Market Pulse: CIO Insights

Blackwattle Investment Partners

June 2025

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change." - Charles Darwin

Market Insights

Australian Market

In June, the S&P/ASX 200 Accumulation Index rose 1.4%, extending its strong performance in 2025. In our opinion, this was largely fuelled by falling risk premia across defensive sectors and optimism around potential rate cuts. The strong performance was despite continued broader macro volatility driven by trade and geopolitical tensions.

Over the last 12 months (FY25) Investor gains were concentrated in specific sectors: Financials led with +14.5%, followed by Communications (+11%), Consumer Discretionary (+18%), and Technology (+21%). In contrast, Materials (-7%), Energy (-14%), and Healthcare (-1.3%) underperformed, reflecting softer commodity prices, cost volatility, and investor rotation out of defensives into more rate-sensitive equities.

Australia's rally has been heavily impacted by the narrow moves of large-cap stocks. Remarkably, Commonwealth Bank (CBA), much discussed and debated, alone contributed to 30% of index returns over the past year, highlighting the market's concentration and raising challenges for active managers navigating these concentrated valuation dynamics.

A critical backdrop to these trends is the U.S. "tariff reset" under President Trump. In early June, steel and aluminium tariffs were doubled to 50%, triggering supply chain adjustments and imported inflation signals across global markets. Australia's currency weakened as a result, supporting domestic exporters and lifting sectors such as real estate and small caps, which benefit from introspection and perceived local stability.

Energy stocks rallied amid rising oil prices driven by on-going Middle East tensions. Conversely, gold miners lagged despite robust metal prices, in our opinion largely due to firm-level cost pressures curbing margin expansion. Meanwhile, most other Materials firms saw earnings downgrades tied to weaker global demand trends and trade exposure.

Global Markets

On a global scale, the MSCI AC World Index (AUD) advanced 2.6% in June, primarily due to a narrow rebound led by large-cap Tech and Communication Services stocks.

Equities in the U.S. reached all-time highs despite renewed tension in the Middle East and spikes in U.S. tariffs. Notably, coordinated U.S.-Israeli strikes against Iranian facilities prompted temporary yield spikes, but strong early-June inflation data supported ongoing disinflation themes.

However, June's U.S employment beat reduced the odds of a July Fed rate cut. We highlight that about 50 bps of easing is still priced in for late 2025.

In Europe, the ECB delivered its first 25 bps rate cut, a milestone showing growing policy divergence between U.S. refrain and European easing. Core inflation eased and services sector stability offset weakness in industrial cyclical sectors.

Asia showed a mixed picture. While China's equity market endured early weakness tied to a troubled property sector and fading confidence in stimulus, Japan held ground as a defensive alternative for investors amid currency shifts.

Key sector themes included a sharp rotation into Technology and Growth, while traditional defensives: Utilities, Consumer Staples, and Healthcare underperformed in the uptick. Across asset classes, gold held firm at elevated levels, supported by macro-instability and central bank buying tendencies.

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

In our opinion, the Australian economy remains robust and local markets are well position for potential gains. Our view is underpinned by supportive policy, a stable political landscape, and diversified domestic growth. However, the sharp decline in the Australian Dollar (to near 20-year lows) and the acceleration of trade-led inflation do pose risks to the rate outlook.

The RBA's June pause followed earlier rate cuts, and the narrative of future rate cuts in the calendar year is being tested, especially if imported inflation from global tariffs begins to filter through to consumer prices.

This highlights the importance of active portfolio positioning: we favour structurally resilient sectors such as Healthcare, Industrials, and selected Growth names, and are attempting to avoid companies that we believe have overly stretched valuations. We believe that small and mid-cap areas remain fertile ground, especially among high-quality businesses with domestic earnings and strong cash generation.

Global

Global markets remain impacted by on-going uncertainty. The Fed remains in a holding pattern, acknowledging that tariffs have begun to impact prices and economic trends, and signalling that rate cuts are unlikely before September (if at all this year).

Meanwhile, U.S. steel and aluminium tariffs, now double their original levels, usher in fresh inflationary pressure. Deutsche Bank highlights that market liquidity risks, combined with persistent tariff threats, could spark renewed volatility in what has been a bullish year for markets so far.

Meanwhile, analysts at JPMorgan say the probability of a stagflationary slowdown in the U.S. has grown, with higher tariffs damping GDP growth risks by around 1.3% and increasing recession odds to ~40% for H2 2025. If the Fed is forced to hold rates higher for longer to combat tariff-fuelled inflation, the risk premium on equities could rise further.

In parallel, China's policy interventions continue to provide some support to markets. We do however highlight that structural weakness remains, particularly in property, exports, and consumer confidence. Any real progress here could meaningfully reshape global growth narratives and risk sentiment.

It is a key market geography to watch in the coming months.

Our Global Quality Fund investment team highlight that: In this environment, we maintain conviction in portfolio levers anchored in pricing power, disciplined capital investment, and strong balance sheets. We are watching closely for inflection points in U.S. inflation, yield curves, and corporate earnings trends, which will determine whether this late-cycle rally broadens or is followed by meaningful repricing.

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, five of our Funds outperformed, whilst one Fund 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	1.90%	8.50%	2.13%	12.11%	15.39%
Blackwattle Small Cap Long-Short Quality Fund [2]	2.90%	10.04%	-0.57%	11.03%	10.38%
Blackwattle Mid Cap Quality Fund	0.72%	6.61%	1.70%	11.07%	12.99%
Blackwattle Large Cap Quality Fund	1.66%	10.14%	6.69%	12.01%	11.78%
Blackwattle Long-Short 130/30 Quality Fund	1.98%	11.85%	9.08%	13.52%	13.61%
Blackwattle Global Quality Fund	2.72%	6.31%	1.15%	16.10%	19.53%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception[1]	Benchmark[3]	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	15.39%	12.05%	3.33%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund [2]	10.38%	10.75%	-0.37%	21-Nov-23
Blackwattle Mid Cap Quality Fund	12.99%	11.34%	1.65%	08-Aug-23
Blackwattle Large Cap Quality Fund	11.78%	12.82%	-1.04%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	13.61%	12.81%	0.80%	08-Aug-23
Blackwattle Global Quality Fund	19.53%	19.26%	0.27%	02-May-24

30 June 2025

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 1.66%, outperforming the benchmark by 0.25% net of fees.

Key Contributors: Life360 (360) rose on user growth and advertising revenue momentum, now profitable post-SBC. Charter Hall (CHC) benefited from index inclusion and interest rate optimism. Resmed (RMD) rebounded as GLP-1 fears eased and product innovation restored confidence.

Key Detractors: Commonwealth Bank (CBA) detracted due to our underweight. While a quality name, it trades at extreme valuation multiples. Reece (REH) fell on weaker housing trends and management changes in the U.S.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned 1.98%, outperforming the benchmark by 0.56% net of fees.

Key Contributors: Life360 (360) delivered again on engagement growth and ad platform expansion. Charter Hall (CHC) and Resmed (RMD) offered high-quality earnings resilience.

Key Detractors: CBA and Reece (REH) underperformed for the same reasons as in our long-only strategies. The short book performed strongly, especially in companies with debt concerns and acquisition integration issues.

Blackwattle Mid Cap Quality Fund

The fund returned 0.72%, underperforming the benchmark by 0.26% net of fees.

Key Contributors: Newmont (NEM) rose 8% as gold prices held firm. NEM remains in our opinion, the world's highest-quality gold miner.

Key Detractors: Guzman y Gomez (GYG) declined 7%, impacted by U.S. QSR sentiment and secondary market selling expectations.

Blackwattle Small Cap Quality Fund

The fund returned 1.90%, outperforming the benchmark by 1.05% net of fees.

Key Contributors: Zip Co (ZIP) rallied 54.7% on upgraded guidance and easing U.S. credit risk fears. Paladin Energy (PDN) rose 29.3% as uranium ramp-up issues stabilised. Qualitas (QAL) gained 21.5% on rate cut tailwinds and private credit demand.

Key Detractors: HealthCo REIT (HCW) fell 17.4% due to tenant restructuring concerns. Accent Group (AX1) declined 26.6% on a Q4 guidance downgrade. Ramelius Resources (RMS) dropped 12.5% in line with small-cap gold peers.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned 2.90%, outperforming the benchmark by 2.05% net of fees.

Key Contributors: Generation Development (GDG), AFG, and MAC Copper all rallied strongly on super reform momentum, housing strength, and M&A activity.

Key Detractors: Vulcan Steel (VSL) declined on trade-linked demand softness. Hansen (HSN) underperformed amid a rotation away from defensives. A short position in Tech detracted as growth sentiment recovered.

Blackwattle Global Quality Fund

The fund returned 2.72%, outperforming the benchmark by 0.11% net of fees.

Key Contributors: TSMC rallied on improved sentiment, AI chip demand expectations, and structural tailwinds in outsourcing and tax credits.

Key Detractors: Mastercard lagged due to stablecoin concerns and new regulatory headlines. We view these as transitory and added to our position.

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

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How to Invest

To invest please click on the link
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