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QUARTERLY UPDATE – JUNE QUARTER 2025

Asset Class	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr
	%	% p.a.	% p.a.	% p.a.	% p.a.
CASH					
Bloomberg AusBond Bank Bill	1.0	4.4	3.9	2.3	2.0
FIXED INTEREST					
Australian Bonds - Bloomberg AusBond Composite 0+Years	2.3	6.8	3.9	-0.1	2.3
International - Bloomberg Barclays Global Aggregate Hdg	1.5	5.5	2.3	-0.6	2.0
EQUITIES					
Australian Shares - S&P/ASX 300	9.5	13.7	13.3	11.8	8.8
Australian Shares - S&P/ASX Small Ordinaries	8.6	12.3	10.0	7.4	7.6
Int. Shares - MSCI World ex-Australia	5.9	18.6	20.4	15.8	12.5
Int. Shares Hedged - MSCI World ex-Australia Hedged	9.5	13.5	16.7	13.6	10.4
Emerging Markets Unhedged - MSCI Emerging Markets	6.5	17.5	11.5	7.9	6.5
INFRASTRUCTURE					
Listed Infrastructure - FTSE Developed Core Infrastructure Hdg	0.7	16.5	5.1	7.5	7.7
PROPERTY					
Australian Listed Property - S&P/ASX 200 A-REIT	13.7	14.0	15.4	12.4	8.3
Int. Listed Property - FTSE EPRA/NAREIT Global REITs Hdg	2.6	8.4	2.2	4.4	3.0
Source: Activam Group					
FE Multi Asset Growth Index (Benchmark)	5.1	10.4	9.8	8.3	6.4
FE Multi Asset Balanced Index (Benchmark)	4.3	9.3	8.1	6.4	5.3
FE Multi Asset Moderate Index (Benchmark)	3.0	7.3	5.9	3.9	3.5

Source: FE Analytics

During the quarter, markets sold off on the uncertainty of President Trump's aggressive "Liberation Day" global tariff policies. A conflict between Israel and Iran also added to uncertainty. We witnessed a sharp rebound in markets back to previous highs after the war proved to be short-lived and President Trump announced a pause of the controversial tariffs to give him time to strike a deal with each country. The S&P 500 returned 10.9%, whilst the tech-heavy NASDAQ delivered an impressive 16.7% with a rebound in AI optimism. The Australian market was not exempt from the rally, rising by 9.5%.

Fixed income also experienced tariff-related volatility. Bond investors worried that the tariff measures would cause a spike to inflation and lower growth causing an initial spike in bond yields but saw a gradual fall in yields as conditions normalised. In May attention shifted from tariffs to the 'Big Beautiful Bill', which could add \$3+ trillion of debt to the US economy over the next decade. That prospect steepened the yield curve, widening the gap between short-term and long-term yields: short-duration yields fell on growing rate-cut expectations, while long-duration yields rose amid forecasts of increased issuance of long-dated US Treasuries to fund the debt.

Gold continued its climb above the US \$3,400 mark given its defensive characteristics.

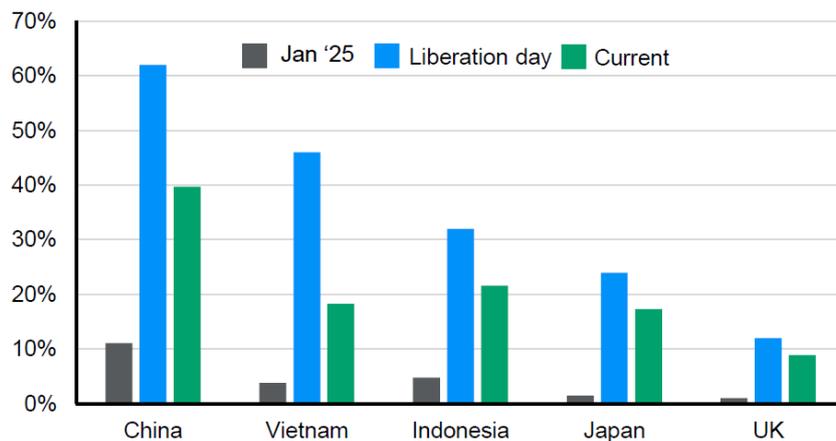
Full share valuations - Is the market complacent or is Trump going to continue to run the economy hot?

Stocks have rebounded strongly from April lows on the hope that US tariffs on global imports wouldn't be as bad as feared. Recent tariff deal announcements with the likes of Japan and Europe do seem to be heavily skewed towards America and importantly have no retaliatory measures. Both major trading partners signed off on an agreement to impose 15% tariffs on most of their goods exported to the US. This was materially higher than the previous 10% baseline tariff imposed a few months ago but substantially less than the amounts threatened if a deal was not made by 1 August. Both countries also promised a commitment to invest billions into the US economy.

President Trump expects to impose 15-20% baseline tariffs by Friday on the remaining countries who don't yet have deals – this is likely to include Australia. The US Treasury Secretary Scott Bessent is currently meeting with China trying to flesh out a deal, but this is likely to take longer given the size of the trade deficit and adversarial nature of the relationship between the two parties (the current deadline is set for August 12 but may take longer).

U.S. tariffs rates are a climb down from liberation day

Estimated effective tariff rate, 2024 trade weights



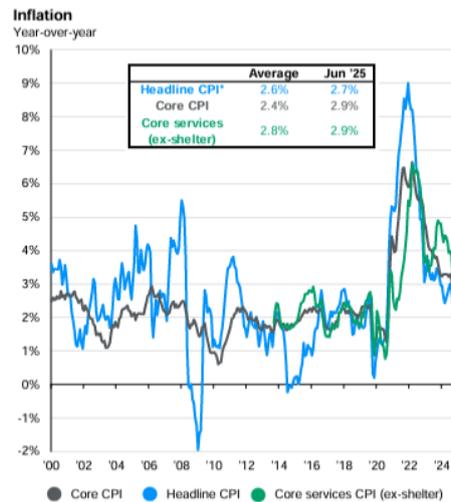
Source: JPMorgan - Guide to the Markets

Recent tariff agreements clearly remove significant risk from markets. They are significantly higher than those in place pre-Trump but lower than feared. They are stable which will help with business planning, but risks remain. Conventional economic theory suggests that the tariffs will lead to an uptick in inflation as the cost of imported goods increases by circa 15%. Higher prices will then provide a drag on consumption and economic growth. The tariffs will ultimately be borne by the American consumer as well as exportation companies if they choose to wear some of the costs leading to profit margins being squeezed. It looks like the trade frameworks establish a 15% tariff for most countries (along with additional sector level tariffs) which will lead to a fairly level playing field for U.S. trading partners including Australia. Historically tariffs have been hovering around the 3-4% mark, so this is a big change and will have some unanticipated consequences.

It is estimated that for every 10% increase to the level of prevailing tariffs, this will increase the US tax revenue by \$330bn which will in turn lead to about a 1% increase to inflation. The increased tax revenue appears to be the primary motivation for the US administration as they seek ways to balance their books and to pay for their election promises.

U.S. CPI inflation was marginally stronger at 2.7% (from 2.6%) in June and Core CPI at 2.9% still a little uncomfortably high above the Fed's target. We would expect short term inflation to pick up in the US

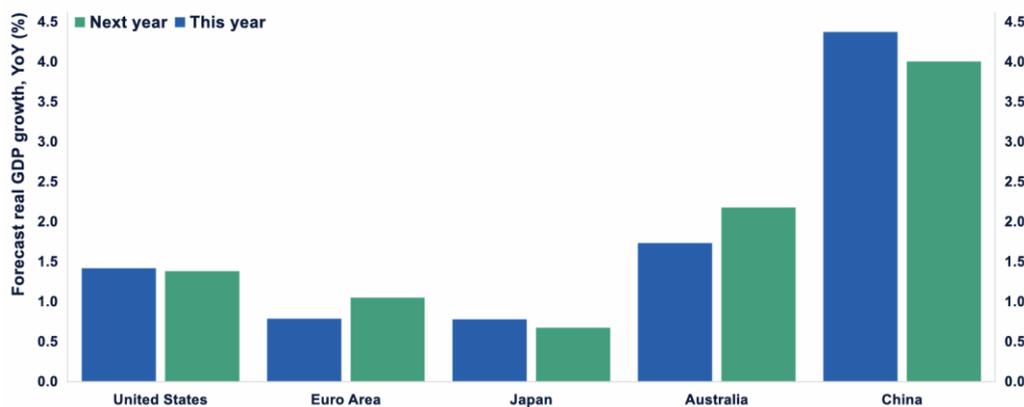
as tariff price rises are passed on, but these should not lead to an inflationary spiral and inflation should once again moderate over the medium term.



Source: JPMorgan - Guide to the Markets

Policy uncertainty has weighed on consumer and corporate confidence. This has not yet translated materially to softening consumer spending and business investment, but we would expect economic growth to continue to slow materially over the remainder of 2025. Real GDP Growth in the US has moderated from 2.5% to 1.4% in recent months but will likely remain positive in 2026 supported by monetary policy later this year and fiscal stimulus recently approved as part of President Trump's "One Big Beautiful Bill". US composite PMIs rose from 52.6 to 54.6 last month showing the economy was still in expansion mode, particularly in the service sector.

CONSENSUS FORECASTS FOR REAL GDP GROWTH YoY
Monthly, as of June 2025

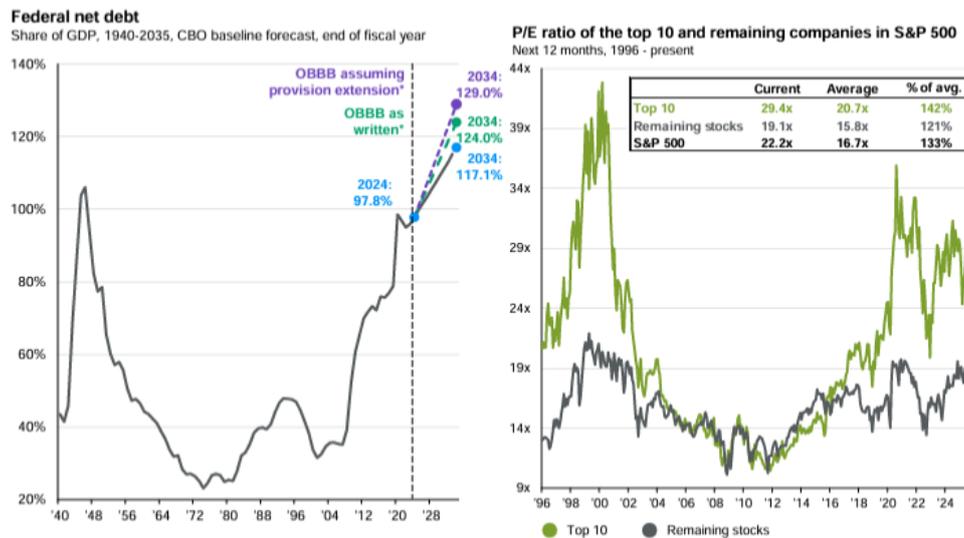


Source: T.Rowe Price

The Federal Reserve has held interest rates while they wait for evidence about the inflationary impact of the tariffs. With employment at full levels and softening marginally (low immigration and forced deportations will have an impact here) and growth that is slowing, not stalling, they are rightly being patient (much to the chagrin of Trump who wants rates much lower). We expect US rates to be cut twice later this year which will help cushion the economic slowdown and support markets. The need for further cuts will be dictated by the direction of the economy.

Trump's One Big, Beautiful Bill was legislated 4 July 2025. This bill made permanent the temporary tax cuts instigated in Trump's first term as well as other new tax breaks. The Bill estimated to add around

\$3 trillion to the deficit over the next decade, pushing the debt-to-GDP ratio to a forecast 124% by 2034 and potentially higher. The legislation offers the economy significant fiscal stimulus in the near-term with some of the tax cuts being backdated to 1 January 2025 meaning significant tax returns for many consumers in early 2026. Companies will benefit from a lower, stable tax burden that could fuel both profits and lead to share market gains. Cost reduction measures are due to be implemented in the coming years, and one would question whether they will. Politicians around the world seem reluctant to reign in spending and raise taxes. Rising deficits are increasing government debt levels and is a concern for bond markets. Debt levels appear to be on an unsustainable path and there is a real risk that this increasing government debt profile at some stage will lead to a spike in long-term borrowing costs which would have a negative impact on markets. But we don't expect this to happen in 2025.



Source: JPMorgan - Guide to the Markets

The US Q2 Earnings season has started strongly with over 80% of companies beating profit expectations. This along with a rebound in AI optimism is supportive of markets but with equity markets valuations at stretched levels, it would not take a huge change of sentiment or conditions for markets to correct materially. For now, investors are perhaps a little complacent in the face of numerous risks and are looking through the expected spike in inflation, cooling growth and elevated bond yields. Valuations can certainly move higher and we do expect President Trump to do what he can to run the economy as hot as he can in an attempt to grow the US economy out of its deficit position. The risk of recession has fallen considerably and hence we have moved closer to market weight in our global equity investments.

Australia

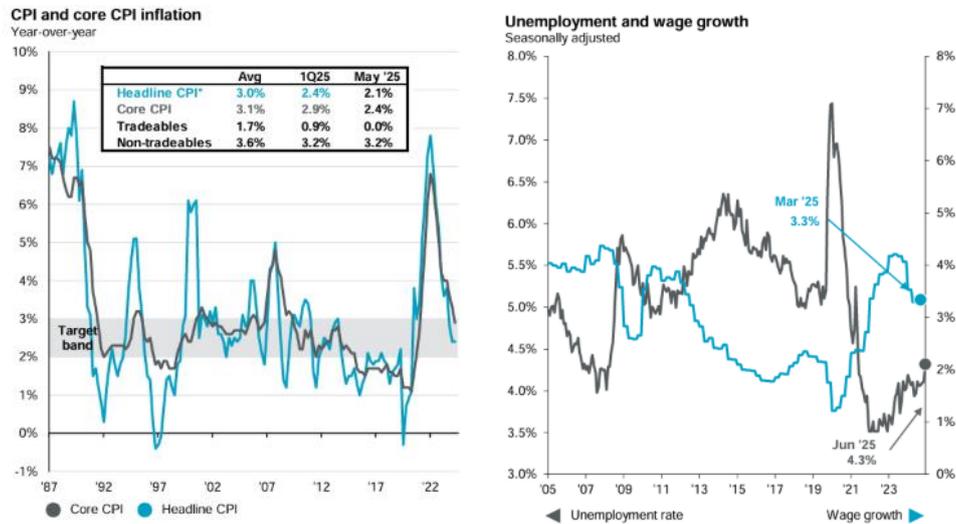
Gross Domestic Product (GDP) rose 0.2% in the March 2025 quarter and by 1.3% for the year. Growth has been sluggish, but we expect it to accelerate a little next year after recent and expected future tax cuts.

Inflationary pressures have subsided, with the most recent May CPI indicator falling to 2.1%. The Annual Trimmed Mean (the RBA's preferred measure) reduced to 2.4% well within the target band of 2.0% to 3.0%.

The unemployment rate rose to 4.3% in June (from 4.1%) suggesting a slight softening of the economy and allowing the Reserve Bank to cut rates by 25 basis points in August. We expect the RBA to continue to cut interest rates in the coming months to somewhere close to 2.85% which will help to boost economic growth and improve consumer sentiment and business conditions. The RBA have a lot of flexibility to stimulate further if necessary.

Real estate prices look to be moving higher with the expected interest rate cuts and will lead to a positive wealth effect for consumers in coming months.

With spare capacity in the economy and GDP growth expected to accelerate in Australia, we are more optimistic about the outlook for the Australian market than we have been for some time but note elevated valuations on many sectors in Australia.



Source: JPMorgan - Guide to the Markets

Rest of World

Germany (5%) and to a lesser extent other countries in Europe are boosting spending on defence and defence-related infrastructure. The ECB has more aggressively cut interest rates to its current 2.0% level. The combination of loose monetary policy and fiscal stimulus, alongside the recently secured US tariff agreement, presents a supportive investment environment. European markets offer more attractive valuations than the US, with further upside potential if pro-growth measures persist. Japanese longer term government bond (JGB) yields have reached multidecade highs with concerns about sustained inflation and fiscal spending. The underlying economy has been robust.



Source: JPMorgan - Guide to the Markets

Chinese real GDP was 5.2% in the June quarter 2025, indicating continued strong growth, however there are still significant issues in the property sector. Property prices are in freefall with home prices falling at the fastest pace in eight months in June. There is still a glut of stock and poor sentiment surrounding the sector. Overcapacity and a weak consumer that is being hurt by falling property prices continue to weigh on the economy and be a headwind moving forward.

Interestingly there has already been a large redirection of Chinese exports to regions away from the US which may contribute to disinflation in our part of the world.

OUTLOOK

Odds of a recession have eased significantly from elevated levels after the chaotic announcement of the Liberation Day tariffs on April 1. As a result, we have moved closer to market weight for our share exposures.

We retain a slight overweight cash position with the expectation that opportunities will arise as markets navigate the policy and economic uncertainty in coming months.

Emerging Markets (EM) and Australia appear more likely to present opportunities in 2026. We are currently overweight EM and Europe, driven by more attractive valuations, and slightly underweight Australia. We're monitoring for opportunities to increase equity exposure, with a preference for Value over Growth.

We remain comfortable being overweight Australian Fixed Interest and favour shorter duration exposures offshore, maintaining an underweight position in bonds overall. Duration is expected to remain rangebound between 4.0% – 4.5%, offering some downside protection in the event of a market shock. While corporate credit spreads are tight, they reflect the current strength of corporate balance sheets.

Real assets will provide protection if inflation does pick up. In a world where valuations are elevated across most asset classes, we encourage clients to be overweight Alternative and unlisted assets such as Private Equity, Private Credit, Unlisted Property and Infrastructure.

Equity market valuations are elevated against 20 year averages particularly in the US and Australia in part explained by strong forecast earnings growth next year.



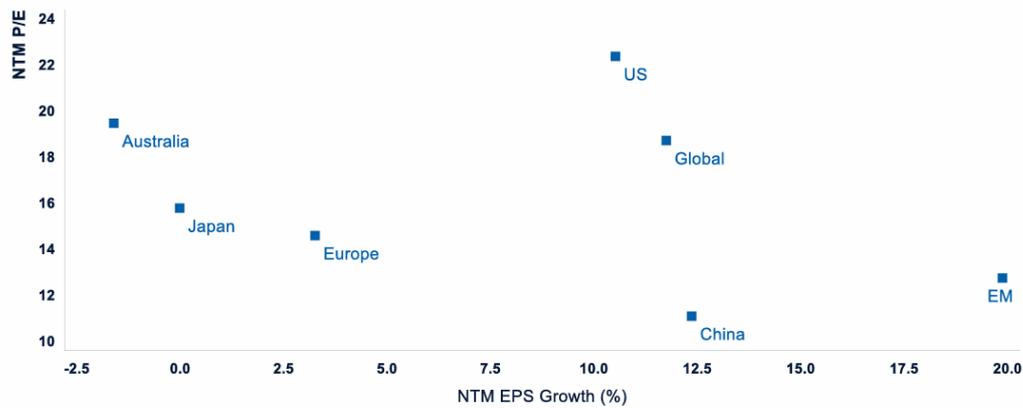
Source: JPMorgan - Guide to the Markets

Strong earnings growth and lower valuations make Emerging Markets and Europe more attractive than US and Australia currently. This will evolve in 2026.

Equity markets: Earnings per share (EPS)

Regional P/E vs NTM EPS Growth

As of Thursday, July 3, 2025



Source: T.Rowe Price

Asset Class	Underweight	Neutral	Overweight
Cash			Overweight
Fixed Income - Duration		Overweight	
Fixed Income - Credit		Overweight	
Equities Domestic	Underweight		
Equities International	Underweight	Overweight	
Australian Property	Underweight		
International Property & Infrastructure		Overweight	
Alternatives			Overweight
Currency - 50% Hedge		Overweight	

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