INVESTMENT ENVIRONMENT UPDATE

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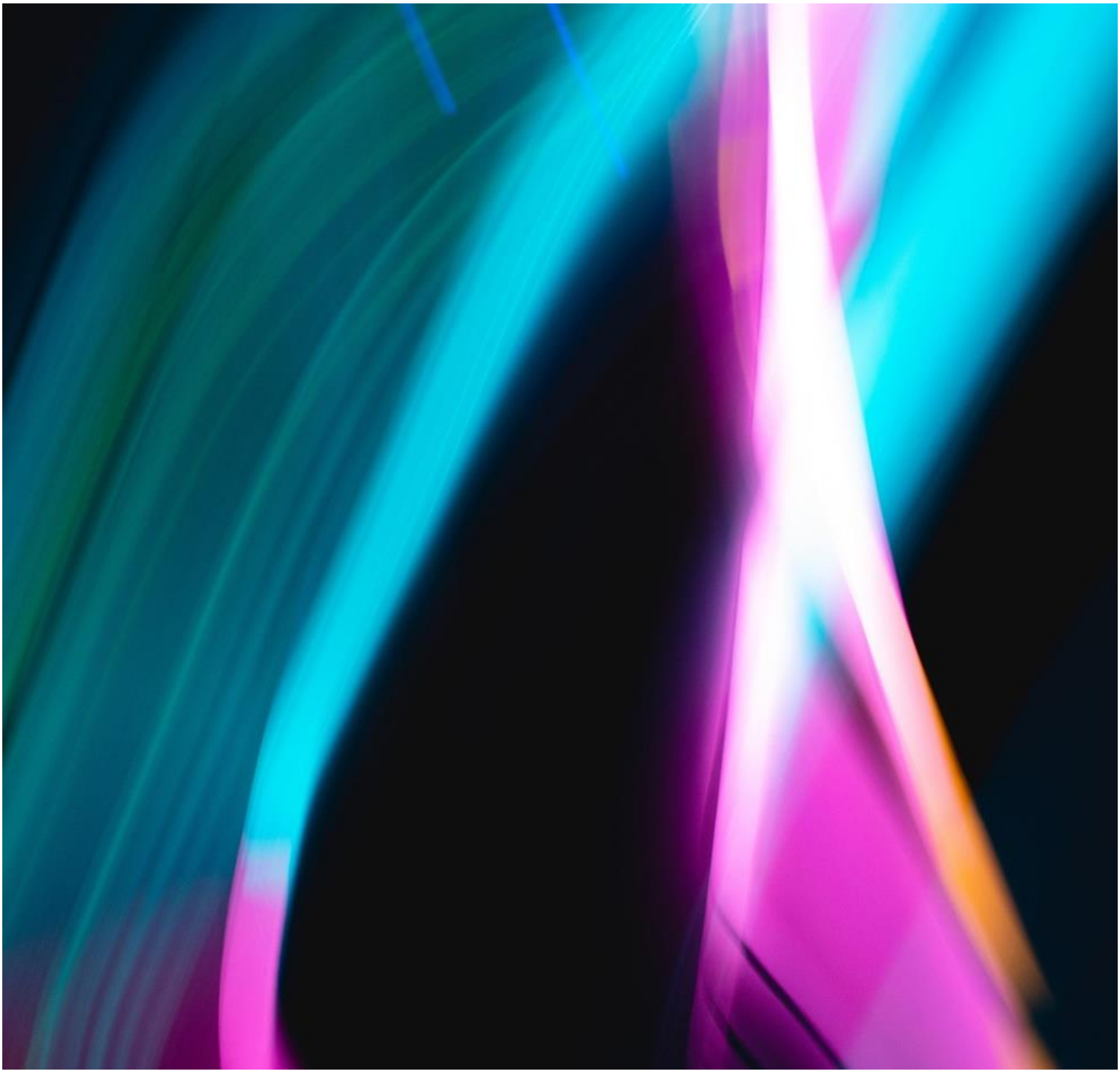
PATRIZIA ADVISERS



Investment Environment Update

Markets were hit by risk-off sentiment in late February that has extended into early March due to US data releases that indicated slowing growth and higher than expected inflation, which is increasing stagflation risks. In addition, uncertainty around the extent and timing of the implementation of US President Donald Trump's policies, namely tariffs, has led to increased market volatility.

President Trump's policy announcements have had the most influence on global financial markets and the outlook for the global economy in February, and this is likely to continue to be the case given the frequency and scope of the of announcements. Effective 4 March, 25% tariffs were enforced by the US on Canada and Mexico, as well as 20% tariff on Chinese goods. However, after only 3 days Trump suspended the majority of the tariffs on Mexico and Canada until early April. Tariffs of 25% have also been announced for steel and aluminium imported into the US from mid-March, and from early April the US will impose reciprocal tariffs on all countries trading with the US. The imposition of tariffs is likely to lead to higher inflation and goods prices in the US, and lower growth in countries where the tariffs are imposed. Separately, indications of less US support for Ukraine in its war against Russia has resulted in other European nations looking to substantially increase defence spending, which is likely to increase both growth and government debt levels in those economies.

During February, the US S&P 500 fell by 1.4% as the emergence of Deepseek, a low-cost China-based AI platform rivalling US mega-tech generative AI at a fraction of the cost, led to a US tech sector sell-off late in the month. The Australian S&P/ASX 200 fell by 3.8% during the month and the Japanese Nikkei fell by 6.1%, with the increase in Japan's 10-year bond yield due to anticipation of further cash rate increases a contributing factor. However, European markets including the German DAX (+3.8%), French CAC (+2.0%) and UK FTSE (+1.6%), all extended their positive start to 2025, benefitting from their cheaper valuations compared to the US equity market. In aggregate, hedged developed global equities returned -0.9% in the month, with unhedged developed global equities returning -0.4% due to the weaker Australian dollar. US 10-year government bond yields fell by 0.32% in the month to 4.22% and Australian 10-year bond yields fell by 0.12%. This led to positive returns in fixed income markets in February, with Australian fixed income returning 0.9% and international fixed income returning 1.2%.

Asset Class Returns	February (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.34	1.10	4.48	3.44
Australian Fixed Income	0.93	1.63	4.18	0.32
International Fixed Income	1.20	0.71	5.02	-0.40
Australian Equity *	-3.79	-2.59	9.65	8.89
International Equity - Developed (unhedged) *	-0.36	5.01	21.30	16.15
International Equity - Developed (hedged) *	-0.89	0.56	16.14	10.14
International Equity - Emerging (unhedged) *	0.79	7.00	15.26	5.77

** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

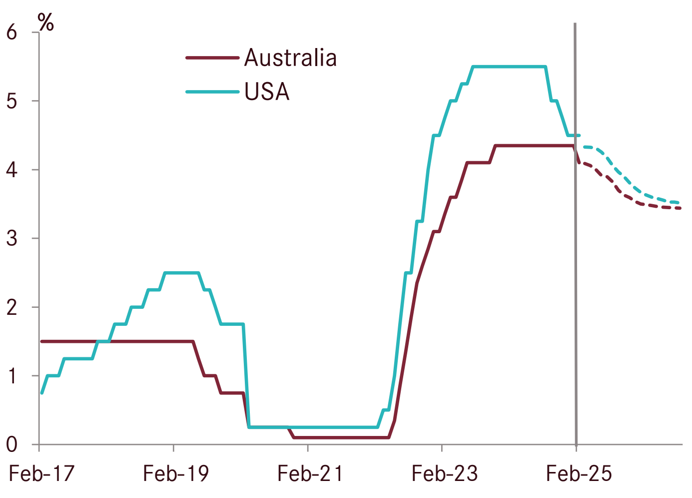
Recent US economic data has been indicative of slowing growth and sticky inflation. For the December quarter, US growth was 2.3% annualised, down from 3.1% in the previous quarter. Non-farm payrolls increased by 151,000 in February, following an increase of 125,000 in January, and the US unemployment rate increased by 0.1% to 4.1% in February. Federal government employment declined by 10,000 in February, already reflecting some of the impact of the Department of Government Efficiency (DOGE) layoffs, although the effects of federal spending cuts and tariffs are expected to weigh more on the labour market in the coming months. The annual headline inflation rate rose for a fourth consecutive month from 2.9% in December to 3.0% in January indicating stalled progress in curbing inflation. The annual core inflation rate increased by 0.1% to 3.3% in January and remains well above the US Federal Reserve's (Fed) 2.0% target level. Consumer inflation expectations have also increased with the US Michigan 1-year Inflation Expectations increasing to 4.3% in February, rising sharply from 3.3% in January. The 5-year outlook increased to 3.5% in February from 3.2% the previous month. However, the core PCE price index, the Fed's preferred gauge of underlying inflation in the US economy, fell from 2.9% annually in December to 2.6% in January. US business indicators remained positive in February. The ISM Services Index increased to 53.5 in February from 52.8 in January and the ISM Manufacturing Index fell to 50.3 in February from 50.9 in January. However, the University of Michigan consumer sentiment fell sharply to a 15-month low of 64.7 in February from 71.1 in January, due in large part to concerns about tariff-induced price increases for durables as well as worries about layoffs.

While the Fed did not meet in February, during the month several members of the committee signalled that until inflation shows more signs of moderating, or unless growth weakens significantly, rates are likely to remain on hold at their next meeting in the second half of March. In early March, Fed Chair Powell noted "the new Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation…uncertainty around the changes and their effects remains high. We do not need to be in a hurry and are well positioned to wait for greater clarity."

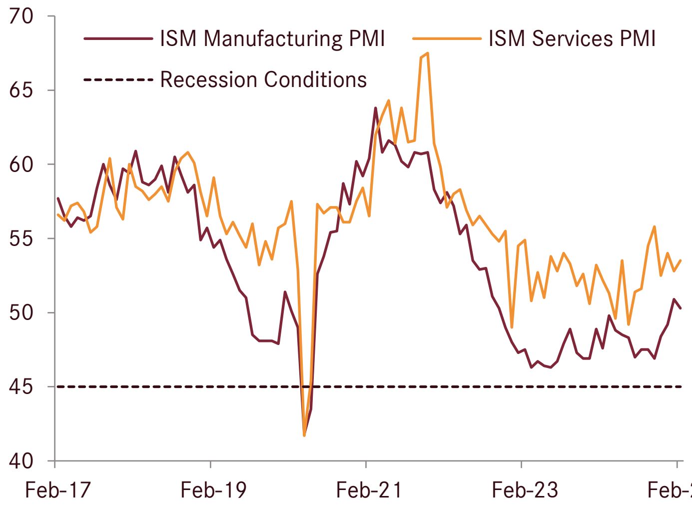
As broadly anticipated, the Reserve Bank of Australia (RBA) lowered the cash rate by 0.25% to 4.10% at its February meeting. RBA Governor Bullock stated that the decision "does not imply that further rate cuts along the lines suggested by the markets are coming … and the board is very alert to upside risks that could derail the deflationary process." That is, the data flow will need to make a positive case for the RBA to continue to ease policy. Markets are priced for a gradual easing with two more rate cuts by the end of 2025.

Australia's GDP grew by 0.6% in the December quarter, above forecasts for a 0.5% rise. Annual growth increased to 1.3% from 0.8% the previous quarter. Quarterly growth in GDP per capita was a meagre 0.1% following seven consecutive quarters of declines. While the modest GDP growth in an environment of tighter monetary policy indicates the economy is heading towards recovery and a 'soft landing', Australia's vulnerability to global trade tariffs and other geopolitical threats have the potential to impact business activity and weaken consumer and business confidence. Australia's unemployment rate edged up to 4.1% in January, as the size of the labour force continues to outpace total employment, which increased by 44,000 in the month, whilst the participation rate reached another record high of 67.3%. Wage growth, a key input for inflation, slowed to 3.2% over the year to end December. Ahead of the mid-February RBA rate cut, Australia's business confidence improved from -2 index points in December to +4 in January, while business conditions reduced from 6 points to 3 points as sales and profitability fell. Consumer sentiment improved marginally from 92.1 to 92.2 index points in February, with consumers remaining cautious amidst cost-of-living challenges. National home values in Australia increased by 0.3% in February supported by the RBA rate cut and following a mild three-month decline of 0.4% in aggregate.

Australia and US Cash Rates



US ISM Purchasing Manager Indices

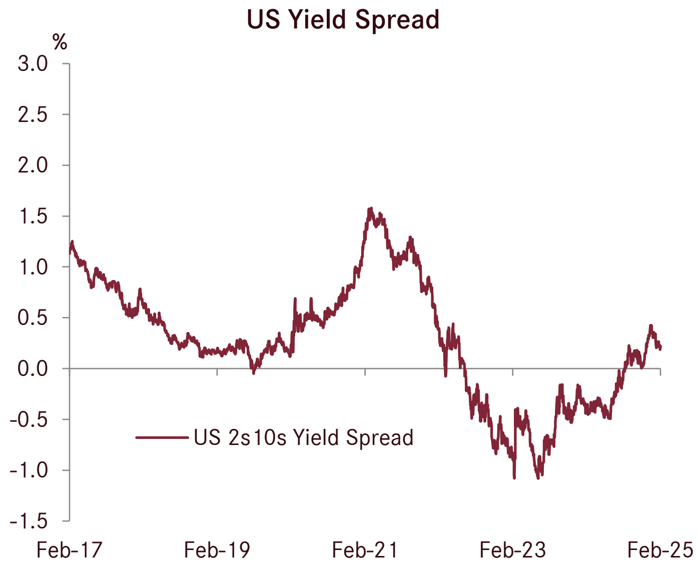


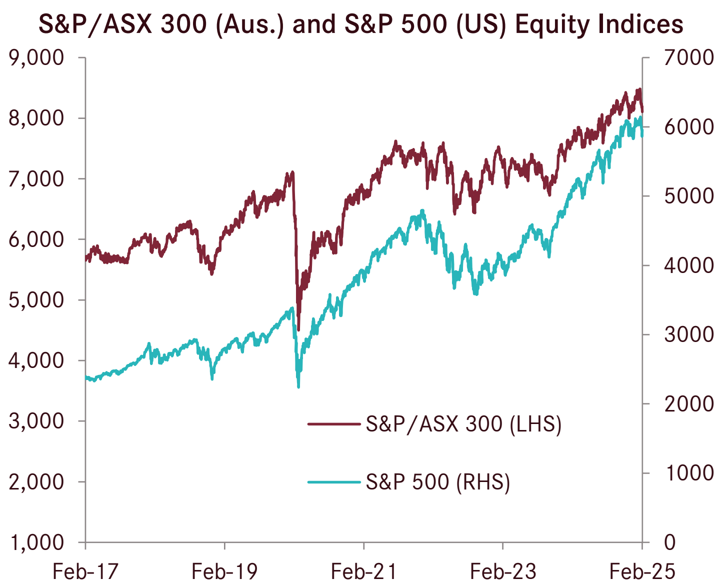
Source: Bloomberg

The ECB continues to cut rates in response to slowing inflation and soft growth. The cash rate was reduced to 2.50% in early March, the sixth cut since June 2024, with markets pricing in two more cuts in 2025. The ECB's statement was changed to say that "monetary policy is becoming meaningfully less restrictive" and ECB President Lagarde noted the disinflation process is well on track and wage growth is moderating. However, the ECB's economic growth forecasts were revised down to 0.9% for 2025 and 1.2% for 2026, noting weak exports and investment. Headline inflation fell by 0.1% to 2.4% in February as price growth for energy and services slowed. The annual core inflation rate was 2.6%, which was also 0.1% lower than the previous month. The Flash HCOB Eurozone Manufacturing Index improved to 47.6 in February from 46.6 in January, though remains in contraction as it has done for over two years. By contrast, the Flash HCOB Eurozone Services Index decreased from 51.3 to 50.6, but remains in expansion. While growth remains under pressure amid high trade policy uncertainty, recent announcements by several European governments including Germany to significantly increase government spending on defence as well as infrastructure in response to President Trump's stance on supporting Ukraine's war effort, is expected to boost growth in the region.

The Bank of England (BOE) cut the cash rate by 0.25% to 4.5% in its meeting in early February. The Bank maintained its stance that monetary easing is expected to be gradual this year, as mounting growth concerns weigh against stubborn levels of underlying services inflation. As such, markets are pricing just two more rate cuts this year. The BOE revised its inflation forecasts higher to 3.7% by Q3 2025 due to rising energy costs and lowered its growth forecast for 2025 to 0.75%. The inflation data released in February showed the annual inflation rate in the UK jumped to 3% in January 2025, from 2.5% the previous month. Similarly, annual core inflation rose from 3.2% to 3.7%. The UK economy grew by 1.4% year-on-year in the fourth quarter of 2024, increasing from 1.0% to the end of the previous quarter, driven by a rise in government spending and improving household consumption. The S&P Global UK Services PMI Survey increased by 0.2 to 51.0 in February, gaining some momentum and consistent with improving GDP growth. However, the S&P Global UK Manufacturing PMI Survey decreased by 1.4 to 46.9 in February, reversing the prior month's gain, and continuing to signal a sharp deterioration in operating conditions. The UK GfK Consumer Confidence Index improved by 2 points to -20 in January, however, concerns over sluggish growth and persistent inflation linger.

At the National People's Congress in early March, China announced a GDP growth target of 5% for 2025, the same level as the previous year. It also set 2025 targets for inflation of 2% and a deficit of around 4% of GDP. China also announced a number of stimulus measures, including increased bond issuance, intended to boost economic growth. China's CPI fell by 0.7% in the year to end February, the first fall in over a year, with falling food prices a major contributor. China's official NBS Manufacturing PMI improved from 49.1 to 50.2 in February following the Lunar New Year break. Similarly, the official NBS Non-Manufacturing PMI improved from 50.2 in January to 50.4 in February. However, further developments on tariffs with the US are likely, where in response to President Trump's 20% tariff increase, China has increased tariffs by 10-15% on a range of US goods.





Source: Bloomberg

Index Returns to 28 February 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	-3.8	-2.6	7.5	9.7
S&P/ASX Small Ordinaries Accumulation Index	-2.8	-1.5	7.2	7.3
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	-0.9	0.6	9.2	16.1
MSCI World (ex Australia) Index (unhedged AUD)	-0.4	5.0	17.4	21.3
MSCI Emerging Markets Index (unhedged AUD)	0.8	7.0	9.9	15.3
Property				
S&P/ASX 200 A-REIT Accumulation Index	-6.4	-7.9	5.4	9.1
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	2.7	-3.1	9.6	11.1
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	3.3	1.6	18.5	16.7
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	2.9	-2.6	14.2	18.0
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.9	1.6	3.9	4.2
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	1.2	0.7	4.4	5.0
FTSE WGBI ex-Aust (hedged AUD)	1.1	0.4	3.9	4.0
Cash				
Bloomberg AusBond Bank Bill Index	0.3	1.1	3.0	4.5
Commodities				
Gold (USD per ounce)	0.8	6.9	21.6	38.4
Copper (USD per metric tonne)	3.4	3.9	-2.5	10.2
WTI Crude Oil (USD per barrel)	-3.8	1.5	-14.4	-10.9
RBA Index of Commodity Prices (AUD)	0.0	5.2	4.9	-6.2

Australian Dollar versus Foreign Currencies to 28 February 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 28 FEBRUARY 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.62	-0.3	-4.5	-6.9	-4.5
British Pound Sterling	0.49	-1.6	-3.6	-6.5	-4.1
Euro	0.60	-0.3	-3.1	-4.0	-0.6
Japanese Yen	93.71	-3.0	-4.2	-12.8	-3.8

Source: Bloomberg

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