Portfolio Perspectives

Insights from the CIO Office

April 2025

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Key Messages for Investors

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- President Trump continues to push his tariff agenda despite weakness in markets
- Policy uncertainty is driving very weak consumer and business expectations, leading to significant deterioration in the US growth outlook
- If President Trump does not change course soon, recessionary conditions could play out in many parts of the global economy. We move to Slightly Underweight Developed Market Equities
- We now see better opportunities in emerging markets where we see attractive valuations, and a clear policy shift to support consumption. We move back to Neutral in Emerging Market Equities

US Equities Look Vulnerable

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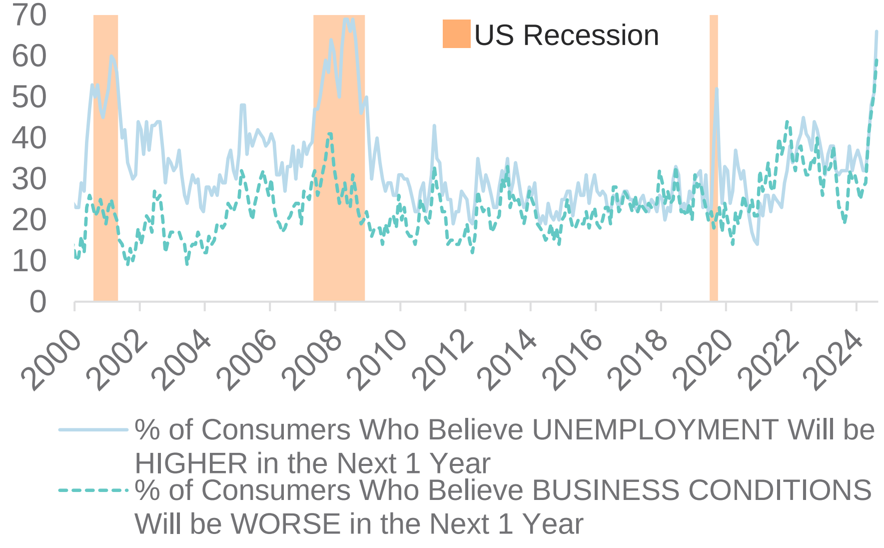
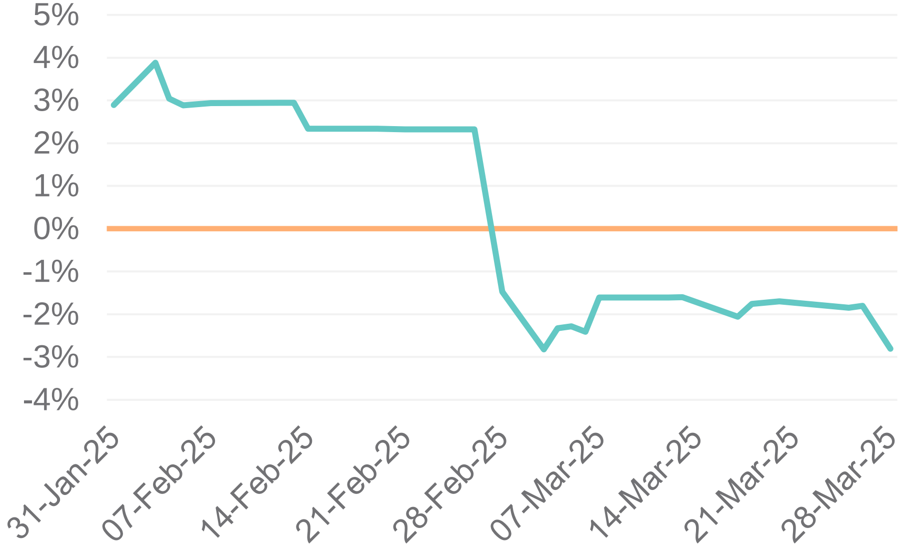
Rapid deterioration in sentiment and macroeconomic data is alarming

University of Michigan survey of consumer expectations for the next 1 year have jumped to levels associated with prior US recessions



- Alarming deterioration in consumer sentiment around unemployment and business condition expectations for the next 12 months.
- Over the past two months, readings have jumped to levels usually associated with prior recessions. The speed of the decline in sentiment is breathtaking.

Federal Reserve Bank of Atlanta GDPNow indicator has plunged since February 1



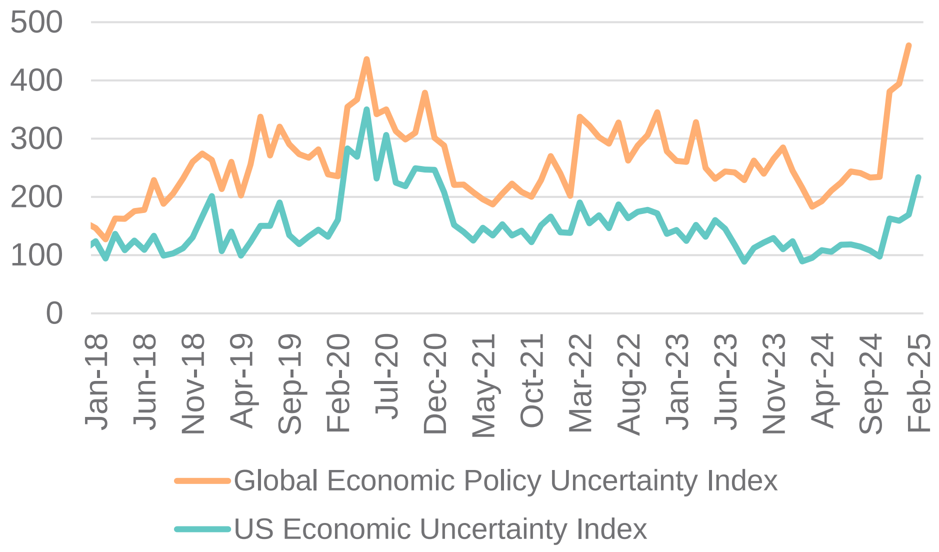
- Official GDP growth estimates are released with a delay, the Federal Reserve Bank of Atlanta takes real-time data to estimate the current period's GDP growth as new data becomes available.
- The model's historical accuracy is about +/-1.2% 30 days before the official data release, improving to about +/-0.7% seven days beforehand.
- Model accuracy can only be considered fair, but since January 29, the estimate for 1Q 2025 GDP growth has fallen from 2.9% to -1.8%.
- Even allowing for a wide margin for error, the magnitude of the decline is still alarming.

Source: University of Michigan, Federal Reserve Bank of Atlanta, FactSet, Lonsec estimates.

Tariffs Having a Global Impacting

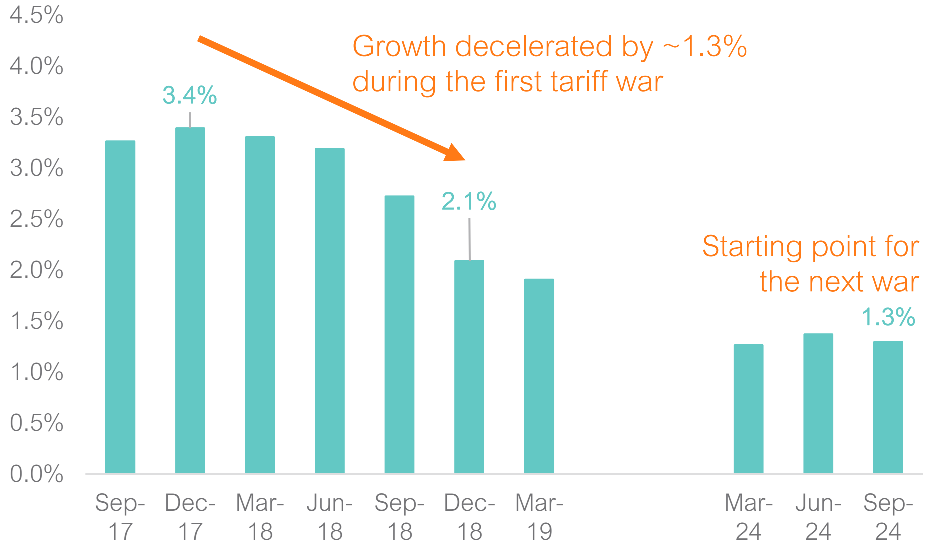
Global tariff war already leading to heightened uncertainty. Uncertainty = market volatility

Global Economic Policy Uncertainty exceeding COVID crisis levels



- The haphazard tariff announcements are not only feeding uncertainty in the US but are manifesting in other countries, as seen in the Global Economic Policy Uncertainty Index
- Latest reading have exceeded levels seen during the early days of the Covid crisis.
- When policy uncertainty rises, businesses tend to delay or scale back investment decisions further impacting economic growth.

Global GDP Growth decelerated over 2018 during the first trade war



- Trump first imposed tariffs on select Chinese goods in January 2018. By March 2018, the tariffs were extended to Chinese steel and aluminium goods but extended further to encompass similar goods from Canada, Mexico and the EU. The tariffs primarily impacted China given the limited scope in other countries.
- Tariffs as they stand today could be worse for global growth this time around.

Source: Economic Policy Uncertainty, FactSet, Lonsec estimates.

The Case For Emerging Market (EM) Equities

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Since 2018, China reoriented its economy away from the US = current tariff impacts could be lessened

Exports to US as a % of GDP

Country	March 2024	December 2018
Mexico	25.2% ↓	29.8%
Canada	20.3% ↑	18.4%
Japan	3.3% ↑	2.9%
European Union	3.0% ↑	2.6%
China	2.7% ↓	3.5%
Australia	1.4% ↑	0.9%

- Impact of the latest round of tariffs on the Chinese economy is unlikely to be as material.
- China has reduced US dependence since the first trade war in 2018 by strengthening its domestic supply chains and industrial policies, while also diversifying its trading partners.
- US demand now a smaller fraction of China's economic output, with exports to the US ~20% lower than 2018.
- Capital Economics predicts that if the US imposes a 60% tariff on China, it will only detract 0.4% from GDP growth (recall China is targeting ~5% GDP growth).

% of Top 10 best selling automotive brands in Australia grouped by Country

Country	January 2025	2018
Japan	60.4% ↑	58.0%
Korea	17.6% ↑	16.8%
China	11.3% ↑	0.0%
US	10.7% ↓	18.7%
Europe	0.0% ↓	6.4%

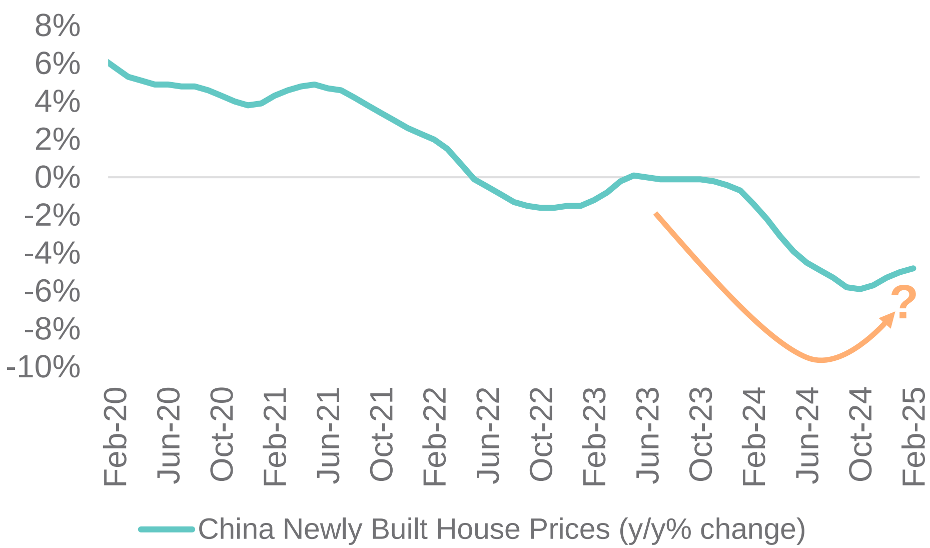
- Within the Top 10 automotive brands in Australia, Chinese brands make up ~11% of total sales today versus zero in the top 10 in 2018.
- For the overall automotive market in Australia, Chinese-manufactured cars made up 17% of the market in 2024 from virtually nothing 10 years ago.

Source: ABS, FCAI, Ashmore December 2024 Annual Outlook, Lonsec estimates.

The Case For Emerging Market (EM) Equities

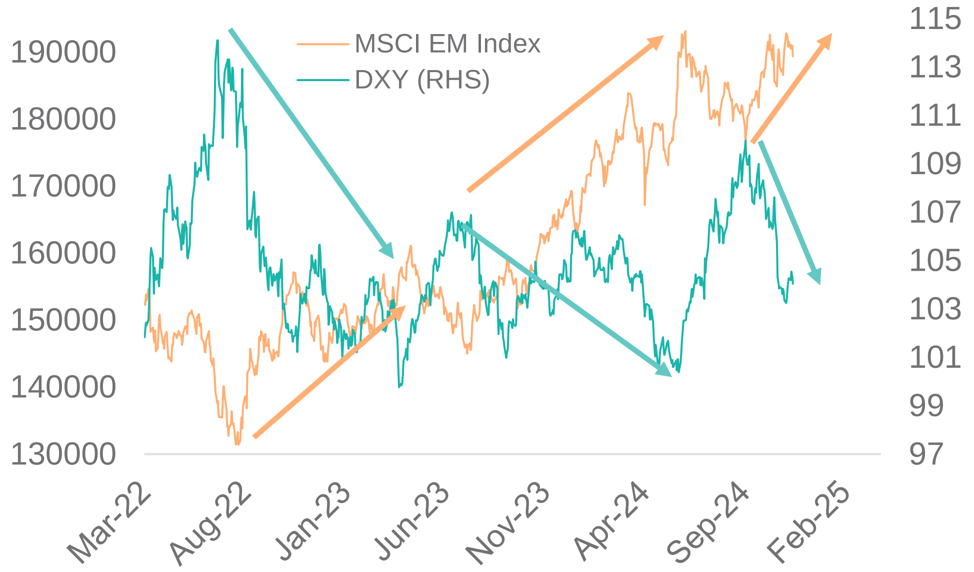
Previous China policies finally working? Greater focus on demand-side policy is a positive pivot.

Has Chinese house prices finally bottomed? Prices look to be turning higher.



- The Chinese government prioritised property market stabilisation in 2025, focusing on reducing excess housing inventory.
- The bottom in Chinese real estate might be evident as seen in increasing home sales volume and a recent uptick in new home prices.
- On March 16, 2025, China's State Council unveiled a plan to 'vigorously boost consumption' by increasing income and expanding domestic demand 'in all directions'. We see a shift towards demand-side policy solutions as an encouraging sign and a decisive step to revitalise consumer confidence.

US Dollar weakness is a tailwind Emerging Market Equities



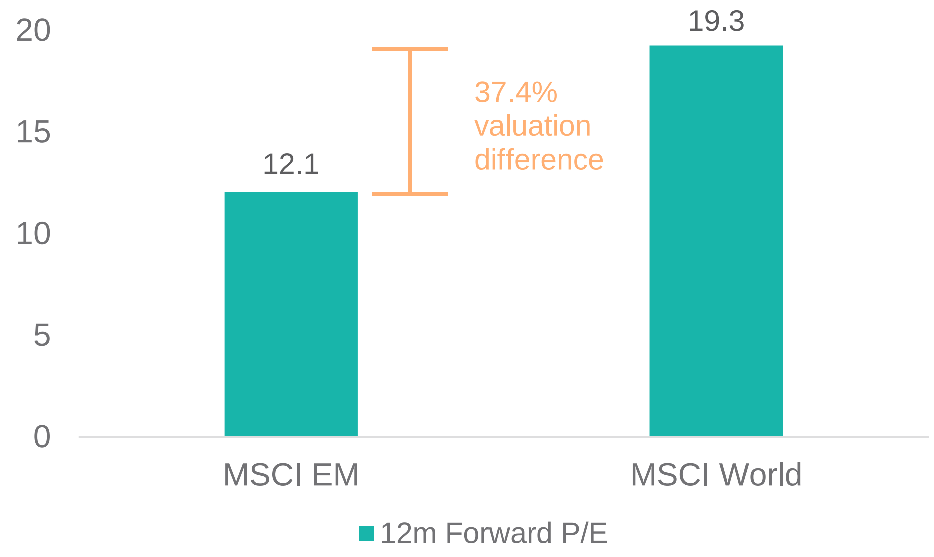
- The direction of the US Dollar (as seen above in the US Dollar Index, DXY) is a big influence on EM Equities. It has historically been inversely related to the performance of EM Equities. The DXY may have peaked in January 2025.
- With President Trump's clear intentions to reduce the value of the US dollar and the US Federal Reserve's loosening monetary policy, the US dollar should keep weaken from here further supporting EM Equities.

Source: National Bureau of Statistics of China, FactSet, MSCI, Lonsec estimates.

Compelling Emerging Market (EM) Equity Valuations

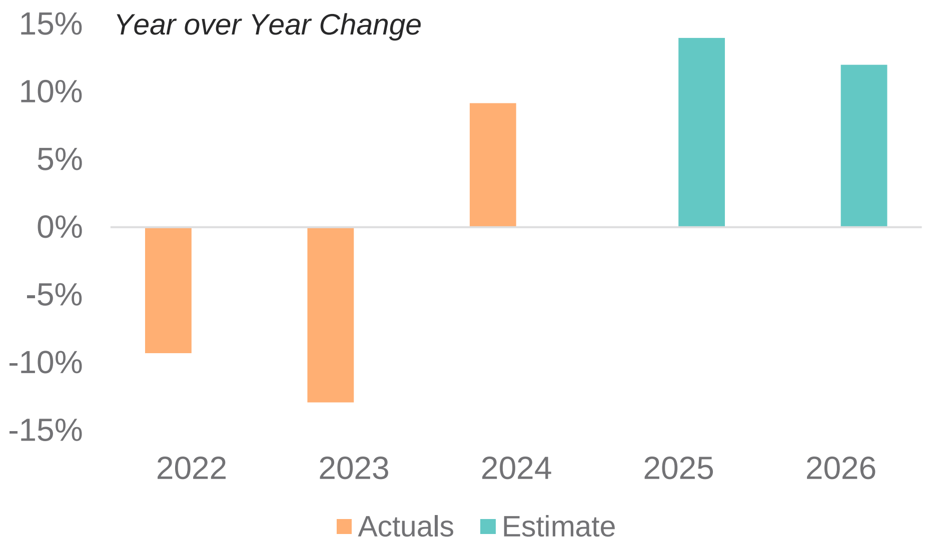
Cheap valuations supported by promising earnings growth and structural growth

EM Equities are relatively cheap



- EM equities have appeared inexpensive for some time, but we believe this discount should narrow.
- Income levels in emerging markets are growing, alongside greater demand for consumer goods and services. According to S&P Global, EM nations are projected to grow at an average annual rate of 4% over the next 10 years and contribute approximately 65% of global economic growth.
- The transition to a multi-polar world is gradually reshaping global economic dynamics, shifting influence centred in the US toward rising powers such as China, India, and Brazil.

EM profit growth expected to accelerate



- Investors are currently under-allocated to the region.
- Top-performing US tech stocks are seeing a slowdown in earnings growth.
- Chinese tech companies are experiencing an acceleration in earnings.
- EM equities are projected to experience relatively stronger earnings growth than their developed market counterparts in 2025 and 2026, with consensus forecasting a 13% annual growth rate.
- Valuations, although attractive, are just one piece of the puzzle. Combined with promising earnings growth and a structural story that supports a re-rating, it is a compelling factor for the sector.

Source: MSCI, Bloomberg, Schroders Emerging Market Lens Q1 2025, Lonsec estimates.

Outlook and Positioning

US equities look increasingly vulnerable as Trump's unwavering commitment to pursue tariffs is a growing economic headwind.

Growth Assets	Underweight			Neutral	Overweight		
Australian Equities – Large Cap				Current			
Australian Equities – Small Cap			Current				
Developed Market (DM) Equities – Large Cap			New	Current			
Developed Market Equities – Small Cap			Current				
Emerging Market (EM) Equities			Current	New			
Global Listed Property					Current		
Global Listed Infrastructure				Current			
Growth Alternatives				Current			

Defensive Assets	Underweight			Neutral	Overweight		
Australian Bonds						Current	
Global Bonds				Current			
Diversified Income				Current			
Defensive Alternatives				Current			
Cash			Current	New			

Current Position ● New Position ●

We are taking a more cautious stance on the US given President Trump's aggressive use of tariffs and their potentially harmful impact on economic growth.

Growth Assets

- Australian equity valuations remain stretched and require a re-rating in bank and resource earnings. Market growth expectations, in aggregate have been trending lower over the past year, however inflation is receding, paving the way for further Reserve Bank of Australia (RBA) cuts.
- DM Large outlook has deteriorated rapidly as Trump continues to aggressively push his tariff agenda. A marked softening in the US growth outlook.
- EM Equities offer better risk-reward. Attractive valuations and a China policy shift towards consumption warrant a more constructive view.
- Global Listed Property. Valuations remain attractive but warrant an active approach given Office still faces structural challenges.

Defensive Assets

- Australian Bond yields offer good value and provide safety from overseas volatility.
- Global Bonds. The size of the US fiscal deficit is a headwind given the need for funding, however safe-haven buying provides some support. Japan still in hiking mode.
- Floating rate public credit still offers relatively attractive yields.
- Maintain an allocation to gold as a risk-diversifier against further deterioration in economic conditions or escalation in geopolitical tensions.

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