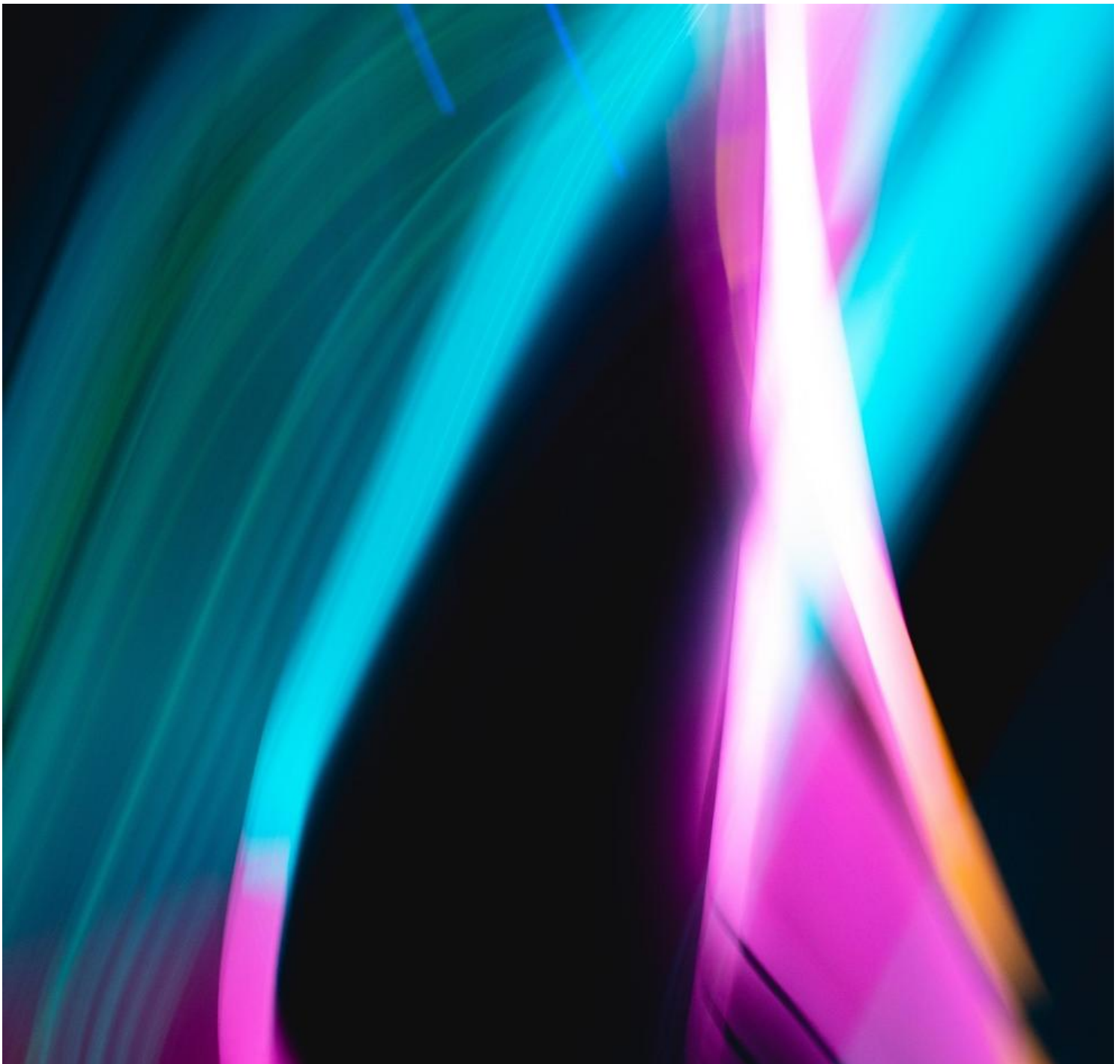


INVESTMENT ENVIRONMENT UPDATE

SEPTEMBER
2025

PATRIZIA
ADVISERS



Investment Environment Update

Commodities posted a mixed performance in September, shaped by shifting macroeconomic and geopolitical dynamics. Gold surged 11.6% as investors sought safety amid global uncertainty, while copper rose 3.7%, reflecting resilient industrial demand. In contrast, WTI crude oil fell 2.6%, pressured by OPEC+’s decision to raise production by 137,000 barrels per day starting November. Adding to the evolving landscape, a landmark ceasefire agreement between Israel and Hamas—part of a broader U.S. brokered peace initiative has begun to ease geopolitical tensions in the Middle East, a region critical to global energy markets. While this development could reduce the geopolitical risk premium embedded in oil prices, lingering regional uncertainties and the implementation of the peace deal will remain key factors to watch in the months ahead.

The ISM Services PMI fell to 50 in September from 52 in August, signalling the services sector is slowing. The ISM US Manufacturing PMI rose to 49.1 in September 2025, up from 48.7 in August but still in mild contraction. The Federal Reserve’s decision to cut rates by 25 basis points to 4.0%–4.25% at its September meeting was driven by a weakening labour market and softening consumer data. Markets interpreted the cut as a “risk management” move, with S&P500 rallying 3.5%. However, dissent within the Fed, most notably from Governor Stephen Miran who advocated a larger cut highlighted internal divisions.

The U.S. government shut down, for the first time in over 6 years, on October 1 due to a budget standoff between Republicans and Democrats, has halted non-essential services and furloughed hundreds of thousands of federal workers. Key agencies like the Bureau of Labor Statistics have suspended operations, delaying vital economic reports such as the jobs and CPI data. This complicates the Federal Reserve’s decision-making ahead of its October meeting. Historically, however, markets have largely shrugged off shutdowns, focusing instead on broader economic trends.

Major factor driving the current rally in U.S. equities is the explosive growth of the AI sector. Massive capital inflows have poured into AI-related ventures, further amplified by Nvidia’s bold decision to invest US\$300 billion into OpenAI. This deal raises questions about whether Nvidia is investing heavily to prop up the market and keep companies spending on its products (circular investments).

Asset Class Returns	September (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.29	0.92	4.19	4.05
Australian Fixed Income	0.10	0.40	4.09	4.25
International Fixed Income	0.68	1.02	2.44	3.96
Australian Equity *	-0.65	4.99	10.76	15.03
International Equity - Developed (unhedged) *	1.99	6.14	23.03	22.63
International Equity - Developed (hedged) *	3.28	7.56	16.87	21.73
International Equity - Emerging (unhedged) *	5.82	9.41	22.81	17.02

* Returns reflect the relevant accumulation indices.

Source: Bloomberg, Datastream, PATRIZIA.

On 19 September, US President Trump announced that H1B visa costs would increase to US\$100k to incentivise companies to hire locally. The H-1B is a non-immigrant visa, meaning it allows foreign professionals to work in the U.S. temporarily in specialised fields like technology, engineering, and science. It is important to note that H1B visa holders and their families contribute tens of billions annually to the US economy through payroll taxes, local spending and business creation. According to a BBC report, due to this executive order, American universities might face a decline in international STEM enrolment, potentially eroding the US academic pipeline, talent pool and affecting the revenue streams and academic research for these universities.

The S&P Global Australia Manufacturing PMI fell to 51.4 in September from 53 in August, indicating that the sector continued to expand but at a slower pace. The S&P Global Australia Services PMI Business Activity Index slipped to 52.4 in September from 55.8 in August, signalling continued growth in services activity and extending the expansion streak to 20 months, though at the weakest pace since June. Growth in new business softened, partly due to a renewed decline in new export orders, while companies continued hiring at a solid pace.

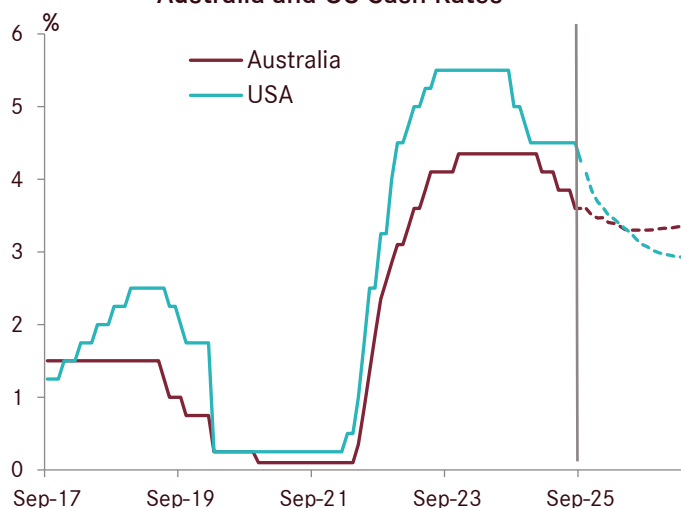
On 30 September, the Reserve Bank of Australia (RBA) decided to keep the cash rate unchanged at 3.60%. While inflation has significantly declined since its 2022 peak, the pace of decline has slowed, and recent data suggests inflation in the September quarter may exceed earlier expectations. Labour market conditions remain tight, and the unemployment rate remained at 4.2%. Despite easing wage growth, weak productivity and high unit labour costs persist. The RBA highlighted ongoing uncertainties both domestically and globally, including trade policy risks and geopolitical tensions.

The downgrade of the ACT's credit rating has introduced upward pressure on borrowing costs for the state, with spreads likely to widen as investors reassess risk premiums for semi-government debt. This shift could dampen fiscal flexibility and slow infrastructure investment, especially in a climate already tightening due to macroeconomic headwinds. Compounding this, ASIC's recent intervention in the private credit market—highlighting governance lapses and valuation risks—has sent ripples through Australia's non-bank lending sector. Private credit providers may face reduced investor appetite and higher compliance costs, tightening liquidity across the board. Together, these developments signal a more cautious credit environment.

The collapse of France's government again amid failed austerity reforms and soaring debt has rattled eurozone markets, pushing French bond spreads higher and exposing deep political fragmentation in one of the EU's core economies. Investors are increasingly wary of France's fiscal trajectory, with its debt-to-GDP ratio projected to hit 125% by 2030, raising fears of contagion across the eurozone. Simultaneously, Poland's invocation of NATO's Article 4 following a major Russian drone incursion into its airspace has escalated geopolitical tensions in Eastern Europe, prompting emergency consultations among NATO allies. This dual shock—political instability in Western Europe and rising security threats in the East—has injected volatility into eurozone financial markets, dampened investor confidence, and could lead to tighter credit conditions and slower regional growth if uncertainty persists.

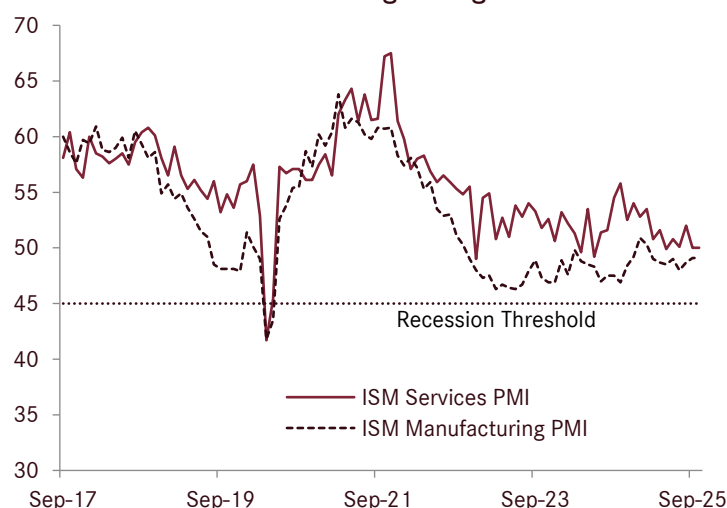
Euro area CPI rose to 2.2% in September, up from 2.0% in the previous three months, moving slightly above the European Central Bank's 2.0% mid-point target, according to preliminary data. The Euro Area seasonally adjusted unemployment rate edged up to 6.3% in August, from an all-time low of 6.2% in July. The HCOB Eurozone Services PMI rose to 51.3 in September 2025 from 50.5 in the previous month and was the fourth consecutive period of growth. As expected, the European Central Bank kept its key interest rates unchanged at its September meeting, with the deposit facility remaining at 2.00% and the main refinancing rate at 2.15%.

Australia and US Cash Rates



Source: Bloomberg

US ISM Purchasing Manager Indices



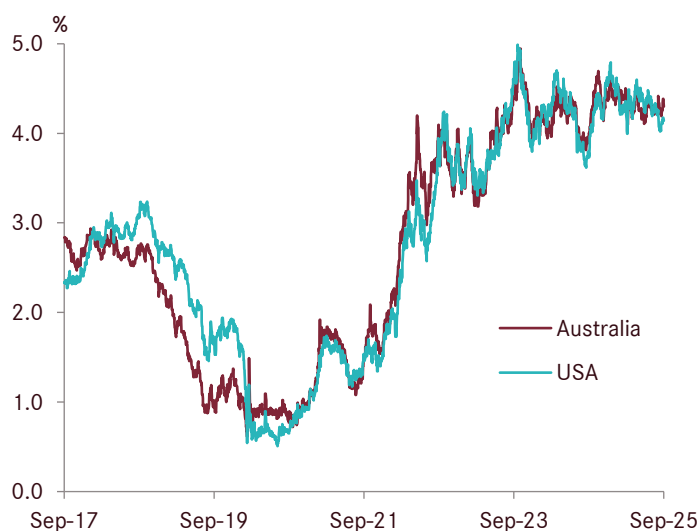
The S&P Global Japan Services PMI rose to 53.3 in September from 53.1 in August, signalling the sixth straight month of expansion in the services sector. The S&P Global Japan Manufacturing PMI dropped to 48.5 in September from 49.7 in August. The latest reading marked the 14th contraction in factory activity over the past 15 months and the steepest decline since March, driven by weaker demand from China and the impact of US tariffs. Japan's unemployment rate rose to 2.6% in August from 2.3% in the previous month, marking the highest reading since July 2024. Retail sales in Japan unexpectedly fell by 1.1% year-on-year in August. Sluggish wage growth continued to erode consumer purchasing power amid elevated cost pressures and unseasonal weather that dampened shopping activity. Japan's core inflation increased 2.7% year-on-year in August, easing for the third month in a row to its lowest level since November 2024. Japan's trade deficit decreased significantly to JPY 242.5 billion in August from JPY 711.4 billion in the same month a year earlier, mainly due to a steep drop in imports. The Bank of Japan held rates at 0.5% in September and surprised markets by announcing plans to sell its holdings of ETFs and REITs—signalling a gradual shift toward policy normalisation.

Japan's government collapse following Prime Minister Shigeru Ishiba's resignation has deepened political instability at a time when the country faces mounting economic headwinds. The ruling coalition's loss of majority in both houses of parliament has created a leadership vacuum, stalling key fiscal and structural reforms. This uncertainty comes amid rising inflation, a weakening yen, and a bond market under stress—Japan's 40-year bond yields recently hit their highest levels since the 1990s, triggering over \$60 billion in paper losses for insurers. Investor confidence is faltering, with auctions for long-term government debt seeing record-low demand. The political turmoil has also complicated Japan's trade negotiations, particularly with the U.S., where tariff threats have added pressure to an already fragile export sector. The pressure is on the newly elected PM Sanae Takaichi as Japan grapples with the highest debt-to-GDP ratio in the developed world and a rapidly aging population, the collapse of its government risks tipping the economy into stagflation and undermining its long-term reform agenda.

The British economy grew 1.4% year-on-year in Q2 2025, revised higher from 1.2% in the initial estimate and compared to an upwardly revised 1.7% rise in Q1. The S&P Global UK Services PMI fell to 50.8 in September from a more than one-year high of 54.2 in the previous month. This marked the weakest pace of expansion since April, as subdued economic conditions and heightened market uncertainty weighed on output growth. The S&P Global UK Manufacturing PMI dropped to 46.2 in September from 47.0 in the previous month. This is a five-month low and marks a twelfth straight month of contraction. Headline annual inflation rate held steady at 3.8% in August, unchanged from July and remaining near the highs last seen in January 2024, in line with expectations. While the annual core inflation rate eased to 3.6% in August from 3.8% in the previous month, marking the lowest reading since May.

China's official NBS Manufacturing PMI rose to 49.8 in September from 49.4 in the prior month. While factory activity contracted for the sixth straight month, the pace of decline was the slowest in the sequence, as manufacturers anticipated additional policy support from the government to boost domestic demand. China's surveyed unemployment rate edged higher to 5.3% in August, slightly above market expectations and the prior month's reading of 5.2%. The latest figure marked the highest level since February.

10 Year Government Bond Yields



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



Source: Bloomberg

Index Returns to 30 September 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	-0.7	5.0	5.0	10.8
S&P/ASX Small Ordinaries Accumulation Index	3.4	15.3	15.3	21.5
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	3.3	7.6	7.6	16.9
MSCI World (ex Australia) Index (unhedged AUD)	2.0	6.1	6.1	23.0
MSCI Emerging Markets Index (unhedged AUD)	5.8	9.4	9.4	22.8
Property				
S&P/ASX 200 A-REIT Accumulation Index	-3.1	4.6	4.6	4.1
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	0.8	3.5	3.5	-2.5
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	-0.4	2.1	2.1	2.8
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	2.6	4.9	4.9	7.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.1	0.4	0.4	4.1
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.7	1.0	1.0	2.4
FTSE WGBI ex-Aust (hedged AUD)	0.6	0.6	0.6	1.3
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	0.9	4.2
Commodities				
Gold (USD per ounce)	11.6	16.4	16.4	45.5
Copper (USD per metric tonne)	3.7	4.0	4.0	4.5
WTI Crude Oil (USD per barrel)	-2.6	-4.2	-4.2	-8.5

Australian Dollar versus Foreign Currencies to 30 September 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 30 SEPTEMBER 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.66	1.3	1.1	1.1	-4.5
British Pound Sterling	0.49	1.6	2.9	2.9	-4.8
Euro	0.56	0.9	1.0	1.0	-9.3
Japanese Yen	97.88	1.9	3.4	3.4	-1.4

Source: Bloomberg



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