
Market Review

“Tariff Man” was back in July for more “Liberation”, but this time his chaotic and rapidly changing threats finally translated into defined, negotiated rates, bringing a measure of predictability and clarity around targeted levels. The trade deal reached with Vietnam on the 2nd set a positive tone for the month. Despite accounting for around 4.2% of US total imports, the Southeast Asian country ended 2024 with the fourth-largest trade surplus with the US, after China, the European Union (EU) and Mexico. Beyond the large trade imbalance, Vietnam is increasingly viewed as a key conduit for indirect Chinese exports to the US. This includes not only tariff evasion through the transshipment of Chinese goods via Vietnamese ports, but also the extensive use of Chinese parts and components in Vietnamese products, blurring the latter’s true origin. Hence, the announcement that Vietnam had become the first Asian country to secure a trade deal with the US marked a significant, albeit temporary, de-escalation of trade tensions. The deal sets a 20% duty on most Vietnamese imports, down from the previously threatened 46% reciprocal tariff, and a 40% levy on allegedly “transshipped” items that did not undergo significant processing in Vietnam, closing the loophole of rerouted Chinese goods. In addition, Vietnam gives US products “total access” to its market with no tariff rate.

On July 7th, Trump signed an executive order extending the date on which the so-called “reciprocal” tariffs will take effect to August 1st. However, on the same day, he issued letters to Japan and South Korea threatening a 25% tariff unless his East Asian allies made renewed efforts to strike a deal within three weeks. On July 8th, at a Cabinet meeting, the US President announced plans to impose a 50% tariff on copper imports citing national security concerns, igniting the best one-day gain since 1989 in the price of the red metal (+13.25% in USD terms). On July 9th, he pledged to impose a 50% tariff on “any and all Brazilian products” in response to recent developments in the country, including actions that, in his view, undermine “free elections” and rulings by Brazil’s Supreme Court that disadvantage US-based social media platforms. One day later, Trump ramped up the trade war with Canada with a 35% tariff, despite the neighbour having recently rescinded its controversial Digital Services Tax (DST), effectively reversing a 3% levy that targeted revenues generated by US tech firms. Two days later, it was the turn of the EU and Mexico, US largest trading partners, which were pressured with a punitive 30% levy.

Trump’s aggressive “art of the deal” applied to global diplomacy culminated in the signing of three more bilateral deals in the second half of the month. On July 23rd, the US President announced the “largest trade deal in history”, which sets a flat 15% tariff on most Japanese imports into the US. Automobiles and car parts are included, a crucial provision given that the latter constitute around 80% of Japan’s trade surplus with the US. According to American automakers, the carve-out may put them at a competitive disadvantage given the costlier levies charged on their imports of steel and aluminium. In exchange, Japan made significant concessions for US goods, committing to boost its imports of agricultural (including rice), and aerospace products. In addition, Japan pledged to invest 550 billion USD in the US to be deployed “at President Trump’s direction” with the aim of rebuilding and expanding core American industries. Top chief negotiator Ryosei Akazawa later clarified that only 1% to 2% of the agreed amount will constitute “investment”, with loans making up the bulk of the rest. The US and Japan will split the profits of the investment portion at a ratio of 90-10, while Japan will collect interest payments on the lending and fees on the guarantees provided.

On July 27th, the US and the EU reached a trade agreement that modernises transatlantic relations by setting a blanket 15% duty on most European exports to the US, including major

sectors such as automobiles, pharmaceuticals and semiconductors. The EU committed to procuring 750 billion USD worth of US liquified natural gas (LNG), oil and nuclear energy over the next few years, and to investing 600 billion USD in various US sectors by 2029. The deal also includes substantial purchases of American military equipment and opens European markets to US goods, promising reduced or zero tariffs on several products and streamlining customs and regulatory barriers. Those broad pledges are politically significant but not legally binding as the EU lacks the authority to enforce them since they rely on the decision-making of individual countries and of the private sector. The apparent lack of reciprocal benefits in trade or industrial policy has also the potential to fuel European frustration in time. In fact, several commentators were quick to emphasise the asymmetry in short-term economic benefits and policy leverage, as the EU is seen as aligning more closely with the US, effectively compromising on strategic autonomy, without gaining favourable trade terms or influence in return.

Similar to the deals reached with Japan and the EU, the trade agreement signed with South Korea on July 30th is a framework with minimal implementation details, aimed at averting the imposition of higher tariffs. The structure and the figures are analogous, although on a lesser scale. The US will impose a 15% levy on South Korean exports, including vehicles and auto parts, which combined are estimated to constitute 60-70% of the country's trade surplus with the US. At the same time, US exports to South Korea will enter duty-free. In addition, South Korea pledged 350 billion USD in investments into US-owned projects, spanning industries such as shipbuilding, semiconductors, nuclear power, batteries and biotechnology, and agreed to purchase 100 billion USD of US energy products, particularly LNG, through 2028. Despite the completion of four landmark deals, confusion continued to reign among trading partners regarding applicable rates and their scope until the very last day of the month, when a new executive order consolidated the "reciprocal tariffs" for 69 jurisdictions. On that occasion, the White House clarified that the 50% tariff on copper would be collected on imports of semi-finished products, like wire and pipe, and not on the refined metal itself. US Copper futures, which were trading 28% higher than the benchmark futures on the London Metal Exchange (LME), tumbled 22.05% following the news, their biggest one-day percentage drop in history.

International Equities

US equities continued their relentless ascent in July, with the S&P 500 (+2.17% in USD terms) and the Nasdaq 100 (+2.38%) rallying to new all-time highs. The Dow Jones Industrial (+0.08%) ended the month flat, underperforming both averages for the fourth month in a row and remaining below its early December peak. The "Magnificent Seven" outperformed the rest of the US large caps, with their combined market capitalisation breaking above 19 trillion USD, representing 34.1% of the S&P 500. On July 9th, Nvidia became the first company in history to reach a 4 trillion USD valuation. On July 30th, during extended trade, Microsoft and Meta alone added a combined 440 billion USD in market capitalisation after delivering blowout quarterly reports. 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, finally overcoming the so-called "DeepSeek moment", as they surpassed their mid-February highs. As a result, the S&P 500 High Beta trounced the S&P 500 Low Volatility TR for the third consecutive month, with the latter index ending July modestly in the red. Market breadth continued to narrow despite the S&P 500 Equal Weight Index briefly climbing above its closing highs recorded in November 2024 late in the month. The leadership of the S&P 500 was once again unbalanced in July, with utilities, industrials, technology and energy driving most of the

gains. Conversely, healthcare, consumer staples, communication services, materials and real estate bucked the trend. Momentum outperformed, while value, high dividend, and small-cap factors lagged.

US equities topped the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) for the third consecutive month. Emerging markets came a close second, propelled higher by China. Sentiment towards the country improved on the back of the US lifting restrictions on the export of Nvidia's H20 chips and the Politburo confirming its "anti-involution" push, with leaders signalling their intention to crackdown on disorderly competition and to promote capacity management in key industries. Japan gained some momentum towards the end of the month, after the ruling coalition of the LDP and Komeito lost its majority in the Upper House, leading to speculation of Prime Minister Shigeru Ishiba's resignation in August. However, a sharp depreciation of the Japanese Yen (JPY) weighed on the returns for international investors. Europe was weak as disillusionment over the trade agreement set in, with France calling it a "dark day" for the Old Continent. All in all, the MSCI AC World Daily TR was up +1.36% in USD terms and +3.57% in AUD terms.

Australian Equities

Australian equities broke to new all-time highs in July, and, despite some late month consolidation, they notched their highest monthly close in history. The S&P/ASX 300 jumped +2.42%, buoyed by healthcare and resources, which were the primary beneficiary of a rotation away from banks towards stocks and sectors which had lagged during FY25. All sectors posted gains, with the only exception of financials, which were dragged lower by profit-taking in CBA following its strong gains in Q2. NAB and Westpac ended the month in the red as well, while ANZ rose sharply. Within financials, insurance fell in sympathy with banks, while A-REITs outperformed the general index after the Australia CoreLogic - Median City Values added another +0.6% MoM in June, its third consecutive month of sequential acceleration. Miners and energy tracked the price of iron ore, coal and oil higher. Technology and utilities were standout sectors. Conversely, investors continued to shun consumer staples, which underperformed consumer discretionary for the fourth month in a row. Finally, mid-caps and smaller companies outperformed the Top 20 and value stocks interrupted a three-month losing streak against growth stocks.

International Fixed Income

All major global central banks that met during the month held interest rates steady, taking a "wait and see" approach amid economic uncertainty and evolving trade and inflation conditions. Those include the Bank of Canada (BOC), the Reserve Bank of New Zealand (RBNZ), the European Central Bank (ECB), the Bank of Japan (BOJ) and the FED. Speaking at the ECB forum in Sintra on July 1st, Chairman Powell acknowledged that the central bank would have cut by now were it not for tariffs. He made it clear that the decision to pause was taken "when we saw the size of the tariffs", as "all inflation forecasts [...] went up materially". He defended the institution's "data-dependent" policy by stating that the FED "didn't overreact", as "in fact, we didn't react at all. We're simply taking some time". He has also warned that America's fiscal path is not "sustainable", even though the current level of debt is manageable. The probability of a rate cut going into the FOMC meeting that was held on July 30th lingered around 0% for most of the month. As a result, the decision of the central bank to keep the target rate unchanged at 4.25%-4.50% did not come as a surprise, as was the first double dissent since 1993, with two members of the board, Christopher Waller and Michelle Bowman, voting in favour of a 25-basis point reduction.

The Bloomberg Barclays Global Aggregate Index hedged back to AUD fell 0.15% for the month. The US yield curve transposed higher and flattened, as the hotter CPI report for June 2025 and the rebound in economic growth, with GDP expanding +0.7% in Q2 over Q1, appeared to validate Powell's cautious stance. Credit spreads continued to tighten, with investment grade and hard currency emerging market bonds the best performing segments.

Australian Fixed Income

On July 7th, the RBA surprised markets by keeping the cash rate unchanged at 3.85%. In the accompanying statement, the central bank "judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5% on a sustainable basis". The Australian bond market had fully priced in a 100% probability of a cut ahead of the meeting and the consensus among economists and market participants was firmly for a 25-basis point reduction. Hence, the unexpected pause prompted a repricing of the yield curve, with the 2-, 5- and 10- year yields climbing 14, 20 and 10 basis points to 3.35%, 3.66% and 4.26% respectively. However, domestic fixed income was largely unchanged in July, with the Bloomberg AusBond Composite 0+ Yr declining 0.04%. Later in the month, the Australian Bureau of Statistics (ABS) reported that the seasonally adjusted unemployment rate increased to 4.3% in June, up from 4.1% in May, as hiring stalled. That was the highest jobless rate since November 2021 and beat market expectations, bolstering the case for a cut in August. Moreover, the consumer price index (CPI) decelerated to +2.1% YoY in Q2, missing expectations of +2.4%, and the CPI Trimmed Mean ticked down to +2.7%, firmly within the RBA's target range. The Australian Dollar caught a bid vis-à-vis major European currencies and the Japanese Yen (JPY), but dropped against the greenback and the Chinese Renminbi (CNY).

Real Assets

Global property was down 1.56% in USD terms, but up 0.60% in AUD terms in July. At the regional level, Asia topped the list, followed by Australia. Hong Kong was the best performing market, continuing its recovery from extremely depressed levels. The US suffered modest losses, while Europe weakened notably amid slow transactional activity.

Global infrastructure was down 0.29% in USD terms but up 1.90% in AUD terms for the month. US electric utilities soared on the back of expanded capex plans driven by rising demand from data centres and ongoing electrification of the economy. Mixed operating results weighed on communication infrastructure. Within transportation, on July 29th Union Pacific Corp. and Norfolk Southern Corp. announced an 88.26 billion USD merger to create the first transcontinental railroad in America.

Alternatives

Returns for Alternatives (+0.48%) were mostly positive across strategic mandates in July with performance dispersion decreasing further during the month. Event driven led gains on strong resurgence in M&A activity, while trend following mandates continued to navigate one of their longest drawdowns in history.

Market Outlook

Kevin Warsh, who served as a member of the Federal Reserve Board of Governors (FRB) from 2006 to 2011, during the height of the Great Financial Crisis (GFC), is widely considered the front-runner to succeed Chairman Powell next year. In a Fox Business interview aired on July 8th, he openly called for a “regime change” at the FED, and we think that he may be onto something. His thesis boils down to the monetary policy mix which, in his opinion, is holding down economic growth in the US. He argues that the current “big balance sheet, high rate” combination undermines both policy credibility and the transmission of lower rates to the real economy. On the one hand, the central bank’s bloated balance sheet resulting from the implementation of various iterations of Quantitative Easing (QE) between 2008 and 2022 has repeatedly led to asset bubbles. He unequivocally emphasises that financial conditions are loose today because of “all that money racing around”. That benefits primarily Wall Street, which is feasting on a “booming” IPO market, but “it’s not helping the real economy as much as an interest rate cut would”. On the other hand, “we’re in a housing recession right now” as “first-time homebuyers are having a hard time getting a house” given that “30- year fixed-rate mortgages are closer to 7%”. Warsh argues that the target rate is too restrictive and advocates for cuts to support economic growth and lower borrowing costs. However, to achieve a decline of the yield curve across maturities, not just at the short end, he maintains that the FED should simultaneously “run the printing press a little bit less”, curbing excess speculation and restoring market discipline. In his calculation, “about every trillion dollars” of bonds purchased by the central bank in 2008 were “roughly worth about 50 basis points of cuts”. Hence, in the present context, taking down the FED’s balance sheet “by a couple trillion dollars over time in concert with the Treasury Secretary” could pave the way for 100 basis points of easing. The latter part of the argument was not openly articulated, but it logically follows from his premise. In summary, “interest rates should be lower” and “the balance sheet should be smaller”.

Warsh’s views are certainly unorthodox and have been harshly criticised by economists and commentators. However, we think that they accurately encapsulate the current state of the US economy, one that has been increasingly bifurcating between squeezed lower-income consumers and small businesses borrowing at (elevated) floating rates and wealthier (and older) Americans and large corporations relying on their financial assets and free cash flow for their spending. Hence, we are at least open to the idea that the different methods chosen by the FED, first to ease, then to tighten, may have ended up placing a disproportionate amount of the adjustments required to restrain inflation on the weakest agents in the economy. If that thesis is correct, the question then becomes what is the appropriate course of action for the central bank going into its last three meetings of 2025 (in September, October and December). Chairman Powell has maintained that the impact of tariffs on inflation would become clearer in the coming months, and, accordingly, he has recommended to wait for “further data” before any rate cuts. However, recent inflation prints have been relatively benign, creating a narrowing window for the FED to justify holding steady. The bond market currently expects two reductions in 2025 and three more by the end of 2026. While we agree with the quantum of the move, we diverge from consensus on timing. In our opinion, the central bank should have already eased in July. The market sees an 85% chance of a 25-basis point cut in September, but we wouldn’t rule out a larger 50 basis points adjustment or another cut soon after. There is a realistic scenario in which the FED 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. For that reason, we are reducing our long-standing overweight in Australian fixed income and rebalancing into global fixed income. The Australian yield curve offers an attractive carry but already reflects our expectations. Conversely, we see a mispricing in the US and an opportunity to generate alpha there if our thesis proves correct.

At the start of the year, we anticipated that 2025 would have been a year of transition for the US economy. Our view remains unchanged; if anything, recent developments on the tariffs and the tax fronts have reinforced our conviction. Trump has campaigned on a pro-growth agenda aimed at shifting stimulus from public spending to private sector incentives in the form of tax relief and deregulation. The recently passed “One Big Beautiful Bill Act” ((OBBBA) will provide the latter starting from next year, as the fiscal support will be front-loaded, providing the bulk of its positive impulse in 2026, 2027, and 2028. In the meantime, tariffs are acting as a drag on consumers and businesses. So far, corporations appear to have largely absorbed the cost. The producer price inflation (PPI) has surprised on the upside while consumer price inflation (CPI) has remained subdued. That won’t last forever. Eventually, some portion of those costs will be passed on. And when they are, it’s the bottom half of the income spectrum who will feel it the most. Consumers are already not doing too well. In the first half of the year, the US economy has been propped up by a persistent budget deficit, which stood at 6.41% of GDP at the end of July, and by Big Tech’s AI-related spending boom. According to Renaissance Macro, investments in artificial intelligence, which include both IT hardware and software, have contributed an average of 1% to GDP growth over the past two quarters. Its impact has exceeded the 0.7% contribution coming from consumer spending. To put things into perspective, consumption accounts for 68% of the overall economy, while IT equipment and software represents just over 4%. And the AI “arms race” is accelerating, with Microsoft, Alphabet, Meta and Amazon alone projected to spend close to 400 billion USD in 2025 on AI-related capex, about 120 billion USD more than in 2024, and more than what the EU spent on defence last year. We have reached the stage whereby high levels of government spending and large-scale private sector investments into areas like data centres and next-generation manufacturing are “crowding out” the rest of the economy.

Exploding government borrowing and record-breaking private sector capex for transformational technologies are drawing from the very same pool of available savings and investment capital, leaving significant segments of the economy, especially small businesses (the backbone of job creation) and consumers seeking to buy or refinance homes and cars, behind. That has proved to be a macroeconomic headwind, leading to slower growth in these crucial sectors, further exacerbating inequality. In that context, the current stance of the FED appears to be too tight, and the provision of monetary accommodation could provide much needed relief. On the positive side, the sheer scale of fiscal and corporate spending makes a significant and widespread downturn unlikely. And historically, equity bear markets in the US require a recession to take hold. Sharp, short-term corrections of 10-20%, like the one we saw in April, are to be expected, but we don’t believe that, if and when they materialise, they will mark the start of a sustained downward trend. At the same time, the broader global economy is shifting into a more synchronized growth phase, partly because the Rest of the World (RoW) has realised that it can no longer rely so heavily on US demand to drive its own economic momentum. Nations like China, Japan and those in the EU, which have been trapped in a state of economic malaise in the past few years, are now taking their own stimulus measures seriously. Hence, we retain a neutral-to-overweight stance on

Monthly Market Commentary

With Portfolio Manager, Andrea Ciaccio

As of 31 July 2025



growth assets, depending on the risk tolerance of each single mandate, implemented via a well-diversified international tilt. 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.

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