

INVESTMENT ENVIRONMENT UPDATE

JULY
2025

PATRIZIA
ADVISERS



Investment Environment Update

July saw equity markets continue their strong run as slightly softer macro economic data supported growing expectations for lower interest rates, while increasing government fiscal expenditure largely offset tariff related headwinds. The US S&P 500 rose by 2.2% for the month of July, the UK FTSE was a standout in global developed markets, up 4.2% with the overall MSCI World Index (unhedged) 3.1% higher, helped along by not only stronger equity markets but a slightly weaker Australian dollar (AUD was 1.8% weaker against the USD over July). In Europe over the course of July, the German DAX was 0.7% higher and French CAC increased by 1.4%. Closer to home, Japan's Nikkei 225 index was up 1.4% and the Australian S&P/ASX 300 index was 2.4% stronger in July. Emerging market equities continued their strong run, with a gain of 3.8% on an unhedged basis in July, notwithstanding renewed tariff concerns, particularly between the US and India. Global fixed income was slightly negative with a return of -0.2% in July similar to Australian fixed income which fell by -0.04%. Australia's RBA cut rates by 25 basis points at its August meeting and markets are expecting a rate cut in the US at the upcoming Fed Reserve Board meeting.

Through the course of July there were more tariff announcements with the Trump administration announcing trade deals with a range of countries including Japan, South Korea and the United Kingdom and it has flagged good progress with many other countries. A broad conclusion from finally executed tariff agreements has been surprise that tariffs have remained so high, even after countries have committed to additional purchases or investment in US goods and services. As of early August, Yale University estimated that the average effective tariff rate imposed by the US on goods imports stood at 18.6%, the highest since 1933. While these tariffs will help reduce the trade deficit with other countries, it is resulting in higher costs for US consumers and businesses. The introduction of the One Big Beautiful Act has resulted in a range of tax cuts and some additional expenditures which is providing a considerable fiscal injection and helping offset the impacts of the higher tariffs. Going forward, tariff negotiations and outcomes for US/India trade and US/China trade will remain a focus for markets.

Asset Class Returns	July (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.30	0.97	4.31	3.94
Australian Fixed Income	-0.04	0.88	5.22	2.74
International Fixed Income	-0.15	0.39	3.34	1.40
Australian Equity *	2.43	8.25	11.88	12.08
International Equity - Developed (unhedged) *	3.12	11.29	17.49	19.10
International Equity - Developed (hedged) *	2.06	12.21	14.42	14.55
International Equity - Emerging (unhedged) *	3.77	11.99	18.85	13.50

* Returns reflect the relevant accumulation indices.

Source: Bloomberg, Datastream, PATRIZIA.

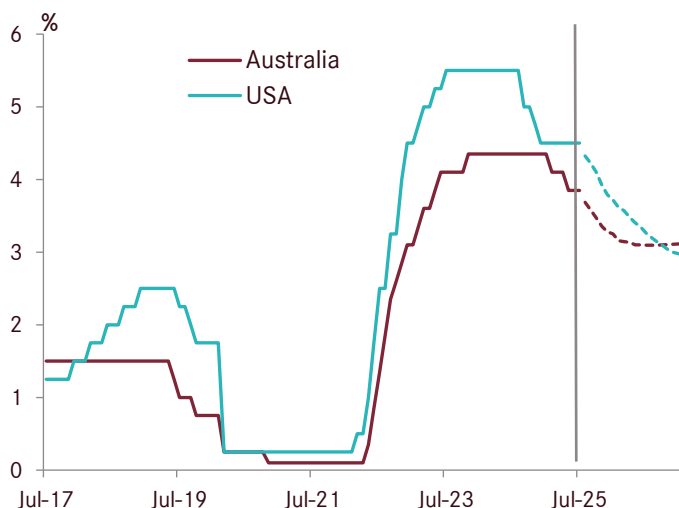
In July, US economic data continued to present a fairly mixed outlook with strong GDP offset by some soft labour market data (particularly driven by revisions and calculation methodology changes) and softer than expected survey results from leading economic data. Non-farm payrolls rose by 73,000 in July, well below expectations of a rise of 110,000 and there were large revisions of historical data with June being revised down from growth of 147,000 to just 14,000 and May's number was also revised down by 125,000. Notwithstanding the revisions due to changes in how the estimate is derived, the jobs growth is slowing and is now at levels consistent with a weak economy. ISM data has also been soft with the Services Index falling to 50.1, down 0.7 from June and the Manufacturing Index falling by 1 point to 48 in July.

In Q2, the US grew at an annualised rate of 3%, well ahead of expectations for a rise of 2.4%. While on face value the strong growth was a positive, it reflected a 30% fall in imports (which followed a 38% increase in imports in Q1) which were a byproduct of consumer and business responses to tariffs (imports were pulled forward dramatically ahead of tariffs coming into effect and then have fallen sharply after they came into effect). Consumer spending remained robust though is clearly slowing compared to levels seen in recent years. Core inflation increased in June, growing to an annualised rate of 2.9%, slightly behind expectations of 3.0%. The tariffs are pushing the costs of imported goods higher, that said, overall, there are signs that inflation is likely to stabilise at levels above the Federal Reserve target over the medium to longer term.

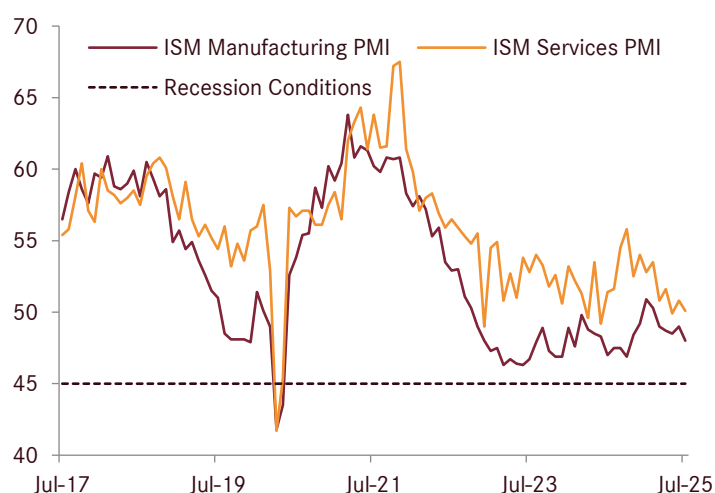
The Federal Reserve Chair has been criticised extensively and publicly by President Trump for not cutting interest rates further. Fed Chair Powell has cited uncertainty around the implications of tariffs on inflation and a reluctance to cut interest rates too early. Political pressure is mounting on the Fed to cut rates, and this is extremely poor practice as it erodes the independence of the Federal Reserve in setting monetary policy. Following the surprise early resignation of Fed Governor Adriana Kugler, President Trump has selected Stephen Miran as an interim governor at the central bank who is broadly recognised as being loyal to Trump and supports the call for lower interest rates and running the argument that tariffs are not likely to be inflationary. Given the US's unsustainable debt and deficit position over the longer term, growing pressures for the US to try and inflate out of its debt problems are likely to be a feature of the investment landscape going forward. While the Fed Reserve didn't cut interest rates at its July meeting, markets are expecting it to cut at its September meeting.

In Australia, economic data has remained mixed over June and July though sustained improvements are likely to be linked to further cuts in the cash rate following the RBA's decision on 12 August 2025 to bring the cash rate down by 0.25% to 3.6%. Retail sales rose considerably in June, increasing by 1.2% from the month prior and well ahead of expectations of a 0.4% increase. The Westpac Melbourne Institute Consumer Sentiment Index increased to 93.1 in July, the fourth straight increase, however they remain at levels more consistent with a weak consumer. The unemployment rate had a surprising increase to 4.3% in June, considerably higher than expectations of 4.1%. Along with the softness in the labor market data, the monthly inflation measure dropped to 1.9% in June from 12 months prior, the lowest reading since March 2021. While this measure can be volatile, if supported in coming months with further disinflation this will allow the RBA to cut cash rates further.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



Source: Bloomberg

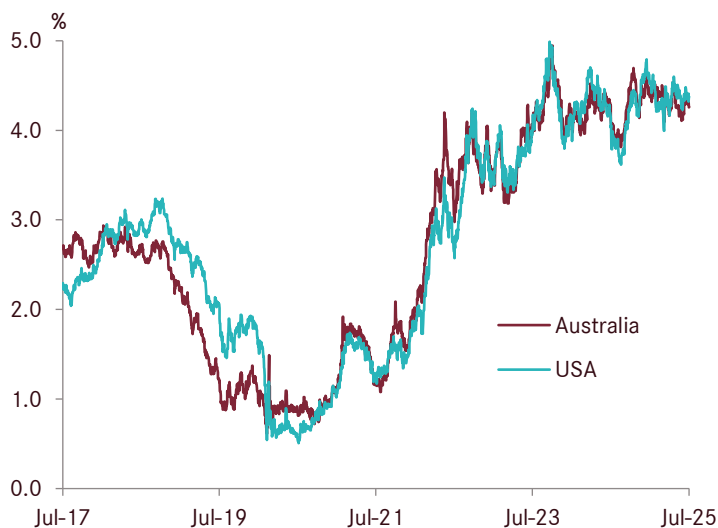
The European economy fell sharply in Q2 with GDP growing by just 0.1%, though this was slightly ahead of expectations of a 0% growth outcome and reflected the unwind following Trump's Liberation Day tariff announcements. There is growing caution across the business community along with consumers and this is driven significantly by US tariffs along with the fallout of the unrest in the middle east as well as the ongoing Russia/Ukraine war. There was some green shoots though with the HCOB Eurozone Composite PMI rising to 50.9, the best reading in seven months. The Services PMI improved to 51.0 from 50.5 in June and the Manufacturing PMI increased to 49.8 from 49.5. Eurozone inflation remained flat at 2.0% year-on-year in July for the second month in a row, aligning with the ECB's target, though was slightly above market expectations of 1.9%. Core inflation was also unchanged at 2.3%, where it has remained for the last three months, indicating stable underlying price pressures. As expected, the ECB kept interest rates unchanged in July, leaving the deposit facility rate at 2%. Retail sales in the Euro area grew at 3.1% for the 12 months to end June, the most since September 2024 and well ahead of expectations of an increase of 2.6%.

The UK economy experienced modest growth, supported by increased seasonal consumer spending and improving business dynamics (composite leading indicator increased to 101.2 points and marks the sixth straight monthly increase). The labour market showed further signs of softening with the number of payrolled employees falling by 41 thousand in June, the fifth straight fall and the sharpest fall since November 2020. Inflationary pressures continued in June, with annual inflation up to 3.6%, the highest since January 2024 and well ahead of expectations. The continuing and growing underlying inflation pressures put the Bank of England in a tight position and its decision to cut rates by 0.25% to 4.0% in early August was made with a 5-4 vote, citing further cuts to interest rates will be dependent upon inflation moderating further.

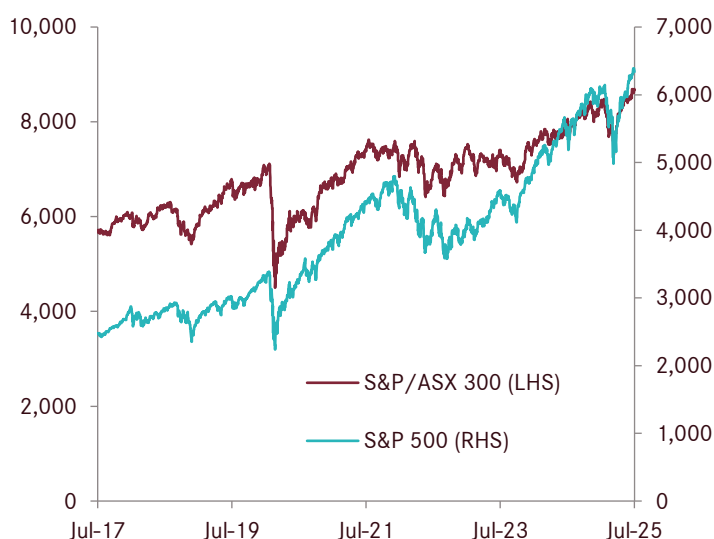
Japan has entered into a trade agreement with the US that at face value appears very generous to the US. Tariffs on Japanese imports will fall from the previously announced 25% to 15% (before Trump became US President the tariffs were just 2.5%). Japan has committed to investing \$550 billion in the US (this will mainly be done through loans) and Japan will open its markets to US exports (targeting semi conductors, pharmaceuticals, automotive manufacturing and AI). Inflation continues to remain strong (Japanese core inflation was 3.3% in the 12 months to end June), supporting the call for further interest rate increases, though the Bank of Japan is reluctant to increase rates too quickly. As a consequence, the Japanese Yen remains under persistent downwards pressure.

China's economic data continued to be soft though positive in June and July. GDP for Q2 came in at 1.1%, which was ahead of expectations, as various fiscal and monetary support initiatives over the last six to 12 months helped stimulate activity. The Caixin Manufacturing Index fell to 49.5 in July, down from 50.4 in June while the NBS Service Index fell to 50.1 in July from 50.5 the month prior. Core consumer inflation increased by 0.8% in the 12 months to July and marked the six straight increase. In mid August, the Trump Administration announced a further 90-day delay before tariffs come into effect to give time to try and negotiate a trade deal with China.

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Source: Bloomberg

Index Returns to 31 July 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	2.4	8.2	2.4	11.9
S&P/ASX Small Ordinaries Accumulation Index	2.8	9.7	2.8	11.5
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	2.1	12.2	2.1	14.4
MSCI World (ex Australia) Index (unhedged AUD)	3.1	11.3	3.1	17.5
MSCI Emerging Markets Index (unhedged AUD)	3.8	12.0	3.8	18.9
Property				
S&P/ASX 200 A-REIT Accumulation Index	3.3	10.4	3.3	10.2
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	-0.6	1.8	-0.6	1.4
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	0.4	0.9	0.4	4.4
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	1.4	2.9	1.4	9.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.0	0.9	0.0	5.2
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	-0.2	0.4	-0.2	3.3
FTSE WGBI ex-Aust (hedged AUD)	-0.3	-0.2	-0.3	2.4
Cash				
Bloomberg AusBond Bank Bill Index	0.3	1.0	0.3	4.3
Commodities				
Gold (USD per ounce)	0.3	-0.1	0.3	36.0
Copper (USD per metric tonne)	-2.6	5.3	-2.6	4.2
WTI Crude Oil (USD per barrel)	6.4	19.0	6.4	-11.1

Australian Dollar versus Foreign Currencies to 31 July 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JULY 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.64	-1.8	0.6	-1.8	-1.4
British Pound Sterling	0.49	1.7	1.6	1.7	-4.3
Euro	0.56	0.8	-0.1	0.8	-6.8
Japanese Yen	96.90	2.4	6.2	2.4	-1.4

Source: Bloomberg



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