Perpetual Private | Quarterly Market Update

“Move fast and break things”

March 2025

Contents

Executive summary

For more than a decade, US exceptionalism in both innovation and business, has been writ large across markets. For more than five decades, the US has been at the centre of a global order broadly referred to as ‘Pax Americana’, that has been credited with being a key driver of the world’s economic activity, as well as being a clear tailwind to the US’ exceptional growth. As we stand today, these features can no longer be assumed.

Investment markets have been remarkably strong for an extended period of time. Indeed, few would have thought five years ago, as we were facing the first global pandemic in over 100 years, Australian equities would deliver 13.2%[1] per annum and Global equities would deliver 14.8%[2] per annum, for the next 5 years. A combination of massive and coordinated stimulus and interest rate cuts helped nurse the global economy through that shock, with cash-rich and confident consumers subsequently helping drive earnings and therefore markets to ever increasing highs. Add to this the excitement of artificial intelligence emerging into the public consciousness in early 2023, and we have enjoyed something approaching a ‘golden age’ of investment returns.

This is not to say that investing has been ‘clear cut’, ‘easy’ or without challenge. Armed conflict across the planet has been increasing with significant flash-points in eastern Europe and the Middle East. However, these have not been disruptive enough to derail the upward march of markets and have now paled in comparison to the turmoil being created by the new Trump administration.

Within a few short months, President Trump has made it clear that he cares for neither history nor broad based alliances. Taking heed from the tech industry and no-doubt his new side-kick, Elon Musk, he has been “moving fast and breaking things”, upturning many years of diplomacy and process, in an effort to avoid the lauded ‘checks and balances’ of the US political system, and to remake the US as he sees fit.

We note that many across the economic and financial word have been pointing to a heightened level of uncertainty. Indeed, the frequency of the word “uncertainty” in investment discussion is at levels we haven’t seen since the COVID-19 pandemic in 2020.

However, just as we saw during the pandemic, uncertainty doesn’t necessitate bad investment outcomes. It simply requires diligence and hard work to identify new trends as they emerge, and calm decisiveness to take positions which benefit from those trends as they become clear. That we are likely seeing the end of one particular type of economic regime is simply something to acknowledge and be aware of.

One of the fantastic features of financial markets is that they are incredibly dynamic, rapidly adjusting to new facts on a continuous basis. That European banks have outperformed US tech since the start of the year demonstrates this fact - something that would have been hard to imagine just a year ago. As with any new environment, new trends and themes will emerge, providing diligent investors attractive investments and returns. Neither disengaging from markets, nor wildly attempting to jump on each new development as it occurs is the sensible way ahead. The order of the day for wise investors, is calm, methodological and clear.

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Asset class snapshot

Australian equities

Australian shares declined in the March quarter, with the S&P/ASX 300 down -2.9%[1] as global growth concerns and tariff-related uncertainty weighed on sentiment. While markets began the year on solid footing, fears around an escalating trade war drove a rotation out of cyclical sectors late in the quarter.

Smaller companies outperformed, with the ASX Small Ordinaries down just -2.0%[3], supported by a rally in gold miners amid record-high gold prices.

Sector performance was highly mixed. Defensive sectors led, with Utilities (+2.2%[4]), Consumer Staples (+0.7%[5]), and Communication Services (+1.9%[6]) all in positive territory. In contrast, Information Technology plunged -18.2%[7], driven by fatigue in the AI trade and stock-specific concerns. Other underperformers included Health Care (-8.9%)[8], A-REITs (-6.6%)[9], and Energy (-5.5%)[10].

From a style perspective, Value[11] significantly outperformed Growth[12], reflecting investor caution toward high-multiple sectors in an increasingly uncertain macro environment.

International equities

Global equities declined in Q1, with the MSCI All Country World Index down -2.0%[2]. While the overall result was modestly negative, performance varied widely across regions and sectors.

US markets led the declines, with the S&P 500 down -5.0%[13] and the Nasdaq -10.3%[14] in AUD terms, as investors rotated out of high-growth names. In contrast, Europe outperformed, led by Germany (+11.3%[15]), following major infrastructure and defence spending plans. The Hang Seng jumped +16.1%[16] on optimism around China's DeepSeek AI platform. Japan lagged, with the Nikkei down -6.1%[17] and Emerging Markets posted a modest gain (+2.3%[18]), supported by improved Chinese economic data.

Sector trends echoed those seen in Australia. Consumer Discretionary (-8.4%[19]) and Technology (-11.9%[20]) were notable laggards, while Energy (+8.2%[21]), Utilities (+5.4%[22]), and Consumer Staples (+4.5%[23]) led gains.

Growth[24] significantly underperformed Value[25], mirroring the rotation seen in the domestic market. Small caps[26] also struggled, reflecting caution around global growth and elevated rates.

Real estate

REITs delivered mixed results in Q1 2025, reflecting shifting interest rate expectations and sector-specific drivers. Australian REITs lagged, with the S&P/ASX 300 A-REIT Index down -6.6%[27], as persistent "higher-for-longer" rate concerns weighed on valuations.

Global REITs held up better, returning +0.9%[28]. Hong Kong (+2.6%[29]) on signs of improving sentiment and fiscal stimulus, while Germany (-12.1%[30]) underperformed due to rising German bond yields. US REITs (+0.1%[31]) were flat as investors reassessed sector resilience in a higher-rate environment.

At the sector level, data centres were the main drag, following uncertainty around AI-related infrastructure demand. Meanwhile, defensive segments like healthcare and telecom REITs outperformed, while office and lodging continued to face pressure from structural demand shifts.

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Alternatives

In a volatile quarter, alternatives continued to offer diversification benefits within portfolios, thanks to their unlisted nature and lower correlation with daily market moves. Infrastructure remains a core allocation, offering stable, inflation-linked cash flows, though deal activity has slowed amid higher funding costs. Private Equity opportunities are building, particularly in Europe, where lower valuations and corporate carveouts are attracting interest. With realisations likely to remain modest, we have added exposure to high cash flow investments like General Partner (GP) Stakes. Meanwhile, select Real Estate funds are trading at discounts, presenting compelling entry points for long-term investors.

Private Credit fundamentals remain intact, though policy uncertainty and higher funding costs are beginning to weigh on sentiment and capital formation. So far, the impact has been limited to more liquid segments like high yield and leveraged loans. We continue to favour traditional Asset-Backed finance (e.g. mortgages, equipment lending) and are exercising caution with more consumer-linked exposures. In response to market volatility, we are increasing our focus on capital solutions strategies - bespoke financing arrangements provided to companies in need of flexible capital, often to support refinancing, bridge funding, or strategic transactions - which we believe are well positioned to perform in a more uncertain economic environment.

Fixed income

Bonds delivered modest gains in Q1, providing some stability amid renewed equity market volatility and rising geopolitical uncertainty. While inflation is trending lower, ongoing trade tensions and mixed economic signals have kept central banks cautious and rate expectations fluid.

Global bond yields were mixed, with US yields falling as growth concerns mounted, while European yields rose sharply. Australian bonds held up relatively well, with credit outperforming duration as investors favoured higher-quality income over longer-term rate exposure.

The AusBond Composite Index returned 1.3%[32], while domestic credit gained 1.5%[33]. Global bond performance was more varied (US bonds rose 2.8%[34]) supported by softer inflation, while global aggregates gained 1.1%[35] in AUD-hedged terms. Credit markets remained resilient, with investment-grade spreads[36] holding up better than high yield[37].

Australian cash rate

The RBA cut rates by 25bps to 4.10% in February, marking its first move since 2020 as inflation eased and growth softened. While this signals a shift toward a more accommodative stance, the central bank remains cautious, citing sticky services inflation and ongoing global uncertainty.

Markets are pricing in further cuts, but the RBA remains data-dependent and focused on balancing price stability with full employment amid a volatile global backdrop.

Australian dollar

The Australian dollar (AUD) appreciated 0.6% against the US dollar during the March quarter, trading in a relatively tight range between US$0.615 and US$0.64. The currency benefited modestly from improving risk sentiment early in the quarter and softer US inflation data, despite ongoing concerns about Chinese growth and global trade tensions. However, the AUD has since experienced renewed volatility in early April - briefly dipping below US$0.60 before rebounding above US$0.63 - driven by shifting global risk sentiment, persistent concerns over China's economic outlook, and heightened trade policy uncertainty.

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Making Europe great again (MEGA)

Europe by design, not by default

The European Union is a project born not just of politics, but of pain. In the aftermath of two devastating world wars, European leaders sought to construct a framework that would make future conflict not only unthinkable, but practically impossible. The earliest forms of the EU, such as the European Coal and Steel Community in 1951 and the Treaty of Rome in 1957, were more than trade agreements - they were building blocks for peace.

Today, the EU comprises 27 countries and 24 official languages. It remains a grand experiment in shared sovereignty, economic integration, and political unity - one that has often been tested by crisis.

Crisis, complexity, and criticism

The last two decades have been particularly testing for the EU. The 2010s were shaped by the eurozone debt crisis, as Southern states like Greece, Italy and Spain wrestled with soaring debt and stagnant growth, while wealthier Northern neighbours - led by Germany and the Netherlands - pushed for austerity and tighter fiscal discipline. This North-South divide exposed cracks in the bloc's economic solidarity and raised questions about its long-term cohesion.

Those questions came to a head with Brexit. In 2016, the UK voted to leave the EU - the first country to ever do so. The messy and costly divorce became a lightning rod for broader frustrations with Brussels: its perceived democratic deficits, regulatory overreach, and the tension between national sovereignty and supranational governance.

These aren't just political grievances - they reflect deeper structural challenges. Europe has long prized strong worker protections and generous social safety nets. Croatia's pension system, for instance, replaces approximately 129% of a retiree's working wage. But such support structures come with trade-offs. Labour market rigidity has made it harder for some countries to adjust quickly to shocks. Fragmented capital markets and regulatory divergence have stifled innovation and productivity growth. According to the Institut Montaigne, the EU invests five times less in private tech-sector R&D than the United States. China, which started from nothing 20 years ago, has already overtaken Europe and is quickly closing the gap with the US. Fiscal rules - especially Germany's constitutional debt brake - have often prevented the kind of investment needed to modernise infrastructure, accelerate the energy transition, or digitise public services.

For years, Europe was seen as slow, overly bureaucratic, and risk-averse.

MEGA not MAGA

In recent months, amid the noise of global equity market volatility and a flurry of US presidential posts on X, a significant development in Europe has flown under the radar. At the heart of it is Germany - once the poster child of fiscal conservatism - now committing to a €500 billion infrastructure fund and exempting defence spending of more than 1% of GDP from the country's debt brake. The move, described by some as Germany's "whatever it takes" moment, marks a bold pivot toward investment and growth after decades of economic restraint. Friedrich Merz, Germany's chancellor-in-waiting, emphasized the urgency of this shift, stating, "Germany and Europe must quickly strengthen their defence capabilities."

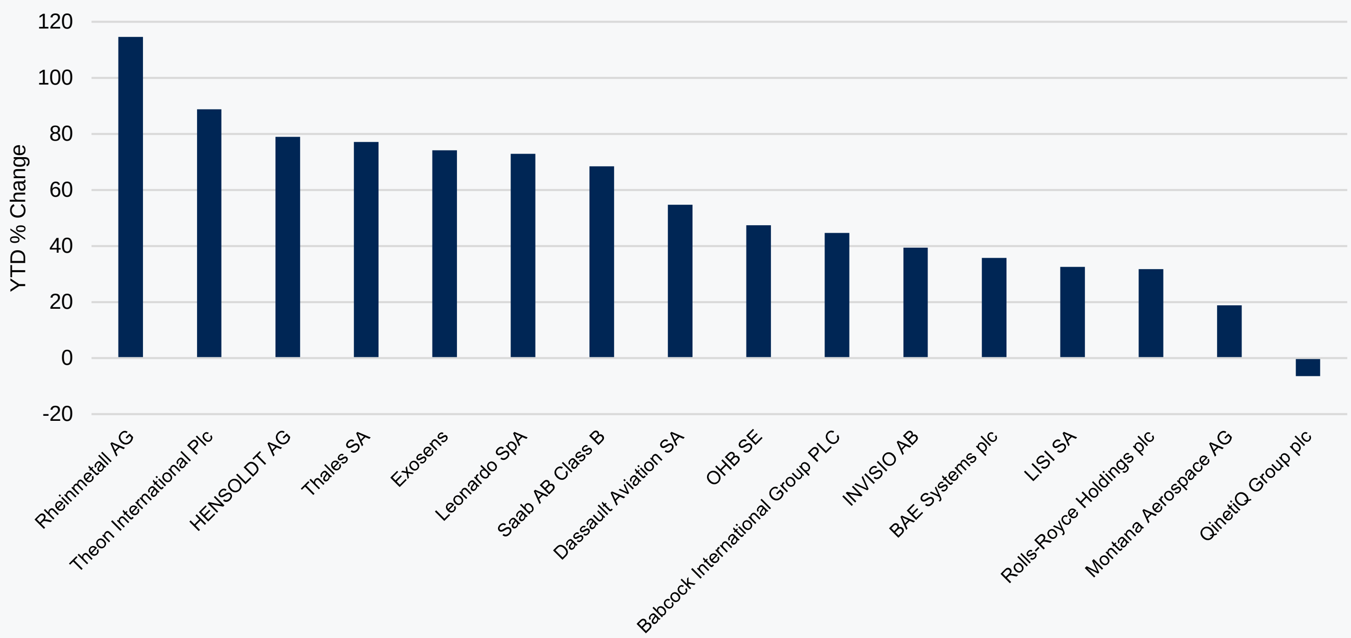
This fiscal firepower represents more than just domestic stimulus. Economists, including those at ING and Goldman Sachs, estimate it could lift German GDP by 0.5-1 percentage point in 2026 and 2027. European defence stocks have surged - some by over 100% year-to-date - on expectations of a rearmament.

Germany's pivot is already inspiring ripple effects across the continent. The European Commission has unveiled its 'ReArm Europe' plan, enabling over €800 billion in defence spending and loosening long-held budget rules to allow for greater investment in key sectors.

And it's not just Germany. Spain is enjoying a renaissance, with GDP growth outpacing much of the bloc. France and Italy, long seen as reform laggards, have pushed ahead with pro-growth reforms. But it's the rising tide of external threats that has truly jolted Europe into action - from a belligerent Russia and an assertive China to a more unpredictable United States. Ironically, it may be Donald Trump - the man who popularised "Make America Great Again" - who ends up forcing Europe to make itself great again. His tariff threats, transactional foreign policy, and wavering commitment to NATO have reminded EU leaders that strategic autonomy - in defence, energy, technology and finance - is no longer optional.

As Mario Draghi once said during the eurozone crisis, "The euro is irreversible." MEGA isn't about returning to a golden past, but reimagining Europe's future on its own terms - stronger, more unified, and more cohesive.

Figure 1: European defence stocks rallied



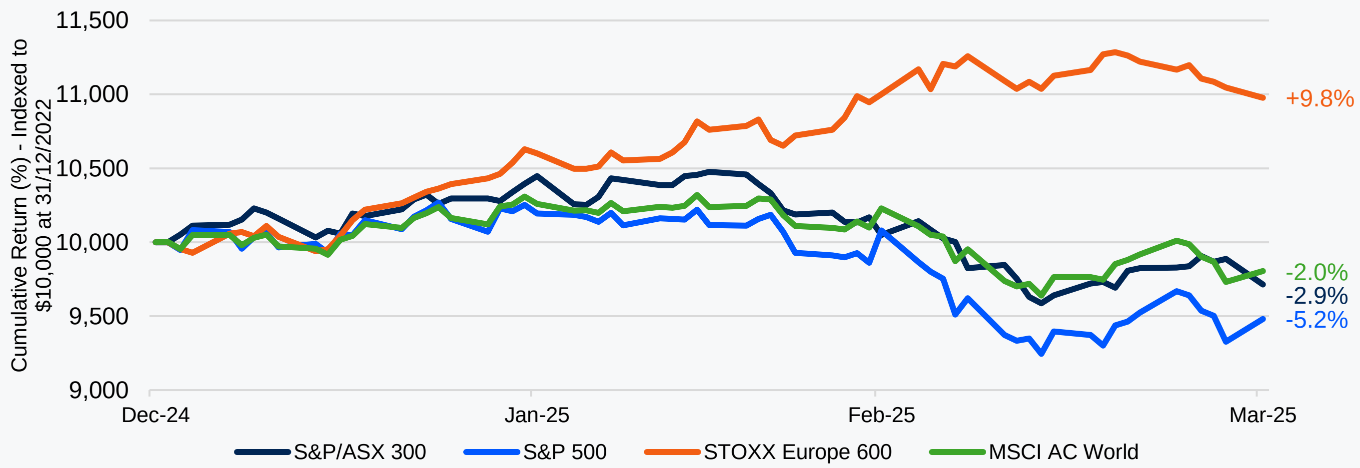
Source: FactSet, As of 31 March 2025. Returns are in Local Currency. Past performance is not indicative of future performance.

Market dynamics

Europe's quiet revival hasn't gone unnoticed by markets. European equities have outperformed global peers year-to-date, supported by cyclical recovery, fiscal optimism, and favourable valuations. The Euro Stoxx 600 has outpaced the S&P 500, driven in part by a rotation out of 'priced-to-perfection' assumptions and a large overweight to US equities, into undervalued European names. Germany's fiscal package could be a game-changer for earnings growth, especially in sectors like Infrastructure, Defence, Industrials, and Technology.

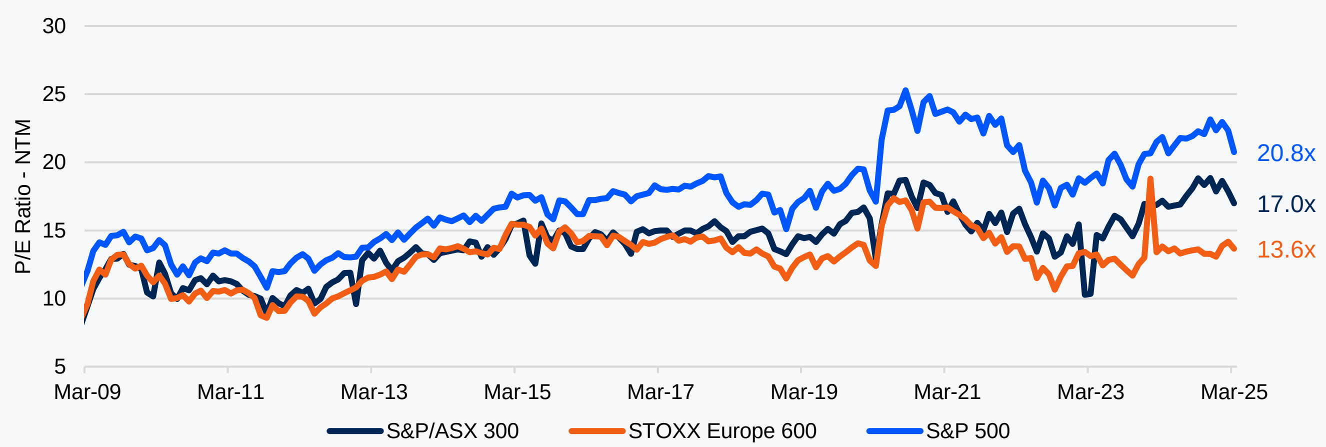
Despite the recent rally, European equities still trade at a significant discount to their US counterparts. This valuation gap offers a cushion for allocators looking to diversify away from US assets, particularly as the policy environment in Washington becomes less market friendly.

Figure 2: Cumulative return (%)



Source: Macrobond, As of 31 March 2025. Returns are in AUD (unhedged). Past performance is not indicative of future performance.

Figure 3: P/E ratios – Next Twelve Months (NTM)



Source: Macrobond, As of 31 March 2025. Past performance is not indicative of future performance.

Bond markets are also adjusting. Europe's willingness to stimulate and run sustained deficits implies a wave of new AAA-rated EUR sovereign issuance, offering central banks and institutional investors a compelling alternative to US Treasuries. This could catalyse stronger capital flows into the Euro, supporting both the common currency and Euro denominated assets.

Foreign investors, who have under-allocated to Europe since the 2012 debt crisis, are being forced to reappraise assumptions and exposure.

What to watch: Politics and policy

Hungary's divergence

The EU continues to wrestle with internal fragmentation, particularly with Hungary under Viktor Orbán. His resistance to EU values and alignment with authoritarian powers poses a governance risk. The bloc's ability to respond creatively and firmly to such dissent will shape the credibility of future integration.

UK-EU rapprochement

Brexit remains raw, but strategic urgency is pushing London and Brussels closer again. From shared defence interests to economic interdependence, there's a quiet thaw underway. Renewed UK-EU dialogue could unlock investment, deepen trade, and build collective resilience - especially as external threats mount.

Germany's policy shift may pave the way for broader fiscal coordination across the EU, particularly around shared infrastructure and defence. But much of the work lies ahead. Key legislation still needs to pass through the Bundestag and Bundesrat - the two chambers of Germany's parliament - and the implementation will stretch over a decade. Despite headlines touting €1 trillion in European stimulus, only a fraction has been deployed so far, and any economic impact is likely to arrive with a lag.

Importantly, affording EU member countries fiscal flexibility for defence spending does not guarantee that it will be used — especially given the fragmented nature of procurement and differing national priorities. Questions also remain around the efficiency of this spending. Bond markets are taking note: rising Bund yields hint at higher future borrowing costs, which could pose challenges for more indebted member states such as France and Italy.

Final thoughts

It may not be grabbing headlines like the US or China, but Europe's economic engine is starting to rev after years of idling. A combination of structural reform, fiscal investment, and renewed cohesion is laying the groundwork for a more resilient and self-reliant continent.

For globally diversified portfolios, exposure to Europe now offers access to a region where structural forces are starting to align - from pro-growth stimulus and greater integration to a long-overdue pivot toward strategic autonomy. The road ahead won't be without bumps, but Europe is moving again - and this time, it may be built to go the distance.

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Global economic overview

What happened

Coming into 2025, we were in no doubt that President Trump would prove to be disruptive. When we titled our previous edition of this report “A Bull in a China Shop”, we were not mincing our words. Whilst coming into the start of the year investor sentiment was buoyant with, only the spectre of ‘higher for longer’ interest rates weighing on markets, the emerging pattern in the rhetoric and behaviour of the President Elect, increasingly suggested that his second term would not be like the first.

Regardless of this backdrop, markets were in no mood to look a gift-horse in the mouth, with investors focusing on the positives through Trump’s 20th January Inauguration. Our own markets gained 4.5%[1] in January, with global markets not far behind, returning 2.6%[2]. Indeed, in spite of clear risks bubbling under the surface, our read was that many areas of investment markets were ‘priced to perfection’, effectively valuing assets as though there was nothing but clear skies ahead. Of course and particularly with the benefit of hindsight, this optimism turned out to be naïve.

The first signs of cracks appearing on this rosy façade began to show at the end of January. That the seemingly unstoppable ‘Magnificent 7’[38] had begun to lose momentum, should have been a clue however, when Chinese AI model Deep Seek emerged into market consciousness in the final days of the month, a slightly less optimistic tone began to take hold. Throughout February, as US markets began to fade, ‘reporting season’ saw many Australian companies announce their mid-year results. In most cases these results were in-line with market expectations however, management discussion commonly pointed to an uncertain outlook, and this weighed on share prices. With domestic and international shares gaining close to 5% (4.7%[1] and 4.8%[2] respectively) from the end of December through to the 14th of February, we then saw markets trend downward for the rest of the quarter, giving up all of their gains from January, with our local share market finishing down 2.9% and global shares finishing down 2.0%.

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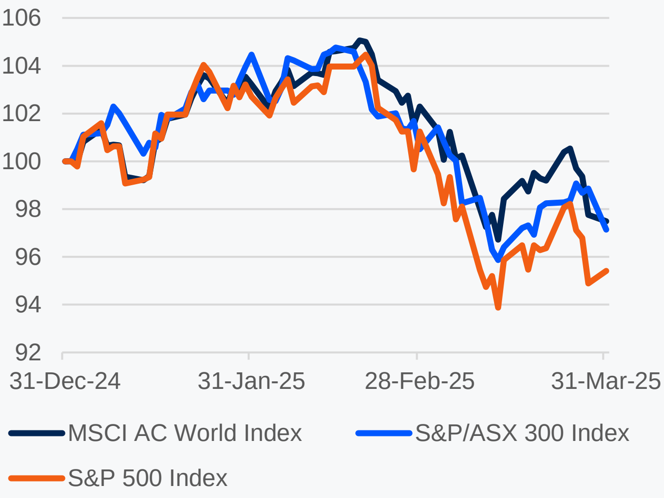
Figure 4: Equity markets over the quarter

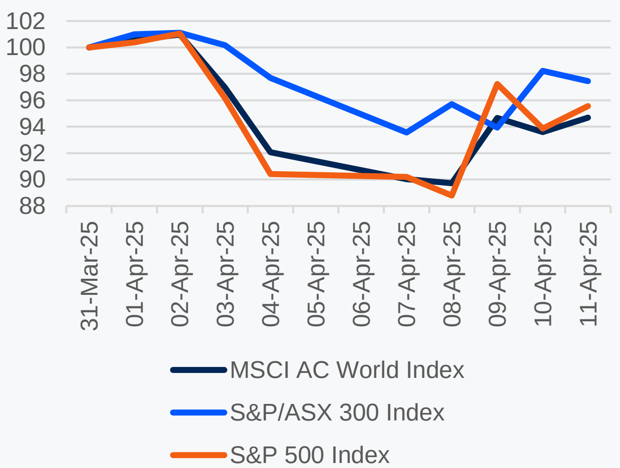


Source: FactSet

An April fool

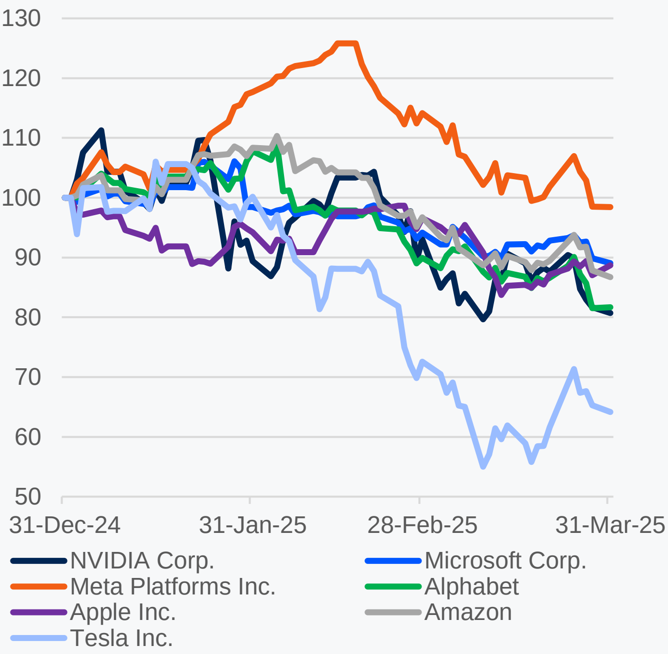
As interesting as the first quarter was, only two days into the new one , President Trump's "Liberation Day" tariffs announcement made it seem pedestrian. In shock at the severity of the rates being applied to friends and foes alike, coupled with a calculation methodology that a first-year university student would snigger at, markets sold off. In just three days, the tech-heavy Nasdaq index lost 13.3%, with the broader S&P 500 index not far behind at -12.1%. Indeed, there have been only 4 times in the history of the S&P 500, in which it fell more than 10% in 3 days; the 'Black Monday' crash in 1987, the 'Global Financial Crisis' in 2008, COVID-19 in 2020, and now April 2025. Notably, this instance is the only time such a shock has impacted markets by choice. All of the other three were major systemic shocks, not the whim of a single man.

Figure 6: Equity markets over Liberation Day



Source: FactSet.

Figure 5: Magnificent 7



Source: FactSet

This isn't to say Trump didn't have his reasons. We're all familiar with his 'Make America Great Again' movement, and its focus on bringing manufacturing jobs back to the country. Indeed, the past few decades of globalisation moving factory work abroad at the expense of American blue-collar workers, created the anger and resentment that ultimately brought him to power.

When we consider the stated aims of the tariffs; Trump claims that the rest of the world has been 'ripping off' and even 'raping' the US for many years with their own trade restrictions and tariffs, not to mention that many of those same countries have arguably enjoyed the security umbrella provided by the US military. In fairness, as believers in free trade and recognising that the US military is the pre-eminent military force on the planet, we do have some sympathy for this view (even if not for the bombast and shocking rhetoric that comes with it). Of course, having sympathy and agreeing are two entirely different things.

What Trump's world view ignores is that the Pax Americana framework that emerged out of the ashes of World War Two, was ultimately an implicit agreement between 'western' nations that the US would provide a security backstop in return for placing itself and its dollar at the centre of trade relations. That some of those nations employed tariffs to help rebuild their local industries in the aftermath of the war, was entirely acceptable to the US at the time and in some cases even suggested by them.

Indeed, many attribute the strength of the US economy, or at least a very large part of it to this very framework. That some of those countries have maintained their tariffs past their usefulness, we do not challenge. As with many things Trump, if you look closely enough, there are traces of truth there. Regardless, the President's proclamations that the US has been treated "very unfairly" is hard to substantiate. That the US is the wealthiest nation on the planet suggests that they have hardly suffered under this system.

As such, Trump's tariffs are justified by him as a way of bringing fairness to the system and standing up for working Americans. Not an unusual refrain from a politician but one we find to be particularly hollow in this instance. Not only do we doubt that he really cares about working Americans for anything other than political support, we also note that his actions don't appear to match his words. When we consider that one of the primary reasons voters gave for choosing him at the ballot was to address inflation and the cost of living, something he promised to address from 'day 1', prioritising tariffs which are inherently inflationary, goes in the opposite direction. Equally, the claim of bringing 'fairness' also doesn't stand up to much scrutiny, as the so-called 'reciprocal' tariffs are not about matching what other countries are doing (as revealed by the White House's equation for calculating them) but primarily based on trade balance. Quite simply, Trump thinks that if the US is buying more from a country, than that country is buying from them, they are being 'ripped off'.

Even if we were to believe the President's intentions, his contradictory rationale and regular flip-flopping drastically reduce the policy's effectiveness. For a company to plan to build a factory in the US, it ultimately must conduct a cost/benefit analysis and have confidence that assumptions will hold for the years it will take to physically build said factory, then for long enough for the factory to deliver return on that investment. However, with Trump ultimately painting the tariffs as negotiable there is an insufficient amount of certainty to conduct that analysis. The difference between a 10% and a 20% tariff for instance, dramatically changes the financial modelling and its outcome.

Risks and rewards

Whilst we are predominantly Australian investors, the US economy and capital markets have a significant influence over our own. As the saying goes "if the US sneezes, the rest of the world catches a cold". As such, the way Trump's second term plays out is going to have a meaningful impact on financial conditions in Australia and investment returns globally. As much as we might like to change the channel away from the Trump show, we cannot sensibly do so.

Instead, and particularly given that Trump 2.0 is less concerned about the reaction of investment markets to his behaviour, we need to increase our vigilance and reflect deeply on long held assumptions.

Areas of particular interest are the US government bond market and the strength of the US dollar. Notable during the early April sell-off was the behaviour of the US dollar, which has for a long time been a 'safe haven' currency and tends to strengthen during a crisis but instead drew down during the market turmoil. Bond markets on the other hand are equally crucial to economies, and for that reason have been the downfall of governments in the past. You may remember that Liz Truss, the short lived British Prime Minister who famously didn't outlast a head of lettuce, was brought down by a bond market panic in response to her policies. In a year when the US government has $9trn of debt to refinance, any ructions in the market or even growing concerns about the stability of the US government can significantly increase the borrowing costs for the country.

Figure 6: US dollar (Trade weighted)

Source: FactSet, As of 31 March 2025. Returns are in Local Currency. Past performance is not indicative of future performance.

Outside of these primary concerns, we see some scope for things to get worse from here and some scope for things to get better. On the bad side of the ledger, is the concern that a tariff war could lead to an actual war. With China retaliating to the tariffs and the US then retaliating in turn, there is a small but non-zero chance that the two countries could end up in a direct military conflict. With China's economy already on the ropes from a collapsing property market, the tariffs applied to it could push it to the brink where it feels that a military solution is the only response it has left. Indeed, the Chinese Communist Party regularly uses nationalism as a way to galvanise support and we note that Vice President Vance's comments about the Chinese being 'peasants' is getting a lot of coverage across Chinese media.

More likely than conflict but still concerning is the simple fact that the heightened level of uncertainty currently being generated by the US government has a non-linear impact through time. Put in another way, the longer the uncertainty continues the greater the magnitude of the negative impacts on the US economy and stability of the financial system.

Fortunately, there are many things to be hopeful for. China has a significant ability to stimulate their economy and has been relatively tepid in its support to date. Not only would this help cushion the blow to their economy but given our relationship and proximity, Australia is a likely beneficiary. Equally, we have seen that some of Trump's actions may ironically make Europe 'great again' (see our Special Article), with EU countries putting aside their differences in the face of a common cause and Germany engaging nearly $1trn of fiscal spending over the coming years. Indeed, we are already witnessing traditional western allies banding together as a way of strengthening their positions against Trump's bullying tactics. Additionally, we are now seeing signs that Republicans and their donors are losing faith in the President's approach. Whereas previously we had witnessed a very unified party, with only the most objectionable cabinet pick out of a cast of objectionables, not being endorsed by the senate. Not only have we seen Democrats outperforming in special elections - the most notable of which was for a place on the Wisconsin Supreme Court with Elon Musk personally contributing more than $20m in support of the Republican candidate - we are beginning to see louder and more prominent voices, questioning the logic of Trump's approach. Given the slender Republican majorities in both houses, this can effectively work to restrain the President's worst instincts.

What comes next?

At the time of writing, in spite of denying that there would be any delay to tariffs just a few days prior, in the past 24 hours the application of most tariffs has been delayed by 90 days. Although investors have largely welcomed this development, the cloud of uncertainty remains and will likely weigh on markets and economies for some time yet.

Trump's second coming surprised most, particularly given the significant escalation of his behaviour compared to his first term in office. The technology industry in Silicon Valley has long caried the mantra "move fast and break things" and with Elon Musk in tow, that is exactly the approach Trump has taken so far. In engaging this mindset, the Administration has been able to achieve things that at a slower pace would likely have been stopped by Congress or the courts (the traditional embedded 'checks and balances' in the US system). Whilst we appreciate that most government operations bare some degree of inefficiency, the seeming lack of coordination in implementation and the questionable logic of some of the changes (for instance a government that claims it is trying to fix its budget deficit wouldn't normally fire a significant number of its tax enforcement officers) is risky. With Trump's preference for loyalty over competence, one can anticipate that there are many outcomes that are suboptimal for the US economy and its people.

Fortunately, markets and economies are dynamic and we are already seeing adjustments across the investment landscape in light of this new reality. Having been increasingly uncomfortable with the effects of US exceptionalism and the growing concentration of US companies in global equity indices, we see an appeal in a gradual rebalance towards other regions. That Europe has been shocked out of its slumber is promising and provides a great source of optimism. Additionally, the fact that we allowed ourselves to become so heavily reliant on the US to be the global police and nominal 'adult in the room' was a growing vulnerability, something we will now seek to address.

Moving forward we expect uncertainty to remain high, with continued volatility in asset prices. In less than 90 days we will again have to deal with the tariff issue and the great hope is that whatever happens then will provide greater certainty to the US' longer term policy positions. That the world has significantly changed to what we knew just a few short months ago is a fact we must rapidly adjust to. As investors this is not a problem, as change and volatility provide ample opportunities for investors willing to do the work.

We remain confident that the diligence and hard work that have served us well in previous bouts of market disruption, will again guide us through the months ahead.

Australian equities

Australian shares slipped in the first quarter of 2025, with the S&P/ASX 300 index down -2.9%[1]. While markets started the year on firmer footing, sentiment soured in the second half of the quarter. The primary cause of the broad-based weakness was concern about global economic growth, driven by tariff uncertainty.

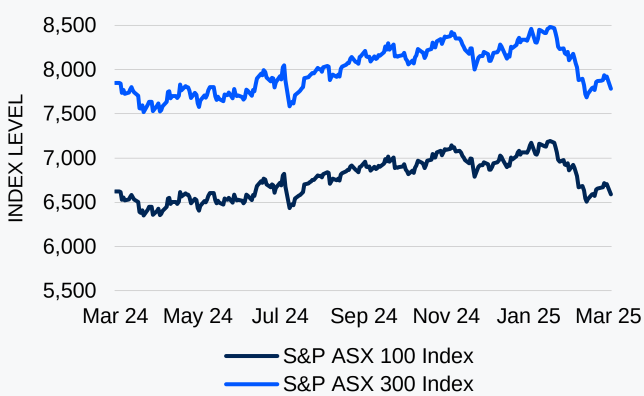
Interestingly, smaller companies held up better than large caps. The ASX Small Ordinaries index fell just -2.0%[3] over the quarter, outperforming most major indices. Gold miners dominated the best-performers list for small caps, which benefited from the gold price reaching new all-time highs.

Returns across sectors were notably mixed, with only a handful managing to stay in the green. Defensives generally outperformed, led by Utilities (+2.2%)[4], Consumer Staples (+0.7%)[5] , and Communication Services (+1.9%)[6], reflecting the defensive characteristics of these sectors under more volatile market conditions. Materials were boosted by strong moves in gold and copper prices. A rotation out of banks into resources also helped.

On the downside, Information Technology was the worst-performing sector, falling a sharp -18.2%[7] over the quarter. The sell-off was driven in part by leadership concerns at WiseTech, a key sector heavyweight, and broader fatigue in the AI trade. Other significant laggards included Health Care (-8.9%)[8], A-REITs (-6.6%)[9], and Energy (-5.5%)[10], each facing their own set of headwinds ranging from earnings pressures to rate sensitivity and global growth concerns.

From a style perspective, Value significantly outperformed Growth. The MSCI Australia Value index dipped just -1.3%[11], while Growth stocks slumped -4.9%[12], reflecting investor caution around high-multiple sectors as uncertainty remains high.

Figure 7: Australian shares – Large companies



Source: FactSet, Perpetual Private

Refer to footnote's description on page 26

Australian equities – Manager insights and outlook

As we entered 2025, we anticipated heightened volatility, with equity markets more likely to be driven by macro and geopolitical headlines than company fundamentals. Against this backdrop, we continued to favour active managers in our Australian equities portfolio, particularly those focused on bottom-up stock selection. We believe the current environment - characterised by shifting rate expectations, earnings uncertainty, and geopolitical instability - offers fertile ground for managers to identify companies with resilient earnings profiles, stronger balance sheets, and attractive valuations.

We also maintained a modest preference for small and mid-sized (SMID) companies, where market inefficiencies are more pronounced and active managers have greater scope to add value. Our portfolios remained broadly balanced across investment styles (Growth vs Value), given the evolving economic backdrop.

The quarter was shaped by two major events: the February earnings season and a turbulent March, driven by escalating concerns about Trump-era tariffs and their implications for global growth.

The February reporting season proved to be one of the most volatile in recent memory. While earnings revisions were only modestly negative overall, outlook statements were cautious, and investor sentiment remained fragile. Fundamentals were often overshadowed by offshore developments, and the market rewarded companies that simply met expectations - particularly those with elevated short interest. Defensive sectors such as Utilities, Consumer Staples, and Communications held up relatively well. In contrast, profit-taking in high-multiple sectors like Technology and Health Care led to sharp pullbacks. The banks also faced pressure, as net interest margin expectations were revised lower, triggering a broader sell-off across the sector - though CBA proved more resilient than its peers.

Another theme to emerge was increased M&A activity, supported by a weaker Australian dollar and greater clarity on interest rates following the RBA's first rate cut since 2020. Inflationary pressures - particularly labour and rental costs - continued to weigh on company margins, although the domestic labour market remained resilient, as did income growth and household consumption.

March brought a flurry of economic data. On the positive side, inflation continued to moderate, with the monthly CPI slowing to 2.4% (y/y), and Q4 GDP surprised to the upside. However, a modest federal budget update and growing fears around the global impact of proposed US tariffs quickly shifted market focus. As sentiment deteriorated, nearly all sectors declined in March, with Technology (-9.5%) bearing the brunt of the sell-off, while Utilities (+1.5%) were the only sector to post a gain.

Looking ahead, we maintain a cautiously optimistic view. While volatility is likely to remain elevated, this environment should continue to reward active, fundamentals-driven investing. We retain a preference for SMID-cap companies, where long-term structural growth tailwinds and more attractive valuations remain underappreciated by the broader market. At the sector level, we continue to favour Tech, Healthcare, and Consumer Discretionary, while remaining underweight Financials and Materials. With cash rates now past their peak and signs of future rate cuts from other major central banks, we believe the portfolio is well-positioned to benefit from a potential rotation away from defensive large caps and into more attractively priced growth opportunities.

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International equities

International shares ended the March quarter in negative territory, with the MSCI All Country World Index (ACWI) down -2.0%[12]. Beneath the surface, however, there was wide dispersion in performance across regions, sectors, and investment styles.

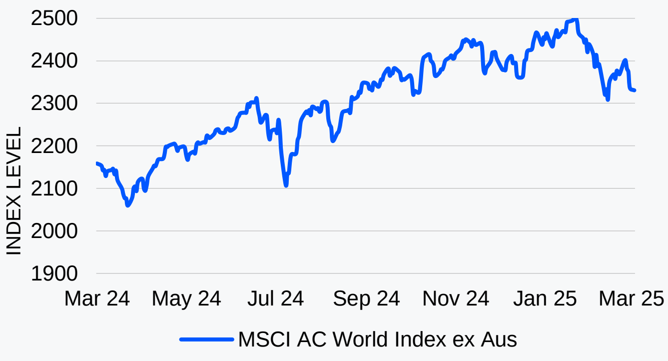
Geographically, US equities led global declines. In Australian dollar terms, the S&P 500 fell -5.0%[13], while the Nasdaq tumbled -10.8%[14], as investors rotated out of expensive growth stocks. In contrast, non-US developed markets outperformed, with European shares driving global returns. Germany surged +15.4%[15] after unveiling a €500 billion infrastructure fund and increased defence spending - both exempt from its tight fiscal rules. France (+9.6%[39]) and the UK (+8.7%[40]) also posted strong gains, supported by domestic stimulus optimism and a rotation away from US tech. In Asia, the Hang Seng rallied +15.1%[16], buoyed by enthusiasm for China's DeepSeek AI platform and solid IT earnings. Japan lagged, with the Nikkei down -6.1%[17] and Emerging Markets posted a modest gain (+2.3%[18]), supported by improved Chinese economic data.

Sector performance was mixed. Although only three of the eleven MSCI ACWI sectors posted negative returns, two of them - Consumer Discretionary (-8.2%[19]) and Information Technology (-12.2%[20]) - were heavily weighted and deeply negative. Tesla led losses in Consumer Discretionary amid demand concerns and public backlash against their polarising CEO, while Tech stocks were hit hard following the debut of DeepSeek, which cast doubt on the dominance of US artificial intelligence leaders. On the other end, Energy rose +8.5%[21] on rising demand expectations and renewed European fiscal support. Defensive sectors also outperformed, with Utilities up +5.9%[22] and Consumer Staples gaining +5.0%[23].

Style-wise, the quarter marked one of the widest performance gaps in recent memory. Growth stocks were hardest hit, with the MSCI World Growth Index down -8.3%[24], while Value stocks rose +4.1%[25], helped by exposure to energy, financials, and more stable earnings streams.

Small caps also struggled, with the MSCI ACWI Small Cap Index down -4.6%[26], impacted by a combination of rising worries about economic growth and elevated interest rates.

Figure 8: International shares (local currency terms)



Source: FactSet, Perpetual Private

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International equities – Manager insights and outlook

Last quarter we spoke to the 'shifting sands' we observed in markets, with leadership changing over short (daily and weekly) horizons. While markets trended higher over the period - including in the lead-up to Donald Trump's inauguration - with the benefit of hindsight, it's now clear that equities were seeking clarity amid an increasingly uncertain policy backdrop.

In the lead-up to, and immediately following, Trump's inauguration, investors have been trying to understand what his policies and approach could mean for global growth, inflation, interest rates, and, in turn, equity markets. Many pundits expected a continuation of his first-term playbook - 'pro-business' policies that would support markets. Increasingly, however, it has become clear that Trump intends to deliver on key campaign promises: deporting 'illegal' immigrants and rebalancing US trade via tariffs.

Following the recent 'Liberation Day' announcements and the market's reaction, uncertainty has risen - and will likely continue to weigh on investor sentiment in the period ahead. The initial response to the tariffs was a broad sell-off in US equities, led by expensive, high-beta technology stocks. In contrast, European and Rest of World (RoW) companies have fared relatively better.

We've observed a shift in equity market leadership, with 'Value' style managers performing admirably in the current environment, and a modest flight to 'Quality'. Most notably, high-beta, high-growth, and strong momentum names generally underperformed. We wouldn't be surprised to see Value and Quality continue to outperform as markets digest the potential implications of tariffs on company fundamentals, revenue and earnings outlooks, and, in some cases, business models. In the near term, we also expect investors to favour companies with greater earnings certainty.

We remain focused on the nexus between valuations and earnings delivery. Despite recent price action, markets are not 'cheap', with valuations still at or above long-term averages. We believe corporates' 'margin for error' has narrowed, and that earnings misses will likely be met with harsh treatment and sharp price drawdowns. Avoiding names where this risk is elevated will be key to delivering strong outcomes.

We continue to watch with interest how markets evolve through 2025. While there is optimism for a rally in the second half of the year, risks remain elevated - driven by political uncertainty and the rising risk of a slowdown in global growth.

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Real estate

Real Estate Investment Trusts (REITs) delivered mixed results in Q1 2025, as shifting interest rate expectations and sector-specific drivers influenced performance. The S&P/ASX 300 A-REIT Index struggled, declining 6.6%[27], as higher-for-longer rate concerns weighed on valuations despite a relatively resilient domestic economy. Meanwhile, global REITs returned 0.9%[28] on an AUD unhedged basis, reflecting a more stable backdrop across diversified property markets.

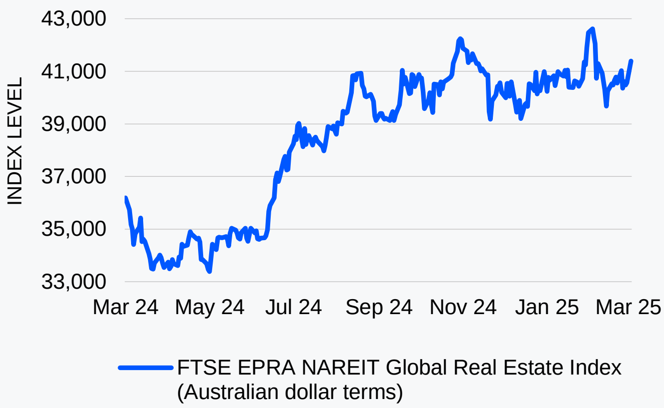
Regionally, Hong Kong REITs rebounded strongly (+3.4%[29]), benefiting from fiscal stimulus measures and a shift in sentiment following years of underperformance tied to China's real estate struggles. German REITs stood as the outlier (-15.2%[30]), as rising local bond yields weighed on the interest rate-sensitive sector. This was driven by Germany's announcement of a new €500B infrastructure fund and increased defence spending, which, while exempt from the country's debt-brake rules, added pressure to government bond yields. In the US, REITs (+0.7%[31]) saw muted performance, with investors reassessing the sector's positioning in a higher-rate environment.

On a sector level, data centres were the largest detractors, as concerns emerged over the pace of investment in AI infrastructure following cost-efficient breakthroughs from DeepSeek. Defensive healthcare and telecom REITs outperformed, while cyclical office and lodging sectors suffered large declines, reflecting ongoing structural headwinds and shifting work patterns.

Figure 9: Australian real estate trusts (A-REITs)

Source: FactSet, Perpetual Private

Figure 10: Global real estate trusts (G-REITs)



Source: FactSet, Perpetual Private

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Real Estate – Manager insights and outlook

In recent quarters, we highlighted signs of slowing momentum in the industrial sector, even as Goodman Group (GMG) surged ahead on AI-related optimism. However, the narrative shifted sharply in Q1. After peaking in late January, GMG's share price declined following the DeepSeek announcement, which raised questions about future data centre demand. This was compounded by a $4 billion capital raising in February, launched without forward guidance. While this raise was directed at expanding data centre capacity, the timing and lack of clarity weighed on sentiment. With GMG comprising nearly 40% of the A-REIT index, its underperformance alone contributed -8% to the sector's -6.6% decline — meaning the rest of the market actually delivered positive returns.

Weakness in data centres was also a global theme. Major players Equinix and Digital Realty fell 13% and 18.5% respectively. DeepSeek's breakthrough introduced new uncertainty around energy requirements, location strategies, and design standards. Microsoft's abrupt lease cancellations and project suspensions added to the disruption. While we believe long-term growth in data centres remains intact, the pace is likely to moderate, with energy access becoming an increasingly binding constraint.

Looking forward, the sector faces short-term challenges stemming from the new tariff regime, despite a broadly constructive long-term backdrop. Slower US growth may pressure consumer-linked sectors, notably retail and industrial, while office continues to face cyclical and structural challenges. That said, the extent of the office sector's devaluation may provide a buffer. We also see opportunities in alternatives, such as residential, where higher construction costs tied to tariffs may support rental growth in an already undersupplied market.

While volatility across markets may lead to short-term drawdowns, we believe fundamentals over the longer-term remain supportive. Rent growth is still positive, new construction activity remains low, and demand remains healthy outside of office. As such, we expect any weakness to present our managers with opportunities to invest in quality real estate businesses at more attractive valuations.

Alternatives

Growth alternatives

Infrastructure markets continued to face softer demand, with transactions taking longer to complete and pricing becoming less aggressive due to the ongoing impact of higher debt costs. That said, infrastructure remains a core holding in our portfolios, offering stable and inflation-linked cash flows. We remain comfortable with our allocation to regulated assets and are actively seeking to increase exposure to volume-linked opportunities that exhibit strong, recurring cash flow in today's environment.

While there was optimism entering 2025 around an increase in M&A activity, escalating geopolitical uncertainty - particularly around US tariffs - has tempered near-term deal flow. Survey-based data indicates rising corporate uncertainty in the face of changing trade rules, which may delay transactions in the short term. Over time, however, these dynamics could catalyse a new wave of activity as companies reconfigure their operating models in response to tariff regimes. In parallel, recent equity market weakness may create openings for 'take private' transactions, given the significant amount of undeployed capital ('dry powder') in Private Equity.

Regionally, Europe presents relative value, with more attractive valuations than North America and the potential for fiscal stimulus to boost demand. In particular, German industrials - under pressure from energy costs - are seeking to divest non-core assets, creating carveout opportunities for Private Equity.

Despite a fluid market environment, we remain steadfast in our approach to investing in Private Equity, with continued focus on valuation discipline, financing structures, and the operational capability of managers. Encouragingly, sponsors continue to invest in internal operating teams to drive operating performance in investee companies.

Real Estate markets continued to exhibit turbulence, with transaction volumes remaining weak despite a modest pickup. Political uncertainty and a cautious outlook on rates are weighing on institutional appetite. However, we expect that cap rate expansion has hit its cyclical peak. No different to corporate M&A activity, we expect political uncertainty to inhibit deal flow in coming quarters. As some investors seek liquidity in the current environment, we are seeing Real Estate funds being offered at attractive discounts to their prevailing net asset value (NAV). The breadth of our relationships with Real Estate managers positions us well to understand the underlying pool of assets and underwrite these opportunities at attractive valuations/entry points.

Across traded markets, we continue to observe dispersion in equity and credit pricing, reflecting the divergence in macroeconomic and political conditions. While our existing credit-based exposures have performed well, tightening spreads have reduced the attractiveness of new opportunities. As a result, we've begun reallocating capital toward hedge fund strategies that offer convexity and may benefit in risk-off scenarios.

While we were optimistic about the potential for increased corporate deal flow this year, we were not confident it would materialise - a view that has proven increasingly prescient in recent weeks. To manage through this environment, where realisations across Private Equity are likely to remain modest, we added exposure to high total return, high cash flow equity investments. Specifically, we see General Partner (GP) Stakes - minority equity investments in private market investment managers - as a compelling opportunity, given allocator appetite for alternatives and the capital needs of managers to support business growth and team retention.

The evolving market dynamics - including shifts in inflation, interest rates, and broader economic indicators - require us to continually reassess our outlook and portfolio positioning. During the quarter, we focused on refining our pipeline of potential investments over the next 6–9 months, with a particular emphasis on Private Equity. We are currently conducting due diligence on managers in Europe, where we see opportunities arising from corporates looking to simplify their operations (through corporate carveouts), alongside more attractive entry valuations compared to the North American market.

Income alternatives

Market sentiment weakened over the first quarter of 2025, as trade policy-related uncertainty stymied M&A activity. Capital deployment has marginally slowed, although demand remains positive. At the time of writing, the impact has largely been contained to more liquid parts of the market — such as investment grade credit, high yield, and leveraged loans — with only minimal negative returns.

In our last commentary, we noted that, barring a major external shock, we expected Private Credit markets to remain broadly healthy. The recent escalation in trade tariffs and retaliatory measures has introduced a new layer of uncertainty, and while it's too early to assess the full impact, we are monitoring developments closely. At this stage, credit fundamentals remain largely unchanged, and most companies have yet to revise their earnings outlooks. That said, if current conditions persist, we may see some pressure on corporate earnings over time, which could flow through to Private Credit valuations in the quarters ahead.

Liability management exercises remain prevalent, though activity levels have not increased meaningfully. We expect this to pick up as funding costs rise further within the Private Credit space. If negative sentiment and policy uncertainty continue, demand for credit may slow as capital is reallocated to rebalance listed exposures. Higher funding costs, if sustained, could also weigh on refinancing and new capital formation activity.

Asset-backed finance remains an attractive segment, offering strong relative value. However, we remain cautious about consumer-linked structures, where rising stress could affect default probabilities. Our focus remains on more traditional, well-collateralised exposures - such as mortgages, equipment, and invoice finance - with material levels of subordination.

While our core research focus remains on asset-backed and middle market lending, recent market volatility has led us to pivot toward capital solutions strategies, which we believe are well positioned to perform in a more challenging environment.

Fixed income

Fixed income markets delivered modest gains in Q1 2025 as investors navigated an evolving global trade landscape, shifting central bank policies, and lingering inflation concerns. While most major central banks continued cutting interest rates, policymakers signalled caution amid persistent price pressures and trade war risks.

Monetary policy remained a dominant theme. The US Federal Reserve was a notable exception to the easing trend, keeping rates steady at 4.25%-4.50%, while markets priced in 75 bps of cuts by year-end. Meanwhile, the Reserve Bank of Australia (RBA) cut its cash rate by 25 bps to 4.1% in February - its first rate cut since 2020 - citing progress on inflation but noting that the labour market remained relatively tight. Across the board, central banks that revised their forecasts lowered GDP growth expectations but raised inflation projections, reflecting uncertainty tied to trade and upcoming tariff announcements.

Concerns about global growth weighed on bond yields, particularly in the US, where the 10-year Treasury yield fell 36 bps to 4.21% by quarter-end. The US yield curve re-inverted, with the 10-year/3-month spread turning negative again, underscoring ongoing economic uncertainty.

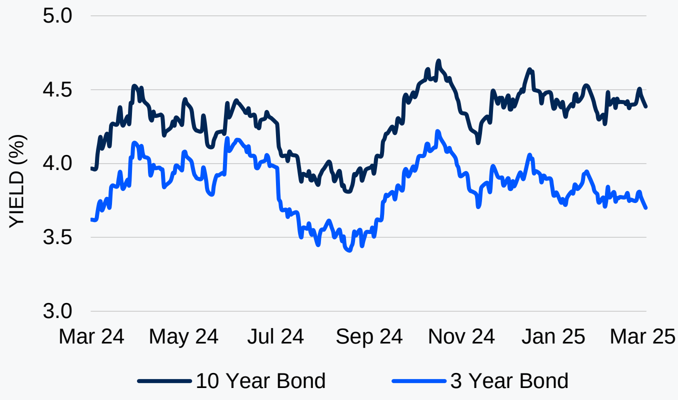
While intra-quarter volatility remained elevated, 10-year government bond yields in Australia rose only 2 bps to 4.39%. European bonds, however, faced more pronounced headwinds, with German 10-year yields climbing 37 bps to 2.73%, putting pressure on returns.

Despite global challenges, Australian fixed income held up relatively well. The Bloomberg AusBond Composite (0+Y) returned 1.3%[32], while domestic credit continued to outperform duration, with the Bloomberg AusBond Credit (0+Y) Index gaining 1.5%[33]. The Bloomberg US Aggregate fared better, gaining 2.8%[34], as softer inflation readings and expectations of Fed cuts in late 2025 supported US Treasuries. Global bonds struggled, with the Bloomberg Global Aggregate Index returning 1.1%[35], weighed down by shifting central bank expectations.

Within corporate credit, riskier high-yield debt underperformed higher-quality investment-grade bonds as investors grew more cautious about future economic growth. Investment-grade corporate bonds performed moderately well, with the ICE BofA Global Corporate Index up 1.8%[36]. Despite concerns about slowing growth, corporate bonds ended the quarter with modest gains, reinforcing optimism in credit markets and the traditional role of bonds as a stabiliser within diversified portfolios when equity markets falter. The Bloomberg Global High Yield Index returned 1.1%[37], reflecting modest spread widening.

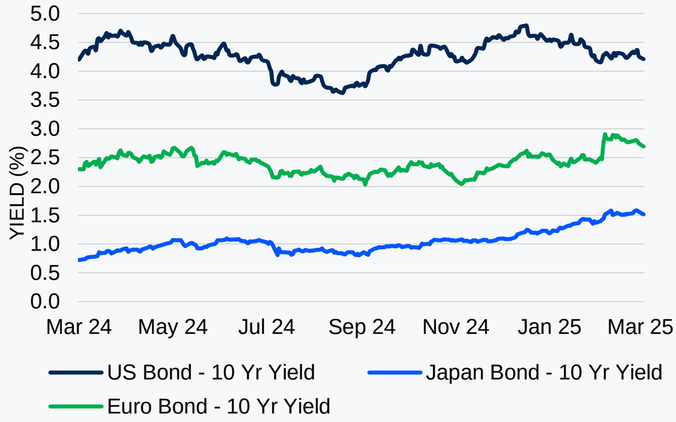
Refer to footnote's description on page 26

Figure 11: Australian government bond yields



Source: FactSet, Perpetual Private
Note: Bond prices are inversely correlated with bond yields.

Figure 12: Global government bond yields



Source: FactSet, Perpetual Private

Figure 13: Global credit markets

Source: FactSet, Perpetual Private

Fixed income – Manager insights and outlook

Over the quarter, government bond yields declined while credit spreads widened marginally. Sentiment deteriorated notably as President Trump began implementing his tariff agenda, initially targeting Canada and Mexico before expanding threats and measures to include China and Europe. In response, both Canada and China announced retaliatory tariffs, adding to investor unease.

While economic conditions remain broadly stable - evidenced by solid US labour market data and moderating inflation - financial markets have responded negatively to the trade and geopolitical developments. Investor concerns have grown that a sustained escalation in tariffs could tip the global economy into recession. While still in the early stages, this uncertainty has already begun to impact corporate capex decisions and hiring intentions.

In rate markets, investors have priced in multiple cuts in anticipation of a potential recession. Credit spreads have widened only modestly, while equity markets have experienced heightened volatility and broader declines amid deteriorating sentiment. Should tariffs remain in place and escalate further, we expect conditions to worsen before they improve. In our view, the longer these measures persist, the more pronounced the economic slowdown is likely to be.

Against this backdrop, we have maintained our duration position. Falling bond yields have supported portfolio performance. We are also seeing divergence in monetary policy across the US, Europe, and Japan - a dynamic that should favour active management. The current desynchronisation in global growth and inflation, likely exacerbated by US trade policy, presents both risk and opportunity for Fixed Income managers.

We see the potential for modest widening in credit spreads and a gradual lift in default rates, although much will depend on how trade policy evolves in the months ahead. Our base case remains a mild economic slowdown rather than a stagflationary environment. While tariffs may temporarily push up prices, we believe their broader effect is likely to be a softening in consumer demand and a more cautious approach to hiring, as companies look to manage costs and preserve margins.

From a portfolio perspective, we remain broadly neutral on rates. While we believe markets may have overreacted to the incoming Trump administration, we prefer to adopt a more cautious, data-dependent stance before taking a stronger directional view. Within credit, we continue to favour a short duration bias, which has benefited from cash rates remaining higher than previously expected.

Australian cash rate

The Reserve Bank of Australia (RBA) lowered the official cash rate by 25 basis points to 4.10% in February - its first move in over a year and the first cut since 2020. The decision followed a gradual decline in inflation, with headline CPI falling back within the 2–3% target range, and amid signs of economic softness domestically. The move was widely anticipated by markets but confirmed that the RBA is shifting toward a more accommodative stance.

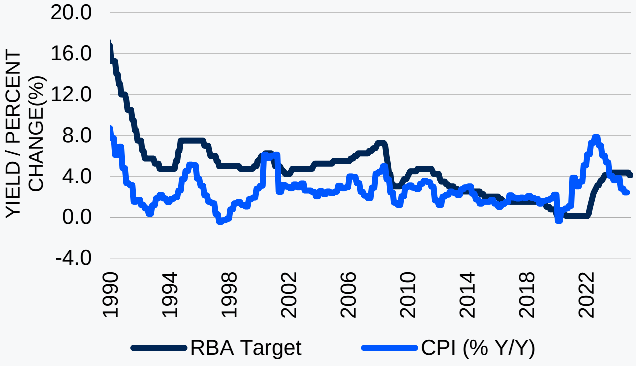
Despite the cut, RBA Governor Michele Bullock made it clear that further easing is not a foregone conclusion, noting that the Board did not explicitly discuss rate cuts at the April meeting. Domestic inflation remains sticky in parts of the services sector, and productivity growth continues to disappoint. Meanwhile, the labour market is holding up relatively well, with unemployment still near historically low levels and wage pressures showing signs of stabilising.

Globally, economic signals were mixed. The Federal Reserve kept rates on hold while maintaining a dovish tilt, and the European Central Bank continued its rate-cutting cycle. However, escalating trade tensions, led by new US tariff announcements, introduced renewed uncertainty into financial markets and business confidence worldwide. The RBA noted that global risks, including the potential for retaliatory trade measures, could weigh on household and business spending, particularly in small, trade-dependent economies like Australia.

Australian cash rate – outlook

Looking ahead, the RBA is expected to proceed cautiously. Markets are pricing in two to three additional 25-basis-point cuts by year-end, which would take the cash rate down to around 3.35%.

Figure 14: Long-term cash rate vs inflation



Source: FactSet, Perpetual Private.

However, Bullock has emphasised that the RBA remains data-dependent, especially given the volatile global backdrop.

The path forward will be shaped by several crosscurrents: the trajectory of inflation, developments in the US–China trade dispute, the domestic housing market (which has already responded to the February cut), and whether productivity and supply constraints begin to ease. While Australia's economic growth is forecast to recover to around 2.2% in 2025, uncertainty around global trade and consumer confidence could challenge that outlook.

Ultimately, the RBA remains focused on achieving its dual mandate of price stability and full employment. Although the easing cycle has begun, the pace and extent of future rate cuts will be guided by incoming data - not by market pressure or political cycles.

Australian dollar

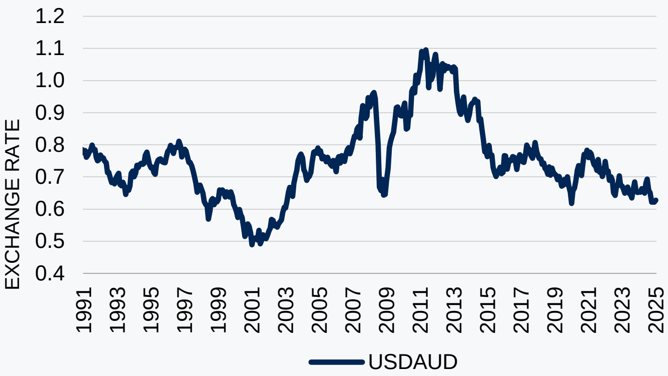
The Australian dollar (AUD) endured a volatile March quarter, trading between US$0.615 and US$0.64 before tumbling below $0.60 in early April. The currency was caught in the crosshairs of heightened global uncertainty, mounting trade tensions, and faltering Chinese momentum - all of which weighed heavily on the risk-sensitive currency.

A major drag was the resurgence of tariff wars following President Trump's inauguration. While the US has imposed tariffs broadly, the sharp escalation of duties on Chinese goods carries the greatest implications for Australia given its economic ties to China. As fears of a prolonged trade conflict took hold, investors dialled down risk exposure, with the AUD suffering collateral damage.

Adding to the pressure was the RBA's rate cut to 4.1%, reinforcing the interest rate differential between Australia and the US. While a weaker AUD provides a cushion for exporters, further depreciation risks stoking imported inflation - a concern that may limit the RBA's flexibility from here.

Meanwhile, China's economy remains a drag on sentiment. Although policymakers have signalled a desire to stabilise growth and the yuan, markets are still waiting for more forceful action - the proverbial bazooka of fiscal stimulus - to lift confidence. Given the AUD's tight correlation with both Chinese activity, this remains a key headwind.

Figure X: Australian dollar US dollar (daily) long term



Source: FactSet, Perpetual Private.

Australian dollar – outlook

The near-term outlook for the AUD remains challenging. Elevated global uncertainty and a prevailing risk-off mood are likely to cap any meaningful rebound in the short term.

That said, some strategists argue the AUD has been unduly punished. Sentiment is deeply negative and positioning is heavily skewed to the downside, setting the stage for a potential snapback if trade tensions de-escalate or if China moves decisively to stimulate its economy. From a valuation lens, the AUD is trading well below fair value on several models, including purchasing power parity (PPP).

Volatility is likely to persist in the absence of a clear catalyst. With global markets still digesting central bank recalibrations and the tariff standoff showing few signs of resolution, the AUD may struggle to find firm footing in the months ahead. Still, with much of the bad news arguably priced in, the balance of risks could begin to tilt more evenly as the year progresses.

[1] As measured by the S&P/ASX300 – Total Return index
[2] As measured by the MSCI All Country World – Net Return index in AUD terms (Unhedged)
[3] As measured by the S&P/ASX Small Ordinaries - Total Return index
[4] As measured by the S&P/ASX 300 Utilities (Sector) - Total Return index
[5] As measured by the S&P/ASX 300 Consumer Staples (Sector) - Total Return index
[6] As measured by the S&P/ASX 300 Communication Services (Sector) - Total Return index
[7] As measured by the S&P/ASX 300 Information Technology (Sector) - Total Return index
[8] As measured by the S&P/ASX 300 Health Care (Sector) - Total Return index
[9] As measured by the S&P/ASX 300 A-REIT (Sector) - Total Return index
[10] As measured by the S&P/ASX 300 Energy (Sector) - Total Return index
[11] As measured by the MSCI Australia Value – Net Return index
[12] As measured by the MSCI Australia Growth– Net Return index
[13] As measured by the S&P 500 index – Net Return in AUD terms (Unhedged)
[14] As measured by the NASDAQ Composite index – Gross Return in AUD terms (Unhedged)
[15] As measured by the DAX index – Gross Return in AUD terms (Unhedged)
[16] As measured by the Hang Seng index – Net Return in AUD terms (Unhedged)
[17] As measured by the Nikkei 225 index – Net Return in AUD terms (Unhedged)
[18] As measured by the MSCI Emerging Markets index – Net Return in AUD terms (Unhedged)
[19] As measured by the MSCI AC World – Consumer Discretionary – Net Return index in AUD terms (Unhedged)
[20] As measured by the MSCI AC World – Information Technology – Net Return index in AUD terms (Unhedged)
[21] As measured by the MSCI AC World – Energy – Net Return index in AUD terms (Unhedged)
[22] As measured by the MSCI AC World – Utilities – Net Return index in AUD terms (Unhedged)
[23] As measured by the MSCI AC World – Consumer Staples – Net Return index in AUD terms (Unhedged)
[24] As measured by the MSCI World Index Growth – Net Return index in AUD terms (Unhedged)
[25] As measured by the MSCI World Index Value – Net Return index in AUD terms (Unhedged)
[26] As measured by the MSCI AC World Index Small Cap – Net Return in AUD terms (Unhedged)
[27] As measured by the S&P/ASX 300 A-REIT – Total Return index
[28] As measured by the FTSE EPRA Nareit Developed – Net Return index in AUD terms
[29] As measured by the FTSE EPRA Nareit Hong Kong – Net Return index in HKD terms
[30] As measured by the FTSE EPRA Nareit Germany – Net Return index in EUR terms
[31] As measured by the FTSE EPRA Nareit USA – Net Return index in USD terms
[32] As measured by the Bloomberg AusBond Composite (0+Y) index (Unhedged)
[33] As measured by the Bloomberg AusBond Credit (0+Y) index (Unhedged)
[34] As measured by the Bloomberg US Aggregate index (Hedged to AUD)
[35] As measured by the Bloomberg Global Aggregate index (Hedged to AUD)
[36] As measured by the ICE BofA Global Corporate index (Hedged to AUD)
[37] As measured by the Bloomberg Global High Yield index (Hedged to AUD)
[38] The Magnificent Seven: Alphabet (GOOG), Amazon (AMZN), Apple Inc. (AAPL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA), Tesla Inc. (TSLA)
[39] As measured by the CAC 40 index – Net Return in AUD terms (Unhedged)
[40] As measured by the FTSE 100 index – Net Return in AUD terms (Unhedged)

Authors

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National Investment Director, Perpetual Private

Andrew provides investment research, portfolio construction and bespoke investment advice for Perpetual Private's clients.

Andrew works closely with advisers by providing specialist investment knowledge on Perpetual's investment process and strategy implementation, focusing on delivering optimal solutions to our stakeholders and partners. This is further augmented by his provision of transparent and accessible knowledge of financial markets and asset classes both globally and locally.

Having spent 15 years in London, Andrew returned to Melbourne with a wealth of international experience to benefit Perpetual's clients and partners. Having started his career working on private equity transactions and stock market listings, he then spent time working on equity trading desks, before moving into investment management. In his role as a Portfolio Manager for Barclays Investment Solutions, Andrew managed money across multiple asset-classes on behalf of various client groups, before focusing on the charity and not-for-profit segment. With responsibility for as much as £3bn in assets, he developed a strong reputation for delivering robust investment performance linked to his comprehensive understanding of global investment markets.

Andrew is a holder of the Chartered Financial Analyst and the Chartered Alternative Investment Analyst designations

Hugo Goode, CFA
Investment Specialist, Perpetual Private

Hugo is an Investment Specialist at Perpetual Private, where he joined the Investment Research Team in October 2023. He supports the Head of Managed Accounts and Perpetual Private Investment Directors by developing and maintaining investment content and collateral. He also helps communicate Perpetual Private's investment offerings to advisors and intermediary sales teams, representing the Multi-Manager and Direct Equities teams.

Before joining Perpetual, Hugo gained valuable international experience working as a Research Analyst for a wealth management firm in Vancouver, Canada. During his four years there, he focused on strategic and tactical asset allocation for high-net-worth clients across diverse asset classes and client profiles. Prior to his time in Canada, he held roles in Sydney at BT Financial Group as a Customer Relations Consultant and TP ICAP as a Trainee Broker.

Hugo is a CFA charterholder and holds a Bachelor of Commerce degree, majoring in Finance and Accounting, from the University of New South Wales.

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