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MORROWS PRIVATE WEALTH MARKET & STRATEGY UPDATE MAY 2025

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tailored your way

MPW Market & Strategy Update – May 2025

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The purpose of this presentation is to provide you general advice and insight into MPW's current market outlook and investment philosophy.

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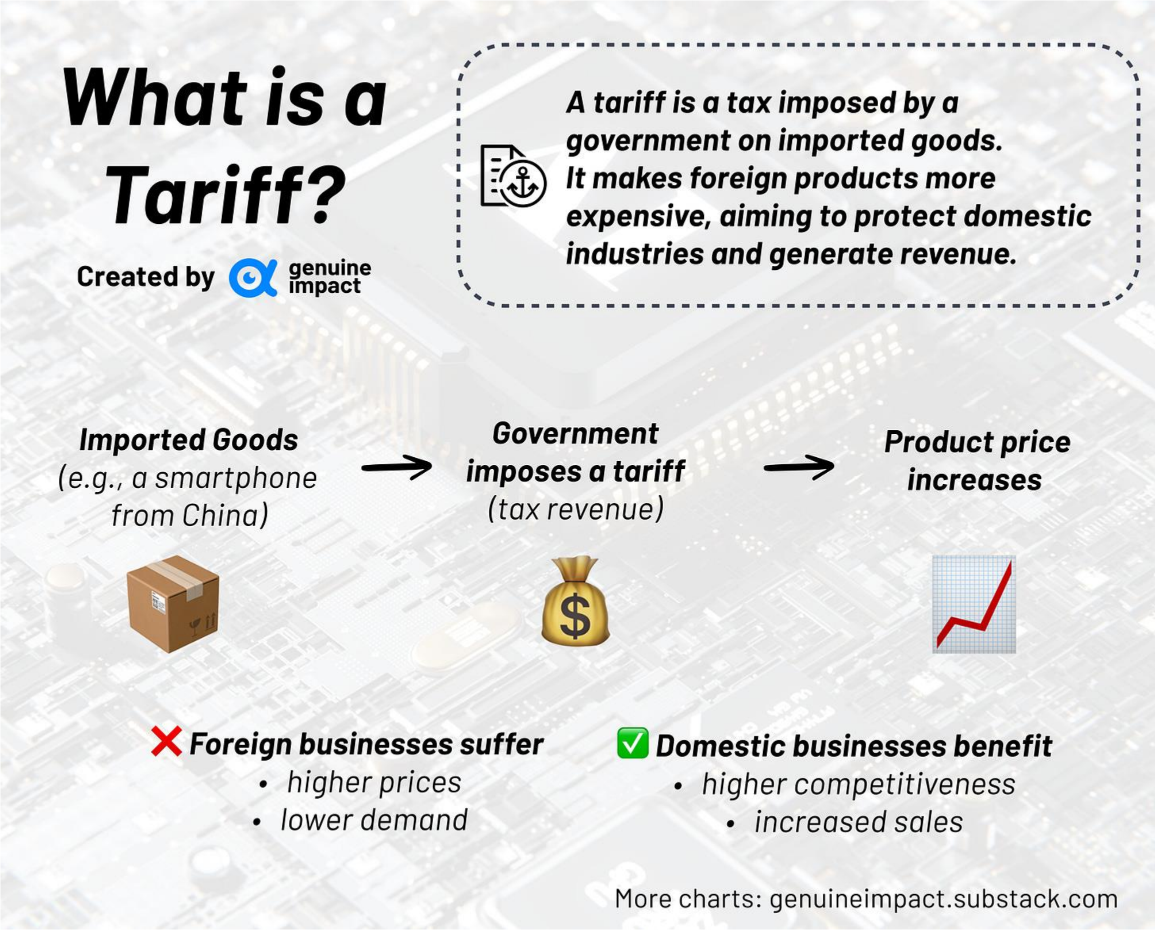
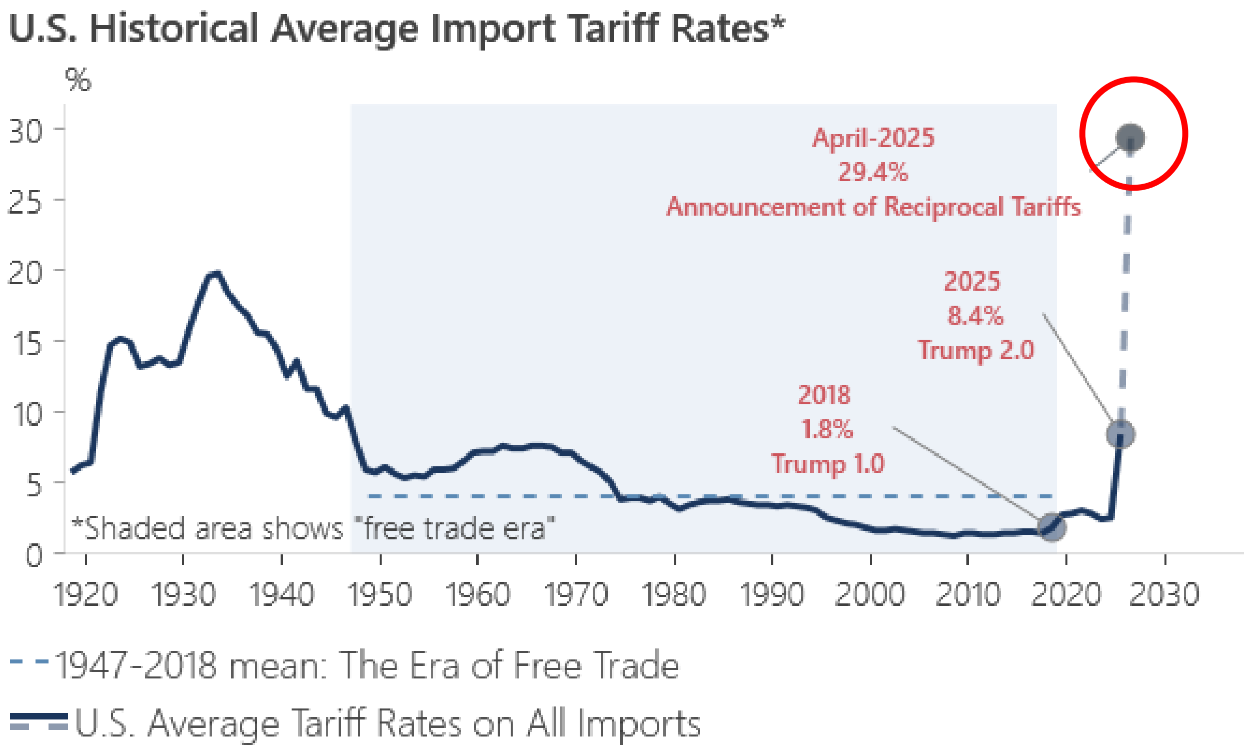
What Are Global Trade Tariffs?

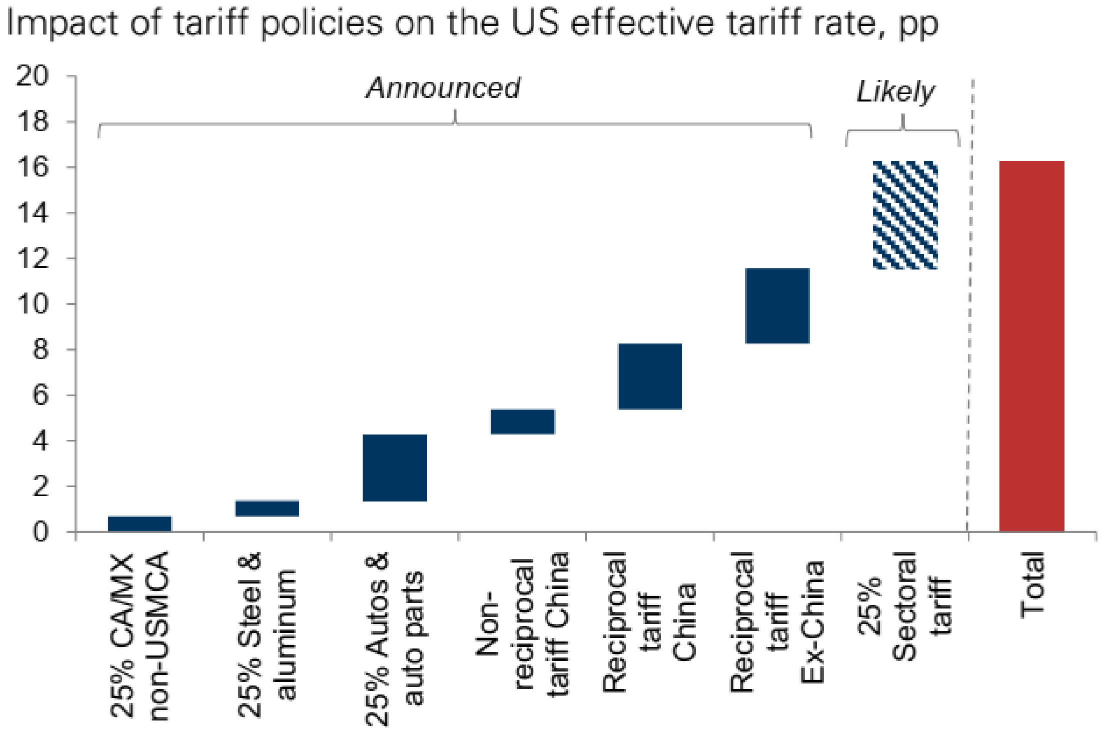


Trump's Tariffs: There is no Playbook!

The announcement of reciprocal tariffs averaging 29% has sparked fears of a global trade war and recession.

Goldman Sachs estimate the effective US tariff rate will rise by around 16% in 2025, but <u>everyone</u> is guessing!





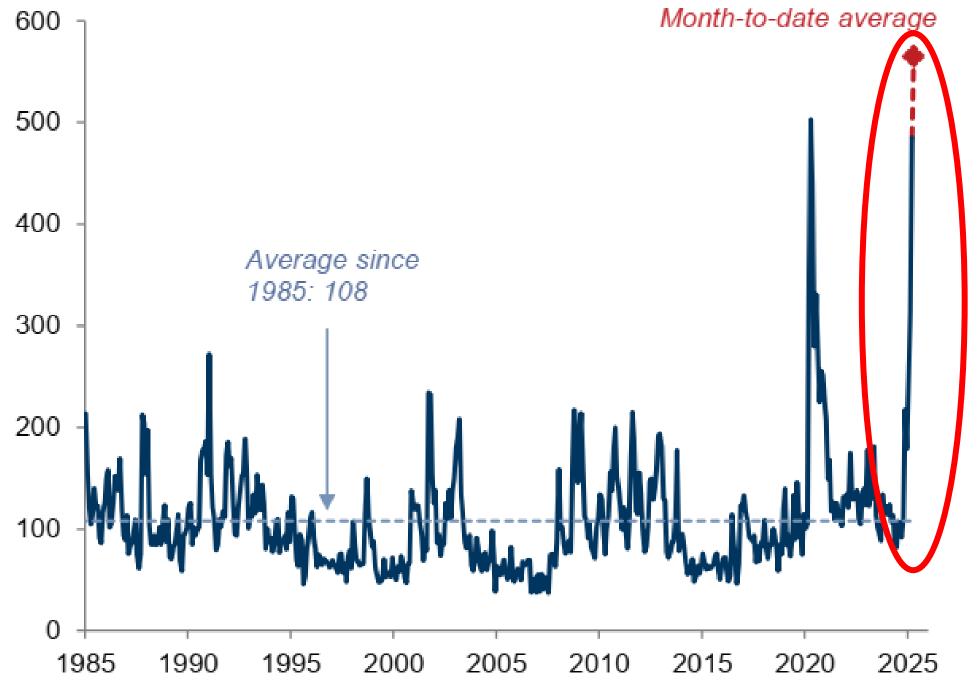
Source: Goldman Sachs GIR.

Tariffs Are Causing Policy Uncertainty & Volatility

Trump is implementing large scale 'negative growth' policy changes at the same time, and this increases the chance of policy mistakes being made and recession.

When Trump announced the 90-day tariff pause, the market reversed a growth downgrade shock and higher interest rate shock. But this reprieve seems temporary.

Baker, Bloom, Davis Headline Policy Uncertainty Index



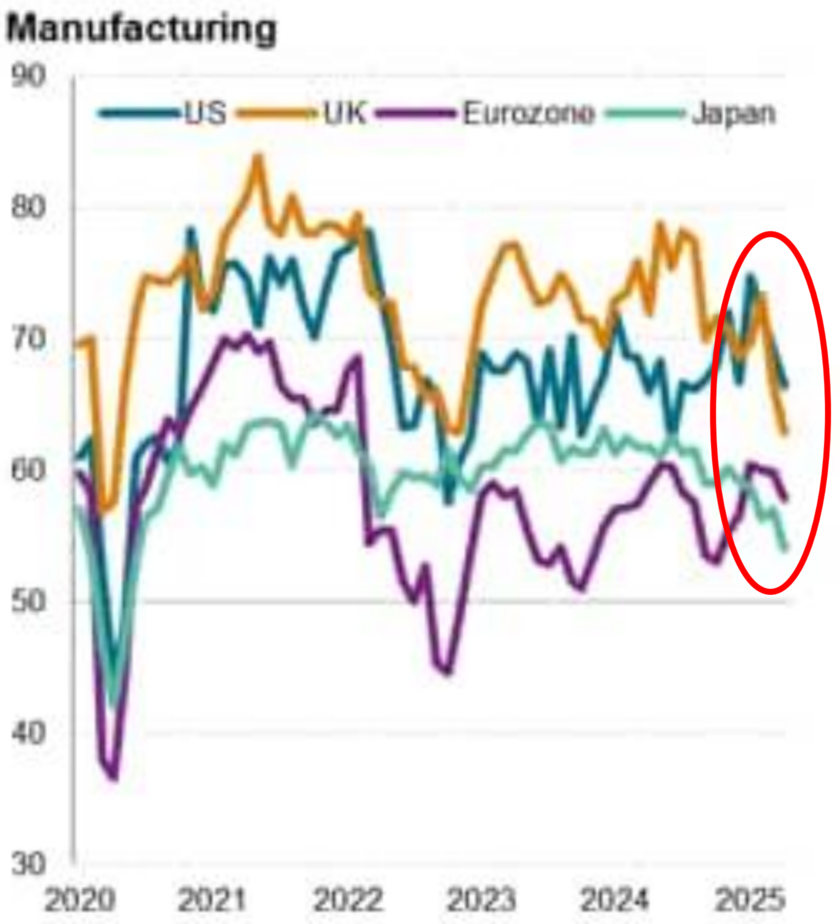
Source: PolicyUncertainty.com, Goldman Sachs GIR.

1-year cumulative growth and policy shocks, index

Source: Goldman Sachs GIR.

Tariff Impacts on Manufacturing & Services

Purchasing Managers Future Output expectations have fallen sharply in both manufacturing and services in all G4 economies.



Data compiled April 23, 2025.
50 = no change in next 12 months

Sources: S&P Global PMI with HCOB and au Jibun Bank.
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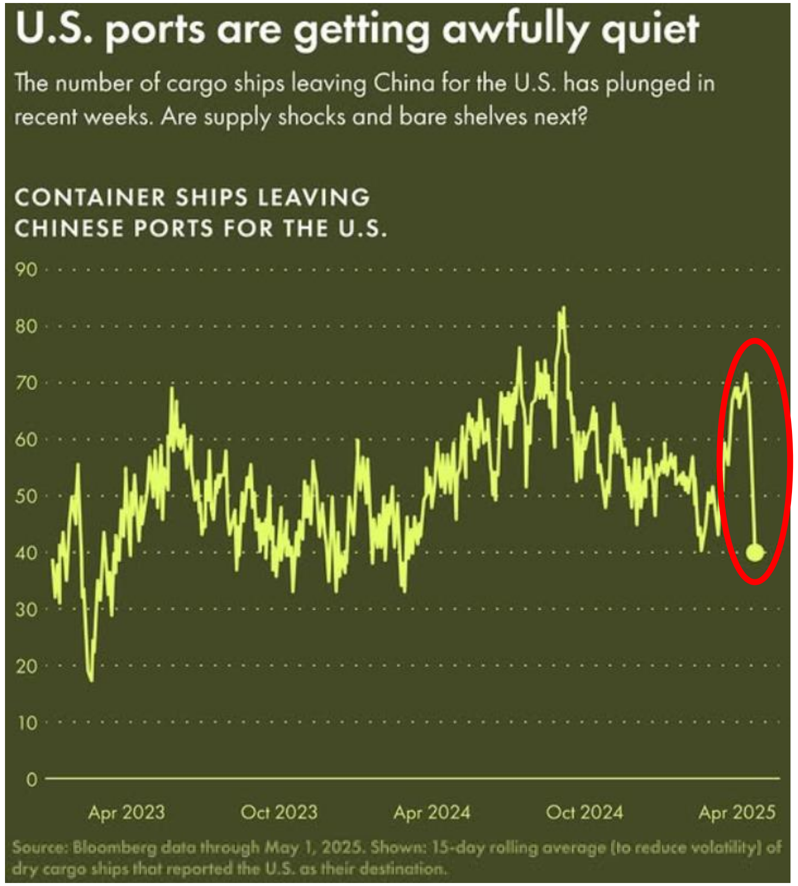
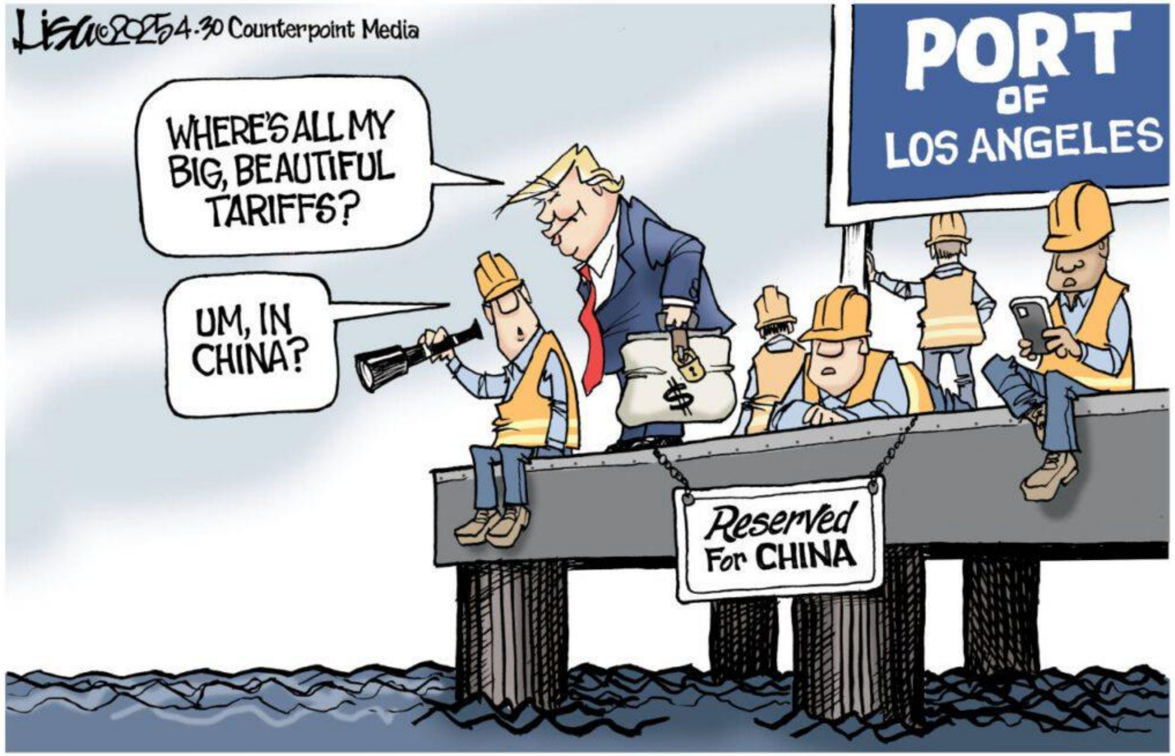
Tariff Impacts on Global Trade

The number of cargo ships sailing from China to the US has dropped dramatically. Will this result in a supply shock?





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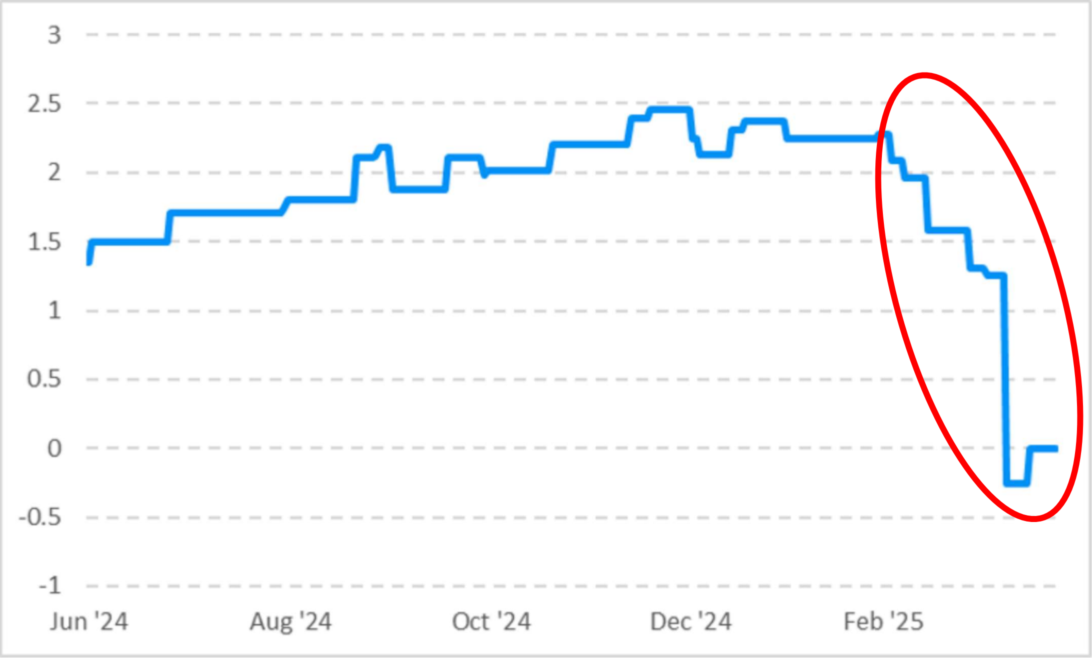
Tariff Implications for US Growth

JPM & Goldman's now project US GDP Growth to fall to 0.5% in 2025, with risks of a mild recession rising to 45%.

	20y average	1Q25
GDP	2.1%	-0.3%

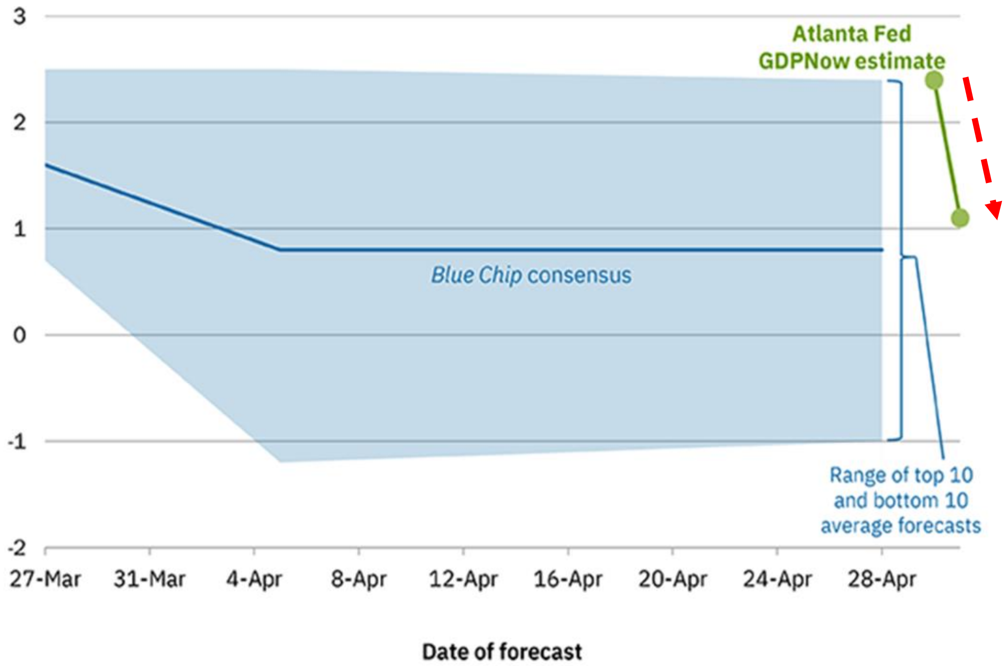
Exhibit 2A: U.S. GDP growth forecast history



Source: Bloomberg, J.P. Morgan Securities LLC, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

The Atlanta Fed GDPNow estimate for Q2 2025 has been revised down from 2.5% to 1%. US Growth is slowing.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2
Quarterly percent change (SAAR)



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

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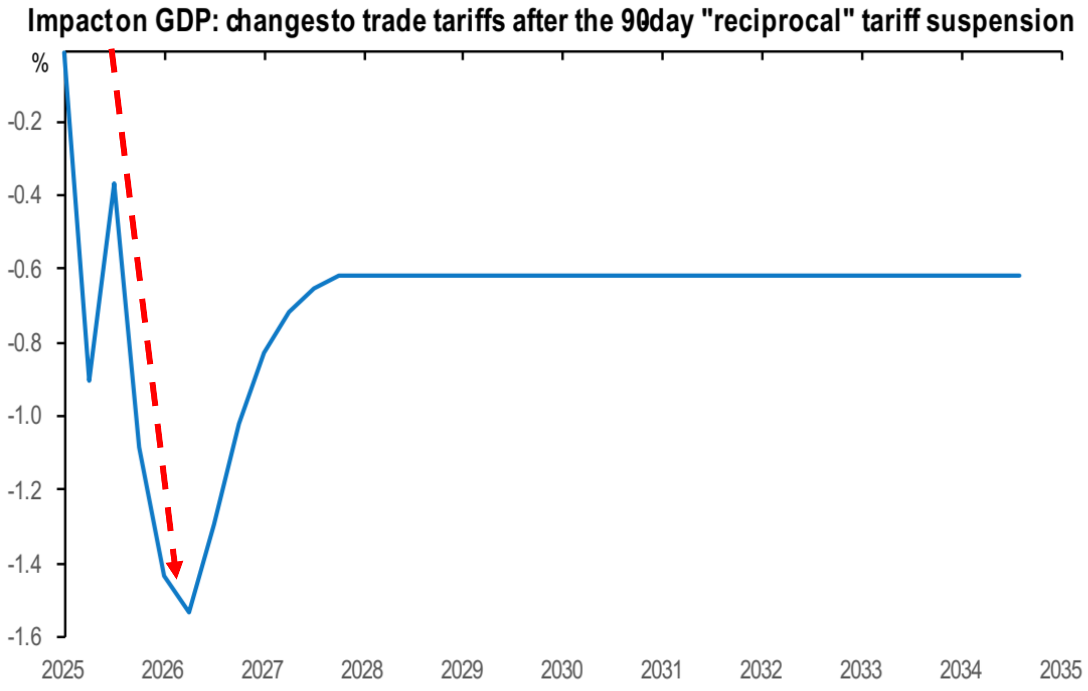
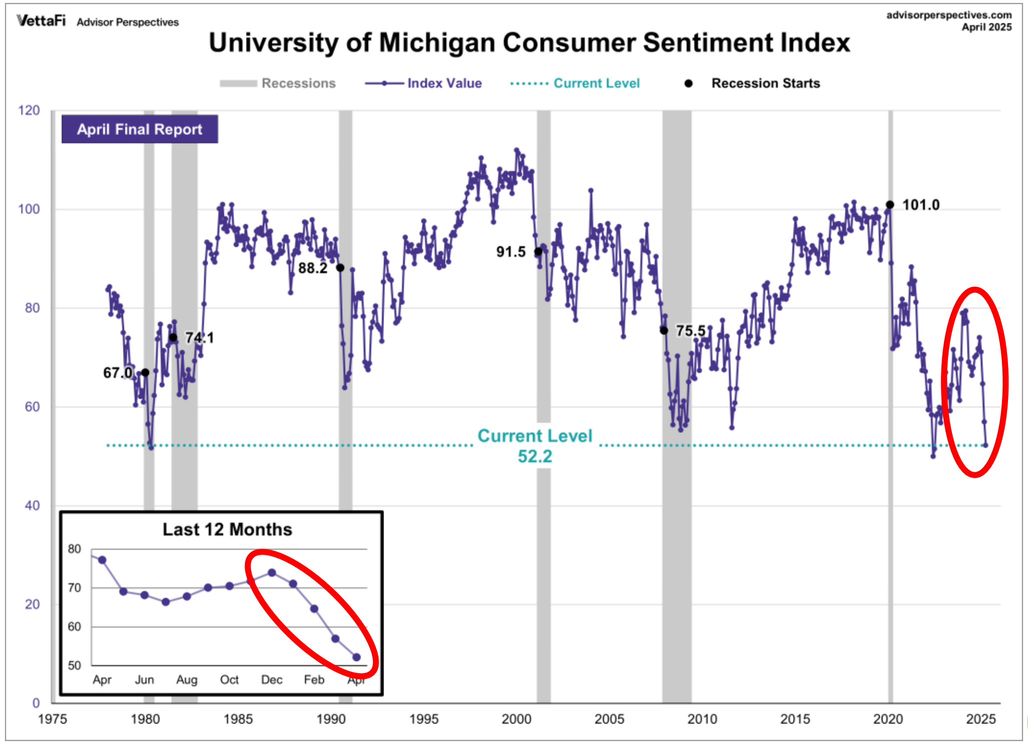
Tariff Implications & Rising US Recession Risk

Yale University estimates that the hit to US GDP this year would be 1.5% based on the announced tariffs. This would likely see a mild recession unfold.

Consumer sentiment has fallen sharply to historically low levels, and small business optimism is also falling. Consumers need to remain resilient to avoid recession.



Source: Yale University Budget Lab, MWM Research, April 2025



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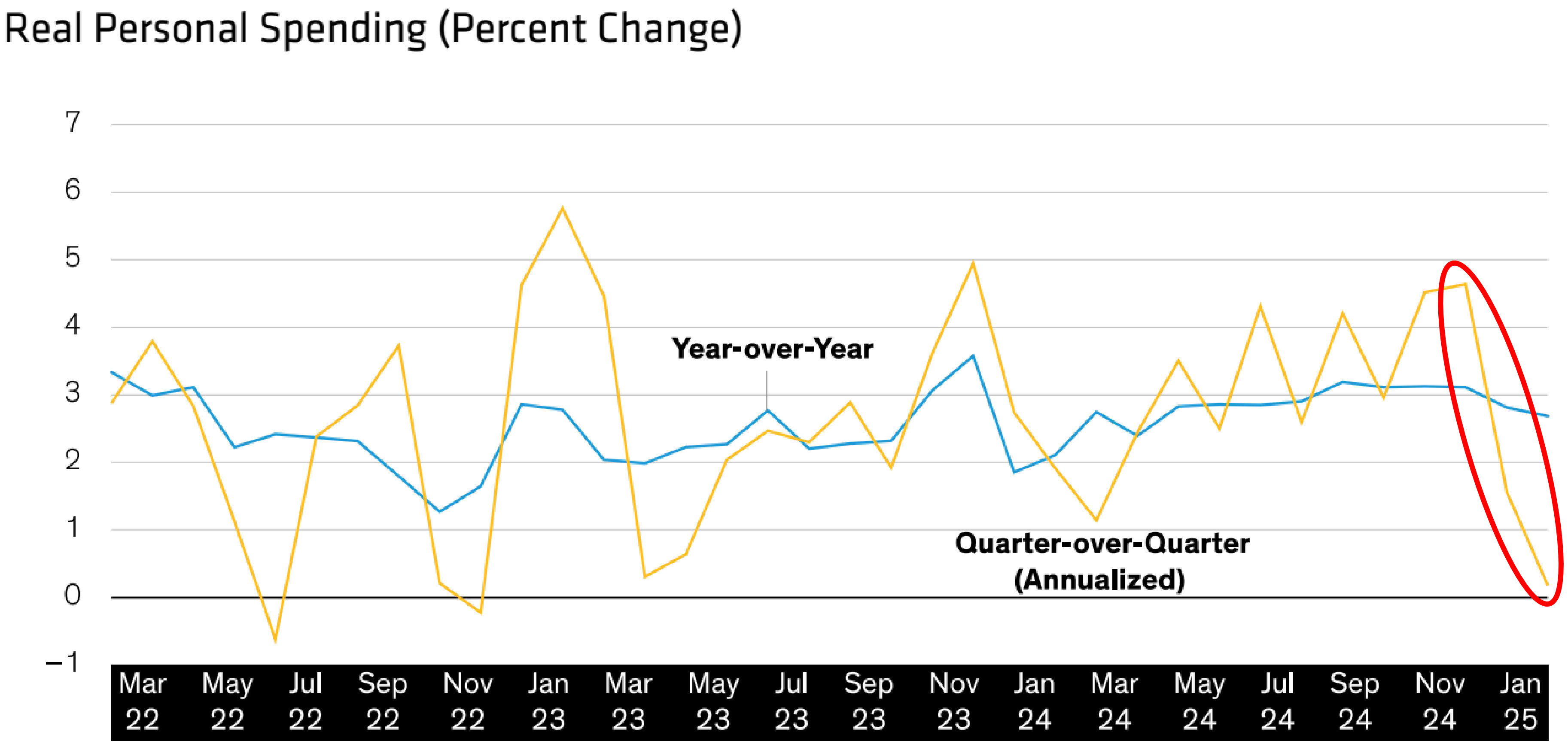
Tariff Impact on US Household Spending

US household spending is falling and the US consumer is 70% of US GDP, so movements in sentiment towards spending, demand for employment and wages are all important barometers for what lies ahead for the US economy.



Source: LSEG Datastream Through February 28, 2025

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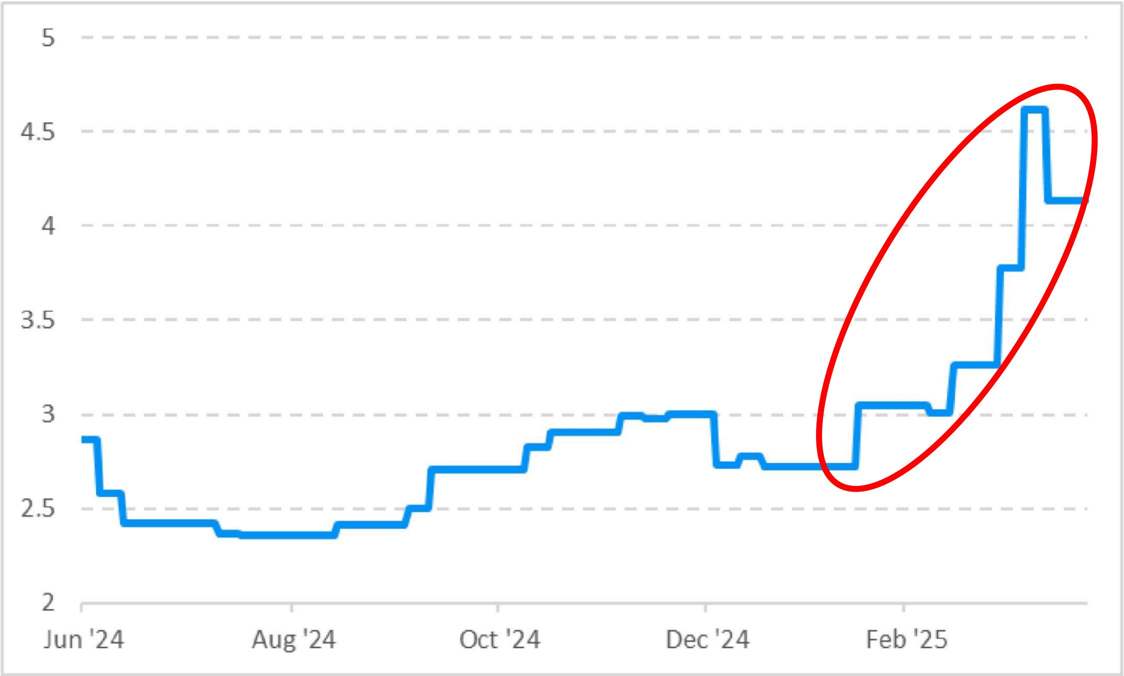
Tariff Implications for US Inflation

JP Morgan now sees **US core inflation** rising to 4.1% by year end, driven by cost-push pressures from tariffs.

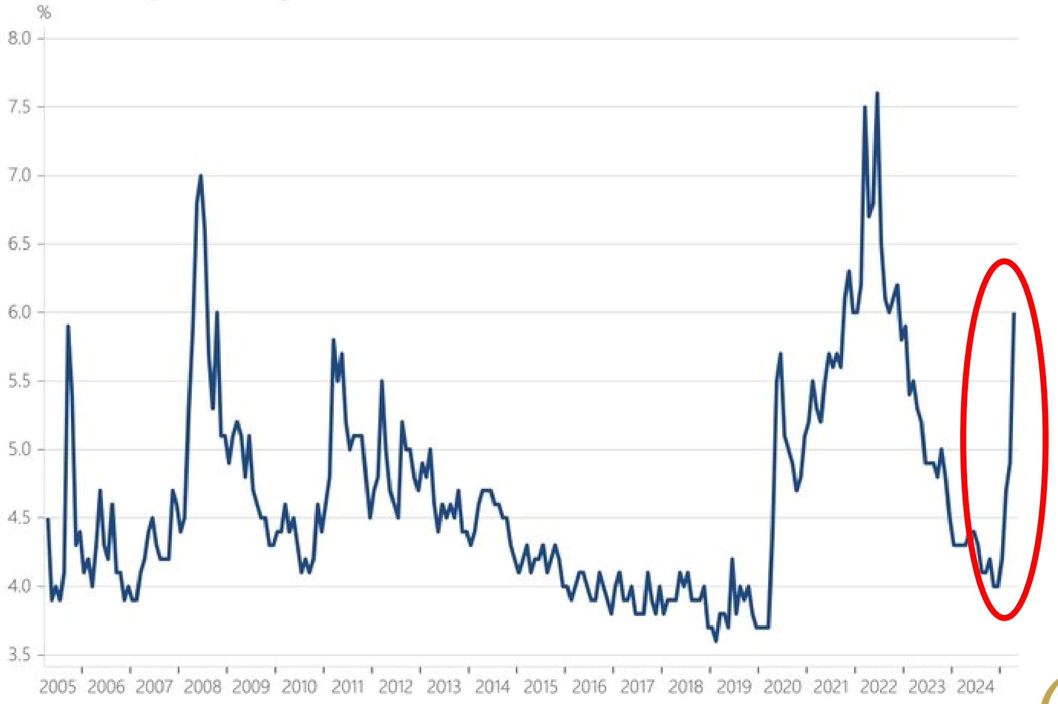
The jump in consumer 1-year-ahead **inflation expectations** over the last 3 months is as swift as the rise seen in 2020.

Exhibit 2B: U.S. core CPI forecast history



Source: Bloomberg, J.P. Morgan Securities LLC, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

Median exepcted one-year-ahead inflation rate



Source: Macrobond, Conference Board

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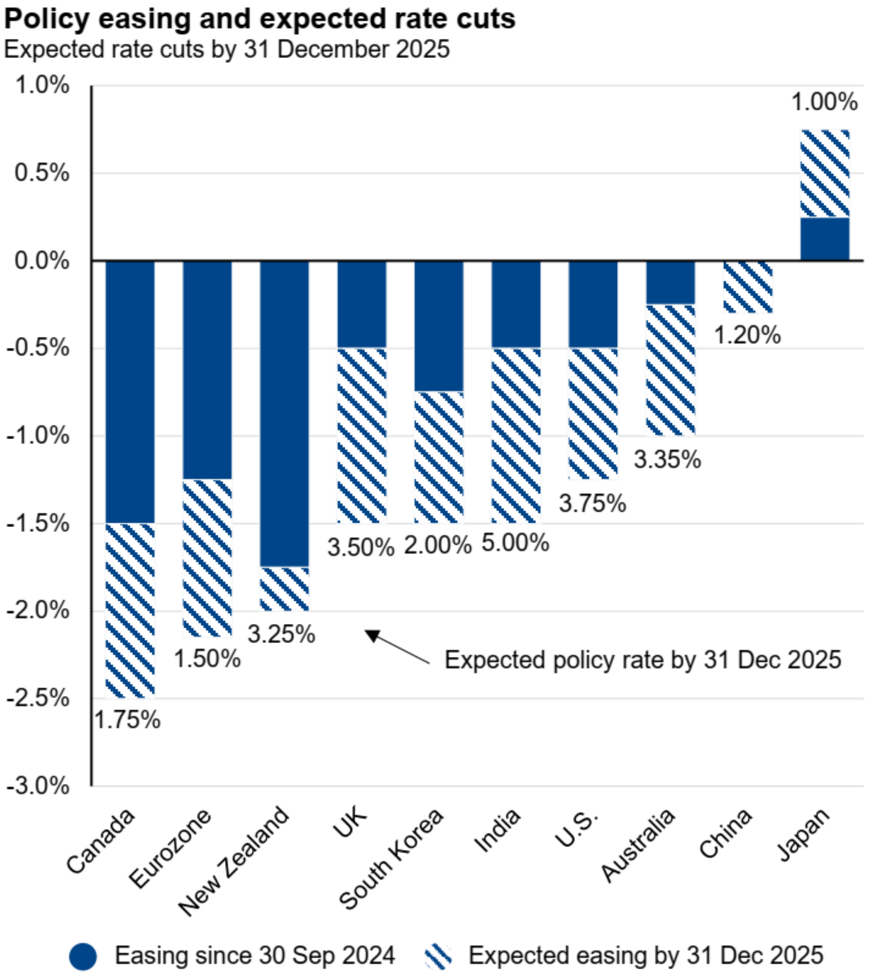
Tariff Implications for US Fed Interest Rate Cuts

Other than Japan, most countries are expected to **cut interest** rates 3-4 times this year.



Tariff uncertainty means the **US Fed** will need to balance the risk of a slowing economy and likely rising inflation.

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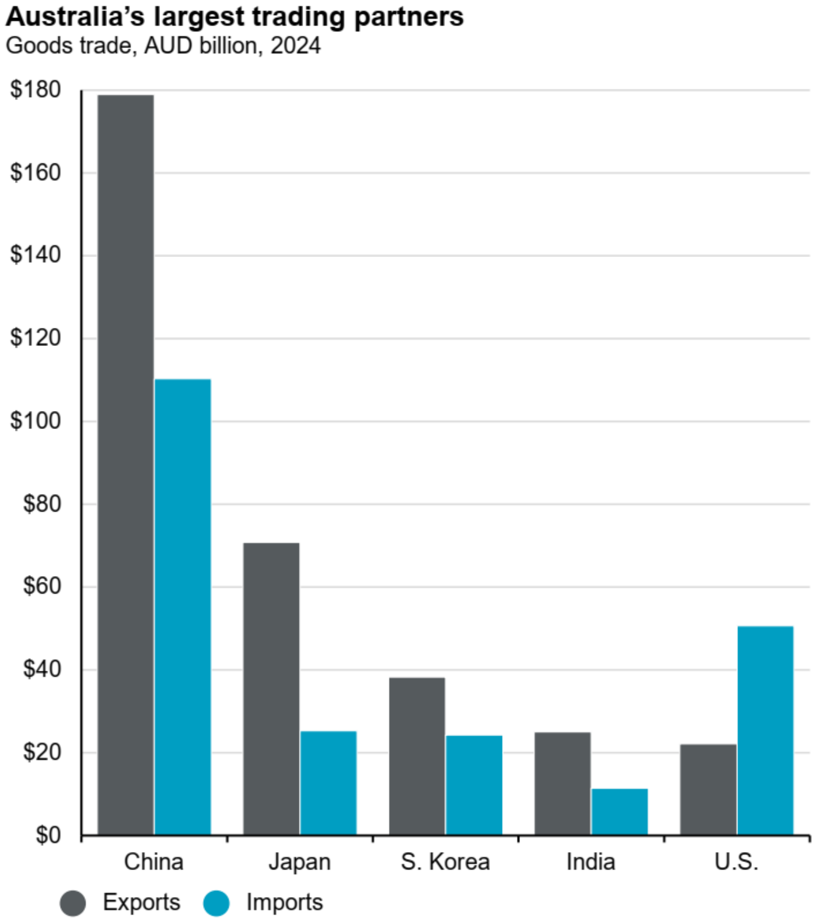
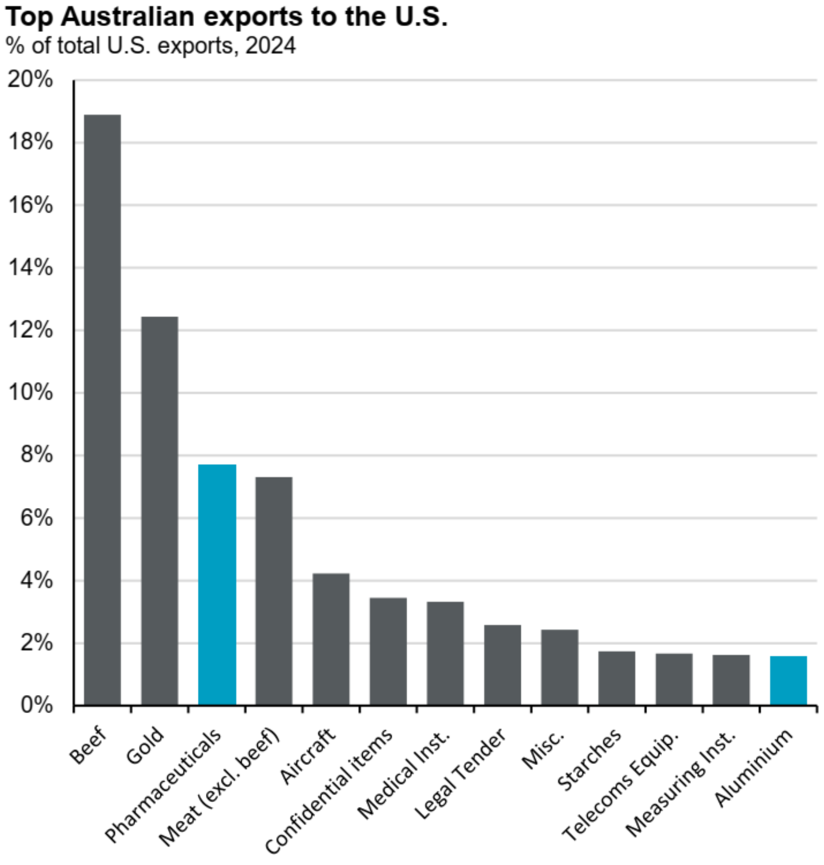
Tariff Implications for Australia

The **10% US tariff** on our exports is bad news for industries affected and there is likely more to come for pharmaceuticals and aluminium. However, only 5% of Australian exports go to the US.

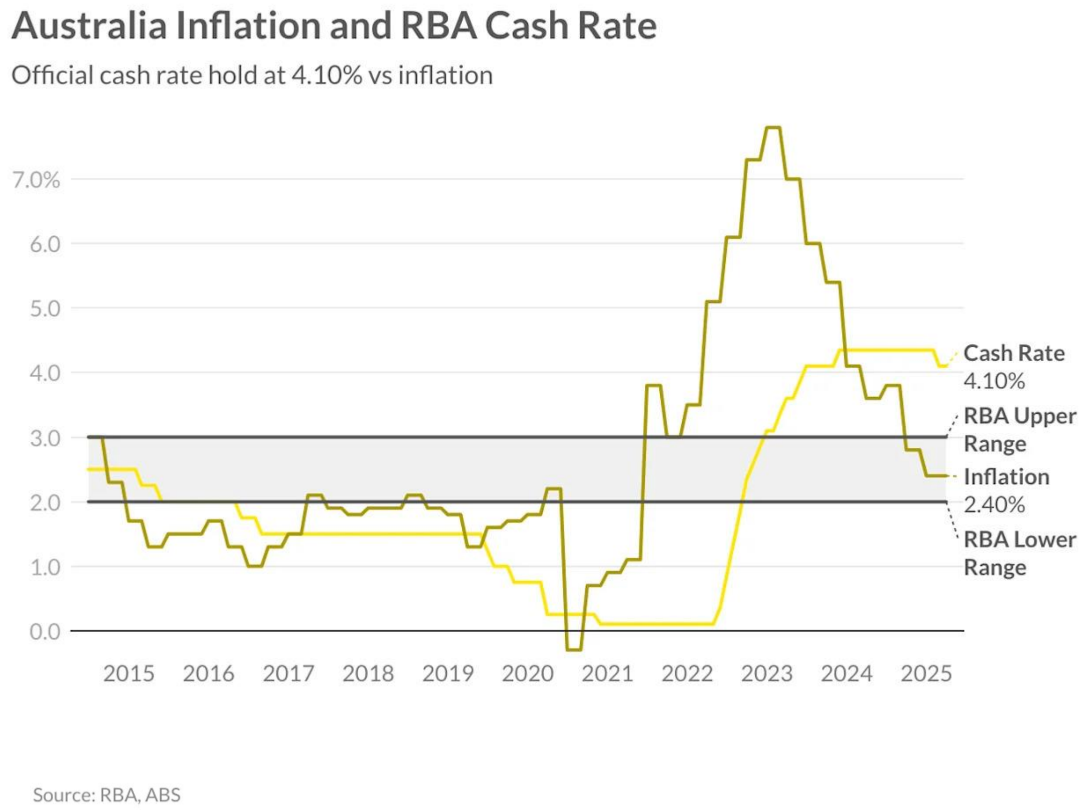




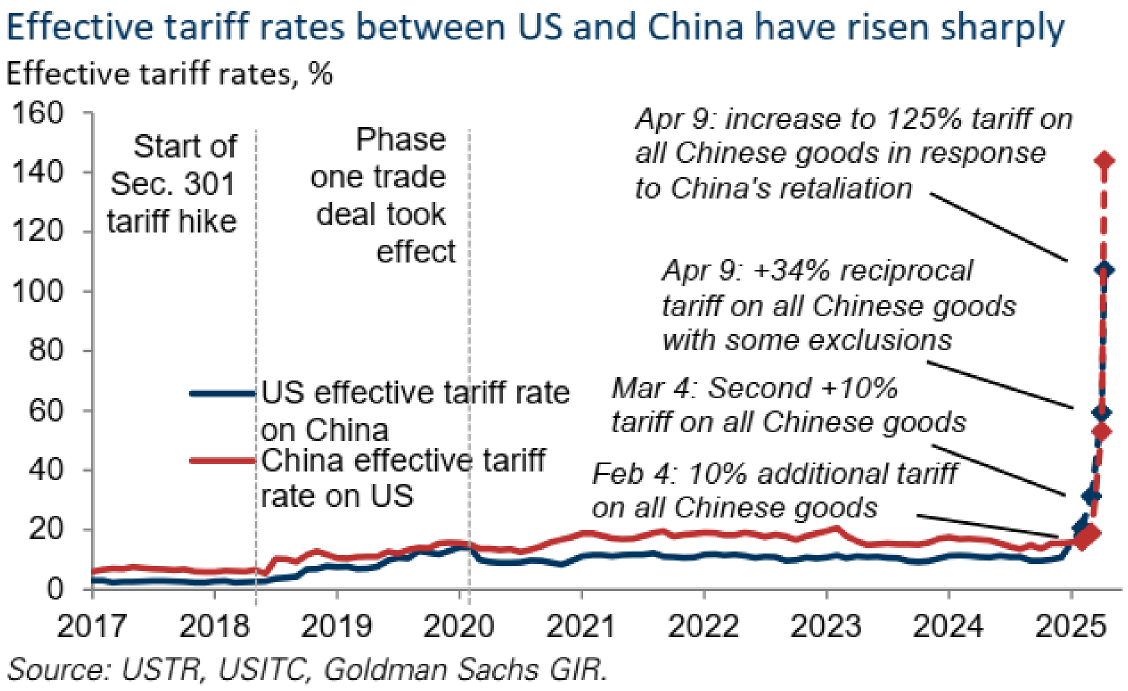
Source: Australian DFAT, J.P. Morgan Asset Management. *Guide to the Markets – Australia*. Data as of 02/05/25.

The Bigger Risk to Australia is a Slowing China

The **RBA** will cut interest rates by 0.25% this month as inflation moderates. How far will they go in 2025?

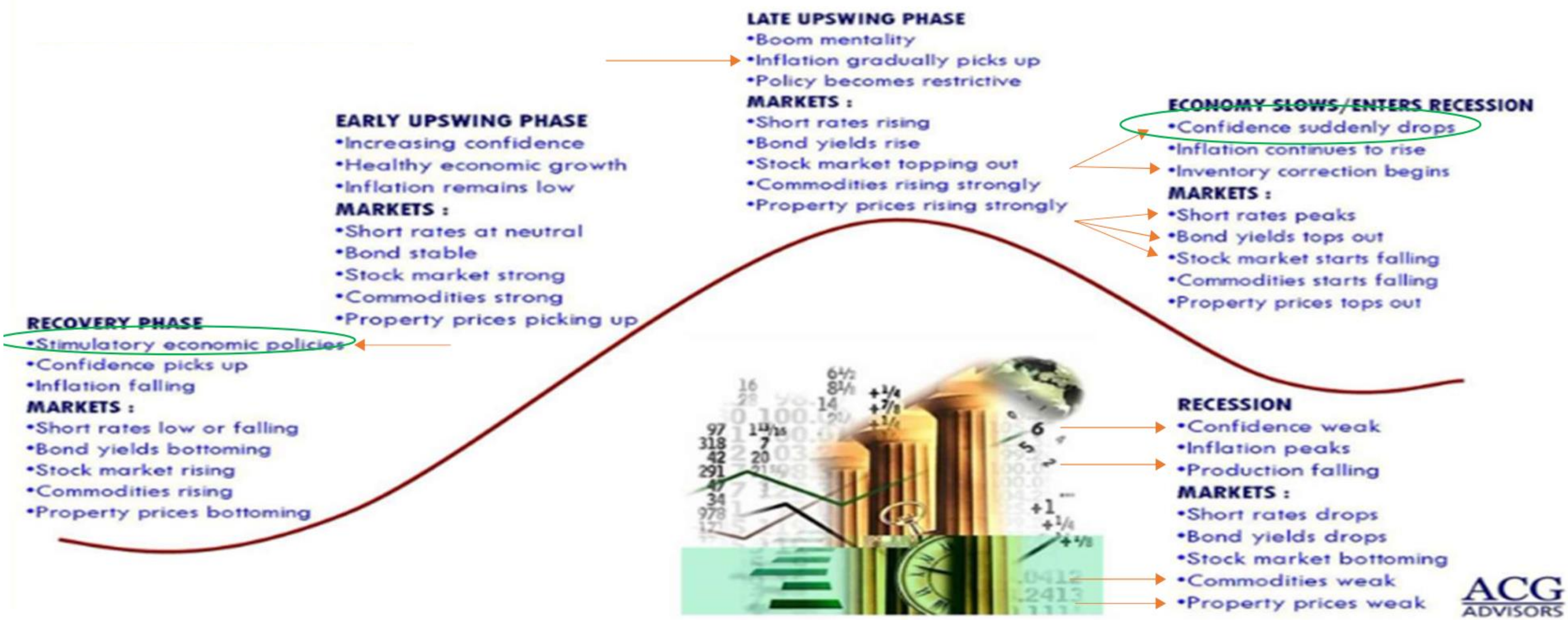


If US tariffs slow China's economy, Australia will feel the impact of this, even without reciprocal tariffs from China.



Macro Overlay: The Economic Cycle

Our **economic cycle clock** now moves more firmly into slowing growth and towards recession phase as the negative impacts of Trump policy sharply weakens US growth prospects and elevates inflation risk = **stagflation**.

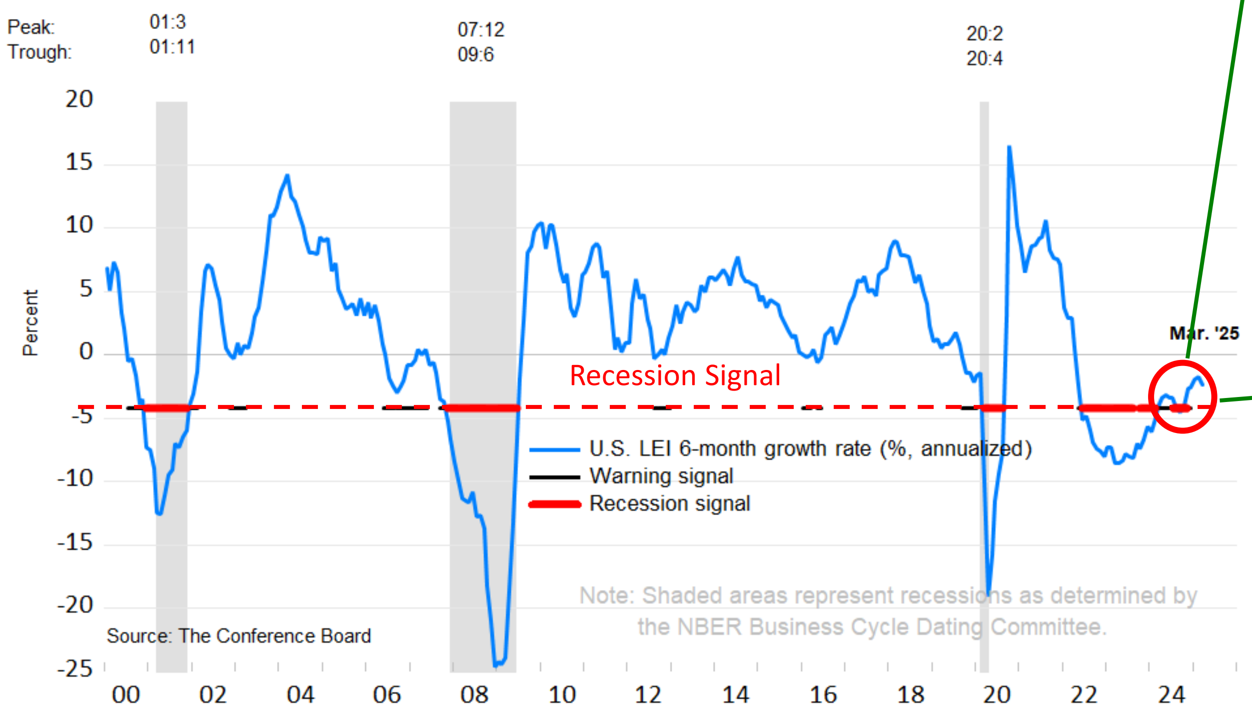


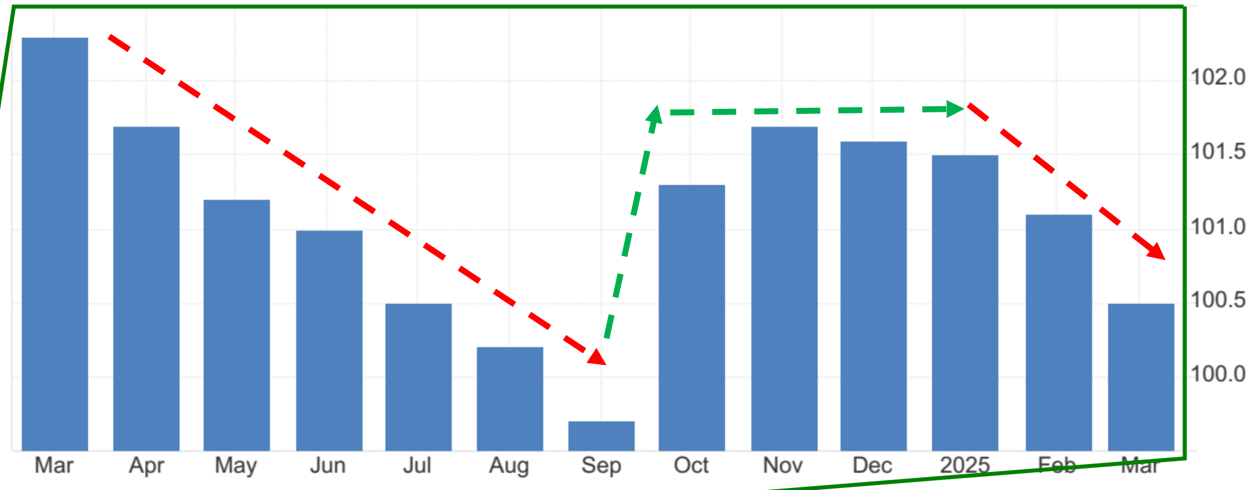
MPW Outlook: US Recession Risks Are Rising

1. Negative Growth (Recession) MPW Probability = Increasing	2. Low Trend Growth (Current) MPW Probability = Medium	3. Strong Growth (Bull Market) MPW Probability = Low
• Inflation is sticky and moves higher	• Inflation is sticky but moderates	• Inflation falls to central bank targets
• Central banks hold or raise rates	• Central banks slowly cut rates	• Central banks are accommodative
• Unemployment rises 1-2%	• Unemployment rises marginally	• Employment growth remains strong
• Savings rates evaporate	• Savings rates are neutral	• Savings rates increase
• Consumer spending slows sharply	• Consumers continue to spend	• Consumer confidence picks up
• Economic data deteriorates	• Economic data not to hot or cold	• Economic data strengthens
• Corporate earnings fall	• Corporate earnings remain positive	• Companies improve productivity
• Geopolitical risks intensify (wars)	• No further sanctions or conflict	• Geopolitical risks and conflict abates
• Tariffs create global trade wars	• Tariffs are moderated	• No tariffs and global trade picks up
Markets are <u>not priced for this</u>, expect further decline from here (~-20% plus)	**Markets <u>are</u> priced for this, value can be selectively found at current levels**	**Markets are <u>starting to price this</u>, risky assets will perform very strongly**

The Narrative Has Turned Negative In 1H 2025

US **Leading Economic Indicators (LEI's)** were suggesting that recession risk was high in 2024, but there was a sharp rebound in these LEI's through the back half of 2024. They are now falling sharply again which increases the risk of recession in 2025.





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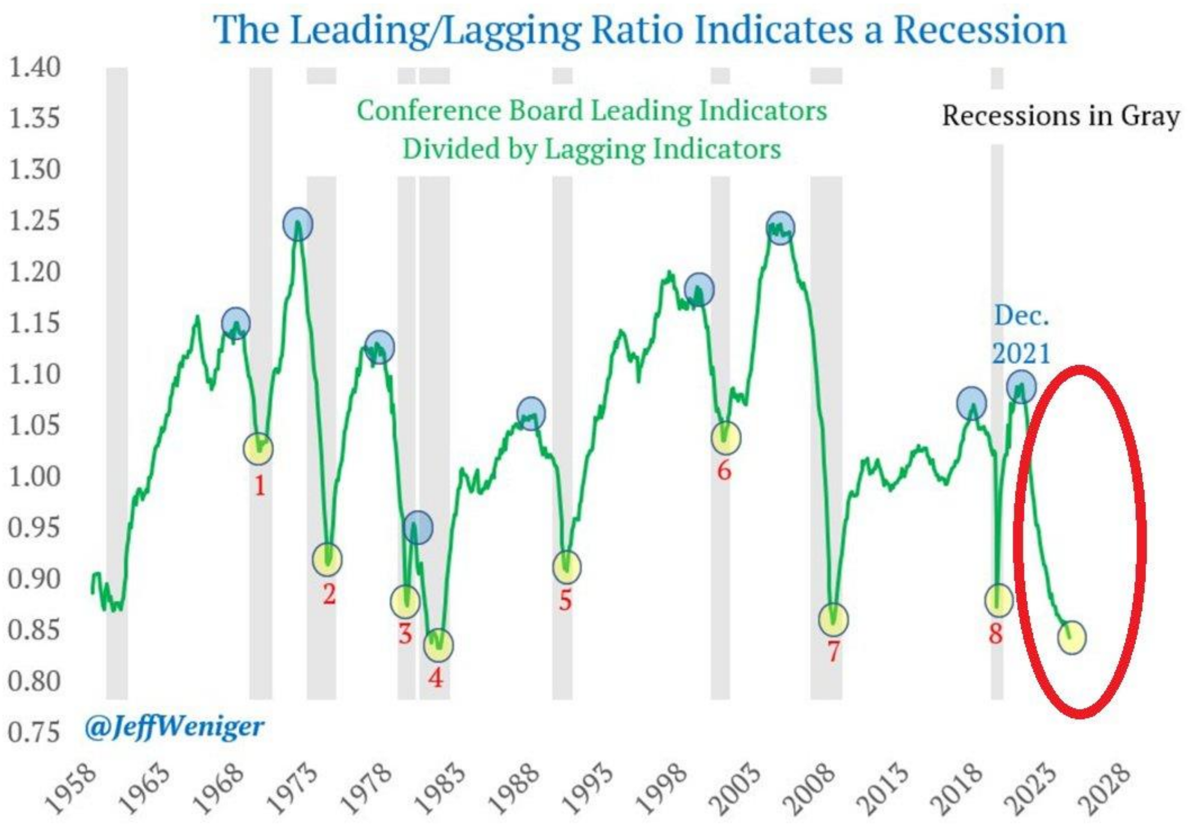
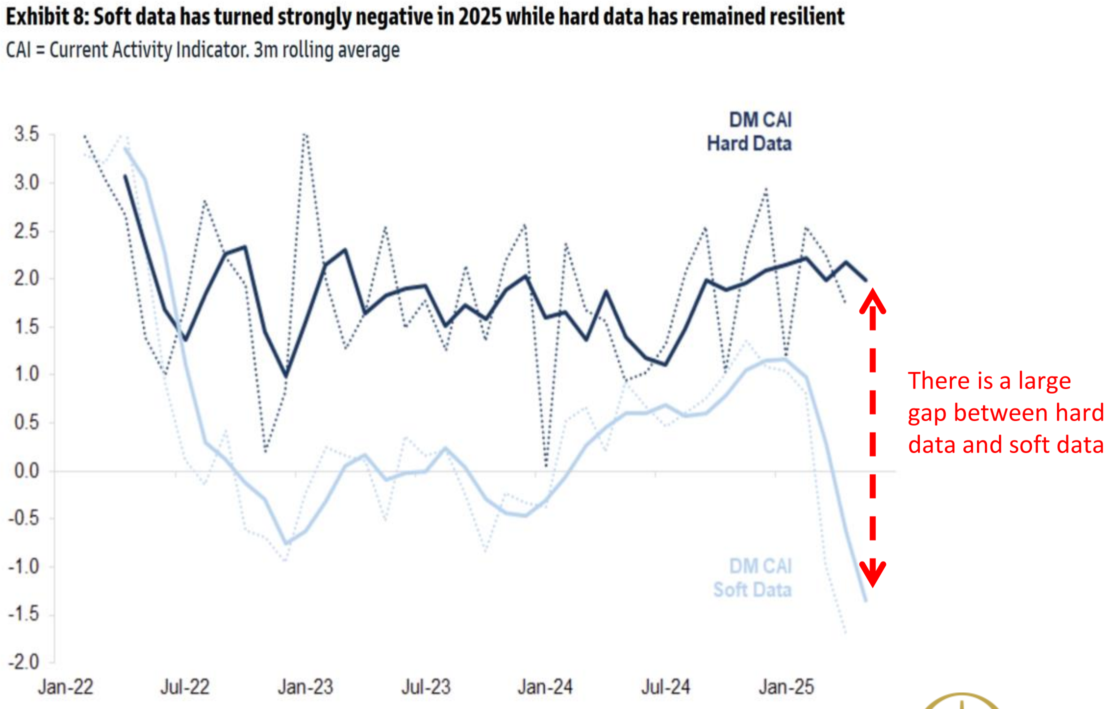
US Lagging Economic Indicators Remain Solid

The **Leading Indicators divided by Lagging Indicators** have dropped to the lowest since the 1980s, with such levels never seen outside of recessions.



Source: Conference Board, Jan. 1959 - March 2025. File #0731

The question from here is whether the 'hard data' or lagging indicators follows the 'soft data' or leading indicators down. If they do, a recession likely unfolds.



Source: Goldman Sachs Global Investment Research

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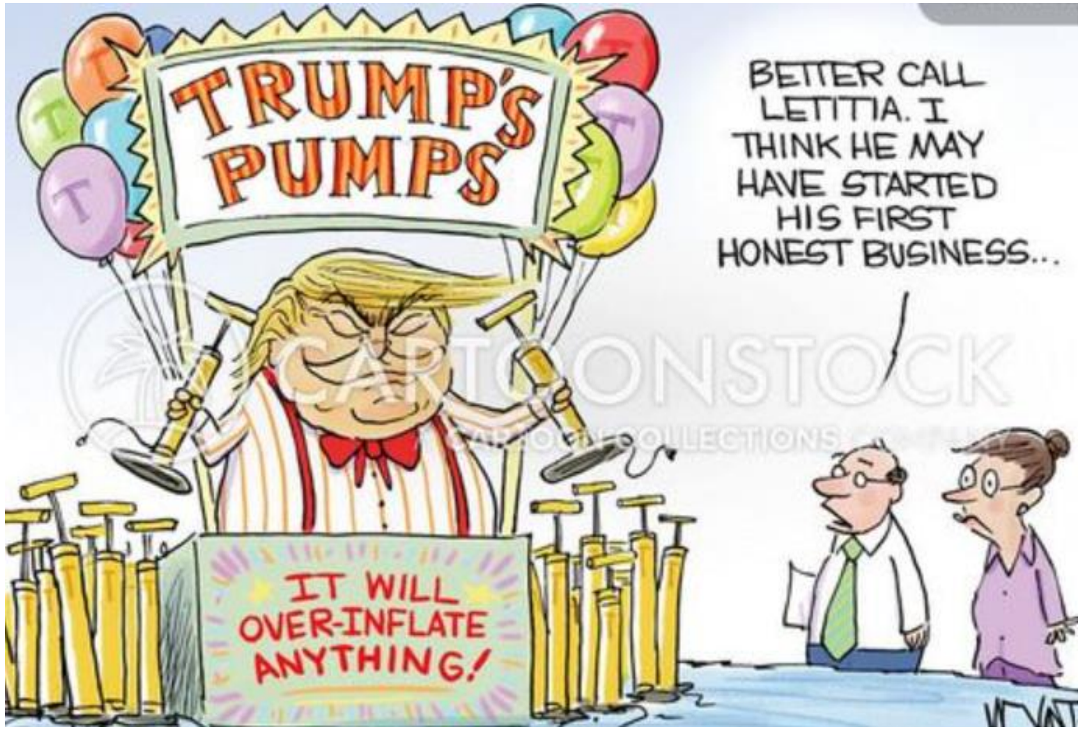
So What Does This Mean For Markets?

Economic fundamentals have deteriorated in recent months and recession risk has increased, with tariff uncertainty keeping the Fed on hold with rate cuts.

BUT…

If tariffs do result in higher inflation and recession, then the Fed will need to make a call on prioritising growth (rate cuts) or fighting inflation. This is yet to be decided.

Stagflation: Growth assets grind higher



Recession: Growth assets revalue down

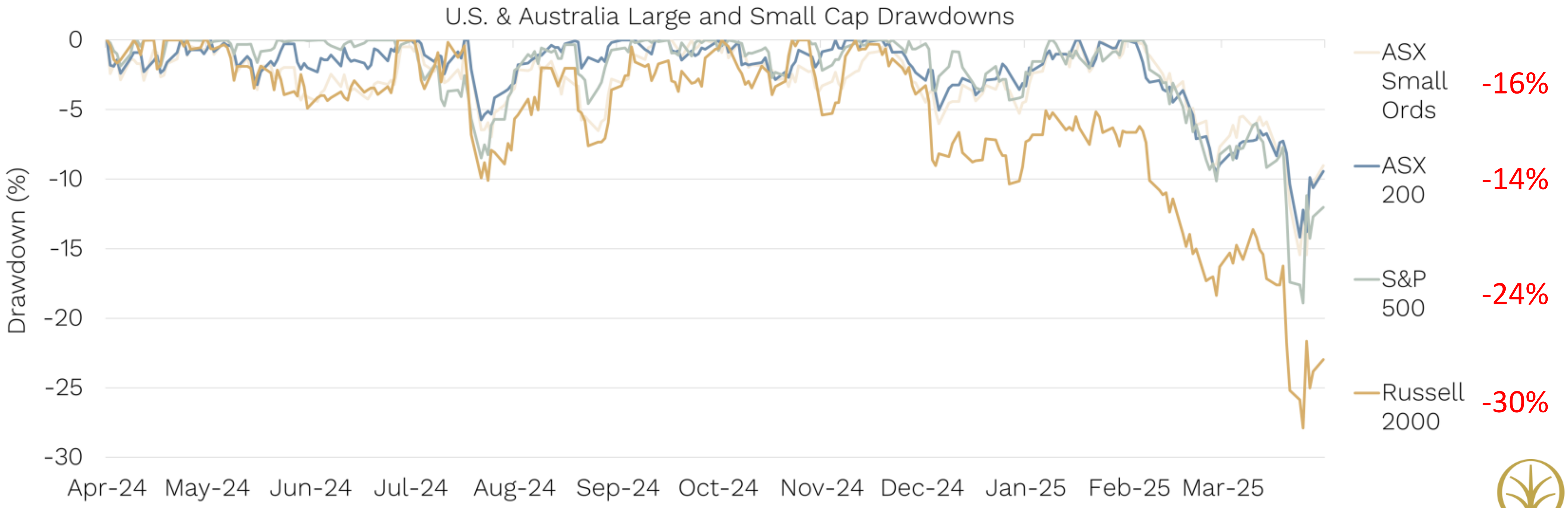
MPW Recommended Portfolio Strategy

Asset Class	Tactical Position	Comment
Currency (AUD vs USD)	Hedged	Hedging USD at current levels, AUD may fall further but it is below the long-term average
Cash & Liquidity	Neutral	RBA will cut rates in May, 1-3 more into year end, hold cash for buying opportunities
Government Bond Duration	Underweight	Long-duration bonds are not pricing in higher for longer inflation. Prefer private debt
Corporate Credit & Debt	Underweight	Listed credit spreads are very low by historical measures, so higher risk. Prefer private debt
Listed Property & Infrastructure	Underweight	Listed assets have had a strong run on rate cuts, prefer to own selective unlisted assets
Listed Australian Shares	Underweight	Expensive, prefer value over growth, resources over banks, and small caps over large caps
Listed International Shares	Underweight	US expensive, Europe and Emerging Markets cheaper, small caps over large caps
Liquid Alternative Assets	Overweight	Selective hedge funds, private debt and equity, commodities, and niche opportunities
Illiquid Alternative Assets	Overweight	Private debt and equity, niche illiquid strategies can provide a long-term return premium

Expect Listed Equity Markets to Remain Volatile

The **drawdown** (peak to trough) for the **US** S&P 500 index was -24% and for the US Russell 2000 (small cap) index was -30%, before the tariff deferment announcement.

The **drawdown** (peak to trough) for the **AS**X 200 index was -14% and for the ASX Small Ords index was -16%, before the tariff deferment announcement.



Source: Bloomberg. Data to 14 April 2025.

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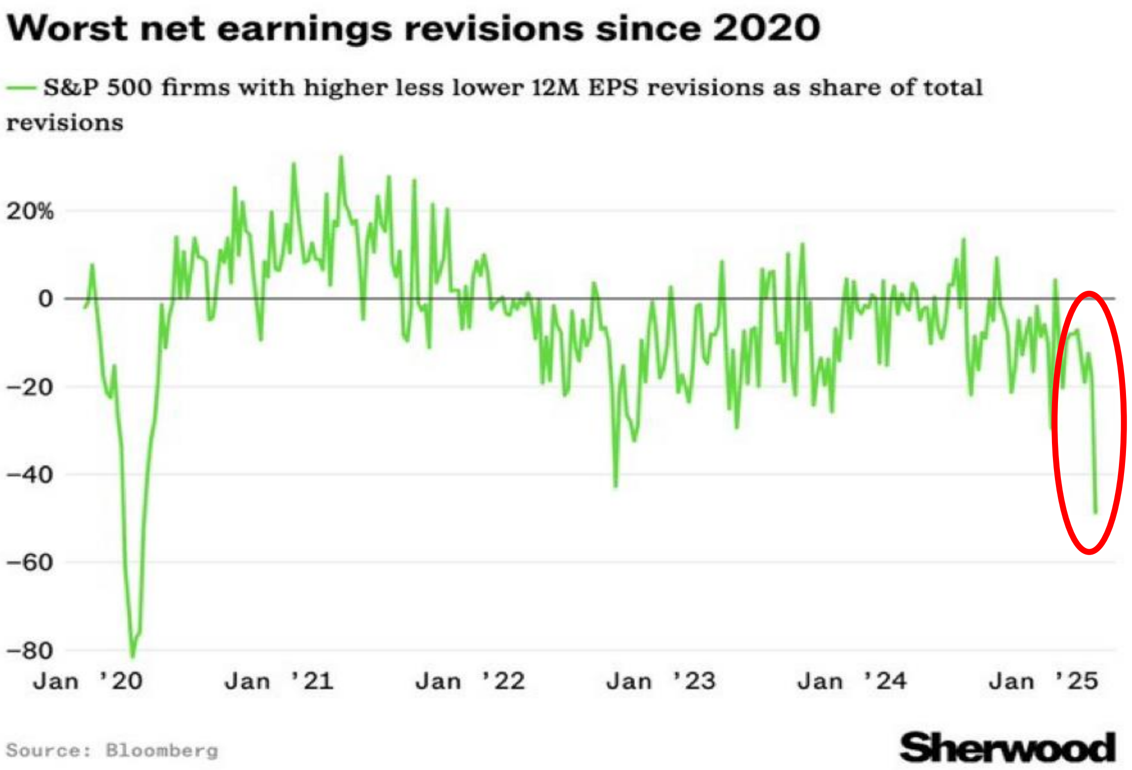
US Corporate Earnings Now Revised Much Lower

US corporate earnings have been revised significantly lower as a result of tariffs, stagflation, and uncertainty. C

Despite this, the US share market remains expensive by most historical measures. Market risk is elevated here.



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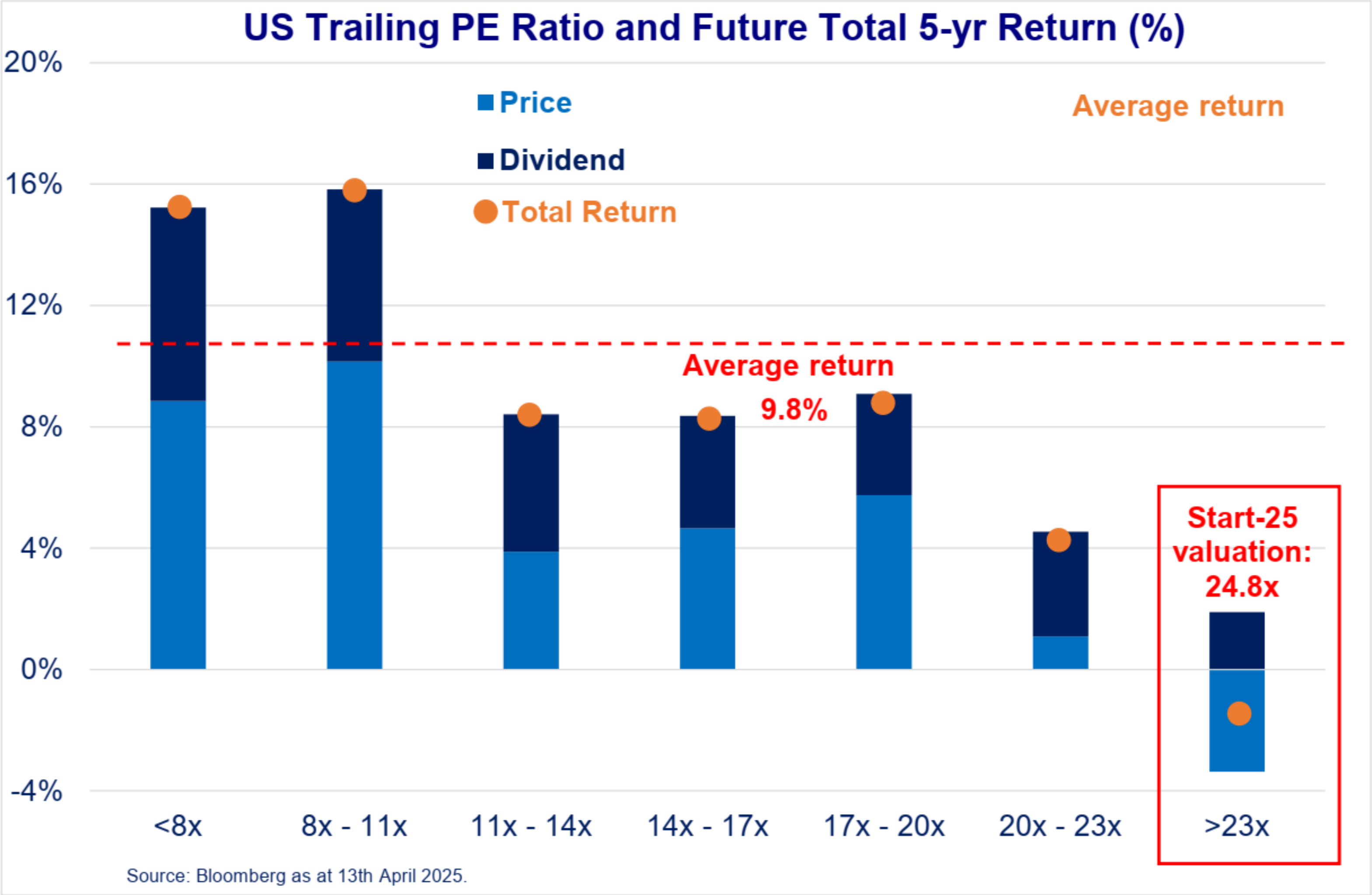
Valuations Matter To Long-Term Returns

Entering 2025, the S&P 500's 12MT valuation was aligned with negative 5Yr returns

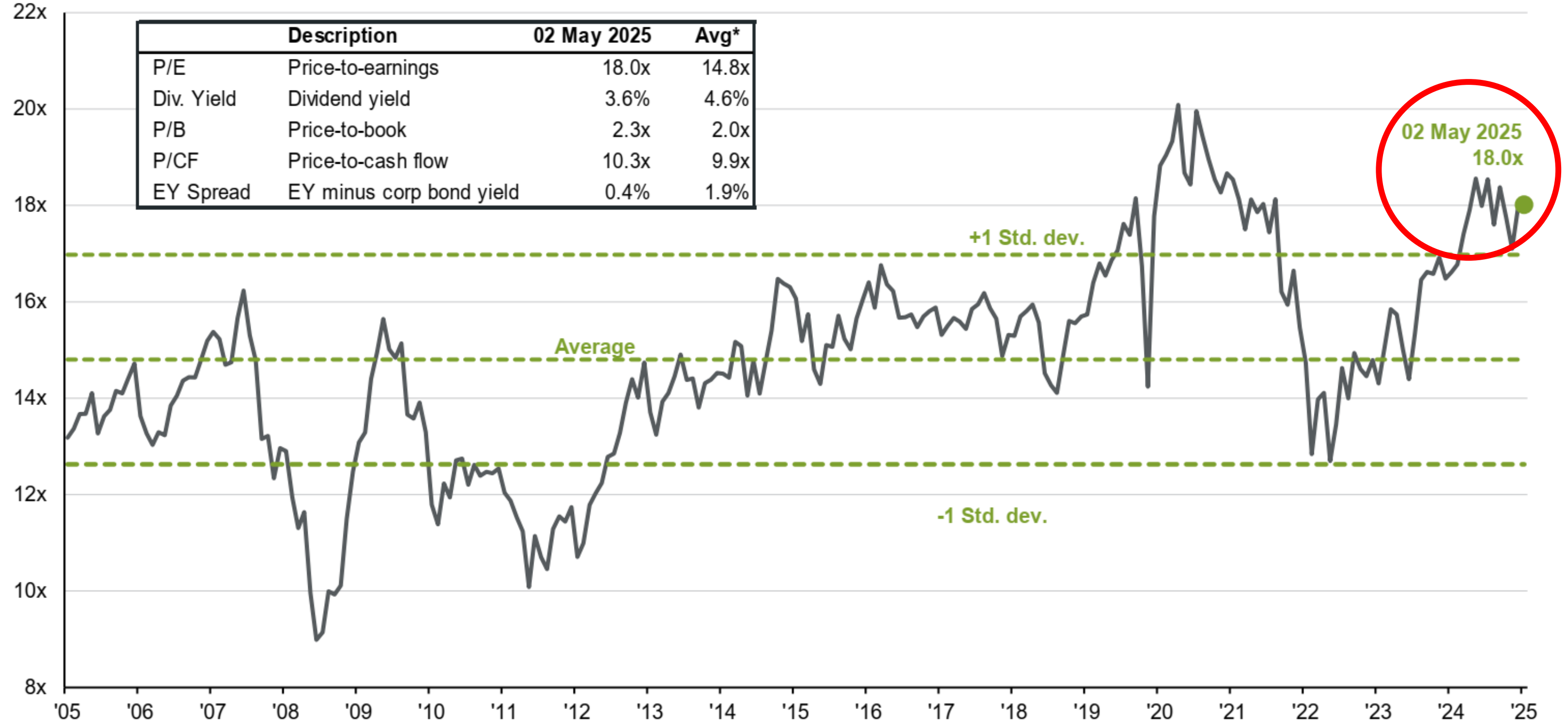


Australian Shares: Expensive & Negative Earnings

Australian shares are not cheap by historical measures and earnings growth is expected to be negative.

ASX 200 Index: Forward P/E ratio

	Description	02 May 2025	Avg*
P/E	Price-to-earnings	18.0x	14.8x
Div. Yield	Dividend yield	3.6%	4.6%
P/B	Price-to-book	2.3x	2.0x
P/CF	Price-to-cash flow	10.3x	9.9x
EY Spread	EY minus corp bond yield	0.4%	1.9%



ASX 200 earnings revisions

Change in next 12-month earnings, year-over-year

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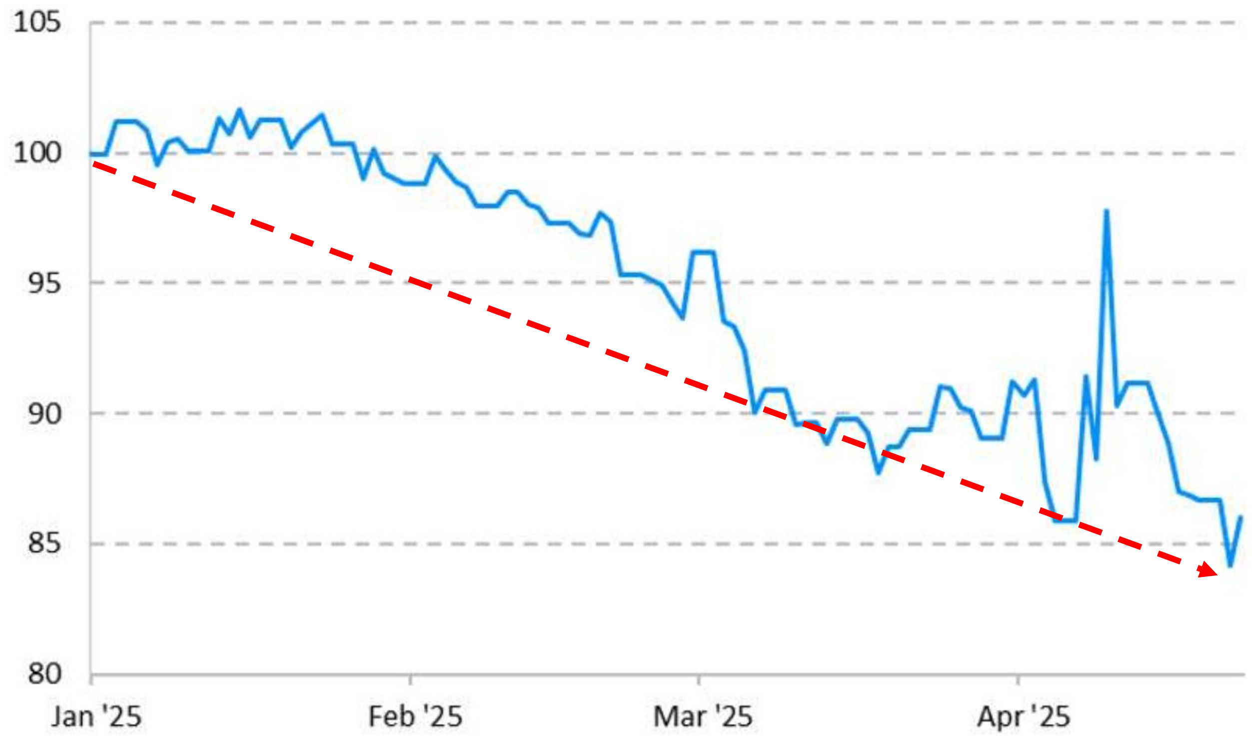
There Has Been a Rotation Out of US Stocks

Global equities have significantly outperformed US equities in 2025 as uncertainty in the US increases.

Resilient at first, U.S. equities have plunged as the global trade war has escalated

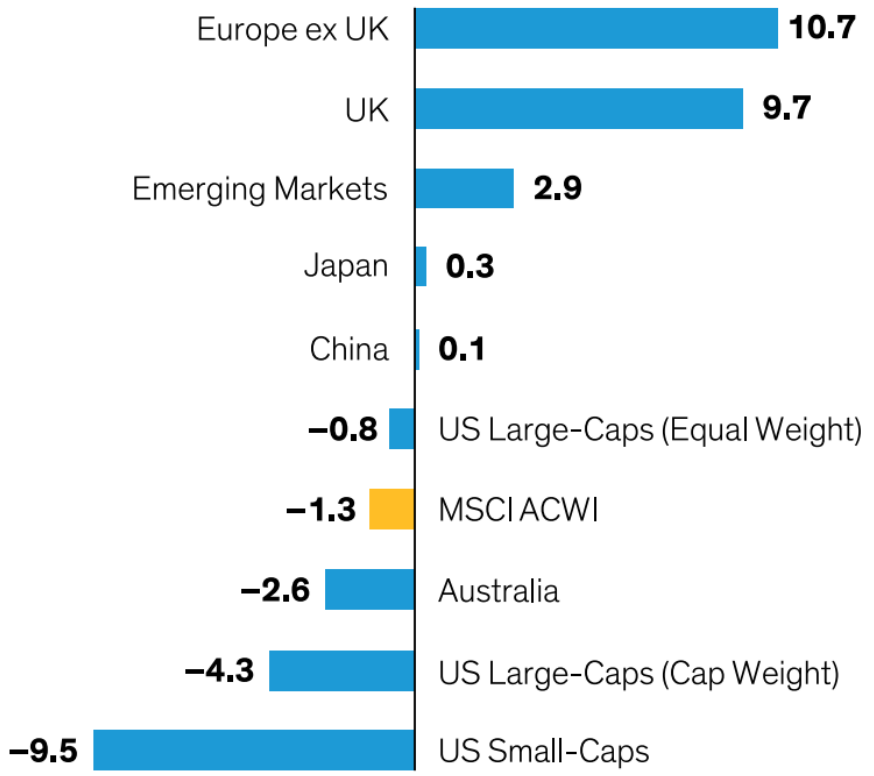
Exhibit 6: U.S. equities vs. MSCI ACWI ex-US YTD performance



Source: Bloomberg, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025. Index: Jan 1, 2025 = 100.

Regional Returns: January–March 2025*

USD (percent)



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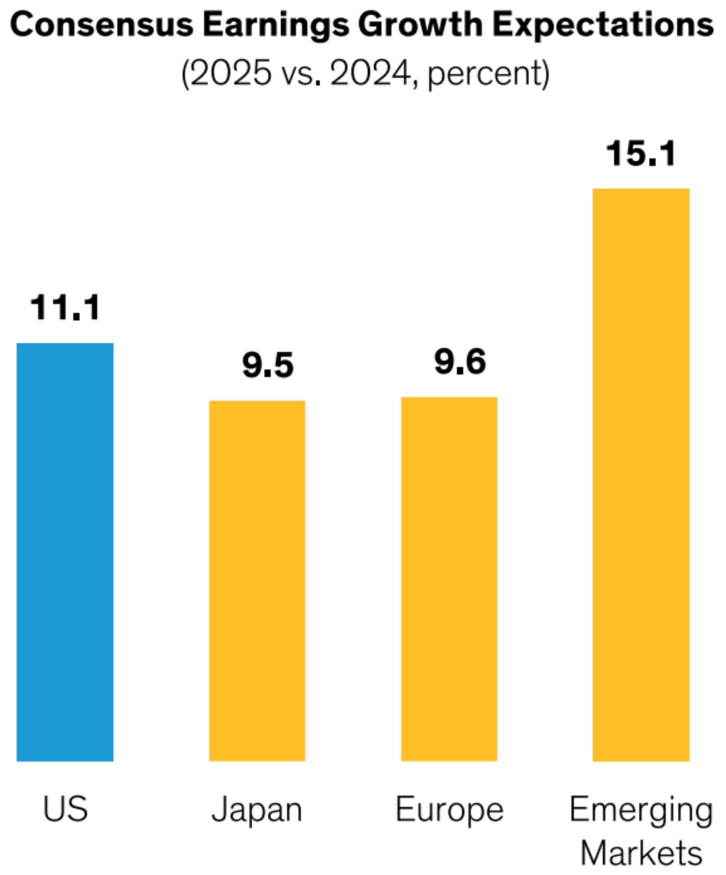
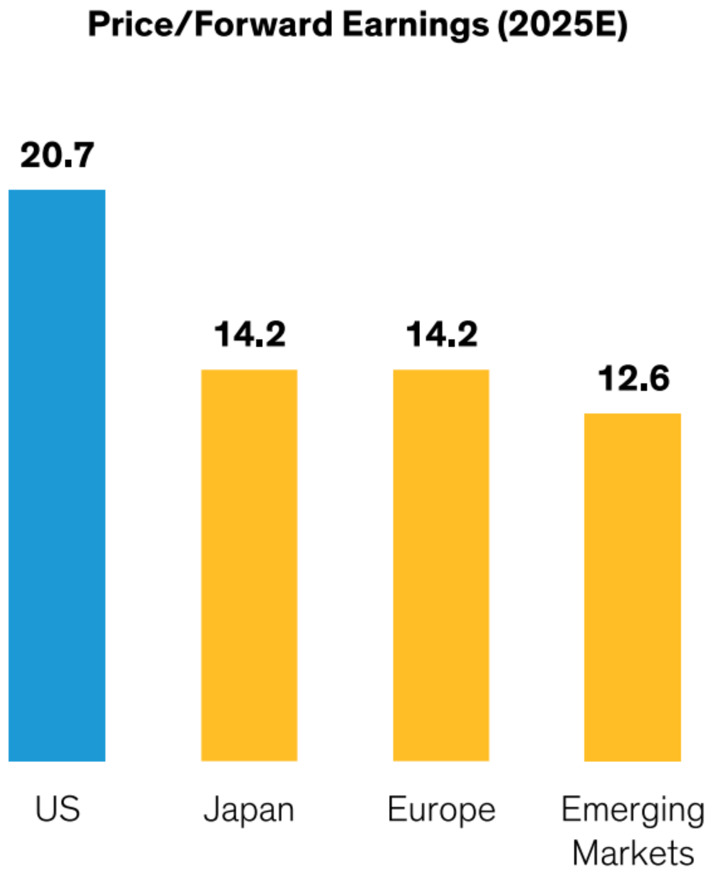
We Remain Positive on Emerging Markets

Emerging Market earnings growth is expected to be higher than other regions and they are also cheaper on a relative basis.





Source: FactSet, MSCI, S&P and AB As of March 31, 2025

The Role of Alternative Assets In Portfolios

<u>Framework-driven portfolio construction: What role do different categories play in the portfolio?</u>

	Fixed income-like	Hybrids	Equity-like	
RETURN ENHANCERS Global diversification and tactical/ opportunistic returns	Distressed credit	Special situations	Private Equity, Venture Capital	LOWER Income/ HIGHER Volatility
CORE COMPLEMENTS Added diversification and/or enhanced returns	Corporate mezzanine loans	Hedge funds	Noncore real assets	
CORE FOUNDATION Stable Income with lower volatility, diversification ad inflation sensitivity	Core Private credit	Core real assets, infrastructure and transport	Low volatility core equity	HIGHER Income/ LOWER Volatility

= MPW High Conviction Overweights

Source: JP Morgan Asset Management Alternative Solutions Group & MPW

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Alternative Asset Class Returns – 10 Years

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Sep-24	2014-2023 Ann.	2014-2023 Vol.*
Venture Capital 26.0%	Infra. 15.5%	Infra. 14.2%	Private Equity 22.9%	Venture Capital 21.2%	60/40 Portfolio 22.4%	Venture Capital 58.3%	Venture Capital 49.8%	Transport 12.1%	60/40 Portfolio 18.0%	60/40 Portfolio 15.0%	Venture Capital 16.2%	Venture Capital 13.2%
Infra. 13.9%	Venture Capital 15.1%	Private Equity 12.2%	Venture Capital 14.8%	Infra. 11.6%	Venture Capital 20.3%	Private Equity 24.1%	Private Equity 37.6%	Infra. 9.6%	50/30/20 Portfolio 15.2%	50/30/20 Portfolio 13.3%	Private Equity 14.5%	60/40 Portfolio 10.2%
U.S. Core RE 12.5%	U.S. Core RE 15.0%	Direct Lending 11.2%	60/40 Portfolio 14.5%	Europe Core RE 9.9%	50/30/20 Portfolio 20.3%	60/40 Portfolio 14.0%	U.S. Core RE 22.2%	U.S. Core RE 7.5%	Direct Lending 12.1%	Hedge Funds 10.1%	Infra. 10.6%	50/30/20 Portfolio 8.6%
Europe Core RE 12.3%	Europe Core RE 12.8%	APAC Core RE 10.4%	50/30/20 Portfolio 14.3%	APAC Core RE 9.3%	Private Equity 16.8%	50/30/20 Portfolio 13.8%	50/30/20 Portfolio 17.9%	APAC Core RE 6.8%	Private Equity 9.6%	Transport 8.9%	Direct Lending 8.8%	Private Equity 8.5%
50/30/20 Portfolio 10.9%	APAC Core RE 11.8%	U.S. Core RE 8.8%	Infra. 12.2%	Private Equity 9.0%	Infra. 11.5%	Hedge Funds 8.9%	60/40 Portfolio 16.6%	Direct Lending 6.3%	Transport 8.9%	Direct Lending 8.5%	50/30/20 Portfolio 8.6%	U.S. Core RE 5.5%
60/40 Portfolio 10.6%	Private Equity 8.8%	50/30/20 Portfolio 8.5%	APAC Core RE 11.5%	U.S. Core RE 8.3%	Europe Core RE 9.4%	Transport 6.8%	Europe Core RE 14.2%	Europe Core RE 4.6%	Infra. 7.9%	Infra. 7.5%	60/40 Portfolio 8.1%	Hedge Funds 5.4%
Private Equity 9.8%	Transport 8.8%	60/40 Portfolio 8.2%	Transport 10.6%	Direct Lending 8.1%	Direct Lending 9.0%	Direct Lending 5.5%	Hedge Funds 13.9%	Private Equity -1.5%	Hedge Funds 4.5%	Private Equity 5.7%	Transport 7.6%	Transport 4.6%
Direct Lending 9.6%	Direct Lending 5.5%	Europe Core RE 8.1%	Europe Core RE 9.8%	Transport 5.2%	APAC Core RE 6.6%	Europe Core RE 4.8%	Direct Lending 12.8%	Hedge Funds -2.8%	Venture Capital -2.2%	Europe Core RE 2.9%	APAC Core RE 7.5%	Europe Core RE 4.2%
APAC Core RE 9.4%	50/30/20 Portfolio 2.9%	Transport 7.8%	Direct Lending 8.6%	50/30/20 Portfolio -0.4%	Hedge Funds 5.6%	U.S. Core RE 1.2%	APAC Core RE 11.8%	50/30/20 Portfolio -12.7%	APAC Core RE -2.3%	Venture Capital 2.8%	U.S. Core RE 7.3%	Infra. 3.4%
Transport 4.6%	60/40 Portfolio 1.1%	Hedge Funds 3.2%	Hedge Funds 8.5%	Hedge Funds -1.2%	U.S. Core RE 5.3%	APAC Core RE 0.3%	Infra. 10.5%	60/40 Portfolio -16.1%	Europe Core RE -4.9%	APAC Core RE -1.9%	Europe Core RE 7.2%	Direct Lending 2.9%
Hedge Funds 4.3%	Hedge Funds -0.2%	Venture Capital 0.6%	U.S. Core RE 7.6%	60/40 Portfolio -2.6%	Transport 1.5%	Infra. 0.2%	Transport 10.3%	Venture Capital -20.5%	U.S. Core RE -12.0%	U.S. Core RE -2.6%	Hedge Funds 4.4%	APAC Core RE 2.7%

Source: Bloomberg, Burgiss, Cliffwater, FactSet, HFRI, MSCI, NCREIF, J.P. Morgan Asset Management.

Why We Like Private Debt Over Listed Debt

Direct Lending

- **What:** Non-banking institutions making Loans directly to private companies
- **Examples:** Middle Market companies, lending to distresses companies, special situations

Asset based Lending

- **What:** Loans issued to borrowers that are secured by hard collateral.
- **Examples:** Manufacturing equipment, shipping containers, airplanes.

Specialty Finance

- **What:** Loans issued to borrowers that are secured by tangible collateral tied to future cash flows
- **Examples:** Music royalties, future cash flows + receivables, litigation finance.

Real Estate Lending

- **What:** Loans issued to borrowers that are secured by commercial and residential properties.
- **Examples:** Commercial, residential real estate lending.

Benefits of private credit:

1. Enhanced Yield
2. Low Correlation
3. Diversification
4. Inflation and Interest Rate Risk Protection

Who Are The Borrowers of Private Credit?

Non-Bank Private Debt Funds lend money to quality Australian businesses (below), just like banks do.

Seniority in the Capital Structure Is Critical

Ranking

(For Interests/Distributions & Capital Returns)

Highest Priority
Lowest Risk

Senior Debt

- Superior position in the capital structure
- First-order claim on assets and/or earnings of a borrower
- Can be either secured or unsecured
- If secured can enforce claims ahead of unsecured creditors

Subordinated / Junior Debt

- Junior or second-order claim on assets and/or earnings of a borrower
- Generally higher yielding than senior debt
- Can benefit from upside via equity instruments that are attached to the debt structure

Preferred Equity

- Receives preferred payment in respect to dividends
- Rank ahead of common equity in an insolvency situation

Common Equity

- Unlimited upside but no downside protection
- No right to contracted or preferred distributions
- Typically, first loss in an Insolvency or corporate reorganisation

Lowest Priority
Highest Risk

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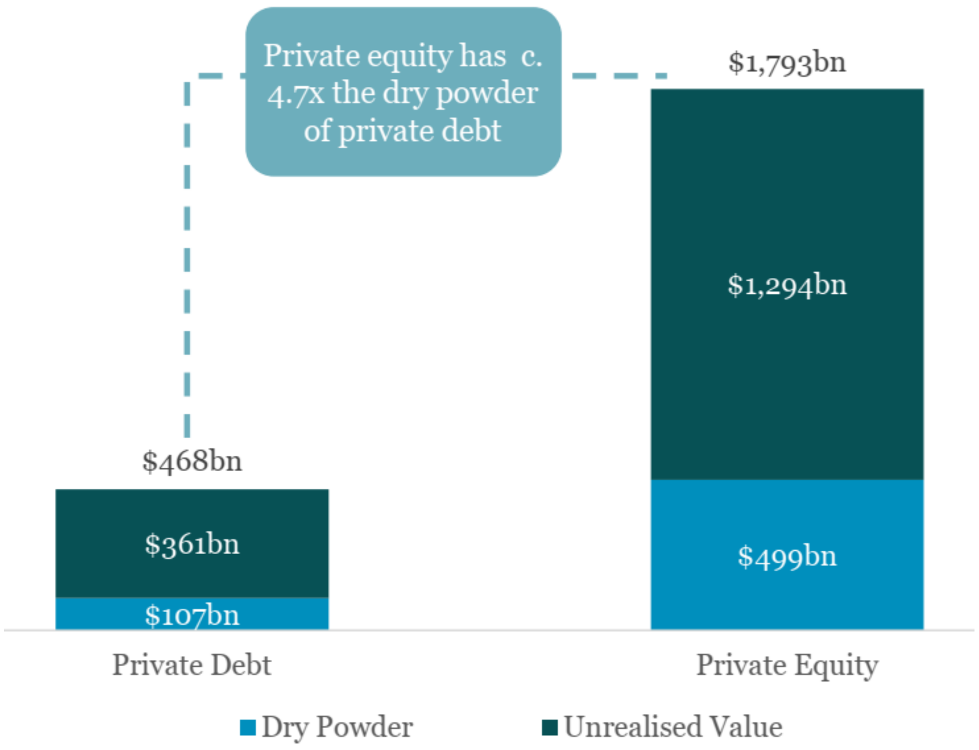
Private Credit Demand & Default Rates

Private equity dry powder is driving long-term supply of deals for the private debt market.

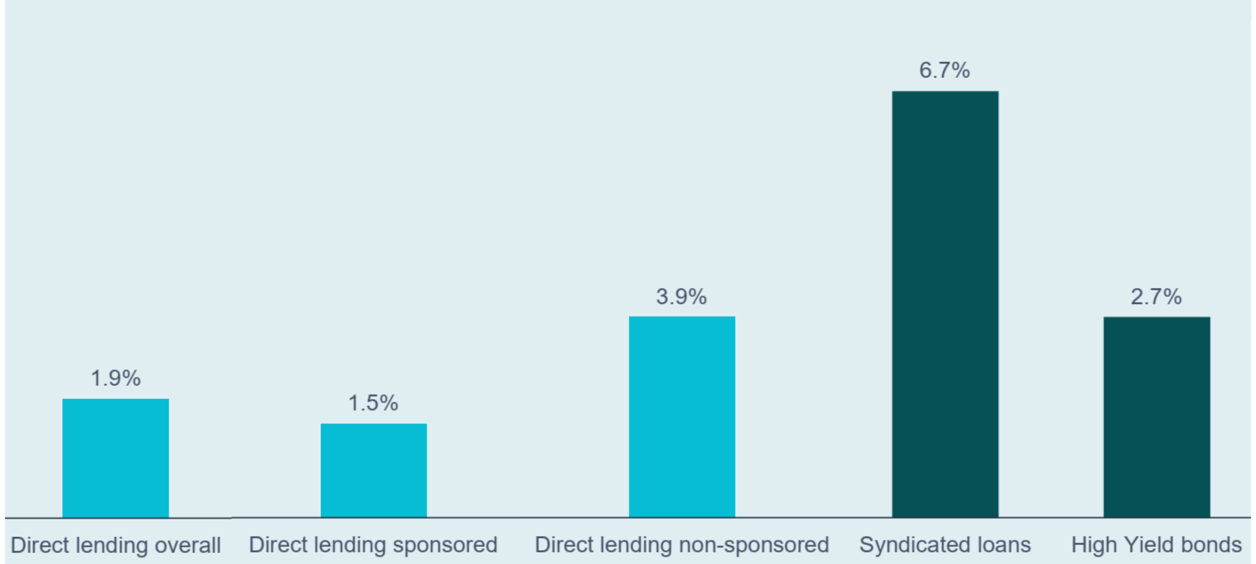
Private debt default rates are much lower compared to public market syndicated loans or high yield debt.

Private equity and private debt dry powder[1]



. Source: Preqin. Data downloaded December 2024;.

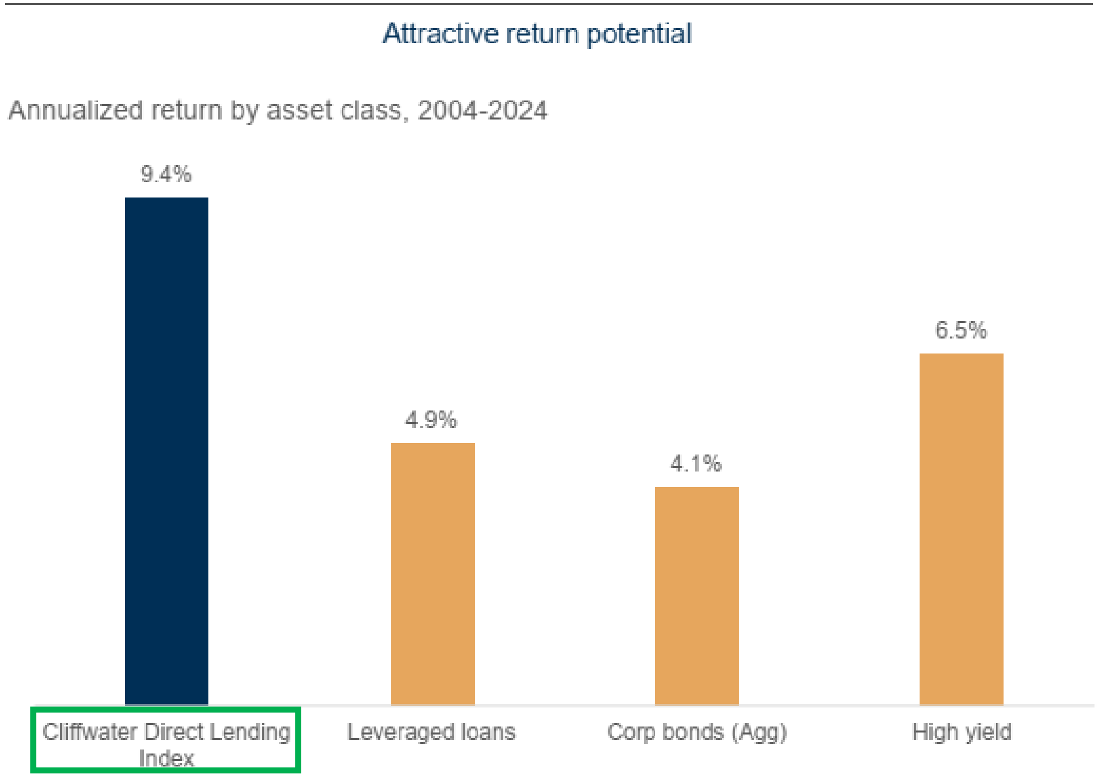
TTM default rates (January 2025)[1]

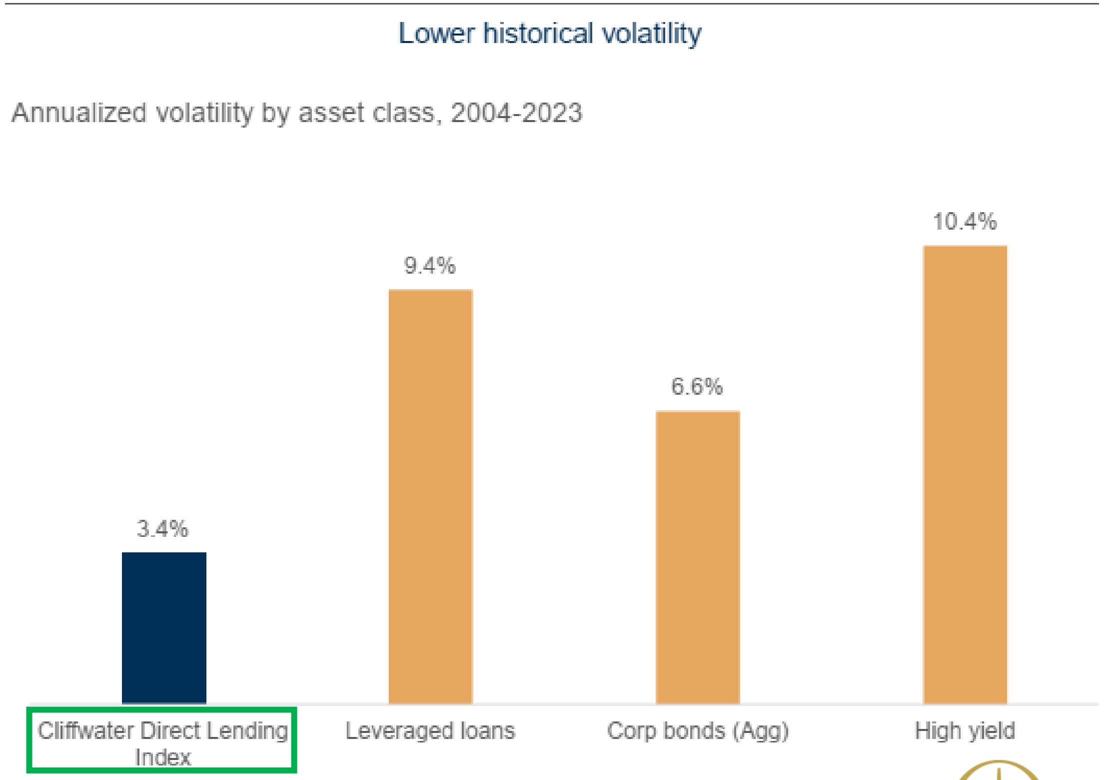


1. KBRA DLD Direct Lending Default Research. As of January 23, 2025.

Private Debt Has Outperformed With Lower Risk

Private direct lending strategies are yielding ~9% pa (equity-like returns) with less volatility than public market debt.

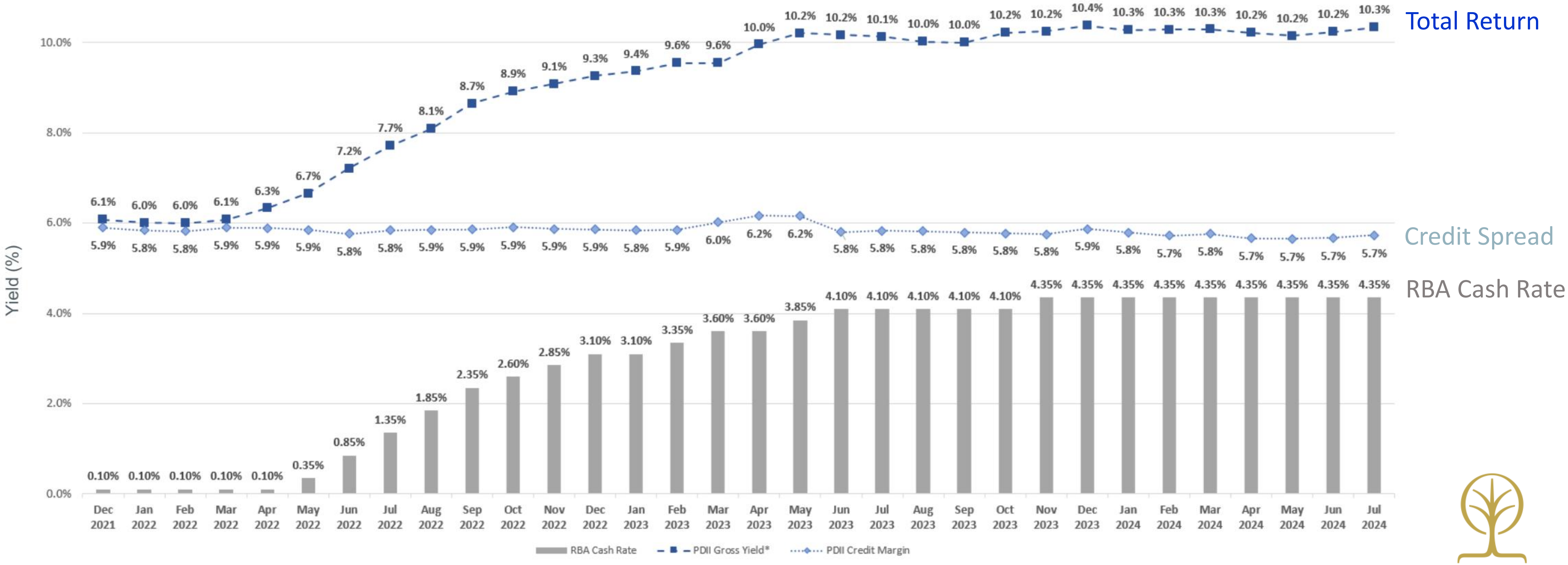




Sources for both charts: Apogem analysis. Direct lending returns are sourced from Cliffwater Direct Lending Index. Source for public credit returns (leveraged loan, corporate bonds, and high yield bonds) is Bloomberg. Data through December 31, 2024.

Private Debt Yields & Interest Rates

Private Debt is floating rate and rises and falls with cash rates, but always offers a superior yield.

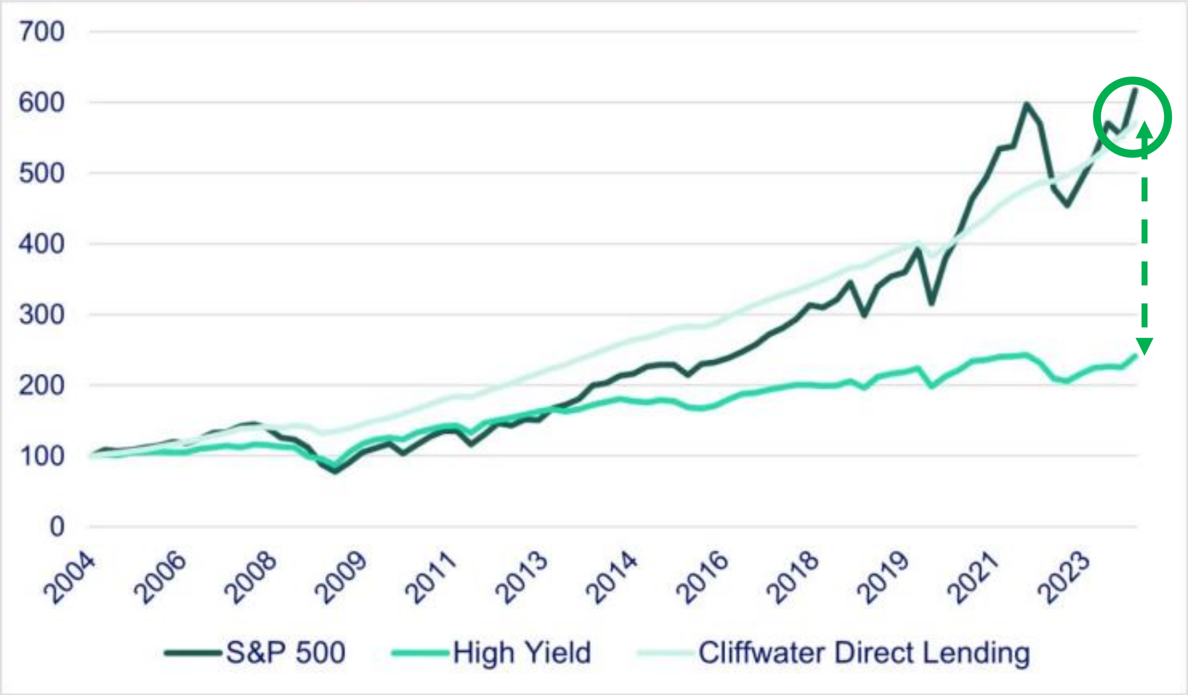


Source: Revolution Asset Management

Private Debt: Equity - Like Returns With Lower Risk

Adding private debt to a portfolio improves your risk-adjusted returns.

Direct Lending Returns Compared to Public Markets



Direct Lending Risk & Returns Compared to Public Markets

Source: Bloomberg, as of March 2024; Cliffwater Direct Lending Index, as of December 2023.

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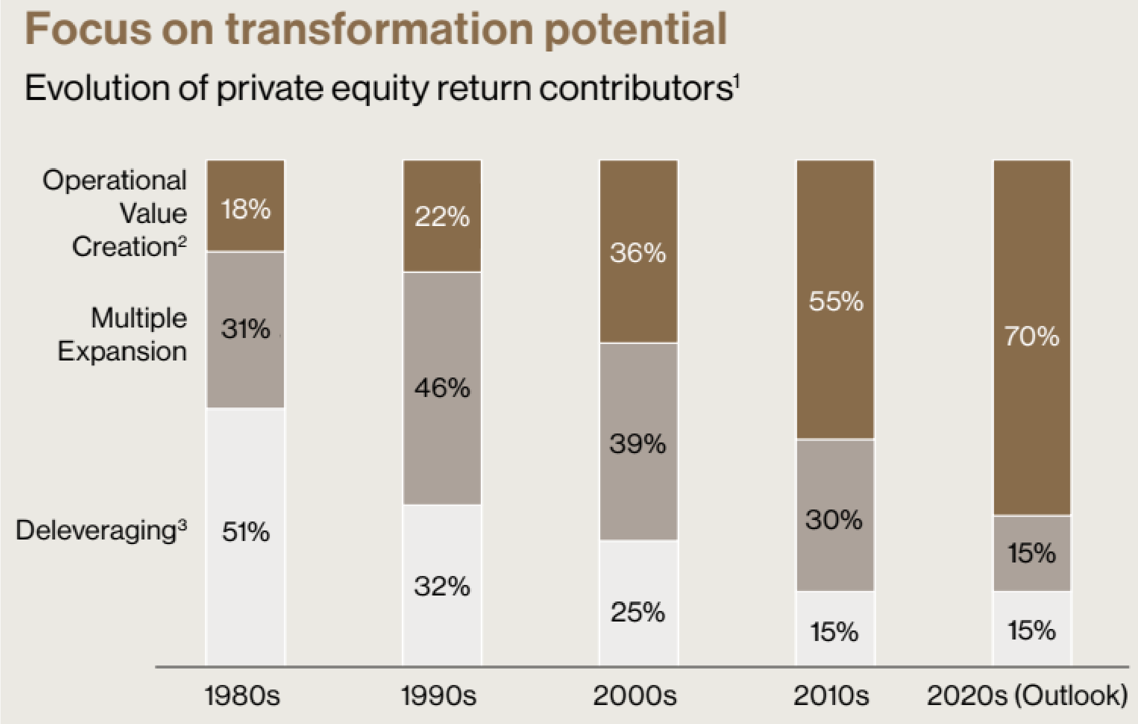
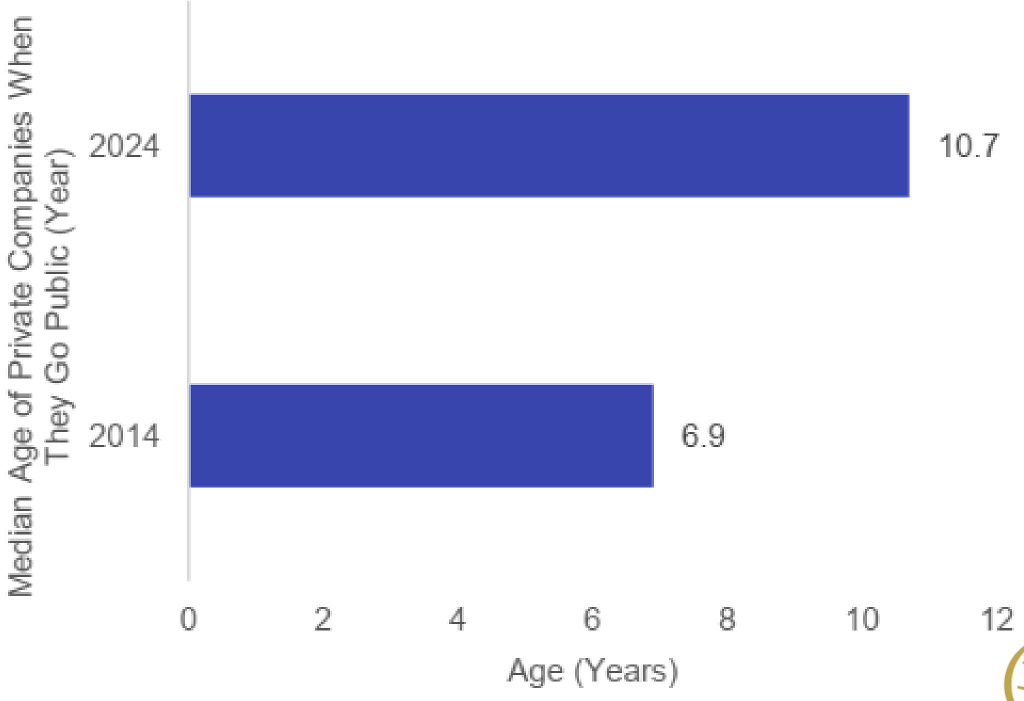
Private Equity Has Evolved

Private Equity has evolved and is now more focused on 'value-creation' for businesses rather than leverage and multiple expansion. This is what we want to own.

Companies are staying private for longer, so many of the best opportunities are being missed by investors who only focus on public listed markets.





Source: Morningstar and Pitchbook. Published June 2024.

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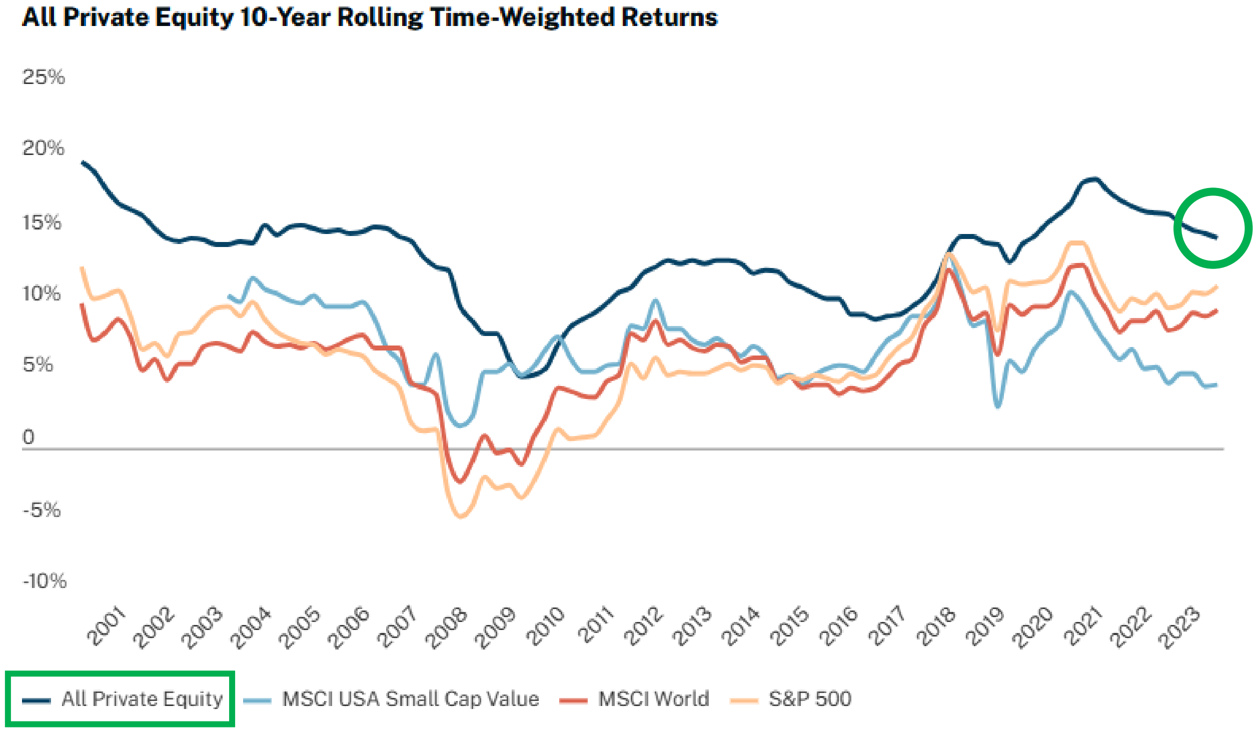
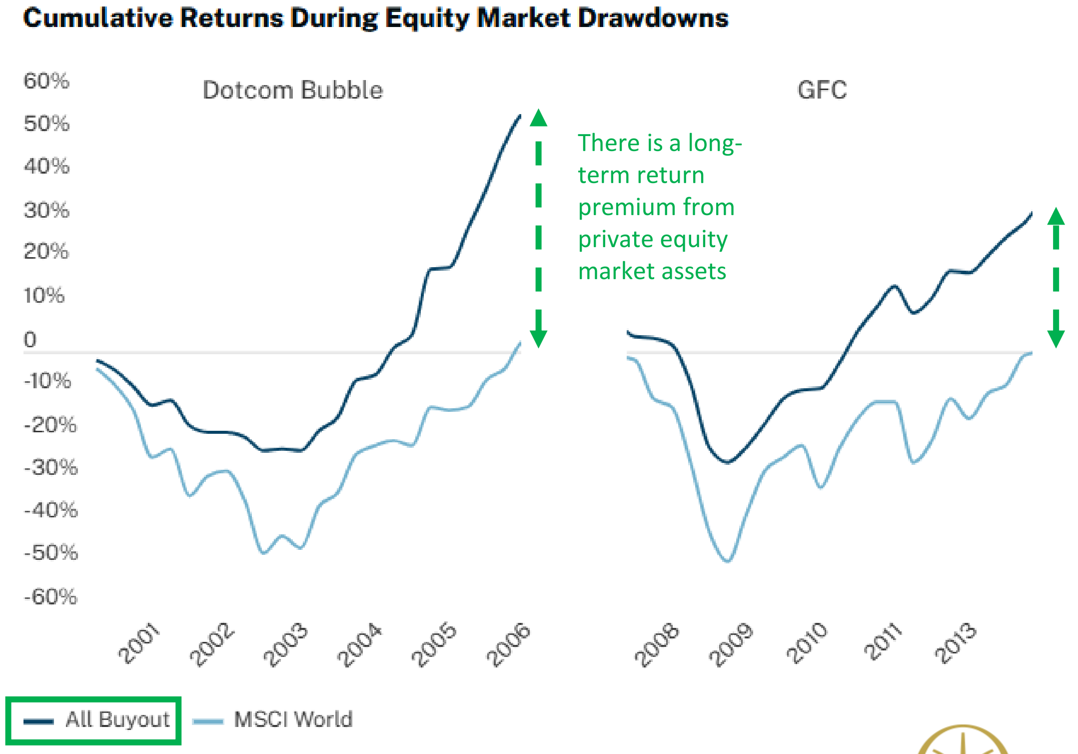
Why We Like Private Equity Over Listed Equity

Private Equity has outperformed listed share markets across all regions over the long-term.



Source: Hamilton Lane Data via Cobalt, Bloomberg (October 2024)

Private Equity has provided strong downside protection in falling markets and has long-term compounding benefits.

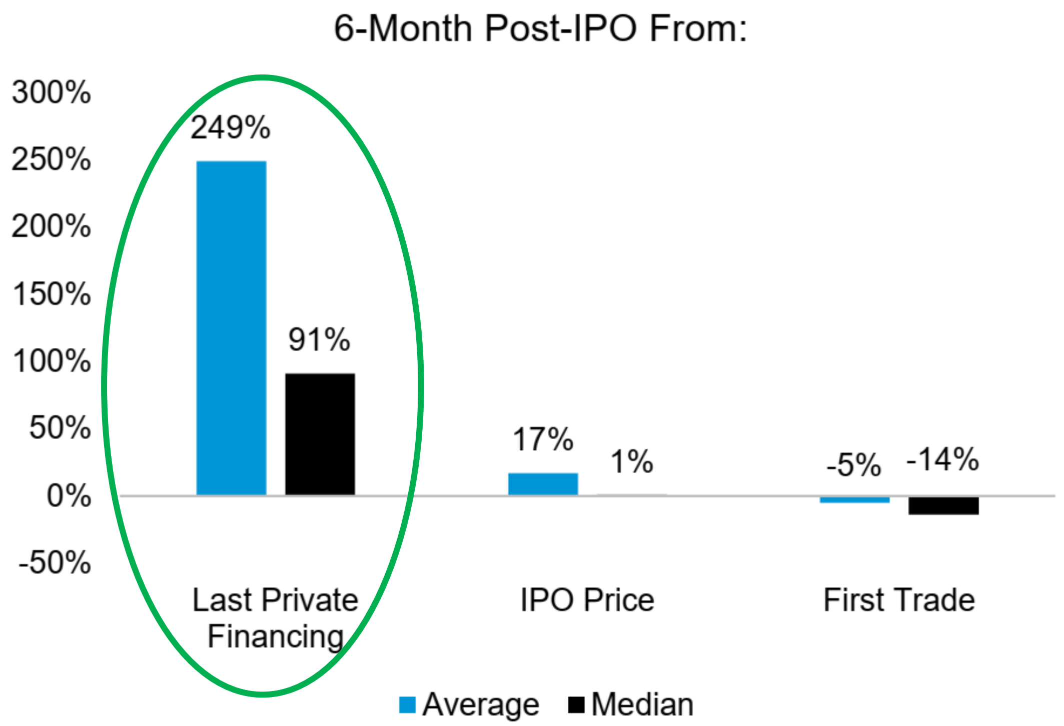


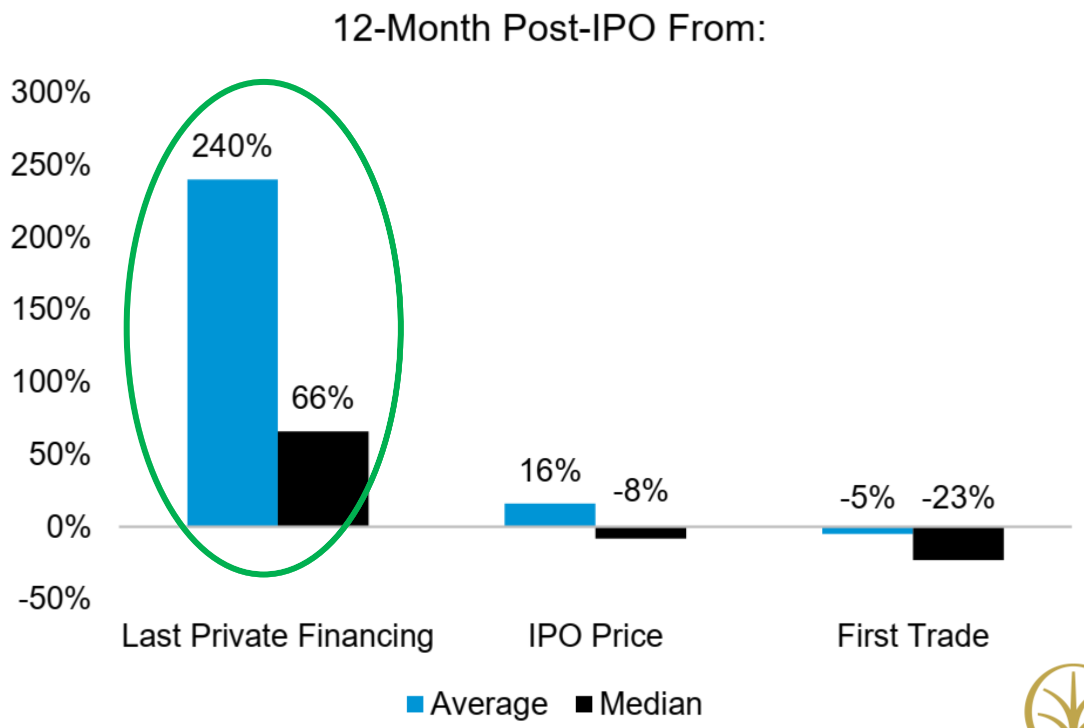
Source: Hamilton Lane Data via Cobalt, Bloomberg (October 2024)

Private Equity Investors Capture Most of the Gains

Investing early into private companies can provide investors with the best returns.

Performance of U.S. VC-Backed Companies with an IPO Exit (01/01/2010 - 12/31/2024)

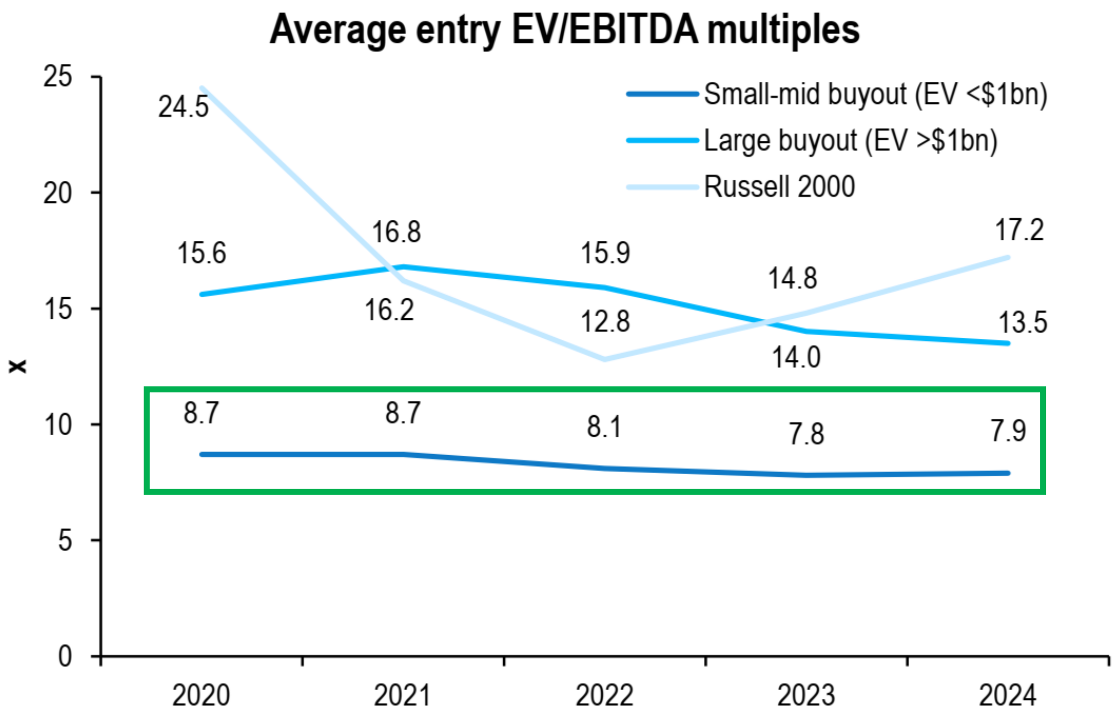




Source: The Private Shares Fund, Pitchbook, Y-Charts, Nasdaq, SEC Edgar. Total 790 U.S. Venture-Capital-Back Private Companies that executed an IPO from January 01, 2010 through December 31, 2024. Last private financing prices adjusted for subsequent stock splits to allow for appropriate comparisons. Only includes formerly VC-backed, U.S. companies listing on the NYSE or NASDAQ. Analysis tracks the change in price for an individual share at last private financing, and therefore does not factor in potential tax implications or management and performance fees that may be associated with investments in private markets

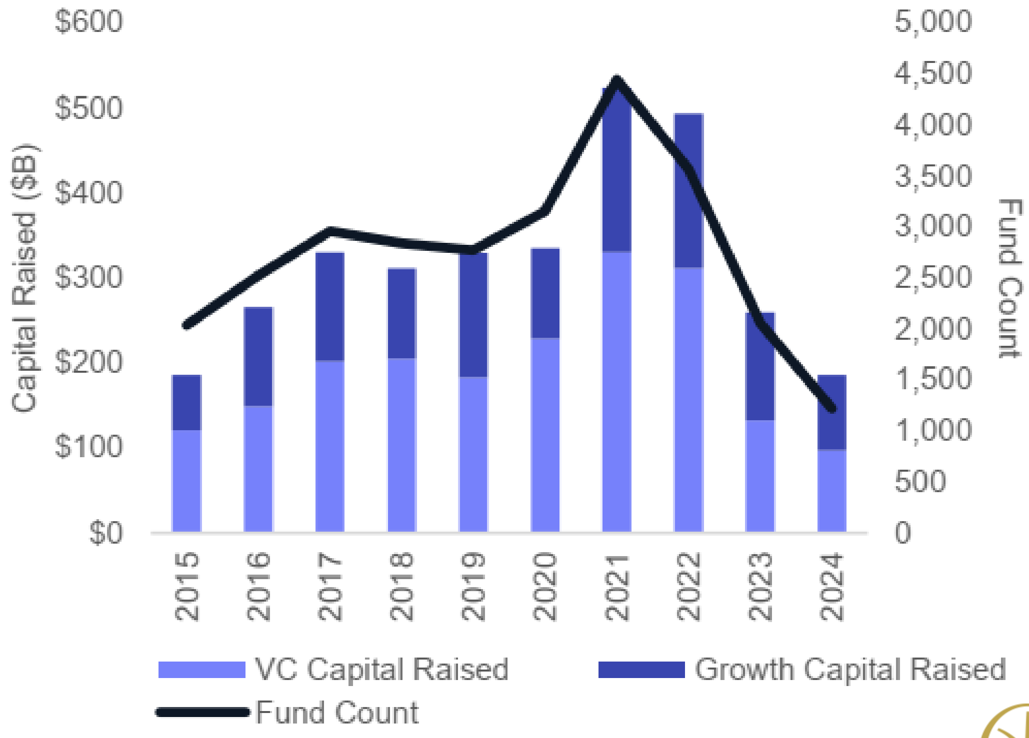
Valuations Are Better & The Market Is Compelling

Private Equity valuation multiples are lower than listed markets.



Source: Capital IQ, Bloomberg, Global M&A Outlook 2025, Robert W. Baird & Co., Schroders Capital, 2025. North America and Europe M&A. Completed deals. Russell 2000 EV/EBITDA is calculated using EBITDA from the latest trailing twelve months.

Less capital pursuing opportunities makes for a less competitive environment.



Source: Morningstar and Pitchbook. Published June 2024.
Preqin, as of November 2024.

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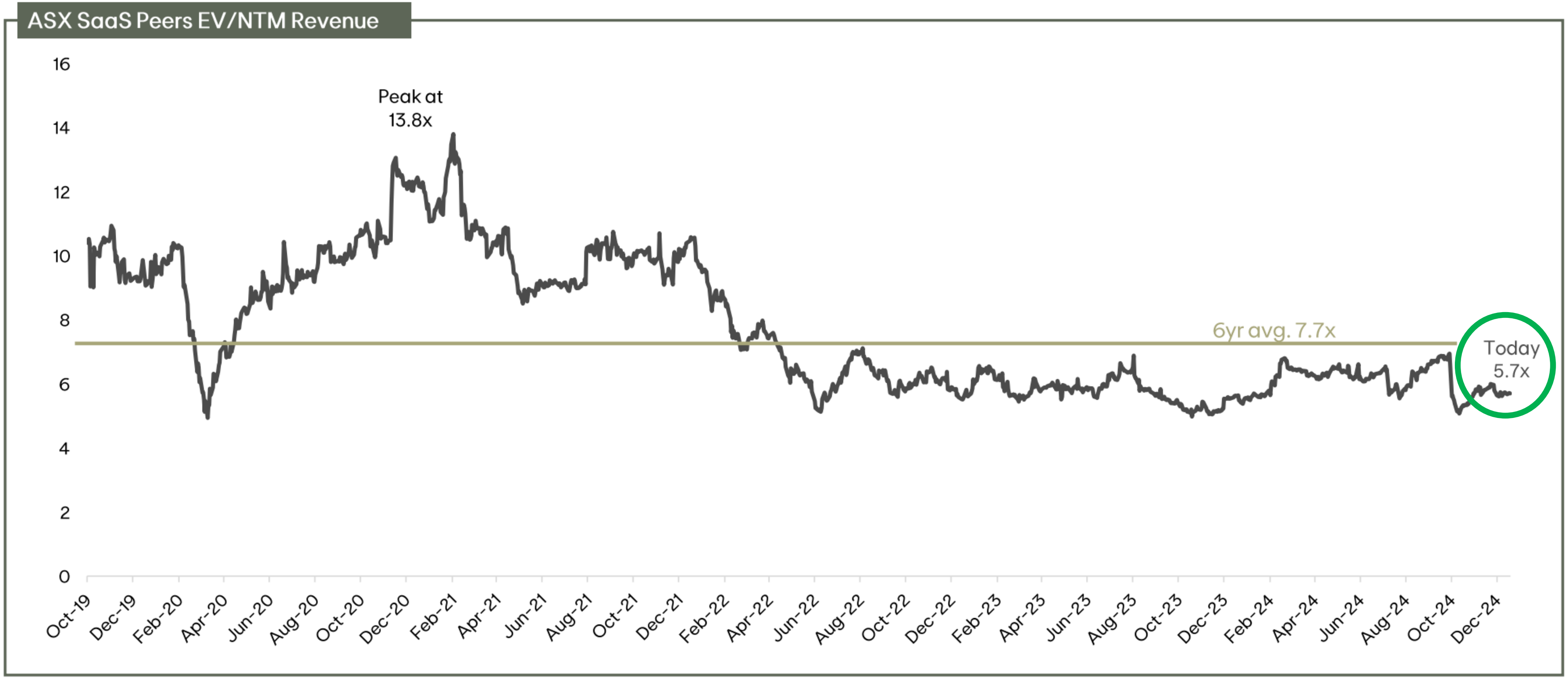
Australian PE Technology Valuations

Valuations in the Australian Software-As-A-Service (SAAS) sector are not expensive – Entry levels are compelling.



Source: Ellerston Capital, CapitalQ.

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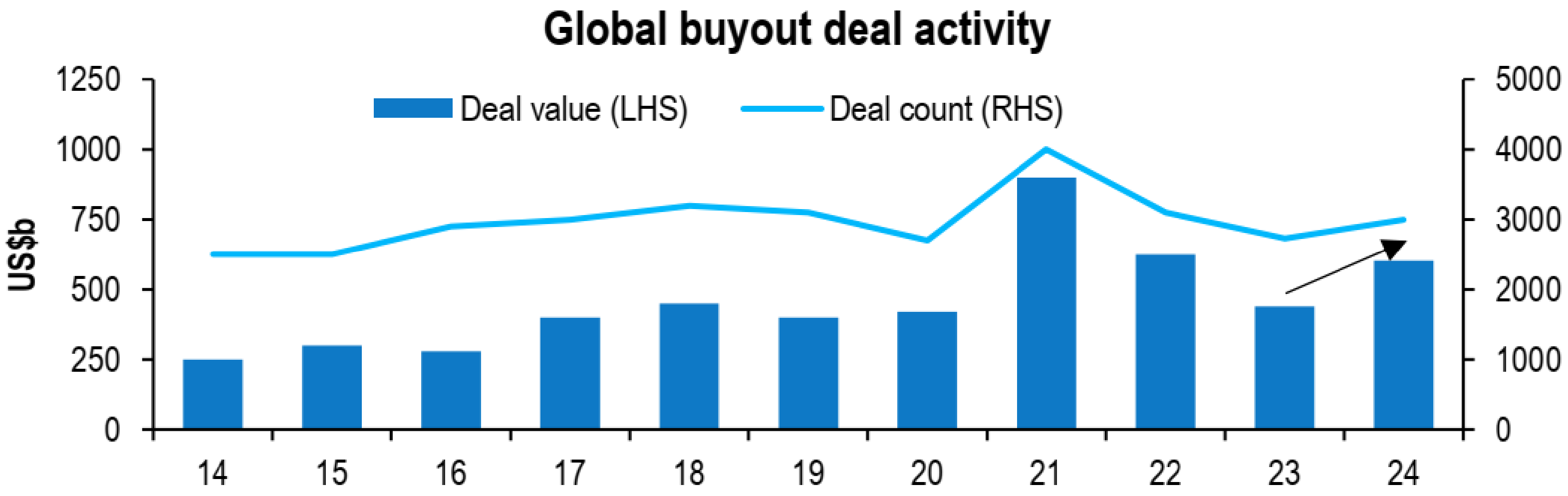
Private Equity Deal & Exit Activity Is Improving

After two years of declines PE dealmaking activity increased 14% in 2024 and exit values jumped 34%.



Source: Dealogic, Preqin, Bain and Company, March 2025.

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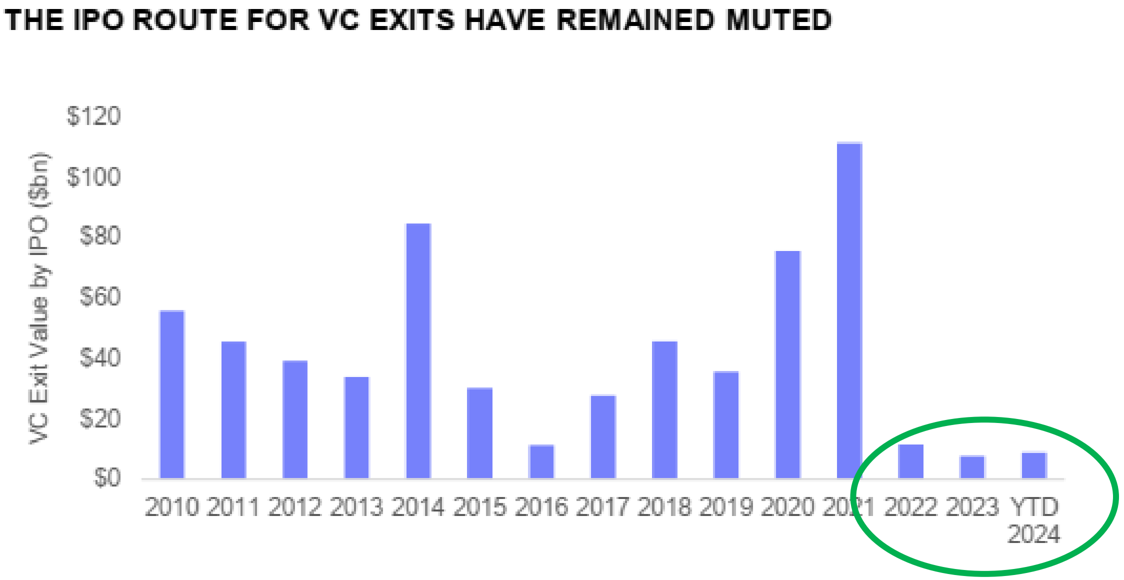
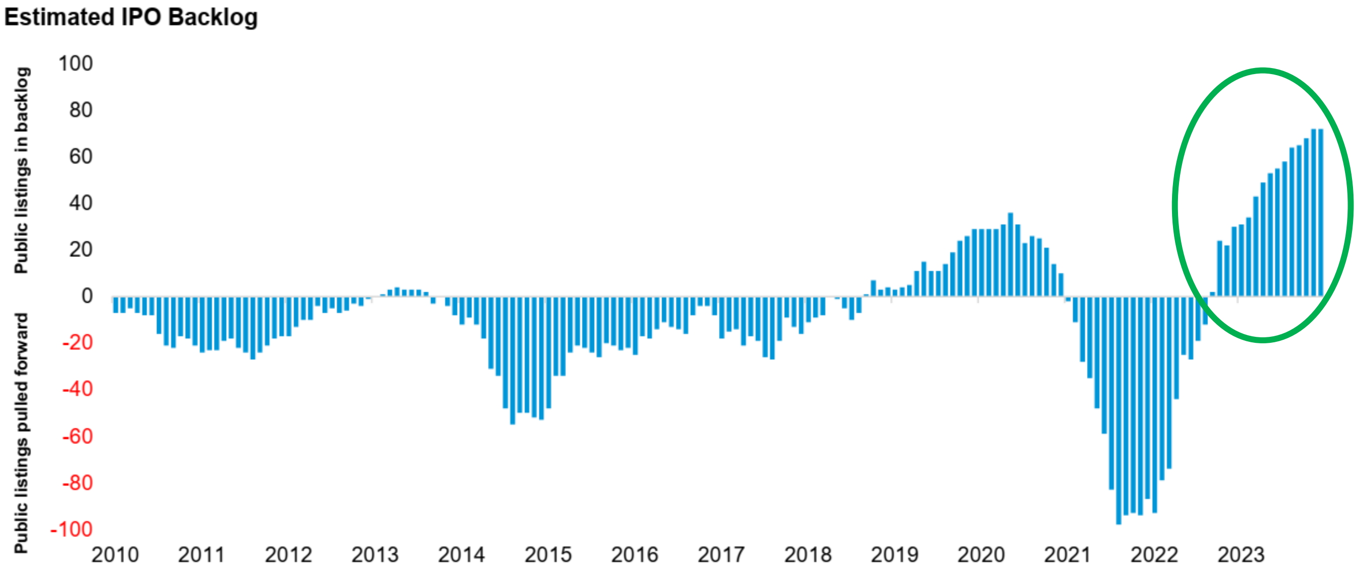
PE & VC: There Is A Lot More To Come

The US Venture Capital Market has effectively been shut out of exits given that listings on public markets (IPO's) have been non-existent. But that will eventually change.

There is a significant backlog of private companies that are waiting to IPO on listed markets in the US when the environment and opportunity presents.





Source: Pitchbook – Geography: US; as at 31 December 2023.

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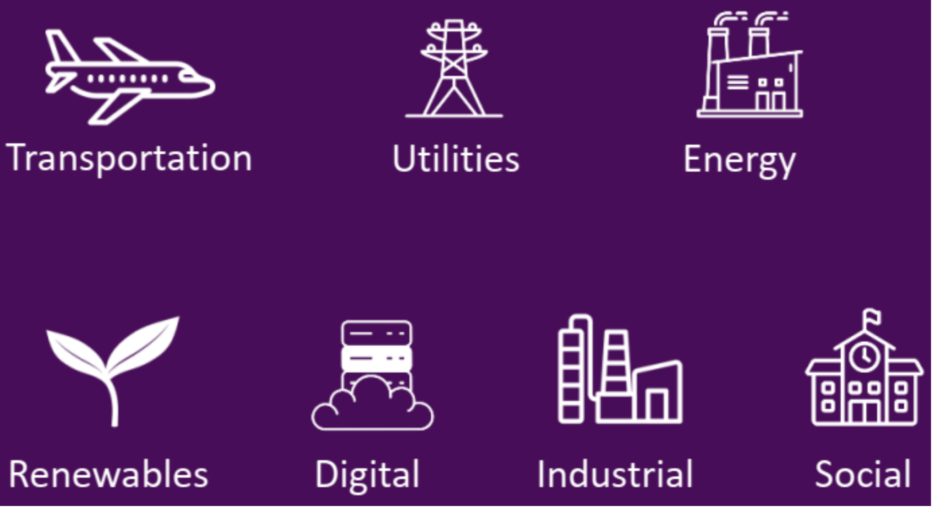
Private Infrastructure Benefits & Performance

Infrastructure Sectors



Capital Preservation

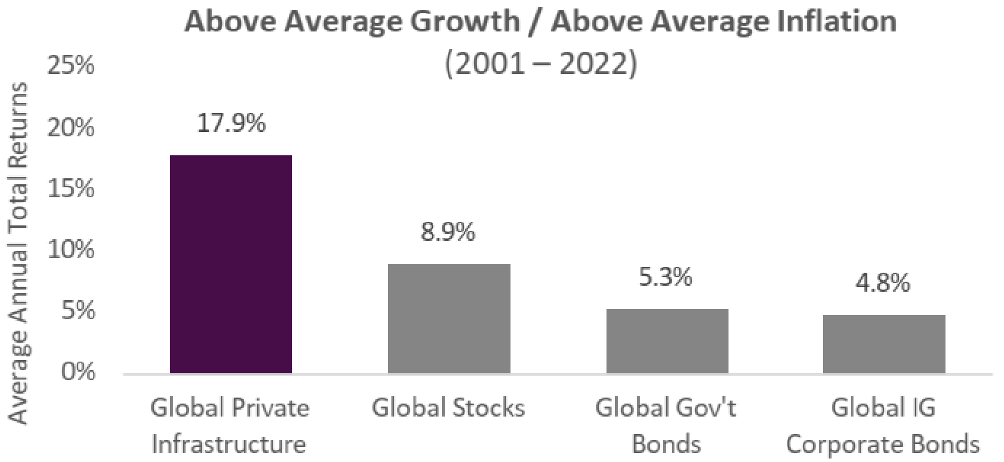
Consistent Cash Distribution

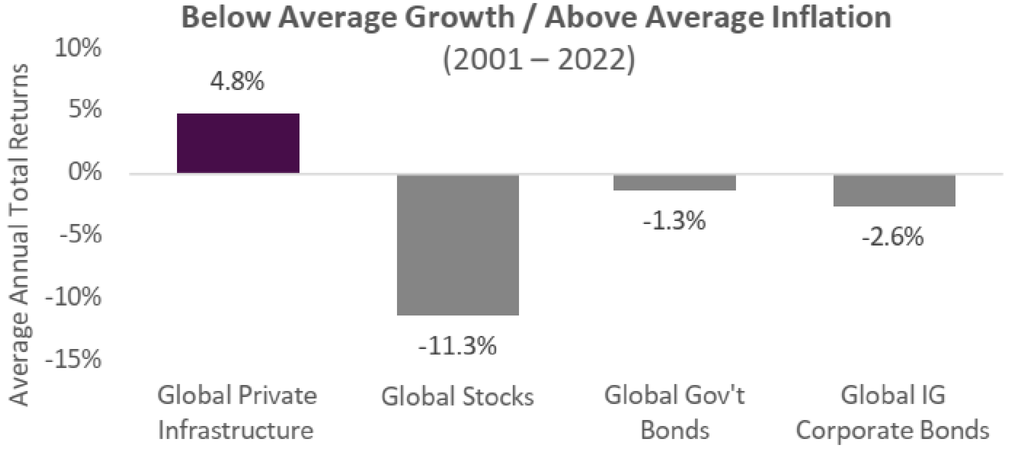
Inflation Hedging

Diversification

Upside Potential

Infrastructure Has Historically Delivered High Returns in Inflationary Environments(2)





Source: Bloomberg, Standard & Poor's, Burgiss, KKR GBR Analysis, Bureau of Economic Analysis, Bureau of Labor Statistics.

MPW High Conviction Alternative Assets

Framework-driven portfolio construction: What role do different categories play in the portfolio?

	Fixed income-like	Hybrids	Equity-like	
RETURN ENHANCERS Global diversification and tactical/ opportunistic returns	Distressed credit	Special situations	Private Equity, Venture Capital	LOWER Income/ HIGHER Volatility
CORE COMPLEMENTS Added diversification and/or enhanced returns	Corporate mezzanine loans	Hedge funds	Noncore real assets	
CORE FOUNDATION Stable Income with lower volatility, diversification ad inflation sensitivity	Core Private credit	Core real assets, infrastructure and transport	Low volatility core equity	HIGHER Income/ LOWER Volatility

■ = MPW High Conviction Overweights

Source: JP Morgan Asset Management Alternative Solutions Group & MPW

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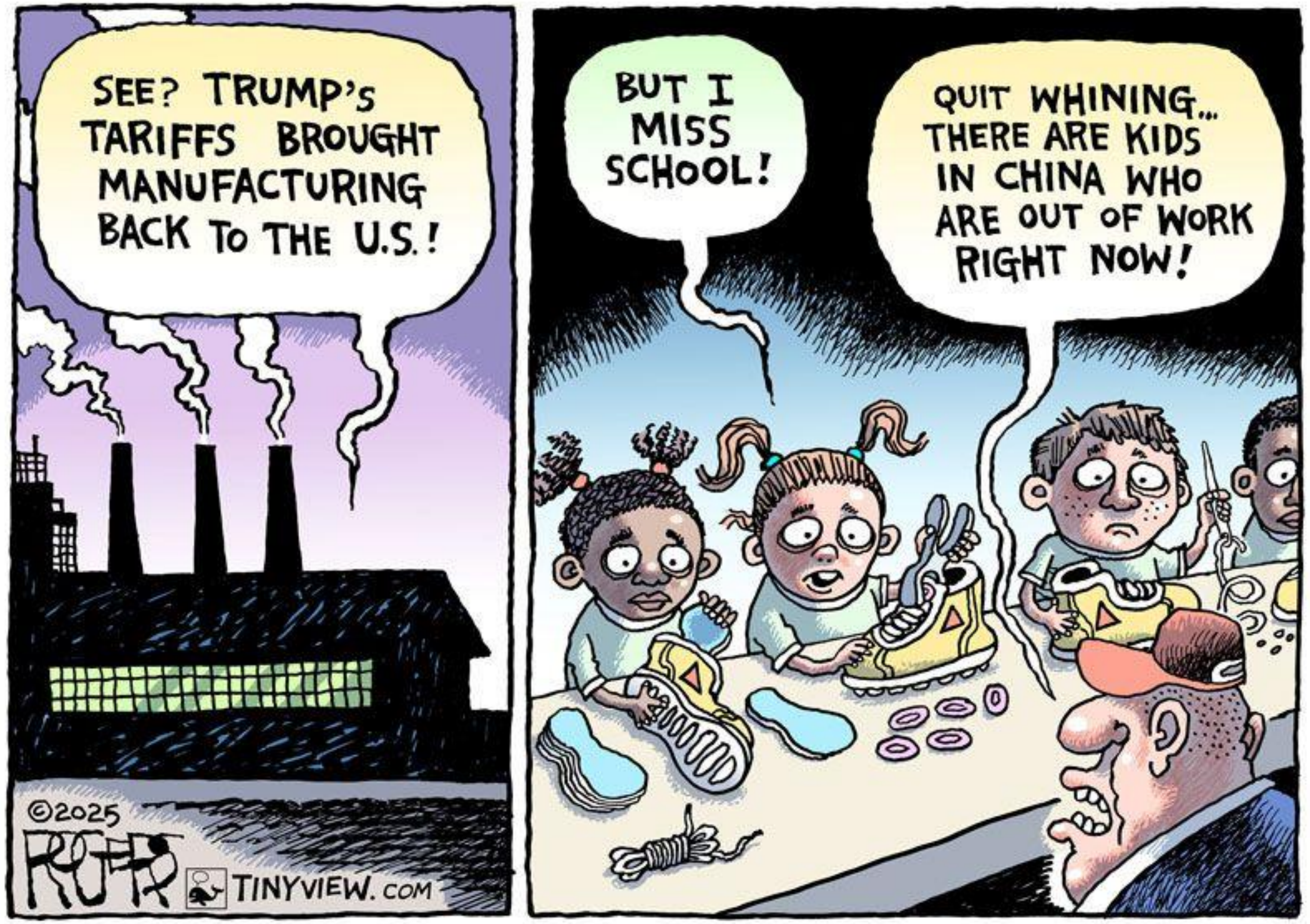
MPW Concluding Summary

MPW Outlook: Recession risk has increased, noting the outlook is very uncertain and there is no playbook.



Careful what you wish for!

MPW Recommended Portfolio Strategy:

- Listed markets are still expensive
- Expect higher market volatility
- Private debt over public listed debt
- Private equity over public listed equity
- Alternative assets for diversification
- Be ready for opportunities that arise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Your financial future,
tailored your way