Report:

Monthly Commentary

April 2025

Paradice Australian Equities Fund

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Market Review

The S&P/ASX 300 Total Return Index fell 6.4% over the first five days of April following tariff announcements by President Trump, only to rally 10.7% and end the month up 3.6%. As markets initially reacted negatively, Trump softened his stance, suspending the implementation of tariffs for 90 days and offering concessions. This shift gave investors' confidence that Trump may reverse course if sustained market declines occur.

Despite this, the USD failed to fully recover and declined 4.6% over the month, as concerns mounted that Trump's erratic policy decisions may have damaged the U.S. dollar's reserve status. Gold rose 5.3% (in USD) over the month as investors sought safe-haven assets. Unwinding this trade may prove more challenging.

The Federal Reserve may eventually offer some policy offset. However, with business pricing responses still uncertain and inflation unclear, any rate cut may be delayed in the near term. Our view remains that tariffs are ultimately a tax on consumers and pushes up prices of goods whilst dampening the growth outlook. Even if corporates relocated manufacturing to the US, it is not clear where the labour force would come from given c90% of the labour force is engaged in services, and whether the output could be priced competitively.

In Australia, the equity market impact of the Labor Party's election victory is expected to be minor. Australia's Q1 Trimmed Mean CPI was 0.7% q/q, placing annual inflation within the RBA's 2–3% target band. Combined with tariff-related risks, this has led futures markets to price in a 25bp RBA rate cut in May.

Performance

The Paradice Australian Equities Fund was down 143bps net of fees vs the benchmark. Top 3 contributors were Woodside Energy (not owned), with overweight positions in Coles and Newmont. Top 3 detractors were Commonwealth Bank (underweight), Alcoa and Treasury Wine Estates (both overweight).

Noteworthy industry / macro developments

#1 Downward EPS revisions in US are starting to emerge

US corporates are starting to withdraw guidance or downgrade earnings as weaker consumer and business confidence is manifesting into lower spending. A few prominent examples include:

- **Fast moving consumer goods** – Procter & Gamble, Conagra Brands, Kraft Heinz adjusted volume outlook lower citing a volatile consumer environment.
- **Food services** – McDonalds, Chipotle lowered sales growth guidance noting consumers are reducing restaurant visits.
- **Air travel** – e.g. Delta Airlines, American Airlines, Southwest withdrew guidance for 2025 earnings due to macroeconomic uncertainty
- **Automotives** – Ford, General Motors lowered or withdrew guidance citing tariff cost impost.
- **Payments** – Block citing reduced gross profit outlook partly due to reduced consumer spending.

S&P 500 Index, Earnings Estimates

Source: Bloomberg, 1 May 2025

Some Australian corporates exposed to the US have also started to soften the outlook e.g. Reliance Worldwide Corporation, Flight Centre, Corporate Travel.

#2 Field trips to US and China

The team undertook field trips to the US and China during the month.

Meetings in Washington underscored the increasingly troubling state of the U.S. fiscal position.

The federal government is currently running an annual deficit of approximately US$2 trillion, driven by revenues of around US$5 trillion and expenditures near US$7 trillion. Of the total expenditure, only cUS$1 trillion encompasses some discretionary areas that may offer some scope for trimming. Trump, in collaboration with Elon Musk and the Department of Government Efficiency (DOGE), initially targeted US$2 trillion in spending cuts. That goal was quickly revised down to US$1 trillion, and then again to US$450 billion. As of May 7, with most of the DOGE-led activity seemingly concluded, the initiative has publicly claimed US$165 billion in savings—representing only about 8% of the current deficit.

Looking ahead, the fiscal picture has another challenge. The U.S. has approximately US$36 trillion in total debt, with around US$9 trillion maturing in 2025. This debt currently carries an average interest rate of 3.35%, but if it were to be refinanced at the prevailing 5-year Treasury rate of 3.9%, the resulting increase in interest costs would be roughly US$50 billion—effectively eliminating nearly one-third of the DOGE-reported savings.

This precarious fiscal outlook poses growing risks to the U.S. dollar’s status as the world’s reserve currency, providing further support for gold and our positions in Newmont and Northern Star.

Our trip to China suggests sentiment has improved post-stimulus despite geopolitical uncertainties. The government is shifting subsidies from traditional sectors to high-tech and green industries, while tightening control over private firms and prioritising employment at the expense of productivity. Consumers are trading down in luxury, favouring sportswear and mid-range Penfolds, while high-end malls struggle. Domestic travel is booming, and younger people are returning to smaller cities, boosting local growth. Property shows strength in Tier-1 and select Tier-2 cities, but lower-tier markets remain weak. EV sales have remained strong, led by low-end demand and rising premiumisation, with BYD expecting market consolidation.

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