Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

August 2024

AUSTRALIAN EQUITIES STRATEGIES

The S&P/ASX300 Accumulation Index delivered a relatively flat return for August, masking a tumultuous month. Early in the month, recession fears spiked in the US due to weak data, including a contraction in the Purchasing Managers' Index and disappointing payroll numbers. The Bank of Japan's decision to raise rates to their highest level since 2007 triggered a sharp sell-off in the Nikkei 225, marking its worst decline since 1987. However, the market rebounded in the second week as data, including improved services PMI and jobless claims, alleviated recession concerns. Financials were the strongest performer, rising 1.85% and now representing 31.7% of the index. Technology also saw gains, up 7.2%, though it remains a smaller component of the index, contributing modestly. Industrials and Communications both rose by more than 3%. In contrast, concerns about slower growth in China weighed on materials and energy sectors, with energy falling 6.17% and materials dropping 1.7%.

Despite markets recovering from the August turbulence, confidence remains fragile. Early September saw another decline in US stocks, particularly in the tech sector. After reaching $130 on August 19, Nvidia's share price dropped to $106 in early September, driven by weak manufacturing PMI data and a decrease in job openings, fuelling concerns about a slowing US economy. In Australia, GDP growth for the second quarter of 2024 was a mere 0.2%, marking the slowest expansion since the early 1990s, excluding the COVID period. GDP per capita fell for the sixth consecutive quarter. The economy has been propped up only by increased government spending and high migration rates, while consumers grapple with persistent inflation and elevated interest rates. Despite these challenges, markets remain near all-time highs, underscoring the need for continued vigilance.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	-0.9	4.3	5.3	9.8	9.2	6.5	9.7	9.3	7.5
S&P/ASX 300 Accumulation Index	0.4	5.6	6.7	14.6	11.8	6.4	8.1	9.2	8.0
Excess	-1.3	-1.2	-1.4	-4.9	-2.6	+0.2	+1.7	0.0	-0.5
Perpetual Concentrated Equity Fund	-1.1	4.7	6.5	11.1	10.1	8.6	9.7	9.3	8.0
S&P/ASX 300 Accumulation Index	0.4	5.6	6.7	14.6	11.8	6.4	8.1	9.2	8.0
Excess	-1.5	-0.8	-0.2	-3.6	-1.7	+2.3	+1.6	0.0	0.0
Perpetual ESG Australian Share Fund	0.0	6.6	5.2	13.1	11.9	8.4	12.0	9.6	9.5
S&P/ASX 300 Accumulation Index	0.4	5.6	6.7	14.6	11.8	6.4	8.1	9.2	8.0
Excess	-0.4	+1.1	-1.5	-1.6	+0.2	+2.0	+3.9	+0.4	+1.5
Perpetual Pure Equity Alpha Fund – Class A	-0.9	-1.2	1.5	7.3	5.7	7.9	10.6	9.1	8.7
RBA Cash Rate Index	0.4	1.1	2.2	4.4	3.9	2.7	1.8	1.7	1.7
Excess	-1.2	-2.3	-0.8	+2.9	+1.7	+5.2	+8.8	+7.4	+7.0
Perpetual Share-Plus Long-Short Fund	-2.0	0.7	2.0	12.2	9.6	10.1	11.5	10.8	9.8
S&P/ASX 300 Accumulation Index	0.4	5.6	6.7	14.6	11.8	6.4	8.1	9.2	8.0
Excess	-2.4	-4.8	-4.7	-2.4	-2.1	+3.7	+3.5	+1.6	+1.8
Perpetual Smaller Companies Fund	-2.0	1.4	2.9	3.4	3.6	5.0	11.2	9.9	10.1
S&P/ASX Small Ordinaries Accumulation Index	-2.0	0.0	1.5	8.5	3.6	-2.9	3.9	5.9	5.8
Excess	+0.1	+1.4	+1.4	-5.1	0.0	+7.8	+7.3	+4.0	+4.3
Perpetual Strategic Capital Fund - Class S	-1.2	4.1	4.1	-	-	-	-	-	-
S&P/ASX 300 Accumulation Index	0.4	5.6	6.7	-	-	-	-	-	-
Excess	-1.6	-1.5	-2.6	-	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

During August, the heavy news flow continued, especially in the U.S. Global markets sold off during the first week of August due to a confluence of factors such as the yen carry trade unwind, multiples of richly valued technology stocks deflating, and a weak jobs report in the U.S. The U.S. continues its march toward elections in November, with more news, policy proposals, and headlines that fuel uncertainty in a tightly contested election. Further, soft economic data in the U.S. regarding jobs, job openings, and manufacturing output brought the word "recession" back into the realm of possibilities, as the notion of a soft landing seems less certain. Given this backdrop, the U.S. Federal Reserve (the Fed) indicated that it is time for a policy shift, and rates are likely on the way down after the next Fed meeting in September. Outside the U.S., central banks in Canada, the UK, and other western-oriented central banks are lowering rates while Japan has raised rates. Finally, China has continued to garner headlines for the wrong reasons as the economy has failed to recover post COVID on the back of underwhelming stimulus by the government with deflationary pressures still present.

Given the muted market returns in July and higher volatility in August, a sentiment shift may be afoot, as we have seen material rotations over the past couple of months. Softening economic numbers and stagnant inflation over the last few months forced the Fed to admit the time to adjust policy is here, which likely means a rate cut in September. This will come on the heels of other central banks that have already cut. However, the issue regarding cutting rates is less about who is cutting and when that first rate comes, but more about why rates are being cut and by how much. If the Fed and other central banks have to move quickly in cutting historically high rates as a result of softening economic growth versus sufficiently tame inflation, it will pull the soft landing scenario off the table and we could continue to see a violent rotation away from high multiple stocks in Favor of lower multiple stocks. This may be further aggravated if we do officially enter a recession.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	-1.0	0.1	-0.6	-0.2	-	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	-2.2	3.8	5.2	9.8	-	-	-	-	-
Excess	+1.2	-3.8	-5.9	-10.0	-	-	-	-	-
Barrow Hanley Global Share Fund - Class A	0.7	2.6	6.9	12.4	17.4	9.8	13.1	13.0	13.4
MSCI World Net Total Return Index ($A)	-1.2	4.5	6.2	18.8	20.6	9.6	13.0	13.7	13.1
Excess	+1.9	-1.9	+0.7	-6.4	-3.2	+0.2	+0.2	-0.7	+0.2

CASH & FIXED INCOME STRATEGIES

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. Softer than anticipated US jobs data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. This was exacerbated by the Bank of Japan's decision to raise interest rates (by 15bps) for the second time since the GFC (Feb 2007). A strong rally in the Yen ensued and the subsequent unwinding of carry trades contributed to the elevated financial market volatility. The turnaround in sentiment was swift, supported by strong retail sales and corporate earnings alongside doveish comments from Fed Chair Powell at the Jackson Hole conference.

Bond yields moved sharply lower as US recession fears spiked in early August. Domestic 10-year yields fell below 4% after rallying 14bps over the month. The yield curve steepened as short end (2-5 year) yields rallied further. The RBA held rates at 4.35% in line with expectations, continuing to stress that policy will need to remain restrictive to lower inflation over time to sustainably settle in the target range.

Domestic credit spreads sold off in the first week of August before rallying to end the month within range of their starting level. Synthetic spreads tightened further with the iTraxx Australia 5 year spread narrowing 5 bps to 61bps by month end. Swap to bond spreads also contracted during the month remaining tight relative to historical levels.

In August, credit market issuance experienced a brief slowdown as a result of heightened volatility alongside seasonal factors including reporting season and the NSW bank holiday. Despite this, the market saw a number of securitisation deals successfully priced. As the blackout period for banks and corporates ended, issuance picked up pace. CBA raised $4.35B in senior debt while Macquarie Bank ($1.25B) and BNP Paribas ($800M) issued subordinated notes. Additionally, NBN Co set a record with the largest-ever volume by an Australian corporate issuer in the domestic market with their $1.75B deal.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.4	1.5	3.3	6.6	6.0	3.9	3.2	3.2	3.2
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	3.9	2.7	1.8	1.8	1.9
Excess	+0.1	+0.4	+1.0	+2.3	+2.2	+1.2	+1.4	+1.4	+1.4
Perpetual Credit Income Fund	0.7	1.5	3.9	9.4	8.2	5.0	4.5	4.3	4.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	3.9	2.7	1.8	1.8	1.9
Excess	+0.3	+0.4	+1.7	+5.0	+4.3	+2.4	+2.8	+2.6	+2.5
Perpetual Active Fixed Interest Fund	1.2	3.8	4.0	7.3	5.4	-0.8	0.4	2.5	3.3
Bloomberg AusBond Composite Index	1.2	3.5	3.0	5.2	3.5	-1.8	-0.6	1.7	2.3
Excess	0.0	+0.3	+1.0	+2.1	+2.0	+1.0	+1.0	+0.9	+0.9
Perpetual ESG Credit Income Fund- Class A	0.7	1.5	4.1	9.3	8.4	5.2	4.5	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	3.9	2.7	1.8	-	-
Excess	+0.3	+0.3	+1.8	+4.9	+4.5	+2.5	+2.8	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.6	2.0	4.6	9.9	9.2	6.5	5.6	5.5	5.9
RBA Cash Rate Index	0.4	1.1	2.2	4.4	3.9	2.7	1.8	1.7	1.7
Excess	+0.3	+0.9	+2.4	+5.5	+5.3	+3.7	+3.8	+3.8	+4.1

MULTI-ASSET STRATEGIES

Risk assets sold off in August as a weak US non-farm payrolls report had investors questioning the growth outlook in the world's largest economy. Meanwhile, a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing rally in the Yen saw the Japanese sharemarket record its largest individual day loss since the 1987 stock market crash which weighed on all regional sharemarkets. However, most bourses recovered in the second half of the month as the US Fed raised optimism that official rates were set to be lowered in September.

- Developed market equities rose for a fourth straight month (+1.9%), led by the S&P 500 (+2.4%), as US Fed Chair Powell provided some dovish commentary about future US rate cuts at the Jackson Hole conference. This, combined with a strong July consumer spending report, helped revive investor optimism after a poor start to the month
- European equities (+1.8%) climbed for a second straight month led by Germany (+2.15%). In response to a favourable July CPI report which the market viewed as supported rate cut expectations in September. UK equities (+0.9%) also performed solidly (+0.9%) as the Bank of England delivered its first rate cut in 4 years, which was partially offset by incoming UK Prime minister Keir Starmer forewarning of a painful first budget with spending cuts and tax increases.
- The ASX 300 (+0.4%) rallied for a fourth consecutive month but underperformed its developed market peers as a better-than-expected domestic reporting season was outweighed by some sombre guidance from domestically focused companies.
- Emerging market equities also report a modest rise for the month (0.4%) as the tailwind of a weaker US Dollar was mostly offset by another weak set of Chinese economic data in which the property market is struggling to find a bottom.

- Conversely, Japanese equities (-2.9%) recorded its largest monthly decline in 2024 after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its early losses.
- Increased demand from safe haven investments, combined with clear Fed guidance of upcoming rate cuts, sparked a fourth straight month of positive returns in regional bond markets. The price gains extended as the month progressed and was not perturbed by an eventual recovery in global risk sentiment which saw the US 2Yr bond close the month at a nine-month low of 3.91%. This provided a strong backdrop for Australian bonds to rally in unison with their US peers with the 10Yr Australian yield closing below 4% for the first time since Mar-24.

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. The US unemployment rate unexpectedly rose to 4.3% – its highest reading in nearly three years – and the pace of job gains decelerated. The softer than anticipated data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. While the Sahm rule been a historically accurate indicator of recession, the increase in US unemployment this cycle has primarily been driven by rising supply of workers, not falling demand for labour, which has had investors increasingly question the validity of traditional recession indicators (such as yield curve inversion) given the continued expansion in 2023 and 24.

The turnaround in US sentiment was also swift, supported by strong consumer spending data and corporate earnings results, alongside dovish comments from the Fed. Meanwhile, there are more questions being asked about the Australian economy given continued sluggish growth and waning consumer sentiment. The challenges here have been camouflaged by strong population growth and another year of significant public sector spending growth at a time when the RBA is trying to slow economy-wide spending. The Australian economy has struggled in the wake of higher inflation and increased interest rates which have sparked 6 consecutive quarters of declining growth in GDP per capita with the June quarter National Accounts showing that household consumption fell -0.2%.

It remains hard to see a significant global growth acceleration in the remainder of the year, as the regional fiscal impulse is generally negative, monetary policy remains restrictive, credit growth is anaemic and employment growth is slowing. While trend growth is supportive for equities, a soft-landing has already been priced into market expectations which - as evidenced by the sharp selloff in August - increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets of central bank expectation.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	0.0	3.1	4.6	9.1	8.4	6.1	8.1	8.3	7.6
Balanced Growth Index	0.5	4.9	6.1	13.6	11.4	4.5	6.8	7.8	7.5
Excess	-0.6	-1.8	-1.5	-4.6	-3.0	+1.7	+1.3	+0.4	+0.1
Perpetual Diversified Growth Fund	0.2	3.0	4.1	8.0	6.9	4.7	6.2	6.7	6.3
Moderate Growth Index	0.7	4.4	5.2	11.2	9.1	3.0	4.9	6.1	6.1
Excess	-0.5	-1.4	-1.0	-3.2	-2.2	+1.7	+1.3	+0.6	+0.3
Perpetual Diversified Real Return Fund - Class W	0.1	2.0	3.1	5.3	5.2	3.4	4.8	5.1	5.1
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	0.4	3.0	3.3	4.4	3.4	0.8			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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Total returns shown have been calculated using gross performance and assuming reinvestment of distributions. No allowance has been made for fees or taxation. Past performance is not indicative of future performance.

* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.

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