Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

May 2024

AUSTRALIAN EQUITIES STRATEGIES

The market experienced a notable rally throughout May, though it surrendered some gains in the final days of the month. Early optimism was driven by the Reserve Bank of Australia's (RBA) decision to maintain current interest rates. Mid-month, lower-than-expected US CPI figures and an increase in Australia's unemployment rate fuelled speculation of potential rate cuts, which the market eagerly anticipated. However, in Australia, an unexpected rise in April's inflation to 3.6% year-on-year, up from 3.5% in March, unsettled equities as investors adjusted their expectations, postponing the first anticipated RBA rate cut to mid-2025. Despite these fluctuations, the Information Technology sector outperformed, ending the month up by 4.5%, partly buoyed by strong international sentiment towards tech stocks. In contrast, the Telecommunications sector declined by 2.8% and Consumer Staples fell by 1.0%, as concerns over a weakening consumer environment impacted market confidence.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	0.4	0.9	11.8	7.5	6.2	6.9	9.1	8.6	7.5
S&P/ASX 300 Accumulation Index	0.9	1.1	10.7	12.8	7.5	6.5	7.8	8.5	7.8
Excess	-0.4	-0.2	+1.1	-5.3	-1.3	+0.3	+1.3	+0.1	-0.3
Perpetual Concentrated Equity Fund	0.1	1.7	11.3	9.2	7.2	8.7	8.8	8.7	7.9
S&P/ASX 300 Accumulation Index	0.9	1.1	10.7	12.8	7.5	6.5	7.8	8.5	7.8
Excess	-0.8	+0.6	+0.6	-3.6	-0.3	+2.2	+1.0	+0.1	+0.1
Perpetual ESG Australian Share Fund	-2.3	-1.3	12.4	13.2	9.7	8.4	10.9	8.8	9.3
S&P/ASX 300 Accumulation Index	0.9	1.1	10.7	12.8	7.5	6.5	7.8	8.5	7.8
Excess	-3.1	-2.4	+1.7	+0.4	+2.2	+1.8	+3.1	+0.2	+1.5
Perpetual Pure Equity Alpha Fund – Class A	1.1	2.7	9.6	8.2	7.0	9.4	10.6	9.5	9.4
RBA Cash Rate Index	0.4	1.1	2.2	4.3	3.5	2.4	1.6	1.6	1.7
Excess	+0.7	+1.6	+7.4	+3.8	+3.5	+7.1	+9.0	+7.9	+7.6
Perpetual Share-Plus Long-Short Fund	0.9	1.3	14.8	14.5	9.7	11.9	11.9	10.9	10.3
S&P/ASX 300 Accumulation Index	0.9	1.1	10.7	12.8	7.5	6.5	7.8	8.5	7.8
Excess	+0.1	+0.2	+4.1	+1.7	+2.2	+5.3	+4.1	+2.3	+2.5
Perpetual Smaller Companies Fund	-1.7	1.5	9.4	8.7	4.2	6.7	11.8	10.7	10.7
S&P/ASX Small Ordinaries Accumulation Index	0.0	1.5	11.7	10.9	2.2	-0.1	4.2	6.7	6.5
Excess	-1.6	0.0	-2.4	-2.3	+2.0	+6.8	+7.7	+4.0	+4.2
Perpetual Strategic Capital Fund - Class S	0.0	0.0	10.3	-	-	-	-	-	-
S&P/ASX 300 Accumulation Index	0.9	1.1	10.7	-	-	-	-	-	-
Excess	-0.8	-1.1	-0.4	-	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

The second month of the quarter saw equity markets across the globe rebound after a weak April. The signs of market leadership shifting weakened as growth outpaced value and narrow leadership began to reappear. Major equity indices across the globe rose, with the MSCI World and MSCI All Country World indexes up. This pushed the indices into positive territory for the quarter, erasing the losses posted in April. Broad market indices are notably higher for the year, with the MSCI World index up over 20%. The factors driving the market over the past quarters, such as high momentum, outperformed this month and traditional value stocks with lower price-to-earnings multiples and higher dividend yields underperformed. All sectors in the MSCI World Index had positive returns, with Information Technology, Communication Services, and Utilities leading the way, up at least 6% during the month. The Consumer Discretionary, Consumer Staples, Energy, Health Care, Materials, and Real Estate sectors were all up, but underperformed the MSCI World Index overall.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	-0.5	-0.7	0.8	1.7	-	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	-1.8	1.4	7.1	9.4	-	-	-	-	-
Excess	+1.3	-2.1	-6.4	-7.7	-	-	-	-	-
Barrow Hanley Global Share Fund - Class A	1.7	4.2	11.8	17.1	13.9	10.6	13.5	12.4	-
MSCI World Net Total Return Index ($A)	2.0	1.6	14.5	21.6	17.3	12.2	13.7	12.4	-
Excess	-0.3	+2.6	-2.8	-4.5	-3.4	-1.6	-0.2	-0.1	-

CASH & FIXED INCOME STRATEGIES

Risk assets resumed their inexorable rally during May with equity and bond markets generating positive performance. There was notable risk-on trend best exemplified in the outperformance of high growth technology sectors. In these conditions, global credit spreads tightened, notably USD and Euro denominated high yield.

Domestic bond yields were relatively subdued during May. Global yields fell on aggregate, led by the US where 10-year yields rallied 18bps. Softer labour market data and dovish Fed commentary drove the move lower in US yields. In Australia, intransigent inflation data and a move higher in unemployment sent mixed signals regarding the path of RBA policy. Futures markets continue to price a very small chance a further rate increase during 2024.

Domestic credit spreads tightened marginally over the month, extending their recent rally. Performance was mixed by sector however, with major bank subordinated spread performing well while hybrid spreads widened. Aligning with competitors S&P and Moody's, Fitch upgraded their rating on the four major banks and Macquarie during the month reflecting the build up of equity to meet loss absorbing requirements.

May saw elevated primary market issuance, diversified across multiple sectors. NAB and Westpac raised $2.9B and $3.2B respectively across senior unsecured fixed and floating bonds. A number of corporate issuers tapped markets during May including Ausnet ($500M) and Airservices Australia ($425M). Securitisation volumes remained elevated throughout across both authorized deposit taking institutions and non-ADIs alike, continuing to meet robust demand.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.6	1.7	3.5	6.9	5.4	3.5	3.1	3.1	3.2
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.3	3.5	2.3	1.6	1.7	1.8
Excess	+0.2	+0.6	+1.3	+2.6	+2.0	+1.2	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.9	2.4	5.2	10.3	7.3	4.7	4.5	4.3	4.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.3	3.5	2.3	1.6	1.7	1.8
Excess	+0.5	+1.3	+3.1	+5.9	+3.9	+2.4	+2.9	+2.6	+2.5
Perpetual Active Fixed Interest Fund	0.7	0.1	3.4	3.3	2.9	-1.1	0.4	2.0	3.1
Bloomberg AusBond Composite Index	0.4	-0.5	2.1	0.9	1.3	-2.1	-0.5	1.1	2.2
Excess	+0.3	+0.6	+1.3	+2.4	+1.6	+0.9	+1.0	+0.9	+0.9
Perpetual ESG Credit Income Fund- Class A	0.9	2.6	5.3	9.8	7.6	4.9	4.5	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.3	3.5	2.3	1.6	-	-
Excess	+0.5	+1.5	+3.1	+5.5	+4.1	+2.6	+2.9	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.9	2.5	5.3	10.9	8.3	6.1	5.5	5.5	5.9
RBA Cash Rate Index	0.4	1.1	2.2	4.3	3.5	2.4	1.6	1.6	1.7
Excess	+0.5	+1.4	+3.1	+6.5	+4.8	+3.7	+3.9	+3.9	+4.2

MULTI-ASSET STRATEGIES

Equity markets rebounded in May despite continued anticipation of higher-for-longer rate regimes.
- Developed market equities (+4.1%) performed well led by the US (+5.0%) where large cap tech companies continued to drive share market returns as falling bond yields and strong corporate earnings results contributed to the rally. The Magnificent 7 collectively, and Nvidia especially substantially outperformed the broader market.
- In developed non-US markets, the ASX 300 (+0.9%) generated positive returns despite trailing the broader developed market with Information Technology leading the pace of gains, the UK (+2.1%) market recorded its third straight month of gains for the first time in two years as investors reacted positively to the large amount of share buybacks currently underway. European equities (+2.4%) rose solidly, led by Germany (+3.2%) as economic data continued to surprise to the upside.
- Meanwhile, Emerging Market (+0.5%) recorded a fourth straight month of gains but trailed developed market returns even though Chinese equities (+2.5%) continue to benefit from supportive government policy and improvements in the economic outlook.
- Meanwhile, US bond yields declined during May with 10-year (-19bps) and 2-year (-17bps) recording double-digit declines as investors continued to hope that the Fed will be easing rates later this year given a softer than expected 0.25% month-on-month increase in the US core CPI for April. Other developed market yields – including Australia – traded within the range of recent levels as growth and inflation data provided few hints about the policy path ahead.
- Lastly, commodity markets were mixed with energy prices falling including Brent Crude Oil (-7.1%) and Coking Coal (-6.9%) generally lower, but these losses were offset by increases in gold (+1.0%) and agricultural commodities such as corn (+1.5%) and Soybeans (+5.1%). .

While equity valuations recommenced their rally during May, there remains uncertainty around the near-term path of monetary policy with consensus rate expectations oscillating throughout this year as initial central bank optimism was persistently watered down by resilient monthly core inflation results which sparked expectations of higher-for-longer rates. Some of the tail risks highlighted at the start of the year around inflation and economic have growth have subsided somewhat and what is left is more mundane cycle of trend growth around 3% with persistent and above-target inflation also around 3%.

The global growth outlook has broadened somewhat with US growth moderating from a high base, whereas regional growth outside the US is accelerating from a low level. European growth indicators continue to improve led by robust service sector PMIs, with the growth outlook also supported by highly dovish ECB guidance which cemented market expectations of a June -0.25% rate cut even though regional core inflation and wages growth remain a considerable distance away from levels aligned with the ECB's official target In contrast, US partial indicators have softened led by retail sales and industrial production (%), but labour markets continue to be characterised by resilience even though the monthly pace of jobs growth is well down from the past recorded 12 months ago. While the US economy's resilience in the wake of the most aggressive Fed tightening cycle in 40 years has been impressive, we expect to see restrictive policy increasingly weigh on growth in the second half of 2024.

Despite recent improvements in Europe and resilient US data, it remains hard to see a significant global growth acceleration this year, as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, employment growth is slowing, and the global credit impulse is at a post-GFC low.

While traditional leading indicators – such as yield curve inversion – have been unreliable this cycle, sentiment, macroeconomic and financial indicators point to lower near term recession risk. While resilient growth is supportive for equities, the soft-landing scenario and some rate cuts have already been priced in which increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets or central bank expectation.

In addition, the final mile of bringing inflation in line with central bank targets remains a challenge as all developed economies are struggling with price gains associated with insufficient aggregate supply given diminishing globalisation and most economies having extremely tight labour markets which are generating wages growth well above levels required to get core inflation sustainably back to 2%. In contrast to the ECB, we do not expect the RBA to reduce interest rates this year, given elevated and rising wages growth, which could make for a challenging time for Australia's slowing economy.

Despite an improving growth outlook, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging environment for markets to negotiate. As always, our focus remains on identifying investments that can generate returns of CPI plus 5% per annum over a five-year horizon while maintaining an asset allocation that ensures that no individual position or cluster of positions will risk the medium-term investment objective.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	0.7	1.5	7.8	8.4	5.8	6.4	8.1	7.7	7.6
Balanced Growth Index	1.3	1.2	9.4	12.1	7.7	4.9	6.8	7.1	7.3
Excess	-0.6	+0.3	-1.5	-3.7	-1.9	+1.4	+1.3	+0.6	+0.3
Perpetual Diversified Growth Fund	0.6	1.1	6.5	6.6	4.7	4.7	6.2	6.2	6.3
Moderate Growth Index	1.0	0.8	7.3	9.0	6.0	3.2	4.8	5.5	5.9
Excess	-0.4	+0.4	-0.8	-2.5	-1.3	+1.5	+1.3	+0.8	+0.4
Perpetual Diversified Real Return Fund - Class W	0.4	1.1	3.7	4.4	3.5	3.2	4.8	4.8	5.1
Australian CPI +5% (Target Objective)							9.0	8.3	
Perpetual ESG Real Return Fund	0.0	0.3	2.6	1.7	1.7				
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.

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