Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

October 2024

AUSTRALIAN EQUITIES STRATEGIES

The S&P/ASX 300 Accumulation Index declined by -1.30% in October. While the market reached new all-time highs at the beginning of the month, it pulled back as October came to a close. Investor sentiment was initially buoyed by ongoing Chinese stimulus efforts and generally positive economic data. However, as the month progressed, enthusiasm waned regarding China's recovery due to limited details and concerns over potential tariffs, which dampened the rotation trade. Financials were a notable outperformer, with the banking index up 3.8% for the month, approaching within 2.2% of its all-time high. In contrast, Consumer Staples underperformed due to the ongoing ACCC inquiry into supermarkets and disappointing updates from Woolworths, Coles, and Metcash. The Energy and Resources sectors also lagged. Meanwhile, the Small-Ords and Emerging Companies indexes posted modest gains, reflecting early signs of a shift from large caps.

Market confidence remains fragile following further declines in early September, particularly in the U.S. tech sector, markets remain sensitive to economic indicators. Nvidia's share price, for instance, fell from $130 on August 19 to $106 in early September, impacted by weak manufacturing PMI data and a decline in job openings, raising concerns about a potential slowdown in the U.S. economy. In Australia, second-quarter GDP growth for 2024 was just 0.2%—the slowest rate of expansion since the early 1990s, excluding the COVID period—marking a sixth consecutive quarterly decline in GDP per capita. The economy has been buoyed by government spending and high migration rates, while consumers continue to face the pressures of persistent inflation and elevated interest rates. Adding to this complex outlook, U.S. 10-year bond yields have been rising in anticipation of higher economic growth and the potential return of inflation, with Australian bond yields climbing in tandem. This trend suggests a possible shift in equity markets toward cyclical stocks, likely bolstered by any Republican gains in the upcoming U.S. election. While markets remain near all-time highs, these dynamics underscore the importance of continued caution.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	-1.9	-0.2	5.4	19.9	10.0	6.7	9.2	8.7	7.8
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	13.1	7.6	8.1	8.9	8.3
Excess	-0.6	-2.4	-2.9	-4.9	-3.1	-0.9	+1.1	-0.2	-0.6
Perpetual Concentrated Equity Fund	-1.8	-1.0	5.0	19.5	10.9	8.9	8.8	8.6	8.1
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	13.1	7.6	8.1	8.9	8.3
Excess	-0.5	-3.2	-3.3	-5.4	-2.3	+1.3	+0.7	-0.3	-0.2
Perpetual ESG Australian Share Fund	-1.5	0.2	4.4	24.8	13.3	7.9	11.6	9.0	9.7
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	13.1	7.6	8.1	8.9	8.3
Excess	-0.2	-2.0	-3.9	-0.1	+0.2	+0.3	+3.5	+0.1	+1.4
Perpetual Pure Equity Alpha Fund – Class A	1.0	1.5	2.3	10.5	6.6	7.9	10.8	9.5	8.5
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.1	3.0	1.9	1.7	1.8
Excess	+0.6	+0.4	0.0	+6.0	+2.5	+5.0	+8.9	+7.7	+6.7
Perpetual Share-Plus Long-Short Fund	0.4	1.0	4.7	22.5	11.0	11.3	11.7	10.5	9.9
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	13.1	7.6	8.1	8.9	8.3
Excess	+1.7	-1.2	-3.6	-2.4	-2.1	+3.7	+3.6	+1.7	+1.6
Perpetual Smaller Companies Fund	-1.3	-0.5	1.1	15.5	5.6	4.2	10.8	9.6	10.7
S&P/ASX Small Ordinaries Accumulation Index	0.8	3.8	5.8	26.6	9.6	-0.6	4.7	5.7	7.1
Excess	-2.1	-4.3	-4.7	-11.2	-4.0	+4.8	+6.1	+3.9	+3.6
Perpetual Strategic Capital Fund - Class S	-2.0	-0.8	4.5	16.5	-	-	-	-	-
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	-	-	-	-	-
Excess	-0.7	-3.0	-3.8	-8.3	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

October was marked by significant activity as the U.S. election season concluded, while geopolitical concerns persisted. Early in the month, U.S. job openings declined to three-year lows, and job additions were minimal at 12,000, impacted by weather and strikes. Following the Federal Reserve's 50-basis-point rate cut in September, U.S. yields rose over inflation and deficit concerns. Globally, western central banks continued rate cuts, except for Japan, which raised rates. The U.S. economy demonstrated resilience with 2.8% growth in Q3, while Europe saw 0.4% growth but still faces demand challenges, prompting the European Central Bank to adopt a more accommodative stance. In Asia, China issued additional bonds to address local debt, though markets anticipate more stimulus for sustained recovery. Geopolitics intensified as Israel's potential response against Iran initially raised oil prices, though they later stabilized as fears eased. The Russia-Ukraine conflict remains an ongoing flashpoint for markets. While October concluded with a negative global equity performance, November's U.S. election results spurred some optimism. Donald Trump's victory, alongside a unified government, suggests possible large-scale policy shifts. Uncertainty looms over trade, particularly with China and Mexico, with potential tariffs on the horizon.

Given the muted market returns and increased volatility that continued in October, a sentiment shift may be afoot, as we have seen material rotations over the past couple of months mixed with elections playing out. Surprisingly resilient economic numbers and stagnant inflation over the last few months will be an interesting combination for the Fed. The expectation is for a rate cut in November, but the pace and magnitude of cuts going forward remains a question – especially given the political context. While the market continues to look for more cuts, expansionary fiscal policy could force the Fed to slow down if inflation remains above its target and the economy remains healthy. A few areas to watch going forward in the U.S. are policy initiatives, who is part of the new administration, and whether or not the next jobs report confirms that October's weakness was an aberration.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	0.2	5.7	6.3	10.8	11.9	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	1.2	3.3	7.7	21.1	16.4	-	-	-	-
Excess	-1.0	+2.4	-1.4	-10.3	-4.5	-	-	-	-
Barrow Hanley Global Share Fund - Class A	2.6	4.4	8.2	20.0	16.2	11.8	13.4	12.6	13.4
MSCI World Net Total Return Index ($A)	3.8	2.1	10.2	29.2	20.1	11.4	13.2	13.0	13.1
Excess	-1.2	+2.3	-2.0	-9.2	-3.9	+0.4	+0.3	-0.4	+0.3

CASH & FIXED INCOME STRATEGIES

Financial markets softened in October with equity markets and bond yields weakening globally. A key driver was the firming expectations of a second Trump presidency and the anticipation of inflationary policies including tax cuts and restrictive tariffs on foreign imports. While resurgent inflationary pressure would contribute to higher-for-longer rates, reduced regulations and corporate taxes would be expected to benefit US equities.

Domestic bond yields rose sharply during October, with the 10-year government bond yield rising 53bps to 4.51% by month end. This was in line with US 10-year bonds which also rose by 50bps. Alongside US inflationary policy concerns, robust US jobs and GDP data eased pressure on the Federal reserve to continue lowering rates. Domestically, inflation continues to ease with third quarter year-on year inflation reaching a three year low, led by falling oil prices. The domestic yield curve flattened during the month as 2-5 year yields rose more sharply than long term tenors.

Floating rate credit performed well in a month where equities and bonds weakened. Domestic credit spreads tightened as investors moved to take advantage of elevated base rates by rotating into corporate and financial credit. Credit spread tightening was widespread with utilities, non-financial corporates and financial spreads narrowing. Swap spreads contracted during October as bond yields sold off.

Primary markets were orderly during October. Issuance was headlined by NAB's $2.75B 3-year senior unsecured deal. Tier 2 regional bank issuance met elevated demand with a smaller deals from Judo Bank ($125M) and Bank of Queensland ($250M) attracting substantial investor interest in excess of 8 times the book size. Securitisation volumes remain elevated with almost $10B of new deals in October, continuing the already record breaking 2024 pace.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.6	1.5	3.2	6.7	6.4	4.3	3.3	3.3	3.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	2.9	1.9	1.8	1.9
Excess	+0.3	+0.4	+1.0	+2.2	+2.4	+1.3	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.7	2.1	3.7	9.9	8.8	5.5	4.6	4.4	4.4
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	2.9	1.9	1.8	1.9
Excess	+0.3	+0.9	+1.5	+5.4	+4.7	+2.6	+2.7	+2.5	+2.5
Perpetual Active Fixed Interest Fund	-1.7	-0.1	3.2	9.2	5.1	0.5	0.3	2.2	3.1
Bloomberg AusBond Composite Index	-1.9	-0.4	2.3	7.1	2.9	-0.6	-0.7	1.3	2.1
Excess	+0.2	+0.3	+0.9	+2.1	+2.3	+1.1	+1.0	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.8	2.3	4.0	10.1	9.0	5.8	4.7	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	2.9	1.9	-	-
Excess	+0.4	+1.2	+1.8	+5.6	+5.0	+2.8	+2.8	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.9	2.1	4.4	10.0	9.8	6.8	5.7	5.6	5.9
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.1	3.0	1.9	1.7	1.8
Excess	+0.5	+1.0	+2.2	+5.5	+5.7	+3.8	+3.8	+3.8	+4.2

MULTI-ASSET STRATEGIES

October was a challenging month for equity and fixed-income markets, as the US presidential election became a primary market focus, and a series of stronger-than-expected US economic data raised concerns about the trajectory of both inflation and the amount of rate cuts priced in:

- European equities (-3.3%) led the pace of losses in regional developed markets as concerns grew intensified around the state of the world's largest trading bloc as a round of weak activity data and rising concerns around upcoming elections in Germany weighed on sentiment. France (-3.7%) was the regional laggard as sustained weakness in the service sector weighed on sentiment, and while the UK (-1.5%) and Germany (-1.3%) performed slightly better, the economic outlook for the latter is far from upbeat.
- US equities (-0.9%), posted their first negative month since April in response to moderating expectations of monetary policy easing as a series of strong economic data for the labour market, consumer spending and general business activity saw investors reduce expectations for another large rate reduction at the upcoming November FOMC meeting and also sparked a wind-in of expectations for the size of the current easing cycle.
- Australian equities (-1.3%) fell from their recent intra-month high domestic bond yields rose in response to global trends. In addition, the rising prospect of a second Trump presidency and the potential ramifications for Chinese commodity demand from his proposed tariffs weighed on domestic stocks at a time when the RBA had already ruled out rate reductions until 2025.
- In contrast, Japan (+1.9%) was a lone positive performer among major developed markets as a large -7.2% depreciation of the Yen boosted demand for Japan's export-oriented market which continued to recover from its August rout.

- In the bond markets, government yields surged globally led by the U.S. and Australia which rose +0.50% to 4.28% and +0.53% to 4.51%, respectively – both of which were among the largest 10 individual month of losses this decade for both bond markets. The losses simply reflected a re-pricing of central bank expectations amid signs that both that hiring growth and core inflation remained too elevated to warrant a deep cutting cycle which, again, highlighted bonds waning ability to diversify equity risk during inflationary times.
- While US credit weakened as bond yields rose, with investment grade and high yield spread widening, domestic credit was resilient with credit and swap spreads extending their rally.

The global macroeconomic outlook is mixed. While US economic data has firmed market expectations of a soft landing underpinned by strong and resilient employment data robust (but increasingly dominated by government), , corporate earnings growth and a vibrant consumer. However, 12 month forward equity market valuations remain at 97th percentile relative to the past 20 years which is extreme, and suggests that the good news is mostly priced in . The increasing likelihood of a soft landing also provides optionality to the Fed to slow or pause monetary policy easing, particularly if inflation fails to progressively decline to 2% as detailed in the Fed's guidance. This would likely weigh on valuations.

Meanwhile, growing likelihood of a second Trump presidency impacted market sentiment during October. While both candidates' policy platforms were expected to culminate in another sizable rise in US government debt, Trump's planned tariffs on foreign imports have sparked fears of higher inflation, but we suspect this is likely to be modest, and should not impact growth too much, nor weigh on Fed policy debates. The U.S. budget deficit grew to $1.8 trillion for the fiscal year ending 30 September as $4.9 trillion of revenue was outweighed by 6.75 trillion of spending despite the economy being at full employment. The level of fiscal deficit relative to GDP (6.4%) is already at levels commensurate with recessions and the incoming administration is expected to contribute to the deficit via tax cuts and concessions. We remain cognisant of the unsustainable path of fiscal policy and its potential impact on bond markets, and its flow-on effect to equity market valuations.

Outside the US, the economic outlook is challenging in several regions. In Europe, concerns about growth have intensified, with incoming business survey data and European Central Bank (ECB) communications suggesting only a modest rebound is expected in FY25 after a very weak FY24. The European Central Bank (ECB) elected to cut rates by 25 basis points in October and president Lagarde attempted in her press conference to assuage fears that the region was heading towards recession. Meanwhile sentiment in the UK was mixed, with positive inflation data and a pro-growth UK Federal Budget offset by concerns around the global situation.

In Asia, China's economic outlook remains quite fraught. The People's Bank of China followed up September's policy announcements with more modest initiatives such as raising the debt ceiling rather than delivering support which could alleviate waning private sector activity. While recent economic data showed some modest improvement, the outlook for China continues to be challenged by the property sector overhang, sustained deflation, high debt and weak private sector confidence.

Meanwhile, the Australian economy has struggled in the wake of higher inflation and sustained elevated interest rates which have sparked six consecutive quarters of contracting GDP growth per capita. While labour market data remains robust – unemployment remained at 4.1% in the third quarter – and households received large tax cuts and government energy subsidies, spending remains sluggish as high inflation and higher for longer interest rates are sapping household confidence. 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. While third quarter headline CPI continued to moderate and fell within the target band for the first time in 42 months, (+0.2%Q, +2.8%Y) the RBA's preferred measure of inflation, the trimmed mean, (+0.8%Q, +3.5%Y)–remained stubbornly outside the target range.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	-0.6	0.4	4.3	13.3	7.5	6.4	8.0	7.8	7.6
Balanced Growth Index	-0.4	1.7	7.4	21.5	12.3	5.6	6.8	7.5	7.6
Excess	-0.1	-1.2	-3.1	-8.3	-4.7	+0.8	+1.2	+0.3	+0.1
Perpetual Diversified Growth Fund	-0.7	0.3	3.7	11.2	6.2	5.0	6.1	6.3	6.3
Moderate Growth Index	-0.7	1.2	6.0	17.2	9.6	4.1	4.8	5.8	6.1
Excess	0.0	-0.9	-2.3	-6.0	-3.4	+0.9	+1.3	+0.5	+0.2
Perpetual Diversified Real Return Fund - Class W	-0.3	0.6	2.9	6.3	4.7	3.7	4.8	4.8	5.1
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	-0.7	0.5	3.2	6.3	3.4	1.1			
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.

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* 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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