

**Markets in August:** August saw improved risk sentiment as global trade tensions eased and major US legislation reduced policy uncertainty. Equities gained globally, led by Japan and Europe, while bond yields declined on rate cut expectations. Australian equities outperformed, driven by resilient earnings and easing trade tensions.

**Continued US Labour Market Weakness:** July's US jobs report revealed a sharp slowdown in hiring, with non-farm payrolls rising just 73,000 and prior months revised down by 263,000. The unemployment rate edged up to 4.2%, and underemployment hit a four-month high of 7.9%, raising concerns about economic durability.

**Tariffs:** Trump's tariff regime remains aggressive, with a baseline 10% universal tariff and targeted levies on Chinese goods and other imports. Legal challenges to the administration's use of the International Emergency Economic Powers Act (IEEPA) are ongoing, escalating to the Supreme Court. We expect the Trump administration to continue to test the powers of the President and the executive.

**Fed Independence:** President Trump's attempts to reshape the Federal Reserve, including the attempted removal of Fed Governor Lisa Cook, have raised concerns about the Fed's independence. Chairperson Powell's Jackson Hole speech confirmed a pivot toward growth support, with rate cuts expected before year-end.

**ASX Results and Rotation:** The August reporting season showed a rotation out of financials into defensives and growth sectors like Health Care, Energy, and Utilities. Mid-cap stocks outperformed large caps, with companies demonstrating operational resilience and cost control being rewarded.

**How to Position:** Developed market equities appear expensive amid expected economic weakening, while emerging markets benefit from lower rates and a weaker USD. In Australia, small and mid-caps are favoured over large caps.

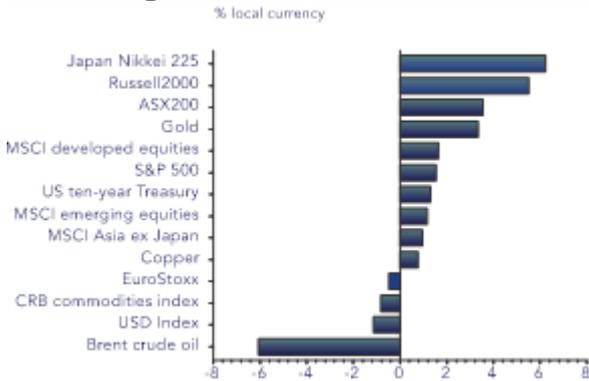
Defensive alternatives linked to default cycles, listed property, infrastructure, and private equity secondaries offer attractive prospects. Credit spreads remain tight, favouring selective direct investments and warehousing strategies.

Private credit warrants caution due to signs of stress in large, diversified funds. Listed property and infrastructure strategies should benefit from falling interest rates, while opportunistic property strategies targeting distress offer high return potential. We prefer to hedge against a rising AUD, and private equity across venture, growth, and buyout remains solid, especially for new capital.

## Markets in August

August saw markets move beyond the volatile tariff headlines as key U.S. trading partners either reached preliminary trade agreements or continued negotiations. The spotlight shifted to the U.S. Federal Reserve, where sharp revisions to non-farm payrolls, Jerome Powell’s Jackson Hole speech, and political pressure on Fed governance drove a repricing of rate expectations.

**Chart 1: August Asset Class Performance**



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

Risk sentiment improved, with global equities posting solid gains. The MSCI AC World index rose 2.0%, led by Japan (+4.3%) and Europe (+1.3%), while the U.S. and emerging markets both returned 2.0% and 1.6%, respectively. Asia ex-Japan extended its winning streak to five months, supported by China’s tech sector rally and a temporary trade truce with the U.S. India lagged, impacted by a new 25% U.S. tariff on select imports.

In the U.S., the S&P 500 climbed 2.0%, reaching new record highs on the back of resilient earnings and rising expectations for rate cuts. The VIX remained steady, averaging just below 16 for the month.

Australian equities outperformed, with the ASX 200 up 3.1% in August. The RBA lowered the cash rate by 25 bps and struck a softer tone on labour market tightness. Earnings proved resilient, and the easing of trade tensions supported cyclical sectors. Materials (+9.2%) led the gains, followed by Consumer Discretionary (+7.6%) and Utilities (+5.3%). Health Care (-13.2%) and Information Technology (-1.7%) were the only sectors to post negative returns.

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



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

Australian 10-year government bond yields edged up 2 bps to 4.28%, while the U.S. Treasury curve steepened sharply. The 2-year yield fell 33 bps to 3.61%, the 10-year dropped 13 bps to 4.22%, and the 30-year rose 4 bps to 4.92%, as Powell’s remarks reinforced expectations for near-term rate cuts while longer-end yields rose on inflation concerns and term premium.

Commodities were broadly higher. Gold and silver rose 3.9% and 7.1%, respectively, while Brent crude declined due to OPEC+ increasing production, raising oversupply concerns.

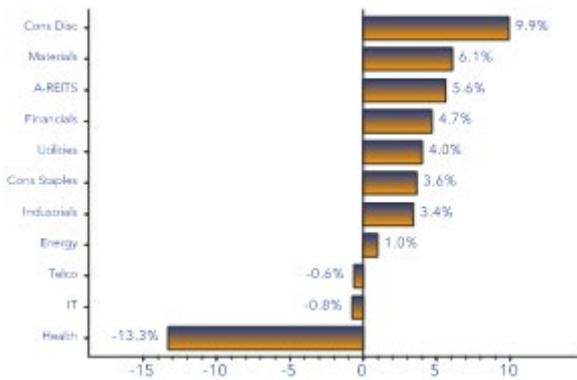
The U.S. dollar weakened, with the DXY index falling 2.2% to 97.8.

## Key Themes

### ASX Rotation

The August reporting season delivered a mixed but broadly resilient set of results across the ASX, with earnings surprising to the upside in several key sectors despite macro headwinds. Materials led the charge, buoyed by strong commodity pricing and cost discipline, while Consumer Discretionary benefited from margin expansion and better-than-expected retail demand. Utilities also posted solid results, supported by regulated asset base growth and inflation-linked pricing.

Chart 3: ASX200 sector performance August 2025



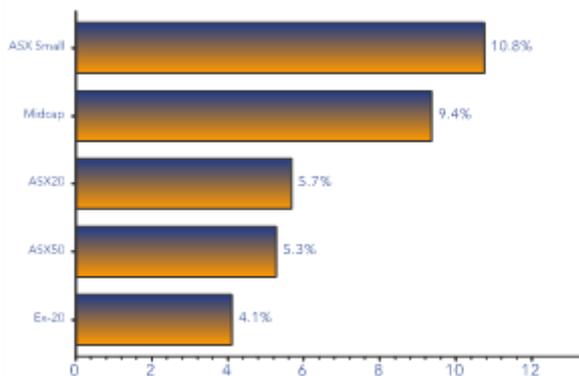
Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Conversely, Health Care was the standout underperformer, with several large-cap names missing expectations due to cost pressures, regulatory uncertainty, and weaker offshore earnings. Information Technology also lagged, impacted by cautious guidance, and delayed enterprise spending.

Mid-cap names generally outperformed large caps, continuing the rotation trend observed in recent months. Companies with domestic exposure and pricing power were rewarded, while those reliant on offshore earnings or facing FX headwinds saw more muted performance.

Dividend payouts remained stable, though capital management initiatives were more selective, with fewer buybacks announced than in prior seasons. Forward guidance was cautious, reflecting uncertainty around consumer demand, interest rates, and geopolitical risk.

Chart 4: ASX Size Performance last 3 months



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

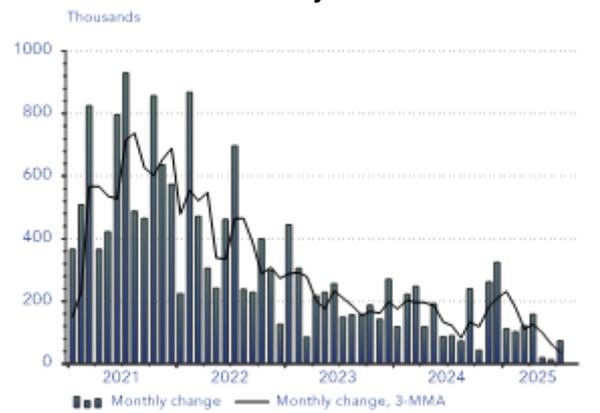
Overall, the season reinforced the bifurcation in earnings quality across sectors and market caps. Investors rewarded operational resilience, cost control, and balance sheet strength, while penalising names with execution risk or stretched valuations.

## Outlook

### US Institutional Independence and Policy Uncertainty

As we move into the final quarter of 2025, the macro narrative is increasingly shaped by institutional risk and political intervention. President Trump’s economic agenda, now marked by attempts to reshape the Federal Reserve, impose sweeping tariffs, and directly invest in strategic industries, has introduced a new layer of uncertainty for investors.

Chart 5: US Non-Farm Payroll Growth



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

The attempted removal of Fed Governor Lisa Cook on allegations of mortgage fraud has triggered legal challenges that may reach the Supreme Court. While Cook remains in her role for now, the episode has raised concerns about the Fed’s independence and the potential for politically motivated appointments. If Trump succeeds in reshaping the Fed, markets may need to reprice risk across rates (with longer tenor bond yields rising to adjust for higher inflation and sovereign risk), a weaker USD, and the potential for erosion in equity market valuations.

Chairperson Powell’s Jackson Hole speech confirmed the Fed’s pivot toward growth support, with inflation risks now framed as “one-time shifts” and labour market fragility taking centre stage. The September meeting is widely expected to deliver a rate cut, with further easing likely before year-end.

### Tariff Policy and Legal Uncertainty

Trump’s tariff regime remains aggressive, but not as bad as feared, with a baseline 10% universal tariff and targeted levies on Chinese goods, non-USMCA-compliant imports, and countries importing Venezuelan oil, all of which remain in place until at least October.

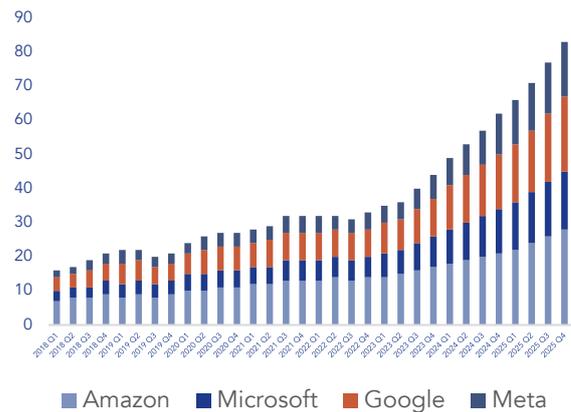
However, the legal foundation for these measures is under increasing scrutiny. Several lawsuits have challenged the administration’s use of the International Emergency Economic Powers Act (IEEPA), arguing that the President has exceeded statutory authority by applying tariffs unrelated to national security. While lower courts have struck down portions of the regime, the cases will be heard in the Supreme Court in November, where legal precedent on executive trade powers remains ambiguous. There is a material risk the Court could side with the President, especially if national security is invoked broadly.

More concerning, however, is the possibility that the administration may ignore adverse rulings or delay compliance, further eroding institutional norms. We have seen this recently with courts ordering the repatriation of deported alleged illegal immigrants. More broadly, we expect the Trump administration to challenge and test the powers of the executive. Should checks and balances in the US start to be ignored, subverted, or fail then we believe markets will start to react adversely.

### Nationalisation?

The \$8.9bn equity investment in Intel, funded via the CHIPS Act, marks a shift toward direct government involvement in strategic industries. While many view this as a “special circumstance,” it reflects a broader willingness to use public capital to secure supply chains. We do not expect this to become a widespread model, but it may support valuations in select semiconductor and infrastructure names.

Chart 6: Big Tech Capital Expenditure



Source: Companies reports

## How to Position

### Defensive

The outlook for Australian interest rates has shifted. While markets previously anticipated further RBA easing, the ongoing strength in domestic economic activity and volatile inflation data now suggest that additional rate cuts may be less likely. This has implications for both fixed income and credit allocations.

Credit spreads remain tight and stable, with many Australian issuers terming out funding for up to 20 years to lock in capital. This trend reflects confidence and balance sheet strength but also limits upside for new direct exposures. We encourage selectivity in credit allocations, particularly in direct investments, where pricing is increasingly full. Strategies with warehousing exposure remain attractive, offering resilience in a low arrears environment and reduced sensitivity to spread movements.

Private credit warrants caution. We are seeing signs of stress in large, diversified Australian private credit funds, including loans with negative equity and delayed impairment recognition. Some managers appear reluctant to mark down assets for fear of triggering capital flight. While our exposures remain robust, clients should be wary of funds reporting negative months, declining returns, or redemption restrictions—these may signal deeper

structural issues. We expect more visible pain in this segment over the next 12–24 months.

## 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.

**Luke Hansen, James Wright, and James Marchetti**  
Linara Investment Team

10 September 2025

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