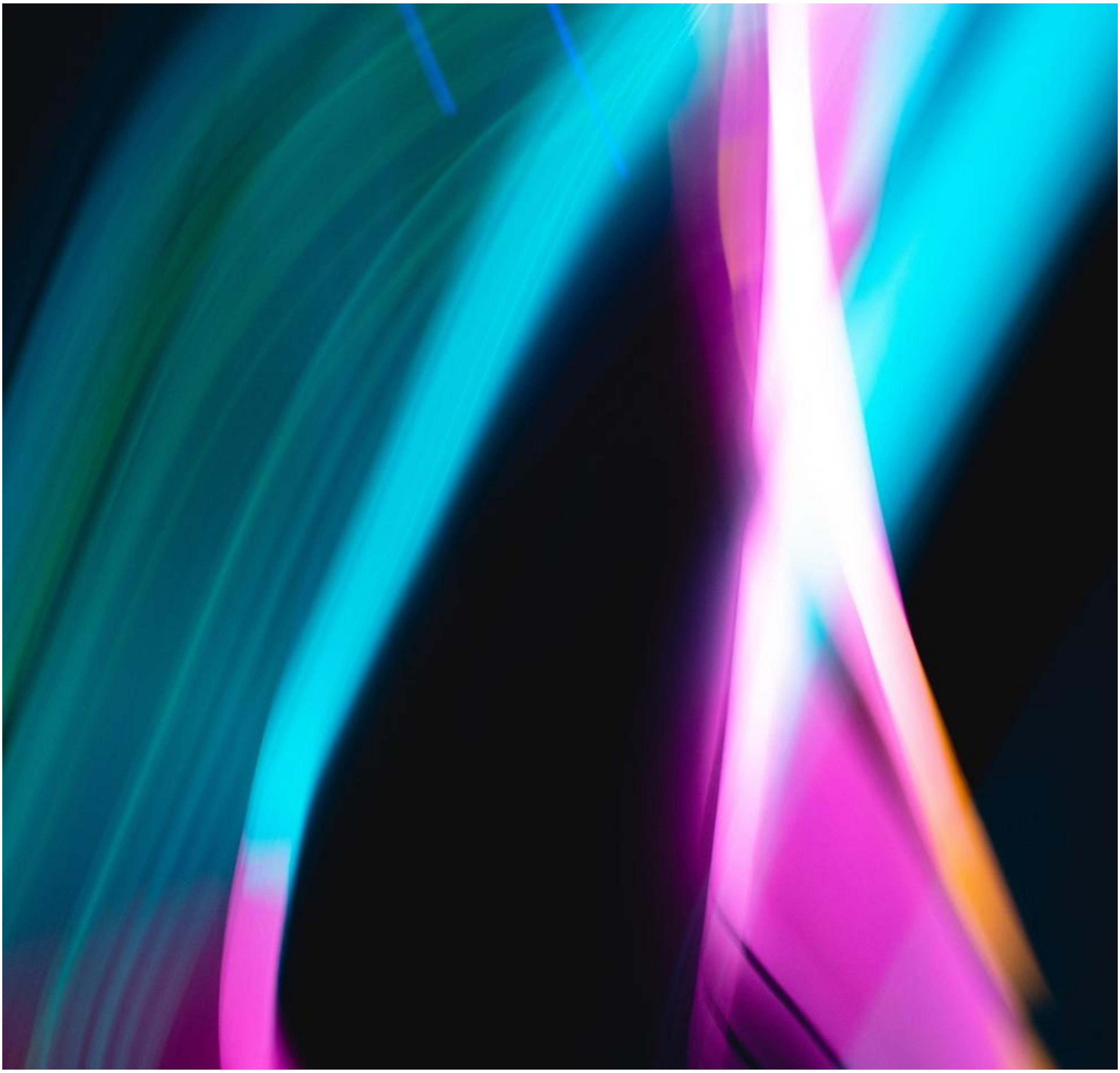
INVESTMENT ENVIRONMENT UPDATE

AUGUST

2025

PATRIZIA
ADVISERS



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Prime Super

Investment Environment Update

August saw continued volatility across global markets as investors weighed softer macroeconomic data against evolving monetary policy signals. Equity markets were positive, with the S&P 500 rising 1.9% and the MSCI World Index (unhedged) gaining 0.9%. The UK FTSE 100 rose 0.6%, Japan's Nikkei 225 increased by 4.0%, and the Australian S&P/ASX 300 rose 3.2%. Emerging markets decreased by 0.4% on an unhedged basis, despite a weaker USD and improving sentiment in Asia. Australian and international fixed income were up by 0.3% and 0.5%, respectively.

US economic data remained mixed. Non-farm payrolls increased by 22,000 in August, below expectations of 75,000, with further downward revisions to prior months indicative of slowing momentum in the labour market. The ISM Services PMI rose to 52 in August from 50.1 in July, beating forecasts of 51. The reading pointed to the highest expansion in the services sector in six months, driven by faster growth rates for business activity. The US ISM Manufacturing PMI increased to 48.7 in August 2025 from 48.0 in July, though it fell short of market expectations of 49.0. Offsetting these positive indicators were a continued contraction in employment with the US unemployment rate increasing to 4.3% in August from 4.2% in the previous month. Consumer spending increased by 1.6% in Q2 and Q2 GDP was revised to 3.3% from an earlier rate of 3%, driven by investments, consumer spending and a decrease in imports. Core inflation increased by 0.3% in July to be 3.1%, well above the Fed's target of 2%, raising concerns about persistent inflation.

Despite political pressure from the Trump administration, including the appointment of Stephen Miran as interim governor and the potential sacking of Lisa Cook, the Federal Reserve held rates steady at 4.5% at its meeting on 30 July. Chair Powell's speech signalled openness to a rate cut even though inflation remains stubbornly high and above the Fed's target. There is ongoing debate around the US government's high debt levels and associated debt servicing costs and whether accepting higher inflation with lower interest rates will be required for the US to try and "grow" out of its debt burden.

Asset Class Returns	August (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.32	0.94	4.25	4.00
Australian Fixed Income	0.33	1.05	4.31	3.74
International Fixed Income	0.49	1.25	2.84	2.50
Australian Equity *	3.16	7.17	14.91	12.81
International Equity - Developed (unhedged) *	0.92	6.62	20.06	20.50
International Equity - Developed (hedged) *	2.04	8.07	14.76	16.74
International Equity - Emerging (unhedged) *	-0.37	7.63	21.08	12.54

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

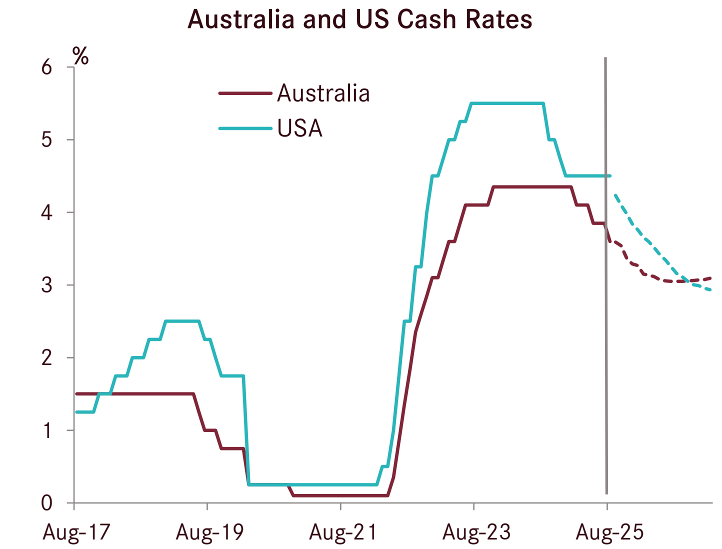
Following President Trump's increased tariff rate on goods from India from 25% to 50%, with the intension to pressure India to stop purchasing oil from Russia, India responded by increasing diplomatic and strategic engagement with China and Russia. In early September, India, China, and Russia – joined by 20 other leaders primarily from the Middle East and Asia – convened in Tianjin, China for a high-stakes summit addressing the shifting global geopolitical landscape. Central to the discussions was a shared sentiment that US President Donald Trump's tariff policies would have minimal effect if these nations strengthened cooperation and forged strategic alliances. The implications for the United States could be profound, potentially undermining its trade influence and further straining its relationships across Asia.

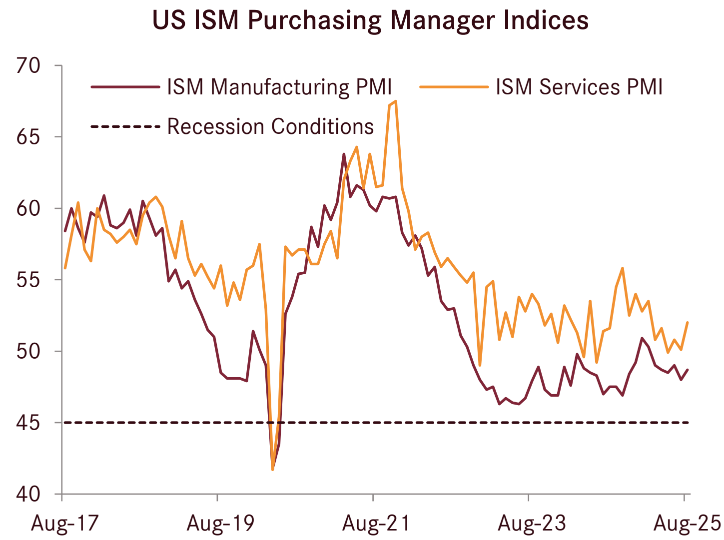
In Australia, the RBA cut the cash rate by 25 basis points to 3.6% on 12 August, citing weak consumer sentiment and soft labour market data. However, the GDP growth rate for Q2 was reported to be 0.6%, 0.1% higher than the consensus and 0.3% higher than Q1, thus showing signs of recovery. The Westpac Consumer Sentiment Index increased to 98.5, showing the long run of consumer pessimism may finally be coming to an end considering it has been 42 months since Australian consumers last registered a Sentiment Index read above 100. In July, the unemployment rate dropped to 4.2% , 0.1% below the previous month.

Australian Bureau of Statistics data showed an 8.2% reduction in building approvals in July compared to June, with economists warning the continued sluggishness of new home building is a factor behind the nation's surging home prices. Australia is still 40,000 new home approvals short of the federal government's annual target of 240,000, which is needed to achieve the target of 1.2 million new homes over five years, intended to tackle the nation's housing crisis.

The Eurozone economy showed tentative signs of stabilisation in August. Headline inflation edged up to 2.1% year-on-year (July: 2.0%), while core inflation held steady at 2.3%, keeping price pressures slightly above the ECB's 2% target. Manufacturing activity returned to growth for the first time since mid-2022, with the HCOB Manufacturing PMI rising to 50.7 (July: 49.8), driven by stronger domestic demand and new orders, though employment continued to decline. Retail sales surprised on the upside, growing 3.1% year-on-year, signalling resilience in consumer spending despite weak industrial output. GDP growth remained modest at a quarterly growth rate of 0.1% in Q2, reflecting sluggish momentum amid external trade headwinds and structural challenges. The ECB kept its refinancing rate at 2.15% and is expected to hold steady at the September meeting, as policymakers balance easing inflation with a fragile economic recovery. Overall, the outlook is cautiously optimistic, supported by improving manufacturing and retail trends, but risks from US tariffs and geopolitical uncertainty persist.

During August, gold traded in a narrow range around US$3,380/oz, supported by safe-haven demand. The AUD/USD ended August at 0.65, up 1.7% for the month, though the AUD declined slightly against the pound, the euro, and the Japanese yen. Currency moves generally reflected shifting interest rate expectations and global risk sentiment.





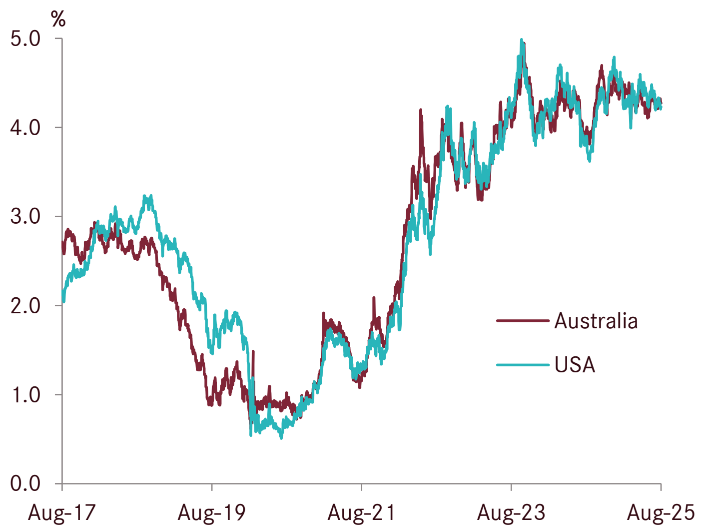
Source: Bloomberg

The UK economy expanded modestly, supported by seasonal spending and improving business conditions. Economists forecast sluggish growth next year given the strength of domestic headwinds, including fiscal policy being tightened significantly and the lagged impact of past interest rate rises continuing to emerge. The UK economy showed signs of slowing momentum in August, with annual GDP growth at 0.3% in Q2 (down from 0.7% in Q1), supported by the services and construction sectors but was weighed down by a 0.3% fall in industrial output and a sharp 4% drop in business investment. Annual core inflation remained elevated at 3.8% in July, well above the Bank of England's 2% target, driven by higher transport and food costs. The S&P Global Manufacturing PMI fell to 47 from 48 in the previous month, marking the 11th consecutive month of contraction amid weak demand, falling new orders, and rising input costs. In response to the softening economy and persistent inflationary pressures, the Bank of England cut its policy rate by 25 bps to 4.0% in August to its lowest level in over two years and signalled a cautious approach to further easing as the risks of sticky inflation remain. Overall, the outlook is fragile, with domestic demand softening, trade headwinds from US tariffs, and fiscal uncertainty weighing on confidence.

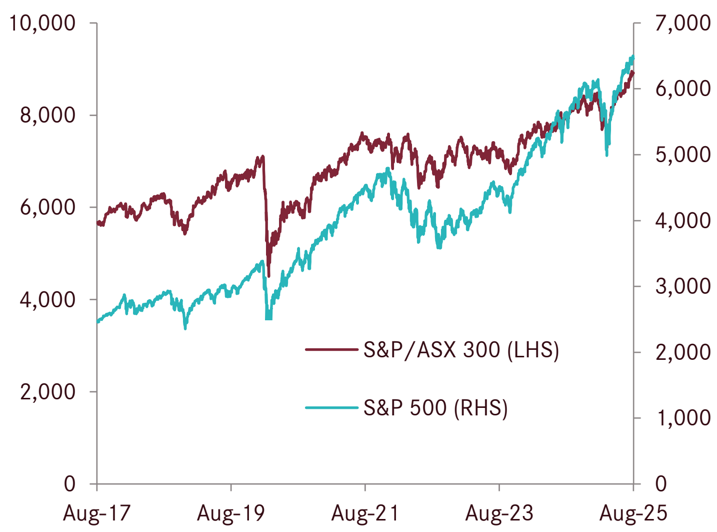
Japan's economy remains under pressure from both external headwinds and weak domestic demand. Real GDP growth for 2025 grew at 0.5% in Q2 above market consensus of 0.3%. Growth was driven mainly by domestic demand supported by robust wage growth while exports faced a drag from US tariffs which have been set at 15%. Headline and core inflation remain elevated at around 3.1%, above the Bank of Japan (BoJ) 2% target, adding pressure on the BoJ to continue increasing interest rates, though it is reluctant to do this, which subsequently puts downwards pressure on the yen. The BoJ kept its policy rate at 0.5% in the July meeting, the highest since 2008, and signalled possible further hikes later this year. The unemployment rate dropped to 2.3% in July 2025 following four months where it held at 2.5% and was below market expectations of 2.5%. Manufacturing activity stayed in decline, with the PMI at 49.7, marking the thirteenth decline in 14 months as export orders fell sharply amid tariff impacts. Overall, Japan faces a delicate balance: strong wage gains and fiscal support underpin domestic demand, but trade frictions, aging demographics, and policy uncertainty continue to weigh on growth prospects.

China's economy showed mixed signals in August as official PMIs indicated stagnation, with manufacturing at 49.4 (still in contraction) and non-manufacturing at 50.3, suggesting modest improvement in exports but weak domestic demand. Industrial production grew 5.7% year-on-year though retail sales slowed to 3.7% year-on-year, dropping from 4.8% in the previous month, reflecting fragile consumer confidence amid a prolonged property slump (the China house price index has fallen 2.8% over the year). Inflation remained flat, and producer prices fell -3.5% year-on-year in July, underscoring persistent deflationary pressures. Trade was a bright spot, with exports up at an annual rate of 4.4% and imports rising 1.3%, widening the surplus to about US$102.3 billion. Credit conditions improved slightly, supported by targeted easing, though policymakers remain cautious about large-scale stimulus given high debt levels and structural weaknesses.

10 Year Government Bond Yields



S&P/ASX 300 (Aus.) and S&P 500 (US) Equity Indices



Source: Bloomberg

Index Returns to 31 August 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	3.2	7.2	5.7	14.9
S&P/ASX Small Ordinaries Accumulation Index	8.4	12.4	11.5	23.4
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	2.0	8.1	4.1	14.8
MSCI World (ex Australia) Index (unhedged AUD)	0.9	6.6	4.1	20.1
MSCI Emerging Markets Index (unhedged AUD)	-0.4	7.6	3.4	21.1
Property				
S&P/ASX 200 A-REIT Accumulation Index	4.5	9.9	7.9	14.5
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	3.2	2.8	2.6	-0.9
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	2.2	1.3	2.6	4.0
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	0.8	2.6	2.2	7.2
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.3	1.0	0.3	4.3
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.5	1.3	0.3	2.8
FTSE WGBI ex-Aust (hedged AUD)	0.3	0.7	-0.1	1.7
Cash				
Bloomberg AusBond Bank Bill Index	0.3	0.9	0.6	4.3
Commodities				
Gold (USD per ounce)	3.9	4.6	4.3	36.4
Copper (USD per metric tonne)	3.0	4.3	0.3	7.2
WTI Crude Oil (USD per barrel)	-7.6	5.3	-1.7	-13.0

Australian Dollar versus Foreign Currencies to 31 August 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 AUGUST 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.65	1.7	1.7	-0.1	-3.5
British Pound Sterling	0.48	-0.4	1.5	1.3	-6.2
Euro	0.56	-0.6	-1.4	0.2	-8.8
Japanese Yen	96.10	-0.8	3.5	1.5	-2.7

Source: Bloomberg

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