# Economic and market update

With Bob Cunneen,
Senior Economist

ASSET MANAGEMENT

## Key events in March 2025

- Global share prices declined sharply in March 2025. Concerns over US President Donald Trump's tariff proposals generated large declines across most global share markets.
- US share prices were in a tailspin with President Trump intensifying the tariff war. President Trump proposed a 25% tariff on automobile imports and threatened the imposition of "reciprocal tariffs" on those countries that impose any taxes that challenge US exports. More tariff proposals were expected from the US President on 2 April 2025. Investors perceived the current tariff proposals as a threat to global trade relationships as well as raising prices for American consumers. US consumers have begun to respond with rising inflation expectations and a slowdown in spending this year.
- Chinese shares provided a positive surprise by making strong gains. Better than expected Chinese industrial production and retail spending data in the opening months of the year were encouraging despite the headwinds of a weak Chinese property sector and a 20% tariff imposed by the Trump Administration.
- Australian shares delivered a disappointing -3.3% return in March given the global tariff turbulence. The sharpest decline was Information Technology (-9.1%) as investors became more cautious with Wisetech a notable underperformer. There were few places to hide from the global share selloff apart from mild gains in the Resources (0.4%) and Utilities (1.5%) sectors.
- Australia's economic data remains modest. There was positive news with the monthly inflation indicator showing annual inflation declining to 2.4% in February. Consumer sentiment in March also posted an encouraging rise in response to milder inflation and the Reserve Bank of Australia (RBA) cutting interest rates in February. However, the previous strength in the labour market appears to be fading with February recording a sharp decline in jobs. Notably the business surveys also suggest subdued confidence given the 'global tariff war' and caution over Australia's prospects with a Federal election on 3 May.

## Asset class summary

**Asset class returns in Australian dollars – periods to 31 March 2025**

| | CYTD % | 1 month % | 3 months % | 1 year % | 3 years pa % | 5 years pa % | 10 years pa % |
|---|---|---|---|---|---|---|---|
| Australian shares | -2.9 | -3.3 | -2.9 | 2.6 | 5.3 | 13.2 | 7.1 |
| Global shares (hedged) | -2.1 | -4.5 | -2.1 | 7.0 | 6.7 | 14.3 | 8.7 |
| Global shares (unhedged) | -2.0 | -4.2 | -2.0 | 12.2 | 13.8 | 14.8 | 11.1 |
| Emerging markets (unhedged) | 2.3 | 0.4 | 2.3 | 13.2 | 8.0 | 7.6 | 5.8 |
| Australian property securities | -6.6 | -4.8 | -6.6 | -5.4 | 3.3 | 13.8 | 6.9 |
| Global property securities (hedged) | 0.7 | -2.8 | 0.7 | 3.6 | -4.3 | 5.6 | 2.0 |
| Global listed infrastructure (hedged) | 4.1 | 1.6 | 4.1 | 13.7 | 2.4 | 8.3 | 6.1 |
| Australian bonds | 1.3 | 0.2 | 1.3 | 3.2 | 1.7 | -0.5 | 1.8 |
| Global bonds (hedged) | 1.1 | -0.4 | 1.1 | 3.7 | 0.2 | -0.5 | 1.7 |
| Global high yield bonds (hedged) | 1.1 | -0.9 | 1.1 | 5.7 | 2.9 | 5.5 | 4.2 |
| Australian inflation-linked bonds | 0.9 | 0.0 | 0.9 | 2.5 | 3.4 | 2.8 | 2.4 |
| Cash | 1.1 | 0.3 | 1.1 | 4.5 | 3.6 | 2.1 | 2.0 |
| AUD/USD | 0.6 | 0.2 | 0.6 | -4.5 | -6.0 | 0.4 | -2.0 |

Past performance is not a reliable indicator of future performance.
**Sources:** Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A$ (Net); Emerging markets – MSCI Emerging Markets in A$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged $A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A$ hedged) – Barclays Global Aggregate (A$ hedged, Gross); Global high yield bonds (A$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

## Key events in global markets over the last three months to March 2025

Global shares (unhedged) posted a disappointing -2% return over the March quarter. The previous optimism over Artificial Intelligence (AI) and President Trump's agenda for lower taxes and less regulation peaked in February. March provided a sharp 'wake-up call' with the realisation that US President is threatening a 'global trade war'.

Wall Street's benchmark S&P 500 Index briefly made historic highs during the quarter but these gains were fully reversed by tariff concerns and the potential for higher consumer inflation. Technology shares which had been a key tailwind behind Wall Street's ascent for the past two years suffered sharp falls. The NASADAQ 100 which is heavily weighted to technology declined by -10.3% over the past three months.

European shares surprised by making very strong returns of 7.2% (EuroSTOXX 50) with the benefit of the European Central Bank cutting interest rates and Germany announcing major stimulus measures to revive their economy.

Asian share markets delivered mixed performances. Chinese shares delivered a very strong return over the past three months with more supportive financial measures from the government. However, Japanese share markets have declined with the central bank still signalling the need to raise interest rates to limit inflation.

Global bonds (hedged) delivered a modest 1.1% quarterly return. While lower interest rate settings in Europe are positives, investors have taken a more cautious outlook on inflation prospects given that tariffs initially raise consumer prices. Australian bonds delivered a solid 1.3% return given that recent lower inflation results allowed the RBA to cut interest rates in February 2025.

## Key events in Australia over the last three months to March 2025

Australian shares initially made strong gains and historic highs until the middle of February but then hit reverse gear. Australian shares delivered a disappointing return of -2.9% over the past three months. The Information Technology sector was a key negative contributor with a -18.2% return. There were notable declines in property securities as a subdued Australian economy weighed on investor confidence. There were also sharp falls in the Health Care and Financial sectors.

Australia's economy is experiencing mild economic activity but is seeing lower inflation. The negative impact of high consumer prices and mortgage interest rates as well as rising rents continues to squeeze budgets. Yet there has been some more encouraging news on inflation and interest rates. Australia's annual inflation rate declined to 2.4% in February according to the Australian Bureau of Statistics monthly indicator. This moderation in price rises reflects the benefit of government electricity rebates and lower automotive fuel costs. Given modest Australian economic activity and milder inflation results, the RBA cut interest rates in February 2025.

## Global prospects

Global share prices have made very strong gains in the past two years of 2023 and 2024. The enthusiasm for AI and technology have been the key factors supporting global rising share prices. There was also the benefit that with global inflation gradually falling, central banks could continue to make further cuts to interest rates. Typically, a lower interest rate environment should be more supportive of corporate profits and thereby share prices in the long run.

However, global share markets are now being challenged by considerable global political risks. The return of Donald Trump to the White House has generated alarm over the imposition of large tariffs for America's key trading partners as well as smaller players like Australia. Also concerning is the way President Trump is communicating these decisions. There has been an 'on again - off again' sequence of tariff announcements with President Trump as part of his negotiating tactics. Clearly President Trump's aggressive policy agenda - higher tariffs that impose more difficult trading conditions for the global economy, lower US immigration and population growth with "mass deportations," more restrictive US fiscal policy with cuts to government jobs and spending, as well as less regulation - is not a recipe for stability. The continuing Russian-Ukraine war and conflict in the Middle East also provides a troubling environment.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

**Important information**

This communication is provided by MLC Investments Limited (ABN 30 002 641 661, AFSL 230705) (MLC), part of the Insignia Financial Group of companies (comprising Insignia Financial Ltd, ABN 49 100 103 722 and its related bodies corporate) ('Insignia Financial Group'). An investment with MLC does not represent a deposit or liability of, and is not guaranteed by, the Insignia Financial Group.

This information may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation, and needs.

Past performance is not a reliable indicator of future performance. Share market returns are all in local currency.

Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are held or made as at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice), or other information contained in this communication.

This information is directed to and prepared for Australian residents only.

MLC may use the services of any member of the Insignia Financial Group where it makes good business sense to do so and will benefit customers. Amounts paid for these services are always negotiated on an arm's length basis. MLC relies on third parties to provide certain information and is not responsible for its accuracy, nor is MLC liable for any loss arising from a person relying on information provided by third parties.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse any information included in this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

The funds referred to herein is not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds.