Fiducian Monthly Economic Commentary Report

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Conrad Burge, Investment Manager, Fiducian Investment Management Services Limited

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is forecast to slow marginally this year due to what the IMF has termed a 'swift escalation of trade tensions", after 'new tariff measures by the US and countermeasures by its trading partners'. Nevertheless, global growth is still forecast to be 2.8% this year and 3.0% in 2026, although these projections could be lifted if beneficial trade deals are able to be completed.

The global economy is forecast to slow marginally this year, according to the latest estimates provided by the International Monetary Fund (IMF). Global growth is forecast to be 2.8% this year and 3.0% in 2026, which is below the IMF's previous forecast of 3.3% in each year (around the long-term trend rate). In the IMF's words, this lowering of its growth forecasts is due to 'the swift escalation of trade tensions and extremely high levels of policy uncertainty', after 'a series of new tariff measures by the US and countermeasures by its trading partners'. The US has paused its tariff increases for 90 days until 8 July and it is anticipated that some major trading deals could be agreed at least in principle by this date. As the IMF put it, 'if countries de-escalate from their current tariff stance, the outlook could immediately brighten' and investors could regain confidence.

The IMF is anticipating a slowdown in real US growth this year (to 1.8%), largely due to the imposition of tariffs, while growth across Europe and in Japan is also forecast to remain weak. Inflation has moderated this year in most economies, giving central banks the opportunity to lower rates, with further cuts likely.

In the case of the US, the hefty tariffs announced by the new administration under President Trump are forecast to have the strongest negative effect (other than China) with growth for this year being downgraded from a previous estimate of 2.7% to only 1.8%, although this remains above forecast growth rates for the euro zone (0.8%), the UK (1.1%) and Japan (0.6%). As the IMF notes, this reduced growth forecast for the US is due to 'greater policy uncertainty, trade tensions, and softer demand momentum'. Despite this weaker outlook, the central bank (the 'Fed') has resisted rate cuts since last December. However, if trade deals are soon implemented and inflation remains subdued, further cuts could be imminent.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with the economy contracting again on a per capita basis in the March quarter. With inflation finally falling back within the RBA's target range, interest rates have been cut and could soon go lower.

The Australian economy remains weak, with growth of a mere 0.2% in the March quarter, after growth of only 1.3% in 2024. On a per capita basis, the economy sank back into recession with a contraction of 0.2% after minuscule growth of 0.1% in the December quarter, which in turn followed seven consecutive quarters of contraction. Elevated interest rates have kept a lid on growth, as the Reserve Bank (RBA) has continued to fight inflation. However, on 20 May, the RBA cut its cash rate by 0.25% to 3.85%, following a 0.25% cut in February after the annual inflation rate had moved into its target range (2% to 3%). Given the weak state of the economy, with no productivity growth, further rate cuts are likely over coming months.

MARKETS

Major share markets mostly rose in 2024 but have been highly volatile since the announcement in April of US tariff hikes. However, most markets had recovered by late June and could see further rises this year if trade deals are completed and if inflation remains subdued.

Most share markets were on a broadly upwards trend from October 2023 right through 2024 on the assumption that interest rates had peaked and would soon begin to be reduced. This year has so far seen high volatility, especially after the US move to introduce unprecedented tariff hikes on most imports. Up to 27 June, market movements have included rises across most markets, including 5% for both the broad US market (S&P500) and the technology-focused Nasdaq, 8% for the UK, 21% for Germany, 4% for France, 1% for Japan, 8% for India, 2% for China and 5% for Australia.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances.

Major sovereign bond markets have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October 2023 before sliding down, then rising again. It was 4.28% on 27 June this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.15% on 27 June this year. Some bond markets could see yields fall further (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for growth assets (shares and property), while cash is underweight.

Fiducian's diversified funds are currently above benchmark for international shares and listed property and around benchmark for domestic shares. Exposure to bond markets is close to benchmark, while cash holdings have been lowered.