

Markets in July: Risk sentiment improved meaningfully in July as global trade tensions eased and the One Big Beautiful Bill Act (OBBBA) was passed into law, reducing policy uncertainty. Equities rallied globally, led by the U.S. and emerging markets, while Australian equities posted modest gains. Bond yields declined as markets priced in more aggressive rate cuts, despite central banks maintaining a cautious stance.

US Labour Market Weakness: July's U.S. jobs report revealed a sharp slowdown in hiring, with non-farm payrolls rising just 73,000 - well below expectations - and prior months revised down by a combined 263,000. The unemployment rate edged up to 4.2%, while underemployment hit a four-month high of 7.9%. These trends suggest weakening labour demand and raise concerns about the durability of the current economic expansion.

Capex and AI Resilience: Despite macro headwinds, Big Tech continues to invest aggressively. Q3 2025 capital expenditure across the Magnificent 7 is nearing \$90 billion, with Alphabet, Microsoft, Amazon, and Meta leading the charge. These investments in AI infrastructure, cloud scalability, and supply chain resilience are helping offset economic fragility and underpin earnings strength.

U.S. Corporate Earnings Strength: With over two-thirds of S&P 500 companies reporting to the end of July, 81% have exceeded consensus expectations, with earnings tracking 8.5% above estimates that were revised significantly lower in the run in to reporting season. Technology continues to lead, but financials and consumer sectors are also showing robust growth.

ASX Sector Rotation: Australian sector performance showed a rotation out of financials and into defensives and growth sectors, with Health Care, Energy, and Utilities leading. Over the last three months, mid-cap stocks outperformed large caps, suggesting a shift in investor positioning.

How to Position: After the RBA August rate cut, though subsequent cuts may be slower than markets anticipate, keeping cash, deposit rates and running yields on most defensive assets trending lower. Spread compression in hybrids, corporate bonds, and ABS appears largely complete, meaning returns from diversified credit funds are likely to align more closely with running yields from here, while strategies with warehousing may offer more return resilience. Private credit faces return pressure from competition and lower rates, we favour smaller, more nimble managers in the domestic market who are not under pressure to deploy. Finally, we believe that bond yields are likely to remain volatile as curves probably steepen further from here. We suggest exposure in the belly of the curve via 5–6 year duration corporate bond funds.

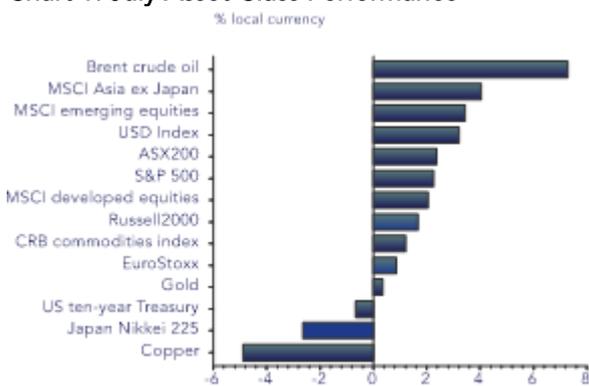
On the growth side, developed market equities look expensive, with economic data expected to weaken potentially leading to some earnings pressure. Emerging markets are likely to continue to benefit from lower rates and a weaker USD in our view. In Australia, small and mid-caps may outperform from here as stretched valuations in large caps are no longer justified given meagre profit growth.

Alternatives tied to default cycles look attractive, while listed property and infrastructure gain from falling rates. Private equity, particularly secondaries, remains compelling, and opportunistic property strategies targeting distress offer upside.

Markets in July

July saw a notable improvement in global risk sentiment, driven by the finalisation of multiple trade agreements with the U.S. ahead of the 1 August deadline. The passage of the One Big Beautiful Bill Act (OBBBA) helped reduce policy uncertainty, supporting a rally across risk assets. While central banks remained cautious, markets priced in more aggressive easing, particularly in the U.S. and Australia.

Chart 1: July Asset Class Performance

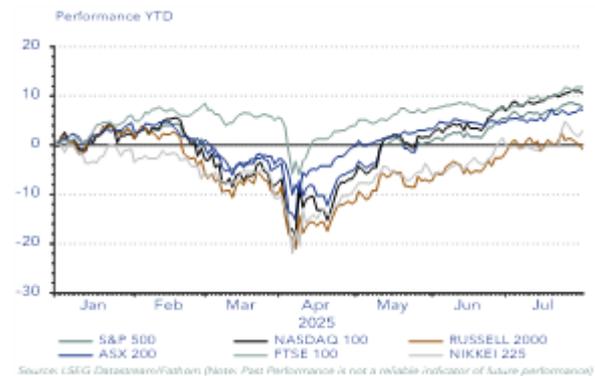


Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Equity markets extended gains in July, with the MSCI All Country World Index up 3.9% in local currency terms. Emerging markets (+5.0%) outperformed developed markets (+3.8%), led by U.S. equities (+5.1%) which reached new record highs. Europe (-0.7%) and Japan (+1.8%) lagged, with political uncertainty and inflation weighing on sentiment.

In Australia, the ASX 200 rose 2.4%, supported by a softening labour market and easing inflation. Health Care (+9.1%) posted the strongest returns, followed by Energy (+5.7%) and Utilities (+5.1%), while Financials (-1.0%) was the only negative performing sector. Small- and mid-cap stocks rallied on rate cut expectations, and cyclicals began to close the gap with large caps.

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



Bond yields declined across most developed markets in July. Australian 10-year government bond yields fell 11 bps to 4.16%, reflecting expectations of future RBA rate cuts. U.S. Treasury yields also declined across the curve, with markets pricing in earlier easing despite fiscal concerns.

Commodities rose overall in July. Brent crude and gold spiked mid-month before paring gains, supported by positive economic data from China and easing trade tensions. Copper saw late-month weakness after clarification that U.S. tariffs would not apply to copper cathodes.

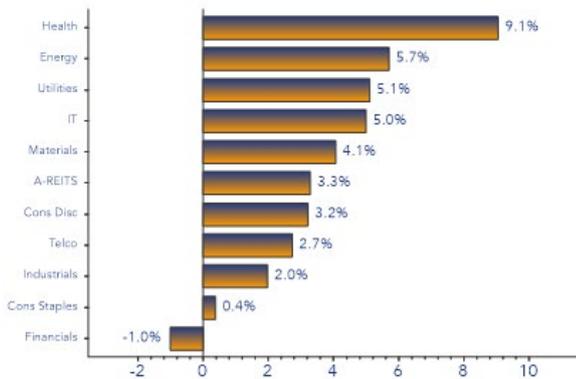
The DXY index gained 3.2% over July to 99.9 level, ending six consecutive months of losses. The euro, Australian dollar, Japanese yen, Chinese yuan and almost all other Asian currencies weakened against the USD.

Key Themes

ASX Rotation

July's ASX sector performance shows a selective rotation, favouring defensives and growth sectors. Health Care led with a 9.1% gain, followed by Energy (+5.7%), Utilities (+5.1%), and IT (+5.0%), reflecting investor preference for earnings resilience and structural growth. Materials (+4.1%) and A-REITs (+3.3%) also posted solid returns, while Financials stood out as the only sector in negative territory, falling -1.0%.

Chart 3: ASX200 sector performance July 2025

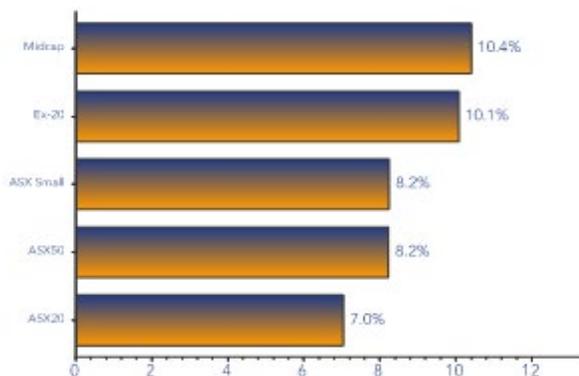


Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Major banks, where investors have until last month continued to bid up, saw muted performance despite broader market strength. This underperformance is notable given their stretched valuations. CBA, for instance, traded near 20x forward earnings and 4x price to book in July, well above its historical average and sector peers domestically and globally.

The divergence between financials and other rate-sensitive sectors like real estate and utilities suggests investors are selectively repositioning and betting on both further rate cuts but potentially lower margins and/or slower credit growth for banks. A rotation is also has also played out in market-cap or size performance with stocks outside the top 20 or mid-cap stocks outperforming the top 20 by over 3% in the last 3 months. It could be too early to call an end to the dominating force of the banks and other large cap stocks, but with valuations at extreme levels versus history, capital has started to flow elsewhere.

Chart 4: ASX Size Performance last 3 months



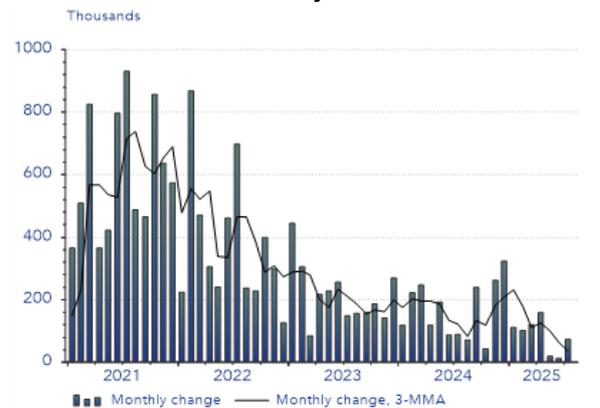
Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Outlook

Can technology capex hold up the US economy?

The July U.S. jobs report revealed a sharp deterioration in labour market momentum, raising concerns about a potential economic slowdown. Non-farm payrolls rose by just 73,000, well below the 147,000 consensus, and downward revisions to May and June figures slashed previously reported gains by a combined 263,000. The three-month moving average now sits at a mere 35,000, its weakest since early pandemic recovery.

Chart 5: US Non-Farm Payroll Growth



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The unemployment rate ticked up to 4.2%, flattered by a drop in participation, and underemployment rose to a four-month high of 7.9%. Notably, 1.8 million Americans have now been unemployed for over 27 weeks, losing access to benefits. These trends point to weakening labour demand and may signal broader economic fragility ahead.

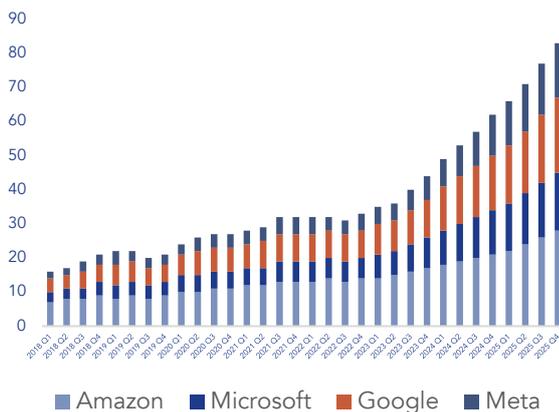
Despite these uncertainties, U.S. corporate earnings remain resilient. Over two-thirds of S&P 500 companies have reported, with 81% beating expectations and earnings tracking 8.5% above consensus. Technology mega-caps continue to lead, driven by AI monetisation, while financials and consumer sectors also show strength.

The Magnificent 7 are aggressively ramping up capital expenditure, signalling long-term bets on AI infrastructure and cloud scalability. There is a clear upward trajectory in spending, with Q3 2025 capex

nearing \$90 billion, almost double the levels seen in 2022. Alphabet alone raised its 2025 capex guidance to \$85 billion, up from \$75 billion earlier this year, citing surging demand for Google Cloud and AI services. This marks its second upward revision in six months, with CFO Anat Ashkenazi hinting at further increases into 2026.

Microsoft is scaling Azure data centre investments, while Amazon continues to expand logistics and cloud infrastructure. Apple’s spend is focused on product innovation and supply chain diversification, and Meta is investing heavily in metaverse infrastructure. Capex is flowing into automation, localised manufacturing, and data sovereignty, helping offset macro headwinds.

Chart 6: Big Tech Capital Expenditure



Source: Company reports

How to Position

Defensive

The most recent quarterly inflation figure has made an August rate cut from the RBA almost certain in the market’s opinion. But the RBA appears to be less of a rush to cut than investors had hoped, so cuts from there on out may be slower than anticipated. Nonetheless, **the direction of cash and term deposits rates is down.**

Much of the spread compression in Hybrids, corporate bonds and asset backed securities in Australia could now be behind us with all these very close to the lows seen in 2022. Therefore, the high single digit returns in funds and ETFs exposed to

these in the past 2-3 years are unlikely to repeat. We would expect to see returns for **short duration diversified credit funds more in-line with running yields**, with the potential for some funds to undershoot these if spreads widen. **Strategies with exposure to warehousing are less sensitive to spread movements and remain a solid investment in this low arrears’ environment.**

Diversified private credit strategies are under some return pressures from lower rates and increased competition. Many funds are seeking fixed rate loans from borrowers or loans with interest rate floors. We continue to favour smaller strategies that are under little deployment pressure. We remain wary of construction risk.

Bond yields are likely to remain volatile as markets second guess what central banks may do next. We favour gaining exposure through corporate bond funds with duration around 5-6 years.

Growth

Developed **equity market** valuations remain at historically high levels, despite tariff and political uncertainty. US have been solid, while outlook statements have been messy. Stocks are trading off tariff policy sentiment, rather than detail. We believe that the second half of 2025 will show a deterioration in economic data, putting equity earnings and valuations under more pressure. Inflation may also become an issue again.

Emerging markets are arguably more interesting to us, with lower interest rates and the tailwind of a weaker USD helping. While in **Australia**, we favour small and mid-cap strategies versus expensive large caps dominating only by banks versus resources.

Despite some recent underperformance, we continue to favour **defensive alternative strategies** that have exposure to a rising default cycle and widening of credit spreads. While in **growth alternatives** it is likely that hedge funds continue to find conditions a little challenging.

Listed property and infrastructure strategies should continue to benefit from falling interest rates, relieving the valuation pressures of recent years.

We see any USD strength as fleeting and see few reasons to get more positive at this stage. We therefore prefer to hedge against a rising AUD.

Conditions for **private equity** across the spectrum from venture, growth to buyout remain solid, especially for new capital. Valuations are less demanding than public markets, while the path to exit for managers with more mature funds remains challenging. Given this view, we have **recently invested in strategies that focus on or have a large allocation to private equity secondaries.**

We believe that opportunistic property strategies have the potential to generate high returns in this market, given there are pockets of distress and motivated sellers. However, we do not believe that investors can simply buy and hold. We are currently allocating to value add and transformative strategies.

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Linara Investment Team

18 August 2025

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