Economic & Investment Update - July 2025

April 2 was billed as "Liberation Day" as the White House released a list of tariff rates claimed to be imposed by other countries on the USA's exports together with a list of retaliatory rates effective from 9 April. By the end of April, many of these so called retaliatory US tariffs were reduced or delayed by a 90 day pause.

Moving forward to July 2025, the 10% base line tariffs rate on all imports into the USA remains, with many individual countries and goods / commodities facing far higher rates. Indeed, with only a handful of new trade agreements having been signed, President Trump has recently started announcing higher and new tariffs such as the increase in the tariff on steel and aluminium from 25% to 50% and a new 50% tariff on copper. Significant uncertainty prevails.

The level of uncertainty is affecting global interest rates with the US Federal Reserve keeping rates on hold at 4.25% to 4.5% due to the downside risk on the economy of the tariffs and the upside risk of higher inflation.

Meanwhile in Europe, the ECB continued to drop official interest rates with falls of 0.25% in both April and June despite tariff uncertainty weighing on exporters.

China were the target of the largest initial US tariffs with rates of up to 245% as each country retaliated before the US eventually reduced its rate back down to 55%. China appears to be the main target for the US given the huge trade imbalance in goods. Although the new tariffs could have a short-term negative impact on the Chinese economy, it is set to trigger a much needed policy change away from exports and back to servicing the large domestic economy.

The specific tariffs on commodities and potentially on pharmaceuticals (threatened at 200% within a year) could weaken Australian economic growth. With inflation easing into the 2-3% target band, the RBA reduced rates by 0.25% in May but surprised many by holding rates steady in early July. At the time of writing, the market was pricing in around three further 0.25% interest rate reductions in the coming 12 months.

MARKETS

The Australian S&P/ASX 200 Accumulation Index rose 9.5% over the June quarter, recovering all the losses and more, from the previous quarter. The Information Technology (26.9%), Financial (15.7%) and Telecommunications (14.5%) sectors produced the highest returns while the Materials (-0.4%) and Resources (0.8%) sectors underperformed. Information Technology rebounded from its previous quarter fall of 18.2% whereas the Financial sector was buoyed by the ever-increasing CBA share price, supported heavily by overseas buyers.

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

Smaller ASX-listed companies (top 100-300) returned 8.6% for the quarter, slightly underperforming the return of the S&P/ASX 200 Accumulation Index.

Global equity markets also finished higher over the June quarter with the MSCI World (ex-Australia) Net Return Index (AUD hedged) up 9.5%. With the Australian Dollar strengthening, the unhedged investment return was +6.0% over the quarter.

In the US, the broad-based S&P 500 Index was up 10.6% as trade tensions eased, consumer confidence rebounded and corporate earnings numbers were strong.

In Asia, Japanese stocks (as measured by the Nikkei 225 PR Index) fared the best returning 13.7%, rebounding strongly after the negative return of the previous quarter. Gains were fuelled by the ripple effect from US tech stocks as semi-conductor and export driven stocks performed strongly. The Chinese market didn't fare as well over the quarter, up 1.2% amid US tariff uncertainty.

In Europe, markets rallied following positive trade talks with the US that alleviated concerns about a recession, with Germany's DAX index surging 6.6% in May and 7.9% for the quarter. This was in stark contrast to the UK where the FTSE 100 PR index rose 2.1% for the quarter with defensive stocks lagging the broader market due to rising bond yields.

The Australian property market, as measured by the S&P / ASX 200 A-REIT Accumulation Index, finished up 13.7% for the June quarter reversing a fall of 6.8% in the previous quarter. Global property securities, as measured by the FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged) Index, rose 2.6% while global infrastructure finished up 7.1% over the quarter.

Australian and global bond markets generated positive returns for the June quarter as bond yields continued to decline. During the quarter, domestic bonds returned 2.6% whilst global bonds returned 1.5%.

Within the commodity sector, most major indices produced negative returns. Gold was flat over the quarter returning 0.6% whilst producing a 44.7% return for the year. 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	9.5	13.8	11.8
	S&P/ASX Small Ordinaries TR (Accum) Index	8.6	12.3	7.4
International	MSCI World ex Aust NR Index (AUD)	6.0	18.6	15.8
	MSCI World ex Aust NR Index (AUD Hedged)	9.5	13.5	13.6
Emerging Mkts	MSCI Emerging Mkts NR Index (AUD)	6.5	17.5	7.9
Listed Property				
Australian	S&P/ASX 200 A-REIT TR (Accumulation) Index	13.7	14.0	12.4
International	FTSE EPRA/NAREIT Dev NR Property Index (AUD Hedged)	2.6	8.4	4.5
Infrastructure				
Global	S&P Global Infrastructure TR Index (AUD Hedged)	7.1	24.8	12.3
Currencies				
AUD v USD	Against US Dollar	5.4	-1.3	-1.0
Fixed Interest				
Australian	Bloomberg Ausbond Composite All Maturities	2.6	6.8	-0.1
	Bloomberg Ausbond Credit All Maturities	2.3	7.8	2.0
International	Bloomberg Global Agg TR Index (AUD Hedged)	1.5	5.5	-0.6
Commodities				
Gold	Gold Spot Price – AUD	0.6	44.7	14.3

OUTLOOK

Conflict in Ukraine, Israel and Iran remains relatively contained, albeit an escalation of any of these conflicts beyond their defined geographies could prove devastating on both a human and an investment market front.

Market upheaval is more likely to come by way of the US tariff wars. With new country wide tariff rates announced in July due to take effect on August 1st, negotiations are likely to be further drawn out, maintaining the high level of uncertainty in respect of world trade.

Indeed, the recent passing of the "Big Beautiful Bill" by the US Senate means that the import tariffs are needed in order to fund the significant tax cuts.

Last year, the US Federal Reserve (Fed) started to cut interest rates in light of falling inflation. However, the last five meetings have resulted in the Fed maintaining the current official rate given the risk of tariffs leading to a rise in inflation.

Thankfully, the talk of a recession has all but dissipated. However, recent Purchasing Manager Index readings across the US, Europe, Japan and China indicate that economic activity is stagnating, noting in particular the minimal recent growth in the Service sector. An orderly slowing of economic growth appears to be taking place due in some part to the economic uncertainty caused by the tariffs as companies are increasingly reluctant to invest.

However, with major world economies experiencing multi decade lows in unemployment, the global economy is well placed to absorb less severe tariff levels.

Australia's June 2025 headline inflation number came in at 2.1%, the lowest rate since October 2024 and well within the RBA's target band of 2-3%. As such, further rate falls can be expected which will help stimulate the economy although unemployment has edged up 0.2% to 4.3%

During times of uncertainty, we recommend investors remain well diversified in their portfolios.

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 market reaching record highs. Modest earnings growth expectations have driven the market's forward PE ratio (19x) close to record highs whilst the forward dividend yield of 3.3% currently sits at 20-year lows. Despite the stimulus provided by falling interest rates, global economic uncertainty is likely to prevail given the US tariffs.

International Equities

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

The recent rally in global equities has pushed the US stock market to record highs with the PE ratio back up close to 22, not far from a multi year high. Given also the uncertain global economic situation, we recommend investors remain cautious in respect to developed markets.

Emerging markets are dominated by China, where a recalibration away from exports to support domestic consumption is positive together with compelling valuations. However, emerging markets as a whole will potentially be impacted by weaker global growth resulting from the tariffs.

Property

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

Despite the recent strong returns in domestic property, further 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 to overweight position to domestic sovereigns (e.g. Government bonds).

Australian sovereign bond yields continue to offer good value and offer safety from overseas volatility. Furthermore, bond valuations could also benefit as interest rates are cut.

Internationally, there are some risks of rising US Government bond yields particularly if the imposition of tariffs leads to a notable drop in foreign buyers.

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 but falling rates continue to be available from term deposits. Bank hybrids offer a strong return, albeit with some risk given their correlation to equity markets. Bank subordinated debt offers a good alternative.

Alternatives

We recommend investors hold a neutral position to Infrastructure and Private Equity investments with the latter benefitting from improving market conditions.

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 prevailing global economic uncertainty or escalation in geopolitical tensions.

Sources: Lonsec. 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.