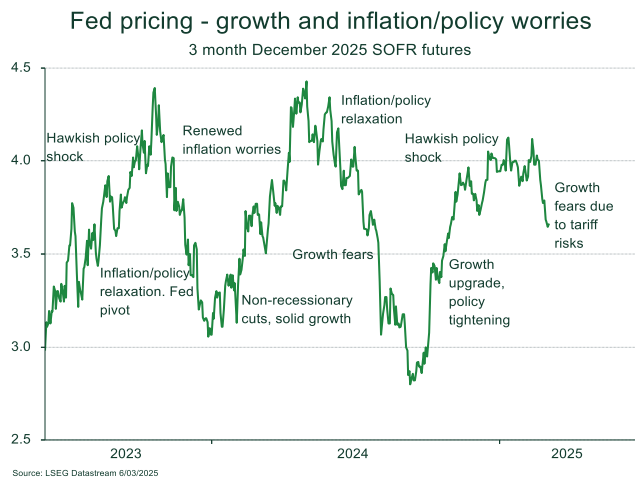
Another reason that we continue to maintain a mild overweight to global shares, with a significant exposure to the US market and Mag7 stocks, is that these companies are relatively more immune to changing tariffs compared with more industrial companies in Europe and Asia and should fare better in a fully-blown trade war. There is also a market narrative, which we don't ascribe a lot of weight to, that says President Trump cares about US stock market performance and may dial back some of his trade policies if US equities were to fall substantially.



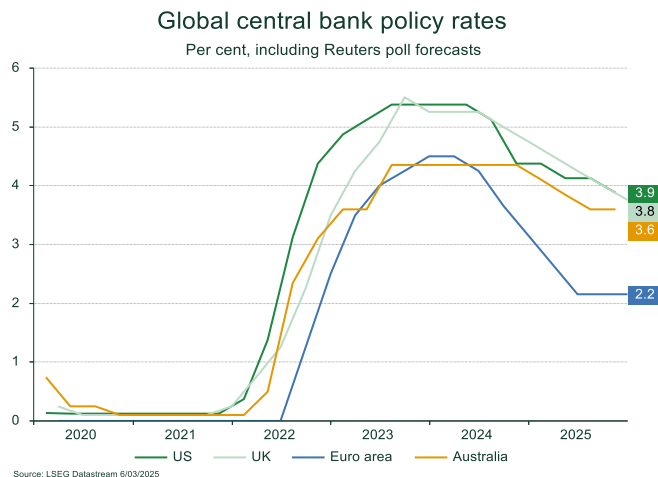
As we have discussed previously, the Australian equity market is expensive but could remain so for some time given strong major superannuation fund, index fund and offshore buying. The major bank shares are at risk if lower cash rates in Australia squeeze net interest margins. The resources sector is relatively cheap, but it is difficult to see where the growth in demand for steel, copper and LNG comes from in the near term given Chinese reluctance to invest in property and infrastructure. The other sectors of the local equity market, especially larger growth stocks are extremely expensive and vulnerable to sharp declines if there is growth disappointment or other issues such as we have seen with companies like WiseTech Global.

FIXED INCOME:

The increase in tariffs in the US creates a conundrum for the US Federal Reserve with tariffs being potentially both inflationary and also creating a drag on economic growth, potentially leading to stagflation. The Fed would then need to decide whether to raise rates to tackle inflation, cut rates to protect jobs or wait for more clarity. In recent weeks, the US bond market has moved to price in more rate cuts this year, suggesting that investors believe that the growth risks are more acute, and the Fed is more likely to look through the one-off boost to inflation from higher tariffs.



The RBA's decision to cut rates in February was driven by progress on bringing inflation back to its 2.5% per annum target, but it was clear from the post-meeting statement that the cut was a finely-balanced decision. In our view, follow-up rate cuts are likely to be gradual and data dependent and cash rates are unlikely to fall below 3.25-3.50% unless unemployment rises materially. Market pricing for another two rate cuts in 2025 seems about right in our view, given low unemployment, sticky services inflation and the pick-up in disposable income, offset by falling housing inflation.



PROPERTY AND REAL ASSETS:

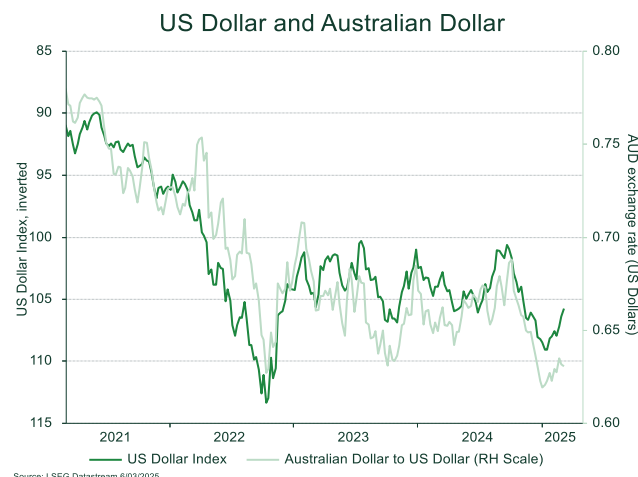
With lower inflation, improving growth in many countries and prospects that longer-term bond yields remain close to current levels, a slightly lower exposure to more defensive real assets such as property and infrastructure is justified in our view. We continue to hold an underweight position in listed infrastructure.

ALTERNATIVE ASSETS:

Alternative assets gained 0.3% in February with macro and relative value the best-performing sectors. Equity long/short funds saw modest declines. We remain neutral in defensive and growth alternative assets.

CURRENCY:

The Australian Dollar weakened marginally in February helped by the rate cut from the RBA and risk-off investor sentiment. The US Dollar's safe-haven status means it is being supported by trade and geopolitical uncertainty. We are remaining currency unhedged.



Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Cash rates are likely to be cut further in 2025, however, we expect the rate-cutting cycle to be relatively shallow given growth is picking up and unemployment is expected to remain low.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Longer term yields are more attractive, and risks are evenly balanced given cash rates are likely to decline this year. Credit is generally expensive, but some local sub-sectors still offer relative value.
Global Debt	Neutral	Hold a neutral weighting with interest duration close to benchmark of around six to seven years. Bonds are providing an offset to weakness in equities now that inflation has declined. Credit spreads are ultra low relative to history, as default rates stay contained, but the economic backdrop means credit spreads can remain tight for some time.
Alternative Defensive	Neutral	Alternative strategies generally benefit from higher interest rates as cash is used as collateral to secure derivatives and short positions. These strategies have held up relatively well when more traditional defensive strategies, tied to interest rates and the credit outlook, have suffered.
Property & Real Assets	Underweight	Retain an underweight exposure to listed infrastructure given the strong performance due to investor enthusiasm for companies that can benefit from data centre energy demand, which we think will take a long time to play out. There are also headwinds from falling inflation and higher bond yields that favour more cyclical assets. We continue to recommend a neutral weighting in real estate.
Alternative Growth	Neutral	Alternative growth strategies benefit from higher price volatility and dispersion with returns less correlated to broader risk sentiment. Trend-following strategies can often provide insurance-like characteristics by capturing downtrends and uptrends in prices of bonds, equities, commodities, and currencies and are lowly-correlated with risk assets.
Australian Shares	Neutral	The earnings outlook is relatively muted due to soft profit growth for banks. Equity valuations are above average relative to history and there is a high degree of uncertainty due to the upcoming Federal election and potential for a trade war which could impact Chinese demand for commodities. Continue to hold a neutral allocation.
Global Shares	Overweight	The improving global economic and corporate earnings backdrop should drive equities higher if earnings growth forecasts remain intact. Retain a modest overweight in global shares with a preference for US equities and more cyclically-sensitive small and mid-sized companies.
Currency hedging	Fully unhedged	The US Dollar has been strengthening due to stronger growth and fears about US tariff increases. Prefer to remain currency unhedged in Global Shares as a source of additional portfolio diversification as the Australian Dollar tends to move in line with global investor sentiment.

Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) weights

PORTFOLIO ASSET CLASS	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Defensive Assets	70.0	70.0	50.0	50.0	35.0	35.0	20.0	20.0	5.0	5.0
Cash	15.0	15.0	10.0	10.0	5.0	5.0	2.5	2.5	2.5	2.5
Australian Debt	20.0	20.0	10.0	10.0	5.0	5.0	0	0	0	0
Global Debt	30.0	30.0	25.0	25.0	20.0	20.0	15.0	15.0	0	0
Alternative Defensive	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5	2.5	2.5
Growth Assets	30.0	30.0	50.0	50.0	65.0	65.0	80.0	80.0	95.0	95.0
Property & Real Assets	5.0	2.5	7.5	5.0	10.0	7.5	10.0	7.5	10.0	7.5
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
Australian Shares	5.0	5.0	15.0	15.0	20.0	20.0	25.0	25.0	25.0	25.0
Global Shares	15.0	17.5	20.0	22.5	25.0	27.5	37.5	40.0	52.5	55.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Major Financial Markets

To 28 February 2025	Latest	1 month	3 month	Year-to-date	1 year	3 year	5 year
Equities	Local currency returns including dividends in percentage, not annualised						
Australia - S&P/ ASX 200	8172	-3.8	-2.6	0.6	9.9	30.4	43.6
Japan - Nikkei 225	37156	-6.1	-2.6	-6.8	-3.4	57.1	43.3
US - S&P 500	5955	-1.3	-1.0	1.4	18.4	42.6	117.9
US - NASDAQ Composite	18847	-3.9	-1.8	-2.3	17.9	40.4	128.7
UK - FTSE 100	8810	2.0	6.9	8.3	19.8	32.3	59.9
Europe - STOXX 600	557	3.4	9.5	10.0	16.4	35.5	72.1
Developed Markets - MSCI World	3006	-0.9	0.6	2.5	17.0	40.5	101.8
Emerging Markets - MSCI EM	69453	0.8	3.6	2.4	14.7	13.6	40.1
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.74	-0.09	-0.24	-0.19	0.00	2.62	3.17
Australia -10 year	4.30	-0.13	-0.06	-0.18	0.15	2.14	3.45
US - 2 year	3.99	-0.21	-0.19	-0.26	-0.64	2.56	3.11
US - 10 year	4.20	-0.35	0.00	-0.38	-0.05	2.36	3.07
UK - 10 year	4.48	-0.06	0.24	-0.09	0.36	3.07	4.04
Germany -10 year	2.39	-0.07	0.30	0.03	-0.02	2.23	3.00
Currencies and Commodities	Change in price						
Australian Dollar (US\$)	0.6219	-0.002	-0.030	0.003	-0.029	-0.104	-0.023
US Dollar Index	107.61	-0.76	1.88	-0.87	3.46	10.90	9.48
Gold (US\$/ounce)	2834.55	22.50	193.70	220.75	786.50	924.70	1224.70
Iron Ore (US\$/tonne)	102.6	-3.18	-2.71	1.49	-11.97	-33.90	19.67
Crude oil (WTI, US\$/barrel)	69.97	-2.87	1.71	-2.47	-9.25	-25.75	25.21

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