Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

November 2024

AUSTRALIAN EQUITIES STRATEGIES

The election of Donald Trump fuelled a strong rally in equities throughout November, with the S&P/ASX 300 Accumulation Index delivering a total return of 3.68%. The technology sector led the charge, posting a remarkable 10.18% gain. Financials were the largest contributor to the market's performance, rising 6.95% and accounting for 2.29% of the overall 3.68% return, driven primarily by a stellar 11.09% increase in Commonwealth Bank of Australia (CBA) shares. In contrast, Materials (-2.81%) and Energy (-0.66%) were the only sectors to decline, as markets weighed the potential impact of tariffs and persistent deflationary pressures in China. Meanwhile, Westpac and NAB surveys indicated improving consumer and business confidence in Australia, despite weaker-than-expected employment data and the Reserve Bank of Australia's ongoing concern over elevated underlying inflation, which continued to rule out the possibility of a rate cut.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	2.9	3.5	8.0	20.7	8.6	8.9	9.1	8.8	8.4
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	11.6	9.1	8.2	9.2	9.1
Excess	-0.8	-1.9	-3.3	-2.5	-3.1	-0.2	+0.9	-0.4	-0.7
Perpetual Concentrated Equity Fund	2.9	3.0	7.9	20.1	10.2	10.6	8.8	8.7	8.7
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	11.6	9.1	8.2	9.2	9.1
Excess	-0.8	-2.5	-3.4	-3.1	-1.5	+1.5	+0.6	-0.5	-0.4
Perpetual ESG Australian Share Fund	2.1	2.3	9.1	22.6	13.4	9.0	11.6	9.2	10.0
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	11.6	9.1	8.2	9.2	9.1
Excess	-1.6	-3.2	-2.3	-0.6	+1.7	-0.2	+3.4	0.0	+0.9
Perpetual Pure Equity Alpha Fund – Class A	2.8	5.3	4.0	14.0	7.6	9.6	11.2	9.5	8.8
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.1	3.1	1.9	1.8	1.8
Excess	+2.5	+4.2	+1.8	+9.5	+3.5	+6.5	+9.2	+7.7	+7.0
Perpetual Share-Plus Long-Short Fund	5.1	8.3	9.1	25.2	10.3	14.4	12.5	10.9	10.7
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	11.6	9.1	8.2	9.2	9.1
Excess	+1.4	+2.8	-2.2	+2.0	-1.3	+5.3	+4.3	+1.7	+1.6
Perpetual Smaller Companies Fund	0.8	2.2	3.7	13.3	3.4	4.7	10.8	9.6	10.9
S&P/ASX Small Ordinaries Accumulation Index	1.3	7.3	7.3	19.9	7.7	-0.1	4.6	5.3	7.7
Excess	-0.5	-5.1	-3.6	-6.5	-4.3	+4.7	+6.2	+4.2	+3.2
Perpetual Strategic Capital Fund - Class S	2.8	3.2	7.4	18.4	-	-	-	-	-
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	-	-	-	-	-
Excess	-0.9	-2.3	-4.0	-4.8	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

November delivered on the promise of a flurry of headlines relating to geopolitics and macroeconomics. The American presidential race ended with Donald Trump winning; he will be the second U.S. candidate ever elected to two non-consecutive terms. The quick and decisive outcome led the S&P 500 to have its best month of the year, up 5.7%, as the VIX Index fell in conjunction with the closing out of crowded market hedges. U.S. job openings hovered near the 3+ year lows hit last month. After the U.S. Federal Reserve (the Fed) opted to cut rates by 50 basis points (bps) in September, yields backed up on concerns surrounding the durability of inflation and higher long-term deficit spending. However, the market is still expecting a rate cut in December. Outside the U.S., central banks in Canada, UK, and other western-oriented central banks are still lowering rates while Japan has been holding steady after raising rates in the third quarter. This leads to the most popular question of how these election results will impact companies, trade, and foreign policy. There is much uncertainty, but some level of tariffs seems likely. This will damage bilateral trade with China, and even European exporters continue to suffer given the fear that a global tariff could be enacted. In spite of the uncertainty, global equity markets were positive in November, driven higher by the U.S. As noted earlier, the U.S. was the best performing market during the month. It was a notably risk-on environment with small caps and speculative technology names outperforming. Japan and the UK were positive, at least in U.S. dollar terms. However, continental Europe fell during the month on weakening economic data and political turmoil. Emerging markets were the worst performing segment, led lower by China. Currencies were still volatile and impacted returns as the U.S. dollar went from a one-year low before the election to a one-year high after the election.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	-3.2	3.4	3.5	4.2	6.0	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	-3.1	2.4	6.3	13.9	9.5	-	-	-	-
Excess	-0.1	+1.0	-2.8	-9.6	-3.5	-	-	-	-
Barrow Hanley Global Share Fund - Class A	3.0	6.8	9.5	22.4	15.7	13.4	13.2	12.6	13.2
MSCI World Net Total Return Index ($A)	5.2	8.7	13.6	30.1	21.8	11.9	13.3	13.3	13.1
Excess	-2.2	-1.9	-4.0	-7.7	-6.1	+1.5	-0.1	-0.7	+0.1

CASH & FIXED INCOME STRATEGIES

Financial markets responded positively to the results of the US presidential election with equities rallying globally, led by the US. Bond markets retraced slightly after selling off in September and October on concerns around the inflationary effect of proposed US trade policies.

Domestic bond yields fell through November with the Australian 10-year government bond yield rallying 16 bps over the month down to 4.34%. The short end 2-5 years fell back below 4% by month end. Offshore yields were more volatile with US yield spiking following the election before retracing and French bond yields selling off sharply reflecting political uncertainty.

AUD spreads traded in a tight range during November. While spread contraction was broadly muted, the utilities sector was the notable outperformer. EUR and USD spreads rallied following the US election consolidating their strong recent performance. US High yield and investment grade spreads are at levels last seen prior to the GFC. Swap spreads were in negative territory throughout November, contracting during the first two weeks before returning to near 0 by month end.

No indications of end of year fatigue were present in the primary market with a busy pipeline of deals across financials, corporate and securitised sectors. Demand was robust throughout the month leading to oversubscribed book builds, most notably Woolworths 10-year $800M which priced much tighter than guidance reflecting the market's appetite for long dated blue chip corporate paper. In the Financial space, NAB (7-year) and ANZ (5-year) each raised $2.5B of senior debt across fixed and floating tranches. Kangaroo issuance was also healthy with a number of offshore borrowers coming to the Australian market to meet the persistent robust demand.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.6	3.1	6.6	6.4	4.5	3.4	3.3	3.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	3.1	1.9	1.9	1.9
Excess	+0.1	+0.5	+0.8	+2.2	+2.3	+1.4	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.7	2.1	3.6	9.0	9.1	5.8	4.7	4.4	4.5
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	3.1	1.9	1.9	1.9
Excess	+0.4	+1.0	+1.4	+4.6	+5.0	+2.7	+2.8	+2.6	+2.5
Perpetual Active Fixed Interest Fund	1.2	-0.1	3.8	7.3	4.8	0.2	0.4	2.3	3.1
Bloomberg AusBond Composite Index	1.1	-0.5	3.0	5.2	2.7	-0.9	-0.6	1.4	2.1
Excess	+0.1	+0.4	+0.7	+2.1	+2.2	+1.2	+1.0	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.7	2.3	3.8	9.3	9.0	6.0	4.8	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.1	3.1	1.9	-	-
Excess	+0.3	+1.2	+1.6	+4.8	+4.9	+2.9	+2.8	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.7	2.1	4.2	9.7	9.9	7.0	5.8	5.6	6.0
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.1	3.1	1.9	1.8	1.8
Excess	+0.3	+1.0	+2.0	+5.2	+5.7	+3.9	+3.9	+3.8	+4.2

MULTI-ASSET STRATEGIES

The results of the US presidential election were the key development during November alongside political and fiscal concerns in Europe.
- Developed markets equities (+4.9%) rallied led by a strong month from the US (+5.9%). US equities responded positively to the results of the US presidential elections and expectations for corporate profit growth under a second Trump administration. Performance was led by the financial sector reflecting the incoming administration's mandate for deregulation.
- European equities (-0.3%) were mixed with German stocks rallying (+2.9%) despite political uncertainty while French equities (-1.5%) fell on sovereign debt concerns. UK equities (+2.6%) rose but trailed the broader developed market.
- Australian equities (+3.7%) rose to new record highs during November notwithstanding the continued malaise of the Australian economy. The market was swept higher by the generally positive global sentiment towards equities.
- Asian markets fell with Japan (-2.2%) Hong Kong (-4.2%) Taiwan (-2.4%) and China (-4.1%) all posting declines. Chinese equities weighed on emerging market performance, which reacted to expected changes in US trade policy and the appreciating US Dollar.
- Bond markets retraced following their recent selloff. Investors had to weigh the US Federal Reserve (Fed)'s rate cut against the prospect of higher short term inflation under Trump's proposed trade policies. European bonds were supported by flagging economic growth prospects leading to expectations of further monetary easing from the European central bank.

November saw the global growth outlook for the US continue to diverge from the rest of the world. The resolution of the US election, including the Republican clean sweep across legislative and executive branches, is expected to be positive for the growth outlook. Accommodative taxation policies and a decreased regulatory burden has helped firm market expectations of a soft landing supported by resilient employment, strong corporate earnings growth and a vibrant consumer. With valuations well above fair value, however, much of the good news is already priced in.. While equities might not have much remaining headroom, the increasing likelihood of a soft landing provides optionality to the Fed to slow or pause monetary policy easing to have a better chance of inflation sustainably toward target.

The Federal Reserve (Fed) lowered interest rates by 25 basis points to a range of 4.50%-4.75%, citing easing labour market conditions and still-elevated inflation. Core CPI rose by 3.3% year on year, inconsistent with the Fed's 2% target. The upcoming months will likely see the Fed closely monitoring inflation and labour market conditions while considering whether additional rate cuts are necessary to sustain growth. Trump's planned tariffs 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. Our key concern with the incoming administration remains the fiscal deficit (6.4% of GDP) which is at a level commensurate with recessions and is expected to expand via tax cuts. We remain cognisant of the unsustainable path of fiscal policy and its potential impact on bond markets, with flow-on effects to equity market valuations.

Outside the US, the economic outlook is challenging in several regions. In Europe, the composite PMI dropped to a 10-month low, signalling contraction across both services and manufacturing. On the positive side, the European Central Bank (ECB) is expected to continue its accommodative stance, likely reducing interest rates further in December. Nonetheless, the region's weak economic data and political instability, including the collapse of the German coalition government and increasing concerns about French debt, suggest a challenging environment for growth. In the UK, economic data showed signs of weakness, with the services PMI falling to its lowest level since November 2023 and unemployment climbing to 4.3%.

Emerging markets struggled in November, pressured by rising concerns over the potential impact of US tariff increases alongside the strengthening US dollar. China's economic outlook in particular remains fraught. US trade policy, property sector overhang, sustained deflation, high debt and weak private sector confidence are ongoing challenges facing the outlook for China.

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. This is despite the support of strong population growth and fiscal expansion. Australia's economy is projected to grow at a subdued pace in 2025, driven by several factors including softening labour market conditions, and constrained household consumption.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	2.1	2.6	5.8	14.0	7.5	7.3	8.0	7.9	7.8
Balanced Growth Index	3.0	4.2	9.3	19.5	11.7	6.3	6.9	7.7	7.8
Excess	-0.9	-1.6	-3.5	-5.5	-4.2	+1.0	+1.1	+0.2	0.0
Perpetual Diversified Growth Fund	1.7	1.8	4.9	11.6	6.2	5.6	6.1	6.4	6.4
Moderate Growth Index	2.4	3.0	7.5	15.3	9.2	4.5	4.9	5.9	6.2
Excess	-0.7	-1.1	-2.6	-3.6	-2.9	+1.1	+1.2	+0.4	+0.2
Perpetual Diversified Real Return Fund - Class W	0.7	1.2	3.2	7.0	4.6	3.9	4.8	4.8	5.1
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	0.9	1.0	4.1	6.8	3.5	1.2			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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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.