# Economic & Investment Update - April 2025

Following Donald Trump's inauguration on 21 January 2025, financial markets have been dominated by assessments of the likely global consequences of the Trump economic policy agenda. Financial markets seemed to take an increasingly pessimistic view of the implications of that agenda, including the inflationary impact of escalating tariff announcements.

That pessimism became particularly pronounced in the lead up to and following President Trump's "Liberation Day" announcement on April 2nd which outlined extensive global tariff policies. This and subsequent retaliatory tariff announcements by US' trading partners led a sharp sell-off in global equity markets, an increase in US bond yields and a weaker US dollar.

Of particular concern were fears that, against a background of still "sticky" inflation, the weaponisation of international trade through US tariffs and subsequent retaliation by US' trading partners would lead to a global trade war and a global recession. This led markets to contemplate a "stagflation" scenario where economic activity declines but inflation proves stubborn.

Commentary from US Federal Reserve Chairman Jerome Powell highlighted the increased uncertainly resulting from the spate of new policies from the Trump administration with lower GDP growth expected and higher inflation forecast, compared to December 2024 projections. This was realised with the US economy contracting by 0.3% in the March 2025 quarter, impacted by a slowdown in consumer spending, a surge in imports (prior to the commencement of tariffs) and a drop in government spending.

In Europe, while March quarter GDP growth of 0.4% exceeded consensus forecasts, overall growth remained weak. However, additional support was provided by the European Central Bank which cut interest rates in January and March, as annual inflation in the eurozone eased to 2.2%.

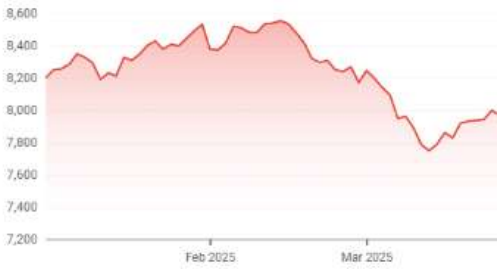
Sentiment also improved as the German government approved a significant spending program.

The Chinese National Bureau of Statistics announced that economic growth remained strong with annualised growth of 5.4% to March 2025 however, damage from the trade war with the US started to appear. A gauge of new export orders fell in April to its lowest reading since Covid-19 while overall manufacturing activity in China was the weakest since December 2023. Consumer prices dropped 0.1% for the year to March, below the expected +0.1%.

In Australia, with inflation easing and economic growth weak the Reserve Bank (RBA) cut official interest rates by 25 basis points in February 2025, to 4.10%, the first decrease in nearly 5 years. With the RBA's preferred measure of underlying annualised inflation dipping below 3% for the March quarter, the likelihood of a further interest rate cut in early May increased.

**MARKETS**

The Australian S&P/ASX 200 Accumulation Index fell 2.8% over the March quarter. The Information Technology (-18.2%) and Health Care (-9.0%) sectors produced the lowest returns while the Communication Services (+5.8%) and Utilities (+2.2%) sectors outperformed. Following recent underperformance, the Materials sector rebounded (+0.7%) aided by the strong performance of gold companies. Financials finished lower (-2.6%) as disappointing earnings and high valuations led to share price weakness.




*S&P/ASX 200 Acc Index (Source: Google Finance)*

Smaller ASX-listed companies (top 100-300) returned -2.0% for the quarter, slightly outperforming the return of the S&P/ASX 200 Accumulation Index. Global equity markets also finished lower over the March quarter with the

MSCI World (ex-Australia) Net Return Index (AUD hedged) down 2.6%. With the Australian Dollar slightly stronger against the US Dollar, unhedged investment returns down 2.4% over the quarter.

In the US, the broad-based S&P 500 Index was down 4.6% as market disruptive policies of government spending cuts and tariffs led to elevated market volatility and a broad sell off. Large technology companies whose valuations had disconnected from the rest of the market led market falls.

The Japanese market also finished lower for the March quarter, down 10.7%, as tariff announcements impacted investor sentiment toward major Japanese exporters.

In Europe, Germany's approval of a vast fiscal spending program, including $500 billion for defence and another $500 billion for infrastructure led to gains across the region with the German share market (+11.3%) producing the strongest quarterly regional return.

Chinese markets produced mixed returns, with the Hong Kong Hang Seng PR index up 15.3%, driven by strong returns from Chinese technology companies. However, the Shanghai Shenzhen CSI 300 PR index was down 1.3% over the quarter.

The Australian property market, as measured by the S&P / ASX 200 A-REIT Accumulation Index, finished down 6.8% for the March quarter primarily due to a dilutive capital raising by index heavyweight Goodman Group. Global property securities, as measured by the FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged) Index, rose 0.7% while global infrastructure finished up 3.6% over the quarter. Australian and global bond markets generated positive returns for the March quarter as bond yields declined modestly. During the quarter, domestic bonds returned +1.3% whilst global bonds returned +1.1%.

Within the commodity sector, gold again performed strongly returning +18.3% for the March quarter and 46.7% over the last 12 months as weakness in the US Dollar and growing scepticism of the "safe-haven" attributes of US Treasury bonds, pushed the gold price higher.

The table below (sourced from Lonsec) summarises the returns from a number of market sectors.

| Sector | Index | 3 mths (%) | 1 year (%) | 5 years (% p.a.) |
|---|---|---|---|---|
| Equities | | | | |
| Australia | S&P/ASX 200 TR (Accumulation) Index | -2.8 | 2.8 | 13.2 |
| | S&P/ASX Small Ordinaries TR (Accum) Index | -2.0 | -1.3 | 10.2 |
| International | MSCI World ex Aust NR Index (AUD) | -2.4 | 12.3 | 15.8 |
| | MSCI World ex Aust NR Index (AUD Hedged) | -2.6 | 6.7 | 15.2 |
| Emerging Mkts | MSCI Emerging Mkts NR Index (AUD) | 2.3 | 13.2 | 7.6 |
| Listed Property | | | | |
| Australian | S&P/ASX 200 A-REIT TR (Accumulation) Index | -6.8 | -5.4 | 13.6 |
| International | FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged) | 0.7 | 3.6 | 5.6 |
| Infrastructure | | | | |
| Global | S&P Global Infrastructure TR Index (AUD Hedged) | 3.6 | 19.6 | 13.1 |
| Currencies | | | | |
| AUD v USD | Against US Dollar | 1.0 | -4.2 | 0.4 |
| Fixed Interest | | | | |
| Australian | Bloomberg Ausbond Composite All Maturities | 1.3 | 3.2 | -0.5 |
| | Bloomberg Ausbond Credit All Maturities | 1.5 | 5.6 | 1.9 |
| International | Bloomberg Global Agg TR Index (AUD Hedged) | 1.1 | 3.7 | -0.5 |
| Commodities | | | | |
| Gold | Gold Spot Price – AUD | 18.3 | 46.7 | 14.2 |

# OUTLOOK

In conjunction with the unfolding of major US policy shifts, the outlook for investment markets remains highly uncertain with global growth expected to decline, inflation to fall at a slower place and downside risks to intensify.

Key issues revolve around how much of President Trump's articulated agenda will be enacted and how his haphazard tariff announcements might evolve. Should President Trump not change course soon, recessionary conditions could play out in many parts of the global economy with the severity of the slowdown dependent on the duration and magnitude of the tariffs.

However, following Liberation Day, we have already seen the reciprocal tariffs announced by the US paused for 90 days to allow for new trade deals to be negotiated. While this excluded China, there have been suggestions by some that the US-China trade war is unsustainable and will ultimately de-escalate. These moves provided some optimism for financial markets with equity markets rebounding strongly in mid-late April and bond yields stabilising.

Specifically, within the US, slower growth and higher inflation (through the imposition of tariffs) is creating a difficult environment for the US Federal Reserve (Fed). This is likely to lead the Fed to keep rates on hold for longer, with the Fed likely to resume cutting rates if they either get more certainty about tariffs or if economic activity weakens sharply.

In Europe, despite recent interest rate cuts and improvements in private consumption and business investment, the economic recovery remains fragile. While growth exceeded expectations in the March quarter, successive blows from the US trade war, a surging euro and deteriorating sentiment are likely to inhibit continued improvement.

In China, the sharp pullback in exports and production show that President Trump's tariffs on Chinese imports are starting to squeeze the engine room of China's economy, piling pressure on Beijing to boost its stimulus efforts to shore up growth or to reach a trade deal with the US. Even without the impact of tariffs, China's economy continues to face substantial headwinds from the property sector downturn, subdued domestic demand and demographic decline.

In Australia, with economic growth expected to remain muted over the 2025 calendar year, further interest rate cuts are expected. However, with ongoing concerns that Australia's tight labour market could still generate inflationary pressures it is likely that the Reserve Bank of Australia (RBA) will take a cautious approach rather than unleashing a flurry of rate cuts this year.

Our views on the various asset classes are outlined below.

### ***Australian Equities***

Within Australian Equities, we recommend investors hold a neutral to underweight position in both large cap stocks and in smaller companies.

Australian equity valuations remain stretched especially following the recent rebound. A re-rating in bank and resource earnings is likely to be required for further gains. Earnings season was volatile and suggested a lacklustre growth outlook with expectations, in aggregate trending lower. However, inflation is receding, albeit slowly, paving the way for the RBA to make additional interest rate cuts.

While Australia does not yet appear to be in Trump's sights for tariffs, owing to our trade surplus with the US, second order impacts (particularly in relation to China) cannot be ignored. With smaller companies, the prospect of an all-out trade war continues to complicate the outlook for these companies. This could disproportionately impact junior miners who make up a large portion of the Small Caps sector.

## ***International Equities***

Within International Equities, we recommend that investors move to a neutral to underweight position in both developed and emerging markets.

US equities look increasingly vulnerable as President Trump's unwavering commitment to pursue tariffs is a growing economic headwind, especially for the US itself. However, poor sentiment and disappointing economic data could quickly rebound if a tariff war were suddenly averted.

While a global trade war is negative for global growth, a slowdown would not hurt all countries and regions equally and European companies may outperform in the short to medium term.

Emerging market equities are dominated by China, where a policy shift to support consumption and an economy that has recalibrated to be less dependent on the US since 2018 are supported by compelling valuations.

However, tariffs are already having a major impact on exporters and manufacturers, and we recommended taking a cautious approach to emerging market holdings.

## ***Property***

We recommend investors hold a neutral position to Australian property and a neutral to underweight position to International property.

Domestically, additional interest rate cuts by the RBA should provide support to this sector via increased cash flows, greater liquidity and upward pressure on property valuations.

At a sector level, we maintain cautious on office space (which remains structurally challenged) and the retail sector. We are more supportive of industrial property and the healthcare sector.

Given that the imposition of tariffs on many countries may delay future interest rate cuts, we suggest a more cautious approach to International property. However, we do note that International Property continues to provide a greater breadth and depth of opportunities.

## ***Fixed Interest***

We recommend investors retain a neutral position to Fixed Interest, including a neutral position to international sovereigns (e.g. Government bonds).

Bond yields continue to offer good value (both domestically and now internationally) and may offer some protection should equity markets experience a downturn. Furthermore, bond valuations could also benefit as interest rates are cut.

However, there are some risks of a spike in US Government bond yields should the imposition of tariffs lead to a notable drop in foreign buyers. This could lead to a new cycle of quantitative easing with the US Federal Reserve purchasing new bond issues.

Yields on corporate bonds look reasonable but carry increased risk in the event of an economic downturn and credit contraction. As such, we favour Australian corporate debt over global debt. Floating rate corporate debt still looks attractive but as rates fall, fixed rate debt will come to the fore.

While not offering a similar hedge against share markets, higher rates continue to be available from term deposits. Bank hybrids offer a strong return, albeit with some risk given their correlation to equity markets.

***Alternatives***

We recommend investors hold a neutral position to Infrastructure given the current global interest rate environment. Private Equity investments are expected to continue to be well supported.

Despite recent record valuations, we continue to support an allocation to gold or silver in diversified portfolios and whilst investors may now be overweight to this sector, we suggest that existing holdings be retained.

Exposure to gold, either through gold producers or via an investment in physical gold, as well as physical silver, through ASX listed entities, continues to act as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.

*Sources: Lonsec, Betashares, Macquarie Bank. Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to Kevin Smith of The Professional Super Advisers on (02) 9955 5800 prior to acting upon this information.*