

MONTHLY MARKET UPDATE

July 2025

MONTHLY HIGHLIGHTS

- **Global markets extended their rally in July**, supported by resilient corporate earnings, easing inflation and growing expectations of rate cuts. While new US tariffs introduced some late volatility, trade deals with major partners and milder-than-expected outcomes helped calm investor nerves. Many countries, including Australia, retained baseline tariff rates, limiting broader economic impact.
- **Australian shares extended their winning streak** as confidence grew around the RBA's expected rate cut cycle, with markets pricing in four 0.25% reductions over the next year. Healthcare, energy and utilities sectors led performance, underpinned by falling inflation, a softening labour market and a solid start to the FY24 reporting season.
- **International shares recorded strong performance**, buoyed by US earnings strength and optimism around a soft landing — where inflation eases without triggering a recession. While valuations remain high, the policy backdrop has become more supportive, and economically sensitive sectors continued to benefit from stable demand and improving margins.
- **Fixed interest markets were mixed**. Bond yields remained sensitive to concerns around government debt and fiscal policy in the US, with government bond yields moving higher, and bond prices retreating, both domestically and abroad. Credit (corporate bond) markets performed well, with investor demand staying robust in the face of broader geopolitical and macroeconomic noise.

Key Market Performance — Trailing Total Returns (%)

As of 31 July 2025	1 mth	3 mths	12 mths	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Australian Shares						
Australian shares	2.4	8.2	11.8	12.3	12.3	8.6
Australian small-cap shares	2.8	9.7	11.5	7.1	7.7	7.8
International Shares						
International shares (hedged)	2.2	12.1	14.5	14.0	12.3	n/a
International shares	3.2	11.3	17.5	18.4	15.2	11.5
International small-cap shares	3.0	11.5	9.9	12.5	12.9	9.2
Fixed Interest & Cash						
Australian fixed interest	0.0	0.9	5.2	2.7	-0.2	2.2
International fixed interest (hedged)	-0.2	0.4	3.3	1.4	-0.9	1.9
Cash - bank bills	0.3	1.0	4.3	3.9	2.4	2.0

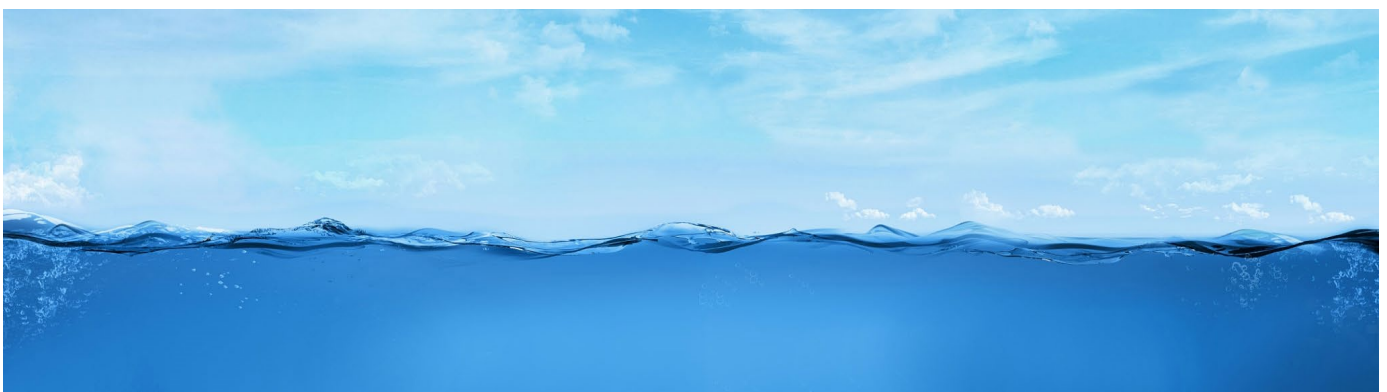
MARKET OBSERVATIONS

July extended the positive momentum in global markets, with investors finding further reasons for optimism. Gains were broad and meaningful, with Australian equities rising 2.4% and the MSCI All Country World Index advancing 3.2%. Performance was supported by robust corporate earnings, with more than 80% of US companies reporting results above expectations, and strong showings from technology and financials.

In Australia, healthcare, energy and utilities led the market, offsetting a pullback in the major banks that reversed some of their recent strength. Emerging markets also outperformed, with China's year-to-date leadership reflecting a broader willingness among investors to take on risk outside traditional safe havens. Bond markets were influenced by renewed attention on global trade developments and concerns over fiscal positions in several major economies. This combination saw government bond yields move higher both domestically and internationally. Corporate bonds fared better, benefiting from an improvement in economic sentiment and narrowing credit spreads.

Progress on US trade negotiations was a key driver of July's performance. A wave of agreements ahead of the 1 August tariff deadline eased some of the most pressing concerns and was reinforced by the passage of the One Big Beautiful Bill Act, a flagship US tax and spending package that reduced near-term policy uncertainty. While the US still implemented significant tariff increases, key partners such as Australia secured more favourable baseline rates, helping many economies avoid the severe scenarios that had been feared earlier in the year.

Monetary policy remained a focus. Markets in Australia are increasingly confident that the Reserve Bank will begin easing soon, with expectations of further cuts pushing the cash rate toward the low-3 per cent range by early 2026. In contrast, expectations for US Federal Reserve rate cuts are more cautious. While markets had previously priced in earlier moves, sentiment shifted after the Fed's July meeting, and broader forecasts now anticipate two quarter-point reductions through the remainder of 2025, consistent with evolving projections from the central bank.



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