

Month of June: Markets were resilient in June despite mid-month volatility from tariffs and geopolitical tensions. The S&P 500 hit a record 6,205, while global equities gained - MSCI World rose 3.8% and EM 5.0%. The ASX 200 climbed 1.4%, led by energy and financials. Bond yields fell on rate cut expectations. Commodities rose, and the U.S. dollar weakened 2.5%, hitting multi-year lows against the Euro as monetary policy divergence persisted.

Central Banks Turning Dovish? Expectations for rate cuts grew in June as inflation measures eased and global uncertainty persisted, with bond yields falling and markets rallying. However, the RBA held rates steady in July, awaiting further data before acting. In the U.S., the Fed faces a delicate balance between growth and inflation, with internal divisions over the timing of cuts. Monetary policy remains highly data-dependent, underscoring the need for flexibility in investment positioning.

Tariff Risk: Trade policy will remain a risk in the short term. The Trump administration has pushed out the deadline for negotiations on reciprocal tariffs from 9 July to 1 August. Letters have been sent out to trading partners advising them of their tariff rates should no deal be reached by this date. President Trump has also threatened specific tariffs on copper, pharmaceuticals, and other industries. At the time of writing markets are pricing in little risk that these tariffs are implemented.

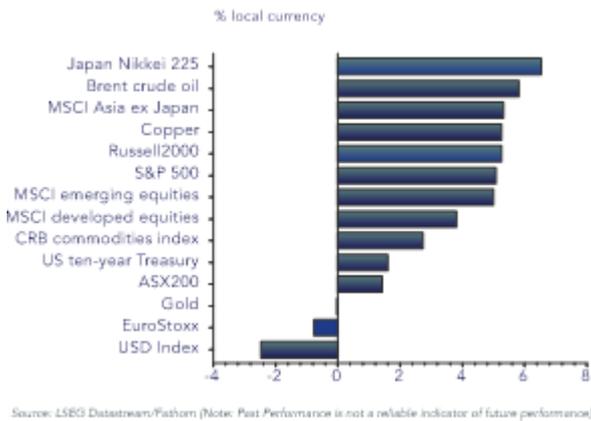
Outlook: With the One Big Beautiful Bill Act now law, U.S. fiscal policy is taking centre stage. Short-term stimulus from tax changes may support growth into 2026, but longer-term deficit concerns loom large. The Fed remains cautious, navigating between tariff risks and fiscal uncertainty. Sector-specific impacts will vary, making it essential to identify companies benefiting from tax cuts and shielded from tariffs. Policy clarity should improve toward year-end, guiding a more stable investment environment.

How to Position: Investors should prepare for an environment of persistent policy uncertainty and diverging global central bank actions. In bonds, volatility creates selective opportunities to add duration. Equities have rebounded sharply, but margin pressure and high valuations call for caution and selectivity. Diversified alternatives such as real assets can help hedge inflation and geopolitical risks. In currencies, flexibility remains key, particularly with the AUD strength reflecting diverging monetary paths and relative insulation from U.S. trade tensions.

Markets in June

The month saw ongoing concerns surrounding tariffs and geopolitics in the Middle East causing some volatility mid-month, but markets remained resilient. In the US, the S&P 500 index achieved a record high of 6,205 by the end of the month. Global equity markets were also broadly higher, with the MSCI World index and the MSCI Emerging Market index increasing by 3.8% and 5.0%, respectively.

Chart 1: June Asset Class Performance



The ASX 200 rose 1.4% in June, supported by a softening labour market and easing inflation, which reinforced expectations for future RBA rate cuts. Easing tensions between Israel and Iran also helped stabilise geopolitical risk sentiment. Energy (+9.0%) led sector returns, followed by financials (+4.3%) and real estate (+1.7%), while materials (-3.1%) underperformed.

Global equities also advanced, with the MSCI All Country World Index gaining 3.9% in local currency terms. Emerging markets (+5.0%) outpaced developed markets (+3.8%), with U.S. equities (+5.1%) driving the MSCI World Index higher, while Europe (-0.7%) and Japan (+1.8%) lagged. Year-European, European, and Chinese offshore equities remained ahead of U.S. peers.

In the U.S., the S&P 500 and NASDAQ reached new record highs, though markets experienced volatility mid-month amid trade, fiscal, geopolitical, and Fed-related news. Asian equities posted a third consecutive monthly gain, led by technology. South Korea's KOSPI rallied after the election of a

market-friendly President, while Hong Kong and Taiwan benefited from renewed AI optimism.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2025)



Australian 10-year government bond yields fell 11 bps in June to 4.16%, while U.S. Treasury yields declined across the curve amid expectations of earlier rate cuts. Japanese yields were little changed as the BoJ slowed tapering and held off on further hikes. Global investment grade and high yield bonds each returned 2.3% in USD terms.

Commodities rose overall, with Brent crude and gold spiking mid-month before paring gains. The U.S. dollar weakened broadly, with the DXY down 2.5% and the Euro hitting its strongest level since the 2021 OPEC+ production hike.

Key Themes

Markets are more dovish than central banks

In Australia, easing inflation and global uncertainty have increased the likelihood of rate cuts by the Reserve Bank of Australia. Markets priced in earlier and potentially more aggressive policy moves, with bond yields falling sharply in June.

This shift in expectations is already influencing market behaviour. Small-mid cap equities rallied strongly through June and credit have responded positively to the prospect of lower rates, while bond markets have rallied.

However, the RBA surprised markets in early July, keeping the cash rate unchanged. The board

ected to exercise more caution than anticipated and to wait until their next meeting in August for the release of another set of labour market data points as well as the full quarterly CPI print.

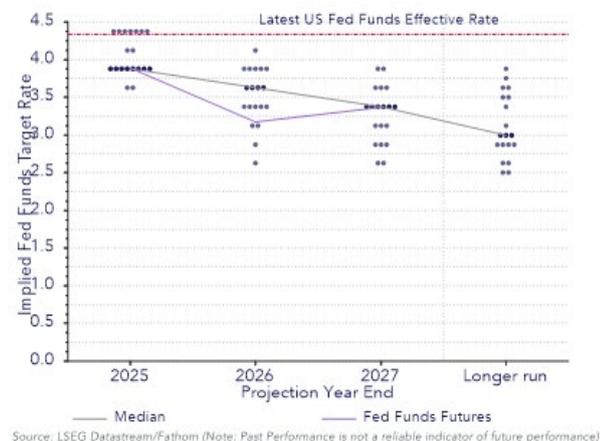
Chart 3: Futures market RBA pricing



In the US, the situation is even less straightforward, with the Fed balancing the need to support growth with the risk of re-accelerating inflation. The Fed’s June dot plot revealed growing internal division, suggesting that the pace and timing of any easing remain highly data dependent.

For investors, this environment underscores the importance of maintaining flexibility. While rate cuts could provide support for asset prices, uncertainty around timing and magnitude requires ongoing monitoring of economic data and central bank signals.

Chart 4: US FOMC Dot Plot



Outlook

From trade policy to fiscal policy in the US?

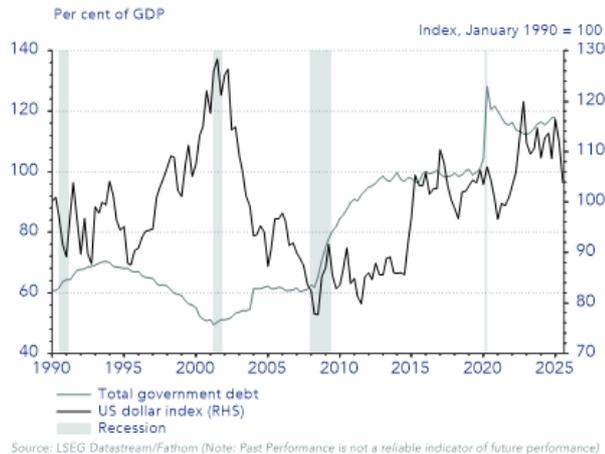
Tariff policy will remain unpredictable and is likely to cause sharp burst of market volatility. At some point though, the Trump administration will want to focus more on their other economic and deregulation policies.

Fiscal policy is likely to play a growing role in shaping the U.S. economic and market landscape in the months ahead. The One Big Beautiful Bill Act (OBBBA) has been signed into law. The legislation introduces sweeping tax changes and spending cuts. While income tax refunds and adjustments to tip and overtime taxation may offer short-term support to growth, particularly in early 2026, the longer-term implications are more concerning. The Congressional Budget Office projects the bill could add USD 3.3 trillion to the deficit, pushing the debt-to-GDP ratio to 130% over the next decade.

This deteriorating fiscal outlook complicates the path for monetary policy. The Fed remains in a holding pattern, weighing the growth-dampening effects of ongoing tariffs and policy uncertainty against the near-term boost from fiscal stimulus. Although the June projections still show two rate cuts in 2025, the growing division within the FOMC suggests rising uncertainty. Markets should prepare for policy that remains data-dependent and reactive to shifts in both inflation and the fiscal backdrop.

While the combined economic impact of tariffs and the OBBBA remains uncertain, the financial implications will differ meaningfully across sectors. Actively identifying companies that benefit from tax cuts and are less exposed to tariff risks will be key to building portfolio resilience.

Chart 5: USD and US Government Debt



Rotation trade back on?

Markets have seen perhaps the beginning of a shift in leadership as investors reposition for a lower-rate environment. In June, sectors such as energy, financials, and real estate led gains in Australia, while technology and consumer discretionary stocks continued to dominate in the U.S. This sector rotation reflects changing macro conditions as well as shifting investor sentiment.

Chart 6: Equal Weight outperforming Mag7



In the US, the Magnificent 7, which has been a key driver of overall market performance is lagging behind, the equally weighted S&P500 index year-to-date.

In Australia, the dispersion between different parts of the market is less extreme this year. Markets had fully priced 3 rate cuts for the remainder of the year. While ASX bank stocks have confounded the research community and run higher, cyclicals and

small caps have started to close the gap, moving higher on rate cut hopes.

Looking ahead, across all markets, selectivity will be key. Companies with strong pricing power, margin resilience, and exposure to structural growth trends are likely to remain in favour. Conversely, rate-sensitive sectors that have benefited from recent tailwinds could face pressure if expectations shift or economic data disappoints. Active management and a focus on fundamentals will be crucial to navigating this evolving market landscape.

Chart 7: Little dispersion on the ASX



How to Position

Cash Rates: Monitor RBA's Policy Stance

The RBA appears to be less of a rush to cut than investors had hoped. With an economy going along ok, the labour market tight and inflation gradually falling back towards target, but not there yet, the RBA can take its time and preserve money policy power for when there is a large risk-off event or a sharp deterioration in conditions.

Bonds: Add duration when the opportunity arises

Volatility is likely to persist in bond yields. The pressure for higher yields will continue via tariff induced inflation and a fiscal position which continues to deteriorate. On the other side, the risk of slower growth in from trade tensions and reduced confidence is likely to shower up in

sluggish growth and lower bond yields. There are likely to be good opportunities to adjust positions over the coming months.

Equities: Looking through the risks

The recovery in Equities, particularly in the US back to record levels, has been one of the largest and fastest recoveries in history. Equity investors are pricing in lower interest rates, little economic downside risk, a quick resolution to the tariff wars and a strong impulse from the tax package that just passed Congress. From here, we believe it will be difficult for corporates to navigate what is a narrow path to maintain margins in a higher cost, lower growth environment.

Alternatives: Emphasise Diversification

With equity market valuations at record high levels, it is a good time to ensure clients are allocated to non-correlated assets. Real assets and infrastructure investments may also serve as effective hedges against inflation and geopolitical risks, that are still very apparent.

Currencies: Maintain Flexibility Amid Global Uncertainties

The Australian Dollar continues its recent appreciation, with the RBA less dovish than markets had priced. The strength of the currency reflects a market that is largely disconnected from the trade war, as well as a beneficiary of the weakness in the USD. We would look to reduce our tactical hedges closer to or above 68 US cents.

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