Report:

Monthly Commentary

July 2025

Paradice Australian Equities Fund

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Market Review

The S&P/ASX 300 Total Return Index continued to rise, up by 2.4% over July 2025. The S&P500 Total Return Index meanwhile rose 2.2% (in USD) during the month.

Global trade relationships and tariffs remained a moving target as the USA attempted to finalise negotiations ahead of the 1 August 2025 deadline. The USD mounted a +3.2% recovery during the month whilst gold was flat (in USD).

Across the ASX200, investors rotated from financials (-1.0%) towards materials (+4.1%) and healthcare (+9.1%). These trends were broadly consistent in the USA.

The Federal Reserve held interest rates steady despite pressure from Trump, citing inflation concerns and uncertainty around tariff implications. The RBA also surprisingly held interest rates steady in July, preferring to adopt a wait and see approach.

We now expect interest rate cuts sooner rather than later for both countries, with the USA subsequently posting large negative revisions to employment data and the Australia CPI coming in at +0.7% with broad-based disinflation across goods and services.

Performance

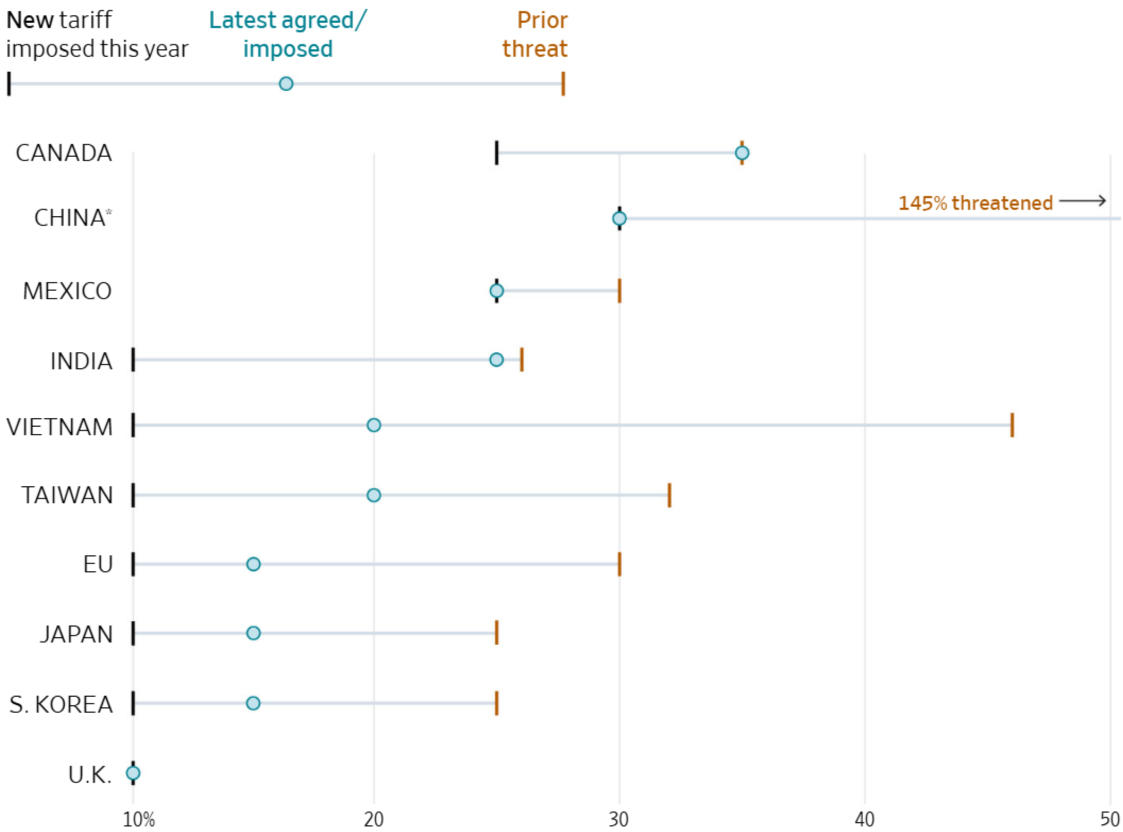
The Paradice Australian Equities Fund was up 27bps net of fees versus the benchmark for the month of July 2025. Top 3 contributors were Commonwealth Bank (underweight), Newmont (overweight) and ResMed (overweight). Top 3 detractors were CSL (underweight), Treasury Wine Estates (overweight) and Northern Star (overweight).

Noteworthy industry / macro developments

#1 Tariff negotiations wrapping up, impact on real economy getting started

Trump's self-imposed 1 August 2025 deadline for wrapping up tariff negotiations has passed, and with it, we expect flow-on impacts on consumers and corporates to materialise for the balance of 2025. In most instances tariff increases were reduced from "Liberation Day" scoreboard expectations, e.g. the tariff on the EU was reduced from 30% to 15%, and the tariff on China was reduced from 145% to 30%. Baseline tariffs on most countries amounted to 15% (up from 10%). Canada and Brazil saw higher tariffs vs original expectations, with tariffs now set at 35% and 50% (compared to April 2 expectations of 25% and 10%).

Trump's tariff trajectories



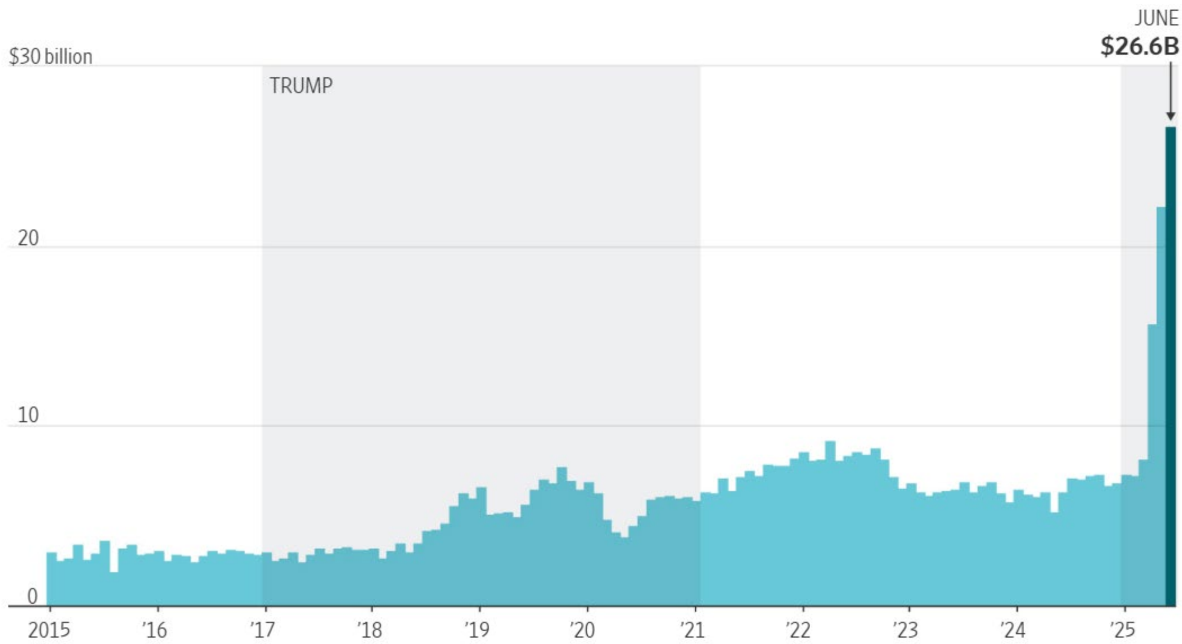
*A truce with China expires on Aug. 12.
Note: Tariffs currently on Canada and Mexico have exemptions. Trump gave Mexico a 90-day extension to make a deal. Some threats still active with negotiations ongoing. Tariff status as of 11:30 p.m. ET on July 31, 2025.
Sources: WSJ reports; public announcements

By sector, steel, aluminium and copper imports to the US face a 50% tariff (albeit the copper tariff does not apply to the raw material). Auto parts and vehicles attract a 25% tariff, albeit goods covered under the USMCA agreement are exempt, and cars from countries South Korea and Japan face 15% tariffs. Trump is also targeting 200% tariffs for pharmaceutical imports, however, this would only come into effect after 18 months depending on whether there was sufficient reshoring to the US.

Duties collected from USA imports have risen sharply from <US10b per month (from 2015 to Q1 2025) to cUS$27b in June-25. This figure is likely to rise post 1 August

2025 tariff imposition. Whilst this goes some way to offset the cUS$2tr annual fiscal deficit, it is likely to be borne by a combination of consumers (who will have to pay more), corporates (intermediaries / retailers sacrificing profits), and the manufacturers (from the source country).

Duties collected from U.S. imports, monthly

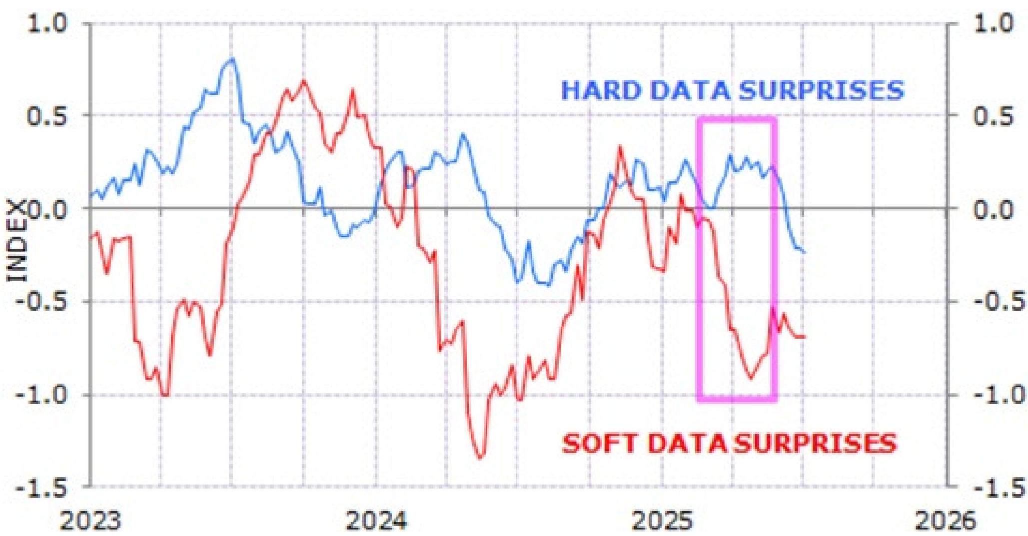


Source: Treasury Department

While sentiment and survey data have been soft, hard data thus far has surprised to the upside. In our view, the hard data is yet to reflect the tariffs, given they have been delayed until now and there was significant pull forward of demand.

As such, we still expect US inflation to tick up and US corporates to signal weaker demand for the balance of 2025.

US Hart vs Soft Data Surprises



Source: Minack Advisors

#2 Reporting season expectations

Consensus is currently forecasting -2% and +5% EPS growth in FY25 and FY26 respectively.

Overall FY26 EPS earnings have been revised -3% over the last 3 months, most notably in energy, materials and consumer discretionary, which is not surprising given they are conceivably most impacted by tariffs. Industrials, communications and real estate have seen near neutral impacts.

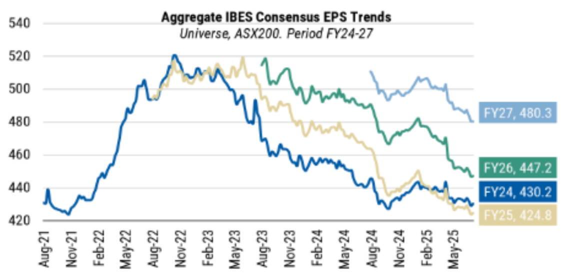
We expect Australian housing to show signs of green shoots, particularly in Victoria, as consumer confidence improves on the back of RBA rate cuts, albeit affordability remains challenged.

We also expect better clarity around how Australian corporates intend to navigate tariff impacts. Thus far there have been wide ranging intentions with respect to diversification of supply chains and pricing actions, depending on 1) source of manufacturing; 2) market share within the product segment; and 3) relativity of market share compared to competitors.

Our largest sector skews in the portfolio are underweight financials and overweight consumer staples, communication services, and materials.

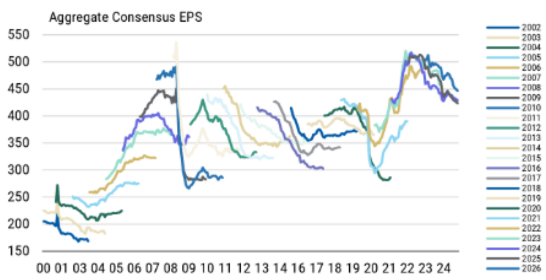
Earnings – Stuck In The Muddle

Consensus aggregate EPS trends for FY24 through FY27



Source: RIMES, IBES, Morgan Stanley Research. Data as at July 11, 2025

Historical aggregate annual consensus EPS trends



Source: RIMES, IBES, Morgan Stanley Research. Data as at July 11, 2025

1- and 3-month Consensus EPS Revisions for FY25/26

	Weighted Average EPS Revisions			
	2025E		2026E	
S&P/ASX 200	1M	3M	1M	3M
Sector				
Energy	0.5%	-14.0%	1.8%	-9.9%
Materials	-0.9%	-1.7%	-1.9%	-4.9%
Industrials	-0.5%	-1.0%	-0.2%	0.0%
Consumer Discretionary	-0.1%	-4.1%	-0.2%	-4.4%
Consumer Staples	0.2%	-1.4%	-0.4%	-1.9%
Health Care	-0.2%	-0.2%	-0.5%	-0.6%
Financials	0.4%	0.0%	0.2%	-1.7%
Information Technology	1.1%	0.6%	2.0%	-1.0%
Communication Services	-0.1%	0.2%	0.1%	0.7%
Utilities	-0.5%	-1.4%	0.6%	-3.5%
Real Estate	-0.1%	-0.3%	-0.2%	-0.5%
Industry Group				
Energy	0.5%	-14.0%	1.8%	-9.9%
Materials	-0.9%	-1.7%	-1.9%	-4.9%
Capital Goods	-0.9%	-0.6%	-1.3%	-3.2%
Commercial Services & Supplies	0.0%	0.1%	0.3%	0.5%
Transportation	-0.9%	-2.3%	-0.4%	0.6%
Automobiles & Components	1.1%	0.8%	1.1%	0.0%
Consumer Durables & Apparel	0.0%	-0.5%	-0.9%	-3.7%
Consumer Services	-0.5%	-11.0%	-0.5%	-9.4%
Retailing	0.0%	-0.1%	-0.1%	-1.4%
Food & Staples Retailing	0.2%	-1.2%	0.0%	-0.7%
Food Beverage & Tobacco	0.1%	-2.2%	-2.2%	-7.2%
Health Care Equipment & Services	-0.4%	-0.4%	0.0%	0.5%
Pharmaceuticals & Biotechnology	-0.1%	-0.1%	-0.8%	-1.1%
Banks	0.0%	-0.3%	0.0%	-1.6%
Diversified Financials	0.5%	0.9%	1.2%	-2.3%
Insurance	3.8%	2.1%	-0.2%	-1.5%
Real Estate	-0.4%	-0.6%	-0.2%	-0.4%
Software & Services	1.3%	0.7%	2.4%	-1.1%
Technology Hardware & Equipment	0.0%	0.0%	0.0%	0.0%
Telecommunication Services	0.0%	0.4%	0.2%	1.5%
Media & Entertainment	-0.2%	-0.4%	0.0%	-1.0%
Utilities	-0.5%	-1.4%	0.6%	-3.5%
S&P/ASX 200	-0.2%	-1.0%	-0.6%	-2.8%

Source: RIMES, IBES, Morgan Stanley Research. Data as at July 11, 2025

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