5-in-5 summary – 17 March 2025

Q1. What are the key economic events and market trends you see shaping the returns for the month of March?

As we head into 2025, Tariffs have been front and centre of our focus here at AZ Sestante. Trumps announced policies have moved the needle from a potential risk to a real concern and we are continuing to monitor the situation closely. March brought on the first wave of 25% tariffs affecting both Canada, Mexico, and a 10% aimed at China. Importantly, this is the highest effective tariff rate since 1940's and a stark departure from traditional free trade policies. There are several key ramifications that we need to consider for both equities and global trade.

However, the most immediate concern with tariffs is the potential impact on inflation. Tariffs act as a price hike on imports, which could raise costs for both consumers and businesses.

For us, the key is to remain vigilant. Our US equity exposure is monitored closely, especially in sectors that could be hit by tariffs, and we continue to employ select active managers to control these risks appropriately.

Q2. Could you discuss the highlights from each of the asset classes?

After a strong start to the year, markets hit a bit of a speed bump in February.

The big story again circling around was uncertainty about the US government's tariff policies which made both businesses and consumers a little nervous. That put pressure on stocks, and developed markets finished the month slightly down.

Emerging markets actually held up better, gaining 0.5%, thanks to strong performance from Chinese tech stocks off the back of Deep seek news and a weaker US dollar.

For us, Real estate investment trusts (REITs) were the big winners this month, jumping 2.8%, as lower interest rates made property investments more attractive.

Positively, bonds did their job as a safety net, with global bonds returning 1.4% In February, as investors focused on slowing economic growth rather than inflation.

Q3. How is Sestante positioned facing these market conditions?

Ultimately, the key theme for 2025 is diversification – looking beyond last year's winners and positioning for opportunities across a broader market. Last year, markets were heavily concentrated - dominated by the Magnificent Seven in the US and the big banks in Australia. But with interest rates starting to decline, we expect this to benefit a broader range of stocks, and we're optimistic about performance from some of our portfolio's companies. On the defensive side, we believe central banks have likely finished hiking rates and are now on a path toward further cuts. While risks like tariffs remain on the radar, we're comfortable holding interest rate-sensitive bonds over floating rate credit in this stage of the cycle. As rates fall, these bonds could provide attractive returns while offering a high level of stability within the portfolio which is important in uncertain times.

Q4. Who were the top performers and key holdings?

Key standouts for February were our Australian equities managers, who delivered strong relative results. Our decision to reduce passive exposure - particularly to manage risks tied to the big banks - paid off, as bank stocks saw a pullback late in the month following reporting season.

On the fixed income side, Australian bond managers outperformed their benchmarks, adding positive value to our portfolios similar to our global bond managers. This helped offset some of the weakness in equities over the month. Another bright spot was our allocation to global infrastructure and property, which made a strong absolute contribution to returns in February. These assets benefited from falling bond yields, highlighting the importance of diversification in the current market environment.

Q5. Looking ahead, what movements do you foresee in the market in the next month?

As markets settle into this new environment, we see some exciting opportunities - especially in Europe and emerging markets.

In Europe, we think there's good value in stocks, especially with the European Central Bank (ECB) expected to keep cutting interest rates. Lower rates can make borrowing cheaper, boost business confidence, and help support stock prices.

Emerging markets also look promising. A weaker US dollar and improving conditions in key regions could help these markets keep gaining ground.

Here in Australia, the big banks have been leading the market for a while, but we'd love to see a broader range of companies stepping up. There are plenty of strong businesses outside of financials that could offer great opportunities for investors.

Of course, markets will always have ups and downs, but staying flexible and focused on quality investments can help navigate whatever comes next.