

Market Watch July 2025

Key events in July 2025

- Global share prices made strong gains in July with optimism that US President Trump's tariff proposals will not be as severe as feared. Europe and Japan have agreed to 15% tariffs being applied to their exports to the US ahead of the August 1st deadline.
- US share prices made new historic highs in July with encouraging profit reports. Investors are confident that US corporate profit margins should benefit from strong productivity gains with Artificial Intelligence (AI). US economic activity has been modest with American consumers being more cautious about their spending. The immediate prospect of lower interest rate settings by the US central bank has faded with the Federal Reserve being cautious about the future impact of tariffs on inflation.
- Chinese shares made solid gains with activity data. China's tariff negotiations with the Trump Administration remain a potential concern ahead of the July 9th deadline.
- Australian shares also made new historic highs in July. The Health Care sector led the charge higher with an 8.7% monthly gain. The Energy sector made a very strong 5.4% gain given President Trump's threat of increased sanctions on Russian oil supplies. There were also strong 5% gains in July for the Information Technology and Utilities sectors. There was a notable exception to this positive run with Financial sector shares disappointing with a -1% decline in July. However, this weakness comes after a very strong performance from Australia's major banks this year.
- Australia's economic data remains modest with slowing jobs growth and the unemployment rate edging up to 4.3% which is its highest level since November 2021. Retail spending has revived in June but this was due to mid-year discounting. There was positive news with Australia's Consumer Price Index (CPI) for the June quarter showing annual inflation at 2.1%. This is the lowest annual inflation result since March 2021. Given this mild inflation result, there is elevated expectations for another 0.25% interest rate cut by the Reserve Bank of Australia (RBA) in August.

Asset class summary

Asset class returns in Australian dollars - periods to 31 July 2025

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	8.9	2.4	8.2	11.9	12.1	12.2	8.7
Global shares (hedged)	9.3	2.2	12.1	14.5	14.0	12.3	9.7
Global shares (unhedged)	7.3	3.2	11.3	17.5	18.4	15.2	11.5
Emerging markets (unhedged)	13.0	3.8	12.0	18.8	13.5	7.7	7.2
Australian property securities	9.6	3.4	10.3	10.2	11.9	13.1	8.3
Global property securities (hedged)	3.0	-0.2	2.7	2.5	-0.4	4.1	2.5
Global listed infrastructure (hedged)	7.4	1.2	3.0	9.1	3.9	7.0	6.4
Australian bonds	3.9	0.0	0.9	5.2	2.7	-0.2	2.2
Global bonds (hedged)	2.5	-0.2	0.4	3.3	1.4	-0.9	1.9
Global high yield bonds (hedged)	4.7	0.2	3.5	6.8	5.8	3.2	4.6
Australian inflation-linked bonds	3.2	0.1	1.3	4.0	4.0	2.6	2.7
Cash	2.4	0.3	1.0	4.3	3.9	2.4	2.0
AUD/USD	4.0	-1.8	0.6	-1.4	-2.6	-2.1	-1.3

Past performance is not a reliable indicator of future performance.

Sources: Australian shares - S&P/ASX 300 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian

bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to July 2025

Global shares (hedged) experienced a rollercoaster ride but ultimately posted an exceptionally strong 12.1% return for the quarter. President Trump's aggressive agenda of sharply raising tariffs saw share markets fall in early April. A strong recovery with the announcement of a '90 day pause' on tariffs then allowed a strong global share recovery. For global shares (unhedged), the stronger Australian dollar has modestly reduced the quarterly return to 11.3%.

Wall Street's benchmark S&P 500 Index ended the quarter at an historic high. Optimism on the potential of AI and solid profit growth by US technology companies continue to be the key drivers for US share gains. Investors are also confident that the US central bank will be cutting interest rates later this year despite the significant inflation risk from tariffs.

Asian share markets delivered impressive performances. Korea (28.6% return), Hong Kong (22.7%) and Taiwan (21.1%) posted very strong returns, in local currency terms, over the past three months. The Japanese share market delivered a 10.1% return, in local currency terms, with the central bank taking a more cautious stance on raising interest rates given President Trump's tariff agenda. China delivered a very strong 12.7% return, in local currency terms, with hopes that China's government will provide more stimulus to counteract US tariffs and a weak residential property market.

Global bonds (hedged) delivered a mild 0.4% quarterly return given concerns about the immediate upside inflation risks with tariffs. Australian bonds delivered a solid 0.9% return as the recent lower inflation results has seen investors become more optimistic that the RBA will continue to cut interest rates this year.

Key events in Australia over the last three months to July 2025

Australian shares delivered an exceptionally strong 8.2% return. The sharpest gain was in the Information Technology sector with a 25.6% return largely due to a recovery in WiseTech. The Energy sector also performed favourably with a 24.7% gain on rising oil prices and geo-political risks. There were also notable positive returns for the Property Securities (10.3%) and Financials (8.5%) which are seen as key beneficiaries of the RBA cutting the cash interest rate by 0.25% to 3.85% in May.

Australia's economy continues to experience slow economic activity in terms of retail spending and housing construction. However, there are encouraging rays of sunshine with lower inflation. Australia's annual inflation rate declined to 2.1% in June which offers the prospect for further interest rate cuts in 2025.

Global prospects

Enthusiasm for AI and technology have been the key factors supporting rising share prices in recent years. Lower global inflation which has allowed central banks to selectively cut interest rates has also been supportive. Typically, a lower interest rate environment can boost corporate profits and thereby share prices.

However, President Trump's return to the White House has generated alarm over the prospect for large tariffs imposed on America's key trading partners. Given that tariffs are a tax that increases consumer prices, the risk of a sharp rise in US inflation is a major threat to both global share prices as well as bond yields.

Hence President Trump's aggressive policy agenda - higher tariffs that impose more difficult trading conditions for the global economy, lower US immigration and population growth with “mass deportations” as well as higher US budget deficits with tax cuts - is a recipe for economic and financial instability.

Global share markets are also likely to be challenged by considerable global political risks. The continuing Russian-Ukraine war is still casting a shadow over Europe which has generated insecurity and motivated large increases in defence spending. The brief and brutal conflict between Israel and Iran in June may prove to be a forewarning of a chaotic Middle East that may threaten global oil supplies. Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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