EVIDENTIA GROUP

LIS LONSEC INVESTMENT SOLUTIONS

EVIDENTIA PRIVATE

Implemented Portfolios

Portfolio Perspectives

August 2025

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Key Messages for Investors

- The Trump Administration has made progress in trade agreements with major economies including the EU, UK, Japan, South Korea, and a preliminary deal with China to pause the most extreme tariffs.
- These agreements cover about 63% of global GDP (excluding the US), indicating reduced trade policy uncertainty.
- With tariffs now likely to stabilize around current levels we expect softer, but still manageable macroeconomic conditions.
- We are closing our Slight Underweight to Growth assets.
- Valuations do remain stretched, particularly in the US, however, we recognise they can remain so for extended periods. We rely on our active managers and strategic asset allocation to manage potential market volatility amid elevated equity prices.

Tarriff Update

Greater clarity has emerged around the Trump Administration's trade policy endgame. In the past several weeks, the Trump Administration has announced and/or signed trade agreements with the major economies of the European Union (EU), Japan, South Korea and the United Kingdom. It has also achieved agreements with Indonesia, the Philippines, Vietnam and Australia.

A preliminary agreement has been secured with China to pause the most extreme tariffs. While discussions between the US and China continue, the market expects a deal to happen. Including China, this initial cohort of countries represents approximately 63% of global GDP, excluding the US.

The overall assessment is that trade policy uncertainty is falling. While final deals are pending for many other countries and products, it is clearer now that tariffs will likely settle around current levels. A report by Morgan Stanley in May 2025 estimated that the current range of tariffs (which include pre-2024 tariffs, 20% fentanyl tariff, 25% auto-steel-aluminium tariff, 10% reciprocal tariff) results in effective tariffs between 9% and 16% for the vast majority of major economies.

Maintaining tariffs at around 15%, as agreed upon with Japan, South Korea, and the EU, aligns with current tariff levels that are already impacting global supply chains and US consumers.

Macro is hanging in there

Tariffs will be a headwind for economic growth and earnings but, contrary to the announcements on Liberation Day and subsequent escalation, they are no longer at levels that would cause a growth scare or recession.

The key forward-looking indicator we keenly observe is the Services Purchasing Managers Index (PMI) for the Big 4 (US, China, EU and Japan), which collectively make up around 64% of global GDP and whose economies are primarily driven by the services sector.

The Services PMIs have continued to rebound in July, except for China, where it continues to hold above 50, the key demarcation level between expanding and contracting trading conditions. Looking at coincident indicators, global industrial production continues to rebound into 2025. Retail sales in the Big 4 have held mainly steady so far in 2025. We continue to observe that unemployment, while a lagging indicator, underpins the major economies because, if you have a job, you keep spending. Unemployment in the major economies and the Big 4 in particular remains near multi-decade lows in many economies. The recent non-farm payroll figures in the US do suggest job creation is slowing. This is consistent with the headwinds to growth we have observed so far. Further deterioration in the employment situation for the US is a risk we continue to monitor.

These muted economic reactions suggest the early impacts of the Trump Administration's tariff policy will be modest. As such, we now believe that while the tariff policy goals of the Trump Administration will be a headwind for growth, the impacts will be manageable.

Valuations are Challenging

Markets have responded to these developments by pushing higher and stretching valuations further, albeit supported by directionally positive corporate profits. Approximately two-third of the S&P 500 companies have reported June quarter profit results so far. 82% have reported positive profit surprises and 79% of have reported positive revenue surprise. This has supported the sharply improved profit forecasts of the financial analyst community.

Regardless, equity market valuations remain elevated, suggesting at best, modest forward looking returns. History shows that valuations (both high and low) can persist for lengthy periods and often are poor market timing indicators. In the absence of a growth scare, which, as we noted above, is a declining risk, the biggest threat to expensive markets is valuation-based corrections. For these, we rely on our active managers and our strategic asset allocation (SAA) to smooth out this volatility.

Outlook and Positioning

With the risk of an extreme growth scare diminishing as a result of the Trump Administration's tariff policy, we move from being Slightly Underweight Growth assets to now being Neutral. We achieve this by increasing Global Equities from Slightly Underweight to Neutral and increasing Global Equity – Small cap from Slightly Underweight to Neutral. High equity valuations prevent us from taking a more constructive stance on Growth assets. Still, they do not preclude us from participating in further upside within the confines of our SAA. The momentum in markets could always reverse, but we believe the risks are currently balanced.

To fund the move in Growth assets, we reduce Australian Fixed Income from Overweight to Slightly Overweight and reduce Cash from Slightly Overweight to Neutral.

We continue to prefer Australian Fixed Income over Global Fixed Income due to Australia's relatively better fiscal position compared to the US. Also, the Reserve Bank of Australia is likely to cut interest rates faster than the US Federal Reserve, given the tariff-induced headwind to inflation created for US consumers.

Growth Assets	Underweight			N	Overweight		
Australian Equities – Large Cap				●			
Australia Equities - Small Caps			●				
Developed Market Equities – Large Caps			○	●			
Developed Market Equities - Small Caps			○	●			
Emerging Market Equities				●			
Global Listed Property					●		
Global Listed Infrastructure				●			
Growth Alternatives				●			

Defensive Assets	Underweight			N	Overweight		
Australian Bonds					●	○	
Global Bonds			●				
Diversified Income				●			
Defensive Alternatives				●			
Cash				●	○		

Current Position ● Previous Position ○

Growth Assets

Asset Class	Position	Rationale
Australian Equities – Large Caps	Neutral	Australian equity valuations remain stretched and require a re-rating in bank and resource earnings. Earnings season was volatile and confirmed our view for a lacklustre growth outlook. Market growth expectations, in aggregate have been trending lower over the past year. Inflation is receding, paving the way for Reserve Bank of Australia (RBA) cuts.
Australian Equities – Small Caps	Slight Underweight	China continues to underwhelm economically as hopes for a rapid, stimulus led recovery have faded. This should disproportionately impact junior miners who make up a large portion of the Small Caps sector vs Large Caps.
Developed Market Equities – Large Caps	Neutral	The Trump Administration's tariff policies are a headwind for growth, but the impacts will be manageable. Economic indicators have moderated year to date, but fears of a severe growth scare are diminishing.
Developed Market Equities – Small Caps	Neutral	Valuations remain somewhat attractive. With US companies forming 63% of the small cap index, tariff policy uncertainty should fade as a headwind.
Emerging Market Equities	Neutral	Emerging market equities are dominated by China, where a policy shift to support consumption and an economy that has recalibrated to be less dependent on the US since 2018 are supported by compelling valuations. However, absent a catalyst, we remain Neutral.
Global Listed Property	Slight Overweight	Attractive subsector valuations warrant an active approach to this sector. Office sector remaining structurally challenged but rental growth and healthy fundamentals are appearing in other areas of the sector (age care, data management, supply chains).
Global Listed Infrastructure	Neutral	With key policy rates lower than this time last year, a key headwind to the sector is gone. Valuations are attractive versus long term averages.
Growth Alternatives	Neutral	Some improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Preference for global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions

Defensive Assets

Asset Class	Position	Rationale
Australian Bonds	Slight Overweight	Australian bond yields offer good value and provide safety from overseas volatility. Positive supply/demand dynamics further supported by a budget deficit likely to be less than government forecasts.
Global Bonds	Slight Underweight	US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
Diversified Income	Neutral	Floating rate public credit still offers relatively attractive yields.
Conservative Alternatives	Neutral	Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash	Neutral	Cash provides optionality during this volatile period.