



MARKET COMMENTARY – June 2025

Quarter-End Commentary

Overview

- The second quarter of 2025 began with a significant downturn in US stocks, with the Morningstar US Market Index dropping nearly 11% due to newly announced tariffs, highlighting the importance of managing volatility rather than overreacting.
- The "Magnificent Seven" companies, which have driven a large portion of US equity returns, are showing diverging performance, with four underperforming the Morningstar US Market Index in 2025, and Tesla and Apple nearing bear-market territory.
- In Australia, despite initial market turbulence from tariff announcements, the ASX rebounded strongly, and the Reserve Bank of Australia (RBA) is in an easing cycle, focusing on economic growth over inflation, with further rate cuts anticipated.
- The RBA aims to maintain inflation within its target band while easing monetary policy, but recent inflation data suggests a delicate balance, with potential for more aggressive easing if inflation continues to test the lower bound.

Asset class recap to end of June 2025

Australian shares

Australian shares have bounced back from the last quarter, with the S&P/ASX200 accumulation index returning +9.50% for Q2 2025 and raising the 12-month returns to +13.81%. Information Technology was the best performing sector and bounced back from the last quarter, returning +26.87%. This was followed by Financials (+15.69%), Telecom Services (+14.47%), and A-REITs (+13.40%). Most sectors performed relatively well, only Materials posted negative returns (-0.36%), with Utilities (+2.03%) and Health Care (+2.37%) following as the worst performing sectors.

Global shares

The MSCI World Ex-Australia NR Index also had a positive quarter returning +9.52% over the quarter in local currency terms, with the 12-month return coming in at +13.75%. In Australian dollar terms, quarterly and annual returns were +5.94% and +18.58%, respectively as the AUD gained strength over Q2.

In developed markets, Information Technology (+22.47%), Communication Services (+18.11%) and Industrials (+11.85%) were the best performing sectors all producing double digit returns. In a stark contrast to the last quarter, Energy (-7.09%) was the worst performing, with Health Care (-6.12%), the only other sector posting declines over the quarter.



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On the emerging markets front, it was positive throughout the quarter with most sectors performing well. Industrials (+17.19%), Information Technology (+13.01%) and Financials (+10.59%) leading the way with only Consumer Discretionary (-3.26%) producing negative returns over the quarter. Over a 1-year period, there have been strong returns in a few emerging market sectors, with Communication Services up (+30.26%), Financials (+24.05%), Healthcare (+17.71%) and Consumer Discretionary (+17.68%), all producing strong numbers.

Bonds

Overall, Bond markets were mixed in Q2 2025. The Bloomberg AusBond Composite 0+Y TR AUD index was up +1.02% for the quarter and +4.39% for the year. The Bloomberg Global Aggregate TR Hdg AUD index struggled throughout the quarter with return of -0.62%, however, the one-year number remained strong with +10.98%.

Global property & infrastructure

Domestic listed property had a strong quarter returning +13.40% bringing the one-year number to +13.75%, compared to global property (hedged) which returned +1.79% over the quarter and +8.92% over the year. Listed global infrastructure (hedged) was positive with a return of +6.72% for Q2, with the 12-month number remaining strong at +23.73%.

Currencies

The AUD was mixed across the quarter, with a sharp decline against the USD in April, it recovered finishing the quarter ahead of where it was at the end of Q1 2025. During the quarter, the Reserve Bank of Australia reduced the cash rate by 25bps at its May meeting to 3.85%.



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Outlook

The second quarter of 2025 got off to one of the worst starts on record for the United States. April 3 and 4 saw US stocks, measured by the Morningstar US Market Index, fall nearly 11%, marking the third-worst two-day return since 2002. The spark was obvious: newly announced tariffs, which ignited fears of a global trade slowdown and sent markets into a dive.

As we said to clients at the time: Overreaction is never the right reaction. Volatility isn't something that can ever be eliminated, it's something that must be managed. And the evidence supporting that is clear. Since 2002, seven of the 10 best trading days occurred within just two weeks of the 10 worst. In other words, the best days tend to cluster around the worst. Miss those best days, and you miss out on significant upside, a stark example of why "panic" should never be part of a long-term investment strategy.

Moving beyond tariffs and the market reaction, the "Magnificent Seven" have received significant attention in recent years, and rightfully so. They've been responsible for a large portion of US equity returns. However, the paths of those companies appear to be diverging. Through June, four of those seven companies are underperforming the Morningstar US Market Index so far in 2025. Tesla and Apple are in or near bear-market territory, down (-21.3%) and (-17.9%), respectively.

Domestically, it's been a turbulent few months, but the ASX finished the June quarter 2025 at 8,542 points, up 9% on March and just shy of its record high. While President Trump's April tariff announcements drove the market down 7% in less than a week, this proved a "blink and you miss it" moment. By the end of April, the ASX had fully recovered and traded 2% above pre-tariff levels.

The Reserve Bank of Australia is firmly in easing mode. As widely expected, the board lowered the cash rate by 25 basis points in May to 3.85%, the second cut this year. But the real story wasn't the cut, it was the decisive shift in tone. The bank now signals that resurgent inflation is no longer the biggest risk to the outlook. The primary concern is economic growth, and the risk of weakness weighing on the Labor market.



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The concern is justified. Real gross domestic product rose only 1.3% in the year to March 2025. This is a modest pick-up from the second-half 2024 trough, but well below the long-run average. While the Labor market has been remarkably resilient so far, this is mostly due to hiring in the public sector and adjacent industries. With the economy barely expanding, and then only due to population increases, cracks are likely without more monetary stimulus.

So, the question is no longer if the RBA will ease, but by how much. For clues, we look to the neutral interest rate: the cash rate at which the economy is neither expanding nor contracting. This can't be directly observed; it can only be inferred from economic models. Estimates vary widely, but an average of RBA models is about 3%. In theory, that's where the cash rate should settle, suggesting three or four more cuts in this easing cycle. The RBA and the market appear to agree, with interest rate futures implying a cash rate of approximately 3% by the end of 2025.

Achieving a smooth path to neutral isn't without risks. The RBA will want inflation to remain comfortably within its 2%-3% target band as it eases monetary policy. However, the May 2025 inflation update was a reminder of how finely balanced this task is. The headline Consumer Price Index rose just 2.1% over the year, a sharper deceleration than economists expected and perilously close to the bottom of the band. The trimmed mean measure, which strips out volatile items, was a more reassuring 2.4%. We shouldn't overreact to a single month's data, but the RBA will be hoping inflation doesn't keep testing the lower bound, a scenario that could prompt more aggressive easing.

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