JBWere

CIO Office House View

Private View update

27 May 2025

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After a challenging first quarter, April was characterised by further heightened market volatility. Primarily driven by aggressive trade policy uncertainty and rapidly shifting economic outlooks. Investors continue to navigate a complex economic and market landscape marked by rapid changes.

While many equity markets ended the month only slightly lower (e.g. US), and some even ended April in the green (e.g. Australia, Europe, Japan), these results belie significant intra-month volatility. Heavy losses were sustained following early April 'Liberation Day' tariff announcements. Recovery and better trading conditions followed adjustments to the initial position from 9 April. As we wrote last month, an inferred softening to the US position was in our view driven by disruption in the US Treasury market.

The S&P500 and Nasdaq briefly entered bear market territory in April, dropping +20% intra-month from February peaks.

European equities extended their year-to-date lead. More notably, they did so despite significant earnings downgrades.

OPEC unexpectedly increased crude oil output, sustaining an 18% monthly drop in oil prices - the steepest decline in more than three years. We speculate this move is mostly a strategy to maintain and grow market share amid soft global demand.

Gold continues to trade favourably, as investors sought safe haven assets in response to escalating trade conflict.

In FX, the US Dollar continued to weaken and remains the main market channel through which adjustments to economic conditions are presently being felt.

Macro update

The main market-moving macro news continues to revolve around evolving US trade policy. Along with other countries' retaliatory responses to it. Predictably, few major countries have accepted unilateral tariff proposals from the US.

Since we last wrote mid-April, there has been plenty of speculation but ultimately little in the way of concrete commitments to move current trade disputes forward.

Post 9 April, US strategy pivoted from an all-out trade war against the world, to trying to isolate its main adversary in China. Simultaneously seeking to coerce other nations to join its cause through a combination of soft and hard diplomacy. The recent 90-day détente with China does not change this broader outlook.

We reiterate what we wrote last month. In our view, investors are better placed focussing on trying to understand the underlying ideology of the Trump administration. Particularly what it is seeking to achieve through trade rebalancing. A good place to begin to understand the Administration's core thesis is with the piece published last November by current Chair of the President's Council of Economic Advisers, Dr Stephen Miran.[1] Whether or not the policies announced to date have any plausible hope of materially rebalancing trade or achieving other stated goals, remains for now a moot point. They want to try.

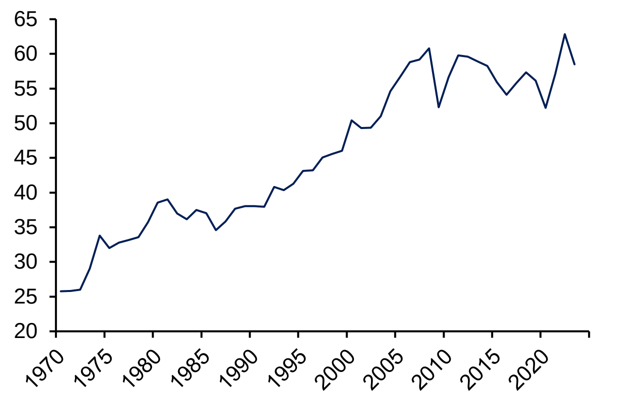
The hopeful amongst us recall Churchill's famous quote during the Second World War:

> *"The Americans can always be trusted to do the right thing; once all other possibilities have been exhausted."*

1 https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

The truth is, prior long-term trends around globalisation, supply chain integration and steadily increasing global trade (the 'WTO Consensus'), were beginning to unravel well before Liberation Day announcements.

Chart 1: Global trade as a percentage of GDP (to end 2023)



Source: JBWere, World Bank. Past performance is not a reliable predictor of future performance.

It appears likely the critical near-term events for investors to monitor will be the nature and sequencing of pending bilateral trade announcements between major countries. With special attention paid to any credible announcements around US-China developments. Against the backdrop of the ideology outlined above, it is worth remembering that the US-China trade relationship—the largest bilateral trade relationship in the history of the planet, that took more than 25 years to build—is very unlikely to decouple smoothly.

The main game in relation to trade deals is China and the EU, and to a lesser extent Mexico. **Table 1** ranks the United States' top trade partners by overall deficit. Note how far down Canda is, on this net basis. Also note the UK does not make the list.

Table 1: US trading partners ranked by deficit

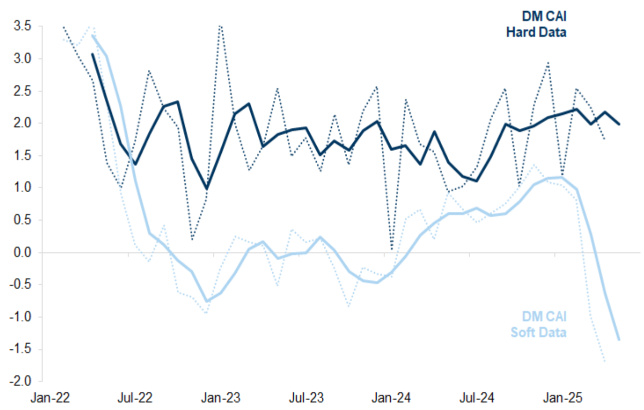
Rank	Country	U.S. Trade Deficit (2024 USD)
1	China	$295.4 billion
2	European Union	$235.6 billion
3	Mexico	$172.0 billion
4	Vietnam	$123.5 billion
5	India	$69.0 billion
6	Taiwan	$65.0 billion
7	South Korea	$55.0 billion
8	Japan	$50.0 billion
9	Germany (part of EU)	$45.0 billion
10	Canada	$40.0 billion

Source: JBWere, US Census Bureau. Past performance is not a reliable predictor of future performance.

Economic data updates

The main theme in the economic data of late is that the hard data has held up, while soft data (surveys and forward expectations) are very weak. The legitimate concern is that some of the strength in the hard data is landing because it is still too early to see most of the damage from the trade war. Plus the initial impact of the tariffs on some measures is to front-load (and temporarily increase) activity.

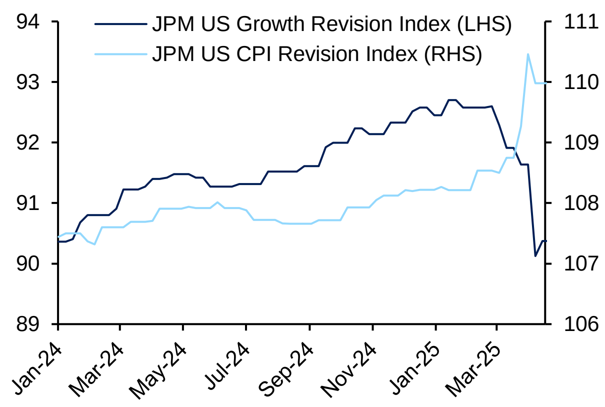
Chart 2: Global developed markets: soft vs hard data comparison



Source: JBWere, Goldman Sachs. Past performance is not a reliable predictor of future performance.

While the US recorded a negative -0.3% quarterly annualised real GDP growth number for the first quarter of 2025, the market ignored it because it was primarily driven by front-loading imports. This flows directly to the GDP calculation via a deeply negative trade balance for the quarter. Ultimately, US forecasters have continued to revise growth down and inflation up. See **Chart 3**. Globally, growth is being revised lower but the inflationary implications are much less clear.

Chart 3: US growth and inflation forecast revisions



Source: JBWere, Bloomberg. Past performance is not a reliable predictor of future performance.

Australian federal election result

Locally, a returned Labor government did not come as much of a surprise and was well predicted by betting markets. That the ALP increased its majority in somewhat of a landslide, however, was not anticipated.

Even so, we see few immediate clear market implications from the result. If anything, the returned Albanese government seems likely to maintain its existing generally cautious 'no big surprises' approach to policy. Even if the mooted changes to large (+$3m) superannuation balances goes ahead, whilst impactful for those affected, we do not see it as much of a game changer for markets at a macro level.

Given Labor's now commanding majority position in the House, some might sniff an opportunity for more courageous reform. We will be particularly keenly following any policies designed to lift ailing domestic productivity (which hasn't moved for ~7 years now). Especially as Treasurer Chalmers has already cited it as a key priority for the new term.

Longer-term, we see potentially more significant implications for investors hidden in the election result. The ALP has generally positioned itself as the workers' party. This was very much on show in the Prime Minister's acceptance speech. At the margin, it will probably also result in a comparatively larger and redistributive role for the government across the economy, in our view.

By far the dominant political issue in this last domestic Federal election was cost of living pressure. Here we see potential parallels with many other global political movements. Not only in the US.

The Republicans in the US are frequently labelled as the conservatives. But Trump is not a (capital 'C') Conservative, in our view. This US administration is on record wanting to reorganise trade, in a large part to rectify what it sees as the inadequacies and inequalities of the current system that has left Main Street (and the median worker) behind. To quote Treasury Secretary Bessent in an Op Ed in the Wall Street Journal only last week:

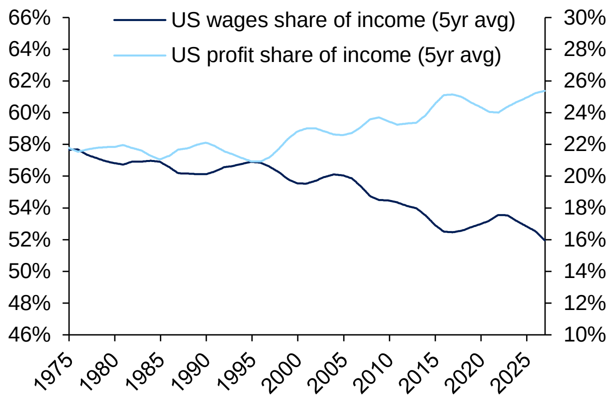
> *"The president recognizes the critical role Wall Street plays in financing the American dream. But it's Main Street's turn to share in the prosperity. This is the guiding ethos of his bold economic agenda. He wants to ensure working families aren't left behind in the next era of economic growth – as many were left in the last."* [2]

On top, Trump recently flagged a potential special tax for those earning more than US$ 2.5 million per annum. Existing policy already announced intends to close loopholes for 'carried interest' that would significantly impact private equity. These proposals are all heading in the general direction of increasing wealth taxes, in our opinion.

The reason we investors ought to concern ourselves with these global political movements, is that a number of them are starting to align in a similar direction. They speak to the relationship between capital and labour in the economy, and importantly indirectly to critical investment implications for the outlook for wage inflation, its relationship with productivity, and therefore the outlook for corporate profit margins, inflation and interest rates.

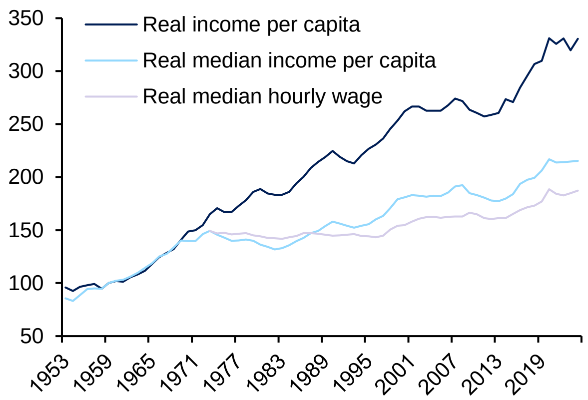
Most will appreciate by now that it has not been a particularly good time to be the median worker in most developed economies. **Chart 4** shows US trends in the relative share of the economic pie moving from labour income to corporate profits. Domestic data is similar. Relatedly, **Chart 5** shows the most common welfare measure—real median wages, plotted against broader real income in the US. Again, domestic trends are similar.

Chart 4: US labour versus profit share of gross domestic income



Source: JBWere, Bloomberg. Past performance is not a reliable predictor of future performance.

Chart 5: Growth in US real median income vs overall real income per capita



Source: JBWere, Bloomberg. Past performance is not a reliable predictor of future performance.

Charts 4 and 5 are two sides of the same coin evidencing significant and widening distributional inequality. The trends have driven (or come in tandem with) accelerating asset price inflation, relative to median and average wages. These trends accelerated post GFC as central banks entered the business of money printing (QE) writ large. They are arguably not socially or politically sustainable and form part of the circumstances in which we now find ourselves.

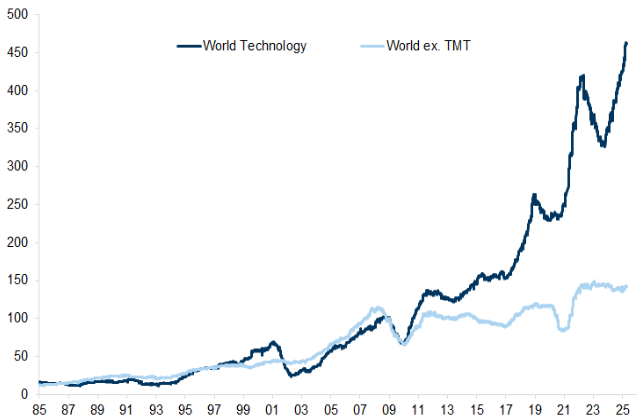
Investors ought to watch keenly for any sign that some of these post-2000 (and especially post GFC) accelerative megatrends are reversing. The change mission of the Trump administration (and the ALP) is explicitly to get a better deal for average workers. If this does not come in

[2] https://www.wsj.com/opinion/trumps-three-steps-to-economic-growth-tariffs-trade-tax-cuts-deregulation-7804053a

tandem with productivity, then the economic transfers will have to come from somewhere else.

The biggest beneficiaries that rode the wave of globalisation, and the concomitant failure of real median incomes to keep pace with economic growth, are clear. **Chart 6**. On one hand, these are generally very high-quality companies with incredible business models, but there is much at stake for shareholders as governments seek to reorganise industrial capacity and, quite possibly, wealth. We believe that understanding and predicting government policy is now as crucial for investors as economic and market forecasting.

Chart 6: Few benefited more from the 'WTO Consensus' than large multinationals, and especially global Tech



Source: JBWere, Goldman Sachs. Past performance is not a reliable predictor of future performance.

Portfolio Considerations

We have resisted major changes to asset allocation, short or longer term. There was a brief opportunity intra-month, amidst the heightened volatility and aggressive sell-off to tactically take on some more risk. That has likely passed.

Strategically we remain overweight defensive assets, particularly high-quality investment grade corporate credit. While underweight growth assets broadly, we are most underweight in International Equities. We are concerned about the US Dollar on a medium- and longer-term investment horizon, and see it as deeply structurally challenged. We remain underweight and well hedged on an FX basis across balanced portfolios.

We are sticking with a number of tactical themes we have positioned across a range of portfolios. Collectively, it is a portfolio approach designed to manage and diversify risk, and we acknowledge not all will trade well in the event of a global growth slowdown or recession, should economic conditions continue to deteriorate:

- Overweight mining equities vs the global market;
- Overweight global energy sector;
- Overweight commodities more broadly, including moderate positions in oil, copper and gold;
- Overweight global small caps;
- Overweight infrastructure assets;
- Overweight inflation linked bonds;
- Overweight cash.

Funding is generally coming from underweight global equities and particularly underweight the US Dollar.

Prepared by the CIO Office

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