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Chris Burrell's
Market View Blog

Greatest Strength – They're Myopic
Greatest Weakness – They're Myopic

US

There are 350 million American citizens in the USA, compared to a global population of 8 billion. The USA has a key strength in that they're myopic, but it is also their greatest weakness.

The rest of the world made a reasonable assumption that the smart people in New York had their mortgage market under control. What we discovered during the global financial crisis (GFC) was that not only did they not have it under control, most didn't fully understand what they had created.

Again during COVID a view was formed by many that the world was dealing with another GFC, so the USA stimulated with fiscal policy, then further overcompensated with stimulatory monetary policy. In fact, the world was dealing with a health event, which was brought under control by modern medicine in the form of breakthrough vaccines against COVID. Yet the USA came to the view that you could print as much money as you wished without any inflation according to a new theory of Modern Monetary economics. What we discovered was that the economics of Milton Friedman, which said that one needed to carefully control the monetary supply, or an economy ended with high inflation: ultimately Friedman economics proved to be the case.

So here we are again with the US convincing itself that their economy is so exceptional that they can impose tariffs on the rest of the world. This is despite the fact that China has control of rare earths and that their exports to the US are only 15% of China's exports, which in turn is only 20% of GDP i.e. 15% of 20% equals 3%. Europe also has specialisations, including a monopoly on the machines that make computing chips and yet the USA continues to threaten the EU with punitive tariffs. There are 450 million people in the EU, a proud collection of countries that have been on the planet for aeons before the US was populated primarily from their eastern shore.

There are two issues that arise from the current imbroglio. Firstly, there are regular statements from the US parts of administration that there is no inflation and will be no inflation. During the first Trump presidency, the tariffs were passed on, on average in full to the end consumer. Yet, the current administration continues to deny this will be the result. Inflation is a lagged indicator, as is unemployment. They tend to come towards the end of an economic event. So again, it is likely that we are in the Goldilocks period in terms of inflation in the US and that that tariff inflation will flow through in late 2025 and into 2026. This will limit the ability of the Federal Reserve to reduce interest rates and support bond rates remaining at higher levels. In the shorter term in the US, Capital Economics see further reasonable returns from risk assets, especially US equities. Their paper of 30 June opines that they don't think we're at the end of the Artificial Intelligence (AI) run yet. Commodities continue to lag. S&P 500 is forecast at 6500 by the end of 2025 and then 7000 by 31 December 2026.

The reporting season has just commenced in the US for the June quarter. So far the earnings reports are satisfactory, but it will likely depend on the reports concerning the technology stocks and investment in new data centres, electricity contracts, etc. to support a projected strong increase in demand to provide AI.

Australia

Unfortunately, the Australian Stock Exchange does not have a higher degree of technology and AI. The Chinese economy, particularly property has been weak, and the mining and commodities markets have impacted on both the Australian and Canadian bourses. Morningstar published a paper on the 18 July entitled "Earnings recession drags on" led by the miners down 13%. Banks are also overvalued on any measure on the Australian bourse. So with approximately half the Australian market in the banking and mining sectors prospectively unlikely to provide strong performance, stock selection is important in order to achieve reasonable returns in the 25/26 financial year. The Burrell Galaxy continues to show a good smattering of stocks likely to have satisfactory returns in the 25/26 FY.

GOLD

There are some strong sectors. Gold has become the third largest Australian export and gold stocks have been producing bountiful amounts of cash. While some are forecasting this may ameliorate, a presentation in our offices on 21 July from John Forwood of the Lowell Resources Fund (LRT), a listed small cap, mining investor with a half of its portfolio in gold was positive on the sector continuing its stellar run.

- Gold overtook the Euro as the world's second most important reserve asset for central banks, driven by record purchases and soaring prices, according to the European Central Bank. Bullion accounted for 20% of global official reserves in 2024, outstripping the Euro's 16 per cent and second only to the US dollar at 46 per cent, according to data from an ECB report."

- Central banks continue to accumulate gold at a record pace the ECB wrote, adding that central banks for the third year in a row acquired more than 1,000 tons of gold in 2024, a fifth of the total global annual production, and twice the annual amount in the decade of the 2010s."

- The People's Bank of China announced another gold purchase in May - the seventh consecutive month of buying - adding 1.9t to its gold reserves, which now stand at 2,296t or 6.7% of total foreign exchange assets."
- Germany and Italy faced calls to move their gold out of New York following Trump's repeated attacks on the US Federal Reserve and increasing geopolitical turbulence. Germany and Italy held the world's second and third largest national gold reserves after the US, with reserves of 3,352t and 2,452t respectively, according to World Gold Council data."[1]

Australian Impact of Trump Tariffs

In the previous blog, the conclusion was reached that Australia is in the first instance insulated to a material extent from the Trump tariffs. We do not export large amounts of goods to the US and the tariff levied is at a 10% rate.

There are two second order effects that are important. The first is that Trump berates other countries who buy Australian products to buy those products from the US, even if they cost more. This happened during the first Trump presidency. It was pleasing to see that the Australian government foreign minister visited Australia's second largest trading block in ASEAN and the Prime Minister visited China to shore up relationships with our major trading partner, China. It was a little surprising that the press didn't seem to understand the purpose of these visits. Some commentators believe that China will continue to export deflation throughout the world which will somewhat counter the tariff effect.

The other second order effect is that to the extent the Trump tariffs increase prices of goods that flow to the US, whilst those costs will ultimately be largely passed on to US consumers, there is an impact globally. That occurs where the Trump tariffs increase the price of goods, e.g steel and aluminium, which are also inputs to goods in other countries and so the inflation bogeyman, thought to have been conquered, may rear its head again in Australia as collateral damage from the Trump tariffs. Again it is not surprising that the Reserve Bank of Australia has kept its powder dry in terms of interest rate cuts, against this global backdrop.

The attacks on central banks by the US President are unreasonable and whilst at a much more modest level, there has been adverse criticism in Australia also from various quarters.

The endgame on US tariffs is unclear. The US markets seem to have adopted the TACO view i.e. Trump Always Chickens Out. It does appear that the 1 August date will be extended. Trump is achieving some useful reductions in trade barriers of US trading partners.

Your diarist sees that Trump genuinely believes that trade deficits occur where the US is poorly treated. Of course, trade deficits most often arise because the US consumer is prodigious and so the US continues to hoover in large amounts of goods and services from the rest of the world to satisfy the US consumer.

[1](Lowell Resources Fund Management Ltd, 2025)

The passing of the One Big, Beautiful Bill (OBBB) extending the Trump tax cuts and adding to them with unsustainable concessions such as no tax on tips and overtime means that the Republicans continue to run large deficits due to unsustainably low taxes. On the other hand, the Democrats have historically run large deficits due to unsustainable spending. So both major parties have shown a lack of fiscal responsibility.

Portfolio Returns

The portfolio returns for the 24/25 financial year were in two halves. The market started well enough and was up through October 2024. However, it lost those gains and was line ball at 31 December 2024. The market again commenced the 2025 year strongly with a good performance through February 2025. The Trump Liberation Day tariffs took the wind out of the sails, and the markets were looking quite poorly during April. The markets then decided to look through the Trump tariffs and recovered materially to produce satisfactory returns through to 30 June 2025.

The US myopia, together with the AI theme, saw the US markets deliver strong returns, with 15– 20% returns on the international sector of portfolios not unusual.

This indicates the ongoing need for portfolios to move from say a 5% level to a 10-20% weighting to international. In the current conditions, some insightful additions using managed funds, ETFs and direct international over the medium term would see this target achieved.

Happy Investing

Chris

Chris Burrell

CHRIS BURRELL
MANAGING DIRECTOR

BURRELL
stockbroking & wealth management

CONTACT US

To find out more about us and the ways in which we can help you, contact us

P 1300 4 2877 355
W www.burrell.com.au
E clientcare@burrell.com.au
B www.burrell.com.au/news-and-events/the-burrell-blog

OUR OFFICES

Brisbane
P 07 3006 7200

Bundaberg
P 07 4153 4499

Gold Coast
P 07 5583 7800

Ipswich
P 07 3884 5700

Sunshine Coast
P 07 5353 5224

Participant of ASX Group and NSX
ABN 82 088 958 481
AFSL No 247431