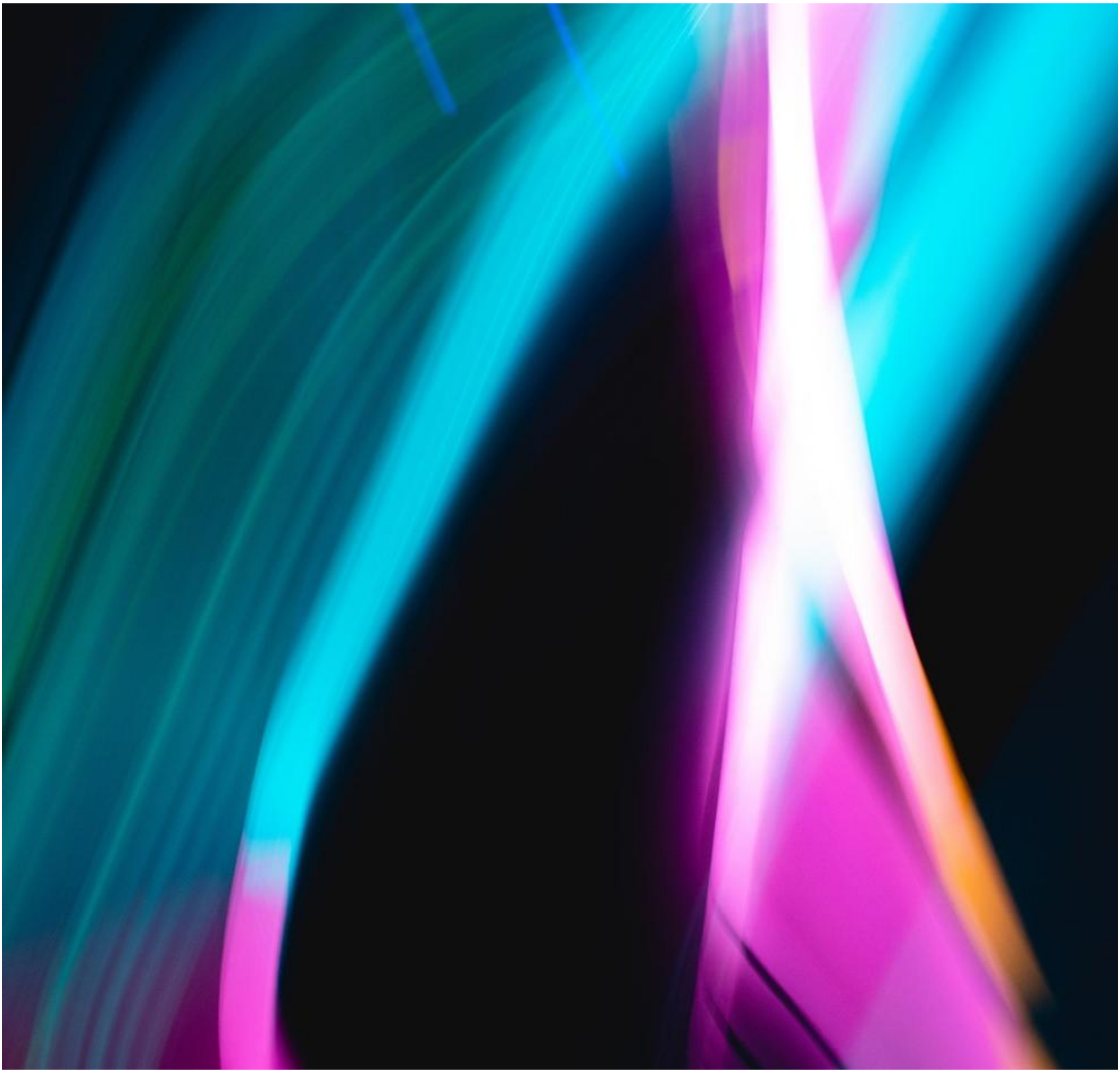
INVESTMENT ENVIRONMENT UPDATE

JUNE
2025

PATRIZIA
ADVISERS



PATRIZIA

Prime Super

Investment Environment Update

In June, global equity markets extended their upward momentum despite the ‘12-Day War’ waged between Iran and Israel that had seemingly concluded by the end of the month (at least for now). Momentum was buoyed by renewed optimism that inflationary pressures are receding and that global central banks may begin easing monetary policy sooner than expected. Investor sentiment was also lifted by moderating oil prices at the conclusion of the ‘12-Day War’, as well as general signs of stability in global trade dynamics, despite lingering geopolitical risks in the Middle East. While volatility under the Trump administration remains elevated, markets appeared more focused on positive macroeconomic data and policy signalling, rather than tariff headlines (which have dominated in months prior). Nevertheless, the medium-term outlook remains clouded by uncertainty regarding the durability of disinflations trends and the Federal Reserve’s next steps.

Gains in global equities were again led by the US, with the S&P 500 rising +5.0% and closing the month at a record high level. The rally was broad-based but remained heavily supported by strength in technology and AI-related sectors, reflected in the Nasdaq Composite’s +6.6% advance. Conversely, European equities were underwhelming, with the UK FTSE, German DAX and French CAC indices each down -0.1%, -0.4% and -1.1% respectively as markets keep their eyes warily on any trade developments with the US. In the Asia-Pacific region, Japan’s Nikkei 225 index experienced bullish gains of +6.6%, driven by strong earnings and a supportive currency backdrop, while the Australian S&P/ASX 300 index was up +1.4% in June. The Australian dollar strengthened slightly by +1.8% versus the US dollar in June, bringing the total to +5.2% over the last three months. This led to lower unhedged returns (and higher hedged returns) for Australian investors (despite the strengthening of the Euro). Emerging market equities also posted solid gains, delivering returns of 4.1% on an unhedged basis, particularly benefitting from trade tensions easing. Soft inflation data prompted a fall in interest rate outlooks, and notably reversed the sell-off in US treasuries in the month prior. The global fixed income index rose +0.9% in June, whilst the Australian fixed income index rose +0.8%, also benefitting from softer inflation data.

Asset Class Returns	June (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.32	1.02	4.39	3.88
Australian Fixed Income	0.75	2.63	6.81	3.88
International Fixed Income	0.91	1.49	5.45	2.28
Australian Equity *	1.42	9.48	13.74	13.35
International Equity - Developed (unhedged) *	2.45	5.94	18.58	20.35
International Equity - Developed (hedged) *	3.77	9.45	13.46	16.72
International Equity - Emerging (unhedged) *	4.10	6.49	17.49	11.48

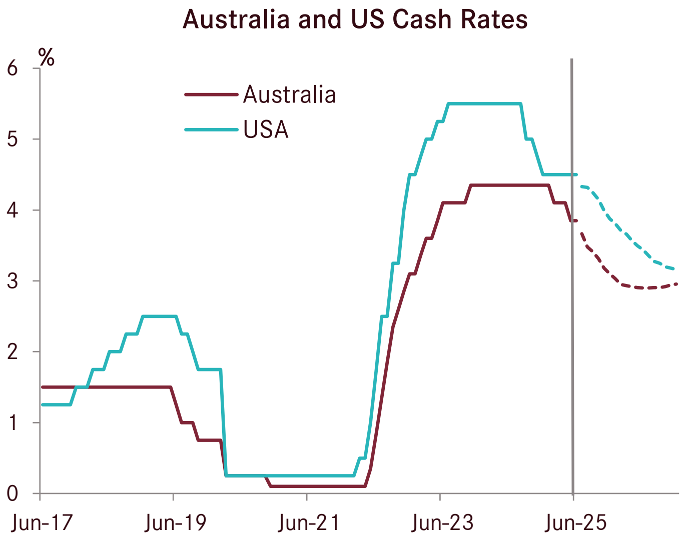
** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

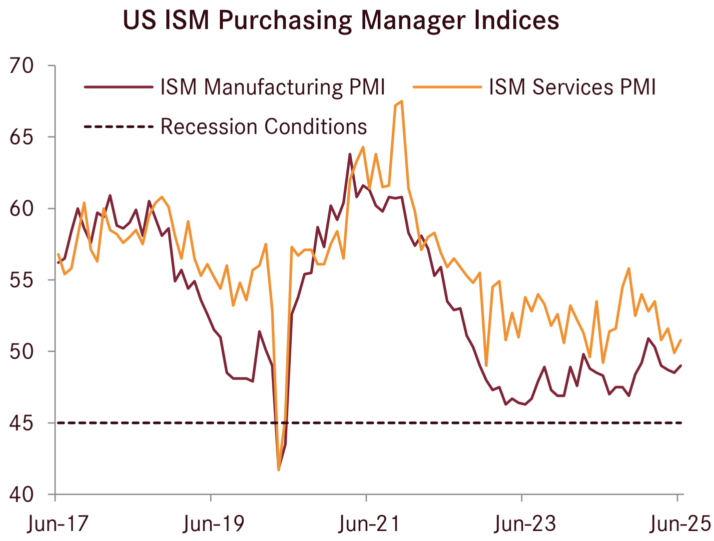
In June, US economic data presented a mixed picture, underscoring the ongoing volatility under the Trump administration. The labour market showed resilience, with nonfarm payrolls increasing by 147,000 in June and surpassing expectations. The unemployment rate also edged down to 4.1%, coming in 0.2% below expectations. However, underlying indicators suggest cracks are emerging, as continuing jobless claims rose, and signs of AI-driven job displacement became more evident. Inflationary pressures remained persistent. Data in June revealed that the Consumer Price Index (CPI) rose 0.1% in May, bringing the annual rate to 2.4%, while core inflation stood at 2.8%, both exceeding the Federal Reserve's 2% target. Tariff-induced cost increases (including anticipatory actions) and supply constraints contributed to these figures, with retailers warning of further price hikes to come.

Consumer spending showed signs of strain, with expenditures revealed to have dipped -0.1% in May – notably the first decline since January. This sits amid a -0.4% drop in personal income during the same period. Aligned to this result was a further -0.9% fall in retail sales. Business activity indicators were tepid, but more positive in June. The US ISM Manufacturing PMI edged up to 49 from 48.5 the month prior, and above forecasts of 48.8, signalling economic activity in the manufacturing sector contracted for the fourth consecutive month. However, the rate slowed, which is the expected direction owing to the government's protectionist trade policies. The ISM Services PMI rose to 50.8 in June from 49.9 in May, beating forecasts of 50.5. Though signalling an expansion in the sector, slow growth and economic uncertainty were frequently referenced by firms.

The Fed's June meeting reflected this conflicting collection of economic data, as the central bank chose to hold its federal funds rate at its current target range of 4.25% to 4.50%. This marks the fourth consecutive meeting of no changes to the rate. The Summary of Economic Projections indicated a downward revision in GDP growth forecasts to 1.4% for 2025, with inflation expectations rising to 3.0% for headline PCE and 3.1% for core PCE. The unemployment projections were adjusted slightly upward to 4.5% These adjustments suggest a cautious stance by the Fed, balancing inflation concerns with economic growth uncertainties.

In Australia, economic indicators released in June continued to reflect a cautious outlook, as signs of consumer and business fatigue persist despite a stabilising labour market. The unemployment rate was revealed to have held steady at 4.1% in May, though the economy shed 2,500 jobs. Consumer sentiment saw a marginal lift, with the Westpac-Melbourne Institute Consumer Sentiment Index up 0.5% to 92.6 in June. Despite the improvement, the index remains deeply negative, and suggests households remain concerned about cost-of-living pressures and the broader economic outlook. Notably, Australia's trade surplus in goods narrowed to $2.2 billion in May from $4.9 billion the month prior, and well below market expectations of $5 billion. This marked the smallest trade surplus since August 2020, driven in part by US tariffs and a subsequent -5.5% reduction in shipments to the US. The NAB Business Confidence and Conditions indices jumped to 5 and 9 in June from 2 and 0 in May respectively. This marks a halt to the deterioration in business conditions that were seen at the beginning of 2025. June data revealed Australia's monthly CPI increased by 2.1% in May, easing from 2.4% in the previous three months. Despite this, the RBA's decision at its early July meeting was to hold the cash rate at 3.85%, citing elevated uncertainty in the world economy and signs of recovery in private domestic demand.





Source: Bloomberg

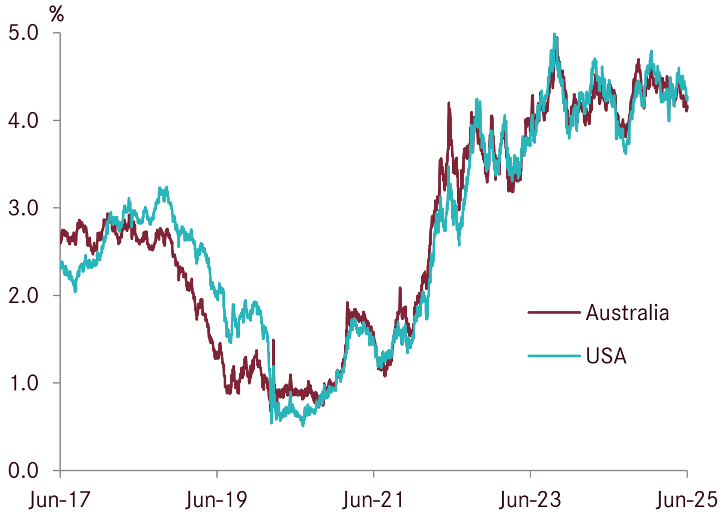
In June, the European economy continued to exhibit some modest positive signs, with the HCOB Eurozone Composite PMI rising to 50.6, indicating a slight expansion in private sector activity. The Services PMI improved to 50.5 from 49.7 in May, suggesting a return to growth in the services sector. Conversely, the Manufacturing PMI edged up marginally to 49.5 from 49.4, marking the 35th consecutive month of contraction in the manufacturing sector, albeit at the softest pace in nearly three years. Eurozone inflation edged up to 2.0% year-on-year in June, aligning with the ECB's target and marking a slight increase from 1.9% in May. Core inflation remained steady at 2.3%, indicating stable underlying price pressures. Accordingly, at its June meeting, the ECB reduced its key interest rate by 25 basis points, bringing the deposit facility rate to 2.0%. This decision was based on updated assessments of the inflation outlook and underlying inflation dynamics. Additionally, the International Monetary Fund advised the ECB to maintain rates at this level unless significant new shocks alter the inflation outlook. Business confidence in the Eurozone declined in June, with the Euro Area Business Climate Indicator down to -0.78 points in June from -0.57 in May. This result reflects ongoing business caution amidst global economic uncertainties (namely trade tensions and conflict in the Middle East).

The UK economy exhibited mixed signals in June. While the services sector experienced modest growth, buoyed by increased seasonal consumer spending, the manufacturing sector faced challenges due to rising costs and policy uncertainties. The labour market showed signs of softening, with employment revealing to have fallen more than 100,000 in May, and marking the largest monthly fall in payrolls since the same period in 2020 during the first COVID lockdown. Inflationary pressures persist, with the Consumer Price Index rising by 3.4% year-on-year in May, slightly down from 3.5% in April. The Bank of England maintained the base interest rate at 4.25% at its June meeting, citing global economic uncertainties. Markets are anticipating potential rate cuts later in the year, however this is contingent on inflationary trends and policies.

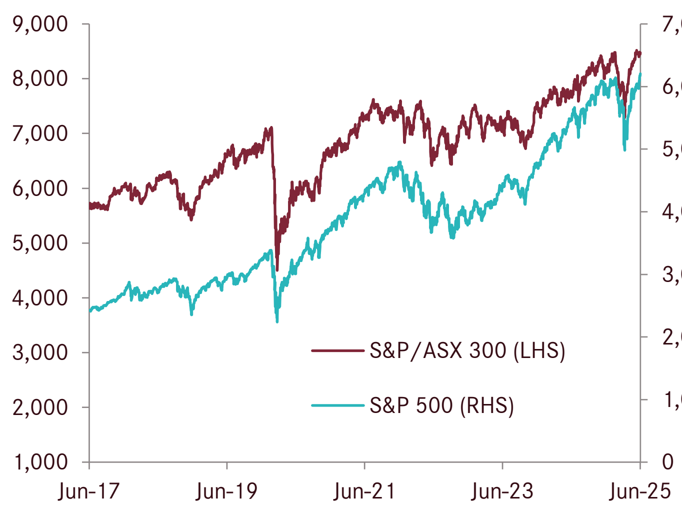
Japan's economy remained under pressure in June. Merchandise exports registered their first decline in eight months, falling 1.7% year-on-year in May as auto shipments to the US slumped -24.7% under new tariffs, underscoring the drag from external demand. At its 14-15 June meeting, the Bank of Japan left the short-term policy rate unchanged at 0.5%. The Summary of Opinions showed the Board split between patience and a further hike, with Governor Ueda emphasising that "underlying inflation is still somewhat below 2%." Inflation momentum is showing signs of cooling, as core inflation in Japan's capital slowed to 3.1% year-on-year in June from 3.6% in May, hinting at broader moderation ahead. With growth fragile and inflation retreating, markets have pushed expectations of any BoJ move into late-2025.

China continued to wrestle with weak prices and soft external demand in June. The official manufacturing PMI lingered in contraction territory (49.2), whilst the Caixin gauge rebounded into expansion at 50.4, buoyed by an uptick in new orders. Producer-price deflation persists, and authorities warned this week that CPI is likely to remain near zero, absent of any stronger domestic demand. Beijing responded with a third-round stimulus measure that included a 25 basis point reserve-requirement ratio cut for smaller banks, and expanded re-lending quotas for housing and advanced manufacturing. The package, together with the recent China-US "Geneva Agreement" on trade, led several forecasters to nudge their 2025 growth calls higher (approximately 5%).

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Source: Bloomberg

Index Returns to 30 June 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	1.4	9.5	13.7	13.7
S&P/ASX Small Ordinaries Accumulation Index	0.8	8.6	12.3	12.3
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	3.8	9.5	13.5	13.5
MSCI World (ex Australia) Index (unhedged AUD)	2.5	5.9	18.6	18.6
MSCI Emerging Markets Index (unhedged AUD)	4.1	6.5	17.5	17.5
Property				
S&P/ASX 200 A-REIT Accumulation Index	1.8	13.7	14.0	14.0
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	0.1	1.5	7.7	7.7
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-1.2	-2.1	12.7	12.7
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	0.4	0.7	16.5	16.5
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.7	2.6	6.8	6.8
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.9	1.5	5.4	5.4
FTSE WGBI ex-Aust (hedged AUD)	0.8	1.3	4.7	4.7
Cash				
Bloomberg AusBond Bank Bill Index	0.3	1.0	4.4	4.4
Commodities				
Gold (USD per ounce)	0.3	5.5	41.0	41.0
Copper (USD per metric tonne)	3.9	1.6	2.8	2.8
WTI Crude Oil (USD per barrel)	7.1	-8.9	-20.1	-20.1
RBA Index of Commodity Prices (AUD)	-0.8	-3.7	-3.5	-3.5

Australian Dollar versus Foreign Currencies to 30 June 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 30 JUNE 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.66	1.8	5.2	-1.9	-1.9
British Pound Sterling	0.48	0.2	-0.9	-9.5	-9.5
Euro	0.56	-1.5	-3.2	-10.4	-10.4
Japanese Yen	94.66	1.9	1.6	-11.9	-11.9

Source: Bloomberg

PATRIZIA