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Portfolio Perspectives

September 2025

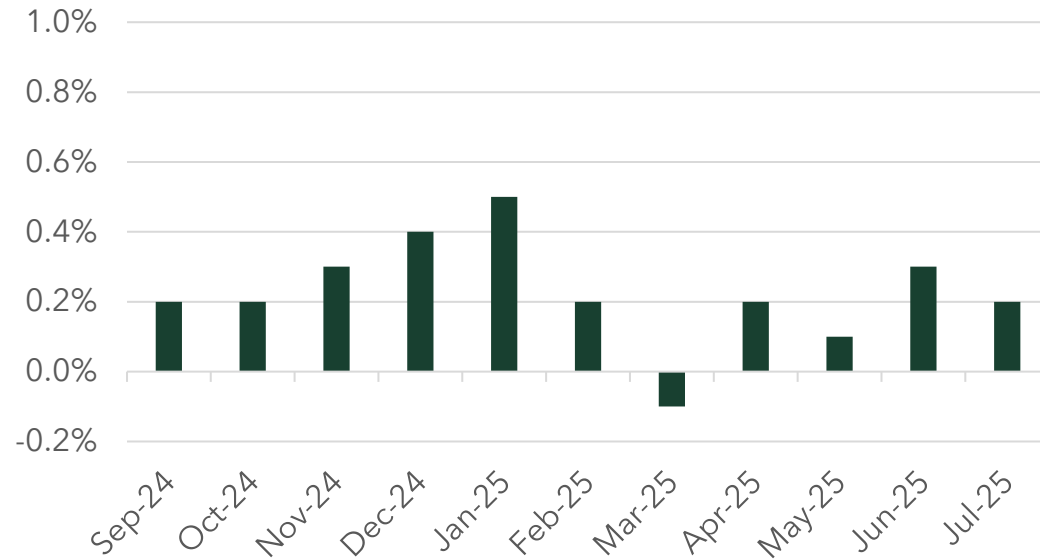
Key Messages for Investors

- US corporates have so far shouldered most of the costs associated with tariffs.
- While earnings have come down, the Q2 earnings season impressed, with results better than many feared.
- Companies have so far avoided the worst impact of tariffs, helped by three main factors: adoption of a range of mitigation strategies, Artificial Intelligence (AI) activity and a softer US Dollar (USD).
- It's likely that the US consumer will start to pick up a larger share of tariff costs over the coming quarters, but they too, are starting on a solid footing.
- US consumers have been resilient to-date, and with real disposable incomes starting to rise and further rate cuts likely, they should be able to weather the impact so long as they remain employed.
- Policy cross currents continue to complicate the outlook and valuations remain stretched.
- Risks remain broadly balanced from here, with risks to both the upside and downside. Remain close to benchmark.

Who's picking up the tariff bill?

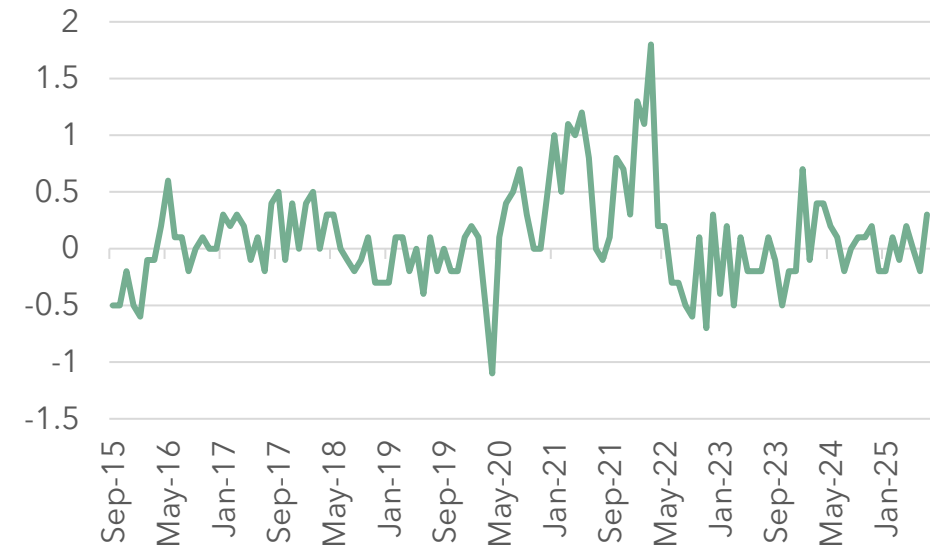
US Corporates have so far shouldered most of the costs associated with tariffs

Monthly Change in US CPI %



- The pass-through to consumer prices to-date has been limited, with little sign of tariff related inflation in the May, June or July numbers aside from a few select goods such as toys and appliances.
- The US consumer does not year appear to be shouldering a material load in terms of tariff costs.

Import prices for manufactured goods

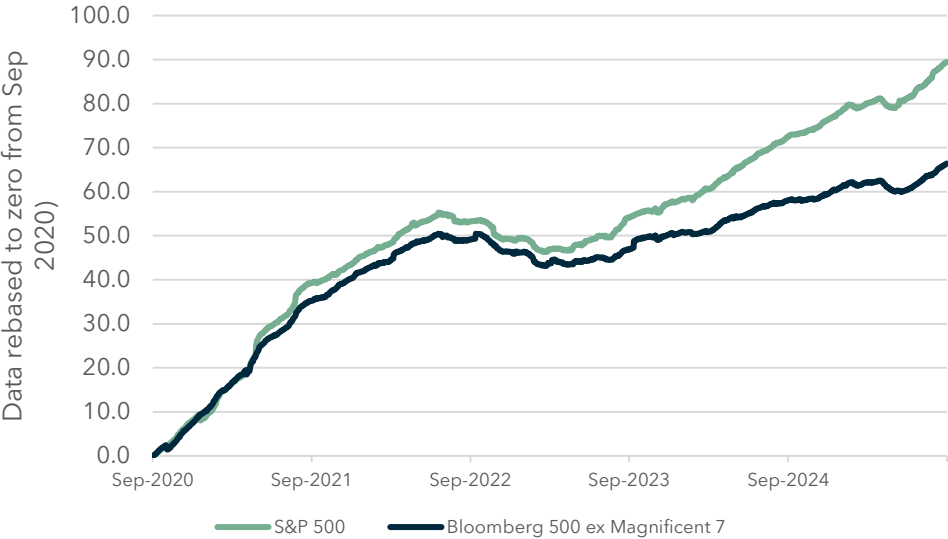


- Nor do foreign suppliers.
- US import prices for manufactured goods have not changed materially. If foreign firms were bearing the costs, you would expect to see price reductions for imported goods.
- If the US consumer and foreign producers are not bearing the cost of tariffs, then who is? It must be US corporates.

US corporates show resilience

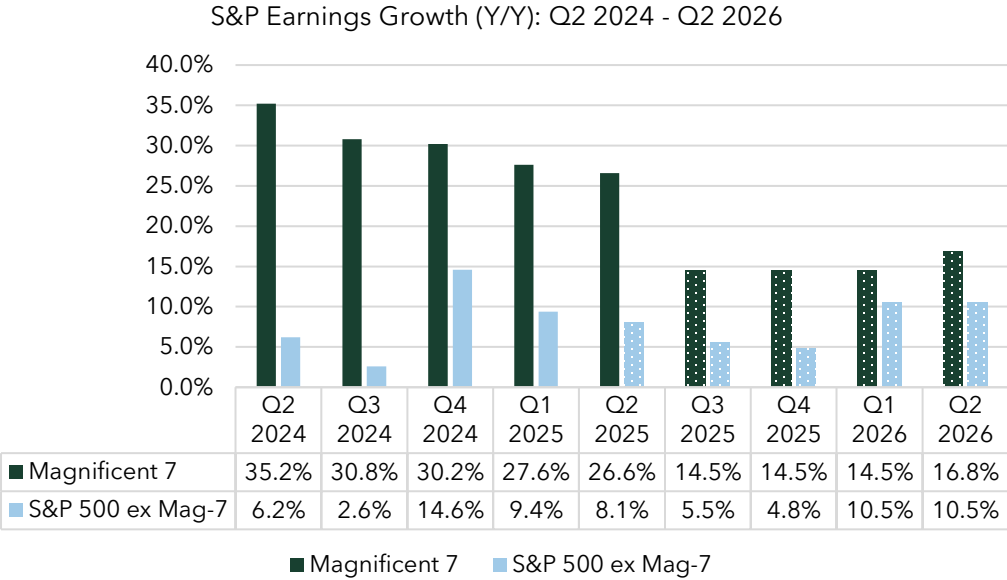
The worst impacts of tariff policy have so far been avoided

Index Earnings Per Share - 12 Months forward



- Despite so far bearing most of the tariff impact, US corporates have shown earnings resilience as the worst impacts appear to have (so far) been avoided.
- While earnings have come down in Q2 as US corporates absorb the costs of tariffs, they remain at healthy levels.
- Three main factors have underpinned the strength in Q2 earnings: companies have employed a diverse range of tariff mitigation strategies, AI activity and a softer USD.

Earnings have come down in Q2 but remain healthy



- Mitigation strategies have been varied and included tighter cost controls, inventory build-ups, supply chain diversification and selective price increases. The breadth and width of these approaches has helped shield margins and, so-far, contained broader economic spillovers.
- The Mag 7 have continued to lead the way on the back of AI driven demand.
- Outside of the Mag 7 earnings growth is expected to broaden out across sectors in the new year, albeit unevenly.

The US consumer also holding steadfast

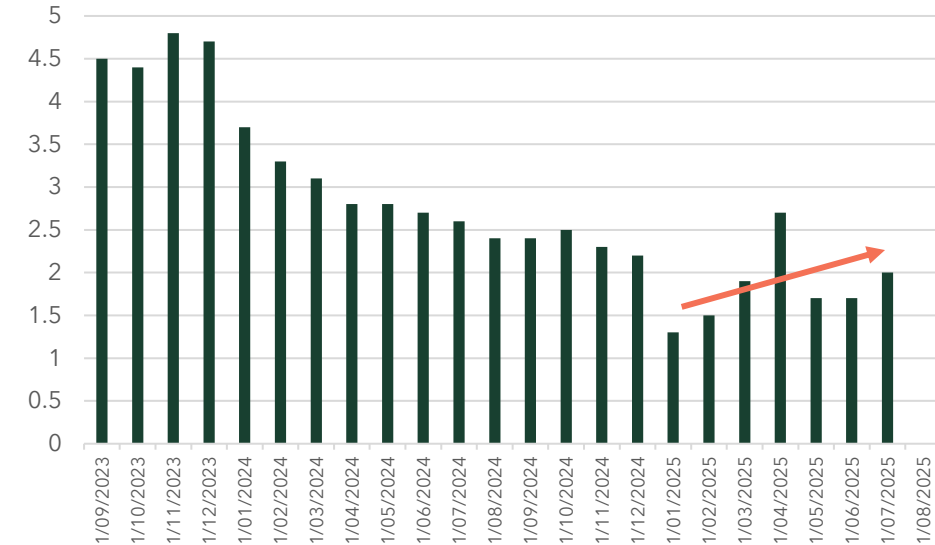
But is expected to pick up more of the tariff costs going forward

Johnson Redbook Retail Sales Index (Weekly)



- Spending data confirms consumers have been resilient to-date.
- The Johnson Redbook Retail Sales Index has not shown any material sign of weakening since tariffs were implemented, if anything, slight improvements have been observed in recent weeks.
- Tariff impacts are expected to be felt more keenly in the second half, likely late September or December quarter and into next year.
- It is also likely that the US consumer will start to pick up a larger share of the tariff burden as US corporates start to pass on more costs.

US disposable real income (SA, YOY %)



- US real disposable income has steadied and appears now to be rising, up 2% YoY in July. Wages and salaries rose 0.6% month-on-month in June while savings rates have steadied.
- With more disposable income and the prospect of further rate cuts from the Fed, consumers should have additional funds in their wallets to underpin spending.
- Labour markets remain a watchpoint. As we have maintained in prior notes, the key to consumer resilience rests on them staying employed.

Outlook and Positioning

Lean into your strategic asset allocation (SAA) and use active managers during this period of uncertainty

Growth Assets	Underweight			Neutral	Overweight		
Australian Equities - Large Cap				●			
Australian Equities - Small Cap			●				
Developed Market (DM) Equities - Large Cap				●			
Developed Market Equities - Small Cap				●			
Emerging Market (EM) Equities				●			
Global Listed Property					●		
Global Listed Infrastructure				●			
Growth Alternatives				●			

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

Current Position ●

We remain close to benchmark

Growth Assets

- Australian equity valuations remain stretched and require a re-rating in bank and resource earnings. Inflation is receding, paving the way for Reserve Bank of Australia (RBA) cuts.
- 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 Australian Small Caps sector vs Large Caps.
- For Global Equities, 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.
- Global Listed Property warrants an active approach. 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).

Defensive Assets

- 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.
- US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
- Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.

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