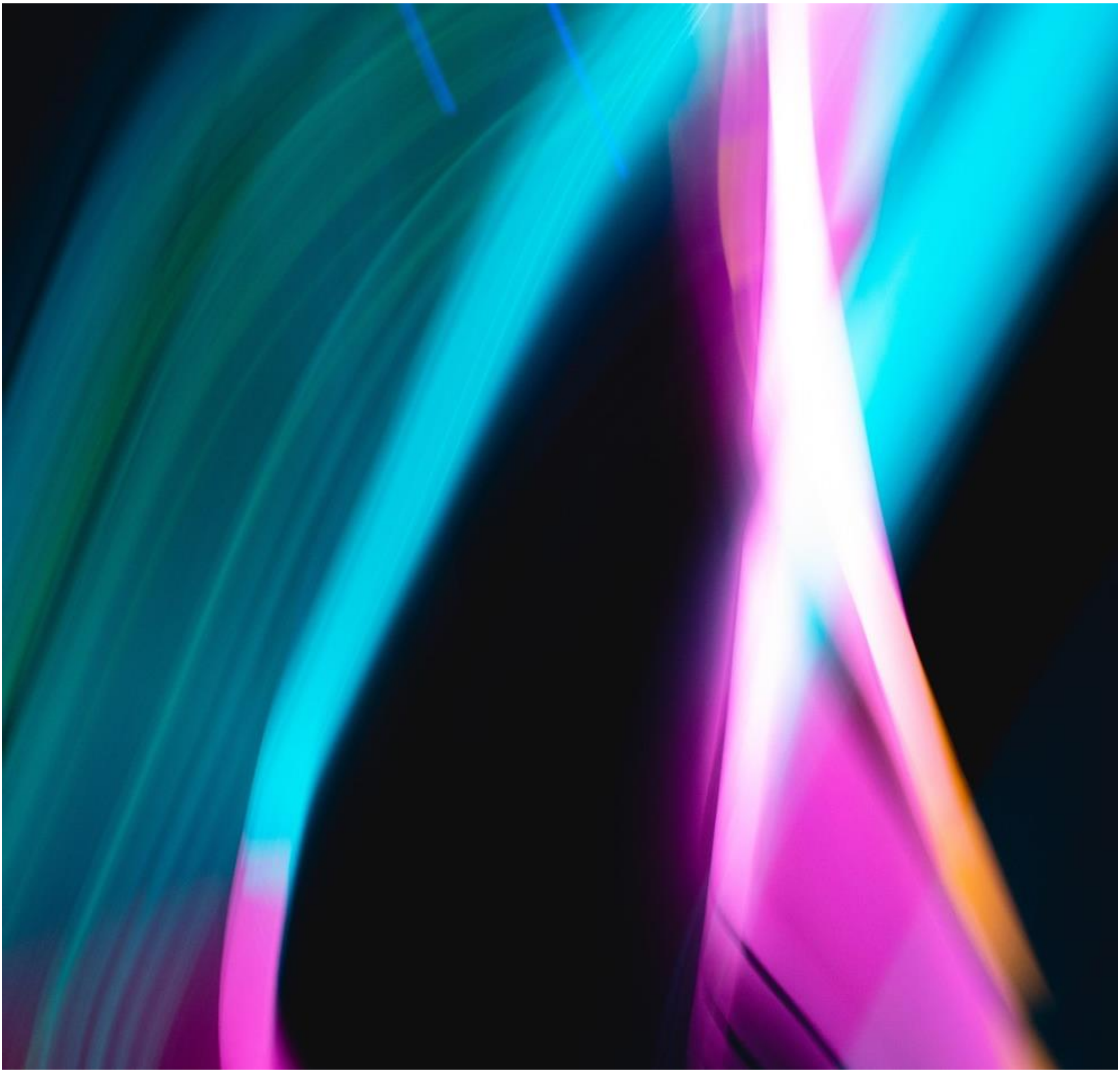
INVESTMENT ENVIRONMENT UPDATE

JANUARY
2025

PATRIZIA
ADVISERS



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Prime Super

Investment Environment Update

All major asset classes generated a positive return in January. Global share prices were boosted over the month by the smooth Presidential changeover in the US, in addition to the market's view that on balance President Trump's policy agenda would be pro-growth. The Australian ASX increased by 4.6% in January, reaching a record high close on the last day of the month. This was aided by increased optimism that the RBA is likely to cut rates in February, as well as a better outlook for the Chinese economy. European markets had a very positive month with the German DAX (+9.2%), French CAC (+7.7%) and UK FTSE (+6.1%) all beginning the year strongly, benefitting from their cheaper valuations compared to the US equity market. The Japanese Nikkei fell by 0.8% in the month with markets impacted by the stronger Yen following the increase in the cash rate in Japan by 0.25% to 0.5%. The US S&P 500 increased by 2.7% in January 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. In addition, uncertainty around the extent and timing of the implementation of US President Donald Trump's policies, including tariffs, following his inauguration on 20 January weighed on the US equity market, and this remains a key risk for all financial markets as well as the global economy.

Global bond yields were relatively flat over the month in aggregate, providing a return close to the cash rate. US 10-year bond yields increased by around 0.25% in the first half of the month to 4.8%, before reversing the opposite direction in the second half of the month following the release of lower than expected US inflation data. Bond yields in Australia followed a broadly similar path to those in the US as investors became more confident of a February rate cut by the RBA following the release of inflation data late in January with Australian 10-year bond yields ending the month at 4.4%. Credit markets were mostly stronger too in January, with yield margins over government securities running at their tightest levels in close to two decades.

Within commodities, gold prices increased by 7.8% in US dollar terms during January to a new record high level as investors continued to be attracted to its safe-haven characteristics amid the threat of tariffs and global policy uncertainty.

Asset Class Returns	January (%)	3 Months (%)	12 Months (%)	3 Years (% p.a.)
Cash	0.38	1.12	4.48	3.32
Australian Fixed Income	0.19	1.84	2.91	-0.39
International Fixed Income	0.38	0.68	2.95	-1.22
Australian Equity *	4.46	4.98	15.09	11.07
International Equity - Developed (unhedged) *	2.74	10.85	28.95	14.10
International Equity - Developed (hedged) *	3.46	6.45	22.67	9.44
International Equity - Emerging (unhedged) *	1.04	2.90	21.62	3.41

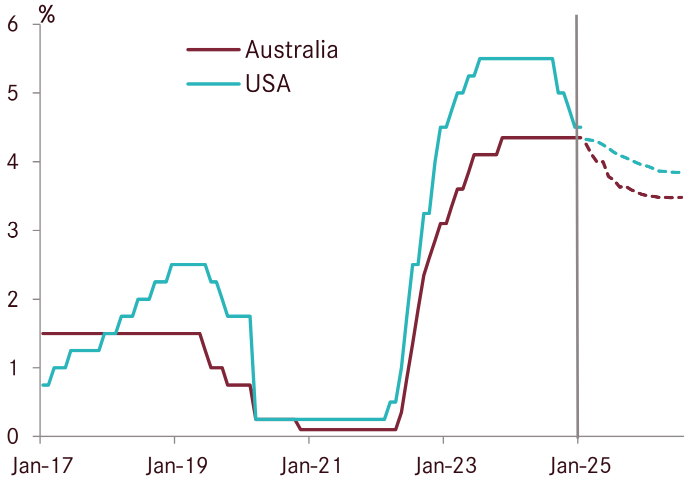
** Returns reflect the relevant accumulation indices.*
Source: Bloomberg, Datastream, PATRIZIA.

Australian inflation surprised to the downside in the December quarter. Headline inflation was 0.2% in the quarter and fell to 2.4% on a year-on-year basis from 2.8% in the previous quarter. Notably, there continues to be a divergence in goods versus services inflation in the Australian economy. A pacified annual goods inflation level of 0.8%, driven by lower electricity, fuel and new dwelling prices, is now the lowest since 2016. Meanwhile, annual services inflation remains elevated at 4.3% due to high rents, healthcare and insurance costs. Trimmed-mean inflation was 0.5% in the quarter and 3.2% over the year, compared to 3.5% the previous quarter. This is below the RBA's forecasts for inflation at the end of 2024 of 2.6% for headline inflation and 3.4% for trimmed mean inflation. With inflation continuing to ease, the market is now 90% priced for the RBA to cut the cash rate from the current level of 4.35% at its mid-February meeting, with a second and third cut priced for May and August, respectively.

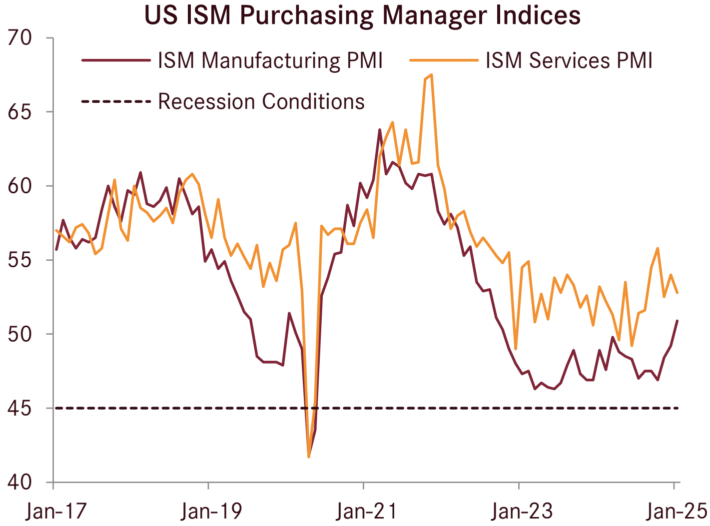
Australia's business confidence remained negative in December, though improved from -3 to -2 index points. Business conditions improved by 3 points to 6 points, boosted by strong sales and profitability. Consumer sentiment weakened marginally by 0.7% to 92.1 points in January, marking its second consecutive decline and indicating ongoing pessimism, consistent with the 0.1% month-on-month decline in retail sales in December. National home values in Australia remained steady in January, with the annual rate declining to 4.3% according to CoreLogic data. In summary, high interest rates and cost of living pressures are continuing to impact consumers. Australia's unemployment rate rose by 0.1% to a still historically low 4.0% in December due to a higher participation rate of 67.1%. However, jobs growth was very strong increasing by 56,000 compared to consensus expectations of 15,000. With the reduction in inflation, wages are now growing in real terms and real household disposable income is also benefiting from tax cuts. The delivery of a near term rate cut by the RBA is expected to improve both consumer and business confidence.

Recent US economic data has been consistent with a soft economic landing, with inflation continuing to moderate (albeit at a slower pace), and growth remaining stronger than previously expected. The US economy expanded by 2.8% in 2024, mirroring the 2.9% growth recorded in 2023. For the December quarter, growth was 2.3% annualised, down from 3.1% in the previous quarter. Personal spending remained the main driver of growth, increasing an annualised 4.2% in the quarter. The US unemployment rate fell by 0.1% to 4.1% in December, with non-farm payrolls increasing by 256,000 in the month and well ahead of forecasts of 160,000. These figures continue to signal a strong and stable labour market. The annual headline inflation rate rose for a third consecutive month from 2.7% to 2.9% in December, and in line with market expectations. The annual core inflation rate eased to 3.2% in December, down from 3.3% in the previous three months, but still well above the US Fed's 2.0% target level. The core PCE price index, the Federal Reserve's preferred gauge of underlying inflation in the US economy, rose by 2.8% annually in December of 2024, remaining unchanged from the two prior months. US business indicators were positive in January supported by anticipation of President Trump's pro-growth policy agenda. The ISM Manufacturing Index rose to 50.9 in January from 49.2 in December, the first expansion after 26 consecutive months of contraction. The ISM Services Index was down 1.2 points to 52.8 in January, extending expansion in the sector to eleven months. The University of Michigan consumer sentiment fell to 71.1 in January from 74.0 in December, with inflation expectations for the year increasing to 3.3% compared to 2.8% in December.

Australia and US Cash Rates



US ISM Purchasing Manager Indices



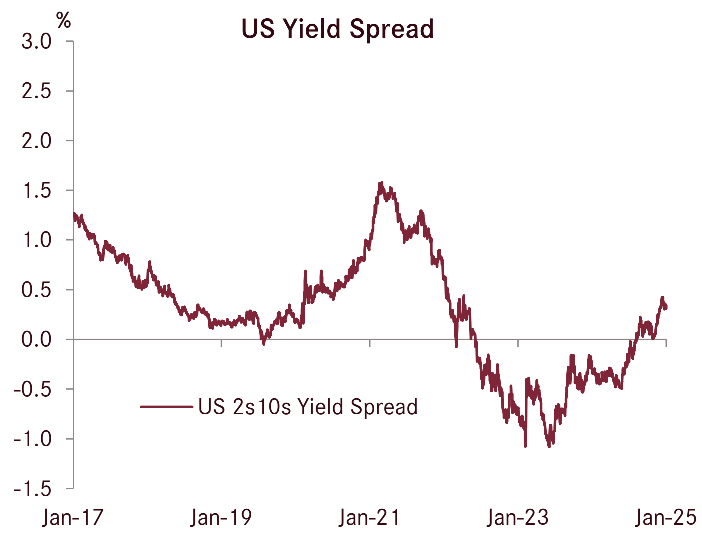
Source: Bloomberg

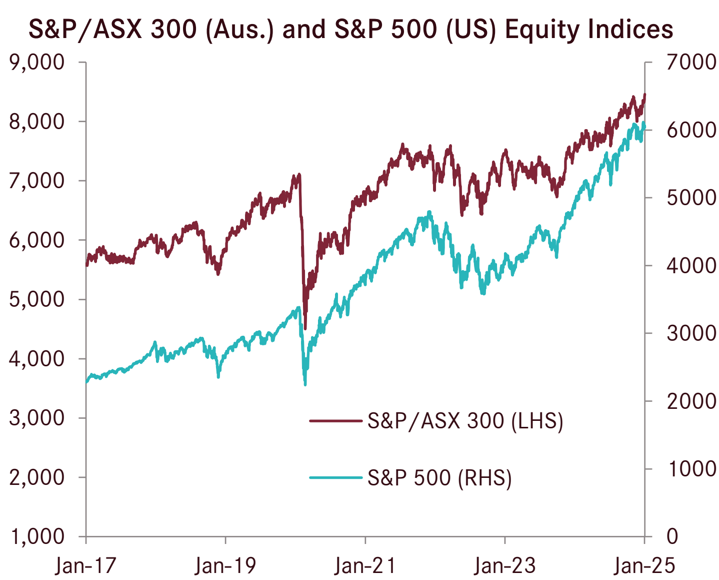
Indications from the US Fed at its December policy meeting that room for 2025 rate cuts is diminishing were confirmed at the January policy meeting when the Fed left the cash rate unchanged at the 4.25% - 4.50% range, in line with expectations, following three consecutive reductions that totalled 1.0%. After the meeting, US Fed Chair Powell said the Fed is not in a hurry to lower interest rates, and that it paused cuts to see further progress on inflation, which is remaining stickier than desired. Policymakers noted that recent indicators suggest that economic activity has continued to expand at a solid pace, and the unemployment rate has stabilised at a low level. Additionally, the central bank acknowledged that inflation remains somewhat elevated and the economic outlook is uncertain. Market pricing is for two 25 basis point rate cuts in 2025.

The ECB continues to cut rates in response to slowing inflation and soft growth. The cash rate was reduced to 2.75% in January, the fifth cut since June 2024, with markets pricing in a further three cuts in 2025. The ECB expressed confidence on declining inflation, while the major concern has now shifted to the anaemic growth in the Eurozone. Headline inflation increased by 0.1% to 2.5% in January, driven by an increase in energy costs. The annual core inflation rate in the Euro Area remained at 2.7% in January – it has been stable at this level for the past five months. The Eurozone economy grew by 0.9% year-on-year in Q4 2024, matching the previous quarter's pace. The Flash HCOB Eurozone Manufacturing Index improved slightly to 46.6 in January and has remained in contraction for over two years. By contrast, the Flash HCOB Eurozone Services Index decreased from 51.6 to 51.3, but remains in expansion. Germany, the largest economy in Europe, remained in recession, with GDP contracting by 0.2% year-on-year in Q4. Growth remains under pressure from a deepening industrial recession, high energy costs, and sluggish spending by both consumers and the government. A weakening labour market and the risk of a trade war with the US have further fuelled concerns.

In the UK, the BOE cut the cash rate by 0.25% to 4.5% in its meeting in early February. It also 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%. Markets are pricing another 62 basis points of cuts this year. December data indicated a subdued UK private sector. The Flash S&P Global UK Services PMI Survey fell by 0.3 to 50.8 in January. While the S&P Global UK Manufacturing PMI Survey increased by 1.3 to 48.3 in January, the index continues to signal a sharp deterioration in operating conditions with declining new orders amid persistently weak demand both domestically and in overseas markets. The UK GfK Consumer Confidence Index fell by 5 points to -22 in January, its lowest level in over a year amid growing concerns of an economic slowdown.

GDP growth in China increased to 5.4% annualised in the December quarter, with full year growth of 5.0% for 2024 in line with the government's target. Activity in the quarter was boosted by a series of stimulus measures and better than expected retail sales and exports, which were 10% higher in the year to end-December. China's official NBS Manufacturing PMI fell to 49.1 in January from 50.1 in December, reflecting a slowdown ahead of ahead of Lunar New Year. Similarly, official NBS Non-Manufacturing PMI fell to 50.2 from 52.2. Major economic meetings in March will set China's 2025 growth agenda together with developments on tariffs with the US, where in response to President Trump's 10% tariff increase, China has increased tariffs by 15% on select US goods including coal and LNG.





Source: Bloomberg

Index Returns to 31 January 2025

	MONTH (%)	3 MONTHS (%)	FYTD (%)	12 MONTHS (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	4.5	5.0	11.7	15.1
S&P/ASX Small Ordinaries Accumulation Index	4.6	2.7	10.3	12.3
International Equities				
MSCI World (ex Australia) Index (hedged AUD)	3.5	6.5	10.1	22.7
MSCI World (ex Australia) Index (unhedged AUD)	2.7	10.8	17.8	28.9
MSCI Emerging Markets Index (unhedged AUD)	1.0	2.9	9.0	21.6
Property				
S&P/ASX 200 A-REIT Accumulation Index	4.7	0.9	12.6	22.4
FTSE EPRA Nareit Developed ex Aus Rental hedged AUD	1.3	-2.8	6.7	7.8
FTSE EPRA Nareit Developed ex Aus Rental unhedged AUD	0.6	1.6	14.7	13.9
Infrastructure				
FTSE Developed Core Infrastructure hedged AUD	1.5	-1.2	10.9	15.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.2	1.8	2.9	2.9
Global Fixed Interest				
Barclay's Global Capital Aggregate Bond Index (hedged AUD)	0.4	0.7	3.1	2.9
FTSE WGBI ex-Aust (hedged AUD)	0.3	0.4	2.7	2.0
Cash				
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.6	4.5
Commodities				
Gold (USD per ounce)	7.8	2.8	20.6	37.0
Copper (USD per metric tonne)	3.2	-4.8	-5.7	5.1
WTI Crude Oil (USD per barrel)	1.1	4.7	-11.0	-4.4
RBA Index of Commodity Prices (AUD)	1.1	7.3	3.4	-8.2

Australian Dollar versus Foreign Currencies to 31 January 2025

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JANUARY 2025	MONTH (%)	THREE MONTHS (%)	FYTD (%)	12 MONTHS (%)
US Dollar	0.62	0.7	-4.8	-6.6	-5.6
British Pound Sterling	0.50	1.5	-1.5	-5.0	-3.3
Euro	0.60	0.3	-0.5	-3.7	-1.4
Japanese Yen	96.59	-0.7	-3.2	-10.1	0.0

Source: Bloomberg

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