

## Market Watch June 2025

### Key events in June 2025

- Global shares made solid gains in June despite the war between Israel and Iran and the US military strike on Iran's nuclear facilities. Mild inflation in Europe and the US has generated confidence that central banks are willing to lower interest rates this year. There is also optimism that tariff negotiations between the Trump Administration, China and Europe are making progress ahead of the 9 July deadline.
- US share prices made historic highs in June. Investors are confident that US corporate profits will benefit with Artificial Intelligence (AI), mild inflation and lower interest rates. US economic activity has been modest with American consumers being more cautious about their retail spending despite a solid jobs market.
- Chinese shares made solid gains with improved retail spending and solid industrial production data.
- Australian shares made an historic high in early June but ended the month with mild gains. The Energy sector made a very strong 8.9% gain given the turmoil in the Middle East generating a brief surge in global oil prices. Financial sector shares including the banks also made a strong 4.3% return given hopes that future lower interest rate settings by the Reserve Bank of Australia (RBA) will mitigate credit risks and improve net interest margins. By contrast, Resource sector shares disappointed with a 2.0% fall for June as softer iron ore prices weighed.
- Australia's economic data is a curious mix of strong and weak results. The labour market is encouraging with strong job gains in May and the unemployment remaining stable at 4.1%. However, retail spending is subdued as the 'cost of living' continues to squeeze consumer budgets. There was positive news with Australia's CPI indicator showing annual inflation at 2.1% in May which is the lowest since October 2024. Given this mild inflation result, there is elevated expectations for another 0.25% interest rate cut by the RBA in July.

### Asset class summary

#### Asset class returns in Australian dollars - periods to 30 June 2025

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	6.4	1.4	9.5	13.7	13.3	11.8	8.8
Global shares (hedged)	7.0	3.8	9.3	13.3	15.8	12.6	9.7
Global shares (unhedged)	4.0	2.6	6.0	18.4	19.2	14.8	11.8
Emerging markets (unhedged)	8.9	4.1	6.5	17.5	11.5	7.9	6.5
Australian property securities	6.0	1.7	13.4	13.8	14.8	12.5	8.5
Global property securities (hedged)	3.3	0.4	2.6	8.4	2.2	4.4	3.0
Global listed infrastructure (hedged)	6.2	0.2	2.1	14.7	5.1	7.0	6.7
Australian bonds	4.0	0.7	2.6	6.8	3.9	-0.1	2.3
Global bonds (hedged)	2.7	0.9	1.5	5.4	2.3	-0.6	2.0
Global high yield bonds (hedged)	4.5	1.8	3.4	8.3	7.8	4.1	4.5
Australian inflation-linked bonds	3.0	0.6	2.2	5.3	4.9	2.8	2.7
Cash	2.1	0.3	1.0	4.4	3.9	2.3	2.0
AUD/USD	5.8	1.8	5.2	-1.9	-1.6	-1.0	-1.6

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 June 2025

Global shares (hedged) experienced a rollercoaster ride but ultimately posted an exceptionally strong 9.3% return for the quarter. President Trump's aggressive agenda of sharply raising tariffs saw share markets fall sharply in early April. A strong recovery with the announcement of a '90 day pause' on tariffs then allowed a share recovery. For global shares (unhedged), the stronger Australian dollar has reduced the quarterly return to 6.0%.

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 (21.6% return), Hong Kong (16.8%) and Taiwan (10.9%) posted very strong returns in local currency terms over the past three months. The Japanese share market delivered a 7.6% 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 mild 2.6% return, in local currency terms, given concerns over China's growth prospects with US tariffs and a weak residential property market.

Global bonds (hedged) delivered a solid 1.5% quarterly return even with worries about the immediate upside inflation risks with tariffs. Australian bonds delivered a strong 2.6% 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 June 2025

Australian shares delivered an exceptionally strong 9.5% return despite the global turmoil. The sharpest gain was in the Information Technology sector with a 26.9% return largely due to a recovery in WiseTech. There were notable positive returns for the Financials (15.7%), Communication Services (14.1%) and Property Securities (13.4%) sectors which benefitted from 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 May 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. 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. If the Trump Administration actually implements the proposed tariff increases after the current 90 day pause ends, then the risk of higher inflation and weaker economic activity magnifies across the world.

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 - 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 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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