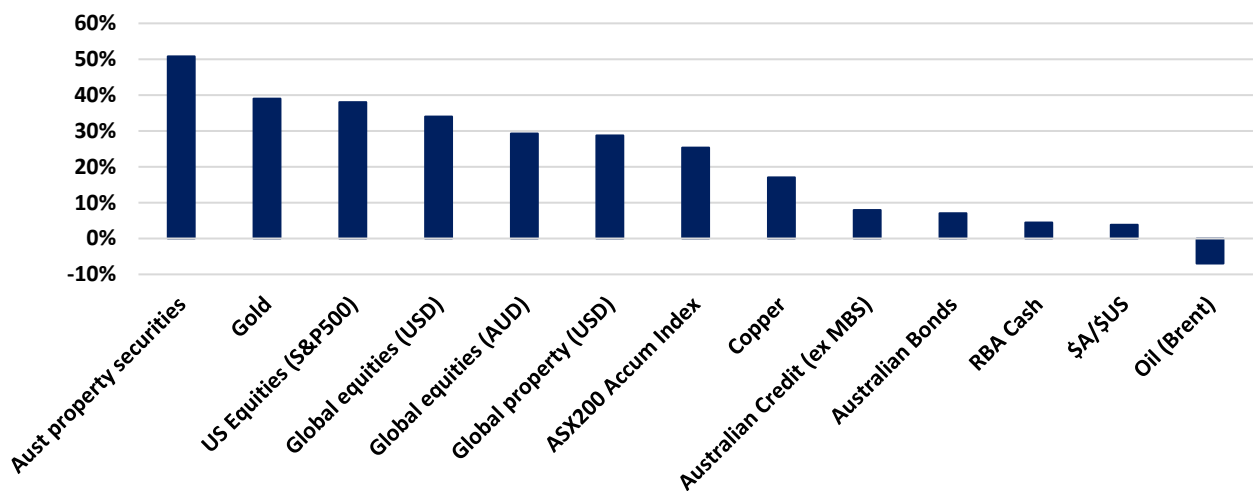


MARKET OUTLOOK... WHAT'S TRUMP'S IN 2025?

Overall, it has been a very positive year for growth assets in 2024, led by strength in the US economy and ongoing market leadership of the “Magnificent 7” technology stocks. Equity markets rallied as the odds of a soft-landing scenario increased with ongoing resilience in US consumer demand, solid productivity gains and moderating inflation being supported by interest rate cuts by the US Federal Reserve.

Asset classes - 1 year return to 31 October 2024



Source: Bloomberg, CLSA, Morgan Stanley, UBS

The recent US election result and anticipated rapid adoption of President-elect Trump’s pro-growth agenda of lower taxes, deregulation, higher tariffs and larger fiscal deficits has further reinforced optimism regarding US economic growth outcomes for (calendar year) CY25 and CY26. It appears that a second term President Trump is in a hurry and will not be meaningfully slowed down, given Republican majorities in the Congress and Senate. While positive for near term growth, these initiatives may add to inflationary pressures and result in “higher for longer” interest rate settings. This has quickly been priced in by bond markets, if not equity markets.

Outside the US, the economic picture is less positive. China, the world’s second largest economy, is experiencing weakening rates of growth as its moribund property sector shows scant signs of life and consumer confidence remains poor. Recent monetary and fiscal support measures look to us to fall short of what is required to meaningfully revive demand.

In Australia, although we have some wonderful global businesses, economically we are more leveraged to domestic drivers and a weakening China story than the stronger US economic thematic. Domestic economic conditions are, and likely will continue to be weak. Our reliance on increasingly expensive housing construction, lattes and public service employment result in poor productivity and real growth outcomes. The ASX200 index concentration in banks and resources means that earnings-per-share (EPS) growth for (fiscal year) FY25 is now likely to be flat to down on FY24 with modest growth anticipated in FY26. Share market strength has been driven by price-earnings (PE) multiple expansion rather than earnings growth, resulting in historically stretched valuation metrics and an arguably complacent assessment of embedded risks.

Overall, much of the good news anticipated for CY25 appears priced into market expectations and investors should expect much more muted capital returns and flat or lower income in the year ahead.



The detail is in the following pages, but in brief our outlook is for the following:

Economy

- **Domestic** – GDP growth to remain at or below 2% in CY25 as the lagged impact of higher interest rates and weakening consumer spending continue to bite. Unemployment to edge up towards 4.5% and inflation to moderate but remain above RBA's 2% to 3% target band. RBA to cut by between 25 to 50bp (ie 0.25-5%) but remain on slightly restrictive settings compared to "neutral rates" of 3.5%.
- **Global** – US technology led GDP growth to be extended by Trump's pro-growth agenda. Inflation and US interest rates to remain higher for longer with 75 to 100bp of cuts expected in CY25. China's growth rate to continue to decelerate to mid 4% and growth initiatives to be targeted at improving consumer demand and stabilising the property market. Higher US tariffs are likely to be a further headwind. The Eurozone to continue to lag despite European Central Bank (ECB) interest rate cuts due to structural productivity issues.

Corporate earnings

- **ASX200 FY25 market earnings expected to be flat to down on FY24 with low growth anticipated in FY26. Consensus currently expects 0.8% EPS growth in FY25 and has been progressively downgraded over the last few months.** The Australian market will be impacted by 3 significant factors:
 - 1) the significant weighting to the Bank sector which is anticipated to have flat earnings due to a combination of anaemic credit growth, higher costs, increased competition, and a tick up in bad debts;
 - 2) Margin pressures for many businesses as rising costs are less able to be passed on to a weakening consumer; and
 - 3) potential weaknesses in commodity prices, notably iron ore, weighing on Resource company earnings. Commodity price fluctuations are volatile and heavily dependent on China policy and economic conditions.

Investment income

- **Dividends – The overall level of market dividends is expected to be slightly down in FY25 from FY24.** As noted, overall earnings growth is expected to be flat with the high yielding, major resource companies (BHP, RIO, FMG) expected to be materially lower due to lower realised iron ore prices. Given that the large resource names accounted for around 30% of FY24 market yield, it will be difficult to make up this shortfall from earnings growth in lower yielding sectors.
- **Cash, Fixed Income & Credit – RBA to hold the cash rates at 4.35% until well into CY25 (say May) with between 25bp and 50bp of cuts implemented by end of CY25.** The Australian 10-year bond yield is seen as having a fair value in the low 4% range although there is the potential for it to trade above this level if higher inflation and expansionary fiscal settings remain in place. Corporate credit fundamentals remain sound.

Market outlook

- **Equities** – trading on high valuation multiples (such as price to earnings) versus long-term averages, particularly given relatively low near-term earnings growth. In our view this leaves little buffer to absorb adverse developments.
- **Fixed Income** – We believe the outlook for Fixed Income returns looks reasonable as yields are at more sustainable levels and provide a degree of income support and diversification for clients wishing to moderate portfolio volatility.



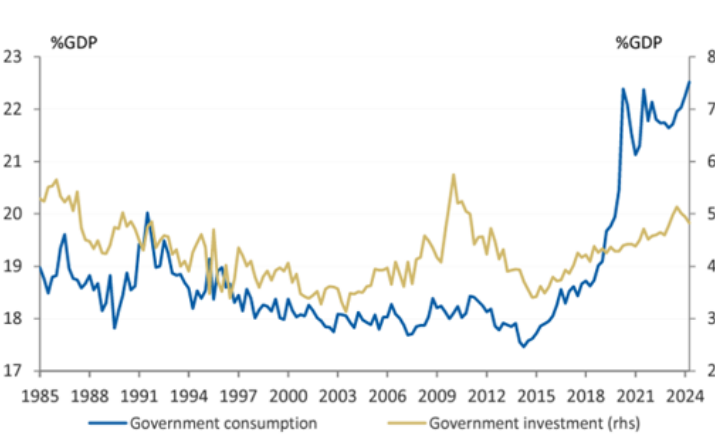
ECONOMIC OUTLOOK

Australia

Australian GDP growth continued to decelerate to 32-year lows (ex-COVID) in 2024 despite ongoing elevated migration and a significant growth in public spending. The total public sector wages bill in 23/24 rose by a massive 8% with total public demand increasing at an even great rate when public subsidies and investment are included.

Australian GDP growth continued to slow in 2024

Rising government spending has provided significant support to the economy



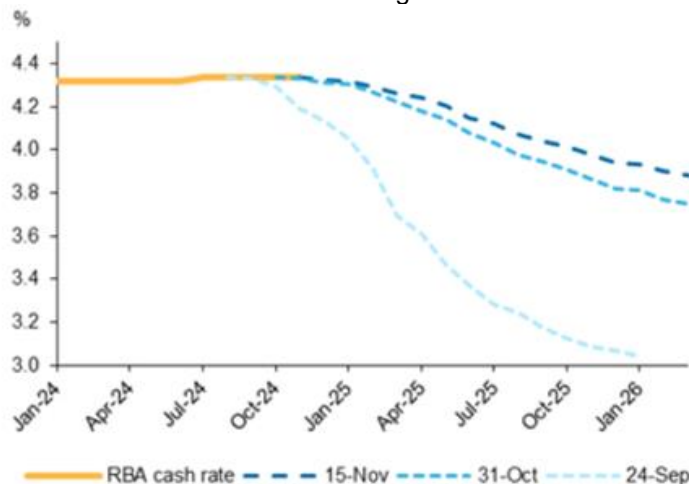
Source: ABS, RBA, Macquarie Strategy

Source: Haver, Morgan Stanley

It is unlikely that fiscal restraint will be evident in advance of an election looming in 1H25 (likely May), however an acceleration of GDP growth in CY25 will require an improvement in consumer and business confidence creating an uptick in private demand and investment. Moreover, real GDP growth looks increasingly anaemic considering Australia's very poor delivery on productivity. Not unsurprisingly, our increasingly services-reliant (and particularly public service) economy is not getting any more efficient.

While the outlook for inflation has improved, and it is not materially above the RBA targeted band of 2% to 3%, we do not see the RBA as riding to the rescue with an aggressive rate cutting cycle. As the RBA noted in its most recent Statement of Monetary Policy comments, strong public demand is supporting overall growth and the labour market. This is likely to result in a "higher for longer" interest rate cycle and add to the increasing strain on consumer demand, particularly those in the mortgage belt cohort who have been induced into funding property at an ever increasing multiple of earnings.

The chart below (as at 15th November) shows how quickly the market has pushed out the timing of the first rate cut in Australia given the US election result and strong domestic labour market numbers.



Source: Macquarie



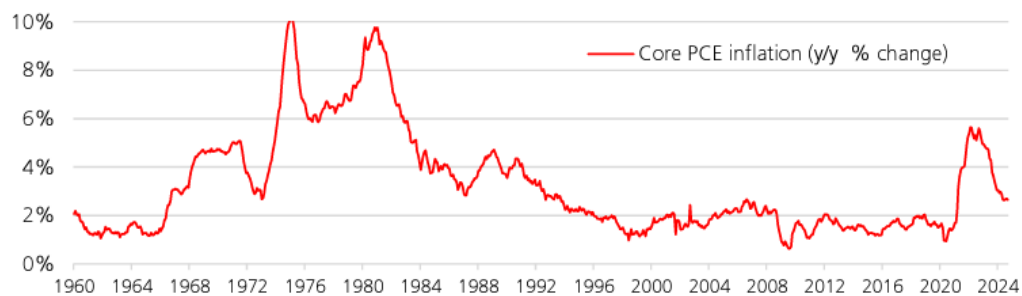
Our expectations for CY25 are therefore that¹:

- The RBA cutting cycle lags other Central Banks and is relative shallow. We think the first 25bp cut will not be until May 25 with the possibility of only one further cut in CY25.
- Public spending is likely to remain elevated through until the Federal Election, however it is difficult to see it increasing from current levels as the Labour government will likely seek to evidence prudent economic management and not be seen as exacerbating cost of living pressures.
- Albeit at a lower level, migration will likely continue to support overall GDP, at or below the 2% level, although per capita GDP will remain at below trend levels.
- Inflation is likely to continue to moderate but remain above the 2% to 3% target band.
- Unemployment to push towards 4.5%.
- Australia to be relatively unaffected by 'Trump policies' considering modest net trade position and political ties.
- Iron ore prices likely to stabilise below USD100/tonne as China's property market remains weak and Chinese domestic stimulus targets less iron ore intensive industries such as manufacturing and consumer goods. The potential for US tariffs on China is also likely to impact negatively.
- House prices to be at risk of potential declines as conditions deteriorate, however, of course, history would show that this is a highly risky prediction. In any case, we think conditions will be soft for credit growth (and by extension bank revenues in a competitive market environment).
- Increasing divergence between younger and older demographics. Younger Australians are being impacted heavily by inflation in services, particularly rents, while older Aussies are facing less mortgage stress and are receiving higher returns on savings.

United States

The US has performed strongly over the course of 2024 with GDP growth just below 3% and robust levels of productivity. This has translated into strong equity market performance, dominated by the earnings growth and share price performance of the Magnificent 7 large cap technology stocks – Apple, Alphabet, Amazon, Nvidia, Microsoft, Meta and Tesla.

The US election process and success of President-elect Trump and the Republican party has further reinforced already strong markets. Trump's policy platform is undoubtedly pro US growth and inflationary. The combination of extended tax cuts, significant tariffs and targeted fiscal support are likely to keep inflation higher and reduce the pace of interest rate cuts. The US Federal Reserve has arguably done an excellent job in helping engineer a moderation of inflation and an economic growth rate consistent with a soft landing. As Fed Chair Jerome Powell has already indicated, further US interest rate cuts will be dependent on fiscal policy and economic data. With inflation still above the Fed's target, we feel that inflation could well stabilise and potentially trend higher, thereby resulting in "higher for longer" interest rates in the US.



Source: Haver, UBS

¹ This publication has been prepared by Equity Trustees to provide you with general information only. In preparing this information, we did not consider the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information.



The combination of Trump policies is also positive for the USD. While this will impact on individual sectors and stocks in different ways, we note that it will be a positive tailwind for many high-quality USD earning companies in our domestic portfolios such as Macquarie Bank, Computershare, Block, Resmed and CSL.

One significant area of uncertainty lies in the personnel choices made by Trump in staffing his administration, together with the behaviour of the Republican majority in Congress and the Senate in passing legislation. The elevation of Elon Musk and many other supporters with no or limited political experience is a risk. For example, Robert Kennedy Jr has been nominated as the Head of Department of Health and Human Services which has already seen markets discount large pharma stocks given RFK Jr's previously espoused views.

Overall, we believe that US growth will be resilient through CY25 and CY26, although further gains will be constrained by ongoing increases in the public debt level and increasingly restrictive policy options.

Given the already high valuation multiples reflected in US equity markets, the recent "Trump rally" reflects an optimistic view of the path ahead. Elevated valuations leave little scope for adverse surprise or disappointment. It seems unlikely that policy settings will provide the catalyst for a market pullback. However, risks continue to abound in the highly visible geopolitical tensions in the Middle East, Europe and China (Taiwan and South China Sea).

US equity market Price-Earnings (PE) valuations have re-rated relative to the Rest of the World (ROW)

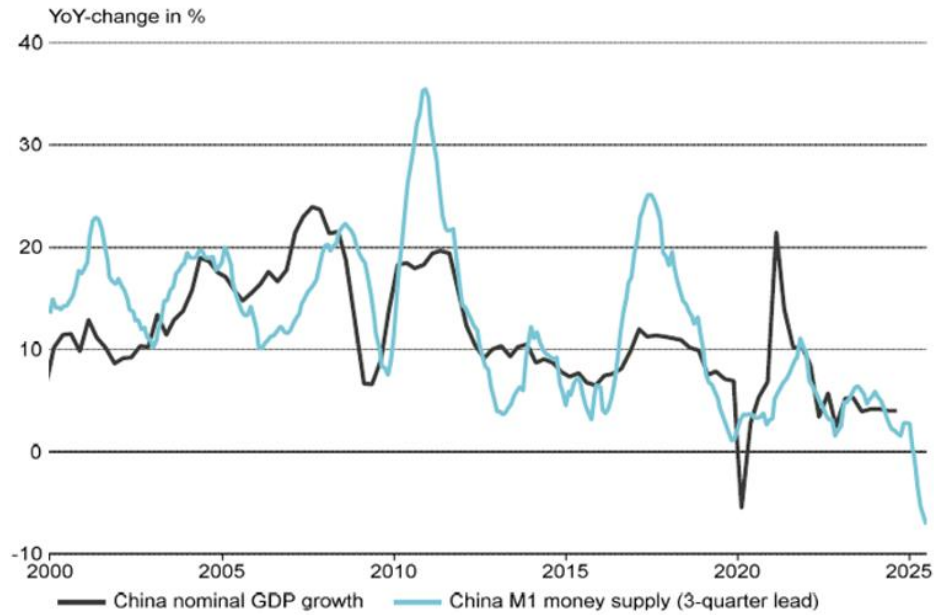


Source: BCO Research 2024, Bloomberg

China

China's rate of economic growth continues to decelerate in 2024 to below 5% due to several headwinds, most notably a weak property market, declining consumer confidence and high levels of local government indebtedness.

The Chinese authorities responded to these concerns in September 24 with a raft of monetary and fiscal measures including a reduction in interest rates, debt forgiveness at the local level and relaxation on rules involving property ownership. While significant, the market believes (and we would agree on balance) that these initiatives will not be sufficient to arrest the negative momentum, with GDP growth in CY25 likely to fall to somewhere between 4% and 4.5%.



Source: LSEG, Vontobel, October 25, 2024

Donald Trump went into the US election with a policy platform including imposing tariffs of up to 60% on Chinese goods. If this were to be implemented it would be a further headwind for Chinese growth, although arguably somewhat ameliorated to the extent that exports are able to be diverted to non-US markets.

As Australia's largest trading partner, the health of the Chinese economy (as well as its trade/regulatory policy) has a significant impact on the Australian economy with sectors such as resources highly leveraged to Chinese demand. In our view, Chinese stimulus and growth outcomes will be less "iron ore" intensive and as such we are somewhat cautious on the medium outlook for that market.

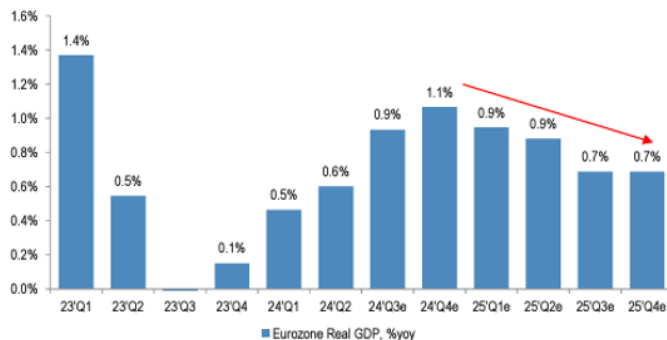
Europe/UK

The European region has experienced a similar pattern to that of many developed markets, such as that described for Australia and the US above, albeit that economic conditions have been weaker and inflation higher in many countries (the UK for example). Real GDP growth in the Eurozone has also been impacted by regional and geopolitical factors.

Key European markets such as Germany are forecast to have very low levels of economic growth as energy security and labour market issues exacerbate already weak operating and manufacturing conditions. Public sector balance sheets are also weak in many key countries which limits policy responses.

The threat of higher US tariffs is a further headwind likely to be endured in CY25 and CY26. While the European Central Bank's ongoing easing cycle will provide some support, it will likely be sufficient to drive upside to broader economic fundamentals and asset prices.

Eurozone Real GDP growth projections



Source: J.P. Morgan estimates.



Source: Macrobond, Macquarie Macro Strategy



OUTLOOK FOR INCOME

Dividend Income

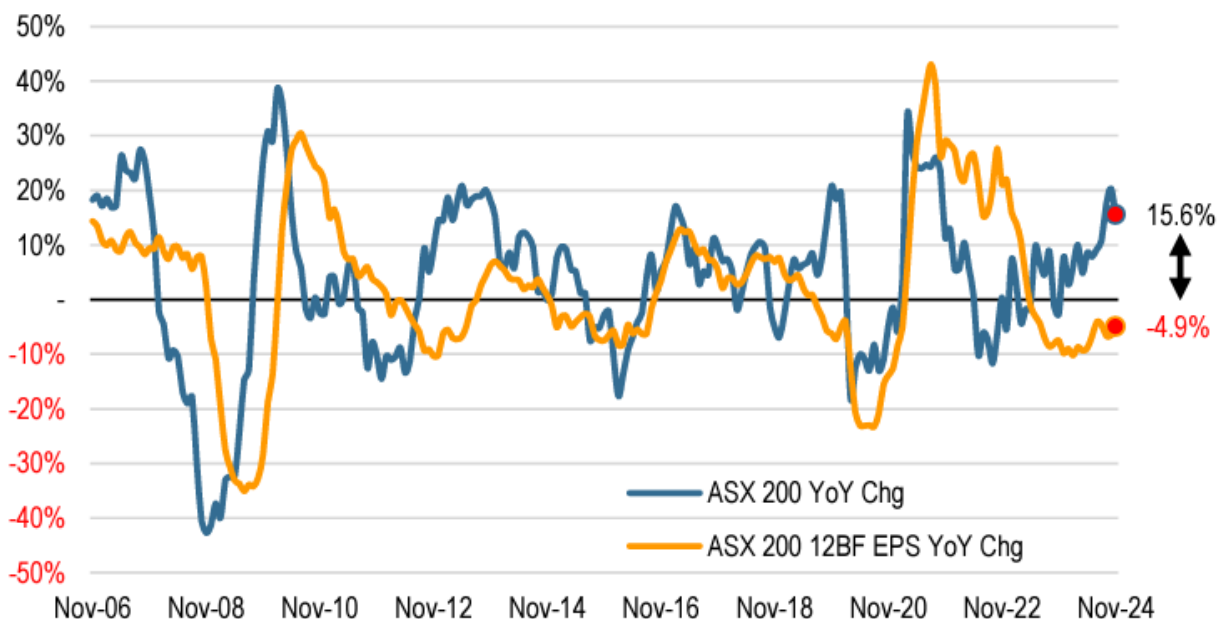
One of the underlying principles of the Equity Trustee investment philosophy is to target maintaining and growing the real value of capital while also generating income that meets the needs of beneficiaries. In addition, several of our funds are explicitly managed for tax exempt investors and, as such, value post tax returns and income.

This focus means we will look to target income streams, particularly franked Australian equity dividends, where prudent to do so when evaluated on a total after tax return perspective. Global equities (particularly the US) tend to have much lower yields with capital growth comprising a much higher proportion of overall asset class returns. Consequently, the commentary below focuses predominantly on Australian equities.

Our Quality at a Reasonable Price (QuARP) investment framework is conducive to generating a solid and growing investment yield due to its focus on quality characteristics such as strong and growing cashflows, balance sheet strength, industry positioning and management quality. This approach has traditionally led to a (franked) dividend yield at or above the yield of the broader domestic market.

During CY24, the domestic equity market has risen strongly. However, the same cannot be said of corporate earnings forecasts, which have fallen over the same period. Dividend income is of course determined not by share prices but are rather a function of corporate earnings and payout ratios (the proportion of earnings that companies elect to pay to shareholders as a dividend).

ASX200 rolling 12-month price change vs Earnings-per-Share (EPS) revision.

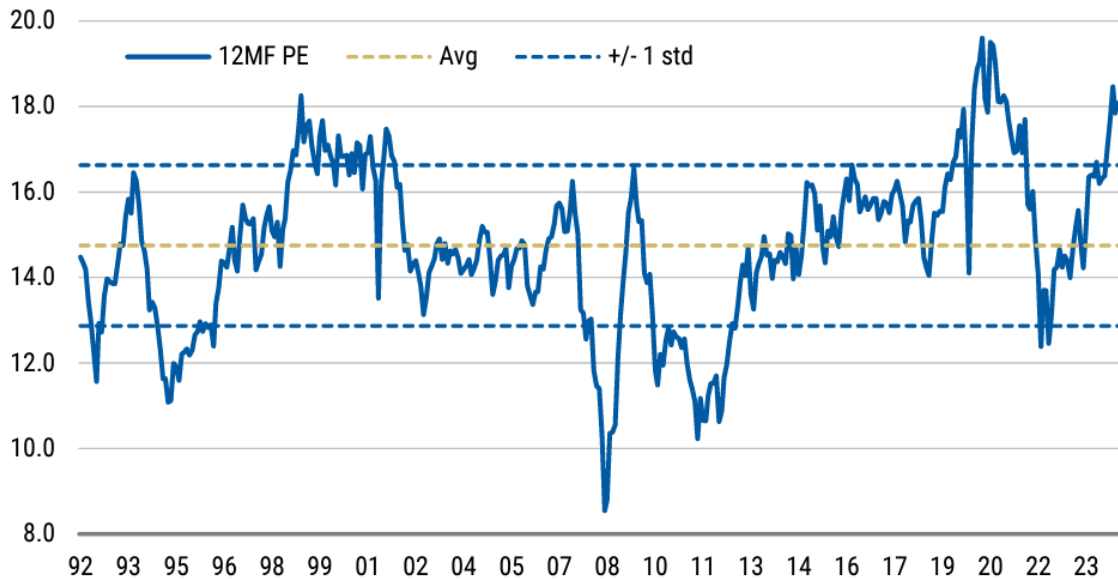


Source: JPMorgan, Bloomberg Finance LP

In simple terms, more than 100% of the Australian equity market gains over the last 12 months has been due to “multiple expansion”- investors paying more for the same level of earnings. Moreover, future period earnings forecasts continue to be downgraded. Current expectations are that aggregate earnings in FY25 for the ASX200 basket of stocks will be flat to slightly down relative to FY24.

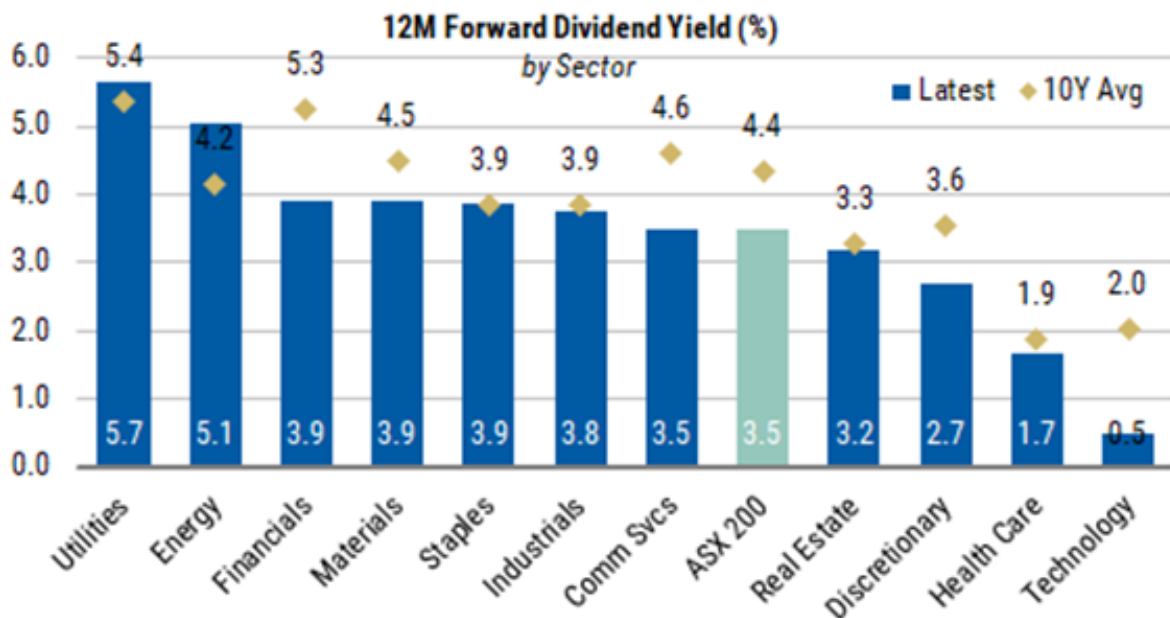


The ASX200 Market Price-earnings (PE) ratio has re-rated to 18x and looks stretched.



Source: RIMES, IBES, Morgan Stanley Research. Data as of November 20, 2024.

The composition of earnings delivery across ASX market sectors is also a concern for dividend levels in FY25. In recent years, aggregate dividend payments in the Australian market have been dominated by the major banks and large resource companies. These sectors representing a large (~50%) proportion of the index and have also been paying an above market yield. However, the yield on offer in both sectors is now lower than it historically has been.



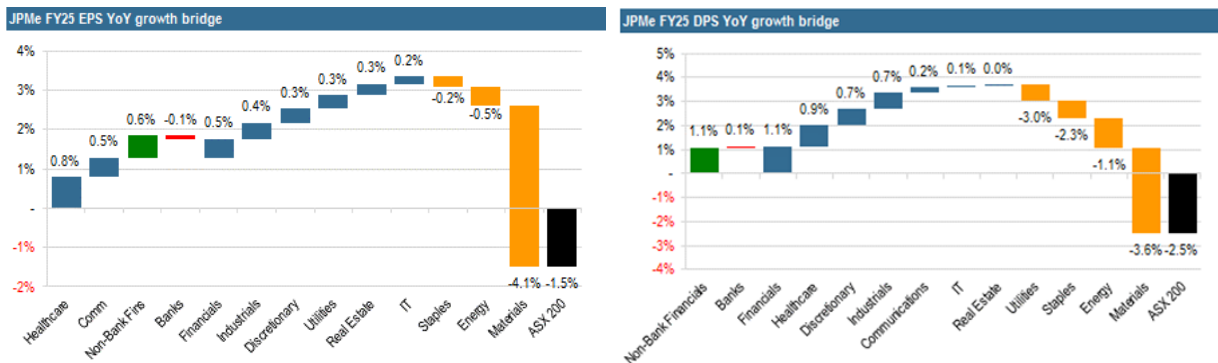
Source: Morgan Stanley, RIMES, IBES

The outlook for both earnings (EPS) and dividends (DPS) for the domestic market is therefore heavily weighted to the performance of banks and resources. The charts below decompose the drivers of earnings and dividend growth for FY25.



As can be seen, bank earnings are anticipated to be broadly flat due to a combination of modest credit growth, ongoing competition restricting net interest margins, ongoing cost pressures and already cyclically low bad debt provisions.

The primary driver of both earnings and dividends for the domestic market is the materials sector, reflecting the pullback in earnings and cashflows for BHP, RIO and Fortescue due to low iron ore prices. These companies remain highly profitable, cash generative business. It is simply that iron ore prices have continued to retrace from previous cyclical highs, largely due to lower demand from China for the reasons referenced earlier.

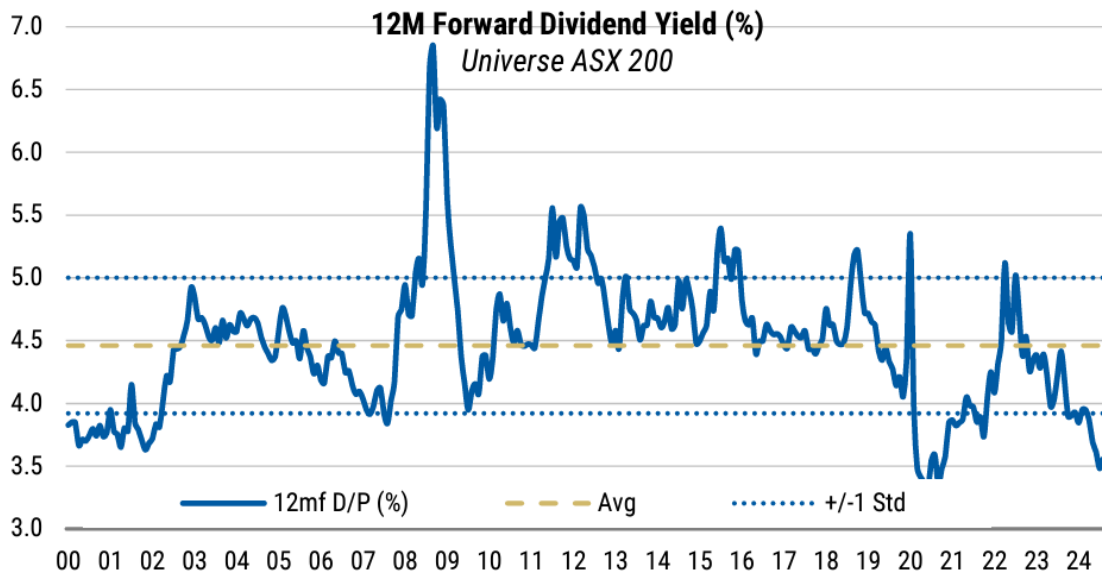


Source: JPMorgan

As can be seen, many sectors of the Australian market are expected to deliver earnings and dividend growth going forward. However, they are not of sufficient scale to compensate for the impact of the materials and energy sectors.

The impact of these factors is such that the Australian equity markets 12-month forward dividend yield is ~3.4%, which is well below the 10-year average.

ASX 200 Consensus 12 Month Forward dividend yield at 3.4% vs the long-term average of 4.5%

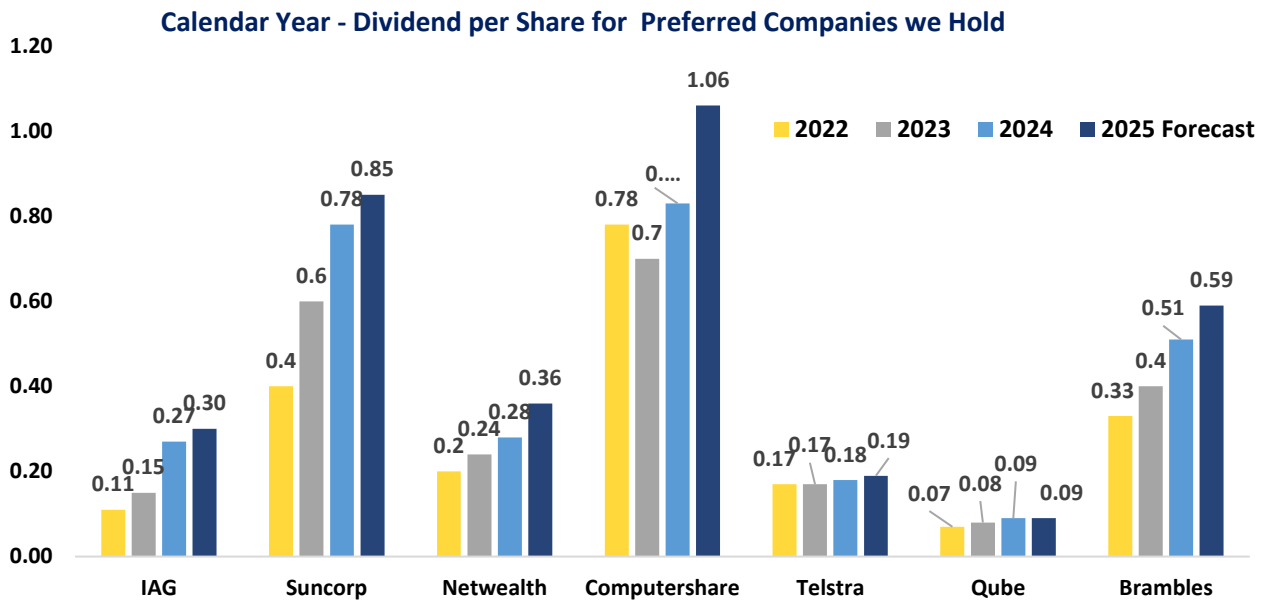


Source: RIMES, Morgan Stanley Research. Data as of November 20, 2024.

As noted above, a core attribute of our QuARP investment philosophy is to identify companies with solid and *growing* cashflows that should therefore translate into sustainably higher dividend streams. In the current market environment, we see significant relative value appeal in certain segments of the market which have slightly lower current yields than the market average but higher quality and growing cashflows.



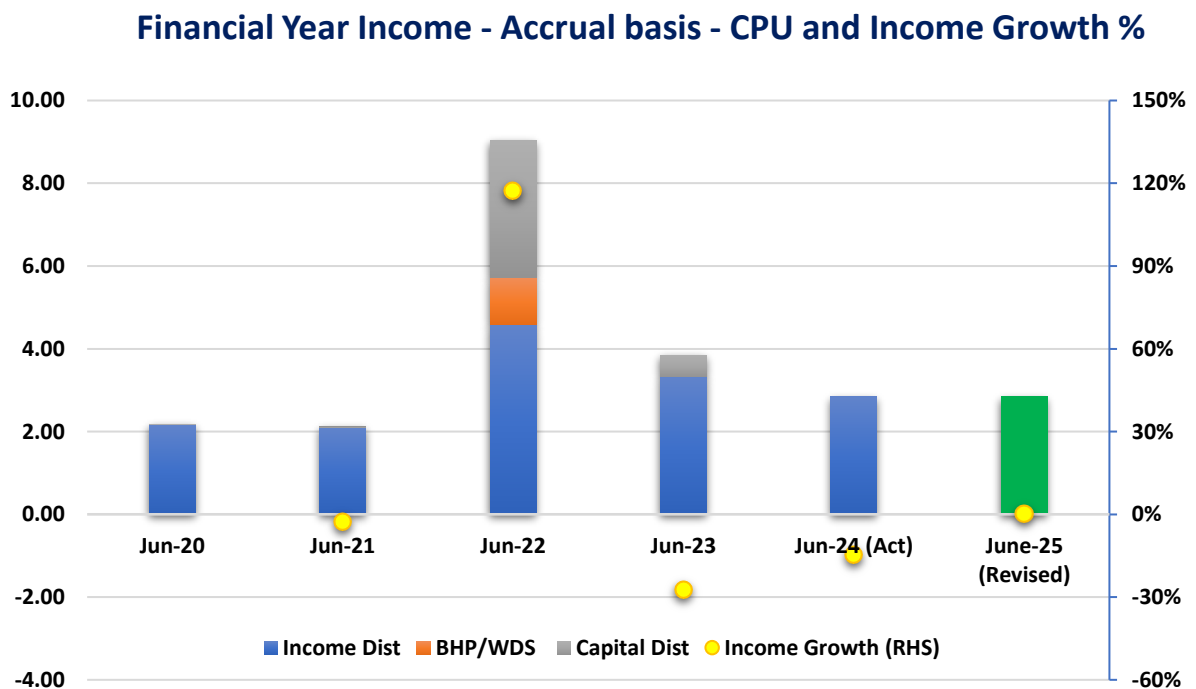
Examples of portfolio holdings which fit this description are IAG, Suncorp, Netwealth, Computershare and Brambles.



Source: Equity Trustees, Factset

Distribution history and forecasts for the EQT Tax Aware Australian Equity Fund are set out below.

Income and Capital Distributions for EQT Tax Aware Australian Equity Fund (DPU) – Accruals basis



Source: Equity Trustees



Cash, Fixed Income and Credit

Cash

Cash rate futures imply a target cash rate of 3.85% by the end of 2025. Assuming the RBA target cash rate averages 4% next year, we can expect the EQT Cash Management Fund to deliver an average gross return of circa. 4.5%.

Fixed Income

The EQT Diversified Fixed Income Fund is expected to deliver a gross return of circa 4.75% over the next 12 months.

The following table includes a range of potential return outcomes given different interest rate scenarios:

INTEREST RATE SCENARIO	GROSS RETURN
Yields fall 50bps	7.25%
Yields fall 25bps	6.00%
Yields unchanged	4.75%
Yields rise 25bps	3.50%
Yields rise 50bps	2.25%

Source: Equity Trustees

Credit

The Spectrum Strategic Income Fund outlook remains positive as investors look to the U.S. for guidance post Trump's Presidential victory. Corporate gearing remains conservative, while robust economic growth and strong earnings, supporting the rebound in coverage ratios, is fuelling the rally in credit spreads. The outlook remains positive despite the surfeit of recent issuance. Most new issues are being well received by credit investors, and credit spreads have compressed due strong investor demand.

The expected outlook for returns over the coming year should see net returns remain in the range of 6.2% to 6.5% based on current spreads and no change of rates by the RBA. Further spread compression could see net returns in the order of 7%. A widening of credit spreads could see net returns fall to around 6% before recovering. It is expected that income will remain in the range between 4.80% to 5.2%.

SUMMARY

In recent months, financial markets have regularly reached record highs as the combination of moderating inflation, fiscal stimulus and an extended period of monetary expansion continued to fuel asset prices. The US economy does appear robust, with solid productivity growth enabling resilient labour markets, maintenance of margins and solid earnings growth. Trump 2.0 policies are likely to be market friendly on the whole, however it will also arguably be a period of greater policy volatility and uncertainty.

Outside of the US, the picture is far more subdued with China and the Eurozone in decelerating or low economic growth territory. A combination of weaker consumer sentiment and constrained public sector balance sheets is likely to be a constraint going forward.

In Australia, we face several challenges in generating real economic growth due to a combination of cumulative policy decisions (on both sides of politics) and exogenous factors. Australia has increasingly become a service dominated economy, with an increasing public sector footprint. There are material challenges in reversing these trends. The high and rising cost of energy is one such challenge. Our reliance



on commodities also leaves us exposed to cyclical demand and price swings which are likely to be headwinds in CY25.

Of course, we do have some very strong domestic and global businesses, however in aggregate the outlook for near term earnings growth remains weak. This does not seem consistent with the current level of market optimism and as such we feel that capital returns over the next 1 to 3 years are likely to be more muted than those enjoyed in the last 12 months.

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