

May 2025

“In times of turbulence and change, it is more true than ever that knowledge is power.” - John F. Kennedy

Market Insights

Australian Market

The Australian equity market delivered a strong result in May, with the S&P/ASX 200 Accumulation Index rising 4.2%, marking a reversal from the volatility seen earlier in the year.

In our opinion, this was not solely a relief rally, it was underpinned by tangible macro and micro-economic developments that helped reignite risk appetite.

The Reserve Bank of Australia (RBA) delivered its second 25bps cut for the year, lowering the cash rate to 3.85% and acknowledging that a 50bps move was discussed. This marked a shift toward policy acceleration, with the RBA responding to signs of demand weakness (notably a surprise fall in April retail sales) despite persistent strength in employment figures.

Investor sentiment was further supported by a clear outcome in the federal election, with the Labor government returning with a majority. This removed policy uncertainty and allowed investors to begin pricing in the fiscal impact of its campaign commitments, most notably the Housing Australia Future Fund and broader infrastructure plans.

Equity markets responded strongly, especially in the more interest rate-sensitive corners of the market:

Tech stocks surged nearly 20%, led by companies like Wisetech, which benefited from M&A activity and upgrades to global logistics demand.

REITs and discretionary retailers also gained, as lower bond yields and consumer optimism (buoyed by anticipated mortgage relief) lifted valuation multiples.

Gold remained a standout theme. Prices breached US\$3,000/oz amid ongoing global volatility and rising central bank purchases. Australian gold miners like De Grey, and Pantoro outperformed, buoyed by the rising commodity price and local M&A activity.

However, not all sectors participated in the equity rally. Energy lagged, with oil prices falling below US\$60/bbl after OPEC+ raised output guidance. Some Materials names were also hit by concerns over slowing Chinese industrial demand and global supply chain congestion.

Importantly, smaller companies outperformed large caps. The ASX Small Ords rose 5.76%, and the ASX 300 ex-20 gained 5.58%, compared to a 3.2% gain in the ASX 50 benchmark. This reflects a broader rotation into domestic cyclicals and quality growth businesses outside the ASX50.

Global Markets

Global equity markets saw a return of risk-on momentum in May, with the MSCI AC World Index (AUD) advancing 5.1%, despite policy and geopolitical uncertainty remaining high (in our opinion, when compared to Australia).

A key macro driver was the ongoing volatility around U.S. trade policy. The Trump administration’s “Liberation Day” tariffs, which introduced sweeping levies of up to 145% on Chinese imports and 10–30% on other key partners were challenged in court and briefly blocked.

However, they were reinstated on appeal, only to be paused mid-month amid diplomatic negotiations. These developments caused substantial intraday volatility and forced investors to adjust pricing for inflation expectations, global logistics costs, and multinational earnings exposure.

U.S. equities managed to rally through the month, led by large-cap Technology and Communication Services stocks. Microsoft was emblematic of this, posting a robust beat on Azure and AI-related cloud infrastructure growth. Meanwhile, Consumer Discretionary and Financials showed mixed results, as companies began flagging margin compression due to input cost volatility and tariff-related disruptions.

In Europe, markets held steady, helped by signals from the European Central Bank that a rate cut could be delivered as soon as June. This supported Financials and Industrials, although autos and luxury goods underperformed due to euro strength and declining Asian demand.

China surprised on the upside, with policymakers announcing a new round of targeted stimulus, particularly for the property and tech sectors. Equity markets initially rose on the news but gave up some gains late in the month as economic data remained patchy.

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

The Australian macro landscape is entering a potentially constructive phase, but one that requires nuanced interpretation.

The RBA's decision to cut again in May shows it is willing to stay ahead of deteriorating demand. But with inflation still elevated (particularly in services) we believe the central bank is likely to remain cautious. Complicating the picture is tariff-driven global inflation, which could filter through via energy, transport, and durable goods pricing. These crosscurrents make the RBA's next steps, in our opinion, harder to predict than markets currently price.

The May election outcome provides much-needed political stability and may unlock fiscal spending on housing, renewables, and infrastructure. This will be supportive of specific sectors but may also exert upward pressure on wages and materials pricing, which in turn affects monetary policy calibration.

From an investment perspective, we believe:

- Domestically focused businesses are attractive.
- Gold remains a strong hedge in portfolios as long as real yields stay subdued and global volatility persists.
- Quality cyclical stocks, especially in housing, logistics, and consumer finance, may see continued tailwinds as easing policy filters through to household spending.

We are also watching for signs of rotation out of “yield proxies” and expensive defensives, particularly if bond yields continue to fall and growth optimism returns.

Global

Globally, the path forward is increasingly defined by policy dissonance: trade policy is likely to be expansionary for inflation, while monetary policy is attempting to be disinflationary but constrained by lagging effects and capital sensitivity.

The U.S. Federal Reserve faces an extremely narrow runway. While inflation is moderating in some areas, the potentially inflationary effects of tariffs are now complicating its glide path. Fed officials maintained a “wait and see” posture in May but signalled increased caution around pricing in further cuts.

Meanwhile, Europe appears more willing to cut as core inflation declines and credit conditions tighten. This divergence, combined with varying fiscal stances, means global capital flows may continue to rotate between regions based on policy and currency differentials.

In China, optimism is cautious. While policy support is increasing, the structural slowdown in real estate and demographic headwinds remain unresolved. For now, China is likely to be a tactical exposure, not a structural anchor.

Across markets, we believe the focus must shift to:

- Earnings durability, especially in sectors where margin stability has been preserved despite cost pressures.
- Balance sheet discipline, with companies prioritising cash flow, capex control, and return on invested capital.
- Sector flexibility, as the market swings between quality growth, defensives, and cyclicals in response to daily policy noise.

In summary, while near-term data is improving, macro volatility remains elevated. We are maintaining a diversified positioning bias, focused on businesses that can compound earnings through multiple cycles - regardless of trade policy, inflation trajectories, or election-year volatility.

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, four of our Funds outperformed, whilst two Funds underperformed their respective benchmarks:

Fund Performance (Net of fees)	1 month	3 months	6 months	1 Year	Since Inception ¹
Blackwattle Small Cap Quality Fund	5.95%	2.75%	-2.70%	9.52%	14.91%
Blackwattle Small Cap Long-Short Quality Fund ²	6.28%	3.33%	-8.17%	5.97%	9.22%
Blackwattle Mid Cap Quality Fund	3.25%	0.55%	-3.23%	11.11%	13.17%
Blackwattle Large Cap Quality Fund	4.78%	3.89%	0.91%	10.71%	11.33%
Blackwattle Long-Short 130/30 Quality Fund	5.84%	4.97%	2.07%	11.95%	13.04%
Blackwattle Global Quality Fund	3.27%	-3.48%	0.77%	18.55%	18.19%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception ¹	Benchmark ³	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	14.91%	12.11%	2.80%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund ²	9.22%	10.75%	-1.52%	21-Nov-23
Blackwattle Mid Cap Quality Fund	13.17%	11.29%	1.88%	08-Aug-23
Blackwattle Large Cap Quality Fund	11.33%	12.56%	-1.24%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	13.04%	12.56%	0.49%	08-Aug-23
Blackwattle Global Quality Fund	18.19%	18.03%	0.17%	02-May-24

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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 **4.78%**, outperforming the benchmark by **0.58%** net of fees.

Key Contributors: Life360 (360) rebounded strongly after U.S. tariff volatility created an opportunity to increase our position. Its user growth, monetisation runway, and expanding verticals (such as aged care and pet tracking) continue to drive upside. Brambles (BXB) added to returns as it delivered strong cash flow and margin expansion, reflecting disciplined pricing and scale benefits across its global pallet pool operations.

Key Detractors: BlueScope Steel (BSL) declined amid weakness in U.S. construction and auto demand, exacerbated by commodity sensitivity. However, we believe its North Star asset and premium Colorbond product position it favourably over the long term. Our underweight in Commonwealth Bank (CBA) also detracted, as the stock continued to benefit from passive flows despite valuation risks.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned **5.84%**, outperforming the benchmark by **1.64%** net of fees.

Key Contributors: Life360 (360) led performance after rebounding from prior tariff-driven volatility. Its cash flow profile and global scale remain underappreciated. Brambles (BXB) also contributed, with improving margins and continued investment in digital tracking infrastructure expanding its competitive moat.

Key Detractors: BlueScope Steel (BSL) detracted as macro concerns weighed on sentiment, though U.S. steel tariffs offer potential upside. A short position in a speculative growth name also rallied unexpectedly post-result, limiting contribution.

Blackwattle Mid Cap Quality Fund

The fund returned **3.25%**, underperforming the benchmark by **2.33%** net of fees.

Key Contributors: SEEK (SEK) rose 14% as management highlighted efficiency improvements and platform leverage. Its investor day renewed confidence in operating margin recovery and long-term pricing power.

Key Detractors: Guzman y Gomez (GYG) fell 6%, impacted by broader QSR sector weakness. We remain constructive, given strong store economics, demographic tailwinds, and expansion into drive-thru formats and international markets.

Blackwattle Small Cap Quality Fund

The fund returned **5.95%**, outperforming the benchmark by **0.18%** net of fees.

Key Contributors: Generation Development Group (GDG) surged 34.5% following superannuation reform tailwinds and a new alliance with Blackrock. Australian Finance Group (AFG) gained 20.9%, driven by rising mortgage demand and interest rate cuts. MAC Copper (MAC) climbed 29.1% after a takeover bid from Harmony Gold, validating our valuation.

Key Detractors: Vulcan Steel (VSL) declined 12.3% due to tariff-related concerns and subdued NZ demand, despite long-term structural advantages. Hansen (HSN) also lagged the broader market on its defensive profile, though we see M&A optionality and IT system modernisation as strong medium-term drivers.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned **6.28%**, outperforming the benchmark by **0.52%** net of fees.

Key Contributors: Generation Development Group (GDG), Australian Finance Group (AFG), and MAC Copper (MAC) were again the top performers, driven by the same catalysts noted in the long-only strategy.

Key Detractors: Vulcan Steel (VSL) and Hansen (HSN) detracted, along with a short in the Technology sector that rallied amid broad-based growth optimism.

Blackwattle Global Quality Fund

The fund returned **3.27%**, underperforming the benchmark by **1.87%** net of fees.

Key Contributors: Microsoft rallied after posting strong Azure growth (+35% y/y), quelling fears of a pullback in AI infrastructure spending. Its ongoing cloud dominance and capital allocation discipline remain central to our thesis.

Key Detractors: FICO fell sharply after politically charged comments from the U.S. Federal Housing Finance Agency questioned the affordability of credit scoring models. While we see minimal long-term risk to its industry-standard model, near-term sentiment remains a headwind.

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 please click on the link
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