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Chris Burrell's **Market View Blog**

A Volatile Market

On the last day of the March Quarter, the Australian stock market continued its March quarter decline. The table below shows that after a strong September quarter, the December quarter was flat and the March quarter 2025 negative. The ASX S&P 200 index is up around 1% financial year to date, a little under 3% including dividends.

S&P Dow Jones Indices
A Division of S&P Global

As of:	Mar 31, 2025
Effective date	S&P/ASX 200
28/06/2024	7767
30/09/2024	8269
31/12/2024	8159
17/03/2025	7854

Burrell client portfolios on average have held reasonably well due to diversification across asset classes including fixed interest and property. The key factor however is that for both domestic and international equities, portfolios are weighted towards companies with real businesses paying dividends, with sound management and debt levels not too high. In contrast, growth at any price (GAAP) stocks are the ones both domestically and internationally which have borne the brunt of the falls. A number of these stocks were trading on excessive valuation multiples and have been overdue for a correction for some time. It is pleasing that the markets have come back to correct these overvaluations.

How concerned should we be with respect to the Trump tariffs and the ensuing volatility? During the US election period, Trump made much of a downsize in government by the elimination of wastage, reducing regulation, ending overseas wars and continuing to reduce inflation. There is little to disagree with in respect of these objectives. However what has become clear is that the Republican party had espoused more dramatic cuts, but not previously had the necessary majorities in both houses and with the President to action same. It would be an understatement to say that the execution of these objectives has left much to be desired.

But the bete noire is tariffs. There was much debate as to whether tariffs would be used as a bargaining chip and whether a more commercial approach might be followed. In contrast, it appears that Trump has surrounded himself with others who believe in a return to the economic policies of the late 1890's where tariffs were a major source of funding. Our global economy owes much of our living standards to global trade, where companies that can produce goods at lower costs do so whilst other countries find other goods and services where they are more economically productive. Trump simply does not understand the economics of the law of comparative advantage.

Capital Economics

Whilst the tariff development is disruptive, it may be that we should not be too pessimistic about the outcomes. In a research piece entitled "Global Economic Outlook; Trade War to dampen, not derail, global growth" dated 28th March 2025, Capital Economics expect the world economy to grow a touch slower in the next couple of years than it did in 2024. Trump's policies will drag on US growth, policy support will not prevent a slowdown in China's economy, and looser fiscal policy will provide just a modest boost to growth in Europe. The trade war should not significantly dent global trade, but this view is predicated on countries refraining from escalatory rounds of retaliation to US tariff hikes. Global inflation should flat line this year, on average, so the scale of central bank interest rate cuts will be smaller this year than last. "In the US, Capital Economics expect the Trump administration policies to have a mildly inflationary impact, with GDP growth slowing to 1.5%; annualized inflation rebounding to about 3.5% later this year. This will keep the Fed on hold this year, but as inflation falls back in 2026 they see scope for the Fed to cut interest rates."

For Australia and New Zealand, both economies will gather momentum, but the RBA will cut by less than the RBNZ.

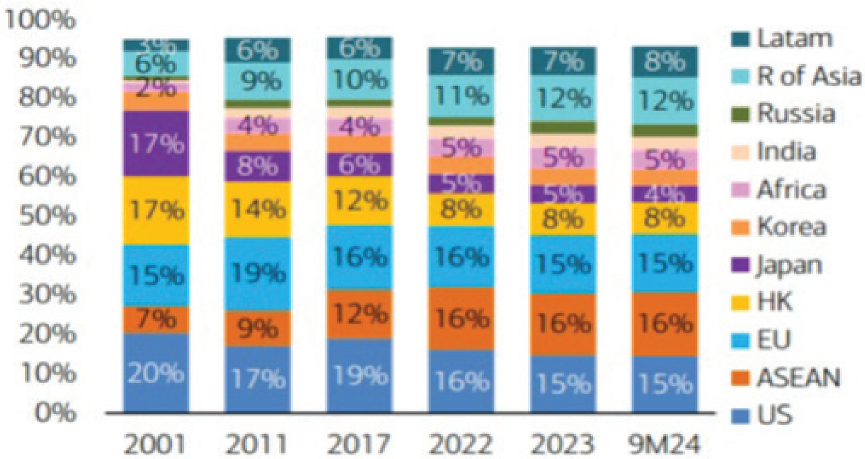
For commodities, Capital Economics expect most energy and industrial metals prices to fall by year end-2026 as structural headwinds to demand build and supply rises. But tariffs and geopolitical uncertainty present risks to the near term outlook.

Prior to Christmas 2024, Capital Economics were predicting that the US S&P 500 index may continue its upward trend towards 7000 due to the ongoing support for AI. The tariff focus in the early months of the Trump presidency has seen several US merchant banks cut their forecast for the US S&P 500, some as low as 5600 but on average in the 5800-6200 range.

China

In an excellent presentation in our offices from Alphinity Global and OX Capital, on Friday 28 March 2025, Joseph Lai of OX Capital presented a positive picture of China. Chinese exports are not as big a part of the Chinese economy as maybe thought at only 20%. Of that 20%, only 15% are to the USA. The table below shows the split of exports.

China Export Markets since 2001



China has diversified away from the US in terms of its exports. While some of this diversification may be a illusory in that Chinese businesses have established factories in third countries such as Vietnam and other ASEAN countries, the fact is that China has reduced its export dependency on the US and is now quite diversified in terms of its export markets. This means that the almost zealous focus by the US on China may result in far lesser global economic impacts than might be thought at first glance.

Investment Approaches

On the basis that the major economies are not expected to go into recession (with the exception of Canada) this year, then it is likely that the current weakness in Australian and international markets will present buying opportunities. Looking at the research on a daily basis as is our task in life, there are already a material number of stocks both in Australia and internationally presenting buying prices which appear attractive when compared against fair value estimates (FVEs) for those businesses.

Internationally, your diarist analyzed some of the drivers behind artificial intelligence (AI) in the previous blog. We've seen some of the leading stocks including Microsoft and Alphabet give up some of their gains.

In respect of the motor vehicle and battery market, BYD of China released the second stage Blade batteries. BYD batteries don't seek the fast car ambition of the Tesla, but rather had focused on steady performance. The second stage Blade batteries are achieving recharge rates and travel distances that would seem to represent a paradigm shift that we have been waiting for. Previously it was thought the second generation batteries would be solid state batteries, but the scientists have experienced considerable difficulties in taking these from the laboratory bench top to practical production. If indeed BYD have solved the issues with the EV batteries, then BYD and its collaborative partners including Toyota are likely to be the ultimate beneficiaries. It may be that BYD is the ultimate category killer in the new EV era.

Defence is another theme globally that seems likely to benefit from the current geopolitical events. The Trump aggressive behavior towards allies will mean that the EU will likely continue to be the third economic block and just as they have developed the Airbus, it is likely that the SAAB Gripen and French jet manufacturers will benefit in ensuing years. This will simply mean that the growth of US defence manufacturers will be a little less than it might otherwise have been.

Australia

Prior to Christmas, Australian banks were seen as overvalued. Notwithstanding, they performed strongly up until 31 December 2024. It is likely in this 6 months that they will underperform, although dividends are expected to be maintained.

If Capital Economics are correct, then commodities may also underperform over the next 1-2 years, in a number of cases, these stocks are already good value.

So the focus in Australia that may yield additional returns is likely to be in areas that are non-banks, non-resources and non GAAP stocks i.e looking for companies with sound earnings, growth prospects, balance sheets and management.

Happy Investing!

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