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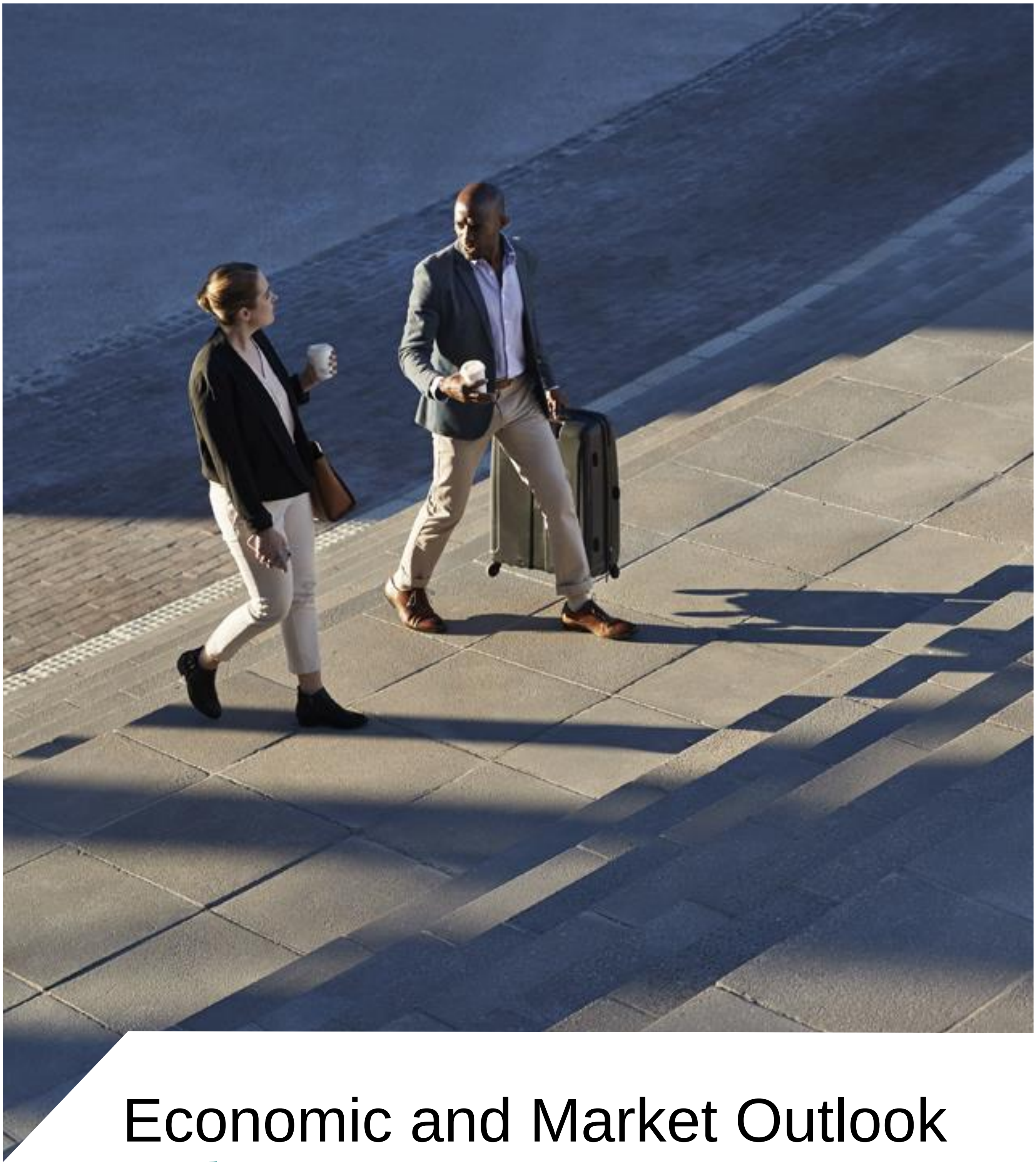

Economic and Market Outlook

April 2025

Economic and Market Outlook *in brief.*

Welcome to the latest edition of the Economic and Market Outlook, an in-depth analysis of the current economic conditions and market trends.

This edition provides commentary on the following topics:

Australian economy

An extensive overview of the latest growth drivers domestically including the prospect of further interest cuts versus a surprisingly resilient jobs market.

International economy

A deep dive into the key changes from the March quarter and the near-term implications for global growth with the Trump Administration's trade policies looming and Europe's rediscovery of defence spending as it bids to chart a more independent course.

Australian equities

A comprehensive overview of the Australian stock market focusing on trends underpinning our banking and mining sectors before considering consumer resilience and its implications for retail players.

International equities

A look at global market performance and the questions being raised about future Artificial Intelligence (AI) spending following China's "DeepSeek moment" before delving into our near-term outlook including the implications of tariff conflict.

Please note that the views in this document are general advice only and do not take into account your personal circumstances or finances. If you have further questions, we encourage you to consult with your adviser.

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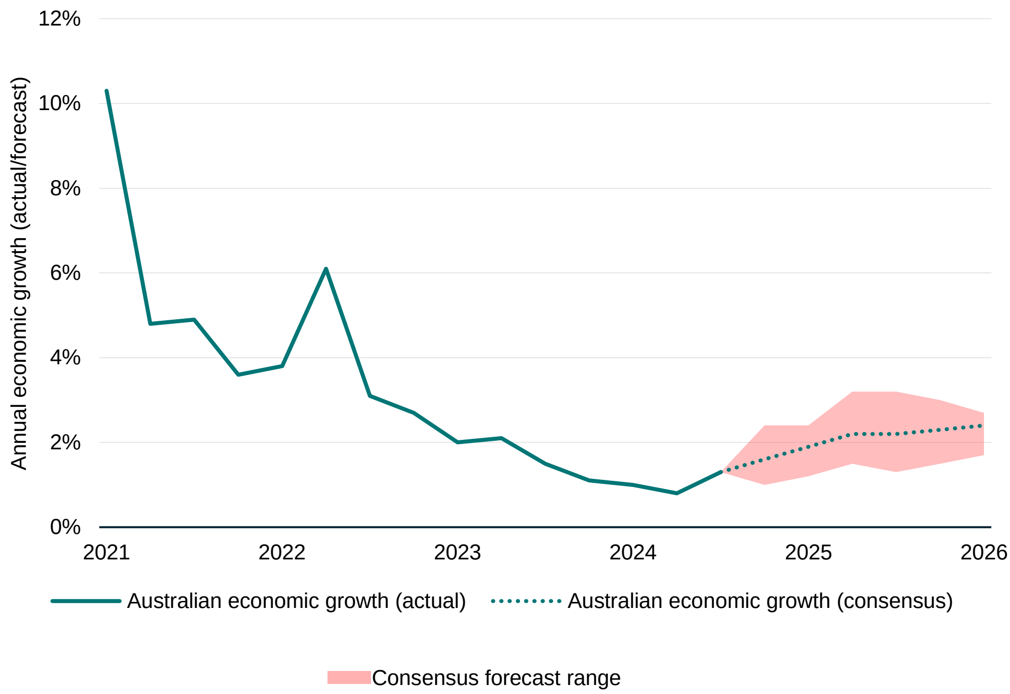
Australian economy

Part 1: Overview

Australia's per capital recession that lasted seven consecutive quarters has finally ended. Household consumption and business investment is expected to help drive an improvement in aggregate demand over the next two years as shown below.

Australian economic growth forecasts – Consensus expectation range (Jun-21 to Jun-26)

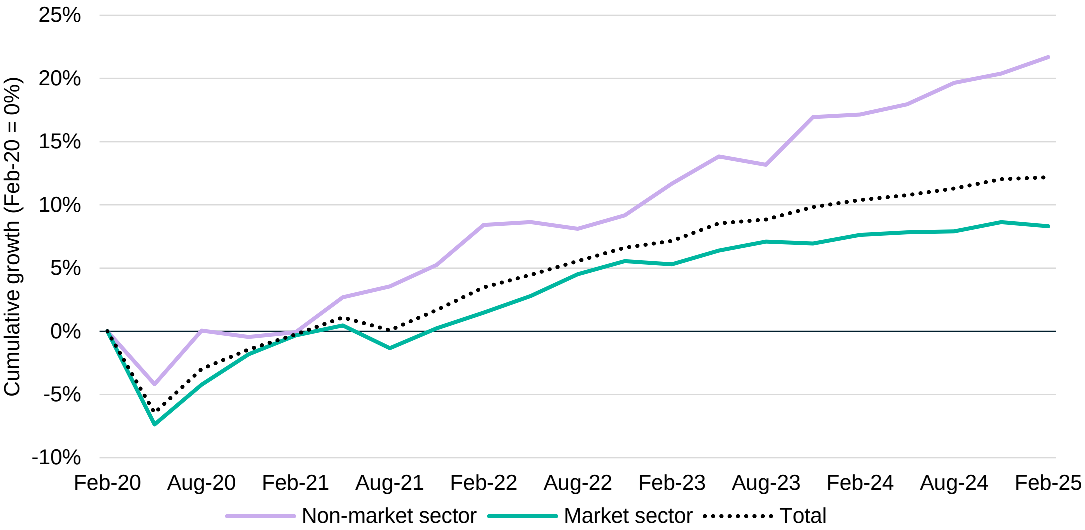


Source: Bloomberg

A forecast improvement in private sector activity will be supplemented by a continuation of government spending initiatives, including cost of living support in the form of an extension to the energy bill relief program, as well as tax cuts designed to benefit low to middle income workers. Despite calls to curb the runaway growth in NDIS spending, the latest Budget papers forecast only a modest deceleration, with the cost still growing at well above inflation at ~8% p.a.

Growth in the care sector continues to be an often overlooked, but meaningful contributor to aggregate demand. Indeed, the commitment to both NDIS and aged care services continues to underpin the labour market. Healthcare roles now comprise of over 31% of the workforce. Non-market jobs, primarily healthcare but also education and other public sector roles, have driven the lion's share of jobs growth since the pandemic (over 70% of jobs growth for the year to February). The government support for non-market jobs should keep unemployment levels low over the near term unless our economy is confronted with a meaningful negative shock from external sources.

Cumulative jobs growth by sector (Feb-20 to Feb-25)

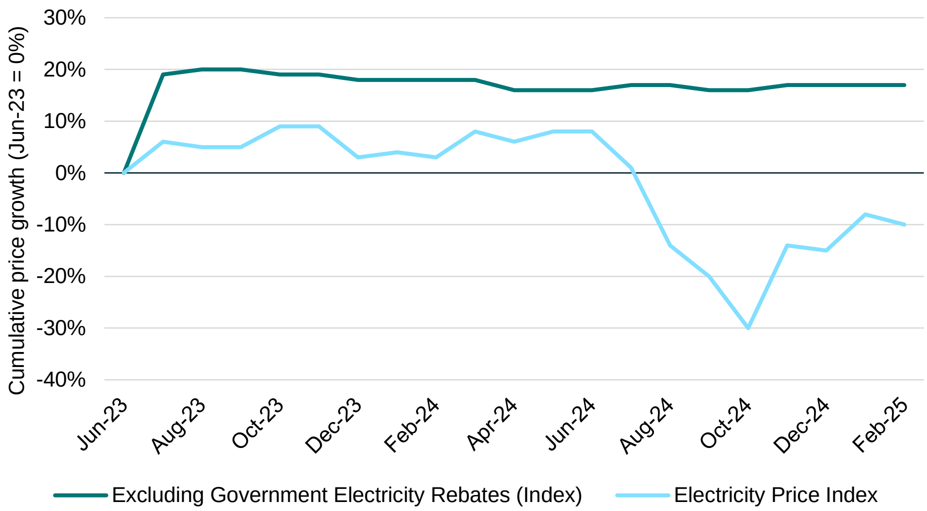


Source: Australian Bureau of Statistics, PPSPW calculations

In turn, a still-tight labour market is expected to bolster wage growth. This could keep services inflation (predominantly wage-related) elevated and may complicate the RBA's goal of ensuring underlying inflation falls back to the midpoint of its 2 -3% target range.

Although headline inflation has decelerated to 2.4% for the year to February, this outcome has been manipulated by the unsustainable energy price rebates. Core inflation remains above the midpoint at 2.7%. below the RBA's midpoint, this is while core inflation has fallen to 2.7%. As shown in the below chart, the collective impact of both State and Federal rebates for utility bills has had a material impact on electricity prices which would otherwise be 30% above current levels.

Australian electricity prices with and without rebates (Jun-23 to Feb-25)



Source: Australian Bureau of Statistics, PPSPW calculations

The tariff threat posed by the Trump administration has already had some impact, most notably in steel and aluminium production. The government has moved quickly to support the sector with $500m reserved to encourage the use of Australian steel and aluminium in renewable energy projects[1]. This is in addition to a

[1] T. Fernandez, 'Labour commits $500m to build renewable components with Australian metals', *ABC* (23 February 2025), https://www.abc.net.au/news/2025-02-23/anthony-albanese-pledge-for-australian-steel-in-wind-turbines/104970854, (accessed 25 February 2025).

$2.4bn package to preserve the Whyalla steel works operations in South Australia. Overall Australia's limited direct exposure to US trade should limit the downside risks.

The Trump Administration's trade agenda remains more concerning for its broader impacts from an Australian perspective. If the agenda promotes a tit-for-tat exchange in trade barriers and helps reduce global trade, it will be a net negative for Australia. Weaker global growth tends to see reduced resource demand which typically pushes commodity prices lower. That would hurt our economy from an income perspective due to fewer export dollars but also in terms of growth as it may discourage mining investment for example if prices remain depressed for a prolonged period due to global economic weakness.

Conclusion

The Australian economy is entering 2025 with some scope for optimism. Fiscal policy continues to be supportive with the NDIS functioning as an effective jobs program and immigration also backstopping growth. Easing inflationary pressures should see the RBA continue its easing bias with a further two cuts anticipated by year-end. US-induced trade conflict remains a threat though Australia should remain relatively insulated given our limited direct trade exposure. There may also be spillovers in the form of weaker demand in China given its exposure to US consumer spending. On balance, however, we are cautiously optimistic for the Australian outlook.

Part 2: Key economic indicators

Economic snapshot	Last reported result	Date
Growth (GDP)	1.30%	Dec-24
Inflation	2.40%	Dec-24
Interest rates	4.10%	Feb-25
Unemployment rate	4.10%	Feb-25
Composite PMI	51.3	Mar-25

Economic snapshot	2025e	2026e
Growth (GDP)	2.00%	2.40%
Inflation	2.60%	2.70%
Interest rates	3.60%	3.45%
Unemployment rate	4.30%	4.30%
US Dollars per 1 Australian Dollar ($)	0.65	0.67

Source: Bloomberg.

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International economy

Part 1: Overview

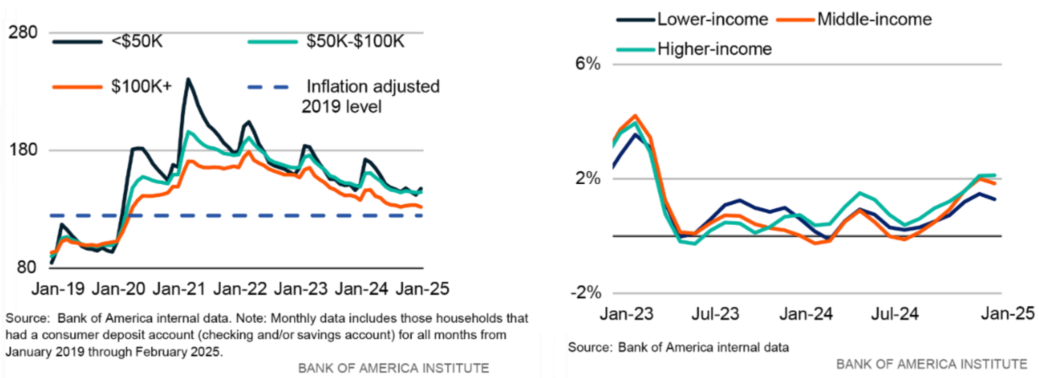
United States

The jury is out on whether the Trump Administration is going to *Make America Great Again* or cause an economic calamity. A broad swathe of tariffs targeting both long-term allies and economic rivals alike has been a hallmark of the second Trump term to date. The “Liberation Day” announcements on 2 April marked a dramatic escalation. Minimum tariffs of 10% were imposed even on countries with trade deficits against the US whilst surplus countries that had previously escaped such as Vietnam now face 46% tariffs. Importantly, the impact is cumulative with tariff rates against China climbing to 54% after the new 34% rate is added to the 20% tariffs already announced. These efforts are “reciprocal” in name only as the calculation for the new tariffs is targeted at eliminating trade deficits entirely. There is zero anchoring to actual tariffs in place against US exports which leads to bizarre situations where countries such as the Falkland Islands with a population of 3,600 see their chief export of food products now facing 41% tariffs[2].

The trade policy shift has had a negative impact on the economic outlook. The OECD is one of many economic forecasters downgrading their US growth expectations with the economy now expected to expand by 1.9% p.a. to 2026 after a strong 2.8% to close 2024. Heightened trade barriers will drag on consumer spending by increasing the cost of imported goods with retaliatory measures by trading partners also posing a headwind. The volatile policy environment with measures such as widespread cost cutting in the public sector as well as a slew of institutional challenges against other branches of government also appear to be weighing on sentiment. This was highlighted by the latest University of Michigan Consumer Sentiment Index reading, which fell to its lowest level since November 2022 driven by concerns over the economic outlook[3] with both near and long-term inflation expectations also at their highest levels since then. This backdrop coupled with the reality that “onshoring” manufacturing work back to the US is a multi-year process raises the prospect of more pain than gains in the near term.

Luckily for the United States, these challenges arrive at a time when the economy has been relatively strong. Household savings as shown below are still above 2019 levels whilst consumer spending across all income brackets continues to track well. The jobs market is also relatively healthy with an unemployment rate of only 4.1%, near its recent troughs.

Household savings still elevated



Source: Bank of America Institute[4]

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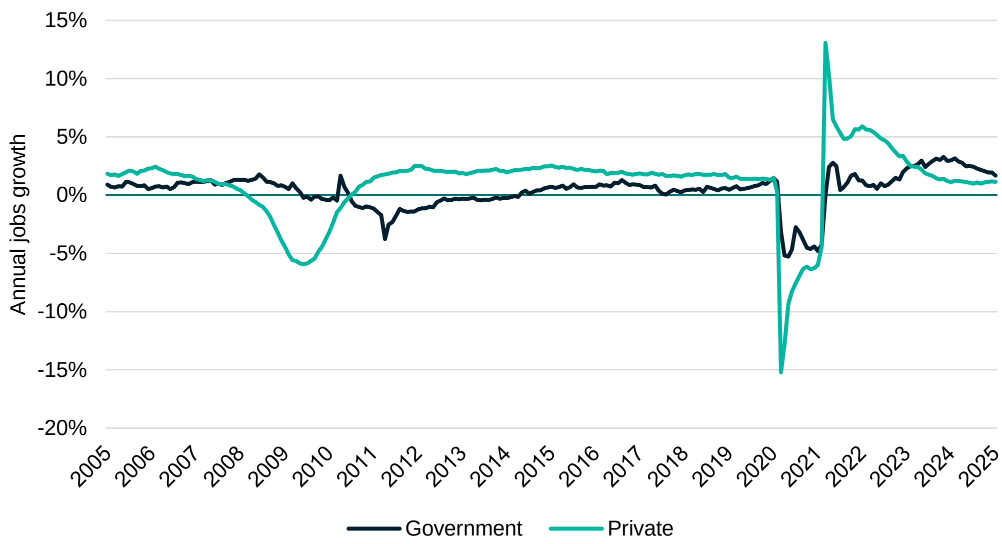
[2] C. de Guzman, ‘What to know about the countries facing the Highest Trump “Reciprocal” Tariffs”’, *Time* (3 April 2025), https://time.com/7274194/trump-reciprocal-tariffs-highest-country-rates-calculation-math-imports-exports/ (accessed 10 April 2025).

[3] ‘Survey of Consumers’, *University of Michigan* (March 2025), http://www.sca.isr.umich.edu/ (accessed 18 March 2025).

[4] ‘Consumer Checkpoint: Will rising food prices eat into spending?’, *Bank of America Institute* (11 March 2025), https://institute.bankofamerica.com/content/dam/economic-insights/consumer-checkpoint-march-2025.pdf (accessed 12 March 2025).

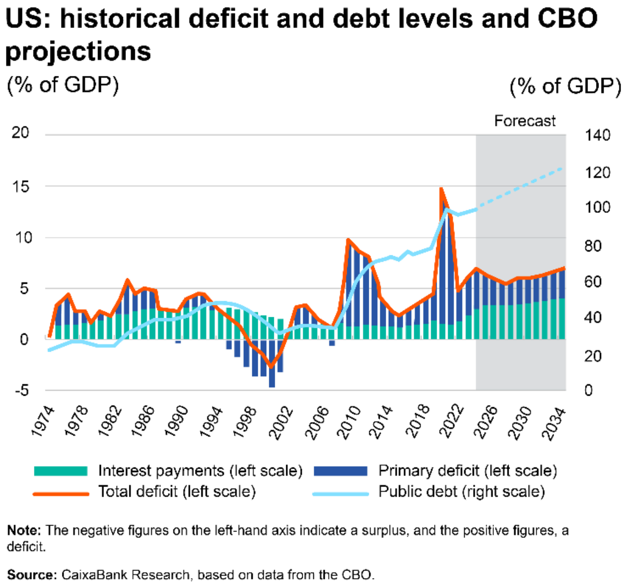
A major driver of the labour market has been the public sector which has seen jobs growth outpacing the private sector since 2023, a pattern not seen since the Global Financial Crisis. The persistence of this trend now appears questionable given the cost-cutting efforts across the public sector driven by the Elon Musk-led Department of Government Efficiency (DOGE). These efforts could contribute to a growth slowdown in the US if they contribute to a withdrawal of government spending in aggregate.

US non-farm payroll growth by sector (Feb-05 to Feb-25)



Source: Bloomberg.

Fiscal policy may also exacerbate this trend. The latest Republican Budget proposals outline a notable increase in deficit spending, driven by regressive policies with tax cuts skewed towards richer taxpayers and major corporations, offset partially by cutbacks in healthcare and social welfare spending for the poorest Americans. This would, in the near term, contribute to weaker household spending, given the saving propensity of richer households, as well as a potential fall in investment intentions by corporations faced with a weaker demand environment.



Source: Caixa Bank Research[5].

[5] I. L. White, 'Measuring Trump 2.0's fiscal room for manoeuvre', *Caixa Bank* (14 February 2025), https://www.caixabankresearch.com/en/economics-markets/public-sector/measuring-trump-20s-fiscal-room-manoeuvre, (accessed 12 March 2025).

In terms of monetary policy, the Federal Reserve ("The Fed") is struggling to grapple with the impact of policy change under the new presidential administration. In its March meeting members flagged increased concerns with higher levels of inflation but appeared to maintain their outlook for some interest rate cuts over the next two years[6]. Complicating their mission to reduce inflation to the2% target level, is the stubbornness of current prices. The Fed's preferred metric, Core PCE, has remained persistently above 2.6% since May last year. With the cost of many imported products set to rise, we anticipate that the Fed may pause for some months to assess the overall impact on the economy before any further cuts are made.

Equally, we believe that the Fed will step in to support the economy if labour market conditions deteriorate meaningfully.

Overall, the outlook has deteriorated. Growing fears of recession have been triggered by the imposition of tariffs, cuts to public sector spending, and core inflation remaining stubbornly elevated. Yet these policies that detract from growth must be weighed in aggregate against other pro-growth policy settings that remain unchanged. On balance, we do not believe there is sufficient weakness to justify recession concerns. Consumer spending has remained resilient despite softer survey data and both the jobs market as well as corporate earnings all point towards an economy in still good health. It will take time for the full implications of Trump Administration policies to feed into economic data and we believe there are still sufficient positive factors to head off recession risk.

Eurozone

The isolation policy shift under the Trump Administration including withdrawing aid and intelligence support for Ukraine has triggered a meaningful response amongst European countries. In acknowledging the threat posed by Russian aggression and the newfound unreliability of the US under President Trump, European policymakers have committed to a new "REARM Europe" plan[7]. An additional €800bn is expected to be spent on defence and security needs over the next four years. A critical part of the shift involves loosening EU budget rules to exempt defence spending of up to 1.5% of GDP from debt calculations. These measures aim to improve the quality of Europe's militaries as well as defence sector production capacity and draw a path towards increased independence from the US which has openly courted Russia diplomatically and cast serious doubt on its future reliability as an ally[8]. The efforts should help boost not only defence spending but also broader economic expansion over the medium term after a prolonged period of fiscal restraint has impeded growth in the region.

This is already evident in Germany where the incoming government of Chancellor Merz has helped modify the country's constitutionally mandated debt brake, a rule that restricted federal deficits to 0.35% of GDP[9]. Going forward defence spending above 1% of GDP will be exempted from these constraints as will be infrastructure and climate-related spending while German states also receive additional room for fiscal spending after previously being required to balance their budgets[10].

These changes might unlock approximately 1.5% of additional government spending within Germany which would boost Euro Area growth by up to 0.4% p.a. over 2025 to 2026.

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[6] 'Summary of Economic Projections', *Federal Reserve* (19 March 2025), https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250319.pdf, (accessed 20 March 2025).

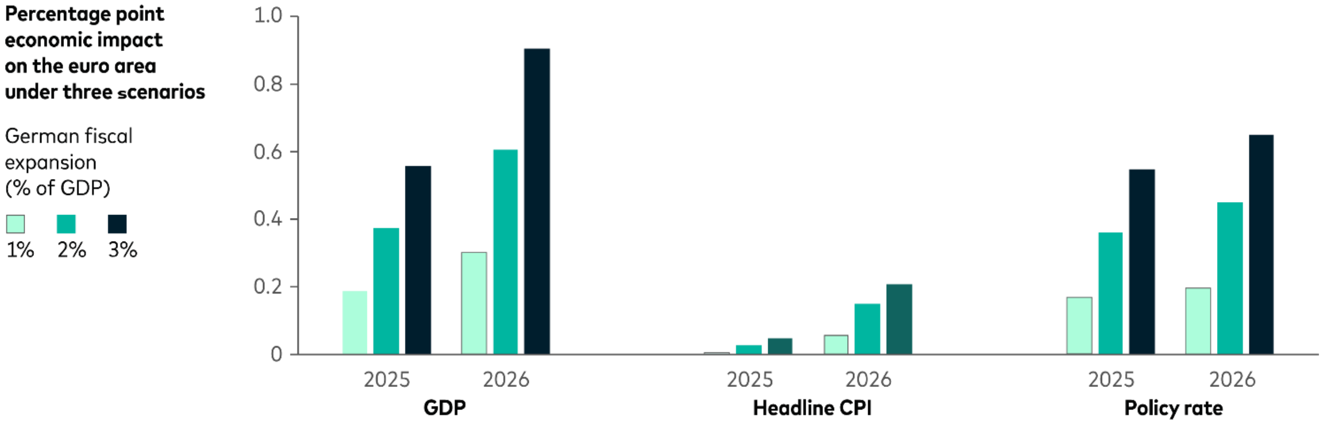
[7] P. Soler, 'How can the EU unlock up to €800bn for its 'rearmament plan'?', *euronews* (5 March 2025), https://www.euronews.com/my-europe/2025/03/05/how-can-the-eu-unlock-up-to-800bn-for-its-rearmament-plan, (accessed 15 March 2025).

[8] N. Smith, 'Why America betrayed Europe', *Noahpinion* (12 March 2025), https://www.noahpinion.blog/p/why-america-betrayed-europe, (accessed 15 March 2025).

[9] "S. Kinkartz, 'What is Germany's debt brake?', *DW* (5 March 2025), https://www.dw.com/en/what-is-germanys-debt-brake/a-67587332, (accessed 10 March 2025).

[10] P. Sigl-Gloeckner, 'Germany has traded austerity for a mess', *Foreign Policy* (21 March 2025), https://foreignpolicy.com/2025/03/21/germany-debt-brake-austerity-rules-confusion/, (accessed 22 March 2025).

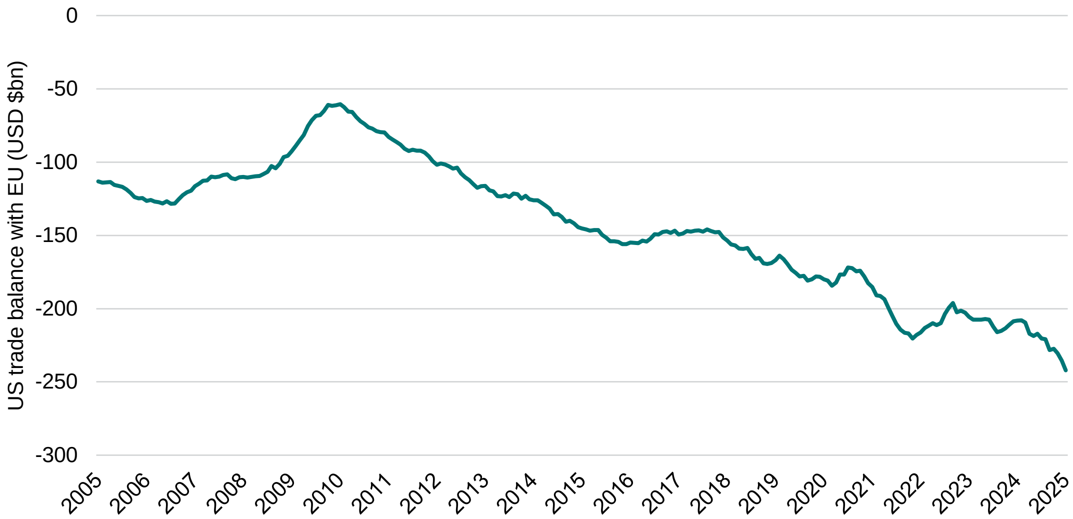
Impact of Germany increasing budget deficit on Euro Area



Source: Vanguard[11].

These efforts by Eurozone economies to meet geopolitical challenges are also exacerbated by Trump Administration tariff escalation announced on “Liberation Day.” Europe is alarmingly exposed to the impact of tariff hikes with the regional bloc running an annual trade surplus of almost US$250bn and auto exports (with looming 25% tariffs) a key component.

US trade balance with EU - rolling annual total (Jan-05 to Jan-25)



Whilst the proposed increase in government spending will provide an important offset, it will take time for this to scale sufficiently. Tariffs by contrast, could have an immediate negative impact and could worsen if retaliatory measures are undertaken. As a result, the European Central Bank have revised down growth forecasts for 2025 from 1.1% to 0.9%, suggesting that the boost to growth from increased defence spending will be more than offset by the tariff war. Inflation is forecast to be below the 2.5% level over the next three years, providing room for the ECB to cut rates and provide more support to the broader economy if needed.

China

China entered 2025 on shaky foundations. A weak domestic demand backdrop had prompted a “doubling down” of the country’s export-led growth model. That helped the country reach its 5% growth target in 2024 but also prompted a global backlash on accusations of China dumping excess production of steel and electric vehicles on global markets.

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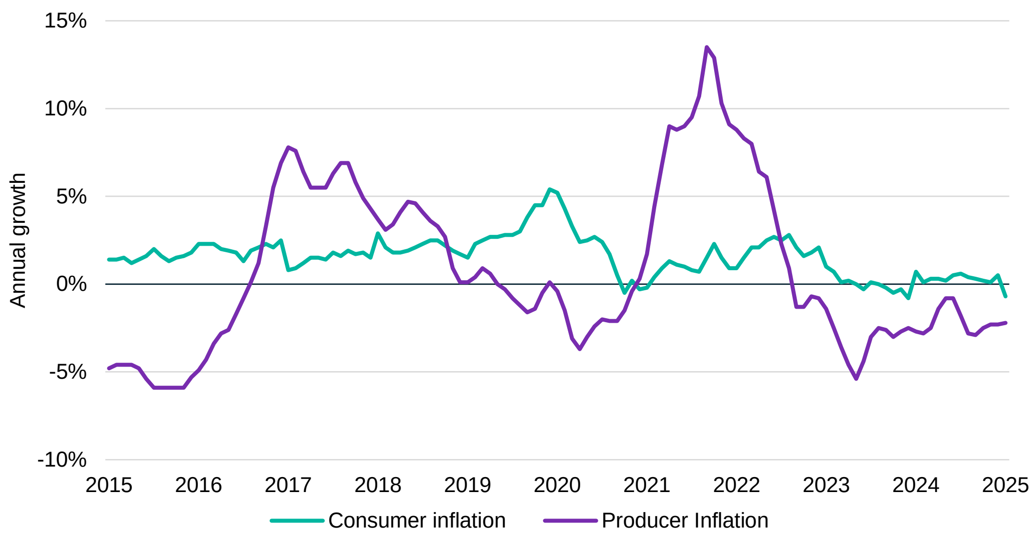
[11] ‘What Germany’s fiscal shakeup means for markets’, *Vanguard* (20 March 2025), https://corporate.vanguard.com/content/corporatesite/us/en/corp/vemo/what-germany-fiscal-shakeup-means-markets.html, (accessed 22 March 2025).

It is no surprise that overproduction has been a potent deflationary force on the Chinese economy as evidenced by both producer and consumer prices. This signals that the country still has a domestic demand deficit relative to its productive capacity and must necessarily rely on offshore markets from regions such as the US to compensate.

China inflation measures (Mar-20 to Feb-25)

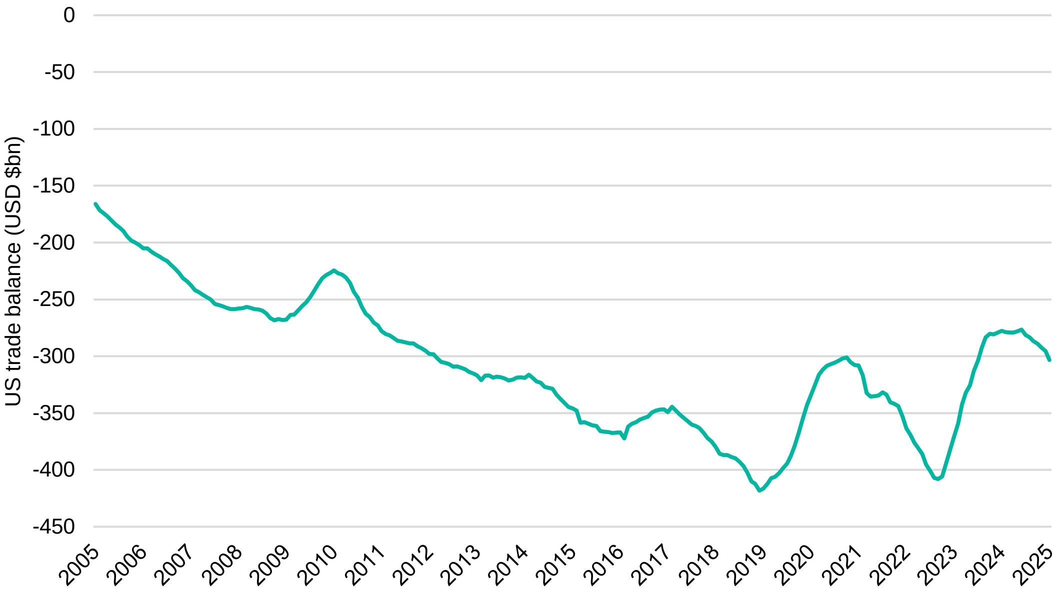


Source: Bloomberg.

Chinese authorities are aware of this dynamic but have lacked the wherewithal to support consumer spending until recent years. There are signs, though, that this is beginning to change. The finance ministry has raised a record US$200bn in bond issuance, triple the amount for the March quarter last year and has flagged a more stimulatory budget deficit target of 4%, its highest level in over 30 years. In addition, there are a range of measures designed to encourage more household spending. These include efforts to grow wages, establish a childcare subsidy scheme and bolster workers' rights as well as easing restrictions on tourism. There is still much detail to be worked out but the government's commitment to these policies is an encouraging sign that the government is aware that it needs to transition away from the investment-led growth model that is delivering diminishing returns. Some of last year's measures have undoubtedly shown success such as the consumer trade-in programme which spurred increased home appliance sales. This helped retail sales rise 4% over the January-February period in 2025 relative to last year.

The looming risk for China lies with the Trump administration's aggressive tariff stance. Since becoming President, he has already levied 20% tariffs against Chinese goods with a further 34% incoming post the 2 April announcements.. China given its weaker domestic demand backdrop is particularly vulnerable to these measures given the scale of its trade surplus with the US, as shown on the next page.

US trade balance with China – rolling annual total (Jan-05 to Jan-25)



Source: Bloomberg

After tariffs were imposed during Trump's first administration, China became more adept at diverting trade via other countries, notably Vietnam and Mexico. This path is becoming increasingly challenged given the spread of tariff coverage to include countries such as Vietnam which had previously escaped. The government's focus on stimulus efforts is only going to become more critical in the months ahead to counter the challenges of the trade war. To date the retaliation against the US has been targeted to specific sectors such as agriculture, representing a repeat of the experience in the first Trump term.

There is also scope for optimism on the AI front in China itself. DeepSeek, a new Chinese-developed AI model has taken the world by storm with its high-quality features developed at a fraction of the cost of competing models developed by American firms. It also presaged a slew of other Chinese AI model launches by tech giants such as Alibaba and Baidu that offer competitive alternatives to Western solutions such as OpenAI or Meta's Llama. Efforts to freeze China out of top-tier chips and semiconductors have only been partially successful and the stage appears set for a range of competitive options available to both businesses and consumers going forward with more launches expected in the near term. While it is still early into AI innovation, there does appear the prospect of two meaningful ecosystems emerging centred on both China and the US, that will be leveraged by households and consumers around the world in time.

China starts 2025 in a mixed position. The tariff threats by the Trump administration pose a near-term threat to its economic model with challenges to divert trade elsewhere given the scale of the US as a trading partner. There will likely be greater pressure on the government to support the economy through this period with signs of accelerating stimulus appearing a recognition of this reality. There is also scope for optimism with developments in AI highlighting China's potential for innovation and investment.

Conclusion

The Trump Administration has started its term in highly controversial terms, with its unconventional approach to trade and foreign policy, as well as its radical internal reforms. These have the potential to materially reshape global alliances and trade patterns. They come at a time of strength for the US economy which should continue to grow, albeit at a slower pace in 2025 given the self-inflicted headwinds being imposed. Both China and Europe are exposed to the escalation in trade tensions and the capacity for government intervention will be key in preserving their respective economies. There are signs of this emerging with higher deficit spending in the near and medium term. We still see global growth as positive albeit hampered by increased trade barriers. Inflation remains a lurking concern, particularly in the US as a side effect of tariffs though this may be offset by the economic headwinds already underway.

Part 2: Key economic indicators

United States

Economic snapshot	Last reported result	Date	2025e	2026e
Growth (GDP)	2.50%	Dec-24	1.94%	1.90%
Inflation	2.80%	Feb-25	2.99%	2.61%
Interest rates	4.37%	Mar-25	4.05%	3.65%
Unemployment rate	4.10%	Feb-25	4.26%	4.30%
Composite PMI	53.5	Mar-25		

Eurozone

Economic snapshot	Last reported result	Date	2025e	2026e
Growth (GDP)	1.20%	Dec-24	0.90%	1.20%
Inflation	2.30%	Feb-25	2.20%	1.95%
Interest rates	2.50%	Mar-25	2.15%	2.15%
Unemployment rate	6.20%	Jan-25	6.40%	6.40%
Composite PMI	50.4	Mar-25		

China

Economic snapshot	Last reported result	Date	2025e	2026e
Growth (GDP)	5.40%	Dec-24	4.50%	4.20%
Inflation	-0.70%	Feb-25	0.60%	1.20%
Interest rates	2.19%	Mar-25	1.49%	1.46%
Unemployment rate	5.40%	Feb-25	5.10%	5.10%
Composite PMI	51.5	Feb-25		

Japan

Economic snapshot	Last reported result	Date	2025e	2026e
Growth (GDP)	1.10%	Dec-24	1.20%	0.90%
Inflation	3.70%	Feb-25	2.60%	1.90%
Interest rates	0.50%	Mar-25	0.90%	1.00%

Economic snapshot	Last reported result	Date	2025e	2026e
Unemployment rate	2.50%	Dec-24	2.40%	2.40%
Composite PMI	48.5	Mar-25		

Source: Bloomberg.

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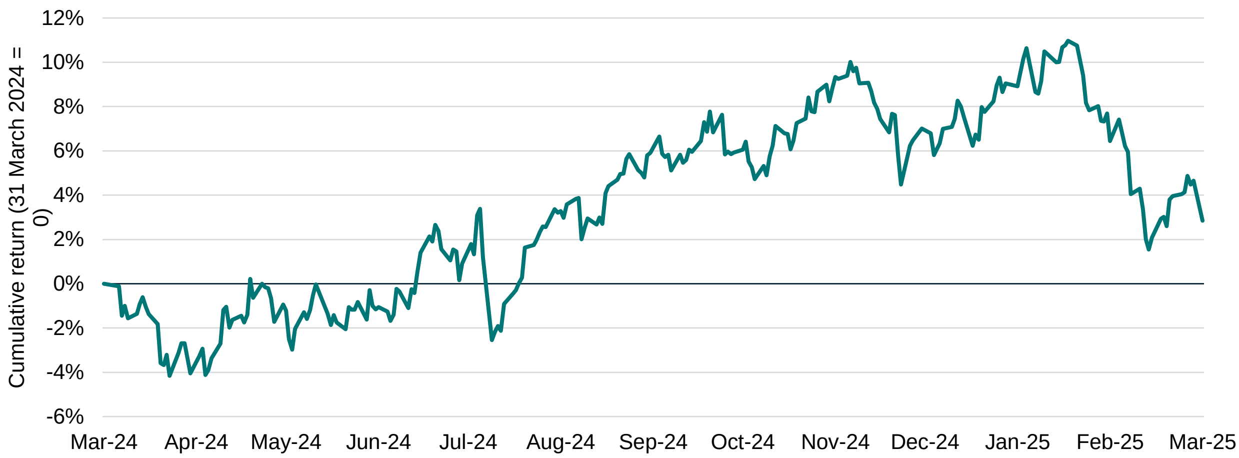
Australian equities

Overview

The Australian market was down slightly in the three months to 31 March, declining 2.7%. For the year to 31 March the market rose 2.9%. This continued to be driven by strength in the banking sector up 18.7% over this period in contrast to the other index heavyweight, the materials sector, which declined by 7.4%.

S&P/ASX 200 Accumulation Index total return (Mar-24 to Mar-25)



Source: Bloomberg.

Outlook

Recommendation: *Retain underweight.*

The Australian economy is set to accelerate in 2025 underpinned by a strong labour market and recovery in consumer spending. Resilient population growth backstopped by high migration will also be a strong driver for volume-linked sectors ranging from staples to retail whilst Chinese efforts to stimulate their own economy should support our resources sector. There are risks with US attempts to reshape global trade the prime example. Fortunately, Australia is relatively isolated from these risks outside of a handful of industries and, looking forward, more reasonable valuations should support stronger returns over the medium term. On balance we considered upgrading our recommendation from underweight to neutral but there remains too much uncertainty regarding the impact of tariffs on the global outlook to turn overly constructive just yet. Consequently, we retain our underweight positioning.

Table 1: S&P/ASX 200 valuation metrics as at 31 March 2025

Metric	Latest	Long-term average	Price move to revert to long-term average
1-year Forward P/E ratio	16.1x	14.4x	**-10.6%**
Average 2 and 3-year forward P/E ratio	14.9x	13.3x	**-10.4%**
1-year Forward Dividend Yield	3.7%	4.4%	**-17.2%**
1-year Forward Price to Cashflow ratio	10.9x	10.0x	**-8.1%**
Price to Book ratio	2.2x	2.1x	**-5.0%**

Source: Bloomberg.

NB: Dividend Yield price move calculated after converting yield into Price to Dividend ratios.

Sector view

After outperforming in 2024, previous highflyers in the banking and technology sectors lagged the broader market over the March quarter. Notwithstanding relative outperformance, the resource sector continues to look attractive on a valuation basis whilst the spillover of AI concerns saw the A-REIT sector underperform with Goodman Group down over 13%. The sector appears reasonable on a valuation perspective after allowing for Goodman's stronger growth profile.

The major banks continue to trade at excessive valuations with Commonwealth Bank the most glaring example whilst ANZ is now in line with longer-term averages and, Westpac and NAB sit in between these two extremes. On balance it remains uninvestible on valuation grounds alone. The prospects for the retail sector need to factor the material changes in heavyweight Wesfarmers. The improvement in business quality with Bunnings and more recently Kmart becoming a greater proportion of earnings justify a higher multiple than long-term averages might otherwise convey with their leading returns on capital and growth rates respectively.

On balance the banks remain the most egregious example of over-valuation whilst nuances and outright cheapness have helped make the broader market more attractive.

Table 2: S&P/ASX 200 Sector Forward Price-Earnings Ratios as at 31 March 2025

Sector	Forward PE Ratio	Long-term average	Price move to revert to long-term average
Banks	16.6x	12.6x	**-23.6%**
Resources	11.9x	12.6x	**+6.0%**
Retail	24.0x	17.0x	**-29.1%**
A-REITs	15.7x	14.5x	**-7.2%**
A-REITs excluding GMG	13.5x	13.9x	**+3.4%**

Source: Bloomberg.

Banks

Recommendation: *Retain underweight*.

National Australia Bank (NAB) helped trigger a selloff amongst banking majors with its quarterly update highlighting rising loan arrears as well as a related decline in profits. Westpac also saw a decline in profitability. These factors helped trigger investor fears about the sector outlook after a year of sizeable valuation expansion.

Looking forward, sector share prices continue to imply lofty expectations with Commonwealth Bank the clearest example as it trades at multiples more akin to a growth stock. Sector profitability is expected to be challenged by weaker net interest margins if the RBA follows its expected path of additional rate cuts by year-end. In addition consensus anticipates limited uplift from cost cutting initiatives in the near-term.

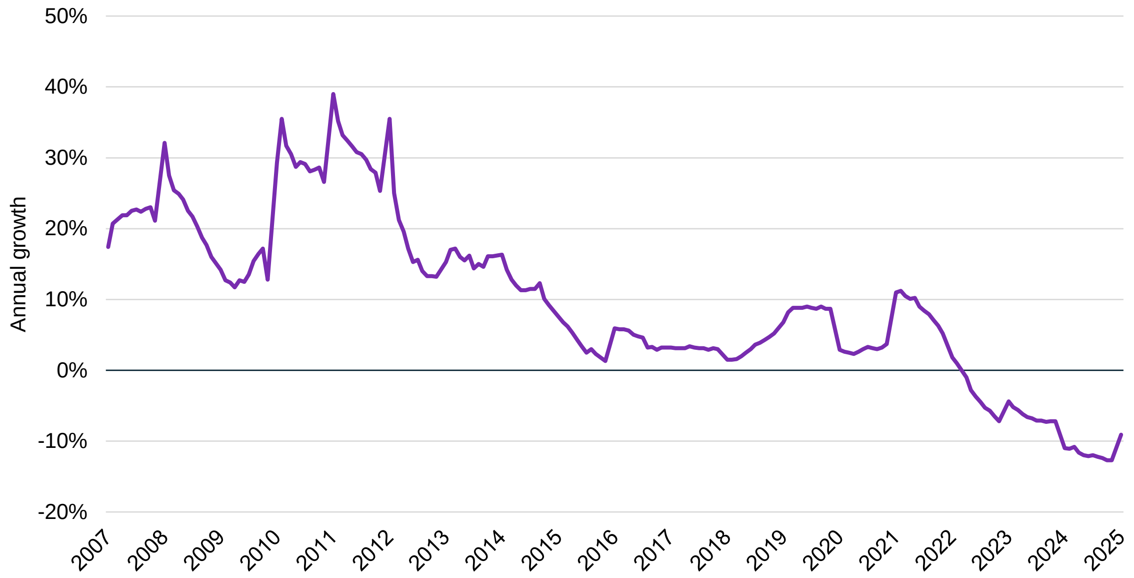
If we take stock of these factors, it is hard to make an optimistic case for the sector. Credit quality has remained strong on balance as one positive factor and lower interest rates may support loan growth as well. These factors are outweighed, however, by excessive valuations as well as the subdued outlook. The sharpness of the share price decline we saw in February highlights just how sensitive this handful of stocks can be to disappointing news. We believe risks remain skewed to the downside and continue to recommend underweight exposure.

Resources

Recommendation: *Upgrade to neutral*.

Any outlook for resource stocks must begin with China. There we still see a languishing property sector with new construction remaining in the doldrums and struggling to inflect higher as shown below.

Floor space under construction – Annual growth (Feb-07 to Feb-25)



Source: Bloomberg.

There is, however, scope for optimism. Chinese authorities have flagged a commitment to reinvigorating consumer spending as part of a broader shift to be less reliant on export-led growth[12]. This includes an increase in the nation's budget deficit to 4%, its highest in several decade, efforts to boost both wage growth and social benefits and a doubling in size of the country's consumer-trade in programme[13] which had helped boost retail sales in 2024.

In addition, another source of demand lies in countries outside of China and there we have seen signs of stabilisation[14] with more to come potentially given the new fiscal outlook for Europe. Global industrial production is also expected to improve particularly in Japan and Europe which should support steel demand and with it, iron ore prices.

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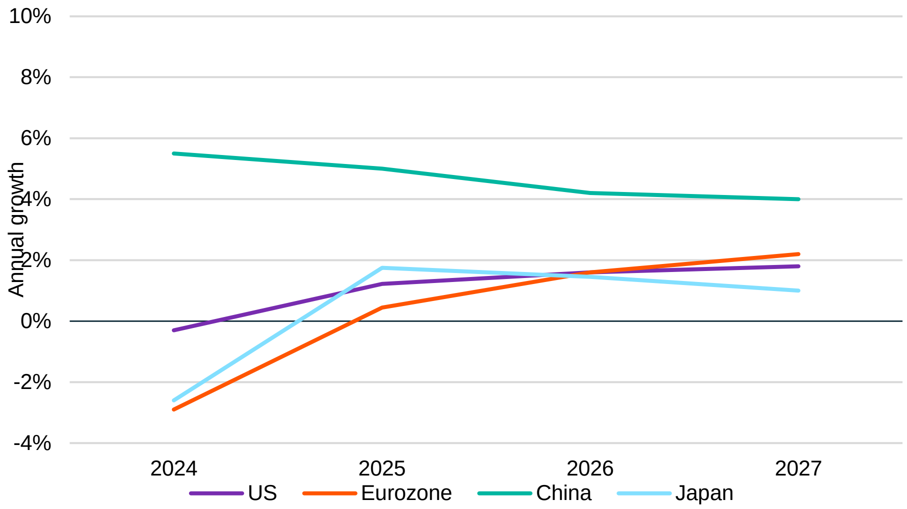
[12] H. Davidson, 'China plans to 'vigorously boost consumption' to shore up economy', *The Guardian* (17 March 2025), https://www.theguardian.com/business/2025/mar/17/china-consumption-economy-trump-tariffs, (accessed 20 March 2025).

[13] J. Richardson, 'China stimulus: Short-term benefits versus long-term challenges', *ICIS* (21 March 2025), https://www.icis.com/asian-chemical-connections/2025/03/china-stimulus-short-term-benefits-versus-long-term-challenges/, (accessed 21 March 2025).

[14] 'S&P Global Steel Users PMI', *S&P Global* (7 March 2025), https://www.pmi.spglobal.com/Public/Home/PressRelease/aeacd38d582a4003adba79da031cdc6f, (accessed 8 March 2025).

Global industrial production forecasts (2024-2027)



Source: Bloomberg.

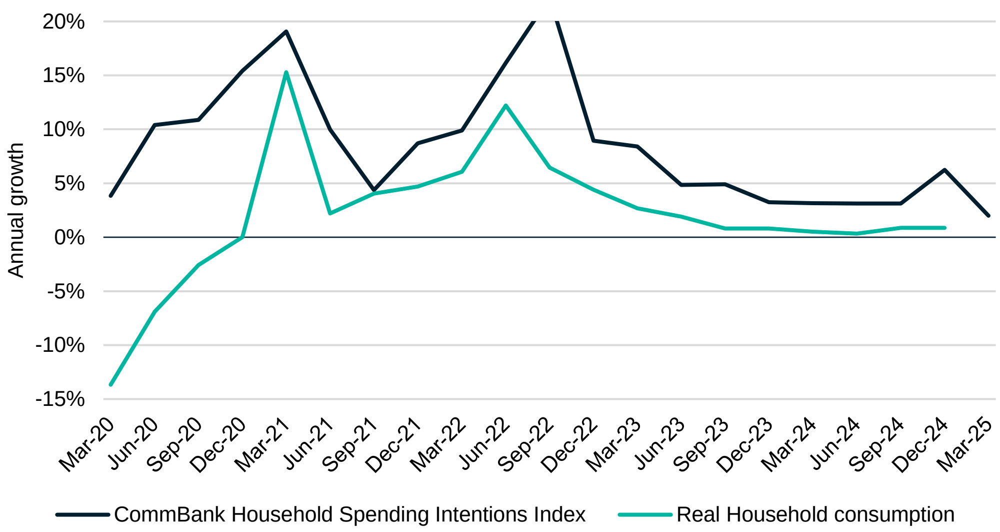
Sector valuations have become more attractive, trading below long term averages whilst still maintaining reasonable shareholder returns with attractive income generation. Taken together we believe there is a case for moving towards a more neutral positioning with signs of bottoming activity within China as well as cause for optimism elsewhere in the world. The uncertain tariff outlook and ongoing geopolitical concerns remain potential risk factors. On balance, we recommend upgrading our recommendation to neutral.

Retail

Recommendation: *Upgrade to neutral*.

Consumer challenges remain embedded. A greater share of the “household wallet” has remained concentrated in necessities such as rent, healthcare and insurance, all of which detract from spending on more discretionary goods and services. The CommBank HSI, a survey of credit card usage by CBA customers, points towards a slowdown in spending to start 2025. This follows a strong December quarter where substantial promotional activity and discounting by retailers helped drive a pickup in goods spending to end the year.

Real household spending versus CommBank HIS (Mar-20 to Mar-25)



Source: Bloomberg.

Sector valuations remain problematic with heavyweights such as Wesfarmers and JB Hi-Fi trading at or near record high multiples. The RBA has provided some ballast to the sector via an initial rate cut with more potentially in the offing. This has seen a meaningful uptick in consumer confidence which should support more spending by households. Finally, population growth remains resilient at ~2% p.a. with the government walking back its net overseas migration forecasts and still expecting over 200,000 p.a. in net migrants out to FY27[15]. The introduction of additional tax cuts at the lowest tax bracket, an initiative in the latest Federal Budget, will also be supportive for household spending and should help drive it higher. These are important factors that should drive household demand in aggregate and underpin spending for the sector from a volume perspective.

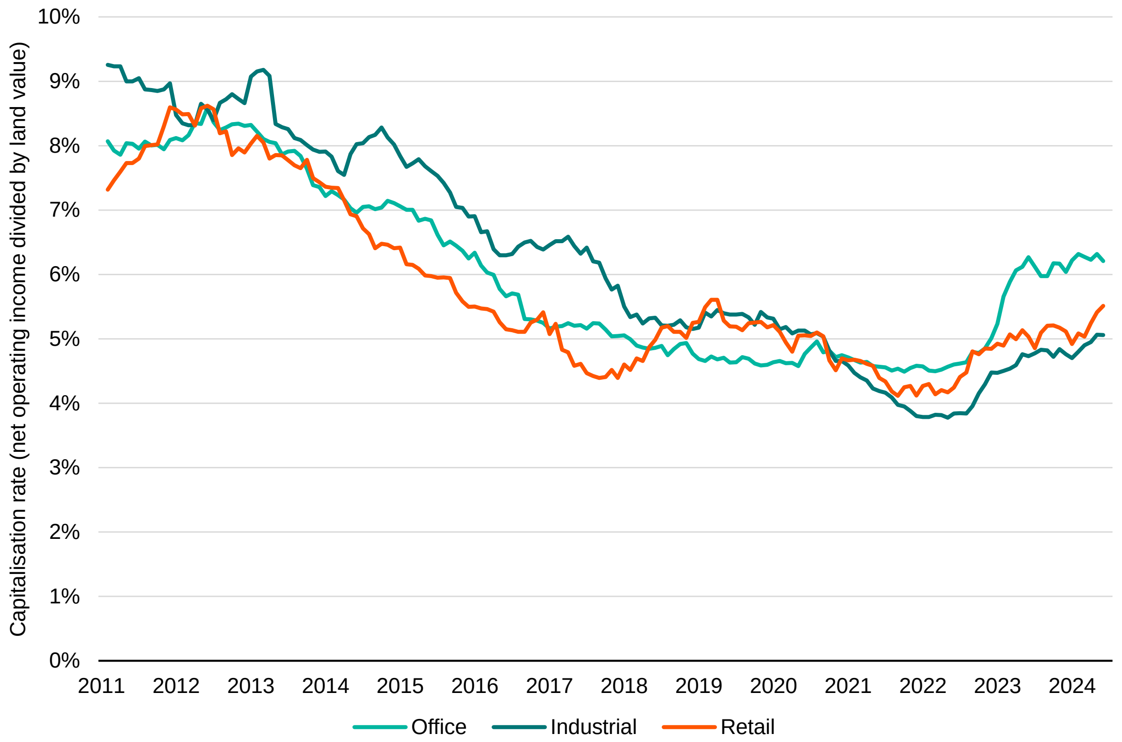
While we retain caution given valuations on select names, the prospect of additional rate cuts coupled with still strong population growth should support the near-term outlook for the retail sector and accordingly we move to neutral positioning.

Australian Real Estate Investment Trusts (AREITs)

Recommendation: *Retain neutral positioning.*

The listed property sector continues to show signs of stabilisation with office capitalisation rates (cap rates) remaining broadly stable. Cap rates have expanded for industrial and retail assets and now sit in line with pre-pandemic levels.

A-REIT sector capitalisation rates (Aug-11 to Feb-25)

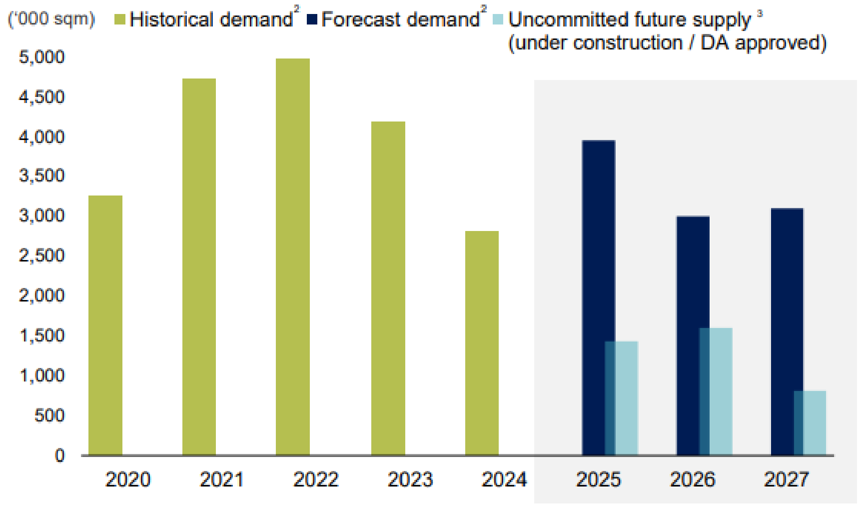


Source: Bloomberg.

Despite a recent expansion in capitalisation rates, industrial assets continue to benefit from a mix of drivers including population growth and supply constraints in major capital markets. Demand for quality assets is expected to exceed supply for at least the next few years, as highlighted below. Rental growth too has helped underpin asset valuations. Going forward whilst the supply-demand imbalances persist and population growth remains strong, we would expect industrial assets to continue performing well. We do note however that these can be economically sensitive so a downturn could trigger more material price weakness.

[15] 'Budget 2025-26: Building Australia's Future', *Commonwealth Treasury* (March 2025), https://budget.gov.au/content/overview/download/budget-overview.pdf, (accessed 20 March 2025).

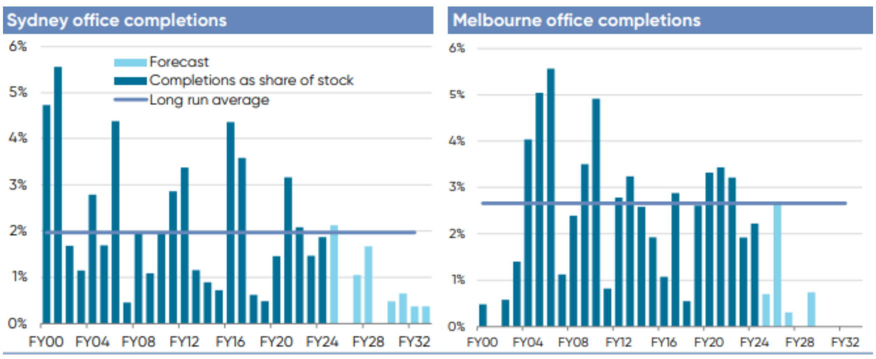
Anticipated supply and demand for industrial real estate



Source: Centuria Industrial REIT HY25 results presentation[16]

The outlook for the office sector has begun to gradually improve with the economy near full employment and as work from home policies lose momentum. Incoming supply is expected to be subdued and well below that seen in the last 5 years which should gradually see a tighter market emerge particularly with improving net absorption being seen in Sydney. Sublease vacancies tightened considerably in 2024 and are nearly at pre-pandemic levels in Sydney as well with Melbourne even closer to normalisation.

Sydney and Melbourne office completions – historical and forecast (FY2000 to FY2032)



Source: Dexus HY25 Investor presentation[17]

This market dynamic should ensure that the worst of the downturn in office is largely complete. Going forward there is scope for optimism particularly with valuations more subdued versus other property subsectors.

Lastly, the outlook for retail assets remains encouraging. In 2024 a steady improvement in foot traffic (2.7% growth according to Westfield operator Scentre Group[18]) helped sector heavyweights Scentre Group and Vicinity Centres, record increases in underlying funds from operations (a profitability measure) of over 3%. This also translated into distribution growth for both businesses in contrast to lower income generation elsewhere in the listed property sector. Population growth of ~2% per annum in 2024[19] continues to be an important support for revenue growth in the sector in aggregate. Management across the sector flag an

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[16] 'CIP HY25 Results Presentation', *Centuria Industrial REIT (CIP)* (25 February 2025), https://centuria.com.au/industrial-reit/investor-centre/, (accessed 27 February 2025).

[17] As above.

[18] 'Scentre Group 2024 Full Year Results', *Scentre Group* (26 February 2025), https://assets.ctfassets.net/0vreywxqlgab/1eBjH5eIdEdZhbhVVdiIFO/bb4eabb6f5991cf098a0200173349cc1/2024_Full_Year_Announcement_and_Presentation.pdf, (accessed 27 February 2025).

[19] 'Australian National Accounts: National Income, Expenditure and Product', *Australian Bureau of Statistics* (5 March 2025), https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release#data-downloads, (accessed 7 March 2025).

expectation that recent, positive trends in growth will continue into 2025. At this juncture there are few reasons to doubt this perspective given the ability to drive of traffic for both goods and services and the near certainty of population growth given still elevated migration levels.

On balance all three major sectors have scope for optimism given the underlying fundamentals. Aside from Goodman Group, valuations in the sector, on balance, are reasonably attractive. The prospect of further easing by the RBA should be supportive of valuations as well as reducing financing costs. We considered moving to overweight but given that Goodman Group is the largest index constituent, we believe a prudent stance is to retain our neutral positioning.

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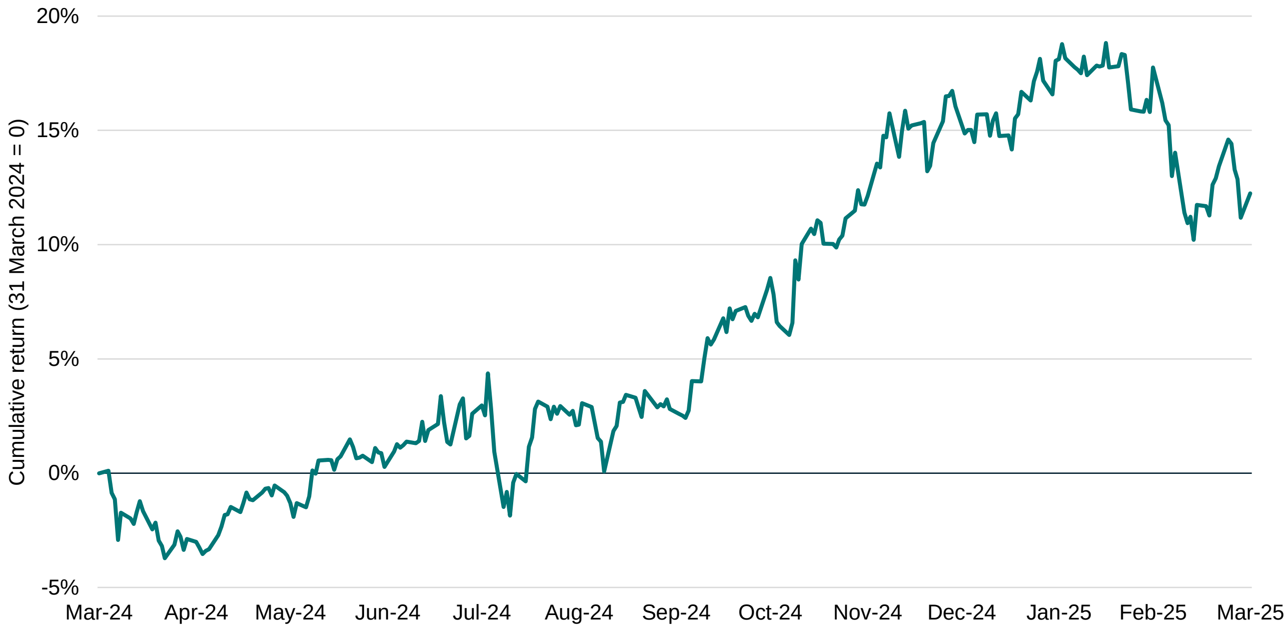
International equities

Overview

Global share markets gave up most of their December quarter gains, falling 2.4% in the three months to 31 March and are up 12.2% for the year to 31 March. The quarterly move was marginally softened by a falling Australian Dollar (AUD) with the hedged global market benchmark declining 2.6% for the three months to 31 March.

MSCI World ex Australia Net Total Return (Mar-24 to Mar-25)



Source: Bloomberg.

Outlook

Volatility shook global equity markets during the March quarter. The prevailing narratives of US exceptionalism, that the US economy would continue to outpace other major countries, coupled with Artificial Intelligence (AI) optimism, were called into question. A new Chinese AI model, DeepSeek, raised questions about the dominance of US firms in AI as well as whether end-demand forecasts for data centres, microchips and the like would need to be tempered. Meanwhile, a raft of controversial policy initiatives enacted under the Trump Administration raised fears about a possible US recession. Both factors helped to drive a selloff, led by US tech majors and other, frothier market segments. This was a US-specific phenomenon however with share markets across Europe, China and Japan all enjoying positive returns by contrast. With further tariff escalation expected in early April, uncertainty on global markets looks set to continue. Higher taxes on US consumers (what more tariffs effectively represent) as well as reduced government support in the form of healthcare cuts are usually negative for the economy. These must be balanced against growth friendly policies such as corporate tax cuts and tax relief skewed to richer Americans[20]. The tariff stance also has global implications for countries reliant on US trade. Both China and Europe rely heavily on the US consumer to purchase exported products to supplement weak domestic demand. Exporters to the US now face the prospect of lower demand due to higher prices, or lower margins where tariffs are absorbed. A loss-loss situation. This is the reality facing these economic blocs and government support will be vital as an offset.

[20] G. Graziosi, 'New analysis says Trump budget plan will take from poorest 40 percent to give to the wealthy', *The Independent* (20 March 2025), https://www.independent.co.uk/news/world/americas/us-politics/trump-budget-analysis-take-from-poor-b2718333.html, (accessed 24 March 2025).

The forecasted increase in government spending in Europe and, to a lesser extent, in China, is fortuitous. A commitment to larger deficits for defence purposes in the former, and consumer support in the latter, should provide meaningful boosts to economic growth over the medium term. This is especially true in Europe where Germany has lagged other developed nations on public investment spending for decades. Central Banks in both Europe and China are also able to add further stimulus via rate cuts if needed.

On balance, whilst valuations now present as more reasonable we think the full ramifications of the Trump Administration policies have altered the outlook for the worse. Whilst we still believe policy support should head off recession concerns the full scope of damage from the April tariff announcements is highly uncertain. It is difficult in the face of such unprecedent policy changes to have conviction in positive scenarios going forward. Accordingly we believe it is prudent to maintain our positioning as underweight global equities until we have greater clarity at this juncture.

Valuations

The US accounts for 74.15% of the value in developed markets[21], and, even after including emerging markets it still represents most of global market value at 66.75%[22]. US valuation expansion has retreated following weakness in technology names especially. Based on 2025 consensus earnings, valuations in the US are 18% above their longer-term averages. When assuming earnings growth of 11.2% p.a. in 2026 and 2027, then valuations are neutral at 2027 levels, an improvement on overvaluation at 31 December.

2025 calendar year forecast	**EPS earnings estimates (US$)**	**S&P 500 fair value estimate**	**Upside/(downside) S&P 500 = 5612**
Consensus	269.9	4588.3	**-18.2%**
If 10% below	242.9	4129.5	**-26.4%**
If 10% above	296.9	5047.1	**-10.1%**
2026 calendar year forecast	**EPS earnings estimates (US$)**	**S&P 500 fair value estimate**	**Upside/(downside) S&P 500 = 5612**
Consensus	304.2	5170.9	**-7.9%**
If 10% below	273.8	4653.8	**-17.1%**
If 10% above	334.6	5688.0	**+1.4%**
2027 calendar year forecast	**EPS earnings estimates (US$)**	**S&P 500 fair value estimate**	**Upside/(downside) S&P 500 = 5612**
Consensus	333.7	5673.2	**+1.1%**
If 10% below	300.3	5105.9	**-9.0%**
If 10% above	367.1	6240.6	**+11.2%**

Source: Bloomberg, PPSPW calculations.

The US market has attractive prospects over the medium term if consensus expectations are met (or exceeded) which would see the market trade in line with long-run averages. This is despite arguably warranting a higher multiple due to the improvement in business profitability versus history.

[21] 'MSCI World ex Australia Index (AUD)', *MSCI* (28 February 2025), https://www.msci.com/documents/10199/c27eeea3-ad05-4944-bef4-fbaef9ef34ec, (1 March 2025).

[22] 'MSCI ACWI ex Australia Index (AUD)', *MSCI*, (28 February 2025), https://www.msci.com/documents/10199/0f8162fc-490b-4a00-9f1b-61d6e33cbd75, (1 March 2025).

China is the next-most expensive major market versus history following their 17% rally over the quarter. Other markets, both developed and emerging, are trading at more modest premiums or even discounts to their 15-year average. The All-Country World Index (excluding the US) includes both developed and emerging market countries and is trading at a 2% premium to its 15-year average. The risk-return backdrop continues to be skewed more favourably in these markets given increasingly lofty growth expectations in the US (and pricing to match). It supports at least some diversification away from the US at a minimum.

Region	Forward PE	15-year Average Forward PE	Potential upside/downside
All Country World (ex-US)	12.9x	12.6x	**-2.0%**
Australia	16.1x	14.8x	**-8.6%**
Europe	13.0x	13.1x	**+1.1%**
Emerging markets	11.1x	10.9x	**-1.2%**
Japan	13.6x	13.9x	**+1.8%**
UK	11.3x	12.0x	**+6.0%**
China	10.5x	10.3x	**-1.2%**

Source: Bloomberg.

Conclusion

Recommendation: *Retain underweight positioning*.

Although we think the pace of growth in the US will slow as a result of President Trump's hard line on tariffs, fears of a recession currently look overblown. Economic activity indicators remain solid as do earnings growth expectations. US corporates have enjoyed strong productivity growth, which has helped lower wage costs per unit and boost profit margins in recent years. It would be unusual for the US economy to slide into recession while profit margins are still rising and when earnings growth expectations are still well above trend. Furthermore, despite consumer sentiment turning bearish, US household balance sheets remain in good shape and private sector redundancies remain low.

Meanwhile, growth in Europe has been supported by a reinvigoration of fiscal policy to counter the impact of tariffs as well as boost defence to protect against Russian aggression. This backdrop, coupled with a Chinese government targeting consumer spending support and central bank intervention.

Valuations have also become more reasonable following the correction in US markets, particularly technology stocks. Nevertheless, the outlook may well deteriorate if uncertainty and further policy mistakes persist. This could be exacerbated by the negative wealth effect – where households feel less wealthy if asset prices (particularly share prices) keep falling - and curb consumption further. Given the elevated uncertainty surrounding the impact of global trade on corporate profits, we retain an underweight position in the short term until further clarity emerges.

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