

Market Review Monthly

April 2025



Key takeaways

- In April, President Trump announced reciprocal tariffs which were later delayed for 90 days. He introduced a universal 10% tariff on all US imports and larger tariffs on about 60 nations with trade imbalances, raising the average tariff rate on US imports to over 20%.
- China is considering tariff negotiations with the US. Declining port traffic from China may suggest potential supply shortages in the US.
- Australian inflation for Q1'25 remained unchanged at 2.4%. The trimmed-mean inflation, the RBA's preferred measure of inflation, dropped from 3.3% to 2.9% and is back in the RBA's target range of 2 - 3%. Interest rates in Australia remain at 4.1%. The market is now anticipating four rate cuts by the end of 2025.
- US economic growth contracted by -0.3% quarter on quarter (QoQ), down from growth of 2.4% in Q4'24, mainly due to a surge in imports, likely from pre-emptive actions against tariffs. Without this distortion, growth was not as bad as the headline suggested, with consumption falling but remaining solid.
- We have a negative outlook on growth assets; as tariffs are likely to impact US economic growth in the coming quarters and the effect on corporate earnings is likely underestimated by share markets as companies are withdrawing forward earnings guidance.

Upcoming

1. **RBA interest rate announcement (20th May)** with the market currently predicting a 0.25% rate cut.
2. **US Reciprocal tariff implementation was delayed for 90 days, now 9th July**, will the US implement tariffs as currently defined?
3. **US Q1'25 earnings season** – Earnings growth is forecast to be 12.8% YoY in Q1'25. Investors are optimistic while companies are withdrawing earnings guidance.

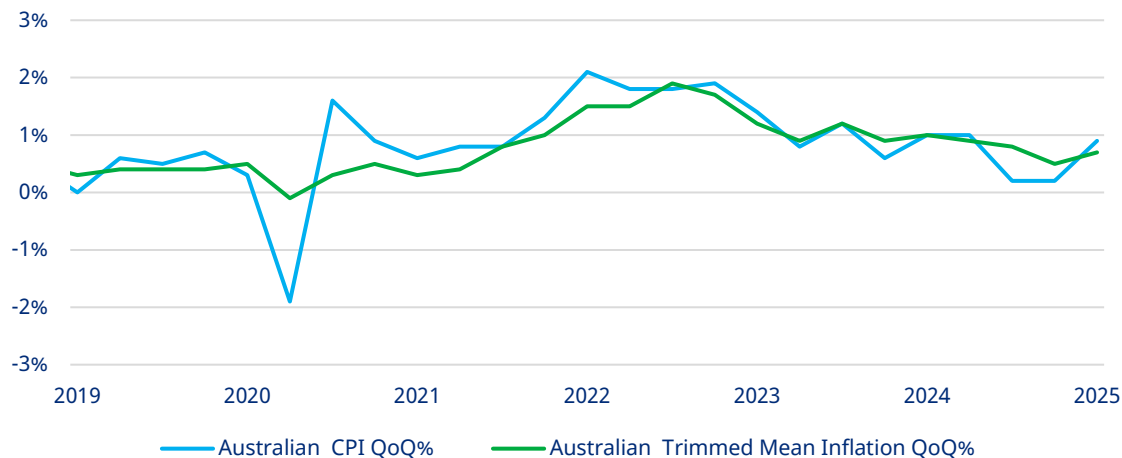


Economic review

Australian inflation returns to the RBAs target band of 2 – 3%

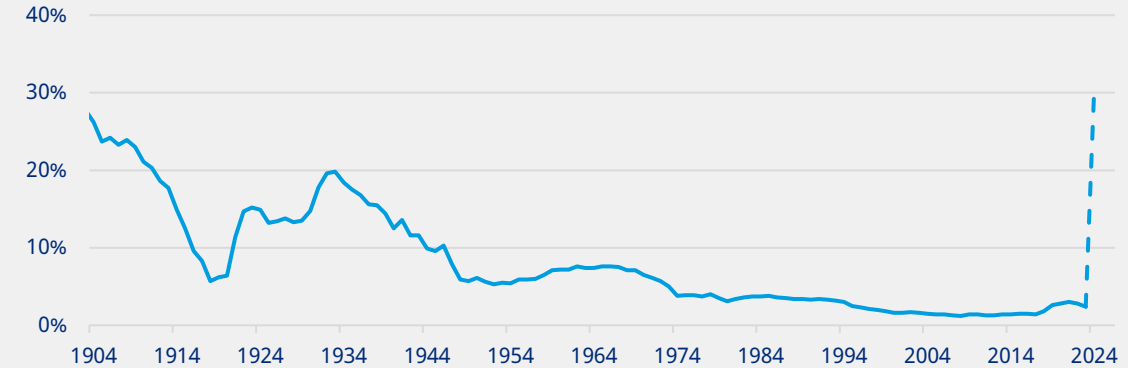
- Australian inflation for Q1'25 remains unchanged at 2.4%, above the consensus of 2.3%. The trimmed-mean inflation, the RBA's preferred measure of inflation, dropped from 3.3% to 2.9% for the quarter and is now back in the RBA's target range of 2 - 3%.
- The most recent consumer and business confidence data suggested that the geopolitical environment has weighed both on Australian consumers and businesses. The consumer index fell to a 6-month low of 90.1, with sentiment 10% lower after the US tariffs announcement.
- The RBA kept interest rates unchanged at 4.1% in April. Despite global concerns, the decision was based on Australia's tight labour market. However, after the RBA meeting and the US reciprocal tariffs announcement, expectations shifted significantly, with the market now anticipating four interest rate cuts by the end of 2025.

Australian Inflation



Source: Bloomberg, Mercer

US average tariff rate on total imports



Source: Bloomberg, Mercer

Reciprocal tariffs increases the average tariff rate on US imports

- President Trump announced reciprocal tariffs, which were later delayed for 90 days. He introduced a universal 10% tariff on all US imports and larger tariffs on about 60 nations with trade imbalances, raising the average tariff rate on US imports to over 20%.
- University of Michigan 1-year forward inflation expectations rose to 6.7%, the highest reading since 1981, due to US tariffs on imports. Federal Reserve (Fed) Governor Powell hinted that the new tariffs are "significantly larger than expected" and may have a persistent inflation impact.
- China is considering tariff negotiations with the US. Declining port traffic from China suggests potential supply shortages in the US.
- US economic growth contracted by -0.3% QoQ, down from growth of 2.4% in Q4'24, mainly due to a surge in imports, likely from pre-emptive actions against import tariffs. Without this distortion, growth was not as bad as the headline suggested with consumption falling but remaining solid.

Market review

Australian shares surge in April

- International shares (hedged) were marginally down -0.4% over the month.
- Australian shares were up 3.6% in April, outperforming international shares, with the communication services and information technology sectors posting the strongest gains.
- Australian listed property rose significantly by 6.3% in April. This increase was broad based across most of the shares in the index, as investors saw value following a significant sell off over the past several months.

Fixed interest markets performance was mixed

- International government bonds (hedged) increased by 1.2% over the month, as bond yields fell due to reduced tariff rhetoric and President Trump's assurance that there were no plans to remove Governor Powell as Fed Chair.

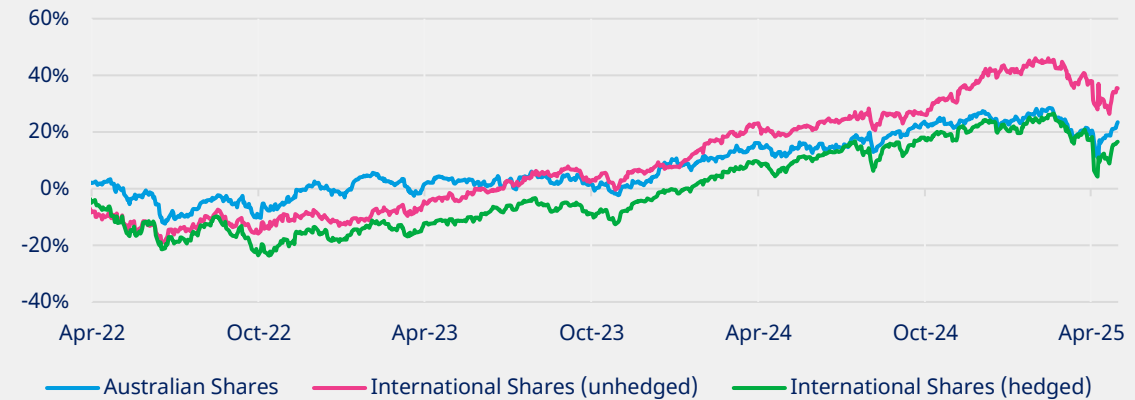
Australian Dollar (AUD) experienced fluctuations in April

- The AUD started the month weaker, dropping to 0.59 against the US Dollar (USD), after the announcement of the US reciprocal tariffs, before rallying strongly ending the month at 0.64.

Oil prices dropped in April

- Oil prices dropped by -15.5% in April, as OPEC announced a significant increase in output, coinciding with investors likely preparing for a drop in demand due to weakening international growth.

Cumulative asset class returns



Source: LSEG DataStream; MSCI. Data provided 'as is'. Details on chart constituents can be found on last page.

Crude Oil

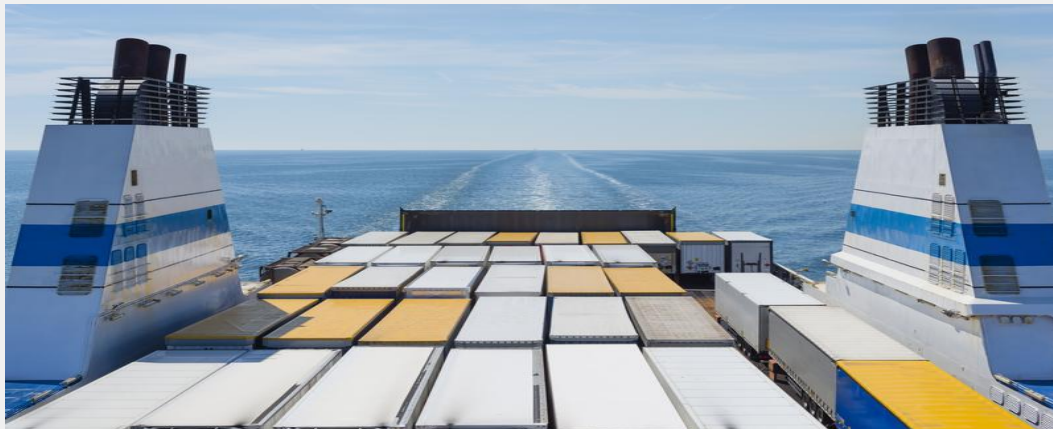


Source: Bloomberg, Mercer

Market Insights

Australia: Interest rate cuts are expected to continue

- US reciprocal tariffs may impact Australian growth through China, our largest export partner. China is likely to expand its policy stimulus, focusing on consumption and stabilising the property market. Therefore, we believe Chinese growth will remain relatively unaffected compared to many of its trading partners.
- While trimmed-mean inflation is under control, we expect the RBA to continue interest rate cuts in 2025. We retain our overweight to Australian government bonds. The global trade uncertainty and impact to global growth also supports this position.
- While unemployment remains low, both wage growth and job vacancies continue to fall, which suggests we should see the labour market begin to soften and a modest rise in unemployment in 2025.
- We continue to expect growth to remain weak, as higher interest rates and cost-of-living pressures are likely to keep consumption suppressed. Geo-political concerns are likely to make businesses cautious about investing.

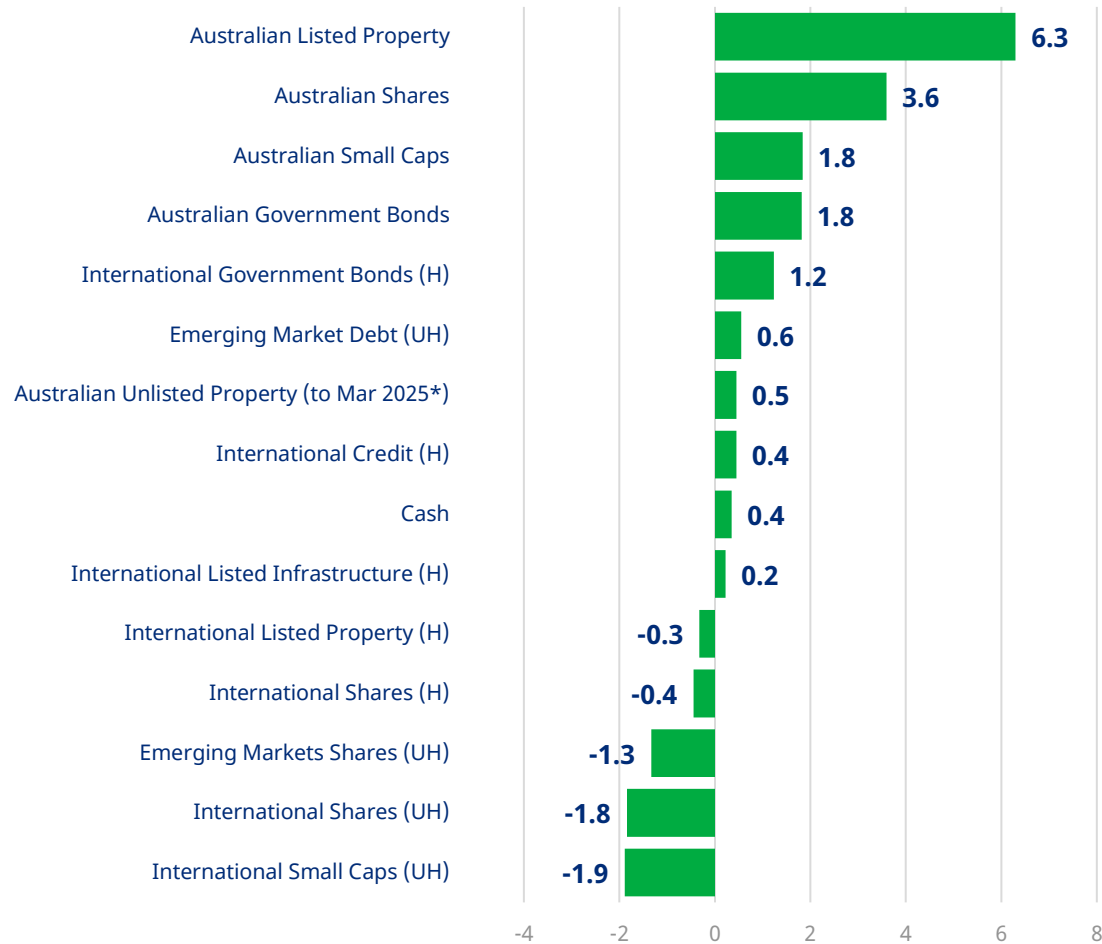


International: Tariffs may push the US into a mild recession

- The recent tariffs and resulting uncertainty is likely to push the US into a mild recession and cause a moderate slowdown elsewhere. The main impact on the US will be the sudden fiscal tightening due to the sharp rise in import prices.
- In Europe, a significant fiscal boost in Germany should support medium-term growth, though US trade tensions may pose challenges. After a positive start to the year, China's economy may slow due to tariffs, but the government might counteract this with looser fiscal policy.
- Central banks around the world are likely to gradually cut interest rates in response to slowing growth. Meanwhile, the Bank of Japan is in a rate-hiking cycle, with further increases expected as inflation remains above target. These rises may be postponed, due to tariff uncertainty and a stronger yen.
- We have a negative outlook on growth assets; as tariffs are likely to impact US economic growth in the coming quarters and the effect on corporate earnings is likely underestimated by share markets as companies are withdrawing forward earnings guidance. We favour Japanese shares due to the growth rebound and solid earnings growth.

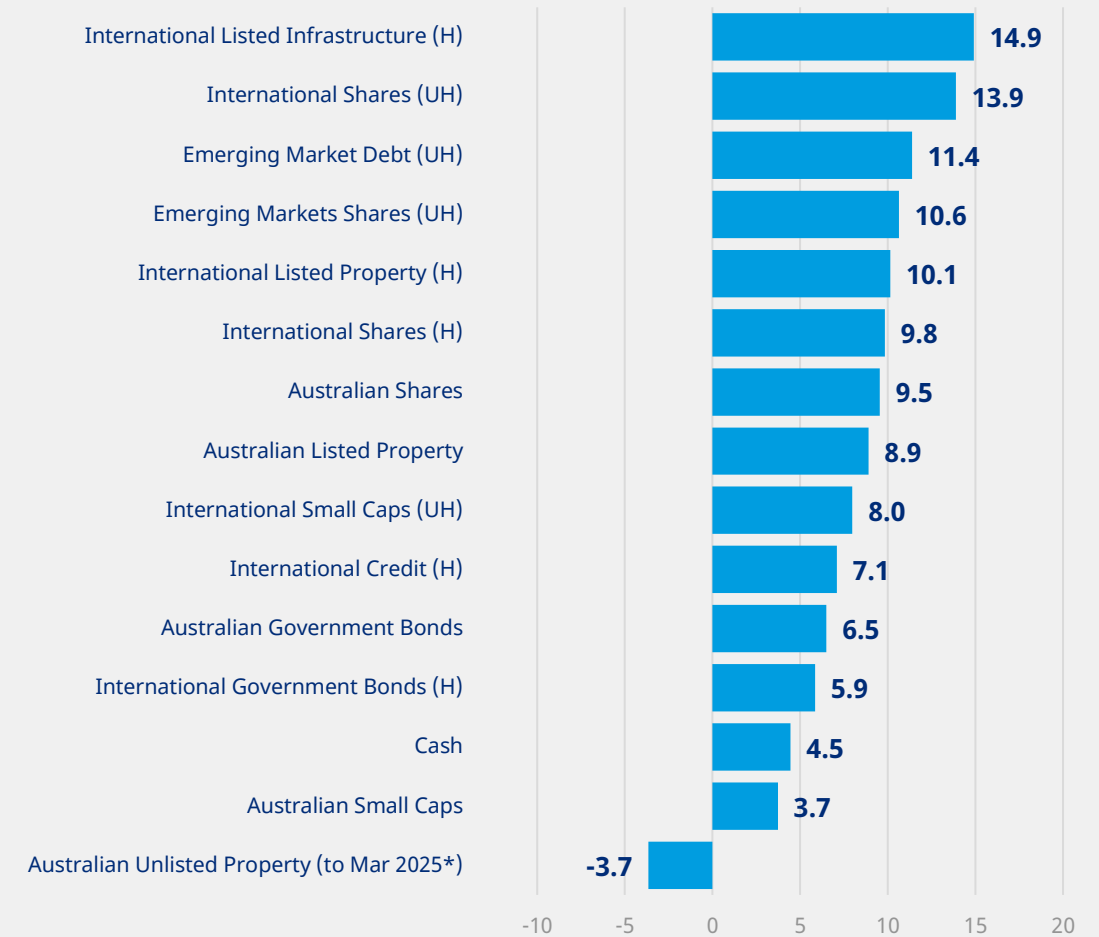
Performance

Market performance April 2025



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Market performance 12 Months to April 2025



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Asset class

▲ Australian Shares

- Australian shares performed better than their global counterparts, up 3.6% in April, outperforming international shares.
- Most Australian share sectors performed positively in April. Communication services led with a 6.5% gain over the month, followed by information technology at 6.4%. The only sector with a negative return was the energy sector, due to declining energy prices.

▼ International Shares

- International shares (hedged) ended April marginally lower, down by -0.4%. Early in the month, the US reciprocal tariffs announcement caused concern, but news of a 90-day delay in implementation eased investor concerns.
- International shares (unhedged) fell slightly more, down by -1.8%. While the AUD rose against the USD in April, it was weaker against most other countries' currencies.
- Both consumer staples and utilities were the strongest sector performers, up 2% over the month; while energy fell by -12.4% in April, on the back of falling energy prices.
- Global small-cap shares (unhedged) underperformed the broader indices and fell by -1.9%; and emerging market shares were down by -1.3% in April.



▲ Fixed Interest

- International sovereign bonds were higher, up 1.2% over the month, as bond yields fell due to reduced tariff rhetoric and President Trump's assurance that there are no plans to remove Governor Powell as Fed Chair.
- Falling business confidence in the US suggested the impact of tariffs is beginning to impact confidence. The resulting uncertainty will likely push the US into a mild recession and cause a more moderate slowdown elsewhere. This will likely continue to put downward pressure on bond yields.
- Australian sovereign bonds were up 1.8%, as the Australian 10-year bond yields fell 22bps over the month.

▲ Real Assets

- Interest rate sensitive assets were mixed in April. International listed property performed marginally lower, down -0.3%; while Australian listed property surged in April, up 6.3%. The increase was widespread across most shares in the index, as investors recognised value following a significant sell-off in previous months.
- International listed infrastructure climbed 0.2% over the month; and direct property was higher by 0.5%.

▲ Currency

- The AUD started the month weaker; as the announcement of the US reciprocal tariffs saw the AUD fall to a low of 0.59 against the USD, before rallying strongly to finish at 0.64.

Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- Currency: AUD.
- UH: Unhedged.
- H: Hedged.
- Where a lag exists, the performance start and end dates shift accordingly.
- Total Return: Total Return Index with Gross Dividends.
- Net Index: Total Return (Net Dividends Reinvested).

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