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Market Review Monthly

March 2025

A business of Marsh McLennan

Key takeaways

- The Australian Federal Budget released in March returns to a deficit, after consecutive surpluses, but projected debt levels remain low compared to other developed economies.
- The RBA will likely look for evidence of a weakening labour market before cutting rates again. Market expectations are for three additional rate cuts in 2025.
- Australian GDP for Q4’25 rose to 0.6% quarter on quarter (QoQ), up from 0.3%, in line with market expectations and exceeding the RBA’s forecast of 0.5%.
- US President Trump has imposed further tariffs on auto imports. In early April, he announced reciprocal tariffs designed to match the import duties placed on US goods and services.
- After President Trump’s meeting with the Ukraine President in February, European leaders have been looking to increase fiscal spending, especially on defence. Given the increased spending in Germany and the potential growth implications for Europe, we have a favourable view on the Euro.
- We favour global listed property, where fundamentals are broadly healthy and valuations are attractive. We also favour Japanese shares, due to the economic growth rebound and solid earnings growth.

Upcoming

1. **President Trump announcement of reciprocal tariffs (3rd April).** Will the US trade war intensify or ease?

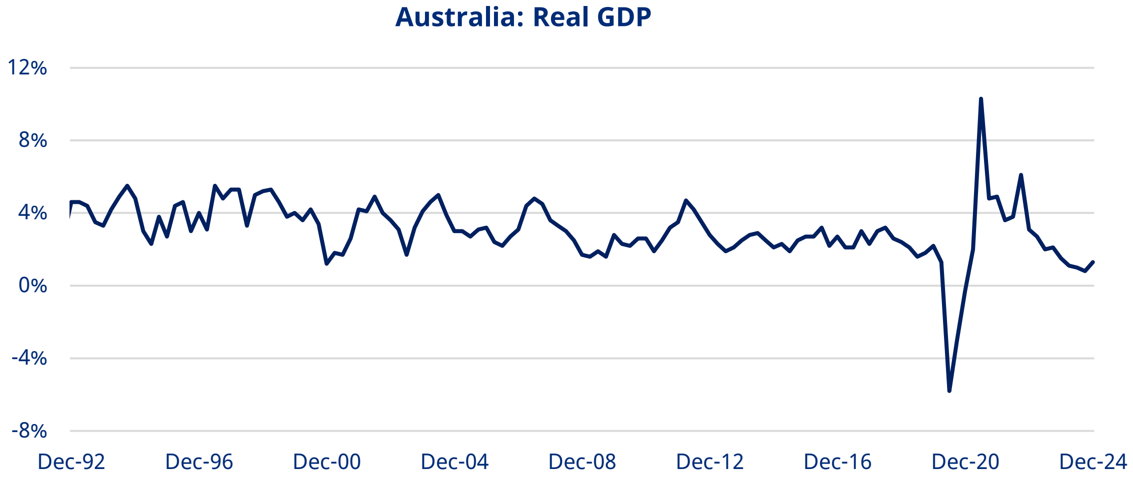
2. Australian labour market announcement (17th April). The RBA continues to look for Australian labour market softness.

3. US Institute for Supply Management (ISM) manufacturing and service surveys (4th April) – Will tariff concerns lead to a downturn in US business activity?

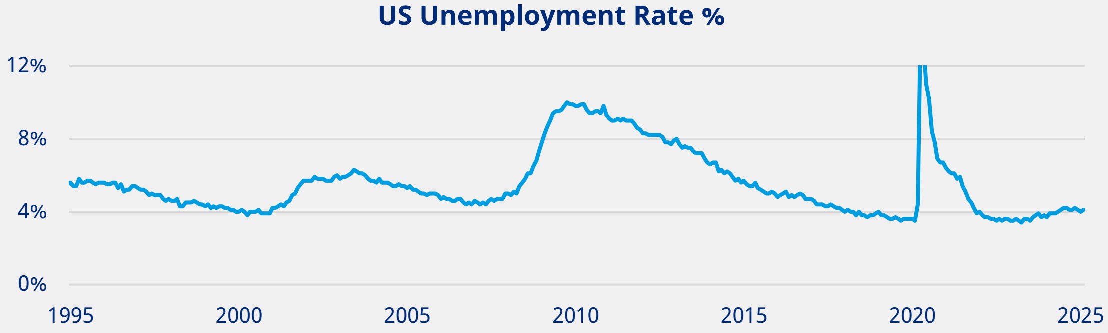
Economic review

Australian budget 2025-26 sees a return to fiscal deficits

- The Australian Federal Budget released in March included cost of living measures and healthcare funding. After consecutive surpluses, this year's Budget returned to a deficit, but projected debt levels remain low compared to other developed economies.
- Australian GDP for Q4'24 rose to 0.6% QoQ, up from 0.3%. This is in line with market expectations and exceeds the RBA's forecast of 0.5%. The increase in GDP was assisted by the stronger than expected household consumption data.
- The Australian unemployment rate remained at 4.1%, as the labour market weakened in February, with 52,800 jobs lost, marking the largest drop since 2023. The RBA will likely look for evidence of a weakening labour market before cutting rates again. However, this weaker data did not significantly alter market expectations for rate cuts, which remain at two further cuts in 2025.



Source: Bloomberg, Mercer



Source: Bloomberg, Mercer

German parliament increases spending on defence and infrastructure

- Since the Trump-Zelenskyy meeting in February, European leaders have been prompted to increase fiscal spending, especially on defence. The German parliament passed a bill to exclude defence spending from the debt limit and increased infrastructure spending by 500 billion Euro. This is a huge shift for Europe, especially for Germany which has historically been conservative in its fiscal policy.
- The US unemployment rate increased by 0.1% to 4.1% in February. Healthcare and finance sectors posted strong gains, while nonfarm payrolls also rose. The leisure and hospitality sector witnessed a second straight decline.
- US President Trump has imposed further tariffs on imports, with a 25% tariff on auto and auto parts. Reciprocal tariffs, designed to match the import duties placed on US goods and services by other nations, were announced in early April.
- The US Federal Reserve left interest rates unchanged at 4.25-4.5%. Governor Powell noted that while short-term consumer inflation expectations have risen due to tariffs and uncertainty, he did not see any long-term shift in expectations based on market-based measures.

Market review

Share markets were down in March

- International shares saw negative returns in March, down -5.0%, as US tariffs concerns rattled investor confidence. US Technology shares fell significantly, as the Mag 7 shares (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) continued to underperform the broader market.
- Australian Shares, down by -3.3%, outperformed global share markets. The technology sector was the largest detractor from performance, followed by consumer discretionary.
- International REITs fell by -2.6% in March, due to rising global bond yields. Australian REITs were down by -4.8%, remaining weak after last month's capital raising in the sector.

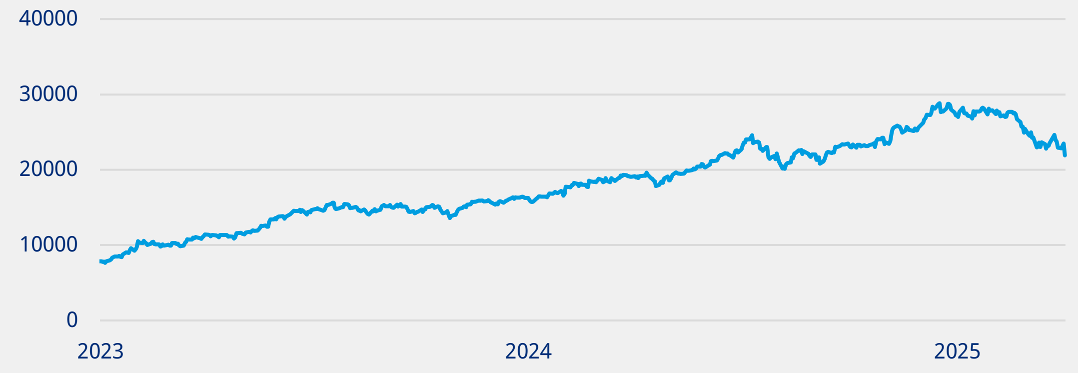
Fixed income markets performance was mixed

- International sovereign bonds were down -0.5% in March. While US government bond yields were flat, government bonds in the EU saw yields rise significantly after the announcement of Germany's new fiscal spending package.
- Australian sovereign bonds were up 0.1% in March, as Australian bond yields were largely flat.
- International credit declined by -0.6%, as credit spreads widened over the month with investor sentiment deteriorating due to the ongoing trade rhetoric.

Australian Dollar experienced fluctuations in March

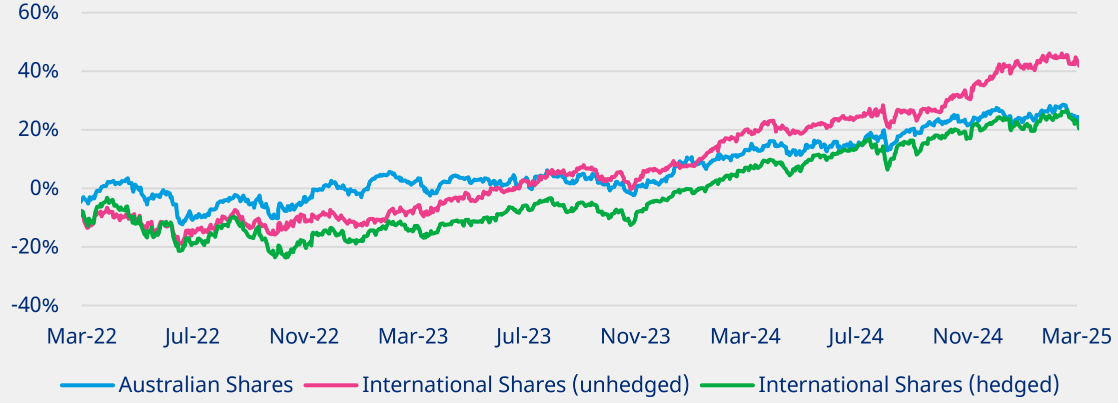
- The Australian dollar (AUD) was largely unchanged in March against the US dollar (USD), but it fell significantly against the British Pound (GBP) and the Euro (EUR) following the announcement of the German fiscal spending package.

Magnificent 7 shares performance (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla)



Source: Bloomberg, Mercer

Cumulative asset class returns

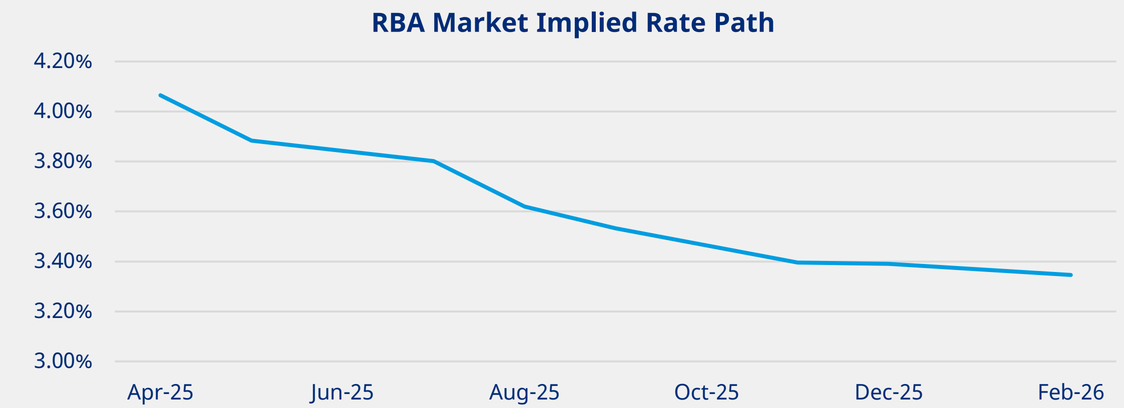


Source: LSEG DataStream; MSCI. Data provided 'as is'. Details on chart constituents can be found on last page.

Market Insights

Australia: No expectation that the RBA will rush into further rate cuts

- While the RBA delivered a cut in February, we do not expect them to rush into further rate cuts. Market expectations are for a further three interest rate cuts in 2025, which will likely depend on sustained signs of loosening labour market conditions and/or weakening wage growth.
- While unemployment remains low, both wage growth and job vacancies continue to fall, which suggests we should see the labour market begin to soften and a modest rise in unemployment in 2025.
- We continue to expect growth to remain weak, as higher interest rates and cost-of-living pressures are likely to keep consumption suppressed. Geo-political concerns are likely to make businesses cautious about investing.
- Locally, we favour Australian sovereign bonds over cash, with interest rates likely to have peaked this cycle.



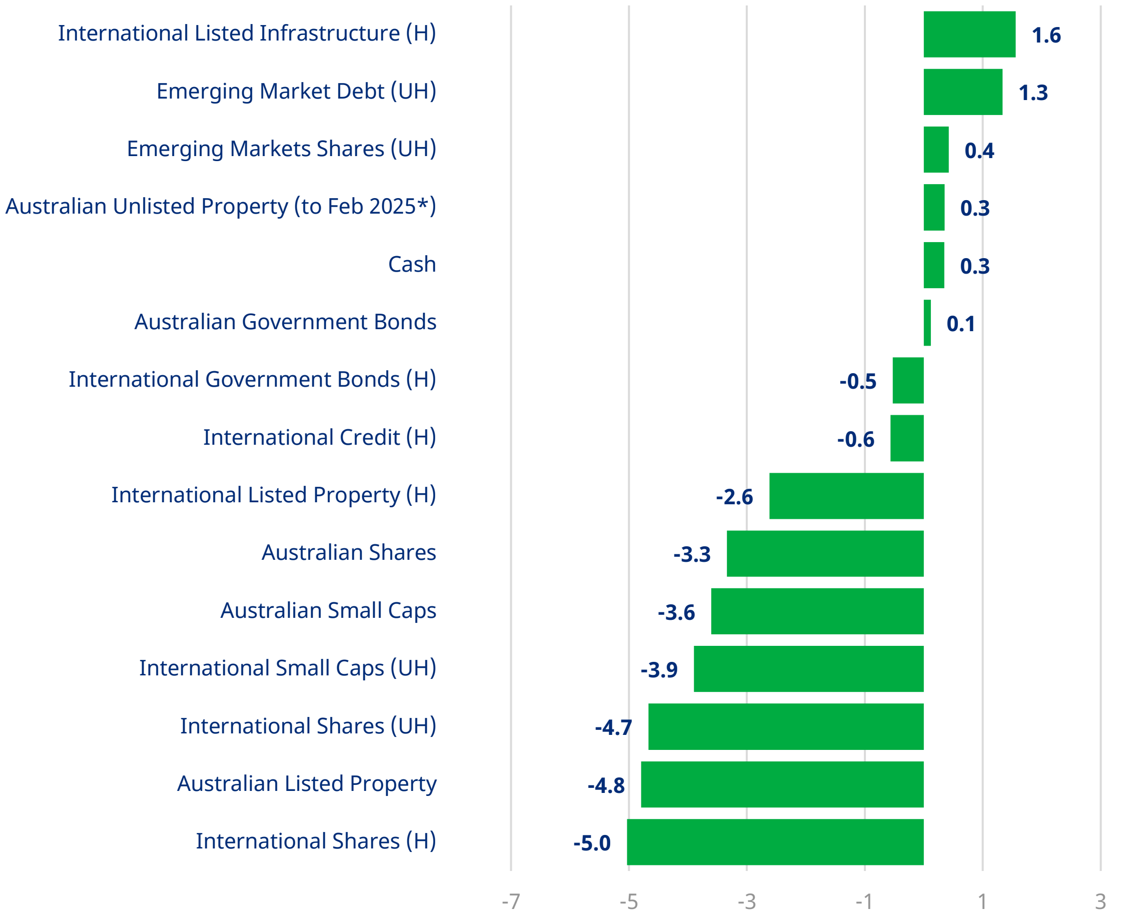
Source: Bloomberg, Mercer

International: Increased fiscal spending by European governments

- Increased spending by European governments on infrastructure and defence ends the period of fiscal austerity that began during the financial crisis. This is likely to support European economic growth in the near term, while lifting the supply capacity in the longer term.
- Continued introduction of new tariffs will likely negatively impact business and consumer confidence. The longer this continues, the greater the implications are for economic growth.
- Central banks around the world are likely to continue to cut rates as inflation moderates, with cuts expected to be at a slower pace. The exception is Japan, where we expect interest rates to rise as the country emerges from a multi-decade deflation period.
- We favour global listed property, as fundamentals are broadly healthy and valuations are attractive. We also favour Japanese shares, due to the potential growth rebound and solid earnings growth.

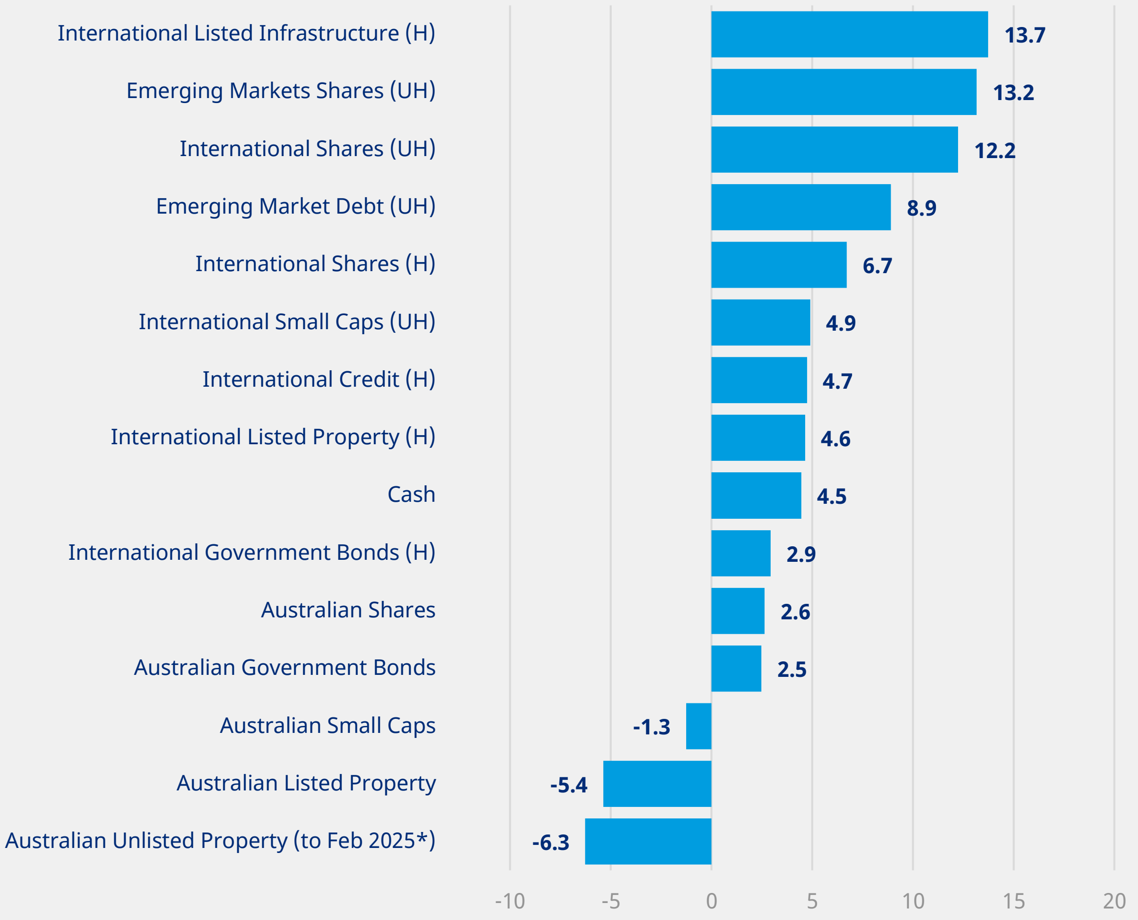
Performance

Market performance March 2025



Data source: LSEG Datastream. Data provided 'as is' . Details on chart constituents can be found on last page

Market performance 12 Months to March 2025



Data source: LSEG Datastream. Data provided 'as is' . Details on chart constituents can be found on last page

Asset class

▼ Australian Shares

- Australian shares was down -3.3%, outperforming international shares.
- Information technology was the worst performing sector, down -9.7% in March, following the global technology sector. This was followed by Consumer Discretionary, down -6.4%.
- Within the Technology sector Nuix Ltd was the worst performer, following an earnings downgrade and growing negative investor sentiment around AI companies.
- The best performing sector was utilities, which ended flat for the month.

▼ International Shares

- International shares (hedged) had a negative return in March, down -5.0%, influenced by continuing US trade rhetoric. The decline was driven by falls in the technology sector, with the Mag 7 shares continuing to underperform the broader market. Interestingly the shares that underperformed are not those most exposed to tariffs, but rather the most overvalued shares in the US share market.
- International shares (unhedged) also fell, but by only -4.7%, as the AUD declined over the month in comparison to the MSCI weighted FX basket. The best performing sector for March was the consumer staples sector, up 3.8%, reflecting the defensive nature of this sector.
- Global small-cap shares (unhedged) outperformed the broader indices, falling -3.9%.
- Emerging market shares were up 0.4%, with Brazil and India showing strong returns overcoming tariff concerns.

▼ Fixed Interest

- International sovereign bonds were down -0.5% in March. While US government bond yields were flat, government bonds in the EU saw yields rise significantly after the announcement of Germany's new fiscal spending package on defence and infrastructure. This saw German government bond yield move 33bps higher in March, finishing the month at 2.74%.
- Australian sovereign bonds were up 0.1% in March, as Australian bond yields were largely flat.

▼ Real Assets

- The performance of interest rate sensitive assets was mixed in March. International listed property performed poorly, down -2.6%, due to rising bond yields; while International listed infrastructure performed better, up 1.6% in March.
- Australian listed property fell over the month, due to the continuing impacts of capital raising in the sector.

▼ Currency

- The AUD was largely unchanged against the USD in March, but dropped significantly against the GBP and EUR after the announcement of the German fiscal spending package.

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Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Where a lag exists, the performance start and end dates shift accordingly.*
- *Total Return: Total Return Index with Gross Dividends.*
- *Net Index: Total Return (Net Dividends Reinvested).*

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Important notices