**Report:**

# Monthly Commentary

February 2025

# Paradice Australian Equities Fund

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## Market Review

The S&P/ASX 200 Total Return Index and S&P 500 Total Return Index were down -3.79% and -1.3% (in USD) respectively in February 2025.

The Paradice Australian Equities Fund was up 0.43 bps net of fees vs the benchmark. Top 3 contributors were A2 Milk, WiseTech and Goodman Group. Top 3 detractors were Block, IAG and Telstra.

## Noteworthy industry / macro developments

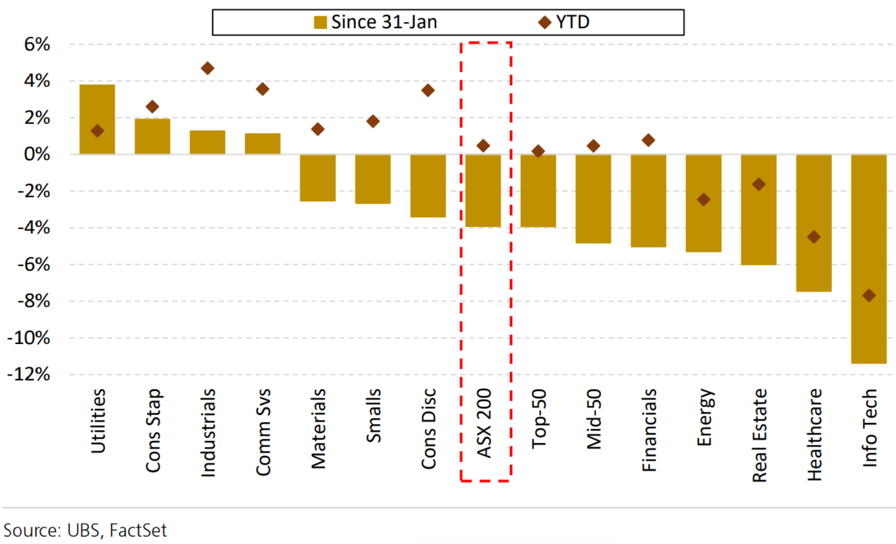
<u>#1 Reporting season volatility</u>

The Feb-25 reporting season was one of the most volatile in recent times, with individual stocks reporting average intra-day swings of c7%. Multiple forces have likely contributed to this evolution in price behaviour (passive money, liquidity, stale earnings estimates). Interestingly this is synonymous with the increasing share price volatility we have observed in US markets in recent years.

At an aggregate level, earnings per share beat FY25 consensus forecasts by c2%, but led to -1% downgrades for FY26 consensus forecasts, with Energy, Healthcare and Technology driving the bulk of the downgrades.

There was significant bifurcation of share price reactions within each sector, with expectations leading into the results and investor positioning the key determinants of share price moves despite minimal earnings revisions. For example, within Financials, Insurance names Medibank and NIB reacted with share price moves of more than10%, whilst NAB and IAG share prices declined by more than 10%.

Sector And Style Performance




Source: UBS, Australian Equity Strategy, 28 February 2025

The Australian Equities fund fared reasonably well. Key contributors included:

- A2 Milk (Overweight) – The company delivered 10% sales growth in a challenging Chinese Infant Formula market that declined by 6%. They also increased sales guidance for FY25 highlighting management is executing exceptionally well on product innovation, targeted marketing and increasing penetration into tier 2/3 cities.
- WiseTech (Underweight) - WiseTech stock dropped when four independent directors resigned, and Richard White stepped back into the the Executive Chairman role, creating governance issues. The company also announced new product delays and a profit warning. GMG (Underweight) – The stock underperformed post a $4b equity raising to fund data centres, which may have raised concerns about the capital intensity of future developments.

Key detractors included:

- Block (Overweight) – The company delivered a solid 4Q24 result however 1Q25 guidance for 11% GP growth fell shy of expectations relative to FY25 guidance for 15% GP growth.
- IAG (Overweight) – FY25 guidance implied moderating premiums growth in response to moderating claims inflation, resulting in modest downgrades to earnings. Margins remain at the upper end of management guidance.
- Telstra (Underweight) – Telstra delivered a solid 1H25 result with continued strength in their mobiles division and a stabilisation in their 'Enterprise' business. They also announced a $750m buyback which will help support the share price in the months ahead.

#2 Unprecedented policy uncertainty causing corporate paralysis

The flurry of US tariff announcements, followed by delays and unwinds have led to corporate investment paralysis in the short term. Sentiment has quickly morphed from US exceptionalism and “making America great” to an increased risk of a slowdown and even potential recession narrative. There could be significant economic pain in the short term in our view, as the US establishes tariffs, cuts immigration and slashes government spending to “re-industrialise” the economy. The second and third order effects of a trade war are also worrying; putting upward pressure on inflation (making it difficult for the Federal Reserve to cut rates), undermining equity markets and consumer confidence.

In February 2025, the US recorded the highest number of job cuts (mainly in public sector and retail) since mid 2020[1]. The US Atlanta GDP Nowcast forecasts 1Q25 GDP

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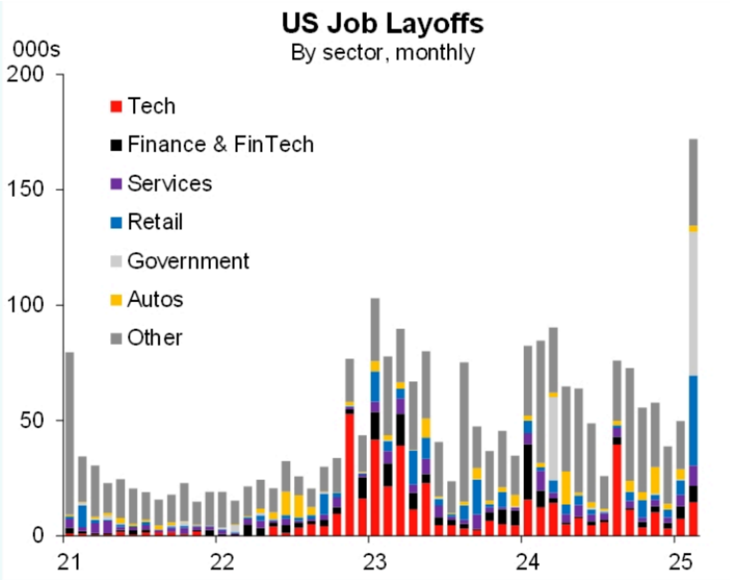
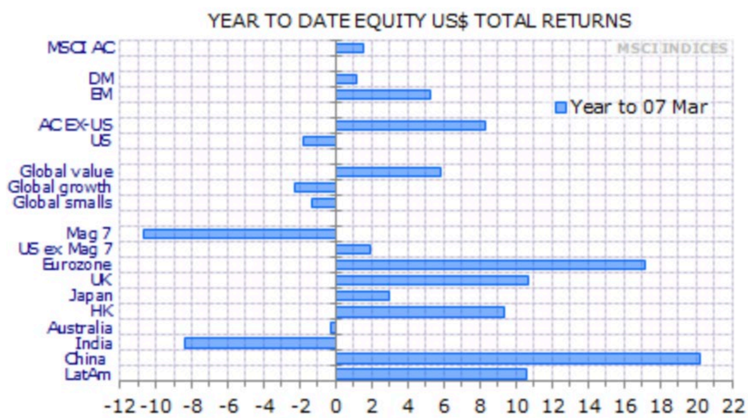
[1]Our World in Pictures, Macquarie, 7 March 2025

of -2.4%[2], which is highly unusual outside of shocks like Covid, driven by a sharp fall in net exports.




Source: Macquarie, 7 Mar 2025

Thus far, markets have responded with significant rotation away from the "Magnificent 7" and other expensive cyclical names. In the year to 7 March 2025, the total market value of the Magnificent 7 have declined by around 10%, whilst Europe and China equity markets have risen by more than 10% as fiscal stimulus is inflecting upwards. Factors such as Growth and Momentum which worked well in 2024 have also taken a back seat to Value and Low volatility. This is apparent in both US and Australian markets, and we expect this rotation to continue as long as the overhang of policy uncertainty remains.




Source: Minack Advisory, 8 March 2025

#3 Australian economy entering recovery phase

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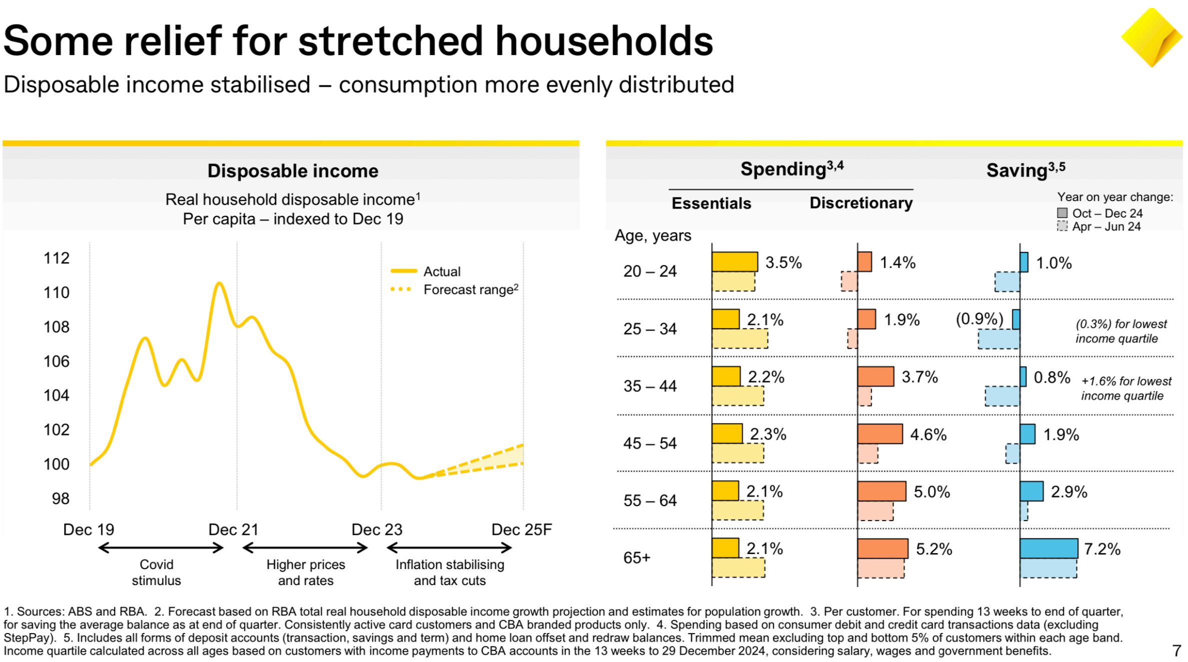
[2]Federal Reserve Bank of Atlanta, GDPNow, 6 March 2025[2]

Australia is recovering from a modest cycle slowdown. GDP growth over the year to December was 1.3%, up from 0.8% over the year to September. GDP per capita is rising and households are spending more across all age categories. Discretionary spending has rebounded faster than Essentials. This was evident in CBA's results presentation below.




Source: CBA, Half Year Results Presentation, 31 December 2024

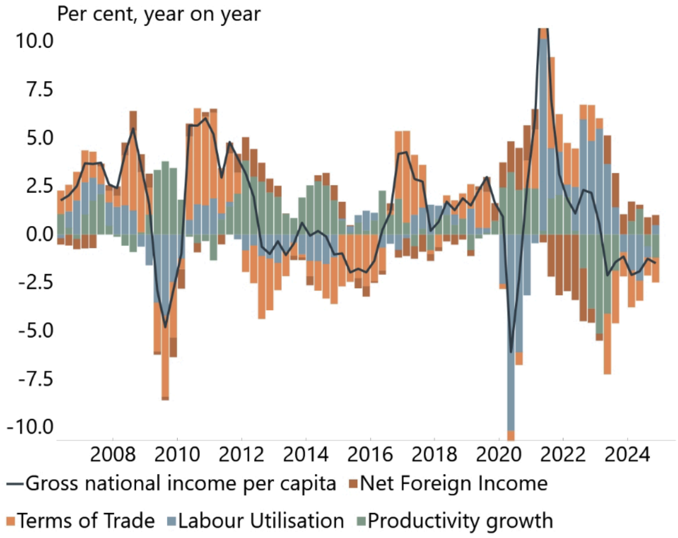
The RBA also trimmed interest rates by 25bps to 4.1% in February 2025, possibly marking the start of an easing monetary cycle. However, the RBA minutes suggest a hawkish stance to the rate cut, as it was "not committing the Board to ease policy further" and there was "caution about the prospect of further policy easing."

We see a muted recovery ahead as consumers remain price conscious, are looking to rebuild savings and tax and interest payable are still acting as a break on spending power. Meanwhile, the Australian economy remains on public sector life support. Public spending rose 5.7% YoY and contributed 1.4 ppt to annual economic growth of 1.3%.

Importantly productivity remains weak and an acceleration in unit labour cost growth suggests that the labour market is tight which may add to persistent services inflationary pressures.

Date: 5 March 2025

**A lack of productivity and a decline in the terms of trade have been a drag on national per capita incomes**



Source: ABS, Macrobond, Barrenjoey Research

For further details on fund positioning please refer to the Paradice Australian Equities Quarterly [Fact Sheet](Fact Sheet).

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