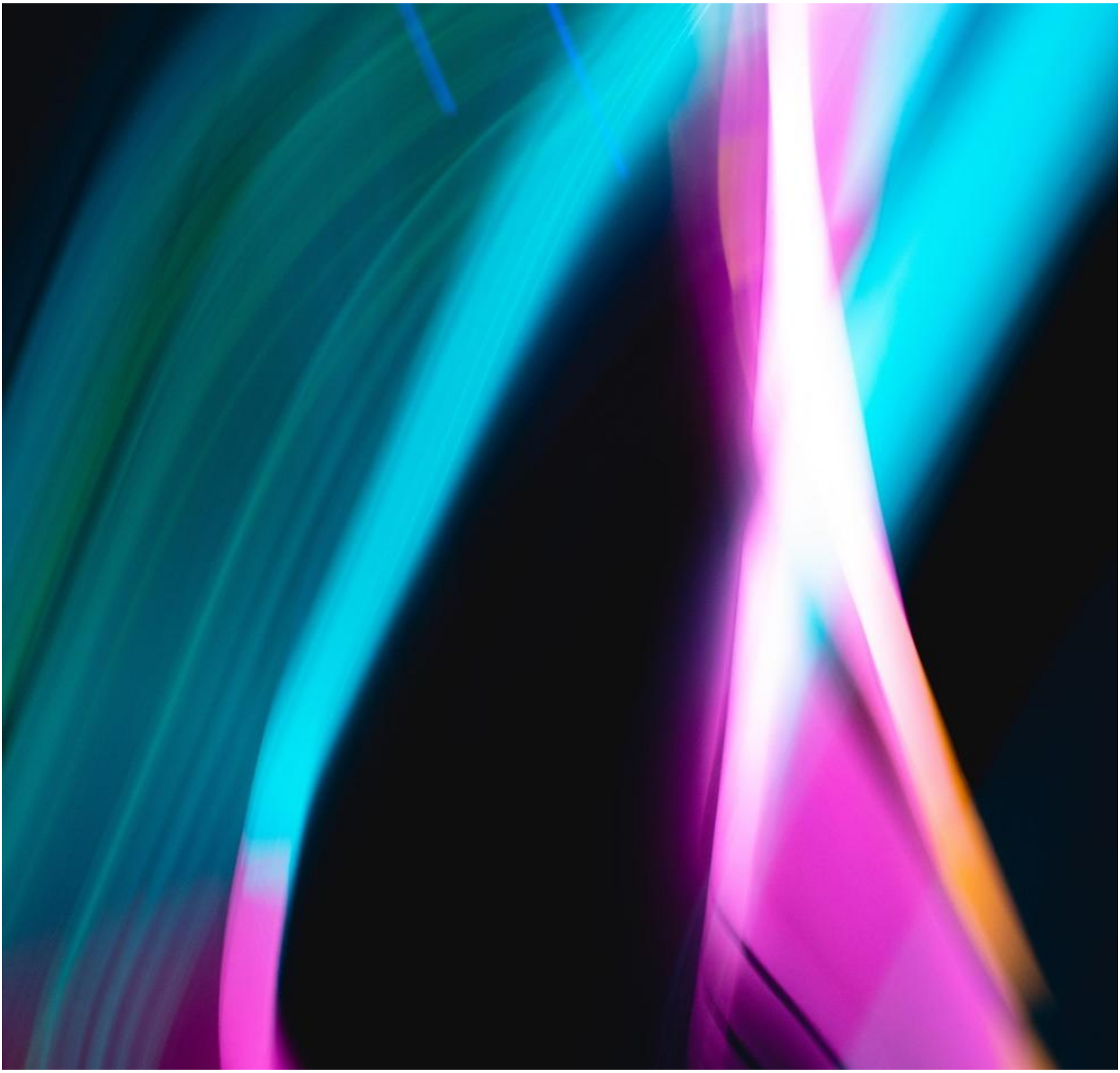
INVESTMENT ENVIRONMENT UPDATE

MAY

2025

PATRIZIA ADVISERS



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Prime Super

Investment Environment Update

In May, global equity markets extended their recovery, as the relentless levels of volatility in markets during the current iteration of the Trump administration shows no sign of slowing down any time soon. Risk appetites were revived by easing trade tensions in May that saw a pause to the looming tariff war between the US and China, as well as positive outcomes in trade negotiations between the US and the European Union (EU). However, most of the strong performance of equity markets in May were a simple retracing of the 'Liberation Day' losses of the months prior, and the risk of a re-escalation of global trade tensions remains high. As such, undertones of uncertainty from the shakeup of the global trading framework are likely to persist, with the landing point for US tariffs remaining very unclear, so too the implications for asset pricing.

Gains in global equities were particularly robust in the US, with the S&P 500 surging +6.2%. This rally was driven by easing trade tensions, resilient corporate earnings, and investor optimism surrounding artificial intelligence and technology sectors. The Nasdaq Composite demonstrated the latter, climbing +9.6% in May. European equities also benefitted from positive talks with the US and reversed previous losses, with the German DAX index up +6.7%, the French CAC index +2.1% higher and the UK FTSE index returning 3.3% for the month. Similarly, the Australian S&P/ASX 300 index and Japan's Nikkei were +4.2% and +5.3% higher, respectively. With regards to currency, the Australian dollar continued to strengthen in May, appreciating by +0.6% versus the US dollar for the month, bringing the total to +3.5% over the last 3 months. This led to lower unhedged returns (and higher hedged returns) for Australian investors. Emerging market equities also posted solid gains, delivering returns of 3.7% on an unhedged basis, particularly benefitting from trade tensions easing. Rising sovereign yields negatively impacted international fixed income in May. Specifically, a sell-off in longer-dated US Treasuries following the downgrade of the US sovereign credit rating led to a -0.4% return for the global index in May. Meanwhile, Australian fixed income modestly benefitted from the RBA's highly anticipated 25 basis point rate cut during the month, posting a +0.2% return for May.

Asset Class Returns	May (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.34	1.05	4.42	3.79
Australian Fixed Income	0.16	2.04	6.84	3.11
International Fixed Income	-0.36	0.14	5.32	1.42
Australian Equity *	4.20	4.34	13.17	9.34
International Equity - Developed (unhedged) *	5.34	-1.43	17.60	17.51
International Equity - Developed (hedged) *	5.95	0.17	11.84	12.09
International Equity - Emerging (unhedged) *	3.67	2.72	16.81	9.02

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

In the US, the first quarter of 2025 saw a -0.2% contraction in real GDP, snapping an 11-quarter expansionary growth streak. This decline was largely attributed to a 42.6% surge in imports ahead of the anticipated tariff hikes, as well as weakened consumer spending, and reduced business investment. Despite this, the labour market remains resilient; May's employment data showed an increase in non-farm payrolls of 139,000, surpassing expectations and indicating ongoing strength in job creation. Analyst consensus estimates have confirmed a cautious outlook for the US economy, with many companies issuing downwards revisions to earnings guidance in 2025. However, US market sentiment has been bolstered by slightly easing US-China trade tensions, with both nations agreeing to temporary tariff reductions. The US lowered tariffs on Chinese goods from 145% to 30%, while China reduced tariffs on US exports from 125% to 10%. However, it remains to be seen whether this will only be a temporary reprieve.

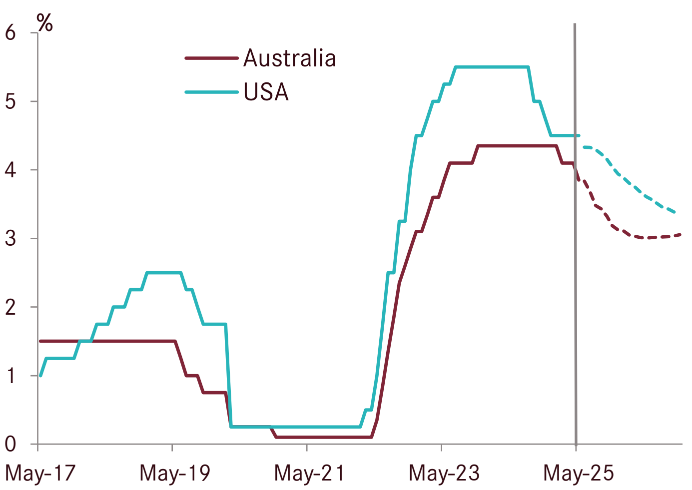
Persistent inflationary pressures in the US have kept the core PCE inflation measure above the Federal Reserve's 2% per annum target. However, inflation has been moderating, with a year-to-date reading of 2.5% for April falling -0.2% from the month prior. Though inflation is edging towards the Fed's target, the US central bank is maintaining a cautious approach, holding interest rates steady at the 4.25% to 4.5% during its May meeting. The Fed acknowledged that since its previous meeting in March, the risks of higher inflation and higher unemployment have increased due to US trade policy, thus choosing to take a 'wait and see' approach.

US business confidence remained cautious in May, despite the performance of equity markets. The ISM Manufacturing PMI registered 48.5%, indicating a third consecutive month of contraction in the manufacturing sector. Similarly, the ISM Non-Manufacturing PMI fell to 49.9%, suggesting a slight contraction in the services sector as well. These figures reflect challenges in both sectors relating to ongoing trade tensions and cost of living pressures dampening consumer demand. Despite this, consumer confidence has shown some signs of improvement, with the Conference Board's Consumer Confidence Index rising for the first time in 5 months from 85.7 in April to 98.0 in May. The improvement was largely driven by rising consumer expectations of business conditions, employment prospects and future income relative to the pessimism exhibited six months prior.

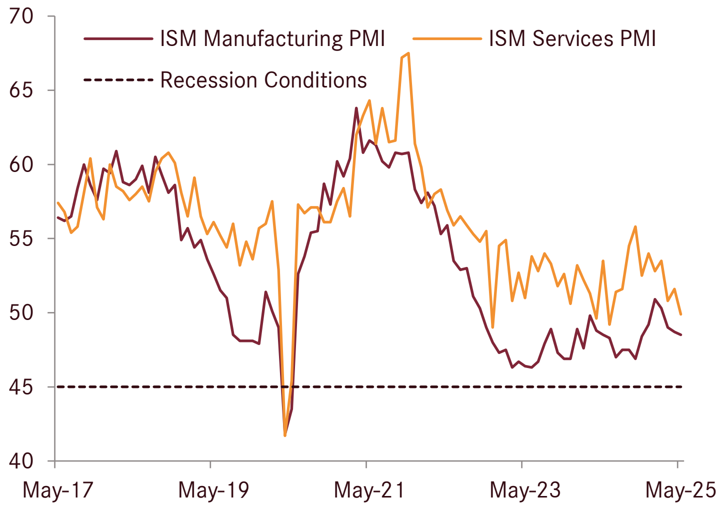
In Australia, GDP grew by a modest 0.2% in the march quarter, leaving annual growth at 1.3%, and signalling a slowdown from previous quarters, though a notable portion of this has been attributed to idiosyncratic weather events in Queensland and northern NSW. Despite these headwinds, the labour market remains relatively stable, with the unemployment rate holding steady at 4.1%. Consumer sentiment has seen a slight improvement, with the Westpac-Melbourne Institute Consumer Sentiment Index rising to 92.6 in June, up from 92.1 in May. However, the index remains in negative territory, indicating prevailing pessimism among Australian consumers. The NAB Business Conditions index was revealed to have fallen 2 points in April, driven by weaker profitability, whilst business confidence rose 1 point, though remains in negative territory and below its long run average.

Australia's core inflation just fell within the 2-3% target range in May at 2.9% year-on-year. In fashion, the RBA brought the cash rate down by 25 basis points to 3.85% at its May meeting. Markets are anticipating further cuts to occur over the coming months, noting the economic slowdown that has occurred year-to-date, as well as fears over contagion risk if China were to experience an economic slump due to the trade conflict with the US.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

In May, the European economy showed some signs of improving growth, with Q1 GDP increasing by 0.6% quarter-on-quarter, up from 0.3% in Q4 2024. The European Central Bank (ECB) revised its 2025 growth forecast to 0.9% and inflation projection to 2.0%, reflecting relatively subdued economic activity amid global trade tensions and an appreciating Euro currency. Eurozone inflation eased to 1.9% year-on-year in May, the lowest level in eight months, bolstering expectations for further rate cuts. This supported the ECB's decision in early June to cut interest rates by 25 basis points to 2.0%, in line with market expectations; current market pricing expects a pause by the ECB in its July meeting, however. The HCOB Eurozone Manufacturing PMI for May was confirmed at 49.4, up from 49.0 the month prior, and was attributed to a modest increase in output and a stabilisation in new orders. Whilst this is the highest reading of the index since mid-2022, it remains in contraction. The Services PMI experienced a mild contraction, declining to 49.7 in May from 50.1 in April. The downturn was primarily driven by a continued decline in new business, and a notable drop in international orders. Though the Eurozone Business Confidence index improved slightly by 11 points to -0.55 in May, it remains well-below long-term average levels, reflecting ongoing caution amidst the global economic uncertainty.

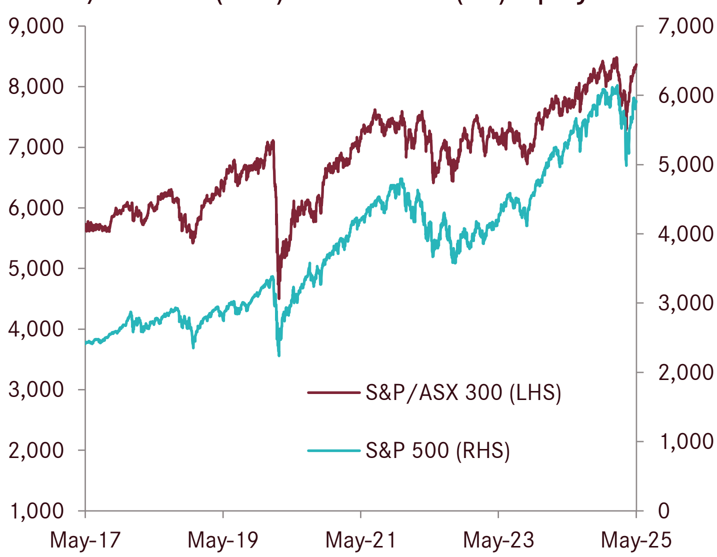
The UK's economy has shown signs of recovery in early 2025, with May data highlighting Q1 2025 GDP growth of 0.7%, driven by a 0.7% increase in services and a 1.1% rise in production. This is a notably positive performance relative to the mere 0.1% expansion in Q4 2024. However, the OECD downgraded the UK's 2025 growth forecast to 1.3% last month, citing challenges from US-imposed tariffs, limited fiscal flexibility, and rising national debt (which now stands at approximately 100% of GDP). The Bank of England (BoE) cut the cash rate by 0.25% to 4.25% at its May meeting, the second rate cut in 2025. BoE Governor Bailey emphasised a "gradual and careful" approach to cutting interest rates as global trade policy turmoil increasingly clouds the economic outlook, causing markets to price a flatter interest rate path over the coming 12 months, materially lifting UK bond yields.

Japan's economy contracted by 0.2% in Q1 2025, marking the first negative growth in a year. This outcome was revealed to be primarily driven by weaker exports, which is unsurprising given US tariffs on imported goods coupled with Japan's export-reliant economy. The Bank of Japan (BoJ) held its interest rate at 0.5% at its meeting on the first day of May and is widely expected to keep rates steady at its upcoming meeting in mid-June. Whilst having previously hinted at a willingness to raise rates further, the economic repercussions from higher US tariffs has forced the BoJ to cut its growth forecasts and have complicated monetary policy given heightened economic uncertainty.

Similarly, China faces heavy headwinds from declining exports and deflationary pressures amidst ongoing trade tensions with the US. In May, export growth slowed to 4.8% year-on-year, the weakest pace since February, and a trend that is likely to continue. The producer price index fell by -3.3%, indicating deepening factory-gate deflation. To counter the potential effects of the trade war with the US (which is only impending at this point), Beijing implemented monetary stimulus measures, including a reduction to key interest rates. Despite these efforts, business confidence remains fragile, particularly in the manufacturing sector, where PMI readings have slipped below 50 and into contractionary territory.

US Yield Spread

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



Source: Bloomberg

Index Returns to 31 May 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	4.2	4.3	12.1	13.2
S&P/ASX Small Ordinaries Accumulation Index	5.8	3.8	11.3	9.8
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	6.0	0.2	9.3	11.8
MSCI World (ex Australia) Index (unhedged AUD)	5.3	-1.4	15.7	17.6
MSCI Emerging Markets Index (unhedged AUD)	3.7	2.7	12.9	16.8
Property				
S&P/ASX 200 A-REIT Accumulation Index	5.0	6.2	11.9	12.4
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	2.3	-1.9	7.6	8.5
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	1.7	-3.7	14.2	14.4
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	1.1	1.6	16.0	12.9
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.2	2.0	6.0	6.8
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	-0.4	0.1	4.5	5.3
FTSE WGBI ex-Aust (hedged AUD)	-0.6	0.0	3.9	4.6
Cash				
Bloomberg AusBond Bank Bill Index	0.3	1.0	4.1	4.4
Commodities				
Gold (USD per ounce)	-0.7	15.6	40.6	39.6
Copper (USD per metric tonne)	4.1	1.5	-1.1	-5.4
WTI Crude Oil (USD per barrel)	4.4	-12.9	-25.4	-21.0
RBA Index of Commodity Prices (AUD)	-1.5	-4.9	-0.8	-2.9

Australian Dollar versus Foreign Currencies to 31 May 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 MAY 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.64	0.6	3.5	-3.6	-3.2
British Pound Sterling	0.48	-0.4	-3.4	-9.7	-8.6
Euro	0.57	0.7	-5.2	-9.0	-7.5
Japanese Yen	92.86	1.7	-0.9	-13.6	-11.1

Source: Bloomberg

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