

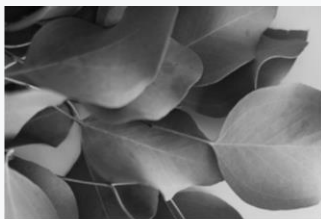
Quarterly Market Update

# The Roaring 20s

**Where are the opportunities and threats in financial markets following a strong finish to 2023?**



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# Snapshot

Markets witnessed a robust rally in the final quarter of 2023, underpinned by an unexpected dovish pivot from the U.S. Federal Reserve. This pivot, combined with resilient economic activity and decreasing inflation, propelled almost every asset class to strong performances throughout the quarter, providing diversified portfolios with a solid conclusion to 2023.

Despite the strong finish to the year, it's important not to overlook the significant challenges that markets had to contend with at the quarter's outset. In early October, mounting concerns about the persistence of inflation and escalating geopolitical tensions in the Middle East drove volatility and saw oil prices spike higher. Coupled with markets pricing in that interest rates would likely stay 'higher for longer', it prompted the U.S. 10-year Treasury yield to reach 5% - a level not seen since before the Global Financial Crisis (GFC). This further tightened financial conditions and exerted significant pressure on asset prices.

However, financial markets are forward-looking, and the dominant narrative quickly shifted from bearish to bullish as several inflation prints surprised on the downside, labour markets softened (but not to levels consistent with a recession), and the U.S. Federal Reserve pivoted towards more dovish commentary. Investors quickly became optimistic that a deep recession had been avoided and that a goldilocks 'soft landing' scenario could be achieved in 2024. These factors helped buoy asset prices, ensuring that most major indices finished higher than their October lows at the conclusion of the month.

This momentum continued into November, marked by the MSCI All Country World Index delivering its best monthly return in 2023, surging over 9%<sup>1</sup> in local currency terms. The Middle East conflict remaining contained, declining oil prices, lower bond yields, and decreasing inflation helped fuel the rally, with previously struggling markets and asset classes participating in the upswing.

<sup>1</sup> Measured by MSCI All Country World Index in local currency terms

Through December, the 'Santa Claus Rally' was firmly in play, reinforced by the Federal Reserve's clear communication that rate hikes were no longer on the cards, and that rate cuts were likely in 2024. Investors swiftly began to re-evaluate the monetary policy outlook, not only for the world's largest central bank – the U.S. Federal Reserve – but also for the world's other major central banks, to align with this shift in policy expectations. This assurance, combined with new data highlighting that economic activity remains robust, defied earlier expectations that higher interest rates would ultimately push the global economy into a recession.

Despite uncertainties, the above-average annual returns of 2023 benefited investors who stayed well-diversified. Reflecting on market dynamics, staying disciplined within portfolios was crucial. Cash, which had led in 2022, finished at the bottom in 2023, emphasising the importance of adaptability and discipline in navigating dynamic market conditions.

Looking into 2024, there are some key risks that must be navigated, with geopolitical tension continuing to simmer, AI potentially losing its market leadership, a flailing Chinese economy and potentially the final rounds of the inflation battle. Encouragingly, there are plenty of reasons to remain positive, with any bouts of market turmoil likely to present investors with opportunity.

# Asset class performance – December quarter



## Australian equities

Despite a challenging environment in the preceding quarter, Australian equities staged a strong rebound in the final quarter of the calendar year. The ASX 300 faced headwinds in October (-3.8%)<sup>2</sup>, attributed to high interest rates, persistent inflation, and rising geopolitical tensions. However, positive developments both domestically and abroad fuelled a robust finish for Australian equities in November (+5.1%) and December (+7.2%), with the ASX 300 closing up 8.4% for the quarter.

This late-year rally benefited both Australian Small Cap stocks (+8.5%)<sup>3</sup> and Large Caps (+8.3%)<sup>4</sup>, driven by lower interest rate expectations and improving investor sentiment. For the calendar year, the ASX 300 finished up 12.1%, whilst Small Caps lagged, rising 7.8%. The late run by Australian equities means that the asset class has put in a respectable performance against its global peers but still trailed them on a calendar year basis.

At the sector level, there was notable dispersion between outperformers and laggards, with 9 out of the 11 sectors finishing in positive territory for the quarter. Interest rate-sensitive and cyclical sectors experienced the most significant boost, with Real Estate surging 16.5%<sup>5</sup>, and Materials rising 13.2%<sup>6</sup>. Conversely, Utilities (-2.1%)<sup>7</sup> and Energy (-9.0%)<sup>8</sup> emerged as the biggest laggards, in part due to lower energy prices globally. Brent crude – the global benchmark for oil prices - fell by 19% during the final quarter to USD\$77/barrel<sup>9</sup>, driven by a weaker growth outlook and the failure of OPEC+ nations to secure global support for further supply cuts. Over the full calendar year, all 11 sectors finished in the green, with Information Technology (+27.9%) and Communication Services (+16.7%) benefiting greatly from investors' enthusiasm surrounding artificial intelligence (AI). Real Estate (+16.9%) and Consumer Discretionary (+21.7%) received a boost from lower rate expectations, as well as the economy proving more resilient to higher rates than expected, and consumer consumption remaining robust.

Value and Growth traded places several times throughout 2023, competing to be the best performing investment style. Investors seesawed between generative AI being the most dominant theme for the year – a positive for tech-heavy Growth names – and higher rates and growing fears of a recession, historically favouring Value stocks given their stronger fundamentals and income-generating capabilities. Nevertheless, enjoying more constructive investment sentiment, Value<sup>10</sup> and Growth<sup>11</sup> both ended the quarter up (+9.0%) and finished up (+14.0%) and (+14.5%) respectively for the year.

<sup>2</sup> Measured by the S&P ASX 300 Index

<sup>3</sup> Measured by the S&P ASX Small Ordinaries

<sup>4</sup> Measured by the S&P ASX 100

<sup>5</sup> Measured by the S&P ASX 300 A-REIT Index

<sup>6</sup> Measured by the S&P ASX 300 Materials Index

<sup>7</sup> Measured by the S&P ASX 300 Utilities Index

<sup>8</sup> Measured by the S&P ASX 300 Energy Index

<sup>9</sup> Measured by the Brent Crude Oil in USD

<sup>10</sup> Measured by the MSCI Australia Value Index

<sup>11</sup> Measured by the MSCI Australia Growth Index

# Asset class performance – December quarter



## International equities

In the final quarter of 2023, international shares closely mirrored the trajectory of their Australian counterparts. A robust market rebound was fuelled by an unexpected shift in the U.S. Federal Reserve's stance, strong economic activity, and a decline in inflation, contributing to a notable surge in equity prices. However, Australian investors contended with headwinds, as a strengthening Aussie dollar tempered international returns.

On an unhedged basis, U.S. equity returns were dampened, with the S&P 500 rising by 5.5%<sup>12</sup> and the tech-heavy NASDAQ Composite Index recording a gain of 7.6%<sup>13</sup>. The NASDAQ's outperformance was attributed to familiar factors: AI enthusiasm driving tech-heavy Growth names and positive expectations for rate cuts in 2024. On a hedged basis, these outcomes improved to 11.5%<sup>14</sup> for the S&P 500 and 13.8%<sup>15</sup> for the NASDAQ.

Internationally, foreign markets lagged the United States in the final quarter of 2023, primarily due to modest gains in Emerging Markets. Influenced by increased geopolitical tensions in the Middle East and continuing lacklustre Chinese economic growth, Emerging Markets achieved a gain of 2.0%<sup>16</sup>. In contrast, foreign developed markets outperformed, rising by 4.4%<sup>17</sup>, driven by better-than-expected inflation readings in Europe and rising expectations that major central banks would follow the U.S. Federal Reserve's lead and look to cut interest rates in 2024.

Throughout 2023, Japan's equity market was the leader, rising by 27.8%<sup>18</sup> in local currency terms, just edging out the U.S. equity market's return of 25.7%<sup>14</sup>. However, due to a weakening Yen, Japanese returns were more subdued on an Australian dollar hedged basis (+18.8%) when compared to the U.S. (+24.9%). The resurgence in Japan's market dynamics can be credited to corporate reform measures and signals from the Bank of Japan (BoJ) indicating a potential departure from its decade-long stance of negative interest rate policy. European equities also performed strongly, rising by 19.2%<sup>19</sup>, whilst China acted as a drag on regional and emerging market benchmarks.

Examining international equity returns on a sector-level basis, Information Technology led the way, closely followed by Real Estate stocks. Cyclical also outperformed over the quarter, reflecting expectations for stable economic growth amid the Fed's communication about future rate cuts. For the full year, the influence of AI enthusiasm was predominant, with technology, consumer cyclical, and communications services sectors significantly outperforming. Looking at sector laggards for Q4 and the full year, more defensive sectors, including consumer staples and utilities, faced challenges as economic growth proved to be more resilient than expected. Higher rates for most of 2023 also reduced investors' appetites for these higher dividend-yielding sectors, resulting in sluggish returns for the calendar year after being the best relative outperformers in 2022.

From an investment style perspective, Growth (+7.2%)<sup>20</sup> significantly outperformed Value (+3.4%)<sup>21</sup> both in Q4 and for the full year (36.2% vs. 10.8%), driven by enthusiasm for AI and expectations for rate cuts.

<sup>12</sup> Measured by the S&P 500 in AUD

<sup>13</sup> Measured by the NASDAQ Composite Index in AUD

<sup>14</sup> Measured by the S&P 500 in USD

<sup>15</sup> Measured by the NASDAQ Composite Index in USD

<sup>16</sup> Measured by the MSCI EM (Emerging Markets) in AUD

<sup>17</sup> Measured by the MSCI EAFE in AUD

<sup>18</sup> Measured by the TOPIX in JPY (Japanese Yen)

<sup>19</sup> Measured by the MSCI Europe in AUD

<sup>20</sup> Measured by the MSCI World Index Growth in AUD

<sup>21</sup> Measured by the MSCI World Index Value in AUD



## Fixed income

The final quarter of 2023 proved highly positive for fixed income markets, with the Bloomberg Global Aggregate Index registering its best quarterly performance in over two decades (+5.4%)<sup>22</sup>. In the domestic bond market, the Bloomberg AusBond Composite 0+ Year Index returned 3.8%<sup>23</sup> over the same time period. The U.S. Federal Reserve's decision to pause interest rate hikes and signal a more dovish monetary policy, anticipating three rate cuts in 2024, served as the primary driver for this positive shift.

Similarly to the U.S. Federal Reserve most major central banks communicated that they had reached a peak in interest rates and would likely keep rates on hold from here on out. During the quarter, the Reserve Bank of Australia (RBA) raised rates once to 4.35%, the European Central Bank (ECB) kept rates on hold at 4.50%, and the Bank of England (BoE) Monetary Policy Committee remained divided on further tightening. The Bank of Japan made minor adjustments to its yield curve control policy.

Examining bond market nuances, longer-duration bonds outperformed their shorter-duration counterparts in the final quarter, spurred by investors reacting to lower-than-expected inflation and pricing in potential future rate cuts. However, over the full year, shorter-duration debt demonstrated resilience, outperforming longer-term bonds. High inflation readings in the first half of 2023 and stronger than expected economic growth weighed on the long duration bonds.

After initially rising at the quarter's onset, government bond yields sharply declined, triggering a rally in bond and credit markets by year's end. Over the quarter, the Australian 10-year government bond yield decreased by 45 basis points to 3.96%, while in the U.S., the 10-year Treasury bond yield fell by 48 basis points to 3.88%. European yields also saw a decline, with the 10-year German bund yield falling by 48 basis points to 2.00%. With large swings seen in bond markets throughout the year, simply examining the start and end points of bond yields would be misleading and conceal much of the volatility. The Australian 10-year government bond yield started the year at 4.05% and concluded the year slightly lower at 3.96%, whilst the U.S. 10-year Treasury yield commenced and concluded the year at 3.88%.

Corporate bonds showed robust performance in Q4, with both High Yield (+7.1%)<sup>24</sup> and Investment Grade bonds (+5.4%)<sup>25</sup> posting positive returns. This strength persisted throughout the full year, with High Yield corporate bonds (+11.5%) outperforming Investment Grade counterparts (+5.3%). Credit spreads tightened due to increased investor risk appetite for higher yields, and the probability of a 2024 recession declined.

<sup>22</sup> Measured by Bloomberg Global Aggregate Index in AUD

<sup>23</sup> Measured by Bloomberg AusBond Composite 0+ Year Index in AUD

<sup>24</sup> Measured by Bloomberg Global High Yield Index in AUD

<sup>25</sup> Measured by Bloomberg Global Aggregate Index in AUD



## Real estate

In contrast to the challenging conditions experienced in the previous quarter, the domestic real estate market witnessed a remarkable turnaround in the final quarter of the year. The primary catalyst for this shift was once again the prevailing interest rate environment. Whereas the U.S. Federal Reserve had signalled that it would keep rates "higher for longer" in the preceding quarter, the final quarter of the year saw continued progress on inflation, with the Reserve Bank of Australia signalling that it will likely keep rates on hold and the U.S. Federal Reserve expressing their intentions to cut interest rates in 2024. This change in tone and anticipation of a more accommodative monetary policy drove Real Estate returns both domestically and abroad, making it one of the best-performing sectors during Q4.

A-REITs concluded December with an impressive surge of 16.5%<sup>26</sup> for the quarter. However, when considering the full calendar year, the asset class posted only a slightly higher gain of 16.9%, highlighting the sector's fluctuating performance, reminiscent of the ups and downs observed in bond yields throughout the year.

On a global scale, real estate assets displayed a more mixed performance. The overall market, measured in Australian Dollar terms, recorded an 8.3%<sup>27</sup> increase. Delving deeper into regional dynamics revealed a broad dispersion in outcomes. Germany continued its strong performance, achieving a 21.8%<sup>28</sup> gain for the quarter, contributing to an impressive 34.7% rise over the full calendar year. Europe as a whole demonstrated strength, returning 19.3%<sup>29</sup>, while the United States posted a solid yet more modest gain of 9.3%<sup>30</sup>. Hong Kong remained a laggard throughout the quarter (-2.9%)<sup>31</sup> and throughout the year (-20.3%) due to a sharp deterioration in China's debt-fuelled property market.

During the quarter, virtually all sub-sectors within real estate landscape benefited from lower interest rate expectations and a more optimistic economic outlook, with Retail and Office spaces experiencing the most notable gains.

<sup>26</sup> Measured by S&P ASX 300 A-REITs

<sup>27</sup> Measured by the FTSE EPRA Nareit Global Index

<sup>28</sup> Measured by the FTSE EPRA Nareit Germany Index

<sup>29</sup> Measured by the FTSE EPRA Nareit Eurozone Index

<sup>30</sup> Measured by the FTSE EPRA Nareit USA Index

<sup>31</sup> Measured by the FTSE EPRA Nareit Hong Kong Index



## Alternatives

Alternative assets provide diversification potential but are tied to the economic realities of public markets. This duality exposes both opportunities and threats, as evident in the final quarter of 2023. Whilst traditional, publicly traded asset classes rallied strongly into year-end, alternative asset classes posted more modest gains. In addition, transaction levels decreased due to uncertainty surrounding the future path of inflation and interest rates.

Within the alternative asset landscape, pockets of confidence emerged, particularly in infrastructure where investors found reassurance in contractually consistent and indexed cash flows. Private credit strategies also stood out, experiencing robust inflows, given their potential to provide higher income compared to traditional asset classes. The outlook for alternatives appears to be improving, buoyed by the potential for a more accommodative monetary policy and positive shift in investor sentiment.



## Australian Cash rate

In the December quarter, the Reserve Bank of Australia (RBA) raised interest rates by 25 basis points to 4.35%. Whilst central banks globally adopted a more dovish stance, the RBA continued to grapple with a core inflation rate near 5%, and uncertainty remained about when inflation would return to the 2-3% target band. By the RBA's own projections, inflation won't return to the target range until late 2025. Given this view, and in the absence of a rapid slowdown in economic activity, monetary policy in Australia is likely to remain 'restrictive' in 2024. As a result, we anticipate near-term stability around the current target rate of 4.35%, with the domestic government yield curve remaining positive, offering more attractive yields to investors at longer maturities.



## Australian dollar

The Australian dollar's (AUD) 2023 story unfolded in two distinct chapters. Early on, it saw U.S. dollar (USD) dominance, with the AUD holding steady against its main trading partners. But this calm facade, masked a harsher reality: depreciation against the greenback. Q3 saw the Aussie shed 3.0%, facing strong headwinds from a slowing Chinese economy and a global flight to the safe-haven USD.

However, with risk appetite resurfacing during the final quarter of the calendar year, the tide turned for the AUD. The USD's broad retreat against major currencies, including the AUD, offered much-needed respite after a year of downward pressure. Whilst not fully recovering its year-to-date losses, the AUD staged a respectable comeback over the quarter, climbing 5.7%<sup>32</sup> to close at 0.68 cents (per 1 AUD).

<sup>32</sup> Source: FactSet as at 31 December 2023

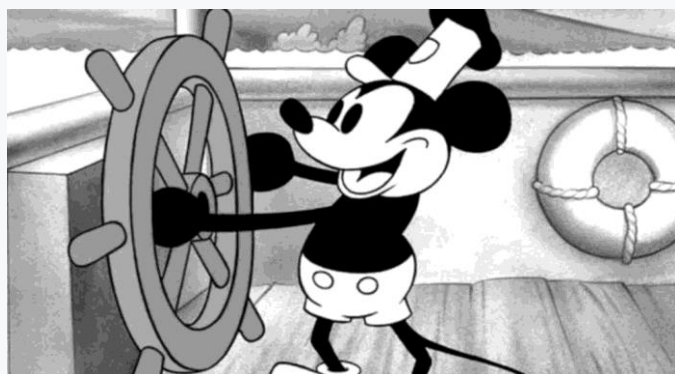
# Global economic overview

## Full Steam Ahead

“Not the first animated cartoon to be synchronized with sound effects, but the first to attract favorable attention”<sup>33</sup> is the way Variety magazine described Disney’s “Steamboat Willie”, the first Micky Mouse film to be distributed and one of the first cartoons to feature fully synchronised sound (films of all types had been predominantly silent until that year).

Whilst Steamboat Willie proved to be a memorable success, the most famous still of the cartoon (Figure 1.) portrays a fledgling Mickey Mouse, blissfully naïve to fact that in less than 12 months, the world would be visited by The Great Depression, driving unemployment up to over 20% in most of the world, and pushing many households into poverty. Delivering what still holds the title as the longest recession in recorded history.

Figure 1. Steamboat Willie



Indeed, reflecting on 1928 it quickly becomes apparent there are an uncanny number of similarities between our economic and investment conditions today and those 95 years ago (the original 56 year copyright was extended after the Walt Disney Corporation successfully lobbied for increases to US copyright law, first to 75 years and later to 95 years, helping propel it to its position as a multi-billion dollar family entertainment brand).

If we were to describe a period that featured; strong gains in equity markets (in large part due to building optimism about the introduction of new technology), low unemployment, concerns of excesses caused by easy money and the perception that working class families had largely missed out on a boom in wealth creation. Many would presume we were talking about recent history.

However, these were the conditions in 1928, as “Steamboat Willie” first appeared on cinema screens. Whilst there was talk of recession then also, we are by no means suggesting that we expect a depression or even a deep recession in the immediate future, as we saw in the late 1920s. Whilst debt levels were much lower back then, financial systems were far less developed. Importantly, worker protections were effectively non-existent and household wealth was far more fragile.

As we sit today, the global economy has shown impressive resilience, weathering both the pandemic’s shock and the rapid tightening of monetary policy. Strong labour markets, robust consumer spending, and adaptable businesses stand out as key contributors to this encouraging performance.

<sup>33</sup> Variety Magazine, November 21, 1928



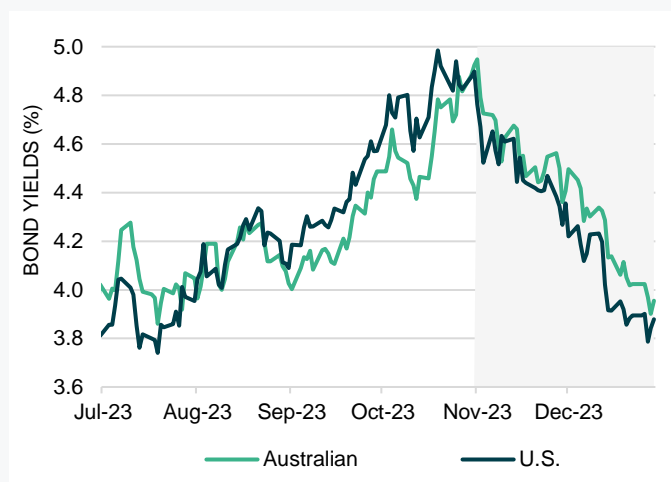
Then (year ending December 1928)	Now (year ending December 2023)
Dow rallies, gaining 43.8% (Nasdaq wasn't founded until 1971)	Nasdaq rallies 44.6%
Optimism about technology: Transatlantic flight, Television, Home Electronic Devices, Automobiles	Optimism about technology: Artificial Intelligence
Creation of new loan and credit products by lenders made loans available to a far greater proportion of the population	In response to the Global Financial Crisis and subsequent recovery, central banks progressively reduced interest rates to all-time lows
U.S. unemployment just 4.2% (Australian data was not formally calculated at this point)	U.S. unemployment just 3.7%
Elevated levels of political popularism	Elevated levels of political popularism

## A dovish pivot

2023 was marked by an unexpected buoyancy in financial markets. Therefore, it is fitting that the final quarter of 2023 saw a strong finish for asset returns broadly.

Having experienced a patch of weakness from late August, the quarter began on soft footing as concerns around sticky inflation permeated investor mindsets. Having finally accepted the reality of central banks 'higher for longer' stance on interest rates, investors began to wholeheartedly embrace higher long-term interest rate expectations. This sent the U.S. 10-year Treasury yield up to 5%, the highest it had been since 2007.

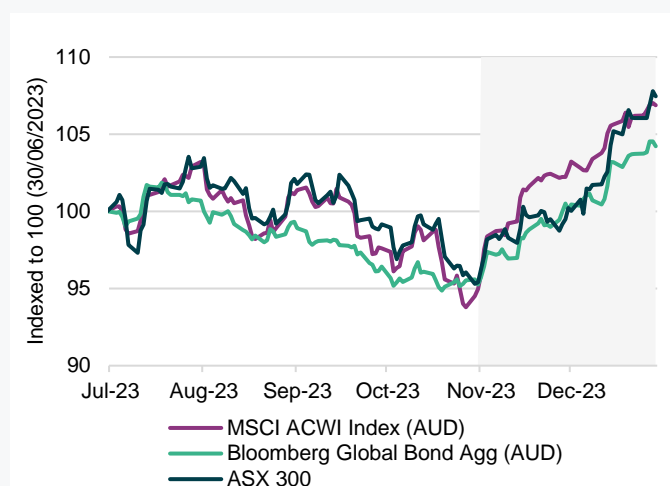
Figure 2. 10-year Government Bond Yields



Source: FactSet

Such an increase in interest rates, created downward pressure on asset valuations across capital markets. Indeed, the month of October saw asset prices continue their September trajectory, with prices falling almost universally across asset classes.

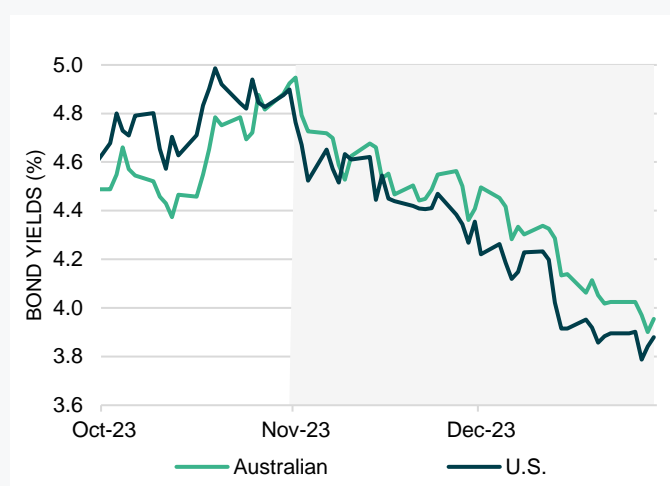
Figure 3. Market performance



Source: FactSet

However, a speech given by Federal Reserve Chairman Jerome Powell, following the Fed's October Monetary Policy decision on 1st November heralded and potentially instigated a sentiment 'sea change'. Market participants seemed to focus in on two sentences; "Financial conditions have tightened significantly in recent months, driven by higher longer-term bond yields, among other factors. Because persistent changes in financial conditions can have implications for the path of monetary policy, we monitor financial developments closely"<sup>34</sup>. Such a comment, made against the backdrop of a 14-year high in the U.S. 10-year Treasury yield, drove the narrative that policy rate hikes were likely behind us.

Figure 4. 10-Year Government Bond Yields – Q4 2023



Source: FactSet

Paradoxically, heightened long bond rates, drove a somewhat dovish pivot from the Fed, which then brought the very same long bond rates down. As we are all too familiar; all things being equal, increases in rates have a negative effect on asset prices, and decreases in rates have a positive effect.

As such, the mood music of financial markets shifted, as investors embraced the traditional 'Christmas' or 'Santa Claus' rally, a seasonal bias in asset returns that regularly sees strong positive performance in the weeks leading up to Christmas.

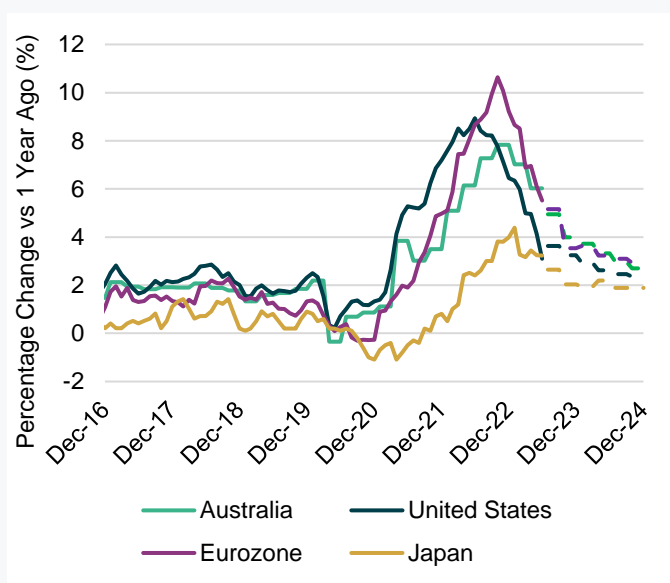
<sup>34</sup> Jerome Powell speech, Federal Reserve, 1st November 2023

## Improving prospects

When we look back over the quarter, Chairman Powell's speech at the beginning of November was the primary catalyst for the strong finish to the year. Ever since central banks acknowledged that inflation was less transitory than initially expected and began aggressively tightening monetary conditions in 2022, market behaviour has largely been dictated by interest rate expectations and by extension, inflation. This influence isn't surprising given that changes to the cost of money impact asset prices, as investors seek to value future cash flows. Adjusting interest rates (changing the cost of money) is the most meaningful tool at the disposal of central bankers. However, during more stable periods, changes to interest rates become less frequent and other investment factors rise to the fore. Acknowledging this point leads to the conclusion that we are not yet in a stable period.

Over the quarter and the year, inflation fell faster than economists and central bankers had forecasted (Figure 5), building the case for the U.S. Federal Reserve to cut rates and to be able to thread the needle and achieve a soft landing in the economy. Additionally, the economy was more resilient to higher rates than expected, and consumption was much stronger. These factors helped fuel a no-recession outlook, and underpinned a stable earnings outlook, driving the rally in asset prices in the final quarter of the year.

Figure 5. Global Headline Inflation



Source: FactSet

## Watching the horizon

As always, there are a multitude of 'noisy' factors playing on financial markets. However, many of them can be safely ignored, with only a minor watching brief. To our minds, it makes sense to focus on a handful of key factors that have the potential to have a big impact, whilst also having a relatively high chance of occurring. Key areas for us include:

### 1. Geopolitics

Politics and geopolitics are undoubtedly going to feature in a large way in the year ahead. Having enjoyed a long period of increasing cooperation between countries, hindsight suggests we may have now passed a near term peak in international relations and portends a higher baseline of tension moving forward. Whilst it certainly will be additive to the investment risk landscape, history suggests that there is a low probability that international tensions will metastasize into something that significantly damages the investment outlook. Of course, we do not ignore these situations. The one-in-a-thousand event might be low probability, but it does indeed happen.

To our minds, the most important points of contention to monitor are:

#### Middle East

Following the horrifying attacks by Hamas breaching Israel's Gaza defences, the retribution against 'the Strip' has been brutal and human cost high. At present, the situation has been relatively stable despite sporadic Israeli attacks across the border into Syria and Lebanon, in response to Iranian proxies' actions in support of Hamas' cause and the Yemeni Houthis attacks on shipping in the Red Sea. The concerning thing here is such a situation could easily escalate, drawing in more participants. It's worth bearing in mind that World War 1 began by the assassination of a single person (Archduke Franz Ferdinand of Austria).

For us, a key trigger point where we would need to consider defensive portfolio actions, would be if there was direct exchange of fire between the U.S. and Iran. From an investment point of view, if this does not happen, the conflict will likely remain confined to that specific region.

#### Russia/Ukraine

With Ukraine having impressed the world with her resilience against the much better resourced Russia, it appears likely that it will be pushed to cede occupied territories this year. After the disappointment of 2023's counter offensive, military and financial support has been significantly curtailed. With waning political support in the U.S., Hungary blocking EU funds, and distraction of the Israel/Gaza conflict on its largest sponsors, Ukraine faces significant resource constraints. As such, Ukraine's ability to push the invader out and even maintain defence of current territory is meaningfully diminished. Sadly for the Ukrainian people, unless this changes it's hard to see the avoidance of a negotiated settlement, potentially with some security commitments from the West for the territory they are left.

Whilst we are disappointed in this likely outcome for Ukraine, this does reduce the risk that the conflict expands to the point where it further impacts capital markets.

## China

China has become increasingly assertive over the past decade and sees itself as returning to its rightful primacy on the world stage. With the importance of Taiwan's chip production to western businesses and governments, and China's growing impatience with what it sees as a breakaway province, there is meaningful scope for a confrontation between two of the best equipped military forces in the world. Fortunately, this particular risk has also receded. Whilst risks remain that one of the close encounters between the two countries' naval vessels or aircraft results in an incident, recent developments suggest that in the short term, China may progressively become more conciliatory. This belief isn't formed on the basis of China altering its long-term aspirations. With economic woes demanding focused attention from policy makers, it is expected that any appetite for conflict and unification is lower than it otherwise might have been. More importantly, information regarding recent arrests of senior members of China's defence department suggests that a significant proportion of its military capabilities may have been degraded by corruption within the procurement process.

This critical point suggests that any attempt to capture Taiwan will have been pushed out until China's military capabilities are able to be confirmed and where necessary resolved.

## U.S. Election

One of the most concerning issues for us is that of the U.S. presidential election. The country is currently the only true superpower, and its democracy is becoming increasingly dysfunctional. This year's likely candidates will be the least popular in recent times. As such, political campaigning is likely to be increasingly negative, focusing on the 'bad' of the opponent. Add to this that the population has become increasingly politically polarised and the potential for violent conflict within the country is worrying. Additionally, assuming Donald Trump gets the GOP nomination, his comments regarding international relations, commitments to NATO etc, will begin to have real world affects as opportunistic countries seek to take advantage of the withdrawal of the U.S.'s stabilising influence as the global policeman. It is probably this factor that concerns us most. The potential that a power vacuum emerges as/if the U.S. continues to turn inward. Should this occur, we would likely see greater proliferation of regional conflicts. Any one of which could spark something more dangerous.

## 2. Artificial Intelligence (AI)

When we reflect on the recent emergence of generative AI, it does feel as though it appeared out of nowhere. Whilst references to AI were bandied about where marketing departments felt it might improve sales, expectations were rarely met. In most, if not all instances what was being presented were ultimately not much more than complex algorithms (potentially useful but not truly 'intelligent'). In actuality, the main reason the concept of AI had been reduced to a sales trick, was that it was over 50 years old. "Machine Intelligence" was first notably pursued by Alan Turing (the same who cracked the Nazi 'Enigma' code – helping turn the tide of World War 2) prior to 1956. Despite the field's promise and that it had attracted some of the greatest minds of the time to its cause, it failed to make meaningful progress for almost 20 years with the U.S. and British governments cutting funding in 1974. After a similarly disappointing effort that consumed billions of dollars of Japanese government funding, the field entered into a period that is known as the AI winter, where it attracted limited funding and made very little progress for nearly 40 years.

We have little doubt that AI will prove to be one of the most important new technologies of our time. What we don't know is how long it will take for it to be truly additive to economic outcomes. Whilst we appreciate the excitement that has formed about this advance, it can not maintain its rapid growth if fundamentals do not follow closely behind. Ultimately, if any new technology does not provide tangible economic benefit in a reasonable period, the capital required to drive further adoption dries up. When we think that it took approximately 200 years after the invention of the steam engine, for it to be fully embraced by industry and instigate tentative first steps into manufacturing automation, then further reflect that the internet was first established in 1983 and that the 'Dot-com' bubble burst in 2000 as high hopes were not supported by real life outcomes, only in the past decade truly coming into its own; it's clear that there's a chance that markets have gotten ahead of themselves in the short term. It is not yet clear how quickly AI will take to generate true benefits, in the words of OpenAI's Sam Altman "there is too much frenzy around AI in the short term". Indeed, whilst it is likely that it will aid economic development, even that assumption can be called into question.

Despite an implicit belief that computers have improved workplace efficiency, it's worth recognising the Productivity (or Solow's) Paradox. This paradox was identified in work by Robert Solow in 1987, and recognised that despite rapid development of information technology, productivity had unintuitively fallen. Indeed, similar studies have been undertaken over the prevailing years (most recently by the World Bank), showing that despite increasing integration of the internet, productivity continues to be surprisingly tepid. There are reasons why this hypothesis may not be correct, which we won't delve into here. However, the point is, with AI linked companies trading at a significant premiums to the broader market (circa 28x vs 20x Forward Price/Earnings), a lot of growth is already in the price. If the technology doesn't quickly live up to its lofty expectations, given AI linked stocks' dominant weight in global equity indices, these companies could quickly become a drag on market performance. Overall, we expect that the short-term may become challenging but medium and long term are likely to deliver strong positive outcomes.

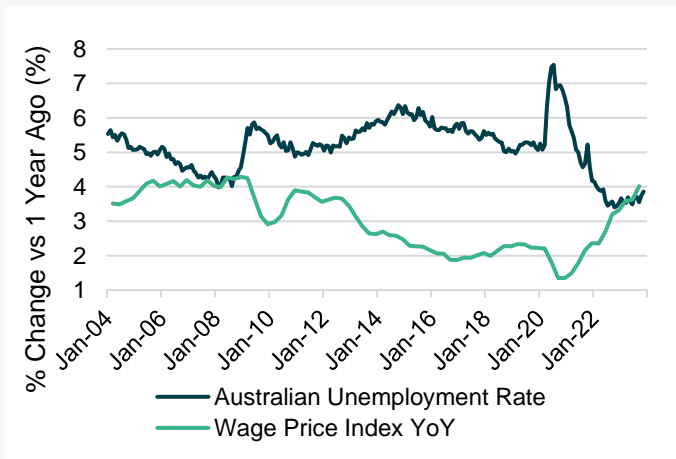
### 3. Economy

Ultimately, we believe that the key to market developments in the coming months, remains in taming inflation. Central banks are resolute in their determination to resolve price pressures, above all other priorities. Should they be able to achieve that, without pushing economies into recession, the outlook becomes increasingly bright.

That outcome is known as a 'goldilocks' scenario. At present, markets expect both positive earnings growth this year, and falling interest rates. It is rare for both to co-exist. As such, we anticipate that there are still inconsistencies across and within markets and further rationalisation is necessary. Additionally, it would seem to be reasonable to think that central banks are far more cautious about easing monetary policy, than investors expect. Whilst nobody wants to keep conditions unnecessarily constrained, reducing interest rates too early can be worse. In the words of European Central Bank, Chief Economist, Philip Lane, "A false dawn, too rapid a recalibration, can be self-defeating"<sup>35</sup>.

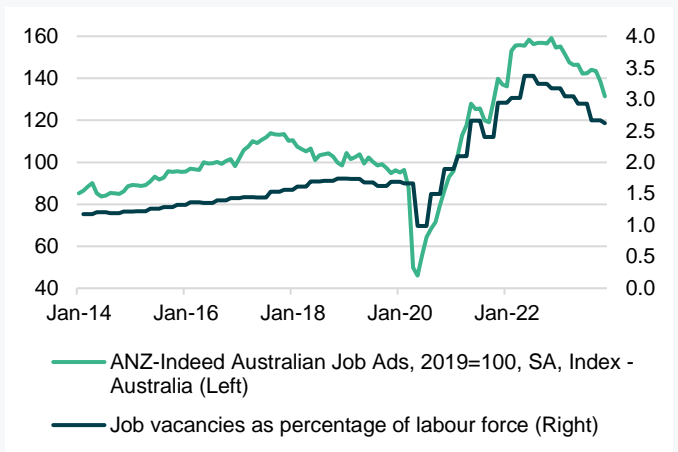
Given that the primary driver of inflation remains in the Services component, which in turn is driven by wage increases, we continue to suspect that the crucial relationship determining market dynamics will be that between consumer spending and the labour market. Should consumer spending only partially soften, the impact on the labour market is likely to be muted and we can expect the most optimistic of outcomes to pan out. On the other hand, should we see a high velocity of reductions in consumer spending, it would be reasonable to expect this to drive significant increases in unemployment, which would result in more dire outcomes.

Figure 6. Wage Price Index vs Unemployment



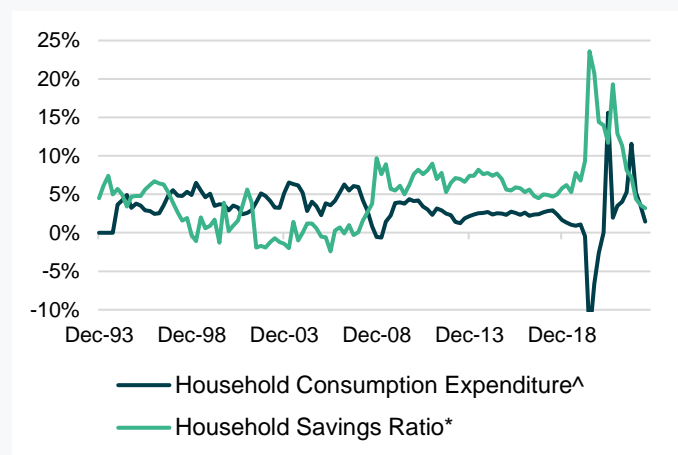
Source: FactSet

Figure 7. Job Advertisements vs Vacancies



Source: FactSet

Figure 8. Consumption vs Savings



Source: FactSet

<sup>35</sup> Il Corriere della Sera interview, Phillip Lane, 13th January 2024

## How are we moving forward?

Whether the path forward is “full steam ahead”, or whether it is more challenging (such as the recent fortunes of the Walt Disney Company whose share price has underperformed the S&P 500 by over 70% since March 2021), it is prudent to recognise that uncertainty in 2024 is likely to remain elevated.

Tensions between and within countries will certainly simmer throughout the year and should be monitored closely. With any luck, the instances where there is a flare up, will remain isolated and will involve a minimum of human suffering. That such conflicts will be largely benign from an investment point of view, is a high probability assumption. It is however, prudent to monitor developments for signs of escalation or where multiple conflicts converge. Such situations, on the rare occasions when they occur are less stable and have much larger investment implication.

Solving the economic riddle also remains a work in progress. Maintaining economic growth and high levels of employment, whilst also bringing inflation down to acceptable levels, is an incredibly difficult needle to thread. Central banks' blunt tool – monetary policy – suffers from “long and variable lags”, akin to driving with only the rear-view mirror: possible but difficult. In accepting this limitation, we recognise that an economic soft landing is more a function of luck than design. It is though possible.

Whilst we believe the environment will continue to be challenging, it would not make sense to shy away from markets. From an investment positioning point of view, we continue to see this environment as one that is rich with opportunities. As investors, we cannot nor must-not withdraw in times like these. Uncertainty can and should be borne when valuations provide adequate compensation for doing so. This does not mean we should become reckless. Caution is still necessary and warranted, but prudent, careful, and incisive actions are sure to reap rewards if executed correctly. This is where we are focusing our energy.

# Australian Equities

It was a strong December quarter for Australian Equities, with the S&P/ASX 300 Accumulation Index increasing by 8.4% over the period. Returns from Australian equities were broadly in line with global equities, with the MSCI All Country World Index by comparison increasing by 9.4% in local currency terms, however in AUD terms this translated to only a 5% increase given the strengthening of the Australian dollar over this period.

It was a tougher start to the quarter, with the ASX300 down 4% through the month of October on concerns of 'higher for longer' interest rates, which hurt equity multiples particularly in growthier sectors such as Technology and Healthcare, while geopolitical fears and the Israel-Hamas conflict also further dampened investor risk appetites. The Santa Claus rally then came early, as we saw a strong recovery in broader equity markets from late November through to the end of the December quarter, with the ASX300 finishing the quarter only around 100 points shy of its August 2021 record high. This strong rally was primarily driven by a more dovish pivot from central banks, signalling that interest rates may have finally peaked as signalled by lower inflation prints. This fuelled investor confidence in equities on the prospect of a more stable rate environment and positioning for further rate cuts through 2024.

Over this period there was very minimal difference in returns more broadly from value vs growth stocks and large cap vs small cap stocks. Where returns differed somewhat was at the sector level. All sectors were positive for the quarter, aside from Energy (-9%) and Utilities (-2%). Mean reversion was evident through the Santa Claus rally, with strong gains from some of the more beaten down sectors such as A-REITs (+16.5%), Healthcare (+13.3%) and Materials (+13.2%).

Figure 9: Australian shares - large companies



Source: FactSet

## Australian Equities Outlook

The recent surge in Australian equity markets reflect hope of interest rates peaking and potential cuts later in 2024, boosting valuations. However, a closer look reveals reasons for cautious optimism. Past RBA tightening cycles have historically shown a lagged effect on consumer spending. With around 30-40% of fixed-rate mortgages yet to mature and households already feeling the pinch of higher variable rates, we expect cost-of-living pressures to rise and weigh on spending in the year ahead.

Despite broad inflationary signals having cooled somewhat; Australia's strong post-COVID immigration (2% population growth in 2023 alone) coupled with tight labour markets and ongoing wage inflation add upward pressure to headline inflation numbers. Equity markets are pricing in rate cuts for the year ahead, but current inflation remains at around 5%, well above the RBA target of 2-3%. This, combined with heightened geopolitical tensions, will likely keep many investors wary.

We believe corporate earnings in certain sectors will come under increasing pressure due to rising interest rates and a slowing economy. Many businesses face squeezed margins as increasing input prices and wage costs clash with their limited ability to raise prices in a tightening consumer environment. However, quality industry-leading companies with strong pricing power, and healthy balance sheets without elevated debt levels, should be better positioned to navigate these challenges.

We expect volatility to continue against the backdrop of economic and geopolitical uncertainty. This should present our bottom-up fundamental active managers with opportunities to deploy capital to quality and possibly oversold companies at more attractive valuations as markets gyrate. Our portfolio priorities manager who emphasise valuation and balance sheet strength, focusing on businesses with strong pricing power or promising thematic tailwinds.

# International Equities



The MSCI All Country World Index (ACWI) delivered a strong fourth quarter, with the benchmark returning 5.0% in AUD terms. In local currency terms, the benchmark returned 9.4%. The Australian dollar (AUD) rose relative to the U.S. dollar (USD) during the quarter detracting from returns. Strong returns came about as a result of a 'dovish pivot' by the U.S. Federal Reserve Chairman, Jerome Powell, acknowledging that cuts may be necessary in 2024.

Against this backdrop, Growth stocks outperformed Value stocks, albeit both delivering positive returns as measured by the MSCI World Value Index and MSCI World Growth Index. At the sector level Information Technology, Real Estate and Industrials were the strongest performers, delivering 11.2%, 9.5% and 7.1% respectively (AUD terms). The Energy, Consumer Staples and the Health Care sectors were the weakest performers, delivering -8.2%, -0.3% and 0.2% respectively (AUD terms).

Developed Markets outperformed Emerging & Frontier Markets, while regionally, North America led Europe, Japan, EAFE and Asia Pacific (ex Japan). In addition, Small Caps outperformed Large Caps by a modest amount.

Figure 10: International shares (local currency terms)



Source: FactSet



## International Equities Outlook

Equity markets continue to be driven by macroeconomic forces, with the path of interest rates holding the steering wheel and inflation firmly in the passenger seat. Despite recent strength in equity markets, uncertainty around the outlook for economies globally remains, with certain economic indicators showing modest softness.

Whilst inflation may have peaked, it remains above central bank targets. Markets have priced in rate cuts and positive economic growth, but valuations exceeding post-GFC averages warrant attention. Any erosion of confidence in the pace of cuts could trigger dips, presenting opportunities for our bottom-up fundamental active managers to deploy capital to quality companies, and potentially oversold companies at more attractive valuations.

Elevated post-COVID margins may face some contraction and profit downgrades as corporations navigate higher refinancing costs, variable input costs, and a challenging labour market. Consumers with dwindling savings, facing rising rates and inflation, may also impact demand and ultimately corporate earnings. However, we expect management teams to adapt and become more adept at dealing with this “new normal” environment.

We expect the macroeconomic factors to continue driving equity markets over the near term, with fundamentals periodically rearing their head. The upcoming earnings season should provide a guide as to how corporates are coping with a changing labour market, a consumer which has decreasing savings, as well as volatility in input costs.

Managing investment portfolios in an environment which is focused on the macroeconomic environment poses multiple challenges for investors. We are focused on constructing a portfolio with the ability to move between different styles and market capitalisation segments in combination with the belief that fundamentals will ultimately ‘win the day’. This means constructing a portfolio of quality companies at attractive relative valuations. With that in mind, our managers are focused on owning companies which can deliver earnings growth, margin sustainability, cost control, free cash flow conversion and maintaining balance sheet strength.

# Fixed Income



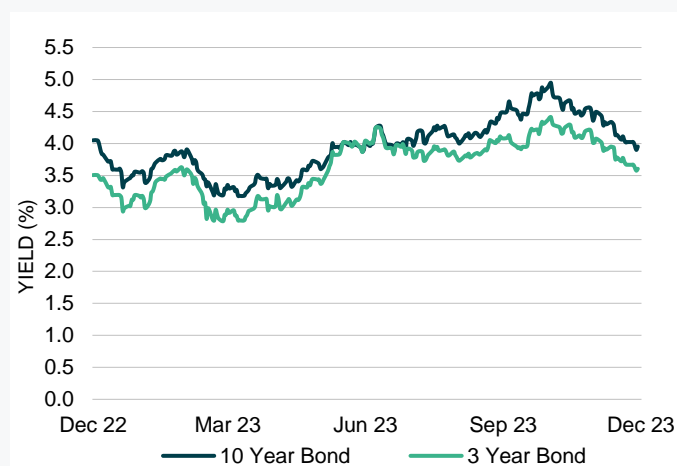
In the domestic bond market, the Bloomberg AusBond Composite 0+ Year Index returned 3.8% during the December 2023 quarter. Australian 10-year bond yields fell from 4.5% to 4% over the quarter as the market re-adjusted its expectations for long term inflation. Annual inflation has continued to trend downwards over 2023 after peaking at 7.8% in December 2022. The latest inflation print as at the end of September 2023 was 5.4%, materially higher than the RBA's stated target of 2% to 3%.

Comments made by the RBA Governor, Michelle Bullock indicated that updated information in inflation, labour markets, economic activity and revised forecasts suggests that the risk of inflation remaining higher for longer has increased. In line with this view, the RBA increased the cash rate by 0.25% to 4.35% in November 2023.

On the global front, the Bloomberg Global Aggregate Bond Index (hedged AUD) returned 5.4%. Credit outperformed the general market, with the ICE Bank of America Global Corporate Index (Hedged) returning 6.6% over the quarter. High yield debt as measured by the Bloomberg Global High Yield Index (Hedged) outperformed investment grade credit, posted a gain of 7.1% for the period.

Over the December quarter the AUD/USD rose to 68 cents (per 1 AUD). The U.S. Federal Reserve kept the target range consistent at 5.25% - 5.50% over the same time period. Minutes of the meeting suggested that whilst inflation continued to remain above trend and labour markets remained tight, there had been some moderation in job gains and slowing economic activity. The U.S. 10-year yield fell significantly from 4.8% to 3.9% over the quarter as the market re-adjusted its forward rate expectations.

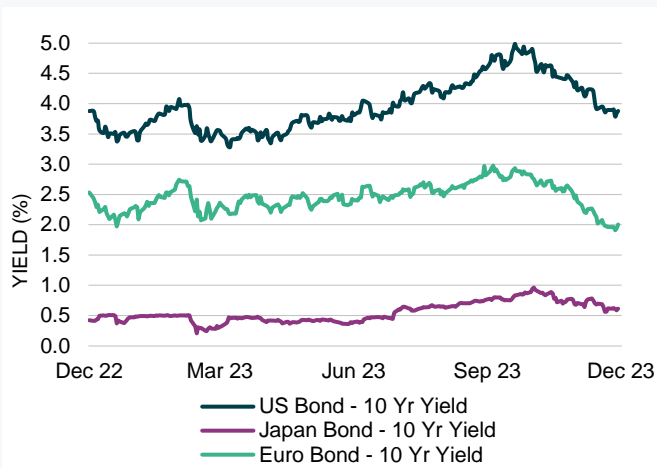
Figure 11: Australian government bond yields



Source: FactSet

Note: Bond prices are inversely correlated with bond yields.

Figure 12: Global government bond yields



Source: FactSet

Note: Bond prices are inversely correlated with bond yields.

Figure 13: Global credit markets



Source: FactSet

Note: Bond prices are inversely correlated with bond yields.

### Fixed Income Outlook

Over the short-term bond and credit markets continue to be sensitive to central bank commentary and policy actions. Interest rates and credit spreads have been volatile, and we expect this environment to continue over the medium-term. For now, the conflict in the Middle East looks largely contained but further escalation continues to be a key risk event.

Outside of any unforeseen shocks, our view remains that inflation is likely to trend above central bank targets longer than the market currently anticipates. Despite the ongoing volatility, bond yields currently provide a good level of compensation for the level of risk. Our long duration position has contributed to returns over the quarter and are likely to add value to a diversified portfolio in the event of an economic recession. We have continued to retain this bias in the portfolio as a downside risk hedge.

The high cost of debt has led to higher number of defaults in the high yield market, albeit from a low base. We continue to expect defaults to increase as EBITDA's are strained by slowing economic activity in the US and Europe. We remain neutral on our outlook for investment grade credit as base rates are high and spreads are reasonable, but maintain a preference for exposures with short maturities.

# A-REITs and G-REITs

(Listed property securities)

Real estate markets began the quarter on a negative note with bond yields rising throughout October before a precipitous decline through the end of December. Australian Real Estate Investment Trusts (A-REITs), represented by the S&P/ASX 300 A-REIT sector, rose +16.5% over the quarter while the S&P ASX 300 rose 8.4%. Global Real Estate Investment Trusts (G-REITs), as measured by the FTSE EPRA/NAREIT Developed Index (Unhedged), was +9.1% higher in AUD terms, compared to +5.4% for the MSCI World Index.

Volatile bond markets are driving REIT performance as transaction activity remains subdued compared to prior periods. Markets continue to trade at discounts to NAV despite gradual increases in cap rates leading to lower asset values.

In a reversal of prior quarters, self-storage was the best performing sector with retail, industrial and hotels/leisure also outperforming whilst residential lagged. On a regional basis, Australia and Europe outperformed while Hong Kong and Asia more broadly disappointed.

## Real Estate Outlook

Volatility in bond markets has been the main determinant of REIT market direction. We expect this trend to continue as cap rates continue to accrete higher and transaction activity remains muted. Asset valuations are likely to fall further in 2024 and REIT pricing should maintain a discount to NAV to accommodate this uncertainty.

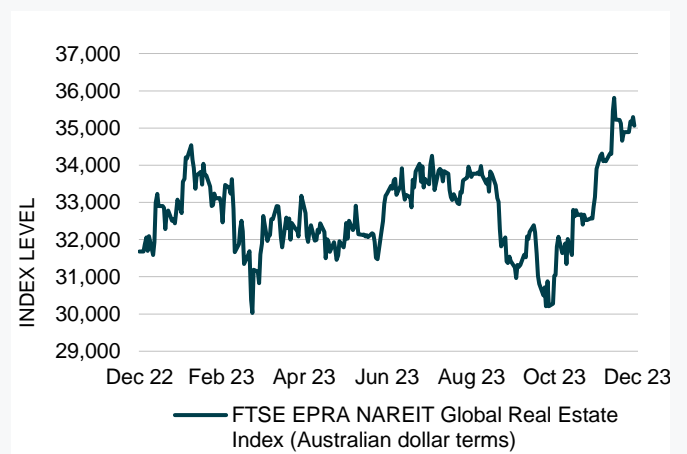
At a regional level, Europe was strongest and Asia weakest over the past year. Progress in resolving China's property market woes and the potential cessation of the Bank of Japan's yield curve control will play a large role in the region's returns this year. At a sector level, we expect a high level of dispersion to continue based on each sector's rate sensitivity and a slowdown in rental growth. In a market driven by macro-economic factors, we remain of the view that managers investing in 'quality' real estate assets, particularly those with high or improving ESG scores, will be rewarded.

Figure 14: Australian Real Estate Investment Trusts (A-REITs)



Source: FactSet

Figure 15: Global Real Estate Investment Trusts (G-REITs)



Source: FactSet

# Alternatives



## Growth alternatives

Traditional asset classes continued to rally through the final quarter of 2023, while unlisted asset classes continued to exhibit more modest movements. Transaction volumes across all private market asset classes (private equity, real estate and infrastructure) remain soft in light of uncertainty around the cost of debt and the macroeconomic outlook. Within Growth Alternatives / Growth Opportunities Fund, and in local currency terms over the quarter the main contributors were Private Equity, Other Growth Alternatives, Hedge Funds and Infrastructure. Opportunistic Property detracted.

Demand for Infrastructure has begun to soften as multi-asset investors consider the return outlook for infrastructure relative to certain other asset classes. That said, infrastructure's role in the portfolio remains clear; to provide consistent and stable cash flows, and 'inflation hedging' properties. Within our portfolio, regulated assets are positioned well to deliver returns through the current inflationary environment with the ability to pass inflation-linked cashflows through to investors. Additionally, we consider energy transmission assets as a lower risk (i.e. limited development risk in an environment where costs continue to increase) way of profiting from the 'energy transition' as renewables connect into the grid.

Within Private Equity (PE), transaction volumes for Leveraged Buy Out (LBO) deals in 2023 were one of the softest in recent years. However, there was a modest pick-up in Q4, which we hope bodes well for 2024. Furthermore, capital raising periods have been extended for many funds, with some even pushing 'fund closes' out to 2024 to allow allocators to call on their '2024 budget'. We have observed Private Equity managers beginning to look to smaller sized deals (bolt-ons) which can be funded by existing debt facilities or free cash flow, rather than having to take on more debt for bigger acquisitions which have a negative impact on balance sheet strength and cash flow metrics.

Despite the changing market dynamics, we remain steadfast in our approach to Private Equity, giving credence to acquisition valuation multiples, costs of debt and the manager's operational capability. Pleasingly, Private Equity managers continue to invest in their operational capability, to support growth or increase efficiency of their portfolio companies.

Sector and geographical dispersion remain elevated within Real Estate markets. Our focus remains on the nexus between availability of capital and valuations. Transaction volumes remain weak, which has resulted in continued softer sentiment across sectors. Much has been said of the 'return to office', however this appears to be mainly an issue in the U.S., most other regions seeing workers return (albeit not to pre-COVID levels – yet). The next test will be whether Industrial assets valuations can be supported as the cost of debt increases. Any weakening may provide a more attractive entry point. Looking forward, we are focused on whether there are opportunities in markets which were earlier to suffer from 're-pricing' (e.g. Western Europe).

Changing market dynamics warrant continuous reassessment of our thinking, outlook and subsequently, portfolio positioning. For now, our focus remains on central bank policy decisions, and health of the 'real economy'. We are responding by ensuring the exposures in the portfolio are able to weather interest rate cycles, avoiding excessive leverage, whilst generating sustainable cash flow. Within hedge funds we are adding strategies with a focus on security selection (equities & credit). Where we make commitments to Private Equity, we are particularly focused on operational capability (as opposed to balance sheet optimisation). We are optimistic that 2024 will provide a profitable investing environment.

## Income alternatives

Both U.S. Leveraged Loans and U.S. High Yield posted positive returns over the quarter. For leveraged loans, a better-than-expected earnings period, rising rates and a period with very low defaults contributed to positive returns. High Yield benefitted from a combination of falling interest rates, tighter credit spreads and higher coupon interest which all contributed to the positive quarter. The portfolio currently maintains a mix of High Yield, Leveraged Loans and Private Debt exposure.

We had expected an increased number of downgrades by ratings agencies and higher defaults but the environment over the last quarter was more benign than expected. Positive sentiment and lower than anticipated default activity contributed positively to the performance of both High Yield and Leveraged Loans. Private Debt is somewhat shielded from the mark to market because of its illiquidity but it is not immune from delinquencies and defaults.

Most of the Income Alternative Fund's assets are still held in first lien unlevered private debt. For the most part, these are first lien senior secured loans diversified across Europe, North America, and Australia. These investments are expected to underperform more recent vintages of private debt but are more seasoned and are expected to mature over the coming years.

Our ongoing research efforts are aimed at income alternatives which can deliver on the return objectives while minimising capital volatility. Towards this end we have focused on non-traditional asset classes such as specialty finance with shorter maturities and higher coupons. These exposures are expected to contribute to higher income distributions going forward.

Over time, the Income Alternative Fund aims to gradually reduce its exposure to first lien unlevered private debt in favour of more liquid securities to enhance the liquidity of the portfolio. The liquid investments also provide some optionality for reinvesting in private assets, such as more private debt or insurance linked strategies.

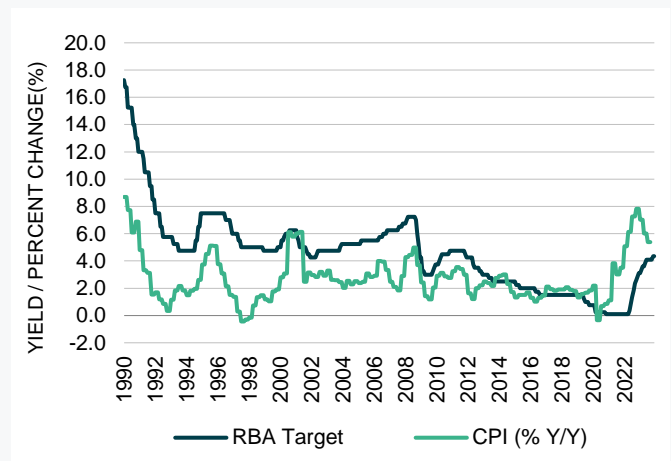
# Australian Cash Rates

Despite inflation remaining a concern, the Reserve Bank of Australia (RBA) signalled a potential shift in monetary policy by holding the cash rate steady at 4.35% in December following a 25-basis point hike in November. This pause reflects slowing economic growth, evident in weaker-than-expected Q3 data, and easing global inflationary pressures. Whilst services inflation remains elevated, the RBA likely found comfort in falling inflation expectations.

## Australian Cash Rate Outlook

Compared to its global peers, most of which are pricing in more aggressive rate cuts for 2024, the RBA's path appears more measured. Markets anticipate the first cut in May 2024, but we believe this timeline may be overly optimistic. Continued robust economic growth and a resilient labour market suggest the RBA will likely hold off until the second half of 2024 before embarking on a gradual easing cycle. This delay reflects the RBA's cautious approach, prioritising a soft landing over rapid policy shifts.

Figure 16: Long-term cash rate vs inflation



Source: FactSet, Perpetual Private.

# Australian Dollar



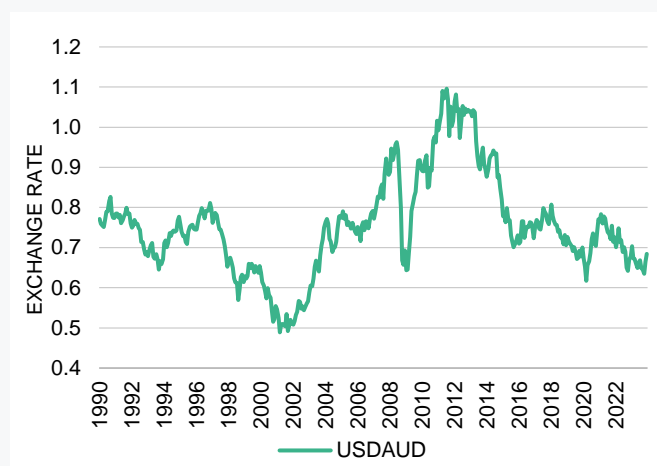
Since early 2021, the Australian dollar (AUD) has grappled with several challenges. Its slow recovery in the wake of the pandemic, especially in contrast to the swift pace seen in the U.S. and Europe, initially weighed on the currency. Adding to the pressure were concerns about a potential global economic slowdown fueled by surging inflation and rising interest rates. China's economic uncertainties, marked by lockdowns in the previous year, a staggered recovery, and apprehensions about the property sector, further intensified the downward pressure on the AUD. The relative strength of the U.S. Dollar (USD), often benefiting from global uncertainty, also played a role in the AUD's struggles.

However, the AUD appears to have turned a corner in the final quarter of 2023. After hitting 0.63 cents (per 1 AUD) in October, it rebounded to 0.68 cents by year-end. From a long-term perspective, the AUD is considered relatively inexpensive. Additionally, growing expectations that the U.S. Federal Reserve has concluded rate hikes, combined with additional economic support from China and robust iron ore prices, played a pivotal role in propelling the AUD higher throughout the quarter.

## Australian Dollar Outlook

We typically refrain from adopting near-term perspectives on the Australian dollar's outlook. Recognising its susceptibility to trade flows and momentum, short-term predictions can be challenging. Nonetheless, looking ahead over the medium to long term, we anticipate AUD will rise over the next year, as an overvalued U.S. dollar depreciates and the U.S. Federal Reserve cuts interest rates before the Reserve Bank of Australia (RBA). Although, continued fears surrounding China's economic slowdown and potential shifts in central bank policies among the U.S. and Australia's other major trading partners may still present obstacles.

Figure 17: USD per AUD long-term exchange rate



Source: FactSet



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