Monthly Market Commentary
With Portfolio Manager, Andrea Ciaccio
As of 30 June 2025

Market Review

The battle over the control of monetary policy and the FED's future intensified in June. On the 18th, the FOMC voted to maintain the target rate unchanged at 4.25%-4.50%, and released its summary of economic projections, which continued to point to higher inflation, higher unemployment and lower economic growth over a three-year horizon. The central bank reiterated its forecast of 50 basis points of cuts in 2025, but signalled only two further reductions of 25 basis points afterwards, one in 2026 and one in 2027, instead of the three it pencilled in back in March. During the press conference, Chairman Powell repeatedly emphasised that tariffs were a major source of uncertainty for the economic outlook, noting that consumers would ultimately end up bearing part of their cost. He also stated that tariff-related inflation is expected to become more evident, although its extent and timing remain uncertain, and for that reason "the appropriate thing to do is to hold where we are as we learn more". In other words, he suggested that a key reason the FED had paused its easing cycle was Trump's erratic trade policy. The President was not happy with the decision, and one day later he took to social media to express his frustration, calling "Too late" Powell "one of the dumbest, and most destructive, people in Government". He accused him of costing billions of dollars of interest expense "on all of Biden's Short-Term Debt" and demanded a massive 250 basis points of rate cuts.

This time Trump was not alone in his criticism. William Pulte, Director of the US Federal Housing Finance Agency (FHFA), publicly called for Powell to resign immediately on the grounds of "fuelling the housing supply crisis" "by improperly keeping interest rates high". Vice President, J.D. Vance, who had previously described the central bank's current, allegedly restrictive, stance as "monetary malpractice", suggested that there may be a political inconsistency in the FED Chairman's actions. On the 25th, he rhetorically asked "why Powell cut rates 50 points right before an election, but can't do it now with inflation lower". On the same day, the Wall Street Journal reported that Trump had initiated a plan to install a "shadow chair", that is, to select and announce Powell's replacement by September or October, far earlier than the traditional three-to-four month transition period. The candidates considered are former FED Governor Kevin Warsh, National Economic Council director Kevin Hassett, current FED Governor Christopher Waller, former World Bank Group President David Malpass and Treasury Secretary Scott Bessent. The move appears aimed at undermining Powell's authority, with Trump's nominee tasked to communicate to the market that substantial policy changes will be implemented promptly upon assuming the role of Chairman next year. The President anticipates that such dovish forward guidance will encourage bond traders to reduce the 10-year yield in the context of weaker economic and labour data. Such a strategy is unprecedented and may raise concerns about the FED's independence and credibility, with the next Chairman at risk of being perceived as a "sycophant" having an implicit commitment to implement rate cuts.

Powell, a former private equity executive and a registered Republican, was originally appointed to the Federal Reserve Board by Obama in December 2011. Trump nominated him to serve as the Chairman in November 2017 and Biden confirmed him for a second four-year term in May 2022. His term as chair expires in May 2026, but he can remain on the FED's board as a Governor until January 2028. However, the last chair who did not step down after his time at the helm ended was Marriner Eccles, who ceased to be the leader in January 1948 but continued on the board until July 1951. In other words, even if Powell has repeatedly declined to clarify his intentions in that regard, it would be unusual for him to stay. That said, should he so choose, he would then force Trump to name a current sitting Governor as his successor. Two members of the board, Christopher Waller and Michelle

Bowman were initially appointed by him in December 2020 and in November 2018 respectively. Moreover, the latter took office as the Vice Chair for Supervision on June 9th after Michael Barr, a Biden nominee, relinquished the job but remained as a Governor. Both have recently declared their openness to deliver a rate reduction as early as July since they think that tariffs will have a “delayed” and a “smaller than initially expected” impact on inflation, and in any case, they will be a “one-off level effect”.

On June 20th, in a CNBC interview, Waller unequivocally stated that the FED “should start thinking about cutting the policy rate at the next meeting” instead of waiting until “the job market tanks”. He was echoed by Bowman a few days later. In a keynote speech given in Prague, she professed her support for the dovish move to bring the target rate “closer to its neutral setting and to sustain a healthy labour market”. While Waller has been consistently one of the most dovish members, Bowman had built a hawkish reputation over the years, culminating in her historic dissent in September 2024 against a jumbo 50 basis points rate cut. In short, it appears that a more accommodative faction is emerging within the board, and that could influence investors’ expectations about the likely path for rates in H2-2025. This small group has the potential to morph into a majority the closer the nomination of the Chairperson gets. In addition, Trump will have the chance to appoint a new Governor in January 2026, when the seat held by Adriana Kugler, who was appointed by Biden in September 2023, expires. Looking beyond, Philip Jefferson’s term as Vice Chair will end in September 2027, and the President will be able to elevate one of the current Governors to the role. In summary, multiple indicators, from individual member stances to upcoming changes in the board’s composition, indicate a potential strategic recalibration of the central bank’s priorities, with an increased focus on supporting growth and employment via an easier monetary policy.

International Equities

US equities shrugged off geopolitical tensions and extended their rally in June amid easing trade tensions, better-than-expected inflation readings and solid corporate earnings. The S&P 500 (+4.96% in USD terms) and the Nasdaq 100 (+6.27%) rallied to new all-time highs, with the latter recording its tenth best June in history. The Dow Jones Industrial (+3.94%) underperformed both averages for the third month in a row, remaining below its early December peak. The “Magnificent Seven” outperformed the rest of the US large caps, although the breadth within the group narrowed. Nvidia, Meta, Microsoft and Amazon shone, while gains for Apple and Alphabet were muted. Tesla tumbled on sagging deliveries, a declining market share in Europe and a public feud erupting with Trump, who threatened to revoke government contracts for Musk’s companies. At the end of the month, the combined market capitalisation of the 7 most dominant (and owned) stocks globally reached 18 trillion USD, representing almost 33% of the S&P 500. Retail investors continued to load up on highly speculative stocks, with the GS Non-Profitable Tech, the GS Liquid Most Short and the ARK Innovation ETF, a proxy for high-multiple, “long-duration” stocks, recording their 10th, 11th and 5th best month ever respectively. As a result, the S&P 500 High Beta trounced the S&P 500 Low Volatility TR Index by more than 10% for the second consecutive month. The Russell 2000, the popular benchmark for smaller companies, interrupted a six-month losing streak against the Russell 1000. The VIX Index, the measure which estimates the expected volatility of the S&P 500, dropped to a four-month low as recession fears continued to recede. Technology and communication services reigned supreme in June. Energy caught a bid as the WTI crude jumped the most since September 2023. All other sectors lagged, with utilities and real estate ending the month virtually unchanged and consumer staples bucking the trend.

US equities topped the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) for the second consecutive month. However, emerging markets were the best performing region on the back of the explosive rallies in the AI beneficiaries Taiwan and South Korea. The latter market capped its best H1 performance in 26 years following the election of President Lee Jae Myung, who pledged measures to boost corporate governance, strengthen shareholder rights and increase dividend payouts. In Japan, the Nikkei 225 index closed above 40,000 on a monthly basis for the first time in history. Conversely, European stocks experienced a modest retreat in June. All in all, the MSCI AC World Daily TR Index was up +4.49% in USD terms and +2.14% in AUD terms.

Australian Equities

Building on a strong May, Australian equities broke to new all-time highs in the first half of June, and, despite ending the month on a low note, they notched their highest monthly close in history. The S&P/ASX 300 added +1.42%, buoyed by energy and financials. The former sector rallied in sympathy with oil and following the announcement of Santos that it had received a takeover proposal for the acquisition of all its ordinary shares from a consortium led by XRG P.J.S.C., a subsidiary of Abu Dhabi National Oil Company, which includes Carlyle. Banks remained well supported by flows, with CBA becoming the first ASX-listed company to be valued at more than 300 billion AUD, a market capitalisation greater than that of its two largest rivals, Westpac and NAB, combined. Based on expected earnings for the next year, CBA shares were trading at a forward P/E ratio of over 31, that is, nearly twice their 20-year average. Consumer staples, healthcare and utilities bucked the trend as investors shunned defensives. Materials were dragged lower by miners, with broad-based weakness also encompassing the gold segment. Gains for technology were muted, as index heavyweight Xero raised 1.8 billion AUD to acquire Melio, a US small business payments platform. Finally, mid-caps and smaller companies underperformed the Top 20 and growth stocks outperformed value stocks for the third consecutive month.

International Fixed Income

Four of the eight major global central banks that met during the month held interest rates steady; those included the Bank of Canada (BOC), the Bank of Japan (BOJ), the Bank of England (BOE) and the FED. On June 5th, the European Central Bank (ECB) lowered its policy interest rate from 2.25% to 2%, citing an improved inflation outlook brought upon by a stronger Euro (EUR) and lower energy costs. On June 18th, the Riksbank, Sweden's central bank, cut its key policy rate by 25 basis points to 2.25%, and reduced its forecast for growth in 2025 from +1.9% to +1.2%. One day later, the Norges Bank, Norway's central bank, joined the global easing wave in a surprise move by delivering its first 25 basis point cut to 4.25%. On the same day, the Swiss National Bank (SNB) reduced its policy rate for the sixth time by 25 basis points, from 0.25% to 0%, in response to "lower inflationary pressure" and a strengthening Swiss Franc (CHF). The central bank reaffirmed its stance that it remains prepared to intervene in the foreign exchange market after the domestic currency appreciated to its highest level since July 2011 against the US Dollar. The Bloomberg Barclays Global Aggregate Index hedged back to AUD rose +0.91% for the month. The US yield curve transposed lower as most US economic data proved disappointing, with retail sales declining and housing indicators softening. Conversely, rates were generally higher in Europe, as the Eurozone economy expanded by +0.6% QoQ in Q1 2025, doubling earlier estimates of +0.3%, and marking its strongest increase since Q3 2022; the growth was largely driven by investments and exports.

Australian Fixed Income

According to the Australian Bureau of Statistics (ABS), the domestic economy grew by +0.2% QoQ and by +1.3% YoY in the first three months of 2025, with both numbers coming below consensus forecasts. In addition, the monthly indicator of consumer prices (CPI) decelerated to +2.1% YoY in May, missing expectations of +2.4%, and the CPI Trimmed Mean ticked down to +2.4%, firmly within the RBA's target range. Finally, the unemployment rate held steady at 4.1% in May for the fifth consecutive month. The yield curve transposed lower with the 2-, 5- and 10- year yields declining 7, 9 and 10 basis points to 3.21%, 3.46% and 4.16% respectively. Credit spreads continued to retrace most of the tariff and geopolitical widening occurred between March and April, ending June not far from their year-to-date tightest spreads. As a result, domestic fixed income rose for the eighth consecutive month, with the Bloomberg AusBond Composite 0+ Yr adding +0.75%. At the end of the month, the cash futures were pricing a third 25 basis point cut in Q3, and two additional reductions in Q4. The Australian Dollar caught a bid vis-à-vis the US Dollar (USD) and the Japanese Yen (JPY), but continued to hover around extremely depressed levels against the Euro and the Swiss Franc (CHF).

Real Assets

Global property was up +1.34% in USD terms but down -0.94% in AUD terms in June. At the regional level, Europe topped the list, followed by Australia and by Asia. Hong Kong was the best performing market as it benefited from a sharp decline in the overnight interbank lending rate to 0.03%, a three-year low. The US suffered modest losses as data centre REIT Equinix guided for revenue growth below expectations, whilst still projecting significant investments in capex.

Global infrastructure soared +2.31% in USD terms but was flat in AUD terms for the month. Positive momentum in transportation stocks persisted owing to the de-escalation of trade tensions. Communication infrastructure rebounded, while US electric utilities trailed the general index following the passage of the new California wildfire mitigation law.

Alternatives

Returns for Alternatives (+1.18%) were positive across strategic mandates in June with performance dispersion decreasing during the month. Long/Short equities and Event Driven led gains, while discretionary macro and trend following mandates returned in the black.

Market Outlook

The US CPI report for June 2025 came in hotter than expected, surprising consensus expectations to the upside on a headline basis. The US inflation rate rose +0.3% MoM, the largest gain since January 2025, following a +0.1% monthly increase in May. On a YoY basis, it accelerated to +2.7% from +2.4%, surpassing the projected +2.6%. The US CPI Core, which excludes the more volatile food and energy components, was marginally softer than expected, growing by +0.2% MoM and by +2.9% YoY, following the previous month's figures of +0.1% MoM and +2.8% YoY. One of the more interesting developments in this month's report was the growing evidence of tariffs starting to filter through to consumer prices, as core goods, particularly those most sensitive to international trade, contributed 15 basis points to the headline number, the most since July 2023. That measure had been disinflating or even deflating for months, and its sudden reversal seems to align with supplyside dynamics rather than with a strong increase in demand. At the same time, services inflation and rents (as measured by the FED's chosen methodology) continued to trend lower, helping mitigate broader inflation pressures. That circumstance is giving rise to a kind of "tug-of-war" of renewed price pressures in goods driven by tariffs being counterbalanced by declining services and housing-related inflation that, in our opinion, will persist during the second half of the year. However, the key takeaway is that headline inflation is ticking up again, primarily due to goods prices, and that core inflation is also slowly edging higher. A central debate going into the summertime (in the Northern Hemisphere) is whether the observed rise in goods inflation represents a temporary spike, a one-off adjustment to new tariffs, or the beginning of a more sustained trend. We do not think we are at the beginning of a prolonged inflationary cycle. Our view is that the bulk of tariff-related costs may already be priced in, and we anticipate that goods inflation could stabilise or even (temporarily) ease between July and August, typically soft months for this indicator. That said, the observed upward movement suggests that price pressures are not subsiding and that instead, inflation appears to be regaining momentum. That is consistent with our long-held view that inflation will fail to durably break down to the 2% target in the absence of an actual recession, at the moment not in sight.

Tariffs remain a cornerstone of the current US administration's economic policy. New levies, 25% on South Korea and Japan, and 30% on Mexico and the European Union (EU), are scheduled to take effect on August 1st. The market reaction has been far more muted than what we observed in April, when similar announcements led to a sharp correction. This time, investors appear to assume that the US administration is using tariffs primarily as a negotiating tactic, and that the final terms may be diluted or postponed. While market complacency may be unwarranted at this juncture, and near-term disruptions are certainly possible, we continue to believe that tariffs will ultimately settle in the 10-15% range, high enough to influence pricing, but manageable from a macro perspective. Such policy stands to generate additional fiscal revenues for the US government, but it will likely come at a cost to corporate margins, as importers may have to absorb some of the increased burden, and to consumer purchasing power through higher retail prices. This has more immediate implications for corporate earnings and household spending, that is, for economic growth, also considering that the US dollar has depreciated sharply in recent months, providing no relief. Hence, while the latest inflation data have validated the FED's cautious approach, we believe that rate cuts are still likely in the second semester of 2025. There is a realistic scenario in which the central bank implements up to three rate cuts before year-end, provided inflation does not accelerate meaningfully, an outcome that we currently do not anticipate. As our view is not fully priced in the market, we see value in the 3- to 7- year maturity range along the yield curve, where expectations for future FED easing have not been fully priced in and rate sensitivity is elevated but still responsive to monetary policy decisions. Hence, while remaining neutral on duration overall, we favour active managers to attain exposure to the most attractive segments along the yield curve. We have long preferred Australian fixed income, and the RBA's recent decision to hold rates caught us off guard. This is not unprecedented, as the domestic central bank has a history of policy reversals, including the abrupt abandonment of its "Yield Curve Control" (YCC) policy in November 2021 and the decision to "skip" a hike in April 2023. A resumption of the RBA easing cycle is largely priced into the market, and we concur with that view. However, global fixed income appears tactically more attractive as expectations for easing remain underpriced.

The recent passage of the "One Big Beautiful Bill Act" (OBBBA), which primarily extends the

Tax Cuts and Jobs Act (TCJA) that was due to expire this year, has raised (legitimate) concerns about the long-term fiscal position of the US government. While we are sympathetic to the notion that the trajectory of the national debt is unsustainable, the newly passed legislation reflects a continuation of policies that were already widely expected to be renewed rather than a significantly more expansive policy. Its incremental cost is assessed at around 1 trillion USD over 10 years, which, while significant, doesn't represent a major deviation from the pre-existing path. Although tariffs are expected to offset some of the fiscal impact, the budget deficit is expected to rise from approximately 6.5% of GDP in 2025 to potentially 7-8% over the next several years, an elevated but not immediately destabilising level. What is notable, however, is that the stimulus will be front-loaded, with the bulk of the positive fiscal impulse expected between 2026 and 2028. For that reason, it is hard not to remain constructive on economic growth as the "soft patch" caused by the short lived "detox" period comes to a quick end. Government's largesse will continue to act as a meaningful economic tailwind over the medium term, and not just in the US. In addition, oil prices have moderated, now trading around 65 USD per barrel, after a brief spike driven by the "Twelve-Day War". As tensions in the Middle East did not escalate to an all-out and prolonged conflict in June, crude could not stay above 75 USD per barrel. Our base case remains that oil will trade range bound. While we anticipate global economic growth to exceed estimates in 2026, OPEC supply increases should prevent any meaningful upside in prices in the absence of major geopolitical shocks. This has important implications for inflation, equity markets and currencies worldwide. A stable or declining oil price accompanied by a softening US Dollar is positive for Europe and Asia, which are net importers. The US, as a net oil exporter, is less sensitive to oil declines but will benefit from a lid on inflation.

Hence, we retain a neutral-to-overweight stance on growth assets, depending on the risk tolerance of each single mandate, implemented via a well-diversified international tilt. With positive fiscal moves globally, including in Germany and in China, we think that economic growth outside of the US looks promising. US equities remain attractive from a policy support perspective, but valuations are more compelling in the Rest of the World (RoW). The recent (extreme) outperformance of technology and AI related stocks may eventually broaden to other sectors and geographies once again, and we will continue to monitor for signs of such rotation. In summary, inflation is nudging up mainly because of tariffs, but we find it difficult for the uptrend to accelerate to a level that would alarm already circumspect investors. The risk may prove to be manageable. The FED will probably not deliver a cut in July, but it may have to make up for the omission later this year. Tariffs and fiscal policy will remain key variables, but current market pricing may be underestimating the extent of future monetary easing. Lower oil and a softer greenback point to healthier global growth. Overall, we're staying the course with a diversified portfolio positioned to benefit from these trends.

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Important information
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ESG pillar scores are displayed as a number between 0 and 100 with most scores range between 0 and 25. It is the asset-weighted average of the company environmental, social, governance risk scores for the covered corporate holdings in a portfolio. The scores measure the degree to which a company's economic value may be at risk driven by environmental, social, and governance factors. The risk represents the unmanaged risk exposure after taking into account a company's management of such risks.