Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

March 2024

AUSTRALIAN EQUITIES STRATEGIES

In the March quarter, the S&P/ASX300 saw a substantial 5.4% increase, with Tech (23.6%), Real Estate (14.9%), Consumer Discretionary (13.4%), and Financials (12.1%) leading the pack in terms of sector returns. Conversely, Materials (-6.3%), Telecoms (1.1%), and Consumer Staples (2.1%) struggled to keep pace, marking them as the underperformers. The sector movements during this period reflected various factors at play. Optimism surrounding lower interest rates, spurred by the Federal Reserve, propelled tech stocks and real estate to notable gains, while consumer sectors remained resilient. Concerns regarding China's growth trajectory led to a drop in iron ore prices, impacting the Materials sector negatively.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	3.3	8.0	11.2	9.7	7.2	9.9	10.5	8.7	7.9
S&P/ASX 300 Accumulation Index	3.3	5.4	14.2	14.4	6.7	9.4	9.2	8.6	8.3
Excess	+0.1	+2.5	-3.0	-4.7	+0.6	+0.5	+1.4	+0.1	-0.4
Perpetual Concentrated Equity Fund	4.4	8.0	11.8	12.0	8.6	11.8	10.2	8.8	8.6
S&P/ASX 300 Accumulation Index	3.3	5.4	14.2	14.4	6.7	9.4	9.2	8.6	8.3
Excess	+1.1	+2.6	-2.5	-2.4	+1.9	+2.4	+1.0	+0.2	+0.3
Perpetual ESG Australian Share Fund	4.1	11.8	15.9	20.4	10.5	12.2	12.9	9.4	10.0
S&P/ASX 300 Accumulation Index	3.3	5.4	14.2	14.4	6.7	9.4	9.2	8.6	8.3
Excess	+0.8	+6.4	+1.6	+6.0	+3.8	+2.8	+3.7	+0.8	+1.7
Perpetual Pure Equity Alpha Fund – Class A	1.4	8.0	8.1	7.1	8.0	9.1	10.2	9.5	9.5
RBA Cash Rate Index	0.4	1.1	2.2	4.2	3.2	2.1	1.5	1.5	1.7
Excess	+1.0	+6.9	+5.9	+2.9	+4.8	+7.0	+8.7	+8.0	+7.9
Perpetual Share-Plus Long-Short Fund	2.9	10.3	16.6	14.5	10.6	13.8	13.1	11.3	10.9
S&P/ASX 300 Accumulation Index	3.3	5.4	14.2	14.4	6.7	9.4	9.2	8.6	8.3
Excess	-0.4	+4.9	+2.4	+0.1	+3.9	+4.4	+4.0	+2.7	+2.6
Perpetual Smaller Companies Fund	4.6	7.9	9.2	9.7	3.9	10.3	13.0	11.3	10.9
S&P/ASX Small Ordinaries Accumulation Index	4.8	7.5	16.7	13.8	-0.6	2.7	5.4	6.8	6.7
Excess	-0.2	+0.4	-7.5	-4.1	+4.5	+7.6	+7.5	+4.5	+4.2
Perpetual Strategic Capital Fund - Class S	3.4	9.7	-	-	-	-	-	-	-
S&P/ASX 300 Accumulation Index	3.3	5.4	-	-	-	-	-	-	-
Excess	+0.2	+4.3	-	-	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

The first quarter of 2024 took off from the starting line quick, adding another consecutive quarter of strong equity returns for global indexes with the MSCI World Index up more than 8%. A combination of continued hope for central bank rate cuts and declining fears over a recession fueled the global equity rally. Markets made new all-time highs not just in the U.S., but across Europe and Japan as well. While the top-level index returns were strong, under the hood, much of those gains were driven by a narrow handful of high momentum and mega-tech companies. Although some modest broadening occurred, the concentrated nature of the markets continued to reach greater extremes as the weight of the highest momentum stocks in the MSCI World Index reached new highs. Buoyed in part by the euphoria for artificial intelligence (AI), this small cohort continued to drive the overall U.S. and global indices even as most stocks have not kept pace with the torrid move higher to start the year.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	0.4	1.1	1.8	3.9	-	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	2.3	7.1	9.2	11.0	-	-	-	-	-
Excess	-1.9	-6.0	-7.4	-7.1	-	-	-	-	-
Barrow Hanley Global Share Fund - Class A	4.2	9.5	12.5	19.0	15.0	12.6	13.5	13.5	-
MSCI World Net Total Return Index ($A)	3.0	13.9	20.0	28.4	15.7	14.4	14.0	13.6	-
Excess	+1.2	-4.3	-7.6	-9.5	-0.7	-1.8	-0.5	-0.1	-

CASH & FIXED INCOME STRATEGIES

Q1 2024 painted a dynamic picture for fixed income markets. January rode a wave of optimism from 2023, fuelled by hopes of a soft economic landing and a dovish Fed. This translated to a robust rally across credit, bonds, and equities. Domestic credit spreads continued their rally after a strong 2023 Q4.

February saw a stronger-than-expected US economic data dampening enthusiasm for near-term rate cuts. As a result, the duration rally reversed, with bond yields rising as expectations for immediate monetary easing faded. Equity & credit markets, however, remained largely unfazed. March saw a continuation of positive global economic and growth data which saw a continuation of the rally in credit & equity markets with most credit sectors finishing the quarter in the black.

Domestic bond yields were almost flat in the March quarter, outperforming US fixed income markets. Australian 10-year Government bond yields rose 1bp up to 3.97% while US 10-Year Treasury yields rose 32bps to back above 4% and closing the quarter out at 4.20%.

Primary issuance defied seasonal trends with strong volumes in the typically quiet month of January and taking that momentum into February & March. Strong demand was evident for Corporates, Financials and Tier 2 capital as issuers across Infrastructure, Telecommunications, Utilities and other sectors successfully tapped the market.

The coming months will likely be marked by a focus on the delicate balance between economic growth and inflation control, with investors closely monitoring the Fed's policy decisions and their impact on bond yields.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.6	1.6	3.3	6.7	4.7	3.2	3.0	3.0	3.2
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.2	3.1	2.1	1.5	1.6	1.8
Excess	+0.2	+0.5	+1.1	+2.5	+1.6	+1.1	+1.4	+1.4	+1.4
Perpetual Credit Income Fund	0.8	2.5	5.4	9.8	6.2	4.4	4.3	4.2	4.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.2	3.1	2.1	1.5	1.6	1.8
Excess	+0.5	+1.4	+3.3	+5.6	+3.1	+2.4	+2.8	+2.6	+2.5
Perpetual Active Fixed Interest Fund	1.3	1.5	6.0	3.7	2.2	-0.5	1.1	2.4	3.5
Bloomberg AusBond Composite Index	1.1	1.0	4.9	1.5	0.9	-1.3	0.2	1.6	2.6
Excess	+0.2	+0.5	+1.1	+2.3	+1.3	+0.8	+0.9	+0.8	+0.9
Perpetual ESG Credit Income Fund	0.9	2.6	5.5	9.2	6.5	4.6	4.3	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.2	3.1	2.1	1.5	-	-
Excess	+0.6	+1.5	+3.3	+5.0	+3.4	+2.5	+2.8	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.8	2.4	5.1	10.5	7.3	5.8	5.4	5.4	5.9
RBA Cash Rate Index	0.4	1.1	2.2	4.2	3.2	2.1	1.5	1.5	1.7
Excess	+0.5	+1.3	+2.9	+6.3	+4.2	+3.7	+3.9	+3.9	+4.2

MULTI-ASSET STRATEGIES

Global equities rallied strongly over the first quarter of 2024, supported by resilient economic indicators, robust corporate earnings results and anticipation of easing monetary policy.

- US Equities (+10.6%) rallied strongly, led by long duration growth stocks, while value stocks continued to trail.
- Australian equities (+5.4%) rallied but lagged behind the broader global market. Similar to the US, growth sectors such as Technology outperformed but, of course, the weight to such growth stocks is much lower in Australia.
- European equities (12.9%) performed very well supported by economic data confirming that a recession was narrowly avoided in the fourth quarter of 2023. Meanwhile, UK equities (+4.0%) trailed, weighed down by their recession confirmation.
- Japanese equities (+21.5%) were the standout over the quarter supported by a resilient corporate sector. Chinese equities (-1.8%) fell on economic concerns despite a number of policy announcements intended to prop up the equity market.
- US 10-year government bond yields (+32bps) rose over the March quarter, rising back above 4% as underlying inflation reaccelerated. The Australian yield curve ended the quarter in line with December 2023 despite ongoing volatility as investors attempt to anticipate the path of central bank policy.
- The Australian dollar depreciated -4.4% against the Greenback, reflecting the ongoing resilience of the US economy and rising US long term yields.

The 2024 global growth outlook appears increasingly resilient as stronger balance sheets and rising real incomes cushion the impact of higher-for-longer interest rates. Consensus has 2024 global growth close to trend, but regional expectations are mixed. Slowdowns are expected in the US and Australia, whereas estimates for Europe, Japan and the UK have not materially improved from their 2023 lows. The current state of balance sheets, income growth combined with the prospect of easing financial conditions have seen near term recession concerns ease substantially. The US and broader developed market economy is likely to remain resilient in spite of a possible higher-for-longer rates regime. This is further supported by supply-side dynamics such as rising immigration in the US, Australia and Canada over recent years. Note that while economic growth can sustain at these levels, acceleration is unlikely for a number of reasons including restrictive monetary and fiscal policy settings, a very weak credit impulse (post GFC low), some weakening in labour markets limiting household income growth and long-term structural issues in China.

The impact of economic resilience on inflation is uncertain and a key question for the remainder of 2024 is whether the US Fed can deliver on their dovish guidance. The final mile of inflation will be the most challenging for central banks and futures markets are now adjusting their pricing for short term rates in the US to reflect the likelihood of less rate cuts than was previously expected. Most of the key developed market central banks have provided either implicit or explicit guidance about easing monetary conditions ahead, but all potentially risk repeating their mistake of 2021 by under-estimating the resilience of core inflation. Recent data have confirmed that core inflation pressures continue to linger as services inflation remains sticky at elevated levels, and surveys suggest that firms are wanting to raise goods prices once again. Persistence of these trends has the potential to delay and limit the room for developed market central banks to initiate their easing cycle.

The strong start of the year for global equities was in spite of rising long term bond yields and considerable uncertainty. However, the vast amount of good news already priced in for inflation, earnings growth, policy easing, and default rates means markets are less likely to be tolerant of disappointments. The strong rally in the March quarter has lifted the US market’s valuation to very high levels relative to the past 20 years. This level has only been exceeded in recent history during the dotcom boom and more recently the post-pandemic boom. While elevated valuations in the US are led by the Magnificent 7 tech stocks, the remainder of the market is also at historically high multiples despite a far less robust growth outlook. Australian equities are also priced at high multiples relative to history. In contrast, however, Japan, Europe, UK and emerging markets remain close to historic medians.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	2.8	6.1	9.0	10.5	7.3	8.2	8.7	8.2	8.0
Balanced Growth Index	2.7	6.3	13.4	14.4	6.5	6.9	7.4	7.6	7.7
Excess	+0.1	-0.2	-4.4	-3.9	+0.8	+1.3	+1.3	+0.6	+0.3
Perpetual Diversified Growth Fund	2.4	4.9	7.7	8.2	5.8	6.1	6.8	6.7	6.7
Moderate Growth Index	2.2	4.8	10.8	10.8	5.0	4.7	5.5	5.9	6.3
Excess	+0.1	+0.1	-3.1	-2.6	+0.8	+1.4	+1.3	+0.8	+0.4
Perpetual Diversified Real Return Fund - Class W	1.3	2.8	3.8	5.4	4.1	4.1	5.0	5.1	5.4
Australian CPI +5% (Target Objective)							8.8	8.2	
Perpetual ESG Real Return Fund	1.0	2.2	3.3	3.0	1.7				
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

Kate Hillyar
Institutional Sales Director, Institutional Sales
P: +61 (0)2 9229 3234
kate.hillyar@perpetual.com.au

* 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.

Perpetual