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Markets Reaching New Highs

Quarterly Market Update | 30 June 2025

The never-ending back and forth on tariffs, an escalating war in Ukraine and the Middle East, and growing concern about the US's mounting debt should indicate financial markets are experiencing a fair amount of turbulence, and yet Australian and global stocks appear to be largely unconcerned by the danger signs. By the end of the quarter equity markets were surging and reaching new highs. Investors have benefited from a disciplined focus, rather than reacting to news cycles.

Global shares suffered a significant downturn at the start of April, falling as much as 10% in some markets, when the new US Administration announced larger than expected tariffs on friends and foes alike. However, the tariffs were paused for 90 days only a week later as rising US government bond yields forced the President to hold off the immediate implementation of tariffs.

Since that time there has been much uncertainty around trade, but markets have largely ignored the potential inflationary impact of tariffs. While investors remain in a wait and see mode as the 90-day pause comes to an end, global markets appear less concerned than they were 3 months earlier. The US economy is proving more resilient than many feared, giving the market confidence it can cope with the impact of tariffs.

Despite the fall in the market early in April global markets have recovered from the initial announcement of tariffs to record a strong quarter and financial year return. Developed markets, of which the US is around 70% by market cap, have returned nearly 20% for the previous 12 months, while the Emerging Markets – after years of relative underperformance – have also seen strong returns over the quarter and financial year.

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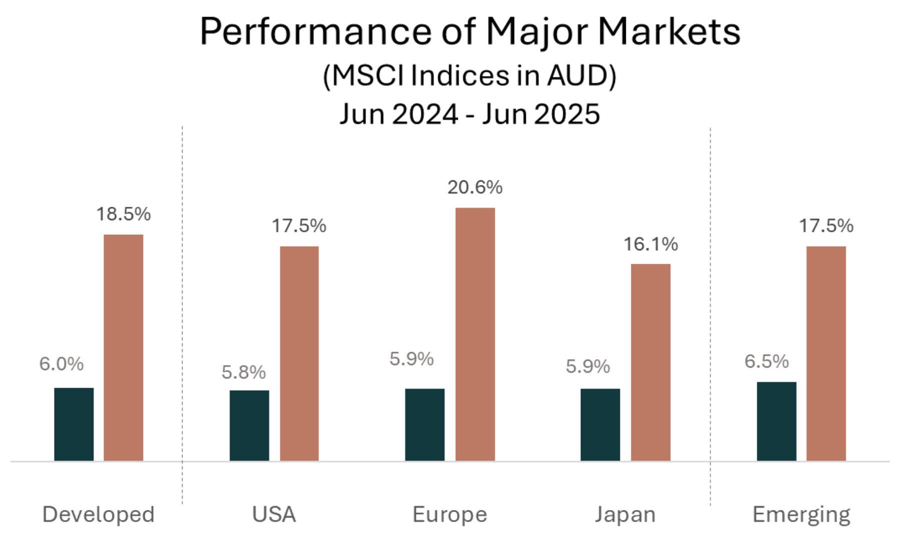
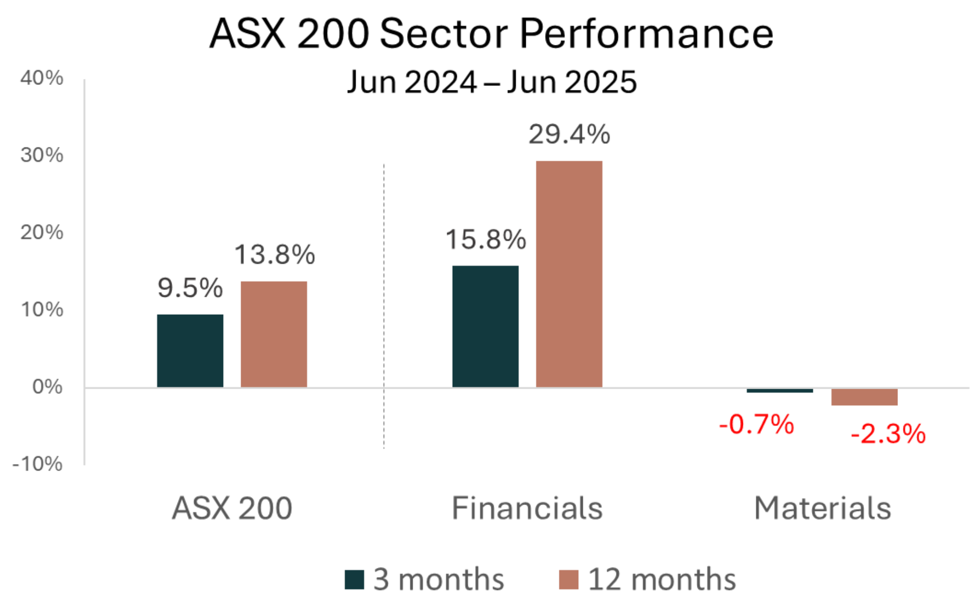
Looking more closely at the Australian market, the story is again one of two divergent sectors. On the one hand, the financial sector has had an excellent FY, mainly driven by Australia's biggest company CBA bank. For reasons that baffle every equity analyst in the country, CBA has returned over 20% for the quarter and an outstanding near-50% for the previous 12 months. The ASX Financial sector represents 35% of the index.



Source: FE Analytics, MSCI indices in AUD

On the other hand, Australia's big mining companies are tied to the price of iron ore. China's steel production – the largest buyer of Australia's iron ore – continues to decline along with the state of the once-mighty property market. China's new home starts – the biggest driver of steel demand – has continued to fall. BHP, Australia's second largest company by market cap, is down close to 10% for the FY. The ASX Materials sector, which includes BHP, RIO and Fortescue, represents over 20% of the index

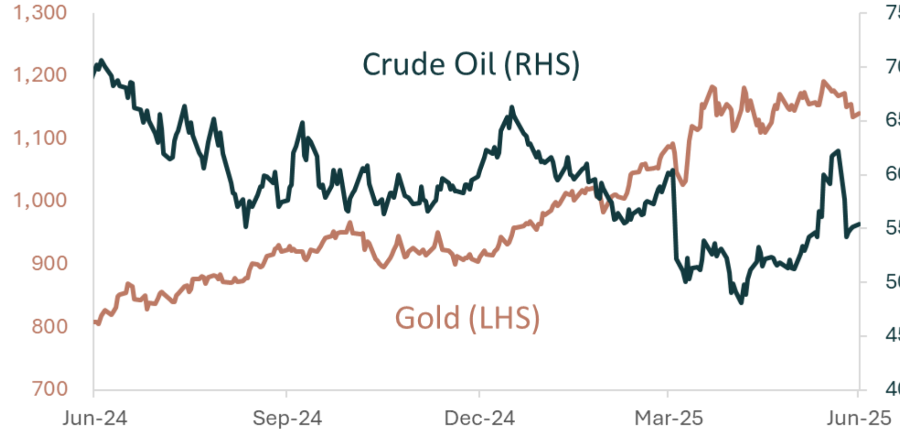


Source: S&P/ASX indices, investing.com. In AUD.

Towards the end of the quarter, financial markets grappled with the Israeli and American bombing of nuclear enrichment sights in Iran, positioned as pre-emptive action to prevent Iran achieving nuclear strike capability, triggered a 10% rise in oil prices which, in turn, saw bond yields fall on a flight to safety trade.

The major threat to the global economy was from the possibility that Iran would blockade the Strait of Hormuz, through which around 20% of global oil production flows. If that artery was blocked it world have a huge impact on global trade. However, equity markets again remained largely indifferent, and after the US entered the fray and a fragile ceasefire was initiated, oil returned to its pre-bombing levels.

Gold and Oil Prices
Jun 2024 – Jun 2025



Source: Dow Jones Commodity indices, investing.com. In USD.

However, over the course of the year crude oil is down by nearly 20% on weak demand. Gold, on the other hand, has benefitted from its safe-haven appeal and is up over 40%. Gold has continued an impressive rally that started 18 months earlier when central banks first signalled that the next movement in interest rates would be downward.

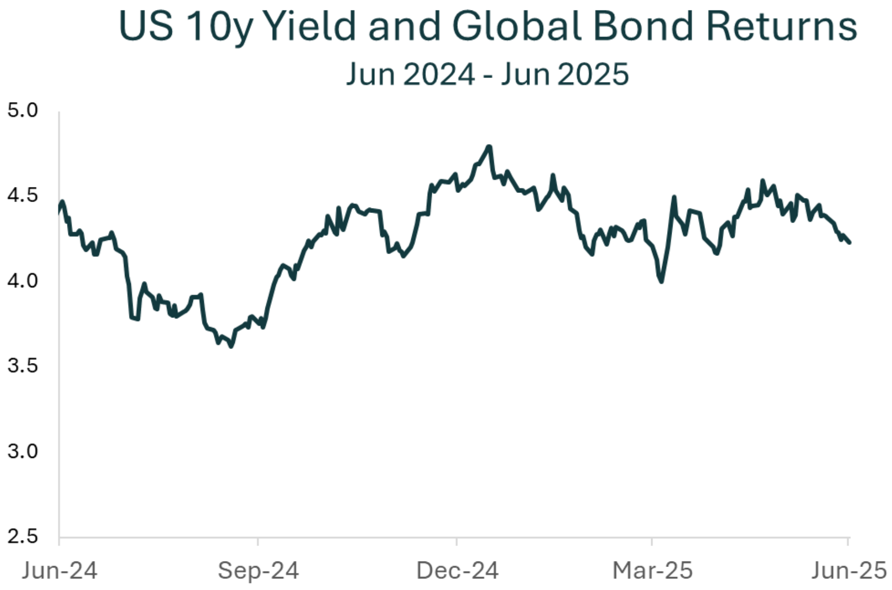
The end of the quarter also saw the final passage of the One Big Beautiful Bill[1] through Congress, which potentially will add as much as 3 US trillion to US Government debt and has led Moody's to downgrade America's credit rating. Furthermore, the USD is falling relative to a basket of other currencies, indicating that sentiment is souring on the USD as the world's reserve currency.

There are two different risk factors acting on the bond market, particularly for global bonds, which are dominated by the behaviour of US Treasury yields. On the one hand, the on-again/off-again risk of tariffs is lurking – a development that could create new economic headwinds that soften growth and, in theory, lower interest rates as investors seek safe havens and the Federal Reserve eases its policy stance to provide stimulus.

But tariffs could also lift inflation, perhaps persuading the Fed to keep rates higher for longer if not raise rates. Another complicating factor is the deepening federal budget deficit. In theory, a deeper deficit implies higher Treasury yields as markets demand greater compensation for risk.

[1] The One Big Beautiful Bill Act includes an extension of tax cuts from President Trump's first term, some incremental tax benefits to both high- and low-income demographics, and targeted spending cuts. The net fiscal impact is estimated at US$3 trillion additional federal debt over the next decade, and the bill itself proposes an increase of the national debt ceiling to accommodate this.

Despite the volatility in the bond market, over the previous 3- and 12- month period 10 year US yields have decreased, resulting positive returns for global bond funds. Australian government 10 year yields have different economic factors at play but nonetheless is closely correlated to US yields and have also decreased over the financial year. The global bond index (hedged to AUD) has returned 5.4% for the financial year, while the Australian bond index has returned 6.8%, in excess of the average Bank Bill rate of 4.4%.



Source: FE Analytics, Blomberg Global Aggregate Bond Index (hedged AUD), investing.com.

Amid the geopolitical and economic turbulence of 2025, diversified investors may end up remembering the first six months of 2025 for something altogether less dramatic. Rather than witnessing a stock market disaster, investors have been rewarded by ignoring economic headlines and fund manager forecasts. As always, the best course of action has been to stay disciplined in a diversified portfolio that has been designed to meet your goals.

Dr Steve Garth | July 8, 2025

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