StanfordBrown Private Wealth

10th April 2025

Quarterly Investment Markets Report

01

Executive Summary

StanfordBrown Private Wealth

As we foreshadowed in our 2025 Investment Outlook published in December "*a second Trump presidency…could usher in significant changes to US economic policies, with substantial ripple effects on global economies, inflation, interest rates, and financial markets*" and *"…downside risks include universal US tariffs that are applied to all imports, which leads to retaliation by other countries and a major global trade war that hurts growth and confidence.*"

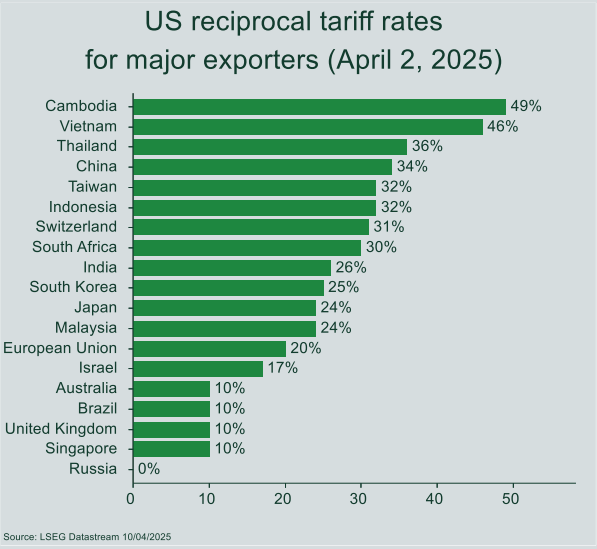
Trump's reciprocal tariff plan announced on April 2nd "Liberation Day" was to some extent well telegraphed, but like everyone, we were caught off guard by the size, breadth and timing of the tariffs. Most market participants were expecting a headline increase in the average tariff rate of around 10%. Instead, the new baseline and reciprocal tariffs, as well as sector tariffs on steel, aluminum, automobiles and on Canada, Mexico and China will lift the average US tariff rate to around 23%. This is unless the tariffs are reduced over the next 90 days, given Trump's recently-announced pause to allow trade negotiations with most countries excluding China.

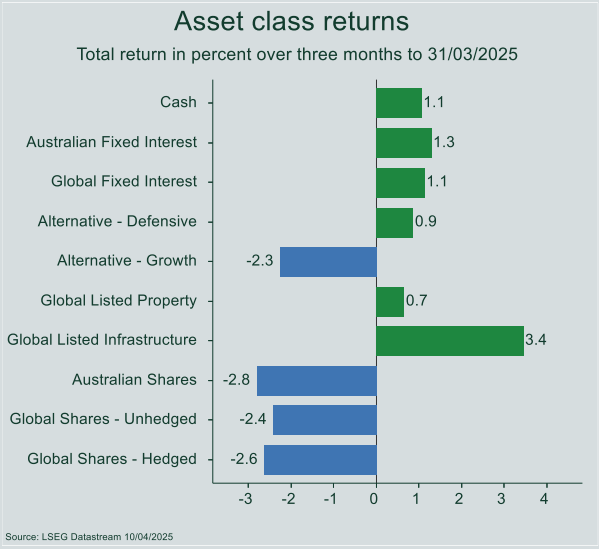
More US tariffs may be on the horizon with investigations into sector-specific tariffs on copper, pharmaceuticals, semiconductors and lumber. If higher tariffs remain in place, they will hurt US and global growth given they represent the largest US tax increase since 1968. The hit to US GDP growth this year could be in the order of 1.5%, raising risks of a US and global recession and ending the recent period of US economic exceptionalism.

Financial markets have reacted violently to the potential shock to global trade with the US equity market down around 10% in the two days following 'Liberation Day'. This was followed by a 10% rise when tariffs were paused. Moves of this size and speed have only been seen three times in 85 years: the 1987 stock market crash, the Global Financial Crisis in 2008 and the 2020 COVID sell-off. Currency, bond, and commodity markets have also seen outsized moves as investors factor in slower global growth, faster interest rate cuts and reconsider the risks of investing in the US.

Looking forward, economic, trade and political uncertainty are likely to remain very high and the range of outcomes is unusually wide. Further economic and equity market downside remains a large possibility depending on whether tariffs get negotiated down over the next few months, remain in place long term or retaliation leads to further trade war escalation.

China has already slapped 84% tariffs on all US imports as well as other trade measures and the US has reciprocated by lifting tariffs on China to 125%. Canada is also retaliating with tariffs on certain US vehicle imports. Europe is also likely to impose targeted retaliatory measures. Consumers in many countries will also likely boycott US goods and services, including tourism, and some countries may also try to target or tax US service exports such as Europe's proposed digital services tax.





While there is the prospect that equity markets will remain volatile as investors continue to try to price in the changing dynamics of the trade war, there is some scope for optimism. Firstly, the global economy is generally starting from a strong position with low unemployment, weaker inflation and lower interest rates in many regions, which has helped lift consumer spending power.

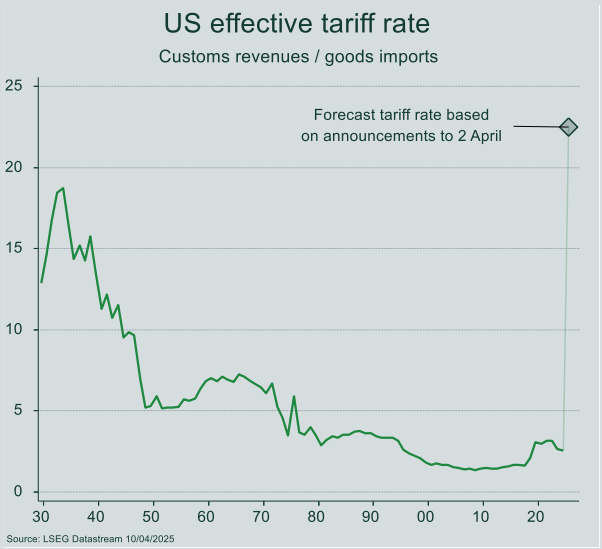
Secondly, most spending in economies is on services rather than goods. For example, 70% of US consumer spending is on services which are not tariffed, 17% on non-durable goods such as food and fuel which are more immune from tariffs and only 13% is spent on durable goods such as cars, furniture and appliances which is why economists are only expecting a one-time price level increase of around 1.5% taking US inflation back up to around 4.0% before accounting for currency moves or the slowdown in demand for goods.

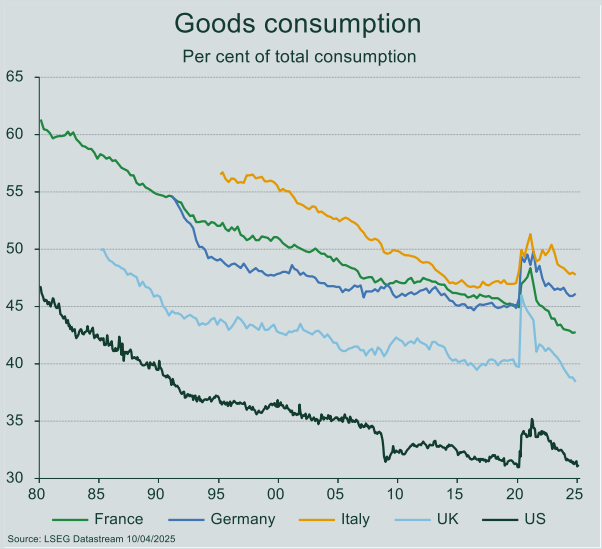
In addition, governments are likely to increase spending and stimulate their economies, particularly in Europe and China which were already planning to lift infrastructure and defence spending. There are also reasonable prospects that the US may use some of the increased tariff revenues (estimated at up to 2.0% of GDP) to lower income taxes, although given the size of the US government budget deficit (6.5-7.0% of GDP), it may not be able to fund large tax cuts that fully offset the impact of the tariffs.

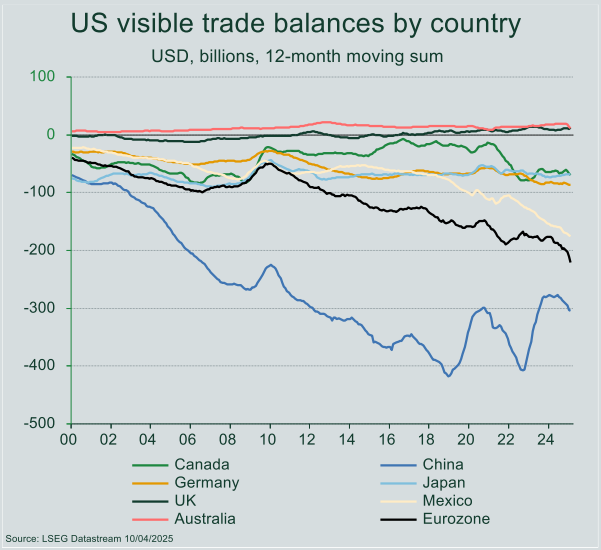
Central banks also have greater ability to cut interest rates to support their economies should the trade war lead to rising unemployment and only a temporary spike in inflation. However, if the inflationary impact of tariffs prove more persistent, central banks, particularly the US Federal Reserve, will have a more difficult decision to make. Recent declines in short term bond yields suggest that investors are now pricing in more rate cuts this year.

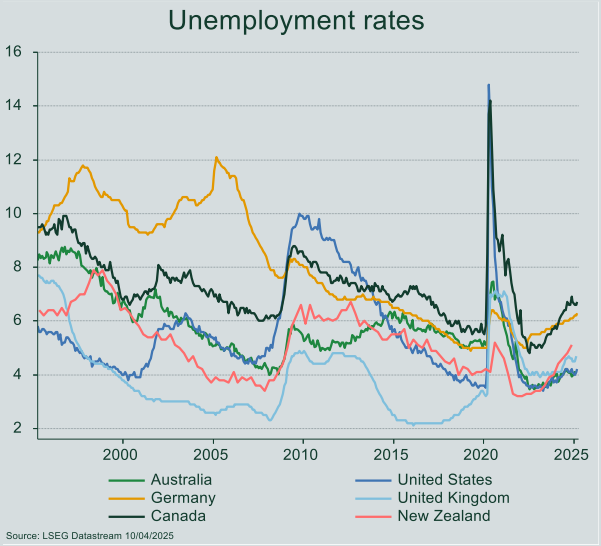
In early November, following the election of President Trump, and given ongoing US economic exceptionalism, we marginally increased our exposure to global equities, specifically US equities and global small companies, funded out of more defensive listed infrastructure, which we thought had run too hard on the back of future data centre energy needs. While this tactical shift paid off until the end of January, the investment thesis that drove the original decision no longer holds in our view. We are therefore recommending an unwind of this short-term portfolio tilt, moving global equities and listed infrastructure back to neutral weights.

Our allocation to government bonds, unhedged currency exposures in global equities and alternative investments continue to help partially buffer portfolios. We will continue to monitor markets and negotiations between the Trump administration and countries impacted by the tariffs for clues about the severity and duration of the trade war, the impact on different asset classes and whether further shifts in positioning are warranted.



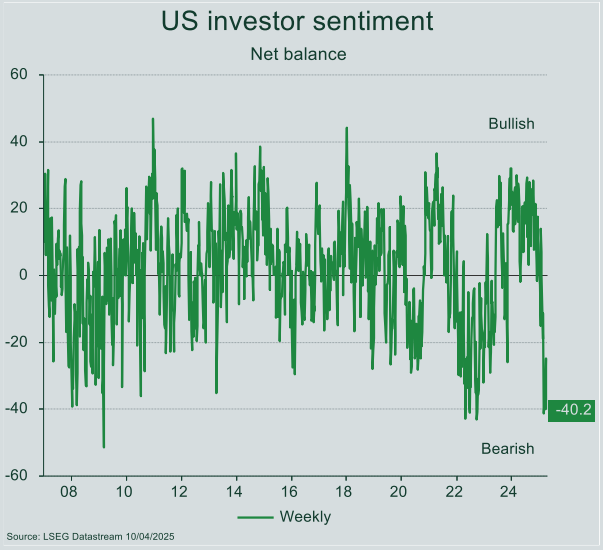






Although trade and tariffs are likely to be the main driver of financial markets in the near term there are other risks that we are also monitoring. As we wrote in the 2025 Investment Outlook *"...another big geopolitical risk over the next year, in our view, apart from the possibility of a major trade war, would be if the incoming Trump administration took the opportunity to destroy Iran's nuclear facilities given the failure of economic sanctions to stop Iran's uranium enrichment*". Although the US and Iran are reported to be meeting to negotiate a new nuclear deal, should these talks fail, a US strike on Iran remains a key geopolitical risk.

The upcoming Federal Election in Australia is another risk that we are monitoring. Traditionally, whether the Labor party or Coalition wins does not have a big impact on the economic outlook or local financial markets, however, the high chances of a minority government following the election creates a greater degree of political and policy uncertainty this year.



02

Asset Class Views

StanfordBrown Private Wealth

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are heading lower and a rate cut in May looks very likely now. Markets are pricing at least four more cuts in 2025.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Although bond yields have fallen to reflect likely RBA rate cuts and global risk aversion, local credit spreads have widened to the highest levels since late 2023, making them more attractive.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around seven years. Bonds are providing an insurance role in portfolios to help partially offset equity declines. If higher inflation from tariffs is temporary, then central banks have scope to cut rates. Credit spreads have widened materially and are now attractive relative to recent history, and default rates should stay low if a global recession is avoided.
Alternative Defensive	Neutral	Alternative strategies are helping to diversify portfolios. These strategies have traditionally held up relatively well when more traditional defensive strategies, tied to bond yields and the credit outlook, have suffered.
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.
Property & Real Assets	Neutral	Property and infrastructure should provide a more defensive exposure in a global downturn relative to equities and should benefit from lower bond yields. Some real estate and infrastructure may be impacted by tariffs (e.g. ports and airports) , higher building material costs and corporate downsizing. Move back to neutral from underweight listed infrastructure.
Australian Shares	Neutral	The earnings growth outlook is relatively muted while equity valuation multiples, particularly for the major banks, are above average relative to history and compared with international peers. Australian iron ore miners could benefit if China stimulates its economy given around 90% of Chinese steel is consumed internally.
Global Shares	Neutral	Reduce overweight back to neutral given the outlook has changed following the 'Liberation Day' tariff announcements. On the one hand, the decline in equity prices means that valuations are lower and weak investor sentiment can represent a good time to buy the dip, but if tariffs are not quickly reversed or lowered, the economic and earnings outlook will deteriorate, recession risks will increase, and it will take time for equities to recover back to February highs.
Currency hedging	Fully unhedged	Although the US Dollar has lost some of its shine with the end of US economic exceptionalism and policy uncertainty, in a risk-off scenario, it is likely to regain its safe-haven status. Longer term there are arguments that the US Dollar weakens as smaller trade deficits mean less foreign investment flowing into the US. Prefer to remain currency unhedged in Global Shares given the Australian Dollar tends to move in line with global investor sentiment.

Fixed Income

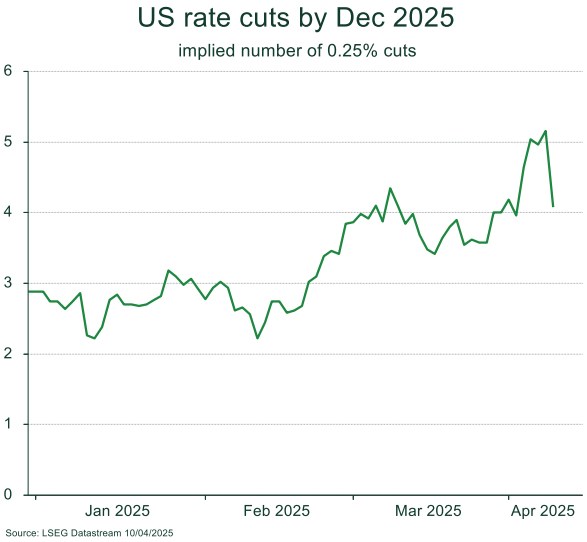
Fixed income generated positive returns over the three months to the end of March with returns largely driven by income. Central banks outside the US also continued to cut rates, however, the pace of cuts has slowed as interest rates approach 'neutral' levels, and in some regions, inflation has proven sticky. Tariff threats have created a more uncertain economic outlook which has seen some central banks adopt a 'wait and see' approach.

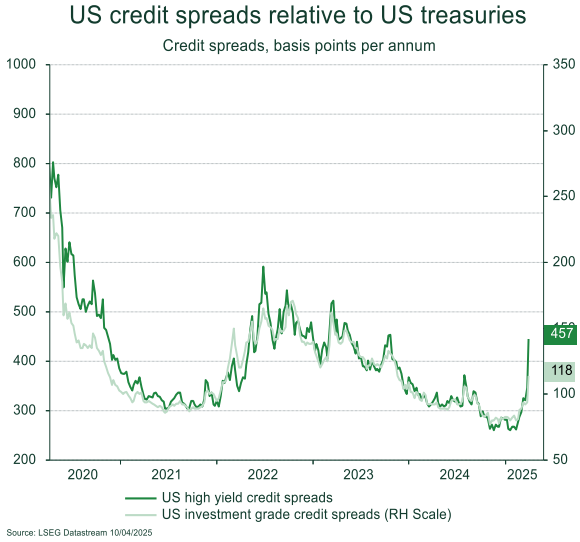
Tariffs pose a 'stagflationary' challenge for central banks given they have both a short to medium term inflationary impact and could also increase unemployment. The US Federal Reserve said that it is not in a hurry to act and will wait until it is clearer where tariffs settle, how inflation and inflation expectations evolve, where unemployment goes as well as how much financial conditions tighten.

This has some worried that the so called 'Fed put', that normally sees sharp rate cuts in a US recession, may be slower to trigger if inflation is rising at the same time. Markets have moved from pricing around three rate cuts in the US in 2025, in January, to around four cuts currently.

The Bloomberg Barclays Global Aggregate Bond Index Hedged AUD returned 1.1% over the three months to the end of March, as bond yields fell in the US and UK, but rose in the Eurozone and Japan. The two-year US Treasury bond yield fell from 4.24% to 3.89% over the quarter, while the 10-year US Treasury bond yield fell from 4.57% to 4.21% over the same period. In Europe, the 10-year German Bund yield rose from 2.36% to 2.73% over the quarter after Germany loosened its debt brake that will permit large scale spending on public infrastructure and defence.

Australian fixed interest outperformed global fixed interest with the Bloomberg AusBond Composite Index gaining 1.3% over the three months as local bond yields fell, and the RBA began to cut rates in February. The two-year Australian Commonwealth Government bond yield fell from 3.92% to 3.68% over the quarter, helped by lower-than-expected inflation. The Australian 10-year government bond yield fell from 4.48% to 4.38% over the three months. Markets are currently pricing in another four rate cuts from the RBA in 2025, down to a 3.0% cash rate, with the next cut in May.





Credit markets softened over the quarter, although high income and interest rate duration helped investment grade corporate bonds return 1.7% over the three months according to the Bloomberg Global Aggregate - Corporate Hedged AUD Index.

Investment grade credit spreads widened from 82 basis points, over government bond yields, to 97 basis points, however, the fall in government bond yields and high coupon income meant that total returns were still positive.

High yield bonds, as measured by the Bloomberg Global High Yield Hedged AUD Index, returned 1.1% over the three months, as although credit spreads, relative to government bond yields, rose from 292 basis points to 355 basis points, the high coupon income more than offset spread widening. Following the 'Liberation Day' equity market moves, high yield spreads widened further and are currently around 457 basis points over government bond yields.

With core inflation falling, but still slightly above central bank targets in most countries, there is significant scope for rate cuts if there is a large negative growth impact from the trade war, particularly in US trading partner countries that will be less impacted by higher prices. Consumer price inflation may also fall more quickly in countries like Australia, if China seeks to divert and discount goods from the US to other countries.

For credit markets, default rates are likely to rise if the US and the global economy goes into a recession and credit spreads have moved in line with equities to reflect slower global growth and higher recession risks. While credit spreads could widen again if equities fall further, investment grade and high yield bonds are partially insulated given government bond yields tend to decline at the same time and the high income cushion on these bonds also helps support total returns.

Alternative Assets

Hedge fund strategies posted small losses over the quarter according to the HFRI Fund Weighted Composite Hedge Fund Index which returned -0.4% over the three months to the end of March. Macro funds gained 0.1% over the quarter with discretionary macro the best sub-strategy, while systematic trend-following strategies were the worst-performing sub strategy, down 2.6% over the quarter as many price trends reversed in response to the on-off tariff news over the quarter.

Event-driven strategies showed quarterly losses of 1.6% with merger arbitrage showing positive returns but special situations and activist hedge funds saw large losses. Equity long/short strategies posted losses of 1.3% over the quarter, with equity market-neutral funds generating positive returns of 1.2% from mean-reverting, factor-based strategies. Relative value arbitrage funds returned 1.7% over the quarter, with gains from multi-strategy funds as well as fixed income and convertible arbitrage funds.

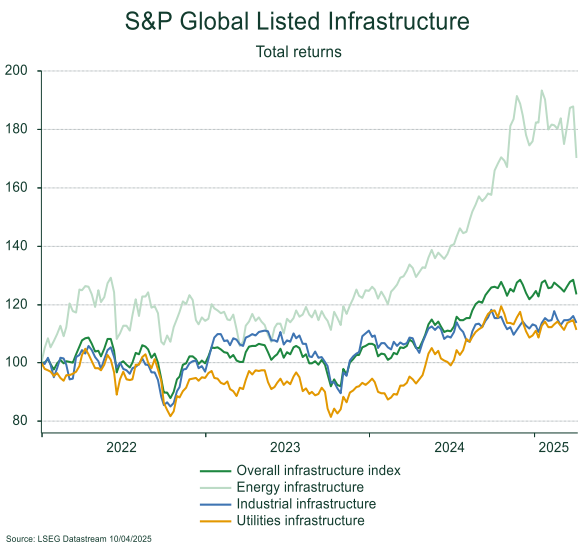
Many hedge funds reduced leverage and risk heading into April's 'Liberation Day' tariff announcement, which should help in the current quarter. The increase in financial market volatility could help trading strategies, particularly if prices trend or mean-revert, depending on the strategy deployed. Trade policy uncertainty has, however, caused some sharp price trend reversals recently which has impacted some of these strategies.

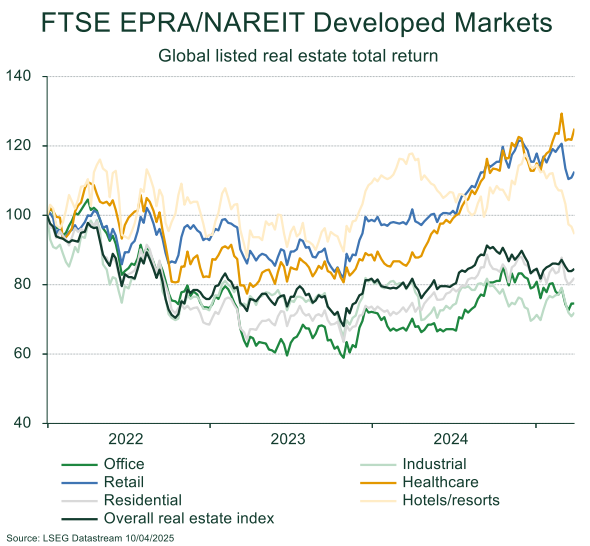
High individual stock, sector and style dispersion also creates opportunities for active stock selection using fundamental and quantitative strategies. The opportunity set for event-driven strategies is going to be more difficult with a decrease in capital raising and merger activity. Within the hedge fund universe, manager selection remains more important than strategy selection and the return dispersion between the best and worst-performing hedge funds remains very wide.

Property and Real Assets

Global listed property posted a small gain over the quarter. Underlying real estate fundamentals have seen some stabilisation in recent months with a pick-up in real estate transaction volumes helped by improving finance conditions and falling interest rates. There is some evidence that commercial property valuations have troughed and some sectors such as industrial property, healthcare, single and multi-family residential and data centres continue to see price appreciation in many markets where rental demand exceeds supply.

With the tariffs likely to impact trade flows, hiring and construction costs in some markets, core industrial property continues to look attractive as companies look to reshore production while office demand may decline if unemployment rises. Higher construction costs, particularly in the US, where tariffs will impact prices of steel and other building materials, should help support valuations of existing property assets, as will lower interest rates and bond yields.





Global listed property, as tracked by the FTSE EPRA/NAREIT Developed Market Index Hedged AUD, returned 0.7% over the three months to the end of March. The healthcare sector was the best performing real estate sector, up 9.3% while hotels and resorts was the weakest sector over the quarter, down 16.9% as investors worried about more discretionary consumer travel and foreign tourist boycotts of the US.

Australian listed property securities or A-REITs, as measured by the S&P/ASX 200 A-REIT index, fared worse than global peers with a return of -6.8% over the three months to March due to the large (20%) decline in heavyweight Goodman Group which accounts for around 40% of the index and where analysts have concerns over the company's plans to build data centres. Other A-REITs, such as Mirvac, Scentre Group, Stockland, Vicinity, Dexus and Charter Hall were flat to up 13% over the quarter.

Global listed infrastructure, as measured by the S&P Global Infrastructure Hedged AUD Index, returned 3.4% over the three months to the end of March. The energy infrastructure sector was again the best-performing sector over the quarter while the industrial sector was the weakest. Energy infrastructure and electric utilities sold off sharply in mid-January when the launch of Chinese AI model, DeepSeek, caused investors to question future demand for US data centres and their related energy requirements. However, energy infrastructure stocks recovered later in the quarter when tariff uncertainty saw investors switch into more defensive equity sectors.

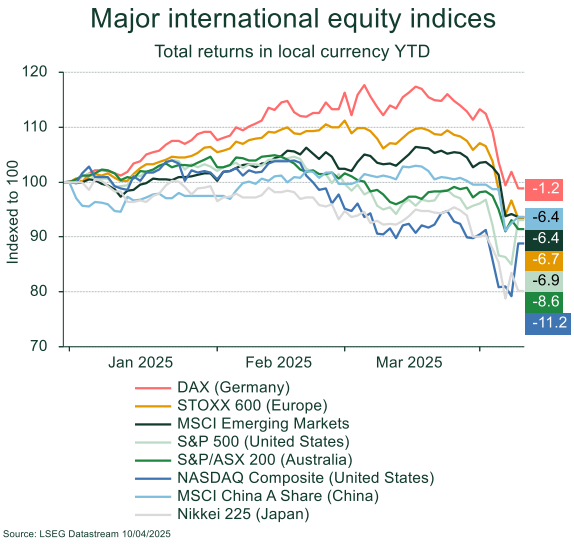
Global Shares

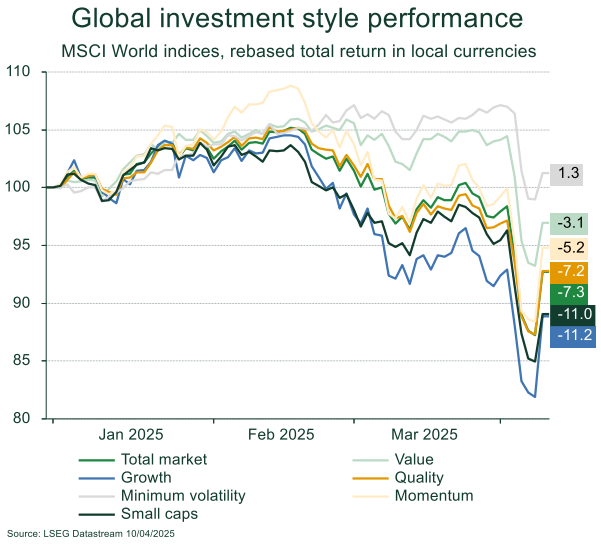
The March quarter was a tale of two halves. From the start of the year until mid-February equity markets continued to climb higher helped by strong quarterly earnings and investor belief that US economic exceptionalism would continue in 2025, helped by falling inflation and interest rates.

After reaching a new all time high in mid-February investor attention then switched to early signs of a slowdown in US economic activity, fading enthusiasm for the Magnificent Seven stocks, given the launch of DeepSeek and earnings that were still growing strongly, but no longer beating expectations. Investors also began to worry that Trump's tariff and trade threats should be taken more seriously ahead of April's 'Liberation Day' tariff announcements.

In currency-hedged terms, global shares returned -2.6% over the three months to the end of March, according to the MSCI World ex-Australia Hedged AUD Index including dividends. The currency-unhedged index returned -2.4% over the quarter.

Global growth stocks (companies with above-average earnings growth) substantially underperformed value stocks (companies with shares that are cheaper than average) over the past three months, due to the weak performance of the Magnificent Seven and rotation from expensive US companies into cheaper stocks, particularly German, European and Emerging Market stocks.





Performance over the quarter was impacted by the declines in three sectors: Information Technology, Consumer Discretionary and Communication Services which returned -12.2%, -11.1% and -4.9% respectively over the quarter. All other sectors were positive over the three months, with energy the best-performing sector returning 9.5% over the quarter.

In the United States, the S&P 500 Index returned -4.3% for the three months, while the more technology-heavy NASDAQ Composite Index lost 10.3%. December quarter earnings from US companies were viewed as being relatively good, with 74% of companies reporting better-than-expected earnings and quarterly earnings were roughly 7% above expectations. Excluding the energy sector, earnings were 20.7% higher than the same quarter a year before, making it one of the strongest quarters since the post-COVID earnings rebound in early 2022. Financial stocks provided the largest earnings surprise relative to expectations.

In Europe, the STOXX 600 Index returned 5.9% over the quarter, with Italian, German and Spanish stocks posting low double-digit gains over the quarter. In Germany's case this was due to the plan to loosen the government's budget position and spend more on infrastructure and defence. Of those companies in Europe that report quarterly earnings, around 56% beat analyst forecasts for earnings and aggregate earnings per share were 6.3% ahead of analyst forecasts. Companies in the industrials and financial sectors provided the largest earnings surprises relative to expectations. Excluding the energy sector, earnings were 15.0% higher than the same quarter in the prior year.

In Asia, Japanese equities returned -9.9% over the three months, as measured by the Nikkei 225 Index, as foreign enthusiasm for Japanese stocks eased and some institutional money invested in Asia moved back into Chinese stocks. Shares in Hong Kong gained 16.0% over the quarter, based on the Hang Seng Index, helped by Chinese government policies aimed at supporting consumer spending and offshore investor interest in Chinese tech stocks following the DeepSeek AI model release. Mainland Chinese shares, as tracked by the Shanghai Composite Index, generated a three-month return of -0.5%.

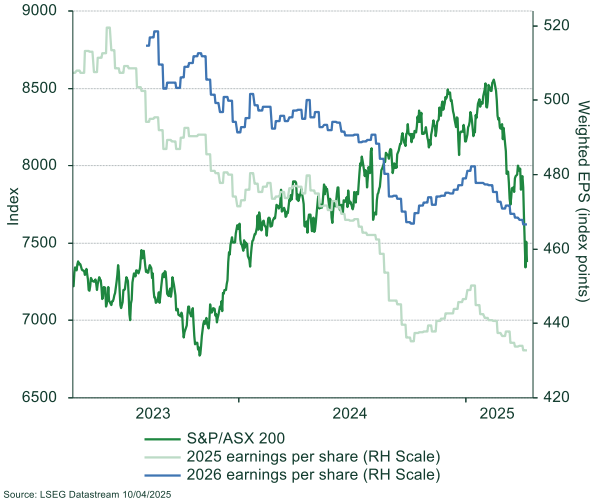
Following the 'Liberation Day' equity market sell-off, and subsequent bounce after the 90-day tariff pause, global equities have declined by around 11% from their February peak. This has lowered the price to earnings ratio for the MSCI World from 19.8 in December 2024 to around 17.3 currently. However, earnings estimates for the year ahead will likely be cut to reflect the impact of tariffs on earnings growth and so the current multiple likely understates the earnings-adjusted multiple.

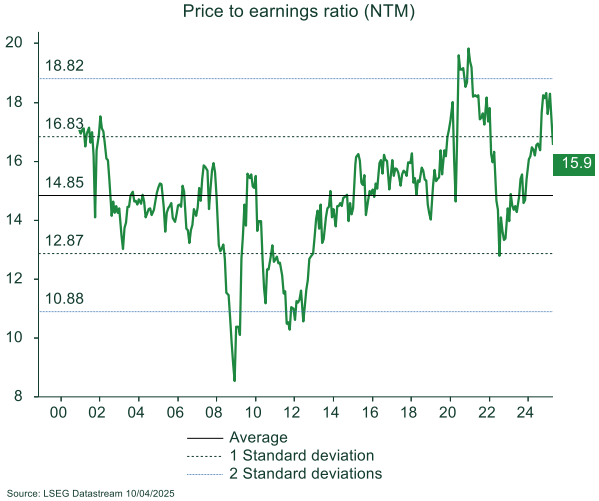
During past recessions earnings multiples usually bottom out at around 14 times, indicating equities could fall further if global growth deteriorates more than is currently priced in. If there is a recession, we would expect it to be relatively mild and so the earnings decline may be smaller than during the 2020 COVID and 2008 Global Financial Crisis recessions.

Australian Shares

Australian equities, as measured by the S&P/ASX 200 Index, returned -2.8% over the three months to the end of March. The industrials sector produced the highest returns over the quarter, helped by transport and infrastructure companies such as Transurban, Brambles and Qantas. Information Technology sector stocks fell 17.5% and healthcare shares lost 9.1% as investors rotated out of growth stocks into more defensive shares.

Financials (mainly the large banks) fell 2.6% in the March quarter with Commonwealth Bank shares retreating from a record high but still generating a positive return including dividends. Materials sector stocks produced low positive total returns over the quarter as the iron ore price remained relatively stable at around US$100 per tonne, despite the introduction of US steel tariffs.





Despite the recent pull back in prices, the Australian equity market remains moderately expensive based on valuation multiples when compared against history and factoring in the lower earnings growth. That said, the local economy and aggregate earnings are likely to be less sensitive to tariffs and trade wars and therefore may be more resilient than earnings of companies in Europe, Asia and the US.

Half year reporting season showed that revenue growth for the ex-resources sector slowed significantly although management did point to improving momentum over the six months leading up to December 2024. More companies missed earnings estimates than usual (38% compared with the long run average of 30%) but full year earnings revisions were only trimmed marginally, which is in line with the normal pattern.

At a price-to-earnings ratio of 15.9 times, Australian shares are trading below the 18.3 multiple seen in mid-February and back to the same levels from around six months ago. However, earnings are expected to decline marginally this financial year and return to growth of around 8% in the 2026 financial year. The expected dividend yield for the S&P/ASX 200 index over the next year is 3.7%, which is below long-term averages of over 4% and below the current cash rate.

03

Market and Portfolio Snapshot

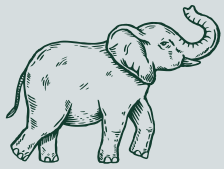
StanfordBrown Private Wealth

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

PORTFOLIO	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
ASSET CLASS	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	5.0	7.5	7.5	10.0	10.0	10.0	10.0	10.0	10.0
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	15.0	20.0	20.0	25.0	25.0	37.5	37.5	52.5	52.5
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 31 March 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	7843	-3.4	-2.8	-2.8	2.8	17.8	35.5
Japan - Nikkei 225	35618	-3.3	-9.9	-9.9	-10.1	57.1	43.3
US-S&P 500	5612	-5.6	-4.3	-4.3	8.3	16.0	134.6
US - NASDAQ Composite	17299	-8.1	-10.3	-10.3	6.4	9.9	133.5
UK – FTSE 100	8583	-2.0	6.1	6.1	11.9	19.3	80.9
Europe – STOXX 600	534	-3.7	5.9	5.9	7.6	18.4	93.6
Developed Markets – MSCI World	2850	-5.0	-2.6	-2.6	7.5	16.9	119.8
Emerging Markets – MSCI EM	69484	0.3	2.7	2.7	11.7	13.0	61.5
Government bond yields					Change in annual yield in percentage points		
Australia - 2 year	3.68	-0.06	-0.24	-0.24	0.00	1.88	3.43
Australia -10 year	4.38	0.08	-0.10	-0.10	0.40	1.59	3.57
US - 2 year	3.89	-0.09	-0.35	-0.35	-0.74	1.61	3.66
US - 10 year	4.21	0.01	-0.36	-0.36	0.00	1.89	3.51
UK - 10 year	4.67	0.19	0.10	0.10	0.74	3.06	4.32
Germany -10 year	2.73	0.34	0.37	0.37	0.44	2.18	3.19
Currencies and Commodities							Change in price
Australian Dollar (US$)	0.6232	0.001	0.004	0.004	-0.029	-0.128	0.011
US Dollar Index	104.21	-3.40	-4.28	-4.28	-0.34	5.90	5.16
Gold	3115.10	280.55	501.30	501.30	900.75	1172.95	1506.15
Iron Ore	102.51	-0.09	1.40	1.40	0.45	-56.30	19.82
Crude oil	71.87	1.90	-0.57	-0.57	-12.09	-28.41	51.39



Nick Ryder

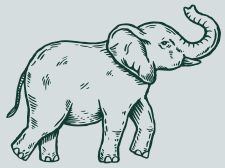
Chief Investment Officer

Nick Ryder is an investment professional with deep and broad experience built over 30+ years in the investment management and financial services industries. Before joining Stanford Brown, Nick was a senior investment strategist at Commonwealth Bank, JBWere and NAB providing investment strategies to wealthy individuals, families and not-for-profit-clients.

He is passionate about helping clients grow and preserve their wealth, ensuring they also have a strong understanding of how their money is being invested.

DISCLAIMER

Any advice contained in this document is general advice only and does not take into consideration the reader's personal circumstances. This report is current when written. Any reference to the reader's actual circumstances is coincidental. To avoid making a decision not appropriate to you, the content should not be relied upon or act as a substitute for receiving financial advice suitable to your circumstances. When considering a financial product please consider the Product Disclosure Statement. Stanford Brown is a Corporate Authorised Representative of The Lunar Group Pty Limited. The Lunar Group and its representatives receive fees and brokerage from the provision of financial advice or placement of financial products. The Lunar Group Pty Limited ABN 27 159 030 869 AFSL No. 470948

StanfordBrown Private Wealth

If you are interested in reading more visit:
stanfordbrown.com.au/intelligence/