Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

February 2024

AUSTRALIAN EQUITIES STRATEGIES

In February, the S&P/ASX 300 experienced a 0.98% increase. The dominating theme throughout the month was the reporting season, where key focus areas included the challenges of rising costs and the resilience of the consumer. Amidst this, traditional value sectors such as Energy (-5.9%) and Materials (-4.8%) faced difficulties, grappling with uncertainties surrounding China's economic growth. In contrast, the relatively modest but lively IT sector recorded a remarkable surge of +19.7%, mirroring the tech boom observed internationally. The performance of significant resource players like Fortescue (-9.6%), Woodside (-6.3%), and Rio (-8.1%) exerted downward pressure on the index. Conversely, sectors such as Consumer, Real Estate, and Financials emerged as strong performers during this period.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	1.3	10.7	4.3	6.8	7.0	10.4	9.7	8.7	7.5
S&P/ASX 300 Accumulation Index	1.0	9.5	7.4	10.5	8.5	9.1	8.6	8.6	7.9
Excess	+0.3	+1.3	-3.2	-3.8	-1.6	+1.4	+1.1	+0.1	-0.4
Perpetual Concentrated Equity Fund	1.1	9.4	4.2	7.7	8.6	11.8	9.2	8.7	8.1
S&P/ASX 300 Accumulation Index	1.0	9.5	7.4	10.5	8.5	9.1	8.6	8.6	7.9
Excess	+0.1	-0.1	-3.2	-2.8	+0.1	+2.7	+0.5	+0.1	+0.1
Perpetual ESG Australian Share Fund	4.3	13.9	7.5	15.3	9.6	12.1	11.9	9.4	9.7
S&P/ASX 300 Accumulation Index	1.0	9.5	7.4	10.5	8.5	9.1	8.6	8.6	7.9
Excess	+3.3	+4.4	0.0	+4.8	+1.1	+3.0	+3.3	+0.8	+1.7
Perpetual Pure Equity Alpha Fund – Class A	3.0	6.7	5.7	6.5	7.2	10.2	9.8	9.5	9.3
RBA Cash Rate Index	0.3	1.1	2.1	4.2	3.0	2.0	1.5	1.5	1.7
Excess	+2.7	+5.6	+3.6	+2.4	+4.3	+8.2	+8.3	+8.1	+7.6
Perpetual Share-Plus Long-Short Fund	3.1	13.3	10.0	11.2	12.0	14.5	11.9	11.4	10.5
S&P/ASX 300 Accumulation Index	1.0	9.5	7.4	10.5	8.5	9.1	8.6	8.6	7.9
Excess	+2.1	+3.8	+2.5	+0.7	+3.5	+5.4	+3.3	+2.8	+2.6
Perpetual Smaller Companies Fund	1.6	7.7	0.4	3.9	4.1	9.0	11.5	11.2	10.5
S&P/ASX Small Ordinaries Accumulation Index	1.7	10.1	6.9	7.8	-0.4	1.4	4.4	6.5	6.1
Excess	-0.1	-2.3	-6.4	-3.9	+4.5	+7.6	+7.0	+4.7	+4.4
Perpetual Strategic Capital Fund - Class S	1.7	10.3	-	-	-	-	-	-	-
S&P/ASX 300 Accumulation Index	1.0	9.5	-	-	-	-	-	-	-
Excess	+0.7	+0.8	-	-	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

The second month of 2024 marked a continuation of many themes observed over the past year. Global markets pushed higher, with the MSCI World index up 5.8. This built on the sharp reversal from December that continued through January. This continuation of strong performance in the month can be seen in the momentum factor: the stocks with the highest 12-month momentum (top quintile) are up nearly 20% year-to-date with no other quintile ahead of the MSCI World Index. Further, returns were not evenly distributed across the globe. Unlike last quarter, growth stocks generally led value stocks across markets, and sector performance remained mixed (albeit all sectors were positive during the month except Utilities). The top performing sectors in the MSCI World Index were the Consumer Discretionary, Information Technology, Industrials, and Communication Services sectors. The worst performing sectors – Utilities, Consumer Staples, Energy, and Real Estate – are more interest rate-sensitive sectors and were hurt by the continued market focus on the notion that interest rates may fall slower than previously expected.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	5.9	1.5	0.5	6.3	-	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	6.3	5.7	4.4	12.6	-	-	-	-	-
Excess	-0.4	-4.2	-3.9	-6.4	-	-	-	-	-
Barrow Hanley Global Share Fund - Class A	3.9	7.2	5.1	14.3	12.1	13.7	12.6	13.4	-
MSCI World Net Total Return Index ($A)	5.8	12.7	11.9	29.4	13.6	15.1	13.7	13.4	-
Excess	-1.9	-5.5	-6.7	-15.1	-1.5	-1.4	-1.1	-0.1	-

CASH & FIXED INCOME STRATEGIES

February saw a typical 'risk-on' month with fixed income down and stocks up. Bonds were in the red on the back of pushed out & reduced rate cut expectations while stocks paid little attention. Stronger than expected US economic and inflation data pulled back expectations around the timing and scale of rate cuts resulting in rising bond yields over the month. US reported earnings, particularly from NVDA, helped keep the AI theme running propping up the overall equity market.

Domestic credit spreads participated in the global rally and tightened slightly in February, as the short end outperformed. Corporate spreads kept pace with Financials, bucking the recent trend which has seen sustained outperformance of Financial spreads, led by domestic and offshore banks. Offshore spreads continued to rally with Euro denominated credit performing notably well.

Domestic bond yields rose in February, in line with most global bond markets. Australian 10-year Government bond yields rose 12bps up to 4.14% while US 10-Year Treasury yields rose 30bps, back above 4% to close at 4.24%. UK and German government bonds were the global underperformers. Domestically, semi-government bonds underperformed Commonwealth government bonds.

Primary markets were active in February with issuers & arrangers back in full swing for the year. Kicking off the month, NAB came to market with dual-tranche tier-two $1.75bn deal met with strong demand. Corporates also saw a healthy bid as Melbourne Airport raised €650m in a 10-year deal and Telstra raised $1.2bn AUD in a dual-tranche transaction with strong investor demand, particularly in the 10-year tranche.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.6	1.7	3.3	6.3	4.3	3.1	2.9	3.0	3.2
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.1	4.1	2.9	2.0	1.5	1.6	1.8
Excess	+0.3	+0.6	+1.1	+2.2	+1.4	+1.1	+1.4	+1.4	+1.4
Perpetual Credit Income Fund	0.8	2.8	5.3	9.1	5.8	4.3	4.2	4.1	4.3
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.1	4.1	2.9	2.0	1.5	1.6	1.8
Excess	+0.4	+1.7	+3.1	+5.0	+2.8	+2.3	+2.8	+2.6	+2.5
Perpetual Active Fixed Interest Fund	-0.1	3.2	3.2	5.4	-0.5	-0.6	1.2	2.4	3.4
Bloomberg AusBond Composite Index	-0.3	2.6	2.1	3.5	-1.6	-1.4	0.3	1.5	2.5
Excess	+0.2	+0.6	+1.0	+1.9	+1.1	+0.7	+0.9	+0.9	+0.9
Perpetual ESG Credit Income Fund	0.7	2.7	5.0	8.5	5.9	4.4	4.2	-	-
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.1	4.1	2.9	2.0	1.5	-	-
Excess	+0.4	+1.6	+2.9	+4.4	+3.0	+2.5	+2.7	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.9	2.7	5.1	9.6	6.8	5.7	5.4	5.4	5.9
RBA Cash Rate Index	0.3	1.1	2.1	4.2	3.0	2.0	1.5	1.5	1.7
Excess	+0.6	+1.6	+3.0	+5.4	+3.9	+3.7	+3.9	+3.9	+4.2

MULTI-ASSET STRATEGIES

Equity markets rallied strongly in February on supportive corporate earnings results.
- US Equities (+5.3%) performed well led by the strong performance of growth stocks, while value lagged.
- The ASX 300 (+1.0%) rose in February despite trailing global peers. The domestic information technology sector (+19.5%) was the standout following the lead of their US peers with several strong results in the consumer discretionary space (+10.1%) sparking a fourth straight month of price gains, whereas resources sectors both declined led by energy (-5.9) which fell for the first time since November, with materials (-4.6%) not far behind
- European equities (+5.08%) rose strongly amid signs that the region had avoided a technical recession, whereas the confirmed recession in the UK (+0.45%) weighed on sentiment.
- Asian equities performed well led by Japan (+8.0%) amid signs that the corporate sector remained resilient despite economic headwinds, whereas China (+8.6%) shares rallied from a low base as the aggregate of numerous policy announcements prompted investors to suspect that the price trough had been seen, although the policy delta remained far from a 'reflation level' of support.
- The robust economic and inflation data saw expectations around the timing and scale of rate cuts being delayed and moderated, resulting in rising bond yields over the month. The Australian 10Y government bond yield ended the month 12bps higher at 4.14%, as the RBA held the cash rate firm and would not rule out further increases, although this seems more like risk management rather than explicit policy guidance. The U.S. 10-year Treasury yield rose by 34bps to 4.25% and the curve flattened with two-year yield rising 41bps to 4.62% amid expectations around the Fed.
- The Australian dollar depreciated -1.5% against the Greenback as the Fed wind-in saw the differential between 10yr yields move in favour of the US.

The strong start to the year for risk assets is reliant on a number of assumptions around global growth, inflation, monetary policy and corporate earnings. The global economy slowed last year to +3%Y and in the past six months there has only been a significant growth upgrade to the US whereas consensus has the rest of the world looking less positive. It's hard to see a global growth acceleration this year as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, China isn't re-opening again, employment growth is slowing and the global credit impulse is at a post-GFC low. Recessions risks however, are also lower as inflation has declined and real income is lifting for both households and the corporate sector.

The final mile of inflation will be the most challenging for central banks and futures markets have already lowered their pricing for 2024 rates from six cuts starting in March, to three cuts starting in July which is aligned with the Fed's last set of economic projections. These rate cuts have been completely removed from expectations as opposed to being pushed into 2025.

Another challenge is the optimistic expectations around earnings growth which declined in 2023 and are expected to rebound sharply even though the US economic is almost universally expected to cool. Over recent periods US earnings growth has been delivered entirely by a small number of dominant tech firms while the remainder of the market has been comparatively listless. After major downgrades approaching the February reporting season, around three quarters of US companies reported positive earnings surprise, but this was a low hurdle and sparked little investor enthusiasm, especially in a world of historically high valuations.

In contrast, markets outside the US have equity valuations more aligned with long-term averages however the consensus growth outlook is less optimistic than in the US. In Europe, for example, economic growth stalled in 2023, whereas the expansions in both the UK and Japan have hit their fair share of hurdles. While there were random periods of falling output in the second half of 2023, these growth contractions were mostly temporary and did not spark any material rise in unemployment, which suggests that these economies should return to expansion in the near-term, which suggests some potential for earnings upgrades later this year.

Elsewhere, the rally in Chinese equities was predicated on supportive policy and elevated buying among state owned enterprises. While the surge in performance has been stark, it was from a very low base and China itself continues to face issues in the embattled property sector, subdued domestic demand, persistent deflation and lacklustre business and consumer confidence.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	1.5	6.2	4.2	7.9	6.3	8.6	8.3	8.1	7.7
Balanced Growth Index	2.1	8.1	7.1	13.0	5.9	6.8	7.1	7.4	7.4
Excess	-0.7	-1.9	-2.9	-5.2	+0.4	+1.9	+1.1	+0.7	+0.3
Perpetual Diversified Growth Fund	1.1	5.3	3.7	6.5	4.7	6.4	6.5	6.6	6.4
Moderate Growth Index	1.5	6.4	5.7	10.2	4.0	4.6	5.3	5.8	6.0
Excess	-0.4	-1.2	-2.0	-3.8	+0.7	+1.8	+1.2	+0.8	+0.4
Perpetual Diversified Real Return Fund - Class W	0.5	2.5	2.1	4.7	3.3	4.5	4.8	5.1	5.2
Australian CPI +5% (Target Objective)							8.8	8.2	
Perpetual ESG Real Return Fund	0.7	2.4	1.0	2.4	0.8				
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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

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