

Portfolio Perspectives

Insights from the CIO Office

July 2025

Key Messages for Investors

- Conflicts in Ukraine, Israel and Iran remain contained.
- “Hard” data for May is coming in and so far, indicates slowing growth but not an alarming deterioration in macroeconomic conditions.
- Equity markets are back to their highs on generally stretched valuations.
- Default risk (usually associated with rising recession risk) has abated as seen through the eyes of the high yield bond market.
- The “Big Beautiful Bill” is facing some Republican backlash keeping the “term premium” on US 10-year government bonds rangebound for now.
- Tariff uncertainty will remain, but the baseline becomes clearer as the worst-case scenario is seemingly off the table.
- We remain well diversified and slightly cautious in our positioning. We continue to monitor the hard data for confirmation of further deterioration (or improvement) from here.

Focus on “hard” economic data from May onwards

The actual impact of tariffs is only now coming through in the data, the trend is slowing, but not alarming

Our Global Equity heatmap is developing a “Red” hue

Indicator	May-21	May-22	May-23	May-24	Dec-24	May-25
MSCI World PE RATIO	28.7	18.6	18.0	21.5	22.3	22.5
MSCI World Price to Book	3.2	2.9	3.0	3.4	3.5	3.6
MSCI World Best ROE	13.3	15.2	14.6	15.0	14.6	15.2
MSCI World Div Yield	1.7	1.9	2.1	1.8	1.7	1.7
US Consumer Confidence	117.5	108.6	103.7	101.3	109.5	98.0
US Retail Sales	0.8	1.3	0.8	0.7	0.8	-0.9
US Initial Jobless Claims	517.0	218.0	214.0	229.0	209.0	248.0
NFIB US Small Business Optimism	99.8	93.2	89.0	90.5	105.1	98.8
ISM PMI	61.0	55.9	46.7	48.5	49.2	48.5
ISM Services PMI	63.0	57.5	52.7	53.5	54.0	49.9
New Orders	64.4	55.8	56.6	53.9	54.4	46.4
US Housing Starts	1484.0	1803.0	1354.0	1316.0	1514.0	1256.0
US Durable Goods New Orders	-0.4	1.0	0.3	0.0	0.8	-6.3
JP Morgan Global PMI	55.8	52.3	49.6	51.0	49.6	49.6
European PMI	62.9	55.5	45.8	47.3	45.1	49.4
European PSI	50.5	57.7	56.2	53.2	51.6	49.7
US Mid Cash Rate	0.1	0.4	4.9	5.4	4.4	4.4
US Money Supply	20116.9	21677.2	20729.9	20996.9	21441.8	21862.5
Global Liquidity Index	98.3	100.2	102.7	103.2	103.2	103.2

- Part of our dynamic asset allocation process involves reflecting on the direction and level of various data sets, which we summarise via a heatmap.
- The greener the image, the stronger our conviction to add to Growth assets.
- The previous “greening” trend has reversed in 2025.

An average of the Services Purchasing Managers Index reading of the US, Europe, Japan and China (the Big 4) approaching 50

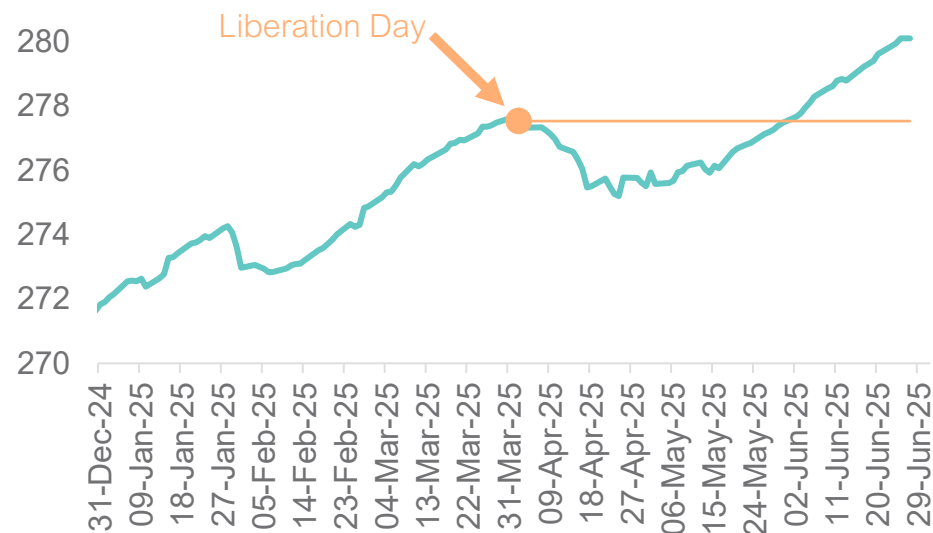


- The average of the Big 4's Services Purchasing Managers Index reading of 50.2 at the end of May is only just above 50, the demarcation where activity is no longer growing but declining.
- Retail sales reflect this softening in the Services portion of the economy, where growth had previously been gradually accelerating through 2024 but has gone sideways so far in 2025.
- Recall that the Service sector, on average, makes up two-thirds of the economies of the Big 4, so it is the major driver for their respective economies.

Equity markets have largely looked through the uncertainty

Markets are nearing their all-time highs as sentiment is bullish

S&P 500 Next 12-Months (NTM) earnings estimate



- S&P 500 12-month forward earnings estimate completely reversed the impact of the Liberation Day downgrades.
- The earnings estimate was \$277.53 on April 2. It got as low as \$275.20 and is now \$280.10.
- Suggests that the market believes the impact of tariffs will be short-lived as long as they do not change materially from current levels.
- The Price-to-Earnings ratio for the market is back to 21.8x, not far from its multi-year high, so expectations remain very bullish.

Australian 10-Year Bond Yield minus S&P/ASX 200 Dividend Yield

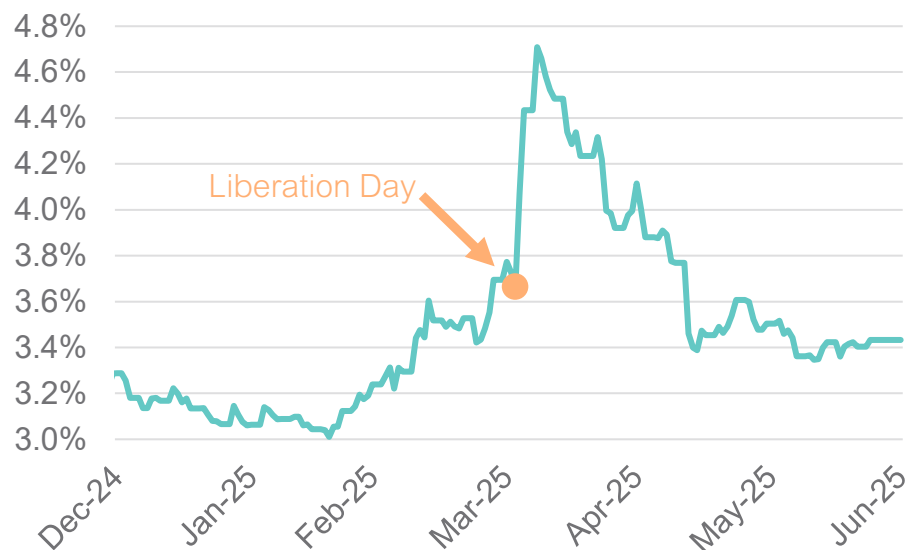


- In anticipation of further RBA rate cuts, we observe a significant re-rating in the "bond proxy" segment of the market this year leading to lower projected dividend yields for many defensive names, such as Telstra and A-REITs, which are now tracking close to or below 10-year bond yields.
- Across the broader market, the spread between bond and dividend yields has turned positive, a phenomenon not seen in markets since 2011.
- The yield for bonds should be lower than for shares because they carry less risk. The positive spread signifies extreme optimism for equity markets.

Bond markets are settling down

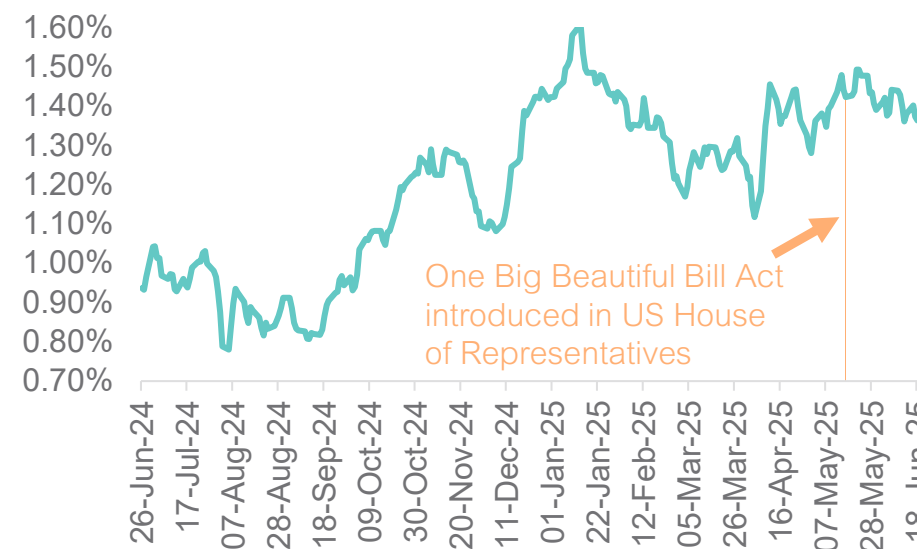
Default concerns abating, term premium on US 10-Year Government Bond stabilising

US High Yield spreads have retreated from their Liberation Day spike



- Even bond market sentiment, best reflected in High Yield spreads, has largely reversed back to pre-Liberation Day levels.
- The lower-quality parts of the bond market are typically where you can see the manifestation of negative sentiment, as investors usually sell down lower-quality assets first.
- This suggests the market believes the risk of default has abated and by extension believe recession risk has fallen.

The Term Premium on the US 10-Year Government Bond stabilised after the introduction of the One Big Beautiful Bill



- The "term premium" on 10-year US Government Bonds has remained rangebound, as the Trump Administration's "Big Beautiful Bill" has yet to receive US Senate approval, with notable dissent within the Republican party.
- Poor fiscal discipline of the US government is driving bond investors to demand higher yields (as evidenced by the rising term premium) if US government spending plans do not exhibit restraint.
- Stabilisation in the term premium only adds to the general sense of calm stemming from a view that the most controversial policy choices by the Trump Administration will get walked back.

Outlook and Positioning

Remaining slightly cautious in our positioning because the Trump Administration is unpredictable

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

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

Global macroeconomic conditions are softening. Not yet at alarming levels.

Growth Assets

- Australian equities - Inflation is receding, paving the way for Reserve Bank of Australia (RBA) to continue cutting its key policy rate. Valuations are however back to stretched levels, and with only modest earnings growth expected from banks (and even less so from resources) for the remainder of the year we prefer a neutral positioning.
- DM Large outlook has softened as Trump tries to balance tariff policy with fiscal tax cuts. We expect a softening in the US growth outlook but recession less likely. US valuations are extended and with bond yields rising, some caution is warranted.
- EM Equities offer better risk-reward. Attractive valuations and a China policy shift towards consumption warrant a more constructive view. EM will not be immune from weaker global growth resulting from tariffs however.
- 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. US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
- Floating rate public credit still offers relatively attractive yields.
- Cash offers better risk-adjusted returns in the current environment, better defensive qualities and continued optionality during this volatile period.
- Maintain an allocation to gold as a risk-diversifier against further deterioration in economic conditions or escalation in geopolitical tensions.

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