ELEY GRIFFITHS GROUP

The Encyclical

June Quarter 2025

To: Our Professional and Wholesale Investors

Market Review & Strategy

The June quarter commenced with unprecedented volatility in US stocks and bonds that reverberated across global markets.

The announcement of executive orders 14257/12456 aka *Liberation Day* on April 2, brought on a deep sell-off in US stocks, with investors immediately seeking out the safe harbour of US bonds. UST10 yields would bottom at 3.86% from 4.16% (pre *Liberation Day*) before rebounding to 4.50% three sessions later on fears of US capital flight. The turmoil fomented by reports of several hedge funds forced into unwinding sizable interest rate swaps/basis point trades.

The bond market and its unfolding doom-loop forced President Trump into an embarrassing turnaround, which resulted in *Liberation Day* being postponed for 90 days, starting April 9.

April 9 saw the S&P500 rally 9.5%, a 15:1 up (versus down) stock day and the 10th biggest trading day in 100 years, according to Morgan Stanley strategists.[1] Historic NYSE volume > 30 billion shares was chalked up with traders satisfied an 'off-ramp' (for the odious tariff policy) was now in place.

US stocks would continue their rally from April 9 with minimal disruption, the S&P500 closing at a new high of 6205 on June 30. Surprising to most was that the US 10 year bond would finish the June quarter unchanged versus the March close at 4.22%.

It is interesting to observe two US market peculiarities during the period that, on balance, confirm buoyant household investor interest.

First, George Steer of the *Financial Times* alluded to the boom in US micro-cap IPO's since October 2024.[2] In excess of 83 companies have listed (with each raising >= US$50m) on a US exchange since this time, with most domiciled in mainland China, Hong Kong or Taiwan. Company activities ranged from hot-pot restaurant chains to herbal medicines and AI platforms for ESG data collation. Investor interest has been hot in this space, witness Regencell Bioscience (RGC US) that listed in July 2024, lay dormant until June quarter and suddenly staged a 9000% share price rally.

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[1] MS Podcast Thoughts on the Market, "Is the market Rebound a mirage", 12/4/25

[2] Unhedged Podcast, " The Microcap explosion", 21/5/25

Second, is the muted continuation of the SPAC (**S**pecial **P**urpose **A**cquisition **C**o) phenomena, familiar to Australian investors as *cashbox* companies (and prohibited by the ASX). 45 have listed CYTD, raising ~US$9bn despite their characteristic poor performance post float and post any asset acquisition.

Locally, the Australian share market's performance featured a solid contribution from banks, mid-caps and consumer discretionary names during the three months to June end.

The red-letter Macquarie Conference held annually in May proved constructive to domestic equities sentiment, in contrast to concerns it would be derailed by widespread earnings downgrades.

Elsewhere, M&A activity continued the momentum seen in the prior quarter with ~ 16 bids/schemes announced to the ASX during the period. Foreign suitors again dominated the play and several takeover approaches evolved into contests with competing buyers emerging.

Ki Corporation and Public Storage Inc bid for **Abacus Self Storage**, Harmony Gold for **MAC Copper** and Novomatic proposed a clean up of minority holders in **Ainsworth Gaming**. Several parties vied for the affections of **Bellevue Gold** and **New World Resources.** Elsewhere, bids/indicative proposals were received for **Webjet, Adriatic Metals, Tourism Holdings, Smartpay, Humm Group** and **Johns Lyng** during the three months to June end.

It is worth noting two significant corporate transactions whose target companies have essentially been in the crosshairs for several decades.

XRG (Abu Dhabi National Oil Co and Carlyle Group) bid $36bn cash for **Santos** in mid-June and according to the AFR's *Chantilceer* column, the deal is the global energy sector's largest ever cash bid. A proposed merger with Woodside in late 2024 failed as had a late 1970's tilt from colourful WA businessman, Alan Bond. The latter approach forcing the then SA Government to enact a 15% shareholding cap (removed in 2008).

An oft-speculated merger between **Brickworks** and **Washington H. Soul Pattinson** (Sol Patts) was announced in the early days of June. Over the years, numerous proposals (all unsuccessful) have been tabled to unlock the mutual ownership structure, notably one put forward by a syndicate comprising **Perpetual** and MH Carnegie & Co in 2014. Not so well known was a bid for Brickworks by Gary Weiss', Guiness Peat Group, back in 2000.

Several companies took advantage of the buoyant market to sell all or part of long-standing shareholdings. The Zuellig Group sold 13.2% of **EBOS Group**, Brookfield reduced its exposure to **Dalrymple Bay Infrastructure** via a $428m sale and **Eagers Automotive** quit its 5.5% holding in **McMillan Shakespeare.**

Meanwhile Dai Ichi Life moved to 19.9% of **Challenger**, L1 acquired 16.8% of LIC, **Platinum Capital** (following the proposed merger with listed manager, **Platinum Asset Management)** and an as yet unidentified buyer picked up 10% of **NobleOak Life**.

Equity capital markets teams were kept busy during the quarter with a large number of capital raisings, headlining with a $1.85bn placement from **Xero** for their planned US acquisition and Sol Patts undertaking a $550m raise as a part of their Brickworks merger.

The IPO market tentatively found its feet late in the period with successful new listings from **Greatland Resources**, **Gemlife Communities**, **Tetratherix**, and **Virgin Australia**.

Technical Summary

Stocks

The WSJ/DJ Market Data[3] declared the April-June revival in US stocks to be the fastest ever recovery post a 15% retracement. It is significant that price action for the **S&P500** found medium term trend support on April 7 on a trendline originating from the Covid March 2020 low (✓). Maximum bearish readings on the AAII survey of investors also printed at the time of this low (✓). This author cannot recall having previously seen a ~ 15:1 up day, such that occurred on April 9 in NYSE stocks. 10:1 up days are rarely seen and are unequivocally bullish when they present, so added certainty likely comes with this move (✓).

It is heartening to see the equal-weight S&P500 level-pegging with the more popular market cap weighted version, suggesting a healthy participation from more and more stocks, making for a broader based rally (✓).

At the time of writing, small (Russell 2000) and mid (S&P400) cap companies were awakening from a deep slumber (read: clearing short term resistance lines) as the prospect of lower rates and a growth slowdown (versus recession) dawns on traders.

Futures positioning in E-mini S&P500 futures is snug at 2.5:1 (long:short) so not especially extended and further evidence of a sure-footed advance.

Australia's **All Ordinaries Index** is in the short strokes of making new highs, with its advance balancing price and time nicely. The benchmark is poised constructively with broadening stock leadership a hallmark of the market since the beginning of 2025.

The **ASX Small Ordinaries** has underperformed the **ASX 100** since late 2021 but this appears to be turning with an exhaustion base in formation since October 2024. The benchmark has significant overhead resistance at 3428 (5.3% away) and this will need to be breached before a recovery in small cap relative performance can commence. Breadth in the Small Ordinaries is strong with ~ 62% of stocks above the 100 day moving average (the investment line). As a reminder, good bull market health sees 55%-63% of stocks above, poor around 22%-25%.

The **ASX Mid Cap 50 Index** continues to look compelling, if modestly overbought on the Williams % R oscillator, virtually at new highs and spring loaded.

Commodities/Currencies

The **US dollar** correction is perhaps the most eagerly awaited move in the recent history of currency markets. The March quarter *Encyclical* detailed the unit's technical vulnerabilities and the importance of interpreting cross-rate set-ups, which right now make for grim viewing. The downward path for the **DXY** spot rate (last trade 96.70) appears reasonably clear. The first level of solid support comes in at 94.7 and a solid floor exists at 89.50. Traders should note that we are moving into a seasonally supportive time for the dollar which might mean the path lower is sawtooth.

Long positioning in the major crosses eg **EUR, JPY** and **UKP** is not excessive and in the case of the EUR and JPY, long term support lines are proving steadfast and grist to the bulls.

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[3] WSJ Markets Online 9/4/25

Counter to these crosses, the **AUD** is actually well shorted (4:1 short) given its China connectivity and therefore vulnerable to an upside shift. A bullish key reversal day on April 9th pathed the way for a strong move higher. Overhead resistance at 0.67 is the next roadblock, this being a level on a downward sloping resistance line valid since early 2021.

Gold spent June quarter working through a consolidation rectangle, hidebound between US$3425/oz on the upside and US$3205/oz to the downside. This price action will either culminate in a top in the gold price as exhaustion sets in and prices retreat or prove to be a congestion stage that provides the platform for a renewed rally. Time will tell with the US dollar prognosis probably lending support to the latter view. Futures positioning is broadly unchanged from that seen at the end of March, around 4:1 long, and far from the overextended, hysterical 8:1 settings of December 2024.

Gold equities, as represented by the **Van Eck Gold Miners ETF**, have rallied hard but are well south of their historic highs printed back in September 2011. April 2024's downtrend break combined with a textbook return move in January this year bodes well for gold bulls. The Van Eck junior gold miners ETF is mid-point through a measured move from a multiyear consolidation and points to higher prices for emerging gold producers/explorers.

Silver bull**s** will need to remain patient with the oft-mentioned zone of critical resistance between US$35.40/oz-US$37.40/oz still valid. Futures traders have barely shifted their exposure to the metal, which is bullish, and recent price action suggests appetite on dips is healthy.

The Log – Back to the Future

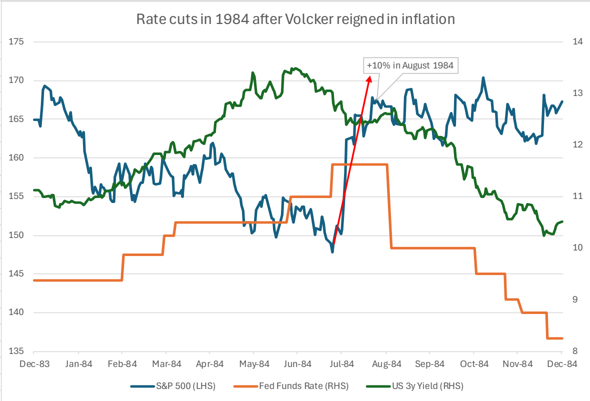
History doesn't repeat but it rhymes. So the saying goes. Similarly, today's macroeconomic environment, characterised by the recent memory of high inflation but increasingly dovish central banks juxtaposed against deglobalisation, and US tariffs, has no perfect analogue. But history provides some insights.

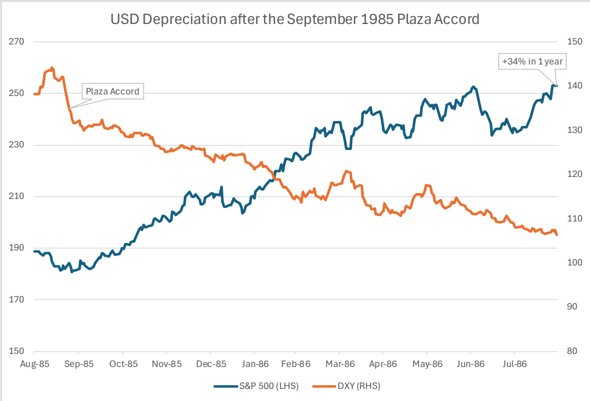
Some have pointed to the Smoot-Hawley tariff period in 1930, but not only was this period nearly a century ago, it was dominated by the aftermath of the 1929 stock market crash and the ensuing Great Depression. Furthermore, policymakers had not discovered the resuscitating effects of coordinated monetary and Keynesian-type stimulus back then, contributing to the Great Depression and bear market.

Until recently, commentators were referring to the 1980s as a period of high inflation like what we had after COVID but perhaps it's what happened after that's more relevant. The S&P 500 surged after the Fed reigned in inflation and began cutting rates. Currently the market is pricing two Fed cuts by the end of the year, and further cuts next year.

There are also some parallels between today and the period following the September 1985 Plaza Accord, which was an agreement between five major countries aimed at depreciating the USD to correct trade imbalances. The S&P 500 performed strongly immediately following The Plaza Accord[4].
Although concerns about tariffs and geopolitical risk dominate headlines, central bank easing, USD depreciation and a rising stock market during '83 to '86 rhymes with today.

[4] Note the similarity to the Trump Administration's trade policy and "Mar-a-Lago Accord". As an aside, the Plaza Accord prompted Japan to over-stimulate its economy in response to the decline in export competitiveness owing to the resulting appreciation in the JPY. In the end, Japan's asset price bubble collapsed in the early 90s. A cautionary tale for nations who might over-reach to offset negative impacts from current US trade policy.





Source: FactSet

It's also worth noting that the S&P 500 returned 50% after the inauguration of the previous Trump Administration from 20 Jan 2017 to the COVID outbreak on 19 Feb 2020, despite a similar, albeit less interventionist, policy stance during that period.

Outlook

In a market replete with geopolitical issues, trade and tariff concerns, angst around corporate earnings and a thinning equity risk premium (current ERP ~ 2.6%), investors could do worse than adopt the *Stockdale Paradox*. Simply put, despite these clear and present challenges the positive underlying outlook for the Australian economy should remain the primary focus of investors.

The resounding federal election result will usher in stability and predictability from government and, as earlier referenced, the May Macquarie Conference, initially cast as a downgrade event concluded with a constructive foundation for the short-term earnings outlook. The bi-annual *confession* season presently underway, has been kind to date and will continue into the early weeks of August.

Ric Deverell, chief economist at Macquarie Group, summarized the local predicament quite neatly in his recent mid-year outlook "Australian GDP growth remains soggy…inflation near target, federal government debt low (and) both monetary and fiscal policy can be deployed if needed…"[5]

Peering at share market *internals*, it is encouraging (not unnerving) to see many of the worlds leading stockmarkets, (ours included) trading at, or close to, historic highs. More ASX stocks are posting all-time and/or 52 week highs versus lows and evidence continues to build of broadening stock participation in the unfolding rally.

Individual stock price action post absorption of several significant equity transactions has been positive e.g. **EBOS**, **Dalrymple Bay, Pinnacle Investments** and **Macmillan Shakespeare** to name a few. Large liquidity events like these remove oxygen from stock prices, oftentimes resulting in subdued share performances. These have been the rule rather than the exception of late, illustrating underweight stock positioning and a renewed appetite for quality ASX/NZX companies.

[5] Ric Deverell, **Macquarie Group**, "Our World in Pictures-the art of de-sensitisation", 2/7/25

Anecdotal evidence points to private clients, long dormant on the ASX, making a return to the share market. Initially aroused by the rally in the gold price and gold shares (producers and specs) they are now tentatively participating in IPO's again, with admittedly modest results to date.

The household investor has long been an important transom to the Australian market, and will again be, as the S&P/ASX All Ordinaries readies for a move to historic highs.