Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

March 2025

AUSTRALIAN EQUITIES STRATEGIES

Australian equities ended the March quarter lower -2.85% despite a strong rally in January driven by Financials and improved economic data. Optimism faded in February as earnings season brought volatility, with cautious outlooks triggering sharp declines in several large-cap names. Defensive sectors like Utilities held up, while growth sectors such as Technology and Healthcare lagged. March saw further weakness as concerns over US tariffs, political uncertainty, and a widening federal deficit weighed on sentiment. While the RBA's February rate cut lifted consumer and business confidence modestly, these gains were overshadowed by broader macroeconomic risks. Overall, the quarter reflected a sharp shift in sentiment—from early enthusiasm to growing caution—highlighting increased investor sensitivity to both domestic and global developments. Information Technology was the worst performing sector down -18.2% over the period while Industrials was the best performing up 2.5%.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	-4.5	-3.7	-6.3	-2.1	3.7	4.0	14.6	8.1	6.5
S&P/ASX 300 Accumulation Index	-3.3	-2.9	-3.6	2.6	8.4	5.3	13.2	8.6	7.1
Excess	-1.2	-0.9	-2.6	-4.7	-4.7	-1.3	+1.3	-0.5	-0.6
Perpetual Concentrated Equity Fund	-4.5	-2.8	-5.5	-1.6	5.0	5.1	15.4	8.0	6.8
S&P/ASX 300 Accumulation Index	-3.3	-2.9	-3.6	2.6	8.4	5.3	13.2	8.6	7.1
Excess	-1.1	0.0	-1.9	-4.3	-3.4	-0.2	+2.1	-0.6	-0.3
Perpetual ESG Australian Share Fund	-3.6	-0.1	-1.0	1.8	10.7	7.5	17.2	9.4	8.3
S&P/ASX 300 Accumulation Index	-3.3	-2.9	-3.6	2.6	8.4	5.3	13.2	8.6	7.1
Excess	-0.3	+2.8	+2.6	-0.8	+2.3	+2.2	+4.0	+0.8	+1.2
Perpetual Pure Equity Alpha Fund – Class A	-2.4	-0.9	2.7	4.2	5.7	6.7	10.8	8.7	8.5
RBA Cash Rate Index	0.3	1.0	2.2	4.4	4.3	3.6	2.2	1.9	1.9
Excess	-2.7	-2.0	+0.5	-0.2	+1.3	+3.1	+8.6	+6.8	+6.6
Perpetual Share-Plus Long-Short Fund	-6.2	-5.8	-3.9	-2.2	5.8	6.2	16.0	9.6	8.7
S&P/ASX 300 Accumulation Index	-3.3	-2.9	-3.6	2.6	8.4	5.3	13.2	8.6	7.1
Excess	-2.9	-2.9	-0.3	-4.9	-2.5	+0.9	+2.8	+1.0	+1.5
Perpetual Smaller Companies Fund	-2.8	-1.9	-1.8	-0.7	4.4	2.3	17.4	9.5	9.6
S&P/ASX Small Ordinaries Accumulation Index	-3.6	-2.0	-3.0	-1.3	6.0	-0.8	10.2	4.5	6.3
Excess	+0.8	+0.1	+1.1	+0.5	-1.7	+3.1	+7.2	+5.0	+3.3
Perpetual Strategic Capital Fund - Class S	-4.3	-3.8	-4.8	-1.9	-	-	-	-	-
S&P/ASX 300 Accumulation Index	-3.3	-2.9	-3.6	2.6	-	-	-	-	-
Excess	-1.0	-0.9	-1.2	-4.6	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

Looking back, the first quarter of 2025 was the third worst start to the year for the S&P 500 since the Global Financial Crisis 15 years ago. What began optimistically ended with uncertainty—as market euphoria over deregulation and lower taxes promised by the incoming Trump administration was swiftly swept aside by widespread concerns over austerity, inflation, and tariffs. For the broad U.S. market, this marked a sharp reversal for the Magnificent 7, which dragged down the S&P 500 index given the high concentration in those names and leading to a new nickname entering investors' lexicon, the "Lag 7". The first quarter saw six consecutive weekly declines for the group of seven while six out of the seven underperformed the broader S&P 500 in the quarter. Given the magnitude of the runup leading to stretched valuations coming into this year, this unwind could still be in its early days. The resulting benefits to broader stocks and their far more reasonable valuations is an important reminder of the benefits of diversification and active management, as 62% of the S&P 500 stocks posted better returns than the index. While recent announcements in April have diverted investors' attention, the other material performance shift occurred in Europe, which outperformed the United States by more than 1000 basis points (bps) as measured by MSCI Europe's 10.6% return relative to the S&P 500's -4.3% return.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	-0.6	2.2	3.8	9.5	6.6	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	0.4	2.3	5.4	13.2	12.1	-	-	-	-
Excess	-1.0	0.0	-1.6	-3.7	-5.4	-	-	-	-
Barrow Hanley Global Share Fund - Class A	0.1	5.1	11.9	16.0	17.5	15.3	17.0	13.4	12.3
MSCI World Net Total Return Index ($A)	-4.7	-2.4	9.2	12.1	20.0	14.5	15.7	13.5	11.8
Excess	+4.8	+7.5	+2.8	+4.0	-2.5	+0.8	+1.3	0.0	+0.5

CASH & FIXED INCOME STRATEGIES

The March quarter was marked by elevated volatility, reflecting softening growth and concerns around US trade policy. Key themes of the quarter included the decline of US economic exceptionalism as the US growth outlook declined while EU stimulus and earnings growth alongside developments in Chinese AI technology provided optimism. Uncertainty around the Trump administration's implementation of tariffs impacted markets throughout the quarter, precipitating a selloff that began in February and intensified over the final days of March and into early April.

Domestic bond yields were mixed through January and February before ending the quarter close to starting levels. The yield curve steepened with long term yields rising while the short end rallied marginally. The RBA held the target cash rate unchanged at their April 1st meeting, retaining a cautious outlook despite the continued decline in underlying inflation. US bond yields rallied over the quarter on weakening growth indicators, shaking off concerns around sticky services inflation. The most notable move in European bond yields was in Germany where 10-year bund yields rose 30bps in March following the announcement of increased infrastructure and defence spending.

January and February saw credit spreads continue to contract consolidating the strong 2024 performance in spite of softening global and US growth print. Credit spreads widened during March as successive tariff and foreign policy announcements led to elevated volatility. The Australian iTraxx index moved sharply higher reflecting increased demand for credit risk insurance as volatility spiked. Swap to bond spreads moved further into negative territory, reaching a historic low in mid-March before reverting marginally by quarter end. The outlook for credit spreads is challenging with spreads under heavy pressure in the early days of the second quarter.

The primary issuance market started the year with a relatively rapid pace. New deals were well diversified across sectors and issuance volumes remain relatively orderly even as spread volatility was heightened. Borrowers met healthy demand through January and February before rising spread volatility saw demand falter towards the end of the quarter.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.4	1.4	3.0	6.2	6.5	5.2	3.9	3.4	3.4
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.6	2.1	2.0	2.0
Excess	+0.1	+0.3	+0.8	+1.8	+2.2	+1.7	+1.8	+1.4	+1.4
Perpetual Credit Income Fund	0.1	1.5	3.5	7.3	8.5	6.6	5.9	4.5	4.5
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.6	2.1	2.0	2.0
Excess	-0.2	+0.4	+1.3	+2.9	+4.2	+3.0	+3.8	+2.5	+2.5
Perpetual Active Fixed Interest Fund	0.2	1.5	1.6	4.8	4.3	3.0	0.9	2.5	2.8
Bloomberg AusBond Composite Index	0.2	1.3	1.0	3.2	2.3	1.7	-0.5	1.6	1.8
Excess	0.0	+0.2	+0.6	+1.6	+1.9	+1.4	+1.4	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.1	1.5	3.6	7.7	8.4	6.9	6.2	-	-
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.6	2.1	-	-
Excess	-0.2	+0.4	+1.4	+3.2	+4.1	+3.4	+4.1	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.2	1.5	3.8	8.3	9.4	7.6	7.1	5.7	6.0
RBA Cash Rate Index	0.3	1.0	2.2	4.4	4.3	3.6	2.2	1.9	1.9
Excess	-0.1	+0.5	+1.7	+3.9	+5.1	+4.1	+4.9	+3.8	+4.1

MULTI-ASSET STRATEGIES

A number of themes dominated financial markets during the March quarter. The unravelling of US economic and artificial intelligence technology exceptionalism alongside the disruptive impact of the Trump administration's trade policy contributed to softening US equities and rising volatility.
- Developed market equities (-2.6%) sold off on slowing growth concerns and concerns around US trade policy. Equities consolidated their strong 2024 through the first six weeks of the year before stumbling in late February with the decline continuing and accelerating in March.
- US equities (-4.3%) underperformed the broader developed market, impacted by both the spectre of lower cost Chinese artificial intelligence (which sparked sizable declines in valuations) and later the disruptive impact of tariff policy which sparked concerns about the earnings outlook. Value stocks and sectors starkly outperformed growth with the Russell 1000 Value Index (+2.1%) in positive territory while the growth variant (-10.0%) dropped sharply.
- European equities (+6.4%) outperformed strongly, led by the German DAX (+11.3%) which surged on fiscal policy tailwinds. Easing monetary policy and the unwinding of US overweight exposures in the wake of challenges to their tech supremacy also contributed.
- UK stocks (+6.1%) also performed well, led by gains among large caps as valautions improved. The fiscal and economic growth outlook continues to weigh on the broader equity market.
- Japanese equities fell with the Nikkei 225 (-10.7%) off sharply primarily driven by appreciation of the Yen which weighed on offshore earners as did escalating global trade tensions.
- Australian Equities (-2.9%) declined on a combination of corporate earnings downgrades and concerns around the resilience of Chinese demand under US tariff policy.
- Emerging markets outperformed, led by China (+15.0%) which advanced in response to positive momentum in the technology sector and increased fiscal stimulus .
- Bond markets were mixed over the March quarter. US bond yields declined on weakening growth indicators and some easing of services inflation. The most notable move in European bond yields was in Germany where 10-year bund yields rose 30bps in March following the announcement of increased infrastructure and defence spending.

US trade policy and the implications of broad tariffs levied on their trading partners dominated news flow and precipitated a sharp selloff in risk markets towards the end of the quarter. The Trump administration levied 25% tariffs on Canada and Mexico in January before delaying and subsequently reinstating the taxes in March, and tariffs on China were established and then later increased from 10% to 20% and we suspect the increase here has further to run.. Financial market volatility spiked as markets both parsed the tariffs and the broadened policy to be announced in early April. The outlook for the tariffs are clouded with uncertainty in terms of the ultimate level and its duration, so it's hard to draw firm conclusions at this stagebut they will weigh on economic growth and boost inflation, which is likely to negatively impact the ability of the US Fed to be pre-emptive in their rate settings. Another concern is the unsustainable fiscal deficit, which stands at +6.4% of GDP and is estimated to widen if the Trump administration's tax and spending plans are implemented in full. This raises concerns about the long-term trajectory of US Government debt and its potential impact on US term premia.

The tariff influenced equity market selloff intensified the rotation from growth to value which was observed throughout the March quarter. In January, the reveal of DeepSeek – a Chinese start up offering a more cost-efficient generative AI model than US competitors – saw markets reconsider the defensive moats and valuations of large cap US tech firms and the ongoing demand for expensive chips developed by Nvidia. The Magnificent 7 index has experienced deteriorating performance for their legacy businesses and we have reason to doubt that capital expenditure will result in the required boost in their respective earnings profiles over medium term.. Meanwhile, stretched valuations, elevated market concentration and the preponderance of passive investment all continue to contribute to elevated sensitivity of equity markets which was on display in March and intensified in the early days of April.

The third component contributing to the risk-off shift of the March quarter was the softening US growth outlook and the unravelling of US exceptionalism theme that had dominated 2024. Trade tariffs and public sector job cuts weighed on consumer sentiment with the University of Michigan's consumer sentiment index for March declining. The Fed kept interest rates on hold at 4.25-4.50% during the quarter while lifting its inflation outlook to 2.7% from 2.5% and cutting its growth forecast for 2025 to 1.7% from 2.1%. these changes were expected.

At the same time, the resurgence of America first foreign policy triggered increased defence spending in Europe which contributed to an improvement in the growth outlook. Europe entered 2025 with a challenging outlook reflecting rising geopolitical and trade tensions with the US alongside weakened consumer confidence. The ECB offered relief, cutting rates by a further 25bps during January and comments from the chair signalled a shift from focusing on inflation to focusing on risks to economic growth, which improving the probability for further monetary easing in 2025 as wages growth and core inflation closed in on the 2% target. The CDU's victory in the German elections led to loosened borrowing limits and plans to increase spending in defence and infrastructure, which supported equities but saw bunds selloff sharply resulting in higher yields. The European growth indicators remained finely balanced with PMIs remaining in very marginal expansionary territory but overall, we suspect that the European economic growth should improve in 2025, in contrast to the US.

The Australian economy has faced challenges due to sustained elevated interest rates and flat productivity which has led to the longest period of contracting GDP growth per capita. However, the economy has remained in expansion territory due to large population growth and significant fiscal expansion. The Reserve Bank of Australia (RBA) commenced its monetary easing cycle in the March quarter, lowering the cash rate to 4.10% in February. While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, the economy is projected to grow at a faster pace in 2025, driven by increased government spending (confirmed in the March federal budget), unspent tax cuts, and lower interest rates.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	-1.8	0.1	0.5	3.3	6.9	5.9	10.3	7.8	7.0
Balanced Growth Index	-2.6	-1.4	0.3	5.2	9.7	6.1	9.4	7.4	6.8
Excess	+0.9	+1.5	+0.2	-1.9	-2.9	-0.1	+0.8	+0.4	+0.2
Perpetual Diversified Growth Fund	-1.3	0.5	0.9	3.5	5.9	5.1	7.7	6.4	5.8
Moderate Growth Index	-1.8	-0.6	0.6	4.8	7.8	5.0	6.7	5.8	5.5
Excess	+0.6	+1.1	+0.3	-1.2	-1.9	+0.1	+1.0	+0.6	+0.3
Perpetual Diversified Real Return Fund - Class W	0.1	2.2	2.5	5.2	5.3	4.5	5.7	5.1	4.8
Australian CPI +5% (Target Objective)							8.9	8.3	
Perpetual ESG Real Return Fund	-0.6	0.9	1.1	4.3	3.6	2.6			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.

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