April 2025

Monthly Market Update

The tariff shemozzle continues

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 12 MAY 2025

The US economy experienced a notable slowdown in the first quarter of 2025. The latest GDP data showed the economy contracted at an annual rate of -0.3%, a sharp decline from the 2.4% growth recorded in the last quarter of 2024. Businesses stockpiling goods (which increased import volumes) ahead of the implementation of President Trump's shemozzle of a tariff policy was one of the reasons for the contraction in GDP. The other was a decline in government spending. The expiration of temporary government spending programs and a more austere budget environment led to cutbacks in discretionary spending. Meanwhile, state and local governments faced budgetary pressures due to declining tax revenues and rising costs, prompting spending restraint.

Mr Trump's tariffs are deflationary for the world and inflationary for the US. The sharp weakening in soft economic data points to rising recession risks, although markets still only seem priced for a mild slowdown. Policy uncertainty has caused consumption and investment plans to stall particularly for major spending, hiring, and investment, except in categories like vehicles and cyber security where price rise expectations pulled demand forward.

As mentioned last month, survey data is weak, while the less timely hard data has held up. In April, the labour market was stronger than analysts expected. Nonfarm payrolls increased in April and the unemployment rate held at 4.2% however hiring intensions have stagnated.

Weekly initial jobless claims will be the key data to watch for early signs of hard-data stress. Manufacturing data reported that new orders were contracting further and new export orders plunging to a level associated with recessions and the Trump 1.0 trade war. This drop echoes recent global data showing a broad collapse in export demand. The index showed price pressures increased, but delivery times remain low, suggesting this is not a replay of the COVID inflation shock. Policy uncertainty and tariffs were the headwinds for profit margins. Weak demand and contracting new orders point to softer growth and rising unemployment ahead.

The Federal Reserve remains focused on stabilising inflation expectations. Consequently, policy support will likely be limited. The bank maintained the Fed Funds Rate between 4.25% to 4.5% and flagged heightened uncertainty and two-sided risks. Essentially, resilient employment and inflation concerns are preventing action despite the soft data. Tight policy raises the risk of a persistent growth drag after the tariff shock fades.

Emmanuel Calligeris
Chairman of the Investment Committee

It is no surprise that China announced a new stimulus package including interest rate cuts and a significant liquidity injection, as the government looks to boost an economy that has been hit by the collapse in the property market and now the trade war with the US. China's factory activity contract at its fastest pace in 16 months in April following the frontloading of orders to beat the tariffs. The People's Bank of China (PBoC) cut the Required Reserve Ratio (the percentage of deposits that commercial banks are required to hold in reserve with the central bank), along with an interest rate reduction, additional liquidity support and new lending facilities to boost consumption and technology investment. Fiscal easing is likely to follow, offering an additional boost to growth. The measures are explicitly tactical, allowing Beijing to show flexibility and willingness to reduce its trade surplus through stronger domestic demand as US-China trade talks approach.

On that front, trade talks between the US and China have driven market optimism over the past few weeks and sentiment has turned positive. President Trump described the meeting between US Treasury Secretary Bessent and US Trade Representative Greer with Chinese Vice Premier He Lifeng as "very good" as he touted a reduction in tariffs from 145% to 80% would be expected to see Chinese exports to the US rise by nearly 26% from $167bn to $211bn but which is still substantially lower than the projected $329bn of exports for the last three quarters of 2025 without the tariffs. An 80% tariff would still cause Chinese exports to fall by more than 36%. Given this, it remains optimal for China and the US to achieve a partial trade deal. Early comments from the US seem to suggest that the US will try to enforce the US-China trade deal negotiated in January 2020.

The trade announcement with the UK, the first to be announced, disappointed many in the market as it kept the 10% tariff on imports into the US up from 3.4%. The deal sees the US gaining increased access to UK markets while the US has forced the reduction of tariffs on US goods from 5.1% to 1.8%. The agreement relieves tariffs on the import of 100 thousand cars from the UK but given that the UK exported 93 thousand cars last year, it allows limited room for growth. Nobel prize winning economist Joseph Stiglitz described the deal as "not worth the paper it's written on".

US Commerce Secretary Lutnick said that a trade deal with South Korea and Japan would take significantly more time than that with the UK. A number of countries, including India, South Korea and Japan, are racing to reach interim deals with the US before the expiry of the 90-day grace period on 31 July.

In Europe, the first estimate for GDP increased by 0.4% over the quarter to be 1.2% higher over the year. Like China, trade distortions via a sharp surge in exports to the US, which jumped nearly 20% was the reason for the stronger growth. This mirrors the US data, where a spike in imports, largely from frontloaded inventory building ahead of tariffs, dragged on growth. Clearly, the surge in European exports is unsustainable now that inventories are full and domestic momentum is deteriorating. Confidence has softened and financial conditions remain tight. Sluggish Chinese growth, reflected in a sharp decline in manufacturing export orders, will make it harder for Europe to export its way out of domestic weakness in the future.

In Australia, the election has come and gone fairly uneventfully for financial markets. We await GDP data in the next few weeks which should confirm a sluggish economy given consumer spending remains weak. There are still some unknowns when it comes to the full picture for household consumption, particularly as it relates to services spending. The data thus far is pointing to downside risks for GDP growth. On a positive note, a contribution from net exports is likely amid extensive tariff front-running prior to 'Liberation Day.' The drop in core inflation to within RBA's target range opens room for a rate cut at the RBA's meeting in May.

Global shares experienced a volatile April. Australian shares as represented by the S&P/ASX 200 increased 4%, recouping all the losses from March. Communication Services, Information Technology and Consumer Discretionary, increased 6%. Energy was the only sector to report a loss as the price of oil fell sharply. Most fixed income indices advanced as rates declined on weaker economic growth expectations. US stocks are back to where they were before April 2 - trading at 20.4X forward earnings. The S&P 500 is once again pricing in a lot of good news.

Returns

30th April 2025

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 30TH APRIL 2025

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.32	0.99	2.09	4.33	3.77	2.28	2.01
Australian Bonds	1.70	2.82	4.71	7.08	2.75	-0.16	2.12
International Bonds Hedged	0.95	1.71	2.40	6.52	1.47	-0.59	1.84
Australian Listed Property	6.35	-5.31	-4.49	9.07	5.54	12.10	7.45
International Property Hedged	-1.14	-1.51	-3.94	11.23	-2.55	5.81	3.47
Australian Shares	3.62	-3.69	1.24	9.79	7.18	12.14	7.72
Emerging Market Shares	-1.33	-0.13	2.77	10.64	7.54	6.84	5.25
International Shares	-1.84	-6.76	3.35	13.89	15.17	14.50	11.74

Freeman Financial Group ABN 58 621 314 565 is a Corporate Authorised Representative (No. 1259528) of GPS Wealth Ltd | AFSL 254 544 | ABN 17 005 482 726

Level 9, The Wyndham Building
1 Corporate Court, Bundall QLD 4217
1300 720 696
info@freemanfinancial.com.au
www.freemanfinancial.com.au

Prepared by DWA Managed Accounts Pty Ltd
ABN 89 104 065 250 | AFSL 264 125