Funds SA June 2025 Quarterly Comment

Investment update

The June quarter delivered a welcome change of pace for global markets, with major equity indices bouncing back strongly. Markets found their footing after the US announced the new 'Liberation Day' trade tariffs would be paused until 9 July, and recession fears abated. Other themes contributing to positive momentum was the continued cooling of inflation, resilient corporate earnings, and stability in global interest rate settings. This was despite a backdrop of geopolitical tensions in the Middle East, tariff uncertainty and concerns around US debt sustainability and fiscal conditions. After the US conducted strikes on Iranian nuclear facilities, a ceasefire agreement helped calm markets by quarter-end.

US equities led the global rebound. The S&P 500 jumped 10.9%, powered by Information Technology and Communication services sectors. The NASDAQ gained 17.8% driven by continued excitement in the AI thematic. Nvidia (NVDA:NDX) rose 45.9% during the quarter.

Trade talks progressed between the US, China, and the UK, but effective tariff levels remained elevated with a degree of uncertainty on the outcome as the new deadline approached.

Toward the end of the quarter the US administration introduced the President's 'One Big Beautiful Bill'. The bill's aim is to boost economy growth through tax cuts and incentives. This raised investor concerns for higher inflation and a deterioration in the fiscal sustainability of the US which could push up bond yields and the cost of debt more broadly.

The US Federal Reserve kept its cash rate steady at 4.25–4.50%, citing uncertainty around the economic impact of tariffs. Markets began to speculate about potential rate cuts, though any moves would depend on incoming inflation and economic data.

European equity markets continued their upward climb supported by ongoing loosening of monetary policy led by the European Central Bank who delivered a fourth consecutive rate cut for 2025. Central Banks in the UK, Norway and Switzerland also cut policy rates during the quarter. Germany's equity markets led the region with a 7.9% gain in the DAX index, buoyed by increased infrastructure and defence spending following the recent election.

Asian equity markets were positive as trade fears eased and renewed enthusiasm for AI and technology innovation was evident. South Korea, Taiwan and Hong Kong equity markets were the key beneficiaries. The MSCI Asia Pacific ex-Japan index rose 11.8% over the quarter with the largest contributions coming from South Korea (KOSPI +35.0%), Japan (NIKKEI 225 +17.7%) and Taiwan (TAIEX +22.2%).

Closer to home, the Australian equity market staged a strong comeback, with the S&P/ASX 200 Accumulation Index returning 9.5% over the period, reversing the 3.9% March quarter decline. Gains were broad-based, led by Industrials, Utilities, and Communication Services, while previously under-pressure sectors like IT and Healthcare showed signs of stabilisation.

Fixed interest markets were, for the most part, a source of positive returns with bond yields falling over the quarter (prices increasing) and credit spreads tightening further. North America was the exception with US and Canadian benchmark government bond yields rising. The Australian government 10-year bond yield fell to 4.16% from 4.38% over the period.

The Reserve Bank of Australia (RBA) cut the cash rate to 3.85% in May—its second cut this year—as inflation eased to 2.4%. While Q1 GDP growth came in soft at 1.3% annualised, and retail sales pointed to cautious consumer behaviour, corporate earnings remained broadly resilient. The RBA delivered a surprise on July 2, choosing to hold the cash rate steady at 4.35%, defying widespread expectations of a hike and signalling a possible shift toward a more patient policy stance.

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Investment options

The June quarter delivered strong and broad-based returns across most asset classes, supporting positive outcomes for all diversified investment options.

The Australian Equities Tax Exempt asset class returned 7.8%, reflecting a sharp rebound in local markets. International Equities Tax Exempt asset class also contributed meaningfully, returning 6.1%, supported by gains across major developed economies.

Fixed Interest and credit exposures added stability to portfolios. Australian Investment Grade Credit returned 2.5%, while Global Investment Grade Credit added 1.8%. Inflation-Linked Securities were particularly strong, with the Tax-Exempt asset class returning 3.1%. Government Bonds delivered a steady 2.1%, and Cash returned 1.1% in line with prevailing interest rates.

The Property and Infrastructure Tax Exempt asset classes returned 1.8% and 2.4% respectively, both outperforming their benchmarks. The only significant detractor was the Defensive Alternatives, which declined 5.3%, and underperformed its benchmark.

Overall, the diversified structure of the investment options allowed for strong participation in the equity market rally while maintaining balance through fixed income and unlisted assets. This approach continues to support long-term investment outcomes amid an environment of ongoing global uncertainty.

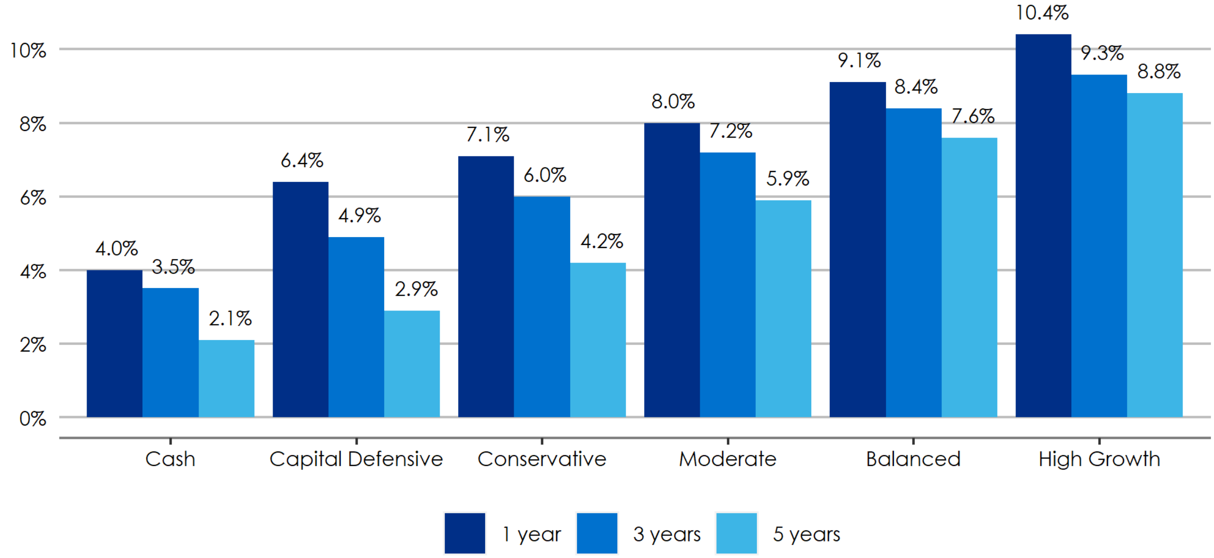
Table 1: Taxable investment option returns to 30 June 2025
Returns are net of fees, based on the post-tax unit pricing model detailed in the SA Metro Fire MOA.

Investment option	1 month %	3 months %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.3	0.9	4.0	4.0	3.5	2.1	1.9	1.8
Capital Defensive	0.8	2.2	6.4	6.4	4.9	2.9	2.8	3.1
Conservative	1.0	2.9	7.1	7.1	6.0	4.2	3.8	4.1
Moderate	1.2	3.8	8.0	8.0	7.2	5.9	5.0	5.3
Balanced	1.5	4.7	9.1	9.1	8.4	7.6	6.4	6.5
High Growth	1.7	5.4	10.4	10.4	9.3	8.8	7.2	7.6

Note. Due to rounding, the excess return shown may not exactly equal the difference between the portfolio and benchmark returns.

Chart 1: Taxable investment options annualised returns to 30 June 2025

Returns are net of fees and tax



Post the end of the June quarter

Post quarter-end, the One Big Beautiful Bill Act was passed in the US, extending tax cuts while scaling back healthcare and clean energy incentives, and boosting defence and border spending. This shift reignited concerns over rising US federal debt and deficits, contributing to volatility in long-term bond yields, which have since stabilised.

Meanwhile, the global economy is once again navigating a wave of uncertainty. The US President's latest tariff offensive—informally dubbed "Economic Sovereignty Month"—has triggered a flurry of retaliatory threats and market reactions. Within days, several tariffs were revised, postponed, or selectively carved out, echoing the chaotic pattern seen earlier in the year.

A critical deadline looms: August 1, by which time 23 countries must reach bilateral agreements with the US or face automatic tariffs of 20% to 50%. This has injected fresh urgency into global trade negotiations and fuelled a renewed surge in market volatility.

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