DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

August 2025

Month In Review

Global Equities
2.0%

Aus Equities
3.1%

Aus REITs
4.3%

AUD/USD
1.1%

US Bonds
1.0%

Commodities
-0.2%

Global equity markets posted solid gains in August, with MSCI ACWI rising 2.0%. Markets navigated significant volatility following the weak US payrolls report, which showed only 73k jobs added versus expectations of 104k, alongside large downward revisions totalling 258k for the prior two months. The S&P 500 recovered from early-month weakness to finish near record highs, supported by resilient corporate earnings and growing expectations for Fed easing. The Nasdaq Composite gained 1.7%, with technology stocks stabilising after the initial employment-driven selloff. US markets also found support from core PCE inflation printing in line at 0.3% monthly, keeping alive the possibility of a September rate cut despite divided Fed officials.

Australian equity markets outperformed global peers, rising 3.1%, buoyed by the RBA's expected 25bp rate cut to 3.6%. The unanimous decision brought total easing this cycle to 75bps, with Governor Bullock cautiously hinting at further cuts ahead while maintaining data dependence. The strong performance extended to Australian REITs, which gained 4.3%. Emerging markets posted a more modest 1.5% gain, with Chinese markets pressured by weaker PMI data and ongoing "anti-involution" policies aimed at reducing industrial overcapacity.

Fixed income markets delivered positive returns in August. US bonds gained 1.0% as weak employment data reinforced rate cut expectations, with the 10-year yield dropping 16bps on payrolls day alone. Australian bonds rose 0.2% following the RBA cut, though gains were limited by the central bank's measured forward guidance. Credit markets performed well, with both investment grade and high yield returning around 1.0%-1.1%.

The commodity complex was mixed, with crude oil falling sharply by 8.5% on demand concerns. Gold continued its strong run, gaining 4.4%. The Australian dollar rose 1.1% against the USD, buoyed by more positive risk sentiment.

Things That Matter

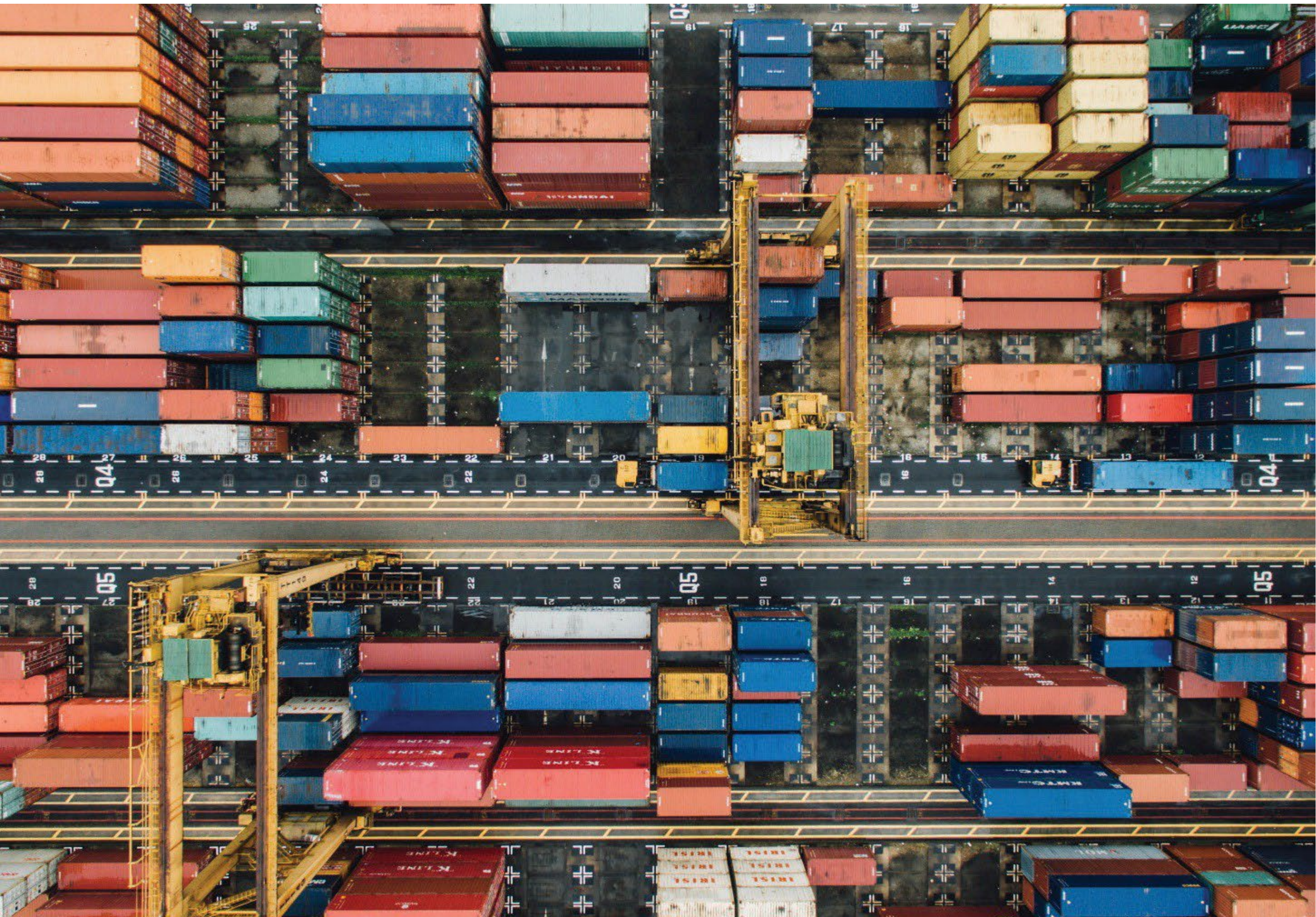
1. With inflation close to target in most major economies, central banks are tentatively cutting interest rates.
2. President Trump has significantly increased the level of global policy uncertainty for investors.
3. Equity market and bond valuations will be challenged if inflation begins to rise or if there is a recession.
4. Chinese property data remains depressed. However, China last year intensified efforts to revive growth with a large stimulus package.
5. Geopolitical tensions are heightened across the globe and may contribute to elevated volatility in the years ahead.

Asset Class Positioning

	Change MoM	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	↑	○	○	●	○	○
Global Equities	↑	○	○	○	●	○
Property	▬	○	○	●	○	○
Infrastructure	↑	○	○	○	●	○
Global Alpha	↓	○	●	○	○	○
Government Bonds	↓	○	●	○	○	○
Corporate Debt	▬	○	○	○	○	●
Cash	▬	○	○	●	○	○
Total Growth vs Defensive	↑	○	○	●	○	○

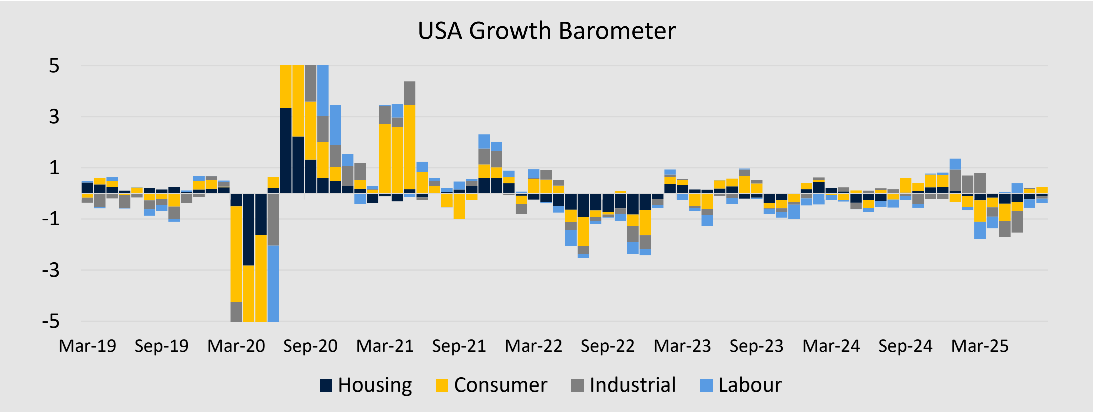
Macroeconomic Overview

North America	▲
Asia	●
Europe	▲
Australia	●



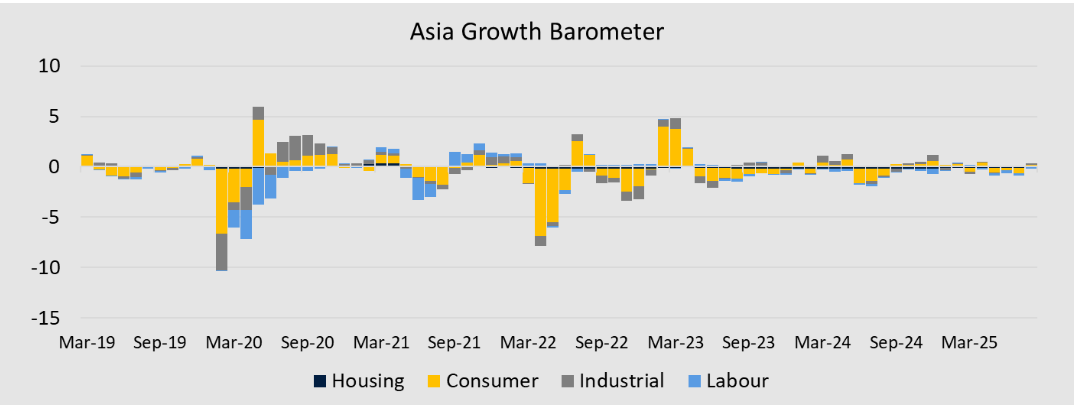
North America

Our growth barometer suggests that the US economy has absorbed the tariff shock quite well, recovering back to around normal levels of growth after a slow first half. Other hard data has held up better than initially expected but has weakened since last year. The medium-term outlook for growth will be heavily influenced by how quickly businesses and consumers adapt to the new tariff regime and the impact of fiscal stimulus driven by Trump's One Big Beautiful Bill. It doesn't appear as though concerns around Trump's trade policies have had a large impact on investment and spending behaviour, though there is still a risk this will be the case later in the year. Despite the potential for inflation to reaccelerate over the next few months, with an expectation of modest growth markets are pricing in between two and three US rate cuts by the end of 2025.



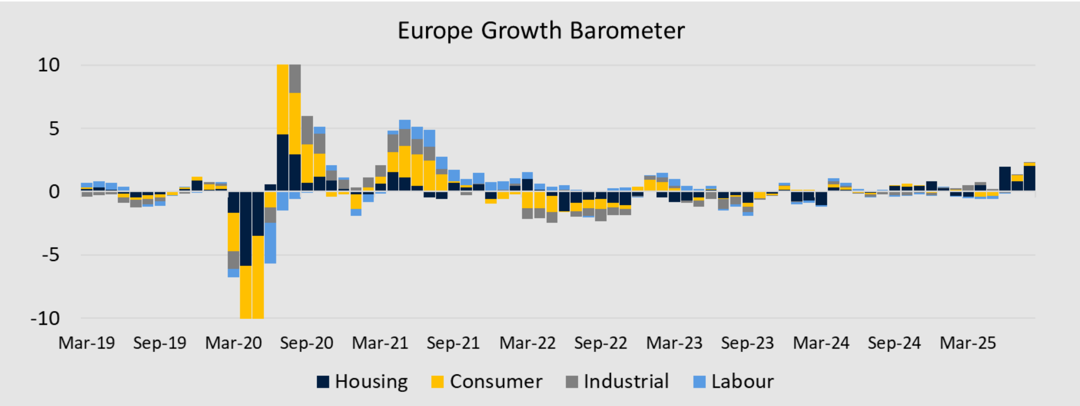
Asia

In Q4 2024, China announced the largest stimulus in years to revive its struggling economy. The success of this policy mix will be determined by the degree to which it can revive household sentiment and allow China to escape its deflationary spiral. So far, there have been early signs of success on that front, with economic data beginning to improve in recent months. However, China's economy faces ongoing structural issues such as the weakness in their housing market and economic growth could slow from here as the trade war sets in. We expect more stimulus announcements in the period ahead, and these measures will have a pivotal role in how Asian equity markets fare from here.



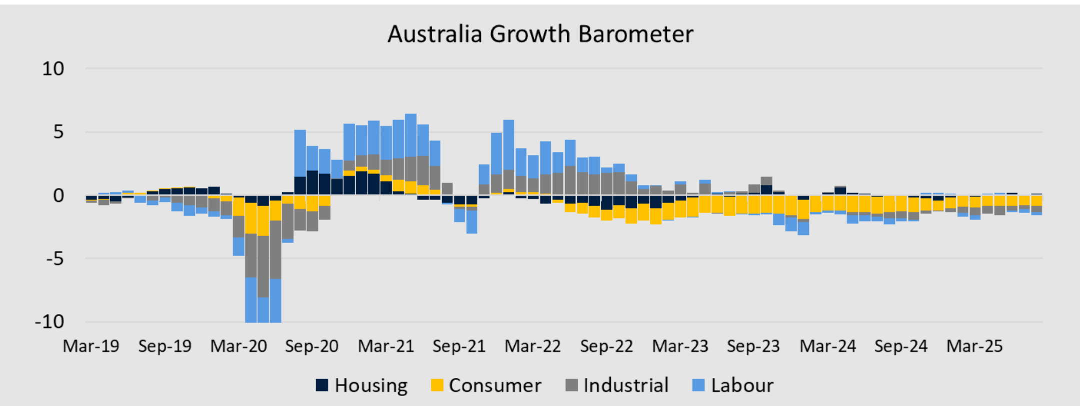
Europe

Europe's economy has struggled to regain momentum following the pandemic and there are questions remaining about Europe's ability to revive its manufacturing sector and economy more widely. Despite emerging positivity around prospects for increased European fiscal support to the economy, with Germany relaxing its fiscal rules, it looks increasingly likely that political turmoil will return to the region. The French Government is on the brink of collapse and UK borrowing costs are marching ever higher. The European Central Bank (ECB) has cut rates by 200 basis points thus far and markets expected them to cut further, though ECB members have been more circumspect. Adding to this is the continued punitive energy and regulatory regimes in the Bloc, which hinder business investment and productivity growth.



Australia

The Australian economy is still experiencing below trend growth. Strong migration has been supporting the housing market and overall headline economic activity although the economy has been generally shrinking in per-capita terms since mid-2022. Inflation in Australia is now back to target, allowing the RBA to take the cash rate down to 3.6%. Additionally, the market is pricing three more cuts between now and early next year. On the trade policy front, the direct impact of Trump's tariffs on the economy should be minor, but it is susceptible to any fall in global trade, particularly if it lowers demand for Chinese imports of our raw materials. Weak consumer demand, still high interest rates and cost of living pressures also continue to be a problem. Australia needs to employ measures to boost labour productivity and reduce excessive regulation to encourage a more dynamic investment environment.



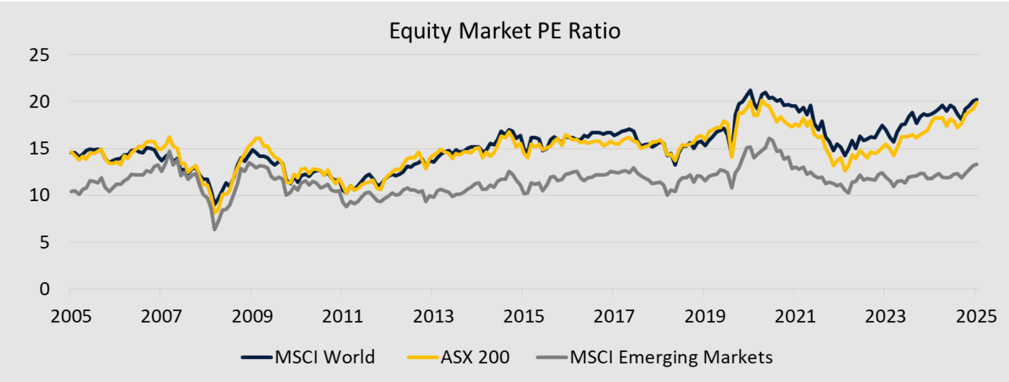
Asset Class Overview

Equities	Overweight
Bonds	Underweight
Credit	Overweight
Infrastructure	Overweight
Property	Neutral
Global Alpha	Underweight

Equities

Overweight

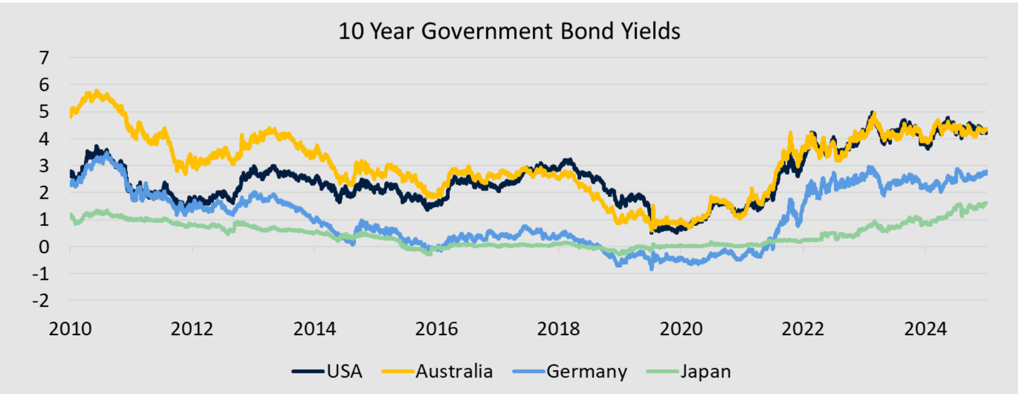
Despite ongoing chaos from the Trump administration, the US economy appears to be taking the hit from higher tariffs quite well. After slowing in the first half of the year, our Growth Barometer shows that economic growth in the US seems to have stabilised (albeit at a relatively sluggish rate). A key market concern, that there would be a dramatic pullback in hiring and spending in response to business uncertainty has failed to eventuate. Meanwhile, AI optimism continues, and tech earnings continue to please the market as a whole. Although valuations are high, we think the outlook for equity markets is relatively benign as long as the global economy can avoid a dramatic slowdown from here.



Bonds

Underweight

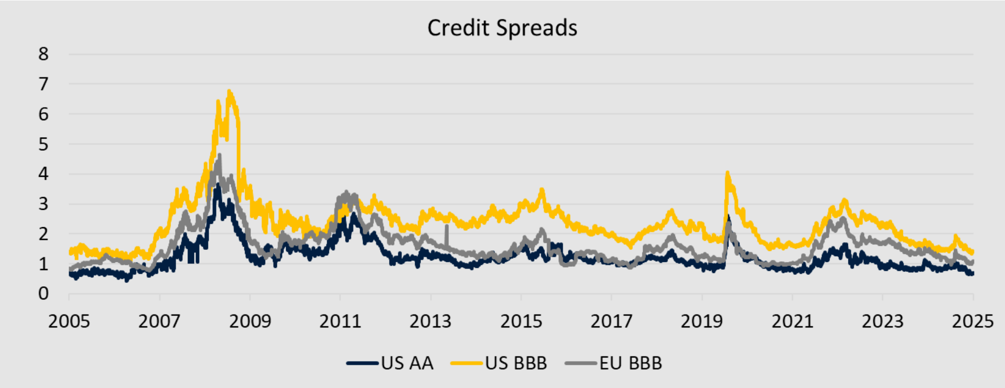
The portfolios remain underweight bond exposure as central banks continually reassess the speed of rate cuts. Trump's presidency and potential policy shifts alongside rising fiscal deficit concerns have altered the market's outlook on longer-dated treasury yields, and this is likely to remain a source of uncertainty. As a result, government bond markets are likely to incur further volatility until the future path for interest rates becomes clearer and the shifting fiscal narrative is becoming an increasingly important driver of duration risk. Although we do continue to believe that bonds today have a greater potential to provide true diversification in times of true economic crisis.



Credit

We continue to lean into floating rate Australian credit as corporates are in good shape and on a relative value basis, the Australian market looks attractive compared to offshore credit markets. Importantly, we view the current yields available in Australian investment grade corporate debt as attractive versus cash and government bonds and accordingly have a large exposure to this sector. Overall, we remain cautiously positioned with a focus on quality and liquidity.

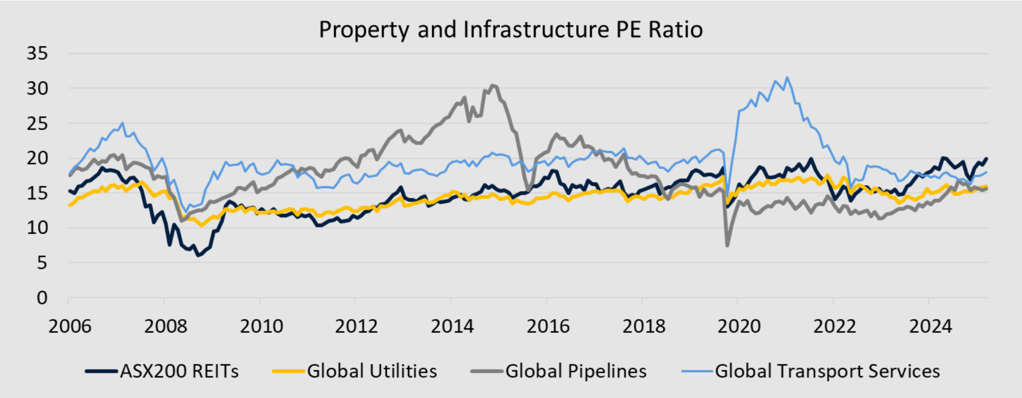
Overweight



Property / Infrastructure

These sectors are traditionally more defensive than global equities and over the long term both have robust inflation hedging characteristics. Valuations are also more attractive than global equities. Following the latest SAA changes, the portfolios are neutral for property and slightly overweight infrastructure.

Overweight



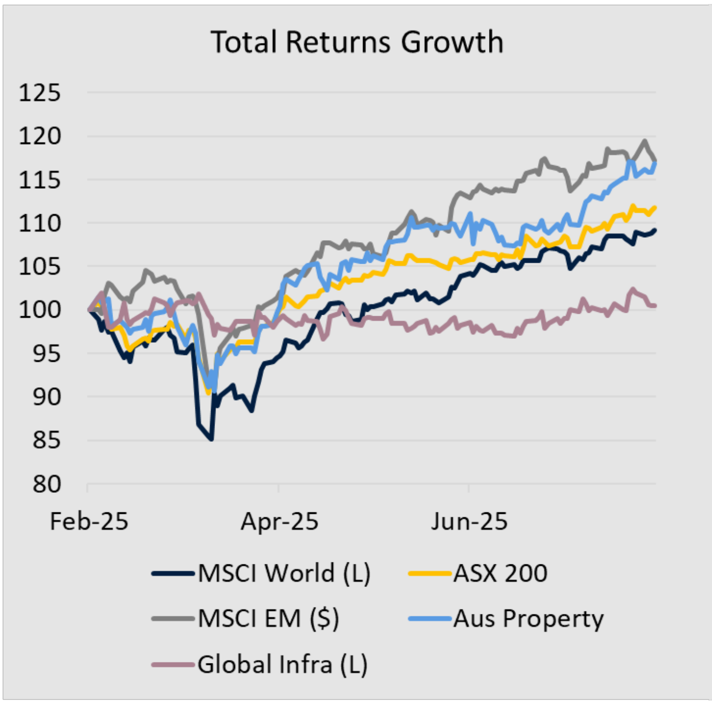
Global Alpha

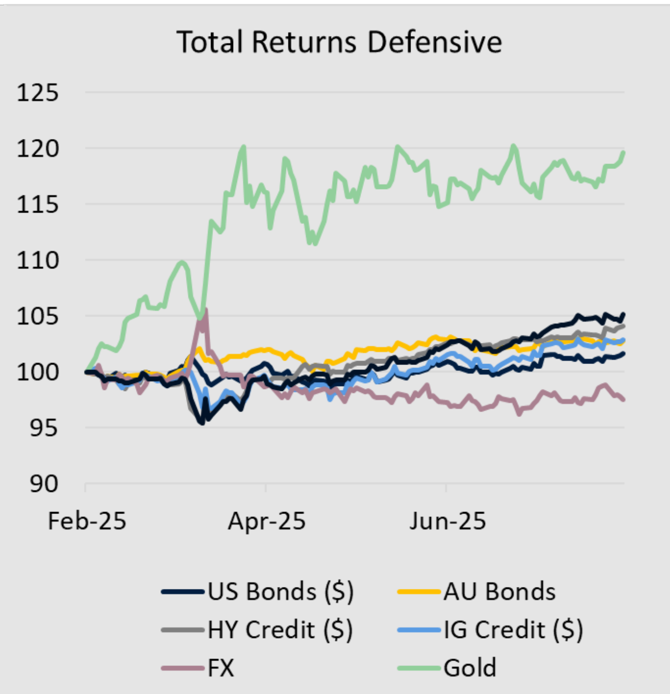
An allocation to this asset class can be very manager and strategy type specific, during volatile markets global alpha strategies remain a prudent diversifier in multi-asset portfolios.

Underweight

Asset Class Returns

	Latest Value 31/08/25	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	1,135	0.5%	2.0%	8.4%	15.6%
S&P/ASX 200	8,973	0.8%	3.1%	7.0%	14.7%
MSCI Emerging Markets	1,258	-0.1%	1.5%	9.9%	17.7%
Nasdaq Composite	21,456	1.4%	1.7%	12.4%	22.0%
Euro Stoxx	568	-2.2%	0.3%	0.7%	14.7%
Australian Property	105	-1.2%	4.3%	8.9%	14.0%
Global Infrastructure	73	-2.2%	0.6%	1.2%	10.9%
Australian Bonds	4.30%	0.1%	0.2%	0.8%	3.3%
US Bonds	4.22%	0.4%	1.0%	1.9%	2.2%
High Yield Credit (spread/return)	1.4%	0.6%	1.1%	3.1%	8.0%
Investment Grade Credit (spread/return)	0.7%	0.0%	1.0%	3.1%	3.2%
US $ / Australian $	0.65	1.4%	1.1%	1.6%	-3.9%
Crude Oil-WTI	64.4	0.3%	-8.5%	4.7%	-13.6%
Gold Bullion $/T Oz	3,441	3.0%	4.4%	4.8%	37.4%





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