

Monthly Market Update

Interest Rates Trump Profit Growth

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 14 JULY 2025

Financial markets increased in June reflecting the resilience of investor sentiment in the face of tariff disruptions and despite US profit growth estimates continuing to be revised lower. Investors were positive following the passage of President Trump's "Big Beautiful Bill", which is set to inject significant fiscal stimulus into the economy. The Bill directs hundreds of billions toward the defence, infrastructure, energy, and manufacturing sectors, while also extending pro-corporate initiatives such as regulatory rollbacks and tax cuts.

The Australian share market as represented by the S&P/ASX 200 Accumulation Index returned 1.41% over the month. Global shares increased 2.4% staging a dramatic recovery that saw the MSCI World Index rebound 22% since the tariff related rut in early April. Although US trade policy once again was the focal point for markets, economic data including the level of activity in the service sector and the monthly labour market report were stronger than analysts expected.

The ISM Services index rebounded into expansion territory however the employment subcomponent contracted, suggesting firms do not see the pickup in activity as sustainable. Price pressures continued to ease, with both prices paid and supplier delivery times declining. These developments mirror the latest ISM Manufacturing survey and suggest that US inflationary pressures have likely peaked, with minimal spillover globally.

On the labour market front Stronger-than-expected payrolls saw markets rule out a Federal Reserve interest rate reduction in July. Nonfarm payrolls increased by 147 thousand and there was a significant 16 thousand upward revision to the two prior months. Moreover, the unemployment and underemployment rates fell to 4.1% and 7.7%, respectively. Importantly, job gains were concentrated in government, education, and healthcare, while aggregate weekly payrolls growth was flat. Private sector dynamics were softer, and the overall labour market remains in a "low hiring, low firing" regime. The positive take from the report was that the jobs market has not collapsed, its momentum has slowed as it sits at a pivotal point where broad measures of supply and demand are roughly balanced.

President Trump unveiled a wave of tariff letters targeting trading partners with rates ranging from 20% to 50%, effective from 1 August. While the tone was uncompromising, the move effectively extended the previous 9 July deadline despite repeated assertions that no extensions would be granted. As we wrote last month - another TACO move. This delay allows for continued negotiations, particularly with countries like Japan,

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Chairman of the Investment Committee

South Korea, and Brazil which together account for 9.9% of US imports. Japan and South Korea have been assigned a tariff rate of 25%, which matches South Korea's previous rate on 2 April and raises Japan's by one percent, while Brazil received a staggering 50%, having previously received the minimum 10% levy. China remains bound to the original 12 August deadline. Notably, the EU, which accounts for 18.5% of US imports, did not receive a letter and is now scrambling to secure a deal before the new deadline.

In China, we continue to see the impact of tariffs, with export and industrial production growth decelerating. Both are within the range of expectations, though the impact from the peak tariff period continues to affect the data. Further weakening of investment growth suggests uncertainty prevails as companies hold back. This caution is also reflected in property prices, which saw a steeper decline, a bad sign for domestic confidence. CPI inflation returned to positive year-on-year growth for the first time since January. On a month-on-month basis, though, downward price pressures persist. On a positive note, retail sales rebounded strongly. Additionally, policymakers continue to focus closely on boosting consumption. Premier Li Qiang pledged to transform China into a consumption powerhouse at the recent World Economic Forum. However, to date, little in the way of new direction has been detailed. The focus remains on trade-in policies and relending programmes. Overall, GDP growth looks on track to remain above 5% through the first half of the year.

In Australia, economic growth remains soft and inflation has moderated. The Reserve Bank of Australia held the official cash rate at 3.85%, defying expectations of a 25-basis-point cut.

Governor Bullock stressed that the decision reflected timing, as opposed to a shift in monetary direction, signalling the RBA's dovish stance remains. The hold was attributed to slightly stronger-than-expected inflation and the volatility of monthly indicators. With the June quarter CPI, updated employment data, and new forecasts expected in August, a rate cut remains likely. The monthly consumer price index (CPI) eased to 2.1% while the trimmed mean inflation rate decreased to 2.4%, below the midpoint of the RBA's 2%-3% target band. The monthly report showed a broad-based moderation in new dwellings, rents, and other services prices. The unemployment rate held at 4.1% however downward revisions in the data suggest a loosening in the labour market.

The NAB Business Confidence and Conditions surveys increased to +5.1 and +8.7 respectively in June, up from +2.2 and +0.4 in May. The improvement in Conditions was driven by strong gains in trading and profitability, with a more modest improvement in employment. Sub-indices also posted solid growth, with increases in capacity utilisation, forward orders, and capital expenditure.

Little has changed since last month. The global outlook remains clouded by ongoing tariff negotiations although the conflict between Israel and Iran seems to have settled at the margin. Overall, the threat of recession remains low with lower interest rates in Australia, China, Europe and the US. In the US fiscal stimulus could take the sting out of tariffs. However, any relief will not come until 2026. Importantly this could be neutralised by stubbornly high bond yields.

ASSET CLASS RETURNS ARE BASED ON

Australian Cash

RBA Bank accepted Bills 90 Days

Australian Listed Property

S&P/ASX 200 A-REIT TR

International Shares

MSCI World Ex Australia NR AUD

Australian Bonds

Bloomberg AusBond Composite 0+ Yr TR
AUD

International Property Hedged

FTSE EPRA/NAREIT Dv REITS TR Hdg
AUD

Emerging Market Shares

MSCI EM GR AUD

International Bonds Hedged

BarCap Global Aggregate TR Hdg AUD

Australian Shares

S&P/ASX 200 TR

RETURNS TO THE 30TH JUNE 2025

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.30	0.94	1.97	4.22	3.91	2.40	2.03
Australian Bonds	0.75	2.63	3.95	6.81	3.88	-0.10	2.31
International Bonds Hedged	0.91	1.49	2.65	5.45	2.28	-0.64	2.03
Australian Listed Property	1.82	13.72	5.96	13.97	15.37	12.42	8.32
International Property Hedged	0.04	1.42	2.59	8.62	2.72	5.82	4.19
Australian Shares	1.41	9.50	6.44	13.81	13.56	11.85	8.86
Emerging Market Shares	4.10	6.49	8.90	17.49	11.48	7.87	6.50
International Shares	2.45	5.94	3.39	18.58	20.35	15.75	12.52



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