Market Update – March 2025

Asset class total return to 31/03/2025	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.3	1.0	2.1	4.3	3.6	2.3	4.1
Fixed Term Deposits	0.3	1.2	2.4	5.0	3.5	2.2	4.0
Australian Bonds	0.2	1.3	1.0	3.2	1.7	-0.5	4.3
Australian Bank Hybrids	0.4	0.9	2.1	6.1	3.6	3.5	4.9
Australian Property	-4.8	-6.6	-12.2	-5.4	3.3	13.8	3.7
Australian Shares	-3.4	-2.8	-3.6	2.8	5.6	13.2	3.5
Global Shares (unhedged)	-4.7	-2.4	9.4	12.2	14.6	15.8	1.8
Global Infrastructure (hedged)	1.3	5.0	2.5	15.3	2.8	8.8	3.6

Total returns and yields are before franking credits and fees. Source (in order): RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50 hedged TR.

Financial indicator movement to 31/03/2025	1M	3M	6M	1Y	3Y	5Y	Current Value
AUD/USD (cents)	0.01	0.01	-0.06	-0.02	-0.06	-0.12	0.63
Aust. 10-year bond yield (%)	0.08	0.01	0.42	0.40	2.58	1.76	4.38
Gold US$/ounce (% p.a.)	9.3%	19.0%	18.5%	39.9%	34.4%	19.5%	3,123
Brent oil US$/bbl (% p.a.)	2.1%	0.1%	4.1%	-14.6%	2.0%	7.7%	75
Iron ore US$/t (% p.a.)	-3.7%	-1.0%	9.6%	-6.4%	3.4%	7.8%	103
Copper US$/pound (% p.a.)	11.2%	25.9%	11.7%	25.4%	20.1%	14.6%	5.02

Source: LSEG data. Note: Past performance is not a reliable indicator of future performance.

Global wrap

Market volatility is on the rise as President Trump's policies regarding trade, government spending and war in the Middle East and Eastern Europe are absorbed. US tariffs were originally viewed as a negotiating tactic but now seem to be broader and more permanent than expected.

Post 'Liberation Day', the effective US tariff is around 25% and is budgeted to raise US$600-700bn in revenue, representing 2.3% of GDP. This is effectively a consumption tax on US consumers and a subsidy for US producers. Of course, US consumers are not likely to pay higher prices, and demand is highly likely to contract. When one also considers the cuts to government spending that the Department of Government Efficiency (DOGE) is implementing, it seems the US economy is headed for an inflation and demand shock or stagflation.

While we understand that President Trump is seeking to address the US twin deficits – the trade and budget deficits – his aggressive approach is likely to cause major short-term disruption to the US economy and indeed the global economy.

Further, his US-centric policies are alienating global trade partners and upending global conventions put in place since the end of the Second World War. Many organisations like NATO, WTO and the IPCC are becoming irrelevant without US support.

It is hard to understate how much US policy is disrupting the global outlook right now and one can understand why equity markets are going through a correction and gold has moved to record highs. It is also interesting to see that bond yields are falling, meaning that the market is more worried about the growth outlook than the inflationary impact of tariffs.

On the positive side, a global easing cycle continues, and it is likely that China will continue to provide fiscal and monetary support for its economy. Ironically, US policies might drive other countries into the arms of China, which already seems to be happening.

The US Federal Reserve is also expected to cut the cash rate by 1.0% (to 3.3%) by the end of 2025, which is surprising in itself because US inflation is likely to be rising in the short term, due to tariffs.

Australian wrap

Putting aside concerns over the outlook for global trade for one moment, the news has actually been quite positive for the Australian economy. The economy has been gaining momentum, with December quarter GDP growth of 0.6% (2.4% annualised), although annual growth is still low at 1.3%.

Inflation measures have been moving within the RBA's 2.0-3.0% target range and the RBA has begun an easing cycle, with the cash rate cut to 4.10% (from 4.35%) in February. The RBA has been on hold recently but is highly likely to ease the cash rate again in May, given that inflation should continue to ease, while the downside risks to global growth are rising. Indeed, the market is expecting the RBA to cut the cash rate to 3.0% by the end of 2025.

Turning to fiscal policy, the FY26 Federal Budget was released in late March, ahead of an election due on 3 May 2025. The Budget Deficit is running around 1.0-1.5% of GDP, while gross debt is around 35% of GDP. Government spending is still elevated at 27% of GDP but is unlikely to have a meaningful impact on the near-term growth outlook.

Income tax cuts of $17bn are positive for disposable income but are longer dated, beginning in FY26, with full implementation not until FY27. Energy rebates and bulk billing initiatives are unlikely to turn the dial but will help keep a lid on inflation. Overall, fiscal policy remains supportive, and the level of Federal debt remains modest versus OECD averages. We note the Federal Government retains its AAA credit rating.

Turning to trade, Australia's main exports are iron ore, coal, LNG, education, gold, travel, beef, oil, aluminium and wheat. And its main trading partners are China (37% of exports), Japan (11%), South Korea (7%), India (6%) and the US (5%).

China has reduced tariffs on Australian exports, while the US has implemented a 10% tariff, but the US is far less important than Asia. Major exports to the US include beef, vaccines and metals. For Australia, much depends on how Asia is impacted by US tariffs and how internal stimulus may offset any downturn in trade.

Outlook

The positives of declining inflation and a global easing cycle have been upset by aggressive changes to US trade policy. If US tariffs remain in place, the US seems headed for an inflation shock, followed by a demand shock. Global trade will also be heavily disrupted, particularly if other countries retaliate. We believe that the US has the most to lose in the short term, while other countries are likely to work together on alternative trade policies. The US is at risk of alienating itself from the rest of the world.

In the short term, assuming US tariffs remain in place, we expect lower interest rates, which will be positive for interest-rate-sensitive assets like Bonds, Property and Infrastructure. Equities and commodities are likely to be volatile and we would recommend tilting towards Australian equities, which should benefit from internal stimulus and possibly China stimulus. In addition, the Australian market has a lower trading multiple (than US equities) and a higher yield. While gold is a traditional safe haven, we would point out that it has had a very strong run over the two years and may be subject to profit taking in the short term.

We retain our cautious stance but haven't moved to outright bearish as yet, because there remains high uncertainty as to the longevity of US tariffs. The longer they remain in place, the more bearish the outlook is likely to be.

That said, our asset allocation and stock selection is already defensive in nature and is providing a buffer against market volatility. We are closer to thinking about buying, particularly Australian Equities, than selling at current levels.

Key known risks

1. Trump's policies upset global trade and the US economy;
2. Inflation starts to rise again;
3. China's economy disappoints on growth; and
4. Geopolitics and/or climate change events impact economic activity.

Next key events

- Bank reporting season – May 2025
- Australian Federal election – 3 May 2025
- Fed meeting – 7 May 2025
- RBA meeting – 20 May 2025

Bill Keenan

Portfolio Manager, Sunbird Portfolios

Bill Keenan is the founder of Sunbird Portfolios. Sunbird provides independent advice to leading financial advisers across Australia.

Bill has over 30 years' experience in financial markets and holds a Bachelor of Business in Accounting and a Graduate Diploma in Finance and Investment.

Warnings, Disclosures and Disclaimer

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W www.sunbirdportfolios.com.au

E support@sunbirdportfolios.com.au

M 0403534426

T 03 8840 7886

A Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000