Market Pulse: CIO Insights

Blackwattle Investment Partners

April 2025

“The greatest danger in times of turbulence is not the turbulence, it is to act with yesterday’s logic.” - Peter Drucker

Market Insights

Australian Market

April witnessed a remarkable rebound in Australian equities, with the S&P/ASX 200 Accumulation Index rising 3.6%. This performance was particularly notable given the significant intra-month volatility, where the index initially dropped 6.5% before rallying nearly 10% from its monthly low. This sharp turnaround was driven by investor optimism following reports of a temporary pause in the U.S. tariff escalation, which had initially spooked global markets.

Several factors contributed to Australia's resilience.

- Domestic Economic Strength: Australia's economy continues its robustness, underpinned by reasonably strong consumer spending and (now) a stable political environment. The recent re-election of the centre-left government with an expanded majority has provided policy continuity, further bolstering investor confidence.
- Attractive Valuations: Compared to global peers, we believe Australian equities are trading at relatively attractive valuations. The S&P/ASX 200's projected Price Earnings (PE) ratio stands at 16.4 times, with an indicated dividend yield of 3.8%, making it appealing for investors seeking capital appreciation or yield.
- Currency Advantage: The Australian dollar remains near the bottom of its 20-year range, enhancing the competitiveness of Australian exports and making local assets more attractive to foreign investors.

Sector-wise, performance was mixed:

- Technology, Media & Telecom (TMT): These sectors led the months’ rally, supported by falling bond yields and a pivot back to structural growth stories.
- Gold Miners: Continued their ascent as spot prices surged past US$3,000/oz, reflecting ongoing investor demand for safe-haven assets.
- Energy and Materials: Lagged due to a 18% fall in oil prices, following increased OPEC supply quotas and concerns over global demand.

Notably, international investors have been increasing their exposure to Australian equities. Macquarie revealed that offshore investors purchased A$800 million in bank stocks in Q1 2025, with buying momentum continuing into April. This trend underscores Australia's appeal as a relatively insulated market amid global trade tensions.

Global Markets

Global equities faced headwinds in April, with the MSCI AC World Index (AUD) declining by 1.7%. The primary catalyst was the U.S. administration's "Liberation Day" tariffs announced on April 2, which imposed tariffs of up to 145% on Chinese imports and 10–30% on other major trading partners. This abrupt policy shift triggered significant market volatility.

Key developments included:

- U.S. Market Volatility: The S&P 500 experienced a sharp 12% drop in early April, followed by a 9.5% rebound after the administration paused reciprocal tariffs. Despite the recovery, the index remains down year-to-date, reflecting investor caution.
- European Stability: European markets showed relative resilience, with the STOXX 600 declining modestly. Export-focused sectors like autos and luxury goods faced pressure due to the strong euro and reduced U.S. demand.
- China's Modest Rebound: China's equity market posted a 1.3% gain mid-month, buoyed by policy support and investor optimism. However, gains were later tempered by renewed concerns over export demand.
- Gold's Surge: Gold prices continued their upward trajectory, driven by geopolitical risks and investor risk aversion. Gold stocks remained standout performers across regions.

The global investment landscape is increasingly characterised by:

- Trade Policy Uncertainty: The unpredictability of U.S. trade policy has introduced significant uncertainty, prompting investors to reassess risk exposures.

- Central Bank Dilemmas: Central banks are grappling with the dual challenges of rising inflation from tariffs and slowing growth from trade disruptions, complicating monetary policy decisions.
- Shift to Quality: In this environment, we believe that investors are, and will continue, to gravitate towards companies with resilient earnings, strong balance sheets, and pricing power.

Outlook

As always, we premise our views with: We do not attempt to forecast markets, as we do not believe this possible. However, we do apply stringent risk and macroeconomic overlays to our investments. We train ourselves to think long-term and not be distracted by short-term thinking or market fluctuations.

We believe that investors should focus on high-quality companies with resilient business models, strong balance sheets, and a proven ability to navigate complex environments.

Australia

Looking ahead, Australia's economic outlook remains relatively positive in our opinion, albeit with caution warranted due to external uncertainties.

- Interest Rate Trajectory: The Reserve Bank of Australia (RBA) maintained its cash rate at 4.1% in April. Market expectations suggest the possibility of two additional cuts by year-end, down from four anticipated last month, following a slightly hotter-than-expected CPI reading.
- Sector Opportunities: We believe defensive sectors such as Consumer Staples and REITs should benefit from continued investor demand for stability. Additionally, the Technology sector may see renewed interest as bond yields stabilise.
- Global Capital Inflows: Australia's appeal as a "safe-haven" market is likely to persist, this could attract global capital seeking stability amid global trade tensions.

However, potential challenges include:

- Commodity Price Volatility: Fluctuations in commodity prices, particularly in energy and materials, could impact export revenues and sector performance.
- Housing Market Dynamics: The trajectory of the housing market, influenced by interest rates and consumer sentiment, will be a key factor in domestic economic performance.

Global

Globally, the investment landscape is expected to be shaped by several key themes:

- Trade Policy Evolution: The trajectory of U.S. trade policy will be pivotal. While a complete rollback of tariffs appears unlikely, partial easing or sector-specific agreements could provide relief to markets.
- Monetary Policy Adjustments: Central banks are likely to adopt a cautious approach, balancing the need to support growth with the imperative to contain inflation. The Federal Reserve's decisions will be closely watched for signals on the future path of interest rates.
- Earnings Resilience: Corporate earnings will be under scrutiny, particularly in sectors sensitive to global trade dynamics. We expect companies with diversified revenue streams and strong domestic demand are likely to fare better.
- Emerging Market Prospects: Emerging markets may present selective opportunities, especially those less exposed to U.S. trade policies and with favourable demographic trends.

In this complex environment, our global investment strategy will focus on:

- Quality and Resilience: Prioritising companies with robust business models, strong balance sheets, and the ability to maintain margins amid cost pressures.
- Valuation Discipline: Maintaining a disciplined approach to valuations, avoiding overpaying for growth, and being cautious of speculative excesses.
- Active Management: Leveraging our active management capabilities to navigate market volatility, identify mispriced opportunities, and adjust portfolios in response to evolving macroeconomic conditions.

Commentary on Blackwattle's Funds

We will make mistakes and missteps. But rather than hide from our mistakes, as an investment team we strive to learn from them. This is one of our unwavering commitments.

This month, one of our Funds outperformed, one inline with their benchmark, whilst four Funds underperformed:

Fund Performance (Net of fees)	1 month	3 months	6 months	1 Year	Since Inception[1]
Blackwattle Small Cap Quality Fund	0.50%	-8.65%	-8.75%	5.39%	11.73%
Blackwattle Small Cap Long-Short Quality Fund [2]	0.58%	-11.25%	-14.64%	-0.43%	4.90%
Blackwattle Mid Cap Quality Fund	2.52%	-7.14%	-1.71%	8.58%	11.78%
Blackwattle Large Cap Quality Fund	3.40%	-4.10%	-0.19%	6.40%	8.94%
Blackwattle Long-Short 130/30 Quality Fund	3.62%	-3.50%	0.06%	7.29%	10.06%
Blackwattle Global Quality Fund	0.22%	-8.13%	3.68%	-	16.04%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception[1]	Benchmark[3]	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	11.73%	8.98%	2.75%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund [2]	4.90%	7.16%	-2.26%	21-Nov-23
Blackwattle Mid Cap Quality Fund	11.78%	8.42%	3.36%	08-Aug-23
Blackwattle Large Cap Quality Fund	8.94%	10.56%	-1.62%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	10.06%	10.55%	-0.50%	08-Aug-23
Blackwattle Global Quality Fund	16.04%	13.80%	2.24%	02-May-24

1: The Blackwattle Mid Cap Quality Fund, Large Cap Quality Fund, and Long-Short 130/30 Quality Fund's inception dates are 8 August 2023. The Blackwattle Small Cap Quality Fund's inception date is 12 September 2023. The Blackwattle Small Cap Long-Short Quality Fund's inception date is 21 November 2023. The Blackwattle Global Quality Fund's inception date is 2 May 2024.

2. Small Cap Long-Short Quality Fund Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund. There was a six-month transition period beginning 21 November 2023 and ending 21 May 2024, following the transition of Investment Manager of the Fund. During this transition period, the Fund Benchmark was 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX Small Ordinaries Accumulation Index

3. Benchmark: Global Quality Fund is MSCI AC Net World (AUD), Long-Short 130/30 Quality Fund and Large Cap Quality Fund is S&P/ASX 200 Accumulation Index, Mid Cap Quality Fund is S&P/ASX300 Accumulation Index-S&P/ASX20 Accumulation Index, Small Cap and Small Cap Long-Short Quality Fund is Small Ordinaries Accumulation Index.

All returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. Source: Apex.

Blackwattle Large Cap Quality Fund

The fund returned -4.11%, underperforming the benchmark by 0.72% net of fees.

Key Contributors: Telstra (TLS) added to returns as investors rotated into defensive income stocks with stable earnings and strong buyback momentum. Life360 (360) rose on solid user growth and upcoming monetisation initiatives. We believe its scale, global subscriber base, and data asset offer rare growth potential on the ASX.

Key Detractors: Commonwealth Bank (CBA) detracted due to our underweight; its size and momentum continue to attract passive inflows despite valuation risks. Perpetual (PPT) fell after weak flows in its asset management division. We see latent value in its Corporate Trust business, which in our opinion remains underappreciated.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned 3.62%, in line with the benchmark.

Key Contributors: Telstra (TLS) contributed positively for similar reasons as above. Life360 (360) also supported gains, as investors rewarded companies with global scale and direct consumer monetisation potential.

Key Detractors: CBA underweight detracted, driven by passive flows and resilient earnings. Perpetual (PPT) also weighed on returns amid negative sentiment toward active managers.

Blackwattle Mid Cap Quality Fund

The fund returned 2.52%, underperforming the benchmark by 0.72% net of fees.

Key Contributors: The Lottery Corporation (TLC) rallied 10% as investors sought resilient, cash-generative businesses with monopoly traits.

Key Detractors: Whitehaven Coal (WHC) fell 9%, despite metallurgical coal prices rising. Trade war fears and softening China sentiment drove weakness across mining stocks.

Blackwattle Small Cap Quality Fund

The fund returned 0.50%, underperforming the benchmark by 1.38% net of fees.

Key Contributors: Australian Finance Group (AFG) rose 14.1% on rising housing turnover and strong mortgage lodgement growth. De Grey Mining (DEG) gained 21.4% amid gold sector strength and ramping production. Hansen Technologies (HSN) rose 8.2% as investors recognised its defensive earnings and upcoming M&A optionality.

Key Detractors: Nuix (NXL) fell 20.8% after soft FY25 revenue guidance, market confidence in execution remains low. Beach Energy (BPT) and Stanmore (SMR) also detracted due to operational disruptions and soft commodity prices.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned 0.58%, underperforming the benchmark by 1.26% net of fees.

Key Contributors: AFG, De Grey, and Hansen were key contributors as described above.

Key Detractors: Nuix, Beach, and Stanmore detracted, reflecting the same challenges seen in the long-only fund.

Blackwattle Global Quality Fund

The fund returned 0.22%, outperforming the benchmark by 1.93% net of fees.

Key Contributors: ServiceNow delivered a strong Q1 beat, with accelerating GenAI adoption and margin expansion.

Key Detractors: Hemnet detracted modestly on lighter-than-expected EBITDA growth and elevated marketing spend. We remain confident in its long-term digital real estate leadership.

Gratitude and Commitment

To our clients and partners - Thank you.

It is a privilege to represent your capital and hold your trust. We remain committed to investing alongside you, ensuring our interests are always aligned with your own. We re-iterate the commitments to our investors:

- We will always commit our own capital alongside your own.
- We will never allow personal trading.
- We will always constrain the capacity of our Funds.
- We will learn and improve from our mistakes.
- We will act with transparency.

Kind regards,

Michael Skinner CIO and Managing Director, and the entire Blackwattle Team

How to Invest

To invest click on the link www.blackwattlepartners.com/invest/
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