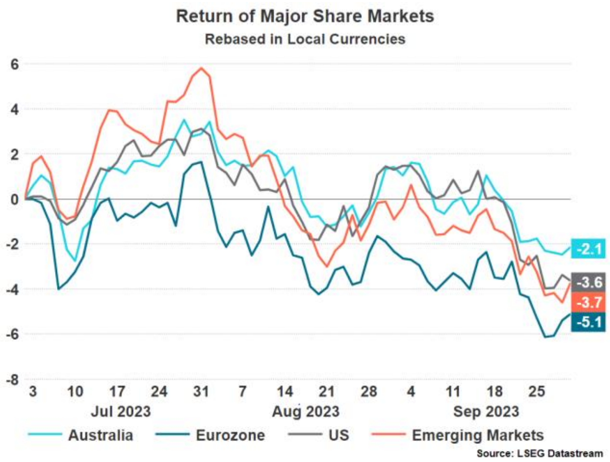
MARKET AND ECONOMIC UPDATE

September Quarter 2023

1. MARKETS IN REVIEW

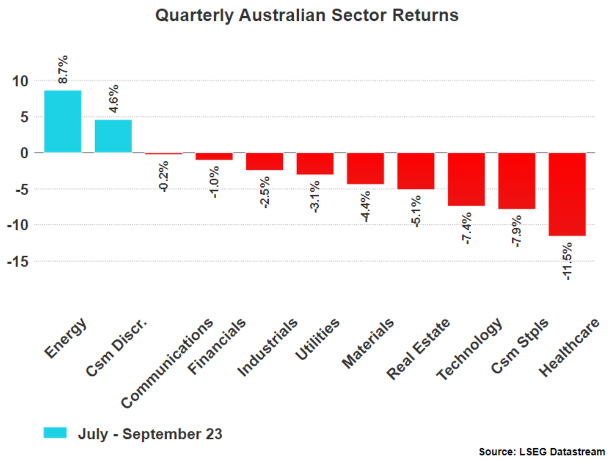
In the first quarter of the 2024 Financial Year, it appears that the interest rate increases throughout 2022 and the first half of 2023 have seemingly broken the camels back in major share markets across the globe.

After an alright first month, all four major share markets were in the red at the end of the quarter. Australia was the best off, falling by only 2.1%, followed by the US at -3.6%, Emerging Markets at -3.7%, and the Eurozone was the worst off at -5.1%.



Globally almost every sector fell over the quarter besides both energy and communication services. The energy sector was boosted throughout the quarter by the production cuts put in place in some OPEC countries. Contrary to last quarter in which the US markets saw massive growth in the technology sector due to the mega-cap tech growth stocks this quarter the tech sector retreated along with the other sectors. This was due to interest rates being expected to remain elevated further into next year and a slowdown in the AI boom which led these growth stocks to became less attractive.

2. AUSTRALIAN SECTOR RETURNS

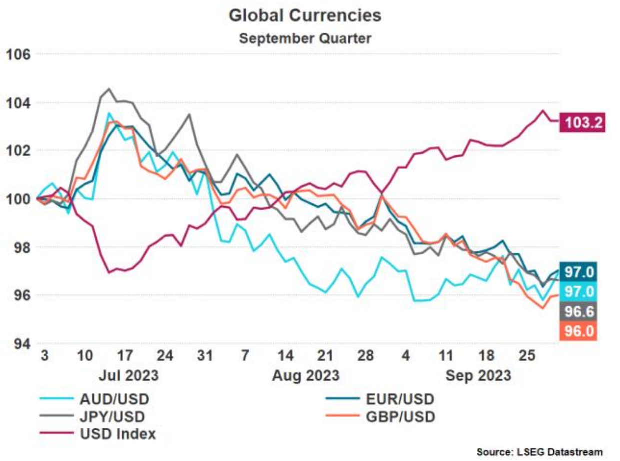


As with the global sector energy was the biggest winner in the Australian market over the quarter with a gain of 8.7%, this due to the aforementioned OPEC production cuts and oil price increases. The only other sector to grow was consumer discretionary at 4.6% as Australians continued to spend despite elevated inflation and high interest rates.

All other sectors retreated over the quarter, lead by healthcare which fell by 11.5%, investors are leaving the defensive sector as the labour market and economic growth remain strong. Australia's small technology sector that grew significantly last quarter retracted by 7.4% as the AI boom slowed and growth stocks became less attractive in this environment of high interest rates. Materials was down 4.4% as our largest trading partner, China, was wrought by a real estate crisis and economic weakness.

3. FOREIGN EXCHANGE MARKETS

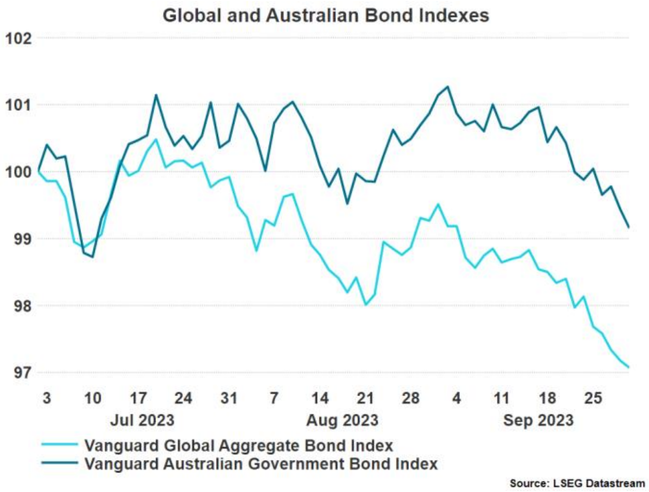
All major currencies declined relative to the United States Dollar (USD) this quarter. At the very start of the quarter this situation was reversed but as it became clearer that interest rates were to remain elevated in the US further into 2024 the attractiveness of the USD increase.



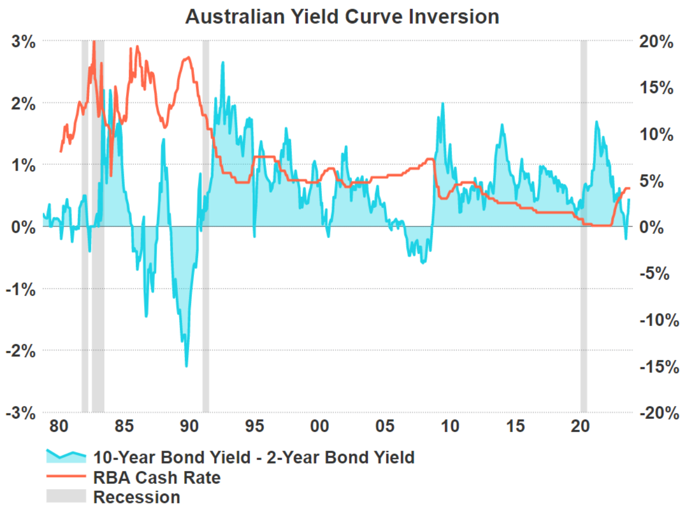
Both the Australian Dollar (AUD) and Euro (EUR) fell by 3% relative to the USD while the Japanese Yen (JPY) and Great British Pound (GBP) retracted by 3.4% and 4% respectively. As economic uncertainty continues to pervade the globe investors are rushing to the safety of the USD which is exacerbated by their high interest rates.

4. FIXED INCOME MARKETS

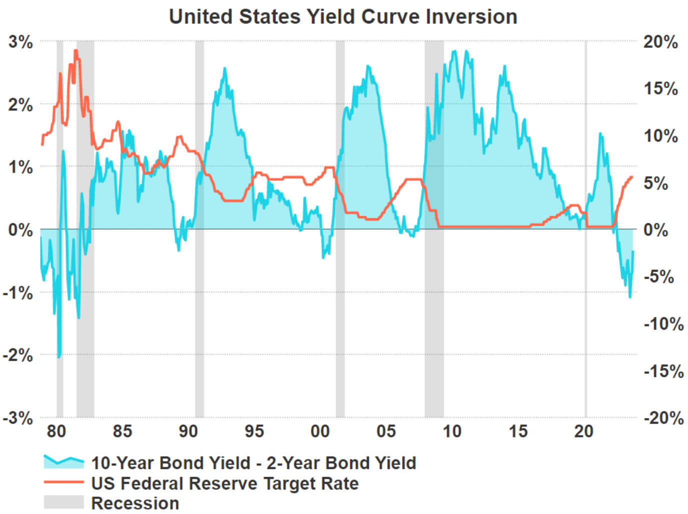
Once again domestic and international fixed income struggled this quarter. Australian bonds dropped 0.85% while international bonds fell by 2.93% as interest rates remained elevated.



Australian bond yields remained stable throughout the quarter before rising at the end as the RBA considered raising the cash rate in the latest meeting. This raise was mostly seen in longer term bonds which led to the end of our short-lived yield curve inversion.



In the United States bond yields rose by more than Australian bonds as the Federal Reserve weighed the need to maintain high rates further into 2024 to combat sticky inflation.



This led an increase in long term bond yields and a shallowing of the US yield curve inversion as investors expect interest rates to remain elevated for the foreseeable future.

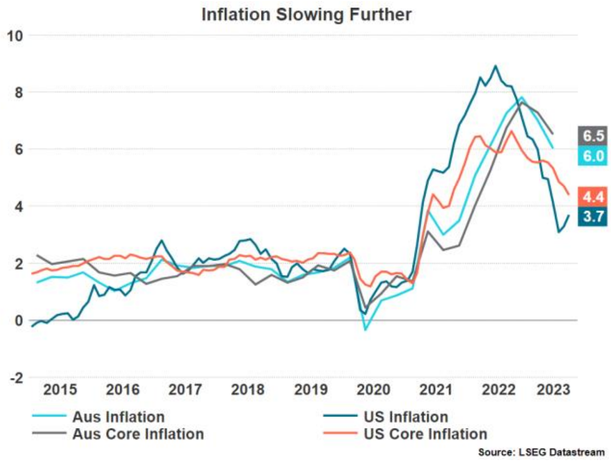
5. OUTLOOK

In the recently observed economic climate, we have seen that inflation continues its decelerating trend. Despite this slowdown, concerns are emerging due to production cuts and escalating oil prices, indicating that core inflation may remain elevated until these issues subside. In examining the economic landscape in Australia and the United States, a soft landing appears unlikely. The cost of living and high interest rates continues to impact households.

In terms of monetary policy, there is a risk of future rate hikes if inflation surprises. We do see rates staying higher for long over 2024 as inflation becomes sticky in Australia. Any future rate hike will continue to impact long duration bonds.

Reflecting on the performance of equities in the last quarter, aside from technology, most sectors exhibited lackluster performance—mostly due to external factors. The prevailing high interest rates, coupled with the apparent conclusion of the AI boom, casts a shadow of uncertainty on the overall performance of equities.

Given this backdrop, we advocate for a diversified but strategic allocation of portfolios encompassing a broad mix across various regions and sectors, is recommended. Amplifying the weighting in duration fixed income could potentially serve as a stabilising force with your short duration names, mitigating risks of any future rate rise surprises. Research remains vigilant, continuously monitoring developments to provide informed, strategic recommendations tailored to navigate these complex economic terrains.



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