

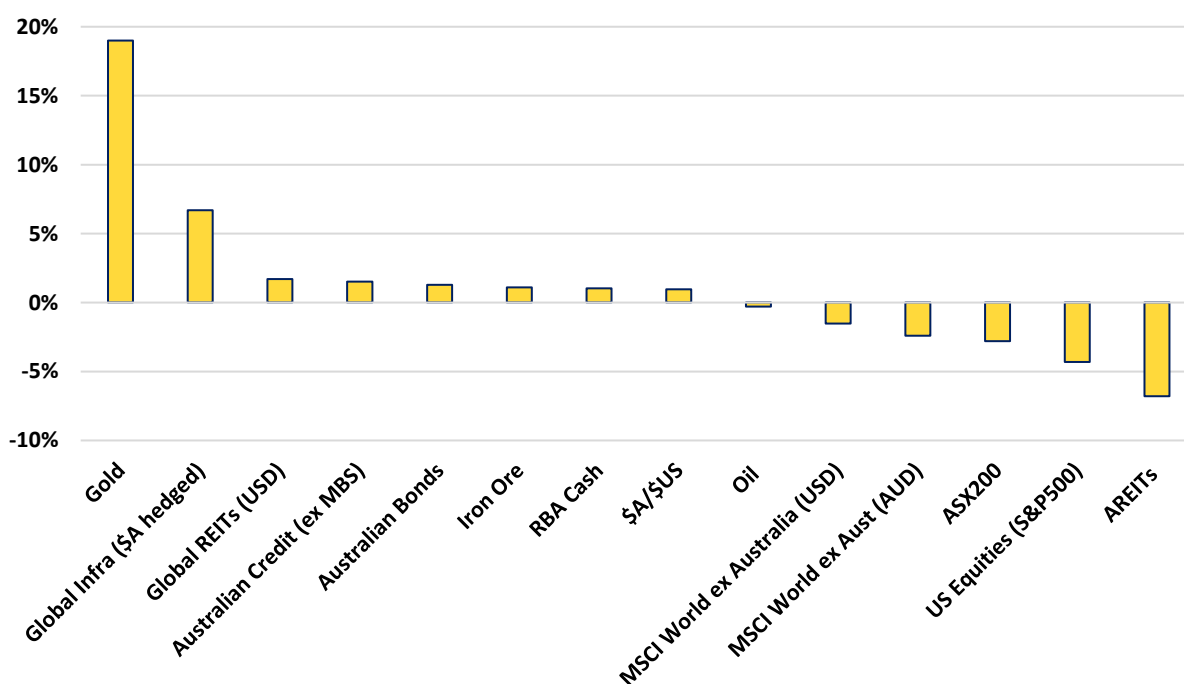
# QUARTERLY SUMMARY

## MARKET SUMMARY

### KEY POINTS

- **Investment markets were impacted by a range of factors during the March quarter** – much of which centred around the US. Uncertainty regarding US tariffs, increasing US inflation expectations, slowing US economic growth and a sell-off in US tech stocks, post the introduction of Chinese AI start-up Deepseek, were the main issues the market grappled with.
- **Divergent equity market returns** – In local currency, the ASX200 (-2.8%) outperformed the US S&P500 (-4.3%) and the Japanese Nikkei 225 (-9.9%) but underperformed Asia-ex Japan (+1.2%), Emerging Markets (+2.7%) and European-ex UK markets (6.4%) during the quarter. The MSCI World ex Australia fell 1.5% in US Dollar terms and 2.4% in Australian dollar terms.
- **US Bonds rallied but AU 10-year bonds were broadly unchanged** – The Bloomberg AusBond Composite 0+Y index rose 1.3%. Short end (2-year) bond yields declined over the quarter. Australian 10-Year bond yields rose 2.2bps to 4.38%, while US 10-Year bond yields fell 37bps to 4.21%. Australian credit markets rallied 1.52%, but credit spreads started to widen later in the quarter.
- **Commodities rose** – Precious metals (+17%) and base metals (+8.3%) indices soared led by gold (19%) and copper (+11.7%). Expectations of stimulus in China and Europe supported commodities. US monthly imports of non-monetary gold substantially increased during the quarter (see chart below). Gold has continued to rise on the back of heightened geo-political tensions, US tariff concerns and economic uncertainty. US Steel prices (HRC) rallied 25.5%. Iron ore rose 1.1%. Oil finished broadly flat.

**Asset class performance - March Quarter (%)**



Source: Equity Trustees



- **Global economic activity** – The US Federal Reserve held rates steady at 4.25-4.5% throughout the quarter. Inflation expectations in the US rose and economic data started to weaken. Tariff announcements and DOGE cuts weighed on consumer confidence. Stagflation fears rose over the quarter. The ECB cut rates twice to 2.5% and Germany announced a large fiscal package focused on defence and infrastructure. Chinese economic data was broadly stable. The US Dollar fell against all major currencies. The Yen rallied 4.8% and the Euro rose 4.5%.
- **Australian Economy buoyed by expectation of RBA cuts this year** – After a softer inflation number in January, the RBA cut rates 0.25% in February to 4.1%. Over the quarter the Australian economy was broadly stable on the expectation of future rate cuts. The \$A/\$US rose 1% to 62.47c.

## AFLPA PRA PORTFOLIO PERFORMANCE – AS AT 31 MARCH 2025

The investment objective of the AFLPA PRA is to maximise the net (after fees and taxes) earnings of the funds at the acceptable level of risk, having particular regard to protecting the long-term capital value of the investments. The assets of the AFLPA are managed as 4 individual sub funds with each of the sub funds having their own individual investment objectives and associated investment strategy.

	3 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)	Inception Date
AFLPA Conservative Option <sup>1,2</sup>	0.7%	4.3%	3.9%	4.8%	31/08/2012
CPI + 1% <sup>3,4</sup>	0.5%	3.4%	5.7%	3.6%	
AFLPA Balanced Option <sup>1,2</sup>	0.0%	3.8%	3.9%	4.7%	31/08/2016
CPI + 2.5% <sup>3,4</sup>	0.8%	4.9%	7.2%	5.5%	
AFLPA Growth Option <sup>1,2</sup>	-1.1%	4.4%	5.1%	8.1%	31/08/2012
CPI + 4% <sup>3,4</sup>	1.2%	6.4%	8.7%	6.6%	
AFLPA High Growth Option <sup>1,2</sup>	-2.4%	4.0%	4.9%	8.1%	31/08/2013
CPI + 4.5% <sup>3,4</sup>	1.3%	6.9%	9.2%	7.2%	

<sup>1</sup>EQT AM commenced management of the AFLPA PRA from 1st May 2022

<sup>2</sup>For periods prior to 1st May 2022, the performance is based on data provided to EQT by previous investment managers

<sup>3</sup>CPI related benchmarks are based off the current AFLPA investment objectives for each strategy

<sup>4</sup>CPI is on a one period lag

## OUTLOOK

*“In the short run the market is a voting machine, in the long run it is a weighing machine”* – Benjamin Graham (as paraphrased by Warren Buffett)

First postulated by value investing pioneer Ben Graham and then popularised by his student Warren Buffet, the above sentiment is worth remembering during periods of intense market volatility such as that we are currently experiencing. Asset prices can swing wildly in the short term due to investor sentiment however will gravitate to their intrinsic value in the long run. While we are always eager to protect and grow capital through correctly assessing the short term, most value is obtained through accurately assessing an asset's value over time.

Our key points with respect to current conditions are:

- The US tariff announcements on Liberation Day April 2 were worse than expected and have seen market volatility increase materially. Subsequent announcements concerning pauses, exemptions



and negotiated deals have placated (emboldened) markets for now but should be seen in the context of an ongoing cycle of whipsawing policy.

- US policy actions may be detrimental to US and global growth due to inflationary pressures and productivity declines from deglobalisation.
- The market may be underestimating China's ability to endure economic pain. While China has arguably more to lose than the US in the short term, it could well be more willing to endure a lose/lose scenario.
- Australia's direct exposure to US tariff's is low, however our ongoing reliance on commodity earnings will be impacted by deterioration in Chinese and global economic growth.
- Lower economic growth and deflationary pressures from the supply of excess Chinese goods should allow the RBA (and other central banks) to cut rates, however in the US the Federal Reserve remain in "wait and see" mode.
- Earnings per share forecasts are yet to be downgraded and market valuations not cheap enough to reflect this environment.
- Concerns over stagflation and selling from global holders of US Bonds could see US10 year bond yields remain elevated.
- We therefore remain underweight equities and overweight cash from a Tactical Asset Allocation perspective. We believed defensive assets offered better risk-adjusted returns.
- Our tactically defensive positioning was in place to preserve the capital of our clients. Further, it allows us the ability to deploy that excess cash at a time when equity markets retrace to more attractive valuations levels.
- We do not envisage making any changes to our long-term Strategic Asset Allocation models at this stage, although we will continue to assess whether the current geopolitical stresses warrant a more sustained downgrading to investment returns of growth assets.

Equity Trustees and the AFLPA encourage members to seek advice from a qualified financial adviser to determine what, if any, investment options a member may be entitled to choose are appropriate to a member's individual circumstances.

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