StanfordBrown Private Wealth

August 2025

Investment Markets Report

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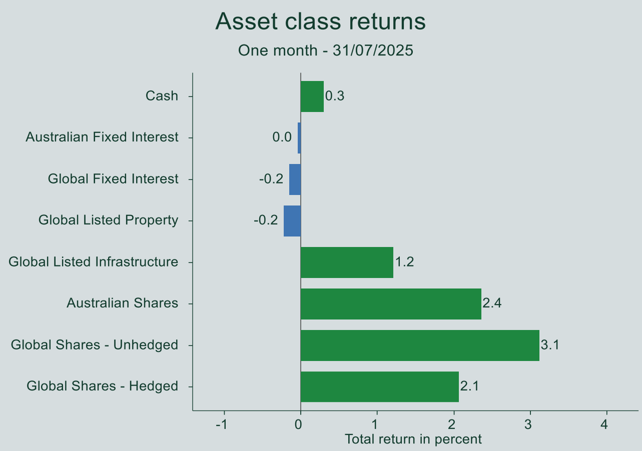
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in July?

Equities continued to post fresh record highs in July helped by solid earnings reports from US companies and trade deals between the US and several of its major trading partners including the European Union, Japan, South Korea and Vietnam. Investor sentiment was also boosted by the passing of Trump's 'One Big, Beautiful Bill' at the start of the month which includes new tax cuts. Longer-dated government bonds weakened slightly due to ongoing concerns about higher budget deficits in the US as well as tariff-induced inflation in the US. The US Dollar recovered ground helped by resilient economic data and weakness in the Yen and Euro following announcement of their trade deals with the US.

EXECUTIVE SUMMARY

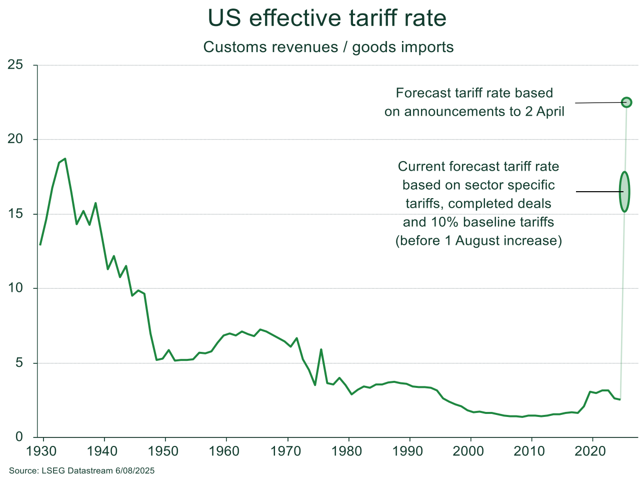
- In currency-hedged terms, developed market equities (MSCI World ex-Australia) gained 2.1% in July. The US equity market (S&P 500) was up 2.2% and Australian shares (S&P/ASX 200) rose 2.4%. European shares (STOXX 600) returned 1.0% and Emerging Market shares (MSCI Emerging Markets) rose 3.4%.
- 10-year government bond yields rose 13 basis points (bps) in the US, 11bps in Australia, 8bps in the UK, 10bps in Germany and 13bps in Japan.
- Investment-grade corporate bond spreads in the US fell from 86bps to 79bps over US treasuries, while US high yield bond spreads dropped 10bps to 286bps.
- The Australian Dollar fell 1.2 US cents to US$0.6439.
- Oil prices rose 6.1% to US$70.36 per barrel (WTI). Gold rose 0.4% to US$3,296 per troy ounce. Iron ore prices rose 6.2% to US$99.19 per tonne.



Source: LSEG Datastream 6/08/2025

Tactical Positioning

Despite the impending expiry of President Trump's 90-day pause on April's reciprocal tariffs, equity markets rose to new record highs in July as investors discounted the risks that higher US tariffs would have much impact on growth and corporate profits. This was helped by the US-European Union and US-Japan trade deals in late July which set US tariffs at 15%, including for imported vehicles, below the higher rates threatened previously. Equities were also boosted by strong corporate earnings growth, resilient economic data and relief that Jerome Powell would not be fired as Federal Reserve Chair before his term expires.

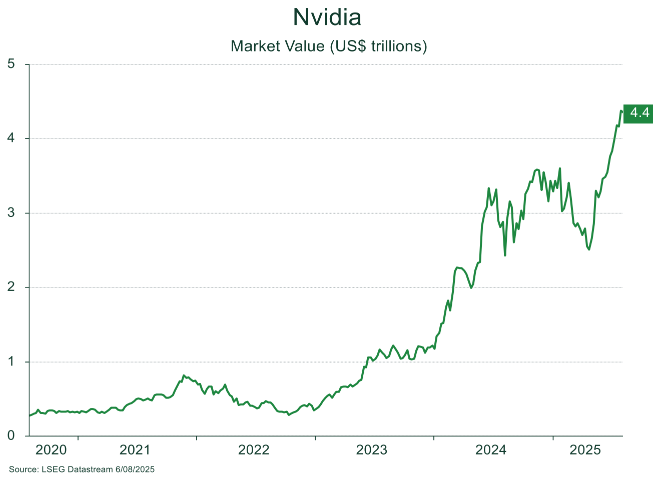


According to the Yale Budget Lab, based on current deals and tariff rates applying from 1st August, US consumers face headline average effective tariff rate of 18.3%. After expected changes in supply and consumption patterns, Yale estimates the average tariff rate is 17.3%, the highest since 1935. They estimate that the tariffs will lift inflation by 1.8% in the short term, reduce US economic growth by 0.5% in 2025 and 2026 and raise unemployment by 0.7% by the end of 2026.

Despite these forecasts, tariffs have not yet had a material impact on growth or inflation. This is due to a range of factors such as stockpiling ahead of the tariffs and that the average tariff rate has only been around 8% over the past three months. There are also anecdotes suggesting companies have been absorbing tariffs. However, research shows that in Trump's first term, tariffs were eventually fully passed onto consumers in the form of higher prices.

Despite the headwinds from tariffs, unemployment in many countries remains low, interest rates have fallen and corporate profits and investment, particularly in the services and technology sectors, has been strong. Consumer purchasing power has also been rising and trade uncertainty has declined which has helped lift consumer and investor sentiment. The weak US jobs report in July, with large negative revisions to May and June employment, has slightly increased chances of a September rate cut, which has supported markets.

We remain neutrally positioned across growth and defensive assets based on our assessment about economic and corporate fundamentals, asset valuations, investor sentiment and near term 'known' risks. While some commentators have recommended investors reduce exposure to US assets and the US Dollar, based on views about the end of US economic exceptionalism, weaker governance and rising government debt, we do not share these views and continue to hold a material exposure to US assets.



EQUITIES:

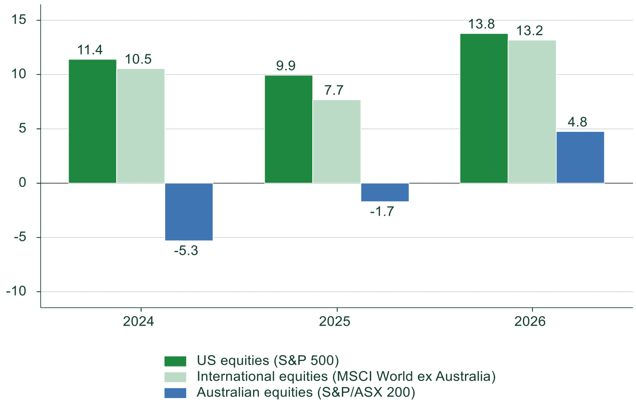
Seventy percent of companies in the US S&P 500 index have reported second quarter earnings, and the performance has been strong with 81% beating analyst estimates above the long run average of 67%. Excluding the energy sector, year-on-year revenue and earnings growth are 6.8% and 13.2%, respectively. The strongest sector has been consumer discretionary which was helped by elevated spending ahead of tariffs. The financial sector also outperformed over the June quarter, boosted by elevated market volatility, which helped bank trading desk revenues.

In Europe, of the companies that have reported June quarter earnings, 54% have beaten analyst forecasts which is in line with the long-term average. Excluding the energy sector, revenues and earnings have grown 0.8% and 4.5% respectively, which is slower than the in the US, but part of the difference likely reflects the stronger Euro/weaker US Dollar. Like the US, consumer discretionary and financials were the two strongest sectors relative to analyst expectations.

While the Magnificent Seven stocks saw larger falls than the other shares in the S&P 500 index up to the mid April market lows, these companies have recovered strongly. Nvidia recently became the first company valued at more than US$4 trillion, helped by relaxation of the ban on it selling certain chips to China. Recent earnings reports from the Magnificent Seven show that as a group earnings are growing strongly due to demand for AI services, digital advertising and cloud computing although investor concerns remain about the huge investment needed to continue building data centre capacity to meet demand for AI.

Earnings per share growth estimates

per cent year-on-year change



Source: LSEG Datastream 6/08/2025

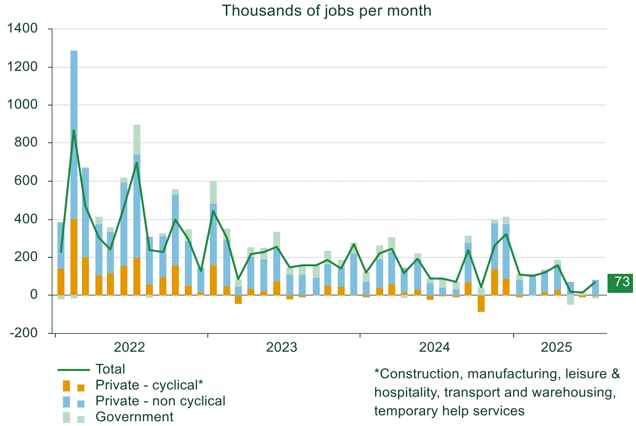
As we head into Australia's August reporting season, profits are expected to have declined by around 2% for the financial year, driven by a 20% earnings fall for mining and energy companies due to lower oil and iron ore prices. While the impact of tariffs is unlikely to have a major impact, except for companies selling products into the US, such as Ansell and Breville, management teams are likely to continue talking about the tough domestic environment. However, there is some cautious optimism that 2025 could represent the earnings trough with a pickup in profit growth next year as inflation and interest rates decline.

FIXED INCOME:

At its recent meeting, the US Federal Reserve said that tariffs are beginning to push up the prices of some goods, but it was a reasonable base case to expect that the impact would be short lived. Fed officials observed that given current US interest rates do not seem to be slowing the economy this provides the Fed with the luxury of waiting for more information before cutting rates again. While the weak July jobs report marginally increases chances of a September cut, Fed officials have noted that very low US immigration may offset weak employment growth such that the unemployment rate does not rise much, reducing the need to cut rates in the near term.

US non-farm payrolls

Thousands of jobs per month

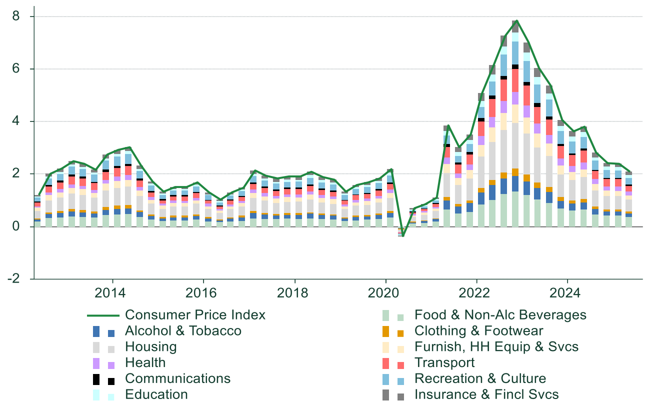


Source: LSEG Datastream 6/08/2025

In Australia, June quarter inflation data would have likely given the RBA some comfort that underlying inflation is moving sustainably back to around 2.5% and it seems likely that the RBA will cut the cash rate in August after surprising markets with a pause in July. Looking forward, markets are pricing three rate cuts until early 2026 and then rates are expected to remain steady at a 'neutral' rate of around 3.1%.

Australia CPI

Contribution to annual inflation rate



Source: LSEG Datastream 6/08/2025

PROPERTY AND REAL ASSETS:

Real assets such as property and infrastructure should be more immune to tariffs and should benefit from lower interest rates. Higher construction costs and lower vacancies are supporting rents and values of existing property assets by reducing new supply. Infrastructure continues to benefit from growth in renewable energy, data centres and waste recycling.

ALTERNATIVE ASSETS:

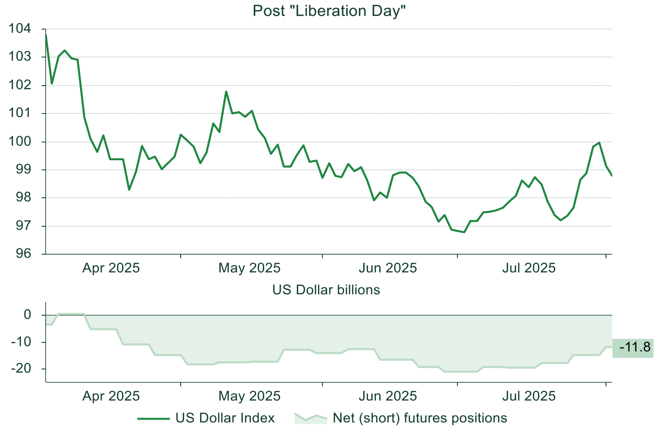
Alternative assets returned 0.6% in July with positive performance from all the major sub-strategies. Macro/trend-following funds generated small losses as tariff news caused sharp price trend reversals in the US Dollar and US copper futures.

CURRENCY:

The Australian Dollar fell in July after the US Dollar recovered against major currencies. The lift in the US Dollar was partly due to interest rate differentials and partly due to softness in the Yen and Euro following the announcement of their tariff deals with the US. We remain currency unhedged in global shares.

US Dollar Index and futures positioning

Post "Liberation Day"



Source: LSEG Datastream 6/08/2025

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are heading lower. Expect three more RBA rate cuts to 3.10% by early 2026.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Longer term bond yields allow investors to lock in attractive real yields and premium relative to expected cash rates.
Global Debt	Neutral	Hold a neutral weighting with interest rate duration close to benchmark of around seven years. If higher inflation from tariffs is temporary, then central banks have scope to cut rates, particularly outside the US. Longer dated US treasury yields are at risk of further increases in yield if there are renewed concerns around high government debt levels.
Alternative Defensive	Neutral	Alternative strategies should help 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 have been hurt by sharp reversals in market direction from tariff news but can provide insurance-like characteristics by capturing medium-longer term price trends in financial markets.
Property & Real Assets	Neutral	Property and infrastructure should provide a more defensive exposure in a global downturn relative to equities. Some US real estate and infrastructure may be impacted by tariffs (e.g. ports and airports , higher building costs etc) but the overall impact is not likely to be large.
Australian Shares	Neutral	The earnings growth outlook is relatively muted while equity valuation multiples, particularly for the major banks, are high 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	Hold a neutral allocation given peak uncertainty from tariffs appears to now be behind us and the impact on growth and inflation is likely to be short lived. Earnings growth, particularly for AI related companies, continues to grow at attractive rates.
Currency hedging	Fully unhedged	Although the US Dollar has lost some of its shine with the end of US economic exceptionalism and higher policy uncertainty, in a risk-off scenario, it is again likely to regain some of its safe-haven status as there are few alternatives. Prefer to remain currency unhedged in Global Shares given the Australian Dollar tends to move in line with global investor sentiment.

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 July 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	8743	2.4	8.2	9.0	11.8	41.8	78.3
Japan - Nikkei 225	41070	1.4	14.1	4.1	7.1	56.9	108.2
US - S&P 500	6339	2.2	14.2	8.6	16.3	60.6	109.0
US - NASDAQ Composite	21122	3.7	21.3	9.8	20.9	74.5	104.1
UK - FTSE 100	9133	4.3	8.4	14.2	13.2	37.9	86.2
Europe - STOXX 600	546	1.0	4.8	10.4	8.9	37.5	79.1
Developed Markets - MSCI World	3168	2.0	12.3	9.0	15.1	56.3	100.5
Emerging Markets - MSCI EM	76647	3.4	12.1	14.9	16.7	41.1	42.9
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	3.36	0.14	0.08	-0.56	-0.52	0.81	3.09
Australia -10 year	4.28	0.11	0.15	-0.20	0.16	1.20	3.45
US - 2 year	3.94	0.23	0.35	-0.30	-0.32	1.05	3.83
US - 10 year	4.36	0.13	0.20	-0.21	0.31	1.72	3.82
UK - 10 year	4.57	0.08	0.13	0.00	0.60	2.71	4.47
Germany -10 year	2.69	0.10	0.25	0.33	0.39	1.87	3.23
Currencies and Commodities	Change in price						
Australian Dollar (US$)	0.6439	-0.012	0.004	0.025	-0.009	-0.054	-0.073
US Dollar Index	99.97	3.09	0.50	-8.52	-4.13	-5.94	6.62
Gold (US$/ounce)	3296.03	11.55	-12.09	670.68	874.12	1531.79	1320.93
Iron Ore (US$/tonne)	99.86	5.34	2.38	-1.25	-0.24	-16.02	-9.04
Crude oil (WTI, US$/barrel)	70.36	4.06	10.81	-2.08	-9.00	-31.01	30.24

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