MARKET COMMENTARY – March 2025

Quarter-End Commentary

Overview

- Numerous declines were evident across major equity indexes over the quarter with pockets of positive returns across various sectors and countries.
- Bonds posted modest positive returns throughout the quarter as most global central banks continued easing monetary policy
- The European, UK and Chinese markets performed strongly during the quarter, as US Growth stocks came under considerable pressure as the "market rotation" continued.
- No doubt the Trump Administration's Tariff plans will continue to dominate market sentiment and headlines into Q2, as the world watches the US v China "trade war" unfold.

Asset class recap to end of March 2025

Australian shares

Australian shares have started 2025 in the negative, with the S&P/ASX200 accumulation index falling -2.80% for Q1 2025 and bringing down the 12-month returns to +2.84%. Telecommunication Services was the best performing sector for Q1, returning +5.76%. This was followed by Industrials (+2.46%) and Utilities (+2.21%). The largest negative returns over the quarter were seen in Information Technology, Healthcare and A-REITs with –18.23%, –8.99% and –6.55% respectively.

Global shares

The MSCI World Ex-Australia NR Index fell –2.13% over the quarter in local currency terms, with the 12-month return coming in at +7.50%. In Australian dollar terms, quarterly and annual returns were –1.94% and +12.34%, respectively, as the AUD declined against most major currencies during Q1.

In developed markets, Energy was the best performing sector up +9.22% over the quarter. Utilities followed with +6.09% and Financials with +4.88%. Information Technology -12.25% and Consumer Discretionary -11.17%, posted large declines over the quarter.
On the emerging markets front, it was mostly positive throughout the quarter with most sectors performing well, Consumer Discretionary the best performing sector with +12.96% followed by Communication Services +12.68% then Materials +7.97%. The negative performing sectors included Information Technology (-8.14%), Utilities (-0.60%) and Industrials (-0.26%). Over a 1-year period, there have been strong returns in a few emerging market sectors, with Communication Services up +30.93%, Consumer Discretionary +27.93 and Financials +17.22%.

Bonds

On the whole Bond markets globally were mostly positive for investors in Q1 2025, albeit European and Japanese Bond markets did buck this trend. The Bloomberg AusBond Composite 0+Y TR AUD index was up +-1.29% for the quarter. Similarly, the Bloomberg Global Aggregate TR Hdg AUD index saw a positive return of +1.98% for the quarter.

Global property & infrastructure

Domestic listed property again experienced negative returns for the quarter of -6.55%, compared to global property which was slightly positive (+0.66%). Listed global infrastructure was positive with a return of +3.44% for Q1, with the 12-month number remaining strong at +18.55%.

Currencies

The AUD was mixed across the quarter, with a slight gain against the USD while losing ground against the JPY, GBP and the EUR. During the quarter the Reserve Bank of Australia reduced the cash rate by 25bps at its February meeting.

Outlook

President Trump's sweeping new tariff regime announced in early April has sent global markets into a tailspin. Uncertainty has reached extreme levels as policymakers, businesses and consumers are grappling with how to adjust to the new US trade policy and how this may affect global trade, financial markets and even our own hip-pockets. With a high degree of certainty, President Trump's tariff changes will likely continue to dominate the headlines and markets over the course of Q2 2025, with global markets likely reacting accordingly. As with all fiscal policy changes, there will be some benefits and some consequences as to the balance of these, only time will tell. Morningstar will continue to monitor closely key economic indicators such as inflation, employment and economic growth to gain insights for investors.

Domestically, the labour market is Australia's economic bright spot, unemployment is near a 50-year low, and inflation has been waning, now sitting within the RBA's 2-3% target band. On the tariff front, compared with the rest of the world, Australia got off lightly. Companies will be affected to varying degrees. We're more concerned about the indirect impact of tariffs to Australia—specifically, the impact on China's slowing economy. And the ongoing "trade war" between China and the US. That said, long-awaited stimulus from China's authorities could more than offset the damage.

The first quarter of 2025 underscored why diversification remains one of the best defences against uncertainty. While US stocks declined, international and emerging markets provided a buffer, demonstrating the value of maintaining broad exposure across asset classes. More volatility may well be on the menu this year, attempting to predict and react to every market move often leads to worse outcomes. The best approach? Accept volatility as a normal part of investing, ensure portfolios align with long-term plans, and only make changes if the plan—not the market—calls for it.

Rather than fearing volatility, investors would be wise to reframe their thinking—embracing it and viewing market fluctuations as opportunities when they arise. This mindset should remain top of mind as we move forward into Q2 and the remainder of 2025.